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SUPREME COURT OF VIRGINIA
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IN THE

Supreme Court of Virginia

AT RICHMOND

RECORD NO. 740856

FRUIT GROWERS EXPRESS COMPANY

Appellant

v.

CITY OF ALEXANDRIA

Appellee

APPENDIX

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IN RE: Application for relief from erroneous assessment of Fruit Growers Express Company

To the Honorable Judges of the above Court:

Pursuant to the provisions of §58-1145, Code of Virginia, your petitioner, Fruit Growers Express Company, respectfully represents unto the Court:

1. That your petitioner is the owner of the land consisting of approximately 31.05 acres in the City of Alexandria, known as Parcels 3018-02, 3029-01, 3042-01, and 3043-02.

2. That upon the assessment made in 1972, which took effect January 1, 1972, the real estate above described (land only) was assessed at $1,056.250.

3. That the new assessment is in excess of the fair market value of the property and is inequitable as compared to like

properties.

4. That your petitioner has exhausted its administrative remedies in appealing from the said real estate assessments, but said appeal was denied by the Board of Equalization.

5. That the erroneous assessment was not caused by the wilful failure or refusal of your petitioner to furnish the tax assessing authority with the information required by law.

WHEREFORE, your petitioner prays that the Court will correct the above assessment as finally determined by the Board of Equalization of Real Estate Assessments by reducing the total assessment on the above property from $1,056.250 to $300,000 and will enter an order directing the Clerk of the Circuit Court to notify the Commissioner of the Revenue of the City of Alexandria of the change in the assessment, and direct him to make the proper correction in the Land Assessment Books and that your petitioners may have such other, further and general relief as the nature of their case may require.

FRUIT GROWERS EXPRESS COMPANY
By Counsel

FINAL ORDER

THIS CAUSE came on to be heard upon the application of petitioner for relief from erroneous assessment; upon the answer filed by the City of Alexandria; upon the evidence of petitioner in support of its application; upon objection by the City of Alexandria to the admission into evidence of petitioner's exhibits numbered 8 and 9; upon motions by the City of Alexandria to strike the testimony of petitioner's witness, McCloud B. Hodges, Jr., to strike all of petitioner's evidence and to dismiss the petition, and was argued by counsel; and

IT APPEARING TO THE COURT that the testimony of petitioner's witness, McCloud B. Hodges, Jr., upon which he formed his opinion for the value of the subject unimproved real property as of January 1, 1972, is entirely based upon a developmental method or technique of real estate appraisal using a discounted cash flow analysis, which appraisal method requires the assumption of and the use of variable factors which are speculative; that petitioner presented no other evidence of value of the subject property; and that petitioner's exhibits numbered 8 and 9 require acceptance of the same speculative assumptions; therefore it is

ORDERED, ADJUDGED and DECREED that the City's objection to the admission into evidence of petitioner's exhibits numbered 8 and 9 is hereby sustained, and the City's motion to strike the

testimony of the petitioner's witness, McCloud B. Hodges, Jr., is hereby granted on the ground that the exhibits and the testimony relate to a method of valuation of unimproved real estate based on assumptions which are necessarily speculative. And it is further

ORDERED, ADJUDGED and DECREED that the City's motion to strike all of petitioner's evidence and dismiss the petition is hereby granted on the ground that petitioner failed to sustain the burden of proof imposed by the applicable statute, § 58-1145 of the 1950 Code of Virginia, as amended, in that petitioner did not show that the property in question was assessed at more than its fair market value in 1972 or that the assessment was not uniform in its application.

AND THIS CAUSE IS ENDED.

[TR 682] THE COURT: In this case on the 19th after Mr. Hodges had testified for some length, Mrs. Sasso moved to strike his testimony, as I understood it, on the basis that it was a capitalization of income approach which she said is not proper under the case of Appalachian Power Company versus Anderson, 212 Virginia 705. And at that time I think I made a statement that I couldn't see where it would be in error in showing that the present value of the land is affected by the cost adopted for its highest and best use.

Back there on the 19th, it seems to me, the Court took the objection under advisement and petitioner was granted leave to proceed and after proffer of proof on the record if the Court subsequently sustained the objection.

Now, after that, we had the testimony of Mr. Travers, Mr. Robbin, Mr. Marks, Mr. Mosely and Mr. Phillips and then Mr. Hodges' testimony today. Insofar as the exhibits are concerned, I think everything is in except this computer format.

MR. ALEXANDER: Which is purportedly Number 9.

THE COURT: Well, I guess the admissibility of eight and nine have not been determined.

[TR 683] As I understand, your testimony has been completed Mr. Alexander?

MR. ALEXANDER: Yes, sir.

THE COURT: Then the first thing tomorrow suppose we do this: determine for the purpose of the record the admissibility of Exhibits 8 and 9 and of the Court's rule on the motion to strike.

MR. ALEXANDER: All right.

THE COURT: I might indicate, Mrs. Sasso, that I don't intend, at this point at least, to grant the motion to strike as to all of the plaintiff's case in any event. What I am saying is, I think the cost to bring the piece of property to its highest and best use is in my opinion a proper part of the evidence to determine value for its highest and best use.

And now then, whether or not the question of how long it takes to complete the project, and how long it takes to make a profit in those things, which may or may not be variables, whether you're getting into sort of an analogous situation where you are trying to take a profit from a business as value in condemnation suits, I'm just going to have to think about that during the evening and let you all know tomorrow, but I would like you all to argue those points.

[TR 751] THE COURT: In this case, the Court is of the opinion that the motion to strike should be granted. Objection to Exhibit 8 and 9 should be sustained.

The reason for the Court's opinion is that as the [TR 752] party knows, the owner has a statutory burden of proof to show the true market value is less than assessed by the City. Insofar as Mr. Hodges' testimony and Mr. Phillips' testimony is concerned and Exhibits 8 and 9 are concerned, I have to agree with Mrs. Sasso's argument that those exhibits and that testimony had variables of time, variables of interest, variables of acquisition loan ratios. The amounts of sales are speculative to some extent, dependent on whether or not. The scheme of Mr. Phillips' is accurate to the point where he had 1,090,758 square feet of warehouse space at $2.25. The amount of sales is somewhat speculative and also the matter of warehouse space is speculative.

Insofar as the 30 percent profit item is concerned, that to me, is somewhat analogous to the rule that you can't use profit in a going business when you are in an eminent domain case. Some people can take a certain situation and make 30 percent and others can lose money. Now that might be an exaggeration. Not only that, but you really don't have, even with Exhibits 8 and 9, an exact valuation or a concluded valuation. I think Mr. Hodges is of the opinion that probably an acquisition of that ratio loan of 85 percent with eight percent interest would be the fairest or

[IR 753]

maybe he thinks we ought to take all 12 values given and the mean would be the fairest.

I merely grant the motion to strike because of the variables which I think to a certain degree are specula tive. As I understand to arrive at a true market value, under the laws in Virginia, you can't use speculative fact to arrive at true market value.

I grant the motion to strike Mr. Hodges' evidenc and sustain the objection to the admissibility of Exhibits 8 and 9.

NOTICE OF APPEAL AND ASSIGNMENT OF ERROR

Petitioner Fruit Growers Express Company, by counsel, hereby gives notice of its appeal to the Supreme Court of Virginia from the Final Order entered in this case on May 3, 1974, and assigns the following errors:

1. The Court erred in granting respondent's motion to strike the evidence of petitioner's witness McCloud B. Hodges, Jr.;

2. The Court erred in ruling that petitioner presented no other evidence of value of the subject property.

3. The Court erred in sustaining respondent's objections to petitioner's exhibits numbers 8 and 9;

4. The Court erred in granting respondent's motion to strike all of petitioner's evidence and in dismissing the petition;

5. The Court erred in ruling that petitioner did not show that the property in question was assessed at more than its fair market value in 1972 or that the assessment was not uniform in its application.

The transcript of the case is to be hereafter filed.

FRUIT GROWERS EXPRESS COMPANY
By Counsel

PARTIAL TESTIMONY OF McLOUD B. HODGES, JR.

* * *

[TR5] Q. What is your profession, Mr. Hodges?

A. Real estate appraiser and investment coun

Q. In what particular area?

A. Mostly in the Washington, D. C. region. say about 85 to 90 percent of my work is in this re

Q. Do you specialize in any particular types properties?

A. Yes, sir; investment properties and prope subject to subdivision and development over a sizab span of time, involving market surveys, unit costs that sort of thing.

* * *

[TR12] A. Within these last five years, sometime, beginning, let's say, three and six years ago, I beg specialize and am now fully specializing in actual valuation and counseling jobs for buyers and sellers lessors and lessees of fee interests and partial int in properties, mainly income-producing, sometimes lar subdivision properties. Like, for example, one of t biggest builders in the region, I can remember doing of his largest land acquisition valuation analysis b 1965 and 1971. And it's throughout the region; it i Montgomery County, Prince Georges County, Washington

[TR12] D. C., and the Northern Virginia counties, and as far away as Spotsylvania, and a counseling job occasionally in Roanoke or Richmond or Warrenton or Frederick, Fredericksburg -- Frederick, Maryland -- Winchester.

* * *

[TR18] THE COURT: The Court accepts Mr. Hodges as an [TR19] expert appraiser in the field of land valuation.

* * *

[TR27] (In what way did you go about determining the most profitable use of the land -- well, first, explain to the Court what you mean by that?

A. Well, the most profitable use of the land is that which -- well, first and foremost today, is allowed by the local subdivision and zoning ordinances and has a likely chance of being approved in light of the impact of the ecologists and the environmentalists, but is still predominantly a use that produces the maximum monetary profit. And I think the maximum monetary profit from this land can be derived on the 1st of January, '72, by developing a good quality -- and it would have to be good quality -- permanent warehouse park with rail service serving the back ends of almost all of the buildings backing up to it. This, I think, is the best use of the property. I don't think that it has any appeal at all to the high-rise or low-rise or townhouse residential market. I don't think that an office building entrepre-

neur could get to first base with a permanent loan commitment to build an office building of any size, a multi-story elevator office building, in that location as of 1st of January, '72.

* * *

[TR35] Q. Now, being of the opinion that the highest and best use was for this type of warehousing on the property what was the next step in your appraisal?

A. The first and most important step is to get from an engineer an estimated cost of developing the park into -- the land into a warehouse park and proportioning those costs for sewer, water, street and all other things, into a reasonable and logical phasing program. And I think a reasonable program here would be to run from Quaker Lane eastward to the point paralleling Roth Street and developing approximately 43 percent of the land, originally -- I mean initially; and then developing the next three stages, which are much smaller, toward Telegraph Road as we would need those sites.

The development costs are the important thing, because the difference between the retail value of the finished site in the aggregate and the total development costs and other costs, such as the time value of money, the interest on the deferred purchase money note to the seller of the land and the interest on the development

or construction loans, the difference between all the income and all the expenses represents land value; and that is the basis for the entire valuation.

It wouldn't have been the basis if we had had a number of reliable and obviously comparable sales of like and similar properties, and I only found two.

* * *

[PR68] A. Yes. These things are investigated before the negotiations, yes.

Q. You knew you were going to have to do storm drainage and make some provision for that on site?

A. Yes, very definitely.

Q. Were these things done after the purchase by Chrysler?

A. The finishing work was done; the storm sewer completely; and some of the fill after the purchase.

Q. And even taking all of that into consideration, did you feel that $2.32 a square foot was a fair market price for that site?

A. I never agree that the price is a fair market price. I do feel that that price -- it was a negotiated price from a very much higher figure than that.

* * *

[GR 15] Q. In what way is the cost of making the land usable important to your appraisal of the property as is Mr. Hodges?

A. Well, the first thing that the hypothetical purchaser would do would be to want to find that cost, and if it exceeded the retail value of all the land adaptable for what I have already stated was its highest and best use, he would drop all further consideration of buying it for that purpose.

Now, he might buy it for some other purpose, like a parking lot. Then other people in the market, like pure land speculators, might then be interested at a lower price. But, once he finds out that the cost of developing the land for the industrial park is less than the gross retail sale price of the whole tract as an industrial warehouse park, then he would go into a further analysis and determine how long it would take him to sell all the warehouse site space, absent the public or private street area that he would have to put in there, and discount that to present value, including in his discount a factor for profit; and that is the

entire method that I used to appraise the land, the 30 acres, because I didn't have enough market data. I didn't have any reliable market data to appraise it by the direct [TR76] comparison approach, which otherwise is the best method for several reasons, including the fact that the market would use that method if it could, if it could find good competitive sales prices of this kind of land with the same attributes, the same development-cost ratio, everything else the same.

Q. Let me ask you this, Mr. Hodges: is your appraisal methodology based on the value of the land as is or as it could be developed?

A. It would have to be based on what it would sell for suitable for the warehouse park, which means as it could be developed.

Q. But your valuation is as of what date?

A. January the 1st, '72.

Q. And what is the state of the land in accordance with your valuation?

A. Well, in my opinion, and based quite largely on the engineer's estimates on developing it to meet the subdivision and the zoning requirements for the City, it is practically raw ground, undeveloped ground, unimproved ground.

Q. Your valuation is based on unimproved raw ground as of a date in January 1972?

[TR77] A. Yes, sir.

Q. Now, would you tell the Court how you would g about arriving, or how the market, in your opinion, wou go about arriving at that valuation?

A. Yes, sir. The market would first and foremos decide if there was a demand for warehouse space in tha location, considering all the physical and political an economic factors that are involved in this location, an determine what that probable sales price would be for t warehouse space.

Now, this I can and did use direct market sal comparison on, because we have a plentiful supply of sal data on finished buildable sites for warehousing, or us quite similar to warehousing. It could be light manufacturing, sometimes research and development in large scale buildings, and so on.

Starting with those figures, the next step would be the closest possible estimation of how long it would take to market all the land, and as my appraisal report will show, I estimate somewhere between three-and a-half years and six-and-a-half years would be required to market all the warehouse sites; and this is based on the fact that this land will produce at its maximum

[TR78]
utilization approximately 617,000 square feet of warehousing space, which will be shown more in detail later by Mr. Phillips, and that is a lot of space for Alexandria City for this one site to absorb overnight. It can't be done overnight, I don't think.

Or, put it the other way. You don't find many Drug Fair type customers that need 30 acres all at once for immediate use. I have not seen that kind of a land user come along more than once every several years. And Drug Fair had, in fact, already picked its site, so that was out of the market. So I could find no other users except a number of smaller site users to make the market for these finished sites.

So, knowing then that it would take more than one day, or one month, or one year to do all of this, my next concern is with discounting the net difference between sales cost, or sales income, and development costs to present worth. Now, this is a most logical, one of the four generally accepted procedures of raw land valuation. I've used it many times because my clients use it, and if that's the way they operate, that's the way I've got to look at the valuation of the land.

Q. You have said that because of various features

[TR79]
of the property, its location, its accessment, railroad, and so forth, your highest and best use would be light-industrial warehouse-type subdivision, right?

A. Yes.

Q. And you further said that you had to look at this as raw land?

A. I look at it as almost raw land because it has very limited public street access to all the possible warehouse sites, and it has only a part of a great amount of storm sewers that would have to be built there to take care of the surface runoff of water, and it would have to have almost an entirely new set of sanitary sewer lines that would have to be located to serve the warehousing space.

Q. Perhaps you could contrast the subject property with a finished lot in an established industrial park subdivision. Could you do that for the Court?

A. Yes. Probably only four or five acres, maybe six or seven, I don't know exactly how much, of these 30 acres would be comparable to finished one, two, three, four and five acre warehouse sites sales data on which I said we have plentiful supply, and that would be the far west end facing Quaker Lane; the far east end to which access could be gained by an extension of Longview Drive --

[TR80] Q. My question is: what does a finished industrial park warehouse site have that the subject property does not have?

A. Well, it has all the public streets, direct access and direct access of easement on public streets; it has probably all the public sanitary and storm sewer lines installed in or near the street rights-of-way; it has water, and gas if that's appropriate, and utility lines that are installed right up to the very edge of the site, sometimes through the sites; and generally, they are already rough graded. That is, there isn't an awful lot of fill or cut to be done to develop any single site in an established subdivided, planned warehouse park.

Q. Can you point to some examples in the area of such finished sites?

A. Yes. I guess the most contiguously recent building park would be the Edsall Industrial Park near the intersection -- surrounding the intersection of Pickett and Van Dorn, Eisenhower, and then the Bush Hill Industrial Park extending eastward from there along Eisenhower, one that's about seven or ten years old now is the Shirley-Duke Industrial Park, smaller but very well planned, due south of the Shirley-Duke Shopping

[TR 81]

Center, on the south side of a residential neighborhood there, and then there are some much older parks that are not, obviously, as well planned because they've been there an awful long time off of U. S. 1 north leading to Arlington County.

Q. And the retail sales in these sites are typically of what size?

A. Well, in northern Alexandria, probably as little as a third of an acre in some cases. In the bigger parts to the western part of Alexandria, they are typically one to five acres.

Q. And you said you did have comparable sales data for the sale of these finished sites?

A. Yes, sir.

Q. Just roughly for the moment, what range would that be?

A. The range is very narrow and surrounding the time of January '72, rather consistently from a dollar and a half to two and a quarter a square foot.

Q. These are for the finished sites?

A. For finished sites.

Q. Did you determine whether or not the subject property, because of its size or any other factors, would

[TR 82]

demand the same price at thattime period?

A. Yes, sir. I believe for two reasons that we command the highest price in that range, $2.25 a square foot, for all of our net usable land; one reason being that whcever developed this park, if he hypothetically purchased it in January of '72, with the very high development costs we have, would have to do a very good job of developing it and advertising it and promoting it. And if he did a good job, I think he could get some of the highest prices for retail sites in the city.

Q. You say he could sell it retail for what?

A. I have a consistent average valuation for all of the land at $2.25 a square foot. This means that some of the larger sites would go maybe for $1.75 and some of the smaller sites would go for as high as $2.50.

Q. Is this before or after development costs?

A. This is after putting in all the public and private subdivision development features that I think would be required.

Q. Now, can you tell the Court how you relate these retail prices to -- is it proper to call it a wholesale price that the purchaser of the raw land would pay?

[TR 83] A. Yes. The raw land is a residual in value; it's a residual amount of money representing the present worth, the present discounted worth, of the net difference between retail sales income and development costs throughout the entire anticipated period of developing and marketing this tract of ground. It's the present discounted worth of the net difference.

The discounting procedure is similar to the capitalization of income from an income producing property only in that you use the same kind of compound interest arithmetic, but you use slightly different factors; because the developer of an industrial park or any other kind of a big subdivision is normally a dealer, he's certainly in dealership status, and he's normally paying about half of what he profits --

Q. Before we get into those factors, let me ask you this: is what you are testifying to now a theoretical approach to the value or how, if at all, does it relate to what the market does?

A. Well, it's related directly to the way the market operates. The only difference between the arithmetic or the machinery and computer that I use to get the answer in a few seconds or a few minutes and the one that

[TR 84]

some developers use is that some developers don't possibly have a computer in their office, and they do it by long-hand, using compound interest factors from textbooks, or in some cases they just use an overall rate or an overall profit-to-cost factor, and make a few fudging-type discounting procedures back to present value.

Q. Do you know of developers or clients of yours who do use the development-approach method?

A. Yes, sir; both clients and industrial developers that I've talked to in connection with preparing for this case.

Q. Well, do you know of any that would not use it?

A. Not for large tracts. I can't think of anyone today, because today land is such a big part of the overall cost of doing anything. It has been pushed up in price so high over the past 20 years that it is a very major consideration, and land development costs -- I'm not criticizing this -- have been pushed up, too, by stiffer and stiffer requirements of cities, counties and other communities on the developer in doing what he's going to do with land.

Now, all of these costs being so very high in proportion to what they were 15, 20 and 25 years ago when land by the acre, large acreage, just sold generally

[TR85]
at about the same price, almost irrespective of differences in physical characteristics and development costs, today has to be very carefully weighed as between what you can get out of it and what you've got to put into it in the way of periodic costs.

Q. Has your research into actual sales in the area indicated that the development costs are a function of the market price?

A. Yes. But I could only find two such sales that were around or about the time of January '72.

Q. Would you describe those sales for the Court, please?

A. One would be the 31-acre -- just a minute -- 34. One would be the 34.3-acre tract purchased by Drug Fair Community Drug Company, Incorporated, just against the west city boundary in Fairfax County, at the western edge of the so-called Edsall Industrial Park, in 1970, in October, for which 34 acres Drug Fair paid an average of 50 cents a square foot overall. And the reason this price was low is because there were substantial development costs involved in making the site ready for Drug Fair's newer and larger distribution warehouse and main office headquarters for this Washington region.

[TR86] Q. What was the date of that sale?

A. This was October 1970.

Q. What do you mean by substantial development costs in relation to the property?

A. Well, their initial estimate -- and this goes back to about 1971 or '72, when I first talked to the Drug Fair officials who were then already in the process of filling part of the land, grading it, riprapping the little stream bed that runs through it and takes about seven acres of usable land out of these 34 acres -- at the time that I talked to the officials the estimated development costs, at that time, were about $340,000. Later, of course, they had increasing expenses because --

Q. Well, the property was purchased on the basis of those estimates?

A. Oh, yes. I checked with the broker that brought the two parties together; the seller, Jimmy Cafritz; the buyer, Drug Fair. I talked to the officials in Drug Fair, and they had engineering estimates on development costs, preliminary to their negotiated, final agreed price on the property.

Q. Would you say, in your opinion, that the market price was the function of the development costs of that raw land?

[TR87] A. Very definitely in the case of the Drug Fair sale.

