



Appraisal of the Provident Building, located at 126 South Hamilton Street, Madison, Wisconsin. October 2, 1992

Landmark Research, Inc.
[s.l.]: [s.n.], October 2, 1992

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APPRAISAL OF
THE PROVIDENT BUILDING,
LOCATED AT
126 SOUTH HAMILTON STREET
MADISON, WISCONSIN
AS OF OCTOBER 2, 1992



PREPARED FOR
ANCHOR BANK
25 WEST MAIN STREET
MADISON, WISCONSIN 53703

PREPARED BY

FIRST FINANCIAL REALTY ADVISORS, INC.
245 SOUTH EXECUTIVE DRIVE, SUITE 130
BROOKFIELD, WISCONSIN 53005

IN CONJUNCTION WITH

LANDMARK RESEARCH, INC.
P. O. BOX 5633
MADISON, WISCONSIN 53703

First Financial Realty Advisors, Inc.

November 23, 1992

Mr. Douglas Timmerman, President
Anchor Bank
25 West Main Street
Madison, Wisconsin 53703

Dear Mr. Timmerman:

Enclosed for your review is the appraisal of the property known as the Provident Building, a three-story office building located at 126 South Hamilton Street, in Madison, Wisconsin. This property is situated on a 5,512.5 square foot site located at the north point of the three-way intersection of South Fairchild Street, South Hamilton Street, and West Doty Street.

This appraisal was prepared in accordance with the Uniform Standards of Professional Appraisal Practice and the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute.

The appraisal was made for the purpose of estimating the market value of the Provident Building as of October 2, 1992. The property rights appraised in this report constitute the fee simple estate.

This appraisal was authorized by Anchor Bank pursuant to a Letter Agreement dated July 2, 1992. This appraisal is intended to function as a part of an overall study of the properties owned by Anchor Bank that are located in downtown Madison.

Based upon a personal inspection of the property and giving consideration to the data, research, analyses, and conclusions set forth in the following report, it is our opinion that the market value of the Provident Building, located at 126 South Hamilton Street, in Madison, Wisconsin as of October 2, 1992, is \$660,000:

SIX HUNDRED SIXTY THOUSAND DOLLARS

Conditions in the office rental market in downtown Madison currently favor landlords. There is zero effective vacancy in the Class A office sector, and we have estimated that the vacancy in the Class B market is less than 10%. The Provident Building is ranked as a Class B to Class BC building. However, the market for investment real estate is going through a difficult time at present. Office buildings are very much out of favor. Given the small size of the Provident Building, if offered for sale today, it would probably be purchased by a local investment partnership or an owner/user. Sponsors of an

Mr. Douglas Timmerman
November 23, 1992
Page Two

investment partnership involving an office building would be opportunistic in today's market, and would only buy based on a favorable price. Such investors focus on receiving an adequate initial return on their equity investment as their primary criterion. An owner/user would also base their purchase on some sort of income analysis, and would also look at the offerings and sales of competing buildings as the basis for a purchase price. Office buildings are very difficult to finance in today's market, which would have an impact on both buyer types.

This appraisal reports includes this letter of transmittal, a report section which describes the property and the processes by which it was analyzed, exhibits which help explain, illustrate, and support this appraisal and the conclusions reached herein, and a listing of the assumptions and limiting conditions to which this appraisal is subject.

We appreciate the opportunity to be of service and we are available to answer to any questions with respect to this report.

Respectfully submitted,

Dean P. Larkin
First Financial Realty Advisors, Inc.

Jean B. Davis
Jean B. Davis
Landmark Research, Inc.

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SUMMARY OF SALIENT FACTS & CONCLUSIONS

The Property:

The Provident Building
126 South Hamilton Street
Madison, Wisconsin

Purpose of Appraisal:

To estimate the market value of the fee simple interest in the above property.

Effective Date:

October 2, 1992

Building Description:

Three story building with full basement with a total gross area of 20,970 square feet including the basement. Rentable office area estimated to be 16,002 square feet. Masonry construction. The building was completed in 1960 and was formerly used as a savings and loan headquarters. The building is in good condition, and is currently 100% occupied by Anchor Bank. The roof on the building has reached the end of its useful life.

Site Description:

Triangular-shaped site with an estimated area of 5,512.5 square feet. The site has 105 feet of frontage on South Fairchild Street and 105 feet of frontage on South Hamilton Street. A City alley adjoins the site to the north. Lot coverage of the building approaches 100%. The site has a 10% slope to the south, and the triangular shape limits utility.

Parking:

The property has no on-site parking. This is common among Class B and Class C buildings in the downtown Madison market.

Zoning:

C4 Central Commercial District. The subject is in conformance with zoning.

Real Estate Taxes:

5b. 25,513 @ 765,000
\$35,518.50 for 1991, payable in 1992. The tax level for the property is high, and it appears that the property is over assessed. A reasonable maximum assessment for the property would be \$765,000. (See Appendix G). *Assessment
765,000*

Utilities:

All available.

Easements:

No apparent adverse easements.

Flood Plain: The subject is not in a designated flood plain.

Occupancy as of 10/2/92: The building is 100% occupied by Anchor Bank.

Rental Structure: The building is not subject to any leases.

Proforma NOI for 1993: \$84,188

Highest and Best Use: As presently used.

Estimated Site Value: \$95,000 *51.23/51*

Indicated Value Via The Sales Comparison Approach: \$650,000 to \$685,000

Indicated Value Via The Income Capitalization Approach: \$685,000

Final Value Estimate Prior to Adjustment for Roof Replacement: \$685,000

Estimated Roof Replacement: \$25,000

Final Value Estimate: \$660,000

SCOPE OF THE APPRAISAL

An appraisal involves a comprehensive program of research and analysis in the application of the valuation process to the subject property. General steps in the valuation process include:

1. Definition of the valuation problem.
2. Preliminary analysis and data selection and collection.
3. Highest and best use analysis.
4. Land valuation - land as if vacant.
5. Application of valuation methodologies.
6. Reconciliation of value indications and rendering of a final value estimate
7. Reporting of analysis and estimated value.

Specific research and analysis that have been performed as a part of this appraisal included the following:

1. The appraisers inspected the Anchor properties on October 2, 1992. Mr. Edwin Hill, Jr., Vice President and Property Manager for Anchor Bank, accompanied the appraisers on their inspection. The appraisers inspected every floor of the Provident Savings and Loan Association Building (the "Provident Building").
2. The appraisers reviewed the original blueprints for the Provident Building.
3. Regional and city descriptions are based on information contained in the files of Landmark Research and First Financial Realty Advisors, which have been assembled from various sources. The description and analysis of the neighborhood and relevant office market is based on a physical inspection of the area and various interviews (e.g., city officials, area property managers, area investors, real estate brokers, etc.).
4. In estimating the value of the subject property, we attempted to utilize the Cost Approach, Sales Comparison Approach, and Income Capitalization Approach. A description and definition of each of the valuation approaches is presented in the Valuation section of this report.

5. To estimate the value(s) of the property, we collected and analyzed market data to develop the valuation approaches. The data sources used include files maintained at the office of Landmark Research and First Financial Realty Advisors, published sources, interviews with assessors, and discussions with area property owners and managers, principals involved in sales transactions, city officials, mortgage brokers and others.
6. We reconciled the final value estimate(s) after analyzing the results of the valuation approaches discussed above, as applicable, with consideration given to the quality of data and reliability of each approach as it relates to the subject property.

Current appraisal standards, as set forth in the Uniform Standards of Professional Appraisal Practice ("USPAP") and the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute require appraisers to have the knowledge and experience to complete an assignment competently. Alternatively, an appraiser is required to disclose the lack of knowledge and/or experience to the client before accepting the assignment. In addition, the appraiser must take all steps necessary or appropriate to complete the assignment competently, and describe in the report the lack of knowledge and/or experience and the steps taken to complete the assignment competently.

The appraisers have extensive experience in appraising and analyzing office properties. Therefore, we possess the knowledge and experience to meet the competency provision of USPAP.

PURPOSE OF APPRAISAL

The purpose of this appraisal is to provide an estimate of the Market Value of the fee simple interest in the Provident Building property as of October 2, 1992. The building is occupied solely by Anchor Bank and is not subject to any leases.

DEFINITION OF MARKET VALUE

The term Market Value, as used in this report, is the definition that is the one used by many federal financial institutions. This definition was established under FIRREA. This definition of market value is:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹

This definition is held by the Appraisal Institute to be compatible with the commonly used definition published in The Dictionary of Real Estate Appraisal (second edition). Since Anchor is a federally insured institution, the preceding FIRREA definition was judged to be the most appropriate definition for use in this report.

PROPERTY RIGHTS APPRAISED

The opinion of market value expressed in this report is the value of the fee simple interest. The fee simple estate is defined as absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by governmental powers

¹ Federal Register, vol. 55, no. 163, August 22, 1990, pages 34228 and 34229; also quoted in the introduction to the Standards of Professional Appraisal Practice of the Appraisal Institute.

of taxation, eminent domain, police power, and escheat. The reason that the fee simple estate would be appropriate for valuing the Provident Building property is because the property is not subject to any leases.

USE OF THE APPRAISAL

This appraisal is being performed as a part of an overall study of the downtown Madison real estate assets owned by Anchor Bank. The estimate(s) of market value will be used as a benchmark in the overall planning process for these Anchor Bank properties, which include the Provident Building. In addition, Anchor Bank recently converted from a mutual savings institution to a publicly owned company. The value estimate(s) will be used to provide an estimate of the market value of the downtown Madison real estate assets owned by Anchor Bank. The property that is the subject of this appraisal consists of the Provident Building only. The other downtown Madison properties owned by Anchor Bank are the subject of a separate report.

IDENTIFICATION OF THE PROPERTY

The property being appraised is referred to as the Provident Building, which consists of a 3-story building with a full basement that has a reinforced concrete frame with masonry walls situated on a 5,512.5 square foot site located on the corner of the 3-way intersection of South Fairchild Street, South Hamilton Street and West Doty Street. The site of the Provident Building is located 1 block southwest of the Capitol Square (the "Square"). The Provident Building is basically triangular in shape and has a total gross area of 20,970 square feet, including the basement.

The address of the Provident Building is 126 South Hamilton Street. The property is further identified as Tax Parcel Number 0709-231-1908-0.

The legal description of the Provident Building is as follows:

Mills Subdivision of Block 73 of the Original Plat of the City of Madison. Lots 10, 11 and 12.

PROPERTY HISTORY

The Provident Building was developed as a headquarters facility by the Provident Savings and Loan Association in 1960. Provident Savings and Loan was acquired via merger by Anchor Savings and Loan (now known as Anchor Bank) in 1986. As a result, the real estate formerly owned by Provident Savings and Loan, including the Provident Building, is now owned by Anchor Bank. Anchor Bank continues to own the Provident Building today, and the building is owned free and clear of any mortgage encumbrance. Since the property was acquired via merger, there is no separate real estate transaction which would identify the specific purchase price for the Provident Building.

AREA ANALYSIS

INTRODUCTION

The purpose of the Area Analysis section of this report is two-fold. First, this report section is intended to acquaint the reader with the general area in which the subject property is located. Second, the appraiser needs to analyze the general data related to the four forces that influence property value, which are social, economic, government, and environmental. The analysis of this data will provide the basis for the conclusions reached later in this report.

The properties that are the subject of this appraisal are located in the downtown area of the City of Madison, which is the principal

city and county seat of Dane County. Madison is also the capitol of the State of Wisconsin. Madison is located in south central Wisconsin about 80 miles west of Milwaukee. A local map depicting Madison and its location is contained in Appendix A.

This appraisal is being performed for Anchor Bank. The executive officers of Anchor Bank, who will be reviewing the overall report, are very familiar with the Madison area. As such, a type of detailed description of the Madison area that might be done for a reader unfamiliar with the area is not necessary in this case.

Notice, however, that current appraisal standards require assignments to not be so limited in scope that the resulting appraisal would be misleading or confusing to the client, users of the report, or the public. Further, appraisals need to contain sufficient information to enable the people relying on the report to understand it properly.

An appraisal must set forth the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions in the appraisal. Therefore, the Area Analysis section of this report will concentrate on those specific factors that impact on the subject. More general information that is viewed to be common knowledge will not be included in this report.

SOCIAL FACTORS

Social factors are exhibited primarily through population characteristics. The 1990 population of Dane County was 367,085 with the population for the City of Madison at 191,262 for the same year. 1980 population figures for the area indicate that the population is

growing. In 1980, Dane County's population was 232,345 and Madison's population was 170,616. By the year 2000, the county's population is projected to increase to 389,852, an increase of approximately 6%. A breakdown of population figures by age group, for both the City of Madison and Dane County, indicates that the largest concentration of the population is between 18 to 44 years of age.

The projected population growth is likely to occur and will, therefore, have a positive effect on the area.

ECONOMIC FACTORS

Since Madison is the state capital, county seat, and the location of the University of Wisconsin-Madison, both the university and the government play a large role as employers in the area. Other Madison area private manufacturing employers include Oscar Mayer Foods Corporation, Swiss Colony, J.H. Findorff and Sons, Inc., and Ray-O-Vac. These manufacturing firms also play an important role in the area's economy. At the perimeter boundaries of the city, there are several commercial/industrial park locations.

The government and the education sector in the work force have a dramatic effect on the area's employment figures. The unemployment figures for the Madison Metropolitan Statistical Area are the lowest in the state, due to the stability of employment within the government and education sectors. The 1991 annual unemployment average was 3.1% and the 9-month average for 1992 was also 3.1%. As of September, 1992, the seasonal unadjusted rate was 2.9% in comparison to 3% as of September, 1991. Information issued from the Wisconsin Department of Industry, Labor and Human Relations indicates that these rates have been between 2.5% and 3% since 1988.

To conclude, the area's economy is dominated by the government and education sectors. However, manufacturing and commerce still play an important role in the area's economy. The strong influence of the government and education employment sectors in the area provides the basis for the area's favorable employment figures. In general, the area's stability is an attraction for employers and new business.

GOVERNMENT

City government is directed by the mayor, who is the chief executive officer of the city, and the common council. The City of Madison offers full service government with full time police and fire protection.

In terms of the area's property tax, the 1991 mill rate was \$33.35 per \$1000 of assessed value. All property in Madison is assessed at 100% of market value. It is reasonable to assume that given the increased demand for services, the local mill rate will increase in years to follow.

In addition to city government, county government has an impact on the area. The county's largest responsibilities, in terms of expenditures, are building and maintaining highways (including the expressway system) and operating welfare programs.

In summary, the full range of services offered by the City of Madison and Dane County, help foster a more stable environment. This has a positive influence on the subject property.

ENVIRONMENTAL FACTORS

Madison is centrally located in south-central Wisconsin which is the city's location between two lakes, Lake Mendota and Lake Monona,

has a definite effect on the area's climate and provides recreational opportunities for residents.

The Madison area has an excellent city-owned bus system that provides the community with a high level of public transit service. The Madison Metro is a national leader in seat-miles per capita provided to its service area. The Madison Metro is designed to service physically disabled persons and has a fringe benefit bus-pass program that offers employers the opportunity to include bus fare as an employee benefit. The city's transportation links, along with the relatively small size of the area, allow for relatively easy commutes to area employment centers.

Automobile access throughout the Madison area is regarded as average. The city lacks an efficient cross-town freeway system. The east-west arterial streets that run through Madison ultimately have to be routed through the isthmus between Lake Mendota and Lake Monona. This 10 block wide stretch of land is densely developed since it was one of the first areas of the city to be developed in the mid-1800s. Therefore, through traffic attempting to travel east-to-west or vice versa through Madison can sometimes experience congestion when going through the isthmus area. In order to compensate for this poor traffic circulation pattern, the City of Madison and Dane County have been working over the past years to develop a beltline highway system to ring the city. The beltline highway around the east, south, and west sides of the city is now complete. This provides much more efficient traffic circulation in these peripheral areas.

The Madison area is approximately 80 miles west of Milwaukee, 95 miles northeast of Dubuque, 142 miles northwest of Chicago and

256 miles southeast of the Twin Cities. The Madison Metropolitan area is serviced by a network of federal and state highways. Interstate 94 provides access to Milwaukee and north to the Twin Cities. Interstate 90 provides access south to Beloit and northwest to LaCrosse. US Highways 12, 14, 18, 51 and 151, as well as State Highways 30 and 113, also service the area.

The main flow of air traffic for the area is handled at the Dane County Regional Airport/Traux Field. This airport provides air service to Madison and the surrounding region. It is the second largest commercial airport in the state.

SUMMARY

The four forces analyzed generally indicate a favorable investment environment for the Madison area and the subject. Main points previously discussed are summarized as follow:

- Dane County and the City of Madison have had population increases throughout the 80s and the population is projected to continue increasing in the future.
- The area's employment is concentrated primarily within the government and education sectors. This has resulted in the stability of the area's unemployment figures, which are better than the national averages. The area typically has the lowest unemployment rate in the state.
- Government forces help foster an environment that is generally desirable as a residential or commercial location in Madison.
- The Madison area is well serviced by transportation systems, utilities and educational institutions. The area's quality of life is enhanced by its proximity to area lakes, parks and several cultural opportunities.

NEIGHBORHOOD ANALYSIS

The purpose of the Neighborhood Analysis is to refine the focus from the macro orientation of the Area Analysis, which looks at value influences on a regional basis, to a micro viewpoint that examines

value influences in the environment immediately surrounding the subject property. In other words, neighborhood analysis establishes the context in which the value of the subject property is to be estimated. To perform the neighborhood analysis, one starts with the subject property and investigates the forces that influence value in the search pattern that radiates outward from the property. The appraiser then tries to establish the physical boundaries of the neighborhood. By closely studying the neighborhood, indications as to value trends, life state, and future desirability can be discerned.

A neighborhood is defined as a portion of a larger community, or an entire community, in which there is a homogenous grouping of inhabitants, buildings, or business enterprises. Neighborhood boundaries may consist of well-defined natural or man-made barriers or they may be more or less well-defined by a distinct change in land use or in the character of the inhabitants.¹

Alternatively, a simpler definition is an area comprised of a grouping of complimentary land uses affected by similar operation of the four forces (i.e., social, economic, governmental, and environmental) that affect property value. It should be noted that the term district is usually used to define a neighborhood comprised of a homogenous land use, such as an industrial district.²

¹ The American Institute of Real Estate Appraisers, The Appraisal of Real Estate, pp. 123-124.

² Ibid

The property being appraised is part of a neighborhood that is known as the Capitol Square, or simply "the Square". This neighborhood is the heart of downtown Madison. The name is derived from the central feature of the area, which is the State Capitol Building. The Capitol Building is situated on a four square block site which was chosen due to the fact that it is a prominent hilltop between Lake Mendota to the north and Lake Monona to the south. The slope of this hill drops sharply to the levels of the Square, within a few blocks of these two lakes, which gives prominence to the State Capitol Building and the major buildings located around the Square.

The Square neighborhood consists of an office, government and commercial district that has its primary focus within two blocks of the Capitol Square. The boundary of the neighborhood is established by the so-called "outer ring", which is a one-way traffic route that was established to direct automobile traffic around the Square. The outer ring is defined by Dayton Street on the north, Fairchild Street on the west, Doty Street on the south, and Webster Street on the east. The subject is located on the outer ring.

The Square neighborhood is the center for government offices for the State of Wisconsin, Dane County, and the City of Madison. In addition, the Federal Building, which houses the Federal Courthouse and related agencies, is located within one block of the Square neighborhood at 120 North Henry Street.

The Square neighborhood was formerly regarded as Madison's primary commercial neighborhood. The importance of downtown Madison as a retail district declined during the 1960s, as suburban shopping centers began to be developed. This decline accelerated during the 1970s with the development of regional malls on the western and

eastern peripheries of Madison. While retail uses continue to have a significant presence on State Street, retail uses are practically extinct around the Square. However, downtown Madison is still the city's primary office district, with the highest concentration of office development in the city and region. According to published sources, there is approximately 3.8 million square feet of office space in the central Madison area.

Although downtown Madison continues to be the city's primary office district, there has been a significant volume of office development in suburban locations in the past 10 years. This has served to reorient the mix of tenants in downtown Madison. Basically, many of those tenants that had no compelling need to be downtown have left, with those types of tenants that have remained having grown to filled the voids created by this out-migration. The primary types of office uses that remain in the downtown area include government, office uses that are related to government (e.g., lobbyists, attorneys, trade groups, etc.), financial institutions, and tenants involved in the investment services industry (e.g., real estate professionals, stock brokers, investment advisors, etc.).

The development stage and life state of the neighborhood varies with land use type. As indicated, retail uses in the Square neighborhood have experienced an extended decline, with major retail extinct on the Square itself. The Square was formerly the location of Madison's major department stores and other retailers; only a few small retailers and specialty shops now remain. Again, State Street is still a thriving retail center, probably due to its proximity to the university campus. With respect to office uses, the neighborhood is in a stable to growing life state. The M&I Bank, in conjunction with Foley & Lardner, are in the final planning process for a new

building which reportedly will have a total gross area of 160,000 square feet, consisting of 107,000 +/- square feet of new space which will envelop the existing M&I Bank Building. This development will be located on the southwest corner of West Main Street and Martin Luther King, Jr. Boulevard., next door to the Anchor Building. In addition, the State of Wisconsin recently purchased a newly developed 160,000 square feet building at 101 East Wilson Street. Also, the past decade has witnessed the development of a new building on the site of the former Manchester's Department Store at 2 East Mifflin Street, the redevelopment of the J.C. Penney's Store at 1 East Main Street into offices, and the addition of new office floors to the office building that was developed in the converted Emporium Department Store, known as the AT&T Building. In terms of hotel uses, this market segment has apparently experienced a decline over recent years, with the Concourse Hotel having experienced bankruptcy twice during the 1980s. However, there are hopes that this market segment will improve when the development of the downtown convention center, which is slated for a site on John Nolen Drive just south of the Square neighborhood on Lake Monona, comes to fruition. In terms of residential uses, the Square neighborhood itself does not have a significant residential component. The area surrounding the Square typically does have a residential orientation. However, Mr. Jerome Mullins has assembled a large portion of the East Mifflin Street block across the street from the Capitol Building and is reportedly planning to develop a luxury condominium project on the site.

Building improvements in the Square neighborhood range from post-Civil War buildings that have been preserved or restored to modern mid-rise office buildings that reflect various stages in the evolution

of modern architecture. Building improvements on the Square are dominated by the State Capitol Building, and this dominance will continue due to height limitation for buildings around the Square which was enacted to preserve views of the State Capitol Building. The Square neighborhood is basically 100% built up, with only a few vacant sites available for development. This means that any sort of major development in the area would have to involve land assemblage and the demolition of existing buildings.

Land users in the immediate vicinity of the subject also include the Dane County ramp across the street to the west. There are some older storefronts and smaller commercial users in the 100 West Main Street block to the north. Land uses beyond the outer ring to the south and west are residential.

One of the major factors associated with the Square neighborhood is its "unfriendliness" to the automobile. Traffic circulation through and around the Square neighborhood is difficult at best. Past city planning policies intentionally made automobile circulation and parking more difficult in the Square neighborhood in order to discourage the use of the automobile downtown. Automobile traffic around the Square has been routed to the outer ring, which are the streets mentioned earlier as being those that define the Square neighborhood. The policy of discouraging automobile traffic in the neighborhood has apparently been somewhat successful. We compared traffic counts from 1982 and 1983 to 1991 levels and found that traffic around the inner and outer rings of the Square has not increased but is virtually the same over those time periods. A 1991 traffic count map for downtown Madison is included in Appendix B. In addition, parking in the Square neighborhood is difficult, given the

lack of on-street parking and high demand placed on parking facilities by virtue of the high concentration of office space. Notice also that the State of Wisconsin, which is a major office user in the Square neighborhood, has a tendency to build or own major buildings without making a provision for parking in keeping with office market standards.

In terms of planned developments for the Square neighborhood, two major developments require mention in addition to the M&I Bank/Foley and Lardner office project. The first is the new 4-story, minimum security Dane County Jail, which is slated for development on a site which is currently being cleared in the 100 block of West Doty Street virtually across the street to the south of the subject. The jail is expected to be open in 1994. The jail is not viewed as a negative influence on the subject since there already is a jail facility downtown. The second planned development is the downtown convention center. As of the effective date of this appraisal, the fate of the proposed 63.5 million dollar project had not yet been decided. However, during the production of this report, a referendum regarding approval of the convention center passed on November 3, 1992. Monona Terrace, as the convention center is known, is based on a 1959 design by Frank Lloyd Wright. The Monona Terrace site is located between Olin Terrace and Lake Monona, three blocks southeast of the Provident Building. The design for Monona Terrace features a 42,300 square foot exhibit hall, a 15,000 square foot ballroom and banquet hall, a multi-media auditorium with seating for more than 900 people, meeting rooms, and a roof-top garden. The State of Wisconsin has pledged \$14 million toward construction of a 550 car parking ramp adjoining the proposed convention center. However, critics of the convention center have

pointed out that it lacks an adjacent hotel. It is believed that the addition of a hotel as part of the convention center's facilities would have been politically infeasible, since certain backers of the project have hopes that the convention center will help the existing downtown hotels. Also, there would probably be political resistance to using public dollars to subsidize a hotel that would compete with existing hotels, which have historically performed poorly. It is not likely that the convention center will have a major impact on the downtown office market. It might serve as an amenity factor in that it will provide meeting and banquet space, but at the same time it might serve to worsen the downtown traffic circulation and parking problems. It will probably have a much greater positive effect on the neighborhood hotel, restaurant, and bar business.

