

Property Investing in Minocqua, Wisconsin

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Abstract

Real estate investing is a potentially lucrative profession that can assist in building a person's wealth. This type of investing can be rewarding anywhere, but the purpose of this research is to find out what motivates a person to purchase an investment property in Minocqua, Wisconsin. Economic conditions in the area have vastly improved with 412 jobs added in 2013 and 16,452 people employed as well as a 2.4% increase in wages and even a fairly low cost of living (Walsh, 2013). The economy has been improving and the real estate market has significantly improved as well. "In 2007 only 5,981 listings were sold in comparison to 6,254 in 2013" and sale prices have also increased (Gores, 2014). The median sale price in 2013 was \$120,000, which shows a 4.2% increase from the lowest point in 2011 of \$115,000 (Gores, 2014). As of May 4, 2014, 21 listings have sold with a median sale price of \$125,000, which is also an increase of 4% (Interfacexpress). Additionally the town of Minocqua's real estate is currently valued at \$1.5 billion dollars (Town of Minocqua, 2014). All of this data leads to the conclusion that now would be an ideal time to invest in the Minocqua real estate market, because the economy and real estate market both show substantial improvement.

Keywords: Economic condition, Real Estate Market, Minocqua

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INTRODUCTION

Real estate investing is a potentially lucrative profession that can assist in building a person's wealth. This type of investing can be rewarding anywhere, but the purpose of this research is to focus on Minocqua, Wisconsin. Minocqua is located in northern Wisconsin and is known as the Island City, since the main part of the town is completely surrounded by water. This is where countless real estate investors purchase investment properties. Generally one would invest in properties in Minocqua to attract people vacationing during the summer and winter months. During this time, especially during the summer, spending is high on the consumer side and people will purchase or rent properties to reap the benefits of the area. Two potential

questions to answer are: *What motivates a person to purchase an investment property in Minocqua, Wisconsin?* and *Why would they choose to invest here rather than other parts of the United States?* "A subsequent question investors in the Minocqua area need to ask is: *Is an income-producing property a more sound investment than a non-income producing property in Minocqua, Wisconsin?* Throughout the current investigation, we will explore the options of what kinds of properties many investors choose to own and how a person can find a good investment in Minocqua, Wisconsin. Minocqua is an area in northern Wisconsin with, according to WisTravel, "One of the largest concentrations of freshwater bodies in the world with over 3,200 lakes, streams, and ponds." The town of Minocqua is specifically located in Oneida County near the northwest border. This area will be "a flourishing tourist destination, with a variety of accommodations from rustic cabins to luxurious condominium `suites," for many years to come. This area is arguably one of the most beautiful areas in North America because of everything it has to offer, from the outdoors including the woods for hiking, biking, and other adventures, and even a great downtown area full of shops that will appeal to everyone. During the summer, the population of Minocqua multiplies by a significant amount. This makes the rental market a great investment with many properties yielding over \$1,500.00 per week for a small cabin lakefront. Once you invest in a superior property, the sky is the limit. Northwoods Property Management is a business that provides property management to its customers who prefer to let a professional take care of the property and rent it while the owners are away. One of the properties, for example, is located on the queen of all lakes in Minocqua. This property yields \$3,000 per week. This is definitely a lucrative profession to get into, but there are numerous considerations including the economic conditions, the real estate market in the area, and other factors that may influence an investor's decision in purchasing a property; these will factors will be discussed below.

RESULTS ANALYSIS

Economic Conditions and Analysis

The economy is a major factor to consider when investing within a community. The hospitality, professional and business services, trade, transportation, utilities, and education industries mainly support the Minocqua area's economy. All of these industries are prominent in the state of Wisconsin where jobs have been increasing. According to Walsh (2013), "The state has added 122,000 private sector jobs since bottoming out in January of 2010." In Oneida County, 412 jobs were added just this year and 16,452 people were employed. Figure 1 depicts economic data for Oneida County that was discussed above.

