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BREEZEWOOD VILLAGE

HARTLAND, WISCONSIN

Landmark
Research
Inc.

BREEZEWOOD VILLAGE
400 SUNNYSLOPE DRIVE
HARTLAND, WISCONSIN

AS OF
JANUARY 1, 1982

PREPARED BY
LANDMARK RESEARCH, INC.

Landmark
Research
Inc.

May 6, 1982

James A. Graaskamp, Ph.D., SREA, CRE
Tim Warner, MS, MAI, SREA
Jean B. Davis, MS

Mr. David L. Brierton
President, Dominion Group Inc.
3140 Harbor Lane
Minneapolis, Minnesota 55441

Dear Mr. Brierton:

With this letter we are delivering to you the appraisal of the property known as Breezewood Village located at 400 Sunnyslope Drive in the Village of Hartland, Waukesha County, Wisconsin. The appraisal was requested to serve as a benchmark of value in support of the objection to the real property assessment as of January 1, 1982. Also included within this document is an evaluation of the equitableness of the assessment of the vacant site adjacent to and east of Breezewood Village listed on the Village of Hartland assessment roll as Tax Key #HAV 427-999.

An inspection of the property was made on April 20, 1982, by the appraiser in the company of the on-site property manager, Ron Petura. The property was fully occupied, well-maintained, and fully operational; we understand this was the case as of January 1, 1982, the date of the appraisal.

From your office we were furnished with the financial statements which included actual revenue and expenses for 1982; the 1980 and 1981 real estate tax statements for Tax Key HAV 427-997-008; the Section 8 statement of account for the month ended January 31, 1982; the original Housing Assistance Payments (HAP) Contract schedule of contract units and contract rents; and the Wisconsin Housing Finance Authority (WHFA) annual budget for 1982. From WHFA we obtained the WHFA #100; the original revised HAP schedule of contract units and contract rents; and the WHFA revised cost certification.

Breezewood Village is one of two Section 8 elderly housing projects owned by Waukesha County Housing Authority and financed by WHFA under one mortgage. The other is Parkland Commons in Oconomowoc, Wisconsin, a 40 unit project. All revenue and expense statements include both projects. Since all revenue and expense statements include both projects, it was necessary to determine the proportional contribution of each project. In order to properly allocate the mortgage, revenue, expenses, and equity dividend, the maximum Annual Contributions Contract for each project was totaled and used as

Mr. David L. Brierton
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May 6, 1982

the base in determining each project's proportional contribution. This allocation of 60 percent for Breezewood Village and 40 percent for Parkland Commons was suggested by John Habeck, Director of Housing Administration at WHFA. An inspection of Parkland Commons and Breezewood Village by the appraiser confirmed this to be a fair allocation.

We have reworked the income statement from generally accepted accounting principles to generally accepted appraisal principles in order to eliminate revenues and expenses from non-real estate activities in order to define net income attributable to the real estate. Non-real estate activities might include recreational and social activities, travel and training expenses incurred to enhance the delivery of services to the elderly.

Section 8 projects which are encumbered by a pyramid of government contracts and regulations are unique. Several valuation methodologies were used to estimate the value of the private fee simple interest in the project.

Based upon the assumptions and limiting conditions presented in the attached report, it is the opinion of the appraisers that the highest probable price in dollars and market value of the private fee of Breezewood Village located at 400 Sunnyslope Drive, Village of Hartland, Wisconsin, which might be obtained as of January 1, 1982, is:

ONE MILLION THREE HUNDRED SEVENTY THOUSAND DOLLARS

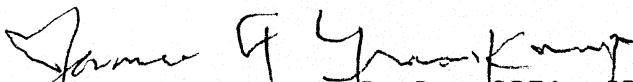
(\$1,370,000)

assuming a market interest rate of 14 percent, a mortgage term of 30 years and a before tax equity yield rate of 15 percent.

Mr. David L. Brierton
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We are pleased to have been of service and Ms. Davis and I remain available to answer any specific questions you may have regarding this report. Please give us adequate notice to date, time and location of any meetings you want us to attend in regard to these properties.

FOR LANDMARK RESEARCH, INC.


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

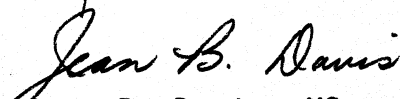

Jean B. Davis, MS

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I. BASIC APPRAISAL CONDITIONS

A. The Appraisal Issue

The issue for which this appraisal will serve as a benchmark is the real property assessment appeal filed with the Board of Review of the Village of Hartland, Wisconsin regarding the assessed values as of January 1, 1982 for Breezewood Village, a Section 8 elderly housing project, owned by the Waukesha County Housing Associates and for the vacant site adjacent to Breezewood Village, owned by Dominion Group Incorporated. Each of the two parcels will be treated as separate and unique valuation problems; the valuation of Breezewood Village will be completed first. The problem in the appraisal of Breezewood Village is that, in the short run, it is necessary to define a schedule of actual market rents (not HUD fair market rents) and to solve for the cash equivalent value of the mortgage in light of the subsidized mortgage rates which made possible the initial construction. In the long run the State Department of Revenue is examining the issue as to whether or not the rent control, management rules, and profit control that result from Section 8 contracts represent transfer of a possessory interest to the public, thus reducing the base value subject to the real estate tax.

B. Definition of Value

In Wisconsin, for purposes of tax assessment valuation of that portion of the real estate value which is in the private domain, the definition of value presumes cash to the seller at

a price that would be paid by another owner/user, or in essence, fair market value as defined jointly by the American Institute of Real Estate Appraisers on page 160 of the revised edition of REAL ESTATE APPRAISAL TERMINOLOGY:

The most probable price in terms of money which a property should bring in competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, 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 each acting in what they consider their own best interest.
3. a reasonable time is allowed for exposure in the open market.
4. payment is made in cash or its equivalent.
5. financing, if any, is on terms generally available in the community at the specified date and typical for the property type in its locale.
6. the price represents a normal consideration for the property sold unaffected by special financing amounts and/or terms, services, fees, costs, or credits incurred in the transaction.

C. The Property To Be Appraised

The property to be appraised is known as Breezewood Village located at the corner of Rae Lane and Sunnyslope Drive in the Village of Hartland, Waukesha County, Wisconsin. The property is legally described as:

Parcel 1 of Certified Survey Map No. 3744, recorded November 19, 1979 in Volume 28 of Certified Survey Maps on pages 332, 333 and 334, as Document No. 1113086, located in the NW 1/4 and NE 1/4 of the SW

1/4 of Sec 35, T8N, R18E, Village of Hartland, County of Waukesha, State of Wisconsin.

The proposed assessed value for January 1, 1982 is as follows:

<u>Tax Key Number</u>	<u>Land</u>	<u>Improvements</u>	<u>Total</u>
HAV 427-997-008	\$150,000	\$1,584,680	\$1,734,680

D. Legal Right To Be Appraised

The appraisal assumes the sale of the fee simple title of the property subject to the long term encumbrances created by a pyramid of agreements referred to as Section 8 subsidies.

Property rights include the interest in the land, building and such finishes and features which are added to the structure as fixtures and are not the property of the tenants.