The downtown Madison office market will be analyzed in greater detail in the following section of this report. However, some background information is necessary to complete an analysis of the neighborhood. In general, the downtown market is healthy with tight market conditions in the Class A sector, and relatively healthy occupancies in the Class B and C sectors as well. The vacancy rate for the Square office market for Class A office buildings is currently zero. Class A office rents range from \$16.00 to \$25.00 per square foot. According to a report published by a local broker, the overall vacancy in the downtown Madison market for 1992 was reported to be 8%. Given the fact that there is no vacancy in the Class A market, any vacancy in the Square market would be found in the Class B and C market segments.

Since parking is such a critical factor, the Square parking market requires discussion. In general, most new major office buildings have their own parking ramps. The City of Madison and Dane County have

numerous public parking ramps in the downtown area, including one across the street from the subject. However, the high concentration of office uses makes the supply of downtown parking inadequate. Further, although the City of Madison and Dane County do have ramps in the downtown area, there is no specific provision of a supply of this parking in proportion to the amount of office space occupied by these entities. Further, the parking provided by the State for its buildings is far short of market standards for office buildings (they attempt to provide one stall per ten employees), which magnifies parking supply problems given the huge volume of office space around the Square occupied by the State. Also, many Class B and C office buildings, as well as downtown retailers, have not parking.

While automobile circulation and parking are difficult around the Square, public transportation is good. The City of Madison is served by numerous bus routes, with many of them circulating through the Square neighborhood.

To conclude, the Square neighborhood remains as Madison's premier office district. The decline of retail uses in the Square neighborhood as well as the out-migration of office uses that do not have a compelling reason to be downtown is probably for the most part complete. The fact that a major office development (the new State Office Building at 101 East Wilson Street) has just been completed coupled with the fact that another major office project is in the final planning stages (the M&I Bank/Foley & Lardner Building) indicates that the office market is in a growth stage, albeit a very gradual one. In addition, the fact that virtually no vacant land is available along with the restrictive nature of today's financing markets would indicate that despite the tight office market, there

should be no radical increase in vacancy due to a rapid addition to supply. The high concentration of government uses downtown is expected to remain intact over the long term. Therefore, the Square neighborhood should continue to provide a stable environment for office uses into the foreseeable future.

OFFICE MARKET ANALYSIS

INTRODUCTION

The Area Analysis section of this report points to the fact that Madison has a government and service based economy, and these sectors are major demand generators for office space. Downtown Madison is a center of government, finance, and education for Dane County, and south central Wisconsin. It is also the headquarters for State government.

As background information, a 1984 study prepared by Downtown Madison, Inc. indicated there were 3.8 million net square feet of office in the central area of Madison. This survey also indicated that just over 1.7 million square feet, or 45%, of this space was occupied by various branches of government. At that time, the State of Wisconsin was owner of approximately 800,000 square feet of office space, not including offices located in the State Capitol Building. The State was also a major tenant in downtown office space at that time, leasing nearly 150,000 square feet of downtown office space. The State continues to be a major tenant today.

In terms of downtown workday population, the 1980 Census indicated that just under 30,000 people worked in the central business district. At that time, almost 16,000 of these people were office workers involved in professional or related services or government and public administration activities.

Since this 1984 study, new office space has been added to the downtown inventory. State government has recently completed the purchase of a new, 160,000 square foot building at 101 East Wilson Street. Private sector additions to the inventory of downtown office space since the 1984 study have included Manchester Place, a 101,400 square foot building at 2 East Mifflin Street developed in 1987. The addition of six upper floors to the AT&T Building at 44 East Mifflin Street added of 40,000 square feet of office space to the downtown supply in 1990. The One East Main Building, which added 84,000 square feet of office space to the downtown with its development in 1987. Notice that the above square footages are expressed in terms of rentable area. A planned office development for the neighborhood is the net addition of approximately of 107,000 square feet to the M&I Bank Building as part of the planned development involving the M&I Bank and Foley & Lardner. This project is reportedly in its final planning stages, with development expected to commence next year.

The above history indicates that the downtown Madison market has not been subject to radical increases in supply, so it has avoided the over-supply conditions that have plagued office markets nationally. It is obvious that the State of Wisconsin plays a major role in terms of creating demand for office space. However, the State has exhibited a trend to own major buildings. Further, the long lead times involved in the planning process with respect to additions to office supply for the State of Wisconsin generally means that by the time the planning process is completed, the State's needs have grown beyond what was planned. This means that the problem of the State leaving leased quarters in a mass exodus and thereby skewing vacancy figures upward has been avoided. This will be discussed in greater detail later in this report section.

Another factor that needs mention is the sheer difficulty of developing a new building downtown. First, a developer might need to conduct an assemblage to create a site that is large enough to accommodate a major office building. This difficulty is compounded by the planning and review process in the City of Madison and the extremely difficult conditions in real estate debt and equity markets. Finally, the high land costs, coupled with high construction costs, combine to produce development costs of a magnitude that makes projects infeasible at current market rents unless such projects receive some sort of subsidy. Such subsidies have been achieved in Madison via the use of tax incremental financing (TIF) and/or the use of development bonds for debt financing. All of the private sector developments that were mentioned earlier in this report section as additions to the supply of office space since 1984 involved the use of these subsidy vehicles to some degree.

Another general market trend that is germane to a study of the downtown Madison office market includes the transition in tenant or user type of the time. As discussed briefly in the Neighborhood Analysis section of this report, downtown Madison was formerly the retail, commercial, service, financial, as well as government center for the City of Madison, Dane County and regions beyond. As indicated, the retail component of the Square market has become virtually extinct. Further, the development of suburban office parks with easier automobile access and free parking has led to an out-migration of office tenants that had no compelling reason to be downtown. The Square continues to retain its role as a government and financial district. This implies that those users requiring close interaction with these downtown activity generators are likely to be

found downtown. This means that the evolution or transition of downtown Madison is now practically complete, which suggests a stabilization with respect to occupancy and tenant type in the market. Further, government has exhibited a growth trend over recent years, at this growth plays a major role in fueling the demand for office space not only to accommodate government but also to accommodate those uses who must interact with government agencies on a day-to-day basis.

Office Market Survey and Analysis

In order to draw conclusions regarding the competitive position of the Anchor Building in the marketplace and estimate its economic potential, an analysis of the market for similar quality buildings in the neighborhood was undertaken. The steps in this analysis included establishing a basis for comparison, analyzing supply and current vacancy, establishing current rent levels and expense levels, and identifying potential new supply and occurrences that could affect the dynamics of the market.

The first step in this process was to establish comparison criteria among buildings; i.e., establish what constitutes Class A, B and C office buildings. Any comparisons made and conclusions drawn need to be based on information drawn from the sub-market in which the subject competes.

In order to facilitate this analysis, we established definitions or criteria by which we could segregate Class A buildings, Class B buildings and Class C buildings. This was based not only on our own analysis but on interviews with brokers, property managers, and investors active in the downtown market. In terms of defining what constitutes a Class A office building in downtown Madison, our

analysis and interviews indicated that such a building would have the following characteristics:

Class A Building
Characteristics

- A lobby of distinction.
- Adequate elevator service.
- On-site or easily accessible parking in sufficient quantity (e.g., one stall per 300 square feet +/- of rentable area).
- Good quality aesthetics both on the building exterior and in the interior spaces. The building should be a new or recently renovated building or it should have some sort of historical distinction.
- Good quality management and reputation.
- Adequate HVAC, with zone controls to allow for temperature controls in relatively small spaces (e.g., per private office).
- A high quality tenant population.
- Distinctive location (e.g., on the Square, good views, etc.).

A building might be considered a Class A building in the market without having all of the above characteristics, but it clearly needs the majority. Certain characteristics such as parking, elevators, and acceptable aesthetics are considered mandatory. Therefore, any building that lacks these critical characteristic will likely be perceived as a Class B building. The lack of a number of the critical characteristics would cause a building to be perceived as a Class C building. It should be noted that the current tight office market has caused the demarcation between these distinctions to have become blurred. The high demand conditions and limited supply in the market has probably caused some tenants to accept a location in a lower class building than they would have otherwise preferred merely because a more desirable alternative was not available.

As indicated above, Class B buildings are generally defined by virtue of lacking certain critical characteristics that are necessary to achieve Class A status. Therefore, Class B status is not necessarily so much defined as what a building has, but rather by what it lacks relative to Class A standards. Generally, older buildings that lack a Class A finish package, modern HVAC systems, and on-site parking would be classified as Class B. The next classification, which is Class C, is defined not only by a lack of these attributes, but by lack of elevator service and poorer quality construction and appearance. Based on our discussions with area leasing agents, investors, and property managers, as well as our own independent analysis, the Provident Building would be classified as a Class B to Class BC building.

A summary of those buildings that were generally ranked as Class B or BC buildings is as follows:

Class B Office Buildings - Square Office Market*

<u>Building Name</u>	<u>Building Address</u>
100 North Hamilton	100 North Hamilton Street
Tenney Plaza	110 East Main Street
Valley Bank Tower	222 West Washington Avenue
Hovde Building	122 West Washington Street
James Wilson Plaza	131 West Wilson Street
Commercial Bank Building	100 State Street
30 on the Square	30 West Mifflin Street
M&I Bank Building	1 West Main Street
Hamilton Place	217 South Hamilton Street
AAA Building (Former)	433 West Washington Avenue
First Federal Building	202 State Street

* Class BC Buildings are also included.

EXHIBIT 1

Rent Survey

<u>Building & Address</u>	<u>Class</u>	<u>Total Rentable Sq. Ft.</u>	<u>Vacant Sq. Ft.</u>	<u>Parking Available</u>	<u>Lease Rate And Terms</u>	<u>Expenses Per Sq. Ft.</u>	<u>Contact</u>
Hovde Building 122 West Washington	BC	62,500	0	None-Public Prkg Nearby	\$14.50 (includes est. \$.50 in R.E. Tax Pass-Thru)	\$8.10	Don Brum 257-2440
100 North Hamilton	B	39,507	0	Estimate-50 in ramp	\$13.65 with CPI escalations. 100% leased to State of WI	N/A	Lisa Larson 831-2122
Hamilton Place 217 South Hamilton	B	31,120	7,380	Ltd Surface and under-ground parking	\$12.00-\$14.50 per BOMA rentable (8% load factor)	WND	Judy Susmilch 221-8022
James Wilson Plaza 131 West Wilson	B	120,000	18,000*	214 Under-ground Stalls	\$13.00-\$16.00 per BOMA rentable pass-thru of real estate taxes over base year	WND-Taxes are \$1.85 per sq ft. Energy costs are \$1.85 per sq ft.	Darryl Wild 251-8811
AAA Building 433 West Washington	BC			Surface Prkg @ \$50/Stall	\$12.00 as-is to \$12.75 with TIs.	WND	Judy Susmilch 221-8022
WI Restaurant Assn. 125 West Doty	C	10,612	N/A**	None	\$9.50 as-is	\$4.70	Shaw Company 221-8022

* The 18,000 square feet of vacant space includes an 8,000 square foot tenant who has relocated but is still paying rent.

** 1,329 square feet available prior to condemnation in June of 1992.

The next step in our analysis of the market was to perform a survey of office buildings that might be considered competitive with the Provident Building. The purpose of the survey was to attempt to ascertain current rental rates, vacancy, expense levels and to obtain any other market information that might be useful in assessing the competitive position of the Provident Building in the market. Given the ranking of the Provident Building as a Class B to BC building, we concentrated our survey efforts among the similar quality B buildings. A summary of our survey findings is presented as Exhibit 1, on the facing page. Wherever possible, we attempted to confirm the information we received with other sources. In addition to the rents listed above, we found that basement storage space in the Class A to B downtown buildings ranged from \$2.50 per square foot for raw space to approximately \$7.00 to \$9.00 per square foot for better quality space.

The other factor related to office leasing that needs to be discussed are commissions and tenant improvements. Our survey work indicates that commissions range from \$2.50 to over \$3.00 per square foot when paid up-front. In terms of tenant improvements, the tight Class A market is such that tenants moving into a building that are not key tenants are generally unable to obtain funds from a landlord toward tenant improvements. However, as one progresses down through the Class B and into the Class C markets, some allowance or provision for tenant improvement contributions by landlords appears to become more common. Another factor that requires consideration is the current style of expense pass-thrus. Typical lease terms include gross or full service leases. In the Class A market, landlords are able to obtain a pass-thru of increases over base year expenses and/or with some increase for inflation (i.e., an inflation kicker).

Inflation kickers in the market average approximately 3% per year. The ability to pass-thru expenses and/or obtain inflation kickers declines as one progresses downward through the Class B and into the Class C market. In terms of the area actually rented, buildings in the Square market lease space on what is referred to locally as rentable area, but which equates to BOMA usable area. In other words, the square footage upon which a lease payment is made is based only on that space actually occupied by a tenant. However, two buildings, The James Wilson Plaza and Hamilton Place, are leasing space on BOMA rentable, which means that some proportionate common area square footage is included in the square footage "leased" by a tenant. Lease terms are usually a minimum of 5 years with smaller tenants able to obtain 3 year leases (or even shorter leases) with lease terms for larger tenants ranging from 5 to 10 years.

Our survey work indicates that there is some vacancy in the Class B and C markets. However, this vacancy is difficult to exactly quantify given the broad spectrum of space available in the market and the fact that certain landlords and brokers interviewed either declined or were unable to exactly identify the volume of vacant space available in particular buildings. Suffice it to say that pockets of space are available in this market. Given the tight market conditions in Madison's Class A market, with zero effective vacancy, this has created a spill-over effect in that the better quality Class B space also has a vacancy rate that also approaches zero. Vacancy appears to increase as one progresses downward along the quality scale through the Class B and into the Class C markets. A regularly published local office market survey indicates that the overall estimated vacancy for downtown Madison for 1992 is 8%. While the methodology of this survey

is questionable (i.e., owner occupied buildings are not included, owner/occupant space within an office building not fully owner occupied is not included) and because a number of local market participants interviewed doubted the accuracy of the survey, it is useful as background information. Given the fact that vacancy is effectively zero in the Class A market segment, this implies that whatever vacancy does exist exists in the Class B and C markets. Our research indicates that vacancy in the Class B market is less than 10%.

In terms of market dynamics, the State of Wisconsin is obviously a major factor for the Square and overall downtown Madison market. The state owns the following office buildings in downtown Madison:

Capitol Building, 1 West Wilson Street; General Executive Facilities (GEF) I, II, and III 101 East Wilson Street, 149 East Wilson Street and the Lorraine Hotel. These buildings contain a total of approximately 1.5 million square feet of leasable space.

In addition, the state has a substantial lease presence in the following buildings:

<u>Address</u>	<u>Building Rentable Square Feet</u>	<u>% of Space Lease by State</u>
137 East Wilson Street	27,000	100% leased with option to purchase
121 East Wilson Street	56,000	80% occupied by State of Wisconsin Investment Board and State Commissioner of Insurance.
30 West Mifflin Street (30 on the Square)	62,000	80%-90% occupied by State Department of Veterans Affairs and other agencies
100 North Hamilton	39,500	100% occupied by state legislators, state reference library, and other state agencies.

As indicated earlier, the purchase of the 160,000 square feet building at 101 East Wilson Street was originally intended to provide space for agencies that were in leased quarters. The agency originally slated for the building (Department of Administration) grew so much during the development process that they filled the building, leaving no room to bring in other agencies from leased quarters.

There are currently discussions going on about the possibility of building a GEF IV Building in order to accommodate the anticipated growth in State government. Certain State legislators, most notably Fred Risser, believe that if the State is going to occupy space, they might as well own it. Critics point out the expense potential of a new development or purchase of a new building (101 East Wilson reportedly cost a total \$123.00 per square foot of net leasable area, not including the computer center), versus leased quarters. Given this criticism, it should be noted that the State has also bought lower cost space by purchasing buildings that were rehabilitation opportunities at low cost and then rehabilitating such properties to suit.

Based on our interviews with representatives of the Department of Administration, the State's attention with respect to a new building is currently focused on the development of the new World Dairy Center. Therefore, the possibility of a major move by the State out of leased downtown quarters to a new facility is real, although not likely over the near term. Again, the current rapid growth in government space needs coupled with the long lead time necessary to either build or purchase a building by the State would probably have a similar result as what occurred with the 101 East Wilson Street building; i.e., the

impact would not be dramatic due to the growth and space needs between the time the building was committed and occupied. Therefore, no dramatic increase in downtown office vacancy is likely due to a move by the State.

In fact, the State is currently creating demand for leased quarters in the downtown office market due to the renovation of the State Capitol Building. This is being done on a wing-by-wing basis, with the completion of the north wing due in December of 1992. The west wing will be next, followed by the south wing, and the east wing and the rotunda will either be done together or sequence. During the renovation, the legislators or agencies housed in a given wing are moved to private quarters for the duration of the renovation. Much of 100 North Hamilton was leased by the State due to this renovation process. The east wing of the Capitol houses the Supreme Court, the justices and their chambers, and the law library plus other support services and there are currently rumors floating around the office market regarding the relocation of the Supreme Court's law library. It reportedly takes approximately 2 to 2-1/2 years to renovate a wing. The major constraint on this process is the lack of skilled craftsman able to work with the type of construction and materials found in the Capitol Building.

Other background information about the State's activities in the office market include the fact that the State has a style of leasing space for 5 years or less because any lease over 5 years has to be approved by the Building Commission, which makes the process more complicated. Also, the State does not usually require on-site parking but may do so when a specific agency has need for special vehicles. Other state criteria for office space includes flexible floor plates

in a building in good physical condition. They generally look for spaces of 15,000 to 22,000 square feet, although smaller agencies are located throughout the Madison area.

A listing of Madison area office space leased by the State, with associated rental rates, is found in Appendix C. Since the State is less likely to be an occupant of Class A buildings but tends to rent space in Class B and Class C buildings, this Appendix is an excellent reference with respect to providing market evidence as to actual lease transactions in the Class B and C markets. In terms of leases in downtown Madison that are included, there is a lease at the James Wilson Plaza for the Commissioner of Insurance at a rate of \$12.84 per square foot, there are leases at 30 on the Square that range from \$12.88 per square foot to \$14.06 per square foot, there is a lease with Health and Social Services at Hamilton Place at a rate of \$13.01 per square foot, there is a lease for Senate offices at 100 North Hamilton Street at \$14.30 per square foot, with an effective rate of \$15.05 per square foot, etc. These rates tend to confirm the range of rates that were researched that were listed previously on Exhibit 1.

Conclusion

Our study of the downtown Madison office market indicates a very tight market in the Class A sector. There is some vacancy in the Class B and C office markets, with vacancy levels higher as space quality declines. Vacancy in these market segments is not broad but is found in pockets, with Class B vacancy estimated at less than 10%. The near term outlook for the office market is good, with the current limited supply and high demand conditions that expected to continue into the foreseeable future. State government is apparently growing at a rather rapid rate, which implies that special interest groups,

lobbyists, attorneys, and others that work with the State agencies will continue to demand space downtown. Further, city and county government are both firmly entrenched downtown. As indicated, it is our opinion that the evolution of tenant type downtown is largely complete, with those tenants likely to move away from downtown already having done so. However, it should be pointed out that there are continually rumors that financial institutions have explored the notion of moving back room operations to cheaper space in the suburbs in order to create vacant space that can be leased at today's high rents. Further, Wisconsin Power and Light has considered the option of moving from downtown off and on over recent years, although current reports would indicate that they are staying downtown for now. Therefore, while tight market conditions are forecast to continue, factors exist that could upset this prediction.

In terms of establishing the Provident Building's position in this market, the building has a good location relative to government centers. It is within walking distance of City, County, and State government facilities. In addition, the building is of good quality in terms of construction. The exterior of the building would be classified as being neutral in appearance. The building lacks the historical ambiance of some Class B and BC buildings in Madison, but at the same time is not unattractive. The disadvantages presented by the building itself include the difficult floor plates due to the triangular shape, the older HVAC system, and the dated appearance of the building's interior finishes. It is assumed for our analysis that in terms of tenant improvements, given the market it is likely that the tenants would have to pay for the improvements themselves. This would help mitigate any problem associated with the dated appearance

of the interior finishes. The major negative factor of this property is the lack of on-site or captive parking. However, the Dane County Ramp, with 1,002 stalls (225 reserved stalls) is located across Fairchild Street from the Provident Building. The lack of parking is common among Class B and C buildings in downtown Madison. Basically, then, the lack of parking does not make a building unleaseable, but rather causes it to receive a lower ranking within its given class. A summary of the public parking facilities available in downtown Madison is included in Appendix D. Based on our survey work and analysis, it is our opinion that the logical user types for the Provident Building would be full-floor types of tenants or an owner/user. Triangular floor plates of the building do not lay out well for multiple tenancy. Given the wasted space that would result and the costs of adding corridors and similar improvements for multiple tenancy, an owner would probably be better off aggressively marketing to full-floor users as opposed to cutting up one or more floors for multiple tenancy. Also, it is our opinion that given the tight office market that such users could be found in the marketplace, especially given the large presence of government users as office tenants. It should be pointed out that this could be interpreted as a timing issue whereby the space would have to be available at the same time that a user that would need that amount of square footage would be present in the market. The majority of tenant in the Madison market are small in terms of space usage and the floor plates in the Provident Building (3,672 square feet to 4,162 square feet) are too large for the typical small tenant. The above factors mean that the building would experience some vacancy over time.

Based on our research and analysis, it is our opinion that the rents for the above-grade floors in the building would be \$13.50 per square foot on a gross or full service basis. The finished space in the basement would have a rent potential similar to that of other basement office space in the Square area, which is in the range of \$9.50 or \$10.00 per square foot to \$12.00 per square foot. The Provident Building also has storage space, since the former drive-thru facility has been enclosed and is now used more or less as heated warehouse space. This space is somewhat odd for the Square neighborhood; we were unable to locate any exact comparables. However, basement storage in Class A buildings is renting for \$8.00 to \$9.00 per square foot given the high demand for storage by attorneys and other users that generate a large volume of files. Storage space in the James Wilson Plaza is rented for \$2.50 per square foot. Given the fact that this space is first floor space and is accessible via an overhead door, it would appeal to a much broader market in that a tenant could rent the space and not need lobby access to utilize it. The space could be rented to someone who could merely walk or drive up to the space. Further, there is an alley adjoining the building along the drive-thru which, in effect, creates a loading area. Therefore, although no close comparables exist, a rent between the range indicated by the Class A buildings and by the type of space available at the James Wilson Plaza would be appropriate. Therefore, a reasonable estimate for the storage space in the former drive-thru is \$5.00 per square foot.

ZONING ANALYSIS

The purpose of the Zoning Analysis section is two-fold. First, the subject property will be studied to determine whether or not it is a legal, permitted use in terms of the ordinance that governs its location. Second, the permitted uses and limitations on those uses allowed within the zoning district will also be explored, with this information to be applied later in this report when determining the highest and best use of the subject property.

The subject is located within the C4 Central Commercial District zoning district in the City of Madison. This type of commercial district is intended to provide uses which are citywide, regional or state significance. All new buildings and any major alterations of an existing building must be approved by the City Planning Commission due to the community's objective of maintaining the aesthetic qualities of this district. Parking is not required for building in the C4 district.

Other provisions within this district include the following:

1. General Regulations.

- a. Uses permitted in the C4 district are subject to the fact that any new construction of a building addition to an existing building or major alteration of the exterior face of the building shall conform to the urban design guidelines for downtown Madison published by the Urban Design Commission.

2. Permitted Uses.

- a. Uses permitted in the C2 district (which include uses permitted in the C1 district), except restaurants, are permitted.

1. These include offices, financial institutions, department stores, hospitals, hotels/motels, and a variety of other retail, business, and service oriented establishments, etc.

3. Conditional Uses.

- a. Parking facilities, non-accessory and public/privately owned and operated parking for private passenger automobiles only, subject to the provisions of Section 28.11 and limited to those areas paved as of 1/77, or those owned by the parking utility as of 1/77.

4. Lot Area Requirement.

- a. In the C4 district, there shall be no lot area requirements.

5. Height Regulations.

- a. Buildings on zoning lots having street frontage on the Capitol Square or West Washington, or Wisconsin Avenue or on Martin Luther King, Jr. Blvd. and buildings on zoning lots fronting on the southeast side of East and West Wilson Street shall not be less than three stories and not more than ten stories in height. The buildings on lots in this zoning district not having frontage on the above mentioned streets shall have a maximum height of eight stories.

6. Yard Requirements

- a. A minimum rear yard of 10 feet shall be provided for the purpose of loading and unloading from future alleyway systems. However, this rear yard requirement may be waived by the Zoning Board of Appeals provided it finds that such rear yard is not necessary as part of an alleyway system.

