2016 CITY OF MADISON

BIENNIAL HOUSING REPORT

PREPARED FOR THE CITY OF MADISON HOUSING STRATEGY COMMITTEE

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EXECUTIVE SUMMARY

The City of Madison Housing Strategy Committee is tasked with creating the Biennial Housing Report, an analysis of the city's entire housing market with a particular emphasis on the affordability of housing and breadth of housing options**.** The report is broken into chapters that deal with individual segments of the housing market and each of these chapters attempt to:

- Clearly articulate how supply and demand functions in the market segment
- Identify the primary challenges impacting the market segment
- Highlight ongoing local initiatives and national best practices to address challenges in the market segment
- Develop specific recommendations to guide City of Madison housing related programs and policy to address these challenges

Madison's housing market is defined by long-term steady household growth powered by two engines: a high quality of life and a strong job market. These engines deliver durable but not explosive demand that is tempered by supply constraints ranging from physical limitation (lakes, surrounding municipalities) to self imposed limits (zoning, height limits). The result has been steady 1% per year growth in households for over 30 years, which is impressive for a mid-sized Midwest city but does not approach the booms seen by Austin, Denver, or Raleigh who have seen annual growth rates approaching 3% in recent years or suburbs in the Southwest that have grown at 5-8% a year.

Within that growth are significant shifts in who the city is adding as well as how they want to live. The first major trend that is affecting our housing market is income inequality. This is a nation if not global trend, which appears in housing data in three ways. First, is on a macro scale most household growth after the 2007 recession came from the bottom of the income spectrum and the top, with very little growth in medium income tiers. Only in the last two years has the middle class begun to rebound. Second is geographic, with wealth and poverty concentrated in different pockets of the city. This is mirrored by rising or stagnating property values. Third is the split in housing tenure, with homeownership becoming out of reach for lower and middle class households.

The second major trend is that housing choices are being made based on lifestyle preference as much as economics. Households, particularly younger households, are basing their housing decisions on a desire for flexibility rather than commitment as well as convenient access to work, entertainment, and shopping. This has manifested as a market wide shift towards rental housing with nearly all net new households choosing to rent rather than own as well as a flurry of development and rising property values in areas of the city that are rich with amenities and transportation options. This trend is reinforced and complicated by tightened federal mortgage rules, stricter tenant-landlord rules, and historically low vacancy rates which make it harder to enter the rental market or move up to ownership.

The challenges that these trends present can be summarized as:

- Solid demand for housing that keeps housing prices relatively high
- Accelerated household growth of nearly 2% (~2,100 net new households/year) since 2007
    - For most of this period, household growth was split between higher-income households (>$100,000) and very low-income households (<$25,000) with a stagnant middle
- New construction of housing dropped below the rate of household growth from 2007-2012
- This has resulted in historically low vacancy and rising rental prices, pushing low-income renters out of the market and preventing households from moving up
- New rental construction has been focused on meeting the demand from high-income households and federal funding to subsidize housing for homeless, low-income rental, and low-income ownership has been steadily declining
    - Construction and land costs in our market make the creation of new units too expensive for low-income households without subsidy to developers
- Tightened lending standards and high levels of student debt have made homeownership less accessible for low-income households and first time homebuyers

To address these challenges, the Housing Strategy Committee recommends a multipronged strategy focused on the ideas of:

- Increasing the variety of housing options and price points in our most amenity and transit rich neighborhoods
- Improving the quality of the housing stock and increasing access to transit and amenities in neighborhoods that are lagging
- Expanding the types of housing available to fill in gaps that the housing market doesn't currently serve

The tactics that the Housing Strategy Committee recommends rely on the themes of:

- Streamlining City programs that fund housing to be more efficient
- Coordinating and leveraging all available funding sources across all City agencies, State, and federal programs to have the greatest impact
- Proactively seeking partnerships with private developers to address housing challenges
- Utilizing a variety of funding sources to support a new *Affordable Housing Fund* to fund housing projects and programs to meet our most pressing housing challenges

This report is divided into chapters covering:

- Homelessness
- Low-Income Rental
- Market Rate Rental
- Low-Income Ownership
- Market Rate Ownership
- Student Housing
- Senior Housing

Each chapter has been designed to stand on its own, with its own submarket analysis and recommendations. Each chapter has been individually referred to relevant City of Madison committees for acceptance and approved by the Common Council.

DEFINITIONS AND METHODOLOGY

AFFORDABLE HOUSING

Housing that costs less than 30% of a household's income. Households at all incomes have a limit to what is affordable to them.

AMERICAN COMMUNITY SURVEY

When possible three-year American Community Survey data was used as a data source. The American Community Survey (ACS) is an ongoing survey conducted by the US Census Bureau that provides data every year. **ACS data is used to show characteristics and trends in populations, not hard counts**. Three-year data was selected because many of the populations in questions (ex. Renters by age) are too small to be counted by one-year data without creating a significant margin of error. While using five-year data would have further increased precision, they are only available from 2009 forward and they would have been less current and would have potentially missed trends related to the market changes in the aftermath of the 2007-2008 recession. Using three-year ACS data with overlapping years (ex. 2007-2009, 2008-2010) does have the effect of smoothing the result because consecutive data points contain two overlapping years. In time series graphs, 2007-2009 ACS data will be displayed as "2009."

In many cases estimates were derived by combining ACS categories (ex. Incomes of <$10,000, $10,000-$14,999, and $15,000-$24,999 were combined to estimate incomes < $25,000) which makes it difficult to report direct margins of error, but in general this has the effect of improving the margin of error.

CHAS-HUD

CHAS data (Comprehensive Housing Affordability Strategy) is a U.S. Department of Housing and Urban Development (HUD) custom tabulation of data from the U.S. Census Bureau that are largely not available through standard Census products. These data are meant to demonstrate the extent of housing problems and housing needs, particularly for low-income households. They are typically based on five-year ACS data from 2006-2010 and are reporting in % of Household Area Median Family Income which has been converted to approximate dollars.

COST BURDEN

When a household spends more that 30% of adjusted gross household income on housing, they are considered cost burdened. Households spending more than 50% of their household income on housing are considered severely cost burdened.

LAND USE RESTRICTION AGREEMENT (LURA)

An agreement in which the owner of a property gives up some of the rights of use. The land use restrictions are documented in the LURA, which is recorded in the public record and runs with the land. If the property is sold during the term of the agreement, then the LURA's restrictions are binding upon the buyer.

LOW-INCOME

The Madison housing market can be divided into three broad categories: low-income, market-rate, and student. This report will focus on the low-income portion excluding students (estimated as the low-income renters immediately adjacent to the UW-Madison campus). Typically for City of Madison programs, low income is defined as 80% of Area Median Income based on the number of persons per household. However because households rent in a market, competing against households of different sizes, for the purposes of this report demand for low-income rental housing is defined as household income of less than 80% of Area Median Household Income or roughly $50,000.

HOMELESSNESS

OVERVIEW - HOMELESSNESS

For the purpose of this report, homelessness will represent the segment of the population not being served by the general housing market due to a variety of economic and non-economic barriers. This population includes those who are **unsheltered**, in emergency shelter (**sheltered**), in transitional housing or permanent supportive housing (**housed**) who are still at risk of becoming homeless. Traditionally this segment has been served by a system of non-profit service providers and local, state, and federal funding programs that work to help people up the ladder from unsheltered, to shelter, to transitional housing, and eventually to permanent housing either in the general housing market or in permanent supportive housing if additional social services are needed. Because of the high level of intervention, **this system does not operate as a market** where supply and demand get balanced out through prices and vacancy. Rather, **this is a system where service providers and governments respond to demand by increasing supply** at specific rungs of the ladder and for specific subgroups of families, individuals, or those in need of specialized services.

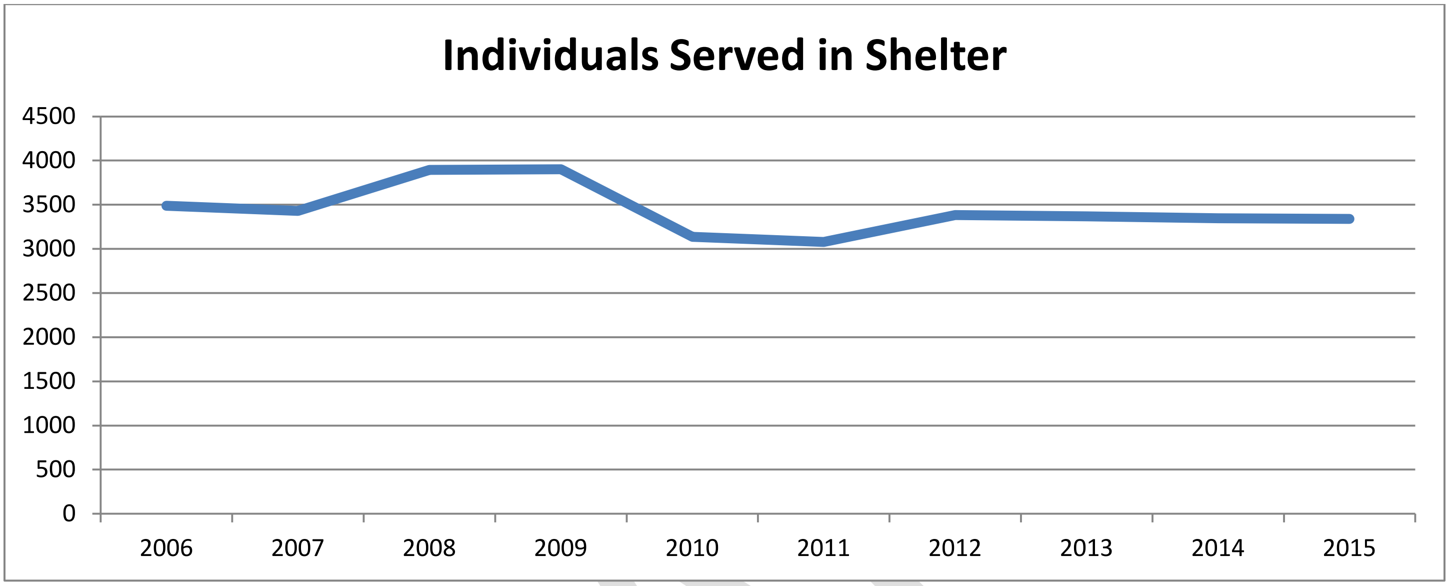
DEMAND - HOMELESSNESS

Because of the inherently unstable nature of this population's housing status, measuring demand is difficult and not well captured by Census measures. Instead, primary demand for housing for the homeless can be measured in two ways, the **number of people served annually by our shelter, transitional and permanent supportive housing system** and the **number of people counted by a point in time survey of individuals in shelter or on the street in a single night**. Data from the shelter system have the advantage of providing a full year picture of demand, however it does not include individuals who remain unsheltered. Data from the point in time have the advantage of capturing both sheltered and unsheltered individuals as well as approximating "peak demand" for a single day of the year. Both sources rely on the work of volunteers and staff as well as the willingness of individuals to self-report their status. These measures do not capture individuals that are in temporary housing situations (self paid hotels, doubling up with others).

The demand factors explaining reasons for homelessness are complex, the most obvious being insufficient income to afford housing. Beyond economic factors, addictions, mental illness, threat of violence and poor physical health often contribute to a person's inability to maintain housing. For this reason, the homeless population must be analyzed as subgroups of singles and families as well as economically disadvantaged and those with mental health, addiction, or disabilities, each with their own unique demand factors. For this reason, there are no simple solutions for helping those served by shelter programs to obtain and maintain permanent housing.