Q. You mentioned one other sale?

A. The other one has never been developed, and yet the seller, a group of -- a syndicate, really, of active and retired military officers making up what was called Adams Properties, Incorporated, was well aware of the handicaps of their land site when they sold to James B. Blinkoff and Max M. Kampelman, Trustees, for Franconia Associates, a New York headquartered organization, some 30.68 acres in a large, flat triangular shape just south of the new Springfield Shopping Mall and to the east of Loisdale Road.

Now, these sellers, Adams Properties, knew full well the handicap of their property. It had a big sewer main trunk line going through it, but it had to have tremendous fill before it was ever suitable for a possible future commercial or a warehouse park location, abutting the entire north side of a very long railroad spur.

So they had rail access, but because they had tremendous development costs involved and no immediate market in that particular location -- this is between the Franconia warehousing of GSA, which is to the south,

[TR 88]

and the Springfield Shopping Mall, to the north -- these sellers must have realized it, because they sold the land at the equivalent price of 30 cents a square foot to these people in New York. The people in New York happen to be the owners of the Springfield Mall Shopping Center, and they bought it -- as I found out later, by talking with the brokers and the engineers involved -- for a future possible expansion southward of the Springfield Shopping Mall.

But it was still industrial land, zoned I-P in Fairfax County, and it would have had tremendous development expenses to bring it up to immediate use, if it were for immediate use.

Now, those are the only two properties that I could find that would to me clearly indicate that development costs are the only measure of determining land value. One was developed; the other was not developed; and the other might not be developed for some time to come.

* * *

[TR 89] Q. Now, the two properties you've cited of around 30 acres of raw land, Mr. Hodges, in what way are they comparable to the subject site with regard to location, access, and so forth?

A. The Drug Fair site, we have to now look at who purchased the land as well as the land itself. The Drug Fair site to Drug Fair is, in my opinion, far more valuable than our site would have been, because it's

located closer to more restaurants, more retail shopping and other amenities of which a number of the employees in that building, which is both a warehouse, a distribution warehouse, storage warehouse, and an office, are [TR 90] working from day to day. They have a much bigger percentage of their building turned into office space than would any of the hypothetical warehouse buildings on our subject property.

So you really have to consider both Drug Fair and the land, and to Drug Fair, that land is far more valuable than the subject property would have been. Its physical characteristics are also different on many points; similar on others.

It did require considerable fill and compaction. There was some of the land lost, approximately seven acres, in either Indian Run or Turkey Run, whatever that little creek is called -- I've heard it called both ways -- and it has a different shape. Now, those are the similarities.

It has a different shape from our land. It's not exactly a square, but it doesn't have over a two-to-one length and width ratio; it has less than -- its length is less than two times its width. It has frontage on the north on Edsall Road, and abuts directly on its east side against the end of Eisenhower or Pickett, I think it's called.

Q. And the subject property has a ten-to-one

[TR 91]
length to width ratio?

A. About, yes. A little over a ten-to-one length-to-width ratio. So the Drug Fair site is dissimilar in shape; it's dissimilar in direct access to not only streets, good, big streets.

Q. Well, do the dissimilarities in the two properties make one more valuable than the other? If so, which?

A. No, sir. I made no attempt to compare the value of the Drug Fair's site with ours. I made no attempt to appraise the Drug Fair's site. I do not think, in my professional opinion, that it's possible to really use the Drug Fair site as a comparable sale for the basis of appraising the subject property. I did not use it, whatsoever, for that purpose; and it would only be if I had about ten sites similar to Drug Fair --

Q. Well, for what purpose do you cite the Drug Fair site?

A. I use it for only one purpose, and that is to reassure myself from market evidence and from conversations with the purchasers on what they had to do to make it usable that the development cost approach is not only a valid method, but an absolutely required method

[TR92]

at finding the value of the site in the subject property.

Q. What about the other site, its location and what you would consider as any factors there that make it a comparable sale?

A. Again, while I did not use the Adams Properties sale to the people that own the shopping center, as a comparable or as a basis for appraisal, whatsoever, it made me feel good to know that somebody realized that they could only get 30 cents a square foot for a piece of industrially-zoned ground with a trunk sewer running right through the middle of it, and the realization was because -- and I've talked to the representatives of the sellers -- was because they knew that it had a long way to go and a lot of fill before it became a suitable improved site ready for development, and they had held it already too long for speculative gain, and so they unloaded it.

Q. Now, I am going to ask you a hypothetical question at this point, Mr. Hodges. Assuming the 1,330,758 square feet in the three parcels under consideration here; I'm asking you to assume that at the location and the various uses --

[TR93] Q. I am asking you to further assume the projected land development costs to make it into a retail, light industrial park area. Assuming land development costs of $1, 312,746.

* * *

[TR94] MR. ALEXANDER: $1,312,746, or in round figures, slightly over $1,300,000, or roughly one dollar per square foot of the area we've talked about.

BY MR. ALEXANDER:

Q. I am asking you to assume that.

How, then, would a potential purchaser under no obligation to buy, but simply in the market -- I think as you've described as an entrepreneur -- how would this hypothetical purchaser go about pricing the property, and,by the same token, how would the hypothetical seller go about fixing a price on the property to a point where they could meet in this theoretical market price? Do you understand my hypothetical?

A. Yes.

* * *

[TR95] Q. Given the land, its features, it locations, its potential uses, as of January 1972, given those factors I've given, how would a sales price, a probable sales price, be arrived at?

A. I think the purchaser would phase his development costs over a number of phases because he would know that he couldn't sell all 617,000 square feet of the

[TR96]
sites for that much warehousing space all at one time. He would commence, and I think, at the western end and work easterly; and he would proportion his development costs, in my example, into four phases, with phase 1 being the biggest phase.

* * *

[TR97] Q. Disregarding any phasing or anything, Mr. Hodges, I've given you the land area of this land and a hypothetical development cost. Now, my question is: given this raw information, what would a potential purchaser or potential seller do with it?

A. All right. Let me start at the very beginning then and tell you the first thing I think he would do. He would take the net usable area --

Q. Is this in response to Mrs. Sasso's question? Are you speculating what he might do or are you testifying as to what he does do in the market?

A. Well, I think I would be 90 percent correct in saying what I'm about to say as to what he would do. I can't really tell you whether every industrial and other kinds of subdividing developer looks at one figure first before another, but I think it would be logical to assume that he would look at the total income from sales at $2.25 a square foot --

Q. Now, that figure is what you project would be the most this entrepreneur could ever get out of the property?

[TR98] A. Yes, sir.

Q. All right. Why is that figure significant?

A. Because that represents his aggregate income over whatever period of time he can get this income; and this development cost has got to be below that income or it's not even feasible in the first place.

Q. In other words, if development costs were $2.25 a square foot, what would happen?

A. He would immediately know that it wouldn't be a successful industrial park, because that's all he can sell the land for.

Q. And how do you know that's all he can sell the land for?

A. Well, because I think I previously testified that based on comparable sales, of which we have a good supply of valid sales indicators in and around January '72, that is for the year or two preceding it and for the year or two afterward, that I believe that he can sell all of his buildable land for $2.25 as an average price.

Q. Are you saying that two and a quarter is the top price which he could have gotten for a finished site in that period?

A. Yes.

[TR99] Q. Then you said he takes his projected development costs. Where does he get those?

A. From his engineer. He would hire an engineer, the same as we did for this case, to get him a very close estimate of development costs.

Q. Are you saying he ought to hire an engineer or they actually go to the engineer?

A. Oh, they do, in fact, go to civil engineers all over the region to get development cost estimates before they buy today; they were not doing it perhaps 25 years ago.

Q. What is the difference between now and 25 years ago?

A. The difference is that land and development costs are such a big part of the total project cost today that they can't get by without an accurate estimate on such things as the land development costs.

Q. And he gets the figure from an engineer, which I've asked you to assume is $1 a square foot. All right. Then, as I understand your testimony, he knows what his development costs would be; he knows the upper limits of what the market is for finished sites. He has got those two knowns?

[TR100] A. Yes.

Q. Then what does he do?

A. If there's a difference, if the cost is less than the retail, aggregate gross sales income, then he goes into what you would call a feasibility study. He puts these figures together over a period of time and finds out whether -- matching both the negative and the positive periodic cash flow, the present discounted worth of all of that cash flow over the period of time -- and these are different periods.--he would test several periods in this particular case; he would determine whether all of that cash flow, both negatives and positives, time after time, would represent to him a reasonable profit on his equity investment.

Q. Now, what do you mean by positive and negative cash flow over a period of time?

A. Well, like in the first phase, where he is putting in over $600,000 of his development cost just to start producing the first few warehouse site sales, his expenses exceed his income.

Q. What do you mean his expenses exceed his income? Is this income producing property?

A. No; this is sales income, just plain, ordinary

[TR 101]
sales income. This is not --

Q. But, when you say income, are you counting what he borrows or what he resells the property for?

A. Yes, just what he resells the property for. His gross sales, at an average of $2.25 a square foot for the net salable land, will not be as much as his development costs and the interest on his development loan and the interest on his acquisition loan.

Q. Let's get into this term "cash flow" now. By cash flow, you are saying what he has got to put out on these development costs, as against what he can dispose of the warehouse sites for?

A. Right.

Q. And that is the upper limit of the two-and-a-quarter per-square-foot average?

A. Average, yes, sir.

Q. By positive cash flow, that is money that he gets in from sales?

A. No. The positive cash flow is wherever the cash flow is positive because his sales exceeded his total costs for any particular period.

Q. And negative cash flow is just the opposite?

A. Just the opposite.

[TR102] Q. He's got more money out than he has coming in?

A. Right.

Q. And why must he know his cash flow for the period of time?

A. And this is very important because we've got a lot of builders nationwide that are in trouble for that same reason. It's just not the equity amount that he puts in when he buys the land to do all this; it's the additional equities represented in any period where the cash flow is negative, that he will be putting into the property in addition to his original down payment. And, he wants a rate of return, a profit on a periodic basis for every period during his total development and sales of this whole project to be at a certain level; not below a certain level.

Q. Now, again, why is he even fooling with these figures?

A. Well, first of all, he wants to make a profit, overall, whether it's a three-and-a-half year's project or a six-and-a-half year's project; secondly, he wants to know at the very worst period, at any worst time during the development, just how much money of his own he's got in this project.

[TR103] Let's take a figure out of the air and say that he was budgeted, by his partners or by his corporation or by his wife, to a $500,000 maximum amount, even though he could buy the land for $125,000 cash down. He's got to look at those cash flow figures to see if at some point in time he has got more than another $375,000 cash in this project. And if he has a budget of $500,000, that ends the consideration of his buying the project. That's a supplemental reason for looking at this cash flow picture.

Q. Why didn't he forget being a land entrepreneur and go put it into government bonds?

A. Because if he could make 30 percent or more as a land developer, he's better off than buying 6, 8 and 9 percent government and corporate bonds, and he is willing to take the risk.

Q. So what determination does he have to make with regard to equity use?

A. He has to look at the discounted cash flow value, the present worth of all of the future cash flow, both the positive amounts and the negative amounts, and see if at his minimum desired rate of return, equity yield or profit rate, whatever you want to call it, if at that

[TR 104]

rate, using that rate as a discount factor, it equates with the original equity cash put into the property.

Q. What do you mean by equity yield?

A. It's the yield or interest rate which equates the discounted value of all the future net income from this property, and again I use net income as net sales income, with the original equity investment. It would be the rate at which if you picked compound interest factors out of a book of compound tables and applied it to each period, whether it be a monthly period, or quarterly, or an annual period, would make all of that future net income exactly equal to the equity cash going in. By example --

Q. Let me interrupt you there just a minute.

A. All right.

Q. Do purchasers of entrepreneurial properties look at purchases in this area or anywhere else in the country just that way?

A. I think that almost every entrepreneurial developer today, and there are becoming very few of them, that are successful, go through some kind of a discounted cash flow analysis; whether they do it with an old-fashioned rotary calculator, an electronic calculator or turn the job over to their CPA, or to their tax attorney to do it, either laboriously or rapidly by some computer

[TR105]

method, or whether they themselves have a computer in their office or rent the use of a computer program like that on time-share, I believe that all successful developers of large scale projects today are using some kind of a discounted cash flow procedure.

Q. Let me put it another way. Given the assumptions I've given, the number of square feet, the development cost, what kind of trouble would this hypothetical purchaser be in if he bought the property for $150 or $1.60?

A. Well, let's say that he bought it for $1.50 and he's got to spend $1 developing it. So then he's got $2.50 into the property, and if he has no chance of selling it for more than $2.25, then he has already made himself a real fine loss, before he even started the project.

Q. Let's make it more marginal then, because that wasn't the point I want to make.

Let's say he can get $3 out of it.

A. All right.

Q. What kind of problem does he have with putting $1.50 in it with those kind of development costs?

A. Perhaps none. I would have to make a quick analysis of it. $1.50 to $3 is a two-to-one ratio,

[TR106]
which is not too far off of the ratio we have in my appraisal.

Q. Well, what I'm trying to find out from you, Mr. Hodges, is how do you get into what you've described as this cash flow problem, or what is it about the relationship of the figures that would make it go or no go from a standpoint of cash flow, or what have you?

A. Well, the development costs in every case and the purchase price of the land, totalled up, have to be less than the retail value of the whole project.

Q. All right. If you've got development costs of $1, which is our hypothesis, and you've got a top sale of $2.25, why can't he put $1.25 into the purchase of this land?

A. Because, if he did put a $1.25 in, he'd have a zero profit even before paying interest to the land seller and to the development loan lender.

Q. Why can't he put $1 into it? I think we are getting into what I need to know. Why can't he put $1 into it, and then he's got $1 development cost and it sells for $2.25?

A. He might can do that. $1 development cost versus the $2.25 sale would indicate some difference in

[TR.107]

there for a positive land value; I found it so. I put about $1 development into this thing, and I have a positive land value for all development analyses from three-and-a-half to six-and-a-half years.

Q. Well, now, he has got some margin in there, if he could buy it for $1, develop it, and sell it for $2.25, is that what you are saying?

A. Yes. He has a margin for profit and land price.

Q. Now, is this where this equity yield comes in, applying it against that margin?

A. Well, I wonder if I shouldn't withdraw the word "yield" and just talk about --

Q. Profit?

A. -- profit, profit measured as a discounted cash flow procedure.

Q. Just forget that part. Let's just talk about profit. He jumps into it; he pays $1; he puts $1 into development costs and sells it for $2.25.

Now, he has a profit in there, right?

A. You mean he has paid $1 for the land and $1 for development?

Q. Right.

A. No; he hasn't got enough profit.

[TR108]

Q. And he sells it for $2.25. On paper he's got a profit?

A. No, sir. I can tell immediately it wouldn't work.

Q. All right; why?

A. Because the 25-cent difference out of the $2.25 is not near enough to take care of the money, the interest on money, his and the other two people's that are involved in the three-and-a-half to the six-and-a-half year time that I think it will take this park to develop and sell out.

Q. All right. So he has no profit at the figures we have just talked about?

A. He has a loss.

Q. And he has a loss. All right. He buys it for 75 cents, puts his $1 in and sells it for $2.25. What sort of position is he in?

A. Somewhere around a zero profit position, approximately. That's $1.75 invested versus $2.25. If he could do it in three-and-a-half years, he might make a couple of percent profit. He would have been better off with bonds. If it took him six-and-a-half years, I'm afraid he would have shown a net loss; at that ratio you

[TR 109]
gave me, $2.25 retail sales and $1.75 total investment.

Q. Now, did I understand you correctly when you said that the object of such a person in the market is to have a minimum 30 percent "profit"?

A. For small projects, I think the market is around 30 percent, the small projects.

Q. Is this a small project?

A. Very small compared to the typical big subdivision development in Northern Virginia and this region; compared to a $15 million apartment project or an $8 million condominium, this is small, even compared to a 300-unit high-rise apartment condominium at Landmark, which is now on the market.

Q. Now, this profit figure includes what?

A. This profit is to the entrepreneurial builder -- and it includes, in most cases, his administrative overhead and some advertising and promotion. It does not include, if he has to pay it, it doesn't include sales commissions. It doesn't include interest on his acquisition loans or loan. It does not include interest on his development loans.

Q. All right. So now we are trying to develop this "profit," finding at what point he can come out

[TR110]

where he wants to be, is that right?

A. Yes, sir.

Q. And it is your testimony that is somewhere less than the purchase price at 75 cents?

A. A square foot, yes, sir.

Q. At any given period along this three-year stretch, could you determine what price he could pay for this property?

A. Yes, sir.

Q. All right; that's all I want to know right now.

Did you determine various financing rates for those particular times and modes of financing?

A. Yes. I let the acquisition loan vary at three different rates.

Q. When you say acquisition loan, Mr. Hodges, what are you talking about?

A. Well, let's first eliminate the commercial bank as a source of money to help the entrepreneur buy the land to begin with, because he's not going to go to a bank and get a maximum of a 65 percent to loan value loan --

Q. I'm just asking you now to define acquisition loan.

[TRM]

A. That's the money that he uses from somewhere to help buy the land. It may be just a deferred purchase money trust to the land seller.

Q. Is the availability of such funds a function of price for this particular type of problem?

A. Oh, yes.

Q. Why is that, sir?

A. The sellers typically can get a higher price for their land if they sell on the most liberal terms, and they prefer to do that if they don't need the immediate cash. If they don't have a cash-need position, like to settle the estate of a recently deceased owner or partial owner of the property, they can minimize their capital gain taxes by the installment sale procedure.

Q. Before we get into that, your statement was that the availability of this acquisition loan money is a function of price?

A. Well, no. Put it the other way around. The price that the land has in the market is a function of how it can be financed, including the acquisition loan.

Q. Now, how it can be financed. What are the variables there?

A. The ratio between the loan and the total price.

[JR112]

Q. That is one variable?

A. That's one variable.

Q. What is another variable?

A. The interest rate charged by the seller. In this case, we are assuming that the seller will sell with the deferred purchase money mortgage. This is another variable.

And one of the most important variables, the most important variable, usually, is how long it's going to take to get all of this land sold and get all of your equity back out of the property.

Q. Now, this hypothetical purchaser, knowing the amount of land, the development costs, let me ask you to -- well, he has got to find out what terms he can get before he can determine whether or not it is profitable?

A. Oh, yes, yes.

Q. And by terms, you said that there are three factors?

A. No; two factors on terms, and two for each of the two loans we are talking about.

Q. You told us what an acquisition loan was. What other type of loans do you have?

A. The construction loan or the development loan.

[TR 13]

They usually talk about development loans in the case of a subdivision.

Q. A development loan, this is where we get the $1,300,000 to do the work on the property?

A. Actually, it's a small part of the $1,300,000. It never gets higher than two or three hundred thousand dollars on this project.

Q. But it is some working fund to do these developments?

A. Yes. It's some working fund, perhaps based on, oh, maybe $500,000 ceiling, and it never even reaches that on this particular project.

Q. Now, you said that the probable way the property will be developed in order to get this $2.25 price would be, first, to develop some 40 to 50 percent of it?

A. Yes, sir; about 43 or 44 percent would be in phase 1, and it would be the biggest phase, because a developer would have to show a good public image as a successful and interested and a developer who would probably finish the project. So he's got to have a good front-end appearance on this project.

Q. All right. This entrepreneur, is he going to just buy this 43 percent, or is he going to buy the whole property?

[TR114]

A. No, sir. We're talking about the sale of all the land at one time for tax appraisal purposes.

Q. We're talking about the purchase of it all at one time?

A. Yes, sir.

Q. By this entrepreneur. So he is going to give a certain price for the entire 30 acres?

A. Right.

Q. But to do that, he has got to find out how much it is going to cost him per phase, is that correct?

A. Yes; he's got to program his development costs so that he won't go broke trying to put all the development in all at one time. Well, if he put in all $1,300,000 worth of land developments in the first year, then he would have gone bankrupt in this particular project.

Q. Why?

A. Because he'd have way too much interest on his land improvements in relation to the rate of sale that I have projected at four different levels on this whole park.

Q. Are you saying he has got too much warehouse space to sell in a year or two years?

A. Yes.

Q. Well, now, how do you know that?

[TR115]

A. Just from researching the probable trend of warehouse absorption in Alexandria City and Fairfax County for the years 1970, '71, '72 and '73. And, while there was a good amount of it absorbed in 1970, it tended to slack off each year thereafter.

Based on what I found in the warehouse market -- now, this includes three categories of warehousing. This is warehouse storage, warehouse distribution and light manufacturing and some kinds of wholesale and retail merchandising at the site -- three kinds of warehouse categories are wrapped up in this park; so as not to be limiting on the market that would absorb it, it was my opinion that he would look at a minimum of around 100,000 square feet of warehouse space per year -- this is warehouse space; not land area -- and a maximum, absolute maximum of 200,000 square feet of warehouse space per year.

Q. And you've got 600,000-plus square feet of warehousing?

A. 617,000 square feet. It would take you six months to get started. So that leaves you then a minimum development time of three-and-a-half years and a maximum development time of six-and-a-half years.

[TR116]

Q. Is there any kind of other use to which the property could be put so that the guy is in it, he does the development costs, sells it and is gone?

A. No; the only other kind of subdivision would be some kind of a small, little retail shopping center, the shape and location of which is not good. Townhouses--

Q. What do you mean by this word "subdivision"? You've used it several times. What do you mean by the word "subdivision"?

A. Well, I don't think, as I said --

Q. As related to this site?

A. Yes. I think we can only get our maximum profit out of this site and we can only pay the maximum price for the site if it is subdivided and sold in smaller parts to various users. I don't think we can sit there and hold it for another possible user like Drug Fair to come along. The chances of selling such an oddly shaped site to a single user like Drug Fair would be very, very remote.

Q. What is the normal and usual course of development in an industrial park site, such as Bush Hill, and Edsall, and so forth?

A. This follows the norm, to prepare the lands and

[TR117]
prepare subdivision plats, sometimes not too precisely, but to be ready to immediately subdivide the size site that the next user wants, just as has been done in the Shirley Industrial Park, Bush Hill, Edsall and many of the others, Ravensworth, and so on.