II. PROPERTY PRODUCTIVITY

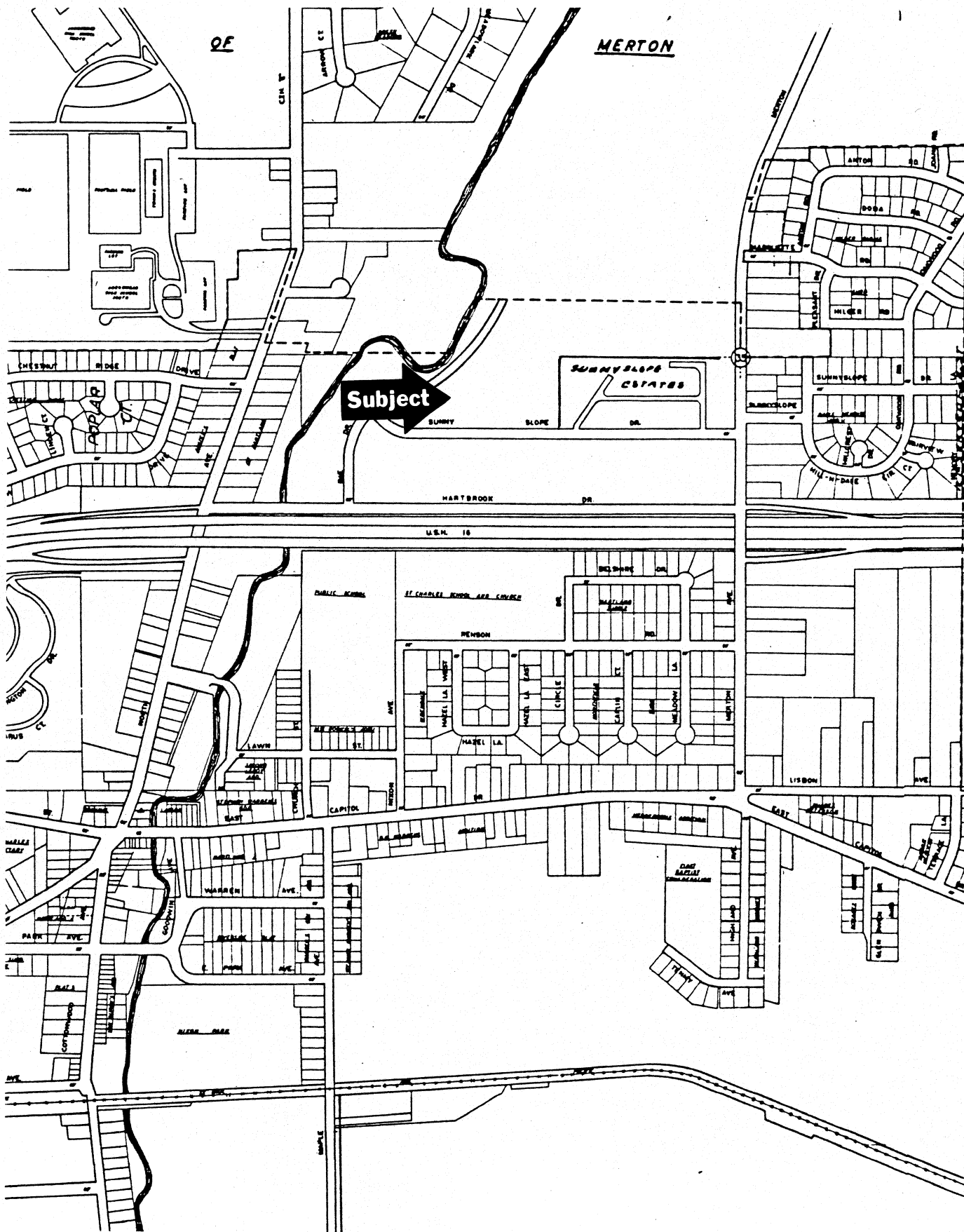
The combined profile of the buyer and of the attributes of the subject property suggest what to look for as comparable sales, if any exist, and to estimate how much a buyer is willing to pay for the bundle of rights available to him. The unit of comparison or basis for estimating a purchase price reflect the productivity of the site. In this case the site is occupied by a newly built 60 unit apartment building designed for the low-income elderly who desire the freedom of independent living, but do not have enough income to seek housing in the market place.

A. The Site

The site is irregular in shape (see Exhibit A), contains 3.51 acres, more or less, and is zoned R-3 which allows for multifamily residential as a conditional use only. The topography is fairly level with a slight upward slope toward the north edge of the site. Because of the high water table, WHFA demanded that the sponsor/developer fill the site before construction of the building.

To the east lies the vacant site which is the subject in the second half of this report. Tillable farm land lies to the north and a new park complete with a running stream is located on the west. To the immediate south of the site is partially

EXHIBIT A
SITE MAP



vacant land with some commercial uses and small retail facilities on the southern edge of the strip.

Though the site appears to be isolated, there are several stores located just south of Rae Lane and within walking distance for the more hearty residents. There is no bus service to the site, but the majority of the residents have private automobiles.

B. Site Improvements

Both parking lots at the front and the rear of the building are finished in black top and can accommodate approximately 61 cars. Pole lamps are placed strategically throughout the lots. Curbs have been installed along the driveways and edges of the lawns and planter areas. A network of sidewalks surround the building and a large patio completes the inventory of site improvements.

C. Improvements (See Exhibit B for photographs)

The two-story frame structure is finished in brick veneer and cedar board siding and includes traverse double glazed windows with permanent storms. The concrete flooring is built over a utility tunnel which houses the linkages to the mechanicals; included in the tunnels are the hot water pipes from the boiler, the regular water pipes and the electrical wires. The network of utility tunnels are located under the

EXHIBIT B

PHOTOGRAPHS OF BREEZEWOOD VILLAGE



Looking south from vacant field



Looking north from vacant lot near
commercial strip



Detail of building exterior



Looking south at commercial strip

hallways with openings to each unit. The roof is finished with asphalt shingles upon which are located dormer vents and fans that provide ventilation.

Gas fired hot water boilers, operating alternatively, provide base board heat throughout the living units; the tenant controls the heat via two thermostats located in the bedroom and the living room. Three hot water heaters, each with a 100 gallon capacity and two water softeners complete the inventory of the mechanicals.

The individual electric meters and panels are housed in a mechanical room on the first floor, which is accessed from the outside. A gas fired forced hot air unit housed on the second floor provides heat for the common areas. The motor for the single Northwest elevator is housed in the same room with the air exchange unit. A trash compactor is mounted on the concrete floor in a first floor trash room and is fed from a second floor drop. On the first floor trash is collected in a garbage can located at the entry of the trash room.

There are 59 one-bedroom units and 1 two-bedroom unit for the on-site manager. A community room on the first floor has a fully equipped kitchen for the use of the residents.

The community room also serves as a nutritional site where catered dinners are served two times a week on Monday and Wednesday. A game room is located on the second floor. Two

public bathrooms and a laundry room equipped with three coin operated washers and four dryers complete the inventory of common public areas. Storage space is also available in some of the first storage areas located throughout the building. Locked mail boxes are provided on the first floor.

