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Noted author of the text, James C. Downs, Jr., Certified Property Manager, is chairman of Real Estate Research Corporation, economic counselors, and vice president of Downs, Mohl and Company, one of the nation's largest management firms. He is former Housing Coordinator for the City of Chicago and Assistant to the Mayor as well as editor and publisher of The National Market Letter.

In 1952 Mr. Downs was awarded the degree, Doctor of Commercial Science by the University of Florida for academic contribution. Principles of Real Estate Management is used as a standard reference and text by more than 50 universities and colleges.

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PROPERTY MANAGEMENT

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The rewards of adding property management to one's list of services are varied and many, relate the authors. Dependable income, personal contact and additional property listings for your sales department are among the attractive features a survey of property managers revealed. But property management also demands constant time and attention and patience above all in order to maintain the goodwill and cooperation of clients and tenants.

Determining the potential market for a neighborhood shopping center is the basis of this survey by Mr. Brauer. Asked to suggest the best use of the major store space in the center, management had to study and define the trading area, examine other facilities within the area as well as the economic patterns of local residents. This led to the recommendation of several types of facility which would present the best return to the owners and serve the trading area.

Mr. Singer examines the various types of corporate involvement with real estate, ranging from pure tenant use to pure owner. He illustrates the differing benefits derived when a company chooses to purchase or construct a suitable building or remains on a tenant-leasing basis.

As an aging property, the nine-story Consolidated Building in Los Angeles was only 30 percent occupied. Then a modernization program was instituted, transforming the structure into the California Jewelry Mart which now houses many of the city's fine jewelers and related industries. The kaleidoscopic design seen on the cover is the building's inner court, a common feature of older buildings. Its walls were painted in abstract patterns of blue and white, accented with warm colors of red and orange.
HOW MUCH SHOULD YOUR ADS TRY TO SELL?

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Singleness of emphasis and a clear, unmistakable image are the keys to positive results in any type of advertising campaign writes advertising executive Richard Howell. Also essential is choosing the best media, whether it be newspaper, radio, Yellow Pages or direct mail, to reach your particular customers.

EQUITY CAPITALIZATION AND INVESTMENT DECISIONS: AN APPLICATION OF CONVERSATIONAL COMPUTER PROGRAMMING

William M. Shenkel, CPM

With the growing use of computers in real estate offices, Dr. Shenkel presents a detailed analysis of the use of computer analysis in valuing property on the basis of the return on equity investment. By converting the Ellwood formulas to computer form, the varying investment values under widely different market conditions can be quickly determined. This article will be followed by three others also dealing with computer use in real estate counselling.

PLANNING AND MANAGEMENT IN HAMLET, VILLAGE OR SMALL CITY

Eugene Van Cleef, Ph.D.

Dr. Van Cleef cites the need for city planning in small towns as well as in major metropolises to improve the total atmosphere and environment of the small town resident. He contrasts the relative ease with which such planning can be carried out in the smaller city with the difficulties in a large center.

THE MANAGEMENT LETTER: MIRROR, MIRROR . . .

Lloyd D. Hanford, Sr., CPM

Mr. Hanford relates the need for constructive self criticism aimed at enhancing the image of competent executives in the management of investment property. He has formulated five simple questions to stimulate such thinking.
Property Management in the Small Real Estate Office*

by Phillip Pickens, CPM, and William R. Beaton, PhD.

Every Realtor in every small office will at some time be confronted with the decision of whether or not to operate a property management department. His customers and clients will require him to make this important decision for which there are no hard and fast rules for guidance.

The term "small" is relative and there is no standard definition of the "small" real estate office. For purposes of this analysis, a "small" office is arbitrarily defined as a one- or two-man general brokerage office conducting the usual range of real estate business activities—sales, property management, property insurance, and loan placement. The amount of time spent on each activity will vary with market conditions, community needs and with the owner's concept of the benefits to be obtained from each.

ATTRACTIVE FEATURES

Our survey of CPMs asked what in their opinion were the best, or most attractive features about property management in the small real estate office. Almost without exception the respondents stated that from the owner's standpoint personal attention to his property was a key service the office could offer.

For the Realtor in a small office, property management offers numerous benefits: source of listings, insurance sales, diversity and stability of income, professionalization, close contact with owners and tenants, and broadened experience. It might be mentioned at this point that while the emphasis and focus here is on the small office, many of these benefits also accrue to a large office though perhaps with varying impact.

LISTINGS—Management provides a source of listings. In most instances when an owner decides to sell a property managed by a professional firm, he will list the property with this firm if he is satisfied with their service. Some managers put a statement in their management agreement to the effect that if the property is placed for sale on the open market during the term of management, it will be listed with them. Other managers, however, feel that this practice is really not necessary since the office will get the listing if their service has been satisfactory to the owner.

The manager, of course, is the person who knows the most about the property. During the term of management he has built up an excellent file of data on the property, pertaining to its income and expenses, maintenance requirements, tenants, market, etc. He is in the best position to effect a sale. His knowledge and records can be of considerable value in convincing a prospect of the desirability of purchasing the property. Furthermore, tenants satisfied with the manager's service offer logical prospects for purchase of the property since they may want to protect their occupancy.

INSURANCE—Insurance sales may accrue from management activity and most small real estate offices write insurance. The manager is responsible for informing the owner as to the proper kinds and amounts of coverage for property and liability hazards. Such service should be a normal part of the manager's total service, reliev-

*Data for this article was obtained from four sources: (1) a letter survey of 96 Certified Property Managers in Florida; (2) practical experience of the authors in the field of property management; (3) discussions with property managers, owners and tenants; and (4) published materials. The original material, a synthesis of the above mentioned survey, was first presented as a lecture by Mr. Pickens in the 1968 Educational Caravan of the Florida Association of Realtors.
Adding property management to its list of services can be a rewarding experience for the small independent Realtor, such as CPM Phillip Pickens, owner of a real estate business in Lake City, Florida.

Management duties are varied and offer each member of the staff, from the experienced executive to the new employee in training, fields of opportunity and advancement.
ing the owner of all details concerning the property.

Insurance service may be rendered to tenants as well as to owners through the small office. Such activity would be a logical result of the manager’s daily contact with the public and with tenants. Good public relations as well as added income can be obtained from this service.

Income—Property management provides the small office with a degree of diversity and stability in its income. The small income from management can be of great help, particularly in times of slow sales; it keeps the valley of income from becoming too deep. Historically, in times of depression, the main source of income in the small real estate office has not been real estate sales but from property management and hazard insurance.

Here is a comparison of income derived from management with income from sales. Assume:

1) Gross annual income from rent 
   8,000
2) 7.5 gross rent multiplier, giving an indicated market value of 30,000
3) 6% sales commission if property is sold 1,800
4) Management commission (5% \( \times \) $4,000 or $200 per year \( \times \) 9 properties or 9 years) 1,800

In this example, it would take nine such properties under management to equal one sales commission, or nine years for the one property to equal the commission.

Professionalization — Management in the small office provides the Realtor with an opportunity to determine if he has sufficient interest in this field to pursue specialization and professionalization in it. He will quickly realize that professional management is more than merely collecting rents and will learn there is no simple method of developing a profitable management business. He will learn that professional management is a technique requiring a broad-based general education combined with special training and considerable practical experience in all phases of the real estate business. Management in the small office frequently serves a highly useful function along these lines; knowledgeable Realtors recognize that management is not a “side-line” to which little attention may be devoted.

Contact—One respondent to the CPM survey stated that property management was “fun.” It is more fun in a small office because of the close contact with both owners and tenants.

Experience—The small office gives a more diversified experience with property; this is partly because of closer contact as mentioned above. Such experience can be particularly helpful in the sale of commercial property. First-hand knowledge is gained about income and expense statements, return on equity, rent multipliers, and standards of operation. An interesting observation by one respondent was that appraisers estimate income and expense whereas property managers actually make income and expense statements.

It might also be pointed out that management in the small office is an excellent training ground for new employees should the growth of the office require additional personnel. A new, inexperienced employee, of course, would not take over the management function but through observation and field work could acquire a considerable amount of knowledge about the real estate business. He will learn about buildings, markets, tenants, public relations, collections, repairs and any number of the vast details which occur in everyday management activity.
UNATTRACTIVE FEATURES

We also inquired in our CPM survey what were the unattractive features about property management in the small real estate office. From the owner's viewpoint, it was a question of the blind leading the blind; the lack of professional capabilities on the part of the Realtor. However, most of the survey respondents felt that the typical manager or typical Realtor is doing an excellent job in managing properties. Most Realtors and property managers are striving to improve their talent and increase their professionalism.

It was felt, however, that the very worst thing that could happen to a property owner was for his property to be turned over to someone who was incapable or incompetent. This is the one thing against which an owner cannot purchase insurance; there is no coverage available to protect against loss due to incompetent management.

Time Consumption—For the small-office Realtor, management is time consuming. Certain activities must be conducted, such as keeping records, making repairs, mortgage payments, property inspections, and consulting with owners.

Small Volume—Management in a small office cannot support itself on a small volume. The typical small office manages property on the same basis that a retail store carries certain low or nonprofitable items, namely, as a service to customers and as a leader to other business.

Overlapping Duties—The lack of depth of staff in a small office requires an overlapping of duties. Most offices are not set up for this type of operation.

"Frankenstein"—One survey respondent used the word "Frankenstein." A small rental operation may grow into an unwieldy monster very gradually. Basically, there are two ways that the small office gets into the management business and both are by-products of brokerage. First, a buyer may say to a Realtor, "Yes, I will buy this building from you if you will collect the rent for me." This may be called a "Buyer Condition."

Second, a seller may say to a Realtor, "Yes, I will list my building for sale with you but I am leaving town and would like you to collect the rent for me." This is a "Listing Condition."

In both instances the management agreement was conditioned on something besides, or in addition to, the Realtor's property management training, ability or even his desires. In both instances the management agreement was a by-product of a sale. What happens when the sale is over? What happens when the commission is long spent and the Realtor finds himself with several time-consuming rental properties on his hands? There are three alternatives open to him at this point:

First, he can continue to give "hit or miss" management service, using it merely as a means of increasing brokerage. He can do the best he can under the circumstances—which he alone has created—and hope for the best. Fortunately, the market will not permit such a practice to endure long.

Second, he can begin to professionalize his management service. He can increase his knowledge, understanding, and training in the field.

Or, third, he might work out an arrangement with another Realtor who does want to specialize in management and turn over all of his properties to him.

Calls—Property management also means calls at all hours. Some will inevitably have to be handled by salesmen not involved in management. While all personnel may not be qualified or even desire to handle these calls, they must be handled properly. If a request cannot be granted, the caller should be told so and why; if the request can be granted, he should be told exactly what will be done and when.

"Marriage"—Another word used by a survey respondent was "marriage." In a sale, the Realtor theoretically takes his money and goes one way, the seller theoretically takes his money and goes another way, and the buyer gets the property and goes another way—theoretically. However, in property management, just
the reverse is true. When a Realtor takes on a property to manage, he is married to that property (for good or for bad) for a long time. He should decide just how far he cares to go for profit and also what specialties he eventually wishes to pursue. If one does not care to study all the facts of property management, it is better to take one-half of the first month's rent as a rental fee and "run."

Realtors sometimes do not realize that methods suitable to brokerage are not necessarily applicable to property management. The objective of a Realtor acting as a broker is to bring together the minds of the seller and buyer. The exact terms or price agreed upon are of little interest to him since both parties must be satisfied before a contract of sale will be signed. On the other hand, the interest of the manager is different; his interest is that of the principal, the party who hired him. Mutual trust and fairness must be maintained among all parties, owner as well as tenant, but it must be understood that the manager is the representative of the property owner.

OTHER POINTS

The CPMs surveyed were asked to list any other points they felt should be kept in mind in connection with property management in the small office. These points were as follows:

Liability—A Realtor may be liable for some of his activities. He can also diminish his public image by improper management. A sound admonition is "do it well—or else don't do it at all!" Property management requires diligent work. The service cannot be performed with a "get-by" attitude.

Know Thyself—Recognize your limitations. Call in a CPM for assistance when needed. Remember that there are only 12 months in a year and that excessive vacancy or expenses can be disastrous to the owner.

Fees—Outside of brokerage the word "fee" probably gives more trouble than any word in the Realtor's vocabulary. Quoting a fee for selling a property seldom presents a problem but in any other phase of real estate there seems to be a great deal of difficulty in establishing a fee.

Too frequently the Realtor says, "Oh, I'm not charging anything for this; I'm doing this for nothing." The Realtor cannot afford to work for anyone for nothing; neither can a doctor, lawyer or a tradesman. The Realtor should quote an adequate fee for his property management services and the concept for adequacy should include a minimum fee. There appears to be considerable reluctance on the part of many managers to charge a fee commensurate with the responsibilities and the work performed.

Basically, there are three ways to estimate a fee: computation, fee-scale and communication. Computation means that the Realtor inspects the property and computes his fee based on the time and expense involved in management.