FIGURE 1

Figure 1

	Employment		Total Payroll
	Annual average	1-year change	
Natural Resources	221	24	\$ 6,769,362
Construction	741	-1	\$ 30,551,368
Manufacturing	1,517	139	\$ 71,566,137
Trade, Transportation, Utilities	4,497	71	\$ 124,912,762
Information	265	-5	\$ 11,558,953
Financial Activities	553	7	\$ 21,118,237
Professional & Business Services	1,094	215	\$ 38,807,437
Education & Health	3,841	-73	\$ 167,203,478
Leisure & Hospitality	2,071	36	\$ 26,499,564
Other services	675	-22	\$ 12,602,034
Public Administration	978	22	\$ 39,583,541
Not assigned	0	0	\$ 0
All industries	16,452	412	\$551,172,873

Also, according to Walsh (2013), half of Oneida County's employment and payroll comes from the two industries: leisure and hospitalities and trade, transportation, and utilities. Additionally, "it is also important to note that Oneida County cycles through a large number of temporary residents as vacationers flow into the county, mostly between Memorial Day and Labor Day" (Walsh, 2013).

Minocqua has numerous ways to bring in people during the fall and winter months by holding certain events that bring in thousands of guests to the area. One of these events is called "Beef-a-Rama," which is hosted the last weekend in September. This one event alone brings in thousands of people to enjoy the area and see the entire town be involved in one large celebration. Another focus on the economy in this area is the wages. The overall average wages grew by 2.4%, and the total wages have also increased in most industries (Walsh, 2013). One other aspect to consider is that there are relatively low wages in Oneida County, a result of lower cost of living and differing industry-employment mixes that are more heavily concentrated with lower paying occupations (Walsh, 2013). Figure 2 confirms that the average wage is lower in Oneida County in comparison to the average wage for Wisconsin.

FIGURE 2
Average Annual Wage by Industry Division in 2012

	Average Annual Wage		Percent of Wisconsin	1-year % change
	Wisconsin Average Annual Wage	Oneida County Average Annual Wage		
All industries	\$ 41,985	\$ 33,502	79.8%	2.4%
Natural Resources	\$ 33,047	\$ 30,631	92.7%	-11.3%
Construction	\$ 51,670	\$ 41,230	79.8%	6.8%
Manufacturing	\$ 52,413	\$ 47,176	90.0%	-2.5%
Trade, Transportation & Utilities	\$ 35,946	\$ 27,777	77.3%	1.2%
Information	\$ 56,015	\$ 43,619	77.9%	2.6%
Financial Activities	\$ 58,493	\$ 38,188	65.3%	8.3%
Professional & Business Services	\$ 49,451	\$ 35,473	71.7%	12.7%
Education & Health	\$ 43,781	\$ 43,531	99.4%	3.3%
Leisure & Hospitality	\$ 15,221	\$ 12,796	84.1%	0.3%
Other Services	\$ 23,598	\$ 18,670	79.1%	5.3%
Public Administration	\$ 42,198	\$ 40,474	95.9%	-2.2%

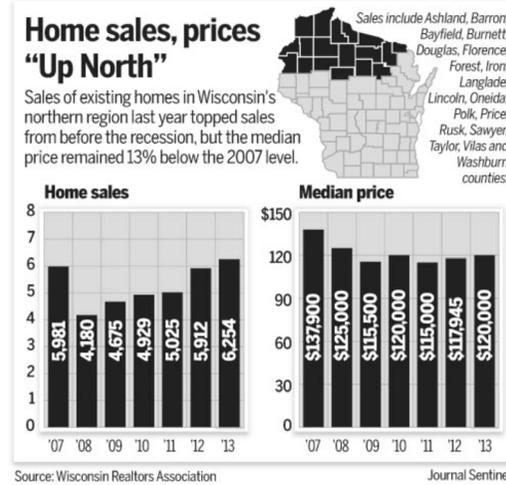
Source: WI DWD, Workforce Training, QCEW, June 2013

