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Business 857-757: Seminar in Feasibility and Appraisal Reports (Seminar in Feasibility and Real Estate Counseling as of spring of 1981). 1979-1988

Graaskamp, James A.

[s.l.]: [s.n.], 1979-1988

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SUMMARY SCHEDULE
BUSINESS 757/857

URBAN DEVELOPMENT/ADVANCED FEASIBILITY SEMINAR

Business 757

Urban Econ
TUESDAY

Survey Research
THURSDAY

- | | |
|---|--|
| <u>Jan. 23:</u> 1) Introduction: Plan of the Courses
2) Intro. to COSAP
3) Prob. 3 (Cont.) Correction and Completion | <u>Jan. 25:</u> 1) The Survey Research Process
2) Retail Trade Area Problem
3) Survey Design Problem |
| <u>Jan. 30:</u> 1) A Framework for Land Use Forecasting
2) Prob. 7: Stepwise Regression Green Bay Data in COSAP | <u>Feb. 1:</u> 1) Sampling Review
2) Preliminary Questionnaire Assigned |
| <u>Feb. 6:</u> 1) Theories of Retail Devel.
2) Prob. 4 (Cont.) Spatial Analysis Using GRID·DAT | <u>Feb. 8:</u> 1) Collecting and Processing Data
2) Final Survey Design & Questionnaire Assigned. |
| <u>Feb. 13:</u> 1) Retail Site Drawing Power
2) Huff Drawing Power Problem | <u>Feb. 15:</u> 1) Processing Data
2) Prob. Retail Trade Area Estimation |
| <u>Feb. 20:</u> 1) MONTHLY EXAM
2) Begin Customer Spotting | <u>Feb. 22:</u> No Class-Customer Spotting |
| <u>Feb. 27:</u> No Class-Customer Spotting | <u>March 1:</u> 1) Data Analysis
2) Data Printout Submittal
3) Intro. to Discriminant Analysis (Intragroup and Interstore) |
| <u>March 6:</u> 1) Threshold Analysis
2) RTAI Completion
3) Intro to Discrim. Analysis | <u>March 8:</u> 1) Shopping Center Preference
2) <u>Inter</u> group Discriminant Analysis |
| <u>March 13:</u> 1) Shopping Travel Patterns
2) Factor Analysis of Customer Survey Data and Grid Data | |
| <u>March 20:</u> SPRING BREAK | |
| <u>March 27:</u> 1) Retail Trade Spatial Relationships
2) Huff Model Application-Survey Data | |
| <u>April 3:</u> Behavioral Measurement-Perceptions and Preferences | |
| <u>April 10:</u> Forecasting Retail Sales Potential | |
| <u>April 17:</u> MONTHLY EXAM | |

I. REQUIRED TEXTS

- A. Edwin Rams, Analysis and Valuation of Retail Locations
(Reston Publishing Co., 1976)
- B. Brian Berry, Geography of Market Centers and Retail Distribution
(Prentice-Hall)

II. COURSE DESCRIPTION

An advanced course requiring a background in urban economics and statistics. The course examines urban growth patterns using secondary socioeconomic data and primary consumer survey data to achieve predictive reliability in consumer expenditure patterns. The stages in the research process, survey design, sampling procedures and methods of analysis are introduced based on actual data acquired through on-site interviews at various locations. This data is then evaluated using discriminant analysis, factor analysis and other multivariate techniques as a prelude to predictive model formation. Retail location patterns are examined based on retail location decision models starting with simple trade area determination, and ending with relatively complex multidimensional computer algorithms which attempt to encompass behavioral and perceptual consumer response to locational decisions.

III. GRADING SYSTEM. Grades will be assigned on the basis of performance, in three types of activity.

- A. Monthly Exams: usually short answer or discussion questions, these exams cover only the material for the previous month. Worth about 100 points each, they are designed to help the student locate areas of weakness at an early data and to aid the student in maintaining currency in the course work.

TOTAL POINTS: 200

- B. Case Study Reports: a series of ⁵~~four~~ consultant reports acquired through the cooperation of a number of urban consulting organizations have been placed on reserve. For each study the student will prepare a two-page typewritten critique of the report addressing the following points:

- 1) Purpose of the study.
- 2) Synopsis of approach utilized.
- 3) Shortcomings or inadequacy of method.
- 4) Confidence in study results.
- 5) Suggested improvements.

The case study report should be prepared so as to evidence the student's ability to absorb and comprehend large amounts of data and to incisively evaluate weaknesses in study method as well as the extent to which the study may be utilized in support of urban development decisions.

TOTAL POINTS: 200

- C. Applications: The problem oriented practical experience part of Urban Development. A series of twelve problems emphasizing empirical work varying in length from one to four weeks and worth 25 to 50 points each. Due dates are included in the body of the outline. Problem descriptions are contained in a separate handout.

TOTAL POINTS: 500

COURSE OUTLINE
BUSINESS 757
URBAN DEVELOPMENT

<u>DATE</u>	<u>TOPICS AND READINGS</u>	<u>SOURCE</u>
Jan. 23	I. Introduction: Plan of the Course A. Bibliography B. A Conceptual Framework for Urban Planning Models, <u>Urban Analysis</u>, Kilbridge, et al, p. 7-19. C. Sales Potentials for a Retail Center D. Urban Growth and the Geography of Retailing E. Applications: 1. Introduction to COSAP 2. Problem 3 (Cont.) Grid data base Completion Due Jan. 29	UD Readings UD Readings UD Readings Rams: 1-14
Jan. 25	II. The Research Process A. Decision Making and Survey Research Tull and Albaum p. 1-12 (Answer questions 1.2 and 1.3 Due Jan. 30) B. Stages in the Research Process Churchill p. 18 C. Problem Formulation 1. Lansing and Morgan p. 15-25 *2. Some Design Problems, Lansing and Morgan p. 29-48 D. Methods of Inquiry: Tull and Albaum p. 25, 26 F. Applications: <u>Problem 7</u> 1. Preliminary Survey Design - Retail Trade Area Determination (Due Jan. 30) 2. Selection of Shopping Center and Study Teams (Due Jan. 30) 3. Guide to Store Location Research p. 59-61, p. 206-214, p. 214-227	SR Readings SR Readings SR Readings Reserve SR Readings Handout
Jan. 30	III. A Framework for Land Use Forecasting A. Brian Berry, <u>Geography of Market Centers And Retail Distribution</u> Review: Chapter 1, p. 1-25 Review: Chapter 2, p. 26-40 Emphasize: Chapter 2, p. 40-58 B. <u>Applications</u>: Problem 8 (Due Feb. 5) Redo Prob. 6 using COSAP Stepwise Regression C. <u>Case Study</u>: Magic Pan or Wickes Lumber (Due Feb. 5th)	Reserve

* Recommended Reading

<u>DATE</u>	<u>TOPICS AND READINGS</u>	<u>SOURCE</u>
Feb. 8	VI. Collecting and Processing Data	
	← A. Non Sampling Error, Chapter 10 ✓ Churchill, p. 317-346	SR Readings
	B. Measurement and Scaling, Chapter 5 ✓ Tull and Albaum, p. 81-90	SR Readings
	C. Methods of Data Collection Chapter 4 Lansing and Morgan, p. 101-184 ✓	SR Readings
	D. Interviewer Instructions and Questionnaire Examples, Tull and Albaum, p. 147-151, 162	Problem Series
	E. <u>Applications:</u> Problem 10 (Due Feb. 13)	
	1. Final Survey Design RTA 1	
	2. Final Questionnaire	

Business 857
Real Estate Feasibility Analysis
Schedule & Syllabus

Spring Semester, 1986

Prof. J. A. Graaskamp

Required Texts: Russell L. Ackoff, The Art of Problem Solving, John Wiley & Sons, 1978 - Available at UW Bookstore.
John R. Hayes, The Complete Problem Solver, Franklin Institute Press (Scribner & sons) 1981.
Messner, Boyce, Trimble & Ward, Analyzing Real Estate Opportunities: Market and Feasibility Studies, Realtors National Marketing Institute (1977, Chicago,

Required Mimeo Readings: Available from Bob's Copy Shop, Randall Towers.

Week of Jan. 20: INTRODUCTION TO COURSE CONCEPTS

- A. "Feasibility Analysis - State of the Art," Mimeo
James A. Graaskamp.
- B. The Art of Problem Solving, pp. 1-49. Text
- C. The Complete Problem Solver, pp. 1-70. Text
- D. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 1-3. Text

Week of Jan. 27: BASIC DEFINITION OF FEASIBILITY ANALYSIS & COUNSELING

* * Assignment of Feasibility Projects and Teams * *

- A. "Market Study + Financial Analysis = Feasibility Report," Bailey, Spies, and Weitzman, Appraisal Journal, October 1977, pp. 550-577. Mimeo
- B. "The Modern Feasibility," Miles, Steigerwald. Mimeo
- C. Review "A Rational Approach to Feasibility Analysis," J. Graaskamp, prev. assigned 850. Mimeo
- D. The Art of Problem Solving, pp. 50-99. Text
- E. The Art of Problem Solving, Part 2, Section 11 & 12, pp. 174-203. Mimeo
- F. Identification and Delineation of Real Estate Market Research, Real Estate Issues, Spring/Summer 1985. Mimeo

Week of Feb. 3 CRITIQUING THE FEASIBILITY PROCESS

- A. "Critique of Real Estate Market & Investment Analyses," Eldred & Zerbst, Appraisal Journal, July, 1978. Mimeo
- B. "Consumer Research and the Real Estate Appraiser," Eldred & Zerbst, Oct. 1976. Mimeo
- C. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 7-8. Text
- D. "How to Analyze Market Feasibility Reports," How to Conduct & Analyze Real Estate Market & Feasibility Studies, G. Vincent Barrett & John P. Blair, 1982, pp. 302-315. Mimeo
- E. Class discussion of: Analyzing Real Estate Opportunities: Market and Feasibility Studies, chap. 7-8, 11-14 (incl. Appendix for Chap.8). Mimeo
- F. Chap. 7. "Case Study: A Large Industrial Park". Mimeo

Week of Feb. 10 FORECASTING THE FUTURE BUSINESS ENVIRONMENT

- A. Chap. 29, "Forecasting, Planning and Strategy: What Needs to be Forecast," Charles H. Kappauf & J. Robert Talbott, pp. 487-502; Chap. 31, "Organizational and Behavioral Aspects of Forecasting," Ronald N. Taylor, pp. 519-534 in The Handbook of Forecasting: An Manager's Guide, edited by Spyros Makridakis and Steven c. Wheelwright, John Wiley & Sons. Mimeo
- B. "What Does the Future Hold?", Betty Holcomb, pp. 69-74, Savvy, October 1983. Mimeo
- C. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 4-6. Text
- D. Chap. 6, "Site Selection and Site Performance Prediction," R. James Claus & Walter G. Hardwick, The Mobile Consumer, Collier-MacMillan Canada, Ltd., 1973, pp. 133-158. Mimeo

Week of Feb. 17 REAL ESTATE MARKET SEGMENTATION--OFFICE BUILDINGS

- A. "Marketing Studies for Office Buildings," Richard A. Lex, Real Estate Review. Mimeo

- B. "Interiors: Form Vs. Function," Texas Architect, March/April, 1981; "Building Design Consultation," Gensler Report, Winter, 1981; "RAM Studies," Gensler & Assoc. Architects, 1981. Mimeo
- C. "The Guide to the Future of Office Real Estate, Office Outlook, A Torto, Wheaton Report, 1984. Mimeo
- D. "Office Space: Calculating the Demand," Charles Detoy & Sol Rabin, Coldwell Banker Management Corp., Study completed for Mortgage Bankers Assoc., "General Office Demand Analysts." Mimeo
- E. "Forecasting Office Space Demand in Urban Areas," Hugh F. Kelley, Real Estate Review, Fall, 1983, pp. 87-95. Mimeo

Week of Feb. 24 HOUSING MARKET ANALYSIS

- A. Demographic Changes & Their Effects on Real Estate Markets in the 1980's, ULI Monograph, 1982, Gruen Gruen & Smith. Mimeo
- B. "Beyond Demographics---"How Madison Avenue Knows Who You Are & What You Want," James, Atlas, The Atlantic Monthly, October, 1984, pp. 49-48. Mimeo
"Where the Yuppies Are," Builder, Mar. 1985 Mimeo
"Five Year Local Forecast," Penelope Lemov, Builder, March, 1985. Mimeo
- C. "Home Buyer Preference Survey 1983," Barbara Behrens Gers, Builder, January, 1983. Mimeo
- D. Chap. 9, "Strategy of the Firm in an Unstable Market"
Chap. 14, "Segmented Analyses, Housing Markets," Michael Sumichrest & Maury Seldin, Dow-Jones Irwin, 1977. Mimeo
- E. Chap. 27, "Summary and Conclusions: Managerial and Research Implications," Consumer Decision Processes. Mimeo
- F. "Marketing: The Benedale Green Experience," Samuelson, Illinois Housing Development Authority. Bus. Lib.

- G. "The Pines of Perinton," A Memo For Inland Steel Company, by Donald Samuelson. Mimeo
- H. "Condominium Design and Pricing," Association for Consumer Research, Nov. 3, 1972. Mimeo
- I. "Conjoint Measurement Multivariate Data Analysis: An Introduction," Homewood, IL Irwin, 1983. Mimeo
- J. "Theory and Methods of Social Measurement, The Analysis of Data." Mimeo
- K. "Vals--Values and Lifestyles of Americans," SRI International. Mimeo

Week of Mar. 3 ELDERLY HOUSING MARKET ANALYSIS

- A. John Rasmussen Case Studies. Mimeo
- B. Excerpts from market segmentation monograph for ULI by Tom Neujahr, pp. 12-74, Chap. 3, 4, 5, 6, & 7. Bus. Lib.
- C.
- D.

Week of Mar. 10 SHOPPING CENTER FEASIBILITY

- A. "Retail Commercial Land Uses," Chap. 8, "Office and Industrial Land Uses," Chap. 9, "Transient Commercial & Multi Use Projects," Chap. 10, Property Development, John McMahan. Mimeo
- B. "Eight Major Decision Points: A Critical Analysis," Shopping Center Strategy, William Applebaum, International Council of Shopping Centers/New York, 1970. Mimeo
- C. "Del Monte Center: Evaluation of Projections," "Customer Survey at Del Monte Center," "Reports from the Del Monte Center Merchants," "Anticipated Competition: Its Probable Effects on the Del Monte Center," Shopping Center Strategy, Applebaum. Mimeo

- D. "Perceptual Segmentation of Department Store Markets," William Lazer, Robert C. Wyckham, Journal of Retailing, Summer, 1969. Mimeo
- E. "Basic Research Report on Consumer Behavior; Report on a Study of Shopping Behavior and Methods for Its Investigation," Alderson & Sessions, Quantitative Techniques in Marketing Analysis, (Irwin, 1962) Frank, Kuehn, & Massy, pp. 129-145. Mimeo

Wed., Mar. 19 * * * MID TERM EXAM * * *

Week of Mar.24-31 * * SPRING RECESS * *

Week of Apr. 1 HOTEL/MOTEL FEASIBILITY

- A. A Room Night Analysis of Lodging Demand," Daniel Lesser, Real Estate Review, Winter, 1983, pp. 67-73. Mimeo
- B. "Hotel Capacity: How Many Rooms to Build?" Joseph M. Waddell, The Cornell H.R.A. Quarterly, August, 1977. Mimeo
- C. The Selection of Retail Locations, Richard Nelson, 1958, Chap. 6, 7, & 8, pp. 50-79. Mimeo
- D. "Developing a Marketing Strategy," Staff & Partners of Harris, Kerr, Forster & Co., The Cornell H.R.A. Quarterly, Feb. 1977. Mimeo
- E. "A Research Approach to Restaurant Marketing," William R. Swinyard, The Cornell H.R.A. Quarterly, Feb. 1977. Mimeo

Week of Apr. 7 RECREATION REAL ESTATE FEASIBILITY ANALYSIS

A.

Week of Apr. 14 FISCAL IMPACT FEASIBILITY

- A. "Introduction and Organization," Page 1, The Fiscal Impact Handbook, pp. 1-10. Mimeo
- B. "Relating Methods to Tasks and Contexts of Fiscal Impact Analysis, Chap. 1, The Fiscal Impact Handbook, pp. 15-24. Mimeo

- C. "Revenue Trends," Chap. 8, The Fiscal Impact Handbook, pp. 153-178. Mimeo
- D. Santa Barbara's Central City, Choices for the Future, Patterson and Gruen. Mimeo
- E. Measuring the Fiscal Impact of a Shopping Center on Its Community, Michael S. Levin, Published by International Council of Shopping Centers. Bus. Lib.
- F. An Industrial Park Cost-Revenue Analysis in Southwestern Wisconsin - 1975, Southeastern Wisconsin Regional Planning Commission, June, 1975. Bus. Lib
- G. Chap. 3, "Analyzing the Feasibility of a Downtown Convention Hotel,"
Chap. 5, "Analyzing the Feasibility of a Community Shopping Center Development,"
Chap. 6, "The Bottom Line: Negotiating the Best Deal for Developer and Municipality Alike," Appendix A, "Glossary of Real Estate Development Terms," Richard J. Roddewig and Jared Shlaes, Analyzing the Economic Feasibility of a Development Project: A Guide for Planners November, 1983. Mimeo

Week of Apr. 21 CREATIVE THINKING THEORIES

- A. Part III in The Complete Problem Solver, P. 145-196. Text
- B. Chap. 7, "Forecasting the Issues," Robert Fildes, The Handbook of Forecasting: A Manager's Guide, pp. 83-106. Mimeo
- C. Chap. 30, "Integrating Forecasting and Decision Making," William Remus, The Handbook of Forecasting: A Manager's Guide, pp. 503-518. Mimeo
- D. Part IV, Hayes Text, pp. 197-238. Text
- E. Introduction to Synectics Problem-Solving, W. J. J. Gordon, 1972. Mimeo
- F. Synectics Education Systems, "Synectics Compared to Historical Discoveries, pp. 1-7. Mimeo

- G. "Introduction," Strange and Familiar,
Cambridge: Porpoise Books, 1972. Mimeo
- H. Part V of Thinking Visually, pp. 133-192
"ETC: Express/Text/Cycle," Chap. 20;
"Out of the Language Rut," Chap. 21;
"The Strategy Approach," Chap. 22;
Robert H. McKim, Lifetime Learning Publi-
cations, Belmont, CA 1980. Mimeo
- I. "The Operational Mechanisms," Synectics Mimeo
- J. "Synectics: A Technique for Creative
Learning," The Science Teacher, Mar. 1975. Mimeo

Week of Apr. 28 PROMOTIONAL AND POLITICAL RESEARCH

- A. Emergency Facility Design, (Translating
Behavior Issues Into Design) Bus.Lib.
- B. Housing Designed for Families (A Summary
of Research), pp. 96-113. Bus.Lib

Week of May 5 * * STUDENT TEAM REPORTS * *

Week of May 12 * * * FINAL EXAM DURING FINALS WEEK * * *

Business 857
Real Estate Feasibility Analysis
Schedule & Syllabus

Spring Semester, 1987

Prof. James A. Graaskamp

Required Texts: Russell L. Ackoff, The Art of Problem Solving, John Wiley & Sons, 1978 - Available at UW Bookstore.
John R. Hayes, The Complete Problem Solver, Franklin Institute Press (Scribner & sons) 1981.
Messner, Boyce, Trimble & Ward, Analyzing Real Estate Opportunities: Market and Feasibility Studies, Realtors National Marketing Institute (1977, Chicago, IL)
John M. Clapp, Handbook For Real Estate Market Analysis, Prentice Hall, NJ 1987.
Available at UW Bookstore.

Required Mimeo Readings: Available from Bob's Copy Shop, Randall Towers

Week of Jan. 21 PROBLEM SOLVING AND CREATIVE THINKING

- A. "Feasibility Analysis - State of the Art," Mimeo
James A. Graaskamp.
- B. The Art of Problem Solving, pp. 1-49. Text
- C. The Complete Problem Solver, pp. 1-70,
Part IV, pp. 197-238. Text
- D. Analyzing Real Estate Opportunities: Market
and Feasibility Studies, Chap. 1-3. Text
- E. Introduction to Synectics Problem Solving
W.J.J. Gordon. Mimeo

Week of Jan. 25. BASIC DEFINITION OF FEASIBILITY ANALYSIS & COUNSELING

* * Assignment of Feasibility Projects and Teams * *

- A. "Market Study + Financial Analysis = Feasibility Report," Bailey, Spies, and Weitzman,
Appraisal Journal, October 1977, pp. 550-577. Mimeo
- B. "The Modern Feasibility," Miles, Steigerwald. Mimeo
- C. Review "A Rational Approach to Feasibility Analysis," J. Graaskamp. Mimeo
- D. The Art of Problem Solving, pp. 50-99. Text
- E. The Art of Problem Solving, Part 2,
Section 11 & 12, pp. 174-203. Mimeo

Bus. 857
Spring Semester, 1987

- F. Identification and Delineation of Real Estate Market Research, Real Estate Issues, Spring/Summer 1985. Mimeo

Week of Feb. 2 CRITIQUING THE FEASIBILITY PROCESS

- A. "Critique of Real Estate Market & Investment Analyses," Eldred & Zerbst, Appraisal Journal, July, 1978. Mimeo
- B. "Consumer Research and the Real Estate Appraiser," Eldred & Zerbst, Oct. 1976. Mimeo
- C. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 7-8. Text
- D. "How to Analyze Market Feasibility Reports," How to Conduct & Analyze Real Estate Market & Feasibility Studies, G. Vincent Barrett & John P. Blair, 1982, pp. 302-315. Mimeo
- E. Class discussion of: Analyzing Real Estate Opportunities: Market and Feasibility Studies, chap. 7-8, 11-14 (incl. Appendix for Chap.8) Mimeo
- F. Chap. 7. "Case Study: A Large Industrial Park". Mimeo

Week of Feb. 9 SITE IN SEARCH OF A USE

- A. Chapter 1, "Site Reconnaissance and Analysis," Chapter 2, "Site Analysis: Communication and Use," Harlow Landphair & John Matloch, Site Reconnaissance and Engineering, Elsevier, New York, 1985. Mimeo
- B. Chapter 6, "Site Selection and Site Performance Prediction," James Claus & Walter Hardwick, The Mobile Consumer, Collier-MacMillan, Ltd. 1973, pp. 133-158. Mimeo
- C. Part 1, "The Location and Its Linkages," John M. Clapp, Handbook For Real Estate Market Analysis, Prentice-Hall Inc. NJ 1987. Text
- D.

Week of Feb. 16 ~~REGULATORY FRAMEWORK AND POLITICAL RESEARCH~~ **COMPETING SUPPLY**

- A. ~~Flow chart of regulatory process and critical dates.~~ *Part III "Competing supply and marketing conditions", chapters 10, 11, 12, 13, + 14. John M. Clapp, Handbook for RE Mkt Analysis* Text
- 3

- B. *Part IV "Using RE Market Analysis,"*
Chapters 15, 16, & 17, John Chapp, Handbook
for RE Mkt Analysis

Week of Feb. 23 FORECASTING THE FUTURE BUSINESS ENVIRONMENT

- A. Chap. 29, "Forecasting, Planning and Strategy:
What Needs to be Forecast," Charles H. Kappauf
& J. Robert Talbott, pp. 487-502;
Chap. 31, "Organizational and Behavioral
Aspects of Forecasting, Ronald N. Taylor,
pp. 519-534 in The Handbook of Forecasting:
An Manager's Guide, edited by Spyros
Makridakis & Steven C. Wheelwright, John
Wiley & Sons. Mimeo
- B. "What Does the Future Hold?", Betty Holcomb,
pp. 69-74, Savvy, October 1983 Mimeo
- C. Analyzing Real Estate Opportunities: Market
and Feasibility Studies, Chap. 4-6 Text

Wednesday, Feb. 25 * * * MID-SEMESTER EXAM

Week of Mar. 2 REAL ESTATE MARKET SEGMENTATION—OFFICE BUILDINGS

- A. "Marketing Studies for Office Buildings,"
Richard A. Lex, Real Estate Review Mimeo
- B. "Interiors: Form Vs. Function," Texas Architect,
March/April, 1981; "Building Design Consul-
tation," Gensler Report, Winter, 1981; "RAM
Studies," Gensler & Assoc. Architects, 1981. Mimeo
- C. "The Guide to the Future of Office Real
Estate, Office Outlook, A Torto, Wheaton
Report, 1984. Mimeo
- D. "Forecasting Office Space Demand in Urban
Areas," Hugh F. Kelley, Real Estate Review,
Fall, 1983, pp. 87-95. Mimeo
- E. Sample Services: The REIS Reports, Inc.
Orlando, FL, Second Half 1986; *Towle Real
Estate: 7th Annual Industrial Report* Mimeo
- F. Part II, "The Demand Side," Chap. 4, 5, & 6,
pp. 46-89, Handbook For Market Real Estate
Analysis. Text

Bus. 857
Spring Semester 1987

Week of Mar. 9 HOUSING MARKET ANALYSIS

- A. Demographic Changes & Their Effects on Real Estate Markets in the 1980's, ULI Monograph, 1982, Gruen Gruen & Smith. Mimeo
- B. "Beyond Demographics--"How Madison Avenue Knows Who You Are & What You Want," James, Atlas, The Atlantic Monthly, October, 1984, pp. 49-48 Mimeo
"Where the Yuppies Are," Builder, Mar. 1985 Mimeo
"Five Year Local Forecast," Penelope Lemov, Builder, March, 1985 Mimeo
- C. "Home Buyer Preference Survey 1983," Barbara Behrens Gers, Builder, January, 1983 Mimeo
- D. Chap. 9, "Strategy of the Firm in an Unstable Market"
Chap. 14, "Segmented Analyses, Housing Markets," Michael Sumichrest & Maury Seldin, Dow-Jones Irwin, 1977. Mimeo
- E. Chap. 27, "Summary and Conclusions: Managerial and Research Implications," Consumer Decision Processes. Mimeo
- F. "Marketing: The Benedale Green Experience," Samuelson, Illinois Housing Development Authority. Bus. Lib.
- G. "The Pines of Perinton," A Memo For Inland Steel Company, by Donald Samuelson Mimeo
- H. "Condominium Design and Pricing," Association for Consumer Research, Nov. 3, 1972. Mimeo
- I. "Conjoint Measurement Multivariate Data Analysis: An Introduction," Homewood, IL Irwin, 1983. Mimeo
- J. "Theory and Methods of Social Measurement, The Analysis of Data. Mimeo
- K. VALS--Values and Lifestyles of Americans, SRI International. Mimeo

* * * SPRING BREAK

*"The Demographics of Subdivision Analysis",
+ "Subdivision Analysis and Valuation",
J.R. Kimball, Barbara Blumberg + Steven Jones
Appraisal Journal, Oct. 1986*

Bus. 857
Spring Semester 1987

Week of Mar. 23 ELDERLY HOUSING MARKET ANALYSIS

- A. John Rasmussen Case Studies Mimeo
- B. Excerpts from market segmentation monograph for ULI by Tom Neujahr, pp. 12-74, Chap. 3, 4, 5, 6, & 7. Bus. Lib.

Week of Mar. 30 SHOPPING CENTER FEASIBILITY

- A. "Retail Commercial Land Uses," Chap. 8, "Office and Industrial Land Uses," Chap. 9, "Transient Commercial & Multi Use Projects," Chap. 10, Property Development, John McMahan Mimeo
- B. "Eight Major Decision Points: A Critical Analysis," Shopping Center Strategy, William Applebaum, International Council of Shopping Centers/New York, 1970. Mimeo
- C. "Del Monte Center: Evaluation of Projections," "Customer Survey at Del Monte Center," "Reports from the Del Monte Center Merchants," "Anticipated Competition: Its Probable Effects on the Del Monte Center," Shopping Center Strategy, Applebaum. Mimeo
- D. "Perceptual Segmentation of Department Store Markets," William Lazer, Robert C. Wyckham, Journal of Retailing, Summer, 1969. Mimeo
- E. "Basic Research Report on Consumer Behavior; Report on a Study of Shopping Behavior and Methods for Its Investigation," Alderson & Sessions, Quantitative Techniques in Marketing Analysis, (Irwin, 1962) Frank, Kuehn, & Massy, pp. 129-145. Mimeo

Week of Apr. 6 HOTEL/MOTEL FEASIBILITY

- A. A Room Night Analysis of Lodging Demand," Daniel Lesser, Real Estate Review, Winter, 1983, pp. 67-73. Mimeo
- B. "Hotel Capacity: How Many Rooms to Build?" Joseph M. Waddell, The Cornell H.R.A. Quarterly, August, 1977. Mimeo
- C. The Selection of Retail Locations, Richard Nelson, 1958, Chap. 6, 7, & 8, pp. 50-79. Mimeo

Bus. 857
Spring Semester 1987

- D. "Developing a Marketing Strategy," Staff & Partners of Harris, Kerr, Forster & Co., The Cornell H.R.A. Quarterly, Feb. 1977. Mimeo
- E. "A Research Approach to Restaurant Marketing," William R. Swinyard, The Cornell H.R.A. Quarterly, Feb. 1977. Mimeo

Week of Apr. 13 FISCAL IMPACT FEASIBILITY

- A. "Introduction and Organization," Page 1, The Fiscal Impact Handbook, pp. 1-10. Mimeo
- B. "Relating Methods to Tasks and Contexts of Fiscal Impact Analysis, Chap. 1, The Fiscal Impact Handbook, pp. 15-24. Mimeo
- C. "Revenue Trends," Chap. 8, The Fiscal Impact Handbook, pp. 153-176.
- D. Santa Barbara's Central City, Choices for the Future, Patterson and Gruen. Mimeo
- E. Measuring the Fiscal Impact of a Shopping Center on Its Community, Michael S. Levin, Published by International Council of Shopping Centers. Bus. Lib.
- F. An Industrial Park Cost-Revenue Analysis in Southwestern Wisconsin - 1975, Southeastern Wisconsin Regional Planning Commission, June, 1975. Bus. Lib
- G. Chap. 3, "Analyzing the Feasibility of a Downtown Convention Hotel,"
Chap. 5, "Analyzing the Feasibility of a Community Shopping Center Development,"
Chap. 6, "The Bottom Line: Negotiating the Best Deal for Developer and Municipality Alike," Appendix A, "Glossary of Real Estate Development Terms," Richard J. Roddewig and Jared Shlaes, Analyzing the Economic Feasibility of a Development Project: A Guide for Planners November, 1983. Mimeo

Week of Apr. 20 DEMAND FORECASTING

- A. Part III in The Complete Problem Solver, P. 145-196. Text

Bus. 857
Spring Semester 1987

- B. Chap. 7, "Forecasting the Issues,"
Robert Fildes, The Handbook of Forecasting:
A Manager's Guide, pp. 83-106. Mimeo
- C. Chap. 30, "Integrating Forecasting and
Decision Making," William Remus, The Handbook
of Forecasting: A Manager's Guide,
pp. 503-518. Mimeo
- D. Chap. 7, 8, 9, 10, 11, 12, 13, 14, & 15,
Handbook of Real Estate Market Analysis. Text

Week of Apr. 27 PROMOTIONAL AND BEHAVIORAL RESEARCH

- A. Emergency Facility Design, (Translating
Behavior Issues Into Design) Bus.Lib.
- B. Housing Designed for Families (A Summary
of Research), pp. 96-113. Bus.Lib

Week of May 4 * * STUDENT TEAM REPORTS * *

Week of May 11 * * * FINAL EXAM DURING FINALS WEEK * * *

SCHEDULE OF TOPICS

Real Estate Feasibility Analysis

Business 857

Spring Semester, 1987

Prof James A. Graciano ✓

Week of Jan. 21	PROBLEM SOLVING AND CREATIVE THINKING
Week of Jan. 26	BASIC DEFINITION OF FEASIBILITY ANALYSIS & COUNSELING
Week of Feb. 2	CRITIQUING THE FEASIBILITY PROCESS
Week of Feb. 9	SITE IN SEARCH OF A USE
Week of Feb. 16	REGULATORY FRAMEWORK AND POLITICAL RESEARCH <i>COMPETING SUPPLY</i>
Week of Feb. 23	FORECASTING THE FUTURE BUSINESS ENVIRONMENT
Wednesday, Feb. 25	* * * MID-SEMESTER EXAM
Week of Mar. 2	REAL ESTATE MARKET SEGMENTATION--OFFICE BUILDINGS
Week of Mar. 9	HOUSING MARKET ANALYSIS
	* * * SPRING BREAK
Week of Mar. 23	ELDERLY HOUSING MARKET ANALYSIS
Week of Mar. 30	SHOPPING CENTER FEASIBILITY
Week of Apr. 6	HOTEL/MOTEL FEASIBILITY
Week of Apr. 13	FISCAL IMPACT FEASIBILITY
Week of Apr. 20	DEMAND FORECASTING
Week of Apr. 27	PROMOTIONAL AND BEHAVIORAL RESEARCH
Week of May 4	STUDENT TEAM REPORTS
Week of May 11	* * * FINAL EXAM

<i>Case reviews</i>	<i>15%</i>	
<i>mid-semester exam</i>	<i>35%</i>	
<i>Team project</i>	<i>35%</i>	
<i>Final exam</i>	<i>15%</i>	
	<i>100%</i>	✓

<u>DATE</u>	<u>TOPICS AND READINGS</u>	<u>SOURCE</u>
Feb. 1	IV. SAMPLING REVIEW	
	A. Sampling Procedures, Chapter 8 ✓ Churchill, p. 261-301 40	SR Readings
	B. "Extensions of Probability Sampling" ✓ Cox & Enis, p. 279-286 6	SR Readings
	C. Sample Size Chapter 9 ✓ Churchill p. 302-316 6 1/2	SR Readings
	D. Answer questions (3.2) and (3.5) (Due Feb. 6) Tull & Albaum	SR Readings
	E. <u>Applications: Problem 9 (Due Feb. 6)</u>	
	1. Sample Size Determination RTA 1	
	2. The Manager's Guide to Survey ✓ Questionnaire Evaluation	Prob. Series
	3. Preliminary Questionnaire derived ✓ from Applebaum. See Joni Brooks "A Questionnaire for a Trade Area" ✓ Analysis of a Supermarket"	Prob. Series Prob. Series
	4. Past 757 Questionnaire ✓	
	5. Preliminary Questionnaire (Due ✓ in class) 30 copies, Feb. 6	
Feb. 6	V. Theories of Retail Development	
	A. Brian Berry, <u>Geography of Market Centers</u> and Retail Distribution, Chapter 4. p. 74-88. 14	
	Chapter 6, p. 118-124 6	
	Chapter 7, p. 125-130 5	
	Chapter 8, p. 131-139 8	
	B. Alexis Simon & Smith, "Some Determinants of" ✓ Food Buying Behavior"	UD Readings
	C. Kernan & Bruce, "The Socioeconomic ✓ Structure of an Urban Area"	UD Readings
	D. <u>Applications: Problem (5) (Cont. from 557)</u> (Due Feb. 12), Spatial Analysis using GRID-DAT (Prob. 4 in 557)	
	E. <u>CASE STUDY: Marley Station-Retail</u> <u>Market Supports (Due Feb. 12th)</u>	Reserve
Feb. 13	VII. Retail Site Drawing Power	
	(A) Forbes & Ziemba, "Estimation of <i>everything</i> Supermarket Drawing Power"	Rams 59-69
	(B) Peter Scott, <u>Geography and Retailing</u> , <i>no</i> p. 169-183	UD Readings
	→ (C) David L. Huff, "A Probabilistic Analysis ✓ of Shopping Center Trade Areas" <i>yes</i>	Reserve
	→ D. Huff and Blue "A Programmed Solution for Estimating Retail Sales Potentials" <i>no</i> 1966	Reserve
	→ E. Peter L. Simons, "The Shape of Suburban <i>no</i> Retail Market Areas: Implications from a Literature Review" 1974	Rams 70-79
	(F) David L. Huff, "Defining and Estimating ✓ a Trading Area" 1964 <i>yes</i>	UD Readings

<u>DATE</u>	<u>TOPICS AND READINGS</u>	<u>SOURCE</u>
	(G) Anderson and Birkin, "Toward the Development of a Predictive Model of Retail Site Location" H. Applications: <u>Problem 11 (Due Feb. 21)</u> Simple Huff Drawing Power Example I. <u>Case Study: Gladstone Shopping Center Market Analysis and Development</u> (Due Feb. 19th)	UD Readings Reserve
Feb. 15	VIII. Processing Data	
	A. Getting Ready for Analysis, Chapter V Lansing and Morgan, p. 213-268 <u>234</u> B. Data Analysis: Preliminary Steps, Chapter 11, Review, Churchill, p. 353-376 <u>One Ab. 267 - 276</u>	SR Readings <u>557 Prob. Series</u>
Feb. 20	A. <u>Monthly Exam</u> B. Applications: <u>Problem 12, Begin Customer Spotting RTA 1: Data Printout Due Feb. 27, Final Write up Due March 5</u>	
Feb. 21-27	Customer Spotting RTA 1	
March 1	IX. Data Analysis	
	A. Data Analysis: Basic Questions, Chap. 12 Churchill, p. 378-394 B. Analysing Associative Data An Overview. Green and Tull, Chap. 9, p. 313-350 C. Data Analysis: Discriminant, Factor and Cluster Analysis. Churchill, Chap. 15 p. 530-545 D. William Massey, "Discriminant Analysis of Audience Characteristics" E. Green and Frank, "NonExperimental Techniques" p. 95-107 F. Schoner & Uhl, "Discriminant Analysis" p. 417-425 G. Application: <u>Problem 12 (Continued)</u> 1. Completion of Customer Spotting RTA 1 2. Turn in Printout of Coded data, <u>Feb. 27</u> H. Applications: Problem 13 (Due March 6) 1. Discriminant Analysis Problem example 2. Discriminant Analysis on RTA 1 data 3. Perform Intragroup and Interstore D.A.	SR Readings SR Readings SR Readings SR Readings SR Readings SR Readings
March 6	Threshold Analysis	
	A. Avery Guest "Patterns of Family Location" B. Noble, Bush & Hair, "Threshold Analysis..." C. James Mason, "Threshold Analysis as a Tool..." D. Donald Thompson, "Future Directions in Retail Area Research"	Rams: 107-120 Rams: 99-106 UD Readings UD Readings

DATE	TOPICS AND READINGS	SOURCE
March 8 ¹³	XI. Shopping Center Preference	
	A. Case Study: Gruen & Gruen "Santa Maria:" → p. 1-21, 49-53 (Due March 27)	Handout
	B. Mason & Moore "An Empirical Reappraisal of..."	RAMS: 129
	✓ C. Farley "Dimensions of Supermarket Choice Patterns"	UD Readings
	D. Louis Bucklin "Trade Area Boundaries: Issues in Theory"	UD Readings
	✓ E. McKay: "Micro Analytic Approach..."	RAMS: 223
	✓ F. <u>Applications: Data Analysis: Problem 14</u> (Due March 13) <u>Inter group Discriminant Analysis</u>	
March 15 ¹⁰	XII. Shopping Travel Patterns	
	✓ A. Herrmann & Beik "Shoppers' Movements..."	UD Readings 45-56
	✓ B. John Thompson "Shopper Mobility" <i>Atlanta</i>	RAMS: 247-252
	✓ C. Brunner & Mason "The Influence of Driving Time" <i>Islede</i>	RAMS: 253-258
	✓ D. Cox & Cooke "Other Dimensions..." <i>Cleveland</i>	RAMS: 259-267
	✓ E. Brian Berry "The Retail Component of the Urban Model" <i>planned, implemented</i>	RAMS: 186-195
	✓ F. <u>Applications: Data Analysis: Problem 15</u> (Due April 3)	
	1. Data Analysis: Churchill, Chap. 15 P. 545-564 ✓	SR Readings
	✓ 2. A Curmudgeon's Guide to Factor Analysis	SR Readings
	3. Ekeblad and Staach, "Criteria in Factor Analysis..."	SR Readings
	✓ 4. Alvin J. Harman, "An Application of Factor Analysis..."	SR Readings
	5. Green & Tull, Chap. 14, "Factor Analysis..."	SR Readings
	✓ 6. Jagdish Sheth, "Multivariate Analysis in Marketing"	SR Readings
	G. <u>Factor Analysis</u>	
	✓ 1. Introductory Example	
	✓ 2. F.A. on Customer Survey Data and Census Grid Data	
March 20	Spring Break	
March 27	Retail Location Spatial Relations	
	✓ A. John Casparis "Shopping Center Location..."	RAMS: 143 ~149
	✓ B. Lee and Koutsopoulos "A Locational Analysis of Convenience Food Stores"	UD Readings 104-117
	✓ C. Anderson "Identifying the Convenience-Oriented Consumer"	UD Readings 179-183
	D. Thompson "Consumer Convenience and Retail Area Structure" <i>not on list</i>	UD Readings
	*E. White and Ellis "A System Construct for Evaluating Market Locations"	UD Readings 2 pages

DATE	TOPICS AND READINGS	SOURCE
	F. Gruen & Gruen "A Behavioral Approach to Determining Optimum Location" G. Applications: Prob. 16, Huff Model Application based on Survey Data (Due April 3)	UD Readings 320-327
April 3	Behavioral Measurement: Perceptions and Preferences	
	A. Leonard Berry "The Components of Department Store Image" B. Gerard Rushton "Behavioral Correlates of Urban Spatial Structure" C. G. Hoinville "Evaluating Community Preferences" D. R.L. Wilson "Livability of the City: Attitude and Urban Development" E. Robinson, Baer, Banerjee and Flachsbart "Trade-off Games" F. Knight and Menchik "Residential Environmental Attitudes and Preferences" G. "A Case Study in Consumer Trade-off Analysis" H. Isthmus Area Housing Study, Questionnaire	Handout Handout Handout Handout Handout Reserve Handout Handout
April 10	Forecasting Retail Potential	
	✓ A. Fitts and Cooper "Determinants of Shopping Center Rental Costs: A Model Building Approach" ✓ B. Grady Tucker "Regional Center Size Keyed by Sales Potential" 3-part series <i>Ant-dry market</i> ✓ C. Preston Martin "Savings & Loans in New Sub Markets: Search for Predictive Factors" D. Case Study: Donald Thompson "Analysis of Retailing Potential" <i>(Due April 17)</i>	UD Readings 2 pp. UD Readings 8 pp. UD Readings 4 pp. Reserve

857 Syllabus

Spring Semester, 1980

Professor Craig E. Stanley
Professor James A. Graaskamp

Required Text: Messner, Boyce, Trimble & Ward, Analyzing Real Estate Opportunities; Market and Feasibility Studies Realtors National Marketing Institute (1977, Chicago,) Available at UW Bookstore

Required Readings: Available from Professor Stanley Room 203.

- Wed., Jan. 23 INTRODUCTION TO FEASIBILITY ANALYSIS
- A. ANALYZING REAL ESTATE OPPORTUNITIES: MARKET AND FEASIBILITY STUDIES, Chap. 1-3 Text
 - B. Review "A Rational Approach to Feasibility Analysis," J. A. Graaskamp, previously assigned in 850
 - C. "The Pre-Architectural Programming Process," Claude Gruen Readings
 - D. "Market Study & Financial Analysis = Feasibility Report," Bailey, Spies and Weitzman, Appraisal Journal October 1977, p. 550-577
 - E. Notes on the Synthesis of Form, Christopher Alexander, Appendix 1/A Worked Example Readings
 - F. "The Modern Feasibility" Miles and Steigerwald
- Thur. Jan. 24 DEFINITION OF COUNSELING PROBLEM AND PRODUCT
- A. "A Critique of Real Estate Market and Investment Analyses," Eldred and Zerbst, The Appraisal Journal, July 1978 Readings
 - B. "Consumer Research and the Real Estate Appraiser," Eldred and Zerbst, The Appraisal Journal, Oct. 1976 Readings
 - C. "Scope of Services" (Single page)
 - D. ANALYZING REAL ESTATE OPPORTUNITIES: MARKET AND FEASIBILITY STUDIES, Chap. 7-8 Text
 - E. Feasibility Research Group - Rasmussen (multiple items) Readings
- Wed. Jan. 30 FIELD PROBLEM DEVELOPMENT

Wed. Feb. 6	CRITIQUING A FEASIBILITY STUDY	
	A. ANALYZING REAL ESTATE OPPORTUNITIES: MARKET AND FEASIBILITY STUDIES, CHAP. 11-14	Text
	B. The Demand for Housing on A Portion of the Ahmanson Ranch, Claude & Nina Gruen, Mar. 1978	Business Library
Wed. Feb. 13	FIELD PROBLEM DEVELOPMENT	
Wed. Feb. 20	MARKETS AND MERCHANDISING REAL ESTATE AS A RETAILING PROBLEM	
	A. ANALYZING REAL ESTATE OPPORTUNITIES: MARKET AND FEASIBILITY STUDIES, Chap. 4-6	Text
	B. ANALYZING REAL ESTATE OPPORTUNITIES: MARKET AND FEASIBILITY STUDIES, Appendix to Chap. 8	Text
	C. "Site Selection and Site Performance Prediction," R. James Claus & Walter G. Hardwick, <u>The Mobile Consumer</u> ; Collier-MacMillan Canada, Lts. 1973, p. 133-158	Readings
	D. "Marketing Studies for Office Buildings," Richard A. Lex, <u>Real Estate Review</u>	Readings
	E. Section IV, "Office Development Potentials," <u>Market Analysis and Development Program Options</u> , Gladstone Associates, Washington, D.C. 1973	Business Library
	F. Case Study A: <u>The High Rise Office Market</u> , January 1978, Gladstone & Associates	Readings
	G. Sol Rabin, Coldwell Banker Management Corp. Study Completed for Mortgage Bankers Association "General Office Demand Analysis"	
Feb. 22-28 (inclusive)	RTA CUSTOMER SPOTTING BUS 757 (NO CLASS)	
Wed. Mar. 5	FIELD PROBLEM DEVELOPMENT	
Tues. Mar. 11 Session 2	HOUSING MARKET ANALYSIS	
	A. Chapter 9, Strategy of the Firm in an Unstable Market, p. 229-254 Chapter 14, Segmented Analyses, p. 328-417. <u>Housing Markets</u> , Michael Sumichrest & Maury Seldin Dow-Jones Irwin, 1977	Readings
	B. Chapter 27, Summary & Conclusions: Managerial & Research Implications, <u>Consumer Decision Processes</u>	Readings
	C. "Research and the Sensitive Housing Market" <u>Urban Land</u> April, 1976.	
	D. Marketing: The Benedale Green Experience, Samuelson, Illinois Housing Development Authority	Business Library
	E. "The Pines of Perinton," A Memo from Inland Steel Company, by Donald Samuelson	Readings

Tues. Mar. 11 Session 2	HOUSING MARKET ANALYSIS (Cont.)	
	A. "Housing in '79: A Slide but not a Slump," <u>Housing</u> , Dec. 1978	Readings
	B. "What Home Shoppers Seek in Six Major Markets," <u>Housing</u> , October 1978.	Readings
	C. "Residential Land Uses" <u>Property Development</u> John McMahon, p. 131-220	Readings
Wed. Mar. 12	FIELD PROBLEM DEVELOPMENT	
March 15-23:	SPRING BREAK	
Tues. Mar. 25 Session 2	SINGLE UNIT RETAILING	
	A. "Eight Major Decision Points: A Critical Analysis," <u>Shopping Center Strategy</u> , William Applebaum, International Council of Shopping Centers/New York, 1970	Readings
	B. "The Planning of Branch Stores"	Business Library
	C. "Perceptual Segmentation of Department Store Markets," William Lazer, Robert G. Wyckham, <u>Journal of Retailing</u> , Summer, 1969.	Readings
Wed. March 26	FIELD PROBLEM DEVELOPMENT	
Thur. March 27	MIDTERM EXAM (evening)	
Tues. April 1 Session 2	SINGLE UNIT RETAILING (continued)	
	A. "Developing a Marketing Strategy," Staff & Partners of Harris, Kerr, Forster & Co., <u>The Cornell H.R.A.</u> <u>Quarterly</u> , Nov. 1974	Readings
	B. "A Research Approach to Restaurant Marketing," William R. Swinyard, <u>The Cornell H.R.A. Quarterly</u> , Feb. 1977	Readings
	C. "Hotel Capacity: How Many Rooms to Build?" Joseph M. Waddell, <u>The Cornell H.R.A. Quarterly</u> , Aug. 1977	Readings
Wed. April 2	FIELD PROBLEM DEVELOPMENT	

Tues. April 8 Session 2	BEHAVIORAL ANALYSIS	
	A. "Behaviorial Analysis for Retail Location," Claude and Nina Gruen, Urban Land Institute	757 Readings
	B. "Condominium Design and Pricing," John A. Fiedler, Association for Consumer Research	Readings
	C. "Basic Research Report on Consumer Behavior: Report on a Study of Shopping Behavior and Methods for its Investigation," Alderson & Sessions, <u>Quantitative Techniques in Marketing Analysis</u> , (Irwin, 1962) Frank, Kuehn, & Massy, pp. 129-145	Readings
Wed. April 9	FIELD PROBLEM DEVELOPMENT	
Tues. April 15 Session 2	FISCAL IMPACT STUDIES	
	A. <u>Santa Barbara's Central City, Choices for the Future</u> , Patterson and Gruen	Business Library
	B. <u>Measuring the Fiscal Impact of a Shopping Center on Its Community</u> , Michael S. Levin, Published by International Council of Shopping Centers	Business Library
	C. <u>An Industrial Park Cost-Revenue Analysis in Southeastern Wisconsin - 1975</u> , Southeastern Wisconsin Regional Planning Commission June 1975	Business Library
Thur. April 17	CLASS DISCUSSION FORMAT	
Tues. April 22 Session 1	A. <u>Fiscal Impact Handbook</u> : Intro., Chap. 1, 8.	Readings
Wed. April 23	PUBLIC REAL ESTATE FEASIBILITY	
Thurs. April 24	CLASS DISCUSSION FORMAT	
Tues. April 29 Session 1	CREATIVE THINKING ABOUT REAL ESTATE	
	A. Synectics: A Technique for Creative Learning" Jacques Jimenez March 1975 <u>The Science Teacher</u>	
	B. Synectics Compared to Historical Discoveries" S. F. Whildering, Spring 1975	
	C. "Use of Metaphor Increases Creative Learning Efficiency" William J. J. Gordon, <u>Trend</u> Spring 1972	

Tues. April 29 Session 2	CREATIVE THINKING ABOUT REAL ESTATE	
	A. "On Being Explicit About Creative Process, W.J.J. Gordon, <u>The Journal of Creative Behavior</u> , 1972	Readings
	B. <u>Introduction to Synectics Problem-Solving</u> , W.J.J. Gordon, 1972	Readings
	C. "Pattern Language," Robert Montgomery, <u>Forum</u> , Jan./Feb. 1970	Readings
	D. <u>R.S.V.P. Cycles</u> , Lawrence Halperin, pp. 1-26 68-72, 78-89	Readings
Wed. April 30	Final Project Analysis	
Thur. May 1	CLASS DISCUSSION FORMAT	
Tues. May 6	Session 1 Team Reports	
Tues. May 6	Session 2 Team Reports	
Wed. May 7	Team Reports	
Thur. May 8	Test Review	
Tues. May 13	Session 1 FINAL EXAM	

Business 857
Real Estate Feasibility Analysis
Schedule & Syllabus

Spring Semester, 1983

Prof. James A. Graaskamp

Required Text: Russell L. Ackoff, The Art of Problem Solving, John Wiley & Sons, 1978 - Available at UW Bookstore

Messner, Boyce, Trimble & Ward, Analyzing Real Estate Opportunities: Market and Feasibility Studies, Realtors National Marketing Institute (1977, Chicago, IL) Available at UW Bookstore

Required Mimeo Readings: Available from Room 118 - Real Estate Club Sales

Mon., Jan. 24 INTRODUCTION TO COURSE CONCEPTS

A. "Feasibility Analysis - State of the Art,"
Graaskamp Mimeo

B. The Art of Problem Solving, pp. 1-49 Text

Wed., Jan 26 INTRODUCTION TO REAL ESTATE FEASIBILITY ANALYSIS

A. The Art of Problem Solving, pp. 50-99 Text

B. Notes on the Synthesis of Form, Christopher Alexander, Appendix 1/A Worked Example & Introduction to Synectics Mimeo

C. "Atlantic Atomic Power Plant," On Giving Fair Measure, John McKee, 1981 Mimeo ✓

Mon., Jan. 31 FEASIBILITY PROBLEM TOPICS

Wed., Feb. 2 CLASS DISCUSSION OF THE FOLLOWING READINGS

A. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 1-3 Text

B. Review "A Rational Approach to Feasibility Analysis," J. Graaskamp, prev. assigned in 850 Mimeo

C. "The Pre-Architectural Programming Process," Claude Gruen Mimeo

D. "Market Study + Financial Analysis = Feasibility Report," Bailey, Spies, and Weitzman, Appraisal Journal, October 1977, pp. 550-577 Mimeo

E. "The Modern Feasibility," Miles and Steigerwald Mimeo

Mon., Feb. 7 DEFINITION OF COUNSELING PROBLEM AND PRODUCT

A. Scope of Services Sheet Handout

B. The Art of Problem Solving, Part 2, Section 11 & 12, pp. 174-203 Text

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Wed., Feb. 9 CLASS DISCUSSION OF THE FOLLOWING READINGS

- A. "A Critique of Real Estate Market and Investment Analyses," Eldred and Zerbst, Appraisal Journal, July 1978 Mimeo
- B. "Consumer Research and the Real Estate Appraiser," Eldred and Zerbst, Appraisal Journal, Oct. 1976 Mimeo
- C. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 7-8 Text
- D. Feasibility Research Group - Rasmussen (multiple items) Mimeo

Mon., Feb. 14 CRITIQUING THE FEASIBILITY STUDY

- A. Assignment of actual feasibility study to critique following classroom instruction. Due Mar. 1
- B. "How to Analyze Market Feasibility Reports," How to Conduct & Analyze Real Estate Market & Feasibility Studies, G. Vincent Barrett & John P. Blair, 1982, pp. 302-315 Mimeo
- C. Class discussion of: Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 7-8, 11-14 (incl. Appendix for Chap. 8) Text
- D. Chap. 7, "Case Study: A Large Industrial Park" Bus. Res. Libr.

Wed., Feb. 16 NO CLASS

Mon., Feb. 21 MERCHANDISING REAL ESTATE AS A RETAILING PROBLEM

- A. Excerpts from market segmentation monograph for ULI by Tom Neujahr, pp. 12-74, Chap. 3,4,5,6, & 7 Bus. Res. Libr.

Wed., Feb. 23 CLASS DISCUSSION OF THE FOLLOWING READINGS

- A. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 4-6 Text
- B. "Site Selection and Site Performance Prediction," R. James Claus & Walter G. Hardwick, The Mobile Consumer; Collier-MacMillan Canada, Ltd., 1973 pp. 133-158 Mimeo
- C. "Marketing Studies for Office Buildings," Richard A. Lex, Real Estate Review Mimeo
- D. Section IV, "Office Development Potentials," Market Analysis and Development Program Options, Gladstone Associates, Washington, D.C. 1973 Mimeo

continued

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|----------------------------|---|-----------------|
| Wed., Feb. 23
continued | E. Case Study A: The High Rise Office Market,
January 1978, Gladstone & Associates | |
| | F. "Office Space: Calculating the Demand," Charles
Detoy & Sol Rabin.
Sol Rabin, Coldwell Banker Management Corp.
Study completed for Mortgage Bankers Association
"General Office Demand Analysts" | Mimeo |
| Mon., Feb. 28 | HOUSING MARKET ANALYSIS | |
| | A. Chapter 9, Strategy of the Firm in an Unstable
Market; Chapter 14, Segmented Analyses,
<u>Housing Markets</u> , Michael Sumichrest &
Maury Seldin, Dow-Jones Irwin. 1977 | Mimeo |
| | B. Chapter 27, Summary & Conclusions: Managerial
& Research Implications, <u>Consumer Decision
Processes</u> | Mimeo |
| | C. Marketing: The Benedale Green Experience,
Samuelson, Illinois Housing Development Authority | Bus Libr. |
| | D. "The Pines of Perinton," A Memo For Inland Steel
Company, by Donald Samuelson | Mimeo |
| | E. Chap. 9, "Case Study: Luxury High Rise
Residential Development." | Bus. Res. Libr. |
| Wed., Mar. 2 | HOUSING MARKET ANALYSIS, CONT. | |
| | A. <u>Demographic Changes & Their Effects on Real
Estate Markets in the 1980's</u> , ULI Monograph:
1982, Gruen, Gruen and Smith | Monograph |
| | B. "Research and the Sensitive Housing Market,"
Patricia Rosenzweig, <u>Urban Land</u> , April 1976 | Mimeo |
| | C. "Housing in '79: A Slide But Not a Slump,"
<u>House & Home</u> | Mimeo |
| | D. "What Home Shoppers Seek in Six Major Markets,"
<u>Housing</u> | Mimeo |
| | E. "Residential Land Uses," Chapter 7, <u>Property
Development</u> , John McMahan | Mimeo |
| | F. "Broken Windows," <u>Atlantic Monthly</u> , James Wilson
& George Kelling, Mar. 1982 | Mimeo |
| Mon., Mar. 7 | HOUSING MARKET ANALYSIS, CONT. | |
| | A. John Rasmussen Case Studies | Mimeos |
| | B. Sample Housing Survey Questionnaires | Mimeo |
| | C. Hoffman Group Housing Segments | Mimeo |

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Wed., Mar. 9 LAND USE STUDIES

- A. "Retail Commercial Land Uses," Chap. 8,
"Office and Industrial Land Uses," Chap. 9,
"Transient Commercial & Multi Use Projects,"
Chap. 10, Property Development, John McMahan Mimeo

Mon., Mar. 14 SHOPPING CENTER FEASIBILITY CRITIQUES

- A. "Eight Major Decision Points: A Critical
Analysis," Shopping Center Strategy, William
Applebaum, International Council of Shopping
Centers/New York, 1970 Mimeo
- B. "Del Monte Center: Evaluation of Projections,"
"Customer Survey at Del Monte Center,"
"Reports from the Del Monte Center Merchants,"
"Anticipated Competition: Its Probable Effects
on the Del Monte Center," Shopping Center Strategy, Mimeo
Applebaum

Wed., Mar. 16 SINGLE UNIT RETAILING

- A. The selection of Retail Locations, Richard
Nelson, 1958, Chap. 6, 7 & 8, pp. 50-79 Mimeo
- B. "Perceptual Segmentation of Department Store
Markets," William Lazer, Robert G. Wyckham,
Journal of Retailing, Summer 1969 Mimeo
- C. "Developing a Marketing Strategy," Staff & Partners
of Harris, Kerr, Forster & Co., The Cornell H.R.A.
Quarterly, Nov. 1974 Mimeo
- D. "A Research Approach to Restaurant Marketing,"
William R. Swinyard, The Cornell H.R.A. Quarterly,
Feb. 1977 Mimeo
- E. "Hotel Capacity: How Many Rooms to Build?"
Joseph M. Waddell, The Cornell H.R.A. Quarterly,
Aug. 1977 Mimeo
- F. Chap. 8, "Case Study: Shopping Center Enclosure" Bus. Res. Libr.

Mon., Mar. 21 BEHAVIORAL ANALYSIS - STATE OF THE ART

- A. "Store Location and Customer Behavior,"
Nina and Claude Gruen, Tech. Bulletin 56, ULI Mimeo
- B. "Condominium Design and Pricing," John A.
Fiedler, Market Facts, Inc. Mimeo
- C. "Basic Research Report on Consumer Behavior;
Report on a Study of Shopping Behavior and
Methods for Its Investigation," Alderson &
Sessions, Quantitative Techniques in Marketing
Analysis, (Irwin, 1962) Frank, Kuehn, & Massy,
pp. 129-145 Mimeo

CONTINUED

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- Mon., Mar. 21 D. "Pairwise Nonmetric Multidimensional Scaling,"
Continued Richard M. Johnson, Market Facts, Inc. (Optional Bus. Lib.
- E. "Theory and Methods of Social Measurement,"
Clyde H. Coombs, The Analysis of Data
(Optional and related to 856 linear regression
comparison) Mimeo
- Wed., Mar. 23 12 WEEKS EXAM
- Mar. 26 - Apr. 3 SPRING BREAK
- Mon., Apr. 4 FISCAL IMPACT ANALYSIS
- A. "Introduction and Organization," Page 1,
The Fiscal Impact Handbook, pp. 1-10 Mimeo
- B. "Relating Methods to Tasks & Contexts of
Fiscal Impact Analysis, Chap. 1, The Fiscal
Impact Handbook, pp. 15-24 Mimeo
- C. "Revenue Trends," Chap. 8, The Fiscal Impact
Handbook, pp. 153-178 Mimeo
- Wed., Apr. 6 FISCAL IMPACT ANALYSIS, CONT.
- A. Santa Barbara's Central City, Choices For
the Future, Patterson and Gruen Bus. Lib.
- B. Measuring the Fiscal Impact of a Shopping
Center on Its Community, Michael S. Levin,
Published by International Council of Shopping
Centers Bus. lib
- C. An Industrial Park Cost-Revenue Analysis in
Southeastern Wisconsin - 1975, Southeastern
Wisconsin Regional Planning Commission,
June 1975 Bus. Lib.
- Mon., Apr. 11 FEASIBILITY ANALYSIS FOR GOVERNMENT PROJECTS
- A.
- B. UDAG criteria
- Wed., Apr. 13 CREATIVE THINKING ABOUT REAL ESTATE
- A. "On Being Explicit About Creative Process,
W.J.J. Gordon, The Journal of Creative Behavior,
1972 Mimeo
- B. Introduction to Synectics Problem-Solving,
W.J.J. Gordon, 1972 Mimeo
- C. "Pattern Language," Robert Montgomery, Forum
Jan.-Feb., 1970 Mimeo
- Mon., Apr. 18-20 SYNECTICS WORKBOOK - CLASS EXPERIMENT
- Apr. 25, 27, May 2 will be class presentations of feasibility problems
- May 9 TWO HOUR WRITTEN EXAM ON READINGS AND CONCEPTS

LX

Business 857
Real Estate Feasibility Analysis
Schedule & Syllabus

Spring Semester, 1984

Prof. James A. Graaskamp

Required Texts: Russell L. Ackoff, The Art of Problem Solving, John Wiley & Sons, 1978 - Available at UW Bookstore.

Messner, Boyce, Trimble & Ward, Analyzing Real Estate Opportunities: Market and Feasibility Studies, Realtors National Marketing Institute (1977, Chicago, IL). Available at UW Bookstore.

John R. Hayes, The Complete Problem Solver, The Franklin Press Institute, 1981.

Required Mimeo Readings: Available from Bob's Copy Shop, Randall Towers.

Week of Jan. 23: INTRODUCTION TO COURSE CONCEPTS

- ? ✓ A. "Feasibility Analysis - State of the Art," James A. Graaskamp Mimeo
- B. The Art of Problem Solving, pp. 1-49. Text
- C. The Complete Problem Solver, pp. 1-70 Text
- D. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 1-3. Text
- ✓ ✓ E. "Market Study + Financial Analysis = Feasibility Report," Bailey, Spies, and Weitzman, Appraisal Journal, October 1977, pp. 550-577. Mimeo
- ✓ ✓ F. "The Modern Feasibility," Miles and Steigerwald Mimeo
- ✓ ✓ G. Review "A Rational Approach to Feasibility Analysis," J. Graaskamp, prev. assigned in 850 Mimeo

Week of Jan. 30: CRITIQUING THE FEASIBILITY AND FORECASTING PROCESS

****Assignment of Feasibility Projects and Teams****

- A. The Art of Problem Solving, pp. 50-99. Text
- B. The Art of Problem Solving, Part 2, Section 11 & 12, pp. 174-203. Text
- Identification and Delineation of Real Estate Market Research, JAG →
p. 6-12, Real Estate Issues, Spring/Summer 1985 ✓ C. "A Critique of Real Estate Market and Investment Analyses," Eldred and Zerbst, Appraisal Journal, July, 1978. Mimeo
- ✓ D. "Consumer Research and the Real Estate Appraiser," Eldred and Zerbst, Appraisal Journal, Oct. 1976. Mimeo

Real Estate 857
Spring Semester, 1984

Prof. J. A. Graaskamp

Week of Jan. 30: E. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 7-8.

Text

- ✓ F. "How to Analyze Market Feasibility Reports,"
How to Conduct & Analyze Real Estate Market & Feasibility Studies, G. Vincent Barrett & John P. Blair, 1982, pp. 302-315.

Mimeo

- G. Class discussion of: Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 7-8, 11-14 (incl. Appendix for Chap. 8)

Text

- H. Chap. 7, "Case Study: A Large Industrial Park". Bus. Res. Li

- ? ✓ J. Ch. 29, "Forecasting, Planning and Strategy: What Needs to be Forecast", Charles H. Kappauf and J. Robert Talbott, pp. 487 - 502;

- ✓ Ch. 31, "Organizational and Behavioral Aspects of Forecasting", Ronald N. Taylor, pp. 519-534 in The Handbook of Forecasting: An Manager's Guide, edited by Sypros Makridakis and Steven C. Wheelwright, John Wiley and Sons, 1982.

Mimeo

CM 32 "The Forecasting Approach"
Scott Armstrong, pp. 535

Week of Feb. 6: REAL ESTATE MARKET SEMENTATION--OFFICE BUILDINGS

- A. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 4-6.

Text

"What Does the Future Hold,"
Betty Holcomb, Savvy, Oct. 1983,
pp. 130-133

- ✓ B. "Site Selection and Site Performance Prediction,"
R. James Claus & Walter G. Hardwick, The Mobile Consumer; Collier-MacMillan Canada, Ltd., 1973, pp. 133-158.

Mimeo

- ✓ C. "Marketing Studies for Office Buildings,"
Richard A. Lex, Real Estate Review.

Mimeo

"Form vs Function", Anthony
Barbar, pp. 150-161

- ? D. Section IV, "Office Development Potentials,"
Market Analysis and Development Program Options,
Gladstone Associates, Washington, D.C. 1973.

Mimeo

Case Study 4.1
RAM Study / 1700 Grant St.

- ✓ E. Case Study A: The High Rise Office Market,
January 1978, Gladstone & Associates.

Introducing Office Outlook;
Wall Street Journal, Dec. 7, 1983,
pp. 164-169

- ✓ F. "Office Space: Calculating the Demand,"
Charles Deto & Sol Rabin.
Sol Rabin, Coldwell Banker Management Corp.
Study completed for Mortgage Bankers Association
"General Office Demand Analysts".

Mimeo

? Sub...links
like working
paper

- G. "Forecasting Office Space Demand in Urban Areas,"
Hugh F. Kelly, Real Estate Review, Fall, 1983,
pp. 87-95.

Mimeo

Real Estate 857
Spring Semester, 1984

Prof. J. A. Graaskamp

Week of Feb. 13: HOUSING MARKET ANALYSIS

- Beyond Demographics," James Atlas, The Atlantic Monthly, Oct. 1984, pp. 244-253 (49-58)* →
- Where the Yuppies Are," Eric Fletcher, Builder, March 1985, pp. 254-258. (78-82)* ↓
- Five-Yr. Local Forecast," envelope Lemov, Builder, March 1985, pp. 259-270. (94-105)* ↓
- ✓ A. Demographic Changes & Their Effects on Real Estate Markets in the 1980's, ULI Monograph: 1982, Gruen, Gruen and Smith pp. 217-243 *not copy* Monograph
- ✓ B. "Research and the Sensitive Housing Market," Patricia Rosenzweig, Urban Land, April, 1976. Mimeo
- ✓ C. "Housing in '79: A Slide But Not a Slump," House & Home. Mimeo
- ✓ D. "What Home Shoppers Seek in Six Major Markets," Housing. Mimeo
- ✓ E. "Residential Land Uses," Chapter 7, Property Development, John McMahan. Mimeo
- ✓ F. "Broken Windows," Atlantic Monthly, James Wilson and George Kelling, Mar. 1982. Mimeo

Week of Feb. 20: HOUSING MARKET ANALYSIS (CONTINUED)

- Home Buyer Reference Survey 1983," Barbara Behrens Gers, Builder, Jan. 1983, pp. 271-280* ✓
- Segmented Analyses,"* ✓
- ✓ A. Chapter 9, Strategy of the Firm in an Unstable Market; Chapter 14, Segmented Analyses, Housing Markets, Michael Sumichrest & Maury Seldin, Dow-Jones Irwin, 1977. Mimeo
- ✓ B. Chapter 27, Summary and Conclusions: Managerial and Research Implications, Consumer Decision Processes. pp. 348-356 Mimeo
- C. Marketing: The Benedale Green Experience, Samuelson, Illinois Housing Development Authority Bus Libr.
- ✓ D. "The Pines of Perinton," A Memo For Inland Steel Company, by Donald Samuelson Mimeo
- E. Chap. 9, "Cast Study: Luxury High Rise Residential Development." Bus. Res. Lib.

Week of Feb. 27: HOUSING MARKET ANALYSIS (CONTINUED)

- ✓ A. "Condominium Design and Pricing," John A. Fiedler, Market Facts, Inc. Mimeo
- B. "Pairwise Nonmetric Multidimensional Scaling," Richard M. Johnson, Market Facts, Inc. Bus Libr.
- Chapter 3, "Conjoint Measurement," B. Jackson, Multivariate Data Analysis: An Introduction, 1983, pp. 414-428.* →
- ✓ C. "Theory and Methods of Social Measurement," Clyde H. Coombs, The Analysis of Data. Mimeo
- ✓ D. John Rasmussen Case Studies Mimeo
- E. Excerpts from market segmentation monograph for ULI by Tom Neujahr, pp. 12-74, Chap. 3, 4, 5, 6, & 7 Bus. Res. Lib.
- VALS - Values + Lifestyles of Americans," SRI International, pp. 440-452.*

Real Estate 857
Spring Semester, 1984

Prof. James A. Graaskamp

Week of March 5: SHOPPING CENTER FEASIBILITY

- ✓A. "Retail Commercial Land Uses," Chap. 8,
"Office and Industrial Land Uses," Chap. 9,
"Transient Commercial & Multi Use Projects,"
Chap. 10, Property Development, John McMahan Mimeo
- ✓B. "Eight Major Decision Points: A Critical
Analysis," Shopping Center Strategy, William
Applebaum, International Council of Shopping
Centers/New York, 1970 Mimeo
- ✓C. "Del Monte Center: Evaluation of Projections,"
"Customer Survey at Del Monte Center,"
"Reports from the Del Monte Center Merchants,"
"Anticipated Competition: Its Probable Effects
on the Del Monte Center," Shopping Center Strategy,
Applebaum. Mimeo

Week of Mar. 12: SHOPPING CENTER RESEARCH AND CONSUMER BEHAVIOR

- ✓A. "Perceptual Segmentation of Department Store
Markets," William Lazer, Robert G. Wyckham,
Journal of Retailing, Summer, 1969. Mimeo
- ✓B. "Basic Research Report on Consumer Behavior;
Report on a Study of Shopping Behavior and
Methods for Its Investigation," Alderson &
Sessions, Quantitative Techniques in Marketing
Analysis, (Irwin, 1962) Frank, Kuehn, & Massy,
pp. 129-145. Mimeo

Week of Mar. 19: SPRING RECESS

Week of Mar. 26: SINGLE UNIT RETAILING

- ✓A. "A Room Night Analysis of Lodging Demand,"
Daniel Lesser, Real Estate Review, Winter, 1983,
pp. 67-73. Mimeo
- ✓B. "Hotel Capacity: How Many Room to Build?"
Joseph M. Waddell, The Cornell H.R.A. Quarterly,
August, 1977. Mimeo
- ✓C. The Selection of Retail Locations, Richard
Helson, 1958, Chap. 6, 7, & 8, pp. 50-79. Mimeo
- ✓D. "Developing a Marketing Strategy," Staff & Partners
of Harris, Kerr, Forster & Co., The Cornell H.R.A.
Quarterly, Nov. 1974. Mimeo
- ✓E. "A Research Approach to Restaurant Marketing,"
William R. Swinyard, The Cornell H.R.A. Quarterly,
Feb, 1977. Mimeo

Chapter 3, "Analyzing the
Feasibility of a Downtown Convention
Center" 22/51/57

Real Estate 857
Spring Semester, 1984

Prof. James A. Graaskamp

Week of April 2: FISCAL IMPACT FEASIBILITY

- ✓ A. "Introduction and Organization," Page 1, The Fiscal Impact Handbook, pp. 1-10. Mimeo
- ✓ B. "Relating Methods to Tasks & Contexts of Fiscal Impact Analysis, Chap. 1, The Fiscal Impact Handbook, pp. 15-24. Mimeo
- ✓ C. "Revenue Trends," Chap. 8, The Fiscal Impact Handbook, pp. 153-178. Mimeo
- D. Santa Barbara's Central City, Choices for the Future, Patterson and Gruen Bus. Lib.
- E. Measuring the Fiscal Impact of a Shopping Center on Its Community, Michael S. Levin, Published by International Council of Shopping Centers Bus. Lib.
- Chapter 5. "Analyzing the Feasibility of a Community Shopping Center Development," pp 658-663. (28-23)
An Industrial Park Cost-Revenue Analysis in Southeastern Wisconsin - 1975, Southeastern Wisconsin Regional Planning Commission, June, 1975. Bus Lib.

↓
Week of April 9: DECISION-MAKING FOR REAL ESTATE FEASIBILITY

- hpt. 6. "The Bottom Line: negotiating the Best Deal for Developer + Municipality Alike," pp. 664-667 (34-37) ?
5th from The Handbook of Forecasting: A Manager's Guide
- A. Part III in The Complete Problem Solver, pp. 145-196. Text.
- ✓ B. Chapter 7, "Forecasting the Issues," Robert Fildes, The Handbook of Forecasting: A Manager's Guide, pp. 83-106. Mimeo
- ✓ C. Chapter 30, "Integrating Forecasting and Decision Making", William Remus, The Handbook of Forecasting: A Manager's Guide, pp. 503 - 518. Mimeo

Week of April 16: CREATIVE THINKING ABOUT REAL ESTATE

- A. Part IV, Hayes Text, pp. 197-238. Text
- ✓ B. "On Being Explicit About Creative Process, W.J.J. Gordon, The Journal of Creative Behavior, 1972. Mimeo
- ✓ C. Introduction to Synectics Problem-Solving, W.J.J. Gordon, 1972. Mimeo
- ✓ D. Part V of Thinking Visually, pp. 133-192 Mimeo
"ETC: Express/Text/Cycle", Chap. 20;
"Out of the Language Rut", Chap. 21;
"The Strategy Approach", Chap. 22;
Robert H. McKim, Lifetime Learning Publications, Belmont, California, 1980. Mimeo

Synthetic: pp 33-56
Two. "The Operational Mechanisms"
Three. "Synthetic in the Industrial Model," pp 57-91
Synthetic: A Technique for Creative Learning, Jacques Jimenez, The Science Teacher, March 1975, pp. 33-36

Real Estate 857
Spring Semester, 1984

Prof. James A. Graaskamp

Week of April 23: SYNECTICS WORKSHOP--CLASS EXPERIMENT

Week of April 30: **TWO NINETY-MINUTE EXAMS ON READINGS AND LECTURES**

Week of May 7: SELECTED CLASSROOM PRESENTATIONS OF TEAM PROJECTS

F. J. Jorgensen

Spring Semester, 1985

Prof. James A. Graaskamp

Schedule of Topics
Business 857
Feasibility Analysis & Counseling

Week of Jan. 21	Introduction to Course Concepts
" " Jan. 28	Critiquing the Feasibility and Forecasting Process
Feb. 4	Real Estate Market Segmentation--Office Buildings
Feb. 11	Housing Market Analysis
Feb. 18	Elderly Housing Market Analysis
Feb. 25	Condominium Market Analysis
Mar. 4	Shopping Center Feasibility
Mar. 11	Midterm Exam
Mar. 16-24	Spring Recess
Mar. 25	Single Unit Retailing
Apr. 1	Fiscal Impact Feasibility
Apr. 8	Decision-Making for Real Estate Feasibility
Apr. 15	Architectural Critique & Feasibility Analysis
Apr. 22	Promotional & Political Research for Feasibility Analysis
Apr. 29	Creative Thinking About Real Estate
May 6,7 & 8	Selected Classroom Presentations of Team Projects

Business 857
Real Estate Feasibility Analysis
Schedule & Syllabus

Spring Semester, 1985

Prof. James A. Graaskamp

Required Texts: Russell L. Ackoff, The Art of Problem Solving, John Wiley & Sons, 1978 - Available at UW Bookstore.

Messner, Boyce, Trimble & Ward, Analyzing Real Estate Opportunities: Market and Feasibility Studies, Realtors National Marketing Institute (1977, Chicago, IL). Available at UW Bookstore.

John R. Hayes, The Complete Problem Solver, The Franklin Press Institute, 1981.

Required Mimeo Readings: Available from Bob's Copy Shop, Randall Towers.

Week of Jan. 21: INTRODUCTION TO COURSE CONCEPTS

- A. ✓ "Feasibility Analysis - State of the Art," ✓
James A. Graaskamp Mimeo
- B. The Art of Problem Solving, pp. 1-49. Text
- C. The Complete Problem Solver, pp. 1-70 Text
- D. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 1-3. Text
- E. ✓ "Market Study + Financial Analysis = Feasibility ✓
Report," Bailey, Spies, and Weitzman, Appraisal Journal, October 1977, pp. 550-577. Mimeo
- F. ✓ "The Modern Feasibility," Miles and Steigerwald ✓ Mimeo
- G. ✓ Review "A Rational Approach to Feasibility ✓
Analysis," J. Graaskamp, prev. assigned in 850 ✓ Mimeo

Week of Jan. 28: CRITIQUING THE FEASIBILITY AND FORECASTING PROCESS

Assignment of Feasibility Projects and Teams

- A. The Art of Problem Solving, pp. 50-99. Text
- B. The Art of Problem Solving, Part 2, Section 11 & 12, pp. 174-203. Text
- C. "A Critique of Real Estate Market and Investment ✓
Analyses," Eldred and Zerbst, Appraisal Journal, July, 1978. Mimeo
- D. ✓ "Consumer Research and the Real Estate Appraiser," ✓
Eldred and Zerbst, Appraisal Journal, Oct. 1976. Mimeo

Week of Jan. 28:
Continued

- E. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 7-8. Text
- F. "How to Analyze Market Feasibility Reports," How to Conduct & Analyze Real Estate Market & Feasibility Studies, G. Vincent Barrett & John P. Blair, 1982, pp. 302-315. Mimeo
- G. Class discussion of: Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 7-8, 11-14 (incl. Appendix for Chap. 8) Text
- H. Chap. 7, "Case Study: A Large Industrial Park". Bus. Res. Libr.
- I. Ch. 29, "Forecasting, Planning and Strategy: What Needs to be Forecast"; Charles H. Kappauf and J. Robert Talbott, pp. 487 - 502; Ch. 31, "Organizational and Behavioral Aspects of Forecasting", Ronald N. Taylor, pp. 519-534 in The Handbook of Forecasting: An Manager's Guide, edited by Sypros Makridakis and Steven C. Wheelwright, John Wiley and Sons, 1982. Mimeo
- J. "What Does the Future Hold?", Betty Holcomb, pp. 69-74, Savvy, October, 1983 Mimeo

Week of Feb. 4: REAL ESTATE MARKET SEGMENTATION -- OFFICE BUILDINGS

- A. Analyzing Real Estate Opportunities: Market and Feasibility Studies, Chap. 4-6. Text
- B. "Site Selection and Site Performance Prediction," R. James Claus and Walter G. Hardwick, The Mobile Consumer; Collier-MacMillan Canada, Ltd., 1973, pp. 133-158. Mimeo
- C. "Marketing Studies for Office Buildings," Richard A. Lex, Real Estate Review. Mimeo
- D. "Interiors: Form Vs. Function," Texas Architect, March/April, 1981; "Building Design Consultation", Genslereport, Winter, 1981; "RAM Studies," Gensler and Associates Architects, 1981. Mimeo
- E. "The Guide to the Future of Office Real Estate," OFFICE OUTLOOK, A Torto, Wheaton Report, 1984. Mimeo
- F. "Office Space: Calculating the Demand," Charles Detoy & Sol Rabin; Sol Rabin, Coldwell Banker Management Corp., Study completed for Mortgage Bankers Association, "General Office Demand Analysts". Mimeo
- G. "Forecasting Office Space Demand in Urban Areas," Hugh F. Kelley, Real Estate Review, Fall, 1983, pp. 87-95. Mimeo

Real Estate 857
Spring Semester, 1985

Prof. J. A. Graaskamp

Week of Feb. 11: HOUSING MARKET ANALYSIS

- Ms* A. ✓ Demographic Changes & Their Effects on Real Estate Markets in the 1980's, ULI Monograph: 1982, Gruen, Gruen and Smith ✓ Monograph
- B. ✓ "Beyond Demographics--How Madison Avenue knows who you are & What You Want," James, Atlas, The Atlantic Monthly, October, 1984, pp. 49-58 Mimeo
- C. ✓ "Home Buyer Preference Survey 1983," Barbara Behrens Gers, Builder, January, 1983. Mimeo ✓
- Libby* D. ✓ Chapter 9, Strategy of the Firm in an Unstable Market; Chapter 14, Segmented Analyses, Housing Markets, Michael Sumichrest & Maury Seldin, Dow-Jones Irwin, 1977. ✓ Mimeo
- E. ✓ Chapter 27, Summary and Conclusions: Managerial and Research Implications, Consumer Decision Processes. ✓ Mimeo
- Ms* F. ✓ Marketing: The Benedale Green Experience, Samuelson, Illinois Housing Development Authority ✓ Bus Libr.
- G. ✓ "The Pines of Perinton," A Memo For Inland Steel Company, by Donald Samuelson Mimeo ✓

Week of Feb. 18: ELDERLY HOUSING MARKET ANALYSIS

- A. John Rasmussen Case Studies Mimeo
- B. Excerpts from market segmentation monograph for ULI by Tom Neujahr, pp. 12-74, Chapters 3, 4, 5, 6, & 7 Bus. Res. Libr.

Real Estate 857
Spring Semester, 1985

Prof. James A. Graaskamp

Methods

Week of April 1: FISCAL IMPACT FEASIBILITY

- Per Capita Multiplier (Average)
- Case study (Murray)
- Service Std Mthd (K. H. Hogue)
- gross approximation
- Comparative (various)
- Proportional Value (Average)
- Employment Amt (Murray)

"Introduction and Organization," Page 1,
The Fiscal Impact Handbook, pp. 1-10.

Mimeo

B. "Relating Methods to Tasks and Contexts of
Fiscal Impact Analysis, Chap. 1, The Fiscal
Impact Handbook, pp. 15-24.

Mimeo

C. "Revenue Trends," Chap. 8, The Fiscal Impact
Handbook, pp. 153-178.

Mimeo

D. Santa Barbara's Central City, Choices for
the Future, Patterson and Gruen

Bus. Libr.

E. Measuring the Fiscal Impact of a Shopping
Center on Its Community, Michael S. Levin,
Published by International Council of Shopping
Centers

Bus. Libr.

An Industrial Park Cost-Revenue Analysis in
Southwestern Wisconsin - 1975, Southeastern
Wisconsin Regional Planning Commission,
June, 1975.

Bus. Libr.

G. Ch. 3 "Analyzing the Feasibility of a
Downtown Convention Hotel," Ch. 6
"The Bottom Line: Negotiating the Best
Deal for Developer and Municipality Alike,"
Appendix A "Glossary of Real Estate Development
Terms," Richard J. Roddewig and Jared Shlaes,
Analyzing the Economic Feasibility of a
Development Project: A Guide for Planners,
November, 1983.

Mimeos

Week of April 8: DECISION-MAKING FOR REAL ESTATE FEASIBILITY

A. Part III in The Complete Problem Solver,
pp. 145-196.

Text

B. Chapter 7, "Forecasting the Issues,"
Robert Fildes, The Handbook of Forecasting:
A Manager's Guide, pp. 83-106.

C. Chapter 30, "Integrating Forecasting and
Decision Making", William Remus, The Handbook
of Forecasting: A Manager's Guide, pp. 503-518.

Mimeo

To you drivers, stay sober always, be most understanding.
timely, units, disaggregates, seasonal, scenarios, assumptions,
blessed by night, many not distr, updates.

Risk Mgmt w/ forecasts

- insurance
- diversification → key correlation
- info and speed of info generation
- structurally, reduce heterogeneity, bring in times relat.

- 1) Choose technique
- 2) Time frame of analysis
- 3) Sensitivity to forecast error
- 4) Complexity + comprehensiveness
- 5) Comparative testing
- 6) Data Basis
- 7) Constant vs variable (only forecast variable)
- 8) Personality of forecaster + DM. behavior

timely, units, disaggregates, seasonal, scenarios, assumptions, blessed by night, many not distr, updates.

To you drivers, stay sober always, be most understanding.

property
case study → key information
service standard
comparable data
assessable data
assessable data
assessable data
assessable data
assessable data
assessable data

direct, current, public costs + rev.

average cap = all
no existing = no
average cap = effect of city not

judgmental → Delphi, opinion
extrapolative = trend, linear
causal/statistical = regression

Real Estate 857
Spring Semester, 1985

Prof. James A. Graaskamp

Week of April 15: ARCHITECTURAL CRITIQUE AND FEASIBILITY ANALYSIS

Polly Welch also addresses
problem solving by translating
Research data into design info.
the analogues, visual expression,
graphic images.

✓ Emerging Facilitative Design 1-58 ⇒ actualized housed
environment housed in.

✓ Housing Design for Families 96-113 holistic analyses of the
problem.

Design around the activities that occur and the environment
that will be housed

to Synthetic P.S. 10pgs

Synth: Activity for Creative Learning 4pgs

Synth Education Systems 7pgs

Sort of like what Alexander
tries to say by dictating
that context creates form.
What is to occur in the environment
will affect the form of architecture.

hierarchy of space ⇒ public to private

Used Analogues.

Opposite of an archaeologist who looks at the artifact + tries to recreate behavior. Looks at behavior +
tries to create the artifact.

Week of April 22: PROMOTIONAL AND POLITICAL RESEARCH FOR FEASIBILITY ANALYSIS

✓ Use of Metaphor ↑ Creative Effort 4pgs

✓ Introduction 2pgs.

Real Estate 857
Spring Semester, 1985

Prof. James A. Graaskamp

Week of April 29: CREATIVE THINKING ABOUT REAL ESTATE

A. Part IV, Hayes Text, pp. 197-238.

Text

B. ✓ "On Being Explicit About Creative Process,"
W. J. J. Gordon, The Journal of Creative Behavior,
1972.

Mimeo

10855 C. ✓ Introduction to Synectics Problem-Solving,

W. J. J. Gordon, 1972. - Father of Synectics
Make Familiar Strange (Structure) Innovative → break connect.

Mimeo

D. Part V of Thinking Visually, pp. 133-192

✓ "ETC: Express/Text/Cycle", Chap. 20; → 8pgs

✓ "Out of the Language Rut", Chap. 21; → 44pgs

✓ "The Strategy Approach", Chap. 22;

Robert H. McKim, Lifetime Learning Publications,
Belmont, California, 1980.

Mimeo

May 6, 7 and 8: SELECTED CLASSROOM PRESENTATIONS OF TEAM PROJECTS

FINAL EXAM

3/25 C 4/1 G 4/29 D 4/1 E
Andy 29pgs ; 11pgs ; 10pgs ; ?
3/25 B 4/1 C ✓ 4/1 D ✓ 4/29 D
EW 12pgs ; 25 ; ? ; Chap 22 5pgs (Chap 20+22)
3/25 A 4/1 A ✓ 4/8 B 4/15 Howy Dec for Families
BL 6pgs 10pgs ; 12pgs ; 17pgs ; 4pgs Use of Metaphor.
3/25 D 4/1 F 4/8 C 50pgs a person.
LH 10pgs ; ? ; 9pgs ; Synthesis Ed. Systems ; 3/29 B.
WO Emerging Fac Reorg. 3/25 E Introduction 7pgs.
57pgs ; 5pgs.
SD ~~Emerging Fac~~ 4/29 D ; Syn. A Critique for Creative Heavy 4pgs. 4/1 B
Out of Lang. Rt Chap 21 ; 9pgs.
44pgs

30
-37
13

Schedule of Topics
Business 857
Feasibility Analysis

Week of Jan. 20	Introduction to Course Concepts
Jan. 27	Basic Definition of Feasibility Analysis and Counseling
Feb. 3	Critiquing the Feasibility Process
Feb. 10	Forecasting the Future Business Environment
Feb. 17	Real Estate Market Segmentation--Office Buildings
Feb. 24	Housing Market Analysis
Mar. 3	Elderly Housing Market Analysis
Mar. 10	Shopping Center Feasibility
W, Mar. 19	* * * MIDTERM EXAM * * *
Mar. 24-31	* * * SPRING BREAK * * *
Apr. 1	Hotel/Motel Feasibility
Apr. 7	Recreation Real Estate Feasibility Analysis
Apr. 14	Fiscal Impact Feasibility
Apr. 21	Creative Thinking Theories
Apr. 28	Promotional and Political Research
May 5	Student Team Reports
May 12	* * * FINAL EXAM DURING FINALS WEEK * * *

1. Problem solving and creative thinking
2. Concept of feasibility analysis and definition of the problem
3. Site search for use.
4. Regulatory process and political research.
5. Use search for a site.
6. Defining the competitive supply.
7. Four levels of market research.
8. Market research.
9. Market research, cont.
10. Consumer research.
11. Consumer research, continued.
12. Promotion research.
13. Promotion research, continued.
14. Life cycle feasibility.
15. Fiscal impact feasibility.

Business 857
Graduate Real Estate Seminar
FINAL EXAM

April 29, 1974

Professor J. A. Graaskamp

I. Write on one of the following two questions (40%):

- A. Discuss the judicial development of eminent domain and "just compensation" and recent efforts to expand the scope and character of compensation for consequential loss. How do these trends affect the appraisal function?

OR

B. Discuss the probable viewpoint of the courts on each of the following

1. Admissibility of evidence of income to support proof of market value, suitability for use or consequential damage.
2. Qualifications of witnesses giving evidence.
3. Admissibility of photographs or other graphic aids.

II. Write on one of the following two questions (30%):

- A. Discuss inverse condemnation and problems of appraising the damage of transportation caused noise.

OR

B. Discuss the valuation of timber and the statistical character of its value conclusion as compared to standard apartment house appraisal by the income approach, are there analogies that might be drawn between timber methodologies and apartment rental data gathering techniques and if so, how so?

III. What potential conflicts, if any, exist between the codes of ethics of the SREA and AIREA Associations and the appraisal theory of Professor Ratcliff? (15%)

V. Discuss the business characteristics and financial character of a small appraisal firm enterprise and its attractiveness or unattractiveness as a career opportunity. (15%)

857 - Feasibility Analysis
FINAL EXAM

Monday, May 14, 1979

20% Each

Prof. James A. Graaskamp

- I. In terms of feasibility concepts, briefly describe:
 - A. What Graaskamp meant by "Defining the essence of the business to determine proper definition of the space time unit"
 - B. What Claude Gruen meant by "prearchitectural programming"
 - C. What Christopher Alexander meant by "systematic synthesis of form"
- II. In two strong articles, Eldred and Zerbst took appraisers to task for lack of consumer research and real estate market analysis. What was the basis of their observations and the nature of their conclusion?
- III. Discuss the techniques and alternative methods for market segmentation in your readings relative to two of the following types of real estate:
 - A. Office space development
 - B. Motel-Hotel development
 - C. Department store development
- IV. Distinguish between market and merchandising analysis for housing markets and define what the feasibility end product should be in preprogramming a multi-family development as illustrated by reports for Pines of Perington, Benedale Green, and the chapters by Sumichrest and Seldin from Housing Markets.
- V. Identify and briefly describe three alternative approaches to forecasting fiscal impact of a given development.

Business 857
Real Estate Feasibility Analysis
Final Exam

Monday, May 3, 1982

Prof. James A. Graaskamp

- I. Discuss two of the following articles: (30%)
 1. "A Critique of Real Estate Market and Investment Analysis," by Eldred and Zerbst
 2. "Consumer Research and the Real Estate Appraiser," by Eldred & Zerbst.
 3. "Marketing Studies for Office Buildings," by Richard Lex
 4. "Eight Major Decision Points: A Critical Analysis," Shopping Center Strategy, by William Applebaum
 5. "Store Location and Customer Behavior," by Nina and Claude Gruen
- II. Identify the parallelism between the main themes of the Art of Problem Solving by Russell Ackoff and each of the following: (15%)
 1. The basic concepts of Synectics.
 2. The basic concepts of rational feasibility analysis
 3. Prearchitectural Programming by Claude Gruen
- III. Write on ~~two~~^{one} of the following questions: (20%)
 - A. Briefly identify three different methods of estimating fiscal impact and indicate the strong and weak points of each methodology.

OR
 - B. Discuss the report on Santa Barbara central city, choices for the future.
- IV. What role does feasibility play in establishing the strategy of the firm in an unstable market, such as we are enjoying at the moment. This is a thought question and should employ many of the general concepts of the course as well as the readings such as Housing Markets by Seldin and Sumichrest. (25%)
- V. Please comment briefly on the reason for your selection of each of the following: (10%)
 1. Your selection of the best reading assignment in 857 and why
 2. Briefly indicate the article which you felt to be least useful, redundant,

Business 857 Final Exam Key

I. Discuss two of the following --15% each.

1-1 Eldridge and Zerbst-Critique of Feasibility

1. Unspecified research direction	73%
2. Statistics without explanations	82
3. Misspecification of supply and demand	67
4. Failure to correlate supply and demand	60
5. Inattention to economic indicators	76
6. Omission of primary data	49
7. Poor citation and presentation of data	51
8. Faulty financial analyses	82
9. Unwarranted recommendations	62
10. Avoidance of responsibility	44

1-2 Eldridge and Zerbst-Consumer Research and Appraisal

1. Uses include surveys of building tenants, customers, and those servicing the real estate.
2. Analysis of behavior to discover source of real estate problems and defects.
3. Definition of respondent, sample, etc.

1-3 Market Studies for Offices-Richard Lex-Three Levels. The market study, the marketability study, and the feasibility study.

Market study is total supply and occupancy and future need.
Marketability is focused on price, product, location, and terms.
Tools include standard relationships.

1-4 Eight major decision points - Applebaum

1. Forced development on the site.
2. Chose a shopping center.
3. Choice of type of center.
4. Research lacked direction.
5. Land lease had counter productive incentives
6. Poor tri-party agreement
7. Delmonte ~~xxxxx~~ inexperienced in management

1-5 Customer behaviour - Gruen

1. Determination of retailers identity and customer base.
2. The why of consumer behavior
3. Forecasting the number of customers
4. Forecasting sales

III. There are six fiscal impact methods--per capita multiplier, case study, service standard, comparable city, proportional evaluation, and employment anticipation.

IV. Reasons for market research in unstable housing market--

1. Market is more discriminate and willing to make trade-offs
2. Recovery and demand is uneven in terms of location, price, and design segments of the market.
3. Length of resession has caused builder to loose touch with the market.
4. Cash conscience client has led to more economical techniques such as comparable analysis, sales staff analysis, historical patterns, listing and records, short surveys.

Business 857
Real Estate Feasibility Analysis
Final Exam Part II

Wednesday, May 2, 1984

Prof. J. A. Graaskamp

- (20%) I. Discuss in detail the process of developing a measure of hotel room demand, a marketing strategy, and specification of how many hotel rooms to build for an urban location.
- (30%) II. Compare and contrast the alternative methods of forecasting fiscal costs incurred by a community which could be attributable to a specific land use. Are these ultimately useful in identifying who pays and who benefits and the consequential shift of the incidence of costs?
- (20%) III. Discuss the problems of integrating forecasting decision making and the planning and strategy of forecasting as discussed in THE HANDBOOK OF FORECASTING.
- (30%) IV. Discuss the relationship, if any, which exists between the objectives of feasibility analysis and investment analysis. How do feasibility analysts deal with the point of decision where the decision maker must make a leaping assumption of faith about the reliability of his anticipation of future performance and tolerance for surprise?

I (20%)

Hotel markets in terms of room nights by segment or seven year growth projections in a 13 month period. The build up of room nights requires the following steps:

- Competitive lodging facilities and the market segments that each serves are identified
- Occupancy levels of each of the subject's primary competitors are estimated in order to establish the number of room nights that actually accommodate each identified market segment.
- The estimated number of room nights occupied by each segment is converted into a competitive index
- Unaccommodated demand (demand which cannot presently be satisfied) is estimated for each market segment.
- Growth rates for each market segment are forecasted.
- The market's supply of guest rooms is projected for several years.
- Projected room night demand is compared to the projected supply of guest rooms to establish over-all competitive occupancy.
- An analysis of the subject's competitiveness is made for each market segment by using indexes.
- The market share that the subject can capture in each market segment is estimated for a number of years.

II (30%)

- 1) per capita multiplier method
- 2) case study method
- 3) Service standard method (municipal manpower ratio for geographic area)
- 4) comparable city method
- 5) proportional valuation method for non-residential facilities which generate employment. Coefficients must be modified for extra large facilities.
- 6) employment anticipation method.

III (20%)

- 1) timeliness
- 2) decision making units
- 3) level of aggregation
- 4) seasonality
- 5) forecast ranging
- 6) explanatory appendices
- 7) top-management approval
- 8) distribution
- 9) updating

IV (30%)

- 1) know the knowable
- 2) set parameters on the controllable
- 3) shift the unpredictable
- 4) fund tolerance for surprise

Business 857

Feasibility Analysis
Six Weeks Exam

Spring Semester 1987
Wednesday, February 25

Prof. James A. Graaskamp

25% each

- I. A. Describe the total strategy and process of site analysis to focus on the discovery of the most probable use and related market support area.

OR

- B. Discuss the problem in forecasting and cost effective definition of what should be forecast in real estate.

- II. A. What are the most common errors or shallow and indeterminant aspects of real estate market and consumer research studies according to Eldred and Zerbst?

OR

- B. Develop the idea of "the location and its linkages" as put forward by John Clapp.

- III. A. Discuss how John Clapp would define competitive supply and market conditions relative to a specific real estate proposal.

OR

- B. Critique the view that "market study plus financial analysis equals feasibility report" as presumed by the Landauer people, Bailey, Spies, and Weitzman.

- IV. Integrate the basic themes of Ackoff in defining a problem and its relationship to planning and feasibility with the concepts and alternative problem solving environments detailed by Hayes in the Complete Problem Solver.

Feasibility Analysis

I. Good examples of good analogy

- A. A bar owner who established the image of his bar as a place for young singles by hiring a few pretty singles to sit around the place for a few weeks. The same might be done for a young singles apartment or apartments for the elderly to create the image that attracts the market you wish to reach.
- B. Curiosity to explore islands suggests a project designed as an island has a certain draw.

II. Direct analogy

- A. Social psychology indicates people like to feel important by having interesting bits of conversation about where they have gone and what they have seen. Therefore build a nature trail to teach them basic botany and related subjects, or provide a short course in some social grace such movie making or bar tending.
- B. Relative to access why can't people enter a building from all directions "like bees can enter a hive"?

III. Symbolic analogy

- A. An institution can gain an inference of purity and trustworthiness by the use of color, such as white in government buildings, or provide a suggestion of warmth and sensitivity to people with dark brick and small texture pattern.
(Also The Abbey) (Joe's Boozaria)

IV. Analogy by fantasy

- A. The Wizard^y of Oz drew people from all over by using a road of gold brick which was easy and interesting to follow.
- B. Wisconsin lakes are the footprints of Paul Bunyan

Number of
Sunday
Sightseers
in County

% of County
within
Thirty-Mile
Radius

Number of
Sightseers

Villa Louis
Stonefield
Old Wade House

Ratio of
Attendance
to
Sightseers

Number of
Visitors

Admissions

Children
Adults
Free

Admission
Price
Per Visitor

Gross
Income

Concessions

Personnel
Costs

Expenses

Maintenance

Supplies

Administrative
Supplies

Other
Costs

Net
Income
Available
for Return
on Capital

Interest
Cost
per
Thousand

$\div$

$=$

TOTAL
CAPITAL
JUSTIFI
BY
REVENUE
ESTIMAT

OF HISTORICAL SITE FEASIBILITY
FLOW DIAGRAM

A Definition of Feasibility Analysis

- I. Feasibility: studies for real estate projects are concerned with the likelihood of satisfying specific objectives within a system of limiting constraints.
 1. Criteria of acceptable satisfaction levels are generated by establishing specific objectives to be achieved and constraints which are not to be exceeded. The viewpoint is therefore subjective because criterion are derivative of objectives and constraints relative to a specific client.
 2. Feasibility analysis is therefore as much concerned with precise problem stating as with problem solving. Ideally feasibility analysis should provide a total system of objectives, constraints, and satisfaction criteria to the degree that the client or the context does not establish them.
 3. Since in appraisal the viewpoint is always that of the appraiser comparing a given property interest with the consensus of other users as seen in the historical market, feasibility studies differ basically from appraisals in viewpoint and ~~appraisals~~ in ^{scope} breadth of criteria.
- II. The full decision making system for a complete feasibility analysis would involve definition of the attributes of each objective and constraint within the following broad subject areas:
 1. Primary and secondary objectives and strategy of client.
 2. Effective market demand or revenue to be attributed to real estate in question.
 3. Technical constraints or alternatives for creation for physical space required.
 4. Legal-political constraints on space creation and utilization.
 5. Ethical-esthetic constraints on space creation and utilization.
 6. Financial constraints and return on space creation and utilization.
- III. Most feasibility studies involve only partial analysis of the problem statement or solution proffered by the client because implicit assumptions of the client are not examined nor the objectives restated with precision and discipline.
 1. Premature disaggregation of a project proposal may lead to justification of a project for the wrong reasons or subordination of client objectives which are implicit to conventional criteria and wisdom which are too generalized to permit detailed attribute analysis.
 2. The feasibility analyst must either require his client to develop or provide a specific list of strategy objectives or must confine his analysis to property attribute description.
- IV. The first step in correct identification of the problems to be served or solved is to search for an explicit definition of objectives in the following areas:
 1. Scale of enterprise.
 2. Time horizon for a commitment and realization.
 3. Essence of role or function of enterprise to be housed.

4. Specific functions of enterprise to be served.
5. Preferred method of static risk control.
6. Preferred method of dynamic risk control.
7. Preferred revenue source and its characteristics.
8. Preferred method of personnel management and motivation.
9. Flexibility of alternatives - site, use, or use and site.
10. Preferred method of financing.

Class #1
Feasibility Analysis

I. Class will explore theory and application of feasibility analysis as relevant to real estate. It is a unique course without precedent and without text and without clear definition in the professor's mind as to the subject matter.

A. The standard nomenclature for various reports is best defined by Anthony Downs in an article "Characteristics of Various Economic Studies", the APPRAISAL JOURNAL, July 1966 page 329. Study carefully the summary chart.

B. Also read the book "Notes on the Synthesis of Form" by Christopher Alexander, carefully substituting the word appraiser or real estate analyst for architect or designer.

C. In a week or two we will start giving you sketch problems for which you have one week to propose a solution on one page or less to be handed in.

D. Finally we will do several feasibility studies in small group projects for which you will have no clear-cut solution when you are done.

E. There will be a written exam on readings and lectures about two-thirds of the way through the semester. Project, weekly problem, and exam will each count one-third.

II/ In my current thinking project feasibility can be defined as "the probability of satisfying specific objectives within a system of limiting constraints."

A. Feasibility studies differ from appraisals drastically because for any particular plan objectives and constraints are subjective, at least in part while appraisals relate the project to objective market facts.

B. In appraisal the viewpoint is always that of the appraiser comparing a given property with a given market situation.

C. In a feasibility study the viewpoint is subjective because analysis is always by comparison of objectives and constraints defined by the client or in relation to the client.

D. Therefore redefinition of objectives, constraints, and measures of satisfaction is a major part of the analyst's problem in doing a feasibility study.

E. Ideally a feasibility study provides a total system of objectives, constraints, and satisfaction evaluations to the degree that the client or the context of the situation does not provide them.

F. Thus each feasibility study has some elements of creativity, of conceptualizing, or probing to make the implicit-explicit. Therefore the art of doing a feasibility study has much in common with the architect attempting to resolve clients needs in the construction of a building.

Theory of Feasibility Analysis

- I. To review we have identified feasibility analysis as the likelihood of a successful solution of a set of objectives given specific limiting constraints.
 - A. We had suggested that objectives as varied as the investor and that some could have quantitative criteria such as 20% rate of return, default point of 75% or a capital budget not to exceed \$100,000.
 - B. Some objectives are qualitative, matters of style, such as risk control by means of a semi-monopoly, or irrational objectives of prestige and comfort.
 - C. We had concluded in discussing the need of determining the essence of the enterprise to be housed. Its economic essence determines the next step of the analysis relative to market trends and revenue sources to be tapped through skillful merchandising.
 - D. The problem of teaching or developing creative modeling ability is considered in the light of three basic hypotheses concerning the processes of enrichment (elaboration of very simple models), association (analogy with previously developed structures), and alternating attention to different aspects of the task. Based on these hypotheses, specific steps are presented which have been developed to help individuals acquire modeling skills. The steps are illustrated by means of an example. Other sources of modeling ability are also suggested. The discussion focuses on specific hypotheses concerning the differences between the teaching of models and the teaching of modeling.
 - E. The process by which the experienced management scientist arrives at a model of the phenomenon he is studying is probably best described as intuitive. The term "intuitive" refers here to thinking which the subject is unable or unwilling to verbalize. Indeed, really effective experienced persons in any field typically operate in a largely intuitive manner and view with impatience attempts to make their methods explicit. The experienced management scientist may well consider their methods explicit. The experienced management scientist may well consider questions as to how he selected the variables to be included in the model, how he decided which were to be regarded as random, and so on, as so trivial that they cannot occupy his serious attention or so non-trivial that they cannot be answered. He is perhaps willing to regard the abstraction and translation of a management problem into a scientific problem as an art in the sense that it must remain largely intuitive. Any set of rules for obtaining models could have only the most limited usefulness at best, and at worst, might seriously impede the development of the required intuition.
- II. The marketing problem always begins from one of two points: Either we are to sell what we have at as much over cost as what we can get or we attempt to identify and unfilled need, determine how much people are willing to pay for it, and then determine how to serve that need at a reasonable cost.

III. Just as the specific requirements of an architectural problem or client program have become too complex for intuitive resolution and design, so to have the subject areas of interest for feasibility analysis become too complex for intuitive judgements about the probability of satisfaction within existing constraints and limitations.

A. A total feasibility analysis is the entire system of decision making which culminates in a given real estate project. It would be full simulation of the entrepreneurial process.

B. More often the feasibility analyst is asked to examine only one aspect of the total system because the client has already made tentative decisions in many of the other areas of related concern, rightly or wrongly, implicitly or explicitly. (For example, the Kinnard site location series - immediate neighborhood, change in neighborhood, change in community.)

C. Most of you have heard me divide the feasibility question along a hierarchy of constraints something like this:

1. Primary and secondary objectives and strategy of client
2. Effective market demand for space in question
3. Technical constraints and alternatives for creating physical space
4. Legal-political constraints on space utilization
5. Ethical-esthetic constraints on space utilization
6. Financial constraints and measures of satisfaction

D. The feasibility analyst is asked to judge the suitability of an existing proposal in light of the constraints to be defined above OR he is asked to find a project which would satisfy a given set of constraints.

E. Each of the six categories above can represent a study in itself or require several related studies.

1. Strategy studies - economic base study or LUM study
2. Market study, consumer survey, or marketability study
3. Engineering reports, planning and architectural drawings
4. Legal opinions and political strategy studies
5. Compatibility studies
6. Capital budgets, operating budgets, cash flow forecasts, and rate of return analysis

F. One of the difficulties of feasibility analysis is the fact that the client may not fully appreciate the relationship of what he has already done to what he expects of the analyst. The feasibility analyst must first identify the explicit and implicit assumption and the nature of satisfaction sought by the client before he can comment on the adequacy of the clients solution or the relevancy of his request for analytical assistance.

- A. Often the easiest of the two problems is to search for a merchandising pattern for property already owned. One can identify the positive and negative attributes of the property and then determine how to merchandise them both. The best merchandising plan must then be tested to see if there are any buyers who might be susceptible.
- B. For example, consider a site triangular in shape which an investor had purchased in an R-6 area near Lake Monona. The high price of the site and the odd shape required multi-story development as a tower and an architect showed that the best shape for this site would be a round cylinder column 14 stories high (site was low relative to capital, with a gross of 7500 sq. ft. per floor with net useable of 6000 sq. ft.) Alongside the lake the lot has a high water table and therefore only room for one level of basement parking, about 40 cars. The implication of these attributes was a relatively high rent for a small space but relative low density of occupancy to reduce the need of parking cars. One possibility would be an office building while the other would be for a luxury apartment building. Given the neighborhood the second choice was comparable and so the market analysis began to take form to determine how many people might be willing to pay up to \$6000 a year for 1200 sq. ft. of space.
- C. Notice that we begin with a very simple economic model:- $PVI = 1 - PVK$. When we knew costs were high per unit, then rents had to be high per unit. However, in this case density had to be low and so that left us with prestige office space or prestige apartments. If you begin with firm control of the cost figure then you can balance rental market required against capital attributes desired.
- D. If on the other hand one must first search for the best rent level in which to merchandise the problem is less well focused and requires that you create several alternative economic models to test for highest and best use. Special use buildings are more easily analyzed than general use development. It is much easier to anticipate needs in the high-rise office market or motel market because the very visibility of these buildings gives you immediate disaggregation of your data.
- E. Indeed economic model building is an attempt to disaggregate market information from the huge amount of statistical data that exists. Problem solving itself is the art of reducing big problems into many smaller component problems. Attribute listing is a way of detecting answers to unasked questions or making explicit minor problems within the total analysis.
- F. The various divisions of feasibility analysis, the nature of oversimplified model building, are all ways of excluding extraneous information with the least important to be excluded first.
 1. The process can be achieved by disaggregating - by moving from the general to the particular, as might be done for determining retail sales needs in a given area - the primary trade area line becoming the first device for exclusion, disposable family income becoming the next element of exclusion, etc.
 2. The other method is to build from the particular to the general, to synthesize from particular sub-sets of attributes.
 3. The book by Alexander is about the art of going from a large and complex number of inter-related particulars to a general product or synthesis.

4. The book by Gordon Synectics is concerned with how we train the mind to relate general experience and knowledge back to a particular problem to recognize some oblique synthesis which links the general to the particular. This is more difficult, less subject to deductive logic - and hence the conclusion that it is easier to merchandise a given site than to detect an unknown market.

II. A description of scientific method, statistical decisions, and contemporary model building.

A. A description of statistical decision-making fits everyday choices.

1. First, this system differs from reason and the scientific method in terms of the absolutes required of cause and effect. For example, the decision to pass on third down has three possible results - two of which are ~~xxxx~~ bad.
2. Identification of alternatives from the data available is first necessary to ~~xxxx~~ identify the causal chain.

B. ~~xx~~ Facts must be organized to identify possible alternatives outcomes of decision.

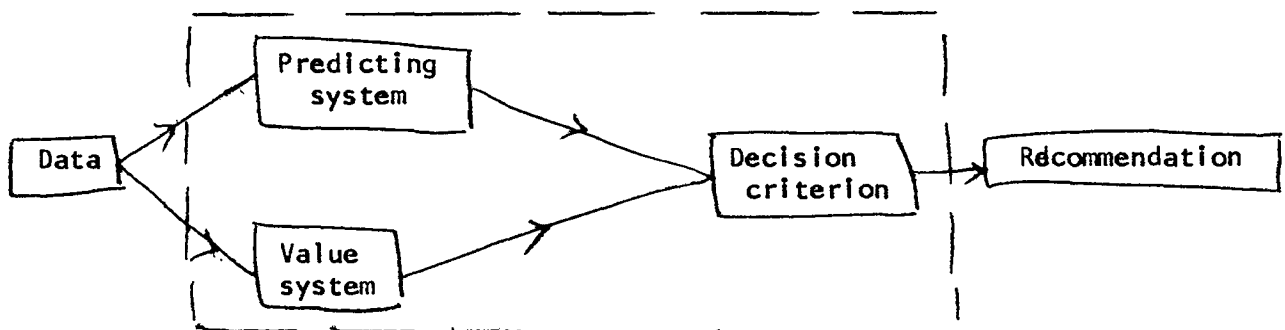
1. Review of alternative uses of a given site before choosing highest and best use.
2. Analysis of property characteristics and neighborhood to identify most probable buyer, etc.

C. The problem of measuring the uncertainty of alternative outcomes confuses application by those thinking we must use statistical probabilities. Intuitive probabilities are legitimate and we do it all the time in terms of our vocabulary expressing judgments such as ~~a~~ the nag, winner, a longshot, etc.

D. The problem of measuring desirability of ~~xxxxxxxx~~ alternative outcomes is easier, particularly when dollars and cents provides a quantitative conversion of scale of desirability.

E. Value judgments are generalized feelings which can be made more explicit as an objective. Public open lands on our lakes is good; the objectives should be 25% ~~xxx~~ of our shoreline and should be in public hands by 1975; ~~xxx~~ the criterion for purchase of specific lakeside acreage might be the degree to which it brings public ownership within range of the objective guideline.

1. The ~~xxxxxxxx~~ values may be that loss is the worst thing that can happen and that the profit is ~~xxx~~ better than working for ~~xxxx~~ nothing. Businessmen might choose the alternative and yet the lowest chance of a loss and still produce some profit - the Minimax criterion.
2. One might value style and esthetics so highly that you would choose the most attractive design regardless of cost.



- F. The ultimate test of any method is "does it work?" Euclidian geometry is still widely used in construction and surveying but doesn't work in the field of astronomy. This is with appraisal, present methods work well enough for many value decisions in certain sub-markets. It breaks down in cases where income taxes, internal firm economics, or bargaining power factors are no longer even as supposed by Marshall.
1. The use of ~~xxx~~ absolutes in valuation is similar to the use of the thermometer with only two points on the scale. You can't discuss temperature if youx can only talk about hot or cold - temperature requires a graduated scale.
 2. Many in appraisal are recognizing that in matters of real estate value some range or scale would be desirable as single value estimates are only ~~extreme~~ intervals on an undefined scale.
 - a. Ellwood, for example, allows you to say some thing about the yield range in equity and has alternative outcomes for a project.
 - b. Cash-flow models may give a range of ~~outcomes~~ by testing optimistic and ~~poesimistic~~ sets of revenue and expense forecast.
 3. Choosing appraisal systems for the computer forces recognition of the gap between appraisal theory and the ~~potentials~~ of modeln decision theory. Moreover, since the computer is capable of handling so much more data without a mistake in addition and subtraction, it is possible to observe behavior in more detail and computex a result whichx is more descriptive of the real ~~xxxx~~ world and still workable within the pragmatic principle.
- G. Model making is related to creative thinking about systems and relationships by analogy. Analogies can make the strange familiar(as in appraisal methodology) or makin g the familiar and known ~~xxxxxx~~ strange - that is, to distort, invert, or transpose everyday ways of looking and responding. Real estate is space, rather than structure, for example
1. Personal analogy
 2. Direct analogy
 3. Symbolic analogy
 4. Fantasy analogy
- H. Three types of scientific model building are common in real estate analysis.
1. Physical models - sand tables to ~~xxxxx~~ understand building mass, and shape.
 2. Abstract models such as flow charts of industrial process or traffic patterns.
 3. Symbolic models relatex items with mathematical concepts. ~~xxxxxx~~
 $I/C = v$ is a symbolic model of the relationship between income productivity ~~xxxx~~. Recently I saw a mathematical model for testing the financial feasibility of a 236 project which reduced the issue through factoring to only a few coefficients and sensitive cost and revenue ~~xxxx~~ components.
- I. Advantages of model building for the real estate analyst.

1. Model provides a preliminary reference for analysis.
2. A model brings into focus the problems of abstraction, to choose factors relevant to problems under consideration.
3. Failure of a model to predict reveals flaws in data or logic.
4. Modeling in symbolic language permits use of mathematical tools.
5. Models often provide the cheapest way to make a prediction as well as the quickest. The gross-rent multiplier technique is an appraisal model

J. Disadvantages and dangers of model building for the real estate analyst.

1. The danger of abstraction is gross oversimplification and loss of critical data.
2. The problem of relating the model to the complexity of the real world.
3. Infatuation with the model is a product of the intellect rather than as a practical tool.

K. The variety of relationships in the real world exceed the capacity of the mathematicians to describe it or data accumulation methods to maintain the right mode of data. Models must fit the data that is available.

1. In medical research millions are spent on collecting data to test the hypothesis dreamed up on a sunny afternoon. So it is an appraisal - most of the time is spent on collecting information to fit your model of what your appraisal should be and to simplify the data collection process the appraisal model has been simplified.
2. Thus, there is a constant interplay between the models we use and the kind of data which we have available which we can test with some practical convenience.
3. Computers mean that we can collect a greater variety of information and retrieve it for practical applications. Computers also imply we can have more mathematical models to forecast behavior in the market. Thus, appraisal theory faces a time when it can significantly change both the models and the data which can be used within economic and practical limits.

III. Practical problems control design of a model procedure for appraisal analysis

A. Interface between input data and model requirements is a basic constraint.

1. Level of training required to use effectively.
2. Self-confidence and correlation of user logic to model behavior.
3. Access and capacity for dialogue or immediacy of results.
4. Ability to modify model to fit understanding of situation of data.
5. For Ellwood you must be trained in the use and the application of the tables. Your confidence in using the method and your ability to add and subtract correctly determine the frequency and reliability with which you use the Ellwood method.
6. The same interface in terms of convenience, degree of training required,

self-confidence, and capacity for self-correction or recognition of an error is a major element in the critical review of a computer program. The simplicity or the difficulty with which you can communicate your requirements through the computer as well as the speed and cost are very significant in evaluating any computerized model.

- B. Interface between model and the decision-maker limits how fancy the technique can be. Clients quickly understand the Ellwood graph and its implications but they miss the hidden assumptions of its mathematics
 - 1. Correlation of model to logic behavior of user.
 - 2. Understanding of facts and assumptions.
 - 3. Reliability of input.
 - 4. Context for decision- single value or ~~xxxxxx~~ range.
 - 5. Relationship of analyst to ultimate decision-maker
 - 6. The interface between model results and decision-maker is a major issue in computer application - we will look at systems which provide too much data, or confusing formats, or simple graphs and we can talk about visual television tubes on which you can ask for one answer at a time in order of its priority to you.
- C. Interface between model procedures and court and government procedures limits rapid adaptation.
- D. Balancing model-making with data collecting is an evolutionary process.
- E. Interfacing available models with accepted appraisal procedures is necessary for professional acceptance.
- F. A variety of models based on scientific observation are already available which suggest there are more than three approaches to value.

- 2. Teaching investment models for real estate professionals
- 3. Terminal services for real estate professionals
- 4. Architectural models for refinements of highest and best use
- 5. Statistical models for rate of return probability analysis
- 6. Regression models of single-family market transactions
- 7. Market comparison model using adjustment factors generated from regression analysis
- 8. Tax assessment market value system for Orange County, Calif.
- 9. City growth and land development investment models

IV. Application of the computer to appraisal requires rethinking of the logic models and procedures with which appraisers have traditionally forecasted value.

- A. Since models change with availability of data and use of the forecast, there may be more than three approaches to value or probable sales price.
- B. Current appraisal models were designed for manual calculation - interfacing with non-mathematical background of appraisers. There are few symbolic appraisal models which require a computer- let alone a calculator.
- C. Computers will only serve the appraiser when the appraiser has a procedure or model which requires the computational capacities of a computer. The cost of computer time is already so low that it is not a constraint.
- D. The inauguration of the designation Senior Real Estate Analyst is a symbolic recognition of the reforms that decision-making techniques will have on real estate appraisal logic before you celebrate your 50th anniversary. The professional society which leads the way in appraisal innovations will clearly become the premier professional group for objective real estate analysis.

RE 857 about 1970

EVOLUTION OF RATE OF RETURN AND RISK ANALYSIS

A. Traditional Income Appraisal

1. Economic Surplus = NOI = Economic Rent - Average Vacancy in Market - Average Operating Expense - Reserves for Replacement of Components
2. Value = NOI/OAR
3.
$$\text{CAR} = \begin{array}{c} \text{I (Interest)} \\ | \\ \text{Built up Rate} \\ | \\ \text{Average Opportunity Return} \\ | \\ \text{Y - MC (Weighted Average on} \\ \text{Capital Sources)} \\ | \\ \text{Internal Rate on Equity} \end{array} + \begin{array}{c} \text{R = (Recapture of Capital)} \\ | \\ \text{Straight Line} \\ | \\ \text{Hoskold (Safe Rate Rein-} \\ \text{vestment)} \\ | \\ \text{Inwood (Reinvestment at I)} \\ | \\ \text{FMRR (Reinvestment at} \\ \text{Opportunity Rate)} \end{array}$$

Weighted Average Portfolio
Compound Interest Rate

B. Note that Ellwood shifts from asset value of economic surplus to liability valuation - sum of present value of pretax claims and these claims implicitly consider immediate reinvestment.

1. Reference to basic Ellwood formulas indicate long-run distortions to values of equity rates higher than overall rates because R is reduced.

C. Modern capital changes definition of producers surplus to concern with spendable cash and change in liquidating value of net worth attributable to marginal increment investment in real estate as part of the overall enterprise, a portfolio concept or a combination of vertical and horizontal integration.

1. The real estate no longer stands alone as an individual entity; it is complimentary to and synergistic with other activities.
2. Risk was presumed to be compensated for in the interest rate selected while the modern approach substitutes measures of tolerance for measures of risk.
3. Prospective rate analysis and cash ratio analysis has priority over discounted cash flow.
4. Note that discounted cash flow is more businesslike and a retreat from discounted economic surplus. It is concerned with distributable cash.

COMPARISON OF CRITICAL VALUATION ASSUMPTIONS FOR THREE PRESENT VALUE VIEWPOINTS IN REAL ESTATE

Prepared for Discussion at EDUCARE Seminar

By Professor James A. Graaskamp

<u>Traditional Income Appraisal</u>	<u>Ellwood Valuation</u>	<u>Modern Capital Theory</u>
1. Instant investment	1. Instant investment	1. discontinuous series of outlays
2. Productivity limited to net income from parcel before debt and income tax.	2. Productivity limited to parcel after debt but before income tax.	2. Productivity is net change in spendable cash from all sources after debt and income tax traced to real estate.
3. Continuous income function	3. Continuous income function	3. discontinuous series of tax classified receipts
4. Recapture from income	4. Recapture from income & resale	4. Payback of equity from spendable cash and debt from net revenue & resale.
5. Projected for full useful life of improvements	5. Projected for normal turnover period 5-10 years of typical investor	5. Projected for elapsed time of outlays and receipts for specific investor time line horizon.
6. Arbitrary discount factor	6. Weighted average Inwood discounting	6. Selected present value discounting based on characteristics of investor and property revenue pattern

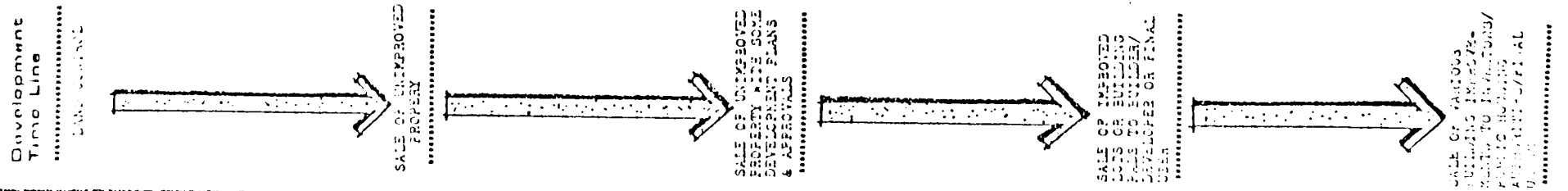
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A STRATEGIC DEVELOPMENT FORMAT



Major Objective	Development Role	Land Speculation	Packaging of Proposal	Land Development	Building Development
Key Determinants of Economic Success		Hold or "land bank" interesting property Capture "spread" between raw land purchase cost and wholesale price created by "anna" market trends. 1) ability to accurately forecast a trend 2) ability to select and control attractive land	Conceptualize development plan or land use- acquire broader public approvals such as zoning- arrange financing or structure deal Increase spread or value by bringing an important trend to focus on a specific site or info focus as a potential project. Shift buyer's perception through description, analysis. 1) Ability to complete convincing study of economic feasibility. 2) Ability to obtain key public action in timely fashion. 3) Ability to perform at "conceptual selling."	Undertake and complete land development phase - install roads, utilities, common improvements, survey and subdivide for sale. Increase spread or value by virtue of completing improvements that further shift buyer's perception of utility and make sites available for construction. 1) Ability to efficiently complete various improvements. 2) Ability to efficiently (and tastefully) market improved building sites. 3) Ability to carry financing cost.	Undertake and complete various building improvements - offer and consummate sales. Create construction and sales profit through completion of building improvements that further shift buyer's perception of utility/value and make buildings available for occupancy/ownership. 1) Ability to efficiently complete various building improvements. 2) Ability to efficiently market. 3) Ability to carry debt.
Marginal Cost/Price Control		1) land price 2) carrying costs 3) legal expense 4) maximum loss	5) Feasibility determinations: -site or physical determinants, -regulatory or political factors, -market determinants, -"reappraisal" or investment valuation (what's the deal worth if we do it vs what's the deal worth if we get out now?) 6) Obtain basic public approval - zoning 7) Arrangement of financing (takeout) 8) Marketing costs.	9) Obtain specific public approvals. 10) Negotiate and secure various contracts within budget. 11) Stage/manage/control development on time, within budget & quality standards. 12) Arrange interim financing - land development loan. 13) Stage/manage/control the marketing of improved lots or building sites. 14) Obtain sales approval, registration, etc.	15) Obtain construction permits & approvals. 16) Negotiate and secure various contracts within budget. 17) Stage/manage/control construction effort on time, within budget & quality standards. 18) Arrange interim & long term financing (construction loan and mortgage) 19) Stage/manage/control the marketing of various building improvements. 20) Obtain sales approval, registration, etc.

Business 857
Feasibility
Monday 3-7-88
Charles F. Davis

Test This Wednesday !

Housing Market Analysis

Traditionally: Segmented by Demographic Studies

- * Income
- * Family Status
- * General Preference for SF Detached or Multi-Family

This scaled the project for the market and the developer.

Today: Starts with demographics, and spends most of it's time on micro-research, realizing the segmentation is a matter of:

- (1) Lifestyle
- (2) Worksytile of the Family
 - * Husband and Wife double career
 - * Traditional Family
 - * 1 Breadwinner household, 25% of all households

Most residential market research is very micro-market studies.

Ex. 24 unit apartment = >\$1MM investment, supported with \$200,000/yr in sales, only 24 customers. If you have a 1 and a 2 unit, you are talking of 2 submarkets, each with 12 customers in it. Furthur mods. such as mezzanines, etc., you are furthur subdividing.

The best data comes from those already in the business, operating:

- * Subdivisions
- * Multi-Family Projects

Initial Studies: Those that had a predetermined base of people to survey and analyze their patterns of response.

Ex. Multi-Con: Successful Multi-Family Developer
Did all of their market reasearch with post cards.

- 2 Basic Questions asked of prospects:
 - (1) What do you like most about the model you just saw ?
 - (2) What do you like least about the model...
- 2 Basic Question asked of those leaving their projects.
 - (1) What was the principle reason you moved out ?
 - (2) Was it something wrong with the project that made you move out ?

Most Marketing of Residential Homes behins w/ these 2 questions.

- (1) Like most about your present accomodations ?
- (2) Like least about your present accomodations ?

Pattern of features people like most define the competitive standard.

- * Minimum set of attributes to be competitive, threshold of their interest so far as your project is concerned.

Overcoming inertia: (inherent in all of us)

- * competitive edge that determines the success of the project w/r/t Absorption Rate, and Capture Rate that will be achieved

Competitive Edges: 4 Basic Questions Research Looks At

(1) Can this Res. unit contribute to Efficiency with which I live and occupy space ?

- * Gourmet Kitchen
- * Controlled Storage
- * Floorplans and Furniture Fit to Modern Styles and patterns

(2) What does it do for your Self-Esteem

- * Kaplan, Berkely, Eichler tract home study, most folks buying a second home had to have an attribute they could talk about with their friends showing arrival...solarium, jacuzzi.

(3) Security

- * subtle and sensitive

(4) Physical Comfort

- * Climate controlled
- * Landscape marketing-Best use of sun, climate, breezes

These 4 elements in some combination represent the marketing theme of housing today.

Some developers are too direct ! IE, do you feel insecure ?
Therefore, they put a guard shack out front.

You need to have a balance between the elements. You can market a prestige address, but if the finish quality is inferior, it won't work. Don't overrespond to one single element of the four elements.

How Do You Get This Type of Information

(1) Telephone: Poor, can only ask bean counting questions

(2) Mail Surveys: Can qualify people for locational preferences, space requirements, income, brs, baths, patios, etc. Can put across limited graphic info with floorplans that you can't do on phone. Mental imagery is tough over phone. Ex. Rowhouse, SF detached mean many things to different people- tough to do mentally, uncontrolled response. Mail surveys can send pictures of these.

(3) Focus Study Groups: Panel of 8-15 drawn at random to fit the profile of the basic consumer group you think you can reach.

- * age
- * income
- * area of town

common bond may be they all shop at the same market, and often researchers select them at the grocery, and ask them to participate in a study group on design etc.

Advantages of a Focus Study Group:

1. Allows for interaction of interviewer and interviewee
2. Much more detailed maps and photos can be shared of project concept or alternative concepts. Begin to discover subtle but significant dicotomies.

Ex. 4" shiplap siding preferred to 6" with same floorplans
Members are identical otherwise in age, family status, etc. Colonial vs. Contemp. vs. Modern are three distinct markets.

The percentage distribution comes out much more clearly with the focus study groups.

3. Allow you to observe how a member responds under peer pressure

Ex. A rational one-on-one answer may be altered under the dynamics of the group situation because you often get a broader perception of the situation, like loft BR not being private, but others use it as an artists loft. Alternative uses discovered for same things. Market it differently with different furnishings.

Focus Groups repeated 3-4 times-

- * to reach different demographic profiles
- * Reach other parts of the city
- * to confirm conclusions of what first group provided

Alot of planning before the study groups meet:

- * What are the questions we need to address ?
- * What can we present (materials) ?

Advertising/Marketing firms have used this approach for products, advertising themes, for many years, new for Real Estate. 2 way mirrors and taping setups in a controlled atmosphere.

Focus Groups can focus in on very specific types of choices.

Ex. Certain Architectural Styles presented...Tamarak Trails
Presented 4 different types of colonial styles, from New England Colonial to Savannah Colonial to California Contemp.
with saltbox shapes, to NW Seattle Style colonial.

Code of form, texture and material that gave folks continuity with their historical ownership patterns in the past, and was a very contemporary product inside. This was not discovered by accident.

Focus Groups Committment:

- * 2 Hours
- * \$20 or nothing for their trouble

Issue grading sheets and tour them past the competition by bus, and then feed them lunch, and go over their grading sheets to get a consensus on what they liked. Compare reesults with your projects.

Use 2 groups for ongoing development.

- * Those who already own
- * Prospects who haven't bought yet. Don't mix the two !

Key:

(1) Choose group that by their current status in life would make them interested in what you are talking about.

Ex. Elderly

Ex. First Time Buyers

Then they are delighted to be asked their opinion !

(2) Make the presentation entertaining, flattering, and educational.

(3) Generates a preferred prospect list as a by product. Have them send a post card to the study conductor, (not developer), if they want more information. This is kept seperate from the focus group materials.

To the degree that you make them feel they have an impact on the design proposal, you can really lock them in.

Commercial Uses of Focus Groups: (Retail and Office)

Much more difficult because people feel they are sophisticated enough and they know all there is to know about retail space and office buildings, particuarlly if it is tied to a coffee clutch cultural event. Easier to get the manager to participate in a coffee clutch discussion on residential than to talk with him about the workplace.

* Talk with the Indians quietly on a Saturday, with the girls in the office, office mgr., department heads, down the ladder of authority. Not the fellow who signs the lease.

Ask them what doesn't work well, and you get the low down on the inefficiencies of their office layouts...coffee machine in wrong place, no brown bag room...etc.

Developer then takes this and makes pitch to the big cheese. If indians find out about the proposal, he is dead meat and can't back off. Use to trap upper echelon into what they should be doing anyway.

Housing Market Research Has Moved From:

- * Aggregate Research
- * Survey Research
- * Motivational Research

Bringing people on the site is critical, and get them to overcome your inertia. What questions do you want to ask ?

- * What do you see first ?
- * Who do you talk to first ?
- * Bullet Messages ?
- * How much can people absorb at one sitting ?
- * Are people buying price, location, prestige ?

Ex. \$5000/quarter page in major paper, 25 people come to prospect equals \$200/prospect to get them buy. What is the point of sale method of communication. Most builders train their own sales force.

Also concerned with colors, patterns, and textures that people can relate to. What would you improve on if it were your home ?

If you discover a pattern that turns people off, then change say a dark kitchen and can sell one more prospect, you will increase your profits, and reduce your selling costs dramatically. Replace bad features, don't resist because it will cost you money.

Alot of \$ spent researching the point of sale motivation of the product. RE is its own media, w/ customer standing in the middle of it. The whole unit taken together is the medium.

Merrill Lynch defines market value as that at what it would sell for minus costs to get it to the Merrill Lynch neutral.

Train people to qualify and subaggregate that customer via casual conversation. Ex. Who is watching the kids. Ex. I suppose you always get Saturdays off.

Don Samuelson: Pines of Perrington, where he repositioned the entire project by overcoming the objectionable architecture with IVY and pine trees and the subsidy aspect by pushing the full price units.

Was dieing in foreclosure. Put in spruce floors. W/D in a separate shed. (drywall wet when on second floor, also alot of noise.) Changed the codes with a very limited budget. Changed the image of what the people's friend's who would live there.

RE 857
3-2-1988
Lecture Transcribed and Outlined
by
Evan D. Harrison

The handout for today is a from the home builders, and has a lot of useful comments for this course. One of the more intriguing concepts is that development feasibility is concerned with where the market will be 60 months from now. Give the lead time of a project, that is probably not a bad statement of the problem. Given the necessity of acquiring sites, designing, building, and advertising the product, etc., the major problem for marketing research is anticipation 60 months from where you start. You may find some of the speeches relevant, also the comment that RE salespeople are under trained and under educated for what they do. He points out that they're selling an environment that will change the life of each inhabitant. It is a move away from their roots and habits and they are selling the most expensive house in the history of housing in terms of price per square foot, and at the very least the average price is equal to the cost of two Mercedes, or six Cadillacs, nine Pontiacs, or 15 light trucks. Yet they have far less info. at their fingertips than anyone who sells any of those products. So it is not surprising that real estate brokerage is one of the most obsolete areas of marketing today. It is extremely vulnerable to replacement by an alternative system, both in terms of information gathering and information dissemination and the technical training of the sales force. If you think of how many people are sitting around in Madison trying to sell a house every two months and trying to survive on that, as opposed to having a more effective clearinghouse of information and more effectively trained people why they could sell a couple of houses a week and replace about 60% of the brokerage personnel and put them in a solid line of work. There is probably no line of work more obsolete than the single family brokerage business unless it is the single family appraisal business.

The subject matter is real estate market segmentation especially with respect to office buildings. We have already talked about the kinds of market research sectors, those that will be displaced, those that need to move, and those that will be newly created, and economic modeling really refers only to the latter segment of the market. We've also indicated that the market in office buildings can be segmented further by the type of building they're in, the location, parking facilities, architectural styling, the efficiency the building can be adapted to tenant fit in terms of office modules and related elements.

Further segmentation is in terms of the package that is provided to the tenant in terms of services as opposed to space and related facilities. One type of package is to focus the office space on a particular type of tenant. There is a reasonably successful chain in the west which leases two-three floors of a major office building, builds a major legal library into the middle of it then leases to a group of small legal firms who could not afford a law library or

librarian or subscription to a variety of law periodicals. They lease the space in gross at a low net cost, taking on the responsibility of tenant finish, then they market in effect an information network to small law firms who would otherwise find that a very significant fixed cost relative to a limited number of attorneys. They may expand that with word processing equipment and so forth.

A second type of service would be a pooling of word processing and communication services, starting with a phone answering service, a secretarial service, and word processing equipment, a fax machine, a computer network with a central processor, so they can market to the small tenant at a very high price per square foot. You can market at \$3-4 per sq. foot per month to a manufacturers agent or a RE broker just getting under way or someone who owns his own little RE investment firm, and for that exorbitant rent he gets a package which enables him to avoid paying a salary to a secretary and doing all the book work and maintaining all that equipment which is a lot less expensive collectively. That is being used more and more to market to the significant expansion of one and two person service firms whether they be engineers, sales agents, or entrepreneurs pursuing their own investments and what have you.

A third type of service function, maybe related to the second, but generally goes further and provides a labor pool to certain types of tenants, and may even go into an industrial area where Kelly Services or Manpower Inc. will provide a support. Let's say a direct mailing service that has very cyclical needs for clerical help to get out major mailings and so forth may be a little erratic will locate in a building where a temporary service might provide those services on demand, and there may be others in the same building who might have need for direct mailing, packaging, stuff for distribution and Christmas kinds of mailings and so forth, and as a result the service that is provided is one of handling all the payroll functions and allowing you to adapt to a very cyclical labor environment, generally unskilled, but perhaps including computer entry personnel and so on.

The fourth kind of specialty may relate to people with a common advertising and marketing base; certainly the trade marts that began primarily for retailers like the classic one which Trammel Crow started and Portman picked up on were really wholesale marts in which furniture dealers or gift shop suppliers would be able to display their ware and become a central wholesaling point-- a sort of semi sales office semi retail outlet. But now they're moving into more of the software. One of the hottest trade marts now is a computer trade mart where the various computer operations have essentially a display not only of their hardware but also their software, and have a resident service center - trouble shooter -- the kind of people you contact instead of calling up on the telephone and saying help you can go out there and he'll paw through the manual with you and hopefully find a solution to your problem.

One of the new hot markets is called a service center where you might have the kind of person who does your income taxes, and someone

who repairs vacuums, watches, cameras, and so forth and some other domestic kinds of domestic repair and support services. You go up to a drive in window which serves the entire entity and you can drop off your watch for repair or your income tax documentation etc. and they are tagged and shuttled by the business management to the appropriate business in the building. Someone is proposing such a center on the west side of Madison. The assumption is the people make enough of these kinds of trips that they can consolidate it at one location and there would be a synergistic relationship. The building management would do the pick up window and perhaps guarantee you would get your stuff back.

As a result you are getting that kind of compartmentalization within commercial structures, where it isn't the space component that is significant, but the service related component that comes with it. Particularly in the case of employment and office equipment services, medical libraries, legal libraries, that type of thing it is generally a high fixed cost variable revenue type of service that provides significant economies to the tenant, not to mention the release from managing all those sorts of things. You can't appreciate unless you are in a small business how much time you waste doing management kinds of functions. We estimate in our own little shop that Jean spends two to three days a week doing management kinds of things rather than productive billable kinds of things. Whether it is negotiating with the state auditor of unemployment compensation or managing payroll accounting or income tax accounting or just getting the guy in to fix the computer because it goes out when you are doing 10,000 mailings. That's a major element. For a small business with 2-3 people to be able to discard that whole problem by going into a building that provides that at a fixed cost the nominal or even significant increase in the rent is a minor item. So to market office space they are now tying it to a whole range of service which would be proportionately too expensive for the small office occupant to do efficiently himself, and that becomes a whole new segment of the market that wasn't there very long ago.

Another significant element in segmentation of the office market has really been accessibility to the automobile, or combination of accessibility to the automobile in relation to the truck, and so forth. You've probably seen a whole range of products, let's say a U-shaped building which at the outer perimeter presents a handsome contemporary appearance in which there is a small office area and 5-6 parking spaces directly in front with a sign out front not only for the customers who might visit that location but for the sales force which might work out of that location, and the back side, perhaps 2/3 of the area is essentially a warehouse-distribution facility with one dock door and one flap entry at the back - truck port court yard at the back side of the building inside the U. An extremely popular combination of office space for district sales or servicing plus the warehouse space necessary to be supportive of that industry. A blending of high-finish office area and high-ceiling warehouse type area. That's one of the hottest products on the market because the rent per square foot you can get for that type of space is significantly higher than the cost of creating the space. It is an

attempt to get more spread so you have a higher leverage factor on the building. Any type of service component you add to the revenue stream is generally incorporated into the net operating income to the property, not unlike the hotel, at a capitalization rate that is closer to that of real estate than that of a small business. And this inability of the lender to distinguish between income to the space and income from the services being provided with the space, which should be capped at the much higher rate of small business management means a much higher financial leverage on that service-product combination, and therefore a higher probability of being able to mortgage out on the property. Hence this effort to combine and obfuscate the collateral value to the real estate versus the value created by management. When appraisers are able to sort that out accurately and properly, there will be a good deal of deflation in the values of many properties that are around in the office market today. But of course appraisers are not encouraged to do that because they are hired by the borrowers and the bankers just want to cover their tracks anyway.

Q. re day care centers. A: Proper method would be to determine the rental value of the center's space and the business would have to stand on its own. If the developer wants to observe the form, he'll overcharge on the rent and understate the income of the Day Care center. The impact of that is the assumption that the space will absorb more quickly and be able to rent at a somewhat lower rent because he had that facility to be able to absorb the employment problem of the tenant (where D. C. is in larger building) and if he's drawing tenants from closer in town where day cares are established, he can nix the move because employees could no longer stop in on the kids. It should help his absorption.

Q re parking. A: It depends on whether we are talking about basement parking or surface parking. If you have a rule that you get one free parking space for every 3,000 s.f. of rentable space, or is it flexible - every man for himself - what is your rental policy. It is obvious that you build the parking to support the rental space. Some of the rent is for parking and some for a desk, but it is still space. It is very dangerous for the appraiser to distinguish between parking and structure value. the question is are you getting space or some kind of machine or people kind of help. The basic element of RE is space-time.

Let me give you a couple more examples. The rental value of a parking ramp is not what is taken at the window, but what you could lease the whole ramp for to an operator. That's the RE value. Everything you get between getting PK to come in & run it for you and what you actually get is service income.

Another example. A couple of years ago we were called in to suggest what to do about the observation floor of the John Hancock building. They bring people up at \$3-4/s.f. to look down on the cloud ceiling. It was being argued that their tremendous gross from that was part of the value of the building. Not so. The question is what would it rent for as RE space, and that's the RE income. The

spread between that and the return to the marketing entrepreneur who is managing that and paying all the tour busses to show up and so on is management income.

Keep in mind what's the space time product, and what ever is paid over and above that is for the management abilities on that particular project. It's a really tough problem in RE which has been deliberately smudged over. Developers typically find RE cap rates in the area of 9% to be the lowest. You wouldn't buy a service business at a 9% cap, 25% maybe, but not 9. But on the other hand you can't borrow money any cheaper than on a mortgage. If you can get a loan at all on a business, they are going to want an arm and a leg, but for RE, the rate is whatever market rates are for that type of property. So in the industry they have learned to smudge that over, and attribute the income from restaurants and bars to the hotel RE, and that has now been carried over to a variety of other types of space as well.

The parking issue relative to office buildings is this: different types of tenancies require diff. levels of parking support. Some tenants need the parking for their own sales forces and their own in house clerical support unit. One reason for locating the business is to increase productivity so employees are not out circling the block looking for a parking place or running out pumping nickels into a meter or simply being distraught as to whether their car is safe or not. It is better off in the ramp than out in the street where it might be run into by the snow plow and so on.

The second type of parking issue relates to the nature of the customer base of the client. If you are a pediatrician, you need 8-10 parking spaces per doctor. Because of the very nature of the way medicine is practiced some are coming in for their shots w/ a cursory comment from the Dr., and he has 3-4 kids lined up in a row and goes from one office to another. So by the time you have them ready for his inspection, then the visit, and the treatment he tells the office nurse to provide, then you have to get them bundled up and out the door, and you may have 8-10 kids and their parents per Dr. in the office at a time. A very high, intensive utilization. Restaurants, for example, You can have an office building which is just fine, but you bring a restaurant into an office bldg., part. if it draws from elsewhere, and you really screw up the parking ratio. Some office buildings are going to have to select tenants which draw a relatively small amount of parking demand. For example the Park Regent building has a very small amount of parking for its medical tenants and its a stinker of a problem. One problem is that students drive in and stay all day. How do you weed them out? If you have tickets to stamp, you might scare away clients. Or if you tell your medical staff they have to park three blocks away in what they perceive as a crummy neighborhood, they're going to get restless and go work for somebody else on the west side who has plenty of parking. It's a really tough problem. finding tenants who have a really low parking reqmnt. Other buildings may have a surplus of parking and may use that as a marketing device. A building in Milwaukee drew in two key tenants initially by giving 65% of the

parking ramp to 50% of the space. If you really have extra space, that's a real advantage.

The other parking issue is how accessible is it. Canazeros project in New Orleans called Canal Place has a number of high end shops - Nieman Marcus is the anchor in the first floor. The premise is that folks will come in and shop immediately adjacent to the French Q. and so forth. The fact is they don't come because of the spiral ramp. The spiral ramp is such that the ladies - I don't mean to sound chauvinistic, this is their report - can't seem to crank it over on the Cadillac and hold it there, and the sides of the ramp are done in every possible color of imported auto paint. So you have segmented your market by the accessibility of your parking ramp. Others set up the module wrong, so to get two cars between the columns means nobody gets out of the car. For employees to park in some kind of difficult parking ramp doesn't matter, but for a customer it means he goes elsewhere. The nature of the parking begins to segment over the long term nature of the project the kind of tenant likely to go there.

When you begin talking about the office market, whether it is oversupplied or undersupplied, is extremely misleading until you have segmented it out in terms of what is truly a competitive market for tenants whose customers come to them or what is suitable for organizations like accounting or lawyers where the majority of people employed in the building are not drawing customers into the building. So there is probably not such a thing as the office space market. It is one of those terms of agglomeration which has lost all sensitivity to the critical information about what you are marketing.

One other comment on office buildings and their tendency to specialize. It obviously successful to create some element of monopoly for an office building - the law library, etc. One of the most successful gambits is giving away space to the premier men's club - luncheon club in town. If there is any one thing in the downtown area that you could do to secure the tenancy in your office building is to have the Madison club, etc., there where people can see and be seen and communicate. the State of Wisc. Investment Board has a building in San Antonio which would be a disaster except the petroleum club is on the top floor. the Pet. club is so superior in terms of finish over the rest of the building you can't believe it. We gave it to them free, so it occupies 8% of the building, and we have essentially 92% occupancy, which in S. A. is pure gold. We have another one in Nashville which is the same thing. They got the luncheon club site in exchange for two floors in their building. You can't do any better than that.