Q. You take the raw land, put the development in, and then you sell off parcels?

A. Yes, ready to build, parcels ready to build.

Q. And you say that is the norm for the area?

A. Yes, sir; and it also produces the maximum land value.

Q. Is that the way you gave a range of $1.50 to $2.25 for small parcel sales? Is that what was done in those instances? The raw land was bought, developed, subdivided and sold for that amount of money?

A. Well, the City produced about seven of those sales data, and I had six more. Now, not all of those thirteen were in developed parks, you understand. Some of them were much older subdivided lots that got to be subdivided ahead of any notice of any so-called park.

Q. I'm just asking about the norm, generality.

A. Yes. The preponderance of the evidence is in

[TR118]
sales of subdivided lots in developing controlled parks.

Q. So when you say the highest and best use of this is for long-term warehousing subdivision, you mean you buy the raw ground; you put it in shape for sale as finished lots?

A. Right; and then you either sell those lots or in some cases you might even speculate on a warehouse building and sell the warehouse or lease it.

Q. The absorption rate of that amount of warehouse space becomes important for what reason?

A. Because of the time value of money. If you're going to borrow 75, or 85 or 95 percent of the price of the land when you buy it, and borrow up to as much as three or four hundred thousand dollars in your development loan from time to time, you want to be able to pay that back as soon as possible; because the longer you have it, the more interest you are paying, and therefore you've got to estimate how long it will take you to develop and sell all this land. Because there comes a time when the interest takes away all your profit at any particular price you may pay for the land.

Q. Now, the acquisition loan must be made for the entire parcel, is that right?

[TR119] A. We are assuming in this appraisal that --

Q. A purchaser for the entire parcel?

A. A purchaser, whether it be a limited partnership or a corporation, or just so the whole parcel is sold at one time.

Q. Why aren't you considering the possibility of the owner selling it off in pieces as of January '72?

A. He could do that, too; but he wouldn't get as much out of his land.

Q. You are saying the highest and best use in value is in selling it as an entire 30-acre tract?

A. No. The highest and best use is not that.

Q. Well, the most profitable sale for the owner is for the entire 30 acres?

A. And further, if the buyer intends to develop it as a park. If the buyer just intended to turn it around and chop it up in pieces, which the City wouldn't let him do anyway, I don't think, then he wouldn't be getting his highest price for the land.

Q. Who wouldn't be getting? The buyer from the owner?

A. Yes; neither one of them. The owner wouldn't get as much and the buyer wouldn't get as much.

[TR120]

Q. You're saying Fruit Growers by subdividing it would not get top dollar for the property?

A. I don't think they would get top dollar for the property.

Q. What is the reason for that?

A. Because it's going to take a heavy financial investment in this land to produce, not just the top dollar for the finished sites when they're developed, but to produce the raw land to begin with.

Q. So that has caused you to conclude that the best price is the sale to a single entrepreneur for the entire 30 acres?

A. Yes, sir; a reliable entrepreneur who intends to develop it as a warehouse park.

Q. So he has to get an acquisition loan for the entire 30 acres, right?

A. Yes, sir.

Q. At which point he has X hundreds of thousands of dollars tied up?

A. Several hundred thousand, including his first acquisition loan draw, which wouldn't occur until about six months later.

* * *

[TR 146] Q. Now, Mr. Hodges, considering this economic study that we've been discussing, did you say that that could be done in a horseback manner or very methodically?

A. No, I didn't mean it that way. If I implied it was a horseback manner, I was only talking about the instruments or tools in the man's office or his accountant's office or his tax attorney's office that he might use to make the calculations. But, the calculations have to be precise, whether he takes 16 hours worth of work on an old desk, rotary calculator, or two minutes on an electronic computer. He's got to arrive at a correct answer, and it's got to be based on the best possible engineering cost data.

Q. Are any features of the economic analysis speculative? In the sense that you pull figures out of the air?

[TR147]

A. I don't think so. I'm in touch with enough builders and developers and buyers and sellers to where I believe that I know pretty closely what the rates of return are, the profit angles are; and I can go back like anybody else can and check on mortgage rates and prime rates and other rates from periodic publications of the Washington Board of Realtors, the Appraisal Institute monthly bulletins, and other things to find money rates.

Q. At the time you do this analysis of what the value of the property is, from the standpoint of its present use, can you get the factual data existing at that time? You mentioned interest rates, development costs, construction costs for development and so forth.

A. Well, development costs must come from the engineers. You're going to have evidence on that from Mr. Phillips. Interest rates come in two parts: one from the developer -- one from the development lender; that would be a commercial bank or a real estate investment trust, most likely; and the other money comes from the seller of the land. If he's going to maximize the price he's going to get from the land, he's going to take a big portion of the price as a deferred purchase

[JR148]
money mortgage and --

Q. My point is are these factors that go into the study determinable at any given time?

A. Historically, very easily. They're hard to predict from the future, but historically they're very easy to determine.

Q. Now, in the economic analysis, are you using predicted figures or are you using present market figures when you're doing this analysis?

A. No; we're using present market figures.

Q. In other words, you'd be doing this as of December 1971?

A. Precisely. The man would want to know as close as possible just before January the 1st what he could anticipate out of the development and sale of this land before he agreed to sign this purchase contract on the land, say, on January the 1st, '72. But, part of that is a prediction or a forecast on his part that he can get $2.25 a square foot average price on his finished lots.

Q. How does he know that?

A. Really, from nothing but history, because he's looking at sales that were made mostly through 1971.

[TR149]

Q. But he knows what the market is for finished industrial sites when he does this calculation, is that right?

A. He claims to know it, yes.

Q. Now, at my request, Mr. Hodges, did you go through such economic analysis for the subject property?

A. Yes, I did.

Q. And did you use the same assumptions that I asked you in the hypothetical with regard to the acreage of the property and asked you to assume a hypothetical land development cost?

A. Yes, sir.

Q. Did you use any particular set or sets of variables?

A. I used three sets of variables.

Q. In what respect?

A. In respect to range of values of the raw land, as it sits at that time, in my discounting procedure.

Q. Let's start at the top of the outline that I furnished the Court here. You've assumed the land area of 30.55 acres, is that correct?

A. Yes, sir.

Q. And from that, you have deducted land for a

[TR. 150]

60-foot street. Let me ask you to assume this, that any subdivision industrial warehouse use would require the construction of a 60-foot roadway across the northern boundary of the property. Was that one of your assumptions?

A. Yes, sir. I thought so even before the Walter Phillips Company was hired, and I think that company thinks the same thing.

Q. So from your gross available land area you've subtracted the area required by the roadway?

A. Which is an approximate figure, because that figure could be 220,000 or 260,000 square feet, because the road isn't exactly a straight road at the west end.

Q. But in any event, you made allowance for the roadway?

A. Yes, sir.

Q. And that leaves you a marketable land area?

A. The land that would be marketable in fee to the ultimate users of the park.

Q. This would be what would be retail?

A. Retail land.

Q. Why would the road not be retail?

A. Because I think that that should be dedicated to public use as an Alexandria public street. And if it

[TR151]

weren't, it would simply diminish the value of the raw land; because then it would be sort of a condominium ownership with the various parcel owners responsible for the maintenance of the streets and sidewalks and curbs and gutters.

Q. And they would thereby pay less than $2.25 a square foot --

A. I'm sure they would, sir; yes, sir.

Q. So then you've got slightly over a million square feet of marketable land which, viewed by the comparable sales at retail would be $2.25 or a gross cash return on the developed property of $2,454,000?

A. Yes, sir.

Q. Now, then, you've assumed the development costs which I've asked you to assume of $1,312,000?

A. Yes.

Q. Then you have assumed an equity yield of 30 percent?

A. Yes; a profit ratio on equity investment, and not just the initial equity when the land is purchased, but on any remaining equity as it increases or diminishes in this property.

Q. Now, this 30 percent, is that a nationally

[TR152]

recognized norm for this type of entrepreneurial activities?

A. I think it's national, because I know of at least six or seven very big developers who want from 30 to 60 percent, depending upon the size and the risk involved, mainly upon the size and the length of the time. Now, these range from the biggest, like the Rouse Company, the Yeonas Company, Ryan Homes, McCarthy, McCarthy Homes of Virginia-Maryland.

Q. Let me ask you did you think of the lowest side of the range?

A. Yes; I mentioned earlier that this is a small project, and I chose the minimum profit return.

Q. And that includes profit, overhead and advertising and any other incidental expense the entrepreneur might have?

A. Yes, sir.

Q. Now, your next item is: Acquisition Loan Ratio, and you have three figures, .75 and .85 and .95. What do you mean by that?

A. That's one of the variables that I wanted to test to find if it gave me a much too broad a spread of land value. Now, that ratio is the ratio of the total

LIK(55)

price that the seller sells the land for to the amount he takes back as a deferred purchase money mortgage. He takes back either three-quarters of the price or eighty-five percent of the price or ninety-five percent of the price.

Q. You've assumed the purchaser puts down 25 percent, 15 percent or only 5 percent?

A. Yes.

Q. Now, is this a realistic range based upon the market in January 1972?

A. Seventy-five is quite realistic and typical in sales of big parcels of land for industrial, residential, commercial, long-range investment properties like large apartment properties.

Q. You could get it for 25 percent down?

A. That is approximately typical.

Q. Or sellers were demanding 25 percent down?

A. Well, I think that would be a pretty close average, about 25 percent down for land. But, and the reason I tested the other two was because this is a very expensive-to-develop piece of land, and to get the last possible profit out of it, since it is so expensive to develop and therefore so depressed in value, I wanted to find out what would happen if he reduced the down payment

[TR154]

to fifteen percent and even to five percent.

Q. Do you think that would be realistic with respect to the subject property that the seller would sell it as low as five percent down or fifteen percent down?

A. It would be realistic if the seller was convinced that the buyer was a very competent industrial developer.

Q. Would that maximize the value of the property from the seller's standpoint?

A. Yes, it does.

Q. And then you have applied different interest rates, which I take it is your other variable?

A. Yes. And I grouped that second variable, the interest rate, on the deferred purchase money mortgage, in the same trend; that is, I grouped the highest interest rate with the highest down payment and the lowest interest rate with the lowest down payment.

Q. Why would that be? Why would you not get a lower interest rate the more money you could put down?

A. Well, interest to the seller is taxable at ordinary income rates. He's not interested really in taxable income at 48 and 50 percent tax rates; he's

[TR155]

interested in capital gains. So the interest is not dictated by the seller's requirements. The interest is --

Q. You're saying a hundred dollars increase in price is worth more to the seller than a hundred dollars in interest?

A. Oh, far more.

Q. Why is that?

A. Because the capital gains tax rate to individuals and corporations is less than the ordinary income rate on earned interest.

Q. Is this actually the way the market operates? This higher interest rate goes with the higher down payment?

A. No, no. I simply put the nine percent interest with the higher down payment and the lowest interest rate, seven percent, with the lowest down payment so I could get the widest possible spread of possible values on this ground.

Q. I see. In other words, you could have used nine percent across with the three down payments and then eight percent and then seven percent?

A. Yes.

Q. But this gives you the spread?

A. The biggest spread.

[TR156]

Q. Now, the next assumption you've got here is: Acquisition Loan Curtail. What do you mean by that?

THE COURT: Let me ask you, Mr. Hodges, why do you put point -- is that just semi-annual?

MR. ALEXANDER: This is figured on a semi-annual basis, yes, sir.

THE WITNESS: I'm discounting on a semi-annual basis, and I wanted to put those figures in there to remind me to put the right figures into the computer.

BY MR. ALEXANDER:

Q. The next assumption you've got is: Acquisition Loan Curtail, 110 percent. What do you mean by that?

A. That's the ratio of pay back to the seller of the land in respect to your total sales of all of the developed land. So that you are sure to pay him back and ahead of the last sale, so that he's out of the project and you're working on your own cash in the last few periods of the project. You're going to pay him back at a faster rate than you are selling land to the users. This is principal payment only.

Q. If you sell a lot for $10,000, how much of that goes to the lender?

A. Well, if $10,000 was, say, ten percent of the

[TR157]

whole project, then you would pay back eleven percent of whatever you owed the land seller of the original principal.

Q. The lender gets an accelerated liquidation of his loan?

A. Yes, sir.

Q. Does he get 110 percent of his loan?

A. No; he only gets it accelerated at 110 percent. He gets exactly 100 percent of his loan principal back, plus interest.

Q. But he gets it back faster than just a pro rata pay out of sales?

A. Correct. And this is a very minimum curtail ratio. It just barely gets the seller out of the deal before the last period.

Q. That's a security feature required by the lender?

A. Yes, sir.

Q. Now, the next assumption is: Development Loan Interest. Is that 12 percent?

A. Twelve percent effective, yes.

Q. And Development Loan Curtail, 125 percent. I also take it that's accelerated?

[TR158] A. That's accelerated, and faster than the acquisition loan is.

Q. In other words, the development lender gets his money back faster than he would if he got a pro rata return?

A. No; he gets it back based on a pro rata ratio of sales to total sales and of sales to expenses, but he gets it back 15 percent faster than the land seller got his money back.

Q. Is that also a security feature required by the lender?

A. Yes, sir.

Q. Is this on the low, median, or high side of such curtailment ratio?

A. No; that's probably the minimum.

Q. Minimum?

A. Probably minimum. I have never heard of a curtail ratio below 120, for development loans, that is.

Q. Then you further assume gross sales, which is taken from the top of the page, the $2,454,000?

A. Yes.

Q. And you further assume the gross development costs which I've asked you to assume, is that right?

[TR159]

A. Yes.

Q. Now, what do you do with all these assumptions?

A. Well, as I started to mention earlier, and this even is in contrast to what Mr. Robbins said about putting all the improvements in there at one time, perhaps some people would put all their improvements in there at one time. But, one of the differences between Mr. Robbins' described method and this, and the main difference is, that in the first place my whole analysis is based on a level monetary situation.

Q. My question is: once you've got all these basic figures, what do you do with them, throw them away, use them, or what?

A. No. Phase them into phases of income and development costs. In the case of my development costs, I put them into four phases.

Q. Is that what this means when you've got headings: 3 1/2 year program, 4 1/2 year program, and so forth?

A. No, no. We have to take the phases in any one of those programs. Let's take the 3 1/2 year program. The first phase development costs --

Q. Now, which one are you referring to?

A. The 3 1/2 year program.

[TR160]

Q. All right.

A. The first phase development costs are the sum total of the first two figures, $397,000 and $315,000, nearly $700,000; that's in the first phase of the development costs.

Q. All right. Your first phase is two half-years as shown by the left-hand column?

A. Well, it's two half-years, insofar as development is concerned. It's probably a year and a half as far as sales are concerned.

Q. But then, the extreme left-hand column are semi-annual periods?

A. Yes, semi-annual periods.

Q. With your development costs staged?

A. Yes.

Q. Is that of any value to the purchaser, the staging of these development costs?

A. Yes. It minimizes the amount of money he has borrowed from the development lender to put these land improvements in.

Q. At any given time?

A. At any given time, and therefore minimizes his annual or periodic, semi-annual interest on all this

[TR161]

money, and he doesn't need the development facilities in phase 4 in order to sell out phase 1.

Q. Under 3 1/2 year program, your income column shows at the end of the first year, income of $409,034?

A. Yes.

Q. What is the "1" right above that?

A. The "1" is a figure that keeps the computer from printing out an error.

Q. That could be ignored for our purposes then?

A. We can ignore the "1" for our purposes.

Q. So at the end of the first year, he's got income of $409,034?

A. Yes.

Q. Is that right?

A. Sales income.

Q. Income from sales of the subdivided properties?

A. Yes.

Q. And the development costs, are those cumulative or actual costs?

A. No; none of the figures on here are cumulative.

Q. None are?

A. No figure anywhere on this chart is cumulative.

Q. So the income column indicates certain sales at the end of six months to the total of 3 1/2 years?

[TR162] A. Yes.

Q. And the right-hand column indicates costs incurred for the various stages?

A. Staged development costs.

Q. Staged development costs. Where do you get those figures? Do they come out of the computer?

A. No. I took Mr. Phillips' total development costs by stages and made only one adjustment, and that was to put all of his engineering and City fees in phase 1. He has a total of $82,230 of engineering fees, site plan filing fees and Alexandria inspection fees.

Q. So under costs, these are your actual given figures extended over that period of time?

A. Yes.

Q. How about the income figures? Do those come out of the computer?

A. No, sir. You take the total gross income for a park such and this, and you assume a level, periodic amount of sales. You wouldn't do this for a condominium high-rise building. You couldn't even get a loan to build that building unless you had it pre-sold by 40, or 50 or 60 percent. So that, for example, in the first three months after a new condominium building is finished,

[TR163]
you'd have 50 percent of your sales, and then the next 9, or 10, or 12 or 15 months --

Q. In other words, you projected a level of sales over the 3 1/2 year period?

A. Yes. You could do that here and it would be proper to do it.

Q. Is that realistic?

A. It's quite realistic, except in the case of special properties like a condominium apartment property.

Q. Is this method we are discussing equally applicable as applied to sales of other industrial property?

A. Oh, yes. Builders began using it probably first on new towns, like Reston and Columbia; and they did go through a discounted cash flow procedure, particularly Gulf-Reston, for whom I worked on a job with two other appraisers, when Gulf took over from Mr. Simon.

Q. Then at the end of the period, you have variable 1, variable 2 and variable 3. What does that mean, or V-1, V-2 --

A. Oh, those are values. In other words, the value of a land at a 25 percent down, nine percent interest rate to the land seller, would be $673,000. The same

[TR164]
land would have a higher value, $713,000, if it was purchased at 15 percent down and eight percent interest, or still a higher value of $761,000 if purchased at five percent down and seven percent interest.

Q. Now, did you go through the same assumptions and calculations for each of the half-yearly periods, 3 1/2 to 6 1/2?

A. Exactly the same, except that I had to make, again, some arbitrary adjustments as to where to put Mr. Phillips' 4-phased expense figures in.

Q. Now, his figures were broken down into phases when they were furnished to you?

A. Yes, they were broken down, but I had to make a judgment as to when the developer would need to spend these monies, and the judgment became a little bit more difficult in the 6 1/2 year program.

Q. What range of figures, Mr. Hodges, from your lowest to your highest, did you get?

A. The highest price the land would have would be $761,000.

Q. That's your value 3 on the 3 1/2 years?

A. Yes.

Q. And the lowest price would be the value 1, V-1,

[TR 165]
on the 6 1/2 year program; that would be $464,000.

Q. Did you determine the mean of your highest and lowest figure based upon these assumptions and calculations?

A. Yes. If you take all 12 value-range estimates, the mean would be $602,000, and if you took only the four values, based on the median financing terms from the land seller, which is 15 percent down and eight percent interest, the mean would still be very close to that same figure or $499,000.

Q. You say $499,000 or $598,000?

A. Excuse me, $599,000; I'm sorry.

Q. What is the standard deviation --

A. Well, that means that there would be a 64 percent probability that the property would sell for, in the first instance, no more than $88,000 above $602,000 and no more than $88,000 below $602,000, under the laws --

Q. So you've taken the mean and then added a statistical factor for probability?

A. Well, I just added the figure in there and showed it as the standard deviation on both sides of the mean.

Q. Is this calculation anything like what is done

[TR166]
in the marketplace by sophisticated purchasers of large sites for development?

A. I know it's done by purchasers of very large sites. I have a good hunch that it is done by purchasers of sites as small as this or those involving as much --

MRS. SASSO: Your Honor, I'm going to object. I don't mind opinions based on reasons and fact, but hunches, even from experts, bother me a little bit, and I object to that.

THE COURT: Sustain the objection.

BY MR. ALEXANDER:

Q. Do you know whether or not the same procedure is followed with respect to the type of subject property we have here?

A. I don't know it for a fact, as far as the accuracy of discounting method. I know they go through some kind of a profit analysis that has to do with borrowed money, interest on borrowed money, how long it's going to take them to develop out, and absolutely an analysis between the gross sales price they can sell the land for and what it's going to cost them to do all this. They do go to engineers for something as complicated as this.

Even a single-purpose purchaser like Drug Fair,

[TR167]

which has no reason to pay interest for more than the time it takes them to build their one building, goes through the engineering estimate of what it's going to cost to develop its land.

Q. Then it also applies cash flow?

A. Not in the case of Drug Fair. Oh, maybe I didn't understand your question.

Q. No, I don't think you did.

Now, when you come up with this range or this mean, in what way does that add to or contribute to your opinion, as an appraiser, for the fair market value of the property in January of 1972?

A. Well, as I've explained earlier in my typewritten appraisal report, I don't think anybody has the ability to predict exactly whether this thing could be done in 3 1/2 years or 6 1/2 years; I think certainly within that range. And though it's not in my appraisal report, I would think that a fair valuation for tax purposes would have to be a mean within that range of raw land value.

Q. Would a purchaser, in youropinion, pay the top dollar you have specified here under First Section, Value 3, of $761,000?

[GR168] A. No; I doubt that very much.

THE COURT: What was that again?

MR. ALEXANDER: Would a purchaser pay the highest value he has here, the $761,000.

And I think his answer was, no.

BY MR. ALEXANDER:

Q. And my next question is: what will be the limiting factors there?

A. Well, that top dollar is dependent upon a development and sell out all in 3 1/2 years. If a purchaser could really do that and sell the space, the ground area, for 200,000 square feet of warehousing, every year for three consecutive years, in face of the statistical evidence -- even though it sometimes isn't very good within the City of Alexandria -- on how much warehousing was actually absorbed in the city, I don't think he would still want to pay to the land seller part of his entrepreneurial profits. He would try to buy the land at a cheaper amount.