A typical one-bedroom unit contains a bathroom with a combination tub and shower and a heat lamp, a living room, kitchen, three closets and measures approximately 600 square feet. Home box office (HBO) is available to the individual tenants for \$8 per month.

Breezewood Village was specifically designed to provide housing for the elderly who are capable, for the most part, of caring for themselves; special life safety equipment is provided throughout the building. Each unit is equipped with tub safety bars and an emergency call cord in the bathroom. Handrails are installed in each hallway within the building. Smoke detectors are located in each unit and in each hallway. A battery in the hallway provides for emergency hall lighting during a power failure. A Simplex warning alarm is activated by heat detectors. The building is operated under a strict security system; the front entry is always locked with individual keys held by each tenant and an intercom system to screen visitors. It should be noted that some of the life safety systems and security equipment are not characteristic of

apartment buildings in the profit oriented rental market and would be considered superadequacies in this market.

III. SECTION 8 HOUSING ATTRIBUTES AND TRADITIONAL ASSESSMENT METHODOLOGY

A. Assessment Problem

The assessment valuation problem unique to subsidized housing and specifically Section 8 elderly housing, is to identify the division between public and private interests in the fee and to value the private interest. There is the private fee simple interest and the public sector financing interests that place covenants on the mortgage loan and also place the lender in a contingent "shadow" management role. Also the annual contributions contract (ACC) gives HUD an active managerial role in the project and represents a long term encumbrance to the benefit of tax exempt governments that is placed upon the private interest fee.

B. Lack of Comparable Sales

The market comparison valuation approach, favored by Wisconsin Courts, is difficult to use for Section 8 projects because of the lack of comparable sales. A sale in which the fee simple^{un} encumbered is conveyed from one party to another is very unlikely for a Section 8 project due to the reluctance of the financing entity and HUD to remove their financing and contractual restrictions. In addition, the Section 8 program is relatively recent and investors find their early returns from accelerated depreciation, a ploy which would be negated by a

recapture tax if sold during the first 200 months of ownership. Moreover, a buyer would not have enjoyed the same depreciation privileges as a second owner prior to the passage of the Economic Recovery Tax Act of 1981 (ERTA).

ERTA has eliminated the distinction between first and second users and accelerated depreciation recapture penalties continue to be forgiven after a 200 month holding period. Very few sales have occurred throughout the United States and the attitude of WHFA and HUD toward such sales is unclear. WHFA's mortgage terms prohibit prepayment of the mortgage for the first 20 years without steep penalties tied to the cost of underwriting bonds and with the added complication of endangering the tax exempt status of the bonding which was the source of funding for the loan.

A sale of the individual partnership interest is possible, but restricted due to Internal Revenue Service regulations and in any event such a sale is of personalty rather than realty.

In the absence of comparable sales the income approach is preferred (Dane County Circuit Court, Judge George R. Currie's instruction to Madison Board of Review Case No. 140-201, Wild, Inc., relator, relative to VIP Plaza office building, now known as the James Wilson Plaza.) The cost approach is the least preferred method and is also difficult to apply as will be discussed.

C. Unique Section 8 Design and Ownership Features

Another part of the assessment valuation problem is that a Section 8 development differs significantly from a conventional apartment or multifamily development in three distinct ways:

1. By regulations and procedures, HUD dictates design and construction.
2. HUD and financing entities' contractual requirements control occupancy and management.
3. Ownership and management cannot maximize profit from net income, financing and reversion value by a strategically timed sale. Investment owners must rely on sufficient income from other sources to enjoy the benefits of the development's accelerated depreciation as its prime source of value. A Section 8 development is a passive investment.

HUD minimum property standards determine all design and building features and therefore Section 8 developments range from low to the medium range of building quality and amenity level for comparable private developments. Because the tenant's effective rent is considerably less than the market price, the developer and lender assume there is no lack of demand and therefore, regulations, not the market, determine location, amenities and building design. Without the reduced tenant rent, many developments would not satisfy market demand.

Building costs are usually higher than for a conventional development even though physical, locational and design features might dictate a value less than that of a conventional unit. For example, Breezewood Village one-bedroom units are approximately 600 square feet in size and are comparatively very small for the Village of Hartland rental market. Processing and financings costs, not the cost of the real estate, boost Section 8 construction costs. These costs include:

1. Mandatory prevailing wage for all construction workers that increases construction cost 5 to 15 percent;
2. Mandatory financing and construction overhead charges, including construction completion assurances, construction inspections, maintenance of a construction float for delayed payments (estimated to be from 1 to 15 percent);
3. A minimum of equity and 85 to 90 percent non-recourse mortgage loans at below market interest rate and term in conjunction with the favorable tax treatment, encourages construction at capital costs that would not be feasible for conventional construction constrained by realistic market rents.

The building characteristics and ownership forms also restrict the possibilities for future alternative uses because

of the lack of convertibility of the buildings which are designed to HUD's minimum standards. Though HUD encourages, on paper, the conversion of Section 8 developments from private limited dividend partnerships to cooperatives, HUD has not been aggressive in encouraging this type of tenant ownership.

For WHFA projects, the minimum ownership term for a Section 8 development such as Breezewood Village is 20 years due to both the term of the mortgage and the ACC. Also, the magnitude of the benefits from the tax shelter are greatest in the first ten years and partial forgiveness of the excess depreciation does not begin until the end of the first 100 months of the holding period.

In summary, alternative ownership types (transfer of title) of Section 8 projects are extremely limited and not without significant reduction in value. The most likely possibilities for second ownership types are:

1. Continuation as subsidized developments
 - a. limited partnership or non-profit owners of rental units
 - b. cooperatives
2. Change to non-subsidized developments
 - a. distressed sale to non-subsidized owner for rental or conversion to cooperative

- b. conversion to rental or condominiums if development appreciation is sufficient to cover cost of the possible liabilities of relocating subsidized tenants, and actual costs of refinancing and refurbishing.

Only in a rapidly appreciating location could an owner successfully convert a well-sited Section 8 to a non-subsidized development, given a release from all the covenants and restrictions, an unlikely event as previously discussed.

D. Income and Cost Differences Between a Section 8 Development and a Conventional Development

There is a natural tendency for assessors to value a Section 8 development as though it were a conventional development. For an initial value, assessors variously use:

1. initial pro forma construction cost
2. the contract rents (which HUD euphuistically calls fair market rent to conform to Congressional language), in the first few years, may be as much as 20 percent above fair market rents, as the basis for a gross income multiplier.
3. various capitalization rates that utilize the net income and a cap rate based on the mortgage rate that

is lower than conventional rates since it is either a GNMA mortgage or a state agency, tax-exempt funded mortgage.

All three approaches ignore the severity of the Section 8 restrictions on the fee that limit the investment value. A Section 8 development is, for all practical purposes, a 20-year leasehold; it is not similar to a conventional unrestricted fee of a multifamily development.

