



The Union Transfer Building: a market and financial analysis.

Mussatti, Dale R.

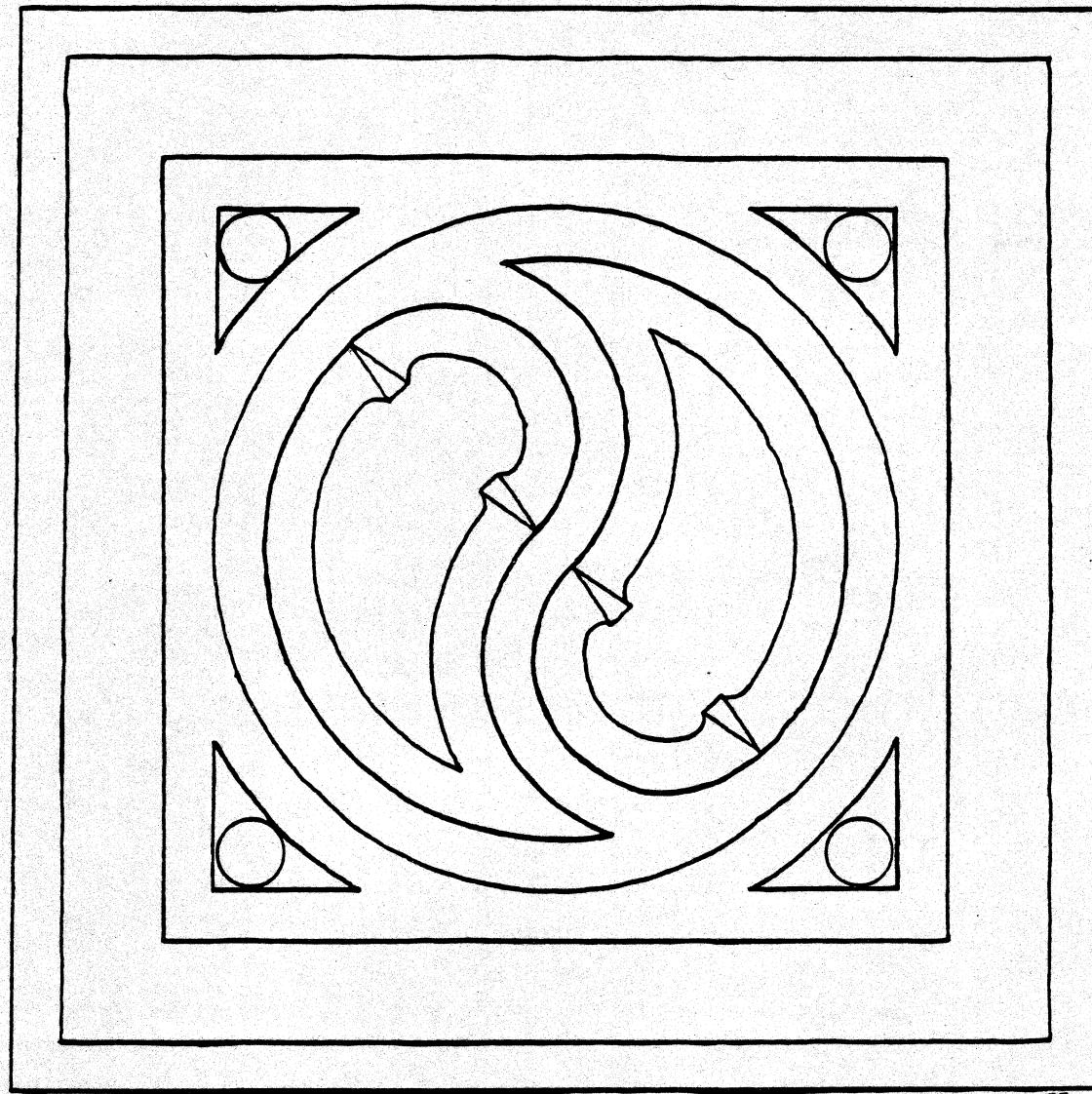
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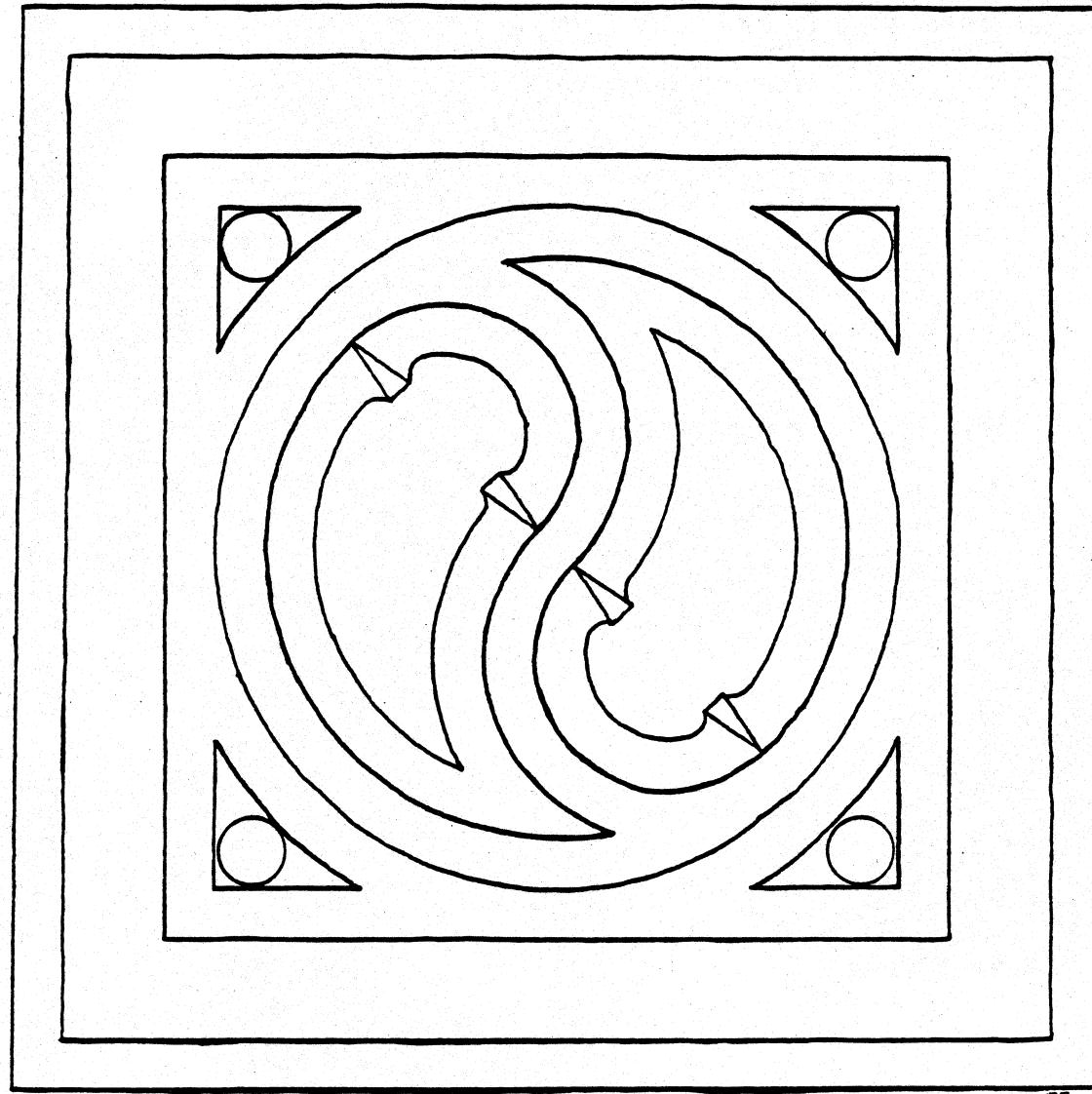
JRB

Tile design from the facade of the Union Transfer Building.