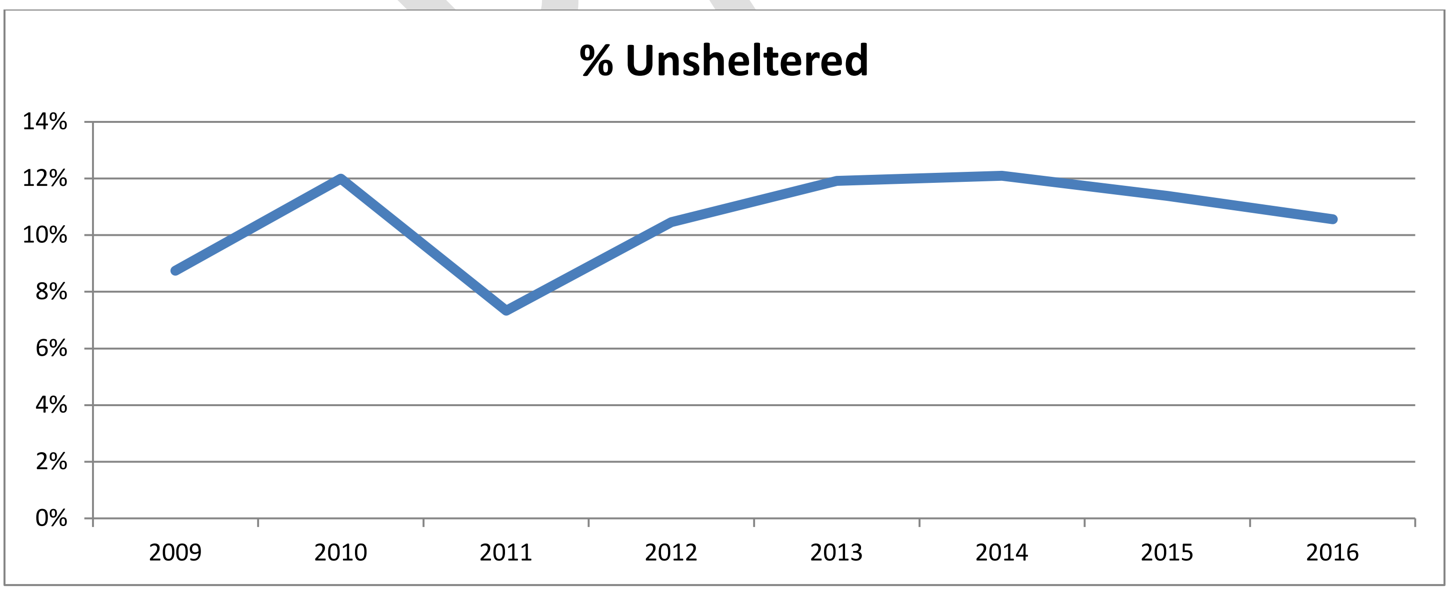
POPULATION GROWTH

In 2015, 3,338 individuals stayed at least one night in a Dane County shelter or motel rooms paid for by vouchers from the shelter programs. **Over the last ten years, this number has held relatively steady between 3,000 and 4,000**. This number does not capture how many individuals moved out of shelter to more permanent housing or did not enter the shelter system and instead went unsheltered or directly to transitional or permanent supportive housing.



Source: Annual Report on Homeless Served in Dane County

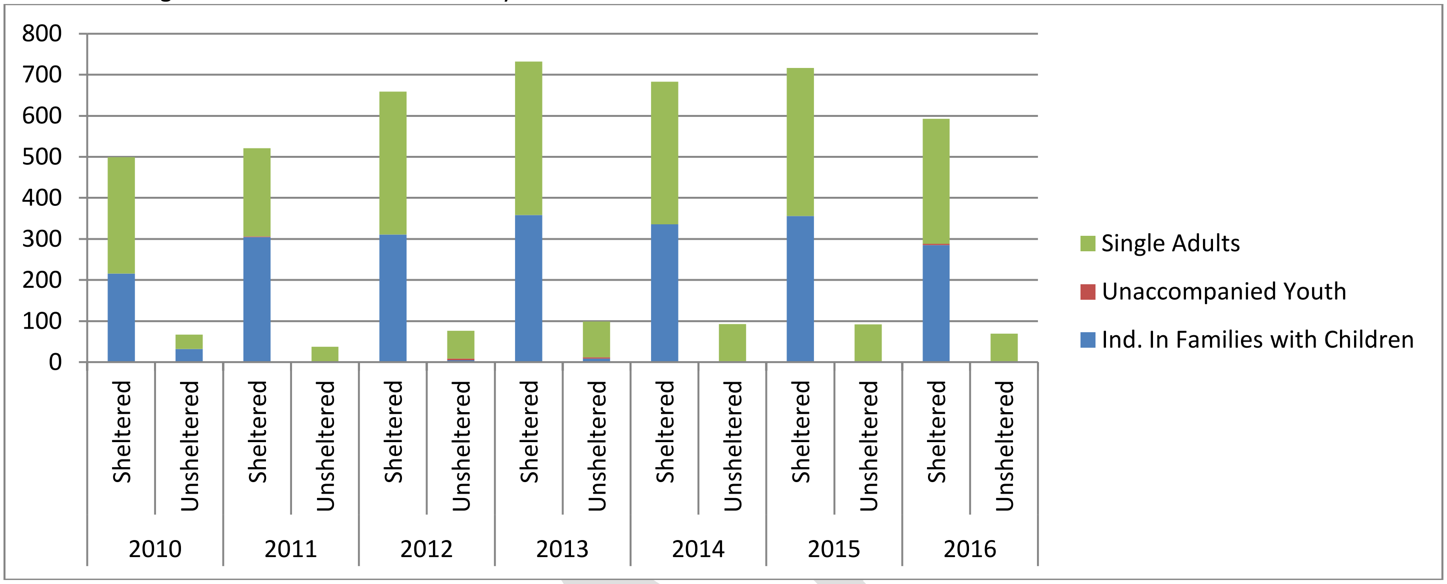
While we do not have reliable annual data on the number of unsheltered individuals, from a point in time (PIT) surveys taken annually on a single night in January 2016 that **on average the unsheltered population is 10-12% of the homeless population**.



Source: 2016 City of Madison Point in Time Survey

We know that in the January 2016 PIT 70 homeless individuals were unsheltered including:

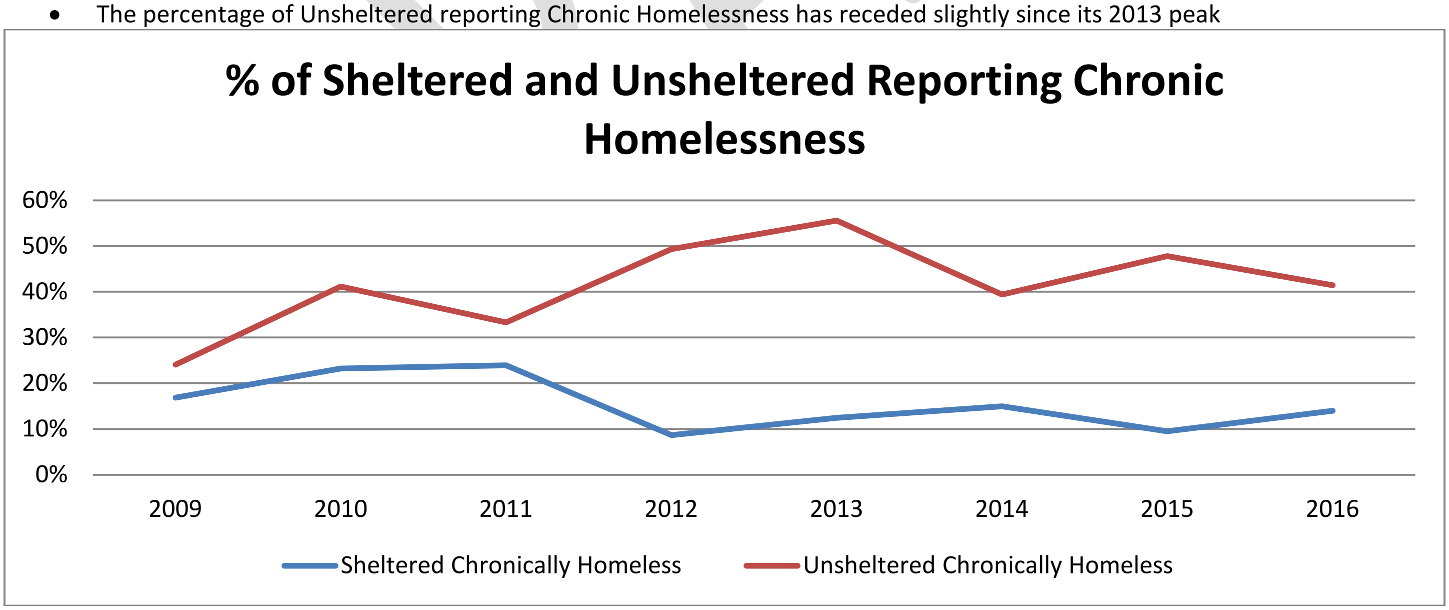
- 1 family (3 individuals in families)
- 0 unaccompanied youth
- 67 single adults
- 29 single adults considered chronically homeless



Source: 2016 City of Madison Point in Time Survey

While it is difficult to derive growth trends from PIT surveys because it is a snapshot of the market and factors such as the weather can have a large effect, three growth trends emerge:

- Overall demand peaked in 2013 and has remained flat or slightly decreased
- The unsheltered population peaked in 2013 and has remained flat or slightly decreased
- The percentage of Unsheltered reporting Chronic Homelessness has receded slightly since its 2013 peak



Source: 2016 City of Madison Point in Time Survey

Additionally, **prior to seeking shelter**, the following reported being unsheltered (sleeping on the street or in a vehicle):

- 25% of single adults
- 13% of families

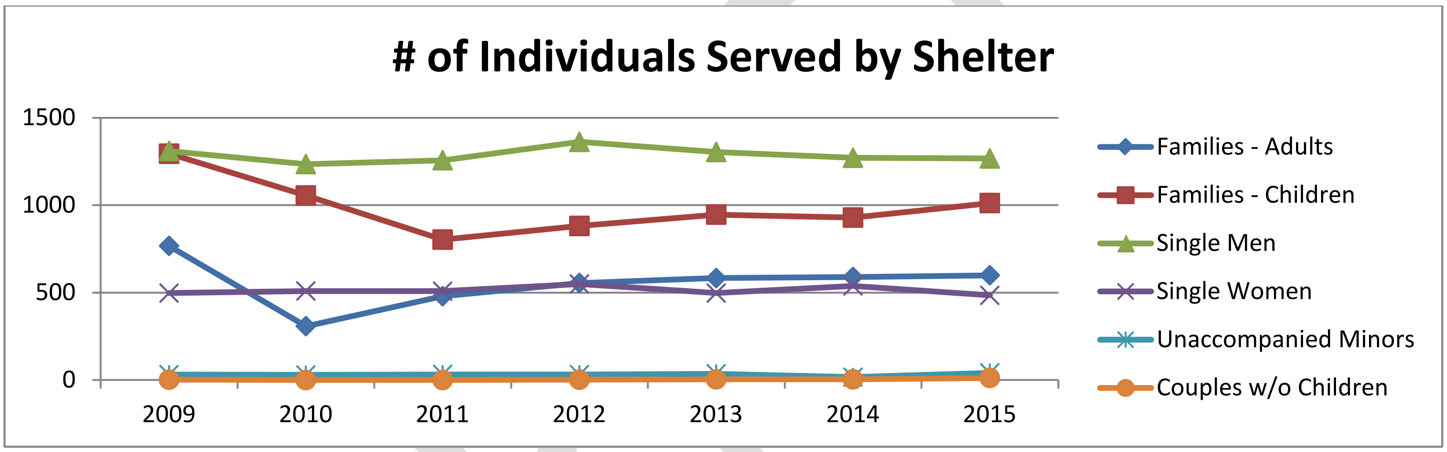
HOUSEHOLD SIZE

The homeless population consists of a variety of household sizes and types, each with a different housing need and demand. As a result of these differences, housing for some groups does not mix well with others and cannot serve as a substitution for one another. For example, housing for single adults may not mix well with children and while single room occupancy units can serve individuals, they cannot serve families.