In Wisconsin, properties must be assessed for what a willing and knowledgeable buyer would pay for the property in an arm's length transaction. But, as previously discussed, that specific option, other than as a distressed sale, is made virtually impossible by the terms of the WHFA loan and the related Section 8 rental subsidy pyramid of regulations, note agreements, management contracts, and administrative controls imposed by the federal government in consideration for both the rental subsidy and the mortgage loan financing at non-market rates.

It can be argued that since the federal government controls the management of the operation, the design of the structure, the selection of tenants, and determines the grounds for eviction, the Section 8 twenty-year agreement and the conditions accepted under the WHFA loan constitute a transfer of a real estate interest to the public position. In essence,

the difference between market rents and the contract rents set by (HUD) represents the substance of the real estate transferred to the public for no less than twenty years. This position has been outlined in a report entitled Valuation of a Real Estate Life Form: Regulated Rental Housing prepared by Leon Shilton and Landmark Research, Inc. Copies have been provided both the Secretary of Health and Welfare and Greg Landretti of the Wisconsin Real Estate Tax Commission under Secretary of Revenue, Mark Musolf. The proper real estate taxation methodology for government subsidized housing has never been defined explicitly in the Wisconsin Property Assessment Manual. In meetings with members of the State Department of Revenue the issue has been identified as the murky state of Wisconsin law relative to a possessory interest in the hands of a tax exempt government.

IV. THE VALUATION OF THE PRIVATE FEE

A. The Income Approach

One approach to determine the value of a passive Section 8 investment, such as Breezewood Village, is to assess the interests in the sources of cash income to the benefit of the fee simple interest. The three sources of cash are: the debt service, cash throw-off, and the reversion. Therefore the value of the fee interest of the subject property is the sum of:

1. The cash equivalent value of the monthly debt service calculated at the current mortgage market interest rate for the remaining months of the mortgage term.
2. The annuity value of the budgeted cash throw-off based upon the pro-forma equity and calculated at current investor yield expectations.
3. The value of the reversion which is the equity build-up due to the amortization of the mortgage discounted at the current equity yield rate.

The application of the methodology to determine the private fee interest of Breezewood Village is shown in Exhibit C.

Another approach to value is the more traditional income approach which capitalizes net income. The schedule of revenues and expenses, based upon the previous year's (1981) operation, is reworked according to generally accepted appraisal principles and is detailed in Exhibit D.

EXHIBIT C

VALUATION OF BREEZEWOOD VILLAGE
HARTLAND, WISCONSIN
AS OF JANUARY 1, 1982

Assume(1): Market interest rate of 14 percent, remaining mortgage term of 29 years, 1 month (349 months), an equity yield rate of 15 percent and a remaining holding period of 18.8 years, corresponding to the remaining length of the Annual Contribution Contract (ACC).

1. Cash equivalent value of the debt service at the current market interest rate for the remaining mortgage term

$$[(\$185,603)/(12)] \times 84.22^* = \$1,302,624$$

*present value of one per period (monthly)

2. Value of budgeted equity return at investor equity yield rate (15 percent per annum) for the remaining holding period of 18.84 years

$$\$11,318.40 \times 6.188^* = \$70,038$$

*present value of one per period (annually)

3. Equity build-up (original loan amount minus current balance equals equity build-up). This is discounted at the investor's equity yield rate (15 percent) for the remaining ACC period of 18.84 years

$$\$1,697,789 - 1,689,952 = \$7,837$$

$$\$7,837 \times .0719 \quad \underline{\quad 563 \quad}$$

Total \$1,373,225

Say \$1,373,000

(1) Breezewood Village in Hartland and Parkland in Oconomowoc constitute WHFA Project #421. The mortgage and the budgeted equity return for Project #421 are allocated on the basis of 60% to Breezewood and 40% to Parkland. The Project #421 mortgage is \$2,829,648 and the budgeted equity dividend is \$18,864.

EXHIBIT D

BREEZEWOOD VILLAGE
HARTLAND, WISCONSINSchedule of Revenues and Expenses from
January 1, 1981 through December 31, 1981REVENUESPotential Gross(1)

59 - 1 bedroom

\$407/mo. x 10.5 mos.

\$252,137

\$437/mo. x 1.5 mos.(2)

38,675

\$290,812

Less vacancy @ 3%

(8,724)

Effective Gross Revenue

\$282,088

EXPENSES(3)Management

Advertising

\$ 375

Office Supplies

542

Accounting

480

Telephone

1,189

Management

11,524

Caretaker-Administrative

Salary

673

Payroll Taxes

423

15,206

(1) The resident manager is given the use of the 2 bedroom unit in exchange for services. The rental value is not included in either revenues or expenses.

(2) An increase in the contract rent from \$407 per month to \$437 per month became effective on November 15, 1981.

(3) Breezewood Village in Hartland and Parkland in Oconomowoc together form WHFA Project #421, Waukesha County Housing Project. Project #421 construction costs, debt service, revenues and expenses are allocated on the basis of 60% for Breezewood Village and 40% for Parkland. This ratio was suggested by John Habeck, Director of Housing Administration, WHFA and it reflects the ratio of each site's rent roll to the combined total.

EXHIBIT D (Continued)

<u>Utilities</u>		
Electricity-common area	5,972	
Water and sewer	2,225	
Gas	<u>10,935</u>	19,132
<u>Maintenance</u>		
Rubbish removal	342	
Snow and ice removal	128	
Grounds care	1,865(4)	
Exterminating	419	
Caretaker salary-maintenance	3,088	
Repairs, maintenance, and decorating supplies	5,840	
Elevator maintenance	204	
Miscellaneous	<u>1,527</u>	13,413
<u>Other</u>		
Insurance	4,257	
Replacement reserves 11,100 x .60	<u>6,660</u>	<u>10,917</u>
Total Operating Expenses Before Real Estate Taxes		<u>58,668</u>
Net Operating Income Before Real Estate Taxes and Debt Service		\$223,420
	Say	<u>\$223,400</u>

(4) Because of the size differential of the grounds, a greater proportion of the grounds maintenance and supply expenses are allocated to Breezewood Village: an 80% Breezewood Village, 20% Parkland ratio was used instead of the 60% to 40% used for the other operating expense allocation.

Revenues include both the HAP payment and the tenant contribution; expenses before real estate taxes include the HUD required replacement reserves.

Although Breezewood Village is experiencing full occupancy due to the below market rent actually paid by the tenant, conventional residential income property in the Hartland area has experienced variable vacancy rates during the past year. The units with the lowest rents are also experiencing little or no vacancy. Other units have an average of four to six percent vacancy.

A band of investment method is used to calculate the overall capitalization rate; when the net operating income from Exhibit D is capped the resulting value is \$1,360,000. See Exhibit E for the assumptions and calculations used.

B. Market Approach

A comparison was made of the market rents, physical attributes, the assessments of the improvements and the resulting gross rent multipliers typical of the larger multifamily residential complexes in the Village of Hartland with those of Breezewood Village. If there was no public interest in the fee and therefore no housing assistance payments or a multitude of government regulations Breezewood Village would have to compete in the Hartland residential market. Exhibit F details the data gathered from the market.