THE UNION TRANSFER BUILDING

A Market and Financial Analysis

By Dale R. Mussatti
Business 857
August 29, 1984



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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 thoroughfares 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.¹ 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

1

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

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

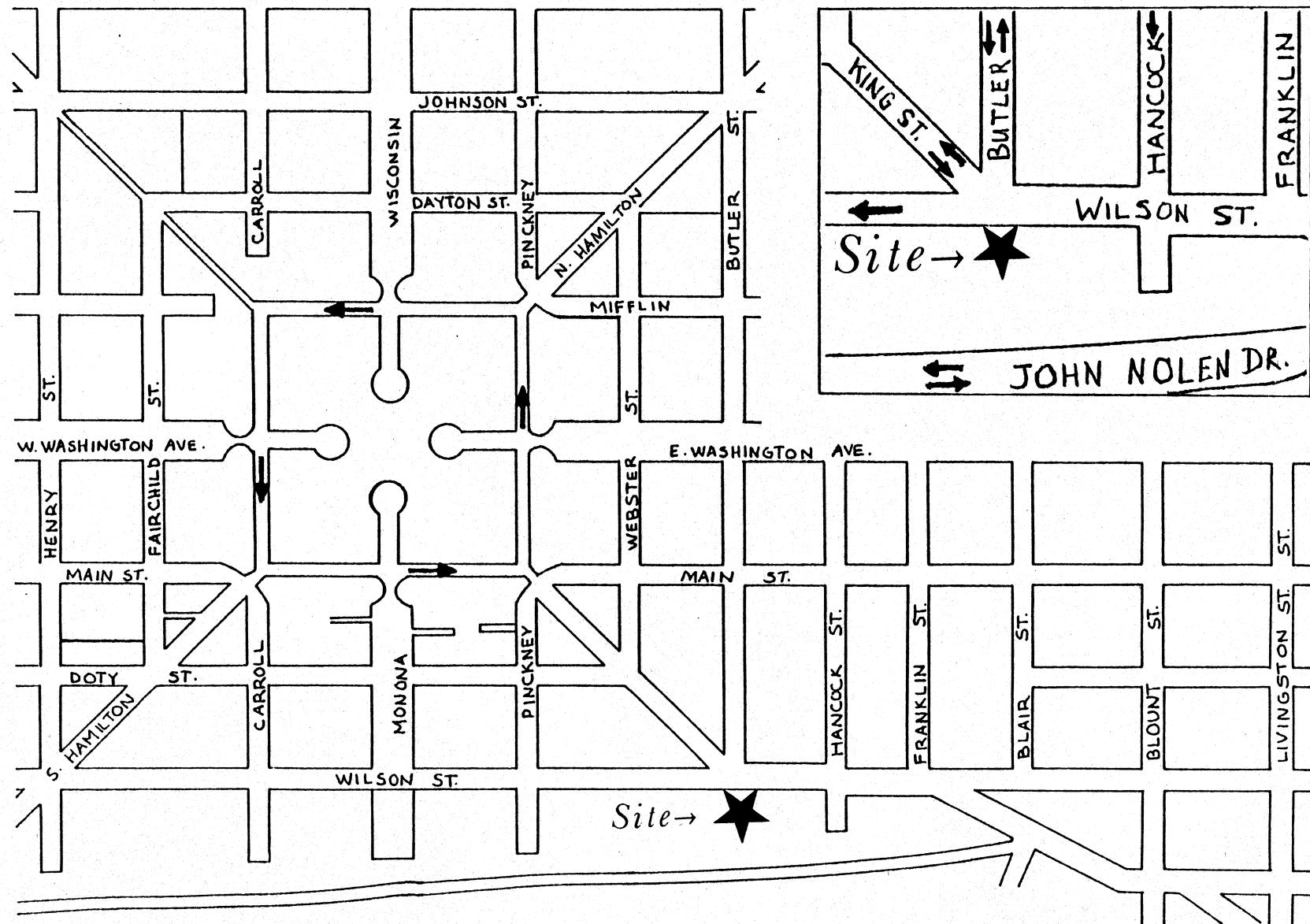


EXHIBIT 2

VERTICAL LAYOUT OF BUILDING

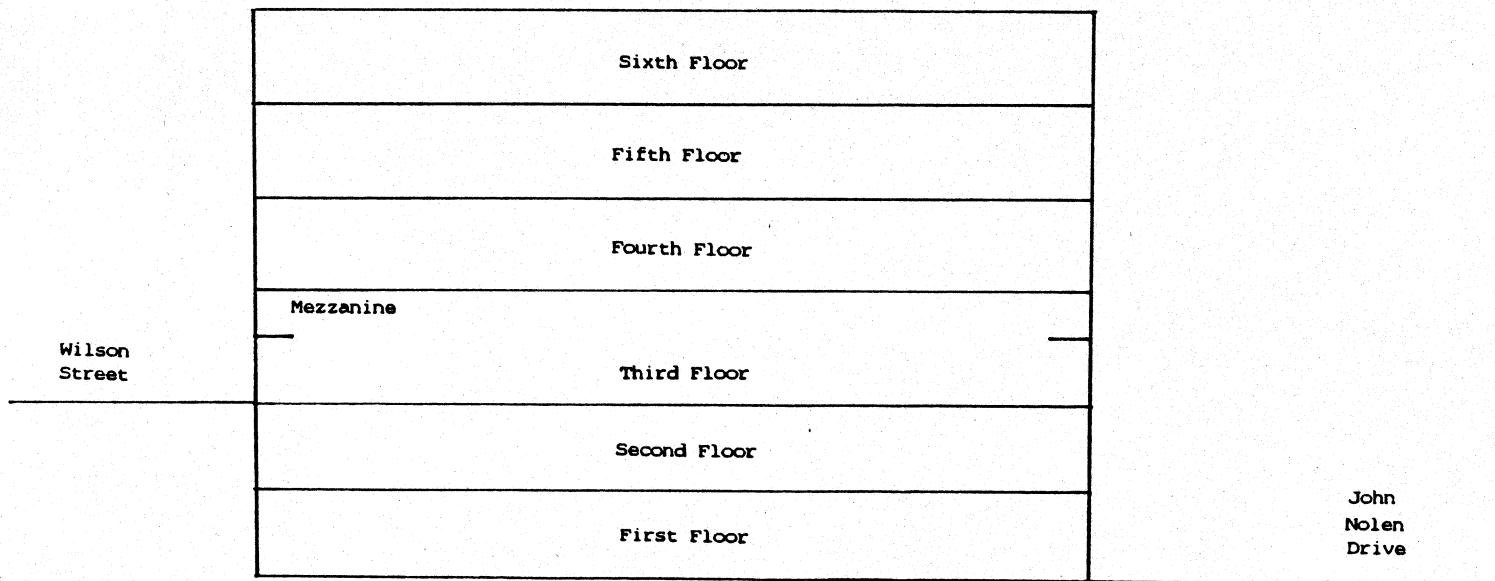
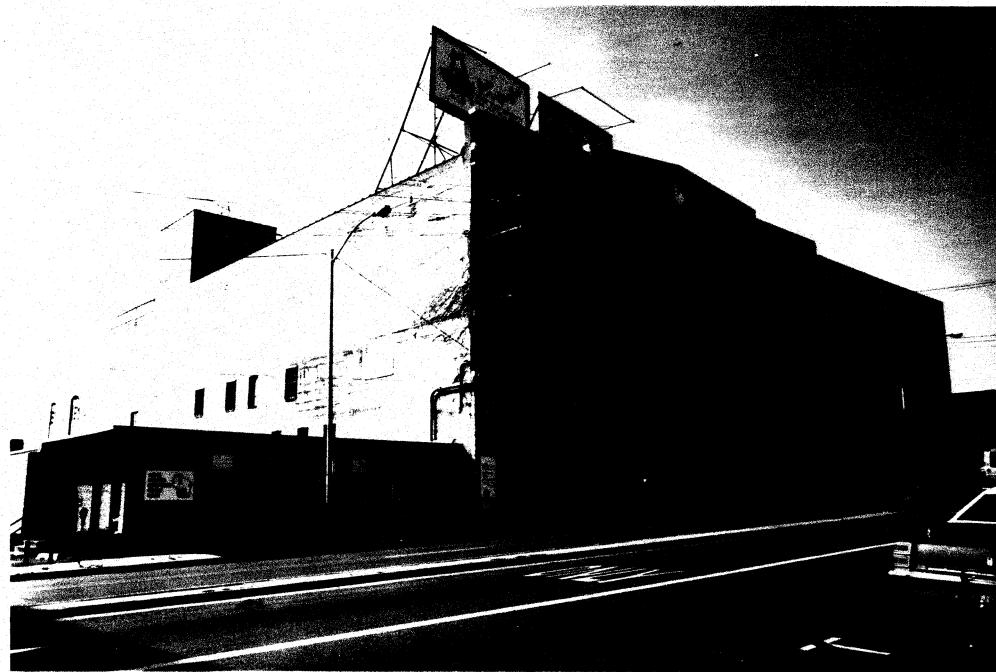


EXHIBIT 3
PHOTOGRAPHS OF SUBJECT PROPERTY



Facade and Eastern Side of Building



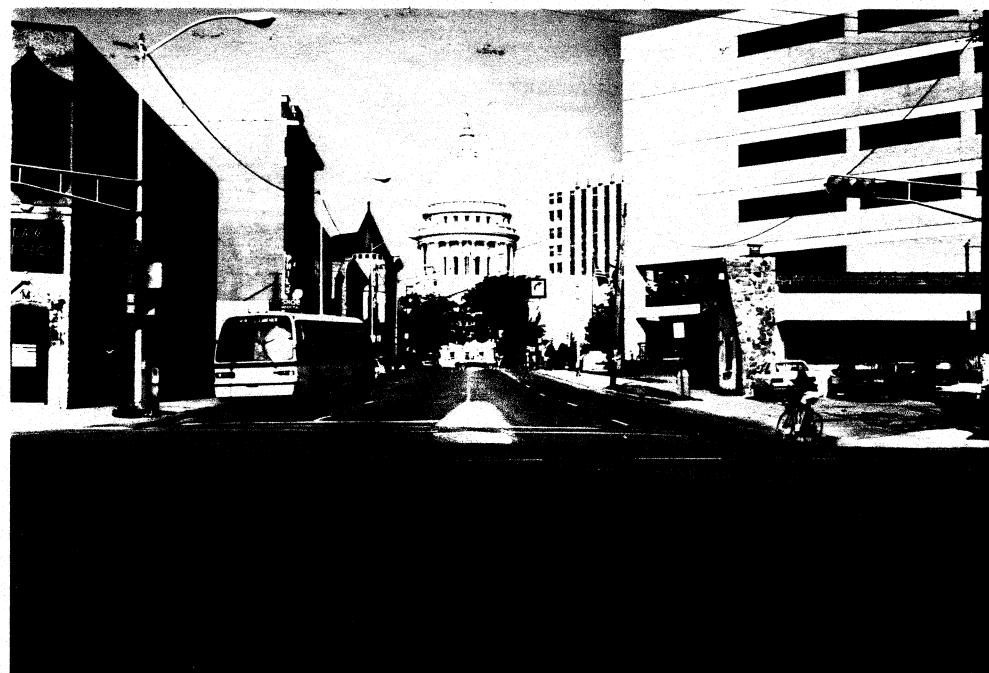
Facade of Building as Seen From King Street

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
³ 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.

