SHENEHON
BUSINESS & REAL ESTATE VALUATIONS

Valuation Viewpoint

Volume 23, Number 4 — 2018 in Review

A Window of Opportunity

by Madeline Strachota

A provision in the 2017 Tax Cuts and Jobs Act established preferential tax treatment for investments in distressed, lower-income areas around the country, known as Qualified Opportunity Zones (QOZ). The Opportunity Zone program was designed to attract investment that would spur economic development and job creation in areas that would otherwise not provide attractive returns for investors. While other programs in the past sought similar outcomes, this program creates the largest incentives for investors yet.

The Opportunity Zone program can benefit investors in three main ways:

1. Deferred taxes on capital gains from an asset sale (original investment) that are rolled into the QOZ until 12/31/2026, or when the new investment in the QOZ is sold, whichever comes first.
2. Permanent reduction of deferred gain on the original investment by 10% after holding the new investment for 5 years and an additional 5% deduction (totaling 15%) after holding the new investment for 7 years.
3. An exclusion of taxable gain on sale of the new investment if held for 10 years.

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Market Trends and Value Indicators

Office Buildings—Downtown	→	0.0%
Office Buildings—Suburban	→	0.0%
Retail Centers	→	2.0%
Industrial Buildings	↑	3.0%
Apartments	→	2.0%
New Housing Starts—Midwest*	↑	5.0%
Productivity**	↑	2.3%
US Unemployment***	↓	3.5%
Consumer Confidence Index***	↑	135.7%

Statistics reflect year-over-year value change from:
* YoY October ** YoY 3Q 2018 *** November 2018

In This Issue ...

Market Trends and Indicators

Economic Indicator

New Housing Starts— Midwest Yearly Totals	2012	2013	2014	2015	2016	2017	YTD Oct 2018
	127,900	149,600	165,200	152,600	182,300	179,600	154,000

P/E Ratios in Select Industries

Industry (by year)	2010	2011	2012	2013	2014	2015	2016	2017	2018
Basic Materials	8.9	18.1	10.3	7.3	11.5	6.9	6.1	12.4	4.8
Construction	2.8	3.1	4.8	4.1	3.3	3.7	3.3	3.7	3.7
Manufacturing	8.3	9.9	8.3	8.1	8.3	7.4	7.9	7.2	4.7
Wholesale Trade	3.9	5.0	5.2	4.8	6.9	7.3	6.4	6.1	3.8
Retail Trade	2.9	3.5	2.9	3.1	3.5	3.6	3.5	3.7	3.3
Transportation & Warehousing	3.1	3.1	2.7	3.3	3.3	3.7	4.3	3.8	2.4
Information	10.7	14.4	11.3	9.8	10.7	10.7	14.8	15.1	6.9
Finance & Insurance	6.2	5.1	5.7	8.5	8.2	9.8	14.1	14.4	9.6
Professional Services	6.9	11.2	4.5	4.9	6.3	8.4	5.4	6.4	3.3
Healthcare	4.5	6.4	2.8	4.6	4.4	3.7	4.4	3.8	3.4

Data Current as of December 14, 2018

Economic Indicators

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018
Inflation	1.6%	3.2%	2.1%	1.5%	1.6%	0.1%	1.3%	2.1%	2.2% *
Labor Productivity	3.3%	0.1%	0.9%	0.3%	1.0%	1.3%	-0.1%	1.2%	2.3% **
GDP	3.0%	1.7%	2.2%	1.9%	2.4%	2.4%	1.6%	2.4%	3.0% **
Consumer Confidence	62.0	70.8	72.2	78.1	92.6	115.3	113.7	122.1	135.7 ***

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, The Conference Board * YoY November 2018 ** YoY 3Q 2018 ***November 2018

