[Appraisal of Tenney Building at One Ten East Main Street, Madison, Wisconsin].

Landmark Research, Inc.
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Landmark
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Inc.

2575 University Avenue, Madison, Wisconsin 53705

August 16, 1976

Mr. Richard C. Glesner
Ross & Stevens, S. C.
First Wisconsin Plaza
One South Pinckney
Madison, Wisconsin 53703

Dear Mr. Glesner,

With this letter we are transmitting to you the appraisal requested for the Tenney Building at One Ten East Main Street, Madison, Wisconsin.

My associate, K. Edward Atwood, accounting instructor and real estate analyst, and myself inspected the Tenney Building with building manager John Schwab on Wednesday, June 30, 1976 and we have visited various bank staff specialists on the subject premises many times since. We were provided a monthly accounting history but it was necessary to reconstruct these records in accordance with appraisal methods. We were provided access to all leases and it was necessary to reconstruct actual occupancies and rates for space by relating leases to actual receipts. While many leases represented market rents for space, it was necessary to substitute market rents for actual lease terms for bank occupied space. We have been careful to distinguish among and between land owned and land properly part of the Tenney project, structure, and chattels, but of little income value to a second owner purchasing the property for investment.

Our value assumes a cash sale of the property rather than sale at non-market financial terms extended by the present owner. We have corrected for certain errors in land area allocation which exist on the tax records due to the identical ownership of the Tenney Building and the neighboring First Wisconsin Plaza. These assumptions are necessary to be consistent with Wisconsin Real Estate Tax Law as the purpose of this appraisal is to serve as a basis for real estate tax assessment valuation as of May 1, 1975.

As further explained in the report, the market approach to value and the cost approach to value are inapplicable at the present time to this building. Therefore our estimate is based on the income approach, utilizing somewhat optimistic cash revenue and cash outlay forecasts, specifically the mortgage equity approach as generally approved by Judge George R. Curry relative to valuation of the James Wilson Plaza office building here in Madison in 1974 (specific details provided with in the report).

Based on the assumptions, limiting conditions, and property tax law as presented in the attached report, it is the opinion of the appraiser that the highest most probable price in dollars and fair market value of the subject property, more precisely described herein, which might be obtained as of May 1, 1975 is the amount of:

ONE MILLION, ONE HUNDRED AND FORTY THOUSAND DOLLARS
($1,140,000)

We are pleased to have been of service and Mr. Atwood and I remain available to answer any specific questions you may have regarding this report. Please give us adequate notice as to date, time, and location of presentations to the Madison real estate tax assessor or related boards.

Sincerely yours,

James A. Graaskamp

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

K. Edward Atwood

K. Edward Atwood
Accounting Specialist

Tenney Building
110 E. Main St.
Madison, Wisconsin

west
Front facade facing southeast
from Pinckney and E. Main
intersection

east
Rear facade facing northwest
from Webster St. and E. Main St.

Landmark Research, Inc.

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[redacted]

EXHIBITS

[redacted]

TENNEY BUILDING

I. STATEMENT OF PURPOSE AND DEFINITION OF VALUE

A. Purpose of Appraisal

This appraisal is requested as a measure of fair market value as of May 1, 1975 to serve as a basis for assessed value for land and buildings in the City of Madison, Dane County, Wisconsin. The controlling statute in Wisconsin is Section 70.32, Stats., which provides in part:

> "Real estate, how valued. (1) Real property shall be valued by the assessor from actual view or from the best information that the assessor can practicably obtain, at the full value which could ordinarily be obtained therefore at a private sale."

B. Definition of Value

Such a sale implies another user and not the original owner-builder. "Full value" as that term is used in the above-quoted statute means "Fair market value"; that is, the amount for which the property in question could be sold on the open market by an owner willing but not compelled to sell to a purchaser willing but not obligated to buy. State ex rel. Lincoln F. Warehouse v. Board of Review (1973), 60 Wis., (2d) 84, 89.

C. Date of Appraised Value

The appraised value and methodology utilized to determine that value should provide a consistent method for reappraisal to reflect conditions of refurbishing and improved operations of the office building enterprise on May 1, 1976 and May 1, 1977.

II. DEFINITION OF PROPERTY TO BE APPRAISED

A. Property Identification

The subject property of this appraisal is the TENNEY BUILDING in downtown Madison, Wisconsin, identified as 110 East Main Street (see Exhibit 1 for location on Madison Square), and more specifically identified for tax purposes as:

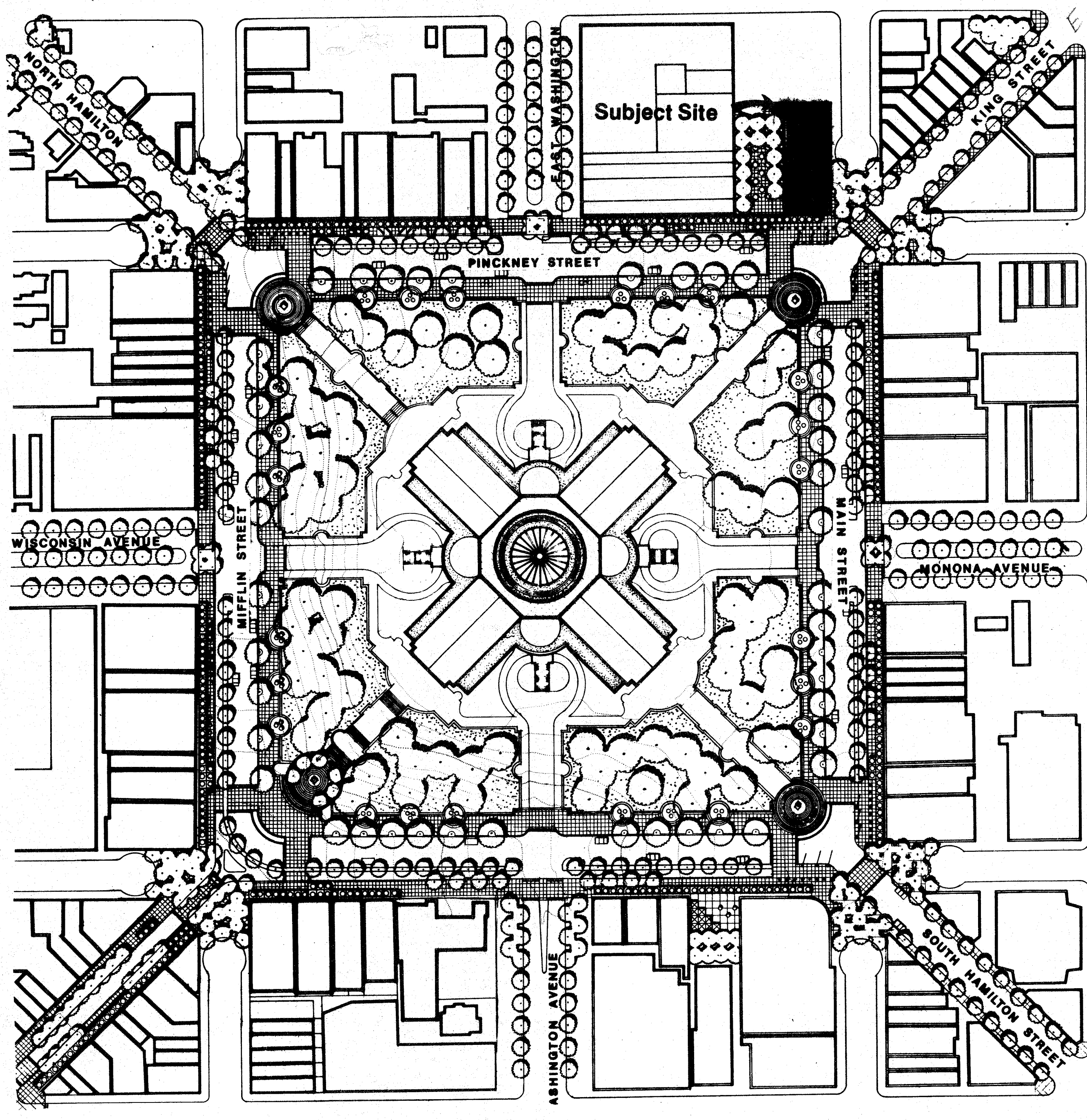
Tax parcel number 0709-133-2901-1

B. Legal Description

The legal description of the subject property as provided by attorney Richard C. Glesner of the law firm, Ross & Stevens:

[redacted]

Exhibit 1



[redacted]

Lots 7 and 8 and the south one-half of Lot 6 of Block 102, Original Plat of Madison. (See Exhibit 2 and Section IV, A-1 for correction of land area visa vis current tax record which is incorrect relative to above tax parcel number.)

C. Qualification of Property Interests

The appraisal is to include only the real estate interests at the above location and will therefore exclude the value of all personalty subject to the personal property tax whether utilized in general building operations or specialized for tenant leasehold improvements.

III. DEFINITION OF FAIR MARKET VALUE APPRAISAL METHODOLOGY

A. General Approaches to Value

The appraisal process would prefer to base valuation estimates on actual sales of comparable property where buyer and seller were under no special duress and where no special financing, not obtainable in the marketplace, was provided by the seller.

1. In Madison there has been only one sale of a structure comparable to the Tenney Building, specifically the sale of the Wisconsin Power and Light Building on West Washington Avenue, to Donald Hovde for renovation and remarketing as the Hovde Building. As will be shown this building was in somewhat better condition and was, in fact, a transaction financed originally by the seller.

2. The more recent 1975 sale of 30 on the Square involved not only a relatively new building of comparable size to the subject but was a sale in bankruptcy at judicial sale, November 17, 1975, by James Bloor, reorganization trustee, representing the U.S. District court for the southern District of New York State. Thus the sale was under duress and in addition, included a favorable 6% mortgage with 15 years to run, thus violating both conditions of a fair market transaction.

3. The subject property itself was purchased by The First Wisconsin Bank Corporation, which was under duress to extinguish certain easements to the benefit of the Tenney Building which made construction of the new First Wisconsin Bank Plaza Building on the balance of lot #102 impossible. This sale of the Tenney Uuilding was admitted by both the Madison Assessor and the grantor and grantee to be a non-market transaction in certiorari in Dane County Circuit Court and under the decision of Judge George R. Currie in case #140-201, Wild, Inc., the relator, relative to the office building known as James Wilson Plaza.

Therefore, application of the market approach is limited by an absence of sales which meet the test of freedom from duress, freedom from nonmarket financing terms offered by seller, as well as reasonable comparability. An effort will be made to adjust these

[redacted]

Exhibit 2

[redacted]

sales to provide a rough benchmark of market value (see Section V), but a more appropriate appraisal methodology in this case would be the income approach.

B. Relevance of Income Approach

An office building is a vehicle for purchase of investment income and appreciation, not unlike any other cash cycle investment with a series of returns. The relationship of outlays and receipts in time and quantity determines investor rate of return. Conversely, if the investment return desired is assumed and net receipts can be estimated, the relationship can be reversed to determine the maximum outlay, i.e., probably purchase price, which could be justified by the investor.

C. Legality of Income Approach

The Wisconsin Supreme Court generally prefers the price determined from fair sale of comparable property as the best approach to fair market value, but where the fair market value is not established by a sale or sales of the property under consideration for similar property, the assessor is required to consider all the facts and circumstances which have a bearing on the property's fair market value including occupancy, rental conditions and income.

1. The Supreme Court of Wisconsin has stated:

"If income be considered and the capitalization-of-income the formula be applied, net income, not gross income should be considered."

2. More recently in Dane County Circuit Court, Judge George R. Currie instructed the City of Madison Board of Review in Case #140-201, Wild, Inc., the relator, relative to the office building VIP Plaza, as follows:

"The Property Assessment Manual for Wisconsin Assessors published by the Wisconsin Department of Revenue states (at p. 29), that for "Apartment Buildings", "Office Buildings", and "Store Buildings", the "Income Approach" to valuation is the "most applicable" where actual sales data of the property or comparable property is unavailable. This manual is issued pursuant to sec. 73.02 (2a), Stats., and is for use of assessor in assessing real property."

"The use of an income approach to valuation in arriving at the fair market value of property has often been approved by the Wisconsin Supreme Court. State ex rel. Garton Toy Co. v. Mosel, supra, 259; State ex rel. I.B.M. Corp., supra, 311-313; Rahr Malting Co. v. Manitowoc (1937), 225 Wis. 401, 405; State ex rel. Northwestern Mutual Life Ins. Co. v. Weiher, supra, 450.

"Moreover, it must always be kept in mind that in attempting to arrive at the fair market value of real property for tax assessment purposes the yardstick is the amount for which the property could be sold on the open market by an owner willing but not compelled to sell to a purchaser willing but not obligated to buy. In purchasing an investment property, such as the V.I.P. Plaza or el Esplanade, the prospective purchaser-investor will expect a fair return on his investment and is sure to be more interested in the potential income of the property than the cost of its brick and mortar. This is equally true whether he is purchasing a completed building or one only half completed."

D. Limitations of the Cost Approach

The cost approach to value is limited to those situations where improvements are new and represent the optimum use of the site in question. The subject property was built in 1928, its equipment is obsolete, and its layout does not lend itself to efficient modernization. As the income approach will reveal, the building as presently constituted barely provides a return on the land values.

E. Income Approach Methodology Selected

The income approach selected assumes the fair market value of the property is the most probable price the subject will bring if offered in the marketplace as an investment property for a reasonable period of time and sold subject to financing terms typically available for such an investor at the time of sale.

1. Income Approach Techniques

The investor will purchase the project for cash income as a return to his own cash invested plus a deferred cash return to be realized upon sale from equity accumulation attributed to amortization of mortgage debt, to an increase in cash earnings from building due to effective management and marketing, and possibly due to general inflationary price increases. Cash returns are therefore not level but will vary from year to year, hopefully increasing as certain current problems in building management and marketing are corrected. A variety of assumptions will need to be made for revenues and expenses as well as future resale values.

2. Income Tax Impacts on Purchase Price

Many real estate decisions are influenced by federal income tax status of purchasers. Should the purchaser be tax exempt, such as a pension fund, it would view the building without regard to tax shelter but might require an overall lower rate of return, say 8% cash-on-cash and 10% overall return to its equity dollars. It would, however, need to hire property management. A private investor will be influenced by his Federal Income Tax status but not to the degree supposed by the layman. For office buildings such as the subject property, the IRS rules limit second owners to a straight line depreciation method only;

moreover, there is full recapture of depreciation shelters in excess of straight line for additional capital improvements made by the second owner. Thus, the owner would seek 12% cash-on-cash plus 3-6% from equity accumulation.

3. Appraisal System Selected

To discount the cash flows from earnings and resale to both a tax exempt or a taxable purchaser, a computerized system has been selected called Investment Market Value. This system is available in the library of EDUCARE network, a computer timesharing service operated for and under the control of the three leading appraisal organizations, The American Institute of Real Estate Appraisers, The International Society of Real Estate Appraisers, and The American Society of Real Estate Counselors.

4. Discounted Cash Flows

The IMV system utilizes a discounted cash flow system which will reflect the proportionate interests of those financing purchase, the municipality seeking its prorata share of economic productivity, and the cash and reversion returns to the ownership position after prior claims of real estate taxes and mortgage lenders have been met. The system provides values on both a before and after tax basis to the ownership position.

IV. PHYSICAL ANALYSIS OF SUBJECT PROPERTY

The market value of the project depends on comparability to substitute comparable investments or the income investment productivity which can be attributed to the interrelationship of the physical site and improvements, both existing and with modifications if necessary. In analyzing the subject property it is useful to review the physical attributes of the site and improvements, the legal attributes constraining use of the parcel, the linkages of the property location to generators of office and retail demand which will determine its revenue potential, and the dynamic attributes of the site, that is, how people perceive and behave relative to the property.

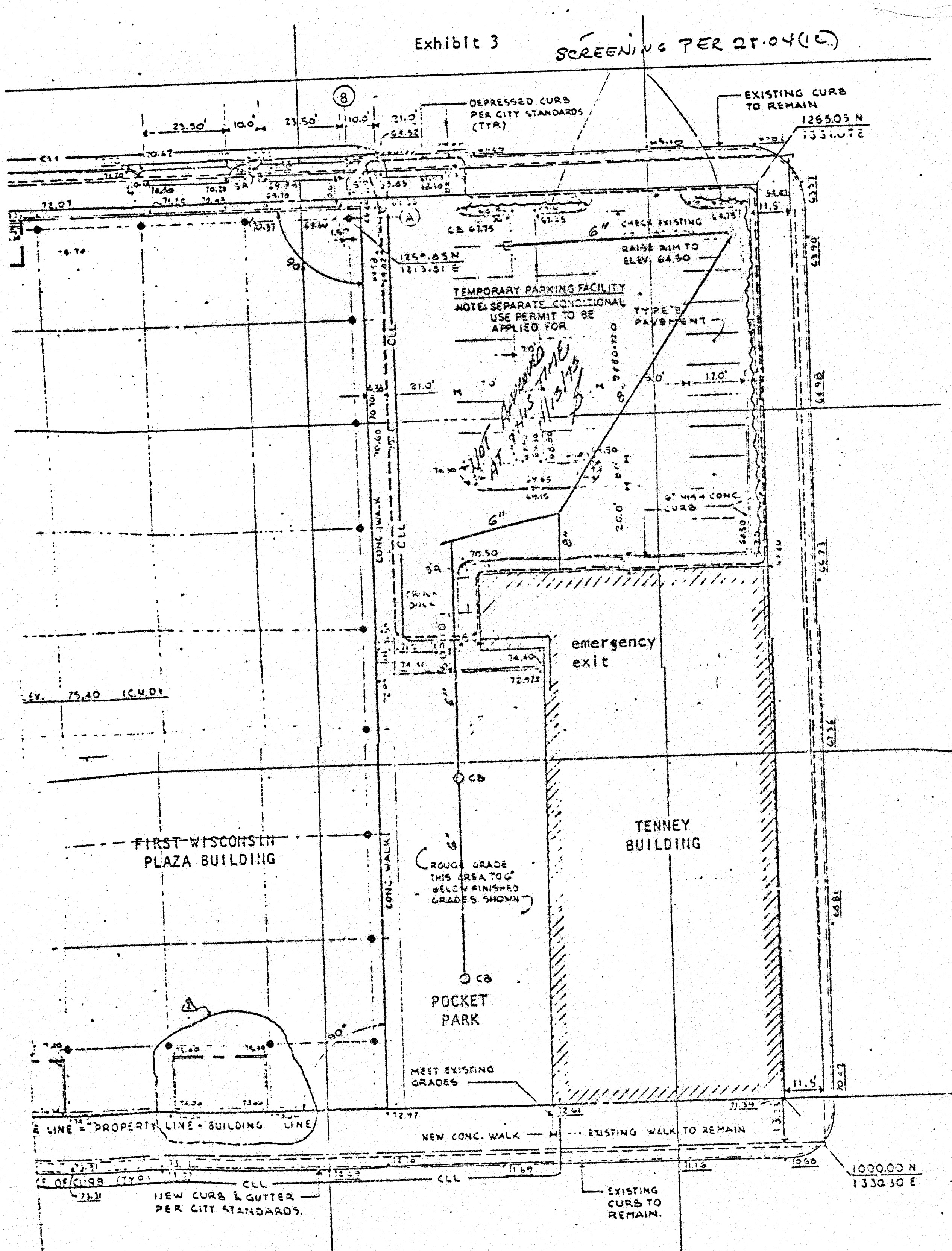
A. Physical Attributes of the Site

The subject property is located on the northeast corner of East Main and South Pinckney Streets, extending through to Webster Street on the east as identified on the general area map of Exhibit 1 and dimensioned on the parcel map of Exhibit 2.