Q. Would the seller stand still for the lowest price on your range?

A. I don't think he would, because that's only about --

[TR169] Q. $464,000.

A. -- 35 cents a square foot, and I've got an idea that the seller would probably think to himself, well maybe I can get that kind of a price from a speculator or all cash, and let some innocent real estate investment trust pick up the tab if something goes wrong.

Q. So it is your testimony that it would fall somewhere between the highest and lowest and right around the mean?

A. Yes; that's the best judgment I can give on this particular case.

Q. What does your highest work out as a square foot value and your lowest work out as a square foot value?

A. The highest would be equivalent to 57 cents a square foot, and this is for all the raw ground as it sits today.

Q. With no discount for the road? This is for taxing purposes?

A. Yes; for taxing all the 1,300,000-something square feet of land. And the lowest figure turned out to be 35 cents a square foot.

Q. And what is your median figure?

A. The medium would be 46 cents a square foot, I believe, 46 cents.

* * *

[GR303] MR. ALEXANDER: No, sir. The lefthand column is what he gets in for retail lot sales; the righthand column is what he pays out in these various development and carrying charges.

* * *

* * *

[GR477]

Q Mr. Hodges, can you show the Court what these various entries are in the computer tapes which you have run using the variables and assumptions as shown on the memorandum submitted to the Court?

A Yes, sir.

Your Honor, I suggest we take the shortest run which is the highest value pages, three pages that are marked the highest value.

This represents a three-and-a-half-year --

THE COURT: Let me get it.

THE WITNESS: This represents only a three-and-a-half-year or seven-period development analysis.

THE COURT: What is it now, highest standing is a three-and-a-half-year program?

THE WITNESS: Three-and-a-half-year program with the five percent down and the seven percent interest financing from

the land seller would provide the highest land value.

So, starting with the --

BY MR. ALEXANDER:

Q This would be three-and-a-half years, V-3, value three?

A Yes, three-and-a-half years, V-3.

THE COURT: All right.

MR. ALEXANDER: That is related to the highest value?

THE WITNESS: Yes.

BY MR. ALEXANDER:

Q What is the .15?

A That is the periodic profit ratio or yield per half year for the entrepreneurial developer of this property.

The next entry would be the 95 percent loan-to-purchase price ratio, meaning the seller is taking about 95 percent of the purchase price in deferred, subordinated money mortgage.

THE COURT: Right.

THE WITNESS: The next entry would be a three-and-a-half percent per half year, equivalent to seven percent for the whole year, the rate of interest on the deferred purchase money note.

The next figure --

[TR479]

BY MR. ALEXANDER:

Q Every time you have the word, periodic, that means that you take a semi-annual period?

A In this case we used a semi-annual analysis. We could have used quarterly or monthly but that wouldn't have really changed the price materially.

The next figure would be 110 percent or 1.1, which is the payback ratio on the acquisition loan so that before the end of the three-and-a-half years the seller has already been paid back in full the principal amount of that note. He is being paid back at ten percent higher rate than the gross sales every period with respect to total gross sales in this case. Every time.

Q Accelerated payback period?

A Accelerate payback figure which assures him of not winding up at the end of the project holding a greater amount of security debt on the property than for which there is property salable to pay him back. But even that is a high risk payback.

Q We have been through all that. Let's just go through the tapes now.

A The next entry would be a six percent semi-annual interest rate equivalent to 12 percent annual interest rate

for the development reason.

The next figure would be 125 percent or 1.25 payback schedule on the development loan.

The next figure is the necessary entry of all the gross sales at $2.50 a square foot for all the salable property, and the last of those --

MRS. SASSO: Two-and-a-half?

THE WITNESS: Two-and-a-quarter, I am sorry. Two-and-a-quarter a square foot for all the gross sales. And the next entry would be the total estimated development expenses from the Phillips development cost estimate.

Now, the next figure --

THE COURT: Right there, what is the sales?

THE WITNESS: Well, I only used as sales expenses the development costs of $1,312,746. You have got to spend that to get the retail value of the land.

THE COURT: No sale expenses included?

MR. ALEXANDER: That's correct.

THE WITNESS: A little bit, the 30 percent annual profit ratio to the entrepreneur includes some overhead and advertising and promotion.

BY MR. ALEXANDER:

Q He is talking about the $1,312,000?

[TR481] THE COURT: I don't understand that because Mr. Phillips testified that the development costs of $1,312,746, didn't he?

THE WITNESS: Yes, including --

THE COURT: Engineering fees, site plan, filing fee and inspection fee?

MR. ALEXANDER: He means in this line, 07, you can strike sales; this is just development expenses.

THE WITNESS: I'm sorry. I see what you mean.

My printed form did say sales expenses.

THE COURT: But that figure does not include any sales expenses?

THE WITNESS: It does not. I am sorry that the form was printed like this.

THE COURT: That's all right.

THE WITNESS: It was because we used a lot for condominium development now.

THE COURT: I just want to understand it as best I can.

THE WITNESS: All right.

Then the next entries which alternate back and forth between income and expenses are the same figures shown on the first chart you saw but in alternating positions.

[TR482] THE COURT: Right.

MR. ALEXANDER: You put down column one and column two alternately to feed in this next information, is that right?

THE WITNESS: Yes.

BY MR. ALEXANDER:

Q Up to this point this is information you fed in?

A This is all we feed into it.

Q Then the program takes over?

A Then the machine takes over and through what you would call a trial and error procedure, testing different values, it arrives at a precise value a lot more precisely than the appraiser can operate, at which the equity investments if you start on the next page, at which the equity investment which is the second figure there, $38,054 --

THE COURT: Wait a minute. I don't have that.

THE WITNESS: That is the equity cash which is five percent of the figure right above it, because he is putting five percent down so that equity --

THE COURT: Let me see that. That is five percent?

THE WITNESS: Of $761,000.

MR. ALEXANDER: The Court will recall that.

THE COURT: All right. Putting in five percent of that, giving back the purchase money mortgage of 95 percent?

[TR493] THE WITNESS: Yes, sir.

BY MR. ALEXANDER:

Q So he has five percent cash invested, his own money?

A So his initial equity investment, he is going to have more later, but his initial equity investment is $38,054.

THE COURT: All right.

THE WITNESS: The next six lines I will go through one at a time because they are the same kind of lines for every period. The acquisition loan balance in the first period is 95 percent of the purchase price or $723,000.

The loan curtail was zero. It printed 30 cents but that is a small figure. The acquisition loan curtail was zero. The interest for that period which is six months is $25,305.

THE COURT: That is interest on the 95 percent?

THE WITNESS: Interest on the 95 percent or on the $723,000 in dollar amount for six months only.

The next three figures deal with the development loan which starts out at zero and builds up at the end of the first period which is six months to $397,363. He has to draw that much money from the lender because that is what his development expenses were in that period.

BY MR. ALEXANDER:

Q Is that the only reason for making a draw a minus

[TR484]
figure?

A Yes. The draws are minus and the curtails would be plus. Wherever you see a minus, it is a draw in connection with the development loan curtail, on the development loan principal. So he has drawn, rather than paid back, $397,363 and his interest on the total amount of the development loan for the period is assumed to be on the average amount of that period, not the total of $397,000, but the difference between that and zero or half that amount. It is the interest on the average amount to that period.

THE COURT: All right.

THE WITNESS: The next and most important figure is the cash flow for that period. It is negative. It is $37,227 but because it is not an absolute expenditure today but will be an expenditure over the next six months, then that is discounted back to the present value by the machine at 15 percent or, excuse me, at 30 percent per year or 15 percent per half year. That is profit ratio or equity yield.

Then all the other cash flow figures, the next three of which are negative, negative $104,000, negative $59,000, negative $3,000, are discounted back to their present values which is a smaller figure but still negative.

Then we have three positive figures. He begins to

[TR485]

make a positive cash flow in the fifth period of $14,000-some odd and then $272,000 and his last cash flow is $174,000-plus. All of these figures are discounted back to present worth and they will exactly equal the original equity cash going in, which was $38,000. And you can test it with a series of compound interest factors for seven semi-annual periods or it can be tested with separate other different computer programs.

BY MR. ALEXANDER:

Q Let me ask you this, Mr. Hodges: You take your end figures at periods one through seven, is that right?

A The end figures where the cash flow figures were.

Q You take the ending figures --

THE COURT: What do you say now?

MR. ALEXANDER: You take the ending figures for each of the seven periods so you have seven semi-annual periods.

BY MR. ALEXANDER:

Q Are you saying if you take a total of those seven figures and then you apply --

A No, you discount each one by itself according to how --

Q For our purposes, let's forget about that for a minute. In general, you take the total, the average discount or total discount or what?

[TR486]

A No, each one must be discounted for the time lag.

Q Is that done on here?

A The mechanics aren't shown on these sheets, no, but let's take the first cash flow period of $37,227. The formula for discounting that to present value would be that amount times the fraction, one divided by 1.15, period. That will be it.

Q I don't need the formula.

A It would be that amount divided by 1.15.

Q But you say the procedure is that when you take the discounted present value of each one of these end period figures, you come up with a total of $38,054?

A Exactly. But the discount isn't the same for each figure because each figure is six months further away.

Let me put it around the other way, I think this will help, Your Honor. If you invested in a savings account $38,054 and six months from now you put $537,227 in there and six months later you still put another $104,459 in the account and so on to the fifth period to where you began drawing money out of the account, you would draw $14,688 out of the bank at the end of the fifth period and you would draw $272,050 out of the bank in the sixth period. Finally, you would deplete your balance in the bank account at the end of

[GR487]

the seventh period by drawing out $174,380.

THE COURT: Then have zero in the savings account?

THE WITNESS: Yes, but all the while you had any money in that savings account, whatever that balance was, for every six-month period the bank would have paid you 15 percent interest for every six months.

BY MR. ALEXANDER:

Q How much would you have had overall during that period?

A It doesn't mean anything. It is just that for every dime you had in the bank, every dollar, you would be earning 15 percent per six-month period or 30 percent per year.

The proof of it is, if you added all these plus and minus figures up, it would be far greater than $38,000. In other words, the plus figure, if you added all these seven figures together, would be greater than $38,000. The difference would be the accumulative interest the bank would have paid you over this three-and-a-half-year period.

THE COURT: What else, Mr. Alexander?

MR. ALEXANDER: That's all I have this afternoon, Your Honor.

THE COURT: Let me see now.

MRS. SASSO: Could we find out where Mr. Hodges got

[TR488]
an answer to the question about --

THE COURT: Let me look at this.

Now, where does it show the figure of $761,082?

THE WITNESS: That would be the top figure on the second page.

THE COURT: Let me see that.

THE WITNESS: The market value of the total property.

THE COURT: I see that up there but I just don't know where it came from.

MR. ALEXANDER: It is trial and error, Your Honor. The machine has tried and then comes up as that and that is the figure. Then it shows you why.

THE WITNESS: It shows you why. See, that figure has to be --

BY MR. ALEXANDER:

Q Trial and error?

A That figure has to be 95 percent more or, excuse me, that figure, Your Honor, has to be the other 95 percent of the amount above the equity investment. The machine is really looking at equity investment only but as a result of looking at equity investment only and cash flow only, it then produces the total property price because the total property price is a much bigger figure than the equity because the equity is

[TR 489]

only five percent of that price and this is the constant. The constant here is the equity investment, whatever it is, is only five percent down and the seller is getting the other 95 percent in the form of a note. The computer works internally, really, only with or mainly with cash flow. But the higher the price the more interest on the loans. The lower the price, the less interest on the loans. So it has to consider the price several times in its attempt to get to the right value.

THE COURT: Okay.

THE WITNESS: It tries different values and homes in on the correct one.

THE COURT: On the lowest end?

THE WITNESS: Lowest value would be the longest sellout time, six-and-a-half years, with the highest downpayment and the highest interest rate to the land seller.

* * *

[R642]

BY MR. ALEXANDER:

Q. Mr. Hodges, in your projection of the market value of the subject property, you have used a method which has three or four variables in it, is that correct?

A. Yes, several, five or six, I suppose.

Q. When you change the variables, does that affect the validity of the method in any way?

A. No.

Q. In what types of sales is this method approved for by the various appraisal societies, and institutes, and so forth?

A. For any property of any classification where the more direct and much simpler to use direct sales comparison isn't available for one reason or another.

Q. Now, the various sales in Shirley Industrial Park, Bush Hill Industrial Park, Alexandria ndustrial Park, Edsall and so forth, were they retail sales of finished sites, or were they the wholesaling of a raw site?

[TR643]

A. They were probably in all cases finished site sales to ultimate users of the land.

Q. They were not wholesaling of raw ground, in other words?

A. It's possible that one or two might have been bought speculatively, not just because the sewer moratorium stopped them at the time, but with some anticipation of a resale at a higher price.

Q. What do you mean by this word "speculative"?

A. Well, a speculator is one who either doesn't have any ability to do anything with the land or doesn't wish to do anything with the land and merely anticipates being able to sell it at a higher price in some very near future time, and still make a profit after paying interest on his investment and the real estate taxes during the holding period.

Q. Do you project a speculator is the most probable purchaser for the subject property?

A. No; unless the price was a real bargain.

Q. Can you characterize the most probable purchaser of the subject property?

A. Yes, it would be a medium to small developer who has just enough cash, just a few hundred thousand cash, to carry this project to conclusion and has the ability, and the

[TR644]
knowledge of the industrial warehouse market, and wants to stay occupied doing this very thing for a number of years.

Q. Would he be the entrepreneur?

A. He would be the entrepreneur and purchaser of the property.

Q. And the money he has to put into the property, could that be termed "venture capital"?

A. Yes, venture or equity capital.

Q. And what types of payments make up this venture capital in a project like this?

A. Well, to begin with, it's the equity cash he pays at settlement.

Q. Down payment --

A. Down payment.

Q. -- Would be part of his venture capital?

A. Yes, if there is a down payment. Just recently, I heard of a tract of ground offered for no down payment.

Q. But in any event, venture capital would be his down payment?

A. Yes.

Q. What else?

A. Any other negative cash flows where the cash flow from the project is negative because his development expenses

[JR645]

and interest and carrying charges exceed his sales for the cumulative period up until that point.

Q. So his carrying charges for the property over and above any sales he makes would also be part of his venture capital?

A. Yes.

Q. So you've got his down payment and you've got his net carrying charges, this is his venture capital?

A. Yes.

Q. Is that the amount on which you figure the equity yield?

A. Yes.

Q. And how did you arrive at this 30 percent equity yield for the most probable purchaser or market for the subject property in January 1972?

A. Both by extrapolating the apparent yield from actual developed property in previous years and by conversations with officers or staff members of land developing firms, some national in characteristics and some local or regional in characteristics. And this is over some number of years.

Q. Is this a medium figure for the development market in that period?

[TR646]

A. No; this is the bottom absolute minimum figure that most developers hope to get in going into any size development.

Q. And if the analysis shows that the project would not probably produce this yield, what happens?

A. Then they either don't buy or they get the property price down until they can get that kind of a yield.

Q. Why are they entitled to a 30 percent before tax equity yield, in your experience?

A. Primarily the risk involved in having to stay with a project for three, four or five or six years, since there are so many variables that affect the real estate market for over a long period of time. For example, mortgage rates can go as they did between 1960 and 1970 up from six -- in 1966 to 1970, in a span of four years, permanent mortgage rates for all kinds of properties went up very rapidly, from 6½ to 10½ percent, except for residential. In the case of residential properties, it was sustained at 8 or 8¼ or 8½.

Q. Just give me the factors without details behind them. What factors entitled them to this 30 percent?

A. Because of the risk involved with all these future variables: the demand for space of a certain kind, the demand for -- I mean, and the construction costs going up from

[TR647]

time to time, or possibly going up, the fact that in almost every such venture as this, the bulk of the cash flow, the bulk of the profit that the entrepreneurial developer will get doesn't come to him except in the last several periods. He has to wait until the fourth year of a six-year project to really make the most of his profit out of it, or he has to wait to the third year of a four-year project to get the bulk of his profit out of it. And this is a lot different from buying and operating an investment property.

Q. Like an apartment?

A. An apartment, office building, hotel, motel, shopping center.

Q. That are already there? Built and operating?

A. Yes, and the tenants are already in the building, and the building, say, 90 or 95 or 97 percent occupied with tenants. Those properties can be sold on an equity yield of as little as perhaps 8 percent; this is an equity yield after taxes. This equivalent to a ten or 12 percent yield before taxes. But, here the risks aren't nearly as great because all of his income is already there and it's coming in regularly and if it isn't overly financed, then the income is positive from the day he buys it. It's never negative.

[TR648]

Q. Let me ask you this.

THE COURT: What do you call that?

MR. ALEXANDER: That is the equity return on purchase of investment property that is already there and operating.

BY MR. ALEXANDER:

Q. Were there such opportunities for venture capital returning at least 30 percent equity return in January of 1972?

A. Oh, yes. In January of '72, I analyzed -- no, excuse me. In the latter part of '72 and the early part of '73, I analyzed four condiminium conversion projects.

Q. Unbuilt, just proposed?

A. No. They were converted and all sold by the time I made my analysis.

MRS. SASSO: Your Honor, I object to an analysis of condiminium conversion projects to give data to support the raw land value.

MR. ALEXANDER: No. My questions is, Your Honor, if the man didn't go into this project what else could he have done with his money and gotten 30 percent or better equity yield out of it, which seems to me determines the market. You're not going to sell bonds at four percent if

* * *

[TR650]

Q. My question is, are you aware of a market for this type of venture capital in January of '72, a widespread market, now, that produced at least a 30 percent return on the equity?

A. Yes, new and converted condiminium projects were producing fantastic yields on equity investments.

Q. What about subdivison property, raw land?

A. Up until the sewer moratorium hit Fairfax County in about September, '72, the yield to the biggest developers were far more than 30 percent. The small developers were hardly able to get anything down at all because of the rising construction costs and delays and red tape involved in subdivision plans and zoning and so on. So I had to stick mostly with the large developers of which there are not more than five or six in Northern Virginia.

Q. And what type of equity yield were they typically returning?

A. For a large project, say, a thousand acres -- since I once made a preliminary analysis prior to possibly doing this thousand acre project -- the return was then anticipated at 50 percent on equity cash. For small projects there could be as little as 30. It would have to be a very

[TR651]

small project, such as a 100-house subdivision.

Q. Below 30, do you start becoming in competition with other more safer, more liquid investments?

A. Yes. A 30 percent return on investment to a land developer, who doesn't happen to be also owner of a number of tax-shielding investment properties, is the equivalent of, say, a 15 percent after tax return. And rather than go below 12 to 15 percent on a new project on a land development after taxes, they will instead make an attempt, if they are qualified -- this depends on who they are if they are qualified and experienced and can get the financial mortgage backing -- they will go into an apartment, or an office building, or shopping center, or a number of warehouse projects, because they don't have to worry about staying in the project for five years to finish the development. Once they build an apartment house and get it rented, that is the end of their risk position insofar as the management and entrepreneurial effort is concerned. The rest of the job after that is up to the property manager and the rental manager.

Q. What did your investigation disclose with respect to the market for a single user of the entire 30-acre tract in January of 1972?

[TR652]

A. I only found one sale, the Drug Fair sale, in which one single purchaser needed 34 acres, or 29 acres out of the 34 that he actually got, and I couldn't see enough evidence of that kind of a market to constitute a market, a single market, for the subject ground. I just didn't see how we could have that many Drug Fairs every year to permit the developer of the subject Fruit Growers land to think about buying it at a higher price hoping that he would sell the whold thing overnight to one user.

Q. Now, if you have three tracts of raw land, Mr. Hodges, ranging from 25 to 35 acres and selling from 40 to 50 cents per square foot --

THE COURT: Excuse me, Mr. Alexander. What was that question?

BY MR. ALEXANDER:

Q. I am saying assuming you have three tracts of undeveloped raw land between 25 and 35 acres in size and selling from 40 to 50 cents a square foot, why would these not be comparables which would permit the application of the market-data approach, in your opinion?

A. Because you couldn't with any accuracy at all find the subject land value comparing with those three particular comparables unless they were extremely similar in every

[TR653]
characteristic. They would be similar in shape and size -- shape; we've already said the size is similar -- they would be similar in access, similar in frontage, similar in exposure, similar in market demands for the location, similar in development costs and similar in how long it would take to subdivide parcels of that ground to sell out.

Q. Did you in your analysis find any such comparables to the subject property?

A. At first I thought I had three beautiful comparables. Then when I found out that the development costs were so extremely different, in one case the user wanted all the land at once for his single use; in another case --

Q. Let me ask you this. Would the market say because Joe paid 40 cents, and Drug Fair paid 45 cents and Sam paid 50 cents, I'm going to look for a piece of property for 45 cents. Does the market do that?

A. The market does it only for this purpose: I think I've omitted saying this and if I have it is a big mistake on my part. The market is interested in the facts, if they can be found, that somebody else down the street paid as little as 30 cents a square foot, or 40 cents or 50 cents a square foot, because the person that might have bought that similar tract down the street for 40 cents a square foot

[TR654]

might be intending also to build a warehouse park.

Now, if that was a warehouse entrepreneurial developer that bought that land down the street at 40 cents, this will excite and greatly interest the hypothetical buyer of the subject land, because then he'll want to know if his competitor down the street can subdivide and develop warehouses without spending as much as $1,300,000 in development costs. And if he can, then he knows that his competitor down the street can possibly sell finished sites for less than he can or can lease warehouse space, if that's his intention for less than he can, and this might discourage him from buying this land at this kind of a similar price or even something close to it.

Q. Well, are you saying it is the development costs that make the sales dissimilar?

A. It is the development costs that -- yes, the development costs, how long it will take to develop the land and sell the lots.

Q. Length of time?

A. The length of time, the interest paid to the land seller, it's all those other factors. And as I say, though, he still wants to know what the other land has sold for. That's simply to protect himself from competition, from fierce

[TR655]
competition.

