

Condominiums

TO THOSE WHO MAY NOT be acquainted with the nature of condominium ownership a brief definition is given, and an explanation of the principal differences from cooperative ownership. Condominium ownership gives the owner horizontal and vertical ownership of the space purchased and a common interest in the land and common areas of the physical structure. These property rights give him ingress and egress to his space and use of the physical structure and land necessary to service his property. To compare with a land subdivision, the condominium concept deals with plotted lots in the form of horizontal air strips layer by layer. The streets, alleys, and easements in a land sub-

division are analogous to the common areas of the condominium. To reach the air right or strip, it is necessary to use driveways, hallways, elevators, or other mutual means of access. Funds from general taxation are used for the maintenance of streets, sewers, and water in a subdivision. Maintenance costs of common areas in a condominium are paid by assessment prorated to the common owners. Except where, by statute, general taxes can be collected by government, analogous charges can be collected from the common owners by contract between the parties. The method of establishing charges will be presented later. In a cooperative project, taxes and operating expenses are established by management and prorated by a formula.

A condominium declaration creates ownership in fee of individual units and common elements in a multiunit building, and

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each fee can be mortgaged separately. The common interest per se cannot be mortgaged but carries the property right of an undivided interest according to a value relationship of each unit to the value of the whole. In simple language, the condominium concept is the same as cooperative ownership, except that ownership of the apartment unit is recognized by ownership in fee simple title plus an undivided interest in the common areas. The fee title and common interest may be given as security for a first mortgage. In a cooperative, the ownership of stock carries with it the right of proprietary occupancy by lease to an allotted space. The mortgage is on the whole property and stock ownership represents equity ownership subject to the mortgage. Maintenance of common areas is similar under both plans.

The condominium concept is not a new type of real property ownership. It existed under Roman law. Its recent development in Europe and North America comes from the desire of people to own property and have the assurance of possession for an indeterminate time rather than possession by lease for a terminate time. In countries of land scarcity, this desire for permanent possession is stronger than in countries with unlimited land ownership opportunities. With the ability to possess the rights of use above the land, the air surfaces become limited in use only by the zoning restrictions dictating the height of a building.

The word condominium is derived from Spanish and Roman law meaning joint ownership; however this is not strictly applicable in its modern concept. Ownership is joint in the common areas, but individual in the horizontal or air strip portions of the property. Responsibility for maintenance of the common areas is a joint responsibility, but

individual responsibility rests in the horizontal or strip areas.

The condominium type of cooperative ownership broadens the market. The owner can sell under contract for a deed on terms agreeable to seller and purchaser. With the flexible mortgage and no underlying mortgage on the whole, the owner may sell on his own terms. This means that the terms may be cash, cash subject to the existing mortgage, or refinancing to meet the needs of the purchaser. The responsibility for a joint or common mortgage is eliminated. A new mortgage may be placed at any time. The only joint assumption on the part of the purchaser is the liability for the payment of assessments for maintenance of the common areas. Taxes on the common areas may be made a contract obligation if provision is not made in the statute for the assessment of the common areas jointly with the individual units.

The limiting of mortgage liability is a most important financial matter. In the cooperative apartment with an underlying mortgage, the stockholder lessee is always faced with the possible default of one or more of the other stockholders. The only manner of protection from foreclosure is for the remaining stockholders to buy the stock of the defaulter and pay the defaulted assessment. This is, and has been, a burden assumed in many cases. The condominium obviates such a condition. Each owner assumes his own financial responsibility and there is no danger of foreclosing the whole. True, the lack of payment of a maintenance assessment can lead to suit by the solvent owners, but the amount to be assumed and the possible loss sustained is negligible compared with the loss entailed by default of an underlying mortgage in a cooperative apartment project.

The cost of occupancy is governed by the desire of the owner. Only the common areas bear joint responsibility by the joint owners. With individual ownership, the usual vacancy or loss of rent is eliminated. A margin of safety in assessments for vacancies is desirable but not as high as is usual in many investment properties. The owner may govern the maintenance of his unit. Good or bad, it is a matter of his own choice. Taxes, interest, and other income tax deductions are beneficial to the owner.