1. Area

All of Block 102 is presently owned by the First Wisconsin Development Corporation but the 87,120 square feet must be allocated between the Tenney Building and the First Wisconsin Plaza. City tax records indicate 10,582 square feet are allocated to the Tenney Building tax

Exhibit 3



SCREENING PER 28.04(12)
DEPRESSED CURB PER CITY STANDARDS (TYP.)
EXISTING CURB TO REMAIN
1265.05 N
1259.85 N
TEMPORARY PARKING FACILITY
NOTE: SEPARATE CONDITIONAL USE PERMIT TO BE APPLIED FOR
CHECK EXISTING
RAISE RIM TO ELEV. 64.50
TYPE 'B' PAVEMENT
NOT APPROVED AT THIS TIME 11/3/75
6" HIGH CONC. CURB
CONC. WALK
CLL
emergency exit
TENNEY BUILDING
FIRST WISCONSIN PLAZA BUILDING
ROUGH GRADE THIS AREA TO 6" BELOW FINISHED GRADES SHOWN
POCKET PARK
CB
MEET EXISTING GRADES
LINE = PROPERTY LINE = BUILDING LINE
NEW CONC. WALK
EXISTING WALK TO REMAIN
NEW CURB & GUTTER PER CITY STANDARDS.
EXISTING CURB TO REMAIN.
1000.00 N
1330.30 E

parcel. ~~However~~, the Tenney Building parcel should includes Lot 8, 66 x 132 ft., fronting on S. Pinckney Street, plus Lot 7 plus 33 ft. of Lot 6, 99 x 132 ft., fronting on Webster Street, less 165 sq. ft. which is part of the vest pocket park attached to the First Wisconsin Plaza. This area totals 21,615 sq. ft. In addition, the Tenney Building Site enjoys the privilege of certain vaulted spaces below the sidewalk of East Main Street (transformer vaults and storage) and on the South Pinckney Street frontage (boiler room and related storage), totaling approximately 1600 sq. ft.

66
42
108 x 132 = 14256
66 x 132 = 8712
22968

THIS APPRISAL ASSUMES THAT IF THE TENNEY BUILDING PARCEL WERE SOLD ON MAY 1, 1975, IT WOULD INCLUDE A SITE AS DESCRIBED OF 21,615 SQ. FT. AND THAT TAX ASSESSMENT RECORDS FOR THE PARCEL NUMBER WOULD BE CORRECTED ACCORDINGLY.

2. Topography

The Capitol Square area is a hill between Lake Mendota to the north and Lake Monona to the south. The hill drops sharply to almost lake level within three blocks of the Square, giving prominence to the Capitol and major business buildings at the city's center. Accent on this elevation is strengthened by controls on building height within a mile of the Capitol. (See Section B-1 on Legal Attributes of Site)

The subject site (see Exhibit 3) slopes from Pinckney to Webster approximately 8 feet so that the main lobby on the East Main Street side is approximately three feet below the main floor level opening on Pinckney Street and there is no at-grade entrance to the parking lot at the rear of the site. Indeed, the original designers of the building were unable to provide an adequate loading dock to the former alley so that all materials for building operations must arrive through the front lobby or through a sharply pitched ramp and stairs dropping some eighteen feet to the second sub-basement. This next entrance can be reached by truck from parking lot opening on Webster.

3. Soils

Soil conditions are essentially sandy loam and very suitable for high rise construction.

4. Sewer Service

There is an 8-inch sewer main on East Main Street and a new 6-inch lateral to the subject property to replace sewer and storm water lines that were in an alley easement vacated to permit construction of the First Wisconsin Plaza. There is a single 4-inch water line serving the subject property from East Main Street.

5. Storm Water Access

Reference to Exhibit 3 will indicate newly laid storm water lines and catch basins serving the pocket park, existing building, and temporary parking facility with 8-inch lines to a catch basin at the southeast corner of the parcel and connected to storm water collector on East Webster Street.

6. Other City Services

The tax parcel receives City of Madison fire and police protection and city maintenance and plowing of sidewalks, 11.5 ft. wide on East Main Street, and 13 ft. wide on South Pinckney Street.

7. Special Site Improvements

In addition to the Tenney Building which occupies ground area of 65.6 x 155 ft. plus a service area of 22 x 18 ft., or a total of
10,564 10,548.5 sq. ft., there is a temporary parking lot for 27 cars which is approximately 110 x 99 ft. or 10,890 sq. ft. Approximately 176.5 sq. ft. are part of a paved walkway serving a fire exit as
No — noted in Exhibit 2. The parking lot is screened with a hedge of honeywuckle shrubs and honey locust trees within a 6-inch concrete curbing. The parking lot is temporary according to terms of conditional use permit discussed under legal attributes.

105640 - 10 flrs
4700
110340

The vest pocket park adjoining the Tenney Building is part of the First Wisconsin Bank Plaza Building. There is no access to this mall from the Tenney Building except for the emergency exit fire door at the rear of the mall.

There is an electrical transformer vault below the sidewalk on East Main at the rear of the building and additional storage vaults below the sidewalk for a width of 10 ft. and a distance of 132 ft. to the corner of the building at East Main and Pinckney Streets (see Appendix A). These vaults encroach on the City of Madison right-of-way by privilege of the City Council and no rents are paid. The city engineering office indicates that the ceilings of these vaults and the sidewalks above will need to be reinforced or replaced within the next two years.

B. Legal-Political Attributes of Site

The subject property is zoned C-4, Central Commerical District. This district is intended to accommodate uses which are of city-wide, regional, or governmental significance. In addition, retailing and specialized commerical activity such as restaurants are appropriate. All new construction and any major alteration of an exterior building face must be approved because of the community's objective to develop and maintain this district as a community and state-wide center for business, service and government. However, broad zoning or permissible uses under C-4 will be modified by a variety of statutory and administrative factors peculiar to downtown Madison at this time.

1. Capitol View Preservation

According to Section 28.04 (14) (B) of the Madison General Ordinance: All buildings or structures erected, altered or enlarged shall be subject to the following regulation:

No portion of any building or structure located within one mile of the center of the State Capitol Building shall exceed the elevation of the base of the columns of the Capitol or one hundred eighty-seven and two-tenths (187.2) feet.

This subsection was established to preserve as well as to promote and enhance the view of the State Capitol Building. The Tenney Building roof is just within the elevation limit but elevator housings encroach on the Capitol view zone to a height of approximately 204 feet.

2. Madison Planning Commission

Any new construction or any major alterations of the exterior face of the buildings located downtown, shall be permitted only when approved by the Madison Planning Commission.

3. Capitol Concourse Project

The City of Madison is attempting to refurbish the retail core area of downtown Madison with a combination of actions which may be called The Capitol Concourse/State Street Mall project. The general plan in Exhibit 1 is further detailed in Exhibits 4 and 5. As downtown property owners are expected to finance the major portion of public cost through special assessment, major plans have been compromised to a reallocation of street area into landscaped pedestrian areas with reduced traffic or some auto free zones, augmented by public transit and shuttle bus service. Presumably these steps will increase commercial activity, partly at the expense of modern, existing suburban shopping centers, because of improved sensitivity to the pedestrian, improved aesthetics, and a reduction of air and noise pollution. Phase I has already altered some traffic patterns to provide a bypass loop around the Square for traffic formerly entering from East or West Washington Avenue and elsewhere. Sewer construction and the threat of special assessment has already accelerated withdrawal of some retailers from the Square as their circumstances permitted. These current retail vacancies are noted on Exhibit 7. At this time it is not clear that the Concourse Plan will improve the investment value of the subject property.

The Capitol Concourse project will be financed by a special assessment prorated by land area and divided between two starting dates. At this time John Urich of the City of Madison Planning Department indicates that the special assessment prime rate will total 2.13, and according to present contract schedules, partial prime rate of $.88 per sq. ft. will be payable in fiscal year 1977 and the balance of $1.24 will be payable in 1978. This total assessment can be amortized by the taxpayer with 10 annual payments at 8%. The prime rate applies to a district 137 ft. deep from Pinckney Street while the balance of the

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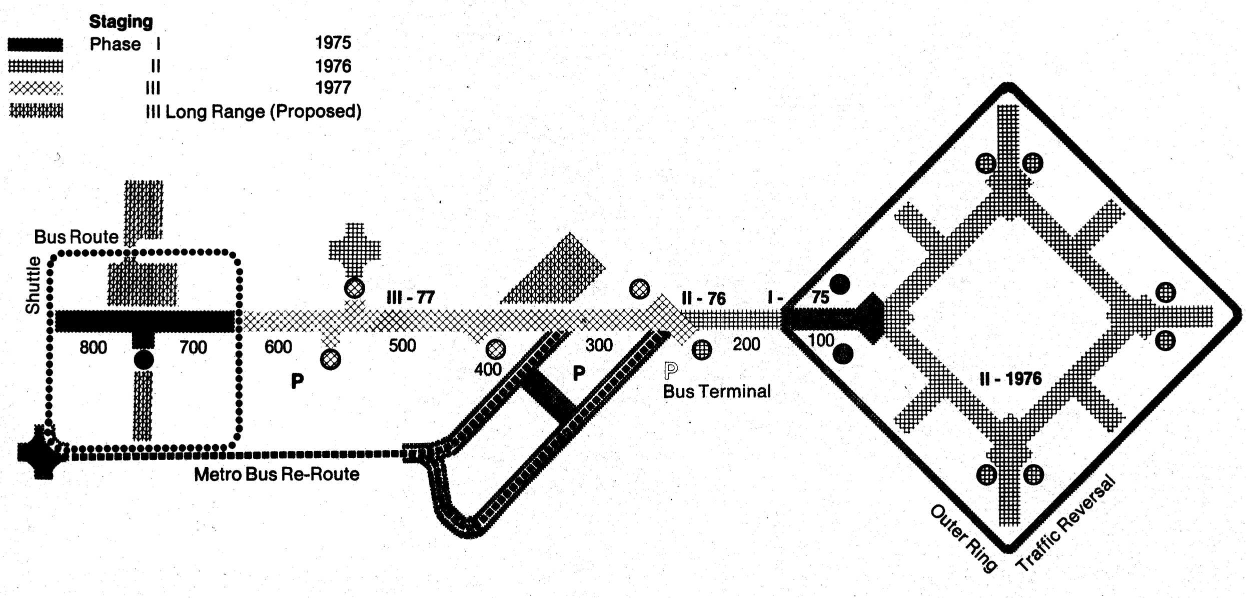
Exhibit 4



Long range proposals which cannot be assigned a time frame at this time include: 1. Performance plaza with its parking ramp, low-rise residence and shopping arcade, 2. Library Mall and a one story parking deck below grade and, 3. Eventual "back door" service provision for the north frontages of the 500 and 600 blocks of State Street.

Construction costs were determined by estimating 1974 figures for Phase I, adding escalation, and extrapolating these costs to the Phase II and III areas. The schedule shows $550,000 for the 700-800 block, and $320,000 for the 100 block, totalling $870,000 for Phase I, $5,400,000 for Phase II, and $2,200,000 for Phase III, totalling $8,470,000. The overall costs break down to $10.50 per square foot and $740.00 per linear foot. These unit costs compare well with other malls of this type with partial or full canopies. In view of the present monthly escalation of construction costs of 1.5% it is critical that the schedule be maintained to achieve the budget goals.

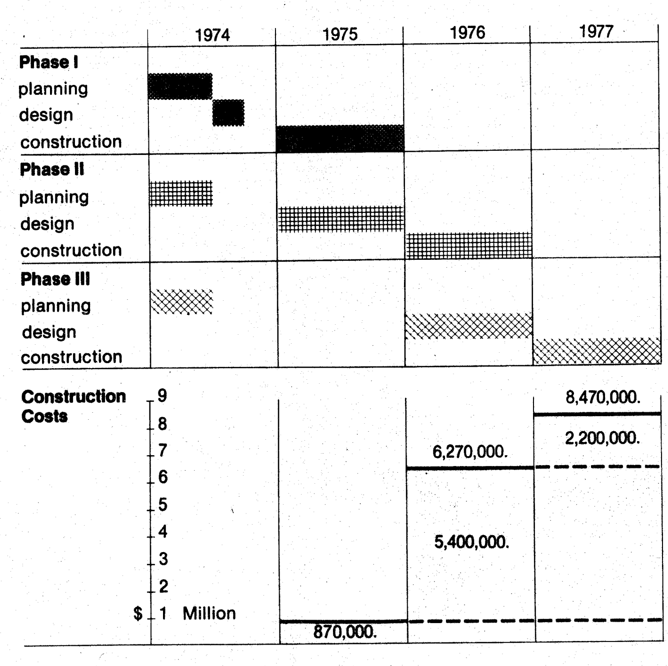


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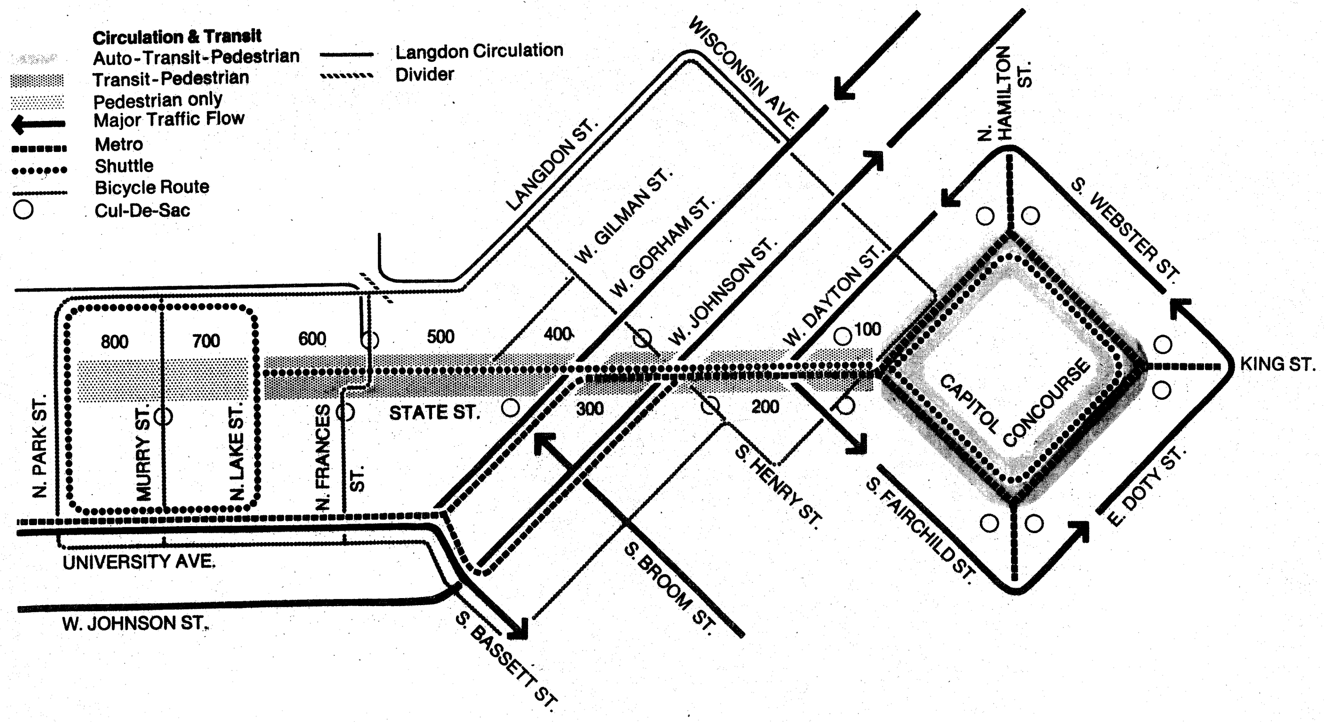
Exhibit 5



Parking

The plan's recommendations for parking are to be viewed as a strategy for attaining a comprehensive off-street parking program. Proposed is one approach — a program of enlargement of the existing public parking space pool. Surface lots would be expanded in the following locations: Buckeye Lot — 58 cars; Madison Motor's property — 119 cars; Lake Street ramp extension — 117 cars. Total space to be provided will be 294 cars, which represents 211 additional parking spaces for the downtown when the existing 83 State Street curb spaces are removed. Acquisition and site improvement costs for the Madison Motor property and that adjacent to the Buckeye Lot is $850,000. Money presently is budgeted by the parking utility for purchase of the Lake Street expansion site. Therefore, no charge will accrue to the project for this improvement.

Temporary parking would be provided in the cul-de-sac streets, with the exception of Frances Street, during the initial phases of the project. A total of 150 such spaces can be provided at virtually no cost. They will minimize disruption, assist in the transition period when on-street parking is removed, and later revert back to a pedestrian and service function.