Most local Boards of Realtors have a suggested schedule of fees for various services, including management. Generally, the fee scale for management ranges from about 5 to 10 percent of gross collections, with a minimum fee. It should be remembered that these fee schedules are usually based on typical properties. An individual property may be better or worse than a typical property; it may require more time to manage or less time. If the manager does not inspect properties, he may find himself managing all of the white elephants in town—and at a nominal fee.
A third method of estimating fees is referred to simply as "communication." Pick up the telephone, call another Realtor, give him all the facts about a property and ask him what he thinks would be an adequate fee. The manager should not call his best friend; he should call his worst enemy. Anyone can call his best friend. Call an enemy and tomorrow he may no longer be your enemy; he might even be one of your best friends. The day of trade secrets is gone forever. Realtors and managers today are eager to share their experiences with each other.

**Maintenance**—It is absolutely necessary to have good maintenance or service men on call. Make a typewritten list of such personnel and display it conspicuously near the telephones in your office. Do not trust this information to memory. You may be out of the office at the very time an emergency occurs.

Make a personal trip to the office or shop of each of these firms. Let them know that you are depending on them to take care of your properties. Let them know that you expect to get good service, especially in an emergency. Remember, these men are specialists in their own field and know more about it than you. Personally visiting each of these firms will take time but it will pay off in the long run.

"Snafu"—One survey respondent used the expression "snafu," meaning "situation normal—all fouled up." Only one person can be in charge of property management in one office at one time. It is most embarrassing to learn that two different people in your office have rented the same property to two different tenants at the same time.

**Patience**—It may reasonably be said that the three most important words in property management are patience, patience and patience. If the Realtor cannot be patient then he has no business being in management activity. Remember, management is a "detail" business, and the handling of details requires careful attention along with patience. Management requires diplomacy and tact; many delicate situations can arise in the owner-tenant-manager relationship. Cooperation and good will must be maintained among all parties.

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William R. Beaton, Ph.D., is Professor of Real Estate and Urban Land Studies, College of Business Administration, University of Florida at Gainesville. He is a licensed broker and a member of the NAREB Committee on Education, the American Real Estate and Urban Economics Association, Regional Science Association, and the American Economic Association.
Plotting Potential for Shopping Center Space

by William Brauer, CFM

A property manager can be called upon to perform a variety of functions not the least of which is to make an analysis of a property in relation to its profit potential within a given area. This market analysis is sometimes prepared in connection with a new development in order to determine the best use of the property. However, it can also be called into play when studying an existing development.

As consultants for the owners of a neighborhood shopping center in Milwaukee, we were requested to analyze the property, relating to two factors:

1. The market potential of the center in terms of its location and market area.

2. The best use of the major store space within the center in terms of economic return to the owners and to the trading area served.

In order to provide answers or alternatives to these requirements, we followed a number of steps to obtain the necessary data upon which recommendations could be based. First, the trading area served by the shopping center had to be defined. Second, it was necessary to examine and relate various other shopping facilities within the trading area to the center under study. Third, the economic status and habits of the trading consumer were reconstructed and related to the environment. From these individual studies we were able to provide a list of possible high economic uses for the center.

While a complete inventory of business establishments in all developments was not made, we observed and studied a total impression of business and service. The study further involved a comprehensive analysis of economic patterns including population, family income, family formation and mobility, housing patterns and approximate median value, as well as services needed by and available to the consumers in the trading area. From such information, we compiled a list of recommended businesses and services which could improve the economic situation of the center as well as that of the trading area in which the center is located.

Description of the Project

The site itself consists of two buildings: the south section with six stores and the north section with two small stores and the main store area of approximately 11,100 sq. ft. This store is presently vacant and is the chief concern of the study. It is partially completed and could be finished with changes or modifications to suit the ultimate user.

The center has the following shops and services: pharmacy, carpeting, food service, cleaners, beauty salon, laundromat, gift shop, shoe store.

Design and construction of the buildings are good with a relatively pleasing appearance. The main building under study has good proportion, being approximately 85 ft. x 133 ft. There are three loading doors at the west end, and the rear one-third has a second floor available for storage, offices or alternate use assuming adequate access is provided.

With two separate buildings, there is some excess use of land for improvements which resulted in a lack of parking space. Only 90 cars can be accommodated with ease in the front section of the center and an additional 48 cars to the west of the center. However, this latter section tends to be ignored by the typical consumer. There is a difficulty regarding parking for the large store and the consumer would be at a disadvantage with the somewhat less than average parking facilities available. In usual consumer acceptance, a facility of 11,000 sq. ft. would require
parking for 70 or more cars by itself. The location is excellent in terms of market area and traffic access. It is located on two main thoroughfares which bisect the trading area and give good traffic availability to the site, while other streets and feeder roads provide ease of circulation.

The following conclusions were drawn as to the location itself:

1. It is excellent and easily reached by car and pedestrian traffic.
2. Parking presents somewhat of a problem unless a low-volume traffic merchant is found.
3. The center presents a pleasing picture to the average consumer.
4. The neighborhood and the region in which it is located is capable of a high generation of consumer spending for a suitable business.

TRADING AREA

The location of the subject center gives the property excellent access to its natural trading area, which can be defined as the convenient neighborhood easily accessible to a point unobstructed by natural or artificial barriers.

We examined the environment and placed the trading area boundaries as follows: On the north there is an industrial and railway boundary, which, combined with the center's size, limits access and interest. To the south there is a major thoroughfare which has ample shops services and centers. These draw heavily from adjoining areas and their influence is actually felt throughout our defined area in addition to limiting the south boundary of influence. Statistically, the resident would be twice as apt to shop here as at the subject center. On the east we found little evidence of goods and services but again there is another industrial barrier which limits the market. Rather highly developed stores and services again tend to set the westward limits.

COMPETITIVE CENTERS

An investigation of the area found that there were almost two dozen service and shop areas, some of which represent strong competition to the subject center, others not very competitive in nature. Several are typical local business areas crowded into residential areas with little parking. Merchants include gas station, barber, bakery, drug store, real estate office, jeweler, bar, grocery store, etc. Major intersections bisecting the neighborhood most often have typical strip commercial intrusion, again with similar tenants. These do not represent strong competition to the subject.

Our investigation suggested that the services and shops found in the non-competitive centers are purely neighborhood in orientation and the goods and services offered in the center under study would not be affected. Further those centers competitive to the subject are so because of major grocery chain anchors and not because of other services. No plans for any major shopping anchor except the grocery chain development were observed in any shopping center or district. To this degree at least, the competitive factor is one merely of a small or medium neighborhood center and the subject center without a grocery at this time.

ECONOMIC TRENDS

The estimated trading area falls within the south one-half of the community, a suburb of Milwaukee. This area appears to have higher economic characteristics than other sections of the same community. The entire area exhibited a great population growth in the period 1950-1962.
(during which all sections of the metropolitan area grew rapidly).

Based upon field inspection correlated with data from the Milwaukee Journal Consumer Analysis (March, 1968), we estimated the total number of families in the defined market area at 12,809 with a population of 51,236. Adjusting for the influence of several outlying shopping districts, because of natural and observed competitive advantages, we estimated that the number of families served by our defined trading study area is 8,200 household units with a total population of 33,600. We further estimated that there are approximately 8,100 dwelling units in the trading area.

Noting the great gains in earlier years, we found this trend continues strongly. There was a composite gain of 20 percent in both population and housing in the year July 1, 1966, through July 1, 1967, and so we concluded that the trend is still upward and healthy.

The area appears remarkably stable. The metropolitan area showed a 12.3 percent residence shift during the last year which, while slightly smaller than 1967 and 1966, is still high. However, the defined market area for the subject property shows only a composite 5.3 percent shift during 1967-1968. Such stability of neighborhood is a good indicator of solid economics.

As to income, we find the defined market area to be extremely high per household. On a composite basis, 55.6 percent of all families earn over $8,000 annually. Of that number only 14.4 percent fall into the $3,000-$9,000 category; the remaining households exceed $10,000 annually.

Generally, the area shows few economic soft spots. The area north of the subject site consists of household units primarily in service industries and heavy manufacture. The south section consists of residents in industries with greater emphasis on supervisory capacity.

Housing Patterns

The Milwaukee metropolitan market is extremely stable in terms of housing. Within the trading area, approximately 67 percent of all households reside in owner-occupied dwellings with the balance in rental units. This represents a high degree of home ownership and is somewhat above the expected norm for the major metropolitan area. Field inspection supports a higher figure for the defined market area and we estimated that the percentage of owner-occupied dwellings is approximately 72 percent, showing further strong economic characteristics. It confirms a strong residential value within the defined trading area and supports the conclusion of higher than average home ownership and income.

We found that the subjective value per dwelling in the area ranged from $10,000-$12,000 in the north to $15,000 in the south. Values are firm, transfers are not frequent, adverse neighborhood influence is negligible and maintenance is excellent. Wherever homes are of new construction, values increase so that towards the south boundary where a new, modern subdivision has developed, the subjective values range from $15,000 to $24,000.

With this information, we concluded that a strong and stable trading area should be capable of supporting some major use in the subject center.

General Market

It should be noted that a segment of the total market can only be profitable in the long term if the overall economic conditions are at least as favorable as those found in the study area. We, therefore, included a resume of important trends and factors showing a strong support of a good overall economic picture with balance for the future. Figure A gives basic data for the market area—population, number of home owners, employment statistics for the Milwaukee area. Figure B covers metropolitan rental and ownership of dwelling units. Again, the defined study area is better than the total market which is advantageous to the property under study.

Recommendations

Based upon the data and information which we collected and upon general and specific knowledge of retail trading patterns, we recommended that the owners...
### FIGURE A:
**BASIC DATA FOR MILWAUKEE MARKET AREAS**

<table>
<thead>
<tr>
<th>Standard Metropolitan Area*</th>
<th>Total Rental Trading Zone**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, 1960 Census</td>
<td>1,278,850</td>
</tr>
<tr>
<td>Population, 7/1/67 Estimate</td>
<td>1,443,600</td>
</tr>
<tr>
<td>(1) % Foreign Born White</td>
<td>6%</td>
</tr>
<tr>
<td>(2) % Native White</td>
<td>88%</td>
</tr>
<tr>
<td>(3) % Non-White</td>
<td>6%</td>
</tr>
<tr>
<td>Children, Under 5, 1/1/67</td>
<td>132,800</td>
</tr>
<tr>
<td>Children, 5 Through 9</td>
<td>173,200</td>
</tr>
<tr>
<td>Children, 10 Through 19</td>
<td>290,200</td>
</tr>
<tr>
<td>Occupied Dwelling Units, 7/1/67</td>
<td>427,100</td>
</tr>
<tr>
<td>Owner Occupied Homes, 7/1/67 (67%)</td>
<td>286,200</td>
</tr>
<tr>
<td>Renter Occupied Homes, 7/1/67 (33%)</td>
<td>140,900</td>
</tr>
<tr>
<td>Single and Two Family Dwelling</td>
<td></td>
</tr>
<tr>
<td>Units, 7/1/67</td>
<td>362,327</td>
</tr>
<tr>
<td>Multiple Units, Three Family or More, 7/1/67</td>
<td>88,329</td>
</tr>
<tr>
<td>Households with Telephones</td>
<td>378,000</td>
</tr>
<tr>
<td>Households with Gas</td>
<td>330,300</td>
</tr>
<tr>
<td>Households with Electricity</td>
<td>425,000</td>
</tr>
<tr>
<td>Disposable Personal Income, 1966 ($000)</td>
<td>$4,056,635</td>
</tr>
<tr>
<td>Average Family Disposable Income, 1966</td>
<td>$9,858</td>
</tr>
<tr>
<td>Retail Sales, 1966 ($000)</td>
<td>$2,284,369</td>
</tr>
<tr>
<td>Men in the Labor Force, 12/1/67</td>
<td>390,100</td>
</tr>
<tr>
<td>Men Employed, 12/1/67</td>
<td>386,300</td>
</tr>
<tr>
<td>Women in the Labor Force, 12/1/67</td>
<td>224,500</td>
</tr>
<tr>
<td>Women Employed, 12/1/67</td>
<td>217,200</td>
</tr>
<tr>
<td>Total Labor Force, 12/1/67</td>
<td>623,600</td>
</tr>
<tr>
<td>Total Employed, 12/1/67</td>
<td>603,500</td>
</tr>
</tbody>
</table>

* The Standard Metropolitan Area as defined by the Bureau of the Census is Milwaukee, Waukesha, Ozaukee, and Washington Counties.
** The ABC Retail Trading Zone is Milwaukee and 10 other counties.

