

EXECUTIVE SUMMARY

- Property Location:** The subject is located along the north side of Valley Road where Valley Road intersects with Gold Medal Drive, just east of Highway 67 / Summit Avenue and north of Interstate Highway 94, in the City of Oconomowoc, Waukesha County Wisconsin. The site, which does not yet have a common street address, is located within the Pabst Farms, 1,500-acre master-planned community.
- Land Area:** 31.2 acres.
- Shape & Functionality:** *Generally* rectangular in shape and mostly functional.
- Topography:** Mostly level and at-grade with surrounding roadways and adjacent properties.
- Utilities:** All utilities are available to the site, including electricity, natural gas, municipal water and sewer, telephone, cable, and internet service.
- Environmental Concerns:** A Phase I Environmental Site Assessment was not provided as of the date this report was issued. This report is based on the assumption that all environmental conditions, should they exist, will be appropriately remediated prior to completion of the development. *It should be emphasized that Moegenburg Research, Inc. is not an expert in this area, and is not responsible for any problems should they exist. Further, MRI suggests that the matter and the appropriate documents, if so needed, be discussed/ reviewed by competent legal counsel. The analyses rendered in this report are predicated on the assumption that there is no hazardous material on or in the property that would substantially affect the subject property's current and future use.*
- Easements:** No atypical easements noted.
- Restrictions & Covenants:** No atypical deed restrictions or covenants noted.
- Flood Zone:** According to FEMA Flood Insurance Rate Map (FIRM) #55133C0154G, dated November 5, 2014, and the FEMA National Flood Hazard Layer (NFHL), the subject property is located in Zone X, designated as an area outside the 100 and 500-year flood zones and the flood potential for the subject property is minimal.
- Improvement Description:** Proposed development plans call for the construction of a 300-unit, market-rate apartment development. In total, there will be 126 one-bedroom units (42.0%), 129 two-bedroom units (43.0%), and 45 three-bedroom units (15.0%). The **Proposed Unit Mix** is summarized below.

Proposed Unit Mix			
Unit Type	Average Unit Size	# of units	Total SF (NRA)
1 BR / 1 BA	826	126	104,076
2 BR / 2 BA	1,200	129	154,800
3 BR / 2 BA	1,350	45	60,750
Total / Avg.	1,065	300	319,626

The units will be located within numerous two-story (slab at-grade) buildings containing between 12 and 17 units each and several six-unit, two-story townhome-style buildings located near the entrance to the development.

EXECUTIVE SUMMARY

(Continued)

Imp. Description (Cont.): The 12 to 17-unit buildings will feature a mix of one-, two-, and three-bedroom units and will feature private entrances. Approximately 70% of the units will have an attached one-car garage. The townhome-style units will be two- and three-bedroom units, each of which will have a private entrance and a two-car attached garage.

The building exteriors will showcase a “modern farmhouse” aesthetic, with features such as white clapboard siding, standing seam metal roofs, the use of natural wood materials, stone masonry, and large windows. Per the developer, the goal is to “inspire a thoughtful design, representative of the agrarian tradition of the site.”

Individual unit amenities will consist of a full stainless-steel appliance package (refrigerator, range/oven, dishwasher, microwave, garbage disposal), quartz countertops, tile backsplashes, designer cabinetry, higher-end plumbing and light fixtures, luxury vinyl plank (wood-look) flooring throughout the kitchens, bathrooms, and living areas, LED light fixtures, solid wood doors, central HVAC / air conditioning, in-unit washer/dryer, walk-in closets, high ceilings, and a private balcony / patio.

Common area amenities will include a freestanding clubhouse with a 24/7 leasing and maintenance staff, resident clubroom with full kitchen, a fitness center, a package room, an outdoor pool with sundeck, a grill / patio area, several parks / greenspace areas, and numerous courtyards. In total, there will be 673 parking spaces for a ratio of 2.24 spaces per unit, or 1.30 spaces per bedroom. Of the 673 parking spaces, 282 are attached garage spaces while 391 are surface parking spaces.

Utility Responsibility: Tenants will be responsible for all unit utilities.

Construction Timeframe: Construction is to begin in April 2020 and be completed by October 2021.

Concluded Market Rents: Our market rent conclusions are summarized below.

Market Rent Conclusions						
Unit Type	# of Units	Avg. Unit Size	Average Rent (\$/Mo.)	Total Monthly Rent	Total Annual Rent	Rent (\$/SF)
1 BR / 1 BA	126	826	\$1,325	\$166,950	\$2,003,400	\$1.60
2 BR / 2 BA	129	1,200	\$1,790	\$230,910	\$2,770,920	\$1.49
3 BR / 2 BA	45	1,350	\$1,950	\$87,750	\$1,053,000	\$1.44
Total / Average	300	1,065	\$1,619	\$485,610	\$5,827,320	\$1.52

Absorption: The subject contains 300 units. We believe that 30 percent of the units could be pre-leased, while the remaining units would be absorbed at a rate of 11 units per month. Based on our stabilized occupancy projection of 95 percent, the subject needs 285 units to be leased in order to be at a stabilized occupancy level. Assuming 30 percent pre-leased units (90 units), the subject will need to absorb an additional 195 units to achieve stabilization. Based on our concluded absorption rate of 11 units per month, this equates to an 18-month absorption period (rounded up from 17.7 months).

EXECUTIVE SUMMARY

(Continued)

Property Attributes

Property attributes for the competitive rental data set are as follows:

