

2015 CITY OF MADISON

HOUSING REPORT

MARKET RATE OWNERSHIP

DRAFT

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MARKET RATE OWNERSHIP - PRIORITIES

For market rate ownership housing, the primary goal is

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OVERSIGHT AND IMPLEMENTATION RESPONSIBILITIES

	1a	1b	2a	2b	2c	2d	2e
CDA							
Common Council							
Community Development							
Economic Development							
Mayor's Office							
Planning							

MARKET RATE OWNERSHIP - OVERVIEW

In the past 20 years homeownership has been a rollercoaster ride of boom and bust, leaving us with a homeownership market that looks dramatically different today than 5, 10 or 15 years ago. For Millennials, our next generation of homeowners, there's a historically large chance that you're living with your parents. If not, they are renting with only 29% percent owning a home. Among those that are renting, 58% are housing cost burdened meaning housing eats up around a third or more of their income making saving for a down payment nearly impossible.

For those interested in buying, tough post-crash mortgage standards and high prices for entry-level houses serve as a significant barrier. The market has not delivering a new supply of affordable entry-level in the more urban/walkable neighborhoods that the next generation of buyers has indicated that they prefer.

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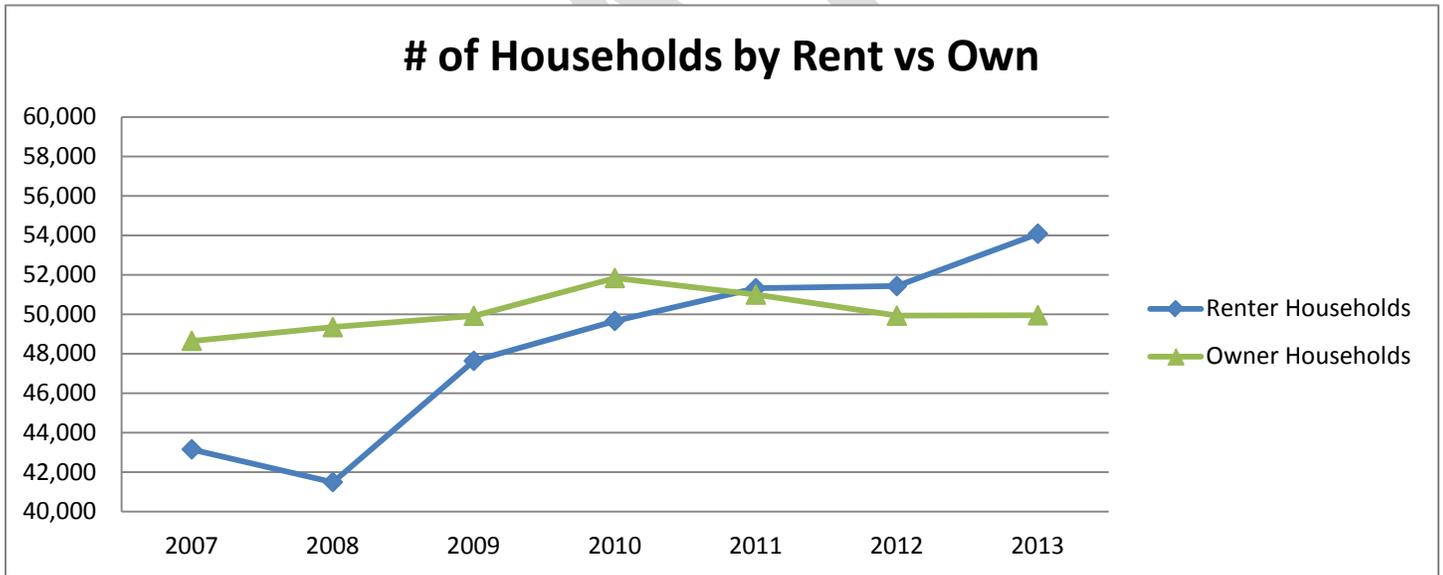
MARKET RATE OWNERSHIP - DEMAND

As an earlier chapter focused exclusively on low-income owners (those with household incomes below \$50,000) this chapter will place particular emphasis on owner households with incomes greater than \$50,000.

POPULATION GROWTH

Prior to the recession, the City of Madison saw modest population growth in line with historic averages driven primarily by owner households and relatively large household sizes (more than two people) while the rental market was shrinking. **After the recession, Madison’s population growth shifted into a higher gear and was driven almost entirely by renters and smaller households, resulting in a measurably higher household growth rate.**

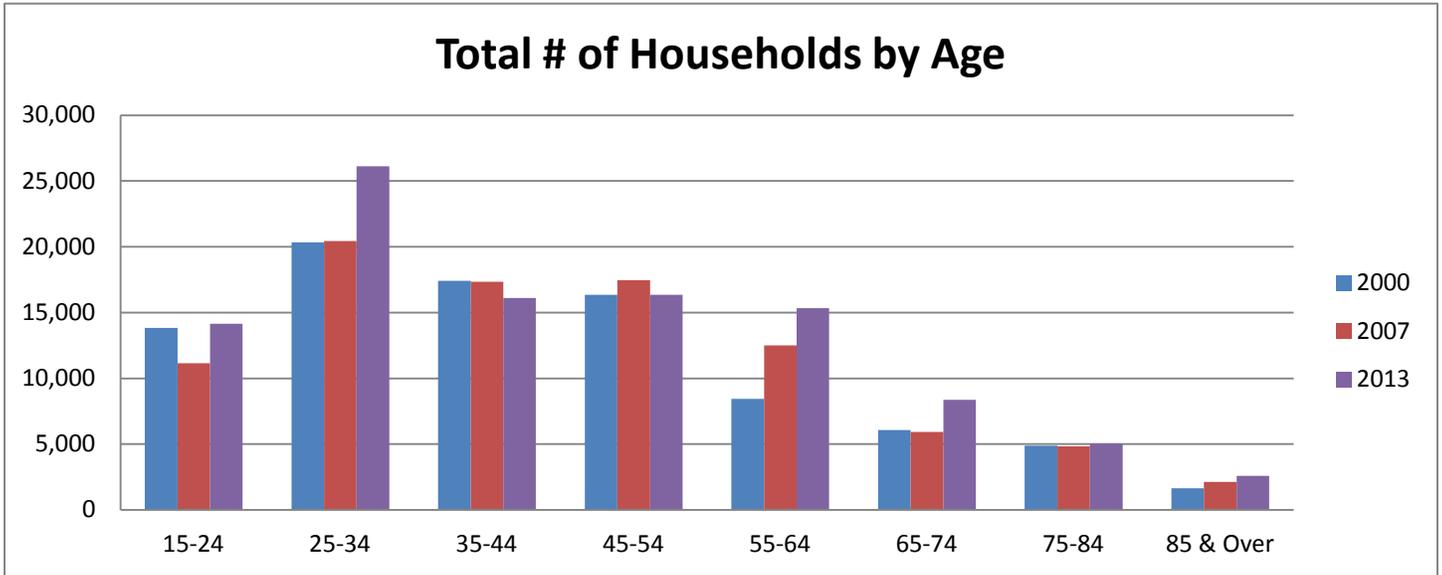
	2000 Census to 2005-2007 ACS		2005-2007 ACS to 2011-2013 ACS	
	Annual Growth Rate	Total Growth	Annual Growth Rate	Total Growth
Population	1%	6%	1.5%	9%
Households	0.5%	3%	2%	13%
Renter Households	-1%	-7%	4%	25%
Owner Households	2%	14.5%	0.5%	3%



Source: 3-year American Community Survey

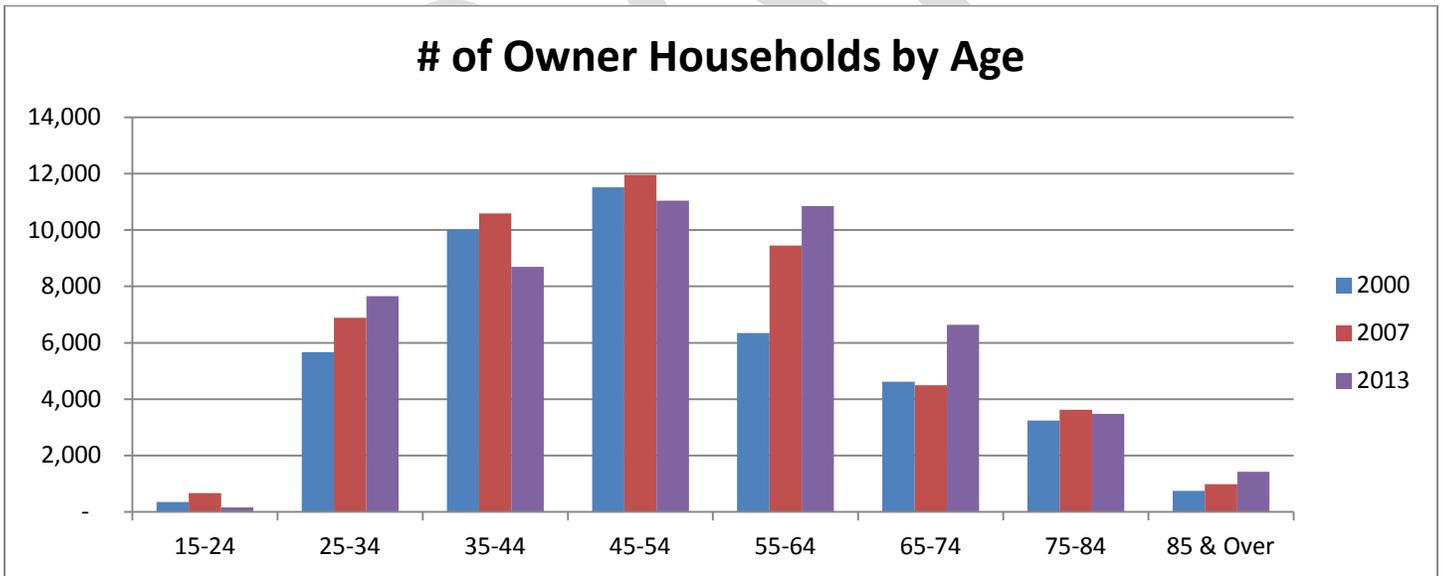
The combination of fast growth and strong preference for rental house made **Madison a majority renter community in 2011.**