### FIGURE B:
**HOME OWNERS AND RENTERS-THREE YEAR COMPARISON OF ALL FAMILIES**

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
<th>Number</th>
<th>Percent</th>
<th>Number</th>
<th>Percent</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own</td>
<td>67%</td>
<td>256,200</td>
<td>66%</td>
<td>278,800</td>
<td>66%</td>
<td>273,600</td>
</tr>
<tr>
<td>Rent</td>
<td>33%</td>
<td>140,900</td>
<td>34%</td>
<td>143,600</td>
<td>34%</td>
<td>141,000</td>
</tr>
</tbody>
</table>

**RENTERS ACCORDING TO RENT PAID**

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
<th>Number</th>
<th>Percent</th>
<th>Number</th>
<th>Percent</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $50</td>
<td>5%</td>
<td>7,000</td>
<td>4%</td>
<td>5,700</td>
<td>6%</td>
<td>8,500</td>
</tr>
<tr>
<td>$50-$100</td>
<td>61%</td>
<td>86,000</td>
<td>61%</td>
<td>87,600</td>
<td>68%</td>
<td>95,900</td>
</tr>
<tr>
<td>$100-$150</td>
<td>28%</td>
<td>39,500</td>
<td>30%</td>
<td>43,100</td>
<td>24%</td>
<td>33,500</td>
</tr>
<tr>
<td>Over $150</td>
<td>4%</td>
<td>5,600</td>
<td>3%</td>
<td>4,300</td>
<td>2%</td>
<td>2,500</td>
</tr>
<tr>
<td>No Answer</td>
<td>2%</td>
<td>2,800</td>
<td>2%</td>
<td>2,900</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>
of the center attempt to lease to any one of the following users:

1. A so-called mini-market or highly competitive, long-hour food facility appears to be favorable for this site. Perhaps an independent with a strong vegetable operation would be most successful.

2. Sports and marine sales. The space for display is excellent and the economic make-up of the trading area as well as the general region appears most favorable to the sale of boats, marine equipment and sporting goods. While there is a facility presently in the area selling such material, it appears cramped and in disarray. The subject store would be far superior.

3. Furniture and decorating. The area lacks a major facility for the purchase of furniture and major appliances. There is an increasing demand for good furniture and major appliances which could prove most fruitful within the confines of the economic status found in the area.

4. Major hardware and home improvement center. There is one such facility in the area and the success of it, together with the number of home owners and the age and value of the property involved, seems to support the market potential for another such operation. We visualize home remodeling exhibits, builders' hardware, tools, sporting goods, snowmobiles, etc. Display space is excellent, delivery is good and there is ample storage space. This could well be combined with recommendations 2 and 3.

5. Retail apparel, variety or junior department store. Strong market with no present service. It should include men and women's clothing, shoes, children's wear and soft goods.

6. Discount house. Hard goods primarily with possibility for sporting goods and housewares. Could be combined with No. 5 above.

7. Major liquor outlet. There is a strong tendancy for larger liquor and beverage outlets. We believe this could be an outstanding business location and use.

Other possibilities were investigated but discarded as being uneconomic to the owner or impractical for the operator. These included a financial institution (bank or savings and loan association), a restaurant, bowling alley, auto supply, among others. Generally, size limitations or extensive renovation precluded such possible tenancy.

We also investigated the possibility of office use. Ceiling height and extreme cost precluded serious consideration of such transfer of activity. It would also tend to discourage the other tenants of the center who have remained even without a major attraction within the center itself. We also believe that the general market for office space, particularly for 11,000 sq. ft., is much stronger in other areas.

As to rental procedures for the suggested uses, we would specifically review such leasing procedures and rates when the owners determine there is prospective interest. There are various techniques of rental which apply to the various proposals and we would be able to supply latest data once we know the specific direction in which the owners proceed.

**SUMMARY**

The subject shopping center is extremely well located in relation to traffic circulation and access and well located also in relation to its immediate trading area of 8,200 family units. These units enjoy a high degree of economic affluence and spendable income. The defined trading area has excellent potential for a number of uses in relationship to the goods and services offered by competing centers serving a much larger sub-regional area of which our defined trading area is a part.

Housing is valuable and the average turnover of housing is well below the sub-regional average. However, the entire market is growing at a rate commensurate with the entire metropolitan area; this is especially true just south of the defined market area.

The property itself is good looking and adaptable to many uses. There is some lack of parking but we have attempted to correlative suggested use to the supply of goods and services available to neighborhood residents.

We felt that the recommendations should develop good area acceptance and that prudent management of the possible uses will be beneficial to both landlord and tenant in the long run.

The Economics of Owning and Leasing

by Bruce S. Singer

Business management has become increasingly aware of the benefits arising from the inclusion of real estate in an over-all program of corporate investment. Requirements of liquidity or the availability of more lucrative returns through expansion of an organization’s primary activities serve to limit participation in outside real estate ventures, but the very nature of most enterprises requires the maintenance of interests in real property in the ordinary conduct of its business.

Corporate involvement with real estate can be characterized in terms of four primary relationships:

Tenant—User
Owner—User
Owner—User—Investor
Owner—Investor

The four categories, in and of themselves, merely define the relationship between the business entity and its shelter or investment outlet, as the case may be. Taken as a whole, however, the possessory interests represent a logical progression in corporate thinking with the succession pivoting on the willingness of corporate management to exchange an operating charge for an investment cost. Once the transition from tenancy to ownership status is made, the movement from pure user to user-investor or pure investor is smoothly accomplished.

Construction of improvements designed for the owner’s occupancy will usually provide a surplus of space to be held in anticipation of future expansion. The potential gain from leasing the surplus can be viewed as a contribution to fixed cost or an offset against the holding costs of the excess rather than a return on investment, but regardless of interpretation, the business organization has added real estate investment to its catalog of enterprise. Thereafter, the progression through buildings designed for the specific inclusion of outside tenancies to the creation of competitive space completely divorced from the corporation’s individual needs is predicated on the economic merit of each proposal, both on an individual basis and relative to the overall corporate financial program.

While many organizations make the transition from tenant to owner-investor without passing through the user stages, the latter are critical in understanding the economics of the former. Any consideration given to the acquisition of real property other than a single family dwelling becomes an investment decision, regardless of whether outside tenancies will be sought or the owner puts the property to his own use.

This observation needs no elaboration in regard to real estate purchased on the basis of its income productivity or held in anticipation of capital appreciation. Its validity, however, is less apparent when applied to property acquired where neither motivation is paramount.

Owner-occupied real estate is often purchased for the amenities it offers much as are single family dwellings. Prestige, prominence and exposure or specialized layout requirements may override purely economic considerations although any resultant increase in business profitability can partly be attributed to investment return on the incremental real estate costs. These benefits, however, are usually intangible from an economic standpoint and more often they prove elusive to measure. While other considerations may ultimately override those of a purely real estate nature, an evaluation which incorporates the techniques of investment analysis is a meaningful adjunct to other operationally-oriented approaches.

The decision to own rather than lease has the immediate effect of substituting a capital cost for an ongoing flow of rental payments. Recast in terms of costs and benefits, the capital outlay becomes the investment and the return thereon arises out of the rental savings and any
proceeds available to the owner at the time of an eventual sale. The mechanism by which the costs and benefits are measured against one another is the rate of return the projected rental savings plus reversion provide to invested capital. This "gross result" is tempered by the impact of the leverage available through mortgage financing and the variable effects of depreciation allowances.

The following example will illustrate both the procedures involved in the analysis and the kinds of information needed to produce meaningful results. Assume that management can acquire adequate facilities either through entry into a lease providing for full services by the landlord or by purchasing/constructing its own building. The basic financial terms of each alternative are found in Figure 1.

Under the terms postulated in the example and temporarily ignoring the impact of income taxes, financing and depreciation, a capital outlay of $720,000 will provide a gross savings of $130,000 per year in rental over a 10-year period. Additionally, some residual value will remain in the owned property at the end of the term, whereas any leasehold value will have been extinguished. Taxes and financing, however, sharply alter the gross amounts of capital outlay, savings and reversion and they may prove the controlling factors in selecting alternatives. The dual influences of government and mortgage lender on each investment component are traced through to their final impact.

By avoiding rental payments, gross savings can be reduced to a net value through adjustments for the owner's prospective liability for operating cost and debt service. The "after tax" net savings can be calculated by balancing income tax credits lost through the non-occurrence of fully deductible rental expense with credits gained through depreciation allow-

ances and the deduction of operating and interest costs. (See Figure 2)

Income tax, as posed in the example, is seen to favor leasing in lieu of purchase or construction. Credits lost through the unavailability of the rental deduction are, in this case, not recouped through the offsets for depreciation interest and operating charges. This does not, per se, wipe out the investment value of a fee interest, but it does necessitate a heavier emphasis on the forecasts of capital appreciation-depreciation and probable equity value at the time of a future sale.

Even the conservative financing assumed in the example provides for sufficient leverage to measurably enhance prospective return on investment. The complete absence of debt would increase net after tax savings to $53,400 per year but provide an undiscounted after-tax return of only 7.3 percent when compared with an equity requirement of the full $720,000.

Placement of the mortgage (80 percent of $570,000) reduces after-tax savings to the $26,700 level but at the same time lowers the required investment to $114,000 plus $150,000 for the leasehold improvements for a total of $264,000. The more than proportionate reduction in initial capital outlay raises the undiscounted rate of return to nearly 10 percent after allowance for income taxes.

The analysis might, at least superficially, end at this point. Having calculated the undiscounted rate, it might now be simply compared with the returns available from other alternatives and the decision made. Because of its implications, however, use of the undiscounted rate is misleading. The calculation implies either that the savings will accrue into perpetuity or the equity value at the time of a future sale will equal the equity investment at the time of acquisition.

Both interpretations have the same mathematical effect and neither is truly
LEASING:

Required Usable Floor Area .......................... 20,000 sq. ft.
Minimum Lease Term .................................. 10 years
Annual Rental (20,000 sq. ft. @ $6.50/sq. ft.) .............. $130,000
(Fully serviced and inclusive of leasehold improvement allowance)

Provides options to acquire expansion space and includes full tax and expense escalation.

PURCHASE OR CONSTRUCTION:

Required Usable Floor Area .......................... 20,000 sq. ft.
Building Efficiency Ratio ................................ 85%
Gross Required Building Area ......................... 23,500 sq. ft.
(20,000 ÷ .85)

Purchase/Construction Land & Building
Building
(23,500 sq. ft. @ $20/sq. ft.) .......................... $470,000
Land
(20,000 sq. ft. @ $5/sq. ft.) .......................... 100,000
TOTAL .................................................... 570,000

Leasehold Improvements
(20,000 sq. ft. @ $7.50/sq. ft.) ....................... 150,000
TOTAL .................................................... 720,000

Presume that building is capable of expansion if required.
Available Financing—Loan available at 80 percent of value exclusive of leasehold improvements, fully amortizing over 25 years at 7 percent per annum.

Depreciation
Building: Straight line rate over 40 years
Leasehold Improvements: straight line rate over 10 years

Annual Operating Costs & Taxes
(20,000 sq. ft. @ $2.50/sq. ft.) ....................... 50,000

For comparative purposes, it is reasonable to assume that increases in operating costs and taxes under ownership will be balanced by the escalation provisions in a typical lease.

Corporate Income Tax Rate .......................... 50%

FIGURE 2

Gross Rental Savings .................................. $130,000
Less: Operating Expense .............................. $50,000
Debt Service ........................................... 39,200
TOTAL .................................................. 89,200

Net Cash Savings Before Taxes ....................... 40,800

Income Tax Savings Lost
Rental ($130,000 × .50) ................................ ($65,000)

Income Tax Savings Gained
Operating Costs
($50,000 × .50) ......................................... 25,000
Interest ($25,000 × .50) ................................ 12,500
(Average annual interest payment on mortgage over first 10 years)
Depreciation
Building
($470,000 ÷ 40 × .50) ................................... 5,900
Leasehold Improvements
($150,000 ÷ 10 × .50) ................................. 7,500
Total Tax Savings Gained .............................. $50,900

Net Change in Tax Position ......................... ($14,100)
Net Cash Savings After Taxes ......................... $26,700

realistic. Obviously, because improvements are wasting assets, they cannot provide returns into perpetuity. Further, real estate values grow and decline; therefore, the likelihood of an overall depreciation in market value just balancing the enhancement of equity through mortgage repayments is remote.

There is a need to recognize that any flow of returns, whether in the form of savings or income, will exist for a relatively short span of years. Each year’s return must be measured not only in terms of its magnitude but in light of the length of time spent in awaiting its receipt. The impact of discounting cannot be reasonably ignored.

At the end of the term, some amount of capital value will remain, either to be realized through actual disposal of the holding or re-evaluated in terms of the then available investment alternatives. Some forecast of the probable remainder value must be made at the time of initial evaluation both to reflect fairly the full investment potential and to permit some planning for an ultimate capital gain or loss.

By way of the example, it is reasonable to use a forecast period of 10 years, since this is the length of term on the alternative lease and therefore the period over which the savings would accrue. The “sell-out” value is not capable of precise calculation but some logical assumptions can aid in its estimation.

Since the building is posited as relatively small and designed for a single large tenant or several smaller ones, it might be presumed that it will depreciate in value. Here, the 40-year useful life factor coupled with an assumption of uniform economic decline would provide an annual rate of 2½ percent. At the same time, trends in land values can be extracted from the records of recent land sales. Typically, a well chosen site
can be expected to appreciate in time, and for purposes of example an arithmetic rate of increase of 2 percent per year is used.