- **Year Built.** All of the surveyed properties were constructed in 2010 or more recently.
- **New Construction / Adaptive Reuse.** Each property, as well as the subject, represents ground-up new construction. Adaptive re-use properties are not common within the subject's submarket as they tend to be more common in urban settings.
- **Common Area Amenities.** Common area amenities vary from development to development. The smaller developments tend to not contain any significant common area space or amenities. Most of the larger comparable properties feature a clubhouse, community room, fitness center, on-site management/maintenance, a business office, and other amenities. Common area amenities at the subject will include a freestanding clubhouse with a 24/7 leasing and maintenance staff, resident clubroom with full kitchen, a fitness center, a package room, an outdoor pool with sundeck, a grill / patio area, several parks / greenspace areas, and numerous courtyards. These amenities are considered to be comparable or superior to most projects within the market. Overall, the common area amenities at the subject are not lacking, and are not considered to be overkill, either.
- **Unit Finishes / Amenities.** Over the last five-to-seven years, the inclusion of stainless-steel appliances, granite/quartz countertops, in-unit laundry, central air conditioning, and some type of luxury/ higher-end flooring has become the norm and is expected for market-rate developments in thriving markets such as Waukesha County. The subject units will consist of a full stainless-steel appliance package (refrigerator, range/oven, dishwasher, microwave, garbage disposal), quartz countertops, tile backsplashes, designer cabinetry, higher-end plumbing and light fixtures, luxury vinyl plank (wood-look) flooring throughout the kitchens, bathrooms, and living areas, LED light fixtures, solid wood doors, central HVAC / air conditioning, in-unit washer/dryer, walk-in closets, high ceilings, and a private balcony / patio. These amenities will be well-accepted and we have no changes to recommend.
- **Utility Responsibility.** Most properties are operated in a manner wherein the tenants are responsible for individual unit heat, electricity, and water heating charges, while cold water / sewer is included in the rent. At the subject, tenants will be responsible for all individual unit utilities, including cold water / sewer. Our market rent conclusions are reflective of this.
- **Parking.** In total, at the subject there will be 673 parking spaces for a ratio of 2.24 spaces per unit, or 1.30 spaces per bedroom. Of the 673 parking spaces, 282 are attached garage spaces while 391 are surface parking spaces. Most properties within the market include some form of covered parking in the rent, typically attached garage parking or underground parking. It is common within the market to include one parking space at no additional charge, and then offer additional parking for a monthly fee.
- **Pet Fees.** Pet fees range from \$20 to \$35 per month, with an average of \$28 per month. While \$25 per month for pets has been the standard for the last 10+ years, pet fees have shown increases in recent years, especially at properties that offer pet-friendly amenities. The subject does not offer specific pet friendly amenities; however, there is a lot of greenspace that will be appealing for pet owners. All considered, we project a monthly pet fee of \$35 per month to be acceptable.
- **Storage Fees.** Some of the properties include small storage lockers at no additional charge while many properties (especially those with private entrances and attached garages) do not offer separate storage units. There will not be separate storage units at the subject as most units have an attached garage. The inclusion of, or lack of, storage units is not considered to be a major factor for most tenants.

EXECUTIVE SUMMARY

(Continued)

Demand Analysis:

The total number of income qualified renters, along with the calculated capture rates and penetration rates, are summarized below.

Capture Rates & Penetration Rates		
Current Inventory	3,673	
Number of Pipeline Units (Pending Supply)	378	
Subject Units	<u>300</u>	
Total Market Supply at 100% Occupancy	<u>4,351</u>	
Total Market Supply at 95% (5% frictional vacancy)*	4,133	
	<u>2018</u>	<u>2023</u>
# Income-Eligible Renter-Occupied Households	14,792	15,977
Subject Units (Stabilized at 95%)	285	285
Capture Rate	1.93%	1.78%
Supply / Competition (incl. subject) @ 95%	3,774	4,133
Penetration Rate	25.52%	25.87%

Net Demand Analysis:

As additional support, we also conducted a net demand analysis, which is summarized within the table below. As shown, if the subject's 300 units, along with each of the 378 units in the pipeline are constructed and absorbed at a stabilized occupancy level, there would still be a net positive demand of **383 units**.

Marginal Demand Analysis		
a	Renter-Occupied Households 2018	20,226
b	Renter-Occupied Households 2023	21,253
c	Increase in Renter-Occupied Households (b - a)	1,027
d	# of Units in Pipeline	378
e	Subject Units	300
f	Total New Supply (d + e)	678
g	New Units at Balanced Market (95% X f)	644
h	Net Demand (c - g)	383

The preceding further supports our conclusion that there is adequate demand for the subject to be constructed as outlined herein.

DEMAND ANALYSIS

PRIMARY MARKET AREA

In order to identify the subject's Primary Market Area (PMA), we researched local market trends and utilized our inherent knowledge of the market to establish the boundaries for the PMA that we deemed most appropriate. The subject is located within the City of Oconomowoc, Waukesha County, Wisconsin. The City of Oconomowoc is located within the western portion of Waukesha County. The City of Waukesha is the County seat of Waukesha County and is centrally located within the County (with a slight deviation to the east of center). The City of Waukesha serves as a common geographical market to divide Waukesha County into an eastern half and a western half. Some of the more heavily populated municipalities to the east of the City of Waukesha are Brookfield, New Berlin, Menomonee Falls, Sussex, and Muskego, while some of the more heavily populated areas to the west of the City of Waukesha include Oconomowoc, Pewaukee, Hartland, and Delafield.

Milwaukee County lies adjacent to Waukesha County to the east and Western Waukesha County and Eastern Waukesha County tend to be two distinct portions of the County. Waukesha County also abuts Racine County (to the southeast), Walworth County (to the southwest), Jefferson County (to the west), Dodge County (to the northwest), Washington County (to the north), and Ozaukee County (to the northeast). Each of these counties is considered to be distinctly different than Waukesha County and the subject is not considered to be competitive with properties within these adjacent counties.

Given the foregoing, the boundaries of our selected Primary Market Area (PMA) represent the Waukesha County border to the north, west, and south of the subject, with the eastern border of the PMA being represented by Wisconsin State Highway 164 (which becomes East Avenue through the southern portion of the City of Waukesha and Pewaukee Road through the northern portion of the City of Waukesha). Highway 164 essentially traverses the entire County from north to south and runs through the downtown area of the City of Waukesha, which was previously established as being the dividing point between eastern and western Waukesha County.

A **Primary Market Area Map** is included on the following page. A **Demographic & Income Profile** and a **Housing Profile** for the PMA as provided by ESRI then follow.