Unemployment

	2005	2010	2011	2012	2013	2014	2015	2016	2017	Oct 2018
US	**5.1%**	**9.6%**	**8.9%**	**8.1%**	**7.4%**	**6.2%**	**5.3%**	**4.9%**	**4.4%**	**3.5%**
Northeast	4.8%	8.7%	8.2%	8.1%	7.5%	6.2%	5.3%	4.8%	4.5%	3.5%
Midwest	5.4%	9.5%	8.4%	7.4%	7.2%	5.8%	4.8%	4.7%	4.1%	3.3%
South	5.0%	9.3%	8.8%	7.7%	7.0%	6.0%	5.3%	4.9%	4.3%	3.5%
West	5.2%	11.0%	10.3%	9.2%	8.0%	6.7%	4.7%	5.1%	4.5%	3.9%
Minnesota	**4.1%**	**7.4%**	**6.5%**	**5.6%**	**5.0%**	**4.2%**	**3.7%**	**3.9%**	**3.5%**	**2.2%**

Rates of Return and Risk Hierarchy

Investment	
30 Year Treasury	3.16%
Aaa Bond	4.02%
Bbb Bond	4.76%
Commercial Mortgage	4.5–5.5%
Institutional Real Estate	6.0–7.0%
Non-Institutional Real Estate	8.0–10.0%

Investment	
S & P Equity (Duff & Phelps)	10.03%
Equipment Finance Rates	10.0–12.0%
Speculative Real Estate	11.0–16.0%
NYSE/OTC Equity (Duff & Phelps)	13.70%
Land Development	12.0–25.0%
NYSE Sm Cap. Equity (Duff & Phelps)	16.73%

As of August 1, 2018

Sources: United States Census Bureau, Pratt's Stats®, Bureau of Labor Statistics, Bureau of Economic Analysis, The Conference Board, Yahoo Finance, Duff & Phelps. Shenehon Company makes every effort to ensure the accuracy of the information published in *Valuation Viewpoint*. Shenehon Company uses only those sources it determines are accurate and reliable, but makes no guarantee with regard to the information presented.

A Window of Opportunity *continued from page 1*

As with most tax incentive programs, investors must meet certain requirements to qualify for Opportunity Zone program benefits. For example, investors must pay deferred taxes from sources other than the initial investment in the QOZ, which must remain invested in the QOZ for 10 or more years. Additionally, all qualifying investments must come from capital gains from assets sales (unlike a 1031 exchange there is no like-kind requirement) and investors must invest through Qualified Opportunity Funds (QOF), which are investment vehicles registered as partnerships or corporations that hold 90% of their assets in qualified businesses or property. Qualified businesses must:

- Generate at least 50% of their gross income from conducting business within a QOZ.
- Use a substantial portion of its intangible property in conducting business within a QOZ.
- Use 70% of tangible property in a QOZ.

Qualified business zone property must either commence with the Qualified Opportunity Fund (any time after December 31, 2017), or the fund must substantially improve the property. This means that within 30 months after the date of acquisition of such property, the improvements to the property must exceed the original basis. If the tangible property is a building, the proposed regulations stipulate that "substantial improvement" is measured only on the basis of the building, not on the basis of the underlying land. Furthermore, there are restrictions on the type of businesses and properties that can qualify for Opportunity Zone benefits. For example, country clubs, strip clubs, casinos, massage parlors, and tanning salons do not qualify. Any eligible taxpayers, individuals or corporations, can make investments in opportunity funds. Additionally, there is no cap on investment.

Investors need to contribute capital gains dollars into a QOF by December 31, 2019 in order to take advantage of the complete program benefits. The investment must be held for five to seven years before December 31, 2026 to qualify for the stepped-up-basis benefit for deferred capital gains. Consequently, an individual invested in a QOF on December 31, 2020 would qualify for a 10%

Timeline		≤180 Days Before QOZ Investment	Dec. 31, 2018	Dec. 31, 2023	Dec. 31, 2026	10+ Years After Initial QOZ Investment
Action	Original investment in assets of any type.	Sell original investment.	Invest capital gains into QOZ.	Hold investment for 5 years.	Hold investment for 7 years.	Hold investment for 10 years.
Benefit			Defer paying taxes on capital gains from original investment.	Permanent 10% reduction of deferred gain on the original investment.	Additional 5% reduction of deferred gain on the original investment.	An exclusion of taxable gain on sale of the new investment.
Example	Invest $100K in Apple Stock in Jan. 2, 2002.	Sell investment in Apple Stock on August 1, 2018 for $10.6M	Invest $10.5M of deferred taxable gain into QOZ via QOF. $5M to purchase existing warehouse and $5.5M to redevelop into apartments.	$10.5-$1.05M= $9.45M is new deferred taxable gain.	$9.45-$.53M= $8.92M is new deferred taxable gain. Pay capital gains tax on $8.92 original (Apple) deferred capital gain	1. Sell QOZ investment for $15M. 2. Do not pay taxes on the $4.5M gain from QOZ investment.