HOUSING TENURE BY AGE

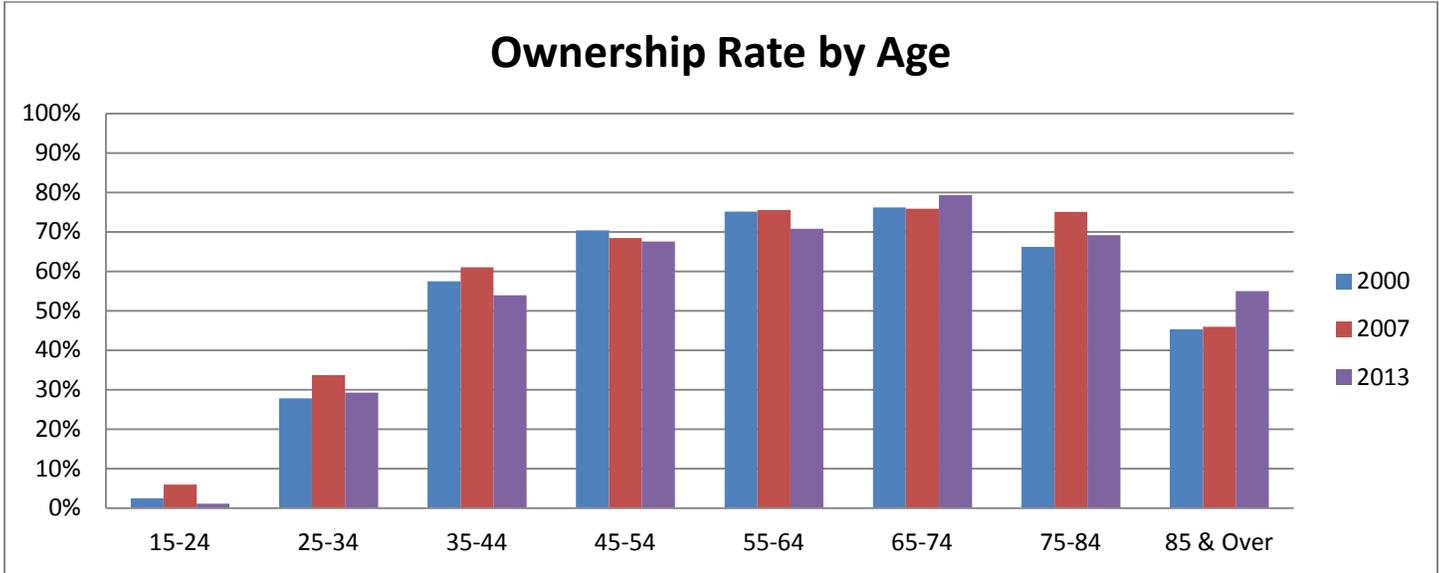


Source: 2000 Decennial Census, 3-year American Community Survey

While our overall population mix has shifted to be younger due to the large influx of Millennials (25-35 year olds), our homeownership mix has shifted to be older. Over the last 15 years, our home owning population has dramatically shifted so that roughly half of homeowners are 55 or older.

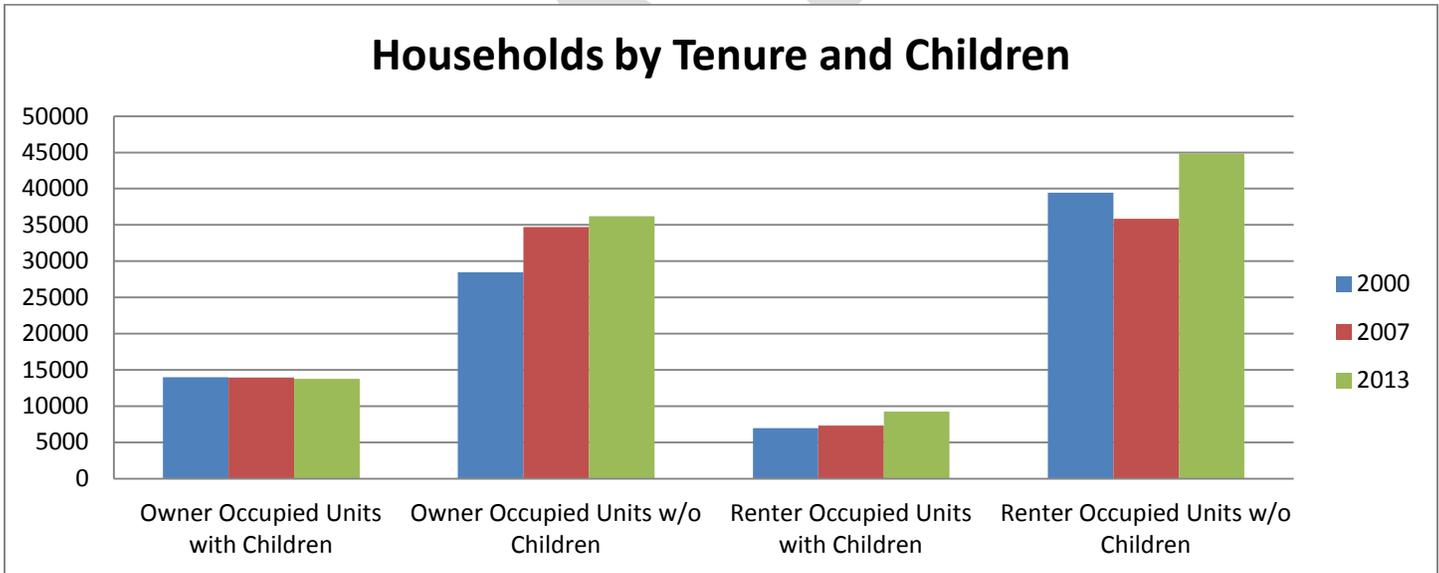


Source: 2000 Decennial Census, 3-year American Community Survey



Source: 2000 Decennial Census, 3-year American Community Survey

The second major trend in ownership is that all growth is coming from households without children. The number of owner occupied housing with children has been flat for 15 years.

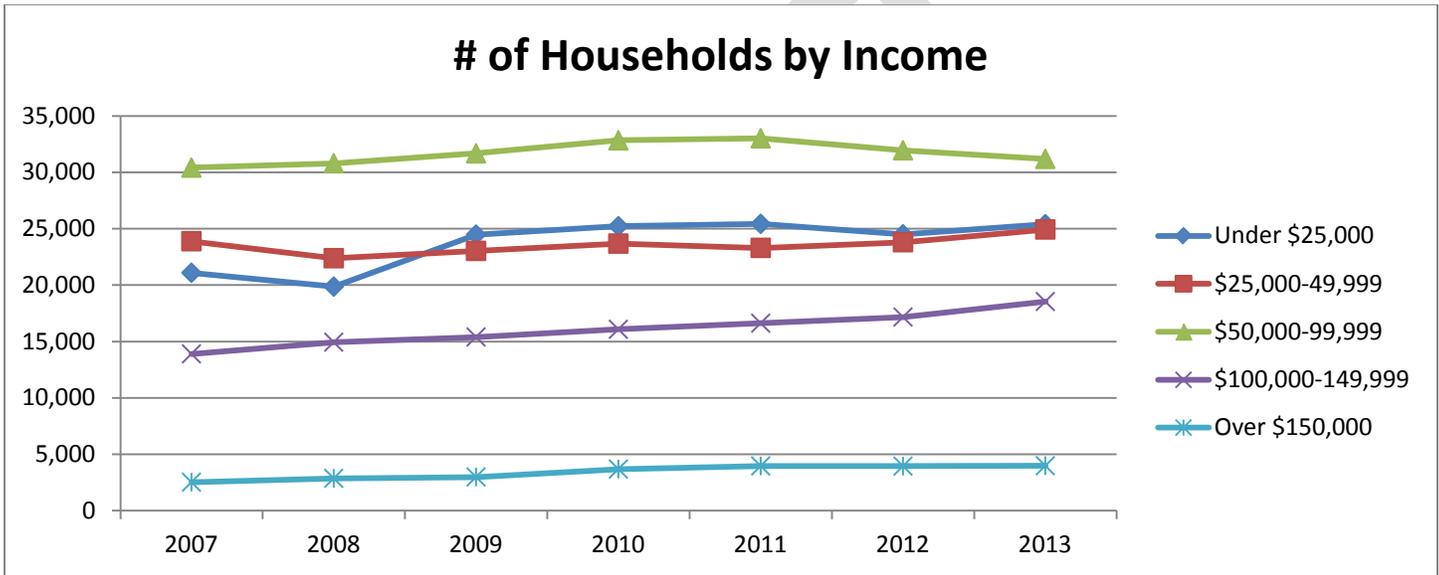


Source: 2000 Decennial Census, 3-year American Community Survey

HOUSING TENURE BY INCOME

Traditionally, Madison has seen a strong correlation between income and ownership rates. This implies that growth in low-income households would increase demand for rental housing while growth in high-income households would increase demand for owner housing. **After the recession, growth has been split between very low-income households and relatively affluent households, with little net growth in the middle.** Since 2007, the City of Madison has added approximately:

- 12,200 new households
- 4,300 households with incomes below \$25,000 (<40% of Median Household Income)
- 1,000 households with incomes \$25,000 to \$49,999 (<80% of Median Household Income)
- 800 households with incomes \$50,000 to \$99,999 (<160% of Median Household Income)
- 2,700 households with incomes \$100,000 to \$149,999 (<240% of Median Household Income)
- 3,400 households with incomes \$150,000 and above (>240% of Median Household Income)