The flexibility of operation is important to the owner. Housekeeping by owners is not uniform. Some people enjoy maintaining their property. The "do it yourself man" has a hobby in home chores, and to perform them is valuable to him. The measure of this flexibility of operation to the owner is in direct proportion to his interest and ability.

The assessment of the individual units becomes a matter of legal assessment for taxation purposes when the statute gives the assessor the power of assessment. The equalization of the assessment between units will be established by a governmental body with authority to act and protect its procedures. The right of appeal by the taxpayer, if he believes he is unfairly treated, is no different than the existing right of a property owner to appeal his assessment. This is advantageous as it prevents possible error on the part of management in spreading the tax charges to each apartment. If the individual owner feels that he is being illegally assessed or an error has been made, his recourse lies in an appeal to the assessor or the board of appeals. No attack can be made on management.

As individual units are property entities and can be bought and sold on the open market, subject only to contract limitations,

the opportunity of sale is broadened. The only limitation of sale is in the contract obligation to offer the property to management. This is for the protection of occupancy. The fair cash market value of the property will be established in the market. The ability to finance as an individual unit will create a normal mortgage market. This ability to finance is superior to the cash payment, plus loan on stock and assumption of an assessment obligation as in the usual cooperative apartment sale. The ability to mortgage creates a broader market than the restricted market caused by high equity requirements. This broadened market will create a fair market as it will not be a limited market. The greater number of prospective purchases will create more opportunity for sale, and thus a fair market price will be created by more normal market conditions.

The appraisal of a condominium unit creates many new and interesting facets in valuation. The recognized three approaches may be used and are illustrated in the following discussion of a proposed condominium which is now being processed for mortgage purposes.

The Land

The land is not rectangular in shape; frontage is 73 feet, the two sides are 165 feet and 168 feet, and the rear lot line is 123 feet. The street is improved with an asphalt surface and with concrete curb and gutter. Water and sewer connections are available in the street; electricity and gas are supplied by the public utility companies. Bus transportation is within one-half block.

The land is zoned R-7 which permits the erection of apartments with a coverage of 145 square feet per unit. It is presently improved with a large mansion type house which has passed its residential usefulness.

The land value has absorbed the value of the house and improvements.

The market value of the property has been arrived at by comparison with sales made of other sites which were improved with residences and which have been subsequently improved with high-rise apartment buildings. A few properties are now being offered at prices higher than the \$180,000 paid for the subject property.

The Building

The proposed building¹ is a 22-story fire-proof concrete and steel structure, consisting of 44 apartments having five rooms and two baths; 42 apartments with four rooms and one bath. The walls are common and pressed brick with concrete block back-up. The windows and sash are steel or aluminum casement, double hung. The interior walls are metal lath and plaster with batt insulation meeting electrical heat specifications. Ceilings are of plaster with acoustical or insulated tile. All decorating of walls and ceilings will be paint and paper, with an allowance for purchasers who wish to decorate at their own expense.

Heating will be individual apartment electric units of a type which meets the specifications of the utility company. In the apartment operating statement, central vapor heat is provided for comparative use. Plumbing will be enameled built-in tubs of first quality with matching toilet and lavatories. Option will be provided of formica cabinet with single or double basin in bathrooms, and custom built kitchen cabinets and sink. Disposals will be regular equipment. Stoves and refrigerators will be provided by the purchaser.

1. The author wishes to acknowledge the assistance of Seymour Goldstein, architect, of Chicago, in the preparation of this article.

All living room, bedroom, and hall floors will be either oak or plywood which has been prepared for carpeting. Ceramic or rubber tile will be used for bathroom floors; kitchens will be either asphalt or rubber tile; foyers will have slate or rubber tile floors. An electric fixture allowance will be granted to the purchaser. Electric service will be 220-volt with circuits and plugs to service television, disposal, refrigeration, lighting, and heating.