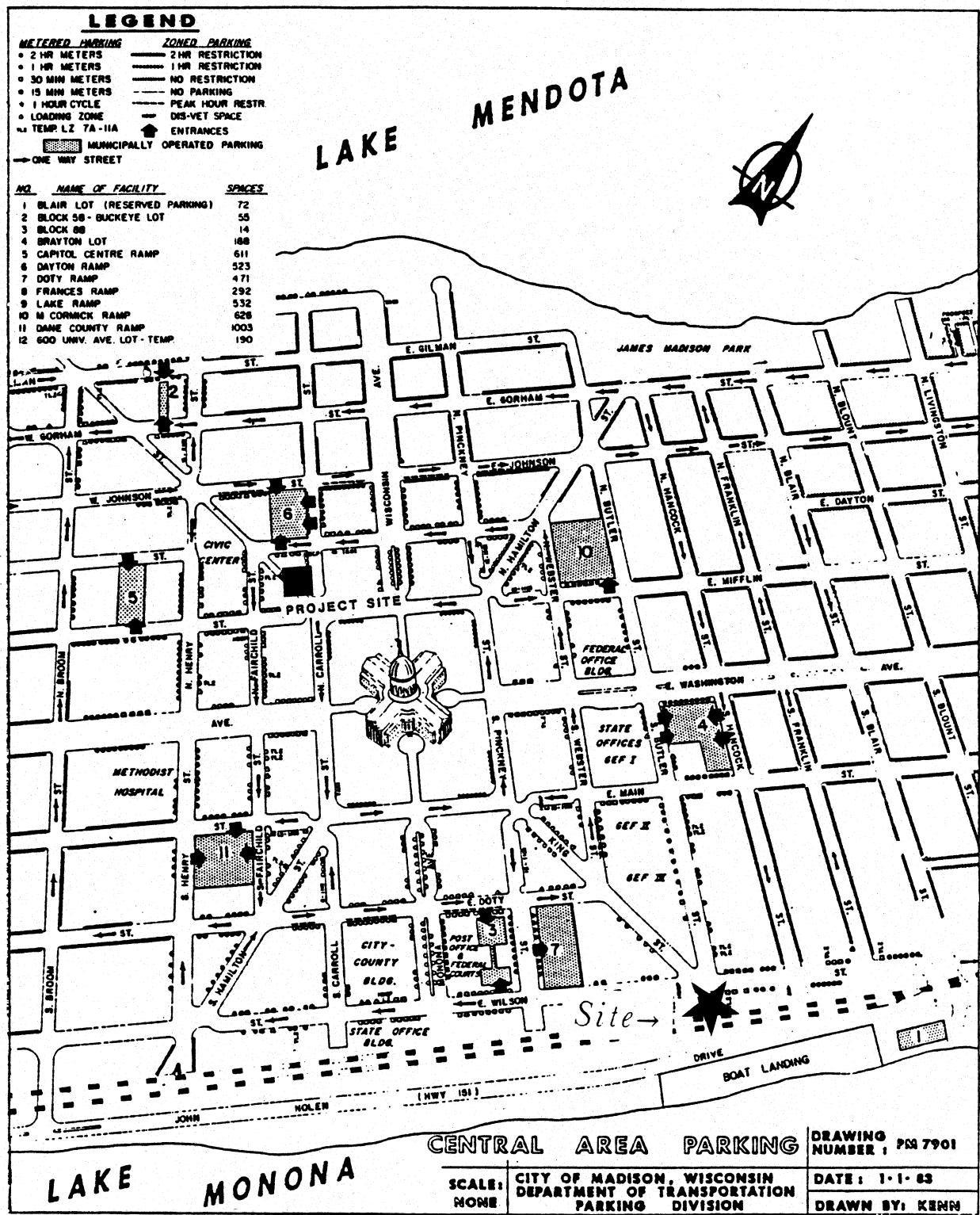
F. Dynamic Attributes

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

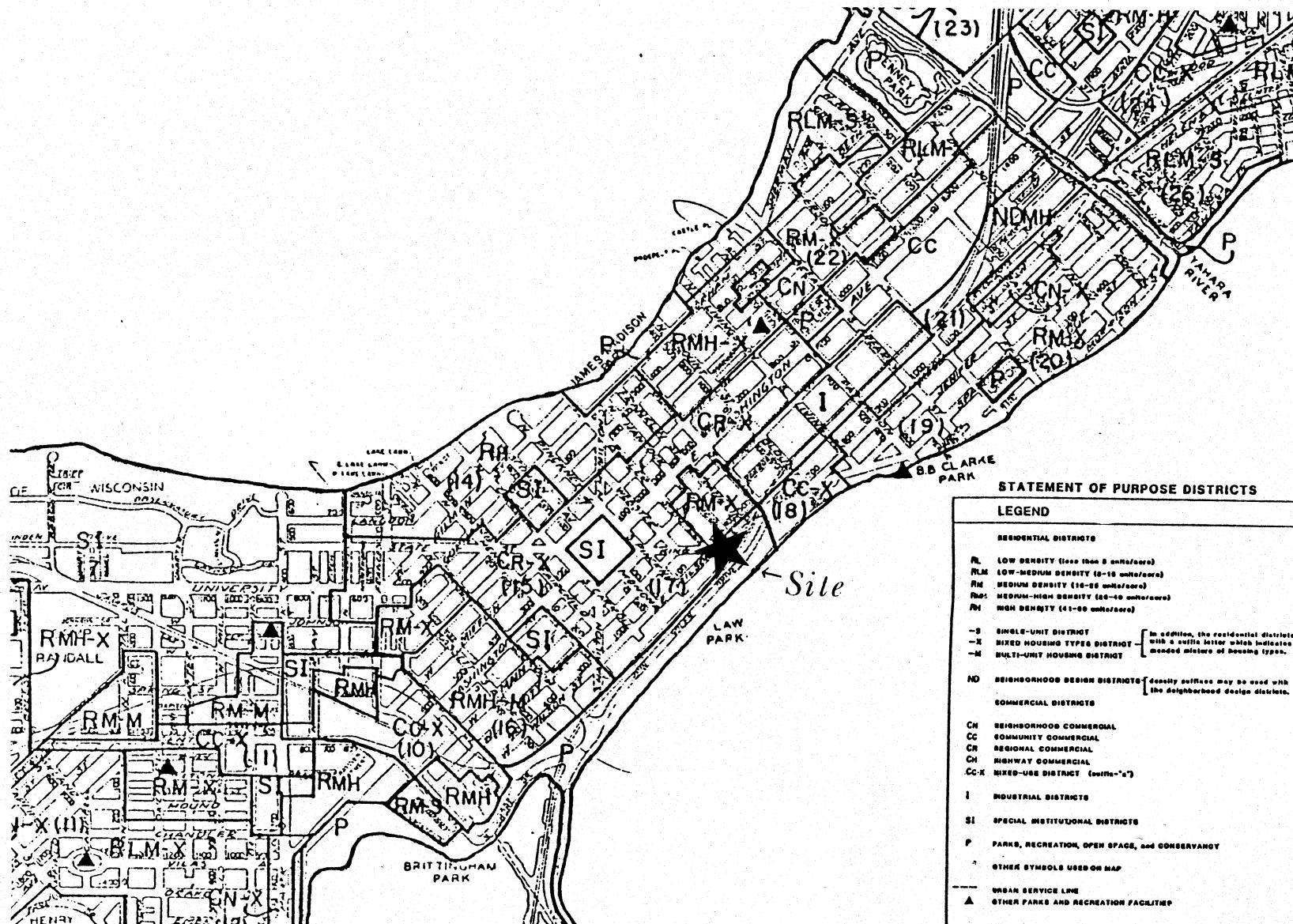
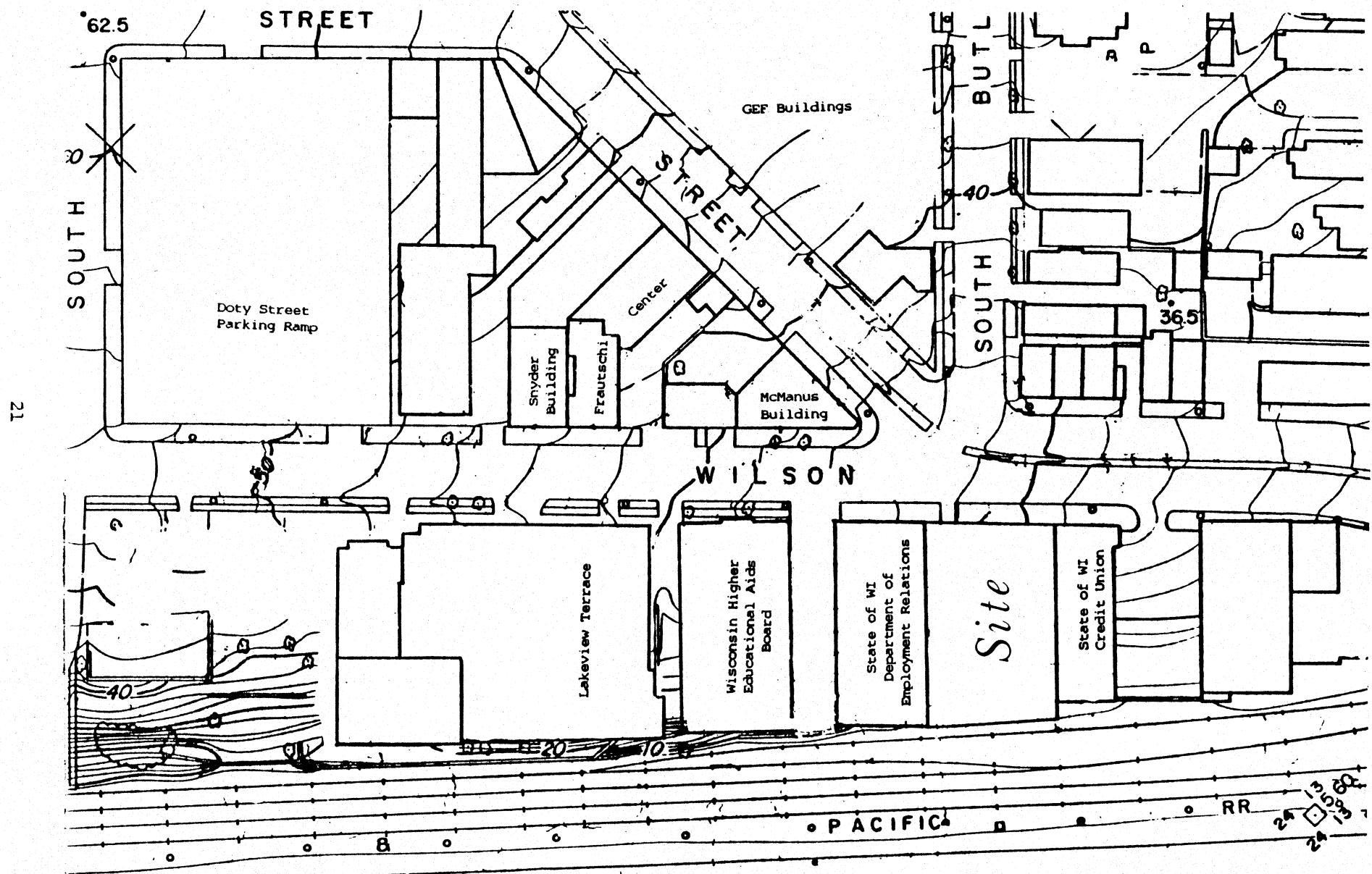