In addition to the C4 zoning regulations the property is also subject to the following:

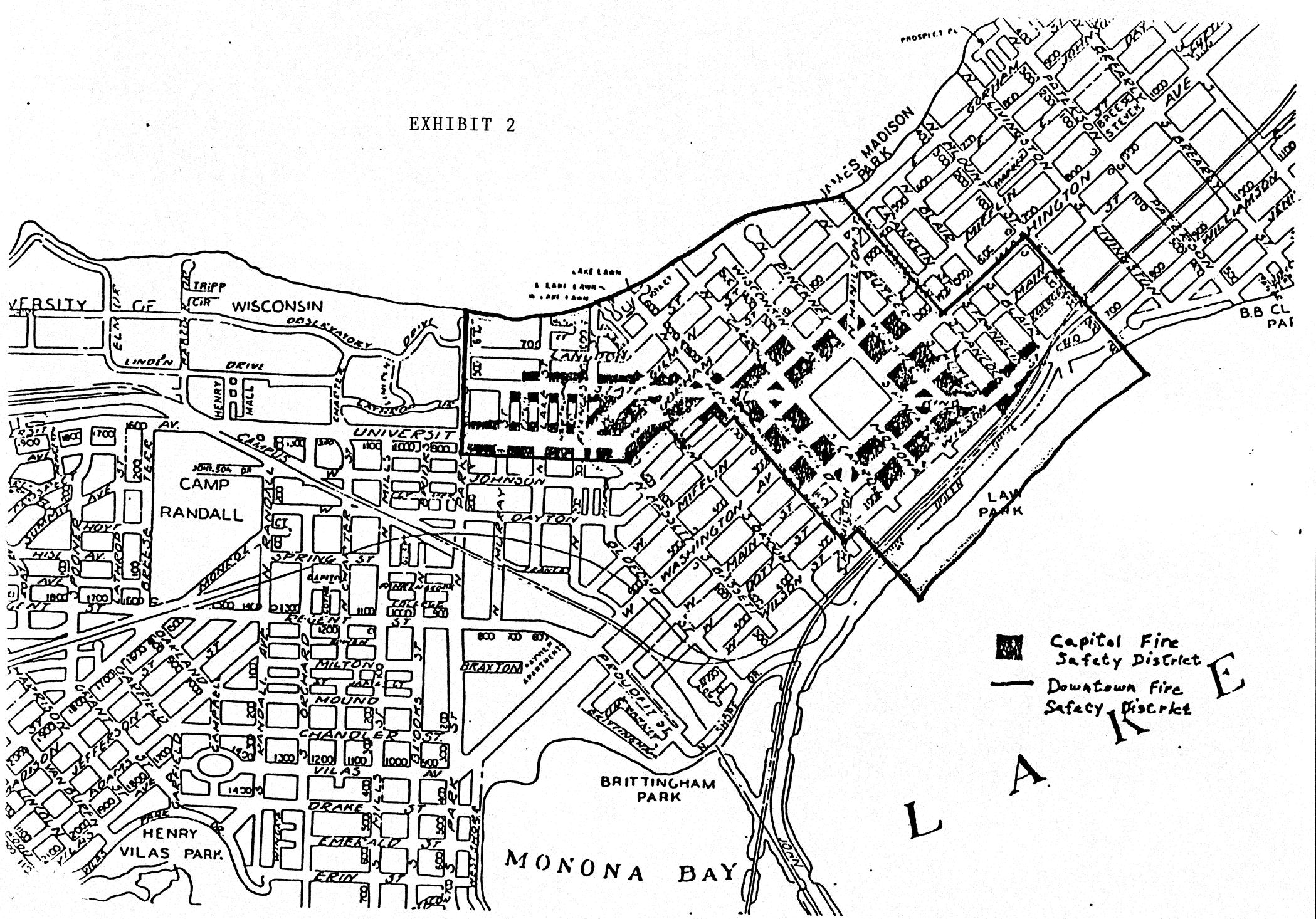
1. Capitol View Preservation.

According to Section 28.04, general provisions of the City's zoning code, Section 14 notes that this ordinance was established to preserve as well as to promote and enhance the view of the State Capitol Building from various parts of the city.

- a. All buildings or structures erected, altered or enlarged shall be subject to the following regulation:

No portion of any building or structure located within one mile of the center of the State Capitol Building shall exceed the elevation of the base of the columns of said Capitol Building or one hundred eighty-seven and two-tenths (187.2) feet, City datum. Provided, however, this prohibition shall not apply to any flagpoles, communication towers, except communication towers in residential districts which shall comply with the requirements of Section 28.08(1)(d), church

EXHIBIT 2



spires, elevator penthouses, screened air conditioning equipment on existing buildings, and chimneys exceeding such elevation, when approved as conditional uses. For the purpose of this subsection, City datum zero (0.00) feet shall be established as eight hundred forty-five and six-tenths (845.6) feet above sea level as established by the United States Coast and Geodetic Survey.

2. Capitol Fire Safety District

The property is located within the Capitol Fire Safety District. This indicates that alterations to existing structures must be of noncombustible metal studs. Wood framing members are prohibited.

3. Downtown Fire Safety District

The property is also located within the Downtown Fire Safety District. A map showing the Capitol Fire Safety District and the Downtown Fire Safety District is on the facing page as Exhibit 2. In the Downtown Fire Safety District all new constructions must be Type 6 construction, indicating that there must be a metal frame. However, there can be wood partitions.

Section 28.11 of the zoning ordinance establishes off-street parking and loading facilities requirements. Regulations under this ordinance include the following:

1. Whenever the existing use of a building or a structure shall be hereinafter be changed to a new use, parking or loading facilities shall be provided as required per such new use.
2. Control of Off-Street Parking Facilities.
 - a. In cases where parking facilities are permitted on land other than the zoning lot on which the building or use served is located, such facilities shall be in the same possession as the zoning lot occupied by the building to which the parking facilities are accessory.
 1. Exception: When such parking facilities are approved as a conditional use for sale or lease by the owner to an owner of business for use as an accessory parking in the conduct of said business. Possession shall be by deed whereby requiring the owner to be bound by a covenant filed with the Register of Deeds requiring him, his heirs or assigns to maintain their net required number of parking facilities for duration of the use served.
 3. All parking spaces required by this ordinance shall be located on the same zoning lot as the building/use served except that parking facilities may be located on land other than the zoning lot on which the building is located, provided:

4. Parking spaces required on an employee basis shall be based on the maximum number of employees on duty on the premise at one time.

a. Such parking facilities are located within 1000 feet walking distance of the main entrance to the use served.

Section 28.11(3) of the city's zoning code also gives specific regulations that are followed for off-street parking facilities accessory to uses allowed by the zoning ordinance. These include the utilization of parking spaces, the computations used to determine the number of spaces, the size of and access to the area as well as provisions for the design and maintenance of the parking area. The specific guidelines within the section of the zoning code indicate the city's interest and strict control over parking in the area.

Of all the commercial districts within Madison, the C4 district is the most comprehensive. There are a large variety of uses which are permitted in this district, including those permitted in the C1 Limited Commercial and C2-General Commercial Districts (with the exception of restaurants). Therefore, this would tend to allow a variety of users to locate within this area. However, as previously mentioned, the city is quite strict on restrictions for a change in use or a conditional use for a property. Approval from the Plan Commission is necessary in such instances.

In summary, the subject is considered to be a legal conforming use. Its use is permitted in this district, and it complies with height requirements. Its construction also complies with fire-safety regulations.

EXHIBIT 3

CHANGES IN ASSESSMENTS AND REAL ESTATE TAXES - 1987 TO 1992
 ANCHOR BANK PROPERTIES IN DOWNTOWN MADISON

 PROVIDENT BUILDING
 126 SOUTH HAMILTON PARCEL NO. 0709-231-1908-0

ASSESSMENT YEAR	LAND	IMPROVEMENTS	TOTAL	% CHANGE	NET MILL RATE	% CHANGE	REAL ESTATE TAXES	% CHANGE	SLAND/SF (5,512 SF)
1987	\$110,000	\$850,000	\$960,000	0.00%	0.0297936	4.77%	\$28,601.86	4.77%	\$19.96
1988	\$110,000	\$850,000	\$960,000	0.00%	0.0301495	1.19%	\$28,943.52	1.19%	\$19.96
1989	\$110,000	\$900,000	\$1,010,000	5.21%	0.0316612	5.01%	\$31,977.81	10.48%	\$19.96
1990	\$110,000	\$925,000	\$1,035,000	2.48%	0.0325074	2.67%	\$33,645.16	5.21%	\$19.96
1991	\$110,000	\$955,000	\$1,065,000	2.90%	0.0333507	2.59%	\$35,518.50	5.57%	\$19.96
1992	\$110,000	\$955,000	\$1,065,000	0.00%	N/A	N/A	N/A	N/A	\$19.96
1993	\$115,600	\$999,400	\$1,115,000	4.69%	N/A	N/A	N/A	N/A	\$20.97
	OR	\$115,000	\$1,000,000						
			\$1,115,000						

NOTE: In 1986 the mill rate was 0.0284369, the 1986 assessment was \$960,000 and real estate taxes were \$27,299.43.

NOTE: The net mill rates from 1977 to 1986 are as follows:	% CHANGE
Assessments are suppose to be at 100% of market value, but are usually around 94-98% of market, according to State equalized values.	
1977 0.0264950	
1978 0.0241530	-8.84%
1979 0.0220360	-8.76%
1980 0.0215630	-2.15%
1981 0.0217704	0.96%
1982 0.0222436	2.17%
1983 0.0250100	12.44%
1984 0.0254305	1.68%
1985 0.0263591	3.65%
1986 0.0284369	7.88%

REAL ESTATE ASSESSMENT AND TAXES

The Provident Building is identified in the City of Madison's Tax Roll as Parcel Number 0709-231-1908-0. The total 1991 assessment for the property was as follows:

Land	\$ 110,000
Improvements	<u>955,000</u>
Total	\$1,065,000

The 1991 net tax rate was \$33.35 per \$1,000 of assessed value. The total 1991 taxes for the property were \$35,518.50. The above assessment is \$66.55 per rentable square foot.

Real estate taxes for the property have increased each year over the past 5 years. Exhibit 3 on the facing page illustrates the changes in assessed value and real estate taxes for the property from 1987 to 1992. Notice that the assessment for the property for 1992 did not change over 1991 levels. However, the tax rate for 1992 has not yet been determined, so it is not possible to estimate the real estate taxes for 1992 with certainty. Most informed sources anticipate an increase that is consistent with past increases. As previously mentioned, the tax rate has been increasing throughout these past years with an average annual percentage of 3.25%. According to the City, assessments in Madison should be at 100% of market value; however, they are typically about 94% to 98% of market value according to equalization ratios. Assessed values are reviewed each year. Based on our research, the assessment file for the Provident Building contained notes which indicate that the 1993 assessment will be increased slightly over 1992 levels. The preliminary notes indicate a potential increase in assessed value of \$50,000.

Historic real estate taxes must take two factors into account. Real estate taxes are a function of both assessed value and rate.

When these two factors are viewed together, the average percentage increase in real estate taxes for the Provident Building has been about 5% per year over the past 5 years.

In addition to real estate taxes, the Provident Building is subject to a special assessment for mall maintenance expenses for the State Street and Capitol Concourse Mall.

Each year an annual estimate of the projected budget for maintenance is established, and any necessary budget variances from year to year for actual expenses are made. Then, after the City absorbs its share of the expense, as well as the State's share, a certain percentage of the expenses will be paid by the vendors. Following this, the remainder of the maintenance expenses are then pro-rated among the property owners within the mall assessment district. There are different sub-areas within the assessment districts, indicating that the assessable area of each property may not equal its entire area. Since the Provident Building is not located on the Square, it is assessed for only 31% of its site.

The following is a breakdown of the pro-rata share of maintenance expenses for the property for 1992.

<u>Parcel</u>	<u>Total Area</u>	<u>Assessed Area</u>	<u>Total Special Charges</u>
Provident Building	5,512 sq ft	1,656.3 sq ft	\$127.42

Our research did not indicate the presence of any other special assessments against the subject property. In addition, we were not made aware of any planned special assessments that might impact on the subject.

SITE DESCRIPTION AND ANALYSIS

The Provident Building is situated on a triangular-shaped site that has an indicated area of 5,512.5 square feet per city records. The site is situated on a 3-way corner and forms the north point of the intersection of South Fairchild Street, South Hamilton Street and West Doty Street. The site has 105 feet of frontage on South Fairchild Street and approximately 105 of frontage on South Hamilton Street. The north lot line abuts a 17 foot wide city alley. The site has a downhill slope of approximately 10% toward Lake Monona to the south.

It should be pointed out that the triangular shape of the site presents limitations in terms of its utility. There are a number of triangular sites in downtown Madison, which are created by the overlay of a radial street pattern on a grid pattern. These sites are typically improved with triangular shaped or so-called "flat iron" buildings. The end result is that such buildings have floor plates that have the potential to offer less utility than more traditional rectangular floor plates.

We examined the original blueprints for the Provident Building and found that these blueprints did not contain any soil boring records. However, the other Anchor properties that have been appraised as part as this overall assignment included the Anchor Ramp, located across the street. The blueprints for the Anchor Ramp did include soil boring records, which indicated the presence of a top layer of fill, a middle layer of brown silty clay, with brown slightly silty fine to medium sand with some small to medium gravel at the bottom of the boring. The borings for the Anchor Ramps achieved a maximum depth of 25 feet. These soil types are consistent with the fact that the

Capitol Square is located on a glacial drumlin. Sand and gravel soils do not present any unusual constraints for low or high rise construction. We did not observe the presence of any soil problems (e.g., foundation cracking, differential settling, etc.) during our inspection. Although the exact soil type indigenous to the subject site could not be identified due to the lack of soil boring records, soils in the area do not appear to pose any unusual constraints with respect to building construction.

In terms of infrastructure, the blueprints note the presence of sanitary sewer, storm sewer, and a water main in South Fairchild Street. The subject connects to the utility services in South Fairchild Street. Sanitary sewer and water is also noted as being available in Hamilton Street. Underground electric, natural gas and telephone service are also available in these streets. Further, all of the above utilities are available in West Doty Street.

The Provident Building is located on the inside perimeter of the so called outer-ring which directs traffic circulation around the Capitol Square. The outer ring is made up of a series of one-way streets with traffic flow directed in a counter clockwise pattern to promote circulation around the Capitol Square rather than onto the Square itself. In addition, most downtown Madison streets are one-way streets, which sometimes makes automobile access circuitous. South Fairchild Street is a one-way street with 4 lanes (3-thru traffic, 1-parking) with traffic directed to the south. West Doty Street is also a one-way street, but it has a directional change at its intersection with South Fairchild Street. Doty Street is a one-way street for eastbound traffic to the east of South Fairchild Street, and it is a one-way street for westbound traffic to the west of South Fairchild

Street. West Doty Street is a 4-lane street (2-thru traffic lanes and 2-parking lanes). South Hamilton Street is a one-way street for northbound traffic to the south of West Doty Street and it is a two-way street between West Doty Street and the Square. In terms of the Hamilton Street frontage at the Provident Building, this is part of the two-way portion of Hamilton Street, which is a 4-lane street with 2-parking lanes and 2-thru traffic lanes. Streets in the vicinity of the subject are asphalt paved with concrete curb, gutter and sidewalks. The streets are lighted. 1991 traffic counts conducted by the City of Madison indicate a traffic volume of 11,250 cars per day on South Fairchild Street in the vicinity of the subject. The traffic volume on West Doty Street is higher at 13,500 per day while the traffic volume on South Hamilton Street is much less, estimated at 1,000 cars per day along the subject's Hamilton Street frontage.

Our research at the offices of the City of Madison indicates that the Provident Building site is not in a designated flood plain. In addition, the size, indigenous soils, topography, utility availability of the site do not appear to cause any unusual development constraints. However, the triangular shape is viewed as having a negative impact on the utility of the site.

IMPROVEMENTS - DESCRIPTION AND ANALYSIS

The Provident Building is a 3-story building with a full basement that has a precast concrete frame, with masonry walls. The total gross area of the building including the basement is estimated to be 20,970 square feet.

The Provident Building was constructed in 1960, and was built as the headquarters facility for Provident Savings and Loan Association.

Anchor Savings, now known as Anchor Bank, acquired the property via merger with Provident Savings.

A summary of the gross building areas and rentable floor areas of the Provident Building is presented on the following table:

Building Areas Provident Building		
<u>Floor</u>	<u>Gross Area</u>	<u>Rentable Area</u>
Basement	5,496	4,006
Ground	4,944*	3,672
2	5,265	4,162
3	5,265	4,162
Total	20,970	16,002**

* Includes former drive-thru, now enclosed, of 981 gross square feet which is used as storage.

** Rentable areas are based on full-floor utilization. Also, the net storage area of 888 square feet in the former drive-thru is not included.

The above square footage indicates that the building has efficiency ratio of about 76%. Since the above rentable areas are based on full-floor utilization, rentable area and hence efficiency would decline assuming multiple tenant occupancy per floor.

The floor plates of the Provident Building are triangular in shape. This is an inefficient design. The triangular floor plate would not lay out well for multiple tenancy due to the need to create hallways and because of the resulting core area.

The Provident Building is basically used as office space, with portions of the basement used as an employee lounge and as storage. The mechanicals for the building are also housed in the basement. In addition, the former drive-thru banking facility that is located adjacent to the alley which adjoins the building on the north has been totally enclosed and is now used as heated storage or warehouse space.

The architecture for the Provident Building could be described as modern for the era when it was built. The architectural style of the building is basically neutral. Therefore, while the building lacks distinctive architectural character which might make it more attractive, its neutral appearance does not detract from its marketability.

A building outline and floor plans are included in Appendix E. In addition, representative exterior and interior building photographs are included in Appendix F.

The overall construction quality of the Provident Building is good, reflecting the fact that the building was built by an institution. The following is an outline description of the construction details for the Provident Building based on an examination of the original blueprints and actual inspection.

**Site Preparation
and Excavation:**

Excavation for construction included excavation for the 5,496 square foot basement area. Given the slope of the site, deeper excavation would be necessary to the north. The basement story height is 10'-4" so including footing depth and taking slope into account, the deepest excavation is approximately 14'. In terms of site preparation, the site has a natural slope to the southeast toward Lake Monona. This natural slope was retained during the development of the building.

Foundation System:

The foundation walls of the building rest on continuous reinforced concrete spread footings. The exterior walls of the building have integral reinforced concrete columns that vary in spacing from 12'-1" to 21' on center. The interior support system of the building is made up of reinforced concrete beams and columns, with column footings for the concrete columns included in the foundation system.

Basement Slab:

The basement slab is a 5" reinforced concrete floor slab. The blueprints did not provide details as to vapor barrier or base.

Frame: The framing system of the building consists primarily of reinforced beams and columns with limited use of load bearing walls. The exterior wall system includes integral concrete columns and there are 9 columns in the interior of the building. The bay depths created by the column spacings vary, from 12'x22' to 14'-8"x20'. The typical bay size in the interior office areas is about 15'x19'. The positioning of the interior columns, coupled with the triangular shape of the building, limits the flexibility of layout in certain building areas.

Exterior Wall System: The exterior wall system consists of face brick on block backup, with the use of decorative polished marble panels on the first floor facades on the Fairchild Street and Hamilton Street frontages of the building. In addition, there is an integral precast concrete sill system on the street faces of the building, which is apparently intended to provide shading for the windows. First floor windows are fixed frame, reflective insulating glass. The upper floor windows are metal sash insulated windows, that are capable of being opened to facilitate washing. Notice that there are windows on the street frontages of the building only; the alley frontage of the building has no windows whatsoever.

Structural Floors: Structural floors are typically 3" poured in place reinforced concrete floors. The blueprints did not contain a dimension for the structural floors so the above thickness is estimated based on measurement from the blueprints.

Roof: The roof system consists of a built-up tar and gravel roof on 2" of insulation over a 3" reinforced concrete roof slab. The perimeter wall around the roof is finished concrete coping. The roof surface on the building may be original; it appears to be in need of replacement and replacement is reportedly being considered.

Lower Level Finishes:

Storage = Approximately half of the lower level is currently used as storage. Finishes include a vinyl tile floor, painted concrete block walls, and an acoustical tile ceiling in some areas with an exposed ceiling in other areas. According to the blueprints, the floor tile that appears to be vinyl is identified as vinyl asbestos tile.

Employee Lounge = The employee lounge is finished partially with carpeting and partially with vinyl tile floors, and has painted block walls and an acoustical tile ceiling. The employee lounge has a built-in kitchen area with a built-in range top, and a one compartment sink.

Restroom = The lower level is equipped with 2 toilet rooms with 2 fixtures in the women's and 3 fixtures in the men's. These rooms are finished with a ceramic tile floor and wainscoat with painted block above. The ceiling is acoustical tile.

Other = The lobby area has similar finishes but has a terrazzo floor and base with a ceramic tile wainscoat. Those areas of the lower level originally designated for storage and continued to be used as such are basically unfinished except that they have painted block walls. The mechanical rooms are also basically unfinished.

Upper Level Finishes:

Lobby = Lobby finishes include terrazzo floor, ceramic tile wainscoat, with painted plaster walls above with an acoustical tile ceiling.

Office Areas = Office areas in the building have carpeted floors, with vinyl base in some areas and wood base in others, painted drywall walls or wood paneled walls, and acoustical tile ceilings with lay-in fluorescent fixtures. Anchor has also been using moveable partitions which have been brought over from their headquarters office building to create office partitions. These moveable partitions have a brushed aluminum frame with walnut veneer panels and side lights at office doors.

Restrooms = Restroom finishes include ceramic tile floor and base, a ceramic tile wainscoat with painted block walls above, and an acoustical tile ceiling. The ground floor of the building has no restroom facilities, with restrooms on the second and third floors. Men's and women's restrooms on the office floors have 4 fixtures each. The ground floor of the building has no restroom facilities.

Other = Other areas in the building include air conditioning/air handling equipment rooms on each office floor, which are basically unfinished. The other functional area of the building is the enclosed drive-thru banking facility, which is now used as warehouse. Finishes in this area include an exposed concrete floor, with unpainted drywall walls and ceiling.

- Electrical: The building main is a 600 amp, 3 phase main. There are also a variety of sub-panels that serve the building.
- Lighting: Typical lighting in the building consists of 2'x4' lay-in fluorescent fixtures. These are found in hallways and office areas. There is also the use of various fluorescent and incandescent fixtures throughout the building.
- Plumbing: Plumbing in the building consists of a three inch cold water main which enters the building at the northwest corner. Plumbing service in the building consists of men's and women's restrooms in the basement and upper level floors; there are no restroom facilities on the first floor. However, there is a janitor's closet with a sink on the first floor. There is also a drinking fountain on each floor. Other plumbing service consists of a roof drain system along with floor drains in the air conditioning rooms. There are also plumbing hook-ups to the lower level employee lounge as described above. The building is equipped with a Brunner Water Softener System which is connected to both the hot and cold water domestic supplies. The building is also equipped with a gas-fired hot water heater which is located in the boiler room.
- Heating, Ventilating, and Air Conditioning:
- The building is heated via a hot water baseboard system, with hot water supplied by a Weil-McLain low pressure boiler with a rated output of 1.632 million BTU's. Air conditioning is provided via a direct expansion system with roof-top compressors. There are 6 roof-top compressors to handle the building zones. The roof-top compressors provide a supply of chilled water to the air handling units that are on each floor, and these air handling units then in turn distribute conditioned air throughout the floor via an overhead duct system. An auxiliary boiler is also tied into the air handling system to allow for the distribution of humidified air when necessary. The air conditioning system also functions as an air handling system with the capability of bringing outside air into the building. Hot water pipes in the building are wrapped, and should be checked for asbestos.
- The boiler and air conditioning/air handling units on each floor are original. The roof-top compressors replaced a cooling tower some years ago. The age of the roof-top compressors could not be exactly ascertained but they would appear to be approximately 10 or so years old.

In addition, the computer room in the building is served by a Liebert air conditioning system with its own roof-top compressor.

Mr. Edwin Hill, Jr. of Anchor indicated that the office areas of the building sometimes get too warm on hot days. This is primarily due to the fact that the building is densely populated with Anchor employees, most of whom have a desk top computer. The heat generated by the dense population and office machinery contributes to occasional interior heat overloads on hot days.

- Fire Protection:** The building has a "pull" fire alarm. The building does not have a sprinkler system.
- Elevators:** The building is equipped with one elevator manufactured by the Northwestern Elevator Company. The elevator stops at each floor. The capacity plate was missing from the elevator when inspected, but the elevator would appear to have a six person capacity. Given the dense population of the building per Anchor's pattern of utilization, and given the fact that as a single user Anchor employees are constantly moving between floors to communicate with one another, the elevator has occasionally been overused. The hydraulic fluid for the elevator was subject to overheating as a result so a separate oil separator and exhaust fan system was installed to serve the elevator's oil reservoir and eliminate the odors caused by the oil overheating.
- Stairs:** The northeast and northwest corners of the building are served by stair towers providing access from the lower level up through the third floor. There is also a ladder leading to a hatch that provides access to the roof.
- Doors and Hardware:** Doors within the tenant spaces are typically solid core flush wood doors with what appears to be an oak veneer that is stained to match the remaining original trim wood paneling. The building entry doors are insulated glass that match the first floor windows. The converted drive-thru has a roll-up metal door at the Fairchild Street entrance; the Hamilton Street entrance to the overhead door has been bricked-in.
- Site Improvements:** The site is improved with a small triangular shaped planting area at the corner of Fairchild and Hamilton Streets. There is also a pylon sign with the base in the planting area. Since the building basically occupies the balance of the rest of the site, there are no additional site

improvements. City sidewalks adjoin the building along the Fairchild Street and Hamilton Street frontages and a city alley adjoins the building on the north.

The Provident Building is in good overall condition. The building is of good quality construction and appears to have been well maintained over the years. However, the interior finishes are a mix between original finishes and additions made by Anchor (carpeting in office areas, the addition of moveable partitions to create offices). The light colored wood paneling and trim that is used in some areas make the building look dated. In addition, the bulk of the mechanicals are original with the exception of the roof-top compressors, which appear to be about 10 or so years old. The roof appears to be original and needs to be replaced in the near future. A reasonable cost to replace the roof and add insulation would be \$4.00 to \$4.50 per square foot, or about \$25,000.