EXHIBIT E

VALUATION OF BREEZEWOOD VILLAGE
TRADITIONAL INCOME APPROACH

A. Assume:

Market interest rate	14% (1)
Mortgage term	25 years
Loan to value	75%
Equity yield	15%

B. Band of Investment Calculation of Overall Rate

.75 x .14218461 (2)	=	.1066
.25 x .15	=	<u>.0375</u>
		.1441

1981 Village of Hartland effective net mill rate	<u>.0203</u>
---	--------------

Overall Rate	.1644
--------------	-------

C. Value Conclusion

<u>Net Operating Income</u>	=	Value
Overall Rate		

Net Operating Income (Before R.E. Taxes)	=	\$223,400
Overall Rate	=	.1644

<u>\$223,400</u>	=	\$1,358,880
.1644		

Say	<u>\$1,360,000</u>
-----	--------------------

(1) As of January 1, 1982, a market interest rate of 14 percent is low and this assumption tends to overstate value. However, for assessment purposes some stability is desirable so that values do not ripple as rates vary between 14 and 17 percent.

(2) Mortgage constant assuming a 14 percent loan for 25 years.

COMPARISON OF ASSESSMENTS OF MULTIFAMILY RESIDENTIAL UNITS

VILLAGE OF HARTLAND, WISCONSIN

Name/Address of Project	Year Built	No. of Units	Number of Edms & Bath	Approx. SF/unit	Monthly Market Rent	Utilities Included	Annual Market Rent/SF	Gross Potential Revenue	1981 Assessment(1) Improvements only	Gross Rent(1) Multiplier	1981 R.E. Tax/Unit	Remarks
Ridgeway Manor	1977- 1980	36	24 - 2 bdrm 1 bath 12 - 3 bdrm 1 1/2 bath	1,200 SF 1,300 SF	\$360-370(2) \$395	Water Garbage	3.70/SF 3.65/SF	\$163,440	\$1,098,994	6.72	\$675	6 bldgs. in complex. Extra large units. Rent includes covered garage/ unit. Individual patios. Kitchen has dinette area.
Sunnyslope Estates	1971- 1973	110	110 - 2 bdrm 1 bath	875 SF 905 SF 1,010 SF	\$430 \$360 \$375	Heat(3) Water Garbage	4.53/SF(3) 4.51/SF 4.22/SF	448,800	2,532,340	5.64	\$537	13 bldgs. in complex. Bath has separate powder room.
145 North Ave.	1970s	12	12 - 2 bdrm 1 bath	N/A	\$250-300	Water Garbage	N/A	43,200	286,200	6.63	\$610	1 bldg. in complex. All electric - separate meters. Kitchen has dinette area.
323 Lawn St.	1967	8	8 - 2 bdrm 1 bath	N/A	\$300-310	Heat Water Garbage	N/A	29,760	187,090	6.29	\$550	Both bldgs. have same owner and are adjacent. Owner did not differen- tiate between bldgs. when interviewed.
316 E. Capitol Dr.	1967	20	20 - 2 bdrm 1 bath	N/A	\$300-310	Heat Water Garbage	N/A	69,600	292,000	4.19	\$341	Both bldgs. have same owner and are adjacent. Owner did not differen- tiate between bldgs. when interviewed.
Aspen Village	1972- 1978	144	36 - 1 bdrm 1 bath 108 - 2 bdrm 2 bath	Very large 1,400 SF	\$335-360 \$375-400	Water Garbage	N/A 3.43/SF	673,920	2,667,702	3.96	\$460	6 bldgs. in complex. Amenities include outdoor pool, tennis court, fire- place and balconies on 45 acres with man-made lake.

1) Because the number of units per square foot of land varies so greatly, the gross rent multiplier (GRM) is based upon the assessed value of the improvements only. Assessed value is defined as market value in Hartland.

2) The upper level of rents is used when a range is given to maximize the resulting GRM.

3) Heat is assumed to increase market rents by \$20 per unit per month; annual market rents per square foot are adjusted to assume tenant pays heat in all cases.

EXHIBIT F

Sundtman Research, Inc.

The Breezewood Village units are below market standards for size; a 600 square foot one-bedroom, one bath unit is not typical. Given the principle of the diminishing utility of increasing size, it is assumed the first 600 square feet of a living unit will have the highest value per square foot and therefore a \$5.50 per square foot annual rent is assumed. The resulting \$275 per month rent is assumed to include only water and garbage service and will be competitive in the Hartland market.

The average gross rent multiplier taken from the market has an average range of 6.2 to 5.5. When the gross rent multipliers of 5.5 and 6.2 (value of improvements only) are multiplied by the gross potential revenue of $(\$275 \times 12 \times 60)$ \$198,000, the resulting \$1,089,000 - \$1,227,600 represents the market value range of the improvements. When the assessed value of the land of \$150,000 is added, the market value range of Breezewood Village is \$1,239,000 to \$1,378,000 which substantiates the valuation results of the other methods used.

C. The Cost Approach

Though the cost approach is given the least recognition in the Courts for assessment purposes, a review of the replacement costs of Breezewood Village, when adjusted for excessive HUD requirements, reveals a replacement value of \$1,437,000, similar to that determined by the income approach. Exhibit G

EXHIBIT G

BREEZEWOOD VILLAGE
HARTLAND, WISCONSIN

Final revised WHFA(1) costs as of May 21, 1981

Actual hard costs (includes general overhead, general requirements, site improvements)	\$1,274,801
Cost overruns	37,112
Architectural fees and expenses	49,800
Construction interest	108,938
Real estate taxes	4,204
Construction insurance	4,970
Title and recording	6,000
Legal fees	3,000
WHFA processing fees	42,445
Development cost escrow	42,445
Cost certification	1,200
Management start-up (\$75/unit to rent units)	4,500
B SPRA/SPRA	155,130
Site acquisition cost	<u>180,000(2)</u>
	\$1,914,545
Furnishings (common area)	<u>9,000(3)</u>
	\$1,923,545

(1) Wisconsin Housing Finance Authority

(2) Site acquisition cost for Breezewood Village is reported to be \$180,000 when title transferred from Dominium to Waukesha County Housing Associates or 60% of the total site costs for Project #421

(3) Though furnishings are personalty, they are included in the replacement

details the final amended HUD costs as of May 21, 1981, and the adjusted costs are detailed in Exhibit H. Note that the costs include furnishings and management start-up costs which are not traditionally part of the costs of the real estate. It should also be noted that the actual hard costs and architectural fees are discounted by 15 percent to account for the mandatory prevailing wage, financing, and construction overhead charges that inflate a subsidized housing construction budget. Construction interest is adjusted for the shorter time period a conventional project would take to complete and with the shorter construction period, real estate taxes would be avoided. The detailed cost certification and the development escrow fee which is actually a reserve account would not be included in a conventional cost budget.

D. Financial Logic of Appraisal Conclusion

Yet another approach to the valuation of a highly regulated real estate project is to examine the demands upon its cash flow; the residual cash flow before payment of real estate taxes is then capitalized using the full market mill rate to determine the maximum assessment that the project could carry and still break even.