Real Estate Market Analysis

The real estate market is arguably the most important factor to have under consideration when investing in a property. According to Paul Gores, the real estate market throughout northern Wisconsin has been rebounding. Gores reports that last year sales topped the number of homes sold before the housing bubble in 2007. He also reports that there has been pretty consistent economic growth in northern Wisconsin. In-depth analysis of the market would show that currently in Minocqua, assessed property valuations now total almost \$1.5 billion (Town of Minocqua, 2014). Additionally, as of May 3, 2014, there are 319 active listings, 22 Active O/C (Offer Contingency), and 203 properties sold from January 1, 2013-May 3, 2014 (Interfacexpress, 2014). The median sale price is \$120,000 in 2013, which shows a 4.3% increase from the lowest point in 2011 of \$115,000 (Gores, 2014). Figure 3 is a graph created by the Wisconsin Realtors Association to show the relationship between the median sale price from each year as well as the amount of sales throughout northern Wisconsin. This chart also shows an increase in the number of sales from the peak of the market in 2007, where 5,981 listings were sold in comparison to 6,254 in 2013.

FIGURE 3

Figure 3



The real estate market has been recovering since the low in 2011. So far this year, 21 listings have sold with a median price of 125,000, which is an increase of 4%. The peak sale point hasn't even begun with summer on the way; real estate expert Erik Johnson predicts a "rise in prices between 3% to 5% this year" (Gores).

Rental Market Analysis

Minocqua, Wisconsin is a different place to invest in rental properties in comparison to a largely populated urban area. For most areas, a rental property consists of a property bought for the purpose of earning income on the investment. But in Minocqua, this is not always the case; for example, in the previously-mentioned case where Northwoods Property Management's rental property that originally sold for \$650,000 and rents for approximately for \$3,000 per week. This investment yields \$33,000 after expenses and would produce a cash-on-cash return of 5% without capital appreciation. On the other hand, investing in another location, such as a more populated area, would yield a similar profit for a lower initial investment. According to the Zillow.com article "What is a Good Real Estate Investment?" if you invested cash equity is \$50,000 and your overall income minus expenses is \$250 per month (\$3,000 per year), that's a cash-on-cash- return of 6%. Therefore, both properties are well worth the initial investment, since you can eventually sell the properties for a profit. Rental properties have the potential to reap a lot of benefits compared to other investments, such as stocks, because rental properties have a constant income each month.

Important considerations when investing in real estate

Property investing can be very worthwhile, but there are numerous things to consider when finding the ideal investment property for you. Two important factors are whether an income producing or a non-income producing property is the ideal option for the potential investor as well as the following. According to PR Newswire, when investing in real estate, a person must consider the following: pricing, renovation requirements, maintenance, location, and vacancy issues. One must also consider that you have to look at "the characteristics of the property, the market conditions at the time, and the specifics of your situation, investing in property may or may not be a lucrative decision" (PR Newswire). With this under consideration, one has to look at the condition of the property and whether it's in good condition or in disrepair. Many investors choose to renovate a property, thinking it will save them money fixing up the property themselves, but unfortunately for them, it doesn't usually work out because of unfavorable conditions. These conditions might be something simple, such as putting in new carpet or painting, but it can get very pricey once the investor is forced to put a new roof on, or if there is structural damage. All of these are the risks in purchasing an investment property, but that doesn't even begin to put an emphasis on how properties could potentially diminish the profit margin of the investor.