The building also suffers from functional obsolescence. As indicated, the triangular shape of the building contributes to inefficient floor plates. The efficiency of the building assuming full-floor tenancy is already somewhat low (at 76%), with any multiple tenancy per floor compounding this problem due to the need to create hallways, which would in turn create a core area with limited utility. Because the floor plates lay out best for a single user, this implies that if a floor became vacant, it would be necessary to find a tenant who could use the square footage available on that given floor. This might be limiting in terms of tenants available in the market in any given point in time.

It should also be pointed out that given the appearance and condition of the interior finishes, a new tenant would probably

require a new finish package. In the current tight market, landlords have been able to require tenants to provide their own finish package or accept the space as-is.

Given the appearance of the interior finishes and the fact that certain mechanical systems are original, the effective age of the building is judged to be 12 to 15 years. The good quality construction of the building would suggest a relatively long physical life, with an estimated remaining physical life for the building of at least 40 or more years.

HIGHEST AND BEST USE

The highest and best use concepts are defined in The Dictionary of Real Estate Appraisal, Second Edition, published by the American Institute of Real Estate Appraiser's, as follows:

"Highest and best use: The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriate supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

Highest and best use of a site as though vacant: The use of a property based on assumption that a parcel of land is vacant or can be made vacant through demolition of any improvements.

Highest and best use of property as improved: The use that should be made of a property as it exists."

In order to estimate a property's value, all the factors that influence and contribute to value must be considered. These include appraisal and economic principles of supply and demand, substitution, balance, and externalities, which all have impact on a property's value.

Highest and best use is first determined for the subject parcel as though vacant. In this first analysis, we assume that the subject site is vacant or can be made vacant through the demolition of any and

all improvements. The analysis attempts to determine what use should be made of the land. In other words, the appraiser works through the tests of highest and best use to derive a conclusion as to the type of building or other improvements that should be constructed on the land.

The second analysis of highest and best use is for the property as improved, which pertains to the use that should be made of the property as it exists as of the appraisal date.

The purpose of estimating the highest and best use of the property, as vacant and as improved, is to identify the use that creates the greatest value of the property. It is generally held that, to be considered comparable, properties should be similar in terms of highest and best use. This helps the appraiser identify sales (land sales and improved property sales) to be used to help estimate the value of the subject property. In order to estimate the use that provides the greatest value, four criteria must be met. The use must be physically possible, legally permissible, financially feasible, and maximally productive. These criteria are considered sequentially. Only when there is a reasonable possibility that an unacceptable condition can be changed is it appropriate to proceed with the analysis without meeting the prior criteria. For example, if the current zoning does not accommodate a likely candidate for highest and best use, but there is a possibility the zoning can be changed, the proposed use could be considered on that basis.

HIGHEST AND BEST USE - LAND AS IF VACANT

An analysis of the subject's highest and best use as a vacant site is necessary to set the premise for estimating the subject's land value. This process helps identify appropriate vacant land sales to

be used to estimate the value of the land of the subject property for the cost approach, if applicable, and for an allocation of total value between land and improvements.

Physically Possible

In analyzing the highest and best use of the Provident Building site as if vacant, it should be noted that the soils and topography of the site do not appear to impose any unusual constraints on building development. However, the triangular shape of the site does pose some constraints. There are numerous triangular sites in the downtown Madison area, which have been created by the radial street overlay on the traditional grid street pattern. These triangular sites are developed with various types of buildings, with triangular buildings not uncommon in downtown Madison. However, most of these triangular buildings are older. The major problem posed by the small size of the triangular site is that in order to maximize its use, another triangular building would probably have to be built. This in turn would create the inefficient floor plates that have been described in this report.

Therefore, when analyzing what is physically possible when discussing highest and best uses if vacant, it is apparent that the subject site could support improvements of the same basic type as those that exist now. Further, numerous taller buildings are found in the area immediately surrounding the subject, which would indicate that a taller building could be built on a site if market conditions warranted.

Legally Permissible

The legal constraints that affect the sites' possible uses are represented by the zoning code, and other outside legal encumbrances

such as easements or other private restrictions placed on the sites. In terms of zoning, permitted uses on the sites are dictated by the uses allowed in the C4 Central Commercial District zoning ordinance. The C4 District is intended for the retail, service and office uses characteristic of a central business district. While the list of permitted uses in the C4 District is extensive, and other constraints in terms of yard requirements, height limitation, etc. are minimal. The major constraint in the C4 District is the fact that all new buildings and any major alteration of an exterior building facade must be approved by the Plan Commission. This means that a proposed development must not only meet all the conditions of the zoning ordinance and be financially feasible, but it must also be politically viable. While Madison's government is sometimes viewed as restrictive with respect to new development by some, it should also be pointed out that local government desires to maintain the viability of downtown Madison as a commercial district.

In terms of specific legal constraints as opposed to the intangible constraint of having to receive Plan Commission approval, the types of uses that are reasonably probable for the site are permitted uses under the zoning. These uses include various types of office and retail uses and perhaps multi-family use. Further, while no accessory off-street parking is required in the C4 District, any off-street parking which is provided is controlled as to the location, type, and size of such facility so as to reduce congestions on streets within or leading to the C4 District. The C4 District requires a minimum rear yard of 10 feet in order to provide for the purpose of loading and unloading from future alleyway systems. However, this rear yard requirement may be waived by the Zoning Board of Appeals if it is

found that the rear yard is not necessary as a part of an alleyway system. Also, zoning lots not on the Square shall be developed with buildings that can only have a maximum height of 8 stories.

In terms of private legal constraints, no title policy on the various properties was made available for our inspection. We would anticipate the presence of usual utility easements, which would have no negative effect on value.

The above legal constraints can be categorized into two general areas in terms of their impact on the site. The first area would involve those legal constraints which can be measured, which would include yard requirements, height restrictions, etc. This set of legal constraints does not impose any unusual conditions that would limit the development potential of the site. The other set of legal constraints is intangible, since it involves the government approval process. This would include the need for a new building to receive Plan Commission approval, and the need for any parking related to such building to also receive approvals. The degree to which these intangible constraints would limit development on the sites cannot be predicted. It is our opinion that the city's desire to maintain the viability of the Square area would probably be the primary consideration and that a project with a development plan in keeping with stated city goals would be approved.

Financially Feasible

The zoning and neighboring land uses in the area suggest two potential uses for the site. The first is an office use, and the second would be some sort of high-end residential use.

A major factor that dictates project feasibility today is the ability of the sponsor to prelease sufficient space in order to attract financing. Obtaining funds in both real estate debt and equity markets is extremely difficult today. Notice that all of the office projects that have been developed in the Square neighborhood over the past decade have all received some sort of government aid to help make the development feasible (e.g., tax incremental financing, development bond financing). Further, today's construction costs require relatively high rents in order to justify construction. In order to obtain such high rents today, a building would need to be a Class A building, which would imply the need for on-site parking. This is impossible given the small size of the subject site. With high-end Class B rents at \$15.00 per square foot, and assuming underwriting criteria of 5% vacancy and an operating expense ratio of 45% of effective gross income, coupled with a 13% cost constant, the total justified building budget would be approximately \$60.00 per square foot. It would be extremely difficult to build a small multi-level office building for this low unit cost (i.e., the smaller the building, the higher unit prices tend to be). Given the above, the construction of a new, triangular shaped, small office building in downtown Madison is judged to be infeasible. This makes sense because no such buildings have been developed for many years.

The same basic scenario would be true for high-end apartments. Rents at a few high quality apartment projects in downtown Madison approach or even slightly exceed \$1.00 per square foot of apartment area per month, or about \$12.00 per square foot per year. This is less than the rate postulated earlier for better quality Class B offices. While construction costs for apartments may arguably be

slightly lower, the constraints imposed by the Capitol Fire Safety District and Downtown Fire Safety District would require construction that would be similar to office standards. This means that an apartment project would be less likely to be feasible than an office project given these costs as related to rents. This makes sense because there has been very little new apartment construction on small sites in downtown Madison without some form of public assistance.

Maximally Productive

The above analysis indicates that development of the uses that are suggested as reasonably probable and legal for the site are not currently feasible. Therefore, testing for maximal productivity is not necessary.

Conclusion

The above analysis indicates that the feasibility of the logical uses for the site cannot be confirmed. The preliminary financial analysis for these uses would indicate that they are not currently feasible. This implies that, if vacant today, the site would probably remain vacant until such use became feasible. The logical pattern of utilization in downtown Madison for such sites is to improve them as surface parking as an interim use until a higher and better use becomes feasible.

HIGHEST AND BEST USE AS IMPROVED

An analysis of a property's highest and best use as improved is crucial in identifying the suitability of the improvements as they exist on the date of the appraisal for continued use, as well as identifying comparable sales to be used in the Sales Comparison and Income Capitalization Approaches to value. The highest and best use

of the property as improved must also meet the four tests of being physically possible, legally permissible, financially feasible and maximally productive.

Physically Possible

When analyzing the Provident Building, it is known that the improvements exist and that there are no apparent soil or foundation problems. The fact that the improvements are in good condition indicates that it is likely that the building can remain as-is for some time. The existing construction of the building can be altered somewhat, in that there is not much office partitioning and such partitioning can be altered to create different types of tenant spaces. The inefficiency of the building caused by the triangular shape tends to limit design flexibility by making multiple tenancy per floor difficult. This cannot be changed, which means that it is not physically possible to greatly improve building efficiency.

Legally Permissible

As discussed earlier in the Zoning Analysis section of this report, the current use of the subject as an office building is a permitted use and conforms to the zoning specifications of the C4 Zoning District.

Financially Feasible

The purpose of this section of the analysis of highest and best use as improved is to determine whether or not any of the physical alterations of the existing improvements would be financially feasible. However, no alternative use scenarios have been suggested

in the previous analysis, nor have any scenarios been suggested which would imply an intensification of the existing use. Therefore, no financial feasibility testing appears necessary in the subject case.

Maximally Productive

The highest and best use of the property as improved that has emerged from the above analysis is a continuation of the existing pattern of utilization of the property. Now it is necessary to evaluate that pattern of utilization in order to determine whether or not the economic productivity of the property can somehow be enhanced.

In examining the improvements, the pattern of utilization that is assumed for our analysis is that the building would be tenanted with full-floor users or an owner occupant who might take up more than one floor. This maximizes the economic productivity of the building since it makes the most efficient utilization of the space in the building. The only way that the productivity of the building could be enhanced is to convert the lower level employee lounge and storage areas to rentable office space where possible, which is also assumed in our analysis.

Conclusion

It is our conclusion that the highest and best use of the subject property as improved is a continuation of the present pattern of utilization as office, with the potential development of certain lower level areas as office space.

Probable Buyer Profile

Since the use of the property has now been identified, it is also useful to identify the logical buyer type that would be most likely to buy the property if it were offered for sale. Identification of the probable buyer helps in terms of identifying the types of analyses to be used to value the property.

Our research and the history of the Square market indicates that small office buildings are buildings are purchased by owner/users and local investors. A local investor buying the building would most likely place it in some sort of investment partnership. Owner/users that have bought buildings in the Square neighborhood do not necessarily have to occupy the entire building; they rent out excess space in order to make that space economically productive until their expansion warrants its use.

An owner user as a probable buyer would base a purchase of a building of this type on the prices of similar buildings in the market, as well as some sort of income approach analysis, which would be based on the relative costs of owning versus renting. A local investor buying a property of this type would be most concerned with the ability to obtain a mortgage and then provide a sufficient equity return in order to attract investment capital.

VALUATION

INTRODUCTION

The actual valuation of the subject property is the culmination of the systematic analysis of the property done in the earlier stages of the appraisal process. This process has provided the framework within which the value of the property will be estimated, in effect setting stage for the application of the various methods that will be used to value the property.

There are three traditional methodologies or approaches that are typically used in the valuation of real property, which are briefly summarized as follows:

1. The Cost Approach, which provides a value indication via estimation of the current cost of reproducing or replacing the property's improvements, less any loss in value from all forms of depreciation and obsolescence, plus the land value;

2. The Sales Comparison Approach, in which a value indication for the subject property is derived by analysis of recent sales of comparable properties; and
3. The Income Approach, which involves evaluation of the property's earning potential to derive an estimate of net income, which is then capitalized at an appropriate rate to indicate value.

Although each approach provides a separate value indication for the property being appraised, the three approaches are interrelated.

Analysis and data used in the application of one approach are integrated into the other approaches. The final step of this process is the reconciliation process, which entails an evaluation of the approaches in concert with one another and in the context of the balance of the report to derive a final value estimate.

LAND VALUATION

As discussed in the Highest and Best Use section of this report, land is valued as if vacant and available for its highest and best use. There are numerous methods by which land can be valued, including (1) the sales comparison approach, (2) the allocation method, (3) the development method, and (4) the land residual and ground rent capitalization method.

When there is sufficient data available, the most reliable method of estimating land value is the sales comparison method. First, it is the most direct and easily understood approach; land value is based on prices for which other, similar parcels have recently sold. Second, this approach best reflects the behavior of market participants, who gauge the price at which they might buy or sell a parcel by "comparison shopping" in the marketplace.

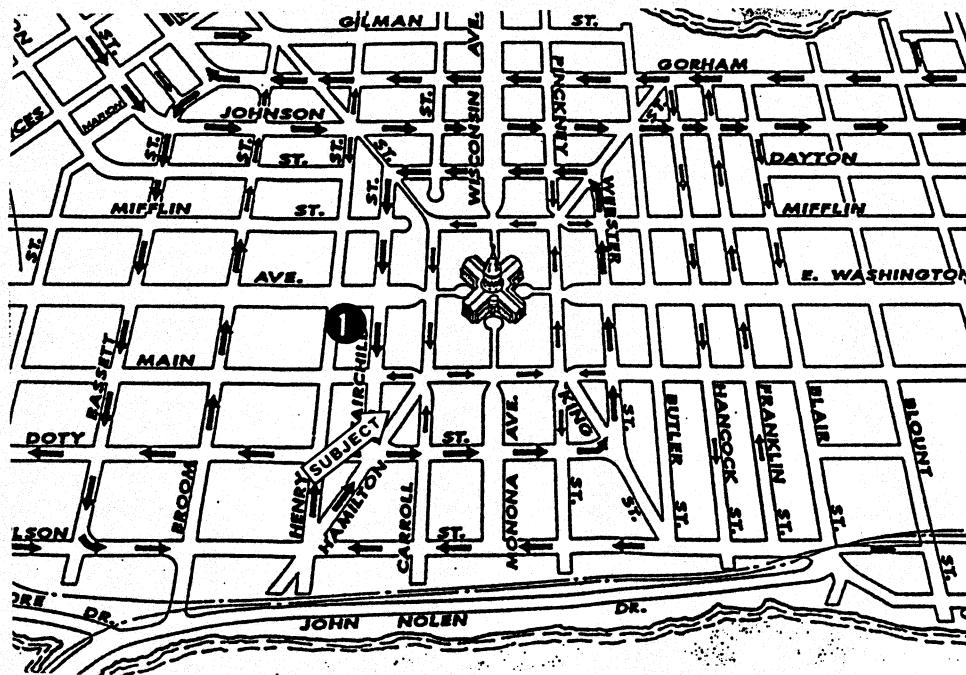
Those sales that shed some light on the potential value for the subject sites are summarized on the following pages.

Our market research indicates that there have been very few land sales in downtown Madison, with no sales of vacant sites on the Square itself in many years. In addition to the sales listed in the exhibits, other sales that might provide background will be discussed as follows. These following sales are not meant to be primary indicators of value, but are rather provided in an attempt to give the reader more background information about the land market in downtown Madison as a basis for the conclusions in this report.

The site at 436 West Main Street, which is 4 blocks west of the Square, sold in October of 1991 for a price of \$115,000. This site was zoned R-5 and was used for parking. The indicated unit price for this 10,890 square foot site was \$10.56 per square foot. Another land sale that provides some indication of the value of downtown land when used for parking is provided by the sale of the site at 321 West Gorham Street which sold for \$100,000 in June of 1986. This corner parcel just off of State Street is located three blocks northwest of the Square and was vacant at the time of sale since the improvements had burned and were demolished after the fire. The adjacent owner purchased the site to expand parking. The parcel is 8,712 square feet, for an indicated unit price of \$11.48 per square foot.

There are also certain improved property sales in the Square neighborhood that involve underutilized buildings, which is interpreted by some market observers as an attempt to basically secure the land underneath said buildings and hope that the improvements

Land Sale 1.



Location: 207-215 West Washington Avenue
Madison, Wisconsin

Sale Price: \$744,600

Parcel Size: 30,492 Sq Ft

Price/Sq Ft Lot: \$24.42

Grantee: Jerome Mullins

Use: Vacant Land

Conditions of Sale: Arms-length

Financing: Cash to Seller

Description:

Sale Date: 1/15/90

GBA: N/A

Grantor: YMCA of Madison

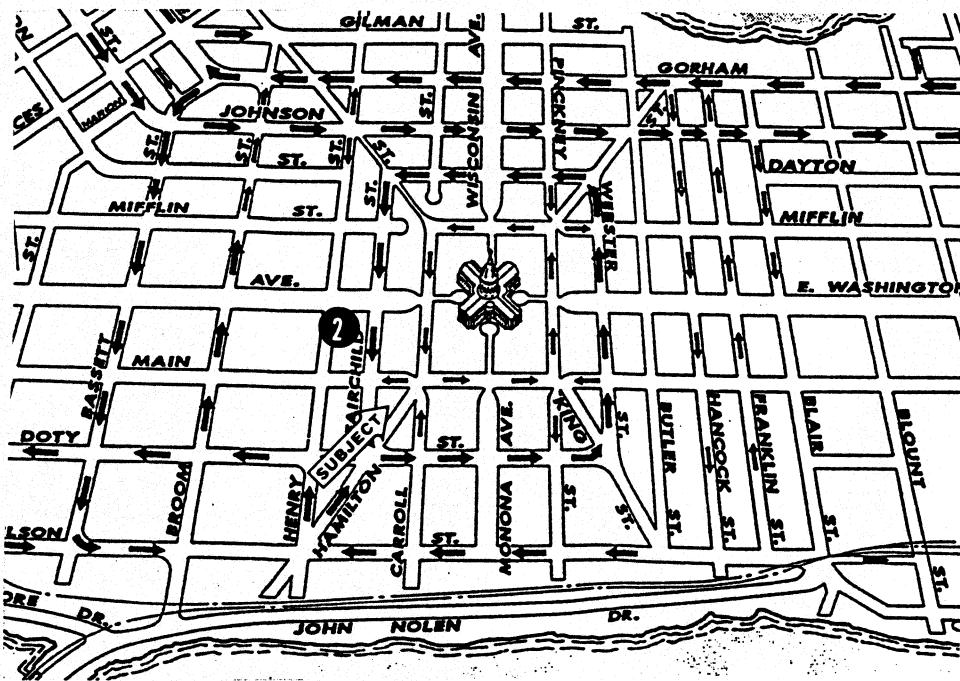
Zoning: C4 Commercial

Conveyance: Warranty Deed

VOL/PG: 114143/49

This site is a rectangular corner site at southwest corner of West Washington Avenue and South Broom Street. The parcel is located 2 blocks west of the Square. The site was formerly improved with the downtown YMCA. The seller had assembled a parcel for a larger facility and had demolished the existing improvements and had completed the excavation for a foundation of a proposed building before the sale. In terms of the assemblage, the seller had acquired the adjacent site at 215 West Washington Avenue in May of 1987 at a price of \$235,000, with a unit price of \$26.97 for the 8,712 square foot parcel. It is believed that the seller was unable to obtain the funding for the new facility and therefore had to abandon the project. The buyer is a local developer and major property owner in the downtown Madison area. The buyer's plans for the site are unknown; the excavation on the site has been filled and the site is now used as surface parking on an interim basis. The buyer owns the Inn On The Park, and this site now provides overflow surface parking for the hotel. It should be noted that the buyer has been very active in promoting the downtown convention center and may perhaps be hoping to build a hotel facility to compliment the convention center once the latter is developed, since the convention center is being built without a hotel. However, this is speculation only; the owner/developer has not made public any plans for the former YMCA site.

Land Sale 2.



Location: 215 West Washington
Madison, Wisconsin

Sale Price: \$235,000

Parcel Size: 8,712 sq ft

Price/Sq Ft Lot: \$26.97

Grantee: YMCA of Madison

Use: Clear for new construction

Conditions of Sale: Arms-length.

Purchased for assemblage.

Financing: Cash to Seller

Description:

This is a rectangular interior parcel located adjacent to the site described herein as Sale 1, located 2 blocks west of the Square.

This site was acquired by the YMCA to facilitate then future expansion plans. The site reportedly was improved with an older two-story building at the time of sale. Razing costs are unknown and should be added to the above price to arrive at a total indicated cost for the site.

Sale Date: 5/1/87

GBA: N/A

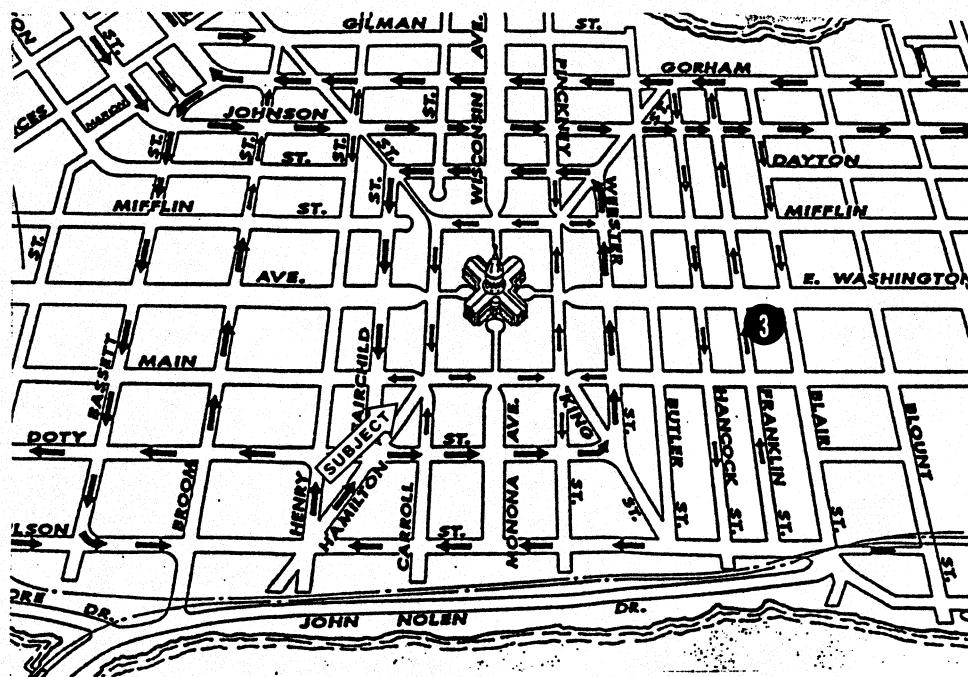
Grantor: MZM Partners

Zoning: C4 Commercial

Conveyance: Warranty Deed

VOL/PG: 9930/78

Land Sale 3.



Location:

501 East Washington Avenue
Madison, Wisconsin

Sale Price: \$600,000

Parcel Size: 40,725 sq ft

Price/Sq Ft Lot: \$14.73

Grantee: WMC Foundation

Use: Clear for new construction

Conditions of Sale:

Believed to be Arms-length

Financing: Cash to Seller

Description:

Rectangular corner parcel on a highly visible site on the outskirts of downtown Madison. This site is located 5 blocks east of the Square. The site was reportedly improved with several older buildings when sold, and the purchaser cleared the site for the construction of the new Wisconsin Manufacturers and Commerce Association Building. Razing costs are not included in the above sale price; the price would have to be adjusted upward to account for razing.

Sale Date: 6/5/85

GBA: N/A

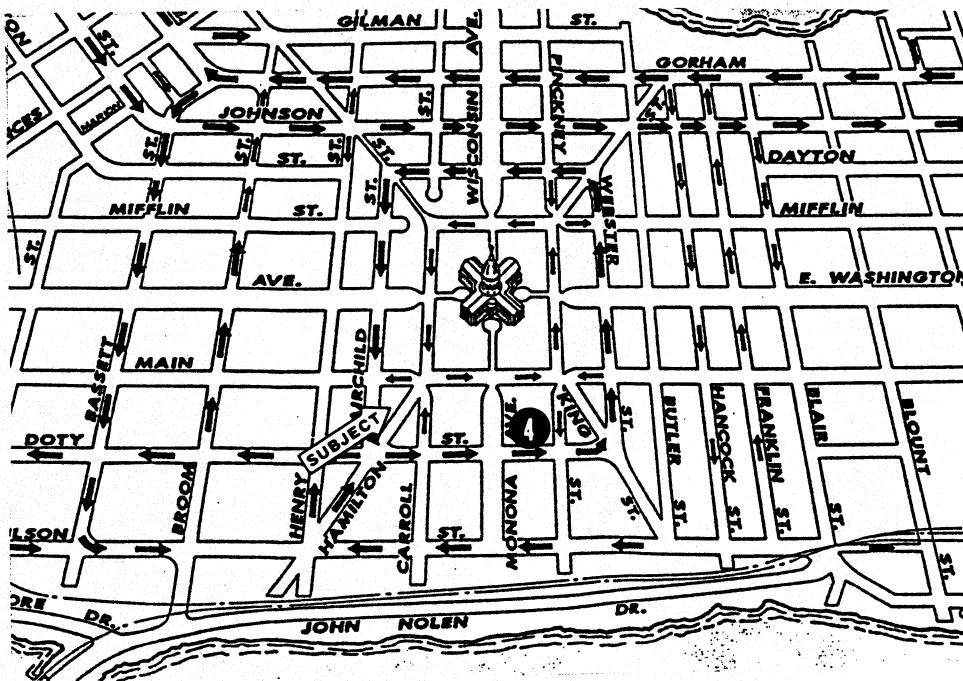
Grantor: Wayne Sweeney

Zoning: C4 Commercial

Conveyance: Warranty Deed

VOL/PG: 6872/17

Land Sale 4.



