



# LIBRARIES

UNIVERSITY OF WISCONSIN-MADISON

## The Union Transfer Building: a market and financial analysis.

Mussatti, Dale R.

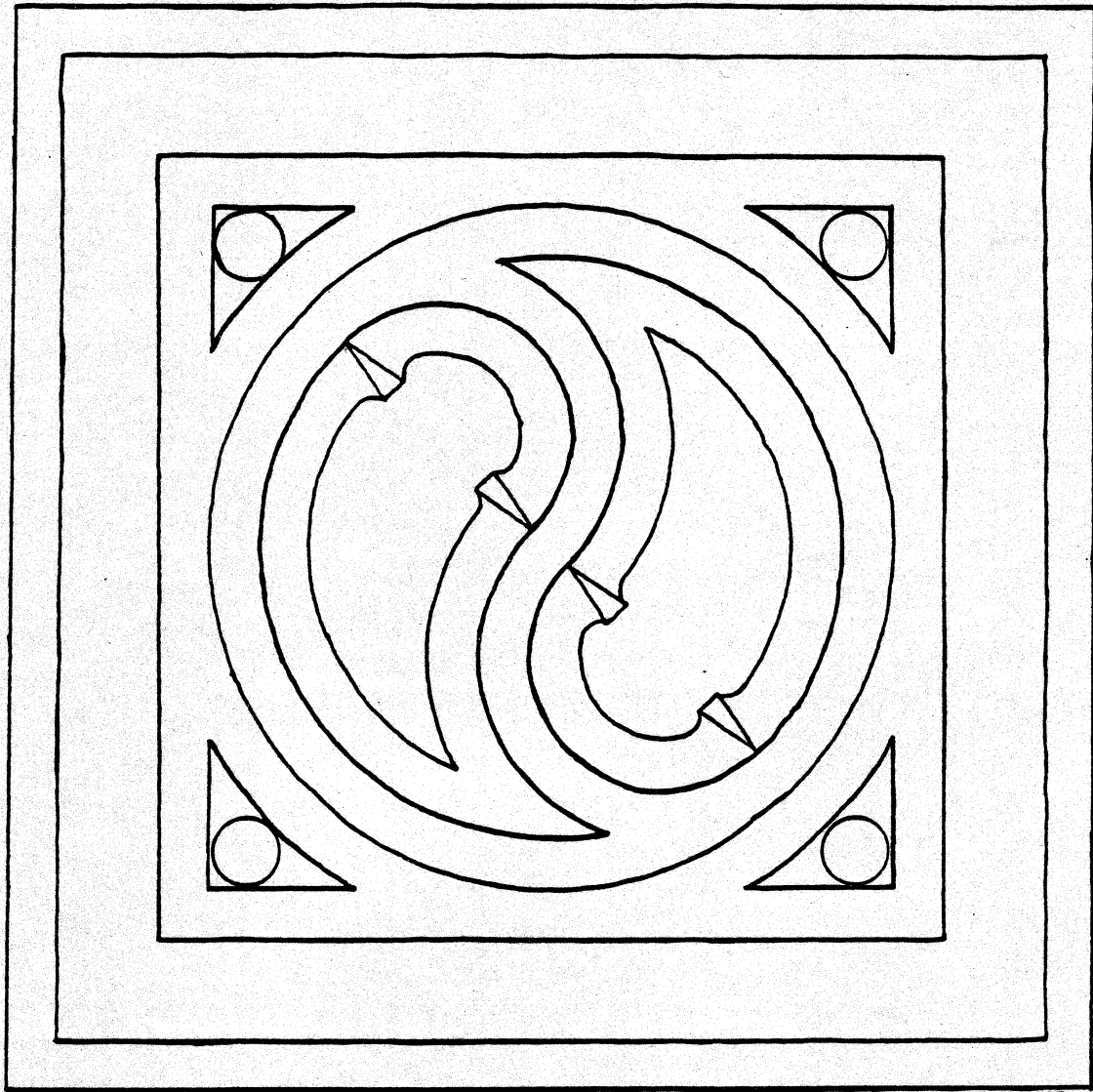
[s.l.]: [s.n.], [s.d.]

<https://digital.library.wisc.edu/1711.dl/44LGJRWJ4CZ5S8P>

<http://rightsstatements.org/vocab/InC/1.0/>

The libraries provide public access to a wide range of material, including online exhibits, digitized collections, archival finding aids, our catalog, online articles, and a growing range of materials in many media.

When possible, we provide rights information in catalog records, finding aids, and other metadata that accompanies collections or items. However, it is always the user's obligation to evaluate copyright and rights issues in light of their own use.



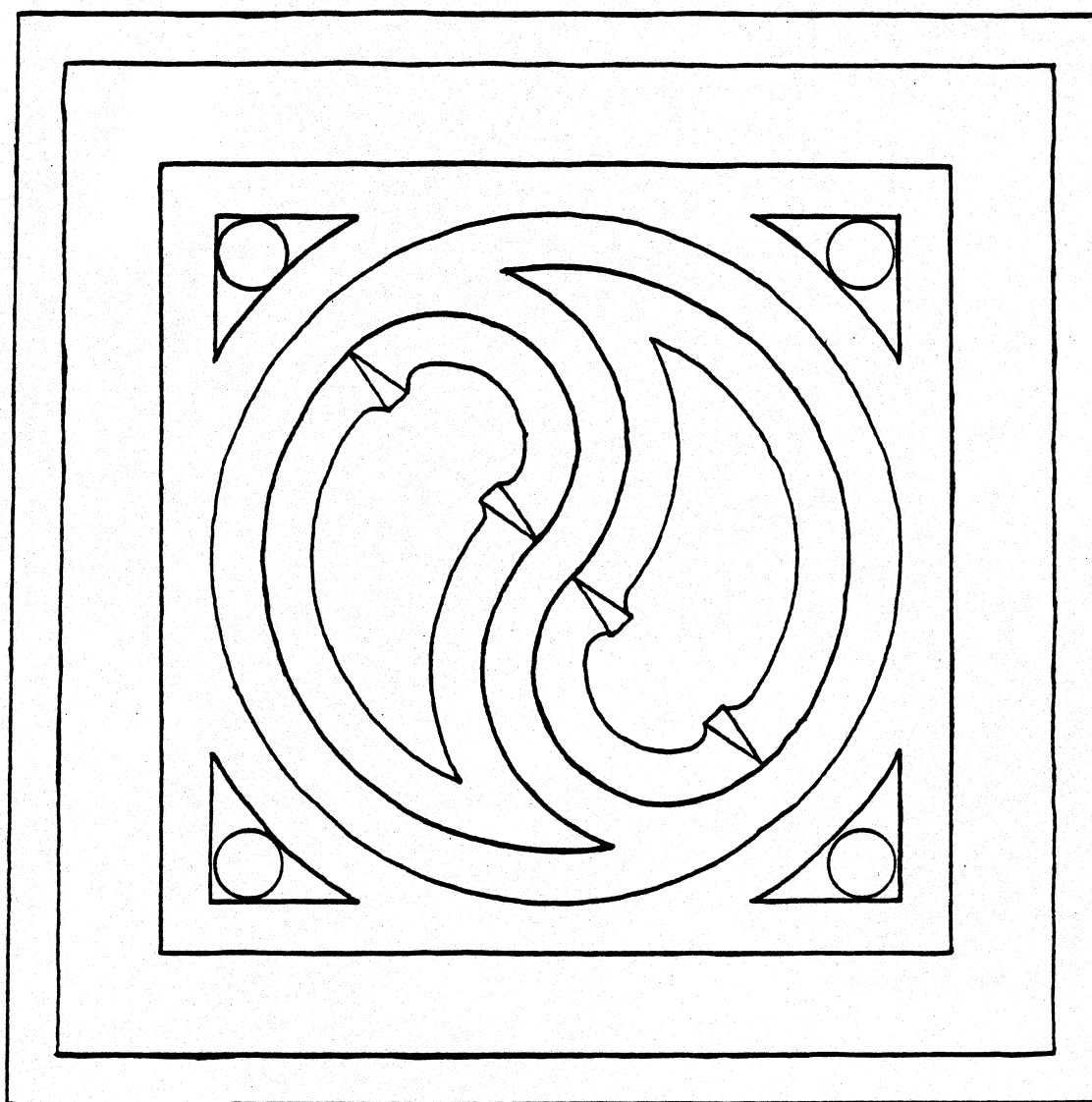
Tile design from the facade of the Union Transfer Building.

JRB

# THE UNION TRANSFER BUILDING

*A Market and Financial Analysis*

By Dale R. Mussatti  
Business 857  
August 29, 1984



Tile design from the facade of the Union Transfer Building.

JRB

# THE UNION TRANSFER BUILDING

*A Market and Financial Analysis*

By Dale R. Mussatti  
Business 857  
August 29, 1984

## TABLE OF CONTENTS

|   | Page |
|---|------|
| LIST OF EXHIBITS.....                   | iii  |
| SUMMARY.....                            | v    |
| Section                                 |      |
| I. THE FEASIBILITY ISSUE.....           | 1    |
| A. Client Profile.....                  | 1    |
| B. Client Goals.....                    | 2    |
| C. Client Objectives.....               | 2    |
| D. Study Objectives.....                | 3    |
| E. Legal Constraints.....               | 3    |
| F. Political Constraints.....           | 5    |
| II. SITUS.....                          | 7    |
| A. History of the Area and Building...7 |      |
| B. Physical Attributes.....             | 8    |
| C. Indoor Parking.....                  | 14   |
| D. Linkage.....                         | 16   |
| E. Dynamic Attributes.....              | 17   |
| III. MARKET ANALYSIS.....               | 23   |
| A. Local Economic Conditions.....       | 23   |
| B. Market Area Defined.....             | 34   |
| C. Downtown Office Supply.....          | 35   |
| D. Downtown Office Demand.....          | 36   |
| E. Market Absorbtion.....               | 54   |
| IV. FINANCIAL ANALYSIS.....             | 61   |
| A. Tax Law Affecting The Project.....   | 62   |
| B. Financing.....                       | 65   |
| C. Project Scenarios.....               | 66   |
| D. Investment Results.....              | 69   |
| V. CONCLUSIONS AND RECOMMENDATIONS..... | 74   |
| APPENDICES.....                         | 76   |



## LIST OF EXHIBITS

|   | Page |
|---|------|
| 1. Location Of The Site In The Downtown Area.....                                   | 9    |
| 2. Veritical Layout of Building.....  | 10   |
| 3. Photographs Of Subject Property.....   | 11   |
| 4. Current Tenants Of Subject Property.....   | 14   |
| 5. Parking.....   | 18   |
| 6. Land Uses Near The Subject Property.....   | 20   |
| 7. Site Map.....  | 21   |
| 8. Dane County Employment By Industry By Period.....                                | 24   |
| 9. Dane County Employment Change By Industry By Period.....                         | 26   |
| 10. Percentage Of Dane County Employment By Industry.....                           | 28   |
| 11. State And County Employment Growth By Industry<br>For 1970-1980, 1980-1990..... | 30   |
| 12. Change In Occupational Composition For 1970-1980.....                           | 32   |
| 13. Dane County Employment Located In Downtown Madison.....                         | 33   |
| 14. Downtown Office Market Area.....  | 36   |
| 15. Madison Downtown Class A Office Space.....                                      | 38   |
| 16. Madison Downtown Class B And C Office Space.....                                | 41   |
| 17. Downtown Office Vacancy Rates By Floor Area.....                                | 43   |
| 18. Downtown Office Vacancy Rates By Rent Level.....                                | 45   |
| 19. Proposed New Downtown Office Space.....   | 47   |
| 20. Projected Downtown Office Demand.....   | 52   |
| 21. Comparison Of Projected Supply And Demand.....                                  | 21   |
| 22. Projection Of Class A Office Market.....  | 57   |
| 23. Projection Of Class B And C Office Market.....                                  | 59   |

U

LIST OF EXHIBITS

|  | Page |
|--|------|
| 24. Scenario Descriptions.....                               | 68   |
| 25. Investment Returns For Various Reversion Assumptions.... | 71   |
| 26. Definition Of Modified Internal Rate Of Return.....      | 72   |

## SUMMARY

Site: A warehouse located at 155 East Wilson Street.

Neighborhood: The site is located at 155 East Wilson Street, overlooking Lake Monona and two blocks from the Capitol. Most surrounding buildings are used for commercial purposes.

Owner: Owned by Union Transfer and Storage.  
Purchase option held by Contact Realty Corporation.

Assessed Value: \$100,000 Land  
                  \$385,000 Improvements  
                  \$485,000 Total

Constraints: Zoning: C-3, Highway Commercial district  
              Madison Building Code  
              State of Wisconsin Administrative Code  
              Federal Building Code

Problem Assignment: A market analysis of the downtown Madison office market and a financial analysis of probable scenarios for renovating the building.

Major Assumptions: The property is to be owned by a private limited partnership with Contact Realty Corporation as general partner. The limited partners require a minimum IRR of 20 percent over the term of their investment with a sale projected in year 8.

Recommendation: Market analysis indicates that the client should continue to maintain purchase option through 1985, while attempting to prelease space.

## I. THE FEASIBILITY ISSUE

The following is a market and financial analysis of renovating the Union Transfer Building at 155 East Wilson Street, Madison, Wisconsin, from its current use as a warehouse to an office building. Included are a summary of the goals and objectives of Contact Realty Corporation for the project, a description of the property, a market analysis of the downtown office market, a financial analysis of probable scenarios for renovating the building, and finally, recommendations as to whether to proceed with the proposed project in light of the market and financial analysis.

### A. Client Profile

Contact Realty Corporation is a small real estate firm specializing in development, leasing, and commercial brokerage. It is solely owned by Martin F. Rifken who has a solid reputation in the Madison real estate market. The corporation employs approximately 10 people in the areas of commercial brokerage, commercial leasing, property management, space design, and support staff.

Contact Realty specializes in rehab development of office and retail space with most of its activity being in the downtown Madison market area. Buildings successfully rehabbed include The Atrium (15,200 net leasable square feet of retail and office space), Centre Seven (20,000 net leasable square feet of retail and office space), The Watermark Building (25,500 net leasable

square feet of office space), and Frautschi Center (10,923 net leasable square feet of retail and office space).

The firm's major strengths include its expertise in rehab development, its political astuteness, and sound reputation.

#### B. Client Goals

The client's long-term goals are to become a state and possibly nationwide urban developer principally involved in the renovation of retail and office buildings. Specifically for this project, the client has two primary goals: to gain experience in leasing, marketing, and coordinating a medium-size office building, and to have a financially successful project that will enable the client to move on to larger and more sophisticated projects.

#### C. Client Objectives

The client has several objectives for this project. The principal objective is to have a deal with all the elements in place—financial, leasing, legal, and renovation before initiation of construction. The client also would like to limit equity investment, via a private limited partnership in the project, to 20 percent of the project cost and desires a 20 to 22 percent internal rate of return to the limited partners with a projected sale of the subject property in year 8. The client, as developer and limited partner, would like to limit its investment in the project to just staff time necessary to put the deal together.

#### D. Study Objectives

This study is commissioned by Contact Realty for the following reasons:

1. To determine the market for newly renovated office space in downtown Madison, including how much competitive space is expected to be vacant at completion of the project, and what is the absorption rate for the proposed project.
2. To determine whether the proposed project is financially viable under various probable scenarios. It is assumed that the property will be owned by a private limited partnership with Contact Realty Corporation acting as general partner.
3. To make recommendations about what type of development plans, if any, should be executed for the subject property.

#### F. Legal Constraints

##### 1. Zoning

Current zoning use of the site is City of Madison C-3, Highway Commercial district, which is established for uses that are appropriate to locations either in close proximity to major thorough-fares or are in areas away from residential areas. C-3 zoning provides broad authority for office, retail, wholesale, and light industrial uses. Renovation and use of the Union Transfer building as office space is acceptable under C-3 zoning. Also, it is important to note, that C-3 zoning does not have off-

street parking requirements—a generous option compared with other commercial zones in Madison where one parking space for every 300 feet of commercial area is required.

Renovation of the subject property is limited by zoning ordinances regarding fire provisions. Madison Building Code 29.37 (4) restricts building materials to fire-resistant types 1 and 2, and prevents new use or occupancy until nonconforming fire provisions are corrected.

## 2. State Building Code

A means to greatly enhance the marketability of the office space in the subject property is to put windows in the fourth, fifth and sixth floors of the eastern side of the building which is now windowless. However, fire protection standards of the Wisconsin Administrative Code do not allow windows to be placed in the exterior masonry wall of a building less than five feet from its property line.<sup>1</sup> The eastern wall of the subject property is on the property line and abuts the western wall of the three-story State of Wisconsin Credit Union building. To place windows in the wall, approval of a petition for modification is necessary from the Wisconsin Department of Industry, Labor, and Human Relations. If approval was gained, windows with fire-rated glass, and possibly other

---

<sup>1</sup>  
Wisconsin Administrative Code, State of Wisconsin  
Department of Industry, Labor, and Human Relations, 1981, Table  
51.03-B, p. 40.



fire protection measures, such as installation of sprinklers in the eastern portion of the building, would be required.

### 3. Railroad Easement

Another means of enhancing the marketability of the subject property is to increase its parking capacity. As stated below, the best parking alternative for the subject property is to have indoor parking accessible from John Nolen Drive. An obstacle to this alternative is that the strip of land between John Nolen Drive and the subject site is owned by the Chicago, Milwaukee, St. Paul and Pacific Railroad (CMSP). The parcel has four railroad tracks running across it and the tracks are currently used. Up to this time, discussions with CMSP officials to obtain an easement have not been positive and it does not appear likely an easement will be obtained any time soon.

### G. Political Constraints

Although office employment in the downtown area has been gradually increasing with the return of state government offices and expansion of financial institutions, the downtown area has declined as a retail center. A debate is underway in Madison city government as to how to revive the downtown business area. Construction of the Capitol Concourse Mall failed to draw as many shoppers as expected. The principal reason for the failure of the mall is its emphasis on public transportation and exclusion of easy access by automobile. Plentiful, inexpensive parking and uncomplicated street patterns in the downtown area appear to be

necessary for it to be competitive with suburban shopping malls and office centers. The Madison City Council has yet to recognize this fact. Moreover, the City Council has a history of being what some view as antibusiness and antidevelopment.

Nevertheless, with the recent flurry of retail store closings in the area and rising political pressure for a vibrant downtown, city government, and in particular Mayor Joel Sensenbrenner have recently been aggressive in attempting to draw support for the downtown area to counter its decline in retail trade. This support has entailed Industrial Revenue Bond financing for real estate projects (office building at 100 North Hamilton Street), buy-downs on city owned properties (Nichols Pumping Station, Doty School, Fauerbach Condominiums), and the recent declaration of the downtown area as eligible for Urban Development Action Grants (UDAG's). Considering these factors, political support from the City of Madison for the proposed project seems assured.

## II. SITUS

### A. Area and Building History

Until the automobile replaced the railroads as the principal means of transportation, the Wilson Street Neighborhood was a major Madison and Dane County transportation hub. Two train depots, the Franklin Street Depot servicing the Milwaukee Road, and the Chicago Northwestern depot were both within three blocks of the subject property. Several hotels, including the Wilson and Cardinal, saloons, and warehouses were constructed near the depots to service rail passengers and workers. Eventually both of the train depots were closed and the neighborhood gradually declined into its current run-down state. The neighborhood is now being considered for designation as a National Historic District.

The subject property was constructed in 1916 by the Union Transfer and Storage Company. Advertised as having over one million cubic feet of storage space, its principal function was to provide storage for businesses shipping and receiving goods via the railroads. The original use of the building included auto sales on the first floor, rental offices on the second floor and dry storage on the remaining floors. Well constructed, with a load-bearing capacity of 250 pounds per square foot, the building was used to store everything from rail passengers' luggage and

---

2

Community Business, April 15, 1918, Volume III, Number 4, pp. 1-2.

belongings to heavy machinery.

### B. Physical Attributes

The subject site is located at 155 East Wilson Street in Madison, Wisconsin (Exhibit 1). It is rectangular with 95 feet of frontage facing Wilson Street and approximately one hundred and fifty three feet in depth for a total lot area of 14,540 square feet. The subject building is six-stories tall and built on a hill with four floors above grade on East Wilson Street, and two floors below grade (Exhibit 2). The third floor (the first floor from East Wilson Street) has a mezzanine approximately seven feet wide. As illustrated in Exhibit 2, all six floors at the rear of the building are above grade facing John Nolen Drive.

The floors, made of reinforced concrete, are approximately 20 inches thick and have a load-bearing capacity of 250 pounds per square foot. A major benefit of this high load-bearing capacity is that it allows the possibility of parking cars inside the building (parking alternatives are discussed in detail in the next section of the report). Columns, approximately 24 inches in diameter and also of reinforced concrete, run throughout the building forming 16 by 16 foot bays. The exterior wall of the Wilson Street facade is self-supporting and is made of tile on the first floor and face brick on the remaining upper floors. Brick exterior walls on the back and sides of the building are supported by the floors (see Exhibit 3 for photographs of the subject property).

The building has 82,200 square feet of gross leasable space.