An alternate approach would be the coordinated development of the many small surface lots in private ownership. This would require commitments and cooperation among businesses and owners to share parking use of the lots and action by the city to acquire public easements for access and provide public services. The organization of these parcels by the Central Madison Committee or other business groups represents one opportunity to contribute to the project by defraying its total cost. Public and private sector partnership is critical to the success of this approach.

Long-range recommendations for a parking ramp to be constructed in conjunction with the future University Library Mall will accommodate 165 cars, or about 50 more than those to be removed from Murray Street and the Student Union Lot. The deck proposal in the 400 block area will hold 135 cars and serve the new shops, housing, and performance plaza, as well as that section of State Street where present parking is least adequate. Estimated cost is $4,000 per space or $540,000.

A future bus terminal site at West Dayton and South Henry Streets is now under consideration by the City. Parking provided at the terminal also will serve the Art Center and Auditorium during off-peak hours. The number of spaces to be provided is as yet undetermined.

[redacted]

.30 of 2.135,639

block or 127 ft. to Webster will be assessed at 30% of the prime rate. Thus the partial rate for the secondary districts will be \$.26 per sq. ft. in fiscal year 1977 and \$.37 in fiscal year 1978. The Estimated annual amortization payment for contracts 1 and 2 of Phase II, and the annual payments by the Tenney Building for assessment on contracts 3, 4, and 5 are calculated below:

(.88 X 1) X 33 X 2 X 137 =	9,042 sq.ft. X .88	= \$ 7,956.96
(.88 X.3) X 33 X 3 X 127 =	12,573 sq.ft. X .88 X.3 =	\$ 3,319.27
Tax Parcel Totals	= 21,615 sq.ft.	\$11,276.23

Total assessment converts to \$1,680.49 for 10 years at 8% starting fiscal year 1977

(1.24 X 1) X 33 X 2 X 137 =	9,042 sq.ft. X 1.24	= \$11,212.08
(1.24 X.3) X 33 X 3 X 127 =	12,573 sq.ft. X 1.24 X.3 =	\$ 4,652.01
Tax Parcel Totals	- 21,615 sq.ft.	\$15,864.09

Total assessment converts to \$2,364.22 for 10 years at 8% starting fiscal year 1978

To encourage pedestrian activity and movement on the completed Concourse, John Urich of the City of Madison Planning Department has indicated his department will attempt to discourage by administrative review and, if possible, by new ordinances, the use of ground floor space for private office facilities. Restaurants, banking tellers, retail stores, theaters and the like will create the desired pedestrian activity over broader spans of day and night than office space. Thus there is an administrative constraint of alternative uses of the street level floor area of the subject property if it were not used for retail.

4. Conditional Use Permit for Parking

The surface parking for 27 cars presently provided on the East Main and South Webster corner is based on a conditional use permit which would expire should it not be used for parking for a period of six months. It was issued as part of the construction permit requirements relative to the First Wisconsin Plaza and might require renewal should the subject property be sold to a third party unrelated to the bank. City planners would prefer enclosed parking on the approaches to the Concourse.

5. Tenant Lease Encumbrances

The majority of leases for space in occupied areas of the Tenney Building (see Exhibit 12) can be terminated in one or two years.

[redacted]

The present owners have been undecided for several years as to whether to tear down the existing building and replace with an extension of the First Wisconsin Plaza, to refurbish the building as an alternative as rental investment property, or to sell the building as is. In the latter case a possible buyer would be either a developer who would like the freedom to move tenants around as remodeling progressed or a government agency which would evict most tenants and convert the building to government offices. The price of these short term leases will be higher tenant turnover and unstable income estimates which would suggest higher capitalization rate and lower investment values. On the other hand, the relative freedom to alter occupancy and rate would make the building more marketable to its most probable buyers. It is unusual to have an office building of this size with such a short average unexpired lease term, providing flexibility but highly unstable rent roll.

C. Linkage Attributes of Site

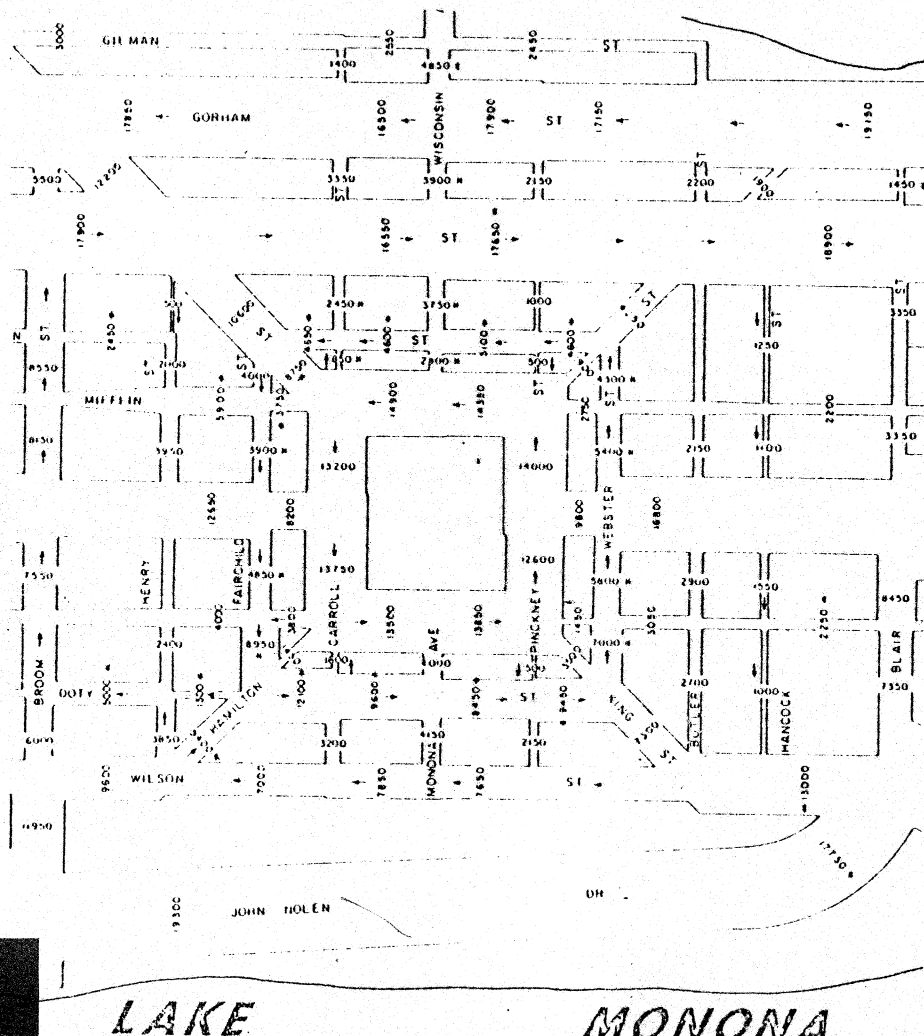
The subject site has strong linkages to government centers: It is directly across the street from the State Capitol Building, along two blocks to the Federal Court House and the City-County Building, and just to the rear of a State Office Building complex, GEF-1 and a proposed GEF-2, each of which occupy a square block. However, access by auto is circuitous and will be further impared by the proposed Capitol Concourse plan (see Exhibits 4 and 5). The driver unfamiliar with Madison will circle the Square on the outer one-way link rather than turning on the stop light at the Blair Butler Street and then turning right on Main Street to reach the main entrance of the subject property. See Exhibit 6 for auto and pedestrian traffic counts prior to reversing one-way streets around Square.

On the same block the Tenney Building enjoys the positive influence of the dramatic First Wisconsin Plaza and a contiguous vest pocket park. Across the street is the handsome Capitol building and heavily wooded park. Unfortunately, the East Main Street facade faces an area of seedy bars and poorly maintained low rise buildings from the turn-of-the-century. The first block on East Main Street is anchored by Penny's and Kresge's and is a moderately viable area. Nevertheless the retail trend is to gravitate toward the opposite side of the Square on the State Street access while most new office space is on the West Washington Avenue side of the Square. It's strongest linkage is to the First Wisconsin Plaza but this natural tie is completely frustrated by the physical layout of the Tenney Building, which lacks a cross access corridor in the bank building which would permit people to move between the buildings while remaining inside.

D. Dynamic Site Attributes

The subject property is at the foot of a long two block run of East Main Street so that the building is in direct view of drivers for some

[redacted]



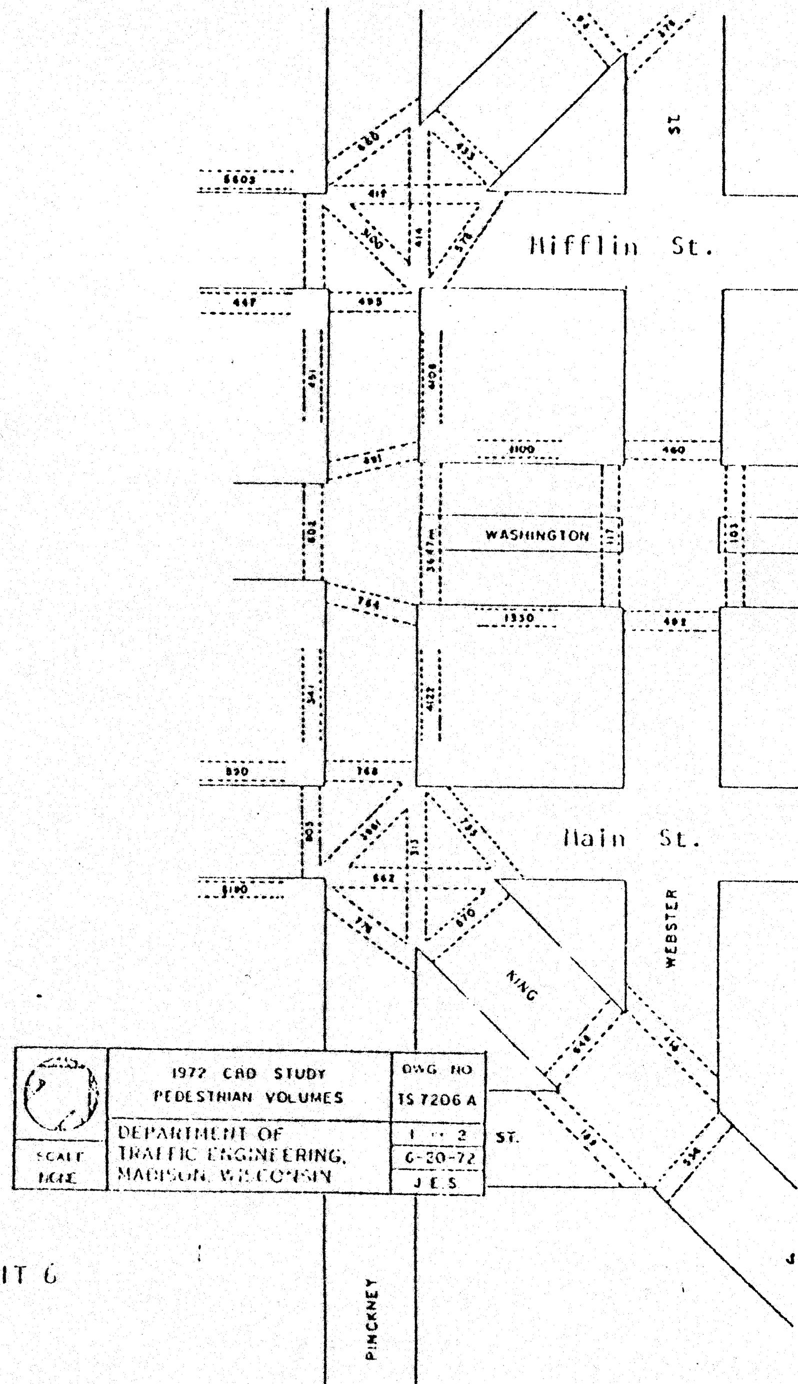
CENTRAL BUSINESS DISTRICT
& CAMPUS AREA
1975 TRAFFIC FLOW MAP

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

SCALE NOTED

DWG. NO. TS 7601
1 of 1
4-19-76
J.E.L.

EXHIBIT 6



time. Surveys have shown that most Madison residents can identify the corner and the Tenney Building from recollection. It is located in an area of the Capitol Square and perimeter street which is falt? so that pedestrian on foot does not face an uphill grade but the entrance to the building is not on the Square and is hidden from the Square, 3 to 4 feet below grade.

Because the First Wisconsin Plaza slopes back from the street and is only four stories high opposite the Tenney Building, the latter is fully visible to the pedestrian anywhere on Pinckney Street. Fortunately these facades were constructed of glazed brick above the fourth story level so the appearance of the Tenney Building is clean even if out-of-date.

E. Physical Attributes of the Structure

The Tenney Building was constructed by the Findorff Company as general contractors in two sections in 1926-1928 and 1929-1931. Concrete structure for the rear portion was constructed for all ten floors and then the front two-thirds was built of reinforced concrete. The result is a structure 65 ft. wide and 154 ft. long plus a small wing ten floors high 22 x 18 ft. The exterior is cut limestone on the Main and Pinckney Street facades, with green glazed terra cotta as spandrels below the windows. Parapet walls are highlighted with triangular light brackets in what might be termed the Art Deco style of commercial building design in the late 20's. Rear facades are done with glazed yellow brick. Complete floor plan sketches are provided in Appendix A, and general mechanical details follow:

implies only this is 10 flrs?

1. Fenestration

First floor retail windows and entrances were redone in 1972 with bronze anodized, Kewaneer systems and plate brass. The second floor and above still retain a 6 x 4 pane steel industrial sash. Each 4 x 4 panel tilts inward to permit washing from within the building. Single-glazed, these windows are relatively inefficient as to heat loss characteristics.

2. Interior Partitioning

Most interior office partitions are of Pyro-Bar gypsum block or terra cotta block with plaster finish. Most doors and trim are of dark stained and varnished walnut and oak. Only recent partitioning is of 2 x 4 and drywall and modern hollow core doors.

3. Floors

Most floors are terrazzo in public areas; some basement storage space has composition tile, while tenants have generally chosen to carpet.

[redacted]

4. Heating System

these are not automatic?
thermostat = automatic by definition

Heating system depends on hot water radiators, each of which has its own thermostat. Most are manual but a few deluxe tenant layouts have added individual automatic thermostats to their radiators. Much of the mill work at window sill level has been expertly joined to provide access to radiators behind finished grill work. The oil fired boiler can be described as:

a. Kiwaunee Boilers, 2-55 horse power, low pressure of 6 lbs., approximate age - 45 years, standard - FE 143.

b. There are 3 Ray oil burners - one for stand-by.

c. Boilers were completely overhauled 8 years ago.

d. Fire pots and burners were overhauled 2 years ago.

e. Oil storage - 15,000 gals. of No. 2 oil.

Related heating equipment includes:

a. A Bock 200 gallon hot water heater, gas fired, approximately 15 years old to provide hot water for washrooms.

b. There are two antique 150 gallon water softeners of a brand unknown even to the building engineer of the past 15 years. Each alternates to deliver soft water while the other is in the recycling process. Only the hot water is soft water but cold water resupplies to the furnace are chemically treated.

5. Air Conditioning

?

There is no central air conditioning and individual tenants provide their own with window air conditioning or small ceiling units with their own distribution system. This is a serious competitive disadvantage relative to renovated structures of similar age such as the Hovde Building or the Insurance Building.

6. Elevators

There are three 2500 lb. capacity Montgomery elevators which are manually operated. One elevator is a service elevator with front and rear access in order to reach basement floor maintenance area, a sub-basement storage area, and the boiler room area. These sub-basements are at various levels requiring three additional stops for the service elevator.

The present owner has secured estimates to automate the two single door, passenger elevators for $135,000. The industrial commission will permit the building to retain the ornate bronze elevator doors

[redacted]

on the first floor but would require replacement and reconstruction of obsolete glass doors on all other stops. As will be shown, such renovation would achieve significant payroll economies.

7. Fire Exits

Reference to Appendix A will indicate that on the second floor, one of the fire stairs terminates in a long fire tunnel and stairway to rear fire exit in order to preserve all of the front portion of the first floor for unobstructed retail use. From the third to the tenth floor, the pattern of corridor and fire exit is more consistent with office layout efficiency.

8. Restrooms

The building has a convenient and well maintained set of restrooms. The basement floor has one set for maintenance personnel and another for employees of the large retail center for the first floor of the building. There is a third for the public on the basement elevator lobby to serve those using basement office rental space or those entering main floor lobby. The main floor has no facilities for the two small shops facing Main Street. Each floor from second through tenth has a single washroom with three water closets and two sinks, with two urinals in each men's room. All restrooms above grade have window ventilation. In addition, there is a large maintenance room with sink on each floor except the first.

none unisex?
for each?