The main foyer will be attractively furnished. The walls will be decorated and the floor will be of ceramic tile. Two elevators are provided, with an option for a third which can be used for either passenger or freight service.

A swimming pool will be constructed on the roof with an adjacent bath house which will provide all facilities.

Apartment buildings now under construction have furnished the author with comparable specifications upon which the above general specifications are based. No attempt is made to give working or bid specifications. The cost estimate (Table I) is believed to be sufficiently accurate for the purpose of this article.

The Cost Approach

The cost approach in estimating value of a property is said to set the upper limit of value. By application of the substitution theory, it is axiomatic that a property cannot be worth more than the cost to purchase the land and to erect a building with the same materials, or substitute materials, having the same utility and life, plus profit and the cost of organization.

In the creation of a condominium some of the factors considered are:

1. The land has been selected for its desirability of location. Comparable properties

TABLE I

COST ESTIMATE

Cost of land and residence: 16,600 square feet @	
\$10.85 per square foot	\$ 180,000
Wrecking existing residence	15,000
Title, interest, taxes, attorney's fees	4,200
Surveys, plats, miscellaneous expense	800
Cost of land to date of construction.....	<u>\$ 200,000</u>
Net field cost of building	
Parking and basement: 212,490 cubic feet @ \$1.00 per cubic foot...\$	212,490
Apartments, lobby, penthouse, and pool:	
1,065,647 cubic feet @ \$1.50 per cubic foot.....	1,598,460
Total	<u>\$1,810,950</u>
Architect's and engineers' fees.....	75,000
Taxes under construction, 9 months.....	2,700
Insurance under construction	2,500
Interest during construction	60,000
Physical cost of land and building	<u>\$2,151,150</u>
Mortgage financing cost	40,000
Title cost estimated	21,500
Attorney's fees	5,000
Sales cost, 5%	125,000
Sponsor's cost before profit	<u>\$2,342,650</u>
Sales price as per schedule	<u>\$2,550,500</u>
Sponsor's cost including financing and sales costs.....	<u>2,342,650</u>
Sponsor's profit, 8.8%	<u>\$ 207,850</u>
Sponsor's cost including financing, sales cost, and profit from	
sponsor's sale schedule	<u>\$2,550,500</u>

have been studied for price, size, and suitability for the structure. This was done by the sponsors and confirmed by the appraiser, and the price paid for the land was found to be reasonable and comparable to other offerings on a competitive basis. These offerings and the analysis are in the files of the appraiser. In selection of the site, desirability of location received first consideration. The offering prices of competitive properties, although given consideration, was not paramount in the final decision to purchase. It will be noted that the price of land to cost of building is approximately 10 to 1. This ratio for single-family dwellings is between 5 and 4 to 1 in comparable price brackets.

2. The cost to wreck the existing residence and prepare the site for construction is a part of land cost. Title, interest on land, surveys, and other miscellaneous items are costs of land prior to construction.
3. The net field cost of the building was obtained by contractors' estimates of cost.

These were related to known costs of existing buildings as supplied by the Chicago Mortgage Bankers Association survey of high-rise building costs made during the year 1961. It is well recognized that contractors' estimates will vary and cannot be finalized until construction is completed. However, this estimate represents the best opinion of the appraiser as of the current date.

4. Sales expense may be included as a part of the building cost before sponsor's profit, or may be considered as a charge to the sponsor and deducted from his profit. As this is a direct cost to place the units into individual ownership, it is placed prior to profit.
5. In estimating cost before adding sales expense or profit, the proposed project would cost \$2,217,650. After adding normal 12% profit and 3% overhead, the cost of the project is \$2,550,297. Adding sales expense of 5%, the total cost to the sponsor is estimated to be \$2,677,811. This

TABLE II

APPRAISER'S OPINION OF VALUE BY THE COST APPROACH

Cost of land	\$ 200,000
Net field cost of building improvements	1,810,950
Architect's fees, etc.	140,200
Financing and fees	66,500
Contractor's overhead and profit, 15%	323,647
Cost before sales cost	\$2,550,297
Sales cost, 5%	127,514
Value by cost approach	\$2,677,811

figure is assumed to be close to a final estimate and is used as an upper limit of value. The final figure may vary.