Source: 3-Year American Community Survey

Household Growth Rate 2007-2013

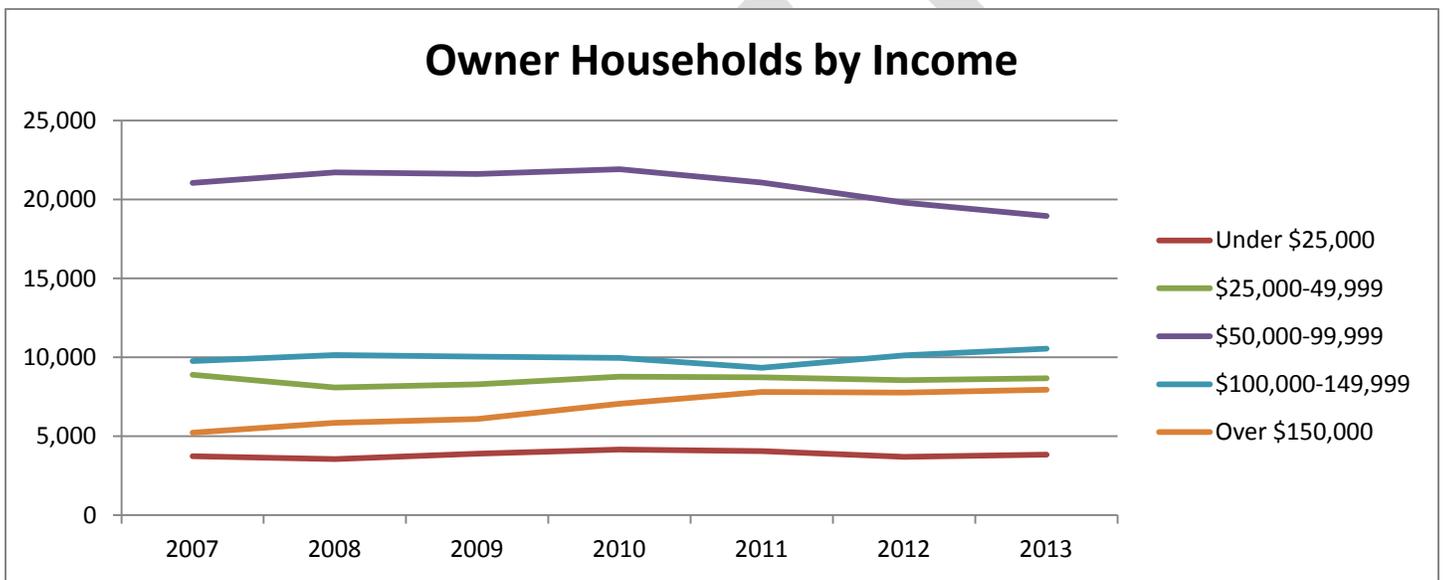
	Average Annual Growth Rate	Total Growth
Total Households	2%	13%
Under \$25,000	3%	20%
\$25,000-49,999	1%	4%
\$50,000-99,999	0.4%	3%
\$100,000-149,999	4%	24%
Over \$150,000	8%	61%

The ownership market has been relatively stagnant at all but the highest income levels. The ownership market has only absorbed 10% of households added to the City since 2007.

Since 2007, the City of Madison has added approximately:

- 1,300 new renter households
- 100 households with incomes below \$25,000 (<40% of Median Household Income)
- -200 households with incomes \$25,000 to \$49,999 (<80% of Median Household Income)
- -2,100 households with incomes \$50,000 to \$99,999 (<160% of Median Household Income)
- 800 households with incomes \$100,000 to \$149,999 (<240% of Median Household Income)
- 2,700 households with incomes \$150,000 and above (>240% of Median Household Income)

Compared to the rental market, the homeownership market has grown relatively slowly. **Moreover, middle class ownership households with incomes of \$50,000-\$99,999 saw a 10% decline over this period. Virtually all growth in homeownership has come from higher income households.**



Source: 3-year American Community Survey

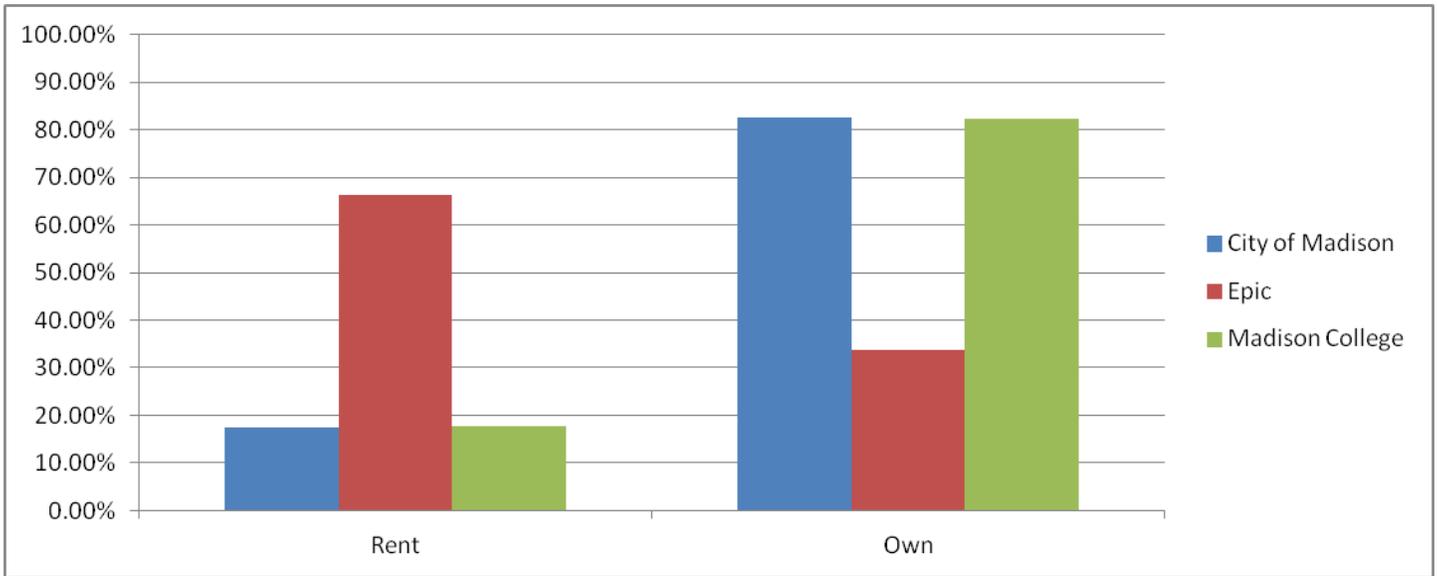
Ownership Growth Rate 2007-2013

	Average Annual Growth Rate	Total Growth
Total	0%	3%
Under \$25,000	0%	3%
\$25,000-49,999	0%	-2%
\$50,000-99,999	-2%	-10%
\$100,000-149,999	1%	8%
Over \$150,000	7%	52%

HOUSING PREFERENCES

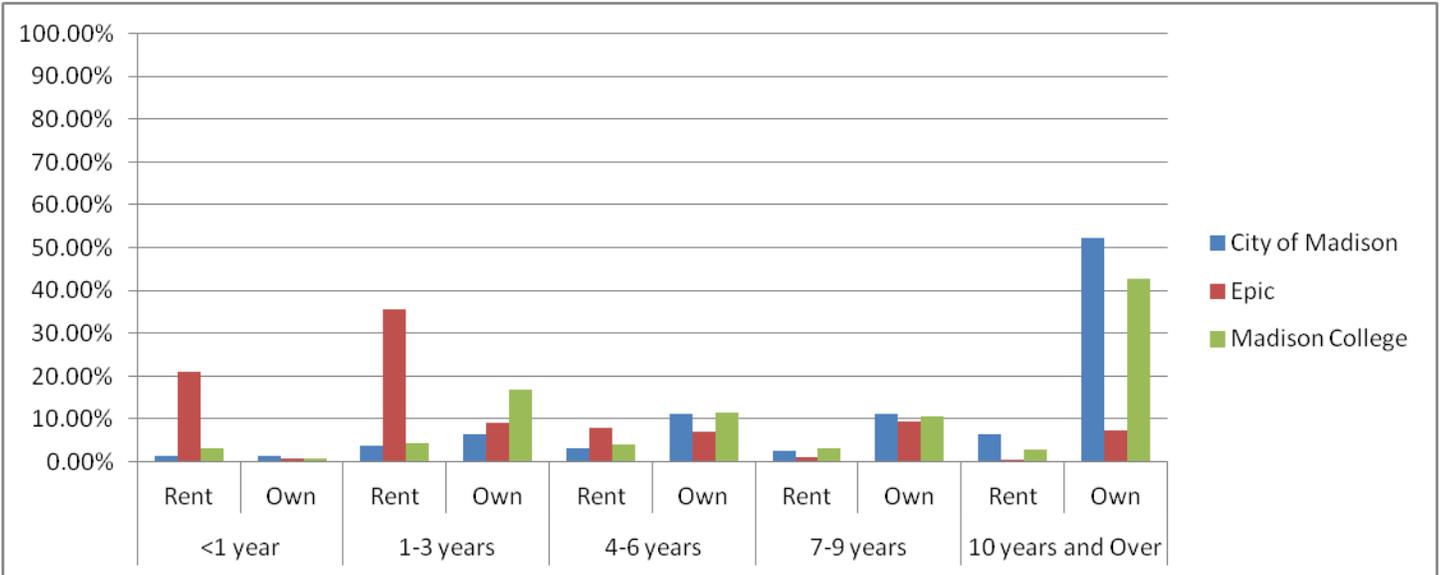
Combining all of the trends in the data, it is clear that there has been a shift in housing preferences towards rental and that there are new hurdles to homeownership holding back those who do want to own. To better understand this demand, the City of Madison commissioned a survey on housing preferences from area employers including the City of Madison, Epic, and Madison College (Appendix C). These employers serve as a reasonable proxy for three of the primary employment sectors in Madison (government, technology, and higher education). From these data, a number of trends appear.