In 2015, our shelter system served:

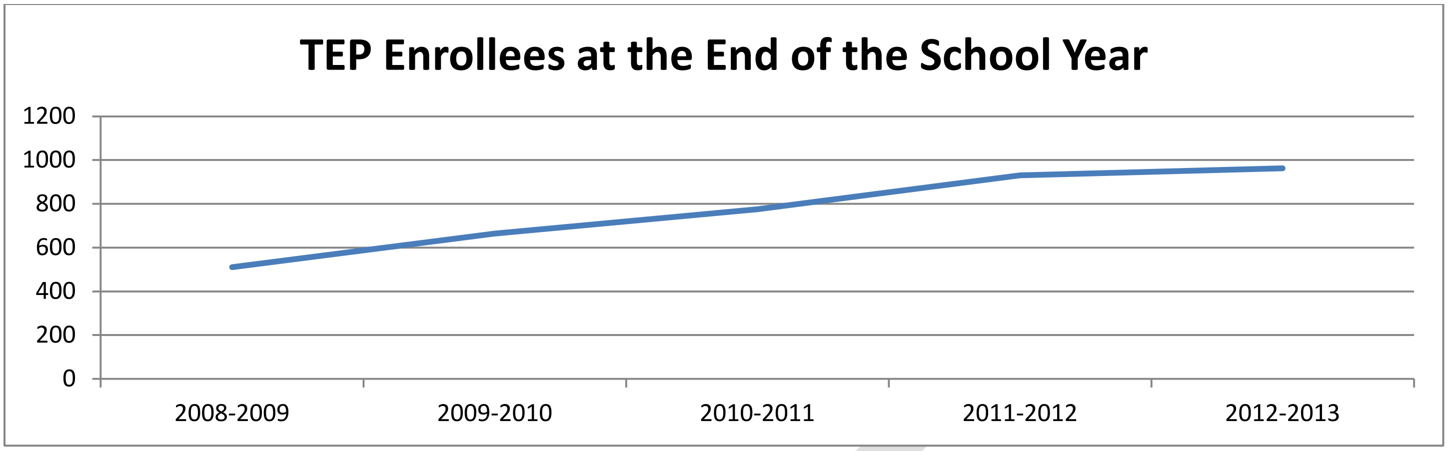
- 1,611 people in families (564 families with 1,012 children under 18 years of age) (48%)
- 1,267 single men (38%)
- 484 single women (14%)
- 31 unaccompanied youth under the age of 18 (<1%)
- 12 couples without children (<1%)

While single men have consistently made up the largest group, **there was a clear surge in shelter usage by children and families during the recession of 2008-2009, which has since ebbed to pre-recession levels**.



Source: 2015 Annual Report on Homeless Served in Dane County

For children, we have an alternate measure of homelessness collected by the Madison Metropolitan School District, which counts the number of students enrolled in the Transition Education Program. The program is for students who are unsheltered, in emergency shelter, in inadequate living accommodations, or are doubled up with friends or relatives due to economic hardship or similar reasons. **This measure shows a doubling in the number of homeless children over the last five years.** According to school district staff, this is largely a result of increased competition for rental units. The discrepancy between the number of children served by shelter and enrolled in TEP is that **TEP includes students in temporary or doubled up living situations, which our other measures do not account for**.


TEP Enrollees at the End of the School Year
1200
1000
800
600
400
200
0
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013

BACKGROUND

- Most individuals who stayed in a shelter reported that they have **lived in Dane County for more than one year** including:
  - 67% of the individuals in families
  - 64% of single women
  - 69% of single men
- Few individuals who stayed in shelter reported **living in Dane County for less than one month** including:
  - 3% of families
  - 1% of single women
  - 1% of single men
- 80% of people in shelter described themselves as **non-white** including:
  - 79% of families
  - 49% of single women
  - 48% of single men
  - 68% of unaccompanied youth
  - African Americans made up the largest group
- 7% of households in shelter indicated that a member was a **veteran** (5% of Madison citizens are veterans)
  - 1% of families
  - 1% of single women
  - 11% of single men
- Few individuals who stayed in shelter reported **probation** or **parole** including:
  - 2% of families
  - 2% of single women
  - 11% of single men

Source: 2012 Annual Report on Homeless Served in Dane County

INCOME

While the majority of homeless individuals lack the income necessary to afford permanent housing, many do have a source of income. Individuals housed in transitional and permanent supportive housing have access to case management services to connect them with employment and social service funding. Sheltered individuals have a greater challenge with this but still report:

- For **families**
  - 22% reported earning wages at the time of entering shelter
  - 26% received SS/SSI/SSDI
  - 26% received income from W-2 or TANF from another state
  - 14% reported no income
  - 12% reported other sources
- For **single women**
  - 18% receive income from wages
  - 37% received SS/SSI/SSDI
  - 33% reported no income
  - 12% reported other sources
- For **single men**
  - 19% of reported earning wages at the time they entered shelter
  - 23% received SS/SSI/SSDI
  - 38% reported no income
  - 20% reported other sources

Source: 2012 Annual Report on Homeless Served in Dane County

IMPEDIMENTS TO HOUSING

While a majority of homeless individuals do report a source of income, it is often insufficient to obtain adequate housing. **The low vacancy rate and relatively high cost of housing in the City of Madison presents a particularly high hurdle to securing permanent housing.** Service providers report that even individuals who have secured steady employment or housing assistance are unable to find rental housing due to the competition from other potential renters with higher incomes and stronger rental histories. This trend has been exacerbated by recent changes to state law including:

- Landlords can require tenants to make three times the amount of their rent in income, or apply other minimum income standards
- Landlords may deny people housing based on an arrest or conviction record, no matter how old and even if it has nothing to do with housing
- Landlords can require tenants to provide their social security number
- Security deposits will no longer be limited to one month's rent

While a lack of income is certainly a major impediment to housing for the homeless population, individuals seeking shelter report a wide variety of explicit non-income factors for seeking shelters and non-income underlying factors including:

- 36% of families reported the reason for seeking shelter was the **"threat or fear of violence"**
- 20% of single women reported "little or no income" as the reason for seeking shelter with the next highest percentage (16%) reporting **"conflicts with family or roommates"**
- 94% of unaccompanied youth reported **"conflicts with family or roommates"** as the reason
- In 2012, 24% of single men, 27% of families and 43% of single women served by shelter reported **mental health issues** and 23% of single men, 5% of families and 14% of single women and reported **alcohol and other drug abuse issues (AODA)**

Source: 2012 Annual Report on Homeless Served in Dane County

Individuals reporting AODA, mental health, and chronic medical conditions consistently make up a significant portion of the population being served by shelter. However, at the same time there has been a general increase in the unsheltered population reporting AODA and mental health issues as reported through point in time surveys. These trends are also reflected in interviews with service providers who note that **there has been a growing population of unsheltered single adults with higher rates of AODA, mental health, and chronic health issues that are not transitioning through the shelter, transitional, and permanent supportive housing system and instead become chronically homeless.**

TRENDS

Based on the data provided by the shelter, transitional and permanent supportive housing system, the point in time surveys, and interviews with service providers, three general demand trends emerge:

- Overall demand and volume of individuals entering the system has stayed relatively consistent over the last ten years, with a high point during the 2008-2009 recession
- Those whose housing status is largely a result of income, abuse, or conflict with family/roommates face increasing barriers to reenter the general housing market due to:
    - High cost of housing in Madison
    - Low vacancy rate
    - Tightening of landlord-tenant law
- There has been an increase in the unsheltered population composed of
    - Single adults
    - Those with underlying AODA, mental health, or chronic illness

SUPPLY - HOMELESSNESS

Housing for the homeless is provided through:

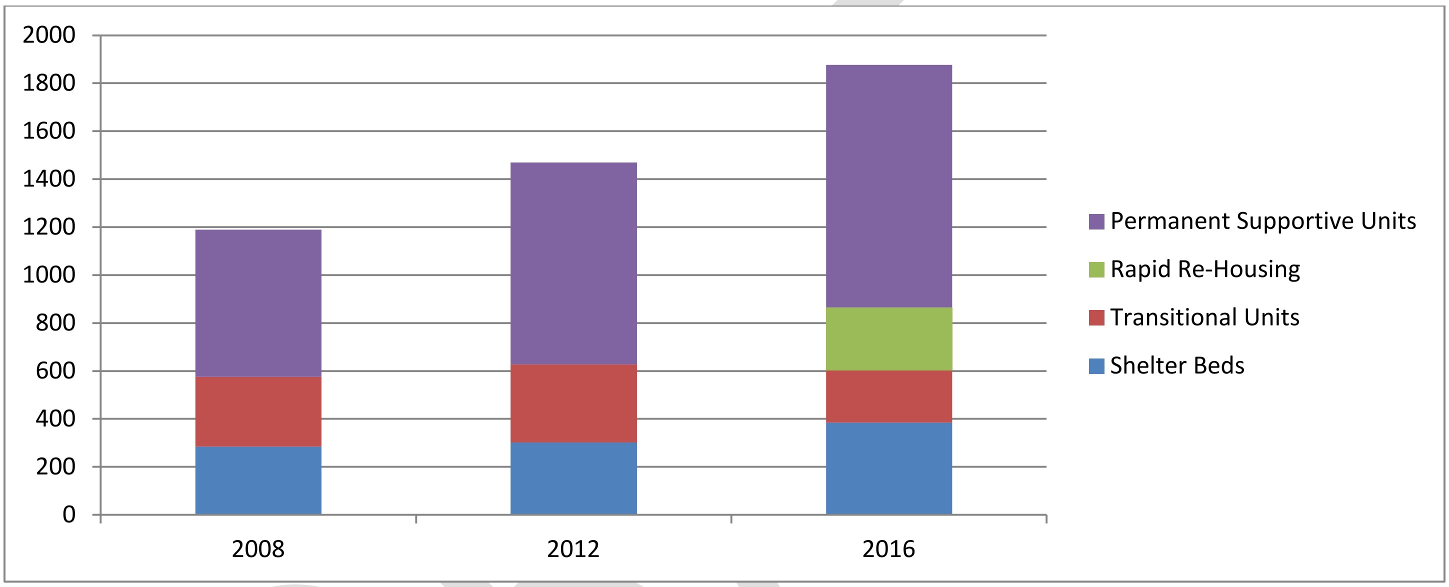
- Shelters
  - Overnight sleeping accommodations for homeless to provide temporary shelter
  - Characterized by shared sleeping, dining, and bathroom facilities
  - 90 night limit for single adult night-time only shelter use per person, per year (no provision for daytime storage). A cold weather exemption goes into effect for nights that are 20 degrees or less, with wind chill.
  - Individuals clearly exhibiting negative behavior as a result of being under the influence of alcohol or other drugs are not allowed into the shelter
- Transitional Housing
  - Housing and supportive services to facilitate movement to independent living within 24 months
  - Often characterized by shared or private sleeping facilities and shared dining and bathroom facilities
- Permanent Supportive Housing
  - Long-term housing with supportive services for homeless persons with disabilities or for housing individuals and families in rapid re-housing programs
  - This type of supportive housing enables special needs populations to live as independently as possible in a permanent setting
  - Often characterized by private sleeping and shared or private dining and bathroom facilities

In the City of Madison, housing for the homeless is primarily provided by not-for-profit entities that serve as the landlord as well as supportive services provider in some cases.

SUPPLY GROWTH

According to the Community Development Division, the market consists of:

- Shelter
    - 385 Shelter beds
- Transitional Housing
    - 219 units of Transitional Housing
- Rapid Re-Housing
    - 261 units of Rapid Re-Housing
- Permanent Supportive Housing
    - 1,011 total units of Permanent Supportive Housing



Source: 2016 Community Development Inventory

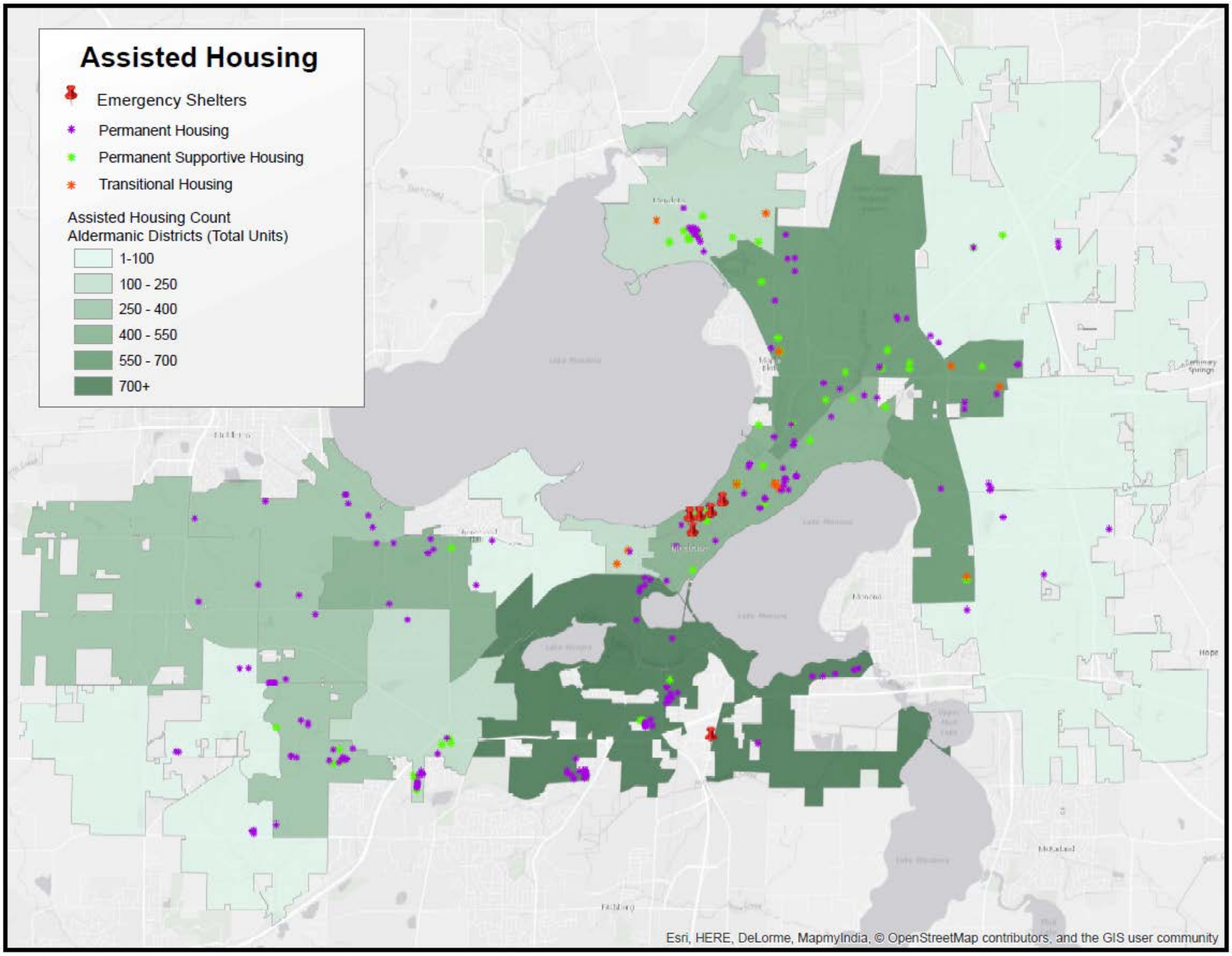
- 63 Shelter beds were added between 2012 and 2016
- 107 Transitional Housing Units were converted to permanent housing between 2012 and 2016
- Rapid Re-Housing programs were launched adding 261 units
- 169 units of permanent supportive housing were created between 2012 and 2016