Investors must be nimble to take advantage of the Opportunity Zone Program benefits before the first program deadline passes on December 31, 2019.

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State of the Real Estate Market Highlights

On November 12, Robert Strachota, Shenehon President, gave a presentation on the State of the Real Estate Market for the 36th Annual Real Estate Institute. He began by comparing market financial factors from 2010 with 2018, to assess the economy's development after the 2008 Financial Crisis. The table below provides some of those indicators.

	2010	2018
Total Consumer Debt	$10 trillion	$9.4 trillion
Student Debt	$1.1 trillion	$1.4 trillion
Credit Card (Revolving) Debt	$909.2 million	$1.0 trillion
Automobile Debt	$702.2 billion	$1.2 trillion
Mortgage Debt	$14.3 trillion	$15 trillion
Homeowner Annual Default Rate	11.54%	3.25%
National Average Home Price	$275,300	$374,600
Single-Family Housing Starts	471,200	923,000
Unemployment	10%	3.90%
S&P 500	1,073.87	2,930.75
Dow Jones Industrial	10,067.33	25,461.70
Federal Prime Rate	3.25%	5.25%
Annual Commercial Bank Earnings	$44,581,134	$99,055,921

Next, he considered market indicators to examine trends for consumers and businesses. He cited analysts expecting continued healthy economic expansion and continued low unemployment rates over the next three years and observed that wage rates are growing slowly and not expected to spike.

In his deep dive into the state of the real estate submarkets he concluded that real estate has generally recovered from its weak position during the recession and forecasts are optimistic.

Industrial/Warehouse

- Rental rate forecasts are for healthy but moderating rental rate growth with increases of 3.9% in 2018, 3.3% in 2019, and 2.4% in 2020, remaining well above the 20-year average growth rate of 1.4%.
- The forecasts for industrial/warehouse availability rates in 2018-2020 are all lower than the forecasted rates six months ago.

Office

- Office rental rates increased 2.1% in 2017, slightly higher than the 1.4% increase in 2016.
- Rental rate growth is expected to be 2.2% in 2018 and decline a bit to 2.0% in 2019 before dropping to 1.0% in 2020.

Apartment

- Even with continued strong construction activity, the apartment sector has performed very well the past several years.
- Vacancy rates decreased from 7.1% in 2009 to 4.6% in 2015, before a slight uptick to 4.9% in 2017, remaining below the 20-year average of 5.4%.
- Vacancy rates are expected to remain at 4.9% in 2018, before moving upward to 5.0% in 2019 and 5.2% in 2020.
- Apartment rental rate growth slowed significantly in 2016, growing just 1.6% after two years of growth over 4%.
- Rental rate growth is expected to jump back up to 2.9% in 2018, before moderating to 2.5% in 2019 and 2.0% in 2020.

Retail

- Retail vacancy rates have been on a steady decline from a peak of 12.8% in 2010 and 2011 to 9.0% in 2016. There was a slight rise to 9.6% in 2017.
- The forecast anticipates the rate remaining between 9.5% and 9.8% in 2018-2020.
- Retail rental rate growth was positive for the first time in seven years in 2014 and continued to be positive through 2017, when it reached 3.1%.
- The forecast expects growth to steadily moderate from this post-recession peak to 1.8% in 2018, 1.6% in 2019, and 0.6% in 2020.

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State of the Real Estate Market Highlights *continued from page 4*

Hotel

- Hotel occupancy rates have been steadily improving since reaching a recession low of 54.6% in 2009. Occupancy rates surpassed the 20-year average in 2013 at 62.3% and came in at 65.9% in 2017.
- Rates are forecast to remain strong over the forecast years, increasing slightly to a post-recession high 66.1% in 2018 and 2019, before returning to 65.7% in 2020.
- Following six years of above-average hotel revenue per available room (RevPAR), growth began to moderate in 2016 and is expected to continue moderating during the forecast period, dipping to 3.0% in 2018, 2.5% in 2019, and 1.5% in 2020.