EXHIBIT 7

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 Change 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 New Jobs	% Of New Jobs	# Of New Jobs	% Of New Jobs	# Of New Jobs	% Of 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)

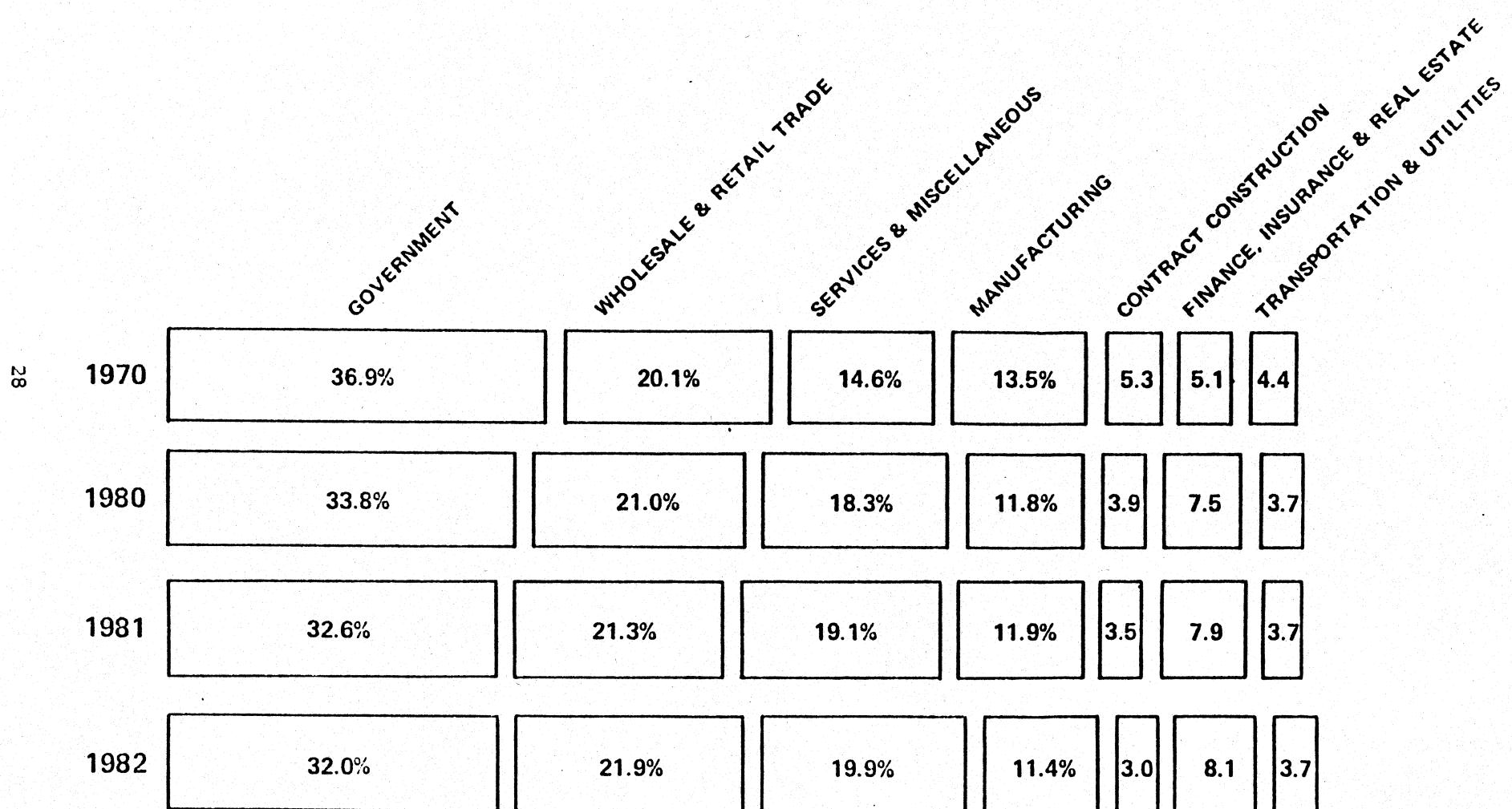
employment from 1980 to 1982 and the reduced expectations of employment growth in the government sector. A more accurate estimate of county employment can be derived by assuming that the 25 percent increase in employment will be reached by 1995. This downward adjustment maintains the assumed 25 percent 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



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 1970-1980		City of Madison 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.