The Madison Consortium of Care has focused heavily on increasing the supply of permanent supportive housing with a goal of adding 15 units per year on average. The significant increase in supply since 2012 was the result of conversion of transitional housing to permanent as well as a City Initiative to construct 250 new units of permanent supportive housing by 2020.

A low priority has been put on expanding the number of shelter beds with the exception of replacing Porchlight's Safe Haven units.

LOCATION

- Emergency Shelter locations are concentrated downtown and on the near east side
- Transitional housing locations are concentrated on the east side, but there are relatively few remaining developments of this type
- Permanent housing locations are generally well dispersed with throughout the city with the exception of the near west side and edges of the city



RECENT ADDITIONS TO SUPPLY

PORCHLIGHT NAKOOSA TRAIL

DEVELOPMENT

- Porchlight served as developer and operator
- Total cost of $3,800,000 ~ $80,000/unit
  - $420,000 in land from the City of Madison
  - $330,000 in federal HOME funds
  - $120,000 in Continuum of Care funds
  - Private fundraising campaign

DESIGN

- New Construction on greenfield site
- 14 SRO units with shared bathrooms or kitchens (SafeHaven Shelter)
- 34 Efficiency apartments with bathrooms and kitchens
- Located near public transportation
- Limited parking
- Energy efficient construction and onsite solar photovoltaic energy

OPERATIONS

- Operations are subsidized through HUD funds for programs operating onsite - Safe Haven Shelter, Partnership for Transitional Opportunities and Housing First
- Tenant pays 30% of income
- Targets homeless single adults with mental illness and AODA issues

THE ROAD HOME HOUSING AND HOPE

DEVELOPMENT

- The Road Home served as owner and operator
- Total cost of $1,000,000 ~ $66,666/unit
    - $308,000 in federal HOME funds
    - Private fundraising campaign

DESIGN

- Rehab on infill site
- 12 2-bed, 2 3-bed, and 1 1-bed apartments
- Features office for on-site manager

OPERATIONS

- Operations are subsidized through an endowment
- Targets homeless families

HEARTLAND HOUSING RETHKE TERRACE

DEVELOPMENT

- Heartland Housing served as developer and property manager, Heartland Health Outreach is the service provider
- Total cost of $7,100,000 ~ $118,000/unit
    - $1,250,000 in City Affordable Housing Funds
    - $900,000 in County funds
    - $5,600,000 in LIHTC funds
    - $480,000 in AHP funds
    - Private fundraising campaign

DESIGN

- New construction on infill site
- 60 studio apartments
- Located near public transportation
- Limited parking
- Energy efficient construction including PassiveHouse and LEED Platinum Certification

OPERATIONS

- Social Services are subsidized by Medicaid reimbursement
- Tenant pays 30% of income
- Targets homeless single adults with mental illness and AODA issues

FINANCE/FUNDING - HOMELESSNESS

NATIONAL

The majority of funds to house the homeless comes from the US Department of Housing and Urban Development (HUD) and flows through the City of Madison.

CONSTRUCTION/REHAB

Because shelter, transitional, and permanent supportive housing inherently has no or reduced income streams, they are typically financed with high levels of equity rather than debt, if any traditional debt at all. New supply is funded by a combination of charitable giving and:

- HOME Funds
    - The City of Madison received $991,841 in FY2013
    - HUD funds awarded to state and cities for the creation of affordable housing
    - Deferred loan product
    - Administered by the City of Madison Community Development Division
    - Can be used in new construction and acquisition/renovation
    - Requires 90% of benefiting families have incomes under 60% AMI
        - In rental projects with five or more assisted units, at least 20% of the units must be under 50% AMI
    - Requires a match every dollar of HOME funds used (except for administrative costs) with 25 percent from nonfederal sources, which may include donated materials or labor, the value of donated property, proceeds from bond financing, and other resources
    - Requires units stay affordable for 20 years for new construction of rental housing
- Affordable Housing Tax Credits
    - In Wisconsin credits are awarded by WHEDA and converted to cash equity by a syndicating partner
    - Annual competitive process to secure, very complicated
    - Funding priorities change every two years
    - After syndication, funds typically cover 80% of building cost
    - The maximum award per development $8,500,000 in credit, with no limit on the maximum number of units
    - Can be used for permanent or transitional housing, typically not shelter
    - Can be used in new construction and acquisition/renovation
    - Requires occupants to earn less than 50% or 60% AMI
    - Requires property to stay affordable for 30 years
    - Requires property to pay property taxes

OPERATIONS & RENT SUBSIDY

Because tenants have little or no income and require additional social services, operational costs and rents often need to be subsidized.

- Continuum of Care Funding
  - Dane County Homeless Services Consortium applied for and received over $3 million in 2012
  - Competitively award HUD funding
  - ShelterPlus Care is used for rental assistance for supportive housing for homeless people with disabilities and their families. The program allows for a variety of housing choices such as group homes or individual units, coupled with a range of supportive services (funded by other sources)
  - Can be used for new construction, acquisition, and renovation of existing housing
- Housing Choice and Project Based Vouchers
  - Serves low-income families, the elderly, and persons with disabilities
  - Participants rent from private landlords
  - 1,816 vouchers are allocated to the CDA
  - Because of HUD funding constraints 1,765 vouchers in use as of 2016
  - Tenants pay 30% of their income
  - HUD funded
- HUD - VASH
  - Serves low-income veterans
  - Participants rent from private landlords
  - 150 vouchers are allocated
  - Tenants pay 30% of their income
  - HUD and VA funded

LOCAL SOURCES

- City of Madison Affordable Housing Trust Fund
  - City of Madison funded endowment for the creation of affordable rental and owner-occupied housing administered by the Community Development Division
  - Balance of over $3 million with disbursements limited to 25% of the balance
  - Provides installment loans and grants to for-profit and non-profit housing developers for acquisition/rehab, new construction, and up to 15% for soft costs
  - Requires at least 60% of the funds eligible for disbursement annually be used to create units for occupants who earn less than 60% AMI
  - Requires occupants to pay no more than 30% of gross household income at 60% AMI in rent
  - Requires units stay affordable for 30 years
- City of Madison Affordable Housing Fund
  - Created in 2015 to support the creation of 200+ new units of affordable rental housing a year
  - Funded by a combination of TIF district closures and general obligation debt
  - Largely targets LIHTC projects identified through an annual RFP with a geographic and unit mix preference
  - Funds one permanent supportive housing project per year through an RFQ to select a development partner
- Dane County
  - The Dane County Housing Authority has the ability to partner and operate with the City of Madison to develop housing within city limits; a joint venture between the City of Madison and Dane County could share the development costs to create additional units
  - For 2015, Dane County created a new $2 million annual fund to support the creation of affordable housing using general capital funds
- United Way of Dane County
  - Annual spending of $735,000
  - Supports 152 families through Housing First programs
  - Partners with local service providers

CHALLENGES - HOMELESSNESS

- Demand for shelter exceeds the number of shelter beds
  - Limit on the number of stays per year
- Creation of permanent supportive housing supply has not kept pace with demand
  - Approximately 15 units added per year on average prior to the creation of the Affordable Housing Fund
  - Affordable Housing Fund can only support one 40-60 unit project per year
- Financing additional supply is difficult because **it cannot support debt**
  - Shelter is particularly difficult to finance and may not qualify for tax credits
- Shelter, transitional, and permanent supportive housing **require ongoing subsidy** as they do not generate significant cash flow from rent
- Need for a wider range of solutions for those with greatest demands for services
  - **Chronically homeless with co-occurring mental health and AODA issues**
- **Siting is difficult**
  - Neighborhood opposition
  - Concentrations of poverty
  - Need access to services
- With limited funds, shelter and permanent housing **compete for resources**

SOLUTIONS - HOMELESSNESS

LOCAL INITIATIVES

- Homeless Services Consortium Community Plan to Prevent and End Homelessness goals
  - Guides spending of Continuum of Care funds from HUD
  - Targets the full spectrum of homelessness
  - Updated every 5 years
  - Priorities
    - Effective support services to homeless persons and those at risk of homelessness enabling them to access and maintain stable housing
    - A short-term safety net with a move to permanent housing as quickly as possible
    - Adequate inventory of affordable housing by developing new housing and making existing housing more affordable
- Housing First for Families
  - Partnership between United Way, YWCA, Salvation Army, and The Road Home to rapidly move families into permanent housing with rental assistance and supportive services
  - Houses 152 families
  - Ongoing initiative
- City of Madison Affordable Housing Fund – Permanent Supportive Housing
  - The City of Madison in partnership with Dane County has issues an annual RFQ to identify a developer to create 40-60 units of permanent supportive housing
  - Targets chronically homeless
  - Relies on layering subsidy from local government, Section 42 tax credits, and Section 8 vouchers
  - Fund robust staffing through rents
  - Utilize high quality architecture and property management to integrate into neighborhoods
- Occupy Madison Tiny Houses
  - Volunteer built tiny houses on wheels that do not comply with building code but are allowed as temporary shelter
  - Targets homeless singles and couples
  - First house was completed in 2013
  - City ordinance to allow tents or other temporary shelters at non-profits and religious institutions designated as mission houses

NATIONAL MODELS

TARGET MOST CHALLENGED POPULATIONS

Whereas traditionally individuals move from shelter towards permanent housing based on a waiting list system or the achievement of stability, this model focuses on individuals with the greatest impediments to housing that would otherwise be the least likely to move towards permanent housing. Because this population also uses a large amount of services while homeless, it can actually be less expensive to provide them with housing than to provide services on the street. As a 2008 United Way study showed, the cost of the most frequent homeless users of services in Madison (detox, police, emergency room, etc) was over $50,000 per person per year. Strategies to address this population include:

- "Wet" Housing
    - Shelter, transitional or permanent housing
    - Focus on harm reduction rather than sobriety
    - Often has a dedicated area for alcohol consumption
        - Alcohol may or may not be allowed in rooms
        - Bags are checked and alcohol is stored at the front desk
- Prioritizing Frequent Users
    - Focus on moving top users of detox, emergency room, police, shelter, and other social services into supportive housing
    - Actively track users of service through combined reporting
    - Goal of reducing costs and strain on the overall system of services
- "Housing First"
    - Moves the homeless individual or family immediately from the streets or homeless shelters into their own units with rent subsidy
    - Goal of meeting the primary need of stable housing before addressing other needs with services
- 100,000 Homes Campaign
    - National initiative
    - Combines intensive data collection through street outreach to identify the most vulnerable homeless individuals with Housing First

PARTNERSHIPS WITH FOR-PROFIT DEVELOPERS

Traditionally non-profit providers have sought to develop or acquire housing units by owning entire buildings dedicated to housing homeless individuals. This model aims to integrate units for homeless individuals into larger private developments with market rate or lightly subsidized rents.