Another critical way of locking in is to have a connection to the courthouse of statehouse or whatever. A good example is the Tenny building here in town, but it has a new connector to the First Wisconsin bank building - the #1 building in town, so they get rent of \$14-15/s.f. just because of that connector.

A third type of monopoly is quite often a view of that which is regarded as quite important in the community. In Norfolk the premier building has a view of the yacht club, and every office is a corner office because they are laid in diagonally and it creates a little diamond shaped window in the corner of each space. 100% occupancy.

Other buildings are linked to some kind of transportation facility. For example in Chicago the Northwestern Depot building is very successful because of its linkage to the folks who sign leases. Monopolies are created by that type of structural-functional edge.

One last item is the reciprocity characteristic of many types of services business with respect to the major tenant who is able to force its law firm, investment. banking firm, title co., insurance agency, accounting firm, all get dragged willy-nilly into the building. So it comes as no surprise that the F. Wisc. Bldg. has Arthur Anderson and Robert Baird and Co. A certain irony is that accountants must state that they have no sig. econ. interest in the firm they are auditing. Wouldn't it be embarrassing to be paying \$18/s.f. and lose the account. You could get \$12 space on the edge of town. Those nuances of vested interest don't seem to affect the market very much. the Ed Meese school of business ethics.

Let's begin to establish a housing market. H. Mkt. segmentation has trad. been done on age and income cohorts. but those have been found to not control the marketing of any project. In the aggregate they may control the gen. pattern in the community, but most projects are working in a highly segmented area in terms of both amenities and timing as to when they come on the market. As a result, housing marketers have shifted to psychographics. Very narrowly defined lifestyle patterns with a time dimension that defines the # of units to be req. during a rel short window in the market. A subdiv. that comes on with 60 lots over 3 years is only looking for 20 consumers at a time. A 24 unit apt. bldg. that costs \$50,000/unit is \$1,200,000 in capital, and we're talking only 24 customers who have to pay min. \$200,000 gross/yr. to make it work. that is not a toothpaste or food sale business, but an extremely unique market, where they are paying 9-10000/yr. With elderly housing you are taking 40-50% of their annual 24-30,000 revenue. You are looking for a very discreet # of people who are willing and can afford to do that. You are asking them to buy the equiv. of 2 Mercedes and change all of their prev. living patterns. They have to move from where they were and go through a whole series of acclimation, break a series of old habits and make a series of new habits, and given the basic level of insecurity, inertia, and affection most have for their current residences, that's an incredible marketing job. Rational-functional may be the initiation of the housing change, but the decision is really irrational-emotional, and that is why the researcher has to get at the hot buttons you can push. And that is why the housing market is distinguished by psychographics more than in any other market.

Real Estate 857
3-23-88
Transcribed by
Evan D. Harrison

Announcement re RE club. Todd Mansfield from Disney Dev. Friday at Edgewater. Field Trip will be back Saturday about 6-7 p.m. Jewisky at 3M looking to expand staff. Next week will be elderly housing with Jean Davis and an architect.

SHOPPING CENTER ANALYSIS

The basic classic Riley's model of shopping centers was sq. ft. retail area in the numerator divided originally by distance, s^2 in the denominator. A refinement on that was time to travel to the shopping center. Different types of shopping centers were typically given conventional driving times. A supermarket convenience center perhaps a five minute driving time, a community shopping center 10-12 minutes, a regional center 20 minutes, and that would presumably provide an index of draw. Since that time developers and researchers themselves have expanded to a somewhat more elaborate model which nevertheless had its origins in measuring diversity of goods with a proxy of square foot of area and access with a proxy of time. Today we want to take that formula and expand it to be more in tune with current feasibility. Even developers, the Mel Simons and Taubmans and so forth still work on a relatively crude basis for measuring the retail draw of a site, and aside from accumulating the demographic profiles etc. tend to simply take that basic data base and restructure it to suit particular customer profiles of major tenants they pursue. They anticipate the tenants themselves will do a market trade area study which is germane to their specific type of business retail outlet line, because they can use analogue models which reflect how they are doing in other stores in similar centers, and the analogue model is the most reliable from a retail trade standpoint for measuring the sales which can be captured on a particular site.

The change in the numerator really represents three elements:

First, the square footage is a proxy for diversity.

Second, they measure average square footage per store, and distinguish between the anchors and the non-anchors. The non-anchors having an average size per square foot, and that average size is very revealing of how recently the store has been built, as the average size has been declining steadily over the past ten or fifteen years. Part of that is that you have better retailing display techniques, and inventories can be kept off site, and transportation can be more frequent, and part is because specialty groups are becoming more specialized. So they have a narrower range of goods which they do more intensively, but they don't have the diversity which they had in the past.

The second element is a judgment call which we label "perceived bargain." Do they see this not only as diversity, but do they perceive it as being well priced or fairly priced.

Finally, they would look at something we would call **frequency of visit**. The frequency of visit is sometimes modified by the **average stay per visit**. A variety of studies have found that the expenditure per visit rises gradually with the amount of time spent. So you have a number of convenience outlets which may have a high frequency where people don't stay very long and don't spend very much. At some point also I'm sure the curve begins to decline if they spend all day there sitting on a bench or standing by a heater. So the duration as well as frequency, and all of that is part of the numerator.

In the denominator there are three basic components.

One of those is the **time factor** - how long it takes to get there. The Fed. Gov't now also maintains capacity statistics, and that will affect the time factor. So for the major freeways and the major arterials, for ex. in Milwaukee Co., the Gov't would tell you what the capacity of that arterial was and what % of Capacity it is running at now, and in many cases you would find that it is over 100% of the engineered capacity. That is generally a guide for the Gov't for determining whether to add lanes or somehow move that traffic.

The second is the **actual cost**. Actual cost is not simply the mileage cost of running the automobile, but will reflect traffic engineering studies, as to the frequency of accident along major routes and the average amount of property damage and the frequency of bodily injury. You can get very elaborate data from the SE WI regional planning commission as to the flows and the frequency of accidents, the cost per accident, etc. So there is a good deal of data available from the public sector that feeds those first two items, the time factor which is a function of the road capacity system, and the cost factor which is a function of out of pocket cost in the broad sense which includes accidents and bodily injury, etc.

The third is the **stress factor**. This is a somewhat more subjective factor. The stress factor in a shopping center is probably the most critical design concern that developers currently have. Let's begin with the premise that ultimately the success of the center is the frequency with which people visit and the amount of money they spend per visit. Both of these are affected by stress. There are **three major areas of stress**.

One of them is the **approach process** by which the presumed customer gets from wherever they are coming from into the shopping center. Part of that is the road system, but not entirely. Part is the degree of confusion they feel in figuring out how the road system brings them onto the premises and then how they find out where they are. Very small changes in perception time have very big changes on sales. When you are coming down the Interstate one of these big signs that says Mobil, and a little green sign that says exit 19, will change your recognition time by maybe 5 seconds, yet will change the # of gallons pumped at that filling station by 150,000 to 250,000 gallons a month. It simply means woops, I can change lanes in an orderly fashion without a high degree of confusion. The same is true

of the shopping center. AS you approach the shopping center it should read well for someone coming off the beltline or a main road. They should be able to figure out quickly where the main entrance is and where Pennies is versus Sears, so ultimately you have an architecture of overstatement. So you have high parapet walls saying yoo hoo, Sears is over here. You have some really goofy, if you look at it, architectural treatments, so mom isn't saying "you idiot Sears is over there to the south, and you're going north, and now we've got to go around the whole center." You get enough family friction, or they start cutting gally wampus across the parking lot and someone just abouts hits them broadside, those kinds of things create stress. It is the kind of stress which creates very subtle, but nevertheless cumulative and residual resistance to going back to that center, and will have a very real impact on the frequency with which the customer goes back to that center. So you need to be aware of the approach zones and the visibility lines and the interrelationship with the speed of the traffic to determine how much time that customer has to figure out where he is and how he gets off the interstate and where the left turn lane is, etc. By the same token, you need to have sufficient que space so he can get off the shopping center lot in reasonably good order. So the first area of stress is simply the approach zone and getting them on the site.

The second major area of stress is getting them from the car into the shopping center and out of the center back to the car. A sense of security as well of comfort is important to that. People don't want to walk uphill, they don't want to walk more than 300 feet, they don't want to feel as they are moving through the parking lot they are sitting ducks for someone whistling through the parking lot at an oblique angle to get to Sears. The more you create barriers to more than channeled motion of the car the happier they are going to be, which tends to conflict with the efficiency you can snowplow the site or provide maintenance or the cost of landscaping, etc. Somehow you've got to get mama and the kids from the parking lot to the shopping center.

Once you have them in the center, the main stress factor is claustrophobia. Claustrophobia. is going to be a function of a number of things. One, your sense of space or turf. That in turn is a function of humidity, temperature, and light. It is also a function of glare and of noise. Virtually everything you do in the design of the center is to reduce those irritants which prompt you to get your coat on and get out instead of spending that last ten minutes of lingering recreational shopping which makes it more than the average purchase.

So we have these three elements. Certainly the approach zone is a function of one's self esteem in moving into what would otherwise be unfamiliar territory. The average American is an extremely insecure individual. They get upset by not being confident in what they are doing. I'm sure you have had the experience of making a right turn instead of a left turn and everybody else in the car gets on your case. Inwardly you seethe. That is not a great way to get people into a frame of mind to spend money. Spending money requires

self esteem, and if the self esteem has just been battered, they are going to be very defensive and paranoid about the next message that somebody has as to why they should buy a universal widget or gadget or whatever. The approach zones - they have gotten very good from a traffic engineering standpoint as how best to get you on and off the center. How many lanes you need, what level of patience you have, by standing in line waiting for each car to spit out in front of you, and whether you go left or right or have to go around the center, etc. The problem of course is applying that on a specific site where there are various kinks in the road system and various kinks in the terrain or problems with the site which don't allow you to do that.

A good case in point is Hilldale Center, where the site is too shallow, and you have two long queuing lanes coming in because that is all that the city would give them. Then you have a couple of lanes coming in downhill off Segoe Rd. You have a significant elderly pop. on Segoe Rd., but because of the steps coming down, for a lot of them, if they don't get there by van or bus, they don't get there at all. It's true whether we are talking about pedestrian access, vehicle access, van access, bus access, public transportation access, etc., the comfort and character of that is critical in how often people will make it part of their regular shopping habit or pattern.

The architect of course has as his first charge to create a sufficient awareness of the building and its components so that the customer can easily read the building. This is true whether it is a shopping center or hotel or any other multiple customer kind of real estate. It should read well from some distance away. If you are trying to find your hotel at ten o'clock at night you want a marquee that is really a knock out and you know you are headed in the right direction and you don't have to change from one one-way street to another one-way street to figure out how to get your car up to the front door, etc. That needs to be as immediately apparent as possible, so you don't arrive in a state of emotional disarray. That means also that you want to make as many right turns and as few left turns as possible. But the shopping center developer at the same time wants to know that since people will take the shortest distance from their car to the center or hotel, and they will park on the side they arrived from, he needs to engineer that arrival so that you have an even stream coming at the center from all sides. If you have a two level center, it is important that you have the same number of cars on the upper level as the lower level. They monitor that daily and hourly. Rousse likes to use the Fanny Farmer candy sales or some similar impulse item, with sales on two levels of the mall at opposite ends which should be at about the same level or his pedestrian stream isn't working right, which means his arrival stream isn't working right, so he needs to consider his approach zones to modify that behavior. That is the first zone of stress. They spend a lot of money on that.

East Town out East Washington Ave., a Jacobs-Visconti development, first of all had to solve the problem that the inbound lanes were higher than the outbound lanes, because it runs over a rock ridge there just north of the Holiday Inn. They had to

negotiate with the highway department to blast away the ridge so both lanes were at the same level, so you could make a left turn without going down an embankment to get down to the next level. They had to negotiate a road system which allows you to traverse the entire shopping center area on an inner road without coming back to East Wash. Ave. Then they built a third lane from highway 51 all the way to the center at the expense of the shopping center developer so the right turn traffic into the center was not in conflict with the outbound traffic on 151. That represents a substantial investment. In many cases on the east coast in order to make that left turn, they will actually have one lane bridge up and over the highway permitting a continual flow into the center. That bridge is paid for privately, and without it, there would be no inherent value in that shopping center site if most of their traffic is coming from the direction that would require that left turn.

So that is the first problem we have to solve: stress in the approach zone.

The second problem is designing to prevent a sense of insecurity in the parking lot.

Part of that of course is personal safety. They want lighting; you don't want the parking lot immediately adjacent to areas that are regarded as unsafe by the general public. There are a couple of community centers in the New York Bronx area in which the parking is all indoors. An old industrial site converted to a supermarket. You drive in on the first floor and you are essentially coming into an enclosed parking lot, because if you had an outdoor lot, people would not come to the center. That of course is extreme, but nevertheless you have to provide that sense of personal safety. A combination of lighting, proximity, accessibility to what people would otherwise regard as social threats.

Second of all, you have to be able to transverse from your car to the center without getting run down. That implies a fairly coordinated channelized flow so it is obvious to all parties which way the traffic is going and most parking lots that means one way with angle parking, which is obviously facilitated by the ability to drive in quickly. One of the problems with straight out parking is that you have to back out at an angle that is relatively unsafe to those that are coming from either direction. A major factor is how to you transverse the traffic flow that might cut off the parker from the center. All of you have heard us before on this subject: making a highly uneven edge to the center so that traffic can move around the center at an extremely low rate of speed, 5 mph or so, and if it gets too easy, you put in a sleeping policeman which is a big asphalt bump which will knock the bottom out of your car, as they have on the back side of Hilldale. The idea is to slow the traffic so they would rather take the peripheral road than drive next to the shopping center itself. Hilldale doesn't have the right shaped site to give you that peripheral road at some point away from the center. That was poor land planning to begin with. (E.H. note: it was done by none other than professor Ratcliffe!) West Town and East Town have a

strong peripheral road system and those activities which generate a high volume of traffic to the site, the drive-in banking, tires and batteries, fast food restaurants, are all out on that peripheral road away from the shopping center and doesn't contribute to interdicting the family from the shopping center door, etc.

Once you've got them inside, at that point there is a whole series of subtleties which have really revolutionized shopping center design. If I were to show you slides of shopping centers built in the mid sixties, you would see terrazzo floors, you would see generally a steel panelled ceiling deck, maybe with little holes in it for sound absorption, you would have long flat planes, maybe with clerestory windows above with semi-indirect lighting coming down. You would have store fronts which are the kind of thing which you would normally see out of doors, but now they are indoors, there would be hard surfaces, the noise would bounce off those surfaces significantly, and the textures would very definitely be industrial-commercial. Now if you look at it, all of those things give you claustrophobia. The glare and noise give you a headache, and the feet get sore pounding on the terrazzo; there is no sound absorption of the conversation, and you are treated to the profanities and obscenities and some lady threatening dire personal discomfort to a child who is acting up, etc., all of which makes the average person somewhat uncomfortable. Most people don't care to eavesdrop on someone's conversation. Most people don't care to be treated to somewhat violent and frustrated parenthood at work.

So as a result, we need something to soften and isolate those cumulative irritations so they don't drive them out before they spend their last dollar. The first thing they did they went to very uneven ceilings. that creates a whole lot of noise traps; you get away from the industrial metal kind of thing and go into acoustical plastic - much more indirect lighting, but primarily designed to absorb sound. Second of all, those ceilings are higher. So that the whole relationship of the height of the space and the width of the space doesn't give you the sense of parallax which contributes to your claustrophobia. You want to break up parallel lines of all kinds. A long distance parallel line contributes to claustrophobia. You move the store fronts in and out; better yet, you move them up and down with some ramps and change of heights; you go to carpeting, which is not only easier to maintain with a carpet cleaner than terrazzo, it is softer on the feet; it is domestic in character and absorbs sound. You generally put up some sort of auditory gauze to absorb sound further. the water fountains in the middle of the mall with the water bubbling and the spray spraying is not there simply to humidify, but they are there because water is soothing on the claustrophobic tendencies and it tends to muffle sound, so the conversation going on on one side of the spray isn't easily heard by those on the other side. We might also use some music by Musack or some similar device. But typically in the larger center, we get multiple functions with the fountains.

The next major element is control of temperature and humidity. The mall itself will be cooler and tends to have a somewhat higher humidity, which tends to reduce the claustrophobia which was rising

while you were in the small adjacent store with lower ceiling heights, etc. Disney has done a lot of work in that area, so that in days of high humidity and high temperature, they will admit fewer people, so you will have more turf.

Americans tend to be kind of edgy about turf. They don't want to be within smelling range of someone else. That is not true of other cultures. The Arabs love it. If you have ever looked at the pictures of the Arab bazaars, half the fun of it is that they are all crowded into relatively small areas. Arabs love to talk to you face on, a few inches apart. Americans would regard that individual as suspect and would tend to avoid that individual at all costs. American's sense of turf is larger than anyone else's. That's a cultural phenomenon. More material on that is in "The Silent Language" by Hall, who did a lot of research in the mid seventies on spaces that people require in different activities. Also "The Hidden Dimension," also by Hall, which has to do with how different cultures and different income sectors of our own culture relate to the amount of space in which they feel comfortable or where they begin to feel uncomfortable. There is also a more recent book called "The Psychology of Space."

The individual stores are attempting to appeal to a variety of tactile sensations which are pleasurable. Some people like to see a variety of merchandise stacked up so there doesn't appear to be any shortage of candy or ice cream in the room. They like to brush up against the materials, or they find the motif of the men's store with its English woods and brasses appealing.

One of the interesting things about the American shopper is how timid they are about exploring new areas that may represent a line of merchandise they are not familiar with, like going into a computer store or a hi-fi store without knowing what a woofer or a tweeter is. In the old days if you went into a store and the door slammed behind you, you were already on guard, which is not a very good way for the salespersons to get their message across or for you to relax sufficiently that you will entertain the idea of whatever kind of merchandise it is.

So you see in the modern store a stagefront kind of store where the gate goes clear up into the ceiling and you see the left shoe rack right out in front where you can kind of touch and feel and acclimate yourself and creep in, and not feel like your route of flight has been cut off - an important element: keeping the flight zones open. This is why deep stores don't work very well any more. The Forest Plaza in Fon Du Lac is an excellent example of that. The average store depth up there is about a hundred feet, but the average rental depth is 60 feet. So you have this tremendous functional obsolescence because from a retailing standpoint they don't need that much depth, nor can they use it, because the customer won't go that deeply into the store and feel like his flight zone has been cut off. Relatively shallower store depths today give better access and circulation. The retreat from one of those stores then allows you to move back to the mall and regroup in the higher humidity and coolness

and higher ceiling area. At Mayfair, they found the mall was so long, people didn't want to carry their coat all the way through, so they had lockers at the entrance where you could put your coat and bags so you arm wouldn't fall off before you got all the way through the center.

It takes a great deal of perception to realize where people go and why and why they don't go. Westtown has a problem getting people into the back alley, because the back way is really concealed from the front way, so the stores consistently die on that end of the center because they don't get the pedestrian traffic through. It is generally thought that if you have vertical access radiating out from the back end of what is essentially a two-deep store configuration to the center square, you generally get more traffic, because people wouldn't lose sight of where they came in the door, and therefore they wouldn't feel cut off from their flight line.

The Ferra Gp. acquired the Birdsville Mall which had some major problems which were basically sight line. As you came in the center you couldn't see the back of the center, and from the back of the center you couldn't see how to get out. So they gave up a couple of stores, and shaved the sight line so that no matter where you were standing you could see how to get out. Then they put in some sky lights so you could see some cloud movement on the floor and people don't perceive they have been cut off from the outside world never to be found again by their relatives, and as a result they are quite comfortable, so their sales volumes in the back of the center per square foot are now equal to what they were in the front of the center. It was at least curable and correctable.

All of these elements add up to the stress factor which determines the volume and growing power of that particular center. If you were in an acquisition mode or an appraisal mode, they help you determine its potential sales per square foot. You know that it is not going to be the average. The fact that ULI says that N Central shopping centers average \$187/sq. ft., doesn't mean a thing. If this one is only doing \$110 per square foot, the question is why. Invariably it is the stress factor which hasn't been considered.

In the numerator the other element we talked about is perceived bargain. Here we have an interesting irony. People feel that if the surroundings are too rich and architectural, they are somehow paying for that in the cost of goods.

The famous shopping center in Scottsdale Arizona which had I. Magnin as its only anchor initially is a beautiful piece of architecture with red Arizona stone and a Mayan architectural treatment which is a kind of parallelogram art did terribly. Magnin didn't do well and neither did the other stores. It looked too rich. So they brought in a Broadway Department store. Broadway is pretty much the Boston store of the southwest. They did a square box with white brick and precast concrete and is a basic plebian dept. store. Not only did Broadway do well, Magnin's sales tripled, because as you approached the center, you saw the Broadway Building,

so people didn't feel that they were paying for too much theatre. People need to feel that the mix of goods is such that they are not getting highballed because of the cost of the facility. The people in Scottsdale can afford anything the people in Scottsdale want, yet they didn't relate well to that. Note that the perception of the store changed even though the appearance didn't by adding the Broadway store and a number of other more reasonably priced stores. People felt they had options. They always want to go shop the low end and then take themselves upside voluntarily. So you see the low priced men's shoes first, or the stripped down computer. People want to do that for themselves. They don't want to feel that they have no choice.

Perceived bargain is reflective of the mix of goods, the diversity, and the brand names that people relate to. It is an overall impression rather than comparative shopping. People occasionally do comparative shopping, but they don't read Consumers Reports on each item or buy a bag of groceries at one store then at another. It is much more impressionistic and therefore much more easily manipulated from the shopping center's standpoint.

The other element in the numerator, aside from diversity and perception of bargain, is how well people identify in terms of their frequency of visit. If they view it as part of their regular routine, chances are they don't relate it to their major purchases. If on the other hand it is made an event, they feel more at ease making a major purchase. For example, modern shopping centers do not put a food store in the shopping center. If you go to the food store, you want to be able to go dressed as a bum. This is true if you are male or female. You want to go in and out and not make a big to do out of it, just pick up the box of macaroni you forgot the first time. Going to the shopping center is old hat and you are not dressed to go down to the upper end dress store or to Marshall Fields, or if you do go, you run into one of your friends and feel like a real nerd. It destroys the whole event. The woman shopper tends to make it a social event, and maybe goes with a friend. If they identify the shopping with a social event, they have greater peace of mind and more receptivity to the merchandise. Therefore it is very useful to a shopping center to have a community room where the league of women voters or whatever meet. You are going to the shopping center nominally for the social event. Note that the shopping centers don't discourage the art shows, etc.

This is also true of elderly housing. One of the ways you can lock into your market is to find out where they prefer to shop. I know that in my part of the world in Milwaukee and Fox Point, much of the social action takes place at the Kohls food store. When folks retire and move to an apartment in Shorewood, they still go eight miles out to Fox Point to go shopping at the Kohls store Monday or Friday night or whenever they did that to catch up on the gossip. The Kohl's store with the same line of merchandise was three blocks from where they lived in Shorewood. Going shopping at the Kohls store became recreational and not just utilitarian, so now you've got more receptivity because you've made an event out of it.

The same is true of Beyerle's in Minneapolis. They make no bones about it. They realize that grocery shopping has gone two ways. You either want the max bag of groceries for the minimum amount of bucks, or you go to Beyerle's which becomes a recreational exercise and they even have a little amphitheater where a home economist shows you how to fix the special of the day three different ways. You can roam through their Irish glass store. The shelves are low, so you can make eye contact with the person on the other side, which enhances the social element. They use lighting to make it a warm element. They remove the little irritations which make you go yuck at the supermarket. At the fish counter notice carefully the air intake system which sucks the air in so you can't smell fish. People want to look at, but not smell lobster. The tactile sensations you get at Beyerle's are all positive. Beyerle maintains that his turnover is higher than his competition. They are in the 24-27 x per year turnover, and he is at 31-35 times a year, so all of his basic groceries can be sold at the same prices as his competitors and he can make it up on the gourmet specials and people spend more at Beyerle's. Woodman's has copied some of his methods, but certainly not as effectively. In Minnesota, you can use light as a wash, but that would be an unfair trade practice in Wisconsin. You go to Beyerle's and they will have a wall of crackers with a spotlight on one of those boxes so it is waving at you saying buy me. They do a lot of stage setting of their product line. He knows his competition pretty well because his dad owns it- Safeways. His dad tried to make shopping an efficiency exercise. (Cubs is considerably less, because they have a cheaper union contract. One reason that Kohls sold out to A&P is that they extinguished the old union contract and went from \$9 per hour to \$5 or \$6.) Perceived bargain. Beyerle's is a good example of modifying what is perceived and adding a recreational component.

All of that becomes the categories for development of a feasibility study on some sort of retail facility. You can state right up front the model you are operating on. It is not unlike the flow chart concept. It is stated in pseudo-scientific terms, and they become the subject matter for analysis by whoever is doing the feasibility study. It is not simply a matter of cataloging that route 99 goes by on this side and highway 55 on that side. That is totally irrelevant information. The important thing is what is the stress factor on that route. Is it over or under its rated capacity by the Fed gov't. The trick is getting the analyst doing the feasibility study to not only inventory facts, but to communicate the significance of those facts to the kind of enterprise that he is analyzing, in this case shopping centers. A lot of feasibility studies that you read that are done by accountants or by guys who went to planning departments have a whole list of highways that feed in and the demographics and so forth, and put them all on the page, and it is left to the experienced retailer to convert all of those to the significant elements about the factual information.

The thing you want to keep in mind is, particularly once you get past the time and cost of transportation, is the stress and what

contributes to stress in the stress zone. In the numerator look at diversity and perceived bargain, and perhaps the recreational component of shopping so it becomes an event instead of a chore. It never ceases to amaze me the number of people who go into the store on Friday night as the family recreation. Taking the kids along to observe the action and ending up with an ice cream cone is about all they can afford. It becomes a major social component for a large part of the American public. As a result, anything which creates stress will be opposed strongly by the shopping center retailer.

For instance, is the shopping center mall a public thoroughfare or a private one. Does the shopping center owner have the right to exclude those who are running for election or protesting or doing pantomimes against financing the Contras, etc. Shopping center owners have gone to the supreme court and established that their mall is in fact a machine for making money, and that social anomalies and stress adversely affect the shopping pattern and therefore since it is their mall, they can exclude and control who uses that as a communications device, so they can discriminate in favor of those who add to the pleasure of the experience, such as the antique dealers.

A second element of stress is cleanliness. Rousey went all the way to the supreme court to establish that if you are an ice cream shop, he can require that your customer eat his cone in your shop so that the little darling doesn't dump his ice cream on the mall. He can control merchandise to the extent that he can show that the alternative creates negative consequences which detract from other people's experiences in the mall. Since the shopping experience is synergistic, it is legitimate for him to control merchandise lines to protect that critical element of diversity. Perceived bargain may mean that he wants one shoe store to be in one price range and another to be in another range, and require that in his lease. Should, say Famous Shoes, change its modus operandi, he could force them out.

A good example of that is University Square. U. Sq. was developed by Mr. McCormick, who owns Python, and there are very tight lease controls on the kinds of things that can be sold at the other food stores. One of the things that is verboten is other Italian Pizza food lines. Shanghai Minis was the only thing they could do there. the Yogurt store can't serve ice cream. The leasing pattern attempts to control the diversity, lest there be a movement to one kind of item.

Sometimes you can't resist that, but you can try to control it. The Pier Deli in San Francisco was originally 75% retail and 25% restaurant, but the retail did not do well in many parts of the buildings, because it wasn't a terminal destination. Retail is a browsing activity and people didn't browse well in certain wings of the building. They eventually were turned over to restaurants which were terminal, and then the thing was to get Restaurants which were not carbon copies of one another. Pier Deli has done a relatively good job at maintaining the diversity of their cuisine.

857 FEASIBILITY PROJECT OPTIONS

February 6, 1985

1. Land Use Study - Big Sky Drive-In Theatre Site - Two independent student teams - Kurt Welton 221-8855
Group 2 - Peter Jobson, Peg Olsen, Terry Esquivel
Group 3 - Mike Amundson, Mike Dean
2. Reuse Study for Specialty Center - Piggly Wiggly Building - University Avenue, Middleton - Two student teams - Kurt Welton 221-8855
Group 11 - Elaine Worzala, Jim Drewry, Libby Helland
3. J. C. Penney Redevelopment
Group 4 - Mark Bath, Mark Rasmussen, Don Brumm
4. Conversion of Grimms Bindery as Landmark Structure - One student team
Randy Alexander 257-7506
Group 6 - Paul Koerber, Pete Moegenburg, Tom Degen
5. Conversion of Orpheum Theatre to Commercial/Retail - Randy Alexander 257-7506. One student team.
Group 13 - Paul Lenhart, Stacy Kalaris
6. Regent Street Shopping Strip between Fraboni's and the Alexaner Office
Randy Alexander 257-7506
Group 7 - Mike Acker, Bob Cook, Stu Zadra
7. Conversion of Baskerville Apartments to embassy suite type hotel.
Group 8 - Lisa Richman, Scott Kendall, Susan Strnad
8. Development of housegold budget model to demonstrate ability to accumulate a downpayment for a \$75,000 house under alternative proposed tax plan.
Given: Impact of rentals - Pual Magnusson & Ressi 257-5599
Group 9 - Whit Osgood, Chuck Wagener, John Kraus
9. Projects with Bill Pinkowvitz which pay \$300 in travel expense.
Student teams with private projects.
Group 5 - Tim Johnson, Paul Rezents, Chris Pitts - Badger (Rubin Furniture)
Group 14 - John Walsh, Michael Tobias, Michael Broadfoot - Tune Up Clinics - John Early 241-5577
10. Munz Corp. - Office space - Tokay Blvd.
Group 1 - Bob Korslin, Charles Pettygrove, Reg Pfeiffer
11. American Players Theatre - Relocation study
Group 10 - Jeanne Anderson, Dave Drewiske, Kelly Havey
12. Schlitz Building, - Milwaukee
Group 12 - Andy Bruce, Steve D'Allura, Bob LeFeber
13. Milwaukee
Group 15 - Jim Huffman, John Taxman
14. Fiore Site
Group 13 - Mike Krier, Jim Zemezouak
15. Feasibility study on the 3/4 acre lot on the corner of Wright Street & East Washington Avenue for Flynn-Baker.
Group 16 - Jim Nickelatti, Tom Lampert

ASSIGNMENT

TO FIND A SITE FOR A MINIWAREHOUSE

R.B. BUSINESS

Prof. Graaskamp

Course No. 857

Coding J-1-2

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William Jacobsen

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I. PROBLEM ASSIGNMENT

A. Client

Jacobsen Construction Co., Inc.
313 Price Place
Madison, Wisconsin 53705

B. Objective and Goals of Client

Jacobsen Construction Company, Inc. wants to locate a site for a miniwarehouse in the Madison area. Client plans to develop and construct a miniwarehouse project and share the ownership with other investors. The maximum costs of the total facility will be \$750,000 with an after tax internal rate of return at least 18% with a possible sale after five years. The investors do not want to contribute additional funds after the initial investment.

Client has agreed to supply construction cost data for the financial analysis of the project. This report is intended to be used by the developer and other investors in the proposed project to determine if they should invest in a miniwarehouse facility.

II. THE MINIWAREHOUSE CONCEPT

A. General Characteristics

Miniwarehouses are separate cubicles of storage space of varying sizes linked in a single building or in a cluster of buildings. The available space per unit is small without amenities. They cost more per square foot to rent than conventional warehouses. They appeal to small users, a group that includes home owners, apartment dwellers and small businesses. With the trend toward smaller homes, condominiums, and more expensive retail space the demand for storage units in miniwarehouses will increase.

Miniwarehouses are geared to the small user with storage space of varying sizes such as 5' x 5', 5' x 10', 10' x 10', 10' x 15', 10' x 20' and larger. They appeal to apartment dwellers who have inadequate storage rooms in their buildings, to homeowners who have need for additional storage, to small volume salespersons who need to store samples and merchandise, to small businesses, and to any other person who has to store small amounts of materials that are easily accessible.

Miniwarehouses offer storage space and nothing more. They have no carpeting, no heat or air conditioning. The units are just dry storage space with a light bulb. The rents for these units are relatively high, \$2 to \$6 per square foot per year.

These storage units are convenient and easily assessable to the user. Renters carry their own keys and may enter their units without appointment, although some miniwarehouse complexes impose restrictions for security reasons. Miniwarehouses have proven to be highly successful commercial ventures when approached in a logical fashion based on extensive market research.

B. Market and User Profile

The market area is very small with 75% of the renters from a five mile radius of the site and about 60% of them from within a three mile radius. The concensus of the industry is that in a new market the renters will be 65% individuals and 35% businesses with a demand for storage space of about one square foot per person. As the market matures there appears to be a shift in renters to 65% businesses and 35% individuals with a market demand of about 1.5 to 2 square feet per person.

III. MADISON MINIWAREHOUSE MARKET

A. Economic Base of Madison

Madison's economy has been favored by its balance of industrial government and service employment. The area has a civilian labor force of approximately 153,000, 17,000 are employed by the manufacturing industry. There are approximately 5,500 retailers, wholesalers, manufacturers, processors and professional firms in the Madison Metropolitan Area.

Madison has grown rapidly because of its basic jobs: mainly, government and education, research and insurance. The expansion of these is due to several factors: The attractiveness and productivity of the natural environment, the general location in the state of Wisconsin and on the fringe of the most densely populated quadrant of the nation, the industrial genius of both management and labor in the city's factories, the allocation of several government institutions to Madison, and the construction of an attractive city.

The retail trading area of Madison covers the counties surrounding Dane County, and serves approximately 500,000 population. Survey of Buying Power estimates the 1979 total retail sales of Madison Metropolitan Area is \$1,537,137,000 and gives the total net effective buying income at \$2,667,694,000. The median household cash income is \$20,051.

The United States Census, taken in 1980, brought Madison's population to 170,669. This figure includes University students. Dane County's population as of the 1980 census shows 323,080 people (see Exhibit 1).

B. Existing Miniwarehouse Facilities

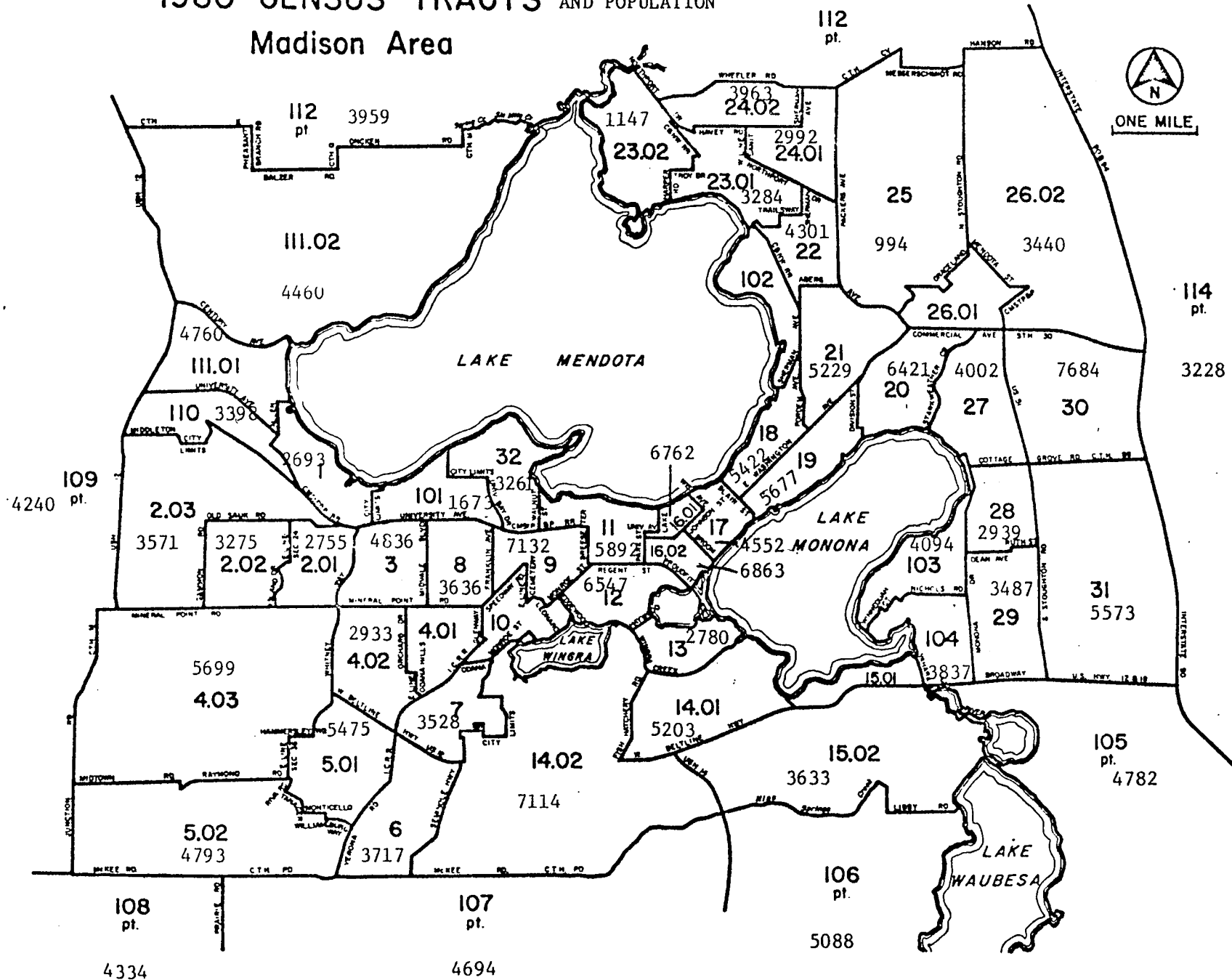
The City of Madison is surrounded by thirteen miniwarehouse complexes ranging in size from 8,160 to 61,059 square feet. A three mile radius has been drawn around each site to depict the primary market area of each site (see Exhibit 2).

Each miniwarehouse complex was visited and vacancies were noted during March, 1982. The vacancy figures for sites 5, 9 and 10 were supplied by various employees of the complexes and my observations confirmed that they were reasonably correct. The rents listed for each site are the monthly rents and it is the practice of some firms to give discounts for annual leases.

Exhibit 3

Site	Name	Square Feet	Mix	Rent/ Month	Vacancies	Annual Effective Rent Per Sq. Ft.
1	Aquarian Mini-storage	10,400	52-10'x20'	\$40	0	\$2.40
2	Golf Green Storage	21,600	80-10'x20' 2-40'x40' 2-40'x50'	\$35	1	\$2.07
Sites 1 and 2 have 1.67 sq. ft. of storage per person.						
3	113 & River Rd.	8,160	34-12'x20'	\$35	0	\$1.75
Site 3 has .73 sq. ft. of storage per person.						
4	Miniware-houses	28,080	90-12'x26'	\$58.50	6	\$2.25
5	U-Haul Atlas Ave.	4,816	16-7'x12' 31-7'x16'	\$30 \$40	1	\$4.21
6	Beltline Self-storage	52,300	36-5'x10' 137-10'x10' 32-10'x15' 139-10'x20' 14-10'x25' <u>2-10'x30'</u> 360 units	\$20 \$28 \$36 \$44 \$55 \$65	10 10	\$2.76
Sites 4, 5 and 6 have 1.4 sq. ft. of storage per person.						
Site 12 (53,000 S.F.) Town of Burke, draws from this area.						

1980 CENSUS TRACTS AND POPULATION Madison Area



Site	Name	Square Feet	Mix	Rent/ Month	Vacancies	Annual Effective Rent Per Sq. Ft.
7	R.M.R.	18,400	80-10'x20' 24-10'x10'	\$35 \$22	0	\$2.28
8	American Self-Storage	61,059	88-5'x5' 276-5'x10' 148-10'x10' 40-10'x15' 43-10'x20' 40-10'x25' 22-12'x24' 657 units	\$12 \$18 \$30 \$35 \$43 \$50 \$54	12 127 18 8 1 5 5	\$2.57
Sites 7 and 8 have 1.86 sq. ft. of storage per person in their market area.						
9	U-Haul W. Washington Ave. Bldg. 42'x150' 3 floors est. 75% efficient	est. 14,175	4'x4' 4'x8' 5'x12' 8'x11' 10'x12' 5'x11' 8'x15' 10'x11' 12'x11' 10'x15' 258 units	\$ 9 \$16 \$27 \$40 \$54 \$16 \$36 \$33 \$40 \$45		Est. \$3.80
The exact mix and vacancy by mix is not known. It has been verified that they have 10% vacancies.						
Site 9 has .57 sq. ft. of storage per person.						

Exhibit 5

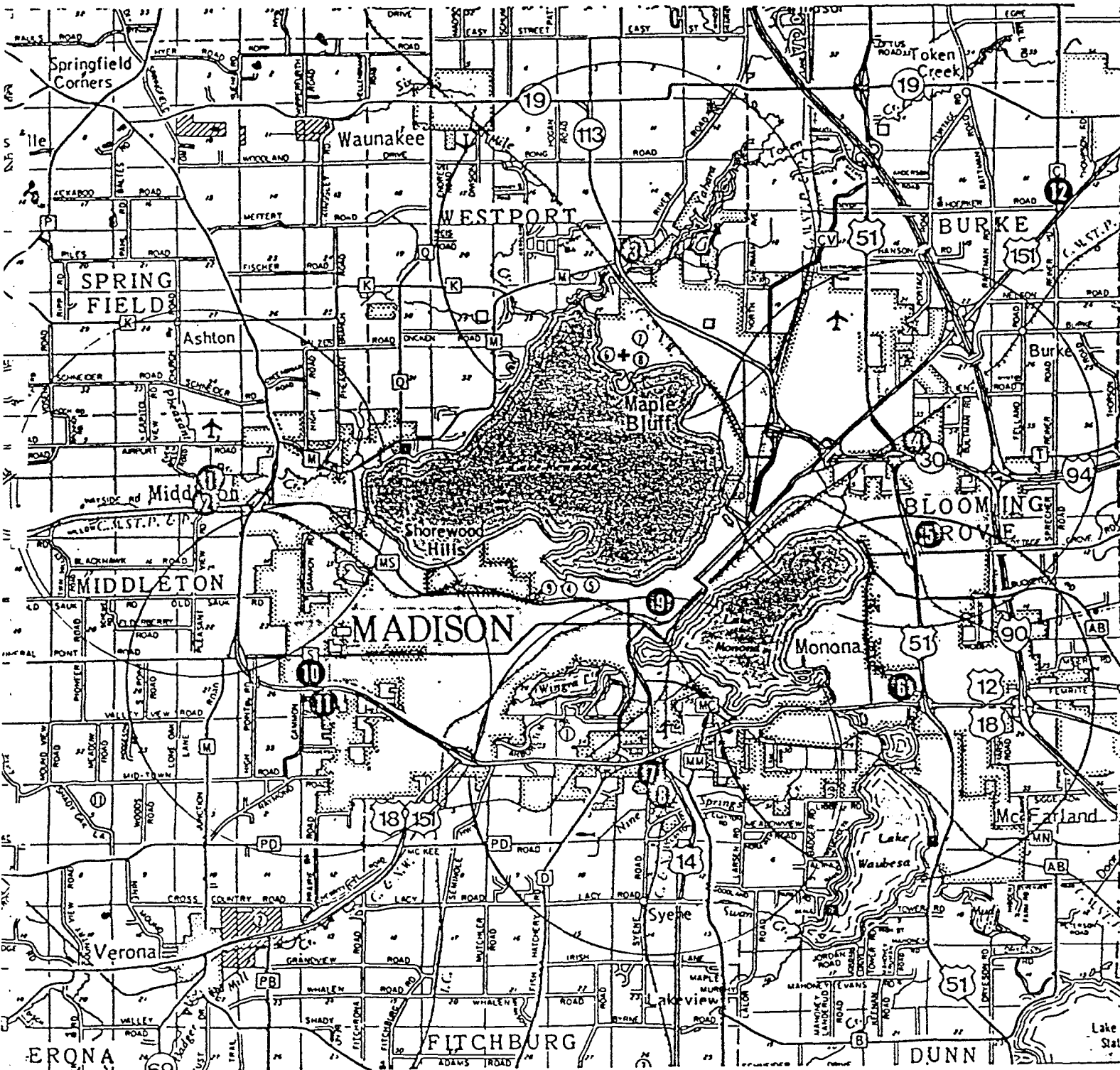
Site	Name	Square Feet	Mix	Rent/ Month	Vacancies	Annual Effective Rent Per Sq. Ft.
10	U-Haul West Towne 2 story est. 75% eff.	25,200	8'x8' } 8'x10' } 1st floor 10'x10' } 9'x18' } 10'x15' 10'x10' 8'x12' 8'x8' 5'x8' 4'x8' 236 units	\$26 \$32 \$40 \$60 \$60 \$35 \$33 \$23 \$21 \$20	20%	Est. \$3.27
11	Seybold Rd. Mini-ware- houses	54,240	170-12'x26' 8-10'x15'	\$58 \$52	1 4	\$2.21
Sites 10 and 11 offer 1.2 sq. ft. of storage per person in their primary trade area.						

Exhibit 6

Recap Miniwarehouse Density Per Person

Market Areas	Density	Unsatisfied-Demand*
Sites 1 & 2	1.67 sq. ft./person	None
Site 3	.73 sq. ft./person	8,500 sq. ft.
Sites 4, 5 & 6	1.4 sq. ft./person	None
Sites 7 & 8	1.86 sq. ft./person	None
Site 9	.57 sq. ft./person	21,400 sq. ft.
Sites 10 & 11	1.2 sq. ft./person	19,500 sq. ft.

*Assuming that demand is 1.5 square feet per person.



Madison is a mature miniwarehouse market and should be able to absorb 1.5 sq. ft. of space per person. Where the three mile market areas overlapped, interpolations were made to allocate population to each site. Site 9 and 10-11 appear to have sufficient unsatisfied demand for space. My inspection of the plans for site #9 on file at the Madison Building Inspection Department revealed that U-Haul of Western Wisconsin has plans for additional buildings of 42'x150' and 32'x157'. It appears that site 10-11 has the most potential for additional warehouse space.

IV. SITE SELECTION

A. Criteria for Site Selection

1. Good accessibility
2. Good approach Zone
3. Good visibility from highways
4. Good traffic count
5. Near dense residential
6. Near a focus of business activity
7. Good drainage - not subject to flooding
8. Proper zoning or can be rezoned
9. In a growth area
10. An area people feel safe in

B. Potential Site (Exhibit 7)

Legal: Lot 4, Willow Run, Town of Fitchburg, Dane County, WI.

Size: 160' x 315'/327' 51,360 sq. ft.

Zoning: Dane County C-2. Miniwarehouses are a permitted use in this zone and there are no public hearings necessary.

There are over 1,500 apartments and many small homes within a one mile radius of this site. Nakoma Shopping Center and two small strip shopping centers are nearby. This year, the adjacent Jamestown Commercial Plat is due for final plat approval and start of construction development. This is a growth area and site 10-11 is also a relatively affluent economic area. The approach zone is excellent and the site has all the characteristics needed for a successful miniwarehouse facility. It is a site that renters will feel safe in.

This site will also draw from Verona and Fitchburg. A 51,360 square foot site will yield about 23,000 square feet of storage. A facility of this size with the increased draw of demand from Verona and Fitchburg will result in about 1.44 sq. ft. of storage per person in the primary market area of Site 10-11. With the addition of our proposed new facility the primary market area for site 10-11 would be shaped as shown in Exhibit 8.

Exhibit 7
Site Location

11 5117

5135

5137

5141

5151

5205

5225

5237

5253

5301

5309

6150

MCKEE ROAD

2.2 MILES TO MAP 3-B

6169

6145

U. S. H. 18 & 151

(VERONA ROAD)

CARRIAGE ST

ANTON

DRIVE

Subject

5160

5164

5156

5152

5150

5148

5146

5450

5400

5500

THREE FOUNTAINS APARTMENTS

5162

5158

5154

5470

WILLOW RUN

KING JAMES WAY

JAMESTOWN COMMERCIAL ADD.

6208

6211

6209

6189

2975

2995

3007
3003
3001

KAPEC ROAD

DRIVE

SMITHFIELD

CIR

DRIVE

KING JAMES CT

WAY

WILLIAMSBURG

WAY

FRONTIER LA

BOW

ROAD

SO. WHITNEY

2505
2507
2508

2506

2504

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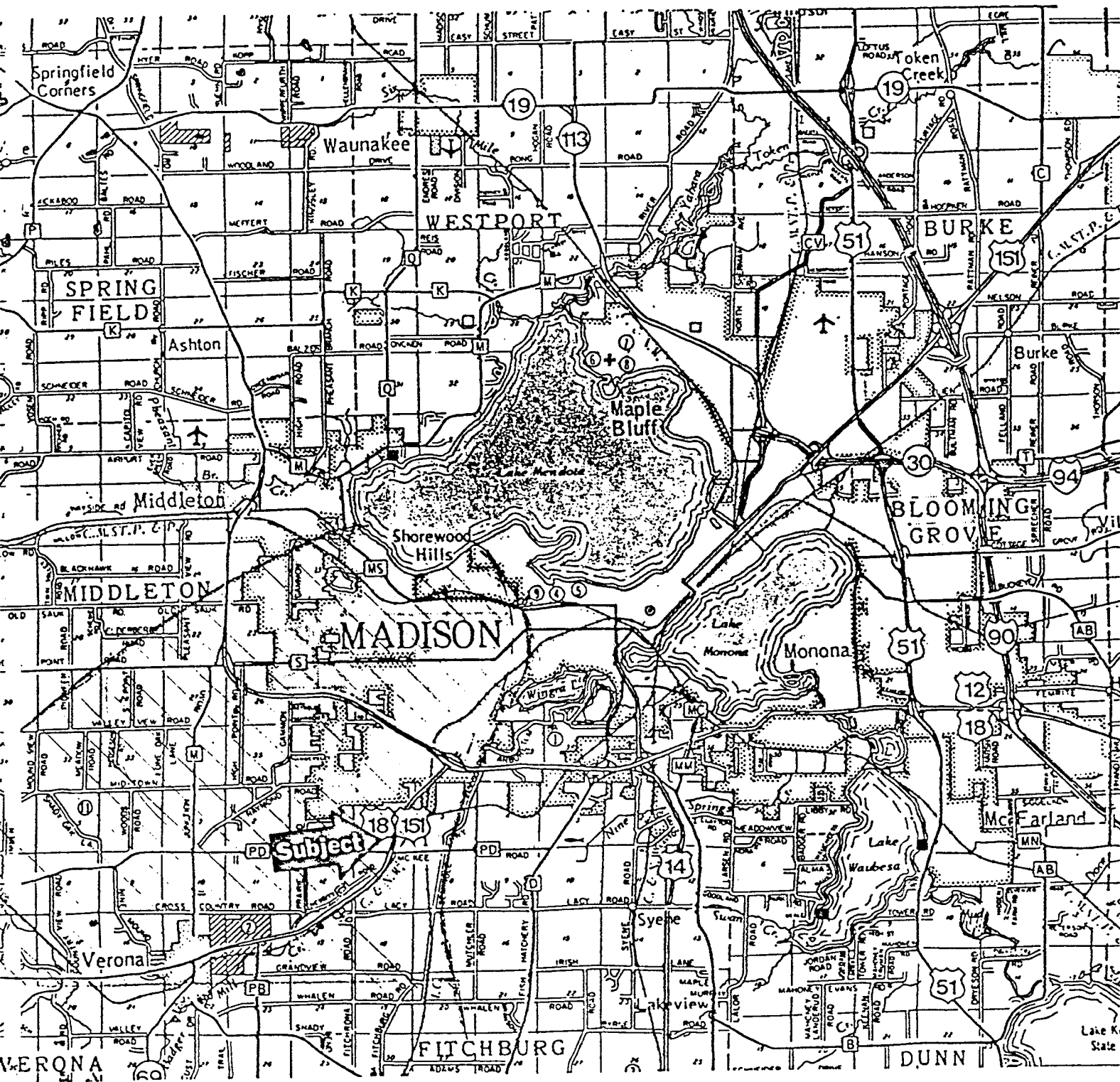
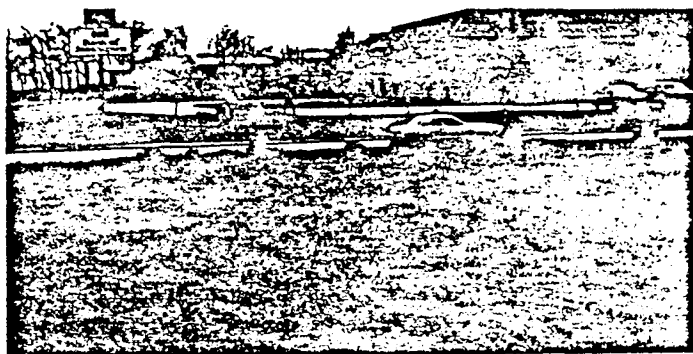
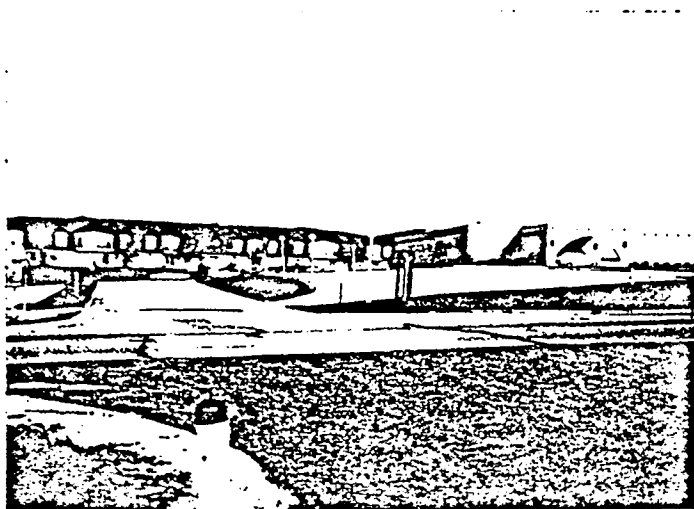


Exhibit 9

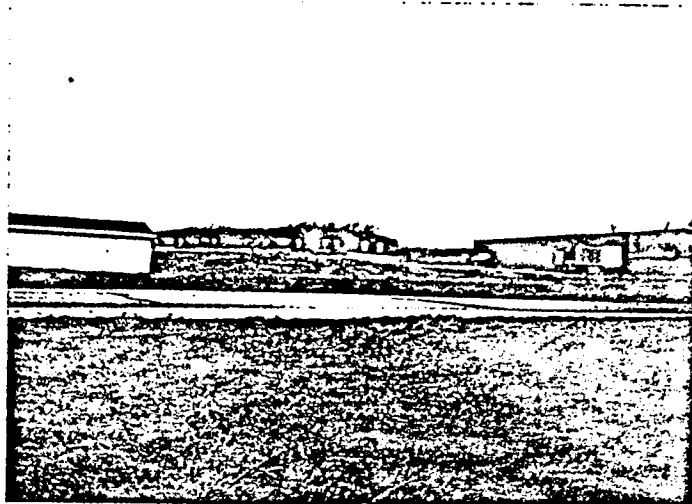


Approach Zone from North



Approach Zone from South

Site



Site View from Highway 18 & 151



Site View from Anton Drive

V. PROPOSED MINIWAREHOUSE PROJECT

A. Project Costs

Land	\$ 75,000
*Construction Costs	286,250
Asphalt and Landscaping	12,950
Construction Interest & Legal	15,600
Negative Cash Flow (1st year)	10,200
Developers Fee	<u>50,000</u>
Total Project Costs	\$450,000

*Cost as supplied by client for a steel frame and ribbed metal sided building.

Exhibit 10

	June	July	August	Sept.	Oct.	Nov.
Effective Income	1,116	2,232	3,348	4,464	5,580	5,844
Operating expense	900	900	900	900	900	900
Mtg. payments	4,431	4,431	4,431	4,431	4,431	4,431
Cash Flow	-4,215	-3,099	-1,983	- 867	249	513

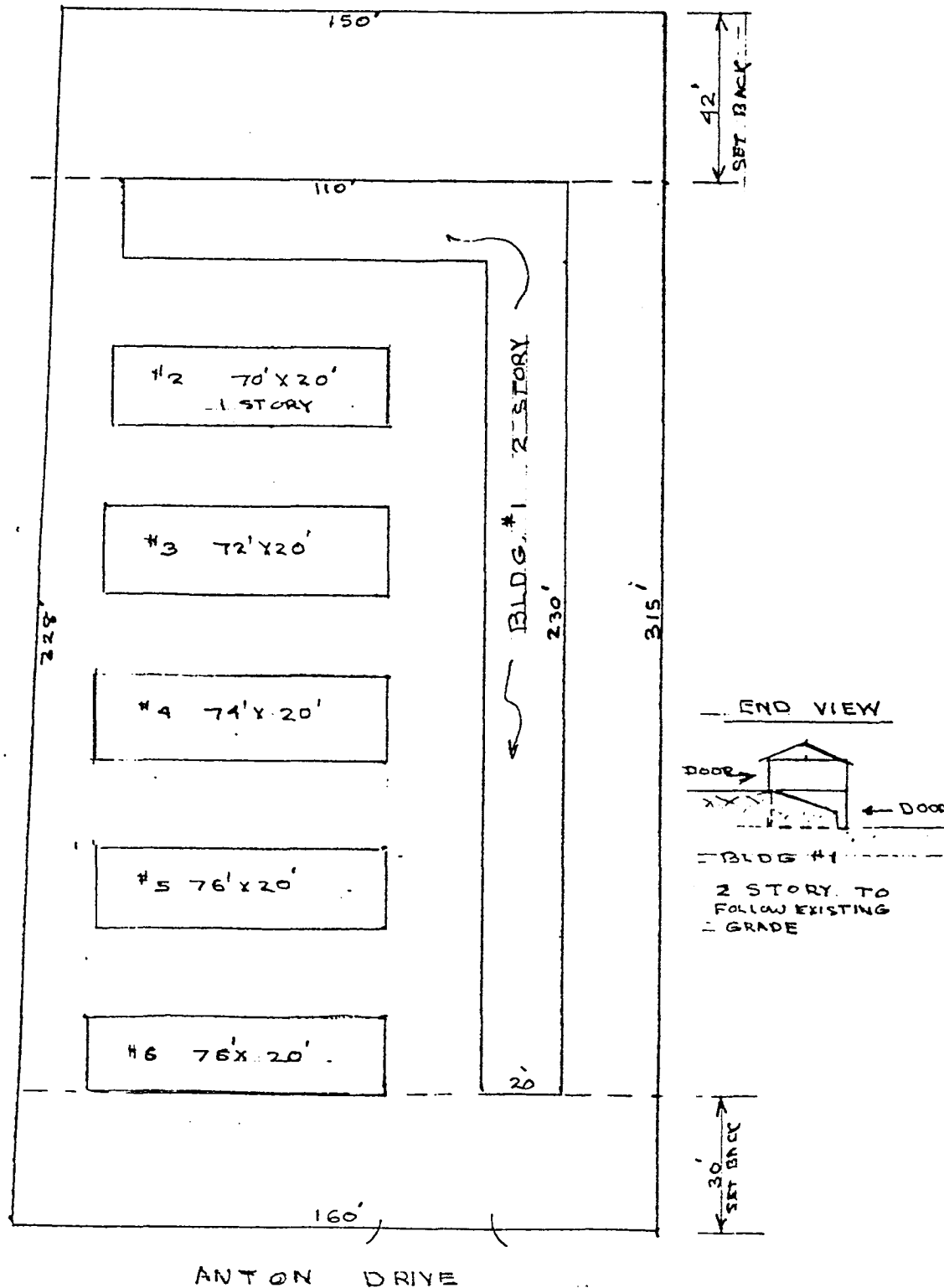
Assumption: 6 month rent up period

: Most of construction except the foundation would be performed from January through May.

B. Project Mix

Most of the complexes in the Madison area concentrate on the large size storage units. The miniwarehouse industry stresses that it's important to have a mix of small, medium and large size units. Market area 7-8 has a variety of sizes and a number of vacancies. Their renter profile is assumed to be similar to our proposed project. The mix of their units that were rented was 40% large, 30% medium and 30% small. My recommended mix for the proposed project is:

Exhibit 12
HIGHWAY 18 & 151



ANTON DRIVE

Scale 1" = 40'

PLOT PLAN

Large	67-10'x20'	40%
	1-20'x20'	
Medium	56-10'x10'	37%
	5-10'x15'	
Small	33-5'x10'	23%
	5-5'x6'	
	162 units	100%

Exhibit 11

Rent Schedule and Revenue Projection

# of Units	Size	Rent/Month	Vacant	Effective Rent
67	10'x20'	\$ 55	6	\$3,315
1	20'x20'	100	0	100
56	10'x10'	35	5	1,785
33	5'x10'	20	6	540
5	5'x5'	16	1	64
162				5,844

These rents are at or below the rents of Site 10-11. The effective annual rent per sq. ft. is \$3.26.

C. Financial Analysis

Assumptions:

Land Costs - \$75,000

Improvements - 362,300

Mortgage - 17% - 30 year amortization - 5 year balloon

Depreciation - 15 year straight line

Rents, expenses and market value projection - 6% Increase per year

Investors - 50% Tax bracket (State and Federal)

	1	2	Years 3	4	5
Gross Rent					
Less Vacancy Allowance	As per Exhibit 10 have been deducted				
Effective Gross Income	57,648	74,335	78,795	83,522	88,534
Less Real Estate Taxes					
Less Expenses	14,675	18,584	19,699	20,881	22,134
Net Income	42,973	55,751	59,096	52,642	66,400
Less Depreciation	24,153	24,153	24,153	24,153	24,153
Less Interest	52,808	52,741	52,663	52,569	52,458
Taxable Income	-33,988	-21,143	-17,719	-14,080	-10,210
Plus Depreciation	24,153	24,153	24,153	24,153	24,153
Less Principal Payments	363	430	509	603	714
Cash Throw-Off	-10,198	2,580	5,925	9,470	13,229
Tax Savings on Other Income	16,994	10,572	8,860	7,040	5,105
Spendable Cash after Taxes	16,994	13,152	14,785	16,510	18,334
Market Value \$450,000	477,000	505,620	535,957	568,115	602,201
Less Mortgage \$310,800	310,437	310,006	309,497	308,894	308,180
Net Worth \$139,200					294,021

Analysis of Sale:

Project Cost	\$450,000	
Less Depreciation	<u>120,765</u>	
Basis	\$329,235	
Sales Price	\$600,000	
Less sales cost	42,100	
Less basis	<u>329,235</u>	
Taxable Gain	\$228,665	
Income Tax	\$ 45,733	50% Capital Gain
Sales Price	\$600,000	
Less Income Tax	45,733	
Less Sales Cost	42,100	
Less Mtg. Pay Off	<u>308,180</u>	
Net Cash	\$203,987	

The Internal Rate of Return considering after tax cash flow and reversion is 17.87%.

VI. MARKETING AND MERCHANDISING

A. Design of Product

The building must be attractive and appealing to the renters and the neighborhood. Added attention to design, detail, color and landscaping is important. Maintenance free material should be used. Flexibility in design for moving interior partitions will be important to meet shifting demand for different size units. Client should consider marking the 8' door openings in modules so that they can be converted to two 3' doors or changed from two 3' doors to an 8' door opening.

B. Sales Promotion

The most effective advertising for miniwarehouses is the yellow pages of the telephone directory. If the project will be completed in June of next year, the yellow page advertising must be contracted for in the fall of this year. For the initial rent up period, newspaper classified advertising is also recommended. A large permanent billboard on the site that can be viewed by passing traffic is important. Description brochures are useful for distribution to the nearby apartment complexes and mailing to area residents and businesses. A personal telephone call to area businesses can also be helpful. The timing of this project is very important; it should be ready for rental not later than mid-year to catch the demand generated in the traditional moving periods.

VII. RECOMMENDATIONS

The proposed scenario in this report meets the 18% I.R.R. yield as desired by the client. If the client waited until interest rates dropped to 15%, the I.R.R. yield would be about 19%. The economy is in a recession and the future is unclear.

The project could be delayed until the economic future trend is clear. If the project was delayed it's possible the interest rates could be down to 14%, the construction cost 10% higher and the revenues 6% higher. If this happened the I.R.R. yield would be about 20%.

I suggest that the project be delayed until economic trends are clear. I would also suggest the site be controlled by a long term option or other means without a firm financial commitment. There is unsatisfied market demand for miniwarehouses in this area and the site is excellent.

LAND USE STUDY - Big Sky Drive-In Theatre Site

MEMORANDUM:

May 31, 1985

To: Mr. Ken Welton
Mr. Kurt Welton

From: Michael F. Amundson *Michael F. Amundson*
Michael J. Dean *Michael J. Dean*

Re: Lease negotiation/market study and parking study for
six-screen multiplex on the Big Sky site.

Enclosed per your request is a summary of our findings on national movie-house leases, with rent levels supported by the attached market analysis. Also enclosed, as requested, is a summary of parking analysis of the proposed movie theater in the context of a mixed-use development. Attached to the summary is the parking report detailing our analysis. We performed an analysis of the parking indexes required for the Big Sky development using contemporary ULI Shared Parking guidelines. We also calculated the parking required by the City of Madison Zoning Ordinance.

We hope you find this report useful for any decision making relevant to the Big Sky development.

EXECUTIVE SUMMARY

I. Market Analysis

In this report, demand strength for adding additional movie screens to the trade area is measured by four demand proxies: 1) trade area population per screen; 2) Dane County sales per screen; 3) trade area age distribution; and, 4) concentration of retail and entertainment enterprise in the immediate vicinity of the site. All four proxies are very favorable for a six-screen addition.

The ratio of primary trade area population per screen is presently 16,700; a six-screen addition reduces the ratio to 13,700. Industry executives consider a ratio of 12,000 to be strong.

Dane County sales per screen for 1985 and 1986, without an addition to supply, are close to \$285,000 and \$305,000 respectively--surpassing the profitable industry benchmark of \$200,000. After adding six screens to supply, the estimated 1986 ratio remains favorable at nearly \$250,000 per screen.

The favorable trade area age profile strengthens the defined trade area population per screen ratio. Nationally, 38% of the population is under 30 years of age; within the trade area, 51% of the population is under this age. Since roughly 67% of the moviegoers nationally are under the age of 30, the trade area age profile favors this type of use.

Finally, the fourth demand proxy--concentration of retail and entertainment activity surrounding the site--is favorable. The far west side of Madison is perhaps the most concentrated pocket of retail and entertainment activity in the county. Further, much of the county's construction activity is contained in or near this area. Conventional industry thought favors adding more screens to such a vibrant pocket if the present screens are doing well.

These elements of the chosen demand proxies are not means to an end, but ends themselves: the criteria seriously considered by national exhibitors. These criteria have been judged at arm's length to be relatively favorable and thus the exhibitor would strongly consider adding screens to the market--and what he would pay to do so is tied to the strength of the aforementioned demand proxies and to the structure of past deals.

Recent leases between developers and exhibitors indicate that the national movie-houses look for 15 to 20 year net leases with 2 to 3 year renewal options. Minimum rent is 18% to 20% constant of construction budget (construction budget includes land and all development costs). Exhibitors thus favor build-to-suit leaseback arrangements. Construction costs range from \$55 to \$60 a square foot (movie theaters require far more steel and costly construction materials that add about \$15 to per square foot cost of ordinary retail structures; costs based on interviews only). Twenty percent of \$60 cost/square foot yields a \$12-14/square foot base rent. On a 24,000 square foot movie house costing \$1,440,000, annual base rent could be as high as \$290,000. One executive stated that some recent deals have hit the \$14/square foot range. The following market analysis supports the hypothesis that Madison is underscreened. Current market ratios of sales/screen and population/screen are very strong--strong enough to support these rent levels.

Past leases show lessors' participating in 6 to 8% of gross receipts. Eight percent participation is considered successful bargaining. However, operators bargain for recapture of real estate taxes, insurance, and common area maintenance charges. Base for participation should be as low as possible--bases below \$2 million in gross receipts have been negotiated. Movie-houses have been known to redefine "gross receipts" after lease has been signed. National operators that do not achieve \$1.5 to 2.0 million in gross receipts within first 12 to 18 months do not renew options.

II. Parking Study

We performed an analysis of the parking indexes required for the Big Sky development using contemporary ULI Shared Parking guidelines. We also calculated the parking required by the City of Madison Zoning Ordinance. Although the parking requirements in most zoning ordinances will exceed the actual demand indicated by analysis using the shared parking methodology, we found no significant difference between the shared parking total and the City-mandated aggregate total. Parking indices for a development featuring 100,000 square feet of office, 37,000 square feet of retail, 5,000 square feet of restaurant, and 1,500 seats of cinema (roughly 24,000 square feet GLA) are as follows:

City of Madison	Spaces	ULI data	Spaces
Office 3.3 spaces/1000 GLA	217	Office 3 spaces/1000 GLA	291
Retail 3.3 spaces/1000 GLA	123	Retail 3.8 spaces/1000 GLA	97
Restaurant 10% of capacity	25	Restaurant 20 spaces/1000 GLA	60
Cinema 1 space/6 seats	<u>250</u>	Cinema 1 space/4 seats	<u>263</u>
Total	615	Total	711

The figures shown for the ULI method are calculated for the peak demand time of 2:00 p.m. on a weekday in June. The actual peak demand projected by the shared parking methodology was 711 occupied stalls at 8:00 p.m. on a Saturday evening in June.

The parking study serves two purposes:

- 1) shared parking analysis confirms the adequacy of City parking requirements.
- 2) projections of demand by use and time of day may be used to design the parking facilities so that the most intensive uses--office and cinema--each have an adequate amount of

parking for day-to-day demand and use the less convenient parking (such as retail slack) during peak periods.

The actual projected hourly demand for each use in the peak month of June is displayed in Appendix L.

Note the intensive parking demand of the six-screen multiplex. If such a theater housed 1,500 seats and required 24,000 square feet, ULI research indicates that 263 stalls, or one stall per 91 feet of GLA, would be required at peak by this use alone. If we allocate 325 square feet per one stall, the theater would require $263 * 325 = 85,500$ square feet. Added to the building footprint of 24,000, the multiplex requires 109,500 square feet--or more than 2.5 acres.

OVERVIEW

The following report is dissected into a market analysis and a parking analysis. Market analysis, presented first, is directed at gauging demand for six additional movie screens within Dane County. By use of demand proxies, an estimate of demand is converted to lease terms pursuant to our client's directive to provide him the wherewithal to negotiate a lease with a national film exhibitor on a site our client controls via an option to purchase.

Following market analysis, a study of the likely unit parking demand of a multi-screen movie complex is presented. Attention is paid to the seasonal and temporal demand of the movieplex itself and how this demand is modified in the context of a multi-use development on the site.

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INTRODUCTION

This report is primarily aimed at fashioning a lease negotiation strategy for a client who expects to be opposite a negotiating table from a national film exhibitor¹. To our knowledge, two exhibitors have expressed interest in the Big Sky site on Madison's far west side, which our client controls through an option to purchase. Our client wishes to gauge the extent of exhibitor interest in adding screens to Madison and, in particular, on the west side. Specifically, we are to determine at what dollar range are deals with film exhibitors being made and on what terms.

To ascertain film exhibitor interest in adding screens to the Madison area on the Big Sky site, we must understand how the exhibitor looks at a market. Questions such as how a reading of demand intensity is taken and what demand proxies are used to measure market opportunity are critical to gaining the exhibitors' perspective. Once we know how the exhibitor looks at market opportunity and makes a determination of the feasibility of adding additional screens, we are able to bridge exhibitors' inferred level of interest or disinterest to a range of contract rent and hence give our client critical information of about how much exhibitors are able to pay as rent for opportunity to exhibit film near, or on, our site (we assume there is not any price competitiveness among west side sites for the new movieplex).

From interviews of past and present national exhibitor executives and other research, it became clear that exhibitors considering adding screens to a market look at four criteria. The ratio of trade area population per number of screens in trade area and, secondly, sales in trade area per number of screens in trade area are used as proxies for screen demand for a particular market. Thirdly, exhibitors look at trade area age profiles and, fourthly, exhibitors inventory the amount of retail and entertainment activity near the site being considered.

1. See Appendix A for brief overview of film industry economics.

Our efforts then were directed at defining 1) the appropriate trade area for a multiplex¹ on the Big Sky site; 2) the number of competitive screens in the trade area; 3) total trade area movie-theater sales; 4) age cohort analysis; and, 5) analysis of West Side retail/entertainment activity.

These elements of the chosen demand proxies are not means to an end, but ends themselves: the criteria seriously considered by the national exhibitors. If these criteria are relatively favorable, the exhibitor will add screens in the market--and what he pays to do so may be tied to the relative strength of the demand proxies.

PROXIES OF DEMAND

Having decided to evaluate four criteria thought to be seriously considered by the national exhibitors, we will briefly embellish on each criteria.

1. Sales per screen: ratios above \$200,000 per screen are considered strong ratios and indicate a market could hold more screens.
2. Population per screen: ratios above 12,000 people per screen are considered strong and imply that a particular market is underscreened (exhibitors look for ratios to be at least 10,000 at a minimum).
3. Age profile: exhibitors prize age profiles that favor the under 30 age cohort as two-thirds of total attendance are under 30. Eighty-five percent of total attendance is made up of those under 40 years of age². Here, the upshot of cohort analysis is that given two markets with equal populations, the market with a population profile skewed to the younger cohorts will spend more on movies than the other, older market.
4. Pocket of retail/entertainment activity: exhibitors look to see if there is a "pocket" where people are used to going for

1. Multiplex, as used in this paper, is defined as any multi-screened movie theater with 3 or more screens.

2. "Who Goes to the Movies" study by Opinion Research Corporation, 1985; commissioned by the Motion Picture Association of America.

entertainment and shopping, and if there is a multiplex in the pocket and the pocket is profitable for the multiplex, the pocket ought to hold 10 to 12 more screens just as easily as it holds 4.

Summarizing then, our determination of market feasibility then will center on the above criteria in the context of what the industry considers favorable and unfavorable.

DETERMINATION OF TRADE AREA AND POPULATION PER SCREEN RATIO

The trade area is defined by reconciliation of four parameters: license-plate mapping, newspaper circulation, driving-time mapping, and competitor location.

License-plate mapping, or "spotting," was first completed in order to outline a crude trade area. License plates of patrons at the West Towne Cinemas (a three-screen multiplex behind West Towne Mall) were recorded and traced. This initial trade area delineation presumes that the trade area of West Towne Cinemas would be contiguous to or contained within the new theater's trade area. West Towne Cinemas are one mile from the site and within eyesight. We are comfortable with this assumption; the Big Sky location is as good as most theaters in Dane County and is served by the same main linkages as West Towne Cinemas. The added draw of six versus three screens should give a multiplex on the Big Sky site a trade area of at least equal size and probably greater than that of West Towne Cinemas. (However, good-site and off-site linkages are presumed--access from both Mineral Point Road and High Point Road and traffic lights at the intersection of these roads is critical for ease of ingress/egress).

METHODOLOGY

Nearly six hundred license plates were recorded during March 15

through March 24, 1985. From auto registration records, domiciles of moviegoers were traced. Recording of license plates was twice-daily on every day of the week. Out-of-state-plates, cycles, patron drop-offs, and pedestrians were not recorded. Out-of-state plates accounted for 5% of the cars parked; the number of drop-offs, cycles, and pedestrians is unknown, though none were observed. Recorded truck plates had to be dropped as truck registration records could not be accessed without substantial fee. We estimate that out-of-state and truck plates accounted for 10% of all vehicles observed. Recordings were made after all three features were in progress.

Movie features on six of the eight days were FANTASIA (G), A SOLDIER'S STORY (PG) and MISSING IN ACTION: TWO (R). Features on the 23rd and 24th were MISSING IN ACTION: TWO (R), FRIDAY THE 13TH V (R), and PORKY'S REVENGE (R). The first set of features faced no competition within the county; however, the two of three films in the second set of features faced competition from theaters on Madison's far east side.

Results of the license plate mapping (Appendix B) show moviegoers coming not only from all parts of Dane County, but also from contiguous counties of Sauk, Iowa, Green, Rock, Jefferson, Dodge and Columbia. Inferred primary and secondary trade areas from the maps in Appendix B include Dane, Sauk, Columbia, and Iowa Counties--as well as portions of Green, Rock, Jefferson, and Dodge--and with the trade area skewed west consistent with the presence of six screens on the far east side of Madison. Appendix C outlines the inferred primary and secondary trade areas facing the West Towne Cinemas as ascertained from the plate mapping. Appendix D depicts the location of competitive supply. Comparison of Appendices C and D shows the influence of eastside competitive screens on the inferred trade areas of West Towne Cinemas.

Table 1 shows that of total cars traced, 41% came from the City of Madison, while 64% originated from Dane County. The counties Dane, Sauk,

Iowa, and Columbia accounted for 82% of the traced domiciles. Adding other counties to this area only captures a marginal percent of the tracings. As Table 1 shows, adding Green, Rock, Jefferson, and Dodge Counties to the defined trade area only picks up another 4% of the traced plates--not marginally significant. Therefore, Green, Rock, Jefferson and Dodge Counties will be considered secondary trade areas, which are not included in the population per screen demand proxy.

For several reasons, Green, Jefferson, and Rock Counties are omitted from the initial trade area. Both eastern counties (Jefferson and Rock) are served by other competitive areas such as Janesville, Beloit, and Waukesha County and hence are not thought to be consistently part of Dane County's movie-house trade area. Further, were people from Jefferson and Rock Counties to drive to Dane to see a movie, they would pass numerous screens prior to arriving to the West Towne area. Hence, Jefferson and Rock Counties are omitted from the primary trade area as initially sketched.

Green County had too few tracings to be considered within the primary trade area, but Green County residents do support Dane County theaters in some small way. In general, an argument can be made that this first sketch of the primary market area underestimates trade area size.

By selecting our four-county primary trade area, we believe we minimize bias inherent in plate mapping since the defined trade area is smaller than the dispersion of plate tracings. As Table 1 shows, 18% of the cars traced came from without this four-county area; an additional 5% had out-of-state plates. From this potential 20% to 25% reduction in trade area is a cushion that absorbs such biases as 1) vehicle owners who have recently moved but have not amended the auto registration form; and, 2) students at Madison Area Technical College or the University of Wisconsin who are living in Madison during the school year but who have a "permanent" residence outside of Dane County.

Table 1: Results of License-Plate Mapping, Domiciles of Moviegoers

<u>Domicile</u>	<u>Number of Cars Traced</u>	<u>Percent of Total Cars Traced</u>	<u>Percent of Total Cars Observed</u>
City of Madison	236	41%	39%
Dane County	368	64%	61%
Balance of Dane County	132	23%	22%
Within Dane, Sauk, Iowa, and Columbia Counties	474	82%	78%
Within Dane, Sauk, Iowa, Green, and Columbia Counties	483	84%	80%
Within Dane, Sauk, Iowa, Green, Rock, Jefferson, Dodge and Columbia Counties	492	86%	81%
Out of Eight- County Region	83	14%	14%
Out of State	--	--	5%
TOTAL	575		605

Two-thirds (64%) of the weeks patrons reside within Dane County (Table 1 and Appendix A and B). Forty percent live within the City of Madison. Thus, more than one-third of moviegoers came from without Dane County; 16% came from without the four-county region of Dane, Iowa, Columbia, and Sauk (again, the percentages do not include 10% of patrons who drove trucks or who had out-of-state plates.) Although students at the University were on break throughout the tracing period, many of these distant tracings could be students or individuals who have recently moved to Dane County. But sheer number of drivers traced suggest distant driving for moviegoers and hence an extended trade area.

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1. Trucks comprised 5% of the sample, but were not traced.
 2. The number of trucks and out-of-state plates observed is estimated to be 10%.
 3. License plate mapping is subject to numerous assumptions.

Trade area defined by driving time is often employed by retailers. Fifteen to twenty minute driving times are thought to trace sales area when referenced to locations of competitive supply. Bearing in mind Madison's central county location and the location of competitive supply (Appendix D), plate mapping suggests to the contrary that many of West Towne Cinemas' patrons drive over twenty-five minutes and often drive past other theaters. Retail driving-time theory seems not a useful analog for moviegoing behavior.

The implied trade area, when juxtaposed over location of competitive supply, indicates moviegoers are driving to a particular film--not to the most proximate screen. Clearly, some fraction of moviegoers come to Madison to do more than see a film. Nonetheless, driving time, disregarding the influence of competitive supply, skews the trade area west as travel time becomes significant. Approximately 70% of moviegoers of the week surveyed drove 30 minutes or less; yet, we hesitate to affix any significant temporal breakpoint to the moviegoing market.

Further, movie attendance has a substantial seasonal variation. Even though variations among cinemas are large, cinemas featuring the most currently released films follow a more or less predictable pattern¹. Three seasonal peaks tend to occur, corresponding to the seasons of new film releases and students' vacation periods. The largest peak occurs in June and July, following by a slightly lower post-Christmans peak and an early fall peak (September - October). Attendance dips most significantly in March, November and pre-Christmas December.

1. ULI-the Urban Land Institute, Shared Parking. Washington, D.C.: ULI-the Urban Land Institute, 1983, p. 21.

Days of the week impacts trade area as well. Friday and Saturday attendance always exceed weekday attendance (except for the first three weeks of January). Both phenomena modify trade areas. Our observations have led us to conclude that each film has its own trade area--depending on depth and location of competitive runs of the same film, on the characteristics of the particular picture itself, and on the particular week and month of the year.

In our case, for six of the eight field survey days, films showing at West Towne Cinemas had no competition whatsoever in the county. The last two survey days saw two of three features being played crosstown. This competition no doubt truncated the Cinemas' easternmost trade area. Proximity will be important when movies are featured on both sides of town. With six screens on the eastern Madison fringe, similar roster of features on both sides of town will truncate the site's easternmost trade area. (Interestingly, redundancy of film in the county may slacken as the supply of movies increases. In 1984, 398 new feature-length films were released, compared to about 250 in 1980, a 59% increase in four years. Major studio production for 1985 is forecasted to be up 40% from 1984. Increased proliferation of film will translate to less local redundancies and more robust trade areas).

Summarizing then, trade areas for movieplexes competing in a given market are continually changing with the films each features, and all competitors are exogenously influenced by industry peaks and troughs. Such dynamism is hard to capture with a one week plate mapping exercise. However, the methods we used, regardless of limiting assumptions and biases, probably render a trade area approximating average size and density of the many trade areas West Towne Cinemas face throughout the year.

1. Alex Ben Block, "Now Playing: Exhibitor Power," Forbes, (April 8, 1985): 54-59.

Table 2: 1985 Population and Age
Profile of Primary and Secondary Trade Areal

County	Total Population	Number Under Age 30	Percent of Population Under Age 30	Number Under Age 40	Percent of Population Under Age 40
Primary Market:					
Dane	340,000 ²	181,000 ³	53%	230,900	68%
Sauk	46,000	20,300	44%	26,300	57%
Iowa	20,000	10,000	50%	12,500	62%
<u>Columbia</u>	<u>45,000</u>	<u>20,200</u>	<u>45%</u>	<u>25,900</u>	<u>58%</u>
Subtotal: Primary Market	451,000	231,500	51%	295,000	66%
Secondary Market:					
Dodge	78,000	37,000	48%	46,800	60%
Jefferson	67,000	33,700	50%	42,400	63%
Rock	142,000	74,400	52%	93,200	66%
<u>Green</u>	<u>31,000</u>	<u>14,500</u>	<u>48%</u>	<u>18,700</u>	<u>60%</u>
Subtotal Secondary Market	318,000	159,600	50%	201,100	63%
Total, entire eight county region	769,000	391,100	51%	496,700	65%
National	---	---	38%		56%

Thus, the numerator of the first demand proxy 'population per screen', will be the aggregate populations of Dane, Sauk, Iowa, and Columbia Counties, also defined as the primary market area. Table 2 presents the estimated current population figures for the the primary, secondary, and overall trade area, along with a breakdown of trade area age distribution relative to the aggregate national distribution.

1. National population data is for 1984. County populations used are 1980 Census estimates for 1985. Thus, 1985 age distributions are assumed to be similar to 1980 distributions.

2. Figures rounded to nearest one thousand.

3. Figures rounded to nearest one hundred.

Table 3: 1985 Trade Area Population per Screen Ratio, Present and Hypothetical 6 Screen Addition

Trade Area	Total Population	Ratio with Present Screens (27)	Ratio with 6 Screen Addition	Ratio with 8 Screen Addition
Dane, Sauk, Iowa, Green, Rock, Jefferson, Dodge, Columbia	769,000	28,500	23,300	21,900
Dane, Sauk, Iowa, Green, Columbia	482,000	17,800	14,600	13,800
Dane, Sauk, Iowa, Columbia	451,000	16,700	13,700	12,900
Dane	340,000	12,600	10,300	9,700

Table 3 divides the populations variously-defined trade areas by the present number of competitive screens and by the hypothetical screen total if six or eight screens are added to the market. The ratio of primary trade area population per screen is presently 16,700; a six screen addition reduces the ratio to 13,700. If 20% (57,000) of secondary trade area population is included in numerator, the ratio with present screens is 508,000/27, or 18,800; with a six-screen addition, the ratio is nearly 15,400. An argument could be made to include some percentage of secondary trade area in the population per screen ratio. As the above example shows, a 20% secondary trade area inclusion greatly increases the ratio. (Recall 18% of plates traced came from without the primary trade area).

Both figures are relatively strong to industry benchmarks of 10,000 to 12,000¹. Recall that these ratios do not include the 10% of the

1. Source: Telephone interviews with Mr. Robert Peltzman, Real Property Advisors (Kansas City), March and April, 1985. Mr. Peltzman worked for American MultiCinemas' Real Estate Operations for approximately five years.

plates that went untraced (out-of-state and trucks); further, these ratios do not include the 18% of traced patrons who live outside of this five county region. Hence, this demand proxy is conservative. Given that the industry looks for population per screen ratios above 10,000 with a ratio of 12,000 indicative of a market window, the ratios derived from plate mapping are very favorable.

This initial sketch of the trade area is underscored by analysis of regional newspaper circulation of the Wisconsin State Journal and the Capital Times (recall that the overlapping of driving times on the map of traced domiciles to qualify trade area was rejected as capricious and irrelevant). Moviegoers, a priori, look to papers for features, show times, and locations; thus it is not coincidental that the presumed cumulative trade area of Dane County movie theaters is approximately coterminous with Madison Newspaper's south-central Wisconsin newspaper circulation¹. Dane County movie houses, as implied by the license spotting, are supported by surrounding counties of Iowa, Sauk, Columbia, Dodge, Green, Jefferson, and Rock Counties (Appendix E shows the cumulative trade area for all Dane County screens).

Madison's daily and Sunday papers cover a 14 county area, blanketing the presumed trade area² (see Appendix F for map of primary market area as defined by Madison Newspapers Incorporated). Circulation goes north to Adams county; from there, west to the Mississippi River; and then, south to Lafayette, Green, and Rock Counties. Circulation on Sunday numbers 140,000; weekdays, 117,000. Simmon's 1983 National Study of Local Newspaper Ratings considers Sauk, Iowa, Columbia, and Dane Counties as MNI's "primary" market area. Seven surrounding counties--Richland,

1. Ibid. Also, interview with Mr. Brian W. Koenig, Director of Marketing, Madison Newspapers Incorporated, Madison, Wisconsin, April, 1985.

2. Ibid, Mr. Brian W. Koenig.

Lafayette, Green, Rock, Walworth, Jefferson, and Dodge--are considered to be "secondary" market areas by this study.

In addition, Audit Bureau of Circulation's (ABC) Audit Report: Newspaper (1984) defined the counties Dane, Columbia, Sauk, Iowa, Lafayette, and Green, as well as parts of Rock, Jefferson, Grant, and Richland Counties as MNI's "retail trading zone."

To review, newspaper circulation of MNI blankets the initially-sketched trade area based on plate spotting and strengthens the legitimacy of West Towne Cinemas' presumed primary and secondary trade area. Geographic definitions of "primary" market area (Simmons), "retail trading zone" (ABC) and "primary market area" (MNI) either are contiguous to, or overlap, the primary trade area driven by the plate spotting. Since the industry and intuition indicate moviegoers look to newspapers for movie data, the West Towne Cinemas are no doubt pulling in MNI readers from hinterland counties beyond those four designated as the trade area. Our definition of West Towne Cinemas primary trade area is coterminous with MNI's primary market area as defined by Simmons--that is, Dane, Sauk, Iowa, and Columbia Counties. Furthermore, ABC's retail trading zone fully includes all or parts of seven other south-central Wisconsin counties. In particular, ABC's retail zone includes all of Green County and portions of Rock and Jefferson Counties--all three of which were included in our secondary trade area. Thus, MNI's trade areas are consistent with West Towne Cinemas as initially specified. West Towne Cinemas and hence any new far west side Madison multiplex will face a four-county primary trade area and a several county secondary trade area.

COMPETITIVE SUPPLY

Briefly, the denominator of the trade area population per screen--the number of competitive screens within the trade area--is a simple tally of screens now serving the market. Presently, Madison houses thirteen indoor theaters and two outdoor theaters all totaling thirty-two screens (see Appendix G for roster of theaters, location, seating, number of screens and license holders; see also Appendix D for map showing present competitive supply). Twenty-seven of these screens are indoors. Recently, competitive supply has reacted to a perceived market gap in area screens by adding 6 screens over the past three years (Westgate subdivided one larger theater into two smaller ones in 1983; Hilldale did the same late-Winter 1985; Eastgate, a freestanding four-screen multiplex, opened mid-1984). In addition, several small cities within counties ringing Dane County--Baraboo, Columbus, Monroe, and Dodgeville--have small indoor theaters, but these feature films that lag behind current releases. Moviegoers in these counties opt most often for Madison theaters and such hinterland theaters achieve minimal sales and are not thought to be competitive with the major theaters in the trade area¹.

Outdoor screens are excluded from demand proxy ratios by the exhibitors. Such exclusion is intuitive since Midwest outdoor theaters have short seasons, and outdoor moviegoing has been declining rapidly over the last ten years. One former executive termed such competition irrelevant².

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1. Mr. Robert Peltzman. Also, from analysis of plate mapping.
 2. Mr. Robert Peltzman.

Competitive screens within the Dane County movie theater trade area then only include major Madison indoor screens, which presently total 27.

TRADE AREA RECONCILIATION

Minimal reconciliation of the two trade area indicators--plate mapping and newspaper circulation--is required: a multiplex on the Big Sky site will net sales from primarily Dane, Sauk, Iowa, and Columbia Counties, as well as secondarily from other counties (notably Green, Rock, Jefferson, and Dodge). All populations in the first four counties are included in trade area population tally. The trade area, so defined, is conservative because we know 20% of our sample reside outside this area.

DETERMINATION OF THEATER SALES PER SCREEN

Having determined favorable population/screen ratios exist in trade area, aggregate theater sales per screen must be determined to see if they corroborate strong demand relative to supply as measured by trade area population relative to present supply of screens.

Macro analysis of state and county movie theaters' taxable receipts, by Standard Industrial Classification (SIC) code, shows sales for movie theaters increasing from \$38 million in 1977 to almost \$51 million by 1982, and from there to \$62 million by 1984¹. This represents a seven year percentage growth of 57% or almost 7% compounded annual growth.

1. U.S. Department of Commerce, Bureau of the Census. 1982 Census of Service Industries, Geographic Area Series: Wisconsin, table 2a, p. 9. Also, interviews with Mr. Bruce J. Biermeier, State of Wisconsin Department of Revenue, March, 1985.

Share of receipts by outdoor theaters is declining. SIC code for motion picture theatres is 783, and includes "motion picture theaters, except drive-in (SIC 7832)" and "drive-in motion picture theaters (SIC 7833)". Overall reported receipts for SIC 783 in 1982 were \$50.8 million, up 32.2% from the \$38.5 million reported in 1977. Of these receipts, 92% were from indoor theaters in 1982; whereas, in 1977, indoor theaters garnered 87% of total receipts. Said in another way, state indoor theaters taxable receipts rose 42% over the five year period and outdoors declined almost 25%. See Table 5 for sales by SIC code.

Table 5: Taxable Receipts of Movie Theaters, State and Madison SMSA¹

	Receipts		% Change	Receipts		Est. Receipts	
	1977	1982	1977 to	1984	1982 to	1985 ²	1986
	(\$1,000)	(\$1,000)	1982	(\$1,000)	1984	(\$1,000)	(\$1,000)
Wisconsin							
Motion Picture Theaters	38,433	50,813	32.2	60,200	18.5	64,400	68,908
Outdoor	5,514	4,145	-24.8	n/a	n/a	2,576	2,756
Indoor	32,919	46,668	41.8	n/a	n/a	61,824	66,152
Madison SMSA							
Motion Picture Theaters - (both indoor & outdoor)	n/a	6,274	n/a	7,465 ³	18.5	7,988 ³	8,544 ³

Madison SMSA's motion picture theaters (both indoor and outdoor) recorded taxable receipts of \$6.3 million in 1982⁴. Assuming the county's outdoors performed proportionately to aggregate state outdoors, then 8.2%, or \$516,000 of \$6.3 million, was produced by Madison SMSA's five outdoor screens, \$5.81 million divided by

1. Ibid, Census of Service Industries and Mr. Bruce J. Biermeier.

2. Estimated 1985 and 1986 receipts are based on 1984 levels increasing at 7% per year.

3. Assumes that the Madison SMSA share of state movie receipts equals share in 1982.

4. Ibid, Census of Service Industries, table 4a, p. 27.

21 screens then existing in 1982 yields a sales per screen ratio of more than \$270,000--in 1982 dollars. Such a ratio is considered strong by industry executives. If Madison SMSA maintained the same percent relative to the state in 1984 as was the case in 1982, the SMSA (coterminous with Dane County) would achieve sales of \$7,465,000. If 5% of total is allocated to drive-ins (continuing the downward trend in outdoor theater sales and factoring in relative lack of outdoor

Table 6: 1985 Trade Area Sales per Screen Ratio, Present and Forecasted

	1977	1982	1984	1985	1986
Taxable Receipts Wisconsin, Movie Theaters SIC 783 (\$1,000)	38,433	50,813	60,200	64,400 ¹	68,910
Percent allocated to Madison SMSA (12.4%) ²	4,766	6,300	7,465	7,986	8,545
Percent of receipts allocated to outdoor theaters in Madison SMSA	14.4	8.2	5.0	4.03	4.0
Indoor movie theater receipts Madison SMSA	4,098	5,809	7,092	7,666	8,203
Number of competitive screens in Madison SMSA	21 ⁴	21	24	27	27
Average Sales per Screen	195,000	277,000	295,000	284,000	304,000

screens in Madison--5/33), sales/screen would be \$295,000. If this figure were increased by 7% for 1985 and three additional screens that came on line in 1985 are factored in, the ratio becomes \$284,000. If no screens are added in 1986, the ratio should continue to improve to over 300,000.

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1. Figures for 1985 and 1986 are 1984 levels grown at 7% per year.
 2. Based on 1982 state/county sales allocation for SIC 732.
 3. Allocation recommended by Mr. Robert Peltzman who was familiar with Madison and Milwaukee movie theater markets.
 4. Number of screens existing in 1977 is only a guess.

Table 6 tabulates past, present and forecasted trade area sales per screen. All figures presented in Table 6 are nominal--that is, there has been no adjustment for inflation.

Continuing secondary data analysis, the Wisconsin Department of Revenue reports state taxable receipts of SIC 732 (indoor and outdoor) increased from \$50.8 million in 1982 to more than \$60.2 million in 1984--a two-year increase of 18.5%¹. However, this overall state figure must be disaggregated to SMSA or to four digit SIC level. This is done by assuming Dane County theater taxable receipts increased per the state rate.

Assuming county theater receipts behaved per state experience, then Madison SMSA figures for 1984 increased to $6,300,000 * 18.5\%$, or \$7,465,000. This translates to \$257,000 per indoor and outdoor screen. If we again allocate 5% of taxable receipts to outdoors, indoor theaters average \$295,000/screen. (1982 had 22 indoor and 5 outdoor screens; by 1984, county had 24 indoor and 5 outdoors. In 1984, the four-screen Eastgate opened mid-year. It was thus counted as 2 screens for the entire year). Table 6 shows estimated 1985 and 1986 nominal sales per screen assuming no addition of screens. Clearly, though these figures are nominal, they are very strong relative to industry benchmark of \$200,000. If six additional screens were added to supply beginning 1986, the sales per screen ratio would retreat to close to \$250,000--still a strong ratio.

1. Ibid, Mr. Bruce Biermeier, Wisconsin State Department of Revenue, March, 1985.

This derivation of sales/screen from aggregate data is known as the "share of space/share of sales"--a rough rule-of-thumb measure used by retail market analysts. A crude method, it presumes that new development will achieve a level of market penetration and/or share of trade similar to existing theaters. Somewhat to the contrary, we expect per screen sales at multi-screen complexes to be higher because of better drawing power, location, and parking that describes county multiplexes relative to the "old barns."

OTHER SECONDARY DATA

A further screen of projected sales levels may be based on figures from Dollars and Cents of Shopping Centers: 1984¹. This Urban Land Institute (ULI) publication is a study of receipts and expenses in variously scaled shopping center operations. Published every three years, this volume has data only as recent as 1983--so sales figures reported understate 1985 sales and rent levels.

We have assumed the Big Sky development would best approximate a blend between neighborhood and community center: retail will probably not exceed 150,000 square feet and will not market convenience goods and personal services. We presume the development will not have a full-line department store, though it may have a strong specialty store.

1. ULI-the Urban Land Institute, Dollars and Cents of Shopping Centers: 1984, ULI-the Urban Land Institute, 1984, pp. 104, 148, 194.

Envisioning an intermediate type of center, it is difficult to estimate for size and pulling power. Therefore, actual sales figures for national movie house chain, the prospective tenant, will be pulled judgmentally from either shopping center category.

National chain cinemas are reported by ULI's sample to have median GLA of 12,456 square feet. The upper decile was reported at 22,316. In fact, even the super regional centers did not have upper decile GLA exceeding 21,000 square feet. A six-screen theater on the Big Sky site would be near or exceed 24,000; hence, ULI data is (for our purposes) biased towards the smaller theaters (under 4 screens). Note further that all theaters in the ULI sample are contained within a shopping center--not freestanding as are West Towne Cinemas or the multiplex planned for the Big Sky site.

Median square foot sales at community centers, per ULI sample, is \$40.25/square foot; a complex with 24,000 square feet and six screens would represent \$161,000 per screen and thus probably not breakeven nor match current Madison levels. Upper decile sales of \$75.12 a square foot in the same building would net close to \$180,000 per screen--still below Madison sales levels. Finally, the top 2% of the community sample reported \$90.26 per square foot sales or \$217,000 per screen, which better describes Madison's presumed present levels, though such a figure will nonetheless underrepresent per square foot figures for Madison in 1985 and 1986. In part this can be due to changing nominal and real sales levels from ULI's 1983 data and present 1985 levels.

Sales per square foot for neighborhood centers in ULI's sample featured a mean of \$45.47 and an upper decile of \$92.36, \$128.08 described the top 2% of the sample. At \$92.36, sales per screen for the hypothetical six-screen would be \$370,000. The ULI figure for the top 2% translates to a \$512,000/screen sales level. We conclude that the latter, ULI upper-decile figure for community shopping centers, \$128.80 per square foot, is the ceiling sales value on the Big Sky site (if theater is 24,000 square feet then gross annual theater sales would be close to \$3.07 million).

Data from one Dane County four-screen movieplex records sales per screen of \$255,000 for a total of \$1,020,000 in year 1984¹. With a gross leasable area of approximately 12,000, the theater grossed \$85 a square foot². Per screen sales levels at this theater were below the derived SMSA average in 1984 of \$295,000 per screen. While representing 17% of county's indoor screen supply, this multiplex captured only 14% of derived indoor ticket sales. This may be due to a heavy reliance on pedestrian patron and the weak concession sales experienced at this theater³.

Both the ULI data and the four screen multiplex data provide a range of per screen and, similarly, per square foot levels for the new multiplex on the Big Sky site.

1. Source: from accounting books and is confidential.

2. This assumes the reported taxable receipts approach actual gross receipts.

3. Interview with theater manager, April 28, 1985.

RECONCILIATION OF TRADE AREA SALES PER SCREEN

To arrive at a final estimate of sales per screen for the new six-plex, 1984 county sales levels are increased by 7% (the previously mentioned seven-year average) to approximate 1985 levels (see Table 5, infra). This figure, $\$7,465,000 \times 1.07$, or $\$7,986,000$, is then reduced by 4% allocation for outdoor theaters to net $\$7,666,000$. Without the addition of the new movieplex, average per screen sales in 1985 will approach $\$284,000$ ($\$7,666,000/27$ screens in 1985). With the addition of the new movieplex, average sales per screen will be reduced to $\$232,000$ ($\$7,666,000/33$). For 1986, assuming same trade area sales growth rates and allocations, sales per screen without additions to supply will approach $\$304,000$; with a six-screen addition, the ratio will hover near $\$250,000$.

We are comfortable with this derivation of average sales per screen. First, the allocation to outdoor screens (4%) is more than generous. Since the Big Sky outdoor would cease if the new movieplex is constructed, the 4% allocation covers the sales at the Badger four-plex. An executive knowledgeable of the Madison theater market stated that such an allocation to outdoors in Madison is too strong. Second, the forecasted increase in sales from 1984 to 1985 simulates past annual increases and preliminary conclusions of 1985's industry performance indicates a very good year.

Reconciling the foregoing sales per screen data, and somewhat equivalently, sales per square foot, we conclude sales per screen for a

six-screen theater introduced on the market beginning 1986 with 1,500 or so seats and approximately 24,000 square feet (research by authors indicates that six-screen multiplex should require 24,000 square feet) ranges from \$250,000 (roughly the predicted county average sales/screen data) to \$375,000 per screen, or \$70 to \$95 a foot. Equivalently, gross theater receipts should range between \$1,500,000 and \$2,250,000 in 1986.

We base this estimate first on very high population to screen ratios stemming from a four-county primary trade area. Linkages present to the site and those planned should magnify trade area beyond that of the West Towne cinema complex. Secondly, the estimate is based on level of county movie theater taxable receipts as we perceive them. The six-plex will achieve sales per screen ratio higher than most competitors.

TRADE AREA PROFILE

Age profile of a market area may strengthen or weaken the defined trade area population per screen ratio. Since roughly 67% of the moviegoers nationally are under the age of 30, and 85% are under the age of 40, age profiles favoring the young are desired¹. Table 2 and Appendix I numerically show the favorableness of trade area profile. Exhibits 1 and 2 graphically illustrate the strongly favorable total and primary trade areas (see Appendix H for a more detailed graphic breakdown of trade area population distribution by percent). Nationally, 38% of the population is under 30 years of age and the entire group accounted for 2/3rds of total attendance in 1984. This same cohort makes up 51% of the trade area population. In Dane County alone, 53% of the population is under 30 years old². Recall that 85% of total movie attendance is under age 40. Nationally, 56% of the population is younger than age 40; within the trade area, 65% of the population is under the age of 40.

1. Ibid, Opinion Research Corporation.

2. Cohort percentages subject to bias of aging through time since data is circa 1980.

AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Primary Trade Area

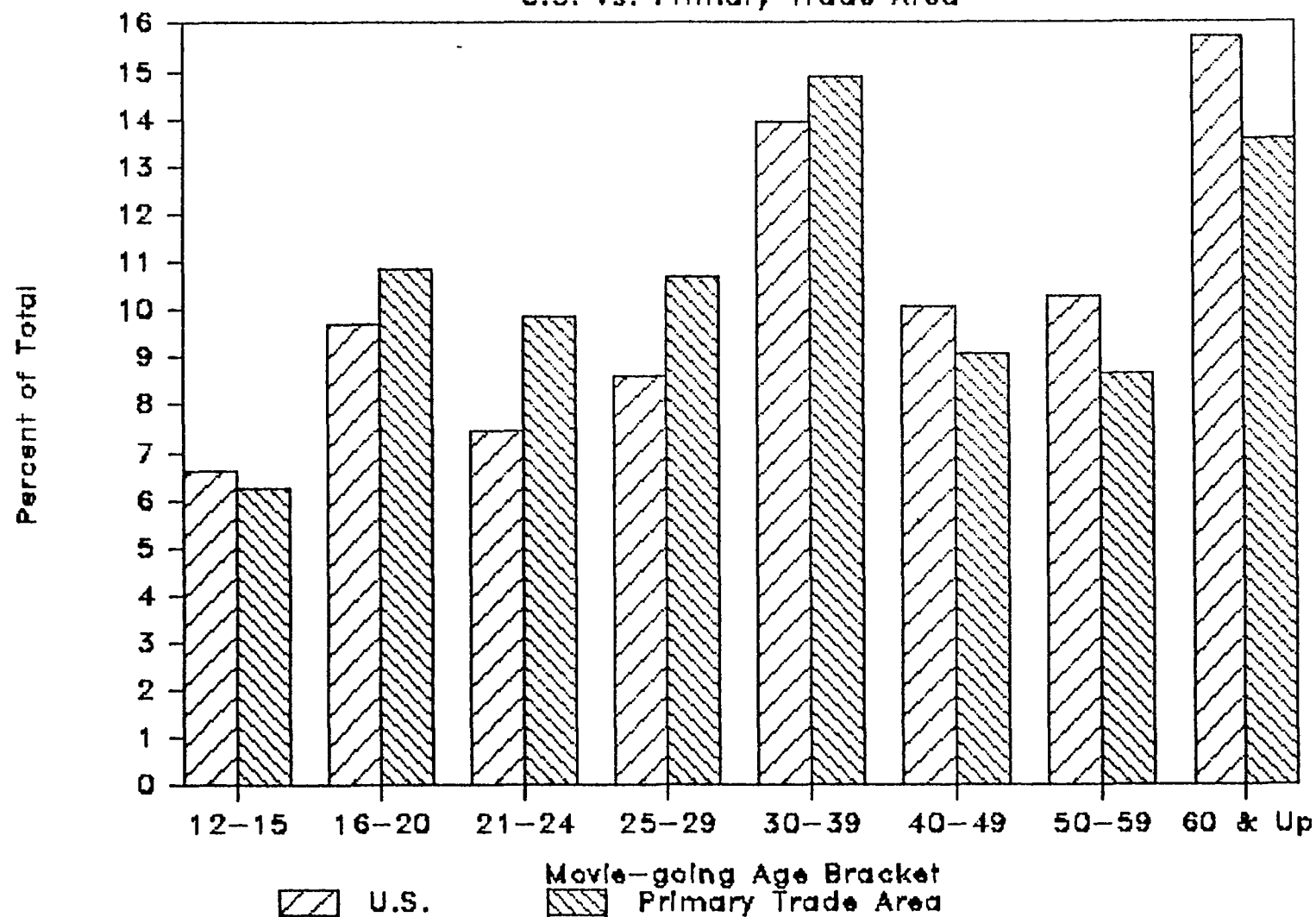


EXHIBIT 1
Primary Trade Area Age Distribution
by Percent

AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Total Trade Area

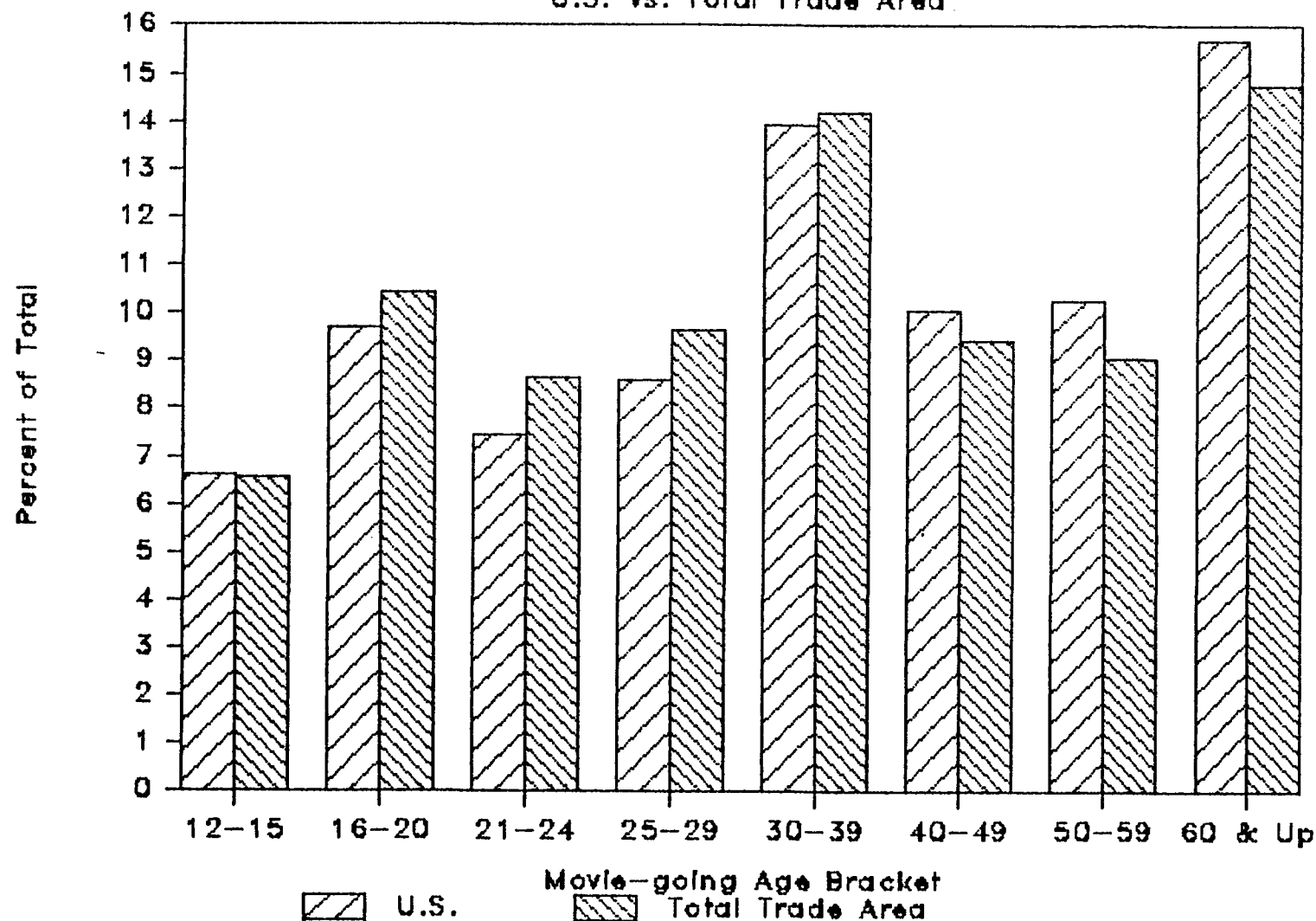


EXHIBIT 2
Total Trade Area Age Distribution
by Percent

POCKET THEORY

A third criteria, "pocket theory", states that successful theater locations are often near a pocket of heavy retail and entertainment activity. If such a pocket currently supports a multiplex and the multiplex is doing well, the pocket is potentially prime for addition of several other screens. In the present case, the retail pocket is the area roughly extending from Westgate Mall at Odana Road and Whitney Way to beyond West Towne Mall, as illustrated in Exhibit 3. Any new retail development, including a cinema, could be considered an addition to this West Towne "pocket" of activity, albeit on the western fringe. There are currently two theaters in this pocket: West Towne and Westgate, totaling six screens. However, the market for west side theaters is skewed to the northwest of Madison, placing the Big Sky site in an intercept position as patrons enter the pocket via the Beltline. In addition, the West Towne area is perhaps the county's deepest pocket of retail activity and as such would pass the muster of pocket theory practitioners.

CASH FLOW ANALYSIS

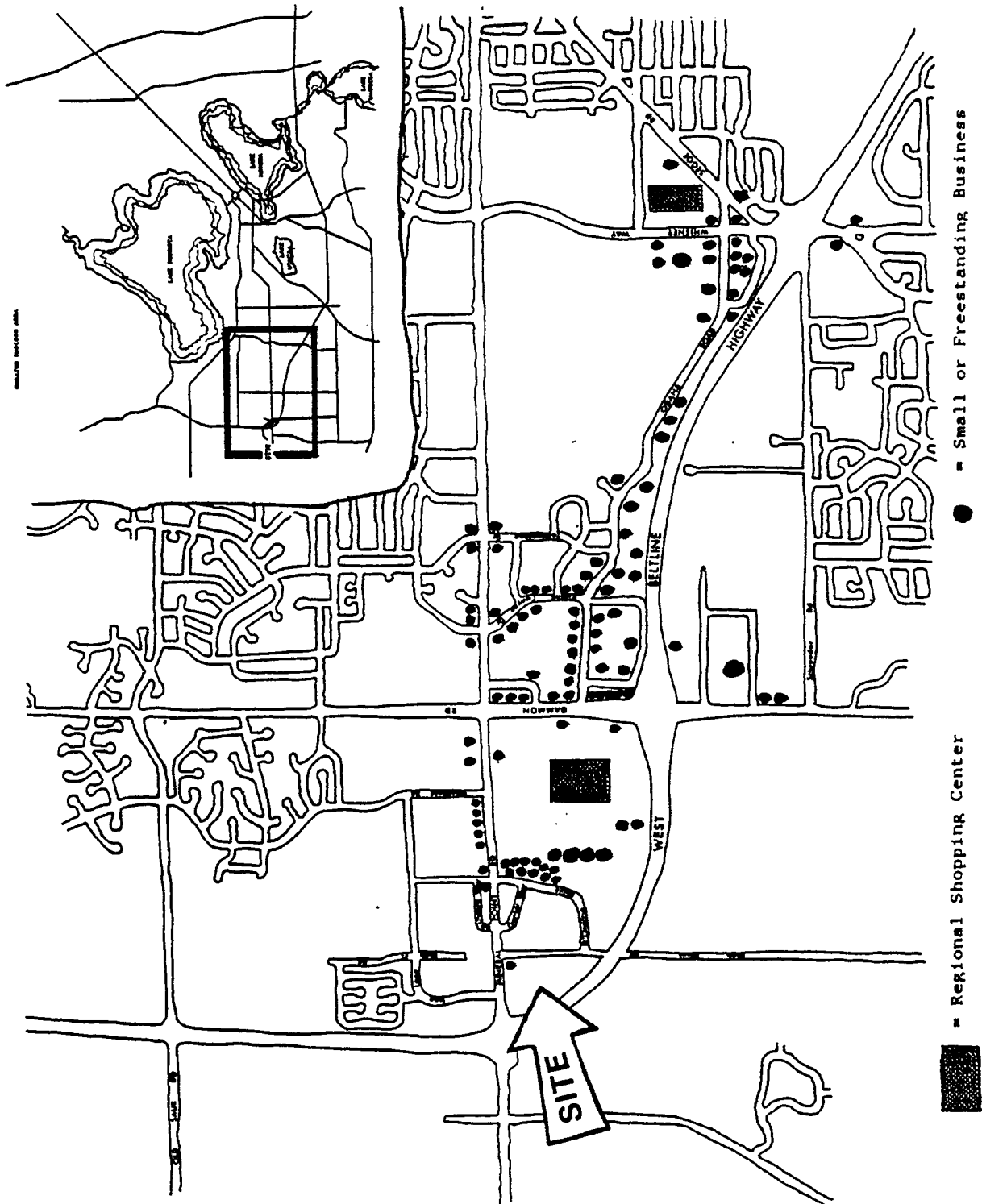
INFERENCE FROM PAST DEALS

Through interviews, we know how deals have been structured in the past and at approximately what rent levels and terms transpired. National exhibitors prefer build-to-suit deals where rent is tied to a constant of the construction budget. Knowing at about what level the constant is and the construction costs per square foot, we are able to work back to rent levels and cash flow for both lessee and lessor to see if the deal as structured makes sense.

National movie-houses, in the past, have looked for 15 to 20 year net leases with 2 to 3 year renewal options. Minimum rent is often a 18% to 20% constant of construction budget (construction budget includes land and all development costs). Exhibitors usually do not own but rather favor build-to-suit leaseback arrangements. Contruction costs range from

EXHIBIT 3

WEST TOWNE-WESTGATE "POCKET" OF RETAIL AND ENTERTAINMENT ACTIVITY



\$55 to \$60 a square foot (movie theaters require far more steel and costly construction materials that add about \$15 to per square foot cost of ordinary retail structures; costs based on interviews only). Twenty percent of \$60 cost/square foot yields a \$12-14/square foot base rent. On a 20,000 square foot movie house costing \$1,440,000, annual base rent could be as high as \$288,000. One executive stated that some recent deals have hit the \$14/square foot range. The foregoing market analysis supports the hypothesis that Madison is underscreened. Current market ratios of sales/screen and population/screen are very strong--strong enough to support these rent levels.

Past leases show lessors' participating in 6 to 8% of gross receipts. Eight percent participation is considered successful bargaining. However, operators bargain for recapture of real estate taxes, insurance, and common area maintenance charges. Base for participation should be as low as possible--bases below \$2 million in gross receipts have been negotiated. Movie-houses have been known to redefine "gross receipts" after lease has been signed. National operators that do not achieve \$1.5 to 2.0 million in gross receipts within first 12 to 18 months do not renew. Inclusion of clauses that lock in the movie-house for 5 to 10 years is prudent.

Indeed, both American MultiCinema and General Cinema suspect several screens could be profitably added to Madison's far west side; both companies understand the additional supply-side economies of greater distribution in the area. Power of position and distribution patterns influences a movie-house's ability to acquire good film from distributors.

TESTS OF INVESTOR AND EXHIBITOR YIELD

Preliminary tests of cash flow analysis includes pro-formas for both the theater owner and the exhibitor/tenant to see if a lease with terms reflecting the strength of the market makes sense for both the lessee and lessor. In doing so, we first pro-forma the exhibitor's

EXHIBIT 4

EXHIBITOR PRO-FORMA CASHFLOW PROJECTION: NORMALIZED ASSUMPTIONS

EXHIBITOR	Per Sq. Ft. :	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues											
ticket sales	\$76.00 :	1,824,000	1,896,960	1,972,838	2,051,752	2,133,822	2,219,175	2,307,942	2,400,260	2,496,270	2,596,121
concessions	\$15.96 :	383,040	398,362	414,296	430,868	448,103	466,027	484,668	504,055	524,217	545,185
arcades	\$2.28 :	54,720	56,909	59,185	61,553	64,015	66,575	69,238	72,008	74,888	77,884
Gross Receipts	\$94.24 :	2,261,760	2,352,230	2,446,320	2,544,172	2,645,939	2,751,777	2,861,848	2,976,322	3,095,375	3,219,190
Operating Expenses:											
base rent	\$12.55 :	301,200	313,248	325,778	338,809	352,361	366,456	381,114	396,359	412,213	428,702
film rental	\$41.67 :	1,000,000	1,040,000	1,081,600	1,124,864	1,169,859	1,216,653	1,265,319	1,315,932	1,368,569	1,423,312
overage rent-lease	\$2.54 :	60,941	68,178	75,706	83,534	91,675	100,142	108,948	118,106	127,630	137,535
overage rent-film	\$2.22 :	53,323	59,656	66,242	73,092	80,216	87,624	95,329	103,343	111,676	120,343
salaries and wages	\$15.20 :	364,800	379,392	394,568	410,350	426,764	443,835	461,588	480,052	499,254	519,224
administrative	\$3.80 :	91,200	94,848	98,642	102,588	106,691	110,959	115,397	120,013	124,813	129,806
real estate taxes	\$2.28 :	54,720	56,909	59,185	61,553	64,015	66,575	69,238	72,008	74,888	77,884
insurance	\$1.52 :	36,480	37,939	39,457	41,035	42,676	44,383	46,159	48,005	49,925	51,922
maintenance	\$3.04 :	72,960	75,878	78,914	82,070	85,353	88,767	92,318	96,010	99,851	103,845
Total Operating Expenses	\$84.82 :	2,035,624	2,126,049	2,220,091	2,317,895	2,419,610	2,525,395	2,635,411	2,749,827	2,868,820	2,992,573
= Net Operating Income	\$9.42 :	226,136	226,181	226,229	226,278	226,329	226,382	226,437	226,495	226,555	226,617

operations through the net operating income line. Exhibit 4 contains the pro-forma cashflow statement for the exhibitor; the inputs and assumptions which drive the test are found in Appendix J.

As a starting point, we began with sales at 100% of anticipated sales per screen: \$304,000 for 1986. We initially tested a base rent of \$10.00 per square foot, but discovered that the lessor's breakpoint quickly becomes unacceptable at such low contract rent levels. Using an industry-accepted rent constant of approximately 20% of construction costs, the rent indicated is \$12.55 per square foot, a rent level which results in an exhibitor breakpoint of 90% in the first year, with a NOI of \$226,000. Initial test of investor yield also indicates acceptable operating performance. Utilizing the numbers that assured solvency for the tenant as inputs for the owner's pro-forma, the first-year breakpoint is just 62%, and the projected after-tax yield over the holding period is approximately 18% (see Exhibit 5). Debt coverage constraints limit the use of adequate amounts of debt to shelter income, although this is an area that could be explored further, since the breakpoint is somewhat low.

PERFORMANCE OF MULTIPLE SENSITIVITY

Having identified initial operating parameters that offer a reasonable assurance of maintaining solvency, we begin to test the deal for upset in the assumptions. The two areas of greatest concern for the exhibitor are his contract rent payment and the gross sales levels, thus we subject his operating pro-forma to variations in each. Results of the sensitivity analysis are contained in Appendix J. One method of cash flowing the deal is to assume that the sales per screen performance of a new theater is some multiple of county average. For example, we may hypothesize that the new movieplex will do 110% or 120% of the county average and then cash flow it to see if it makes sense for both the lessor and lessee, and what levels of rent the exhibitor can pay without putting his breakpoint through the roof. We tested the gross sales at levels ranging from 80% of county average to 160% of county average, looking to the resultant breakpoint as the most important result. As expected, the

EXHIBIT 5

PRO-FORMA CASHFLOW PROJECTION: NORMALIZED ASSUMPTIONS

INVESTOR PRO-FORMA

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Theatre Gross:	\$1,824,000	\$1,951,680	\$2,088,298	\$2,234,478	\$2,390,892	\$2,558,254	\$2,737,332	\$2,928,945	\$3,133,972	\$3,353,350
Revenues:										
Base Rent	\$301,200	\$316,260	\$332,073	\$348,677	\$366,110	\$384,416	\$403,637	\$423,819	\$445,010	\$467,260
Participation	\$25,920	\$36,134	\$47,064	\$58,758	\$71,271	\$84,660	\$98,987	\$114,316	\$130,718	\$148,268
Common Area Maintenance	\$1,500	\$1,575	\$1,654	\$1,736	\$1,823	\$1,914	\$2,010	\$2,111	\$2,216	\$2,327
Utilities	\$8,000	\$8,400	\$8,820	\$9,261	\$9,724	\$10,210	\$10,721	\$11,257	\$11,820	\$12,411
Merchant Association	\$2,000	\$2,100	\$2,205	\$2,315	\$2,431	\$2,553	\$2,680	\$2,814	\$2,955	\$3,103
= Gross Receipts	\$338,620	\$364,469	\$391,816	\$420,748	\$451,360	\$483,754	\$518,034	\$554,316	\$592,718	\$633,368
Operating Expenses:										
Insurance	\$10,000	\$10,400	\$10,816	\$11,249	\$11,699	\$12,167	\$12,653	\$13,159	\$13,686	\$14,233
Real Estate Taxes	\$30,000	\$31,200	\$32,448	\$33,746	\$35,096	\$36,500	\$37,960	\$39,478	\$41,057	\$42,699
Mall Maintenance	\$2,000	\$2,080	\$2,163	\$2,250	\$2,340	\$2,433	\$2,531	\$2,632	\$2,737	\$2,847
Utilities	\$1,000	\$1,040	\$1,082	\$1,125	\$1,170	\$1,217	\$1,265	\$1,316	\$1,369	\$1,423
Common Area Maintenance	\$1,000	\$1,040	\$1,082	\$1,125	\$1,170	\$1,217	\$1,265	\$1,316	\$1,369	\$1,423
= Total Expenses	\$44,000	\$45,760	\$47,590	\$49,494	\$51,474	\$53,533	\$55,674	\$57,901	\$60,217	\$62,626
Net Operating Income	\$294,620	\$318,709	\$344,225	\$371,254	\$399,886	\$430,221	\$462,360	\$496,415	\$532,501	\$570,743
less: Depreciation	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056
less: Interest--Construction Loan	\$165,712	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
less: Interest--Permanent Mortgage	\$0	\$259,711	\$256,508	\$252,804	\$248,520	\$243,565	\$237,835	\$231,208	\$223,543	\$214,678
Taxable Income	\$40,853	(\$29,057)	(\$339)	\$30,394	\$63,311	\$98,600	\$136,470	\$177,152	\$220,902	\$268,009
plus: Depreciation	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056	\$88,056
less: Prin. Payments--Perm Mort	\$0	\$20,460	\$23,663	\$27,367	\$31,651	\$36,606	\$42,336	\$48,964	\$56,628	\$65,493
Cash Throw-Off	\$128,908	\$38,538	\$64,054	\$91,082	\$119,715	\$150,050	\$182,189	\$216,244	\$252,330	\$290,571
less: Taxes (Savings)	\$20,426	(\$14,529)	(\$169)	\$15,197	\$31,655	\$49,300	\$68,235	\$88,576	\$110,451	\$134,004
less: Reserves	\$1,000	\$1,000	\$500	\$0	\$0	\$0	\$0	\$0	\$0	\$0
less: Prior Wkg Cap. Ln	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cash from Operations	\$107,482	\$52,067	\$63,723	\$75,885	\$88,060	\$100,750	\$113,954	\$127,668	\$141,878	\$156,567
Distributable Cash After Tax	\$107,482	\$52,067	\$63,723	\$75,885	\$88,060	\$100,750	\$113,954	\$127,668	\$141,878	\$156,567

test showed that the exhibitor's yield is very sensitive to sales levels, with breakpoints approaching 100% at sales levels of 85%-90% of county average (\$258,000-\$274,000 per screen). However, the exhibitor's breakpoint is not highly sensitive to variations in contract rent (assuming that sales remain at \$300,000/screen); first-year breakpoints range from 85% at a 12% rent constant to 94% for a 26% constant.

Sensitivity analysis for the investor focuses on after-tax yield, although the breakpoint must be maintained at below a maximum of 85%. Four inputs tested were tested for the investor: 1) variations in base rent, 2) variations in the NOI multiplier (NIM) at year 10, 3) variations in gross sales for the theater, and 4) variations in the overage base above which percentage rents apply. The results of this analysis are also contained in Appendix K. When base rents were varied from \$11.00 to \$18.00, the after-tax yields fluctuated between 15% and 26%, with an 18% yield projected at \$12.55. Variations in the year 10 NIM also produced a wide range of after-tax yields, ranging from 11% at 6X to 21% at 13X. Variations in sales levels do not affect the investor as much as the exhibitor, with most of the variation in after-tax yield (16%-24%) resulting from variations in the NOI in year 10, and manifesting itself in the reversion. Finally, there is almost no significant sensitivity to variations in the overage base; a base of \$1,100,000 produces a 20% return, while a \$1,800,000 results in a 17% after-tax yield. Thus, when negotiating a lease with an exhibitor, the overage base is a low-value bargaining chip for the investor; a low base may be conceded in exchange for some other concession from the tenant.

Summarizing, the areas of greatest sensitivity are the gross sales levels and the anticipated NOI multiplier. Variations in contract rent are more important to the investor than to the exhibitor, while the reverse is true for the overage base. Based on the pro-formas and the sensitivity analysis, the investor will want to make his deal going in, given the sensitivity of his return to variation in contract rent levels and NIM assumptions. Giving away some concessions on the percentage

rents, which are more important to the exhibitor, should help produce a lease which gives the investor the majority of his return prior to the sale of the theater.

PARKING ANALYSIS

INTRODUCTION

Although the results of the market study are applicable to almost any site in the West Towne area with reasonably good linkages, the theater is proposed for inclusion in the Big Sky mixed-use development. Among the reasons for including a theater in a mixed-use development is the opportunity for the office workers to park in a lot during the day and movie patrons to park in those same stalls after the office employees have gone home--to "share the parking." Advantages of shared parking include more intensive use of limited land, and cost savings because less parking surface must be provided.

The Urban Land Institute (ULI) has formalized the concept of shared parking into a methodology backed by observation of parking demand at mixed-use developments around the U.S.. ULI's methodology will be applied to initial development concept planned for the Big Sky site, to study the effect of the theater on parking requirements, and to discover the controlling land use based on the initial development proposal. The results of the shared parking analysis will be compared to the City of Madison parking requirements to determine if shared parking actually saves in the number of stalls required.

SHARED PARKING ANALYSIS

Recent studies on parking reflect re-thinking of the amount of parking required for mixed-use developments, and most conclude that the parking required if each use were freestanding. The Urban Land Institute (ULI) defines the concept of shared parking as "parking space that can be used to serve two or more individual land uses without conflict or encroachment." The concept of shared parking is premised on:

- 1) variations in peak accumulation of parked vehicles as the result of different activity patterns of adjacent or nearby land uses (by hour, by day, and by season), and,

- 2) relationships among land use activities that result in peoples' attraction to two or more land uses on a single auto trip to a given area or development.

The majority of parking reduction to be gained in suburban land uses is found in the first category, variation in time of demand.

When distinct land uses are incorporated into one development concept, the development assumes a "mixed-use" character. Witherspoon, et al., have identified three characteristics of a mixed-use development: 1) three or more significant revenue-producing land uses, 2) significant functional and physical integration of project components, and 3) a coherent development plan specifying project phasing, scheduling, land use densities, and other characteristics. Clearly, EMI's development concept for the Big Sky site is mixed-use, so shared parking analysis may be a useful tool in the design process. This should hold true whether the entire parcel is developed under one ownership or parcels are sold separately.

Studies of existing multiuse projects have shown shared parking has reduced parking space requirements. Three important points resulted:

1. Actual peak parking occupancy in multiuse projects was consistently lower than a gross parking demand estimate using single land use peak parking demands added together.
2. Estimates of shared parking demand using time differentials, if properly constructed, are more reliable than are estimates of gross parking demand.
3. Captive market effects (e.g., on-site markets such as office employees who also shop within the same development) often significantly reduced requirements for shared parking.

Therefore, some degree of parking synergy can be harnessed by combining offices, retail and cinemas within a mixed-use development. But the extent of parking space reduction is more fully understood after considering the demand relative to time of day for each land use. Parking demand is defined in terms of peak unit demand, hourly accumulation, and seasonal variation, or in other words, quantity and time of occurrence.

The parking factors indicated by ULI were derived as described below. They are summarized in Appendix L.

OFFICE PARKING DEMAND

Studies show a continuing downward trend in parking demand ratios for offices. Newer office buildings are averaging 4.25 employees per 1,000 square feet of building area; older buildings had average density ratios of 4.4 (Institute of Transportation Engineers). Another study, on office demand for freestanding offices, concluded peak parking demand is 2.66 spaces per 1,000 square feet GLA, with a range of 2.07 to 3.08.

RETAIL PARKING DEMAND

Peak unit demand for retail parking occurs on Saturday where approximately 5.0 spaces per 1,000 square feet GLA at the 90th percentile ratio with a range of 3.5 to 6.0. Weekday surveys indicated a range of demand ratios between 2.9 and 3.9, with a 90th percentile ratio of approximately 3.8. A 1981 survey by Wilbur Smith and Associates concluded parking demand ratios vary with size of the center. For our purposes, centers of between 25,000 and 400,000 square feet have a recommended peak ratio of 3.8 spaces per 1,000 GLA.

RESTAURANT PARKING DEMAND

Studies on restaurant parking demand ratios have concluded that peak parking accumulation did not occur consistently on either a weekday or on Saturday. The peak parking demand ratios varied between 7.2 and 25.8 spaces per 1,000 square feet, with a 90th percentile value of approximately 20.0 spaces per 1,000 square feet. The wide differences in demand ratios was not related to differences in the size of the restaurants or the regions where they were located but appeared to be influenced by local market factors and, most important, the turnover characteristics of the particular restaurant type. Noon lunch hour and the evening dinner hours were peak activity times.

CINEMA PARKING DEMAND

The ULI survey results indicated peak values of approximately 0.25 parking space per seat on a Thursday and 0.30 parking space per seat on a

Friday and Saturday. Assuming the proposed cinema contains 1,500 seats in 30,000 GLA, the factors convert to 12.5-15.0 spaces per 1,000 GLA. These results have two significant qualifications. First, the cinemas surveyed had either two or three screens, which decreases the probability of achieving full seating full seating capacity at all screens. Second, each turnover of patrons at each screen creates congestion and conflicting demand for spaces (as arriving customers wait for patrons of the earlier show to depart).

Hourly parking accumulations relative to the daily peak hour are stable and are very stable to the relative popularity of certain show times. Cinemas that operate during the weekday afternoons show parking demand to reach approximately 70% of peak parking accumulations by 1:00 P.M.. However, cinemas that operate during evening hours only on weekdays would generate afternoon parking demand only on weekends.

Cinema parking demand also has substantial seasonal variation. Variations are large, but cinemas featuring the most recently released or heavily promoted films follow a more or less predictable pattern. Three seasonal peaks tend to occur, corresponding to the seasons of new film releases and students' vacation periods. The largest peak occurs in June and July, followed by a slightly lower post-Christmas peak and an early fall peak. Because of the size of the proposed theatre and the parking intensity associated with theatres, the cinema is expected to be the controlling land use on the site. However, the critical factor at this point appears to be the expected afternoon theatre schedule and the expected patronage level for afternoon shows. ULI data have indicated an expected attendance level at 70% of peak for weekdays, a figure which we have questioned from an empirical standpoint. Because the theatre may occasionally place a heavy demand on the parking facilities on weekday afternoons, it would be desirable to negotiate a lease restricting afternoon showings.

RESIDENTIAL DEMAND

Because the residential units are not considered to be associated with the balance of the development, and residents will therefore have

their own parking spaces, the residential parking demand will not be considered in the shared parking study and calculations.

CITY OF MADISON REQUIREMENTS

The City of Madison Zoning Ordinance stipulates that the minimum parking requirements are as follows:

Offices (professional)	One space per 300 sq. ft. of Gross Leasable Area (GLA).
Retail	One space per 300 sq. ft. of GLA
Restaurant	Parking equal to 10% of seating capacity.
Cinema	One space per four seats for less than 450 seats, one space per six seats for 450 seats or more.

Although the requirements for retail and restaurant uses are less than industry standards, they are adequate when combined with other uses. In fact the City appears to be cognizant of the effects of shared parking and its benefits in reducing land consumption for parking.

PARKING CALCULATIONS

To facilitate the calculation of anticipated parking requirements, the ULI data and attendant methodology was incorporated in a spreadsheet. (A demonstration shared parking calculation is in Appendix M.) The preliminary inputs provided by the client for analysis are:

Office:	100,000 square feet
Retail	37,000 square feet
Restaurant	5,000 square feet
Cinema	1,500 seats (six screens)

Based in the above development plans, and calculating parking demand for every hour of both weekdays and Saturdays, as well as each month, the maximum parking demand of 711 stalls was found to occur on a weekday in June, at 2:00 P.M., as shown in Exhibit 6. Obviously, intensive theater attendance is required to realize this level of demand. The peak demand

EXHIBIT 6
PROJECTED PARKING DEMAND: SHARED PARKING

Month	Weekday	Saturday	MAXIMUMS:	
January	659	548	Month	Weekday
February	604	453	June	711
March	567	382	July	711
April	619	472	Month	Saturday
May	622	477	June	621
June	711	621	July	621
July	711	621		
August	623	471		
September	646	511		
October	620	466		
November	574	380		
December	606	406		

for Saturday, 621 cars at 8:00 P.M., also occurs in June, reflecting the popularity of movies in June and July. Exhibit 7 illustrates actual hourly projections for weekdays and Saturdays in June. Exhibit 8 contains graphs of the total hourly parking demand for June and July.

CITY OF MADISON MINIMUMS

The City of Madison minimum parking methodology mandates the following levels of parking:

Office:	100,000 GLA/300 GLA per stall	=	333 stalls
Retail:	37,000 GLA/300 GLA per stall	=	123 stalls
Restaurant:	200 seats x 10% of capacity	=	20 stalls
Cinema:	1,500 seats/6 seats per stall	=	250 stalls
			<u>726 stalls</u>
ULI Shared Parking Requirements:			711 stalls
Difference:			<u>15 stalls</u>

The excess of City parking requirements over ULI indicated parking requirements is just 15 spaces: about 2%. Thus, although the dynamic model of shared parking identified a need for just 711 parking spaces, the static City of Madison requirements arrive at virtually the same numbers by adoption of below-industry standard requirements.

EXHIBIT 7
PROJECTED PARKING DEMAND FOR PEAK MONTHS OF JUNE AND JULY

Hourly Demand by Type of Use

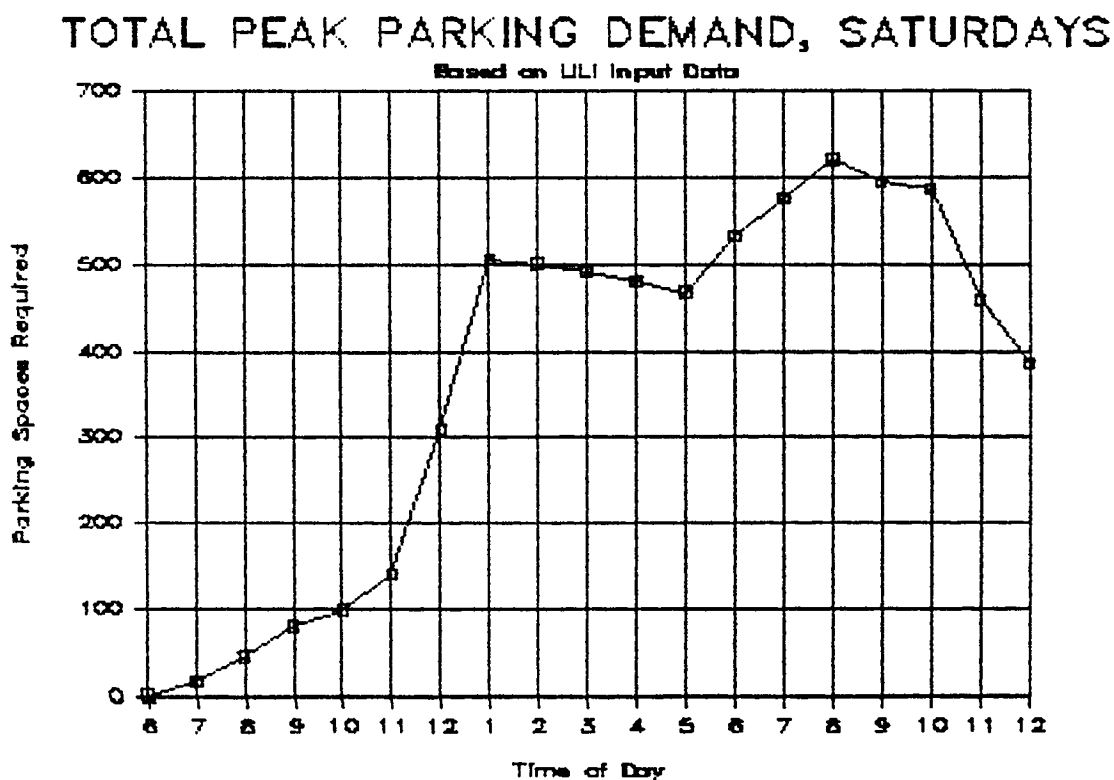
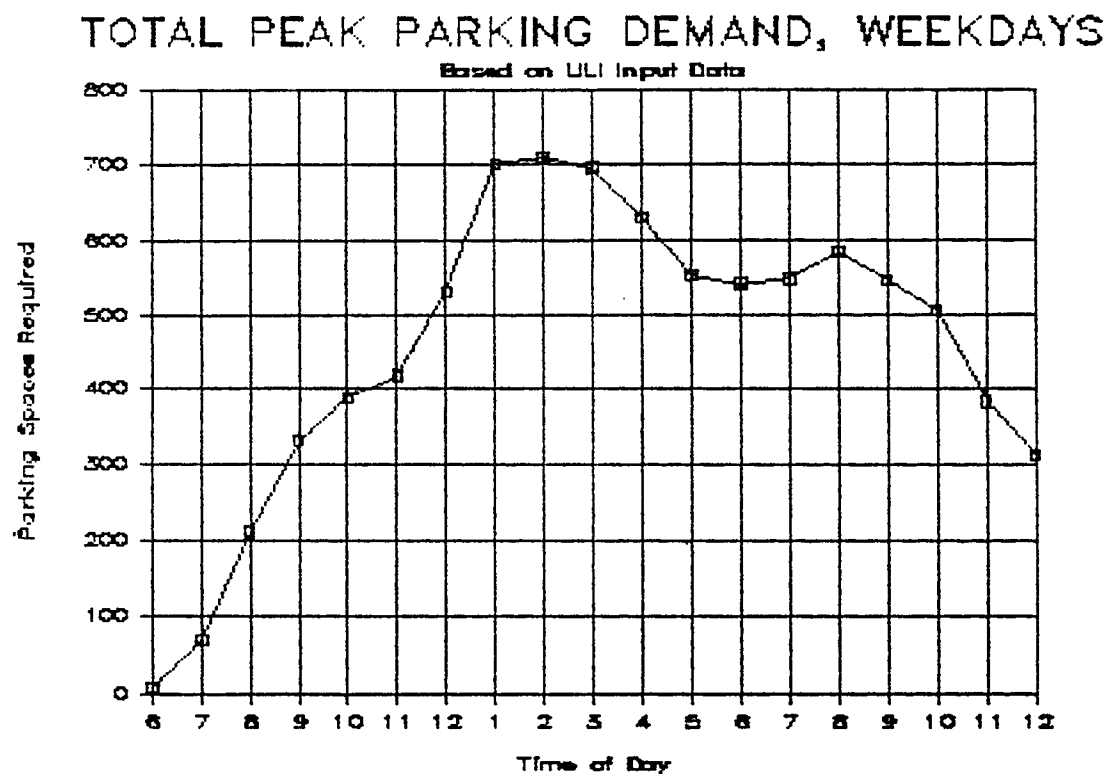
Weekdays

Time	Office	Retail	Rest.	Cinema	Resid.	TOTAL
6:00 a.m.	9	0	0	0	0	9
7:00 a.m.	60	8	2	0	0	70
8:00 a.m.	189	18	5	0	0	212
9:00 a.m.	279	42	10	0	0	331
10:00 a.m.	300	68	20	0	0	388
11:00 a.m.	300	87	30	0	0	417
12:00 Noon	270	97	50	113	0	530
1:00 p.m.	270	100	70	263	0	703
2:00 p.m.	291	97	60	263	0	711
3:00 p.m.	279	95	60	263	0	697
4:00 p.m.	231	87	50	263	0	631
5:00 p.m.	141	79	70	263	0	553
6:00 p.m.	69	82	90	300	0	541
7:00 p.m.	21	89	100	338	0	548
8:00 p.m.	21	87	100	375	0	583
9:00 p.m.	9	61	100	375	0	545
10:00 p.m.	9	32	90	375	0	506
11:00 p.m.	0	13	70	300	0	383
12:00 Mid.	0	0	50	263	0	313

Saturdays

Time	Office	Retail	Rest.	Cinema	Resid.	TOTAL
6:00 a.m.	0	0	0	0	0	0
7:00 a.m.	10	3	2	0	0	15
8:00 a.m.	30	11	3	0	0	44
9:00 a.m.	40	33	6	0	0	79
10:00 a.m.	40	50	8	0	0	98
11:00 a.m.	50	81	10	0	0	141
12:00 Noon	50	94	30	135	0	309
1:00 p.m.	40	105	45	315	0	505
2:00 p.m.	30	111	45	315	0	501
3:00 p.m.	20	111	45	315	0	491
4:00 p.m.	20	100	45	315	0	480
5:00 p.m.	10	83	60	315	0	468
6:00 p.m.	10	72	90	360	0	532
7:00 p.m.	10	67	95	405	0	577
8:00 p.m.	10	61	100	450	0	621
9:00 p.m.	0	44	100	450	0	594
10:00 p.m.	0	42	95	450	0	587
11:00 p.m.	0	14	85	360	0	459
12:00 Mid.	0	0	70	315	0	385

EXHIBIT 8
GRAPHS OF TOTAL HOURLY PARKING DEMAND FOR PEAK MONTHS OF JUNE AND JULY



CONCLUSIONS

Combining office with retail space results in competition for parking between retail and office users on weekdays (which means both must be provided for), but opportunity for shared parking occurs when the increase in weekend retail parking demand is accommodated by the decrease in weekend office parking demand. Combining retail with cinemas results in the midday peak in retail parking demand complementing the evening peak in cinema demand on Saturdays. Most interesting, combining office and cinema uses results in reusing the daytime office parking by the evening and weekend moviegoers, but this synergy assumes cinemas do not operate daytime on weekdays (shows begin at 4:30 P.M. or so).

Of course, certain mixed-use land uses produce greater reductions in parking demand, exceeding those accounted for by different peak periods (i.e., "effects of captive market"). Such market synergy is possible in mixed-use developments because of on-site market support (office employees who also shop within the development) and improved market image and penetration (associated with the unique or prestigious environment of the development). Market synergy creates market demand greater than that occurring in developments with a single land use. However, this increased demand does not mean an increase in parking requirements, in fact, it may result in a reduction because of the reduced demand for parking spaces per unit of land use as the result of land uses within walking distance of each other, which allows individuals to patronize more than one establishment on a single trip.

Characteristics of multipurpose shopping, shared spaces, and rate of parking space turnover distinguish the parking requirements of shopping centers from those of freestanding commercial enterprises. The generally accepted parking index for small shopping centers is 4.0 spaces per 1,000 square feet of GLA. Based on 400 feet per car, (taking both parking space and access driveways into account), the index is roughly equivalent to an area ratio of about 1.6 square feet of parking area per square foot of building area. The methodology is based on standards that serve patron and employee needs at the 20th busiest hour of the year, and allow a surplus during all but 19 hours of the remainder of more than 3,000 hours

during which a typical center is open annually. During 19 hours of the year, which are distributed over 10 peak shopping days, some patrons will not find parking when they first enter the lot (the standard includes parking spaces for employees and incorporates a reserve for traffic movement within the parking area).

FINAL RECOMMENDATIONS

Most U.S. cities today have outdated parking requirements on their books; Madison appears to be an exception. Parking minimums contained in the Madison Zoning Ordinance (revised 1/22/81) are less than commonly accepted industry parking ratios, thus shared parking analysis offers no significant savings at the proposed levels of development. However, as office space is increased on the site, analysis will begin to show an increasing gap between shared parking figures and City requirements. Because the City mandates 3.33 stalls per 1,000 GLA, while ULI accepts 3.0 stalls per 1,000 GLA, an increase in office employees would result in a greater increase in parking requirements under the City methodology. At the planned levels of development, however, it does not appear that saving 15 stalls of parking is justified in light of the delay, aggravation and expense that would be incurred in gaining the variance.