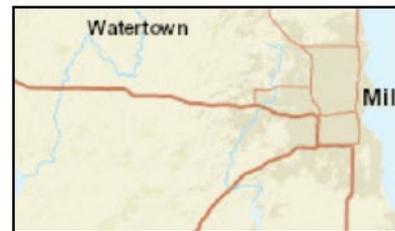
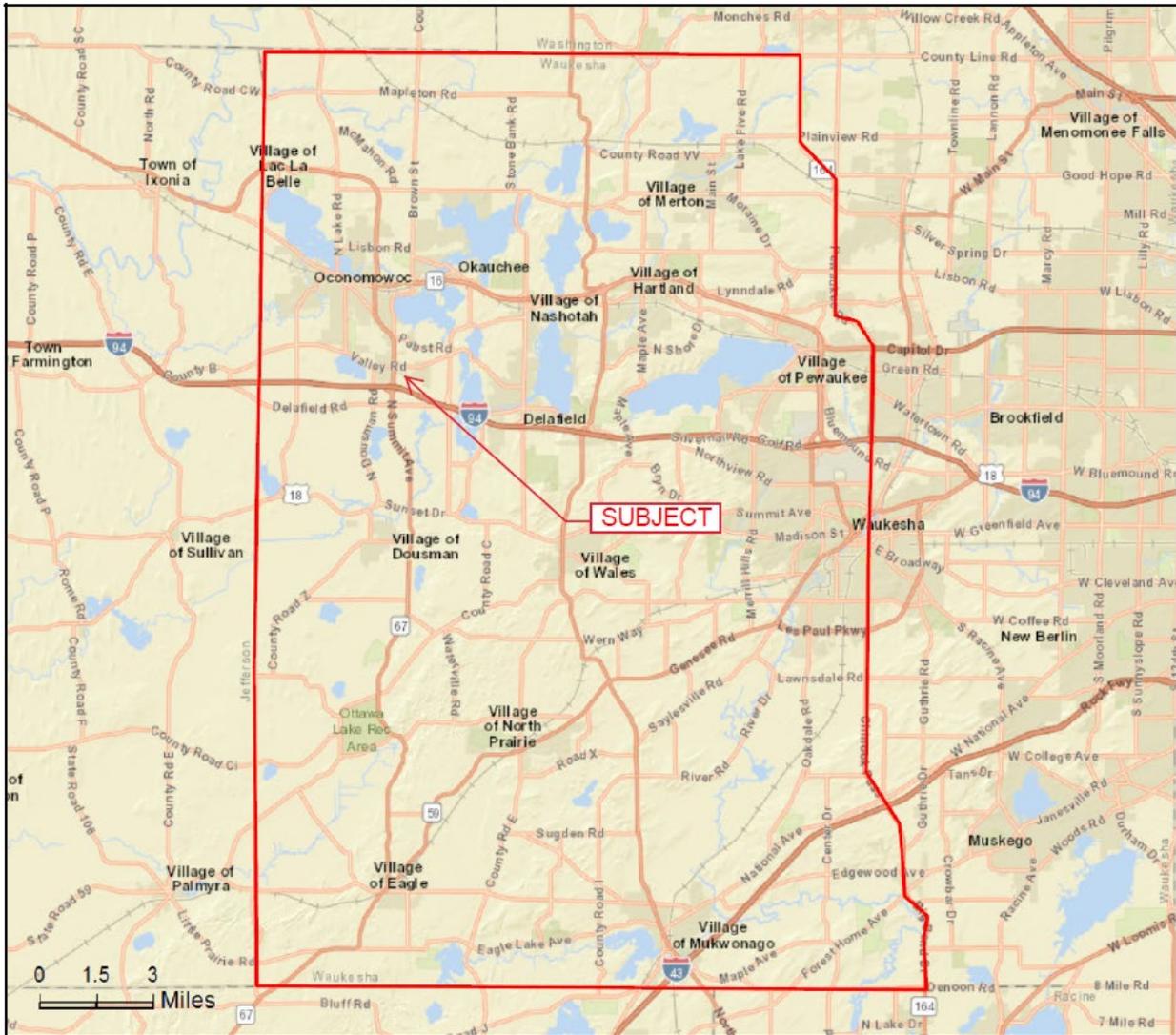
PRIMARY MARKET AREA MAP



Site Map

Pabst Farms Market Study
1370 Pabst Farms Circle
Oconomowoc, WI 53066

Prepared by Esri



March 19, 2019



Demographic and Income Profile

Pabst Farms Market Study
1370 Pabst Farms Circle
Oconomowoc, WI 53066

Prepared by Esri

Summary	Census 2010	2018	2023			
Population	186,055	193,613	199,223			
Households	71,595	75,138	77,560			
Families	51,504	53,494	54,974			
Average Household Size	2.56	2.54	2.53			
Owner Occupied Housing Units	54,082	54,913	57,377			
Renter Occupied Housing Units	17,513	20,226	20,184			
Median Age	40.6	42.1	43.0			
Trends: 2018 - 2023 Annual Rate	Area	State	National			
Population	0.57%	0.39%	0.83%			
Households	0.64%	0.43%	0.79%			
Families	0.55%	0.33%	0.71%			
Owner HHs	0.88%	0.73%	1.16%			
Median Household Income	1.28%	1.71%	2.50%			
Households by Income	2018		2023			
	Number	Percent	Number	Percent		
<\$15,000	3,753	5.0%	3,458	4.5%		
\$15,000 - \$24,999	4,213	5.6%	3,920	5.1%		
\$25,000 - \$34,999	4,929	6.6%	4,795	6.2%		
\$35,000 - \$49,999	7,290	9.7%	7,083	9.1%		
\$50,000 - \$74,999	12,522	16.7%	12,137	15.6%		
\$75,000 - \$99,999	11,373	15.1%	11,454	14.8%		
\$100,000 - \$149,999	16,396	21.8%	17,392	22.4%		
\$150,000 - \$199,999	6,937	9.2%	7,783	10.0%		
\$200,000+	7,724	10.3%	9,539	12.3%		
Median Household Income	\$83,905		\$89,426			
Average Household Income	\$107,764		\$119,499			
Per Capita Income	\$42,055		\$46,747			
Population by Age	Census 2010		2018		2023	
	Number	Percent	Number	Percent	Number	Percent
0 - 4	10,772	5.8%	10,119	5.2%	10,276	5.2%
5 - 9	13,227	7.1%	11,790	6.1%	11,430	5.7%
10 - 14	13,924	7.5%	13,480	7.0%	12,785	6.4%
15 - 19	13,057	7.0%	12,975	6.7%	12,772	6.4%
20 - 24	8,995	4.8%	10,565	5.5%	10,222	5.1%
25 - 34	19,811	10.6%	21,344	11.0%	22,792	11.4%
35 - 44	25,897	13.9%	23,439	12.1%	24,453	12.3%
45 - 54	32,787	17.6%	28,889	14.9%	26,211	13.2%
55 - 64	25,335	13.6%	29,788	15.4%	29,579	14.8%
65 - 74	12,371	6.6%	19,328	10.0%	23,360	11.7%
75 - 84	6,859	3.7%	8,157	4.2%	11,288	5.7%
85+	3,020	1.6%	3,740	1.9%	4,057	2.0%
Race and Ethnicity	Census 2010		2018		2023	
	Number	Percent	Number	Percent	Number	Percent
White Alone	175,368	94.3%	179,467	92.7%	181,957	91.3%
Black Alone	2,135	1.1%	2,858	1.5%	3,545	1.8%
American Indian Alone	562	0.3%	587	0.3%	615	0.3%
Asian Alone	3,046	1.6%	4,278	2.2%	5,478	2.7%
Pacific Islander Alone	73	0.0%	92	0.0%	104	0.1%
Some Other Race Alone	2,448	1.3%	3,038	1.6%	3,476	1.7%
Two or More Races	2,423	1.3%	3,293	1.7%	4,047	2.0%
Hispanic Origin (Any Race)	9,021	4.8%	11,186	5.8%	13,177	6.6%

Data Note: Income is expressed in current dollars.

