Apartment Association of Southeastern Wisconsin

Advocating for Sustainable Rental Housing

E-mail: membership@AASEW.org **Website: www.aasew.org**

Buying or Selling Today?

A panel of business partners within the real estate space will be providing keys to the industry in today's market.

- Keys to getting an accepted offer?
- Contingencies?
- Inspections?
- Buyer Credits?
- Land Contracts?
- Preparing a property to be sold?
- Rent Roll & Expenses?
- Listing Price?

When: Monday, April 18th, 2022
5:30 PM: Registration and Check-In
6:00 PM: Presentation Q&A
*Social hour to follow

Location: Sonesta Milwaukee West
10499 W Innovation Dr
Wauwatosa, WI 53226

Cost:
AASEW Member - FREE
Non Member - $25
**Appetizers and Cash Bar will be available

Register Here!

For event questions, email: admin@aasew.org
Or call (262) 893-8691

AASEW Mission Statement:
"The Apartment Association of Southeastern Wisconsin is your primary resource for education, mutual support and legislative advocacy for the successful ownership and management of rental property."

The Apartment Association of Southeastern Wisconsin Inc.

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PRESIDENTS CORNER

Mike Cottrell
AASEW President

AASEW Work on the Legislative Front

The AASEW holds a legislative committee meeting almost every Thursday morning. During this meeting, we discuss issues of great importance to our members at the city level and state level with regards to housing issues. This is some of the "behind the scenes" work that the AASEW is doing for its members that is extremely valuable to all rental housing providers in Milwaukee.

Heiner Geise, AASEW attorney, has been kind enough to compile a summarized list of some of the items that we have discussed at these meetings.

Rental Assistance Program

Community Advocates has gotten its share of the Emergency Rental Assistance program (ERA 1) which was re-allocated from State funds by Gov. Evers and is applying it to pending applications.

There is more rental assistance money available through ERA 2. Connor Goggans, who is very helpful as the County's landlord housing coordinator, reports as follows:

> The ERA 2 contract with Community Advocates is fully executed and we are pushing through each step in seeing that money roll-out as quickly as possible. Treasury made initial ERA2 payments equal to 40% of each grantee's total allocation, in accordance with the authorizing statute. Subsequent payments will be made in two tranches ("tranche 2" and "tranche 3"). Tranche 2 will be equal to half of the remaining award funds. Tranche 3 will be equal to the remaining balance. Once a grantee has obligated 75% of the ERA2 funds already disbursed, the grantee can request the next ERA2 tranche. Like ERA 1, it is possible that reallocations will be received for additional ERA 2 funding. ERA 2 is available for grantees to spend until September 30, 2025.

I have not yet heard back from SDC about their funding.

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Right-to-Counsel (RTC) Program

The Right-to-Counsel (RTC) program whereby tenants are offered a free lawyer for an eviction is ramping up. It is run by Legal Aid and Legal Action of Wisconsin.

When an eviction is filed they send a letter to the defendant tenant advising them that legal help is available. Recently, they got a grant from Rocket Mortgage to go door-to-door if the tenant doesn't respond to the letter. They will leave a flyer on the door knob if the tenant is not home.

I'm getting feedback from landlord attorneys that some RTC lawyers are filing motions to delay cases on dubious grounds.

In one case the affidavit of service had the printed name of "Frank Jones" as the process server and his signature was notarized but the signature was a scrawl and defense counsel ridiculously challenged this, saying, "You can't read the signature so how do we know who really signed it?"

Wisconsin Department of Agriculture, Trade and Consumer Protection (DATCP)

Your president Mike Cottrell, board members Tristan Pettit and Tim Ballering and lobbyist Joe Murray and I had a fruitful tele-meeting with Lara Sutherlin, head of DATCP, and her staff on March 31. Chris Mokler of the Wisconsin Apartment Association also participated.

We explored a number of issues where we thought DATCP could issue better guidance, such as late fees and 12 hour notices to enter premises.

The DATCP people could not comment on some matters due to pending litigation with landlord Joe Berrada but we did get helpful indications that DATCP does not see tiered late fees (where the amount goes up the later the rent is paid) as a problem.

The issue of landlords allegedly being "serial evictors" has gotten attention nationally and locally but Ms. Sutherlin said that that is not an item on their radar for investigation.

A recent DATCP action appears to require that if a working appliance is left behind by a prior tenant the owner is required to maintain the appliance and it would be a violation of ATCP 134.08(8) to advise a new renter that the owner is not responsible for repair or maintenance of the appliance.