Quite apart from fluctuations in market value is the growth in equity position through amortization of mortgage debt. The mutual impact of these diverse considerations is measured in Figure 3.

A sale at $472,500, ignoring the costs of effecting the sale, would lead to a liability for capital gains tax estimated as shown in Figure 4.

The tax due on the gain would equal $5,000 under current rates, thus reducing the probable equity reversion, after taxes, to $112,062.

The decision to own as opposed to lease can now be discussed within an investment framework. Along with the host of nonfinancial considerations affecting the choice, management can state that, per the example, an initial capital outlay of $264,000 will provide after-tax net savings of $26,700 per year for 10 years and a probable after-tax equity reversion of $112,062 if the property is disposed of at the end of the forecast period.

The worth of the opportunity is measured by finding the discount factor which will equate the savings flow and reversion to the initial investment. Use of a standard table of compound interest factors indicates that the example provides an after-tax return of 6 percent. At this point, management can meaningfully compare the ownership opportunity with the array of other investment outlets competing for its limited capital.

The form in which the analysis has been cast (in terms of stream of return and residual value) allows it to be evaluated not only with other real estate proposals but with such diverse investment vehicles as mortgages, corporate and municipal bonds, and new plant and equipment. Each is indexed in terms of the anticipated rate of return and the risk attendant on its receipt with the final allocation of capital based both on profitability and a diversity of non-quantitative goals and considerations.

Unlike many other forms of investment, a real estate proposal can be made considerably more attractive through awareness and use of certain tax "avoidance" techniques. The rate of return derived in the example transaction could be increased by any method which effectively reduces

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**Figure 3**

<table>
<thead>
<tr>
<th>Forecast Value</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>($470,000 - .25 \times $470,000)</td>
</tr>
<tr>
<td>Land</td>
<td>($100,000 \times 1.20)</td>
</tr>
<tr>
<td>Salvage Value-Leasehold Improvements</td>
<td>117,500</td>
</tr>
<tr>
<td><strong>Total Forecast Value</strong></td>
<td>$472,500</td>
</tr>
<tr>
<td>Less: Unamortized Mortgage 10 Years Hence</td>
<td>($456,000 - $100,562)</td>
</tr>
<tr>
<td><strong>Forecast Equity Value Before Capital Gains Tax</strong></td>
<td>$117,062</td>
</tr>
</tbody>
</table>

**Figure 4**

| Sale Price | \$472,500  |
| Basis      | \$570,000  |
| Less: Accrued Depreciation | (10 \times .025 \times \$470,000) | 117,500  |
| **Adjusted Basis** | 452,500  |
| **Capital Gain** | \$20,000  |
initial outlay or increases savings flow and/or reversion and methods for enhancing each investment component are available.

Prepaying interest in lieu of making the normal form of down payment is a financing technique of growing popularity particularly in instances where the seller is classified as a dealer and his transactions are taxed at regular rather than capital gains rates. In such a case, the seller might be willing to recast all or part of the down payment (equity portion of the investment) in terms of a purchase money second mortgage at an agreed upon interest rate.

The Internal Revenue Service allows up to five years interest prepayment as an offset to ordinary income; hence, the transaction might be cast in light of that limitation. The essence of the method is to substitute tax deductible interest payments for a portion of the otherwise non-deductible capital investment. Any resultant income tax savings can be attributed to a reduction in initial investment.

As an example, the $114,000 equity investment could be set up in terms of a five-year, 10 percent (or legal maximum rate) mortgage with the entire principal amount due at the end of the term. The mathematical results would be a principal amount of $76,000 and total interest liability of $38,000. Deduction of the latter amount would lead to income tax savings of $19,000 and thereby an equal effective deduction in invested capital.

It should be borne in mind that the use of prepaid interest reduces depreciable basis and the available deductions during the holding period as well as increasing potential liability for capital gains taxes. In addition, the seller may increase his asking price to reflect the delay in receipt of his proceeds. Nonetheless, careful negotiation of sales terms can often make the technique a valuable one in reducing capital outlay.

Net savings can be substantially increased through the use of the accelerated depreciation forms. These are familiar to everyone engaged in real estate transactions and will not be elaborated upon. It should be noted, however, that if a property which has been subject to accelerated depreciation is sold prior to the tenth year of ownership, a portion of any capital gain may be subject to taxation at ordinary income rates.

This liability would arise out of the difference between the available depreciation deductions under the straight line method and those actually taken under the accelerated form. The proportion of the difference to be foregone varies with the time the property is held, all of it being reimbursable if the estate is owned for less than 20 months, but declining at 1 percent per month thereafter.

Potential capital gains taxes at the time of sell-out can be put off through entrance into a tax free exchange. Here, liability for taxes will be limited to the receipt of unlike property (boot) or net reduction in mortgage indebtedness.

Judicious application of these and related methods of tax avoidance can substantially enhance the attractiveness of a given real estate investment. While this entire presentation has been cast in terms of comparing ownership with leasing, it is readily seen that the methods of analysis and tax evaluation are wholly applicable to the more general problem of valuing future earnings. Further, only small modifications are needed to apply the concepts to the entire spectrum of investment opportunity, be the vehicle a bond, mortgage or new piece of equipment for the plant.

Business management is becoming increasingly sophisticated in its evaluation of investment alternatives. The real estate manager, whether he is on the corporate staff or acting as an outside consultant, must be equally prepared to show the economic logic of his proposals. He cannot limit his responsibilities to the physical operation of the properties but must as well contribute his expertise to the equally important task of economic planning.

Bruce S. Singer is presently a real estate analyst in the corporate real estate department of the Fund American Companies in San Francisco. Prior to this he was similarly employed with Hanford-Freund & Co., San Francisco. He is an instructor in real estate for the University of California extension and also the author of "Measuring Demand for Office Space," which appeared in the Sept./Oct. 1967 Journal of Property Management.
Renovation Gives New Sparkle
To Fading Office Building

by Herbert I. Silverson

A problem frequently encountered by owners and managers of older office buildings concerns the future of those buildings. Should they be razed and a new structure built or should the space be utilized for parking or should the existing structures be improved? If improvement is warranted what should be the monetary limits placed on such modernization?

Such was the problem we faced as the managing agents of the nine-story Consolidated Building, a long-time landmark of downtown Los Angeles. Once highly successful, housing the handbag and accessory industries, the building suffered a 60 percent decline due to the creation of a new apparel center in the city which attracted many of the building tenants.

This situation presented the common question: should the building be razed or renovated? After conducting extensive feasibility studies, the decision was made to renovate. This decision posed a further question. With an abundance of new high-rise office building space available downtown, would the renovated Consolidated Building be able to attract tenants at rates which would not only yield a reasonable profit but recapture the investment?

A market study was conducted and the results indicated that the building would enjoy much greater success if it were able to obtain a specific trade. Several months were spent in seeking and evaluating the interest of various industries, including furs, gifts and boutiques, toys and shoes. It was discovered that the fine jewelry industry, primarily centered in a somewhat deteriorated neighborhood of the city, was the most discontented in its present surroundings.

In order to establish a relationship with the jewelry industry which would yield a comprehensive understanding of its specific needs and requirements, a committee of prominent jewelers was formed. Utilizing this committee as a vehicle between the owner and the industry, a publicity and promotional campaign was inaugurated.

It was learned that the fine jewelers conduct an interdependent trade. For example, a wholesaler depends on a manufacturer, who depends on polishers, setters, cutters, platers, etc. It was therefore necessary that a sufficient number of jewelers move to the building simultaneously in order to assure the building’s self-sufficiency.

Many months of negotiation between the owners, jewelers and the jewelers’ committee resulted in a mutual agreement which outlined the renovation to be performed and the minimum number of signed leases required to assure the building’s success. It also designated the name of the building as the California Jewelry Mart, leasing exclusively to jewelers and related industries, to identify the newly created fine jewelry center.

Lease negotiations were based upon a premise agreed to by both the owner and the jewelers’ committee that before any individual lease became a binding contract, it was necessary that 75 percent each of the adjacent three floors be leased. The enthusiasm for the proposed project made this commitment possible in less than two months and the California Jewelry Mart was established. The first space in the new center was occupied three months later.

In order to lessen the operating losses, existing tenants were encouraged to remain in the building as long as construction schedules permitted. In some instances, relocation of these tenants to other floors of the building was necessary.

Modernization of the building included a complete interior renovation on a floor-by-floor basis with offices and showrooms...
Individual showrooms are set off like gems with use of glass partitioning in the California Jewelry Mart in Los Angeles, recently renovated and modernized for the jewelry industry.
The California Jewelry Mart, created at a renovation cost of over $2.5 million, is proof that with progressive, imaginative management, the problems surrounding and empty antiquated building can be solved creatively and profitably.

Designing according to individual tenant's specifications, each showroom presents its own unique personality to visitors of the California Jewelry Mart.

to be built in accordance with a particular tenant's exact specifications. An interior space planner assisted each tenant in the design of his offices.

As the renovation progressed, each floor retained a unique atmosphere and identity. Visitors are now able to view individual showrooms, set off by all-glass partitions and entry ways. A central air conditioning system on the roof provides both heating and cooling.

Management's imagination was exemplified in the treatment of the building's inner court, a common and usually unsightly feature of older buildings. The walls of the open court are painted in abstract patterns of blue and white, accented with warm colors of red and orange. The skylights at the base of the court have been transformed into a gleaming prism of mirrors and colors in geometrical design. The view of this magnificent spectacle is available to tenants on the court as well as to visitors who may view it from wide picture frame windows located on each floor's elevator lobby.

The exterior of the building has been given a totally modern silhouette by removing the old-fashion trim and replacing the outdated double-hung windows with single pane fixed glass encased in neoprene gaskets, flush with the building's exterior surface. A painted tan surface blends into a unified base of antiqued travertine marble. The visitor's first impression of the building is obtained as he approaches the modern all-glass entry into the lobby which is accented by alternate panels of marble and full-length mirrors.

Of greatest concern to the fine jeweler is security. The necessary protection of the millions of dollars in jewelry housed in the California Jewelry Mart is provided by an elaborate and carefully designed electronic security system; 24-hour armed guard supplements this protection. In the interest of tenant convenience, a bank-type vault was built large enough to provide over 500 safe deposit boxes.

Other services provided in recognition of the trade's unique needs include special exhaust systems, natural gas, compressed air, hot and cold water and a new backbone electrical system to provide tenants 110 and 220 power, both single phase and three phase.

The California Jewelry Mart now stands as a new landmark in downtown Los Angeles, containing well over 200 businesses; it is the major jewelry center west of Chicago. From less than 30 percent occupancy, the building is now almost 95 percent leased. The last two floors are under construction and upon their completion, the building will be 100 percent occupied.

The California Jewelry Mart, created at a renovation cost of over $2.5 million, is proof that with progressive, imaginative management, the problems surrounding and empty antiquated building can be solved creatively and profitably.

Herbert I. Silverson is Executive Vice President of Helmsley-Spear of California, Inc., and is in charge of that firm's West Coast Division. He has been in the real estate business continuously since 1931 as an appraiser, builder, broker, manager, principal and consultant. Among professional affiliations, he holds membership in both the Los Angeles and New York City real estate boards and in NAREB.
How Much Should Your Ads Try to Sell?

by Richard Howell

How much should your ads try to sell? One thing. And one thing alone. Putting your eggs in one basket pays off when it comes to advertising. Regardless of the type of business or the size of the advertising budget, both the giants and the midgets of American business have found that it pays to sell one thing at a time. And that’s true whether you have millions to spend or just a few dollars.

Advertising that appears to be selling everything in creation, such as the supermarket ads in the newspapers or the discount center ads that offer everything from dog food to dungarees, basically are selling one thing: price. Their message is: “Come on into our store and see how much you can save.” Usually it’s conveyed by a big headline that screams out “Savings Jamboree!, “Price Explosion,” or some such catch-phrase.

It pays to sell one thing at a time—be it a specific item, a benefit to the buyer, a price or a service. Decide what it is you really have to sell and emphasize the unique advantage buyers can get by dealing with you. Then tell them about it, over and over and over again.

Follow these basic precepts and you’ve got the beginnings of an advertising campaign. Not just a series of ads but a unified assault on the consciousness of your prospects. Not a hodge-podge of impressions but a clear and unmistakable image of your company and what you can do for your customers.

Once you’ve decided what to say, put your money where your mouth is. You may not have millions to spend and your market may not be everybody, just some of the people some of the time. This being the case, you have to be more selective. You have to advertise to capitalize on peak need or demand. You have to run your ads where they will separate your buyers from the mass. You have to be concerned about how much it costs to reach and sell a given customer, the ratio known in advertising circles as “cost per thousand.”

In short, you have to choose the best media for your message. Here are some guidelines as to which of them might be best for you.

NEWSPAPERS

Most newspapers reach just about everyone in the community they cover. And most newspaper readers scan the ads as they do the news columns to keep up with the latest and to be informed about what’s going on in town. Because of this, newspaper ads help you to winnow your prospects from the mass. Their efficiency can be enhanced by making your ads as “newsy” as possible. Price is news. A new product is news. The advent of a season or a holiday is news. New people are news. New or improved services are news. Demonstrable quality is news.