RENT VS OWN



Source: 2014 City of Madison Housing Survey

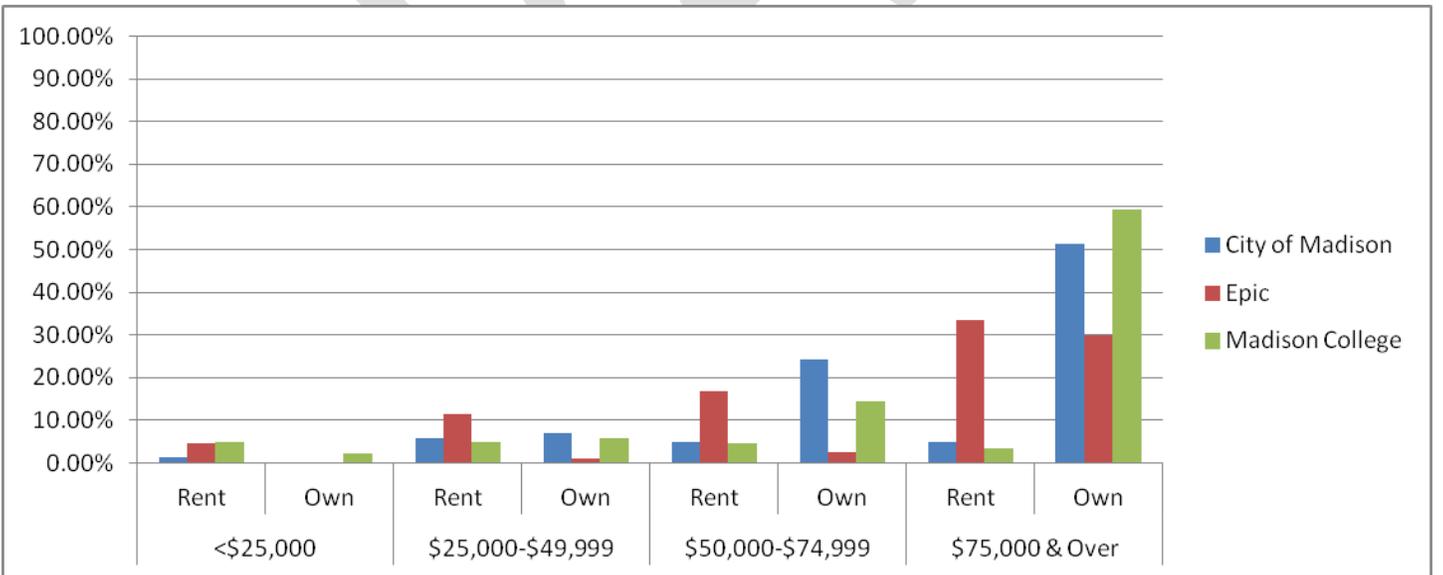
RENT VS OWN BY LENGTH OF EMPLOYMENT



Source: 2014 City of Madison Housing Survey

First, there is a very close correlation between the length of time an employee has worked for their current employer and their rate of homeownership. This relationship holds across all employers. This relationship indicates that **the longer an employee stays with their employer (and presumably in the community) the more likely they are to purchase a home.**

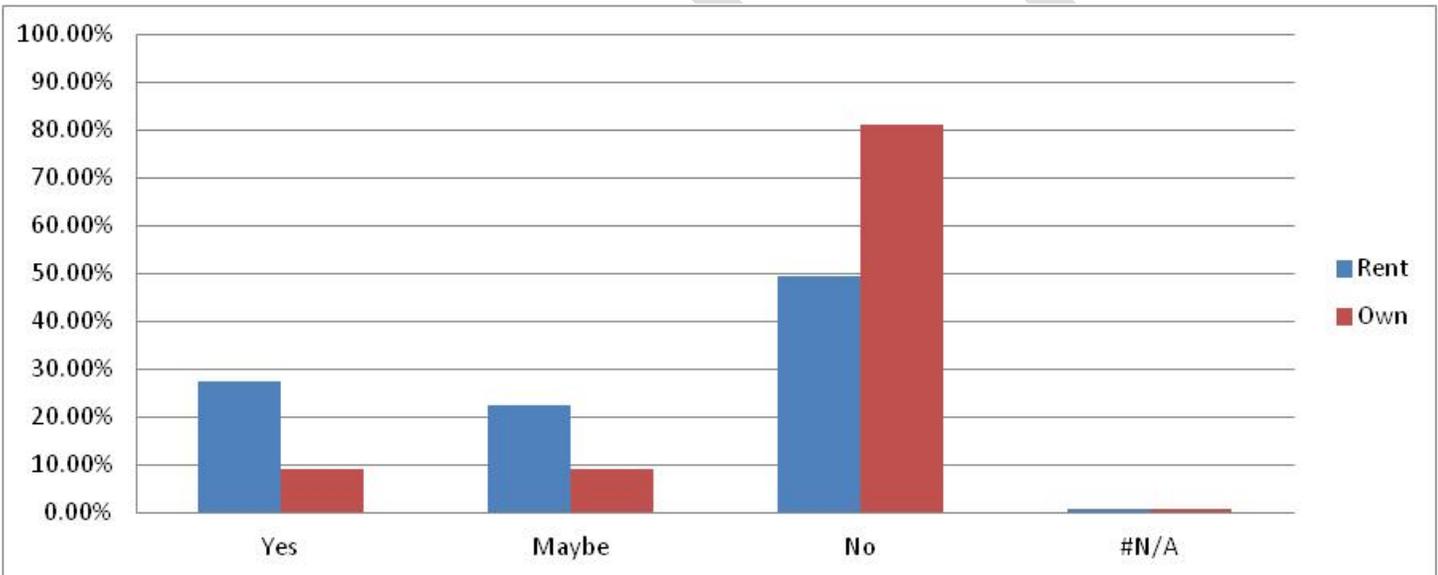
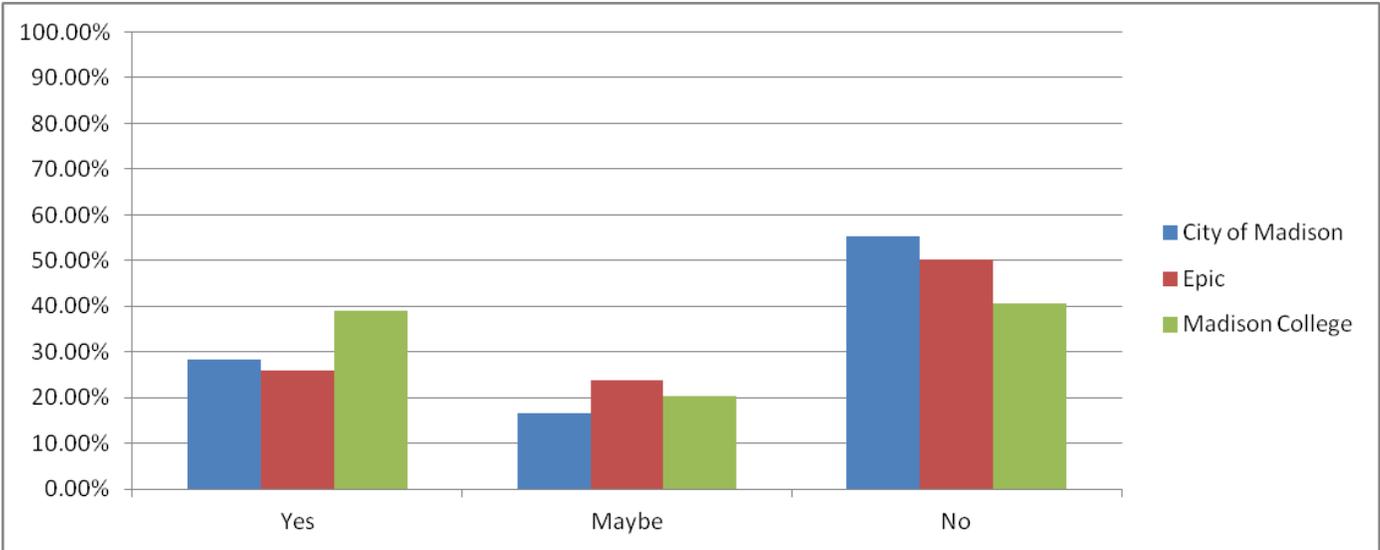
RENT VS OWN BY INCOME



Source: 2014 City of Madison Housing Survey

Second, just as in the Census data a clear correlation exists between higher incomes and higher rates of homeownership regardless of employer. However, **the data indicate that the length of time an employee has worked for their employer can trump income, as we see a significant number of higher income employees that are relatively new to their positions choosing to rent.**