With reference to the revenue and expenses from Exhibit D, a summary of the project's cash flow for 1981 follows:

EXHIBIT H

BREEZEWOOD VILLAGE
HARTLAND, WISCONSIN
TRADITIONAL COST APPROACH

A. Construction Contract

Hard costs	\$1,311,913
Architecture fees and expenses	<u>49,800</u>
	\$1,361,713
	<u>x .85</u>
Adjusted construction cost	\$1,157,456

B. Soft Costs Processing

Construction interest (\$108,938/1.5)	\$72,625
Real estate taxes	0
Insurance	4,970
Title and recording	6,000
Legal	3,000
Finance fee	<u>42,445</u>
	\$129,040
Land	<u>150,000</u>
	\$279,040

Total Cost (Adjusted) \$1,436,496

Say \$1,437,000

	Effective gross revenue	\$282,088
less	Operating expenses including replacement reserves	(58,668)
less	Debt Service	(185,603)
less	WHFA service fee	(8,489)
less	Limited equity dividend	<u>(11,318)</u>
		\$18,010
add	Allowance for vacancy factor	<u>8,724</u>
	Maximum residual cash throw off available for real estate taxes	\$26,734

When \$26,734 is divided by the full market mill rate of .02033, the resulting \$1,315,002 or rounded, \$1,315,000 is the maximum assessment to meet the cash obligations of the Breezewood Village Section 8 project.

In this instance the value is less than the values determined by the preceding valuation methods. However the full cash dividend is assumed to have been paid. In actual practice cash dividends seldom reach the permitted cash dividend level of 6 percent because permissible rent increases lag behind increases in operating expenses. Thus the higher price indicated by the recommended value conclusion which follows (\$1,370,000) implies that the real estate taxes will be paid at the expense of the cash equity dividend which in turn will be improved when the rental increase noted in Exhibit D has been in effect for 12 months rather than the 1.5 months as of January 1, 1982.

V. VALUE CONCLUSION FOR BREEZEWOOD VILLAGE

The value of the private fee interest of a Section 8 subsidized elderly housing project in general, and Breezewood Village in particular, is effectively determined by summing the present value of the three components of value:

1. The cash equivalent value of the debt service for the remaining term of the mortgage balance.
2. The budgeted return on equity.
3. The equity build-up from the amortization of the mortgage.

The calculations detailed in Exhibit C show an estimate of value of the private fee interest for Breezewood Village to be \$1,373,000.

This value is supported by the traditional capitalized income approach of \$1,360,000; the market approach using actual market rents and a gross rent multiplier based on assessed values at 100 percent of market suggest a value range of \$1,239,000 to \$1,378,000; and even the less reliable cost approach as shown in Exhibit G and H suggest a value of \$1,437,000.

Therefore it is the opinion of the appraisers that the fair market value of the private fee of Breezewood Village located at 400 Sunnyslope Drive in Hartland, Wisconsin, as of January 1, 1982, is:

ONE MILLION THREE HUNDRED SEVENTY THOUSAND DOLLARS

(\$1,370,000)

assuming a market interest rate of 14 percent, a mortgage term of 30 years and a before tax equity yield rate of 15 percent.

The typical real estate tax per unit in Hartland covers a wide range (Exhibit I). As would be expected, the larger units have a larger tax per unit. Breezewood Village experienced a per unit tax of \$588.00 which is more typical of units 1.5 to 2 times larger than the Breezewood Village units. The excessive tax ultimately causes an increase in rents at the expense of both tenants who might be expected to pay a higher percentage of their income toward rent (as a result of inflation, Section 8 rent formulas are proposed to increase from 25 percent of the tenant's defined income to 30 percent) and the Federal Government which must ultimately pay the difference between tenant contributions and all cash operating costs, including reserves. Some communities in Wisconsin have been insensitive to excessive taxation of Section 8 projects on the theory that the Federal Government is picking up the tab. The pass-through of excessive taxes to the Federal Government is not only a breach of the spirit of the management agreements, but will undermine the ability of Waukesha County Housing Associates, the developer and fee interest holder of Breezewood Village, to

EXHIBIT I

REAL ESTATE TAXES PER UNIT
HARTLAND MULTIFAMILY RESIDENCES

(Assume 1981 Assessments and 1981 Mill Rate of .02033)

<u>Project</u>	<u>Number of Units</u>	<u>Size of Units</u>	<u>Total Assessment</u>	<u>R.E. Tax/Unit</u>
Ridgeway Manor	36	1200-1300 SF	1,194,994	\$675
Sunnyslope Estates	110	875-1010 SF	2,904,400	537
145 North Avenue	12	Eating space in kitchen 2 bedrooms	359,764	610
323 Lawn Street	8	2 bedrms 1 bath	216,240	550
316 E. Capitol Drive	20	2 bedrooms 1 bath	335,500	341
Aspen Village	144	1000-1400 SF	3,261,302	460
302 Hill Court	8	N/A	211,540	538
310 Hill Court	8	<1000 SF	211,470	537

negotiate adjustments to its housing assistance payment contract for legitimate inflationary increases at a later time.

Our appraisal suggests a value of \$1,370,000. Assuming the 1981 full market mill rate of \$20.33 per thousand, the property tax for Breezewood Village would be \$27,852, or a more reasonable \$464 per unit.

VI. EVALUATION OF ASSESSMENT OF ADJACENT VACANT SITE

A. The Issue

The vacant 3.47 acre site adjacent to and east of Breezewood Village is approximately the same size as the Breezewood Village site (3.51 acres) and each are assessed as of January 1, 1982, at \$150,000. Both are zoned R-3 which permits single family dwellings with somewhat less stringent requirements than are permitted in the R-1 Residential District. Multiple family dwellings are only permitted as conditional uses in R-3 Residential Districts if certain requirements are met and approval is granted by the Hartland Plan Commission.

The owners of the vacant subject site have attempted to secure a conditional use permit for multiple family use from the Hartland Plan Commission but have been refused. As a result, only single family dwellings are currently permitted on the subject site and therefore the assessment should reflect the market value of land zoned for single family use.

B. Definition of Value

In the Village of Hartland assessments are made at 100 percent of market value. In Wisconsin for purposes of tax assessment valuation the definition of market value presumes cash to the seller at a price that would be paid by another

owner/user, or in essence, fair market value as defined jointly by the American Institute of Real Estate Appraisers on page 160 of the revised edition of REAL ESTATE APPRAISAL TERMINOLOGY:

The most probable price in terms of money which a property should bring in competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, 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 each acting in what they consider their own best interest.
3. a reasonable time is allowed for exposure in the open market.
4. payment is made in cash or its equivalent.
5. financing, if any, is on terms generally available in the community at the specified date and typical for the property type in its locale.
6. the price represents a normal consideration for the property sold unaffected by special financing amounts and/or terms, services, fees, costs, or credits incurred in the transaction.

C. The Property To Be Evaluated
(See Exhibit J for photographs)

The property to be evaluated consists of 3.47 acres and fronts on Sunnyslope Drive located in Hartland, Waukesha County, Wisconsin. The property is legally described as:

Parcel 2 of Certified Survey Map No. 3744 recorded November 19, 1979 in Volume 28 of Certified Survey Maps on pages 332, 333 and 334, as Document No. 1114086, located in the NW 1/4 and NE 1/4 of the SW 1/4 of Sec 35, T8N, R18E, Village of Hartland, County of Waukesha, State of Wisconsin.