It appears that the theater is the dominant land use in terms of parking demand, requiring more stalls for 24,000 square feet of GLA than does 100,000 GLA of office space. Therefore, inclusion of a theater on the Big Sky site will need to be weighed against the opportunity cost of using the land, both the building pad and the parking area, for a different use.

APPENDICES

APPENDIX A

Film Industry Economics

Wholesale distribution of film to exhibitors is considered an oligopoly; retail screening of film in Madison is competitive, though oligopoly tendencies are becoming more pronounced. Four regional and national movie houses (Marcus, General Cinema, American MultiCinema, and 20th Century Corporation) control more than 95% of area screens. It is not surprising then that of 27 main attractions for the week March 15-22, only six films were featured at more than one screen; on March 23-24, eight films were so featured.

Small operators typically run the older, economically obsolete theaters such as the Strand, the Orpheum, or the Majestic (the latter two seat more than 1,200 people, the Strand seats more than 500). These larger, older theaters are marginally competitive--having one screen, excess unusable space, inadequate parking, and minimal bidding leverage. Operators with more screens outbid one-location operators; for the higher price paid, the multi-screen bidder gets extra film prints at nominal cost. The trend for movie houses is towards multi-screen theaters containing smaller seating capacity and giving consumers greater selection tastes at one easily-accessible location. We expect older theatres to add screens or convert to other uses (cease theater operation).

The tendency towards oligopoly is symbolized by the rise of the "multiplex." A multiplex is defined as a multi-screened theater complex featuring anywhere from 3 to 10 movies at one time¹. Multiplexes sharply reduce costs to the theater owner. All screens share ticket booth, highly-automated projection booth, manager, and concession stand.

1. Alex Ben Block, "Now Playing: Exhibitor Power"; Forbes, (April 8, 1985), pp. 54-59.

Further, the multiplex enjoys benefits of spill-over from sell-outs and latecomers: patrons, finding the feature they originally came to see sold out, will often go to the next feature playing at the multiplex; similarly, latecomers, who do not wish to see a film after it has started, will instead go to another film at the same multiplex. Both phenomena do not accrue to the benefit of a single screen theater.

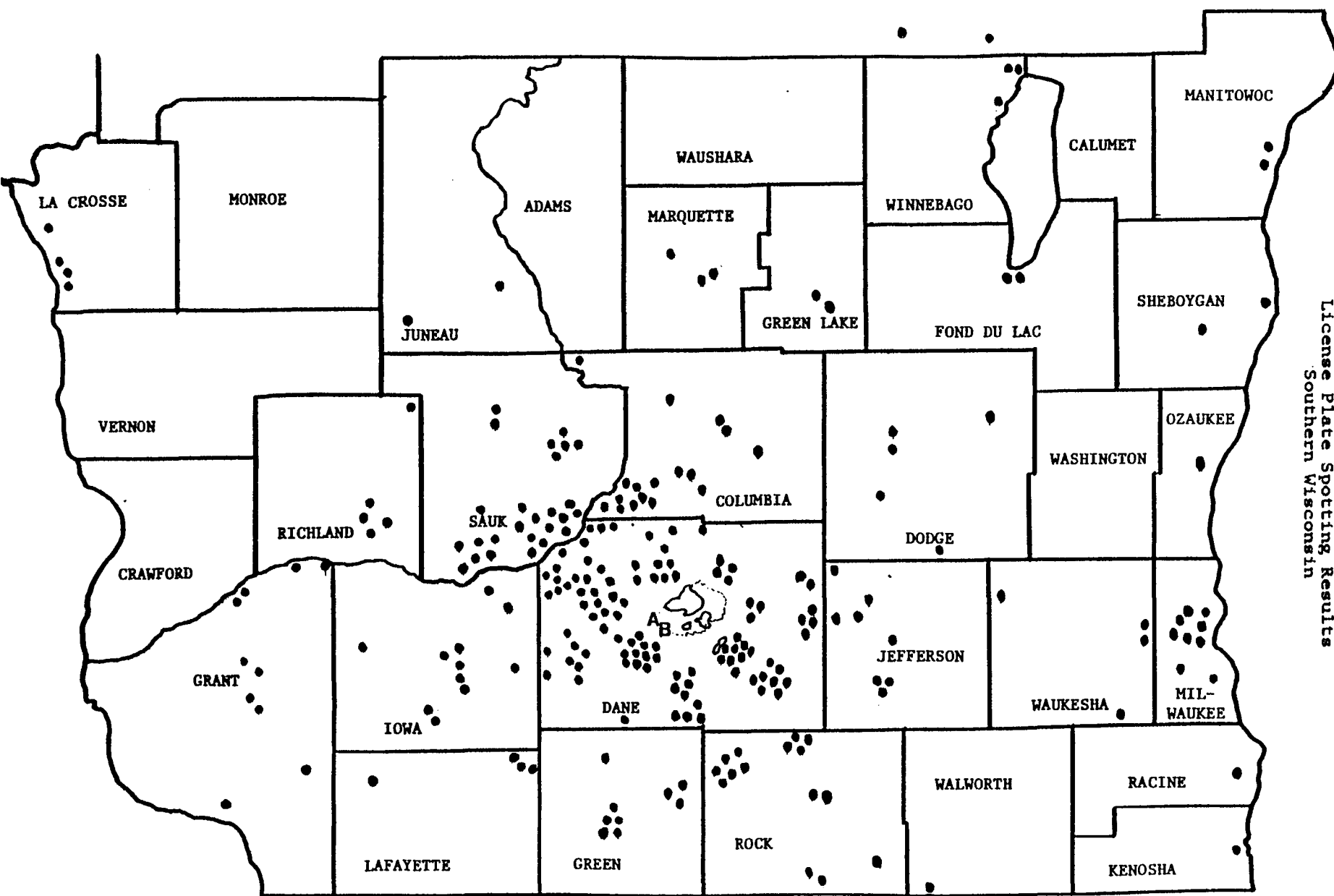
Rise of the multiplex has transformed the exhibitor's economics on both the revenue and cost side. Margin is widened by lower unit costs created by the aforementioned scale and sharing; margin is further widened by the theater's increased odds of booking a hit. Reacting to these economies, the major theater chains are expanding. Two of America's largest exhibitors, American MultiCinema and General Cinemas, are adding 10% to 15% new screens a year to existing stock¹.

The growing strength of the national exhibitors also changes the bargaining position of exhibitors relative to the film distributors--whose prior oligopoly may be weakening. Multiplexes, backed by national exhibitors, are able to leverage their film bidding. For a certain rental fee, a multi-screen operator (in different geographical markets) is able to receive extra prints from the distributor at a nominal cost.

Together, widening margins brought about by lower operating costs, and volume-leveraged bidding make the multiplex far more profitable than the older, one-screen barns. The older theaters face higher operating costs due the diseconomies of an older structure and absence of leveraged bidding. These older theaters will diminish in numbers as margins grow thinner.

1. Ibid, Alex Ben Block.

APPENDIX B
License Plate Spotting Results
Southern Wisconsin

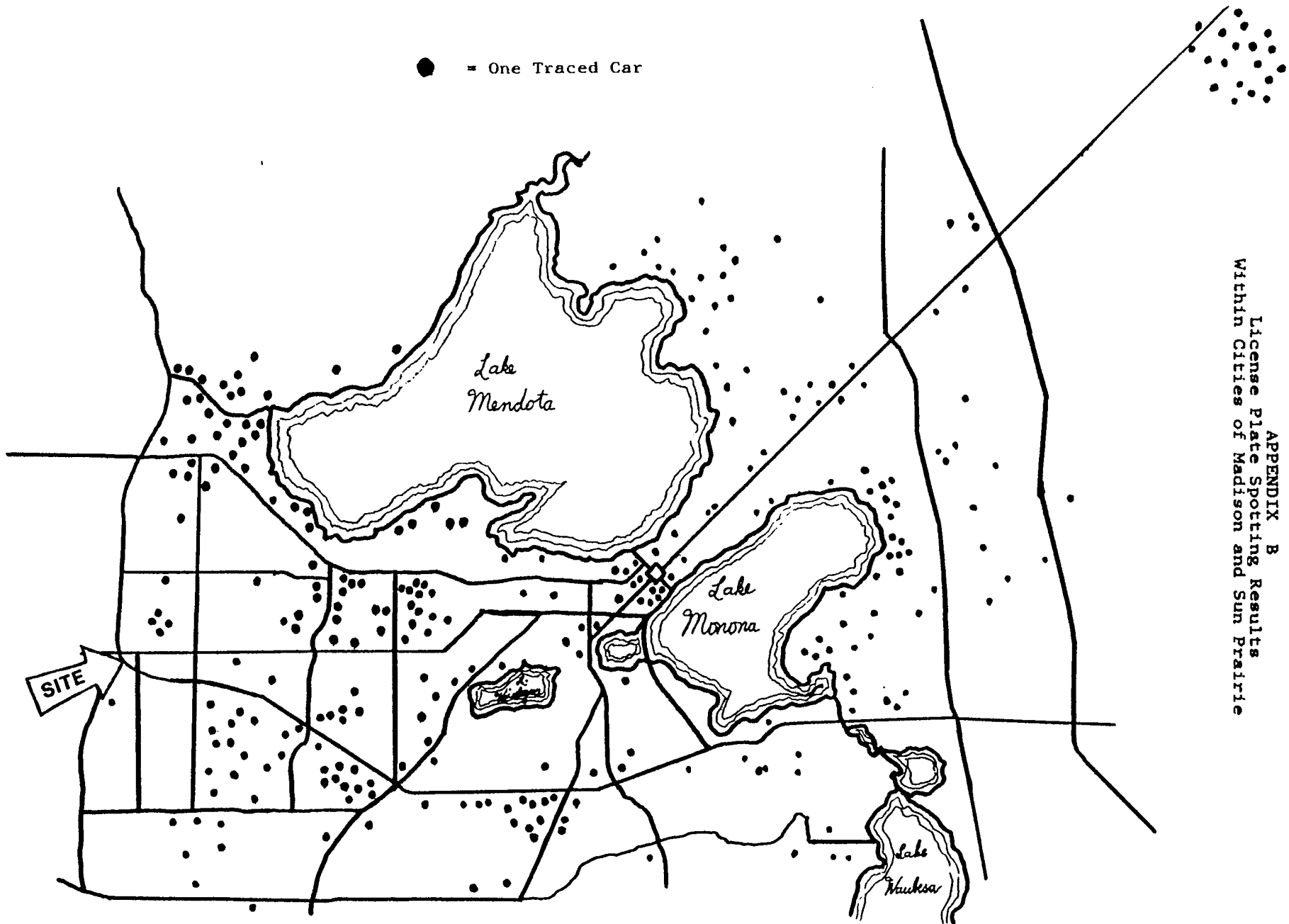


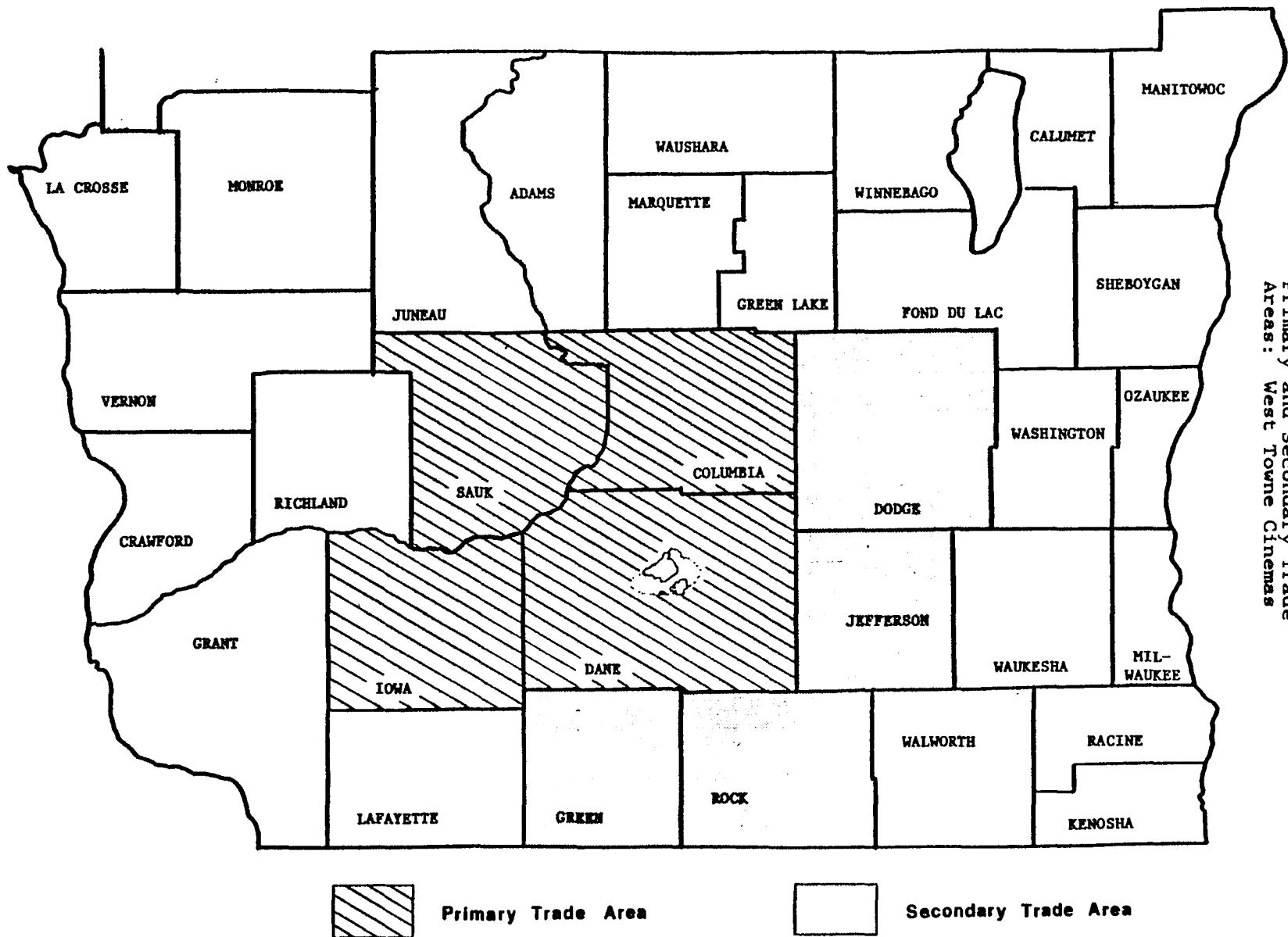
A: Subject

B: West Towne

● = One Traced Car

APPENDIX B
License Plate Spotting Results
Within Cities of Madison and Sun Prairie



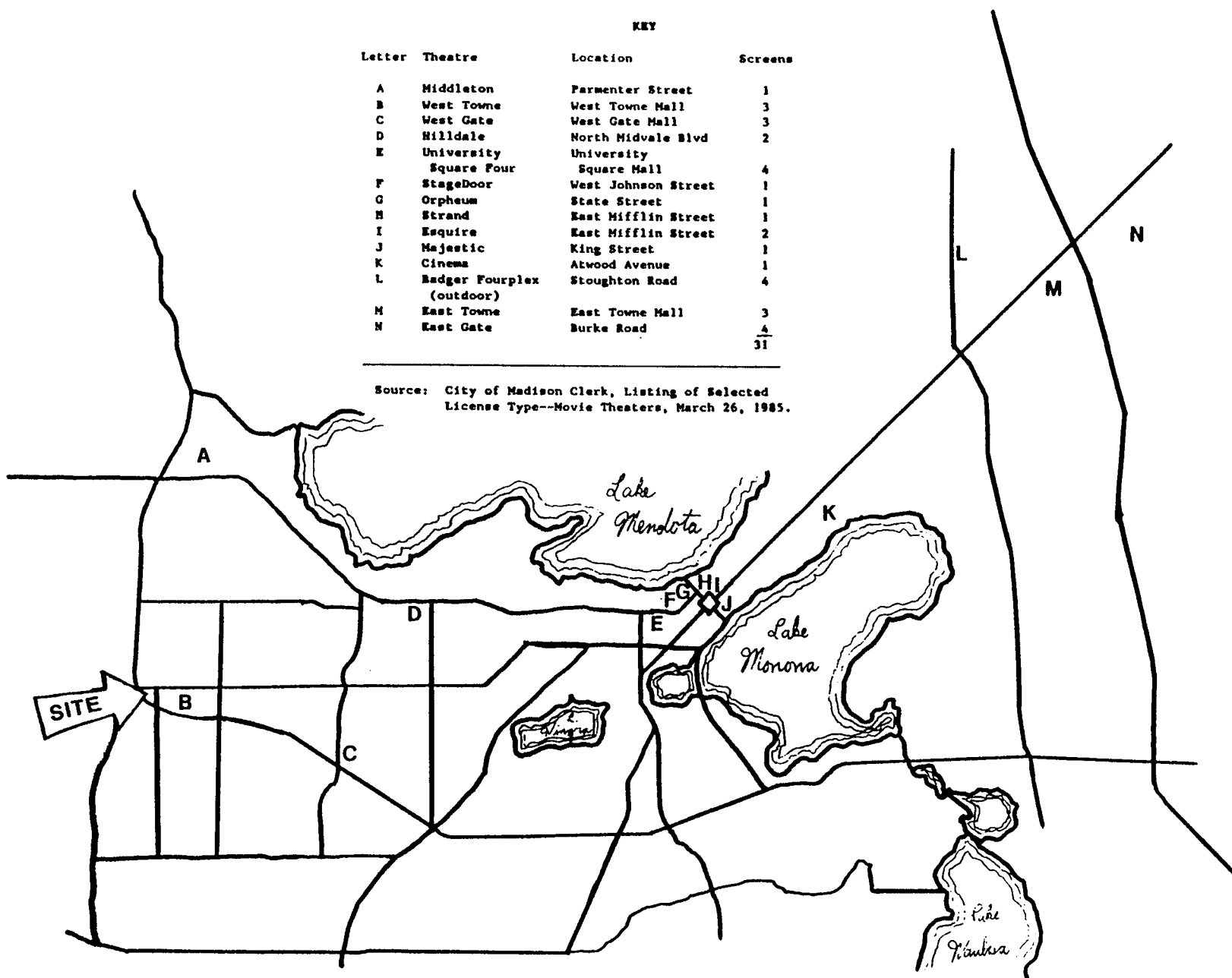


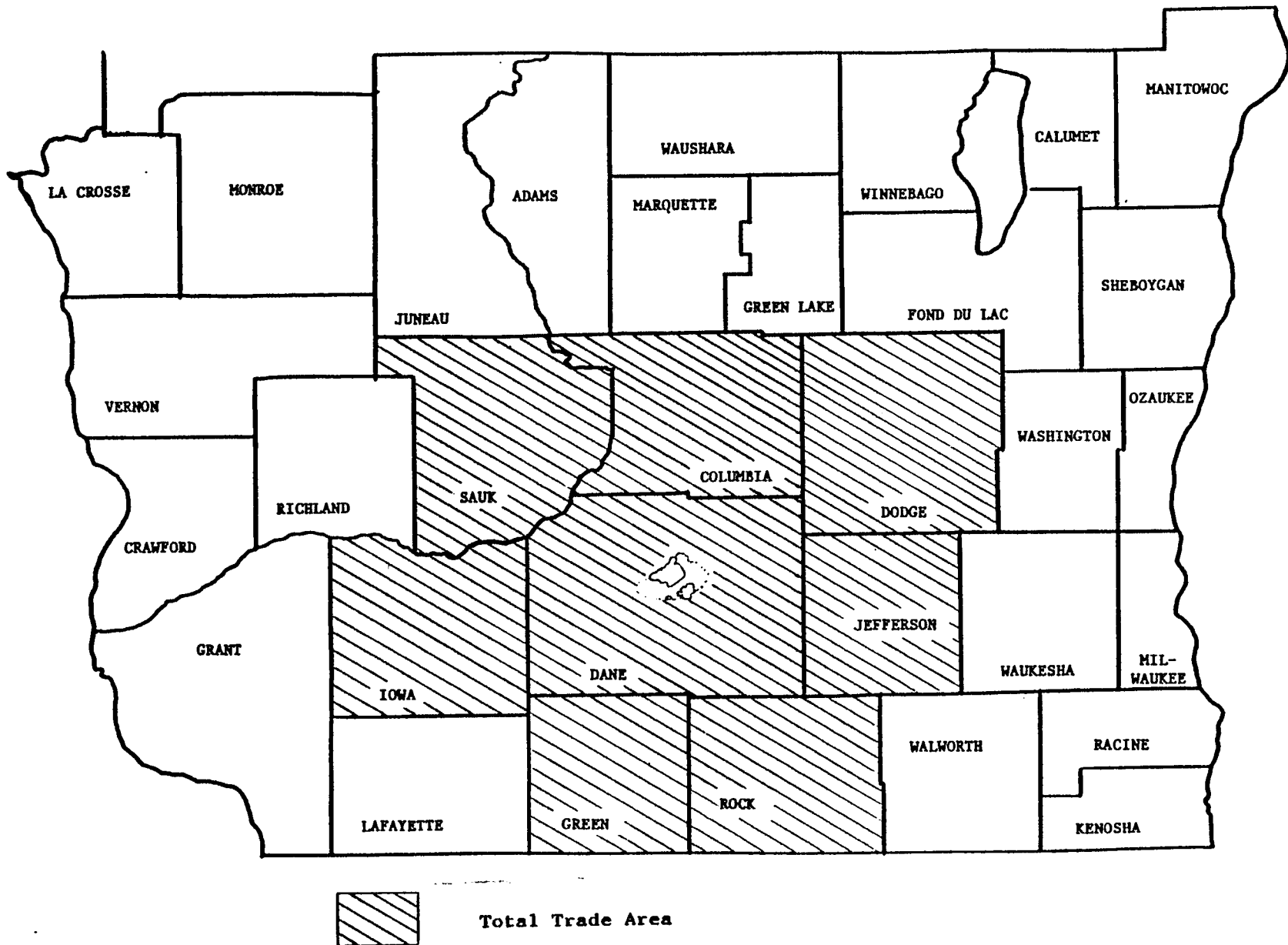
APPENDIX C
Primary and Secondary Trade
Areas: West Towne Cinemas

APPENDIX D
Location of Competitive Supply

KEY			
Letter	Theatre	Location	Screens
A	Middleton	Parmenter Street	1
B	West Towne	West Towne Mall	3
C	West Gate	West Gate Mall	3
D	Hilldale	North Midvale Blvd	2
E	University	University Square Mall	4
F	StageDoor	West Johnson Street	1
G	Orpheum	State Street	1
H	Strand	East Mifflin Street	1
I	Esquire	East Mifflin Street	2
J	Majestic	King Street	1
K	Cinema	Atwood Avenue	1
L	Badger Fourplex (outdoor)	Stoughton Road	4
M	East Towne	East Towne Mall	3
N	East Gate	Burke Road	4
			<u>31</u>

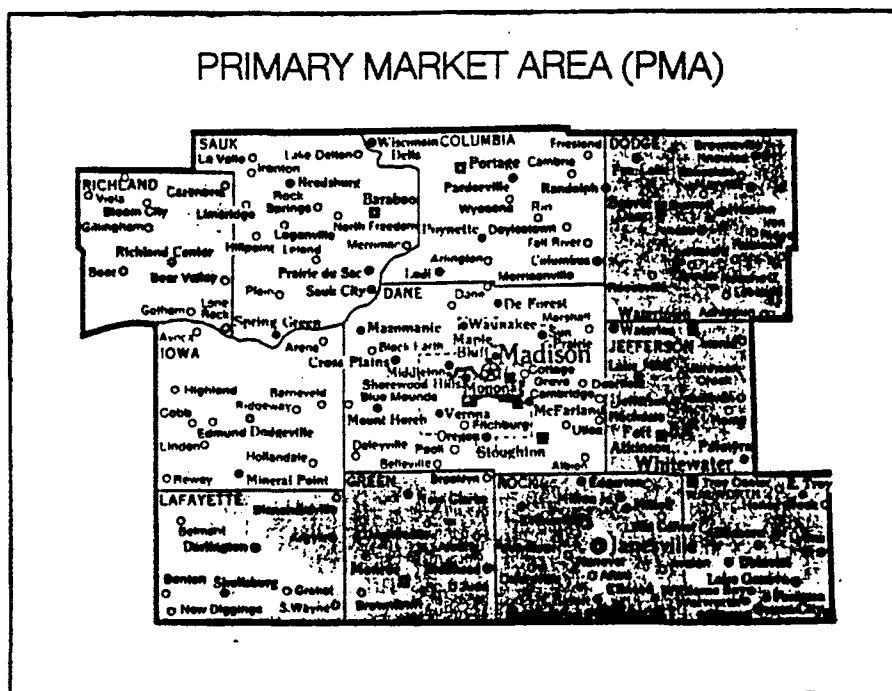
Source: City of Madison Clerk, Listing of Selected License Type--Movie Theaters, March 26, 1985.





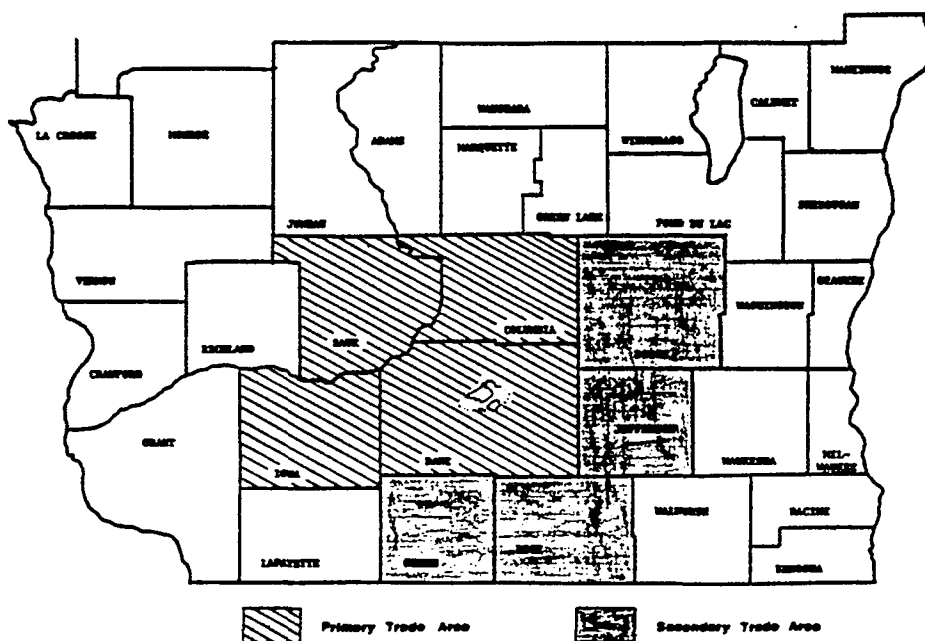
APPENDIX E
Cumulative Trade Area--All County Screens

APPENDIX F
Primary Market Area
Madison Newspapers Incorporated vs. West Towne Cinemas



Primary Market Area for Madison Newspapers

Source: Madison Newspapers, Inc.



Primary and Secondary Trade Areas for West Towne Theater

Source: Research by authors

APPENDIX G
Roster of Competitive Theaters

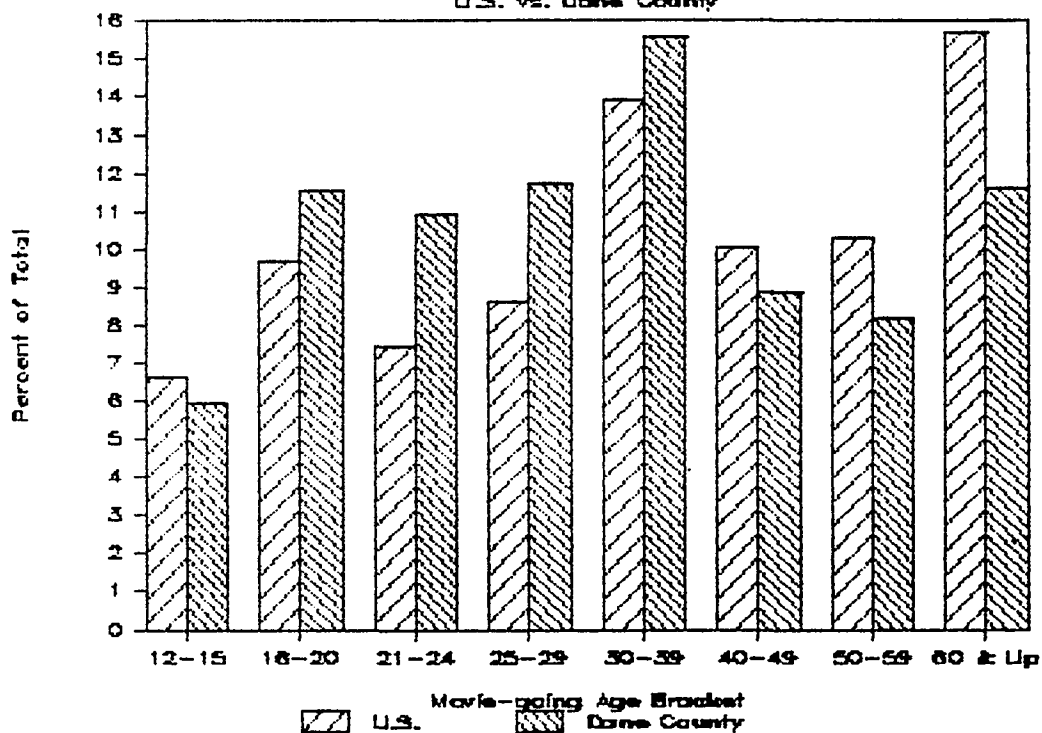
<u>Theatre</u>	<u>Location</u>	<u>Estimated Seating</u>	<u>Screens</u>	<u>Operator</u>
Cinema	Atwood Avenue	700	1	Unknown
East Towne	East Towne Mall	1,200	3	General Cinemas
East Gate	Burke Road	1,000	3	Marcus
Esquire	East Mifflin Street	700	2	Marcus
Hilldale	North Midvale Blvd	1,150	2	20th Century
Majestic	King Street	700	1	C. T. Corporation
Middleton	Parmenter Street	350	1	20th Century
Orpheum	State Street	1,300	1	20th Century
Stage Door	West Johnson Street	400	1	20th Century
Strand	East Mifflin Street	700	1	20th Century
University Square Four MultiCinema	University Square Mall	1,000	4	American
West Towne	West Towne Mall	750	3	General Cinema
West Gate	West Gate Mall	550	2	Marcus
Badger Fourplex	Stoughton Road	1,500	4	20th Century
Big Sky	Mineral Point Road	700	1	20th Century

Source: City of Madison Clerk, Listing of Selected License Type--Movie Theaters, March 26, 1985.

APPENDIX H
Age Cohort Graphs

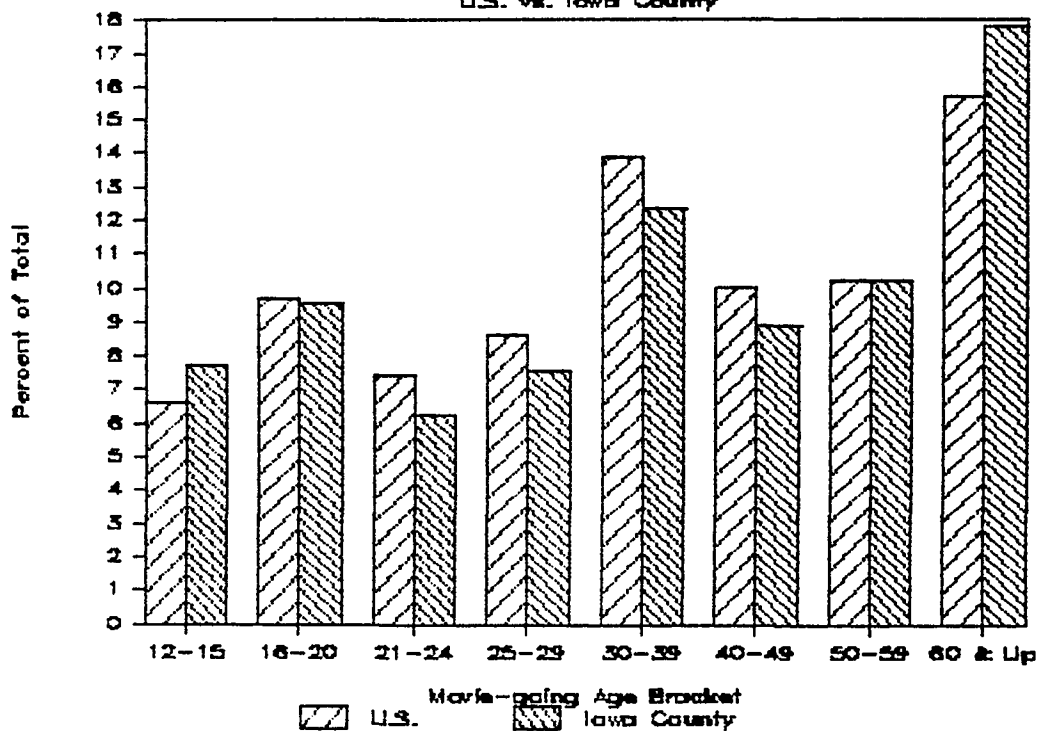
AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Dane County

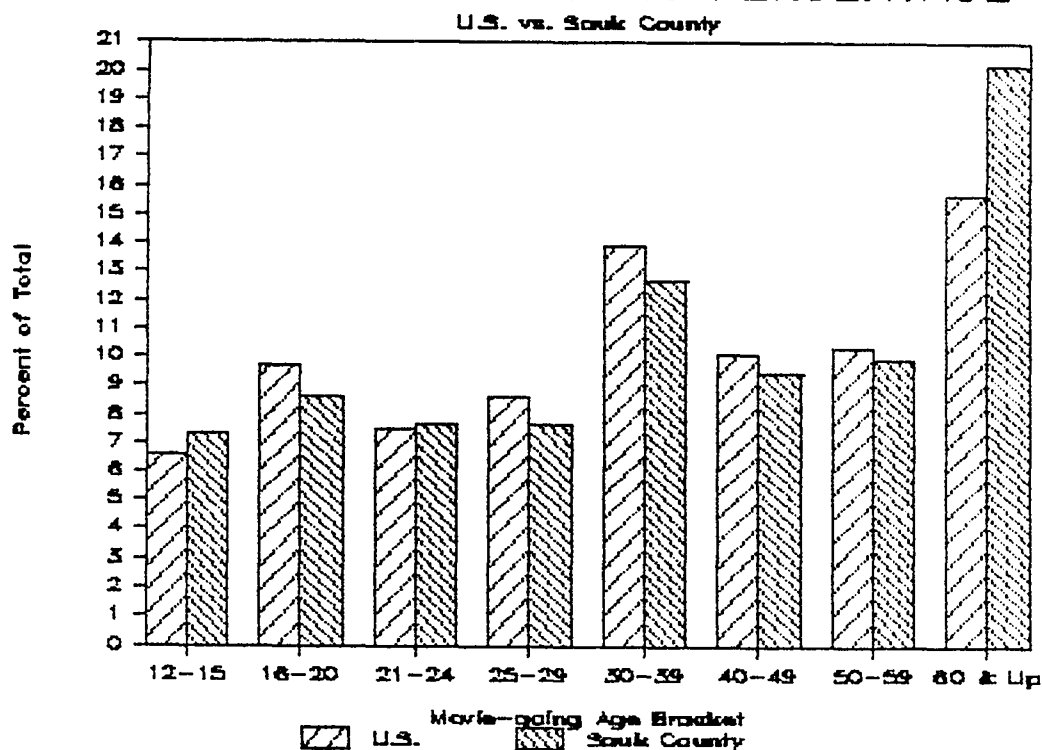


AGE DISTRIBUTION BY PERCENTAGE

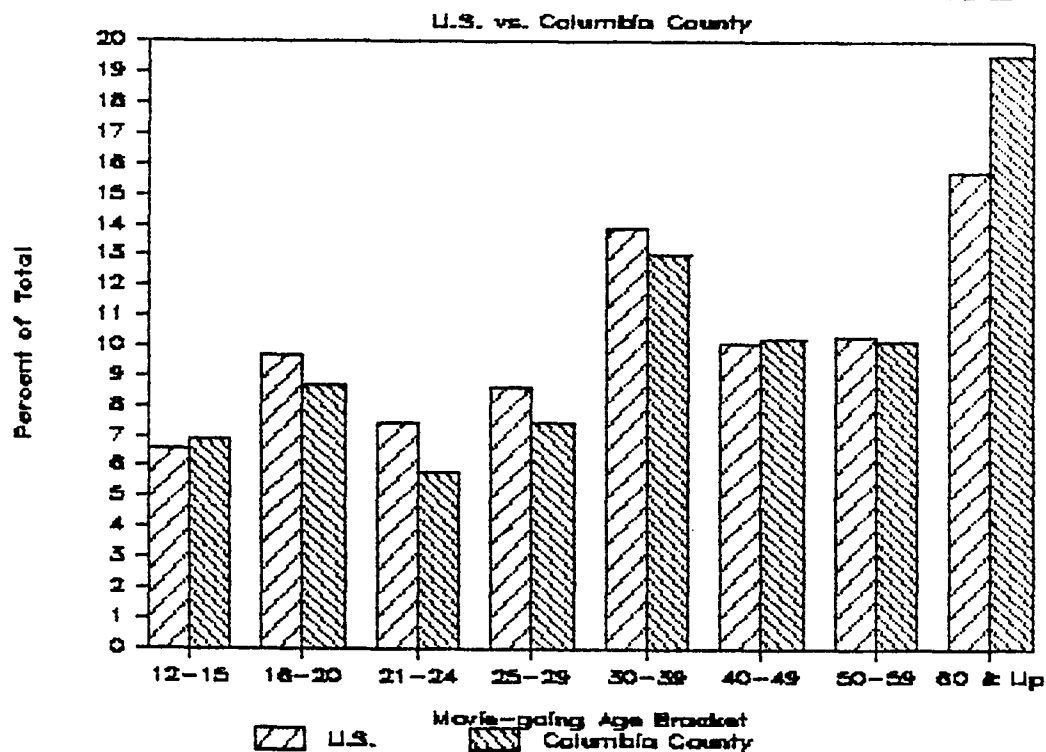
U.S. vs. Iowa County



AGE DISTRIBUTION BY PERCENTAGE

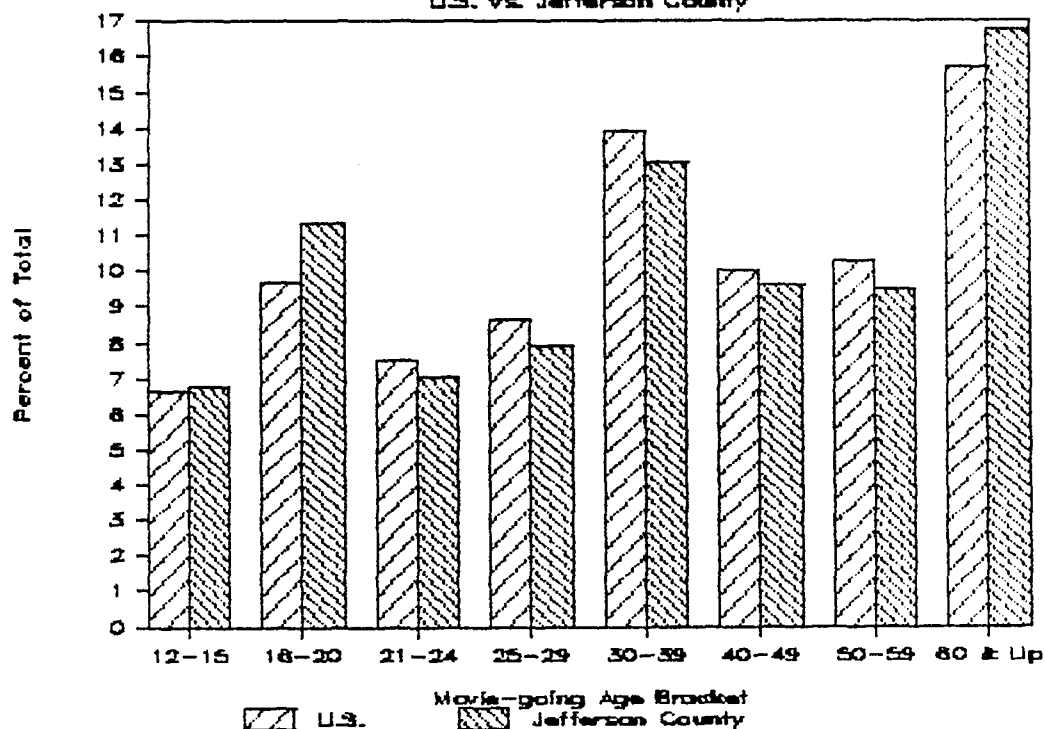


AGE DISTRIBUTION BY PERCENTAGE



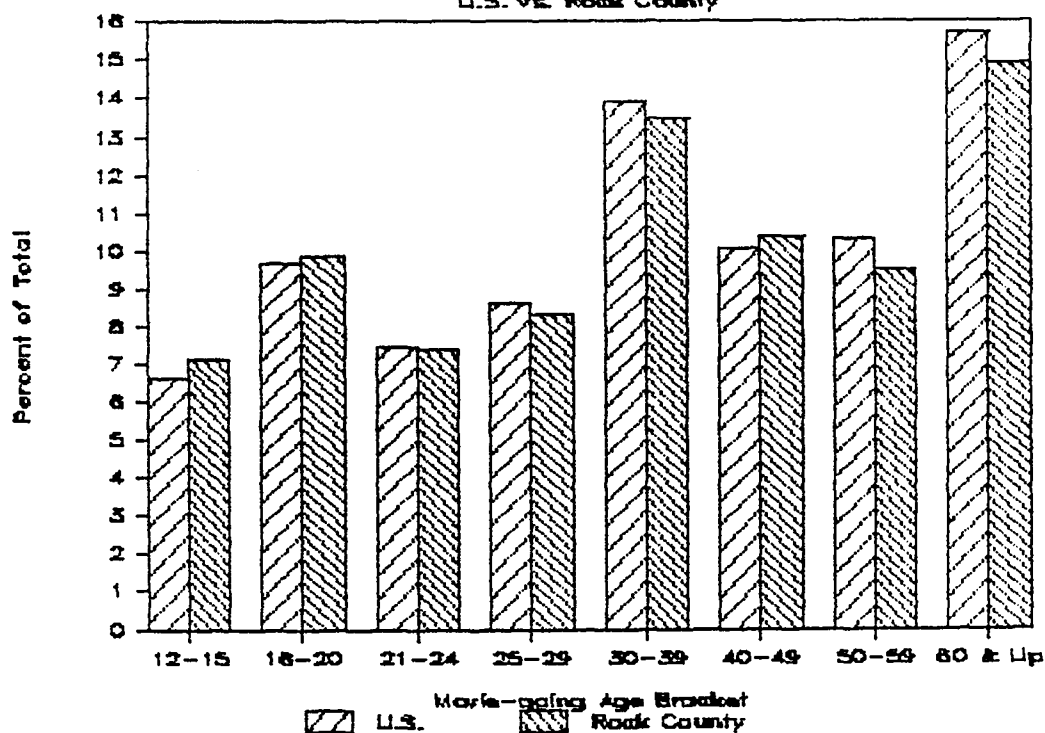
AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Jefferson County



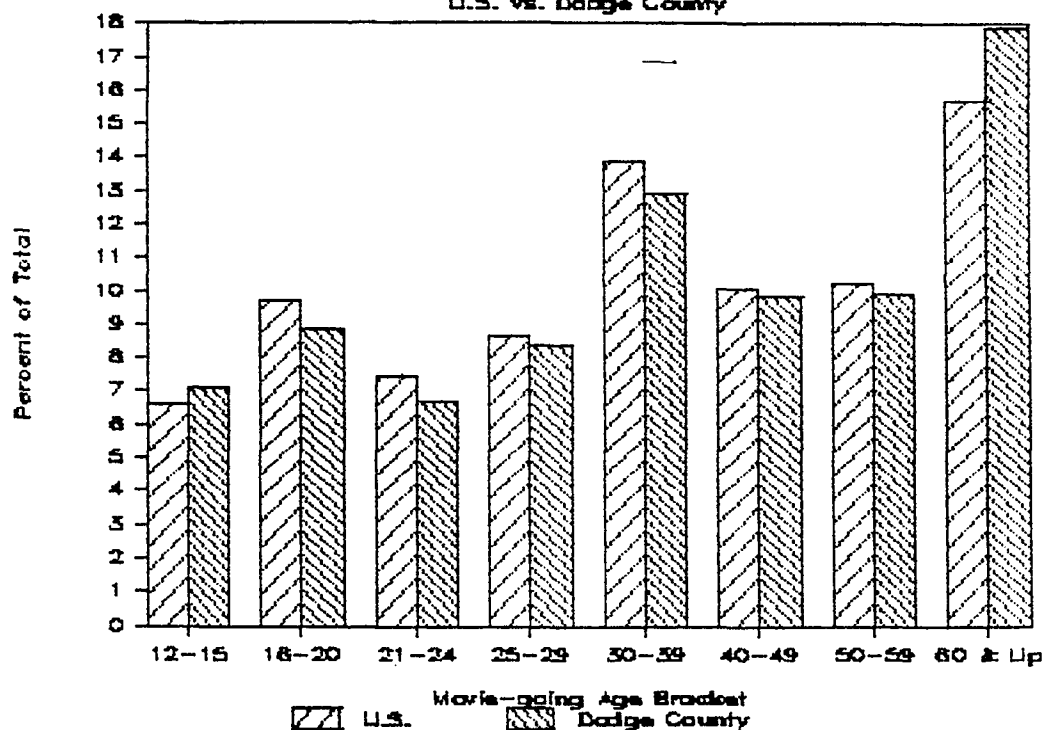
AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Rock County



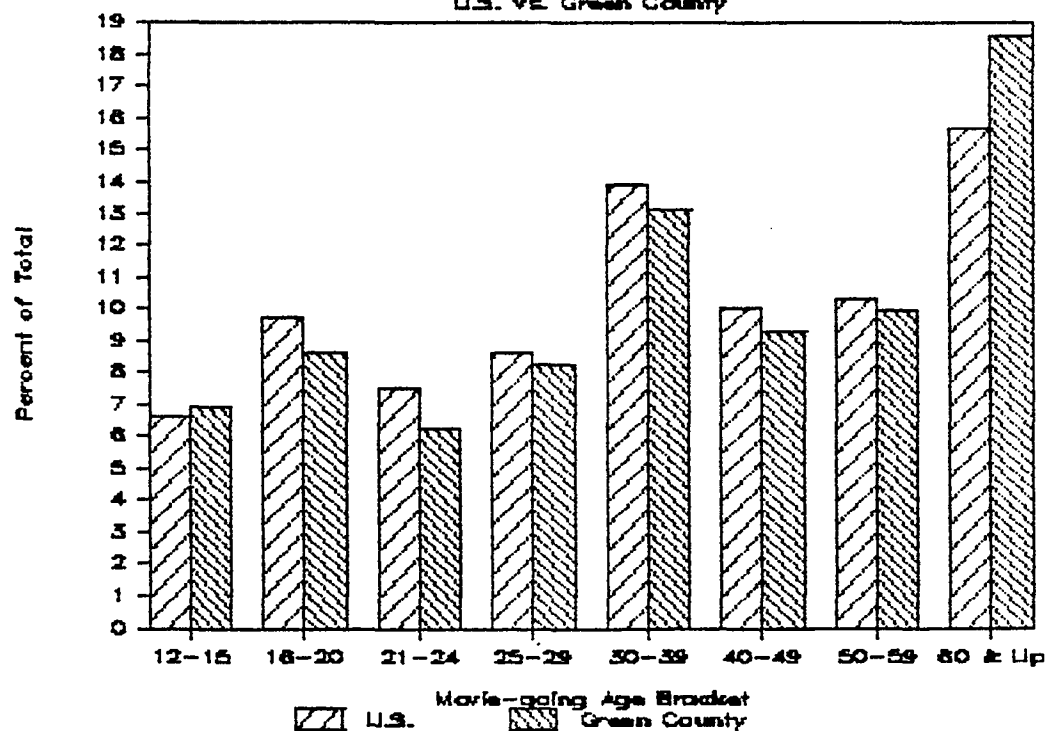
AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Dodge County



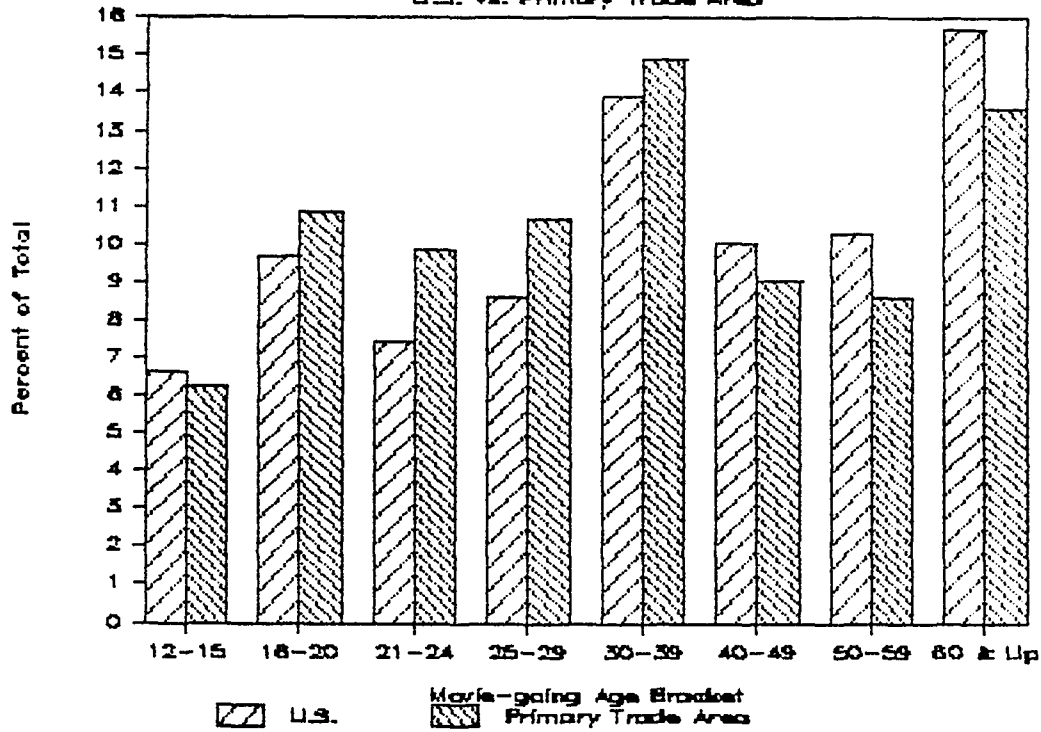
AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Green County



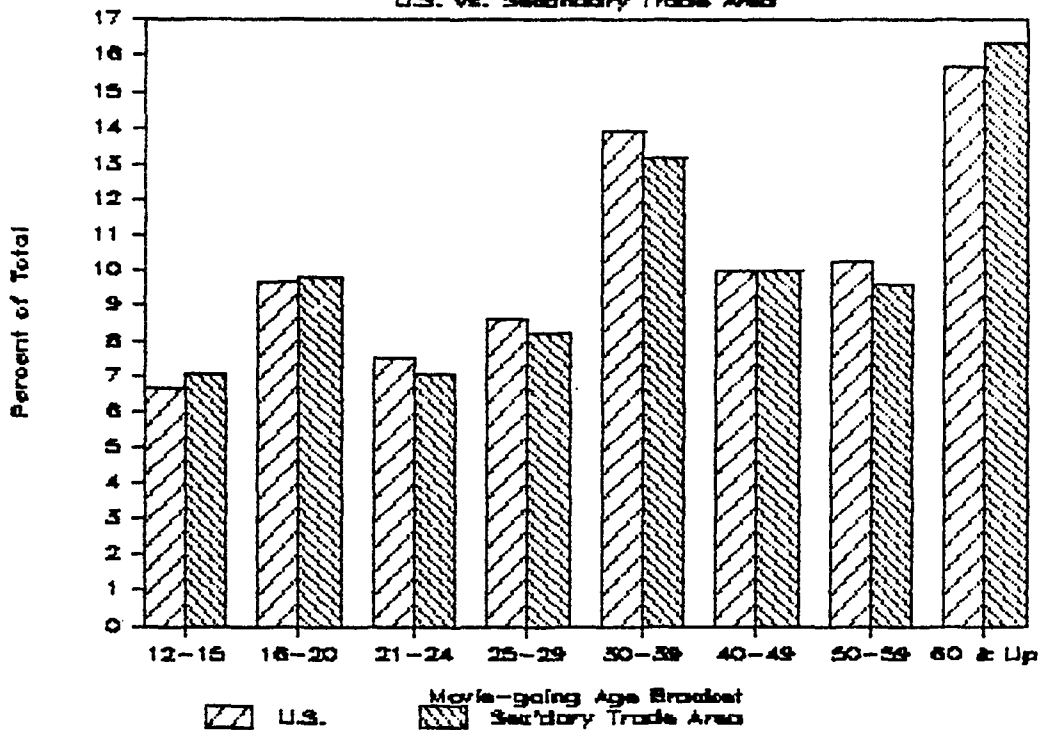
AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Primary Trade Area



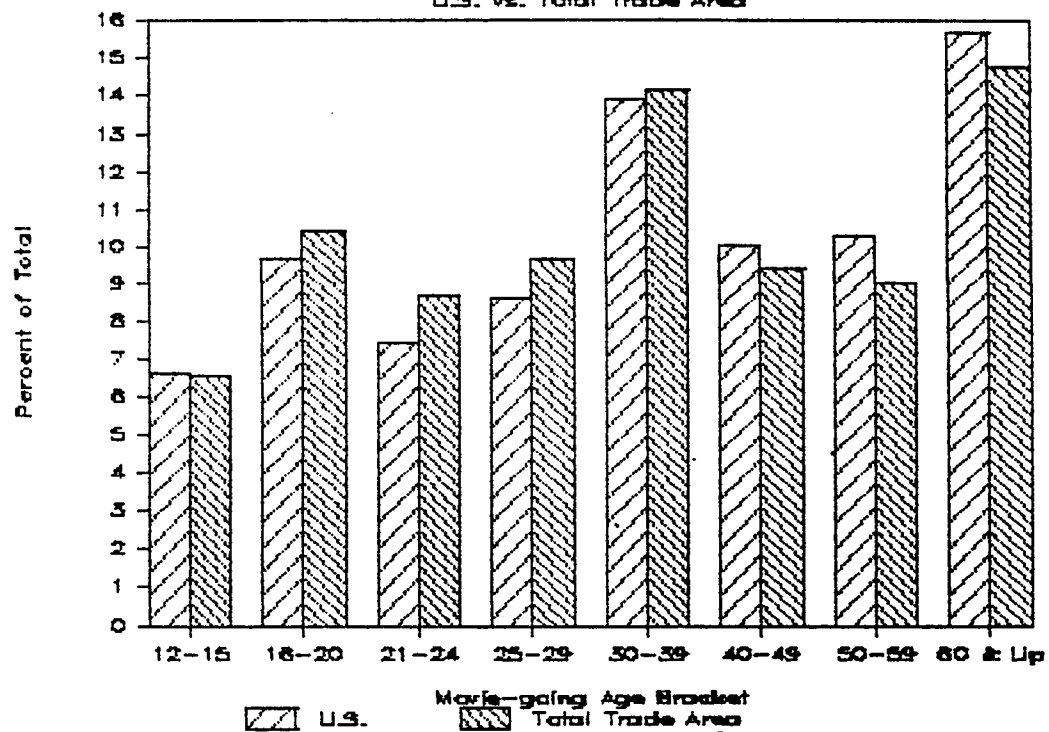
AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Secondary Trade Area



AGE DISTRIBUTION BY PERCENTAGE

U.S. vs. Total Trade Area



AGE CHARACTERISTICS OF TRADE AREA

Secondary Trade Area

By U.S. Census Age Category:

SECONDARY MARKET AREA

	United States	Jefferson	Rock	Dodge	Green	PRIMARY	SECONDARY	TOTAL
	226,545,805	66,152	139,420	75,064	30,012	430,038	310,648	740,686
Under 10	33,048,210	9,772	21,793	11,272	4,691	56,951	47,528	104,479
10 - 19	39,410,253	12,662	26,000	13,274	5,186	75,796	57,122	132,918
20 - 29	40,839,623	11,313	24,393	12,555	4,852	98,794	53,113	151,907
30 - 39	31,526,222	8,652	18,782	9,682	3,933	64,010	41,049	105,059
40 - 49	22,759,163	6,386	14,484	7,391	2,791	38,908	31,052	69,960
50 - 59	23,325,286	6,260	13,229	7,463	2,979	37,177	29,931	67,108
60 - 69	18,870,102	5,597	10,326	6,585	2,628	29,300	25,136	54,436
70 & Up	16,766,946	5,510	10,413	6,842	2,952	29,102	25,717	54,819
Under 10	15%	15%	16%	15%	16%	13%	15%	14%
10 - 19	17%	19%	19%	18%	17%	18%	18%	18%
20 - 29	18%	17%	17%	17%	16%	23%	17%	21%
30 - 39	14%	13%	13%	13%	13%	15%	13%	14%
40 - 49	10%	10%	10%	10%	9%	9%	10%	9%
50 - 59	10%	9%	9%	10%	10%	9%	10%	9%
60 - 69	8%	8%	7%	9%	9%	7%	8%	7%
70 & Up	7%	8%	7%	9%	10%	7%	8%	7%
Total:	100%	100%	100%	100%	100%	100%	100%	100%

By Variety Age Category:

	United States	Jefferson	Rock	Dodge	Green	PRIMARY	SECONDARY	TOTAL
	226,545,805	66,152	139,420	75,064	30,012	430,038	310,648	740,686
12 - 15	15,004,855	4,486	9,974	5,338	2,078	26,877	21,876	48,753
16 - 20	21,945,326	7,513	13,725	6,661	2,584	46,697	30,483	77,180
21 - 24	16,931,604	4,644	10,260	5,004	1,888	42,362	21,796	64,158
25 - 29	19,520,919	5,221	11,594	6,309	2,465	45,923	25,589	71,512
30 - 39	31,526,222	8,652	18,782	9,682	3,933	64,010	41,049	105,059
40 - 49	22,759,163	6,386	14,484	7,391	2,791	38,908	31,052	69,960
50 - 59	23,325,286	6,260	13,229	7,463	2,979	37,177	29,931	67,108
60 & Up	35,637,048	11,107	20,739	13,427	5,580	58,402	50,853	109,255
12 - 15	7%	7%	7%	7%	7%	6%	7%	7%
16 - 20	10%	11%	10%	9%	9%	11%	10%	10%
21 - 24	7%	7%	7%	7%	6%	10%	7%	9%
25 - 29	9%	8%	8%	8%	8%	11%	8%	10%
30 - 39	14%	13%	13%	13%	13%	15%	13%	14%
40 - 49	10%	10%	10%	10%	9%	9%	10%	9%
50 - 59	10%	9%	9%	10%	10%	9%	10%	9%
60 & Up	16%	17%	15%	18%	19%	14%	16%	15%
Total:	100%	100%	100%	100%	100%	100%	100%	100%

AGE CHARACTERISTICS OF TRADE AREA

Primary Trade Area

By U.S. Census Age Category:

PRIMARY MARKET AREA

	United States	Dane	Iowa	Sauk	Columbia	PRIMARY	SECONDARY	TOTAL
	226,545,805	323,545	19,802	43,469	43,222	430,038	310,648	740,686
Under 10	33,048,210	41,066	3,113	6,413	6,359	56,951	47,528	104,479
10 - 19	39,410,253	56,663	3,848	7,718	7,567	75,796	57,122	132,918
20 - 29	40,839,623	82,730	3,070	6,620	6,374	98,794	53,113	151,907
30 - 39	31,526,222	50,395	2,447	5,538	5,630	64,010	41,049	105,059
40 - 49	22,759,163	28,621	1,772	4,094	4,421	38,908	31,052	69,960
50 - 59	23,325,286	26,440	2,029	4,302	4,406	37,177	29,931	67,108
60 - 69	18,870,102	19,231	1,743	4,224	4,102	29,300	25,136	54,436
70 & Up	16,766,946	18,399	1,780	4,560	4,363	29,102	25,717	54,819
Under 10	15%	13%	16%	15%	15%	13%	15%	14%
10 - 19	17%	18%	19%	18%	18%	18%	18%	18%
20 - 29	18%	26%	16%	15%	15%	23%	17%	21%
30 - 39	14%	16%	12%	13%	13%	15%	13%	14%
40 - 49	10%	9%	9%	9%	10%	9%	10%	9%
50 - 59	10%	8%	10%	10%	10%	9%	10%	9%
60 - 69	8%	6%	9%	10%	9%	7%	8%	7%
70 & Up	7%	6%	9%	10%	10%	7%	8%	7%
Total:	100%	100%	100%	100%	100%	100%	100%	100%

By Variety Age Category:

	United States	Jefferson	Rock	Dodge	Green	PRIMARY	SECONDARY	TOTAL
	226,545,805	323,545	19,802	43,469	43,222	430,038	310,648	740,686
12 - 15	15,004,855	19,184	1,537	3,172	2,984	26,877	21,876	48,753
16 - 20	21,945,326	37,294	1,898	3,749	3,756	46,697	30,483	77,180
21 - 24	16,931,604	35,293	1,248	3,306	2,515	42,362	21,796	64,158
25 - 29	19,520,919	37,887	1,508	3,314	3,214	45,923	25,589	71,512
30 - 39	31,526,222	50,395	2,447	5,538	5,630	64,010	41,049	105,059
40 - 49	22,759,163	28,621	1,772	4,094	4,421	38,908	31,052	69,960
50 - 59	23,325,286	26,440	2,029	4,302	4,406	37,177	29,931	67,108
60 & Up	35,637,048	37,630	3,523	8,784	8,465	58,402	50,853	109,255
12 - 15	7%	6%	8%	7%	7%	6%	7%	7%
16 - 20	10%	12%	10%	9%	9%	11%	10%	10%
21 - 24	7%	11%	6%	8%	6%	10%	7%	9%
25 - 29	9%	12%	8%	8%	7%	11%	8%	10%
30 - 39	14%	16%	12%	13%	13%	15%	13%	14%
40 - 49	10%	9%	9%	9%	10%	9%	10%	9%
50 - 59	10%	8%	10%	10%	10%	9%	10%	9%
60 & Up	16%	12%	18%	20%	20%	14%	16%	15%
Total:	100%	100%	100%	100%	100%	100%	100%	100%

APPENDIX J

INPUTS AND ASSUMPTIONS FOR INVESTOR CASHFLOW ANALYSIS

Land	\$200,000
Construction Cost/Square Foot	\$50.00
Square Foot--Theater	24,000
Construction Cost--Theater	\$1,200,000
plus: site preparation and grading	\$75,000
plus: sewer and water	\$30,000
plus: parking lot improvement	\$200,000
Total Hard Costs	\$1,505,000
Soft Costs:	
architect	\$20,000
engineer	\$10,000
legal	\$50,000
Total Construction Budget	\$1,585,000
Land	\$200,000
Capital Budget	\$1,785,000
less: Construction Loan	\$1,200,000
Implied Equity	\$585,000
Total capital cost/sq. ft. NRA	\$74.38

Construction Mortgage

Loan Amount	\$1,200,000
Term	1
Interest Rate	12%
Payment periods	1
Compdng periods	12
Payment/period	0

Permanent Take-out

Loan Amount	\$1,785,000
Term	20
Interest Rate	13.5%
Payment Periods	12
Payment/period	\$21,552

Gross Theater Receipts	\$1,824,000
Growth Rate of Receipts	7.0%
Base Rent/Square Foot	\$12.55
Base Rent Escalator	5.0%
Other Income Escalator	5.0%
Overage Rent (% of Gross Receipts over base)	8.0%
Overage Base	\$1,500,000
Other Income:	
Common Area Maintenance	\$1,500
Utilities	\$8,000
Merchant Association Dues	\$2,000
Expenses:	
Insurance	\$10,000
Utilities	\$1,000
Real Estate Taxes	\$30,000
Maintenance	\$2,000
Common area charges	\$1,000
Rate of Inflation:	4.0%

Resale Proceeds (sale year 10):

Net Income Year 10	\$570,743
NOI Multiplier	x 10
Resale Proceeds	\$5,707,426
less: commissions @ 5%	- \$285,371
less: loan balances	- \$1,415,317
Net Sale Proceeds	\$4,006,738
less: Basis	- \$880,556
Capital Gain	\$3,126,182
less: Capital Gains Taxes	- \$312,618
Net Reversion	\$3,694,119

APPENDIX J

ASSUMPTIONS AND INPUTS FOR EXHIBITOR/TENANT

Sales per Screen	\$304,000
------------------	-----------

Construction cost	
per square foot	\$63

Square ft. building	24,000	x
= Total Cost	\$1,506,000	

Rent Constant	20%
---------------	-----

Sales Percentage	100%
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Ticket sales/square ft	\$80.00
------------------------	---------

Concessions	\$0.21
-------------	--------

Arcades	\$0.03
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Film rental-annual	\$1,000,000
--------------------	-------------

Lease overage after:	\$1,500,000
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Film overage after :	\$1,500,000
----------------------	-------------

Overage rates	
---------------	--

lease	8.00%
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film	7.00%
------	-------

Insurance	3.00%
-----------	-------

Real estate taxes	2.00%
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Salary and wages	20.00%
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Administrative	5.00%
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Maintenance	4.00%
-------------	-------

Note: all percents relative to ticket sales

Inflation rate assumed	4.00%
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APPENDIX K

SENSITIVITY ANALYSIS OF PROJECT PERFORMANCE AND EXHIBITOR YIELD

Tests for Various Percentage Sales Levels

PERCENT OF SALES	Year 1 Net Op. Income	Year 1 Default Ratio	Year 3 Net Op. Income	Year 3 Default Ratio	Year 5 Net Op. Income	Year 5 Default Ratio	Year 7 Net Op. Income	Year 7 Default Ratio	Year 10 Net Oper. Income	Year 10 Default Ratio
80%	(\$34,331)	102%	(\$55,493)	103%	(\$78,381)	104%	(\$103,137)	105%	(\$144,109)	106%
85%	\$30,786	98%	\$14,938	99%	(\$2,203)	100%	(\$20,743)	101%	(\$51,428)	102%
90%	\$95,902	95%	\$85,368	96%	\$73,974	97%	\$61,650	98%	\$41,254	99%
95%	\$161,019	93%	\$155,798	93%	\$150,152	94%	\$144,044	95%	\$133,935	96%
100%	\$226,136	90%	\$226,229	91%	\$226,329	91%	\$226,437	92%	\$226,617	93%
105%	\$291,253	88%	\$296,659	88%	\$302,506	89%	\$308,831	90%	\$319,298	91%
110%	\$356,370	86%	\$367,089	86%	\$378,684	87%	\$391,224	88%	\$411,980	88%
115%	\$421,486	84%	\$437,520	84%	\$454,861	85%	\$473,618	86%	\$504,661	86%
120%	\$486,603	82%	\$507,950	83%	\$531,039	83%	\$556,012	84%	\$597,343	85%
125%	\$551,720	80%	\$578,380	81%	\$607,216	82%	\$638,405	82%	\$690,024	83%
130%	\$616,837	79%	\$648,811	80%	\$683,394	80%	\$720,799	81%	\$782,706	81%
135%	\$681,954	78%	\$719,241	78%	\$759,571	79%	\$803,192	79%	\$875,387	80%
140%	\$747,070	76%	\$789,671	77%	\$835,749	77%	\$885,586	78%	\$968,069	79%
145%	\$812,187	75%	\$860,102	76%	\$911,926	76%	\$967,979	77%	\$1,060,750	77%
150%	\$877,304	74%	\$930,532	75%	\$988,103	75%	\$1,050,373	76%	\$1,153,432	76%

APPENDIX K

SENSITIVITY ANALYSIS OF PROJECT PERFORMANCE AND EXHIBITOR YIELD

Tests for Various Rent Constants

RENT CONSTANT	Year 1 Net Op. Income	Year 1 Default Ratio	Year 3 Net Op. Income	Year 3 Default Ratio	Year 5 Net Op. Income	Year 5 Default Ratio	Year 7 Net Op. Income	Year 7 Default Ratio	Year 10 Net Op. Income	Year 10 Default Ratio
26%	\$135,776	94%	\$128,495	95%	\$120,621	95%	\$112,103	96%	\$98,006	97%
25%	\$150,836	93%	\$144,784	94%	\$138,239	95%	\$131,159	95%	\$119,442	96%
24%	\$165,896	93%	\$161,073	93%	\$155,857	94%	\$150,215	95%	\$140,877	96%
23%	\$180,956	92%	\$177,362	93%	\$173,475	93%	\$169,270	94%	\$162,312	95%
22%	\$196,016	91%	\$193,651	92%	\$191,093	93%	\$188,326	93%	\$183,747	94%
21%	\$211,076	91%	\$209,940	91%	\$208,711	92%	\$207,382	93%	\$205,182	94%
20%	\$226,136	90%	\$226,229	91%	\$226,329	91%	\$226,437	92%	\$226,617	93%
19%	\$241,196	89%	\$242,518	90%	\$243,947	91%	\$245,493	91%	\$248,052	92%
18%	\$256,256	89%	\$258,806	89%	\$261,565	90%	\$264,549	91%	\$269,487	92%
17%	\$271,316	88%	\$275,095	89%	\$279,183	89%	\$283,605	90%	\$290,922	91%
16%	\$286,376	87%	\$291,384	88%	\$296,801	89%	\$302,660	89%	\$312,357	90%
15%	\$301,436	87%	\$307,673	87%	\$314,419	88%	\$321,716	89%	\$333,792	90%
14%	\$316,496	86%	\$323,962	87%	\$332,037	87%	\$340,772	88%	\$355,227	89%
13%	\$331,556	85%	\$340,251	86%	\$349,655	87%	\$359,827	87%	\$376,662	88%
12%	\$346,616	85%	\$356,540	85%	\$367,274	86%	\$378,883	87%	\$398,097	88%

APPENDIX K

SENSITIVITY ANALYSIS OF PROJECT PERFORMANCE AND INVESTOR YIELD

Tests for Various Levels of Contract Base Rent

BASE RENT	Effective Gross Inc.	Net Oper. Income	Taxable Income	Cash Throw-off	Cash from Operations	Distrib. A/T Cash	Default Ratio	IRR B/4 Sale	IRR w/ Sale
\$11.00 :	\$301,420	\$257,420	\$3,653	\$91,708	\$88,882	\$88,882	0.70	9.20%	15.38%
\$11.50 :	\$313,420	\$269,420	\$15,653	\$103,708	\$94,882	\$94,882	0.67	9.96%	16.31%
\$12.00 :	\$325,420	\$281,420	\$27,653	\$115,708	\$100,882	\$100,882	0.64	10.70%	17.20%
\$12.50 :	\$337,420	\$293,420	\$39,653	\$127,708	\$106,882	\$106,882	0.62	11.41%	18.07%
\$13.00 :	\$349,420	\$305,420	\$51,653	\$139,708	\$112,882	\$112,882	0.60	12.10%	18.92%
\$13.50 :	\$361,420	\$317,420	\$63,653	\$151,708	\$118,882	\$118,882	0.58	12.77%	19.75%
\$14.00 :	\$373,420	\$329,420	\$75,653	\$163,708	\$124,882	\$124,882	0.56	13.42%	20.56%
\$14.50 :	\$385,420	\$341,420	\$87,653	\$175,708	\$130,882	\$130,882	0.54	14.05%	21.35%
\$15.00 :	\$397,420	\$353,420	\$99,653	\$187,708	\$136,882	\$136,882	0.53	14.66%	22.13%
\$15.50 :	\$409,420	\$365,420	\$111,653	\$199,708	\$142,882	\$142,882	0.51	15.26%	22.89%
\$16.00 :	\$421,420	\$377,420	\$123,653	\$211,708	\$148,882	\$148,882	0.50	15.84%	23.64%
\$16.50 :	\$433,420	\$389,420	\$135,653	\$223,708	\$154,882	\$154,882	0.48	16.41%	24.37%
\$17.00 :	\$445,420	\$401,420	\$147,653	\$235,708	\$160,882	\$160,882	0.47	16.97%	25.10%
\$17.50 :	\$457,420	\$413,420	\$159,653	\$247,708	\$166,882	\$166,882	0.46	17.52%	25.81%
\$18.00 :	\$469,420	\$425,420	\$171,653	\$259,708	\$172,882	\$172,882	0.45	18.06%	26.51%

APPENDIX K

SENSITIVITY ANALYSIS OF PROJECT PERFORMANCE AND INVESTOR YIELD

Tests for Various Year-of-Sale Net Income Multipliers

NOI MULTIPLIER	Net Oper. Inc Yr 1	Net Oper. Inc Yr 10	Txbl Inc Year 1	Txbl Inc Year 10	DR Yr. 1	IRR B/4 Sale	IRR w/ Sale
6.0	\$338,620	\$633,368	\$40,853	\$268,009	0.84	5.22%	11.48%
6.5	\$338,620	\$633,368	\$40,853	\$268,009	0.84	6.22%	12.57%
7.0	\$338,620	\$633,368	\$40,853	\$268,009	0.84	7.14%	13.56%
7.5	\$338,620	\$633,368	\$40,853	\$268,009	0.84	7.99%	14.46%
8.0	\$338,620	\$633,368	\$40,853	\$268,009	0.84	8.78%	15.30%
8.5	\$338,620	\$633,368	\$40,853	\$268,009	0.84	9.52%	16.09%
9.0	\$338,620	\$633,368	\$40,853	\$268,009	0.84	10.21%	16.82%
9.5	\$338,620	\$633,368	\$40,853	\$268,009	0.84	10.86%	17.51%
10.0	\$338,620	\$633,368	\$40,853	\$268,009	0.84	11.48%	18.16%
10.5	\$338,620	\$633,368	\$40,853	\$268,009	0.84	12.07%	18.77%
11.0	\$338,620	\$633,368	\$40,853	\$268,009	0.84	12.63%	19.36%
11.5	\$338,620	\$633,368	\$40,853	\$268,009	0.84	13.16%	19.92%
12.0	\$338,620	\$633,368	\$40,853	\$268,009	0.84	13.67%	20.45%
12.5	\$338,620	\$633,368	\$40,853	\$268,009	0.84	14.16%	20.96%
13.0	\$338,620	\$633,368	\$40,853	\$268,009	0.84	14.63%	21.45%

APPENDIX K

SENSITIVITY ANALYSIS OF PROJECT PERFORMANCE AND INVESTOR YIELD

Tests for Various Percentage of County Sales Levels

PERCENT OF SALES	Effective Gross Inc.	Net Oper. Income	Taxable Income	Cash Throw-off	Cash from Operations	Distrib. A/T Cash	Default Ratio	IRR B/4 Sale	IRR w/ Sale
90%	\$324,028	\$280,028	\$26,261	\$114,316	\$100,186	\$100,186	0.65	10.49%	16.96%
95%	\$331,324	\$287,324	\$33,557	\$121,612	\$103,834	\$103,834	0.63	10.99%	17.57%
100%	\$338,620	\$294,620	\$40,853	\$128,908	\$107,482	\$107,482	0.62	11.48%	18.16%
105%	\$345,916	\$301,916	\$48,149	\$136,204	\$111,130	\$111,130	0.61	11.96%	18.74%
110%	\$353,212	\$309,212	\$55,445	\$143,500	\$114,778	\$114,778	0.59	12.42%	19.31%
115%	\$360,508	\$316,508	\$62,741	\$150,796	\$118,426	\$118,426	0.58	12.88%	19.86%
120%	\$367,804	\$323,804	\$70,037	\$158,092	\$122,074	\$122,074	0.57	13.33%	20.41%
125%	\$375,100	\$331,100	\$77,333	\$165,388	\$125,722	\$125,722	0.56	13.77%	20.95%
130%	\$382,396	\$338,396	\$84,629	\$172,684	\$129,370	\$129,370	0.55	14.19%	21.48%
135%	\$389,692	\$345,692	\$91,925	\$179,980	\$133,018	\$133,018	0.54	14.61%	22.00%
140%	\$396,988	\$352,988	\$99,221	\$187,276	\$136,666	\$136,666	0.53	15.03%	22.52%
145%	\$404,284	\$360,284	\$106,517	\$194,572	\$140,314	\$140,314	0.52	15.43%	23.03%
150%	\$411,580	\$367,580	\$113,813	\$201,868	\$143,962	\$143,962	0.51	15.83%	23.53%
155%	\$418,876	\$374,876	\$121,109	\$209,164	\$147,610	\$147,610	0.50	16.22%	24.02%
160%	\$426,172	\$382,172	\$128,405	\$216,460	\$151,258	\$151,258	0.49	16.61%	24.51%

APPENDIX K

SENSITIVITY ANALYSIS OF PROJECT PERFORMANCE AND INVESTOR YIELD

Tests for Various Overage Base Levels

OVERAGE BASE	Effective Gross Inc.	Net Oper. Income	Taxable Income	Cash Throw-off	Cash from Operations	Distrib. A/T Cash	Default Ratio	IRR B/4 Sale	IRR w/ Sale
\$1,800,000 :	\$314,620	\$270,620	\$16,853	\$104,908	\$95,482	\$95,482	0.67	10.45%	16.84%
\$1,750,000 :	\$318,620	\$274,620	\$20,853	\$108,908	\$97,482	\$97,482	0.66	10.62%	17.07%
\$1,700,000 :	\$322,620	\$278,620	\$24,853	\$112,908	\$99,482	\$99,482	0.65	10.80%	17.29%
\$1,650,000 :	\$326,620	\$282,620	\$28,853	\$116,908	\$101,482	\$101,482	0.64	10.97%	17.51%
\$1,600,000 :	\$330,620	\$286,620	\$32,853	\$120,908	\$103,482	\$103,482	0.63	11.14%	17.72%
\$1,550,000 :	\$334,620	\$290,620	\$36,853	\$124,908	\$105,482	\$105,482	0.63	11.31%	17.94%
\$1,500,000 :	\$338,620	\$294,620	\$40,853	\$128,908	\$107,482	\$107,482	0.62	11.48%	18.16%
\$1,450,000 :	\$342,620	\$298,620	\$44,853	\$132,908	\$109,482	\$109,482	0.61	11.65%	18.37%
\$1,400,000 :	\$346,620	\$302,620	\$48,853	\$136,908	\$111,482	\$111,482	0.61	11.82%	18.59%
\$1,350,000 :	\$350,620	\$306,620	\$52,853	\$140,908	\$113,482	\$113,482	0.60	11.98%	18.80%
\$1,300,000 :	\$354,620	\$310,620	\$56,853	\$144,908	\$115,482	\$115,482	0.59	12.15%	19.02%
\$1,250,000 :	\$358,620	\$314,620	\$60,853	\$148,908	\$117,482	\$117,482	0.58	12.31%	19.23%
\$1,200,000 :	\$362,620	\$318,620	\$64,853	\$152,908	\$119,482	\$119,482	0.58	12.47%	19.44%
\$1,150,000 :	\$366,620	\$322,620	\$68,853	\$156,908	\$121,482	\$121,482	0.57	12.64%	19.65%
\$1,100,000 :	\$370,620	\$326,620	\$72,853	\$160,908	\$123,482	\$123,482	0.57	12.80%	19.86%

APPENDIX L
Shared Parking Spreadsheets
Actual Copy of Final Run

INPUT SCREEN

SHARED PARKING ANALYSIS

Mode Split	(% auto use)	Captive Market	5%
		Square feet per parking stall	350
Office	100%	GLA of Office Space	100,000
Retail	100%	GLA of Retail Space	37,000
Restaurant	100%	GLA of Restaurant	5,000
Theatre	100%	Number of Theatre Seats	1,500
Residential	100%	Number of Residential Units	0

Projected Peak Parking Demand:		Month	Weekday
		June	711
Acreage required:	5.71	July	711

Wkdvs Time	Office	Retail	Rest.	Cinema	Resid.	TOTAL
2:00 p.m.	291	97	60	263	0	711

MAIN OUTPUT SCREEN

PROJECTED PARKING DEMAND: SHARED PARKING

Month	Weekday	Saturday	MAXIMUMS:
January	659	548	Month Weekday
February	604	453	June 711
March	567	382	July 711
April	619	472	Month Saturday
May	622	477	June 621
June	711	621	July 621
July	711	621	
August	623	471	
September	646	511	
October	620	466	
November	574	380	
December	606	406	

PEAK PARKING DEMAND FACTORS BY HOUR OF DAY

WEEKDAYS	Office	Retail	Rest.	Cinema	Resid.
6:00 a.m.	3%	--	--	--	100%
7:00 a.m.	20%	8%	2%	--	87%
8:00 a.m.	63%	18%	5%	--	79%
9:00 a.m.	93%	42%	10%	--	73%
10:00 a.m.	100%	68%	20%	--	68%
11:00 a.m.	100%	87%	30%	--	59%
12:00 Noon	90%	97%	50%	30%	60%
1:00 p.m.	90%	100%	70%	70%	59%
2:00 p.m.	97%	97%	60%	70%	60%
3:00 p.m.	93%	95%	60%	70%	61%
4:00 p.m.	77%	87%	50%	70%	66%
5:00 p.m.	47%	79%	70%	70%	77%
6:00 p.m.	23%	82%	90%	80%	85%
7:00 p.m.	7%	89%	100%	90%	94%
8:00 p.m.	7%	87%	100%	100%	96%
9:00 p.m.	3%	61%	100%	100%	98%
10:00 p.m.	3%	32%	90%	100%	99%
11:00 p.m.	--	13%	70%	80%	100%
12:00 Mid.	--	--	50%	70%	100%

SATURDAYS	Office	Retail	Rest.	Cinema	Resid.
6:00 a.m.	--	--	--	--	100%
7:00 a.m.	20%	3%	2%	--	95%
8:00 a.m.	60%	10%	3%	--	88%
9:00 a.m.	80%	30%	6%	--	81%
10:00 a.m.	80%	45%	8%	--	74%
11:00 a.m.	100%	73%	10%	--	71%
12:00 Noon	100%	85%	30%	30%	71%
1:00 p.m.	80%	95%	45%	70%	70%
2:00 p.m.	60%	100%	45%	70%	71%
3:00 p.m.	40%	100%	45%	70%	73%
4:00 p.m.	40%	90%	45%	70%	75%
5:00 p.m.	20%	75%	60%	70%	81%
6:00 p.m.	20%	65%	90%	80%	85%
7:00 p.m.	20%	60%	95%	90%	87%
8:00 p.m.	20%	55%	100%	100%	92%
9:00 p.m.	--	40%	100%	100%	95%
10:00 p.m.	--	38%	95%	100%	96%
11:00 p.m.	--	13%	85%	80%	98%
12:00 Mid.	--	--	70%	70%	100%

REPRESENTATIVE MONTHLY VARIATIONS AS A PERCENTAGE OF PEAK MONTH

Month	Office	Retail	Rest.	Cinema	Resid.
January	100%	65%	80%	90%	100%
February	100%	65%	75%	70%	100%
March	100%	70%	90%	50%	100%
April	100%	70%	90%	70%	100%
May	100%	70%	95%	70%	100%
June	100%	75%	100%	100%	100%
July	100%	75%	100%	100%	100%
August	100%	75%	85%	70%	100%
September	100%	75%	80%	80%	100%
October	100%	75%	80%	70%	100%
November	100%	80%	80%	50%	100%
December	100%	100%	90%	50%	100%

Source:
Shared Parking, ULI, 1983, p. 46

REPRESENTATIVE PEAK PARKING DEMAND FACTORS

Land Use	Unit	Weekdays	Saturday
Office	Spaces/1000	3.00	0.50
Retail			
< 400,000	Spaces/1000	3.80	4.00
Retail			
< 600,000	Spaces/1000	3.80	5.00
Restaurant	Spaces/1000	20.00	20.00
Cinema	Spaces/seat	0.25	0.30
Residential	Spaces/Unit	1.00	1.00

Source:
Shared Parking, ULI, 1983, p. 45

PROJECTED PARKING DEMAND FOR PEAK MONTHS OF JUNE AND JULY

Hourly Demand by Type of Use

Weekdays

Time	Office	Retail	Rest.	Cinema	Resid.	TOTAL
6:00 a.m.	9	0	0	0	0	9
7:00 a.m.	60	8	2	0	0	70
8:00 a.m.	189	18	5	0	0	212
9:00 a.m.	279	42	10	0	0	331
10:00 a.m.	300	68	20	0	0	388
11:00 a.m.	300	87	30	0	0	417
12:00 Noon	270	97	50	113	0	530
1:00 p.m.	270	100	70	263	0	703
2:00 p.m.	291	97	60	263	0	711
3:00 p.m.	279	95	60	263	0	697
4:00 p.m.	231	87	50	263	0	631
5:00 p.m.	141	79	70	263	0	553
6:00 p.m.	69	82	90	300	0	541
7:00 p.m.	21	89	100	338	0	548
8:00 p.m.	21	87	100	375	0	583
9:00 p.m.	9	61	100	375	0	545
10:00 p.m.	9	32	90	375	0	506
11:00 p.m.	0	13	70	300	0	383
12:00 Mid.	0	0	50	263	0	313

Saturdays

Time	Office	Retail	Rest.	Cinema	Resid.	TOTAL
6:00 a.m.	0	0	0	0	0	0
7:00 a.m.	10	3	2	0	0	15
8:00 a.m.	30	11	3	0	0	44
9:00 a.m.	40	33	6	0	0	79
10:00 a.m.	40	50	8	0	0	98
11:00 a.m.	50	81	10	0	0	141
12:00 Noon	50	94	30	135	0	309
1:00 p.m.	40	105	45	315	0	505
2:00 p.m.	30	111	45	315	0	501
3:00 p.m.	20	111	45	315	0	491
4:00 p.m.	20	100	45	315	0	480
5:00 p.m.	10	83	60	315	0	468
6:00 p.m.	10	72	90	360	0	532
7:00 p.m.	10	67	95	405	0	577
8:00 p.m.	10	61	100	450	0	621
9:00 p.m.	0	44	100	450	0	594
10:00 p.m.	0	42	95	450	0	587
11:00 p.m.	0	14	85	360	0	459
12:00 Mid.	0	0	70	315	0	385

APPENDIX M Demonstration Shared Parking Calculation

Objective: To estimate the peak parking requirements for a proposed mixed-use development.

Plan: The proposed development has the following components:

Office:	70,000 square feet
Retail:	42,000 square feet
Restaurant:	5,000 square feet
Cinema:	1,800 seats
Residential:	36 units

Location: Suburban, regional population of 340,000.

Mode Split: None; 100% auto use anticipated.

Captive Market: Assumed 5% of retail patrons will be office employees.

Weekday:

Office:	3.0 per 1000 GLA
Retail:	3.8 per 1000 GLA x (1.0 - .05) = 3.61 per 1000 GLA
Restaurant:	20.0 per 1000 GLA
Cinema:	0.25 per seat
Residential:	1.0 per unit

Saturday:

Office:	0.5 per 1000 GLA
Retail:	4.0 per 1000 GLA
Restaurant:	20.0 per 1000 GLA
Cinema:	0.30 per seat
Residential:	1.0 per unit

Assuming that December is the peak month for parking, given the proposed uses:

December: Adjusted Parking Ratios:

Office:	3.0 x 100% = 3.0
Retail:	3.61 x 100% = 3.61
Restaurant:	20.0 x 90% = 18.0
Cinema:	0.25 x 50% = .125
Residential:	1.0 x 100% = 1.0

Parking Analysis: Weekday

		11:00	12:00	1:00	2:00
Office:	3.0 x 70 x (hrly. factor) =	210	189	189	204
Retail:	3.61 x 42 x (hrly. factor) =	132	147	151	147
Restaurant:	18.0 x 5 x (hrly. factor) =	27	45	63	54
Cinema:	Assumed to be closed				
Residential:	1.0 x 36 x (hrly. factor) =	36	36	36	36
		405	417	439	441

There are approximately 440-450 spaces required, assuming no theatre overlap with office demand. At 350 feet per parking stall, this would require about 3.6 acres, exclusive of service roads, etc.



857 #2

Ogden Acquisition Group • 1550 North Prospect Avenue • Milwaukee, Wisconsin 53202 • (414) 276-5285

December 11, 1987

Dr. James A. Graaskamp
202A Breese Terrace
Madison, Wisconsin 53705

Dear Chief:

It was nice talking with you recently. Actually, I was surprised to reach you given your schedule. As I mentioned, Ogden & Company has signed a Development Plan with the Village of West Milwaukee to improve a portion of the West Milwaukee Freeway Corridor. The site is approximately one-half mile south of Milwaukee County Stadium, beginning at National Avenue.

I have enclosed documentation that briefly describes our development. As you will notice from the site plan, the new 43rd Street Boulevard diagonally bisects the site; residential for-sale and rental housing will fill in the west side, and a combination of retail, office and hotel developments will improve the east. We have established that the residences will be developed over three phases, beginning early next spring. The entire development is estimated to take approximately five years.

Ogden & Company believes the West Village development program is an excellent exercise in the real estate process. From the start, the Company will interface with a dynamic Village administration, construction contractors, debt and equity financiers and product users. It will require the collective forces of the Company, and we feel positive toward its success.

However, we also recognize that West Milwaukee has traditionally been perceived as an industrial area. We need to change that perception. With the right combination of product and appeal, the development program can be a success. This is the sensitive point that we feel should be explored through a feasibility case study. Yes, we have laid the development groundwork. But we need to better understand how to make the West Village appealing to a critical mass of people. Therefore, the feasibility study should explore how to properly market the project to the ultimate user.

Dr. James A. Graaskamp
Page 2

I hope this information is sufficient for you to determine if our project warrants the attention of an 857 feasibility study group. The Company would be willing to cover all expenses incurred in producing the study (i.e., travel, copy and documentation expenses). John Ogden, Jr., Peter Ogden and I would enjoy meeting with you in the near future to discuss the project in greater length. I will call you in the next several weeks to arrange for a convenient time to meet with you in Madison. Best regards,

OGDEN & COMPANY, INC.

A handwritten signature in cursive script, appearing to read "Peter", is written over the printed name.

Peter Moegenburg

cc: John Ogden, Jr.
Peter Ogden

Enclosures



The Pyare Square Building • 4610 University Avenue • Madison, Wisconsin 53705 • (608) 238-9977

October 28, 1987

Jim Graaskamp
School of Business
Room 118
1155 Observatory Drive
Madison, WI 53706

Dear Jim,

I wanted to thank you and your staff for a very rewarding day at the alumni reunion. These sessions remain a stimulating experience for an old graduate's mind.

I would also like to propose a case study for one of your courses. I am currently working with a retired truck farmer, Akira Toki, to develop and sell his land on the South Beltline in Madison. Enclosed is a topo map of the site. Among some of the property's features and constraints are the following:

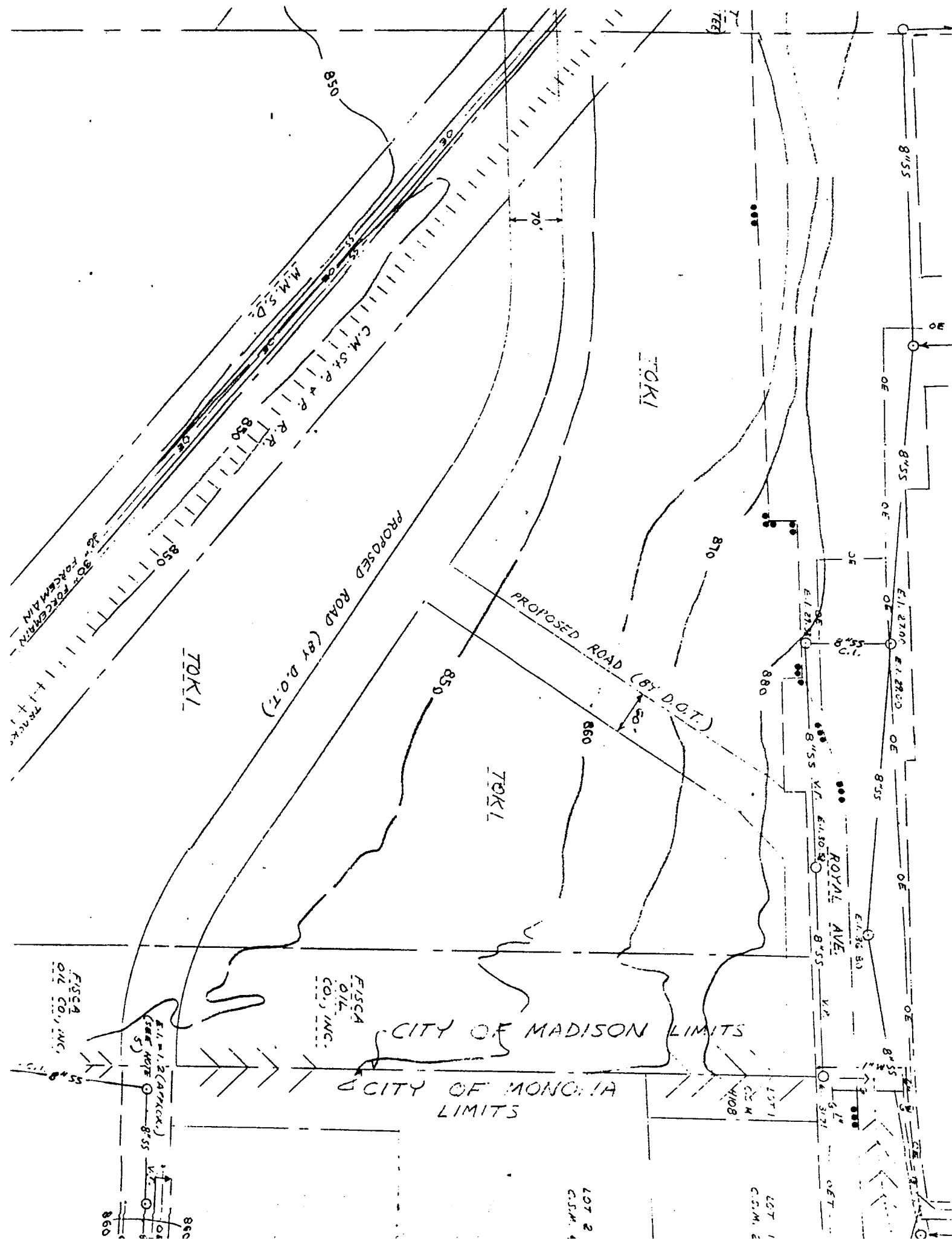
1. A mixture of soil types. Some with severe problems.
2. A potentially landlocked parcel south of the railroad tracks.
3. Access through an industrial park to the east and past Nob Hill to the west.
4. A proposed Urban Design District ordinance now being debated.
5. Undefined highest and best use. Zoning has been held over as agriculture.
6. Adjacent to heavy traffic movement on the Beltline. However, the land plunges by 30 feet from the roadway.

Historically we have worked out some more difficult problems i.e. the lack of safe access and the lack of sewer and water. The negotiations to cure these problems were a story in themselves. Since Mr. Toki could not afford these improvements, we worked a land swap for a road and set up a deferred special assessment program for sewer and water.

Our challenge at the moment is to sell portions of the site and keep ahead of the tax assessor while working through the maze regulators will wish to impose. If you feel this land might hold an educational experience, let me know. I would be happy to supply you with any materials I might have.

Sincerely,

John T. Pinger



A FEASIBILITY STUDY FOR AN
INDOOR RACQUETBALL FACILITY
AT 17-21 EAST MAIN STREET
MADISON, WISCONSIN

May, 1978

Prepared For:

Professor James A. Graaskamp
Business 857
Advanced Feasibility Analysis

Prepared By:

Steve Rosenberg
Thomas W. Smith

A₁

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- VII Conclusion

APPENDICES

- A. Survey of Racquetball Facilities in the Madison Area
- B. Schematic Design of Typical Racquetball Facility
- C. Detailed Estimates of Active Participant Demand at Subject Site
- D. Demographic and Economic Features of the Madison Market
- E. Generalized Profile of Racquetball Players
- F. Map of Racquetball Clubs in Madison Area
- G. Estimated Expenses and Construction Costs
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- I. Lists of Persons and Organizations Contacted

I OBJECTIVES OF THE STUDY

Proposed reuse of the Dartmouth Clothing Building at 17 E. Main St., Madison, Wisconsin has included a recommendation to incorporate racquetball courts in the existing structure.¹ This feasibility study will examine the potential for development of racquetball courts as recommended in that appraisal. To determine racquetball feasibility the following elements were evaluated:

1. Objectives and characteristics of racquetball court operations,
2. Market trends and opportunity analysis in Madison,
3. Merchandising evaluation of existing and proposed facilities,
4. Financial feasibility.

Other elements, including legal-political feasibility, compatibility with existing plans and programs, and engineering/architectural studies were either conducted as part of the previously cited appraisal or are beyond the scope of the present feasibility study.

The results of this study should indicate whether or not the proposed racquetball facilities are feasible at the given site. Specifically, the objectives of the study are:

1. To estimate the overall market potential for racquetball courts in the Madison Area,
2. To provide an estimate of potential racquetball demand at the E. Main Street site,
3. To estimate the probable impact of existing and potential competition on demand for the E. Main Street racquetball facility, and
4. To determine whether the estimated demand can financially support a racquetball facility at the subject site.

1. Thomas W. Smith, Appraisal of 17-21 East Main Street, November, 1977.

II HISTORY, GROWTH, AND CHARACTERISTICS OF RACQUETBALL FACILITIES

The sport of racquetball has experienced phenomenal growth in the past few years. According to the Milwaukee Journal, the number of racquetball players in the U.S. has increased from 500,000 in 1972 to 5,000,000 in 1977.² Three factors have played a role in this growth, and are critical to an assessment of market need in the Madison area:

1. The game is extraordinarily easy to learn in a short period of time, and therefore readily attracts a clientele.
2. "It combines exercise, recreation, competition, excitement, social relations, and the satisfaction of continually increasing one's physical talent."³
3. It is relatively inexpensive for both family and individuals to play, with membership fees ranging from \$50 to \$100 annually, plus hourly fees of \$6 to \$8 per court, the total amount dependent upon the frequency of play.⁴

Anticipated growth, according to Leve, is likely to range up to 45,000,000 racquetball players by 1982, nationwide.⁵

As in the past that growth will be dependent upon the number of racquetball courts available for use. Because the racquetball boom is just beginning, according to Darrow, "there is very little in the way of actual cost and operating and market data available."⁶ In general, the strategy in providing racquetball facilities has been to create a coed and family club atmosphere (the only exception being the downtown Plaza Health and Racquetball Club which has limited space and which is constrained to offer its facilities to men only).

Facilities generally consist of 8 to 12 courts with similar design utilizing a central corridor layout.⁷ Most do not offer substantial competing recreational facilities (one exception, the Cherokee Club, offers golf and tennis). Rarely do racquetball clubs offer restaurant or bar service (with the exception of the Plaza Club) although vending machines, refrigerators, wet-bars and well appointed lounges are provided. Common areas, lounges, pro-shops and observation decks are usually on upper levels. Locker rooms, showers, saunas, whirlpools, and facilities are provided in most clubs and normally are found on the ground floor level.

2. Milwaukee Journal, Sunday, December 4, 1977.

3. Lawrence Darrow and Patrick Daly, "Handball/Racquetball Clubs: The Recreation Boom Continues," The Appraisal Journal, Vol XLIV, No. 2, April, 1976, p. 202.

4. Survey of Court fees in Madison Area. See Appendix A for details.

5. Conversation with Morton Leve, May 1, 1978. (Mr. Leve is a consultant with Court Club Enterprises, Chicago)

6. Op. cit., p. 202.

7. See Appendix B for a typical facility design.

III MARKET POTENTIAL FOR RACQUETBALL CLUBS IN MADISON

The steps used to derive market potential are summarized in Figure 1 below. Detail on the units of data used in estimating demand for racquetball courts are shown and explained in Figure 2 on the following page.

Figure 1

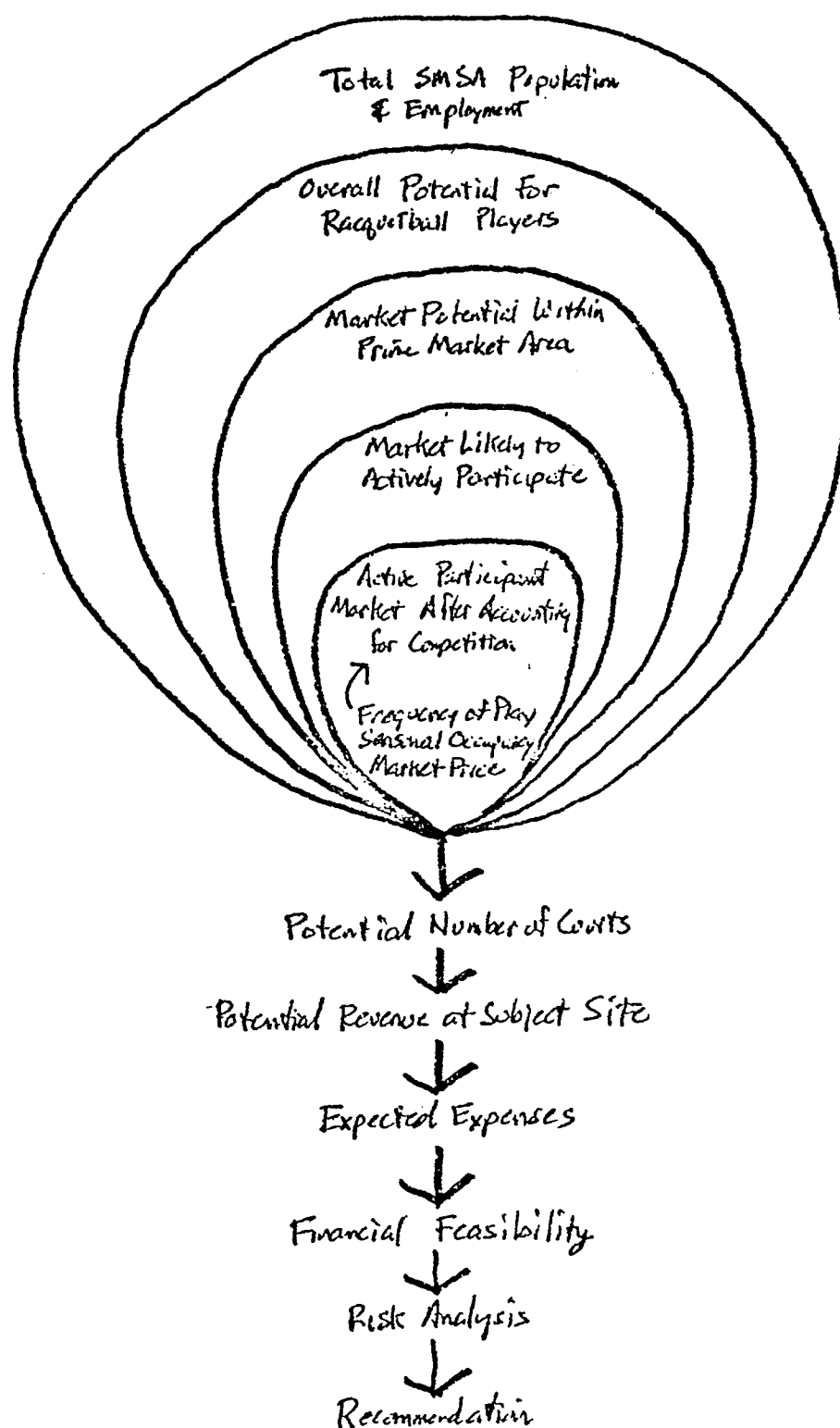
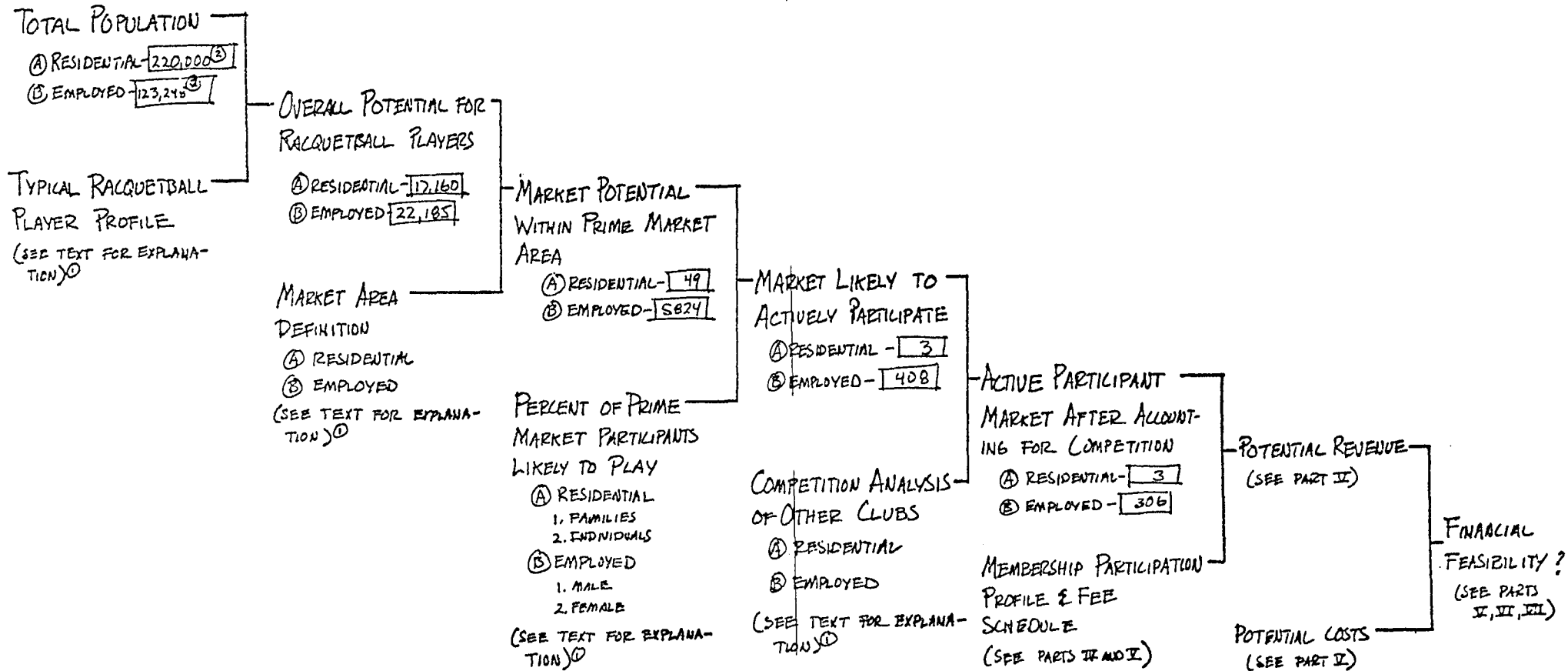


FIGURE 2

SCALING TECHNIQUE FOR ESTIMATING RACQUETBALL PLAYER MARKET



① SEE APPENDIX C FOR DETAILED CALCULATIONS FOR EACH STEP. SEE PAGES OF TEXT FOR DISCUSSION OF CRITICAL ASSUMPTIONS.

② UNINCORPORATED AREA POPULATION - U.S. CENSUS BUREAU, 1970 CENSUS OF POPULATION, "CHARACTERISTICS OF THE POPULATION", VOL. 1, PART 56, WISCONSIN, TABLES 174 AND 203

③ IBID.

Major issues addressed and assumptions made in each of the successive steps outlined in Figure 2 are discussed below.

No. People fitting Socio-Economic Player Profile -

A variety of racquetball player profiles emerge from consultants and those that have undertaken studies. Due to the dearth of current research on club members -- apparently due to the rapid growth of the sport and the lack of a real need to do research before successfully locating a club -- general consistency is lacking. The conservative profile used for this study assumed the players to be between 25 and 44, and in the over \$15,000 income bracket (estimated from 1970 Census). Many estimating methods apparently use those ratios, but none apparently use them concurrently.⁸ The result is a realistically conservative estimate of the number of potential racquetball players in the Madison area. Assuming no inequitable geographic distributional problems, the Madison urbanized area could support about 25 courts (exclusive of University related courts whose client group is younger) based on a ratio of 1 court per 7,500 people, as suggested by Leve.

Market Area Definition -

Standards used to formulate market area boundaries also vary among the experts. Mort Leve recommends a radius of 3-4 miles while local club managers in Madison suggest using a 10-15 minute driving range. Both of these estimates assume the target market is defined according to place of residence. However, in the unique case of a downtown club, without parking, neither of these market area definitions is applicable since the bulk of the market is the downtown employed labor force. The only resident market likely to patronize the club would be that which would be able to easily walk to the facility. Therefore, the downtown census tract (17.00) within which 4800 people live and 20,000 people are employed, and which encompasses the area within a 5-10 minute walking distance of the subject site, is assumed to be the prime market area.

Percent of Primary Market Area Participants Likely to Play⁹ -

Various "rules of thumb" have been used to define the capture rate in any given primary market area for racquetball clubs, i.e. to estimate the percent of market area residents fitting the socio-economic profile who are likely to become members of a facility. A common assumption is that clubs can attract 10%

-
8. See Appendix D for profile of the demographic and economic features of the Madison market.
 9. A user profile as such was not compiled, but a qualitative description of the club members was provided by club managers interviewed and taken from a survey of Racquetball Magazine readership and is summarized in Appendix E.

of the population in the over the-median-income category.¹⁰ Another assumption is that 5% of the market aged 20-44 could be captured as members.¹¹ Normally, neither of these methods is applied concurrently. To be cautiously realistic in our own estimate of participants likely to join, however, the employed male population between 25 and 44 and having estimated 1970 income in excess of \$15,000 was assumed to have a 10% participation rate while females in similar circumstances were assumed to have a 2.5% participation rate -- primarily for the reason that most of the suburban and downtown individual memberships were for males. The resident market, which has an income level notably below the median income level of the city, was assumed to have a 5% probability of joining.

Competition Analysis of Other Clubs -

The major competition factor for the site's proposed use as a racquetball club stems from the club's location in the midst of an employed labor force, rather than in a residential neighborhood. The residential target market, an extremely small percentage of the market potential, is assumed to be captured intact. The residential market is located over 10 minutes from the suburban courts and, although membership in the YMCA is possible, the small size of the residential target market allowed us to conclude that competition could be discounted.

The employed labor force, however, has significant competitive opportunities due to two factors: 1) the existence of the Plaza Health and Racquetball Club and the downtown YMCA in close proximity to the site, and 2) the fact that the location of competing suburban facilities with a market orientation toward the family, in residential areas in a town the size of Madison, means that the working member(s) of the family can easily and quickly commute home to play racquetball with family and friends. No rules of thumb exist to resolve the question of what percent of the working market is likely to do just that, however. Moreover, it is uncertain just how many downtown racquetball club members have dual memberships in clubs near their home. Only very vague guesses were ventured by suburban managers of club facilities when asked what percent of their members worked downtown -- about 5%. This is in contrast to the 16% of the total Dane County labor force 16 years and older working in the downtown census tract.

10. Unpublished research on Madison Racquetball market by Carley Capital Group, courtesy of Charles Trainor.

11. Ibid.

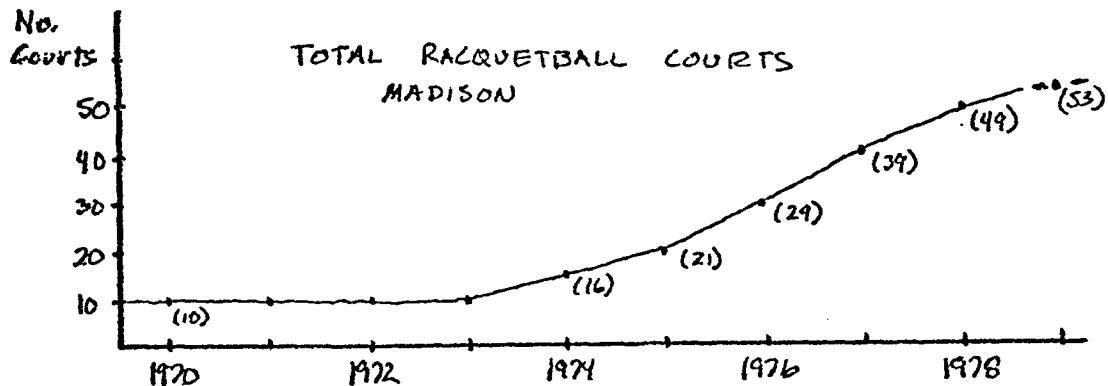
Obviously the orientation of a downtown club -- is it a family or individual oriented facility -- will play a large part in determining the extent of competitive loss to suburban clubs. It follows then that the competitive market edge for a downtown club has to include an emphasis on individual memberships due to the small number of families in the immediate area and the likely membership pattern of central city commuters. A realistic pattern of competitive loss, given that suburban clubs are over 10 minutes driving time away (See map, Appendix F), was assumed to be 25%, or double the Plaza Club's estimated percentage, i.e.: 25% of the potential members downtown won't join because they will, or already have, joined suburban clubs.

One issue remains -- what loss in potential membership can be attributed to competition from other downtown clubs (Plaza Health and Racquetball Club and the YMCA)? The Plaza Club was discounted due to its heavy orientation to health and physical fitness facilities, its small size, poor public visibility due to its location at the top of the 1st Wisconsin Building, and its undersized racquetball courts. The YMCA was also discounted as a competitor due to the quality of competition it offers; the wide range and quality of amenities representative of a contemporary racquetball club do not exist at the YMCA. Therefore, the 25% loss due to competition primarily from the suburban clubs was left as the likely loss percentage. Obviously other merchandising factors such as the attractiveness of associated amenities of the club and or building (e.g. existence of a bar/restaurant facility) will help to refine the competitive edge for an employment oriented racquetball club and proportionately affect its capture rate.

CONCLUSION -- The preceeding analysis indicates a potential demand for approximately 300 members, or 225 court hours/week in the winter. This report will conservatively use 250 members and 190 hours/week as a basis for determining financial feasibility. The site will limit total court construction to a maximum of 4 courts.

IV MERCHANDISING EVALUATION

Growth in racquetball clubs in Madison has been rapid in the past 5 years. The chart below shows the growth rate. A list of competitive merchandising characteristics felt to be important by the managers of active for-profit clubs is also included below. It is these clubs that have contributed most to the rapid growth of the sport, as measured by the number of courts shown on the chart. (See Appendix A)



Competative Market Characteristics of Existing Clubs

- Managerial and Maintenance Expertise
- Nursery
- Proximity to Residential Neighborhoods
- Exercise Facilities
- Non-profit cost advantage
- Family participation
- Parking

The proposed racquetball club on the Square would have to successfully compete with the merchandising features of the existing court clubs and offer some relatively unique features, reflecting the nature of its perceived market, if it is to succeed. Suggested features include: .

Visibility on the Square - A walk in facility, easily observed by passers-by, could help to market itself.

Convenience to work - The capability of minimizing trip-time to play racquetball in the early morning, noon, or late afternoon would provide an edge over other suburban courts during the week.

Private club atmosphere - A strong feeling of membership with frequent recognition of other members, together with adequate facilities for a variety of recreational activities downtown will set it apart from other downtown courts (including bar and restaurant-buffet facilities).

Sporting Goods Store - As originally envisioned in the Appraisal cited earlier, a sporting goods store would operate on the first floor. Conversation with a major sporting goods store owner in Madison indicates the infeasibility of such a store due to lack of parking and square footage requirements. A well stocked pro-shop would be a possibility, however, for club members and walk-in customers.

V FINANCIAL ANALYSIS

Using the expected demand and marketing strategy suggested above, one can test for the financial feasibility under this given set of assumptions.

Financial Component Assumptions

A. Income:

Hours of Operation

Monday-Friday (16 hrs) 7:00 a.m. - 10:00 p.m.
 Saturday-Sunday (8 hrs) 8:00 a.m. - 4:00 p.m.
 Prime Time Hours (8 hrs) Weekdays 7-9, 11-1, 4-7.

Fees

Annual ¹²	Court Fees ¹³
Individual \$200	Prime Time \$8.00/hr
Family \$250	Regular \$6.00/hr

Calculated Weekly Income

	Hours/Wk x Courts	Court Hrs/Wk	Occupancy Rate ¹⁴	Court Use/Wk
Prime Time	40 4	160 hrs	1.00	160 hrs
Regular-weekday	40 4	160	.15	24 hrs
Regular-weekend	16 4	64	.10	6 hrs
	96	384	.49	190 hrs

<u>Rate</u>	<u>Projected Court Income</u>
\$8	\$1280/wk
6	144
6	36
	\$1460/wk x 35 weeks = \$51,110 (winter)
	.5 x 17 weeks = 12,410 (summer)
	\$63,520 annual court income

Yearly Membership Income

	225 regular members	x \$200	\$45,000
	25 family members	x \$250	6,250
Total	250 members		\$51,250

-
12. Projected annual fees are twice as high as other court clubs in Madison. However, the fees are less than similar private court clubs located in other large city CBD's. Location, quality, and market appeal justify this rate, while preserving the exclusivity of the private club atmosphere.
13. See Appendix A (Competition).
14. Occupancy based on estimated courts/week. 250 members ÷ 2 members/court x 1.5 playing hrs/week/member = 187 hrs/week.

Miscellaneous Income¹⁵

Bar and Buffet - operated at breakeven	-0-
Pro shop (\$10 net profit/member/year)	\$2,500
Vending Machine	500
Private parties	500
Locker/laundry (\$32.00/yr x 100 members)	3,200
Total miscellaneous	<u>\$6,700</u>

TOTAL EFFECTIVE INCOME \$121,250

B. Expenses:

Total Operating Expenses \$ 75,100
(see Appendix G)

C. Construction Costs:

Massive renovation will be required to convert the existing facility. Rough "rule of thumb" estimates have been used to estimate construction costs. The potential developer should obtain detailed cost estimates from a general contractor or architect before final decisions are made.

Total Construction Costs \$550,000
(see Appendix G)

D. Financing:

Local institutions have shown a more favorable attitude toward lending on racquetball facilities in recent years. Limited partnerships and joint ventures are the predominant forms of equity financing.

Mortgage: Term:	25 years; 10 year balloon
Interest:	9.75%
Loan to Value:	75% (\$412,500)
Equity Required:	\$137,500

E. Depreciation:

All depreciation is calculated on a straight line basis. The taxable life of the building is 33 years. Development costs are amortized over 10 years. Although not included in cash flow calculations, certain tangible equipment in the project (e.g. rental and weight equipment) is eligible for 20% bonus depreciation under Section 1152 of the Federal Tax Code.

15. Conversation with Steve Hearn, Manager, Avenue Club, 444 Michigan Avenue, Chicago.

F. Other Assumptions:

Project Growth Rate	2%/year
Average vacancy rate year # 1	10%
Income tax rate	50%
Income growth rate	5%
Expense growth rate	6%
Discount rate	15%

RESULTS

A. Cash Flow Analysis

As shown in Appendix H, cash throw off from the project does not justify the equity expenditure. The cash on cash before tax return in the first five years does not exceed 5% and is negative in the first year. However, if income and therefore demand continue at accelerated rates, as predicted, then the project will probably show favorable returns in later years. Discounted after tax analysis demonstrates similar poor returns (I.R.R.). Payback of equity is not achieved by the 10th year.

B. Default Ratio

The default ratio in year 3 exceeds 1.00. This indicates an unsatisfactory cushion for profit, surprises, or vacancy. Although vacancy has already been accounted for in the gross income calculations, the default point should not exceed .90 in this type of risky project.

C. Front Door Analysis

Appendix H reveals the gross rents required to produce a satisfactory 12% cash on cash return in year 3 at various replacement costs. If the construction assumption of \$550,000 is accurate, the project will need to generate \$163,000 in gross rents in year three, or approximately \$142,000 in year one, assuming a 5% increase per year. If the purchase and renovation can be completed for around \$500,000 then only \$147,000 is required in year three or approximately \$130,000 in year one. A new cash flow projection (Appendix H) has been made with these particularly optimistic assumptions of increased revenue and decreased construction costs. The I.R.R., default point, and payback all would suggest a "GO" situation with these new assumptions.

Conclusions

(1) The probability of achieving the needed increased revenues to justify the project appears slim. The overall occupancy rate would have to increase from 49% to 64% to meet the increased income needs. Other court clubs may operate profitably at below 60%, but this is only comparable when one considers that other clubs remain open for 20% more time than the subject club would. In the proposed club yearly fees are already at a premium. The market demand analysis indicates a demand for additional court hours as well as potential players, but court occupancy is already projected at 100% in the peak hours. The additional players would have to spill over

into the non-prime time hours. Downtown employees and business people, who live outside the CBD, (and comprise 95% of the primary market), will not find it practical or convenient to play at regular times on the week-ends or during normal working hours. The Madison CBD offers little to keep this market downtown. Potential players living within the primary market could play during these off-hours, but they comprise too small a percentage of the total demand to have a significant impact on increasing occupancy rates in the non-prime time periods.

(2) Decreasing the construction budget by \$50,000 could significantly alter the quality and executive club atmosphere needed to attract the above average downtown business person. The high yearly rates projected may also become impractical. However, the acquisition price for the subject property may not be firm. Moreover, construction costs have been estimated without extensive research or local professional advice. The variance about the expected costs must be considered high in this type of renovation project.

(3) The high fixed development and operating costs indicate that a 4 court operation is not efficient. Trade professionals generally concur on this observation.¹⁶ Most clubs built today even in downtown locations exceed 6-8 courts.

16. Mort Leve, Op. Cit.

VI RISK ANALYSIS AND LIMITING ASSUMPTIONS

Negative Attributes:

(1) The rule of thumb capture rates used in the analysis are optimistically based on racquetball's dramatic and haphazard growth in recent years. The limits of growth and demand have never been determined or tested in an Equilibrium Market Place. Racquetball, like bowling in the 1950's, is enjoying a particular faddishness. The continued accelerated growth and participation in the sport in Madison must be considered uncertain, especially in light of the overabundance of existing courts.

(2) Racquetball facilities are management intensive; good management is a necessity in any court club facility operating in today's market.

(3) The large capital and space commitment to a racquetball facility precludes use of that space for other activities. Conversion of the racquetball space to other types of uses would be limited if the court club fails.

(4) Any private recreation facility in Madison runs the risk of additional competition from public and not for profit facilities that tend to undercut the private market. For example, the addition and modernization of courts at the downtown YMCA could have a significant impact on a typical private club located nearby.

(5) The subject site lacks convenient parking, hence, drastically limiting the primary trade area. The downtown court club must rely almost entirely on local employees.

(6) The probability of attracting residential players outside the Madison CBD to bill the non-prime court hours must be considered limited, in light of the parking problem and the other inconveniences of travel to the Square.

(7) Gruen Gruen and Associates were busy this past week and therefore no customer survey analysis has been prepared. A survey of downtown office workers could have provided more revealing estimates of potential participation, leakage of that potential to outside facilities, and overall customer preferences.

Positive Attributes:

(1) The market demand in this study conservatively limited its scope to persons in the 25-44 age group with certain median incomes. Other court facilities indicate that from 10-30% of the membership come from individuals outside these categories.

(2) The non-prime court times could be partially filled by patrons of downtown hotels. None of the hotel operators have been contacted to determine the potential of this alternative source of demand.

(3) This analysis assumes no additional use of the subject property. Development of retail facilities on the first floor and/or offices on the second floor might improve the overall cash flow position of the property as well as decrease the burden of fixed acquisition costs of land and building currently shouldered only by the club. A full line sporting goods store appears to be an impractical tenant at this site.¹⁷

17. Conversation with Wes Zulty, May 3, revealed that the lack of on-site parking would deter customers buying bulky sporting equipment, since carrying such purchases to cars parked in a public ramp some distance from the store is not practical.

VIII CONCLUSION

We find that a conservative estimate of court hour demand indicates a need for a minimum of four new racquetball courts on the Square. However, since the primary market consists of employees who work, but do not live downtown, filling the non-prime court hours, which is essential to the profitability of a racquetball club, will be difficult. The high building and land costs of the subject site present another drawback to project feasibility. Allocating these costs to other uses through greater utilizations of the building could make the racquetball venture appear profitable. Further study should be conducted in this direction. For example, preliminary "back door" analysis indicated that if the allocated acquisition costs could be reduced by \$100,000, the racquetball facility could be considered financially feasible.

As the assumptions now stand, the concept of a racquetball club at 17-21 E. Main Street appears unfeasible.

APPENDIX A

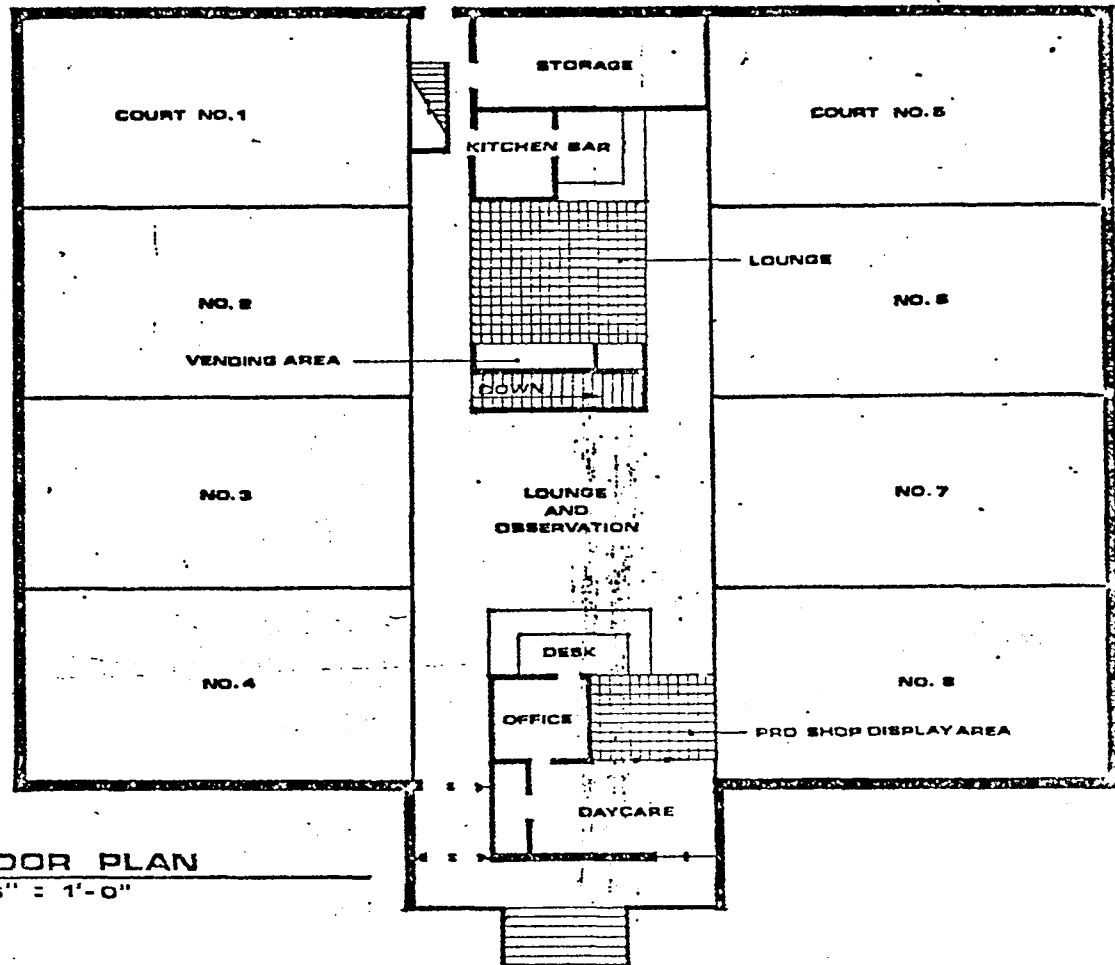
SURVEY OF RACQUETBALL FACILITIES IN THE MADISON AREA

<u>Court Clubs</u>	<u># OF COURTS</u>	<u>YEARLY FEE</u>	<u>COURT RATES</u>	<u># OF MEMBERS</u>	<u>COMMENTS</u>
1. Century Harbor Middleton	10	I=\$50 F=\$85	P=\$8 R=\$6-7	1,000	98% of membership reside in Middleton. Completed Spring 1978. Nursery.
2. Court Club 6011 Odana Rd.	8	I=\$45 F=\$65	P=\$8 R=\$6	2,000	First Court Club in Madis
3. Supreme Court 5555 Odana Rd.	10	I=\$45 F=\$65	P=\$8 R=\$6-7	1,800	Nursery, Competition cour
TOTAL COURT CLUBS	28			4,800	
<u>Fitness Centers & Multi-purpose facilities</u>					
4. Cherokee Country Club-Cherokee Hills	4	I=\$88.40 F=\$124.80	P=\$7.28 R=\$5.20	700	Annual membership include indoor tennis. Part of Golf Club.
5. Fitness World Beltway Drive	3			50	Full Fitness Program- R-Ball not primary.
6. Plaza Club First WI Bldg.	2	\$286	None	165	Courts not standard size. Emphasis on weights & fitness.
TOTAL FITNESS CNTRS.	9			915	
<u>Not for Profit Courts</u>					
7. YMCA West Odana Road	2	\$270	None	6000	YMCA's offer swimming, basketball, weights, etc in addition to R-ball.
8. YMCA Central W. Washington (2proposed)	2	\$270	None	X	
9. YMCA East (2proposed)	2	\$270	None	X	
10. U of WI	6	None	None	X	Must be faculty, student or staff.
TOTAL NOT FOR PROFIT	12 (4 proposed)			N/A	
TOTAL COURTS MADISON SMSA	49 (+ 4 proposed)				

I = Individual
F = Family
P = Prime time
R = Regular time

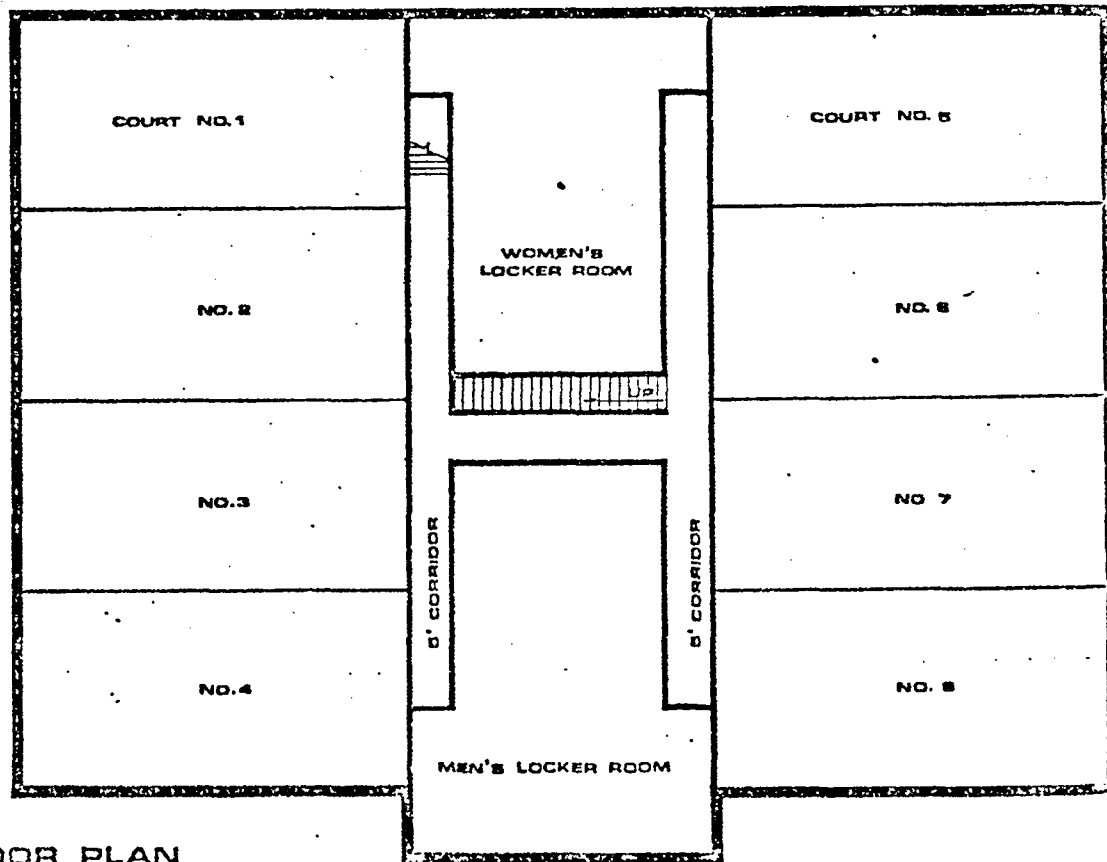
APPENDIX B

TYPICAL RACQUETBALL FACILITY DESIGN



FIRST FLOOR PLAN

SCALE 1/16" = 1'-0"



GROUND FLOOR PLAN

SCALE 1/16" = 1'-0"

Appendix C

DETAILED ESTIMATES OF POTENTIAL RACQUETBALL PLAYER DEMAND AT SUBJECT SITE¹

A. Total Population

- A. Residential - 220,000 (City and Urbanized Area)
- B. Employes - 123,248 (SMSAO)

Typical Racquetball Player Profile

- A. Residential: Age - 25-44 = 26% total population (City Planning Dept.)²
 - Income - \$15,000 and up, 1970 = 30% total population (U.S. Census)
 - Combined proportion (age x income) = 8% total population
 - = 17,160
- B. Employed: Age - 20-44 = 60% total population (U.S. Census)
 - Income - \$15,000 and up, 1970 = 30% total population (U.S. Census)
 - Combined proportion (age x income) = 18% total population x 123,248
 - = 22,185

Note: Overlap or double counting exists at this stage of the analysis---but it is not critical to analysis at this stage.

B. Overall Potential for Racquetball Players

- A. Residential - 17,160
- B. Employed - 22,185

Market Area Definition (delimited as basis of C.T. 17.00 - 5-10 minute walking distance)

- A. Residential: 4,813 people live in C.T. 17.00 (Source: U.S. Census, 4th Count)
 - Age - 26% are 25-44
 - Income - 13% families have \$15,000 plus incomes = 45people
 - 3% individuals have \$15,000 plus incomes = 4people
 - 49
- B. Employment: 19,413 people work in C.T. 17.00 (Source: Barton Aschman-State Street Mall Study)
 - x 30% (citywide proportion of employed between 25-44 and \$15,000 incomes)
 - 5,824

-
1. Refer to explanatory notes in text, Part III "Market Potential for Racquetball Clubs" for greater detail.
 2. Assumes that most persons ages 18-24 have access to U.W. courts (30,000 students out of 42,000 in that age cohort).

C. Market Potential Within Prime Market Area

A. Residential - 49

B. Employed - 5824

Percent of Prime Market Participants Likely to Play

A. Residential: 49 x .05 participation rate (Source: Darrow article
= 3 people in Applied Journal)

B. Employed: 5824 total people x Male/Female distribution - city wide
= 60/40
x .60 = 3494 males x .10 participation rate = 350 male
(Source: Mort Leve)
x .40 = 2330 females x .25 participation rate = 58 female
(Source: Mort Leve)

Total = 408 people

D. Market Likely to Actively Participate

A. Residential - 3

B. Employed - 408

Competition Analysis of Other Clubs

A. Residential - none lost = 3 people/members active downtown

B. Employed

U.W. Courts - open to University students and staff. U.W. age
students already discounted

Plaza Health & Racquetball Club - primarily a health club

YMCA - not competitive in quality

Suburban Clubs - 25% loss conservatively estimated due to downtown
employee with suburban club membership

408 x .25 = 102 potential members lost
= 306 members active downtown

Total = 309, say 300 members

E. Active Participant Market After Accounting for Competition

A. Residential - 3

B. Employed - 306
say 300

Membership Participation Profile and Fee (See Part V for detailed explanation
of assumptions)

Participation rate ranges from 1.3 to 1.5 times per week (Source:
Consultants & interviews)

x 300 members ÷ 2 = courts = 195 to 225 court hours per week

or 4 courts justified at 8 hours of prime time
per week (8 x 4 courts x 6 days = 192 court hours)
(8 x 4 courts x 7 days = 224 court hours)

Appendix D

DEMOGRAPHIC AND ECONOMIC FEATURES OF THE MADISON MARKET

A. Family Income Distribution Across Total Occupations, Madison SMSA (1970 U.S. Census)

<u>Income</u>	<u>Number</u>	<u>Percent</u>	
0 - \$1000	433	1%	
\$1000 - 4999	3,937	7%	
5000 - 9999	15,238	27%	
10,000 -14,999	19,854	35%	
15,000 -24,999	13,150	23%	} 30%
25,000 - up	3,977	7%	
Total	56,589	100%	

B. Employed Persons by Sex, Madison SMSA (1970 U.S. Census)

	<u>Number</u>	<u>Percent</u>
Male	71,561	60%
Female	51,687	50%
Total	123,248	100%

C. Age Distribution of Male and Female Employed Labor Force, Madison SMSA (1970 U.S. Census)

<u>Age</u>	<u>Male</u>		<u>Female</u>		<u>Combined</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
16-19	5,906	8%	5,854	11%	11,760	9%
20-24	11,245	16	12,855	25	24,100	21
25-29	10,495	14	5,839	12	16,334	13
30-34	7,542	11	3,735	7	11,277	9
35-44	13,901	19	7,920	16	21,821	17
45-54	11,976	17	8,186	16	20,162	17
55-59	4,528	6	3,320	6	7,848	6
60-64	3,370	5	2,342	4	5,712	5
65 +	2,598	4	1,636	3	4,234	3
Total	71,561		51,687		123,248	

D. Age Distribution of Madison City Population (1974 Special Census)

<u>Age</u>	<u>Number</u>	<u>Percent</u>
0-4	10,520	6.3%
5-13	21,942	13.0%
14-17	11,171	6.6%
18-24	42,546	25.2%
25-44	43,915	26.0%
45-64	25,643	15.2%
65 +	12,934	7.7%
Total	168,671	100.0%

APPENDIX E

GENERAL PROFILE OF RACQUETBALL PLAYER¹

Will racquetball be an on going sport for you.

Yes	98%
No	1%
Uncertain	1%

Where you play.

Membership club	53%
Y.M.C.A.	37%
School of University	18%
Public Courts	7%
Military Installations	5%
J.C.C.	3%
Park District	3%

Frequency of play.

Everyday	11%
Three times a week	67%
Once a week	18%
Irregularly	4%

Primary residence.

Homeowner	67%
Apartment rental	21%
Home rental	7%
Condominium	5%

Adult male income producing classification.

Professional	38%
Executive	26%
Self-employed	11%
Managerial	11%
Laborer	6%
Supervisory	4%
Clerical	1%
No Answer	4%

Adult female income producing classification.

Professional	25%
Clerical	11%
Executive	9%
Managerial	9%
Supervisory	4%
Sales	4%
None	31%

Combined family annual income.

\$100,000 or more	4%
\$75,000-\$100,000	2%
\$50,000-\$75,000	5%
\$30,000-\$50,000	26%
\$20,000-\$30,000	28%
\$15,000-\$20,000	14%
\$10,000-\$15,000	13%
\$10,000 or less	8%

Household make-up

Single male	9%
Single female	5%
Couple only	33%
Couple w/one child	17%
Couple w/two children	21%
Couple w/three children	7%
Couple w/four children	5%
Couple w/five children	2%
Couple w/six children	1%

Age of adult male head of household.

20 yrs old or less	none
21-25 years	8%
26-30 years	18%
31-40 years	34%
41-50 years	15%
51-60 years	21%
Over 60	4%

Age of adult female head of household.

20 or less	14%
21-25	24%
26-30	24%
31-40	6%
41-50	9%
No Response	23%

Male adult educational level reached.

College graduate	43%
Graduate school graduate	22%
Some college or jr. col.	20%
High school graduate	8%
More than graduate school	3%
No Response	4%

Female adult educational level reached.

College graduate	33%
Some graduate school	31%
Graduate school graduate	17%
Some college or jr. col.	17%
Only high school graduate	2%

1. Taken from interviews with managers and National Racquetball Magazine Survey of Readers, January, 1978.

MAP OF RACQUETBALL CLUBS IN MADISON AREA

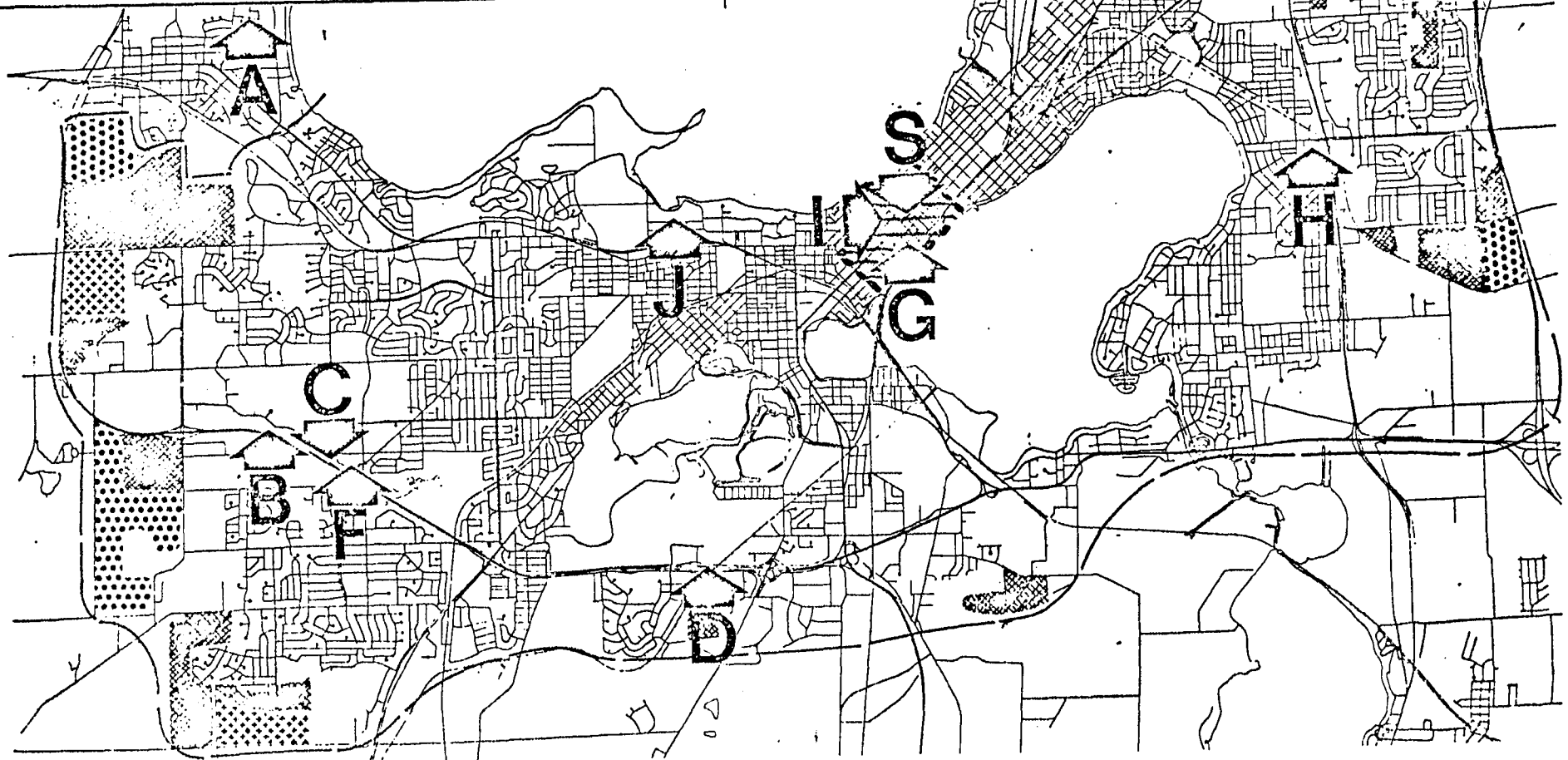
- A. Century Harbor Club
- B. Court Club
- C. Supreme Court
- D. Fitness World
- E. Cherokee Club
- F. YMCA West
- G. YMCA Central
- H. YMCA East
- I. Plaza Health & Racquetball Club
- J. U.W. Natatorium Courts

S. 17 E. Main St.- Subject Site

1 mile 1 mile 1 mile

SCALE

 Prime Market Area



APPENDIX G

ESTIMATED EXPENSES AND CONSTRUCTION COSTS

A. Expenses ¹ :		
Advertising and promotion		\$ 2,500
Insurance		3,500
Laundry (in house)		1,500
Utilities		12,500
Telephone		1,000
Maint.-repairs		3,000
Legal-accounting		2,000
Dues, Subscript., Travel		1,000
Bad debt		800
Real Estate Tax (\$350,000 x .026)		9,100
Miscellaneous		1,000
Salaries		
Manager/Pro	16,000	
Office/desk (\$3.00/hr)	12,000	
Total salaries	28,000	
Employers tax (15%)	4,200	
Contract-maint.	5,000	
TOTAL SALARIES		37,200
TOTAL OPERATING EXPENSES		\$75,100
B. Construction Costs:		
Land ²		150,000
Existing structure ³	90,000	
Court construction(\$15,000/court) ⁴	60,000	
Locker room (sauna, whirlpool, showers)	60,000	
Buffet, bar, & Lounge bar		
(\$20/ft x 2000 sq. ft.)	40,000	
Architect	15,000	
TOTAL BUILDING		415,000
Contingency @ 10%		40,000
		455,000
Construction interest (\$455,000 x 10% x .80)		36,000
Taxes		3,500
Opening expenses ⁵		
Advertising & promotion	8,000	
Inventory	1,000	
Manager-salary	1,500	
TOTAL OPENING EXPENSES		10,500
Organization costs		
Developers fee	40,000	
Legal & accounting	5,000	
TOTAL ORGANIZATION COSTS		45,000
		\$550,000
TOTAL		\$550,000

1. Mort Leve, Racquetball Consultant, Chicago, Illinois

2. Ibid.

3. Steve Rosenberg, Appraisal Report of 17-21 E. Main, December 1977.

4. Mortgage & Real Estate Executives Report, June 1, 1976.

5. Ibid.

APPENDIX H

CASH FLOW ANALYSIS FOR 17 E. MAIN STREET

NORMATIVE ASSUMPTIONS

CASH FLOW ANALYSIS

	1979	1980	1981	1982
1 GROSS RENT	121250.	127313.	133678.	140362.
2 LESS VACANCY	12125.	0.	0.	0.
3 LESS REAL ESTATE TAXES	9100.	9555.	10033.	10534.
4 LESS EXPENSES	67000.	69960.	74158.	78607.
5 NET INCOME	33025.	47798.	49488.	51221.
6 LESS DEPRECIATION	18636.	18636.	18636.	18636.
7 LESS INTEREST	40040.	39625.	39167.	38663.
8 TAXABLE INCOME	-25651.	-10464.	-8316.	-6079.
9 PLUS DEPRECIATION	18636.	18636.	18636.	18636.
10 LESS PRINCIPAL PAYMENTS	4071.	4487.	4944.	5448.
11 CASH THROW-OFF	-11086.	3686.	5376.	7109.
12 LESS TAXES	0.	0.	0.	0.
13 LESS RESERVES AT 0.000	0.	0.	0.	0.
14 CASH FROM OPERATIONS	-11086.	3686.	5376.	7109.
15 WORKING CAPITAL LOAN(CUM B)	11086.	8509.	3983.	0.
16 DISTRIBUTABLE CASH AFR TAX	0.	0.	0.	2728.
17 TAX SAVING ON OTHER INCOME	12826.	5232.	4158.	3039.
18 SPENDABLE CASH AFTER TAXES	12826.	5232.	4158.	5767.