EXHIBIT 1

LOCATION OF THE SITE IN THE DOWNTOWN AREA

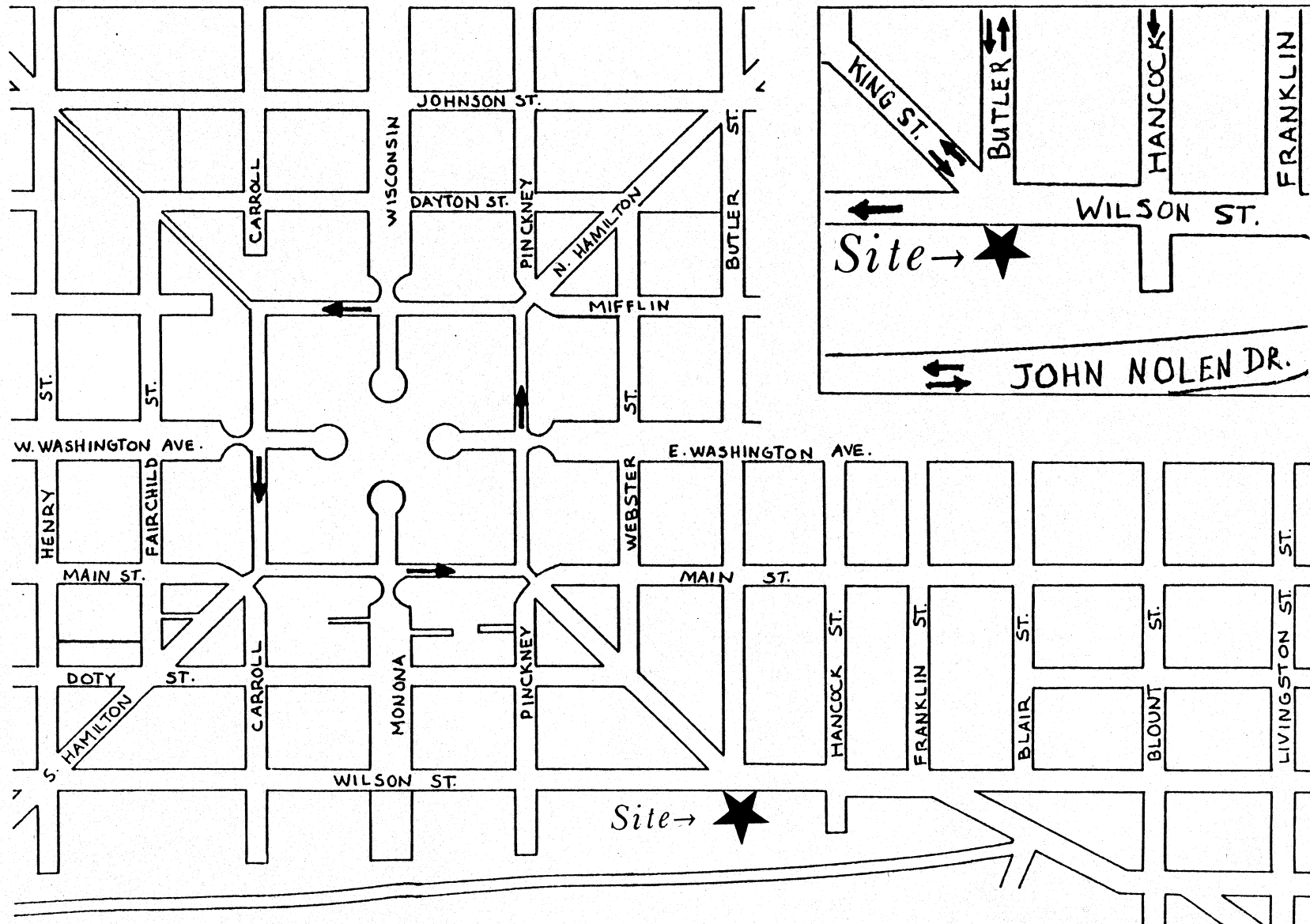


EXHIBIT 2

VERTICAL LAYOUT OF BUILDING

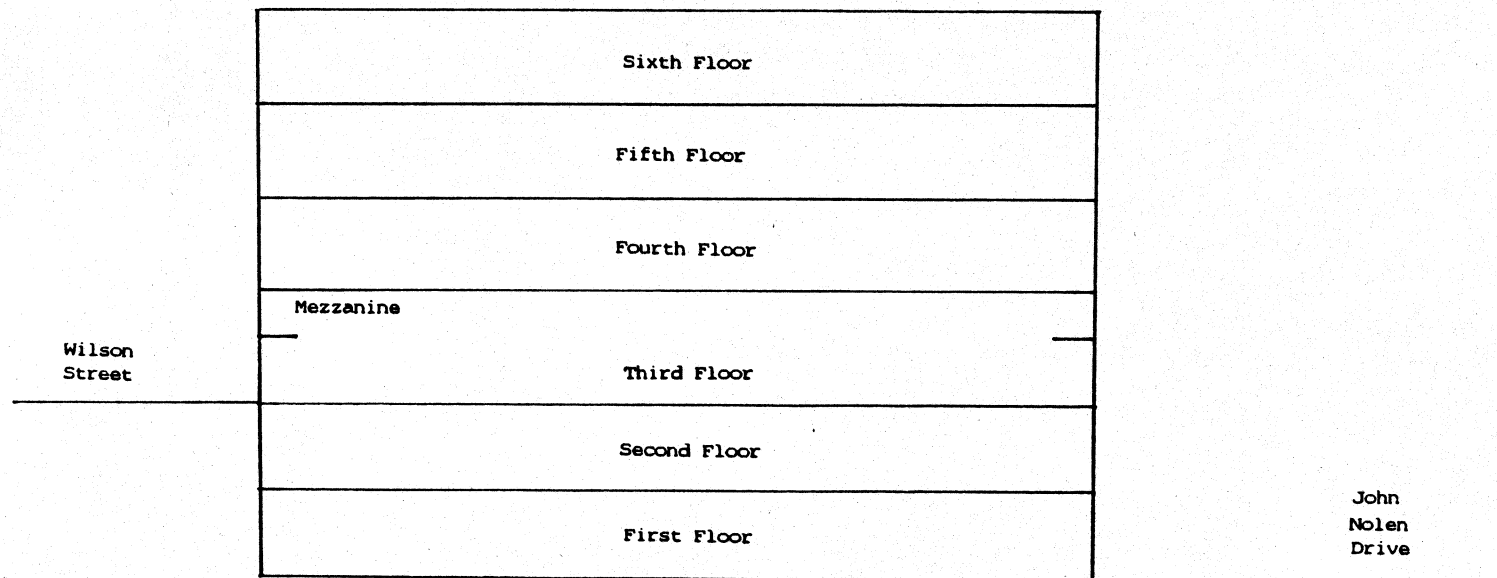
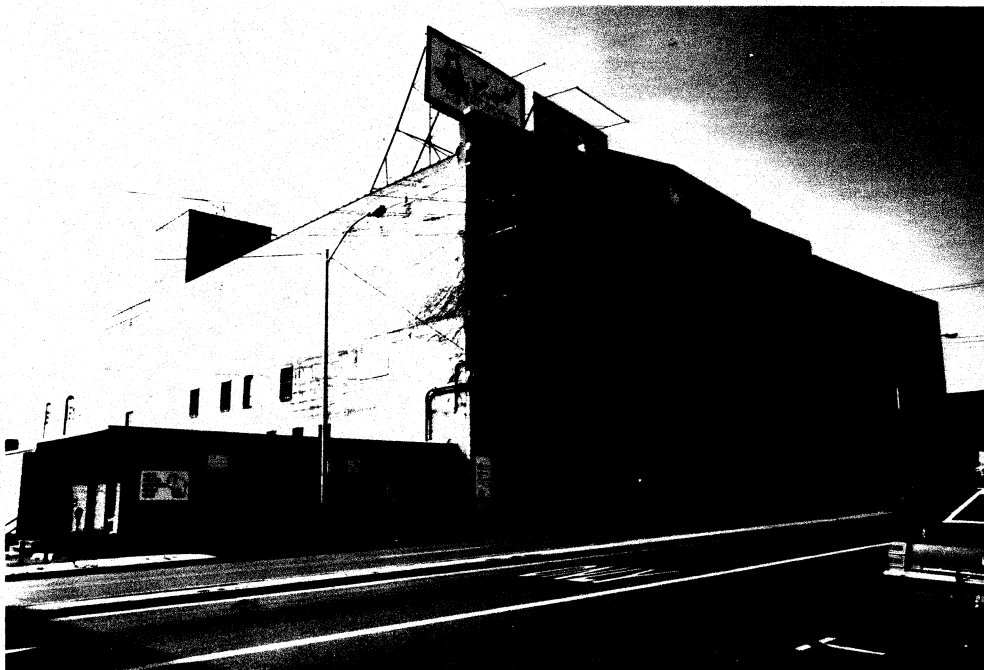


EXHIBIT 3

PHOTOGRAPHS OF SUBJECT PROPERTY



Facade and Eastern Side of Building



Facade of Building as Seen From King Street

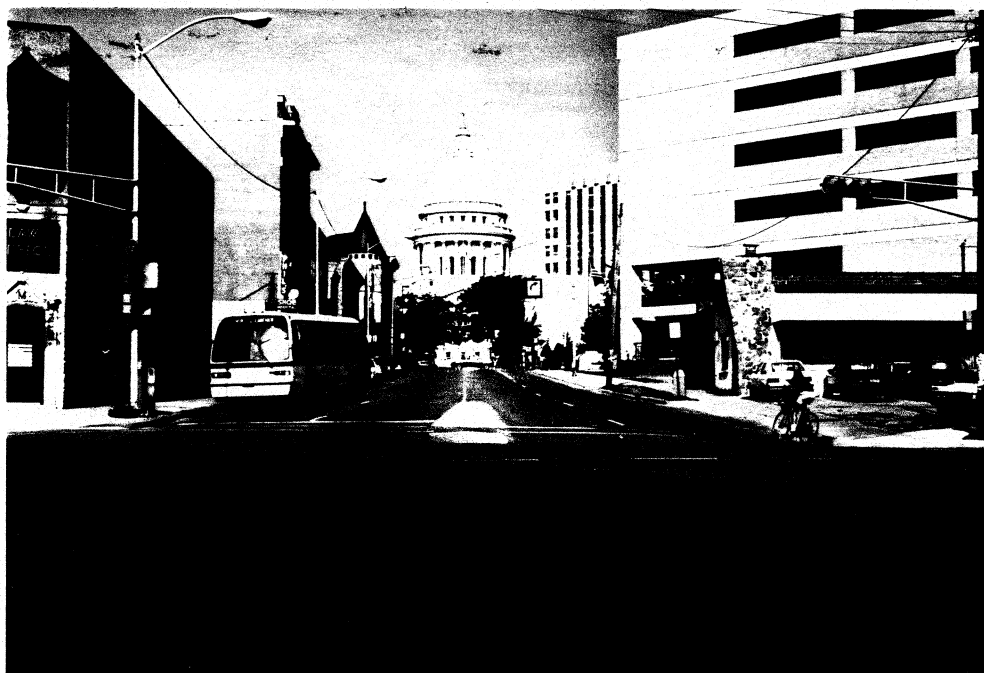


EXHIBIT 3 (Continued)

PHOTOGRAPHS OF SUBJECT PROPERTY



Back of Building Facing John Nolen Drive  
and Lake Monona



View From Building Up King Street  
Toward the Capitol

Its floor areas, 13,700 square feet of gross leasable area, are large compared to other downtown buildings. Using a 90 percent building efficiency ratio, the net leasable area of each floor is 12,300 square feet.

As stated above, the building was constructed in 1916 for use as a warehouse. Currently a large portion of the building is still used as a warehouse with other uses such as office, retail, and light manufacturing also taking place. Listed below in Exhibit 4 is a list of current tenants in the building. All of the tenants are on a month to month lease and thus should not cause a problem when clearing the building for renovation.

A successful renovation of the subject property will include the following major improvements:

1. Installation of additional and large windows throughout the building.
2. Indoor parking for 22 to 50 automobiles.
3. Installation of two new elevators

Also, the following improvements may be necessary to increase the marketability of the building:

1. Skylights on the sixth floor of the building.
2. A two- or three-story atrium on the sixth, fifth and possibly fourth floor.
3. Access to indoor parking via John Nolen Drive.

#### C. Indoor Parking

Three alternatives for parking exist for the subject property:

EXHIBIT 4

CURRENT TENANTS OF THE UNION TRANSFER BUILDING

| Name                             | Lease Expiration |
|----------------------------------|------------------|
| Madison Karate School            | Month by month   |
| Republican Party of Wisconsin    | Month by month   |
| Planeworks                       | Month by month   |
| Massage Therapy                  | Month by month   |
| Union Transfer & Storage Company | Owner            |

1. No parking on the subject site. Because this alternative would greatly reduce the marketability of the subject property and thus reduce its potential for success, this alternative is not recommended.

2. One floor of indoor parking accessible from Wilson Street. This alternative would entail using the floor level with Wilson Street for parking and would make available 22 parking stalls. Although a variance from the City of Madison is necessary for the entrance and exit on Wilson Street, approval is likely according to informal discussions with city officials.

3. Two floors of indoor parking accessible from John Nolen Drive. Under this alternative, the two lower floors of the building will be used for parking and would create 50 stalls. This alternative entails obtaining an easement from the Chicago, Milwaukee, St. Paul and Pacific Railroad which owns the parcel of land between the subject site and John Nolen Drive.

Although the alternative with 50 parking stalls is desired, it is not anticipated to be realized, thus the second alternative, with 22 parking stalls, is used in the financial analysis of the proposed project.

The Union Transfer Building has a capacity of 22 or 50 indoor parking stalls. With 22 parking stalls and use of the remainder of the building as office space, the building has a parking ratio of only .32 parking spaces per 1,000 square feet of gross leasable area. With 50 parking stalls and use of the remainder of the building as office space, the parking ratio rises to .91. Both of these ratios are well below the industry

standard for parking in Class A office space which typically ranges from 2.5 to 3.0 parking spaces per 1,000 square feet<sup>3</sup> of gross leasable area.

Because of the subject property's parking deficiency, it would not be considered a Class A office building. For this reason, the following market study includes an analysis of both Class A and Class B office space. It is also important to note that the subject property's deficiency in parking may cause a marketability problem.

#### E. Linkage

Linkage is the relationship between the subject site and its environs. Linkage is measured in terms of the utilities and disutilities of moving from one point to another, and is an important aspect of every property's value.

The subject property is at an intersection of three streets: East Wilson Street, King Street, and Butler Street (Exhibit 1). Access to the site by automobile is difficult for persons not familiar with downtown Madison due to the complicated street patterns of the isthmus area. The site is accessible from the east via East Wilson Street, which has two lanes and traffic runs west one-way. The site is also accessible from King Street, a two-way street, which connects the subject property to Doty

---

3

Shared Parking, (Washington, D.C.: the Urban Land Institute, 1983), pp. 13-14.

Street, a major traffic artery through the isthmus. Butler Street, a two-way street, intersects with East Washington Avenue two blocks from the subject site. East Washington Avenue has six lanes and connects with the Interstate Highway System approximately ten miles from its intersection with Butler Street. A vehicular traffic count (Appendix A) shows the distribution of traffic on the streets adjacent and near the subject site.

Parking near the subject site is sparse (Exhibit 5). The Doty Street ramp is located one-block from the subject site and has 471 spaces. Although the city rents spaces in the Doty Street ramp on a monthly basis, 60 people are currently on a waiting list for a space in the ramp, and only one space every six months is becoming available (a 30 year waiting period for those at the end of the list). Also, 14 parking spaces are available one and a half blocks from the subject site at the Block 88 parking lot behind the City-County Building. However, the parking spaces there have a one hour restriction.

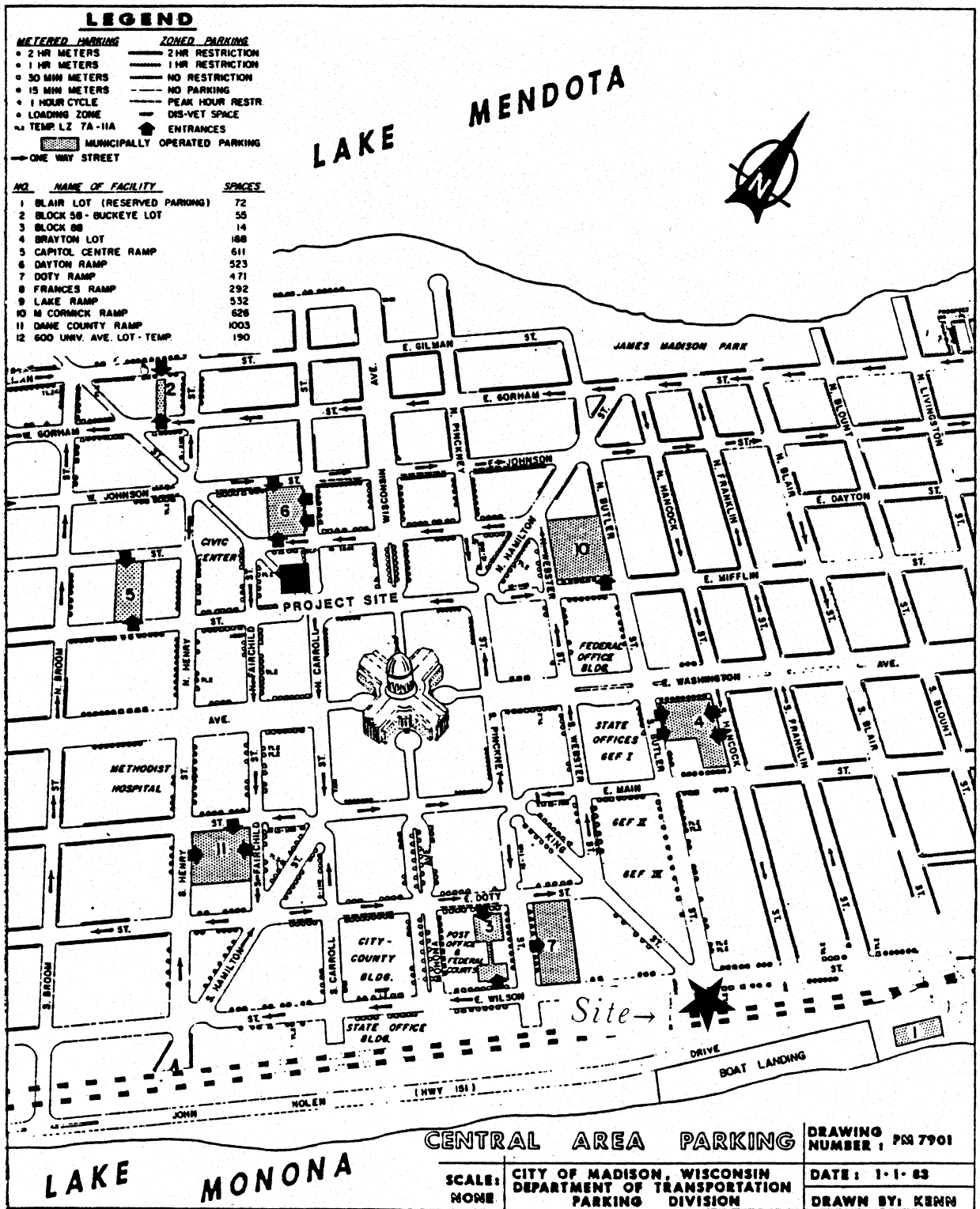
#### F. Dynamic Attributes

The subject site is at the eastern end of King Street which runs two blocks diagonally from the Capital Square. An unobstructed view of the Capital is present from the subject property when looking up King Street. The windows at the rear of the building offer panoramic views of Lake Monona.

The subject property borders a revitalized and growing part of the downtown office area and a somewhat rundown commercial area of warehouses, retail stores and small Class B and C office

# EXHIBIT 5

## PARKING





buildings. Land uses in the general area of the subject property are shown in Exhibit 6.

Adjacent to, and west of the subject property, is a white, bulky, three-story building which houses the State of Wisconsin Department of Employment Relations (Exhibit 7). Next, is the Watermark Building at 137 East Wilson Street which is currently leased by the Wisconsin Higher Educational Aids Board, another state agency. The next building to the west is the old General Casualty Insurance building. Recently purchased by the Munz Corporation and renamed Lakeview Terrace, this building has 60,000 square feet of Class A office space with 157 sheltered parking stalls. Currently under renovation, the building is approximately 50% leased.

Directly to the east of, and abutting the subject property is the State of Wisconsin Credit Union building. This building is a modern, one-story structure and appears out of place next to the four-story Union Transfer building and the four-story Rubin's Furniture building adjacent and to the east of it. Across from the subject on the corner of King and Wilson Streets is the McManus building, a two-story office building; the Frautschi Center, a recently renovated office and retail building; the Snyder Building, a three-story residential and office building; and the 471 space Doty Street parking ramp.

On the block defined by Butler and King Streets lie two vacant low-rise buildings and the GEF II and III state office buildings which during the day house approximately 3,500 office workers. The buildings, beside bringing more pedestrian traffic

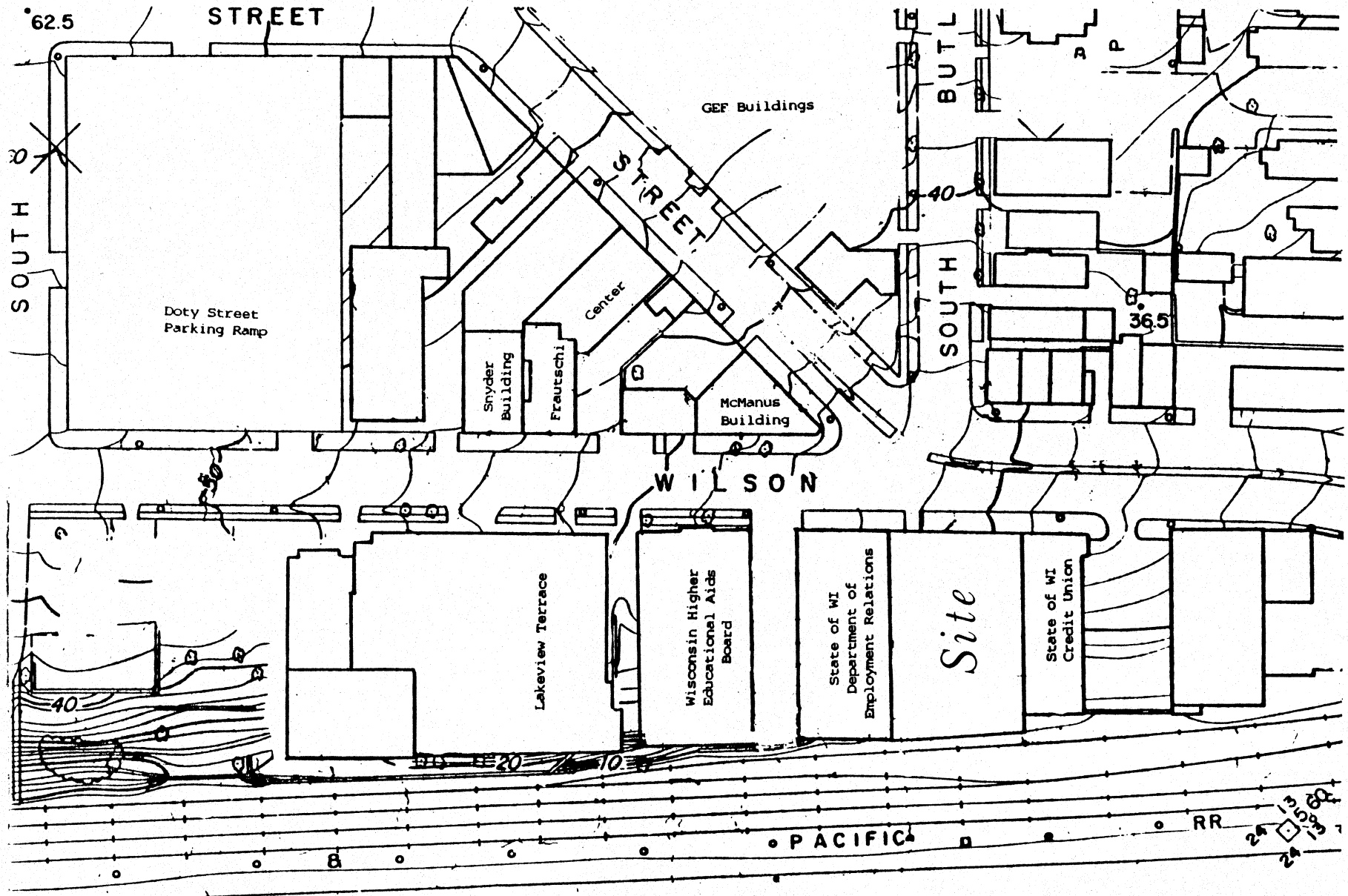
# EXHIBIT 6

## LAND USES NEAR THE SUBJECT SITE



EXHIBIT 7

SITE MAP



in the neighborhood, have a large and attractive plaza on King Street that visually enhances the area.

The block defined by Butler and Wilson Street consists of a mix of one- and two-story office buildings, residential buildings, and a tavern.

An advantage of the location of the subject property is that it is only two blocks from the City-County Building, Courthouse, and the state capitol. Close proximity to the City-County Building and Courthouse increases the marketability of the subject property with law firms, title companies, and other establishments that need to be near the courts and county records. Close proximity to the capitol is desired by trade associations and lobbyists and thus enhances the marketability of the subject property to these type of office users.

### III. MARKET ANALYSIS

The following is a market analysis of office use in downtown Madison. The first section of the analysis is an examination of local economic conditions and how they may affect the office market. Section two is an explanation of how the downtown office market is defined for purposes of the market study. The third section of the analysis is a review of the supply of downtown office space. The fourth section of the analysis is an examination of demand for downtown office space. Finally, the fifth section is a comparison of the supply and demand analyses and an estimation of market penetration for the proposed Union Transfer office project.

#### A. Local Economic Conditions

The Dane County economy is well diversified and is based largely on government, trade, and service industries. Because of its diverse economic base and emphasis in government employment, Dane County has historically had one of the highest and most stable employment rates in the State of Wisconsin. Basic industries, those that bring money into the community, consist primarily of the state government, the University of Wisconsin, several insurance companies, and manufacturing firms.

Between 1970 and 1980 Dane County employment grew by 41%. In comparison, employment for the state grew by 24% for the same period. This robust growth added 49,400 jobs to the county and raised total employment from 120,600 jobs in 1970 to 170,000 in 1980 (Exhibit 8).

# EXHIBIT 8

## DANE COUNTY EMPLOYMENT BY INDUSTRY BY PERIOD

| Industry                  | 1970   | 1980   | 1981   | 1982   | Percent<br>Change<br>70-80 |
|---------------------------|--------|--------|--------|--------|----------------------------|
| Manufacturing             | 16300  | 20100  | 20300  | 19300  | 23.3                       |
| Contract Construction     | 6400   | 6600   | 6000   | 5100   | 3.1                        |
| TCU's                     | 5300   | 6300   | 6300   | 6300   | 18.9                       |
| Wholesale/Retail Trade    | 24300  | 35800  | 36300  | 37000  | 47.3                       |
| FIRE                      | 6200   | 12700  | 13500  | 13700  | 104.8                      |
| Service and Miscellaneous | 17600  | 31100  | 32600  | 33600  | 76.7                       |
| Government                | 44500  | 57400  | 55600  | 54200  | 29.0                       |
| Total Dane County         | 120600 | 170000 | 170600 | 169200 | 41.0                       |

Source: Employment Review, Wisconsin Department of Industry, Labor and Human Relations (DCRPC 82 RT)

Dane County employment decreased between 1980 and 1982. A net loss of 800 jobs occurred in the county, representing a decline of 0.5% in total employment (Exhibit 9). Despite moderate gains in service industries, the county lost over 800 manufacturing jobs, 1,500 construction jobs and over 3,000 government jobs from 1980 to 1982. Total employment in the State of Wisconsin, on the other hand, rose by 0.8 percent for the same two year period. The negative or flat county and state employment growth in this two year period is due largely to the national and international economic recession.

The Wisconsin Department of Industry, Labor, and Human Relations (DILHR) state employment estimates to the year 1990 indicate a continued, but slower, rate of overall state growth from 24 percent in the 1970's to an expected 18 percent for the remainder of the 1980's. Dane county employment growth estimates are not available. But, by assuming that the county will continue to perform as it has in the past in relation to state growth, the county can be expected to experience a growth rate of 30 percent to 1990 if DILHR's assumptions for statewide growth held true. This 30 percent increase assumes that the county will continue to outperform state economic growth at the same rate as in the 1970's. Due, however, to an expected slowing of government employment growth in the county, the 30 percent growth rate can be reduced by 5 percent to a level of 25 percent growth in employment to 1990. This 25 percent growth represents 42,400 jobs to be added to the county by 1990. This 25 percent increase in jobs from a 1980 base may be an overestimate given the .5 percent loss in county



# EXHIBIT 9

## DANE COUNTY EMPLOYMENT CHANGE BY INDUSTRY BY PERIOD

| Industry                  | 1970-1980        |                  | 1970-1982        |                  | 1980-1982        |                  |
|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                           | # Of<br>New Jobs | % Of<br>New Jobs | # Of<br>New Jobs | % Of<br>New Jobs | # Of<br>New Jobs | % Of<br>New Jobs |
| Manufacturing             | 3800             | 7.7              | 3000             | 6.2              | -800             | -100.0           |
| Contract Construction     | 200              | 0.4              | -1300            | -2.7             | -1500            | -187.5           |
| TCU's                     | 1000             | 2                | 1000             | 2.1              | 0                | 0.0              |
| Wholesale/Retail Trade    | 11500            | 23.3             | 12700            | 26.1             | 1200             | 150.0            |
| FIRE                      | 6500             | 13.2             | 7500             | 15.4             | 1000             | 125.0            |
| Service and Miscellaneous | 13500            | 27.3             | 16000            | 32.9             | 2500             | 312.5            |
| Government                | 12900            | 26.1             | 9700             | 20.0             | -3200            | -400.0           |
| Total Dane County         | 49400            | 100.0            | 48600            | 100.0            | -800             | 100.0            |

Source: Employment Review, Wisconsin Department of Industry, Labor and Human Relations (DCRPC 82 RT)

employment from 1980 to 1982 and the reduced expectations of employment growth in the government sector. A more accurate estimate of county employment can be derived by assuming that the 25 percent increase in employment will be reached by 1995. This downward adjustment maintains the assumed 25 percent growth, but uses the 1982 to 1995+ time frame instead of the DILHR 1980 to 1990 time frame. Thus, it is assumed that the county will add an average of 3,261 jobs annually and experience a moderate growth of 20 to 30 percent in employment in employment through 1995; adding approximately 42,400 jobs for a total of 211,600 jobs by 1995.