9. Special Features

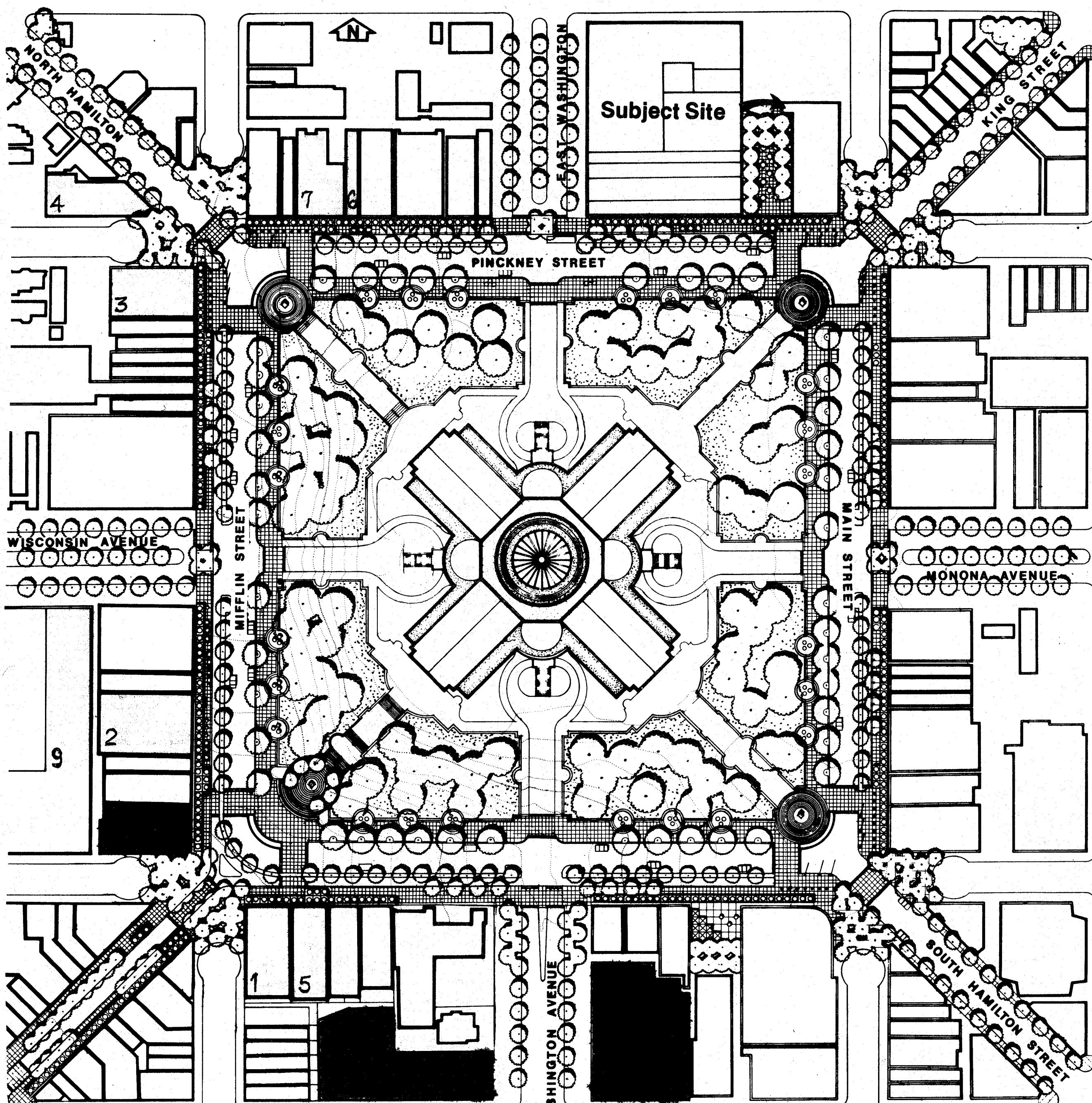
The second through the tenth floors do offer sufficient head room to permit modern ceilings, lighting, and air distribution systems on a floor-by-floor basis, together with adequate service space to contain air conditioning equipment. All retail shops open at grade at the cost of variable ceiling heights for basement areas in southeast corner of building. The straight-lined limestone exterior blends well with government architecture on the Square although it is a sharp counterpoint to adjacent Bank Plaza. The building has been well maintained and managed over the years so that it has a good image on the market, with most vacancies explained by the transition of bank operations of its present owner from the Tenney Building to the Plaza. Elevator lobbies are spacious and corridors remain reasonably bright due to design preference for opaque glass panels and doors for office layout in the 1930's. Many corridor walls feature marble wainscoating.

F. Market Demand for Tenney Building Location and Facilities

In May of 1975 the demand for retail space on the Square had crumbled as suggested by the map and chart of vacant first floor retail areas in Exhibit 7. However, the first floor retail space of the Tenney Building was comparatively clean and modern in terms of ceilings, floors, and

[redacted]

Exhibit 7



-- Retail Vacancies

-- Comparable Sales

[redacted]

Exhibit 7a

FIRST FLOOR RETAIL VACANCIES ON THE SQUARE
EXISTING OR KNOWN TO BE AVAILABLE
As of May 1, 1975

	Building	Address	Approximate Square Footage
1	Wolff Kubly Store	20 N. Carroll	6,000
2	Manchesters Home Store	18 W. Mifflin	7,920
3	Emporium (2 top floors)	50 E. Mifflin	~~24,000~~
4	Jackson Building	102 N. Hamilton	8,000
5	Karstens	18 N. Carroll	7,920 (66 X 120)
6	Card Shop	21 N. Pinckney	2,640 (22 X 120)
7	Simpsons	23 N. Pinckney	11,880 (99 X 120)
8	Tenney Building	21 S. Pinckney No	6,000
9	Concourse Hotel	1 W. Dayton	8,000
	Total Square Footage		82,360

[redacted]

See Exhibit 7 for map.

Exhibit 8

DOWNTOWN OFFICE SPACE (FULL SERVICE)
As of May 1, 1975

Building	Total SQ. FT. Net	Vacant Space	Rental*
Class A			
United Bank Building	158,570	36,000	8.00
National Guardian	60,000	0	6.75
CMI	104,000	34,000	8-9.00
First Wisconsin Bank	350,000	34,000	8.25
Anchor S & L	54,000	800	6.00
James Wilson Plaza	98,000	32,000	7.50
Total	824,570	136,800	
Class B			
New AAA Bldg.	27,000	6,800	5.00
IBM	18,000	18,000 (pending)	7.00
Churchill	36,000	4,000	5-6.25
First Fed. S & L 202 State	13,000	850	6.00
El Esplanade	38,400	0	5-6.00
Commercial St.	21,000	3,000	4.50
30 on the Square	65,700	6,000	6.50
102 N. Hamilton	23,000	23,000	1.00 (triple net)
Tenney Bldg.	76,000	25,000	5.50
Cantwell Bldg.	16,780	800	6.50
Insurance Bldg.	42,000	1,900	5.00
Aff. Bank	44,000	0	5.50
Trefall	7,800	275	5.00
Prov. S & L	15,600	0	5.50
Lorraine Hotel	105,000	0	5.00
Hovde Building	67,000	1,500	6.00
Total	616,280	91,125	

* Typical base rent prior to modification by escalators, price indexes, or other prorata charges unique to each building and depending on negotiation power of tenants. Newer spaces include up to $4 per sq.ft. allowance for tenant improvements; bank buildings $6 per sq.ft. for unfinished space allowance.

window area (which would not require special displays), and it is highly visible to automobile and pedestrian traffic approaching on East Main Street and waiting for the stoplight at the intersection of Main and Pinckney. The two small retail areas east of the entrance were of marketable size, with 1000 sq. ft. for the larger and 454 sq. ft. for the smaller unit, but the large block of 5500 sq. ft. could not be evenly subdivided as there was a single entrance facing Pinckney Street and the falling grade on Main Street would make a second entrance structurally difficult.

Full service downtown office space in B Class buildings in the Capitol Square area of Madison also appeared to be in excess of demand. However, the major blocks of space were the result of I.B.M. moving to its new office building and the First Wisconsin Bank relocating to its new plaza. In fact, most real estate people were anticipating a shortage of B Class space because state government office needs near the Square were continuing to rise and because Class B rents were competitive with rents in suburban low rise, scattered site office buildings. In several cases, such as Affiliated Bank and Providence Savings and Loan, the institutional owner was displacing its tenants as their leases came up for renewal.

Thus Class B office space, with some modernization, was likely to be in short supply by 1976, unlike the significant vacant space available in Class A buildings. Only where rents approached $7.25 or fell below $4.75 did supply significantly exceed demand. (See Exhibit 8)

Windowless storage space that was clean, dry, and easily accessible was also in short suppy in the Square area in May of 1975 and the Tenney Building could offer large amounts of such space, much of it already partitioned on the first basement level.

G. Most Probable Use of Site and Structure

Review of the market for Class B office and retail space, inspection of the existing Tenney facilities, and analysis of its suitability for modernization, and study of subject property site characteristics leads to the conclusion that the most probable use of the property as of May 1, 1975 was its continued use as an office building for rental income.

Most probable buyer of the building in its May 1, 1975 condition would be a professional developer capable of instituting a refurbishing and modernization program together with a leasing program which would extend the average term and average price per square foot of space significantly.

V. MARKET COMPARISON APPROACH TO VALUE

The preferred method of appraisal in the Wisconsin system is inference of value of the subject property from actual sales of comparable property where neither buyer nor seller were under duress and both parties were knowledgeable as to future uses of the property. Office buildings of the size and age of

[redacted]

the subject parcel seldom sell in Madison but there are several sales which have relevance if not a direct focus on the present appraisal problem.

A. The Hovde Building - 122 West Washington Avenue (See Exhibits 7 and 9)

1. Background

This office building with 67,000 sq. ft. of leasable area was built in 1927 and was owned and occupied by the Wisconsin Power and Light Company. The Power Company gradually reduced the space leased to other tenants as its own space needs grew; it sold the building when its own offices were relocated to the United Bank Building directly across Fairchild at 200 West Washington.

2. Price and Conditions

The building sold to realtor-developer Donald Hovde for $800,000 in July of 1972. The Power Company provided some financing but exact details are not known. The Power Company leased back the high-ceilinged, big bay structure, once a Greyhound bus station, located to the rear of the Hovde Building as garage space for its motor pool.

3. Location

The corner site of West Washington and Fairchild is one block west of the Capitol in the center of an office building district including state offices across the street, the United Bank Building, and a variety of smaller structures. It is two blocks from the City-County Building and one block from the proposed Federal Building. In short the site is as desirable as the comparable site of the Tenney Building. It does not go through to Mifflin but it has 20 basement parking spaces which are not subject to conditional use permits.

4. Mechanical Conditions

At the time of sale, the building had two passenger and one freight elevators which are still manually operated by a staff of operators and maintenance people. No major work was done on existing boilers. However, the building had only a few window air conditioning units on an irregular pattern and an old style partitioning system and layout which was scrapped. Thus mechanically the Hovde Building at the time of purchase in 1972 was highly comparable to the May 1, 1975 condition of the Tenney Building.

5. Remodeling

The purchaser found it necessary to provide central air conditioning for every floor, provide a new suspended acoustic ceiling and lighting system in all rentable areas, repaint, carpet, and then accommodate new tenants with drywall on steel stud partitions. The building was rented at $5.75-6.25 per sq. ft. with escalators and tenant

[redacted]

Exhibit 9

COMPARABLE SALES

A. Hovde Building
122 W. Washington Ave.

B. 30 on the Square
30 S. Mifflin St.

Landmark Research, Inc.

C. Loraine Hotel
123 W. Washington Ave.

improvement allowance and was virtually fully occupied by May of 1975.

6. Comparability

In terms of location, amount of Class B rentable area, and general condition the Hovde Building is a comparable sale. The Power Company was a knowledgeable seller, under no financial duress. There is no evidence that favorable financial terms were offered to inflate the sales price. Certainly the subsequent refurbishing and marketing program indicate the motivation and purposes of the most probable buyer type to consider purchase of the Tenney Building in May of 1975.

7. Price Comparison

The raw purchase price of $800,000 divided by net leasable area of 67,000 sq. ft. indicates a raw price of $11.94 or approximately $12 per sq. ft. leasable. The developer estimates that he spent $12 per sq. ft. to restore the building. Reference to Exhibit 10 indicates that with full occupancy and after remodeling it was assessed by the city at $15.74 per sq ft. on May 1, 1975, more than $.38 below the assessed value of the Tenney Building with substantial vacancies and no refurbishing! If nothing else, this comprable underscores the inequity of the present assessment on the Tenney Building.

B. 30 on the Square (See Exhibits 7 and 9)

1. Background

30 on the Square was built in 1965 as a 10-story office building on a 66 x 132 ft. site. On the corner of Mifflin, North Carroll, and State Street, across from the Capitol Building, it offers first class retail space but the developer failed to exploit his location by leasing both retail and office space at too low a rate. Building systems and detailing were selected for first cost efficiency and the building was not a financial success. It was known to be for sale for several years but it was finally sold at a judicial sale and public auction on November 17, 1975 by James Bloor, as grantor and trustee in bankruptcy representing the U.S. District Court for the Southern District of the State of New York.

2. Price and Conditions

The successful bid price by Gordon Rice, of the Madison development firm of Executive Management Inc. as agents for others, was $250,000 and assumption of the existing mortgage of $1,088,000, at 6% interest for 15 years. There were other bidders at the judicial sale from Madison, Wisconsin, so that it is unclear as to whether this is a sale under duress or a market transaction. Certainly a premium was paid to obtain a 6% interest, 15 year mortgage, at least 3% below the best

Exhibit 10

SEVEN COMPARISONS OF ASSESSED VALUES
FOR CLASS B HIGH RISE OFFICE BUILDINGS
IN MADISON, WISCONSIN AS OF MAY 1, 1975

Building	Assessment Value of Land & Improvement	Net Rentable Area	Assessed Value Per Sq. Ft. Rentable
Hovde Building	247,700		
122 W. Washington	806,900	67,000	15.74
Key: 0709-231-0913-0	$1,054.699		
First Wisconsin - Univ.	148,300		
905 University Ave.	526,700	29,000	23.28
Key: 0709-232-0716-6	$ 675,000		
Tenney Building	214,900		
110 E. Main Street	1,010,100	76,000	16.12
Key: 0709-133-2901-1	$1,225,000		
Lorraine Hotel	282,300		
123 W. Washington Ave.	1,063,400	112,434	11.97
Key: 0709-231-1006-2	$1,345,700		
Madison Medical Center	175,000		
20 S. Park St.	1,029,400	48,000	25.09
Key: 0709-233-0201-5	$1,204,400		
American Automobile Assoc.	97,400		
438 W. Washington Ave.	509,600	27,000	22.48
Key: 0709-231-2215-3	$ 607,000		
30 On The Square	198,200		
	939,300	65,720	17.31
	$1,137.500		

[redacted]

available rates in November of 1975. In addition the buyer paid $5000 to Northwestern Mutual for assumption of a mortgage and certain other fees as a condition of the bankruptcy sale. Closing was delayed until January of 1976 at which time the mortgage balance was $1,064,519, which added to $250,000 equity and $7500 in fees provides a raw purchase price of $1,322,019. To reduce this to an equivalent cash price it is necessary to compute the present value of monthly savings and debt service for 180 months.

Monthly debt service at 9% for 180 months =	$10,797.00
Monthly debt service at 6% for 180 months =	$ 8,983.00
Debt service difference on $1,064,519 mortgage balance	$ 1,814.00

Present value of $1,814 per month for 180 months assuming an equity cash return of 12% is $151,145. That is the justified premium paid for financing so the equivalent cash price for the real estate would be $1,170,874; there are 65,720 sq. ft. of net leasable area suggesting a price per sq. ft. of leasable space of $17.82.

3. Location

Compared to the Tenney Building the 30 on the Square Building has a superior retail location as it is on the keystone corner of the State Street and Capitol Concourse program. It is a key location for the Madison bus transit system. Its access is worse for maintenance, materials and service than the Tenney Building, and the lobby for the office elevators is poorly secured and subject to vandalism. The site provides no parking but tenants can use underground parking complex with the adjacent Concourse Hotel. Office space is comparable to the Tenney Building in terms of linkages to Capitol, Courthouse, and financial areas and somewhat superior in terms of linkage to downtown hotels, West Washington Avenue development, and viable retailing.

4. Mechanical Conditions

At the time of sale the building has two automatic passenger elevators without operators and is experiencing some security problems. There is central air conditioning in need of improved controls and capacity. Refurbishing of halls and bathrooms may be a function of increased maintenance but mechanic ally the building is contemporary as compared to the antiquated but servicable equipment of the Tenney Building.

5. Marketing

Lease terms and renewal suffered some neglect during trusteeship and original leases are at a variety of rents and terms and in many cases escalator clauses were applied in sporadic fashion. A major effort is necessary to administer and release existing space arrangements to improve profitability of the building. Several new leases have been made at $6.50 per sq. ft. but many old ones remain in force at far lower rates.

6. Comparability

In terms of location and amount of Class B rentable area, 30 on the Square is comprable to the Tenney Building. However, it is 30 years newer than the Tenney Building or the Hovde Building and already has automatic elevators, central air conditioning, and other modern office detailing. There is evidence that it was sold under duress, i.e., receivership for financial reorganization, and that the sale price included a premium forfavorable financial terms. Part of the financial history can be attributed to unfavorable leases in the past, encumberances which remain with the property. Nevertheless, it is a useful benchmark and does serve to indicate that the most probable buyer type for an investment of this size and type is a professional realtor-developer.

C. The Lorraine Hotel - 123 West Washington Avenue (See Exhibits 7 and 9)

1. Background

This major hotel was built in the 1920's in grand style by the Schroeder Hotel chain, with the two-story ballroom, vaulted marble lobbies and mezzanine, and other cliches of its era. It was sold in 1968 by administrators of the Schroeder estate after continuing declines in hotel profitability to a Madison group of real estate investors and construction executives for conversion to office space. Since that time hotel operations were gradually phased out, each floor was gutted, central air conditioning was redistributed through new suspended ceiling and light systems, and the space leased to the State of Wisconsin for state offices. In 1975 hotel operations were terminated and the balance of space leased to the state in a successful bid competition passed $5.81. Even the two-story ballroom was filled in to provide two floors of space.

2. Price and Conditions

The building sold to a Madison development group for $1,200,000 in the fall of 1968. Terms required 25% down and the seller provided a $900,000 mortgage at 6 1/2% for 10 years. The conversion provided 112,434 sq. ft. of leasable space. $10.67/sq ft.

3. Location

The corner site on the southeast corner of West Washington and Fairchild is directly comparable to that of the Hovde Building at

[redacted]

122 West Washington and comparable to the Tenney Building site except that it offers twice as much frontage to the main street. In addition it enjoys an off street automobile circle for unloading passengers at the main entrance. There is no parking. The slope of the site and the design of the building provide minimal opportunity for retailing; there is a small English basement at the corner and a larger restaurant facility on grade closer to the Square. The first floor is almost a full flight of steps above grade.

4. Mechanical Conditions

At the time of sale the building has two automatic passenger elevators and central air conditioning, as well as other baroque interior fittings. However, major work was required to remove hotel rooms and baths and provide new air conditioning and utility systems for offices. Thus more remodeling was required than in the Hovde Building but it was staged with successive leases to the State and scaled down hotel operation provided some revenue, security, and maintenance.

5. Comparability

In terms of location and amount of Class B rentable area, the Lorraine Hotel is competitive with the Tenney Building. However, it lacks some efficiency as an office building and the convenience of lobbies at grade, etc. Financial terms were conventional for 1968 and would not inflate the sales price. However, the estate was under some duress in terms of their need to liquidate an obsolete hotel structure. Certainly the subsequent refurbishing and unique marketing program to the State indicate that motivation and purposes of the most probable buyer type to consider purchase of the Tenney Building in May of 1975.