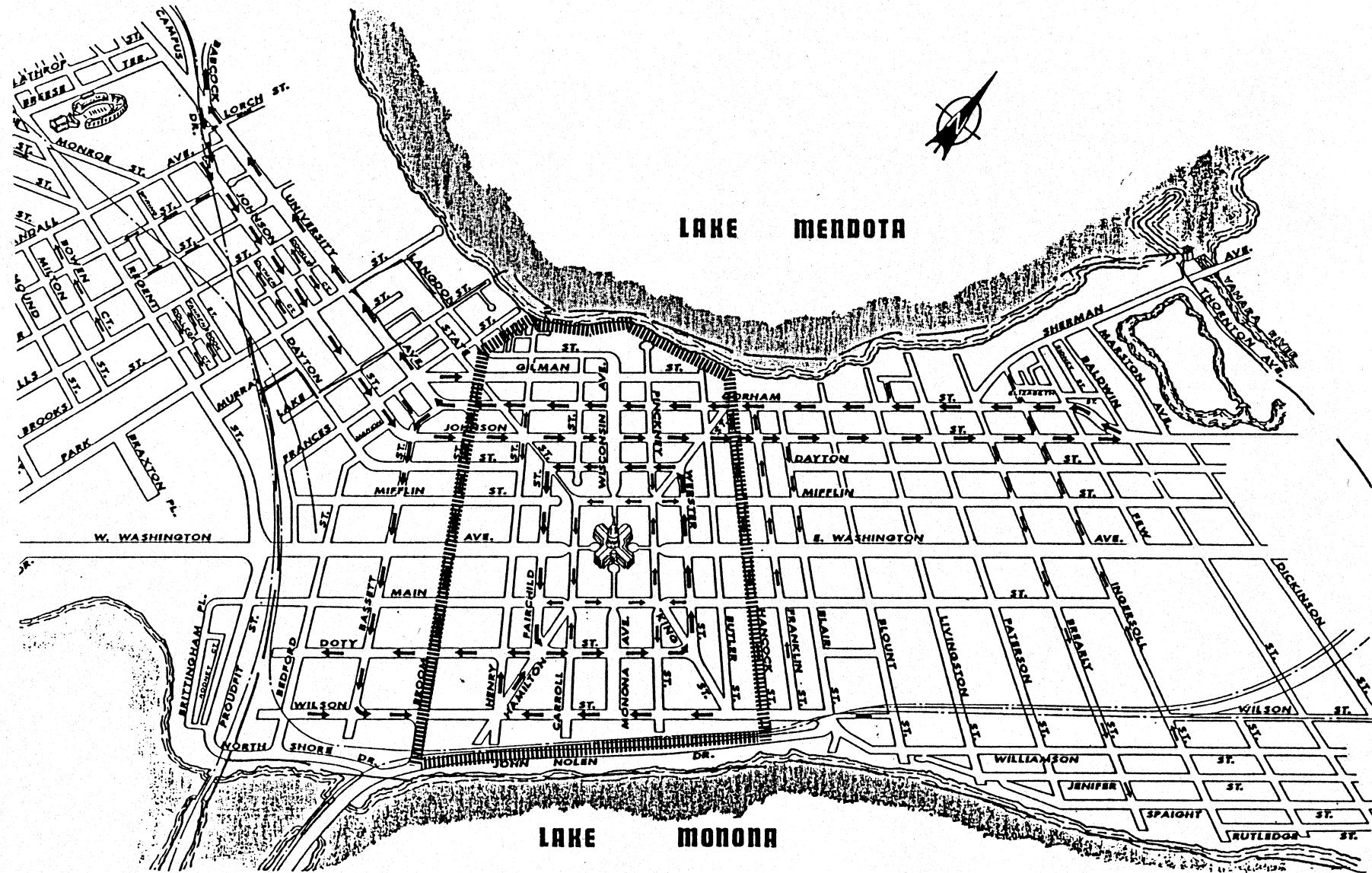
1. Downtown Office Market Segmented by Class

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

36



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." Class B buildings also typically have little functional obsolescence and deterioration. Class C buildings are typically 15 years or older and have some functional obsolescence.

5
6

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

4

Downtown Development Handbook, (Washington, D.C.: the Urban Land Institute, 1980), pg. 45.

5

Ibid.

6

Ibid.

EXHIBIT 15
MADISON DOWNTOWN CLASS A OFFICE SPACE

Building/Address	Net Leasable Square Feet	Vacant Square Feet	Percent of Space Vacant	Annual Rental Rate Per Square Foot	Utilities Included	Janitorial Included	Amenities Included	Parking	Net Leasable Sq. Ft. Per Floor
First Wisconsin Plaza 1 South Pinckney Street	283,641	0	0.0%	\$15.00-\$17.50	Yes	Yes	5,6,8,10	325 Stalls \$64.05/month	24918-50392
United Bank Tower 222 West Washington Avenue	156,482	3,050	1.9%	\$14.80	Yes	Yes	8	246 Stalls \$60/month	13054
Verex 150 East Gilman Street	105,000	0	0.0%	\$10.80-\$16.50	Yes	Yes	3,5,6,8,10	192 Stalls \$52/month	2884-19812
James Wilson Plaza 131 West Wilson Street	103,000	9,300	9.0%	\$12.00	Yes	Yes	3,8	220 Stalls \$58/month	9300
Anchor Savings and Loan 25 West Main Street	89,499	1,094	1.2%	\$10.75-\$13.00	Yes	Yes	8	256 Stalls \$42/month	10000-14000
National Guardian Life 2 East Gilman Street	68,243	0	0.0%	\$13.00	Yes[1]	Yes	8	292 Stalls \$60/month	13500
Lakeview Terrace 131 East Wilson Street	60,000	28,000	46.7%	\$11.00-\$14.00	Yes	Yes	8,11	157 Stalls \$50/month	6000-21000
100 North Hamilton 100 North Hamilton	37,516	13,068	34.8%	\$14.00	Yes	Yes	8,10	72 Stalls \$60/month	5201-8679
Investors Services 217 South Hamilton Street	31,123	0	0.0%	\$10.50-\$12.00	Yes	Yes	4,8	53 Stalls \$46/month	7780
44 On The Square 44 East Mifflin Street	28,000	0	0.0%	\$15.75-\$16.41	Yes	Yes	8	33 Stalls \$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 Leasable Square Feet	Vacant Square Feet	Percent of Space Vacant	Annual Rental Rate Per Square Foot	Utilities Included	Janitorial Included	Amenities Included	Parking	Net Leasable Sq. Ft. Per Floor
The Tenney Building 110 East Main Street	75,000	15,000	20.0%	\$10.00	Yes	Yes	5,8,10	25 stalls \$45/month	8640
Hovde Building 122 West Washington Avenue	67,000	2,010	3.0%	\$10.00	Yes[1]	Yes	8	None	6700
Thirty On The Square 30 West Mifflin Street	54,594	8,190	15.0%	\$8.00-\$8.50	Yes	Yes	8	None	6066
National Mutual Benefit 119 Monona Avenue	41,200	521	1.3%	\$9.00-\$9.50	Yes	Yes	3,5,6,7,10	35 Stalls \$52.50/month	6755
Federal Center 212 East Washington Avenue	39,547	360	0.9%	\$9.50	Yes	Yes	8,10	40 Stalls	9886
Churchill Building North Carroll Street	36,000	10,080	28.0%	\$9.00	Yes[1]	Yes	8	None	4000
AAA Building 433 West Washington Avenue	31,027	0	0.0%	\$5.20	No	Yes	8	61 Stalls Included	5171
14 West Mifflin Street 14 West Mifflin Street	27,430	6,280	22.9%	\$6.00-\$9.50	Yes	Yes	8	None	6860
625 West Washington Avenue 625 West Washington Avenue	24,000	6,000	25.0%	\$7.50-\$8.50	Yes	Yes	5,6,8	43 Stalls Included	10000-14000
Centre Seven 7 North Pinckney Street	20,000	800	0.0%	\$8.50-\$12.00	Yes[1]	Yes	8	None	5000
Provident S & L 126 South Hamilton Street	16,000	0	0.0%	\$8.25	Yes	Yes	8	None	5333
The Atrium 23 North Pinckney Street	15,200	200	0.0%	\$8.50-\$12.00	Yes	Yes	8	None	
333 West Mifflin Street 333 West Mifflin Street	13,863	0	0.0%	\$6.86-\$9.50	Yes	Yes	8	60 Stalls \$35/month	6932
Old Commercial Bank 104 State Street	13,400	3,434	25.6%	\$8.00-\$10.00	No	Yes	7	None	4060
340 West Washington Avenue 340 West Washington Avenue	12,800	5,361	41.9%	\$7.50	Yes	Yes[2]	8	12 Stalls \$40/month	5755-6400
112-116 King Street 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 132 East Wilson Street	10,923	4,435	40.6%	\$8.50-\$12.00	Yes	Yes	1,2,3,4,6,8	28 Stalls \$52.50/month	315-2659
117 Monona Avenue 117 Monona Avenue	10,000	4,100	41.0%	\$9.25	Yes[1]	Yes	1,2,3,4,5,6 8,10	None	1200-3600
Fire Station #2 301 North Broom Street	8,300	0	0.0%	\$9.00-\$13.00	Yes[1]	Yes	1,2,3,4,5,8	13 Stalls \$45/month	2800
125 West Doty Street 125 West Doty Street	8,100	650	8.0%	\$6.50-\$10.50	Yes	Yes	8	10 Stalls	2700
Jackman Building 111 South Hamilton Street	7,900	600	7.6%	\$8.00-\$10.00	No	Yes	3,8	None	2633
Threlfall Building 222 South Hamilton Street	7,900	0	0.0%	\$8.00-\$8.25	Yes	Yes	8,10	5 Stalls \$20/month	2633
Reese Building 302 East Washington Avenue	6,000	2,200	0.0%	\$7.50-\$8.00	Yes	Yes	8	2 Stalls \$30/month	3000
147 South Butler Street 147 South Butler Street	3,700	0	0.0%	\$7.00-\$9.00	No	Yes	8	None	1900
122 South Pinckney Street 122 South Pinckney Street	2,000	2,000	100.0%	\$4.32	Yes	Yes	8	2 Stalls \$52.50/month	1000
103 North Hamilton Street 103 North Hamilton Street	1,700	0	0.0%	\$10.00	Yes	No	7	4 Stalls \$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 Leasable Sq. Ft. Per Floor	Net Leasable Square Feet	Vacant Square Feet	Percent of Space 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 Range per Square Foot*	Net Leasable Square Feet	Vacant Square Feet	Percent of Space 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/ Address	Proposal	Status
Hovde Project/ 14 East Mifflin Street	Class A mixed use development. Approximately 26,000 to 39,000 square feet of office space. 324 indoor parking stalls.	In early stage of development, attempting to obtain TIF financing from city.
Carley Project/ 44 East Mifflin Street	Class A office building. Proposal to add six floors of office space to an existing building. Would add approxi- mately 42,000 square feet of space to the building.	Project is on hold due to weak demand.
American Exchange Project/ 108 East Washington Avenue	Nine-story Class A office building. Approximately 157,000 square feet of office space.	Project is on hold due to weak demand.
Tenney Building Renovation/ 110 East Main Street	Plans call for a glass- enclosed entrance and 212 stall parking ramp between the 1st Wisconsin Bldg. and the Tenney Bldg. Improvements include new mechanical systems, lighting, floor, and wall finishes. Completion 1987.	Renovation work has not yet 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:

Projected employees in 1985 \times Square feet per employee
Percent of downtown square feet surveyed

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 Minitab⁷ 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 RESULTS 1984	PROJECTED FOR 1985	PROJECTED FOR 1986
SQUARE FEET SURVEYED	128,382		
PERCENT OF DOWNTOWN SQUARE FEET COVERED BY SURVEY	8.4%		
EMPLOYEES [a]	506	553 - 528	618 - 614
SQUARE FEET PER EMPLOYEE [b]	254		
SQUARE FEET OCCUPIED DOWNTOWN [c]	1,528,025		
PROJECTED ADDITIONAL OFFICE DEMAND [d]	HIGH LOW	144,142 68,546	*117,173 *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

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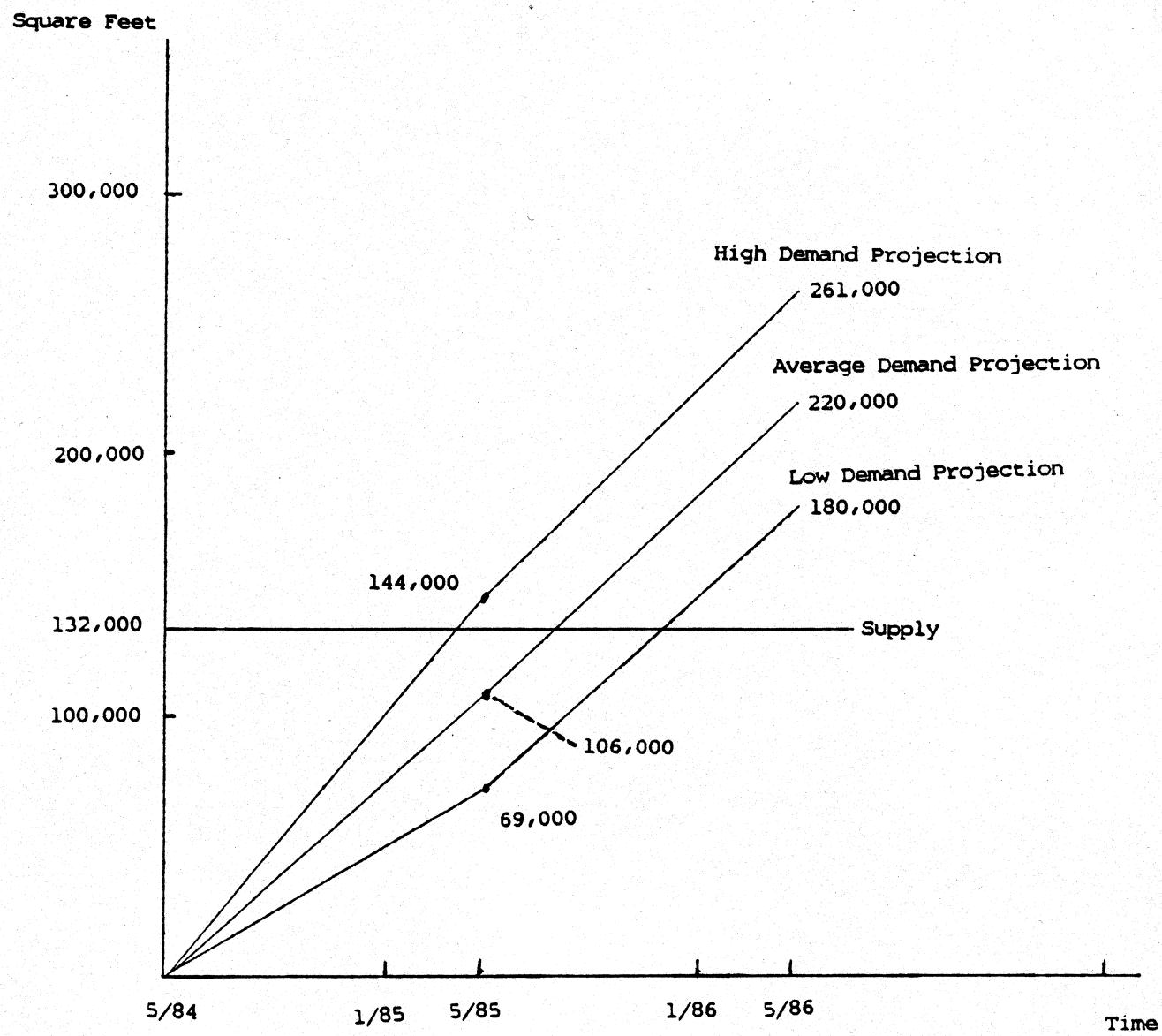
Charles J. Detoy and Sol L. Rabin, "Office Space: Calculating The Demand," Urban Land, June 1972, pg. 13.

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 absorbtion 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 to May 1985	May 1985 to 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 (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 to May 1985	May 1985 to May 1986
Supply	77,000	38,000 to 123,000
+ Upgrade Demand	0 to 85,000	0 to 91,000
- Growth Demand	39,000	42,000
- Tenney Building	0	75,000
+ Proposed Projects	0	0
Surplus (Shortage)	38,000 to 123,000	(79,000) to 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.

10

"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.

The 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

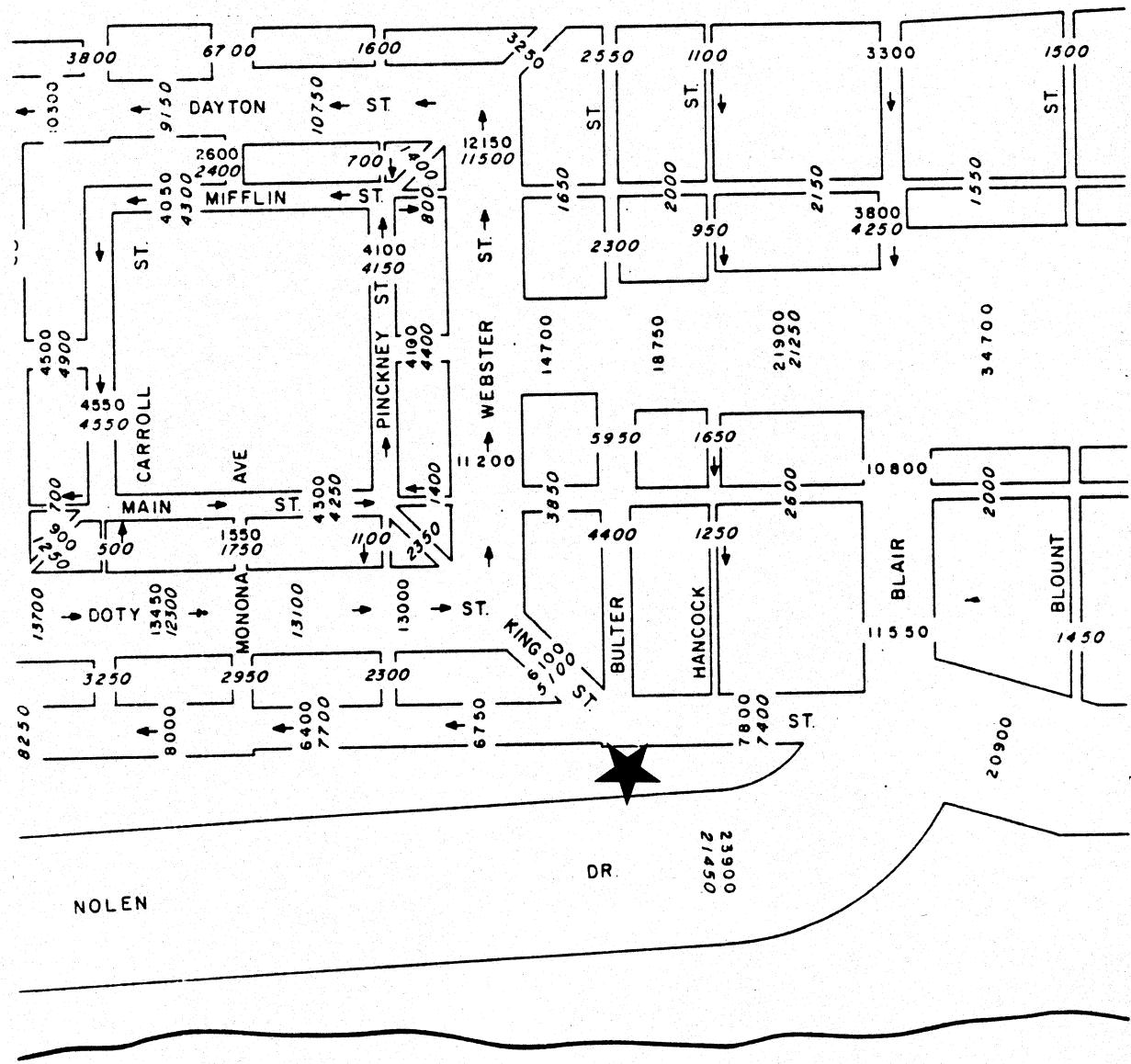
square feet), and 4) leasing to private firms and renovating only the upper four floors (35,490 square feet). With the investment objectives specified by the client, none of the scenarios generated the 20 percent minimum IRR required by the client. However, by being flexible in structuring the limited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