County employment growth by industrial sector from 1970 to 1982 reveals that the largest growth took place in the Finance, Insurance, and Real Estate (FIRE) sector (121.0 percent), Services (90.9 percent) and Wholesale and Retail Trade (52.3 percent) sectors, as shown in Exhibit 8. The Construction sector decreased in size by 20.3 percent. Numerically, over the 1970-1982 period, the Service industry provided 32.9 percent of the new jobs, or 16,000 jobs (see Exhibit 9). The Government sector provided 9,700 new jobs, or 20.0 percent of the new 1970-1982 jobs. The Trade sector provided 12,700 jobs and 26.1 percent of all new jobs in the same period. Combined, the Service, Government and Trade sectors have added 79 percent of all new jobs. As of 1982, government employment accounted for 32 percent of Dane County employment, wholesale and retail trade 21.9 percent, and service employment 19.9 percent (see Exhibit 10).

In estimating county employment growth by industrial sectors, guidance can again be derived from comparing DILHR state

# EXHIBIT 10

## PERCENTAGE OF DANE COUNTY EMPLOYMENT BY INDUSTRY

|      | GOVERNMENT | WHOLESALE & RETAIL TRADE | SERVICES & MISCELLANEOUS | MANUFACTURING | CONTRACT CONSTRUCTION | FINANCE, INSURANCE & REAL ESTATE | TRANSPORTATION & UTILITIES |
|------|------------|--------------------------|--------------------------|---------------|-----------------------|----------------------------------|----------------------------|
| 1970 | 36.9%      | 20.1%                    | 14.6%                    | 13.5%         | 5.3                   | 5.1                              | 4.4                        |
| 1980 | 33.8%      | 21.0%                    | 18.3%                    | 11.8%         | 3.9                   | 7.5                              | 3.7                        |
| 1981 | 32.6%      | 21.3%                    | 19.1%                    | 11.9%         | 3.5                   | 7.9                              | 3.7                        |
| 1982 | 32.0%      | 21.9%                    | 19.9%                    | 11.4%         | 3.0                   | 8.1                              | 3.7                        |

Source: 1982 Regional Trends, Dane County Regional Planning Commission,  
April, 1983, pg. 18.

estimates of sectoral employment growth to 1990 to the county, as shown in Exhibit 11. State industrial sector growth from 1970 to 1980 reveals a broad distributional parallel to county sectoral levels, but at a lower absolute level of growth. The same three sectors (Services; FIRE; Trade) remain the fastest growing sectors for both the state and county. Of these three sectors, Services and Trade have shown the largest numerical increase in the 1970-1980 period. Thus, the county and state show similar sectoral growth patterns with Services and Trade providing the largest numeric and proportional growth in employment. The major difference between historical state and county sectoral growth is the major contribution made by the Government sector in Dane County.

With this employment growth parallel between state and the county sectors, it is reasonable to estimate future county employment by comparing it to the state employment growth predictions. Overall distribution of county employment growth is expected to follow broad historical trends and expected changes induced by new economic conditions in the 1980's. The Trade and Services industries are expected to continue their trend of rapid growth, the FIRE sector is expected to remain stable, and the Manufacturing, Construction, Transportation-Construction-Utilities (TCU), and Government sectors are expected to provide 700 new jobs, or less than 2 percent of the new county jobs added by the early 1990's.

Given the approximate 42,400 jobs to be added, the Trade and Service sectors are expected to provide 27,000 jobs, or two-thirds

EXHIBIT 11

STATE AND COUNTY EMPLOYMENT GROWTH  
BY INDUSTRY FOR 1970-1980, 1980-1990

| Industry                  | 1970-1980   |       | 1980-1990 |
|---------------------------|-------------|-------|-----------|
|                           | Dane County | State | State     |
| Manufacturing             | 23.3        | 11.4  | 11.6      |
| Contract Construction     | 3.1         | 13.1  | 15.8      |
| TCU's                     | 18.9        | 13.8  | 5.6       |
| Wholesale/Retail Trade    | 47.3        | 33.4  | 22.3      |
| FIRE                      | 104.8       | 20.9  | 11.0      |
| Service and Miscellaneous | 76.7        | 57.9  | 33.3      |
| Government                | 30.0        | 20.9  | 11.0      |

Source: Employment Review, Wisconsin Department of  
Industry, Labor and Human Relations (DCRPC 82 RT)

of all new jobs added. The slower growing sectors of Government, Manufacturing and FIRE are expected to provide 14,700 jobs, or 35 percent of all new jobs. Finally, the Construction and TCU sectors are expected to provide 700 new jobs, or less than two percent of the new county jobs added by the early 1990's. Thus, the dominant areas of employment growth in Dane County is expected to be in the Trade and Service sectors.

The growth in Dane County labor force has occurred in the managerial, professional, clerical, sales and service occupations. The managerial and professional occupations have accounted for 41 percent of the growth while the clerical, sales and service occupations have accounted for 51 percent of the 1970 to 1980 growth (Exhibit 12). Given the slowing of employment in the Government sector in Dane County and the rapid expansion of Service and Trade sectors, it is reasonable to expect larger shares of future labor force increase in the sales, services and managerial occupational groups. These groups accounted for 57.5 percent of the 1970 to 1980 growth and can be expected to provide an even larger share (nearly 2/3) of the 1980 to 1995 occupational growth.

Downtown Madison is the major employment center in Dane County. According to the Dane County Regional Planning Commission, downtown employment grew from 18,700 jobs in 1970 to approximately 23,300 jobs in 1980. However, the percentage of Dane County employment located in downtown Madison has declined since 1970 (Exhibit 13), reflecting greater employment growth in other areas of Dane County.

More detailed information concerning past and projected

# EXHIBIT 12

## CHANGE IN OCCUPATIONAL COMPOSITION FOR 1970-1980

| Occupation        | Dane County<br>1970-1980 |       | City of Madison<br>1970-1980 |       |
|-------------------|--------------------------|-------|------------------------------|-------|
|                   | #                        | %     | #                            | %     |
| Managerial        | 9,667                    | 20.8  | 4,500                        | 30.5  |
| Professional      | 9,226                    | 20.0  | 4,227                        | 28.6  |
| Sales             | 7,783                    | 16.7  | 3,562                        | 24.1  |
| Clerical          | 9,253                    | 20.0  | 1,575                        | 10.7  |
| Private Household | (470)                    | -1.0  | (366)                        | -2.5  |
| Services          | 6,594                    | 14.2  | 2,525                        | 17.2  |
| Farm              | 232                      | 0.5   | 343                          | 2.3   |
| Craftsmen         | 2,532                    | 5.4   | (433)                        | -2.9  |
| Operatives        | (1,219)                  | -2.6  | (1,444)                      | -9.8  |
| Transportation    | 1,412                    | 3.0   | 62                           | 0.4   |
| Laborers          | 1,400                    | 3.0   | 207                          | 1.4   |
| Total             | 46,410                   | 100.0 | 14,758                       | 100.0 |

Source: 1970 and 1980 Census

# EXHIBIT 13

## PERCENTAGE OF DANE COUNTY EMPLOYMENT LOCATED IN DOWNTOWN MADISON

| Industry                   | 1970 | 1980 |
|----------------------------|------|------|
| Manufacturing              | N/A  | 3.5  |
| Contract Construction      | N/A  | 2.0  |
| TCU's                      | N/A  | 29.5 |
| Wholesale/Retail Trade     | N/A  | 6.9  |
| FIRE                       | N/A  | 25.0 |
| Service and Miscellaneous. | N/A  | 15.3 |
| Government                 | N/A  | 17.7 |
| TOTAL                      | 15.5 | 13.7 |

N/A - Not Available

Source: Unpublished Report, Dane County  
Regional Planning Commission.



employment growth in the downtown area of Madison is non-existent. For this reason, a survey of downtown businesses was conducted to estimate employment growth and subsequently the demand growth for downtown office space. A detailed description of the survey and its results is given in the Downtown Office Demand section on page 46 of this report.

#### B. Market Area Defined

Most downtown office users established their first office in the Madison metropolitan area near the capitol and very few of them have moved downtown from outlying areas. In the past 10 years, some firms have moved out of the downtown area to principally the West Towne, beltline, and airport office markets. These movements out of downtown appear not to be a function of office space supply in outlying areas, but appear to be motivated by the convenience of suburban office areas. Conveniences such as free and plentiful parking, less traffic congestion, easy access, and proximity to employee residences have been the major drawing power of suburban office buildings not only in Madison but in other metropolitan areas throughout the country.

Office buildings outside of the isthmus area were excluded from this market study because they are not in direct competition with downtown office buildings. Boundaries were drawn somewhat arbitrarily, but with recognition of where most major office buildings on the isthmus are located. The downtown office market area is thus defined as being bound by North and South Broom Street on the west, Lake Monona to the south, North and South Hancock

Street to the east, and Lake Mendota to the north (see Exhibit 14).

C. Downtown Office Supply

Little historical information is available concerning downtown office space and vacancy rates. The earliest comprehensive survey of downtown office space found was conducted in November of 1982 by Landmark Research, Inc. (Appendix B). Due to the lack of up to date information, a telephone survey of building owners and leasing agents of downtown buildings was conducted (see Appendix C for a copy of the survey form used). A total of 36 buildings were surveyed with a 100 percent response rate.

Because office space is not a homogeneous commodity, it is necessary to segment the supply of space by criteria that are important to users in their selection of space for leasing. Three criteria relevant to the downtown Madison office market and the proposed project were found to categorize office space. They are:

1. Class of space
2. Square foot per floor
3. Price per square foot

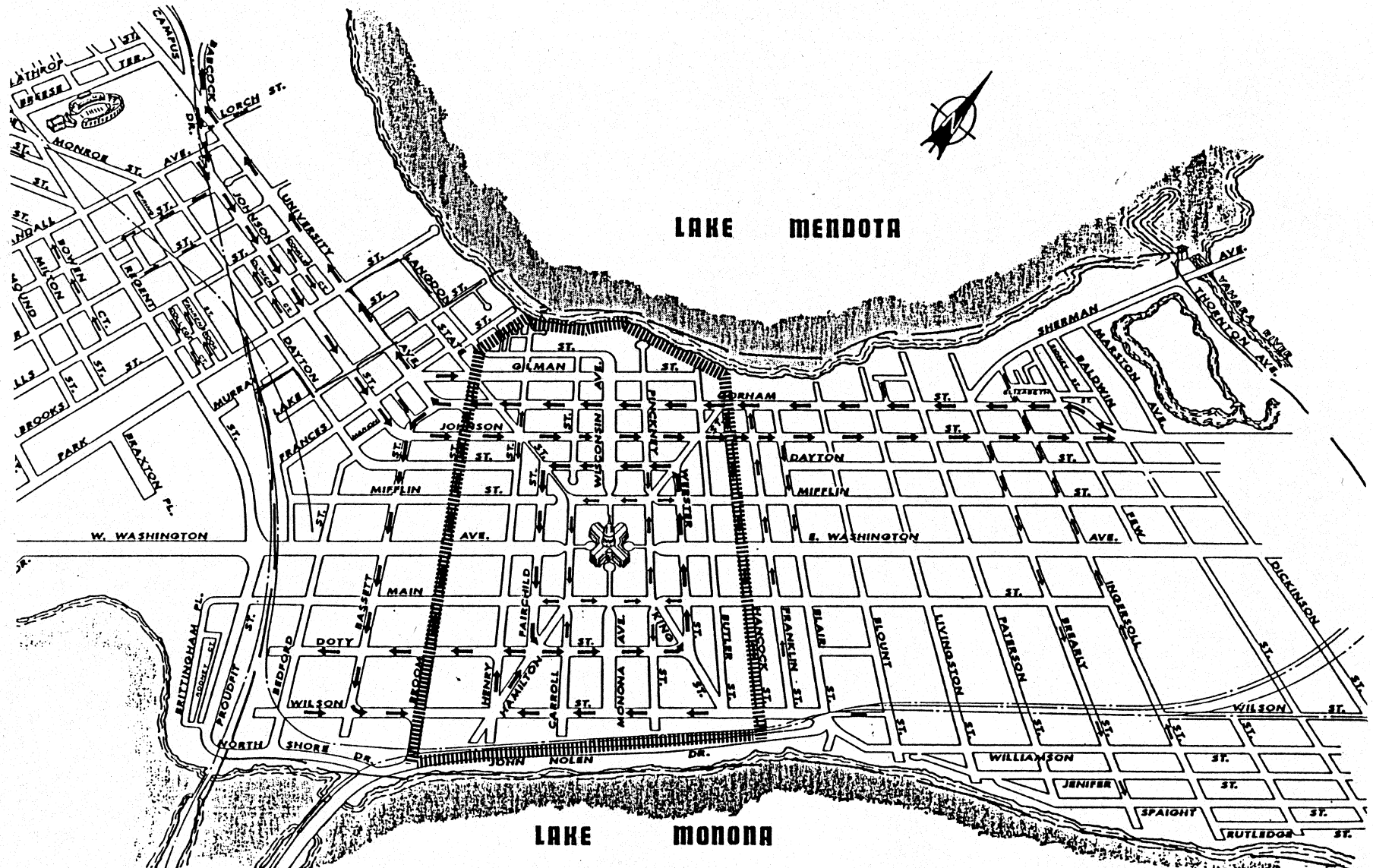
Below are the findings from the survey results for each of the three criteria.

1. Downtown Office Market Segmented by Class

Class A space is characterized by buildings with excellent locations and access, constructed with high quality materials, high quality tenants, and are professionally managed. Also, most Class

EXHIBIT 14

DOWNTOWN OFFICE MARKET AREA



4

A buildings typically have underground or ramp parking on-site.

According to the Urban Land Institute, Class B buildings are characterized as having "good locations, management, and construction, and tenant standards are high."<sup>5</sup> Class B buildings also typically have little functional obsolescence and deterioration. Class C buildings are typically 15 years or older<sup>6</sup> and have some functional obsolescence.

Although the proposed project would offer high quality office space, because of a large parking deficiency it would not be wholly classified as a Class A building and thus would also be competing with Class B buildings. Therefore, Class A and B office space is examined in the proceeding market analysis.

As of June 1984, only ten buildings in the downtown area could be categorized as Class A office buildings. These ten buildings are listed in Exhibit 15. Exhibit 15 also indicates the vacancy rate for Class A office space downtown is 5.7 percent, with a total of approximately 55,000 net leasable square feet vacant. The vacancy rate is up from November of 1982. However, since 1982, two additional Class A office buildings have been added to the downtown office market and account for 75 percent of the vacant Class A space. Both buildings, Lakeview Terrace and

---

<sup>4</sup>  
Downtown Development Handbook, (Washington, D.C.: the Urban Land Institute, 1980), pg. 45.

<sup>5</sup>  
Ibid.

<sup>6</sup>  
Ibid.

## EXHIBIT 15

## MADISON DOWNTOWN CLASS A OFFICE SPACE

| Building/Address                                 | Net<br>Leasable<br>Square<br>Feet | Vacant<br>Square<br>Feet | Percent<br>of Space<br>Vacant | Annual Rental<br>Rate Per<br>Square Foot | Utilities<br>Included | Janitorial<br>Included | Amenities<br>Included | Parking                     | Net<br>Leasable<br>Sq. Ft.<br>Per Floor |
|--|-----------------------------------|--------------------------|-------------------------------|--|-----------------------|------------------------|-----------------------|-----------------------------|---|
| First Wisconsin Plaza<br>1 South Pinckney Street | 283,641                           | 0                        | 0.0%                          | \$15.00-\$17.50                          | Yes                   | Yes                    | 5,6,8,10              | 325 Stalls<br>\$64.05/month | 24918-50392                             |
| United Bank Tower<br>222 West Washington Avenue  | 156,482                           | 3,050                    | 1.9%                          | \$14.80                                  | Yes                   | Yes                    | 8                     | 246 Stalls<br>\$60/month    | 13054                                   |
| Verex<br>150 East Gilman Street                  | 105,000                           | 0                        | 0.0%                          | \$10.80-\$16.50                          | Yes                   | Yes                    | 3,5,6,8,10            | 192 Stalls<br>\$52/month    | 2884-19812                              |
| James Wilson Plaza<br>131 West Wilson Street     | 103,000                           | 9,300                    | 9.0%                          | \$12.00                                  | Yes                   | Yes                    | 3,8                   | 220 Stalls<br>\$58/month    | 9300                                    |
| Anchor Savings and Loan<br>25 West Main Street   | 89,499                            | 1,094                    | 1.2%                          | \$10.75-\$13.00                          | Yes                   | Yes                    | 8                     | 256 Stalls<br>\$42/month    | 10000-14000                             |
| National Guardian Life<br>2 East Gilman Street   | 68,243                            | 0                        | 0.0%                          | \$13.00                                  | Yes[1]                | Yes                    | 8                     | 292 Stalls<br>\$60/month    | 13500                                   |
| Lakeview Terrace<br>131 East Wilson Street       | 60,000                            | 28,000                   | 46.7%                         | \$11.00-\$14.00                          | Yes                   | Yes                    | 8,11                  | 157 Stalls<br>\$50/month    | 6000-21000                              |
| 100 North Hamilton<br>100 North Hamilton         | 37,516                            | 13,068                   | 34.8%                         | \$14.00                                  | Yes                   | Yes                    | 8,10                  | 72 Stalls<br>\$60/month     | 5201-8679                               |
| Investors Services<br>217 South Hamilton Street  | 31,123                            | 0                        | 0.0%                          | \$10.50-\$12.00                          | Yes                   | Yes                    | 4,8                   | 53 Stalls<br>\$46/month     | 7780                                    |
| 44 On The Square<br>44 East Mifflin Street       | 28,000                            | 0                        | 0.0%                          | \$15.75-\$16.41                          | Yes                   | Yes                    | 8                     | 33 Stalls<br>\$50/month     | 7000                                    |
| TOTALS   | 962,504                           | 54,512                   | 5.7%                          |  |                       |                        |                       |                             |   |

EXHIBIT 15 (Continued)

MADISON DOWNTOWN CLASS A OFFICE SPACE

Source: Telephone survey with building owners and leasing agents, conducted by Ross Luedke, Kris Siversten and Dale Mussatti.

- [1] Electricity not included with utilities.
- [2] Janitorial is negotiable with tenants.
- [3] Amenities:
  - 1. Shared secretarial services
  - 2. Word processing
  - 3. Shared copy services
  - 4. Receptionist
  - 5. Conference room(s)
  - 6. Kitchen facilities
  - 7. Window air conditioning
  - 8. Central air conditioning
  - 9. Office furniture
  - 10. Showers
  - 11. Exercise equipment

100 North Hamilton Street, are currently being rehabbed and are in their lease-up phases.

The remaining office buildings surveyed in the downtown area offer Class B and C space. For purposes of this analysis, Class B and C buildings are listed together in Exhibit 16 because they are difficult to distinguish between one another and thus they are often competing for the same tenants. Exhibit 16 indicates that the vacancy rate for Class B and C space as of June 1984 is 13.7 percent with approximately 77,000 square feet vacant. This is an improvement over the November 1982 Class B and C vacancy rate of 23.4 percent.

Because the 1984 survey was more comprehensive than the 1982 survey it indicates more net leasable square feet as vacant. The June 1984 vacancy rate for the same buildings surveyed in 1982 is only 11.8 percent.

## 2. Downtown Office Market Segmented By Floor Size

Most organizations prefer to have their entire operations on one floor so as to promote better communication within the organization, reduce employee time spent moving between departments, and provide management with greater "hands-on" control over operations. For this reason, large contiguous office spaces are in demand and thus office space supply can be segmented by floor size. This type of segmentation is particularly relevant to the Union Transfer Building because of the large size of its floors (13,700 GLA, 12,330 NLA). Floor areas were segmented into seven categories by square feet (see Exhibit 17).

## EXHIBIT 16

## MADISON DOWNTOWN CLASS B AND C OFFICE SPACE

| Building/Address   | Net<br>Leasable<br>Square<br>Feet | Vacant<br>Square<br>Feet | Percent<br>of Space<br>Vacant | Annual Rental<br>Rate Per<br>Square Foot | Utilities<br>Included | Janitorial<br>Included | Amenities<br>Included | Parking                    | Net<br>Leasable<br>Sq. Ft.<br>Per Floor |
|--|-----------------------------------|--------------------------|-------------------------------|--|-----------------------|------------------------|-----------------------|----------------------------|---|
| The Tenney Building<br>110 East Main Street              | 75,000                            | 15,000                   | 20.0%                         | \$10.00                                  | Yes                   | Yes                    | 5,8,10                | 25 stalls<br>\$45/month    | 8640                                    |
| Hovde Building<br>122 West Washington Avenue             | 67,000                            | 2,010                    | 3.0%                          | \$10.00                                  | Yes[1]                | Yes                    | 8                     | None                       | 6700                                    |
| Thirty On The Square<br>30 West Mifflin Street           | 54,594                            | 8,190                    | 15.0%                         | \$8.00-\$8.50                            | Yes                   | Yes                    | 8                     | None                       | 6066                                    |
| National Mutual Benefit<br>119 Monona Avenue             | 41,200                            | 521                      | 1.3%                          | \$9.00-\$9.50                            | Yes                   | Yes                    | 3,5,6,7,10            | 35 Stalls<br>\$52.50/month | 6755                                    |
| Federal Center<br>212 East Washington Avenue             | 39,547                            | 360                      | 0.9%                          | \$9.50                                   | Yes                   | Yes                    | 8,10                  | 40 Stalls                  | 9886                                    |
| Churchill Building<br>North Carroll Street               | 36,000                            | 10,080                   | 28.0%                         | \$9.00                                   | Yes[1]                | Yes                    | 8                     | None                       | 4000                                    |
| AAA Building<br>433 West Washington Avenue               | 31,027                            | 0                        | 0.0%                          | \$5.20                                   | No                    | Yes                    | 8                     | 61 Stalls<br>Included      | 5171                                    |
| 14 West Mifflin Street<br>14 West Mifflin Street         | 27,430                            | 6,280                    | 22.9%                         | \$6.00-\$9.50                            | Yes                   | Yes                    | 8                     | None                       | 6860                                    |
| 625 West Washington Avenue<br>625 West Washington Avenue | 24,000                            | 6,000                    | 25.0%                         | \$7.50-\$8.50                            | Yes                   | Yes                    | 5,6,8                 | 43 Stalls<br>Included      | 10000-14000                             |
| Centre Seven<br>7 North Pinckney Street                  | 20,000                            | 800                      | 0.0%                          | \$8.50-\$12.00                           | Yes[1]                | Yes                    | 8                     | None                       | 5000                                    |
| Provident S & L<br>126 South Hamilton Street             | 16,000                            | 0                        | 0.0%                          | \$8.25                                   | Yes                   | Yes                    | 8                     | None                       | 5333                                    |
| The Atrium<br>23 North Pinckney Street                   | 15,200                            | 200                      | 0.0%                          | \$8.50-\$12.00                           | Yes                   | Yes                    | 8                     | None                       |   |
| 333 West Mifflin Street<br>333 West Mifflin Street       | 13,863                            | 0                        | 0.0%                          | \$6.86-\$9.50                            | Yes                   | Yes                    | 8                     | 60 Stalls<br>\$35/month    | 6932                                    |
| Old Commercial Bank<br>104 State Street                  | 13,400                            | 3,434                    | 25.6%                         | \$8.00-\$10.00                           | No                    | Yes                    | 7                     | None                       | 4060                                    |
| 340 West Washington Avenue<br>340 West Washington Avenue | 12,800                            | 5,361                    | 41.9%                         | \$7.50                                   | Yes                   | Yes[2]                 | 8                     | 12 Stalls<br>\$40/month    | 5755-6400                               |
| 112-116 King Street<br>112-116 King Street               | 11,937                            | 5,059                    | 42.4%                         | \$8.50-\$9.50                            | Yes                   | Yes                    | 8                     | None                       | 1750-2000                               |



# EXHIBIT 16 (Continued)

## MADISON DOWNTOWN CLASS B AND C OFFICE SPACE

|  |         |        |        |                |        |     |                     |                            |           |
|--|---------|--------|--------|----------------|--------|-----|---------------------|----------------------------|-----------|
| Fruatschi Center<br>132 East Wilson Street             | 10,923  | 4,435  | 40.6%  | \$8.50-\$12.00 | Yes    | Yes | 1,2,3,4,6,8         | 28 Stalls<br>\$52.50/month | 315-2659  |
| 117 Monona Avenue<br>117 Monona Avenue                 | 10,000  | 4,100  | 41.0%  | \$9.25         | Yes[1] | Yes | 1,2,3,4,5,6<br>8,10 | None                       | 1200-3600 |
| Fire Station #2<br>301 North Broom Street              | 8,300   | 0      | 0.0%   | \$9.00-\$13.00 | Yes[1] | Yes | 1,2,3,4,5,8         | 13 Stalls<br>\$45/month    | 2800      |
| 125 West Doty Street<br>125 West Doty Street           | 8,100   | 650    | 8.0%   | \$6.50-\$10.50 | Yes    | Yes | 8                   | 10 Stalls                  | 2700      |
| Jackman Building<br>111 South Hamilton Street          | 7,900   | 600    | 7.6%   | \$8.00-\$10.00 | No     | Yes | 3,8                 | None                       | 2633      |
| Threlfall Building<br>222 South Hamilton Street        | 7,900   | 0      | 0.0%   | \$8.00-\$8.25  | Yes    | Yes | 8,10                | 5 Stalls<br>\$20/month     | 2633      |
| Reese Building<br>302 East Washington Avenue           | 6,000   | 2,200  | 0.0%   | \$7.50-\$8.00  | Yes    | Yes | 8                   | 2 Stalls<br>\$30/month     | 3000      |
| 147 South Butler Street<br>147 South Butler Street     | 3,700   | 0      | 0.0%   | \$7.00-\$9.00  | No     | Yes | 8                   | None                       | 1900      |
| 122 South Pinckney Street<br>122 South Pinckney Street | 2,000   | 2,000  | 100.0% | \$4.32         | Yes    | Yes | 8                   | 2 Stalls<br>\$52.50/month  | 1000      |
| 103 North Hamilton Street<br>103 North Hamilton Street | 1,700   | 0      | 0.0%   | \$10.00        | Yes    | No  | 7                   | 4 Stalls<br>\$40/month     | 1700      |
| TOTALS   | 565,521 | 77,280 | 13.7%  |                |        |     |                     |                            |           |

Source: Telephone survey with building owners and leasing agents, conducted by Ross Luedke, Kris Siversten and Dale Mussatti.