Income and non-income Producing

Income producing and non-income producing properties are the two main types of properties that investors have in their portfolio. "The most common type is an income producing property. Income producing are purchased by individual investors in the form of smaller apartment buildings, duplexes or even a single family homes or condominiums that are rented out to tenants" (Woychuk, 2009). This is very typical in Minocqua during the summer, since the population multiples by many times over the current population. Additionally, spending is very high on the consumer side and these individuals end up renting lake properties that begin in the \$1,500 range per week. This will not change because of the fact that Minocqua is located in an area where "one of the largest concentration of freshwater bodies in the world with over 3,200 lakes, streams, and ponds" and is known as a "flourishing tourist destination, with a variety of accommodations from rustic cabins to luxurious condominium suites" for many years to come (WisTravel). Many of these rental properties in Minocqua are a great source of income and are considered to be a very sound investment. The other type is a non-income producing property. "Non-income producing investments, such as houses, vacation properties, or vacant commercial buildings, are as a sound as

income-producing investments" (Woychuk, 2009). The only way to make money from this type of investment is through capital appreciation. There is a downside to this type of investment, which is that the investor needs a sustainable income in order to be able to keep the property if purchased with a mortgage.

Pricing

Pricing is a very important factor for both income and non-income producing properties. A better look at income-producing properties will give the investor a better idea at how to price the property. A potential question to ask is: "How should I go about pricing my property for the rental market in Minocqua, Wisconsin?" There are numerous ways in which a property owner or investor can go about this. One option is to contact a local real estate agent and request for them to tour the property to give you an idea of the rental market condition, property condition, and an estimate for what the property will rent for. The other option is consulting with an expert in the rental market. Contacting a property management service would be an ideal place to start. They will come to your property and assess everything from the condition of the property to the likelihood of your home being rented based on the time of year and market conditions. Pricing is a very important aspect, especially in Minocqua since there will always be a lot of competition with hotels and other local resorts when renting on a weekly basis, but on a monthly basis, the only other concern is other property owners and investors.

Pricing can be complicated for a non-income producing property as well. According to experienced realtor Christopher Amberg, "overpricing a home can have many ramifications for a home seller. It can limit the number of potential buyers who can afford your home, reduce showings and create an impression in the marketplace that the home owners are serious about selling their home." For a non-income property this can be one of the most important factors in being able to move the property fast and make a larger profit margin, because time is money in the real estate industry.

Renovation

Renovations are another very important factor to consider for income producing and non-income producing properties. As explained above, if renovation is necessary, costs will significantly increase depending on the type of renovation, and would decrease the investor's overall profit margin. There are countless factors when going about renovation on any property such as the zoning laws in the area, obtaining a permit to build or reconstruct the property if deemed necessary, and even the time you invest into mak-

ing the property into a livable space. Zoning is a major factor when going about a renovation; this is especially true for on-water properties. One of the regulations restricting development of lakefront lots is chapter NR115 of the *Administrative Code* of the Wisconsin State Legislature. This law states "'shoreland' subdivision and zoning regulations shall: 'further the maintenance of safe and healthful conditions, control building sites, and placement of structure and land uses and reserve shore cover and natural beauty'" (NR 115.01). The regulation also goes on to say in section 8 that "Shorelands" means within the following distances from the ordinary high-water mark of navigable waters: 1,000 feet from a lake." This piece of law makes it very difficult to work on properties that are within 1,000 feet of a lake, although there are exceptions to the law if the building is already constructed. If the building is already constructed, you are then able to reconstruct the property as long as the existing foundation of the property remains. The reason for this law is to protect the lakes, streams, and other water sources from being polluted. This does create a lot of trouble when investing in lakefront properties, which can yield larger profits when purchased.

Renovations are very serious for a property investor, whether they are doing it for a non-income producing property or a rental, either way it is costly and the expenses will rapidly accrue. Obtaining permits for construction can be a very difficult thing to undertake. Oneida County is not very willing to issue permits unless deemed absolutely necessary. This does create a lot of problems for investors going about a renovation. The other factor is the time being invested into the property. Overall, renovations can be a very difficult thing to undertake, especially in Minocqua, and should be handled with the utmost care and consideration.