INTEREST IN PURCHASING IN THE NEXT 2 YEARS



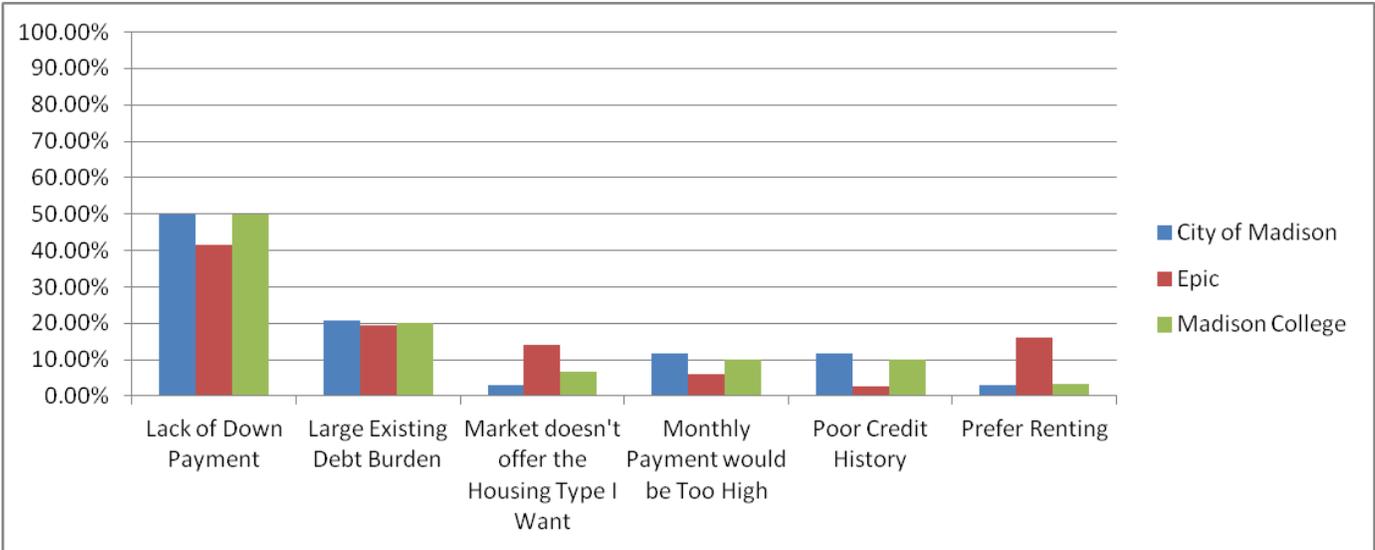
Source: 2014 City of Madison Housing Survey

Renters, when asked if they planned to purchase a home in the next two years, 50% said no, 25% said maybe and 25% said yes. For those in the yes and maybe categories, a few factors dominated:

- The primary financial barrier was a lack of down payment with existing debt (presumably student debt) in second
- The actual monthly cost of ownership was seen as a very small barrier
- The largest non-financial barrier was “Prefer to Rent” and “Other” which largely consisted of comments regarding timing and uncertainty about commitment

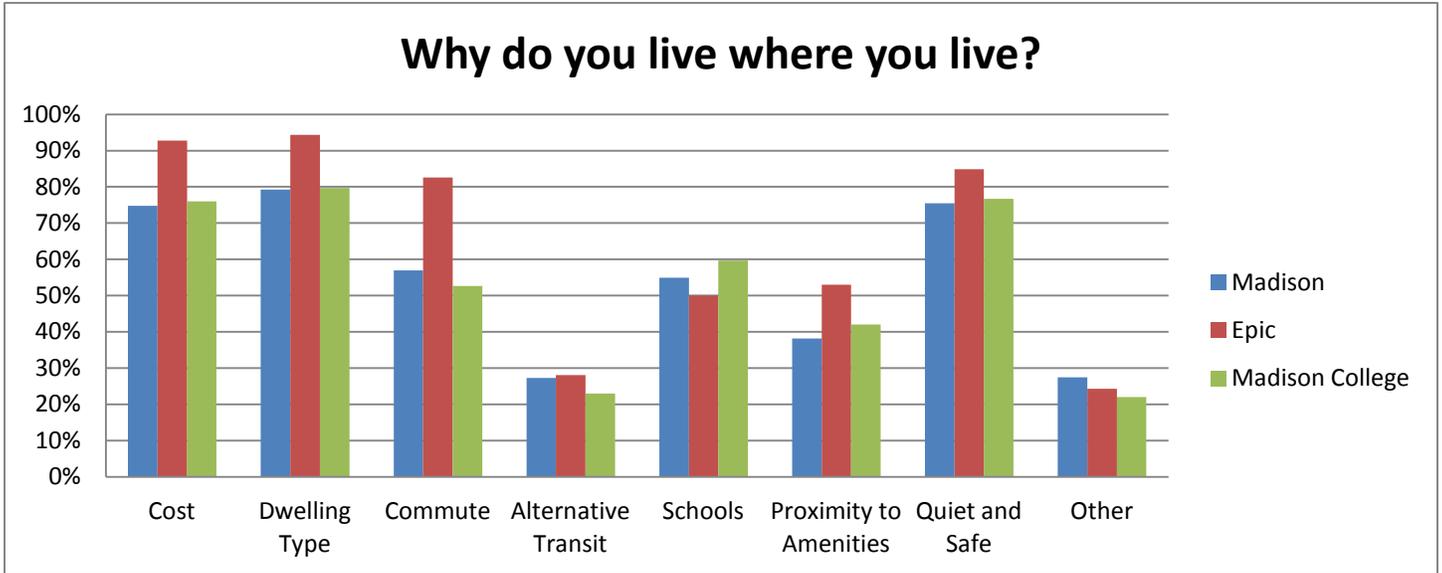
These data support the argument that it is not simply cost that is preventing renters from purchasing. Instead, there are number of factors that lead to renters not being ready at this point in their lives and careers to make a financial and personal commitment to ownership.

MAIN BARRIER TO PURCHASING



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FACTORS IN CURRENT HOUSING SELECTION-OWNERS

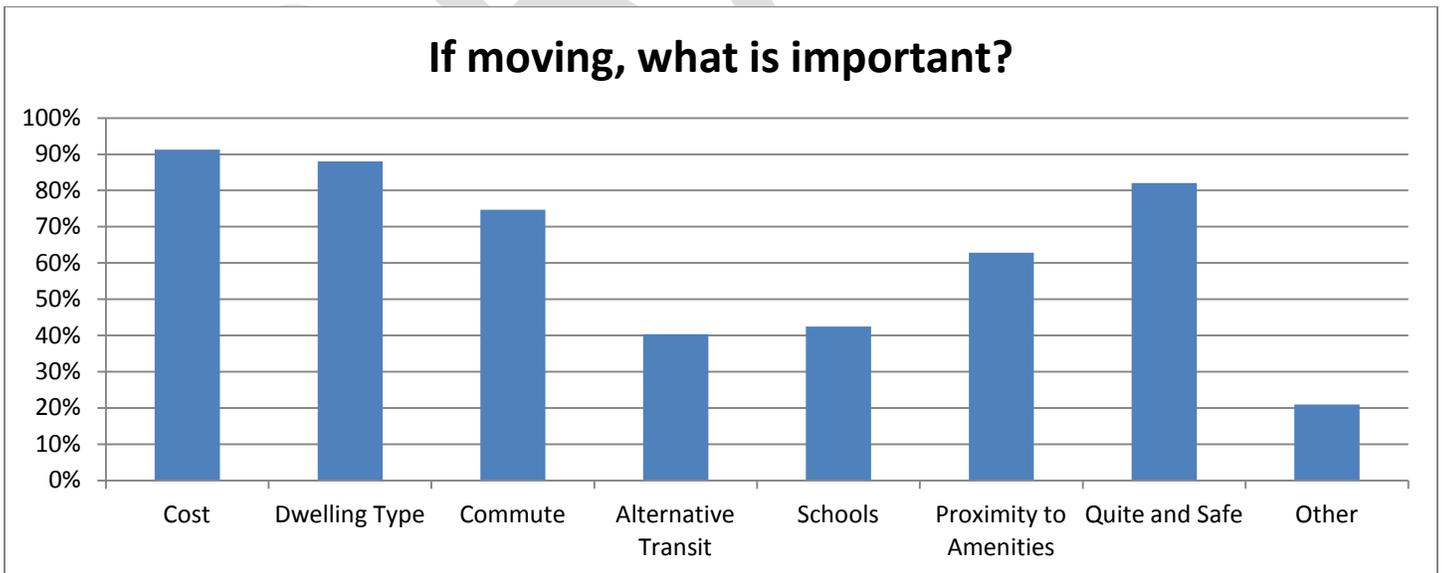


Source: 2014 City of Madison Housing Survey

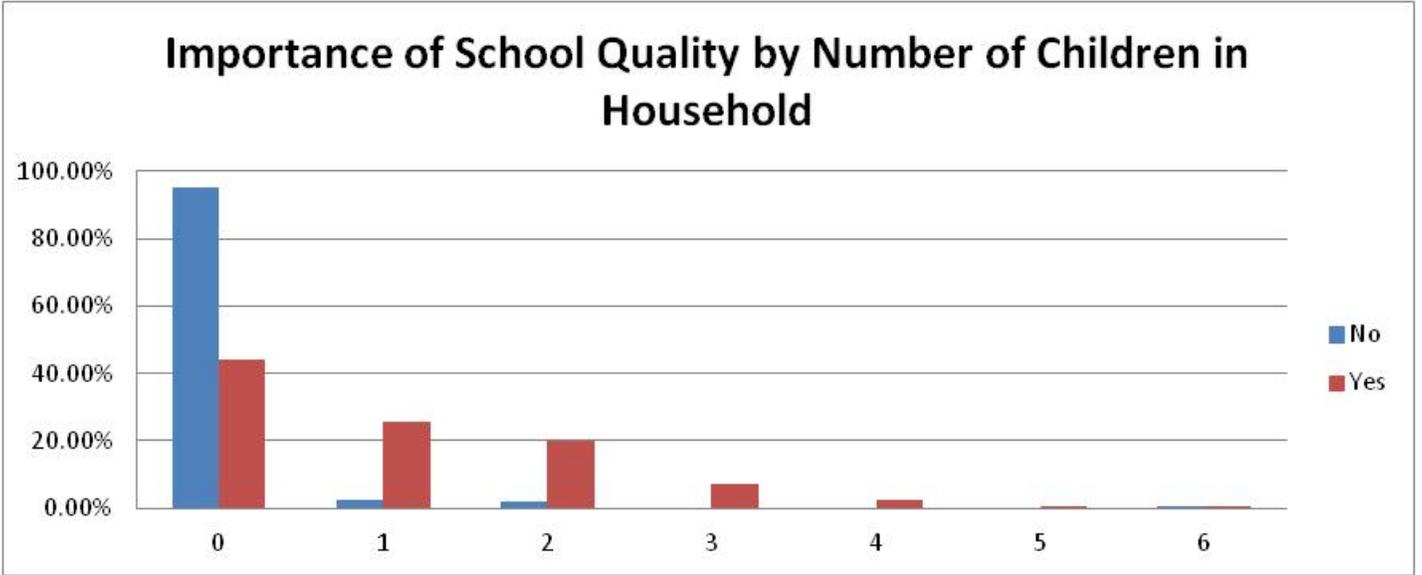
When asked why current owners live where they do a few clear trends emerged:

- The unit itself is universally important as shown by responses regarding the cost and type of unit
- Location is somewhat less important, as shown by commute, proximity to amenities, and quiet and safe neighborhood responses

When asked what factors matter to renters and owners planning to purchase in the next two years, a slightly different pattern emerges:



- Locational factors of Commute and Proximity to Amenities are greater priorities to those planning to purchase than they are to our current homeowners



Replace with summary chart of all factors, children/no children

Segregating household with children from those without, a noticeably different set of priorities emerges as quality of schools becomes a significant factor in selecting where to live.