- [1] Electricity not included with utilities.
- [2] Janitorial is negotiable with tenants.
- [3] Amenities:
  - 1. Shared secretarial services
  - 2. Word processing
  - 3. Shared copy services
  - 4. Receptionist
  - 5. Conference room(s)
  - 6. Kitchen facilities
  - 7. Window air conditioning
  - 8. Central air conditioning
  - 9. Office furniture
  - 10. Showers
  - 11. Exercise equipment

## EXHIBIT 17

## DOWNTOWN OFFICE VACANCY RATES BY FLOOR AREA

| Net<br>Leasable<br>Sq. Ft.<br>Per Floor | Net<br>Leasable<br>Square<br>Feet | Vacant<br>Square<br>Feet | Percent<br>of Space<br>Vacant |
|---|-----------------------------------|--------------------------|-------------------------------|
| <4999                                   | 143,060                           | 32,758                   | 22.9%                         |
| 5000-9999                               | 598,100                           | 60,890                   | 10.2%                         |
| 10000-14999                             | 338,224                           | 10,144                   | 3.0%                          |
| 15000-19999                             | 105,000                           | 0                        | 0.0%                          |
| 20000-24999                             | 60,000                            | 28,000                   | 46.7%                         |
| 25000+                                  | 283,641                           | 0                        | 0.0%                          |
| Total                                   | 1,528,025                         | 131,792                  | 8.6%                          |

\*Each building is categorized by the net leasable square feet of its largest floor.

Source: Telephone survey with building owners and leasing agents, conducted by Ross Luedke, Kris Siversten, and Dale Mussatti.

Space in office buildings with large floor areas, as illustrated in Exhibit 17, are in high demand. With the exception of Lakeview Terrace, which is currently in its lease-up phase, the vacancy rate for buildings with over 10,000 net leasable square feet per floor is only 4.8 percent (38,144 square feet vacant from a total of 786,865 square feet). This low vacancy rate may indicate there is need for large contiguous spaces, thus the subject property may be more marketable than buildings with smaller floor areas. It is important to note however, that most of the buildings with large floor areas are Class A buildings, thus the low vacancy rate may be a partial reflection of the demand for high quality space.

### 3. Downtown Office Market Segmented By Rents

Most office users have some sensitivity to price when selecting a building to locate. For this reason, price per square foot is a criterion used to analyze the supply of downtown office space. Price categories were arbitrarily delineated by two dollar intervals--intervals large enough to affect a lessor's leasing decision. Space in the subject property will be leased at \$10.00 to \$12.00 per square foot on the upper floors and at \$8.00 to \$9.00 per square foot in the two lower floors if they are renovated into office space. As illustrated in Exhibit 18, there is a relatively large supply of space in the \$8.00 to \$9.99 rent range with approximately 39,000 square feet vacant and a vacancy rate of 13.5 percent. A 7.4 percent vacancy rate for space in the \$10.00 to \$11.99 price range is low, relative to other price ranges and may

# EXHIBIT 18

## DOWNTOWN OFFICE VACANCY RATES BY RENT LEVEL

| Rent<br>Range per<br>Square<br>Foot* | Net<br>Leasable<br>Square<br>Feet | Vacant<br>Square<br>Feet | Percent<br>of Space<br>Vacant |
|--------------------------------------|-----------------------------------|--------------------------|-------------------------------|
| \$4.00-\$5.99                        | 33,027                            | 2,000                    | 6.1%                          |
| \$6.00-\$7.99                        | 46,230                            | 13,841                   | 29.9%                         |
| \$8.00-\$9.99                        | 288,141                           | 38,994                   | 13.5%                         |
| \$10.00-\$11.99                      | 318,745                           | 23,539                   | 7.4%                          |
| \$12.00-\$13.99                      | 336,243                           | 37,300                   | 11.1%                         |
| \$14.00-\$15.99                      | 193,998                           | 16,118                   | 8.3%                          |
| \$16.00+                             | 311,641                           | 0                        | 0.0%                          |
| Total                                | 1,528,025                         | 131,792                  | 8.6%                          |

\*Annual rent per square foot was calculated for each building by dividing its rent range by two.

Source: Telephone survey with building owners and leasing agents, conducted by Ross Luedke, Kris Siversten, and Dale Mussatti.

indicate a profitable niche in the market. However, there is approximately 24,000 square feet vacant in this price range.

#### 4. Projected Office Supply Growth

Four major proposals have been made for new or renovated office space in downtown Madison (see Exhibit 19). At this time, except for the renovation of the Tenney Building, the proposed additions to the downtown office market are either on hold due to weak leasing activity (Carley Project and American Exchange Project) or still in their early stages (Hovde Project). Although, if any of the proposed new office buildings were initiated they would greatly increase the supply of space downtown, it does not appear likely that any of the projects will occur within the next two years.

#### D. Downtown Office Demand

Office building activity tends to cluster in nodes around centers of economic activity, in downtown Madison, office uses are not only related to economic activities, i.e., banking and trade, but also governmental services provided by the state, county, and city. The market area clustered at this node is an area three to four blocks in either direction from the State Capitol (see Exhibit 14). Within the market area, two categories of office building activity occur, public space for governmental office users and private space demand associated with banking, finance, and supplementary and complementary business and government services.

# EXHIBIT 19

## PROPOSED NEW DOWNTOWN OFFICE SPACE

| Building/<br>Address                                     | Proposal   | Status   |
|--|--|--|
| Hovde Project/<br>14 East Mifflin Street                 | Class A mixed use development.<br>Approximately 26,000 to 39,000<br>square feet of office space.<br>324 indoor parking stalls.   | In early stage of development,<br>attempting to obtain TIF<br>financing from city. |
| Carley Project/<br>44 East Mifflin Street                | Class A office building.<br>Proposal to add six floors of<br>office space to an existing<br>building. Would add approxi-<br>mately 42,000 square feet of<br>space to the building.   | Project is on hold due to weak<br>demand.  |
| American Exchange Project/<br>108 East Washington Avenue | Nine-story Class A office<br>building. Approximately<br>157,000 square feet of office<br>space.  | Project is on hold due to weak<br>demand.  |
| Tenney Building Renovation/<br>110 East Main Street      | Plans call for a glass-<br>enclosed entrance and 212<br>stall parking ramp between<br>the 1st Wisconsin Bldg. and<br>the Tenney Bldg. Improvements<br>include new mechanical systems,<br>lighting, floor, and wall<br>finishes. Completion 1987. | Renovation work has not yet<br>begun.  |

## 1. State Office Demand

The current need for state occupied office space is difficult to determine. Bob Leheman, Assistant Director of Planning and Construction for the State of Wisconsin stated demand for space is either shrinking or staying the same. The state is not actively leasing space; however, state agencies from other areas of the city are being relocated into state buildings in the downtown area, consistent with the Building Commission's policy to consolidate government agencies into the downtown area. Consolidation of agencies will occur over a ten year period. As the agency lease expires and only to the extent that rents are favorable and space is available consistent with that agency's needs. Mr. Leheman stated the state typically leases Class B office space.

The state would be approached on an individual basis for proposals to lease space in the subject property. Although the state may be considered a prospective tenant of the subject property, no projection of an annual demand is forecasted due to its unpredictable nature.

## 2. Private Office Demand

The amount of space required by a firm is a function of the number of office employees it has. The approach for estimating office demand in downtown Madison is based on this relationship, that demand for office space is a function of growth or decline in the number of office workers. A review of secondary data sources; Dane County Business Patterns, U.S. Census Data, yielded

inconclusive data for predicting growth of businesses specifically in downtown Madison. The Dane County Planning Department supplied employment data organized by Standard Industrial Classification code (SIC) for downtown Madison, but only for 1980 and thus no growth trend could be predicted. Because of this lack of data on downtown employment growth, it was necessary to develop an estimate of growth using a survey of downtown employers. The methodology of this estimate is described below.

### 3. Methodology

Since the approach needed to predict office demand is based on the growth or decline of office workers, a survey was developed (see Appendix D) to collect data that would enable a prediction of office space demand. The survey is subdivided into three sections with section one providing data for projecting an office demand range for 1985 and 1986. The information requested of randomly selected downtown office tenants was: the total square feet leased in the their office; the number of people currently employed in the office (1984); a projection of anticipated employee growth in 1985 and 1986; the expiration date of their lease; and the locational preference if the business stated it would consider relocating out of the downtown market area.

Section two was designed to determine what factors contributed to a firm's location decision (Appendix D). This data will provide a basis for evaluating the location preferences of survey participants with respect to the subject property. Thus, revealing the positive or negative attributes that may be perceived by



potential tenants in the market for office space.

Section three requested information concerning desired office amenities. A minimum amenity standard could be determined from this data that would serve as a guide for developing a competitive edge in marketing the subject property.

#### 4. Projected Downtown Office Demand

There are principally two types of office demand: growth demand which comes from employment growth within the area and upgrade demand which comes from existing tenants who desire to relocate to better quality space.

A projection of downtown office growth demand is based on the assumption that demand can be derived from a projection of office employment in the area. Using data from the survey, the projected growth demand for office space in the downtown market area is calculated using the following formula:

$$\frac{\text{Projected employees in 1985}}{\text{Percent of downtown square feet surveyed}} \times \text{Square feet per employee}$$

which will yield an estimated total square foot office growth demand in 1985. The difference in total amounts for 1985 and 1984 is the projected additional office growth demand for 1985. The amount of net leasable area surveyed totaled 128,382 square feet or 8.4 percent of the total net leasable office space in the downtown office market (1,528,032 square feet as per survey of building owners and leasing agents—see Exhibits 15 and 16).

The tally of employees from the survey respondents totaled

506. Dividing the number of square feet leased by the number of employees yielded a figure of 254 square feet of office space per employee. Further, analysis of the data provided a range of future employee growth for 1985 and 1986 (Exhibit 20).

The 1985 and 1986 projections of future growth were obtained using the Minitab<sup>7</sup> statistical program to sort and select the fields that contained the number of employees projected in 1985 and 1986, and corresponding lease expiration dates. Using this data, the program was instructed to tabulate the anticipated growth in employees from May 1984 to May 1985. The command was repeated for June 1985 and June 1986.

The 1985 projection ranged from a low of 531 employees to a high of 553 employees. The range was derived by subtracting those employees for businesses that reported they would consider relocating outside the market area.

The resulting projected growth demand for office space in the downtown market area is a high of 144,000 square feet to a low of 68,000 square feet, with an average of approximately 106,000 square feet. Projections of employee growth in 1986 were optimistic--an 11 percent increase. In the high value projection of employment growth, the projections of office growth demand nearly doubled those projected for 1985. However, due to the uncertainty inherent in a two year projection, a discount factor of .5 is used to arrive at a high office growth demand projection of approximately 117,000

---

7

Minitab is a statistical program designed at Pennsylvania State University.

## EXHIBIT 20

## PROJECTED DOWNTOWN OFFICE DEMAND - SURVEY METHOD

|   | SURVEY<br>RESULTS<br>1984 | PROJECTED<br>FOR<br>1985 | PROJECTED<br>FOR<br>1986 |
|---|---------------------------|--------------------------|--------------------------|
| SQUARE FEET<br>SURVEYED                                 | 128,382                   |                          |                          |
| PERCENT OF DOWNTOWN<br>SQUARE FEET COVERED<br>BY SURVEY | 8.4%                      |                          |                          |
| EMPLOYEES [a]   | 506                       | 553 - 528                | 618 - 614                |
| SQUARE FEET<br>PER EMPLOYEE [b]                         | 254                       |                          |                          |
| SQUARE FEET<br>OCCUPIED DOWNTOWN [c]                    | 1,528,025                 |                          |                          |
| PROJECTED ADDITIONAL<br>OFFICE DEMAND [d]               | HIGH<br>LOW               | 144,142<br>68,546        | *117,173<br>*111,125     |

[a] Range was derived by subtracting those employees that may move out of market from total projected employees 1985 - 1986

[b] 254 = employees 1984 / square feet surveyed. Assumed constant

[c] Total square feet within market area as determined in survey of office owners and leasing agents. June 1984

[d] ( # of employees x 254 square feet per employee ) / ( 8.4 percent of downtown square feet covered by survey ) - previous year's demand

\* 1986 demand has been adjusted for unpredictable projection methods of firms surveyed.

square feet, a low growth demand projection of approximately 111,000 square feet, and an average projection of approximately 114,000 square feet. The demand projections for 1986 are thus consistent with the demand projections for 1985.

The ratio of Class A space to Class B and C space in the downtown area is 1.7 to 1. Assuming this ratio is similar for growth demand, growth demand for Class A space is estimated to be approximately 67,000 square feet in 1985 and 72,000 square feet in 1986. Demand for Class B and C space is estimated to be 39,000 square feet and 42,000 square feet in 1985 and 1986 respectively.

An additional part of growth demand results from new office users moving into an office market. Because so few firms have moved into the downtown area in the recent past, no additional square footage attributable to this type of office user is added to the projection of growth demand.

The interior finishes of the proposed project will be comparable to that of Class A buildings in Madison. Also, indoor parking will be given only tenants on the fourth, fifth and sixth floors. With this proposed amenity package, the top three floors of the building will compete primarily with better quality Class B space and lower quality Class A space. Thus, upgrade demand is important to the proposed project and should be examined.

Upgrade demand is more difficult to estimate than growth demand. Generally, for every square foot of space attributable to growth demand 1.6 square feet is demanded by upgrading tenants. This ratio varies from 1:0.80 to 1:2.4 and is a function of the stock of lower class space in the market area, i.e., a large amount

of lower class space in an area will result in a greater amount of  
8  
upgrade demand.

The ratio of Class A space to Class B and C space in the  
downtown area is currently about 1.7:1. This ratio is high  
compared to many cities, where ratios of 1:2 and even 1:4 are  
9  
common. The high ratio of Class A to Class B and C space suggests  
a low ratio of growth demand to upgraded demand exists in the  
downtown market, thus a ratio of 1:0.80 is used to derive an  
estimate of upgraded demand from the projected growth demand.  
Multiplying .80 times the projected growth demand for 1985 and 1986  
results in an estimated upgrade demand in 1985 of approximately  
85,000 square feet and in 1986 of approximately 91,000.

#### E. Market Absorbtion

As of June 1984, there was approximately 132,000 net  
leasable square feet of vacant space in downtown Madison (55,000  
Class A, 77,000 Class B and C). This fact, tied to the estimates  
for growth demand in 1985 and 1986 indicate there may be a general  
need for additional downtown office space in 1985 (Exhibit 21). A  
shortage of office space at that time is dependent on several  
factors, including: 1) that none of the proposed new downtown  
office buildings are completed, 2) that unmet demand for downtown

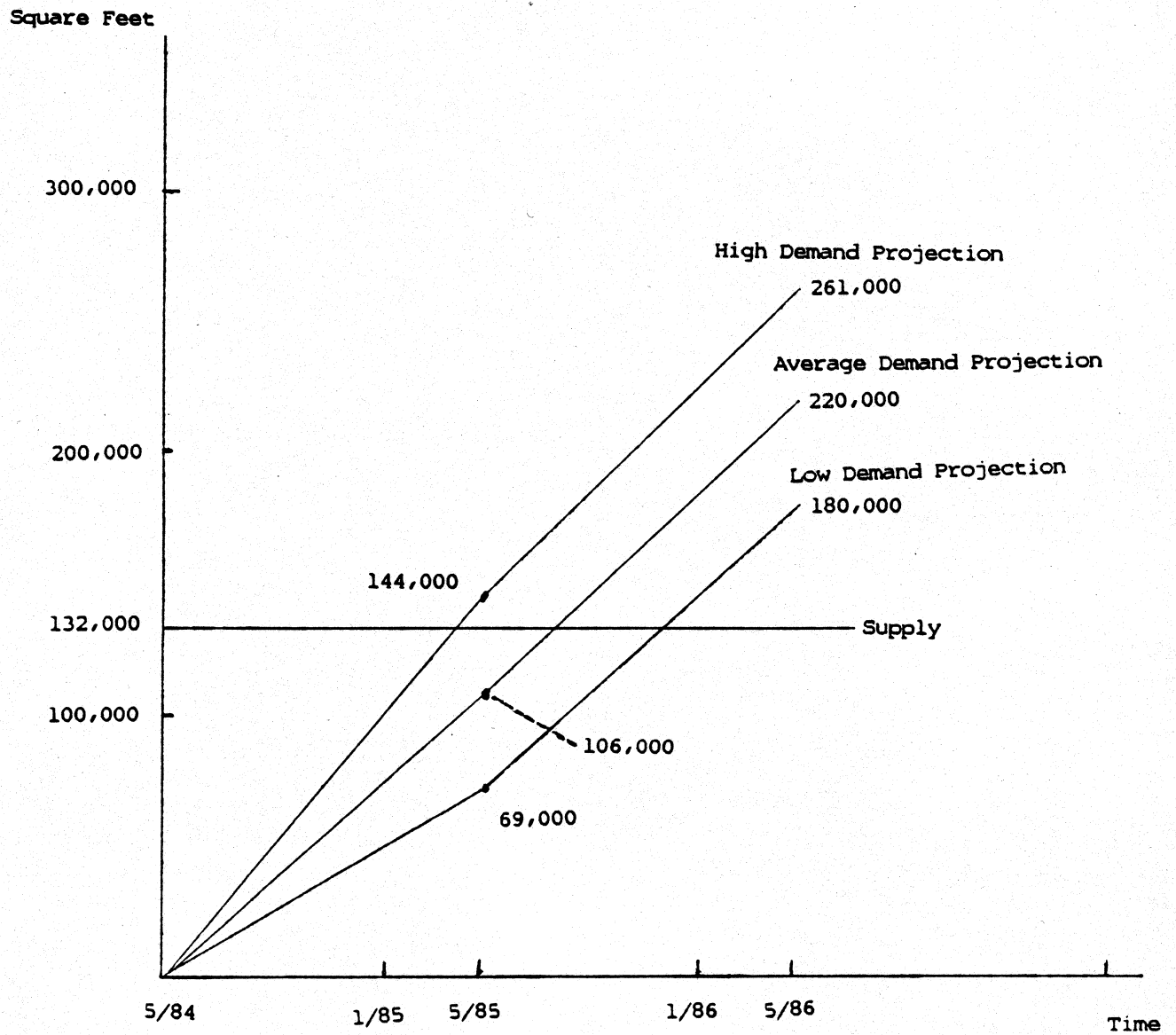
---

8  
Charles J. Detoy and Sol L. Rabin, "Office Space:  
Calculating The Demand," Urban Land, June 1972, pg. 13.

9  
Richard A. Lex, "Marketing Studies for Office Buildings,"  
Real Estate Review, Fall 1982, pg. 103.

EXHIBIT 21

COMPARISON OF PROJECTED OFFICE SUPPLY AND DEMAND



office space does not drive rental rates so high as to force more office tenants to move to outlying office markets seeking lower priced office space, 3) the square foot per employee ratio does not decrease due to austerity measures by office users, and 4) economic conditions do not change drastically downward to wipe-out projected downtown employment growth.

By May, 1986 the general shortage of downtown office space is projected to be from 48,000 to 129,000 square feet, with an average estimate of 88,000 square feet. Projected unmet demand is small considering the subject property has approximately 36,000 to 62,000 square feet of office space and would necessitate a 40 to 70 percent absorption rate of total unmet demand to be completely leased by May of 1986.

#### 1. Class A Space

The current supply of vacant Class A space of 55,000 square feet is not large enough to meet the projected combined growth and upgrade demand of 152,000 square feet for 1985. As illustrated by Exhibit 22, there will be a shortage of approximately 100,000 square feet of Class A office space in 1985 unless one or more of the recently proposed Class A downtown office projects are constructed. This shortage of Class A space is expected to increase by 163,000 square feet in 1986, but will be partially offset by the gradual renovation of the Tenney Building into 75,000 square feet of Class A space. Also, it is likely that if a large shortage of Class A space arises, at least one of the proposed downtown office projects will be developed. Total proposed Class A

# EXHIBIT 22

## PROJECTION OF CLASS A OFFICE MARKET

|                     | May 1984<br>to<br>May 1985 | May 1985<br>to<br>May 1986 |
|---------------------|----------------------------|----------------------------|
| Supply              | 55,000                     | (97,000)                   |
| - Upgrade Demand    | 85,000                     | 91,000                     |
| - Growth Demand     | 67,000                     | 72,000                     |
| + Tenney Building   | 0                          | 75,000                     |
| + Proposed Projects | 0                          | 0 to 238,000               |
| Surplus (Shortage)  | (97,000)                   | 53,000 to<br>(185,000)     |



space amounts to 238,000 square feet, and, although unlikely, if all of it were developed by May of 1986 a surplus of approximately 53,000 square feet of Class A office space would be created. Thus, the amount of Class A office space projected for May, 1986 ranges from a surplus of 53,000 square feet to a shortage of 185,000 square feet, and unless all the proposed office projects are completed by May, 1986, a shortage of approximately 100,000 to 150,000 square feet of Class A space is projected.

Assuming the proposed project would be competitive in only the lower end of the Class A market, a discount factor of .5 multiplied by the projected unmet Class A demand results in a projected unmet demand for Class A space for which the subject will be competing for of 50,000 to 75,000 square feet. With 36,000 square feet on the top three floors of the subject building, an absorption rate of 48 to 72 percent would be necessary to completely lease the building by May of 1986. Although these percentages are fairly high, a tight market for Class A space increases the likelihood that they can be achieved. Thus, an lease-up period of one to one and a half years is estimated for the top three floors of the building if the project were completed in 1985.

## 2. Class B and C Space

The Class B and C office market is weak with a 13.7 percent vacancy rate and approximately 77,000 square feet of vacant space. Growth demand for Class B and C space is projected to be 39,000 square feet in 1985 and 42,000 square feet in 1986 (Exhibit 23). If projected upgrade demand for Class A space were met, 85,000

## EXHIBIT 23

## PROJECTION OF CLASS B AND C OFFICE MARKET

|                     | May 1984<br>to<br>May 1985 | May 1985<br>to<br>May 1986 |
|---------------------|----------------------------|----------------------------|
| Supply              | 77,000                     | 38,000 to<br>123,000       |
| + Upgrade Demand    | 0 to 85,000                | 0 to 91000                 |
| - Growth Demand     | 39,000                     | 42,000                     |
| - Tenney Building   | 0                          | 75,000                     |
| + Proposed Projects | 0                          | 0                          |
| Surplus (Shortage)  | 38,000 to<br>123,000       | (79,000) to<br>97,000      |

square feet of Class B and C space would be vacated by May of 1985 and 91,000 additional square feet would be vacated by May of 1986, thus increasing the amount of vacant Class B and C space above its present level. However, due to the projected shortage of Class A space in the next few years, the Class B and C office markets are projected to become stronger by 1986 by filling some unmet Class A demand. As indicated in Exhibit 23, Class B and C office space in 1986 is expected to range from a surplus of 97,000 square feet to a shortage of 79,000 square feet. Considering the unlikelihood that all the proposed new office projects will be completed by 1986, a shortage of approximately 25,000 to 50,000 square feet is projected.

If the bottom two floors of the building were to be renovated into 25,000 square feet of office space, an absorption rate of 50 to 100 percent of unmet Class B and C demand in 1986 would be necessary. Because of the softness of the Class B and C markets, the lease-up period of the two lower floors of the subject is estimated to be two to two and one-half years.