Housing

- The single-family housing sector experienced growth in starts for the sixth straight year in 2017.
- Growth is expected to continue increasing to 900,000 in 2018, then to 930,000 in 2019 before receding to 900,000 in 2020.
- Growth in existing home prices increased on average by 6.9% in 2017. Price growth is expected to moderate to 5.0% in 2018, 4.2% in 2019, then to 3.4% in 2020.
- High student debt will remain a drag on single-family ownership for many millennials.

Mr. Strachota finished his presentation with forecasted opportunities in Real Estate for the next two years:

- Prices are expected to continue to grow, although at relatively subdued rates in the next three years. These are all below the long-term average growth rate.
- Commercial real estate transaction volumes will continue to decrease over the next three years
- Financial opportunities to lock down long-term, fixed rate debt are gone for the most part.
- However, current interest rates are below long-term norms and will continue to rise – last opportunities to lock down slightly favorable long-term debt as compared to historic norms.
- Downtown Minneapolis Class B office lease and sublease bargains will be strong because Wells Fargo has moved to new offices. The Dayton Renovation has yet to sign any major office lease.

The apartment market probably has another two years of growth.

- Residential condominium development opportunities exist in the center of Minneapolis and St. Paul.
- Major infill development opportunities involving mixed uses remain selectively available.
- Believe it or not, the apartment market probably has another two years of growth.
- Retail "lifestyle" malls with "consumer experience" have a sound prognosis, but the bottom 25% of retail malls do not have a good outlook.
- Traditional suburban office growth is likely five years out, so be careful.
- Technology properties are a good investment; i.e. data storage, etc. The United States will lead the world in technology for many years
- Senior living growth opportunities have several years to go – a generally recommended investment.
- The only market fears to watch out for are a possibility of market capitol drying up, or the threat of armed conflict for the United States.

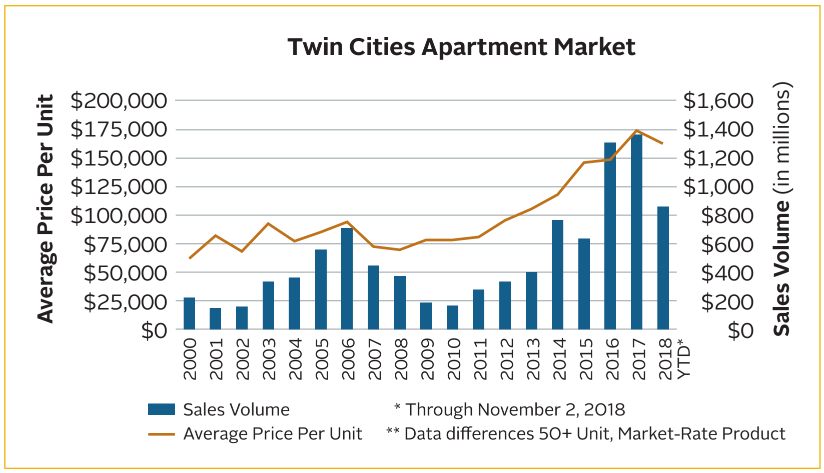
Insights

Apartment Market

by Bradley Dulas

Though unlikely to match the volume observed in 2016 and 2017, investment activity in the Twin Cities apartment market remains robust in 2018. Through the first ten months of 2018, sales volume for 50+ unit, market-rate product in the Twin Cities market has topped $850 million at an average sale price of just over $160,000 per unit. With several sizeable deals likely to close before year-end, sales volume in the Twin Cities market is expected to surpass $1 billion by the close of 2018, marking the 3rd consecutive year of investment activity exceeding this threshold. The following table presents historical investment activity in the Twin Cities apartment market.