Based on this we are advising owners to remove and sell or dispose of abandoned appliances rather than leave them for the use of the new renter.

However, you should state that in writing or, even better, do a simple bill of sale saying, "Tenant is buying the gas dryer on premises for $1.00."

The AASEW, in conjunction with the Wisconsin Apartment Association, sent a letter regarding these issues, as well as others, in mid-February 2022.

Additionally, Legal Action of Wisconsin has recently sent out a press release. Excerpt below:

Legal Action of Wisconsin Files Rules Petition with Wisconsin Supreme Court Regarding Eviction Records

The Rules Petition asks the Court to use its authority to reduce the length of time eviction records are held. Under the current rule, almost all eviction filings, whether granted or not, are held for twenty years.

Landlords use these records to make decisions about who they rent to, meaning a decades old hardship or miscommunication can affect the housing options available to a family for decades to come.

Legal Action is asking the Court to reduce that record retention period to one year for most eviction cases and keep the retention period at twenty years only for evictions where the court orders a renter to pay back money to their landlord.

In their supporting documents, Legal Action highlights the many problems with the current rule for both people who rent and landlords.

The memo highlights systemic issues in the rental housing market, including that evictions are filed and granted against Black mothers in Wisconsin disproportionately and more than any other group of people.

They assert that with these proposed changes landlords will continue to have access to relevant information to make business decisions and, in fact, will have a clearer picture of who is a viable renter.

Reduce Your Taxes with Short-Term Rental Properties

By Amanda Han, www.biggerpockets.com

BiggerPockets®

Question: What would you say is the latest craze in real estate investing? The thing that everyone is talking about and wanting to learn more about?

If you ask me, the term “short-term rentals” comes to mind. At the most recent BPCon, the short-term rental breakout session was not just a full house. It was standing room only. People were packed wall to wall, even with investors standing outside the conference room listening in.

So why are so many people interested in short-term rentals? Well, odds are that even if you do not own a short-term rental, you have likely stayed at one before. Whether listed through Airbnb, VRBO, or other similar sites, many investors see significantly higher cash flow by turning a traditional property into a short-term rental. Also, there can be an added perk if the investor can get some personal enjoyment out of the short-term rental property as well.

It is not uncommon for us to see a property make two to three times the cash flow when changing from a long-term rental to a short-term rental. With the higher cash flow comes the need for good tax planning. Why? Because how much of it you get to keep is more important than how much money you make! So let’s go over how to minimize taxes from your short-term rental investments.

Short-term rentals and taxes

To start, we need to first define what a short-term rental is when it comes to taxes. Many investors are under the impression that just because they list their properties on a platform like VRBO or Airbnb, they are considered short-term rentals. That is a mistake.

For tax purposes, a rental is not defined by where it is listed but by the number of days that a property is available for rent, as well as what type of services are offered alongside the rental. Generally speaking, if the average number of rental days per guest is seven days or less for the year, then the property is considered a short-term rental for tax purposes.

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"The Magic in New Beginnings is truly the most powerful of them all"

- Josiyah Martin

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If the average guest stay is longer than seven days, that property will still likely be treated the same way as a long-term rental even though it might be advertised as a short-term property. Rentals, where hotel-type services are offered (like a bed & breakfast), are generally treated as short-term rentals.

One important thing to remember is that short-term rentals, like long-term rentals, are typically taxed at the investor's highest ordinary income tax rate. So if you are an investor who is in the 35% tax bracket for your W-2 and other income, any taxable rental income is added on top and also subject to this tax rate.

Strategies for reducing taxes on short term rentals

Since short-term rentals often create high cash flow, it is essential to make sure that you are using the appropriate short-term rental strategies throughout the year to reduce taxes on this source of income.

Maximize your tax deductions

Maximizing your tax deductions is the first step in reducing your taxes on your short-term rentals. As an investor, you may have frequent trips to your short-term rental to set up, stage, or even manage the properties. Make sure to document your trips so that you can write those off against your rental income at tax time. Travel to short-term rentals is tax deductible against rental income, just like travel for any other type of real estate investing. The key is to make sure you have documentation to prove the reason for those trips. Let's go over an example of just how powerful this can be.

Let's say James owns a few short-term rentals in a lakefront community just two hours away from his home. He purchased a large truck that he used primarily to rehab, stage, and manage the short-term rentals.

Since the car was primarily for business use and weighed more than 6, 000 lbs, James was able to deduct the entire purchase price of the truck. By writing off close to $30k on that truck, James was able to lower the taxes on his short-term rentals and save close to $10k in taxes. Depreciation is based on the truck's purchase price, so James was able to create a significant write-off even though he financed part of that truck purchase.