A strong Class A office market, a possible shortage of Class A space in downtown Madison by May of 1985, and the subject property's competitive amenity package, indicate that the fourth, fifth, and sixth floors of the proposed project will compete successfully in the upper end of the Class B and lower end of the Class A office market. Because of the softness of the Class C and B markets the lower two floors most likely will be more difficult to lease-up.

#### IV. FINANCIAL ANALYSIS

This phase of the study is a financial analysis of the proposed project for its most probable scenarios. A computer spreadsheet designed for analysis of limited partnership syndications is used to analyze each of the scenarios. The analysis takes into consideration the client's assumptions that the building is at least 60 percent preleased and would have a maximum of a two year lease-up period. These assumptions are compatible with the findings from the market study.

Several assumptions applicable to each scenario were made for the financial analyses, they include:

1. 90 percent building efficiency
2. Hard costs, as estimated by contractors, of  
\$1,615,000 to renovate 36,990 square feet and  
\$1,840,000 to renovate 61,650 square feet  
(including one floor of indoor parking for both  
alternatives).  
Also, an additional \$50,000 to construct a 25  
by 30 foot atrium on the fifth and sixth floors.
3. Architect fees at six percent of hard costs.
4. Rents at \$11.00 per square foot for the top  
three floors and \$8.50 per square foot for the  
two lower floors.
5. Three percent annual increases in income and  
expenses.
6. 25 percent of reversion proceeds at sale goes to  
the limited partners, and the remaining 75 percent

- goes to the general partner/developer.
7. 22 indoor parking stalls on the third floor of the building (or the first floor of East Wilson Street).
  8. Development fee of 10 percent of hard costs.
  9. The project must be able to financially withstand a two year lease-up period.

Two major construction alternatives exist for the subject property: 1) renovate all six floors of the building, including parking on the third floor, for a total of 61,650 square feet of office space, or, 2) renovate only the top four floors for a total of 36,990 square feet of office space, including parking on the third floor. Although there are economies of scale to be gained by renovating six floors instead of four, the first and second floors will be more difficult to lease as they have windows only on the southern side of the building. Due to the window deficiency, the first and second floors will rent at a substantially lower rate than the upper floors of the building. Rents for similar space are from \$8.00 to \$9.00 per square foot and for purposes of the financial analysis are projected to be \$8.50 per square foot.

A. Tax Law Affecting The Project

1. Rehabilitation Tax Credit

According to the Economic Recovery Tax Act of 1981 (ERTA), the subject property is eligible for an investment tax credit for rehabilitation expenses incurred. The subject property is eligible

for a twenty or twenty-five percent credit.

A twenty percent credit is available for rehabilitation of nonresidential structures at least 40 years old (the subject property is 68 years old). When a twenty percent credit is taken, the depreciable basis of the property is reduced by the amount of the investment tax credit.

A twenty-five percent credit is allowed for "certified historic structures" listed in the National Register of Historic Places or located in a national historic district. To gain a twenty-five percent credit, the rehabilitation must also be certified by the Secretary of the Interior as being consistent with the historic character of the property or the district. When a twenty-five percent credit is taken the depreciable basis of the rehabilitated property is reduced by fifty percent of the amount of the credit taken.

To get the full benefit of the tax credit (twenty or twenty-five percent) the building owner must hold the building for five years. Also, rehabilitation expenses must exceed the depreciable basis of the property before rehabilitation. At least seventy-five percent of the external walls must be retained in order for the expenditure to qualify as rehabilitation. New siding or a new facade can be applied to existing walls and still permit the rehabilitation to qualify for the credit.

Although the subject property is most likely eligible for a twenty-five percent credit, the extra five percent tax credit and added depreciation tax shelter does not offset the paperwork, delay, and regulation involved in obtaining it. For this reason,

qualification for a twenty percent tax credit is recommended for the proposed rehabilitation and is assumed throughout the following financial analysis.

## 2. The 1984 Deficit Reduction Act

Recently, the 1984 Deficit Reduction Act was passed by Congress. Important tax law changes affecting real estate include:

- a. The ACRS life for depreciating most real property has been extended, from 15 to 18 years. (effective for property placed in service after March 15, 1984.)
- b. Special tax provisions were created for property leased to tax-exempt entities. These provisions apply to property placed in service after May 23, 1983 and include the following guidelines:
  - i. 40 year recovery period for depreciation (straightline).
  - ii. Expenditures attributable to the rehabilitation of any portion of a building that are for a tax-exempt user are not qualified rehabilitation expenditures and thus do not qualify for the rehabilitation credit. However, excluded expenditures are taken into account in determining whether there has been a substantial rehabilitation of the building.

A property is "tax-exempt use property" to the extent that the property is leased to a tax-exempt entity with a disqualified

lease. A "disqualified lease" is any lease of the property to a tax-exempt entity if:

- a. part or all of the property was financed (directly or indirectly) by the proceeds from tax-exempt obligations, and the tax-exempt entity (or a related entity) participated in the financing; or
- b. under the lease, there is a fixed or determinable price purchase or sale option, or the equivalent of such an option, that, in the case of a sale option must be honored by, the entity (or a related entity); or
- c. the lease has a term in excess of 20 years; or
- d. the lease occurs after a sale (or other transfer) of the property by, or a lease of the property from, the tax-exempt entity (or a related entity) and such property has been used by the tax-exempt entity (or a related entity) for more than three months before the sale (or other transfer) or lease.

More than 35-percent of property must be leased to tax-exempt entities in disqualified leases. Also excepted from the above tax provisions are properties with leases under 3 years in length.<sup>10</sup>

---

<sup>10</sup>

"Tax Reform Bill of 1984," Standard Federal Tax Reports, June 26, 1984.



## B. Financing

The City of Madison, with its effort to encourage development in the downtown area has approved Industrial Revenue Bond (IRB) funding for downtown real estate projects (e.g., 100 North Hamilton Street, the Olds Building). The advantage of IRB financing is that it is at a lower rate than conventional financing. A disadvantage is that under the 1984 Deficit Reduction Act, a lease to a tax-exempt entity becomes "disqualified" and thus has adverse tax affects such as those described above.

It is likely that Industrial Revenue Bond (IRB) financing can be obtained for the proposed project as it is on the fringe of an economically depressed area of Madison. IRB financing is currently available at 9.2 percent interest with a 15 year term (the current rate for AAA municipal bonds) compared to a conventional mortgage rate of 13.5 percent with a 25 year term.

Due to the strict tax regulations regarding tax-exempt entity leasing in properties financed with tax-exempt financing, conventional financing is used in the analysis of scenarios with the State of Wisconsin as the major tenant of the building.

## C. Project Scenarios

### 1. State of Wisconsin As A Tenant, 61,650 Square Feet.

Over the past five years the state has moved a large part of its office work force from throughout the Madison area to downtown, and, as mentioned earlier, if the right circumstances arise will continue to do so. Due to its proximity to the GEF

buildings and the capitol, its affordable rents, large floor sizes, and total square footage, the subject property is a strong candidate to lease to the state.

Scenario one entails renovation of the entire building and leasing all or most of the building to the State of Wisconsin. Also, financing is assumed to be through conventional sources. Leasing the building to the State of Wisconsin has the advantages of a fast or non-existent lease-up period and the low risk of a financially stable tenant. Also, with conventional financing, the project would not be subject to the tax rules for tax-exempt entities as the state lease would not be a "disqualified" lease under the 1984 Deficit Reduction Act. Historically, the state has paid market rents for leased space, thus, for this analysis rents are the same as those assumed for private firms.

Major assumptions specific to each of the scenarios are described in Exhibit 24. It is important to note that a 10 percent capitalization rate is used for the state as tenant scenarios compared to an 11 percent rate for private lease scenarios, as the state is an extremely low risk tenant.

## 2. State Of Wisconsin As Tenant, 36,990 Square Feet.

Scenario two is the same as scenario one, except that the first and the second floors of the building would not be renovated. This scenario merits analysis because it reduces the lease-up risk of the project.

## EXHIBIT 24

## SCENARIO DESCRIPTIONS

| Scenario   | Construction  | Financing   | Projected Lease-up  | Other Assumptions                         |
|--|---|---|---|---|
| 1. State of Wisconsin as Tenant, 61,650 square feet. | 61,650 square feet of NLA. 22 indoor parking stalls on the third floor.                       | Conventional, \$2,953,000, 13.5 percent, 25 year mortgage. \$738,000 equity investment. | 80 percent at start, 87 percent at end of year 1, 95 percent at end of year 2 and thereafter. | 10 percent capitalization rate in year 8. |
| 2. State of Wisconsin as Tenant, 36,990 square feet. | 36,990 square feet of NLA. 22 indoor parking stalls on the third floor.                       | Conventional, \$2,716,000 13.5 percent, 25 year mortgage. \$679,000 equity investment.  | 80 percent at start, 87 percent at end of year 1, 95 percent at end of year 2 and thereafter. | 10 percent capitalization rate in year 8. |
| 3. Private leases, 60,150 square feet.               | 60,150 square feet of NLA, 25 by 30 foot atrium. 22 indoor parking stalls on the third floor. | IRB, \$3,004,000, 9.2 percent, 15 year mortgage. \$751,000 equity investment.           | 60 percent at start, 78 percent at end of year 1, 95 percent at end of year 2 and thereafter. | 11 percent capitalization rate in year 8. |
| 4. Private leases, 35,490 square feet.               | 35,490 square feet of NLA, 25 by 15 foot atrium. 22 indoor parking stalls on the third floor. | IRB, \$2,765,000, 9.2 percent, 15 year mortgage. \$692,000 equity investment.           | 60 percent at start, 78 percent at end of year 1, 95 percent at end of year 2 and thereafter. | 11 percent capitalization rate in year 8. |

### 3. Private Leases, 60,150 Square Feet.

Scenario three involves renovating the entire building and leasing it principally to private firms (more than 65 percent of the building). This scenario has the advantage of low-interest financing associated with IRB's, but the disadvantage of most likely having financially weaker tenants. A large 25 by 30 foot skylit atrium on the sixth and fifth floors, taking 750 net leasable square feet from each floor is assumed for scenario three as a means to increase the marketability of the space. As a result, the net leasable area for this scenario totals 60,150 square feet.

### 4. Private Leases, 35,490 Square Feet

Scenario four is the same as scenario three except that the first and second floors would not be renovated.

### D. Investment Results

The investment objectives of the project, as specified by the client, are to obtain for the limited partners at least a 20 percent IRR over the term of the investment, assuming a sale of the property in year 8. The limited partners are to take 95 percent of the cash flow, 99 percent of the tax shelter, and 25 percent of the reversion proceeds from the sale in year 8 with the developer/general partner receiving the remainder of each of the returns. The client, as developer of the project, desires a development fee of 10 percent of hard costs for renovation, leasing fees over the term of the investment, and 75 percent of the

reversion proceeds from the sale in year 8.

Results for each of the scenarios are presented in Exhibit 25 and detailed financial analyses, including returns to the general partner, of each of the scenarios are located in appendices E through H. A comparison of the Internal Rates of Return (IRR's) and Modified Internal Rates of Return (MIRR's—see Exhibit 26) of the scenarios indicates that under the investment format desired by the client, none of the scenarios generate the 20 percent minimum IRR required for the limited partners. However, scenarios one and three, both of which entail renovating the entire building, generate at least a 20 percent required IRR when a larger portion of the reversion proceeds are given to the limited partners.

Scenario one, leasing to the state and renovating the entire building, has the highest returns under the investment guidelines desired by the client, with an IRR of 19.6 percent and MIRR of 14.3 percent. Also, the scenario offers the low risk of a financially stable tenant and immediate occupancy of most of the building.

Scenario three, renovating the entire building and leasing to private firms, does not earn the minimum IRR of 20 percent under a 25 percent/75 percent split of the reversion proceed in favor of the developer. However, scenario three generates a 20.6 percent IRR for the limited partners when a 75 percent/25 percent split of reversion proceeds is made in favor of the limited partners.

Although scenario one has higher financing costs through conventional sources than the lower cost IRB financing for scenario three, the assumption of 80 percent pre-leasing of the building to the state versus 60 percent to private firms, is the reason why

# EXHIBIT 25

## INVESTMENT RETURNS FOR VARIOUS REVERSION ASSUMPTIONS

| Scenario | L .25/G .75 |      | L .50/G .50 |      | L .75/G .25 |      |
|----------|-------------|------|-------------|------|-------------|------|
|          | IRR         | MIRR | IRR         | MIRR | IRR         | MIRR |
| 1        | 19.6        | 14.3 | 22.5        | 15.8 | 24.9        | 17.2 |
| 2        | 3.8         | 9.1  | 5.5         | 9.5  | 7.0         | 10.0 |
| 3        | 11.6        | 11.6 | 16.9        | 13.9 | 20.6        | 16.0 |
| 4        | -8.2        | 5.8  | 0.0         | 7.4  | 4.3         | 8.8  |

Key: L .25 = Limited partner receives 25 percent of reversion proceeds in year 8.

L .75 = General partner receives 75 percent of reversion proceeds in year 8.

## EXHIBIT 26

### AN EXPLANATION OF MODIFIED INTERNAL RATE OF RETURN

---

Modified internal rate of return (MIRR) is an improvement over IRR as a measure of investment return. MIRR allows the investor to specify a safe reinvestment rate for the investment outflows of a project (i.e., cash flow and tax savings), whereas when using IRR it is implicitly assumed that investment outflows are reinvested at the same rate of return of the investment.

MIRR is derived by first, calculating the future value of investment outflows compounded at the reinvestment rate to the end of the investment term. MIRR is then derived by calculating the nth root of the future value of investment outflow divided by the present value of investment inflows (costs) minus one. Where n equals the expected holding period.

$$\text{MIRR} = \sqrt[n]{\frac{\text{FV of Investment Outflows}}{\text{PV of Investment Inflows}}} - 1$$

scenario one is projected to generate superior returns. This illustrates that a fast lease-up is a key variable, if not the key variable for reaching financial viability for the proposed project.

In conclusion, the results of the financial analysis indicate that the entire building should be renovated instead of just the top four floors due to the economies of scale gained in renovating a larger space. Also the analysis indicates that pre-leasing as large a proportion of the space as possible is extremely important. And finally, the analysis shows that with some flexibility in structuring the limited partnership, the project will be financially viable assuming a two year lease-up period and at least 60 percent of the building is pre-leased.



## V. CONCLUSIONS AND RECOMMENDATIONS

A thorough analysis of the downtown Madison office market indicates that there will be a shortage of downtown office space in 1985 and 1986. However, the projected office space shortage is not large enough to warrant renovation of the Union Transfer Building on speculation alone. A shortage of Class A space, in particular, is projected to occur. Although the Union Transfer Building, due to its parking deficiency, cannot compete with all the Class A buildings downtown, its strong amenity package will allow it to be competitive with the lower end of the Class A market. The projected shortage of Class A space indicates that the top three floors of the building will lease-up faster than the maximum two year lease-up period desired by the client.

<sup>T</sup>he lower two floors of the building, because of their lack of windows, are competing in the Class C/B market. This market currently has a 13.7 percent vacancy rate with approximately 77,000 square feet vacant. Because of the softness of the the Class B and C markets, the lower two floors of the building will be more difficult to lease and are projected to have a two to two and one-half year lease-up period.

Financial analysis of the most probable scenarios for renovating the Union Transfer Building was performed using a syndication spreadsheet program. The four scenarios analyzed were: 1) leasing to the State of Wisconsin and renovating the entire building (61,650 square feet), 2) leasing to the State of Wisconsin and renovating only the upper four floors (36,990 square feet), 3) leasing to private firms and renovating the entire building (60,150

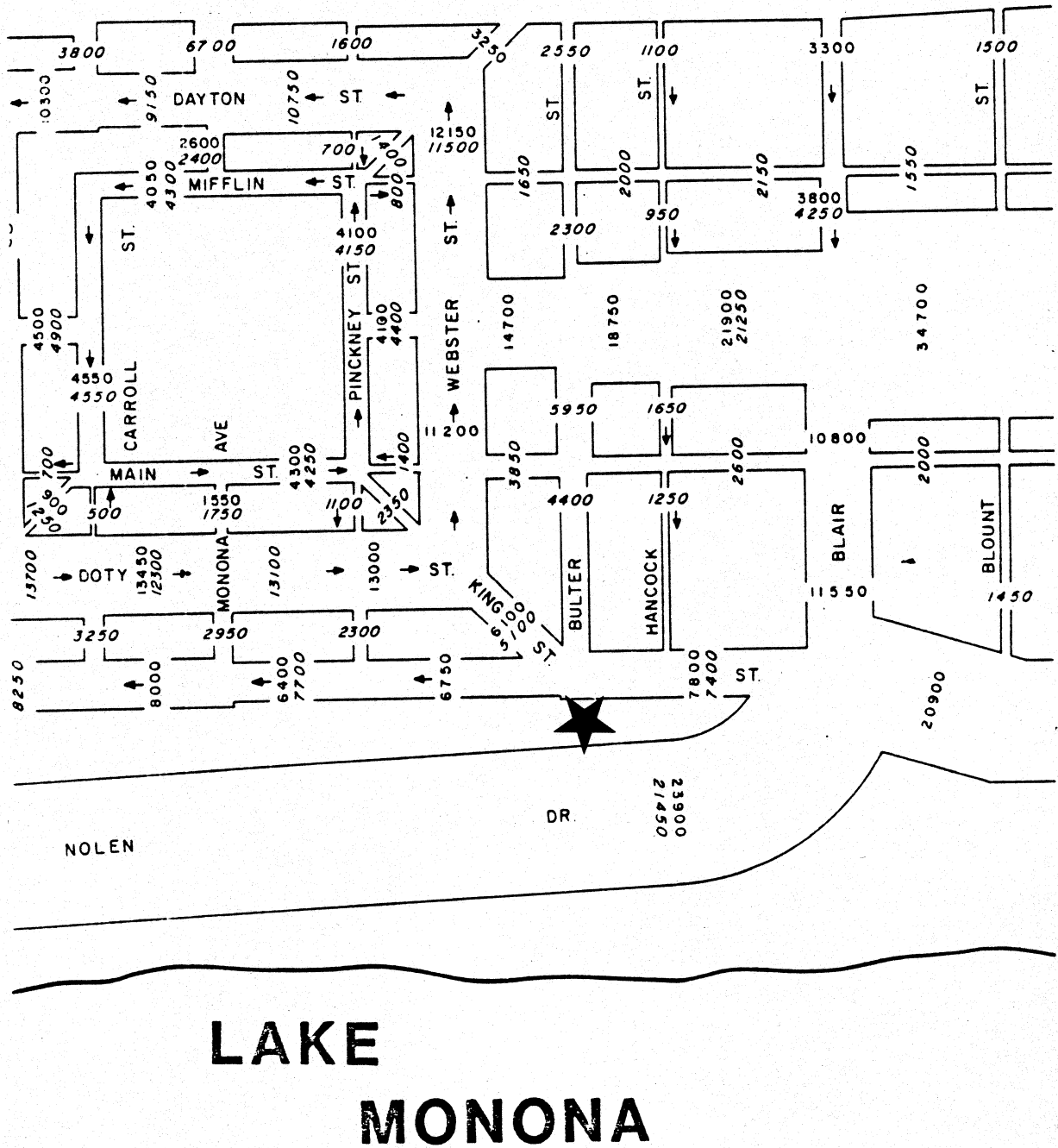
square feet), and 4) leasing to private firms and renovating only the upper four floors (35,490 square feet). With the investment objectives specified by the client, none of the scenarios generated the 20 percent minimum IRR required by the client. However, by being flexible in structuring the limited partnership, and in particular, the split of the reversion proceeds, scenarios one and three are viable.

The key ingredient found to make the project financially successful is to prelease as large a proportion of the building as possible. With a two year lease-up period, a minimum of 50 to 60 percent preleasing is necessary for the project to be viable. If the minimum level of preleasing can be reached, the project should be initiated. In light of the projected shortage of downtown office space, the purchase option currently held by the client should be maintained through 1985 while attempting to prelease as much space as possible. Specifically, the space should be marketed toward office users requiring large floor areas and also tenants in the upper end of the Class B and lower end of the Class A office market.

## APPENDICES

# APPENDIX A

## AUTO TRAFFIC COUNT NEAR SITE



APPENDIX B

MADISON DOWNTOWN CLASS A OFFICE SPACE

As of November 1982

| Building/Address                                 | Net<br>Leasable<br>Square<br>Feet | Vacant<br>Square<br>Feet | Percent<br>of Space<br>Vacant | Annual Rental<br>Rate Per<br>Square Foot | Utilities<br>Included | Janitorial<br>Included | Amenities<br>Included | Parking                     | Net<br>Leasable<br>Sq. Ft.<br>Per Floor |
|--|-----------------------------------|--------------------------|-------------------------------|--|-----------------------|------------------------|-----------------------|-----------------------------|---|
| First Wisconsin Plaza<br>1 South Pinckney Street | 286,066                           | 3,900 *                  | 1.4%                          | \$9.00-\$16.25                           | Yes                   | Yes                    | 5,6,8,10              | 325 Stalls<br>\$64.05/month | 24918-503                               |
| United Bank Tower<br>222 West Washington Avenue  | 154,000                           | 12,782                   | 8.3%*                         | \$9.50-\$14.00                           | Yes                   | Yes                    | 8                     | 246 Stalls<br>\$60/month    | 13054                                   |
| Verex<br>150 East Gilman Street                  | 104,000                           | 0                        | 0.0%                          | \$10.00-\$16.00                          | Yes                   | Yes                    | 3,5,6,8,10            | 192 Stalls<br>\$52/month    | 2884-1981                               |
| James Wilson Plaza<br>131 West Wilson Street     | 103,000                           | 6,180                    | 6.0%*                         | \$11.00-\$13.00                          | Yes                   | Yes                    | 3,8                   | 220 Stalls<br>\$58/month    | 9300                                    |
| Anchor Savings and Loan<br>25 West Main Street   | 89,499                            | 3,000 *                  | 3.4%                          | \$10.25-\$11.50                          | Yes                   | Yes                    | 8                     | 256 Stalls<br>\$42/month    | 10000-140                               |
| National Guardian Life<br>2 East Gilman Street   | 68,240                            | 0                        | 0.0%                          | \$10.25-\$11.25                          | Some[1]               | Yes                    | 8                     | 292 Stalls<br>\$60/month    | 13500                                   |
| Investors Services<br>217 South Hamilton Street  | 37,120                            | 5,900 *[2]               | 15.9%                         | \$10.50-\$11.90                          | Yes                   | Yes                    | 4,8                   | 53 Stalls<br>\$46/month     | 7780                                    |
| 44 On The Square<br>44 East Mifflin Street       | 36,600                            | 0                        | 0.0%                          | \$15.00+                                 | Yes                   | Yes                    | 8                     | 33 Stalls<br>\$50/month     | 7000                                    |
| TOTALS   | 878,525                           | 31,762                   | 3.6%                          |  |                       |                        |                       |                             |   |

## APPENDIX B (Continued)

## MADISON DOWNTOWN CLASS B AND C OFFICE SPACE

As of November 1982

| Building/Address                                       | Net<br>Leasable<br>Square<br>Feet | Vacant<br>Square<br>Feet | Percent<br>of Space<br>Vacant | Annual Rental<br>Rate Per<br>Square Foot | Utilities<br>Included | Janitorial<br>Included | Amenities<br>Included | Parking                    | Net<br>Leasable<br>Sq. Ft.<br>Per Floor |
|--|-----------------------------------|--------------------------|-------------------------------|--|-----------------------|------------------------|-----------------------|----------------------------|---|
| The Tenney Building<br>110 East Main Street            | 72,500                            | 14,852 *[3]              | 20.5%                         | \$6.75-\$10.00 [4]                       | Some[5]               | Yes[14]                | 5,8,10                | 25 stalls<br>\$45/month    | 8640                                    |
| Thirty On The Square<br>30 West Mifflin Street         | 64,277 [6]                        | 21,033 *                 | 32.7%                         | \$6.00-\$11.50 [7]                       | Yes                   | Yes                    | 8                     | None                       | 6066                                    |
| National Mutual Benefit<br>119 Monona Avenue           | 40,800                            | 9,000 *                  | 22.1%                         | \$8.50                                   | Yes                   | Yes                    | 3,5,6,7,10            | 35 Stalls<br>\$52.50/month | 6755                                    |
| 14 West Mifflin Street<br>14 West Mifflin Street       | 28,940                            | 11,287                   | 39.0%                         | \$8.50-\$10.00 [8]                       | Yes                   | Yes                    | 8                     | None                       | 6860                                    |
| Centre Seven<br>7 North Pinckney Street                | 20,533                            | 1,200 *[9]               | 0.0%                          | \$8.75-\$11.75                           | Yes                   | Varies                 | 8                     | None                       | 5000                                    |
| The Atrium<br>23 North Pinckney Street                 | 14,968                            | 0                        | 0.0%                          | \$8.75-\$11.75                           | Varies                | Varies                 | 8                     | None                       |   |
| 125 West Doty Street<br>125 West Doty Street           | 9,300                             | 3,100                    | 33.3%                         | \$7.20-\$10.09                           | Yes                   | Yes                    | 8                     | 10 Stalls                  | 2633                                    |
| Fire Station #2<br>301 North Broom Street              | 8,400                             | 0                        | 0.0%                          | \$11.00-\$13.00[10]                      | Some[11]              | Yes                    | 1,2,3,4,5,8           | 13 Stalls<br>\$45/month    | 2700                                    |
| Jackman Building<br>111 South Hamilton Street          | 7,500 [12]                        | 2,250                    | 30.0%                         | \$6.00-\$9.00                            | No                    | Yes                    | 3,8                   | None                       | 2633                                    |
| 147 South Butler Street<br>147 South Butler Street     | 4,025                             | 0                        | 0.0%                          | \$6.00-\$9.00                            | No                    | Varies                 | 8                     | None                       | 1000                                    |
| 122 South Pinckney Street<br>122 South Pinckney Street | 2,000                             | 0                        | 0.0%                          | \$3.00                                   | Yes                   | Limited                | 8                     | 2 Stalls<br>\$52.50/month  | 1700                                    |
| 103 North Hamilton Street<br>103 North Hamilton Street | 1,766 [13]                        | 1,766 *                  | 0.0%                          | \$9.50                                   | Yes                   | No                     | 7                     | 4 Stalls<br>\$40/month     |   |
| Totals   | 275,009                           | 64,488                   | 23.4%                         |  |                       |                        |                       |                            |   |

APPENDIX B (Continued)

Survey conducted by Landmark Research Inc.