The sponsor of this project has estimated his building costs and sales expense at \$2,500,000. In accepting his figure as the total cost of the project, as a condominium, we must recognize then that he, as contractor builder, is willing to merge sales costs of 5% into his normal 12% profit and 3% contingency, and is therefore willing to accept a profit of 8.8%; or, as sole agent, he is satisfied to merge cost and his profit.

It is recognized that the sponsor's profit is residual to the sales prices scheduled and that cost is brought into line with market prices proposed by the sponsor. The appraiser recognizes the sponsor's interest as general contractor and sales agent.

In Table II is set forth the normal situation which represents to the appraiser the upper limit of value, that is, normal profit and contingency and 5% sales cost, resulting in a cost figure of \$2,677,811.

Capitalization Approach

The capitalization approach develops a value of the rents over an estimated economic life. Three estimates are required:

1. Net income residual to gross income less expenses and taxes.
2. The economic life of the property.
3. The capitalization rate.

The net income can be measured from operating expenses of typically comparable buildings. Rentals can be established by surveys and research. Operating expenses and taxes can be estimated from reports of management agents and *Apartment Building Experience Exchange* published annually by the Institute of Property Management. In estimating the rentals, operating costs, and taxes, these sources of information have been used.

The estimate of a 60-year economic life is based upon the physical construction of the building and the belief that the neighborhood would be attractive for residential use for an indefinite time. The location is close to Lake Michigan, has excellent transportation by boulevards, and is convenient to parks and yacht harbor. The existence of recently constructed high-rise apartments adds confidence to the opinion of superior character of the property for many years to come.

The selection of the capitalization rate is of major concern. It is believed that the rate must be selected from the competitive rate for money. The going rate for mortgages of 75% ratio of loan to value in the Chicago area is 5½% to 6% per annum. The rate for a mortgage for construction purposes would be 5¾% to 6%. If the property did not sell as a condominium, it would probably be held by the sponsor as an invest-

TABLE III
ESTIMATED RENTAL INCOME
OF SUBJECT CONDOMINIUM BUILDING AS A RENTAL PROJECT

Type	Number of Units	Description	Average Monthly Rental	Total Monthly Rental	Total Annual Rental
Apartment A	22	2 bedroom-2 bath	\$405	\$8,910	\$106,920
Apartment B	22	2 bedroom-2 bath	395	8,690	104,280
Apartment C	14	1 bedroom-1 bath	265	3,710	44,520
Apartment D	14	1 bedroom-1 bath	255	3,570	42,840
Apartment E	14	1 bedroom-1 bath	225	3,160	37,800
Parking: 82 cars			35	2,870	34,440
				Total Income	\$370,800

ment, converting it to a rental property. The risk of ownership is greater than mortgage risk, and it is for this reason that the 6½% rate has been selected.

It is recognized that rates are found in the market and that equity rates receive great consideration in the purchase of income property. The equity earnings would be enhanced according to the rate and terms of the mortgage. In splitting the land and building rate under the building residual technique, the selection of 5% for the land is justified by the belief that the land may be valued in perpetuity as a nonwasting asset, and will outlive the useful life of the building. Both residuals are used for illustration (Schedules C and D). The difference in value indication is not consequential.

The estimated rental income as an apartment project, as illustrated in Table III, was obtained by comparison with comparable properties in the neighborhood. The rental properties are not as large nor well located, and the rentals assigned to the condominium are believed to be conservative long-term rentals. The variation of rentals for the same apartment composition is due to location of the individual apartments in the building.