Location

16 East Doty Street
Madison, Wisconsin

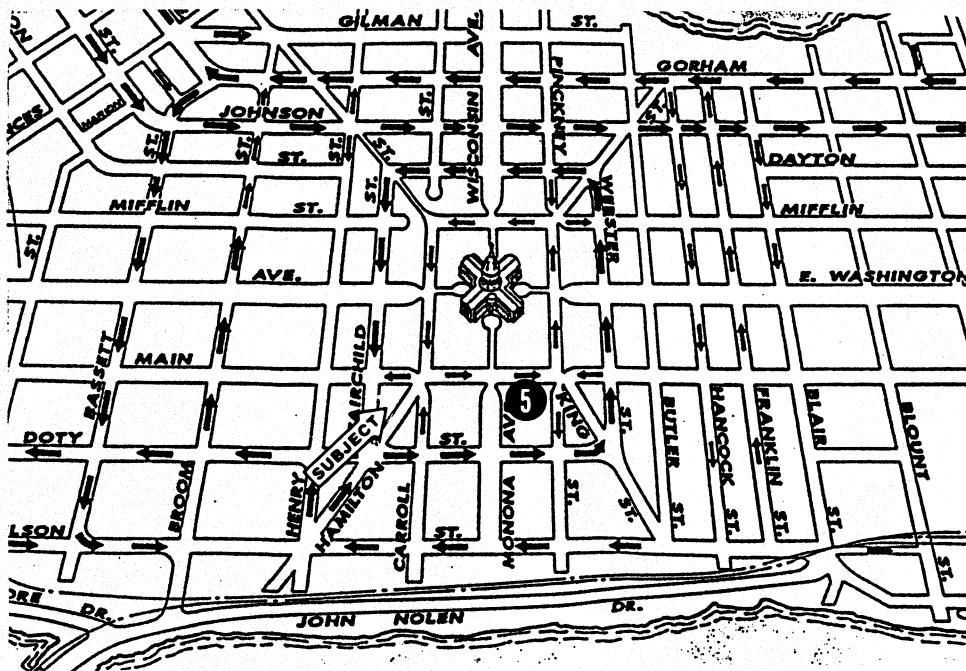
Sale Price: \$200,000
Parcel Size: 11,589 sq ft
Price/Sq Ft Lot: \$17.26
Grantee: One East Main Partnership
(Urban Land Interests)
Use: Surface Parking Lot
Conditions of Sale: Arms-length
Financing: Cash to Seller
Description:

Sale Date: 6/9/88
GBA: N/A
Grantor: Not Known
Zoning: C4

Conveyance: Warranty Deed
VOL/PG:

Rectangular interior parcel fronting on the "outer-ring" of the downtown neighborhood. This parcel was purchased as part of an assemblage to provide surface parking for the office building developed at One East Main Street. According to a representative of the buyer group, this site was one of a number of sites being assembled from two owners, so the price paid is not necessarily reflective of what the site would have sold for on its own. It is rather more the result of an internal allocation by the buyer.

Land Sale 5.



Location:

21 East Main Street
Madison, Wisconsin

Sale Price: \$385,000

Parcel Size: 16,476 sq ft

Sale Date: 3/13/86

GBA: One 1-story Bldg,
One 2-story Bldg
with a total gross
area above grade of
24,660 sq ft per
assessment records.

Price/Sq Ft Lot: \$23.37

Grantor: Northwestern Mutual
Life

Grantee: Urban Land Interests

Zoning: C4

Use: Assembled for development site
for One East Main Building

Conveyance: Warranty Deed

Conditions of Sale: Arms-length

VOL/PG: 9666/12

Financing: Cash to Seller

Description:

This site is an interior site that was assembled for the overall development of the building at One East Main Street. The project involved the purchase of the old J.C. Penny Building at One East Main Street along with the parcel described above as Land Sale 4 and a small building at 117 Martin Luther King, Jr. Boulevard, subsequently razed to create parking. The National Mutual Benefit Building at 119 Martin Luther King Drive was also purchased as part of the overall assemblage. The same comment made for Land Sale 4 applies in that the above price is as much an allocation as it is a purchase price.

basically carry the land until some future development opportunity becomes feasible. For example, the parcel at 29 East Main Street, which is the site of the former S.S. Kressge Company Variety Store, sold in November of 1986 at a price of \$600,000. This involved the purchase of a site with 13,634 square feet which is improved with a building with a first floor area that covers almost the entire site which also has a full basement. The buyer of this property, Mr. Jerome Mullins, recently rehabbed the building subsequent to having leased it to the State of Wisconsin as a day care center. However, a single story building of this type would conceivably be an under-utilization of a square parcel with the day care center viewed as a holding action to carry the property until some future date. The unit price of the sale would be \$44.24 per square foot of first floor area, or \$44.00 per square foot of land area. Obviously, any redevelopment program the developer had in mind when the site was purchased did not materialize, otherwise the rehabilitation would not have been done.

If vacant and available today, the Provident Building site would not be a premier development site. The small size and triangular shape of the site mitigate against its development in today's real estate market. It has been demonstrated in the Highest and Best Use section of this report that development of the logical uses for the site would not be feasible in today's market. Therefore, the most likely use scenario for the site would be as surface parking as an interim use. There are numerous buildings in the neighborhood that

lack parking, so the notion that the site might be purchased or leased to provide surface parking is reasonable.

Unfortunately, there is little current market evidence available to suggest what may be achieved as a sale price if the site were offered in today's market. Also, some of the land sales that involve the purchase of adjacent parking are not necessarily reliable, in that these sales were a part of a larger assemblage and as such the sales prices represent an allocation of the total price that the buyer had budgeted for the entire assemblage. This means that while some background information is available from which to derive a value estimate, this information is not conclusive, which might lead one to question the credibility of the estimate. Without adjustmenting for market conditions or razing, the land sales contained in this report suggest a range of just over \$10.00 per square foot of land area for sales away from the Square to approximately \$44.00 per square foot of land area for sales on the Square. Those sales that involve the purchase of parking land were at the lower end of the range, with an indicated price range of just over \$10.00 per square foot to just over \$23.00 per square foot. Given the above factors and considering the limits on the utility of the site based on its size and shape, a reasonable value range for the site would be between \$15.00 to \$20.00 per square foot, or say \$17.50 per square foot. This implies a total value estimate of \$96,469 which will be rounded to \$95,000. Again, it must be emphasized that although this estimate would appear reasonable given the evidence as well as assessments in the area, the lack of market information available as evidence could easily cause one to question the reliability of the estimate.

THE COST APPROACH

The cost approach to value is based on the principle of substitution which holds that a prudent investor would pay no more for a property than the cost of acquiring a site and constructing improvements of equal desirability and utility provided that such improvements can be built without undue delay. The estimated cost new for the improvements is adjusted for all losses in value found to affect the subject property as a result of all forms of depreciation and obsolescence. Thus, an indicator of the value of the subject property using the cost approach is derived via an estimate of the cost new of the improvements, less depreciation and obsolescence, plus land value.

The cost approach is generally deemed to be applicable in valuation problems where the improvements represent the highest and best use of the site and are relatively new, and do not suffer from a high degree of functional or external obsolescence. The cost approach does not work well for older buildings and/or those buildings that suffer from a high degree of functional or external obsolescence. The estimates of depreciation and obsolescence become increasingly difficult for buildings of this type as the magnitude of such depreciation and obsolescence increases, thus diminishing the reliability of the approach as an indicator to value. Further, the approach assumes that market participants are basing purchase calculus on cost.

The cost approach to value was not performed for the Provident Building. This is because the improvements are older, making any estimate of depreciation difficult. Further, the building suffers from a significant degree of functional obsolescence due to its shape

and resulting inefficiency. Finally, a purchaser of a property of this type would not base purchase calculus on the construction cost of producing an equally desirable substitute, but rather on the income potential of the property or the cost of buying a substitute property.

THE SALES COMPARISON APPROACH

The Sales Comparison Approach, or Market Approach, involves deriving an indication of value for the subject property via analysis of recent sales of similar properties. The Sales Comparison Approach rests on the principle that a prudent person would pay no more to buy a property than the cost of buying a comparable or substitute property. This approach is generally favored when an adequate number of sales and comprehensive information about these sales are available. Another advantage of this approach is that it utilizes actual market transactions and therefore incorporates the actions of buyers, sellers, investors, and/or users.

As indicated above, this approach is only applicable when a sufficient number of sales exist to be analyzed and when sufficient information on these sales can be obtained and verified. This is especially critical in today's marketplace given the complexity of transactions and properties. The appraiser must have sufficient information about all of the comparable sales used in the approach in order to be able to adjust for those items of dissimilarity between the comparable and the subject. The approach is considered less reliable when information cannot be obtained to reliably adjust for dissimilar characteristics.

The first step in applying the sales comparison approach is to research the market for sales for comparable properties. Our market research indicates that there have been numerous sales of smaller office buildings in the Square neighborhood over the past few years. We concentrated our analysis on sales of a similar size range to the subject, and in addition focused on those properties that did not have parking. Also, we analyzed the available sales and chose those that appeared to be arms-length transaction.

The comparable sales that were selected for use in this report are summarized on the following pages. In order to better explain these exhibits, it should be pointed out that building area is expressed in terms of the square footage of gross finished area. This includes lower level or basement areas that are finished, but would exclude utility rooms, etc. Storage would therefore be included. The reason this measure was selected was because this data was obtainable from property assessment cards.

The range of unit sales prices (i.e., price per square foot of gross finished area) for the comparable sales range from \$22.72 per square foot to \$34.72 per square foot. When adjusting these comparables for renovation completed after the sale, certain comparables then resulted in total invested dollars per unit as high as \$62.34 per square foot.

In terms of drawing comparisons between this data set and the subject property, the high unit value indicated above represents the total expenditure made to create an almost Class A building at 100 State Street. This would be far superior to the subject property. The \$62.34 per square foot unit price includes no basement area, since it cannot be finished; finished basements are included for both the

Comparable Sale 1.



Location: 448 West Washington
Madison, Wisconsin

Sale Price: \$233,000

Parcel Size: 10,890 Sq Ft

Price/SF GFA: \$23.44

Grantor: Sprint Communications
Limited Partnership

Use: Office Building

VOL/PG: 19021/61

Sale Date: 5/22/92

GFA: 9,940 Sq Ft

Grantee: Robert H. Keller

Zoning: R-6 Multi-Family

Conveyance: Warranty Deed

Legal: Part of Lot 17, Block 43,
Original Plat of Madison

Financing: Cash to Seller

Conditions of Sale: See below

Verified By: Assessment Records

Comments:

Rectangular interior lot in mixed residential/commercial area, located four blocks west of Capitol Square. Ten parking stalls on site. Building is steel/masonry commercial construction, two-story, built 1931 and in average condition at time of sale. Sprint purchased this building in January of 1984 at a price of \$370,000 (\$37.22 per square foot GFA). Sprint purchased the building because it needed a roof-top for the installation of a telecommunication satellite dish. The location and building height were reportedly main factors that induced sprint to buy the property. Sprint also occupied part of the building and used the occupied area for switching equipment. New technology caused this facility to become obsolete, so Sprint removed their equipment and put the building up for sale. The building was on the market for some time before being purchased by Robert H. Keller, who was being displaced by the new county jail project on the Square, which involved condemnation of the office building he owned on the jail site. The property was listed for sale at \$324,000 during 1991. The price of \$233,000 is viewed as low for this property for 2 reasons. First, the areas occupied by Sprint required reconversion to office space. Second, Sprint was interested in liquidating the building, so the sale price would have some characteristics of liquidation value.

Comparable Sale 2.



Location: 222 South Hamilton
Madison, Wisconsin

Sale Price: \$365,000
Parcel Size: 7,847 Sq Ft
Price/SF GFA: \$34.72
Grantor: Threlfall Trust
Use: Office Building
VOL/PG: 6400/24

Conditions of Sale: Arms-length

Sale Date: 12/31/84
GFA: 10,513 Sq Ft
Grantee: Irvine Stein
Zoning: C-2 Commercial
Conveyance: Land Contract
Legal: Part Lot 8, Block 68,
Original Plat of Madison
Financing: Down Payment \$65,000.
Balance on 10-year land
contract, initial rate
11% steps up .25% per
year to maximum 13%
over life of contract.

Comments:

Triangular corner parcel at edge of CBD, two blocks southwest of Capitol Square. Parcel has five parking stalls. Building is steel/masonry commercial construction, two stories plus exposed basement, built 1960 and in good condition at time of sale. Purchaser bought subject to existing leases, and continued multi-tenant rental use as office. This sale is dated but provides background information.

Comparable Sale 3.



Location: 100 State Street
Madison, Wisconsin

Sales Price: \$472,000
Parcel Size: 5,224 Sq Ft
Price/SF GFA: \$22.72

Grantor: Sibyl Dapin
Use: Office Building
VOL/PG: 7506/73

Sale Date: 11/15/85
GFA: 20,744 Sq Ft
Grantee: State Street Office
Partners
Zoning: C-4 Commercial
Conveyance: Warranty Deed
Legal: Part Lots 2 and 3, Block
77, Original Plat of
Madison

Conditions of Sale: Presumed arms-length

Financing: Seller took back 2nd mortgage - \$150,000

Verified By: Michael Morey

Comments:

Triangular corner lot on Capitol Square. Building covers entire lot. Building is masonry/steel three story commercial construction, built in 1914. Condition average for age as of sale date. Purchased for rental and as headquarters office by the controlling member of the investment partnership. A representative of the owner indicated that after purchase, the owners made a substantial investment in upgrading the building, with a total investment in excess of \$1.2 million. Assessment records indicate a total investment of almost \$1.3 million. According to this source, the seller of the building was in financial difficulty when she sold the building. As upgraded, the building approaches Class A quality, lacking only parking. Notice that the building has a triangular shape like the Provident Building and is occupied by full-floor users. The building has a much higher level of finish than currently exists in the subject. The sales price per gross finished area based on total investment would be \$49.94 per square foot including the basement, or \$62.34 per square foot without the basement.

Comparable Sale 4.



Location: 125 West Doty
Madison, Wisconsin

Sale Price: \$293,000
Parcel Size: 5,238 Sq Ft
Price/SF GFA: \$27.61

Grantor: Anchor Savings
Use: Office Building
VOL/PG: 10922/65

Conditions of Sale: Sale by
lender after foreclosure.
Arms-length sale based
on market exposure.

Sale Date: 12/16/87
GFA: 10,612 Sq Ft Finished
Grantee: Wisconsin Restaurant
Association
Zoning: C-2
Conveyance: Warranty Deed
Legal: Part Lot 2, Block 71,
Original Plat of Madison
Financing: Cash to Seller

Comments:

Irregular corner parcel in CBD one block southwest of Capitol Square. Parcel has one parking/loading stall. Building is masonry/steel commercial construction, two stories over exposed basement, built in 1961. Building was reportedly in poor condition at time of sale, requiring new HVAC and extensive cosmetics. Purchased for owner-occupied office use with additional rental space. This property is among those being condemned to create the site for the new Dane County Jail. The total cost of buyer renovations to this property was approximately \$240,000, indicating a total investment per square foot of gross finished area of just over \$50.00 per square foot. However, in comparing this to the Provident Building, certain additions that were made to this building would not be necessary for Provident including new HVAC, new windows and tenant improvements which had an estimated cost of almost \$110,000. By subtracting this latter figure, a total investment of \$39.86 per square foot of gross finished area is indicated.

Comparable Sale 5.



Location: 7-11 North Pinckney
Madison, Wisconsin

Sale Price: \$700,000

Parcel Size: 7,920 Sq Ft

Price/SF GFA: \$30.43

Grantor: Ronald Campbell Estate

Use: Office Building

VOL/PG: 15328/2

Sale Date: 12/26/90

GFA: 23,000 Sq Ft

Grantee: Keith & Decker

Zoning: C-4 Commercial

Conveyance: Personal Rep Deed

Legal: Part Lots 7 and 8, Block
101, Original Plat of
Madison

Condition of Sale: Arms-length
sale, listed by broker

Financing: Seller took back
\$50,000 second
mortgage, 18 months at
11%.

Comments:

Rectangular interior lot fronting on the Capitol Square. One parking stall. Building is an older masonry/steel commercial construction with three stories. Building was gutted in 1979 and was in good condition at time of sale. The building sold subject to existing leases. The buyer has continued the use of the building as office rental.

subject property and some of the comparables. If the basement area is included in the gross area of the 100 State Street building, the total investment per square foot of gross area then drops to just under \$50.00 per square foot. The projected total investment per square foot of gross finished area made to the Wisconsin Restaurant Association building after purchase was \$50.00 per square foot. This building included finished lower level space since these expenditures created buildings that would be regarded as superior to the subject, these higher unit values are not regarded as being indicative of value. However, the comparable unit prices at the low end of the above range are also not judged to be representative. The recent sale of the Sprint building on West Washington Avenue is regarded to be somewhat reflective of liquidation value. U.S. Sprint is a national corporation that was interested in liquidating a building that had grown obsolete. Further, the space that had been occupied in the building by Sprint will require improvements to make it leasable. Finally, although this property has 10 parking stalls, it is not regarded as being within easy walking distance to the Square and would therefore have an inferior location. The prior sale of this building in 1984 was at a unit price of \$37.22 per square foot of gross finished area, which is more in keeping with the other comparables.

The remaining sales (Sales 2 and 5) also need to be analyzed. Sale 2 involves a building in a similar location built at about the same time as the subject, with 5 parking stalls but of lesser quality. This sale is dated and is therefore probably useful only as background information. Sale 5 involves an older building on the Square that was

renovated, which is used primarily as offices, but which has some first floor retail. Like the subject, this property basically lacks parking. It is our opinion that the building with the first floor retail space is less desirable than a pure office building due to the difficulties being experienced by retailers around the Square. Also, this building is a walk-up and would be regarded as more representative of Class C than Class B office. Therefore, it is regarded as inferior to the Provident Building. As was the case with the Land Valuation section of this appraisal, while there are sales of smaller office buildings within the subject neighborhood, the data is not of very good quality. Most of the sales are dated, or involve adjustment for cost incurred after the sale. Such costs incurred by owner/users may or may not be representative of added value. The other sales that do not involve distressed situations or the need to make extensive adjustments for added improvements after the sale are the original sale of Comparable Sale 1 at 448 West Washington Avenue, along with Comparable Sale 2 and Comparable Sale 5. These sales indicate a price range from \$30.43 per square foot of gross finished area to \$37.22 per square foot of gross finished area. Again, the recent sale of Comparable Sale 1 would indicate a downward trend in values; however, this second sale is viewed more as a liquidation sale than a true indicator of market value.

There is no evidence among these sales to suggest an upward trend in the prices of small office buildings around the Square. While there is not sufficient data to be conclusive, prices appear to be holding steady.

It should also be noted that there are numerous other small office building sales in and about the Square neighborhood at much higher

unit prices than those reflected in the above data. However, these sales were not included in this report because they all have a significant amount of on-site parking. In addition, there are also sales of much smaller office buildings in and about the Square neighborhood at higher unit prices. However, since the market for such buildings is much broader given the smaller size, and since unit prices tend to increase as building size decrease, these sales were disregarded.

As further background information, another recent office building sale should be mentioned. The former Security Savings and Loan building at 101 King Street sold on February 20, 1992 at a price of \$400,000. The building is a 2-story building with a full basement with an above grade gross area of 21,006 square feet according to information contained in the assessor's records. This sale provides an indicated unit price of \$19.04 per square foot. It should be noted that this property reportedly has been divided, with part of the property owned by one entity and part of the property owned by another. The front corner portion of the building was purchased by Isthmus Newspapers for their new offices, with the larger rear portion of the building occupied by Botticelli's Restaurant. According to the assessor, the total consideration involved in this split arrangement was \$425,000, which is a unit price of \$20.23 per square foot. This sale is regarded as a distressed sale since the building had been on the market for at least 2 years prior to the sale. The condition of the building at the time of sale was not known, but it is likely that the new occupants will substantially remodel it for their own purposes. Notice how this low unit value is similar to the recent sale of the property summarized as Comparable Sale 1. In addition,

this unit price is close to the pre-renovation prices exhibited by Comparable Sale 3 and Comparable Sale 4.

The good condition of the Provident Building would indicate that it is superior to the properties discussed in the preceding paragraph which all sold on a pre-renovation basis. As discussed previously, the better indicators of value for the subject property are the sales that did not require substantial renovation when purchased, which are Comparable Sale 2 and Comparable Sale 5, along with the original sale for Comparable Sale 1. Again, the unadjusted indicated unit prices per square foot of gross finished area for these three sales range from \$30.43 per square foot to \$37.22 per square foot. Given the good condition of the Provident Building and what is judged to be a favorable location within walking distance to the Square and government office centers, a range of unit values at the high end of this range is judged appropriate for the Provident Building. A reasonable unit value range for the subject property would therefore be, say, \$35.00 to \$37.00 per square foot of gross finished area. In order to apply this unit value, the measurements of the Provident Building were adjusted in order to estimate the gross finished area of the subject in a manner that is consistent with the way it was measured for the comparables. Based on our calculations, the gross finished area of the Provident Building is estimated to be 18,499 square feet. By applying the indicated unit values to this square footage, a range of indicated values of \$647,465 to \$684,463 is indicated. These indications will be rounded to a range of \$650,000 to \$685,000. Given the relatively poor quality of the comparable sales data set (e.g., older sales, sales requiring significant adjustment for improvements, sales representative of liquidation

value or distressed situations, etc.) the sales comparison approach regarded as being useful as background information rather than a strong indicator of value.

THE INCOME CAPITALIZATION APPROACH

The income capitalization approach, which is also referred to as the income approach, is based on the fact that an income-producing property is typically purchased as an investment. An investor purchasing such a property is, in effect, using today's dollars to buy the right to receive the future benefits available from the property, which include cash flow, tax benefits, and potential gain upon sale. Therefore, the appraiser must directly take into account the way an investor anticipates how income levels, expenses, and property values might behave over time and the way an investor prices the above future benefits. It is also important to note that income-producing real estate is competing for dollars with other alternative investments available to this investor (e.g., stocks, bonds, etc.) and must be analyzed in the context of how it compares to these alternatives.

Like the other approaches to value, the income approach finds its basis in the market with the principle of substitution. The productivity of an income property in terms of rent tends to be set by the market via the rent levels of competing properties. Return expectations of investors are also based on substitutes, including alternative investments as well as competing properties.

The income capitalization approach, then, is the process by which the appraiser quantifies the anticipated future benefits associated with the ownership of an income-producing property and then converts these future benefits to present dollars via an appropriate

capitalization method. Since dollars to be received in future are worth less than the same amount of dollars receivable today, these anticipated future dollars are discounted to their present value based on the relative risk and time horizon involved. In general, capitalization can be done two ways. Direct capitalization involves the conversion of one year's income stream to value by application of an appropriate rate. Yield capitalization, on the other hand, involves the discounting of a series of income flows to present value based on the application of a required rate of return or yield rate. This process can involve the application of a rate adjusted to account for the pattern of income and, if applicable, property value change to a single year's income. Yield capitalization can also be done via discounted cash flow ("DCF") analysis, where a series of income flows are individually discounted to an estimate of present value at an appropriate yield, or discount rate.

INCOME AND EXPENSES

The first step in the income approach is to examine historical income and expense levels for the property as well as current rental information. There are no leases for the Provident Building but we did review all available actual expense information for the year 1991 that was provided to us. This means that the market rental potential for the building is based solely on comparable information.

Given the magnitude of Anchor's downtown and branch real estate holdings, certain types of expenses are not segregated on a per property basis. Where actual expenses were not available, estimates were based on the expense experience of comparable buildings and published sources.

Estimation of Market Rent

In order to create a reconstructed income statement and make income projections for the property, it is necessary to estimate the market rental rate for the various spaces in the building. This was done by interviewing various brokers and property managers active in the Square market, and surveying comparable properties.

As discussed in the Office Market Analysis section of this report, our analysis indicated that the market rent potential for the rentable basement office space would be about \$11.00 per square foot, with the market rent for the upper floor office areas estimated at \$13.50 per square foot. The market rent potential for the first floor storage space in the building was estimated at \$5.00 per square foot. Again, there are certain areas in the basement currently used for storage which would have to be finished as office space in order to create the square footage of rentable office area postulated for valuation purposes. However, should an owner/user or tenant elect to utilize these basement areas as finished storage space in opposed to office space, the rent differential would not be that great; our research indicates that readily accessible high quality storage area in better office buildings in downtown Madison rents for between \$7.00 to \$9.00 per square foot.