Q. Now, at my request, did you do a pro forma analysis of what the probable sales price would be if you had a purchase and then an instant resale of the subdivided lots?

A. Yes.

Q. Is that represented by Chart 1 up there?

A. Yes.

Q. Could you tell the Court what that means?

A. Yes, sir. In my appraisal of this property -- and I'm using round figures in the last three digits there -- in my appraisal of the property, if we assumed that all the land would sell other than the street area at $2.25 a square foot, then we have gross sales of $2,454,000, and if our development costs are as Mr. Phillips has testified, and if we went in there and made no profit at all and did all this development and sold the sites overnight, no time delay; therefore no carrying charges; then we would have a raw land value as it sits today of $1,141,000, which is 86 cents a square foot.

Q. That assumes the retail sales at $2.25 for the salable land?

A. Yes.

Q. And it assumes the development costs as furnished

[TR656]

by the engineer?

A. Yes.

Q. But it assumes no profit by the --

A. No profit to the entrepreneur and no time delay in getting all this done.

Q. And this would be true even up to a year; if you went in within a year with these figures, you would still get the --

A. No; if you had to spend a --

Q. Let's don't get into that.

THE COURT: You're saying the raw land value under that formula would be 86 cents a square foot?

MR. ALEXANDER: That's if you could buy today, develop it, and sell it tomorrow with no problems.

THE COURT: No profit, no interest, no overhead?

MR. ALEXANDER: Right.

THE COURT: Do you still have your down payment of $168,000?

THE WITNESS: You wouldn't have any down payment. You would buy the land --

THE COURT: For cash?

THE WITNESS: You would either give a check, note or cash and tomorrow you would go to settlement and collect

[R657]

enough money from all your sales of your lots to make your check good to the land seller.

BY MR. ALEXANDER:

Q. But this would be the top price you could pay just to break even?

A. Yes.

THE COURT: All right.

BY MR. ALEXANDER:

Q. And what if you assigned a profit to this developer who is going to buy and resell overnight?

Now, does this Chart Number 2 illustrate how the profit affects the price that can be paid for the land?

A. Yes.

Q. In what way?

A. If we assume again an instant purchase, instant development, instant resale with no carrying charges, no interest, no taxes, no real estate taxes, but took a profit -- we'll call this arbitrary profit figure for the property -- took a profit of $308,188 --

THE COURT: Why do you take that figure?

MR. ALEXANDER: He said it's arbitrary.

THE WITNESS: For the moment let's consider it an arbitrary figure.

[TR658]

THE COURT: All right.

THE WITNESS: Then that would simply reduce the raw land value by that amount, by $380,188 down to $832,812, which brings it down to 63 cents a square foot for the entire site. That's 30.55 acres.

BY MR. ALEXANDER:

Q. You're saying, Mr. Hodges, that whatever the profit figure you assign, you reduce the price which the entrepreneur can pay for the property?

A. Yes; other things being equal.

Q. And neither of these charts, 1 or 2, have any time factor or absorption figure, is that correct?

A. That's correct.

Q. Now, are either the figures projected on Charts 1 or 2 remotely realistic from the market standpoint? Could it happen?

A. No, it couldn't possibly happen. I don't think you could, unless you had a Drug Fair. Drug Fair might -- somebody like Drug Fair might buy it, but the chances are to small that except for a Drug Fair-type customer this could never happen. It would take you at least six months working very hard to develop all these warehouse sites in this land, if you develop them at all one time.

[TR659]

Q. As soon as you go beyond six months or a year in selling the developed site on the subdivision, is that why you get into the cash flow analysis of equity yield?

A. Yes, that's exactly why; because the interest builds up on the amount that you have borrowed to buy the land.

Q. And that is part of your venture capital as we defined it earlier?

A. Yes, right.

Q. Now, can you explain to the Court what that Chart is?

A. I called it "Discounted Cash Flow." It illustrates the median of my 12 land values.

Q. That's $602,000?

THE COURT: Hold it there just a minute.

Mr. Hodges, I've cash flow discounted to the present value. Is that the same thing?

THE WITNESS: Yes, sir.

THE COURT: That's the down payment and the profit and the interest and the overhead?

THE WITNESS: That's what I drew this chart for.

THE COURT: I just wanted to know if you were talking about the same thing that I'm talking about.

[TR660]

THE WITNESS: Yes, sir.

THE COURT: You are using a lot of terms that I've never heard before, and I just wanted to be sure that I know what you're doing with that chart.

All right.

THE WITNESS: Using my median land value of the 12 different values in my report of about $602,000 and --

THE COURT: $602,000 is the 12 value mean? Do you get that off this exhibit?

THE WITNESS: That is correct.

THE COURT: That's all your V-1, V-2 and V-3, and you are taking all 12 values and coming out with the $602,000 roughly?

THE WITNESS: Yes, that's what you call average or mean.

Using my average land value of $602,000 and paying about seven percent down, or whatever the figure is, of $602,000 --

THE COURT: Stop there a minute. I thought under that program your equity cash was five percent?

THE WITNESS: Well, as I explained earlier in my cross examination from Mrs. Sasso, in order to arrive precisely at my mean value, you could have a combination of

[TR661]

seven or eight or nine percent down, and an interest rate to Fruit Growers on the land acquisition of around seven percent and a development span of around 4½ to 5½ years.

If you change the development span, you could change the down payment; or if you change the down payment, you could change the development span. This is just an arbitrary --

THE COURT: What is 48 times 287? That would be a percentage of what figure?

THE WITNESS: That's a down payment which is roughly seven or eight percent of the land acquisition costs, $602,000.

THE COURT: Let me make a note of that.

Okay.

THE WITNESS: So this would be the down payment going into the deal, which is roughly seven or eight percent of my $602,000 assumed raw land value. Now, we make the assumption that it will take 5½ years or eleven half-year periods to develop and sell all of our industrial warehouse sites. And if that is the case, then your cash flow picture at the end of each of these eleven periods would be as shown on this chart. Now, the cash flow is simply the result of the other six figures that we discussed in the first

[TR662]

or second day of the hearing here; this is the cash flow: the result after paying interest on the acquisition loan, interest on the development loan, curtailment, if any, on the acquisition and development loan.

BY MR. ALEXANDER:

Q. That's the net of the carrying charges, in other words?

A. The net of sales and carrying charges. And since we didn't have any sales in the first period, it's all negative.

Q. All right; but that is the net of the carrying charges? At that point he had $79,000 in the project of venture capital?

A. Right, his venture capital started out as that and now it's been increased by that amount; and by the end of the second period his venture capital had already increased to nearly $200,000.

Q. These figures are not cumulative; they are what happens at the end of each six months?

A. This is the cash flow for only that one period. These are not cumulative figures.

THE COURT: You mean at the end of six months he would have $131,000 --

[TR663]

MR. ALEXANDER: At the end of the year he would have $184,000.

THE WITNESS: At the end of one year, which is two periods, he would have this amount, this amount and this amount, and all invested in this property. And I might use that to mention a very important point. And the reason why so many developers today are going into cash flow analysis. They don't want to just know how much down payment is required. As I mentioned earlier, there is a big subdivision tract in Fairfax County right now that you can buy for nothing down. That isn't the big liability; the big liability is how much are you going to have in that property and are you heavy enough to carry this project to conclusion. So that is the second and really important reason, one of the two important reasons, for a cash flow analysis on anything that takes a substantial amount of time in the market, in the real estate market.

So here he has got $180,000 or $190,000 at this point invested in this property. Now here his sale obviously exceed his cost. Here in the third period his sales exceed his interest and curtailment -- well, that's it, interest and curtailment on his loan. Here the interest also -- I mean, here the sales also exceed his interest and

[TR664]
and curtailment on his loan.

BY MR. ALEXANDER:

Q. He has got an excess of income over carrying charges for that particular six month's period?

A. Right; so he begins to take money back out of the property. He takes $80,000 there, and he takes $50,000 here out of the property, out of the development. Here in the fifth period, which would be the beginning of phase 2 development costs, Mr. Phillips' engineering report, he has spent more than he received. He has spent more in land development in spite of his draw that he's entitled to if the expenses exceed the sales for that period. He has spent more and paid more interest and curtailed the acquisition loan, whose owner, the note holder, Fruit Growers, continues to get curtailment principle payments if there are sales in that period. So he's in the hole again. At the end of the eleven periods, or 5½ years, the end product is a positive amount. He has taken $356,475 out of the property, and he has to stay in it for 5½ years to do all this; he has to stick with it in order to make this kind of a profit.

Now, that is the gross return out of the property, and he already had that amount in it. So if we subtract the original equity cash from that figure, we get a simple

[TR665]

figure which we can correctly call profit.

THE COURT: Let me look at my notes here.

All right.

THE WITNESS: If we can forget that side of the chart for just a moment and go over to this column and this column, and also go back to the original equity cash involved. The other half of the reason for using a discounted cash flow analysis is that it helps you determine if you are using it to find what somebody did make in the way of equity return in the market in an actual development, or if you are trying to determine what you can pay for the land to give an entrepreneur in this case a 30 percent return on equity investment. These discount factors are not 30 but 15 percent, since they represent half-year periods.

So if we take any set of compound interest table and write down the 15 percent discount factors, first for six months; then for one year.

THE COURT: That's 15 percent discount factor? I just don't get what you mean. 15 percent of what?

MR. ALEXANDER: Use a positive figure.

THE WITNESS: Let's put it this way: if you invested $27,266 for six months to earn 15 percent, when you withdraw the deposit at the end of six months, then whoever you

[TR666]

invested it with will give you a check for $31,356. At the end of six months you will have earned 15 percent in six months on this amount of money invested.

MR. ALEXANDER: That will be an annual rate of 30 percent; six month rate of 15.

THE WITNESS: An annual rate of 30 percent and six month rate of 15 percent. If you invested $27,266 at 15 percent per half-year, you will get back $31,356 at the end of six months.

BY MR. ALEXANDER:

Q. There is a book of tables that gives you discount factors of 15 percent for six months?

A. Yes.

Q. And that's what that .869, and so forth is?

A. Yes. This is just in reverse; instead of dividing this investment figure by that fraction -- by that decimal figure -- to get back what you would have gotten back including your interest, instead you take what you want back, multiply it by the factor and determine its present value.

Now, let me say all of these figures are today's values, for the future receipt of these amounts of money. This is the present value of the right to receive this amount of money six months from now. This is the present

[TR667]

value of the right to receive this amount of money 12 months from now. Now it's negative because this is negative.

So since you don't have to invest $105,000 now all you have to have ready to invest today is $79,000, if you are normally earning 30 percent a year on your money; you have to have this now in order to make another equity investment in this property a year from now. So that all these figures then represent today's values of the right to receive another figure bigger than those at some future time.

And if you apply all of the discount factors to the respective but different amounts, and both plus and minuses, you get a series of figures. And if you add them up, they should exactly equal the amount that you put into the property going in; and they do. All of these figures, these are discounted present worth figures, that add up to $48,287, which is the amount of equity cash you put into it. And the purpose of this is merely to show that the equity investor, if he paid a medium price of $602,000 for this land and had exactly these figures in periodic cash flows, would have earned $308,000 on his original equity investment and his other equity investments, which happens to be exactly 30 percent return on his equity investment.

[GR668]

MR. ALEXANDER: Thank you, sir.

THE COURT: All right, is the $308,188 all profit or --

THE WITNESS: That is all profit.

THE COURT: And the interest has been paid out of it? And the overhead has been paid and everything?

THE WITNESS: Yes, because if you remember that computer tape, this is the seventh figure for each of those periods, the first six figures being the acquisition loan, interest --

BY MR. ALEXANDER:

Q. No; the question was, Mr. Hodges, was the $308,000 before or after overhead, advertising and all that?

A. This is after paying interest on everything. This is after developing costs, sales receipts from the finished lots, and interest on his acquisition loan and interest on his development loan and after paying back the acquisition loan and the development loan principles.

THE COURT: That's 30 percent of what?

THE WITNESS: This isn't 30 percent, Your Honor, of anything, but it is a figure which is the equivalent to having earned 30 percent on your equity investment in this property; it's a profit figure to be sure in dollars; but it

[TR669]

isn't a percentage of anything. But, it is equal to having earned 30 percent on your equity investment before income taxes. It's equal to having earned 30 percent to this amount of money left in the project for 5½ years; 30 percent on this amount of money, left in the project five years; 30 percent on this amount of money left in the project 4½ years; and from there on we don't know whether we're plus or minus. But this is a profit figure in dollars.

BY MR. ALEXANDER:

Q. Can you go to your savings account example that I think you mentioned the other day, Mr. Hodges, where you start off with $48,000 in a savings account paying 30 percent?

A. Yes.

Q. Then did you make another deposit?

A. Yes.

Q. Then you make another deposit?

A. Yes; then you make a withdrawal.

Q. Then you make a withdrawal, and a withdrawal, and a deposit, withdrawal and so forth?

A. Yes.

Q. At the end of that time you will have $308,000, right, or dividend, interest, whatever you want to call it?

[TR670]

A. Yes; if we put that in a savings account that paid 30 percent on this amount of money today, and put in that amount of money again in six months, that amount of money a year, withdraw that amount, withdraw that amount, deposit it, withdraw, withdraw, deposit, withdraw, withdraw, withdraw; we would have in that account $356,000; and subtracting the original deposit from that means a net profit of the original deposit of $308,000. And this, again, is not a percentage of anything.

Q. It just shows you that you've got 30 percent on the use of your money for that length of time?

A. It isn't a percentage of anything on this chart; it is a percentage of other things.

* * *

PARTIAL TESTIMONY OF DOLPH TRAVER

BY MR. ALEXANDER:

[TR 56]

Q. Give us your full name, please, sir.

A. My name is Dolph R. Traver.

Q. Where do you reside, Mr. Traver?

A. I reside in Warrenton, Virginia.

Q. What is your occupation?

A. I'm a real estate investment regional manager in the East for Chrysler Realty Corporation.

Q. In the course of that occupation, what is your job?

A. My job is to look for suitable land sites for dealership construction.

Q. In participation of both purchase and sale of such sites, such properties?

[TR 57]

A. Yes, both purchase and sale.

Q. In general, do you deal in the purchase and sale of large tracts for dealership purposes?

A. Almost 100 percent for dealership sites.

Q. How long have you been doing that?

A. Fifteen years.

Q. Has that all been in the Metropolitan area, or what area has this been in?

A. No; it's been over the entire United States, in the beginning, and confined to the East in the last six or seven years.

Q. Are you aware of the location of the property which is the subject of this suit?

A. Yes, I am.

Q. It has been described, roughly, as a 350 by 4,000 foot parcel in the south central part of the city. That is the parcel you are familiar with?

A. Yes, I am familiar with that site.

Q. Do you have an opinion, Mr. Traver, as to whether or not the site, or any part of it, would have been suitable for an automobile dealership in January of 1972?

* * *

[TR64] Q. Were you instrumental in the acquisition of I-495-Route 1 site where Polk -- it's Mount Vernon now -- is?

A. Yes.

Q. In your opinion, are the two sites comparable as to location?

A. Not at all, no, sir.

Q. What is the basis for that statement?

[TR65] A. The site [bought by Chrysler] is visible from the Beltway, I-495. It's visible, very definitely, from Route 1. It has a great amount of traffic flow past the frontage of the site. I don't recall the traffic count at this time. I wouldn't know what it is today, but it's very heavy.

We must be -- for an automobile dealership to be well located, it must be close and within site of a great amount of traffic.

Q. Now, in the purchase of such a site, do development costs play any part?

A. In negotiating for a site, the price, initially, of a site as offered is very important from the standpoint of whether utilities are available, whether the site will take much development in the way of fill or excavation, grading, as to whether it's properly drainable and so on.

this site; storm drainage had to be given consideration, as well as the main item of fill in the site. The site was partially filled by the former owner at the time we purchased it. But it was, I might use the word, carelessly filled, not with careless fill, but it was not compacted; and we had to move a lot of that, and we found that out before we bought the site.

Q. Do you recall the square-foot price of that property?

A. Yes. $2.32 was the final price.

Q. Approximately a 16-acre tract?

A. Exactly, 16 acres.

* * * [bought by Chrysler]

[JR72]

Q. Mr. Traver, if the property had been finished, by that I mean it had the on-site utilities, storm sewers, sanitary sewers, filling to cure the floodplain problem, ready access to the site, would that have had a substantial effect on the market value of the property?

A. Do you mean if it had been in a condition to construct a building?

Q. Yes.

A. Ready to go?

Q. Yes, sir.

A. We would have paid as much as double that price, yes.

[TR122]

Q. What particular kinds of building or property sales do you deal in?

A. We're builders of commercial real estate, industrial, office buildings, apartments.

Q. And how long have you been engaged in those activities?

A. About 12 years, sir.

Q. Now, I ask you, Mr. Robbins, if you are familiar with a certain site owned by Fruit Growers Express, approximately 30 acres, roughly 4,000 feet by 350 feet, located in the south central part of the city off Duke Street?

A. In general, yes, sir.

Q. Have you dealt in industrial properties either as a purchaser, seller or broker in the Northern Virginia area?

A. Yes, sir.

Q. In what capacities?

A. Mainly developing industrial properties for lease. We own personally about 750,000 feet of warehouse space, which we all maintain and operate, and one major industrial park in Fairfax County, about 120 acres, which we are developing presently.

[TR123]

Q. Are you familiar with the characteristics of warehousing sites?

A. Yes.

Q. Could you tell us what is desirable in a good warehousing site? What features?

A. Well, I can speak from personal experience. Location is first. Because as an owner over a long period of time, it's very important to have free advertising in the form of location; and we pay a premium for locations.

Q. What other features are important?

A. Utilities, obviously; topography; soil conditions; access, depending entirely upon -- we do everything from a wholesale-type warehouse to bulk storage, which is the kind of thing that that site -- manufacturing and bulk storage is what that site would be good for.

Q. Do you have an opinion, Mr. Robbins, as of January 1972, considering the subject property is entirely vacant, nothing on it, do you have an opinion as to -- and it is zoned industrially.

A. I-1 or I-2?

Q. I-1 or I-2; I don't think it makes any difference here. Do you have an opinion as to what would be the

[R124]

most profitable industrial use to which that vacant land could have been put in January 1972, considering its relationship to Telegraph Road, the Beltway, Duke Street, the main line of RF&P Railraod?

A. Again, if I were to look at it as a purchaser, I would consider it for industrial use. I personally would do one of two things: either an industrial park to sell off units, which may not be feasible -- I'd have to do an economic study on it, because you'd have to build roads into the tract itself, which could affect you on your 350-foot width -- but preferably, if it would work, would be three major buildings.

You can figure that you can cover approximately 40 percent, regardless of what the Code says, 40 percent of the site and still provide truck-moving lanes, parking, et cetera.

So, if you've got 30 acres, 40 percent of that, what's that? Twelve acres worth of building. That's about the maximum you could economically operate there for a long period of time and have it be successful.

Q. What kinds of buildings?

A. Warehouse buildings, sir, and of high cubage. Bulk storage or manufacturing is what I would -- because

[TR125]

of the rail and its proximity. It does not front Duke Street nor any of the other roads, so you don't have the visibility-type location.

Q. Now, you mentioned that based upon the economic study, you would consider what? Industrial park use?

A. Industrial park use or the latter; my personal would be the latter, because I'd think you'd have some development problems as a park.

Q. What do you understand by"industrial park use" as that term is used in the Metropolitan area?

A. All right. Industrial park to me is a parcel of property which you develop as you would a residential subdivision where you put in all utilities, roads, et cetera, and sell off parcels,whether they be a few thousand square feet, an acre, two acres, to individuals or where you build them yourself or where you've actually built an industrial community.

Q. What type of economic study does that require?

A. All right. In the case of this particular piece of ground, I would lend a lot of credence to drainage and utilities; because the railroad lies to your south along the entire border and Duke Street is at a higher level. I don't know at this point, but you'd

[TR126]

have to study drainage and see how much water, storm water, is coming across that site. If you had to put any particular type of storm drains --

Q. Let me interrupt you a minute, Mr. Robbins. Are you talking about the ideal or how you yourself actually go about looking at a piece of property?

A. I don't think it would make any difference. If he's a sophisticated developer, he is going to check into all problems. If you want to get to value, I'll tell you how I would reach value.

Q. That's what I want to know.

A. Okay. I can give you what I would feel it would be worth ready to go for me to build on.

Q. I'm not going to ask you any value questions. I'm mainly interested on how you would look at this piece of property and how you would go about --

A. Well, an economic study would tell you what ultimate value could be. Land is not necessarily worth -- that land is not necessarily worth what a parcel sold on the other side of it was worth.

Q. Why is that?

A. Because you have to take into consideration the amount of dollars involved to bring it up to zero.

[TR127]

Q. What do you mean by that?

A. Meaning what storm drainage may have to be involved, what it will cost you to bring in utilities, what it will cost you for access, if he doesn't have proper access. In other words, to prepare the site so it is a site ready to build.

Q. What do you mean by bringing it up to zero? I didn't understand that.

A. Well, to a market value, okay?

Q. To a market value?

A. Yes, sir. I'd still like to make the point of storm drainage, and you can refer to Mr. Cook, because he would be a professional in this particular field --

Q. You don't mean bring it up to a break-even point, do you?

A. No, sir. I don't even like that word.

Q. What do you mean by bring it up to zero? That's what I don't understand.

A. All right. I don't think you can take and put a value on that piece of ground until you decide what your development costs are to have it ready to build. You have to back into value of ground. You can't say a ground is worth $1.50, $2 or $2.50. You don't know until

[TR128]

you decide exactly how many dollars worth of development costs are involved. If you have to take a storm sewer under those railroad tracks, I can tell you that's horrendous. Number one, I'm not sure you could even get a bond for it, even if you were a Rockefeller. And if drainage goes that direction, you know what problems you've had with RF&P Railroad now --

Q. How do you determine your development costs for a piece of raw ground?

A. Well, on thesame procedure I just talked about. We do a study of the market area of what land will sell for, or has been sold for in recent months, and in the projected future, and in a particular area for this type of ground, similar types of ground.