In selecting a capitalization rate of 3% for home ownership, it is recognized that

the value of the amenities of home ownership are reflected in a lower capitalization rate. This rate is produced if the owner rents his home and pays all the expenses of maintenance and taxes. It is believed that a condominium does not offer all the amenities which are usually derived from the ownership of a single family home, and for this reason a rate of 4% is assigned. There may be some debate on this question as the appeal of a condominium may be equally attractive to this class of purchaser. Acceptability not having been tested, however, it is reasonable to assign a higher rate. The market will eventually finalize this unknown.

The methods used in developing the income approach as set forth in Schedule A illustrate that the value of rents as a rental project for investment is \$2,118,339; and that the value of the property, considering the element of ownership amenities, reduces the investment rate to 4% plus 1.66% for depreciation,² making an over-all rate of 5.66%, and producing a value of \$3,045,000.

If individual ownership would eliminate joint heating, fuel, janitor, decorating, and certain maintenance expenses, a close ap-

2. A free standing residence will produce 3% or less to the owner. As the common areas may be considered an adverse factor, 1% is added for condominium as explained above.

SCHEDULE A

CAPITALIZATION APPROACH

Estimated Gross Annual Rent (see Table III)

86 apartments	\$336,360
82 garage stalls	34,440
Gross annual rent	\$370,800
Vacancy and loss of rent, 8%	29,664
Gross net effective rental	<u>\$341,136</u>

Operating Expense

Elevator contract	\$ 5,088
Fuel: heat and hot water	14,000
Air conditioning	4,100
Lighting electricity	4,200
Water	2,100
Gas	600
Scavenger	900

\$ 30,988

Maintenance

Decorating	25,000
Repairs	5,000
Exterminating	300
Exterior grounds	300
Furniture (lobby)	200
Janitors' salary (2)	15,000
Garage attendants	13,000

\$ 58,800

Taxes, Insurance, etc.

Taxes	55,000
Miscellaneous taxes	500
Insurance	4,000
Replacement reserve	3,000
Management, legal and audit	16,500

\$ 79,000

Total	<u>\$168,788</u>
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proach to the single family home market would be found. The adjustment to an owner's expense is difficult due to varying costs under the personal direction of the different owners. The reduction of expenses results in an advantage to the owner in cost to rent versus cost to own. The above computations illustrate the value created by owner occupancy. The difference in value must be acknowledged as the difference in the value of a property for investment and a property affording amenity returns.

The following items of expense, in whole or in part, would be shifted to the individual owners under certain policies of operation and construction:

Fuel	\$ 14,000
Air conditioning	4,100
Decorating	25,000
Repairs	3,000
Taxes	55,000
Miscellaneous taxes	500
Replacement reserve	2,000
Total	<u>\$103,600</u>

The shifting of expense does not mean

SCHEDULE B

PROPERTY RESIDUAL TECHNIQUE

Gross net effective rental	\$ 341,136
Total expense, taxes, etc.	168,788
Net effective income	\$ 172,348
Using 60-year life straight line	1.66%
Using 6½% interest	6.50%
Over-all rate	8.16%
\$172,348 @ 8.16% indicates value of rents	\$2,112,000
Scrap value of land and building in 60 years:	
Estimated at 10% of present capitalized value of rents	\$ 211,200
Present value at 5%: .0303 × \$211,200	6,339
Present value of property as rental project	\$2,118,339 ¹

¹Note similarity to present land value

SCHEDULE C

BUILDING RESIDUAL TECHNIQUE

Net effective income to property	\$ 172,348
5% return on cost of land, \$200,000 ¹	10,000
Net effective income to building	162,348
Value of land	200,000
Value of building, \$162,348 @ 8.16%	1,980,000
Value of property, indicated as	2,180,000
Value of home ownership single family unit by rental value:	
4% interest being 3% + 1% for condominium ownership ²	
1.66%, 60-year life	
5.66% over-all rate	
Net effective rent	\$ 172,348
\$172,348 @ 5.66%	
No residual considered	\$3,045,000
or: Value of land	\$ 200,000
Value of building: rents, \$172,348 less	
\$10,000 for land @ 5%, \$162,348 @ 5.66%	\$2,868,000
Total value as amenity property	\$3,068,000

¹ Value in perpetuity carries one owner rate.