With respect to lease terms, landlords in Madison are currently able to achieve some pro-rata pass-thru of expense increases, and/or an inflation adjustment. Class A office buildings are currently able to achieve both. Our research indicates that better quality Class B office buildings are generally able to achieve one or the other type of increase, with lower quality Class B office space and Class C office space not usually able to achieve such increases. However,

such lower quality spaces are typically leased on shorter lease terms, which allows the landlord to periodically adjust rent to account for any such increases. It is reasonable to expect that if leased on the open market, the subject property would be able to achieve one or the other type of increase; i.e., either a pass-thru of some level of expense increases or an inflation adjustment in the rent.

Vacancy

In order to project the income that would be receivable by an owner of the property, it is necessary to estimate a reasonable vacancy allowance for the property. Forecasted vacancy for the Provident Building has to take a number of things into account. First of all, this vacancy level should reflect the general market vacancy conditions that exist in today's Class B, and to some extent Class C, office market. Further, the leasable area assumptions utilized to measure floor space assume that the building will be leased to full-floor users. Should this prove to not be the case, there will be some income loss attributable to the fact that the floors would be less efficient when leased on a multiple tenancy basis. This would probably be mitigated to some extent by the fact that higher unit rents would be achievable for smaller spaces, but the fact remains that the effect of multiple tenancy per floor would result in lower rentable square footage. Further, the assumption of full-floor or tenancy implies that when a floor becomes available, a tenant that needs almost that exact amount of square footage that is available is looking for space in the market. In other words, since the floors are not assumed to be cut-up, a tenant does not have the flexibility of choosing the floor space it desires, but must lease the whole floor.

This has the potential of limiting the number of tenants that would be available for the building, which would imply the need to use a higher vacancy allowance.

Our survey information indicates that some vacancy does indeed exist in the Class B and Class C Square market. However, this vacancy is not inordinate, with the only comprehensive survey indicating an 8% rate for the entire market. As was discussed earlier, this survey information is viewed as somewhat suspect. Based on our analysis, we estimated vacancy in the Class B market to be less than 10%. In terms of estimating the vacancy allowance for the subject, given the circumstances discussed above, a range of low and high rates is suggested in order to bracket a reasonable rate for the subject, which would be 5% to 10%. Therefore, we used a vacancy allowance of 7.5% for our analysis.

Expense Analysis

As indicated earlier, a detailed expense history for the properties being appraised was not available. However, actual levels of certain expenses were available for analysis. Therefore, operating expenses for the Provident Building were projected based on a combination of an analysis of actual expenses coupled with an application of market rate levels for those expenses not accounted for by actuals.

The historic actual expenses for the Provident Building that were provided to us are summarized in the following table:

ACTUAL 1991 EXPENSES

	<u>Provident Building</u>	<u>Per Sq Ft³</u>
Real Estate Taxes	\$ 35,519	\$2.22
Insurance ¹	2,382	\$0.15
Utilities ²	25,797	\$1.61
Maintenance ²	18,458	\$1.15

¹ Allocation portion of a blanket premium. Allocated based on relative assessed value.

² Year ending 3/31/92.

³ 16,002 square feet of rentable area.

Notice that Anchor performs security and janitorial services using in-house employees. Therefore, these costs are not included in the maintenance cost listed above.

In comparing the above expenses with market norms, the real estate tax expense appears high relative to other lower quality Class B buildings based on dollars of real estate tax per square foot of rentable area (\$2.22 per square foot). For example, the 1991 real estate taxes for the Wisconsin Restaurant Association building across the street was \$1.15 per square foot of finished area. Real estate taxes for the Center Seven Building (Comparable Sale 5) were \$1.03 per square foot for 1991. Real estate taxes for the Hovde Building for 1991 were \$.93 per square foot of rentable area. It would appear that the Provident Building is being taxed as if it were a Class A office building. It may be that the City of Madison is assessing the building assuming continued occupancy by Anchor; i.e., they are treating Anchor as a 100% tenant for the building. However, while the assessment on the building appears to be high, the outcome of the tax assessment appeal is not predictable. In today's difficult real

estate market, a buyer would probably base purchase calculus on the existing tax level, with any savings realized from a successful tax appeal viewed as yield enhancement; i.e., a seller would base a purchase price on actual expenses and if a buyer can save money over these actual expenses, such savings would most likely be captured by the buyer.

Insurance expenses appear to be in line with market levels at a cost of about \$.15 per square foot of rentable area. Utilities expenses are also within expected ranges based on the gross area of the building. In terms of maintenance expenses, the relationship of the actual expenses to market norms is difficult to gauge because we are not aware of all of the expenditures that are included in this category. Also, we were unable to study maintenance expense records for prior years, so there is no basis of comparison to determine whether or not the 1991 expense is in line with the building's expense history. We do know that Anchor uses its own employees for a variety of tasks that might be related to maintenance, which again makes this expense category difficult to evaluate.

In terms of those expenses not included in building actuals, we used current market standards and expense comparables as the basis to estimate these expenses. We were allowed to review the actual expenses and 1992 budget for the Commercial Bank Building at 100 State Street, which is a building of similar design. The combined cleaning and janitorial expense plus repairs and maintenance expense for 1992 is running at \$1.44 per square foot of rentable area for this building. Since this building was recently rehabbed and given the fact that our reconstructed operating expense statement will be predicting the 1993 performance of the building, we used an expense

estimate of \$1.50 per square foot of rentable area for these categories. Property management expenses were based on a rate of 5% of effective gross income, which is in keeping with market levels for a building of this size. Finally, we also included an allowance of \$.50 per square foot for leasing expenses and for reserves, with the latter item intended to accumulate a reserve, thereby accounting for potential redecorating, tenant improvements and minor replacements.

The above expense estimates were adjusted to create a proforma for 1993 in order to utilize a direct capitalization format. A buyer seeking to structure a transaction for the subject property on or about the effective date of this appraisal would more likely than not be looking at expected operations of the property for the calendar year 1993. Our market analysis and interviews with real estate investors validates our experience, which indicates that buyers purchase investment real estate based on current expectation rather than on historic net income. Therefore, it was necessary to adjust certain of the above expense estimates to expected 1993 levels. Real estate taxes were adjusted based on projecting 1991's level of tax forward 2 years to 1993 at an inflation rate of 5% per year. Even though 1993's taxes would technically be payable in 1994, the liability would still be incurred in 1993. Again, even though the building appears to be over-assessed, a buyer in today's market would most likely buy on actual expenses, rather than some estimated or projected tax savings. With respect to insurance and utilities, we used 1992's actual expenses and projected them forward by 5% to provide an estimate of an anticipated expense level for these categories for 1993. The other expense categories that are necessary for our statement, including cleaning and janitorial, property

EXHIBIT 4

Reconstructed Operating Statement 1993

Provident Building

Potential Gross Income

Lower Level	4,006 sq ft @ \$11.00	\$ 44,066
First Floor	3,672 sq ft @ \$13.50	49,572
Second Floor	4,162 sq ft @ \$13.50	56,187
Third Floor	4,162 sq ft @ \$13.50	56,187
Storage	888 sq ft @ \$ 5.00	<u>\$ 4,440</u>

<u>TOTAL</u>	\$210,452
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Less Vacancy Allowance @ 7.5%	<u>\$ 15,784</u>
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Effective Gross Income	\$194,668
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Operating Expenses

Real Estate Taxes	\$ 39,159	2.32
Insurance	2,501	.15
Utilities	27,087	1.60
Cleaning and Janitorial plus		
Repairs and Maintenance	24,000	1.42
Property Management @ 5%	9,700	.57
Leasing and Reserves	<u>\$ 8,000</u>	.47
<u>TOTAL EXPENSES</u>	\$110,480	6.54
<u>NET OPERATING INCOME</u>	<u>\$ 84,188</u>	

management, repairs and maintenance, and leasing and reserves, were based on market comparables or other information as described.

The preceding income and expense assumptions were applied to create a reconstructed operating statement to provide an estimate of expected performance of the property for calendar year 1993. This net operating income estimate will provide the basis for capitalization via an overall rate. This reconstructed operating statement is shown on the facing page as Exhibit 4.

It should be pointed out that this reconstructed income statement reflects an estimate of stabilized building operations. There is no allowance for inordinate vacancy during some sort of absorption or lease-up period. The building is currently 100% occupied by Anchor, but in assuming a sale, it must be postulating that Anchor might reduce its presence in the building or leave it entirely. However, if Anchor made such a major move, it would imply significant lead time such that there would, in effect, be time to prelease the space that would be coming vacant. In addition, since a building of this type might be purchased by an owner/occupant, such a buyer would utilize some sort of stabilized operating scenario for their buyer calculus. What this implies for Anchor's planning process, however, is that should Anchor elect to leave the building, there might have to be some allowance made for extended vacancy to allow for lease-up, or for the possibility of some tenant improvement costs. The above model does not make an allowance for lease-up or tenant improvement costs. Our market analysis shows that the predominate pattern in the market today is for tenants to pay for their own improvements. However, as noted, as one descends through the Class B quality range and into Class C buildings, some degree of landlord-provided tenant improvements

becomes more common. Therefore, the valuation scenario presented herein reflects a stabilized number. Anchor must be aware for planning purposes that certain circumstances could imply additional costs above those imputed in this stabilized model.

VALUATION-INCOME CAPITALIZATION APPROACH

Based upon current buyer behavior, the income capitalization methodology which is appropriate for use in this report is direct capitalization. Direct capitalization is the process in which value is estimated by the application of the appropriate capitalization rate to one year's income. Therefore, in order to estimate value in this case, the justification of this technique and the derivation of the capitalization rate must be discussed.

The reason this methodology is appropriate is because our experience, as confirmed by our research, indicates that investors buying income properties today are primarily concerned with going-in cash flow returns. The first year's income of the property must show a sufficient return to the equity position in order to induce an investor to buy. This is a change from the buyer calculus of former years, where tax shelter and perceived future appreciation were also primary criteria, with initial cash flows viewed at that time as less important. Notice also that few office buildings are trading in today's market. The most popular investment type for smaller investors today is apartments, and the return criteria for apartments reflect their favored status in that these investments typically include lower equity dividend requirements. We are aware of a transaction involving local investment partnerships currently attempting to raise equity for investment properties other than apartments, wherein the sponsors of these partnerships are projecting

initial cash-on-cash rates of return of 13% to 15% to the prospective limited partners. The transaction that involves the higher cash flow rate is a Madison office building investment involving a new, high quality building in a suburban location. Given the current unfavorable lending climate, tax climate and general perceived risk of real estate investment and overall negative outlook with respect to the long term performance potential of real estate, these high initial cash flow requirements are viewed as necessary in order to help mitigate these risks as well as provide rapid pay-back of the equity investment to shield the investor from long term risk. Since direct capitalization can take this emphasis on initial target cash flow returns into account, it is the appropriate capitalization method to be used in this valuation problem.

The direct capitalization method that will be used in this problem is the band of investment technique, which is a formula that allows for the derivation of a capitalization rate by calculating the weighted average of the returns required by the mortgage position and the equity position. The mortgage constant represents the return on and of equity required by the lender. The return necessary to support the equity investment in the property is the equity dividend or cash-on-cash rate, which represents the required percentage return on and of equity measured relative to the first year of investment. The equity dividend rate reflects the relationship between one year's cash flow after debt service and equity capital expressed in percentage terms. Therefore, in order to derive the capitalization rate to be used in this analysis, probable mortgage parameters for the subject property as well as equity return parameters need to be discussed.

A survey of lenders was done in order to determine current mortgage terms that are appropriate for a property like the Provident Building.

Based on our survey, obtaining mortgage funds for such a building would be extremely difficult in today's market. An owner/user with some credit would stand a far better chance of obtaining a mortgage than an investment partnership, or at least such a buyer would receive better terms. Lenders in today's market are protecting themselves from risk by requiring larger down payments, shorter amortization, personal guarantees, and higher debt coverage ratios than were required in past years. Interest rates today are low; the problem in today's market are not the interest rates, but rather the willingness of lenders to make loans. This is especially true with respect to office buildings. It should also be pointed out, however, that owner/occupants might qualify for certain securitized loan programs or development loan programs sponsored by government or quasi-government agencies. Such loans typically have more favorable terms than are available from conventional lenders because they are based on the credit of the borrower as well as the real estate. In addition, given the small loan size for the Provident Building, the most likely lender is not a life insurance company. A savings and loan is also perceived to be an unlikely lender for this property due to the new risk weighted capital requirements that have been implemented with respect to commercial lending. The most likely lender for a property of this type would be a bank, who would fix the rate on a short term basis (perhaps 3 years), with the loan due or at the very least having a rate review after the initial term. Based on our lender survey, a reasonable interest rate for the Provident Building would be between 9-1/4% and 10%, with probable amortization of 15 to 20 years. We utilized a rate of 9-1/2% with 20 year amortization for the derivation of our capitalization rate.

The estimation of equity dividend requirements was based on the information discussed earlier. Office properties are probably the least desired real estate investment product type in today's market. A current local equity offering that involves a new, higher quality suburban office building is projecting an initial cash-on-cash rate of 15%. The equity offering mentioned earlier involves a package of mobile home parks in which the sponsor is projecting cash-on-cash rate of 13% to the limited partners. In terms of what the above rates mean, it is probable that the sponsors are buying the properties at a price that would yield a higher equity dividend than listed above, and then they are in effect reselling the properties to a partnership at a higher price which would produce the equity dividends projected to the partners. What the sponsors are then doing is keeping the spread between these two prices as a fee. Based on the risks of owning real estate in today's market, merely buying the building for a share of the cash flow, a management fee, and some share of capital appreciation, is not enough to induce a sponsor to put together a transaction. Some sort of fee is necessary to do this. Therefore, based on the above transactions that are actually in process, and the risks of office investment, an equity dividend rate toward the high end of the range, or 15% is judged to be a reasonable parameter for use in deriving the capitalization rate.

Based on this analysis, and using the above mortgage and equity parameters, an overall capitalization rate to apply to the projected net operating income to estimate value was derived as follows:

$$Ro = M \times Rm + (1-M) \times Re$$

Where:

Ro = Overall Capitalization Rate

M = Loan to Value Ratio

Rm = Mortgage Constant

(1 - M) = Equity Ratio

Re = Equity Dividend Rate

$$Ro = .70 \times .1119 + (1 - .70) \times .15$$

$$Ro = .0783 + .0450$$

$$Ro = .1233$$

In terms of analyzing the above capitalization rate for reasonableness, we are aware of tentative negotiations that have been in process toward a sale of a major office building in downtown Madison which, if sold at the parameters currently being negotiated, would involve a capitalization rate of 11%. This property is a major investment property and is of better quality than the Provident Building. Therefore, one would expect the capitalization rate for such a transaction to be significantly lower than that postulated in the valuation of the Provident Building. While not a conclusive test, the above meets this requirement is met because the projected capitalization rate for Provident is higher than the rate that would result from the sale of this building at the currently proposed terms.

The above capitalization rate was used to derive an estimate of the value of the subject property as follows:

Value	=	NOI Overall Rate (Ro)
Value	=	\$ 84,188 .1233
Value	=	\$ 682,790
Rounded to:		\$ 685,000

Therefore, the value of the Provident Building, as estimated by the income capitalization approach, is \$685,000. This estimate is well in excess of the \$1,065,000 assessment. (See Appendix G.)

RECONCILIATION AND FINAL VALUE ESTIMATE

The estimated value for the Provident Building property via the income capitalization approach is \$685,000. The sales comparison approach yielded a value range of \$650,000 to \$685,000.

Given the fact that the data set utilized for the sales comparison approach of only fair quality at best, the reliability of the value range derived via this approach is not strong, but does provide some background information for comparison with the conclusion derived via the income capitalization approach. Since the high end of the range provides support for the conclusion reached in the income capitalization report, the value estimate of \$685,000 is used as the final value estimate.

However, this value estimate needs to be adjusted in order to take into account the fact that the roof needs replacement. Cost of replacing the roof was estimated to be \$25,000. Therefore, the final value must be adjusted by this amount to \$660,000. A buyer would discount the value by this amount since the roof will need to be replaced in the very near future. The \$660,000 final value estimate equates to \$41.24 per square foot of rentable area.

Therefore, given the above analysis and according greatest weight to the income capitalization approach, the market value of the property known as the Provident Building, located at 126 South Hamilton Street in Madison, Wisconsin, as of October 2, 1992 is estimated to be \$660,000:

SIX HUNDRED SIXTY THOUSAND DOLLARS.

Of this amount, \$95,000 is allocated to land. No personal property of any significance is integral in the ownership and operation of the property so no value is allocated to personal property. Also, no leasehold value exists since the property is not subject to any lease.

CERTIFICATION OF APPRAISER

I certify that, to the best of my knowledge and belief:

- I have personally inspected the property that is the subject of this report.
- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- This appraisal was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- No person or persons other than those acknowledged below or in the report prepared the analyses, conclusions and opinions concerning real estate set forth in this report.

Date: 11/24/92

Certified By: Dean P. Larkin
Dean P. Larkin
First Financial Realty Advisors, Inc.

Date: 11/24/92

Certified By: Jean B. Davis
Jean B. Davis
Landmark Research, Inc.

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report is subject to the following conditions and to such other specific and limiting conditions which are set forth by the appraiser within the report:

The legal description used in this report is assumed to be correct.

No survey of the property has been made by the appraiser and no responsibility is assumed in connection with such matters. Sketches in this report are included only to assist the reader in visualizing the property.

No responsibility is assumed for matters of a legal nature affecting title to the property nor is an opinion of title rendered. The title is assumed to be good and marketable.

Information furnished by others is assumed to be true and correct, and reliable. A reasonable effort has been made to verify such information; however, no responsibility for its accuracy is assumed by the appraiser.

All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless so specified within the report. The property is appraised as though under responsible ownership and management.

It is assumed that there are no hidden or inapparent condition of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them.

It is assumed that all the mechanicals in any building improvement such as, but not limited to, plumbing, electrical, heating system, air conditioning system, well and pump, and septic system, are operable and sufficient to serve the property under appraisal unless otherwise informed.

It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report. The existence of potentially hazardous material introduced on site or in proximity to the site as a result of nearby existing or former uses in the neighborhood, or the existence of toxic waste or other building materials such incorporated in property improvements must be disclosed by the owner to the appraiser. The appraiser is not qualified to detect such substances nor is he obliged to do so. Nevertheless, the existence of potentially hazardous material found on the subject property or in proximity to the site may have an adverse effect on the value and market price of the property. The property owner or those relying on this appraisal are urged to retain, at their discretion, an expert in this field of hazardous materials.

Since the projected mathematical models used in the appraisal process are based on estimates and assumptions, which are inherently subject to uncertainty and variation depending upon evolving events, we do not represent them as results that will actually be achieved.

It is assumed that all required licenses, consents or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

It is assumed that the utilization of the land and improvements are within the boundaries or property lines of the property described and that there is not encroachment or trespass unless noted within the report.

The appraiser will not be required to give testimony or to appear in court or any pretrial conference or appearance required by subpoena, with reference to the property in question, unless timely arrangements have been previously made therefore, at prevailing per diem rates.

Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent to the appraiser, and in any event only with property qualification and only in its entirety.

Neither all or any part of the contents of this report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales or any other media without written consent and approval of the appraiser. Nor shall the appraiser, firm or professional organization with which the appraiser is affiliated be identified without the written consent of the appraiser.

The distribution of the total valuation in this report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

No environmental impact studies were either requested or made in conjunction with this appraisal, and the appraiser retains the right to alter, amend, revise or rescind any of the value opinions based upon any subsequent environmental impact studies, research or investigation.

The appraiser's duties, pursuant to this employment to make the appraisal, are complete upon delivery of the appraisal report.

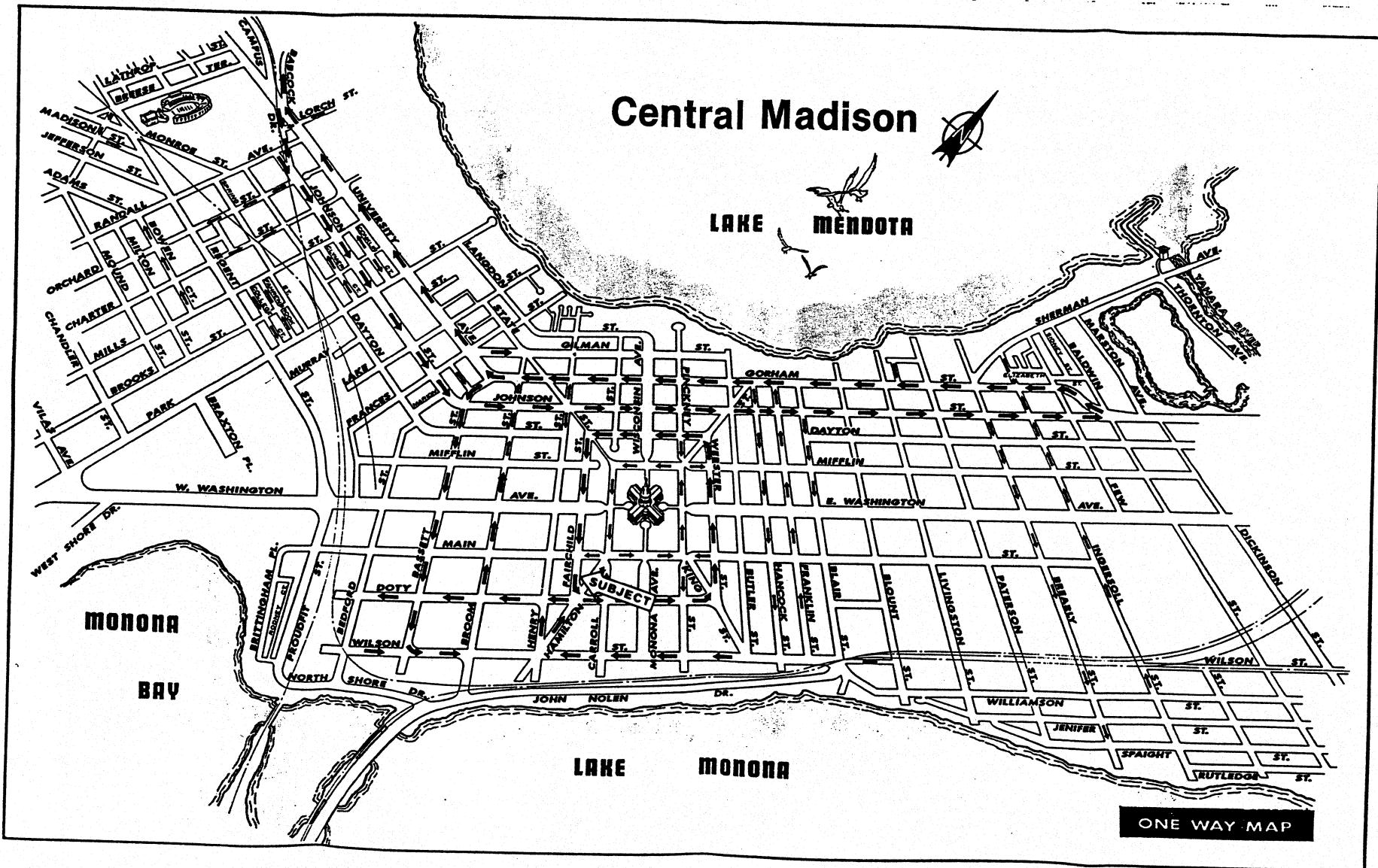
LIST OF APPENDICES

<u>Appendix</u>	<u>Description</u>
A	Location Map
B	Traffic Count Map
C	Summary - State of Wisconsin Office Leases
D	Public Parking Information - Downtown Madison
E	Floor Plans
F	Photographs
G	Assessment Analysis
H	Qualifications of Appraisers

APPENDIX A

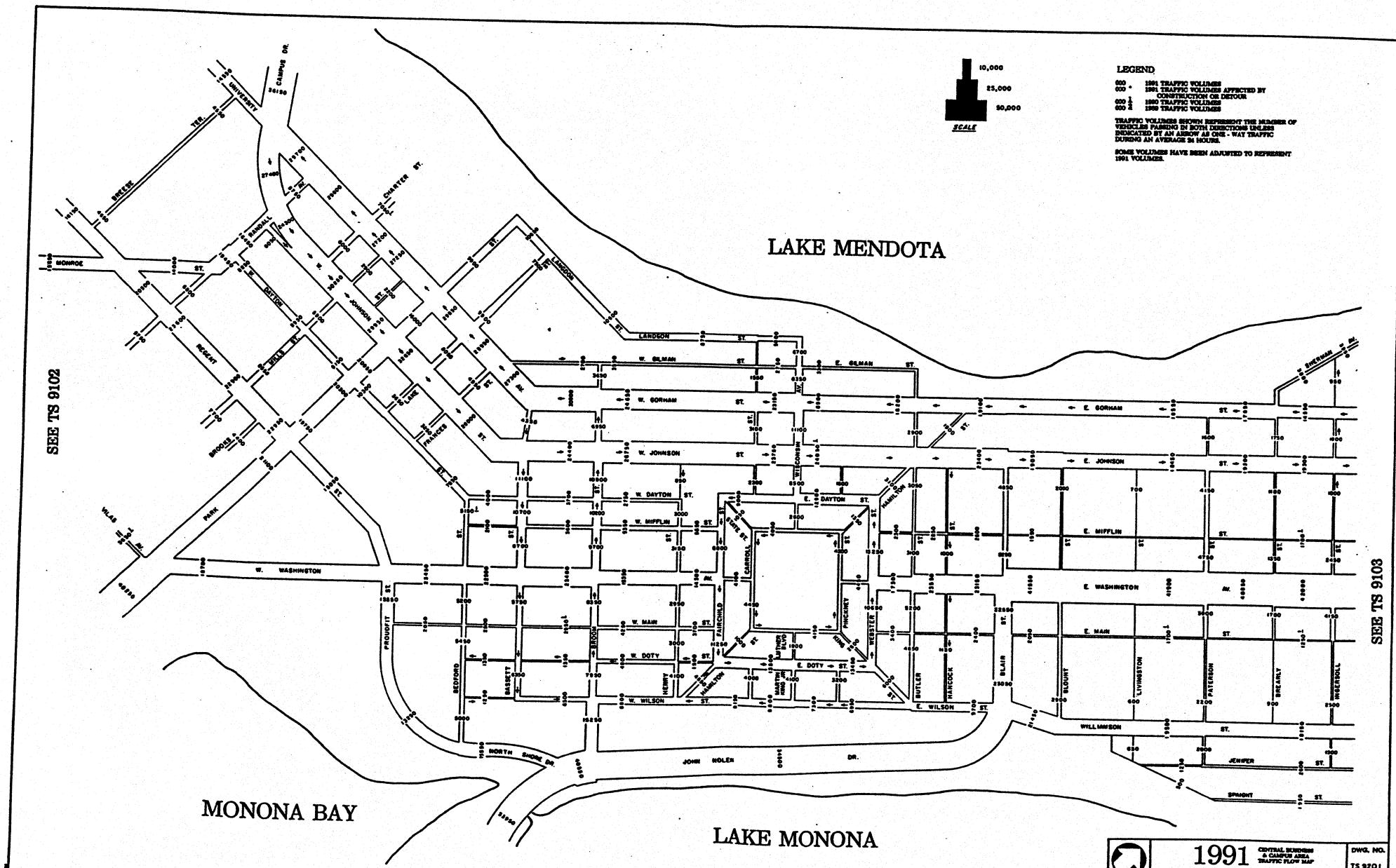
LOCATION MAP

Central Madison



APPENDIX B

TRAFFIC COUNT MAP



1991

CENTRAL BUSINESS & RESIDENTIAL TRAFFIC FLOW MAP

DWG. NO.
TS 9201

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

I : 1
4-14-92
J.E.L.