[1] All utilities but electric are included except that one tenant pays for their own water since their data processing equipment uses water for cooling.

[2] There is also an additional 6,000 square feet of non-office space vacant on the first floor, formerly housing The Library Restaurant and Lounge.

[3] 14,852 square feet of office space are vacant for an office vacancy rate of 24%. 4,400 square feet of lower level space is vacant plus 1,200 square feet of first floor is vacant so the overall building vacancy is 28.2%

[4] These are rates for office space rents. Retail rents are presently from \$6 to \$10 per square foot.

[5] Most tenants pay their own electric, but heat is provided.

[6] This includes first floor retail space.

[7] The rent range is for office space, not retail space.

[8] Office space is \$8.50 per square foot if facing the atrium or \$10 per square foot if facing the capitol. Retail space is \$10 per square foot.

[9] As of January 1, 1983, they will have 1,200 square feet vacant (unless they fill it).

[10] One tenant pays about \$8 per square foot, but others are in the \$11 to \$13 range.

[11] Heat is provided as is water, but electricity is separately metered.

[12] There is an additional 2,00 to 2,500 square feet which would require correction of code violations before it could be rented as office space.

[13] This building contains apartments with 1,766 square feet of first floor office space, pretty much for one occupant.

[14] As of August, 1983, 14,901 square feet are vacant, for an office space vacancy rate of 21% Rents range from \$7.45-\$11.04 per square foot.

## APPENDIX C

### Survey Procedures

The survey was distributed to 100 tenants in buildings throughout downtown and across all class during the week of March 26th. Three graduate students, Kris Siverstein, Dale Mussatti, and Ross Luedke, randomly selected office tenants in the defined market area (Exhibit 14) and briefly explained the survey to the tenant and requested that the completed survey be mailed to the School of Business at the University of Wisconsin. 65 percent of the surveys were completed and returned. A database was compiled for analysis with Minitab, a statistical analysis program designed, to analyze variables for projection of office demand within the downtown office market. The demand projections are made for the total downtown office market.



APPENDIX C (Continued)

DOWNTOWN OFFICE SURVEY

Building:

Address:

Net Leasable Square Feet:

Net Leasable Square Feet Per Floor:

Net Leasable Square Feet Vacant:

When was the building constructed:

When was the last remodeling:

Rent Range Per Square Foot:

Number Of Tenants:

Utilities Included In Rent:

Office amenities available (check):

Shared secretarial services \_\_\_\_\_

word processing \_\_\_\_\_

Shared copy services \_\_\_\_\_

Receptionist \_\_\_\_\_

Conference room(s) \_\_\_\_\_

Kitchen facilities \_\_\_\_\_

Window air conditioning \_\_\_\_\_

Central air conditioning \_\_\_\_\_

Office furniture \_\_\_\_\_

Janitorial services \_\_\_\_\_

Recreation facilities (Please specify)

Other (Please specify)

Parking

Number of Stalls On-site:

Rent per Stall:

## APPENDIX D

### ANNOTATED SURVEY RESULTS

The following is a brief summary of the results for the office tenant survey. Shown on the following pages are the number and percentages for the respondent's answers to the office tenant survey.

#### A. Type of Business

Question number 2 asked for the type of business that the respondent was involved in. The answers were somewhat as expected with legal services being the most frequent response, 40 percent of surveyed tenants were in this category. The fact that the "other" category had the second largest response rate, 30 percent, suggests that our responses for business types were not broad enough. The "other" category breaks down as such:

|                                 | # |
|---------------------------------|---|
| Publishing and Communication    | 1 |
| Stock Brokerage                 | 1 |
| Trade Association               | 6 |
| Consultants                     | 2 |
| Lobbyists                       | 4 |
| Government and Public Relations | 1 |
| Educational                     | 1 |
| Computer Software               | 1 |
| Advertising                     | 1 |

Legal services, trade associations, lobbyists, insurance, and government are the most numerous respondent to the survey.

#### B. Location Decision Factors

Question 11 asked respondents about factors that they considered important in making their decision to locate their

## DOWNTOWN OFFICE TENANT SURVEY

1. Tenant Name: ANNOTATED SURVEY RESULTS

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Respondent: \_\_\_\_\_

2. Type of Business: (check one)

|               |       | #   | % |     |                         | #     | %    |    |      |
|---------------|-------|-----|---|-----|-------------------------|-------|------|----|------|
| Agriculture   | _____ | (1) | 1 | 1.5 | Legal Service           | _____ | (8)  | 24 | 40   |
| Manufacturing | _____ | (2) |   |     | Arch/Engr/Plng Service  | _____ | (9)  |    |      |
| Wholesale     | _____ | (3) | 2 | 3   | Medical                 | _____ | (10) |    |      |
| Retail        | _____ | (4) |   |     | Personal/Social Service | _____ | (11) |    |      |
| Finance       | _____ | (5) | 1 | 1.5 | Government              | _____ | (12) | 4  | 6.5  |
| Real Estate   | _____ | (6) | 3 | 5.5 | Other (list) _____      | _____ | (13) | 18 | 30   |
| Insurance     | _____ | (7) | 4 | 6.5 | Business Service        | _____ | (14) | 3  | 5.5  |
|               |       |     |   |     |                         |       |      | 60 | 100% |

3. Square Feet Leased: total square feet surveyed 128,382

4. Current Lease Expiration Date: \_\_\_\_\_

5. When did your organization move into this space? \_\_\_\_\_

6. Number of employees currently working in downtown office space? 5067. Number of employees expected to be working in downtown office space in  
one year? 553 In two years? 618

8. Where was your organization located prior to moving into this space?

City \_\_\_\_\_ State \_\_\_\_\_

9. If you were to relocate, would parking be important in your decision of where you  
relocate? Yes 46 82% No 10 18% totals 56 100%

If yes, how many parking spaces would your organization require? \_\_\_\_\_

10. What type of client represents the most important part of your firm's business?  
(check one)

|  |       | #   | %  |      |
|--|-------|-----|----|------|
| Individuals                                | _____ | (1) | 31 | 43.5 |
| Small businesses                           | _____ | (2) | 17 | 24.0 |
| City/County Government                     | _____ | (3) | 3  | 4.0  |
| State Government                           | _____ | (4) | 5  | 7.0  |
| University                                 | _____ | (5) | 0  | 0    |
| Large Corporate and Financial Institutions | _____ | (6) | 15 | 21.5 |
|  |       |     | 71 | 100% |

11. What other factors were the most important in your locational decision? (check those that apply)

|   |      | #   | %    |
|---|------|-----|------|
| Proximity to Clients .....                      | (1)  | 12  | 6    |
| Proximity to Business Contacts .....            | (2)  | 21  | 10   |
| Proximity to Support Services .....             | (3)  | 21  | 10   |
| Proximity to Employee Residence .....           | (4)  | 5   | 2    |
| Prestige .....                                  | (5)  | 14  | 7    |
| Availability of Transit Service .....           | (6)  | 11  | 5    |
| Avoidance of Traffic and Parking Problems ..... | (7)  | 8   | 4    |
| Cost of Space .....                             | (8)  | 28  | 13   |
| Proximity to Capitol .....                      | (9)  | 28  | 13   |
| Business Growth Prospects .....                 | (10) | 3   | 1    |
| Regional Access .....                           | (11) | 2   | 1    |
| Environmental Amenities .....                   | (12) | 8   | 4    |
| Proximity to Financial Institutions .....       | (13) | 19  | 9    |
| Availability of Space .....                     | (14) | 13  | 6    |
| Proximity to City/County Building .....         | (15) | 26  | 12   |
| Proximity to University .....                   | (16) | 7   | 3    |
| Other (Please specify) .....                    |      | 206 | 100% |
|   | (17) |     |      |

12. What are the disadvantages of your current location? \_\_\_\_\_

13. If you were to move today and had your choice, where would your first locational choice be? \_\_\_\_\_

14. What amenities would you seek in a new office location?

|                                   |      | #  | %  |
|-----------------------------------|------|----|----|
| Shared secretarial services ..... | (1)  | 8  | 3  |
| Word processing .....             | (2)  | 10 | 4  |
| Shared copy services .....        | (3)  | 15 | 6  |
| Receptionist .....                | (4)  | 14 | 5  |
| Conference room(s) .....          | (5)  | 35 | 13 |
| Kitchen facilities .....          | (6)  | 16 | 6  |
| Window air conditioning .....     | (7)  | 2  | 1  |
| Central air conditioning .....    | (8)  | 25 | 10 |
| Office air conditioning .....     | (9)  | 13 | 5  |
| Janitorial services .....         | (10) | 42 | 16 |
| Recreation facilities .....       | (11) | 8  | 3  |
| Skylights .....                   | (12) | 10 | 4  |
| Open office plan ..               | (13) | 3  | 1  |
| Private partitioned plan .....    | (14) | 17 | 7  |
| Parking .....                     | (15) | 42 | 16 |
| Other (Please specify) .....      |      |    |    |
|                                   | (16) |    |    |

15. Comments \_\_\_\_\_ 260 100%

16. If you would like a copy of the analysis of this survey please check the box. ☐

#### APPENDIX D (Continued)

offices at their present location. Six factors stand out as critical locational factors from the survey. They are: proximity to the Capitol (13 percent), cost of space (13 percent), proximity to the City/County Building (12 percent), proximity to business contacts (10 percent), proximity to support services (10 percent), and proximity to financial services (9 percent). These six factors account for 67 percent of all responses to this question. When the prestige factor (7 percent) is added, nearly 75 percent of the factors considered important in location decision are accounted for. As shown in the analysis of various linkages in the site analysis section, many of these are locational factors that the subject building has. This becomes a strong marketing tool in attracting tenant to the building. Added to this would be the aesthetic attraction and prestige of office space with views of Lake Monona and the Capitol.

#### 3. New Office Amenities

Question 14 of the tenant survey dealt with what amenities would be desired in a new office location. This question allows one to assess amenity packages that would help strengthen the ability to market the proposed renovated space.

Four of the fifteen amenities account for 56 percent of the all amenities found to be desired. They are, in order of preference, parking (16 percent), janitorial services (16 percent), air conditioning (15 percent), and conference rooms (13 percent).

# APPENDIX E

## SCENARIO ONE INVESTMENT RESULTS

### Sources and Uses of Capital

#### I. Sources

|                            |           |           |
|----------------------------|-----------|-----------|
| A. Partners' Contributions | 738,000   |           |
| B. Mortgage Loan Proceeds  | 2,953,000 |           |
| C. Other                   | 0         | 3,691,000 |

#### II. Uses

|                                       |           |             |
|---------------------------------------|-----------|-------------|
| A. Construction                       |           |             |
| 1. Construction Contract              | 1,840,000 |             |
| 2. Tenant Allowances                  | 0         |             |
| 3. Site Work, Predevelopment Expense  | 0         |             |
| 4. Improvements to Existing Buildings | 0         | A 1,840,000 |

#### B. Fees

|                                      |       |         |           |
|--------------------------------------|-------|---------|-----------|
| 1. Architectural Fee                 | 6%    | 110,400 | A         |
| 2. Start-up Expenditure (Legal/Org.) | 0%    | 100,000 |           |
| 3. Leasing Fees                      |       | 4,003   | F         |
| 4. Development Fees                  | 10.0% | 184,000 |           |
| 5. Marketing Fee                     | 0%    | 0       | H 398,403 |

#### C. Financing and Carrying Charges

|  |      |         |           |
|--|------|---------|-----------|
| 1. Construction Period Interest                            |      | 295,000 | E         |
| 2. Financing Fees  |      | 0       | C         |
| 3. Real Estate Tax/Special Assessments During Construction |      | 0       | D         |
| 4. Title Insurance   | 0.0% | 0       | A 295,000 |

|                             |    |         |  |
|-----------------------------|----|---------|--|
| D. Purchase of Improvements |    | 940,000 |  |
| E. Land                     |    | 110,000 |  |
| F. Contingency              | 6% | 106,720 |  |
| G. Non-Compete with Seller  |    | 0       |  |
| H. Personal Property        |    | 0       |  |

877

APPENDIX E (Continued)

SCENARIO ONE INVESTMENT RESULTS

| state/conventional  | Number<br>Units | Annual<br>Rent | Annual<br>Income | Year       | Vacancy<br>Rates | Income<br>Growth | Expense<br>Growth | Tax<br>Credits                 |
|---------------------|-----------------|----------------|------------------|------------|------------------|------------------|-------------------|--------------------------------|
| =====               |                 |                |                  |            |                  |                  |                   |                                |
| Building Type A     |                 |                |                  | First Year |                  |                  |                   | Rehabilitation                 |
| UPPER 3 FLOORS      | 36990           | \$11.00        | 406890           | 1984       | 87.00%           |                  |                   | Credit % 0.20                  |
| PARKING             | 22              | \$720.00       | 15840            | 1985       | 16.00%           | 3.00%            | 3.00%             | Rehab. cost\$2,532,900 506,580 |
| BOTTOM 2 FLOORS     | 24660           | \$8.50         | 209610           | 1986       | 9.00%            | 3.00%            | 3.00%             |                                |
| BUILDING 4          | 0               | \$0.00         | 0                | etc.       | 5.00%            | 3.00%            | 3.00%             | I.T.C.                         |
| Building Type B     |                 |                |                  |            |                  | 3.00%            | 3.00%             | .01 * 280,000= 0               |
| BUILDING 5          | 0               | 0              | 0                |            |                  |                  |                   | .10 * 98,00= 0                 |
| BUILDING 6          | 0               | 0              | 0                |            |                  |                  |                   |                                |
| BUILDING 7          | 0               | 0              | 0                |            |                  |                  |                   |                                |
| BUILDING 8          | 0               |                | 0                |            |                  |                  |                   | Total Tax Credits 506,580      |
| Total Rental Income | 632340          |                |                  |            |                  |                  |                   |                                |

|                      |     |                         |                         |      |      |      |
|----------------------|-----|-------------------------|-------------------------|------|------|------|
| Partnership<br>Split |     | Selling<br>Inputs       |                         |      |      |      |
| =====                |     |                         |                         |      |      |      |
| Cash Flow %          |     | Cap. Rate               | Total L.P. Installments |      |      |      |
| LP                   | 95% | 0.10000                 | 1984                    | 1985 | 1986 | 1987 |
| GP                   | 5%  | Selling Expenses        | 738000                  | 0    | 0    | 0    |
| Tax Savings %        |     | 6.0%                    |                         |      |      |      |
| LP                   | 99% | Legal, Closing Expenses |                         |      |      |      |
| GP                   | 1%  | \$0                     | Total G.P. Equity       |      |      |      |
| Reversion %          |     | Commissions             | 1984                    | 1985 |      |      |
| LP                   | 25% | \$0                     | 1                       | 1    |      |      |
| GP                   | 75% |                         |                         |      |      |      |
| Tax Rate             |     | Reinvestment Rate       |                         |      |      |      |
| LP                   | 50% | 12.00%                  |                         |      |      |      |
| GP                   | 50% |                         |                         |      |      |      |

APPENDIX E (Continued)

SCENARIO ONE INVESTMENT RESULTS

| YEAR                         | 1      | 2      | 3       | 4       | 5       | 6       | 7       | 8       | 9       | 10      | TOTAL   |
|------------------------------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| =====                        |        |        |         |         |         |         |         |         |         |         |         |
| INCOME:                      |        |        |         |         |         |         |         |         |         |         |         |
| Rental Income                | 632340 | 651310 | 670850  | 690975  | 711704  | 733055  | 755047  | 777698  | 801029  | 825060  | 7249069 |
| Less Vacancy                 | 550136 | 104210 | 60376   | 34549   | 35585   | 36653   | 37752   | 38885   | 40051   | 41253   | 979450  |
| Less Employee Apt.           | 0      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Effective Gross Income       | 82204  | 547101 | 610473  | 656426  | 676119  | 696403  | 717295  | 738814  | 760978  | 783807  | 6269619 |
| Other Income                 | 0      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Total Receipts               | 82204  | 547101 | 610473  | 656426  | 676119  | 696403  | 717295  | 738814  | 760978  | 783807  | 6269619 |
| EXPENSES:                    |        |        |         |         |         |         |         |         |         |         |         |
| Administrative               | 0      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Fixed                        | 28050  | 186688 | 208313  | 223994  | 230714  | 237635  | 244764  | 252107  | 259670  | 267461  | 2139397 |
| Variable                     | 0      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Utility                      | 0      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Tax and Insurance            | 0      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Leasing fees                 | 5.00%  | 4110   | 27355   | 30524   | 32821   | 33806   | 34820   | 35865   | 36941   | 38049   | 39190   |
| Total Expenses               |        | 32160  | 214043  | 238837  | 256815  | 264520  | 272455  | 280629  | 289048  | 297719  | 306651  |
| NET OPERATING INCOME         |        | 50044  | 333058  | 371636  | 399611  | 411599  | 423947  | 436666  | 449766  | 463259  | 477156  |
| Interest-Refin.              |        | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Depre, Amort                 |        | 73346  | 192574  | 192574  | 192574  | 192574  | 172574  | 172574  | 172574  | 172574  | 172574  |
| Interest-Orig.Mtg.           |        | 66,429 | 397,383 | 395,131 | 392,555 | 389,609 | 386,240 | 382,387 | 377,981 | 372,941 | 367,177 |
| Mtg. Ins. Pymt               | 0      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| NET INCOME (loss)            |        | -89731 | -256899 | -216068 | -185518 | -170583 | -134866 | -118295 | -100789 | -82256  | -62594  |
|                              |        |        |         |         |         |         |         |         |         |         | 288909  |
| CASH FLOW:                   |        |        |         |         |         |         |         |         |         |         |         |
| Add Depre, Amort             |        | 73346  | 192574  | 192574  | 192574  | 192574  | 172574  | 172574  | 172574  | 172574  | 0       |
| Deduct Reserves              | 0      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Deduct Principal             |        | 2,414  | 15,675  | 17,927  | 20,503  | 23,449  | 26,818  | 30,671  | 35,077  | 40,117  | 45,881  |
| Add Refin. Diff.             |        | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Cash Flow (CFO)              |        | -18799 | -80000  | -41422  | -13447  | -1459   | 10889   | 23608   | 36708   | 50201   | 64098   |
| Total Tax Savings+Tax Credit |        | 551445 | 128449  | 108034  | 92759   | 85292   | 67433   | 59147   | 50394   | 41128   | 31297   |
| Total SCAT                   |        | 532646 | 48449   | 66612   | 79312   | 83833   | 78322   | 82755   | 87102   | 91329   | 95395   |
| LP Tax Savings               | 99%    | 44417  | 127165  | 106954  | 91831   | 84439   | 66759   | 58556   | 49890   | 40717   | 30984   |
| LP Cum Tax Savings           |        | 44417  | 171582  | 278535  | 370367  | 454805  | 521564  | 580120  | 630011  | 670727  | 701711  |
| LP Cash Flow                 | 95%    | -17859 | -76000  | -39351  | -12775  | -1386   | 10345   | 22427   | 34872   | 47691   | 60893   |
| LP Cum Cash Flow             |        | -17859 | -93859  | -133210 | -145985 | -147371 | -137026 | -114598 | -79726  | -32036  | 28858   |
| GP Tax Savings               | 1%     | 449    | 1284    | 1080    | 928     | 853     | 674     | 591     | 504     | 411     | 313     |
| GP Cum Tax Savings           |        | 449    | 1733    | 2813    | 3741    | 4594    | 5268    | 5860    | 6364    | 6775    | 7088    |
| GP Cash Flow                 | 5%     | -940   | -4000   | -2071   | -672    | -73     | 544     | 1180    | 1835    | 2510    | 3205    |
| GP Cum Cash Flow             |        | -940   | -4940   | -7011   | -56790  | 56717   | 57262   | 58442   | 60277   | 62787   | 65992   |
| LP SCAT                      |        | 528072 | 51165   | 67603   | 79056   | 83053   | 77104   | 80983   | 84763   | 88407   | 91878   |
| GP SCAT                      |        | 4575   | -2716   | -991    | 255     | 780     | 1219    | 1772    | 2339    | 2921    | 3518    |
|                              |        |        |         |         |         |         |         |         |         |         | 13673   |

\* Negative cash flow in the beginning years will be covered by reserves.



APPENDIX E (Continued)

SCENARIO ONE INVESTMENT RESULTS

GAIN UPON SALE:

|                       |      |          |         |         |         |         |         |         |         |         |         |
|-----------------------|------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales Price           |      | 500440   | 3330575 | 3716364 | 3996109 | 4115993 | 4239472 | 4366657 | 4497656 | 4632586 | 4771563 |
| Less Selling Expenses | 6.0% | 30026    | 199835  | 222982  | 239767  | 246960  | 254368  | 261999  | 269859  | 277955  | 286294  |
| Less Legal, Closing   |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Net Proceeds          |      | 470414   | 3130741 | 3493382 | 3756343 | 3869033 | 3985104 | 4104657 | 4227797 | 4354631 | 4485270 |
| Less Adj. Basis of:   |      |          |         |         |         |         |         |         |         |         |         |
| Land                  |      | 110000   | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  |
| Improvements          |      | 2551477  | 2408404 | 2265330 | 2122257 | 1979183 | 1836110 | 1693036 | 1549963 | 1406889 | 1263816 |
| Personal Property     |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Less commissions      |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Taxable Gain          |      | -2191064 | 612337  | 1118052 | 1524086 | 1779850 | 2038994 | 2301621 | 2567834 | 2837741 | 3111454 |
| Ordinary Gain         |      | -119228  | -119228 | -119228 | -119228 | -119228 | -119228 | -119228 | -119228 | -119228 | -119228 |
| Capital Gain          |      | -2071836 | 731565  | 1237280 | 1643314 | 1899078 | 2158222 | 2420849 | 2687062 | 2956969 | 3230682 |
| Less Taxes            |      | -473981  | 86699   | 187842  | 269049  | 320202  | 372030  | 424556  | 477798  | 531780  | 586522  |
| Less Loan Balance     |      | 2950586  | 2934911 | 2916984 | 2896481 | 2873032 | 2846214 | 2815543 | 2780466 | 2740349 | 2694468 |
| Net Ptnrs. Equity     |      | -2006191 | 109131  | 388557  | 590813  | 675800  | 766859  | 864558  | 969532  | 1082502 | 1204279 |
| LP Reversion Proceeds | 25%  | -501548  | 27283   | 97139   | 147703  | 168950  | 191715  | 216139  | 242383  | 270625  | 301070  |
| GP Reversion Proceeds | 75%  | -1504644 | 81848   | 291417  | 443110  | 506850  | 575145  | 648418  | 727149  | 811876  | 903209  |

TOTAL ECONOMIC BENEFIT

|                   |  |          |       |        |        |        |        |        |        |        |        |
|-------------------|--|----------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| LP SCAT+Reversion |  | 26524    | 78447 | 164742 | 226760 | 252003 | 268818 | 297123 | 327146 | 359033 | 392947 |
| GP SCAT+Reversion |  | -1500069 | 79133 | 290427 | 443365 | 507630 | 576363 | 650190 | 729489 | 814798 | 906727 |

MIRR Calc. (L.P.)