LAKE MONONA

APPENDIX B

MADISON DOWNTOWN CLASS A OFFICE SPACE

As of November 1982

Building/Address	Net Leasable Square Feet	Vacant Square Feet	Percent of Space Vacant	Annual Rental Rate Per Square Foot	Utilities Included	Janitorial Included	Amenities Included	Parking	Net Leasable Sq. Ft. Per Floor
First Wisconsin Plaza 1 South Pinckney Street	286,066	3,900 *	1.4%	\$9.00-\$16.25	Yes	Yes	5,6,8,10	325 Stalls \$64.05/month	24918-503
United Bank Tower 222 West Washington Avenue	154,000	12,782	8.3%*	\$9.50-\$14.00	Yes	Yes	8	246 Stalls \$60/month	13054
Verex 150 East Gilman Street	104,000	0	0.0%	\$10.00-\$16.00	Yes	Yes	3,5,6,8,10	192 Stalls \$52/month	2884-1981
James Wilson Plaza 131 West Wilson Street	103,000	6,180	6.0%*	\$11.00-\$13.00	Yes	Yes	3,8	220 Stalls \$58/month	9300
Anchor Savings and Loan 25 West Main Street	89,499	3,000 *	3.4%	\$10.25-\$11.50	Yes	Yes	8	256 Stalls \$42/month	10000-140
National Guardian Life 2 East Gilman Street	68,240	0	0.0%	\$10.25-\$11.25	Some[1]	Yes	8	292 Stalls \$60/month	13500
Investors Services 217 South Hamilton Street	37,120	5,900 *[2]	15.9%	\$10.50-\$11.90	Yes	Yes	4,8	53 Stalls \$46/month	7780
44 On The Square 44 East Mifflin Street	36,600	0	0.0%	\$15.00+	Yes	Yes	8	33 Stalls \$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 Leasable Square Feet	Vacant Square Feet	Percent of Space Vacant	Annual Rental Rate Per Square Foot	Utilities Included	Janitorial Included	Amenities Included	Parking	Net Leasable Sq. Ft. Per Floor
The Tenney Building 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 \$45/month	8640
Thirty On The Square 30 West Mifflin Street	64,277 [6]	21,033 *	32.7%	\$6.00-\$11.50 [7] Yes		Yes	8	None	6066
National Mutual Benefit 119 Monona Avenue	40,800	9,000 *	22.1%	\$8.50	Yes	Yes	3,5,6,7,10	35 Stalls \$52.50/month	6755
14 West Mifflin Street 14 West Mifflin Street	28,940	11,287	39.0%	\$8.50-\$10.00 [8] Yes		Yes	8	None	6860
Centre Seven 7 North Pinckney Street	20,533	1,200 *[9]	0.0%	\$8.75-\$11.75	Yes	Varies	8	None	5000
The Atrium 23 North Pinckney Street	14,968	0	0.0%	\$8.75-\$11.75	Varies	Varies	8	None	
125 West Doty Street 125 West Doty Street	9,300	3,100	33.3%	\$7.20-\$10.09	Yes	Yes	8	10 Stalls	2633
Fire Station #2 301 North Broom Street	8,400	0	0.0%	\$11.00-\$13.00[10] Some[11]		Yes	1,2,3,4,5,8	13 Stalls \$45/month	2700
Jackman Building 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 147 South Butler Street	4,025	0	0.0%	\$6.00-\$9.00	No	Varies	8	None	1000
122 South Pinckney Street 122 South Pinckney Street	2,000	0	0.0%	\$3.00	Yes	Limited	8	2 Stalls \$52.50/month	1700
103 North Hamilton Street 103 North Hamilton Street	1,766 [13]	1,766 *	0.0%	\$9.50	Yes	No	7	4 Stalls \$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

APPENDIX D (Continued)

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
Manufacturing	(2)		24	40
Wholesale	(3)	2	3	Medical
Retail	(4)		9	Personal/Social Service
Finance	(5)	1	1.5	Government
Real Estate	(6)	3	5.5	Other (list) _____
Insurance	(7)	4	6.5	Business Service
			13	30
			14	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 CapitalI. 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		295,000 E
Interest		0
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 Units	Annual Rent	Annual Income	Year	Vacancy Rates	Income Growth	Expense Growth	Tax Credits
Building Type A								
UPPER 3 FLOORS	36990	\$11.00	406890	1984	87.00%			Rehabilitation
PARKING	22	\$720.00	15840	1985	16.00%	3.00%	3.00%	Credit % 0.20
BOTTOM 2 FLOORS	24660	\$8.50	209610	1986	9.00%	3.00%	3.00%	Rehab. cost \$2,532,900 506,580
BUILDING 4	0	\$0.00	0	etc.	5.00%	3.00%	3.00%	I.T.C.
Building Type B								
BUILDING 5	0	0	0			3.00%	3.00%	.01 * 280,000= 0
BUILDING 6	0	0	0					.10 * 98,00= 0
BUILDING 7	0	0	0					
BUILDING 8	0	0	0					
Total Rental Income	632340							Total Tax Credits 506,580

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Partnership Split	Selling Inputs		Total L.P. Installments			
Cash Flow %			Cap. Rate	1984	1985	1986 1987
LP	95%		0.10000			
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	2452878
NET OPERATING INCOME	50044	333058	371636	399611	411599	423947	436666	449766	463259	477156	3816742
Interest-Refin.	0	0	0	0	0	0	0	0	0	0	0
Depre. Amort	73346	192574	192574	192574	192574	172574	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	3527833
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	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	258532
Add Refin. Diff.	0	0	0	0	0	0	0	0	0	0	0
Cash Flow (CT0)	-18799	-80000	-41422	-13447	-1459	10889	23608	36708	50201	64098	30377
Total Tax Savings+Tax Credit	551445	128449	108034	92759	85292	67433	59147	50394	41128	31297	1215379
Total SCAT	532646	48449	66612	79312	83833	78322	82755	87102	91329	95395	1245756
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

* 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
Less Legal, Closing		0	0	0	0	0	0	0	0	0
Net Proceeds		470414	3130741	3493382	3756343	3869033	3985104	4104657	4227797	4354631
Less Adj. Basis of:										
Land		110000	110000	110000	110000	110000	110000	110000	110000	110000
Improvements		2551477	2408404	2265330	2122257	1979183	1836110	1693036	1549963	1406889
Personal Property		0	0	0	0	0	0	0	0	0
Less commissions		0	0	0	0	0	0	0	0	0
Taxable Gain		-2191064	612337	1118052	1524086	1779850	2038994	2301621	2567834	2837741
Ordinary Gain		-119228	-119228	-119228	-119228	-119228	-119228	-119228	-119228	-119228
Capital Gain		-2071836	731565	1237280	1643314	1899078	2158222	2420849	2687062	2956969
Less Taxes		-473981	86699	187842	269049	320202	372030	424556	477798	531780
Less Loan Balance		2950586	2934911	2916984	2896481	2873032	2846214	2815543	2780466	2740349
Net Ptnrs. Equity		-2006191	109131	388557	590813	675800	766859	864558	969532	1082502
LP Reversion Proceeds	25%	-501548	27283	97139	147703	168950	191715	216139	242383	270625
GP Reversion Proceeds	75%	-1504644	81848	291417	443110	506850	575145	648418	727149	811876
TOTAL ECONOMIC BENEFIT										
LP SCAT+Reversion		26524	78447	164742	226760	252003	268818	297123	327146	359033
GP SCAT+Reversion		-1500069	79133	290427	443365	507630	576363	650190	729489	814798
90										