Source: U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2018 and 2023.

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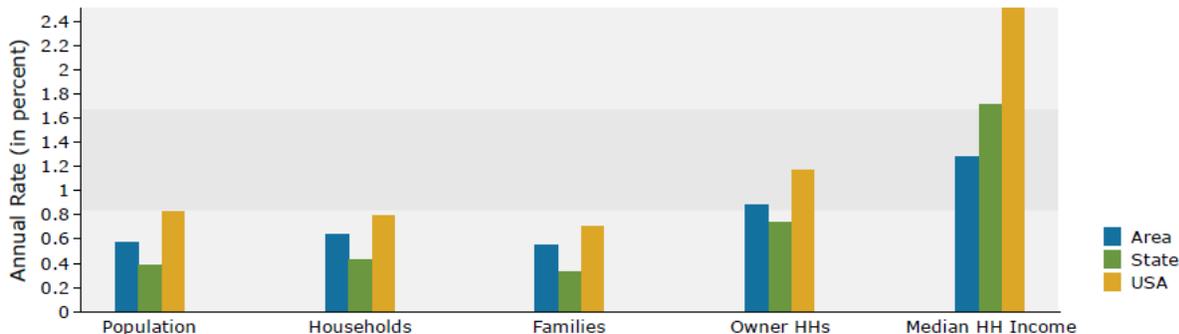


Demographic and Income Profile

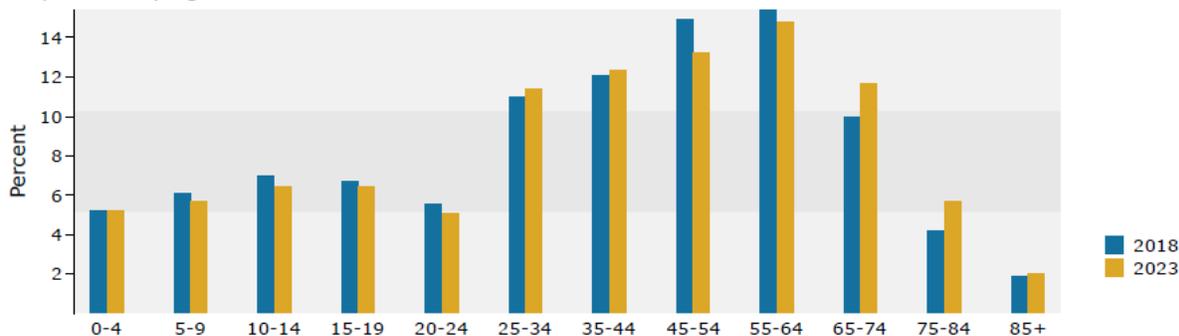
Pabst Farms Market Study
 1370 Pabst Farms Circle
 Oconomowoc, WI 53066

Prepared by Esri

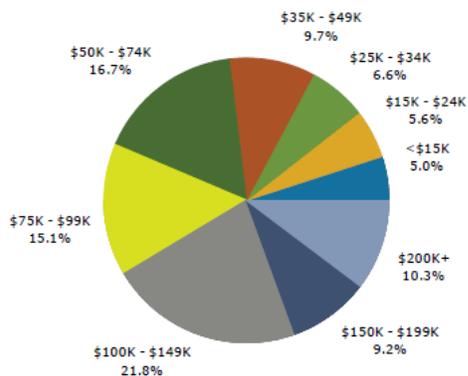
Trends 2018-2023



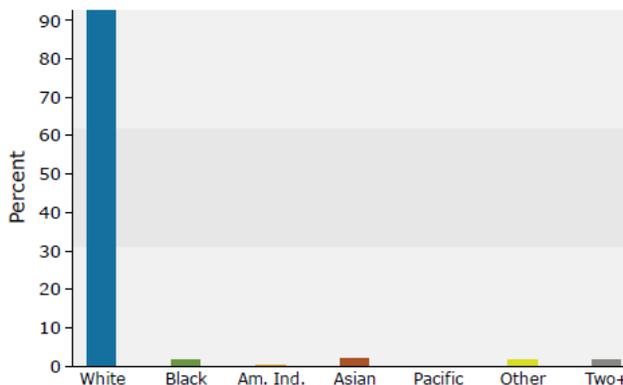
Population by Age



2018 Household Income



2018 Population by Race



2018 Percent Hispanic Origin: 5.8%

Source: U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2018 and 2023.

March 19, 2019



Housing Profile

Pabst Farms Market Study
1370 Pabst Farms Circle
Oconomowoc, WI 53066

Prepared by Esri

Population		Households	
2010 Total Population	186,055	2018 Median Household Income	\$83,905
2018 Total Population	193,613	2023 Median Household Income	\$89,426
2023 Total Population	199,223	2018-2023 Annual Rate	1.28%
2018-2023 Annual Rate	0.57%		

Housing Units by Occupancy Status and Tenure	Census 2010		2018		2023	
	Number	Percent	Number	Percent	Number	Percent
Total Housing Units	76,379	100.0%	80,156	100.0%	82,821	100.0%
Occupied	71,595	93.7%	75,139	93.7%	77,561	93.6%
Owner	54,082	70.8%	54,913	68.5%	57,377	69.3%
Renter	17,513	22.9%	20,226	25.2%	20,184	24.4%
Vacant	4,784	6.3%	5,018	6.3%	5,261	6.4%

Owner Occupied Housing Units by Value	2018		2023	
	Number	Percent	Number	Percent
Total	54,914	100.0%	57,377	100.0%
<\$50,000	535	1.0%	344	0.6%
\$50,000-\$99,999	390	0.7%	279	0.5%
\$100,000-\$149,999	2,187	4.0%	1,635	2.8%
\$150,000-\$199,999	6,778	12.3%	5,517	9.6%
\$200,000-\$249,999	9,121	16.6%	8,296	14.5%
\$250,000-\$299,999	8,738	15.9%	8,887	15.5%
\$300,000-\$399,999	12,890	23.5%	14,975	26.1%
\$400,000-\$499,999	6,098	11.1%	7,691	13.4%
\$500,000-\$749,999	5,125	9.3%	6,435	11.2%
\$750,000-\$999,999	1,586	2.9%	1,785	3.1%
\$1,000,000-\$1,499,999	903	1.6%	935	1.6%
\$1,500,000-\$1,999,999	198	0.4%	210	0.4%
\$2,000,000+	365	0.7%	388	0.7%
Median Value	\$298,329		\$324,912	
Average Value	\$366,032		\$387,004	

Census 2010 Housing Units	Number	Percent
Total	76,379	100.0%
In Urbanized Areas	57,685	75.5%
In Urban Clusters	7,206	9.4%
Rural Housing Units	11,488	15.0%

Data Note: Persons of Hispanic Origin may be of any race.