- Non-profits bring public subsidy to the project which helps the development score points for Section 42 tax credit applications
- Attach Section 8 or public housing subsidy to a small number of units in the development to cover rents
- Offload time consuming real estate development work to for-profit entities that specialize in this work
- Utilize high quality architecture and property management to integrate into neighborhoods

RAPID REHOUSING

Similar to Housing First, Rapid Rehousing aims to move individuals directly into stable housing. While a number of area service providers currently employ this model, they have primarily targeted families rather than single adults.

- Target episodically homeless with moderate needs
- Focus on moving individuals into housing (shortening length of time in shelter), then deliver service
- Time limited, focus on increasing income or permanent subsidy

PURPOSE-BUILT SHELTER

Whereas most emergency shelter in Madison is provided at facilities not designed as shelter (places of worship, gymnasiums) purpose-built shelter is designed to maximize safety and efficiency while reducing common points of conflict.

Common features include:

- Abundant showers and laundry
- Bedbug machines
- Covered and controlled entry and check in
- Custom bunk beds with built in electricity for phone and laptop charging
- Dedicated space for social service providers
- High quality HVAC and natural light
- Separate “pay to stay” areas
    - More privacy
    - Beds reserved on a weekly basis
    - Early or late entry
    - Private lockers for daytime storage

Purpose build shelter can be located in facilities combining day shelter, transitional, or permanent supportive housing.

RECOMMENDATIONS - HOMELESSNESS

The top priority for this segment of the housing market has been and should continue to be **moving people into permanent housing** as quickly as possible and **ensuring that no person in our community is unsheltered**. To that end, supply should be increased using models that stretch the limited amount of federal funding as far as possible while delivering a broader range of options to meet the diverse needs of the population.

1. For individuals with alcohol and drug as well co-occurring mental health issues (who also have high levels of chronic homelessness), **harm reduction and wet housing options that do not require sobriety should be investigated**, particularly in medium scale multiunit buildings with integrated case management. This population is a large user of detox programs, emergency rooms, police, services, and shelter facilities that are extremely expensive. Creating housing options for these individuals with particularly high barriers to housing could provide relief for the overall system of services.
    a. Fund Phase 2 of "Permanent Supportive Housing for Chronically Homeless Adults" as part of the Affordable Housing Fund*
    b. Prioritize funding non-profits expansion of harm reduction and "wet" housing programs*
    c. Pursue partnerships with healthcare providers to make an economic case for cost savings through reduced use of services
2. For families and single adults with low to moderate need for services, capacity should be increased through **Rapid Rehousing into existing housing units and the creation of units integrated into mixed income developments through partnerships with for-profit real estate developers**. By combining federal HOME and CDBG dollars and project based and VASH vouchers awarded to non-profits with Section 42 tax credits obtained by for-profits real estate developers, our limited federal resource allocation can be stretched farther.
    a. Continue/increase support for existing Rapid Rehousing programs and encourage their expansion to include single men*
    b. Prioritize funding and voucher allocations to non-profits pursuing projects in partnership with for-profits on Section 42 tax credit applications*
    c. Coordinate City and County funding and voucher allocation process, timelines, and priorities to maximize impacts and reduce administrative burden for each project*
    d. Actively work to develop non-profit/for-profit collaboration by hosting education and training events in conjunction with WHEDA*
    e. Actively lobby WHEDA to develop Section 42 tax credit award criteria to support projects in the City of Madison and in integrated settings*
3. As shelter facilities approach the end of their usable life**, new shelters should be constructed as purpose built shelters (rather than retrofitting churches and gymnasiums)** with designated space for service providers, abundant showers and laundry, and bedbug machines. Options should be expanded to include "pay to stay" sections to serve as a transitional housing option.
    a. Local government should actively participate in land acquisition for new shelter construction to control siting and ensure adequate space and amenities*
    b. Work with shelter providers to develop long-term facilities plans to guide development*

*Completed or in-process

	1a Fund Phase 2 of Permanent Supportive Housing	1b Fund Harm Reduction/Wet Housing	1c Partner w/ Healthcare Providers	2a Fund Rapid Rehousing	2b Support public/non-profit/for-profit partnerships	2c Coordinate government subsidy and housing initiatives	2d Facilitate for-profit/non-profit collaboration	2e Lobby WHEDA	3a Fund & plan shelter construction	3b Long-term shelter facility planning
CDA					X	X				
Common Council	X									
Community Development		X		X	X	X			X	X
Dane County Human Services		X	X			X			X	X
Mayor's Office										
PCED						X			X	X
Planning										X
Public Health			X							

LOW-INCOME RENTAL

OVERVIEW – LOW-INCOME RENTAL

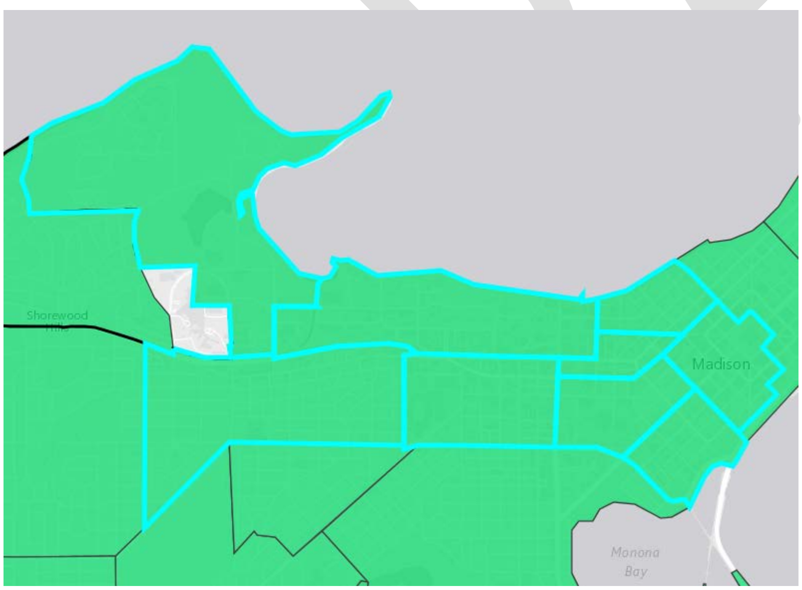
Since the beginning of the recession in 2007, the City of **Madison has experienced a continued rise in population and households that has outpaced its production of housing**. The resulting housing problem can be defined as an **undersupply of rental housing that is affordable to a range of household incomes, particularly to lower and moderate income wage earners** who get squeezed out of the market.

In response to this undersupply of residential rental housing, **the market has seen rents rise and vacancy rates fall**. As a result, low-income households are increasingly priced out of Madison's rental market.

Large affordability gaps exist between the rental payments a low-income household can afford and median rent price:

- A household must earn $35,000 annually in order to afford median monthly rents while allocating 30 percent of income to housing costs
- 35% of Madison households are unable to afford this cost
- Roughly 50% of Madison renters are housing cost burdened

This gap must be examined with the understanding that Madison is home to a large population of college students, particularly in areas surrounding the UW Madison campus. **Because their housing preference and income is substantially different from the general market, student households must be considered in a separate context.** For the purpose of this report, this chapter will attempt to identify households from nine Census tracts that are likely student renters (highlighted in blue below). These tracts were selected based on their proximity to the UW Madison campus, high concentrations of renters with incomes under 30% of AMI, and anecdotal evidence. Due to the steady enrollment levels at UW-Madison, it is assumed that the size of this group is constant and does not contribute to household growth.



These tracts represent approximately:

- 12,000 Households
- 10,700 are renters
- 8,000 make less than 30% of AMI
- **6,500 are housing cost burdened renter households making less than 50% of AMI** Likely

DEMAND – LOW-INCOME RENTAL

Typically for City of Madison programs, low income is defined as 80% of Area Median Income based on the number of persons per household. However because households rent in a market, competing against households of different sizes, for the purposes of this report demand for **low-income rental housing is defined as household income of less than 80% of Area Median Household Income or roughly $50,000.**

The most common professions with average incomes in this range include:

- Customer Service Representative - $33,940
- Cashier - $19,830
- Janitor - $25,800
- Laborer - $26,730
- Waiter/Waitress - $20,600
- Administrative Assistant - $35,340

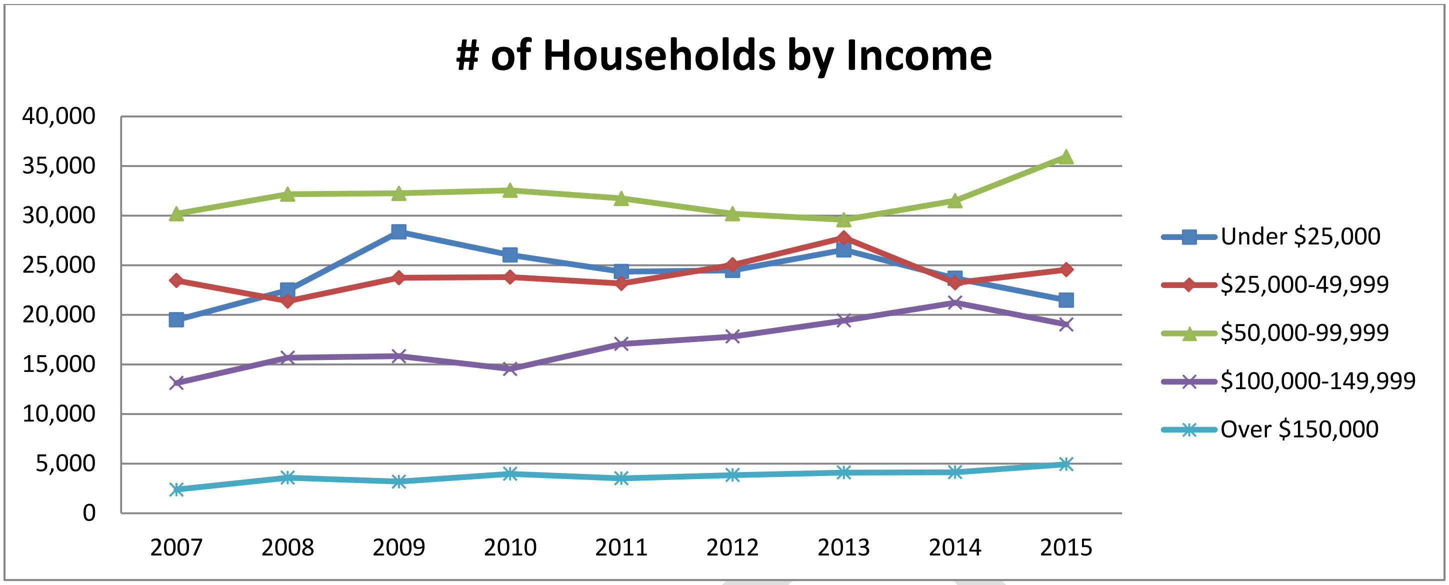
Demand can be reduced by raising incomes or the number of wage earners per household. For example, raising income from minimum wage of $7.25 to $12.00 would bring a two-income household from 50% of median area household income to 80% of median area household income and increase the amount of rent they can afford to pay from $750 per month to $1,250 per month.