6. Price Comparison

The raw purchase price of $1,200,000 divided by net leasable area of 112,454 sq. ft. indicates a raw price of $10.67 or approximately $10.75 per sq. ft. of leasable space. Developer estimates that he spent a rough $14.00 per sq. ft. to convert the building. Reference to Exhibit10 indicates that with full occupancy and after remodeling, it was assessed by the city at $12.00 per sq. ft. on May 1, 1975, as compared to $16.00 per sq. ft. of the Tenney Building with substantial vacancies, short term leases, and no refurbishing. Again this sale and restoration may not be fully comparable but it underscores the inequity of the present assessment on the Tenney Building.

D. Market Comparison Conclusion

The three comparable properties above were purchased by investors with similar motivation to refurbish and market, but are only roughly

[redacted]

Exhibit 11

SUMMARY OF COMPARABLE SALES OF CLASS B OFFICE BUILDING SPACE

IN NEED OF REFURBISHING AND MARKETING

Item	Hovde	30 On The Sq.	Lorraine	Tenney
Date of Sale	July, 1972	November,'75	October,'68	
Cash Price	$800,000	$1,171,000	$1,200,000	
Net Leasable Area	67,000 sq. ft.	65,700 sq. ft.	112,000 sq. ft.	76,000 sq. ft.
Price Paid Before Refurbishing Per Square Foot of Leasable Area	$11.94 or $12.00/sq.ft	$17.82 or $18.00/sq.ft.	$10.67 or $10.50/sq.ft. p.19	
May 1, 1975 Total Assessed Value	$1,104,600	$1,137,500	$1,345,700	$1,225,000
Assessed Value Converted to Equalized Market at 65%	$1,699,384	$1,750,000	$2,070,307	$1,884,615
May 1, 1975 Assessed Value Per Square Foot Leasable	$15.74	$17.31	$12.00	$16.12
Score for General Characteristics at Original Purchase				
Location	4 x 30=120	5 x 30=150	4 x 30=120	4 x 30=120
HVAC	1	3	1	1
	x 20=40	x 20=160	x 20=80	x 20=40
Elevators	1	5	3	1
Parking	5 x 15=75	0 x 15=0	0 x 15=0	3 x 15=45
Remodeling Required	3 x 25=75	5 x 25=125	1 x 25=25	2 x 25=75
Exterior Style	3 x 10=30	5 x 10=50	1 x 10=10	5 x 10=50
TOTAL weighted points scored	340	485	235	330

Alternative Estimates Based on Sales Price Per Square Foot Leasable

#12 x 76,000 = $912,000
13 x 76,000 = $988,000
14 x 76,000 = $1,064,000
15 x 76,000 = $1,140,000
16 x 76,000 = $1,216,000

[redacted]

comparable in terms of time of sale, condition, age, and other factors. It was necessary to summarize descriptive data in Exhibit 11 and then score the significant characteristics of each sale at the time of purchase for relative quality to the Tenney Building on a scale of 0 to 5 (5 = most desirable for investor) and weight the significance of these factors to the professional investor. Location was weighted 30%, elevators and HVAC combined for 20%, remodeling required 25%, parking with structure 15%, and exterior styling and image 10%.

Results of this analysis show the Tenney Building and the Hovde Building to be very similar in total weighted points scored, while the Thirty on the Square is a significantly different transaction in character, regardless of the price.

Without adjustment for time, an impossible adjustment to make due to change in the energy costs of older buildings since 1972, the Tenney Building would sell for $12.00 a square foot of net leasable area or $912,000. If it were to sell for as much as 23% more than the Hovde Building, or $16.00 a square foot on May 1 of 1975, it would sell for $1,216,000.

However, at this time it is assessed at $16.12 a square foot of net leasable area, which when adjusted for a 65% equalization rate for May 1, 1975, suggests it is worth $24.85 value in the market place. If the total assessed value converted to equalized market value of $1,884,615 is tested to determine the yield available to an investor who paid that price, the result is an unacceptable yield to equity of 2.85% before taxes, based on the income and expenses provided in Section VI.

The market comparison approach can only bracket the most probable price as of May 1, 1975 as between $912,000 and a maximum of $1,216,000. This is sufficient to underscore the serious inequity of the City of Madison value of $1,884,000 as of that date. However, a careful projection of future incomes and related financing can provide a more representative and narrow range of estimate and this approach is followed in Section VI.

VI. THE INCOME APPROACH TO VALUE

For lack of arms length sales of comparable properties in Wis., it is the opinion of the appraiser that the only correct approach to valuation in the present instance is the income approach to value, more specifically the mortgage-equity approach to value, as previously discussed in this report and approved for use in the City of Madison in Case #140-201, Dane County Circuit Court, before the Honorable Judge George R. Currie, relative to the James Wilson Plaza building.

The various steps to the income approach to value have been identified below and fully detailed in the exhibits which follow.

[redacted]

A. Income Approach Methodology

To determine the present value of a series of possible negative and positive cash flows before income tax to an investor-purchaser of the Tenney Building as of May 1, 1975 the following procedures have been followed:

1. All spaces in the Tenney Building were identified floor by floor as to square footage and use to determine net assignable and hence leasable areas. (See Exhibit 12) In addition, all existing leases were reviewed to establish actual rentals and date of commencement since a significant portion of space was occupied for only a portion of the fiscal year May 1, 1975, to April 30, 1976. A schedule of existing vacancies reduced by additional rentals in fiscal years 1976 and 1977 are provided in Exhibit 13.

2. Assignable areas, rents in existing leases, and market rents for vacant space were then combined to produce a schedule of revenues with supporting footnotes in Exhibit 12. It should be noted that rental increases are projected on several different standards, depending on their tenancy. Private office tenants are releasing subject to escalation of total rents according to the change in Consumer Price Index for all cities and all items, and this has been projected at 6.3 percent per annum without compounding as in Exhibit 14. Yearly increases for space leased to the State cannot exceed 5% per year, while space rented to Jones Inc. is subject a prorata share of operating expenses.

3. The projection of gross potential revenues for five fiscal years and projected vacancy losses were then combined with operating expenses to produce Exhibit 15. A Schedule of Projected Revenues and Expenses for the Five Fiscal Years Starting May 1, 1975. It should be noted that the carefully footnoted expenses are based on the assumption that any purchases would order and install two automatic elevators to replace the existing passenger elevators. The present owners have received estimates of $135,000 for 1976-77 delivery, but have not decided to make the change. That investment together with the projected increase in occupancy would have a pronounced impact on income before real estate taxes, income taxes, or debt service. The investment in the elevators has been assumed to be fully financed with a 15-year second mortgage as further described below.

4. Revenues less expenses in Exhibit 15 provide a forecast of net cash income before payment of real estate taxes, mortgage interest and principal payments, and the yield on investment plus recovery of equity capital necessary to justify the cash investment of the buyer.

can't find this in Exh 15

B. Recognition of Business Risk and Probable Buyer in Real Estate Investment

To convert net income before real estate taxes and debt service to a capitalized income value, a computer program called Investment Market Value (IMV) reflecting Ellwood Mortgage-Equity techniques, will be used from the National EDUCARE library of programs. EDUCARE is a non-profit extension of the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers dedicated to the development of Timeshare techniques for application to appraisal and real estate analysis problems. Use of the program is a three-par[redacted] no adj for vacancies

TENNEY BUILDING

Schedule of Rental Revenues[1] for the Period May 1, 1975 Through April 30, 1980

Current lease terms?

	Space		Yearly Rental/Unit Sq.ft. or cu.ft.	ANNUALIZED GROSS RENTAL REVENUES 1975-76 (Actual)	1976-77	1977-78	1978-79	1979-80
Lower Level:								
Bank Storage	5,500 sq. ft.		3.00	16,500	17,540	18,580	19,620	20,660
Bank Storage - A	1,125 sq. ft.		5.25	5,906	6,280	6,650	7,020	7,395
Bank Storage - C (storage rm.)	11,504 cu. ft.		.18/cu.ft.	2,071	2,201	2,330	2,460	2,595
First Floor:								
Jones, Inc.[2]	5,500 sq. ft.		5.00	27,500	32,500	34,550	36,595	38,645
Chez Vous	1,000 " "	(4 mon)	3.90	1,300	1,380	1,465	1,545	1,630
	1,000 " "	(8 mon)	4.20	2,800	2,975	3,155	3,330	3,505
	454 " "		5.37	2,439	2,595	2,745	2,900	3,055
	6954 ft							
Second Floor:								
201 Madison Dist. Security	150 " "	(8 mon)	4.80	480	510	540	570	600
		(4 mon)	5.60	280	300	315	335	350
202 Mar Mac Security	600 " "	(8 mon)	4.00	1,600	1,700	1,800	1,900	2,005
		(4 mon)	5.25	1,050	1,115	1,180	1,250	1,315
203-04 Dr. Doolittle	543 ~~525~~ " "		5.245	2,754	2,811	2,990	3.165	3,340
205-08 Vacant	892 929 " "		5.41	5,025	5,340	5,660	5,975	6,290
209-10 Vacant	451 " "		5.41	2,440	2,595	2,745	2,900	3,055
211 Dr. Regey	219 " "	(8 mon)	4.46	651	690	735	775	815
		(4 mon)	5.25	383	405	430	455	480
212-214 Dr. Rhoads	700 " "		5.38	3,765	3,765	4,000	4,240	4,475
215 Dr. M. Meng	415 " "	(11 mon)	5.76	2,192	2,330	2,470	2,605	2,745
		(1 mon)	6.05	209	220	235	250	260
216 Vacant	500 " "		5.41	2,705	2,875	3,045	3,215	3,385
218-219 217-18 Dr. McDermott	816 " "		5.21	4,249	4,428	4,705	4,985	5,265
~~219 Vacant~~	~~353~~ " "		5.64	1,991	2,115	2,240	2,365	2,495
220 Vacant	1,400 " "		4.94	6,916	7,350	7,785	8,225	8,660
	6668							
Third Floor:								
301 Robert Vogeland Assoc.	150 " "	(11 mon)	5.28	726	770	815	865	910
		(1 mon)	6.00	75	80	85	90	95
302-3 Ombudsmans Prog. Lt. Gov. Office	1,179 " "	(4 mon)	5.22	2,051	2,155	2,255	2,360	2,460
		(8 mon)	5.48	4,307	4,520	4,740	4,955	5,170
304-8 Vacant	230 942 1,076 " "		5.41	5,821	6,190	6,555	6,920	7,290

EXHIBIT 12

TENNEY BUILDING

Schedule of Rental Revenues[1] for the Period May 1, 1975 Through April 30, 1980

		Space	Yearly Rental/Unit Sq.Ft.orCu.Ft.	ANNUALIZED GROSS RENTAL 1975-76 (Actual)	1976-77	1977-78	1978-79	1979-80
Third Floor (cont.)								
309	The Formal Co.	232 sq.ft.	5.92	1,373	1,438	1,530	1,620	1,710
310-11	Vacant	450 456	5.64	2,538	2,700	2,860	3,020	3,180
312	Dr. Kappa	234	(10 mon.) 6.28	1,224	1,300	1,380	1,455	1,530
			(2 mon.) 6.79	265	280	300	315	330
313-14	Dr. Robert Meng	482	(11 mon.) 5.87	2,593	4,225	2,920	3,085	3,245
			(1 mon.) 6.17	248	265	280	295	310
315	State of Wis. Comm. Care	721 731	5.25	3,785	3,943	4,140	4,340	4,535
316	Wis. Builders Assoc.	632 1091	(11 mon.) 5.72	3,312	3,520	3,730	3,940	4,145
			(1 mon.) 6.15	324	345	365	385	405
318-19	Vacant	466	5.64	2,628	2,795	2,960	3,125	3,290
320-24	Rounds & Rich[3]	1,200 1363 Dr. Malouf No rent assigned	5.90	7,081	7,200	7,655	8,110	8,560
		7080						
Fourth Floor:								
401	Vacant	150	6.00	900	960	1,020	1,080	1,140
402	State of Wis. Health Policy[4]	648	5.25	3,402	3,672	3,726	4,040	4,100
403-12	Harley, Hayden & Co.	2,349 2147 202	4.87	11,428	12,671	13,470	14,270	15,080
413-14	Wis. Alliance of Cities	679	5.75	3,903	4,060	4,315	4,570	4,830
415	LaCrosse Tribune	259	5.50	1,424	1,469	1,560	1,655	1,745
416-19	State of Wisconsin[5]	1,370 544 Rm. 420-422	5.25	7,192	7,192	7,492	7,865	8,240
420-22	State of Wisconsin	744 300	5.75	4,278	4,278	4,455	4,680	4,900
423-24	E.J.Konkal	340	5.50	1,870	1,870	1,948	2,070	2,195
		6639						
Fifth Floor:								
501	E.C. Barton	150	(8 mon.) 4.80	480	510	540	570	600
			(4 mon.) 5.60	280	300	315	335	350
502-05	Drs. Cooper, Kemp & Lantis	1,652	(10 mon.) 5.32	7,318	7,780	8,240	8,700	9,160
			(2 mon.) 5.55	1,529	1,625	1,720	1,820	1,915
506-19	State of Wisconsin Supreme Court	3,922	5.25	20,591	20,591	21,105	22,160	23,215
520	Wisconsin Board of Aging	555	5.25	2,914	2,914	3,036	3,190	3,340
521-22	Dr. Coryell	339	(8 mon.) 5.43	1,228	1,305	1,375	1,460	1,535
			(4 mon.) 5.79	654	695	735	780	820
523-24	Green Bay Press	337	5.25	1,768	1,924	2,045	2,165	2,290
		6955						

EXHIBIT 12 (CONT.)

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TENNEY BUILDING

Schedule of Rental Revenues[1] for the Period May 1, 1975 Through April 30, 1980

		Space	Yearly Rental/Unit Sq.Ft.or Cu.Ft.	1975-76 (Actual)	1976-77	1977-78	1978-79	1979-80
				ANNUALIZED GROSS RENTAL				
Sixth Floor:								
601	James Rimmey & Assoc.	150 sq. ft.	6.40	960	1,020	1,080	1,140	1,200
602-04	State of Wisconsin Health Policy	1,473	5.25	7,733	7,733	8,055	8,460	8,860
605	Aetna Fire	204	5.69	1,161	1,280	1,360	1,440	1,520
606-10	Vernon Molbreak	1,000	5.20	5,197	5,500	5,845	6,195	6,540
611	Robert Smith	286	(8 mon.) 5.45	1,040	1,105	1,170	1,235	1,300
			(4 mon.) 5.87	560	595	630	665	700
612-14	Wis. Mfg. & Commerce; Muleahy & Wherry	647	6.03	3,900	4,050	4,273	4,540	4,810
615	Muleahy & Wherry	344 — No rent assigned	5.50	1,892	1,892	2,010	2,130	2,250
616	John Barsness	850	5.22	4,437	4,485	4,765	5,050	5,335
617	W.J. Ward	250	5.56	1,391	1,413	1,500	1,590	1,680
618-19	State of Wisconsin Div. of Corrections	494 494	5.50	2,717	2,717	2,850	2,990	3,125
620-24	R.J. Devine Co.	1,262	5.41	6,915	7,273	7,730	8.190	8,650
		6960						
Seventh Floor:								
701	~~Storage~~ Lounge - Lawton & Cotts	150	2.50	375	400	420	445	470
702-15	Lawton & Cates	4,506 5417 5 yr. lease	5.13	23,125	23,125	25,795	27,420	29,045
716	Mel Cyrak, Attorney	315	5.41	1,704	1,811	1,920	2,025	2,135
717-19	Vacant	588	5.88	3,457	3,675	3,895	4,110	4,330
720-24	Vacant	1,277 1106	5.88	7,509	7,980	8,455	8,930	9,400
720A	Storage - Lawton & Cates	~~124~~	3.50	434	434	460	490	515
		6673 approx 300 ft not generating rent						
Eighth Floor:								
801	Dr. Durkopp	150	6.00	900	955	1,015	1,070	1,425
802-05	Lawton & Cates	1,536	5.08	7,810	7,810	8,710	9,260	9,810
806-07	Dr. Mannis	470	5.66	2,660	2,772	2,945	3,120	3,295
808-22	State of Wisconsin-Health Policy	4,580	5.25	24,045	24,045	26,049	27,350	28,655
823-24	Dr. Boyle	339	5.72	1,940	2,032	2,160	2,290	2,415
		7075						

EXHIBIT 12 (CONT.)

TENNEY BUILDING

Schedule of Rental Revenues[1] for the Period May 1, 1975 Through April 30, 1980

		Space	Yearly Rental/Unit Sq.Ft.or Cu.Ft.	ANNUALIZED GROSS RENTAL 1975-76 (Actual)	1976-77	1977-78	1978-79	1979-80
Ninth Floor:								
901	Milliman & Peterson	150 sq. ft.	(8 mon.) 4.62	462	490	520	550	500
			(4 mon.) 5.42	271	290	305	320	340
902	Wis. Ins. Alliance	864	5.56	4,802	5,054	5,370	5,690	6,010
903-06	State of Wisconsin	980	5.25	5,145	5,360	5,625	5,895	6,165
907	David Lund	225	5.50	1,237	1,296	1,380	1,460	1,540
908	Vacant (Lawrence Hall)	204	5.60	1,145	1,500	1,595	1,690	1,785
909-10	Lawrence Hall	496 700	5.60	2,778	2,795	2,970	3,145	3,325
911	Dr. Schmitz	248	6.48	1,608	1,642	1,745	1,850	1,950
912-19	State of Wisconsin Div. of Cor.	2,580	5.25	13,545	13,545	14,110	14,815	15,520
921	MacDonald & Widder	575	5.50	3,162	3,229	3,435	3,635	3,840
922-23	Vacant	355	5.64	2,004	2,130	2,255	2,385	2,510
924-25	Dr. Rundel	339	5.34	1,811	2,056	2,185	2,315	2,445
		7016						
Tenth Floor:								
1001		150	6.40	960	990	1,050	1,115	1,175
1002	Wis. Association of Independent Col.	864	5.75	4,968	5,072	5,390	5,710	6,030
1003-4	Wis. Canners & Freezers	756	5.51	4,170	4,409	4,685	4,965	5,240
1005	Jerry Brown	224 911	5.89	1,320	1,348	1,435	1,520	1,615
1006-8	The Boelter Co.	720	5.50	3,963	4,215	4,460	4,710	4,960
1009-10	Fred Brown	455	(9 mon.) 5.00	1,708	1,815	1,925	2,030	2,140
			(3 mon.) 5.27	600	640	675	715	750
1011-13	Dr. Doll	727	5.31	3,859	4,071	4,330	4,585	4,840
1014-18	Vacant	1,788 — 1845	5.88	10,513	11,175	11,840	12,500	13,160
1019-21	Warren Lucas	669 — 680	(8 mon.) 4.07	1,814	1,928	2,045	2,155	2,270
			(4 mon.) 5.25	1,170	1,245	1,315	1,390	1,465
1022	Vacant	171	7.59	1,298	1,380	1,465	1,555	1,640
1023-24	Dr. McKenna	331	5.43	1,797	1,855	1,950	2,065	2,180
	TOTAL	75,819 6890		392,688	413,174	437,169	461,870	486,280

Net

74010 Pat's figure

1st → 10th = 68910

EXHIBIT 12 (CONT.)