Find this news in what you have to sell. Then figure out when to tell it to your prospects, the right times of year or the best day or days of the week. Single out the one idea—not necessarily one product, but at the very least a cluster of products tied to your basic news message. Take enough space to tell your story attractively, in eye-catching fashion. And tell it as often as you can afford to within the period when its news values are greatest.

Newspapers offer you almost unlimited space. So you can go into considerable detail if you want to and if your story merits it. If you want to reach a specific segment of the population, you can run your ad in the section of the paper they’re most likely to read—the sports page for most men, financial section for businessmen, etc.
Radio

This medium also is a prime conveyor of news. It is instantaneous, so your ad should be newsy and very brief. Tell just one, or at most a few really important facts. Use short sentences, lively copy. Ask your listeners to act fast and tell them how to go about it. Because brevity is the soul of radio, your message should be "hot," dramatic, demanding of quick action.

Relatively inexpensive, radio also sets out a dragnet for prospects to be culled from the mass. It can stand by itself but is especially effective in selling low-to-moderately priced consumer items. It is far less so for big ticket and industrial products.

As with newspapers, you can use radio most effectively by running your spots at times or in programs that have appeal to the audience you most want to reach—daytime for housewives, drive-to-and-from-work periods for men. But remember: sell one thing, sell it repetitively.

Television

The great advantages of TV are that here you can actually show what your product looks like, how it works, or how your services differ from all others. In short, you can both tell your news and demonstrate it. In most cities, however, it's fairly expensive. Because of this, all too many unsophisticated advertisers try to get the most for their money by telling and showing as much as they possibly can. In so doing, they destroy much of the value of the medium.

Many low-budget advertisers also have the announcer face on, delivering the voluminous message right into the camera. Don't do it. Television advertising needs logical, appropriate action and dramatization of a simple, single idea.

Again, tell what's new and different about what you have to sell. Pick out that single dramatic fact or small cluster of facts, roll them into one unifying idea and tell your story through action. As with other media, run your commercials in or near those programs that automatically select your best prospects.

Yellow Pages

This medium is unlike the others in that its ads don't circulate among large numbers of people before reaching those who might be interested in a particular product or service. Prospects turn to it only when they've made up their minds to buy. This directory is different, too, because timelessness is not the point since it is in circulation a full year.

People often turn to the classified directory after some other form of advertising has made a good impression on them but they've forgotten some vital fact, such as a phone number, an address or even the advertiser's name.

Of course, other people refer to it without being influenced by any other form of advertising. And whether they've seen any of your ads or not, many of these people have only made up their minds to buy but not where they're going to spend their money.

That should tip you off as to what should be in your ads. If a Yellow Pages user is trying to decide with whom to deal, the most important thing for you is to tell him why he should deal with you and you alone. Remember, your ad isn't the only one he'll be likely to see so get this point over to him in the quickest way possible. Grab for his attention with an interest-packed, compelling headline that spells out how and why he'll be better off if he chooses you.
Follow it up with facts. Tell him the kinds of services you're selling and about the extras that make dealing with you a pleasure, too.

Outdoor and Transit Advertising

This kind of advertising cannot go into the detail possible in other advertising, but it isn't because space is limited; time is what's lacking.

You've got to put your best selling point forward. It has to be one that will still make sense in a week, a month or even longer. Restrict yourself to a generalized message that concentrates on selling your goods or services; leave out all details because most prospects see your posters only while in transit. Attract their interest with an intriguing illustration and sign off with your name, address and telephone number.

Posters and car cards should be spotted in your sales area, along heavily traveled routes that lead to you or on public transportation that passes near your door. Use transit and outdoor for seasonal offers and similar specials that have a life of a few months or for relatively timeless, image-building messages.

Direct Mail

Many of the guidelines set up for other media are quite suitable here. If it's details you want to give prospects, this is really the place to do it. By and large, you'll already have selected, on a name-by-name basis, each and every person who'll be the recipient of your message and you won't be bucking many other ads.

But don't get carried away. Just because you have details to tell and the space in which to tell them, as well as little direct competition, there are some mailing pieces that should never have seen the light of day. Distill your sales story down to those facts that will have a definite role in convincing a prospect to buy; in most cases, one who's already demonstrated that he's a likely sales target.

Don't delude yourself into thinking you've got carte blanche because somebody else's ad isn't bucking yours. You're still fighting the same enemy that afflicts advertising in any manner, shape or form—other activities and interests. So strive for the mail recipient's interest right away. Claim his attention with a strong headline—one that promises to save him time and money—as soon as he opens your envelope or picks up your card. Even better, put some intriguing line or illustration on the outside of the envelope to be sure that it gets opened.

Trade Magazines

To sell to other businessmen, trade publications are often your best bet. But when you're going through the distillation process we've described for other media, don't forget to whom you're advertising—businessmen. Businessmen who are interested in exactly the same thing that prompts you to advertise to them: profit. Don't forget that your ads in trade magazines should take direct aim at that target.

To be sure that your message gets over to the businessmen you want, check circulation figures and then analyze what each prospect is costing you. Pick the magazine or magazines that will give you the most—and best of your logical prospects.

Summary

The one ad message that takes precedence over everything else is that it pays to sell one thing at one time, be it a service, product, or whatever. Sell it through a mixture of media that will reach customers most efficiently. Back up "perishable" media with a permanent reference, such as the Yellow Pages. When you find the right selling combination, repeat it again... and again... and again.

Richard Howell is account executive for Cunningham & Walsh, Inc., one of the country's largest advertising agencies. He has formulated the single selling concepts for several major national advertisers and the material for this article is drawn from almost a decade in advertising and sales.
Equity Capitalization and Investment Decisions: An Application of Conversational Computer Programming

Note: Many property managers are using computers to help solve business problems and to analyze real estate data for decision making purposes. To encourage this trend the Journal will publish four articles by Dr. Shenkel on the use of computers for property management analysis requiring business judgments, real estate counseling and related management functions. This article on equity capitalization will be followed by an article on methods of analyzing cash flow by computers. A third article on leasehold analysis and a final report on multiple regression analysis of real estate values will complete the series.

This material is representative of the increasingly complex role of property managers. While most of these programs were developed by students in the Department of Real Estate and Urban Development, University of Georgia, Dr. Shenkel reports national use of these new techniques of real estate analysis.

Equity capitalization refers to methods of valuing income property on the basis of the return on equity investment. The capitalization process covered in this article was developed by L. W. Ellwood. (See Ellwood Tables. Chicago: American Institute of Real Estate Appraisers, 1967.) In using this system, it is assumed that investments are made over relatively short periods, that the investment return is measured against the equity investment and not total property value. Moreover, the return on equity, it is held, includes an annual return and a capital gain or loss over the investment period. To this extent equity capitalization represents a departure from the conventional capitalization process—a process that deals with annual income as a return on the total property value and over the building life.

In the conventional treatment of property, the net annual income is related to the return on land and buildings. Thus a $20,000 net annual income from an improved property would be valued under one of the residential capitalization methods.

```
Net Annual Income .... $ 20,000
Less Return to Land  
$100,000, @ .08 .... -8,000
Income to Building ... $ 12,000
Building Value (50 year life) 
$12,000/.10 .... $120,000
Add Land Value ...... 100,000
Market Value .......... $220,000
```

The example shows that income is projected over the total building life of 50 years and that the net annual income is related to the total property value. Financing methods and the return on equity are not a part of this calculation.

To employ equity capitalization for property earning a net annual income of $20,000, other information would be required. For instance, the final value would depend on the return on equity, the anticipated yield, the period over which the investment would be held, financing terms and, in addition, an estimate of appreciation or depreciation over the short term investment. In other words, the value of the property is dependent on the return on equity and not the total property value.

To show how investment values change under widely different market conditions, the Ellwood formulas are converted to computer form. Thus it will be shown how management decisions may be based...
on several investment alternatives. Furthermore, the technique used here demonstrates the conversational programming system in which investment formulas are programmed for typewriter input and output computer systems. In this way decisions may be based on answers that take seconds to calculate and print by typewriter. To use this program it is only necessary to use a typewriter unit connected to the main computer by telephone line. User charges are based on actual computation time measured in seconds or minutes.

**Variables Used in Equity Capitalization**

Equity capitalization converts income to capital value using some eight variables. Value is assumed to be the dependent variable—that is, final value is dependent on seven other independent variables. Hence, value is a function of

\[ V = f(M, i, n, y, d, a, N, I) \]

Where:

- \( M \) = mortgage loan-to-value ratio
- \( i \) = mortgage interest
- \( n \) = length of mortgage
- \( y \) = anticipated yield on equity (in percent)
- \( d \) = percent of depreciation
- \( a \) = percent of appreciation
- \( N \) = investment projection period
- \( I \) = net annual income before depreciation or amortization of mortgage

Thus it is held that the price paid for income property depends first on mortgage terms, including the loan-to-value ratio; the mortgage interest rate, and the length of the mortgage. Secondly, equity capitalization requires an estimate of the percent of equity yield and a forecast of the probable appreciation or depreciation over the investment period. Thirdly, a projected period for holding the investment must be selected. Then, given the net income, the resulting value will allow the anticipated yield, given the other variables of the equation.

Suppose, for example, you require a 15 percent return on an equity investment. With a net annual income of $20,000 and a 75 percent mortgage repayable over 25 years at an interest rate of 7.5 percent, you have most of the variables to calculate value. Assume also that the period of investment is ten years and that no capital gains or losses will be anticipated over this time. It is then possible to calculate a value that will earn a 15 percent return on a proposed ten year investment using the following variables:

\[ M = 75\% \]
\[ i = 7.5\% \]
\[ n = 25 \text{ years} \]
\[ y = 15\% \]
\[ d = 0 \]
\[ a = 0 \]
\[ N = 10 \text{ years} \]
\[ I = 20,000 \]

The symbols representing the variables are arbitrary. For computer calculations it is only necessary to adopt a standard and unique symbol for each term. Note that no appreciation or depreciation is assumed, i.e., the property will be sold at the end of ten years for the original purchase price. Later, varying rates of appreciation and depreciation will be assumed.

Space does not allow an evaluation of equity and conventional capitalization. They are discussed elsewhere.1 It will be observed, however, that the assumptions of the equity capitalization process contribute to more intelligent investment decisions, especially if the variables in question are subjected to computer processing. The next step is to show how capitalization formulas are converted to computer format using a hypothetical case as an example and then showing how a change in any single variable affects value.

**Equity Capitalization Formulas**

To adapt capitalization techniques to computer use, four main formulas must be programmed. When these formulas are reduced to conversational programming, the program is ordered by typewriter. The seven variables are then entered on the typewriter to give a value for any set of the seven independent variables. Be-

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1 See current issues of the *Appraisal Journal*.
cause the anticipated gain or loss must be calculated at the end of the investment period, the amount of mortgage principal accumulated during the investment period must be calculated. This is identified by the following formula:

\[ f = \frac{i}{1-(1+i)^n} \]  

Where:  
- \( P \) = portion of mortgage principal repaid over the investment period  
- \( i \) = mortgage interest rate  
- \( f \) = annual mortgage requirement  
- \( Sp \) = compound interest at the mortgage rate over the investment period

The "f" and "Sp" values are given by two additional formulas:

\[ f = \frac{i}{1-(1+i)^n} \]  
\[ Sp = \frac{n}{(1+i)^n-1} \]  

Substituting the values assumed for this problem, the \( P \) factor may be calculated as follows:

\[ (Sp-1) = (1+i)^n - 1 \]  
\[ f = \frac{i}{1-(1+i)^n} \]  
\[ Sp = \frac{n}{(1+i)^n-1} \]  

With the value of \( P \), the second formula adjusts yield rate to cover the cost of amortization less the annual mortgage requirement. The "C" term is a coefficient used to calculate the basic rate in formula 3.0.

\[ C = Y + P - f \]  
\[ \frac{1}{s^n} \]
AN ARITHMETIC PROOF OF EQUITY CAPITALIZATION

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Annual Income</td>
<td>$20,000.00</td>
</tr>
<tr>
<td>Less Mortgage Requirement .75 of $207,217 × .08867894</td>
<td>-13,781.86</td>
</tr>
<tr>
<td>Annual Amount to Equity</td>
<td>$6,218.14</td>
</tr>
<tr>
<td>Present Worth of Reversion</td>
<td>$207,217.27</td>
</tr>
<tr>
<td>Less Mortgage Balance (1-P)</td>
<td>$155,413</td>
</tr>
<tr>
<td>(1-.2028249) = .7971751 × $155,413</td>
<td>-123,891.37</td>
</tr>
<tr>
<td>Reversion to Equity</td>
<td>$83,325.90</td>
</tr>
<tr>
<td>Present Worth of Equity</td>
<td>$207,217.17</td>
</tr>
<tr>
<td>$83,325.90 × (Present Worth of One per Annum, 10 years, 15%), 0.247184</td>
<td>20,596.82</td>
</tr>
<tr>
<td>Present Worth of Income</td>
<td>$31,207.40</td>
</tr>
<tr>
<td>$6,218.14 × (Present Worth of One per Annum, 10 years, 15%)</td>
<td>31,207.40</td>
</tr>
<tr>
<td>Equity Value</td>
<td>$51,804.22</td>
</tr>
<tr>
<td>Add Mortgage</td>
<td>155,412.95</td>
</tr>
<tr>
<td>Capital Value</td>
<td>$207,217.17</td>
</tr>
</tbody>
</table>

Since the reversion is recovered only at the end of ten years, it is necessary to convert this value to present worth, using a 15 percent discount. In other words, $83,325.90 ten years from now is worth $20,596.82 today. To this sum must be added the present worth of income found by the present worth of one per annum factor for ten years, 15 percent. Multiplying this factor times the annual income after mortgage payments gives the present worth of the income: $31,207.40. Adding the two sums produces a value of $51,804.22. This is another way of saying that today you would be advised to pay this amount for the right to property earning $20,000 net annual income under the assumptions adopted for this illustration. By adding the mortgage value to the equity value, the capital value or proposed purchase price of the property results: $207,217.17.