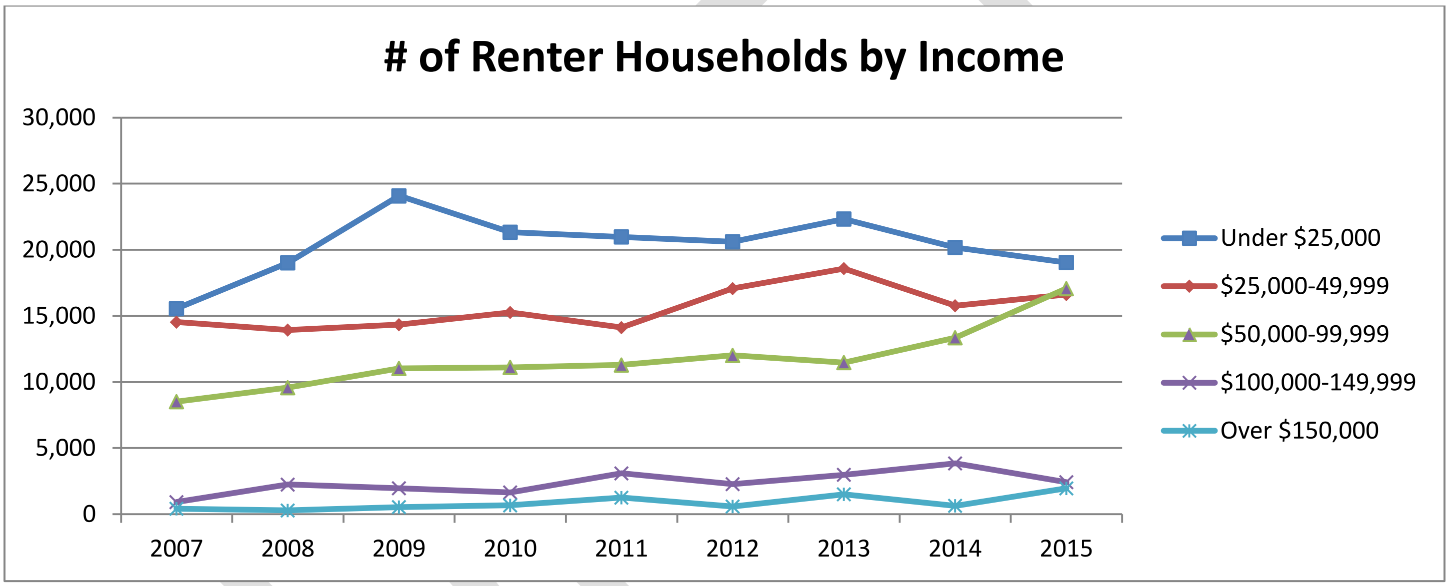
Demand for this segment is also defined by the preference for rental rather than ownership. For this population, demand factors are likely to be strongly influenced by impediments to ownership including down payment and credit requirements.

DEMOGRAPHICS

Since 2007, the City of Madison has added approximately:

- 17,000 new households
  - **2,000 households with incomes below $25,000 (~40% of Median Household Income)**
  - **1,100 household with incomes below $50,000 (~80% of Median Household Income)**
  - 5,700 households with incomes below $100,000 (~160% of Median Household Income)
  - 4,300 households with incomes below $150,000 (~240% of Median Household Income)
  - 4,100 households with incomes above $150,000 (~240% of Median Household Income)





Source: 1-year American Community Survey

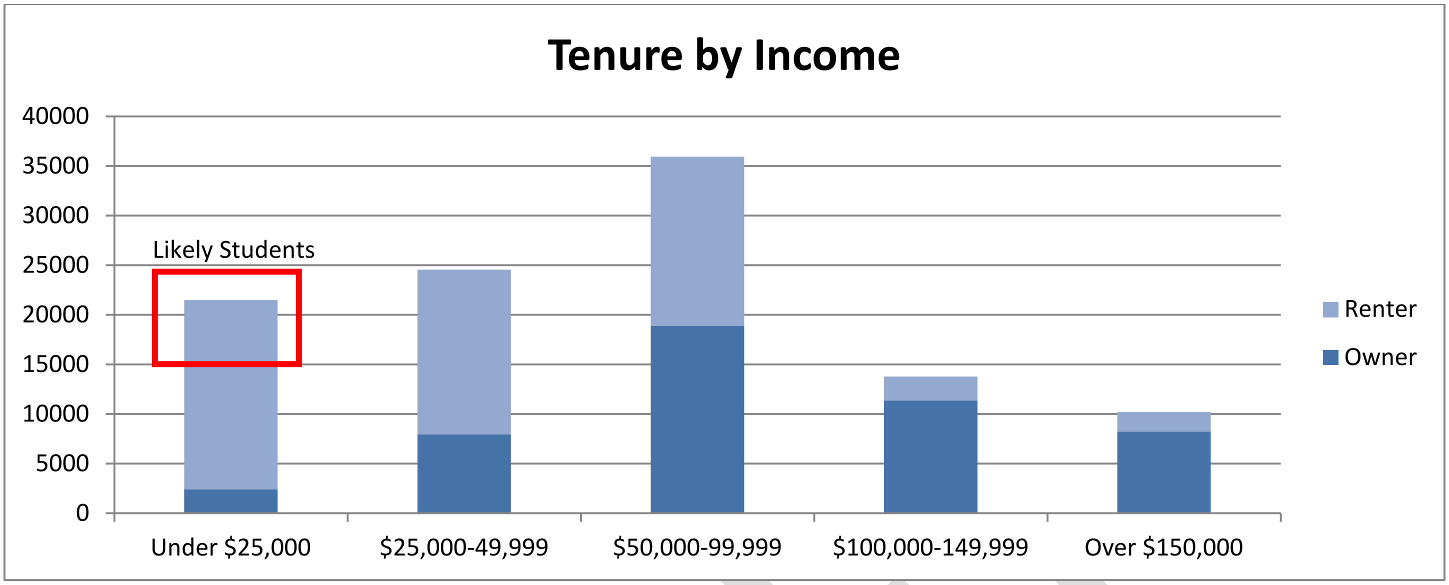
The income pattern of renter households in the City of Madison shows that in the years following the recession almost all growth comes from renters with extremely low incomes (under 30% of Area Median Household Income) with middle-income growth only returning in recent years.

Since 2007, the City of Madison has added approximately:

- 17,200 new renter households
    - **3,500 households with incomes below $20,000 (~30% of Median Household Income)**
    - **2,100 household with incomes below $50,000 (~80% of Median Household Income)**
    - 8,500 households with incomes below $100,000 (~160% of Median Household Income)
    - 1,500 households with incomes below $150,000 (~240% of Median Household Income)
    - 1,500 households with incomes above $150,000 (~240% of Median Household Income)

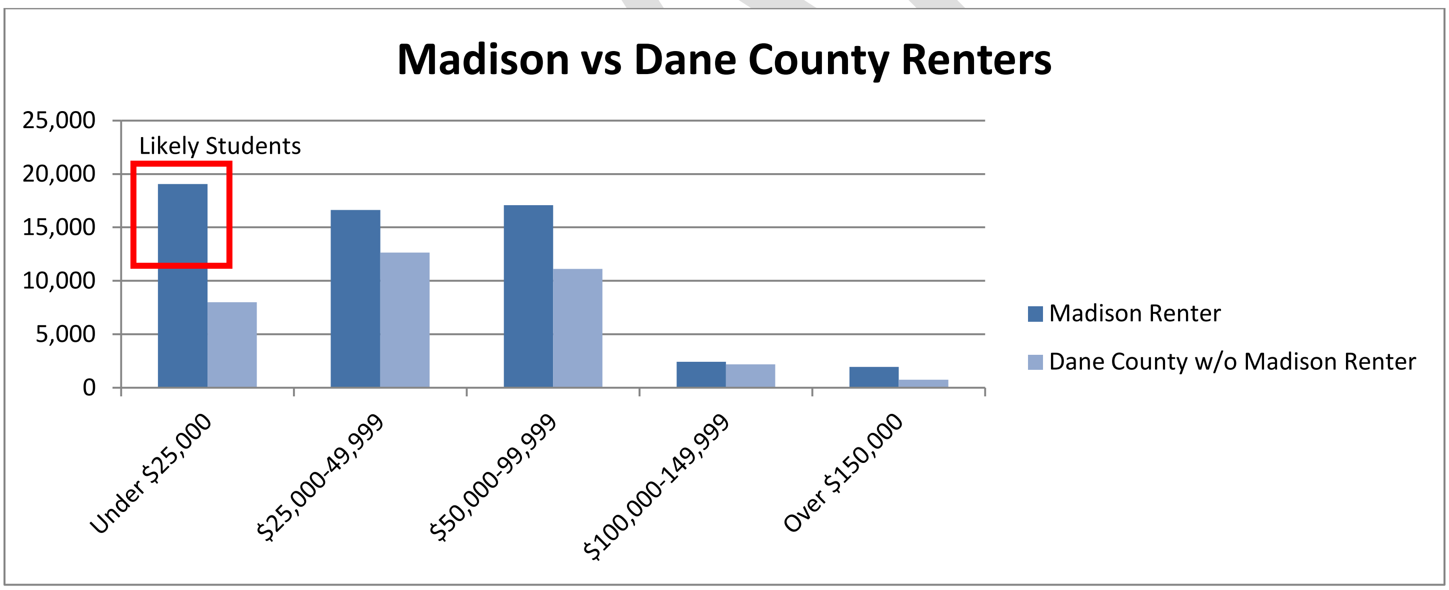
Since 2007, all net new households were renters rather than homeowners.

A snapshot of the Madison market shows that **the majority of low-income households rent rather than own their housing.** At the same time**, over half of renters are low-income households**.



Source: 2015 1-year American Community Survey

If likely students are excluded, the income pattern of renters in Madison is virtually identical to that of Dane County. In Madison as well as the rest of Dane County, approximately 60% of renters have incomes below $50,000 (80% of Median Household Income).



Source: 2015 1-year American Community Survey

TRENDS

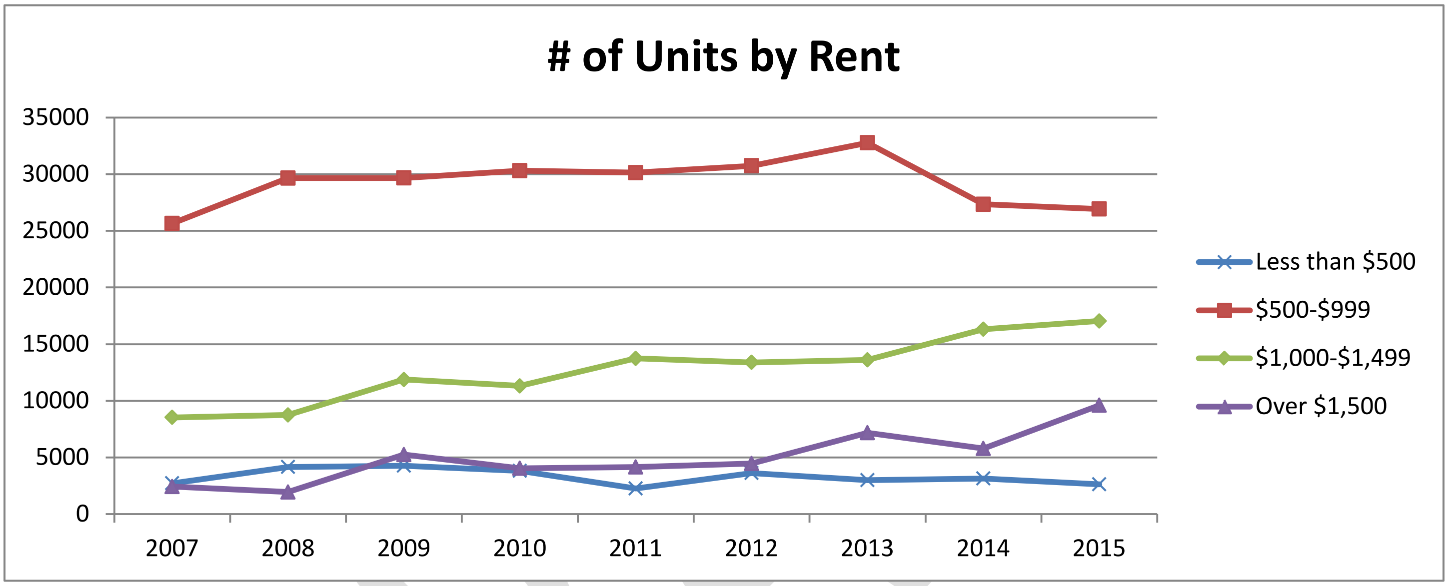
- 1/3 of Madison's growth in renters have been low income (5,600 households)
- There was a larger surge of low income renters after the 2007 recession that has only recently begun to subside
- Madison's rental market is currently dominated by households at the lower half of the income spectrum

SUPPLY – LOW-INCOME RENTAL

The supply of rental housing in the City of Madison has seen a sizable increase in recent years with much more in the pipeline, however only a fraction of that is targeted towards low-income households.