FUTURE DEMAND

TRENDS

- The typical owner is older and wealthier today than in 2007

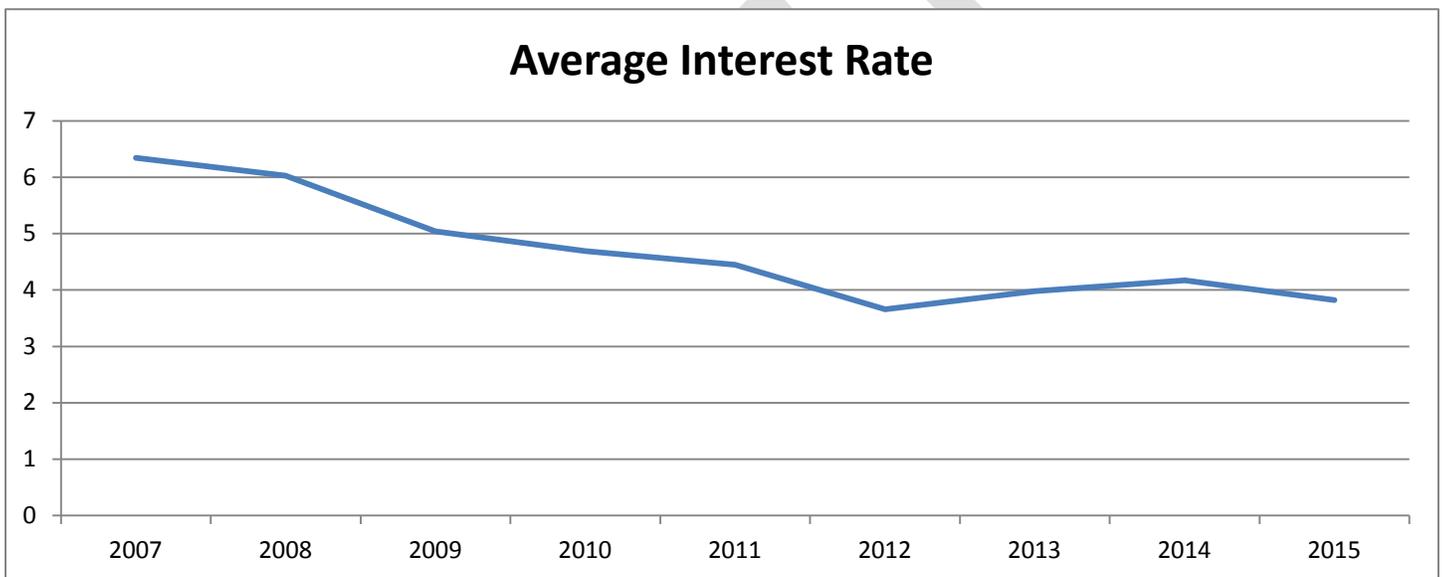
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MARKET RATE OWNERSHIP - SUPPLY

The supply of owner occupied housing in the City of Madison has seen a modest increase in recent years, but **due to the decline in prices and lower interest rates, home ownership is more affordable than ever.**

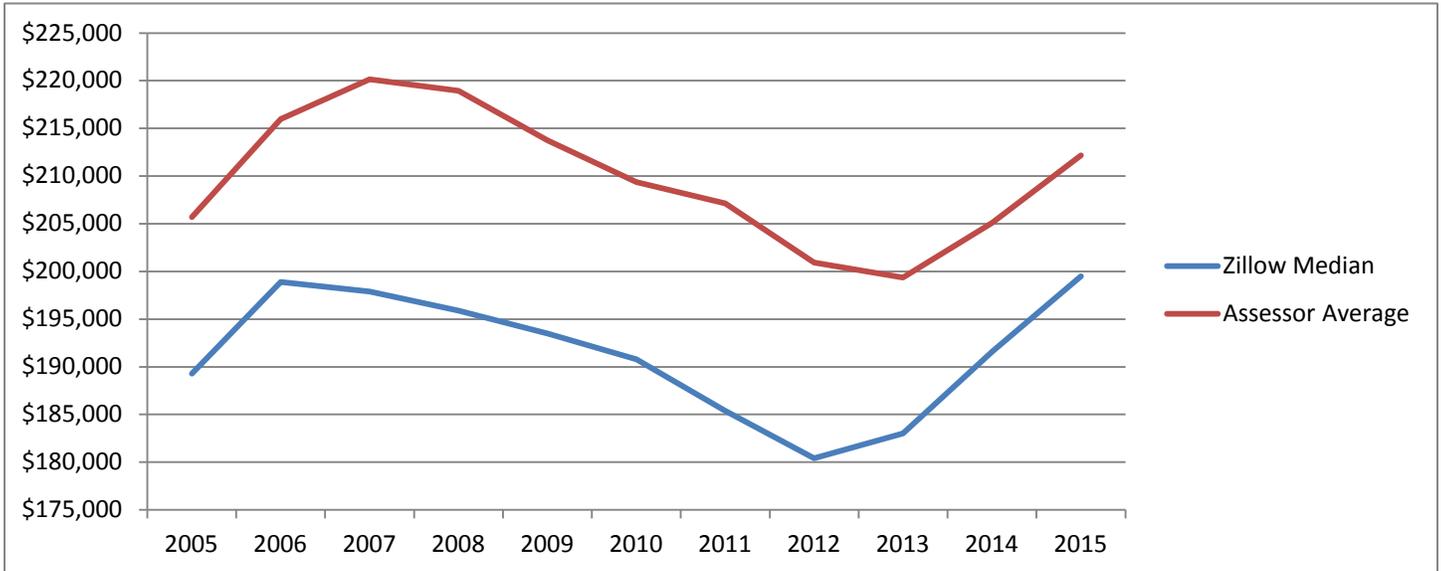
The **cost of ownership is driven by three primary factors: housing prices, interest rates, and property tax rates.** Housing prices and interest rates are negatively correlated because lower interest rates increase the amount that a buyer can afford to borrow, therefore raising prices. Theoretically property tax rates are somewhat correlated to interest rates because high interest rates raise government expenses and property tax rates are negatively correlated to housing prices because high property values increases the property tax base, which allows for lower property tax rates. Other housing costs include property insurance, utilities, fuel, water, garbage collection, and homeowner association fees, which all add up to thousands of dollars per year for a typical home (these costs are included in American Community Survey cost measures)

INTEREST RATES



HOUSE PRICES

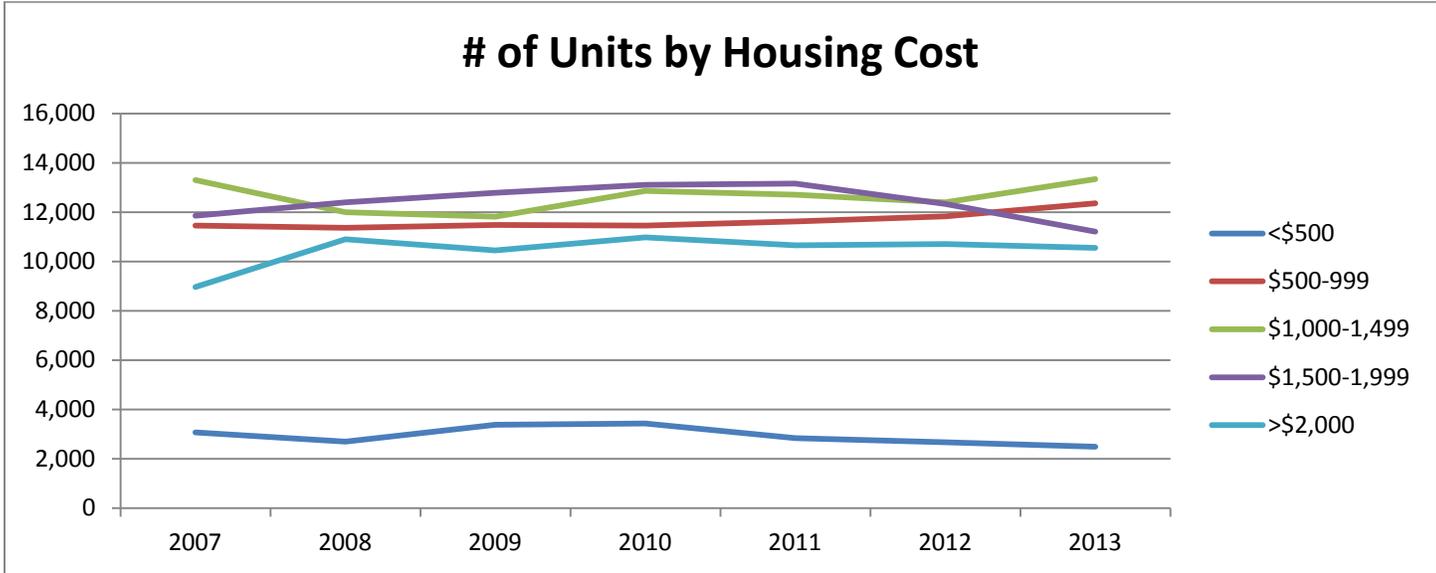
The 2007 recession was in part caused by the bursting of a credit driven housing bubble. The result was a nationwide drop in house values. In response, the Federal Reserve dropped interest rates effectively to zero to stimulate a recovery. **The combination of reduced home prices and historically low interest rates reduced the theoretical cost of ownership** dramatically in Madison. This effect was somewhat mitigated by property tax rates which continued to rise during this period.