APPENDIX C

SUMMARY - STATE OF WISCONSIN OFFICE LEASES

==== SPACE TYPE REPORT BY LOCATION ====

PAGE 9

CITY.....	LEASE.. NUMBER	AGENCY..... NAME	ADDRESS.....	LESSOR NAME.....	LESSOR CONTACT.....	LESSOR PHONE..	LEASE.. END DATE	SQ BASIC.... RATE	MONTHLY_RE RATE	ANNUAL EQ RATE		
										RENTAL	SQ FT	
--->												
Madison	115-012	Agriculture	818 W Badger Road	Badger Prof Assoc	David Peterson	(608) 256-9011 11-30-92 1666	\$8.39	\$1,165.44	\$13,985.24	\$9.07		
Madison	115-089	Agriculture	2642 Riarock Rd.	Riarock Self Storage		06-30-92 100	\$3.85	\$32.08	\$385.00	\$3.85		
Madison	115-102	Agriculture	310 N. Midvale Blvd.	Crivello Properties	Julie Dinauer	(414) 225-7595 07-31-93 9758	\$10.29	\$8,124.77	\$97,497.24	\$10.29		
Madison	115-210	Agriculture	510 Rolfsmeyer Rd.	Security Self Storage	Sonny Patefield	(608) 274-7796 09-30-92 150	\$3.52	\$96.00	\$1,152.00	\$3.52		
Madison	115-286	Agriculture	2740 Ski Lane	Tavarez and Associates Architect	Modesto Tavarez		100	\$6.24		\$6.24		
Madison	115-317	Agriculture	721 Forward Dr.	West Side Self Storage	Donald Lund	(608) 271-1625 12-31-92 1133	\$8.25	\$778.94	\$9,347.25	\$8.25		
Madison	115-426	Agriculture	700 Ray O Vac Drive	55 Oaks Corporate Center, Inc.	Bill Zander	(608) 273-6569 11-30-92 120	\$4.00	\$44.00	\$528.00	\$4.00		
Madison	124-227	Commissioner of Banking	131 W. Wilson St.	James Wilson Plaza	Darrell Wild	(608) 833-6620 09-30-93 5770	\$10.97	\$5,272.34	\$63,268.08	\$10.97		
Madison	145-032	Commissioner of Insurance	121 E. Wilson St.	Lake Terrace	Richard Munz	(608) 251-8811 11-30-93 7995	\$12.84	\$8,554.35	\$102,652.14	\$12.84		
Madison	165-161	Regulation & Licensing	1400 E Washington Ave	121 E. Wilson St.		(608) 255-5166 03-31-00 24843	\$15.13	\$31,315.89	\$375,790.62	\$15.13		
Madison	175-063	Commissioner of Savings & Loan	4785 Hayes Road	Washington Square Assoc	Jerome J. Mullins	(608) 257-0681 07-31-96 34048	\$11.67	\$33,111.42	\$397,337.00	\$11.67		
Madison	192-039	Wisconsin Racing Board	150 E Gilman Street Suite 1000	Midwest Office Park III	Richard V. Munz	(608) 255-5166 02-28-95 2922	\$12.98	\$3,160.42	\$37,925.00	\$12.98		
Madison	195-522	State Lottery Board	1802 W. Beltline Hwy	Verex Assurance Inc.	Thomas Phillips		08-31-94 4750	\$15.90	\$6,293.15	\$75,517.80	\$17.77	
Madison	235-436	Higher Education Aids Board	131 W. Wilson St.	Livesey MDC Limited Partnership	John P. Livesey	(608) 833-2929 09-30-93 47000	\$6.38	\$24,977.74	\$299,732.88	\$9.43		
Madison	245-049	State Historical Society		James Wilson Plaza	Michael Ziemann	(608) 251-8811 12-31-93 4263	\$12.84	\$4,561.25	\$54,734.97	\$12.84		
Madison	245-311	State Historical Society	329 Coyier Lane	Delta Storage	John Koffel	(608) 251-3337 07-31-95 3000	\$5.95	\$1,487.50	\$17,850.00	\$5.95		
Madison	255-163	Public Instructions	2334 S. Park Street	Wayne W. Wilson & Michael J. Wyn	Wayne W. Wilson		07-31-93 2228	\$3.00	\$997.00	\$11,924.00	\$3.85	
Madison	255-184	Public Instructions	714 Market Place	The Villager Shopping Center	Wayne J. Sweeney	(608) 836-7600 06-30-93 600	\$8.00	\$400.00	\$4,800.00	\$8.75		
Madison	255-322	Public Instructions	634 W. Main St.	C/O The Joseph Wayne Corp.		(608) 257-3914 04-30-95 4712	\$3.60	\$1,413.60	\$16,963.20	\$3.60		
Madison	285-018	University of Wisconsin	150 E. Gilman Street	Reynolds Transfer & Storage	Dave Reynolds	(608) 251-3337 11-30-93 1300	\$3.09	\$334.75	\$4,017.00	\$3.09		
Madison	285-021	University of Wisconsin	1001 Spring Street	Delta Storage	John Koffel	(608) 257-2527 07-31-94 8288	\$12.23	\$8,477.49	\$101,729.88	\$13.98		
Madison	285-027	University of Wisconsin	University Research Park	Verex Assurance Inc.	Harold J. Lessner		100	\$5.53		\$5.53		
Madison	285-069	University of Wisconsin	4726 East Towne Boulevard	Attn: Fic. Manager	Gerald W. Miller	(800) 633-7368 11-30-97 11500	\$10.88	\$10,427.49	\$125,129.88	\$15.20		
Madison	285-076	University of Wisconsin	722 Hill St	Wisconsin Bell Inc.		(608) 262-4023 01-31-94 2375	\$12.18	\$2,409.95	\$28,919.40	\$16.39		
Madison	285-082	University of Wisconsin	150 E. Gilman Street	Rental Account No. W0117-A			11-30-96 4820	\$12.75	\$5,121.25	\$61,455.00	\$14.75	
Madison	285-087	University of Wisconsin	510 Rolfsmeyer Dr	University Science Center Partne	Greg Hyer							
Madison	285-120	University of Wisconsin	5117 University Ave.	c/o Laura Kerans								
Madison	285-126	University of Wisconsin	2709 Marshall Court	VSSC - Financial Services Divisi								
Madison	285-164	University of Wisconsin	2880 University Ave	Attn: Dan Lohrentz								
Madison	285-168	University of Wisconsin	1605 S. Park Street	Opitz Realty Inc Trustee	Bob Krolik	(608) 257-0111 08-31-93 4085	\$8.96	\$3,050.60	\$36,607.16	\$10.96		
Madison	285-174	University of Wisconsin	732 N. Midvale	Verex Assurance Inc.	Harold J. Lessner	(608) 257-2527 06-30-93 2150	\$13.00	\$2,329.17	\$27,950.00	\$14.75		
Madison	285-174A	University of Wisconsin	732 N. Midvale	Attn: Fic. Manager								
Madison	285-197	University of Wisconsin	1920-1930 Monroe St	Security Self Storage								
Madison	285-194	University of Wisconsin	26 N. Orchard St.	Marshall Erdman & Associates, In	Mike Yanke		M-TO-M 576	\$3.13	\$150.00	\$1,800.00	\$3.13	
Madison	285-195	University of Wisconsin	3817 Mineral Point Rd	Jack S. & Lois Kammer	Jack Kammer	(608) 238-0211 08-31-94 6000	\$1.50	\$750.00	\$9,000.00	\$1.50		
Madison	285-229	University of Wisconsin	706 Williamson St	University MOB Partnership	John J. Flad	(608) 238-2300 10-31-93 1030	\$17.35	\$1,489.32	\$17,871.84	\$17.35		
Madison	285-258	University of Wisconsin	979 Jonathon Dr	C/O Flad Dev. & Inv. Corp.		(608) 833-8100 09-30-04 54178	\$11.85	\$53,500.78	\$642,009.30	\$13.00		
Madison	285-259	University of Wisconsin	977 Jonathon Dr.	Anding Enterprises	Al Anding	(608) 221-3854 12-31-93 5000	\$5.58	\$2,316.67	\$27,800.00	\$5.56		
Madison	285-310	University of Wisconsin	122 E. Olin Ave.	Investment Properties	Bruce Neviasier	(608) 257-3777 02-28-95 2840	\$8.93	\$2,113.43	\$25,361.20	\$8.93		
Madison				Investment Properties	Bruce Neviasier	(608) 257-3777 03-31-95 2490	\$8.93	\$1,851.94	\$22,223.25	\$8.93		
Madison				Kenneth L. Luedtke	Kenneth L. Luedtke	(608) 231-3370 06-30-94 20155	\$13.36	\$22,445.95	\$269,351.42	\$13.36		
Madison				Muir Heights Partners			06-30-40					
Madison				The Reopen Corporation	Don Reopen	(608) 231-1324 06-30-95 13612	\$9.00	\$10,209.00	\$122,508.00	\$9.00		
Madison				Reynolds--Madison Company Corp.	David Reynolds	(608) 257-3914 06-30-94 12000	\$3.33	\$3,329.58	\$39,955.00	\$5.43		
Madison				Daniels Bldg Rentals	Joe Daniels	(608) 271-4800 11-30-92 13032	\$9.82	\$11,807.30	\$141,687.56	\$12.52		
Madison							2800	\$4.90				
Madison				Daniels Building Rentals	Joe Daniels	(608) 271-4800 11-30-92 4115	\$9.82	\$3,368.99	\$40,427.87	\$12.75		
Madison				First American Office Partnershi	Robert Holub	(608) 258-9525 04-30-94 1600	\$12.35	\$1,646.67	\$19,760.00	\$12.35		

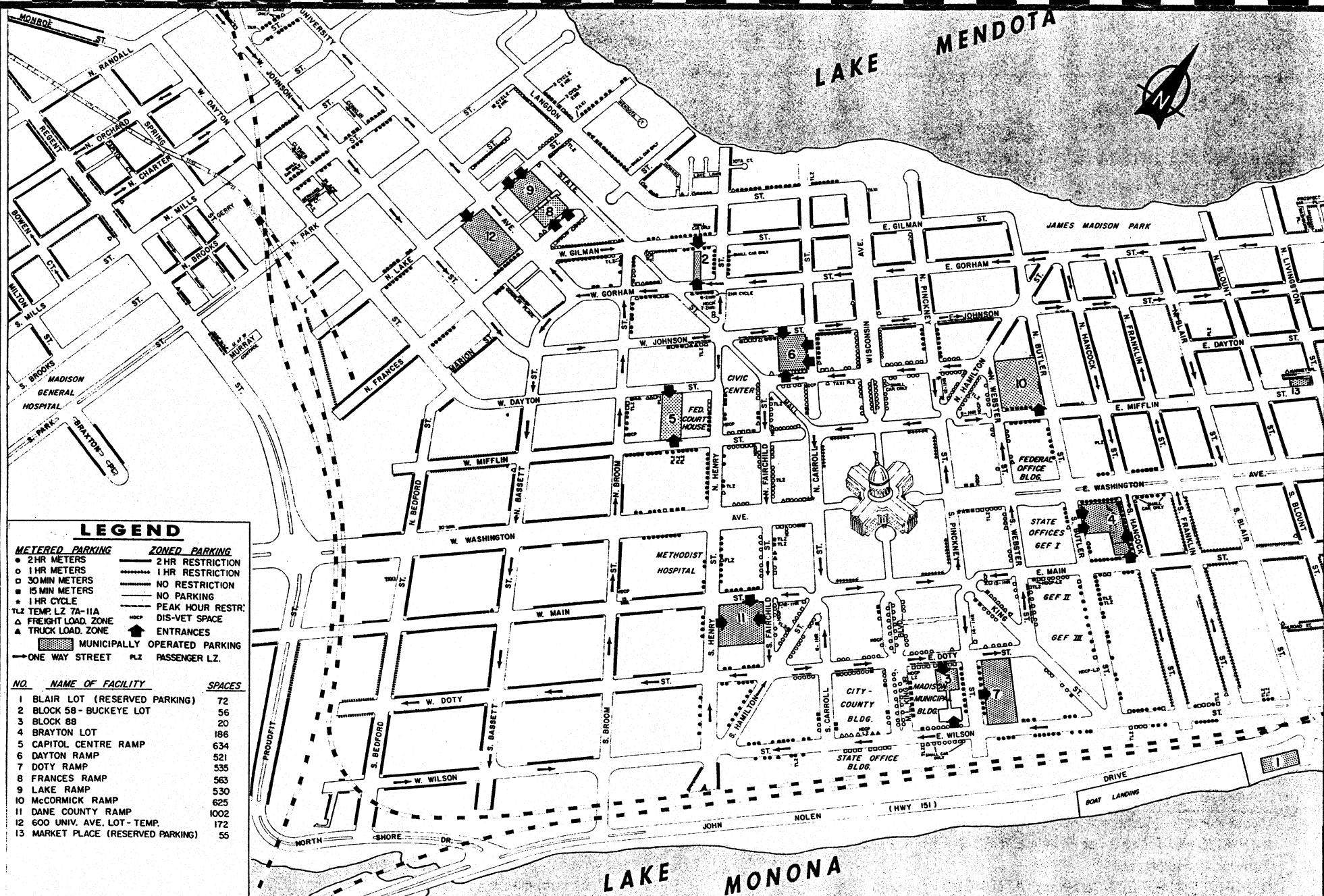
==== SPACE TYPE REPORT BY LOCATION ====

PAGE 10

CITY.....	LEASE.. NUMBER	AGENCY..... NAME	ADDRESS.....	LESSOR NAME.....	LESSOR CONTACT.....	LESSOR PHONE..	LEASE.. END DATE	SQ BASIC... RATE	MONTHLY_RE RATE	ANNUAL ED RA RENTAL \$0 FT
Madison	285-339	University of Wisconsin	2709 Marshall Ct	J S & L M Kammer	Jack Kammer	(608) 238-2300 11-30-94 1434	\$12.71	\$1,519.00	\$18,228.00	\$12.7
Madison	285-351	University of Wisconsin	3313 University Ave.	Opitz Realty Inc., Trustee BOB Investors	Robert Krolik	(608) 257-0111 09-30-93 19109	\$9.07	\$14,542.29	\$174,507.48	\$14.0
						350	\$3.25			\$3.7
Madison	285-356	University of Wisconsin	1100 Deleplaine Court	St Marys Hospital Med Ct	Bob Meyers	(608) 258-6730 09-30-97 22150	\$0.00	\$0.00	\$0.00	\$0.0
Madison	285-364	University of Wisconsin	2870 University Ave.	University Station Partnership C/O Flad Dev. & Inv. Corp.	Steve Hoff	(608) 833-8100 08-31-94 1060	\$13.57	\$1,198.57	\$14,382.84	\$14.8
Madison	285-372	University of Wisconsin	534 W. Main St.	Delta Storage	John Koffel	(608) 251-3337 05-31-93 960	\$4.26	\$340.93	\$4,091.16	\$4.2
Madison	285-398	University of Wisconsin	602 State St	The Towers - Allen & O'Hara Dev	Williams Levy	(608) 257-0701 07-31-94 979	\$10.50	\$856.63	\$10,279.50	\$10.5
Madison	285-420	University of Wisconsin	2710 Marshall Court	The Park Building	Harold L. Nesberg	(608) 238-5741 03-31-93 1500	\$13.16	\$1,644.40	\$19,732.74	\$13.9
Madison	285-422	University of Wisconsin	212 N. Bassett St.	Research Development Corporation	Noel Pratt	(608) 258-7070 05-31-95 9065	\$13.49	\$10,190.17	\$122,282.00	\$14.0
				c/o Oakbrook Corporation						
Madison	285-453	University of Wisconsin	2715 Marshall Court	Jack S. Kammer	Jack Kammer	(608) 238-2300 06-30-93 3840	\$13.04	\$4,172.88	\$50,074.56	\$13.0
Madison	285-481	University of Wisconsin	2870 University Ave.	University Station Partnership	Steve Hoff	(608) 833-8100 04-30-93 899	\$13.53	\$1,013.99	\$12,167.88	\$13.5
Madison	285-504	University of Wisconsin	602 State St	The Towers - Allen & O'Hara Dev	Williams Levy	(608) 257-0701 11-30-93 2000	\$10.50	\$1,750.00	\$21,000.00	\$10.5
Madison	285-513	University of Wisconsin	2710 Marshall Court	The Park Building	Harold Nesberg	(608) 238-5741 12-31-92 1060	\$12.74	\$1,125.51	\$13,506.10	\$14.0
Madison	285-514	University of Wisconsin	6602 University Ave.	The Solar Partnership	Victor Connors	(608) 831-3366 01-31-93 5053	\$15.02	\$7,218.05	\$86,616.60	\$15.0
				C/O Victor Connors		332	\$12.00			\$12.0
Madison	285-534	University of Wisconsin	433 W. Washington	433 West Washington Associates I	Annette Gelbach	(608) 221-8022 09-30-95 4600	\$12.30	\$4,715.00	\$56,580.00	\$12.0
				C/O The Shaw Company Inc.						
Madison	285-543	University of Wisconsin	1902 E Johnson St	First Johnson Corp.	John Coatta	(612) 935-4137 06-30-95 6145	\$3.38	\$1,729.29	\$20,751.48	\$3.3
Madison	285-544	University of Wisconsin	315 N. Henry St.	L.L.R. Venture Group	Richard A. Kiesling	(608) 244-4940 08-31-94 5055	\$8.99	\$3,766.32	\$45,195.84	\$10.0
				Suite 207						
Madison	285-547	University of Wisconsin	810 University Bay Drive	Laurits Christenson	Laurits Christenson	(608) 231-2260 04-30-97 4200	\$10.25	\$3,587.50	\$43,050.00	\$12.0
				Wis. Economic Research Inst.						
Madison	285-591	University of Wisconsin	1900 University Ave.	Michael Sack	Tom Christensen	(608) 255-4242 10-31-95 3100	\$10.31	\$2,666.67	\$32,000.00	\$11.7
Madison	285-593	University of Wisconsin	1314 W Johnson St	Eldon M Stenjem	Eldon Stenjem, Jr.	(602) 998-8761 06-30-93 23193	\$5.10	\$9,850.00	\$118,200.00	\$7.7
				C/O Tom Stenjem						
Madison	285-627	University of Wisconsin	333 N Randall St	Suite 219						
				UW Foundation	F. C. Winding, Jr.	(608) 263-4545 06-30-95 9617	\$10.98	\$9,169.54	\$110,034.50	\$12.0
				Attn: Fred Winding		1699	\$2.61			\$2.0
Madison	292-407	Vocational, Technical & Adult	310 Price Place	150 East Gillean Street						
Madison	370-013	Natural Resources	1350 Farnrite Drive	H & I Bank of Hilldale						
Madison	370-280	Natural Resources	105 S. Butler Street	NCR Corp. Us Group Realestate	Evelyn Hoban	(513) 297-5509 06-30-95 15894	\$5.50	\$7,284.75	\$87,417.00	\$9.5
Madison	370-411	Natural Resources	1400 E. Washington Ave. Rm 161	Washington Square Assoc	John M. Kelly	(608) 256-1951 12-31-92 1915	\$12.53	\$2,000.00	\$24,000.00	\$12.5
					Jerome J. Mullins	(608) 257-0681 02-28-95 2885	\$8.27	\$2,315.54	\$27,786.47	\$8.2
						1260	\$3.12			\$3.1
Madison	370-435	Natural Resources	121 S. Pinckney	Cantwell Joint Venture	Virginia Sengstock	(608) 255-1933 02-28-94 2246	\$12.50	\$2,339.58	\$28,875.00	\$12.0
				C/O Virginia Sengstock						
Madison	370-461	Natural Resources	3070 Fish Hatchery Rd	Flad Dev & Invest Corp	John J. Flag	(608) 833-8100 02-28-93 3250	\$13.10	\$3,547.92	\$42,575.04	\$15.0
Madison	370-536	Natural Resources	2421 Darwin Road	Jensen Investment Co.	Paul Jensen	(608) 241-9030 11-30-93 3800	\$3.66	\$7,083.32	\$85,000.00	\$5.9
						5500	\$2.93			\$5.1
						9000	\$3.24			\$5.1
						8000	\$3.24			\$5.1
Madison	370-537	Natural Resources	2421 Darwin Road	Jensen Investment Co.	Paul Jensen	(608) 241-9030 11-30-93				
Madison	370-538	Natural Resources	2421 Darwin Road	Jensen Investment Co.	Paul Jensen	(608) 241-9030 11-30-93				
Madison	395-066	Transportation	602 N Whitney Way	Marshall Erdman & Associates, Inc	Alan Hembel	(608) 238-0211 02-28-96 7600	\$9.54	\$6,043.52	\$72,522.28	\$9.5
Madison	395-159	Transportation	3501 Piersdorf	Carroll Company	Jerome Mullins	(608) 257-0681 12-31-95 9000	\$9.72	\$7,292.40	\$87,508.80	\$12.5
Madison	395-204	Transportation	212 East Washington Avenue	Congress Associates	Jerry J. Mullins	(608) 257-0681 09-30-93 3719	\$10.72	\$3,323.33	\$39,880.00	\$11.5
Madison	395-380	Transportation	3430 Miller Street	Armstrong Aviation, Inc.	Wibert A. Schaid	(608) 241-2020 06-30-93 5250	\$1.70	\$742.50	\$8,910.00	\$1.7
Madison	395-445	Transportation								
Madison	401-261	Tax Appeals Commission	217 S. Hamilton Street	The Shaw Company	Annette M. Gelbach	(608) 221-8022 09-30-92 2612	\$14.06	\$3,061.39	\$36,736.63	\$14.0
Madison	410-092	Corrections	818 W. Badger Rd	Badger Professional Associates	David Peterson	(608) 256-9011 01-31-96 5036	\$9.92	\$4,164.40	\$49,972.85	\$10.4
Madison	410-176	Corrections	818 W. Badger Rd.	Badger Prof Assoc	Dave Peterson	(608) 256-1193 04-30-93 3302	\$9.59	\$2,638.15	\$31,657.77	\$10.0
Madison	410-202	Corrections	139 W. Wilson St.	Shorecrest Joint Venture II	Robert Castleberg	(608) 256-9011 07-31-93 2000	\$12.20	\$2,033.39	\$24,400.70	\$12.0

APPENDIX D

PUBLIC PARKING INFORMATION - DOWNTOWN MADISON



**CENTRAL AREA
PARKING**

**CITY of MADISON
DEPARTMENT of TRANSPORTATION
PARKING DIVISION**



TransMadison
The Word Is Getting Around
JANUARY 1992

PARKING INVENTORY-LOTS AND RAMPS
 City of Madison Department of Transportation Parking Division
 January, 1992

LOTS	Total										① Cycle Spaces	① Meter Rates	Attended/ Reserved Rates
	Metered Spaces by Type					Metered Spaces	Reserved Spaces	Dis/Vet Spaces	Attended Spaces	Tic Fak			
	1 hr	2 hr	3 hr	5 hr	10hr								
Atwood	--	18	②	--	--	18	--	1	--	--	19	--	25¢/hr
Blair	--	--	--	--	--	--	72	--	--	--	72	--	\$22/month
Block 7 ③ (600 Univ. Ave.)	--	--	--	--	--	--	--	4	168	--	172	--	\$50/month
Block 88	18	--	--	--	--	18	--	2	--	--	20	--	60¢/hr
Brayton	--	16	--	--	--	16	--	2	--	168	186	--	50¢/hr
Buckey (Block 58)	--	27	15	11	--	53	1	2	--	--	56	1	60¢/hr
Evergreen	--	23	--	--	--	23	--	1	--	--	24	--	25¢/hr
Livingston	--	--	--	--	--	--	42	1	--	--	43	--	--
Market Place ③	--	--	--	--	--	--	55	--	--	--	55	--	\$28/month
Wingra	--	11	--	--	10	21	--	1	--	--	22	--	\$22/month
LOTS Total	18	95	15	11	10	149	170	14	168	168	669	1	25¢/hr

RAMPS	Total										① Cycle Spaces	① Meter Rates	Attended/ Reserved Rates
	Metered Spaces by Type					Metered Spaces	Reserved Spaces	Dis/Vet Spaces	Attended Spaces	Tic Fak			
	1 hr	2 hr	3 hr	5 hr	10hr								
Capitol Centre	--	--	--	--	--	--	50	④	7	577	--	634	9
Dayton	17	87	--	23	--	127	⑤	53	15	326	--	521	34
Doty	--	--	--	--	--	--	107	3	425	--	--	535	--
Frances	--	--	--	--	--	--	--	3	560	--	--	563	--
Lake	--	--	--	--	--	--	--	2	529	--	--	531	17
McCormick	--	--	--	--	--	--	160	3	466	--	--	629	11
RAMPS TOTAL	17	87	--	23	--	127	370	33	2883	--	3413	71	35¢/hr

LOTS AND RAMPS

TOTAL 35 182 15 34 10 276 540 47 3051 168 4082 72

① Cycle Parking- 25¢/hr, not included in total spaces.