Q. I'm asking you now: how do you determine your development costs?

A. Oh; by going to a professional engineer and doing really a comprehensive plan for the site.

Q. You don't mean a finished plan, do you?

A. All but.

Q. All but. And what does he tell you or what are you asking him?

A. He'll tell us, once I've told him -- like I

[TR129]

was about to say, I would probably develop that into three buildings of at least 100,000 feet each, in three stages over a period of three to five years.

Q. Over what period?

A. Three to five years.

Q. Three stages?

A. Three stages.

Q. Go ahead.

A. It takes over a year to build a building of that size today, and you've got to lease it also. You've got a start-up time to a finish time. So it's closer to five years by the time you're really finished.

Now, the engineer will tell you, once you've given him the dimensions, et cetera -- he will grade out the property; he'll give you quantities of earth that will have to be moved. He will give you storm sewer sizes and quantities. He will give you utility sizes and quantities, paving, everything, right down the line.

And all these costs need to be bid out. If you're developing it in stages, I personally would go ahead and do all of the development work at one time. With inflation today, it's less expensive to do all the work at one time and pay the carrying cost than it is to

[TR130]

do it in stages. Now, whatever these development costs are should be subtracted from whatever you feel the value is less whatever profit you want to make or expenses; and that is the net value of that land today for that use.

Q. Again I ask you, is that the way the market operates, or is that just a theoretical idea?

A. No, sir. I say for a sophisticated investor, that is the way it operates.

Q. Would anyone but a sophisticated investor or entrepreneur go into such a 30-acre tract?

A. I doubt. Anybody that has that kind of money is going to have to have somebody check it for him. It could be. There's a remote chance. 30 acres is not too large for a single-purpose builder. I mean, there's a remote possiblity that you could pick up a client for a single building for that size site.

Q. But, now, you mentioned something about if you put your warehouse buildings in here, you would need a road. What did you mean by that?

A. All right. Anytime that you've got manufacturing or rail is used, you're obviously trucking out large items. So you've got 55-60-foot tractor trailers. So you have to have access inside the site, a road.

[TR131] Now, if you were breaking this up into a park, you'd actually have to build a road that was dedicated to the City of Alexandria, or the state, whichever the case may be, or both, or you'd have to do it on a condominium-type basis, where you have perpetual maintenance from the different owners of the different parcels; the latter being the stickiest of the two, assuming the City would even agree to it.

* * *

[TR144]

Q. Mr. Robbins, before you determined the fair price, which I think you said ranged from 65 cents to 75 cents a square foot on that industrial park area, before you determined a fair price on it, did you go through this economic study that you've described?

A. Yes, sir.

Q. And, in your opinion as one having dealings with this type of property, does what you paid for that particular property have any relation to any other long narrow tract in the Northern Virginia area without going through that economic study? Do you say that because you paid 65 to 75 cents for yours that another piece of similar size and shape would be worth the same thing?

A. No; it would have no relationship.

Q. Why do you say that?

A. Well, they're two different areas. First of all, you have to evaluate the land value in that area, the specific area, okay? And then you'd have to take into account the economic study I talked about.

[TR132]

Q. Are you saying the economic study as to the particular site is essential?

A. That's right.

* * *

PARTIAL TESTIMONY OF KENNETH MARKS

[TR308]

My place of business is the Carey-Winston Company, 4350 East-West Highway in Bethesda, Maryland.

Q What type of company is Carey-Winston?

A Carey-Winston Company is mortgage bankers and realtors.

[TR309]

Q What is your position with Carey-Winston?

A I am Vice-President in charge of the industrial sales and leasing department of the Carey-Winston Company.

Q Can you describe the extent of your activity in that particular market, Mr. Marks?

A Yes, sir, my primary function is to handle sales of industrial parcels of ground as well as the bulk of my time being spent in the leasing aspect of industrial sales or warehouse space.

Q You market warehouse space, is that a fair statement?

A Yes.

Q Do you also deal in the buying and selling of warehouse acreage?

A Yes, sir.

Q Now, in what area do you deal in these types of properties, what geographical areas?

A The entire Washington Metropolitan area, mostly Beltway-oriented, and when I say Beltway-oriented I mean anywhere off of any major access from the Beltway. We handle property in that immediate area.

Q Are these types of property which are Beltway-oriented largely interchangeable?

A Yes.

[TR310]

Q Do you have experience in the Northern Virginia area?

A Yes, sir.

Q The Beltway-oriented?

A Yes.

Q Now, I ask you to assume a tract of land, Mr. Marks, roughly 4,000 by 350 feet in dimensions, Beltway-oriented in some respects, zoned industrial, and ask you if you know the process by which a purchaser of such a tract of land would go about -- or selling, for that matter -- would go about determining its market value as of any given time?

A Certainly. May I ask one question with respect to that?

Q Yes, sir.

A Would this particular purchaser be a speculative purchaser in terms of developers when he develops speculative warehousing or would he be a user? There would be a difference.

Q I am asking you, really, in terms of a ready, willing and able buyer under no compulsion to buy but simply desiring the property, and you might describe its highest and best use for light industrial, industrial warehousing-type subdivision use. Do you need anything else?

A No. I would, of course, be looking to my general

[TR3n]

knowledge of market comparables to come up with an established value for similar type, where similar type of property is. Of course, you must look through this market data to break it down into several factors such as raw ground, a factor for development costs, a factor for carrying of the ground if it does not have utilities, until utilities are available to the properties. All of these factors in each step would have to be qualified in order to come up with a value for a particular piece of property.

Q Let me ask you this: What amenities are associated with a finished industrial site in the metropolitan area?

A Finished streets, directly adjacent to or in front of a particular piece of property, utilities to the property line or immediately adjacent to or in the street in front of the particular piece of property, and mainly in today's market, the availability of sewer, the availability to tap into these utilities which are adjacent to the property.

Q Would there be sewer lines to the subdivided property?

A Yes. In a normal, where industrial park development is involved there usually is, yes, which distinguishes that from a raw piece of ground. One other thing I didn't mention. In many industrial parks, lots are fully graded before they are sold so that one says they are selling a finished piece of

[TR312]

ground; it is graded with streets in and utilities available to the property line.

Q Now, I am asking you to assume the piece of property is somewhat less than the finished site that you have just described and you were going through the process by which you would come up with a probable value of that piece of property. How would you do that?

A Well, in purchasing a piece of property today, there is what we call, there are standard clauses in sales contracts which provide for X amount of days for the purchaser to make studies of the property to determine whether that property can be developed with the maximum allowable square footage permitted under the particular zoning.

So, during this time period, most developers, or myself if I was personally buying the property, would of course call an engineer. I would have test borings taken of the property to determine the soil content. I would have an engineer lay out a building which would give me the maximum allowable square footage and one which, from my market data, providing him with market data, would design a building that would be marketable in today's warehouse space seekers.

Q All right.

Now, you would go to the engineer to get his analysis

[TR313]
of development costs?

A That's correct.

Q And you would have some projected layout of the site with buildings?

A Yes, sir.

Q You would take this information and do what with it?

A I would have this information costed by a construction company to engineer this particular piece of property to a finished state. Then I would reflect upon what my development costs -- I call these development costs -- what my development costs were and relate that to what I have to pay for the property and after that I would have to go through an economic analysis to determine whether, if I built this particular warehouse building on this piece of property with the sales price, with the market, with the development costs, if it is an economically feasible and viable project in today's warehouse market, at what people are paying for rent in today's market.

Q How would your economic analysis apply to what you would pay for the property?

A I would first -- well, from where I sit, at my job, being a leasing specialist as well as in a sales aspect of industrial property, we kind of work backwards. We would determine what the market rents for warehouse is to determine

[JR314]

what a gross rental income would be for this particular piece of property.

From that point, we would determine what our approximate expenses would be, out-of-pocket expense would be, and we would come up with an amount of net dollars that we would realize from this particular project.

From that, I would be able to determine -- excuse me, the development aspect of this comes in, where I know what my costs are going to be -- I am going to have to obtain financing for this particular project.

Without the building, I am going to, with the knowledge of what my financing, or how many dollars I will need go into this project, gives me a tool with which I can determine what part of my expenses will be and whether the rents I am going to charge to these particular tenants will be enough rent or whether the project will be economically successful.

Q Is that the process, how the market price is arrived at on industrial sites in the metropolitan area?

A Not in all cases, no.

Q What do you mean?

A The main tools in my opinion, from my working experience, with which prices are established for industrial ground in the Washington Metropolitan area are through, number

[TR315]

one, market comparables.

Q Are you talking now about finished sites or unfinished sites?

A I am talking about finished sites.

Q I am asking you to speak in terms of less than finished sites.

A There is no set system for determining a price of raw ground. I will say unfinished grounds, I will call that raw ground for the sake of our discussion, each individual parcel is studied on an individual basis.

Q That is my point. Then you would go through this economic analysis as to a piece of raw ground?

A That's correct.

Q Now, my question is: Is that the way the market actually does it for raw ground?

A Yes.

Q Suitable for potential industrial site?

A Yes.

Q And for how long has the marketing done that in this particular area, in your experience?

A Since I have been working in the industrial real estate field.

Q How long is that?

[TR 316]

A Five years.

Q In your economic analysis, Mr. Marks, is there a commonly accepted figure for the expectation of equity yield in this type of calculation or analysis?

A Yes.

Q What is that?

A If it is a speculative warehouse, most individuals, or most people, going into this type of venture, would want a minimum of 12 percent if it is a speculative building on an equity yield.

Q What is the 12 percent? Is that clear profit after taxes?

A No, that is before taxes.

Q Profit before tax?

A Profit before tax.

Q Does it include overhead?

A Yes.

Q Does it include --

A Excuse me. Would you redirect that question and clarify? When you say, does that include overhead --

Q Well, I assume that the person going into this would not go into it unless it projected up to a certain figure of profit, quote and unquote, is that correct?

[TR3M]

A That's correct.

Q I am asking you, based upon the person's money, equity tied up in the property, what is the percentage or ratio or however it is expressed that is commonly used in this area such as Beltway?

A It would be return on cash investment.

Q Yes, sir.

A When I say 12 percent, I am talking about 12 percent return on cash investment. That would not include, that would be before taxes; that would not include any overhead because usually in this type of investment your overhead is taken care of by your leasing and management fees which are part of your expenses in operating a project of this type.

Q Would it include advertising?

A It would include advertising.

Q The 12 percent?

A No, it would not. Policing and management would include that advertising. That is part of the service for leasing.

Q You made the statement that the market works backwards. By that do you mean that you look at a piece of property, you do your development analysis and then you come up with a probable selling price?

[TR318]

A We find a piece of property. We do a market analysis first to find out what comparable pieces of property have sold for.

Q That is related to finished sites?

A That is related to finished sites.

Q I am talking about unfinished sites now?

A I would take the price, my contract price for the property; I would have it studied by an engineer to come up with a finished cost. I would add that finished cost to my contract price, come up with a net square footage figure, per-square-foot figure for that particular parcel of ground. From that point I would go into my economic analysis of any speculative warehouse function that might go on, on this particular piece of property, after purchase.

* * *

[TR322]

A I am working on a consultation basis with the developer.

Q For a speculator?

A For a speculator.

Q How about the user?

A With the user, also.

Q Would you also do economic analysis for the user?

A Yes.

Q Of the cash flow?

A We don't look at it in the same respect. We don't look at a particular building to suit a user or the construction of a warehouse building for a user in the same light. We don't look at in terms of net cash flow to the developer, to the user, because he is going to be using it for a particular business and that is not his concern. His concern is a break-even point. In other words, what would it cost him to rent warehouse space in the market as opposed to buying and putting up your own warehouse building for his own use.

[TR323]

A A user?

Q Yes.

A Could, but not necessarily always.

Q Are there any other kinds of people in this market for using warehouse space besides speculators and users?

A No, none that I know of. You are either a warehouse developer, speculator, or you are a user. I don't know what else could possibly be.

Q Your total market would consist of both, is that correct?

A That's correct.

Q When you were talking about this economic analysis that a speculator would use, were you talking about preparing it from the standpoint of the purchaser to establish how much he could pay?

A That's correct.

Q Would that necessarily be the same price that the seller would be willing to let it go for?

A Not necessarily so.

Q What would happen if what the buyer after his economic analysis came out with was less than what the seller was willing to accept?

[TR324] A We either negotiate or go into another piece of property.

* * *

[TR329]

A I personally wouldn't use those smaller lots in connection with the larger tract unless it was a necessity in terms of any particular user that I may have or be developing warehouse property on that particular site for. I think they have some commercial value to them because of the road frontage. I would probably study the situation to see what the zoning

[TR330]

would allow me to use those particular teeth lots for, higher and better use than industrial.

Q Would you totally discount them for usefulness as access to the main site?

A No, of course not.

* * *

[TR334]

BY MR. ALEXANDER:

Q Would you find any comparable sales for any two pieces, for any piece of raw ground in the area?

A Beg your pardon.

Q Would you find a comparable sale for any piece of

[TR335]

raw industrial ground in the area?

A Yes, I would endeavor to find, you know, as close -- if I can find a figure that was a like situation or a like lot, I would go to the closest that I could find, the most similar piece that I could find.

Q Now, finished sites or finished lots in a subdivision, you could find plenty of those, couldn't you, comparables?

A Yes, sir.

Q Now, you were asked if in your opinion, Mr. Marks, where you have a 30-acre tract with configuration or a width-to-length ratio of about ten to one, would that be typically purchased by a user or by a developer?

A By a developer, by a developer in the proportions that we are talking about in this particular instance, yes, by a developer.

Q The highest market price would be from a developer, the highest purchase price would be from such a developer.

The amount that could be offered for the purchase of the land would be from a developer or from a user?

A It would be, I believe it would be -- well, that is hard to say.

Q I am talking about a 30-acre tract, 4,000 feet, 350 feet wide.

[TR336]

A I think your highest price would come from a developer unless that either had nowhere else to go and there are other factors that would be involved here as far as the user is concerned.

Q Are users of that size and ability extremely rare?

A Extremely.

Q Now --

A I wish there were more.

Q I ask you to project some 617,000 square feet of warehousing on the site. Do you have any opinion as to the absorption rate or the sell-out or lease-out time of such an amount of warehousing space in the metropolitan area?

A I think that 617,000 square feet --

Q Or range of time?

A A range of time would be three to six years. I would say on the higher end, I would say closer to five or six years.

* * *

[TR338]

Q Where do you reside, Mr. Moseley?

A I reside at 9103 Gwier Avenue in Silver Spring Spring, Maryland.

Q What is your occupation?

A I am a developer of industrial and warehouse properties.

Q Are you associated with any company?

A Yes.

Q What is that?

A That is Van-Es Associates.

Q Two words?

A Two words, capital V-a-n-hyphen capital E-s.

Q What is the business of Van-Es Associates?

A We are developers of industrial properties and warehouses.

Q Is that a partnership?

A No, it is a corporation.

Q What is your position in the corporation?

A Vice-President.

Q How long have you been in that particular field?

A Four years.

Q What is your experience or what do you do as this type of industrial developer?

A Well, we typically purchase parcels of land, construct

[TR339]

speculative industrial warehouse facilities, lease the facilities and manage the ongoing project.

Q In what geographical area?

A We have Northern Virginia, the District of Columbia, Maryland and Baltimore.

Q Can you give the Court in round figures the number of square feet of warehousing space you dealt with?

A Yes. Let me add it up a moment.

Q Do you have an approximate figure?

A We have in the last three years developed approximately 300 square feet of space --

Q Did you say 300?

A Three hundred thousand; and we have plans for another 200,000 which has not been constructed yet.

Q Now, do you as part of your job acquire or look at or attempt to value potential warehouse sites?

A Yes, sir.

Q Do you draw a distinction between a finished warehouse site and raw ground, potentially usable as industrial site?

A Yes, sir.

Q And what amenities does a finished site usually have, Mr. Moseley?

A Well, to me, when someone says it is a finished site,

[TR340]

it means that the water, public water, public sewerage, power of some form, either electrical or gas or both, access, immediate access.

Q Fronting on a public street?

A Normally, yes.

Q And no major site work in the sense that there is not underground rocks. There is even the topography, in my view, related to a finished site. If a site is rugged, it is hilly, I don't think that is finished.

Q It would have grading or at least rough grading?

A Yes.

Q For finished site?

A That's right.

Q Now --

A I might also add, to me a finished site also has some feasible way of removing the storm water.

Q Good drainage to the site?

A That's right.

Q Now, is there a difference in which the market or you as a representative of the market would go about placing a value on a finished site as opposed to a less-than-finished site?

A Well, not really to me.

[JR341]

Q How would you go about it, determining a market value for a site then, a potential warehouse site, or industrial site?

A I would analyze what I felt to be the market rents for a certain location, for a certain type of user, and I would determine whether that rent would support whatever is being asked for the land. That is a fairly complicated calculation. But you basically work backwards.

Q This would be a user going to construct an income-producing building on the property?

A Yes.

Q How about the developer, the so-called speculator that is going to build for resale? How would he go about it?

A I am sorry. I didn't understand the difference. In fact, I thought within the last testimony it was not quite clear, the difference. A speculative developer, which is what my firm is, builds a shell building, floor, walls and a roof. Then and only then he begins to lease that space because the bulk of the industrial market is for users who want immediate occupancy, just like apartments. There are very few who can plan a year ahead or a year and a half ahead. They want it next month or they need it in 60 days. You build a shell and you lease space and finish the interior to suit the tenant.

[TR342]

There is another type of market and that is what is known as a speculative developer who does that.

Then there is a user, usually he is large, who can plan and budget a year and a half in advance, saying, I am going to need 100,000 square feet in 1975. I can purchase a piece of land and build a building which suits his specific needs so that it is ready for him to move into a year and a half from now.

Q Typically, which one of these categories pays the top dollar for the land, if you can say typically?

A I don't know whether you can.

Well, let's say it is the same piece of land. You are asking me whether a speculative developer would pay more for that land than a large user would pay for that land.

Q That is my question, if you can tell me.

A I don't believe that there is much of a distinction there because the seller probably has a price, first of all, and if that piece of property suits the user and the user is willing to pay that price, fine. If that piece of property is developable from a speculative standpoint and the speculator is willing to pay that price, fine. But I can't imagine that there would be much difference between what the seller would accept and I guess the real distinction is, if there are at

[TR343]

least in this area more speculative developers than there are users.

Q All right. How do you go about arriving at this meeting of the minds between the seller and the purchaser? You started to go through the process of how the price would be determined.

A Usually the price is stated. If that price makes sense from your analysis, that is what you pay.

Q What if it doesn't make sense?

A Then you don't purchase the land because usually the sellers -- well, it varies, but my experience has been the kinds of land I have looked at the sales price has been fixed. The seller doesn't sell it to you; he will sell it to the next man who comes along where it makes more sense.

Q Are you saying that the sale price then is really controlled by the purchaser's economic analysis of what he can get out of it?

A The price the purchaser is willing to pay is determined by that but the sale price may be different from what the purchaser is willing to pay.

Q Stated another way, it doesn't sell unless it makes economic sense to the purchaser?

A Yes, that is the reason that we have been able to

[TR344]

purchase land ourselves, is because the seller understands what it takes to develop. They understand those costs. They understand us. We are their customer just like we understand the tenant. We build what we know the tenant is going to need. Usually, a seller of land creates a piece of land knowing what we need.

Q Are you saying it is an economic analysis that in the end controls whether or not the sale will be made?

A Well, I am saying that that is the way it should be.

Q I don't know or I don't want to know how it should be. I want to know how it is.

A I think in some cases the seller of land often has an inflated view of what his land is worth. There can be any number of reasons for that. It can be his old grandfather's farm, but an economic analysis is not always used to determine a sale price for land.

Q Is it used to determine an upper land, for what the purchaser can pay?

A The purchaser is --

Q Right.

A By the seller. There are as many considerations which go into a sales price as there are people who sell land.

Q Certainly.

[TR345]

A All I can say is that the people that we have bought land from have been people who have made economic analysis because their economic analysis made sense and it was consistent with ours. The people who don't and who have some idea, some inflated idea, about what their land is worth usually sit on the land for a long while until inflation catches up with their inflation.

MR. ALEXANDER: Thank you, Mr. Moseley.

CROSS EXAMINATION

BY MRS. SASSO:

Q Mr. Moseley, I gather from what you have said that your experience in this industrial warehouse development field indicates that there is a demand for this kind of development in the area, is that right?

A Yes, ma'am.

Q Is there a considerable demand?

A I don't know what you mean by considerable.

Q You say you moved 300,000 square feet of warehouse space?

A Well, I can tell you that in the last two years there has been nearly two million square feet of speculative warehouse space leased.

MR. ALEXANDER: What was the date?

* * *

[TR346] Q Did your company at that time build shell warehouses, did you say?

A Yes.

Q Is that what most speculators do?

A Yes.

* * *

[TR348] A Unfortunately, it is a little complicated but basically you take all future cash flows.

Q Is this from leasing now?

A If an investor invests in a project, he is normally a passive investor. He puts his money in. Then the project produces flows of cash and flows of taxes and tax savings.

Q Is that the investor's income?

A Yes.

Q Getting his money from income from this kind of a cash flow is his business? Is that the kind of business you are in?

A It may or may not be. Our investors are doctors and lawyers and Indian chiefs except there are no doctors.

Q They do expect income, though?

A Yes, they expect income, but they don't necessarily look toward it as ordinary income like you might be referring to income. It can be non-taxable cash. It can be long-term capital gains. It can be deferred taxes. These are the kinds of income that an investor is interested in.