FV Benefit end of year:

|      |         |        |        |        |        |        |        |        |        |        |  |
|------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|
| 1985 | 591440  | 78447  |        |        |        |        |        |        |        |        |  |
| 1986 | 662413  | 57304  | 164742 |        |        |        |        |        |        |        |  |
| 1987 | 741903  | 64181  | 75716  | 226760 |        |        |        |        |        |        |  |
| 1988 | 830931  | 71883  | 84801  | 88543  | 252003 |        |        |        |        |        |  |
| 1989 | 930643  | 80508  | 94978  | 99168  | 93019  | 268818 |        |        |        |        |  |
| 1990 | 1042320 | 90169  | 106375 | 111069 | 104182 | 86356  | 297123 |        |        |        |  |
| 1991 | 1167398 | 100990 | 119140 | 124397 | 116683 | 96719  | 90701  | 327146 |        |        |  |
| 1992 | 1307486 | 113109 | 133437 | 139325 | 130685 | 108325 | 101585 | 94934  | 359033 |        |  |
| 1993 | 73553   | 194233 | 149449 | 156043 | 146368 | 121324 | 113776 | 106326 | 99016  | 392947 |  |

FV of L.P. Benefits

PV of L.P. Installments

(recognized after year 1)

L.P.'s MIRR

|  |           |          |          |          |          |          |          |          |          |        |        |
|--|-----------|----------|----------|----------|----------|----------|----------|----------|----------|--------|--------|
|  | 738000    | 738000   | 738000   | 738000   | 738000   | 738000   | 738000   | 738000   | 738000   | 738000 | 738000 |
|  | -0.047263 | 0.062202 | 0.107071 | 0.124706 | 0.133727 | 0.139197 | 0.142550 | 0.144570 | 0.077240 |        |        |

APPENDIX E (Continued)

SCENARIO ONE INVESTMENT RESULTS

|                    |           |            |
|--------------------|-----------|------------|
| Sale end of Year 8 |           |            |
| Cash Flows         | IRR Guess | IRR Actual |
| -738000            | 0.35      | 0.195573   |
| 528072             |           |            |
| 51165              |           |            |
| 67603              |           |            |
| 79056              |           |            |
| 83053              |           |            |
| 77104              |           |            |
| 80983              |           |            |
| 411909             |           |            |

CASH FLOWS TO GENERAL PARTNER/DEVELOPER

| YEAR                  | 1        | 2     | 3      | 4      | 5      | 6      | 7      | 8      | 9      | 10     |
|-----------------------|----------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| DEVELOPMENT FEE       | 184000   | 0     | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| LEASING FEES          | 4110     | 27355 | 30524  | 32821  | 33806  | 34820  | 35865  | 36941  | 38049  | 39190  |
| GP SCAT               | 4575     | -2716 | -991   | 255    | 780    | 1219   | 1772   | 2339   | 2921   | 3518   |
| TOTAL                 | 192685   | 24640 | 29533  | 33077  | 34586  | 36039  | 37637  | 39280  | 40970  | 42708  |
| GP REVERSION PROCEEDS | -1504644 | 81848 | 291417 | 443110 | 506850 | 575145 | 648418 | 727149 | 811876 | 903209 |

# APPENDIX F

## SCENARIO TWO INVESTMENT RESULTS

### Sources and Uses of Capital

#### I. Sources

|                            |           |           |
|----------------------------|-----------|-----------|
| A. Partners' Contributions | 679,000   |           |
| B. Mortgage Loan Proceeds  | 2,716,000 |           |
| C. Other                   | 0         | 3,395,000 |

#### II. Uses

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| A. Construction                       |           |           |
| 1. Construction Contract              | 1,615,000 |           |
| 2. Tenant Allowances                  | 0         |           |
| 3. Site Work, Predevelopment Expense  | 0         |           |
| 4. Improvements to Existing Buildings | 0 A       | 1,615,000 |

#### B. Fees

|                                      |       |             |
|--------------------------------------|-------|-------------|
| 1. Architectural Fee                 | 6%    | 96,900 A    |
| 2. Start-up Expenditure (Legal/Org.) | 0%    | 100,000     |
| 3. Leasing Fees                      |       | 4,003 F     |
| 4. Development Fees                  | 10.0% | 161,500     |
| 5. Marketing Fee                     | 0%    | 0 H 362,403 |

#### C. Financing and Carrying Charges

|  |           |             |
|--|-----------|-------------|
| 1. Construction Period Interest                            | 271,334 E | 0           |
| 2. Financing Fees  | 0 C       |             |
| 3. Real Estate Tax/Special Assessments During Construction | 0 D       |             |
| 4. Title Insurance   | 0.0%      | 0 A 271,334 |

|                             |    |         |
|-----------------------------|----|---------|
| D. Purchase of Improvements |    | 940,000 |
| E. Land                     |    | 110,000 |
| F. Contingency              | 6% | 93,670  |
| G. Non-Compete with Seller  |    | 0       |
| H. Personal Property        |    | 0       |

2,593

APPENDIX F (Continued)

SCENARIO TWO INVESTMENT RESULTS

| state/conventional  | Number<br>Units | Annual<br>Rent | Annual<br>Income | Year       | Vacancy<br>Rates | Income<br>Growth | Expense<br>Growth | Tax<br>Credits                  |
|---------------------|-----------------|----------------|------------------|------------|------------------|------------------|-------------------|---------------------------------|
| =====               |                 |                |                  |            |                  |                  |                   |                                 |
| Building Type A     |                 |                |                  | First Year |                  |                  |                   | Rehabilitation                  |
| UPPER 3 FLOORS      | 36990           | \$11.00        | 406890           | 1984       | 87.00%           |                  |                   | Credit % 0.20                   |
| PARKING             | 22              | \$720.00       | 15840            | 1985       | 16.00%           | 3.00%            | 3.00%             | Rehab. cost \$2,248,737 449,747 |
| BOTTOM 2 FLOORS     | 0               | \$0.00         | 0                | 1986       | 9.00%            | 3.00%            | 3.00%             |                                 |
| BUILDING 4          | 0               | \$0.00         | 0                | etc.       | 5.00%            | 3.00%            | 3.00%             | I.T.C.                          |
| Building Type B     |                 |                | 0                |            |                  | 3.00%            | 3.00%             | .01 * 280,000= 0                |
| BUILDING 5          | 0               | 0              | 0                |            |                  |                  |                   | .10 * 98,00= 0                  |
| BUILDING 6          | 0               | 0              | 0                |            |                  |                  |                   |                                 |
| BUILDING 7          | 0               | 0              | 0                |            |                  |                  |                   |                                 |
| BUILDING 8          | 0               |                | 0                |            |                  |                  |                   | Total Tax Credits 449,747       |
| Total Rental Income | 422730          |                |                  |            |                  |                  |                   |                                 |

|                      |     |                         |                         |      |      |      |
|----------------------|-----|-------------------------|-------------------------|------|------|------|
| Partnership<br>Split |     | Selling<br>Inputs       |                         |      |      |      |
| =====                |     |                         |                         |      |      |      |
| Cash Flow %          |     | Cap. Rate               | Total L.P. Installments |      |      |      |
| LP                   | 95% | 0.10000                 | 1984                    | 1985 | 1986 | 1987 |
| GP                   | 5%  | Selling Expenses        | 679000                  | 0    | 0    | 0    |
| Tax Savings %        |     | 6.0%                    |                         |      |      |      |
| LP                   | 99% | Legal, Closing Expenses |                         |      |      |      |
| GP                   | 1%  | \$0                     | Total G.P. Equity       |      |      |      |
| Reversion %          |     | Commissions             | 1984                    | 1985 |      |      |
| LP                   | 25% | \$0                     | 1                       | 1    |      |      |
| GP                   | 75% |                         |                         |      |      |      |
| Tax Rate             |     | Reinvestment Rate       |                         |      |      |      |
| LP                   | 50% | 12.00%                  |                         |      |      |      |
| GP                   | 50% |                         |                         |      |      |      |

## APPENDIX F (Continued)

## SCENARIO TWO INVESTMENT RESULTS

| YEAR                         | 1      | 2       | 3       | 4       | 5       | 6       | 7       | 8       | 9       | 10      | TOTAL   |
|------------------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| INCOME:                      |        |         |         |         |         |         |         |         |         |         |         |
| Rental Income                | 422730 | 435412  | 448474  | 461928  | 475786  | 490060  | 504762  | 519905  | 535502  | 551567  | 4846126 |
| Less Vacancy                 | 367775 | 69666   | 40363   | 23096   | 23789   | 24503   | 25238   | 25995   | 26775   | 27578   | 654779  |
| Less Employee Apt.           | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Effective Gross Income       | 54955  | 365746  | 408112  | 438832  | 451997  | 465557  | 479524  | 493909  | 508727  | 523988  | 4191347 |
| Other Income                 | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Total Receipts               | 54955  | 365746  | 408112  | 438832  | 451997  | 465557  | 479524  | 493909  | 508727  | 523988  | 4191347 |
| EXPENSES:                    |        |         |         |         |         |         |         |         |         |         |         |
| Administrative               | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Fixed                        | 16830  | 112013  | 124988  | 134396  | 138428  | 142581  | 146858  | 151264  | 155802  | 160476  | 1283635 |
| Variable                     | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Utility                      | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Tax and Insurance            | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Leasing fees                 | 5.00%  | 2748    | 18287   | 20406   | 21942   | 22600   | 23278   | 23976   | 24695   | 25436   | 209567  |
| Total Expenses               | 19578  | 130300  | 145394  | 156338  | 161028  | 165859  | 170834  | 175959  | 181238  | 186675  | 1493203 |
| NET OPERATING INCOME         | 35377  | 235446  | 262718  | 282494  | 290969  | 299698  | 308689  | 317950  | 327489  | 337313  | 2698144 |
| Interest-Refin.              | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Depre, Amort                 | 68977  | 178313  | 178313  | 178313  | 178313  | 158313  | 158313  | 158313  | 158313  | 158313  | 158313  |
| Interest-Orig. Mtg.          | 61,098 | 365,490 | 363,418 | 361,049 | 358,340 | 355,241 | 351,698 | 347,645 | 343,009 | 337,708 | 3244696 |
| Mtg. Ins. Pymt               | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| NET INCOME (loss)            | -94698 | -308357 | -279013 | -256868 | -245684 | -213856 | -201322 | -188008 | -173834 | -158708 | -546552 |
| CASH FLOW:                   |        |         |         |         |         |         |         |         |         |         |         |
| Add Depre, Amort             | 68977  | 178313  | 178313  | 178313  | 178313  | 158313  | 158313  | 158313  | 158313  | 158313  | 0       |
| Deduct Reserves              | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Deduct Principal             | 2,220  | 14,417  | 16,489  | 18,858  | 21,567  | 24,666  | 28,209  | 32,262  | 36,898  | 42,199  | 237785  |
| Add Refin. Diff.             | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Cash Flow (CFO)              | -27941 | -144461 | -117189 | -97413  | -88938  | -80209  | -71218  | -61957  | -52418  | -42594  | -784337 |
| Total Tax Savings+Tax Credit | 497096 | 154179  | 139507  | 128434  | 122842  | 106928  | 100661  | 94004   | 86917   | 79354   | 1509921 |
| Total SCAT                   | 469156 | 9717    | 22318   | 31021   | 33904   | 26719   | 29443   | 32047   | 34498   | 36760   | 725584  |
| LP Tax Savings               | 99%    | 46876   | 152637  | 138111  | 127149  | 121613  | 105859  | 99654   | 93064   | 86048   | 78560   |
| LP Cum Tax Savings           |        | 46876   | 199512  | 337624  | 464773  | 586387  | 692245  | 791900  | 884964  | 971011  | 1049572 |
| LP Cash Flow                 | 95%    | -26544  | -137238 | -111330 | -92542  | -84491  | -76198  | -67657  | -58859  | -49798  | -40464  |
| LP Cum Cash Flow             |        | -26544  | -163782 | -275112 | -367654 | -452144 | -528343 | -595999 | -654858 | -704656 | -745120 |
| GP Tax Savings               | 1%     | 473     | 1542    | 1395    | 1284    | 1228    | 1069    | 1007    | 940     | 869     | 794     |
| GP Cum Tax Savings           |        | 473     | 2015    | 3410    | 4695    | 5923    | 6992    | 7999    | 8939    | 9808    | 10602   |
| GP Cash Flow                 | 5%     | -1397   | -7223   | -5859   | -4871   | -4447   | -4010   | -3561   | -3098   | -2621   | -2130   |
| GP Cum Cash Flow             |        | -1397   | -8620   | -14480  | -56790  | -52343  | -48333  | -44772  | -41674  | -39053  | -36923  |
| LP SCAT                      |        | 465582  | 15399   | 26782   | 34608   | 37123   | 29660   | 31998   | 34205   | 36250   | 38096   |
| GP SCAT                      |        | 3574    | -5681   | -4464   | -3586   | -3218   | -2941   | -2554   | -2158   | -1752   | -1336   |

APPENDIX F (Continued)

SCENARIO TWO INVESTMENT RESULTS

GAIN UPON SALE:

|                       |      |          |         |         |         |         |         |         |         |         |         |
|-----------------------|------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales Price           |      | 353772   | 2354457 | 2627180 | 2824945 | 2909693 | 2996984 | 3086893 | 3179500 | 3274885 | 3373132 |
| Less Selling Expenses | 6.0% | 21226    | 141267  | 157631  | 169497  | 174582  | 179819  | 185214  | 190770  | 196493  | 202388  |
| Less Legal, Closing   |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Net Proceeds          |      | 332545   | 2213190 | 2469549 | 2655448 | 2735111 | 2817165 | 2901680 | 2988730 | 3078392 | 3170744 |
| Less Adj. Basis of:   |      |          |         |         |         |         |         |         |         |         |         |
| Land                  |      | 110000   | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  |
| Improvements          |      | 2339786  | 2208583 | 2077380 | 1946177 | 1814974 | 1683771 | 1552568 | 1421365 | 1290162 | 1158959 |
| Personal Property     |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Less commissions      |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Taxable Gain          |      | -2117241 | -105393 | 282169  | 599271  | 810137  | 1023394 | 1239111 | 1457365 | 1678230 | 1901784 |
| Ordinary Gain         |      | -109336  | -109336 | -109336 | -109336 | -109336 | -109336 | -109336 | -109336 | -109336 | -109336 |
| Capital Gain          |      | -2007905 | 3942    | 391505  | 708607  | 919473  | 1132729 | 1348447 | 1566701 | 1787565 | 2011120 |
| Less Taxes            |      | -456249  | -53879  | 23633   | 87053   | 129227  | 171878  | 215022  | 258672  | 302845  | 347556  |
| Less Loan Balance     |      | 2713780  | 2699363 | 2682874 | 2664016 | 2642449 | 2617784 | 2589574 | 2557312 | 2520414 | 2478216 |
| Net Ptnrs. Equity     |      | -1924986 | -432294 | -236958 | -95622  | -36565  | 27503   | 97084   | 172746  | 255132  | 344972  |
| LP Reversion Proceeds | 25%  | -481246  | -108073 | -59239  | -23905  | -9141   | 6876    | 24271   | 43186   | 63783   | 86243   |
| GP Reversion Proceeds | 75%  | -1443739 | -324220 | -177718 | -71716  | -27424  | 20627   | 72813   | 129559  | 191349  | 258729  |

TOTAL ECONOMIC BENEFIT

|                   |  |          |         |         |        |        |       |       |        |        |        |
|-------------------|--|----------|---------|---------|--------|--------|-------|-------|--------|--------|--------|
| LP SCAT+Reversion |  | -15665   | -92675  | -32458  | 10702  | 27981  | 36536 | 56268 | 77391  | 100033 | 124339 |
| GP SCAT+Reversion |  | -1440165 | -329901 | -182183 | -75303 | -30642 | 17686 | 70258 | 127402 | 189597 | 257393 |

MIRR Calc. (L.P.)

FV Benefit end of year:

|                     |         |         |        |        |        |         |         |         |         |        |  |
|---------------------|---------|---------|--------|--------|--------|---------|---------|---------|---------|--------|--|
| 1985                | 521451  | -92675  |        |        |        |         |         |         |         |        |  |
| 1986                | 584026  | 17246   | -32458 |        |        |         |         |         |         |        |  |
| 1987                | 654109  | 19316   | 29996  | 10702  |        |         |         |         |         |        |  |
| 1988                | 732602  | 21634   | 33595  | 38760  | 27981  |         |         |         |         |        |  |
| 1989                | 820514  | 24230   | 37627  | 43412  | 41577  | 36536   |         |         |         |        |  |
| 1990                | 918976  | 27138   | 42142  | 48621  | 46567  | 33220   | 56268   |         |         |        |  |
| 1991                | 1029253 | 30394   | 47199  | 54456  | 52155  | 37206   | 35837   | 77391   |         |        |  |
| 1992                | 1152763 | 34042   | 52863  | 60990  | 58413  | 41671   | 40138   | 38309   | 100033  |        |  |
| 1993                | -43440  | -229459 | 59206  | 68309  | 65423  | 46671   | 44954   | 42907   | 40600   | 124339 |  |
| FV of L.P. Benefits |         | 428777  | 568815 | 714123 | 854573 | 1003896 | 1172931 | 1363891 | 1579222 | 219511 |  |

FV of L.P. Installments

(recognized after year 1)

|             |  |           |           |          |          |          |          |          |          |           |        |
|-------------|--|-----------|-----------|----------|----------|----------|----------|----------|----------|-----------|--------|
| L.P.'s MIRR |  | 679000    | 679000    | 679000   | 679000   | 679000   | 679000   | 679000   | 679000   | 679000    | 679000 |
|             |  | -0.205341 | -0.057314 | 0.012688 | 0.047070 | 0.067341 | 0.081221 | 0.091098 | 0.098324 | -0.106780 |        |

APPENDIX F (Continued)

SCENARIO TWO INVESTMENT RESULTS

|                    |           |            |
|--------------------|-----------|------------|
| Sale end of Year 8 |           |            |
| Cash Flows         | IRR Guess | IRR Actual |
| -679000            | 0.35      | 0.037747   |
| 465582             |           |            |
| 15399              |           |            |
| 26782              |           |            |
| 34608              |           |            |
| 37123              |           |            |
| 29660              |           |            |
| 31998              |           |            |
| 111596             |           |            |

96

CASH FLOWS TO GENERAL PARTNER/DEVELOPER

| YEAR                  | 1        | 2       | 3       | 4      | 5      | 6     | 7     | 8      | 9      | 10     |
|-----------------------|----------|---------|---------|--------|--------|-------|-------|--------|--------|--------|
| DEVELOPMENT FEE       | 161500   | 0       | 0       | 0      | 0      |       |       |        |        |        |
| LEASING FEES          | 2748     | 18287   | 20406   | 21942  | 22600  | 23278 | 23976 | 24695  | 25436  | 26199  |
| GP SCAT               | 3574     | -5681   | -4464   | -3586  | -3218  | -2941 | -2554 | -2158  | -1752  | -1336  |
| TOTAL                 | 167822   | 12606   | 15941   | 18355  | 19381  | 20337 | 21422 | 22538  | 23685  | 24863  |
| GP REVERSION PROCEEDS | -1443739 | -324220 | -177718 | -71716 | -27424 | 20627 | 72813 | 129559 | 191349 | 258729 |

# APPENDIX G

## SCENARIO THREE INVESTMENT RESULTS

### Sources and Uses of Capital

#### I. Sources

|                            |           |           |
|----------------------------|-----------|-----------|
| A. Partners' Contributions | 751,000   |           |
| B. Mortgage Loan Proceeds  | 3,004,000 |           |
| C. Other                   | 0         | 3,755,000 |

#### II. Uses

|                                       |           |             |
|---------------------------------------|-----------|-------------|
| A. Construction                       |           |             |
| 1. Construction Contract              | 1,890,000 |             |
| 2. Tenant Allowances                  | 0         |             |
| 3. Site Work, Predevelopment Expense  | 0         |             |
| 4. Improvements to Existing Buildings | 0         | A 1,890,000 |

#### B. Fees

|                                      |       |         |           |
|--------------------------------------|-------|---------|-----------|
| 1. Architectural Fee                 | 6%    | 113,400 | A         |
| 2. Start-up Expenditure (Legal/Org.) | 0%    | 100,000 |           |
| 3. Leasing Fees                      |       | 3,079   | F         |
| 4. Development Fees                  | 10.0% | 189,000 |           |
| 5. Marketing Fee                     | 0%    | 0       | H 405,479 |

#### C. Financing and Carrying Charges

|  |      |         |           |
|--|------|---------|-----------|
| 1. Construction Period Interest                            |      | 299,129 | E         |
| 2. Financing Fees  |      | 0       | C         |
| 3. Real Estate Tax/Special Assessments During Construction |      | 0       | D         |
| 4. Title Insurance   | 0.0% | 0       | A 299,129 |

|                             |    |         |  |
|-----------------------------|----|---------|--|
| D. Purchase of Improvements |    | 940,000 |  |
| E. Land                     |    | 110,000 |  |
| F. Contingency              | 6% | 109,620 |  |
| G. Non-Compete with Seller  |    | 0       |  |
| H. Personal Property        |    | 0       |  |

772



APPENDIX G (Continued)

SCENARIO THREE INVESTMENT RESULTS

| private/irb/large   | Number<br>Units | Annual<br>Rent | Annual<br>Income | Year       | Vacancy<br>Rates | Income<br>Growth | Expense<br>Growth | Tax<br>Credits            |
|---------------------|-----------------|----------------|------------------|------------|------------------|------------------|-------------------|---------------------------|
|                     |                 |                |                  | First Year |                  |                  |                   | Rehabilitation            |
| Building Type A     |                 |                |                  | 1984       | 90.00%           |                  |                   | Credit % 0.20             |
| UPPER 3 FLOORS      | 35490           | \$11.00        | 390390           | 1985       | 31.00%           | 3.00%            | 3.00%             | Rehab. cost \$2,591,529   |
| PARKING             | 22              | \$720.00       | 15840            | 1986       | 14.00%           | 3.00%            | 3.00%             | 518,306                   |
| BOTTOM 2 FLOORS     | 24660           | \$8.50         | 209610           | etc.       | 5.00%            | 3.00%            | 3.00%             |                           |
| BUILDING 4          | 0               | \$0.00         | 0                |            |                  |                  |                   | I.T.C.                    |
| Building Type B     |                 |                |                  |            |                  |                  |                   | .01 * 280,000=            |
| BUILDING 5          | 0               | 0              | 0                |            |                  |                  |                   | .10 * 98,000=             |
| BUILDING 6          | 0               | 0              | 0                |            |                  |                  |                   |                           |
| BUILDING 7          | 0               | 0              | 0                |            |                  |                  |                   |                           |
| BUILDING 8          | 0               | 0              | 0                |            |                  |                  |                   |                           |
| Total Rental Income | 615840          |                |                  |            |                  |                  |                   | Total Tax Credits 518,306 |

|                   |     |                         |                         |
|-------------------|-----|-------------------------|-------------------------|
| Partnership Split |     | Selling Inputs          |                         |
| Cash Flow %       |     | Cap. Rate               | Total L.P. Installments |
| LP                | 95% | 0.11000                 | 1984 1985 1986 1987     |
| GP                | 5%  | Selling Expenses        | 751000 0 0 0            |
| Tax Savings %     |     | 6.0%                    |                         |
| LP                | 99% | Legal, Closing Expenses |                         |
| GP                | 1%  | \$0                     | Total G.P. Equity       |
| Reversion %       |     | Commissions             | 1984 1985               |
| LP                | 25% | \$0                     | 1 1                     |
| GP                | 75% |                         |                         |
| Tax Rate          |     | Reinvestment Rate       |                         |
| LP                | 50% | 12.00%                  |                         |
| GP                | 50% |                         |                         |

APPENDIX G (Continued)

SCENARIO THREE INVESTMENT RESULTS

|                              | YEAR  | 1      | 2       | 3       | 4       | 5       | 6       | 7       | 8       | 9       | 10      | TOTAL   |
|------------------------------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| =====                        |       |        |         |         |         |         |         |         |         |         |         |         |
| INCOME:                      |       |        |         |         |         |         |         |         |         |         |         |         |
| Rental Income                |       | 615840 | 634315  | 653345  | 672945  | 693133  | 713927  | 735345  | 757406  | 780128  | 803532  | 7059915 |
| Less Vacancy                 |       | 554256 | 196638  | 91468   | 33647   | 34657   | 35696   | 36767   | 37870   | 39006   | 40177   | 1100183 |
| Less Employee Apt.           |       | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Effective Gross Income       |       | 61584  | 437677  | 561876  | 639298  | 658477  | 678231  | 698578  | 719535  | 741121  | 763355  | 5959733 |
| Other Income                 |       | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Total Receipts               |       | 61584  | 437677  | 561876  | 639298  | 658477  | 678231  | 698578  | 719535  | 741121  | 763355  | 5959733 |
| EXPENSES:                    |       |        |         |         |         |         |         |         |         |         |         |         |
| Administrative               |       | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Fixed                        |       | 21052  | 149620  | 192078  | 218544  | 225100  | 231853  | 238809  | 245973  | 253352  | 260953  | 2037335 |
| Variable                     |       | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Utility                      |       | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Tax and Insurance            |       | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Leasing fees                 | 5.00% | 3079   | 21884   | 28094   | 31965   | 32924   | 33912   | 34929   | 35977   | 37056   | 38168   | 297987  |
| Total Expenses               |       | 24131  | 171504  | 220172  | 250509  | 258024  | 265765  | 273738  | 281950  | 290408  | 299121  | 2335322 |
| NET OPERATING INCOME         |       | 37453  | 266174  | 341705  | 388789  | 400453  | 412466  | 424840  | 437585  | 450713  | 464234  | 3624411 |
| Interest-Refin.              |       | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Depre,Amort                  |       | 74155  | 195363  | 195363  | 195363  | 195363  | 175363  | 175363  | 175363  | 175363  | 175363  | 175363  |
| Interest-Orig.Mtg.           |       | 46,002 | 270,818 | 261,306 | 250,881 | 239,455 | 226,932 | 213,208 | 198,166 | 181,681 | 163,614 | 2052063 |
| Mtg. Ins. Pymt               | 0     | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| NET INCOME (loss)            |       | -82704 | -200007 | -114964 | -57455  | -34365  | 10171   | 36269   | 64057   | 93669   | 125257  | 1572348 |
| CASH FLOW:                   |       |        |         |         |         |         |         |         |         |         |         |         |
| Add Depre,Amort              |       | 74155  | 195363  | 195363  | 195363  | 195363  | 175363  | 175363  | 175363  | 175363  | 175363  | 0       |
| Deduct Reserves              | 0     | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Deduct Principal             |       | 15,652 | 99,106  | 108,618 | 119,043 | 130,469 | 142,992 | 156,716 | 171,758 | 188,243 | 206,311 | 1338908 |
| Add Refin. Diff.             |       | 0      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Cash Flow (CFO)              |       | -24201 | -103750 | -28219  | 18865   | 30529   | 42542   | 54916   | 67661   | 80789   | 94309   | 233440  |
| Total Tax Savings+Tax Credit |       | 559658 | 100004  | 57482   | 28727   | 17183   | -5086   | -18135  | -32028  | -46835  | -62629  | 598341  |
| Total SCAT                   |       | 535456 | -3747   | 29263   | 47592   | 47711   | 37456   | 36781   | 35633   | 33954   | 31680   | 831781  |
| LP Tax Savings               | 99%   | 40938  | 99004   | 56907   | 28440   | 17011   | -5035   | -17953  | -31708  | -46366  | -62002  | -778312 |
| LP Cum Tax Savings           |       | 40938  | 139942  | 196849  | 225289  | 242300  | 237265  | 219312  | 187604  | 141238  | 79235   | 1709973 |
| LP Cash Flow                 | 95%   | -22991 | -98563  | -26808  | 17922   | 29002   | 40415   | 52170   | 64278   | 76749   | 89594   | 221768  |
| LP Cum Cash Flow             |       | -22991 | -121554 | -148362 | -130441 | -101439 | -61024  | -8853   | 55425   | 132174  | 221768  | -185298 |
| GP Tax Savings               | 1%    | 414    | 1000    | 575     | 287     | 172     | -51     | -181    | -320    | -468    | -626    | 800     |
| GP Cum Tax Savings           |       | 414    | 1414    | 1988    | 2276    | 2447    | 2397    | 2215    | 1895    | 1427    | 800     | 17272   |
| GP Cash Flow                 | 5%    | -1210  | -5188   | -1411   | 943     | 1526    | 2127    | 2746    | 3383    | 4039    | 4715    | 11672   |
| GP Cum Cash Flow             |       | -1210  | -6398   | -7809   | 56790   | 58316   | 60444   | 63189   | 66572   | 70612   | 75327   | 435835  |
| LP SCAT                      |       | 531070 | 441     | 30099   | 46362   | 46013   | 35380   | 34217   | 32570   | 30383   | 27591   | 1524675 |
| GP SCAT                      |       | 4387   | -4187   | -836    | 1231    | 1698    | 2076    | 2564    | 3063    | 3571    | 4089    | 17655   |

\* Negative cash flow in the beginning years will be covered by reserves.