Both the median (50th percentile as computed by Zillow, a data aggregator) and average (total assessed value divided by number of units as computed by the Assessor’s Office) home values in the City of Madison dropped significantly after the start of the recession and only recently began to rise again, which should have made homeownership more affordable. For example, the average house in 2007 was assessed at \$220,150. Assuming a 20% down payment and average mortgage interest rate of 6.25%, monthly mortgage payments would be \$1,085 with a tax payment of \$365 totaling \$1,450 per month. **In 2012, the average house assessment had dropped to \$201,000 and interest rates had gone down to 4% resulting in monthly payments of \$770 and taxes increased to \$400, resulting in a 19% reduction in average housing cost.** Today, average assessment have begun to return pre-recession values, but interest rates remain at a near record low of 4%, resulting in a typical monthly mortgage and tax payment of \$1,235.

	Average Home Value	Interest Rate	Monthly Mortgage Payment	Monthly Property Tax	Total Monthly Payment
2007	\$220,150	6.25%	\$1085	\$365	\$1,450
2012	\$201,000	4.00%	\$770	\$400	\$1,170
2015	\$212,175	4.00%	\$810	\$425	\$1,235

Assuming \$50 per month insurance costs, in 2007 the typical home required an annual income of \$60,000 (~100% of Area Median Household Income) while **in 2012, the typical home only required an annual income of \$49,000 (80% of Area Median Household Income).**



Unit Growth Rate 2007-2013

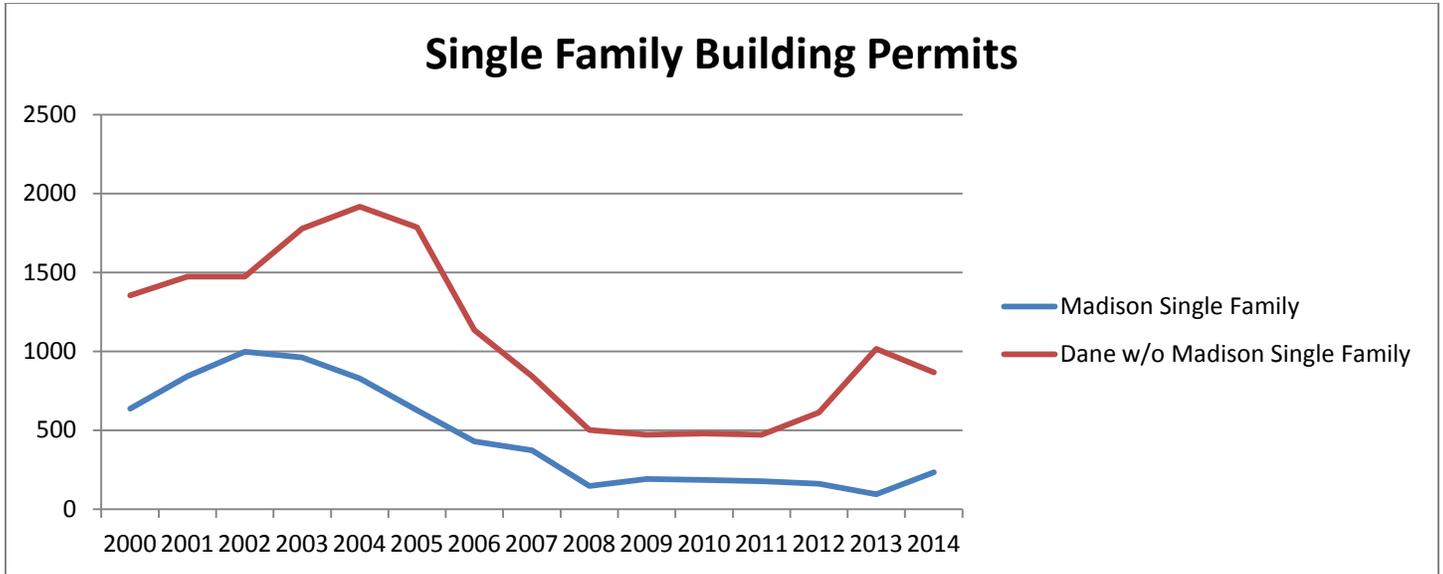
	Average Annual Growth Rate	Total
Less than \$500	-4%	-22%
\$500-\$999	2%	12%
\$1,000-\$1,499	8%	65%
Over \$1,500	12%	108%

Source: 3-Year American Community Survey

However, **according to Census data households did not realize a net reduction in housing costs.** Instead, the Census reported rising housing costs for homeowners. This could be because homeowners stayed in their existing home negating the drop in home value, failure to refinance at lower interest rates, rising property taxes, or an increase from property insurance, utilities, fuel, water, garbage collection, homeowner association fees, or mobile home fees that are also included in Census statistics.

NEW SUPPLY

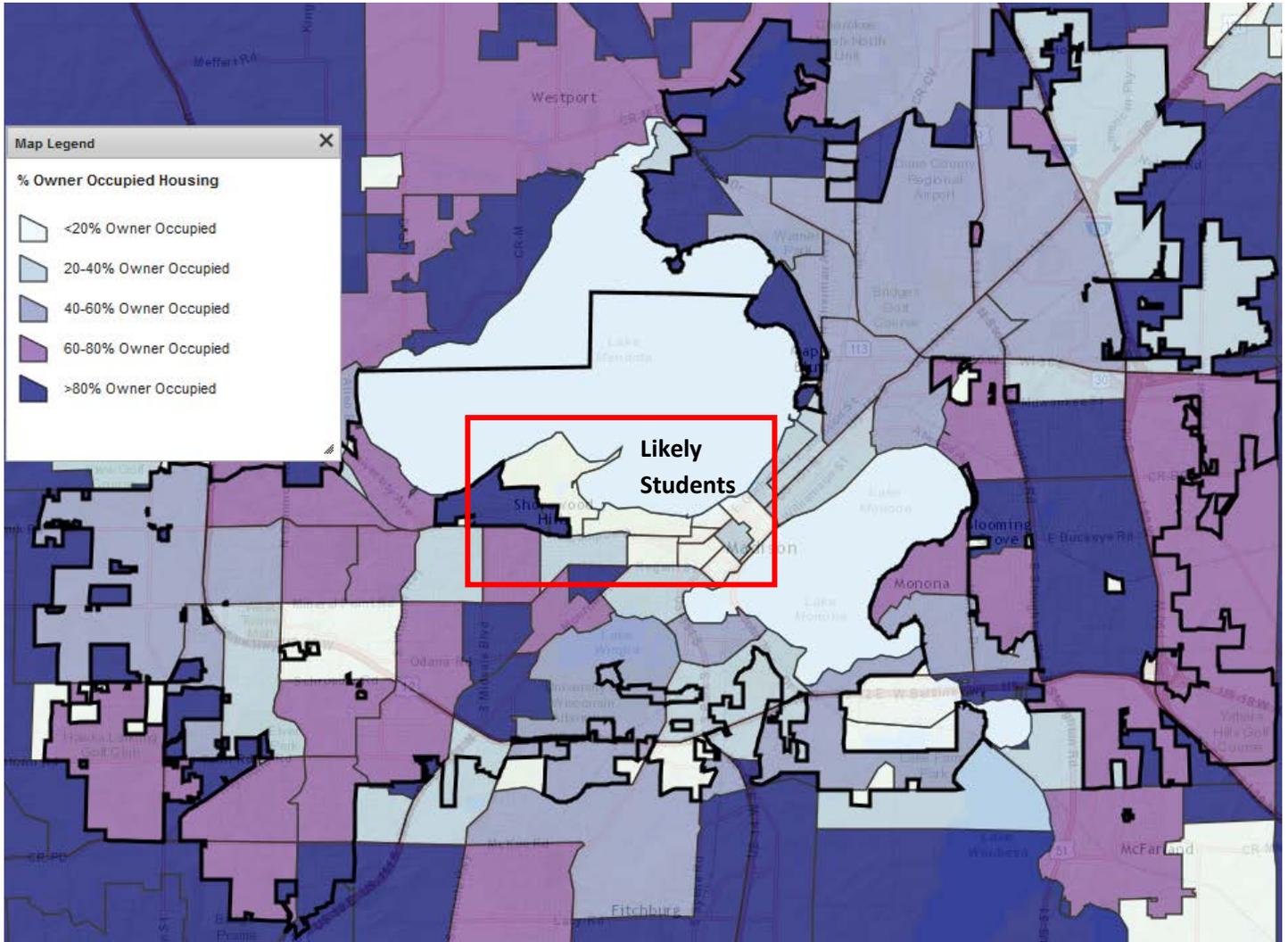
From 2007 to 2013, permits were pulled for only 4,675 multifamily units in Madison despite adding over 11,000 renter households in the same period. This gap has been filled by a sharp reduction in vacancy, conversion of owner occupied housing to rental, and the completion of projects begun before 2007. The market has responded to the forces of rising rents and lower vacancy with a return to 2000-2005 levels of permits for multifamily units for both Madison and Dane County.