C O M P O N E N T S U M M A R Y

TITLE	PCT. DEPR	BEGIN USE	USEFUL LIFE	DEPR METHOD	COST	SCH
LAND	0.00	1	10.	0	\$ 150000.	0
BUILDING	0.95	1	33.	2	\$ 300000.	0
DEVELOP COST	1.00	1	10.	2	\$ 100000.	0

M O R T G A G E S U M M A R Y

TITLE	INTR RATE	BEGIN YR.	END YR.	TERM	ORIG BALC.	PCT VALUE
FIRST MORTG.	0.0975	1	10	25	\$ 412500.	0.750

YEAR OF ANALYSIS

=====

1979

1980

1981

1982

BEFORE TAX RATIO ANALYSIS

=====

30	RETURN ON NET WORTH B/4 TAX	-0.2974	0.2160	0.2194	0.1999
31	CHANGE IN NET WORTH B/4 TAX	-40895.	17184.	19590.	19552.
32	CASH RTN ON ORIG CASH EQUIY	-0.0806	0.0268	0.0391	0.0517
33	PERCENT ORIG EQUITY PAYBACK	0.0000	0.0000	0.0000	0.0198
34	PRESENT VALUE OF PROJECT	486864.	491688.	496881.	500685.

AFTER TAX RATIO ANALYSIS

=====

35	RETURN ON NEW WORTH AFT TAX	-0.1903	0.1739	0.1500	0.1165
36	CHANGE IN NET WORTH AFT TAX	-38990.	11900.	12401.	12362.
37	CASH RTN ON ORIG CASH EQUIY	0.0933	0.0380	0.0302	0.0419
38	PERCENT ORIG EQUITY PAYBACK	0.0933	0.1313	0.1616	0.2035
39	PRESENT VALUE OF PROJECT	509314.	511095.	511093.	508738.

40	NET INCOME-MARKET VALUE RTO	0.0589	0.0836	0.0849	0.0862
41	LENDER BONUS INTEREST RATE	0.0000	0.0000	0.0000	0.0000
42	DEFAULT RATIO	0.9914	1.0581	1.0234	0.9777

RETURN ANALYSIS WITHOUT SALE

=====

41	CUM. AFT TAX SPENDABLE CASH	12826.	18827.	24115.	31329.
44	MOD. I.R.R. ON ORIG EQUITY	-0.9067	-0.6300	-0.4403	-0.3091
45	MOD. I.R.R. ON CUM. EQUITY	-0.9067	-0.6300	-0.4403	-0.3091

RETURN ANALYSIS WITH SALE

=====

46	CUM. CASH LESS ORIG EQUITY	-28069.	-8262.	9426.	25175.
47	CUM. CASH LESS CUM. EQUITY	-28069.	-8262.	9426.	25175.
48	MOD I.R.R. ON ORIG EQUITY	-0.2041	-0.0305	0.0223	0.0429
49	MOD I.R.R. ON CUM. EQUITY	-0.2041	-0.0305	0.0223	0.0429

FRONT DOOR ANALYSIS

CASH FLOW

ANALYSIS YEAR IS 3 = 1981

	TEST	TEST	TEST
	AT 1.00	AT 1.10	AT 0.90
TOTAL REPLACEMENT COST =	550000.	605000.	495000.

REQUIRED CASH FLOW

	YR.	#	YR.	#	YR.	#
GROSS RENT	163726.	*****	180098.	*****	147353.	*****
LESS VACANCY	0.	0.00	0.	0.00	0.	0.00
LESS R.E. TAXES	12288.	3071.96	13517.	3379.16	11059.	2764.77
LESS EXPENSES	90826.	*****	99909.	*****	81744.	*****
NET INCOME	60611.	*****	66672.	*****	54550.	*****
DEBT SERVICE	44111.	*****	48522.	*****	39700.	9925.05
CASH THROW-OFF	16500.	4125.00	18150.	4537.50	14850.	3712.50

BACK DOOR ANALYSIS

COMPONENTS

ANALYSIS YEAR IS 3 = 1981

	TEST	TEST	TEST
	AT 1.00	AT 1.10	AT 0.90
GROSS RENT PROJECTED	133678.	147046.	120310.

JUSTIFIED COMPONENTS

TOTAL REPLACEMENT COST	449062.	493969.	404156.
LAND	122472.-0.184	134719.-0.102	110224.-0.265
BUILDING	244943.-0.184	269437.-0.102	220449.-0.265
DEVELOP COST	81648.-0.184	89812.-0.102	73483.-0.265
FIRST MORTG.	336797.-0.184	370476.-0.102	303117.-0.265

OPTIMISTIC ASSUMPTIONS

CASH FLOW ANALYSIS

=====	1979	1980	1981	1982
1 GROSS RENT	135000.	141750.	148838.	156279.
2 LESS VACANCY	12125.	0.	0.	0.
3 LESS REAL ESTATE TAXES	9100.	9555.	10033.	10534.
4 LESS EXPENSES	67000.	69960.	74158.	78607.
5 NET INCOME	46775.	62235.	64647.	67138.
6 LESS DEPRECIATION	15417.	15417.	15417.	15417.
7 LESS INTEREST	36400.	36023.	35607.	35148.
8 TAXABLE INCOME	-5042.	10796.	13624.	16573.
9 PLUS DEPRECIATION	15417.	15417.	15417.	15417.
10 LESS PRINCIPAL PAYMENTS	3701.	4079.	4495.	4953.
11 CASH THROW-OFF	6674.	22134.	24546.	27037.
12 LESS TAXES	0.	5398.	6812.	8286.
13 LESS RESERVES AT 0.000	0.	0.	0.	0.
14 CASH FROM OPERATIONS	6674.	16736.	17734.	18750.
15 WORKING CAPITAL LOAN(CUM B)	0.	0.	0.	0.
16 DISTRIBUTABLE CASH AFR TAX	6674.	16736.	17734.	18750.
17 TAX SAVING ON OTHER INCOME	2521.	0.	0.	0.
18 SPENDABLE CASH AFTER TAXES	9195.	16736.	17734.	18750.

YEAR OF ANALYSIS

=====	1979	1980	1981	1982
-------	------	------	------	------

BEFORE TAX RATIO ANALYSIS

=====				
30 RETURN ON NET WORTH B/4 TAX	-0.1634	0.3617	0.3440	0.3298
31 CHANGE IN NET WORTH B/4 TAX	-27099.	13279.	13695.	14153.
32 CASH RTN ON ORIG CASH EQUIY	0.0534	0.1771	0.1964	0.2163
33 PERCENT ORIG EQUITY PAYBACK	0.0534	0.1873	0.3291	0.4792
34 PRESENT VALUE OF PROJECT	465935.	481608.	495786.	508627.

40 NET INCOME-MARKET VALUE RTD	0.0917	0.1197	0.1220	0.1243
41 LENDER BONUS INTEREST RATE	0.0000	0.0000	0.0000	0.0000
42 DEFAULT RATIO	0.8607	0.8439	0.8351	0.8270

RETURN ANALYSIS WITH SALE

=====

46 CUM. CASH LESS ORIG EQUITY	-17904.	10354.	37217.	63829.
47 CUM. CASH LESS CUM. EQUITY	-17904.	10354.	37217.	63829.
48 MOD I.R.R. ON ORIG EQUITY	-0.1432	0.0406	0.0908	0.1086
49 MOD I.R.R. ON CUM. EQUITY	-0.1432	0.0406	0.0908	0.1086

Appendix I

LIST OF PERSONS AND ORGANIZATIONS CONTACTED

The authors gratefully acknowledge the information and assistance provided by the following individuals and organizations regarding their own operations and racquetball feasibility studies.

1. Steve Hearn, Manager and Developer, Avenue Club, 444 Michigan Ave., Chicago.
2. Mort Leve, National Racquetball Consultant and Officianado, Chicago.
3. Vaughn Loudenback, Manager, Century Harbor Racquetball Club, Middleton.
4. Wes Zulty, Attorney, Sporting Goods Store Operator, Madison.
5. Paul Ikier, Manager, Court (Racquetball) Club, Madison.
6. Supreme Court Racquetball Club, Madison.
7. Charlie Trainor, Carley Capital Group, Madison.
8. Jerry Darda, Manager, Plaza Health and Racquetball Club, Madison.
9. Tom Lander, O. E. Madsen and Son Co., Madison.

PARKWOOD PLAZA SHOPPING CENTER
Discussion with John Flad

Typical with Middleton Springs Center:

Rent per square foot.
0 - 1,000 sqft. \$7.00
1,000 - 3,000 sqft. \$5.50 - 6.00
10,000 + \$3.00 - 4.00

* all triple net

Base rent for retail space is responsive to the size of the space leased and the term of the lease.

Tenant is responsible for his own operating and utility expenses, and a proportionate share of the three items below:

CAM \$.70/ sqft.
TAX \$.74/ sqft.
INSURANCE \$.09/ sqft.

ESCALATIONS:

Typically, tied to CPI, with a floor of 3% and a ceiling of 6%.

LEASE LENGTH:

A minimum of three, maximum of five years.
Anchor tenants locked into 15-20 year leases.
Options match original lease term.
(i.e. 4 year lease/ 4 year option)

DESCRIPTION OF SPACE:

- Store enclosure walls, drywall taped and ready for paint
- Concrete floor
- Storefront and entrance doors to predetermined schedule
- Heating and air conditioning system
- Acoustical ceiling
- Recessed fluorescent ceiling lights
- One toilet room to code

FOR WHAT IT'S WORTH:

- Flad said, the market was fairly soft due to the over abundance of strip centers. Therefore, no set rule for free rent.
- Tenants generally mom and pop combinations. Therefore, he likes flat rent verses percentage rent since one would probably not want to look over their books.
- Middleton Springs doesn't include the Sentry grocery store. Rent on Fauerbach's was \$3.50-4.00/sqft plus 1% of every \$1.00 above 5 million.
- Middleton Springs was one of Flad's first projects. He gave roughly \$1.00/sqft. for the land, as opposed to approx. \$4.00/sqft. for Fitchburg Ridge.

"The Pines of Perinton," A Memo For Inland Steel Company, by Donald Samuelson.

Week² of February 24 Reading G Business 857

This article is an actual memo on creating a new marketing plan for a 508 unit apartment complex in Perinton, New York. I'm not sure why Chief left this in the mimeo readings; I wouldn't spend much time studying this for the exam.

The objective of the memo is to set out one of the principal's thoughts on marketing the 508 unit project. He is by no means a marketing or real estate expert.

The memo is divided into 3 parts: tentative marketing conclusions, elements of the marketing program and a marketing budget and timetable.

I. Tentative Marketing Conclusions

A. Areas to Improve

1. A new landscaping plan is needed to help the project stand out.
2. Pines of Perinton is the new name to add prestige and a rural atmosphere.
3. Increase efforts to rent the 256 market-rent units; the 236 subsidized units should be de-emphasized.
4. Prospective tenants should be young singles between 20 and 35.

B. Marketing Needs and Concerns

1. It is felt that prospective tenants are looking for low price, value, environment, location and amenities.
2. In order to be competitive the project needs air conditioning, disposals, a pool, a day care center, and tennis courts (minor details).
3. The units are smaller than the competition; however, the project is well located with respect to schools, shopping, employment centers and recreational facilities.

II. The Marketing Program

The general goal is to "sell the product with a country feel--quality living at a modest price." The rest of the section shows various logo designs, brochure ideas, sign layouts, model layouts, sales office layouts and personnel suggestions.

III. Budget

This section shows their budget allocations for the marketing program.

Obviously, there are no facts to memorize from this reading. I think Chief just wants us to be exposed to different factors to be considered in creating a marketing plan.

John DiVall

Real Estate Dynamics, inc.

COUNSELING

ECONOMIC ASSESSMENT

FEASIBILITY

LAND PLANNING

MARKET ANALYSIS

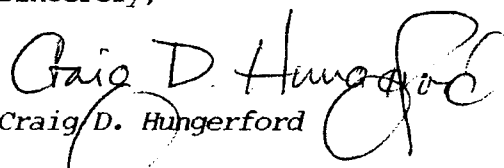
December 24, 1987

Dr. James A. Graaskamp
University of Wisconsin
School of Business
110 Observatory Drive
Madison, WI 53703

Dear Chief:

A few weeks ago we discussed a feasibility project for Business 857 regarding the addition of two floors of residence housing and other remodeling to the University YMCA. The idea has been given approval by the Board of Directors and we would like to move ahead. In addition, with SRO housing being such a hot topic some market research relative to supply/demand is needed. Is this something that might interest Dowl Myers and his Business 757 class? Regardless, I have been informed that two very capable students, Mark Furman and Bob Lindholm, would be very interested in working on this feasibility problem. I hope this project can be included as part of your 857 class.

Sincerely,


Craig D. Hungerford

TRANSCRIPTION OF JAMES A. GRAASKAMP'S
857 LECTURES
SPRING, 1988

TAPED BY BRIAN (TONY) CIOCHETTI
JANUARY THROUGH APRIL, 1988
AND
TRANSCRIBED BY MAX KUMMEROW
1994

NOTE: This transcription has not been edited. The quality of the tapes varied and it was often difficult to understand every word being spoken. Especially difficult to transcribe are the proper names - often one has to do use the "best guess" approach. Our thanks to Tony for his foresight in taping the lectures and to Max for perserving and allowing us to re-live Graaskamp's words and style.

JBD

COVER NOTE

The following are transcriptions of cassette tapes of lectures by Professor James A. Graaskamp in his Feasibility Analysis course (857) at the University of Wisconsin. Unfortunately, tape quality is poor and some words are undecipherable. But, as Graaskamp had not recently updated his writing on feasibility analysis, these are an important record of his thinking, as well as a fascinating window on the style and methods of a great teacher.

These 1988 lectures are literally Graaskamp's last words on the subject. The final lecture is delivered by a colleague who reports to the students that their teacher has died suddenly of respiratory failure. As a quadriplegic in his mid-50's, Graaskamp had outlived average life expectancy, but his sudden death was a great loss, nevertheless. The tapes, happily, prove that days before his death he was still joking with students and hypnotizing them with his elaborate anecdotes recounting real world real estate lessons, insights, battles, and follies.

Unfortunately, three lectures are missing from the set of tapes. They are 6-2, 8-2, 10-2. It would be useful to obtain a syllabus to try to fill in these blanks, at least insofar as topics are concerned.

From 1962 to his death in 1988, Graaskamp headed the Real Estate Department at the University of Wisconsin School of Business. The 900 graduates from the program (most at the Master's degree level) were highly sought after by industry and their work is probably Graaskamp's most enduring legacy.

Although he was widely regarded by the real estate industry as perhaps the most original and effective teacher of real estate in America, and a leading authority and thinker in the field, Graaskamp was much less successful in publishing and influencing academic thinking. Two major reasons for this gulf between Graaskamp and mainstream academic work are clearly discernable in these feasibility lectures.

First, Graaskamp's work was primarily focussed on the problem of making good real estate decisions. To be crass, on making a buck. Or, to be fair and accurate in recognition of his concern for ethics, the environment, and external costs and benefits, on maximising social returns to capital invested in real estate.

Graaskamp obviously cared very much about practical outcomes, whether the money made or lost was his money (as

in the Applewood Hill development mentioned in the lectures), or institutional money (Jim DeLisle, who earned a PhD under Graaskamp gives a guest lecture on portfolio strategy at Prudential which at that time was investing a billion dollars annually in real estate projects), or public money (the Madison Convention Center siting controversy led Graaskamp to criticize the Mayor in these lectures). Graaskamp saw clearly that societal benefits and costs are the correct yardstick for real estate decisionmaking.

Concern for practical outcomes leads to focus on project level decisions. And this leads to a holistic perspective. If it is the mayor's feud with an alderman that leads to failure of a project, the outcome is just as costly as if the soils were not capable of bearing the load, the financial contract too confining, or the market poorly understood. Feasibility analysis, in Graaskamp's conception of it, is about everything that will affect the success or failure of the project. If Graaskamp is building models, they are time and space specific models relevant to individual project decisions. Such models cannot be econometric and quantitative in nature because of data inadequacies and the importance of qualitative variables and creativity in solving the feasibility puzzle.

This approach is clearly opposite to the usual academic approach which is to seek theory which can be generalized accross time and space. And also completely different from the academic mindset that seeks to single out the effects of single or a few variables. Academic research tries to identify theory. Graaskamp tried to identify the right decision at the time. So Graaskamp addresses a different kind of question than those asked by most of his academic colleagues. He is totally applied in perspective.

This leads him to a case study approach, both in feasibility analysis and in teaching. Listening to his lectures, one is astounded by the number of parables and examples drawn from real life consulting jobs, the experience of former students, and other industry contacts. Contrary to the neat Greek analytical world of academic style thinking, where A causes B, in Graaskamp's anecdotes, one can never be quite sure that if A caused B last time, then A will cause B this time. The world is too rich and complex. There are always changing side conditions. The answer to any question could be "It depends." Where economists assume away complexity, in Graaskamp's style of analysis, the details of implementation are decisive. The developer might do everything right, but the project still fail. There is

chaos and uncertainty. Recognizing and managing this inherent risk is a major concern.

Where finance people study past results to get statistical pictures, Graaskamp looks at the case study at hand to try to improve information. The whole exercise, from a finance perspective, is about trying to improve or create insider information from eclectic and hopefully comprehensive sources that will improve trading results. The market is not perfect, not even weak form perfect. Information has benefits and costs and often it is worthwhile to pay for research to get better information. This course in feasibility analysis puts the students in the role of consultants whose job is to develop this richer information set as a basis for better real estate decisions. The major assignment is a case study for a wide range of real world clients including suburban shopping center developers, a golf course in southeast Wisconsin, and the downtown YMCA, and so on.

Finally, as implied in mentioning Graaskamp's concern about social rather than individual costs and benefits, values and institutions are a major part of his thinking. Real estate is defined by legal, financial, contractual, and other institutional forms that have great impacts on outcomes. Examples are zoning entitlements and federal tax laws which have everything to do with results of real estate investments. Graaskamp talks a lot about "profit centers" in the sense that he clearly saw that developers, agents, lending staff, or others could make money even if the project as a whole lost money. Again and again in the course he returns to the nuances of political conflict that are a key to developers' ability to obtain public entitlements that add value. Values, ethics and institutional structures that offer socially acceptable incentives are a critical piece of Graaskamp's real estate thinking.

Graaskamp's approach to real estate seems fundamentally correct in many respects and it is to be hoped that academic researchers can find ways to integrate the holistic applied approach with their more abstract and theoretical work to the mutual benefit of both.

857 FEASIBILITY

Lecture 1

In the 850 course the Phyr and Cooper Book is optional. A number of people wanted a textbook to pull everything together, but unfortunately the tax law has changed several times since 1982 and therefore anything that has to do with taxes is obsolete. We were hoping they would have a new edition out by this time but they said maybe by next September. We have tried to provide everything through the ever popular notes. That will be at Bob's copy shop by Saturday.

A couple of other announcements. In the 795 course I will have a mimeo for you next week, I have one date floating in the breeze, but if you have a social calendar you may want to write this down. April 29th Steve Jarchow on real estate equity investment trusts and how you go about creating one. He's done several for Lincoln Properties and now he's with Bear Stearns, he's one of our former alums, up from Dallas, also a lawyer, also an MBA and also author of several books on REITs etc. Super guy.

April 8 Jay Shidler will be here a different breed in real estate altogether. Invests only for the account of Jay Shidler. One of the great role models. Jay did his first project for the real estate investment at the University of Hawaii, he went to a Japanese who said that's not a bad idea, let's do it as a joint venture 50-50. Jay said what will I use for money. And as he obviously didn't have any they did it without money and it worked beautifully. So he made his first big score while he was still a junior at the University of Hawaii. Continues to be headquartered there. Now he has 7 major offices in the U.S. Continues to buy for his own account. Never uses his own money. As a role model he's perfect for you guys. He didn't even have to marry money.

March 29 we have at least Tod Mansfield and we think Bill Mannell (?) of Disney Development Program. He'll go through a number of their projects including the one in France. For the new ?? you need to be aware of and he is into the non-gate real estate for Disney. Not the theme park, per se, but all the peripheral throwoffs of that, and all the corporate real estate in terms of ?? manufacturing firms and hotels, etc. etc. Classic super guy. Really excellent. Really pleased to get him. Bringing his dog and pony show along with him. Disney can't do anything without 14 projectors and Mickey Mouse.

And then the first one which is still floating in the breeze will be Jerry Klegg?, maybe Hirshberger or Lindauer from

JMB. He's going to do six hours on the Cadillac Fairview deal. Which kind of barely scratches the surface of what has been the largest single real estate transaction in history to date in which they broke up the real estate and spun off the office and end up to Copley who marketed that in one direction and then they took all the shopping centers, primarily in Canada. That created all kinds of interesting problems not to mention the fact that two wings of the Bronfman estate don't talk to each other. It will take six hours to go through that as a minimum which isn't bad reporting on something that took nine months to do in time. So that will be either the last Friday in February or one of the first two Fridays in March, but I won't know til Monday or Tuesday.

Again the places for that will be on your mimeograph I still have not gotten confirmation from the Edgewater or the Inntowner. That will be on your mimeo next week.

Okey doko. Other administrative matters, the guys from Rubloff won't start throwing a bash and sent out invitations by the bushel to our graduates. Pat do you want to say when that is.

Yes. It's a cocktail party. To broaden your understanding of their firm. They have a few openings in their firm. It will be held in Chicago. That will be Wednesday, February 3. And its by invitation only, and we've got the invitations. They'll be in the office Wednesday Feb. 3, 4:30-7:30.

I won't be here that day anyway, so if you want to go down, we may not have a class that day. I'm supposed to be in Boston the 4th and if the weather is running foul, I'll have to start out early to be there on time

Ok, any other social events coming up? In going through the schedules, the weekend of April 21-23 will be real estate club xxx day. I'm not sure where we are going. Working on Hawaii, Cancun and Minneapolis, one of those three (Laughter)

OK. This is the feasibility course, 857, and one of the primary functions will be to do a live feasibility project. Feasibility is a generic term, like theft, which covers a multitude of sins, but doesn't really stand for anything, legally. You have to be for wrongful extraction, robbery, burglary, etc. All of which are sins of theft there is no crime that is called theft.

I have lined up a number of interesting projects for people who are hot to get going on them.

I will identify those which we already have in the stable. What we would like is a team of two to work on any one of the projects. Some of you have already talked to me about projects which you have either because of where you work or your uncle max has one. By and large that is fine as long as you and I get together and define the problem. There is no way any of you can do a total feasibility study. You can obviously focus on some aspect of the problem and in some case that may involve a market survey, in other cases it may involve a site search to identify alternatives in other cases it's a what shall we do with the site now sort of thing, in some cases it is a how could we structure this to solve somebody's problem. I'll try to identify these as we go along.

The degree of problem definition that I was able to extract over the phone will need further refinement. The essence of feasibility is defining the right problem. You are about 60% of the way home if you can move from the problem as perceived by the client, to the problem as understood and very seldom are they the same. So here's the list you can write down and I'd like to you make up your mind by next Monday as to who your teammate person is going to be and if you have a project of your own, wonderful, write that down too, if several teams decide on the same project, then I may have to be arbitrary, whimsical, and capricious. Some of them would certainly stand two different teams approaching them from different viewpoints or fields or different aspects of the problem and so on, we'll resolve those problems as they appear. Final authority, no appeals by anybody basis.

The first one is one the south beltline as you come onto the beltline off Olin avenue, the existing soon to be remodeled on ramp, as you know right alongside of Knob Hill, which is now on a low ground area which has been a truck farm where the city has now constructed a new road system, a frontage road if you will, which is part of the larger beltline project which cuts across the truck farm and comes out about at Southtown, and I'm trying to think of the Japanese person's name who has operated that as a truck farm for years. Anyway, it's no longer a truck farm, the question is what do we do with it now. There's enough acres there that you could do an industrial park. There's enough soil problems there that it isn't all the greatest thing in the world, but it now has road access and all kinds of things it never had before and the gentleman who's handling that is a

gentleman named John Pinger, who's one of our former grads and an independent broker etc.

The second project is Ogden and Co. in Milwaukee and they have the option to develop something called the west freeway corridor. The west freeway corridor is a non-built abandoned leg of the freeway that goes by the east side of the County Stadium where the Brewers play and as it goes south of there it was one of the places they were going to build a prison originally, I guess, but it has been determined to be multiple use residential neighborhood, commercial, and they have several phases to go on it. The project is headed up by our former grad Peter Moegenburg, as well as Peter Ogden and they are hot to come over and lay the whole thing out. And given the fact that were talking about some medium rise apartments, probably some sort of service shopping, there are several projects to be had there They of course would pay your transportation mileage and the costs of working in the Milwaukee sector. They have a bunch of secondary data, but the zeroing in on what would be the profile of somebody who would like to live there, along channellized Menomonie creek, etc.

The city of course is providing a subsidy in terms of the price of the land.

The third project is the xxxx property and that is a three parcel property in Monona up against highway 51. The estate is a classic. It has been the most litigated estate in the history of the state of Wisconsin. xxxx, a kind of a neat old lady, who had her own ideas about the world and her boyfriend. He divided it up into three pieces, one for her sister, and a big piece which he had inherited jointly with his son, a piece which she left him plus the buildings on it, for real estate and urban planning. They tried to do a PUD in Monona on it which had a lot of interesting possibilities, with maybe apartments on one end and office industrial and stuff on the other. There was a big brouhaha, she died, with a big bite on the estate, finally got that settled with I don't know how many decisions of the state supreme court, so a trust exists and the only thing in it was land. And the boyfriend had two objectives, one never pays anybody, and two was never let anything happen to the land, which he succeeded in beautifully. They finally a new trustee and they owe \$35000 in back taxes, mechanics liens plastered all over the property. And so the attorney calls me and said "how would you like to buy that" for the price of the claims on the deed. You can sell the land and all the profits would go to the real estate program which is what the trust is supposed to be all about. After looking

at it with the University attorneys we declined respectfully to do that. Ultimately the land was sold to the boyfriend's son, who definitely wants out and would like to sell the whole shooting match, subject to some claim about what to do with these parcels.

The city of Monona just wants to do anything with it. Planned unit development or put it in a TIF district, they would love to see it developed and get rid of the whole mess. At any rate the e. property an 11 acre piece currently in trust, if you want to figure out a development marketing scheme

Next one The university YMCA right down here at the foot of Brooks and Johnson street. One of our alums, Craig Hungerford, is the committee chairman in charge of real estate They want to add two floors to the building, do some other renovation and remodeling they need a feasibility study for that expansion and Craig Hungerford would be the contact. Before you do that, talk to me and decide who is doing what.

Also the downtown YMCA would like some work, despite the press that they have been getting recently, the project itself is pretty firm in terms of the concept and its plan. There were some earlier feasibility studies done which probably aren't too elegant, but provide a point of departure for anyone who would like to clean that up. That would be an interesting problem in terms of feasibility. They will be going forward with it eventually as soon as they get their internal financial matters cleaned up.

The next one which comes from the same attorney is the Madison Gateway Council which represents the landowners along the beltline soon to be replaced by the new highway. So starting essentially at the Pepsi Cola plant over on Broadway and moving west to approximately Park street represents the Madison gateway council. They are looking at what do we do with the road now that its ours again and we get all this through traffic off of it. Two of our people looked at the corner site which is where Metropolitan bank is by the river and kind of a restaurant which has become a catering kitchen and then you have a defunct on the spot medical clinic. You have so many accidents along the highway that somebody thought that would be a great place to have a first aid station. There's a yacht club, threes a boat sales operation, there's a PDQ or 7 11, and there's a horrible building built by a CPA who got ridden out of town on a rail and that was a disaster and there's an insurance company in there now. Anyway, all those property owners got

together and said wouldn't it be great if we got together and started over and leveled the site, then we'd have an el primo site for a hotel or something of that sort.

They are still thinking about doing a hotel on that site, but in the meantime, they've expanded their planning concept or district for that strip as we've defined it. So there are multiple projects along there, so if some of you can find it in your heart, tomorrow night at 5 pm, that council is meeting. The attorney in charge is Bob Hauser and if you can go ahead and contact him and introduce yourself. Its going to be at 5 pm at the W.T. Rogers company office which is at the corner of Park St. and Badger road. And these are a combination of the land owners in the area, the city planning department, I think headed up by Dinauer, and some traffic engineers. They have a lot of interesting possibilities out of which you could pick a feasibility project. That's tomorrow night at 5pm.

Hauser is also the chairman of the building committee for the downtown YMCA.

Ok. Next project. This is for the golfers. This is a proposed private golf course and they want a team to site select for them to find a site for them in the Racine-Kenosha area. And they've got just a bundle of stuff collected on golf courses. It would be essentially starting with the SE Regional Planning Commission stuff which is tremendous, just a super data base They overfly everything annually with low level aerial photography, and then superimpose the quarter quarter sections from the U.S. geodetic survey and then they organize a lot of their basic data in terms of building permits and census data by quarter quarter sections, so you have a really neat match of where the activity of what's there and if you take a sequence of photographs lets' saw one from five years ago and one from three years ago and one from today you have a really neat moving story of what's happening where In any event, they want to find a golf course site that would be feasible They are willing to come to Madison and brief you on the whole project, where they are now, they would pay your mileage expense and related items for work in the Racine-Kenosha area which would require a number of trips, but the data base is such that you could do most of it here

The next one for dem of youse what wants class, the Harvard Design School seminar is going to do the Law Park frontage and Harris and xx would like some of our students to tag along and do the economic kinds of stuff while they do the design, artsy craftsy type stuff. You can work with Phil

Lewis right here in the Landscape Architecture department as well as their people and there is a limit probably of two students working with the Harvard Study Group. Expenses are being covered by the City of Madison Planning Department.

The last one that I have is a more specialized real estate appraisal problem. One of the townships adjacent to Spring Green in Iowa County has determined that they should have a computer to handle township records, appraisal and Professor Pincus from Sociology is on the township committee and if there were a couple of students who were into the computerized assessment process and the problems involved in software acquisitions and what kinds of machine to buy, etc. you could be employed by the township to get them to step off the deep end. Chances are they will probably have bought the wrong piece of hardware before you have a chance to work with them, but that's the way it always works.

That's what we have on our agenda at the moment.

The beltline truck farm is a one team project
Ogden and Co. 2 or 3 team project
Estate xxxx 2 or three
Golf Course one team
University YMCA one team
YMCA expansion one team
Madison Gateway Council at least three or four

Those are the live projects that are hot to trot.
We will try to get them all here next week to brief you.
Need to know on Monday who your teams are and what your preferences are

If I have too much pressure on one or more of the projects I may have to be arbitrary and move people around. And you may have your own projects. Several of you have talked about your own teams and your own projects. I need a description of your project. I need to account for everybody by the end of Monday afternoon. So your first problem is to choose your problem.

Any other questions? (pause) (Audio_1Start)

OK. As we mentioned before, probably the course is guilty of misadvertising in that there is no such thing as feasibility, it is a generic term without very much substance inherent. And so we break it down and try to define areas of concern a little more closely. Incidentally a planning, problem solving discipline and interrelated with creative thinking. Russell Ackoff, which is one of the

books you need to acquire and by the way the Hayes book I have xeroxed into the packet (book is difficult to obtain or expensive so I stole it all and put it in the packet.) Russell Ackoff is one of my favorite authors and has done a number of things in both planning and management has a rather interesting but somewhat twisted view of life

In any event he points out that planning is dealing with multiple problems simultaneously. Interrelated problems require integrated solutions. In another book other than the one you're reading he called it mess management. Very seldom are you called upon to solve a problem, you are really in view as you tug away at one problem of uncovering others which are either greater or less than the one at hand, but that working your way through a mess is what you are doing as you begin to identify and define a feasible solution, one which makes the mess manageable the management problem and the creative thinking problem--including making messes manageable And so you begin with a mess. And it may be of their own making or it may be the environment in which you are operating or a combination of both. But almost invariably the feasibility specialist or consultant comes into the middle

And he generally comes in at a point where anxiety levels and risen to a point where the client is no longer confident that he has the right solution. It's the point where you are needed. You are first of all a comfort to the client. That's what he's paying you for. A feasibility report in the very broadest sense is not only a solution, but it's a comfort letter. Intended to reduce the anxiety level for the client. There have been any number of studies done showing why people do that.

Now the anxiety level of course may not be whether the project will work or not. The anxiety level may be inherent in the organization for somebody else to believe me or not. Or how do I cover my ass against so and so. You may be used as a political instrument, simply because they want to claim them as a decision.

So you need to understand what is the anxiety driving this guy. And when you find that, you've got the solution to the problem. A beautiful illustration in the book by the way which I urge you to read if you get a chance, called Riches and Ruin in Real Estate by Jim Powell, published by Macmillan. Two or three chapters are pulled out for 850. But in that in one case in the two Battery Park Projects in New York, they had set up a special authority as you know to create new bulkheads along the Hudson River opposite the

International Trade center and they created a new fairly significant piece of shore line with a \$200 million dollar bond issue by the city of New York with a central authority called the Battery Park Authority. And then they sent out for bids and proposals. Its the same one that David MacGregor was talking about the planning of in the alumni bash. All the big time developers of the country showed up including the Reichmans from Olympia and York and they all had different schemes about how they could get a nickel down dollar when you catch me retreat that there is if the project turned out to be not too feasible because it was going to require well over a million square feet of new office space and a whole variety of ancillary services and so on. The Reichmans came up and analyzed it but the real anxiety was as the authority's were can I make my interest payments on time for the bonds and can I be assured that I can retire the bonds as they come due The bonds maturity didn't necessarily match anything that would look like the possible absorption rates for space and what kind of guarantees were the developers going to give And he had a fifty million dollar payment coming up on the bond issue in a relatively short period of time So all these guys had offerings with really complicated deals, so the Reichmans came up and said tell you what we'll do, we'll guarantee the bond issue for you and we'll give you fifty million on the downstroke and we'll take the whole parcel off your hands. They figured out the feasibility was that man's anxiety. And they correctly figured out what it was. Now there aren't to many people in the world who just step up and lay \$50 million dollars down on the table and guarantee your \$200 bond issue Since the Reichmans own about \$5 billion in New York alone and are the richest family in North America much more millions than the Rockefellers and the Hines and the Gettys. But they said "Hey, how would you like us to guarantee your \$200 million bond issue and lay \$50 on the line," its a credible response They got the whole thing and they are now finishing up first financial center which is a fairly massive project opposite the trade center and grafting itself around that side of Manhattan island. But nevertheless they went right to the issue, whether you are dealing with 50 million dollars or two dollars. The consultant and the feasibility analyst comes in only after there is sufficient underlying anxiety that somebody else' s opinion is welcome if only as a cushion against somebody else pointing a finger at somebody's heart. It's your ass that's going to get kicked, not their's. Otherwise, who cares what your opinion is? Why would Gerald Hines or Trammel Crow bring a feasibility analyst in when they know a lot more about their subject than you do.

You have to assume that if you are still working by the hour and the guy who hires you has a net worth of fifty million dollars, that he knows something about the subject you don't. So why would he hire you? He wants to allay some sort of anxiety. His, the bankers, the board of directors, somebody's. So you begin in feasibility by being a psychologist. By understanding and beginning to elicit out of the situation the anxiety.

The second problem is that feasibility is such a goofy broad totally encompassing world that you need to break the problem down. Really into local steps and local sub sectors. The traditional sequence of the management process has always been planning organizing, directing and controlling, if you look in a management planning book. That's not very useable for any study. It says management is doing management things. Which really doesn't lead to step one. Much more useful is a book called modern management theory which really breaks down enterprise management into the following 8 steps.

The first is goal setting. Goal setting has to do with value judgments. To make money is good is a goal. But its non directive. You need to convert goals which is rather broadly stated to somewhat more concrete objectives, I would like to make 10% on my money. That doesn't help very much until you decide what is a return as far as the numerator and what is my money as far as the denominator. You need a whole set of definitions, or criteria or standards. That allow you to move from a value judgment to objectives to a set of standards by which you can actually make a decision. And more often than not as Mr. Ackoff points out in a number of his articles the problem as perceived and the problem as understood are two different things. You may perceive that the University's goal is to advance the interests of the students. That's wrong. The university's goal which is run by a faculty consensus is to advance the aims of the faculty.

It is to enhance the life quality of the faculty member and that ultimately obviously twists the kinds of decisions that are made. One of the things you have and the problem with goals setting is to decide "whose goals?" Who are the stakeholders? And we are beginning to see that twist appearing in corporate matters of all sorts. We used to say that the ultimate objective of General Motors was to pay dividends to the shareholders. Wrong. There are a whole series of stakeholders in General Motors. Including the passengers in their cars and consumers of their car, the worker who has a job or doesn't have a job in Janesville,

etc, etc, etc. For that matter energy conservationists and future generations have a real stake in whether GM can build an energy efficient car or even cares to build an energy efficient car. So we have a real problem coming up with goals. We've got to have a perspective, a viewpoint, whose goals are we talking about? How broadly or narrowly defined. But step one in any enterprise is goal setting. Arriving at values. And converting the values directly to objectives. If any of you want more let me give you an illustration. A number of years ago, Ben Neimann and I were called in because the neighborhood right around the former Hoyt Park school were all upset because the radio station that had been there before the neighborhood had been there sold out and moved to the countryside tore down their radio aerial and was proposing to sell their site to Livesey who proposed to convert it to a professional office building. And the neighborhood immediately went to war and said that mixed use would have a commercial lease in a residential neighborhood. And were screaming at the city and the developer.

And we sat down with him and said hey what's the problem? What is the fundamental anxiety. He's going to ruin the wooded character of the neighborhood. Aha. Then is the goal that you want for a solution to save the trees to screen the fact that there is a commercial building there Sure Let's take your solution. Your solution was to convert this all to residential one land which means you have to have 8000 square foot lots, and let's plot that and Ben Neimann plotted it and laid it right over an aerial photo showing where the trees were And we said great. Now take all the side yards and front yards and back yard setbacks that are required by the city and find out where the footage would go for the buildings and how many trees are left? And we said "Hey. Why don't we add a 75 foot setback zone in which the developer can't put anything. It guarantees an easement to protect the trees. He then will define how much parking space he has and will work backwards having defined how much asphalt he was permitted to have and how many parking stalls. He could only have 300 square feet of leasable area per parking stall and that's it Dave

The developer was delighted, he could get a couple of thousand more square feet by expanding his building slightly, the neighborhood solved its problem and so forth. But you had to go to the anxiety first. Then you had to redefine the goals. The goal was to kill the grandfather zoning. But that was the wrong goal. They had already organized an alderperson who was jumping up and down, but it was the wrong goal. The value system at work wouldn't save the trees. So what you needed was a solution that

recognized that. So the first thing in organizing the enterprise is to understand what your goals are and see whether you can articulate those and move from a rather puristic everybody's wonderful kind of value system to some objective statement of where you want to get to and what are the standards that say "I made it or I didn't."

Question: Who's goals? Goals of developer or society as a whole?

Answer: Both. You've got parties in conflict, the problem is how do you resolve it. All real estate is virtues in conflict. The builder's (scheme?) is a good thing. But where you build it may not be such a good thing. Its nice that everyone can have a home on the lake But what if we cut all the trees down, then the ambiance that they wanted the lake for is gone The object of development today is to find resolutions of conflicts that allow everybody a win win situation. And most of the time the conflicts needn't occur. It occurs because people don't understand the value premises from which they are coming nor do they understand the anxieties of the other party. They take their positions too soon. Then they are faced into the problems their anxiety is loss of face if they back off and change their mind. Like Mr. Sensenbrenner over the convention center.

Forming models. Once we understand our goals that we set up a set of policies--standards, criteria which say--gee, this is what we'd like to do. Maybe coming in out of our goals, we will build no empty buildings. We don't want to take a marketing risk because the carry charge will kill us. Our policy has to be, how did we find, situations in which we have leased the building before we build it. Build to suit objective That would be one way of avoiding risk.

Or we want to avoid rent control. Well then fine, if we want to avoid rent control as one of our significant value judgments, we're going to have to look very carefully at the politics and the demographic political profile of the community given its tendency to move towards rent control or not. Or maybe we don't do residential housing at all.

So then we set up screens or standards by which we search for opportunity. And that's the third step. Searching for the opportunity consistent with our policies or standards. Typically we search for those opportunities both in terms of economics and geography and degree of mobility that we want to apply. For example, I remember years ago working with Dick what's his name He was the vice president in charge of operations with Carley Group. While he was there he said,

hey, this is crazy, we've got 8 guys here that are terrific in finding new deals. Nobody wants to stay home and do the old ones. But you are on airplanes more than you are in the office or meeting clients so set up a new criteria. So set up a new criteria, can't do anything that isn't within 300 miles of Madison and available via a one way flight without a plane change

And one of the things you really do well is recapturing infill sites that have been passed over or botched up by gravel quarries, and stuff like that there So all the deals that we look at are going to be within 300 miles of Madison and botched up sites.

One of the groups that got in big trouble because of that screen was the Lansing Group out in Menlo Park California. They said where can we fly to in one hour out of San Francisco airport, and unfortunately it was Oklahoma, Texas, and New Mexico. And Denver. They died. Unwittingly they had ventured right into the energy belt. So all their projects have had to go through bankruptcy and chapter 11 in a reorganization process, because of an unrelated decision process that appeared to be an efficient way of searching, i.e where can we fly to from S.F. in one hour without changing planes.

So you have to be careful about what your goals search process is setup to buy. It's deceptive to look at aggregate data for your opportunities. Elderly housing looks like a growing cohort in the population, or you say industrial type buildings or whatever, you set up some sort of aggregate analysis and come up with a property type or a market or whatever.

Once you've look at the momentum of a certain market segment, the next step is collecting opportunities that are consistent with those policies. Typically you can only do one or two of the things that come along. Very few people have unrationed capital and unrationed resources, so you have to select something. And doing nothing is a legitimate decision by the way in many cases. Knowing when to fold in poker will make you as much money as knowing when to bet. So you always face two choices, doing something or doing nothing.

But in that process, one of the things that you really want to obtain is monopoly. Within the larger market trend, you are always searching for opportunities that have a monopolistic characteristic. Now that monopoly may be the result because you are the only one who can get sewer, or

maybe you very carefully have manipulated the registration process. One of the things you'll find fascinating about Disney is they spent 8 years negotiating with France to create a district in which they had the same total control that they had at Disneyworld.

They wouldn't play ball unless they could create their own legal and land use environment. Which gives them a unique monopoly. You are looking for monopoly opportunities. As you will hear me say again and again, free enterprise is the art of creating your own monopoly. If only for a moment and only in the mind of the buyer. You never never compete on price As my father used to tell me, as soon as you compete on price, somebody will do it for less and by the time he finds out his costs, you're both broke

You need to find that market niche in which prices are at the margin rather than at the average Once you think you have discovered that and you have a strategy, primarily for marketing, to some degree for construction, etc, you then design a system to capture that opportunity. Designing a system means not only the engineering structures of the physical, but really a marketing program a legal framework. I'm going after the elderly, do I want to use a coop, do I want to use a front end fee with minimal monthly payments, do I want to use a full rental. That's all part of the system.

Creating that effective demand at the bottom. Once we've designed that system, and this is true of any enterprise, we find we are using words that are generic, not just real estate oriented, you need to install the system. That's what we call development. Executing the plan, installing the system.

To capture that collective opportunity that we've taken aim on. Number 7 then we have to operate the system. Real estate is a highly volatile enterprise Tremendously vulnerable to Newton's second law of motion which is inertia. If you don't put successive amounts of energy in it quickly falls down.

And finally, you want to maintain and perfect a feedback system which allows you to modify goals, policies and standards, shift your searching process, shift selecting process. Now this is true of any enterprise, we haven't really used a real estate vocabulary at all. (Audio_1_END)

Let's look at those now and put in a real estate vocabulary. They way we've been used to talking about it. When we talk

about goal setting in real estate strategy and tactics where are we going, how are we going to get there, what is our strategy. We set up a company policy, a plan of business. We do market research to find opportunity areas, targets of opportunity if you will, within the secondary data, maybe by population cohort, maybe by area, maybe by property type, there's many other different ways of looking at it.

I think you're going to find Schidler fascinating the way he looks for opportunities. His search for opportunities begins with balance sheets. He understand the balance sheet accounting rules for real estate forwards and backwards. So when he reads in the Wall street Journal that that xyz company has the following problem, he knows exactly how he could penetrate their real estate system by monkeying around with their accounting to their advantage to solve their anxiety problem.

For example, in the late 60's early 70's a lot of companies bought their industrial plants and warehouses and so forth on sale and leaseback. And if you'll recall in the mid-70's, the accountants changed the FASB rules that required them to capitalize the asset acquired at the cost of replacement. And then they could depreciate it as they would depreciate any other fixed asset. But on the liability side they had to amortize that cost as though it were a fixed interest amortized mortgage over the life of the lease. So you have your assets running down at a relatively rapid rate as you take the shelter, but you've got some liabilities running down very gradually. It has nothing to do necessarily with the rent payments due on it, its a capitalized asset and liability. Now here we are in 1985, the asset's been written off and the liability is still there. And you have a corporate executive who sees his earnings per share about to fall on their ass this year. So Mr. Schidler goes in and says tell you what I'm going to do. You don't have to do the accounting that way if you have a three year lease or a series of three year leases. So I'll buy your leasehold position which probably was made at rents characteristic of 1970, for x dollars. And lease it right back to you at the same rate you are paying now, on a three year basis. And because you have now released your liability, that falls right through into profits immediately. So you still have \$10 million liability to go on your chemical plant, you have \$10 million dropping right into profit. Pretty good deal. And I don't think Forbes is gonna move out of their dairy plant in Milwaukee or Tampa or wherever the hell it is.

So the search for opportunities can take a lot of different elements than the traditional demographic ones.

Or maybe he's in trouble because of a threatened lease buyout. Maybe we can help him with that problem. Schidler looks into the financial accounting, financial reporting idiosyncrasies of the corporate culture. He knows for example, that Prudential always sells at a low price in the fourth quarter. They'll stonewall you for 8.5% til they get to the 4th quarter, but they have a goal that they're going to clean out \$300 million out of that account and it's gotta be closed out by December 31. The guy that comes in Dec. 1 and I'll take this this and this and close by Dec. 31 so you've met your goal is the guy that buys at a cap rate of 9 and 3/4. That's his game. Understanding corporate culture, that's his search for opportunities.

So far so good. When we talk about designing the system that's really the property or project design phase, right? You are marketing research consultant you are marketing from the aggregate data. Then we do micro research to find out one opportunity. We start interviewing clients, customers, we go out and ask people Market survey research is the way we get individual customer analysis. The way we find out what that monopolistic element is. That must be told to us by the aggregate data. Once we know that we can design the system to get that competitive edge. The market data tells us what our competitive standard is, what we have to have as the minimum to be in the ball game, our merchandising research tells us here are the attributes, the amenities, the location features, the financing plan, whatever, that give us the competitive edge to give us that monopolistic element. We call that merchandising the project.

And then we go into project design. That's where the architect implements off the so-called spec sheet. The development really of the architectural as well as the business program. And creates the product to fit. Construction and development is simply the installation of that system. Including the marketing of that.

Property management is the operating of that system. Controllershship and internal market analysis is the feedback system. Notice that out of those 8 elements there are only three that are not the province of the feasibility analyst. The actual design of the architectural program, construction, and the operating management are other sections of real estate, not germane here. The other five are the essence of feasibility management.

As a result we tend to name our reports the same way or we should. The first way to flunk this course is to put the word on the front page and call it a feasibility study. If you are helping the client decide what it is he should be doing you are doing a strategy and tactics study. If you are dealing with secondary data you are doing a market plan and opportunity study. If you are dealing with primary research, a survey of one form of another of the consumer (and that consumer can be broadly defined--it may be the consumer that is going to occupy the space, but just as likely today, it may be the politician who is going to determine whether you're going to get the entitlements or not. Its just as important to know what the neighbors are afraid of as it is to know what the tenants would like) One of the fastest areas of expansion in real estate right now is political research. How do I get the entitlements? How to I avoid making the wrong statements on my plan? What are the words that raise the hackles of a political demagogue Good example Just got shot down in Wauwautosa because I got picked off xxx anyway but. We're doing an elderly housing study and we want to do a motel for families that have members of their family at the hospitals that are part of the great Milwaukee County complex. We called this essentially a family shelter. That's what it says on all the plans. As soon as some city councilman says "you mean like a motel." and our client says "Yes, of course" The motel owners roll up and shot the thing down. He should have said "oh no, family housing for low income families who can't afford so they can stay close to their children as so forth. He would have been on safe ground. Political sensitivity would have avoided that kind of false issue

Professor Green up at the University of Alaska did a beautiful job of researching the Kenai over the buzzwords, what were the Kenai citizens afraid of in terms of development along the Kenai river. and he found out what their anxieties were and their buzzwords were and he instructed his client very carefully on the ingredients in a land use plan that would not bring all of those words into play. And I think he had the only approved master land plan along the Kenai. You have to be careful as to the image you create And part of that is a political issue So merchandising political research may be the nature of the study.

You may want to look at legal political constraints. Which go hand in hand, obviously. Where there is concern with who administers the law as well as the law that exists. We need to look at compatibility constraints. Compatibility really has to do with the impact on the collective consumer.

We may look at physical technical constraints. We may look at financial constraints. So as a result we do strategy studies, we do market studies, we do merchandising studies, we do legal-political studies, we may do compatibility studies. Typically we don't but certainly a significant element is engineering, land planning, and architectural studies. What are the soils here? We may be seeing much more on toxic waste potentials. What's our problem here? What are we going to do with exhaust e?

Financial studies. Economic modeling of perhaps a class of tenants, capital budgeting of the project, perhaps timing the project against the perceived curve of interest rates and so on. All of these are part of feasibility.

So the first thing you really have to do ironically when you look at a feasibility assignment is to sort through it and decide which one of these reports am I doing anyway. I can almost immediately evaluate a report by whether it has the right title on the front page. And if you write feasibility on the front of your report you'll flunk the course. There is no such thing. No one person, no one report can cover all of the variables, which mean the project will fit its context and have a high probability of succeeding as opposed to failing.

Gee, just when we're getting going. OK, I guess we'll keep on going on Monday.

857

Lecture 2-1

whistle

First of all, only a few of you stopped by to drop the paper with your team project preference with me. I want to get that done immediately, so be rude and write that out while I'm lecturing today so we can sort that out immediately. Have a couple that are interested in the Milwaukee thing, will you raise your hand, relative to the West Corridor project.

Dan Knox you're involved in that....

Of those interested in the Milwaukee project, when do you have free time, Tuesday, Wednesday or Thursday, allowing for them to drive over from Milwaukee, so not before 7 am. A day after nine o'clock, which day?

Response: Wednesday at nine.

Peter Ogden and Peter Moegenburg in my office by 9 o'clock Wednesday morning so we can get started on that. There are enough projects so two or three teams can be involved in that.

OK. One person talked to me about the golf course thing. Do you have a teammate. Yes? When would you be available?

Anytime.

I'll give you the telephone number of the guy whose hot to trot on that and you call em and you figure out when to do that, but if you could do that this week Thursday or Friday, I'm in town, I could meet with you and help get that one underway and nailed down.

Yes.

Could you change Wednesday until 10 am?

OK.

How long will it last?

Knowing Moegenburg? he could talk for three or four hours, but to get to the point of it, if at least one member of your team can be there, they can get (it done?)

OK. One other project that came in. Somebody had asked me if there is a retail trade project to do because they could integrate with 757 and a gentleman stopped by about a proposed retail strip on Hwy. 19 between token creek and sun prairie. Its one of those gee lets build a liquor store and a laundromat kind of thing. (laughter) Nevertheless its a trade area type study. It anybody's interested in that, check with me and see if there's someone interested in that project.

Anything else? Political announcements, social announcements. Tony you want to see me after class to get

the real estate club meeting pinned down. We don't have the final date on 795 yet, but I'm working on it.

OK. We had got through the introduction to feasibility, feasibility really goes out with the management decision process and the management decision process today is really broken down into a series of sequential and iterative steps as an enterprise gets formed and chooses a target area of opportunity, selects and opportunity out of that then begins to construct a plan or program to capture the opportunity, installs that program whatever it may be, operates the program and hopefully creates a feedback mechanism which allows the experience itself to modify the goals and so forth for the next go around on the system. And that each of those steps which is a generic management step integrate really with modern industrial engineering concepts of what enterprise management is all about. We can then move on from there to provide real estate vernacular to each of those steps. So the first step is a strategy study, the next may be market study which may define areas of opportunity in term of the demographics and psychographics of a particular sector of the marketplace, micromarket research merchandising research to refine the monopolistic components that would give use a competitive edge and define the competitive standard, so then we can move into project design, project development, and ultimately project management mode and then fall out again into a research feedback mechanism.

One of the reasons many major firms really do very little outside feasibility work is because of that feedback mechanism. They have the best continual flow of data about what they are doing. As a result much of feasibility is done by what are called analogue models in which a sears roebuck or Macdonalds or Burger King by simply the continual flow of statistics created by their own enterprise begin to discover what works well, what doesn't work at all, who their customer is, where they come from, how they get there, where they come from, how they get there and so on. This then allows them to begin to create standardized profiles of different types of sites, different types of communities and so on and what they do going into a new market is define those critical elements, maybe it has to do with being on main street with at least so many thousands of vehicles per hour, secondary street forming a corner that leads back an income residential area of a certain profile. The car ownership in that sector is such and such, there may be four of five other attributes which define their profile and they go back in the computer and find three or four similarly

located characterized analogues and that becomes the basic for their feasibility.

They have internally the capability of beginning to simulate the potential operations on a particular site. In that kind of business enterprise doesn't really realize what they have internally to initiate that feedback mechanism. Your first role as a consultant may be to help them to discover what they have in their own files. It may be very simple, I can remember, when Art Selling was just a struggling little florist down on West Washington Avenue about where the United Bank building is now. And he ran into to me on the street and said, gee Jim, what am I going to do? They're going to condemn my property and I've got to find another location, how would you like to do a feasibility for me? I said Art, why don't you get a map of the city of Madison and put a little dot on every address in which you have a charge account in which you have a customer of any significance. Which he did. And it turned out there were two clusters of dots. One on the east side in Maple Bluff and another one in Shorewood and the West Side. I saw him a little later and said do you really want me to do a feasibility study? He said "I did one already, I rented a spot next to Kohls and another spot out there in Maple Bluff where Commercial avenue comes in." And that was it. I didn't get paid a nickel. (laughter)

Obviously once you get people to perceive the feedback systems that are internal to their organization they can do much of the work themselves. Quite often, if you help them to define the question and suggest the data points that would be relevant to the question they are quite capable of doing that internally. So when you talk to a Trammel Crow and (he shows you?) a feasibility study you kind of sneer, but the fact is he's got 12 salesmen out there calling on every tenant of any means with a continual feedback as they go out on their interviews, they try to get information about how much space they have, how many employees, where the executives live, what's the term on their lease, what's the big pain in the ass at their present location?

(Audio_2_Start)

Those are really the two most critical questions: What do you like most about where you are now? What do you like least about where you are now? If there is a major burr in their saddle, you have a pretty good idea of what it will take to move them. If you can solve that irritation.

Everything you do after that is really policy and gilding the lily. Many firms obviously have that continuous flow of information coming in from the sales force that is directly

soliciting their space, or indirectly. I remember when I was a kid in the master's program at Marquette, in securities analysis and my father was in the paper box business. The way I got inside information on the box market was by finding out who was increasing their orders for various kinds of stuff. Because he took care of Evinrude motors and Kimberly Clark and Scott paper and so forth and you could find out which sector of their business was growing by how many units they were buying to ship toilet paper or tin cans or food products or whatever. It was a sure fire winner. My Prof. in charge of securities analysis could never figure out how I was always ahead of the market by about three quarters of the year. It was very easy--to have a feedback loop that continuously generates the a steady flow of data. So that becomes a critical part of the process. Now we mentioned also earlier that any type of planning process that is dealing with the future is obviously subject to some surprise along the way and as a result, feasibility analysis is really first of all a risk management program. You are attempting to reduce the variance between your plan and your realizations. By knowing more about what you are doing before you start. The second major contribution of feasibility analysis is one of compatibility--ethics. Probably one of the reasons that lenders don't want to use it at all and investment bankers don't want to know what it is is that a high element of real estate is its fit to the society around it, its sensitivity to the balance of the community. And that essentially is an ethical issue. Much of the best feasibility work is really done trying to discover, who am I going to cross with this? Do they have a legitimate gripe. And if so, do they have the strength to prevent the project. By anticipating who's going to be mad about what, you can defuse the collective consumer in terms of their potential resistance to the project at the same time as you are becoming a better citizen in terms of the project you create. Therefore much of what we do in feasibility is of an ethical character, and that probably explains why its so little used. There's nothing like sensitivity to kill an otherwise good project. That's why in this course, we're looking for projects that you can do that go beyond a pro forma statement. That says the present value of the benefits exceeds its cost as far as I the developer am concerned. That's not feasibility. That's the way it's defined in the textbook, I'll clue ya. That's what the bank says. Find out that the present value exceeds the cost. By a considerable margin and you have a feasible project. But that's not my idea of a feasible project.

A feasible project is one that has fit to the entire set of environmental circumstances. It's never going to be perfect. There's always somebody who's going to be pissed off and there's nothing you can do about it. On the other hand it doesn't have to be crude, it doesn't have to be brutal. And it doesn't have to presume short term failure. There is many a project that is created with the developer knowing up front that it will fail. But he's been so good on his risk management that it isn't going to cost him a nickel. And that's not a feasible project, although it may be perfectly feasible for him to do that in the narrowest sense of the word.

The process of risk management and ethics really is first of all identifying significant exposures to friction or upset, second of all, estimating the significance in terms of loss or damage to yourself or others as the case may be, 3) identifying the alternative methods whereby you can avoid or at least greatly mitigate those losses to yourself and others, choosing the method you are going to utilize then executing on that plan.

Let me give you a for instance. Some year's ago, during the height of the rapid increase in interest rates during the late '70s early '80s, we got a call from Carroll College in Waukesha who had just sold what was then called the Cappel hall?? site to Seekman??, the developer in Waukesha. It represented essentially a trapezoid approximately 3 blocks long, a full block wide on the south end, tapering down to half a block wide on the north end of the property. The main drag running kind of diagonally along the east side, two dead end streets hitting into it on the west and then residential streets on the north and south. No sooner was it announced that they had decided to dispose of this surplus land which was a couple of blocks east of the campus and not really contiguous to the campus which they had held for a long period of time and had determined that they needed the income for their endowment or that they needed surplus to expand the campus if they got other parcels on which to expand, than the traditional ad hoc neighborhood committee showed up at the president's door, already mad, they don't know about what, but they are already mad. And basically their argument is that the developer is known for multifamily development and this is a single family neighborhood and how dare they do that to the community.

The lines are already drawn, but they aren't quite sure what to be mad about. So Seekman?? that we had done some work for before and Carroll College that happened to know of us called us in and said "why don't we find out what's feasible

here both politically and from a real estate standpoint. And so our firm did a survey of all the residents within a half mile of the site. We were right up front about it. You are a homeowner, so and so is going to develop the cappel hall?? site and apply for rezoning to multifamily and what do you fear most about development of the cappel hall site. And we coded the response forms with stamps on the return envelope which allowed us to identify which block they came from. Not which residence they came from, but at least which block so we could get some sense of the pattern of response. It turned out that the folks along the two dead end streets on the west side who happened to be the self appointed chairmen of the ad hoc committee of grippers came in and said they didn't want their streets to be made through streets. They didn't want to look down their street at an apartment project, they had all these reasons for protecting the trees, there were 21 beautiful black walnut trees on the site. And if you went and looked at the site, you also noticed that coming off the end of each of their two streets was a very well worn path which went out to the main street on the east side where the bus stop was where all the little kiddies and everybody pitterpattered across the land for all these years to get to the bus which was on the other side.

So we felt that the architectural programming purposes, fine, we're going to cul de sac that street, we're going to close off the end with a couple of townhouses with a couple of townhouses on either side of the cul de sac, pave that little muddy path and light it and that would be a public thoroughway, pedestrian thoroughway to the other street. That way they can't see the apartments, they continue to have the convenience that they enjoy, and they are assured that their street would never become a through street, which they feared in terms of traffic and so on.

The second major fear was on the south side there was a Catholic Church and the priest wrote a nice long letter why there would be traffic conflicts between parishioners who parked along the street and the project and they also used the bus and the project interfered with their way to the bus. Special program feature number 2, no driveways coming out on the south side and what's more we put a gazebo on the corner that would become a sheltered public transport center.

The people on the north end, which was also on the bottom of the slope they were concerned that they were going to look at an apartment project totally ringed by automobiles, which was the way all suburban apartment projects looked in

Waukesha anyway. So fine. The next element was all resident parking had to be under the buildings and enclosed, all guest parking had to be bermed and therefore out of sight from folks that were downgrade. Trees had to be mapped, everybody was worried about the walnut trees, and buildings had to be located so as not to cost us too many of the trees which suggested a three story type unit on basement parking taking advantage of the slope for entrance in and out.

As you moved away from people who were immediately proximate to the property, the concern became more generalized in terms of compatibility or special format with the community which had been built in the early 1900's. There was a lot of gingerbread early Russell American romance, the more recent homes in the '20s were more pseudo colonial Williamsburg kinds of things, lots of old brick, wood shingles. And therefore the architectural program required that they pick up on the old brick theme, the window themes, the shutters, the roof pitches, and so forth that characterized that era of American architecture. That's exactly what the architects did additionally in this format, and we went back to meet with the ad hoc committee and immediately, all of their fears have been answered. Those that were most articulate found they had nothing to bitch about because the road was cul de saced, couldn't see the apartments, etc. etc. You had defused the initial elements of anxiety in the project and therefore you had controlled the risks for them, and therefore greatly controlled the risks of the developer in proceeding to apply for a zoning change that would upgrade the site to multifamily.

Actually went in to the Waukesha zoning board, not only did we get the initial plan approved, they got two variations approved depending on what kinds of units rented best in terms of phase one. And got a commendation from the planning committee as to their sensitivity and then interest rates went to 18-20% and blew the whole project out of the water anyway.

The point is that the feasibility isn't so much as marketing to the individual tenant. The first step is to market to the collective citizens who are going to determine whether in fact you are going to be entitled to do what you would like to do. And much of that marketing really is control of anxiety. You will find whether you are talking about the developer, the prospective occupant, or the neighbors on the border of the property or those who perceive themselves to be affected by the property the number one fear is fear of change. They've accommodated to the status quo, they aren't sure they could accommodate to any of several imagined

alternatives. So a feasibility is really concerned with identifying what are the elements of change that are feared and then trying to provide some degree of assurance, anxiety reduction that we talked about before that will allow you to do that.

(Audio_2_END)

In looking at the basic issue of any feasibility segment, now certainly there's no law to help. ?? The very first thing that is needed is the recognition that you modeling a decision process. There's no way that all the little nuances and all the little dramas which will be played out can be anticipated beforehand. Although those who anticipate them best generally have the highest percentage of success. But it is important for you to get down to whatever segment of the feasibility you've been doing and come down and say first of all what's the question here. What's really the question? And have we reached this question in a logical sequence? Are we along the time line of the project with the appropriate questions being asked at the appropriate time? Or have we missed a step as the result of an implicit assumption or an implicit answer to a question we didn't ask. Indeed much of your time as a consultant is spent digging for that implicit assumption.

What kind of data do we have that's relevant to the question. Sometimes we can be very good at defining the question, we just don't have the slightest idea of how to answer it. What kind of theory do we have that will focus the data on the question? What hypothesis can we use? And then the other three very basic questions that have to be asked simultaneously with that is of course, 1) How do we communicate the results of our study with credibility? We can have one of the most elaborate statistical models in the world, but if we try to communicate something with multiple regression to the jury, they tune out about 2.5 minutes into the program. They only wake up later when somebody in the cross-exam asks a totally irrelevant question but it sounds sensible. The entire Bong air force case was lost after they had spent 3 days making a beautiful economic model presentation of why a new town on the Bong air force base outside of Kenosha and Racine would be a very good and very economically viable thing to do. And the report had started out and said something to the effect that while on first thought this site would seem to be remote, flat, uninteresting, and outside the normal range of economic development, nevertheless.... So now they've done three days with Tom Gladstone and a whole cast of thousands on how to do the economic feasibility of a new town, to a jury made up of out of work American motors assembly people. The state attorney general comes back and his first question

was: did you not say that the site was flat, uninteresting, and remote from economic development, and an unlikely candidate for development. Yes or no. (flaps lips, kids laugh loudly)

?? The jury said, I thought so, the hell with it. You gotta be able to communicate it with credibility. It would have been much better to have had an artist who could draw Camelot, much less relevant to the whole thing, do a snow job on the jury with flowing white hair and dreams of the 22nd century, than they would ever have been to have economic data as a rational basis of departure.

Next of course is what are the abilities of the analyst. You have to do what you do best and bring in other folks to do what they do best. But the trick is knowing the difference. Knowing enough about the subject matter to be an expert on experts and know when you are over your head or at least decide when you're over your head. So I'm sure my partner Jean can do a good focus study, but she decided that that's not her strong suit, she tends to get argumentative and involved in the project ????. So we employed a guy who does nothing but focus groups to do that part of the study. Knowing the abilities of the analyst and staying within that. And finally, what's the cost benefit ratio. If you come up with a five hundred dollar answer to a one hundred dollar question you probably aren't going to get invited back again, nor would you get paid for the first job.

So keep in mind the economic significance of what it was they asked you and make sure that the cost of the solution is within that tolerance.

Getting at the question. Moving as the problem as perceived by the client initially to the problem as understood by both the client and yourself is more than 50% of the feasibility process. Understanding where he's coming from, understanding where you're coming from. It requires much more interactive interviewing between the consultant and the client than might be true of an appraisal. And even then as we learned in 856 you've got to spend some time defining what is the issue for which this is required as a benchmark.

The first thing you need to know about your client is what he perceives his question to be. Secondly, his preferred method for meeting entrepreneurial risk. And certainly an interrelated problem, how does he motivate and compensate those that are going to carry out the task.

Let me give you an example. Typically the dynamics are such that both of you start out on the wrong foot, both the client and the consultant. A couple of years ago one of our clients called up and asked "what shall I pay for a hill out here on the west side of Madison." The cost of holding ???. I need an appraisal. I immediately responded "they'll never let you put a radio station tower on that hill. ??? change your appraisal fee. A silenced for a minute and he says "why in the hell would I want to put a radio tower on it."

"I thought you were in the radio business." "No, I'm gonna be in the subdivision business." "Oh, how did we decide on that site?" "Well, he said, my broker told me and said it was available."

I said which came first, your decision to be in the subdivision business or the ???
He said, "well, I been kind of looking around for something to do." Oh.

Let's go back to page one. You have money burning a hole in your pocket, why? He said "well we've got so much money in the radio corporation that the IRS has decided that if we don't pay dividends to ourselves they're going to confiscate it as taxable. But if we pay it to ourselves (and this was in the days of 70% tax brackets) he said essentially its confiscated anyway. So we need another business enterprise.

Oh. OK. Now what we're saying is we are looking for something to invest in that we can create value through entrepreneurial know-how. He says, "right."

I said "How did you make all that money in the radio station? He said "Essentially what we do is we get one young guy that seems like he might have the capability of merchandising time on a radio station and another guy that seems to be fairly sensitive to programming and how you get a niche in the market relative to music and programming. And once we've trained them on our home station we go out and find a station that relatively bankrupt, buy the bankrupt shell, get the FCC license and we give them 49% of it and we take 51% and we do the accounting and services relative to FCC and we let them run their little hearts out. And when its back on its feet in two or three years we give them the choice, they can either buy us out or they can retain their interest and move on and do it again with them, etc.

I said great, you motivate entrepreneurial people, and your best way of keeping track of what they are doing is for you to do all the accounting and legal work. Well that's true.

How do you do all the accounting? We created our own mailback Monday accounting firm and one of the things they do is our own radio stations. These guys aren't missing a trick. They aren't leaving a penny on the table. Why don't we just go pick a couple of guys that have an engineering construction background and the marketing savvy in real estate and let them decide what kind of real estate they are going to go into and give them a piece of the action and then let them charge.

It seems like we've missed a beat here, we've already picked the site for a subdivision and we're not quite sure how we're going to do that relative to our formula for success.

Notice how we've moved from the problem as perceived which was the appraisal of 40 acres back to "what's the business plan here" and "what do we do best, what do we bring to it?" How do we like to handle things, how do we like to motivate, how do we like to compensate? So that was step 1.

Step 2, I would call the clients risk perception and his risk utility curve. If you ask your client now that he's into you for real estate, what have you done with your money in the past, and he says I've always had it in money funds and CDs, he's not ready for real estate. On the other hand, he might be ready to own a bank. I was talking to a guy from Chicago some time, he wanted to get into real estate. And I looked at his financial statements and God he had cash balances up the wazoo in this one bank. I said this is incredible, you really need to move out of that cash to get some inflation protection and get some leverage. He looked at me and said son that is leverage, I own the bank.

Now if you think about what you can lend given a certain number of dollars on deposit you can understand what he's talking about. By keeping his deposits hyped with his own cash, he was getting a 4 to 1 leverage off the common stock in the bank. He just looked at me with contempt and said son that is leverage, I own the bank. So then my position was, if you want to get into real estate, why don't we buy the building. Which is ultimately what they did, because they could structure the lease in such a way that they could take some of the earnings out of the bank, in that way, through the back door rather than paying dividends. So that is ultimately what they did, bought the bank building, set up the lease accordingly.

So anyway, we asked our friends at the radio station, what have you been investing in recently, and he said we're having a wonderful time ??? in Columbia, or was it Ecuador.

What are you doing down there? Well, the government was subsidizing rice paddies because they wanted to become self supporting in their country for rice which was a major staple. They had these beautiful virgin valleys back in the mountains that had never been developed, which had the water supply and the soil characteristics suitable for rice and they would pay for the xxx? equipment for the mechanized rice growing if we would come down there and capitalize the ground clearing and setting up the farm. So me and the five partners in the radio station went to Ecuador and got several thousand acres of an entire virgin valley and converted the bottom of it to rice paddies and I said xxx? The rice came up and itxxx? Then the wind came down the valleys and blew the rice down before we ever got a crop. So what did you do then. "We went to united fruit company and they cleared the slopes off the hills, ran their rows up and down and planted a banana plantation and they came up beautifully. Big bananas, heavy clusters. What happened? The wind came up the valley, knocked down the banana plants and the weight of the bananas. What did you do then? Bought a lot of cattle and they are eating the bananas and the rice. (laughter)

How is that coming along? Pretty well. Our ranch manager has had two heart attacks, but the rest of us are having a wonderful time. Our wives won't leave Quito, because it is a little wild and hairy, but we get down there four or five times a year and its terrific. Now you have the mentality that's suitable for real estate. The risk preference curve....?

Real estate development was in this nervous stress system to absorb. You need to have some sense of your client as to whether they are prepared for that kind of thing or what they really wanted was a leaseback from a triple A credit that they'd really never have to go look at again.

Next you need to know what his value decision tradeoffs are between quality and quantity. The bank that wants to make a statement by spending too much on their building or the credit union that wants to let people know that they've arrived is obviously going to have a different tradeoff from those who say I don't want any frills, the roof shouldn't leak, the walls should have a maximum view factor, but after that, the hell with the architecture, find me a good civil

engineer and we'll build a building. Somewhere in between are most clients. Some tradeoff between the numbers and the psychic income from the project.

The next thing you need to know are what are his personal non-business objectives. Personal things. Many of you have heard my story on the first feasibility I think I ever did, which was called Fantas? in Chicago which does factory location studies. They ran through a case with me involving a manufacturer in Chicago that made automobile parts, stamped metal. And his plant was being wrecked by the interstate going around Chicago so he had a choice to pick up and move wherever he wanted to go. And he commissioned them to choose alternative sites for the plant and Fantas? did all the right things, they went from Michigan City, Indiana, deep into Alabama, they found a site I think it was in Tennessee I think about where the Saturn plant would be going now, and this would provide the lowest operating costs and highest return on investment, highest rate of return. And the guy says "that's great, I'm going to Michigan City, Indiana." Which was the lowest. They asked him why he said "That's where my boat's anchored." The problem was that they never asked him what his personal objectives were. The rate of return was only half of what he wanted and he couldn't spend it in Alabama. He said Mama and I just like to float around in our boat. And so we go to Halifax, Nova Scotia in the summer and so to hell with it.

There the fault was the consultant's. The consultant had never defined the problem in terms of the personal objectives of the client. Therefore they had spent a lot of money when the real question was ?. The real question that the client didn't quite frame correctly was "what is the opportunity cost of doing what I really want to do? What I really wanted to do was keep close to my boat because that is the way we spend our money. There was a breakdown in communication. There was an implicit assumption by the consultant that we were having a rational decision in terms of the narrow limitations of return on investment capital. That doesn't mean we didn't have a rational decision. But certainly not one contemplated by urban land economics. We had a broader picture frame of "how do I want to live my life and under what conditions do I want to live it. And living in Tennessee and Alabama wasn't considered in that framework. You have to be careful that your land economics thinking that says "I want the highest present value of something, or I want the highest residual value to the site" doesn't constrain your thinking because the picture frame may be entirely different. I don't want to be a damn fool and throw my money down a rathole, but on the other hand

what I'm really concerned with are my opportunity costs of doing what I want to do acceptable. And in real estate in particular, that is a major element in the decision process. Some years ago, Paul Fotte? had me down to Johnson Wax to have lunch with Sam Johnson, because he wanted me to convince Sam that they should put a very handsome jewel tea store of Kohls store on whatever corner where the bank and private school are now. And of course the income in that area is extremely high Jewel tea and Kohls would promise the world architecturally for an attractive store building if they would only let them locate on that corner. And the Wind Point area is a development of Sam Johnson's so he owns all the land around there and that intersection also happens to be the corner of the township and cattybumpus to that corner another supermarket say a Sentry or IGA type operation had come in a year earlier, proposed to build one of their typical concrete box jobbies, and a hundred and fifty people showed up at the township meeting to boo it down as encroaching on their environmental quality, etc. And that hadn't missed Sam's notice. And as he put it so delicately, I have reached that point in life where I can choose which hassle I will take and I don't need this one. Sam being the richest man in the state of Wisconsin can make that statement and make it stick. I've reached that point where I can choose my hassles and I don't choose this one. People resented the encroachment of a commercial use on that corner, he didn't make any distinction between one that was architecturally designed well and one that wasn't. He says my kids go to school there and my family is growing up there and I wouldn't want any situation in which one of my grandchildren gets the old Bronx cheer because your granddad built a crummy food store in our neighborhood. I don't need it, I don't want it, forget it.

On the other hand, when he decided that the school system in Racine was not teaching English composition and basic math to the degree that he would like to see it taught, he offered \$5 million to clean up their act and they turned it down and said no private citizen is going to tell us how to run the school board. So he said screw you guys and built his own private school on that very same site. So notice personal objectives have a great deal to do with defining what's feasible and what isn't feasible. And quite often the consultant makes a presumption that the decision will be defined on relatively narrow grounds of rationality, when there may be a much broader picture frame within which the decision-maker is operating quite legitimately. It is not a fair statement to say that the developer or the factory owner who located in Michigan City was being irrational.

Ackoff, in the book which you have to read has a wonderful statement that "irrationality is in the mind of the beholder." You simply don't understand his premises. The feasibility analyst has to be careful that he doesn't make that mistake too early in the game.

Another element in almost any kind of real estate deal in terms of structure is how he compensates those who work for him. Some like to pay big salaries so that you have something else to worry about and presumably can focus on what you are doing. The Irvine Company under its old management, before the disposition was of that character. Others use a minimum base salary and a big bonus. And maybe the bonus only comes up 18 months, so you have to be there a minimum of 18 months to find out what the bonus is. And you run your little heart out in the meantime because the bonus formula is very nebulous and you are not quite sure what's influencing it but you are sure that being the burr in the saddle is not the best way to get the best bonus.

Others may give you a piece of the action. That was a real favorite way until the action went the other way. I remember Kevin Hanson who was a developer out on the west coast said the developer out of this program would be absolutely thrilled to get 5% of the equity position in some of the big deals until the biggest deal went down the old proverbial drain and he was the general partner. Now the bank didn't come in and try to kill them. You know it wasn't your problem, your responsibility, we realize that's just a structural element and therefore you aren't liable on the \$40 million mortgage that's hanging out there, but 5% of forty million is about \$2 million, and whatever the equity was of that, so maybe 10%, so he's down to \$200,000. But under the tax laws if you get waived of a \$200,000 liability, you just had \$200,000 of income. It was real hard explaining to his wife how the phantom income just cost them their savings account of \$40,000. So the income tax he had to pay on a general partnership that hadn't gone anywhere. So being a partner is not all its cracked up to be and he says he will never be a general partner again unless he has total control. Then that takes the risks takes the control. And indeed that one of the big rhubarbs presently between the Trammel Crow group and many of its regional partners.

Now, in looking at the compensation, another way of doing it is to give somebody title to a small piece of adjacent land. Barry Shaeffer who is now one of the five managing partners of the Trammel Crow group came out of this program and he initially did all of Trammel's trailer parks. And their way

of compensating him was to give him the PDQ or commercial site in each of the approximately 600,000 trailer parks that he did. It was worth zilch when he started. But if he got the park done and he got 600 to 1000 household units in there, that PDQ site was worth something. And that was the way Trammel compensated him over and above the base salary.

In real estate in particular has a great many opportunities for that kind of oblique compensation and risk sharing between the guy at the top of the pyramid and the guys on the firing line who are executing the plan of the project. And you really have to understand the *modus operandi*, the style of that entrepreneur. Some won't share. What's mine is mine. It may have to do with the old family. Northwest building is a classic case, one of our clients out on the west coast. We have struggled and struggled to create some formula that is a proxy for equity participation for the executive group. So the old family that owns big chunks of Weyerhaeuser, Potlatch, and Boise Cascade say what's ours is ours. I'm not giving somebody ten percent of the action. If they want to make a fortune let them start a Weyerhaeuser lumber company. At the end of it that makes it very hard to attract talent. Today when you can't convert what you know to a capital gain as opposed to an income. It's less significant now that the capital gains tax and the income tax are the same, it really doesn't matter to you whether you get a big bonus or whether you get a capital gain element, other than the fact that you get a little kicker in terms of a multiplier on the income to anticipate future returns. In any event, each firm has to have its style and that becomes part of the overall feasibility issue. And it's part of the problem of moving the problem as perceived to the problem understood.

The next question you really need to ask where am I on the sequence. Where am I coming into the questions that need to be answered. And some of them are so simple and so basic and yet never get asked. And so you waste just one hell of a lot of time. For example. Last Thursday. ??Board meeting. They spent an hour and a half on a deal in Louisville which has all kinds of upside potential and tenant xyz doubles the size of their store and builds a new food store which goes to 50,000 square feet and the new model ? to 16000 . There is only one problem. To do that you have to take the bowling alley out. Now they are all along on sketches and what the upside is and how much value you can create by doing all this and somebody asks "Has anybody talked to the bowling alley?" Well now. What is it going to cost to buy out their lease. Well. We don't know. Everything else is talk until you can find out if you

can buy out their lease. And second of all, what kind of SOB owns that lease. Some guys are savvier than others and if they find out they are the little burr in the saddle in the path of progress that's one price. If they are just really tired of running bowling alleys and 67 years old with a heart condition, and don't have the slightest idea how to get out of it, that's another problem. And that was the critical question. That should have been asked right up front. Without that piece of ground you couldn't do any of the other things. Real simple ??

Maple Bluff a couple of years ago said gee that park on the north side of town is a real security problem. We are forever going out there and shagging kids out that are drinking and carrying on and making noise--skinny dipping in the lake. We've got to get rid of the park. Create a new tax base, some of our folks don't like condominiums, do a feasibility on condominiums on that park. A very reasonable idea. I said fine, how did you acquire the park? They said what do you mean how did you acquire the park. I said fine, read the deed. Now it turns out the deed has a reverted clause in that says if this is not used for public purposes it reverts to the heirs of lord knows who, and I'm not sure you could ever find the heirs to lord knows who. Step one, do I have title to what I'm going to develop. Nobody bothered to ask the question, there's no sense doing the rest of the study. Be sure you are in sequence. Real estate is singularly vulnerable to getting out of sequence. Doesn't matter if we are doing construction management, or planning, or simply closing the title if we need to go in a certain order in order that there's a logic to how the title progresses to the new buyer. Sequencing is the critical element. Where are we on the sequence line. Have we missed a step. Do we have an implicit assumption that a certain base was touched when in fact it wasn't. So you have to ask the client, where are we on this baby? And quite often you have to go two steps backward to go one step forward.

A client came to us and said I'd like to do a specialty shopping center in Fort Myers Florida, where do you think we ought to be. So we said "where do you think we ought to be?"

Well, uh, when I was down there last month a broker showed me this site over here. He's a doctor, former doctor, now retired. Where is it? He says near the hospital. Figures, this guys a former doctor, gotta be near the hospital. Totally wrong site for specialty shopping. I was able to demonstrate that to him relatively quickly. So now what do I do. So now we have to find a use for the piece of ground that you got so you can get your cash back out of it intact

so we can go into something we want. The first question in the sequence was how do we free up our working capital which was already nailed down on something we don't want. Move from question perceived to question understood. Where are we in the sequence. Do we have an option, would we like an option, if somebody comes in our door and invited us to make a proposal where are we in the sequence.

You won't learn all of that about the client or the process the first time around. You need to create in the feasibility process the opportunity to give your act several times.

(some kind of break in the tape here--for a sentence or two I'd guess.)

They are justifiably skeptical about what you can do for them. After all, you don't have any money, that's why you are working by the hour. If you had the money your client did you wouldn't be working for anybody else anyway. So they can be justifiably skeptical.

Sometimes you aren't there because the client asked you to be there but because their lender says you should be there, or their architect says gee that's the guy to talk to about a feasibility study. You are already in the hole. I can remember that was the opening question, you didn't even say hello. Curt said you are somebody I should talk to, what the hell can you do for me? That was the opening ? line. Hadn't even sat down yet. Great way to start out a Saturday morning after driving over to Milwaukee. I looking him right in the eye and said "probably nothing." So he said "What do you know about the Country Day site?" I said I know that every square inch of that has either my blood or my perspiration. I went to school there from the time I was a four year old kindergarten kid til I graduated as a senior. I lived three blocks from there. He said "At least you know something about the site." (laughter) He said "I'm going to do 800 condominiums on that site." I said "We're back to square one, there is nothing I can do for you, you are never going to build 800 condos on that site." He looked at me like "says who." He says well I got to get \$100,000 down to perfect my option, they've got \$500,000 of my money now, two weeks from Sunday I have to give them the next \$100,000. He says "That's the most perfect piece of ground on the north side of Milwaukee, and I'm going to do 800 units of condominiums."

"OK, I said, "But you ought to notice that the last unit of condominiums was 24 units one block off of Silver Spring and the Whitefish Bay village board that approved that lost the

following election on the grounds that they did not want further condos in Whitefish Bay. So whatever you do to take the Country Day private prep. school apart and make condominiums out of it is going to be approved by the board who got elected on the grounds that there would be no more condominiums." I said "As soon as you get around that one, call me." (laughter) He was silent. Five minute interview so far. That's where we're at. He said "What do you mean?" I says "Look, that's been green-space for fifty years, all of us kids grew up there as if that was a private park. Totally surrounded by lawyers, accountants, and other ilk who are experts on any given subject at any given time and the neighborhood values in that neighborhood are built on the fact that they all have open space views across essentially about a 40 acre campus." I said "You think they are going to let you come in and plaster that whole thing with condominiums. The most probable use of that site is a school, and if it isn't going to be Country Day, its going to be somebody else's private school, but it isn't going to change its physical format. So he thought about that for a little while and he says "Gee, he says, I guess maybe I'd better not exercise my option." I says "Where do I send the bill?" He says "This was an interview to see if you can do anything for me and you can't, he says I'm taking the site." ??? Two hours over, two hours back, fifty minute conversation, net yield, zero. You have to understand the implicit assumptions. If you explode the implicit assumptions, you start over, its a new project a new subject matter.

OK. ?? to the implicit assumptions. There almost always will be one. They are the most innocuous kind of things. Today in particular when the site may have environmental hazardous materials, where it may have a political inheritance that is soft, not very visible, but certainly a critical element, you are immediately in trouble.

One last example. That project down in Fort Myers. We bought a piece of ground that was kitty-corner to the xxx Mall which was a good place to be, by a road system that goes over to the high income area of Fort Myers. And the state was able to push interstate highway 75 down the west coast faster than they thought and the highway department decided to widen the two lane road that went by our site to a six lane boulevard with median strip, the whole nine yards. So the first thing we did quickly and brightly, was to employ the same engineer that was laying out the highway for the state as the engineer for our shopping center site, so we'd get a whole integration of ideas. And he laid it out with a left hand turn lane into our project and the

median strip was ??? very carefully placed it so it was a certain number of feet down from the main intersection with the highway down to Naples. We floated it in to the mayor and the council votes to go forward with the three lands, with no median strip allowing left turns anywhere along the way along the dirt strip. Huh. Why would you build a highway that way? And then we figured it out. The property on the other side of the highway was owned by the mayors wife who happened to have a floral shop who would be cut off because all of her major customers coming east from the high income area would take a left turn into her property and the way the median strip was structured, there were no more left turns into her property. Now that we understood the situation, our client was able to buy her floral shop and gave her first right of refusal on a premier piece of retail space in the shopping center. Back to city council three months later and "son of a gun" council figured out that a median strip was probably a good safety feature to have and a left turn lane with a stoplight was certainly an attractive and desirable feature in the public interest and it passed. An implicit assumption is that you understand the political agenda of those who are going to be approving your project. And therefore you can't take it for granted that you know who those folks are without doing some fairly intensive research on that premise initially. The implicit assumption will kill you every time in real estate.

All you get is a set of assumptions. Be sure you understand which ones they are.

end of tape 2-1

Lecture 2-2 857

The deacon is passing amongst you a ?? list of graduate students so far as we've been able to identify them. If anybody has been left off probably its their own fault so we will be happy to ? the next position. Also for 795 the schedule is now finalized. March fourth will be the first session with Jerry ? and ?? All of them will be at the Edgewater the Pacific room up there on the main floor, rather than behind some public information?

Also the dates of the real estate field trip will be April 21 to 23rd. And the destination will be Minneapolis. Also I believe Tony or somebody correct me on this, but the first Real Estate Club meeting and the project will be Manchester Place ? and it will be and ? is the speaker with Manchester. and I believe also somebody is having their cocktail party on the third, Rubloff. Invitations are in our office for those who want to go. I believe their is a carpool being organized to attend that function.

I'm going to go through what I have so far...

printed up

The humane society here in Madison would like somebody with some architectural talent as well as some financial talent to look at their present space and the feasibility of expansion of their present site on Commercial Avenue on the way to Oscar Mayer. Anybody that does not have a project and would like to take a shot at that, you would be welcome to do so.

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OK. The Milwaukee development corporation with Mark Bailing and Dan Knox on that fifth and Wisconsin site shaped like a ?? to ??.

University YMCA, down the street here with Mark Foreman and Greg Freed, have you had a chance to talk to Craig Hungerford?

We'll call him this afternoon.

Golf course site search. Mike Hersberger and Cathy? and Scott Simpson. Scott are you from Racine or are you a golfer, which one.

I'm from the Milwaukee area and I'm an avid golfer. I don't think this will be ready to play on.....(laughter)

I will allow a team of three there due to the privilege of being arbitrary, whimsical and capricious and you were the only three that indicated an interest.

Have you talked to Paul Mendell and I understand we have a date for 7:30?

Yeah.

Shopping center rehab in a convenient location: Fort Dodge, Iowa. Doug McGuire and Darryl White is that where we're at. Essentially this is what to do with a shopping center when it's no longer needed as a shopping center.

Hopefully you will come up with something more imaginative than a bulldozer.

The Valley Bank office headquarters, Steve Holly and Tony Danns. Is Bob Cramer your contact or who are you reporting to there.

The Flad Office Headquarters concept, Tim Richey and Miles Huber, who's your contact there?

Tim?

OK. Now I remember that but it's too late because I didn't get it to you in time.

Uh, The Law Park ? project for you two folks I have a call in to Bill Beldin who is the contact here in town and his secretary indicated to me that we could meet the 16th at 3 o'clock. We'll get that nailed down for you.

OK. Copps department store, Mr. Vogel and Mr. Carpenter. Does that look like a go.

Well, it may have been a development there within a development. We may have to work out something else, his problem may be resolved at this point.

OK. My father's let us down so there's no contact ..

All right, let me know as soon as possible so by the end of the week I can type this up and distribute it so people have some sense of what everybody else is doing.

Downtown YMCA I have no takers for at the moment, so if that might be something you are interested in, I don't know.

Humane society, we ?? . Kevin you went to the corridor civic way?. Was there anything there that looked worth doing?

They did a feasibility last spring on the triangle....

Right the one that stumps and ?? did.

Yes and they also mentioned that there was a ??? over south of .UPS on the east side and might do an industrial park over there.

Another industrial park or an existing one?

And existing industrial park that's in the TIF district and also the UPS.

Again if somebody's interested in that then let me know.

Now there's a couple of you that I have not....

One a developer who does homes out on the east side has what he perceives as a commercial site on highway 19, halfway between lake Windsor and the drive between Token Creek and there. I thought maybe if some of you would like to do a study for a PDQ or whatever you want to call it and a liquor store.

So if somebody's interested in that for a highly focused retail study.

Steve Corrigan and Steve you have two projects down, neither of which I quite understood from your cryptic notes. One was southwest corner of Whitney way and Tokyo which led me to think you were talking about the same thing as the valley bank project, which may or may not be true. And the other was a project for recreation resources. I haven't put you down for anything yet. You want to see me and let me know what you are thinking of doing.

Then I've got three names, indefinite, Margery and Jeff Kaplan and Mike Hanrahan talking about something with Marty Rifkin. First of all you have to get it down to a team of two, so you either have to beef it up to have two teams of two on two projects or down to a team of two. Let me know what you are going to do.

Donna ??, Clarence didn't say what aspect you were going to do with George Gialamis....

I'd be happy to work with you on that.

Anybody that has not given me an indication of what they are going to do?

Somebody who has there hand up?

Is there somebody who doesn't have a partner?

Anything else?

Okeydoko.

That's going to be a major management problem keeping track of all of those.

I'd like to conclude on the issue of what is the problem as perceived by the client and methods of attacking it. We have talked about the client's method of meeting risk and compensation, non-business objectives.

One last concept there is see if you can capsulize what I would call the essence of the business. Most business concepts, formulas, niche if you will is really very simple, and its an extremely useful way to get a handle on the dynamics.

Let me give you some for instances. It's probably a different way of looking at real estate from the traditional way.

Certainly Shidler will play on this sort of thing quite as bit as well. Starting out with non-real estate, something I learned from my father early on who was in the corrugated container business, the essence of his business was making boards into paper. They were very efficient at that. But the problem was nobody needed Shidler paper in sheets which could be as long as 10 feet and as wide as 4 feet. You had to do something with the damn stuff in order to sell it. So the essence of his business was selling corrugated paper by calling it a box. If you put corners on it and printing on it all of that was done to accommodate the sale of corrugated paper. Once you understood that the essence of your business and your real profit center was selling corrugated paper then very quickly your strategy became "how do I sell to those customers who use the most corrugated paper per boxes" That became the thrust of the marketing program. And the very first call he made after that was to the Simmons Mattress company because they were packing their mattresses in corrugated containers. When he got down there he said "Gee, you've got a real problem, you've got three shifts of people wrestling mattresses into boxes for one shifts' worth of production of mattresses. So he said how can I get this contract? The way I can do that is solve their problem of wrestling mattresses into boxes.

So he said why don't I just sell them the blanks and let them bend the box around the mattress. It's a one time user deal, you don't ship the boxes back to the factory. But now you need a machine to bend the box around the mattress. So he went into the machinery business and designed a machine that takes the blank and bends it around the mattress and he's off and running. Now it's going a long way afield but what his basic business is, but boy there wasn't anything in that kind of use for corrugated paper than a box that holds a mattress up. Now he says to himself, gee I know how it works, how do I lock that in. So he says tell you what I'm gonna do, I'm going to lease you the machine conditional on you buying the blanks from me. The machine bends the box around, staples it together on the outside you have the format to identify the collar type size, etc. Terrific. He got 100% of the business. That was the essence of his

business. Beginning to perceive that the paper box was really only part of a larger system. When he began to contemplate what the total system was he could lock in the ... of a container.

He began to find that in other cases, once they had the product in the box, they didn't want to take it out until the consumer took it out. So at that point he designed a point of sale box, that pulls out and displays the candy at the supermarket, you know with the special Halloween deals and Christmas deal, etc. But now you have to have a very fancy display, you know four color printing, etc. He ends up with a whole stable of commercial artists. So now he has a department to make machinery another commercial arts department which is doing fancy artwork and setting up printing, because it is a lot cheaper to do it in house. All coming out of the essence of the business which is to sell corrugated paper and whatever I gotta do to sell corrugated paper, as long as I can break even or make a little money on the side on that little operation, it is moving towards my basic business strategy.

So now when I'm a youngster and doing one of my first feasibility studies I go down to the Abby and Ken Zinsel was running the Abbey, and Ken is a pretty good psychologist even though he is basically a construction engineer, that built the Abbey. He was the heavy duty contractor and ultimately ended up running the abbey since the guy who built it went broke. And he brings u s down, Bob Gibson and Myself to do the feasibility on expansion of the Abbey with additional meeting rooms and so forth. He wants to put in a retail strip. So I takes conventional look around, standing around the place and people are streaming in and out the front door by the loop around the major ? where everybody alights, and I said aha, that's were we'll put the retail.

He say's no, you don't understand. The essence of my business is consuming a weekend. If I put the shopping center right at the front lobby, momma will have cased all of the stores by the time pappa has signed in. So now what are they going to do on Saturday morning? We'll put it at the remote side of the Marina, because after they have breakfast and momma decides to get something for the grandchildren, they take the grand tour, they're going to amble across the marina, maybe they'll be distracted a little bit by the boats and other activities. And its going to be a half hour before they get there. And then I'm going to only let momma see one store at a time I'm going to set them back and stagger them, so you have to go around another corner. And pretty soon, they've consumer the morning.

Just discovering what's there. And they haven't really realized that time has passed. The bored guest is the itchy guest. I've got to find things for them to do for the weekend. I've got to let them know what they can do here, from shuffleboard to whatever. At the same time we don't want them to do it too efficiently. The essence of my business is the consuming of a weekend. Once you see what the essence of his business is, you arrive at a different set of standards for what seems to be an obvious conclusion.

Now, looking at a shopping center, the total sales volume of a shopping center is a function of two things, the frequency with which people visit and the average expenditure per visit. And the average expenditure per visit is a direct function of the amount of time they spend. This true whether it's a shopping center or Disney world. Those who clock the behavior of people in those areas and they'll show you how the number of dollars spent is a direct function of time. But by the same token the amount of time they spend there is directly correlated to claustrophobia. Therefore, virtually everything you do besides trying to reduce the anxiety of getting to the center, is to reduce the stress that reduces the frequency with which you go visit. But once you've got them there, everything you do is designed to reduce the claustrophobia. Temperature and humidity control in an interior mall is not a coincidence. Anything that mitigates the claustrophobia that builds up in the store itself. Sound control. Height control, width control, color, texture. The essence of what you are trying to do is get people to linger. And therefore you are counteracting those psychological forces that tend to cause them not to linger. The essence of the business.

Very often, come often, stay longer. Obviously falling out of that is a whole serious of complexities

Lecture 2-2 857

The deacon is passing amongst you a ?? list of graduate students so far as we've been able to identify them. If anybody has been left off probably its their own fault so we will be happy to ? the next position. Also for 795 the schedule is now finalized. March fourth will be the first session with Jerry ? and ?? All of them will be at the Edgewater the Pacific room up there on the main floor, rather than behind some public information?

Also the dates of the real estate field trip will be April 21 to 23rd. And the destination will be Minneapolis. Also I believe Tony or somebody correct me on this, but the first Real Estate Club meeting and the project will be Manchester Place ? and it will be and ? is the speaker with Manchester. and I believe also somebody is having their cocktail party on the third, Rubloff. Invitations are in our office for those who want to go. I believe there is a carpool being organized to attend that function.

I'm going to go through what I have so far...

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Lecture 3-1

...I know a couple of you have shifted projects...I talked to some of you this morning relative to the project with Marty Rifkin and another one with Dave Gollgol ? Dave is somebody else. So, if you have talked to me in class, if you have shifted your target slightly, if you would write that down on a piece of paper. have help me keep track of what some of you are doing now and relative to the group that's working on .Odgen and Company..Since only a cross section of those folks were available, when we were done, we had divided them up into a ? or PL...project at a townhouse proposal, if you would identify for me which of the teams are doing which of those topic areas. I have teams down, and I have whose working on Odgens, but I don't know who's on the elderly and so forth, and I think that ...would be useful...that area and keep you alert as to other factors that may be involved there. So if you would, during class time while I'm lecturing and not listening anyway, write that down on a piece of paper and give it to me after class, I will then publish a list of projects and team members and so forth accordingly. so I can check if I'm wrong on my assumptions or ?.. Second of all, where's my golf course team? Are we meeting tonight with Mr. McDowell? Seven thirty or seven o'clock? Seven thirty. Breese Terrace Okay. How many of you? Three of you? Got it. Okay, we'll be there.

Umm. Any other problems with administration? Political announcements? Social announcements? Whatever. The real

estate club meets Monday night at 8, we'll meet here in the Cox Building, is that correct? Probably Room 19.. It's Glenn Hovde on the..Manchester project, and we may have additional news on that point on summer internships, and the latest matters....

Two jobs that came in, one, Wachovia Bank Charles you'd be interested in that they want you in the Southeast, I think that you wanted to go someplace where its warm....We already have one good man down there, and there are two positions open there and uh,..they of course wander over to Chapel Hill to interview and we would like to plant further missionaries down there, so if you're coming out in May and are interested in the Southeast. Wachovia Bank is really the granddaddy of banks involved in .?.real estate, they very early on set up a subsidiary whichdid industrial development as well as more traditional lines of bank business, and really created a whole generation of open end or co-mingled. fund managers for pension programs at the bank, and has spun those people off so..I would say four or five of the major funds now around the country are all run by ex-Wachovia guys, and its a very successful, very aggressive, very modern concept of a bank in real estate. Worth looking at...very happy about it. There are two of those positions, they want to hear from you right away. Second of all, I told Marjorie was, that maybe somebody else is looking at the New York. I don't know why you're looking at New York. Goldman Sach is looking for a financial researcher, a researcher that I think would report to Randy Sissler, and if you're interested in that, again for May, why, I'll give you his name and telephone number and Bob Feldman ? and you can call them immediately to get your name in the hat. He called Friday to see if we had any prospects and he would like to close at least the preliminary collection of resumes and proceed to sift and winnow....Okay, any other questions? Yes?

(announcement from student) The internship surveys are starting to come in. If any of you are interested an internship this summer. They are in a book, so check the office out, there is a blue book on the desk and it says internship listings on it. If you see something you like, send your resumes out. They'll be coming in, I'll put them in as soon as they come in. So just keep checking if you are interested.

Jag: Send your resumes out, do not send the pages out.

Student: Keep the book in the office.

A different student: I wanted to ask about case three you mentioned the first day, were we supposed to buy this book.

They were right on the front end of the reading packet as I recall...what do you mean they're not there? They were there when I sent it in, so they should be there. If someone wants to bring me their reading packet maybe I'll .order..those turkeys down there, will, you know, take a section at a time and run it through their machine, something they say is too thick to run it through all at one time, and they may not have gotten it back in order but it's there. So if somebody wants to bring me their reading packet I'll go through it. Okay.

The subject matter for today is critiquing the feasibility report. And we have several basic points of departure, obviously one we've already alluded to is that the name on the front page ought to be relatively specific as to what narrow issue within the overall feasibility the process the report is intended to address, and .if it just says...the feasibility study on such and such, chances are that it doesn't know what it's doing nor does it arrive at anything useful.

Secondly, obviously the feasibility process is not unrelated to the definition of highest and best use, and there lies the rub. The professional society and even some of the banks take the premise that a project is feasible if the present value of the benefits exceeds the ultimate cost of the project, and generally tends to define feasibility as simply an economic question in terms of whether there's any perceived economic surplus. That is not feasibility, that's simply a single dimensional model which says it doesn't matter what the hell you do, as long as you get your money back, and that is a level of business ethics which we would like to discourage, as there are many things you can do in which you will get your money back. Cocaine sales would be a good classic example of that which is relatively feasible in terms of spread, but not necessarily meeting some of the other constraints.

Feasibility as we perceive it is largely a problem of ethics, largely a problem of compatibility of the project with a whole array of attributes to which it must adapt, and to which it must fit, both in terms of the occupants and the community about it, in terms of the efficient use of the nation's resources as well as a respect for the natural process. Now I think it's significant that when they initially reformed the definition of highest and best use to move off that very simple-minded "present value benefits

exceeds the cost", the definition came back in as early as 1971, actually I think it was, (Can you turn the page here for me) ...Forgive me if I read this, but it's disappearing from the current text of materials which is very retrogressive on the part of the institute and the society. It says "best use: that reasonable and possible use" - notice that element of humility that's come in there that isn't the appraiser simply laying down the law and saying this is it- "that will support the highest present value as defined as of the effective day of the appraisal." That use from among reasonably probable, and legal alternatives which of course we spent some time in 856 identifying courses of action, "found to be physically possible, appropriately supported" -meaning i.e. there's effective demand, financially feasible or viable- "and which results in highest land value." The definition immediately above applies specifically to the best use of land, it is to be recognized in the case there is a site that has existing improvements the best use may very well be determined to be different from the existing use. The existing use will continue unless the and until the end value in its highest and best use exceeds the total value of the property. But then it goes on. "In falling within these definitions is recognition of the contribution of that specific use to community environment or to community development goals, in addition to wealth maximization of the individual property owner." That was to have read when Beryl Boyce originally wrote it, at the expense of wealth maximization. And the grave diggers in Chicago really choked over that one, and so he changed it to "in addition to." And I don't know how you take the value of an asset and divide it up, community interests and the private interests, without obviously encroaching on the private interest, but that solved the problem at the time of editing of the terminology handbook in 1975, and it was allowed to pass. The more recent revisions of the handbook, both at the Society and Institute level, have left all of that out. Any sense of compatibility with the community, the environment, and a recognition that wealth maximization is a laissez-faire idea that's dead and gone has been struck out as controversial and beyond the pale as far as they're concerned.

And what's interesting is I've been working with a number of the banks that are revising their appraisal policies, and every one of them continues to perceive feasibility as simply an issue that the present value exceeds the cost. And indeed they stand back from any sense of judgment as to whether this is a good thing for the community, whether it's a good thing for the immediate neighborhood, whether it's sensitive to the needs of the ultimate occupants or

residents of the project. It's thought to be somehow an abstract, sterilized, process with no ethical component whatsoever, other than the fact that no one's supposed to actually cheat or defraud somebody, which they would frown on as simply causing excessive legal costs.

So when we're talking feasibility and we're critiquing feasibility, a primary element of sensitivity is not only what was the question this report was intended to answer, did they address the ethical or compatibility dimensions of that question? If the client or the analyst doesn't care to do that you don't have a valid study. I know, there's always someone who will say, the city council will look after that....we don't have to look at that. Anything I can get away with would indicate there no consensus about it in the world at large. Phooey. Some sense of conscience, some sense of professionalism to give to the individual who analyzes the project. And if you can be bought out and you may ignore that, fine, that's your style, you're playing the game the way it's played perhaps by the majority of people in the field, but be aware you sold out right there. So we get a lot our alums who've sold out who really crank the numbers. He got a benefit that exceeds cost, go with it.

Now, in looking at the overall report, every report should have a structural outline in the logic process. And you should be able to flowchart that. It's really a tree diagram which begins with a series of questions, and those questions may then be further subdivided into sub questions, and you should be able to structure the logic that is being presented into that tree diagram. The chances are good it won't diagram, the chances are very good all of a sudden that there's going to be a gap.

Quite often the gap is quite significant, it's involved something you couldn't know or something for which the budget wasn't adequate to explore, that's fine, the point is to be able to recognize where the leaping assumption occurred, and how big a leap is expected by the decision maker, certainly business has a risk, and certainly there's a point at which further money or further research doesn't make the project that much more certain. But you really need to know where that gap is, what was the major assumption, what's the leaping assumption?

For two reasons. One, of course, is the client can evaluate how solid the results really are, what's more important is outlining that soft spot, not only are you teaching the client how to think about his problem, but you may sensitize him to the fact that that missing piece of information

already exists somewhere in his organization but he didn't know how to use it. And that obviously internally, he can answer questions that the analyst as an external observer of his particular specialty, really can't do very well.

Since all that you get in a real estate investment is a set of assumptions, the ability to break those assumptions down into a hierarchy that says, okay, this was assumption one, this is how we go from here, this is where we went to from there, and so on, allows the client to better evaluate the set of assumptions that's been made, and therefore better evaluate the risk, and if he chooses to change that assumption, be able to run it through again, maybe it's not quite as neat as a spreadsheet which allows him to change a number and immediately everything flows out across the screen appropriately adjusted and modified, but he nonetheless can pursue the logic process through, and find out whether it now goes down branch B rather than branch A, when he got to a yes, no, maybe kind of thing.

Most of your goal as a feasibility analyst and as a report writer, will be this ability to dis-aggregate the problem down. Some of the elements of disaggregation are for matters of convenience, and a slightly more refined factor doesn't matter.

Let's take a quantitative example for the moment. Your client has decided to examine the retail potential for a supermarket on a particular piece of ground. All other things being equal in terms of zoning, size of the tract and so forth, the first thing he does is gee, what's the retail potential, I could look at the entire population of the city, that's not very useful to me, although it's possible that the probability that anybody in the city could at some time possibly shop at my center. And he makes the first disaggregation in his tree diagram that says, really, seventy percent of my business is going within six minutes driving time of the store.

And he then establishes a trade area, or his primary trade area within six minutes driving time of the store, and he's made an assumption of convenience, but nevertheless a disaggregation. The first step in his tree diagram is then of the total population that I'm looking at, I only want that part which is within six minutes driving time.

Now sure, you could spend a hell of a lot of money to find out whether there's any difference between 6.25 minutes driving time and 5.9 minutes driving time, but it wouldn't really enhance the reliability of your conclusion very much

in terms of cost benefit. Okay? So you've made your first step in your tree diagram.

Now you say, gee, of those within that driving span, the profile of my customer is such and such, and you can decide that there's the bargain hunter who's going to go to the warehouse style Wal-Mart and so forth, or whether they would rather buy their ties at Marshall Fields cause they're classy. There's obviously a profile that says okay, my typical customer is of such an income group, family status is so and so, and the psychographics indicate an education of four years of college and whatever. Right? You've made another convenience subset to disaggregate the population within six minutes driving time of that location. So far so good?

Now it tends to get a little more sticky. Once we're down to that subset, now a little variance in how much money they spend per visit to the store and how frequently they visit the store becomes a more critical issue. That's a more critical assumption in terms of the reliability of potential. At that point you may start doing consumer survey research that is particular to that area, which is customized as a survey to that area. Now, it's a leaping assumption to some degree that says six minutes, but is that a really serious error of distortion? You're only saying seventy percent of your business comes from within that, thirty percent let's say coming from beyond that point and so forth.

Notice we're moving through a series of disaggregations, of moving from a larger generality to a more specific subset of attributes that are important and relevant to whatever it is we're measuring the feasibility of. And we intend to model that process so that we hit the significant factors realizing that there is no way that we can ultimately model the last little set of attributes. Certainly not to the degree that we can build a leap by leap model that has all the whistles and kinks of the lease package that comes with the building. You know we're going to have a much more accurate feasibility tool with that kind of specificity that we do with a marketing tool. We really don't know what the chemistry is going to be of people that arrive and discover they don't like the person that's showing the models or they get there on a rainy muddy day, or some other attribute turns them off to the property, there are so many random variables that can intercede in the ultimate result that we're really talking about patterns that can be discerned that are highly associated with success or failure as the case may be.

Now that process of disaggregation can be applied to qualitative types of things as well as the quantitative types of things. If we look at our zoning and there are five things that we need to achieve in our zoning process, and four out of five are in place, we can attach probability to those four elements, and the fifth element, and decide whether we're going to be able to do that or not. Could we in fact achieve that variance relative to side yards and so forth given the other elements that we're dealing with?

Are there attributes that we can use to change those probabilities? Cappell ? dealing with a small residential development project outside of Milwaukee, and unfortunately it sits astride three townships come together in the middle of the site somewhere, which means he's going to have to see three different boards as well as Waukesha's planning commission. And it has about 600 feet of lakefront, to make things a little more delicate and so forth. And if you look at all of the things that you're going to have an argument about, three town boards and a county planning commission, in order to get your plat, you would say, ah, that's the kind of trouble I don't need I think I'll go find another site.

So on one piece of the site right on the water is a dance hall which has been grandfathered in for years, at the end of a dead end road which comes by some 55 cottages, and which is used for private picnics all summer long. If you belong to the AFL, something or other, why your union picnic would be held there, and you could have a dance and a polka along into the evening, and drive your neighbors nutty. Grandfathered in. Wonderful. I can go back in and start to have a little conversation with the folks, what would you do to get rid of the dance hall? And the residents in two townships said essentially, you know, they'd sell their grandmother into slavery, and you say, gee, all you really have to do is approve a slightly different road, a configuration here and so forth and so on, and all you say I got to have is the lakeshore. Well, we'll make that a private park.

Well that's what we got now. So what we'll do is we'll subdivide the lot so that there are now say four lots of 150 feet of frontage on the lake. That gives us the class we need. They go back to the planning department and they say you're crazy. We're not going to let you have a septic tank within 400 feet of that lake. Uh oh, 400 feet is on the other side of the road. Well fortunately we own the other side of the road. So you say, what if we put in the septic

field up there, and we put a pump under the road and up and over?

And they say that's really great but the utility rules of the State of Wisconsin are that if you have more than 3 units on the sewer or water line that goes under a publicly dedicated road, you got a utility. Now, that's about \$3500 a year of accounting forms that you fill in to recognize a public utility, so okay, you're going to have three lots instead of four lots, and you know, we'll have a strip down the middle so that the inland lot can have access to the lake. And the neighbors say, ok they can have access to the lake, but they can't have a pier because that will put more boats on the lake and we already have more boats on the lake than we want, and so forth, okay?

What you've got to understand is you're beginning to set up the tree diagram is here are the hurdles that we have to cross, now what are the chips we have to play? And then both sides of the disaggregation. Because ultimately it's like J.P. Morgan screaming at his attorney, equally applicable to the feasibility analyst, "Don't you ever tell me what I can't do, I hired you to tell me how to do what I want to do." And that's your job as a feasibility analyst. You make set up some screens that says this is the thing you can't do, but if that all of a sudden forecloses, whatever opportunity or whatever it was that your client was pursuing, then you've got to come back with a creative solution.

You don't want to be the bearer of bad news, unless there's no other news to bear, then chances are that you'll never get another job there. In fact, if I were you, I'd wait until I could get paid in advance. It's very hard to collect your fee for saying no to the client.

Now that means a very nifty ethical line, because quite often you'd better say no to your client if you're considering the compatibility of this project with other elements of the site, even if there's legally a way to pursue it. Quite often there's legally a way to do it, even though it isn't what it is you should be doing. The law tends to lag in terms of sensitivity to the environment in which the project is located. So look at a feasibility study to decide whether they defined the question, did they define it in the very narrowest laissez faire terms, problem number 1, problems number 2 is, do they provide a structural decision analysis which allows you to disaggregate whatever it is they're presenting?

If its a quantitative model, fine how did they disaggregate that. The traditional appraisal has a step by step sort of thing, whether they take the Ratcliffian or the traditional approach to define best use, to define this that and the other thing, and then you go through at a very stylized disaggregate about market comparison, income and cost, to get a conclusion.

The problem with the feasibility analyst is that since every problem is different, there's no cookbook that here's the flowchart and this is the AIREA textbook, and I take it step one, and I take it step 2, and I take it step 3. Your first problem is creating that series of steps, creating that flow chart that says here are the steps, and here's the relationship of each step to the next one.

Here is the link, and finding out where the missing link is. That's true whether you're meeting somebody else's or whether you are in fact designing your own. So the first thing I want you to prepare in doing your own projects, is a flow chart for me, no more than one page long, that gives me the step by step analysis of what you're going to do, and what you think the critical link is between each step.

Population, now how I'm going to reduce that to trade area. Maybe I'm going to use census tract borders, because that will give me data which is precooked for me and I can just move from existing demographics. Maybe I'm going to use some kind of trade area represented by accessibility of time to drive to, or road systems, or whatever. Maybe I'm going to have a cut in terms of income, education, all of the other demographic factors that Dowell talks about in 757. Begin to take another cut and say okay, of the uses that would be acceptable here, we will look at the following, and we were doing that the other day with the Ogden group, and very quickly you can say, gee, I don't think offices is a very bright here, you got an older neighborhood, let's look at elderly, we got to have retail in support of the elderly, because otherwise it's somewhat remote from convenience shopping and so forth. Bang now let's take a look at a housing project that's probably priced somewhere between 60 and 75 thousand because that's what the houses on the back side of the lot are priced at and we really can't get out of that price range because this neighborhood doesn't have the prestige and character and identification in the consumer market with higher priced housing.

We've made a series of cuts and defined our problem in that way, some of it quantitative and some of it qualitative, and of course, as you become more experienced in feasibility,

you often make those cuts much more quickly, sometimes more arbitrarily, and the hope is of course that you don't throw the baby out with the bathwater. ... The assumption cut that you just made is the wrong one. Marty brought in a wonderful inclusive assumption example. In Salt Lake City where the Great Salt Lake is, as you know, has been expanding because there has been a series of heavy winter snow seasons and the runoff melts and goes into the essentially landlocked no outlet Great Salt Lake, and because the terrain is so flat, relatively small increase in the depth of the water spreads out over a very expanded area of the geography and it has a really flooding problem, and real encroachment now into developed areas, and so, they looked and they discovered that over here on this government land was another area that looked like the moon, never has been anything there that anybody can observe, and why not make that a storage pond kind of reservoir to pump out of the Great Lake into that, and then release out of there as the Great Salt Lake itself went down within its borders. And the immediate assumption was, gee, since that was the moon and nothing had ever been there that the environmental impact statement ought to be a short shrift kind of thing and we can really get moving with this without any problem and so forth. Only to discover that it was in the bombing range for the Air Force at one point or another, and that buried in the mud of the old lake that they were now going to create a reservoir out of were all kinds of unexploded bombs which represented essentially water-tight canisters which have a lot of air in them and have a tendency to float up on the mud, and then would drift toward the outlet which was going (laughter) be periodically opened and allowed to drain back into the lake.

So the implicit assumption that we really don't need an environmental impact statement because it looks like the moon, was throwing out the baby with the dishwater, you really have to go back and say, wait a minute, what's there, and they ultimately had to create as I recall some sort of screening device for a 1200 ft long that will allow the bombs to bump up against that and stay on the government side of the water. And in the meantime had their bomb disposal crews out there, the construction crews working on the impoundment of the otherwise you may lose a turnapull or two. The implicit assumption and be careful of the structure of your problem and don't throw out one of those as that could be a costly surprise.

Now, assuming we have the question, assuming we have some sort of logical structure that indicates the step by step

sequence under which we should proceed, we can then begin to look at how it is we're going to write our report.

Obviously there's going to be several ingredients, not all of which are yours, and you want to begin to anticipate that since maybe heavy money is going to ride on your report, that you begin to carefully anticipate the limit of your reliability and warranty and the kinds of hold harmless that you're going to put on the front. We need to define some basic things, both in terms of information and administration of the report process.

The first of course is what assumptions is the client going to require or project as given. Developers of course are extremely reluctant to spend any money up front; prior to the first draw on their development loan, and so they say don't worry about the soil studies, don't worry about the traffic engineers, I can handle that. Don't worry about the floodplain, small technical problem. You want to get that in writing. Here are questions which we raised, which will be deferred until the following issues are resolved. And here is a point of departure, you know, in terms of assumptions. Marshall and Stevens costs will be acceptable.

Secondly, who are the other experts that we can draw on, or are there existing reports which we can utilize? For example, numbers of you are working on the XXXX property, remind me and I'll bring you my file on that, but within that file is an appraisal by B.L. ? Evans done about 1985, and a large part of this is premised on the soil conditions which as determined by B.L. Evans, not to be suitable for developing. The client probably doesn't agree with that, nor does the City of Monona agree with that, so that would not be a study on which you could then use it as a point of departure, as it would be a considerable discrepancy between what is perceived as buildable by that appraisal and what may be perceived as buildable by the City of Monona, who would be obviously ultimately a more definitively source. So you need to define the rule, whose report am I going to believe? Whose expertise am I committed to use?

In appraisals, if you used an outside report, appraisal ethics requires that you concur with the results of that report, you better know something about it, if you don't know something about it, you better have something in your budget so that the review would be done by someone that you trusted that had expertise to say, their analysis of whether there's a fence issue or not, or whether we have a hazardous materials problem or not is valid. Remember the Rosenberg

fund recently out in Denver had a expert opinion that the asbestos problem in the Compita ? center was not of any significance, and indeed most of the material wasn't asbestos at all but some other kind of stuff. They appraised it on that basis, Reits bought it on that basis, and then discovered during a minor remodeling, that virtually the entire center ceiling was done in asbestos which was regarded as, what's the word, "ambient?" The fibers were floating through the air, and that it was beholden on them to remove all of that, and unfortunately they had already started remodeling without encapsulating this material and the fibers drifted throughout the shopping center, and ultimately, 65 million dollars later they had replaced not only most of the center, but also all of the merchandise of all of the tenants which had been contaminated with asbestos fibers, and had to pay them for interruption of their businesses for three or four months. It then came to light that whoever they had do the "expert" analysis of the asbestos thing wasn't qualified to do that.

So as an analyst you're going to have to rely on experts. The appraisal profession requires that you concur with that, and that may not be the case in feasibility, but probably would be expected of you professionally from an ethical standpoint, even if it isn't administrative rules of the feasibility analyst are not necessarily members of the Institute or Society or whatever. Whose experts can you use? Whose expertise will be accepted not only by the client but by yourself.

You have to feel comfortable with it yourself or you'll have a great deal of discomfort writing your report based on a set of expertise premises which may not prove true. It's also obviously important to have some sense of what kind of budget you have to utilize these people. We would generally bid our work on any type of project of that sort, and have an allowance with which we can go to a civil engineer or a lawyer or some other appropriate specialty that seems like it might be relevant to that particular problem.

If you don't have that, you may one, not find a feasible solution, you may in fact be operating on a false premise. Not only do you want to protect yourself, but you also want to get as many fresh ideas as you can. For example, it was many years ago now we had to appraise for the City of Madison the Tactical Air Command block houses on Truax field which are now the WARF laboratories. And stranger buildings you have never seen. Initially designed to be the home of Dr. Strangelove, with the tactical defense, two story high command center in each of the two units in which the

commandants of the district would sit out on a, almost like a movie camera adjustable boom over a vast map of the area in which he could slide his little fighter planes around to sincerely frustrate their running, but in any event, they had been built into the mountains of Baraboo, but the Air Force officer decided he didn't want to live in Baraboo, that Madison was a nicer place to live, so they decided to build it here. The Air Force in its wisdom said that we really need a good risk management, and there really should be two of them so that if one got knocked out the other one could continue. That was the first implicit assumption. That would have made a lot of sense except for the fact that they built them side by side. Once they made that decision they ran out of funds a little early, and so all of the team's communications equipment was in one of them, so you had a three story block out by one side, and a four story block out on the other. The further premise was that the Russians couldn't hit the broad side of a barn and therefore most of the threat would be from shock waves coming from the side so the walls are essentially from two to four feet thick poured concrete, but the roof is a one inch poured concrete deal over some steel beams, stopping a small anvil out of a Cessna would have gone whoopsss. (laughter) The next problem of course was, gee, the Air Force has their own air police and they would protect the facility, so to protect against ground attacks of the rebels in Madison, particularly through the swamps that at that time surrounded that particular area, where MATC is now located, the put up several plywood pill boxes at the gate. With a cyclone fence around with a strand of barbed wire on the top. They said it's dark and dingy in there, and so the main entrances on the first floor had windows in the door, which with any sharp shooter out in the swamp could have pinned down everybody on the first floor by just firing at the window which was lined up directly with the corridors which went from one side to the other. And now they discovered that the guerrillas in Madison would undoubtedly interdict their electrical supply to run their computers, and once more the computers at that time were all tube computers generating tremendous amounts of heat so they needed a powerful air conditioning system, and if they lost the air conditioning system I think in four minutes the whole system would overheat and go. So they used their own independent power. They built a concrete bunker sufficient to house eight diesel generators. Now diesel generators don't generate a very reliable, steady electrical power, there are a lot of surges and erratic frequency movement of current, so those in turn drove electrical generators which then produced electricity which would then produce electricity that would run their computers and so forth.

They on the other hand were water cooled, therefore they had to create a big wooden evaporator on one corner of the property in order to cool the water that ran the generators that protected the computers. Again a small thirty ought six putting a couple of holes in the water cooler would have cut down the whole operation, and this was the government defense position providing you tactical air coverage for all of Wisconsin and presumably the approach across the polar area to Chicago.

It occurred to them about a year after they had spent an incredible amount of money that this wasn't the best idea they ever had, and they shut it down. While it was open it was called a mushroom factory by the troops that were stationed there and had to wander around and operate the facility. It then reverted to the federal government as a hulk, and when the government gave the airport to Madison it was now Madison's problem, and along came somebody that said that they would in fact buy it from Madison for \$25,000. And our group's job was presumably to rubber stamp that by appraising it for \$25,000 so that the city could go ahead and sell it.

That's the feasibility problem. What is highest and best use of two concrete block houses that never were suitable for what they were intended in the first place and were even less suitable now but could not be destroyed because they were built of such concrete that there was simply no way to remove them. Vacant land would have been a higher and better use; again by bringing a mechanical engineer in with us, none of this met the fire codes or anything else that the federal government didn't have to observe, we had a shortage of stairways, there were no bathrooms on the upper floors, they didn't meet any of the basic building codes. He came up with a very bright solution, he said, they're far enough apart that we can put a tower between the two buildings, put the elevators and required stairways, all of the plumbing and so forth in that tower, and then blast through into each building on each side of the tower, and not have to blast through all of the floors of the building to get all of these vertical elements in that would be required to make it useful. Once you did that, you had a terrific, you had 400,000 sq. ft. of space of incredible floor load capacity and that was the key. I remember I charged an incredible \$5000 fee to decision to that. Mayor Dyke never forgave me, he was just livid about that. Including \$1200 for just mechanical engineering fees which I paid myself out of my fee, and in the process found WARF as a buyer who paid about \$250,000 dollars for it, and Mayor

Dyke had written me down as a rip-off artist. But that's alright, I had written Mayor Dyke down too.

But in any event, notice the real key was finding a mechanical solution to the problem. Appraisers, not being an expert on all matters, need that kind of input, and therefore the decision as to which experts I can go with and what budget I have to spend on it and so forth becomes a critical element in evaluating the report. If the report is done by someone who was not given access to any of that you don't have a valid report.

Now if it concludes these are all the wonderful things you can do with it, if he can just figure out how to get a bathroom in it, obviously somebody has to have the money; or it has not moved through in a logical sequence. You've simply identified impossible constraints and provided no solution. So we need to know what access you have to other kinds of expertise, what are the reports that you can deal with, the budget you have to explore fundamental issues with the analyst.

Therefore in evaluating someone else's report the first thing you want to look at. Who else did they consult with? What other reports did they use? Do they take issue with those findings or do they concur in those findings? Or do they simply accept that as somebody else's problem, responsibility.

The third major issue, look for immediately in the report, as to the interactive communication process between the analyst and the client. A feasibility study is not an appraisal report in which someone can go, request fair market value appraisal, send a legal description and indicate that its for eminent domain or a mortgage and so forth, that's about all the dialogue that's going to occur typically.

The feasibility analyst really has to grow with the project. He has to know much more about his client than whether it's feasible for his client to do that. Watch what happens over the next month in Madison. I'm willing to bet that by the end of this week the convention project on the south side will be a dead duck. It will either be abandoned or if not disclaimed by the mayor's criteria committee. But that doesn't mean that some site on the north side is feasible, because I think you will see statements at the time that the south side is abandoned, that they would not work on the north side with Darryl Wilde. It has nothing to do with economics, it has nothing to do with engineering or zoning

or whatever, it simply has to do with the fact that the attitudes of many of those within the city government and currently within GMI and other groups with a vested interest in downtown are such that they won't work with Darryl Wilde. And as a result they are going to do a great hatchet job on Darrell. You watch. They will move on him both through his limited partners and through the press to dissuade him that he is going to be able or capable of moving that project forward.

Feasibility at this point then depends on that kind of test of will. It will be a classic example of what we talked about in the principles course, configuration and behavior of any enterprise at any point in time depends on the ability of outside forces to impose a configuration in behavior and the ability of the inside forces to resist and push back and determine for themselves what their behavior configuration will be. Classic shoot out on that, you just watch and wait and see.

Perfect demonstration of feasibility issues having nothing to do with the present value of the benefits exceeding the cost.

The final element in critiquing initially your feasibility format, is essentially recognition that almost all studies presume that the client has resources to carry out the project. There was a definition of feasibility that we have used, which talks in terms of limited resources as well as existing constraints.

Limited resources are not simply money, although that may be a real one. It more often is personnel and time. How quickly do I need a solution? Do I have someone who is capable of executing the program? Mr. Gibbs comment on using the ? yesterday that he was rookie and we felt that we had to keep the play pattern simple so they kept running whatever they called their counter-gap to the left or to the right so that Mr. Davis could understand the game plan. He seemed to have a good grasp on that particular play. A lot of coaches don't seem to be able to adapt to their feasibility programs of their resources, such as our football coach, right? Taking a big ten team of beef and trying to make them a group of scatbacks from Oklahoma sort of thing. They'd introduced the veer but it doesn't work very well if you don't have the personnel to run the veer. But in any event, one of the goals of the feasibility analyst is got to be, if this report is to be valid, who is going to do this, as well as what is it they're going to do?

Cause the ultimate criteria is, will it work? Will this plan that we have created to capture the opportunity, will it really really work? The appraiser can make all kinds of assumptions about average management and somebody's going to do this in a free market even if the client doesn't do it. But in feasibility that's not so. In feasibility the ultimate bottom line question is will it work? And will it work with the players that have actually got to make it work. That's a really tough part of feasibility.

How do we explain to them, gee guys, you're terrific at building things, your carpenters are super but your political finesse is zero? Did I tell you about the one I had in my office the other day, two sites off of Dempster and Interstate 94, el primo, one's got the zoning, one doesn't, the one that doesn't have the zoning, I think it was a guy named Mathis out of Chicago going to do a hotel and office building on, within six minutes, no stop signs right into O'Hare field, but it's on the flood plain of the Des Plaines river which is a sensitive point right at the moment since it flooded last fall, I guess it was, for the first time in umpteen years, and left the whole area under water.

And they asked him well what are you going to do about the fact that you're in this floodplain, no problem, if you'll notice he says we have graded the site so that Interstate 94 and this grading plan create a levy all around the project, and we'll just pump the water out onto Dempster Street.

Directly across from the project is a Greek Orthodox Church, and the good church fathers who are sitting in the public hearing wondering what's going across the street, look at each other like they couldn't believe they heard that. Now this guy may be terrific as a general contractor, but he can't understand how the village would turn his zoning down flat, didn't even ask him to come back with modifications, forget it. And its dead. Well, the feasibility analyst can either make the assumption that you are adroit and capable of executing the plan, or if he's really serving as a consultant saying, hey guys, you're really terrific at what you do, but this calls for a joint venture with so and so because he's got the political skills to get this through. Quite often you'll need a joint venture partner.

Doing a project in Fort Meyers, where we had some real ticklish traffic problems, which we said, well, gee, who's the civil engineering firm that is doing all of the traffic work for the city? That ought to be our civil engineering firm! We've got to explain it to them in the first place in

order to get their approval before the city will give their approval, why don't we start with that? Not only do you co-opt the opposition, not only do you eliminate the possibility of affronting somebody sensitive pride and so forth by doing the wrong thing, they have a vested interest in seeing your project proceed because if you get the traffic solution then there's going to be engineering required of the water program and the lines of the parking lot etc. etc.

Part of feasibility of making sure you have the right person doing the appropriate job at the right time. The feasibility analyst should have some suggestions in that area. Some sense of implementation. Who's going to do it? Making sure you have the right people in the right spots and making sure quite often that you hide some of the people that are involved in the project just because of previous efforts and complications which they may have had that otherwise make it impossible. How do you diffuse that?

Remember, the ultimately objective of feasibility is compatibility of the project and everything identified with the project in the context in which it is expected to work. And a significant part of that compatibility is the compatibility of individuals that are going to be running the project, determining the entitlement of the project to the public sector, determining financing, or marketing of the project, and that may be a significant part of the strategic input of the feasibility analyst.

Quite often he can say things that the client could not say, quite often he can communicate things to the board of directors that perhaps the management of the company would rather not have said, so keep in mind that feasibility is compatibility, compatibility is not only a physical or market phenomenon as a third party, it is in fact the decision makers themselves and their fit to the environment in which they are expected to operate. And obviously, there are very few clients that are all things to all people. Each client does some things well, some things so so, and some things not at all and the trick is knowing when you have reached that point.

Okay. What time is it? Good we can continue. (Groan from audience.) What I would like to do again, as an assignment, not this Wednesday but a week from this Wednesday, I'd like you to give me a one page tree diagram outlining for each perceived point of departure to be, and the sequence of steps, the logic of your project. Since you're not obviously going to be capable of giving a total feasibility

study, you better have the name right at the top of the page, strategy studies for so and so, market surveys for so and so, whatever it may be, and second of all, then, as firm a statement as to each step of the sequence as you can find at that point in time. See whether the report hangs together or whether there's a leaping assumption there that is forced by your budget for your time or by the fact that it's something that nobody can know at this point in time. Tom Neujahr likes to refer to those as the leaping assumption, as you read a report looking for that leap. Recite all kinds of time series data about the community, in terms of sales, number of airlines tickets sold to businessmen all of which are in a growth trend, and then conclude, "And therefore, the time is appropriate for 200,000 sq. ft. of office space." Huh? Where did we come up with that? How do we make that link? Now that's the grand old leaping assumption that feasibility analysts that only a few years ago were able to get away with.

Essentially what they said was, conditions were good, business is expanding, wham. Today they can't do that, today they would have to segment that market very carefully and identify which group of office workers they thought they could house at that location, what rate of absorption would occur and what kind of leases were they on presently and therefore how soon might some of those types of tenants be released from their present premises and be available to relocate and so on and so on and so on. So the state of the art is moving very quickly. Okay, I quit, I'll see you on Wednesday.

Lecture 3.2

Any problems, statements, etc. relative to field projects, are you able to find your contact people and so forth? If not, rattle my cage---if you need me to referee between your sponsor and your team as to what can be done within the confines of the semester and the hourly time available ? let me know because that obviously takes some time to arrange and get people in one place at one time. Let's see, secondly I believe, what SECA ? is interviewing tomorrow, so those of you who are interested in that or is it today? I had a call from Paul Boneham ?, Prudential has three spots open in Chicago, virtually immediately a May grad would be acceptable, so if you have a resume send it to Paul Boneham, he's in our alumni directory and he would be the individual initiating the interview process etc. Okay. That takes care of the detail matters for the moment.

Uh, ? and Tony, if you want to get a committee of two or three together we can sit down and begin discussing the Minneapolis field trip, I have initiated contact there to get a deal on the hotel rooms, comes complete with a developer called Trammell Crow, so they asked what it is we wanted to do and that was a very good question.

Okay.

We were talking about how to critique a feasibility study, and the desirability of creating a flow chart which in essence provides the bones or structure of the analysis and the key assumptions that are made, and Melissa will be bringing us momentarily from the copy center a for instance of such a flow chart. It can take several different forms. It can have very simple models which make a statement about the report, for example, your initially outlying shopping center strategy, you might begin with the old Rielly model that suggests that the mass of alternative shopping materials as represented by square foot of retail area divided by time, or time squared I guess is the current Rielly model, represents a statement about our analysis and we try to inventory how many square feet we whatever we have in retail space and begin to expand on what we mean by time to travel and by what route and so on. It's a rather simple minded model but it provides an initial structure for our analysis. We could begin to expand on that, we could begin to say that we are not only interested in the mass of choices or alternatives represented by square feet of retail trade area as a proxy, we're also interested in what is called perceived bargain, do people regard this as a tony recreational experience or an efficient re-supply mission?

Certainly makes a difference as to whether you go to Bierley or to go to Dick Hubbs. Each one is making a different statement about perceived bargain, and that's going to modify your reaction to square footage and size of the store.

And the denominator, you're not only interested in time of travel but you're also interested in stress and cost. We begin to expand stress in terms of how we perceive congestion, how we perceive the accident rate on the route that leads to that particular store and that kind of data sells. Wisconsin regional planning commission can tell you the cost of travel along any segment of their main interstate and connector system in terms of frequency of accidents per 10,000 vehicles, the average property damage per accident, and the physical injury or bodily injury per accident. You begin to measure alternative stress elements along different routes,

We begin to measure different costs. When gasoline prices went to a buck and half a gallon, the trade area on the East Town shopping center collapsed where they were drawing as a primary trade area initially as far as let's say as Waupun and so forth and as far out as Portage, suddenly when people said gee, it's going to cost 8 dollars in gasoline to drive up to East Towne or stay in Janesville to shop, why they opted to stay in Janesville. The cost of travel was such that at that point the recreational component of shopping at East Town simply did not justify the incremental cost. So notice what we begin to do is we begin to state our model, true, there's no mathematical precision to saying that the draw of the shopping center is a function of mass and perceived bargain and inverse to the time stress and cost of getting there, but it begins to structure for the analyst the subject area that I'm going to be required to analyze for that particular project.

In other cases the models may become more quantitatively connected rather than simply being functions of one another, with perhaps little empirical evidence as to what the exact relationship to each element is, it may be very directly related. And here the analyst has a very interesting problem because he has to relate, like any model, his concept to the data that's available at a reasonable cost. For example, a good many years ago now, one of the students in this course Bob Richardson, was assigned the problem of deciding how big a facility the State Historical Society could build in Portage Wisconsin. Of course Portage was a critical fur-trading post formed or established by Vincent Astor and represented really a base at the locks that

connected the Fox river to the Wisconsin river and therefore allowed fur traders to move upstream eventually transporting what they called bateaux, kind of a square bottomed canoe to Green Bay for export to the east coast, and on that particular site was a fur trading structure and the remains of an old fort. Fort Portage really wasn't devoted to anything military, things were used for four day drunks up there that caused them to build fortification to protect the whites from their drunken trading partner, and is most notable for the fact that it was Robert E. Lee's first assignment out of West Point as a military engineer and he built the commandant's cabin, unfortunately to southern standards, and in the first winter the snow and rain poured through the chinks in the logs, ruined the commandant's wife's piano which was one of the few pianos in the entire Wisconsin territory and Robert E. Lee was re-stationed in the South, where he apparently had a better understanding of mud, so you could look at it as a very critical day in history (laughter). That was about it for old Fort Portage. Plus the locks.

At any rate, the historical society had a number of criteria for creating it, one of course was how much can we draw in terms of how many folks would come to see old Fort Portage if it were restored and outfitted as an Indian trading post of the early 1800's? They hired a very well known firm that came along and said, well, wow, there's so many million vehicles going up the interstate and if you get you know 5 percent of the people that drive up the interstate, why you're going to have so many hundred thousand people a year, and obviously you don't have enough land to have a parking lot big enough to handle it and its going to be the greatest thing since fresh bread.

Trustees had sufficient judgment to realize that really wasn't likely, that 1 out of 20 cars and trucks were going to immediately turn off at Portage to see old Fort Portage, and therefore commissioned another study. But again, any model that you make of trade has to be relevant to the data base that's available, and the only data base that we found that was available was in fact the State Highway Department maintained vehicle counts on class B roads, weekdays and Sundays. And the reason for that is that a major recreation of the typical average citizen is taking a drive on Sunday with the kids, and they found out that driving on B class roads on a Sunday is a good proxy for familiarity of the Wisconsin populous within a given recreational area.

So if you've got that kind of data, you could say, gee, how are we drawing in that particular area. So that amount of

information was available, traffic differentials between weekdays and Sunday traffic on class B roads. Most people don't want to take a Sunday drive on the interstate and go past the scenery at 75 miles an hour. The idea is to kind of meander through back country and capture the flavor of the rural area and so on.

And a very significant traffic flow by the way, significant increases on Sunday, so that the difference is presumed to measure the recreational draw of a particular area. Now the next problem is, so what? Well the historical society had three other properties which had already had a track record of attendance, and one of them, Way ? house, north of Lake Winnebago, northeast of Lake Winnebago, has been around for quite some time, represented a very substantial development of an old roadside inn and related farm equipment museum, etc. etc., There was a second down in Prairie du Chien, was it Governor Dodge house in Prairie du Chien, I guess that's right, and then third, they had begun to develop a village, representing the 1850 Wisconsin farm village, and in the summer it's open with the blacksmith and the blacksmithing shop and the harness maker and the harness making shop and so forth and so on.

By correlating their attendance to the B class traffic volume in an area of approximately 35 miles around each of those areas, you could calculate a co-efficient that indicated the relationship of attendance to B class highway traffic. It became a proxy for drawing. And if you use that as a point of departure for your model, you not only have a set of time series which indicated monthly relationships which parallel reasonably well the obvious increment in the summer vs. the winter and in some cases the closing of the facilities during the winter, and again your point of departure saying here's the order of magnitude of attendance you can expect, and one, as in Old Way House, the project has been well established and now is well known to the driving public, to the old Governor Dodge Prairie du Chien unit which was relatively newer, was less intensively developed, less mapped if you will, and then the newest building, of course I can't think of the name of it, what is the name of that building?

Student: Old world Wisconsin?

No the other one. The one that's in the floodplain. Stonefield Village there we are, relatively new, not well known, somewhat more remote from the major population centers, and had the lowest penetration into the B class traffic volume around it, but at least it gave you a way of

saying, okay, if we open a new facility in Portage, our initial penetration into the B class volume would be so much. As it matured and the project became intensely developed this would be our penetration and ultimately you might reach the old Way house level of market penetration into the B class element.

So the initial thing is, can we find a base of data to disaggregate down, and in such a way that it will focus on the demand group that we want to talk about. Since we're using secondary data to begin with, it is has a reasonable plausibility, the precision is somewhat questionable, but we get an order of magnitude sense about what we're doing.

For example, we just handed out to you a flow chart from one of Jean's elderly project studies. Early on in the report, we explain to the client, this is what we're going to do. It's much easier to communicate that quickly with a flow chart of some sort, not necessarily this elaborate in each case, but some sort of flow chart model, what the relationships are. Because we really have going on here a move from secondary data, readily available, and cheaply available, and immediately available, down to progressively more refined statements about the character of the model we want to reach. So we start with the so-called elderly, we have those over 75, those that are 65 to 75, those that are below 65, and quite often you see the statistical map, both census and planning districts, presented in that way. And in this case we felt that the 65 to 75 were very much a secondary market group, and most people don't move into elderly congregate housing until they're over 75, the average age of that entrance is about 78 to 80, and therefore, our first cut is, Are you older than 75? If yes, fine, we'll go with that, and then the next question is, how much income you got? And we know that the screen for income is a certain number of dollars, in this case, I can't quite read the fine print any more I guess, but uh, less than 10,000 or more than 10,000, and we will only want the more than 10,000 folks that are over 75, and that becomes our primary pool. Now from our primary pool the next thing we need to know, is whether they like the concept or whether they own their own home, which is the first diagram, own their own home, their income, and we know that if they own their own home, that income is greater is 10,000, and they're over 75, they're really the primary pool that we want to study, and it doesn't take very much research to arrive at that point. It is a subset disaggregation kind of process to convert what began as secondary census data about the district to our primary pool. Within that primary pool, we need to know first of all, how receptive are they to the

concept of congregate housing, and you know, the answer yes is of course the one you would like to hear on the survey, maybe it's needed sort of thing which means I'm willing to be shown that it's something useful, or no, obviously the ones that say yes are receptive to the concept of congregate, then become a subset of the total pool that you want to pursue further. And now the next question is, if they're receptive to the idea, when are they receptive to the idea? A question that most of the survey people never ask, and a few of them say now, and those are the people that become your primary candidates, they're willing to go, to consider congregate housing at this point for whatever reason that we need to find out, maybe within a couple of years, indicates they're leaning, but they see it as a contingency plan and think they're doing fine now, they'll take a wait and see you know, maybe it's needed, and finally, never, even though they like the concept it's not for me sort of thing.

My sister went into congregate housing, it's okay for her, but, take me out of my house feet first, etc. And now, that then boils it down to a specific pool, and then that subset needs to have its preferences as to location, facilities, place, what kind of ownership pattern, do they want a front end fee and low rent, no front end fee and all rent, do they want to pay 60,000 and pay simply for meals and services as needed, there's a variety of other issues that begin to separate that down.

Notice you're beginning to structure your argument, if you will, for the feasibility or non-feasibility of the project. Looking at a series of yes no maybe statements on a flow-chart, you very quickly begin to structure, one, the kinds of data that you're looking for, and the unit in which that data obviously will be most useful, and second of all, you begin to explain to the client what it is you can do for them, the positive results of that, and the very real limitations of that.

Question from student: If you were going to run a feasibility study on this, would you expand on the lower section in addition to your primary market that you were going to go with or would you have to make the bottom line there.

Yes that would be your secondary market, okay, the 65 to 70 is running across from the middle category, the bottom line, under 65, no. There's a temptation and you see it quite often in elderly housing studies, is the data comes very easily defined at 55 and older, so they define that as their

best pool, well, it just simply is not so. Therefore your capture rate, your penetration rate in that market is really distorted, you know, we've developed enough knowledge to know that maybe we can get 1 percent a year of the folks that own their own home, are over 75, have 15,000 dollars a year income, and said yes maybe in the next couple of years it would be a good idea. That's an extremely low penetration rate, but that's about as many as you're going to get to move in given geographic trade area into that kind of congregate housing. It puts a real cap on it. And it's a very slow decision process, in that not only must they decide to change their lifestyle, but it needs the approval and support of their children, and maybe their lawyer or financial advisor etc. it takes a period of time in which they need to sell their house, make arrangements for their surplus furniture, and all that type of thing. It is not a decision process which is quite as instantaneous as that of someone like you says, by god, I'm getting out of this place, I'm moving down the street a block and so forth. And on a month to month lease you pick up and do it, you are an immediate force in the market place. So it doesn't matter what the subject matter is, you should be able to structure it in this fashion, and communicate it to your client, that these are the steps you are going to take. There may be a judgments call along here, somewhere, so it doesn't always relate to a nice mathematical ratio which is applied to disaggregate the data, but even if that's required a judgment call on it, fine, say so, once you get into that last element of judgment calls, then you want to make lots of small calls, in the hopes of offsetting errors comes to your aid. So once you get down to that pool of qualified people, then you'll start thinking maybe a point score system which determines their degree of eligibility and the degree of availability and so forth and you estimate ten different calls on ten different attributes about that particular questionnaire or respondent, why the hope is, that if you're a little high on one side you're a little low on the other, and the judgment error will tend to average out.

But nevertheless, begin with this kind of model, see whether you can structure the nature of your study at this point. Mark?

How do you find the group of qualified people and how do you get a comfort level as to whether or not this group is representative of the group as a whole that might go into such housing?

Well, first of all, it depends on what data source is available and how comfortable you are with that. Second of all, if you know something about your total universe as to their average income etc. etc. etc. you can then check the sample that you get back to find out whether it has a similar set of checkpoints, income, number of person per household, etc.

That maybe the only confirmation you get that they're representative of the larger group. In some cases you're dealing with the total set. Let's say you're doing an office building that's intended for lawyers. The world of lawyers is in your yellow section, you're no longer dealing with statistical inference, you're dealing with the total set, and you may make assumptions of convenience simply from a question standpoint.

Let me give you an example of how quickly the feasibility analyst makes some cuts that may sound a little brutal at first but probably aren't unreasonable. Guy comes in our place and says he's going to build a project down on the triangle formed by Hamilton and Fairchild, so forth, where the architects eventually restored that old home put it at the front end of the site ...for residential development. And he's already gone to his friendly architect, and his architect has come up with a cylinder that is 14 stories high and has about 5000 net usable square feet per floor after you deduct two stairways, two elevators, and a shaft for all the utilities and so on. And the architect says because its a triangular site, he's going to use a round building as the most efficient shape, and he can get 42 parking stalls in the pedestal on which the building will be located, which is all the more he can get in there because if you go any deeper Lake Monona will come into the basement.

Now, by the way, you have to say to yourself wow, a 14 story building with two elevators and two stairwells, to net 5000 net usable, is a very high price per square foot. So you've got to find a use which can pay high rents per square foot. The only problem is, the other constraint is you have a very limited amount of parking on site which in that area is uncomfortable, right. So quickly you say to yourself, gee, I've got 14 floors with 42 parking stalls, that's 3 parking stalls per floor, what would happen if I did three condominiums per floor at 1500 sq. ft. each, relatively expensive space, therefore, I will be selling condominiums to a high income group, right, high capital cost. Right.