Q These are your speculators?

A These are the investors.

Q The people who put up the money for the speculators

[TR349]

to do the building?

A Put up the equity, yes.

Q When you are talking about an internal rate of return then that you expect to get, are we talking about what the speculator gets or what the investor gets?

A What the investor gets.

Q What do they generally seem to expect or did they back in January of '72?

A For our Lockport project we had completed three estimates for the investor. One was a minimum achievable and that estimate was based on a set of relatively conservative assumptions about what could happen and was offered to the investor as an indication of what we were 95 percent sure we could deliver. Then there was a high side estimate which was based on a set of very liberal assumptions which was presented to the investor as an alternative by which we were very unlikely not to reach; and then there was a mid-range, okay? There was one in between. The internal rate of return for the low side case was 11 percent; for the hide side case it was about 40 percent. For the mid-range case it was 19 percent.

Q How does that relate to what I heard people speak of as an equity yield? Is it pretty much the same when you talk about internal rate of return, or something quite different?

[TR350]

A Let me explain internal rate of return rather than tell you what people mean by equity yield, or try to.

If you take the cash benefits to the investor and you discount all those cash benefits, whether they be tax savings or whether they be real cash dollars, and you discount those back to the present, the rate at which the discount rate at which all those flows equal his investment is the internal rate of return. It is an attempt to account for not only the actual amount that is returned to the investor but also to account for the timing of that amount.

Q How about profit?

A How about profit? I don't understand what you mean.

Q Does he expect to make some profit on the money he has invested?

A He certainly does. You won't have, if you don't have any profit, your internal return will be negative or zero.

Q Than is 19 percent internal rate of return 19 percent return on everything put in, roughly?

A I just can't say, yes, because that is really not the definition of profit.

Q Does that take into account of course the fact that he is getting the money later rather than sooner and the tax benefits and so on?

[TR351]

A Tax all that.

Q That is his profit adjusted for all these other taxes?

A Well, I just have a lot of trouble with that question because I don't know how you define profit, I am sorry, but I can't say.

Q Not that I am thinking of capital gains versus somethi else. I guess I am not so sure I can, either, so I am going to leave that line of questioning.

Have you ever examined the Fruit Growers Express property in Alexandria?

A No, ma'am.

Q Somebody who knows a little bit more about this stuff than I do slipped me a question here. I think I understand it.

With respect to that internal rate of return, I think you are driving at the fact that that considers the tax bracket the investor is in, is that right?

A Yes, it does.

Q For 19 percent rate of return, can you tell me what the investor's tax bracket would probably be?

A Well, I can tell you in the one case we did. We assumed a tax bracket of 50 percent because our likely investors were in that tax bracket.

[TR352] REDIRECT EXAMINATION

BY MR. ALEXANDER:

Q The rates of return, were they before or after taxes?

A After taxes.

Q After taxes.

So that the range would be 12, 19 and 40?

A I think it was 11, 19 and 40.

Q So if you consider that the investor is in the 50 percent tax bracket, he has pretax equity yield of 22, 38 and up to possibly 80?

A No.

Q Where does that go wrong?

A Because in the early years of a development there are huge losses for tax purposes, for maybe two years, because all you do is make expenditures and you have no income.

Then as you begin to lease the space, you begin to have an inflow of cash which is available to the investor after expenses; and then, finally, if you were to sell the project as an income-producing project to Prudential Life Insurance Company, then you would have quite a large capital gain at that point and the rate of return considers what tax bracket you are in and considers the timing for all of these events, relates that back to the present. But perhaps I can help you

[TR353]

by saying if you are in the 35 percent tax bracket that those numbers very roughly, because I have done this, don't change that much. They go from 11 to 10 and from 19 to 17 and from 40 to 45. But the reason for that is because real estate developments don't create any paper magic tax losses. All they do is defer that tax. You don't pay a tax early but you end up paying it later when you sell the project. Uncle Sam gets you and well he should. It is just a matter of when.

* * *

[TR355]

Q Do you have an occupation or profession?

A Yes, I am a professional engineer and a land surveyor.

* * *

[TR356]

Q With what business?

A I a President of Walter L. Phillips, Incorporated.

Q What type of firm is that?

A It is an engineering, land planning and surveying firm in Falls Church, Virginia.

* * *

[TR358]

Q What is a feasibility study?

A I am stressing what a feasibility study is to me because I think a feasibility study varies from engineer to engineer. My definition of a feasibility study is a case where you evaluate the potential engineering costs and improvements, physical improvements that must be made for a potential

[TR359]
development on a piece of land.

Now, the degree to which this is done varies from client to client and the exactness with which it is done varies from client to client.

In some instances, there is very specific and in some instances it is more general in nature.

In either event, we take the improvements that are required by the governing body and the improvements that we think may be required by the governing body and may not be stated at the beginning of the project, and we take the improvements that are dictated by natural phenomena -- lay of the land, and so forth -- and we try to predict an outline for the developer, a reasonable estimate of what would be required both from his own needs and public requirements for the development of a piece of land.

Q Is this a relatively recent development in the practice of the civil engineer?

A Well, I think I could sum that up best by saying that ten or 15 years ago clients approached us with property in hand and asked us to engineer. Then we went through a phase where they approached us with property in hand and had found out that there were serious problems because of the lack of investigation before purchase.

[TR360] Now they approach us almost exclusively -- not exclusively but some type of firm such as ours before the land is purchased. From my experience it is almost common practice now for a land purchase contract to contain engineering clauses which will enable this type of analysis to be made.

Q Was this true in January of '72?

A Yes.

* * *

[TR363] A Well, what we do, when a man asks for feasibility studies, we look into the developing characteristics of the property, what the zoning is, what the setbacks are, what the parking requirements are, what the utility availability is, where it is located, other physical features of the property, whether it is rough or not, so rough and any other aspects. Then we summarize these into a report and advise him of the potential effects of these.

Now, this requires a combination of several things: First of all, we do not rely entirely on what we learn from

[TR364]

public officials. This isn't meant to sound detrimental, but what it means is that it is impossible for a public staff engineer or other technical person to tell us exactly what is going to be required in conjunction with the development of a site before we submit a definite plan.

Q A site plan?

A A site plan which is entirely different than, say, a feasibility study plan. It is detailed. There is detailed topography. There is elaborate engineering research into all the various alternatives.

So we have to second guess the engineering approval authority to some extent. Here again it is not meant to be a detrimental comment; it is just a fact that without details engineers can't arrive at specific conclusions. So we have to predict what will be required by the approval authority. We have to predict what will be necessitated by the development itself. We tell our client what we think he should do to come up with the type of development that we think he wants.

Q Is it also a purpose, Mr. Phillips, to come up with a development cost figure?

A Yes.

Q For the raw land?

A That's correct.

* * *

[TR365] I am going to permit Mr. Phillips to testify as an

[TR366]
expert in the field of feasibility studies and give an opinion.

* * *

[TR366]
Q Were you called upon by Mr. Hodges to do the so-called feasibility study with regard to the subject tract, Mr. Phillips?

A Yes, sir; I was.

Q What information were you given and what were you asked to do?

A Well, I was given the location of the property and I was asked to study the best type of layout to maximize the industrial warehouse space on the long, rectangular, portion of this property. I was not involved in any other of the parcels.

* * *

[TR368]
A Well, we started out with the basic premise that the use would be for short-term warehousing. Short-term warehousing to me in this instance means the type of warehousing defined in the Alexandria zoning ordinance which has a specific parking requirement. There is a differential between short-term and long-term which is very significant. This was intended to be short-term warehousing.

* * *

[TR369] We also have to satisfy the City zoning requirement of one space, one parking space, for each 100 square feet -- for each 400 square feet of office use and one for each 600 square feet of short-term warehouse use.

So, in any study of this type you are working a balance, more or less trial and error, of available warehouse space versus parking. It is a constant one-offsets-the-other situation. You try to reach what is a happy medium where you can provide the required parking and support the warehouse space.

[TR378] * * *

A Well, the sanitary system is located, as I mentioned previously, I think it is approximately two-thirds of the length there on the south side of the property. As far as I can tell from the City, that main is adequate and there is capacity in it. The system we proposed, however, is along the north side of the property for the specific reason that the office and toilet fixtures in this type of warehouse are invariably on the front, in this case the north side, and the building connection would have to go the entire length of the building.

[TR382]

A Because of the location of this land in the watershed and the fact that the water is draining into the building, so to speak, from north to south, the topography is sloping from north to south, it is mandatory that we provide a system of some sort between the northern face of the buildings and the northern side of the road which runs along the front of the buildings. In our opinion, it would be impossible to have adequate drainage on this site without a storm drainage trunk along that entire length.

* * *

[TR383]

Q Now, did you calculate or cause to be calculated, Mr. Phillips, the cost of these various improvements as of January 1972?

A Yes, sir; we did.

* * *

[TR386]

Q Then you mentioned parking spaces required. How was that calculated?

A We allotted for each of the modules shown on the sketch 200 square feet of office area.

Q Is that a lot or little?

A I would say it is a fairly small amount for this type of use but here again, for the warehousing, you don't need too much in the way of office space. We calculated the parking requirements based on that office space quantity. Then the residue of the parking was calculated at the rate of one for each 600 square feet of warehouse space for a total of 1,032 spaces.

* * *

[R387]

Q All right. Why is your projection broken down into phases, Mr. Phillips?

A We were advised by Mr. Hodges that a phased development would be typical and would be necessary in this type of development, what was proposed here as opposed to a one-unit development.

Q The first item you have is grading. Would you tell the Court what you mean by grading and the scope necessary for the finished site development of this property?

A Well, the grading we have estimated at approximately one thousand dollars an acre would be for the removal of topsoil, removal of soil and material that would be incapable of carrying the structural loads of both the roadways and the buildings. There is a certain quantity, say, eight to ten inches, on about every property that is not usable. It contains organic material and other materials of that sort.

* * *

[R388] MR. ALEXANDER: He has the larger amount in phase one. I am just asking the basis for that allocation.

THE WITNESS: In phase one?

BY MR. ALEXANDER:

Q Yes.

A I am not sure why that number at this point is slightly different than the others but a nominal of a thousand, approximately a thousand dollars an acre was the basis for it.

* * *

[TR390]

Q Would there be any difference in contracting for such fill all at one time or by phases?

A It is very difficult to predict the cost of fill because earth is never available when you need it. It is always available when you have it. You can't get rid of it. We picked an arbitrary number of a dollar and a half a cubic yard for the import of this fill which I think is fairly well accepted in the area for that type of material.

[TR392]

* * *

A Well, we hope and expect that all of the storm sewer would be developed in accordance with City requirements and in accordance with good engineering practice. Frankly, I am a little bit unsure exactly what the on-site requirement of City would be and I have based this on-site design and those designs that carry water through the property on design criteria that is published by the City.

[TR393]

* * *

A Well, we talked to Mr. Dayton Cook of the City and learned --

Q The Director of Public Works?

A Director of Public Works -- and learned from him that curb and gutter would be required along Quaker Lane.

We also assumed on our own evaluation of the impact of this site that sidewalk and some additional street widening would be appropriate as well and would be necessary. We included those items in Quaker Lane improvements.

* * *

[TR394]

Q Why would you make that improvement?

A Well, we felt that ingress and egress onto Roth Street would be desirable as a secondary mode of access to the property.

Q Would it be required in the site planning process for fire access and so forth?

A I think it is reasonable to assume that it would be.

* * *

[TR404]

Q The figures you have under your phase one, on-site roads, can you tell me whether or not the roadway you project would be built in accordance with City standards?

A Insofar as the structure of the road is concerned, it would meet or exceed City standards.

Q Why would it exceed City standards?

A Well, we have some very heavy wheel loads here. Our object would be to make sure we can accommodate those loads.

* * *

[TR407]

Q Now, can you tell me, Mr. Phillips, whether or not you have gone hog-wild with improvements or just put the barest [TR408] minimum, or have you gone in between? I know it is a hard question, but I have to ask you.

A Well, I think I can answer the question this way: The worst thing you could do for your client as an engineer preparing a study like this would be to underestimate the costs of these improvements. Our clients are not looking for the least possible costs at this stage. They are looking for a reasonable cost, one that they could expect. If there is a way during the course of final engineering development that those predicted costs can be reduced, that is fine; but I believe that these feasibility studies should show what might reasonably be expected and what would be required in our opinion for a well-engineered job.

I say this because I suppose if you had no restrictions of any kind, there is always somebody who would do less than what they should. So what I am saying is, we are telling our client what we think as engineers they should do and that is what this estimate represents.

Q In your opinion, this is the reasonably anticipated development costs for an industrial park site development of the subject property?

[R409] A I believe it is. I think I should also state at this point that there are usually some, perhaps some qualifications to these things. Sometimes you might have to do this, but you may not have to do that -- this kind of thing gets into it. I am sure that upon final engineering that some of this would change but I don't feel that in the gross that the development cost of this property would be substantially reduced upon final design.

Q Stated another way, is it your opinion that development cost would be right around one dollar per square foot regardless?

A I don't know what range you are giving it but I think that is the correct order of magnitude.

Q And the fact that the property is generally level except perhaps for the extreme western end, is that a big advantage to it or how does the engineer look at it?

A I think it is a disadvantage because my experience has been from an engineering point of view that flat sites are really more expensive to develop in some cases than steep

sites. One of the reasons is that the storm drains, because of the flat slopes, become fairly good sized very fast where, say, on a grade -- I don't like to use too much technical language -- but say on a three percent grade for example, which is three feet in a hundred, you might for certain flow [TR410] use 12-inch pipe whereas if it were five percent grade which is half a foot in diameter, much flatter, you might use 24-inch pipe. From that point of view development costs are aggravated, so to speak, by the flatness of the site. Also, the drainage on the surface, the surface has to be molded almost like waves on top of the sea to get to force slope points at various intervals in order to get the surface drainage into a storm drainage system, whereas if you have some topography to work with, oftentimes you can minimize these costs. I wouldn't say as a flat statement necessarily that a level site is more difficult but I have seen instances and I think this is one of them, where the levelness and the shape is a problem.

* * *

[TR432]

Q I see. Do you generally do these, as you say, for prospective purchasers?

A Usually for prospective purchasers.

[TR434]

Q Would you say that you might tend to lean towards the high side on projected costs so there won't be any unpleasant surprises?

A Well, I don't want to make a blanket statement that we always take the high side. I take the conservative approach.

* * *

A Let's say we looked at a situation like Quaker Lane, for example, in this case. We might be informed that sidewalk wouldn't be required, but I think it makes good sense to put a sidewalk on Quaker Lane. I put a sidewalk on Quaker Lane in the estimate.

Q Even if it is not required?

A In this instance I would, yes.

* * *

[TR436]

Q To your knowledge, the plan that you have developed in connection with this case, was that developed on behalf of a potential acquirer of the property, purchaser?

[TR437]

A I can't really answer that yes or no because it really doesn't make any difference to me whether it is for a buyer or seller. The facts are the same in my opinion.

[TR438]

Q Is one of the givens that you would consider on the long site and not any of these auxiliary or other pieces of property?

A Yes, we did not attempt to work those into the plan to any great degree. When we first started on it, we were doing that and we were having trouble with it and then I learned that, he then told us, we weren't supposed to be doing that; that we were just working with a rectangle.

* * *

[TR439]

Q You say there is more or less parking required for short-term?

A There is more parking required for short-term.

Q About how much more, proportionately?

A Depending on the size, anywhere from four times as much to almost ten times as much.

* * *

[TR441]

Q Are you aware of whether or not the City permits perpendicular parking along public streets if the street is dedicated?

A In my opinion, the City would not permit perpendicular parking along the dedicated street with ingress and egress into moving lanes.

Q Isn't that what you are showing on here?

A Well, this plan shows 44 feet of roadway and 16 feet for parking, four of which, the extra four between 16 and 20,

[TR442]

is the overhang. By the time you deduct the maneuvering spac you still have two moving lanes that are not interrupted by parking, for the access to the parking.

Q Now, what is your knowledge as to the minimum width the City would accept in a dedicated public street?

A I am not sure that I can answer that positively, although normally the minimum is 50 feet or right-of-way.

Q Would you have a remaining 50 feet of right-of-way if you took 16 feet off your projected road here for perpendic parking?

A No, I believe in this case they would either have to be a special exception to the right-of-way requirement or ther would have to be a reduction in the warehousing space to accom modate the additional right-of-way.

[TR446]

* * *

Q I am still not sure you have answered my question. My question was whether or not the storm drainage system for which you worked out the cost was particularly designed for a particular configuration of warehouses and the type of use that was given to you by Mr. Hodges?

A Well yes, it was. I approximated the pipe sizes and locations that would be necessary to accommodate what is shown on that drawing.

* * *

* * *

[TR452]

Q Then you have 16 feet of perpendicular parking spaces. You would expect a variance with respect to the size of the parking spaces if the City let you have perpendicular parking, is that right?

A Not necessarily. I think that it might be four feet in there that they would allow as part of the parking although the curb itself doesn't include that four feet.

Q Did you testify that a parking space by City regulations has to be 20 feet in length?

A That's right; but it is customary to include part of the bumper overhang in the 20 feet. In other words, let's say that this is a wall and that this is 20 feet that would be required. I wouldn't have to pave all the way up to that wall. I could stop right here because the wheels of the car are not flush with the front of the car.

Q But you would be looking, then, for some sort of variance to take that into account, is that correct?

A If the City's policies would not allow that, I would have to expect to ask for a variance, yes.

[TR460] * * *

Q Okay, the point of all that, Mr. Phillips, is: Assuming that that has already happened, that you have got railroad tracks over here beyond the property line that are

[K 761]
somewhat below grade, makes me wonder if it wouldn't be possible instead of building this up to cut it down and have your railroad line here, be down lower, and use some of that dirt to provide the fill from on the site? Was that considered at all?

A That concept of grading it was not considered and I would not want to comment on it without some additional studies as to whether or not this was a feasible idea.

[TR465]

* * *

Q You mentioned several times that there are a number of unknowns. You can go to code books; you can take your own personal experience. Where does the City have the leverage in requiring finally the site improvements, at what point?

A The City has a site plan ordinance and requires the submission of a detailed site development plan for any improvement of this sort in the City.

Q As far as the site plan procedure at that point, can they specify the width of a roadway, for instance?

A Yes.

Q Can they specify improvements needed at the Quaker Lane access?

A Yes.

Q Can they specify the on and off-site improvements needed at the Roth Street area?

A Yes.

Q Can they specify the location of hydrants, catch basins and so forth?

A Yes, they can.

[TR466]

Q Can they specify the storm sewer -- I mentioned that -- the sanitary sewer requirements?

A Yes.

* * *

[TR615]

Q. Would you describe those sales, please?

A. Drug Fair purchased -- you see, these are similar but really not comparable; this is the turn of the coin. Here we have good similarity but no comparability, and I'll tell you in a minute why they aren't comparable.

Q. Well, I asked you if you found any sales of property that you felt were comparable to Fruit Growers' as it is now, and you're telling me of properties which you felt weren't comparable.

A. All right, there is no way of adjusting these sales to the subject even though they fitted so nicely in size, like from 30 acres to 36 acres in size; ours is 30 here. There's is undeveloped in the raw; ours is undeveloped in the raw. They had development costs that were high; ours has high development costs.

Q. You are telling me how they are comparable. Are they or are they not comparable sales?

A. They are similar but again they are not comparable. No, I'll have to omit the list.

Q. When you say similar, you have mentioned several characteristics. When you say they are not comparable, what do you mean?

[JR616]

A. Meaning that you would have to know -- you woul have to make three complete appraisals --

Q. You didn't do that?

A. -- In addition to making the appraisal of this property.

Q. But you didn't appraise any others?

A. No. That involved maybe $12,000 worth of engin ing and maybe $8,000 worth of appraisals fees just to app the other three properties to see how they would come out as compared to ours. And you just can't economically go into that because these other three properties all involv some development costs. Two of them were expensive, but not as expensive as our property.

Q. Is it your testimony that you found no property anywhere that you felt had sold and was comparable to the Fruit Growers' site as it stood in January of 1972?

A. Similar but with no economic way of comparing t two. I said there were 29 cents a square foot, 30 cents a square foot, and 50 cents a square foot, Mrs. Sasso. I I can't use those to appraise the subject property. Ther not enough accuracy in comparing the Drug Fair site with site unless you spend an awful lot of money doing a compa son.