Source: U.S. Census Bureau, Census 2010 Summary File 1.

March 19, 2019



Housing Profile

Pabst Farms Market Study
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Oconomowoc, WI 53066

Prepared by Esri

Census 2010 Owner Occupied Housing Units by Mortgage Status		
	Number	Percent
Total	54,081	100.0%
Owned with a Mortgage/Loan	41,726	77.2%
Owned Free and Clear	12,355	22.8%

Census 2010 Vacant Housing Units by Status		
	Number	Percent
Total	4,788	100.0%
For Rent	1,422	29.7%
Rented- Not Occupied	91	1.9%
For Sale Only	936	19.5%
Sold - Not Occupied	123	2.6%
Seasonal/Recreational/Occasional Use	1,709	35.7%
For Migrant Workers	2	0.0%
Other Vacant	505	10.5%

Census 2010 Occupied Housing Units by Age of Householder and Home Ownership			
	Occupied Units	Owner Occupied Units	
		Number	% of Occupied
Total	71,596	54,083	75.5%
15-24	1,868	263	14.1%
25-34	8,929	4,656	52.1%
35-44	13,485	10,377	77.0%
45-54	18,232	15,120	82.9%
55-64	14,666	12,734	86.8%
65-74	7,640	6,569	86.0%
75-84	4,695	3,441	73.3%
85+	2,081	923	44.4%

Census 2010 Occupied Housing Units by Race/Ethnicity of Householder and Home Ownership			
	Occupied Units	Owner Occupied Units	
		Number	% of Occupied
Total	71,597	54,083	75.5%
White Alone	68,931	52,775	76.6%
Black/African American	546	161	29.5%
American Indian/Alaska	180	109	60.6%
Asian Alone	870	607	69.8%
Pacific Islander Alone	18	9	50.0%
Other Race Alone	625	208	33.3%
Two or More Races	427	214	50.1%
Hispanic Origin	2,224	981	44.1%

Census 2010 Occupied Housing Units by Size and Home Ownership			
	Occupied Units	Owner Occupied Units	
		Number	% of Occupied
Total	71,594	54,082	75.5%
1-Person	16,382	8,473	51.7%
2-Person	25,981	21,181	81.5%
3-Person	11,539	9,286	80.5%
4-Person	11,149	9,623	86.3%
5-Person	4,521	3,858	85.3%
6-Person	1,461	1,209	82.8%
7+ Person	561	452	80.6%

Data Note: Persons of Hispanic Origin may be of any race.
Source: U.S. Census Bureau, Census 2010 Summary File 1.

March 19, 2019

EFFECTIVE DEMAND ANALYSIS

The ESRI market data analyzes current demographic statistics along with a five-year projection. Note: Although the effective year of this report is in 2019, the most current ESRI data is effective as of 2018, with the five-year projection falling in 2023. Data from the **Demographic & Income Profile** and the **Housing Profile** reports provided by ESRI (included on the preceding pages) will be relied upon extensively within this analysis. The key components of the effective demand analysis (capture rates and penetration rates) include the following, which will each be discussed in greater detail following this summary:

- Current Inventory – **3,673 units**;
- Pending Supply – **378 units** (excluding the subject);
- Total Occupied Households – **75,139** as of 2018 and **77,561** as of 2023. Note: These numbers *exclude* the vacant units as identified within the ESRI reports;
- Renter-Occupied Households – **20,226** as of 2018 and 20,184 as of 2023 per the ESRI data; however, we have adjusted the 2023 projection to **21,253** (see discussion);
- Income-Eligible Households – **54,952** as of 2018 and **58,305** as of 2023;
- Income-Eligible Renter Households – **14,792** as of 2018 and 15,173 as of 2023 per the ESRI data; however, we have adjusted the 2023 projection to **15,977** (see discussion);
- Stabilized Occupancy Rate – **95.0%** (based on the market data presented earlier in this report).

Current Inventory

In order to conduct a demand analysis, we must identify the number of existing apartment units in the PMA that are considered to represent competition (at varying levels) to the subject. Our search was limited to market-rate properties constructed in 1990 or more recently. Properties constructed before this simply are not competitive to the subject given the changes in design tastes that began to be realized in the 1990's. Most of the properties constructed pre-1990 are competing for a different renter pool (typically households with annual household incomes below \$50,000). We utilized CoStar and other sources to arrive at the total current inventory within the PMA, and the total current inventory is **3,673 units**. Additional support is contained within our workpapers.

Pending Supply

In an effort to identify properties within our selected PMA that are either planned or under construction, we utilized various third-party research data, discussions with municipal representatives and information supplied by the various municipalities, discussions with local market professionals, and we also conducted an extensive search of recent news publications and other published data.

Below is a table summarizing the pending supply. A brief discussion of each project then follows. As shown below, the total pending supply (projects planned or under construction, excluding the subject) is **378 units**.

Pending Supply	
Project Identification	# of Units
Towner Crest, Oconomowoc, WI	120
Olympia Fields, Oconomowoc, WI	110
200 Delafield Street, Waukesha, WI	87
The Evin at Oconomowoc, Oconomowoc, WI	61
Total	378

Olympia Fields, Oconomowoc, WI – 110 Units

Wangard Partners will be converting the former Olympia Resort and Conference Center at 1350 Royale Mile Road in Oconomowoc to 110 apartment units. The Resort closed in 2018 and was sold to Wangard Partners for \$3 million on November 29, 2018. Approval of a zoning change was granted in February 2019 that would allow up to 200 units; however, the developed noted that this zoning change was to support a future addition, if desired, and not to add additional units above and beyond the 110 units planned.

Towner Crest, Oconomowoc, WI – 120 Units

According to jsonline.com, “Presbyterian Homes Wisconsin, the eastern Wisconsin affiliate of Presbyterian Homes and Services, celebrated the official groundbreaking September 12, 2018 for the Towner Crest senior living community development. Towner Crest, the fifth PHS senior living community in southeastern Wisconsin, is being built on a 19 1/2-acre site on Lisbon Road near Highway 16/67 and adjacent the Oconomowoc Golf Club. The \$52 million project will feature 120 senior apartments, 20 assisted living and 18 memory care apartments, offering month-to-month rental with no required entrance deposit. The single-building campus will have a lodge-style architectural design that connects the interior spaces with the outdoors, according to a news release. Amenities and services will include a two-story hearth room, restaurant-style dining, a bistro, style salon, library, club room, movie theater, chapel and wellness center. Towner Crest will also feature outdoor water features, prairie plantings, gardens and an outdoor terrace with fire pit.”