My only other choice is to use it for something that would be relatively high value and very low density of occupancy. Not many people in it, and as a matter of fact when he brought it to us I immediately said wow, that's a terrific electronics relay tower kind of building the fact that it looked like that. We called the telephone company and they said gee, we were just looking for one of those three months ago, but we found a place..? on the top of such and such so we don't need one now. That would have been the ideal solution for that goofy shaped building. That left us with the idea of an apartment or condominium of 1500 sq. ft. or more per unit, three to a floor, one parking stall per apartment. Doesn't take much to say who's my most probable customer? It's obviously rich people. And he's looking at, like, thanks a lot, for this I'm paying by the hour? And he says, what does that tell me? And I said, well, we're going to find our customers in areas of high family income, he said thanks I think I have a lunch appointment. What does that tell me? I said that tells me for one thing that first, I can identify high income areas from the census, where the high family incomes are, and furthermore, I can then convert that to a list of prospects, because having drawn out on my map the census districts, that tells me the street number ranges in which those people are located and my reverse telephone directory tells me everybody who lives there.

Reverse telephone directory or what's called a criss-cross telephone directory is where it's listed by address not by name. Fundamental tool of the feasibility analyst. All right? Immediately have a prospect list. I can tell him in Madison, where the preponderance of rich people live. Now he said, that's terrific, but how do I know which ones are interested in a condominium. You have to answer you don't, but it's going to be one of two groups. If we look in the city directory under those addresses we'll find out where they work, and if it's a lawyer or a state employee or so forth that works on the square, maybe they're interested in living closer to their job. Or alternatively, where they live now, let's say was Nakoma, Maple Bluff, or University Hill Farms, if they've been there 15 years or more, the kids have had a chance to grow up and leave the nest, and they might consider retrenching from a full single family home to something of less maintenance and responsibility.

So far so good? So those are my two cuts. Either the city directory tells us that they work downtown, or we take the current list of folks that are there now, and get the 15 year old directory and find out if they were there 15 years ago. If they were, we now have our mailing list on our

model, we have segregated down to a group in which the possibility of a hit, discovery of a customer for our downtown condominium is available.

Up to that point you're winging it, it's pretty much common sense, it doesn't take very long to refine your problem to that point, assuming you know a little bit about the topic about which you're talking. Now at that point we need to be able to survey those folks a little more carefully, we need to know how they're going to respond to the price, how they're going to respond to a circular building, how they respond to the idea of living downtown, rather than out in the suburbs and so forth.

But you can diagram that set of logic very quickly. Everybody with us? Reverse telephone directory is an extremely powerful tool. Look at a building that's just rented up out in let's say Odana Road, got fifteen tenants in. First thing you want to know is where they come from? Take the directory of those fifteen tenants and look up in the phone book the year before the building was open. Where were they then? Are there any more fish in that barrel that are restless and want to move? What kinds of folks are moving, what do they move from? etc. What was irritating, what was the burr in their saddle, that caused them to go to the effort of relocation?

Very quickly generate a subset of a larger group that begins to define who it is you're looking for. Does this get at your question Mark? How to identify? Now you don't know that those people are primary candidates but it's a little bit like taconite, the ore is considerably richer after you have gone through that initial crushing process, taking out some of the rocks and the dust and irrelevancies, and now hopefully you have a higher probability of a favorable to survey inquiry or interview or whatever. Okay.

Obviously the second step, having structured the initial move from aggregate to a sub-pool of that aggregate data, is deciding what you need to know about that subset. There's lots of things you would like to know but the question is really what you need to know. The first thing you need to know are the ratios by which we can disaggregate further.

How do we convert that secondary data easily obtained to more refined data. How do we know that it's gotta be 75 and over? In that case, we don't maybe have to survey the ultimate respondents at all, we survey the people who run congregate housing things and say what's the average age of

a person who now is entering your project and they say 78 or 79, and that's, a consistent pattern then that's a given, there's no sense going out doing primary research to rediscover that factor.

And how do we know about income? Well, we can look back at other projects and discover what kinds of income the typical individual to apply might have had, if their income was less than that they were applying to section 8 or subsidized or other projects intended for people with lesser means.

Why is the ownership of the house important? Oh, it may be in fact that the house represents a significant carrying cost to the individual in terms of taxes maintenance and so forth, but more than that, it really represents a non-earning asset, an individual owns a house free and clear, and its worth 80,000 bucks net of brokerage and sales and so forth, that's 80,000 dollars which could be invested currently in on tax exempt basis of 7 percent, and may be 8 percent, that's 6400 bucks a year. 6400 bucks a year divided by 12 means they could pay 500 dollars a month rent without any encroachment on their current income whatsoever, now if you add tax a 100 dollars a month they were paying on real estate taxes on that, and the 100 dollars a month they were paying for utilities and all the other stuff, suddenly they have a budget of 700 bucks that they can spend for a congregate housing unit that includes one meal a day and so forth.

The source of effective demand for the rent structure which is exceptionally high on congregate housing is available because of the ownership of the asset. You find that the majority of people coming into congregate housing have sold their houses and invested the proceeds. This is why of course the current capital gains exemption on the sale of the home by somebody over 55 or 60 is such a significant kicker in terms of their effective demand for the next type of housing that they might want to utilize. So far so good?

So in effect, ownership of the house is a proxy again for a series of things that says, hey, they can afford it. And income is also a proxy for social class, for their sense of security about their old age, indeed in this country, says a good deal about their self esteem.

Once you've decided what you need to know from the survey to provide further ratio breakdown, all the other questions break down essentially into two categories, what do you like least about your present occupancy, and it doesn't matter whether we're talking about a home or an office or a retail

store, or a golf course for that matter, what do you like least about your present situation, your space solution, as it were.

Second question is what do you like most, and wouldn't be without? They're open ended questions. Obviously whatever you do beyond that is specific questions, we'll talk a little about that later in the semester, but essentially those are the two objectives. What do you like most and wouldn't do without defines the competitive standard. Whatever you're doing is going to have to have that as a minimum before they'll consider it. I like the fact the bus line is right outside the front door, if your project doesn't have a bus line right outside the front door, you're dead, so far so good? What I like most defines the competitive standard, the minimum that you must have to be in the ball game.

What irritates me most about my present arrangement is the ultimate source of your competitive advantage, and any real estate project must have a significant competitive advantage to achieve two things: one of course is pricing at the market, you do not have a successful project if you have to fight at the average, you must price at the margin. You've got to get top dollar because the other guy has got always a significant advantage on you, because he built his two years ago, his costs were lower, probably his financing is lower etc. etc. and therefore he can continue to price at the average and do very well relative to his costs. But you are going to have to price at the margin for that particular product in order to offset his advantage of having been there first.

The second thing that it does for you in terms of the feasibility of the project is your ability to overcome the natural inertia of people to change locations. There has to be a significant improvement in what they perceive as the quality of life provided by whatever, space you're creating for them, or they aren't going to go to the trouble of moving. Once people reach an acceptable level of comfort with their environment, they stop trying to improve it. Polynesian architecture stopped once found that once they had reached the point where they were reasonably dry and comfortable, the breeze was blowing across them on warm afternoons, any additional improvement they could make really didn't improve their perceived quality of life any, so the hell with it. As a result was a architecture was a constant, static, for hundreds and hundreds of years. There's a basic inertia there that things are good enough. You've got to overcome that natural inertia to get people to

move. The improvement must overcome the hassle factor of the relocation.

Greg? question from student: You are talking about housing, what about an office? To get them to change their present location you have to...

Doesn't matter if its an office. You have to get to the back of what's bugging them. And to get them to overcome that and work things out to the phone company so they have the same phone numbers, and then they say oh my god, I've got to change my letterhead. And my secretary now has a place to park, will she have a place to park at the next place, or gee, now she's got to come down such and such a road which is always a hassle rather than coming in the back way which is relatively low congested street, and pretty soon they say gee, you know it's a really pretty office and its got a nice view of the lake, but eh.

(more question) What if nothing they can think of that they perceive or that bugs them can you change that?

Try to create then a fictional benefit. You see the sales people doing that all the time. There's no real need so they try to create a fictional need. You need a better class of people in the brownbag group, your love life isn't what it should be, maybe you ought to change buildings (laughter).

To overcome that inertia there's only four basic themes that you can work on. One, is you can improve the efficiency of whatever activity you're housing. If you improve the efficiency of whatever activity you're housing. Don't forget basic 550, real estate is an enclosure to enclose an activity and contribute to that activity.

Better layout for my plant, the goods can flow in one side, finished product out the other side, it's closer to my labor pool etc. etc, a whole variety of other things with which improve efficiency of whatever it is you do in that space.

Number two, it can reduce your anxiety and stress. For example, banks relocated their computer services into industrial parks out on the west coast. In Oakland, California, for example, down along the harbor area, and it was very efficient because they could rent industrial space for 3 or 4 bucks per square foot where the computer space was getting 30 bucks per square foot downtown in office space, and it includes all kinds of efficiency, but the problem was that the computer staff worked 24 hours a day

and the groups that had to arrive and park their car in an industrial neighborhood, relatively unsavory, I'm sure it was perfectly safe because there wasn't anybody around but it nevertheless didn't feel safe, and suddenly they're losing their computer programmers and their staff and so forth. They had to reduce stress and so they ultimately had to relocate their computer facilities into areas in which people felt safer and more part of the normal activities of the white collar class that were running the computers.

The third element is: increases your self esteem. Move to Maple Bluff, be with the movers and shakers. The Federal Reserve Bank, for example, when we did the study for them a couple of years ago, one of our solutions initially was to put all of the check processing out in Midway airport, because everything came in by airplane had to be trucked downtown at three o'clock in the morning, after they had done all of what it was they did for check clearing operations, had to be trucked out to Midway airport for redistribution. Seemed like an industrial building on the airport would have reduced a great deal of that. So far so good?

They said no that won't work because our computer staff don't want to work at Midway airport. Our vice president in charge of computers wants to feel that he equal the vice president of dumpty dump and when we all go to the executive lunchroom, we all have some perks downtown in the Federal Reserve building, that's all part of the system. Its like that guy who just set down in Vietnam and he says Gee whiz there's no body who has to salute, what fun is it to be an officer? A lot of it, does it increase their self esteem.

And finally, does it improve their physical comfort? It's warmer, better air conditioned. Real estate ultimately is a very sensual product. There are office developers in the southwest who are very effective, like Cole ? for example, and like Trammel-Crow. For example you come out of your car and look up to your suburban office space that you're looking at, they spray the approach zone with a aroma that smells like fresh mown grass. And they use materials on the front door with the heavy timber with a deluxe patina and waxed finish and heavy brass things, so that whatever you touch comes through as strong and having a really good texture to it. Not unlike you going to buy a car and slamming the door to make sure that it sounds solid. Well, that got guys at General Motors that spend their entire career learning how to make doors sound solid when they slam. Part of the tactile input by which you make judgments.

When you get into the corridor they got double padding under the corridor rug so you sink into it like you're going across the Everglades. And they have a really ritzy door on the front office, heavy wood paneled door with ritzy molding looking like it was stolen out of J.P. Morgan's mansion and so forth, and you get beyond that door and you've got C class office space, baby. The lightest kinds of steel beams, fenestration that will barely keep the air out and the wind and the water out and the air conditioning in, and so forth, they've already sold, but you don't know. How the air conditioning system is laid out, or whether its properly insulated and so forth. They've romanced all the way through because of physical comfort, anything that contributes to your tactile sensation. The successful shopping center is one that reduces your claustrophobia, by changing air temperatures on you, by changing humidity on you, by changing the height of the space, by creating auditory gauze with water fountains and music by Muzak so that you muffle the sounds which are objectionable so forth.

So we're talking about physical comfort, it's a lot more than heat or cold, it has to do with anything that contributes to claustrophobic tendencies, anything which enhances the tactile pleasure of the product. Touch, eye, smell, sound, even that sixth sense of security, for example, very subtle things. See if you can look around Madison and find the buildings in which the second floor seem to have any support below, the span seems to be rather long, you wonder gee what's holding that up. Many times you build a building, you create good strong column statements, even if you don't need columns at that point, because people feel more comfortable about the massing. You understand why the building stands up.

That's part of physical comfort, you have a little voice going on and saying whoop, wait a minute. Think about a hotel now, that has a say a balcony over an atrium hung by cables. See how quickly you run out there to take the view in. By the way you say, you know what they had in Kansas City? ...Let's go down the street to the ? (laughter). There are all kinds of codes immediately radiating out to you elements of comfort or discomfort, discord, anxiety, stress, or whatever. And those are the four elements which give you a competitive edge or that kill your project. Those are the kinds of things you're probing at ultimately, in terms of your consumer, in terms of your analysis, of what your competitor is doing, and that really becomes your model, once you've got down to who are my pool of prospects?

Now how do I explore that pool relative to these two subject areas? What do I like most about what I got, what do I like least about what I have, relative to anything which has to do with those four elements.

Efficiency of operation,
security and anxiety,
physical comfort, and
self-esteem.

There we're starting to put together then, a model of the logic process by which you're going to look at a market and merchandise analysis of whatever you're talking about in terms of the real estate development. So far so good.

Okay, now. The feasibility analyst generally doesn't arrive overnight at his perception of what should be in that model. Unless perhaps he's done this a million times, at which point his approach becomes relatively stereotyped, looking for exceptions to that particular model or approach to the problem.

The basic method of analysis are going to be the ones which you learned in 757 and 557 in terms of how to disaggregate market data into sub-strata, demographic cohorts, or psychographic cohorts. Psychographic cohorts may be people of the same income, age, education, marital status, but with very different lifestyle value systems, determining what they do. And quite often again, the successful developer is able to capsulize that into a generalized statement that enables him to understand what he's doing, the essence of his business. You recall we talked about the essence of the business earlier, ? saying the consumption of a weekend. Isaacson indicating that you're really trying to provide access to recreational opportunity in the north woods and so on.

A good example, a couple of years ago, lecturing to the MAIs out in Denver, arguing that appraisers didn't know what the hell the market was because they didn't talk to home buyers any more. They didn't listen to home buyers anymore. A comparable was something that was in the multiple listing book and had had it. Same set of windows, the same number of square feet, a two car garage, and presto is was comparable if it was within a half a mile of the subject property. I'm suggesting that that's not really the market at all.

What you really had to do was go out and stand around model homes for a while, and listen to people and find out what

turned them on and what turned them off and so forth. A couple bigshot MAI types. Particularly the president of the MAI is having a hard time with that pile of crap, and a guy stands up in the back of the room and says No, he's absolutely right! Says me, and he names two other builders, he says, we're building 2200 homes a year in Denver out of a 10,000 unit single family market, and he says, that's exactly what we do.

I figured that anybody that's doing that kind of home-building in the Denver market must know what he's talking about, and he says, me, he says, I get the style setters and the head shop boys, Charlie gets the button-downs, and Herbie gets the Pendletons. They have boiled down the psychographics of their market to their shirt.

And then he went on to explain, his group were the group that always made a statement with their car, their clothes and with their house. They were the ones that always needed the very avant garde, contemporary, glass to the gable, big cathedral ceiling, the sauna, the whole 9 yards and the house so that people would know they'd arrived.

Most of his advertising was direct mail to the people who shopped in the high style men's and women's stores in the Denver area. They did a limited amount of newspaper advertising to let people know that they were around. And of course this is Joey Wrider. I don't know if you know Wrider Homes, Joey Wrider is just one hell of a guy and was the second recipient by the way of our distinguished Wisconsin real estate award many years ago, and he would do everything we're thinking about, the way he did market research is exactly what we're talking about now.

And Herbie over here, he gets the button down crowd that virtually says, gee, mom and dad did pretty well with their Cape Cod back in New Jersey and if I want to preserve the reinvestment value of my home etc. etc. etc. I better get a Cape Cod and a traditional floor plan and the whole 9 yards. So there they are in the shadow of the Rocky Mountains, in a Cape Cod home ...like it was in New Jersey.

And the Pendleton guy, he's the guy that's really laid back, probably came out of California someplace, and his idea of a good time is a pup tent in the mountains for the weekend, and you come into that house, first of all, it's probably low, rangy, wood shingled kind of thing, not a lot of landscaping in the front, a little tacky in the front, you come in the front door, there's a 12 foot square living room, he doesn't like you you'll never get past it, if you

get past it you're into a family room kitchen in which mom rules the roost from her kitchen command post and you've got a whole family room with a big fieldstone fireplace and a couple of dogs, you look out the sliding glass door and there on the patio is the pop up camper trailer parked and the whole shtick. And dad's probably shuffling around in blue jeans and the old Pendleton, you know, it's a lifestyle,

Nevertheless, they probably all go to work at the same law firm, or the same engineering firm, or the same bank, they're all about the same age, their kids are about the same age, three very distinct markets in terms of the kinds of features and attributes and styles and materials, the idiom they're trying to use, the codes that they're putting across in their home in terms of the molding and the detailing and the window trim, so they've ultimately boiled that model down and Herb's getting the Pendletons, so and so's getting the buttondowns, and Charlie's getting the whatever textile shirt at that point in time.

That's understanding the psychographics of the market. It's very difficult for the outsider doing the superficial doing a three day feasibility study for somebody to learn that about that particular product. You either have to be very skillful to draw that out of your client, or you have to spend enough time to become immersed in it so that you become a specialist in that kind of product. You listen an awful lot.

Ultimately out of that you confirm what you intuitively you've learned by listening with a survey instrument that intends to formalize through some ratio or percentage, bean-counting expedition.

gap in tape.

...empirical support that says this is more than my best guess. This is a pattern which we can begin to identify. That becomes a critical link between buyers and ? probably what we call feasibility in here. It's that last step of refinement in the sub-core and substrata of your secondary data.

Obviously within each property type there is a different set of specifications and terminology, but they will all have the same core about them, even if we change terminology. Whether we're talking about motel rooms or apartments or industrial buildings they will all have the same attributes,

characteristics, that we're talking about here. Okay. I quit. I will see you on... (end of tape)

Lecture 4-1

Okay, first of all, social announcements, the real estate club at 7 o'clock, room 22. Glenn Hovde is the speaker. Primarily Manchester place, but you never get Glenn on one subject alone, so I expect he'll wander over into over into several alternative plans ?? and there'll be some further information on the field trip and other programs on the agenda. I guess for the real estate club at 7:00.

Relative to the reading assignments in here, I understand that a page is missing from one of the readings from Mr. Clapp. There's a further reading in there which is Market something or other by ? , which shouldn't be in there. It used to be there as part of the old text. Just scratch that.

Analyzing real estate opportunities, markets and feasibility studies, chapters 7 and 8 text on it should come out. However the Clapp readings in the week of February 8th, should be in, and I'll have a chance to get that Xeroxed.

The same name of the book appears a couple of times in text materials. Leftover from last year.

Okay. Those of you doing retail in Milwaukee for the Ogden Group, I have a name for you to contact, to get the details on the century shopping center development, as well as ? from Gary Stein, and also he has the name of somebody whose going to do a motel, is there someone who's working on a motel at that site? All right, one of you's doing retail, one of you's doing elderly housing, the other's doing townhouses. And we forgot about motel. Forget about the motel.

The subject matter for the next couple of sessions is the site in search of a use. And the passing among the congregation is just a little informative piece on CACI, and the services that they have currently available, simply as an indication of the fact ?? specialization is starting to catch up with the brokerage industry, and those kinds of features which are economically infeasible to do in-house are available with economies of scale and selected use in detail from a number of different sources. CACI is one, National Client Data is another. And then there's a couple of -- Custom Craft ?? Using a variety of other sources and extrapolations that are promised.

(Audio_3_Start)

Okay, the subject essentially is site in search of a use. And the kinds of physical inventories that you must take and the typical 550 subject matter of physical, geopolitical linkage, dynamic and environmental attributes. Today I can't emphasize enough the central impact of understanding the political framework in which that site sits. First of all, of course, you need to know who the alderperson is in the urban area, who the county representative is, for that particular rural piece of land. It's absolutely critical that you establish a liaison with them and involve them with the initial definition of project opportunities and so forth.

The obvious reason one being of course that their pride is such that they want to appear to their constituents as having one, perhaps initiated that which is creative about the project and two, having been protecting their interests from the outset against all of your sleazy attempts ?? at the expense of the residents and you have to co-opt them into that process early on or your dead. If in fact you fail to do that and they feel that you're well along in your planning process, before you contact them they will probably just simply harass you out of spite for not involving them as one of the initial decision-makers in the process. And many a project has crashed and burned down not because it didn't have it's own merits but because simply it didn't involve that local alderperson or country rep.

The second major thing that you need to be concerned with, which nobody who does their homework on it is not adequately, are the neighbors. You need to know every single contiguous property owner and who they are and where they're connected. And the more you can know about what kind of problems and troubles they have aroused in the future, the more you're going to save yourself just one hell of a lot of trouble.

You need to disarm them and co-opt them and understand what it is they're afraid of, what it is they want for their neighborhood, and what it is you can give them, in your design solution. And what kinds of words they're concerned about, what kinds of imagery sets them off, or sets their politicians into motion.

So often the failure of a project politically is simply because they used the wrong language blueprint for the site. That inventory has to be done first, before you do any public presentation of what it is you plan to do and so

forth. Because you need to address their concerns right up front and disarm them, so that there is no reason that the politician looking for a constituency to lead into battle can find one. The number one thing going for developers in the political process is the inertia of people in that particular constituency. If there's anything you do to disturb that inertia, it will cost you a fortune. You need to understand what that's all about, first, right up front.

Visit with those property owners. Get to know where you're coming from, let them know what they can participate in and so forth. So many developers are unwilling to do that. They spend vast amount of money and they feel terribly put upon when the neighborhood comes out and slaps them down.

You need to know what are the simmering political issues in there which might in fact attach to the project. I just went through that in Milwaukee with the Fraser Group--it's a very fine group of well-meaning citizens, financed by the Freighter corporation. Fraser was the original malty-millionaire--and I mean multi-MALTY--the Fraser company provided all the malt for the beer industry in Milwaukee. The keystone of his fortune, and when he died, he left a major endowment which produced Mayfair shopping center and a number of other major projects, an endowment which had a willed a significant proportion and not only built Fraser Hospital out on the ?? etc. etc. and it employs seven of Milwaukee's finest citizens as trustees, they're all very well meaning, good-hearted folks. But on the other hand, a little bit proud of what they've been able to accomplish with the late Mr. Fraser's money. They decided they were going to do a conference center, as part of an elderly housing project on a site that was too big for just the elderly housing project alone, and it was a very excellent synergy there, that they could share swimming pools and kitchens and so forth, and we went and looked at it one of the simmering problems of Wauwautosa at the moment is that a significant part of Wauwautosa is publicly owned land, well over a thousand acres owned by the county, which is tax exempt. And yet it has been very significantly developed with expansion of the county hospital, the Fraser hospital, now the children's hospital, a variety of other diagnostic centers for troubled children and so forth, and it's required significant amounts of infrastructure, and county control, police and fire protection and so forth. In fact they were able to persuade the leaders and the county people to build the new fire station immediately adjacent to the grounds but other than that, that was it. Well one of the significant issues is we don't want anymore tax exemption. Fraser is very proud of the fact that they are tax exempt,

that's one way of cutting their costs and being able to make some of their objectives more affordable.

So we went plowing into the Wauwautosa Planning Board, and got total double talk from the mayor, the planner and so forth about, you guys are really terrific and you're really nice and they got cut to ribbons, on the grounds that they were going to be tax exempt, and we won't allow any more tax exemptions. And a total spurious ground that they were going to compete with a bunch of tacky motels on the far side of town, who argue that they can provide all of the motel rooms necessary for the family's of individuals that were in the hospital for one reason or another. And they simply had not investigated the fact that anything with tax exemption raises the hackles immediately no matter how meritorious is the property?

Now they could have avoided all that by going in and saying, I'll tell you what we're going to do, the elderly will be tax exempt and the conference center will be on the tax rolls and we will pay a room tax like all the other motels so we'll be on a competitive basis with them as far as that's concerned. Then they would have been able to defuse that. To come back in later and say gabba gabba, gabba, we'll do this, this and this, you're now on the run. And at that point the vultures move in and say, gee, how much more can we pick up? From the project and take from the project and so forth.

You need to be able to understand what the underlying political issues are. And if you fail to do that you get killed. And I see that happen in Madison every day.

One that's very familiar. One way to embarrass the mayor is to talk about the south side convention site now that the mayor has endorsed the north side site.. How we got in is ??18 months ago. And now that we're going onto the north side of the site, now they're saying gee I don't know if we can deal with Darrell Wild or not, you know what are we going to do about hotel management removal, or something. So pretty soon we've got a whole series of sub-political issue moving which may or may not have immediate relevance to the project. But you really have to be aware of that as a developer.

So when we start talking about sites reconnaissance, we're as interested in the political environment in which the decision process is going to be made, as we are in the basic physical characteristics and attributes of the site.

The contiguous landowners of course are either going to be known trouble makers and rabble rousers on the political scene, or relatively passive. Or maybe they have a legitimate complaint. Maybe they're the only ones with legal standing to take issue with the planning department and say we don't want to grant a zoning change or an up-zoning on that particular site. I can remember when the Fishers and ?? were doing the project over on Ridge and Bluff Street, there was a little dead end street that came in off of there, and they were just having hell pounded out of them by 2 home owners at the end of that street. And they said what are we going to do about it and it's easy. They're obviously afraid that zoning an apartment project next to their home is going to devalue their home. Not only do you give them a chance to escape what they perceive as an adverse influence, but what's more is you now become the owner of the only two contiguous properties that have standing to sue and challenge the planning department's decision. Figure out what they're afraid of, and solve the problem.

Classic story, I think it's in your 850 readings, but if not, in rags to riches to ruin in real estate, how Olympia and York got to develop Battery Park, which was the plum of the Lower Manhattan Island Project, all of these major developers were invited in, the Hine's and the Trammel Crows and so forth, and Mr. Reichmann correctly analyzed the political situation. The guy in charge of the Battery Park Authority, which had gone into debt 200 million dollars to provide the bulkhead and the filling and the infrastructure and so forth which had brought the site up to a development stage--which is the one that Mr. MacGregor talked on during the alumni luncheon and so forth--was scared to death that the absorption rates wouldn't allow him to sell the land at a rate which would amortize the bond. And he had a 50 million dollar payment coming up in about 2 years. Now all the other guys had very elaborate schemes as to what they were going to do for the city of New York, but it was all a nickel down, dollar when you catch me. And the Reichmanns came in and said sir would it be all right if we gave you 50 million dollars down and guaranteed the payment of the \$200 million dollar bond issue.

Went right to the crux of the political problem: they did not want to be embarrassed, by having to go back and get extensions on the debt. And as a result, swept everyone else from the field. He'd figured out what the problem was, what were they afraid of, what was the anxiety in the political structure.

Now there aren't a lot of folks that can come in and say how'd you like 50 million dollars down and will guarantee the other 200 million, but since the Reichmanns had about 5 billion dollars worth of real estate in downtown Manhattan, generally their check is good. But nevertheless he was competing on the fast track with all the major players. He was the only one who did his political homework--what's this person afraid of, what's this authority afraid of? If I solve that problem, the project's mine.

(Audio_3_END)

And so when we start talking about site in search of use, the first question is what are the constraints that are being imposed by the political environment in which that site is located. Because the entitlement process is what creates the value for the property. How do I get the permit to do what I want, when I want to do it?

If you had your two choice of 2 sites, one of which has 2 less regulatory agencies involved than the other, always take the one with the fewer regulatory agencies.

I remember Frank Dunbar, who's holding a lease on certain one of our real estate club field trips called , one of our alums who's been a very successful ?? having started out with Ward Blair and having been the project manager for River Place development. And Peter's really a cool cat, and really a funny guy, but he gets up and he makes a presentation on River Place, he says we looked all over the midwest. And that site, which had more regulatory agencies involved than any other. And when we found it, we called it real estate. He said and then it turned out there was one more regulatory agency we hadn't counted on. The Catholic Church. Our first model showed that the condominium was going to throw a shadow on the steps of the church across the street in the winter. And the priest stopped by and said that he would be opposed to the project if we couldn't bring his front entrance out from under the shadow. So he says we're going to have to move the condominium 200 feet south, in order to bring the church into the sunshine in the winter. He said now, the church has no legal standing to regulate land use on adjacent property. But on the other hand he said they were probably better able to organize a constituency quicker than almost anybody. That's important to know.

When I did Applewood Hill, a development out here on the west side, which eventually came out as Pill Hill because of all the doctors, the city decided the property immediately to the south of our subdivision while we were about half sold, was going to be the new sanitary fill site for the

west side of Madison. An Alderperson who was related to a doctor, but not particularly a part of that culture, offered me terrific information on their views. Having spent \$150,000 or \$200,000 dollars on a house in Applewood Hills, it would be terrific to have a sanitary fill site next door. The alderperson called it Pill Hill, and was pushing hard for the site.

Now they were going to use a ravine, which starts out on our side of the site and moves to the middle of that acreage between high point and highway Inn, as the primary fill site. And they'd pushed this gravel, which is basically characteristic of that area's moraine, down on the garbage--it would be a very efficient operation. But they were going to take out a lot of trees. Mr. Evjue was still alive then and so I went and had a little chat with his reporter, and I knew that Evjue would do anything to save a tree. Totally irrational on saving trees. So we show him a photograph of the trees in the ravine that would be lost. Then we went over to see the bishop. Right next door, Holy Name Seminary. And the bishop behaved in a statesman like way, he went over to the planning department and said please don't do this, we've just raised umpteen million dollars for the Holy Name Seminary, and that was not really a good idea at all in terms of the investment we had, to have all these dump trucks roaring down Highpoint Road to the city dump. Got brushed off by the planning commission, made up primarily of protestant alderpersons, probably for that matter atheist alderpersons. Kind of ticked off the bishop a little bit. So he went into every one of his dioceses, called the people who'd given the major funds to that, and he said you talk to your alderperson. Now we had gone in to City Council first time through, I'd made a plea not to do that and I'd had all kinds of good reasons not to do that. ?? who was one of my home owners up in Applewood Hill, who owns the ?? company among other things, really an expert on truckload factors and so on, did a complete analysis as to why this wasn't going to work from an economic standpoint and so on--truckload, tripload, cost of doing that and so forth.

We also had someone else come in on the geology of the site as to why this was going to cause leaching that they hadn't investigated. And what's more is we had documents which the planning department had inadvertently sent along to me which, about a year early, which indicated that the state's real objective was to annex everything out to Highway M and all the way to Verona, and you had to do that by voting acres. And so if they bought this 320 acre farm, of which they needed 40 acres for the sanitary fill, they could go

into the development business, and it was the big dream of the city planning department to be able to develop land in the suburbs, and pay for the process of reinvesting in the core.

So we deduced that little piece of information and the donnybrook was on. But at any rate, we lost, like something in the neighborhood of 18-4 or something like that, first time up before the city council. Alicia Ashman at that time reigned supreme in the city council. And appealed--the bishop asked for time to go before the planning commission. He did, and made his presentation ??, recommended against. Between the week that--that was on Wednesday, the City council meeting was maybe the following Tuesday--those 22 alderpersons were blown away with phone calls from the various catholic dioceses that had raised the money to build Holy Name Seminary. We won the vote 21-1, with only Alicia Ashman going down in flames.

Which suggests that the power of infrastructure of the community may not be the apparent one. You really need to know what kind of pieces you have on the chessboard. Politically, they're either going to be with you or agin' you. And of course the more you can co-opt who might be agin' you, the more powerbase you have in terms of those that are going to be with you. And today the developer really has to look at his feasibility not in terms of the soil, not in terms of ecology, not in terms of space, ??. Those are technically measurable and identifiable and you can hire people to do that. What the developer really gets paid for is figuring out what is the political context in which the decision is going to be made. And how do I load that as much as I can in my favor. And at what point do I simply go into a shoot out because I think I've got more guns than the other guy. Shoot outs obviously are very dangerous because you can get nicked by a stray shot along the way and so it better to avoid that.

And in land matters, basically your political structure is extremely micro, and extremely local. The only thing you need to watch out for is the networking of coalitions and logrolling. A single alderperson has much more than one vote. Because the other alderpersons know that sooner or later, within their district, they're going to have something their constituents don't want, but the rest of the city could care less about. And so they collect their political chips. I'll help you vote no about the project in your ward, because I expect you to vote no on the project in my ward. Whatever it may be, whenever it comes up. So in the tradition of good municipal politics, you have to have

the local alderperson in your camp. Because the logrolling will kill ya.

And that's why they need to be involved. And what is it they want? As you remember when we were with ??, we wanted to do that elderly housing project that Madsen and Ridgeway built behind Hilldale. And at that time Betty Smith, not only was she a good egg, she got a masters under the real estate program. But Madsen failed to tell her that's what they were going to do, for one thing. So she was already miffed. And 2nd of all she had a major constituency in Attic Angels. And Attic Angels was the only housing on Segoe Road that wanted to walk down to Hilldale and so forth. And so she had an agenda. She wanted a stop light on that corner by the post office and wanted things in terms of a walkway. And she wanted a community room in that particular project that will allow them to reach the elderly in the general area of that whole Sheybogan Road,-- what do they call that, a naturally organized elderly housing,... There's a word like nuclear or something that it stands for. But at any rate--heavily populated with elderly. And the elderly were a very good constituency base. And therefore she wanted the community center in the new elderly housing to be financed by WHEDA, under Section 8, that would be available to serve everybody in the area. So already Madsen arrives with their plans, and they are of course going to take their maximum profit out of the deal, and Madsen never did anything cheap, at least not for somebody else. The last thing to go out of their budget was their profit margin. Is that a fair statement, I'm looking at Mark there as a former Madsen guy. Weren't you at Mansion? I thought. Okay. Excuse me. I take it all back.

The Mansion Group never took their profit out, they could reduce the project by the size a half, but the project profits stayed in. They distributed it over fewer square feet. And so they arrive on the scene with the project, but without the alderperson. The alderperson's no dummy. First of all she has the master's program from here, obviously she knows what she's doing. She sits down to read it and says you're not going to get the permits to do that unless I get the following things. WHEDA has to come back and say wait a minute, okay, FHA insurance wouldn't allow us to stretch far enough to get a community building, a facility for meals and social gatherings of the size that you want within the budget. Obviously Madsen won't give on their profit side. They're not doing social work, they're doing development work. And second of all the guidelines in Wisconsin were set such that the rent that you charge under the fair market rent thing were relatively low.

When you drove your back door approach down, you had a fairly tight construction budget. Now in other states like Illinois and New York and so forth, and you play around with FHA enough, you get FHA to set the market rents so high that you can do just about anything with the damn project. With the back door approach, you always have a big fat allowance for construction and you could walk away with wheelbarrows full of money. But our legislative group wasn't that bright so we tended to get market rents that weren't that much higher than real market rents, and that made it kind of tight to play their game. And so then we have to back to the city of Milwaukee and say, or the city of Madison, how would you guys like to lease the community room for 20 years? Now if you'll give us a net lease on the community room, we'll have enough cash flow to crank the budget, and get that much additional common space or social space or whatever into the project.

Now finally we worked that out, and then we had to go and negotiate with FHA, they would accept the lease from the city of Madison as good income, and insure the whole deal. And this left with 10% of the total income of the project coming from leased space, which in this case happened to be the community room, which was doable under the FHA program at that point in time. Now I had to go back and redesign the project because obviously working that kind of community room into the project changes structural characteristics, and one thing and another. Notice the alderperson is the one who designed the project. She got her stop light on the corner. She got her community room. And until those things were resolved, nothing was going to happen. So you might as well get those into the architectural program right up front.

"At what point in time does site control fit into the political framework, and you have to go get site control?"

Well obviously with site control you've got to have the option on the site in writing, or FHA won't talk to you. They aren't going to go through a hypothetical exercise unless they know you have control. Now who are you afraid of tipping your hand to?

"I guess adjacent property owners in terms of driving up the value of the site, or even with other people"

Your assemblage isn't done yet, right? Get your assemblage done, and get control first. Because everything you do

after that's going to be out in public. Your numbers are going to be out in public, and once you're into the political arena, you live in a goldfish bowl. If you're going to do politically oriented projects, you have to be willing to accept that, or you don't do politically oriented projects. ?? for example, for many years would never touch any kind of renewal project, because they felt that most of their business came from building public buildings-- universities, for the state, whomever. And the very nature of an urban renewal project was to be in a goldfish bowl, and invariably you would get smeared by one faction or another, not because you were a bad guy, but because they had other fish to fry, they had other things on their agenda.

Sensenbrenner could have had the whole convention center put together. And ?? and Feitlinger would have tried to blow it up just because it was Sensenbrenner. There are good reasons and real reasons between things, and almost never does the real reasons get out in front, from a political point. So you're going to be public, if you want a public subsidy, you want FHA, you want section 8, you got to have the zoning change. You got to take the heat, otherwise you go into a deal that's a cookie cutter, no-brainer zoning's in place, leasing is in place, building doesn't need any variances. And there are a lot of developers that set that up as their criteria--there's nothing wrong with that.

I can remember Mr. ?? saying he would never build in Madison again, and he finally came around and built in Madison again, but had good cause to say Madison, go fly a kite. And Carleys were not particularly thrilled with Madison either. Whatever they do will get high silhouette, and they'll be you know, a shooting target for somebody who has a narrow agenda.

So as a result, site analysis begins with political analysis. You want to know every particular property owner. Who are they? Who are they married to? How do they vote? Even the simplest pieces of real estate require that. About 2 years ago, professor Jacobsen from the planning department, nationally known for urban aesthetics, in his course on urban aesthetics, owned a double lot in the heights, just up the hill from my house. And he and mumma had lived their for 35 years, it's time to retire, it's a 2 story house. They have 2 lots, 13,000 square feet, heavily wooded with a slope going down the back into the trees, pretty lovely spot. And he and mumma are now rattling around in this great big thing, so he comes in and he says

to the city I would like to subdivide this into a condominium and have one house upstairs and one house downstairs. For my retirement home. That way I don't have to touch any of the trees, I don't have to redevelop any of the area and so forth.

The only problem was, the guy next door to him, was trying to demonstrate his political prowess, and thinking about becoming an alderperson in that ward, so he needs a cause. And he's got one. He takes off on this thing. He refuses to sign off for a variance, for what is called accessory housing, which is a very common phenomenon in other parts of the country, particularly for over-sized homes that obviously don't fit the needs of the residents anymore. And he says, that's a duplex. And duplexes bring down property values. And he gives people a little exercise about that. Single family zoning area, spot zoning, that'll let them have a duplex on these two sites. He points out that he could build a second house next door, that he has 6 thousand square feet of land for each of two different units, that if he were to do that he would have to knock down all the trees, etc, and encroach on what is an historical neighborhood, which, presumably part of that is the ambiance of the trees and existing housing. That to convert his home would involve absolutely no change to the exterior, whatsoever because of the way it will lay out internally, he could have two entrances and so forth. And he has to put a kitchen upstairs, and another bathroom downstairs and so forth. But nothing would show on the exterior at all. Very respectful of this historical neighborhood. Guy next door isn't buying any of it. So he immediately gets half the neighborhood up. You can get the university Heights neighborhood exercised about anything. They're all highly educated, intelligent, irrational people.

So Jacobsen is denied the right to have a conditional zoning, which would allow him to have 2 units, condominium. Notice it wasn't even a rental--it was a condominium. His argument was that there would be a proprietary interest by the new purchaser in the neighborhood, just like everyone else owns their own home, and there wouldn't be any trashy, scummy, sleazy university connected tenant, like a student. Except of course a rich student which of course is unlikely to occur. Particularly those who think they're going to be in school long enough that they need a condominium.

So he says all right, I'll tell you what I'm going to do. Why don't I just build a new house, one story high, but I'll have a party wall with the existing house. And that way I can stretch it up close to the street and stay away from the

trees, and leave all of the major trees intact. Which is of course one of your major concerns up there. And the man next door says, you're not fooling me. It's got a joint wall. It's a duplex. He shot it down again. They had to go, build on the 2nd lot, free standing home, push it back far enough off the street to meet the setback requirements, and cut down the damn trees. Because he really hadn't done his homework. He hadn't gone next door and pacified the guy next door. What the feud was between them, or what the hobbyhorse was for the man next door, we'll never know.

But for pete's sake, it was only a single family house, all he wanted was a thousand square feet to live out his retirement. It wasn't a stranger coming off the moon, it was somebody who'd been living here for 25 years. But he didn't do his homework. He didn't have his coalition together, and so the poor alderperson didn't know which way to go. The alderperson had to agree from a rational standpoint that the initial solution was the best solution, but since it was so divisive among her constituency, she just sat on her hands and said I don't want to get involved in this one because it'll cost me votes in the next election.

Another example, Divall's project down there around the old water plant. That particular alderperson was elected prior to the time that came up, I think won by something like 18 votes in that particular Ward. Essentially entirely a student vote block. Now comes a developer wants to come in and do high end apartments, that students are not likely to be able to afford, and what's more, is planning to do a ?? . That tilted the constituency in that block so that he probably couldn't get re-elected the following election. Divall got hamstrung on that for I don't know how long, with everyone blaming him for it. But essentially he got hamstrung for several years until he built additional student housing elsewhere in the same ward that looks like it would provide a counter vote. In municipal politics, real estate land issues are that simple. How will it change the vote on the last election? Which precinct voted which way? And who did they support, was it the incumbent or otherwise? How would they vote again, if he approved this project, be he incumbent or otherwise? That's pretty deep political analysis for a developer to be in. But if he can't do it himself he better get a political scientist to do it for him. That's part of the environment he's operating in, within a municipal area.

"Is there any good way to get out a broad situation and then put the local politics , do you have an example?"

I'm sorry?

"A broad situation ??"

You mean, how will you give them a vested interest in your project?

"Yeah without ?? revealing who you are."

Sure, there are all different kinds of ways. Some of them use trust funds, through a lawyer. When you go close on a site, you give the lawyer x number of dollars into his trust fund to pay him for recording the deed and so forth. That money drops right out of sight. Nobody audits lawyer's trust funds. That's where the money comes from and goes to. And sometimes the heavy money. And it also can go in a campaign fund. One of the nifty little features that Mr. Reagan's congress passed was that when a congressman retires, if he hasn't spent all of his campaign funds, he can keep them. Why wouldn't Hart come back in the race for million five. Maybe he can take out his bills and have something left in the pot when he retires.

So there's lots of different ways to do that. Illinois in particular has a land trust, in which the ownership of the land trust isn't known. There's no need to report who are the beneficiaries of a land trust in Illinois. And so a politician turns out to have a 5 percent beneficial interest in a land trust . Unless there's a third party liability suit that exceeds the total assets of the trust, there's virtually no other reason for compelling disclosure of who's a member of the trust.

And that can be executed so quickly. You bury that land trust with a corporate trustee in a small bank, lord knows where. We have a case currently in which 2 real estate brokers assembled a el primo site for an office building near O'Hare field, and didn't have the money to close. So they brought in another developer who had cash, and they got to the closing on the first parcel, and the developer was going to go to the bank to get the money to fund the closing.

[END OF SIDE ONE]

He says I have to tell the bank that I have total control of the asset because they are going to take that as part of the collateral. So these clowns, like an idiot, signed a quit claim deed to the parcel. Before the closing was over, the parcel had disappeared into a land trust, not to be seen again for about three years. And the only beneficiary of the land trust was the developer, their cash partner. When they ran it down and finally figured out what they had done, because he then closed on the other two sites, and they'd disappeared as well, into the land trust. And they ran it down, the bank had never asked for indication of the borrower's control, it was a general credit advance, it had nothing to do with collateral in real estate and so forth. It happened in 1982. They finally found the damn land trust about 2 years ago, when the developers sold the beneficial interest, mind you. Not the land, but the beneficial interest of the trust, to some doctor. Saying oh by the way, you may owe a commission to so and so for this. So the doctor asked about beneficial interest, and how much do I owe for the commission. He says whoa, wait a minute. We had a partnership, one-third, one-third, one-third. And what you bought was a beneficial interest in one-third. So they're all in court. The doctor's suing the guy who sold him the beneficial interest, they're suing the guy that buried it in the beneficial interest in the first place. And a terrible fall out of it is there are one or two alderpersons down there whose names may fall out the trust as well. A small, minor problem.

But there's a lot of other ways to do that. For example. If you read Robert Moses' Powerbroker, you'll find that he perfected that to the ultimate. You buy your insurance policy from an insurance agency owned by the alderperson. You don't push too hard on the premium costs for that policy. And he gets his 25 percent on commission. There's nothing wrong with that at all. The fact it might be a tied in contract, obviously, there's no track record of that. He might provide other services. He might own the engineering firm that is going to do the street, sewer and water work related. And therefore that little benefit goes there. He might own the investment banking firm and have a little interest in there which he is has a finder's fee for business, so when you bring him your revenue bonds and your industrial bonds and so forth, the xyz investment banking company, they pay a little finder's fee to whoever brought that deal in. Okay? It goes on and on and on. You can bleed the project. A nickel here, a quarter there and so forth, and build the constituency for the project. Robert Moses did that superbly, because he was on the triborough

authority, in which they're talking billions of dollars of construction. He controlled all the major banks in New York City, who weren't going to say peep about what he was doing or wasn't doing, because he's got a piece of the action. One of them got to be the trustee of the bonds, the other one got to be the fiduciary in favor of the bond holders, and somebody else got a fee for collecting the coupons and cashing those out, etc. And when you're working that kind of dollar value that's big money, that's enough to keep the Chase Bank quiet for awhile.

He only made one mistake, as you'll probably recall. It cost Nelson Rockefeller early on and by a strange coincidence, the Chase Manhattan bank was the bank charged with protecting the interest of bondholders, they were the trustee of the bonds for the triborough authority, that was their little piece of the action. Nelson went to his brother Larry and said Lawrence, we want to squash Mr. Moses, Lawrence talked to the bond attorneys and they deliberately changed something in the New York legislature that would have pinched Mr. Moses's powers down. And there was a clause in the bonds to the effect that any change to the legislature to restrict the power of the authority and its director, was in fact a default on the bond term. And it would have caused an acceleration in the bond money to become due and payable. And nobody had ever wanted to pass that kind of legislation and cause that kind of consternation. But anyway, Nelson was able to get that passed in the legislature, and therefore Chase Manhattan, dependent, bolted and they deliberately botched it, and a very elaborately staged charade in the court. They lost on a technical point, that ??. And as a result it wasn't a default, and Mr. Moses got boxed in and was forced to resign a couple of years later.

But the point being that there was very subtle, very legal and yet this had ultimately reached a point where the only way you could have gotten through to him is by the happy coincidence that the chairman of the board of the bank that was trustee for the bond issues happened to be the brother of the governor of the state. Otherwise he would have been home free. So yeah, there's all kinds of ways to do that. I don't know whether you want to do that or not.

Some of them are very blatant about it. I can remember ??, when he first went into Baltimore to build a shopping center, and they were well along, already owned the site, already had it planned and so forth, they had sat down with the building department to coordinate construction and so forth, and they had the building department hand them a

mimeograph list that had to have been about 15 pages long. And it says flat work, 10 cents a square foot, I don't know, electrical, so much a socket and so forth. He looked at it and he said geez, that stuff's cheap here in Baltimore. Guy said no, you don't understand. Those are our special advisory fees. He said the payment of that fee he said directly to the inspector why they can get there, anytime, 24 hours a day on half an hour notice. On the other hand, he said, our backlog is so great that if you've not paid the supplementary fee, it may be several months before they're able to get out there and inspect it so that you can close up the walls and move forward. ?? kept the mimeograph as an interesting memento of Baltimore and went home to Detroit and never built the shopping center. Said it's not worth it. And some of our New York alumni have horror stories to tell, in terms of how that operates. ??, for example, rags to riches and riches to ruin in real estate. People that run the real estate in New York City are the people that run the elevator, the construction elevator. It's a very very small union. And they have a manual that's in the interest of the safety of everybody that's about 6 inches thick. And almost anything you could possibly want to do with that elevator is a violation of the manual. And the manual has been incorporated by reference into the code. So you have to pay him just to pay him just to haul stuff up and down, because that's a violation of the manual and it might be illegal about the use of this for drywall without getting paid for it. To a point, even when the drywall guys come up with their own truck crane and they're willing to just stick it in the windows of the second, third fourth floors with the truck crane, they still pay the elevator operator what it would cost to move it up the elevator. Otherwise he goes home. Goes to a movie, can't be found. Now if the guy goes home at 3:30 and the shift's supposed to come off at 4:00, and they're getting paid 18 bucks an hour, and they're now on the 63rd floor and the elevator guy goes home--the meter's still running for the contract. You got to figure out how to get those guys off the 63rd floor at \$18 an hour, and they're not real happy about walking down. So you send the squad cars out to find the guy who's supposed to be running the elevator. He may be 3 blocks away in a coffee shop, just waiting for his people to find him. And he allows maybe he can do it, but now it's going to be overtime for him because it's passed four o'clock and now it's going to cost extra. But it's a lot cheaper than having your crew of 60 guys walking around at 18 dollars an hour up on the 63rd floor. The more needed the its worth. That's why it costs 380 bucks a square foot to build an office building in New York, that you can build in Madison for 80 bucks a square foot. So you can play in that track or not, a lot of

people choose not. And if you do play in that track, in that case it's the lawyers that are doing the dirty work for you. The marvelous invention called the trust account. Nobody audit's it, the bar association's never audited it, the IRS never audits it. Privileged information. Seldom does a court ever require that an attorney bring forth his trust account records to demonstrate what went in and what went out and where it went. It's just a black hole, for distribution from there on. It's one of the really questionable areas of legal ethics.

Well, anyway, going back to the political framework. One element of the political process is not the legislative ?? at all, but in fact the administrative system. And you really need to analyze your project and it's various attributes, as they affect various elements of the administrative system. Bill Nelson tells a story of trying to introduce a new cul-de-sac design in Ozaukee county or Washington County in the south-side of Milwaukee. A very high style development, and the answer keeps coming back with from the planning director--no, we're not going to do it that way. Well, why aren't we going to do it that way? Well, we can't swing a snow plow on that diameter of a cul-de-sac. What do you mean you can't swing a snow plow? And he diagrammed for them what the turning radius is of a 4 wheel drive snow plow, works fine. He says yes but the administrator of roads has assigned a road grader to that district. And the road grader can't make the turn. So he has another political problem. He goes down and finds out what does it take to give the road grader assigned to another district, and an SWD assigned to your district, so you can have a cul-de-sac with that kind of diameter.

Or the police department comes in there and says, we need the following sight line, so that if you're going to have a bar on the first floor, our squad can go by and without getting out of the car decide whether anybody's being served drinks after curfew. And so you have to deal with the police department's rules on what they would like to see. Or the fire department will come in and say gee, that building's higher than our highest aerial ladder, how we going to get people off the umpteenth floor, and if we only had a 125 foot aerial ladder instead of our 50 foot aerial ladder, we'd be able to handle that building.

In most other states, other than Wisconsin, pre-annexation agreements are quite common. And in a pre-annexation agreement you agree to all of these matters before you annex the site in the community. And if the fire engine's the problem, the developer buys them a fire engine with a 125

foot ladder. So then they keep from getting sand-bagged, he also puts in a whole series of items, for example, what will a building permit cost me for various things, what will a sewer lateral cost me, so forth. Because he's found that having done that without that kind of detail, he annexes into the community, and wow, sooner or later he'll suddenly go from 150 dollars a shot to 1000 dollars a shot for a sewer lateral. So pre-annexation agreements eliminate all of this administrative harassment that could adversely affect the feasibility of a major project.

The alternative to that, which of course is being used more and more, is to bring the public in as a partner, and as a financial vested interest in the project. One of the major reasons for using a public-private consortium, is to compromise the ability of the community to extort from the project. Once you got the community in with a UDAG grant, and they've got a million bucks in it, and the million bucks won't be paid back til the capital turns positive, and so forth, they have a vested interest in not running up your costs, they have a vested interest in letting you get the project done in time, they have a vested in making sure the cash flow turns positive quickly, so they can get their cash back and have the money back in their rotating re-development fund.

So one of the ways you control the political risk is to make the public your partner. Yes, way in the back I see an arm with a red sleeve on it, but I don't see a face on it.

"You mentioned a great number of small interests in the property, how can a developer or anyone dealing with the site, be able to identify so many numerous variables...."

Obviously, almost invariably he doesn't identify them all, and one of them pops up in the shooting gallery and is on. And how quickly he can defuse that, obviously, is going to depend on how he survives. But basically they do their homework and find out, who's who.

"How would you go about that if you had a site you were looking at...."

You go down the register of deeds, and you look up the owner on every site. And then maybe, in a residential area you look at the city directory and you find out who lives there and what their occupation is, and the more you know about the community, the more you'll know whether they're wired into the power structure. Who do they play for?

"Is it as important in a commercial site, as a residential site...."

More important on the commercial site. Who would know in the case of the Jacobsen house that the guy next door's going to make a federal case out of it. It's forgivable that he hasn't done his homework, although it would be a natural thing to do. If you're non-conforming, want a new idea, anybody is afraid of change. And nobody is afraid of change more than the owner of a single family home, because that's his biggest investment, that's his biggest net worth, and he thinks that anything that will occur will cause it to fall.

Question: "A conforming use that is commercially zoned but has toxic ground???"

Well obviously the first thing is make sure that you know that. Don't take any of that as given. If you want to know who those folks are and how long have they been there, because if their toxic waste is leaching onto your site, maybe it's both of your problems. You need to develop the history of what's going on in those plants. Particularly in an industrial area. Those toxic wastes are trickling over to your side, you've got big problems. Classic case in point, the St. Paul, I can't remember the developer, trying to re-do the old Armor packing plant, and they had done some initial, industrial warehouse stuff and so forth, up there in St. Paul, a developer came in and put his equity down, never checked it, and now all of a sudden when he starts making the rounds, they've had gasoline tanks that have been leaking in there for years. That's a no no. You go back and you dig that all out. You put it into little barrels and you haul it away to a designated site. And a designated sites get an arm and a leg for storing that stuff for you. And if the guy next door has been a tanner, you've had it. You need to know. Take nothing by assumption. If you learn anything out of a feasibility course, is that the implicit assumption will kill you.

I told you my story out of Fort Meyers, we got killed initially going in, on what seemed to a perfectly logical plan for a left hand turn lane on a six lane road that the state was building to hook up with Interstate 75, with a stop light. And the city council voted to have no median strip between the three lanes each way. And allow left turns anywhere. And then we did our work like we should have. So I'm talking from experience. The property owner across the street was the mayor's wife, and she owns a

floral shop, and all of her business was coming from the high income side of Fort Meyer, and that meant they had to make a left turn out of her store. Our client bought her store, gave her a sweetheart lease in the shopping center, and we got the median strip and the stop light through the next through the next council.

It's the way the game is played. Everybody has some agenda, and you need to know what each of those agendas are, if they have any role in the decision process, no matter how oblique. And you need to solve those agendas. And in the old days as I've told you we used to worry about the shape and soils and the geology and so forth, but almost none of those will stop a project. You can build something virtually anywhere today, outside of obvious wetlands, potential for landslides ?? , ice lenses in Anchorage or something. But aside from those major structural problems, the major problem is going to be the political environment, and the suitability of that site in terms of what you want to do with it. Fit, with all of the agendas which are going to determine the entitlement process. And your liability and potential opportunity arises out of that political process.

The other area beyond political administration, and beyond the local council, the alderpersons and so forth, ??
(Laughter)

The third areas of concern are going to be the political agendas of the lenders themselves. Lenders today are no longer political innocents. They have their own political problems to deal with, obviously not the least of which is the skepticism and the lack of credibility they currently have with the FDIC, the FSLDIC, and whoever else has guaranteed the depositors or the operations of the bank and so forth. You need to understand what those biases are, coming down.

Those political agendas may include one, the appraisal process by which they're going to look at the property. What do they need to show FDIC, so that FDIC feels that they are now doing their job as a lender as they should have? Banks in Texas have resident FDIC people sitting in on the loan committees, to see what it is they do. And the bank lender wants to obviously show well, to get out from that kind of minute to minute monitoring of their business.

Second of all, what are the banks political affiliations. You say that sounds sort of dumb.. Well, if one of the bank's prime customers is the major builder/developer in

town, a good deal of what you tell them about your project is going to be in the hands of the competition in virtually no time whatsoever. You're educating that banker to be of greater service to his prime customer. You may not want to choose that banker. You may go to another banker specifically because you don't want to educate that banker. You have to understand his network, where his alliances are. Particularly true in a town the size of Madison.

Three, you need to understand where's the bank in the power structure. Robert Moses, for example, classic case in point, developers all knew that Moses group controlled a lesser-known bank in New York City, and it was very useful to maintain an account there. And do a certain amount of volume through that bank, and if you wanted access to that bank, there was a law firm that it was best to go through in the first place. Not unique to New York at all. Anchor Savings and Loan for years was heavily influenced by the Starks who was the chairman of the loan committee and their council, which was Stroud, Stroud, Whosifratz, and Howard. And if you had a big deal going down the pike, you didn't go to Anchor Savings and Loan's loan officer first. You went to Dick Stark and you went to Stroud, and if Stroud liked the project, you could be assured that you were going to get a unanimous vote on the loan committee. You got to know the route in. And that's just as political as knowing who's going to vote on the city council. Developers agonize over the selection of how their initial contact is going to be made, and presented. Now sure, if you're doing a single family home you're not going to necessarily worry about it, but you might. You're son in law's got a minimal down payment, a little introduction to the chairman of the loan committee before the fact, maybe have the chairman of the loan committee introduce him to the loan officer, it may be a big help. If you're walking in the front door and catching the loan officer on a day when he just had a big fight with his wife, the kids all have the flu, and they just had a loan go delinquent, and it was some nice guy like yourself who just came in the door, and he didn't have much money either. And you're dead.

So how you approach the bank, whether the bank's major alliances are in fact competitive to your project, are all critical elements. By the same token, if the bank has a problem, let's say one of their major customers is now delinquent on the land loan, chances are pretty good you can get a pretty strung out construction loan on that project, if only to clear up the delinquency on the land. Canestaro built Canal Place, because the owners of the land were delinquent on the land payment. Chemical Bank had the land

deal, and the way the bank cleared up the delinquent land loan was to make a ridiculous loan to Canestaro on Canal Place, so now the land loan was current. And why worry? It'll be 3 or 4 years before it goes delinquent again, and by that time maybe I'll be in international trade and out of here.

It's simply the way it's done. And therefore, looking at the feasibility of a project, and site, you need to look at the politics of the project, at the very micro level. Interestingly enough, at the macro level, if you wanted to get something through FHA, the last thing you would do was go to your congressman, in this state. Proxmire's people used to be terrified of HUD. There again we've only got to deal with HUD, they turn around and betray us, the whole thing falls down and we look silly. You couldn't get Kastenmeier and Proxmire's people to go to the HUD office to go to battle for you. You generally had to go to some mortgage bank where they had an inside track to HUD. And pay him his point and a half or whatever he wanted to iron out the problem. They have to know the points of access, points of pressure. Political process by which you have credibility and a better than even chance of getting the entitlement necessary to make it go. And many of those elements will be inherent in the project. What is there in the project that you can do for the politician?

Told you about the one we're doing on the west side of Milwaukee, and where there's a dance-hall that everybody really hates, grandfathered it. Trade him the liquor license, trade him the grandfathered operating permit on the dance hall, and they will approve a non-conforming land use plan in an environmentally sensitive area. That's what the politician in that zone wants, that's what they're going to get.

I'm running out of time. Okay, we'll come back and talk about site analysis....

Lecture 4-2

Dean Whitter Company is interviewing on Friday which certainly is a closely held secret, because I don't think many people signed up. You might want to talk to them about looking for a financial manager analyst, and they have a lower level position for a CPA and a higher level position for a master's student and so you may want to check that out in the placement office, see what the exact jobs may be.

There are also some internship people , there have been 3 or 4 jobs that came through on the summer internship forms which are full-time job opportunities. Have you broken those out yet and posted them on the board?

No we haven't.

Xerox a copy of those and get them on the posting board, so people can follow them up.
There were four of them altogether.

I think that takes care of administrative matters, does anyone have a political problem, social announcement.

I'd just like to introduce for a moment an old grad who is back after some 20 years out of the loop ??, and ask him to say a couple of words at least on how to be an independent broker. He is a third generation Ratcliffian. Ratcliff masters thesis ?? did, made reference to great grandfather who was an industrial realtor in Cleveland at that time and supplied much of the data for his dissertation as I recall, and perhaps advice and counsel as well. And Craig's father was a family dynasty in Cleveland in commercial/industrial real estate, and Craig struck out in a zone with no ?? initially, to interview here, and he is based now in Vancouver running his own commercial/industrial brokerage shop. And I thought we'd embarrass him for just a moment or two if you'd like to say a few words about your success and future as a third generation Radcliffian that kind of unusual. I'd like to stand right up there, you're such a short fellow so they can see you. (Laughter)

"Well it's a pleasure to be back in Madison. It's the 2nd time in 18 years since I left that I've come back. In 1979 I took a business trip with Milton, they have a program for, every first year you go east from the west coast, and the second year you go south, Houston, Dallas--maybe you don't go to Houston anymore though. But 3rd year you go to Europe and call on clients that the company people in England, mostly England, and I guess they do a lot of business in Holland as well, Amsterdam. And the fourth year you go to the Orient, Hong Kong, maybe Japan now. And the last year you get a free trip to the Caribbean or Hawaii. And they're a very neat company, I worked for them for 3 years, I didn't start there, I started with a company that Olympia North bought up and was there for 7 years. And then I worked for Milton for 3 years. And I'm the eastern ??, I came back through Madison one Saturday night, stopped to talk to Graaskamp, and he was out in the wilds of Idaho that weekend, and so this is the first time I've got back here, and it's a lot of fun to just take in a class or two.

I also remembered when I was here in 1968, my dad came up for one weekend to see a football game, and I dragged him into class, and in those days we sat in the back rows. We picked the wrong subject, because he sat in the appraisal

class, and he had been a pretty proficient appraiser, all over the country. I don't even remember the professor that speaks any faster and covers more material in 50 minutes, than this fine gentleman next to me. My dad was sitting there, practically ready to throw spitballs. It wasn't going at the speed at which he cranks out appraisals. Thousands of dollars ???. But it's a lot of fun to be back, and I'd be happy to answer your questions after, if I can help anybody, I'm just on my own now in a small company and specialize mostly in warehouse and industrial properties in Vancouver.

Are their opportunities in Vancouver? It's a beautiful city.

"It's growing. It's growing fast. The economy is fairly strong right at the moment. It's still a city of a million and half people and it's very hard to do developments up there. But it's a beautiful place to live, one I like very much."

You have to very successful as a commercial broker in order to be able to afford a house. Commercial real estate's reasonable, but housing prices are pretty high.

"They are pretty high. But they're getting that way in the major larger cities"

For those of you who are skiers but like warm weather it's unique in that below 5,000 feet there's no snow, but if you take the cable car up to Grouse Mountain, you are immediately in skiing country by the time you get to the end of the cable car route. It's relatively unique. You have a relatively mild winter, fifties, sixties...there some disagreement there? Maybe? However skiing is immediately available at the top of the mountain, and probably the most dramatic piece of linkage, relative to value I have ever seen, the Howe Sound, which is the north side of downtown, and the Guinness Ale Company owned virtually all of the land along the north shore, which would then look south across sound, with a downtown of Vancouver, including an area called the Queen's mast yard, which is beautiful tall northwest style fir trees which were at one time reserved for the queen's navy and so on. And in order to create value for what are otherwise only available by ferry boat in a very limited way, because otherwise it's a tremendous drive to get around the east end of the Sound, they built a suspension bridge which is approximately what, 2/3 of the Golden Gate Bridge, called the Lion's Gate Bridge, as a private venture. Putting toll booths on one end to create

the linkage to this otherwise superb set of slopes that looks out over the city. And created tremendous value for that and the timing was just perfect, it ended in 38 or 39, and Vancouver prospered as a major port of distribution during World War Two, as a result of its lumber industry, and became an outlet for the grain and petrochemicals coming out of Central Canada and so forth. Just really boomed. And Guinness created tremendous value for the land, and after they paid for the bridge twice with the toll, it was in need of further repair and maintenance, they graciously gave it to the city of Vancouver, so I don't think it's a toll bridge anymore. But in terms of a dramatic piece of investment, to create linkage value for a piece of land, I know of no better example than the Lion's Gate Bridge up there. So thanks.

Okay. The subject has been site analysis. And we talked about one of the aspects of site analysis that almost is never stressed in the textbooks, is the political context in which that site will come into whatever it is it's going to become. And the only analyst that I've ever seen include that as the first area of analysis is Steve Roulac. And Steve Roulac for a number of corporate clients such as Merrill Lynch in setting up the standards for the appraisal report and feasibility study, in effect has the whole first section being an analysis of the political framework. And it's significant not only from the developers standpoint, as to what can I do with it, but it is also critical today, and becoming more so, in the thinking of the investor portfolio manager, who now realizes that if you're a developer you obviously want to be in an area that is leaning toward the laissez-faire view land use, in which you can do what you damn please, a la Houston and Dallas, whereas the investor realizes that the only protection he has from over-supply, and therefore the downward pressure on prices and appreciation, is in fact monopoly. And that the source of his monopoly is, how stringent are the land use regulations in granting additional entitlements for additional space.

So Prudential, one of their major thrusts now is beginning to look at the political framework in which their properties are located, in order that they can be assured that having made an investment in an existing property, that not every Tom, Dick and Harry can come along and duplicate it, that property, and crush the market with an over-supply of not quite as well advantaged property, but nevertheless property which, at some price, is attractive enough to pull the tenants out of the better located, better built unit.

Today we want to talk about the fact that in looking at a property for the development side, as opposed perhaps to the investment side, you need some way getting a handle on how to proceed in terms of sequence, and in terms of the subject matter of analysis for a site which on first glance seems to have virtually an endless number of alternative courses of action. And therefore the feasibility analyst must begin to create a hypothesis about the project. And that hypothesis of course, is intended to be preliminary. Unfortunately quite often it so romances the creator of the hypothesis, that he takes that as now a given and proceeds to drive it forward. Like the convention center on the south side, having fallen in love with the idea, Kenton Peters proceeds to drive forward on it, rather than looking at the economic realities of it, of which he was reasonably aware.

The feasibility analyst of course is supposed to remain somewhat detached, not totally romanticized by his own cleverness and so on, but he begins with the necessity of having a hypothesis about the site. And then he proceeds from that hypothesis, to see whether in fact there's the fit. In terms of the market availability, in terms of financing constraints, political constraints and so forth. And if there are points of friction, how does he modify that hypothesis to co-opt the political process that might otherwise oppose it, and gain the heights rather than the rather than the opponents, how he can overcome the constraints, that the rent structure is such that market rents won't carry new construction, how does he obtain a shallow subsidy? How does he involve the community in providing some sort of support for the project, right down on the land, perhaps providing certain infrastructure elements that otherwise he would have had to do for himself. Or perhaps providing tax-exempt financing at a constant that is more consistent with the rent structure and so on.

But in any event, you begin with a hypothesis, simply as a way of ordering your thoughts about the property. For example this morning we were talking with the team that is looking at Marty Rifkin's project. And Marty was saying, well we want to do something residential. But at the same time the city's got a big parking lot on it, it's adjacent to GEF II, I guess it is, down the street from GEF II and so forth. And they're going to resist turning over that site to us and so forth.

Well, you want to take a look and say gee, what do we need to have a residential thing on that site, well first of all we need a view of Lake Monona, we need a southern exposure, and that tells us that the building's going to have to run

parallel with Main Street so that it has a full southern exposure, Lake Monona is within view, we got to get it up in the air, well wonderful, we got to get it up in the air, what are we going to put it on? Well maybe the neighborhood needs certain convenience support in terms of shops. It doesn't have groceries at the moment, it doesn't have whatever else a neighborhood might need if you reach a certain density in terms of volume. On the other hand it's a rather pricey neighborhood, we're almost saying to ourselves gee, if we want to go high-rise, which is expensive, we're going to have to go FHA and see whether we can't lock ourselves into a shallow-subsidy interest rate and so forth.

Very quickly you begin to see what the constraints of the site are, you begin to define attributes that the solution's got to have. If the view of the lake, southern exposure is one of the positive attributes? How do we capture that? On the other hand at the same time we have, as the Fauerbach project had, the proximity of the Madison Coal-fired generation plant and right away we say gee, the southern exposure and the lake view is what we have to have, but that means we have to turn our back and eliminate views from the building of that rather unattractive industrial area. Not only do we have to eliminate the view, we have to eliminate the sound. We've got to have a structure with buffers up against freight cars being shaken out to dump the coal into a pile and so forth. And that becomes another design constraint on a hypothesis which says we're going to have single loaded corridors, because we can't have anything facing the relatively unattractive areas of Madison Gas and Electric, and the loading docks and so forth.

Notice that as we begin to look at the positive side, the negative side, we're starting to define the parameters of our hypothesis. And we begin to conceptualize the problem. In broadest terms. We don't start worrying about the fenestration at this point, all we're saying is that hey, the mass of the building has to face south, we're going to be a single loaded corridor so that we turn our back on the negative aspects of the site, now what do we do about parking? We have to create parking on the site. If we go under the ground, we're going to have the lake flowing in, we're going to have a really expensive parking ramp, so to hell with it, just put the parking underneath the structure. But gee, if we put the parking underneath the structure, now we're too high facing the lake. So the next thing is, let's space that parking structure on the lake side so we don't lose valuable views of the lake to a parking structure. Why waste all of that lineal feet applying it to the parking

structure on the lake? And so they faced it with townhouses that were riding on the ground. All right? In other words, you're still taking advantage of the lake frontage if you will.

Now as soon as they did that and they said, gee, we're going to have townhouses right on the ground, immediately they realized they could not have a continuance of the park system across the front of the lot. So political problem number one was, there was a force for good in the city that said we want to continue the lake park there to connect over to what is that other little park on the east side ofits about a block long, a skinny park off of uh, can't think of the name of it. You've got the, the Elks' Club alongside that in the next block, they were willing to give up land for a pedestrian way, and so forth, but notice, people who buy townhouses at a hundred thousand dollars a crack don't want every CMI downtown walking across right in front of their sliding glass door, there's an encroachment on what they perceive as their view line or lot line and so forth, and there's a very subtle threat to their security.

So there's political problem number one. How do we neutralize that? And ultimately the city wanted that project so badly that they were able to overcome it by just taking it on a frontal assault. For example, nobody else is working here on the Garver feedmill, which is directly behind the Olbrich Park Conservatory on the east side. The first guy there, the developer talks to, the traffic department and the planning department says, we're not going to let you in off of Monona Drive, you're going to come in on Fair Oaks. Planning Department says you're going to do upscale housing. If that's your hypothesis, upscale housing, no way are you going to do that with an address on Fair Oaks Avenue, which opens up right on the former car barn of the bus department. And what is one of the lower income areas of Madison. If you're going to romance people into an upscale apartment project on that side, they got to come past the view of the lake, they've got to drive past the gardens of Olbrich, up the boulevard and into your apartment project. The approach zone is absolutely critical.

Now you have to say to yourself, do I have enough clout with the alderperson, do I have enough desire by the neighbors, because they want to get rid of what essentially is about a 20 acre eyesore over there, that I can tell the Traffic Department to stuff it. And have my access coming from that side. What other political goodies do I have to build into my hypothesis to make the traffic department dead. Because

if the traffic department isn't dead, project's dead, simple as that. Do they want it that bad, do they have the political will that they're going to say, we don't care what you think about traffic on that part of the street, we don't care if you think there's going to be more left turns than there should be, it's this or nothing.

So your hypothesis begins to bring the gotta haves. The things that I must negotiate for, straight from the beginning. Here's a feature I'd like to have, but it isn't critical for the heart of the project. So when we begin to look at the site, the reason you're beginning to collect all of these attributes, is to be able to create a hypothesis as to what the critical attributes for that project will be. Envelope. The access. Who are the political constituencies I need to have on my side? And then what does that begin to tell me about the economic parameters of the project? After all, I don't care at the moment if I have a cost estimate as to what it's going to cost, I just know that if I have a group that can pay X dollars in rent there is a maximum that I can pay for the cost. From a feasibility standpoint, that's the first problem. That becomes part of my pre-architectural program, that tells the architect, hey baby, we're going to go forward with this if it comes in at 22 bucks a square foot. 24 dollars a square foot, you don't get a commission and I don't get a project. There's no sense having an architect design something without that initial parameter in the deal, and then have to re-design it and take out all the pizazz on which you sold the project to the political process in the first place. Mark?

"Chief, in creating your parameters for a hypothesis, aren't you also wrongly creating set of implicit assumptions?"

Sure.

"Because you start to steer yourself amuck in a hurry, if you hold onto that too tightly."

Absolutely. That's what I said before. You do this with detachment. If you get too involved in the romance of your cleverness, you're going to lock yourself in to early on the final solution. But if you don't do this, where do start to tug at the various threads, where does this start to unwind? And where do you begin to define the sequences of what are the critical issues?

"Where do you find the sequence then, of going through your project, I mean how far along in general do you come to this?"

About the time you've created the inventory of critical attributes and the political context and the site description we've been talking about--and I haven't bored you with the physical side of it because we've pounded that to death in other courses--but as soon as you get done with that you say, what's possible? How do I capture the positives, neutralize the negatives? Then you begin to hypothesize, how many, may be only 2 or 3 solutions. It's really moving beyond the highest and best use thing that says hey, there's 5 alternatives we can have with the site, we can use it as it is, we can modify it slightly, we can change the tendency, we can totally renovate the building or we can tear it down. That's a fairly stylized way of appraisal, of coming back with a hypothesis. We don't pursue it very far in appraisal, because essentially we want to come down with what's the most probably use as a rather broad statement. But in feasibility now we're going to move beyond that and begin to flesh in the critical parameters that make that possible use something that's do-able, and establish the constraints.

Sure, there's always the problem that you're going to get locked in on that and begin to believe you're own stuff. In fact, what we say 50 percent of the time when a project goes bad, that's just exactly what happens. The developer fell so much in love with his own idea, he would never reconsider it in the light of reality.

There was a developer over in Milwaukee by the name of Schradel ???. One of the great apartment and single-family home developers, ?? tract development and so forth, extremely efficient, hard driving individual, fell in love with the idea of creating a huge resort hotel down in Mukwonago, or the general environs of Mukwonago. And nobody could tell him different. He had this idea that that's what he was going to do, and he just kept pushing ahead. Problem was, he ran out of money before he got it furnished. But he had some really wild ideas, like he had a central kitchen, and then dinners would be loaded onto these trucks which then would drive in to the dining rooms for various meetings around the facility. He thought this was a great idea for efficiency and so forth. Only problem was, he didn't have the money to pay for the trucks ultimately all of his dining rooms didn't have any kitchen facilities, didn't have any furnishings, and then, to top it all off he suffered a little upset in that his wife got all the cash. She sued

for divorce on the grounds of infidelity and loss, and he was then sued by another lady on the grounds of paternity for 3 kids. Like 14, 6 and 3, and she won on all three counts. And so the judge in the first case was willing to reconsider.... The settlement came at a very unfortunate time in which he needed all his liquidity, and the more liquidity the less paternity, he would have done all right. It became an obsession, you could not talk to him. Even after it was in bankruptcy, he would take anybody out there who would listen and wander through the project and lecture on its wonders, totally obsessed by it, totally obsessed. And it was really sad, because the guy was an extremely capable individual, except for this one little quirk he had about that subject.

So you're quite right, there's a possibility that you're going to get locked in on that tape too soon, and not be willing to erase part of that track as you begin to modify the hypothesis. The developers who survive are the ones who are reasonably adept at improvising as some elements of the hypothesis doesn't become workable. And of course quite often the finance plan will change three times, and in the process the mortgage market changes or the tax law changes or whatever else happens, hopefully you're quick enough to land on your feet as the various surprises come by.

But you begin initially from that inventory of a site in search of a use, to hypothesize about use. And you hypothesize about use not just in terms of gee, I think it would be nice to have one bedroom apartments with the following layout, that's the least of your worries at that point. What you really need is a space envelope that says I got so many square feet, that's going to give me so many apartments and so forth.

Witness the one I talked about one or two sessions back, down here on the intersection of Hamilton, Carroll and the lake, where the AIA's reconstructed that old house for their headquarters. At one time somebody came in and said gee, I'm going to develop a high-rise on the site, and it's extremely efficient in Madison because it's so low I can get 14 stories on that before I get to the base of the columns on the capitol dome. And his architect-type hypothesized a cylinder, 14 stories high, which optimized in terms of total floor area on the site without ending up with a little pointy, three cornered building, and by the time he had his elevator shaft and the stairwell and so forth in, he's got 5000 net useable per floor, and 42 parking stalls underneath, and that's his hypothesis. What are we going to do now with a cylinder of that form and character? What

kind of uses can we hypothesize for that volume? And obviously what falls out immediately is it's a very expensive base, because you don't have a lot of net useable for all of the services that you have to move up and down, and the weight and control of the structure. You don't have enough parking because it's too close to the lake and the lake will flow into the basement facility. So as a result, you're limited to a low-density utilization building at a high cost per square foot, and that instantly tells you the people who live here have got to be rich, and they're going to buy the pizazz. You're going to be selling sizzle instead of steak, because if you wanted to simply shelter and house these people, there'd be a lot cheaper way to do it someplace else. Okay?

You immediately extrapolate from just that very simple hypothesis about the column 14 stories high. You want to begin to look at your project then in terms of that hypothesis, and hypothesize initially, basic physical elements, shape, floor area, height. You want to identify from that hypothesis the political forces for and against.

Three, what are the critical linkages. From which direction is the pedestrian coming, if the pedestrian is what I need? Where is the visibility? Do I turn the building on my site sideways, so that the broad side of the building faces the direction from which people are coming? For example, if you were probably using your head completely, for other constraints on the University Square Center, you probably would have come up with a diagonal plan, realizing that one of the natural flows at university strip would be to come across diagonally to get to the back corner of Johnson and whatever that is, right? Probably would have arranged that building differently.. Okay, an architect would have identified the natural ingress points, where would a pedestrian be likely to flow through the property, and try to design it accordingly. Now that building had some other very real limitations in terms of cost and fire zones and so forth, not to mention a quirky ?? development division. At any rate, and in fact that one of the original concepts there was perhaps to phase it, and that you might do 2 of those blocks first, and then if you found tenants for the other two, you would have completed the swastika format there of layouts of those 4 buildings.

But in any event, you want to begin to identify those kind of linkage elements that's it gotta have. Included in that linkage is the major approach zone. We cannot emphasize too much the importance of the arrival at a particular site. The arrival obviously has to be convenient from the

standpoint of the automobile and the pedestrian, but the arrival itself must make a statement.

Where do I get in the building, where's the entrance for crying out loud? How is the shopping center organized, where are the entrances? Who are they? Where do I get in? All part of the linkage element. Dynamic elements, what do I have to offset, the negatives, versus what do I have that's positive. For example, Applewood Hill subdivision, which we did, god I can't remember how many years ago, one of the major problems was that there had been a quarry for years, that was regarded as a damn nuisance, right at the contact point of the site, which was kind of L shaped, had a narrow strip of land coming down to PD, and then you wind up to a full 40 at the top of the hill. So your very first problem is one, I don't want to end up owning a quarry because there's nobody to sell it to, and 2, I've got to neutralize it, because people perceive that as a threat. You went in there, you'd have found that everybody and his uncle had been in there testing their deer rifles, shooting hell out of bottles with their 22 and so forth, and that's not exactly conducive to a residential neighborhood, upper class.

So it became paramount that we not only neutralize that but we get rid of it. So we brought the entrance to Applewood Hill right thought that, used the weathered lannon stone on the eastern flank, to create an entrance, turn the road sharply, and then went up to the top of the hill to the rest of the lots, and dedicated the whole quarry with the road work. It became public property.

Not only that, by breaking down the front edge you had broken the ability to hide, if you will, in the quarry. So there was nothing that could go on that wasn't going to be seen by everybody who drove in the front entrance. With a little choice landscaping, now you've created a feature, out of what essentially was a negative attribute. Just like the developer who's got a mudhole that's got a little water in it in the spring, is going to dredge that out and sell waterfront lots. Convert that negative element to a positive element. And this is really what you're trying to inventory and hypothesize a solution to it as you're going through.

Finally of course, the off-site environmental impact, particularly relative to surface water and below surface water and today, relative to shadow. Some areas have been explicit about shadows, Fairfax County for example states you can build as high as you want in Fairfax County, but

your shadow's got to land inside your property line on December 21st. Fairly reasonable argument. You want to build a tall building, have a big lot. ???. So you need to be able to organize that kind of thing.

If one of the dynamic attributes that you're going to try to merchandise is a view, how do you protect the view? Glenn Hovde the other night, indicating that one of the advantages of their office building layout was that by putting the parking ramp on the Dayton street side, they protected the view of the offices on that side. Wasn't anybody was going to build up passed their 2nd floor or 3rd floor and there the tenant's willing to pay for that as a opposed to say 30 on the square, when the Concourse Hotel was extended, now the amusement and amazement of the folks at 30 on the Square is with a telescope mounted in their office and they can look into the windows of the hotel. Most people won't pay a premium for that. Especially for the kind of folks that stay at the Concourse. (Laughter)

A good example of that in terms of creating value is a building called the Hartford building in San Francisco, which is on California Avenue, and where the Rosenberg Fund has its corporate headquarters. They deliberately bought that site because immediately adjoining it is Chinatown. And Chinatown has a historic neighborhood preservation blanket that covers multiple multiple blocks, and as a result there is no impediment of their view of the bay, forever and ever, from three sides of the building. It sticks out into that little area, and the things been a gold mine. As opposed to many other buildings in the downtown area, which immediately get cut off on their sides by new office buildings that are even higher than they are. That becomes part of their strategy, part of their profits. They can protect those rental values because of that particular feature. How do you protect the rental values on the Turner site that you're looking at? Well maybe one way is set backs, another way is repainting the city parking ramp built into the hill on the east Washington Avenue side, and forever maintaining the width of East Washington Avenue, plus the width of the parking component to preserve the privacy and sight line of views, if you're going to have the double-loaded corridor. Because if you're going to build a middle-priced apartment building, you've got to have a double-loaded corridor for it to be efficient. Otherwise you can only face towards Lake Monona and so forth. Okay?

What are the hypotheses that we're making in the process? And how do we neutralize the negative ones, how do we capture the positive ones? If there's sunshine on the lot,

how do we get the sunshine in? My house is based on that total premise. You've got a 59 foot lot, 59 feet wide, 103 feet deep, you want sunshine and you want privacy. The only way you're going to do that is with clear stories and skylights. And therefore if you're going to have clear stories and skylights, you're going to have a flat roof. Or at least shed roof. Right? That becomes the hypothesis, that begins to control everything else you do. Now it may turn out not to work, but that becomes nevertheless what you're testing for. It focuses your test. On the Garver feedmill, if you can't ever ever get access on Monona Avenue, go find something else to do. The project is not doable. And the object is to find that critical factor on which all else depends, early on, so you don't waste a lot of other money.

Example. Classic example, in the case of a consultant coming in and testing the critical element of the hypothesis of the developer. A good many years ago we had a young student by the name of Mike Rutberg??. In the end, believe it or not, he worked for Charlie Shaw. Who was our guest of honor at the alumni reunion. But Shaw had the option to build a million square feet of office space on top of the Illinois Central Station at the foot of Roosevelt Drive in Chicago. And Rutberg got a job as the intern. And he was told by the developers, kid, go out and do a feasibility study for me, i.e., take the present value of the rents, with the net income, and if it exceeds costs, we got a go. Rupert's really dumb, he thought the developer really wanted to know whether it was feasible or not. Hypothesis was that Rubloff made a killing building his office complex over the Northwestern railroad. Therefore, if you build office buildings in Chicago, over a community railroad, you ought to make a killing, because nobody has to go outside and venture in the winds of the windy city, and all that good stuff. Okay, reasonable hypothesis, right? Empirical demonstration that this works terrific. Look at Mr. Rubloff's project.

Well, the first question you have to ask yourself is what does that hypothesis depend on. Well, one of the things it depends on is where the hell does the commuter railroad go? The Northwestern Railroad serves Lake Forest, Willamette, Evanston, etc etc etc, all the high income areas. The chiefs rode the Northwestern to downtown. And chiefs sign leases. And they did, in droves, in Rubloff's building. If you look at the Illinois Central, there's only one middle income neighborhood on the entire line. It serves blue collar neighborhoods and doesn't go north of Randolph Street.

So Mike comes down and he's simply got the monthly commuter ticket-buyer's list from Illinois Central, who was proposing to be one of the tenants by the way in the building, so they were perfectly willing to cooperate, they were going to have 4 or 5 hundred thousand square feet of space. And he asked them what they thought about this idea and they thought it was terrific. And then he asked them what they did, and they were secretaries and clerks and so forth. The last guy in the world the president calls up and says Now Mabel, would it be all right if we signed the lease, you know, in this building over here for our office. Mabel will go where the job is, she has no choice. But you know it would be easy to get off the train, take the elevator to work, not have to go out in the rain and stuff. So he came back to Charlie and said, uh Mr. Shaw, there aren't any tenants south of Illinois Central. What's more, they said, they didn't think it was any big advantage to getting on the train at Illinois Central and leaving, because it would already be full. The train starts at Randolph Street, makes one more stop before it gets to this one at Roosevelt, and then there aren't any seats, so what's the big deal? Well, that's easily fixed, with so many tenants at Illinois Central, we'll start some of the cars at the station. What about the other problem, it doesn't go anywhere that people who sign leases want to go to? Don't worry about it kid, they'll drive. Oh, all right. That seems like a good idea, why didn't I think of that.

So Rupert went and stood out on the outer drive, where people turn off out of the Roosevelt Drive route into the route, and sits down and puts the 300 license numbers down of the newest cars that drove by in the morning. So he sweettalks the girl in the motor vehicle department to giving him the names and addresses. Half of them were with leased car services, so we're on the trail, they're obviously execs. They're driving by the site, the hypothesis is that they're familiar with it, it'd sure be a lot easier to stop when they got here, rather than have to go another 10, 12 blocks in the loop. Gets the other 150 names, sends them a little survey, asks them where they're coming from. They're all coming from north of downtown Chicago. They all drive. Wouldn't ride the commuter railroad on a bet because they don't think it's safe. And they park

[END OF SIDE ONE]

in the building where they lease. And even at that time they were paying 30, 40 bucks a car, they probably pay 120 now. Project that's designed by Skidmore Owens and Merrill, didn't have any parking, everybody was going to arrive by train. Asked Mr. Shaw about that he said don't worry about it kid, we own a piece of ground about a block away, covered with gravel. A guy's going to park his Mercedes out there, are you kidding? . Well, he said, we can always change plans, put a parking ramp in and so forth. But he said, where's the demand going to come from? He said, overspill demand. People are going to realize they need to expand their offices, are going to come out of their offices in the Loop, there's just no space for them. Golly, why didn't I think of that, guess that's why I'm a student and you're the developer. So the kid goes down and he adds up all the buildings that are coming out of the ground, all of those that have already been proposed or permitted or financing's been announced on, there's like 7 and a half million square feet coming out of the ground in the loop. Annual absorption rate, a million two.

Excuse me Mr. Shaw, could you explain that overspill demand hypothesis again. How did that work? Now about then, Charles began to say, well wait a minute, we've got some really significant misfit between our hypothesis, one that if we build over a railroad station that's the way they're going to arrive, because they're not. Not the ones that need to sign the leases aren't going to arrive that way. Two, they're going to come by car, we don't have any parking in our project, who needs parking if you've got a railroad. Three, the overspill hypothesis, that people will move 12 blocks south of the loop, to get reasonably priced space.

The project was never built. Skidmore Owens and Merrill took home about 400 thousand bucks in preliminary design fees. Which could all have been saved if you had started out with, hey, what's the critical hypothesis here, and does it stand the test. You go for the jugular. It had nothing to do with rent structures, had nothing to do with what kind of exterior to put on the building or how the washrooms would be decorated. But the basic hypothesis which had generated the project didn't stand the test.

And therefore you inventory the attributes of the site in search of a use, you create a hypothesis and then see if you can shoot it down. And you may modify the hypothesis as you go along. You say, gee, how do I get this alderperson on my side to get that access off Monona Avenue. And it turns out his constituency is a low income group, or modest income group. You better figure out how one of those projects is

going to have a relatively deep subsidy. How do we make it possible for ten percent of the residents to have to pay rent for no more than 250 dollars a month or 300 dollars a month or whatever the magic number may be. Create that feature, create a way of doing that, and now you have co-opted one of the significant components of the political power structure that's needed to work through that property.

Again, talking about the Turner site. A great number of state employees park on that site, apparently. Eliminate the parking lot and they're going to park all over the neighborhood. The neighborhood association will be on your back in a minute. They have enough problems finding places for their own cars, and they live there. That'll kill your project right there. They may not attack it on the grounds that it's going to be inconvenient for us. They may attack it on the grounds that somebody promised that it was going to be developed as so and so back in 1981. Mayor so and so said. Or they may attack it on the grounds of environmental quality. Or that it'll run down their property values, and this will adversely affect assessment rates ?? The arguments they use may be good reasons, but the real reason is, I got enough finding a place for my car, let alone competing with all those damned employees in the state office building. Who I didn't want in my neighborhood anyway. So you better solve the parking problem on site. And let that sleeping dog lie.

Okay? Move from the inventory of attributes, positive and negative, to a hypothesis. And then begin to modify the hypothesis so that you can co-opt the power structure to be favorably inclined toward your total project. Tom Klein executed that beautifully in the Coventry project. Glendale had never had multi-family or offices in that part of, or that's Fox Points, excuse me, had never had offices or apartments in their community. But the village manager had two problems. One, as all single family homes supporting the school system, things were getting out of hand relative to the tax rate. A little 1800 square foot house in Whitefish Bay currently costs almost 4000 dollars a year in real estate tax. They need a tax break. But the other thing they needed was, presumably, a community library.

Having figured that one out when he came in he said fine, I'll tell you what I'm going to do, will take this certain surplus site from Cardinal Strich College, and we'll build part of it as office buildings, and we'll give you the basement, essentially the English basement, as the city library. The basement space is the cheapest space you're going to have anyway, and it doesn't rent very well, so

you're giving away the lowest value component of your project, to get entitlements which give you an absolute monopoly in terms of a professional office building in this particular district.

Now you've done something for the village manager, now he's going to fight for you. He's got one group screaming at them, why can't we have a library. He's got an answer for them. But in order to have their library, they've got to go out and organize the coalition that gets this through a board that says we never had office buildings in our town before. Let alone multi-family..

Now on the other side you've got multifamily, he's got to come up with a design idiom that picks up on a design idiom out there which essentially is semi-colonial, semi-brick, everyone's got a bay window, etc. And lo and behold, the design's got bay windows, red brick, coin corners, buried much of the parking underneath so that it isn't one of those typical suburban jobs, surrounded by chrome and glass. He's defusing his political problems as he goes. He comes in with a project that's a little higher density than he really needs to make it go, creates the gimmee, citizens show up and scream about it, they want this that or that other thing changed, he can back off on his 22 units an acre to 18 units an acre, give them something, so that they feel they've accomplished something, that the project is now a compromise solution, and he can move forward with it.

Your hypothesis has to have that, at the outset. Or today you won't get the entitlement to do it all. Now maybe there'll be some other elements that you've got to have. You've got to get financing. And he needs the tax exempt interest. That means he needs the endorsement of the public housing finance authority in that community. He's got to be able to promise that 20 percent of the residents will have incomes that are lets say 125 percent of the median income or less. Therefore he sets his rent schedule in such a way that 20 percent of the units just make it under that deadline, arguing of course that it's because of their inappropriate deal, where those smaller, or whatever, you certainly wouldn't want the other folks to realize that they were all chipping in five dollars a month to subsidize the other folks. So there's got to be some small differential in terms of the product.

But now you take the housing finance authority off the hook, say hey, this is going to meet your lower middle class needs that you wanted to reach, then he can turn and endorse the project as meeting the requirements and therefore, you now

get the tax-exempt financing. The tax-exempt financing in turn may suggest certain costs of issuance, which have to be amortized over all the units, so that suggests you're going to have to build more units perhaps, because you can only go to that well once at a reasonable cost of financing. Once you do that you say gee, what's my absorption rate going to be relative to the fact that I have to build more units in order to come under one blanket loan than I might otherwise have built, plus the cost to carry. Now I've got to pull something out of our construction budget side to reinforce my carry cost, soft cost side, in order to endure the initial drains of absorbing more units than I might have absorbed the first time around, but that's the cost of getting the lower constant and therefore the lower rent structure and so forth. Okay?

Begin to look at your hypothesis and then modify it, as you begin to perceive what the strategy is coming to into the development. So that's what you should be doing in terms of the sites that many of you have, having inventoried this set of attributes, begin to conceptualize one, possibly two, hypotheses, as to the fundamental attributes of that project. The things it's gotta have. Then compile your list of the things it would be nice to have. Then ask yourself, what things does the public have to have, the folks who are going to control the decision process? And make sure they have the gotta have's, too.

For the consultant coming in after the project's conceptualized, often there's a whole set of blueprints, all ready to go, and gee, I just need my feasibility study by next Monday and then we'll take down the first draw. You have to be careful as a consultant, to back off and say what's the fundamental components here that make for or digress from the successful schedule of the project. Test those first. If it doesn't address those critical issues, how do you ?? the rest isn't going to work either? And they may differ. Maybe a zoning change, maybe the capacity of the sewer and water, maybe even the legal right to do the project.

A good example of watching that evolve presently, is the Wisconsin Brick site that John Flad's developing. Initially to acquire that site, he went along with the hypothesis of the owner, which had now set a dollar amount in the owner's head as to what he thought it was worth. Sometime between the offer to purchase being signed and the time they get to closing, you have to change that hypothesis of the owner, in order to bring that price down to where it could go as far as the buyer is concerned. At that point you

start looking at the soils and start looking at the hazardous waste problem, and what are the other limitations. Village of Shorewood says thou shalt keep one and a half acres on the back of the lot as a buffer, gradually sloped down from Columbia Drive, so even though you bought a seven and a half acre lot, you've only got 6 acres left. Village of Shorewood says thou shalt extend Marshall Court, make it a sharp right turn, and have an intersection with the street where University Avenue, where the cement trucks have traditionally gone. Now you're down to five and three-quarter acres. The initial hypothesis of the owner was this, that was the mindset as far as he was concerned, this was the price. You negotiate the deal to modify that hypothesis. It's really what the whole game is about ultimately.

Now at some point along comes the fact that retail is pretty well overdone, and so they're premise that we're going to be a shopping center is shot down, you end up with 20,000 square feet of retail and the rest is going to be office. Now the question is gee, why the hell do I want office there rather than residential. Well, you go back to Shorewood again and you find out they're really worried about having too many residents right next door to the civic swimming pool, because the residents in that particular project would get almost exclusive advantage of the swimming pool by simply overwhelming it. The developer wouldn't have to build any. So they decided they didn't want any housing next to the swimming pool.

There went hypothesis number two of this fellow. And so they kind of recut the deal by the time they get to the final closing. What assumptions did the buyer make or the seller make that proved not to be true? And the deal gets modified. Feasibility's the same way. What assumptions do you make initially, which upon further research prove not to be true. You obviously investigate critical assumptions first, so that if it turns negative, you haven't wasted a lot of money examining the other stuff. You can move on.

Remember every project that you investigate--and you probably will look at ten before one will work--is capitalized into the next project. If you spend simply 5,000 dollars researching each deal that comes along, by the time you find the 10th one, you got a 50,000 cost that really needs to be booked against that total project. Because that's where you're going to recoup. You need to hold down the cost on your search process, in order that you don't have unacceptable costs on the one that you find. Because that's the only place you recoup. The natural fall

out from that is what? It really ?? starts to name the report that I'm going to do first, right? My hypothesis in many ways is the strategy study here. What comes next is, gee, if it's so dependent on the political thing, the next thing I do is the legal political study. No sense going down the brick works, picking out the brick until I figure out some of these other little problems. Or, the question is, to make this work I gotta do 120 units, in order to get my IRA or tax-exempt bond, that's the minimum number of units I can build and amortize the cost of private placement or public issues of a tax-exempt bond and so forth. The very first question I have to have is scalar. Is there anything like the demand for 120 units in this market area? If it comes up 60 units, either I don't do an IRA or I don't do the project, one or the other. Okay?

Or, maybe I have to go around and say gee, I can do 60 units on this site but I found that if I go into the 3 satellite communities around the county seat, I could do another 20 in each and go. People don't, you know there are enough elderly in the area to make an elderly project work or make a moderate income project work. But they want to live where they want to live, they might not all want to live on my site. So what I really need is a blanket mortgage on 4 sites. And I change my hypothesis.

Now what do I do with the rest of the land that I already own that was designed to be 120, well either I land bank it or I find something else to do with it and so forth. All right? Notice how the hypothesis shifts. Because you said gee, one of my critical constraints is that I need 120. If I don't find 120, either I change my hypothesis or scrap the project. And if you've done enough elderly you have a pretty good idea about what percent are available per year to take advantage of congregate housing and so forth.

So your hypothesis begins to prioritize which studies I do first, what's the name of the next report I do, and all of the different types of reports that together represent a feasibility study. It's amazing how many people don't think this way.

They're well along in architectural schematics and working drawings. Classic one, University Square. They allowed the architect to be already into working drawings, when the primary hypothesis that the University Bookstore was going to come over and be their anchor, fell apart. Nobody had bothered to talk to the University Bookstore. Flad had designed a 2 story center around an enclosed Mall, it really looked sexy. It was really pricey and yet, the kinds of

business that were in the student area weren't in that rent per square foot range that would justify that kind of structure. It was really neat, it had sky walks across to the commons on the far side of Johnson Street, the University said no we won't do that, we won't endorse private enterprise by allowing physical linkage to the University, which is a lot of crap, and they wouldn't allow them to utilize the parking lot, initially on-site they were supposed to have basement parking, they said they couldn't make the basement parking work, suddenly, they're doing a shopping center, mind you, and you've got to go out and find financing among institutional lenders that say you've got to have one parking stall for every 250 square feet, and you come in with a student parking center that says it's not going to have any parking at all, except the University's going to let me have the gate up on the evenings on their parking lot next door, which ultimately someday is supposed to be an administration building and there won't be any parking lot at all. You can imagine how delighted they were to entertain that financial fact. It became, immediately constraints on, as well as the upshot of it was the partnership that was going to do it, which was made up of the property owners which had their, condemned, had lost their stores and businesses and so forth on the block, were able to buy I believe the back half of the site, with their capital. And the rest of the capital went to pay for working drawings on a shopping center that wasn't viable at all. Because nobody had gone about and set up the basic limitations and strengths and pre-architectural program. And the architect ripped them off. And now they can't go forward, they can't go backward. They're locked into an agreement with the city to build a student shopping center. They've now spent all of their capital on half the land, and the architectural fees for a design they can't use, at that point they had to bring somebody in, Gordy Rice, who buys the front half of the site, leases the back half of the site and is able to come up with a shopping center which is really, very, designed for price--essentially a concrete block, no basement, stucco structure, it is designed as it is, by the way, so that it didn't have to have sprinklers. The law had just changed at that point so that if your structure was 60,000 square feet or more, there had to be sprinklers, and that was going to be another 2 bucks a square foot, and they didn't think the rent structure would carry that, so they broke it into four buildings, swastika style, and then they were going to have an enclosed court. A state rule, if you have four buildings with the same roof, it was one building as far as they were concerned, and so you hadn't accomplished your strategic objective, so they had to punch holes in the roof, so that the total square

footage of that roof fell within the allowable constraints so that they didn't have to have sprinklers. Which is why you can stand in the rain when you buy your ticket at the movie theater.

But notice, they evolved down to what was doable, and the intriguing part about that is the students, Jim Delisle and myself, Ed Atwood proposed the project for the total 2 blocks there initially with same swastika plan, we got short shrift from the rule director at that time, and son of a gun about a month later it shows up as Gordy Rice's proposal for that block, but he didn't do the second plot.

The hypothesis therefore becomes a working tool only, and as Mark has pointed out, you must be very careful not to be romanticized too soon by the cleverness of your concept, lest you close your mind to solutions, compromises, and quite probably, modifications which improve the concept in terms of its fit to all of the factors that work in that particular situation.

Okay, was today the day you were supposed to hand in your outlines?

If you would, pass those in...

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Lecture 5-1

Those who have got the Bert Nelson scholarships will have to show up on March 20 something or other to receive it from the local Madison Board of Realtors. We'll talk about that later. ?? You'll have to get shoes on and a coat and tie on for that.

When is that?

Sometime about March 20th or something or other. Check beforehand? It's nice to have something coming.

Is there anybody else here who has applied SREA, MAI, or Bert Nelson scholarships for next year you recall write a letter of what convention or in some cases we have to communicate that you are on an approved program. The deadlines for that are fast approaching so if you need something like that you'd better let me know. It's just about now that its due, the 15th or something like that. If that's your financial plan please let me know.

So we'll see how my voice holds up today.

The subject for the week is identification of competing supply. Obviously competing supply and market segmentation are related subject areas. If we start out with the assumption that significant measure of risk in feasibility is the amount of market potential that one needs capture for the project. There is a natural bias, to forget that the competing supply is larger than it really is in order that size of your project will seem smaller relative to the ?? in order to give some comfort to the buyer that we will need four percent of the market or three percent of the market when in fact you may be talking about 40 or 50% of the market if it were properly defined. I think that most developers tend to be relatively amorphous as to how they define their market, so that their market share seems to be more reasonable and attainable than it really is.

So hence we begin talking about competing supply as a base number, realizing that there will be some interaction between this and our concept of presentation.

There are a number of additional ways to define competing supply, the first of which of course is the market area, what really represents the so-called acceptable alternative substitutes that are the premise of so-called free market and market comparable transactions. Quite often that market is significantly smaller than it first appears. Certainly a concept that we've seen in context initially in appraisal. If we're talking about the office market in Chicago, the difference between State Street and LaSalle Street is market, and there are really two different markets, you simply would not use a comparable from State street two blocks east of lassie street as being the same ball game; the typical office tenant would not consider them as acceptable alternatives or acceptable substitutes. And so that is the basic rule you want to follow - is the active consumer that we're trying to reach really going to consider this particular comparable as an acceptable substitute, as a real alternative, or would they never in their wildest dreams presume that they would look at that subdivision or office building or that location as alternatives. So the first, if you will, decision or sub-sector or subdivision of the total supply has to be market area; that will be relatively small. The second obviously has to do with basic price range within which you're operating.

These tend to collapse. Many of the problems with office markets in the south and southeast is that the price of first class office space has fallen in the range of class B space, so why go for class B space? Notice ordinarily you would define class A and class B based on the amenity package, the age of the building, the efficiency of modular layout, the availability of ramp parking, the speedy elevators, super lobbies, all the traditional elements of distinction, but often that just fades away as you get essentially some point price sensitivity. So once you define the market area of a power point or turf that would be acceptable substitute, the second major cut is price sensitivity.

After you get those two elements, you can begin to look at some distinct amenities which may subdivide the market further. That distinct amenity requires that you have significant knowledge about the consumer, as how to how he perceives the space enhancing, the activity which he is embarked on. In industrial buildings likely the number of garage doors, how many semis you can handle is a particular

point in time. More often it may be the clear height from floor to the bottom of the ceiling system so that you could have three pallets or five pallets forklift operation, that may be the distinct element that might separate the supply. If you have fifteen foot ceilings or twelve foot ceilings and so forth, that's an entirely different supply than if you have 22 foot ceilings and as a result, very distinct cuts in terms of what represents substitute space for that particular sector of the market.

Office buildings distinctions usually have to do with relationship to a key facility like a men's club, a courthouse, some cases telephone system. But generally there is a distinct amenity which subdivides the market, and dichotomizes it pretty thoroughly in defining the block. So here we're beginning to look at market analysis for a particular product, for example, office space in Madison. Initially you might say "Gee, we're clearly going to be on the Square, the market on the Square is one block east, move down West Washington Avenue by two blocks or three blocks, and that's it." Now you do a census within that and you may find two categories of buildings, the A class type of building in terms of First Wisconsin, perhaps the new Manchester Place, possibly Urban Perspectives property that is going up on the corner, and that may be the total supply of competitive space that has internally contemporary modular floor plan layout, internalized ramp parking that is adequate, and that's it. You've done your census. Now if you want to inventory everything in sight and say that your total office supply in downtown Madison is a million square feet you're really not doing very much for yourself in terms of zeroing in on who am I going to compete with, how many units are there, and what is the condition of the market. And if you were to add another 100,000 square foot building, you're really talking about probably a 15% percent increase or better in the total supply of space that will be competing eye for eye and toe to toe for a particular consumer group. Those particular markets are almost always smaller than are represented in the initial feasibility study. When you read a report by RERC or Gladstone, you say gee there's a 3 million square foot supply of class A office space in downtown Chicago, and this project will add 300,000 square feet to that supply, that's a mean based on only about a 10% increment in supply. 3 million isn't really competitive at all, if you're assuming that you're going to have someone interested, you may only have 500,000 square feet that he's really interested in, and you're going to increase that by 50% or more with your project.

You need to be able to define the competitive supply first of all for terms of area, second of all in terms of a distinct price range and then third in terms of a distinct amenity. Floor loading may be an amenity. Your market may need 150 pounds per square foot, and boy does that cut down the market quickly in terms of what's available in a multiple story structure. Perhaps they need so many parking stalls for a doctor. For medical space for pediatricians, for example, you almost need somewhere in the range of 8 parking spaces per doctor, that's generally the way they set that up as generally you have at least one kid or two on the waiting room, a preparation room in which the nurse decides what the problem is, what shots they're there for etc, and the doctor moves from room to room and when you get all done with it the thirty minutes of time you spent may involve only 3 minutes of personal contact with the pediatrician, the rest of it with the nurses and the record-keepers and the people scheduling the next appointment etc., and as a result if you look at an office building for the pediatrician and dental group and if it doesn't have 8 parking stalls per doctor forget it. It's not even in the supply, not even going to be in consideration by your tenant or potential tenant. It's critical that you being to look at what represents a competitive alternative, an acceptable substitute.

Single family housing. By and large the consumer has already decided what school district they're going to be in, therefore what is your competitive supply in that school district; what's the profile of your consumer. They probably have already decided if they want a three bedroom, two bath, two car attached garage and BANG everything else drops out of consideration. Those are basic criteria which are not going to change. They may be a little fuzzy as to if they want a one story or a two story, and maybe they will make tradeoffs depending on what is available when they're looking. And location is paramount. And whether the supply is one story or two story isn't as important. In any event there is a very rapid reduction in what represents the legitimate alternative competitive supply.

The desirable set of circumstances is that you have identified a consumer group who finds nothing in what they define as competitive acceptable supply. That's the niche you want to fit, at that point you have a monopolistic opportunity relative to a certain subset. At that point of course now it becomes important to say how many folks are there that find no competitive supply of this particular kind of real estate space and to what degree are they willing to relocate presently and to what degree you have to

wait it out until the feet are to the fire or other conditions change so they will give up their single family home for congregate housing or they will relocate their office to accommodate the increasing number of employees or whatever. The definition of competitive supply having moved through that hierarchy, then almost always involves a census of all of the properties rather than a sample. If you have correctly defined the supply you should be able to identify all of that kind of space available or not available. At that point you begin to profile who's there, who represents that as their particular preference.

One thing you may discover is that there are multiple segments of the market who will accept the same unit; the competitive supply is a satisfactory solution to alternative households. For example the Hoffman Group down in Chicago at Hoffman estates identified essentially eleven different consumer segments with distinctly different psychographic profiles that all would accept a two bedroom townhouse with attached two car garage. What was useful to know about that was 1) they bought at different times of the year, so you could market your product to several different groups as the seasons changed. Those with children had a specific time at which they could move, typically the young singles suddenly became concerned about becoming an owner when the impact of the tax law hit him and he discovered that his rent wasn't deductible but his interest and his real estate taxes were deductibles. The elderly may suddenly discover after a bad winter that its better to be in a townhouse where somebody else shovels the walk. But in any event, don't confuse the type of single product and assume that it represents a single market; there could be multiple groups interested in that particular project for different reasons. Hoffmann in fact discovered that it was advantageous to have four different models of the exact same unit, but each one had a different decor, a different set of codes that related it to one of the different groups. So the young singles found it decorated with the latest kind of avant garde hi fi and other accouterments of the singles set. Whereas the retirement unit was done in old furniture from 1940 which characterized the kind of furniture a 70 year old could identify with. The divorcee with a couple of children looking for ease of maintenance with a more wide open kind of layouts and so forth. As you come into the model, not the model, but the sales center, the salesperson very quickly classifies you as to which unit they were going to show in order that the code message you got from the interior decor was reinforcing your decision. Even though all four units were absolutely identical. Might have a left and a right plan, but that was about it. Appliances,

spaces, etc. were identical. So don't confuse competitive supply with the presentation to a consumer group.

One of the problems of course is defining quite often where is the area, what does represent competition? Therefore, one of the elements of survey research is to see if you can initially define the range of alternatives perceived by the consumer as alternative supply. The first thing of course is to find a prototype, an analog, "Gee that office is the kind of thing I want to do" And the immediate question is "who's going to know?"

The reverse telephone directory will give you an immediate listing of all the firms that are presently in a building, and you can reverse it and say, that building was finished in 1985, where were all those firms in 1984 in the phone book? And you might find that 70 percent of those firms existed at that point in time, and you can identify where it was they came from. That is your first clue as to the competitive supply. Overcoming their inertia and getting them to relocate to the property you've identified as a prototype or analog of your proposal, what am I competing with? You're competing with their own home for one thing with the elderly, maybe an older office building just down the street, maybe in fact when I research why they moved from that office building, I'll find out that it was being removed from the competitive supply. A number of years ago downtown Madison when you started to research where tenants were coming from you found they were being displaced by the owner of the building. The bank, the public utility, the savings and loan was expanding into its own space and literally pushing the tenants out as their leases expired. So what you perceived as competitive space wasn't competitive at all, it was dropping out of the supply as competitive space and a significant part of the demand for a new building was created by a reduction in space rentable to third parties. ??

The second step in defining competitive space, having identified the consumer, is to call them and find out. What did you consider as an alternative; what other projects did you visit? Why did you not consider them further? Jim Delisle doing research down in Tallahassee discovered that most of the appraisers really didn't know what a comparable area was. There was one area on the North side of Tallahassee, and when you interviewed the people that had bought homes there, that was the only area they had considered. It was the chic social area to be in. It's where all the executives and banking presidents had decided to live and they didn't consider alternative areas. To find

comps from three other subdivisions in different quarters of the town when in fact their perception, the customers perception of the supply was what was available in this particular sector was it. If all they are going to consider is Maple bluff, then you really don't care what the supply is in Shorewood Hills, or Cherokee, or University Hill farms. That's the supply. And it may be a little tight and therefore location takes precedence over amenity package and so forth.

So having taken a look at where they're coming from and what they've looked at, you will be able to identify what you perceive as the competitive alternative. Elderly housing for example. There may be four or five different projects underway in a particular community, one may be a straight rental unit, front end fee, plus a rent, one may be a coop, one may be a condominium. Are they technically all in the same supply of independent housing for the elderly? Probably not.

Probably when you begin to look into it you will discover very distinct breakdowns in location, and tenure structure. There are people who are going to rent and people who will accept a front end fee and that becomes a firm dichotomy. So if your project is going to be a front end load, minimal monthly rent project, the supply you have to look at are those with the same attributes of ownership and tenure relationships. You don't care what happening with Section 8's for example which may involve subsidy may not be of interest at all. On the other hand, with Section 8 as they are now currently structured you could have income as high as \$20,000 and still be eligible, at that point it may enter the competitive supply if you are talking about a coop that is designed for the blue collar middle class. Otherwise they simply fall out. You take all the elderly living in those units and simply take them out of the marketplace because nobody's going to leave an apartment where they pay only 30% of their income for housing no matter how small that income may be.

You need to look very carefully at what the consumer perceives to be his choices and to what degree he has closed his mind to the spectrum of choices available to him. One element that also defines choices and therefore what is competitive supply is what is the major irritation that causes relocation? What is the burr under the saddle that causes somebody to take action to relocate? Very few people do that with anticipation as a satisfactory form of activity. Packing, moving, changing addresses, getting a new telephone number, may be people's second least favorite

thing to do, in comparison to hitting your head on a wall, (laughter) so obviously there must be some element causing them to overcome that inertia and relocate. And, it is based quite obviously, wherever they are going to may be the only competitive alternative where somebody can solve that space problem. If its parking, its got to be something that solves the parking problem, and that is certainly one of the major driving forces in the Madison office market, they get fed up looking for a parking space in downtown Madison, they are going to go find place where they can park their car and jump out as it rolls to a stop and not worry about it. They really don't want a reserved space or anything else, they just want to park in the first place that comes along and not worry about it. And any place that does not meet that need is not in competitive supply.

Many of the office buildings in Hilldale and along Midvale Boulevard were really overbuilt for the size of parcels. And parking gives difficulty. And if you talk to somebody there, they don't regard any of those 1970s buildings as being competitive alternatives. When they move they are gonna move someplace where there is parking. And as a result that whole subset drops out.

Price sensitivity is the second alternative. People have expectations as to what they can afford to pay, in some case it is an iron ceiling on what they can afford. A family can afford to spend 40% or 50% of their available income for housing, that quickly puts a cap on it. The questions is what can they get for \$250 or \$350 a month and certainly that is true in the student district, and if you look at student housing in the immediate campus district, the price hasn't changed very much over the years, it still is in the neighborhood of \$125 - \$175 per person per mo. What has happened as housing has been built, the floor space has become less, and the amenities have become less, but they continue to zero in on a number that has familiarity in that area for that market, and that puts the cap on it. Anything in the \$300 per month range is not even in the competitive supply. Within their means or they won't consider it further.

In other cases, the cap is a little fuzzy. Office space, for example, a firm may be capable of paying more than their initial budget, they may have decided that \$16 per square foot is as far as they can go but you may be able to get them to move up slightly for one reason or another, and they may find it an acceptable tradeoff for some other aspect of their operation. Probably not, and not as much as one might anticipate. Most markets are highly price sensitive

and stratified in that range, you will move into a different supply base.

The units by which people measure supply is also changing. A few years ago, it was typical to look at office rent as a per square foot of leasable area kind of thing and then you asked for additional loadings and passthroughs but as you know from your commercial development course, there are different ways to measure. ?? It could be carpeted space, it could be useable area, it could be total area enclosed by the demising walls, or it could include a loading for common area space such as washroom, corridors, and so forth. Today essentially, the knowledgeable consumer of office space looks at it in terms of total cost per work station. They don't really care about other elements, the object ultimately is 64 square feet to house a work station, and what is the total cost going in per station? That's the budget number they are going to get. Depending on the module or unit they are looking at, depending on different ways of defining leasable area, it doesn't matter, the ultimate objective is a workstation for one underwriter or one analyst or one copywriter, whatever it may be. That is the unit of comparison, that what defines the price for that particular consumer. By the way, from an appraisal standpoint that is also a good way to measure economic obsolescence of a particular type of structure. If the column spacing, the window spacing, the floor loading capacity and so forth doesn't fit that particular type of grid, why you have a high degree of inefficiency. We use the American Family computer center out here at the highway 51 and highway 30 intersection the total value per workstation out there was something like \$18,000 per workstation as I recall. And you got so many workstations for so many square feet of space. The Sentry Building in Stevens Point actually has the same amount of square footage, but only half as many workstations. And unfortunately the price was also something around \$65,000 per workstation in the Sentry Building. So you have some idea of the economic disaster called the Sentry office building in Stevens Point. Conspicuous spending and inefficient layout, and ultimately ?? We use the American Family building as an example of what the responsible efficient management should achieve compared to what they have, and we have to presume that a knowledgeable prudent buyer would pay no more for a workstation than what he could have paid for a building built at essentially the same time, by another knowledgeable insurance company in the form of American Family.

Therefore, in measuring price sensitivity, be sure that you do not use the traditional sales quote, but look instead at how the consumer evaluates efficiency. What are his cost centers. Again the competitive supply requires that you know a good deal about the consumer and how he is making his decision as to efficiency. For example, a classic case of analyzing the consumer's measure of efficiency. Two condominium towers down in Tampa St. Petersburg, on the Gulf. If you look at them in terms of square feet, they were both 1600 square feet, multiple story, parking lots on the inside side of the building, lawn and swimming pool and so forth faced to the building and the Gulf. Each project had two bedrooms, two baths, kitchen, living, dining space. Are they openly competitive supply? No, one died, was never even considered by the consumer group, and one prospered. They had two or three critical distinctions.

First of all, the one that succeeded, split the apartment from front to back so that both the master bedroom and the living room had a view of the gulf. The one that failed had the living room running parallel with the balcony, so that only the living room could see the gulf. So far so good? It had both of its bedrooms to the back of the unit, both of them with windows opening onto a combination corridor and verandah on a single loaded basis so that technically your neighbors walked by your bedroom window to get to their front door. Not a very good idea. Both bathrooms were the same size, both bathrooms were the same size. And in the unit that failed there was a distinct kitchen and distinct dining room that was an L shape dining room off the living room right across the front of the ???. In the unit that succeeded there was no separate dining room, but a kitchen with an eating counter, the master bedroom was quite large, and the second bedroom was a small as you could make it in view of the code, but the nature of the layout there was a window facing the verandah corridor. Again, it had a very small utilitarian bathroom, 5 by 7. With more space obviously devoted to the master bedroom. People coming into that area wanting to buy a recreational winter vacation condominium, whatever you call it, didn't even consider something in which you couldn't see the gulf from the master bedroom. Wasn't even in the ball game. Second, they didn't want a dining room, they weren't there to entertain. Momma did not go to Florida to run a recreational operation for either her relatives or his. Therefore no dining room. The message was that they were going to go out to eat or eat light at the counter. Three, they want no guests, so the second bedroom will be a den or sewing room, or some sort of hobby area; it might have a sofa bed in it, but relatively uncomfortable and will encourage your friends and relatives

to go to the hotel down the way. And the fact that there was no dining room would get across the message to your friends that you were not there to entertain them. Therefore the project with the dining room and the master bedroom without a view were not even in the competitive supply, even though by a conventional definition of 1600 square feet and two bedrooms and a bath, and located side by side, they appeared to be competitive alternatives. You have to understand how the consumer defines acceptable alternatives. The other building never had a chance. You have to understand how the consumer defines acceptable alternatives. Then you work backwards and say how many of those are there. That really represent those in the market ahead of me that have to be absorbed before my unit can come on the market and be absorbed.

One interesting element related to competitive supply is price.

END OF SIDE ONE

The best way to get the consumer to consider alternatives is correctly anticipating his preference in pricing in such a way that he begins to trade off towards his second choice. Price sensitivity doesn't only mean that there is a certain range he will consider, but price sensitivity means that at some point he will begin to slide over into another sub-segment of the market. Change his definition of acceptable alternatives. We'll look a little later at trade off analysis by a number of folks, Real Estate Facts which is a subsidiary of Market Facts, pricing condominiums in downtown Chicago. Says, "gee the competitive supply are my own units" If I have a forty story condominium with six types of apartments stacked on top of one another, each floor plan is identical to the one above it. There are basically only four things that determine supply: One, the floor plan of the unit of which there are quite a few, two, the view, three, the height of the building, and finally, the price of the unit. If I underprice one of the units in terms of some amenity relative to the others, suddenly all my one bedrooms that are stacked in one row will be sold and I'll be in the position continuing my marketing of only being able to show my consumer the two bedroom one bath facing north, a difficult marketing situation, you have no choice. What you obviously need to do is insure that there is an even absorption of the different type of units relative to one another so that people perceive that there are tradeoffs between the different types of units in the supply. They've gotten very good at measuring the utility curve of the consumer, and knowing that he would perhaps prefer a view to

the south for a two bedroom two bath unit at the top, the relative price is so much higher relative to the one bedroom facing north, that the consumer will alter his choices and take the second preferred unit and avoid the higher price, and the result will be a relatively even absorption of the different mix of units through the property. So not only are you interested in defining the supply, but one of the elements you are also interested in getting the consumer to redefine the supply within a limited number of units; you are obviously required to market all of the types of units within the project.

Part again of the price sensitivity, in his definition of what is acceptable initially, and the way in which you can modify his behavior to accept some alternative. Once you've identified the competitive ... Yes?

(question from student: For projects that is coming on line or being planned, how do you find out who your consumer base is in an office building or something?)

Of course there are two ways. One, developers, are consistently in a market like this. Spend incredible numbers of people hours just knocking on doors, finding out what people need and when it is they're going to need it and so forth and writing on little 3 x 5 cards so that ultimately they have a file on every tenant in every office building that has been identified as a competitive alternative to theirs with some sense of who's in charge, what they like about it, when does their lease come up for renewal and so forth. So you begin with an incredibly intense library of data about your potential customer.

Now the alternative of course is the relative newcomer who doesn't do office buildings, he will go back and begin with what he perceives as an analog or prototype of what he wants to do, and find out who the customers were for that project, where did they come from, are there any more like that where they came from or are they the last of the Mohicans to make the move. Obviously you can discover projects in which there is increasing restlessness which leads right back to a strong market.

A number of years ago in Milwaukee looking at the folks who were coming into one project, traced back to where they were coming from, they were all coming from one or two projects in West Allis, and what was happening was, when West Allis lost Allis Chalmers and indeed lost their capacity to tax their industrial base, because the state took over the responsibility for setting real estate tax on industrial

buildings, there was a substantial rollback on the taxes being paid on the industrial property. The result was, to make that up, they had to have significant increases in real estate taxes on single family homes, and as soon as people perceived that they begin moving out. Since West Allis was a relatively elderly community, people over 55, been there for a long time, the kids were gone, they didn't see why they should pay for schools at that tax rate, they started to take condos in South Milwaukee. At that point you say Wow, that's my market. The first couple of percent have moved. They're all moving because they feel the real estate taxes are unfair and unaffordable in West Allis, you can go right back in and direct mail into that group. Even better, direct mail at the neighbors and folks that didn't move. You know, Mary Ann and Clyde so and so have made the move to such and such condominium because their monthly costs are less than the real estate costs in West Allis. Don't you think you ought to come over and see the project. You couldn't be more rifled than that. The Goldsmith Building in Milwaukee fell apart when managers were relatively insensitive to doctors, moved a Christian Science practitioner, acupuncture artist, and a chiropractor into the building, and the doctors took umbrage and those who had medical office buildings jumped right in on that. And were able to market it.

So you really have to understand a little bit about what your competition is and where they're coming from.

(Student: I'm also wondering about smaller projects. Like maybe a smaller thrift. It's not really)

Well, in some cases you invent your own consumer. The group that --down in Chicago, they do shopping centers-- they pride themselves that their strip centers really involve having to create a small business as a tenant, so their leasing people are specialists in Small Business Administration forms and the process of applying for an SBA loan, with which to start a small business, start a laundromat, start a bookstore or whatever else kinds of things go in the Strip Center, they will actually manufacture the tenant, find somebody who would like to have a small business and show them how to set that up, get them started in that and then choose between three different groups that would like to run a laundry operation and so on. So in some cases you create your own, where you can't find them in any other place. What you're doing is really giving them a chance to be their own business man, and in the process creating someone to fill a space.

Almost all types of real estate however have a basic formula which will suggest the kind of tenant you're looking for the trick is of course to see what his choices are as he perceives them. The lender is obviously also very much interested in understanding what the competitive supply may be. He ratios for the risk of a particular business, of one, the size of the project in question relative to the total supply. If you have a 100,000 square foot building with only 300,000 square feet in the total supply of that kind of space, you're talking about a 25% increase. or 30% actually, in the total supply of that kind of space you really have to understand very well where that consumer is coming from and otherwise you have no chance at all as to what the real risk of a project is. Undoubtedly the borrower is going to represent that there are 3 million square feet in the market and that this represents only a 3 or 4 percent increase in the total supply and therefore statistically that should be available. Another example: A number of years ago First Wisconsin Bank was sued by developers of Juneau Square, which is a cluster of three office buildings just to the east side of it, recently bought by Trammel Crow as part of the total First Wisconsin deal in Milwaukee. In that particular instance the First Wisconsin was sued by the developers of Juneau Square on the grounds that they had monopolized the downtown office market in Milwaukee and that had caused their financial demise, bankruptcy and embarrassment. What's more, that had been encouraged as part of the conspiracy by Foley and Lardner, the attorneys for the bank, the bank itself and the Travelers Insurance Company which had made the loan on the Juneau Square project.

This was the first time in history that the federal trade laws had been employed as a basis for damages, and what's more, when you allege conspiracy, its triple damages under the fair trade laws. So they were arguing that one, they had lost their 6 million dollar project, and under triple damages they were entitled to 18 million dollars from the First Wisconsin. Obviously under the fair trade laws, to allege monopoly, the first thing you have to understand is, what is the market? Before you can say you've got 50 percent or 80 percent of the market you'd better be able to define the market. What is the competitive supply you are alleged to monopolize?

They didn't bother to do their homework on it. First time through, First Wisconsin lost the case and it so startled the federal judge he remanded it for rehearing, because they didn't think the fundamental question had been answered, what was the market they allegedly monopolized? The

conspiracy came from the fact that they found in discovery essentially that there had been a phone call from Travelers to Foley and Larder that said what do you know about Juneau Square and Foley and Lardner said that there was a second mortgage that was now delinquent and that the real estate taxes hadn't been paid.

There was also a note from the architects, Skidmore, Owens, and Merrill to the bank that said that if someone developed to the east of them their views of the lake would be lost, and at that time Juneau Square was alleging that they were going to create a 27 story hotel on the remainder of their piece of land, and therefore it was alleged that Foley and Lardner being the attorneys for the bank had sent that information to Travelers in order to get Travelers to precipitate foreclosure on Juneau Square in order that they wouldn't build their hotel and block the view of the client bank. That's kind of a skinny argument for conspiracy, we were able to disprove that by showing that the debt service on the first mortgage and the second mortgage for Juneau Square greatly exceeded the gross rent that was available from the project under the best of circumstances and that they were unable to provide any accounting to their partners or the two mortgage lenders as to what the hell had happened to the money.

Furthermore they still owed their general contractor half a million dollars for the construction of the third phase of the project so they obviously hadn't been spending it on the project. So went the conspiracy case. Now the problem is, what about the monopoly? So Mike Young and I did a survey of all the tenants movements in downtown Milwaukee for five years and we found that there were three zones, one between Milwaukee River and 11th street and the expressways on the north and south side, and all the movements of each of those was from north to south or up and down in the same building, they never changed zones. The people on the west side of the river didn't move all of a sudden to the east side of the river. The people on Water street just to the east of the river moved up and down Water street but they stayed in the financial district, they moved because they needed more space, occasionally they moved between buildings, the different banks were remodeling or revamping and had space available but they didn't go very far. And finally, when you get to Milwaukee street, the lake, there was a third market, and in each of those markets, about 10 percent of the rentable space turned over each year. (break in tape) relatively similar in character to Juneau Square and they were getting about 30,000 square feet a year into their building, so if anybody was monopolizing the market east of

Milwaukee street, Juneau Square was. What was unique about the First Wisconsin building was all of their tenants came from the Water Street market, because the reciprocity involved in the banking lease program when they suggested that their attorneys move along and take three floors, they did. And when they suggested that their accounting firm come along, they did. They essentially emptied out their own building on Mason Street and Water to fill their new building, their tenants took additional space, so that about 80 percent of the space filled in the First Wisconsin building came from the Water Street access. None of the tenants in the Juneau Square building had come from the Water street access. As a result, the two buildings were not in the same market, not drawing on the same supply of potential tenants, therefore they were not competing, therefore there was no argument for monopoly for Juneau Square allegations about First Wisconsin. Classic example of the market being much less than something called downtown Milwaukee. It wasn't even downtown Milwaukee east of the river, there were in fact two distinct submarkets east of the river. Each of those submarkets has its own men's club and its own governmental facilities; the county courthouses and so forth are to the west of the river, city hall is on the Water street access, and the federal court at that time was east of Milwaukee street access; the University Club on the lake, and the Wisconsin Club on the west, and so you had individual which defined those as distinct submarkets within the so-called downtown Milwaukee market. You need to define the supply, not take it for granted as most people do, because downtown Milwaukee market, the geographic limitations are extremely tight, very small, and suggest that any increment in terms of new space is represented as a significant increase in the supply. You become a critic of feasibility studies the first place you go. What do they define as competitive supply? Their argument is obviously going to be that their project represents a modest increase in that supply and therefore statistically they will be able to absorb the space; the broader they define that supply the less significant the project seems to appear in terms of the impact on the total market.

Lecture 5-2

JAG and Jim DeLisle

....Delighted to have the lessons last night in terms of the integration of traditional land economics economic base studies with custom analysis with somebody with the ability to bring them in on short notice to keep busy because I think it makes for a very interesting statement, both for the Wisconsin program and for the contemporary trends in

portfolio management. So, I am going to let Jim take over from there and proceed at his own pace, which is generally faster than mine and he can run until they drop. Gentleman, Jim .

I have a six page outline, not much of it I will follow probably, but at least it give us ??.

What I am going to try to do is to, we don't really get to the meat of this until page five, so I will take some non-verbal cues from over here to decide if I should accelerate or not. What I thought I would do is first is in the Wisconsin tradition take a holistic approach to the issue, back track, and then redefine the problem and then move forward. What I'm going to talk to you this afternoon about is applied modern portfolio theory. I am sure some of you may have had a class in and somehow you got into by happenstance, in a finance ?? where you go out and buy a portfolio, etc. What I want to do is to place this into perspective of today's real estate world and then share with you some of the accelerated learning that I have been under for the last seven months now and two days. That translates into 40 hour weeks about 3 years probably. That is my issue I guess. It is well worth it, including the moving forward in the academic community which I left with much remorse, although a couple zeros help. I look at this as a ?? job but I don't know big it will be. We will see. I really struggled very seriously with leaving the community. I thought this is sort of an aside ?? the program I guess. It was just a general commentary that real real estaters are not being produced very much in the United States anymore. The majority are finance type people who are taught by people with a couple of degrees in real estate and really creates a vacuum. I think you will find that I am going to encourage this program and go back more to its foundation as we go along. Going back to the urban land economics some of the marketing research and things that this program has accelerated, since the 1930s I guess..

I tried to come forward with that again and not only continue the current role of them I guess as far as being in school generating people who can function in a business world, but also being one of hopes that we have in the business community for a theoretically solid program that is diversified in itself, covers the full range of the real estate process.

What I want to do is sort of organize this and I will have to apologize because I was typing it between interviews this morning, literally, and trying to find a printer to run off

of my computer. Both of those we were able to solve, I will apologize for the typos, obviously you did not notice them because ??

What I am going to do is talk a little bit about an introduction to portfolio management. And you know what the term applies to portfolio management. I am then going to sort of look at the evolution of this industry, what it is, I will talk a little bit about portfolio optimization, what we are trying to obtain, and then we will look at real estate in a mixed asset portfolio, we will look at real estate allocations, and then I think we will get to the heart of the issue, which is what is meaningful diversification. I think I need to backtrack a little bit. My other bachelors from here is real estate and urban land economics might, my masters was in marketing research and that was a good combination as far I was able to take certain theoretical and qualitative concepts from real estate, borrow from marketing which as it is, is probably more rigorous although not in many schools, but at least in this school it was at the time as far as research design and demands placed on statistical and quantitative techniques, etc., to elicit valid responses, not just responses to the questions.

Had to be able to take that and talk about market segmentation stratification, get down to the micro levels. It is a very rich experience and now it comes into creating a dilemma for me because by inclination I am a micro person who has ingress and egress anxiety factors, structure of the deal, dotting the "i's" and crossing the "t's" on a lease form what have you, knowing that a good deal has to have all these little things put to bed in order to achieve implementation ?? Today, we are in a situation we're on, like an assessor, I would like to assess a 1000 properties every year and then make continuous decisions whether or not we should sell, reject, enhance, etc. It is a horrendous problem. Simultaneous with this process, we also have to monitor the world and not just the U.S. markets but larger markets across the United States and in a global context to decide where we should deploy funds. All with the microcomputers, with no ?? data bases.

We are pulling the system behind us as we go along. I think the message you will find with change agents in general, just sort of lay your ears back, knock your head against the wall a couple of times and maybe the wall is a couple blocks out that way. That is really all we can push since I've got into this. We have had a real impact. Urban economics, economic diversification, some buzz words that you are going

to see much more in the finance, especially in the real estate portfolio literature. It is a very intuitively appealing concept, actually the way we are applying it is relatively simple. Fortunately, I did not tell anybody there how simple it is ?? It goes back to very fundamental real estate issues. I think what I would like you to do is sort of keep in mind the problem we have. At the micro level, we got to look at the dynamics of the local markets, stratified, etc., and the portfolio level, we have this ??local agent?? who has deals come in and as they age and go through their life cycles, they have decisions that have to be made to achieve the overall goal for some type of a commingled fund or our own general account.

Let me talk a little bit about magnitude of money. My first month and one-half on the job in July, I read 311 MAI appraisals, which is more challenging than more challenging than reading any student appraisal than you can ever imagine. I have a whole litany of issues with appraisals that I got out of there, none of which I've been able to write on. I think it was eye opening as far as realizing how stratified the industry really is. Then you come back to the poor portfolio manager who is living on bonus so if things are not right, he's literally poor, although not by academic standards. He has to make decisions based on inconsistent input. It is a very frustrated process, so the first thing we need is to tighten up the appraisal. Our appraisal budget is somewhere in the range of one million and one-half per year, external appraisals, go to a PRISA account. That is a lot of money. Demands a lot of attention, I think, and it is not managed as effectively as we'd like to. It would be nice to envision appraisers out there throughout the U.S. collecting data for us, giving us input so we can then process through some centralized generic type of a model. That is not how it has worked, although we are moving in that direction.

Graaskamp: I'd like to just comment on that. Jim, when we were talking about last night where you would collect the appraised value. if you analyzed property in the total value in the portfolio, the appraiser comes in with a lower number, it looks like a good appraisal, so you reduce the appraisal, saying the property is not as good as you thought it was. Right? But then what happens is the income relative to the newly reduced base price goes up, so the rate of return looks better, so he could argue that gee, that's one we ought to keep, even though the appraisal comes back in and says that is not as good as we thought it was, so now what is the portfolio manager suppose to do?

It looks like his rate of return has gone up, which may have in fact influence his bonus, on the other hand if he leaves the value up there he can say, "Gee, it is really not doing very well, we ought to sell it and if he just gets paid on the amount of property he turns over, he is obviously better off going with the lousy appraisal and apparently a lower rate of return, conversely, if he reduces what should be on the books, I will have a high rate of return but nothing to sell. It's a very interesting administrative dilemma.

I love those strategic challenges. One thing whenever you are under scrutiny in the public world, never change an appraisal. Do quarterly updates but not really. Of course, quarterly updates on appraisals ??

If you notice, there is a certain stickiness or friction to appraised values when two months later you are doing the same appraisal again and it doesn't look as good now as it did then you are ?? and it will still look good the next time. That is why you bring in somebody new to take a fresh look, that they do not have a base to justify that. That is where you start getting some of the shock.

I think what I ought to do is just place this into perspective a little bit. Defined as applied portfolio management... managing the PLC as a product life cycle, in assemblage of real estate assets was projected as receiving satisfactory risk return positioning and realization over your expected holding period. If you are dealing with institutional investment or closed end funds, you might have a finite life in here. Both of these funds as defined probably in the 12-15 year holding period that's what we use when we are backing into it.

If we're talking about a Japanese investor, you are talking about 50 to 100 years, literally, and that is a concern lots of people have because as foreign investors with different temporal frames come in and capture some of our premier real estate in the global cities if you will in the world. Those products do not come back on the market. They are not bought for resale purposes, they are bought for very long term holding periods. So, it is kind of an interesting challenge ?? as a joint venture with a Japanese investor, by the way. Your imbalance it's like a developer and the syndication problem we had earlier.

The product life cycle, let's go through this, because I know you take this approach. I think our company now is

sort of strutted along this line. What really is happening, and I know because I interviewed you today and all of you want to be developers, I'd rather make more money in a risk free environment than by being a developer and have to move around the country. Tony Richmond?? was saying I think at the alumni?? he said

You make more money in asset management than you do in the office. And I can't tell Mac to even think about it.

When we buy a property, we get a 1% fee. On an annual basis, it goes from maybe 80-125 days ?? so lets say a 1% fee per year for maybe a ten year period. On disposition or sale of the asset may be another 75 basis points or so. You are talking about risk free without even looking at enhancing ??market value. It is all driven by market value. About 12-13% rate of return on a totally risk free property. Even though ultimately, you are looking at 16, maybe higher rates of return, sustained, in and outs and recession and recovery, that is not a bad return on a managing asset. When we start looking at it that way, the roads of the developer and the asset manager changes. If you notice by the way, the life cycle of the structure and the involvement of the developer is much shorter for the developer than for the asset manager. So, it may well be if you are performing well, your looking at double the returns on the initial asset which you with a 100% leverage. Which is kind of nice. What we have been doing in general with the portfolios in the U.S. is doing good deals, hiring good people off an MBA, masters of science programs, who understand the micro-economics of the deals, who can do market research, and they know if...

What is the biggest, most difficult part of reviewing the feasibility study? The most difficult part? Selling! There are feasibility studies and then there are feasibility studies. It is really true. If you look at the volume of construction on multifamily apartments, which is the most elastic and most easily expanded, in response to 76-78-82 tax reform, there is an extreme increase and surge of construction activities. In those time periods, the demand has not decreased that dramatically...but at least I cannot find the evidence that it has.

What we have is an imbalance temporarily, we have investors searching for product. You are looking for property there's paper to sell. What we have done is really shifted the focus of the developer always do this, but institutions and other investors now shift the focus at looking at the satisfaction of the goodness of fit between the real estate

and the user and that criterion, and looking at whether or not it fits the perceived needs of the investor. In the short-term it may in the long-term it does not, especially with government windfalls and wipeouts. What we have been doing is we have been changing these in assembling a good deal.

Let's take a look at what happens in various times. Any time you do something systematically, you introduce something into a portfolio that we can't really tolerate, because what we are looking for is dampening effects, some things recovering well, with other things in a declined state, and it is a very dynamic product. You start assembling real estate and you start achieving these portfolio implications of it. You certainly would not want to be all in Houston today. When you acquire that pre 1982 and 1984-85, I think some of those examples are very vivid. We assemble the product, manage the product then sell it. The new trend, I think, and something that is happening where I am at, is that we have this global range portfolio management process where portfolio researchers are working as consultants before portfolio managers giving specifications they did not ask, what acquisitions and sales, who then go in to deploying them by geographic region and property type. This is what we need for the portfolio that we manage, and for specialized portfolios and customized portfolios that we are adding. They then go out and generate that volume, a good product, and satisfies our investment, and will pass our due diligence requirement. Then what happens, then that deal comes back from the A&S people to the senior portfolio manager in corporate and they decide whether or not they want it and then who is going to get it?

So actually, in our organization, there is this sequential investment process that sort of rotates things so the fair share with the chairman of the board making the ultimate decision of who gets what. The problem we run into is that advertised for property, get out of skew and then back in kilter in various seasonal patterns, cyclical patterns so that everybody wants retail today and because of that, what we have done is driven down retail cap rates so it is not a good time to buy. So, this comes back to the portfolio manager and says yea or nay for my portfolio. Now, what happens here? Then the property company takes over and manages the assets. They are responsible for enhancing value, maintained value, reinvesting the product, etc. All during this time, if you can envision this now if we can do it three dimensionally here, is I have got all these deals coming in different lines when they come into the project,

different holding periods, different market conditions, and I have to manage all the inflows and outflows of funds. Working with property companies, we have to make a continuous hold, sell, improve decision on the property. The question is, what do you buy, how do you specify whether you buy, and how do you determine when should you harvest the capital gains. This is a dilemma we talked about earlier is when I publish total returns and investment is following who is doing the best on returns, once I have taken an unrealized gain or loss, an unrealized loss - what would that be -when the appraiser wrote down the property, then what happens? Then I may well be indifferent if turning that to a real loss because I am getting out the bad, but if I do it on historical returns, say if this was because of soft market conditions which were beyond their prediction, the cap rates are such that the value of the project has come down. What happens to forward yields given the fact that as the market recovers here, incomes come back. The more you turn the project down, assuming that it is a good real estate, good logistics, you have satisfied all the experience and you pull up here, that good real estate as it recovers is going to perform better than some real estate stated market, going forward. But the question is, it has a negative handle because it has ?? it has been on a wash list, can't decide to do something with it. The question is, if I want to sell something out of the portfolio, when do I set the price? Okay. If I set the price here and something I am going along in time, time to sell and we set the price. A&S, sales force goes out into the field and finds they cannot get that price, then what happens to it?

If I am not careful, their bonuses are based on volume, that is a 100 million dollars of sales, they are going to want to sell that asset. I may want to re-evaluate that decision, so what I have done is the dynamic process where I have to anticipate what is coming in this quarter in new deposits, what is going out in withdrawals, what is coming in, in sale proceeds, and what is going out in closings. I have got to manage this all along while the property is maintaining the asset.

So, at some point in time, you are going through this interactive process in which the rules have not been written, how to do it right, the property will then go out and be disposed of. You have this continual flow of funds, what we are talking about in ?? developments. The PRISA are going back to the appraisals there are now about 225 properties in the account. Its about a 4.8 billion dollar portfolio. Average property size normally works out to be about 30 million dollars. That is a lot of individual

appraisals to grade each quarter, or each semester if you will. A lot of details. So what's the bias of the portfolio manager? Let's only do big deals. I've got fewer ones to look at. So, that is really one of the advantages of being in business, you start seeing these real considerations these portfolio managers have, instead of you are going to sit back in the academic environment and say you should be doing 2.5 million industrial properties and small residential in small, suburban communities throughout the state of Wisconsin. To really tap the markets that nobody is in. How do you manage that process in a reasonable manner and maintain the quality level of control? Now, one thing and the last plug I will give ourselves here is that in reading these 311 appraisals, I do not see one instance of deferred maintenance; i.e., the property has not been maintained other than asbestos removal. Which has been a real problem for a lot of office properties across the country. That says is something that is right. If you look at a system that has the problems that it has and is working pretty well, something is right and a real challenge is how to harvest something better out of what is behind it. This is what I am talking about the product life cycle, coming in, holding it and going out. That assemblage of real estate assets is not really ?? assembled by what...by property type, by duration of leases, by tenant structure, by geographic region, by economic location. How many ways do you want to cut the pie? A very challenging question and now doing some research on it, really.

The objectives are retrieving or achieving satisfactory risk/return for this. What does that mean? How many of you have seen this, somewhere? What is that? The efficient return. You've seen it right? I'll go back and tell them, they've all seen this.

What we have here is sort of a portfolio mix introduced to prime advantage when somebody asked you a question what is on the XY axis? You can't remember. What is on here? Which is which? Return would be here, risk. I shouldn't ask the question because I've probably inverted it. Is that right?

Student: Its the other way around.

I knew something was wrong.

OK. What we are trying to do is to achieve a certain level of return here with a level of risk. Is what we are doing in an optimization framework is feed in the historical returns and correlations and standard deviations. And we

come up with this efficient frontier which consists of mixes of assets, 20% office, 30% retail, and that type of property mix. Given the characteristics of the interaction of the assets, you come up with this frontier. Now what you do is look at the current portfolio like the like the PRISA portfolio, or the general account, and you position where that is in this risk return space and then what you try to do is you try to move in the direction of the efficient frontier which is defined by the returns that you would expect from this asset class. The combination of mixes that you might have. The actual shape and location of the frontier is determined by the magnitude and the stability and the relationships among the return series that you plug into the model.

Now the real problem is that in a lot of your finance at issue in these things...

....it sound good in theory but it breaks down in real estate, because we do not know how to cut it up, we do not know how to modify things, we have all sorts of problems. I think that is what made me really attracted to the people who I am working with now is that Charlie Wurtzebach out of the Illinois program, formerly of the University of Texas, real estate program, before that more or less bit the dust is a finance person and I am perceived more as an urban land economist, marketer type person. We're sort of blending our skills back and forth. As we go through this afternoon, you will see how the two come very much into place, because the way in which we have been able to look at this has been broken down by the fact that north, south, east and west just does not cut it.

So we are looking at this assemblage of real estate by way in and the different property types, and the different geographical locations. What does it all interact to. What is the expected return using some type of a stochastic process and predicting what it might be? I use history, ??, what would expected holding period be,

What is active vs. passive portfolio management? I cannot define what active is, the difference is??

The objectives are statements like your problem definition stage in a research task. The objectives are stated and quantifiable.

Why is that important? Well for different portfolios, and I will talk a little bit about opportunity vs. core portfolios later, you have different risk returns required. If you are dealing with a pension fund or private company and they are

using their risk analysis or are fully-funded, so that they cover themselves twice how much of a lead given the actuarial projections on people who work for them and the average age and all that, then they can start playing with things. So what they may do, is they may move themselves out here on the risk frontier to achieve a higher later return, especially when they pull that return from real estate back into the mixed assets and looking at the relationship among returns of real estate and the other assets in the portfolio, it may well indeed achieve a better overall total portfolio yield than it would have in another case. In general, you don't want to go this way, which means you are increasing risk because you want to be at the balance level of risk. Stated in quantifiables, we are looking for a return, many people now are talking real rates of return. You are looking for a return to real estate at 12%, what is your real rate of return? What is the real rate of return on real estate? What does a real rate of return mean? How would you calculate that.

With portfolios we are thinking of time,. everything we do with portfolios is time series.

So what we do is we lay out the time series (someone is whispering into microphone, cannot hear speaker) what we're doing actually is ?? models but

So lets go back to 1970 to 1987, what you do is calculate the total rate of return. For other purposes, you might do is partition that by income and by appreciation changes in that, for some portfolio objectives, you look at long-term, stable income because you need, because given your liability analysis, you know you need X dollars coming out each year to pay out to people who have retired people, whatever. But you analyze the total returns here to keep it simple, and what would you do, you'd plug in the CPI or the rate of inflation over here, subtract the two and then you would get your real return and then calculate the mean and standard deviation of that series.

You really have to set a real rate...some people are starting to talk that, how do you do that. Well, you have to kind of predict inflation, which is kind of hard to do and that is why they have a three handed economist approach. ??? do that better than we do all we need are their point estimates, add them all up, take the average and do the ?? approach, we do our scenario analysis to the future, and we're safe. Due diligence.

Positioning has to be measurable. If we are looking at where we are on this frontier, we have to be able to say, this is what we now have in our asset mix, and this is where it is. Cause I can't make a move unless I know where I'm at. So you are kind of locked in. I don't know. I can't achieve nirvana, but I'd like to do everything I can do to be directed toward it. And as we start knocking our heads against the wall on these kind of things and breaking down the data barriers and looking at the problem of finding data so we can treat real estate really as a fungible commodity across markets, until we can do that, what do we do, we have to use placeholders, and we have to use statistics to develop numbers that we can plug in to make decisions. And not eliminate a market or an asset class because we don't have any data. I don't feel comfortable with that. Has to be longitudinal and consistent and its like planning, once you put in the sewer system, then you have urban sprawl. You can't get off track, because then its hard to get back. Interactive dynamics. Very much a dynamic process using current market inputs. If I am looking at a large data, what's going on in the structure of urban markets in the U.S. Are they shifting? Are they very static. What is happening in ?? ?? planner, which we were going to use later, is that a good measure really of the dynamics of the market, opportunities for shifts in real estate requirements? That begs the question, "How do we going to monitor all this stuff that is going on when I want to look at more than the top ten or the top 50 cities?