Shift your income

Income shifting is another way to maximize tax savings on short-term rental income. Consider paying family or friends who are helping you out with your short-term rentals to shift income and save on taxes.

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James had a nephew who was still in college that was interested in getting into real estate. James hired his nephew to help with the rehab and repairs to get the short-term rentals ready. The $8,000 James paid his nephew was tax deductible and saved James another $2,400 in taxes. Most of the tax-saving short-term rental strategies traditionally used for long-term rentals are the same ones available to short-term rental investors.

Take advantage of depreciation

An investor may often have higher start-up costs with short-term rentals. Sometimes you may need to purchase furniture, fixtures, and appliances. Whether buying these as brand-new items or buying used items, most of these items may currently be eligible for bonus depreciation. This means that instead of depreciating the cost of these items over multiple years, you may be able to take the full depreciation in the first year.

For example, if James spent $6,000 on appliances, furniture, and a kayak for his short-term rental on the lake, that can result in a $6,000 deduction immediately in the first year. It is important to keep itemized listings of the items you spend money on. Supplies like towels, bedding, and toilet paper are all tax-deductible expenses. Those small amounts can add up to some substantial tax savings.

Track your expenses

Tracking expenses for short-term rentals is just like any other rental property. If you have multiple short-term rentals, track the income and expenses by property. We have already touched on travel, furnishings, and income shifting.

Don't forget the other potential tax deductions such as business meals, eligible home office, or related educational expenses. Since short-term rentals can be very profitable, it is extremely important to make sure you capture all of your expenses to offset the taxes associated with that income.

Know the tax benefits

Investing in short-term rentals can also come with some great tax benefits. Some of those tax benefits may even be better than those from investments in regular long-term rental properties.

For those in the long-term rental space, you probably already know some of the restrictions concerning the passive activity loss rules for higher-income investors. In short, if your adjusted gross income is over $150,000, then any rental losses from long-term rental properties typically can only offset income from other passive activities. When there is an excess loss, those losses are not used to offset taxes from your W-2 income. The losses are instead carried forward into future years to offset future passive income.

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However, an investor who can claim real estate professional status would then be able to use the net losses from the long-term rentals to reduce taxes from W-2 and other income. For investors who work full-time, obtaining real estate professional status is often tough to achieve. One of the main hurdles is that the investor must spend more time in real estate than their job.

So for someone working 2,000 hours a year at a job, they would need to spend more than 2,000 hours that year in real estate as well. Real estate professional status is often difficult for investors who are still working full time. This means the excess rental losses are not as helpful to offset taxes from W-2 or other non-passive income. When it comes to short-term rentals, though, the good news is that it is treated differently than long-term rentals for tax purposes.

One of the perks of investing in short-term rentals is that the investor's ability to use excess rental losses from the short-term rentals to offset taxes from W-2 and other income is a little easier to achieve. This means that if you're operating in the short-term rental space, you do not need to be a real estate professional to be able to potentially use rental losses from those properties to offset taxes from W-2 and other income.

However, you will still need to show that you are materially participating in your short-term rentals. So what exactly does it mean to materially participate in your short-term rentals? There are seven tests, and you only need to meet one of them.

Tax benefit qualifications to know
Out of the seven possible qualifications, here are the top three that are most commonly used:

Participate for more than 500 hours during the year on the short-term rentals
Participate for more than 100 hours in the short-term rentals, and no one else incurred more time than you
Participate in substantially all of the activities in the short-term rentals where your participation exceeds the combined time of all other individuals
Material participation time can include tasks such as staging and managing the property, dealing with guests, repairing, cleaning, restocking the property, to name a few.

Once you meet one of the material participation tests for your short-term rental, then any net tax losses may be deductible in the current tax year and thus help offset taxes from W-2 income. If you are an investor who owns multiple short-term rentals, you may be able to combine your hours across all of your short-term rentals as well.

Let's go over a quick example of how this strategy works: Ashley works full-time at a tech company. She decides to buy a property in a nearby ski area and rent it out as a short-term rental. Even though she had to pay a slight premium for the property and incur some start-up costs to get the property ready, it had phenomenal cash flow in the first year.

Ashley loves connecting with her guests and sharing her insights to make their stay a memorable experience. By working proactively with her tax advisor, she decided to be very involved in managing her short-term rentals. She documents her hours during the year to ensure she meets one of the material participation tests. Her tax advisors assisted her with maximizing her tax deductions by writing off the business use of her car, computer, and home office.