APPENDIX G (Continued)

SCENARIO THREE INVESTMENT RESULTS

GAIN UPON SALE:

|                       |      |          |         |         |         |         |         |         |         |         |         |
|-----------------------|------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales Price           |      | 340480   | 2419760 | 3106405 | 3534444 | 3640477 | 3749692 | 3862183 | 3978048 | 4097389 | 4220311 |
| Less Selling Expenses | 6.0% | 20429    | 145186  | 186384  | 212067  | 218429  | 224982  | 231731  | 238683  | 245843  | 253219  |
| Less Legal, Closing   |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Net Proceeds          |      | 320051   | 2274575 | 2920021 | 3322378 | 3422049 | 3524710 | 3630452 | 3739365 | 3851546 | 3967093 |
| Less Adj. Basis of:   |      |          |         |         |         |         |         |         |         |         |         |
| Land                  |      | 110000   | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  | 110000  |
| Improvements          |      | 2593855  | 2448406 | 2302956 | 2157506 | 2012056 | 1866606 | 1721156 | 1575707 | 1430257 | 1284807 |
| Personal Property     |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Less commissions      |      | 0        | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |
| Taxable Gain          |      | -2383804 | -283831 | 507065  | 1054872 | 1299993 | 1548104 | 1799295 | 2053659 | 2311289 | 2572286 |
| Ordinary Gain         |      | -121208  | -121208 | -121208 | -121208 | -121208 | -121208 | -121208 | -121208 | -121208 | -121208 |
| Capital Gain          |      | -2262596 | -162623 | 628273  | 1176080 | 1421201 | 1669312 | 1920503 | 2174867 | 2432498 | 2693494 |
| Less Taxes            |      | -513123  | -93129  | 65051   | 174612  | 223636  | 273258  | 323497  | 374369  | 425895  | 478095  |
| Less Loan Balance     |      | 2988348  | 2889242 | 2780623 | 2661580 | 2531111 | 2388119 | 2231403 | 2059646 | 1871403 | 1665092 |
| Net Ptnrs. Equity     |      | -2155173 | -521538 | 74347   | 486186  | 667302  | 863333  | 1075552 | 1305350 | 1554248 | 1823906 |
| LP Reversion Proceeds | 25%  | -538793  | -130385 | 18587   | 121546  | 166825  | 215833  | 268888  | 326338  | 388562  | 455976  |
| GP Reversion Proceeds | 75%  | -1616380 | -391154 | 55760   | 364639  | 500476  | 647500  | 806664  | 979013  | 1165686 | 1367929 |

TOTAL ECONOMIC BENEFIT

|                   |  |          |         |       |        |        |        |        |        |         |         |
|-------------------|--|----------|---------|-------|--------|--------|--------|--------|--------|---------|---------|
| LP SCAT+Reversion |  | -7723    | -129944 | 48686 | 167908 | 212838 | 251213 | 303105 | 358908 | 418945  | 483568  |
| GP SCAT+Reversion |  | -1611993 | -395341 | 54924 | 365870 | 502175 | 649576 | 809228 | 982076 | 1169257 | 1372019 |

MIRR Calc. (L.P.)

FV Benefit end of year:

|      |         |         |       |        |        |        |        |        |        |        |  |
|------|---------|---------|-------|--------|--------|--------|--------|--------|--------|--------|--|
| 1985 | 594798  | -129944 |       |        |        |        |        |        |        |        |  |
| 1986 | 666174  | 494     | 48686 |        |        |        |        |        |        |        |  |
| 1987 | 746115  | 553     | 33711 | 167908 |        |        |        |        |        |        |  |
| 1988 | 835649  | 619     | 37756 | 51925  | 212838 |        |        |        |        |        |  |
| 1989 | 935927  | 693     | 42287 | 58156  | 51534  | 251213 |        |        |        |        |  |
| 1990 | 1048238 | 777     | 47361 | 65135  | 57719  | 39626  | 303105 |        |        |        |  |
| 1991 | 1174026 | 870     | 53044 | 72951  | 64645  | 44381  | 38323  | 358908 |        |        |  |
| 1992 | 1314910 | 974     | 59410 | 81705  | 72402  | 49707  | 42922  | 36479  | 418945 |        |  |
| 1993 | -21417  | -321736 | 66539 | 91510  | 81090  | 55671  | 48072  | 40856  | 34029  | 483568 |  |

FV of L.P. Benefits

PV of L.P. Installments

(recognized after year 1)

L.P.'s MIRR

|  |           |           |          |          |          |          |          |          |           |        |        |
|--|-----------|-----------|----------|----------|----------|----------|----------|----------|-----------|--------|--------|
|  | 751000    | 751000    | 751000   | 751000   | 751000   | 751000   | 751000   | 751000   | 751000    | 751000 | 751000 |
|  | -0.213247 | -0.016079 | 0.060047 | 0.086827 | 0.101287 | 0.110281 | 0.116013 | 0.119693 | -0.029236 |        |        |

APPENDIX G (Continued)

SCENARIO THREE INVESTMENT RESULTS

|                    |           |            |
|--------------------|-----------|------------|
| Sale end of Year 8 |           |            |
| Cash Flows         | IRR Guess | IRR Actual |
| -751000            | 0.35      | 0.116112   |
| 531070             |           |            |
| 441                |           |            |
| 30099              |           |            |
| 46362              |           |            |
| 46013              |           |            |
| 35380              |           |            |
| 34217              |           |            |
| 391478             |           |            |

101

CASH FLOWS TO GENERAL PARTNER/DEVELOPER

| YEAR                  | 1        | 2       | 3     | 4      | 5      | 6      | 7      | 8      | 9       | 10      |
|-----------------------|----------|---------|-------|--------|--------|--------|--------|--------|---------|---------|
| DEVELOPMENT FEE       | 189000   | 0       | 0     | 0      | 0      | 0      | 0      | 0      | 0       | 0       |
| LEASING FEES          | 3079     | 21884   | 28094 | 31965  | 32924  | 33912  | 34929  | 35977  | 37056   | 38168   |
| GP SCAT               | 4387     | -4187   | -836  | 1231   | 1698   | 2076   | 2564   | 3063   | 3571    | 4089    |
| TOTAL                 | 196466   | 17696   | 27258 | 33195  | 34622  | 35988  | 37493  | 39040  | 40627   | 42257   |
| GP REVERSION PROCEEDS | -1616380 | -391154 | 55760 | 364639 | 500476 | 647500 | 806664 | 979013 | 1165686 | 1367929 |

# APPENDIX H

## SCENARIO FOUR INVESTMENT RESULTS

### Sources and Uses of Capital

#### I. Sources

|                            |           |           |
|----------------------------|-----------|-----------|
| A. Partners' Contributions | 692,000   |           |
| B. Mortgage Loan Proceeds  | 2,765,000 |           |
| C. Other                   | 0         | 3,457,000 |

#### II. Uses

|                                       |           |             |
|---------------------------------------|-----------|-------------|
| A. Construction                       |           |             |
| 1. Construction Contract              | 1,665,000 |             |
| 2. Tenant Allowances                  | 0         |             |
| 3. Site Work, Predevelopment Expense  | 0         |             |
| 4. Improvements to Existing Buildings | 0         | A 1,665,000 |

#### B. Fees

|                                      |       |         |           |
|--------------------------------------|-------|---------|-----------|
| 1. Architectural Fee                 | 6%    | 99,900  | A         |
| 2. Start-up Expenditure (Legal/Org.) | 0%    | 100,000 |           |
| 3. Leasing Fees                      |       | 2,031   | F         |
| 4. Development Fees                  | 10.0% | 166,500 |           |
| 5. Marketing Fee                     | 0%    | 0       | H 368,431 |

#### C. Financing and Carrying Charges

|  |         |             |
|--|---------|-------------|
| 1. Construction Period Interest                            | 275,934 | E           |
| 2. Financing Fees  | 0       | C           |
| 3. Real Estate Tax/Special Assessments During Construction | 0       | D           |
| 4. Title Insurance   | 0.0%    | 0 A 275,934 |

|                             |    |         |
|-----------------------------|----|---------|
| D. Purchase of Improvements |    | 940,000 |
| E. Land                     |    | 110,000 |
| F. Contingency              | 6% | 96,570  |
| G. Non-Compete with Seller  |    | 0       |
| H. Personal Property        |    | 0       |

1,065

APPENDIX H (Continued)

SCENARIO FOUR INVESTMENT RESULTS

| private/small/irb    | Number<br>Units | Annual<br>Rent | Annual<br>Income | Year       | Vacancy<br>Rates | Income<br>Growth | Expense<br>Growth | Tax<br>Credits                  |
|----------------------|-----------------|----------------|------------------|------------|------------------|------------------|-------------------|---------------------------------|
| =====                |                 |                |                  |            |                  |                  |                   |                                 |
| Building Type A      |                 |                |                  | First Year |                  |                  |                   | Rehabilitation                  |
| UNION TRANSFER BLDG. | 35490           | 11             | 390390           | 1984       | 90.00%           |                  |                   | Credit % 0.20                   |
| PARKING              | 22              | 720            | 15840            | 1985       | 31.00%           | 3.00%            | 3.00%             | Rehab. cost \$2,309,365 461,873 |
| BUILDING 3           | 0               | 0              | 0                | 1986       | 14.00%           | 3.00%            | 3.00%             |                                 |
| BUILDING 4           | 0               | 0              | 0                | etc.       | 5.00%            | 3.00%            | 3.00%             | I.T.C.                          |
| Building Type B      |                 |                |                  |            |                  | 3.00%            | 3.00%             | .01 * 280,000= 0                |
| BUILDING 5           | 0               | 0              | 0                |            |                  |                  |                   | .10 * 98,000= 0                 |
| BUILDING 6           | 0               | 0              | 0                |            |                  |                  |                   |                                 |
| BUILDING 7           | 0               | 0              | 0                |            |                  |                  |                   |                                 |
| BUILDING 8           | 0               | 0              | 0                |            |                  |                  |                   | Total Tax Credits 461,873       |
| Total Rental Income  | 406230          |                |                  |            |                  |                  |                   |                                 |

File: INCOME

|                      |     |                         |                         |      |      |      |
|----------------------|-----|-------------------------|-------------------------|------|------|------|
| Partnership<br>Split |     | Selling<br>Inputs       |                         |      |      |      |
| =====                |     |                         |                         |      |      |      |
| Cash Flow %          |     | Cap. Rate               | Total L.P. Installments |      |      |      |
| LP                   | 95% | 0.11000                 | 1984                    | 1985 | 1986 | 1987 |
| GP                   | 5%  | Selling Expenses        | 692000                  | 0    | 0    | 0    |
| Tax Savings %        |     | 6.0%                    |                         |      |      |      |
| LP                   | 99% | Legal, Closing Expenses |                         |      |      |      |
| GP                   | 1%  | \$0                     | Total G.P. Equity       |      |      |      |
| Reversion %          |     | Commissions             | 1984                    | 1985 |      |      |
| LP                   | 25% | \$0                     | 1                       | 1    |      |      |
| GP                   | 75% |                         |                         |      |      |      |
| Tax Rate             |     | Reinvestment Rate       |                         |      |      |      |
| LP                   | 50% | 12.00%                  |                         |      |      |      |
| GP                   | 50% |                         |                         |      |      |      |

## APPENDIX H (Continued)

## SCENARIO FOUR INVESTMENT RESULTS

|                              | 1          | 2       | 3       | 4       | 5       | 6       | 7       | 8       | 9       | 10      | TOTAL    |
|------------------------------|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| <hr/>                        |            |         |         |         |         |         |         |         |         |         |          |
| INCOME:                      |            |         |         |         |         |         |         |         |         |         |          |
| Rental Income                | 406230     | 418417  | 430969  | 443898  | 457215  | 470932  | 485060  | 499612  | 514600  | 530038  | 4656972  |
| Less Vacancy                 | 365607     | 129709  | 60336   | 22195   | 22861   | 23547   | 24253   | 24981   | 25730   | 26502   | 725720   |
| Less Employee Apt.           | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Effective Gross Income       | 40623      | 288708  | 370634  | 421704  | 434355  | 447385  | 460807  | 474631  | 488870  | 503536  | 3931252  |
| Other Income                 | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Total Receipts               | 40623      | 288708  | 370634  | 421704  | 434355  | 447385  | 460807  | 474631  | 488870  | 503536  | 3931252  |
| EXPENSES:                    |            |         |         |         |         |         |         |         |         |         |          |
| Administrative               | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Fixed                        | 12421      | 88279   | 113330  | 128946  | 132814  | 136799  | 140903  | 145130  | 149484  | 153968  | 1202074  |
| Variable                     | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Utility                      | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Tax and Insurance            | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Leasing fees                 | 5.00% 2031 | 14435   | 18532   | 21085   | 21718   | 22369   | 23040   | 23732   | 24444   | 25177   | 196563   |
| Total Expenses               | 14452      | 102714  | 131862  | 150031  | 154532  | 159168  | 163943  | 168861  | 173927  | 179145  | 1398636  |
| NET OPERATING INCOME         | 26171      | 185993  | 238772  | 271672  | 279823  | 288217  | 296864  | 305770  | 314943  | 324391  | 2532616  |
| Interest-Refin.              | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Depre,Amort                  | 70329      | 181975  | 181975  | 181975  | 181975  | 161569  | 161569  | 161569  | 161569  | 161569  | 161569   |
| Interest-Orig.Mtg.           | 42,342     | 249,272 | 240,516 | 230,921 | 220,404 | 208,878 | 196,245 | 182,400 | 167,227 | 150,596 | 1888801  |
| Mtg. Ins. Pymt               | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| NET INCOME (loss)            | -86500     | -245254 | -183719 | -141224 | -122556 | -82230  | -60950  | -38199  | -13853  | 12226   | 643815   |
| CASH FLOW:                   |            |         |         |         |         |         |         |         |         |         |          |
| Add Depre,Amort              | 70329      | 181975  | 181975  | 181975  | 181975  | 161569  | 161569  | 161569  | 161569  | 161569  | 0        |
| Deduct Reserves              | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Deduct Principal             | 14,407     | 91,221  | 99,976  | 109,572 | 120,089 | 131,615 | 144,247 | 158,092 | 173,266 | 189,896 | 1232381  |
| Add Refin. Diff.             | 0          | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0        |
| Cash Flow (CFO)              | -30578     | -154500 | -101720 | -68821  | -60670  | -52276  | -43628  | -34722  | -25550  | -16101  | -588566  |
| Total Tax Savings+Tax Credit | 505123     | 122627  | 91860   | 70612   | 61278   | 41115   | 30475   | 19100   | 6927    | -6113   | 943002   |
| Total SCAT                   | 474545     | -31873  | -9860   | 1791    | 608     | -11161  | -13153  | -15623  | -18624  | -22214  | 354436   |
| LP Tax Savings               | 99% 42817  | 121401  | 90941   | 69906   | 60665   | 40704   | 30170   | 18909   | 6857    | -6052   | -318688  |
| LP Cum Tax Savings           | 42817      | 164218  | 255159  | 325065  | 385730  | 426434  | 456604  | 475513  | 482370  | 476318  | 3490229  |
| LP Cash Flow                 | 95% -29049 | -146775 | -96634  | -65380  | -57637  | -49662  | -41447  | -32986  | -24273  | -15296  | -559138  |
| LP Cum Cash Flow             | -29049     | -175824 | -272458 | -337838 | -395474 | -445136 | -486583 | -519570 | -543842 | -559138 | -3764913 |
| GP Tax Savings               | 1% 432     | 1226    | 919     | 706     | 613     | 411     | 305     | 191     | 69      | -61     | 4811     |
| GP Cum Tax Savings           | 432        | 1659    | 2577    | 3283    | 3896    | 4307    | 4612    | 4803    | 4872    | 4811    | 35255    |
| GP Cash Flow                 | 5% -1529   | -7725   | -5086   | -3441   | -3034   | -2614   | -2181   | -1736   | -1278   | -805    | -29428   |
| GP Cum Cash Flow             | -1529      | -9254   | -14340  | 56790   | 53756   | 51143   | 48961   | 47225   | 45948   | 45143   | 323843   |
| LP SCAT                      | 471023     | -25374  | -5693   | 4526    | 3029    | -8958   | -11276  | -14078  | -17415  | -21348  | -274684  |
| GP SCAT                      | 3522       | -6499   | -4167   | -2735   | -2421   | -2203   | -1877   | -1545   | -1208   | -866    | -19998   |

APPENDIX H (Continued)

SCENARIO FOUR INVESTMENT RESULTS

|                           |      |          |           |           |           |          |          |          |          |          |         |
|---------------------------|------|----------|-----------|-----------|-----------|----------|----------|----------|----------|----------|---------|
| GAIN UPON SALE:           |      |          |           |           |           |          |          |          |          |          |         |
| Sales Price               |      | 237917   | 1690848   | 2170655   | 2469749   | 2543841  | 2620157  | 2698761  | 2779724  | 2863116  | 2949009 |
| Less Selling Expenses     | 6.0% | 14275    | 101451    | 130239    | 148185    | 152630   | 157209   | 161926   | 166783   | 171787   | 176941  |
| Less Legal, Closing       |      | 0        | 0         | 0         | 0         | 0        | 0        | 0        | 0        | 0        | 0       |
| Net Proceeds              |      | 223642   | 1589397   | 2040415   | 2321564   | 2391211  | 2462947  | 2536836  | 2612941  | 2691329  | 2772069 |
| Less Adj. Basis of:       |      |          |           |           |           |          |          |          |          |          |         |
| Land                      |      | 110000   | 110000    | 110000    | 110000    | 110000   | 110000   | 110000   | 110000   | 110000   | 110000  |
| Improvements              |      | 2389229  | 2255253   | 2121278   | 1987302   | 1853327  | 1719352  | 1585376  | 1451401  | 1317425  | 1183450 |
| Personal Property         |      | 0        | 0         | 0         | 0         | 0        | 0        | 0        | 0        | 0        | 0       |
| Less commissions          |      | 0        | 0         | 0         | 0         | 0        | 0        | 0        | 0        | 0        | 0       |
| Taxable Gain              |      | -2275587 | -775856   | -190863   | 224262    | 427884   | 633596   | 841460   | 1051540  | 1263904  | 1478619 |
| Ordinary Gain             |      | -111646  | -111646   | -111646   | -111646   | -111646  | -111646  | -111646  | -111646  | -111646  | -111646 |
| Capital Gain              |      | -2163941 | -664210   | -79216    | 335908    | 539530   | 745242   | 953106   | 1163186  | 1375550  | 1590265 |
| Less Taxes                |      | -488611  | -188665   | -71666    | 11358     | 52083    | 93225    | 134798   | 176814   | 219287   | 262230  |
| Less Loan Balance         |      | 2750593  | 2659372   | 2559396   | 2449823   | 2329734  | 2198119  | 2053872  | 1895780  | 1722513  | 1532617 |
| Net Ptnrs. Equity         |      | -2038340 | -881310   | -447314   | -139618   | 9394     | 171603   | 348166   | 540347   | 749529   | 977222  |
| LP Reversion Proceeds     | 25%  | -509585  | -220327   | -111828   | -34904    | 2348     | 42901    | 87041    | 135087   | 187382   | 244305  |
| GP Reversion Proceeds     | 75%  | -1528755 | -660982   | -335485   | -104713   | 7045     | 128702   | 261124   | 405260   | 562147   | 732916  |
| TOTAL ECONOMIC BENEFIT    |      |          |           |           |           |          |          |          |          |          |         |
| LP SCAT+Reversion         |      | -38562   | -245702   | -117522   | -30378    | 5377     | 33942    | 75765    | 121009   | 169967   | 222958  |
| GP SCAT+Reversion         |      | -1525233 | -667481   | -339653   | -107448   | 4624     | 126499   | 259248   | 403715   | 560938   | 732050  |
| MIRR Calc. (L.P.)         |      |          |           |           |           |          |          |          |          |          |         |
| FV Benefit end of year:   |      |          |           |           |           |          |          |          |          |          |         |
|                           | 1985 | 527545   | -245702   |           |           |          |          |          |          |          |         |
|                           | 1986 | 590851   | -28419    | -117522   |           |          |          |          |          |          |         |
|                           | 1987 | 661753   | -31829    | -6376     | -30378    |          |          |          |          |          |         |
|                           | 1988 | 741163   | -35649    | -7141     | 5069      | 5377     |          |          |          |          |         |
|                           | 1989 | 830103   | -39927    | -7998     | 5678      | 3392     | 33942    |          |          |          |         |
|                           | 1990 | 929715   | -44718    | -8958     | 6359      | 3799     | -10033   | 75765    |          |          |         |
|                           | 1991 | 1041281  | -50084    | -10033    | 7122      | 4255     | -11237   | -12630   | 121009   |          |         |
|                           | 1992 | 1166234  | -56094    | -11237    | 7977      | 4765     | -12586   | -14145   | -15767   | 169967   |         |
|                           | 1993 | -106937  | -608348   | -12586    | 8934      | 5337     | -14096   | -15843   | -17659   | -19505   | 222958  |
| FV of L.P. Benefits       |      |          | 281844    | 444910    | 593169    | 708819   | 825189   | 951928   | 1089683  | 1239114  | -557745 |
| PV of L.P. Installments   |      |          |           |           |           |          |          |          |          |          |         |
| (recognized after year 1) |      |          | 692000    | 692000    | 692000    | 692000   | 692000   | 692000   | 692000   | 692000   | 692000  |
| L.P.'s MIRR               |      |          | -0.361808 | -0.136911 | -0.037794 | 0.004814 | 0.029772 | 0.046611 | 0.058399 | 0.066870 | ERR     |
| L.P.'s IRR                |      |          |           |           |           |          |          |          |          |          |         |



APPENDIX H (Continued)

SCENARIO FOUR INVESTMENT RESULTS

|                    |           |            |
|--------------------|-----------|------------|
| Sale end of Year 8 |           |            |
| Cash Flows         | IRR Guess | IRR Actual |
| -692000            | 0.25      | -0.082390  |
| 471023             |           |            |
| -25374             |           |            |
| -5693              |           |            |
| 4526               |           |            |
| 3029               |           |            |
| -8958              |           |            |
| -11276             |           |            |
| 121009             |           |            |

CASH FLOWS TO GENERAL PARTNER/DEVELOPER

| YEAR                  | 1        | 2       | 3       | 4       | 5     | 6      | 7      | 8      | 9      | 10     |
|-----------------------|----------|---------|---------|---------|-------|--------|--------|--------|--------|--------|
| DEVELOPMENT FEE       | 166500   | 0       | 0       | 0       | 0     | 0      | 0      | 0      | 0      | 0      |
| LEASING FEES          | 2031     | 14435   | 18532   | 21085   | 21718 | 22369  | 23040  | 23732  | 24444  | 25177  |
| GP SCAT               | 3522     | -6499   | -4167   | -2735   | -2421 | -2203  | -1877  | -1545  | -1208  | -866   |
| TOTAL                 | 172053   | 7937    | 14364   | 18350   | 19297 | 20167  | 21164  | 22186  | 23235  | 24311  |
| GP REVERSION PROCEEDS | -1528755 | -660982 | -335485 | -104713 | 7045  | 128702 | 261124 | 405260 | 562147 | 732916 |