² See, page 13 & ff on page 13.

TABLE IV
COMPARABLE 10-YEAR OLD COOPERATIVE BUILDING

<i>Rooms</i>	<i>Baths</i>	<i>Total Square Feet</i>	<i>Price</i>	<i>Price Per Square Foot</i>	<i>Mortgage</i>	<i>Equity</i>	<i>Floor</i>	<i>Unit</i>	<i>Price Per Room</i>
5 + garage	2	1,154	\$20,800	\$18.00	\$8,800	\$12,000	5	B-C	\$4,160
5, no garage	1	1,227	18,500	15.00	6,000	12,500	6	D	3,700
5, no garage	1	1,227	20,200	16.40	6,200	14,000	7	A	4,050
5 + garage	1	1,227	26,400	21.50	8,000	18,400	11	D	5,280*
5 + garage	1	1,227	24,300	19.80	8,300	16,000	13	D	4,860

* Air conditioned.

TABLE V
SUBJECT CONDOMINIUM—NEW, AIR CONDITIONED
SUBJECT PROPERTY—NEW

<i>Rooms</i>	<i>Baths</i>	<i>Total Square Feet</i>	<i>Price</i>	<i>Price Per Square Foot</i>	<i>Mortgage</i>	<i>Equity</i>	<i>Floor</i>	<i>Unit</i>	<i>Price Per Room</i>
4	1	1,000	\$22,500	\$22.50	\$20,000	\$2,500	1-7	E	\$5,500
4	1	1,000	23,900	23.90	21,000	2,900	1-7	D	5,975
4	1	1,000	25,900	25.90	22,500	3,400	1-7	C	6,475
5	2	1,500	34,500	23.00	27,000	7,500	7-22	B	6,900
5	2	1,500	36,500	24.30	29,000	7,500	7-22	A	7,300

TABLE VI
SALES SCHEDULE OF CONDOMINIUM

22 units, 2 bedroom-2 bath @ \$36,500 each	\$ 803,000
22 units, 2 bedroom-2 bath @ \$34,500 each	759,000
14 units, 1 bedroom-1 bath @ \$25,900 each	362,600
14 units, 1 bedroom-1 bath @ \$23,900 each	334,600
14 units, 1 bedroom-1 bath @ \$22,500 each	315,000
	<u>\$2,573,000</u>
Less janitor's apartment (lower floor)	22,500
Total Selling Price	<u>\$2,550,500</u>

that the total saving accrues to the condominium owner but is a variable item and illustrates the opportunity for saving or spending, according to the habits of the owner. This opportunity does not apply to taxes. Operating costs of 61.6% are affected, and 38.4% of operating expenses are not affected.

Market Approach

The comparable properties used illustrate that a cooperative building cannot be used to form a definite conclusion as to market value. The equity position, location, size of apartments, age, and construction are judgment factors used in weighing prices and value estimates. When condominium sales are made, a sound basis for comparison will be available.

In the meantime, the sales of cooperative apartments are the only data which can be used in applying analysis and judgment in the market approach. Comparisons have been made with reasonably comparable cooperative properties, and the conclusion reached is that the subject condominium will bring a higher price per square foot than comparable buildings in similar locations. The difference in price will vary from 15% to 25% according to the age and desirability of the comparable buildings. The reason for higher value under condominium lies in the price developed by better marketability due to financing and modern or new construction.

Table IV tabulates comparable data on the sale³ of apartments in a 10-year-old cooperative building with subject condominium. Analysis of the data for the cooperative building develops no definite sales pattern; that is:

3. All sales between September 1961 and August 1962; sales during 1962 slightly weaker.

Apartment D on 13th floor brought \$4,100 more with garage than apartment A on the 7th floor. Value of garage, \$2,500.

Apartment D on 11th floor is air conditioned and brought \$2,100 more than Apartment D on the 13th floor.