The first year she owned the property, she decided to obtain a cost segregation study to accelerate the depreciation deduction for her short-term rental. With proactive tax planning, not only did Ashley not have to pay taxes on all of that cash flow she received from the property, but she also created a significant net loss of $20,000 for tax purposes.

Since she worked during the year to ensure that she met the martial participation hours with respect to this property, Ashley was able to use the $20,000 loss from the short-term rental to reduce some of her taxes from her W-2 income at the tech company. Not only did Ashley receive significant cash flow from the property, but she also paid no current taxes on that cash flow and instead used additional losses to reduce taxes from her W-2 income.

Final thoughts on tax benefits for short-term rental investors
As you can see, there can be some significant tax benefits to investing in short-term rentals. It is important to remember that rules and regulations can change quickly regarding short-term real estate investing.

Before investing in a short-term rental, it can make sense to analyze the deal to see how it would otherwise perform as a long-term or midterm rental. If the city were to enact new short-term rental restrictions or changes, you want to ensure that you have alternative investment strategies to keep the property performing well.

How Much Can a Landlord Raise Rent? What to Know About Rent Increase Laws

By Kimberly Dawn Neumann, www.realtor.com

Rent increases are never, ever fun. Every year, I hold my breath when it's time to renew my lease, in the hopes that the hike is still within my housing budget. Sure, it may be easier than ever to find homes for rent online, but I love where I live, and would like to stay there as long as I can.

Fortunately, my landlords have always played fair. But let's be frank—some don't. And when that happens, it leaves many tenants wondering: What are the rules on raising rent, anyway?

How often can a landlord raise rent?

Landlords can't just raise your rent whenever they feel like it; they have to wait until whatever contract you've signed with them expires, says Robert Pellegrini, president of PK Boston, a real estate and collections law firm with offices in the Greater Boston area. That means that if you have a lease, they can't raise it until the lease term expires.

For example, if you've signed a one-year contract, it'll be a year before rent can go up, or two years if you've signed a two-year lease (which is why signing a lease for two years or longer is wise, to keep the rent down).

Meanwhile, if you're renting month-to-month, your rent can't increase until the end of any given month. Simple rules. But real rules.

How much notice does a landlord have to give to raise rent?

In most states, renters must be granted at least 30 days' notice before a rent increase is enforced, although that can vary based on how much the rent will actually go up. In California, for instance, that advance notice expands to 60 days if the increase is more than 10% of the rent.

These rules are also typically true for a "tenant at will" (i.e., you do not have a lease) and, more surprisingly, a tenant in a rooming house, where you are likely to pay rent weekly.

"In this case, one would assume that seven days' notice would suffice. Not the case!" says Pellegrini. "Tenants in rooming houses still require 30 days' notice for a rent increase."

No matter how strange your leasing terms may seem, or how unorthodox your housing situation, you may be surprised when it comes to your rights concerning rent increases.

How much can my landlord raise my rent?

As unfortunate as it may be, rent increases are common, and many tenants expect some kind of increase every time their lease comes up. Still, some renters might find it hard to believe just how much the price of their housing goes up every year.

"When it comes to how much a landlord can raise rent, anything flies," says Pellegrini. "There are no rules, and it's totally at their discretion." Except, of course, if you're living in a rent-stabilized or rent-controlled apartment, in which case there are strict government provisions in place governing how much rent can be raised (or if it can be increased at all).

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Finding one of these rent-controlled apartments is something like locating the holy grail. So, if you don't know if you have a rent-controlled apartment, the chances are you do not.

If that's the case, you, your lease, and your wallet are mostly at the mercy of your landlord and the rental market in your area. However, there are some exceptions to what your landlord can do, for example: raise the rent to punish a renter.

"If it looked to a judge like the landlord was raising rent punitively—say, for example, to get 'payback' for the tenant contacting the Board of Health for a health code violation—then this is not OK, and the landlord could be found guilty and made to pay as much as triple damages and court costs," says Pellegrini.

In this case, it's not about your rental agreement, the length of your lease, or even a housing market increase in your area. It's about what is legal and illegal. If you think you may be a victim of a punitive rent increase, contact a lawyer.

Can a landlord raise rent retroactively?

The short answer is no. In most cases, if a landlord has slapped a tenant with a retroactive rent increase, he was negligent in letting the tenant know about the increase at the appropriate time. The renter can't be held responsible for a rent increase he or she genuinely didn't know about.

"Often, a landlord provides notice of the increased rent retroactively together, to try to bully renters out, knowing that the tenant might be overwhelmed due to the 'back rent' and would be more likely to vacate," says Pellegrini.