TENNEY BUILDING

Notes to Schedule of Rental Revenues

1 The annualized gross revenue for 1975-76 is consistent with actual lease terms. Yearly increases in rentals are assumed to take place at lease renewal dates, and are based on the last five years average all item consumer price index of 6.3%. Yearly increases in rentals for state agencies, however, are based on 5%.

2 Rental increases for Jones, Inc. are based on operating expense increases. The increase for 1976-77 is not as yet finalized, but will approximate $5,000.

How can you know as of 5/1/75?

3 Vacate December, 1975. It is projected that this space would rent for $6.00 per sq.ft. for the year 1976-77.

4 Renewed June 30, 1976 at $5.75 per sq.ft.

5 Used by Bank Properties for period of May through December, 1975.

[redacted]

EXHIBIT 12 (CONT.)

TENNEY BUILDING

Schedule of Vacancies for the Period May 1, 1975 - April 30, 1980

Income lost due to vacancy

	Space	% Vacant	Rental Rate	% of Months	PROJECTION PERIOD 1975-76	1976-77	1977-78	1978-79	1979-80
Lower Level:									
Bank Storage - A	1,125 400 +725	100	5.25 6% increase	12	5,906				
	1,125	75	5.58	12		4,708			
	1,125	50	5.91	12			3,325		
	1,125	50	6.24	12				3,510	
	1,125	50	6.57	12					3,696
Bank Storage - C (cu.ft.)	7,690	100	.18	12	1,384				
	7,690	75	.18	12		1,038			
	7,690	50	.25	12			961	961	961
First Floor:									
Chez Vous	454	.100	5.37	7	1,423				
Second Floor:									
202 Mar Mac Security	(Partial Month)			1	50				
205-08 (929 sq.ft); 209-10 (451 sq.ft); & 216 (500 sq.ft.)	1,880	100	5.41	12	10,171				
	1,880	75	5.75	12		8,108			
	1,880	50	6.09	12			5,725		
	1,880	50	6.43	12				6,044	
	1,880	50	6.77	12					6,364
219	353	100	5.64	12	1,991				
	353	75	6.00	12		1,589			
	353	50	6.35	12			1,121		
	353	50	6.71	12				1,184	
	353	50	7.06	12					1,246
220	1,400	100	4.94	12	6,916				
	1,400	75	5.25	12		5,513			
	1,400	50	5.58	12			3,906		
	1,400	50	5.91	12				4,137	
	1,400	50	6.24	12					4,368
Third Floor:									
302-03	1,149	100	5.22	8	2,051				
	1,149	100	5.48	4	4,307				
	1,149	100	5.48	3		1,1615			
315	721	100	5.25	2	631				
318-19	466	100	5.64	12	2,628				
	466	75	6.00	12		2,097			

EXHIBIT 13

TENNEY BUILDING

Schedule of Vacancies for the Period May 1, 1975 - April 30, 1980

	Space	% Vacant	Rental Rate	# of Months	PROJECTION PERIOD 1975-76	1976-77	1977-78	1978-79	1979-80
Third Floor (cont.)									
318-19 (cont.)	466	50	6.35	12			1,480		
	466	50	6.71	12				1,563	
	466	50	7.06	12					1,645
320-24	1,200	100	5.90	4	2,360				
	1,200	75	6.00	12		5,400			
	1,200	50	6.35	12			3,810		
	1,200	50	6.71	12				4,026	
	1,200	50	7.06	12					4,236
Fourth Floor:									
401	150	100	6.00	12	900				
	150	75	6.40	12		720			
	150	50	6.80	12			510		
	150	50	7.20	12				540	
	150	50	7.60	12					570
402	648	100	5.25	6	1,701				
415	259	100	5.50	6	712				
420-22	744	100	5.75	12	4,278				
	744	100	5.75	.5		178			
Fifth Floor:									
506-19	1,375	100	5.25	4.77	2,867				
520	555	100	5.25	6.43	1,562				
Sixth Floor:									
601	150	100	6.40	5	400				
602-04	1,473	100	5.25	8	5,156				
605	204	100	5.69	2.27	219				
612-14	647	100	6.03	1		325			
615	344	100	5.50	9	1,419				
	344	75	5.50	9		1,064			
	344	50	5.85	12			1,006		
	344	50	6.20	12				1,066	
	344	50	6.54	12					1,125
618-19	494	100	5.50	12	2,717				
Seventh Floor:									
701	150	100	2.50	8	250				
716	315	100	5.41	11.45	1,625				

EXHIBIT 13 (CONT.)

TENNEY BUILDING

Schedule of Vacancies for the Period May 1, 1975 - April 30, 1980

	Space	% Vacant	Rental Rate	# of Months	PROJECTION PERIOD 1975-76	1976-77	1977-78	1978-79	1979-80
Seventh Floor (cont.):									
717-724	1,865	100	5.88	12	10,966				
	1,865	75	6.25	12		8,742			
	1,865	50	6.64	12			6,192		
	1,865	50	7.04	12				6,565	
	1,865	50	7.43	12					6,928
720A	124	100	3.50	12	434				
	124	100	3.50	2		72			
Eighth Floor:									
801	150	75	6.00	11		619			
	150	50	6.37	12			478		
	150	50	6.77	12				508	
	150	50	7.13	12					535
	4,580	100	5.25	8	16,030				
Ninth Floor:									
903-06	980	100	5.25	5.16	2,213				
907	225	100	5.50	3	309				
908	204	75	7.35	12		1,125			
	204	50	7.82	12			798		
	204	50	8.28	12				845	
	204	50	8.75	12					893
921	575	100	5.50	8	2,108				
922-23	355	100	5.64	12	2,004				
	355	75	6.00	12		1,598			
	355	50	6.35	12			1,128		
	355	50	6.72	12				1,193	
	355	50	7.07	12					1,255
Tenth Floor:									
1001	150	100	6.40	10.48	839				
	150	75	6.64	10		623			
	150	50	7.00	12			525		
	150	50	7.43	12				557	
	150	50	7.83	12					587

EXHIBIT 13 (CONT.)

TENNEY BUILDING

Schedule of Vacancies for the Period May 1, 1975 - April 30, 1980

Tenth Floor (cont.)	Space	% Vacant	Rental Rate	# of Months	PROJECTION PERIOD 1975-76	1976-77	1977-78	1978-79	1979-80
1014-18	1,788	100	5.88	12	10,513				
	1,788	75	6.25	12		8,381			
	1,788	50	6.62	12			5,920		
	1,788	50	6.99	12				6,250	
	1,788	50	7.36	12					6,580
1022	171	100	7.59	12	1,298				
	171	75	8.07	12		1,035			
	171	50	8.57	12			733		
	171	50	9.09	12				778	
	171	50	9.59	12					820
TOTAL					110,338	54,550	37,618	39,727	41,809

EXHIBIT 13 (CONT.)

[redacted]

Exhibit 14

Average Rate of Increase in Consumer Price Index
All Items 1971 - May 1975

No. 687. Consumer Price Indexes, by Major Groups: 1950 to 1975

[1967 = 100. Prior to 1965, excludes Alaska and Hawaii. Beginning 1965, index structure revised to reflect buying patterns of urban wage earners and clerical workers in the 1960's, including single workers living alone as well as families of two or more persons; indexes for prior years apply only to families of two or more persons. See also *Historical Statistics, Colonial Times to 1970*, series E 135-173]

YEARS	All items	Less food	Less shelter	Food	Shelter	Apparel and upkeep	Transportation	Medical care	All commodities	All services
1950	72.1	71.1	73.1	74.5	(NA)	70.0	68.2	53.7	78.8	58.7
1951	77.8	75.7	79.2	82.8	(NA)	86.1	72.5	56.3	85.9	61.8
1952	79.5	77.5	80.8	84.3	(NA)	85.3	77.3	59.3	87.0	64.5
1953	80.1	79.0	81.0	83.0	76.5	84.6	79.5	61.4	86.7	67.3
1954	80.5	79.5	81.0	82.8	78.2	84.5	78.3	63.4	85.9	69.5
1955	80.2	79.7	80.6	81.6	79.1	84.1	77.4	64.8	85.1	70.9
1956	81.4	81.1	81.7	82.2	80.4	85.8	78.8	67.2	85.9	72.7
1957	84.3	83.8	84.4	84.0	83.4	87.3	83.3	69.9	88.6	75.6
1958	86.6	85.7	86.9	88.5	85.1	87.5	86.0	73.2	90.6	78.5
1959	87.3	87.3	87.6	87.1	86.0	88.2	89.6	76.4	90.7	80.8
1960	88.7	88.8	88.9	88.0	87.8	89.6	89.6	79.1	91.5	83.5
1961	89.6	89.7	89.9	89.1	88.5	90.4	90.6	81.4	92.0	85.2
1962	90.6	90.8	90.9	89.9	89.6	90.9	92.5	83.5	92.8	86.8
1963	91.7	92.0	92.1	91.2	90.7	91.9	93.0	85.6	93.6	88.5
1964	92.9	93.2	93.2	92.4	92.2	92.7	94.3	87.3	94.6	90.2
1965	94.5	94.5	94.6	94.4	93.8	93.7	95.9	89.5	95.7	92.2
1966	97.2	96.7	97.1	99.1	96.8	96.1	97.2	93.4	98.2	95.8
1967	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1968	104.2	104.4	104.1	103.6	104.8	105.4	103.2	106.1	103.7	105.2
1969	109.8	110.1	109.0	108.9	113.3	111.5	107.2	113.4	108.4	112.5
1970	116.3	116.7	114.4	114.9	123.6	116.1	112.7	120.6	113.5	121.6
1971	121.3	122.1	119.3	118.4	128.8	119.8	118.6	128.4	117.4	128.4
1972	125.3	125.8	122.9	123.5	134.5	122.3	119.9	132.5	120.9	133.3
1973	133.1	130.7	131.1	141.4	140.7	126.8	123.8	137.7	129.9	139.1
1974	147.7	143.7	146.1	161.7	154.4	136.2	137.7	150.5	145.5	152.0
1975, May	159.3	155.6	157.0	171.8	168.2	141.8	147.4	166.8	156.6	164.5

NA Not available.

Source: U.S. Bureau of Labor Statistics, *Monthly Labor Review*. Also in *Handbook of Labor Statistics*.

annual average 1971 1
1972 1
1973 1
1974 1
May - 1975 1
4 yr. Δ

$$\frac{\left(\frac{159.3 - 121.3}{121.3}\right)}{5 \text{ years}} = \frac{.31}{5} = .0627$$

Δ

$$\frac{\frac{159.3 - 116.3}{116.3}}{5} = \frac{.37}{5} = .074$$

OR

6.3% annual rate of price increase 1971-75

[redacted]

EXHIBIT 15

TENNEY BUILDING

Schedule of Projected Revenues and Expenses
For the Five Fiscal Years Starting May 1, 1975

	1975-76	1976-77	1977-78	1978-79	1979-80
Revenues:					
Gross Office Rentals	$392,688	$413,174	$437,169	$461,870	$486,280
Less: Vacancies	(110,338)	(54,550)	(37,618)	(39,727)	(41,809)
Effective Office Rent	282,350	358,624	399,551	422,143	444,471
Parking Rentals (25 stalls)	6,623	7,800	8,290	8,783	9,274
Total Revenues	288,973	366,424	407,841	430,926	453,745
Expenses:[1]					
Cleaning[2]	49,119	52,214	55,308	58,402	61,497
Electrical[3]	1,488	1,582	1,675	1,769	1,863
Heating[4]	7,262	8,000	8,635	9,261	9,889
Air Conditioning & Ventilating[5]	9,094	8,603	9,267	9,931	10,597
Plumbing[6]	6,774	7,820	8,867	9,418	9,968
Elevators[7]	40,281	13,510	14,362	15,212	16,062
General Building Expenses - Wages[8]	10,028	18,680	20,174	21,669	23,163
Supplies	293	312	330	348	367
Cleaning - Special[9]	511	650	690	732	733
Unclassified[10]	22,128	2,973	3,154	3,259	3,517
Administrative[11]	9,537	10,308	11,071	11,835	12,598
Energy[12]	50,915	55,837	60,758	65,679	70,600
Insurance	2,800	3,000	3,200	3,400	3,600
*Capitol Concourse Special Assessment			1,680	4,044	4,044
Total Expenses	210,230	183,497	199,171	214,959	228,438
Income before Real Estate Taxes, Income Taxes, and Debt Service	78,743	182,927	203,670	215,967	225,207

[redacted]

FOOTNOTES TO EXHIBIT 15

Notes to Schedule of Projected Revenues and Expenses

1. <u>Expenses</u>

The classifications of expense presented are basically consistent with the BOMA accounting system, developed by the Building Owners and Managers Association International. Expenses are anticipated to increase by 6.3% per year, the average of the all item consumer price change for the last five years unless otherwise stated.

2. <u>Cleaning</u>

Records wages of contracted individuals (including supervisory) who clean offices, lobbies, elevator cabs, corridors, toilets, windows, etc; and the cost of all cleaning supplies. Cost of upkeep and ordinary replacement of cleaning equipment also included.

In conversations with a representative of Northern Building Maintenance, cleaning and maintenance costs for a 5 day per week schedule should be approximately $.45 per square foot for tenant occupied spaces and approximately $.75 per square foot for public areas such as corridors, restrooms, etc.

3. <u>Electrical</u>

Covers cost of maintaining and repairing electrical system throughout building, including repairs and ordinary replacements, light bulbs, fluorescent tubes and other necessary supplies. This account does not include current used.

4. <u>Heating</u>

Covers cost of maintaining and repairing entire heating system, including labor costs, supplies (including delivery) and parts. It is charged with one-half the wages and fringe benefits paid and engineer necessary to operate heating system. It does not include the cost of fuel.

	1976-77	1977-78	1978-79	1979-80
Wages (8%)	7203	7779	8355	8932
Repairs, Supplies, Etc.	805	856	906	957
TOTAL	8008	8635	9261	9889

5. <u>Air Conditioning and Ventilating</u>

Records cost of supplies, repairs, and labor required to operate filters, fans, motors and other equipment in air conditioning and ventilating system. One-half the wages and fringe benefits paid the engineer are included here.

	1976-77	1977-78	1978-79	1979-80
Wages (8%)	7203	7779	8355	8932
Supplies, Repairs, Etc.	1400	1488	1576	1665
TOTAL	8603	9267	[redacted]	

6. Plumbing

Covers all costs (labor, materials, supplies, repairs, parts) of maintaining plumbing system, including hot and cold water, filters, water softeners, water heaters, pumps, etc., and the cost of water purchased. Cost of fuel and electricity required for water heating and operation of equipment is included under energy. Water rates are expected to increase by 34% within the next year.

	1975-76	1976-77 (17%)	1977-78 (34%)	1978-79	1979-80
Water	5792	6777	7761	8250	8739
Repairs, Supplies, Etc.	982	1043	1106	1168	1229
TOTAL	6774	7820	8867	9418	9968

7. Elevators

Records wages and fringe benefits paid elevator starters and operators and costs of labor for inspecting and servicing elevator system and making ordinary repairs; also all other maintenance costs of elevator equipment, signal system, etc., including supplies, materials, repairs and ordinary replacements. Includes the cost of a labor only service contract with Braun, Inc. at a cost of $392 per month.

It is anticipated that a new owner would install two automatic passenger elevators at a cost of $135,000 in order to reduce operating costs. Allowing for a 9-month delivery period and 2 months installation for each elevator, such a system would be in full operation in the 1976-77 fiscal year. The freight elevator would remain as it is. The change would negate the need for Tri State Security services, which, at present, are needed only for evening operation of the manual elevators. In all maintenance, contract is assumed. All elevator wages could be eliminated except one part-time individual needed to run the freight elevator.

	1975-76	1976-77	1977-78	1978-79	1979-80
Wage and Fringe Benefits	35,087	5,595	5,948	6,300	6,652
Repairs, Supplies	5,194	7,915	8,414	8,912	9,410
TOTAL	40,281	13,510	14,362	15,212	16,062

8. General Building Expense - Wages

Contains a portion of wages of 1 carpenter, 2 painters.

Projected to increase at 8%

9. Cleaning - Special

Includes the cost of snow removal, striping of the parking area and cleaning of the parking area.

10. Unclassified

Includes scavenger service contract with City Disposal for $100 per month. Fire and crime prevention represents security protection by Tri State Security which will be eliminated by the use of a [redacted]

incorrect assumption

Exhibit 15 continued

	1975-76	1976-77	1977-78	1978-79	1979-80
Scavenger Service	1,574	1,673	1,772	1,871	1,971
Fire & Crime Prevention	19,571	100	106	112	119
Repairs	982	1,200	1,276	1,376	1,427
TOTAL	22,128	2,973	3,154		3,517

11. Administrative

Include a portion of the wages and fringe benefits paid to those administrators responsible for operation and management of the building, as well as office supplies

	1975-76	1976-77	1977-78	1978-79	1979-80
Wages (8% Inc.)	9,499	10,258	11,018	11,779	12,539
Supplies, Etc.	38	50	53	56	59
TOTAL	9,537	10,308	11,071	11,835	12,598

12. Energy

Based on proposed rate increases by Madison Gas and Electric, representatives of that firm anticipate a 12% per year increase in electricity cost and a 5% per year increase in natural gas cost.