Apartment 7-A and 13-D illustrate the value of height and garage. Value of garage, \$2,500; of height, \$1,800.

However, brackets are apparent, and within the bracket of prices judgment can be applied. An analysis of each sale brings out reasons for the price differential. The principal reasons, in addition to location and height within the building, are modernization and rehabilitation, maintenance, and whether the sale is normal or distressed. Pricing of the garage is difficult but brackets are established.

It is believed, but not yet determinable, that the amenities of a condominium and the method of financing produce a market value 10% to 15% higher than the cooperative method of merchandising the second or subsequent sale. When sales of condominium apartments are made, the exact percentage will be established.

Sales Schedule

The sales schedule as established for the condominium project is set forth in Table VI. There will be a variation in prices for the apartments due to the location and height factors. However, the sales prices used are the average price for each type of unit.

A breakdown of the sales schedule appears as Appendix A at the end of this article. This analysis shows that the total monthly payment for principal, interest, and operating expense is less than the average rental value of the apartments. The pur-

chaser will have a tax saving (at a 30% tax rate) of \$40 to \$70 per month by deducting his real estate taxes and interest charges. In addition, the owner will have an increasing equity; and eventually he will own his apartment clear of mortgage. As the mortgage is reduced, interest may be adjusted which will reduce the monthly payment. According to the ability of the owner to care for his own apartment, the monthly maintenance charge will be reduced. The operating expense is based on full tenant service.

Rental Comparison

Rental comparisons are valuable to show the benefit in owning, compared with renting. The following comparisons of apartments which are rented in the existing building are based on the data given in Appendix B.

Apartment 5-C, consisting of five rooms and two baths, is rented for \$350 per month. Apartment 5-D, consisting of the same number of rooms and baths but located with a less desirable view, is rented for \$300 per month. The assessment is \$258.09 and \$214.49 respectively, which leaves \$91.91 and \$85.51 net on an investment of \$12,000 for each apartment. Similar apartments on the tenth floor are leased for \$325 and \$375 per month. The highest payment in the condominium is \$341.74 per month with an equity of \$7,500. The lowest payment in the condominium is \$220.57 per month with an equity of \$2,500. The lowest rental in the existing building is \$250 per month for five rooms and two baths on the second floor. The rented apartment carries no advantages of tax deductions to the renter, whereas the owner has depreciation, interest, and tax benefits. The investment possibilities in the future, if the owner of the condominium would elect to rent and hold

as an investment instead of selling, is shown in these examples.

Gross monthly rent multiples are found in these sales and rentals, ranging from 60 to 70 times the monthly rent against sales price. In the condominium, the monthly payment to sales price is 102 to 107 times the sales price. If the market approach has produced a proper estimate of value, the gross monthly rent multiple would lead to the conclusion that the risk of renting and owning for rental purposes is reflected in the lower gross monthly rent multiple. It may be assumed that the rental value of the condominium would be higher, and thus produce a lower monthly gross multiple. As the gross monthly rent multiplier is evidence of investment value, and the investment value by this approach is 30% less than the owner-occupant value in the condominium, the value of the condominium for investment purposes is proved to be 30% less. This percentage difference in value is approximately what is produced by the capitalization of the income estimated for the condominium: namely, \$1,704,000 against \$2,550,000 by the market approach.

Summary

The various approaches to value are given and illustrated for the purpose of consideration by those concerned with the valuation process of a condominium until sufficient comparable sales are available for proper application of the market approach.

From the three approaches the following conclusions may be drawn:

1. The location, design, and construction must be carefully considered so that market prices may be within cost estimates. The margin of profit is narrow. An error in construction cost estimates in relation to marketability would be disastrous to the sponsor.

