

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

H. Presentations Sponsored by Other Universities

8. "Buying Investment Property", sponsored by
University of Wisconsin-Green Bay,
January 29-30, 1981

Seminar - BUYING INVESTMENT PROPERTY
Sponsored By
University of Wisconsin Extension-Green Bay
Thursday, January 29 & Friday, January 30, 1981
Holiday Acres Resort, Rhinelander

Instructors:

Prof. James Graaskamp School of Business UW-Madison 1155 Observatory Drive Madison, WI 53706	Mr. Julius Dinger Julius Dinger Real Estate P.O. Box 1127 Eau Claire, WI 54701
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Session #1: Thursday Morning (Graaskamp)

- 9:00-9:50 A. An Investment Check List For the 1980's
- 10:00-10:50 B. Nature and Segmentation of Northern Wisconsin Recreational Market
1. Recreational home
 2. Recreational development
 3. Restaurants and commercial property
 4. Motels and resorts
 5. Marinas
- 11:00-11:50 C. Regional Problems of Northern Wisconsin
1. Access systems
 2. Energy impacts
 3. Competitive alternatives
 4. Education/recreation

LUNCH

Session #2: Thursday Afternoon (Dinger)

- 1:00-1:50 A. Recreational Land Selection
- 2:00-2:50 B. Second Homes and Seasonal Cottages
- 3:00-3:50 C. Land Use Regulations and the Seasonal Home

(All sessions feature question and answer formats for at least 25% of the time allotted)

Session #3: Friday Morning (Graaskamp) (*missing*)

- 9:00-9:50 A. The Restaurant Formula - (A financial feat to provide a taste treat for palates trained to like bland)
- 10:00-10:50 B. Setting up a Pro Forma on a Small Motel
- 11:00-11:50 C. Some Case Examples in Northern Wisconsin (Dinger)

LUNCH

Session #4: Friday Afternoon (Dinger & Graaskamp)

- 1:00-1:50 A. A Pro Forma of Land Cost and Carry Projections (Some good and bad examples)
- 2:00-2:50 B. Marinas and Water Sports
- 3:00-3:50 C. Investment Syndication and Joint Ventures in Wisconsin in the 80's - Think Small (Graaskamp) (*Missing*)

BUYING INVESTMENT PROPERTY IN NORTHERN WISCONSIN:
A STRATEGY FOR THE 1980'S

A Seminar Sponsored by

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Thursday, January 29 & Friday, January 30, 1981
Holiday Acres Resort, Rhinelander

SESSION NO. 1

INVESTMENT GUIDELINES AND ENVIRONMENT

- I. An investment program should begin with "Know Thyself" - specifically, attitudes about the future, a profile of constraints in the search for opportunities, and then some decision rules for ranking choices.
 - A. There are many long-term trends and future possibilities about which we can do very little as investors
 1. Systematic versus specific risks in the stock market - the beta factor - random selection for diversity
 2. Location, money market, and marketing risks in real estate
 3. Given personal or instinctive judgments we position ourselves for future change
 - B. Long-term factors for which we should have controlling attitudes
 1. Capital shy economy in which all major problems require capital intensive solutions
 - a. Short fall in savings
 - b. Selective credit assignments
 - c. Continued high interests
 2. Inflation since government investment may be a faster response, (deficit budgets), import-export deficit, deliberate tax on savers to transfer wealth to doers, necessity of funding pension and income stabilization
 3. Deflation of consumer discretionary income through forced saving, higher food and shelter prices, and transition to energy efficient systems
 4. Energy problems during transition to alternative
 5. Shifting demographics to younger families and retirement families
 6. Shifting tax laws
- II. Any investor or investment board must define certain limits which profile the nature of an investment opportunity
 - A. Degree of exposure to political risk
 1. Level #1 - All manner of land use control law
 2. Level #2 - Vulnerability to political control of effective demand (tax deductions for second homes, alteration of public transportation subsidies, etc.)
 3. Level #3 - Political subsidy of competitive supply

- B. Degree of "channelled demand"
 - 1. Identity of interest between user and investor
 - 2. Reciprocity
 - 3. Tie-in contracts
 - 4. Careful research of market segmentation
- C. Degree of management intensiveness
 - 1. Dependency on a unique personality or talent
 - 2. Dependency on high technology levels and skills
 - 3. Short-term, high turnover tenancy tied to service rather than location
 - 4. Lack of product differentiation requires constant development of advertising differentiation
- D. Financial parameters
 - 1. Maximum cash for down payments
 - 2. Maximum cash for holding power
 - 3. Minimum time horizon for cash income
 - 4. Need for diversification
 - 5. Tolerance for risk
- E. Sequence of decision points
 - 1. Cost of aborting before closing
 - 2. Minimum cost escape route
 - 3. Liquidity through sale
- F. Income tax parameters and objectives
 - 1. Acquisition factors
 - 2. Operations
 - 3. Disposition
 - 4. Special benefits
- G. Estate planning considerations
 - 1. Accumulation
 - 2. Distribution and allocation
 - 3. Liquidity for estate taxes
 - 4. Structuring for administrative efficiency and safety

III. In the real estate industry attitudes which are shared and profiles which are sketched by conventional wisdom soon lead to a rationale for investment which may or may not be well thought out

- A. The rationale for apartment investment is based on inflation
 - 1. Rising rents increase slower than inflation rate but only 50% of expenses are rising, debt service is fixed
 - 2. Rising construction costs, land costs, and interest costs mean a housing shortage or higher rents
 - 3. Tax favoritism to current income, opportunity for wealth transfer, and tax deferral
 - 4. Higher selling price due to higher rents, higher gross rent multipliers, and lower investor income expectations in anticipation of capital gains
 - 5. Opportunity to sell wholesale as an investment property or retail as a condominium
- B. Dangers to implicit assumptions of apartment rationale
 - 1. Rent increases will be unacceptable so income in value won't rise. Suitability for condominium conversion provides an escape

2. Inflation has wiped out or reduced real income of the average American family. Only the whitecollar self-employed and major union in large industries have been able to protect themselves and therefore, you need to avoid building with blue-collar and elderly tenancies.
3. Since many consumer items are competing with rent paying ability such as food, auto expense and medical expense, it is important to position the investment where shelter is in short supply and a high priority consumption item. Population growth areas in the South and West may meet these requirements where you have an immigration of white-collar younger groups.
4. Long-term inflation causes rising interest rates, rising constants and therefore, lower prices and more equity. Lender must turn to variable rate mortgages, balloon payments, short-terms. Try to buy apartments with assumable mortgages, wrap-arounds, or pay slightly higher rates for fixed dollar mortgages.
5. Run away inflation from loss of political will leads to short paybacks, exculpatory clauses and aggressive upgrading of rents for old and new tenants. The operating expense pass through provision has already appeared.