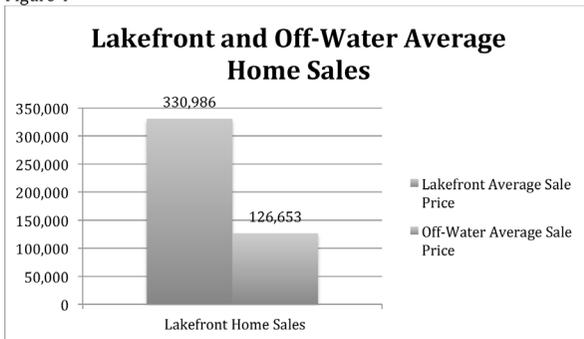
Maintenance

Maintenance on a property can be very costly, and can significantly diminish a property's value if not dealt with in a timely manner. Maintenance refers to the upkeep of a property such as a home, apartment, or other building. Many of the small tasks such as maintaining the lawn, washing windows, and others are considered small maintenance but can add up to a large quantity of money over time. Not only are those types of maintenance costly, but if one decides to do it themselves, the work will be very strenuous. Hiring a property management company may be convenient, but it can be expensive. Other forms of maintenance can be replacing a roof, repairing damage, and even renovating the interior. All of these are pricey and can be an influential factor when investing in real estate.

Location

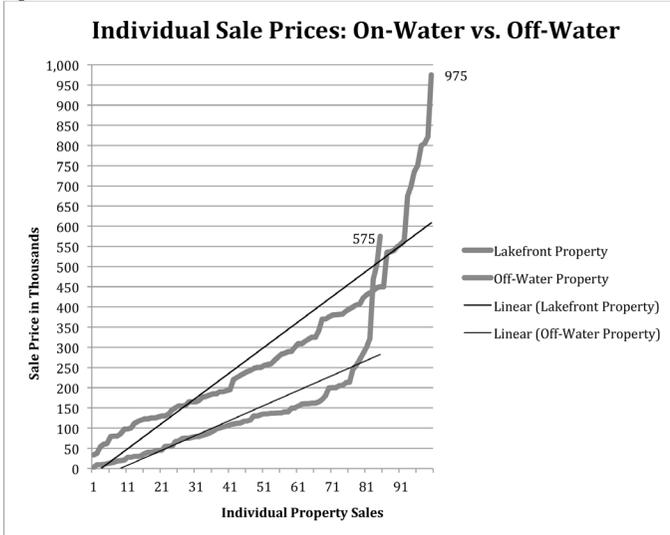
Another factor to consider is location. The main issue in location for Minocqua, Wisconsin is whether the property is on-water or off-water. The difference between these two is significant. The initial investment into the property will be considerably higher if it is waterfront. An example of this is shown in the article written by Paul Gores where he interviews many influential realtors about the real estate market in northern Wisconsin. In an interview with Erik Johnson, president of the Northwoods Association of Realtors, Johnson said, "Buyers are looking for lake homes in Oneida and Vilas Counties, where prices have been pared considerably from pre-recession levels, and last year had an average sale price of \$307,000." This sale price reflects the overall average sale price in the counties around Minocqua, but within the township, the average sale price from January 1, 2013 to May 4, 2014 was \$330,986 (Interfacexpress, 2014). Figure 4 represents the average sale price of lakefront

Figure 4



Assuming that a person would be investing in the community of Minocqua, something to note is that lakefront properties' sale price is higher than off-water property. Another graph documents every sale from January of 2013 to May 4, 2014 for off-water and lakefront property.

Figure 5



The trend lines on the graph show the comparison in the slope of the price between off-water and lakefront property. All of this data confirms lakefront properties are sold for a substantially higher price than off-water, and signifies a larger total investment. Although lakefront properties seem like a large amount of money to invest, according to Johnson even with a large initial investment, a property's values are likely to increase. As mentioned above, lakefront properties can be a very lucrative investment.