Source: Census Building Permits Survey

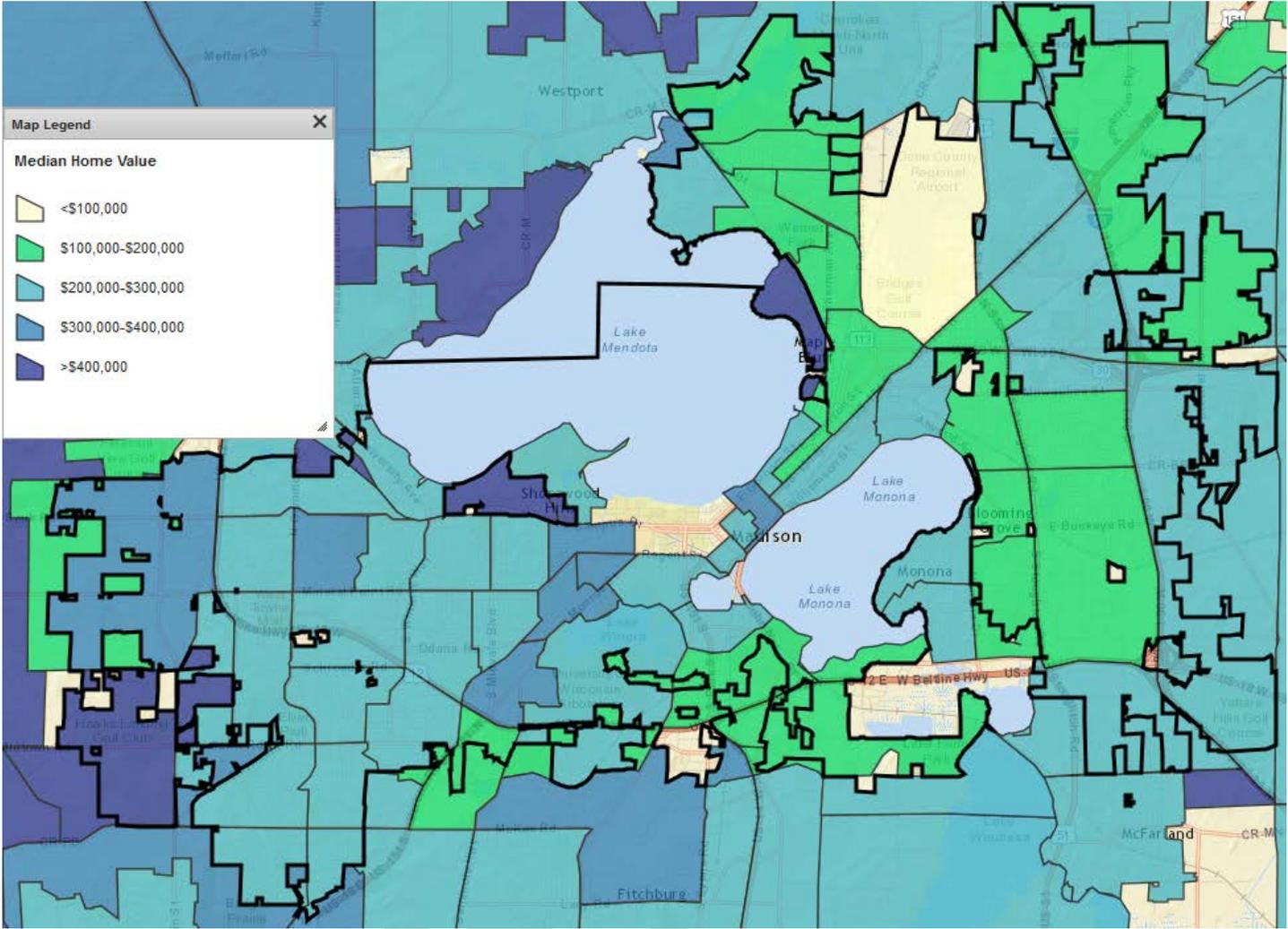


CURRENT OWNERSHIP



Source: HUD CPD Maps

In the City of Madison, ownership housing is currently concentrated in



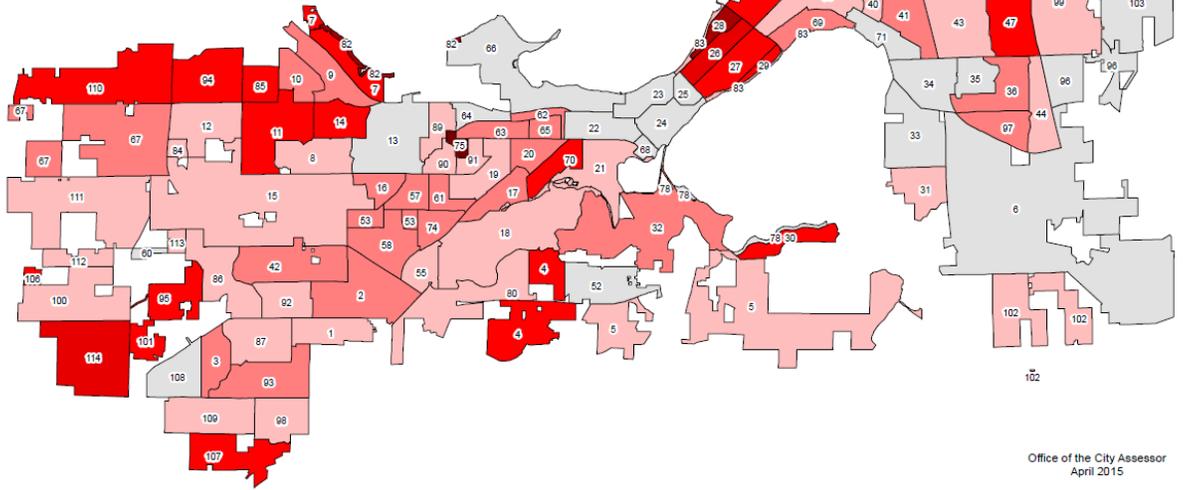
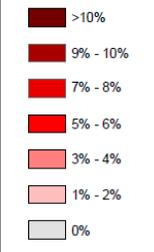
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CITY OF MADISON Single Family Area Assessment Changes

AREA	CHANGE												
1	2%	20	4%	39	5%	58	3%	77	0%	96	0%		
2	4%	21	2%	40	2%	59	0%	78	0%	97	3%		
3	3%	22	0%	41	3%	60	0%	79	0%	98	2%		
4	5%	23	0%	42	3%	61	4%	80	2%	99	2%		
5	2%	24	0%	43	2%	62	4%	81	1%	100	1%		
6	0%	25	0%	44	1%	63	4%	82	10%	101	5%		
7	5%	26	8%	45	2%	64	0%	83	2%	102	2%		
8	2%	27	6%	46	0%	65	4%	84	2%	103	0%		
9	3%	28	9%	47	5%	66	0%	85	6%	104	0%		
10	3%	29	6%	48	5%	67	4%	86	2%	105	3%		
11	5%	30	5%	49	12%	68	0%	87	1%	106	5%		
12	2%	31	2%	50	0%	69	3%	88	4%	107	5%		
13	0%	32	3%	51	2%	70	6%	89	2%	108	0%		
14	5%	33	0%	52	0%	71	0%	90	2%	109	2%		
15	2%	34	0%	53	4%	72	0%	91	2%	110	5%		
16	4%	35	0%	54	4%	73	2%	92	2%	111	2%		
17	3%	36	3%	55	2%	74	3%	93	3%	112	1%		
18	2%	37	6%	56	3%	75	18%	94	5%	113	2%		
19	2%	38	2%	57	3%	76	3%	95	5%	114	7%	115	0%

City of Madison
2015

Single Family Areas
Percent Change



Office of the City Assessor
April 2015

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CURRENT CONSTRUCTION

Map recent subdivisions

TRENDS

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MARKET RATE OWNERSHIP - FINANCE/FUNDING

NATIONAL

The majority of funding for ownership housing is in the form of traditional mortgages and owner equity.

Write-up on new mortgage underwriting rules

Explain home equity loans

LOCAL SOURCES

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MARKET RATE OWNERSHIP - CHALLENGES

The greatest challenge currently facing our ownership housing market is

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MARKET RATE OWNERSHIP - SOLUTIONS

LOCAL MODELS

NATIONAL MODELS

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APPENDIX A - 2014 CITY OF MADISON HOUSING SURVEY – OWNERSHIP DATA SUMMARY

METHODOLOGY

In July of 2014, the University of Wisconsin Survey Center (UWSC) began data collection via a mail survey of employees for the City of Madison, Madison Area Technical College (MATC), and Epic. The UWSC randomly selected 800 employees for the list provided by the City of Madison and MATC. In the case of Epic employees, Epic choose to open the survey to employees who volunteered and deliver the survey completely in-house (email “cover letters” and reminders and the paper survey). Surveys from all three sample groups were mailed to the UWSC where they were data entered so no employee’s responses would be known to any employer. The purpose of this study was to gather information on employees’ preferences to better shape housing and commuting programs.

SURVEY POPULATION

The final sample (N=2,400) consisted of two simple random samples of employees for the City of Madison (800 out of the list of 2,259) and Madison Area Technical College (800 out of the list of 3,334) and another sample of volunteers from Epic employees (N=800).

- The response rate for City of Madison was 64.01%
 - City of Madison = 498 returned surveys + 7 returned surveys w/out ID
- The response rate for MATC was 51.33%
 - MATC = 384 returned surveys + 2 returned surveys w/out ID
- The response rate for Epic was 98.63%
 - Epic = 789 returned surveys + 0 returned surveys w/out ID