Construction is to be completed in late 2019. Given the nature of the development, only the 120 senior apartment units will be added as pending supply as the other units are considered to be healthcare-related units.

200 Delafield Street, Waukesha, WI – 87 Units

The City of Waukesha issued a request for proposals for a five-acre site just north of the downtown area of the City at 200 Delafield Street. Below is an excerpt from biztimes.com. Within the pending supply, we included 87 units (69 senior units and 18 market-rate townhome units), which was the highest unit count of the proposals received.

“The city of Waukesha has received three proposals to redevelop a five-acre site just north of its downtown. Developers vying for the project primarily envision residential housing, but have also pitched some commercial uses. The city has for some time looked to redevelop as much as five acres along Delafield Street just north of downtown. The site is across the street from Waukesha City Hall, where a new city hall building will be constructed beginning this year.

In February, the city issued a request for proposals for potential redevelopment projects at the site. Responses to the RFP were due Friday afternoon. The city received three in all, with proposals coming from Kenosha-based Bear Development, Waukesha-based Berg Management Co. and a single proposal coming from Madison-based Horizon Development Group Inc. and Elm Grove-based Luther Group.

Berg’s proposal consisted primarily of residential uses. The proposal provided two options, with the first being 66 townhomes that would result in a total development value of nearly \$10.6 million. Its second option would be to construct two apartment buildings totaling 56 units behind 44 townhomes, with an estimated development value of \$13.2 million. The townhouses would be two stories, with ground-level garages and second-floor living spaces. A parking lot for the apartment buildings would be placed behind the first row of townhouses. Monthly rents would range from \$1,250 to \$3,749. The proposal does provide an option to include a commercial component. In a letter to the city dated March 14, Alan Huelsman, general manager of Berg, noted that one of the townhouses could be easily replaced with a commercial building.

For its part, Bear envisions a multi-generational development totaling 87 dwelling units. This consists of a 69-unit, 110,200-square-foot, four-story mixed-income senior housing building that would also include 5,000 square feet of commercial or amenity space. The apartment building would offer one- and two-bedroom units, and the commercial space would be located at the southernmost portion of the building, near the intersection of Delafield Street and Madison Street. The senior apartment would be built in Zone A. In Zone B, Bear plans to build 18 two-story, three-bedroom, freestanding townhouses that would carry no age restrictions. Altogether, the townhouses would total 34,000 square feet.

The proposal submitted by Horizon and Luther features a mixed-use, 80-unit building consisting of senior apartments and 7,500 square feet of first-floor commercial space. The four-story building would go up in Zone A, and would include a clubroom with kitchen, exercise room, storage lockers and on-site leasing office. The

proposal also provides an idea of what type of tenants would lease the commercial space, including a wellness studio, travel agency, coffee shop and neighborhood retail. “At this conceptual stage, we have not yet identified specific tenants but believe this type of space would attract users with synergies to senior housing and possibly small service related or consulting businesses,” the development team stated in its proposal.”

The Evin at Oconomowoc, Oconomowoc, WI – 61 Units

At 1101 South Silver Lake Street in Oconomowoc, Matter Development has received final approval for the construction of 61 independent living senior units and 19 memory care units. The memory care units are not considered pending supply for purposes of this analysis. An excerpt from jsonline.com noted, “The Evin at Oconomowoc, a senior living development from Matter Development, received final approval at a Sept. 18 common council meeting.

The council voted unanimously to approve a conditional use permit for the facility that will be located at 1101 S. Silver Lake St. A condition of the approval stated Matter must complete the purchase of the property, which is currently owned by the city. "I want to congratulate you on your due diligence and we look forward to having you," Mayor Dave Nold said after the vote.

In June, the city gave Matter Development an extension to conduct a study of the land. The deadline to purchase is Sept. 30. In December 2017, the city approved an offer to purchase with Sierra Land Holdings for \$450,000 with an intent to build a senior housing project. Sierra Land Holdings is working with Aaron Matter, the managing director and founder of Matter Development, to develop the project.

The development will include 19 memory care units and 61 independent living units. Matter said the facility would give seniors the flexibility to live independently or receive services on demand in their apartment. Matter also noted there will be a separate assisted living memory care area specializing in that memory care support, which will have a courtyard in its own separate common area and dining room.”

Total Occupied Households

A snapshot from the ESRI Housing Profile is below. As shown, the total occupied housing units are **75,139** as of the 2018 data and **77,561** as of the 2023 data.

Housing Units by Occupancy Status and Tenure	2018		2023	
	Number	Percent	Number	Percent
Total Housing Units	80,156	100.0%	82,821	100.0%
Occupied	75,139	93.7%	77,561	93.6%
Owner	54,913	68.5%	57,377	69.3%
Renter	20,226	25.2%	20,184	24.4%
Vacant	5,018	6.3%	5,261	6.4%

Renter-Occupied Households

A snapshot from the ESRI Housing Profile is included below. As shown, the total renter-occupied housing units are **20,226** as of the 2018 data and 20,184 as of the 2023 data. The 2023 data, however, is not supported based on actual market data and we will adjust this figure, as discussed next.

Housing Units by Occupancy Status and Tenure	2018		2023	
	Number	Percent	Number	Percent
Total Housing Units	80,156	100.0%	82,821	100.0%
Occupied	75,139	93.7%	77,561	93.6%
Owner	54,913	68.5%	57,377	69.3%
Renter	20,226	25.2%	20,184	24.4%
Vacant	5,018	6.3%	5,261	6.4%

ESRI projects the renter household growth in the market area to slow significantly over the next five years despite an increase in overall household growth, a significant departure from past census trends and ESRI's previous estimates/projections. Beginning in 2018 (upon the release of the 2018/2023 projections) ESRI changed its methodology for determining household tenure to include national multifamily property data from a complimentary database provided by Axiomtrics, among other changes.

ESRI's new methodology is producing significant deviations from recent past trends that are inconsistent with verified construction and lease-up activity in many markets across the United States, including metropolitan Milwaukee (and the subject's specific PMA). As detailed within the table above, ESRI projects renter households to decrease by 42 households over the next five years, for an average annual decline of 8.4 renter households per year. This decrease in renter household growth is not supported by current development activity, which includes a mixture of for-sale and multifamily rental development, though the majority of new households within the PMA have been renter-occupied households.

As outlined below, the number of renter-occupied households within the PMA increased by 2,713 households from 2010 to 2018 (an average annual increase of 339.1 renter-occupied households per year). The total number of occupied households increased by 3,544 with the renter-occupied household growth (2,713 households) representing 76.6% of the growth. Inexplicably, ESRI has forecasted a 1.7% decline in renter-occupied households over the next five years. The current development trends and the historical development trends do not support ESRI's projections, nor do current multifamily vacancy rates within the PMA.