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		669888	884460	1108559	1328161	1567135	1837593	2143174	2487919	1553035
PV of L.P. Installments (recognized after year 1)		738000	738000	738000	738000	738000	738000	738000	738000	738000
L.P.'s MIRR		-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		

16

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	
2. Financing Fees	0		
3. Real Estate Tax/Special Assessments During Construction	0	C	
4. Title Insurance	0.0%	0 A	271,334

D. Purchase of Improvements

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

2,593

APPENDIX F (Continued)

SCENARIO TWO INVESTMENT RESULTS

STATE/CONVENTIONAL	Number Units	Annual Rent	Annual Income	Year	Vacancy Rates	Income Growth	Expense Growth	Tax Credits
First Year								
Building Type A								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. costs 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%	
Building Type B			0			3.00%	3.00%	I.T.C.
BUILDING 5	0	0	0					.01 * 280,000- 0
BUILDING 6	0	0	0					.10 * 98,00- 0
BUILDING 7	0	0	0					
BUILDING 8	0	0	0					
Total Rental Income	422730							Total Tax Credits 449,747

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Partnership Split	Selling Inputs		Total L.P. Installments			
Cash Flow %		Cap. Rate	1984	1985	1986	1987
LP	95%	0.10000				
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	40563	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	26199
Total Expenses		19578	130300	145394	156338	161028	165859	170834	175959	181238	186675
NET OPERATING INCOME		35377	235446	262718	282494	290969	299698	308689	317950	327489	337313
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
CASH FLOW:											
Add Depre,Amort	68977	178313	178313	178313	178313	158313	158313	158313	158313	158313	158313
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 (CTO)	-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	6024864
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	-4514212
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	60857
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	295391
LP SCAT	465582	15399	26782	34608	37123	29660	31998	34205	36250	38096	151065
GP SCAT	3574	-5681	-4464	-3586	-3218	-2941	-2554	-2158	-1752	-1336	-24118

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
Less Legal, Closing		0	0	0	0	0	0	0	0	0
Net Proceeds		332545	2213190	2469549	2655448	2735111	2817165	2901680	2988730	3078392
Less Adj. Basis of:										
Land		110000	110000	110000	110000	110000	110000	110000	110000	110000
Improvements		2339786	2208583	2077380	1946177	1814974	1683771	1552568	1421365	1290162
Personal Property		0	0	0	0	0	0	0	0	0
Less commissions		0	0	0	0	0	0	0	0	0
Taxable Gain		-2117241	-105393	282169	599271	810137	1023394	1239111	1457365	1678230
Ordinary Gain		-109336	-109336	-109336	-109336	-109336	-109336	-109336	-109336	-109336
Capital Gain		-2007905	3942	391505	708607	919473	1132729	1348447	1566701	1787565
Less Taxes		-456249	-53879	23633	87053	129227	171878	215022	258672	302845
Less Loan Balance		2713780	2699363	2682874	2664016	2642449	2617784	2589574	2557312	2520414
Net Ptnrs. Equity		-1924986	-432294	-236958	-95622	-36565	27503	97084	172746	255132
LP Reversion Proceeds	25%	-481246	-108073	-59239	-23905	-9141	6876	24271	43186	63783
GP Reversion Proceeds	75%	-1443739	-324220	-177718	-71716	-27424	20627	72813	129559	191349
TOTAL ECONOMIC BENEFIT										
LP SCAT+Reversion		-15665	-92675	-32458	10702	27981	36536	56268	77391	100033
GP SCAT+Reversion		-1440165	-329901	-182183	-75303	-30642	17686	70258	127402	189597
10 01										

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
		428777	568815	714123	854573	1003896	1172931	1363891	1579222	219511
FV of L.P. Benefits										
PV of L.P. Installments										
(recognized after year 1)										
L.P.'s MIRR		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 0
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

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APPENDIX G (Continued)

SCENARIO THREE INVESTMENT RESULTS

private/irb/large	Number Units	Annual Rent	Annual Income	Year	Vacancy Rates	Income Growth	Expense Growth	Tax Credits
First Year								
Building Type A								Rehabilitation
UPPER 3 FLOORS	35490	\$11.00	390390	1984	90.00%	3.00%	3.00%	Credit % 0.20
PARKING	22	\$720.00	15840	1985	31.00%	3.00%	3.00%	Rehab. cost \$2,591,529 518,306
BOTTOM 2 FLOORS	24660	\$8.50	209610	1986	14.00%	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	0					
Total Rental Income	615840							Total Tax Credits 518,306

60

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

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
Total Expenses		24131	171504	220172	250509	258024	265765	273738	281950	290408	299121
NET OPERATING INCOME		37453	266174	341705	388789	400453	412466	424840	437585	450713	464234
Interest-Refin.		0	0	0	0	0	0	0	0	0	0
Depre,Amort		74155	195363	195363	195363	195363	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
Mtg. Ins. Pymt	0	0	0	0	0	0	0	0	0	0	0
NET INCOME (loss)		-82704	-200007	-114964	-57455	-34365	10171	36269	64057	93669	125257
CASH FLOW:											
Add Depre,Amort		74155	195363	195363	195363	195363	175363	175363	175363	175363	175363
Deduct Reserves	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 (CT0)		-24201	-103750	-28219	18865	30529	42542	54916	67661	80789	94309
Total Tax Savings+Tax Credit		559658	100004	57482	28727	17183	-5086	-18135	-32028	-46835	-62629
Total SCAT		535456	-3747	29263	47592	47711	37456	36781	35633	33954	31680
LP Tax Savings	99%	40938	99004	56907	28440	17011	-5035	-17953	-31708	-46366	-62002
LP Cum Tax Savings		40938	139942	196849	225289	242300	237265	219312	187604	141238	79235
LP Cash Flow	95%	-22991	-98563	-26808	17922	29002	40415	52170	64278	76749	89594
LP Cum Cash Flow		-22991	-121554	-148362	-130441	-101439	-61024	-8853	55425	132174	221768
GP Tax Savings	1%	414	1000	575	287	172	-51	-181	-320	-468	-626
GP Cum Tax Savings		414	1414	1988	2276	2447	2397	2215	1895	1427	800
GP Cash Flow	5%	-1210	-5188	-1411	943	1526	2127	2746	3383	4039	4715
GP Cum Cash Flow		-1210	-6398	-7809	56790	58316	60444	63189	66572	70612	75327
LP SCAT		531070	441	30099	46362	46013	35380	34217	32570	30383	27591
GP SCAT		4387	-4187	-836	1231	1698	2076	2564	3063	3571	4089

* 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
Less Legal, Closing		0	0	0	0	0	0	0	0	0
Net Proceeds		320051	2274575	2920021	3322378	3422049	3524710	3630452	3739365	3851546
Less Adj. Basis of:										
Land		110000	110000	110000	110000	110000	110000	110000	110000	110000
Improvements		2593855	2448406	2302956	2157506	2012056	1866606	1721156	1575707	1430257
Personal Property		0	0	0	0	0	0	0	0	0
Less commissions		0	0	0	0	0	0	0	0	0
Taxable Gain		-2383804	-283831	507065	1054872	1299993	1548104	1799295	2053659	2311289
Ordinary Gain		-121208	-121208	-121208	-121208	-121208	-121208	-121208	-121208	-121208
Capital Gain		-2262596	-162623	628273	1176080	1421201	1669312	1920503	2174867	2432498
Less Taxes		-513123	-93129	65051	174612	223636	273258	323497	374369	425895
Less Loan Balance		2988348	2889242	2780623	2661580	2531111	2388119	2231403	2059646	1871403
Net Ptnrs. Equity		-2155173	-521538	74347	486186	667302	863333	1075552	1305350	1554248
LP Reversion Proceeds	25%	-538793	-130385	18587	121546	166825	215833	268888	326338	388562
GP Reversion Proceeds	75%	-1616380	-391154	55760	364639	500476	647500	806664	979013	1165686
TOTAL ECONOMIC BENEFIT										
LP SCAT+Reversion		-7723	-129944	48686	167908	212838	251213	303105	358908	418945
GP SCAT+Reversion		-1611993	-395341	54924	365870	502175	649576	809228	982076	1169257
11 00										

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		464854	715353	948287	1138787	1339811	1561960	1807148	2077453	558182
PV of L.P. Installments (recognized after year 1)		751000	751000	751000	751000	751000	751000	751000	751000	751000
L.P.'s MIRR		-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		

TOT

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	275,934	E
Interest	0	
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

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 Units	Annual Rent	Annual Income	Year	Vacancy Rates	Income Growth	Expense Growth	Tax Credits
First Year								
Building Type A								Rehabilitation
UNION TRANSFER BLDG.	35490	11	390390	1984	90.00%	3.00%	3.00%	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%	
Building Type B			0			3.00%	3.00%	I.T.C.
BUILDING 5	0	0	0					.01 * 280,000=
BUILDING 6	0	0	0					.10 * 98,00=
BUILDING 7	0	0	0					
BUILDING 8	0	0	0					
Total Rental Income	406230							Total Tax Credits 461,873

File: INCOME

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Partnership Split	Selling 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
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
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 (CT0)	-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
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
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
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
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:

MIRR Calc. (L.P.)

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		

901

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

