

Wisconsin Apartment Market

Investment and Appraisal Perspective

Overview

- Capitalization Rates/Other Stats
- Why are Apartments Different?
- Sales Activity/Marketing Times/Liquidation and Disposition Values
- What Does the Future Hold?
- Questions

Apartment Investment Risk Levels

- Location
- Current Management/Condition
- Occupancy/Current Rents
 - Two properties can have the same location, but have very different value indicators as a result of management factors – fragile market

Cap Rates – My Most Common Question

- Low Risk: 6.50%-7.50%
- Medium Risk: 7.25%-8.25%
- High Risk: 8.25%-9.50%
- Loan Terms Steady for the time being- They are a Big Factor!

Vacancy/Collection Loss Rates

- Low Risk: 2-3%
- Medium Risk: 4-5%
- High Risk: 6-15%
- What if Actual Vacancy exceeds 15%?
 - Higher Risk Factor in Cap Rate
 - Income Approach vacancy rate- combination of actual/market
 - Deduction for Rent Loss

Rent Levels

- All Over the Place! Many factors...
- Size, Amenities, Utility Inclusion and Condition All Matter
- Example: Milwaukee East Side
 - Studio: \$325-\$650
 - 1 Bedroom: \$550-\$1,100
 - 2 Bedrooms: \$775-\$2,100
 - 3 Bedrooms: Even higher

Expense Levels

- Considered with Stabilized Properties
- Owner Paid Heat
 - Low Risk: 42.5%-47.5%
 - High Risk: 47.5%-55%
- Tenant Paid Heat
 - Low Risk: 37.5%-42.5%
 - High Risk: 42.5%-50%

Why Are Apartments Different?

- Vacancy – the Biggest Indicator
- Only Investment where Rent Levels are Increasing Nearly Everywhere
- Banks are Lending!

Sales Activity/Marketing Times/ Liquidation Values

- Activity has Increased in 2012, especially at Year End – Cap Gains Tax Increase?
- Still Many Deal Seekers
- Less Sellers Under Duress
- Bank-Owned Properties- Special Financing
- Marketing Times – 6 months to 2 Years
– Most Unread Part of an Appraisal

Liquidation and Disposition Values

- Seller Need for Quicker Sale
- Easy Addition to an Appraisal
- Liquidation Value
 - 0-90 Days
 - 20%-30% Value Discount
- Disposition Value
 - 90-180 Days
 - 10%-20% Value Discount

What Does the Future Hold?

- Interest Rate Increases?
- New Construction:
 - Why it is happening?
 - What will be the effect?
- Oversupply of Apartments?
 - High End Units
 - Low End Units



Questions?