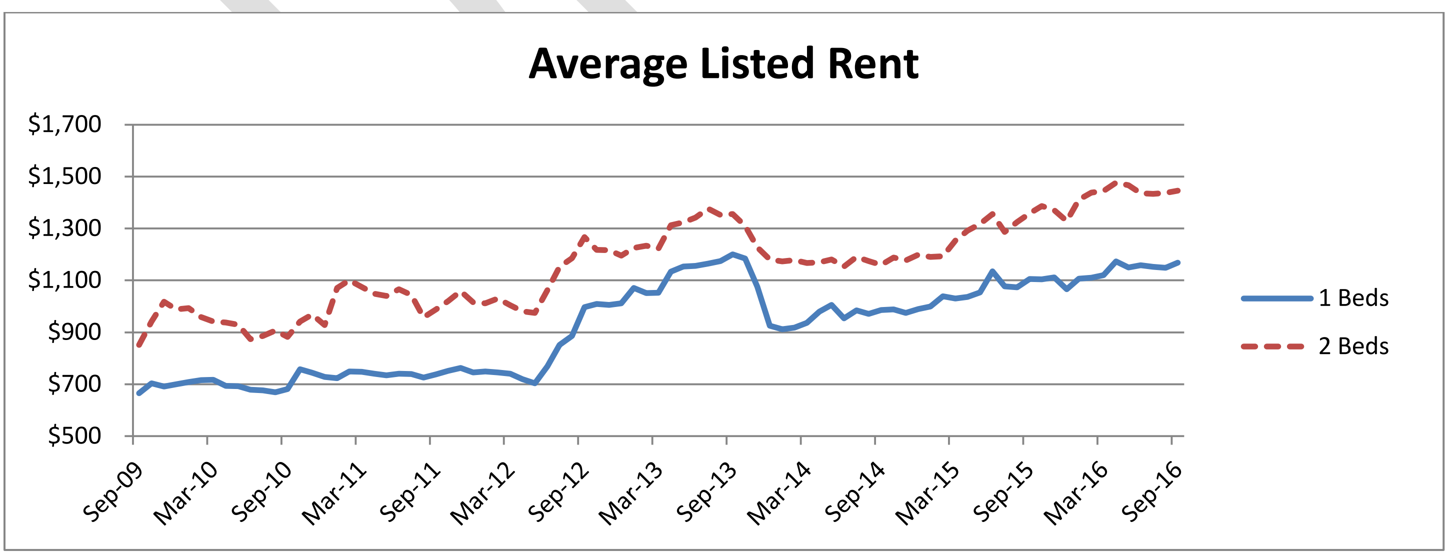
RENTS

A household with income of $40,000 (60% of Household Median Income) can afford housing costs of roughly $1,000 per month and a household at $25,000 (40% of Household Median Income) can only afford $625 per month. **Since 2007, there has been no net increase in the supply units affordable to households making less than $40,000 (~60% of Household Median Income).**



Source: 1 Year American Community Survey

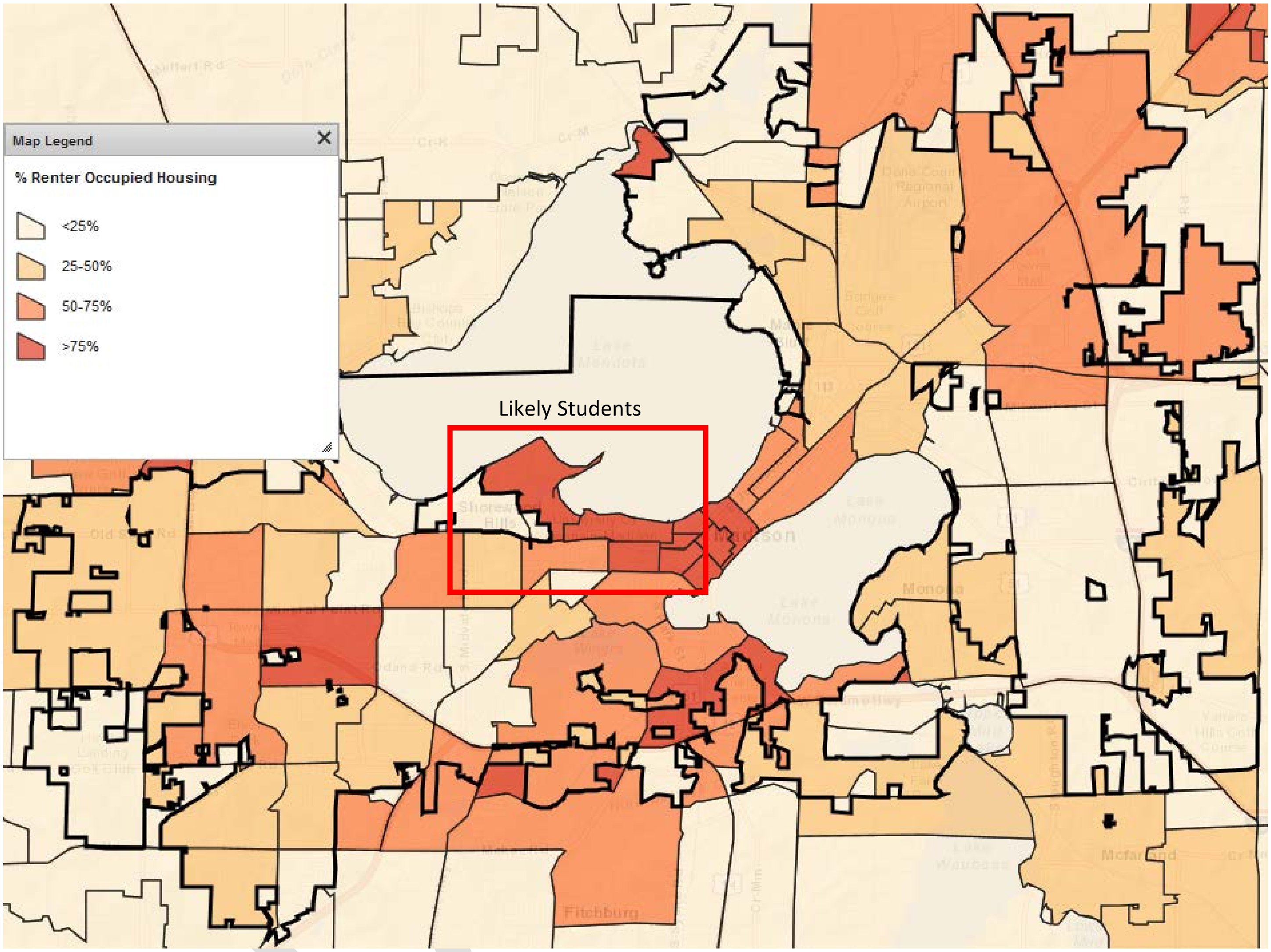
Market rents in Madison for one and two bedroom apartments have increased significantly in recent years according to data from rentjungle.com, an aggregator of online rental listings. **Overall, listed rents have increased 6-8% per year on average, with a total increase of over 50% since 2009. One-bedroom listed rents have risen even more rapidly, increasing 75% since 2009.**



Source: rentjungle.com

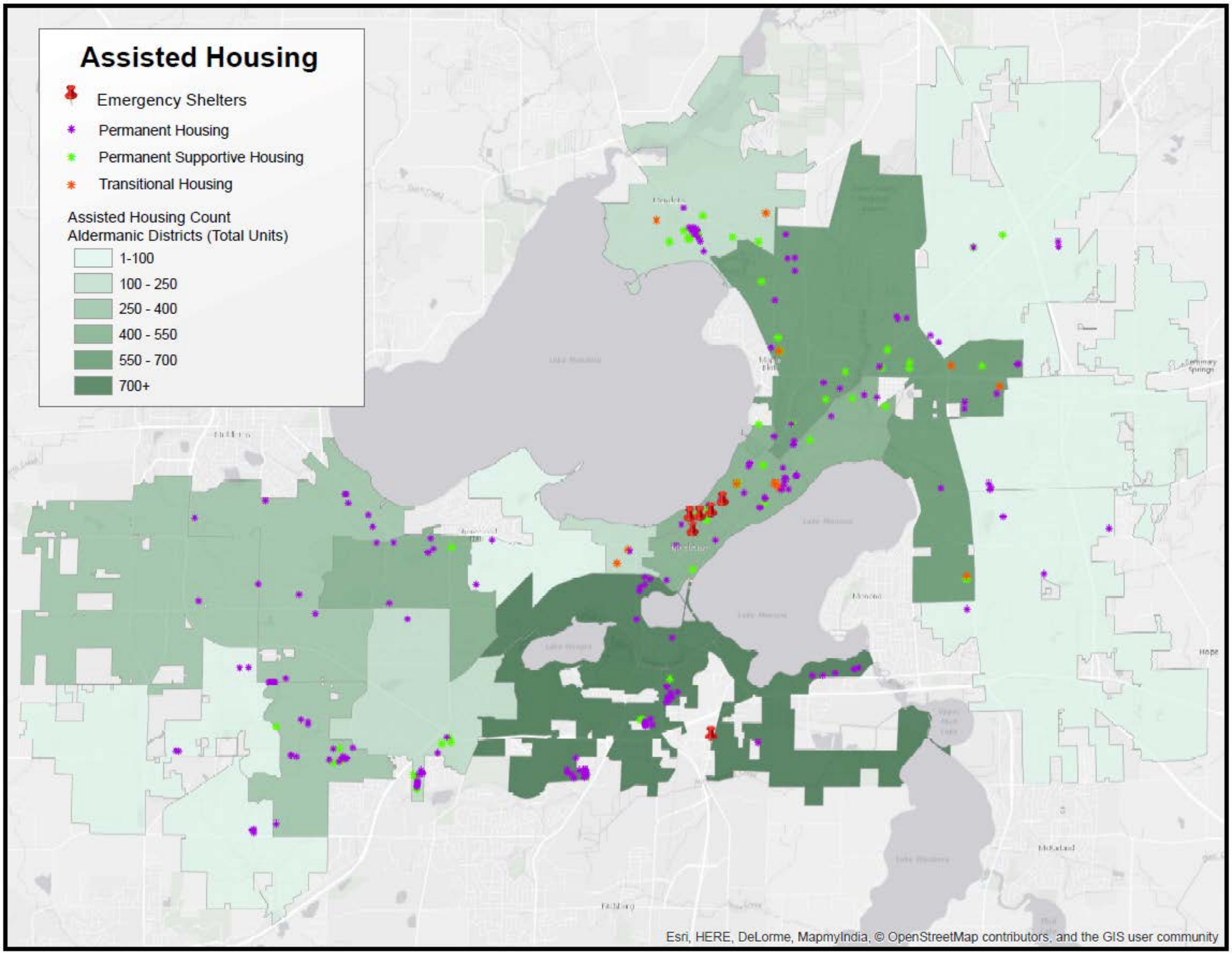
LOCATION

In the City of Madison, rental housing is concentrated in the downtown core, campus, south side, north east, and west sides of the city.



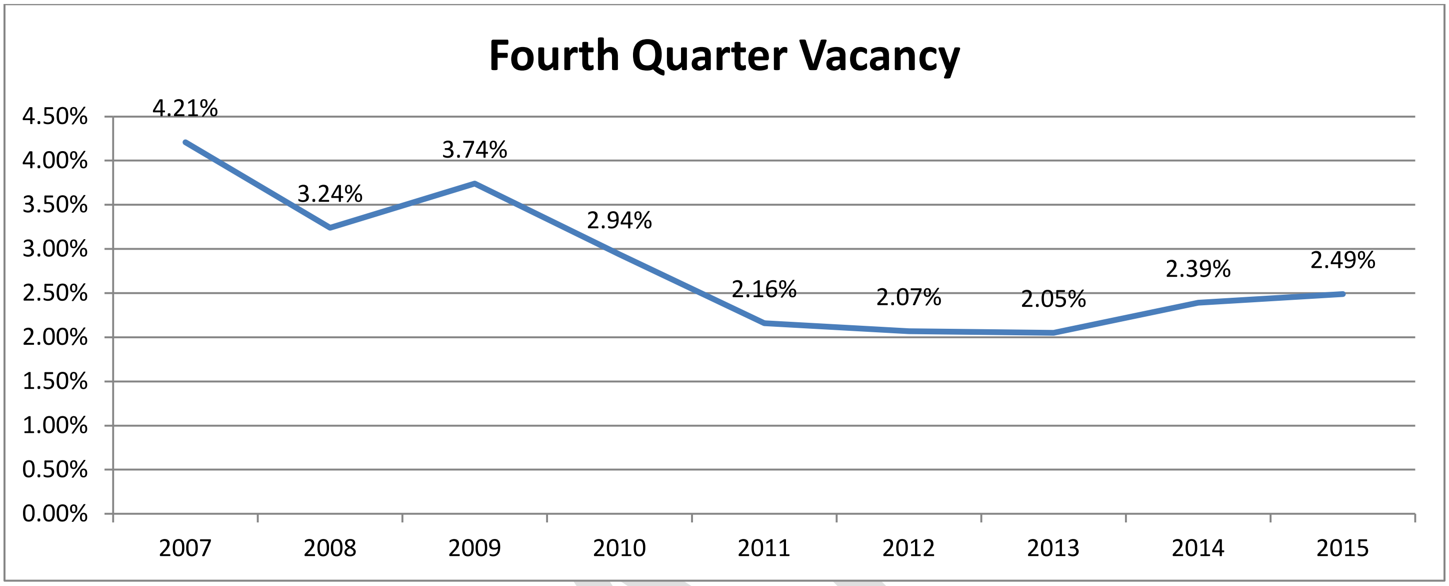
Source: HUD CPD Maps

Financially assisted low-income housing is more evenly dispersed across the city with the largest concentrations in the downtown and south sides. However, individual sites can contain dramatically different numbers of subsidized units.