FRUIT GROWERS EXPRESS

DEVELOPMENT COSTS AS OF JANUARY 1, 1972

	Phase I	Phase II	Phase III	Phase IV	Total
Land Area - Acres	11.2	6.0	5.5	5.0	27.7
Number of Buildings	13	6	6	4	29
Gross Floor Area - S.F.	271,075	129,750	129,750	86,500	617,075
Parking Spaces Required	454	217	217	~~133~~ 144	~~1,021~~ 1032
Cost Estimate					
1. Grading	$ 11,700	$ 6,000	$ 5,500	$ 5,000	$ 28,200
2. Fill Under Slab	45,179	21,625	21,625	14,417	102,846
3. Storm Sewer	140,374	18,317	23,104	19,000	200,795
4. Sanitary Sewer	29,688	15,241	14,641	13,028	72,598
5. Water Mains	41,325	16,363	16,775	11,520	85,983
6. Quaker Lane Improvements	6,378	-	-	-	6,378
7. Roth Street Improvements	4,620	-	-	-	4,620
8. On Site Street Improvements	176,654	76,034	63,916	61,948	378,552
9. Railroad Siding	65,000	26,600	27,050	18,350	137,000
10. Contractor Overhead & Profit	109,351	37,837	36,271	30,085	213,544
11. Total Construction Estimate	$630,269	$218,017	$208,882	$173,348	$1,230,516
			Engineering Fee		61,525
			Site Plan Filing Fee		1,498
			Alexandria Inspection Fee		19,207
			Total Estimated Cost		$1,312,746
			Less 2400.00 See IV		2400 1,310,346

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Plaintiff C-45
3-20-74
J Gallaher
F.P.B

FRUIT GROWERS EXPRESS

PHASE I

Building 1	14,400 Square Feet
Building 2	18,800 Square Feet
Buildings 3 thru 13 - 11 @ 21,625	237,875 Square Feet
	271,075 Square Feet

Parking - Office - 13 x 200 x 1/400	7
Parking - Warehouse	447
	454 Required

Cost Estimate

1.	Grading -	11.2 Acres x $1,045	$ 11,700
2.	Fill Under -	271,075 x 3/27 x $1.50	$ 45,179
3.	Storm Sewer -		
	15"	40 LF x $9.00	$ 360
	18"	140 LF x $10.00	1,400
	36"	420 LF x $22.25	9,345
	42"	445 LF x $25.75	11,459
	48"	330 LF x $30.25	9,983
	6'x 6'BC	25 LF x $175	4,375
	8'x 8'BC	365 LF x $200	73,000
	30"	30 LF x $17.75	533
	24"	255 LF x $13.25	3,379
	54"	330 LF x $38	12,540
	Structures	28 Ea. x $500	14,000
			$140,374

4.	Sanitary Sewer -		
	Tap Fee - $.035/GSF = 271,075 x .035		$ 9,488
	10" Sanitary Sewer	1780 x $10	17,800
	Manhole - 8 each x $300		2,400
			$ 29,688

FRUIT GROWERS EXPRESS

PHASE I

5.	Water -		
	Tap and Meter Fee	13 taps x $125	$ 1,625
	6" Water - Colvin St.	200 LF x $18	3,600
	6" Water - on site	400 LF x $8	3,200
	12" water	2200 LF x $12.50	27,500
	8" Water	180 LF x $10	1,800
	Hydrants-	8 Ea. x $450	3,600
			$ 41,325
6.	Quaker Lane Improvements -		
	C & G	350 LF x $3.40	$ 1,190
	Sidewalk	350 LF x $3.15	1,103
	Entrance	2 Ea. x $905	1,810
	Pavement	350 S.Y. x $6.50	2,275
			$ 6,378
7.	Roth Street Improvements (95' from Colvin St. to property line) -		
	C & G	190 LF x $3.40	$ 646
	Sidewalk	190 LF x $3.15	599
	Entrance	1 Ea. x $905	905
	Pavement	380 S.Y. x $6.50	2,470
			$ 4,620
8.	On Site Roads -		
	C & G	4,520 LF x $3.40	$ 15,368
	Sidewalk	3,560 LF x $3.15	11,214
	Entrance	12 Ea. x $150	1,800
	Pavement	22,811 S.Y. x $6.50	148,272
			$176,654
9.	Railroad -		
	Charge by R.F. & P	LS - $7,000	$ 7,000
	Switches	2 Ea. x $5,000	10,000
	Rail	3,200 LF x $15.	48,000
			$ 65,000

FRUIT GROWERS EXPRESS

PHASE II

Buildings 14 thru 19 - 6 @ 21,625	129,750 Square Feet
Parking - Office - 6 x 200 x 1/400	3
Parking - Warehouse - 128,550 x 1/600	214
	217 Required

Cost Estimate

1.	Grading -	6.0 Acres x $1,000	$ 6,000
2.	Fill Under Slab -	129,750 x 3/27 x $1.50	21,625
3.	Storm Sewer -		
	21"	130 LF x $11.50	1,495
	24"	25 LF x $13.25	331
	27"	180 LF x $15.50	2,790
	33"	250 LF x $20.00	5,000
	42"	35 LF x $25.75	901
	15"	200 LF x $9.00	1,800
	Structures	12 Ea. x $500	6,000
			$18,317
4.	Sanitary Sewer -		
	Tap Fee - 129,750 x $0.035 GSF		$ 4,541
	10" Sanitary Sewer	920 LF x $10.00	9,200
	Manhole	5 Ea. x $300	1,500
			$15,241
5.	Water -		
	Tap and Meter Fee	6 taps x $125	$ 750
	12" Water Main	785 LF x $12.50	9,813
	6" Water Main	375 LF x $8.00	3,000
	Hydrants	4 Ea. x $450	1,800
	8" Water Main	100 LF x $10.00	1,000
			$16,363

FRUIT GROWERS EXPRESS

PHASE II

6.	On Site Roads -		
	C & G	2300 LF x $3.40	$ 7,820
	Sidewalk	1560 LF x $3.15	4,914
	Entrance	6 Ea. x $150.00	900
	Pavement	9600 S.Y. x $6.50	62,400
			$76,034
7.	Railroad -		
	Switches	1 Ea. x $5,000	$ 5,000
	Rail	1440 LF x $15	21,600
			$26,600

FRUIT GROWERS EXPRESS

PHASE III

Buildings 20 thru 25 - 6 @ 21,625	129,750 Square Feet
Parking - Office - 6 x 200 x 1/400	3
Parking - Warehouse - 128,550 x 1/600	214
	217 Required

Cost Estimate

1.	Grading -	5.5 Acres x $1,000	$ 5,500
2.	Fill Under Slab -	129,750 x 3/27 = 14,417 CY x $1.50	21,625
3.	Storm Sewer -		
	15"	215 LF x $9.00	1,935
	42"	725 LF x $25.75	18,669
	Structures	5 Ea. x $500	2,500
			$23,104
4.	Sanitary Sewer -		
	Tap Fee - 129,750 x $0.035		$ 4,541
	10" Sanitary Sewer	860 LF x $10.00	8,600
	Structures	5 Ea. x $300	1,500
			$14,641
5.	Water -		
	Tap and Meter Fee	6 taps x $125	$ 750
	6" Water	375 LF x $8.00	3,000
	8" Water	260 LF x $10.00	2,600
	12" Water	690 LF x $12.50	8,625
	Hydrant	4 Ea. x $450	1,800
			$16,775
6.	On Site Roads -		
	C & G	1950 LF x $3.40	$ 6,630
	Sidewalk	1440 LF x $3.15	4,536
	Entrance	5 Ea. x $150	750
	Pavement	8000 S.Y. x $6.50	52,000
			$63,916
7.	Railroad -		
	Switches	1 Ea. x $5,000	$ 5,000
	Rail	1470 LF x $15.00	22,050
			$27,050

FRUIT GROWERS EXPRESS

PHASE IV

Buildings 26 thru 29 - 4 @ 21,625	86,500 Square Feet
Parking - 4 Offices x 200 x 1/400	2
Parking - Warehouse - 78,500 x 1/600	131
	133 Required

Cost Estimate

1.	Grading -	5 Acres x $1,000	$ 5,000
2.	Fill Under Slab -	86,500 x 3/27 x $1.50	$14,417
3.	Storm Sewer -		
	18"	440 LF x $10.00	$ 4,400
	48"	400 LF x $30.25	12,100
	Structures	5 Ea. x $500	2,500
			$19,000
4.	Sanitary Sewer -		
	Tap Fee - 86,500 x $0.035		$ 3,028
	10" Sanitary Sewer	220 LF x $10.00	2,200
	18" Sanitary Sewer	440 LF x $15.00	6,600
	Manhole	4 Ea. x $300	1,200
			$13,028
5.	Water -		
	Tap and Meter Fee	4 taps x $125	$ 500
	6" Water	315 LF x $8.00	~~4,920~~ 2,520.00
	8" Water	430 LF x $10.00	4,300
	Hydrant	4 Ea. x $450	1,800
			~~$11,520~~ 9,120
6.	On Site Roads -		
	C & G	2130 LF x $3.40	$ 7,242
	Sidewalk	1240 LF x $3.15	3,906
	Entrance	5 Ea. x $150	750
	Pavement	7700 S.Y. x $6.50	50,050
			$61,948
7.	Railroad -		
	Switches	1 Ea. x $5,000	$ 5,000
	Rail	890 LF x $15.00	13,350
			$18,350

FOR COMPUTER DETERMINATION OF THE PRESENT VALUE OF A NON-INVESTMENT DEVELOPMENT PROPERTY BASED ON DISCOUNTING OF FUTURE NET CASH FLOW. Rates for equity yield, acquisition loan and development loan must be entered in accordance with the period for which cash flow is discounted (ie., semi-annually or annually). Clear main d subsequent runs involving shorter develo

00 Yield on equity cash invested, periodic	0.1500
01 Acquisition loan/price ratio	0.7500
02 Acquisition loan interest, periodic	0.0450
03 Acquisition loan curtail ratio	1.1000
04 Development loan interest, periodic	0.0600
05 Development loan curtail ratio	1.2500
06 Total gross sales from project	2,454,206.000
07 Total development & sales expenses	1,312,746.000
10 Gross sales income, 1st period	1.
11 Gross dev. & sales costs, 1st period	397,364.
12 Gross sales income, 2nd period	204,517.
13 Gross dev. & sales costs, 2nd period	315,135.
14 Gross sales income, 3rd period	204,517.
15 Gross dev. & sales costs, 3rd period	0.
16 Gross sales income, 4th period	204,517.
17 Gross dev. & sales costs, 4th period	0.
18 Gross sales income, 5th period	204,517.
19 Gross dev. & sales costs, 5th period	0.
20 Gross sales income, 6th period	204,517.
21 Gross dev. & sales costs, 6th period	218,017.
22 Gross sales income, 7th period	204,517.
23 Gross dev. & sales costs, 7th period	0.
24 Gross sales income, 8th period	204,517.
25 Gross dev. & sales costs, 8th period	0.
26 Gross sales income, 9th period	204,517.
27 Gross dev. & sales costs, 9th period	208,882.
28 Gross sales income, 10th period	204,517.
29 Gross dev. & sales costs, 10th period	0.
30 Gross sales income 11th period	204,517.
31 Gross dev. & sales costs, 11th period	0.
32 Gross sales income, 12th period	204,517.
33 Gross dev. & sales costs, 12th period	173,348.
34 Gross sales income, 13th period	204,517.
35 Gross dev. & sales costs, 13th period	0.
36 Gross sales income, 14th period	
37 Gross dev. & sales costs, 14th period	
38 Gross sales income, 15th period	
39 Gross dev. & sales costs, 15th period	
40 Gross sales income, 16th period	
41 Gross dev. & sales costs, 16th period	

Objection to admissability sustained.

F.P.B.

Market value of total property	464,364.
Initial equity cash invested	116,091.
	1.
Acq. loan balance, beginning of period	348,273.
Acq. loan curtail during period	0.1
Acq. loan interest for period	15,672.
Dev. loan balance, beginning of period	0.
Dev. loan curtail(+) or draw(-) in period	-397,363.
Dev. loan interest for period	11,920.
Net cash flow for period	-27,593.
	2.
Acq. loan balance, beginning of period	348,273.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	14,953.
Dev. loan balance, beginning of period	397,363.
Dev. loan curtail(+) or draw(-) in period	-110,618.
Dev. loan interest for period	27,160.
Net cash flow for period	-74,039.
	3.
Acq. loan balance, beginning of period	316,347.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	13,517.
Dev. loan balance, beginning of period	507,981.
Dev. loan curtail(+) or draw(-) in period	42,607.
Dev. loan interest for period	29,200.
Net cash flow for period	87,266.
	4.
Acq. loan balance, beginning of period	284,422.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	12,080.
Dev. loan balance, beginning of period	465,373.
Dev. loan curtail(+) or draw(-) in period	63,911.
Dev. loan interest for period	26,005.
Net cash flow for period	70,594.

Market value of total property	
Initial equity cash invested	
	5.
Acq. loan balance, beginning of period	252,497.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	10,644.
Dev. loan balance, beginning of period	401,461.
Dev. loan curtail(+) or draw(-) in period	85,215.
Dev. loan interest for period	21,531.
Net cash flow for period	55,201.
	6.
Acq. loan balance, beginning of period	220,572.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	9,207.
Dev. loan balance, beginning of period	316,246.
Dev. loan curtail(+) or draw(-) in period	-13,500.
Dev. loan interest for period	19,379.
Net cash flow for period	-60,512.
	7.
Acq. loan balance, beginning of period	188,647.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	7,770.
Dev. loan balance, beginning of period	329,746.
Dev. loan curtail(+) or draw(-) in period	127,823.
Dev. loan interest for period	15,950.
Net cash flow for period	21,047.
	8.
Acq. loan balance, beginning of period	156,722.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	6,334.
Dev. loan balance, beginning of period	201,923.
Dev. loan curtail(+) or draw(-) in period	149,126.
Dev. loan interest for period	7,641.
Net cash flow for period	9,489.

Market value of total property	
Initial equity cash invested	
	9.
Acq. loan balance, beginning of period	124,797.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	4,897.
Dev. loan balance, beginning of period	52,796.
Dev. loan curtail(+) or draw(-) in period	-4,365.
Dev. loan interest for period	3,298.
Net cash flow for period	-40,121.
	10.
Acq. loan balance, beginning of period	92,872.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	3,460.
Dev. loan balance, beginning of period	57,161.
Dev. loan curtail(+) or draw(-) in period	57,161.
Dev. loan interest for period	1,714.
Net cash flow for period	110,255.
	11.
Acq. loan balance, beginning of period	60,947.
Acq. loan curtail during period	31,925.
Acq. loan interest for period	2,024.
Dev. loan balance, beginning of period	0.
Dev. loan curtail(+) or draw(-) in period	0.
Dev. loan interest for period	0.
Net cash flow for period	170,567.
	12.
Acq. loan balance, beginning of period	29,022.
Acq. loan curtail during period	29,022.
Acq. loan interest for period	653.
Dev. loan balance, beginning of period	0.
Dev. loan curtail(+) or draw(-) in period	0.
Dev. loan interest for period	0.
Net cash flow for period	1,493.

Market value of total property	
Initial equity cash invested	
	13.
Acq. loan balance, beginning of period	0.
Acq. loan curtail during period	0.
Acq. loan interest for period	0.
Dev. loan balance, beginning of period	0.
Dev. loan curtail(+) or draw(-) in period	0.
Dev. loan interest for period	0.
Net cash flow for period	204,517.
Acq. loan balance, beginning of period	
Acq. loan curtail during period	
Acq. loan interest for period	
Dev. loan balance, beginning of period	
Dev. loan curtail(+) or draw(-) in period	
Dev. loan interest for period	
Net cash flow for period	
Acq. loan balance, beginning of period	
Acq. loan curtail during period	
Acq. loan interest for period	
Dev. loan balance, beginning of period	
Dev. loan curtail(+) or draw(-) in period	
Dev. loan interest for period	
Net cash flow for period	
Acq. loan balance, beginning of period	
Acq. loan curtail during period	
Acq. loan interest for period	
Dev. loan balance, beginning of period	
Dev. loan curtail(+) or draw(-) in period	
Dev. loan interest for period	
Net cash flow for period	

FOR COMPUTER DETER. .NATION OF THE PRESENT VAL(OF A NON-INVESTMENT DEVELOPMENT PROPERTY BASED ON DISCOUNTING OF FUTURE NET CASH FLOW. Rates for equity yield, acquisition loan and development loan must be entered in accordance with the period for which cash flow is discounted (ie., monthly, quarterly, semi-annually or annually). Clear main data registers before subsequent runs involving shorter develc~~ment and sales period.

00	Yield on equity cash invested, periodic	0.1500
01	Acquisition loan/price ratio	0.9500
02	Acquisition loan interest, periodic	0.0350
03	Acquisition loan curtail ratio	1.1000
04	Development loan interest, periodic	0.0600
05	Development loan curtail ratio	1.2500
06	Total gross sales from project	2,454,206.000
07	Total development ~~& sales expenses~~	1,312,746.000
10	Gross sales income, 1st period	1.
11	Gross dev. & sales costs, 1st period	397,364.
12	Gross sales income, 2nd period	409,034.
13	Gross dev. & sales costs, 2nd period	315,135.
14	Gross sales income, 3rd period	409,034.
15	Gross dev. & sales costs, 3rd period	218,017.
16	Gross sales income, 4th period	409,035.
17	Gross dev. & sales costs, 4th period	0.
18	Gross sales income, 5th period	409,034.
19	Gross dev. & sales costs, 5th period	208,882.
20	Gross sales income, 6th period	409,034.
21	Gross dev. & sales costs, 6th period	0.
22	Gross sales income, 7th period	409,035.
23	Gross dev. & sales costs, 7th period	173,348.
24	Gross sales income, 8th period	
25	Gross dev. & sales costs, 8th period	
26	Gross sales income, 9th period	
27	Gross dev. & sales costs, 9th period	
28	Gross sales income, 10th period	
29	Gross dev. & sales costs, 10th period	
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37	Gross dev. & sales costs, 14th period	
38	Gross sales income, 15th period	
39	Gross dev. & sales costs, 15th period	
40	Gross sales income, 16th period	
41	Gross dev. & sales costs, 16th period	

numbers of the registers shown at far left.

Market value of total property	761,082.	
Initial equity cash invested	38,054.	– 5% of abov
	1.	
Acq. loan balance, beginning of period	723,028.	95% of
Acq. loan curtail during period	0.3	
Acq. loan interest for period	25,305.	Int. on 95
Dev. loan balance, beginning of period	0.	
Dev. loan curtail(+) or draw(-) in period	-397,363.	Dev. fo
Dev. loan interest for period	11,920.	
Net cash flow for period	-37,227.	
	2.	
Acq. loan balance, beginning of period	723,028.	
Acq. loan curtail during period	132,555.	
Acq. loan interest for period	22,986.	
Dev. loan balance, beginning of period	397,363.	
Dev. loan curtail(+) or draw(-) in period	19,562.	
Dev. loan interest for period	23,254.	
Net cash flow for period	-104,459.	
	3.	
Acq. loan balance, beginning of period	590,473.	
Acq. loan curtail during period	132,555.	
Acq. loan interest for period	18,346.	
Dev. loan balance, beginning of period	377,800.	
Dev. loan curtail(+) or draw(-) in period	79,590.	
Dev. loan interest for period	20,280.	
Net cash flow for period	-59,755.	
	4.	
Acq. loan balance, beginning of period	457,917.	
Acq. loan curtail during period	132,555.	
Acq. loan interest for period	13,707.	
Dev. loan balance, beginning of period	298,210.	
Dev. loan curtail(+) or draw(-) in period	255,647.	
Dev. loan interest for period	10,223.	
Net cash flow for period	-3,098.	

Market value of total property		
Initial equity cash invested		
	5.	
Acq. loan balance, beginning of period		325,362.
Acq. loan curtail during period		132,555.
Acq. loan interest for period		9,067.
Dev. loan balance, beginning of period		42,563.
Dev. loan curtail(+) or draw(-) in period		42,563.
Dev. loan interest for period		1,276.
Net cash flow for period		14,688.
	6.	
Acq. loan balance, beginning of period		192,807.
Acq. loan curtail during period		132,555.
Acq. loan interest for period		4,428.
Dev. loan balance, beginning of period		0.
Dev. loan curtail(+) or draw(-) in period		0.
Dev. loan interest for period		0.
Net cash flow for period		272,050.
	7.	
Acq. loan balance, beginning of period		60,252.
Acq. loan curtail during period		60,252.
Acq. loan interest for period		1,054.
Dev. loan balance, beginning of period		0.
Dev. loan curtail(+) or draw(-) in period		0.
Dev. loan interest for period		0.
Net cash flow for period		174,380.
Acq. loan balance, beginning of period		
Acq. loan curtail during period		
Acq. loan interest for period		
Dev. loan balance, beginning of period		
Dev. loan curtail(+) or draw(-) in period		
Dev. loan interest for period		
Net cash flow for period		

Fruit Growers' main parcels

Index. Initials Date Prepared by Approved by

Plaintiff's Ex 49 3-10-

Assume land area = 30.55 Ac = 1,330,758 SF
Deduct land for 60' street 240,000 SF ±
Marketable land = 1,090,758 SF @ $2.25 = $2,454,206

Total development costs excluding interim RE taxes (Phillips) $1,312,746

Input Data for a semi-annual DCF valuation analysis series:

Equity Yield = 30% (.15) includes profit, OH + advertising

	V_1	V_2	V_3
Acquisition loan ratio =	.75	.85	.95
" " interest =	.09 (.045)	.08 (.04)	.07 (.035)

Acquisition loan curtail = 110%
Development loan interest = .12 (.06)
" " curtail = 125%
Σ Gross sales = 2,454,206
Σ Gross costs = 1,312,746

3½ Yr. Program		4½ Yr Program		5½ Yr Program	
Income	Costs	Income	Costs	Income	Costs
1	397364	1	397364	1	397364
409034	315135	306776	315135	245421	315135
409034	218017	306776	0	245421	0
409034	0	306776	218017	245421	0
409034	208882	306776	0	245421	218017
409034	0	306776	208882	245421	0
409034	173348	306776	0	245421	0
		306776	173348	245421	208882
		306776	0	245421	0
				245421	173348
				245421	0
V_1 = 673081		V_1 = 572135		V_1 = 520649	
V_2 = 713085		V_2 = 612603		V_2 = 563034	
V_3 = 761082		V_3 = 662382		V_3 = 616396	

6½ Yr. Program		
	Income	Costs
1	1	397364
2	204517	315135
3	204517	0
4	204517	0
5	204517	0
6	204517	218017
7	204517	0
8	204517	0
9	204517	208882
10	204517	0
11	204517	0
12	204517	173348
13	204517	0
	V_1 = 464364	
	V_2 = 506847	

Statistical Analysis of Values:

All 12 values: Mean = 602264
Standard Deviation = 88075

4 Values based on 85% avg. loan ratio and 8% avg. loan interest:

Mean = 598842
Standard Deviation = 87533

3/20/74