2. The capitalization approach proves that additional amenities must exist in a condominium in order to command the prices necessary for a profitable condominium project. A condominium project may not prove to be a profitable rental housing project.
3. The market for a condominium project will be broader and, due to financing, will produce a more liquid product and thus produce a more salable real estate entity. A broad market and better financing will produce higher prices.
4. The market appeal of a condominium lies in the financing. A purchaser and seller can create their own terms of sale. The buyer is not restricted to a fixed equity and the seller is not restricted to an existing equity with an underlying mortgage which fixes the mortgage payment terms at the time of origination.
5. The only common obligation of the owners is the assessment for maintenance of the common areas. This item is minor in comparison with the risk of being burdened with an underlying mortgage which may fall as an obligation on the owners with ability to pay. The obligation to maintain the individual apartment may be governed by the desire or ability of the condominium owner to maintain his apartment.

Appendix A

TABLE VII
BREAKDOWN OF SALES SCHEDULE

	Sales Price	Mortgage	Term	Interest	Operating Expenses Per Annum *	Operating Expenses Per Month *	P & I, Monthly Payment	Total Monthly Payment	Rental Value, Per Month
Apartment A .. 8-17 East	\$36,500	\$29,000	25 years	6%	\$2,175	\$181.25	\$186.86	\$368.11	\$440.00
Apartment B .. 8-17 West	34,500	27,000	25 years	6%	2,175	181.25	174.00	355.25	430.00
Apartment C .. 3-7 East	25,900	22,500	25 years	6%	1,830	152.50	144.98	296.98	300.00
Apartment D .. 3-7 West	23,900	21,000	25 years	6%	1,830	152.50	135.40	287.90	290.00
Apartment E .. Midde	22,500	20,000	25 years	6%	1,560	130.00	128.90	258.90	260.00

* Based on full management, including taxes, and with attendant parking.

Appendix B

TABLE VIII
RENTED APARTMENTS IN A 10-YEAR-OLD CO-OP BUILDING FOR RENTAL COMPARISON AND MORTGAGE REDUCTION ON A 10-YEAR MORTGAGE EXPERIENCE BASIS

Apartment	Garage	Shares		Monthly Rental	Monthly Assessment	Terms 1953		Present Mortgage
		Apartment	Garage			Cash	Mortgage	
2-B	No	85	—	\$265	\$177.96	\$ 8,500	\$11,100	\$5,735
2-C	9	85	14	325	213.98	9,900	12,900	6,600
2-D	No	70	—	255	147.04	7,000	9,200	4,700
3-B	7	99	14	340	241.72	11,300	14,600	7,542
3-C	8	99	14	345	241.72	11,300	14,600	7,542
3-D	23	79	14	250	199.94	10,300	12,000	6,200
5-C	22	107	14	350	258.09	12,100	15,600	8,060
5-D	No	86	—	300	214.49	8,600	11,100	5,663
10-B	No	118	—	325	246.11	11,800	16,300	7,905
10-C	24	118	14	375	281.65	13,200	17,100	8,835

Appendix C

FINANCING AND CASH FLOW

Sales price of units:		\$2,550,500
80% construction mortgage	\$2,040,000	
10% holdback	<u>204,000</u>	
Cash available less expenses		\$1,836,000
Mortgage expense held from mortgage:		
Financing fee	\$ 40,000	
Title cost	21,500	
Taxes	2,700	
Insurance	2,500	
Interest under construction	<u>60,000</u>	
Total		126,700
Net mortgage funds		<u>\$1,709,300</u>
Cash requirement:		
Land	\$ 200,000	
Building net field cost	1,810,950	
Architect's fees	75,000	
Attorney's fee	<u>5,000</u>	
Total		\$2,090,950
Net from mortgage funds		<u>1,709,300</u>
Cash required		381,650
Cash flow from 50% sales:		
50% of 10% holdback	\$ 102,000	
50% of \$510,500 equity	<u>255,250</u>	
Total		\$ 357,250
Less commissions		62,500
Net cash flow		<u>\$ 294,750</u>
Total cash required:		\$ 381,650
50% sales recapture		<u>294,750</u>
To be recaptured		\$ 86,900
50% balance		\$ 294,750
Balance recapture		<u>86,900</u>
Profit		\$ 207,850