THE COMPUTER PROGRAM

The real purpose in presenting the formula detail is to illustrate the efficiency of computer programs adapted to property...


**Figure 1**

An Illustration of the Conversational Programming System Applied to an Equity Capitalization Problem

% Execute 5 thru ...

<table>
<thead>
<tr>
<th>I</th>
<th>0.075</th>
</tr>
</thead>
<tbody>
<tr>
<td>n</td>
<td>300</td>
</tr>
<tr>
<td>M</td>
<td>0.75</td>
</tr>
<tr>
<td>Y</td>
<td>0.15</td>
</tr>
<tr>
<td>N</td>
<td>120</td>
</tr>
<tr>
<td>D</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>0</td>
</tr>
<tr>
<td>d</td>
<td>20000</td>
</tr>
</tbody>
</table>

53 XEQ TERMINATED BY END OF RANGE

Assuming (1) a .07500 mortgage bearing interest at the rate of .07500 per annum for 300 months; (2) an annual net income before mortgage amortization of $20,000.00; (3) an investment period of 120 months; (4) an expected depreciation of .0 or appreciation of .0 over the investment period and (5) a yield of .1500, the value is $207217.27.

Under the assumptions above, what is the effect of increasing or decreasing the mortgage loan-to-value? In the preceding example a 75 percent mortgage was assumed. But the mortgage ratio in itself significantly affects the property value. These data are summarized in Table 1.
The variation in value as the mortgage loan-to-value ratio changes from 0 percent to 100 percent by five percent intervals

Table 1

<table>
<thead>
<tr>
<th>Mortgage Loan-To-Value Ratio</th>
<th>Value²</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$133,333</td>
</tr>
<tr>
<td>5</td>
<td>136,590</td>
</tr>
<tr>
<td>10</td>
<td>139,988</td>
</tr>
<tr>
<td>15</td>
<td>143,572</td>
</tr>
<tr>
<td>20</td>
<td>147,343</td>
</tr>
<tr>
<td>25</td>
<td>151,318</td>
</tr>
<tr>
<td>30</td>
<td>155,513</td>
</tr>
<tr>
<td>35</td>
<td>159,947</td>
</tr>
<tr>
<td>40</td>
<td>164,642</td>
</tr>
<tr>
<td>45</td>
<td>169,621</td>
</tr>
<tr>
<td>50</td>
<td>174,910</td>
</tr>
<tr>
<td>55</td>
<td>180,539</td>
</tr>
<tr>
<td>60</td>
<td>186,543</td>
</tr>
<tr>
<td>65</td>
<td>192,961</td>
</tr>
<tr>
<td>70</td>
<td>199,835</td>
</tr>
<tr>
<td>75</td>
<td>207,217</td>
</tr>
<tr>
<td>80</td>
<td>215,166</td>
</tr>
<tr>
<td>85</td>
<td>223,749</td>
</tr>
<tr>
<td>90</td>
<td>233,045</td>
</tr>
<tr>
<td>95</td>
<td>243,147</td>
</tr>
<tr>
<td>100</td>
<td>254,164</td>
</tr>
</tbody>
</table>

¹The example assumes (a) a loan-to-value ratio of 75 percent, (b) a 25 year mortgage, (c) an annual net income of $20,000, (d) a projection term of 10 years, (e) no appreciation or depreciation over the 10 year projection, and (f) a yield of 15 percent.
²Data are rounded to the nearest dollar.

Table 2

The variation in value as the mortgage interest rate changes from one percent to ten percent by one-half percent intervals

<table>
<thead>
<tr>
<th>Interest on Mortgage</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>$346,380</td>
</tr>
<tr>
<td>1.5</td>
<td>331,375</td>
</tr>
<tr>
<td>2.0</td>
<td>317,268</td>
</tr>
<tr>
<td>2.5</td>
<td>304,002</td>
</tr>
<tr>
<td>3.0</td>
<td>291,522</td>
</tr>
<tr>
<td>3.5</td>
<td>279,779</td>
</tr>
<tr>
<td>4.0</td>
<td>268,724</td>
</tr>
<tr>
<td>4.5</td>
<td>258,314</td>
</tr>
<tr>
<td>5.0</td>
<td>248,506</td>
</tr>
<tr>
<td>5.5</td>
<td>239,261</td>
</tr>
<tr>
<td>6.0</td>
<td>230,543</td>
</tr>
<tr>
<td>6.5</td>
<td>222,317</td>
</tr>
<tr>
<td>7.0</td>
<td>214,553</td>
</tr>
<tr>
<td>7.5</td>
<td>207,217</td>
</tr>
<tr>
<td>8.0</td>
<td>200,285</td>
</tr>
<tr>
<td>8.5</td>
<td>193,730</td>
</tr>
<tr>
<td>9.0</td>
<td>187,526</td>
</tr>
<tr>
<td>9.5</td>
<td>181,652</td>
</tr>
<tr>
<td>10.0</td>
<td>176,087</td>
</tr>
</tbody>
</table>

¹For footnotes, see Table 1.

It will be recalled that if the investor pays $207,217 for property that earns a net income of $20,000—under the original assumptions—he earns a 15 percent return on his equity. But as the loan-to-value ratio increases to 100 percent, the indicated value, for a yield of 15 percent, would be $254,164. Note that under a cash purchase, the investor could only pay $133,333 (under the assumed conditions) and still earn 15 percent on the equity investment. This is another way of saying that with a rate of return on equity (15 percent) above the mortgage interest rate (7.5 percent), the value of the equity increases substantially with an increase in the loan-to-value ratio.

Mortgage Interest Rates

Returning to the same problem, what is the effect of changes in the mortgage interest rate, assuming a 75 percent mortgage and other assumptions given in the original problem? Table 2 shows how value changes with one-half percentage point changes in the mortgage interest rate.

In this example interest rates decline, for illustration only, to one percent. Note however, that under the assumptions given, the value ranges from $230,543 with a six percent mortgage interest rate to $176,087 with a ten percent mortgage interest rate. While these changes are fairly significant, this calculation suggests that the loan-to-value ratio and other investment terms are more significant than realistic changes in the interest rate.

Length of Mortgage

Under the equity capitalization formula, value is also a function of the mortgage term. To show how value would change, equity capitalization values were revised,
again varying the length of the mortgage by one year intervals from five years to forty years. By holding other variables constant, the results are shown in Table 3.

It will be recalled that in the original example a 25-year-mortgage was associated with a property value of $207,217. But note that as the mortgage term is varied from 15 years to 30 years, value changes by only a nominal amount: from $197,861 to $209,311. In the circumstances given, doubling of the mortgage life from 15 years to 30 years changes value by only $11,453 or 5.79 percent ($11,453/ $197,861).

**CHANGES IN INVESTMENT YIELD**

The $207,217 value relates to a required investment yield of 15 percent. But for the ten year investment, and using other assumptions of the original case, value changes substantially as the expected yield varies. Table 4 summarizes changes in value as the yield is changed from one percent to twenty-five percent.

Table 4 shows a range in values from $160,727 (under a 25 percent equity yield) to $367,179 (a one percent equity yield). Even the practical changes in yield show substantial variations in value. Assuming a yield of five percent, the proposed value is $298,886 or almost $300,000. As the yield increases to 20 percent, the value drops to $180,751. This calculation suggests that changes in the expected yield significantly affect property value.

**CHANGES IN THE PROJECTION PERIOD**

Now suppose the investor anticipates holding the property, not for ten years but for shorter or longer periods. Table 5 indicates the change in value as the investment period is varied from one year to twenty years.

Starting from the assumed projection of ten years and a value of $207,217, it will be noted that changes in the investment period have less significance than some of the other variables. Note that if the investor anticipates holding the investment for one year, the value would be $214,156. As this term is extended to 20 years, under the assumptions used in this problem, the value decreases to $201,231. So even by changing the projection period from one to twenty years, the change in value totals only $12,925. Again other variables of the equity capitalization formula, in this case, appear relatively more important.
TABLE 3
THE VARIATION IN VALUE FOR MORTGAGE TERMS RANGING FROM FIVE TO FORTY YEARS

Annual Income: $20,000

<table>
<thead>
<tr>
<th>Mortgage Term (in years)</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>$157,209</td>
</tr>
<tr>
<td>6</td>
<td>165,908</td>
</tr>
<tr>
<td>7</td>
<td>172,695</td>
</tr>
<tr>
<td>8</td>
<td>178,125</td>
</tr>
<tr>
<td>9</td>
<td>182,557</td>
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<tr>
<td>10</td>
<td>186,233</td>
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<tr>
<td>11</td>
<td>189,323</td>
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<tr>
<td>12</td>
<td>191,951</td>
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<td>13</td>
<td>194,206</td>
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<td>14</td>
<td>196,159</td>
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<td>15</td>
<td>197,861</td>
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<td>16</td>
<td>199,354</td>
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<tr>
<td>17</td>
<td>200,671</td>
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<tr>
<td>18</td>
<td>201,837</td>
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<td>19</td>
<td>202,876</td>
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<td>20</td>
<td>203,803</td>
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<td>21</td>
<td>204,635</td>
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<tr>
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<td>205,383</td>
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<td>206,057</td>
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<td>206,666</td>
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<td>207,217</td>
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<td>207,718</td>
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<tr>
<td>27</td>
<td>208,173</td>
</tr>
<tr>
<td>28</td>
<td>208,588</td>
</tr>
<tr>
<td>29</td>
<td>208,966</td>
</tr>
<tr>
<td>30</td>
<td>209,311</td>
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<tr>
<td>31</td>
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<td>32</td>
<td>209,916</td>
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<td>210,181</td>
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<tr>
<td>34</td>
<td>210,424</td>
</tr>
<tr>
<td>35</td>
<td>210,648</td>
</tr>
<tr>
<td>36</td>
<td>210,853</td>
</tr>
<tr>
<td>37</td>
<td>211,041</td>
</tr>
<tr>
<td>38</td>
<td>211,215</td>
</tr>
<tr>
<td>39</td>
<td>211,375</td>
</tr>
<tr>
<td>40</td>
<td>211,522</td>
</tr>
</tbody>
</table>

1 For footnotes, see Table 1.

The Variation In Net Income

The next problem is to show changes in value with changes in the net income assumption. Since initially a net annual income of $20,000 was one of the variables assumed in this series, values are projected for incomes extending from $1,000 to $40,000. See Table 6 for this calculation.

The data reveal that with an annual net income of $1,000, and with the original assumptions of Table 1, the value would be $10,361. And as the income changes, value changes proportionately. For example, a $10,000 net income shows a value of $103,609; a $20,000 income shows a value of $207,217; $30,000 and $40,000 net incomes reveal values of $310,826 and $414,435. Table 6 confirms the normal expectation that value changes proportionately with changes in income. The final issue is to show how value changes under differing assumptions of depreciation and appreciation.

Changes In Depreciation And Appreciation

At the outset it was assumed that no changes in depreciation or appreciation would take place over the assumed ten year investment period. It will be recalled that the yield requirements include the influence of depreciation or appreciation. For example, assuming a depreciation of ten percent, the value is decreased to preserve the assumed yield rate on equity. Conversely, if the prospective investor anticipates appreciation, the formula gives a higher value under the required yield rate. These projections are reported in Table 7.