Multiple drivers are anticipated to keep investment activity in the Twin Cities apartment market strong through the near-term. First, the commercial real estate market, as a whole, continues to offer attractive returns relative to other investment alternatives. Second, apartment assets continue to offer better risk-adjusted returns relative to other property types. Third, apartment assets in the Twin Cities market and broader Midwest regional market continue to provide more favorable returns compared to like-kind assets in coastal and Gateway markets. Further, the local Twin Cities market offers a more compelling investment thesis compared to other Midwestern markets, due to the region's demographic trends and relatively broad-based economy. Lastly, market fundamentals in the Twin Cities market remain encouraging, as favorable demographic and income trends remain intact to support healthy demand while new construction activity begins to decelerate.



Corridor Valuation

by John Schmick

One of the most exciting fields in the appraisal industry is corridor valuation. As I reflect on the past year, I am amazed at the increased interest in Market Value Theory, which challenges the status-quo Across-the-Fence (ATF) methodology in corridor valuation. Milestones of this past year include a New Hampshire case concerning a 40-year land lease for a new power line, which settled on a 50/50 split between the two competing value theories and saved the lessee over $13 million. More recently, an Indiana case was settled and saw a periodic rent renewal converted into an eminent domain case with compensation favorable to the pipeline company (tenant/condemner). As the end of the year approaches, there are active cases in New Jersey, California, and Colorado that use Market Value Theory to challenge the commonly used ATF corridor valuation methodology.

Looking to the new year, my research will continue into corridor valuation theory with a focus on the business component within corridor sales. I anticipate that calls from other appraisers and corridor users from across the country seeking information and advice will increase in frequency as market actors become more aware of this valuation conflict. I also look forward to publishing an essay on corridor valuation in an academic journal.

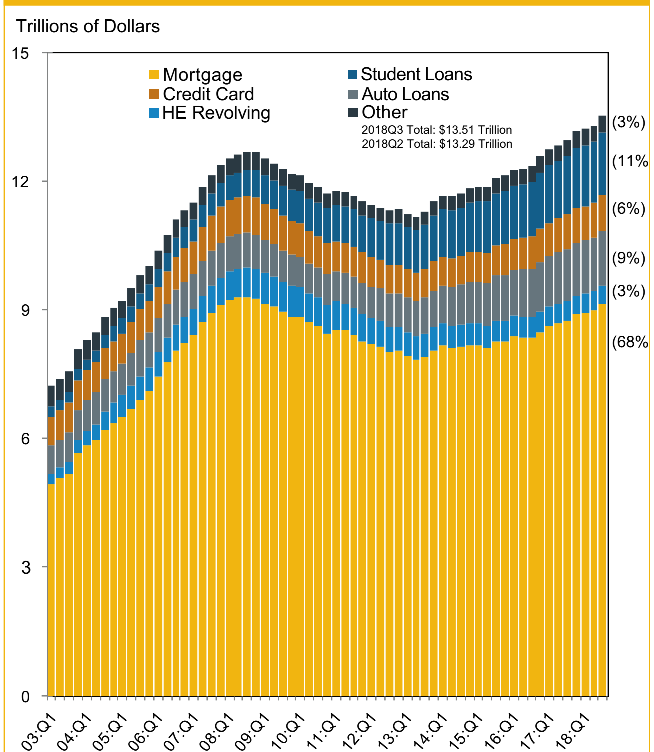
Household Debt

by Cody Lindman

According to the New York Federal Reserve, U.S. household debt increased $219 billion, or 1.6%, to $13.51 trillion for the third quarter of 2018, the seventeenth consecutive quarterly increase. People between the ages of 40 and 49 carry 25% of the total debt outstanding, the most of any age group. However, people between the ages of 18 and 29 are the most likely to be 90+ days delinquent. Unsurprisingly, mortgage debt accounts for the lion's share of U.S. household debt, comprising approximately 68% of total debt outstanding. Alarmingly, 4.7% of outstanding debt is in some stage of delinquency, the highest percentage in the past seven years. Additionally, more than 65% of delinquent debt is considered 90+ days delinquent. However, on a per capita basis, household debt is still below the peak reached during the 2008 recession.