If this is the case for you, be aware that a tenant can file suit against a landlord, or simply counterclaim if an eviction has already been initiated by the landlord.

What should renters do if they think their landlord illegally raised the rent?

So, now that you know a bit more about rent increases: What if you're realizing that your rent may have been increased illegally?

Maybe your rent was increased illegally in a rent-controlled apartment. Or, perhaps you're looking through your rental agreement and realizing that you weren't due for an increase.

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There are things you can do to protect yourself from an illegal rent increase.

"A tenant should keep track of every correspondence they receive," says Pellegrini. "They should also take notes when communication is verbal, and keep track of the dates of each communication." This is especially important when trying to prove harassment (to pay rent or otherwise).

But don't assume that your landlord is automatically the bad guy.

"In my opinion, the vast majority of landlords do the right thing, and, out of the slim percentage that do not, they aren't even aware that they did something incorrectly," says Pellegrini.

"So, in all but a few cases, I'd highly recommend that the tenant communicate with the landlord first if something doesn't seem right. If the tenant ends up in court, or starts things off in a threatening way, they should remember that the landlord owns the property. And, if the landlord finds the tenant to be difficult to work with, the landlord is entitled to allow the tenancy to expire and find a new tenant."

So, you should protect yourself (and your money) from an unfair increase, but don't go so far as to threaten your landlord and put your housing situation at risk. Remember that your landlord could have made an honest mistake.

It's also possible that you could have miscalculated an increase along the way. If you come on too strong to correct the situation, you could potentially end up facing eviction.

"Spring will come and so will Happiness hold on. Life will get warmer"

- Anita Krizzan

Large multi-use housing development almost ready to welcome Milwaukee renters

By Andrea Albers, www.tmj4.com

Rising rent and stagnant wages are a one, two punch for many people in need of a place to live in Milwaukee County. Compared to surrounding counties and peers across the nation the cost to rent is relatively low, but data shows the ability to find, and pay for affordable housing, is dropping. The Wisconsin Policy Forum released a report in 2018 that found a big mismatch — a low number of available and affordable options in the county, despite high demand from low-income renters.

Fast forward to 2022, and now, two years of living in a pandemic has only heightened the problem. A new housing affordability report from Milwaukee's Department of City Development underlines the challenge of developing housing specifically targeted to residents with very low income, earning $20,000 — or less — per year.

Now, a number of community stakeholders have gathered to craft "Milwaukee's Collective Affordable Housing Strategic Plan."

That group says it has identified the need for 32,000 rental homes for families making $7.25 to $15.00 per hour, and a need for 32,000 additional Black and Latino homeowners to address racial disparity in homeownership. The city of Milwaukee has committed to using the strategic plan to align with new and existing efforts, programs and resources and leverage additional funding.

Recently, Milwaukee's Common Council directed $50 million in American Rescue Plan Act funding to affordable housing needs. Some of the money will go to complete the re-development of Westlawn, help renters facing eviction, and rehab city-owned properties for homeownership.

Part of the larger housing supply solution could be undeveloped parcels. In 2021 there were over 5,100 vacant pieces of land zoned for residential use in Milwaukee. Many are city-owned because of a wave of foreclosures during the Great Recession. The city is actively marketing the lots to developers.

The "Community Within the Corridor" has been identified as a micro solution. It's a unique, new affordable housing development that is about to welcome renters.

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Prospect Management Company
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MPI Property Management, LLC
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Elm Grove, WI 53122

AASEW OWNER Article Guidelines

Would you like to submit an article for publication in the AASEW newsletter?

Here are the current submission guidelines:

Deadline for all submissions is the first of each month.

The newsletter will be delivered electronically to the membership around the 10th of the month.

Limited print copies of the newsletter may be available at the General Membership Meeting following its publication.

We are happy to accept one article per author per newsletter.

Please keep the article to approximately 500 words in length.

Any edits made to an article (generally for length) will be approved by the contributor before it is published.

All articles must be properly attributed.

The Editorial Staff reserves the right to select articles that serve the membership, are timely, and are appropriate.