EXHIBIT J

PHOTOGRAPH OF VACANT SITE



Looking northeast from Breezewood Village.
Note Sunnyslope Estate apartment complex



Looking north northeast from Breezewood Village.
Note vacant area to north of site

The tax key number of the subject site is HAV 427-999. The assessment of \$150,000 for this 3.47 acre site results in a value of \$43,228 per acre or \$.99 per square foot. And yet the assessment of the parcel immediately contiguous to the subject consisting of 12.28 acres of R-1 land is assessed at \$5,000 per acre or \$.11 per square foot.

D. Legal Right To Be Valued

The value assumes the sale of the fee simple title of the property described above without any liens or encumbrances.

E. Comparison of Vacant Land Assessments in Hartland

When evaluating the equitableness of an assessment, it is preferable to use actual market transactions as benchmarks. In the absence of an adequate number of bona fide market sales, a comparison is made of the assessments of vacant sites proximate to and/or similar to the subject site.

As shown in Exhibit K the selected parcels are divided into four groups:

- Group A: Parcels less than 1 acre in size
- Group B: Parcels 1 to 10 acres in size
- Group C: Parcels greater than 10 acres in size
- Group D: Parcels zoned PUD

The location of these parcels is shown on a map in Exhibit L.

As would be expected, the smaller parcels in Group A have a larger per unit value, given the principle of the diminishing utility of the next marginal unit increment. In other words,

EXHIBIT K

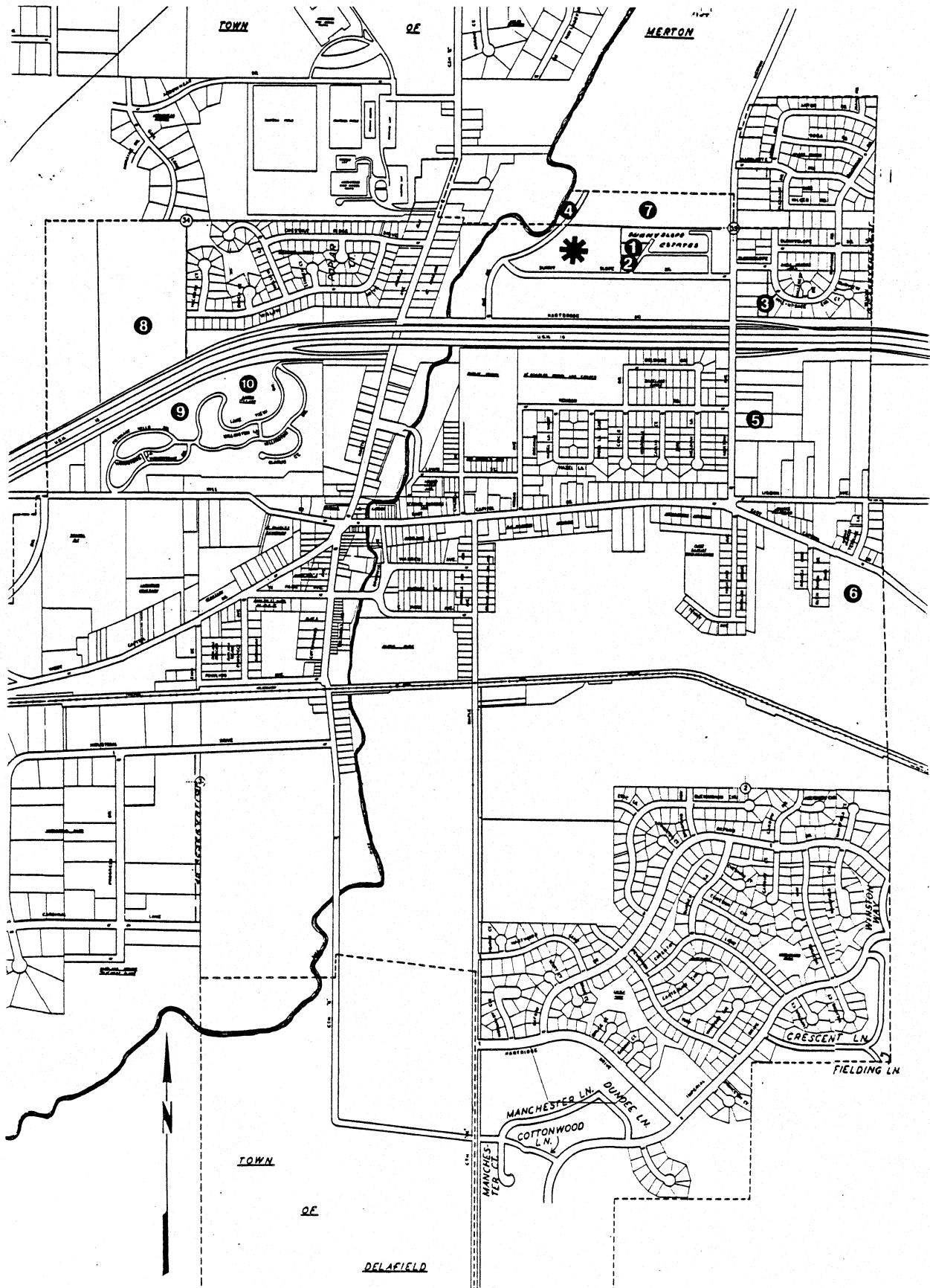
COMPARISON OF VACANT LAND ASSESSMENTS IN HARTLAND

<u>Site No.</u>	<u>Tax Key No.</u>	<u>Zoning</u>	<u>Approx. Size (in acres)</u>	<u>Approx. Assessment per Acre</u>	<u>Comparability(1) Index</u>	<u>Location</u>
Group A: Parcels less than 1 acre in size						
1	427.999.017	R-3	.45	\$32,000	5	adjacent to subject (to east)
2	427.999.018	R-3	.64	28,000	5	adjacent to subject (to east)
3	428.984	R-2	.56	30,500	4	SW of subject, in residential subdivision
Mean			.55	\$30,200		
Standard Deviation				2,021		
Group B: Parcels 1 to 10 acres in size						
4	426.985	R-1	1.00	15,000	5	adjacent to subject (to north)
5	428.970	R-2	1.00	10,800	4	SW of subject in good residential subdivision
6	725.961.001	-	6.39	9,600	4	SW of subject - church lot
Mean			2.80	\$11,800		
Standard Deviation				2,835		
Group C: Parcels greater than 10 acres in size						
7	426.986	R-1	12.28	5,000	5	adjacent to subject (to north)
8	424.996.001	R-2	52.90	4,800	5	west of subject, similar linkages and development potential
Mean			32.60	\$4,900		
Standard Deviation				141		
Group D: Parcels Zoned PUD						
9	424.996	R-2 PUD	6.4	40,800	3	Aspen Village
10	424.996.008	R-2 PUD	2.0	37,100	3	Aspen Village
Mean			4.2	\$38,950		
Standard Deviation				2,616		

(1) Range or index: 5 = most comparable to 1 = least comparable

EXHIBIT L

LOCATION OF COMPARABLE VACANT LAND, HARTLAND, WISCONSIN



the next square foot of land added to an already buildable lot is not going to have the same per unit value as the existing area that is required to make the lot buildable. The same pattern follows for Group B and C. However, by definition the PUD allows for greater flexibility and design freedom and therefore the PUD parcels are of greater value.