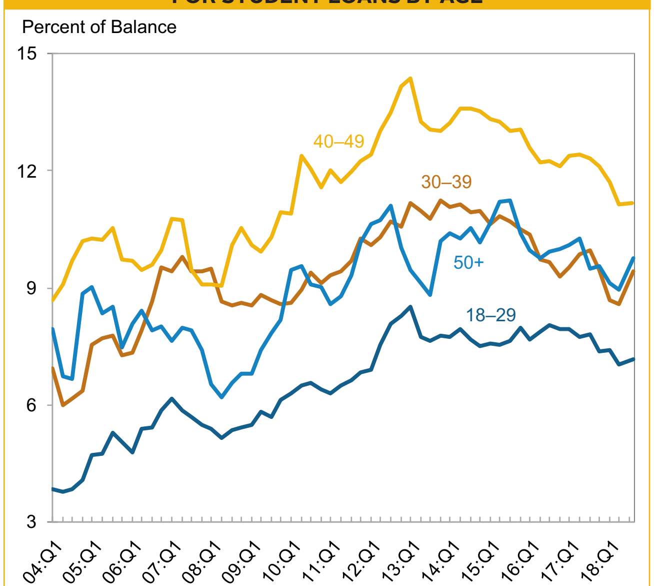
Student loan debt balances increased $37 billion to $1.44 trillion during the third quarter of 2018. As of September 30, 2018, 11.5% of student debt balances were 90+ days delinquent or in default, a figure likely understated as a result of deferment. People between the ages of 30 and 39 carry the most student debt at $480 billion or 33% of total student loan balances. Surprisingly, people between the ages of 40 and 49 were the most likely to be 90+ days delinquent on their student loans.

TOTAL DEBT BALANCE AND ITS COMPOSITION



Source: New York Fed Consumer Credit Panel/Equifax

TRANSITION INTO SERIOUS DELINQUENCY (90+) FOR STUDENT LOANS BY AGE



Source: New York Fed Consumer Credit Panel/Equifax

Opportunity Zones

by Brock Boatman

I find the location of two Minneapolis Opportunity Zones curious: Cedar-Riverside and Lyn-Lake. Both areas are probably on the cusp of major investment without any sort of incentive; layer in a tax incentive on the equity side, and the potential of layering on a TIF district – by definition, Opportunity Zones are already considered "blighted" – and it just seems like a steroidal development climate ready to explode. The Buzza Phase II project announcement is the perfect example of this already happening in Lyn-Lake. In the next year I would expect to see major projects announced in these two areas.

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Insights *continued from page 7*

Condominiums

by Brock Boatman

I like that condominiums appear to be coming back. Thankfully construction defect laws have been loosened, making this a more attractive asset type for developers and we are now seeing projects come to life. Particularly, the comeback of condominiums addresses a major issue in the residential market today, which is a dearth of entry-level housing stock in inner-ring neighborhoods. Currently first-time homebuyers face a one-two punch of a lack of housing supply which leads to being priced out of the markets in which they currently rent, often inner-ring locales. To a large portion of this population, moving to the exurbs is simply not going to happen; a young person or couple paying $2,000 to $2,500 per month to live in the North Loop, Uptown, or Northeast isn't going to buy a starter home in Apple Valley, and when homes within their current neighborhoods do go to market, they do so for a laughably short amount of time. The new 2040 zoning standards would make small condominium/townhome and carriage developments on residential lots possible and there should be an expansion of more modest housing stock available.

Trends in Manufacturing

by Madeline Strachota

When Shenehon valued manufacturing companies over the past year, business owners reported rising production costs resulting from a shortage of skilled labor and tariffs enacted by the Trump administration. According to the Philadelphia Federal Reserve, 64% of manufacturing firms are reporting a shortage in skilled labor, noting a specific need for machine and tool expertise. At best, clients raised wages to obtain needed talent; at worst, they were unable to find workers with the required skillsets.