Housing Units by Occupancy Status and Tenure	Census 2010		2018	
	Number	Percent	Number	Percent
Total Housing Units	76,379	100.0%	80,156	100.0%
Occupied	71,595	93.7%	75,139	93.7%
Owner	54,082	70.8%	54,913	68.5%
Renter	17,513	22.9%	20,226	25.2%
Vacant	4,784	6.3%	5,018	6.3%

Based on the foregoing, we will adjust the 2023 renter-occupied housing units based on a combination of the eight-year historical trend and the five-year forecast – each provided by ESRI, with the historical data collected by ESRI from the US Census Bureau. As previously discussed, the renter-occupied households increased by 2,713 over the eight-year period from 2010 to 2018 and are projected to decrease (by ESRI) by 42 over the next five years – indicating a total renter-occupied household growth over the 13-year period (eight historical years and five forecasted years) of 2,671 units. When dividing this by 13 years, the average annual growth equates to 205.46 renter-occupied households per year. Multiplying this figure by five years results in a projected renter-occupied household growth from 2018 to 2023 of **1,027** renter-occupied households. Adding this figure to ESRI’s 2018 renter-occupied households of 20,226 results in a 2023 projection of **21,253** renter-occupied households, which will be utilized within our projections.

Income-Eligible Households

The subject is a 100 percent market rate apartment development. Therefore, effective demand for the subject’s units must be determined on the basis of income-qualifying households in the market area. The target market is the portion of renter households in the Primary Market Area that are able to afford the subject’s proposed rents. Rents in excess of 35 percent of household income are generally not considered affordable for tenants. Therefore, the target market is limited to those households that earn above a lower limit that would allow payment of the proposed rents without exceeding 35 percent of household income.

Based on our average market rent conclusion of \$1,619 per month per unit, the average minimum income requirement is \$55,498 per year based on 35 percent of annual income going towards housing, though nearly half of the units require an annual household income of \$45,429 based on our market rent conclusion of \$1,325 per month for the one-bedroom units. As such, the income ranges analyzed for purposes of this report include all households with annual incomes of **\$50,000 and above**.

Below is a table summarizing the income-eligible renter population based on the data provided by ESRI. As discussed, we have made adjustments to the 2023 renter-occupied households. A table summarizing the adjusted data is included on the following page.

Income Eligible Renter Population Primary Market Area (PMA)		
Year	2018 ESRI	2023 ESRI
Total Occupied Households	75,139	77,561
Renter-Occupied Households	20,226	20,184
Renter-Occupied %	26.92%	26.02%
Income Eligible Households (\$50,000+)	54,952	58,305
Renter & Income-Eligible	14,792	15,173

Source: Bureau of the Census, 2010 Census of Population and Housing, ESRI forecasts for 2018 and 2023.

Below is a table summarizing the income-eligible renter population based on the adjusted renter-occupied households, as previously discussed. The data within this table will be the basis of our demand analysis (as opposed to the table on the preceding page).

Income Eligible Renter Population Primary Market Area (PMA)		
Year	2018	2023 MRI Adjusted
Total Occupied Households	75,139	77,561
Renter-Occupied Households	20,226	21,253
Renter-Occupied %	26.92%	27.40%
Income Eligible Households (\$50,000+)	54,952	58,305
Renter & Income-Eligible	14,792	15,977

Source: MRI, Bureau of the Census, 2010 Census of Population and Housing, ESRI forecasts for 2018 and 2023.

The following table summarizes the existing supply, pending supply, and demand and incorporates the subject property to derive projected capture rates and penetration rates.

Capture Rates & Penetration Rates		
Current Inventory	3,673	
Number of Pipeline Units (Pending Supply)	378	
Subject Units	<u>300</u>	
Total Market Supply at 100% Occupancy	<u>4,351</u>	
Total Market Supply at 95% (5% frictional vacancy)*	4,133	
	<u>2018</u>	<u>2023</u>
# Income-Eligible Renter-Occupied Households	14,792	15,977
Subject Units (Stabilized at 95%)	285	285
Capture Rate	1.93%	1.78%
Supply / Competition (incl. subject) @ 95%	3,774	4,133
Penetration Rate	25.52%	25.87%

The analysis included calculations to address the following:

- **Capture Rate:** The percentage of age, size, and income qualified renter Households in the PMA/SMA that the property must capture to achieve the stabilized level of occupancy. Funding agencies may require restrictions to the qualified households used in the calculation including age, income, living in substandard housing, mover-ship and other comparable factors. The Capture Rate is calculated by dividing the total number of units at the property by the total number of age, size and income qualified renter households in the PMA/SMA.

- **Penetration Rate:** The percentage of age and income qualified renter households in the PMA/SMA that all existing and proposed properties to be completed within an established time period following completion of the subject, and which are competitively priced to the subject that must be captured to achieve the stabilized level of occupancy. Funding agencies may require restrictions to the qualified households used in the calculation including age, income, living in substandard housing, mover ship and other comparable factors. Penetration Rate is the number of subject units plus the number of competitive units divided by the number of income qualified households in the PMA/SMA, while taking frictional vacancy into consideration.

The subject's capture rates were 1.93% as of the 2018 data and 1.78% as of the 2023 data, while the subject's penetration rates were 25.52% as of the 2018 data and 25.87% as of the 2023 data. While acceptable capture rates and penetration rates are subjective in nature, these each appear to be within acceptable ranges based on our discussion with active investors in multifamily projects.

Based on these considerations, it appears that there is sufficient demand from income qualifying households within the PMA to support the proposed subject development as outlined herein. Our discussions with local property managers indicated that higher-end units (stainless-steel appliances, granite/quartz countertops, in-unit laundry, central air conditioning, high level of amenities, etc.) are in high demand. The proposed subject development would likely draw tenants that are currently renting at lower-quality, older apartment developments in the area as well as new renters introduced into the market. This is evidenced by the fact that new developments in the area with higher-end finishes within Waukesha County have realized swift absorption periods. The increase in middle-to-high-income households over the next few years further supports new development.

NET DEMAND ANALYSIS

As additional support, we also conducted a net demand analysis, which is summarized within the table below. The inputs were derived based on the data presented in the Effective Demand Analysis section of this report. Note that the net demand analysis is not based on income-qualified renters, but rather the total change in renter-occupied households as it compares to the subject units as well as the units in the pipeline. As shown, if the subject's 300 units, along with each of the 378 units in the pipeline are constructed / absorbed at a stabilized occupancy level, there would still be a net positive demand of **383 units**.