Note again that Table 7 reports a value of $207,217 assuming no depreciation or appreciation. But if it is assumed that property will depreciate by a given percent over the investment term, substantial changes in value are revealed. For instance, assuming a 20 percent rate of depreciation from the original purchase price over the ten year projection, value drops to $188,027. Doubling the rate of depreciation causes a drop in value to $172,091. But note that the value does not decrease proportionately with depreciation. If a 100 percent loss is anticipated over the ten years, the value which provides for a 15 percent yield would be $137,203.
TABLE 4
THE VARIATION IN VALUE AS THE REQUIRED YIELD
CHANGES FROM ONE PERCENT TO TWENTY FIVE PERCENT

Net Income: $20,000

<table>
<thead>
<tr>
<th>Required Yield (Percent)</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$367,179</td>
</tr>
<tr>
<td>2</td>
<td>347,121</td>
</tr>
<tr>
<td>3</td>
<td>329,373</td>
</tr>
<tr>
<td>4</td>
<td>313,288</td>
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<tr>
<td>5</td>
<td>298,856</td>
</tr>
<tr>
<td>6</td>
<td>285,844</td>
</tr>
<tr>
<td>7</td>
<td>273,975</td>
</tr>
<tr>
<td>8</td>
<td>263,128</td>
</tr>
<tr>
<td>9</td>
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<td>195,664</td>
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<td>190,400</td>
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<td>24</td>
<td>164,336</td>
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<tr>
<td>25</td>
<td>160,727</td>
</tr>
</tbody>
</table>

1 For footnotes, see Table 1.

TABLE 5
THE VARIATION IN VALUE AS THE PROJECTION PERIOD CHANGES FROM ONE YEAR TO 20 YEARS

Net Income: $20,000

<table>
<thead>
<tr>
<th>Projection Period (in years)</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$214,156</td>
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<tr>
<td>2</td>
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</tr>
<tr>
<td>3</td>
<td>212,530</td>
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<td>4</td>
<td>211,731</td>
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<td>210,942</td>
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<tr>
<td>11</td>
<td>206,525</td>
</tr>
<tr>
<td>12</td>
<td>205,852</td>
</tr>
<tr>
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<td>205,199</td>
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<tr>
<td>14</td>
<td>204,568</td>
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<tr>
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<tr>
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<td>201,733</td>
</tr>
<tr>
<td>20</td>
<td>201,231</td>
</tr>
</tbody>
</table>

1 For footnotes, see Table 1.

SUMMARY

Conclusions emerging from this analysis may be grouped in two parts: the first group deals with data relating to the value of income property and the second covers the feasibility of using computers for real estate analysis. In the former instance, the data for a proposed investment show which factors should be weighed the most heavily in evaluating an investment; the data suggest a purchase price in which the expected yield would be realized as purchase terms change.

While generalizations following from this illustration are fairly meaningful, it is the second point that deserves close study, and surely it is safe to say—according to real estate authorities—the use of computers (for property analysis) permits the management consultant to increase his technical service. Indeed, the importance of the two subject areas recommends separate discussion, first, of real estate investment analysis and, secondly, of computer analysis.

REAL ESTATE INVESTMENT ANALYSIS

Care should be taken in extending conclusions drawn from these examples to the general case. For the exact results follow for only the assumed conditions stated in the beginning. But for investors that follow the equity capitalization principal (and apparently the usual real estate investor thinks in terms of a return on equity), certain facts stand out. And even though investment terms vary in the real world, a common pattern affecting income property appears throughout the data. A discussion of the more prominent "value-determining" variables supports this conclusion.

1. The loan-to-value ratio stands out as a highly significant variable affecting...
value under equity capitalization techniques. Relative to the loan-to-value ratio, the mortgage interest rate and the mortgage term are less significant valuation variables.

2. The required yield over the investment term, as it might be expected, shows that property value is closely related to the percent of yield. This helps explain why investors with relatively low yield requirements are willing to pay substantially more for property than investors who require greater percentage yields. For the problem given, an expected yield over the projection period ranging from 1 to 25 percent shows a range in values from $160,727 to $367,179.

3. The investment period, for the problem at hand, has less bearing on final results. As the yield term is varied from one to twenty years, the value changes from $201,231, to $214,156.

4. Changes in net income apparently are proportionate to changes in value. This is a normal expectation and should lead to careful and documented estimates of net income.

5. Changes in the assumption of depreciation and appreciation over the investment period substantially change value. More importantly, the percent of appreciation tends to have more significance than changes in the percent of depreciation. Hence, the degree of optimism or pessimism over capital gains or losses materially affects the final purchase price.

6. Though it is true that these results follow assumptions unique to this problem, the point has been made (and demonstrated) that investment decisions may be based on highly detailed data and more than one answer. In the past, management consultants were satisfied to give the client a single and final answer. But today nontechnical computer programming, the ready availability of computers and the efficiency of new computer devices enable consultants to furnish considerably more analysis. The advanced analysis of today would be virtually impossible or uneconomic using only rotary calculators.

Computer Analysis

The computer program dealing with equity investment analysis is only a single instance of computer application. The examples reveal, most pointedly, that prop-

FIGURE 4:
THE VARIATION IN VALUE AS THE REQUIRED YIELD CHANGES FROM ONE PERCENT TO TWENTY-FIVE PERCENT.

FIGURE 5:
THE VARIATION IN VALUE AS THE PERCENT OF APPRECIATION OR DEPRECIATION CHANGES.
Table 6

The Variation in Value as the Net Annual Income Changes from $1,000 to $40,000 by $1,000 Intervals

<table>
<thead>
<tr>
<th>Income</th>
<th>Value</th>
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</thead>
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</tr>
<tr>
<td>40,000</td>
<td>414,435</td>
</tr>
</tbody>
</table>

1 For footnotes, see Table 1.
William M. Shenkel, CPM, is chairman of the
Department of Real Estate and Urban Develop-
ment, College of Business Administration, at
the University of Georgia, Athens. He is also vice-
chairman of the Journal Editorial Committee.

Table 7
THE VARIATION IN VALUE WITH DEPRECIATION OR APPRECIATION FROM 0 TO 100 PERCENT IN FIVE PERCENT INTERVALS¹

| Percent of  | Value With   | Value With   |
| Depreciation| Depreciation| Appreciation|
| Appreciation|             |             |
| 0           | $207,217     | $207,217     |
| 5           | 202,062      | 212,643      |
| 10          | 197,157      | 218,360      |
| 15          | 192,484      | 224,393      |
| 20          | 188,027      | 230,769      |
| 25          | 183,773      | 237,518      |
| 30          | 179,706      | 244,674      |
| 35          | 175,816      | 252,274      |
| 40          | 172,091      | 260,362      |
| 45          | 168,520      | 268,985      |
| 50          | 165,094      | 278,199      |
| 55          | 161,805      | 288,066      |
| 60          | 158,644      | 298,660      |
| 65          | 155,605      | 310,062      |
| 70          | 152,679      | 322,370      |
| 75          | 149,862      | 335,694      |
| 80          | 147,147      | 350,168      |
| 85          | 144,528      | 365,947      |
| 90          | 142,001      | 383,214      |
| 95          | 139,561      | 402,191      |
| 100         | 137,203      | 423,146      |

¹ For footnotes, see Table 1.
Planning and Managing in Hamlet, Village or Small City

by Eugene Van Cleef, Ph.D.

Traditionally, planning has been considered as appropriate primarily for large cities though the reason is obscure. In major cities, so much of the conformation is essentially fixed that planning future changes may seem to be impossible or impractical. In contrast, many small cities are virtually in their infancy and therefore offer abundant opportunity for guidance along orderly lines. For large cities, planning seems to be a frustrating exercise but for small centers it is a hopeful way of attaining worthwhile goals.

Oddly enough, the residents of many small cities believe that the very characteristic of smallness obviates the desirability of planning. They interpret their community as an intimate, readily comprehensible unit requiring no formal program to assure themselves of a satisfying future environment.

When the United States was in the process of settlement, there seemed to be infinite space for everyone, and any person not happy in a given community could move elsewhere and free himself from all constraints. This was a “free” country and no one was compelled to be shackled by rigid planning objectives.

Planning and management are essentially synonymous terms. The title “City Manager” implies this if nothing else does. A city manager, or manager of any other business, must be forward-looking to be successful; that is, he must engage in sound planning. So whether a community is small or large, its development will depend upon good management, which is only another way of saying “good planning.”

By small city we mean a center with a population of 10,000 or less, although there is no objection to placing the upper limit as high as 25,000-50,000. Hamlets and villages are merely diminutive forms of cities, legally speaking. Functionally, they qualify as small cities. Size carries no significant implications as far as culture or worldliness or a people are concerned. With today’s variety of rapid communication, isolation is virtually impossible. The primary difference between small and large centers is essentially one of scale—their problems are similar in nature; only their magnitude differs.

Everyday life in small communities seems less complicated than in metropolises and the impact of the small center upon the nation is generally less. In these areas “everyone” seems to be acquainted with everyone else. Divergent opinions on a variety of subjects are more readily harmonized. Politics supposedly play a less significant role because the political leaders are better known to the man on the street. On the other hand, this very intimacy can be a deterrent at times to proper action by a given office holder. It is this simplicity of life that too often moves the small city resident to feel, mistakenly, that planning would merely hamper his activities.

Citizens of small cities may be much more familiar with the physical aspects of their community than are those of larger cities with theirs. Those living in bigger metropolises probably do not see the peripheral areas very often in the course of a year whereas in the small city avoiding acquaintance with boundary areas may be almost impossible. These differences mean that changes in a smaller city are much more impressive than corresponding changes in large cities. This contrast also
encourages a greater interest in what is happening locally among inhabitants of small centers.

Obsolescence in small cities is usually less widespread unless the settlement is quite old and the people extremely conservative. Few structures are so firmly established as to defy remodeling, replacement or total elimination. Errors in civic design are likely to be fewer and when they do occur can be more easily rectified. Changes in land use, with a few exceptions, entail less disturbance and inconvenience for property owners and financial involvements are less formidable.

Take for example a Midwestern town of approximately 10,000 which was founded over 100 years ago. While a central square inherited a colonial atmosphere from its first settlers, unfortunately, through the decades a colonial atmosphere did not characterize subsequent expansion, particularly along the city's main business street. About 50 years ago, the merchants association was urged to convert building fronts from their miscellaneous, uninspiring styles and accompanying drabness, typical of too many small towns, to colonial designs. However, one man owned most of the stores and office structures on one side of a single block and refused to cooperate.

Nothing was done until quite recently after the demise of the lone holdout. The transformation which is still in progress has been startling and both property values and rentals are expected to fully justify the effort and money expended.

Small-city businessmen, particularly the property owners and those engaged in real estate, recognize that a good interior behind an ugly front cannot measure up to an average interior faced by an attractive front. Furthermore, the improved property brightens the entire neighborhood, arouses greater enthusiasm in urban development and virtually assures continued progress and profit.

The possibilities of avoiding undesirable action are much greater in small centers than in large ones—the wonder is that the subject should be argued at all. As with a youth who has his choice among many possible career programs, so small cities have many potential programs for future growth. The major requirement is sound and dynamic leadership or management.

All cities, large and small, are three-dimensional phenomena and should be so viewed by civic leaders. Consideration must be given not only to the physical aspects but also to the functional, without which the physical plans can hardly be programmed. For example, office buildings are not erected unless people want office space; parks are not designated unless the public demands them; playgrounds are not established unless there are children to enjoy them; homes are not constructed unless families are available to occupy them.

There is a movement currently among some students of urban life to apply mathematical ways to solve some, if not all, of the problems. The remarkable computer has been called in to assist in both the diagnosis of given situations and the solution of problems. Transportation networks are being calculated as guides for determining the best location for industrial plants, retail stores and other phenomena basic to community stability.

As yet, these applications must be
viewed as largely in the trial and error stage for, after all, a city is a humanistic phenomenon and human behavior is not something easily harnessed or fitted into a predictable framework absolute in nature. This does not mean, of course, that efforts in this direction should be discouraged. It is merely to point out how fragile mathematical formulae may be when applied to the variable human and hence to urban development.

Reference to quantitative precision calls to mind a village of 5,000 people who could profit by a revision of their house numbering system (or lack of system, we could say). The pattern of the streets and avenues is rectangular, which means a decimal system of numbering could be utilized. Although street names could remain undisturbed, it would be better to replace them with numbers. In any case, 100 numbers could be assigned to a block in place of the current irregular and nondescript designation. Such a decimal system could facilitate mail, goods and all other forms of delivery service in addition to easing a stranger's difficulty in locating residences or places of business. It would mean a great saving in time for everyone as well as avoiding the frustration which occurs to most persons who do not readily find their way.

The decimal system of house numbering, a form of good city management, can save a community much time and money, eliminate frayed nerves and build good will. Unfortunately, when a plan involving the elements noted above was presented to the city council, it was rejected largely on the false fear that its introduction would antagonize the citizenry. Chicago, vastly larger than the city just discussed, introduced the decimal system some years ago in the face of strong public opposition; today no one would think of returning to the former confusion. Obviously, the best time to apply the system is when cities are small.

The leader in any city, theoretically, is the mayor and supporting him should be the community's outstanding business and professional men and women. Inasmuch as the mayor's time is devoted to civic matters, he can urge the people to pursue orderly ways or he can be indifferent. If he functions as he should, he can maintain a high degree of community livability by continually encouraging the citizenry to maintain their property in good order and to cooperate fully in making their city a pleasant, even inspiring, center in which to pursue their daily duties. While this does not require the expenditure of money, it does assist in increasing property values. It calls merely for that kind of leadership which makes for contagious civic enthusiasm and all-out support for systematic planning.