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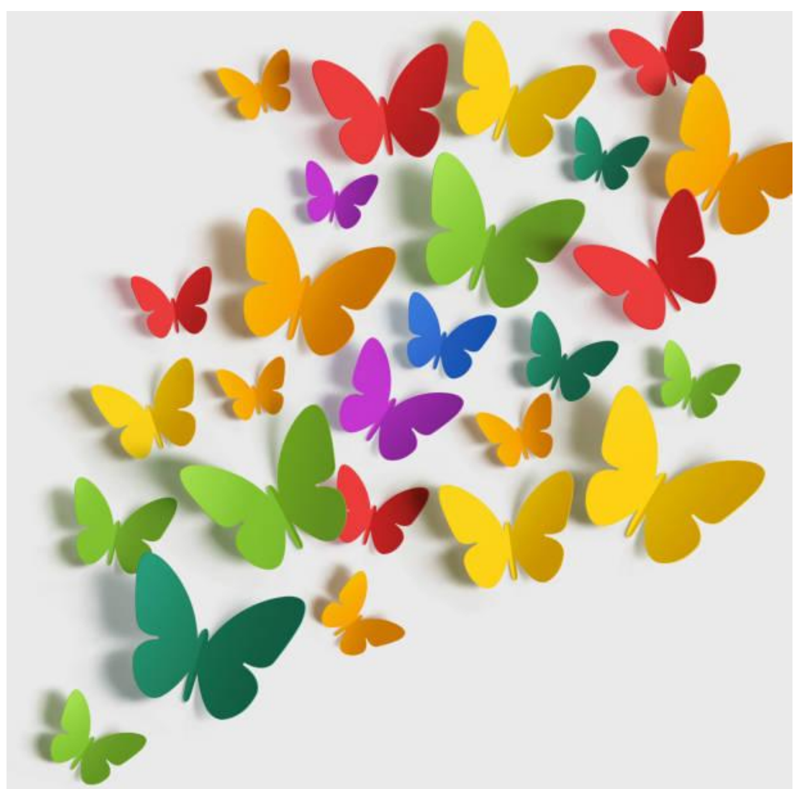

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Que El-Amin, the owner of Scott Crawford, is a developer leading the $66 million project in Milwaukee's Sherman Park area, bringing new life to the old Briggs and Stratton site. "We're converting it into 197 apartment units, 25,000 square feet of recreational space and 35,000 feet of commercial space," explained El-Amin.

That combination has the potential to transform the neighborhood by solving some of the challenges working families face. "It's not just affordable housing — it's affordable housing with childcare. With a laundromat and with a grocery store. It's really creating a community," added Missy Hughes, the secretary and CEO of the Wisconsin Economic Development Corporation.

The WEDC is one of several partners in city, county and state government. $1 million in funding is coming from the city of Milwaukee's Community Development Block Grant — the largest-ever distribution.

And the Community Within the Corridor project is the largest privately-owned affordable housing development in the state. It's drawn visitors from other major metro areas who want to replicate what's being done in Milwaukee. El-Amin says he's given tours to people from Chicago and Indiana.

The range is $300 for a studio apartment to up to $1,000 for a four-bedroom. The first move-ins will happen in June of 2022. "These units will serve a unique trend to satisfy workforce housing," continued El-Amin. "(These are) people who have jobs who are working hard, but they can't afford the downtown rents. They'll get new, nice apartments in a liveable environment."

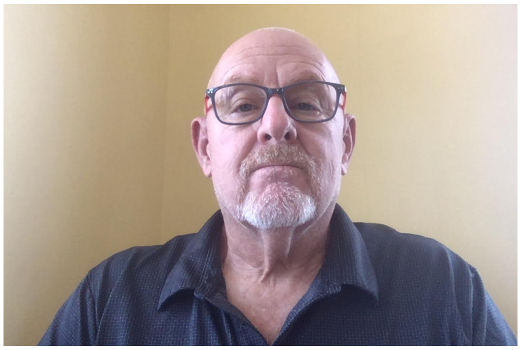
There are nearly 200 units that are about to be ready for move-in, but the El-Amin said they are spoken for — he told TMJ4 that there are many more applications than there are available units. But El-Amin added that "Phase Two" of this project is expected to start sometime in early 2023 and it will include new apartments that people can apply for.

"Spring adds new life and new beauty to all that is"

- Jessica Harrelson

Benefiting from the Wage-Price Spiral

By Tim Ballering, AASEW Board Member
www.justalandlord.com



The forecast

More than three out of four (77%) economic forecasters believe the highest inflation in four decades is either fueling a wage-price spiral or poses a “major risk” of doing so this year, the National Association for Business Economics (NABE) said Monday in its release of survey results. Rising wages, supply chain bottlenecks and shortages of materials prompted more than half of the forecasters to warn of “upside risks for inflation” in 2022, the NABE said. The week-long survey of 57 forecasters ended Feb. 15, several days before the start of Russia’s invasion of Ukraine pushed up prices for oil and other commodities worldwide. The forecasters “see a risk that inflation will remain higher than previously expected over the next three years, coming largely from the labor market,” according to David Altig, research director at the Federal Reserve Bank of Atlanta and NABE president.