Although the nominal zoning of R-3 might permit the conditional use of the site for multiple family residential, the Hartland Plan Commission has refused to extend the conditional use to the subject site so that in effect the site has the same inflexibility of use as it would if it was zoned R-1 or R-2.

As shown in Exhibit K, Site No. 7, zoned R-1 and consisting of 12.28 acres, lies directly north of the subject. The current permitted uses for the subject and for Site No. 7 differ by the zoning requirements for lot size (15,000 square feet versus 8,000 square feet) and set-back (40 feet versus 30 feet for front yard, for example), and by the potential for obtaining a conditional use permit. R-1 makes no allowance for conditional uses whereas R-2 and R-3 allow for the possibility of more intensive single family residential or duplex use.

In the case of the subject, the R-3 potential for conditional use as multiple family residential is meaningless. The site was purchased with the expectation of obtaining a

conditional use permit for multiple family residential development, but this permit has been denied. Conditional use for duplex residential is still an unexplored potential. Therefore the value of the property has diminished, but not to the level of R-1 zoned sites.

F. Conclusion

A review of Exhibit K must lead the fair-minded individual to the recognition of a prima facie case for the need to adjust the assessment on the vacant subject site described as Tax Key #HAV 427-999.

This report recommends that a request be made for an adjustment of the assessment on the basis of an obvious inequity. In this case, the assessment should fall in the range of values found for the parcels in Group B and Group C, as detailed in Exhibit K. An assessment of \$50,000 or \$14,400 per acre and \$.33 per square foot should be the equitable ceiling for the subject upon review of the assessments of the other vacant sites in the Village of Hartland.

STATEMENT OF LIMITING CONDITIONS

1. Contribution of Other Professionals

- . The appraiser did not conduct any engineering analysis *of the* structure components or of the site, of costs to replace, or of other engineering factors.
- . The revenue and expense information is taken from the budget information from WHFA and actual accounting records provided by Dominium Group, Incorporated. Since the records of the management firm (sponsor) are monitored by WHFA and periodically audited prior to review for HUD rent adjustments, Landmark Research did not reconstruct expense factors other than as noted in the report.
- . Sketches in this report are included to assist the reader in visualizing the property. These drawings are for illustrative purposes only and do not represent an actual survey of the property.
- . The appraiser assumes no responsibility for matters which are legal in nature nor is any attempt made to render an opinion on the title. The property has been appraised as if title to the subject property were in fee simple, legal ownership with no regard for mortgage loans or other liens or encumbrances.

2. Facts and Forecasts Under Conditions of Uncertainty

- . All information regarding property sales and rentals, financing, or projections of income and expense is from sources deemed reliable. No warranty or representation is made regarding the accuracy thereof, and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease, financing, or withdrawal without notice.
- . Information furnished by others in this report, while believed to be reliable, is in no sense guaranteed by this appraiser.

3. Controls on Use of Appraisal

- . Values for various components of the subject parcel and improvements as contained within the report are valid only when making a summation and are not to be used independently for any purpose and must be considered invalid if so used.
- . Possession of this report or any copy thereof does not carry with it the right of publication nor may the same be used for any other purpose by anyone without the previous written consent of the appraiser or the applicant and, in any event, only in its entirety.
- . Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of the author, particularly regarding the valuation conclusions, and the identity of the appraiser, or of the firm with which he is connected or any of his associates.

CERTIFICATE OF APPRAISAL

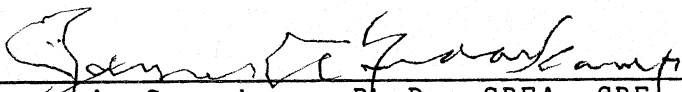
We hereby certify that we have no interest, present or contemplated, in the property and that neither the employment to make the appraisal nor the compensation is contingent on the value of the property. We certify that we have personally inspected the property and that according to our knowledge and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

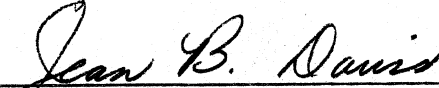
Based upon the information and subject to the limiting conditions contained in this report, it is our opinion that the most probable price, as defined herein, of this property as of January 1, 1982, is:

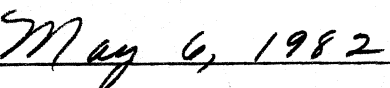
ONE MILLION THREE HUNDRED SEVENTY THOUSAND DOLLARS

(\$1,370,000)

assuming a market interest rate of 14 percent, a mortgage term of 30 years and a before tax equity yield rate of 15 percent.


James A. Graaskamp, Ph.D., SREA, CRE


Jean B. Davis, MS


Date

J A M E S A. G R A A S K A M P

PROFESSIONAL DESIGNATIONS

SREA, Senior Real Estate Analyst, Society of Real Estate Appraisers

CRE, Counselor of Real Estate, American Society of Real Estate
Counselors

CPCU, Certified Property Casualty Underwriter, College of Property
Underwriters

EDUCATION

Ph.D., Urban Land Economics and Risk Management - University of Wisconsin
Master of Business Administration Security Analysis - Marquette University
Bachelor of Arts - Rollins College

ACADEMIC HONORS

Chairman, Department of Real Estate and Urban Land Economics,
School of Business, University of Wisconsin
Urban Land Institute Research Fellow
University of Wisconsin Fellow, Omicron Delta Kappa
Lambda Alpha - Ely Chapter
Beta Gamma Sigma, William Kiekhofers Teaching Award (1966)

PROFESSIONAL EXPERIENCE

Dr. Graaskamp is the President and founder of Landmark Research, Inc., which was established in 1968. He is also co-founder of a general contracting firm, a land development company and a farm investment corporation. He is formerly a member of the Board of Directors and treasurer of the Wisconsin Housing Finance Agency. He is currently a member of the Board and Executive Committee of First Asset Realty Advisors, a subsidiary of First Bank Minneapolis. He is the co-designer and instructor of the EDUCARE teaching program for computer applications in the real estate industry. His work includes substantial and varied consulting and valuation assignments to include investment counseling to insurance companies and banks, court testimony as expert witness and the market/financial analysis of various projects, both nationally and locally, and for private and corporate investors and municipalities.

J E A N B . D A V I S

EDUCATION

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

Master of Arts - Elementary Education, Stanford University

Bachelor of Arts - Stanford University (with distinctions)

Additional graduate and undergraduate work at 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)

Certified as Assessor I, Department of Revenue,
State of Wisconsin

PROFESSIONAL EXPERIENCE

With a significant background in education, practiced in California, Hawaii and Wisconsin, Ms. Davis is currently associated with Landmark Research, Inc. Her experience includes the appraisal and analysis of commercial and residential properties, significant involvement in municipal assessment practices, and market and survey research to determine demand potentials.