City planning is a humanistic activity. As such it should be geared to the local social and economic atmosphere. In small cities these aspects of urban life are less complicated and more readily managed. Hence the solution of major problems in small cities should be possible with a minimum of resistance and discussion. In large centers the physical aspects of proposed changes often prove to be impracticable, not to say impossible, purely in terms of the scale of action which would be necessary to bring them about. Small centers have a degree of flexibility which permits corresponding modifications without any, or with only minor difficulties.

A correct start in the application of planning to a small city is essential if it is to be a success. Just as the young person whose progress in life is generally satisfying in a wholesome environment, so a young city may be expected to attain a high degree of livability if scientific planning guides it from its inception or is applied very early in its history.

When property owners and managers in our small cities awake to the realization of the critical relationship between an attractive environment and property values, and when they begin to appreciate that an early start in the creation of an orderly, livable environment will assure a prosperous community, then the citizenry of small cities can look forward with great optimism to a continuously successful prospect.

Eugene Van Cleef, Ph.D., is a professor emeritus of Ohio State University. He retired from active teaching duties in 1957, after 36 years of service in the departments of geography and business organization. He is an honorary life member of the American Society of Planning Officials and the international trade committee of the Columbus Area Chamber of Commerce.
Mirror, Mirror
On the Wall...

by Lloyd D. Hanford, Sr., CPM

Myopia and disbelief play many tricks and create odd images which we refuse to claim as our own even though they are a reflection of ourselves. The difficulty arises from our inability to see ourselves as others see us; and we are blinded by the very human frailty of a “better-than-average” complex. Criticism by others is harsh medicine from which we are prone to recoil and set up a variety of defenses consisting mostly of unwarranted self-adulation. However, constructive criticism is the life blood of successful progress and we must retain a willingness to consider qualified advice and council unemotionally.

Self-criticism is a difficult process in that we develop an inertia from habit and a false confidence in the status quo. We often resist the white light of reality for fear that what we see might be unpleasantly disturbing. However, looking at ourselves objectively is productive of salient improvements which, ultimately, will justify some of the self-satisfaction in which we previously indulged ourselves.

Clear-cut self-evaluation spans the whole spectrum of our lives, but for the immediate purposes of this brief discussion we direct our thinking to the enhancement of our true image as competent executives in the management of investment property. To accomplish faithfully this objective we must avoid haphazard methods and we must develop a simple plan for continuous self-examination. Parenthetically, it must be noted that there is no permanence in a “final” conclusion since the best answer today can become inapplicable tomorrow in light of changed situations. The format of our plan can be reduced to five simple questions which we habitually ask ourselves during all of our business activities:

1. Is this particular effort necessary for competent and productive performance?
2. How can this procedure be efficiently improved without diluting its effectiveness?
3. Is this a job for an executive or could it receive adequate attention from an employee?
4. Have we established attainable objectives and are we pursuing those objectives adequately?
5. What changes can be made immediately and what timetable can be created for improvements in the foreseeable future?

Each of these questions, when indelibly fixed in our minds, will stimulate the kind of constructive thinking that cannot help but create rewarding results. Obviously, we are unable to enhance our capacity for creative thinking if we live in the vacuum of the four walls of our offices where the anesthesia of routine dulls our imaginative senses. Education, observation, discussion and experience are the ingredients for effective self-criticism. We must seek every opportunity to enlarge our fund of information; we must see what we are looking at and avail ourselves of every opportunity to see new things and new concepts in action; we must enjoy every occasion where the counsel, advice and experience of others can be useful for our purposes; and we must continuously participate in every facet of our assumed responsibilities not only to understand the depth of executive obligations but also to appreciate the assigned duties of our employees.

The image which we seek to create is that of a successful, progressive, indispensable executive. We are decision-makers and as such we must have the rare ability to separate caution from fear; we must be prepared to express an opinion confidently; and we must be dedicated to effective performance. When we look in the mirror of our business lives, we cannot enjoy the tranquility of inaction; we must reflect the stimulus of growth and development which is life itself.

P.S.: You may disagree with the five questions—if so, more power to you if you’ll make your own list and use it!

Lloyd D. Hanford, Sr., CPM, San Francisco, was 1958 national president of the Institute and 1964 Chairman of NAREB’s Build America Better Committee. He is currently faculty director for IREM’s Course III and an editorial advisor for the JOURNAL OF PROPERTY MANAGEMENT.
New Products

WHEN REQUESTING INFORMATION, PLEASE REFER TO KEY NUMBER

SEND INQUIRIES TO: JOURNAL OF PROPERTY MANAGEMENT, 155 E. SUPERIOR, CHICAGO 60611

3-1 AIR DOOR
An air door, for use over sliding patio doors or any outside door in constant use, is available from Mars Sales. An invisible “curtain of air” is designed to act as a barrier against insects, dirt and heat, eliminating the need for a screen door. The unit is constructed of stainless steel and a standard model can be installed with two screws and plugged into a 110V. socket. Special sizes for oversize openings can be made to order. Models are also available that can be built into walls over doors with only air nozzle showing.

3-2 LIGHTING BROCHURE
A brochure describing a line of lighting fixtures is available from the Day-Brite Lighting Division of Emerson Electric Co. Called “Day-Brite Contemporary Lighting,” the fixtures are available in a variety of designs. Described in the 8-page brochure are Hallmark, Daylume, Octet, Collegiate, Specialist and Clymatron luminaires and a wide range of other Day-Brite specialty fixtures incorporating modern black-and-white styling.

3-3 MOVABLE PARTITIONS
A 12-page, color-illustrated catalog showing demountable “Quick Change” partitions for offices is available from the Masonite Corporation. Diagrams show numerous arrangements for the three types of partition—flush post, feature post and “275” design. Specifications, including standard partition height installations, finishes available and accessories are detailed.

3-4 LAMINATE PANELING
Specification data for Decorative Micarta laminated plastic products are contained in a 6-page brochure from Westinghouse Decorative Micarta Division. The specifications include grade, thickness, thickness tolerance, dimensions available, finishes and recommended applications. Code approvals and NEMA test values also are listed. The brochure also contains general information on the use of laminated plastics, including assembly, types of adhesives, waterproofing, fabrication tooling and postforming.

3-5 SEDIMENT REMOVER
A data sheet on Zimmite 160 for mud removal in commercial building cooling systems is available from W. E. Zimmie, Inc. Zimmite 160 is designed to combat the problems of mud and sediment in cooling tower basins, condenser tubes and system piping and can be used for quick cleanouts as well as a regular program. It is part of a series of water treatment chemicals that feature a polyelectrolytic mud remover which reduces the adhesiveness of sediment particles so they can be washed out via normal flow through the system.

3-6 ALARM RECEIVER
A single-zone alarm receiver for fire and security systems has been announced by Honeywell’s Commercial Division. It is designed to monitor a single room or an entire building and report any intrusion or fire. In addition to watching remote electronic detection units, the receiver also sounds an alarm if anyone crosses or cuts intervening wires. Unit works on 120V. AC or low-voltage D.C. It can also operate automatically via battery power in case of
power failure. The console measures 9" x 7" x 3" and comes in beige and brown tones.

### 3-7 DECORATIVE FOUNTAINS
Rain Jet Corporation has announced a line of decorative water fountains, called "Showers of Diamonds," for commercial and office buildings. Three separate tiers of water can be directed from one fountain nozzle. The fountains come in various sizes and are complete units with fountain nozzle, bowl, recirculating aquavator and underwater lighting. Installation requires an electrical connection and filling the bowl with water; no plumbing is required.

### 3-8 INSECTICIDE FOGGER
West Chemical Products, Inc., announces its 1600 Fogger for the dispensing of insectical space sprays. The 1600 has been designed to deliver a fine dry fog that will not wet surfaces in treated areas, states manufacturer. The fogger can be used as directional spray bar or for fogging in 360 degrees. It has no electrical heating elements or gasoline engine, designed to eliminate fire or explosion hazards.

### 3-9 DOOR MATS
Nylon pile mats for carpeting entrance-ways are available from Revere Chemical Corporation. "Magic Mat" is bonded to a vinyl base and is designed to absorb up to a gallon of moisture per
square yard, according to manufacturer. Mats can be cleaned by sweeping or vacuuming or, should use warrant it, with a hose and allowed to drain dry. "Magic Mats" are available in four colors and come in standard mat sizes and in runner lengths.

3-10 CARPET MOULDING
Commercial Carpet Corporation has introduced its Modu/Base carpet mould-ings. The 4"-high baseboard moulding is made of Densylon nylon carpet backed with 3/16" sponge rubber. Mouldings are capped on top with vinyl-covered metal trim in seven colors to coordinate with over 75 colors and patterns in the Densylon line. Moulding comes in 54" lengths and packaged 24 per box, each containing an assortment of ready-formed vinyl-covered connector hardware and a narrow grooved trowel for applying adhesive.

3-11 INFRA-RED GAS HEATERS
A line of infra-red radiant gas heaters has been announced by Hupp, Inc. Six different series of Perfection Infra-Red Heaters are available. Several are designed for heating manufacturing plants, warehouses, and other large enclosed areas. Other are designed for low-bay, spot heat and outdoor applications. Two are portable heaters. Completing the line is a 100,000 BTU/hr. heater that radiates heat in all directions. Units require no direct vents, ducts, blowers, heat exchangers or fuel storage, states manufacturer.

3-12 EMERGENCY LIGHTING BROCHURE
A 16-page manual describing how to select emergency lighting is available from Carpenter Manufacturing Co. The booklet covers selection and installation of emergency lighting equipment for industrial plants, institutions, buildings, commercial establishments and other places of public assembly. It shows how to determine the number of lampheads required from floor plans and lamp distribution patterns and illustrates recommended lamp placement for stairways, corridors and open areas.

3-13 ANTI-STATIC CARPET CONCENTRATE
Simoniz Company has introduced two powdered concentrates in portion packs for institutional carpeting. "Shock Proof" anti-static concentrate is formulated to prevent carpet shock and reduce the frequency of vacuuming and shampooing. One application can last a year, manufacturer claims. "PROpital-90" is designed to control bacteria in carpet fibers by germproofing carpeting, eliminating static charge which attracts bacteria-laden dust, and promoting removal of organisms via vacuuming. Both concentrates can be applied with a garden-type sprayer.

3-14 TILE-OVER-TILE SYSTEM
A tile-over-tile installation system has been developed by Armstrong Cork Company. Called "Tile-On," the installation system permits the application of 1/8" gauge and 5/32" gauge Excelon vinyl-asbestos tile directly on top of existing smooth-surface resilient tile floors, claims manufacturer. The basis of the system is an Armstrong-developed adhesive—S-139—which can be spread over the old flooring before application of the new tile. Wax and other finishes must be removed prior to application of the adhesive and damaged areas repaired or replaced. The Tile-On installation system is recommended for on-grade and above-grade installations only.

3-15 ROOF VENTILATOR
The C/S Lo-Pro Penthouse, an aluminium roof ventilator, has been introduced by Construction Specialties, Inc. Design features include a low silhouette and weathertight construction. The Lo-Pro Penthouse is 10⅜" high; a 6" roof overhang with a 5" drop to protect the louvered face insures weather protection. Louvered sections are fabricated of 0.109" thick extruded aluminum alloy. The one-piece roof is removable or hinged and keylocked for access to dampers, filters or mechanical equipment.

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Enlarged in scope and increased in numbers, the educational program of the Institute of Real Estate Management in 1969 will also include two presentations of a course devoted entirely to office building development and management. In addition, all three of IREM's time-tested courses will once again be offered throughout the country helping to keep today's professional manager in step with today and ready for tomorrow's challenges.

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Hotel Bonaventure

COURSE 2
Atlanta
May 15-24
Dinkler Plaza
Minneapolis
June 15-21
The Leamington
San Francisco
Oct. 5-11
Jack Tar Hotel

COURSE 3
Washington, D.C.
Mar. 12-15
The Mayflower
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Thirty points toward admission to CPM membership will be granted for successful completion of Course 1 and a passing grade on the examination. Successful completion of the Course 1 examination is a requisite for Institute membership.

Limited to 90 participants. Tuition: $195.

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Varied types of investment property are studied, including residential and commercial. Specially prepared workbooks and problem books are supplied to participants to assist them in developing practicable, workable feasibility studies and management surveys. Analysis includes management, valuation, market research, cash flow projections, financing, and the economics of alternates, all of which are oriented to active real estate practice. An invaluable sample feasibility study and management survey is also given the student which can be used as a long-term reference source.

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The participant cannot help but benefit from learning objectives of the management survey; report preparation methods; application of market, neighborhood, and regional data; site inspections of the property, neighborhood, and comparables; identification of major problems and alternate solutions; economic analyses; writing the final report.

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The course of study will not only concern the historical development, style and functional changes, and criteria forming a base for office building demand in small, medium, and highrise office buildings, but also will include a comprehensive discussion and illustration of the feasibility study, site selection, preparation and all important areas of financing, and merchandising the new project.

Classes will be limited to 90 registrants to assure close-knit discussion groups of not more than 30 each. Written supplementary material will include numerous standard forms for efficient processing of paperwork, reprints of professionally written articles not available elsewhere, and original material. Tuition: $195.
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