Who are the winners and losers from inflation?

Inflation is a continuous rise in the price level. Inflation means the value of money will fall and purchase relatively fewer goods than previously.

In summary:

• Inflation will hurt those who keep cash savings and workers with fixed wages.

• Inflation will benefit those with large debts who, with rising prices, find it easier to pay back their debts

Bottom Line

Those with fixed assets and fixed-rate debt are the winners unless of course the entire economy fails and we fall into social chaos. But keep 2007 in mind, and do not overpay, lest you end up like so many did in 2008.

An economic shock just hit the housing market

By Lance Lambert, www.fortune.com

When the pandemic struck two years ago, the Federal Reserve used nearly every lever at its disposal to combat the COVID-19 recession. That included cutting its benchmark interest rate to zero. Lower interest rates incentivized businesses to invest and borrow cheap money. It also encouraged buyers—enticed by record low mortgage rates—to jump into the housing market.

That's all behind us now. The Federal Reserve has moved its focus from helping the economy recover to getting inflation under control. Last week, the central bank raised rates for the first time since 2018. In anticipation of the hike, the average 30-year fixed mortgage rate spiked from 3.11% in December to 4.16% as of last week, according to Freddie Mac. That upward swing isn't over yet: Bankrate reports that as of Wednesday, the average 30-year fixed mortgage rate is 4.52%. (We won't get the official number from Freddie Mac until Friday).

The real estate industry knew higher mortgage rates were coming—but they didn't expect it to be this high. Indeed, heading into the year, Fannie Mae predicted that the 30-year fixed mortgage rate would average 3.3% in 2022 and 3.5% in 2023.

Industry insiders tell Fortune this swift move up in mortgage rates amounts to an economic shock. After all, just look at what it's doing to mortgage payments. A borrower who took on a $500,000 mortgage at a 3.11% rate would get a monthly mortgage payment of $2,138. At a 4.16% rate, that jumps to $2,433. If rates this week do cross 4.5%, that payment soars to $2,533. Back in January, Ali Wolf, chief economist at Zonda, a housing market research firm, laid out two different scenarios for Fortune.

"If rates approach 4% before the end of the year, there will be a notable downshift in housing demand. If mortgage interest rates gradually rise throughout the year allowing home sellers to price their homes accordingly, then the shock to the system will be less noticeable."

Of course, what we're seeing now is anything but gradual. Now that rates are spiking, Wolf has adjusted her view a bit: She thinks a "downshift" in buyer demand will take time to get going. Why? As rates have climbed, Wolf is seeing more home shoppers rush into the housing market in hopes of locking in rates before they go even higher.

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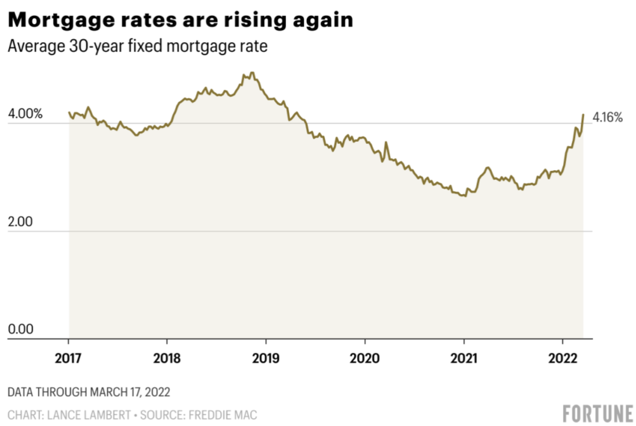
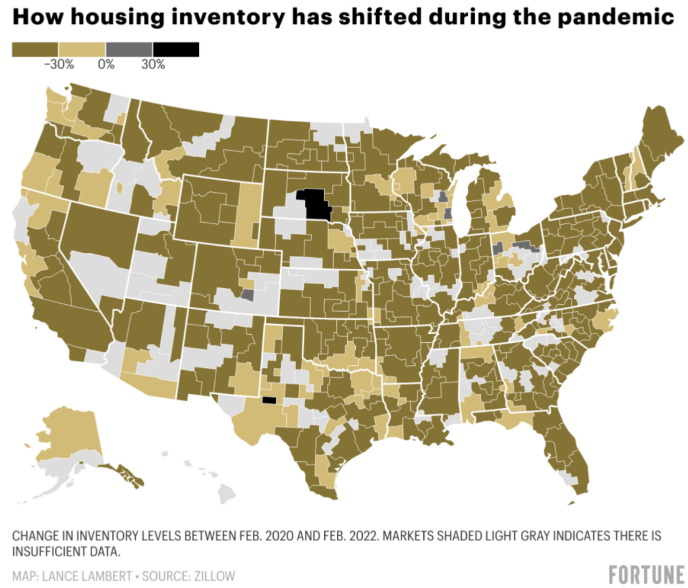
Simply put: In the short-term, rates are putting upward pressure on an already red-hot housing market.