Control vs. uncontrollable. I like to know what, somebody... I just read something on a core portfolio against unanticipated inflation. I can anticipate what it is going to be, I just don't know how big it is going to be or long to recovery a recession is going to be. There are some things you cannot control in a portfolio when you are a passive investor or a consultant working for an investor trying to cue them to asset managers like Prudential. So what do you do? Try to work with the portion of the portfolio you can control. The problem you would have if you were a consultant now, tapping into that, which is actually a lucrative business too, because is all you do is introduce us to that. And then do your due diligence by the way.

It is kind of interesting for small pension funds, now we are finding a core of marketing people. I was at a meeting we had with a client the other day. She says she cannot really understand how the consultants with all the stuff we are doing are recommending closed end funds for their people. But if they are only real estate, and the closed

end fund are in many cases, opportunity funds, which are not balanced within the real estate dimension, they are very heavy in retail, or something like that, but the thing is with a closed end fund, by definition, what is it, you make one decision you are in. You don't have, open end you are always changing.

They have to be controllable vs. uncontrollable and customized portfolios to offset certain things, the point there is when we are always after is discretionary money, why is that? Even as a fairly large insurance company, we like to make deals. And if we handle a portfolio where we have to run back to you to approve it, I can't do good deals for you. I can't exceed certain markets because I can't take advantage of windows that will open up. I think that is the advantage you will see when we start looking in multi-markets, we are now looking at about 100 markets that we try to monitor.

We are also doing some work in the global sense, where we are looking at markets in Sydney, Tokyo, London, Paris. When you start looking at that, you start saying to yourself, you start seeing opportunities in different countries because of exchange rates, inflation, because the government passes a law and they drive up bonds, somebody passes rent controls, or impact fees, the market under and over reacts. There are a lot of opportunities that you can tap into on a portfolio though that at the local level should never see because you are down here in the forest, where the trees are all in the way. Strategic and tactical, you have to have a plan and you have to be able to implement very quickly to get there. It is not a random walk. You plan of course, but dynamics, you have to change your strategies.

A problem you have with a large institution is what, by definition, your problems and projects and ?? quotients become institutionalized and unfortunately, before they are ready to. But somebody needs the framework and you can't go out with this new approach to diversify and achieve a return. All the consultants say great and then two months later you say "whoops" and you have a better approach to doing this. So when you eke something out as to a better approach, it is a non-trivial decision. We are certainly exposed, but I had some better things to say. To the way we are doing things. It has to be very situational, you have to look at the resource, the employment and what's going on in the market. Again, we do this, our situation here is a multi-period framework, so we can take advantage of changing factors all the time.

Let's look at the evolution of our equipment. Have we gone over all of this stuff before, or is this new? Moderately new? Close your eyes. Have you gone over this stuff before? Okay, let's go quickly through it. There are people in this room who will do this better than I can do, I'm sure. But let me take a stab at this very quickly. Early stage of--I tried to put a date on this but I didn't have my notes with me down at the interview room, between interviews, so I said "Stage One" instead of "pre-1970," but I kind of think that's pre-1970 there. Really doing individual investment for pension funds here. They may have been working with a broker, or they brought the asset they held title to. They may have farmed out the management of the project, but they were really individually making decisions through some consulting arrangement. Stage Two, commingled funds, I think PRISA started that it was the first, stands, by the way, for Prudential Real Estate Investment Separate Account--was the first, open-ended commingled fund that was established by 1972. Some of the examples of that would be the Equitable, which is now at about 3.3 billion, Aetna, 17, I dropped the numbers so it doesn't bother you. If you draw out all those numbers, you start getting befuddled by how big the decisions are. You can't sleep at night. It's like grading students and changing their lives. You all did it, and it is going to be fair, but it's like you really have to have a piece of evidence to help your position. PRISA, is about 4.6 billion, the others, in the AEPRI reports here, I think this adds up to about 16 billion dollars. This is Morris Bank in 87, Evaluation Associates Inc. is the source of this. They are expensive you may not have access to them but you know...??.

With an open-ended fund, you kind of have planned expansion and contraction, as well as termination dates. You open up to bring in money when you can manage it. I guess I'm impressed with our company so far--we're driven by capacity. We're doing in 1988--using this stuff I'm going to tell you about, which, by the way, we haven't told them about yet, so, don't pre-empt this lecture a little bit. Anyway. We're a moving target. That's all I can say. We'll move forward, but. We're looking at buying a billion dollars worth of real estate in 1988, selling a billion dollars--a billion, that's a lot of little projects, some of these are small realtors--a billion, and we're still under development about a half a billion dollars worth of real estate. We're looking at doing another project which I really can't get into now.

Graaskamp: That's one company doing as much business as all the heralded investment by Japan.

Well...

Graaskamp: Japan is in the news, but the amount of funds represented is ...

I was in a meeting about two weeks ago, with a large Japanese company, and they were sitting across the table in May of 1988 were putting 800 million--800 million--dollars in the US. And I talked to the ?? property Company. And they said 800 million dollars--you really have to throw this aside, forget the zeroes and say hey, let's talk business. They actually got up and shut the door. Oh, you know, we're serious. Then he tells me, then he tells me after they leave, that he's got another Japanese investment group that's been trying to business with us for a year, that's got about 1.2 billion that they're going to do in 88, total of about 2 1/2 million dollars of Japanese money coming in. You read all the things from Oliver Goldman and people who write commentaries on Japanese investment--they're looking at prime offices and that--that's changing a little bit now. And what's really fascinating is that, what they have done as they came in, the reason for meeting with us is that they wanted to see how we analyze markets. They had a grid and it tells ?? , they didn't give it to me in advance, and so I'm fortunate if I get past the first page, which I usually at least skim through some of it, but it's written in Chinese so I can't. Anyway, they had these things on population, office employment and vacancy levels and stuff like that.

And, actually that, well they did have population, this is pretty much looking at the existing stock in the market, they didn't have the number of markets written down, it was written out in pencil. Anyone ?? Japanese computers, or things like that. You learn pretty quickly, when you're in the South, to do the good old boy real estate. When you come up here to talk to you ?? talk about computer science??.

With various marketing, you kind of figure out what they can relate to, and put it in their terms. But anyway, they had a very sophisticated approach to looking at markets. Much more so, I might add, than many major pension fund asset managers do. They had it broken down, they had demographics projections, structure the market, jobs, even the location portion looked like it was in the middle of this. They hired a company to help him with it, with a very

sophisticated approach. And I asked them where they currently were, because as a marketer I kind of deal with situational analysis--try to figure out where they're at, where they're headed, where they're coming from, and then kind of work with them as a consultant and all that.

They were in markets that you wouldn't find many, in, somewhere in Kentucky, where would it be, in Kentucky what would it be? Anybody from Kentucky? What's that big city in Kentucky? Lexington. I can tell you there ain't any in North Dakota, and, if you look at a population map you can see where you might wind up job-wise if you ?? portfolio. But anyway, they were in markets that you would consider second or third tier markets. And this is assemblage real estate. And they asked what real estate types are we interested in, and the question is what are you interested in? And they're not interested in big offices anymore. We're looking at--we're interested in retail, we're interested in industrial, we're interested in apartments. Where are they interested in them? Not the prime cities anymore. How do they want to do this? Well, these, what is it? Who is it, Secretary of Ministry or whoever his title is over there? Was giving them a lot of flack, because we'd been writing all these things about how they buy at such low cap rates. They aren't making economic deals, there are hundred year holding periods, and what have you, but that gets back to them back there. Now what they are doing I would say is that they now want to do joint ventures. If I do a joint venture, then, you ain't going to take the hit too, so I kind of manage that problem of paying too much for fifty percent of the deal. But I also capture his asset manager for it as a property manager. In general, they're not using asset managers yet, although they're really approaching that very quickly. ?? the open-ended funds, close-end funds, and example would be REEF. You know, we were talking about appraisals before. What happened to REEF last year? We all know the year it is, right? What are you doing? You wrote down some of the portfolio about 30 percent in one period. Why would they do that? Well, you look at the appraisal, the reporting system. Somebody, another, working with a client, said, I kind of like the idea of incentive fees for performance and speed, what do you think about that? At first I was kind of naive, in the company I didn't say anything. Listened sometimes. And, I said, why shouldn't we be measured on performance? Then again, if the appraiser's taking the market value, and I don't have control of that, I don't really feel too comfortable about that. So I guess I have another problem, so I know real estate goes through cycles, and I know that I'm in this for the long term repercussions--think about the

responsibility here. These pension funds--that's retirement money for people. This is a high moral responsibility, doing this right, if you really think about it. The implications are tremendous. Especially with social security dying and what have you. So you start looking at what's going on here, and the asset size, and the finite life, and the mix, and you start thinking, boy, have I asked the right questions? Is the time frame correct for the decision, for the commitment of resources? And how am I going to make the next decision? Well, if I make the right decision, which is to write it down, what happens to my deposits?

What's going on with Christmas withdrawals right now, anybody know? What's the magnitude of withdrawal? Well it's 750 million dollars a year. What caused that? Well, if you look at PRCvs. the FRC index, we did a little dip about two years ago, because for two years, Prudential has been writing down its assets. Okay? I'll get back to my performance based fees, my answer to Paul MacDonald is, there is a performance measurement, it's called ?? of capital. And it's very unfortunate, because many of the people that are very fast growers, when you think about--you ever see someone, maybe in the home-building, that got very big, very fast, and they didn't add on enough people to maintain the projects and that?

When you get big real fast, a lot of times you forget what made you big. If you're generating a lot of paper or pricing and buying a lot of product. How are you going to manage all that product over time? There are severe organizational implications, because developers and auctioneers and acquisitions people who do deals, that breed of cat is different than somebody who's in property management and sales and leases. The personality is different, the way they think is different. Okay? So that's they're answer to performance fees. And getting back to how do you report the total returns and is it pivotal or not? It's a tough issue. REEF was written down like 40 percent, I think we've been going down, we've had negative appreciation for a couple, 3, 4, 5 quarters. I think that's turned around now. We're going to be on the positive side from here on, because, I'm not sure it was right but we harvested these unrealized assets. J & B is about at 1 million 7. How big were they? These are closed-end funds, about 8 and a half billion. How old is J & B and Heitman and those companies? I was at the alumni review, the reunion this fall, and I listened to these guys and I was impressed. Kind of an awe of the program and networking and all that stuff, because I haven't been at a school where you

achieve that. But then, listening to these, these are primarily deal-makers. They're very good, well-polished, well-trained. And this isn't a reflection on them, ?? commentary on where I'm at. One has to wonder, are we set up to manage all these assets? And if we're looking at buying a billion dollars, how are you going to find a billion dollars worth of product? Think about that--that's your job for this year, you ??, working for about 3 portfolio people. Your first job is to reject/accept deals. We need to generate a billion dollars worth by the end of the year. You know, what do you do, do you reel hard later, and later on, toward the end of the year? Think I'm a little unrealistic here? What happened to the deals you turned down? Okay? Can't find 8 and a half billion in closed-end funds ??. Stage 3, which is really where we're at right now, is called, there's various terms, specialized accounts, separate accounts, customized portfolios, etc. And generally what you're doing here is you're consulting. You're taking the composition, however it is, and, see a lot of consultants and clients will invest with a couple, different managers, to hedge themselves. There's PIA, Pension & Investment Age, that probably is in the library ??, that gives you a little hint on who the asset managers are for the various clients and how big they are, there was just an issue out about a month ago. It's real interesting to look, because most of them have the big players in their portfolio. From a due diligence perspective, you know, I went with a couple of good people ??

[SIDE TWO]

...of solid reputation. It'd be hard to break into that. But in general what you're doing here, is you are complementing ?? this, when you've got a couple big players, you have a customized portfolio, and how about taking up ten days worth ??of retail? A lot of pension fund, er, asset managers, don't like apartments. Because you get all the riff-raff students and rent controls that create all problems, and organized ?? I think, so we stay out of university towns, and student housing. What does that create? Since 1974 in the United States, by dollar value in current dollars, only twenty four percent of total development of income property of retail was residential. Relative to office. 24 percent. 23.8 to be exact. .

All of a sudden I guess...I'm putting this all together, I apologize, it's the first time I've had a chance to pontificate on it, but, since the lunch I got at the University of Texas. All of a sudden you start, I always when teaching and you give me some numbers and you say

Austin is growing at ten percent. What do I come back with? Well we had two to three year old kid and they helped a lot. Why? I can't make any decision, no number to me is meaningful unless it's relative to something else. Okay, I mean that would one thing in your feasibility studies. We're going to talk about a growth rate, you're going to talk about a market share, what's happening and the change in rent. You have to compare it to the state of Wisconsin, the south eastern part of the state of Wisconsin, to the United States. So you put it in perspective and say yeah, this is better than the alternative, because the alternative now, in today's world, of national and global markets, is always to go somewhere else with the investment.

All right. So what we're doing with these managed accounts is we are targeting product, to compliment existing holdings. Now let's talk briefly on portfolio acquisition. What is, sort of a multi-phase process. First phase we can call asset allocation. In that analysis what we're doing is we're looking at a real estate in a mixed-asset portfolio. What else is in there? What else is in your portfolio? Your investment portfolio.

"Stocks and bonds."

What'd you do to these people?

You got a chance, we do know that. I'm a moving target, I don't mind.

You have stocks and bonds and all sorts of things.

What is phase two--in this phase we determine how much real estate we should have in the portfolio. Second stage, we then figure out what kind of real estate do we want? And the real question is what is real estate? Remember we talked about delineated space over time with a fixed reference point to the earth. I know it's time to go back to teaching when I can't say that faster than my students.

But what are we looking at? We're looking at real estate allocation, real estate by property type, by location, and I really don't know what that means there, we're still working on it. Its sort of a qualitative/quantitative process. What is that? I asked you to self-rate yourself when I was new here at ?? decision. And yet it's kind of interesting of course how you are decision making and you say nah, nay, na.

This is the open end, it's where the theorist hits the pragmatist. Always ask yourself this too, and I hope you do because you can make mistakes ?? use it . Does this make sense? How many people in the United States? Do you know that? These are little things that, keep them, don't dump them out of current memory, because it's kind of nice to know that when somebody's talking about trends, and I guess that's what I was saying, that all of a sudden I'm starting to think in a whole different area that's overloading my memory banks and I don't know which to put what and how to partition that space very well. But its that quantitative, all in perspective--all these numbers--I gotta classify to simplify a little. It's also quantitative, because once I qualify-- did I say qualitative, its quantitative first, quantity, you got to measure it all, but its also qualitative, it's all intuition and judgment. I've come up with some very sophisticated techniques using factor analysis and clustering algorithms to develop a new typology of markets. But what happens when I go to the equity strategy committee. I got the word typology in my mouth??, but good. They all talk about this typology of markets. Which is a real word, by the way. We're looking at modern portfolio theory. Which is what? What is that? I got a black box, and a cream colored box and a ten Mg hard drive. It optimizes. That the problem. That's modern portfolio theory. Give me some standard deviations and returns-- correlations would be nice, I'll accept covariants, they're more difficult to work with--but I can give you that optimal frontier, I can advise you about it. Okay? That's the problem with it. You got to break it down and play it. Finance here is joint research with finance--and I'm not picking a fight with finance. Every department should have one. What it is, they wipe the dust off and they look at the surface is plain and they look at what the impact of being on the corner is, on the real estate appraisal values. We have to live in a much more realistic world. That's really the challenge. Maintaining a proper balance between theory you learn about doing a deal. Real estate theory is micro analysis in the product marketplace, in a political, uh, I couldn't remember all this jargon, but, political and those kind of factors, contexts. And urban land economics is, I kind of look at it as an intra-urban, I really like these mature theories, and I hope they're introduced here.

Structure theory looking at, you know, you put your different filters on, you fly over with an airplane, you see where the rich people live, where the big offices are, commuting patterns. You look at the structure of the market. You find where it is. Extension--look at it over time. You always want, my students to develop a view of the

world, where it's going. I should have brought in West Madison five years ago, right? Would that have been--ten years ago, fifteen years ago--would that have been an accident, gosh, he was lucky? No. You see these things. How do you see them? You travel, and you see other cities that are like Madison, maybe Austin that also developed a certain area, and you see the land forms and all these things. There's nothing much new going on, it's just that we haven't analyzed it and figured out what's really going on. Start to take advantage of this and have a futuristic vision.

Then situs theory is understanding how anybody's making decisions. Urban Atlantic ??--that's more challenging. I have to compare and contrast Louisville, Kentucky to Madison, Wisconsin. I have to figure out how to get Madison, Wisconsin on my top ninety markets, cause it ain't big enough. Vacancy rate here in apartments here is pretty healthy, isn't it? What is it? Ten percent? Actually that's moderately healthy. United States it would be twenty.

"Actually it's less than that in most quadrants."

That was a trick question. There's no such rate as a vacancy rate in apartments because they're all segments of a market. I'm sure you're ??. Dancing with that. We have to _____ with that.

Diversification in portfolio acquisition. What are we trying to do here? Uh, one of the people I work with likes it, we're trying here. We're seeking non-covariant returns. How does that sound? That's, you know, that's what you're doing this weekend, go practice and stuff, go out and meet someone and tell them you're looking for non-covariance. And what we're trying to do with non-covariant asset positions is to manage the risk. The simple ??, what we're looking at is sort of vague theory, I guess. You add something and it does this and something else does this and something else does this. We got upward slopiness. You all look at it, I can see ?? like that. But what happens here, is that overall, ups and downs dampen, so I have an exceptional rate of return, with an acceptable rate of risk.

See I could go on a high. When do you want to buy high? How are you going to do it? Where would you like to buy? Point A? Or Point B? Tough question. I'm kind of a developer at heart, so where would I like to buy? Right here, right? But I'm not a fool, nor am I egotistical to think that I can predict when this is going to happen, so

then I can kind of buy here. To understand the leading indicators, when something's going to turn around, and establish my financing structure so that I can live through this cycle of whatever the duration may be. Or I can gracefully deposition myself if you will, to move to Texas. No correlation between Wisconsin and Texas by the way. We're neither following nor leading the market ?? of opportunity. But that's what's going on in the cycle, see. But you want to play that roller coaster, and what I think what we're predicting is an increase in frequency and amplitude of cycles--I was in engineering for two years, so I throw it in once in awhile, it pays for that course I had, okay? So we see that happening in , okay? With that, even as a developer I don't want to live with that cause I got a couple kids.

So what we're doing the portfolios, we're trying to balance these off. Okay, that's all I'm trying to do with diversification. What type of risk, systematic risk, throughout the market , were in a recession. Has everything been hit, by the way, at the same time in the recession? If you look at the return series, uh, this is kind of a set-up question, pre -1980 and post-1980 you've analyzed and classified all your assets, the best ones, the worst ones. What do you think the correlation between returns in the 70s and returns and returns in the 80s would be in your portfolio? The ones in the 70s was a good predictor of the ones that would be hurt in the 80s? No, that was like .21 or something, it was unbelievable. See, markets shift. What happened to the United States, what are we doing right now, we're sort of in a bowl? I'm on, fortunately, the end of this bowl over here. Maybe it'll come back, depending on what happens, in the oil industry or something like that. But you have all these shifts across the market. What you have to do is try to figure out, how did we achieve that dampening of the raise? If that's what you're after. Okay. Unsystematic risk would be local phenomena and rent controls. If I had no Ph.D. today, retired, the second time in my career, because if on a rent control referendum on the ballot in 1974, and we were trying for about five years to do an urban renewal project at University of Iowa, and you probably heard all the horror stories. I had a guy who came back here, okay? He couldn't raise a nickel in this town. It never would pass. But, you know how Madison is with its money. The threat of it alone was enough to drive all capital out of Madison. That's a systematic risk ??

The basics of diversification interclass, by asset, real estate, non-real estate, by the nature of the position, let's say I'm within real estate, and what do I do? I take

equity positions, I take debt positions, etc. in short when investing by subclass, I look at downtown offices versus suburban offices--do you think there's a difference in return? And the risk theories between those two property types. How about high-tech, or office showroom versus industrial distribution? Yeah, which is better, in the first case, the office, CBD or suburban. Which performs better--risk returns based now. Which grew fastest? Suburban office. Okay, that's the worst. .

What happened to the rest of the economy. When did this ??? How is Houston, market-wise? Good looking? What happened? Oil firms? Take a look at the--I've got a principle here I've never had the chance to write on, research, called acceleration principle. Go back to physics again. You take the stock in place in a market. Look at, kind of stability of stock over time. And take a look at the addition of new stock. Calculate the acceleration, or market velocity if you will, and the greater that velocity the greater it's going to over-build the market, and as it happened Houston. Regardless of what happened to oil. I forget the numbers, but it's almost like 50, 60 percent of the office space in Houston was added after 1982. It's a really big number like that, in fact you could embarrass me by using that number. I couldn't believe it. Well what's going to happen there? It's going to get over-built. Why is it getting over-built? Because people are looking for a product to invest in.

Because of the windfall tax reform in the early 80s. So I'm looking at subclass, office showroom and that, is that pretty good? How about high tech? How about Sematech? I'm not from Austin, but I really like it there. Uh, inter-class would be different position. How would you measure the ?? the front end the joint venture party the ??, whatever. Real estate diversification traditional property type. Do you know all the major property types--what are they, office retail, industrial, etc.? Uh, land and farms. How are farms doing by the way? Do we want farms in our portfolios? What do you think? I was raised on a farm and will never go back to the farm except to visit. Farms have not performed well: I don't know if we don't know how to buy farms, or if it's what's happening specifically in the industry, but it's been a long down side and it's not very practical. Most institutional portfolios do not have rural land to start with. It's kind of a, not investment grade. What ever that is. I don't know what that is here.

Geographic--by regions, north south east west--you see these little charts of the United States, the FRC index.

Graaskamp: "They have it in their reading packet, they haven't gotten there yet."

I'm sure you'll go home tonight and read that. East west north south doesn't mean anything. Okay, it's totally meaningless when you start looking at the fact that Denver and New Orleans are in the same, are in different regions of the country. You got to look at it, in the east, in the northeast and the south, are kind of capture migration patterns and changes in demographics a little bit. But it's spurious. I mean it's just not meaningful. Why do we report them? Because every annual report we ever published had it in like that, so we do that..

Nontraditional would be looking at positions and creative financing that you learn well here. Forms of debt, pure debt, hybrid, kickers, you're doing all sorts of neat things with financing and interest rate swaps, on construction and you're probably getting some exposure to this and you're doing that here.

Contemporary--would be you'd be looking at real estate positions. How much to diversify on duration of leases? We have a national accounts marketing group, and sometime, when we have the time, I'd love to go back and take a look at our national tenants in that group..??. Big space users. I've sort of got a notion here that some tenants are less apt to move to market than others. Some guys--I'm gone--concession, 3 years free rent. There are tenants, with smart buildings, and wiring, and all sorts of costs and built in friction, and I like to kind of log in the facts.

What we'd like to be able to do from the corporate world is up in Newark--scenic downtown Newark--is I'd like to send out a directive to Denver to start increasing the duration of leases. Lowering rents in return for longer leases, because we see softer times coming in Denver. Wouldn't that be nice? Simultaneous with that, since we're now getting more national tenants with long term leases, in that kind of a market I'd like to take short positions in a counter-cyclical market, that I see coming back in a recessionary period, very strongly, and other people are over-looking. That would be very exciting to be able to do. You can't do that yet.

Now, I'm making this stuff up as you go along--don't quote me on that .

Graaskamp: Prudential's been doing that for years.

Delisle: You can't blame me for that, I've only been there seven months.

In the portfolio construction process then what do we do? We establish this comfortable ?? fund here, using modern portfolio theory. I got one here. It spins out and plots the graph and positions you. Uses a quadratic equation, to satisfy the optimization. But really what it does, is let say that you have two, three asset portfolios, and think about what they're concluding, in that literature and what you need to diversify. Now what you do here is you get the time series laid out and calculate the statistics because that's all the data we have in real estate. You would calculate the mean and the standard deviation, and then down here on your three asset portfolio, you'd have a correlation matrix. And see, in effect, what the optimization came out with the algorithm like that. But what it does, is it will choose asset one, let's say that this would be residential, maybe office, and then retail. It will prefer....

[break in tape]

If there's a correlation between these two assets, depending on how highly they're correlated, given the fact they went down in weight, it will tend to dominate, the one that has the high will tend to dominate the other asset. Such that at the end of your frontier, you're all in offices, or you're all in industrial. And what this mix is, really the asset mix across other property types, given those relationships, that form that frontier. You can constrain this frontier by saying I'm going to be at least five percent in hotels, and at least ten percent in industrials, or something like that. But it's a different frontier, it's constrained. Okay? Remember we talked qualitative/quantitative? We have to make those decisions, we are the ones who have to sell the ideas to somebody.

Asset pool, I want an exhaustive set of categories, that are meaningful. Other, what do I do with small industrials and that, I probably can't process that until I state the major property type level. Mutually exclusive, to a degree, so they're not overlapping, certainly. Reasonably independent. Now, if they're totally independent, then I've got a hodgepodge or random portfolio too, I'd like some relationship so I can get curves to smooth out the jumps in it. Fairly robust.

This is probably the major criticism real estate, financial theory applied to real estate. Is that we don't have a long enough duration of returns series for real estate. You've

got 1970 to 1986. A person in a stock context wouldn't accept it. They'd want to go back to a couple more wars and a depression would be nice. Then you can see the long term stability of real estate. We're talking--how much time do I have?

"Well technically you're just about run out, but maybe you should keep going for another few minutes."

I'll stand over by the door here. So if you have to leave, I won't take it personally, but I will take names after class.

What we're trying to do is we want to get to the long term duration of these things. Okay? And what they say is that, I guess what it comes down to is they don't frankly believe that standard deviations in real estate are as low as they are. Because when you plug them into these optimization packages, real estate comes out about 50 to 80 percent of the deal. And there ain't no way that we're going to put that into a portfolio. Because they don't know what to do. So they say, appraisal based returns dampen the series. We have a real problem then, because nobody knows what really it should be.

Let's look at, let's move down here. Source of income, appreciation, real estate mix. The problem with including real estate is that we don't have a time series adequate. The data aren't representative. And if I do have some data, what I'm really saying when I have the apartment series, the multi-family, the retail, that the time series I have here of returns, is representative of the universe of retail, or multi-family, in which I would invest.

Okay. Now what happens if you have a time series where one year you sold all your apartments and you only had two apartments in there. But you have a nice correlation matrix and all this stuff and you optimize it. How confident are you that the apartments you owned across the United States are representative of apartment investments, in the United States? Given the statistically random sampling that went into the portfolio ?

The qualitative...??. Typically, what you see in the Salomon type work--which is used in our data, --but they're getting. It really is. There're only--all the theory and finance theory, real estate was using PRISA from 1972 to 1983. It's not current because we haven't released it. We are doing that. Okay? The standard deviations that they

use, are about 2.3 to 5 percent, in that range, for real estate. With a rate of return somewhere in the range of 12 percent or so. When you optimize on it, it all goes to the real estate. Okay? They're also not familiar with real estate--

Graaskamp: "What he means is that optimizing against stocks, bonds, and, you know, pictures by Andy Warhol, whatever your assets are, when you use these classic theories, real estate out-performs all the others."

In our company it was called the dance of the flowers, but we have them won over now. I mean there's some.... This is.... It's kind of mixing the two areas, but that was what one of our said, all of this research was the dance of the flowers. Really goofy, but I got the message.

The intuitive conclusion here is it's too heavy. Now how do they do it? Here's some real creative ways of doing that. I'm sure you use this in your research. Sometimes you have to. The ratio approach. I know the real estate return series. I can get that. Somebody told us. I know the stock return series. I can easily calculate standard deviation. So how about this? I don't know, I don't believe the standard deviation for real estate. Calculate the ratio of the two and multiply it by the standard deviation of the stock. That'll get you up to about 19 percent. Which will then get you down to about five and fifteen percent real estate. Which I can live with. And that's what we do. Okay? Most people, if you look at financial planners and asset managers, that's what they're doing.

A second approach would be judgmental. What is it? I don't know. That also works well, it's very defensible.

The third is probably the best one, it's kind of a --I didn't mean the students, that was --what you can also do with these packages is you can specify the risk/return relationship and it'll tell you the asset mix to get it. Or you can specify the asset mix and the return and it'll give you the risk. That's kind of interesting input isn't it. And that becomes the number to use, which is generally in the upper teens, if not low twenties. The consensus of the research that you see is that real estate should be about 5 to 15 percent of the portfolio. What is it? It's somewhere in the 4, 4 1/2 percent range. Including mortgages, by the way. What's going on in the future, what do you think?

Black Monday, everybody aware of that? What did that do for real estate? I'm sure you're reading about it a lot anyway, . Good/bad? People don't like change? What do people do when you change something? What do they do? Nothing. They don't do anything. Get liquid. Short term, man, I don't know what's going to happen, if I'm going to be ready for the next wave, or shortly thereafter. What do you do as an alternative to that? Think about it. Go back to my, remember my series here?

If these guys are plugging in the risk/return series for stocks, right? Long time series, calculate the mean and the standard deviation--what happened to the standard deviation of stock as a result of Black Monday? What'd it do? It went up. Right? Now, in order to use their technique, what do they have to do to the standard deviation of real estate? Did it also go up? Tuesday? No. But if I use the ratio approach, it did. How are you going to attack them on that? The other thing you can do is if you say well, Black Monday was an oddity, it won't happen again. But you know that ain't fair because you know, with the Depression and the World Wars and 1970 and on, see. So what's going to happen to you axiomatically at some point in time--real estate is relatively more stable than stocks. In the mean time what happened to the asset exposure real estate in your portfolio? What also happened axiomatically as a result of writing down the other asset value? The percentages are up. You didn't buy any of that. And now you're in the optimal frontier because you had a good job in 1987, we've moved up our real estate exposure.

Look at the optimistic side. What's going to happen in the long term? I think more real estate will fit into portfolios.

Okay, mixed real estate portfolio, we're really getting to the meat of this now. Multi-phase. Identify the asset class. Go through all this other stuff that's kind of interesting. On page 5 if you look at that, that's kind of a mix of office...??. About 41 percent of your offices--if I told you I know of a portfolio --that is about 50 some percent in offices, and I tell you these are sort of the optimal mixes, there somewhere within 40 to 45 percent. What do you think you can hypothesize about the return that you might have gotten on that portfolio? Above or below the norm? Below, so optimization works. In fact, we are recommending changes in the composition of the portfolio, and if you have gone back, which I like to do as a researcher, if you had hired us five years ago, where would you be? There may be a basis point improvement of about 1.2 percent, 120 basis points. Over time. I take a five

billion dollar portfolio, this lower rule that a hundred basis points on a five billion dollar portfolio, forget present value. Is that a lot of money? That would hire a couple of professors.

So, the techniques do work, we just don't know how to target them. Phase two is the location. Here's the meat of what we're talking about. This is the ?? Wisconsin grads. And more power to you on economic diversification. I can show you some great dissertations on this. Suppose you have markets. Legitimized by the oil belt. I can't use north south east west. One of my colleagues, Charlie Wurtzebach, just had a paper accepted at the Journal of Real Estate Research, who uses nine regions instead of four regions, but that was too far gone before I got there to talk about, so, it was being published. So next year I'll be using nine regions, but really what we're doing in-house is we're not using any regions. We're using nine regions, but a hundred markets.

The goal here is to achieve something--there's a good word--meaningful--how's that--meaningful diversification. I kind of like that. I'm not quite sure what it is, but I'd like to be reading it.

Structure here is, we're using really a two tier approach. And it's interesting. Some of the work was underway before I got there. But it has such appeal, that it's really going to make a difference to the way we start looking at things and what happens. What we're doing is constructing a tale of typology, okay? And on this are the EPZs, or Employment Performance Zone. ?? contracts I like these cycles here, right? Let's take 1974, approximately, three quarters '73, I don't know why it was then, because it was x years ago, I guess, and let's go forward and let's block, by market in the United States, the total employment changes, absolute values and percentages, in these markets, and let's rank over them in quartiles--upper, lower, etc.

The ones that are in the lower quartile, over time we'll look at them during recessions and recoveries, and we'll try to define which markets are good markets all the time, and which markets are cyclical and counter cyclical. That's what we did, okay? So we have basically five types of markets. A proven market would be a market that did what? And we would wind up using a relative percentage distribution. It did better in bust times and boom times.

By the way, what's the duration of a boom and a bust in the United States? Do you know? About two to one. Recessions

last two to three years, recoveries last about twice that. That's important to your cash flow planning developer types. Proven markets. The other would be what--cyclical markets--now what would be a cyclical market? Employment? When it went down it went down faster, and when it went up it went up faster. So the amplitude and frequency was higher. A counter-cyclical market, that sounds kind of nice, if I got a cycle, I'd like to counter it, right? What are they going to do? It's going to damp it, right? So counter-cyclical markets would be what? Well they're employment grew faster, they were in the upper quartile during the recession, then they slipped down in the other period of time. In a portfolio sense. Tactical markets, and this is true, in one part of time these were called pirouettes, and the market looked at that and said, "can't do that". Why? Ain't nobody gonna consult who's gonna recommend that this 100 million dollars asset manager who bets, we don't bet, we you make tactical decisions. A tactical market is a market that did worse, up times down times. And the strategic market would be, another kind would be recently awakened. In the 1980s--different. And the real trick is your mind has said, you know the United States success kind of flipped when the oil embargo hit, you know. What's going to drive the next recession or inflationary period. If it's oil, is that good, for the oil belt? And how do we price that? The second dimension here is really kind of a two-tiered approach. We're looking at the economic role of the markets--this would be defined as what role do they play in the US and global economy. So in the national ones you'd have San Francisco, and LA--I can't give you, really where these are, I'm sorry about that. In the regional, sub-regional some of the work-force ones I can. Our regional and sub-regional we have markets like Chicago--uh, not Chicago--Atlanta, that's kind of distribution, all that type of thing. We have sub-regional specialized here. And we have government, which really cuts across. Kind of correlated with population size, but also with the role they play. I think Dowell Myers had an article by Jerry Noyell of Columbia--that's sort of where I got some of this from. More meaningfully in here though, is something you do have somewhere in your principal book of real estate. That's called location coordinates--you remember those things? This is sort of a modified technique. The initial draft of this we really did use location quotients. Which we took initially the top 70 markets in the United States, calculated the job distribution by two digit codes, got the norm for the markets, and calculated what it was for each of the 70 markets, and used the rule of thumb that they formed in the book, 120 over is over-concentrated, and that was our initial draft. We used it internally, they liked it a lot.

So then we went back and did it statistically, we're now using the chi-square distribution, so we're looking at whether or not the concentration in job is statistically higher in some job categories and is statistically lower in others. That would be a one-horse town.

And that's how we're able to say that Denver and Dallas are somewhat similar in terms of being energy bound, but somewhat independently diversified. Whereas Houston and New Orleans are really energy dependent. Trying to get a relative dependence. This is cross-sectional, what we'll do is look past and forward and try to capture the changing metropolitan structure. And what we did with that, if you look at it, we've got all these cross selected-- diversified, distribution diversified, distribution financial services, manufacturing diversified, specialized, etc. Now this is literally what we've done, is we've got this grid that we set up, by these categories. We look at the current composition of the portfolio for PRISA and the general account, about an 8 billion dollar portfolio. Has a lot more smaller properties, several, I mean 6 -7 hundred properties. And also for the customized work we'll do in specialized economies. We look at where they're distributed in this, we optimize on its performance the funds' performance. We optimize on property value. And we set target ranges. And then we developed a multi-year program. Now where the challenge is, once we position markets, relative to each other, what we're doing is sequential management. And this is what you asked me to talk about , um, I'll just whet your appetite.

Graaskamp: "Now that the introduction's over we can start the lecture."

Yeah. Now I can really relax. What we did with it--now I lost my train of thought--where was I going? What we literally did is lay over what the current composition is, and we are making allocation/acquisition decisions, using kind of a two-stage overlay of property type and market. In order to refine this, if a market, let's say manufacturing diversified, versus a government market, what we're doing is by property type is we're developing a framework for that. Let me just share with you the basic structure of this approach. It's a little different. It's just kind of borrowing from other approaches, but let's say we're just finishing residential. Okay, residential--there a property tax I think you'll see institutional in 88. Retail--what's wrong with retail? How many more regional shopping centers are needed in Madison? They're all built, and the cap rates are very low meaning the prices are very high, because

everybody wants retail, want retail. And that's because I think Aetna is dealing heavily in retail and so is Equitable. They did very well--all the money went to them and suddenly now it's in retail. Okay. We're taking again this three year approach to achieving goals here. So that, we want to get more retail ourselves, but we're not going to compete with low cap rates, because then I'm biting the bullet on returns. I don't want to do that. So retail is important to us. Residential and multi-family actually is, and so is industrial. I'm not really interested in offices, no thank you. I don't really, I'm not real excited about development properties. What about motels? I don't know if it's us, or what. But we're not excited at all about hotels. Farms we'd be dying in.

What other classes of that, I guess, offices. They're out of the picture too. Just holding. But keep in mind that I'm in the energy-diversified, energy-specialized and other markets, and I'd like to get out of some of those markets to achieve a dampening effect. Okay. Again, again assuming I can convince myself it's meaningful. So what we're doing here with the residential now--and we're going to do this by each property type. Two basic. I want to look at demand factors. What I'd like to do is take our top hundred markets now. I would like to rank order those using some index, I've got to have some way of doing that, target the top thirty markets, or 40 markets and before I do any of this, acquisitions and sales people would go out there and find real market conditions, come back with the information and we'll come back and add another list. What we do is there are three basic ways to compare it. First one is demand. Second one would be enduring supply/demand balance-ability of a market to build and sustain without getting overly-built in recent time. And the other would be investment factors. And what I did here for this, on demand what you then do is we're starting to build a very large data system, which like you a lot of it's in Lotus unfortunately. That's a real tool, if you can get any handle on it. Please do, data base. Now to do this you need a little different skill pattern, if you are thinking in these terms. But then what we're doing is we're looking at population for 1970 to 80, 80 to 85, 85 to 90 and 90 to 2000. Then we come up with a little weighting, maybe 20, 30, 30, 20. We did this statistically. It doesn't add much, because you can't really really, they are estimates anyway. So this sounds good. So recent, most recent past and more recent future are more meaningful than the old past, I'm looking forward, so I'm kind of interested in what's going on. We found a service that makes projections like that on real estate issues, population. Housing

affordability is in here. What do you do--for rentals now. The lower the housing affordability index in the market, the more attractive for residential--or is the opposite true.

The less affordable ownership is, the more expensive ownership is, the more the propensity of renters and the pressure on the tenure choice. Now there are a lot of things written recently about, housing is affordable in the United States--don't believe it. Because there was an article in the Wall Street Journal about three weeks ago about the down payment problem, and if you haven't heard of that, try to move to the east coast, or the west coast. Same thing with supply, we have some kind of a function to look at supply. And then for these I used IREM reports, instead of real estate management. And we established actual performance base data. The list I had for all the hundred--ninety-- markets, okay? These I had for about 60, 70 markets. So what I could do is calculate ratios here, fill in the data that I didn't have, using, placeholders if you will. But still rank order the markets. Keep in mind, total population change, vacancy rate in percent. How do I treat all those and mix them into an index, because they're dominated by employment, by population. What we did is we standardize all the values, so they had a mean of zero and a standard deviation of one, and then we combined them in an index. And we're doing the same thing with just, different factors. Industrial, and they all lined up. What's going to drive industrial? Well a lot of people say industrial, will recover. I don't believe it, I lived on the border where I saw the maquiladora industry, US/Mexico, trade free, swapping things back and forth. All of your weed-whackers are made in Mexico, and you all know it. We can't compete internationally with labor. That's just the long-term facts of the situation.

So, if we're going to recover, yeah, I kind of like to hedge on it. You ever been to Seattle? Or to a port city? It's interesting. Take a camera with you and go out there. And what happens? In ports of entry--if I track ports of entry, and I could get trucks and they'd ship them--they need warehouses at ports of entry, right? Well they never hit the ground with these things, they don't break containers--containerized shipping. I need to know where they break the containers for sub-distribution points--that's where they need the warehousing space. You look in management--now here's where your eclectic backgrounds come in--you look at management, the JIT system which has been around several years--what's that? Just in Time, okay, what does that do? Well that suggests that there's a need for warehousing, closer to jobs, and where are jobs going? I need to tie in

to the industrial development research council and their people, to deal with site, and teach people how to make industrial site selection decisions. I know what their matrix is, how important quality of life is here and all these things, cost of living,, and all that.

Kind of predict where they're going and you can see where the thing is coming. And you can't be naive--which is the other reason I went back to get a Ph.D., when I did an elderly housing proposal and it lost, because everybody else went to Chicago and Washington, and I went and talked to old people, and asked them what they wanted, and I thought naively that they would really care. Okay? And I lost it. And one of our famous grantsmen, I don't know if she still is, was on a board on which I submitted the proposal, and when I asked why and she said it didn't look as nice as the other. It fit the right size model. What's down there on the triangle project? Just like mine was.

But my cream brick was in the prospectus, and I kind of told it like it is. Now this is your problem, people. If planners and other people think you're going to rape the landscape and pillage and all that stuff. But you're going to be ???. And you're going to tell them, this is exactly what I'm going to do. And they discount you 10 to 20 because you're from Wisconsin. 20 percent if you're really going to do more than what you're saying. Then if you don't overstate your case, and they'd assume that you'd overstate so they discount it, you don't get what you need. What do you do? When you get out of here it'll be an interesting world.

So anyway, I appreciate your time. If there's time for questions, I'll hang around a little bit after, I'm sorry for keeping you a little bit here. Applause.

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Student: Wednesday, seven, room to be announced.

Graaskamp: Real Estate Club is meeting Wednesday night at seven o'clock somewhere in the school of business I guess. Bill Perkins is the guest. Bill is somebody you really ought to know, probably about the best business in terms of low income housing, low income housing programs. ?? non-profit housing venture and that project ?? has successfully completed and also the Tower ?? in Madison, cooperative housing something or other, Madison Mutual housing. Taught in the Urban and Regional Planning Department at one time. And was formerly with the State office of Development and really drafted many of the housing programs for WHEDA when I

was there. Super capable guy. Seven o'clock this Wednesday in the School of Business, and I urge you to be there.

Also on March 2, the PhDs will be meeting with Ron Hansen at the county executive office at 5:30 an ongoing ?? section. Ron will be talking about experience as a ??

OK. Subject area. Oh, the other thing is this Wednesday we won't have classes, some of you will be cutting class anyway, cramming for 850, and I will be cutting class as well to catch an airplane. We'll recognize the realities of that.

OK, The subject area is "business climate" known as a basis for forecasting. Certainly an excellent introduction by Jim DeLisle last Wednesday I guess it was, in 850, and a growing recognition by the pension investment area. You actually need to have some ?? as to where the community is going, economically and demographically. There has been a great reluctance in the past for real estate investment and development to really pay much attention to overall development of trends, unless the project were of major proportions, certainly Rouse was interested in the demographic and economic characteristics of the corridor between Columbia and Baltimore simply because they were going to build a city of 100,000 votes or more, why you need to have some sense of 25 year trend, in the context in which that's going to be working.

Most developers have such a short term view of life, that essentially if the 24 month or the 36 month before they can close on their apartment a non-recourse loan, unload the thing on partners, and then if it still works, retain the partnership interest and if it doesn't, the hell with it. Take a walk. They really have no ethical, or for that matter, financial incentive to spend a great deal of time analyzing the long term economic and demographic characteristics of the community. That's just the way the industry's been in the past.

That is changing. Uh, because many investors are changing the time horizon for American investment in the community. As Jim DeLisle pointed out, the Japanese have typically a 20 or 30 year time horizon, pension funds we find unable to move in and out of the property in a relatively short period of time, but instead expect to position themselves for 10 or 15 years. We need to begin analyzing the long term character of the community. There are several ways in which to do that.

When we say long term, I pose ten years is the minimum time, although a few may look beyond that. One is simply to look at a set of attributes that taken together seem to be highly correlated with continued growth, prosperity, and expansion of the area. And we'll look at that.

The second method is really a two stage method. One is to choose an economic regional model such as that produced by Chase Econometrics, or a number of other services. Convert that model to an employment forecast by SIC code, and then convert the SIC code into a forecast, if you will, of population disposable income and demand for acreage allocated to residential, retail, and so forth and so on.

Essentially, converting an employment density ultimately to a land absorption anticipation.

A third alternative to a future forecast is to extrapolate from the economic base that's already in place. In terms of expected future market share and input/output analysis, if you will. Anticipating that most of the seeds of growth in an area are already in place, and that it's virtually impossible to anticipate exogenous growth shocks to the community, as part of a planning function. There is no way Madison can say that they will get one all new electronics or high tech employment for 600 jobs and begin to plan in advance of lightning striking, and so forth. You have to assume that most growth will begin with the establishments that are already in place, and be reflective of the population that's already in place.

Now let's take a look at those three methodologies. (Clears throat repeatedly.)

A list of attributes approach is really, if you will, a checklist for conditions which are proxies for what are perceived as the forces of growth. One might be population size and historical growth records. Obviously population would be segmented into cohorts of age, income, and education.

And many investment funds today are not looking at population, per se, but at jobs, basic demographic data. A first tier, second tier, third tier type city would be categorized, not on the basis of total population, but on the number of jobs, and the rate of job creation in those communities. Like a 400,000 job city, or a 200,000 job employment city, and so forth, generally excluding agricultural employment, and generally excluding the lower end of the service employment. The MacDonalds, virtually

minimum wage type SIC job. Often as not are part-time, or student employment or things that really do not represent permanent economic growth in the area.

Therefore most investment groups today and feasibility groups have a list of cities from one to four tiers, and categorizing those cities there's an historical rate of growth, and most would try to position themselves where the growth rate was in excess of 2%.

At one time it was assumed that if you wanted liquidity in the investment, you wanted the greatest statistical probability of success, then you would only invest in the first year city. The Chicago's, the New York's, the Boston's, the Washington's, and so forth. That's significantly changing, partly because the amount of money chasing the product in those communities greatly exceeds the amount of product available so cap rates have fallen, and yields have fallen to relatively unacceptable levels. And, two there's some suspicion that the social instability of our major core cities, is such that over 10 or 15 years, major investment real estate will be targeted for selective taxation which will be necessary to hopefully fund and correct some of these problems, and the hope is that by spreading your investment elsewhere that that won't necessarily be true. As Jim DeLisle pointed out, I had already learned elsewhere, the Japanese, for example, who initially invested where they stepped off the boat, are really no longer interested in the showplace investments on either coast and in the city of Chicago. They're looking for devices in which they can invest in the third and fourth tier cities where the social stability and the relatively newer infrastructure and relatively stronger education programs and so forth, bode for a better social stability and stronger social attraction for growth in the future.

I urge you to read, by the way, two articles in the New Yorker, in January which I read the fold out section, but it's called the Monticello, but it has to do essentially with the homeless. The problem, using New York as an example of the larger issue, and I think you'll see what we mean.

The fact that out of a population of eleven million in the New York area, it is variously estimated that 500,000 a million people are homeless and that to the degree that the social system is attempting to respond by providing units, and attempting to respond to the Neanderthal view that somehow these people are to blame themselves for being out of work or not being able to afford housing in the New York area, and so forth, and therefore we don't want to make it

too attractive for them lest they become dependent on some form of public housing, which is asinine. In fact, there's considerable evidence to the contrary. But in any event, they have, for example, the Monticello, a downtown apartment, downtown hotel, within a block of the Empire State Building, which has 400 families with 1,200 children living in seventeen story hotel, and the social policies for eligibility are such that the husband is not allowed to live with the family legally or they lose their welfare, and on and on and on. Totally destructive process, yet we're talking about one of every ten people in the city of New York suggests that ultimately there's a high degree of instability as the author points out, rather succinctly, those 1,200 children haven't learned to hate us yet, they're too young, but they're going to come out of there hating us and hating the system that put them there. and hating the system that was unable to educate them because they didn't belong to a particular district, so they could go to a nice or any kind of school; that their health adversely affected by everything from the lead paint falling off the ceiling to just the general lack of sunshine and exercise, and so forth. You're creating battalions of people who have every reason to rebel, and ultimately will realize that, and that's not unique to New York. The same cadres in virtually all the cities, and as a result, we can begin talking about long-term forecasting, not in terms of just employment, but in terms of dis-employment or under utilization of the system and what are we doing about that.

What are we doing about the generation of people that we're losing in our early core cities. We have some sense of what the expectation is of long term investment stability may be. So in addition to looking at the checklist of positive, we need to begin to look at the checklist of what we call the stress statistics. Crimes per thousand, dollars spent in crime prevention, dollars spent on education per child, dollars spent in scores on the SATs, particular educational budget takes a combined score of all students that took the SATs, and you'll find that the number of points has fallen while the number of dollars spent is rising, which indicates that you're getting increasing numbers of illiterate, and therefore the number of unskilled, and therefore the number of people that are bypassed by our potential job market.

All this becomes part of the forecast. In addition, of course are the positive elements: What elements of the SIC code employment are growing, what is the diversity by industry. It wouldn't have taken much analysis of diversity to know that you didn't want to be in New Orleans, Houston,

or Denver at the same time. Once you saw how much was in fact energy related, hydrocarbons, and so forth.

In any event, just setting up a checklist of things which common sense, or other research, has told you are highly correlated with either positive growth in the community or negative growth of the community or negative prosperity in the long run.

One statistic, for example, might be the percent of unionization of the labor people. A statistic important to General Motors, might be a percentage of the labor force that has been involved in industrial time clock, punch clock, type of employment and for how many generations.

Most industries, most investors, having created a checklist, really want to screen out the vast majority of nominal alternatives for whatever investment they want to make. We're talking about an industrial firm that's using it to locate another plant, let's say a manufacturing plant or assembly plant. They may decide one, that they have to be within a certain range of certain markets, and decide what center of gravity is in terms of both raw materials and their distribution network from that particular facility. And computer programs are doing linear programming, modeling of that particular establishment's operation are quite common.

The second thing they might do is they might find, given that we now have a lot of communities that has sufficient population to have both a public and a parochial school system.

Three, we want a college at the university or collage that offers a masters level program, presumably with a bias toward the engineering that we require, or the business management that we require, or there may be, for example, genetic engineering if you want graduate work in biology or in one of the related fields.

Fourth, they might decide that they have to have airplane connections that would facilitate management being able to not only go about their business, but go about their recreational thing. There may be no place there to spend their money. They may want to get to Atlanta, or to Kansas City, or wherever else that may be an outlet to permit the wives and families to enjoy the salaries paid to management.

In fact, the number one block on the location ?? is the willingness of management to go to where might otherwise be

economically desirable to locate. And, it's a two-way problem. If they're in a major community currently, they may not want to give up the amenities of a Minneapolis or wherever to go to some small burg in Nebraska. As witness, for example, of the R.J. Reynolds Company, moving out of, where was it, Winston-Salem, North Carolina, to Atlanta. All the problems they were having getting executives to relocate even to some place as attractive as Winston-Salem, and in many cases even someone puts out at the executive level the critical leadership level for the firm. We're no longer talking about two jobs in the family, we're talking about two careers in the family.

One spouse may be a lawyer, the other spouse may be a doctor, or engineer, and they need sufficient diversity of activity, employment activity, so that both of them can pursue their career objective without sacrifice or compromise to the career of the other. And that may greatly limit the number of choices among those that have met the other criteria.

But, initially, a firm looking at a new plant, new office, new distribution point, may be perceive that they have 50 of 75 communities of sufficient scale that they meet the initial cut, in terms of school system, road connections, and so forth, but by the time you add four or five more significant factors, only one or two fall out the bottom, and for the developer, he really needs to know what those cutoff points are. What are the strengths a particular community offers that would discourage the major technical companies from locating there, or is not quite as glamorous as the big techs, but other types of input that are important for growth and expansion. He really needs to understand the economics of the industry that are within the community.

Checklists are available from a whole variety of sources. NAHB has one for buying land. One of the best sources of checklists, for economic expansion is produced by a group called the Industrial Research Council out of Atlanta, which really grows out of corporate planning activities within major corporations. It really has people involved in translating long term corporate plans as to products, marketing strategies, and so forth, into a then a locational strategy to implement that and they have a great variety of really excellent materials that cover everything from seismic characteristics of a certain area to cultural work ethics and all manner of stuff in between.

The Industrial Research Council out of Atlanta. And as I say, they offer checklists, NAHB offers checklists, and NAIOP (National Association of Industrial Office Park) executives provides a very capable checklist and the presumption among many of them is that that is some sort of scoring mechanism attached that you're going to pick a community and a sector within that community that achieves a certain score or certain frequency of all the desirable attributes that are necessary to make it go.

The second major approach would be generally a less of a do-it-yourself approach, using, for example, the econometrics model offered by Chase. Very expensive, and in many cases dealing with statistical compromises within the model as may or may not be justified as a long term phenomenon, obviously it uses regression coefficients and factor analysis to a significant degree in making a forecast the ?? feedback loops in that kind of system. A tentative at best, certainly not proven, over long periods of time, but nevertheless, many investors use that as the initial selection device to include or exclude a particular region from investigation.

The second phase of that would be to convert the general economic forecast to a specific employment forecast. For example, a number of years ago, before Anchorage went down on a basket, there was a very excellent regional Alaskan economic model, developed for the state of Alaska by Economic Research Associates, which recognized several regional areas, one of which was Anchorage, one of which was a nominal remote coast lands, another region was Juneau to Ketchikan panhandle which were really three distinctly different areas within the total Alaskan thing, each having very distinctly different economic base, expectations and so on. Taking the one for Anchorage, the model allowed you to make different suppositions about the next major economic event that would occur. One would be the Japanese being allowed to develop coal and energy reserves across the bays from Anchorage, another had to do with construction of the natural gas pipeline into the central part of the U.S. A third was related to significant expansion of the fishing industry as a result of moving the protected U.S. fishing waters 200 miles off the coast, presumably would have an impact of fish packing and the whole fishing industry, and so on. You could take any one of those kinds of events, run the model, and see what the impact would be first of all, on the economy, and secondly, in terms of jobs specifically by SIC code. Which employment would benefit from that and what would the various, what categories within that in terms of number of employment. We then took that for our client and

said, all right, you know, what is your best guess as to the next major economic event in Alaska is going to be, they estimate the pipeline concept, not the existing one, but the natural gas line, and we ran it on that basis.

We then looked at the SIC code employment changes that that implied relative to the kind of SIC code in Anchorage. We did a complete census of 32 office buildings in Anchorage in terms of their occupancy, their location, and the nature of employment in each office building by SIC code.

We found four very distinct sectors for the office market, one of which was essentially the downtown core of office, lawyers, and related kinds of folks and state government folks. A second was the banking core, and a third was the energy core, in which the major energy company tended to locate their facilities in a little pocket not technically in Anchorage, and therefore the real estate taxes were significantly lower, and the fourth was essentially the east side of town, near the university, near the hospital, that tended to be research oriented, medically oriented, and to some degree, consumer oriented towards the upper income folks that lived on the east side and moved up the mountain slopes along the east side of Anchorage.

You can then look at the SIC codes of each one of those and say gee, given the forecast of how employment's going to change because of this economic event, it's zone 3 would give folks the impact of that. The problem with that is that the oil companies tend to own their own facilities and therefore, there would be very little spill over in the rental office market, and if there was spill over, this is where you would want to be as opposed to the university area, which is where our client happened to own land in Tudor park, and had great expectations for living space or office space were quickly shattered by moving an economic model to an employment model in terms of that type of employment that required office space and would presumably create a demand for new construction.

On the other hand, if you grab the fishing and improvements scenario, commercial fishing, not sport's fishing, the impact was very diffuse because the fishing ports typically were more remote in small communities and scattered up in the Aleutian islands, perhaps more toward the Bristol sea area. And therefore had almost no impact on Anchorage at all. There might be one or two brokers with a telephone who would sell canned fish production, but beyond that there was no impact on the office. Once you move out of the area less specialized than Anchorage using the same approach, which I

think is demonstrated in one of your readings by Kelly, allows you to make a little more favorable and conclusive estimate as to what the opportunities may be in the office market, driving off the economic forecast for the immediate area.

Probably the economic model driving the SIC codes is currently more sophisticated investment than development tool. The most dominant of the forecasting methods for the long term environment in which the investment is expected to operate, and hopefully, prosper.

The third approach is simply to look at the existing industry base, understand it's economics. Jim DeLisle alluded to that, he commented last Wednesday if you think you're going to be a wholesale distribution point ask yourself, okay, where do the containers get broken down, that easily isn't in the port, Baltimore. There going to move the imports to some other point more favorable to redistribution, reshipment in smaller units, and so forth. Then, of course, Columbia, Maryland is a classic example of a community which has prospered over that, become a major distribution point for merchandise coming through the port of Baltimore, and not staying there, simply going out on flatbeds and containers are getting broken down in an area which is less subject to stock crime and less subject to all the evaporation losses that characterize the traditional deep sea ports in the U.S.

The meat packing industry may have its own economics as to kind of labor it requires, the supply source for meat that it may require and its ability to transship raw materials from one location to another. If you were to analyze technological trends in the meat packing industry. You have some sense of where Oscar Mayer might be going and what kind of departments might grow, what kind of departments would in fact be shut down and have been shut down and again, the local analyst will be able to look at both industries most likely to have a growth in employment, those which are on maybe a stabilized basis not necessarily going to grow anywhere and those which are going to fall apart at the seams.

Milwaukee is a good classic case in point where the economic observer could see the brewery industry, which of course had the spotlight, in terms of cities in the United States and a steady rate of decline for several reasons. At the same time, Milwaukee's growing as a high tech city, not generally recognized as such but its major export product are electrical goods and machinery, and Allen Bradley,

Cutler Hammer, a variety of others, Rockwell, General Electric, and so forth, and obviously by positioning your investments relative to those kind of growth elements, you're going to have the long term stability that means your restaurant, apartment building, or whatever is going to have a more sustained effective demand than not.

The ability to analyze the basic economic industry which is the driver of the community is typically the critical missing assumption in most feasibility studies. One of the classics is the proposal to develop El Dorado, California, which was to be to the east of Sacramento, in the foothills along the interstate on its way to Yosemite Valley. And the argument made for it were all the right ones, that Sacramento would continue to grow at the rate it was, the rich, agricultural base in the San Joaquin would be all converted to urban development that the infrastructure and so forth would not really permit much interesting recreational or differences in terrain or all the life, whereas the foothills contributed nothing to the agricultural base in the area, but it did provide the terrain for interesting home sites. It did provide an interesting recreational base in terms of existing parks that were already in place, and so forth and so on. And so, you were getting a whole statement as to why El Dorado would be a natural way in which to permit Sacramento to grow. The report by Real Estate Research Corporation, which was doing the feasibility study for the lenders on El Dorado stated that if Sacramento continues to grow, and if Aerojet continues the same rate of growth that it has enjoyed in the last 10 years, then figure out the absorption rates for that would characterize the El Dorado development. Very favorable and very happy.

The only critical element was, of course, would Aerojet continue to grow because Sacramento was growing because Aerojet was growing. It didn't take much economic research but they didn't do it, to discover that Aerojet's fortune had already been determined in that six months earlier the space program had decided to stick with liquid fuels rather than convert its moon shot program to solid fuel. And Aerojet which had gone from 2,000 to 21,000 employees went back down to 3,000 employees and so went Sacramento, for the next six or seven years and nobody's ever heard of El Dorado. The foothills are pretty much undisturbed. I understand there is now a development east of Sacramento called El Dorado, but it basically a subdivision and not a new town.

Then you do basic research on the economic environment in which the other forecasts are expecting to the operate. In many cases the initial economic forecast tends to take conventional wisdom for the model rather than do its own research. Seattle is a good case in point. A number of years ago when Boeing had worked off its backlog of B47's and B52's and was still in process of attempting to sell its new line of related air transport plane, the 747 and the 727, there was a tremendous lay off at Boeing. People thought Seattle was going to blow away, and somebody posted a billboard on the edge of town saying would the last man out turn out the lights.

The fact was if you did the research and the gurus were doing the research at that point in time. The employment at Boeing had fallen from where it was maybe 27% of the base industry prior to this period of layoffs was in fact only 11% of the total employment in the Seattle area, and the Seattle/Tacoma area was really much healthier than superficial judgments that, as Boeing went, so went Seattle and that sort of thing. And as a result many fortunes were made positioning themselves in real estate taking advantage of the fact that the premise that Seattle really depended on Boeing really wasn't valid and a little more detailed research as to where Seattle was going and the diversity of the employment became a major prophecy.

The same was true in Wichita a few years later which depended at one point in time on the light aircraft industry and again the city fathers decided to correct that and recruit deliberately in terms of the defense industry and the high tech market to a point where they greatly diluted the impacts of the light aircraft industry on the total prosperity of Wichita in order to stabilize the real estate values in order to make more projects more reasonably feasible.

The economic forecaster in some areas builds their own models of the community Howard Thompson I think has done one of Madison in the past, but generally the power companies are those that build the first forecasting models. Their capital budgeting program require long term anticipation of growth, and therefore for the developer, the first thing he would like is access to the local electric companies economic forecast in which they are basing the sizing of their major trunk lines and the pace of their development and extension of service.

I don't know how many of you have seen some of these models they are very detailed and produce maps which indicate the

pace and direction of service extension to which in itself therefore is a major almost a self-fulfilling prophecy as to where the growth in the community is going to take place. Obviously, it's not going to go where the electrical service or the gas service and so forth is not and it is therefore very useful to have some sense of what is already programmed in the area. You'd go nutty watching the graphics on these models because the computer pen will start up in one quadrant of the overall map and will draw whatever lines are required which doesn't seem to have anything to do with the rest of the paper and go on to the next quadrant and draw those lines and when it's all done all the lines match up. And you can see exactly what the distribution systems are going to be, where the substations are going to be, what the capacities of the various lines and systems they're going to need, and the generally as to what dates they are going to be in place and available for public service. So you have some sense of the pace and direction

(2nd side)

of community development. Now whether you accept all the assumptions of the economic model or not remains to be seen but in most significant urban development areas the local power company's model is having far more control on the rate and direction of growth than you might otherwise have been imagined.

Question: Are these publicly available?

Sometimes they are, sometimes they're not, but I would say generally they are available in that the electric company has a vested interest in producing that growth.

Some of them will go even further, for example, in Denver, the home builders have worked out an arrangement with the electric company that not only shows the direction of long term capital investment but shows the number of meters that are in place in each block and the number of meters that are being used so that you can have a sense of the vacancy rate in each of those areas and they also have an indication of the number of meters installed and the rate at which the meters installed then become meters that are producing revenue so that you can have some sense of how quickly that 50 unit apartment project was in fact occupied and so forth. And they'll provide all of that type of data.

In some areas the national association, not the national association, but the local homebuilders association will have very kind of detailed demographic and economic growth

models available to their membership. Particularly true on the west coast, for example, where those growth models also play major roles in litigation where the home builders are fighting moratoriums on roads because the sewer system is presumably not capable, or the recent fight about a moratorium in Orange County about traffic congestion and how many dollars the builders are contributing towards highway development before it's allowed to develop its tract of land and so forth. The product of all that type of resistance to growth or certainly challenges to the real estate investor. The decision is producing locally very sophisticated long term forecasting as to the nature of the population, their disposable income, their traffic patterns, and other information that the feasibility analyst really should incorporate into his plan.

The third area at the very local level are the regional planning commissions. Some are relatively crude, others like SEWRPC are very sophisticated in terms of their regional model. Their regional models typically specialize into one particular planning function or another, for example the SEWRPC's models on highways traffic volumes cost are very very sophisticated perhaps the standard for the country. They can measure the frequency of accidents along a given route, the average property damage claim along a given route, the average number injuries per 10,000 miles along a given route, and so forth, and begin to identify which sections of the highway system are in immediate need of redevelopment or which intersections need to be expanded in terms of their capacities and so on.

The federal government requires that metropolitan areas file congestion studies annually and these studies are available from either the state highway department or the federal program, and they will measure some standard unit of capacity for a major route. And then the degree to which that to capacity has been reached or exceeded as of a certain date.

So if you're trying to decide where to put a shopping center and the two traffic routes to that shopping center both exceed the stated capacity of that system, you're adding another couple thousand cars a day. One may be mightily resisted by a local planning authority or ?? they may suggest that your center will be less successful simply because you will not have apparent accessibility of that proximity of the road system may have suggested. Because there are already too many people already on that road. Again, all that data is available certainly a measure of the

current economic prosperity and to some degree the future economic prosperity.

The regional planning committee also generally maintain the capital budget five year plan for each of the communities within their areas of jurisdiction as a way of anticipating future growth.

It is a trick that was originally developed by the private sector for southern California. There was a firm called Property Research, Inc. during the heyday of California's expansion and they literally had a war room in which they catalogued each legislative decision relative to the construction of freeways, bridges, storm water collection systems, , filtration plants, sewage processing plants, ?? fields, all that type of public infrastructure. And they would match that daily on very large area maps of the southern California area in which they were interested and then indicating the time date at which that particular facility was to be built or operational, and would see very quickly a pattern emerge. They had people stationed in Sacramento so that they picked up all the legislative and state departmental decisions, piece by piece on the highway systems and so forth and they also had people that made it a point to monitor all public budgets of all communities and their planning areas. The federal government required each community have a 5 year capital budget, explaining where their priorities are, which facilities were going to be built when, as a condition of receiving federal assistance. There was a relatively uniform but nevertheless very useful time distribution as to when this public infrastructure will be in place, and therefore supportive of your investment.

Real Estate, the property research people would then buy land that had a pre-determined time fuse on it. So if you were a basketball player whose had 5 more years to go on his career in the good old days when you could subtract all the carrying charges on land rather than capitalize it he could write off the charges of carrying that land forward as an income tax deduction against his high salary as a starting half-back, pitcher, basketball player, or whatever. In fact, the hired their sales force was almost entirely professional athletes who had since retired who had access to people with income with high short term spurts at a time when marginal income tax rates obviously were very high on those people and the results were spectacular. The big majority of investments were matured and were salable at significantly higher rates on exactly the schedule they forecast for them and the impact that of the cumulative public infrastructure became available, or became known because as I say, for the

local investor, that regional planning commission that catalogued that type of 5 year capital budget program, matched it so that it could have some special sense of how it's distributed over the land area would also determine where it is you search, for the most feasible and most desirable opportunity.

The land play, as it were, is reaching the point where it formalized. Over the weekend I read a prospectus by Marshall Bennett called the Bennett Fund, and their objective is simply to analyze the political and economic bases of various communities which they identified demographically as likely to grow. They're all third and fourth tier cities and they'll buy land selectively in those areas, generally about 500 acres at a crack and go through the political process to get the zoning and whatever other infrastructure connections are necessary, and then flip the land.

They anticipate a change in price over a five year term by a factor of 3 1/2 to 4. So if they pay \$5,000 for the land up front, they expect to be able to sell it for \$20,000 more or less per acre downstream, after they've zoned it and so forth. They select the communities on the economic modeling base and then within the community, select their site upon a checklist basis being most likely to be in the path of the anticipated growth of that particular community.

Typically they don't have to succeed on all of it if you consider that they buy 500 acres and pay, let's say, \$2,000 an acre for it, they have \$1 million invested on an all cash basis anyway, and if 100 acres of that goes to \$20,000 an acre as a result of their planning and hiking of the area they already have somewhere in the neighborhood of \$20 million back on their \$1 million, they never do anything with the other 400 acres at all, they're home free. So the land play within the context of economic forecasting 10 year term is moving out of the area of wild-catting and moving into the area of legitimate institutional investing.

As Marshall points out the rate of return in land has been 25% to 35% IRR, over his lifetime, and there's been virtually no real risk in that at all other than timing, so they have property which will appreciate in value. There is simply the question of when and whether a five or ten year forecast is appropriate. Marshall's best investments required 15 years before they ripened but his fund is using a seven year horizon, with a 2 year add on in case they fall in the wrong end of the ?? cycle, and they can't sell the last piece at that particular point in time.

Greg?

Student: How far do you go out of the path of growth before your carrying costs over the years get too high to make it a worthwhile venture?

Well, it's not an easy question, because under the rule of 72, you figure a 9% on your funds that you carry every eight years the land has to double in price just to cause you to break even. So what you obviously are seeing is primarily residential there is very quickly a cap on how far the land value can go and therefore a relatively short time period on how long you can hold it.

On the other hand, if you can see it as fundamentally commercial and the state's dying for people to get the next year of hotels and super markets and strip shopping centers into your area you can afford to hold it considerably longer.

Really what you perceive as the density of use that is going to take place on the backside determines how long you hold it. But typically a piece of land will have multiple uses.

Question: Isn't it then hard to forecast what those uses are going to be that far out?

Well, sure what the specific use is going to be. The point is to get in the path of progress and let somebody trip over you in the future. You may not know whether it's going to be a Holiday Inn or a Budgetel but you may have a pretty good sense that the patterns repeat themselves, that the 150 acres of this intersection adjacent to the interstate once a community gets out to that point will have a model of a probable mixture of uses and they tend to pay \$10 a square foot as opposed to the residential folks who can only pay about \$9.50.

So they begin with a master plan and discount back to find out what you can afford to pay for it. But the patterns nevertheless hold up. Assuming of course culture and the way we do things can hold up as well. Most feasibility projects as we suggested earlier tend to take the continued prosperity of the area as a given, and this is probably why often they fail. They either anticipate that it will occur too soon, or they anticipate that it will continue as before, when in fact it's a highly cyclical stop and start

phenomena of growth, consolidation, maybe a small bit of decline, followed by another increased spurt of growth.

I think that Donald Trump who points out that when he buys land, he may have not one use, but three or four alternatives scenarios as to its use in the long run and tries to buy the land that the least successful scenario will still work. Anything you do above that is gravy. If you are gonna buy land, buy at the price of corn land, and if worst comes to worst, you continue to plant the corn.

In terms of the upside with the previous owner who felt he would rather have cash than a risk position in the land. Though most people feel they can forecast the future correctly, most of them tend to exaggerate the present and fail to allow for the time lag between events which ultimately will produce desirable rates of growth and the time it actually takes to occur. For example the Bellevue plant in Belvedere, Illinois, when it was first announced produced a significant flurry of home and apartment construction in Belvedere, and both of those developers failed simply because it was 3 to 5 years after the plant was built before the work force began to rethink where it was appropriate to live. One they began to enjoy the work and then perhaps have confidence that the work would remain, and they began to think about changing their fifty mile commute from some small berg to the Belvedere plant to a point where they would move closer to the plant look where the community development is and locate accordingly. But the actual boom of housing, apartments and retail support did not occur until about five years after the plant opened.

Question:

They simply anticipated incorrectly the time lag that occurs between the economic base event and the filtering of the impact of that down through the real estate and economy and obviously you don't want to get in ahead of that. The saddest thing is always a restaurant built outside the ?? Air Force base, someone immediately jumped on the premier site right at the main gate and so forth and built a \$250,000 restaurant. Unfortunately the airport never opened, nor was the construction ever completed, nor was the restaurant ever opened and the structure is still there to this day, simply no sense of time lag between the positive economic events as we know it and the filtering of the impact down on the real estate.

OK. I quit, for the moment.

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Lecture 7-1

The first 795 seminar is this Friday, from 9 til 12, and there's one til four or four thirty with Jerry Shlaes, with JMB, and also the Cadillac Fairview deal which is the largest real estate transaction I guess, to date and will be holding forth at the Edgewater in one of the two ballroom units out there on the first level.

There's also more important --apparently a pizza session directly thereafter which are social German ?? ?? Suggested I alert you to the place?? However, ... the pizza is left over Dominos from last weekend. (Laughter) However far the pizza will crawl will be where the party is at. The handouts currently are the readings from the Clapp book which you were missing for one reason or another in your readings. The one text by Messner, Boyce and so forth which was mentioned a couple of times in the syllabus shouldn't be in there, you're not responsible for that.

Anything else you don't bring to my attention you're responsible for. You tell me the day before the exam, "Gee I didn't get such and such," that's your problem, baby. You find something you're missing and gotta have, now's the time. Otherwise it will be a very comprehensive course. Anything that wasn't in the pack will be on the exam, so.....??

OK, anybody that needs coaching on their project see me after class and there is one more handout coming its a piece by Goodkin.

The subject is office space market research. Others think there are several stages into which the so-called market and merchandising analysis all can go. The first is some form of economic model for the immediate metropolitan market area which will convert to SIC employment by various codes which can then be converted further to the number of office type jobs that are represented by employment in each of those codes. Those numbers are typically available from most economic forecasting services and office of unemployment records quite often will also have that for particular space while state office of unemployment numbers are not available per business they are available by SIC code. And subdivided in terms of locale so that you can get some sense of growth and the percentage of growth in each of those categories that represent office employment as opposed to field employment or production or

manufacturing or whatever. Those are reasonably sensitive numbers as they have to be reported quarterly and become a very useful base for local economic forecasting.

Once you have some sense of the total employment within some geographic boundary or definition of market area obviously it's further necessary to subdivide into a number of categories. One traditional category of course is by rent or class of building, A, B, and C. Class A buildings are typically those with full parking support elaborate lobbies, speed elevators relatively modern architectural finishes on the interior. B class space is generally missing at least one of those things, typically office parking space, but also the office module and interior finishes will be dated in one way or another. C class space typically doesn't not have supportive parking, typically its lobby and elevator areas are only marginally significant and typically the buildings are cut up so they do not lend themselves well to contemporary office layout, either due to the columns or to the fact that they're converting from department stores, or other older style office buildings and therefore represent a fairly inefficient use of space. Beyond A, B, and C you can further subdivide that into one downtown or suburban, and second of all, we have found it useful to subdivide it between those buildings which had sufficient image that businesses whose clients come to them would locate there as opposed to businesses in which you as the business person would go to the client and therefore the image of the building, status and so on and so forth is not that significant. And we've found in a number of studies that this is often a very significant cut in the marketplace. Accountants do most of their public accountants do most of their accounting in client offices rather than their own and therefore tend to take more utilitarian kind of space, less conveniently located, but perhaps with more than adequate parking space, where their own staff can come and go without circling the block for hours looking for parking.

On the other hand those clients who come to them are the type that will pay for atrium and fountains and glass box elevators and the other kinds of architectural bric-a-brac that presumably suggest the success and the good taste of the tenant and hopefully project that image to the client of the tenant. So once you move around A, B, and C, suburban or downtown then further subdivide in terms of those buildings which are utilitarian or are willing showcase the tenant in appropriate fashion. Quite often the C class space is converted from an old building with the correct architectural features that will showcase the tenant next to the cannery in San Francisco which recently burned, but

there was an old warehouse that was done in a very elaborate artsy craftsy fashion definitely B class and C space but by being that camp and that pseudo-nostalgic particularly attractive to a certain kind of ??clientele, financial planners and some of the lawyers, and others again, whose clients came to them and found the romance particularly of the wharf area part of the marketing of the business end of it, so just the fact that it's C class does not exclude it from being a showcase for a certain category of clientele.

The next level of cut then typically is the bay station of an office building. The presumably efficient office today would be more or less in the neighborhood of a 9 by 12 using a module probably of 3 foot 4 and then many of the removable wall partitions, door frames, etc. would relate to a 3 foot 4 inch module and much of the office furniture, office equipment, related kinds of things are designed around that module so that as you move away from that you start creating spaces which are no longer efficiently sized and so on. A good example of how not to do that is the Anchor Savings and Loan building which had a vertical mullion in it which I think is 6 foot or 7 foot on center and unless you're going to put a wall into the middle of the window you end up with offices that are 14 feet wide or 7 feet wide, neither of which is very efficient kind of space, 14 feet allocates really too much window area to a single office and for that building in particular, which has a lot of deep space which is windowless itself that's not a good idea and 7 feet obviously is a little bit cramped and isn't even a good size width for medical treatment or other space either, and it was designed from the outside in. The architects drew a pretty picture and the seven foot mullions worked out very neatly with the initial scam with the board of directors and then they were stuck with it and they'd already laid it out. Obviously good office space is laid out from the inside out. What module do you want, what kinds of relationships and lay out do you need, and so forth and that is what ever shape evolves is what shape evolves. Truly form follows function.

And that module will create very quickly an obsolete building or a building that can hold its value for a long period of time. Remember as a tenant in analyzing his space needs and ultimately his budget is going to do a tentative layout on the space that he is hopefully going to rent, to arrive at a certain amount of carpeted usable area. And he's got to house so many people and he's got certain other functions which he wants to house and so forth, and now he's going to pay based on the dimensions established by the outside walls of the office plus the demising walls from loading for the common areas of the building. Well, if

he's got columns running through his building or, like we've got in here, he's got radiators protruding into the building and so forth then the amount of usable space is significantly less than what he's paying for and ultimately the savvy tenant is not going to look at his rent in terms of cost per square foot that you quoted him on some of the larger gross area, he's going to look at it in terms of the net usable footage or module or even more likely by work station that he can create in that allocable space.

Question: What's the magic about a 3 foot 4 inch module?

Well, a three foot door with a 2" stud on each side is 3' 4". In other words, if you look at the frame, and panels for one reason or another, are either 3' or 4'. The old module used to be a 4' module. A 4' module will leave you with an odd piece, because there aren't very many four foot doors around. So you end up with a strip.

Student: 3'4" and 4' are all?? convention?

Any other input on that from my Regard and Hart?? text? The three four module works better for commercial, the four foot module works better for residential physically.

Yes?

How do we get window volume? ??

The window volume is that vertical bar between those two windows there, the vertical bar that goes all the way up. It's a mullion. OK. Now in the case of the Anchor building, its pre-cast concrete thin ?? or mullion, which is immutable. You're not going anywhere with that. You either butt your wall against that mullion or you butt your wall against the glass, and architects frown on that, because architecturally and aesthetically it doesn't look so good.

OK, now once you've figured out what the module is that you're marketing, the work station and so forth, we can begin to define what is regarded as the competitive supply as well as what it is you're hoping to market and therefore what we need to do a market analysis or forecast on. The office market really consists of three different major sectors that the analyst needs to inventory and forecast. Ironically, the first one is not the growth of the market at all, the first one is the number of tenants likely to be dispossessed and relocated because of expansion of other tenants in the building in which they're located. So if you're looking at downtown Madison you'd find that most of

the buildings there are office buildings owned by the bank, the power company, insurance companies, and others and most of them would be expanding. So probably lease clear space to anticipate that with time, a certain number of the tenants there would be pushed out to honor the expansion options of the major tenants, or for that matter, the owner of the building.

So if you're thinking like a real estate broker or leasing agent, the first thing you need to know is how many square feet of folks are likely to be relocated, not because they wanted to go, but because their control of their own space is limited in time, and the building is in the control of those who have other expansion needs for it.

Number 2 are the existing tenants who themselves are going to expand beyond the perimeter of the available space of a particular building. This is the number 2 cause of relocation.

Number 3 would be general growth in the number of employers or establishments that are new to the scene.

Notice the first category, those are getting pushed out, are much more easily forecasted and pinpointed as to when they're going to do that. They have a lease term that's going to expires. They already have a certain number of minimum square feet and if they relocate, what else are they going to be required to have.

One of the reasons existing office operations are so successful is that they obviously have inside information as to where those are and who they are. One of the major plays in industrial espionage in real estate today is for those that pretend to be in the acquisition business to look at a building that's for sale only to take a look at the lease rolls. So many of the institutional sellers of property would not give you the names of tenants. They will indicate that we have 25,000 square feet expiring in January 88 another 50,000 square feet expiring in 89, but they will not provide the names of any of the tenants because obviously one of the best ways to do an accurate forecast is to have the name of the tenant and that's true in both cases one and two. Either those who are going to be pushed out as a result of expansion involved in the adjacent office spaces or those who themselves have outgrown the ability of the project--and so the really effective market studies are done by those who have canvassed the building to find those out. What so often happens to feasibility analysts, tries to find an easy way, wants us to find aggregate numbers from

economic modeling that does so many thousand are going to go and so forth and this is where the Trammel Crows and the Gerald Hein's and the Grubb and Ellis's turn up their noses at feasibility studies, because they don't want to disaggregate down from aggregate data.

They have people out on the street every day canvassing each building, each tenant, finding out what their space needs are, what they perceive their deadlines to be, picking up as much military intelligence as it were on the tenants in those buildings as well as the major tenants or owners of those buildings to find out which way they are going. And that becomes the basis for deciding on building another building. By the same token if they already own a significant amount of office space, they can begin to see which of their tenants are out-growing, that That becomes their prospect for their first tenants in their new building. They say listen move from here to there in the new space etc., and they will solve their problem of meeting their expansion option for their other tenant and at the same time there's a lead tenant in the new building. So it's extremely difficult for the feasibility analyst standing on the outside looking in to get the same degree of reliability on his forecast as someone who's already in the business and is maintaining a computer file on every building that they feel is significant relative to their market potential and has catalogued virtually every lease that they can acquire information on to move that forward.

That means, then, that the only thing you can really compete as a feasibility analyst with the existing office entrepreneurs is in the third category, trying to identify the future demand of newcomers on the market. Where are they going to come from, how do we reach them, how do we forecast that, given the economic base in the community, and the anticipated growth or non growth. Of course, just about the time you get that kind of forecast done, variance goes out of business, or whatever, and you have to say gee, but that's going to mean my forecast in downtown Madison, the need for 40 or 50,000 square feet in downtown Madison and now somebody goes out of business who's business is using 20,000 or 30,000 square feet what's the significance of that to my space forecast for absorption and so on. Again, it pays you to know the microeconomics. You have to understand the Verex building, why it was designed, what its physical design limitations are, and you become less concerned about it as a local tenant type of space which it's not. It's not designed to have corridors. So you either rent by the floor or you end up with a very shoddy kind of interior, pretty well chopped up particularly when

you try to meet the fire code. And that's why the useable space is important.

You can't take a building designed for a specific tenant/client who could use an office furniture layout and convert it to multiple tenant space and still be class A space. You'll end up with class B space no matter what it looks like on the outside.

Eppli: Did you say it was really impractical for the analyst to try and predict one and two?

It's not impractical, but in many cases, unless he's willing to pay the price and just survey it the way the appropriate sources have already surveyed it, he's not going to get a very reliable forecast. Insider information is what it amounts to.

So along those lines, It almost becomes if you do an office market, perhaps a building outlook, you can't really do the thorough job and really produce a product the industry wants or accepts?

Well, I guess the first question is if we're talking about an office market in which almost all of the demand is a result of folks being pushed out or folks outgrowing their space, the outside observer is at a distinct disadvantage to those that operate the office building. If we're talking about however, a market which has an overall anticipation of general growth as a result of the economic base shifting and so forth then you're on a par with everybody else. Making a forecast. You have a different marketing problem. You're going to be selling to a different group and your secondary market are going to be those that are being pushed out and walk in your office building. It will be much more difficult to anticipate who those are and get to them first. Does this get at your question?

Yeah.

So in a stable market the economic forecasters are at a distinct disadvantage, and in a growth market they get to be on a par with the existing developer types. The forecasting method, the Kelly article is probably the best piece we have seen on that to date. There is obviously very rapidly growing sophistication and refinement of the forecasting method. At one time it was just we assumed that if employment in a certain market grew at a certain rate, that a percentage of that was office employment and a percentage

of that office employment could be captured for a particular sector of the community.

The second step was to realize that the linkages of different office sector really attracted a slightly different kind of clientele and we've already talked about for example the Anchorage element in which having done a census of all the tenants in 32 office buildings it was clear that the attorneys and the accountants were downtown along with the latest enterprises like insurance and so forth were really the kind of local business cadre. The second group were the oil companies who had found their own little niche for the energy group. Which as I recall was partly in a non-incorporated part above Anchorage. I don't think they paid Anchorage real estate tax through some fluke, and the third group was out near the university and the hospital sector obviously appealed to those elements including National Geodetic Survey Group, Geographic survey group and medical clinics and the latest heading of that sort, and the fourth cadre tended to be the banks and insurance companies and that type of group.

So if you were forecasting a certain kind of growth rate, it was going to have its impact in one sector or another of the community. And that could be reasonably well-identified in your forecast on a general basis. That's probably true of most office spaces. We talked about the necessity of tracking lease or tenant movements in a market. Again-- painstaking, clerical kinds of work that most market analysts don't want to do. For a real estate market is a series of micro markets. And you really have to track on that.

For example in Chicago currently we're working with the upper State Street authority, we've been in the process of condemning older buildings along upper State Street. Expecting to clear them and re-develop it as more of a specialty retail area and so forth. And any number of these buildings are relatively older, eight to 10 story office buildings, built probably about the time of World War One, or maybe it's earlier. And the owners of the buildings have submitted appraisals which reflect the land values of, probably, LaSalle and Madison Streets, within a block or so of the Federal Reserve Board and so forth, and they're alleging rather high values for their sites. So as a result we had to implement a tenant movement site analysis. They indicated that the kinds of tenants that they're reflecting in terms of their land values that are located in the premiere office district of Chicago, never had and never would be on State Street. The linkages simply aren't there.

And you have to look at what had been the tenant movement-- where have they gone, who would move, what are the linkages toward which they are moving?

Once you've established that movement, you've defined the market area, and therefore defined what in this case, from an appraisal standpoint, was the market area for the site. We've talked about it before in here, in the Milwaukee market, in which you get a great deal of movement north and south, along three axes. There's one market west of the Milwaukee river, which really relates to the food brokers and the more small business, independent insurance agents, etc. etc. You have one group along Water Street, which are the attorneys, investment banking houses and so forth, both related to the bank industry, particularly so before the First Wisconsin move, and so on. And then you have a third market, that's east of Milwaukee Street. Now if you were to look at that visually you would say that was all the downtown office market. But in fact almost nobody that's on the west side of the river moves to the east side of the river when they make a move. And almost anybody that's along the Water Street corridor does not move east. They move north and south on that corridor. In that case it's only about two blocks wide anyway.

And again, those that are in the rental market, east of Milwaukee Street, remain in that market. Even if they change buildings, they still stay east of Milwaukee Street. As those are the linkages would probably relate best to where they live, who they service, and the other elements that they're looking for in a location. By having identified those three sub markets, it becomes much easier then to define what is the potential effective demand for office space.

At that point again there is no help, other than simply going out and doing a census of all tenants and all space available in buildings which the analyst regards are comparable to the subject property that you're trying to establish feasibility for. You will find perhaps that east of Milwaukee Street at one point there was six hundred thousand square feet of net rentable space, in A or B category, prior to the existence of the First Wisconsin building. You would probably also find in the Milwaukee market that 9 to 10 1/2 percent of that space moves every year. They either outgrow their space, they get pushed out, the parking situation gets to them and they decide to solve their parking problem by god, and so forth. And so you get that as a basic premise. At that point, you know, what your total potential market is. All existing tenants, if you've

got 450,000 square feet, or 600,000 square feet, and ten percent of them move, you know your absorption rate's going to be 60,000 square feet less. Now the question is, what's the capture rate of that opportunity, of that window of tenants that are on the move. And the capture rate of course is going to be a function of your amenity package in terms of location and rent structure and, you know, other features that you're providing. If the number one cause in your interview, of those who have moved in the past year is that the parking problem got to be a fairly big pain in the ass, then, obviously your project is going to have to market parking. If on the other hand they didn't like the energy costs that were being passed through, that the total cam and escalator package was equal to or greater than the base rent they were paying, and the landlord wasn't giving them a good accounting of how those monies were being spent, and so forth and so on, they felt they were getting gouged, and it was out of line. Now we're talking about a building that not only has to be efficient, in terms of its operations, but we're talking about some sort of lease program which provides, up front, an awareness of what it's going to cost the tenant, and for him to understand where his charges are coming from, and so on.

And so, whatever was the basic burr in the saddle, that caused that ten percent of the market to move, in a particular year or two, is what you need to find out. Having scaled the market to 60,000 square feet, now find out those tenants that move, and at that point direct interview, or market survey research of some sort--mail, telephone, focus group, whatever--comes into play.

Later on in the semester, Jean has completed focus work down in Racine, with a professional focus type moderator. And we'll play one of those tapes for you. They are all TV tapes. I don't think you want to listen to it for hours, but at least fifteen or twenty minutes, you can get some sense of it, and if you have a good ear, you can begin to see patterns emerging. In this case we did it before we did the mail survey, to find out if our survey questions are on point, whether there were other issues that should be addressed, to confirm what you hear in an isolated way from one or two observers in a focus study, whether that's a general pattern, or value, factor that's characteristic of the larger market.

I guess essentially what I'm saying is that ultimately, for the first two categories, nothing beats just doing the grunt work, identification of specific kind of interview, collection of data at the micro level, not only of those who

are there, but of those who have moved, to and from there, in a relatively recent period.

Now the third element is a little more chancy. Forecasting of economic growth.

Bill Mundy, and I think in one of the readings that you have in your reading packet--points out that there is generally a relatively constant ratio of floor space to total employment. That if you track in a time series, generally on an annual basis is good enough, occasionally on a six month basis, surely nothing more refined than that, the amount of available space to the total employment in a given district, however it is you're going to define the district. But you would find that there is a relatively constant ratio of rentable space to the number of employers. Maybe it's 200, maybe it's 300 square feet, something of that sort. As the new building comes on stream, the amount of space available for employees obviously is going to increase significantly. Suddenly it's 350 or 400 square feet. And that's a little sign telling you, uh-oh, we're moving toward over-built.

By the same token if you begin to speed up, edge a few feet below the norm, goes from 300 to 290 to 280, it's certainly a sign that suddenly, there's becoming a shortfall in terms of the space available for employees, and obviously the demand for space is growing faster than the availability of it. At that point you begin two projections. One, a projection of employment, as defined by the time series you already have. Pushing it forward anywhere from five to ten years. And second of all, a projection of space, given what you know about plans to build, permits that have been issued, funding that has been committed but construction hasn't started, or space that is now coming out of the ground and will be available two years hence, and so forth.

So into the future you try to forecast that same employment to available space ratio, to see if there isn't a window, that you can hit with a project you're proposing. If there's a three year lead time, before you can get your permit, evict all the tenants at whatever site you're clearing, re-develop, etc. etc. etc., and then build the building, you're really starting to look at what happens to that ratio three years out, and thereafter. And that obviously gets a little touchy if we have a case presently in Oakland, California in which the port authority sold the site to a developer, who had a reasonably good market study done, which indicated there was a window, for about 18 months, in which there would be a significant shortfall of

office space, relative to employment in downtown Oakland. And on that basis, the developers went ahead and bought the site, struck the deal with the city but then the city went into a swoon and they didn't finish one, the parking ramp, and two, the street and sewer connections to the site. And the bank wouldn't let them start construction until they had the sewer and the street to the site, which is not an unreasonable condition of a construction loan. As a result they missed the window, and came into the market exactly when 2 other major office buildings in downtown Oakland came in, and died eventually, the bank ended up owning the building. And the essence of the case is, essentially, now that the bank is suing the city of Oakland redevelopment authority for having caused them to miss the window by 18 months, the defense is, market research isn't all that accurate anyway, you were taking a hell of a risk that you could get the building finished and available for tenants to move in that sort of window, and you didn't make it and so, well, that's the way business goes, but there are so many other intervening possibilities that you missed the schedule. But you surely can't hang your hat on market research. Particularly on simply a moving average of employment, to square foot of available space which suggested this was the 18 months you wanted to come on stream, if you were going to come on stream at all. Kind of an interesting case. And that's the essence of the case.

Now what we're looking for as far as the cities for the city of Oakland are concerned, is how can we demonstrate that that type of analysis is sufficiently reliable to time, you know a development in which we're talking 15, 20 million dollars ultimately riding on a relatively simple time series ratio. Granted that the employment numbers have been carefully refined, and granted that the inventory of space was carefully done.

Yes, way in the back. Craig?

"Isn't an initial lead time of 3 years for an office time, 18 months, kind of a risky type of time frame to work with. It seems to me that anything can go wrong, and if it can go wrong...."

Well, obviously a lot of other things can go wrong, the economy can go to hell and so forth and so on, but. No, that's the kind of time frame the developing people are working on.

"Well what if he's off by say, 6 months on employment or 6 months on the space, or...."

Well, that's quite a possibility, the question is, can you survive that. In other words, the next question for you feasibility is what's my risk management plan, what if I am off by 6 months? Do I have enough money to wait it out? Or is there something that I can cut back? Can I pre-lease? Can I design the building so I can move tenants in on the first five floors while I'm still finishing the other five?

"That's why you really want to give incentive to contractors."

Absolutely. That's why time is the great extortion factor in real estate. Obviously a union figures that out, pretty soon you have a jurisdictional dispute somewhere along the line. And your question is to win on principle and lose all to principle, or pay to get done with it. And the question is who do you pay, the union officer or, the union employee? Developers get paid for that little problem every day. Because they are in a very narrow time frame. In which they have to hit their market and hopefully have some monopolistic advantage. That's really what we're talking about.

"In, these guys who are employing the union people, can they usually enforce the non strike clauses pretty strictly, or is it ...?"

That's a pretty tough thing to enforce. I mean, the flu could strike a lot of your union members for several days at a time. Nobody's ever been arrested for having the flu. Or a hangover, for that matter.

"If you get something like a Trammel Crow, that does business with these kind of people all the time, I mean if they're playing those kind of games, it would seem like the union would be out."

How are you going to get the union out, in a short time?

"I mean they just wouldn't use, union labor."

But the problem is, have you ever tried not to use union labor? That's a good way to get your place burned down, and so forth.

"But it's like anything else, it's going to be a give and take kind of thing, and if you got a non-strike clause..."

Well it really depends on the business structure of the community in which you're working. And the major urban areas are unions. And the unions plan on keeping it that way. So it'd be very uncomfortable to be non-union.

"But don't you think that non-strike clauses are usually given as an exchange for other things..."

[END OF SIDE ONE]

yes, but it doesn't help, you can have a non-strike clause for 90 percent of your workers, and if the unions are smart, 10 percent aren't going to have a non-strike clause, and they'll probably be one of the critical ones. Let's say that the elevator operators don't have a non-strike clause, or as they do in New York City, have a manual that's about 8 inches thick on what the rules are for riding the elevator with safety. And they can find a rule that will allow them to run the elevator, or require them close it down for several days at a time, depending on their mood at the moment. Now the fact that the other ninety percent of the non-strike clauses doesn't do any good if the one guy that runs the construction elevator doesn't have that clause, and what's more has a manual, which his union drafted, as to the safety of operations on his elevator, and he goes home.

You're dead. Which is why elevator union operators are at, probably have one of the highest compensations in the country. A good many of them have condominiums in Florida, and in fact in the book Riches to Ruin in Real Estate there's a whole chapter on legalized union extortion, which allows a good many people that never show up on the job to get paid rather well. In fact there was one case that was cited, which is not untypical at all, in which the guy worked more hours in the month than there are hours in the month. Obviously he had heroic stamina. He had as many as thirty-five hours a day. And was able to do that for 30 days at a time. They got paid for all of it, on an over-time basis. As you should, if you work those kind of hours. (Laughter)

So, hitting that window is an extremely important element, and obviously the more you can either expand the window because you pre-lease, or you have less space that you have to lease during that time period because you were pre-leasing, the better off you are. The more you can phase your project, and build half the space at one time, perhaps the better off you are. So that you can hit a successive

series of small windows. But always have the option not to build at all, if that opening closes.

Therefore the third category of office research is the one in which the economic analyst, as opposed to the salesperson, who's knocked on doors, one after the other, can render some value to the office building development. I think you'll find that the Trammel Crows, the Gerald Hines's and Eddie Schmitzers of the world use no feasibility studies whatsoever on their office buildings, and rightfully so, they have much better data than the feasibility analyst, and the feasibility analyst does not have the budget that it was invested in sending salesmen into the field for 3 solid years to collect the data. Other firms like Knowlton, for example, will assign an individual a territory that may be no more than twelve blocks square in downtown San Francisco, and it's his job over a period of two or three years to get to know every tenant in every building in that twelve block area. And that's his turf. That's his, that's the basis for his feasibility, and he's built a card index, computer data base on every one of those tenants in it as to their space, changing performance patterns, their satisfaction or dissatisfaction with the space they have, and their estimated points of growth, as to when in fact they will need additional space. And then he will begin to plot, to see whether there's additional space within the building that they have, or whether they will in fact have to move. And that becomes his base. That becomes the set of tenants that that particular sales person serves.

So as a result he has done the very functions that a feasibility analyst would have done, and it is funded out of his ultimate commission income for relocating those folks and finding tenants to fill the space where they in turn have left. And so as a result, most feasibility studies in the office area are done for the new arrivals on the block. And typically represent aggregate models which are simply trying to identify windows of shortages using time series analysis of one form or another.

How sharply do you define the employment? Depends in part on how sharply you can define economic base and causes for growth in the community. If you can link that cause for growth to specific SIC codes of employment, you can get reasonably good forecasts of the number of jobs that are going to be created in the annual cohort, a series of annual forecast periods. If on the other hand you're simply speculating that other folks will arrive, nobody's forecast is going to be very helpful. About the only place that works is in areas like Chicago, an industrial market where

they can build a spec building with no finishes and finish out the shell to suit the tenant. Normally if there's a fungible kind of space there, of a certain column space or ceiling height, a certain requirement for loading docks and so forth, and there is an ongoing demand for that type of space. Again, there the feasibility analyst may be able to project. Within the office area, extremely difficult to, as an outsider, to provide reliable market data for an office study.

On the other hand, you can provide sufficient data to indicate when not to build. For all of the crying and yubering in Houston, about how the energy crisis turned on them and kicked them in the ass, the fact was that a blind man could have figured out from Nevada that they were grossly overbuilt. That the number of square feet already in place, the number of square feet already in the pipeline in finance and under construction and so forth, had no economic rationale whatsoever.

If you took the total most hopeful employment in Houston, extrapolating from the gravy years and came up with an employee per square foot, there was no support for that office space. A feasibility analyst can tell you when not to build, relatively easily. Telling you what to build and where to build is a much more difficult proposition. So relative to office space, feasibility studies are probably more a defensive measure. Trying to indicate that your timing is off, the windows are unpredictable, the locations are unpredictable. And therefore, unless you've got the tenant in hand beforehand, that is not the place to be.

Notice that's a different function. Since that function is relatively negative, even if developers know it, it's not surprising that developers don't want one of those, thank you. Nor does the bank. The bank doesn't make any money saying no to a quote "relationship." unquote. Nor does the loan officer make any money for saying no. There's nothing in his bonus schedule which says, 16 loans turned down, 1,000 each bonus.

Only recently has there even been an effort to take a loan officer take the total dollar of loans made, subtract the total number of dollars once made, now delinquent, and pay him the bonus on the balance. Many loan officers regard this as grounds to move to another bank. (laughter) And what's amazing of course is that there are other banks that'll hire him. Other to do that big volume for your other bank. Terrific. Can you do a hundred million for us? Sure, watch. A few banks are attempting to employ national

statistical services. Which will monitor the relationship of employment, appropriately defined for office purposes, and the available supply of A, B and C office space. They had some fancy money for that. Torto and Wheaton, I believe are the names of two professors at MIT, in the Economics department which have developed a national service for monitoring office space in various communities. There are a number of regional groups as well. I think we have examples of each of their studies in your book. REIS is another firm which will allow you to buy a quarterly review of various markets. So you could buy Orlando or Chicago or Oklahoma City or whatever. I don't know of anybody who's buying Oklahoma City or Tulsa anymore.

They figure they can look at that again in another ten or fifteen years, maybe they will have worked their way out of a hole. But there's no sense reviewing that for opportunity at the moment. And if you own properties there, there's no sense being reminded of that. (Laughter)

But again, the use of the feasibility study from that standpoint, where we're not talking about the first two types of space, but we're talking about the third type of space, the new economic demand for it, has begun a defensive screening, indicating which markets are not satisfactory for further development at this point in time, rather than indicating which project and which core area would be suitable for that kind of space.

As a result the market for that kind of feasibility is primarily among the major banks that operate with construction loans in multiple markets. Many banks, like the First Wisconsin Bank, has decided not to do that anymore, that Minneapolis may be as far as they wish to roam. But there are still others like Citibank and Chase Manhattan and First Bank of Chicago and Bank of America and so forth--that are still lending to virtually all major urban markets and need some kind of immediate bellwether, that says, you know, office buildings are an acceptable outlet at this point in time, or are not, unless the other two levels of demand can be accurately and reliably forecast from the records of the developer. And in fact they're moving away from defining track record in kind of an elusive shrug of the shoulder, he hasn't gone broke yet kind of viewpoint--to a track record being one that has a data base which is capable of supporting the decision process. So the John Hammes of the world and the Trammel Crows and so forth are able to continue to get bank credit, simply because they have itemized data collections of virtually every

significant tenant in whatever sectors of the community they operate in. And that really becomes their major asset.

OK. I quit, see you Wednesday.

Lecture 7-2

JAG

Again a reminder, we've got the Edgewater Hotel on Friday, from 9 till 12 and 1 until 3:30, something in that area, and to give me some sense of the people that are coming that are not signed up for the course, so I can add water to the coffee....

Second of all, I believe, one of the summer internship people pointed out to me that FSLDIC was looking for a number of summer interns in their what they euphemistically call their "marketing and dispositions" department. Refers to ?? on their part. They'll want a resume from anybody who is interested in that for a summer activity, setting up multiple ?? or ?? wherever else they are located. But apparently that package has to go out first thing tomorrow, or late tomorrow afternoon, so if you want your resume included in that, for the internship, please bring it in and put it on there....and . Another group, Robbins has three or four internships for Anchorage Alaska, two of them are for one of the newly formed banks (merged banks or series of collapsed banks.) They'll have a number of properties that need to be valued, inventoried and strategies established.... Then also I believe one with ?? and one with one of the Native Corporations. We'll have details on those when Mike has details for the ring binders. If you are interested you can talk to Mike about that.

Ok, I think that takes care of those announcements. Oh, one other, major social announcement. There will be a pizza social session, following 795 at Pizzeria Uno. For those that wish further intellectual development. There will also apparently be a real estate club meeting, following our return from spring vacation, involving 3 or 4 alumni talking about the nature of their jobs, shortly after their graduation and so forth, and what kind of cold water they were plunged into as a result of that, aside from having to get up at, lets say 8 in the morning.

Ok, the handout for today is from Sandy ?? It's a collation of his comments at the homebuilders and has a lot of pretty useful concepts for this course in it, so while technically it may be about homebuilding it actually covers the gamut of feasibility issues and one of the more intriguing being that

development feasibility is really concerned with not where the ?? is now, but where it will be 60 months from now. Given the lead time of a project, that's probably not a bad statement of the problem. Given the necessity of acquiring sites, designing the product, building the product, advertising the product and so forth, the major problem for marketing research is anticipation. Anticipating 60 months from start. Anyway, it's quite a potpourri of thoughts that's not necessarily very well organized, obviously taken out of a number of presentations and speeches that he made at the NAHB meeting, which I think you will find relevant.

It's also relevant in terms of his comment on the real estate industry per se, and the level of training, suggesting that they are not only undertrained, but under educated for what they are attempting to do. And he points out that selling an environment which will change the life of each inhabitant, it's a physical move from what are now roots, and, he might have added, habits, and they have ?? the most expensive house in the history of housing in terms of cost per square foot, and at the very least the average price is the cost of two Mercedes, or 6 Cadillacs or 9 Pontiacs or 15 light trucks. And yet they have far less technical information at their fingertips than anyone who sells any of those kinds of consumer products. So it's not so surprising that the real estate marketing side, through the realtors is perhaps one of the most obsolete areas of marketing today. And extremely vulnerable to replacement by alternative systems. Both in terms of information gathering, information dissemination and the technical training of the salesperson.

If you think about how many people are sitting around in Madison trying to sell a house--and will be lucky to be able to sell one every two months, and try to survive on that, as opposed to having a more effective clearinghouse of information, or effectively trained people, why, you could sell a couple houses a week, and replace about 60 percent of your brokerage personnel and put them in another line of work. Why there's probably no other area of marketing that is more obsolete than the single family brokerage system. Unless of course its single family appraisal work ??.

Okay. The subject matter has been real estate market presentation. And specifically relative to office buildings. We've already talked about the kinds of market research sectors, those that will be displaced, those that will need the room, those that are going to be newly created, and economic modeling really refers only to the latter segment of the market.

We've also indicated that the market in office buildings can be segmented further by the type of building that they are in from and architectural styling, location, parking facility, perhaps the efficiency with which the building can be adapted to tenant fit in terms of office modules, etc. And now we're beginning to see further segmentation, in terms of the package that is provided to a tenant in the way of services, as opposed to space, and the related supporting utilities. One element of packages is to focus the office space on a particular type of tenant. There is a successful, or reasonably successful chain in the west, which leases an entire floor, or two floors or three floors of a major office building, builds a major legal library into the middle of it, and then leases entirely to small legal firms who could not afford 1) a library, or a librarian or subscriptions to a variety of law periodicals. They lease the space in gross, you know at a very low net cost, taking on responsibility for tenant finish, and then they market in effect an information network to small law firms that would find that otherwise a very significant fixed cost, relative to the limited number of attorneys. They may expand that with word processing equipment and so forth, but we'll talk about that as a second service philosophy.

A second type of service would be a pooling of word processing and communication services, starting with a telephone message answering service, a secretarial service, and then word processing equipment including a thermofax, a fax machine, computer network in which is a central processor in which each of the tenants can tie in and do their own kind of thing. And in effect they can market to the small tenant at very high rents per square foot because--price comparison is a little difficult--you can rent to them for, let's say 2 or 3 bucks a square foot per month, to a one person manufacturer's agent or perhaps a young real estate broker getting under way or someone who runs his own little real estate investment firm and for that apparent exorbitant rent of 24 to 36 dollars per square foot a year, he gets a total package which eliminates the necessity of him doing the bookwork, secretaries, and making the payments on all of the various equipment which presumably a modern office has, but nevertheless is relatively expensive collectively. And that is being used more and more, to market to the significant expansion of small, 1 or 2 person service firms, whether they be engineers, sales agents, private entrepreneurs pursuing their own investments, or what have you.

A third kind of service function may be related to the second, but apparently goes further in providing a labor pool for certain kinds of tenants. And this may even move into the industrial area, in which Kelly Services, or Manpower Incorporated or a similar kind of you-rent-the-labor person service will provide support. Let's say a direct mailing service that has very cyclical kinds of needs for clerical help to get out major mailings and so forth. It may be a little erratic, it may not be regular every day, but located in a building in which Manpower Incorporated, or Kelly Services or one of the other types of services would be able to provide that support on demand.

And there might be others in the same business. Buildings that also had need for direct mail support or packaging of stuff for distribution, Christmas kinds of mailings and so on. And as a result the service that's provided is one of handling all of the payroll functions and allowing you to adapt to very cyclical labor requirements, generally not skilled but possibly involving data inputters on computers and word processing and so on.

The fourth kind of specialty may relate to people with a common advertising or marketing base, certainly the trademarks that began as primarily for retailers, the classic ones that Trammel Crow started and then Portman picked up on, were really wholesale marts, in which furniture dealers or gift shop suppliers, and so forth would be able to display their wares and become a central wholesaling, marketing point--is an example of a sort of a semi-sales office, semi-retail outlet. But now they're moving into much more of the software so that two of the hottest trademark products at the moment are computer trademarks, in which the various computer operations have essentially have a display not only of their hardware but of their software, and in essence a resident service center, troubleshooter, whatever you want to call it. The kind of people you contact instead of calling up on the telephone and saying Help. You're going to go out there and hopefully he'll paw through the manual with you and find the solution to your problem and so forth. And these kinds of specialty centers are becoming much more prevalent. They may be there for commercial and wholesale purposes. But more recently one of the hot markets going is what's called the service center. In which for business purposes you would have not only the person who does your income tax, but you might also have the person who repairs your vacuum cleaner, repairs watches, cameras, whatever kinds of services can you think of that are essentially, you know, domestic kind of service-repair and support kind of things. And they're all in one

place. And you go up to a drive-in window, and the drive-in window serves all of the businesses in the entity, and you can drop off a watch for repair, or your income tax documentation and so forth and they're tagged and shuffled, by the building management, to the appropriate businessman within that building. And there's someone, I can't remember who it is, currently planning to do a such a service center on the west side of Madison.

The presumption being that people make a great many of these kinds of trips, that are typically scattered to different buildings, different parts of town, that there would be synergistic relationship among these various service centers. There all in one place, and the building management provides the drive-up window, the distribution element and perhaps even some sort of guarantee that you'll get your stuff back. And as a result you're getting that kind of compartmentalization within commercial office type of structure. In which it isn't the space component which is significant any longer, other than the fact that we need a certain amount of space to house our activates, but it's the service related component that comes with it.

And particularly true in the case of employment and in the case of office equipment services, medical libraries, legal libraries, that type of thing. It is generally a high fixed cost, variable revenue kind of service, that provides significant economies for the tenant, not to mention the significant release from the general harassment of doing all those sorts of things. Managing all those sorts of things, that becomes important.

You can not appreciate, until you're in a small business, how much time you waste doing management kinds of functions. We would estimate, in our own little shop, that Jean probably spends two to three days a week doing management things rather than productive, billable hour kinds of things. Whether it's a matter of negotiating with a state auditor of unemployment compensation, or monitoring your insurance needs, or for handling payroll accounting, income tax accounting or just getting the guy in to fix the damn computer because the printer goes out about the time you're doing ten thousand mailings, or whatever.

That's a major element. And for a very small business that has two or three productive people in it, to be able to simply discard that whole problem by going into an office building which provides that at a fixed cost, the nominal, or even significant increase in the rent is a minor item. So as a result, to market office space they're now tying it

to a whole variety of services that would typically be proportionately too expensive for a small office occupant to do efficiently for themselves. And that becomes then a whole new segment of the market that wasn't there very long ago.

Another significant element in segmentation of the office market has really been accessibility to the automobile. Or, a combination of accessibility to the automobile versus accessibility to the truck and so forth. You've probably seen a whole range of product that is designed so that, let's say, its a U shaped building, which at the outer perimeter presents a very handsome and contemporary appearance, in which there is a small office area with 4 or 5 parking spaces directly in front assigned to that particular property, not only for the sales force that will work out of that location, but for the customers that might visit that location. And then the back side of the property, perhaps as much as 2/3 of the area, potentially is a warehouse distribution facility with one dock door and one flap entry door at the back, opening into a truck port courtyard in the back side of the building, inside the U. Extremely popular combination then of the office space for district sales or service location, plus the warehousing or service space necessary to be supportive of that. A blending of high-finish office area and essentially high-ceilinged warehouse type area. And that's one of the hottest products on the market, again because the rent per square foot that you can get is significantly higher than the cost of creating that kind of space. It's really a matter of how you create more spread, so you can have a higher leverage factor on the building.

Any type of service component that you add to the revenue stream is generally incorporated into the net operating income of the property. Not unlike the hotel. And if you can cap that at a capitalization rate which is closer to that of real estate than it is to a small business, you can borrow a hundred percent of what you need to build the facility. And this inability of the lender to distinguish income attributable to the space and the income attributable to the services being provided with the space, which obviously should be capped at a much higher rate of small business management, means essentially higher financial leverage on that service product combination. And therefore a higher probability of being able to mortgage out on the property.

Hence this effort to combine and if you will obfuscate the collateral value of the real estate versus the value created by management. If the appraiser were ever able to sort that

out accurately and properly, there would be a significant deflation I think, in a good deal of office/commercial space values that are around in the market today. But appraisers of course are not encouraged to do that, since they're likely hired by the borrowers, and the bank just wanted him to cover their tracks anyway.

Female question: "Could I ask a question. On our project with George Geolamis ? out at the Old Fox trail development out there, they have a number of special services that they offer, for instance a day care center for use of all employees in that area, etc. How would you go about valuing the income related to that, I mean how much someone would pay for that, in capping it out."

Well, I guess there would be two ways, okay. The way that the developer would like, of course, is for that income to be one of the revenue lines at the top of the pro forma, and the profits drop into the bottom line to be capitalized that real estate rates. Or more proper methodology would be to determine what proportion of the, or what the rental value of the space occupied by the daycare was, and simply build into the pro forma a rental component of that. And the daycare center would have to stand on its own, with the rent being a cost of operation as far as it was concerned. Okay? So what you'll see is both, that either, if the developer wants to observe the form of having rent equivalent, he will probably overcharge on the rent, and take his profit on the building side where he can mortgage out. Understate the income to the daycare center.

Questioner: "In this particular instance, the day care doesn't report income. That's just a service, an amenity of the facility."

Where is it located? In the facility?

"On the site. I mean, there's a number of various office buildings etc. on the site. And, it's not up yet, but somewhere strategically located"

Would it occupy space in one of the buildings?

"No, it will be its own building probably."

Okay. So again, he will either charge that nominal rent structure and build that into his building. Now the impact of that further is the presumption that the space will be absorbed more quickly. Or, be able to rent at a somewhat

better rate, because he has that facility to stabilize the employment problem of his tenant. And if he's drawing tenants from closer in town, where daycare's are established, he's going to in effect negate the possibility that the employee would nix the move because now it's not possible to stop by and see their children during their lunch hour, or however else it is they interact with them at the daycare. So hopefully it will help his rent, probably help his absorption rate, but in any event, probably give the individual who signs the lease, the employer, an opportunity to rebut the negativism of key employees who'd say, I don't want to move out there because I'd have to change my daycare operation. That's a crucial item today, is being able to solve the double-career problem of each employee, and particularly the daycare problem of many of your clerical/secretarial and so forth. Yes?

Student: "It seems like it would be a fine line that you have to draw between building and service income sometimes. What if you have a parking ramp in your building, and instead of charging for parking just include it in the rent? Couldn't you argue that's service income instead of building income, and you have to cap it at different rates?"

Well, partly it depends on whether we're talking about surface parking or basement parking. And partly it depends on whether you have a rule that you get one free parking space for every one thousand square feet of rentable space. Okay. Or its flexible, with every man for himself. If he wants me as a tenant really badly, you know, I'm going to get X amount of parking spaces, because I have 40 insurance salesmen out in the field and I need one space for each salesman so when he comes back isn't circling the block and wasting time looking for a parking place and so on.

Partly it's what's your rental policy. But it's obvious that you build the parking to subsidize the office space. Without the parking, you're never going to get that rent for it. So I don't see that as a major problem. I mean it's space, some of the space happens to be for a car, some of it happens to be for a desk, but it's still space.

Student: "Would you look at what is market acceptance to try to differentiate between what is building services income?"

No, that gets very dangerous. Because, particularly where, if you're the appraiser dealing with the client, the client's definition is not ?? than yours and I think that

it's a clear-cut issue is what are you getting essentially? Space, or some sort of machine, or people kind of else. Okay? The basic element of real estate is space time.

Let me give you another couple of examples. If you were thinking of what is the rental value of a parking ramp, it's not the number of dollars that you've collected retail, it's what you would lease the entire parking ramp to an operator. And that's the real estate value. Everything you make between, let's say getting PK to come in and run it for you, and they'll pay you so many dollars a square foot a year, and the gross rent, is the service revenue for having a number of people always available twenty four hours in a little box to collect the money, and policing the area and all the rest of it, all right? The difference between renting the parking ramp wholesale, and the retail revenues from the parking ramp, is service income. Does this answer your question?

"Yes."

Okay another example. Several years ago we had to do the John Hancock building. But we didn't do John Hancock, the accounting firm, Arthur Anderson was doing that, and they called us in on what to do with the observation floor. And the observation floor sells tickets--I don't know what it is, five and a half bucks, or four bucks--selling them in the basement and you know lining up all the tour buses that stop by, take everybody up for four bucks. After a while you find the ??pollution settled in just a little bit below that and you can't see anything outside the window, other than the fog, but in any event. Tremendous gross. And it was being argued that was part of the value of the building, that's not so. The basic thing is, what would the floor rent for as real estate space? And that's the real estate income. The spread between that and the gross sales being realized by the entrepreneur that's marketing the observation deck is a return to management, or their marketing ability to pay off all the tour buses that show up and so forth and so on. Does this get at your question?

"Yes."

Keep in mind what's the space/time product, and what would that go for and then whatever premium's paid over and above that is for the service and management capabilities of that particular project. It's a really tough problem in real estate that has been deliberately smudged over. Developers find that real estate cap rates are the lowest cap rates. You would never buy a service business at a cap rate of nine

percent. Point five percent maybe, but not nine. But on the other hand, you can't borrow money any cheaper than you can on a mortgage. You go to a bank and try to get a loan to finance a service business, if you can get the loan at all it'll take an arm and a leg in terms of interest rates. But if I call it real estate, why then it's whatever the market is for mortgage rates on that type of property. So traditionally in the industry they have learned to smudge that over--all income from a hotel is real estate income. Even if most of it comes from restaurants and bars and maid service and so forth and so on. And now that lesson learned can be carried over into a variety of other types of space as well.

The parking issue relative to office buildings is this. Different types of tenancies obviously require different levels of parking support. Some tenants, who, let's say the insurance agents, marketing types of organizations, need the parking for their own sales forces, and for their own in-house clerical and support people. One of the purposes for going and relocating that type of business is to one, provide that parking as an amenity, to hold their employees and two, to increase their productivity because they're not circling the block looking for a parking place, or running out pumping nickels into a meter or simply being distraught as to whether their car is safe or not. I'm not sure it is safe in office building ramps, but the premise is that it's better than being out on the street subject to the snowplows.

The second type of parking, of course, relates to the nature of the customer base of the client. If you're a pediatrician, you probably need at least 8, maybe 10 parking spaces, per doctor. Due to the very nature of the way medicine is practiced, some of them are coming in for their shots or for rather cursory comments from the doctor. Others go through a preparatory process and the doctor has 3 or 4 little kids lined up in a row, goes from one office to another and so by the time you have him ready for his inspection, then you have the visit, then you have whatever treatment he tells the office nurse to provide. You got to get him all wrapped up in his winter outfit again and out the door. During that total process, you may have 8 kids and their parents in the stream somewhere. You have a very intensity of parking utilization. Restaurants for example. You can have an office building, which is just fine to bring a restaurant into an office building, particularly if it is draws from elsewhere, and you really screw up your parking ratio. So some office buildings obviously are going to have to select tenants which generate very little parking

requirements in order to accommodate their building to what they have. A good example that is the Park-Regent building on the corner of Park and Regent has a real parking shortage relative to the medical practice that they're in. And it's a stinker of a problem.

One problem of course is that students drive in in the morning and park there all day, never to be seen again. How do you wean them out? On the other hand if you put up a parking gate, as they tried, and said okay, when you come in you get a ticket, and unless the doctor's office stamps your ticket you pay when you leave, there's a lot of folks that say to hell with it, I don't need this to go to the doctor, and so forth. And as a result will not probably come to this building. Or three, you tell your medical staff that you can't park here, we've made arrangements for you to park three blocks away, in what they perceive as a crummy neighborhood and so forth. And pretty soon they're restless and they decide they're going to go work for somebody else in the suburbs, that has parking, and so forth and so on. So, it's a really tough problem finding tenants that have a relatively low parking requirement, relative to the office space that they require.

Other buildings may in fact have a surplus of parking and be able to use that as a marketing device. They will guarantee key tenants more than their proportionate share of the parking lot. As their concession. I forget which office building we were looking at in Milwaukee in the tour, they were arguing that the rapid rent-up of the first fifty percent of the building had occurred because they had given two key tenants--I think it was IBM--but IBM, taking 30 or 40 percent of the building, ended up with 65 percent of the parking as their concession for being in the building. Great for the mortgage lending purposes initially, you know, to have that key tenant and not indicate any "concession on the rent." But the fact is there's a little clause in there that guarantees them 60 percent of the parking ramp means a very substantial concession which A, doesn't show on the records, and B, means that the marketing of the additional space is going to be sharply hampered. If you have additional parking place, it could possibly be terrific as a major marketing advantage.

The alternative is, are the other related advantages, you know how accessible is it. What kind of ramp is it? Are you likely to scrape the paint off on the spiral? Good case in point, Canasaros's project in New Orleans called Canal Place has a number of high-end shops, ?? markets with anchors on the first floor, and the premise is that folks

will come in from the suburbs and shop immediately adjacent to the French Quarter area, and so forth. The fact is they don't come because of the spiral ramp. The spiral ramp is such that the ladies--and excuse me for sounding chauvinistic but this is their report, not mine okay?--can't seem to crank it over on the Cadillac or Mercedes, and hold it there, and as a result, the sides of the ramp all the way down are full of imported colors. (Laughter) And after they've scraped the paint off a couple of Mercedes, they don't come back to the shopping center. So you've automatically segmented your market simply in terms of the accessibility of the parking ramp. Others set up the module, so that, if you get two cars between the columns means that nobody gets out of the car. Very subtle kinds of problems relative to parking. In terms of who's expected to park there and, you know, is this a boon or not.

If you're an employee, then a somewhat difficult access parking ramp doesn't really matter. The job is more important than the fact that there's a hassle factor in the parking. But if you're talking about a customer having to endure the hassle factor, you're going to quickly segment your market by the accessibility of the parking. And that customer tends to go elsewhere. Somebody had there hand up over here.

Question: "I think that IBM building is the same one that's got the Tokyo restaurant down below."

I don't, was that Wyndams project?

"Yeah, I think they had a real problem with parking"

In terms of parking, yeah. But you know it was an easy hit for the first tenant, but then they really had a problem for the balance of the ??.

In any event, the nature of the parking begins to segment over the long term character of the project. The kind of tenant that's likely to go there. And therefore when you begin talking about quote "the office market," and whether there's oversupply or undersupply, it's extremely misleading, until you have segmented it out in terms of what is truly a competitive market for tenants and customers ??, or what's truly feasible for large service organizations like the accounting, or lawyers or something of that sort in which the majority of people are employed in the building but are not drawing customers into the building.

It very significantly changes the definition of the competitive market and the availability of space. As a result, there's probably no such thing as quote an "office space market." It's one of those easy statistical concept or agglomeration. But it means we very quickly we've lost all sensitivity to this critical information about what your market and your submarket may be.

One other comment on office buildings and their tendency to specialize. It obviously is desirable to create some element of monopoly for an office building. Differentiation into wealthy markets. The law libraries, the secretarial services and so forth is one. Several of the more successful gambits however for creating monopolistic value for an office building, are one, giving away space to the premiere men's club, luncheon club in town. If there's any one thing, as an office building developer in the downtown area, that you could do which would secure the success of your office building, it would be to have the Madison Club, or the Milwaukee Athletic Club or the University Club, or whatever, as the key tenant on the top floor of your building, or where ever. So that it's only an elevator trip away to lunch, to a communications center, in terms of where it's important to be seen. And see and be seen.

In some communities that is not only a private club, but it may be a private club for a specific group. The state of Wisconsin Investment Board has a building in San Antonio, which by any standard at all has got to be an absolute disaster. In terms of its location, and over-building the office market and so forth. But it has one thing going for it. The Petroleum Club is on the top floor. And therefore all of those that are in the petroleum industry want to be in that building. So if your in the business of selling core data samples which, there are engineering firms that do that, or renting barge equipment, renting drill rigs or securing all kinds of geological..

[END OF SIDE ONE]

your oil industry, they're all in that building. Because they're going to do business at the Petroleum Club. Now one of the things they did was they helped the Petroleum Club do a really, gorgeous interior. The Petroleum Club is so much superior in terms of finish, to the rest of the building, you can't believe it. Jim Curtis is our property manager down there now. And in order to hold the tenancy of the building against all comers, it was necessary to put in all

new elevators and make the lobby as gorgeous as the Petroleum Club at the top. Now the Petroleum Club occupies like 8 percent of the space in the building. The deal we cut with them on the renewal of the rates is, baby it's yours, it's free. That's saying essentially we got ninety-two percent occupancy. In the San Antonio office market, that's gold.

Now a lot of other people would have given them free occupancy too, but none of them want to do the interior finish. The cost of providing them the same luxurious finish that they have there presently is just unacceptable to the other office developers. And you've locked it in. You've got a building filled, because of the club.

Another one down in Nashville we did the same thing, in fact what they did was they went to the old office building, the old luncheon club in downtown Nashville, on the premiere corner in a two or three story old antique building or something. They said, we'll tell you what we'll do. We'll trade you your site for a two floor condominium space in our building. And then they put up a thirty floor office building on the site, which was el primo, one hundred percent corner, and gave the luncheon club two floors of the building. That's a sweetheart deal. You couldn't do any better than that. Anybody in town that wants to do business, be seen, do the networking bit that characterizes the downtown business people, has got to be in that building. And they can travel to lunch by elevator, which is an incredibly convenient way to do it. If you really want to lock in, that's one way to lock in.

An alternative way of locking in is obviously a critical linkage to something like the courthouse, the statehouse, city building, or whatever.

Skyway systems are obviously a way of doing that on a broader base. But I'm sure many developers, if they had their druthers, would rather have only a one-way skyway, running from their building to the courthouse, or from their building to a major building. A good example. The Tenny building, here in town. C class space. The building's old, ?? chopped up, etc. The key to that deal is negotiating with the bank, a connector at the second floor level that comes across, and that new connector. And so anybody that's in the Tenny building doesn't have to go outside to have access to anybody in the number one building in town. First Wisconsin is at 16 and a half, 18 and a half base rent. The Tenny building can move right up underneath that at 15 1/2, 16, and provide the same package of amenities and so forth.

Just as a result of that connection. And that segment comes out of the B class market. Right off the bat. Yes?

Question: "I think it might be important to look at the attitude of the city itself. Both of these points haven't worked in Cincinnati. There's another point that are, if there are more amenities available then people will go after it. I think every city might be a little different."

That's true, obviously you have to understand, it's crucial.... But what hasn't worked in Cincinnati?

"They have a gorgeous men's club, a building that's just been redone with, marble, granite inside, etc. But the vacancies above are close to 80 percent"

Was the men's club created by the office building developer, or was it already established.

"It's been established since the 1890s."

So it had a history.

"Yeah."

Because often what happened is the developer says, gee, if a men's club is what I need, I'll build one. That's not the same thing as going with the establishment.

"And I think it's an opportunity there to for somebody build something and take them away someplace else. And, they're having trouble renting the space and rebuilding around the courthouse. People want to be by the square, as opposed to being on the periphery, where the courthouse is."

Okay. The real question is, can you see and be seen. And if that's the place to be able to walk and meet people great, if it's not then you are right, they won't want to go to the courthouse.

I asked Chuck Clettenberg , Do any advertising? He says whenever he gets a little sort of appraisal work he goes down and sits on a bench somewhere near the courtrooms and within fifteen minutes somebody walks by and says, gee Chuck, I got this appraisal I want you to do, and Chuck says, Well, I'm a little busy now, I'm just waiting to go on trial, but....

Within half ?? then he's got it.

But you're making a perfectly good point. It's not necessarily the physical features which are supportive of the business culture behavior patterns in that community which is what you're trying to lock in.

A third type of monopoly is quite often of course views, of that which is regarded as important in the community and , an office building in Norfolk that's most successful, it has a magnificent view of the yacht basin, and to exploit that so everyone can view the yachts, they put in essentially a whole series of bay windows in the office building. Everybody's office is a corner office, because the offices are laid in diagonally including a little diamond-shaped window on the corner of each space, so they can all look out over the yacht basin. And it's apparently very stylish to be able to stand and point to your dinghy or your sailboat or whatever in the basin, and 100 percent occupancy .

Other buildings of course are linked to some critical transportation elements, whether it be the commuter train, Rubloff's building, for example. Chicago, with the northwestern depot, which take the commuter train right up into the northern suburbs like Evanston, Lake Forest, Wilmette, etc., tremendously successful simply because of that critical linkage to the residence of the folks that sign leases.

Other linkages might be immediate on-ramp to the interstate home, no red lights on the way to the airport, or something of that sort. In any event, monopolies are created by having that type of structural, functional competitive edge in the building, and separates the building out of the general office market. And moves them therefore out of the statistics for the office element.

One last item on that I guess is the reciprocity characteristic of many types of service businesses relative to the major tenant. We've talked about that before in terms of the major bank locating in its own building is able to force most of its major service agents to come along with it--its accounting firm, its law firm, it's investment banking house. Perhaps the insurance agency, and probably the title company. All get dragged along willy-nilly into the building because of the implication that if they are not immediately accessible and convenient to the bank, the bank will find another firm who would be willing to do so. So it comes as no great surprise that initially the First Wisconsin building was occupied by Arthur Anderson, Robert Baird Company and a few of the old stand-bys in the Milwaukee community that had long-standing ties with the

bank. What you do with the accounting firm if you lose the account, I don't know.

There's a certain irony there as a matter of fact. I believe that the accounting ethical standards state that, when you sign your certification at the end of the audit, not only are you objective in your fee which isn't contingent on your conclusions, and so forth. There is a third element, which is not currently not present in appraisals, which states that you have no significant economic interest in the firm that you are auditing. Apparently that doesn't include being a tenant in their building. The presumption is that you are paying a client, so that doesn't count. But wouldn't it be embarrassing to be in a building where you were paying 18 dollars or 20 dollars a square foot, which would be relatively nominal, at least in the Milwaukee area, and now you lost the account. You'd much rather have your firm in a twelve dollar space, on the edge of town. At that point you obviously have at least a 4 dollar per square foot a year vested interest in keeping your relationship with the landlord, rather than finding yourself locked into a lease with eight years to run at an exorbitant rent which you had chalked off to the cost of retaining the client. Those nuances of vested interest and so forth don't seem to affect American business very much these days. The Ed Meese school of ethics. (laughter)

Okay, let's begin to establish a housing market element, or I'm going to run out of time here.

Housing market segmentation has traditionally been done on very basic age, education and income cohorts. And those have been found perhaps to not really direct the marketing of any specific project. Certainly in the aggregate they may still control the general pattern of housing in a community. But most projects are working in a highly-segmented market, both geographically from the amenity package, and product that they're providing. And in terms of the time frame in which its going to come in a market, be marketed and then close out. As a result, housing market analysis has really shifted to psychographics.

Very narrowly defined lifestyle patterns, with a time dimension that defines the number of units to be required during a relatively short window in the market. After all a subdivision that comes on with 60 lots, with a three year time frame, is only looking for 20 consumers out of a very significant population that fits that product at that time in that particular little window. That is micro marketing, to a fair thee well, particularly in housing. So think

about it in terms of the distinct difference in marketing problem.

A 24 unit apartment building that costs, let's say, 50,000 an apartment for at least a moderate middle-income unit, we're talking about a million 200 thousand dollar capital structure for that building. And you're only talking about 24 bedrooms. 24 customers. And those 24 customers have to pay somewhere in the range of 180 thousand to probably 224 thousand dollars gross each year, to make that project work. That is monopoly, to the essence. You're running a little business that has a capital structure of a million 200 thousand, that has to have sales at least of 200 thousand gross a year to make it work, but only 24 customers. That is not a toothpaste business, that is not a food sales business in which you're getting 8 dollars and 42 cents on average per shopper visit, etc., etc. That's an extremely unique market. And if you look at the 24 customers providing that kind of rent you're asking them to spend somewhere between 9 and 10 thousand dollars a year just on that product. When you look at elderly housing, a basic two bedroom unit, with one meal a day, is going to be much more than a thousand dollars a month, you're looking at a 12 thousand dollar chunk of an income which will be 24 to 30 thousand a year. You're taking 40 to 50 percent of their revenue. And you're looking for a very discreet number of people that are willing to do that, and can afford to do that. So that as Mr. Rifkin has pointed out, you're really talking about selling them 2 Mercedes, or certainly payments of...

[BREAK IN TAPE]

And to do that, you have to ask them to change all of their previous living styles. To move from where ever they were, they've got to go through the whole effort of relocation, re-acclimation, erase a whole series of old habits, create a whole series of new habits. And given the basic level of insecurity of the average person, given the basic level of inertia that people have relative to the changing of their habits, and finally of course, given the affection that most people have for where they currently live, for a relatively long period of time, that's an incredible marketing job. In which it is going to be much more of an irrational, emotional decision, than it is going to be a rational, functional kind of thing.

The rational/functional part is certainly what may be the initiation of consideration for a housing change. But ultimately the marketing researcher has to get at what are those hot buttons that you push to overcome that element of

inertia. And that's why psycho-graphics really distinguishes the housing market more than will appear in any other market--industrial, office or whatever. Certainly there's still some of that in the office area that is irrational and so forth, but not to the degree that would be true of the housing market.

Okay, we'll pick up on that on Monday.

857

Lecture 8-1

Hays ??...you will be responsible for on the final, all of Hays. Those of you that have 856 have the first 70 pages. Borrow somebody's if you don't have it. And the second part, 197-230 something or other, is being handed out now. It will be on the final exam, it will not be on this exam.

Question: There will be no Hays at all on this exam?

No Hazing at all, I'll guarantee it. I guarantee I'll haze you on the final. (Laughter)

Okay. We're talking about housing market analysis. By the way, did you get the final assignment on room numbers? There will be a note posted on the door. We'll start promptly at one o' clock, but we may have you half in this room and half in one room down the hall, or all of you in room 19 or 22, where you can disperse, and have plenty of elbow room to take the exam. So check, a little bit before one o' clock, to find out where you are expected to be.

Housing market analysis. Traditionally--whoops, there's a hand back there. Yeah?

Student: "I don't know if you got the, uh, there were about 3 or 4 articles that weren't in the readings for the ?? analysis."

I announced those the other day as to which ones you weren't held for. You can check with me again later.

Traditionally housing market analysis began with segmented demographic studies--income, family status, and possibly the general preference as to whether they were single family detached, or multi-family prospects. And that simply scaled the project and the market for the developer.

More recently, housing market analysis really simply begins with the demographics. It spends most of its time on micro-research, recognizing that the segmentation is first a matter of lifestyle, and second, of all a matter perhaps, of area of preference due to work or school linkages, or both. And in part a matter of the work style rather than life style of the group. Does husband and wife both work--double career, double employment? Are they a more traditional family. Or are they a one adult or one bread-winner household, of which about 25 percent of all households presently, family units, are one-adult with several children, rather than two adults, in the more traditional family format.

Therefore most of the research for solid residential development grows out of very micro-research oriented studies. I think we pointed out in the last lecture, a 24 unit apartment building today really represents over a million dollar capital structure, supported with perhaps 200 thousand a year in sales, from only 24 customers. And that if you have a 1 unit and a 2 unit bedroom apartment, you're really already talking about 2 submarkets, each with 12 customers in it. And if you further modify the product so that some have mezzanine bedrooms and others are all on one floor and perhaps some are in English basements and so on, you're very quickly subdividing a specialized market.

The best data comes from those who are already in the business, those who are operating either subdivisions, or single family detached homes sales, or operating multi-family projects. And indeed those which began initial study were those that had a pre-determined base of people to survey and to analyze their patterns of response.

Multi-con which was a very early-on successful developer of apartment buildings, did almost all of their market research with a postcard. And nevertheless got down to the fundamentals, which we're going to be talking about further today. Two basic questions: what did you like most about the model that you visited? And what did you like least about the model that you visited? Or conversely, have you lived in one of their apartment for a time and they were leaving, having given notice. What was the principle reason you moved out of our project? A sub-question on that: did it have to do with the project?

They may have had a job change, income change, change in family status, whatever--that was fine. But if there was some feature about the project that was the primary burr in the saddle, they wanted to know about that.

Most marketing for residential homes begins with those two basic questions. What do you like most about your present accommodations? What do you like least?

The pattern of features that people like most, defines the competitive standard. This is the minimum set of attributes required to even be in the ballgame. To be competitive with what they perceive their choices may be, and the threshold of their interest so far as your project is concerned.

To overcome the inertia that is inherent in all of us, it is the element to be part of the competitive edge that determine really the success of the project in terms of both the absorption rate and the capture rate that will be achieved.

Now, what about competitive edges? Again, the research is going to look at 4 basic items that we outlined earlier in the course, that characterize virtually all the motivation. 1) can this residential unit contribute to the efficiency with which I live and occupy the space? Kitchens presumably are marketed because of their ability to make gourmet chefs out of everybody, even those that couldn't boil water formerly. And certainly the storage, controlled storage things are marketed, because that allows you to have a more ship-shape residence and secure all your personal possessions. Certainly floor plans are marketed because they will accommodate your furniture style. And bedroom dimensions presumably reflect your ability to have a king size whatever, waterbed, and the dresser won't cut you off from the window, and so on. In effect it contributes to just the general functional characteristic of modern, contemporary residential furnishings and patterns.

Second of all, what does it do for your self-esteem? An early-on study by a sociologist at Berkeley, named Kaplan, studied the projects of the Eichler Development Company in the west coast. Eichler was very big in the sixties and early seventies, with a tract home which nevertheless had a number of style characteristics to it. And they found that most people buying their second home had to have an attribute to talk about. Because self-esteem was enhanced because it had a sauna, or because it had at that time an island kitchen, or a solarium, or sliding glass doors or patios or whatever. But it was a talking point which suggested to themselves, as well as their friends, that they had arrived at the cutting edge of social style and perception.

The third element of course is security. And the security element is a very subtle, very sensitive factor today in residential property.

And the fourth item is just physical comfort. Climate control, as they say. Sounds as if that included the entire back yard as well as the home and so forth. But certainly there's a great deal of marketing now of the landscaping which controls the heat and cold as well as the efficiency of your internal heating and air conditioning systems. But physical comfort. Making best use of the sun and the climate and the prevailing breezes and the micro-climate of the property, as well as the physical internal element.

Those 4 elements, in some combination, really represent the marketing theme of housing today. Quite often the developer gets off on the wrong foot by being too direct. I saw a study done by an Albuquerque savings and loan association in which the very first question on the survey was: do you feel insecure? That can have a long range of answers, obviously. And 2 or 3 questions down from that: would you feel more secure if there were an armed guard at the entrance to the subdivision which allowed only you and your friends to pass? Most of them felt that was probably a good idea, and I think there was some allusion in the survey to what's called Gate City in St. Louis, in which a number of mansion cul de sacs from the turn of the century are still on those kind of gate control entry kinds of things. And of course they can all pour in the back side, but the guard's out front and they say wow, calling to announce that their dry cleaning is now here, should he be allowed to pass. (Laughter) And so forth. But in any event, the conclusion, surprise surprise, to the survey was that they could get a premium for the subdivision if you simply have a guard house at the entry point, and that there was only one entry point into the subdivision. Nobody explained, within the questionnaire, that there would be an additional assessment of 50, 60 dollars a month to the homeowner for this amenity as well as other amenities that might be involved in the package. So the developer who pursues that too quickly obviously tends to over respond to one or the other element.

You can sell address, of course, the way enhancing self prestige, but not if the apartment itself is poorly designed and has relatively low quality finishes and so on. Needs to be a balance, obviously, between those elements.

How to get to that kind of information. Most of that kind of information does not lend itself well, obviously, to a telephone survey. Telephone surveys are good for bean

counting, basic simple questions, like where do you bank, or which grocery store do you like, things of that sort. But certainly not the sort of in depth information needed for a housing project.

The second type of study would be a mail survey. Mail surveys can qualify people in terms of their income, locational preferences and base requirements in terms of bedrooms and patios and number of bathrooms and so on. And you can put across some information which is visual, or graphic, which you could not do by telephone survey. You could have a map to get them to choose 5 or 6 sites, and, which one would be preferable to you, that sort of thing, works very well in a mail survey.

You can have some very basic floor plan considerations in a mail survey. That works reasonably well. Impossible to do that on the telephone. You can put across product content. Were you to call on the telephone and ask somebody whether they would prefer a townhouse, a, what shall we say, row house, or a single family detached, I'm sure the mental imagery for each individual that heard the question, would be quite distinctly different, as to what was a townhouse, what was a row house, and what was a single family detached kind of unit. Very hard to do that verbally, because you're depending so much on the experience and the imagination of those that are answering the survey, that you have a relatively uncontrolled response. On the other hand, a mail survey would allow you to put a little drawing--this is a townhouse, this is a rowhouse, this is a single family detached. And you establish a common denominator of visual elements and conceptual elements which presumably help to channel the response.

Today, however, most of the residential kinds of analysis are being done with focus study groups. Focus study groups tend to be a panel of 8 to 15 persons that are hopefully drawn at random, to fit the profile of the basic consumer group you think you can reach. Age, income, area of town. Quite often a critical denominator would be that they all shop at the same supermarket. Quite often they are selected by researchers at the cashier's counter at the supermarket. They stand around there and take every 5th person, or something and then ask them whether they would like to participate in a focus study group on single family home design or something of that sort.

The focus study group allows for, 1) some interaction between the interviewer and the interviewee, and the delivery of much more detailed alternatives in terms of

renderings, maps, photographs of the project concept, or alternative concepts that the analyst is attempting to study. There you begin to discover very significant but subtle dichotomies. Where one group very much prefers the four inch chipped rock aluminum siding with the white corner board and perhaps a certain architecture of nostalgia, shall we say, and the other group with the same floor plan would require an entirely different exterior. Contemporary, etc., no soffits, maybe different fenestration and so on. And yet they're identical in terms of their basic income and age, family status, etc. And yet those are two very different markets. Colonial versus contemporary, versus even the modern for that matter. And it turns out much more clearly, and the percentage distribution of those comes out much more clearly in the focus study groups.

The focus study group also gets you to be able to observe how the consumer responds when his peer group is also responding. There may be a rational answer to the question, which on one on one is what you would get. Which is modified in the dynamics of the group say. Simply because then you begin to get a broader perception. I remember one focus study we did in which, over the living room was one of these mezzanine bedrooms, that's was open, kind of a balcony down, on to the family room area. And we suspected that people would feel that was private enough, and therefore, they wouldn't be as favored they'd rather have a full wall separation and so forth.

And sure enough the first person that answered said gee, that's not very private, etc. etc. etc. And then the next one comes and says oh, I've got one of those in my home now and it's terrific, you put the kids up there and you hear them but the mess isn't seen by somebody coming into the family room. Another one thought it was terrific because she could have her art studio up there and essentially pull up the ladder and get away from the kids. (laughter) And to a point where the first one changed his mind and could begin to perceive that there were alternative uses, that it wasn't really a bedroom at all, it was whatever kind of space you choose to make it kind of area, with a high level of flexibility. And it began to teach the builder immediately, gee, labeling that bedroom, to say that I have a 4 bedroom house, really wasn't marketing the house for us. If I had a 3 bedroom, 2 bath house with studio, for arts, crafts, children etc, it suggested they were getting a lot more for their money. And if somebody wanted to use it for a guestroom, wonderful, somebody else wanted to use it for an art studio they could, and that it was important in his furnishing of the home, to suggest those alternative uses.

So that rather have people turn out, gee I don't want a room without a wall on the second floor kind of thing, that they began to perceive why that was a good idea and so forth.

So the focus study group allows you to get the group dynamics going, and begin to see how the peer groups affect the decisions and choices of others, as they see how it's perceived by others.

The focus group probably is repeated 3 or 4 times, either to reach different demographic profiles, different parts of the city, or simply to get confirmation of what the first group provided.

It requires a great deal of planning before the holding of the focus group. What are the questions we need to address, what kinds of choices can we portray and present, in terms of our drawings, slides, possibly pass around materials and so on. And once that begins, however, you have to be careful not to interfere too much in the process. And there are some very professional groups who do that.

It's old hat in other areas of enterprise than real estate. It's a relatively new application in real estate. Most of the advertising firms in Chicago have contractors which do that, which have rooms which have one-way glass for observation, television taping of the interview, and projection of the audio-visual aid set up. They're really quite elaborate, and allow them to test different products, different advertising themes, that type of thing, in a relatively controlled atmosphere. Real estate has not done as much of that until recently, but it's probably one of the faster growing areas in the housing research area, that you have.

One thing that focus groups can do is zero in on very specific types of choices. For example, which architectural styles should we use. Relative to Tamarack Trails, which is a town house development that we helped Jim Burkhard start out here on the west side before I sold out of the building game to him. And so we were down to the point where, on one of those interviews we would hold up color photographs of 5 different townhouse styles, ranging from New England Bedford colonial, Southern Savannah style, colonial, a project that was done in Connecticut by Paparazzo, which was essentially a California contemporary adapted to New England forms, took the soapbox, roof, steep pitch, 4 in 5 pitch, that sort of thing, as well as a northwest Seattle style, the very shallow, thin roofline,

big overhead, lots of redwood, that type of thing. And getting people to relate.

And clearly the design form of the white ?? board four inch aluminum clapboard which has become now virtually a cliché around town, was the pick. And really made the difference for the Tamarack project in terms of its presentation. That's what people related to initially, that was the code of form, texture, material that made them feel some presumably continuity with their historic residential ownership patterns in the past, and at the same time was a very contemporary kind of product once you got inside with living room balconies and cathedral ceilings and modern kitchens and so forth. And that was not discovered by accident. That was simply sitting down doing interviews, doing the focus studies. Yes?

Question: "What kind of time commitment would you request from these people, and secondly, how are they compensated?"

Good question. Jean is doing these presently both in Racine and Neenah. And the time commitment is about 2 to 2 and half hours for the group. Interestingly enough the Racine group gets I think 20 dollars cash per person. And the Neenah group, which is a church-sponsored operation is not, presently paying anything. They do it because they're interested in the project. They're all over 75 and the church sends out the bus or van or whatever it is to pick them up if they don't drive and so on.

However, I've seen them where they went much longer than 2 and a half hours, I've done a couple in Milwaukee for example in which in the morning we put them all in a couple of vans and took them all out to 3 or 4 competitive projects, with grading sheets that we had prepared. And they graded the competition, so what they liked and didn't like about those. We brought them in, gave them lunch at one of the local jazzy hotels, and then spent a couple of hours going over their grading, until they came to a consensus on which one they liked. And then we related that to our project, which took another hour and a half to present.

And in this case, the project was a condominium townhouse project on the southwest side, and it was about one half built out. So we had 2 different groups on 2 different Saturdays. One group for those that already lived there. And we were asking them, if they had their druthers, what would they like to do over again--what didn't work well with the projects they had. That gave us some clues as to how to

improve the product before we went to the second group. And we didn't mix the two groups, we didn't think it was a good proposition to have, let's say a list of 25 prospects that have indicated some interest in the project, and mix them with the people who were already there, and the people who were already there turned out to be mad, you would have lost all the other prospects.

So we kept them separate and addressed the irritation--what do you like least about the project?--in upgrading our design for stage 2. And then we marketed if you will phase 2 to the focus group, to see how that set. Does this kind of answer your question? And that went on for all morning Saturday morning, I think we got together around nine, went through twelve or something of that sort and then provided coffee and sweet rolls and then each person got a gift of a cheese box from the client in that case.

So the compensation's relatively low. The key of course is choosing a group that by the very nature of their current status in life, would make them interested in what you have to talk about. You get the elderly to talk about the elderly and the first time buyer to talk about first time homes and so forth. And then they're delighted to be asked their opinion. And the second thing is that you're well enough prepared that not only is it flattering to them but it's entertaining. Indeed, in many cases its educational. And the spin-off facet of that the client really likes is the fact that he generally ends up with a preferred prospect list, that people having looked at it say gee, I wish you'd give me a call when that kind of thing's available.