Vacancy Issue

The other factor is vacancy. This doesn't have a very large impact on the Minocqua, WI real estate market, but according to Walsh, 2013, "There are about 32,200 total housing units in Oneida County. An estimated 12,300, or 41 percent, of the housing units are used for seasonal, recreational, or occasional use. Increasing the number of days spent in these would stimulate the local economy by bringing more outside money into the county's shops and restaurants. There are current strategies that focus on increasing the number of days in which seasonal or recreational homes are occupied." Most of the time, vacancy issues are in areas where many properties are sitting vacant and are not likely to turn around fast. An example of this can be shown during the real estate bubble of 2007-2009 where "rising home prices led to rampant real estate speculation (Beattie)." These homes were sitting vacant for a long time until property investors purchased them and made them into

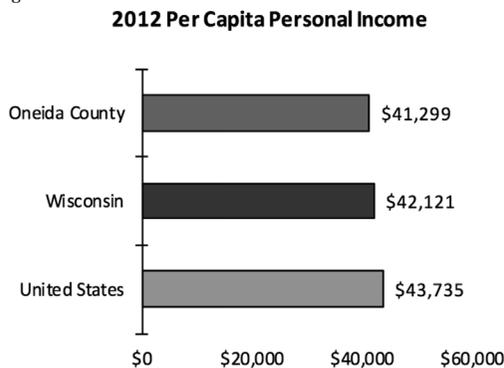
investment properties. As stated, vacancy issues do not have a heavy impact on the real estate or rental market in Minocqua, Wisconsin, but for other markets, it is something to research and be knowledgeable about because it definitely affects the market.

CONCLUSION

Minocqua, Wisconsin is a great place to invest in real estate as shown by the facts above. There are numerous things to consider before investing within a community and that leads to the questions: *What motivates a person to purchase an investment property in Minocqua? Why would they choose to invest here rather than other parts of the United States? Is an income-producing property more lucrative than a non-income producing property in Minocqua, Wisconsin?* These questions assist in pinpointing whether Minocqua is the perfect place to invest for the potential investor.

First of all, one must look at the consistent economic growth, and growth within the real estate market. The economy has grown by adding jobs, increasing wages, and even a fairly strong per capita income, considering it's a mic

Figure 6



This is a great factor since investors would prefer to invest within a prospering economy instead of one that's in an economic decline.

The other factor to consider is the real estate market and the current market conditions. In Minocqua the real estate market has been increasing substantially since the lowest part of the recession. The current valuations of property in the township amounts to approximately \$1.5 billion, as of 2014, and the valuations of properties will increase as the market returns to its pre-recessionary state (Town of Minocqua, 2014). The market prices have also been increasing as the sale prices and number of sales have been increas-

ing. Data from *Interfacexpress* explains median price have increased by 4% so far in 2014 and prices are expected to rise even further. This will assist in explaining why a person should invest in Minocqua's real estate market.

Minocqua is full of recreational opportunities and events that bring tourists and investors to the area alike. It's an area of the United States where there are over 3,200 lakes, streams, and ponds, which makes it one of the largest concentrations of freshwater in the world (WisTravel). Minocqua is a very unique place to invest and will be, for many years to come, "a flourishing tourist destination, with a variety of accommodations from rustic cabins to luxurious condominium suites." Not only does that bring investors to the area, the potential to make money off of the property market does too. Income and non-income producing properties are the two types of properties an investor can possess. Income producing is a more sound investment than a non-income producing, as it's a more self-sustaining investment option. Although a non-income producing property has its advantages too. The investor doesn't have to worry about damage being done by tenants. Both options are good for an investor, but it depends on the investor's individual situation. Overall, throughout my research, it was difficult to determine whether income-producing or non-income producing properties are more lucrative than the other considering there is no preexisting data for the rental market. In conclusion, property investment into a community like Minocqua, Wisconsin with the economy and real estate market turning around would be a very wise investment and is highly suggested.

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