② 9 SPACES RESERVED 7am-7pm METERS IN EFFECT 7pm-7am.

③ Temporary Parking Lot.

④ RESERVED IN EFFECT 6am-6pm. ATTENDED 6pm-6am.

⑤ 53 SPACES RESERVED 7am-6pm METERS IN EFFECT 6pm-7am.

⑥ Weekend-Evening Rate: 6pm-5am=\$1 max.

5am Sat.-5am Sun.=\$1 max.

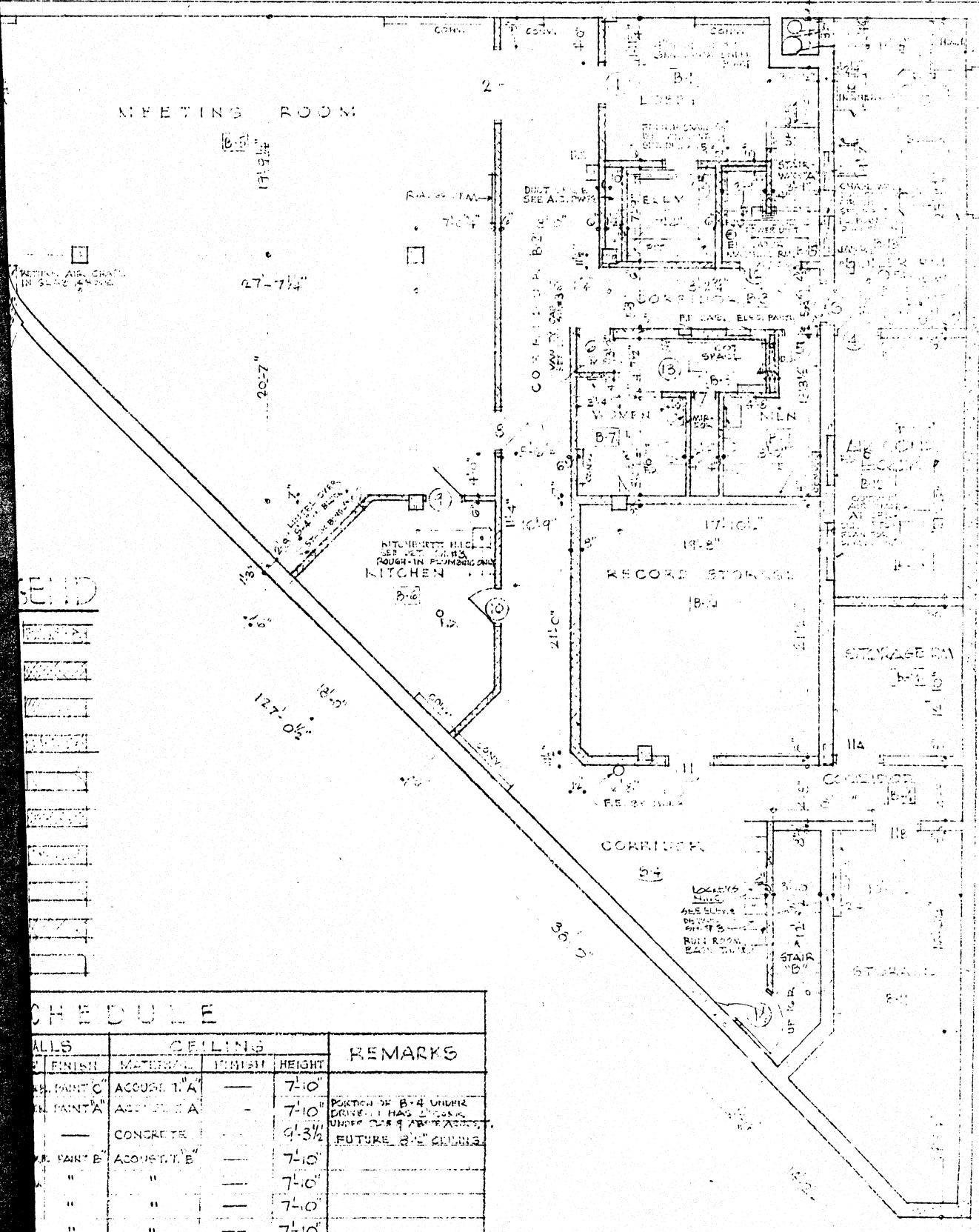
5am Sun.-5am Mon.=\$1 max.

NOTE: Night parking permits are available for selected lots and ramps at a cost of \$15.75 per month. Permits are valid Monday through Sunday from 6pm to 9am and on Saturday, Sunday, and Holidays from 9am to 6pm. Information regarding night permits and reserved parking can be obtained at the office of the Department of Transportation
 215 Martin Luther King, Jr. Boulevard
 Room 100
 or, by calling 266-4761.

APPENDIX E

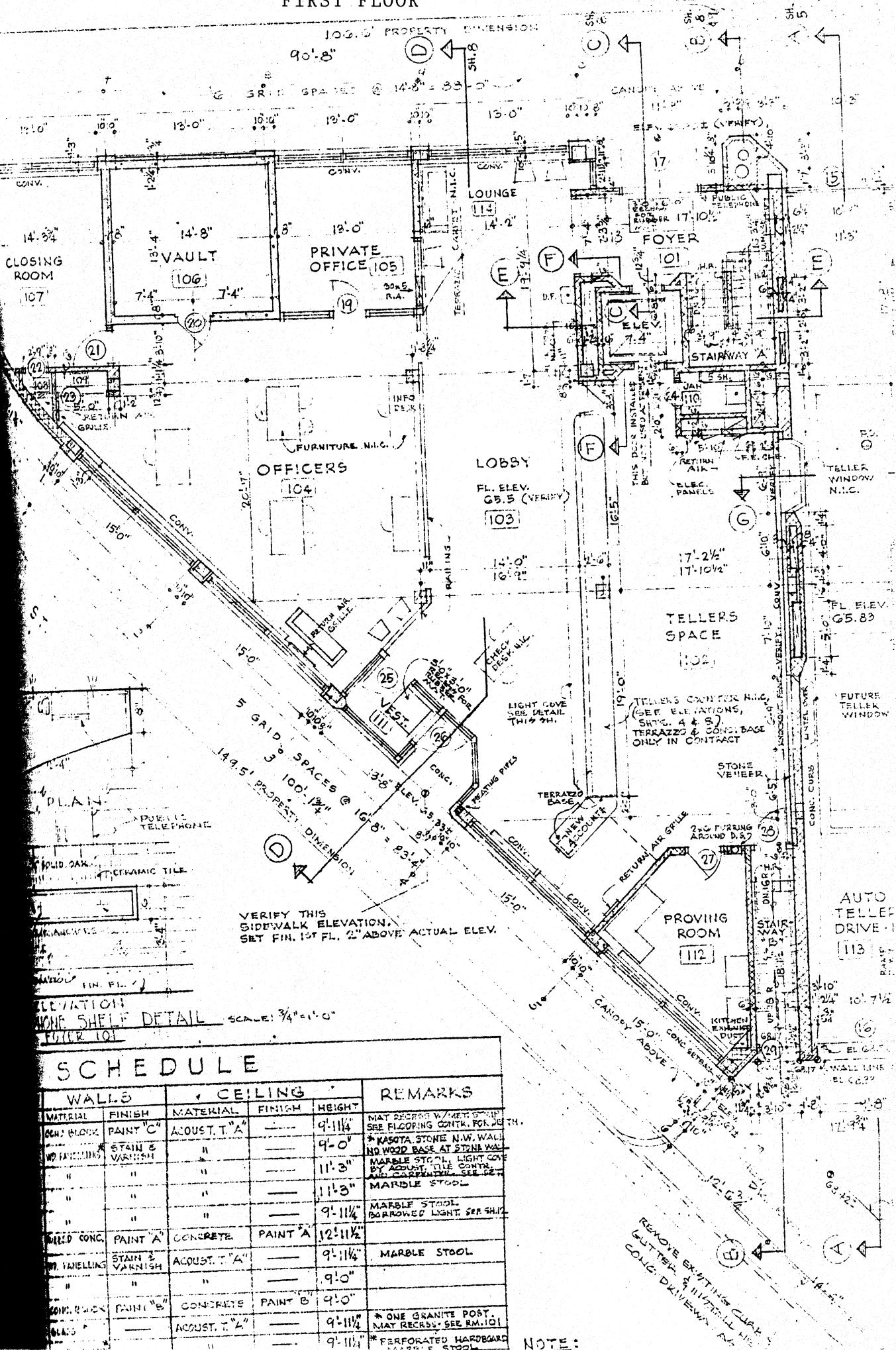
FLOOR PLANS

FLOOR PLAN
BASEMENT



SCHEDULE				
ALLS	CEILING			REMARKS
FINISH	MATERIAL	THICKNESS	HEIGHT	
1. PAINT "C"	ACOUST. T."A"	—	7'-0"	
2. PAINT "A"	ACOUST. T."A"	—	7'-0"	PORTION OF B-4 UNDER DRIVE. IT HAS 2' 6" X 4' 11" X 9' ABUTTALS.
	CONCRETE	—	9' 3 1/2"	
3. PAINT "B"	ACOUST. T."B"	—	7'-0"	FUTURE B-4 CEILING
"	"	—	7'-0"	
"	"	—	7'-0"	
"	"	—	7'-0"	
"	"	—	7'-10"	
	CONCRETE	—	9' 3 1/2"	
	2" LATH	—	9'-8"	
	"	—	9'-8"	
	"	—	9'-8"	

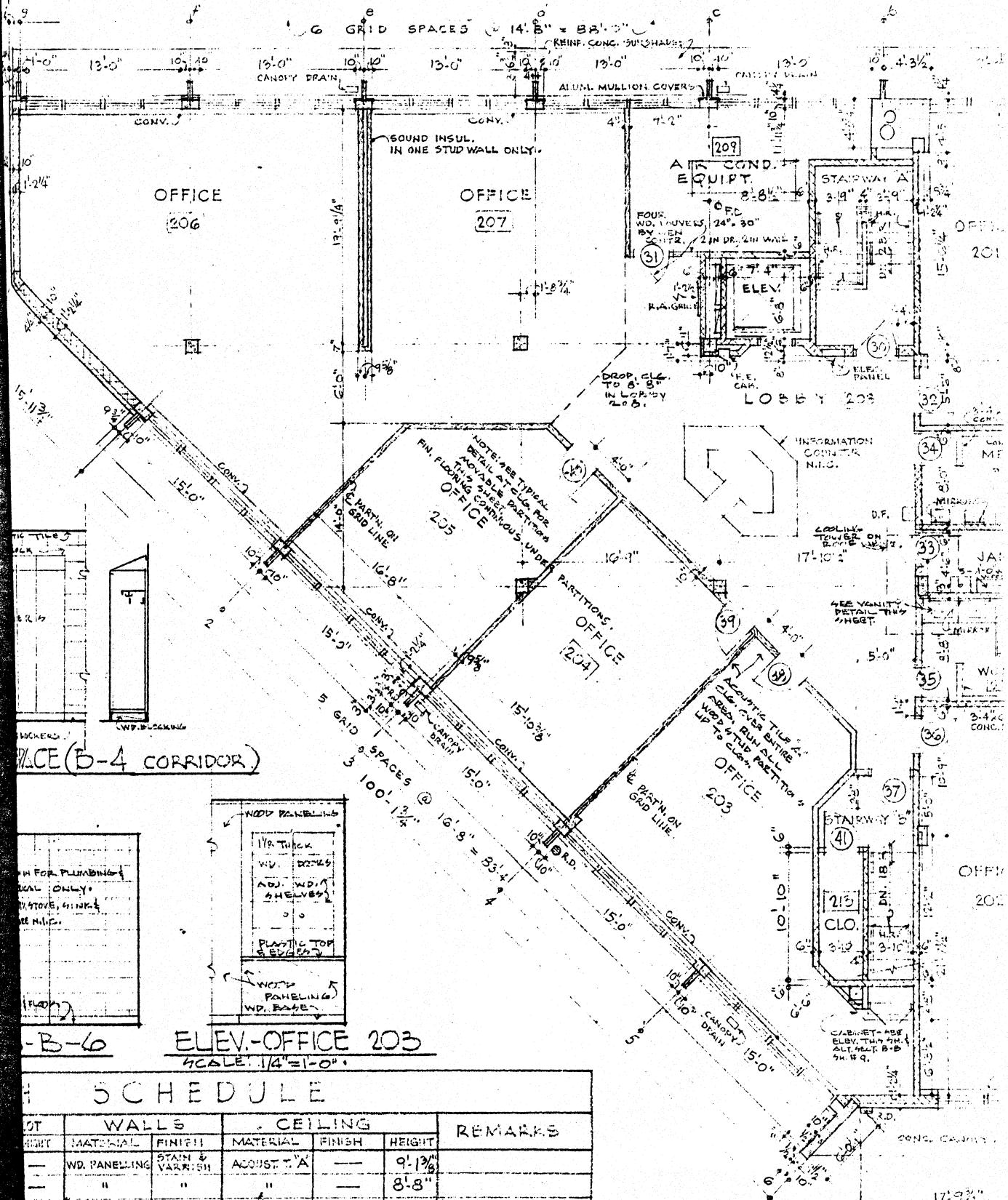
FIRST FLOOR



SCHEDULE

SCHEDULE				
WALLS		CEILING		REMARKS
MATERIAL	FINISH	MATERIAL	FINISH	HEIGHT
CONC. BLOCK	PAINT "C"	ACOUST. T. "A"	"	9'-11 1/4"
WOOD PANELLING	STAIN & VARNISH	"	"	9'-0"
"	"	"	"	11'-3"
"	"	"	"	11'-3"
"	"	"	"	9'-11 1/4"
WELD CONC.	PAINT "A"	CONCRETE	PAINT "A"	12'-1 1/2"
WOOD PANELLING	STAIN & VARNISH	ACOUST. T. "A"	"	9'-1 1/4"
"	"	"	"	9'-0"
CONC. BLOCK	PAINT "B"	CONCRETE	PAINT "B"	9'-0"
GLASS	"	ACOUST. T. "Z"	"	9'-11 1/4"
		"	"	9'-11 1/4"

SECOND FLOOR



SCHEDULE

SCHEDULE						REMARKS	
HT	WALLS		CEILING				
	MATERIAL	FINISH	MATERIAL	FINISH	HEIGHT		
8'	WD. PANELLING	STAIN & VARNISH	ACOUST. T.A	—	9'-1 $\frac{1}{2}$ "		
—	"	"	"	—	8'-8"		
—	CONC. BLOCK	—	CONCRETE	—	10'-11 $\frac{1}{2}$ "	INSULATED STUD WALL ON S.E. PANELLING OFFICE	
4.5'	CONC. BLOCK	PAINT "B"	ACOUST. T.B	—	9'-1 $\frac{1}{2}$ "	SH. ONLY	
—	"	"	"	—	9'-1 $\frac{1}{2}$ "		
—	CONC. BLOCK	PAINT "B"	CONCRETE	PAINT "B"	10'-1 $\frac{1}{2}$ "		
10"	CONC. BLOCK	PAINT "C"	ACOUST. T.A	—	SEE SECT. B 4.5'-11"		
"	"	PAINT "A"	"	—	"		
—	CONC. BLOCK	—	CONCRETE	—	10'-1 $\frac{1}{2}$ "		

NOTE:
SEE N
CONTINU

SECURE WOOD
NATURAL TO 1 1/2
CUTS

WOOD NAILERS 4-0 O.G.

APPENDIX F

PHOTOGRAPHS



View of the Fairchild Street facade of the Provident Building, camera facing north.



View of the corner of South Fairchild Street and South Hamilton Street showing the Hamilton Street facade of the Provident Building. Camera facing northwest. The Valley Bank Building and the Dane County Ramp are visible at left, and the Inn on the Park is visible at right.



View of the South Fairchild Street facade of the Provident Building. Adjoining City alley and former drive-thru visible at left. The site of the new Dane County Jail would be at right, commencing at the 121 West Doty Street Building and proceeding east (left). The 121 West Doty Building is the building with the green trim shown at right.



Close-up of the City alley and former drive-thru banking facility.



Street scene facing north along North Hamilton Street, showing the Baskerville Apartments at right and the State Capitol in the background.



Street scene along South Fairchild Street facing southeast.



View of representative upper floor office area.



View of representative upper floor office area.



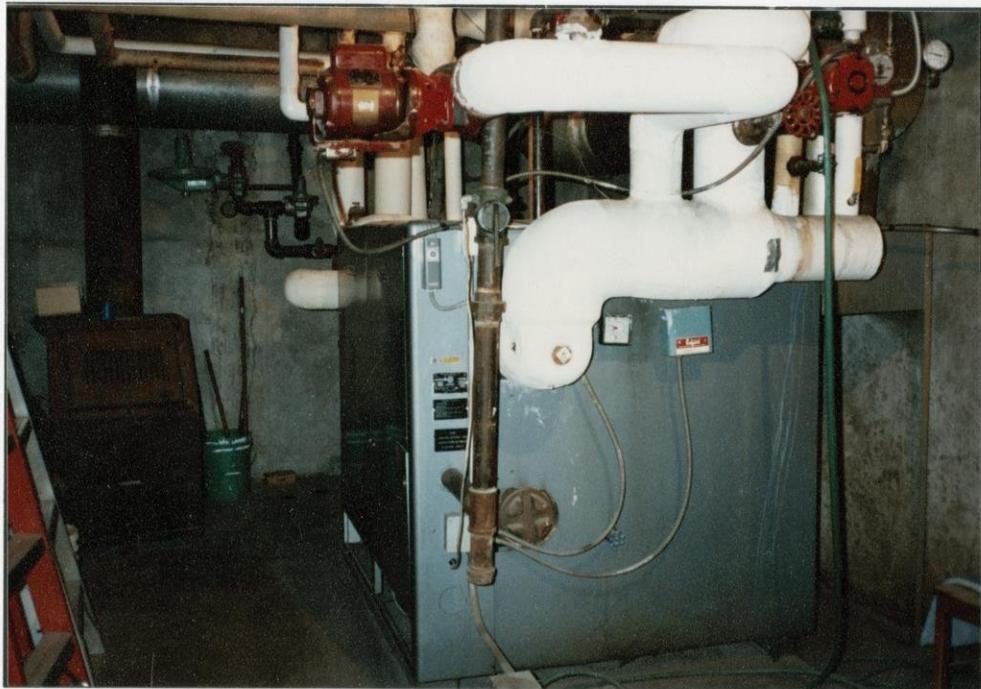
View of finished basement area.



View of the warehouse storage area, created inside the former drive-thru banking facility.



View of roof showing roof-top compressors.



View of building boiler.



View of typical air conditioning/air handling unit.

APPENDIX G

ASSESSMENT ANALYSIS

APPENDIX G

The final value estimate of \$660,000 for the Provident Building, when compared to the assessed value of \$1,065,000 would clearly indicate that the Provident Building is over-assessed. The final value estimate of \$660,000 represents a unit value of \$41.24 per square foot; the assessed value of \$1,065,000 represents a unit value of \$66.55 per square foot. Given the sales used in the sales comparison approach, the unit value indicated by the assessment is clearly high.

In order to analysis what a reasonable assessment might be, we performed an analysis whereby we factored out the capitalized amount attributable to real estate taxes from value. This was done by adding the tax expense to net income and then capitalizing that net income estimate at a rate that is composed of the overall capitalization rate used in our income approach plus the mill rate. This analysis was done as follows:

$$\begin{aligned} \text{Value} &= \frac{\text{NOI} + \text{Real Estate Taxes}}{\text{Overall Rate} + \text{Mill Rate}} \\ \text{Value} &= \frac{\$84,188 + \$35,518}{.1233 + .0335} \quad .0333507 \\ \text{Value} &= \frac{\$119,706}{.1568} \quad .15665 \\ \text{Value} &= \$73,431 \\ \text{Rounded to:} & \quad \$765,000 \quad 16 \end{aligned}$$

The indicated assessed value of \$765,000 is still higher than our final value estimate of \$660,000. This is because the \$765,000 value estimate assumes that the buyer pays for the benefit of some tax reduction. In today's market, buyers are purchasing properties based on current numbers. This means that a buyer would not pay extra for anticipated tax savings because these savings might not be obtained. Therefore, we did not impute any such tax savings in our final value estimate of \$660,000.

APPENDIX H

QUALIFICATIONS OF APPRAISERS

QUALIFICATIONS OF DEAN P. LARKIN

DEAN P. LARKIN, Age 36, Vice President, Director and Shareholder of First Financial Realty Advisors, Inc. ("FFRA") and Vice President and Director of Realty Advisors, Inc. FFRA is a Brookfield, Wisconsin firm specializing in the acquisition of investment real estate and in real estate consulting. FFRA acts as a general partner of partnerships which own a variety of commercial and industrial properties throughout Wisconsin. Mr. Larkin works in the areas of property management, acquisition, finance, syndication and partnership administration. In addition, Mr. Larkin directs the activities of Realty Advisors, Inc., a wholly-owned subsidiary of FFRA which is involved in the areas of real estate appraisal and tax assessment challenge work. He has a strong background in real estate valuation and finance. His real estate experience includes involvement with all major property types.

Prior to cofounding FFRA, Mr. Larkin was with RAL Asset Management, a Brookfield based real estate investment firm. His duties were primarily in the areas of acquisition, partnership structuring, and partnership administration. Previously, he worked in the income property finance division of the Grootemaat Corporation, a Milwaukee, Wisconsin mortgage banking firm. Duties at Grootemaat included the finding, structuring, and placement of real estate mortgage and equity investments, equity account appraisals, and the sale of securities in private placement real estate investments. Prior to that, Mr. Larkin worked for two Milwaukee area appraisal firms, doing appraisals, market studies, and feasibility studies involving all property types. He received an M.S. degree in Real Estate Appraisal and Investment Analysis in 1981 and a B.A. degree in Economics in 1978, both from the University of Wisconsin - Madison. Both his undergraduate and graduate course work included a concentration in urban and regional planning. Mr. Larkin is also on the staff of the University of Wisconsin - Milwaukee School of Business where he has taught Valuation of Real Estate since 1984. Community activities include membership on the Park and Recreation Commission of the Town of Pewaukee and being an alumnus of Future Milwaukee. Professional affiliations include being a candidate for membership as an MAI in the Appraisal Institute. Mr. Larkin is also a certified general appraiser and a licensed real estate broker in the State of Wisconsin.

JEAN B. DAVIS

EDUCATION

Master of Science - Real Estate Appraisal and Investment Analysis
University of Wisconsin - Madison

Master of Arts - Elementary Education
Stanford University

Bachelor of Arts
Stanford University (with distinction)

Additional graduate and undergraduate work:
Columbia Teachers College and the University of Wisconsin.

PROFESSIONAL EDUCATION

Society of Real Estate Appraisers

Appraising Real Property	Course 101
Principles of Income Property Appraising	Course 201

American Institute of Real Estate Appraisers
Residential Valuation (Formerly Course VIII)

Appraisal Institute
Standards of Professional Practice

PROFESSIONAL DESIGNATIONS

MAI (Candidate) - Appraisal Institute

PROFESSIONAL AFFILIATIONS

Wisconsin Association of Homes and Services for the Aging, Inc.
Appraisal Institute

PROFESSIONAL EXPERIENCE

Trained in appraisal and investment analysis under the guidance of the late James A. Graaskamp, Ms. Davis is President of Landmark Research, Inc., and specializes in market and survey research in order to estimate effective demand for elderly housing, residential development, and for office and retail projects. In addition, she appraises both commercial properties and rehabilitated older commercial properties and she represents property owners in assessment appeals. Ms. Davis has been retained by the State of Wisconsin Investment Board to secure and review appraisals for their portfolio and for selected potential acquisitions.