One of the things we do with both our mail survey and our focus groups is we give everybody a postcard, addressed back to Landmark Research, saying please send me additional information if as and when it's available, and put their name and address on it. As a result they can send the postcard back separate from any questionnaire which they may have answered anonymously, or not sending it directly to the developer, and they feel much more comfortable about doing that than if you were to send it directly to the realtor, they feel they're going to be bombarded, you know, with alternative proposals and so on.

So a by-product is almost a pre-conditioned customer list, that feels that he has some input into it, and particularly if they said gee, I think what you really ought to have is a bay window, with a counter that's waterproof so I have a place to go with my plants, or I really don't want a sliding glass door, kind of thing, this isn't California, but on the

other hand I would like access onto a patio, sort of thing, and couldn't the rest of it be a sitting area. And then you put a bay window in and on one sidelight of the bay window there's a door onto the terrace and the balance becomes a sitting area with perhaps more access to the front bedroom than you would otherwise have, and so on. See, if they go through the unit and they see that, they're ready to sign on the dotted line. To the degree that they feel they have an impact on the design proposal, you really lock in customers.

So, of the three methodologies currently--telephone survey, mail survey or focus group--in the residential area the focus study group is going very well. It is much more difficult to hold a focus study group in say, retail, office or something of that sort. For several reasons. One, people feel that they're sophisticated enough that they know all about office buildings or that they know all about retail space sort of thing.

They're not particularly enthralled by another social event. Whereas people being asked about a residential unit on a Saturday, or going to a hotel for lunch and discussing a project and so forth, is much more of an event for them. And the fact that it's a social event, a kaffee klatsch, type of thing, is consistent with their being domestic. It may not be consistent with the same person playing his role as, you know, Charlie Manager, who knows all there is to know about any given subject on any given day. So as a result it does not work as well in that area.

Where it does work well in the commercial area, is not talking to the guy who's going to sign the lease, but talking to a couple of the key people in the office. I've seen presentations by John Fladd and Trammel Crow and a number of others, who held a focus group quietly on a Saturday with the girls in the office. They figured out who's the lady's that's office manager, and who's the department head of this that and the other thing, you know that are down the ladder of authority somewhere. And they take them out to lunch and they say all right, what doesn't work well in your office. Well wow, they light up and boy you get a load of the in-efficiencies in their office layout and you know, who's the idiot who put the coffee machine here and the coffee machine there, and there's no brown bag room and on and on and on. And the developer comes in and makes his pitch then to the big cheese and everything in that proposal, plan let's say, or office layout has already incorporated what the indians think ought to be there. If he shows that to the indians he's dead meat. By the time his office manager tells him what he thinks about it, and

it's terrific, and so on and so forth, and a couple of other department heads have said, finally you're thinking about us, and what we think, and so forth. Why he can't back off.

So in the commercial area you probably don't use the focus study in the upper echelon group, you use the focus study down at the bottom, as a way of trapping the upper echelon into doing what they should have done anyway.

Now a few corporate real estate people do that knowledgeably and so forth, but developers who, let's say, have done a really good job on the build to suit stuff, are the ones that do their homework with the staff people first. They probably don't bother to mention that to their prospects initially. They just have a little breakfast forum on a Sunday or a Saturday or whenever and get the scoop on what's going on with the existing facility. But again, it's what do you like most, what do you like least? And looking at those same basic elements.

The housing market research having moved from the aggregate and then through the surveys, is moving more and more toward what we would call motivational research. The builder, developer is quite knowledgeable as to the basic product needs and requirements, the problem is, how do you communicate their existence and then motivate the prospect to respond by, presumably, relocating and overcoming that inertia.

They spend a great deal of time on the efficiency of communication. Just bringing people on the site, what do you see first, who do you talk to first, what kinds of bullet messages do you want to put across, how much people can absorb at a single point, what do you put in the advertisement in the newspaper? Just a picture of the house? Just a map? Are people buying price? Are people buying location? Are people buying some sort of prestige element? Just enough to get them to come out. They spend a tremendous amount of money on that. If you spend \$5000 on a newspaper ad on Sunday, and that's cheap, that's probably a quarter of a page, at best in the Milwaukee Journal, or one of the Chicago papers and so forth. And you get, at best, 25 people to come out to your model that day. Then you just spent 200 bucks, per person, just to motivate them to get into their car and drive by your product. Now if you've paid two hundred dollars for somebody to walk in the door of the product, you want to be efficient, in communicating to them while they're there. How do you do that? What is the point of sale method of communication, ?? your sales force, etc.

Goodkin responds to that in his little article that I gave you. Most real estate sales people are not trained to be that intense and that offensive. Which is why most builders train their own sales force and have them exclusively devoted to a particular project. At a particular point in time.

You're also concerned with colors, patterns, textures that people relate to. I've seen homebuilders just give you a postcard as you're leaving and ask you, you know, what would you improve on if it were you're home. If they get a pattern coming back saying gee the kitchen's too dark, or the doors clash at the top of the stairs between the closet, the bedroom, the bathroom and so forth. They spend a considerable amount of money ironing it out. Figure this out. If you get 25 people out there at 200 bucks a piece, and you have a really good day, and you sell three of them, to get those 3 there you spent 1,333 dollars. Just to get them in the door. Think what you could do to your sales cost if, discovering a pattern that people said the kitchen was too dark. And you went back and you said gee, I've got dark floor, I've got dark wood cabinet, my lighting fixture is probably under scale, relative. What would happen if I put in a drop ceiling with a glow ceiling, as they say, lightened up the wood cabinetry, and used bright warm yellow Formica, or light Formica with a little yellow thread going through it that was reflective to some degree and so forth, I lightened up the Formica. And now I sold one more unit a week, because I didn't turn somebody off on that.

Its immediate savings. Week after week. Just on my newspaper cost, not to mention my time cost and so forth. If in fact it would reduce your cost per sale by one thousand dollars, how long would it take you to rip out that old kitchen and change it? It's that sensitive a business, if you can figure out that you're turning off one person a week that would have bought except for that feature, you can replace the feature that fast. So a great deal of money is spent researching the point of sale motivation of the product.

Because real estate is one of the few products which is its own media. The customer is standing in the middle of the media, receiving a whole series of messages, code if you will. From the textures and the colors and the room lay outs and the kind of fenestration that you have and whether the doors are flush or colonial panel and so forth and so

on. The whole unit taken together is the media. Which ultimately they either react to affirmatively or negatively.

So much of the marketing research today in housing, because builders have the demographics pretty well under control, and they have probably a pretty good idea of which sub-segment of that, which cohort they're serving, is being spent on this kind of detailed research. And they may be doing it themselves, or they may be doing it with advertising agencies. But more and more they're doing it with specialists in advertising and consumer behavioral research.

And it may involve trade-off studies--comparing what people will pay for, what they won't pay for--it may involve these kind of responses to texture, material and so forth. It's so significant for example that Merrill Lynch as a major executive relocation business for the corporation, defines market value in their guaranteed purchase contract too when they relocate an executive--if the house doesn't sell in a certain period of time, they pay X dollars for it, according to what they decide is market value.

And market value for them is defined as what will it sell for after it's been converted to the Merrill Lynch neutral. And the appraiser is given a series of cost items, including a carpeting cost per yard factor, a paint for the wall factor, change the lighting fixtures in the dining room, a kitchen factor, possibly changing the cabinets and so forth, wall paper the bathroom factor. And as an appraiser you can figure out what it would sell for if it had this Merrill Lynch plan, and then you subtract the cost of bringing it to this point, and that's what they'll pay the individual who owns the home.

They feel that most people's taste is so atrocious that most houses don't sell, because you get turned off by an irrelevancy, which may be a paint color, a wall paper, it may even be the fact that the house just smells because the previous owner was a heavy cigarette smoker and you go in there and you're overwhelmed with stale cigarette smoke and so forth. Everything else about the house was fine in terms of its fundamentals, in terms of its location, number of rooms, you know, exterior style and so forth....

[END OF SIDE ONE]

And so in effect to market the house we will take out all the negative codes, that represent either the poor housekeeping or the bad taste of the former occupant.

Neutralize it with tans and beiges, carpeting to match, wall paper which is a tone rather than a pattern and turn around and sell the house immediately by having eliminated those kinds of measures.

I know for example single family home marketers that have buried in the bushes going out to the car parking area microphones which record the couples comments after they leave what they perceive to be earshot of the sales force, and so forth. And the comments will be anywhere from wasn't that salesman obnoxious the way he was chewing bubble gum, whatever, to my god the wallpaper in that 3rd bedroom was such that you have immediate collapse of all retina function at all in there. And so forth. And that gets fed back the next morning in the sales meeting.

And the sales person who wasn't too effective gets to hear first hand from the customer, who would never, because of his American general politeness--we really talk about the Japanese as being polite, and you know, mystical--there is nobody more socially oblique than Americans. Nobody. And as a result, we have to break through that. And one of the ways to do that is , obviously what many of you would object to I'm sure as an invasion of your privacy by me through a tape system that is recording what you say up until the time you get into the automobile and drive away. And it can be a very, very effective marketing research tool, to be able to identify and respond to those things that people have reacted to, both positively and negatively in their visit to that particular house.

??One of the things that need to be done as people move into the sales area, is to train your people to immediately qualify and further sub-aggregate that customer. A really good salesperson will be able to qualify them very quickly, in casual conversation. Hello, Mr. and Mrs. so and so, nice to have you here. Who's looking after the children today? We don't have any children. Bang, that's what they wanted to know.

I don't suppose you always get Saturday's off. Oh, yeah, I work at so and so.... Bang, that's what we needed to know. It doesn't take a really good home salesman very long to quickly qualify that client down in terms of their dress, their car, their answer to a few seemingly casual social questions as to what do they have here.

The Hoffmann Estate, classic case in point. Breaks them down into at least 4 categories immediately. They have the same model decorated four different ways, having made that

initial cut, qualifies them as to whether they're just tire kickers and wondered what to do with their afternoon, or whether they could conceivably really be interested in the product. They then segregate them into one of those 4 units. One will be for the normal, family unit. Two adults, plus kids, etc. And the second may be for the single adult with children, the third one may be for the empty nester, and the fourth one may be for those approaching the retirement age. Each one of those models is different, is decorated in ways in which a different code, really is established.

If they have one for let's say the single person, the taxpayer who says gee, I'd better own something, the real estate taxes and interest are deductible, and so forth, they'll have something that's very upscale, single kind of thing and so forth.

Yet if you go over to the one that's for the older, empty-nester, maybe approaching retirement, the furniture will be nineteen sixties style, a little too large, and so forth, and will suggest where you can put those kinds of things, how to lay out your ??, pictures and knickknacks, and everything else will be hinting any way at the kind of furniture package that that resident is likely to have.

Where as that for the single adult with a couple of kids will be real emphasis on ease of housekeeping, not only ease of housekeeping, not only the ease of housekeeping but the fact that there's nothing fragile around, everything's out of reach, etc. etc. etc. The kinds of things that they know that person is sensitive to, if they leave the kids in charge of a baby-sitter for a time or whatever.

And the conventional family, they may have an entirely different package for, in terms of the furnishing, carpeting, the much lighter and sometime underscale furniture, so that the room seems more spacious. If you have a couple of kids, there's probably no way you can get enough room between you and the kids. And you can try to emphasize that aspect of the project.

One of the readings that you have is a reading by Don Samuelson, on the project in New York State, in Deerfield, and you really ought to read that carefully. Don Samuelson himself, talking about it, is even richer. He's a very unique individual in that he's a, he graduated from the Chicago law school, started out as a bond counsel, very successful one to a major Chicago law firm and found law absolutely dull.

And said screw it went to Africa with the Peace Corps, I think he was the advisor to somebody's supreme court over there for awhile, and contracted cancer and came back and beat it. And then because of his African experience he was much more interested in low-income housing and so forth, and went with Illinois Housing Authority and really had a significant impact on how they thought about low-income housing and what they should finance and the design criteria they should have, and so forth. And then got hired by Inland Homes, which was Inland Steel, which at that time had a contract from the New York Urban Housing Development Authority, which had built a whole series of apartment projects, with the best of intentions, in New York, many of which were in big trouble.

And the one that you read about is one that they developed in Deerfield, New York. Deerfield, if you know, if you've ever read *Drums Along the Mohawk*, or other historical elements of that sort, prides itself on its long history, very New Englandy, the house with the highest property value still has a tomahawk buried in the front door. And all of the homes are who slept there and who got butchered there by the Indians in a massacre. You're really nothing unless one of your relatives got scalped on the front lawn. (laughter) Now along comes the New York Urban Development Authority, and they hire a bunch of high-priced architects from Harvard to design an apartment project. And Samuelson says they did it in early Marrakesh epoxy. Little white boxes all stacked together in a Mediterranean village form on a barren hilltop. It's 236 and section 8 overlay.

Well first of all, the people in Deerfield are scandalized, that anybody in their community would need to be subsidized by the federal government. Now there's plenty of people who qualify, but nonetheless, the social stigma of this project, you can't imagine, in Deerfield, New York.

Second of all, here's a town that prides itself on its colonial tradition, and what you've done is really bad Nietzschean ?? modern, done to FHA specifications, which tells you something right there. Sitting on top this hilltop, glaring down at the city. Well they can't rent it. They can't give it away. Even the low income people would be embarrassed to be there, given the cultural characteristic of Deerfield. So it's dying. It's in foreclosure. The Housing Authority is embarrassed, HUD doesn't know what to do with the damn thing, doesn't want it back. So that's the background problem, then you get Samuelson's memo as to what to do about it.

And what he does about it is essentially of course is depend a lot upon ivy, which grows quickly in that area, to cover it. But he brings in a whole bunch of pine, you could come in and bring whole hedge groves of pine trees off a nearby property that he buys for the purpose. And he changes it to Pines of Perrington, which is the name of your reading, and Pines in upstate New York, obviously has a positive image. And he weaves a road into it, hides the damn building so you can't see it from anywhere, plants ivy all around it, and then on the inside goes back and replaces, as I recall, the asphalt tile with spruce plank floors, in the grand old New England tradition, takes out all of the contemporary furniture, and does it in New England antiques and hooked rugs and you know, all the little homilies which hang on New England walls and so forth. And then the thing that was the laughing stock of the community was, the fact that on the second floor, the architects were really proud of the fact that they had their washer/dryer on the second floor, because industrial engineering shows that otherwise you always had to carry all your sheets and towels downstairs and then carry them back up stairs. So they put the washer/dryer on the second floor. Which was really neat except for two problems. One, when the washer/dryer was vibrating, the whole house was vibrating, and it was overhead, so you wondered whether it was going to come through the floor. And second of all, if you spilled any water, you immediately got a stain on the dry wall directly below it, which of course got wider and wider as the dry wall got more and more rotten. A total disaster. And of course the townspeople had a wonderful time with this, pointing out the incompetence of government designed and constructed houses, and anyone in their right mind would know that you shouldn't do that.

So he took all that out, put it now in a shed that he added to the outside, as I recall, at the back door, so they've got the noise out, the water out and so forth and so on. And then did that as a little sitting area at the top of the steps, opened it up and so forth. And therefore concealed the whole mistake, so to speak. The joke at the expense of government was gradually being forgotten.

I read the Pines of Perrington because it's a classic example of taking a relatively limited number of variables, and a very limited budget, and changing the codes that were being communicated to those that were expected to live in the project. And make it, you know, acceptable housing. Maybe not ideal housing, but certainly acceptable housing to the group it was intended to reach. And making it at least

nominally acceptable, or at least less painful for the residents, because he could change the value image of the peer group. Not of those that were going to live there, but among the friends of those who were going to live there. Which has a very powerful influence on what is acceptable as a place to be.

Okay, we'll pick up again on this...

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Lecture 10-1

... Gentleman from downtown Minneapolis, location we haven't decided whether we're going to meet at the library or city hall because we have to find a room big enough for the whole dog and pony show. But in any event, that'll be on Thursday. One variable you should be aware of is that Thursday evening is the annual Minneapolis alumni dinner affair, in which the alumni bring their bosses and other related folks to dinner and have a speaker which in this case turns out to be me by default because Dowell Myer couldn't make it and in any event, you are welcome to the cocktail party, which will be at the Marriott, 2 blocks from where you're going to be staying. But it's 30 bucks for dinner if you're going to stay for dinner. Sorry about that, but they run that as a money-making affair, which reminds me also that if there's anybody here next fall from Minneapolis or Minnesota, we have a 500 dollar scholarship from the alumni as a result of their various money-making activities like this sort of thing. Be sure you get your name in the hat in the front office for scholarships, indicating that you are a Minnesota resident.

Okay, what I'd like to do today is talk a little bit about my adventures over spring vacation, what I did on my holiday essay. (laughter) What we were involved in essentially was a planning trip to the port of Seattle. With 5 other folks, and involving a very central piece of property owned by the Port Authority of Seattle. It what was a highly controversial decision on their part to buy this particular piece of land, and which had been the subject of about two years of citizen hearings, ?? turmoil's etc. to define what those functions might be. Our goal was to assimilate all of

this material and come up and make a presentation Thursday morning, to the Port Authority saying here's what you guys are going to do and therefore you will prepare first of all an RFQ which says we are going to solicit, nationally and internationally for developer/architectural teams, to qualify for a design contest. And then we will have a request for proposals, in which they will have ninety days to prepare a preliminary scheme for development of these properties, consistent with the criteria that we have defined for you.

And the committee will then reconvene and select one of those teams as the initial winner, if you will, of the contest. The other 2 "losers" will get 50,000 dollars each, which will be about a third of what they spend getting their act together. And we will then sit down and refine the proposal by the winning design team, to have a greater sensitivity to what the Port Authority and the team decides is appropriate. The members of the team were Jonathan Rose, who is the heir to the Rose fortune in New York, who are all manner of skyscraper, shopping center, and housing developers.

Very interesting family. It's the second time I've worked with the Rose's their father, Dan Rose is a little ?? scholar really, and just a super individual and someone who's very much concerned with public policy as it relates to real estate, and has brought up all of his children to believe that half of their life has to be dedicated to public service, that's simply a requirement of having been born into money, and at the same time they have to run the business. So there are two brothers, the two Rose brothers present then are second generation. These boys are the third generation. And Jonathan spends half his time working with the homeless problem in the state of New York, and the other half doing shopping centers and office buildings and so forth. He's really a super guy.

The second individual is a guy named Joe Powers from Edaw?, which is a planning firm, nationally oriented, but he happens to be from the Washington office, and among his, he's a relatively young guy, Inner-harbor, and I'm trying to think of the name of the project in Georgetown. Along the Potomac. Essentially there's a similar site cut off from the mainland, the main area, by a freeway and terrain and so forth.

The third guy was a guy named Bill Leger who was a nationally known traffic engineer. The fourth individual was a guy named Bill Dyer, who happened to be president of a

ship building company, sort of representing the Puget Sound viewpoint of life. And the last guy is a guy named Bill Schaeffer, who did all of the retail leasing in ??ville Center in Fisherman's Wharf he's regarded as kind of Mr. Retail in the San Francisco area. So those are the five of us.

And we could have had our pick of anybody we'd wanted in Seattle for advice, so we probably had 15, 20 people coming in with market data and engineering and technical data and so forth. We probably had 600 pages of reading before we went out there in terms of existing market research which had been done and other legal research which had been done, which we'll talk about in a moment. So if you want to talk about doing a fast study, we had a fast study. We worked 12 hours a day minimum. And, really intense. And terrific, really fun, a good group they really meshed very well together.

The reasons not quite clear to me, I figured this was going to be a piece of cake, so I had already scheduled breakfast speeches to two different chances?? , so I would be on station at 7:00 in the morning and make an hour speech and be back at the hotel at 8:30 to be part of the planning committee, and it would run until 8:30 or so in the evening. And after that I met with the alumni, and also met with one of our clients another night. But in any event, an intensive week.

Those of you who have been to Seattle probably have some sense of it, but if you'll look at the sketch, and this is where we have all the various piers identified. The core area of downtown is probably opposite about Pier 55 or 54. But it's uphill. Between the interstate which, Highway 99 comes down as a viaduct just to the inside of the pier, and the upland area which would be the first street say at Union Street, Spring Street, along that area--120 foot drop, a cliff, going gazingo, right down. Tapers down to a 70 feet drop by the time you get back to Pier 66. So there's an escarpment there which is a very dramatic cutoff between what has been a rapidly redeveloping area of Seattle, and this lower, traditional deep water harbor.

The configuration here is kind of interesting. We start at the water's edge, the most, the dotted line coming along. Between that dotted line and the sea wall, which is the beginning of the shore, is under the jurisdiction of the state. The land is owned by the state Department of Natural Resources. And everything in that line is leased. Unfortunately, it is the policy of the state to lease on a

30 year basis. At which point it reverts to the state. Therefore you have a really interesting problem in, what is it can you develop in that zone that you can amortize at 30 years and get your money back--which is like nothing.

That's problem number one. Problem number 2 is, the rate of drop off. The reason is, you see the docks slanted out from shore as it is, is that the water drops off so rapidly that by the time you're to the end of the docks it's 85 to 115 feet down in the water. And that was as far as they could possibly go with wooden pilings. And as a result, to get as much linear feet of dock, they had to tilt it, so that you've got one long leg, so that if you went perpendicular to the shore as most docks do, you would have ended up with considerably less dock frontage.

The second reason for going into that is you have a long reach across Puget Sound. This is not a small boat anchorage. If you get boats below 200, 300 feet, they have a rocky time here, because of the reach coming across Puget Sound. So the real harbor has moved down to Pier 25, which is off the bottom of your map, which is now the largest containerization port on the west coast. Seattle dominates the container field, and they have a very fine port facility there. In effect, these docks have dropped out of the traditional roles of ship unloading and so forth, for those reasons.

When these docks were built they were built with long, western cedar wood pilings. And as a result they have at least one third of the pilings replaced every ten years. It's an extremely high maintenance item. What had happened in recent years is that the technology of ships has changed and so most ships today have bow and stern thrusters which essentially are water pumps, so that they don't need to use tugs. So as they come up against the dock they can control the front end and the back end of the boat by thrusting water. So if they're tied up and they want to move away from the dock, they in effect jet water under the dock. Unfortunately that rips hell out of the dock. So nobody's really paid attention to this for awhile, but it's obviously changing the bottom configuration, tearing up the docks.

So problem number one was, to compound things, Piers 64 and 65 collapsed last year. The state is a little upset about that because the lease was about to expire, in fact it did expire this year, and they expected the docks to become their property. So they sued the Port Authority for waste, for not having maintained the under-pinnings of the dock. Now there's a little sensitive area there. And one of the

ways of working that out is there's a three cornered deal now, the Port Authority, the City of Seattle and the State Department of Natural Resources are going to create what is called a transient moorage point there for boats that are temporarily in the harbor, and also a way in which yachtsmen, and private boat owners can alight, take advantage of restaurants along the sea front there, and then move out. Not overnight storage because as I say it's very vulnerable to the long reach of Puget Sound and it can get a little rocky. They are going to use as a break water in that area, a floating bridge, which if any of you any history , you'll recall that Lake Washington, which is the eastern perimeter of downtown Washington, a freshwater lake had three floating bridges across it. And for reasons not clear to me at the moment, one of them broke up into little pieces and they're using those little pieces now as a floating breakwater to reduce the amplitude and character of the wave frequency coming across Puget Sound. So that there is at least some stability within that basin for transient boat moorage for several hours or a day at a time.

The next zone is a road called the Alaskan way, which hugs the sea wall all the way. You can see it in small print up near 67 and 68, the road called the Alaskan Way. That is currently a 4 lane road, which is carrying less than 2 lanes worth of traffic.

So the mayor, as part of his political campaign, has announced complete redevelopment of the Alaskan Way, into a 2-lane, landscaped promenade, with 30 foot wide textured sidewalks and all this sort of thing, on the sea wall side. So far so good? Next to the road, nearly parallel to it, are two railroad tracks. One belongs to the Burlington and Northern, one belongs to a street car route. Because this was a working port area until a couple of years ago, every one of the docks is served by rail. Although they don't necessarily need it anymore. But Mr. Hill--who you'll remember, James Hill, the developer of the Burlington Northern Railroad, 1905, to facilitate the silk trade with China--decided that downtown Seattle was in the way. And so he dug a tunnel for the railroad all the way under downtown Seattle. It comes in immediately opposite our Pier 66. You'll see the rail line veer in at that point. And then disappear under the viaduct. Okay at that point it's entering a tunnel, which then bypasses all of that front area and comes out back down in the cargo containerization area. And so the city bought the Burlington Northern right of way, immediately to the east edge of Alaskan Way. So that becomes a piece of land that is now available, if you want to pull the rails off and so forth.

The second rail, immediately adjacent to that, is a street car line. They got one city alderperson, who has been re-elected for the last 30 years, who's into railroad. Fascinated by railroads. So at some point along the line this clown made a deal with the city of Melbourne, Australia to buy their old street cars, and converted one of the two Burlington Northern lines to a full-gauge, railroad gauge street car line. Which runs from Pioneer Square to a point up around Pier 71 here at the moment. And which he has now decided will go further, and cut over to the Kingdome and that area, on essentially the south end of town, and swing all the way back up to Seattle Center, which is where the old Seattle Exposition was, and that tall pylon with the restaurant on top, is located on that side. So that becomes then a sort of a touristy kind of rail line gee whiz thing. But these street cars are bad news. They're obsolete, there's no doubt about it. And at the moment it's a single track line. So it's 20 minutes between cars because there's only one place that they can bypass. Okay? So far so good?

So cable cars in San Francisco it ain't. But nevertheless, if you're going to get this alderperson's support for anything, you better not touch the street car. So that's the next ?? edge that you have to deal with.

The next edge as you can see, coming right, just from north of Pier 64-65 ?? there, is Route 99. And in the early fifties, late fifties, they built a double-deck viaduct that goes all the way from that point, down to past, Pier 28. Much like the one in Embarcadero Center out in San Francisco, but unfortunately the Seattle folks weren't quick enough to stop it and so you've got this double viaduct standing 85 feet in the air. Some of it's lower, some of it's 55 feet in the air, if that makes you feel any better, but the majority of it's 85 feet in the air. And the noise off that is oppressive, because the lower lane's traffic is bouncing its noise off the bottom of the upper lane, and down into the sidewalk court area. And they have looked at spraying the bottom of that with some sort of sound absorbent material, but it would cost mega-bucks, so they decided not to do that. So you have a real sound pollution problem here from all the viaduct.

Immediately past the viaduct, part of the viaduct pillars are built into this escarpment, or bluff. And there's almost no way down from the bluff down to the shore. If there are any of you who have been there, Pike's Market is a really fun place to be--extremely difficult to get down from Pike's Market except those one set of Spanish steps that

comes down through the market. Otherwise, they're really cut off.

The ferry boat dock, which is Pier 52, has a bridge going up Madison Street, that starts at Western, which is the first street at the top of the escarpment, so that you walk straight out Western and come in at dock height at the top, to get on a passenger ferry kind of thing.

The ferry boat creates some real traffic problems there, and that's about to be re-built. So that whole area, Pier 54 to Pier 52 and down to Pier 48 is being reorganized from a traffic standpoint so that all approaches to the ferry boat will be from the south, and traffic coming off the ferry boat will also circle from the south and up, into the downtown area. So that'll be pulled out of that area as a conflict.

So that as I said you have this whole series of edges that define this area and have cut it off from the re-development of downtown Seattle, which is proceeding otherwise rather vigorously. And immediately above that escarpment you have Western Avenue and then 1st Street, and for several blocks there's, well essentially all along there, Spring, Seneca, Union, all the way up to Pike Street, those older buildings have been re-developed into kind of an interesting area of shops, restaurants, the Alexis Hotel which was where our meeting was held and so forth, by Weyerhauser Lumber through a development entity called Cornerstone. And Cornerstone was run by a couple of dreamers, and they did a beautiful job of re-developing these old buildings literally gutting them out and reconstructing them with enough architectural nostalgia that it would certainly win awards for sensitivity, etc. It didn't win any awards for finance, and this year Weyerhauser wrote Cornerstone off for 27 million dollars of assets which they can't seem to find no matter how you appraise this development. Weyerhauser as a result has now gone out of the development business, and has hired the head of one of our clients, Bill Whitefield, to run the liquidation of Cornerstone. And so one of the reasons we were out there was to find a new corporate head for the Northwest Building Corporation.

But in any event, that area is very attractive, it's got lots of interesting little restaurants, shops, etc. etc. But it's really very difficult to get down from there to the Pier.

Okay, what does the Port Authority have then to be concerned with. The first element that we're concerned with is Pier

66, which is that long, trapezoid there. And that trapezoid is also the headquarters for the Port Authority itself, with a major 4 story building that was once upon a time a cold storage warehouse, it's built like the Rock of Gibraltar, and it's one of the few docks that is still outside the sea wall line, so that the building is built on fill, with a sea wall around that, and then the dock is beyond that. And the dock has a big apron that kind of warps around that.

I should have brought some pictures along of that since I have them. Jim, why don't you ask Melissa for the plastic covered pictures that are in my 857 book? They're great big 9 by 12 things ??

One of our charges was what to do about Pier 66. The options which had already been identified were one, of course, to tear down the Port Authority building and modernize the Pier. You can see that the Pier has a major shed coming around it which the railroad serves. But in recent times, the last couple of months they discovered that it had the same rot in the piling system as the late lamented Pier 64, 65, and therefore they are facing major reconstruction costs on the Pier.

And I don't know if you know anything about reconstruction costs on a Pier, but if you're going to drive piles that means you drive them straight through the top, and you've got to come through the roof of the shed and by the time you're done the shed looks like it got bombed out by a German Stukka squadron. And so you have to re-build the shed.

It's in the dark blue feasibility notebook. And there's two, plastic-covered picture sets in that.

And we had them priced out, we brought our engineers in and looked at the life-cycle costing was, if we went with 3 ten year rebuilding programs. There's 29 years left to go on the lease. Clearly, going and tearing the whole thing down and doing it in concrete was financially a better solution, if you wanted a pier and the apron.

One of the major citizen conclusions was that they want the central court area--that's it, pass those around--to remain as a working harbor. Very interesting, any number of citizen committees that's been quoted, they want to take their kids down there and see real boats doing real things and they didn't want to, as they said, to Rouseify. Rouse is a bad name down there. And ? do enough doing a major

shopping center about four blocks from the site. But anyway ?? .

But they didn't like that, they wanted a working port. But when you got into what working port really means, it meant that 1) there's a new Alaskan fishing industry, with the new bottom trawlers running to 250 to 300 feet, which are out of scale for the traditional Union Lake refurbishing and trip replenishment functions that Seattle has always served. They would like to get this new American fishing fleet into Seattle. So one of the things we decided was fine that is a working port function, and they'd really only need a wide apron, because when they want to do something with their boat they bring down a truck frame that works right from the apron of the pier. And can spew their gear out over the dock and fix their compressors and so forth and so on. All they really need is a wide apron, this dock does not have a wide apron, it only has a 13 foot apron which is virtually dysfunctional in terms of that sort of thing.

So ultimately we decided that that would be allocated to, re-built for the major Alaskan bottom fisheries fleet, as a transient moorage element, because they come into town maybe every two years to re-outfit and so forth.

The other thing that the citizens committee had decided on, which shows you how far ranging you go in a feasibility study, was that this would be a cruise ship dock. Now, cruise ships were down on Pier 25, which again was having piling problems, they were looking for a new thing. And we said gee, you know, what you should really do is get cruise ships in there, and the people could flow uphill just above that big X, above Pier 64, 65 you have Pike's Market, which has got to be one of the more fun places to be, and then just beyond that the new Westlake area, with a retail center surrounding that, with Maestrums ?? and Baird-Nelsons ?? and so forth and so on--all the likely places for cruise ship people to go.

So they're all excited about cruise ships. So we bring in the maritime lawyers. Well there's two acts. One's called the Jones Act, the other's one's called the Passenger and Travellers Act. And both of them are virtually identical wording, and they accomplish the same thing, one's for cargo, one's for passengers. Which essentially says that you cannot have a foreign-flagged ship that goes from one American port to another, with cargo or passengers that are picked up in an American port. They were really concerned that the inter-coastal trade would be lost to foreign ships-

-and foreign ships obviously they have lower labor costs, can be built for less overseas, and so forth.

So the Jones Act is really strict on that, in order to capture inter-coastal marine trade for American-flagged boats. But an American flagged boat can't compete in the cruise ship thing for business, simply because the Jones Act puts so many constraints on them.

So as a result the very lucrative trade of cruising the inland waterways to Alaska, is all foreign-flagged ships except one, and that's Scimitar, which is based in Seattle, and they announced to us privately that they're leaving. So the only way to make this a cruise ship dock for other than occasional visits from a foreign flag that would now be going out to a foreign port, would be in effect to change the Jones Act or the Passenger Act, and the lawyers simply advised us that the Passenger Act could not be changed because the cargo people would be afraid that that would set the precedent for changing the Jones act, and so that's not going to happen. The lobby for that's strong. Very interesting set of economics saying here's a logical place for cruise ships, why not have cruise ships, and so as a result Victoria and Vancouver, in Canada, get all of the cruise ship trade. They cannot sail into Seattle, and then go on to another American port. They would have to go back to a foreign port and there obviously aren't a lot of foreign flag ports around, unless you go to Japan or Canada. You could not go from here to Alaska as your ultimate destination on a foreign-flagged boat.

All right? It's one of those nonsense type things but there it is. So we're left with doing the Alaskan fleet there.

The next thing we looked at was their port building itself, which needed work, and we concluded that they should keep that. And directly across from that, in what looks like a little square inside the block, just beyond where the railroad line angles off there, another misspent project. Someone was going to build a major office building on that site, for the views. And the city of Seattle in their wisdom required that they build the parking firstfirst, before they could get the permit, and so they built a six story parking ramp and two stories of office space on top of it. Only to realize after they got it built that you can't see the water from those two floors because the Port Authority's building is in the way. So the thing had died and the Art Institute is currently occupying the top two floors at some nominal rent.

The Port Authority bought the first two floors of the parking ramp on a condominium basis to put their employees, but they are cut off by the railroad tracks, and this is a relatively isolated area on the port zone, so they feel relatively insecure as the sun goes down. And this whole area south of here has one of the largest homeless populations of transient men around. And so it's not a real happy place to be after hours.

So one of the things we ended up doing as we pushed the pencil on it Johnson, Rose and I convinced them that they should buy the rest of the parking ramp, run a sky bridge across the parking ramp and up to what essentially is Elliot Street, and take advantage of the grade.

We also found historically that the Port Authority building at one time had an observation deck on it. That is enclosed, but the roof was disintegrating, which it was, that if we ran the pedestrian thing over, not only did we connect across the railroad tracks into the parking ramp and over to Elliot Street. But we also linked a major political group, which are the residents of the regrade area. Which is generally empty-nesters, elderly, etc. They really have no way to get down to the esplanade along the water's edge anyway. So we continued into the elevator tower that had been used to convert the old warehouse to the Port Authority building, they had a free standing elevator tower, with all the restrooms all the stairways all the elevators in there, because it's cheaper to put it off to the side than it was to punch a hole through these tremendously thick concrete floors that have a floor loading of like 400 pounds per square foot or something. And so we had a natural linkage point there, and that gives us then a publicly controlled way of coming out of a residential area, down, and building a constituency, if you will, for the project.

By the same token, the parking ramp now gives us another link to the south, so that first rectangular piece of land, past where the railroad bends into the tunnel, is the only area entitled to 85 foot heights, for office space. And then we can then lease the ground on that and promise a linkage to 3 levels of parking, which, at 125 cars per level, is a substantial bonus to anyone who's putting an office building there, to get the parking ramp.

So far so good?

That also gave us a visual terminal for people coming down that long straight-away. We took the parking out from the front of the Port Authority building, put it across the

street from the ramp, and recommended landscaping the front of the Port Authority, and then landscaping that triangle formed by the railroad--it's a dead piece of ground. Not only is it triangular, but it comes down virtually straight down at the cliff. And you really can't do anything with it, other than create as we said, a vernacular landscaping from the Northwest tradition. Like that.

So now we've created an anchor for our zone, and now we're concerned with what is essentially a strip of land, representing 5 acres, which are those first four, 3 excuse me, rectangularity's. If you look at the sign that says Pier 64, 65, Owner: Port of Seattle. Remember those piers fell down. But directly across the viaducts and the railroad tracks are 4 reasonably rectangular--excuse me 3 reasonably rectangular pieces of ground. Above and below that dark arrow. Terminating in a little skinny triangular piece, opposite where it says viaduct on the side, everybody find that?

So that's a 5 acre piece of ground, which is what we're being asked now to come up with a development concept for. Kind of an interesting problem. The mayor's plan, which goes up for a referendum for bonding in September of this year, calls for a significant expansion of the aquarium, which is noted there on the map. Which isn't a bad aquarium now--but it's not a great aquarium. Then developing lots 62 and 63 or docks 62 and 63, into a maritime heritage center. Which is one, a museum of the Northwest ocean tradition. They have 4 or 5 boats that have been preserved by various private groups, non-profit groups, over the years, which are scattered up and down Puget Sound, which would be consolidated there. And they have several groups which are into education on oceanography, the sea life of Puget Sound, etc etc. So there would really become kind of an education center as opposed to simply a gee whiz kind of museum.

So those two anchors would be there. And the mayor is proposing to reduce the Alaskan Way to 2 lanes with a major pedestrian esplanade along the water's edge and another esplanade along the inside edge, adjacent to the street car track, and you'll be able to get off the street car track onto the esplanade and so forth. All of that presumable going forward in 89. And the plan's fairly well along, some political resistance to it.

One of the problems the Port Authority has is that it is an extremely profitable entity, and yet it has 28 million dollars a year as a result of its real estate millage assessment on all property in King County. It controls Sea-

Tac Airport as well as the harbor. And Sea-Tac airport is a money maker, and that's doing very well. It has the containerization area, which is a money maker. So they had like about a 150 million dollars in revenues last year, and about a 30 million dollar profit. Some taxpayers are saying hey wait a minute, if you guys can do it without our 28 million, we'd just as soon you would. And some of those little old ladies are coming down and saying, we'd like a rebate.

So for a variety of reasons they've got to do something with the money that makes them look like good public citizens, but it has to be one, port-related, and second of all, certainly not inconsistent with their various functions as transportation, education and so forth.

When they bought the 5 acres of land at 55 dollars a foot, they were roundly crucified in the newspapers, for what was perceived as a bad buy. They paid too much, they bailed somebody out, etc. etc. etc. The land is currently occupied by truck terminals of the seediest looking sort, an old warehouse that is sort of a 4 story yellow job and so forth.

The history of this particular piece of land below the escarpment was that if you'll notice there's a street called Yeger Street down Y-e-g-e-r, almost to the bottom right hand corner of the map, about the fourth street up--Jackson, ??, ??, and Yeger. And it began as a saw mill, and they had major timber operations, operating for export here, and all of the sawdust and all of the crap got dumped between the sea wall and the bluff. So talk about non supporting soils. The pilings have to be as deep on these sites as they are on the piers across the way in the water. You probably have to go 100 feet down to hit something solid to hold the building on. So 55 bucks a square feet plus pilings, we're talking about fairly expensive land by the time you've got anything to stand up.

Remember you have that viaduct coming right across the back side of it, with the noise problem. And one of the other interesting features, which doesn't show very well here on the map unfortunately, but which is kind of nifty, is right where you see that black line coming from Pier 64 65 (typo) to the late, lamented lost piers, there was a bridge which came under the viaduct but is about 20 above the ground, that links into the 2nd floor of the pier. The Pier's gone, but the bridge continues right on out to the water's edge. In fact one of the little debates going on was should the Port Authority permit one of the, I forget which of the detective TV shows to have an automobile chase on this thing

in which the car goes shooting off into the bay for the grand finale. And several of the port commission felt that there was a liability there that they weren't willing to entertain, nor were did they wish to plant the idea in anyone else's head that this was a great thing to do. So the bridge goes right to the intersection of Elliot and Western, which is a half block north of Pike's Market. Just a natural pedestrian connection, if you could figure out what to do with it other than the fact that it's ugly as sin.

Right now it just hangs out there right over the water. So that's another resource we've got to figure out what to do with. Either the Port Authority tears it down to get rid of it, or we find something do with it. And it does provide a natural connector, upland as they say, across the bluff and under the viaduct.

So now what to do with those particular sites. First thing that you have of course is a floor area ratio limitation of 2.5 on the whole site. So you've got 5 acres worth of land which is somewhere, somewhere in the neighborhood of 220 thousand square feet, with 2.5 it means you're somewhere in the neighborhood of 560 thousand gross feet of building which you can shape onto there somehow. That's a cap on what you can do. And that makes you a little uncomfortable relative to the square feet of land. In effect it says that if you paid 55 bucks for a square foot of land, you're paying 22 bucks for a square foot of building area, for every foot of land. So you're already running up hill, as it were. Remember that doesn't include the pilings which would probably double that. So we've got 44 dollars of square foot of building area going in by the time we've got it ready to go site cost.

The alternative uses that were initially presumed were retail, office, residential, hotel or education. Could you get the University of Washington down here, to move their oceanographic program down here, etc. etc. The answer was a resounding No on that one, we invited the head of oceanography down and they were very flattered to be asked, but they said forget it. ????. Whatever they needed for lecture purposes would be perfectly adequate at the aquarium, thank you. The art institute of course is up the road, but they have a fine, cheap site, they couldn't afford to pay anything more, and if we want to do it the Port Authority is obviously trying to justify the 55 dollars a square foot.

Office building in downtown Seattle is running amuck. Currently they have only a 12 percent vacancy in Class A office space. Class B is about 30 percent vacancy. And there are 4 million square feet already programmed to come out of the ground in a market which has an absorption of about 700,000 square feet a year. So you can kiss off the office space. As a matter of fact we brought in all of our various office building developers and they all had wonderful recommendations as to why this should be residential or hotel or retail, but they certainly didn't want any office space coming in with a view.

One of the things you also have to remember is that the view here is not really, this land mass rises from 1st to 6th Street, at angles in many cases sharper than that of San Francisco, and virtually all of the office buildings have magnificent views of the water, Puget Sound, the Olympic Mountains across the way and so forth. And so to argue that you have a monopoly with a four story building, which is as high as we're going to build there, of water views, is zilch. Forget that. So as a result office space, at least for the time being is crossed out. They estimate it will be 8 years before...This either means the ?? can't have office space, and conceivably our 85 foot height lot, which is the northernmost rectangular piece there, might serve as a build to suit corporate headquarters kind of thing, once all of the other public amenities are in place, but otherwise ennnh (rude noise) to office space.

So we looked at retail, but retail is cut off from the pedestrian flow--it'll all be on the sea wall side, first of all by the silly street car service and then simply the distance, it's on the wrong side. If you've ever been down to Fisherman's Wharf, or San Diego or other areas of that sort, there's this tremendous gulf between the pedestrian flow that's moving along the water's edge and on the other side of the street just doesn't work very well.

[END OF SIDE ONE]

And so we decided the only retail that would be likely on that side of the street would be ancillary to whatever else they do.

We poked around, we came across one market study that indicated there was a real need for a 250 room suite hotel. And that the Embassy Suites, the Marriott and a couple of others were already sniffing around town, looking for a site that was kind of off to the peripheral side, the economics

of those work best on a peripheral site, and they work best if you can go frame rather than steel and concrete and in this case you could go with a concrete base housing and one level of parking, you could then put 4 stories of frame because remember Washington is a wood based state, and therefore you could more with frame and commercial construction than you could do most anyplace else.

So we decided then that as a core to our project that we would do a 4 story suite hotel at the foot of that wonderful bridge that we were talking about. And I wanted to bring cars down the bridge, but the public authority said no, that where Elliot and Western came together, if this bridge came out you'd now have a five corner intersection, and they were so happy to get rid of the 5 corner intersection when the Pier fell down, that they were not about to provide access at that point again, so it could only be a pedestrian linkage. And it's a pedestrian linkage which slopes, downward. It's not flat thing, cause there's a gradual slope into the water. But in any event we decided to frame that and create a gateway and we had draftsmen and architects at our command and we told them what we wanted and they came up with a very nifty solution, essentially with two round-faced kind of buildings there that create an open, bell-shaped gateway as it were coming down from the bridge. And then at the end of the bridge they created an independent elevator as an architectural vertical statement, around which the Spanish steps sort of flow, and so now you have handicapped access, elderly access coming down Pike's Market, down to the mayor's esplanade and so forth. And on one side of this, to the south, you would have the hotel, on the north side we weren't sure what we were going to have immediately, but we decided to anchor that by going with essentially a one-story frame restaurant on top of the parking unit, for the moment simply to have a right and left side for the gateway, with essentially a timber structure that was de-mountable, so that 8 to 10 years from now, when you wanted to use that reserve site, 85 feet high, for an office building, you could move the office building out of the way at a relatively minimal cost, move the restaurant out of the way.

That left us then with about 150,000 square feet of buildable area south of the hotel. And we ended up doing that as residential. There is a strong market for the 600 to 1200 unit residential. One of the interesting problems we had, however, was that if we went to parking, it used up part of our 55 feet, we couldn't get a 4 story building because the market in Seattle is for 10 foot apartment ceilings. You go to a 600 foot apartment building, they

have high ceilings, the builders of new space have had to compete with remodeled old space, and the old space simply has a nine 1/2, 10 foot ceiling. And people really like that element of space. So if you're going to be competitive, you have to have a 10 foot ceiling. So if you only have 55 feet, and you already have a parking ramp, you're hard pressed to do 40 feet plus the space between floors in the space available.

So then we had to go back and find out if we couldn't take our parking and set it down half a floor into the ground. And it turns out the water level is 5 feet below grade on high tide. You have 19 foot tides here, and on high tide, the stuff is really porous, mostly sawdust from the old timber operations years ago and so forth. And so whatever the tide is where the water level is. And so at best you can pick up about 5 feet. But 5 feet recess parking, with a concrete base provided by the Port Authority with a 4 story frame on it, just makes a 55 foot out of line.

The second problem we had, which the politicians really liked is of course, the view to the viaduct is hideous, as well as the noise. And so you gotta do a concrete sound wall four stories high on the viaduct side, and have everything face the water. So as a result, you can't use all of the cubeage. The 2.5 floor area ratio produces more square footage than you can use in an apartment configuration, given that element. And so in order to solve that problem and recapture that, in order to make our land values realistic, we had to get the city to dedicate the streets between the 3 parcels so it all became one parcel, and as a result we could slide the allowable floor area ratio to the north end, where we could have 85 feet of Pike, and we could do an office building umpteen years from now. All right? We had to save the allowable square footage. And the only way we could do that was a single parcel, and a single parcel requires dedication of the street. And now we have to have the city attorney come into our group and tell us that the city would be delighted have us vacate the damn streets because they don't go anywhere, because they run into the bottom of the hill, something that's really on the map but it's dysfunctional because of the cliff that interrupts the street at the top and then a street at the bottom.

We now notice that we've salvaged our street area ratio and split it north. But we're working with a very plastic element here and by the time the architects were done we had been able to come up with a building envelopes that were 1) suitable to the residents on the south end, suitable to the

suite hotel in the middle, and that gave us the potential for about 185,000 square foot of office building on the north end, if as and when the market came back, or if, as, and when we could find a single corporate headquarters client that would like to develop.

So that became our initial plan and we had a variety of market data which supported that. And Jonathan and I had to sit down and start figuring out just basic numbers, to see whether we could make it work--and it's really tight on residential. Really tough to make it work at the rent structures that were there, and so on.

And so what we really needed was a shallow subsidy for all of this. So we convinced the port commission that since they now controlled that absolutely unique parcel, it would be terrible to let this get out of the public control, who knows what Seattle will need 50 years from now, and indeed if they decide they decide they're going to tear the viaduct down--there was one referendum at one point to tear route 99 down and so forth, which failed, but nevertheless you could see that at some point in the future they might try to tear the viaduct down, in which case you've got a whole different set of real estate than dynamics here and, it would be nice to be able to assemble that into larger, more functional kinds of parcels. So we should only ground lease. Not only should be ground lease, but we should provide one long concrete base on which our tenants then could build, and we would create a parking facility there because the Alaskan Way is really short on parking. And there was some concern by the citizen's group that the mayor's plan to go to two lanes would not be able, capable of handling the traffic characteristic, because currently if you go down there there are people who are just circling and circling, looking for a parking place during the 3 or 4 months of the season which is inhabitable down there. And there's a number of very nice restaurants in the area of Pier 56 and Pier 55 and so forth.

But in any event we were able then to convince them that a ground lease would be the way to go, and that we would sculpture the payments on the ground lease so that initially it was a dollar a year. That then brought us then in to the state auditor, who said that you can't do that, because you got to get a minimum return on market value, and we said well we're getting a return, but it's going to be a buck a year, plus a percent of gross. And what's the return we gotta get, well, the cost of capital the port authority currently is 6.7 percent. And that's what you gotta hit. So we said fine, a dollar a year plus a percent of the gross

to be 7 percent on our base number going in. But our base number going in is 55 bucks. So now we have to go back to the Port Authority accountants and say okay, they're going to hold us to our book value on this, therefore everything we do cannot be capitalized, it'd have to be expensed.

Well it turns out that would suit the Port Authority fine, because their profits are appearing to be too big and the taxpayers are saying you ought to cough up the right to run the millage rate, so in effect now we have to go back and get an accounting system which allows us to expense everything, so that we only have to hit 6.7 percent on a 55 dollar base. Now we have to reduce our base. Okay?

One of the ways of course is to get dedication of the street, because now we get more square footage no cost. So now we go back to the mayor's office and we say okay, you've got this beautiful chunk of land from Burlington Northern, 54 feet wide, and the entire length of our site--we want you to sell it to us for a buck. And in exchange for that we'll create housing which has an affordable rent base etc. etc. So we did that, essentially doubled the size of our site, cut our cost to about \$35 a square foot. So now our 6.7 percent on 35 dollars a square foot looks like a doable number as a shallow subsidy. So far so good?

Now we took it a little further and we said okay, the dollar of the rent is during the construction phase, will we or will we won't subordinate? And the port said okay, we'll go in the development stage, up to the point we'll subordinate on the construction loan, not a permanent loan. And we'll make it a cash flow loan. So in effect they don't owe us anything until the ?? is occupied. And so what you've done is you've kind of done a front-end subsidy, because now the developer coming in can use that land as his equity, so-called going in and getting his construction loan.

Now Jonathan has been in on a couple of these deals before in the usual way. He'll come in and ??I know you propose your use ??, but you bid the rent you'll pay for the site, or the price you'll pay for the public site, and so forth. And he says that's self-defeating, because that leaves the port authority in an interesting position of having to make trade-offs between apples and oranges. One guy comes over with a great plan and it looks really terrific but he's only going to give you 5 bucks a year, the other guy comes in with a plan that's, eh, but it's worth 20,000 a year, and now the port authority is placed in a politically unacceptable position of turning down the money to get higher quality, which is higher quality only in their

opinion anyway, and they can really get sharp shot by the folks around them.

So we said okay, same deal for everybody. Here's the price going in on the land, doesn't matter what you build you've got to cut this number. So we structured our ground leases very exclusively, as to the same price for all comers. The project will be judged according to acceptability and how well it carried out the spirit of the RFP, and meets the strategic objectives. We will not compete on price and therefore everybody is apples on apples. We don't have the Port Authority pinned into a corner where they've got to choose between quality and price. So far so good?

Now we went back and Jonathan has had quite a bit of experience on ground leases and we got again another attorney who has done a lot of work with us, Dwight Runstead ?? in the Schuer Group, and we sat down and we worked out a series of specs on what the ground lease should be. That was about Wednesday night at god knows what hour. And so its a relatively unique concept, but as we were going back we could call on anybody we wanted, we could go to the mayor's office, the city attorney's office, who ever we wanted to talk to came down and talked to us. It was really a super experience. And by the time we were done we had blocked out, here's the strategy for the port authority, and then they've got something to lever off. And we did some very unpopular things in some ways, telling them tear the whole damn dock down, 66, replace it in concrete, just put a deck on it--we don't need any sheds, the sheds that were there, double deck sheds and so forth, were dysfunctional.

The fishing fleet really needs just large surface areas in which to unload and dry out their gear and work on it right on the dock and they don't need a shipping yard, they'll bring their air compressors and their cranes and everything else in as they need it. They just need maneuvering room. And that means now your office building will show, many of you have seen that picture, you'll see that the 2 story shed is wrapped around the office building, you can't see the water from the port authority building, it doesn't make any sense at all. So by the time you get your sheds out, you've really got some spectacular views of all of Puget Sound and the Olympic Mountains from that office building. So the port authority was kind of hoping we'd recommend a brand new office building someplace for them at 200 bucks a foot. And we said uh-uh, Charlie, you're doing just fine the way it is. And we'll salvage the first floor for the additional space that you need plus some shed space, and then we had interesting political problem on the north edge of the pier

is currently a fish-processing plant and re-building the pier would dislocate them because obviously you can't be driving pilings underneath them without going through them at the time. And the port authority was concerned about that and it turned out they had already approached, the real estate director of the port authority, with the notice that they were going to leave this next year, for the rather interesting reason that all the fish comes into Seattle by air now. They're not taking anything over the side of the dock, and that virtually all the fish traffic comes in the Sea-Tac airport, but not over the docks. Kind of an interesting statement on technology. So that there was no need for a fish processing plant at that particular location.

In the process we also discovered that the Edgewater ?? hotel which is just north of there, is going into a 4 1/2 million dollar renovation program. It's really an interesting motel, kind of a tacky looking thing that was built into was was originally a pier shed and so forth. And advertised that you could fish from the window, and the rooms had fishing poles in the closet.

I don't know what you'd catch, or whether you'd want to eat it if you caught it, but.... In any event that's what they'd made their name on and it's a rather well located hotel, relative to the convention center, the old convention center for Seattle. And it does really well, it has a fairly high occupancy and they are now into a major refurbishing program, so that becomes another anchor beyond our port authority building.

And the other element that was a strong consumer group that just because we own the land doesn't mean we have to do anything with it, why don't we wait to see what kind of evolves naturally and then fit it in. So that square site that's going to be our office site we put into a land reserve. And then we billed the whole thing as value banking. Because we didn't sell the land, we ground lease it, participation..

[BREAK IN TAPE]

...one loose end, flopping in the breeze. But Henry and I had a great time at breakfast going back over what he had been doing. Fascinating guy. Been over in the far east for the past 15 years. Set up a publishing company which does really well in the south east tourist books, publishing book you know, what to do in Siam or what to do in Singapore or whatever. And then he went on from there to run a tin mine

in Siam for 4 or 5 years. And now in marine insurance again based in Singapore. And now is back in Seattle as a senior partner in one of the law firms that deals in international trade in real estate.

The port authority is an elected board, and interestingly enough, pretty much ignored until about 4 or 5 years ago, when they did 2 dumb things at the same time. And they really got the public all riled up, they threw the rascals out and made this kind of an attractive thing for active citizens to become involved in government. The first thing was when Scoop Jackson, the senator from Washington died, they immediately re-named the Sea-Tac airport as the Jackson air center, which didn't sit well with a lot of people, because 1) it wasn't theirs to rename they didn't think, but that should be a Tacoma Seattle decision and that it really didn't have to be done that fast. Ultimately they were forced to renege on that, so it's still called the Sea-Tac airport. Henry Jackson's name went up and then came down in a period of about 3 months.

The 2nd thing was that just north of this site at about Pier 78 or so, they built a grain dock, politically motivated obviously by the winter grain industry of eastern Washington, who wanted their own export center, and it's opposite a residential area, and they initially promised a low-rise building there. For a variety of technical reasons which anybody could have foreseen, it wouldn't work. Just by the nature of grain elevators--they're very hard to do on a horizontal basis. So they simply went ahead and reversed their position and put these things way up in the air and blocked the view of this residential area of the bay. That was a serious error. And so as a result, the following election, these guys who've had everything their own way for years, nobody ever looked in on what the port authority did--they got wiped out. And you now have 5 citizens, 3 of which are really not marine oriented, land-planning oriented or anything, they're just ladies that are active in the league of women voters or something or another and say that this is something that we have to be taking care of as one of our pleasures?? of Seattle. And one guy represents the marine industry and knows something about boats, and Henry is the international trade kind of individual--and that's the board.

And now they find themselves with all kinds of problems relative to land use planning, interfacing their agency with the city and with citizen's groups all of whom have taken a very active interest in their program and they are continually having public hearings, citizens commissions,

one thing or another, directing them as to what to do next, which, for the port authority anyway is a whole new experience.

In any event, I think it gives a good example of the feasibility process and how you finally come down on coming up with a strategy. The goals here were pretty well outlined for us. The trick was to find solutions that were consistent with that and find goals that were consistent with a high level of political input by the citizens for what they wanted and didn't want. And they were very clear on what they didn't want. And I think quite rightfully so.

If they were standing down here they wanted to be in Seattle and no place else. They didn't want to be in Baltimore, they didn't want to be in San Diego, they didn't want to be in San Francisco. They wanted to be in Seattle. And Seattle had it's own ambiance, whatever that might be, and they didn't want that tinkered with or transmogrified with Rouse or whatever else. It was a very fun thing to do. So I guess in a month or two we go back and go through phase two and cross the Ts and dot the Is and send out the RFP. So you're going to get the ongoing saga on this. It's a classic example I think of feasibility process, and the holistic character of the feasibility process and the different avenues you're going to run down as you begin to define. Yes?

"What's RFP stand for?"

Request for Proposal. RFQ is request for qualification. In other words, the first thing they will do is they will say you've got to have the following members of your team, you've got to be large enough, you've got to have ??. Then if they qualify for that, then they give them a package that says Ok, you've got ??.

You're setting up the rules on the development.

857

Lecture 11-1

The mean was 79.5 the median was 81. The bulletin board holds an announcement of the ULI fellowship, and that should be noted. That is for someone who still has two semesters to go next year, fall and spring, and you apply through me, so I take the best of the applications and I can only do

this one. So get your name into the hat, ...the mimeograph applicants form for that.. Once the applicant has been decided, then the sponsors....

Tests are being passed out by a student who called names.

Ok.

?? postponed their interview date until I think two weeks from this week, so if you are interested in that, Knowlton is a Canadian commercial brokerage firm... and therefore we're gonna be caught unlike Coldwell-Bankers in which you start at \$18000 and spend a year in training between San Francisco, Edmonton, and home base in Denver. They have an opening in the San Francisco office, even though the interviewer, Peter Savoy is from Denver. So is anybody is interested in that, they will have another chance to register for an interview, and there's also one for the Chicago area from Friese and associates, which is a copy center developer, looking for a financial analyst, which ??? also is a good position, so if you are looking for the Chicago area that's where you can proceed.

We have two guests today. Beginning a week of discussion on elderly housing maybe a little bit more, and today we have the architectural viewpoint, on Wednesday Jean Davis will come in to talk about the survey techniques and issues that are involved in assessing effective demand for various styles of housing units. Hammil, Green, and Abramson is an old line and I think still the largest architectural firm in Minneapolis, and I think in Minnesota for that matter, and Mr. Matson and his associate Mr. Kissinger, who was here a minute ago, here he is, graciously agreed to come in and talk about elderly housing design with which they've had considerable experience, and at least lay out some of the alternatives and some of the structural attributes, features and so forth that make this a more expensive form of housing than straight just apartment types of living. And we've asked to let them have the period, we'll talk about the exam if you have questions on Wednesday, but I thought you'd like to get them back and let you know that we were thinking of you. You will have to have your outlines all back on Wednesday as well. So, our guest, Mr. Ashton originally started out as a business student, with I guess, some doubts about whether that was what he really wanted to do, but his parents thought that was a bright idea, and he later moved into the University of Minnesota architecture program of which he is a graduate, and is now one of the principals of

HGA. So we'll let him start and run as far as he would like.

Thank you Dr. Graaskamp.

Let us know when you want the lights down.

I'm not quite ready for that yet.

Mr. Ashley:

I would encouraged from the beginning that this be a dialog and if you have questions while I am showing slides or a point that I am making please feel free to interrupt... how much time do I have

Two o'clock..

I think that we might want to tie it up earlier than that so you would have a chance to ask questions or point out things that you think might be relevant. I'd like to start with a little bit of a background on our firm only because I think it will point out why our elderly housing product ends up to be a little bit different from what is in the majority of the market place and I just said elderly housing which I swore I wouldn't do.

We call it senior housing now because the people that live in the senior housing don't really like to be called elderly. In fact, some of them aren't that old. Some elderly or senior housing as we will see today begins at age 55 which at my ripe old age of 39 doesn't seem that far away and I certainly wouldn't want to be thought of as elderly at 55. So lets call it senior housing.

So I think that if we start by looking at a bit of the work that we have done at our firm which as Dr. Graaskamp said is an old line firm ,we have been in business for 35 years. I have been with the firm for 16 years. By looking at some of that earlier work we can see how our attitudes have been shaped.

And I think we will get to the crux of the problem in senior housing which is really marketability and marketability is an issue that we deal with in all of our projects especially our developer driven projects. We have been working with developers at HTA for about 15 years and frankly when we first began working with them, developer was a dirty word. No longer is it a dirty word. Developers are a main stay as

our work They are a big part of our clients work but our work really began with institutional work mostly academic buildings and then moving into health care. I am going to show a little bit how that work has influenced our elderly work and why it is important. (turns out lights)

Prior to our work with developers and even work on senior housing we were doing a great deal of institutional housing. This is an example of that work. It is the student housing project at the College of St. Benedicts in Minnesota, and I think that one thing we see here which we have tried to incorporate into our senior housing work is that it is important to think about a building, specifically a senior housing building as exciting places to be, as attractive places to live. We think about them much more as positive and inspiring kinds of environment.

This we feel is a inspiring kind of environment for student housing and in fact was a very inexpensive building to build but through incorporation of some spacial things like the stair in the entrance way that you see and also the use of colors becomes a special product and therefore in a outside of the institutional realm would be considered a marketable product.

We have done a lot of health care work. In fact the main stay is institutional work is the VA Hospital over a 200 million dollar hospital project in Minneapolis. About 250 bed. The Children's Hospital in Minneapolis another institutional project which clearly bears a relationship to all of our elderly housing because the issue of care is so important in senior housing.

A new project currently under construction in Rochester Minnesota is this building for Mayo Clinic, a Mayo Education Building that is office and health care building. The building on the right is an existing building This is an example of the importance of contextualism in our work in relating new buildings to old You see that the scale and details closely relate to the old building.

That was an important issue here That becomes an important issue also in our senior housing projects which you will see later. Probably the ultimate project that we have done in the institutional type is the redesign of the Capital Mall for St. Paul Minnesota. That is the Minnesota state capital and the Minnesota History center which you see on the lower left side of the screen, and Minnesota history center and the Capital Mall redesign were the results of a National Design competition which we won about a year and a half ago.

It was a blind competition the jury did not know that our entry was the only Minnesota design entry and we won and we are very proud of that and it probably is the culmination of a lot institutional work over the years and really bears little resemblance to a seniors project except it represents quality design, design that is all about creating positive environments for people and that is really what we are trying to do in our seniors work. In that it isn't unlike this.

But there is one ingredient that is added to this and that is marketability. Marketability in a project in an institutional project like this becomes very much secondary and this is something that we are conscious about. When we are designing for developers and we are designing buildings that have to sell, such as senior buildings, marketability becomes the number one issue.

A close-up of the Minnesota History Center. This will be under construction next year.

We are as Dr. Graaskamp said a large firm in Minnesota, the second largest in the state and I show this slide because that rather sharp increase in our size around 1975, represents just about when we were beginning to work with developers. We have done a lot of work with developers since the mid seventies. I would like to show you some of that work because that work also relates to our elderly work. I think that in addition to marketability the other key word to remember in our design for seniors is image, creating a unique and positive image for every one of our buildings or every building that we design for a developer is achieved because it is that image that will help the project sell.

This is a ski resort at the Copper MT in Colorado and obviously the image here is of the European ski resort hotel. The image that the University of Minnesota Radisson hotel is one that relates very clearly to the academic it relates to the campus buildings it was the first time that a developer was allowed to develop a building on the University of Minnesota campus. It is a very sensitive design problem because we needed to relate the architecture to the campus to satisfy the board of regents and at the same time we needed to create a statement, create an image that would sell.

An interior renovation again where we capitalize on an image that was apparent in the existing building is that of the

old victorian history of the St. Paul hotel to make it work for the developer this is the only project that I'm going to show you that was probably not a very successful project. We don't think it had anything to do with the design the project was built on budget and on time but the market was just wasn't right for what was probably an ill-conceived project in downtown St. Paul. However it is a very successful use of imagery in the development of the architecture.

110 Grant is a 300 plus unit market rate housing high rise in downtown Minneapolis the image here is one of contemporary design it is the issue of height is very important. Height is used to sell, rent units, views were used to rent units so as you can see the articulation of the building would as you get up higher windows that blink out of the skin of the building and look in numerous directions. That was all very important to take advantage of use and as a result the image of the building and the fact that the building takes advantage of views to market itself that this is the most successful high rise housing project in the Twin Cities. It leased up within a matter of three or four months.

One Minnesota Center for Homark Corporation is a suburban office building with 14 floors in suburban Minneapolis. Here in order... One Minnesota Center, on 494 at Grant. That's south...

Graaskamp: That's one of the projects that ??

Yes, when you go to Minneapolis, Steve Reinstein who was our client and the person in charge of this project, he was the developer of this project for Homart, he is going to be speaking to you.

The interesting thing about this project is that we used a unique floor plate. An you can begin to see from the models here you begin to visualize a rather unusual floor plate with a lot of...it is actually two intersecting rectangles, with a lot of, you can see one of the rectangles is clad in a white grid and the other rectangle is minus the white grid what that does for marketability is that it makes a floor plan that is approximately 10 - 15% more efficient for prospective tenants than conventional buildings around town.

Do I see a question in the back?

Question: That's the one at 494 and France?

France and 494.

Question: How much has been leased up..?

It's approximately 35-37%. And while that doesn't sound very good, it is consistent with or ahead of the developer's projections. Significantly ahead of the building down the street which Trammel Crow is developing. We're real proud of that.

What this floor plan does is it allows the tenant because of its unique configuration to rent the same amount of useable space paying for about 15% less space that he would buy in the building either across the street or down the street buy competing developers. Piper Jaffrey Towers, you'll probably see this one in downtown Minneapolis, here a unique and powerful image is used quite successfully to sell the building, to market the building. One Landmark Place, probably difficult to see in this light, I should have had a daytime shot, this is on your own west beltline on the west side of town here a project we did for the Madison group. Here a fairly typical suburban office building on the freeway side becomes a surprising edifice on the entrance which is around to the South. Where again it has been very successful in the market place and that is important to us in all of our projects and we will talk about that a little later with the elderly. It is important to us because it keeps our clients coming back to us and that is how we stay in business.

Lincoln Center in Minneapolis this is not the Lincoln Center that was built perhaps you will see the one that was built. The developer opted for a more post modern approach in this building and went to another architect. That building, by the way stands virtually empty one of the things that we're most often told is because of its small windows that people are not interested. Also location is another factor and rent of course. But we have heard a lot of complaints about the window, that they don't market the project well that they do not make the floorplate as flexible as it might be.

This is the beginning of our seniors work and it started back in 1971 This is the first project I worked on at HTA. I chose the color for this project that was my main involvement I was still a student This is when elderly housing was called elderly housing and is probably a lesson of what not to do when you are making a senior housing project. This is the way we used to do it. This is what we used to do we used to deal with what Garrison Keillor calls

in many of his sketches the high rise where we sequestered the elderly away. Within their existing or original neighborhoods the initial thinking was that the elderly really wanted to stay in their neighborhoods. We find now that isn't as important. So if you can imagine this building is surrounded by neighborhoods of single family homes and plopped right in the middle of it is this 14 story humongous building. I am afraid not very successful. Well I shouldn't say that, it's rented out, but I am not sure that the elderly really want to be there.

Question: ??

This is independent living. We will get to some other project types but this one is independent living.

Graaskamp: Is that subsidized?

Yes this project was a section 8 project.

Graaskamp: Minnesota Housing Finance Authority. Section 8 means that the residents pay now 30% of their available income. If they only have \$100 income they only pay \$30 to live there. So as a result, they'll like anything.

Yes. That is why that building is full. Correct me if I'm wrong, but I think that program is defunct now. They are continuing the old ones, but there are no new ones being built. So all of the senior housing that is being built is being done in a different way now. But we did do a lot of Section 8 work. This is a project that we did for St. Terese in Minneapolis actually in New Hope a suburb of Minneapolis. At least this project isn't quite as high rise as the other one. It is a bit forbidding though. Again this was 12-13 years ago we were just learning how the elderly housing worked.

At about that same time we became developers in our office and thanks to Dr. Graaskamp, we got together with a couple of alumni from this program who started our development group, Dominion Group, which remains a powerful force in the development market in Minneapolis.

However we are no longer partners. We develop with Dominion group a number of Section 8 projects this is one in New Richland, Minnesota which is an outstate project way out in the middle of nowhere. This was forty units, and I think you can see that it has a nice feel to it.

The problem with projects this small is that it is very difficult to make numbers work. It wasn't a problem when it was a Section 8 project but today you could not build a project this small because it just isn't large enough to support the kind of amenities that one would like to offer for the project. With an elderly project.

Question: How many acres did that take up, the 40 units.

This was a pretty small site it was 13 years ago that I worked on this. My guess was that it was only about 2 1/2 acres.

Question: You mentioned that the 40 units would be below the critical mass to make the numbers work out.

For market rate. I shouldn't have mentioned it with respect to that because it wasn't a market rate project.

Today it would be difficult to make it work.

Question: Do you have any rule of thumb for the minimum number of units to market the project work?

Let me say that generally we count on the developers to supply us with that information. That financial feasibility usually comes from our client. However I could guess at that based on the size of the projects that we have been seeing. Of course it very much depends on what kinds of amenities we are dealing with.

Graaskamp: There are two parts. The first part is the administrative model, site acquisition, building, administering the whole packaging to get the project built. There probably you want to be at 100 - 150 units to have enough spread for the soft costs once you are doing two units it doesn't cost anything to do that many more, just add some more digits. Same process and the same number of people are needed to complete the project. That's problem number one.

Problem number two is the if you are building on scattered sites, you have a maintenance problem how do you have one manager for forty units. A manager for forty units doesn't work very well-they can manage 100-150 units very easily. So now you have to have a certain number of units within a certain driving range so that the maintenance guy can circulate between projects.

What we ended up doing here in the state we would do 100-150 units based on the county seat but we might put sixty - seventy units in the county seat and then we might put forty units in the little villages, in maybe four ten unit projects, the same maintenance guy, same general accounting system controlled the whole thing.

The next problem do you want feeding?? or not. do you want to have one meal a day there you have to have 80-100 customers to make it work, to hire a cook, support a food regime. As you expand the number of amenities that you will provide, the number of break even units on a given site expand, as opposed to the number of units in the project when you are building. So there are different cut offs as to the scale of the project. So that forty units probably was coupled with a forty unit some place else or anticipated that. Generally we try to get it as a single loan one mortgage one processing procedure and so forth covers all five projects. The main unit in the county seat and the four or five peripheral satellite units are all covered by the same mortgage and the same building contract the whole nine yards.

Question: Coverage wise do you have a rule of thumb for that.

Site coverage? That varies with respect to whether it is an urban site a suburban site or an outstate site versus an inner city.

Graaskamp: Also has to do with the cost of land. As soon as you are talking subsidized, you have an allowance by the authority that is financing it, of let's say \$3000 a unit for the land.

If you can buy a lot of acreage cheap, you can have more land per unit, if you gotta have a 1000 square ft to meet the code and you have to pay \$3.00 per square foot, so over there for can get as many units on the site as possible.

Question: What I'm asking is there any rule of fund to make it marketable to those senior citizens...No.

I was starting to talk about the West 7th Street Project in St. Paul that again is a subsidized project it is an independent living project. If I remember correctly it is 120 units and here what we tried to do to make the project special, again to make it marketable, was we stacked the community spaces in close to the core. You see them defined in the photos by the striped awnings. We stacked those community spaces so that they would be come a prominent

statement the building is more than just a series of small cubby holes for living. Keep in mind these subsidized housing projects have very small living units in many cases less than 500 square feet for a one bedroom unit and that is pretty tight

Here we created the special image and marketability through making special places for residents to get together. These community spaces all faced south and they faced onto terraces and it made the building a special place. The building became a real drawing card, it was very successful. Of course, it is subsidized.

Another subsidized in Stillwater Minnesota, facing the St. Croix river, it was marked by the curved facade, the curved front wall. I wanted to paint that wall blue, it was suppose to represent a wave and it was supposed to be blue but the city, as many cities tend to be, was much too conservative to go along with that and was decided to paint it beige and of course that ruined the whole thing. It didn't work. But, it has become a landmark for Stillwater.

Looking back on something I did twelve years ago, I don't think I would do it again this way. But it seems to be working. Our work is evolving as I say. This is a project in St. Louis Park. Again it is an independent living facility and this perhaps has more of a look of housing than some of the others. Perhaps it looks less like a project and looks more like an apartment complex and the materials, brick, balconies and the fenestration, the window placement, all play a part in that as well as the landscaping, the parklike setting, those benches don't look very uncomfortable. That was a mistake we wouldn't make benches like that today. But some of these things I am talking about help make the project marketable. The interior community room becomes a focal point where people enjoy getting together. Community spaces in elderly housing or senior are critical to its success. It is critical that they be comfortable spaces, that they be light that they not look in any way like they are elderly housing.

One of the keys in making senior housing successful is to play down at least visually the fact that senior housing is for seniors because seniors don't want to call attention to the fact that they are aging. In order not to call attention to the fact that they are aging, we feel the best way to do that is to be subtle about how we incorporate some of the special amenities that need to be incorporated in the senior housing.

An example of this is the St. Mark's home. This is a Skilled Care Home. This is a home that has a series of small community spaces surrounded by clusters of nursing beds. The community spaces are sky lit, they have an interior which is defined with wood trellis work and therefore has a feeling of being somewhat residential and looks less institutional than the kinds of things we were doing 10-15 years ago. This project is about 7-8 years ago. I worked on the design.

I think that this for us was sort of a break through project because it was the first time that we really focused on scaling down the nursing home to being something that was more like home. It would be less like a project. It's scaled down not only in terms of the entire building mass but in terms of the individual living spaces. Like it could be the living room in the home. The only difference is that it is a living room that is accessible by wheel chair. In many cases the wheel chair takes the place of conventional furniture. Gideon Pond is a recent project, it is a market rate coop for seniors. This particular type of project is independent living. And I think you can begin to see that we have really attempted to give the project a residential look.

A new project that just completed construction for a joint venture between Opitz and St. Terese which is a catholic group in Minneapolis. This project is in Hopkins, a west suburb of Minneapolis. Again it incorporates some of the ideas I have been talking about. The big idea here is that the building is in a park like setting. That parklike setting becomes one that is argued as to whether it is a plus or minus. We will see how the marketing works out. The building hasn't been opened long enough to know whether it is going to be successful. But in a sense this is breaking the rules, because the rules suggest and I believe in them, that the young elderly, those that are say, 55-70 might prefer a park like setting. But in general seniors, and especially older seniors would much rather be where the action is. And I think that is going to hurt this project which is very much a suburban project and is definitely not where the action is.

Question: By coop, do you mean they can buy their actual unit?

They can buy shares of the building.

Graaskamp: The advantages of the co-op are several (1) It is a corporation, but its a non-profit corporation. You buy

shares in proportion that the value of your unit is to the total deal, because some units are one bedroom, two bedroom, or even three, and then you get a proprietary lease on the unit which you occupy. You then share pro-rata in the debt and operating cost, but unlike rent the real estate taxes and interest on the coop mortgage, unlike rent, is deductible.

But unlike a condominium if you don't pay your assessments, they can evict you so they have a little more discipline on it from that stand point. FHA has insurable coop loans which can provide a somewhat more favorable monthly payment program and you can integrate coop financing with a front end fee by the occupant a little more easily.

You can also control what you want to do about appreciation in the unit. If you are at a high social focus, let's say for moderate income families the objective is that in the long run not to give an investment yield on your front end fee so your share would be bought back at the same price at which you pay and the ultimate pay off on the mortgage loan means that in the future 10-15 years down the track the next sequence of residents will have a better payment plan than you can have now, proportionately, since the debt service will have been taken care of. For a long time, coops were in disfavor relative to condominiums. Relative to elderly coops are coming back with some good arguments for why you should do it as opposed to condominiums or as opposed to straight rental.

On marketability the real problem is trying to explain to the elderly person on what it is. They want something that is really simple. They understand rent, they understand own. But they don't understand something in the middle where you own it as a group. You can ask Jean more about this and the complexity of understanding the coop creates some friction to being able to market to the elderly.

END OF SIDE ONE

Student: What's the buying cost and what's the up front cost? Per year.

I think, you can get in for as little as 40-50 thousand dollars.

Student: Are the areas around the water and trees accessible?

Yes. There are pathways and they aren't as steep as they appear in the model.

Student: So a person on a walker and a cane and wheelchair can have access?

They are accessible, yes

Graaskamp: The front end fee shocks a lot of people you have to understand the building efficiency of an elderly unit falls closer to 65% than to 80%. Because you are buying into a lot of awfully expensive common areas and spaces, like dining rooms and kitchens and so on. But, in addition by providing the capital from the occupant, they can save a fair amount of money. We calculate it's somewhere around 8% on their money. So if they put a \$40,000 fee into it they save at least \$3,200 a year on the rent which is a substantial reduction in their monthly payment and it is not taxable income.

If they had invested the \$40,000 and then got taxed off the top of that at 28% and then put what's left into the housing, they'd have considerably fewer dollars. And in virtually all projects today, it is 100% refundable if they leave. In the old days if you died after 5 years you got nothing back. Today it is virtually all fully refundable fees and the only reason it is non refundable for the first 12-18 months is because the elderly often greatly regret going into the project. My family talked me into this, or my lawyer talked me into this, and so forth, etc. And yet they are too tight to leave early and leave behind their fee. So in effect they will take 12-18 months to accommodate to a new life style to give it a fair chance to work, when initially it's quite traumatic to move from a single family home to congregate housing.

It is designed to create a residual resistance to a quick homesick sense of regret and a desire for recession before they have had an opportunity to really understand they were into.

That leads to the next think that I wanted to talk about is what coaxes the seniors to move into these projects? How do we get them into them and that has been a real problem in our market in the Twin Cities because there is so much elderly housing it was assumed that just because that there were a lot of elderly people, and we are all aware that the population that in the 1990's that the number of elderly people is going to be a real problem for us to deal with. We have this presumed demand for elderly housing and yet we

find it difficult to get people to sell their houses and as they make the jump to move into one of these projects. As a result the market for elderly housing is extremely competitive. In many ways it is not unlike the office market, but it is not as well known. There are at least in our market in the twin cities a lot of elderly buildings that are just waiting for people to move in. They are standing not empty but they are by no means full, there is a high vacancy rate.

That leads me to thinking about what academics call the push pull phenomena in housing. I don't know whether you've talked about that. The push pull phenomena is what makes people move. What pushes them to sell a house and to buy another one. And this push pull is something that is used across the board with people moving from one piece of real estate to another it is not just for seniors. But in terms of seniors the kinds of things that push seniors to move is changes in health, perhaps a spouse dying, perhaps just a senior is prompted to move because one day the snow blower doesn't clear the walk and the senior throws up his or her hands and says it's time to move. But it is very difficult to get them to move, and it is our feeling that some of the pull part is the less pragmatic and more emotional things to get one to move to a new house because it is in a better location or because it is prettier or in the case of elderly, because it offers more amenities.

We think that those are the kinds of things that we as architects can contribute to the whole issue of senior housing. I talked about before the image what makes the project special and how image can help market the project. The project that you see on the slide is one of our most recent elderly projects it is a market rate independent living project called Beckettwood. It is a project developed by the Episcopal Church Home of St. Paul. The project is actually in Minneapolis and it is a project where this image that I think is very clear-- the English Manor House has been a really important marketing tool because the elderly who need to be coaxed out of their homes have felt that this is a project that feels more like home. And there has been a very positive response to it. It's been slow going because the market is as competitive as it is. And it is a coop. And as Dr. Graaskamp said, because seniors don't understand them.

But despite all of that it has been a very successful project. Yes.

Graaskamp: I would make one cynical comment about design that tries to be old English or old Tudor, is that the architect would design something for the committee that was purchasing it rather than necessarily for the residents who would live in it. The Episcopalian ministries that do well by doing good would be perhaps as equally influenced in terms of the architect's design as would the ultimate residents who might not care whether it was English or not.

There's some truth to that. In fact, I should explain that the initial concept of this project, though I think it was a faulty one, was that this project held by the Episcopal church had, was that this project would be built for their constituents. As it turned out there were not enough Episcopalians who wanted to move into this project and as a result we are looking at a much broader audience for this project. And Dr. Graaskamp is right, not all of them want to live in an English manor house.

But there has been in general a very positive response to the notion of this project as feeling like home. Feeling more like home.

Question: What kind of attention in the interior space has there been to carry through the style?

I'll show you that.

??

I think some of the buildings that I have shown are perhaps more sensitive to that human scale. It is difficult when you are given a program that you must build a 7 story building, to bring it down to human scale. I think as we look at these photographs you'll see that in fact that the scale does change at the entrance and that entrance is at the left of this photograph With its single story entrance way with its dormers on the community room which is the inner room just beyond the entrance it does have a human scale. That is a concern here, and in fact when you are at the site it is not overwhelming, because-- perhaps it feels better than it does in the photographs but at the site it really does seem to fit into the environment it fits into its context and that is something we were headed for.

Question: Do you find the elderly are more sensitive to that or less sensitive?

I think it is really important the elderly are probably more sensitive to that than others. And that is why some of the earlier projects that I showed you the 14 story ones for example are real problems for the elderly. One of our ideas here was in fact to build a building that at some point was only three stories. This particular portion of the building is four stories and that we felt would break down scale of a 250 unit building which is a big building.

This slide coming up here's a slide showing where it is actually 2 stories, its three stories around the other side. This happens to be the side of the building which faces a small scale, single family neighborhood and we felt it was very important to relate to that context and scale.

When we think about the kinds of things that can be used to pull the elderly from their houses into a so-called project probably the most important is site selection and we get involved very often in site selection and what we found is that the ideal site is not the pastoral or beautiful park like setting that I showed you in earlier building. But the ideal site is probably a site that one side relates to the scale of a residential area. It is close to a residential neighborhood not necessarily the neighborhood where the market for this building is because that doesn't seem, in the market studies that have been done, to make much difference.

What appears to be critical, is that it be near a neighborhood, but even more importantly be near a shopping street. So ideally if a building could relate on one side to a residential neighborhood and have the feel of housing and relate to a relatively small scale place which reminds the elderly of the places they have lived in the past but on the other side has all of the convenience, shopping, library bank and a bus line to downtown, which is something valued very highly, that seems to be the ideal kind of location that location which provides the elderly with two things both that look back to living in the single family house and direct relationship to the urban environment. In addition to site selection, obviously there are a few other things that can begin to pull people into these projects. A big one of those is amenities and many of these projects include amenities like congregate dining, that's very important. And we find that in this project which does provide congregate dining, that congregate dining is used by approximately half as the residents and considering that this project is as young as it is that is impressive

In addition to dining, other amenities like exercising facility, walking paths, fire places, things like that are the kinds of things that nudge them to move from their houses and pull them to projects like this, and the big problem or challenge is to do the right amount of this so you can keep the price down. Because we have found that the elderly are very cost sensitive. Cost tends to be a big issue, and that is one reason that I think that the coops have perhaps been less successful than they might be because they appear to be expensive. The elderly who have their mortgages paid off and suddenly are faced not only with a big down payment but with monthly maintenance fees, find that sometimes difficult to handle.

It is just psychologically difficult for them to handle. In reality it isn't that much more costly than their situation in a house but it is difficult for them to comprehend. Other things that can draw people to these projects are functional ?. By functional ?? we are talking about things that are pretty obvious that must be in these projects. Wheel chair access to apartments It is critical that those be done in a very subtle way, because it is this subtlety that will allow the elderly to feel comfortable in a project like this that will take away the stigma while still offering the kind of amenities that the elderly want and need. For instance hand rails in showers, wheel chair access to showers, very important issues that architecturally we work very hard to achieve them in a subtle way so that the project doesn't scream that it is an elderly project. Because one of the things the elderly...

break in tape

One of the things that we try to do is to make the apartments as much like a house as possible.

Question: What about specific design features...like counters that you can get a wheel chair under and being able to see from the kitchen into the living room.

All of our projects have flow from kitchen to living room all of our projects have wheel chair space in the kitchen sink and they are all designed and staffed so that if an elderly person was moving into an apartment without a wheel chair we could easily place a base cabinet under the kitchen sink so that that person owning or renting that apartment won't need to deal with the whole issue of being in a handicap apartment if they are not handicapped.

Question: Where do you put the bathroom?

The bathroom is always accessible from the bedroom.

Question: So you go directly from the bedroom to the bathroom?

Correct.

Other things, I mentioned the design for showers. The design of a lip that allows the elderly to move very easily from wheelchair to shower. And again, doing it in a subtle way.

Graaskamp: We are just about to run out of time, do you have one more question?

Question: Are you involved in the design of the on site marketing center and do you use any of the seniors to integrate them into the sales process, to make the individuals coming in more comfortable?

We have been involved very little in the marketing. Once the project is built, typically the developer or the institution owning the project will take care of the marketing. But I think getting the residents involved in the marketing is something the developers are doing, but we are not involved in doing that.

Sometimes marketing spaces will be designed and built on site prior to construction of the building and that's what we try to participate. We building some offices on the site for a marketing office.

??

In fact the existing building was a chapel on the site. No, it didn't show up on any of the photographs, but the entire building is sited to complement that stone chapel.

Jean will be talking more about that.

Ok.

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Lecture 11-2

...authority... and I could have talked a little bit more about elderly housing about six and a half minutes flat

without slides, but anyway, with slides... sorry about that, you win some, lose some.

(Kummerow note: I strongly suspect, although I couldn't decipher this bit, that the Chief is jokingly alluding to the fact that he had so many brilliant insights to interrupt with during the previous guest speaker, that the poor guy didn't have a chance to get through his slides and actually finish his talk.)

But, in any event, we do have the expert locally. (Kummerow: Now he's joking coyly about introducing his wife.)

(Another Kummerow methodological note, made in justification of excessive amounts of time and money I spent on this project: The following paragraph is as transcribed by a local secretarial service, which I used as a starting point. Although almost unrecognizable as such, it is the same text as the following paragraph, my translation. However, I must confess, that he made out a few words, I couldn't, so apparently the more people who listen and the more times they listen, the more bits get filled in.

"How you move on the budget research and the estimate the tax relation on the pool that involve a housing unit there a number around the city and they have always been on the money. There were people that said they wouldn't work that they were probably a market for adults There four units and they made them all family units Developers then came in built a complete model of the project worked for 18 months to market prior to giving back to the hospital owner who said that that is the best we can do there are 42 sales and that is not enough to make it work so I think that these methods are unreliable.")

Jean Davis is going to talk about how you move from the budget research to an estimate of the potential pool, the capture rate from the pool, and the mix of units and prices and so forth that are involved in an elderly housing unit, of which we have done some significant number around the state, and she has always been on the money. I enjoy most the one she did in Kenosha, told them that it wouldn't work, that there was probably only a market for at best 300 units. (?? Jean modestly tells him to shut up, I think)

The developer then came in, built a complete model of the project, worked for 18 months to market it, prior to going back to the hospital owner, and said, gee, I'm sorry, the

best we can do is 42 sales, and that is not enough to make it work. So, I think Jean's methods are super, and probably more reliable..

Anyway, Jean Davis, my partner in Landmark Research, and elsewhere.

Jean Davis, Landmark Research

Thank you. I can always hear moaning in the room I thought because ? (laughter)

For those of you who don't know, I used to sit in Jim's classes with you when I was in this program from '74 to '79, I think it took that long to get through and raise four kids at the same time and as I look around the classroom, I see a few faces of people used to ??? (laughter)

Graaskamp: And they still can't do more than ..??..(laughter)

Okay.

The elderly housing market is a unique one and I think that is where developers have been missing the mark. As you know they have overbuilt ??, they have overbuilt conventional apartments. The developer has a piece of land, he senses that the numbers of elderly are escalating at phenomenal growth rates. And so why not put up elderly housing? Given the track record now of elderly housing, ?? they are just not filling up with that massive number of elderly who are out there.

It's a different market, a completely different market. These are people who have lived their lives usually in a single family home, they own it, and it's usually debt free. And by the time that the kids have left and they find that it's a little hard to maintain the house, it's going to be full of memories.

That is a really difficult set of attributes to leave. They don't realize in general that they aren't earning interest on their equity investment in their homes, that's something they really haven't thought about. All they know is they're not paying debt service anymore and that feels better.

They may be getting somewhat behind in maintenance and they are always screaming about property taxes as they should be, and that causes them to be ready to get out from under. But in general their preference is to stay in that single

family home. Moving out requires change and is a major emotional commitment that most people are not going to make. So you don't be misled by the secondary demographics about elderly that are out there.

That's the first red flag. You have to know a lot more about those elderly persons and their propensity to want to move from the security of that single family home before you can make any kind of an estimate of prospective demand for those units that you might want to build.

What are some of the events to try and trigger this market? I am talking 65 and over and I really should be talking more like 70 and over, but your census data comes in the 65 and over measure and you really end up having that as a population count of a geographical area because that is the data that is available.

The 55 year old market --no way. We are marketing projects for 65 and over. Unless you have something unique that you are selling, a recreational area or something, you are not going to capture any of these. They won't move.?? But what does trigger the person 75 and over and that is moving age for moving into a retirement community, 75 - 78 years old, what triggers that final decision to make them move.

In focus groups that we have, in casual conversations with people around a group that's talking the ?? building ?? housing, and in the many, many thousands of questionnaires I've mailed, (a majority?) in Wisconsin the overwhelming reason for finally moving is the burden of home maintenance.

They finally can not cope with that lawn, the stuff that spills, the leak in the roof that's going to need major repairs, and they are totally responsible for coming up with that cash to make those repairs. That finally gets to people.

And of course, the death of a spouse pushes decisions on women, widows and adds to pressure. It also helps them to make that decision in that fear of having something happen as they are alone in their house it haunts people and makes them want to find a place to live where there are services -call bells and cords, where there is help if they need it. And reason one, they feel ?? to that sometime. And then that fear of falling. Having something else happen and she's alone in her house. It's a bad mood... It's all part of the package, but some people don't admit that. It's uncomfortable to be there.

But above all they want privacy. Above all we need to talk about moving into congregate housing, to congregate in groups of people it is very difficult to accept when they have been used to the privacy and quiet of their own quarters and their own home so the issue of sound proofing the walls becomes a major investment for the developer because you must have those walls so heavily insulated so that people can't hear their neighbors.

So what is the difference between building a conventional apartment and retirement housing? What is the difference in the structure itself. What is there about a retirement community that sets it apart from a conventional apartment complex? Why don't we just build conventional complexes that could now be occupied by the elderly?

The section 8 program sponsored by HUD starting in what, the early sixties Jim?

Graaskamp: No the late 70's, the mid-70's.

??

Graaskamp: There were shallow subsidies that weren't entirely appropriate to the elderly.

The shallow subsidies would be some kind of subsidy... or otherwise building a conventional building.

But the ?? subsidies were the section 8 subsidy, which was a rent subsidy.

At first it was 25% of your gross income you paid for your rent and the government supplied the difference.

As public housing facilities or private developers got into that, it is very lucrative as far as depreciation allowed, (?? and the tax level and limited equity claimed deduction for the private developer.) garbled.

It encouraged many many people to get into that market. But that structure was very much like a conventional apartment building except for the grab bars in the bathroom, sometimes the rails in the hallways a little bit more lobby area to play cards possibly. They didn't have efficient area as far as net feasible area or just building area. Some of those were the common areas for the elderly but HUD didn't allow a full service kitchen or a congregate dining room in other words a community dining room where everyone came down for a meal.

Some of that housing was built with a dining room or meeting room which meals on wheels could get a free meal or donate what you could. But other than that that is what they were like pretty plain jane kinds of buildings most of them ??were one bedroom very nice, it was altogether it just wasn't plush.

And then as more and more people moved into the market especially in the sun belt they begin to need these retirement communities, California, Disney World etc. All kinds of ownership equities were involved but we saw more and more life care units, and apartment complexes with much more community area. A community dining room, a total institutional kitchen bringing your efficiency ratio down to about 65% rather than 85% and you have a lot of space in the building that wasn't going to be revenue producing.

Not only were they offering those kinds of extra facilities but they were building in all kinds of services available into the package too. In the Section 8 were monitored, you had access to services?? know the numbers for the ? In New York, these were highly developed for the elderly, you had the convenience store, the barber shop, the beauty shop, the exercise room sometimes a swimming pool, sometimes a little theater, lots of different kind of community facilities that would allow people to have a whole scale of life experiences right in their facility and they wouldn't have to be transported to other facilities for their appointments.

However it became very costly to build those and the fee schedule had to be very high. So you were now targeting it from your section 8 where you were targeting people from low income and now we are moving into the market of upper income elderly who were beginning to afford a lot more.

Not only were you having that kind of building structure coming on you also having a life care plan in which you put a huge amount of money, I mean I'm talking \$100,000 up front as your insurance policy for this institution. And this is usually a non profit which promises to take care of you for the rest of your life. If you needed assisted living with nursing home care, it was usually right on that campus and you just moved from facility to facility as you needed it, and you already paid for it up front.

Unfortunately people were so happy is this type of facility and they were living longer ?? so they didn't do so well and went belly up. So we have seen a cut back in that promise of everything for your entry fee. But the ownership

structures today that are most common are ?? or non profit ???. We have rent only in some of them and now the new ?? or rent only that's a requirement of it. They are moving fast. ?? rent levels sometimes between \$600 to \$1000 a month. ??

Then you have the facilities that have more transportation more ?? available ?? and probably the entry fees are lower than what they paid. It just that the more you pay up front the less you pay monthly on the debt service and the operating expenses that are always there no matter what.

Question: What kind of expenses?

Except property taxes, a non-profit that qualifies as a benevolent association in Wisconsin, then the property taxes on those facilities are ?? Because Wisconsin taxes are killers. Approximately 25-32 dollars per 1,000 assessed value, and man that is a big hit on that monthly rent.

As I said you have all these different ownership entities now, the co-operative has been tried in Wisconsin. I don't feel it's a big hit. Right now it's in Minneapolis that you find a self ?? project called 7500 York, but you have to remember that they had a project ?? .

You have to know that about their staff ?? A cooperative is a situation where there is a cooperative that owns those spaces and you buy shares into the cooperative and you have a proprietary lease on the space and you are liable for any interest that's out there for the space that's pro-rated, and you do have a responsibility for resale of your shares. Whereas in an entry fee situation you don't have that responsibility.

But a typical charge, it a surprise, as I decided not to work for the ?? right now and ?? Appleton-Oshkosh, and jockeying. And didn't build one in Kenosha. About \$20,000 entry fee, ?? for a one bedroom and a monthly service charge somewhere around \$500 - \$700, depending on the size of the unit, and you can get in for \$35,000 for a two bedroom and the rent is somewhere between \$700-\$800 a month. Now rent ?? food? Usually it's just the rent. And that ?? the meals and you pay extra and that is about \$100 a month more and that is usually one meal a day, and the garage is also an extra and is about \$25 - \$30 a month, enclosed. ?? Utilities, that's a variable, marketing item, if it's a real tight market, they probably get all their utilities included in the whole package. Otherwise the ?? on that.

But that is the kind of money we are talking. With elderly housing it is presumed by the owner that this person will pay about 40% of his or her gross income to that housing facility. So a person with a \$20,000 income will pay about \$650 a month rent. This assumes he has invested up front, contribution of around \$20,000. These are just round numbers. They vary all ?? But when I take many of these projects and normalize their fee charges, factoring out all the services that are offered, getting them all to the same thing, that's about what we see on a one bedroom. Ok.

Now, how do we find out who wants the challenge in this community of this retirement center, ?? in being a tenant and who can afford it. And that's what I'm supposed to be doing and I'd better get at it.

Graaskamp: Yes.

All right. When I have a client coming to me, I have to meet with them find out what their objectives are. Don't try to read it all now, but on the first two pages, a little Ozaukee county study that I did in 1983. (She then referred to a handout) Its a public document so I have no reservations about having it seen. And it's only 20 ??

But the first thing I had to decide is what are the major objectives that these people want me to find out for them.

The second demand is the bottom line - especially, who can afford it? And what ?? them to move in.

All those were givens so I continued to test the market to see if people like it or not. That was an element in their constituents account??

My other tasks were to determine what the assessable level of monthly rent would be, and this is a

(there was a spot here that you couldn't hear her at all) qualified, so the whole county had to be my market study area. Already defined for me. And I had to find out whether they wanted their meals included in their rent, and what kind of building and whether they wanted a garage included. And all such kinds of things like that. Page 13

Graaskamp: One comment Jean. I'd point out your question number 4, "do you require facilities for shopping and so forth". The knee-jerk answer is yes. But in this case it wasn't.

But, Ozaukee county was probably the second or third highest income area in Wisconsin. Everybody had a car or cars. And so here was a rural area, they were used to driving, so it was a whole different mind set. In that particular area.

Question: your information from the survey?

I identified secondary data, the census data, state data, county data, and commercial ??

The primary data was done through a questionnaire it was about a 10 page document that I mailed out. In Ozaukee county, I had two different groups or lists. I had the senior discount card list. That is a very rare thing to have access to a list that has peoples birthrates on it. I have never had anything quite so good before.

Usually I have to buy a commercial mailing list and they are very dirty lists. Dirty in the sense that they are not people 65 years old. It had 25 year olds in it, who want to buy you have people who have moved and you have a lot of dead people in it, a lot of people who just moved in ten minutes ago and so its uh, you know ..

Question: Where'd you get this senior discount list, now

I was working for the county, they were my clients, they kept the list. The county office on aging. I always asked for one, but anywhere else I worked they never had anything like this.

Question: You said that the sense of demand is the number one criterion. Are most of them relying on social security payments.

That's about question #26 in the questionnaire - income - gross annual income. And then the question that precedes it is Whether the source of their income is wages, social security and I have broken it down into all the elements, rents, pensions, annuities, investments in real estate, dividends, interest on.

Question: How did that break down?

Most people have more than social security in Ozaukee county. Their average income is \$50,000 per year. But I did have a large segment, you know, not something like 50%, but 10% of them that were at poverty level. They are not candidates for the project. But you do a random sample,

you have to include them in your sample if you are going to infer to the population.

Graaskamp: Jean, you had a half hour to get through all of this statistical data.

?? Let's just pass the map and just divide it. Then primary, secondary ?? market

Page 109, ?? In that area

Page 110, I'll have to deal with that real quickly, but focus on it. This is secondary information but you are dealing with households and not dealing with individual people. Keep that in mind if you hear there are 12,000 people in the market area that are 65 and older you don't have 12,000 units you are going to sell to them. It is something less than that they come in couples as well as singles.

And also, the people who are residing in nursing homes are not your candidates. The people who are in assisted living or group homes are not in your pool of prospects. In this particular case I had to deal with ?? people to, but normally you won't have to deal with that.

But what you want to do is take the secondary data, however many people there are within that area, the whole pool of people who might qualify because of age and inclination, and then you've got to bring it down to the number of households of people capable of independent living in your market area.

Does that make sense to you. You use secondary data to find out how many people per household there are. It comes in the census data. You've got to extract it for each one the ?? areas and find your average. In Ozaukee county it's 1.57. Persons per household. A critical number.

The next thing. You asked about how I get my primary data is the result of having another questionnaire. In this particular case, I sent out about 1200 questionnaires. My response rate was somewhere around 35-40%. Anyway, 359 people, 65 and older completed the questionnaire and this became my primary data base for determining effective demand.

I split them into two age groups 65-74 and 75 and over. The highest propensity for moving in is going to be attributed to the people 75 and over. I am not going to count on very many people 65-74 wanting to move, even though they say they

are ready. I'll look at a lot of different answers they gave me to make that assessment.

The people owning their own home I know have a certain equity available. Rent, I don't know, they might have it in the bank, but I don't know that. In this particular case the county wanted to use a screen of \$10,000 income. That was quite low, but this was going to be rent only and they were targeting shallow subsidies to this project so that was an Ok thing. Normally they need \$20,000 - \$25,000 that's a cut off ?? for a development that has not so many subsidies going for it.

Find out how many falls in, and just screening it down to find out the people who have interest in moving in within a year, two to three years, or within a five year period. And you see, I started with 339, what do I have, 31, 11, 14, and 5. I am sure not capturing all of them, am I? And I'm not even going to capture all of these.

Two more things from the report:

Let's look on page 132. I have a sample now, I done every nth person in my mailing list, potential, sent out say a thousand questionnaires, whatever it was, and 339 respondents qualified. And I end up with a sample ratio that I can use to infer to this whole populations of people sixty five and over ?? independent living

Step two I now need find out how many households are in this pool of prospects for independent living.

Step three I am going to take the pool of folks and make a judgment call on how ready I think they are to move into elderly housing within a year or so ?? 18 months. And that is the tricky part. And from that pool of prospects I'm going to assign a capture rate. And that is a judgmental thing on my part but I sure have a good sigh and we talk about it. A Steve contributes a lot of help on this part of it, very much.

But you never capture more than one out of two of your very best prospects. Two people coming to the door they qualify income, 75 and over, they've really thought about moving, one's going to chicken out. You're only gonna capture one out of that two, that is the highest possible capture rate you can have on income qualified, everything else seems to click.

And then I move it down from there $1/3$, $1/4$, $1/5$ as my population group age is younger, has more attachment, less reason for wanting to move, etc. But then that capture rate ?? that poll that was in my second demand, they can afford, they want to come, and I'd expect them to move within a year to a year and a half ??.

This is all going to be charted out for you. That propensity to move measure is the thing that I want to dwell on just a little bit.

Jim, ?? happened to ?? chart?

Graaskamp: Not there? Jim ?? downstairs is ?? of that.

Oh, excuse me, I'm sorry, these little things. They have them so small, that I need ??

Graaskamp: You've got them, they just reduced them to 8.5×11 .

Aaron Anding: Got a magnifying glass?

Jean: Can anybody read them?

They follow page 120. Oh boy. Can you read it at all. That's ?? old age here.

Ok.

The important thing here to note is that we have divided people by age, and these are all the people 75 years or older who wanted to move in and this last column and next to the last column, within the year, after the project is complete, one to two years, and then 3-5 years. All this was done on a statistical program I was able to subset these people, pull out their questionnaire by number and reread their questionnaires and determine how their age, whether they were married or not, where they lived, what they thought about the site, what their current health status was, whether they preferred a retirement apartment to a single family home, and on and on..

And the list that you see in your handout, p. 114, is a list of the critical factors that I focused on. We do a ?? point scoring on these folks. There were a lot of things that happened in between mailing the questionnaires out and coming to this point, please understand, I am leaping right over them though. We had to enter all the data in what we called Stat Pack and did a lot of sort stuff, etc,

and ended up with these folks as our most likely to come into our project, and they are the ones I focused on

On page 114 you will see the ten factors that I used to determine whether or not these people qualified as primary prospects as opposed to the ones that probably would chicken out, turn away, or not come. I have the pool of most likely, now I have to do that propensity to move factor. And I use the point score, and in the first place it will depend on your age, for example. Depends on how many points are given. If you are 80 plus you get five point, if you are 75 or 70-75 or whatever you get three points, 65, whatever, you get one point. And if your wife happens to be very young, I'm going to do that ?? pool on that full point score for age.

Each one of these prospects was scored on age, preferred place of residence, if they wanted to live in Cedarburg or the area where the project's located, than that was the higher score. If they really preferred be at home in Northern Ozaukee County, then they got the lower score.

What I am doing is trying to find some quantitative way to find out who scores the highest or has the highest propensity to move. ?? All these were questions in the questionnaire so I had a response from them. I knew the answer for that person at least I knew as much about them as they put in the questionnaire. All of these were the elements, and I summed those scores, squared them so I could have larger differences between the total scores, and those with the highest scores, at certain levels for obtaining primary prospects.

Those people you see starred here all through those three or four charts, were the high scorers. If you notice that within the year, for the 75 year old home owners and renters which are on the first page, page 78, you have 1,2,3 candidates that want to move within the year, that are home owners, 2 candidates that want to move within the year from the renters.

I combined the homeowners and the renters for this and there were still only six people, and they all proved to be very high scorers, with high propensity to move so they received a one. It was even Steven. The propensity ratio for them was a one 6 over 6. On the 1-2 years old, now again, segment out 75 and older, financially qualified, one to two years, we have 6 candidates, none in the renting. The renters who wanted out faster will hang on for a while. So we had six, but only four of those were primary prospects

propensity ratios is 67% now for them. And it is the same logic as you go all the way down the list and you will see that it thins out as you get younger, the 65-74's, there are fewer primary prospects, and as the time ?? wanting to move is ?? now to fewer prospects.

Are there any questions about that? This is a critical ratio for measuring ??.

And I gave you the charts for all of them, but I should skip on. Now we'll get to

Pg. 115-117 As you can see I have segmented out that pool of prospects into 75 and older that want to move within a year group A, group B is 75 and older want to move in 1 to 2 years, and then the 65-74 years, homeowners and renters who want to move within the year, and then the one to two years for that same age group. And then the 75 year olds that want to move in three to five years. They have less likelihood of wanting to come in right away, even though they are older.

And then I move down to my other ?? of prospects, people who said they would come only if ?? They have no mindset today to come in. Something will have to happen in their family situation for them to have to come into retirement housing. So only if and when I need it. Very unlikely in the near future.

Question: Just out of curiosity, what is the competitive standard. Are you saying the design and quality of this unit has to be the same as their present standard.

Yes. In Ozaukee county.

Question: In other words, how in terms of the marketability of the house

Ok. In this particular project, now if I'm hearing you correctly, we have a county building it, there are going to be shallow subsidies, the rent is going to be less than a private developer would have to charge if he was developing the housing. They are quality, it is a quality project. They are not, they have enclosed underground garages, they have well insulated, well ?? wall, they have apartments as the same size as a private ??. We have, it is market rate in the sense that it competes with a conventional very well, but it's a little under what you have to charge, they are tax exempt, and they don't realize it. And they are connected to their kitchen and to care people. ?? But they do pay a payment in lieu of real estate taxes, but it's only

5% of their gross. And usually real estate taxes run 10-12% of your gross. Does this answer your question?

This project is not average -- but it's what it really has to be like, some kind of benefits like that have to be available for the these things to work.

Ok. A sample range on that. You merely adjust the number of expanding households divided by the total households in the community in that 65 and over group.

I want to go to the last chapter and remove from all these numbers. Segmenting out my groups of prospects. The sample ratio was at 6 that wanted to move in the 75 and over, and there were 772 households in--I'm just trying to figure out what that number means, its not..I don't want to dwell on it. I'll give it to Jim on Monday.. Just by-pass it. But we have 33,669 households in the study area that had a person 65 and older and capable of independent living. So what I am doing is inferring from the sample to the population. ?? the sample ratio..to the pool of prospects... geographical area.

So ?? I had six in the sample, I could assume that there were 21 out in the whole Ozaukee county, that would be 75 and older, economically qualified, and wanting to move within a year.. Now the primary prospects the ratio is that, the propensity to move ratio is 1, so I still have 29 in my pool. So I apply the capture rate, 1 of every 2 will come.

Question: Can you define what your sample is, is that the number of respondents you had?

Graaskamp: 773 was the corrected number of mailings, less the non-responses, returned envelopes, the uncompleted questionnaires and so forth.

Jean: I had sent out on this one less than a thousand, probably somewhere around 800 or 900, and then we had some that weren't deliverable. I did run two ...a commercial mailing list as well as well as the senior discount list, but at any rate, I did end up with 773 households that I mailed the questions to that were 65 and older that..

By the time you pull out people who are less than 65 that respond, you pull out people who had died, returned unopened, undelivered.

The clean number you would have had reached had was 773 households, its an adjusted number. It's cleaned up from the number I really sent out.

Question: How many did you get back?

339 were qualified, 65 and older.

Graaskamp: The leading assumption is that the cross section on the 773 is identical with the cross section of the 3659. So you can now extrapolate them off the total number to the ??.

Jean: That is leaping. And that is why you have to be so careful in cleaning up your secondary data. If I had said there were 6000 households, which was the number of persons, but there really were only 3600 households. And then I had to be sure that I put out those that weren't delivered. And some more completed things didn't count.

That's a whole different topic area of how you do a survey.

Graaskamp: She's very good with post office services relative to change of address.

Ok. Moving across that horizontal line A, you can only assume that you can pick, capture one out of two of those, not a very likely prospect, and therefore I can only count on 15 out of my households from the 75 and older group that will be occupied units in the whole of Ozaukee County. In 6000 people 65 and over.

[END OF SIDE ONE]

B of the column, the group B, the same thing. But here we move to that primary prospect ??, you remember that four of the six that were primary prospects, 67%, but now I'm taking that 29 and saying that only 67% will either come to ask about this facility, giving me 19, and I'll similarly capture 1 out of 2 of those 75 year olds. And therefore that will yield 10 in the effective demand.

Question: ?? the total number of elderly in the ...

If you would go back to page 110, and that might be useful, you'll see that's the number I'm keying off of. Ok. Cleaned up.

Then it's the same thing, and you'll see my capture rate goes is less likely to be .. People who are gonna move into the facility, my propensity ratio, continues to fall, people are younger, less likely to come into the facility. All of them are income qualified. But for many reasons then, you could read it, and you study their actions as you went across, you would see my rationale for it and you would answer, Do you want to move right away? "no." What's your preferred way of living? "Single family home." Have you ever done this or ever done that about retirement housing? "no."

Even though they are income qualified and they said they wanted to come in within the year or one or two years...

Graaskamp: On the other hand you can't exclude them totally. When they say, Well, we would consider it in maybe two or three years, part of that represents the psychological set that they really didn't want to think about it at all, and it's a way of procrastinating, against even expression to themselves of the need or the commitment. So the fact that that they said they would consider it in two or three years means they are leaning, and really effectiveness of your marketing program is gonna depend on how many of those that are kind of leaning you can bring into a realization that maybe now is the time to do it. And this questionnaire may be the first time they've really had to address the subject explicitly. On something they knew was coming and something they had to consider. So you don't want to simply take that "Oh, I don't need it for three years" that they are out of the market, it just means they are going to be a tougher sell, and therefore you're going to have a lower capture rate.

Jean: They are going to wait until one of their friends moves in and see if they like it. They are people who are going to move in after your project is up, they aren't going to pre-lease.

Graaskamp: And the elderly are cautious anyway. They want to see the building up before they really commit.

J. Davis: You're right, we are. (laughter)

Question: How come you use corrected total respondents, instead of corrected total mailings as your denominator.

Where are you?

Exhibit 4-6b, going down the first column, you get 773 as the denominator. Why wouldn't you use the total number that were actually returned? The 339 or whatever it was?

Ok. I'm using a sampling ratio of the 339 would be everybody, and that would a sum of the six, 4,4,10,28, 30, 98, on your as your numerator. If I were going to use all of them, I didn't. There were some people who didn't fit even into the tentative market, not interested, never wants to come.

Question: But you used 773 as the denominator.

That's right. That's the number I sent out to households 65 and over ...

Question: But presumably there were also six in the A group who did not respond.

Six in the A group who did not respond? No the six in the A group are the total number of people 75 years and older who are homeowners or renters, who have an income of 10,000 or more who wanted to move in within the year.

Six, only six out of the whole 339 I got back.

Question: But did you actually get six respondents out of the 339 you got back?

Six household units.

Graaskamp: Six prospects out of the whole response. She got a good many other responses, but only six out of the 773 qualified mailings...

Question: You are presuming that none of the ones that did not send the questionnaire back would have been...

No way, they are out. They didn't tell me, they showed no interest in responding.

Question: Hence if they didn't respond, that's prima facie evidence that they are not interested.

That's right. I have to write on that assumption, there is nothing else I can do with that lack of information. They were not interested enough to overcome the inertia of mailing it back to me, they are not in my primary prospects pool.

Question: Couldn't it be they just don't want to be bothered.

Absolutely, sure. But I have to measure those who want to come today or as soon as the project is up.

Student aside: Her numbers are conservative numbers.

Graaskamp: Every individual's strength of interest is a simple one.

There are enough offsetting errors of those who didn't answer and would against those who answered and said they would come and wouldn't. Those are offsetting errors. It's not a perfect science. And believe them, when I divide all these and all these ?? enough. Any indication of my ability ?? It is merely a way of segmenting and subjectively looking at people and trying to put a quantitative measure on their propensity to move.

Graaskamp: I think our major attitude is, if we can make enough small decisions, the theory of offsetting error is much more likely to operate and there is much less opportunity for a leaping assumption, a terrible bias in the results. So we fragmented them. There are those simply say, rah, we get two percent of those, and one percent of them and so forth, with no intervening elements. And you can really introduce a very significant bias very quickly.

So the idea is to make many small decisions and be wrong on all of them, in hopes that the net impact of all of those small errors tends to cancel out and reduce the bias.

Jean: It gets a little scary because we have been successful. Landmark has done a right on the target job on every one we've done so far. And when the builder has built a hundred and fifty and we've said a hundred, and we watched them struggle...

Graaskamp: He got to 110 and the market dwindled.

Yeah. The developer of that project is now my strongest advocate. He has me out there doing projects all over Wisconsin. He say's I'll believe you Jean.

But you are right. It is not a precise science. The way he has devised ...we give it the best shot. I hope you folks go out there and devise better ways to do it and tell us.

The tentative market, very few of those households will be captured. The if and when I need it..And of course all those who answered never be interested when you started, just because they've never done it.

Graaskamp: Its virtually a random walk in markets. Saying one out of fifty out there that somehow we pick up, will fall in the door and sign.

Jean: These people did build 60 units. They did fill up as projected. So its a success story.

Question: In your primary market you use 15%, say confidence interval and then down below you use 20%, where did that come from.

Yeah. It's just I'm more confident up at the top level, than I am...there's going to be a wider variance.

Question: It's a subjective confidence interval.

Sure. Its subjective.

Question: I understood the ??

Lasata. They dedicated lasts October, they weren't finished then. They had a good pre-leasing program.

They got hung up, not on anything to do with the facilities, but , the city of Cedarburg and the village, or the area around the Masada which is in the township, had an almost six to nine month argument over the placement of the stop sign. And that held the project up.

In the pages that follow, just to show you how we did a sensitivity analysis, it's stuff you do here all the time...

I was looking at this ...the other day on page 130 and realized that 80%

is the building efficiency ratio for a retirement building is far too high.

You end up with much more community space. You would have to build a bigger building to get 15 units.

Graaskamp: In this case you didn't have a kitchen, however.

That's right.

I think is all self explanatory, we were dealing with costings on page 131 or \$35, 40, and 45 dollars a square

foot. That's making me three numbers again, being somewhat low, but we didn't have a land cost in there. A total cost for the project.

Graaskamp: That's your old friend the backdoor/frontdoor approaches being applied a little bit.

And we were looking at it with a hundred percent financing. They were going to be able to float the bonds and they were going to be able to cover the whole thing with a debt. Doesn't look as favorable an interest rates today, but it did then.

And again, a rather low debt cover ratio, but again, the county backing it. The operating expenses were an estimate. And your payment in lieu of real estate taxes was very low, lower than it would have been for a fully assessed project.

Graaskamp: That's when you look at the last square foot cost at 89 cents per space foot,. that's probably reflective of those subsidies, and it would be about a dollar or a dollar ten,

Jean: \$1.25 a square foot for a one bedroom unit when you don't have all of these subsidies. That's the rent you have to get to make it go.

Question: Is true generally for retirement?

That's what I see in Wisconsin. I'm sure it's higher in New York and California.

The projects coming in Milwaukee with the mortgage guaranteed are coming in about there. Some lower, but they have fewer amenities.

And so you just see the tests that we ran and see what the rent levels would have to be, and they ended up with a \$45 a square foot building cost and they did a 60/40 ratio of ones to twos and we had that as an alternative plan...

On Page 135, some of the comments we made, in the analysis, ?? how to get your hand in... And on page 136, you'll see the benefits the ?? project.. The land cost--none. Just the cost of imputing a site ?? And the real estate tax, and tax exempt bonds for it and I think he was already in.

So you could just skip over that to show how we directed the opportunity to the client. And then we did the alternative unit next at 60/40 with ?? that's exactly what they built, and they were at about the rents projected here.

And then on the very last thing I'm handing out to you is what we had in the front of our report, and that's a summary of the major research findings, the whole ball of wax. In this project we did have to look at units for disabled people as well because it was going their tax exempt bonds.... federal to quality.

Question: How high up, what density in units per acre.

Graaskamp: It depends on whether a garden or other...but I would say that typically they are three story buildings. So that would be characteristic of three story density. But with elevators. We found at WHEDA that contrary to conventional wisdom, the people that lived in the single family home wanted to continue to live in a low rise building wasn't true. Once they had gotten to the top floor and had a tremendous view of the city and watched the weather coming in off the west, they much preferred the upper ???. And you had people who lived in a one story bungalow all their life going immediately for the top floor as high as they could go. ??

The other thing we found was that as the group aged, the verticality of the elevator in which you had a number of units on each floor and you could use the elevator to get to community rooms increased the frequency of participation, and that the long hall with the hand rails one) was depressing and 2) was very difficult for tired old feet and sore hips to traverse, and the thought of traversing it tended to increase their alienation. They tended to stay in, particularly the unit at the end of the hall, they tended not to participate much, in the community activities. Which was negative.

And the other thing is where you had 8 maybe 10 apartments entrances on a floor, the buddy system develops much faster. Two or three of them tend to look after each other. There was a much greater sense of identity, its their little floor, or even their little side of the elevator. And a kind of little neighborhood that develops. In many ways I thought the architect was way off base there in arguing that the vertical units were not attractive. There's a whole series of things that he really missed in that.

Jean: And yet, in the more rural communities, there is still a heavy pull towards the lower rise, they just aren't used to the high rise. They think of high rise and the city and crime...

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Lecture 12-1

Reminder, Jay Schidler on Friday, at the Edgewater. The 856 reports are trickling in, the last time I'm going to do this, this next I'll be finished with them first week of the semester, or to hell with it. (laughter). But at any rate, a number of you can hand them in. They're done, but you still owe us the 856 mimeograph. Tony Sands, Mike Hanrahan, Walt Kaplan, David DeLock, Lynn Holmes, Litzau, Wandberg, and Carom ?, still owe us money from 856. (whooh, from audience) And Ripsky and Gilbertson can pick up their rulebooks?? later if you will please. Thank you.

Ok. The subject is housing market analysis which exists at multiple levels today. One

(1) The major insurance companies are now into development. Models to identify preferred residential markets.

(2) Mortgage lenders are beginning to realize that they can't only be reactionary but precautionary in terms of where they put their money, and where they put their money really depends on adequate market data to monitor what is going on.

(3) The developers are beginning to realize that the housing market is very nichy, that you can't do a 100-200-300 unit projects without crushing the available demand unless you understand that market rather well. Those who market are finally learning that they have to do some fairly detailed marketing research of the consumer. Generally through focus study groups to establish not only the name of the project and the theme that they are going to market, but the nature of the medium that they are going to use to advertise, and the kind of on site sales devices with which to communicate the project.

So housing has really in some ways taken the lead in terms of detailed research. Office marketing more elaborate models of TV videos as to what the building will look like and the kinds of details that are used in it. But the successful housing people are getting extremely sophisticated in all aspects of the problem.

Jim Delisle sent me a note from Prudential and they have now raised 90 models of 90 metropolitan areas in the U.S. to their desirability for housing investment. A significant ?? between the top thirty and the worst 15 and the worst 30 and so forth.. And are developing indexes with which to monitor the changes in the character of that. Indexes which contain a number of generally available data, and just to suggest

some of them, from the demand side you are looking at the household change both in absolute numbers and in terms of the average person per household. So looking at household income, looking at the nature of employment by SIC code, and looking at a housing affordability index, which they have created in order to determine to what degree the apartment market has leaked off into the single family home or are locked into apartments by the fact that when single family home prices are apparently beyond reach and that certainly is characteristic of a good many areas. For example, Boston housing prices are out of reach therefore people will accept three bedroom apartments for many more years of residential living than they had anticipated in the first place company.

The second thing they look at is the market balance and what they do is they track and smooth the multi-family vacancy trend. They really want to foresee how unstable the demand and supply is in a particular community. As that is a really good proxy for one, ease of entry how quickly can new builders bring units onto the market because the planning requirements are relatively lax, and because the community concern for amenity package injection and so forth may be minimal.

They find that where they want to go is where the vacancy trend is relatively constant indicating that you don't get sudden slugs of new direction causing the vacancy rate to bloom and then gradually work down which then leads to another slug of construction. They then look at investment factors, and those are property specific turnover rates. How often does a tenant move in and out. Madison would rate rather low on that, because a large student population base obviously moves out in two semesters, rather than, lets say, an elderly person who would stay for 8-9 years. Property specific vacancy rate, and property specific rent changes. How quickly does the average rent change, and then they begin to divide each of those into standard deviations and try to track different communities as to their volatility in terms of rent change, the direction of rent change.

All of that then is combined in a weighted fashion, into what they call residential attractiveness index and as a result they now assign the investment division in terms of acquisitions, the targeted areas in which they will accept multi family property and the profile of the tenants that those projects must have the location or sector of the city and so on. Los Angeles for example is broken essentially in to nine different major sectors rather than treating Los Angeles as one big glob of single market place. Most of

the major cities are subdivided into a variety of sectors hence the ninety districts on which they are tracked.

A few communities are beginning to develop very spectacular data bases. There is a firm out in Seattle, I think it was Kain and Scott. You can look at their data base in my office if you would like. They track quarterly on all sales of multi-family over fifty units in a three county area and track on what the rents were at the time the sale occurred and what the rent structure was six months later. So they give you ?? overall price rates, overall cap rates so that you can begin to see whether the purchase price anticipated to giving rental increase by the new buyer or whether in fact the unit was at market when acquired and therefore the cap rate represents a market rate on the project.

They track by size, district in the community, kinds of age of unit, and so forth and so on. Really intensive data, really beautifully done. Which for an investor says, gee, if I'm laying any bets that I want to monitor how my 100 unit apartment building is, I might as well go into a Kain and Scott area where I have quarterly data coming in that tells me how I am doing relative to the rest of the market and what is happening to the rest of the market that ultimately might catch up with me for good or bad as the case may be. There are few other areas that are beginning to develop that kind of consistent data bases maintained over long periods of times, by generally local brokers. Kain and Scott's basic modus operandi is selling apartment projects. It's all they do. They are doing a very sophisticated job of market analysis, and that changes significantly the amount of investment money available for the Seattle area region relative to multi-family units.

The second level of demand analysis often reflects builders that have a formula plant in which their back door approach depends on certain critical elements such as the real estate tax maybe the carpentry rate and a few other variables. And they can send someone into a community and within two days determine whether it is feasible to build their kind of project in that particular kind of community. In affect sift through hundreds of potential opportunities to narrow down to the 10 or 12 in which they choose to do business. Oxford is one of those out on the East coast outside Washington DC. There are a number of major companies of that sort. And they are probably building 3500-5,000 apartments per year. So they have to spread the impact of that construction over multiple communities. Maybe 150-200 in terms of the size of one of their projects. And to do a feasibility which determines that the numbers look like they

are going to work relatively quickly, drive off the back door approach given what they think their rent will be with that kind of unit. Their units almost never change in design at all so that they can perhaps alter slightly the mixes of town houses and ones, twos, and threes, but everything but the face brick is predetermined. As a result the cost figures that they develop are highly reliable, and doesn't cost them anything, from their own internal operations. Again sifting and winnowing factor that doesn't take the place ultimately of looking at a specific site and a very detailed reconnaissance, but the first question is where am I going to waste my time looking for that site, just as Pru wants where do we invest in multi family housing, to accomplish a portfolio that we want and the greatest potential upside.

The third level of demand is the kind of thing that Jean went through with you last time. At the end of that I had the feeling that we might be better off to spend four days with Jean and move all the way through from the problem, the questionnaire, the stat pack, and so forth and how that falls out of that. It would be relatively intense, but would give you a sense of how that moves together.

In any event, at the micro market level the market for an apartment building can be extremely tight. We might be talking about whole sections of Los Angeles or all of King County in Seattle. Typically the apartment project will draw from within a half mile of the site, maybe a mile if it is by an interstate exchange or something of that sort. In fact you can do a trade area analysis on 100 unit apartment building and just by plotting where people work you will see the nature of their trade area and where your advertising might focus in and what kind of folks you are attracting and its virtually a retail trade area with a very irregular highway retail trade area. We have done that again and again. The advantage of that is that once you get that pattern finding a new site means essentially that you can go to your reverse directory. Create on the map your approximate trade area and have identified essentially all of your potential customers or at least 90% of them and now you know who they are and about where they are now and you can begin to look for comparable projects or projects which may have some weak element to it and where the dissatisfaction is such it may cause some people to move next time their lease expires. Somebody in the back have their hand up?

Question: Chief, if you were doing a housing analysis how would you build that model would you use employment data in that area or population growth data?

You would have to use them all. That's the point. The household element is ultimately the one that is going to live there and you have to know the average size of households and how many there are, and how fast the household number is changing. Because what's happened obviously over the last 6-8 years was a significant shift in a number of households. The average size of the household shifted down, while the number of households shifted up. And 25 % now of your town house buyers for example are single persons, heads of households with children. A thing that would have been unheard of a few years ago.

Question: What I'm getting at, if you are assuming that the people who will live in your project are moving from other areas and the people that are already there are already living in a unit that they are not going to move necessarily, the greatest number of people I would assume would be the people who are moving into the area. How do you identify who is moving into the area since you don't know who those people are? By in large there won't be people just moving into the area. By and large there will be people in the area relocating as a result of dissatisfaction with what they have and that would be a ?? of market.

Question: That will be a bigger factor than people moving in from out of here?

Yes, except for projects that are right off the interstate or right next to a fast growing industry, something of that sort.

Question: What if you are in a rapidly growing suburban area where there is everything from brand new houses where people have only lived for a few years anyway. You wouldn't expect those people to move out of their houses, yet.

I don't know if that's quite true. We had clients looking down in Austin to buy apartment buildings, which is a fast growing area with tremendous vacancies, and yet if you talk to the people who are in those apartments they are appalled at the quality of construction and at the generally amateurish management. It shouldn't take very much to create a project which could pull people out of those existing projects, even though (a) it is over built and (b) a relatively fast moving market. Or has been.

It is true, if you don't know where the people are coming from then you stand out on the street with banners waving and red flags, saying now renting by the superhighway going by, and obviously that will account for some portion of your traffic. But I think that the well marketed project goes for the people who are already there, rather than the people we hope will move.

Question: Are you talking about apartments or single family.

We are talking about apartments at this point. Now I you are asking how do you get in touch with people to move into single family. When we first started in the home building business here we found that the great majority of people had contacted the chairman of their department or their boss and he generally refers them to the bank. The First Wisconsin bank was the number 1 source of referrals so we just made it a point to bank there, do all our mortgage lending there, and after we had gained their confidence after about 1 1/2 years, they just started sending us referrals. Dr. So and So is moving up from St. Louis and would like to see what you have to offer this weekend. Fine. Meet him at the plane, show him the house. Or the site or whatever he wanted. But the bank becomes a major referral point. Obviously that is the whole gimmick of the relocation growth rate brokerage services and we are able to identify who is selling their house to move where through their national network and begin to identify/flag the individuals moving into town looking for houses or whatever. And hopefully capturing that for their national group and paying a commission to those who listed their house for sale in their old town, for the lead for the brokerage in the new town that they are moving to. Yes, Greg.

Question: What you just said about the referral service, wouldn't you say that's probably the most predominant use of banks, someone selling their house and the other person gonna know that to get a referral and will say I can help you through our network, we are a large company.

I don't know the degree to which they capture that, its a certain prevalence thing. It all depends on what kind of experience a person has with a brokerage group selling their house If that's not a good experience they are not about to their kindred organization in the new town.

Question: I would figure that's a pretty sure premise...

Gets you a name and telephone number. What they manage to do with it is another thing. But it does give you a start. Yes?

Question: Let's say you had a specific site on the west side of Madison and you were trying to figure out what to do with it for apartments. You would go to a nearby apartment that already existed and figure out where all of those people work in order to determine your market area.

Sounds like I'd get three or four of them and take my city directory and find out where they are coming from, how big a trade area was it, and how critical was it that it was related to University avenue or the Beltline, Gammon road, or whatever, or some sort of common transportation link that ties an apartment resident to a job.

Question: The reverse directory itself doesn't tell you where they work.

No, but city directory does. The city directory would that information.

The first step then is profiling what you feel is the most likely pool from which you are going to draw tenants for your particular project. The pool may be the first timer, just married, student, empty nester. Hoffman Estates thinks there are at least a minimum of 13 categories of potential apartment dwellers relative to Hoffman estates multi family rental project, and that a significant number of them are in the market at different times of the year. Obviously those with children are more likely to be in the market before school opens, those who are single suddenly being concerned about their shelter as they look at their income tax and decide that they should shift around from rental to coop or condo, and the empty nester typically perhaps at the point of trauma of retirement when he begins to retrench, and those are at all different times of the year and different seasons that can be met.

Given that pool obviously there are a number of different ways to learn more about the group (1) you can learn from existing data sources such as the reverse directory and city directory and many neighborhoods maintain neighborhood associations which have very interesting data on their residents and their age and whatever. That same neighborhood association may be your principal opponent as far as zoning and permits and site development so it is wise to discover how well they are organized and how current is their data.

Question: Where do you get a city directory?

You generally buy it or go to the public library and use theirs. They are issued about every two years by a private group which has essentially its own door to door census.

Reverse telephone directory can be rented from the phone company - by the quarter, they are updated quarterly.

Question: So a city directory wouldn't be as useful since it is only updated every two years and the telephone directory is updated quarterly?

The reverse telephone directory tells you who is living there now and the city directory confirms that with some additional information, it is useful. The second major source is use of telephone surveys. It is relatively limited to its ability to qualify a prospect, but you can at least find out perhaps where they came from, what they like best, what they like least and why they chose that particular project.

Since you know their address, you therefore know the project there is really no sense asking them which unit they chose between one bedrooms and two bedrooms and so forth. Those kinds of things you can find out by going yourself to the project and indicating which address is which.

A second major source is a mail survey -- it allows you to get past the front door, not allowing a land lord intercept your mail

A third source, which can be very useful is a focus study group. Focus study groups may be of three different types

(a) One where you have a project which is intriguing to you as a prototype for a project which failed and you try to figure out why. This would bring those people in and find out what they liked about the project now that they live in it. They are obviously not prospects to be moved there but they can sure tell you about what it is that makes it a good place to be or provides a constant burr in their saddle so they wouldn't recommend for anybody to be there in the future.

Generally used where you have a second phase of a project. No sense repeating the mistakes you made in the first phase.

(b) While some focus groups are of the tenant themselves, we have seen focus groups of property managers of multiple projects in an area. They tend to enjoy this, to find out if they are miserable all by themselves, the only ones with a problem or whether others have the same problems that they do or what they are doing about it.

Sometimes these can be very revealing, given we find out why one is succeeding or not succeeding so well given the mindset and the attitude of the property manager.

Jean looked at an elderly project the other day in Appleton. It has not done very well. It took her about four minutes to figure out why. The guy who was marketing it was a downright hostile individual.

The whole body language of the property manager was "why are you bothering me now to ask questions about the project. Here's the brochure, read it you dummy sort of thing. It didn't take very long to figure out, you know, why a lot of people said, "hey, life's too short to deal with that again." Tony?

Question: Chief? Are you talking about different properties under the management of the same property company? (from which to recruit managers for the focus group)

It may be competitive companies. I've seen them maybe have the property managers who manage maybe 5-6 projects in a given so called neighborhood. So they could see what kind of problems they encountered.

(c) The third type of focus group is really based on the profile of who you think your prospects will be - age, marital status and education etc. Advertising agencies have been doing that for a long time relative to consumer products. Often they have a fairly elaborate facility in which focus study group is then held with one way glass for TV cameras to record it, tapes that capture the commentary and some fairly skilled moderators making sure that one person does not dominate the conversation and tugging away at threads that come to light to find out why people think the way they do about a particular element. In the past real estate tended not to do that but they tried to lay on the cost of the mail survey, for example is such that quite often that the focus study group will start providing reasonably good answers in a relatively short period of time. So the Fauerbach condominium relied almost entirely

on a series of focus study groups run by the Charles Wester group out of California.

So did Tamarack Trails, as a matter of fact. An initial mail study was done, but after that it was all done with individual interviews with those that seemed likely prospects. There were individual interviews in which photographs were held up of different types of facilities, different types of cabinets, floor lay outs, etc and people very quickly zeroed in on the form and character of the project.

At somewhat less cost and a great deal less time than could have been done on a mailed survey. The trick was that somebody like Charles Wester was trained as an architect, and Keith Goodkin was also trained as an architect initially, so they have some capability of putting across visual images and assistance in terms of drawings, renderings, conceptual pieces which allowed people to be talking about the same thing, rather than their imagination as to what they think it could be.

The last view of the focus group is to review the actual clients. Having gotten their input they are given a chance to critique the answers and in some cases the cost of those answers. Everyone would like certain features, it may not be very cost effective or a result of putting everybody's garage in the front sort of thing, etc. They don't have to drive down an alley in the winter. Tends to obliterate any architectural merits of the project at all, at least you can see the tradeoffs that they make as they become overly concerned about the automobile court versus the pedestrian arrival zone.

Very difficult to do with multi family and keep the car in perspective or balance so that it doesn't dominate the project

(5) The last element, the next category, I should say, is a political survey. More and more firms are hiring political scientists to analyze what the impact of the multi-family project would do, the micro politics and the demographics of the area. In general if the Alderperson doesn't want the project on his turf you will have some difficulty getting the project in and also his perceived threat that his voting strength is with a certain group and your project will tilt the balance toward upper income or students or working class folks or some other element and his contingency will become a minority and he will likely be defeated. That has been the case more than once in Madison.

It is generally unknown that a Madison rental group deliberately introduced multi-family projects into neighborhoods in which they want to tilt the elective balance. Those that were unfriendly ??.

Problem number two of course are what kind of issues hit the hot spot to galvanize people because by and large neighborhood associations are totally inert. Activists have terrible time maintaining anybody's interest for very long. Most people do not believe that they can have an impact. And many people who are tenants in particular feel that they are not going to be there that long that they need to take an individual interest in it. I just finished a book on review by ULI on the Milton Park affair in Montreal, which spans a decade and totally changed developer attitudes about multi-family and that this firm built the Place De Villa Marie for Zeckendorf and so on, very quality main line firm in Montreal, that bought up 25 acres in Milton Park which was a down town residential neighborhood of town houses, and now has wonderful plans to tear them all down and build a high rise unit which looks suspiciously like Capitol Center, with step backs and so forth, with the retail of a hotel on the bottom, and walked right into an ambush because they really hadn't perceived what the politics of the area were. This was really the student left from McGill University which was just down the street. It was the bohemia or the village of Montreal has a very wide rage of personality life styles and value systems as well as major boarding houses were a lot of the elderly live at a relatively low cost. And they all provided constituencies which eventually fought the company into bankruptcy. They did level two blocks and build an apartment building and a hotel. But it never did ?? and eventually it ended up selling the remaining dwelling to a coop operation owned by the residents who then in turn spun that property off into small coops owned by little clusters of neighbors in town houses came up with a very excellent solution to the boarding house program and a major pool now of low income rental properties in the Montreal area. But this all wasn't settled until 1983. In the interim you have this whole shift in public attitude from bulldozer clearance and rebuilding the tax base and presumably the street safety to essentially how do you accommodate the people that will live there and allow the social network of the neighborhood to survive whether or not the architecture is outstanding or not. Actually it is still a relatively attractive area of the turn of century kind of building buildings, and fits right into the European motifs of Montreal.

But in that period of time, Quebec attempted to succeed, the Vietnam war difficulties were at their peak, Canada was having its major government difficulties between liberal and conservative governments and all of those political forces surged and eddied around this project until ultimately the developer dropped it and the residents essentially took over their own neighborhood in a period of time that took almost 20 years.

Very few of the original leaders who began the initial guerrilla resistance were still around at the end. Somebody did this as their Ph.D. dissertation and went back and tried to find out what happened to all those folks and to what degree they still valued that - very fascinating book. The modern day developer ?? occurrence of political elements to unfurl. He needs to know exactly the position of every person on the board. Particularly someone like Frank Dunbar, working on highly politicized projects, you'll find that someone in the office has an assignment to have lunch with each of the alderpersons, and each of the major planning commissioners or planning chairman in Minneapolis at least once a month- to keep them informed of what they are doing and where they are going and to get feedback immediately as to what the inner political stresses may be in the political halls that have to be avoided or at least be carefully separated from this project so it doesn't inadvertently stumble into a bees nest.

One other area which is really not done by real estate people at all any more but is done by advertising agencies is the motivational on site research for the marketing of residential units. Real Estate is about the only advertising medium in which the product is the medium and the customer is standing in the middle of the advertising device at the time he makes his decision and is radiating all kinds codes to that buyer in terms of spaciousness, life styles, architectural preferences, value systems which probably for most people are very submerged and nevertheless very influential in their life style. Much work has been done, particularly all those that provide cabinetry's, paint colors , Formica and trims, door trims, finishes of all types to discover what is radiating out from that code. And developers use interior decorators who are really into the psychology of marketing a home rather than necessarily creating something with a unique character and taste that speaks for the owner of the home, it really speaks for class of prospective buyers. And that goes from everything from the type that may be on a point of sale reminder that this has a heat pump and is energy efficient to types of pictures on the wall, knickknacks on the shelf, and magazines on the

table are all not happening by accident they are all related to the profile of the consumer that is expected to rent or buy that multi family unit. That gotten to be a fine art and much of it is done by people who specialize in that In many ways the same firms spend a great deal of time on store design Store design has the same kind of problem to communicate in a tactile way as well as a more traditional method - and many of the same people do both.

Lots of tricks to the trade in terms of slightly undersized furniture for rooms that are too small, hyping the ceilings for example we found that in Seattle one of our problems that it was a 55 ft height on the site, which we thought would be adequate for five stories with one foot of floor space between each and parking underneath that we found out that the basic standard in downtown Seattle is a 9 1/2 foot ceiling and most of the units have that extra sense of space and tend to accent that with French doors which have that vertical accent. As a result you don't get as many floors in a given space as you might in New York, where floors are about 7' 9" and they work with a six inch concrete slab, and then put another floor above that and all the plumbing and air conditioning is over on some drop ceiling on the bedroom wall. Nothing wasted, and as a result they get another floor or two on the site.

Again the original manufacturers of ?? material did the early research. Today most of the modern large size builders particularly in California, Chicago and Eastern markets have a department which does nothing but test textures, materials, lighting, signage and all these kinds of things in the marketing of their model.

[END OF SIDE ONE]

... pretty tight degree. Looking for patterns of post card responses, people say gee the kitchen seemed dark, or the closets didn't seem quite deep enough, they will begin to utilize design tricks that will lighten up the kitchen, make the closets seem deeper or organize the closet so that people could begin to perceive how much they could really get in if they try and communicate that as they go.

Given all of those elements in the marketing of houses the critical assumption of course at the front, the aggregate demand studies, and then the micro market definition of the pool, depend really on the level of sophistication that you impute to a developer who is able to capture that pool

because of his political and merchandising skills at the lower two levels, or the on site level.

Too often the feasibility report simply presumes you can capture 10% of this or 30% of that out of the pool and does the cop out of assuming average marketing management. Most projects today will fail with average marketing management. The standards of performance and the sense of detail in the marketing of a single family is extremely high. And so the feasibility analyst in making capture rate estimate has to cover and hedge his penetration factor fairly carefully with perhaps one or two alternative penetration rates depending on the marketing skills of the developer. Or whoever it is who may be marketing the property.

Ironically this is where the lenders should look as well in underwriting a project. It is not the size of the pool of available prospects, it is the track record of the borrower in converting that pool into signed contracts. That is really the measure of the capacity of the borrower. And here of course the researcher has to go back to his other projects and begin to look at how successful they were in reaching a stated level of absorption.

A good example again, right now of an elderly project. As you'll recall the architects who were here showed you a picture of St. Benedicts in Minneapolis which is a coop, looking a little bit like that had taken the red army and plunked windows in it. The people that are marketing that are also marketing one in Racine involving Jacobins. If I were a lender and I were about to advance funds on the Jacobin project, I would go back up and look at the Benedict's projects, because that critical linkage between the pool of prospect and achievement level of management would pretty well indicated by St. Benedicts, which was a disaster. If it hadn't been for the bottomless pockets of the Episcopal church gradually extricating themselves out by making it available to everyone, St. Benedicts would have been ploughed under long ago and they still have only about 40% occupancy. So no matter what your pool prospects are ultimately the conversion record of the marketer is the critical element in the feasibility

Quite often the feasibility analyst is left with no real way of measuring that other than simply to suggest that the results can vary significantly depending on who it is they are going to have because they may not know at that point who they are going to have or even know that they should have someone with special abilities. But it is no different than a prospectus on an oil well in which you want to know

how many holes he drilled and how many came up dry and how many produced an economic flow. The feasibility analyst is going to have to document his penetration rate for that kind of data.

One other element on the housing markets. They are extremely small in terms the geographic turf that they typically cover. Certainly not the monolithic market that the economist likes to talk about. And in many cases a distance of only one block will change the market for a multi family unit.

What you need to discover is the critical linkage for the profile of the consumer. One we mentioned is the young married is often the interchange, and the availability of classic city shopping near by. On the other hand for the established resident the critical linkage may be the food market or the church.

In Waukesha, we thought it was the food market. People changed apartments they did not change where they shop for food. That is their social telegraph service if you will, as to who was doing what to who, and who beget who, and who was marrying who, and seeing friends from way back when. And that was a very critical part of the ritual of living in that community and I don't think that is unique to Washington County. I think you will find that kind of habit foreshortens the range in which the prospective tenant will wander into a new unit dramatically.

Obviously the church, among older people, is also a significant factor. Interestingly enough until a few years ago it was presumed that the availability of a nursing home outside the back door of the elderly houses was a critical linkage. But the elderly say thank you, when it comes time for me to go to a nursing home, they'll drive me there in a van of some sort, or ambulance. I would just as soon rather not be looking at it for the 10 years while it's contingent that that's where I'm going. As long as it is over the hill and available they are much more concerned with arrangements to get into the girls noosing home, you know the one with the recommendation of their peer group, regardless of where it is in the community. If you can provide guaranteed preference of access if they need one. Doesn't matter where it is.

The acceptability rather than the proximity. So lots of people confuse proximity with accessibility in all manner of things. In many cases not just relative to single family homes it may be clubs of one form or another. Especially in

highly ethnic areas. Lawn bowling, swimming clubs, the Italian working man's club. They become very significant elements in the choice of housing. You need to identify that critical element. Sometimes it can be extrapolated to a group, sometimes it is unique to one individual's perception of what he wants. I remember I sold my second house to someone that I had been able to get a great buy on a lot and then I figured out why after the fact. Right behind it was a place called the Saxony Restaurant. With a huge blinking neon sign right at the north end of Lake drive. And that light blinked till 2 or 3 in the morning. Which is why the lot was available cheap. Nevertheless, built a cheap house on it and sold it immediately. Without any challenge to my asking price. To a fella that went to the back window, looked out and saw the blinking sign, walked out to the hedge in the rear, found a gap in the hedge, and said, "Perfect, it's just a short crawl home." (laughter) A unique linkage and I It saved the sheriff's work of keeping him off the road.

But nevertheless, different groups have different ties of that sort, and it begins to compress very significantly the turf to which they are willing to make a housing change. In Waukesha, we tested everything within a half mile of the site and found that there were more than sufficient prospects within that half mile to take care of a project of over 200 units simply because the group has aged to a point where the older homes of the turn of the century to 1920 styling involved steps, alleys involve garages that were now too short for Oldsmobile and Cadillacs and many were parking out on the street rather than trying to negotiate the alley and as a result, while we asked what did they fear about apartment house development we also asked whether they would be interested in apartment in the neighborhood because it did have the right linkages to the church and a Kohl's store and so forth, and there was an overwhelming response of interest.

People wanted to be sure that is wasn't going to be something that wasn't going to be irritating to their neighbors and they still wanted to be neighbors with their old friends but at the same time the entire market was within 1/2 mile and this is generally true of downtown apartment projects. The premise that people are going to come from out of the suburbs and move back downtown just isn't so. They will simply move to a better unit downtown, but they are already downtown. Yankee Hill is marketed very successfully ?? The people were moving up from Chicago. Primarily because the people in Chicago were already used to living in high rise apartments downtown. It is very easy to

do if you lived in Carl Sandburg Village. Yankee Hill looks beautiful relative to Sandburg Village or a variety of projects which those who were on the move economically and socially would relate to.

Question: How did Tom Klein do his marketing. He had 30-35% coming from Chicago. Did he anticipate that market or did he look in the Milwaukee market?

Well, he anticipated that a significant part of his downtown market was moving in from out of town. I don't think he expected he was going to get 35% from the Chicago market. They used an advertising agency and they really stresses building early a theme and image for the project than hitting target lists of people for mailing. People who would have a higher than normal preference for the kind of product he had on offer. But again, he places most of his success on that, once he got the traffic going, it's that site marketing. He's really got a quality group.

Ok. I will pick up on this again on....

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Lecture 12-2

We'd like to call the ... and they will be here on the 9th... a Tuesday...they might... also...indicating they would like to have as many as five interns...also Jim ...from Cambridge looking for a self-starter who wants to get trained in marketing of...based in Chicago...anybody who's interested, you'd like me to send a resume' out to them...need to know that as quickly as possible if you're interested in Chicago and a permanent position. Then I got a note fromon the field trip that would like to attend the real estate dinner with the alumni...we need to know...in the job market...spring or summer in Minneapolis... that would be a good thing to do... the alumni bring their bosses to the affair, and it might be a good investment...anyway I have the form and we have to get it back to Jeff as quickly as possible. If you are interested in that, pick up one of those. Also if you have any last minute requests for ---- in Minneapolis, see Tony at the end of this hour...

Okay. We have a few new things to discuss. One. Housing. Housing analysis. Looking through a building magazine, free...and representing really what we're talking about, ...in terms of political research...essentially gives the town what it wants in order to achieve...the changing character of the housing market from a study done by the...

(lots of whispering) first time buyers versus upgrading and comparing that with a similar project... and third, a piece on demographics... housing market, indicating that the average age of the first time buyer is moving upward, partly because perhaps many of the younger, they're already married, made their first-time purchase, but demographics run backside slope now in the baby-boom...also because its less affordable,....stay longer, specifically buy something smaller, their first buy is often an older home in which they can get more space and fix up gradually rather than a new? one which may be short on space but affordable on price. So anyway, those are ...should be added to your reading list on housing market analysis.