"Rising mortgage rates are having a counterintuitive effect on the housing market. Home shoppers are actually sprung into action in an attempt to buy a home before mortgage rates rise any higher," Wolf tells Fortune. "Some home shoppers are nervous that if they don't buy today, they may never be able to given affordability."



That uptick in buyer urgency should be a short-term boost to the market. However, once it passes, the reality of higher rates should put downward pressure on the housing market. Not only do higher rates mean buyers' monthly mortgage payments rise, it also will result in some buyers (who must meet banks' strict debt-to-income ratios) losing their mortgage eligibility. Fewer buyers should result in a deceleration of U.S. home price growth—which is up 18.8% over the past 12 months.

That said, don't expect home prices to fall: Not a single major real estate firm is predicting prices will fall over the coming 12 months. The reason? Inventory plummeted during the pandemic (see the chart below) and there simply aren't enough homes for sale to match demand from buyers. Even if some buyers back off in the face of higher rates, we'd still have an inventory crisis, says Nik Shah, CEO of Home.LLC, a startup that provides down payment assistance to homebuyers in return for a share of any profits. Shah tells Fortune that his forecasting shows home prices continuing to rise "in 2022 and beyond."



If rising mortgage rates do cause the housing market to cool down a bit, that'd be welcomed by many housing economists. One of the industry's fears is that home price growth remains at an unsustainable level and leads to an overheated market. After all, home price growth can't outpace income growth forever. At its latest reading, year-over-year home price growth was still increasing six times greater the rate of incomes.

"Rising mortgage rates could eventually be good for housing by trying to bring the market back to a healthy place, but there will likely be some inequality collateral damage along the way," Wolf told Fortune.

"Spring is coming… Time for some cleaning. Remove all self doubt, worry, jealousy, regret, anger, guilt, or any other negative emotions that are holding you back from from your happy, fulfilled life"

- Nanette Matthews

A Proposal by the WI Senate for Changes to the Requirements Relating to Inspections of Rental Properties

By Dawn Anastasi, AASEW Board Member

A new bill was proposed on March 9, 2022, that would make adjustments to the WI statutes regarding requirements relating to inspections for rental properties.

If you're interested in reading the full text, the full link on the WI State Legislature site is here:

docs.legis.wisconsin.gov/2021/related/proposals/sb1041

This bill makes various changes to the requirements relating to inspections of rental properties.

- The bill eliminates an existing cap on inspection fees that municipalities and counties may charge for rental property inspections, instead allowing municipalities and counties to charge the actual cost of an inspection or reinspection.
- The bill eliminates a prohibition on charging an inspection fee to a landlord whose property is found to have a habitability violation, but who corrects the violation within 30 days.
- Under the bill, regardless of the cause for the inspection of a rental property—whether initiated by complaint or otherwise—the municipality or county may charge an inspection fee if a code violation is found during an inspection. The bill does not change current law that provides that if no violation is found, the municipality or county may not charge a fee.
- Under the bill, a landlord is required to allow a municipal or county inspector access to the non-common areas of a rental property for any inspection initiated by a complaint or under a rental inspection program permitted under state law. The bill also eliminates a current law requirement that a tenant grant permission to enter the non-common areas of a property in order for an inspection to be performed.
- Under the bill, a landlord must provide notice to a tenant of an impending inspection in the same manner the landlord would provide notice under current law to enter for repairs or to show the property to prospective tenants.
- Finally, the bill provides that rental property inspection fees charged by a municipality or county are not subject to deduction from the municipality or county's tax levy.

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Upcoming Events

Landlord Lunch and Learn Series

BRRRR in Milwaukee: Buy, Rehab, Rent, Refinance, Repeat. How to build a portfolio without a huge pile of money. Plus monthly Milwaukee Market Update.

When: April 20, 2022, 12:00 PM
Location: Virtual
Cost: AASEW Member - Free
Non Member - $10

*This call will be recorded and emailed to all registered participants.

Register Here

Marcus Auerbach

For meetings and events questions or assistance, email us at admin@aasew.org or call (262) 893-8691

For membership questions or assistance email us at membership@aasew.org

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