At present, the Tenney Building consumes approximately 75,000 gallons of #2 fuel oil per year. Present cost is 35.9 cents per gallon plus sales tax. The fuel is used for heating and hot water heaters. Increases are projected at 8% per year.

	1975-76	1976-77	1977-78	1978-79	1979-80
Electricity	21,525	24,108	26,691	29,274	31,857
Fuel Oil	28,960	31,277	33,594	35,910	38,227
Gas	430	452	473	495	516
TOTAL	50,915	55,837	60,758	65,679	70,600

1. On the first run net income before real estate taxes will be utilized but divided by a capitalization rate which includes the capitalized equivalent of the Madison 1975 equalized tax rate. The resulting value will be used to estimate approximate equalized real estate taxes for 1975.

2. The estimate of real estate taxes will then be deducted from net income before real estate taxes from Exhibit 12 and reprocessed with a capitalization rate reflecting only the return to equity required as a minimum inducement to a purchaser.

3. The value estimate derived in Step "b" will then be tested to see whether it will provide adequate after tax cash on cash returns, internal rates of return, and risk measures for the sophisticated investor.

4. An additional run of IMV will be used to solve for the rate of return to equity before taxes that would result if an investor were to pay the $1,884,000 market value presumed by the assessor to be correct as of May 1, 1975.

5. The final step will be to set the market value of the property with terms and conditions appropriate to an arms length transaction for the subject property as of May 1, 1975.

An explanation of the detailed inputs and outputs of the IMV process follow.

C. Mortgage-Equity Assumptions for Value Approach

1. Lenders would be skeptical of the long-term viability of the Tenney Building because of its age, lack of air conditioning, and short-term leases. Therefore, a conventional mortgage loan for a new buyer from traditional mortgage lenders could not exceed 67% of proposed purchase price.

2. The interest rate on the above first mortgage as of May 1, 1975 under most favorable circumstances would be 10.25 percent for a 20-year term loan. A lender would probably require the loan to balloon in 10-12 years but that event would fall outside the five year forecast.

3. An additional loan for $135,000 would be required to finance the installation of two automatic elevators at the end of the first year. This chattel mortgage would be for 180 months, start in the second year, and might enjoy a rate of .1025 percent interest.

4. The overall rate of return to equity would be 18% per year, compounded before income taxes or capital gain taxes on the appreciation contained in the equity reversion. The 18% return is the minimum required for an older, refurbished building, subject to significant blocks of space leased short term or to government agencies. It is the same rate accepted by the Madison Board of Appeals in the case of the El Esplanade Building on State Street for May 1, 1973 and 1974. It is assumed that the buyer would pay cash equivalent to 33% of the purchase price. [redacted] ?

5. For the preliminary run of IMV, the return to equity of 18% must be added to the capitalized equivalent of the real estate tax in 1975. This is computed by multiplying the 1975 mill rate for Madison (net of the State Tax credit) of 44.4276 and expressed as a percent of value of .0444276, times the equalization rate of .65, for a product of .02887794. To relate the capitalized real estate tax to the equity portion (33% of purchase price), it is necessary to multiply by 3 for a product of .086634 or 8.66 percent. When added to an equity rate of 18%, the total capitalization rate entered in line 103 of IMV input form is 26.66 percent. (Appears in Exhibit 16 as Before Tax Yield)

?

6. Since appreciation or depreciation depends on whether the cash income of the project is improved through marketing, management, and the rate of inflation, it is speculative to project a change in resale value. For purposes of this projection no change in the value of the building is assumed, with actual wear-and-tear and aging or functional obsolescence due to utility rates increases considered to be offset by modest inflation in dollar values. Thus it is assumed that the property would resell in five years at no less than the same price it would sell for on May 1, 1975. A graduated sales commission and other transaction costs would not exceed 2% of the sales price. These are liberal and optimistic assumptions at this time for Madison, tending to overstate resale proceeds to investor.

7. The IMV program requires additional explicit assumptions to provide an after tax yield estimate as a check on the justified purchase price:

   a. IMV solves for total value before taxes, including land, but for purposes of testing implications for after tax yield, it is assumed that 60% of value represents structure with a remaining 25-year useful life, 10% salvage value, 20% represents existing mechanical equipment with a five-year useful life remaining and 20% salvage value. These elements would be depreciated on a straight line basis. One hundred and thirty five thousand dollars is attributed to the new elevators which have a twelve-year useful life and $35,000 salvage value to be depreciated at 150% declining balance, starting in the second year (13th month). The residual value of the purchase price will be assigned to land value.

   b. The Federal tax rate is assumed to be the maximum of 48% for a corporate owner having other income that could use the minimal shelter of taxable losses attributable to the project as defined above. State income tax and capital gain taxes have been ignored so that after tax yield is slightly overstated.

OK. because no app. deprec.

D. Execution of the IMV Model

A preliminary evaluation using net income before real estate taxes and including real estate taxes as a portion of the equity capitalization rate was entered as a data file and run.

[redacted]

Output #1

EXHIBIT 16

```
WHAT IS YOUR DATA FILE NAME?GRAAS1
*$10.00 LIB CHG APPLIED

IMV                      : $  1177718
AFTER TAX YIELD(IRR)  : 23.03%
BEFORE TAX YIELD(IRR): 26.66%
DO YOU WANT DETAIL (0=NO,1=YES)?1


INVESTMENT MARKET VALUE ANALYSIS      10:52CDT 08/07/76

TENNEY BUILDING - MADISON, WISCONSIN
110 EAST MAIN STREET
VALUATION FOR MAY 1, 1976

***********************************************************
AFTER TAX YIELD(IRR) :   23.03%
BEFORE TAX YIELD(IRR):   26.66%

INVESTMENT MARKET VALUE:                        $   1177718
***********************************************************

FINANCING:

  MORTGAGES:
  1.    1ST MONTH   10.250%  20 YRS   0 MONS   $     789071
  2.  13TH MONTH   10.250%  15 YRS   0 MONS   $     135000

  EQUITY CASH:                                 $     253647

RESALE OF INVESTMENT IN  5 YEARS:

        ESTIMATED RESALE PRICE                 $    1177718

          LESS: MORTGAGE BAL.                         826875
                SALES COMMISSION                       23554

        CASH REVERSION BEFORE TAXES            $      327289

          LESS: CAPITAL GAINS TAX(ALT.)               123059
                TAX ON RECAPTURED DEPR.                 3863
                TAX PREFERENCE TAX                         0

        CASH REVERSION AFTER TAXES             $      200367
```

YR	NET INCOME	MORTGAGE INTEREST	BOOK DEPR.	TAXABLE INCOME	INCOME TAX	CASH FLOW BEFORE TAX	CASH FLOW AFTER TAX
1	78743	80296	75373	-76926	-36924	-14207	22717
2	182927	92589	87873	2465	1183	72320	71137
3	208670	90654	86311	31705	15218	98063	82845
4	215967	88509	84944	42514	20406	105360	84954
5	225207	86134	83747	55326	26556	114600	88044

[redacted]

READY
SAVE

Output #2

~~EXHIBIT 17~~

READY
RUN IMV

IMV 11:08CDT 08/07/76

WHAT IS YOUR DATA FILE NAME?GRAAS2
*$10.00 LIB CHG APPLIED

IMV : $ 1135852
AFTER TAX YIELD(IRR) : 17.47%
BEFORE TAX YIELD(IRR): 18.00%
DO YOU WANT DETAIL (0=NO,1=YES)?1

INVESTMENT MARKET VALUE ANALYSIS 11:08CDT 08/07/76

TENNEY BUILDING - MADISON, WISCONSIN
110 EAST MAIN STREET
VALUATION FOR MAY 1, 1976

****
AFTER TAX YIELD(IRR) : 17.47%
BEFORE TAX YIELD(IRR): 18.00%

INVESTMENT MARKET VALUE: $ 1135852
****

FINANCING:

MORTGAGES:

1.	1ST MONTH	10.250%	20 YRS	0 MONS	$	761020
2.	13TH MONTH	10.250%	15 YRS	0 MONS	$	135000

EQUITY CASH: $ 239832

RESALE OF INVESTMENT IN 5 YEARS:

ESTIMATED RESALE PRICE	$	1135852
LESS: MORTGAGE BAL.		801610
SALES COMMISSION		22717
CASH REVERSION BEFORE TAXES	$	311525
LESS: CAPITAL GAINS TAX(ALT.)		119040
TAX ON RECAPTURED DEPR.		3863
TAX PREFERENCE TAX		0
CASH REVERSION AFTER TAXES	$	188622

YR	NET INCOME	MORTGAGE INTEREST	BOOK DEPR.	TAXABLE INCOME	INCOME TAX	CASH FLOW BEFORE TAX	CASH FLOW AFTER TAX
1	44733	77442	72694	-105403	-50593	-44913	5680
2	148917	89783	85194	-26060	-12508	41614	54122
3	174660	87901	83631	3128	1501	[redacted]	[redacted]
4	181957	85816	82264	13877	6660	[redacted]	[redacted]
5	191197	83506	81068	26623	12779	83894	71115

```
GRAAS2       11:07CDT    08/07/76

100 TENNEY BUILDING - MADISON, WISCONSIN
101 110 EAST MAIN STREET
102 VALUATION FOR MAY 1, 1976
103 B,.18
104 AD,0,5,.02
105 44733,148917,174660,181957,191197
110 1,.48,0,0
111 4,0
112 .60,1,25,.1,1
113 .20,1,5,.2,1
114 135000,3,12,35000,13
122 1,.67,.1025,240,0,1
123 1,135000,.1025,180,0,13
```

IMV 20:06CDT 08/11/76

Output #3

EXHIBIT 18

```
WHAT IS YOUR DATA FILE NAME?GRAAS2
$5.00 LIB CHG APPLIED
AFTER TAX YIELD(IRR)        2.85%
BEFORE TAX YIELD(IRR)<    0.  %
DO YOU WANT DETAIL (0=NO,1=YES)?1


INVESTMENT MARKET VALUE ANALYSIS     20:06CDT 08/11/76

TENNEY BUILDING - MADISON, WISCONSIN
110 EAST MAIN STREET
VALUATION FOR MAY 1, 1976

*************************************************************
AFTER TAX YIELD(IRR) :    2.85%
BEFORE TAX YIELD(IRR):<   0.  %

INVESTMENT MARKET VALUE:                         $  1844000
*************************************************************

FINANCING:

  MORTGAGES:
  1.   1ST MONTH   10.250%  20 YRS   0 MONS   $  1235480
  2.  13TH MONTH   10.250%  15 YRS   0 MONS   $   135000

  EQUITY CASH:                                $   473520

RESALE OF INVESTMENT IN  5 YEARS:

          ESTIMATED RESALE PRICE                $  1844000

            LESS: MORTGAGE BAL.                    1228923
                  SALES COMMISSION                   36880

          CASH REVERSION BEFORE TAXES          $   578197

            LESS: CAPITAL GAINS TAX(ALT.)           187022
                  TAX ON RECAPTURED DEPR.             3853
                  TAX PREFERENCE TAX                  1293

          CASH REVERSION AFTER TAXES           $   386019
```

YR	NET INCOME	MORTGAGE INTEREST	BOOK DEPR.	TAXABLE INCOME	INCOME TAX	CASH FLOW BEFORE TAX	CASH FLOW AFTER TAX
1	24343	125723	118015	-219395	-105309	-121193	-15884
2	128527	137247	130515	-139235	-66832	-34666	32166
3	154270	134459	128953	-109142	-52388	-8923	43465
4	161567	131371	127586	-97390	-46747	-1686	45121
5	170807	127951	126389	-83533	-40095	7614	47709

```
GRAAS2      20:05CDT     08/11/76

100 TENNEY BUILDING - MADISON, WISCONSIN
101 110 EAST MAIN STREET
102 VALUATION FOR MAY 1, 1976
103 I,1844000
104 AD,0,5,.02
105 24343,128527,154270,161567,170807
110 1,.48,0,0
111 4,0
112 .60,1,25,.1,1
113 .20,1,5,.2,1
114 135000,3,12,35000,13
122 1,.67,.1025,240,0,1
123 1,135000,.1025,180,0,13


READY
REP

READY
RUN IMV
```

1. The preliminary evaluation provided in Exhibit 16 indicated a justified investment value of $1,177,718.

2. This preliminary value was then multiplied by the equalized mill rate of .0288776 of total value. That mill rate suggests taxes in fiscal year 1975 should be $34,010.

3. Assuming that real estate taxes would not rise for the entire five year projection for Dane County and the City of Madison, despite remodeling and inflation, a doubtful assumption which can overstate values significantly, the estimate revenues were recalculated to convert the before real estate tax income position to the more traditional net operating income as follows:

Net Income Before Real Estate Tax (Exhibit 15)		Estimated Real Estate Tax for 1975 (Section VI, D-3)		Net Income After Real Estate Tax (Exhibit 17)
$78,743	-	34,010	=	$44,733
$182,927	-	34,010	=	$148,917
$208,670	-	34,010	=	$174,660
$215,967	-	34,010	=	$181,957
$225,207	-	34,010	=	$191,197

4. The data file for IMV was then corrected to provide an unadjusted capitalization rate for equity of .18 (line 103 of IMV form) and/or the net operating income after real estate taxes (line 105) as determined above. The IMV program was then run again and the output is provided in Exhibit 17. This exhibit indicates the justified investment market value as of May 1, 1975 would have been $1,135,852 or rounded to $1,140,000. That is consistent with a market value approach of $15.00 per square foot of net leasable area, as suggested in Exhibit 11 as 25% more than paid for the Hovde Building in 1972 under similar conditions and motivation.

5. A test of the current market value determined by the Madison assessor of $1,844,000, subject to the same tax on total value of .0288776 would require a tax of $54,400 and leave a net operating income of:

Net Income Before Real Estate Tax		Estimated Real Estate Tax for 1975	Net Income After Real Estate Tax
$78,473	-	54,400	$24,343
$182,927	-	54,400	$128,527
$208,670	-	54,400	$154,270
$215,967	-	54,400	$161,567
$225,207	-	54,500	$170,807

When this net operating income is combined with all the other assumptions of the second IMV run, and the IMV program is asked to solve for yield, the result is an after tax yield of 2.85%, which is clearly unacceptable to the most unsophisticated investor. (See Exhibit 18) Only tax savings on the losses provided any yield at all!

6. Some basic investment tests indicate that a justified investment value of $1,140,000 would be the highest price an investor would pay under these assumptions because:

   a. While the after tax yield is adequate at 17.47%, all of the yield in the first year is due to tax savings through other income and all appreciation in excess of original equity cash would be taken by the capital gains tax in the event of resale.

   b. Cash flow in the first year is negative and only by the third year does it represent a satisfactory 28% of original equity cash. Total cash flow before tax by the end of the fifth year is $222,606, 93% of original investment, for a payback of barely within the five-year term desired of equity dollars in commercial property.

only B4 tax

   c. The cash breakeven point for the investment is the effective gross potential rent minus cash flow before taxes and converted to a percentage. The default point or breakeven point should be in the neighborhood of 70-75% on an older building in need of refurbishing and marketing. In the third year, the default point is still 85%.

Fiscal Years	Total ~~Effective~~ Gross Revenue from Exhibit 15 Column A		Cash Flow Before Tax (from Exhibit 17) Column B	Default Point $1 - \frac{\text{Column B}}{\text{Column A}}$
1975-76	$392,688	-	($44,913)	1 - (-.11) = 111%
1976-77	413,174	-	41,614	1 = .10 = 90%
1977-78	437,169	-	67,357	1 - .15 = 85%
1978-79	461,870	-	74,654	1 - .16 = 84%
1979-80	486,280	-	83,894	1 - .17 = 83%

   The default ratios remain unacceptably high despite the optimistic rent and expense projections following installation of new elevators. Only a slight increase in vacancy or real estate taxes, which were held constant for these computer runs, would put the project in the red.

   d. In short, the high breakeven point is the result of full pricing and a heavy assumption of debt, and it is this leverage risk

[redacted]

which produces the cash flow before taxes. A higher price would require more debt expense or more equity. The debt increases the risk of default which is already too high while additional equity would sharply lower yield and postpone payback well beyond the five-target. Should the Internal Revenue Service conclude that land values represent a much larger portion of the property values than we have allocated, depreciation benefits would be lost and cash flows after tax would drop significantly. Therefore, one must conclude that the property is fully priced at $1,140,000.

E. The Income Approach Value Allocation

The income approach to value using the mortgage-equity technique as programmed in the IMV program leads to the conclusion that the highest price an investor would be willing to pay for the Tenney Building as described herein would be $1,140,000 as of May 1, 1975 under the assumptions put forward and supported in this report.

1. Assuming the City Assessor were to use a 65% equalization base, the above value would suggest a total assessed value of $741,000.

2. If land were 20% of total value, then the assigned market value would be $228,000 or $10.55 per sq. ft. of this parcel of 21,615 sq. ft. However, if land were to be valued in light of the acquisition costs of the sites for GEF 1 and GEF 2 on the neighboring Blocks 106 and 108 east of Webster Street, land should represent a value in the neighborhood of $22-25.00 per sq. ft. A market value of land of $22.00 per sq. ft. for 21,615 sq. ft. would indicate a value should be assigned to land of $475,530.

3. Therefore, we would recommend allocation of income value to be:

	Market Value	Assessed Value
Land	$ 475,000	$ 308,750
Building	665,000	432,250
TOTAL	$1,140,000	$ 741,000

VII. VALUE CONCLUSION

Placing primary reliance on the income approach suggests a value of $1,140,000, which for purposes of comparison is approximately $15.00 per sq. ft. of net leasable area in the Tenney Building. Such a price is bracketed by transactions of buildings of similar size in the Square area in recent years, with higher priced buildings representing newer, better located, more automated systems.