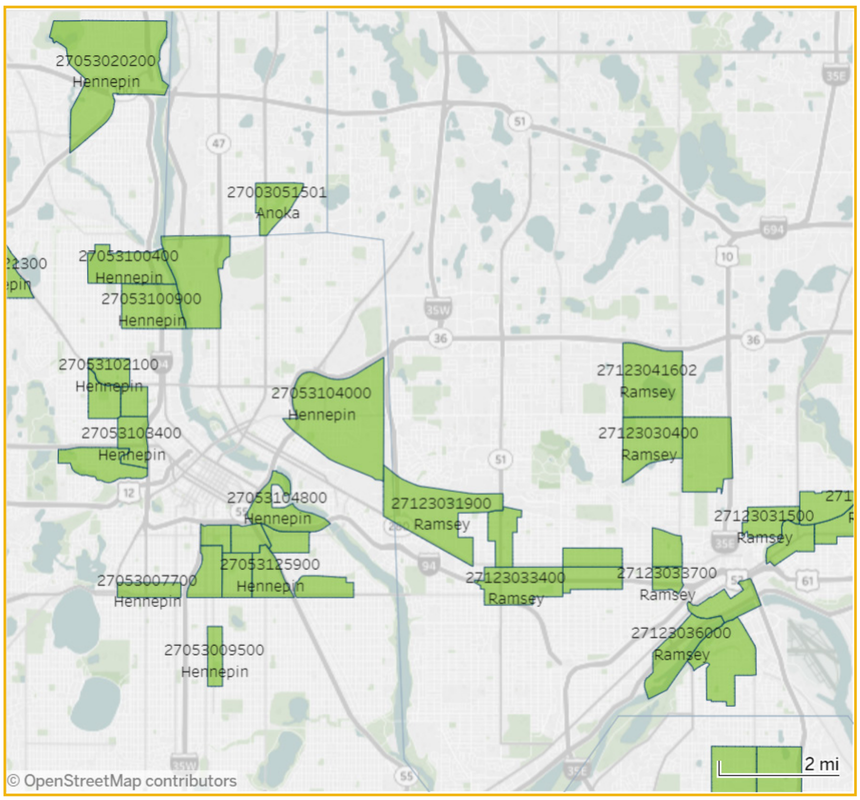
The Trump administration's tariffs on capital equipment and intermediate inputs will increase the cost of production for U.S. manufacturing as a whole; however, the impact will be greater for manufacturing sectors that rely most heavily on intermediary inputs that have poor American substitutes. While the tariffs may make American products more competitive on a global scale, the immediate increase to costs of manufacturing may create an environment where some firms are less capable of competing. Along with the shortage of skilled labor, the Trump administration's tariffs will likely slow U.S. manufacturing growth in the year ahead. Larger U.S. manufacturers are better positioned to weather the impacts of rising labor costs and higher input costs; smaller firms are less capable of competing in this new environment. As a result, I expect smaller firms to become takeover targets by larger firms looking to acquire capital assets, talent, and inputs at a discount. As the economy stabilizes in this new environment, manufacturing may grow in segments producing American substitutes of foreign intermediary inputs and capital equipment. Furthermore, if current wages continue to rise, a greater supply of skilled labor will enter the market in the long run.

A Window of Opportunity *continued from page 3*

stepped-up-basis, but not the additional 5% because they did not hold the asset for seven years prior to when deferred taxes are due on December 31, 2026.

Given requirements for substantial improvement, there are two investment strategies particularly well-suited for Opportunity Zone program benefits: investing in ground-up commercial real estate development and investing in new businesses located within QOZ. If these strategies catch on among investors, vacant land values in QOZ, especially the highest demand QOZ, will increase as investment pours into these areas before program deadlines. Given that the Opportunity Zones incentive is compatible with other tax credit programs, savvy investors will also seek out complementary New Markets Tax Credits, Low Income Housing Tax Credits, Historic Tax Credits, and other economic development programs.

Even before the IRS released additional guidance in October, investors had purchased $2.6 billion in QOZ real estate as of November 2, 2018, an 8% increase from the same time last year, according to CoStar. Given the extent of preferential treatment in the Opportunity Zone program, investment in QOZ will likely unlock hundreds of billions of the estimated trillions of dollars in unrealized capital gains in the U.S. Whether the program benefits the populations in QOZ or investors to a greater degree is yet to be determined; however, increased investment will have a positive impact on asset values in these areas, even for businesses and property that do not qualify for benefits under the program. While the main Opportunity Zone program incentives end on December 31, 2026, many speculate that the government could extend the program so that the program is not a one-time stimulus.



A snapshot from the Minnesota Department of Employment and Economic Development of the designated Qualified Opportunity Zones in the Twin Cities metropolitan area.