The second...in the...we had talked about the shopping...the modern Riley's Law, and what that suggests that the contents of shopping centers usually is a ---- level and site arrangement level...we had not talked about the ongoing research in terms of specific ---- relationships of tenants, and the shopping center developer typically has a concept of how to position the shopping center, and he allocates the space within what he perceives to be the appropriate size of that, among various sizes of....by category. Shoes might be one category, women's dresses and related accessories might be another department store, and so on... and then he really gets down to fine-tuning, his leasing program is not a matter of chance. It is a highly focused program, which is trying to produce a desired mix. Let's talk about shoes for example. Going down on the right hand tab, as if we were setting up a matrix, you might have men's', women's, family, sports, discount. Going across the top you would probably have, probably for lack of a better term, low, medium, and upscale price ranges, and he would then set up that matrix, looking at his demographics, if this is an upper income area, he may decide that while he doesn't need a low price store, that they don't want the off-brand, imported urban little league? level of quality or Taiwan or whatever, on the other hand he does need a discount like the Famous Shoes, which takes the high end brand and discounts them, and so he might indicate under that discount that he wants the ... price range, and he would specify Famous as the chain that he would want in that store for that particular... The shopping center developer knows enough about each of his potential tenants to know exactly what their...profile of where they perceive their consumer to be, family, etc. etc., and he would come through and pick out a brand in every one of those categories that he felt that he needed in his center, and he might evaluate Kinney's versus Kinney's major competitor, and he would look directly at Kinney's, decide what their advertising budget was in that area, and then decide, gee, they've only got one

store in that trade area, their advertising X dollar...a second store in that trade area would cut their advertising budget by such and such an amount and so forth, and then he would plug in "medium", "family", "Kinney's". And he would go through each of the items on that matrix, related to the two or three ...agents, and possibly even a local operator that he felt fit his grid, and that would be the leasing plan for that center. The second thing he would probably estimate is the sales for that big of a group. He might expect confirmation of that sales number, in fact in negotiation many in fact do, now whether Kinney's feels they're going to do X dollars or if the developer feels he's going to do X dollars and so forth. And he knows that he wants to hit a certain number of dollars per square foot. So Kinney's comes in and says, great center, want to be there, I want 5000 square feet. And the developer says, so with 5000 square feet and your sales potential, you'll never go over the minimum base before the percentage kicks in and therefore the maximum I'll give you is 3600 square feet, because at the low range of our estimate, you'll be at break even rent, at the middle to upper end range, you'll be moving into the percentage rent basis. So one of the tricks the developer has to have is a good sense of what the buying....in that demographic group...defining square footage, and then of course the final allocation gets down to how many square feet is ? going to have, how does that relate to the minimum base rent before the percentage starts to kick in, and then the third major element of negotiation is of course, where to position that store in the center so that it gets the best cross section of demographic appropriate for that center. So each type of merchandise, women's wear, men's wear, sporting goods, etc. will have this kind of matrix. Obviously it may not have that many items, there may only be three or four, but the people going into the center really depends on their capability to fill in that matrix and then market his space allocations of that particular group. From the feasibility analysis in other words...inside information, much of which is generated from the fact that the developer already has a long-term relationship with the majority of ? tenants, aside from the locals, and he has a pretty good idea who...has so many dollars in sales per square foot...generates in a certain area. He'll also know that certain chains do better in certain regions than others, historical region, or perhaps they have more of a tradition in that area, Famous, for example, is stronger in the Midwest than perhaps other places...locate their stores in Madison rather than having executive group drifting all around the country, and then move out from Madison. The feasibility analysis at this point has a great deal of difficulty being of external turf

to the developer in terms of the ultimate feasibility. Defining the demographics, trade regions, the other elements that we talked about, in terms of at least removing the structure in terms of access to the potential customers...but then the final penetration into that market is really going to depend on ... The other element that each of these types of stores have, whichever merchandise line we're in, is the fact that they really have a pulsating trade area. Most people think retailing is as if somebody has drawn a circle around the store and in fact, three minute delay or ten minute delay, or something of that sort. But the fact is with the seasons and the weather, as well as the price of gasoline, you'll have very distinct shifts in the trade area, and what you want to get is a mix of tenants that tend to offset each other in terms of the cyclical character and pulsating character of their trade areas. The major department stores for example have a great way to expand the trade area for the Christmas season, which collapses probably to its minimal level believe it or not early June or July, and then it tends to move back out again as people begin to ...out of their home, out on vacation, and so forth, and their budget allows them more of a department store type of purchase. And then you may get shifts in that, opening a school, for certain stores that serve the children's market or school-age market and so forth. And it becomes a really vibrant kind of feel for it that's moving in and out. Piano sales are very seasonal relative to certain holidays, but ...60, 80, 100 miles from the piano store with no problem at all at certain points in the season, which maybe compensates a little for certain other kinds of ... The shopping center developer hopefully has that retailing sense, that he can put together a synergistic combination, and then it really is ultimately the ability, once the basic geographics, demographics, transportation plan and other elements of friction and perception that we talked about have been taken care of, and the ...outside... does not have the data base to deal with that at all. Sears Roebuck has a data base on one out of every five households in the U.S., which is brought up to date every five years, as part of their credit card program. There's no way I'll find a feasibility on ...duplicate that kind of resource, in terms of doing the fine tuning on the feasibility of... (Question from student: what is....advertising..trade publications for radio or advertising) Well, potentially the developer is going to watch the paper and say, gee, how many column inches is so and so running in the Madison Market and how many stores do they have, and are they all on the west side and none on the east side? Right? And the leasing manager, a little light goes on, and says, gee, ok? I ran into Randy Alexander the

other day, look around...the railway station with that great big ? on the front. Who's got stores that look like that? Where are brands located? ? becomes a process. They advertise by newspaper, they have one on the east side one on the west side, how many ?...they have a structured... that lends itself into ... a hard core weatherized winterized...fits into the configuration of the railway station, they are a prospect. When he really starts to look at it in that way, that's not hard. Feasibility analysts...typically get down to that micro level. But he should. The more you get down to recognizing real estate is a series of chess pieces to be moved, the more likely the project become feasible. The more you begin to identify a group of tenants or a tenant that matches the attributes you have to offer, the more you're doing your job in terms of market and market research.

The last aspect of the advantage of the shall we say the developer Vs the feasibility analyst, is that the developer typically gains the significant monopoly on the key tenant, the tenant...wish to be in. So the new tenant comes along and says, doing well, say Nordstroms...Midwest, and now Jacobs says, okay, you want to be in downtown Minneapolis, you're also going to be in the Mega Mall. It's a package. Take it or leave it. At one point when Jacobs was negotiating with Penney's, potentially the deal was Jacobs would buy the downtown Penney's store, they wanted to be in peripheral, two shopping centers, they had to be the downtown Penney's store. That didn't work, but when ? store came in, at one point...at that point in time Penney's had to go out by Jacobs as a way of getting into the suburban... So the end result, the shopping center developer who controls two or three four opportunities at a time, he can package them, and says, alright, we got three tomatoes, which are pretty good, one's a little green, and as a result, things which are marginally feasible, to look at it independently, become doable, simply because of the reciprocity and monopolistic characteristics of the operator. This...in Chansol?? vs. Federated, Federated controlled the whole series of P departmental store chains, and one of the advantages that Chansol has, then, is when he deals with a shopping center developer, he can say, well, if you want me to renew my lease here, then you're going to give me this spot over here and this spot over there, in these other two centers, and what's more, you're going to do it for a lower price. Because the only department store bankers that are not currently in the market and would consider your market are all controlled by Federated. So therefore we will help you pick which of our brand names is going to go into your market and we'll also tell you so forth. So some of the shopping center developers says, gee,

maybe we ought to challenge the Chansol thing on an anti-trust behavior, and essentially the response to that from the trust department was, hey, anything that produces lower rent presumably produces lower prices for the consumer, and so we don't care. So much of the guerrilla warfare against Chansol's acquisition of Federated is the fact that it put borrowing power back in the hands of the major department store anchors that the shopping centers have to deal with. What's worse, it does it at a time when the early shopping centers, developed about 20 years ago, are reaching the end of their first round of operational agreements. So that those operation agreements will be renegotiated in terms of how those anchors will participate in merchant's associations promotions, contributions towards common area maintenance, etc., and therefore the bargaining power of having all of those anchors, a number of those major anchors all in Federated, is significant. So that's part of the play that's going on there aside from ... (Question from student: ...these tenants,....do they have one basic master lease that ties them in...) On no, don't use the word tie-in. Tie-in under the federal anti-trust laws is illegal. (No....) No, it would be virtually impossible for them to do that because the lease...incorporates the...agreement which takes them from term to term, I think it develops into an evolution of ... forms that take place, as courts decide the meaning of certain language, certain clauses become sort of locked in because of the risk...clarification of terminology; in other cases the shopping center may have lost on that terminology and have now changed the wording to close that particular gap and so on, so by and large the leases adapt to the jurisdiction that you're in, the center's history, just in documentation and so forth. (They don't have common language to all their centers that might..?) There would be some clauses that were generic, and many of them started out with printed forms, and that's part of the opening gun, is the tenant fills out his standard printed form, and now the game is its your turn to find all the booby traps. On the other hand, if you have a center which is el primo in terms of its demographics and location and so forth, you draw up your standard form, and you end up with a form that is all cobbled up with lines and x's and addenda and so forth. So you make...but that's just the beginning of the

In effect, what I'm saying, is that when you talk about shopping center feasibility, the outright consultant, the feasibility analyst... can only move so far in defining the general parameters of the opportunity. How deep are the demographics, what the sales potential is, perhaps how much square footage can be supported on the site and generally ...and all the other elements that we talked about in terms

of that modified Riley's Law formula. He can't even come up with some suggestions of ...but at that point the developer ...internal... it is not something that an external observer could handle nor would he have the database to do so. The same is true of the hotel business... the hotel business has a great many idiosyncrasies to it, but the third element begins obviously with the type room, everything is a function thereof...the critical elements for that are, Scott I think I'll put you back on the board. The first item is room nights available. Sounds simple but it's not. The room nights have to be looked at in terms of several lines of business. An ... room might work for number 1, convention, number 2, business travel, number 3, vacation travel, number 4, special events, number 5, miscellaneous or general travel. Particular hotels may have variations on that, for example, there's a site right next to a hospital that might have a medical sector or something of that sort but, you say, why does that vary? Well, for example, one of the problems in downtown Madison, was that The Concourse had a convention facility, and the problem was, how big a convention could they take, if, at all times, they wanted a minimum of 25% of their rooms available for business. Well, even if you have a 300 room hotel, and you take 25% of your rooms are blocked out for regular repeat, business kind of travel, you really only have 225 room ? per night then available for convention. And then if you want to serve some with ..general travel...etc. etc. you might only get 70% of 300 or 210 room nights available for convention, that really puts a cap on what you can handle internally for the size of convention you can book etc. Ok. So far so good? The total room nights available for a particular category of business, then, obviously the repeat business is of considerable value to you. So for each of those categories, next column, second column will be seasonality. Seasonality consists of three factors that you fill up, which is a little goofy in the hotel business. First of all, to make things work in a comparable base, you work on a 13 month season for a hotel. Each month has four weeks in it, each week has five week days, and two weekends. So far so good? The reason for that of course because there's no thirteenth floor! Now as a result, you then break out your availability into first of all weekdays, weekends. The third column would be what constitutes a season. Now the season obviously depends on where you are, obviously Florida does best the last week in December through the first week on April, on the other hand if you're in northern Wisconsin, its July 4, whatever. Obviously, different geographically just as well as in some cases, differentthe ? season in New York and Saratoga, or the racing season in... each community will have its unique seasons and it will typically

run 3 to 4 seasons a year, and each season will have so many weeks of the four weeks that represent each month. So if you indicated it was a 3 month season, it will have 12 weeks in it. And each of those 12 weeks would have five weekdays and two weekends. So far so good? Building up your if you want for hotel feasibility. And again, you have to research that... Now...for each line of business, which we outline on the far side, for each season that's identified, it has what's called a rat rate. The rat rate is the room night rate that's reported at the desk when you first ask the question of what does it cost per night. The great majority of rooms are never rented at the rat rate. If you come in at 10 p.m. at night and they give you a rat rate of \$, how about a 15 to 20 percent cut on that? and you'll probably get it, then you give them a business card at the same time so they can mail you advertising in the future. The rat rate. The next column then, is the discount on the rat rate for each line of business by the season. Now if we're talking about Lake Geneva and we're talking about the abbey and we're talking about July, baby, the rat rate is it. There's no discount, there's no conventions, it's all family business, it's relatively short term, the occupancy is probably 95% or higher. If you're talking Thanksgiving Day, you can have any room in the house, at discounts of about 85%, even with that the occupancy is about 15. Different seasons, different rat rates, different discount rates. So far so good?

Well the real tricky part for the feasibility analyst, is putting all of this together and ending up with ...total room nights by season. An average affective room rate, that's what you want to watch, tells you what the rat rate does. Obviously if you know the number of rooms that are rented, and the average amount that you get per night per room, what do you end up with? Total revenue per room? Right? (Question from student: I was wondering if you have the affective room rate...) Right. Okay. Everybody with us up to this point? Now, you've got all kinds of questions for the feasibility analyst here; first of all, what proportion of my business is going to come from each of those different lines if you will, and what is the season? So you say okay, let's talk about business meetings for the moment, or conventions if you want. The convention line breaks down into a whole 1 2 3... first thing you need to know is okay, how many events are we going to have. The convention line of work isn't really the Veterans of Foreign Wars coming to town and they're playing cards, essentially it's the relatively day in and day out flow of meetings. The Pioneer probably has an average number of 15 people per meeting. It probably lasts 2 1/2 days, and produces 1.5 room nights per attendee. Now obviously a hotel chain that

has certain formula, looking for certain demographics, has that kind of data. If you don't have that, you're working. ...data from other hotels, one way or another...but assuming you're doing this for someone who already has a track record, has other hotels, has other formulas, now you're on..you have to hypothesize how many meetings you're going to have, what average size you're going to have, how many of those are going on at one time, and the average number of attendees, and the average number of room nights per attendee, because that is how ... some people live locally, people stay in budget hotels, other people stay on the premises. And you have to repeat that process for ...let's say we get into the recreation business, you may have four models going on a recreation site, okay you say, what's recreational around here? Well, during the winter season as defined, it's snowmobiling, it's cross-country skiing. What's the propensity for that? How many folks come into this county or four county area or whatever it is to do that? You may find good data for that, ...census taken, the University....have some good data on the propensity for cross-country skiing in different areas and so forth, and then you either have to do some original research or find some data that's already been done that says okay, 10,000 skiers produces 3000 room nights, ...all the skiers stay in the same room, and then you begin to attack with pencil?? each one of these. So you may end up...may be 20 or 25 little market models that all drive towards the number of room nights I can rent. So far so good? And remember each of those models may be in one or two seasons, obviously in the summer season it's entirely different. As the weight may shift. For example, the abbey in Lake Geneva ...obviously during the summer it just..forget it...now say we get into the fall season, we would have a good number of business meetings during the week, the September, October, first week of November maybe, at that point it dies off and becomes a weekend mini-vacation business in which the occupancy during the week is very low, but during the weekends is very good. In fact the abbey was very effective with radio advertising coming from the traffic helicopter. People sitting on the freeway....come to the Abbey to get your battery charged for the weekend and so forth.....successful entrepreneurs looking for a blend of several different pools of potential that need different seasonal requirements and need either the Monday thru Thursday or the Friday-Saturday time periods and if he can begin to fill those slots on a seasonal basis, he begins to ..60-65% room nights rented...an acceptable average. So in effect, when you begin to look at that very simplistic looking statement about gee, here are the average number of rooms available, and now here's the average occupancy and

the average room rate, the way... there's almost no supporting data for those at all, they just pull those numbers off the wall. And say, well, I think that ...72%, winter's going to be 58%, we'll move the room rate up and down this way with some plausible numbers and they preface everything with IF these numbers were true, then the financial result would look like this. But very little research...unless you're willing to pay to find someone to do that. These type of studies cost from 25 to 100,000 dollars a shot, depending on size and market, and ...

Once you're down to room nights and the average effective room rate, then you can begin to look at the other operations of the hotel. What are we going to do with food, ...what are we going to do with miscellaneous retail income, telephones, you name it. Well, the feasibility analyst versus the hotel manager, there may be a distinctly different way of doing...so the feasibility analyst, he would assign rent comparable to a shopping center, retail rent, to the spaces that represent the bar, the restaurant, the retail, the athletic club, etc.The hotel manager is obviously interested in the total volume, and so now he has to do restaurant feasibility study, the positions that the restaurant or restaurants, he may want a coffee shop, mainline restaurant, and gourmet, or he may decide that the size of hotel, the location, the kind of traveler, that he's going to get calls for kind of an upgrade coffee shop called Perkins or something, in any event, for the feasibility analyst, he treats it as a real estate problem, says, this is the rent it's going to generate, that becomes a nut that has to be cracked by ..the restaurant feasibility. The feasibility analyst is not going to be there to figure out what the menu is, the average price per cover, the number of turnovers at the table, etc. It's a whole different study. He simply decides rent for the spaces that are required to provide that That is also the way he would appraise the hotel. Any increment of revenue above the rent is assignable to management, not to the real estate. Somebody else has their hand up. Yes. (Question from student: Isn't that difficult to do? Because if you don't have a restaurant in a high upper bracket hotel, you're not going to get people to stay there, so that's a requirement for occupancy of that hotel as much say as the size of the room and so forth.) True, and in one sense the philosophy was (end of side one of tape)

...it was the lost... but not anymore. It has to carry its own weight. It has to break even minimum. Sometimes they don't, but they work at it, they try to find a formula so it does. Raddisson West out in..is a good example of that. They still haven't found a formula that makes Harper's,

their restaurant, pay market rent for that space, and at this point, wished they hadn't built as much space as they did. They would much prefer to have the kitchen serve the banquet business and not have to maintain the restaurant business's spin-off. But it's a tough call, and you're right in the old days it was presumed amongst ... today it is regarded as a break even operation at minimum, and hopefully a profit center. Many of them do quite well. That relates back to how you distributed the business among those different classes. A good hotel manager will know what the average cover and the average beverage bill is per day of occupancy for the different kinds of business. In fact, a good hotel gets better than that. The executive chef will be told in the morning, what is the house, what the mix of convention business, tourists, whatever, and so forth, and what the weather is, which will tell you what entrees will be predominantly in demand, what the beverage preferences will be, and will in fact order out of basement storage a distribution of those kinds of supplies into the main cooking area that reflects that. You know, once you're in that business, and been in that business for a while, you have incredible statistics which reveal the behavioral pattern of different kinds of clientele, and second of all, how they respond to the weather. This makes a big difference. I encourage you to relate to that, is you think about what you would have eaten for lunch yesterday in 75 degree weather, and what you would drink, and ... compared to a day that is now 40 degrees outside, cloudy, rainy, a little depressing, etc. You probably would have missed breakfast altogether, and lunch would probably have been heavier, so on and so on. The hotels are able to plan on that. That's well beyond what the feasibility analyst...the best he can do is come down to a general revenue estimate from each of those other Hotels then deal with a funny number called house profit. House profit essentially is the ---- revenue, minus all the operating expenses, but before fixed costs. So revenue from each of the profit centers minus all of the operating expenses, and a basic management fee, brings you down to house profit. Then from house profit, you subtract real estate taxes, interest and principle, and a reserve for replacement of furnishings, then you get down to something called net income, that is probably more parallel to that. It's not quite net income however, or at least its not considered... but because at that point the management contract kicks in again, so the management gets a percent of gross right off the top, then you come down to house profit, some management people try to take a kick of house profit, is assumed whether they had anything to say about ---- in the reserve bank, but if you can agree on what the ---- allowance and the reserve will

be, then the management team comes back in on the bottom side of that net income line and takes a percentage of the net income line as the other part of their management ---. Now you're down to net income available...and income tax. So the bookkeeping of a hotel is slightly different. Despite the fact that it is slightly different, it is standardized throughout the country. There is a uniform chart of accounts for motels, hotels,... There are two major accounting firms which over the years have worked out the system, which is endorsed by virtually everybody that needs to endorse it, including the lenders and so forth. And as a result they maintain an annual report on hotel operations...but they are able to aggregate the operations of hundreds and hundreds of hotels, and then dis-aggregate them into a whole variety of categories. So you can have hotels with fifty rooms or less without dining facilities, hotels with a hundred rooms or less with dining facilities, and then broken out ---- by the size of the city, and whether they're a franchise or not.. on and on, an extremely useful benchmark, and in recent years, they've been broken out by ----, so there the upper --- and a lower ---- as well, and ... but you certainly have benchmark where you don't necessary know what the feasibility analyst, what that expense should be as the percentage of sales or an actual dollar amount, pretty reliable data. (Question from student: How does...) Good, that, and the ICSC... are the only two areas currently that have really and truly uniform accounts. ... and are moving towards that, but because they don't have, the data is voluntarily for one thing, so you don't know whose accountant did it, and whether they had it right and so forth. Whereas the data in the ... and ... studies are done by the CPA's and it's not a voluntary basis, everyone is included. So, it's a somewhat superior quality, nor can it be biased. There's certainly some evidence in ---, that all they have are seven or eight or nine major buildings, let's say in the downtown area, that are 500,000 square feet or more; there's a temptation for those buildings to report slightly higher costs than they really had, so that when they show their results to investors they can show ... inflate the average by reporting data that's a little ----, and then use that as a benchmark to compare what their actual ... There isn't as quite as high in ---- as there is in the hotel industry. Now, how do you get some of this data? There are a variety of ways of finding, walking in the front door and asking the manager what their data is is probably not the way to do it. Part of it is military intelligence, part of it is beginning to look at other sorts, convention centers in most major communities today know what the total room night occupancy was by sectors of the marketplace, and what percentage of

that was occupied by the very typical lines of business. ...what the capacities are for a season, and therefore what seasons of the year they should be promoting most in terms of assisting the hotel business, so that becomes a kickoff point. One way of using that data is what's called a fair share basis. If there are let's say 3600 class A hotel rooms in what you've defined as the market area, and you're going to add another 400, then you are going to represent 10 percent of the market. The initial premise is of course that with normal average management, you should be able to do as well as the others, and that you will gain ten percent of the available room nights, whatever that number might be. If there were half a million room nights in that town for that year you should get 50,000 room nights, and now the question is does that move you to the break even point of, you know, 62 percent of occupancy in terms of how many rooms you're going to have and so forth and so on.it's very dangerous because it is assumed that ...the locations of all of them are equivalent, and thetheir marketing niche is the same, but those that are more astute at hotel management then take their fair share and modify it. The modification may be on the up side, if it is determined that your's is a premier location and you've got a glass bridge into the convention center on one side and another glass bridge to a major office building on the second side, and one into the ...on the third side, you can argue that I should be able to do 20 percent better than my fair share because the guy out on the periphery you know is six blocks from any of these major generators won't be able to compete with that kind of convenience.suites hotel in Cincinnati, ...which is across the bridge in Cincinnati, and initially he reported...we argued and we think reasonably so, that ...people weren't going to drive across the bridge if they could get a suites hotel at the Hyatt Suites, which was being built on this 100 % corner downtown across from the convention center, etc. So they had to redo that, and in this case, ---had not hotels at all which provided any kind of analogy, any kind of prototype...Cincinnati market... so fair share based on total number of room nights and what you ..defined set of competition within the defined market area, is a point of departure which says, okay, I need this many room nights, or I could get this number of room nights simply by ---average, and now the analyst has the problem of saying, okay, what proportion of that total room night will come ... different...that I've identified. And that's tough to do; when we did the --- , we did one hell of a lot of interviewing with the university, the medical school, and a variety of other sources to find out just what was needed to accomplish certain room nights, and so far we've been right on the money, we're a little too high on the medical, and

the reason we're a little too high on the medical, the Ivy cut their rates and the University hospital has a program in which families, relatives of people in the hospital, can stay in the home... provide some incremental spiritual support at a tough time, at a very nominal rate, so as a result we don't get as much penetration in that market as we would think, but nevertheless...people that represented different lines of potential business...one of the key issues was really the fact that the campus--- facility was dated in many ways, and hence the --- room with the sloped floor and so forth. The guy that runs the Peoria? Co., pal of mine, he didn't like my projection...they found that's what they need, they added another 40 rooms and another sloped floor meeting room which is bigger than the one they've got because they can trade directly the number of attendees in meetings, the number of days that room is being utilized and the average room nights generated as the result of that facility. So that kind of feasibility comes as a result of having been there. Tell you truth, the Raddisson West...right on the money on that one in terms of the initial forecast and in terms additional additions on that, and again, so far so good. But again, you can generate internally who your business is, what your percentages are, and readjust your study. When you don't have any of that, you're hanging on a fair share...adjustment of that fair share rate.

The second sort is the room taxes paid in most communities. Most communities have a specific room night tax levied on all the hotels in their city jurisdiction. That's when it gets a little messy, because some of the one on the east side aren't in town technically, and therefore don't have to report to the city...the problem with most cities is they regard then obviously the owner of ... the number of room nights on which they are paying tax as privileged information. By and large, you can't get it for individual hotels. You generally ... by a group...aggregate room tax, that's what they would do in Madison. What you have to do there is cheat. If you've got one guy to go in with --- of five, to go in with another guy with a list of five, it's only one different from the first list of five...which is fine if you're looking at a particular competitor and want to find out how they're doing. The help that these will provide somewhat more data than that but basically not. I once fell into it once by providing forms to the lady at the desk asking for the room night tax paid per quarter by different hotels, and she filled it all in for me and gave it back.

Another way... is to imagine a law of competition, is to visit with the car rental folks. The car rental folks as one of their basic questions always asks what hotel are you

staying at. They keep track of that, and with a little ... here and there, you may be able to pick up that information from the manager of that particular car rental,... what percentage of travelers are arriving by car in a certain market, or using rental cars in a certain market. ... You'll also find who the most aggressive marketers are in the town, because by and large if you were to ask the girls behind the counter what hotels they've had dinner at and so forth, you would probably very quickly find there was a certain consistency to that pattern, and that the most aggressive marketers are catering very carefully to that group because it's a very important temptation point, the guy that comes in, rents his car, and says, what's a good place to stay, they come back with an immediate response, and that immediate response is generally the one who ...as a regular thing, so you can get a fairly good measure of how hotels are marketing by talking to car rental people. Another good source which I'm sure....regularly are the liquor sales people. You can get a pretty good idea of occupancies by ... the number of cases of hard liquor versus beer and so forth, and again, with a little inside information from a hotel which you know about, will tell you a good deal about one you would like to know about, and so again, being in the business provides some of those critical ratios for extrapolation which the guy standing out on the street wouldn't have. So there is plenty of opportunity for those who are inside the business to know a good deal more about their competitors' business than those on the outside looking in. Part of that iswhich may also in many states involve statements as to quantity and so forth. In the old days you could measure filling station capacity, people would simply walk into the station with a clipboard, take the gallons off the pump, and Monday morning come back and write it down again, public information, that little dial at the bottom that says how many gallons each one pumped. You could then run backwards and say about many people bought gasoline on that corner, to decide whether you wanted to buy the next one down. There's a tremendous amount to be said of that kind of micro research...as big as a hotel or as small as a filling station or Laundromat. ...screwed around with a Laundromat, and counted the number of people who came in, by hour, a ---- survey for a couple of weeks, and figured out exactly what the volume was in our hotel, but after they bought it they found their estimate was about 1 percent... pretty good sense of what could be done and what couldn't be done. In the meantime....again, for really public data they can't throw you out on your ear, you're doing a survey, and so you need to track with that kind of micro research on various aspects of the hotel business as well. Many people do hotel surveys, by the way,

by taking the license plates off the motel, at some point at night, generally after the bars closed..walk through the parking lot, write down all the license plates, do a standardizing on those; you don't necessarily want to share that information with anybody, but nevertheless it gives you a sense of one, the occupancy, and two, a sense of the trade area of the hotel, particularly where it's more regional rather than national. (Question from student...) Well in most states it is still public, but they have made it more difficult to do, in other words you may have to do it one at a time, and in some states, Wisconsin, and so on, its public information or need to know type, you can hire a girl to stay in the office at night and do a list of 300 of them for you, find out where they all came from. That now differs state by state. (Question from student...you know, how many people were generated by that area) Well, very ...sometimes a dot...represents ten cars from that county, you want to go by county, do you want to go by some other subdivision....its really a function of how many....with only...

(whispering, hard to understand for a few sentences)

Okay, now, one of the major tradeoffs of course in a hotel, as you move through this line of analysis is the public area versus the room area. Traditionally you have made most of your money on rooms, rooms probably have a margin of 70 to 80 percent of the rate, obviously that margin goes down as you give sharper discounts, but.... beyond that it is a very high margin item. On the other hand, restaurants, bars, and so forth, the real profit margin is very... down around 10 or 15 percent over and above the actual cost of operation and so forth, and so ideally what you would rather do is fill all the rooms, and virtually no public space. Meeting rooms may or may not produce any revenue at all. Hotels are becoming more effective in charging for meeting rooms, but generally they use the meeting rooms as a loss leader to pitch their beverages and food... or as a way of getting large groups to congregate there; they provide the meetings for the convention and so forth, and all the people at the convention are going to have a luncheon there, and a banquet at the end of the week and so forth, the meeting rooms are free, not the sleeping rooms. And you generally quote a discount on the rat rate for those who identify themselves as those being part of that particular convention or meeting. Therefore there are different hotel formulas and different niches which people ... Motel 8 is obviously looking for those people that basically want sleeping space... no meeting rooms, no restaurants, they want to position themselves where there are alternative restaurants

available, alternative amenities available which someone else is paying for. The ideal site for operating alongside Holiday Inn....whatever, and let 'em walk across the street and eat at their restaurant, and let that other hotel provide that expensive capital and employment problems, they're just going for the room market, and they have made their room as minimal as possible, and as a result can quote a very low room rate. However, they are very sensitive to occupancy. Motel 8 probably has to be at 80 percent to break even rather than the traditional 60 percent of a big city hotel. In other elasticity of demand relative to the room is a critical element. It also presumes that the turnover of the average stay for the person is relatively short, maybe one night, so as a result they don't provide closet space, they don't put dressers in, because it's not the kind of place in which you unpack your suitcase. On the other hand, you're going to do a larger...expecting people to spend two or three or four days...so you have closet space, you have dressers, you have a desk area at which people can make phone calls and so forth, becomes significant. Suite hotel, for example, is a very popular...particularly now that more...are in business, they would rather use the living room portion of their suite as their office, and not have to use their bedroom as their office at the same time, and that becomes a very significant niche, your ability to provide that kind of business environment, along with a place to sleep, and eat and so on. So the mix of spaces between that for which you get the room rate and that for which you get little or nothing becomes a critical element in the feasibility, very delicate balance. If you discover after you done some study that more of your potential business is from the business travel/business meeting group, than it was from the travel group...you'd better rebuild your facilities and create a meeting center, and you now have an array of facilities to meet the range of people making inquiry about your available meeting facilities, and when they're available, and so forth. There is also a very real danger that you say wow, I'm the world's greatest hotel operator in --- county, in July because I'm 100% occupied, and if I only had 100 more rooms I could have filled every one of them on the week of July 4. Terrific, now you've got the week of July 4 at 100 percent occupancy, you've doubled your --- charges, and you're vacant from October 1 to somewhere in May. You've killed yourself. You've got to make sure that you can carry the facility that you create during the low season, because other November, December, and January, in northern Wisconsin will eat up the profit of your three good months. So you have to scale it that way...Greg? (Question from student: are hotels usually pretty vulnerable say, if they had a monopoly on supply, say

every hotel in the city is booked up, for them to charge 200 250 a night, would that create a lot of animosity...) Probably, but they don't charge the regular customers that. Their little computer comes back and says gee, he stayed here twelve times last year. The rat rate is 250 bucks, for the wide-eyed tourist who walks in the front door, and says have you got a room tonight I've got three kids and a wife out in the car... rat rate for that fella', another rate for a regular customer. So you're talking about the marginal rate, there's less animosity. (It seems like they have the ability to do that at times, if they want for certain areas...) Sure, but then they're short-sighted. For two reasons, one of course, is...thirdly a hotel has the same image room as a shopping center, which essentially perceived...role of the big spender if only for a weekend, and other times wants to be perceived as the scrupled prudent wife...(comments from student) I don't think that's true, I think there's great deal of --- loyalty in hotels today, and the knowledgeable traveler is beginning to identify certain chains...I think that's why you're seeing as much as niching as there is...as much emphasis on design.... okay we'll pick up again.

857

Lecture 13-1

We'll try to step lightly around your other exams. We had originally scheduled 857 for Friday, I understand Dowell Myers came down on that same date. I'd like to hold it on Saturday morning at about 10, 10 to 12 if that's feasible on Saturday morning. Now is the time to register your vehement and loud complaints. Indicating that it's totally impossible because you are slated to leave for the Hawaiian Islands. Ok. Saturday morning, going, going, done deal...10 o'clock, be here at the Commerce Building.

Second item, Steve Holly is moving up in the world, so there's a very nice spot for somebody at Valley Bank, working for Bob Kramer on real estate problems for the summer. And if you do well and don't take home too many samples from the bank, why you could have a part time job in the fall. ?? right here in Madison, Valley Bank has umpteen thousand parcels of miscellaneous real estate. So if you're interested in that see Steve Holly or me. Bob Kramer is a very nice man, formerly a professor of banking here at the school, but when pressed between the choices of academia and the real world, given the attitudes of the finance department, actually running the bank was obviously vocational should be in the MATC course, he chose to go run a bank and made a fortune doing that as part of the Shorewood Bank and then rolled that up into five banks, and

rolled all of them into the Valley Bank. He and Jim Mack now run the whole operation. I think Kramer is executive VP in charge of operations, and Mack is the number one guy, but anyway he's done very well. His mother lives in Attic Angels next to my mother so I have the inside scoop. For that matter she did very well.

Okay. Any technical problems with your projects at this point? We will be in San Francisco from late Friday till Sunday morning, so if you need to catch up with me, it would be a good thing to do that before 2 o'clock on Wednesday.

Next social item, the executive v.p. of Rancho Santo Margarita, will be talking on that development tomorrow noon at 208 Old Music Hall, for Urban and Regional Planning. Tom Zum was a graduate out of urban regional planning, one of Dick Andrew's old students, and Rancho Santo Margarita is probably the prototype example of the so-called pre development land play, in which they ultimately developed the new Levittown in Southern California, and it's been extremely successful. Many of their home sales have involved lotteries and auctions because they have more customers lined up than they have product. They'll sell as many as 400 to 500 ... (gap) that's an entire city of Madison's production. So he's going to be lecturing with slides if you want to go. So if it's not too sunny, and you want to see what I think will be a good presentation on a significant form of development, I urge you to go to Music Hall. I'm going to go, because I've gotten the technical materials over the years on that, now I'll see what they're doing.

Question: Could you tell us the time on that?

12:15 in Old Music Hall, room 208. And they're going to be talking about the development and planning issues that were involved in dropping that into virgin territory in southern California.

Okay. That takes care of that. Subject matter. Hotels and motels feasibility. We had discussed the segregation of special markets to develop ultimately a room night generation by season for each of the segments of the market. The sophisticated developer will then be able to use that to drive his other profit centers. Obviously his major profit centers will be food, beverage, retail sales, and where he is in the resort kind of mode; there will obviously be recreational services. Rental of sail boats, rental of caddycarts etc. etc. etc.

If he's been in the business before he'll have the benefit of knowing how many meals are purchased in house by his guests and to what degree they go out house so to speak. And he'll have a pretty good idea of the time sequence in which they tend to make those kind of expenditures. Economic Research Associates probably is the most sophisticated material, although there are several smaller ones; what was the name of the one Disney uses, Doug? It's a little firm up in Washington D.C. that I hadn't heard of before, who just specialized in establishing correlation coefficients if you will to sales in each of these categories back to the character of the room night mix, and there will be distinctly different coefficients for those that are there on vacation during the normal vacation season, and those that are there in convention in the off season, and those that are there for a mini-vacation in the real off season and so forth.

And it becomes quite a science which the major hotel chains of course have bottomless data bases, and have worked up fascinating models for projection of each of those elements, and then can relate back to the nature of the menu, whether they have a coffee shop, regular restaurant, gourmet type unit, or whether they have one unit serves all and so forth. Each one has established a formula that works well for them.

The result has been that they have been able to move away from the premise that all of these services were there simply to fill the room, to the fact that community services now are profit centers, and the food and beverage and recreational services become significant contributors to the overall positive cash flow available for debt service of the project.

They have gone further and found that they can manipulate their sales by how they place these facilities in the project, the images which they might use, so forth, example in the northern clime, the image typically today is one which developers fire, wood, stone and water. You need those four elements to create the ambiance of the northern recreational experience.

And think about that sometime as you pull apart a design in a ski resort or a northern resort, Even the Hatchcover restaurant is a classic example of using fire, wood, stone, and water, to establish that image, and they use all of it. The woodboard floors in the Hatchcover with the sound of heels clicking across the boards is part of the tactile and sensory input that they want to achieve. It's done deliberately. Gives you that somewhat masculine we're down

on the dock theory of the building even if you're still a hundred yards from the lake and can barely see the water sort of thing. So the ability to establish a mood, then capitalize on that with the menu has gotten to be very very sophisticated.

Economic Research has gone further and they have found correlation's in terms of temperature, humidity, particularly noise, so that the decor should be able to suck up the sound to permit conversation at normal voice levels for leisurely dining. But you know the smokers ambience of being barely being able to hear yourself talk may be part of that formula, even if they had concrete walls and concrete floors and so on.

ERA has done a lot of the original work traditionally as they were partners of the Stanford Research Institute, for Disney, and found the degree to which sales varied, given the humidity and temperature and density of persons in the park. Disney had the policy of reducing the maximum allowable numbers into their park as the discomfort index rises, and they do a great number of subtleties, for example, they found that the men all like to take at least one crack at shooting the little ducks with their BB guns going around the dock, and the women think that's pretty silly, and therefore it is difficult to do well with the ladies on your arm, so as a result it's right next to the women's room, so that the ladies, he gets 5 to 10 minutes off to target shoot. Those kinds of arrangements are not by accident. The behavioral pattern in that recreational process has been very well thought out.

Another major area of hotel design is in the area of perceived security. A hotel by its nature is obviously a public access structure, and yet you don't want the public wandering around at their whim in the facility, and therefore various ways need to be devised to discourage them, or to create impediments to their getting about. Ironically, Portman, who was highly regarded in the hotel architecture, probably designed some of the worst buildings from the security standpoint that have ever been designed in terms of hotels and in many cases you can't even use the elevators from the first floor in parts of the hotel because there is no control on the elevator from the front desk or from the front door.

Obviously the ideal is to have the doorman being able to observe entry onto the elevator at the front entrance, and the front desk being able to observe that at the first floor level, and perhaps even requiring a change in elevators so

that as you move up from parking or arrival level at the lobby level you are forced to get out of the elevator and then proceed to whatever takes you up to the room level and so on, so that when the one bell captain standing somewhere near the elevator bank, he can do a quick review of who's going up and down, and by dress and by behavior know that that's suitable for the balance of the hotel. The alternative is for example, Renaissance Center in Detroit, which has an armed guard sitting in a chair on the floor as you get off the elevator.

Has again, house police with the ubiquitous pocket razor? sticking out their back pocket, sitting there real casual as you approach the elevator zone and so forth. Generally two at a time, also said gee, the enemy here takes at least two to subdue, and if there's all these people here, there must be a problem here, and so the very security elements which are designed to create confidence in the guests in fact alert them that there is a security problem or perhaps it is not what it appears to be.

So there's quite a literature today on the design of hotel to provide security; one, from the social anomaly, and those operating with malice aforethought, two, to provide a sense of security relative to fire or other similar kinds of things, so you see much more in the way of dividing walls, separating the stairway exit patterns, much more emphasis on sprinklers and so forth. The sprinkler's often placed not too much as the best place from a firefighting standpoint, but as the best place for the customer to see that there is a sprinkler, and so on.

There's a whole psychology now to maintaining your sense of security away from home, and the sense of security perhaps in downtown locations which otherwise are not strictly just attractive drawing rooms. ?? There's one in downtown Trenton, New Jersey, which is the state capital, and this was a huge Holiday Inn that had lost its Holiday Inn franchise already, and was integrated into a parking ramp where you parked and unloaded inside the building and then checked in. I was traveling with Craig Manske, I remember in John Towers. Manske was captain of the rugby team here, very substantial individual. Summer was one of these compulsive iron pumpers, and so we came down to the desk and asked where we could eat, and the guy looked at us and he said well, actually, there's a little restaurant about 400 feet up the street, he says, with those two guys could make it, but you're not going to like the clientele when you get there.

I suggest you get back in your car, in the hotel, and drive across to Pennsylvania, which is about 6 miles away, to get a hamburger. So hotels have figured out now that downtown hotels have a real security problem and need to design so that the security controls are subtle and not apparent because it is no longer clear who is the prisoner and who is the guest. Even the small hotels today obviously are concerned with checkout times, and possible loss of their furniture, t.v. sets and so forth, and again, there is a whole litany of design attributes just for that part of the feasibility of the security of the structure and so on.

The other major element in terms of hotel feasibility is the separation of service from site. That becomes a problem because the sites typically are limited in terms of what is the preferred point of access for the guests, where the service trucks would come, the garbage trucks, kitchen gear, liquor trucks etc, all of those have to be separated for sight control, and then in addition, internally, the hotel should run without the guests being generally aware that it is in fact running, that there are great many activities, and that at some points in the day there are as many employees in the hotel as there are guests, and yet the ultimate in design should provide them each with different circulation routes, different access points, and the ability to do the job without being generally obvious about it except at the last point, where the guests and the employee have some sort of contact. The ultimate again, is Disneyworld, having built the entire theme park on top of an industrial building, everything feeds up from below, so that you don't see employees walking to coffee break down the main street, they go directly below, costume changes are directly below, they vanish when their particular act or play in the cast is completed, and all of the supplies, everything, is handled directly from the industrial building below. The theme park looks like it's built on the hill, it's really on the roof of a massive industrial building which has probably 20 to 24 foot ceilings, and there's a whole series of tunnel systems in which everything from wardrobe to food preparation to security to restrooms to employee lounges, costume changes seamstresses, everything is buried below that, in probably a five or six acre industrial plant below the theme park. Much of the waste material in terms of sheets and towels and so forth is all handled by vacuum systems at Disney World that not only move it down to the rear exit but in many cases moves the trash from building to building back to the trash processing and separation center, again by vacuum, simply to conceal all of those aspects of operation from the ultimate consumer.

The object of the project is to move effortlessly and without a density of employees - guest contact. Disney probably does that better than anybody else, although, it was really a concept developed initially by George Stadtler. Stadtler was an industrial engineer, who happened to wind up in the hotel business, and was really the first one to apply industrial engineering to the whole design concept, the service concept of a hotel. Ultimately I think he was bought out by Hilton, when he died shortly after W.W.II. And so his buildings really become the basis of the Hilton fortune, and his staff really allowed Hilton to get a considerable jump on the other firms.

The reason I'm bringing this up here is that in site evaluation it's not enough to look at traditional issues, the soil, geology, and acreage and shape and so forth. You really need to look at that site as it affects hotel design, and the necessity of separating the functions on the site, so that you don't have conflicts between employees in the service trucks and so on. And if you could look at many hotels that have not done that very comfortably. Because the developer didn't think of that at the time he was buying the site. It changes what is feasible by a very broad degree. Several interesting constraints on that as well; obviously the outside wall is the desired perimeter. Those sites which provide the greatest amount of perimeter with the least amount of inside space are probably the most desirable, in that you sell window rooms looking out. Portman's great contribution to hotel design was to realize that you could build a doughnut and use the center space as an atrium, rather than having to fill it up with something.

Various people had tried alternative solutions, Hilton tried to design a ramped spiral and then you have perimeter rooms around it, and they advertised that you can park your car at the same level as your room, even if you happen to be on the 19th floor, and so forth. There's the San Francisco Hilton which began with that modus operandi. Others of course went to the slab technique, the Hilton in Denver is a classic example of that, the international style, was it the Western down in Chicago, a good example of the slab technique in which you just have long corridors with rooms on either side, and obviously there aren't a great many sites which accommodate to that very well, and what's more, guests that get the room at the end of the hall aren't always overjoyed either.

So what you want is the maximum amount of perimeter, with the least amount of corridor space, or if you must have corridor space, at least make it interesting. So Portman's

idea of the hollow square with a tremendous atrium in the center, was a really great breakthrough for a good many architectural solutions to the hotel.

So that's problem number 1. How do you get that perimeter without creating a great deal of interior space or corridors that are too long. Problem number 2 is that base space required for public spaces is entirely out of sync with the base spaces required for rooms. The basic room module, indeed, you can almost classify the hotel by its character, by its room module. If you're looking at a Red Lion you're probably in a magnificent 14 x 34, which they do in a frame, probably the biggest room for the money in the hotel business, out in the Northwest; and when you get right down to it, the new Hilton is probably a 13'6" by 26' module, which is just basically enough room for a bathroom, closet, and bedroom area. And the ubiquitous hanging lamp over the cocktail table as opposed to a card table, and the module however defined obviously has to go all the way to the ground, there's no way to carry that over large living spaces. Therefore one of the elements is how do I pull my ballroom, meeting room, dining room, lobby areas out from under the rooms? Again, site configuration has everything to say about where you can go with your public spaces, because you really would prefer not to build over any of your public spaces.

As soon as you start going across tremendous clear spans of 100 feet and you have to carry a hotel on top of that, I don't know if you saw the Concourse when they added the governor's club, but they had an I-beam that must have been eight and half feet high on the street and about a 100 feet long, and it took the four largest construction cranes in the city to lift into place, and then that become the lower chord of a box truss. There was another one above that, and then linked together. Prohibitively expensive to do, and a very inefficient way of handling it. That's obviously because they didn't buy the front half of the block to begin with and therefore if they were going to go with a slab for the rooms, the rooms had to overlap the pool and the ballroom, and so on, and you get a lousy ballroom as well as too expensive a cost. So you have a very real problem in interface in terms of cost feasibility.

The room rhythm and structure, or module, with the need for clear span spaces for the public area. Holiday Inn obviously has those in separate buildings. You come into the Holiday Inn, the front building is one story high with a basement, the public area and meeting rooms and so forth,

and the rooms are stacked in various slabs around the perimeter.

The second element, or the next element, aside from base space and room module, is the relationship of indoors to outdoors, which is going to drastically vary depending one, on climate, two, on budget, and three, on security. If you have a hotel room with a double entry so that you can get outside to your car, directly from the room, now the question is, now do we get them to the dining room if we want to have adequate food and bar sales. If it's obviously a cold and blustery type of climate, people will go from their room door to their car, and once you got them on wheels they can choose any restaurant or any bar they want.

The alternative is to provide an interior corridor as well, and then what is the function of that corridor, simply to provide backup circulation, or will it be the major element of circulation within the system. If it does obviously you make it wider, higher, more lighted, and shorter, so that there will be various knuckles along the way for people to go to the outside, or reach another wing of the unit or whatever.

The security problem of course is in how do we control the corridors. If you are parking people outside their rooms, and you don't have a door they can get in from the outside, then you have to leave the corridors open. And if you leave the corridors open, you have the problem that people can come and go totally unobserved from the front desk. Most motels you've probably noticed lock all doors except the front door at some point in time during the evening, and you have to walk the long way or your room is directly accessible from the outside; if it's accessible from the outside, then you have the interesting problem ?? balcony on the second or third floors, if you have the right stacking. But now you have second or third floor balconies on the outside. Now you have the climate problem, figure out how to keep them clear of snow and ice, wind, ?? so forth. By and large the next stage of building is giving up on anything more than one story where you have outdoor access.

The financing of a motel is another major aspect of its feasibility problem. All the major franchises prefer not to own, only to have a long-term management contract. The long-term management contracts are rather favorable contracts, skimming at least at 2 sometimes at 3 points. Usually they get a percent of gross revenues, gross room revenues for the booking and managing and general front office operation. They also get a percentage of house

profit or distributable cash. A third area of spin-off may be that they will make loans to the enterprise particularly for furnishings bought from the parent. Holiday Inn for example will supply all of the interior decor items and a variety of other kitchen items and so forth, and then finance that, and get a percentage of income, subordinated to the first mortgage, for the providing of all the outfittings and furnishings and so forth required to make it go. And that can be a fairly expensive proposition. Notice they are making a profit centers selling them the items in the first place.

To get a franchise and management contract, most of the major names charge a fee, which is extremely substantial, anywhere from 50,000 to 150,000 dollars, checks written to the franchiser before they'll bother to talk to you. There are limited refunds available if you guys don't get together, but by and large they earn out their fee whether or not you go forward with the project. The franchise has very specific specifications as to room sizes and all the variety of other attributes which are regarded as the franchise as representing their minimum standard of expectation. They have the right to remove the franchise anytime they want if you fail to meet those performance standards or structural standards, and so forth.

Now, what about financing, given that premise that you're tied into expertise and a reservations system that will be supportive of your room nights. In hotels it is very common to use a ground lease. Generally a subordinated ground lease, with participation, but again the participation is subordinated to the first mortgage, and its participation.

Second level of financing is a first mortgage for the concrete and mortar of the building. Depending on what cycle the lenders have been through, debt cover ratios range from 1.6 on the low to as much as 2.2 on the high. Most lenders do not like hotels. Hotels have not been profitable for them, either as mortgages or as equity.

Prudential has found them to be the worst performer of any of the categories in their portfolio, and they did nothing but Hyatts. But every once in a while, funds become generous again, and they think, gee we can get rid of a lot of money on this hotel deal and they go back, and debt cover ratios fall, and they get burned again.

The third level of financing, is for personal property, what they often refer to as FF and E, furnishings, fixtures, and

equipment. Once upon a time that meant just the furniture and the carpeting and the dressers and the beds and the mattresses plus all of the kitchen and dining room items. But today that has been expanded quite often to include the elevators and the window air conditioners. Westinghouse, for example, will take back a subordinated mortgage on their air conditioners or heat pump units, and their elevators in order to get the contract.

Obviously the next thing you need to finance, is your carrying charges during the early the period in which cash flows are negative, plus the extra promotion expense of initiating the program. That's where, again, the major hotel franchiser such as a Marriott or a Hyatt or a Holiday Inn will come in and provide working capital financing at a base rate plus a participation.

Question: Is there usually an ongoing franchise fee that they charge, for example 3 percent, 6 percent? What is it typically?

Yes. Well, generally, it is so many dollars per room per night, and then there's a rhuarb is it a room that is occupied or available, and if a person isn't careful in negotiating the contract, they're going to put it per room, period, whether you filled it or not, and of course the canny motel developer will say, wait a minute I got a reservation service here and it's yours and you've been promising all these great incentives, so let's go on occupied rooms, because that's going to be as much your doing as mine, and therefore let's make the incentives positive and so forth. So there's generally a big rhuarb about that. Yes?

Question: How patient will money be. When do they want to see positive dash flow? Is there any average time perhaps? A couple of years?

Well I would suspect that it takes at least three years to get a hotel operating where it should be. Now, whether that's enough time to produce enough cash flow on the debt service is very iffy. The general experience has been they haven't seen any cash flow. The investors in the Concourse, for the last 15 years have never gotten a distribution. They've had a couple of assessments, but no distribution.

That's certainly a factor in the convention center, in that the partners are now in a position where they have taken every nickel of tax shelter there is, they're all have a negative basis, they don't want to sell, they want to trade

out rather than get really burned, or see it get re-financed by a new set of class B limited to come in and finance it. Class B won't come in unless Darryl Wilde gets out. Darryl Wilde says I want to get out at the value it would be if it had a convention center. Tony's ?? gonna say we're gonna pay you as what it would be but it won't be if you are there. So you got a Mexican standoff.

There are a lot of investors in hotels that never saw a positive cash flow. They may have gotten positive tax shelter out of it, recovered their investments plus some return (7 or 8 %) on the tax shelter. But they probably haven't seen dollar one. On the other hand when these fit, they really go. It's a fixed cost, variable revenues enterprise, so once you break across the break even point, virtually everything is coming in is a free and clear dollar. So as you move across that, say 60 percent break even point, its a money machine. So that's the trick, get it up to 75 80 percent, and this is what blows you away in Hawaii. Hemmeter's Hotel that he sold to Hyatt in Maui, was what, the average room rate, was what, 285 dollars a night, with something like that, 97 percent occupancy. They sold it for something like \$450,000 a room to the Japanese. And at that point you might as well have a printing press in the basement. So when it hits it really hits, it's like drilling for oil. Hit a gusher. You think about the one down on the square, if they would just go with the convention center, that would move the Concourse from a about 58-59 percent occupancy to 75 percent occupancy easily. Not to mention what would happen to the food and beverage sales, the retail sales and so forth, and change your average room rate incredibly.

So you would think the limited partners would perceive that, but they don't. They have been burned, and they're gun shy, sitting on their hands and saying let somebody else do it. Two tie all tie ??

Okay, the financing structure is really multiple tier, and for the primary lender, the real security for the loan is not the real estate, the land and the building. The real security is to be able to take over a going operation. So everything needs to be assigned upward. The first mortgage lender has to have assignments of the franchise which allows them to have Holiday Inn or Hyatt on the outside of the building, he has to have an assignment of all the FF and E claims, subordination of all the financing of that, financing of the working capital, and the subordination of the loan from the management group.

And that gets somewhat more difficult to accomplish unless there's some inter-relationship there. It's also not unknown that should the hotel get into trouble, the first thing that happens is that the first mortgage lender and the hotel manager decide to squeeze out the equity dollar and compress it back down again. And so the subordinated land position is wiped out, and the other subordinated positions get cut way back, and now the hotel manager and the first mortgage people have worked out a new deal to suit themselves, subsidized and supported by folks who got squeezed in the process. Very very common kind of deal, look who controls the property manager? And to what degree is his contract seen as a requisite of the mortgage. If there was something you did to the property manager that would allow him to fold on the contract, but the loss of the property manager also was a breach of the covenants of the first mortgage, you could get into an interesting little false war going by management deliberately default on some aspect of the contract and that will give the holder of the first mortgage opportunity to blow the whistle and foreclose on the inside. That has been known to happen. Relationships typically through the ..

[END OF FIRST SIDE OF TAPE]

...the major insurance company or hotel manager, are not as good nor as long lasting nor as competitive as the one between the first mortgage lender and the hotel management group. Now there's some that don't have to pay any attention to this distraction. Developing as Holiday Inn on the Middleton thing, currently owns something like 26 Holidays Inns, and finances his new project each year out of cash flow. So that avoids all these complexities. You have a few successes behind you and just go ahead and do it. And if like it when its done I'll keep it, if I don't, I'll sell it. And go forward from there.

The problem of course with the financing structure is that it compromises the design. To secure your franchise and particularly your secondary lending for FF and E, you're going to be required to buy certain items, use certain suppliers, use certain elevators, and certain elevators often have relatively high maintenance costs. Indeed many elevators will do anything to get their elevators in the building, if only they can get you to buy their five year maintenance contracts. They'll make more profit annually with a maintenance contract than they did on the entire sale and installation of the elevators. By the way to get

yourself into an interesting work out position, on a construction project the first places you go and lean on are the elevator people. And hold the carrot of the management agreement as long as there's a rollback, given your dissatisfaction with their installation and so forth and so on.

And you can generally get some fairly major investment by the hotel management companies to correct the deficiencies in the system, as long as they can protect that management agreement. Obviously the elevator, the FF and E, the other types of accouterments that come with that may not be most stylish or best suited for the design, or not best suited for long term wear and life cycle costing, but nevertheless you take what you can get, it comes with the financing.

It's almost as if they're the only retail store in town, you buy what's on their shelves, and they'll be happy to carry you for some time. Oh, I forgot, on the other side, we were talking about subordination and working back to the first mortgage, the other thing you have to pick up are all the operations, licenses, bar licenses, business licenses, retail licenses, food licenses, all must be assigned to the benefit of the lender. Without any one of those you have not taken an operating entity.

Seven years ago when the Concourse got into difficulties downtown and were unable to meet some of their early payments on Prudential's loan, why, they eventually had to go to Chapter 11. But what they had done was, they had missed three or four payments, and then got new management, and turned it around and were doing quite well, Prudential decided they'd rather own it than lend on it, and so they refused to accept tender of the payments in arrears, and related interest and costs, and chose instead to foreclose on the property, which then caused the partners to go into a Chapter 11.

When it finally got into court, the Chapter 11, the judge's basic decision is, if we can sell the property, that is, pledged for at least as much as the claims of the creditors, we sell and we wipe them out. If on the other hand it is apparent that the creditors are better served by allowing the building to operate and throw off cash over time, the return of the principal is better, then they will allow the business to go forward as re-organized under your conditions.

Prudential came in so, but their appraisers keep -what's the name of the guy who wrote the book, not Brenner but his

sidekick-anyway, it was kind of fun listening to him testify, very slick manner, as to the appraisal of the hotel, etc. etc. etc. and then was our turn to demonstrate that Prudential has never filed their right of preference of subordination papers on any of the FF and E and so forth, so in effect what they were really selling at the auction was the Concourse Hotel, stripped of elevators, window air conditioners, furnishings, carpeting and so forth, nor did their mortgage cover working capital, reservations already booked, they weren't even entitled to the name Concourse.

They would get a scorched earth building, which when you appraised that, was worth \$4 million, rather than the 12 or 14 alleged by Prudential. The judge confirmed that they had not in fact protected their client. And that was in fact is what they were entitled to sell at auction, and therefore deemed it appropriate that they go forward on the reorganization to protect the creditors. And the final coup de grace was when they attacked our pro forma, and the fact that our advertising expense tailed off after the second year to virtually nothing, and they wondered why we were permitted to do that and we were able to read the chapter in the book by their own expert which indicated that after the first two years, institutional advertising was no longer effective or efficient for a new hotel, and therefore should be discontinued.

Always fun to read a book by the other expert and use it against him, which is a good reason for not writing any books. (laughter) But, anyway, the hotel field from a feasibility standpoint is a fascinating area, and trying to find the balance between all of these various elements and come up with a successful formula for a feasible new hotel is quite an art form. Obviously the advantage to the developer looking for something to develop is to go with the franchise group that have already presumably worked out that balanced formula, provide the blueprints, provide the marketing strategies, provide a program, which he can certainly adapt to a particular location.

And the market's getting very niche-y, in terms of price, degree of service, size of room, so forth and you can move from a Motel 8, all the way up to Shangri-La out of Hong Kong, but in any event, you will not want to do that alone. An element of feasibility is sufficient inside depth that you acquire by paying for the franchise, so that you're likely to have a formula and a program with which to market the hotel. Okay, we'll quit for now, my voice is going down (end of tape)

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Lecture 13-2

A couple of summer internships with Charles Sutter and Company out of Gettysburg shopping center developers. I think you'd like their style, uh, for developing in niche downtown light development project. (Reads from brochure?) ?? compiled in summarized made the commuter obsolete and seat of the pants And then you go through the kinds of research and, let's see, what am I going to do. Brad, you want to put that in the back in the summer internship file and anybody from Gettysburg, Pennsylvania or thereabouts.

Question: Is that the Baltimore, I've heard he goes toe to toe against Rouse?

I don't know how long, how many rounds you can do that (laughter).

Okay. Let's change up behavioral research, and housing research, one school of thought in social research, is that we can observe what people have done and then assume that in the short run they'll probably do that again, or not, assuming they ?? achieved some level of satisfaction. The presumption is you can only predict future actions from past behavior. And it further applies you will never know what the real stimulus was, you only know what the response was that was manifest. And there's further indirect implications of that, if you ask people why they did what they did, there would be a tendency to justify after the fact by rationalizing or ??. Or perhaps deliberately or unconsciously ??, which may be true. There's another school of social research experiment, that suggests that ?? motivations that are impelling actions, are relatively subtle emotional needs, and that the decision process for example, of trading off a bathroom for the family room, simply a smaller part of perhaps a value system that's operating within the family, and the argument runs among some of the better home builders, particularly, and now on the office buildings as well. But a marketing strategy really begins with capturing the essence of what the emotional needs are, that, impel them get over their inertia and to change location, go to the effort of search and moving, and committing and often committing to costs which are considerably higher than their previous location, and where they tend to avoid certain aspects of a project, which don't provide the satisfaction they might otherwise have sought.

As a result, political psychologists are studying are taking more of a part in the marketing of larger real estate

projects than you might believe. Some of the first work was done by a man named Isaacson here in the state of Wisconsin, who was a lake lot developer, a relatively simple gentleman to begin with, who was an earth mover, with a pile bulldozers and Euclid's and so forth; And the first couple of lakes he did were simply piling up dirt, building a dam, and ultimately selling off the lots around the lake. As he became more sophisticated at it, he realized that he was a curious phenomenon, people were coming out, buying his lots, without even searching for competitive alternatives, and the great majority ended up buying a lot that had no history of being into the northern Wisconsin motif with fishing, hiking, and so forth, and therefore he began to interview after the fact, why people had done that.

And discovered that buying a lake lot, particularly as he became more sophisticated in his product, was really a method of one), providing a socially acceptable rejection, and two), forcing the family to come to grips with itself and its own individuals again. That the urban life had created so many demands or strains on the family unit, that if the family had children, and they were moving into the seven or eight year old range, mother was basically afraid that perhaps a bond between kids and father hadn't been established well enough to get them through the junior high school stage, or the teenage stage, and mother was perhaps a little doubtful as whether the bonds between her and the husband were as strong as they might be as well, and by embarking on a joint project in the north woods, ---- building a cottage or having one built, camping out on a lot, you tended to isolate the family as a unit again. Left to their own resources to entertain themselves and take care of themselves.

And if we talk about the childless, empty-nesters, again, they were finding it difficult in the urban scene to reject the usual pressure of a circuit of suppers, and bridge, and parties and so forth, an acceptable rejection of that was to say we would love to come and play cards with you on Saturday night, but we have to go the house to pull up the pier for winter, or put on the blinds, or ?? or whatever the case might have been. As a result, people were beginning to attach certain romantic and somewhat suppressed viewpoints as to how the family unit might be enhanced and protected against all of the social noise and functions of the urban area. And once he really discovered that his marketing and his advertising were absolutely devastating. The ?? subtlety played on that role of father establishing a bond with mom, having a role in that, so that the normal family dichotomy of dad saying wow, let's get a place to go fishing, and mom

saying who wants to camp out, and wash dishes over a fire, it's tough enough washing dishes with a dishwasher, was greatly suppressed. And Isaacson did a very beautiful job of that.

Eventually he got so sophisticated that he did a program, a project, out in Donner Pass area of California, which was primarily for pickup camper groups, but it had five levels of wilderness experience, with driving your Dodge power unit onto a concrete pad, and plugging it in, roughing it accordingly, all the way to a point where you walked on a carefully manicured trail back maybe a mile, two miles into the hills not too far from K2 and Tahoe, and father and son could then have a man to man camping experience in a relatively, semi-private, carefully shaped within the rockcamping area, without fathers having to worry about having a cardiac arrest by running up and down the mountains, and disgracing himself because he got lost trying to cut through the woods to find the spot.

The fact is, that 90 percent of the people who would like to go camping, or would like to do those kinds of somewhat romanticized mountain things simply have no background in it, no experience whatsoever. They're a danger to themselves, and recognize that. If you can give them the illusion of that experience, they have a tremendous market. People that identify with that kind of role-playing. It's been extremely successful breakthrough in terms of consumer psychology, and the inner insecurities which either prevented people from buying recreational real estate, or because you had solved those problems allowed them to tippytoe into something that was a new experience.

We've already talked about shopping centers and their psychology relative to layout of the shopping center. Rudyer?? is another one we've talked about, was very early on ten years ago, doing psychology about the ego of the yuppie, and finding that there was a high correlation between clothes design, automobile choice, life quality factors, which later of course got picked up in more stylized fashion by the VALS system, by Stanford, and so forth, that really to pull on research that was done by individual builders. Indeed, in Southern California builders did some of the original studies in terms of what motivated people to purchase, and they devised the market into a first time buyer, and the second and third time buyer.

The first time buyer was buying utility, he wanted as much space per square foot because he felt he was being wise in

his expenditure for housing, and those kind of projects typically advertise ultimately, price per square foot, and what was included in that. The second time buyer wanted a little more sophistication, he still needed a utilitarian house, but he wanted it a talking piece, and so they found it useful to provide a sauna or wetbar or a cathedral ceiling, or some other relatively dramatic but simple feature, which people identified with the house, and identified with a step up from simply a spatial solution.

Then as you move beyond that, they began to perceive the house not as a either utilitarian solution or as a social statement, but rather as an investment. Once they begin to perceive the house as an investment, and rationalized the purchase on that basis, a whole series of things came into play, because the buyer of the house was in fact fantasizing about who the next buyer would be.

That's kind of tricky marketing. For example, how far are you from the neighborhood church. (lots of background noise) They wanted Catholics, but they assumed maybe ?? They might not have wanted 2 1/2 baths for two people in the house, but they assume the next group would want that feature, and began to judge exterior design by the fact that it was reasonably generic and acceptable to everybody, rather than necessarily a statement about their design preferences and so on.

As a result, Levitt and, I can't think of the name of the sociologist, at Berkeley, introduced a whole new level of value system research depending on which level of the housing market you were pursuing, and what kind of attributes you advertise in order to qualify your property for consideration. Territoriality has also become a much more widely understood concept in terms of bringing people either into an area or holding them in an area after they've established roots. Hall of course did some of the early work on that, the hidden dimension, got many people in building. ?? Jane Jacobs was getting at the fact that people begin to identify with turf, as long as it is small enough to be comprehensible, and that that creates a certain inertia in terms of their willingness to move away, in terms of their participation in the project, even indeed the way in which they treat the project.

For example, there's a townhouse by ?? , that's a very small curve and raising the lawn in front of the townhouse, suddenly grass was no longer part of the total complex, it belongs to that particular owner, and he ?? degree of participation in special landscaping. A certain

individuality in terms of how many units share the same hall. If you were to ask young mothers, say, if they wanted a large swimming pool, or simply a little wading pool in which 3 or 4 kids could play at one time, within sight of kitchen windows for 3 or 4 units, they'd much prefer the smaller dimensional unit, so they can relate to whose kids are whose, and the sense of proprietary control is much stronger so they can relate to a very easily defined area, defined by hedges, defined by curbs and gutters, and fencing and the other subtleties of design. And that as you do that, you enhance their loyalty and reduce the turnover, and impact their behavior generally positively in terms of ??

At that same time consumer psychology begins to characterize many sales efforts. Some type of sales efforts are designed to avoid irritating the extremist. Merrill Lynch, for example, who has a program for marketing executive homes, where the executive has relocated and so on, instructs their appraisers as they evaluate the home, to estimate the cost of doing everything over essentially in beige with a very neutral sand type color and so forth, so that the wallpaper in building number 3 doesn't offend a buyer, who is looking for a reason to reject the property anyway.

Any number of studies have been done to indicate that people reaching a decision on a single family home or approaching a decision, are not really in their right minds, and therefore those kinds of things which might otherwise leave them undisturbed and certainly not in a major commitment like that, will intervene and upset the applecart and cause them to shy away from making an offer or committing and so forth.

Dan, are you here today. I just wanted to check to see whether Dan is in his right mind too, as far as ??

So that the more that you can takes away unwitting, inadvertent, negative signals which tip the scale at that relatively delicate point in the consumer process, obviously the better market penetration you're going to have.

The security issue is again a very subtle one. Having an armed guard walking up and down the sidewalk paid for by the neighborhood association has been proven again and again to be a negative sales incentive, even though you may in fact be more secure. The attitude or the mindset is, gee, if it's that bad that we have to have an armed guard in our neighborhood, what are they not telling us about security in the area? People like the exclusiveness of passing through

a gate, but they like it for exclusivity, not for security. Yes.

Question: On the security issue, do you think that was the same in a subdivision... entrance... guard....

Well, what happens where those will work is in areas in which there are tourist areas, something of that sort, and they're trying to discourage the people who are in the area from driving through and looking at the rich folks, so they don't need an armed guard, but they do need a gate there to discourage them from entering the ??.

That's more plain for exclusivity than for security.

Question: I've seen it in a residential area in Detroit and ?? they have a

The subject has shown that this is essentially a negative deterrent that fails ultimately; once you see an armed guard patrolling your neighborhood, you say gee I wonder what I don't know here. The other security element may have to do with control. People don't like surprises, they're much more fascinated with what's the package delivery charge and what's the sort of controls are there mechanics who come in and repair refrigerators and television sets? Procedural elements which could be subverted to introduce burglary and so forth, rather than the more traditional elements of security like walls, lights, and buzzers and so forth. The procedural process is a much more subtle once and of course that can be controlled much better by design, in order to discourage encroachment. Simply because the flight zones are interdicted by the nature of the design.

Social structure obviously is another significant factor working both ways. A very successful developer in Germantown, doing townhouses, and he had two markets essentially, those that were coming out of two or three bedroom apartments with small children, and empty-nesters. And he had a rather impressive package of major swimming pools, what would you call it, a meeting house with Laundromat and recreational rooms and weight rooms and all that kind of thing in the project, and seemed to be doing very well until he began to realize that what was happening was, he was obtaining ?? two portions with a very distinctly different attitude and expectations about the project.

Those that were the family folks almost invariably bought the cheapest models without the extras, and were really

driven by monthly payment, and really resented the major monthly assessment for support of all of these other ?? facilities, since most of them wouldn't let their young children swim in the big pool anyway, and found it a nuisance to have to explain to their kids why they weren't going to take them to the big pool right after dinner, or whatever.

The empty nesters on the other hand were looking for an environment which would accelerate their social acclimation to the Milwaukee area, many having moved there for jobs and so forth, in more cases than not, the woman did not work, and therefore wanted opportunities to meet other people. Therefore, the Laundromat next to the living room card playing area was ideal for her to linger while doing her wash, hopefully make eye contact with other residents, and hopefully make friends.

In one case when we surveyed some of the people there, the young people wanted their patio walled in to hide some of the kids toys and mechanical stuff, and the empty nesters wanted their patios wide open so that when they were sitting out it was an invitation for eye contact and social contact for them. And the result was, that he began to perceive a split and he was going to have real troubles with the homeowners' association between those that took advantage of the services to overcome their lack of social skills or social aggressiveness, and those that were there primarily as an intermediate stop between an apartment and a single family home of their own, in which economy and the ability to save was much more important. Ultimately the project did fall apart because its marketing effort, civil warfare within the group, in the homeowners association began to become more apparent.

The other element of intuitive psychology as demonstrated of course by Schidler tomorrow is understanding the essence of the business and what is it people want to do. As Ryder says, his market wants to make a statement with their house like they do with their clothes and their car. This is all what he's doing in the ad he said, essentially people wanted to consume a weekend, anything we can do to help them consume a weekend without becoming bored, in fact, creates a customer, and customer who will spend more per day at the resort, on a short weekend, than he would ever think of spending if a spent a week at the same resort.

(Aside: Put it way up on the board...)

The consumption of a weekend begins to dictate the entire layout of a resort or marketing program. For example the Abbey began to think about where to put their retail elements, the initial reaction by yours truly was, gee, having pedestrian traffic through the major part of the lodge is, you should probably put the retailing up front. And the director says no, what we really want to do is spend some time getting there. And then, unlike retail which needs a lot of visibility in order to get people out of their cars, in this case we want the retail to be hidden, for people to discover it, we want people to be ambling through the resort, looking at the marina one moment, and the activity on the tennis courts at other moments, and then come around the corner and discover a dress shop or an ice cream shop or something in general or whatever. And not sight up the whole story at one time. And if you look at the major resorts you will find much of their stuff is laid out in that fashion. You're allowed to see little bits and pieces at a time, but not always at once, so that the guests still have a few surprises, a few corners to turn, a few more minutes to spend ambling around, becoming oriented to the resort. Each of the various kinds of businesses have some element to that, whether it's the restaurant role playing, which is also having a great deal of psychological study, consumption of a weekend at a resort, making a statement with a house, in many ways simply try to depersonalize the office. Office building developers that double pad their carpets, put in heavily polished wood, spend a great deal of money on cast bronze or cast brass door things, so that everything that you touch and so forth gives you a special tactile sensation.

And go so far as to pay for the smell of fresh grass on the sidewalk as you walk out up from your parking area, may in fact have other more macho, tobacco smells in the corridor, you know from a pipe and all that, and they virtually play on all of the senses, and that type of psychological study goes on primarily sponsored by major developers and builders. It really becomes part of their learning curve and part of their industrial bag of tricks, that distinguishes them from the balance of the group.

The outside feasibility analyst really has no chance of that at all. Occasionally he will stumble on that and have access to those kinds of studies, but it's pretty difficult for the outsider to do feasibility marketing work at that level.

A couple other elements. For example, what kinds of sales images create confidence in those that are going to buy or

lease? We've all heard stories about the car salesmen, car dealers, that design cars with doors that will slam and sound solid, so that no matter how badly the rest of the car is built, the door will always slam with a good solid noise on impact. In fact they may be sheathed to create specifically that kind of noise. So there may be other elements which create confidence, or which may detract from confidence. For example, in dealing with the elderly, do you want someone who's 25 years old and bubbly and so forth, giving Ma and Pa at 70, or a gray-haired lady at 55 have a better rapport, and if she in turn was from the same country club as them, perhaps a widow prematurely, or someone who shared basically the same social connections as the market you're trying to reach, which one would establish contact sooner?

There's a good deal of thought put into that kind of credibility And the halo effect. Who said it? Who endorsed the project? who. That way you mentally attach the project to some other element. Disney certainly is the classic example of using the halo effect to establish credibility for their project, and protecting that halo effect obviously very carefully as well.

How do we recognize the customer role playing that may be going on? Where's the maximum point of susceptibility? Point of maximum frustration in which this is perceived as a solution? Most golf clubs are sold to the guy who just had his worst day on that course. The implication is that you've got rid of that crummy old \$300 set of clubs, and moved up to this \$1000 special that their game would be a lot better.

By the same token, if you look at golf courses that have succeeded or failed, the Robert Trent Jones Golf Course was disaster for a resort, because everybody who has an image of themselves playing in the 40's, goes out and blasts through at a 150 for 18 holes, and by the time they come back for the evening meal, their day is ruined, their self image has been confronted with reality, and as result they don't have a good time.

You're much better off having a relatively simple golf course that looks good, but plays easy, and that people can come in at that their normal 80 for 9 holes, why they've had a successful golf game, relaxing day, and its more conducive to drinks and food sales and the general family ambiance for the rest of the day. What's the maximum point of frustration? Where do we test our bets?

Finally, what kind of medium reaches the customer most efficiently. The newspaper is obviously is a very inefficient marketing tool for a builder. You have only five houses to sell, and you have to advertise in 500,000 newspapers to do it, the cost of advertising per home is ?? out of line with the total sale. So what other mediums are there? Direct mail. Personal contact. Neighborhood newspapers. Your friendly real estate broker. Perhaps just that plywood sign out in front where you have a strong drive by market will be most effective in reaching the people that are in the area, cruising, looking for housing. In fact, I think I've seen statistics that about 35% of the homes that are sold are sold as the result of a sign on a lawn or the sign announcing the subdivision model home, and people just cruising by accidentally at that point, largely because they're interested in the general area, and want to see what their options are. The haven't decided whether they like it, all they have to know is that it exists, and perhaps that it exists within their budget, or has some minimum number of rooms, like 3 bedrooms as opposed to 2, or whatever.

Given that very minimum level of information, they'll decide whether it fits their particular problem solution or not. But in any event, the builders are getting much more effective at that kind of media and they're doing much better with point of sale advertising and doing much less with newspaper advertising. Television advertising, again, has not ??...too costly unless you have a condominium project or something of that sort, and you have a highly efficient marketing program for a limited period of time you might do television. But I don't think that there's been a great deal of success in marketing real estate with television. Greg.

Question: In southern California, in the LA area, you can turn on your radio, a.m. dial, and it describes the housing.

Oh, when you're parked out in front of the house, each sign has a little transmitter. Yes we have that here. Kind of a neat idea if you think about it. What it does is it cuts down on the telephone calls to the real estate broker that don't go anywhere, just tie people down. ?? to look at the house anymore they don't bother the broker.

The research in this area of consumer values of how we get the message across is being done by rather interesting kinds of companies. One, are the architectural firm that do the mass design for homebuilders in general. Charles Lester? and his group, have done some very innovative research

studies in this area. Lester was in home architecture, has since become a market research firm. It's being done by materials suppliers ?? and what's the name of it, not plywood, composite, not John's Mansville. Weyerhaeuser, have all done a great deal of this type of heavy-duty consumer motivational research to find out what color sketches and materials provide consistently the most desirable motivation and image for the property.

Again, most feasibility analysts don't take the time to discover where these are, and hopefully generalize to this particular area. I think they handed out the Home Builders studies for this year. I haven't handed that out yet. OK, it will be coming shortly. Homebuilder's view of what buyers are looking for, and looking at, first time buyers, second time buyers, third time buyers. (lots of talking) Just came out. Anyway, look in your notes, I'm sure you have it somewhere.

A few appraisal chapters in various communities are now starting to do those kinds of studies in terms of how people relate different sections of the city as comparable or not comparable, subdivisions as legitimate alternatives or substitutes or not, because obviously quite often the appraiser is choosing a comp. from what appear to be nominally the same type of subdivisions, but the buyers are not so likely to regard them as equal alternatives at all. As a result, both studies are becoming OK, I'm going to quit right there as my voice is rapidly fading.

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Lecture 14-1

..by quarter of seven, so be at the memorial union by six thirty on board the bus Frank Dunbar is buying lunch. Chinese ...the intentions...before we start out on downtown adventures. Minneapolis .Pardon my voice, .its

Uh, looking at schedules, the Monday and Wednesday, immediately after the...where they are on their project, what May 3, May 2 is a Monday, and May 4 is a Wednesday, so I will call on teams at random so you can all be prepared on Monday. to look at all these...otherwise...(lots of noise)

Question: for tomorrow and Monday, the 2nd and 4th of May.

Yes.

Question: Can you give us a brief outline of what you are looking for?

Hey, it's your problem. (laughter)

OK. More and more the political feasibility of the project is based on the fiscal feasibility of the project, and the if you will equitable sharing of cash flows from the project, and how do you in fact get the funding for the total project. I was talking to a lawyer in Washington DC representing the Carley's classic case in point. Carleys entered into a contract with the City of Newport New, in effect to develop downtown Newport News, which has to be somewhere ... if you were looking at the ten worst downtown's, they'd finish in the top three easily, and all sane citizens had long since departed downtown Newport News.

A master plan was prepared...ultimately won the development, and it called for a courthouse to be constructed by the city, constructed by Carleys and leased to the city, and the courthouse was going to be tied to an office building which presumably would be backed on the class A office market, and there were to be then a number of other service retail, kinds of things, a hotel, the Newport convention center which is intended to solve every problem in any community, and finally a luxury apartment building, and a moderately priced apartment building was to finish this fairly intensive high-rise multi-billion dollar project. And they started with an apartment project, partly because the immediately adjacent facility to downtown Newport News, which may also explain why it is what it is, is the nation's largest shipyard, and the only one qualified to build aircraft carriers and similar barges, and as a result it is a very rich town in terms of defense dollars pouring in steadily, and the people that are involved in the subcontracting were presumed according to their studies to want to live close to the shipyard, because by and large they didn't live in the town per se, but commuted in for two or three days involving whatever negotiations were going on in their subcontract on the deal and then out again, so many of the luxury apartments were leased by corporations as a place for their people to stay as an incentive to get their people to go to Newport News, which is like getting people to stay at the Holiday Inn in downtown Gary.

And so anyway, they started building the luxury apartment building, and were just breaking ground on the courthouse, when one of the local legislators who felt that the city had kind of had a bad deal on the courthouse, passed a law in the state of Virginia which said essentially that all county

courthouses have to be owned in fee by the county. Now the reason it looked like a bad deal was that everybody didn't realize that the apartment project was a loser, as was the office building, so the city was subsidizing the office building and the apartment building by paying an excessive rent on the courthouse in order to get the cash flow up there to a point where they could get the project underway, hopefully get the momentum and get more favorable financing.

So anyway, Charlie is building along happily on the luxury apartment building, and the city pulls the rug out from under him and says, oops, we're not going forward with the rest of the project. We've thought this thing over, we'll put the courthouse out in the suburbs, and leave the rest as it is, so he now owns a luxury apartment building in downtown Newport Beach, totally surrounded by the worst kind of town property, and quietly bleeding to death. So he's suing the city to either take over ownership of the apartment project, and figure their problems out for themselves, or an award of damages for all of that.

The classic example of financing off the fiscal impact of the project, and then having the honeymoon between the municipal and private consortium, pretty tough. But nevertheless, more and more projects are done in that fashion, and therefore you have some sense of different ways in which to tap in and justify public funds through the positive fiscal impact of the project. There's three levels of fiscal impact that play a part in feasibility studies. One of course is direct revenue earning relative to service costs.

The model that you all saw in 550, the board of education gets a 100,000 dollar loss, but it's what it cost to educate the kids brought in the area by the project. The second type of impact would be called time lag revenue, in which there is a delay but ultimately the initial investment engenders additional investment and that time lag is a little bit like Reagan's theory that you have deficits now but the increased supply will undoubtedly produce surpluses later in the budget. But nevertheless, it is possible.

The third is a shift impact of cost and benefit on the secondary use. For example, the street works fine now, build your office building, and you will now have congestion to a level where those that have been there for some time will now find it unacceptable and the real costs will be felt by the property owners, property values decline, as a result of the congestion and inaccessibility of the previous property as a result of the new one. And we want to take a

look at each of those in a little more detail, and how they can be manipulated into financing.

Obviously the city's expectations relative to public service costs, are going to a function of the same absorption rate, and the same capture rate assumptions as are driving the developer's project. Today's sale, is tomorrow's customer for city services, and the new tenant that moves today is the one who is going to expect city parking and garbage collection and all the other things tomorrow and for the next fifty years.

So as a result, the rate at which their problems come rolling down on them is the same rate at which the developer's marketing success is perceived. So you begin with the same point of departure. Obviously the real estate itself provides one, new taxes, and hopefully the tax base will be something less than the service cost the project involves. As we've already seen under TIF for example, that tax base is one, bankable, it can be committed directly to debt service on municipal bonds with which to provide public subsidies of public infrastructure and so on.

However, the public is getting much more sophisticated than they once were; TIF was once originally intended to provide streets, the sewer, the water, and the public parking and the other types of things which presumably made it attractive for a developer. The next step was for TIF to actually be involved in the acquisition and write down of the assets. Once the site was selected, the community development authority would acquire the site, and sell it to the developer at say a million dollars less than they paid for it, and the TIF funds were then used to bank the deficit, so that the CDA was paying them off, and repaid their short term loan, and then the fund collected from the tax increment amortized the million dollars.

More recently however, they've gotten much more clever about the use of TIF funds and the exploitation of that fiscal benefit. In Minneapolis for example, the TIF funds can be injected directly into the income stream of an FHA insured multi-family apartment building, so that the cash available to meet the mortgage payments is adequate, and at the same time, the residents get a shallow subsidy in terms of their rent, since the rents plus the annual TIF element are available to meet the debt. The presumption is that over the 15 year span of TIF funds, rents will gradually rise sufficiently to supplant and replace the available TIF. The alternative is where they're going to have condominiums. This is where they get the most bang for the buck. You take

the TIF funds, use added grants or HODAG grants or some other type of capital tool, and put them on reserve at the savings and loan association, you give the savings and loan association a deposit of zero cost of funds, they then match it with an equal amount of their funds, so if their funds are costing them 8 percent, and they put 5 million and you put up 5 million, you now have a five million dollar loan fund that essentially has a real cost of 4 percent, and that they have to get a hundred and fifty basis points for administration and retainage and so forth, they can now make loans at 6.5 percent.

That allows you to condominimize the apartment building, and virtually double the appraised value and therefore the real estate tax revenue of the property, while at the same time providing debts available at a price that the clerical worker or the relatively lower income but stable household unit can afford to buy one of these condominiums. So notice they get a multiplier out of it that way. They move the assessment of which might be say 30,000 dollars per apartment rental unit, to 60,000 dollars on a condominium. It finances the increment to begin with, and then second of all provides the financing that allows relative middle to lower middle income families to purchase the unit.

Second type of benefit would be to in effect, create gerrymandered districts in order to concentrate funds on one desired project. Capital Center project, for all of its subsidies, was still alleged to be short of being solvent on its capital budget side by the Carleys and Madsen, so therefore they weren't likely to go forward with it, and the mayor's office put the position that well then what we'll do, is we'll wrap into the same TIF district the Jackson medical clinic, and related facilities attached the Methodist Hospital. And we will finance the Jackson medical clinic with an industrial tax exempt bond, an industrial development bond. Which is in a sense stretching it a little bit, I think that doctors don't really need a great deal of financial help, and therefore subsidizing them with an industrial development bond at tax exempt interest rates is a little pushy to begin with.

But by gerrymandering the district and building a clinic at the same time as the Capital Square project, which is at least three blocks away, so that they hiked the TIF, and therefore were able to presumably cover the balance. They're becoming very creative in creating and allocating tax base created by a project, to create a sense of demand for the project as well as capital funding for the project.

The reverse side of that, were beginning to see now in the some of the other communities where a few years ago the pursuit of tax base was so aggressive, the Tyson's corners and Orange County California, and so forth, had an amazing affinity for developers of office buildings, shopping centers and other commercial properties, they just put anybody in. And suddenly they discovered that the people likely to come to those places used to those, and now the congestion is such that they can really no longer enjoy high quality ??

Therefore the big issue now on the West Coast and in the Washington area and several other areas, is how do we create districts which are special assessment districts. We go one further than TIF. TIF is designed generally to create benefits, special assessment districts are generally designed to correct a flaw after the fact. If you're in that special assessment district, you may be assessed on uses, for the land area, or a variety of other measure, and the money used to correct the collective problem, the intersection design, stormwater management, a variety of other collective problems which were overlooked or bypassed in the initial rating. To a point where many developers feel that they can no longer afford to develop in some of those areas. As Downs points out, it's kind of an interesting turnabout, its generally an area in which the wealthy have created their own problems, but refused to pay for it themselves. All those that are driving their Saabs and their Volvos ?? with only one person in the car are saying essentially that the public must subsidize the correction of my inconvenience, even though my inconvenience is essentially related to me being pig headed about how I use my car. Tremendous sums of public resources are diverted to articulate players in the political game, when those sums could otherwise be invested in the lower income sectors who are not so articulate, where the education crisis and so forth doesn't seem to be causing anybody inconvenience at the top.

The special district is appearing in all manner of forms. Some areas such as the South, you can actually create your own utility district, sell your own tax exempt bonds, create your own water, sewer system, and related entities, and not wait for government to actually take political action on whether to do that or not. In other areas the community does that as a way of assessing high silhouette projects, such as along State Street and the square, where a significant portion of that is financed by a special assessment on property owners by square foot of land

initially, and in addition, the operating costs of maintaining the state street mall and square area are also assessed back on the property owner, willy nilly, so the special district may be a tool for the developers interest. But it may be a tool for the public sector. But in any event, to make the argument that ?? gains justify the special tax on those that will have the maximum benefit from the public expenditure.

Other types of service costs in many communities are also being shifted to special districts. In some cases such as New York, there are good examples of where they are in fact, funding operating deficits with long term debt, which ultimately of course is a disaster. Long term debt should be for capital improvements, current budgets should be for operating current operations.

The police and fire may have special districts and special assessments, sewer and water we've already talked about, solid waste, storm water, is becoming more and more an area in which there is special district treatment, and particularly in the South where water quality control has extremely powerful political legislation, a la' Disney for example, who set up virtually his own little fiefdom in the name of a water control district. Traffic loads, the legislation is getting really detailed on who will pay for widening the intersection, and so forth.

One of the interesting aspects to that of course is that that's always been true, but the developers don't like to see it formalized. They like to rely on the fact that they can out negotiate the public sector, or at least they think they can. And they hate to see it codified in some sort of legislation. The Dick Jacobs when he did East town shopping center ultimately had to pay for the third lanes on East Washington Avenue from Highway 51 all the way out to the interstate, as well as the fairly heavy new construction of it in front of the Holiday Inn to bring the inbound, outbound lanes level with each other, as a condition of getting building permits and so forth. That is creating a special district for that particular shopping center relative to that major problem. So in those days it was negotiated separately, today it's codified and it's an exact amount, whatever. Road maintenance is kind of an interesting phenomenon. More and more projects are beginning to keep the roads in house. Private roads with toll houses and allow them to have different widths and construction standards and so on.

Interestingly enough they also are depreciable, and provide some small benefits to the developer that way. And also more exclusive. You can from time to time, close the gates, and not allow people entrance, and can have a more contemporary integration of the road pattern and the home design pattern, than you could have if the road was in the public sector.

Cities obviously encourage this, with the possible exception of northern cities which are responsible for snowplowing and so on. It leaves them without the maintenance problems for one thing, also sometimes without liability problems, and in addition, the city knows that ultimately the association will almost always come back and want to deed the roads over and get out from under the replacement cost.

The private ownership of the road is very appealing for the first ten year cycle, the second ten years when you have to replace the asphalt and so on is less attractive. Public transit again is becoming an area of far more private subsidy of the public transit system, in exchange for transit exchanges in or usually along side the building. When BART and the Washington transit center was developed, very very early on, they did not release where stations were going to be, and the transit authority purchased land as close to the station sites as possible, so that the immediate high impact on the land values, once the public transportation was announced would go to the benefit of the public rather than necessarily to the private land owner. Obviously they weren't always able to do that, but where they could they got substantial capital gains for the transit authority by utilizing their inside knowledge to acquire the land alongside. Again, the fiscal impact of the project.

The developer and his feasibility analyst is going to have to look at each one of these possibility and decide whether one, it represents a potential problem for the developer which he has not addressed, or a possible bargaining tool for the developer. For example, let's assume that the community has a sewer and water system, with a two-phase processing plant, and it's just about at its capacity. If the community were to add on, without any immediate subdivision plans in the offing, simply because the state had ordered them to clean up their pollution, it might cost a million and half dollars to put on the third stage, perhaps new tax --- in the community might be two or three hundred dollars a year to amortize in advance the facility which will increase their capacity to a market level many years in advance.

Now along comes the developer who says, gee, I'll tell you what I'm going to do, approve my development plans, and I'll pay 300,000 for your fund, and what's more when the development is built out --- the incremental tax revenue and sewer and water funds from this development are such that the rest of the community will only be paying 125 dollars more per household for the system, rather than having them pay for the whole thing himself. That's about as clean a way to get approval for your development, even if it has some detractors and political liabilities with it that you can have.

How do we make our project pay for somebody else's problem? The feasibility analyst today has to look for these opportunities. I thought it was interesting, the convention center study by CAS, concluded that the fiscal benefit of the project totally funded by the city of Madison, represented so many dollars, of which 67 percent went to the state, and 33 percent went to the city. The state got the benefits of the sales taxes, the income taxes, liquor taxes, etc. etc. and the city wasn't doing that well at all, the initial proposal by BKF the convention center wasn't going on the tax base. They found a great way to kill the project, to indicate to them in the city they do all the work and the legislators sitting on their hands across the street benefit from that. You really have to find a way to turn that statistic around and indicate why the city will get some kind of return on its investment.

Question: Could that be that's the same kind of problem Faneuil Hall had.

Well that was a classic one in which the state government got all the sales taxes, and the city got a percentage of sales only for rental of the shell, and as a result Boston got very little out of it.

Question: ??

Well, one you are, of course trying to get the state to participate up front, and second of all of course you're trying to negotiate the funding for the deal, up front. And ?? you have to assume that perhaps secondary sources of Faneuil Hall will go more to the city, which is you know, getting a little iffy after a while, It's very hard to know your secondary benefit before the fact with any degree of reliability.

One of the problems that makes all of these very difficult, is that cities have no accounting systems. Cities by and large have no pro forma budget, no balances, some of them are now producing lists of property, so long as the personal property is \$5000 a unit or more, it might cover a dump truck, but not a little garden tractor or lawnmower. So you can really can't argue about how you're impacting the city's balance sheet, and how you are impacting their operating costs. Many of their guidelines, benchmarks, for what it costs to add policemen, or what it costs to add an additional fire truck, and so on, are extremely biased.

It's really not marginal costs at all, it's average costs. And as a result, your comparison of your tax revenue benefits relative to their service costs is a somewhat loaded comparison, unless you want to go back and reproduce the right factors. For example, when the city was justifying buying the post office, they were arguing that the police force would go to so many new people, and each of them would require so many square feet, and therefore the police department needed umpteen thousand more square feet in parking. You had to ask them, how many days a week will all the police be sitting at their desk at the same time? There are three shifts, plus a fourth shift just on holidays, and most of them are in squad cars. But potentially the kind of accounting they do where the developers are in a very difficult scrape to counter the lack of good data.

Another major problem the developer has is if he's the first in the area, and therefore many of the increment costs are incurred because his project is first, doesn't mean necessarily that someone else won't be the beneficiary if they come along later, with a second project. How does the developer arrange to be reimbursed for running, let's say the water line, half a mile out to a shopping center, and then waiting for several years as new developments tap into his water line.

Various communities have tried to create tapping fee programs whereby the developer is compensated for first five years or something of that sort as he generates new customers along the connector line. ?? is that the way Houston is, do they do that at all? You want it, you pay for it, if we benefit that's your tough luck.

Developers of course have to look for ways in which to capture the increment service benefits created with their capital, for their long term profitability. The district as I said, the special district, is one way they can do that,

and particularly in setting up a water and sewer district can be extremely profitable. That little Applewood Hill subdivision we had which had a grand total of 45 lots when it was platted. The law stated essentially that you had to have a well on each lot, or you could have five wells serving five homes, without being a public utility.

But that wasn't true if the pipe ran under a road. So that if we had three houses on one side of the road, and two houses on the other side of the road, the fact that you have a pipe running through a public thoroughfare, with two houses on the same well, made you a public utility. So we filed as a public utility, and became a water company. Applewood Hill water utility. I was the president for a good many years. In fact we are listed on the same pages as the city of Milwaukee water utility. We were right up there at the beginning as Applewood hill, alphabetically.

But they guarantee you a return of 10 percent on your investment capital, no matter how many customers you got. We had ten customers and we had a positive cash flow. You transfer your money into the utility and the utility pays for the pipes and the well and so forth. We eventually had I think two major wells the second time around. Drilled a super well and served everybody out of that. Again with the intention that when the city gets out there, people would hook on to the city. So it was built to city standards. That would produce a profit of anywhere from 8 to 10 thousand dollars a year on maybe an average. And you spend about 2000 of that on ?? reports, public utility standards for accounting. So to the degree that the developer can usurp the public function and provide his own sewer/water district, and perhaps other services as well, it can become a long term profit center for him, and really deny the community the fiscal benefit of the project.

Okay. Lag benefits. The interrelationship of one form of development to another, once you create the high school that's great, the shopping center. Home buyers now want to be in the area, means that there's an initial investment in the area, which then in effect synergistically -- engenders a second wave of investment in the area. And then secondly the further investment you have a much higher marginal benefit for the community than the first wave.

The question of course is how much, how can you get a handle on it. One aspect of the lag benefit that is a critical element in the feasibility study report is the degree to which the capital required to provide whatever public service we're talking about is a fixed cost, variable

revenue kind of enterprise. Once you drill a deep well you can serve ten houses off the same well, obviously you dramatically alter the fiscal benefits of growth and expansion.

In other cases there may be a direct one to one relationship, costs so many dollars a running foot for curb, sidewalk, gutters and so forth, not real significant functions of the economies of scale for that kind of investment versus return.

Again, the feasibility analyst has to identify these negotiating opportunities to make the project political feasible. You've got to have some bargaining chips with which to work out the variances and the perhaps the political rough spots in your project, and those kinds of what shall we call them, creative conversion of possibilities are really what makes the project go. I mentioned in here earlier a project over in Milwaukee, we are working on that has a dance hall by the lakeshore, which the entire community hates. To create a new single family subdivision in the area, requires a few tricky negotiations relative to where to put the septic tanks, and where to put the load on essentially a point where three different townships converged. And all of those are proceeding very nicely simply on the promise that if the entire plat is finally approved and so forth, it will close down and remove the dance hall. So as a result it makes the project feasible, is exactly what makes it unfeasible presently, the old dance hall.

The old dance hall isn't generating that much revenue, other than enough to cover its expenses, and therefore by maintaining a good nuisance for one more summer, now I have the legal means to acquire the desired political accommodations on the balance of the project.

Question: How are you going to do that? Are you going to buy it?

Yes. It's owned by the people who are developing the land. If it wasn't you'd buy it.

Question: I was just thinking if you could get... they might not sell, everyone would sell at the right price, but..

Well at that point you have to say what's it worth to me, to the balance of the plat. How much value does it add?

Another element that gets added is a revenue source. You can sell the liquor license which is a valuable commodity.

Shifts impact to secondary users occurs through several different devices. One of course we've already talked about, the physical impact of the project on congestion in areas, other undesirable spin-offs, which mean the adjacent the property owners have some significant valuation loss. But the second type of shifts impact on secondary users is again the result of gerrymandering the district, so that you can incorporate more people that perhaps wanted to be in the special assessment district, wanted to be in the district, into the total area. Good example. West Towne shopping center was outside the city of Madison in the town of Middleton, and shopping centers must have class II city fire departments, because the susceptibility to fire storm and other such ?? catastrophe, requires a professional full-time fire department, as well as a city water system. So they had to annex. Well, the initial benefit their annexing is of course the tax base for the township of Middleton will have to pay more if they are going to cover the same set of circumstances. But in addition, the city tried to say

[END OF SIDE ONE]

gee, since we vote acres on an annexation, and here's a hundred acres that we are bringing in voluntarily, with only 2 residents on it, the family that was selling the land, why don't we find 99 acres in the immediate neighborhood, particularly at that time Seybold road, which was in the town of Middleton, and which had a number of small businesses on it that located on it to avoid Madison taxes. So they draft the annexation district around people who vote, and they other thing they thought they had a bright idea, was why don't we wrap it around Holy Name Seminary, and get a ruling that all of the monks in the seminary are permanent residents, and therefore they could vote too, and the seminary would get city water and sewer, because their septic tank can be used as ??.

And obviously therefore ?? all their meetings with residents in the township of Middletown after their tax base was all openly distributed now. In this case the couple that was selling the farm to Pennies refused to vote and participate at all, if it meant stripping their neighbors in the township of Middleton of the ?? tax. And ultimately, the annexation was limited only to the actual shopping center site, to the fury of the city of Madison, and a rather amazing historical note, as to the integrity of two people

who should have come home, but who weren't about to shift the impact of there easement ?? on all of the other property owners.

Quite often the feasibility analyst ignores that and of course, all of a sudden to the public hearings, comes a group of irate and emotional citizens who have quickly perceived the negative impacts on their budget and their value, and again, the feasibility analyst is there to identify for his client not only those who have presumably effective demand for the project but those who have an interest in preventing the project. To do one without the other is a great disservice cause you are just marching off to be slaughtered at the first public hearing.

Some projects obviously deliberately having identified adverse impact of that sort, try to neutralize it immediately, by meeting with those neighbors and finding out what it would take to correct what they perceive as the damage; it might be a ?? , it might be adding park space to their side of the project, creating a buffer, and undoubtedly they can be co-opted into the program, if you get there soon enough. Once the project becomes a public issue, the demagogues will keep you going without any necessary rationale.

The last item on which we haven't touched at all is the school tax. And the welfare load. The welfare load has worked for many years as a very local phenomenon, more recently in Wisconsin we see a move upward to the county level, and some of the funding comes from the state level. So that a ?? has less immediate impact, but nevertheless, the response, for example, to a trailer park, the response to low income family project, and similar projects such as halfway houses and so on, always run into what either what the welfare costs will be in that project in terms of supplemental benefits provided by the community, over and above the ?? subsidy, and two, the introduction of the social anomaly into what they perceive as a superior neighborhood, and the perceived threat that adds to the local revenue.

The sad thing is the Wisconsin Housing and Economic Development Authority, how often you would begin with a project in which thirty or forty units would be elderly, thirty or forty would be single family townhouse low income, and pretty soon the city was looking to have a 50 elderly and 20 family. And pretty soon they decided that using HUD's own language, the welfare impact of 20 units in one area was unacceptable, therefore the units should be

disbursed into 5 four unit sites. Knowing full well that weren't any four unit sites in that community; or the expense of operating would be prohibitive.

They made the argument on a different basis than the welfare load right up front, but ultimately you have to explain carefully the income characteristics of the family, the education level, family status for eligibility, because in most sections of the project, you were talking about middle class people that were firemen, policemen. And none of the section 8 funding in the suburbs ever reached the low-income family, the income eligibility limits were too high, and developers obviously with a bias in tenant selecting towards the upper end.

The school tax matter is a fascinating area of model? As you know, each community today is trying to find some balance between dependence on the real estate tax and dependence on other sources of revenue, either at the county level or the state level, or even possibly at the federal level.

As a result of the Old, Old Torano case ?? which said essentially that a child does not have equal opportunity if his education depends purely on the real estate tax base of his community, that Beverly Hills residents have considerably more tax base than Watts per child, and therefore that is not a constitutionally equitable definition of equal opportunity.

In this state, the state assistance is inverse to the number of dollars of assessment base per child in the community. So the less assessment base you have, the more state aid that you get, and of course they want to push that forward considerably in various arguments for tax reform presently.

Obviously the cost of educating children varies as to whether its elementary, junior, or senior, and the migratory patterns of households often shifts from one school district to another, as their children move up the ladder in the various school programs. So that many communities which have very much enlarged elementary school districts, may not have very much demand in their junior high district at all, because they're all starter homes, and people move into the next community south for their second home.

The demographics of your family household mix, how many kids will be in the various elementary schools, what it costs to educate those various levels, and the impact of your project on the ratio of tax assessable dollars per child, all will

have some impact. There are communities which now welcome a trailer park, simply because it adds almost nothing to the tax assessment base but it sure adds one hell of a lot of children, and as a result the ?? is too late ?? relative to the alternative ways of manipulating that system.

By that same token, an interesting constraint on TIF at the moment is that TIF properties are taxed on the increment for a diversion of revenue, but the total increment is the improvement in the tax base for computation of assessment base per child, so as a result, the amount of savings the community gets goes up as they use more TIF. That means the amount of school aid base that they have goes up, and they get less school aid, and therefore the city of Madison, for example, computes that into the overall ratio of benefits for the use of TIF funds, and attempts to replace that money with the school board fund prior to tax revenue, realize, you got a 100,000 dollars of tax revenue increment, that is actually going to cost you 5000 in state aid because of the shift.

They would borrow only 95,000 and transfer the other 5000 to the school board, so that the school board's interest is neutralized rather than being negative as it is in so many communities today. So once you get into that the algorithms that go with how many dollars of state aid, federal aid, and the cost by various ?? groups and so forth, why, you get into some rather interesting studies as to what is the proper mix of residential units for a particular project. Okay, I'm going to stop.. My voice is going. That part of my voice which seems to be fading. We may not go the distance here.

You were talking about open end versions of funds. And

We had pointed out the first problem was that none of the major funds --- on accounting principle as to how to report cash flows or net values of the assets. That article by Miles and Eppli, I think, itemizes some of the problems, but they break down into three basic kinds of problems. One, when to capitalize and not accrue and not amortize, when to capitalize and amortize, and when to expense, capital expenditures.

And parallel to that on the operating statement is do you use cash accounting or accrual accounting on the operating statement? And number two, where do you treat the short term reinvestment in the property such as commissions, tenant improvements, and deferred maintenance, which are

funded out of earnings in part, and sometimes funded out of open or closed end money funds in part.

None of the funds has really addressed this directly, because none of them have really defined what it is you're trying to report. Accrual accounting reports productivity of the assets over a long period of time, so it gives you the best measure of return on capital, which is why accountants have actually developed it. But on the other hand, if what you're really trying to do for the investor is produce distributable cash and increments in their net worth, then, the question is, do you want to use strictly cash accounting, even though it produces a somewhat more unstable, irregular result. What drives the accounting process presently, is how they feel the investor managers are looking at the real estate contingent and for what purpose.

For example, if they felt that today's emphasis, now that people are somewhat disenchanted with relatively rapid rates of inflation, expectation, and so on, is really to measure a cash on cash deal. Then they are going to be much more interested in those kind of accounting techniques which show the most cash return, and as a result, they won't amortize capital expenditures. What's more is, they'll add the capital expenditures on the property, let's say they're doing a shopping center which at the beginning of the period has a loss of 6 million dollars, they spend a million dollars on the shopping center enhancing it, remodeling, refurbishing it, and so forth, they would simply add the million dollars to the six and end up with an asset worth 7 million dollars, which, if the reader isn't alert, doesn't realize that really what happened was that the cash account for the open end fund or the closed end fund went down by a million, and the other end went up by a million. And now they don't amortize it. It's as if the asset will be there forever.

Theoretically of course, at the end of the year, the independent appraiser will come in, and if he determines that the asset is worth now worth ? million dollars, what has transpired of course, is that there has been a 500,000 dollar improvement in the property, and 500,000 of deferred maintenance.

But the fund is not obliged to go with the independent appraisal. It is a guideline to the investment committee, but it is not binding to the investment committee. There's probably one fund, New York Mutual, which was down by the outside independent appraisal, the investment committee did

not override that, that became the top dollar price that they could have on the asset until the following reappraisal by an independent outside appraiser.

Only one fund. So as a result, they determine, one, their accounting rule, and then two, they decide whether the appraiser is truly reflecting their perception of the value of the asset or not. They can override their appraiser, ?? If the objective of course is capital appreciation, they simply have to change their net income multiplier for the current year's operation or however they wish to value the property, and instant appreciation. All on a very rational and consistent, but not necessarily one which is consistent with the public viewpoint that open end funds are ultimately constrained by independent outside appraisals. Simply not so. Because they are not constrained by it, they aren't very willing to pay very much for it, New York Mutual obviously has a very real vested interest in getting the best appraisal they can, since they're going to have to live with it.

But otherwise they simply want to have an independent appraisal in the files that is reasonably supportive of whatever position they took. And so many of them say, 3500 dollars...for a major, you know, 100 million dollar office building, appraisal. But if its really going to be done for something like a ?? then an appraisal like that would be anywhere from 45 to 65 thousand dollars in order to do that type of work.

So the question is, what kind of data are you getting from the appraisal process, for the accounting process. The closed end fund of course is not to that point. Markets against that, suggests that, we don't know it's worth till it's sold, an existential viewpoint. Everything is becoming, that sort of thing. And at some point you sell the asset.

In the meantime of course they're interested in producing as much cash as possible, they pay cash dividends, they do not reinvest their earnings, and try to demonstrate that their cash on cash yields are competitive and at the same time the ultimate resale price is somewhat cloudy and murky so they don't have to demonstrate that they are doing as well as the other.

The reports by all of them never indicate what the fee structure is, the returns in a cash on cash and the annual changes in asset value are all reported before deductions or fees.

So they never reveal the net to the investor. There are two schools of thought relative to the fee. Banks tend to go with the tradition of a flat fee to the management, generally 1 to 125 basis points. 80 million dollar portfolio produces just about a million dollars in revenue for the bank.

For the bank, unfortunately, gross. From that then you have to subtract what they pay their asset managers, and center companies, board, and so forth, but nevertheless, very handsome rate of return on what is essentially, what, a 100,000 investment. --- wholly-owned subsidiary at the outset, and they get their payback at least once a quarter, let alone once a year.

Others have moved towards a system which recognizes there are different levels of intensity required of the asset manager, and we're talking about the asset manager, not the property manager. They generally get somewhere between 1 and 150 basis points for the acquisition: finding, acquiring, and closing on the property. You then get relatively low basis points for supervising the management of the property, somewhere in the neighborhood 50 to 75 basis points, and then once again on a resale they may get 150 to 200 points when the search for a buyer and the negotiation and closing process is on. Some have to pay all of their operating costs, as advantage, for all of the operating costs of the property manager are charged directly to the profit, so it's purely an advisory fee, which they are taking.

The level of purchases, the degree of the report, other than a letter, quarterly, so forth, virtually nil. Talk about a high leverage kind of business, fantabulous profit. Where you're dealing with public employ----, the rules are slightly different; somewhat more generous, public employ unions, the rules are slightly different. Somewhat more generous. Public employee unions can use what are called incentive fees.

At the time the asset management agreement is negotiated, they will determine what the real rate of return is desired by the fund, six, seven, eight percent, something of that sort, and, in effect, for each year, they will keep track as to one, the cash return received by the fund, two, the capital appreciation attributed to the fund, as compared to the real rate of return chosen by the fund investor. ?? from the federal reserve evaluation index. So if you add a 4 percent evaluation to a 7 percent real rate of return, the number he gets is 11 percent, the cash on cash, plus total

appreciation in the portfolio, has to equal 11 percent or better. To the degree you exceed 11 percent, you are now in the incentive bonus territory.

Most of the bonuses are not payable --, but are payable at the end of five or ten year term, so that there can be some averaging out. Some years you'll beat the target, some years you won't, but assuming that you get to the end of five or ten year forecast, you sell the property, and now you go back and prepare the amount of return that the investors got over that period of time, and there's still a surplus, at that point the asset manager may get 20, maybe 40 percent of the surplus, 80 percent of the real rate of return plus the annual adjustment for the devaluation index.

The ERISA people are currently re-evaluating their position relative to private employment programs, as to whether there could not be some incentive fees there. By and large, they see it as counter productive, and that it leads advisors to take risks with other peoples' money in order to hopefully break into the bonus territory, and that's not what they are being paid to do. Yes.

Question: If the bonuses are only paid over a five or ten year period, why do they review performance annually? Wouldn't it be more expensive?

Well, the performance you have to report anyway, in your accounts whether its a segregated account or an open end account, people need to know how they're doing annually so that you come up with a unit share value quarterly.

Question: On non-? method of different commissions based on the purchase or acquisition --- does that generate an incentive to churn.

Sure, there's a slight tendency in that direction. (Creates a problem?) Well, I guess it depends on the attitude of the board. The people that you're representing as asset manager, if they're paranoid, they would find that as a problem. Others are used to stock market trading, they have no problem accommodating to real estate trading. It really depends on the peculiar mindset of your client.

You ultimately have absolute liquidity as far as your concerned with your asset manager, as somebody pointed out, all contracts with your asset manager are incentive contracts. If you don't like what they're doing, you take it away from them. Most of them have a 30 day written

notice, you're gone. So if you're dissatisfied with what they're doing, they lost the account.

Now the question is, what positive incentives do you want to provide? The negative incentives are already there. The other wrinkle of course in the fees system, is how many special services can your subsidiary companies capture and provide for the real estate? For example, my portfolio is industrial properties in Hawaii, and you'll have to set up a leasing office, and at some point in value, that leasing offer with one good leasing person, and one secretary, and so forth, and maybe a maintenance person, turns the corner, 5 percent of the gross rent, 6 percent, that becomes a significant incremental fee which goes to a property management company wholly owned by the asset manager.

As long as the fee is consistent with normal practices in the area, no conflict of interest. The insurance premiums can become a heavy number, and often the portfolio manager has an advantage in that one, he gets better rates because he is insuring a portfolio, and yet at the same time gets commission on the larger dollar number, even though the rate factor is lower, and that can be a significant element. Generally they'll have a some form of leasing operation as well as property management operation, they may have a --- accounting company, etc.

Most of them stay out of construction. Most of them stay out of painting and other types of labor intensive sorts of things where one, there is a significant public liability exposure, and two, by and large, those businesses are not that profitable. They would much rather have on their balance sheet a straight statement that they had an arms length contract with XYZ Company to paint the building, than to have someone come along and find out the XYZ Co. is owned by somebody's uncle and have it impugned that maybe this wasn't an arms length contract.

So as leasing and property management insurance, the profits are set by custom, or known norms, whereas in contracting janitorial and so forth, profits are a function of how well you contracted and how well you enforced the contract. The economies of scale for an asset manager in various localities therefore becomes a significant factor in buying power, if he already has a property management office in Milwaukee, and at the current volume is set to break even, they know that if they were to buy another 500,000 square feet in Milwaukee, it would be a very profitable subsidiary indeed; so they'll tend to look for more property to find that critical fixed cost, variable revenue point. Certainly

altering what is normally thought of as investment diversification, to accommodate where their strength.??

The other sore point in fees is the charge for managing tax. If you have an open end fund with 80 million dollars in it, and you're getting one and quarter points for managing it, but you have 10 million in cash for any ten ? length of time, there's a fund manager going to say, hey, wait a minute, we manage cash in our shop for 5 basis points, how come you get one and quarter for putting it in the bank's cash account, or -cash fund , or whatever, and that doesn't seem like a very good thing to do. And secondly of course there's a suspicion that at times of high interest rates, and it certainly is true in times of high interest rates, people like Smith Barney sold their portfolios and put their real estate funds in cash at the high interest rates, and saw their cash on cash deals soar, because now they were 50 percent real estate, 50 percent short term treasury's at a phenomenal rates of interest at 15, 16 percent, and they build operating history for three quarters or more on that basis, and then they can demonstrate that they had outperformed their associates and colleagues and creditors in the real estate stuff.

Obviously if you sell a property, an open end fund, you want some sense of where it is you're going to go with the money relatively quickly, or someone's going to be touching the cash balance on which they're paying the fees. Others solve the problem by charging nothing for the management of cash. Now here's the accounting: there are times probably when you're better off in cash, than just going out and buying the first thing you see, in order to conceal the fact that you have surplus resources.

By having no return on cash, you at least allow them the luxury as it were of biding their time, negotiating for a better deal, waiting for the downturn , etc. But you penalize them for perhaps not investing in real estate, and being fully invested in real estate, whether it's a good time to buy or not, and I would say that in most segregated accounts, where there's only one client, one manager, and in most closed end accounts, there is currently little or no charge for the management of cash assets. Possibly five, possible 10 basis points, but more often than not zero.

Whereas in the open end funds, they tend to maintain the full charge on the total network of the fund, or the total assets of the fund, and nobody has challenged them really as to whether they're earning that part of their fee.

Another play in definition of fee, is what does the fee apply to. The total assets in the fund, or the total assets supplied by the pension fund? If you put a 100 billion in the fund, and you borrow another 100 billion, and buy 200 billion of real estate, and you're paying essentially a 100 basis point fee, if you apply it to the total assets, you're really getting 200 basis points for managing the assets of the pension sponsor, and you ?? apply to total assets, include the leverage fund. Some of the more recent ones have been computed ?? by having different charges for different phases of the investment cycle. But they also apply charges not only to the assets managed for the pension sponsor, ??? all different things.

Interestingly enough, some fee schedules now divide an incremental fee, 10, 15 basis points, for applying long term leverage to an otherwise unleveraged portfolio. If the pension fund sponsor say a 100 million dollar pension fund, with no mortgages at all, and they suspect that interest rates are going to rise, and that money will become very expensive, they may decide to go and raise 50 million dollars at today's 8 percent interest rate, for ten years or so, simply to make a money play, and in effect, use their real estate to collateralize their anticipation's of devaluation of the dollar.

The next issue about fees is really the issue of what represents due diligence in the acquisition and operation of real estate. The presumption is of course is that if a corporate fiduciary is doing everything his colleagues are doing, standing in the middle of the flock of sheep as it were, that he has met his requirements. People are gradually beginning to chip away at that idea of staying in the pack, doing what your colleagues do, and beginning to argue in many cases, that a reasonable person could have forecast the consequences of doing or not doing something at the time, and that he really cannot demonstrate that he has examined both those issues in terms of possible rate of return, liabilities, liquidity and so forth. Many of the pension managers are becoming paranoid on the need to establish an audit trail, that indicates that as came to light, there was an investigation made of the issue, and a decision made brought to the attention of the board and so on.

The hope is of course that the audit trail will indicate that they did in fact do what they were expected to do, as the asset manager. The problem is of course is that there's a tradeoff ultimately, as Jay Schidler pointed out, between

risking your ability to move to solve the seller's problem, and that pension funds would much prefer much longer periods of acquisition process than customarily the market is going to give them. They do an engineering study, looking for cracks, structural flaws, and of course today, toxic waste and hazardous materials. They typically do a lease by lease reading, looking for surprises. They may do...(end of tape)

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Lecture 14-2

..something above blue jeans and T-shirts which says monster motorcycle ? (laughter)

But otherwise I don't believe formal suit and ties are necessary, it is a miserable way to spend three days in a bus anyway. Couple other items, all kind of interrelated, yours truly will not be able to ?? they are going to take me in and do some x-ray tests etc.. As a result of that the alumni have decided to postpone their banquet until May or June. And a couple of you I know applied for it and you get your check back. My apologies for disrupting that schedule. I'm going out to San Francisco again for some ?? advice. Solve my problem that way, and ??

So that's the only changes in the itinerary from that standpoint. Thursday afternoon after the conservatory Mr. Rybeck? , who is the head of the downtown Minneapolis development crew or commission, will provide a lecture partly as ?? and then on the bus going by a number of sites in downtown Minneapolis which a really vital development area very ?? I think that covers all of those problems, the trip will be ?? each other and running on time this week, a fairly tight schedule. Then on Saturday morning we need to get checked out of the hotel by 7:30 so we can get to the IDS building in time for breakfast with the Tower club, and Jerry Salinger? the secretary of Saturday morning trout season opens or something of that sort. (Laughter)

I want to talk a little bit about public feasibility today, and then I'm off on my own little race. Public feasibility has one interesting reverse characteristic relative to private feasibility, and private side is what you're trying to maximize the present value of your surplus; on the public side you're trying to minimize the present value of the outlays, what is called life cycle costing. The object is define some ?? between initial capital investment and long term maintenance costs and operations that produces the lowest net present value of cost.

If there is a way to measure the benefits, in terms of objectives....I'm having my problems today as it is. (Laughter)?? (student noise) Life cycle costing is then analyzed on two standpoints, one the actual life cycle cost of the project, building, land, accouterments thereto, and second of all, the other outlays that will be necessitated by the public project decision.

For example, the MATC decision to go at Truax, was dictated only by the first case, it was the lowest life cycle cost to the MATC board, the land was donated for a dollar a year by the airport commission, and as a result they had no costs in developing that at all, and they therefore presumed that that was necessarily the optimum solution. They didn't look what happened to the other government entities, they're still fighting with the city of Madison about what level of bus service to provide, since the bus service is a negative revenue enterprise out there at MATC, as you know, MATC stands off the beaten path, they loop in, they go through an area in which the only generator of traffic really is MATC, and then if they had looked at the distance that students would have to travel, and the distance faculty would have to travel, compared to the previous site, and in fact then the downtown site, some 30 percent at one time of the students walked to school, as opposed to currently about 1 percent of the students walk to school. There is obviously another further cost being incurred outside the initial political entity, but nevertheless part of the real life cycle cost of that facility. There's been kind of a limited number really of studies done that have thoroughly examined the total life cycle cost decision of a public facility, and they generally come out as part of the environmental statement, where people are arguing against either the location, or the scale, or the concept of the project.

You could make the argument that MATC would be better off to have say, five campuses, and move the faculty from one campus to another, rather than having all of the students converge from a five county area on one campus, and hold the faculty in one place. Because obviously you're moving a lot fewer people if you move the faculty, who may see 50 students at a time, than you are by moving a whole class for the faculty. But that sophistication is perfectly true of the public feasibility side.

The second set of ? element of difference, aside from the life cycle costing versus present value of return, is the fact that all public projects have two sets of objectives, one is the purely functional one of housing some kind of government activity and doing that efficiently and

effectively, and in a way in which produces presumably image and stature for that activity, but second of all, the political objective that needs to be met by that expenditure of funds.

Political objectives can be very hard numbers quantitative kinds of things such as minimizing the impact on a real estate tax, if you have a choice of two sites one of which has never been on the tax rolls, one of which is currently on the tax rolls but could be removed from the tax roll, the second site is the much more expensive alternative because the real cost is the present value of all the tax revenue that might have been generated from that particular property, so one political objective is obviously not to do any damage to the tax rolls, and hopefully of course, when you get your further private investment in order to increase the tax roll. The development of the Civic Center in the old Capitol theater is a good example of considering the fact that you had a theater that had been significantly depreciated, was going in for successive tax appeals at the time, as was the rest of the neighborhood; by moving the performing arts center up from the proposed Lake Monona site, where they were totally surrounded by public lands that would have no immediate impact on assessable land, coming on to State Street, you not only stabilize the value of State Street, but you increase the tax base in such a way that perhaps most of the increment offset the operating deficit of the civic center.

A second type of political objective is not simply seed money on the tambourine, but the idea of providing prototypes for the private sector. Obviously the allowance for art, the desire to subsidize certain labor groups, not by coincidence most public buildings use a lot of brick, the masons' union is a strong union, and the other objectives politically may be to offset a private investment of one form or another.

For example the rationale for Capitol Center was to create sufficient tax increment to create an in effect totally paid for facility for the elderly centers, not just the revenues of the subsidized housing in the project, but in effect for all of the elderly in the downtown area. The Madsen Group for example, is finally cracking the Fox Point barrier for office building and apartment permits, did so by giving away the English basement of the office building as the public library for the Fox Point. As a result the political objective was twofold, one, obviously to give the city fathers a reason to support an unprecedented project, and

two, to create a mixed use which was useful to the other facilities that were located there as well.

The other functions of the public real estate investment may be to simply provide a link or a edge or an environmental enhancement that will allow private capital then to come in and proceed safely. We talked about the Newport Beach project the other day. The key project there was to be the courthouse, that link between the established and stabilized reasonably attractive area in a newly developed area, and when government failed to do that, and build the courthouse, why the apartment and the office building failed as well, because it did not provide a buffer or an edge which defined essentially a new urban environs for those particular facilities.

The other function of a public real estate investment obviously is to build a constituency for the funding approvals and other aspects of the project, and as a result, many public projects become potentially multiple purpose in order to establish a number of constituencies of support.

A couple people here are working on the downtown YMCA hole in the ground at the corner of West Washington and Fairchild, and obviously there are a number of different opinions as to what should be done with that. But one constituency is the downtown development crowd, who are concerned about the fact that the United Bank building is underparked, and therefore vulnerable to losing tenants to the suburbs, and they would like to stabilize that situation perhaps, get the second tower on that building built. There's a second a group obviously that would like to see a private YMCA athletic club, and another group that no matter what you talk about there's got to be housing on the square, and so forth. One of the solutions that team does provide is essentially a three tiered project in which the basement and lower level areas would be parking connected by tunnels to the bank building, the grade level would be an extra high first floor for the exercise facilities of the scaled down YMCA, and then a tower, 8 units, of co-op housing would be put on the back side of the site, and take advantage of the views of to lake Monona and so forth.

Well, really the reason they're doing that is to build a constituency for the project, to create enough varied interest in the project that you can secure the necessary public approval for that project, and a public project needs that type of very carefully combined different vested interests into the total subject matter in such a way that it gets a broad base of support.

Since a public project is a committee decision and not one dominant development ego, it's important that it builds very carefully, units into it which represent really its major sources of support.

One of the problems of course in measuring financial efficiency of a public project is that the public doesn't have balance sheets, so there's really no way of measuring differences in net worth, as they accumulate and pay off the debt, there's really no opportunity to cost an underutilized asset. And they indeed ?? would only build more floors on it, or converted it from parking lot to a something else sooner that they would have realized an increment in value. And all of that relates to the fact that politicians are responsible only for the current budget, rather than for the total cost.

Therefore the more that you can bury in one direction or another, the more you can obscure what the true cost and true benefits of the project may be. Convention center is a classic case in point, arguing that its free land, because they're using the backside of the city municipal building, and vacating the street, Pinckney Street, and resulting therefore in so many square feet of land with no outlay.

Forgetting of course that the outlay occurred ten or fifteen years ago when they acquired the old courthouse building, and forgetting of course that there are certain costs in now no longer being able to have the more efficient traffic loop and so on. As long as there's no historical cost in the budgeting period with which you're dealing, most politicians tend to regard that as a free good. By the same token, if the project appears to be feasible at today's budgeting costs, the fact that it runs over budget in the next biennium is a matter of irrelevancy.

Robert Moses always programmed his projects and promised costs that were unachievable, but he said once the politicians had started to invest in a project, he would never let go. The trick was getting them to make the first commitment, because after that he couldn't back off and say, wait a minute, we're going to leave the concrete standing there, we're not going to finish this we're not going to be back, the politician would go forward, rather than admit that he made a mistake, it was always those guys in the previous budgeting period that were in error and he was simply correcting for the misrepresentation. So you really can't measure financial efficiency in the traditional sense in a public project.

This is really not the GSA, the government services administration, is the first one to have a fairly comprehensive life cycle costing model with which to evaluate government buildings. Granted that their ceilings are higher, their corridors are wider, and the marble is more luxurious, and so forth. Nevertheless they have a relatively effective measure of long term cost effectiveness. The State of Wisconsin also has a life cycle costing formula for the acquisition of state office buildings. Just one was built in the traditional style, having an architect design it, and then putting it out to bid and then building it and so on, and the result was disaster, in terms of relatively of inefficient building style and so forth, after all, if architect doesn't get paid on a percentage basis doesn't like to economize, you can always try to find a rationale for better quality. So the next two buildings, GEF II and GEF III were built by a design-bid competition in which the government put forward certain specifications as to performance in terms of energy consumption per square foot, in terms of cost per square foot of the basic usable floor space in terms of electrical cost, the number of movements ? desk type, a whole series of criteria, and they then entertained proposals from teams of contractor-designers. They took the best two, and their bids which were at that time as I recall \$44, \$50 a square foot or \$44-49, to build the building to meet those specifications. And reviewed the plans and allowed them to refine their estimate, the team that had the lowest price was allowed to bring their price up to the highest price of the two surviving teams, but the other one, the highest bid, was not allowed to raise their bid, they could only come down if they chose to do that. They figured out how to do that. Their plans were then refined in the state, and then chose who would do GEF II and GEF III based on simple cost effectiveness. And the fact is that they built GEF II and GEF III six years after GEF I, for half the cost, by using life cycle costing methods and by setting up thresholds of performance that were expected of the building and setting up an accounting system for the first time that allocated cost by building rather than by the city maximum. Before that ?? when I first went down to work with the guys, they only knew their total janitorial cost, and their total square footage in Madison, but they couldn't tell you which building cost and how much. There was no way to evaluate it, they looked at it as a system.

What they really had to do was obviously conceal the real cost of janitorial service for one thing, since it was so much higher than the private sector, and politically the

legislature wouldn't let them go to non-union janitorial custodial or contract services ?? and the accounting system was designed not to assist in the review of state purchasing policies.

Many people of course criticized the buildings, that they're not beautiful, that they're not architectural statements that establish respect for government institutions and so on like the courthouse, the pseudo Greek temple containing the federal reserve, but on the other hand, they're very serviceable utilitarian kind of office buildings with some possibility of taste and some sitting consideration. And of course ivy will ultimately cover cement brick.

In any event public feasibility is now becoming much more quantitative art rather than simply wanting, devoted toward making a architectural or public statement. The process of life cycle costing developed by GSA and the process of design-bid performance standards such as the ? in GEF II and III, has now moved from the public sector into the private sector, and I think we'll be seeing a good deal more of that controlling, particularly corporate real estate acquisitions.

Since many corporate management's of course have been widely criticized, a few have lost their jobs, for creating rather elaborate headquarters buildings which now are a particular cost center to them. In fact, a case in point, Sentry insurance company, Stevens Point, which has over a million, one hundred thousand square feet of gross building area, of which less than 400,000 square feet is usable, that's not a very good record for efficiency, and we did a case which is kind of interesting case, in that the city of Stevens Point appraised it at 35 million dollars, even though it cost 110 million dollars to build, and the state said no, that the equalized rate was 70 million dollars, and so the city of Stevens Point, within what is that Marathon county, obviously had to pay a much higher percentage of county taxes and school taxes and others that were beyond the city corridor and they thought weren't fair.

So they challenged the equalization rate which had never been in this state before, except by the state, arguing that there was nobody in their right mind who would pay 70 million dollars for the building because it had such a limited amount of usable space, and by happy coincidence, American Family had just completed the first two phases of their computer center out here on the east side of Madison. We used that as a prototype for cost per work station, and the one thing which really stood out objectively was how

many workstations were in the Sentry Insurance building, how many workstations American Family got for their investment on the east side, and ?? the inefficiency factor was about 55 percent, and if we used the same cost to build a brand new building with all of the appropriate air conditioning and employee service, and so forth and so on, and all of the infrastructure required to support the computers, we could have done the entire Sentry Insurance Company space, for 35 million dollars.

As a result, it was necessary to shift the equalization rate back, I think they finally negotiated on 40 million dollar settlement. Drastically altered the proportionate tax paid by the residents of Stevens Point relative to all of the other tax systems in Marathon county. I think this gives you some sense of the fact that they are beginning to develop life cycle cost estimates of what it will take to perform a certain function and these techniques are creeping back into the private sector.

OK, so much for life cycle costing. One other thing I wanted to alert you to today, in looking at the schedule I think we've had 8 studies which will (lots of noise) next Monday and Wednesday. And Wednesday is gonna be a little ? again theoretically I'm supposed to go somewhere, but I haven't been doing very well on ?? treatment, so we will start on Wednesday the 27th, a week from today, and on Monday the second. And you'll have ten minutes to one, define the problem, and any major solution, and then discuss briefly your methods.

Obviously you do not have to hand anything in at that time. If you have a map or a drawing or a some other graphic that will allow the balance of the class to come up to speed quickly, be aware of what it is you're talking about, so much the better. And we'll try to observe your presentation as well, as one of the things we always get criticized for is our graduates are not sufficiently poised in front of public commissions and public bodies of one form or another, or staff meetings for that matter, so carry yourself appropriately and we will try to grade you on method of presentation as well as content of presentation. Be that arbitrary, whimsical, and capricious as it may be.

Question: When would you like that written report.

The written report is, well I need to get them in plenty of time so I can grade them. And the grades have to be in the second day after graduation, so I need them by graduation

weekend, which is approximately the 15th or the 14th, so if I have them on Friday the 13th, that's an appropriate date!

OK, I'm going to quit while my voice is still
Mike Robbins

For those of you who are not graduating this semester, we will have a real estate club meeting tomorrow night, scheduled for 5 o'clock. We haven't received word yet as to what the room is, we're looking for either room 19 or 22. I think for all of you, whether you are graduating or not, it would be worthwhile coming to the meeting, just so, because when you get out of here, you're going to be inundated with questions from alumni and all of this kind of stuff as to what's going on the program, what are they thinking about, what are they doing, oh my god, Graaskamp's gone, it's all going into a hole, and all this kind of stuff.

It is important for you to see that A, it's not going in a hole, it will be different, you know, they're not going to find somebody to pick up and say, we just don't walk out and pick a JAG clone off of the shelf somewhere. The program is going to be different, it's just a question of how much different. To be perfectly honest with you, when I was driving into school this morning I would just as have soon kept going toward the setting sun kind of thing, the thought had really crossed my mind several times during the last couple of days.

The unknown commodity was the business school front office administration attitude toward the real estate department, was it going to be, we finally got the son of a bitch, now we can make him pay for all of the abuses he's given to us, and that, that it not the case. Everything looks very positive, very supportive from the front office, and we will have more specifics because Dowell, and I, and Rod, will be sitting down with Hickman, Blakely, Strang, Frisky, that whole collection of people to look at the short term, long term strategies and this kind of stuff, but it's very upbeat.

It's a good positive attitude, and you people should leave the program with a good strong positive attitude about what has happened here. We've lost something, I think Jim Curtis said it so well, last night, about 12:30, after we finished off our second case of beer, and neither one of us were very, Ann, you were there. If not you ?? (laughter) But anyway, it's so true and it's so fun, because those of you in 850 can relate to this immediately. Curtis says, Graaskamp is living the Clifford Case. What is the essence

of the Clifford? Okay, it's basically estate planning. Here we have this guy with this incredibly valuable, diverse estate, who decided to leave the scene in a totally disorganized, unplanned, chaotic framework. He just walked out the goddamn door, okay?

So everybody else now has to run around, salvage the assets, organize the assets, and put it into shape, and that's what we're really doing, that's what the work that's going on behind the scenes. The alumni have been very supportive, very positive, in fact, I've been on the phone so damn much the last couple days, my ear's beginning to swell up. All over the country, other academics and other institutions, whatever they can do, whatever advice, whatever support they can give us. It is interesting, people from universities and other schools who I have never met, call me up on the telephone and say it is important to the profession that what is at Wisconsin continues, grows, nourishes... We know you can't replace Jim Graskamp, but he is leaving a legacy there that must be built and grow.

And that's where the major focus is going right now. The alumni has divided up into three camps, each one of the three camps are doing battle with each other, the battle to continue to rage, I suspect, for at least a couple of months before it's all done. Certain things are beginning to take into place. There's this camp: we need to get a new star, a replacement for Graaskamp, so let's go out and generate a 100 million dollars to pay this guy whatever he wants, force the business school to accept him, and we will have done our duty.

Those of us, like myself, who have been here learning from Graaskamp for 18 years said to hell with that, nobody's coming in and taking the legacy away from us. Now we may argue about my teaching style, Dan's teaching style, Mark's teaching style, Lane, the rest of us who've had to come up through the ranks. The fact of the matter is, that's where the asset sits. It's not in Graaskamp's lecture notes, it's not in the feasibility studies that you take from here. As students you have worked with him for two years, the rest of us have worked for 10, 12, 15 years, we have a lot more exposed, we have invested a hell of a lot more than any of you have, and if we're willing to fight and keep it, then we want your support, and all we're going to do is keep you informed, so that you can make rational decisions about what is going on behind the scenes.

Okay? Right now, I feel good, I feel very positive about what's happening in this whole curriculum kind of thing.

For the purposes of this course, basic strategy that we have decided on, is that there will be two grading items, the mid-term exam, which is believe it or not, recorded in the grade book and done, and your feasibility projects. We're going to dispense with the notations relative to case studies, we're going to dispense with the final exam.

We're going to move forward with the presentation of the cases, and elect some people to make presentations of their cases, and because those of you and I know there are a significant number of you who aren't nearly as far along on the cases as you would like, whatever criticisms are leveled against the people who are making the presentations, they should not be looked at as criticisms from a negative standpoint, but as a teaching tool vehicle to illustrate, emphasize certain types of things, weaknesses, strengths, shore-up, this kind of thing, and it becomes more or less an exchange of information and interchanging, a self-perpetuating, teaching type of thing. And we'll have those, my understanding is, Mark, correct me if I'm wrong, but Pete Megenberg, and in his group is coming in next Monday, so the people who are involved in doing those several feasibility studies should basically prepare themselves to make their presentations on Monday. And if you have questions, you need some prompts, perhaps some evaluation, this kind of thing, I'll give you whatever amount of time that I can to help you get that organized and orchestrated.

We will probably not have a full-blown class period today, but what we will have, is we need to fill out the other dates. I need to know who's going to present this Wednesday, and who's going to present next Wednesday?

Student: Are we having class next week?

Another student: It's Wednesday and Monday Mike.

Oh, there isn't class next Wednesday?...

Student: We have the 850 final.

Well, what the hell. Just because you got a class or exam, doesn't mean, you know. But if you've already arranged not to have class next Wednesday that's fine I can handle that. So we need somebody to make a presentation this coming Wednesday, like two different groups. Andy, good, cause you were going to get it whether you were going volunteer..anyone else?

Student: We'll be ready to go.

Okay, so we've got two groups already established for Wednesday. The platform will be the groups making the presentation will look at the class as the clients, and the class then will ask questions as if they're the client asking for, why are you doing this, don't look at it as a finished product, but try to give some feedback, looking more, not at the answer, but at the strategy, the thought process that went into the identification of the alternative styles...all of the stuff that you have done more than ground through at this point. Any questions?

Student: These were ten minute presentations, now we're only going to have two...

There's no such thing as making a ten minute presentation. They won't be. There will be a minimum of a twenty minute presentation, more than likely they will go beyond that. I won't let the presentations, each one, get beyond 45 minutes, we'll have to have a cutoff there.

Student: How are all of them going to be presented?

All of them aren't, and I think that's a good point. The people who will be presenting...otherwise all you have is a grade, everybody gets up, blah blah blah, and you sit down and somebody else gets up and they are as dumb as we are kind of thing. Hey, I've been there before. (laughter)

I want to have a couple people willing to allow themselves to be shot at, and we learn by getting out there, getting up in front, trying to make an organized presentation, and then get the dialogue going, and hopefully I will be spending a fair amount of my time playing referee, and maybe Dowell will be able to be in here for that, on Wednesday also. I will not do what I did a year ago, come in and just raise all kinds of hell, that will not be my role this year, but I think that the experience has always been very very valuable, where you get up, it's difficult to take something as complicated as a feasibility study, and try to boil it down to the critical couple components, deliver to the audience, and then take and respond to the questions, why did you do this, did you consider this, what about the process you are going through and this kind of thing, and an exchange like this is meant to be an effective interaction, learning experience on both sides and not just a bloodbath.

It's not quote, a jury trial that some of the other engineering, landscape architects, architectural courses have where one person gets up and presents their solution

and everybody else just butchers them in order to cover their own butts, it's not that at all.

Questions? One other thing I have to let you know. I must have a list of all people who are going to be graduating or at least anticipating graduating by the 15th, okay. So if you are going to graduate this semester, give me a note, just go ahead and pass the sheet around now, the reason I need that is because those of you who are going to be graduating have, those feasibility's have to be graded first. If you are putting in, when you write your name down, if you're outstanding in anything, like you anticipate possibly being incomplete in 850, or you have not got your 856 appraisal in or something such as that, swallow your pride, put your name down, make note of it, because I have to give all of those records organized, dig them out of wherever they are, I literally do not know where all those records are right now, so that at the end of the semester, those are the assignments which will be graded first.

Those of you who are not going to be graduating or are going to be taking incomplete or something such as that, we can do the grading for your work over a longer period of time, but it is important for those of you who have accepted jobs, the fortunate ones, who expect to be out of here, to get that set up.

Question: What about those of us who have those handed in and are just waiting for them to be graded?

Don't expect to get them back until after the semester grading period is over, I have some of them, I'm starting to go through, starting to get those things organized right now, okay. Everything will be graded, that's why if you're planning on graduating, let me know so we can focus in on making sure that we can look to see whether there is a grade for your final appraisal and this kind of stuff, recorded, if not, start the hunt as to where it is, OK because in some cases it's in there, in some cases it's over at his house, might be in the back seat of somebody's car right now, and those kind of things are really important, this is really a serious organizational task that we have to get done. Anything else?

Question: The chief had laid down the 13th as the deadline for the feasibility reports. Is that the timeline or do you want them earlier or..

Don't defer them. If you can get them done sooner, get em done sooner. If a pile of things come in on the 13th, I

will sort through them, find out those people who are graduating, focus in on those grades first. If your assignment is done, and you're not graduating, and you get an incomplete, it's because there either wasn't enough time to get everything in by the 18th, because that's when the grades have to be turned in, okay, and that's all I can say, how long..I understand that the 13th was the date, that is as unreasonable as any is right now.

What was the lecture topic for today? Anything? Or was it just to start the presentations? Oh, Elaine, what is the status of the Wednesday night thing?

Elaine: We are going to go ahead with it. People who were going to do like the Kennedy Manor they can call.

Mike: Where's the Manor?

Elaine: The Manor is on one Langdon street in the basement of the hotel. Somewhere around 8 to 10 and around... ??

Mike: 8:30, because what's going to happen is, since I talked to you, I talked to three other people from both ends of the continent about it, and the main thing that's going to happen.

According to Graaskamp's wishes, no memorial, no funeral, nothing such as that. We violated that a little bit with sort of a little private, as Jean said, closure, on the process, yesterday afternoon, but anyway, he has been cremated, his ashes will be taken up to one of his favorite places, Dairymen's Country Club, where his father has been a member up there since Jimmy was a little boy, and his ashes are going to be spread over the lakes up there. In retrospect, having him eaten by a fish and then (laughter)

He would pick some type of perverted sort of ?? like that. I don't want to spend a lot of time getting into the gory details of the thing.

Those of you who were at the field trip, I up and left, just on impulse, there was no telephone call, no nothing, The note I gave Tony was like I had something at work, but nothing that I got to, still haven't got to yet, deliberately left on impulse.

He went extremely fast, and the doctors did a angiogram, and they were literally interpreting the results of the test, and determining that he would spend the rest of his life on a life support system, he would not leave the hospital,

ever, and he beat them to the punch. He was awake and conscious and was talking to Jean after the test, they put him on the breathing device.

Jean walked down the hall, called me to tell me what the status was on the test, things were looking good, she was upbeat, hung up the telephone, turned around, and the code blue, in intensive care went off that he was gone, and he was conscious up until that, he was coherent, he was not in any sort of pain or anything such as that, he just, bang, went that fast.

And the cause of death of was pulmonary hypertension, basically what happened, is, his lungs lost their ability to exchange oxygen and any life support system would have lost its effectiveness very very quickly because you can't put, unless you put him on a heart system, any ability to put oxygen into the blood and this kind of thing, so those of you who are wondering, did he know, no he did not know, was he suspicious, I don't think so.

There was nothing to lead anybody to think that he had any anticipation or warning, whatever, so that doesn't have to be part of the dialogue going on behind the scenes or anything such as that. I'll repeat that same story tomorrow night. Okay? Anything else?

Question: 795 Lecture scheduled for Friday?

Yes, that's depends on Jarchow's coming.

Question: What was the Wednesday night thing?

What is going to happen on Wednesday, I'm beginning to lecture like Graaskamp (laughter), what is going to happen Wednesday night, is that at a pre-set time, all the alumnus around the nation are going to raise a toast to Graaskamp, and then commence to tell whatever stories there are about him and then drink themselves right into obliteration, and of course I think we should probably join in that foray besides, but anyway it will start so everybody is doing it at the same time, eight o'clock our time in Madison, 8:30 our time, okay, and it will be 5:30 on the Westcoast, 9:30 on the east coast, and everybody is going to form a feeling of union at that point, and this has kind of happened all of a sudden.

There has been a certain amount of discussion as to what type of memorial program there might be or something such as that, he did want it, but at this time other things, other

forces are taking charge. You see the new alumni newsletter, Graaskamp was beginning to push for a new real estate center to be built within the business school, and what we're basically saying is all the monies which come in that have memorial fund to Graaskamp, whatever, we're going to set them aside, segregate them out, set them aside, and put them into a special temporary holding account, and try to fund the James A. Graaskamp Center for Real Estate within the business school or some other innocuous name kind of thing. But that's the idea, that was his recent dream, was to have the facilities to be able to continue to teach the real estate process and anything that went into it, and that's where that money is going to be going. Anything else? Wednesday night, 8:30 for drinks.

Student: Where's that?

Elaine: Well its the Kennedy Mannor, but it could be anywhere.

Mike: We are going to go to the manor because that's the bar Graaskamp was at the last time he went out and really got ripped (laughter). He was coming down Langdon Street, believe it or not, in his wheelchair, and got a speeding ticket by the police, then right down on the corner of Langdon and Lake, the front wheel of his wheelchair fell into the grate that was in the street, tossed him out of the wheelchair, and he broke his leg, they took home, threw him in bed, he moaned and groaned, his leg turned blue, took him to the hospital, Madison General, they set it, so here this idiot was running around with a broken leg, and his pride was really injured, who being the risk manager that JAG, he tried to find any excuse to set aside that damn speeding ticket that he got, he sent the boys out to measure the width of the grate, honest to God, this is a true story. The width of the grate was too wide, he sued the city, okay (laughter), the insurance company for the city would not settle, and during the document documents that went back and forth they never mentioned that Graaskamp was a quad in a wheelchair and a University faculty member, okay. The insurance company is up in arms, not wanting to settle, the city is sort of sitting there saying I don't know what the hell is going on, you lawyers take care of it, walked into court, here's the insurance company, with three attorneys who were going to take this University professor to task for giving hell. Graaskamp wheels in the wheelchair, and they're looking at each other and saying, geeze (laughter).

Graaskamp's attorney was Mike McBurney, who the McBurney Resource Center is named after, in a wheelchair,

quadriplegic also. (laughter) City goes up there, looks at the judge, and said, we'll settle. (laughter) Graaskamp learned a very important lesson on that process, he always hated this idea of being in a wheelchair, and all of this kind of thing, but he never let the opportunity fall that he could use it to his own advantage. He was a perfect role model for somebody who would take an opportunity, seize it, and run like hell.

The last example where he pulled that was on the big court case down in Georgia, where the defense, all these idiot real estate appraisers and lenders, who had made bad moves up the ying yang, and the argument was that they should have been using discounted cash flow, and the defense was a) discounting cash flow was a new technique that had originating at those high falutin' academic institutions up north, and it was not prevalent, b) it was very complicated and a computer had to be used in order to get it, and c) once you got the numbers out, you couldn't explain it, you couldn't use it because of all of these numbers...Put Graaskamp on the stand for cross examination, he took a HPcalculator, put his pointer in his teeth, and while he is talking to the jury, does a ten year pro forma, got it done, pulled the pointer out and stuck it his hand, and looked at the jury and said, that, ladies and gentlemen, is how you do a ten year pro forma and if I can do it, I think anybody ought to be capable of doing it.

The attorneys by that time were objecting like hell, but the point was made, and he was a master of these kinds of things. So when you think about feasibility, or appraisal or any of those kind of things, look back at looking for that opportunity, and these are the kinds of things that we take out of this program, other than the textbook bullshit that we end up grinding through in the couple pages of readings (pained giggles) you had to suffer through and so forth, okay. And we will probably, we were going through the picture book over at his house yesterday. Incredible, some of his stories.

But anyway, we can continue this kind of conversation tomorrow night, more of it Wednesday night and so forth. The thing is, from your standpoint here, that you people need to feel positive, those of you who are graduating, you are fortunate, those of you who are not graduating yet, don't feel that you have necessarily, like the earth has opened up and swallowed up your entire effort, that is not the case.

There's a lot of things left here that will take time to bring forth, but it's going to happen.

Question: Presentations for the following Monday.

This Wednesday we have two, and we will only be able to get through two, okay. Next Monday, but none on next Wednesday. (lots of talking)

If you haven't volunteered you are home free.

Rather than have every group get up and very quickly make their presentation, I want to take each group, have them make their presentation, and then get some feedback from the class as to how you did it, why you did it, what were the issues, more of an exchange going back and forth, and that will take 30 , 40 minutes for all of that to get done.

If there are three, six, five of you, however many, taking part in whatever you are going to do.

(Question about 850.)

Nutso. He's way behind--he's really behind in his grading now. Mark and I have been working on trying to put together a process to get the grading caught up, we're going to continue with some of the lectures, we're going to try to get a couple of guest lecturers in, Wednesday's lecture and Monday lecture's, there will be a final exam in 850, okay. What Mark can't put together, I'm certain that I can on that one. I enjoy 850 final exams, almost as much as the 555 final. (Tells anecdote about Jim Curtis taking exam)

No hints there people or anything. It will be an interesting exam. I hope it will be a fair exam. This is it, you are on your own...