The cost approach is completely inappropriate to the subject property since the improvements are obsolete, less than optimum us[redacted]

Based on the assumptions, limiting conditions, and property tax estimates as presented, it is the opinion of the appraiser that the highest probable price in dollars and fair market value of the subject property described herein as of May 1, 1975 is:

ONE MILLION ONE HUNDRED FORTY THOUSAND DOLLARS

($1,140,000)

[redacted]

CERTIFICATE OF APPRAISAL

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

Based upon the information contained in this report and upon my general experience as an appraiser, it is my opinion that the Fair Market Value, as defined herein, of this property as of ~~May 1, 1975~~, is:
October 1, 1976 & also January 1, 1979

SIXTY
ONE MILLION ONE HUNDRED ~~FORTY~~ THOUSAND DOLLARS

($1,140,000)
6

James A. Graaskamp

James A. Graaskamp, SREA, CRE

August 10, 1976

Date

[redacted]

STATEMENT OF LIMITING CONDITIONS

This appraisal is made subject especially to the following conditions and stipulations:

1. The appraiser assumes no responsibility for matters which are legal in nature nor is any attempt made to render an opinion on the title. The property has been appraised as if title to the subject property were in fee simple, legal ownership with no regard for the existing structure of split ownership within a larger holding company, leasebacks, mortgage loans, or other liens or encumbrances.

2. The appraiser did not conduct any engineering analysis of the structural components or of the site, of costs to replace, or of other related factors. Monthly operating and construction accounting data were provided but all income and expense estimates were reconstructed to include imputed rents to areas occupied by the owner and expenses deemed to be appropriate for skillful management of the property.

3. Forecasts of effective demand of retail and office space are based on the best available data concerning the downtown Madison market but are projected subject to grave conditions of economic uncertainty due to city plans for modifying the Capitol Concourse and current depression in retail sales levels for many retailers on the Square. ~~Throughout the report critical assumptions are noted and some are given special emphasis with full capital letters.~~ Thus, these forecasts are a scenerio of what is most likely to happen given skillful management and no unforeseen circumstances.

~~4. The specific parcel area appraised does not conform with the present city of Madison tax record for this tax parcel but assumes the city record to be obsolete and in need of updating to correctly identify the economic entity.~~

4 5. Values for various components of the subject parcel and improvements as contained within the report are valid only when making a summation and are not to be used independently for any purpose and must be considered invalid if so used.

5 6. Possession of this report or any copy thereof does not carry with it the right of publication nor may the same be used for any other purpose by anyone without the previous written consent of the appraiser or the applicant, and in any event, only in its entirety.

6 7. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media without the written consent and approval of the author, particularly as to the valuation conclusions, the identity of the appraiser of the firm with which he is connected, or the identity of any of his associates.

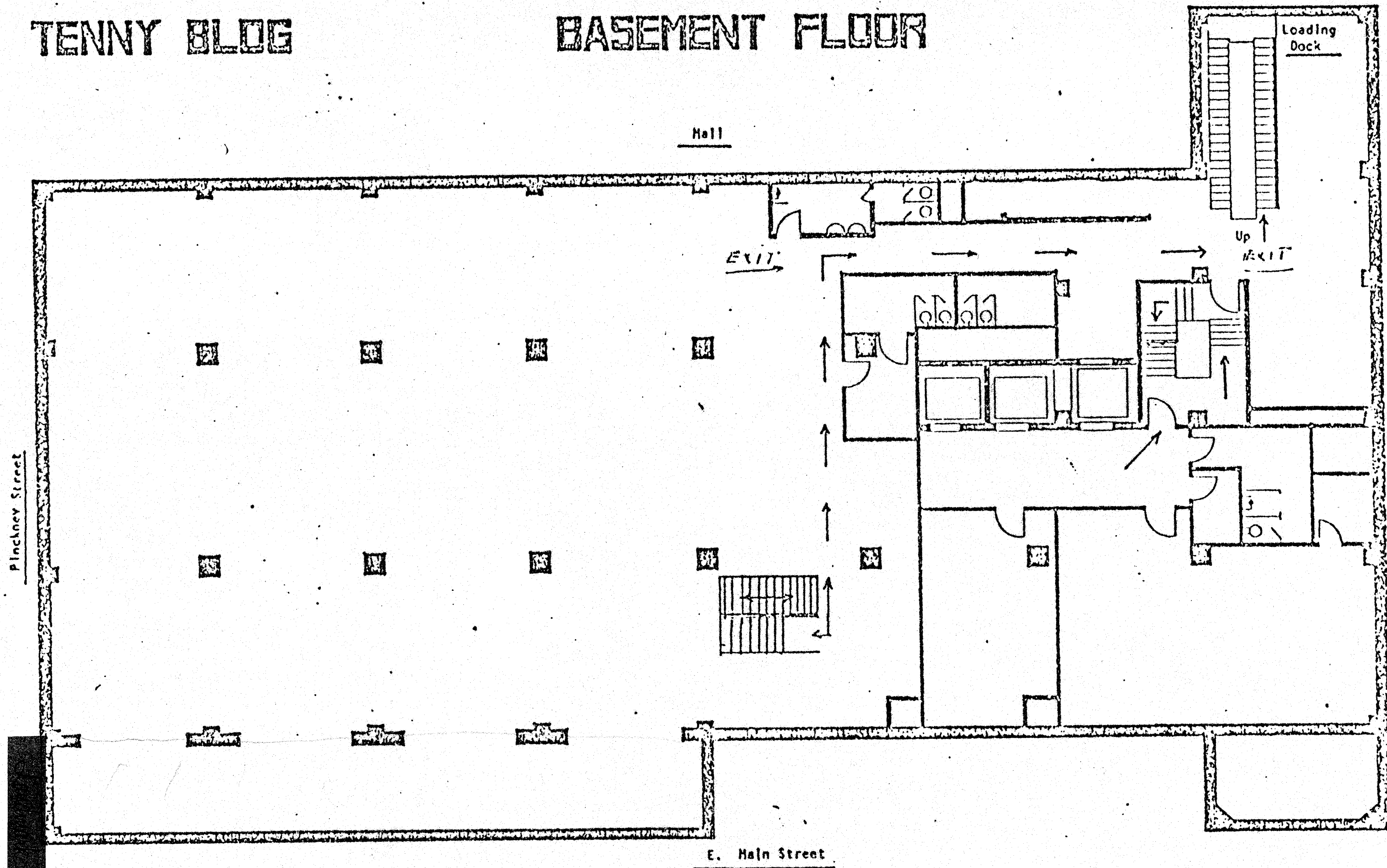
[redacted]

7 8. Information furnished by others in this report, while believed to be reliable, is in no sense guaranteed by this appraiser. While before-tax arithmetic of IMV model has been handchecked for accuracy, no guarantee of program infallibility can be made by EDUCARE or the appraiser.

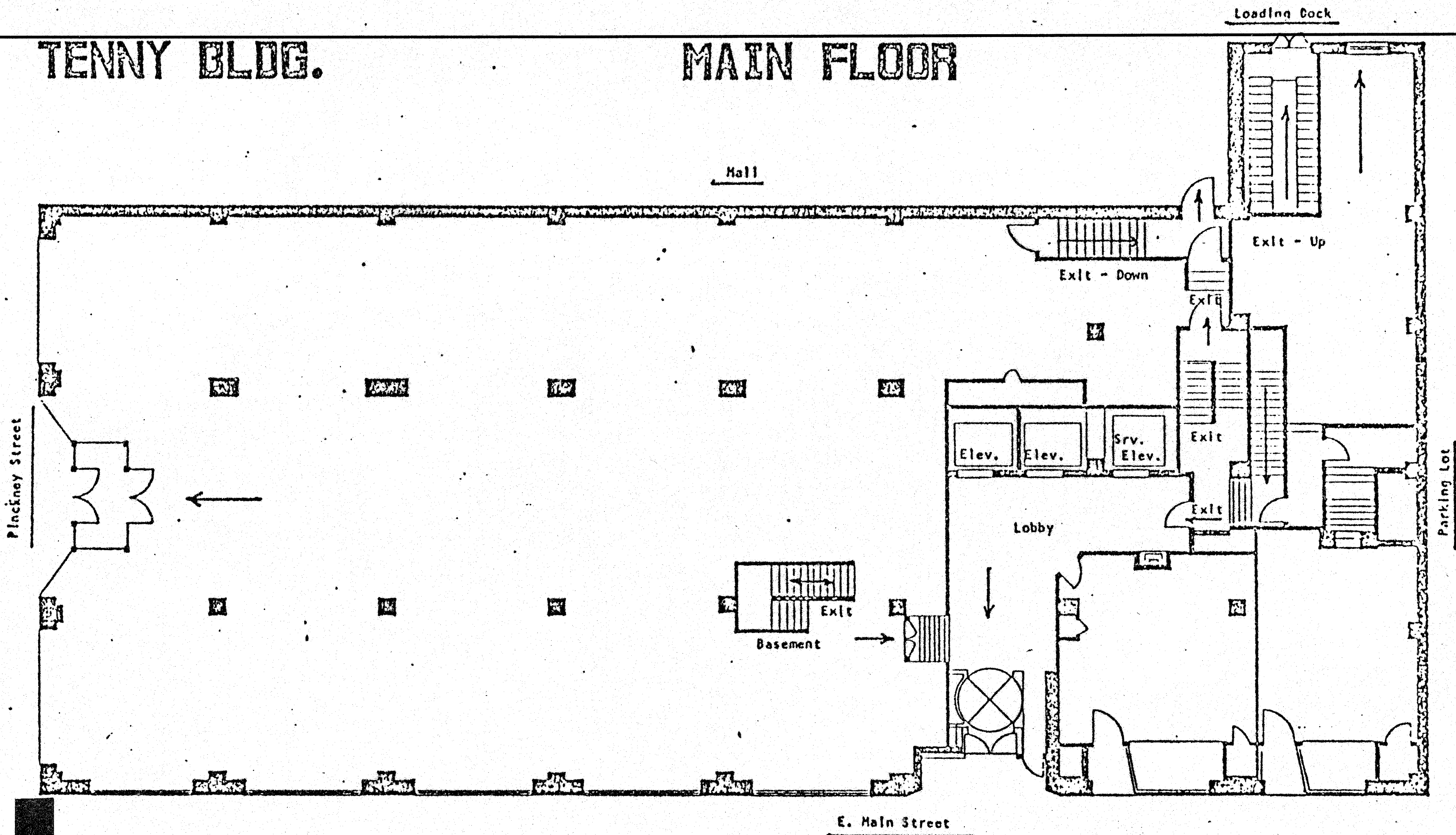
8 9. All information furnished regarding property for sale, rental, financing or projections of income and expense is from sources deemed reliable. No warranty or representation is made as to the accuracy thereof and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease, or financing, or withdrawal without notice.

[redacted]

TENNY BLDG BASEMENT FLOOR



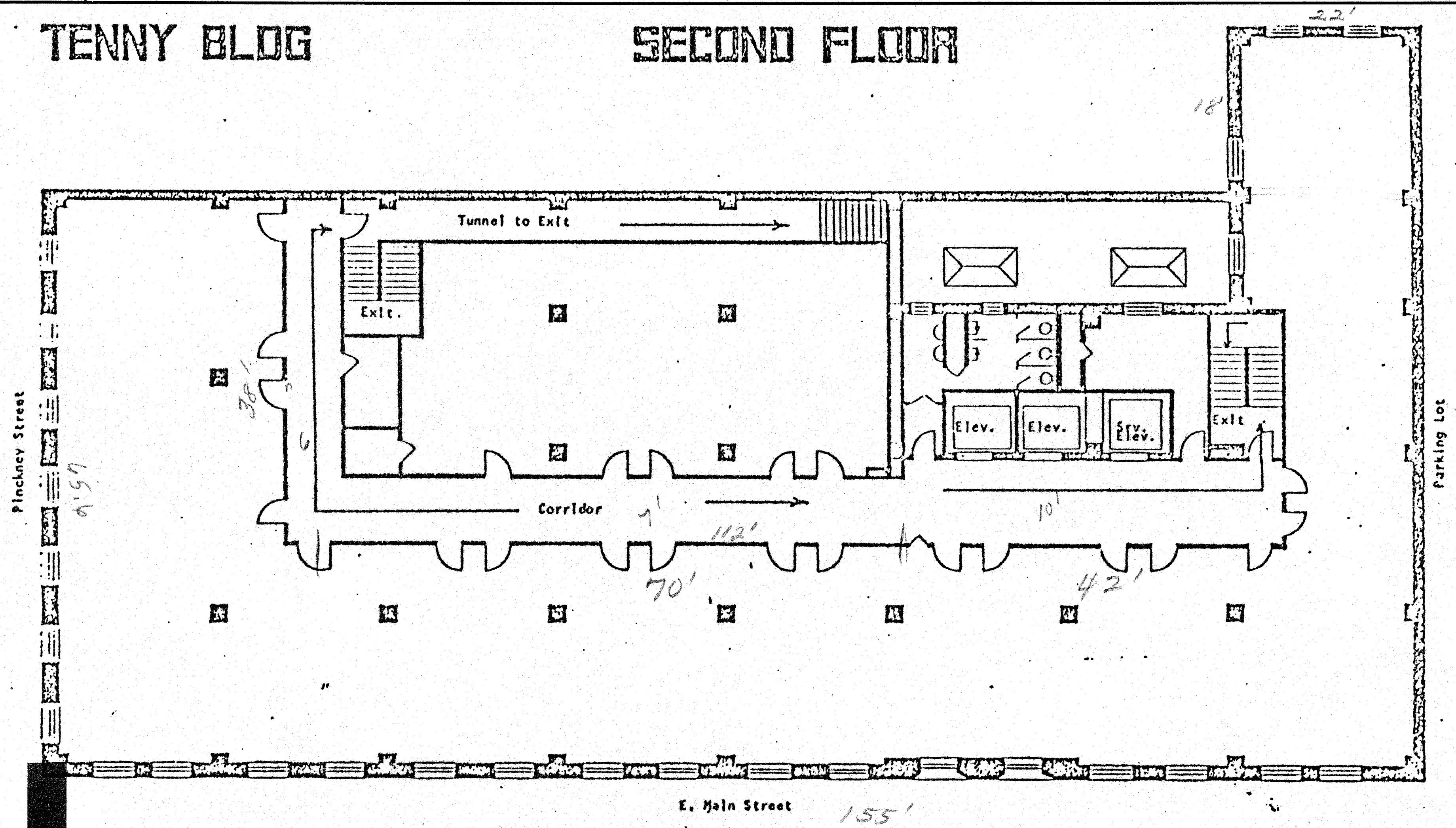
APPENDIX A



[redacted]

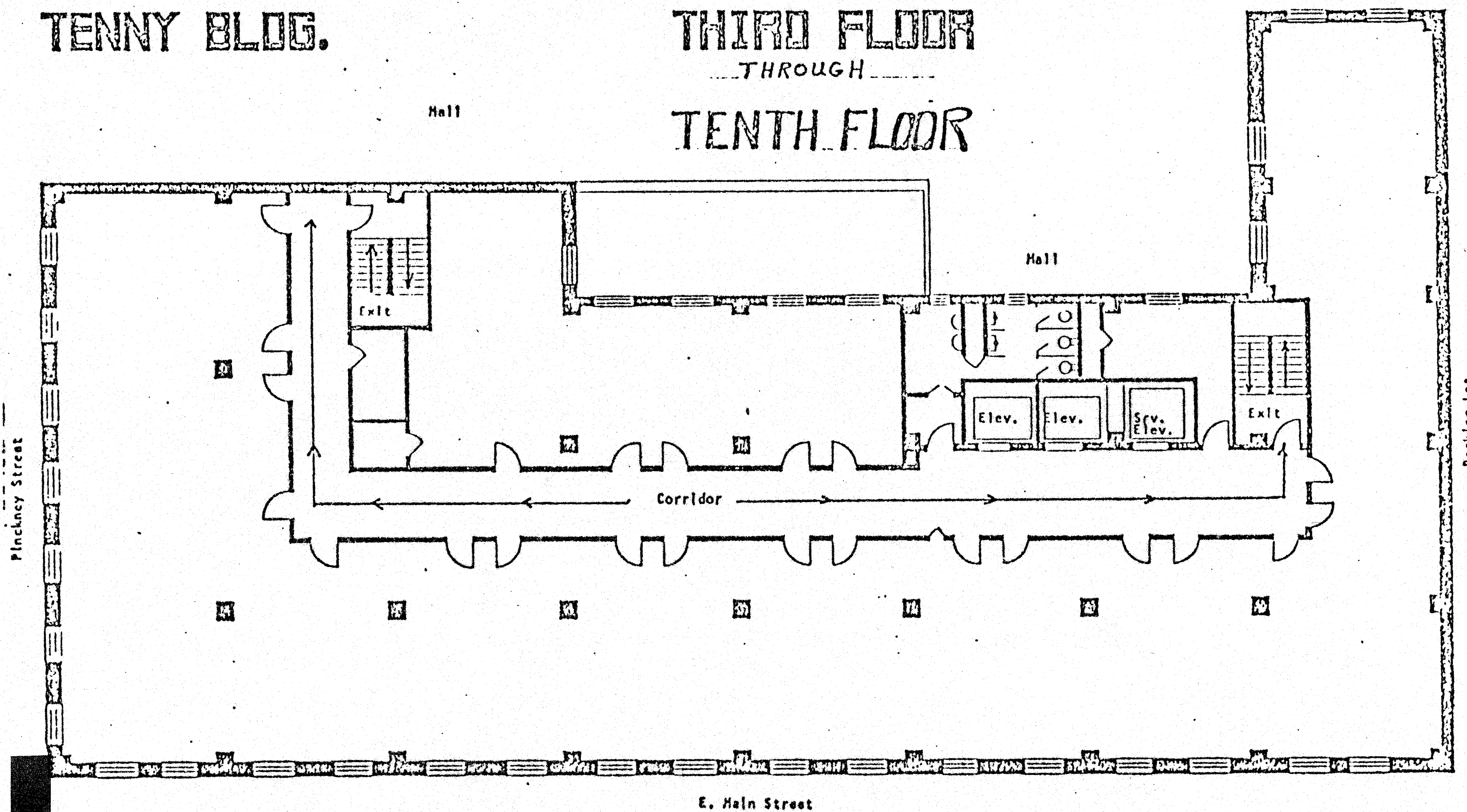
APPENDIX A
continued

TENNY BLDG SECOND FLOOR



APPENDIX A
continued

TENNY BLDG. THIRD FLOOR THROUGH TENTH FLOOR



APPENDIX A
continued