Market Transaction: Real Estate

~~by Victoria Mercer~~

Next Tier HD Purchases Chaska Data Center

Property:	Minneapolis II Data Center
Closing:	September 2018
Buyer:	Next Tier HD
Remarks:	In September, the 55,000 square foot Minneapolis II Data Center sold for $77.5 million. Dallas based Stream Data Centers sold the property to New York City-based Next Tier HD for about $1,409 per square foot. While the Twin Cities' data center market vacancy rate hovers around 30%, this center, which houses some of U.S. Bank's server network, sold for a higher price due to its strength (it's built to withstand 185mph winds) and redundant power systems, qualities that enable the data center to continually function despite severe storms or other conditions.

The investment market for owning data centers is particularly strong despite some overbuilding in this market. Tenants tend to be long-term since moving from one location to another is not common. The U.S. will lead the world in technology for many years to come so this investment submarket feels less risky to investors.

The investment market for owning data centers is particularly strong despite some overbuilding in this market.

According to the Minnesota Department of Employment and Economic Development, the Twin Cities is home to 90% of the state's data centers. Data-processing and related businesses employ about 7,130 people in the state.

Market Transaction: Business Valuation

Trend toward conglomeration with Twin Cities marketing and advertising agencies.

Quad/Graphics Inc. will purchase Periscope, the Twin Cities' largest independent advertising agency, for $132.5 million in the first quarter of 2019. Periscope is a full-service firm headquartered in Minneapolis, with additional offices in Chicago, Hong Kong, and Delhi. The company employs more than 500 people and generated $83.8 million in revenue in 2017. The revenue multiple for this purchase is 1.6.

Periscope was one of the last large independently owned agencies in the Twin Cities. This acquisition is part of a consistent history of M&A in the Twin Cities advertising industry. In 2000, Minneapolis-based Fallon was purchased by Publicis. While the terms of the deal were not publicly disclosed, an AdAge article indicated that the 100% purchase price was on the high-end of the multiple range that Publicis typically paid, which was between 6- and 12-times profit. If this is correct, the purchase price was likely in the range of $800 million to $960 million. In 1999, Fallon reported $80 million in net income and $700 million in revenue. Given our estimated purchase price range, the implied revenue multiple is between 1.1 and 1.4.

ICF International purchased Olson for $295 million in 2014. Olson had revenue of $126 million in 2013 and was growing revenues at a double-digit rate when the transaction occurred. Based on 2013 revenues, the purchase price implies a multiple of 2.3. However, after considering reported revenue growth rates, the multiple was likely closer to 2.

A successful synergistic merger would justify high multiples; however, if a few key accounts or top talent leave, the business can become stressed quickly.

Going further back, in March 1999, Toronto-based Macccom Inc. (subsidiary to MDC Communications Corp) acquired Colle McVoy; Interpublic Group of Companies acquired Carmichael Lynch in 1998; and GGT Group acquired Martin Williams in 1989.

Several large Twin Cities -based independent advertising agencies still operate in the market, including Space 150 and Broadhead. If trends continue, they may be future targets for acquisitions.

The value of these businesses is the accounts and the talent—these assets are riskier than tangible assets because they can "walk." This poses a challenge in valuation and settling on a purchase price. A successful synergistic merger would justify high multiples; however, if a few key accounts or top talent leave, the business can become stressed quickly. In several of the mergers previously described, key accounts changed hands and the acquirer responded by downsizing and laying off staff in the years that followed the acquisitions. The revenue multiple implied with the Periscope transaction is in line with historical multiples for businesses in this industry and geography.

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- Gift tax evaluations
- Going public or private
- Highest and best use studies
- Industrial properties
- Insurance indemnification
- Intangible asset valuation
- Internal management decisions
- Investment counseling
- Land development cost studies
- Lease and rental analyses
- Lost profit analyses
- Marriage dissolution
- Mortgage financing
- Multi-family residential properties
- Municipal redevelopment studies
- Potential sales and purchases
- Railroad right-of-ways
- Special assessment appeals
- Special purpose real estate
- Tax abatement proceedings
- Tax increment financing
- Utility and communication easements

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