Marginal Demand Analysis		
a	Renter-Occupied Households 2018	20,226
b	Renter-Occupied Households 2023	21,253
c	Increase in Renter-Occupied Households (b - a)	1,027
d	# of Units in Pipeline	378
e	Subject Units	300
f	Total New Supply (d + e)	678
g	New Units at Balanced Market (95% X f)	644
h	Net Demand (c - g)	383

While it is recognized that the population projections relied upon herein are subject to a degree of uncertainty, and there may be several additional apartment developments brought to the market that are not yet known, there is also the possibility that some of the developments included within the pending supply will not be constructed or will be scaled back. The net positive demand of 383 units is enough of a buffer to help protect against unforeseen changes.

We do not foresee the subject development having an adverse impact on any other HUD-insured projects within the market.

ABSORPTION EXPERIENCE

To estimate the probable rate at which the subject is absorbed in its initial lease-up phase, we will examine observed trends in absorption/turnover in the area. While we would have liked to have been able to obtain absorption data on the newer projects within Oconomowoc and the municipalities immediately surrounding Oconomowoc, there hasn't been a sufficient amount of construction within the last few years to provide ample market data. As such, we expanded our search to include all of Waukesha County. Still, many property managers were unwilling to disclose absorption information or they did not have knowledge of absorption. Below is a table summarizing the more recently constructed properties within Waukesha County that we were able to obtain absorption information for.

Absorption Rates				
Property	Identification	Year Built	# of Units	Absorption Rate (Units / Month)
	The Junction, Menomonee Falls, WI	2016	318	13.8
	The Corners of Brookfield, Brookfield, WI	2017	244	14.4
	Lake Terrace East Apartments, Oconomowoc, WI	2017	141	10.1
	Riverwalk on the Falls, Menomonee Falls, WI	2018	114	14.3
	Lilly Preserve, Brookfield, WI	2016	75	15.0
	Hartland Riverwalk Apartments, Hartland, WI	2017	74	9.3
	Hidden Lake Preserve, Brookfield, WI	2017	71	14.2
	Clearwater Apartments, Waukesha, WI	2016	55	9.2
	Heritage Lake Country, Hartland, WI	2017	45	9.0
	Gateway Apartments, Oconomowoc, WI	2016	42	5.3
	Broadway Commons, Waukesha, WI	2015	209	14.9
	Dickson Hollow, Menomonee Falls, WI	2015	120	15.0
	Lincolnshire Place, Wales, WI	2015	99	14.1
	Wells Street Station, Delafield, WI	2015	58	15.0
	PrairieWalk at Towne Center, Brookfield, WI	2015	56	14.0
	Prairieville Apartments, Waukesha, WI	2015	22	11.0
Average		2016	109	12.4

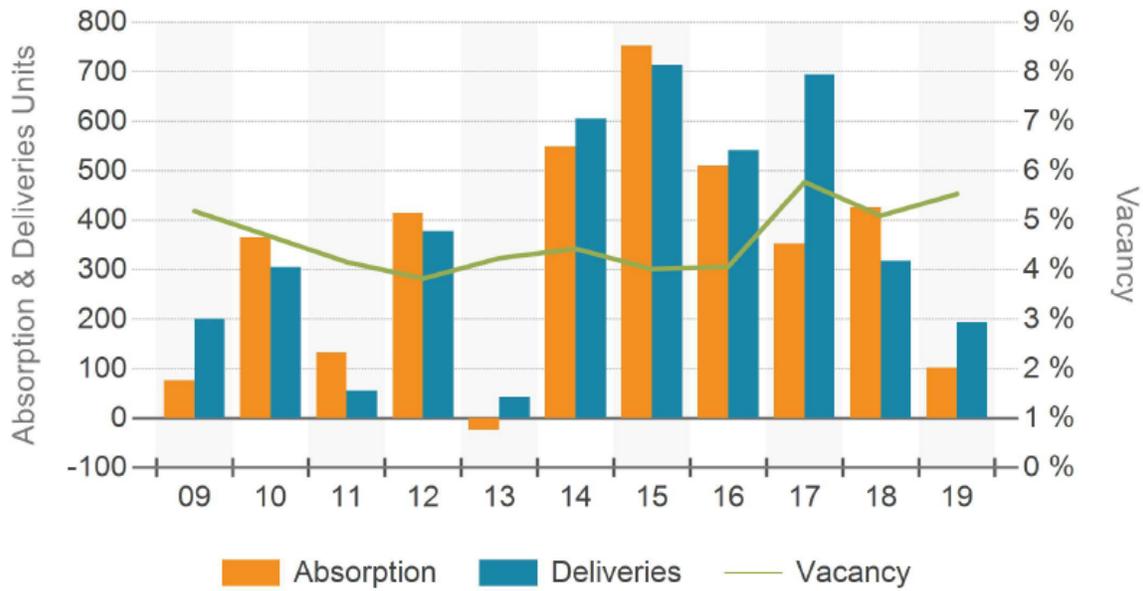
**Absorption Rate is based on the number of units the development features divided by the number of months there were from completion to stabilization or current occupancy (preleased units are indirectly considered).*

***Absorption rates were most commonly obtained via discussions with a property representative. Many times, precise dates were not known, but approximations were provided.*

As shown above, the average absorption rate is 12.4 units per month while the range was from 5.3 to 15.0 units per month.

On the following page is a table summarizing absorption, deliveries, and vacancy rates within the Waukesha County market for all market-rate properties. As shown, absorption has been positive each of the last six years and has been positive in 11 of the 12 periods shown.

Absorption, Deliveries, & Vacancy – Waukesha County Market-Rate Apartments



The subject contains 300 units. We believe that 30 percent of the units could be pre-leased, while the remaining units would be absorbed at a rate of 11 units per month. Based on our stabilized occupancy projection of 95 percent, the subject needs 285 units to be leased in order to be at a stabilized occupancy level. Assuming 30 percent pre-leased units (90 units), the subject will need to absorb an additional 195 units to achieve stabilization. Based on our concluded absorption rate of 11 units per month, this equates to an 18-month absorption period (rounded up from 17.7 months).

CERTIFICATION

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- We have provided no previous valuation services regarding the subject property within the three-year period prior to our acceptance of this engagement.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- The subject site and market comparables were most recently inspected by Kyle L. Bjerke on March 22, 2019. Peter A. Moegenburg, MAI did not personally inspect the subject property.
- No one provided significant real property appraisal assistance to the persons signing this certification.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Peter A. Moegenburg, MAI has completed the continuing education program for Designated Members of the Appraisal Institute.
- As of the date of this report, Kyle L. Bjerke has completed the Standards and Ethics Education Requirement for Practicing Affiliates of the Appraisal Institute.



Peter A. Moegenburg, MAI, ASA
Wisconsin Certified General Appraiser No. 296



Kyle L. Bjerke, Associate
Wisconsin Certified General Appraiser No. 2040