VACANCY

Vacancy in the Madison rental market has been at or near historic lows for a number of years, implying that **the market is undersupplied.** In the United States, the typical rule of thumb is that a 5% vacancy rate is needed to maintain stable prices and housing choice.



Source: MGE Multifamily Vacancy

Vacancy is not evenly dispersed in the Madison market. The near west and east sides have moderate vacancy of 3-4%. The west, far east, and downtown markets have vacancy rates under 2%.

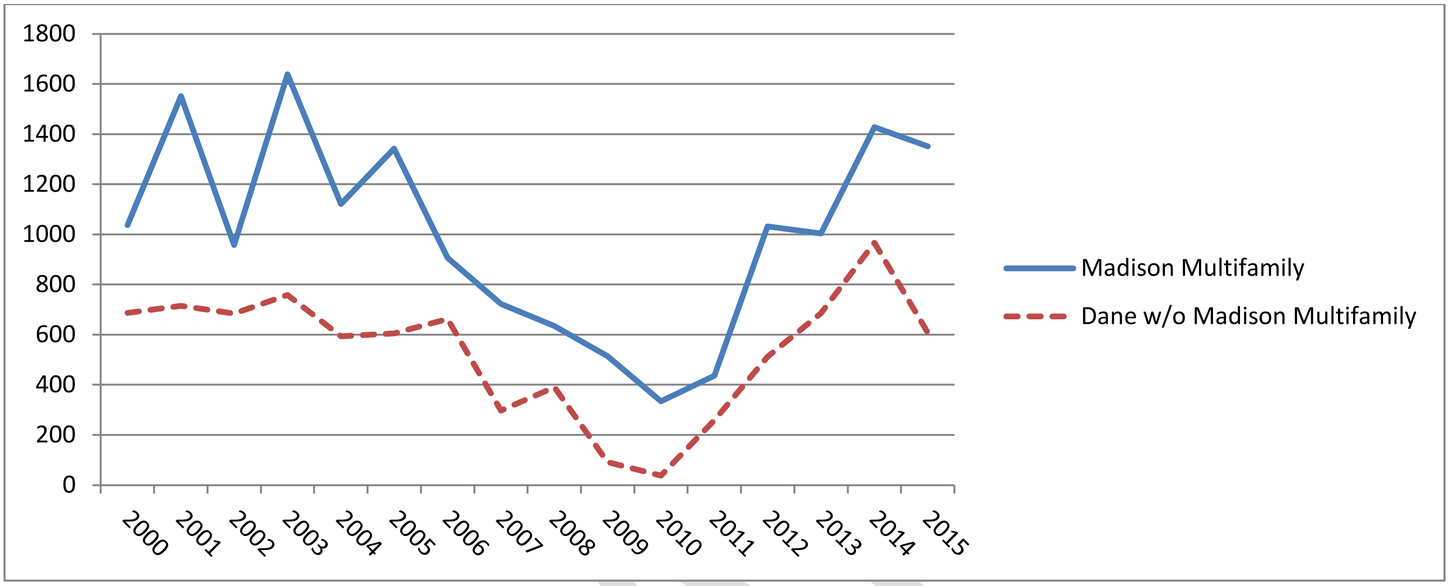
City	ZIP Code	Rental Units	Vacancy Units	% Vacant
Madison	53703	11,972	245	2.0%
Madison	53704	8,308	159	1.9%
Madison	53705	5,711	221	3.9%
Madison/Fitchburg	53711	6,281	121	1.9%
Madison	53713	6,569	213	3.2%
Madison	53714	2,046	83	4.1%
Madison	53715	3,021	120	4.0%
Madison/Monona	53716	1,754	59	3.4%
Madison	53717	1,091	17	1.6%
Madison	53718	1,771	4	0.2%
Madison	53719	1,390	34	2.4%
Madison	53726	1,363	13	1.0%
Total		51,277	1289	2.5%

*MGE Multifamily data does not have the ability to count units within multiunit buildings that have one gas/electric meter.

Source: MGE Multifamily Vacancy

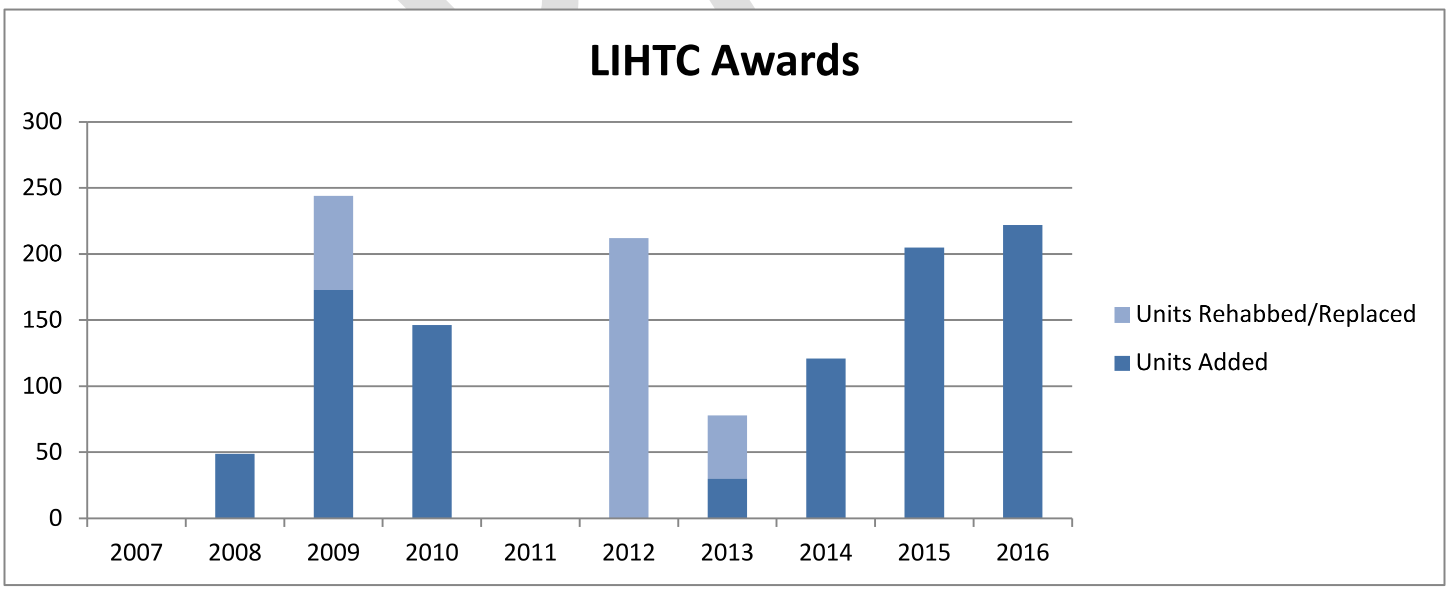
NEW SUPPLY

From 2007 to 2015, only 7,500 multifamily units were added to the Madison market despite the city adding 17,000 renter households. This excess demand has likely been absorbed by the reduced vacancy in the multifamily market and rentals in the single-family market. The multifamily 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

All indications are the multifamily market will continue to add units with thousands more under construction and in various stages of planning.



Low Income Housing Tax Credits (LIHTC) have been a large, but inconsistent, driver of new affordable supply added to the market.

*The creation of the Affordable Housing Fund has significant and reliably increased the production of LIHTC units

FINANCE/FUNDING – LOW-INCOME RENTAL

NATIONAL

The majority of financing for low-income rental construction/acquisition is in the form of traditional commercial mortgages and investor equity, while the majority of subsidy comes from the US tax code and the US Department of Housing and Urban Development (HUD).

CONSTRUCTION/REHAB

Because low-income housing inherently has reduced income streams, new construction is typically financed with relatively high levels of subsidy and equity rather than debt. New supply is funded by a combination of debt, investor equity and:

- Low Income Housing Tax Credits (LIHTC)
    - In Wisconsin credits are awarded by WHEDA according to its Qualified Allocation Plan which is updated on a biennial basis
    - Credits are converted to cash equity by a direct buyer or syndicating partner
    - After syndication, funds typically cover 70% of building cost
    - Annual competitive process to secure, very complicated
    - While small of amounts of LIHTC (4% credits) are available on a non-competitive basis, more units are created with the more robust competitively awarded 9% credits
    - The maximum award per development $8,500,000 in credit, with no limit on the maximum number of units
    - Can be used for permanent or transitional housing, typically not shelter
    - Can be used in new construction and acquisition/renovation
    - Requires occupants to earn less than 50% or 60% AMI with incentives to reach lower income populations
    - Requires property to stay affordable for 30 years
    - Requires property to pay property taxes
- HOME Funds
    - The City of Madison received $991,841 in FY2013
    - HUD funds awarded to state and cities for the creation of affordable housing
    - Deferred loan product
    - Administered by the City of Madison Community Development Division
    - Can be used in new construction and acquisition/renovation
    - Requires 90% of benefitting families have incomes under 60% AMI and in rental projects with five or more assisted units, at least 20% of the units must be under 50% AMI
    - Requires a match every dollar of HOME funds used (except for administrative costs) with 25% from nonfederal sources, which may include donated materials or labor, the value of donated property, proceeds from bond financing, and other resources
    - Requires units stay affordable for 20 years for new construction of rental housing
- Freddie Mac
    - Offers securitized debt products to the multifamily market
    - Goal of reducing interest rates and increasing housing supply through providing stability and liquidity to the multifamily loan market
- Federal Home Loan Bank – Affordable Housing Program (AHP)
    - Typically $18,000 per unit
    - Competitively awarded forgivable loan
    - Can be used for apartments, SROs, and transitional housing
    - Requires at least 20% of building occupants to earn less than 50% AMI

OPERATIONS & RENT SUBSIDY

When there are federal and city programs that subsidize the cost to build low-income housing, rents are often locked at lower than market rates and owners are required to rent to income-qualified tenants. Alternately, federal programs can directly subsidize units by providing rent subsidy programs where a tenant pays what they can afford and the federal program pays the difference between market rent and the tenant's portion.

- Housing Choice and Project Based Vouchers
  - Serves low-income families, the elderly, and persons with disabilities
  - Participants rent from private landlords
  - 1,816 vouchers are currently allocated locally to the City of Madison Community Development Authority (CDA)
  - Because of HUD funding constraints roughly 1,700 are in use
  - Tenants pay 30% of their income
  - HUD funded
- HUD – Veterans Affairs Supportive Housing (VASH)
  - Serves chronically homeless veterans
  - Participants rent from private landlords
  - 110 vouchers are allocated locally to the CDA
  - Tenants pay 30% of their income
  - HUD funded rent subsidy and VA funded services
- Public Housing
  - Federal contract administered locally by the CDA
  - Approximately 800 apartments in Madison are owned and managed locally by the CDA
  - Tenant pays 30% of income and the federal government provides the difference between estimated operating costs and the tenant-paid portion

LOCAL SOURCES

- Affordable Housing Trust Fund
  - City of Madison funded endowment for the creation of affordable rental and owner-occupied housing administered by the Community Development Division
  - Balance of over $3 million with disbursements limited to 50% of the balance
  - Provides installment loans and grants to for-profit and non-profit housing developers for acquisition/rehab, new construction, and up to 15% for soft costs
  - Requires at least 60% of the funds eligible for disbursement annually be used to create units for occupants who earn less than 60% AMI
  - Requires occupants to pay no more than 30% of gross household income at 60% AMI in rent
  - Requires units stay affordable for 30 years
- Tax Incremental Financing (TIF)
  - City of Madison funded program that uses projected future increases in the property taxes from within defined area of a Tax Incremental District (TID) to subsidize redevelopment in that TID
  - Project must be located in a TID with a "generator" property that is sufficient to increase the tax base
  - Project must prove that "but for" the subsidy the development would not occur
  - Affordable housing for renters under 80% AMI is an allowable use of funds
  - Can be used for capital costs but not for operating expenses
  - Project must pay property taxes
  - Recent changes in state law allow for the Tax Incremental Districts to be extended for one year for the purpose of using the funds for affordable housing within a municipality

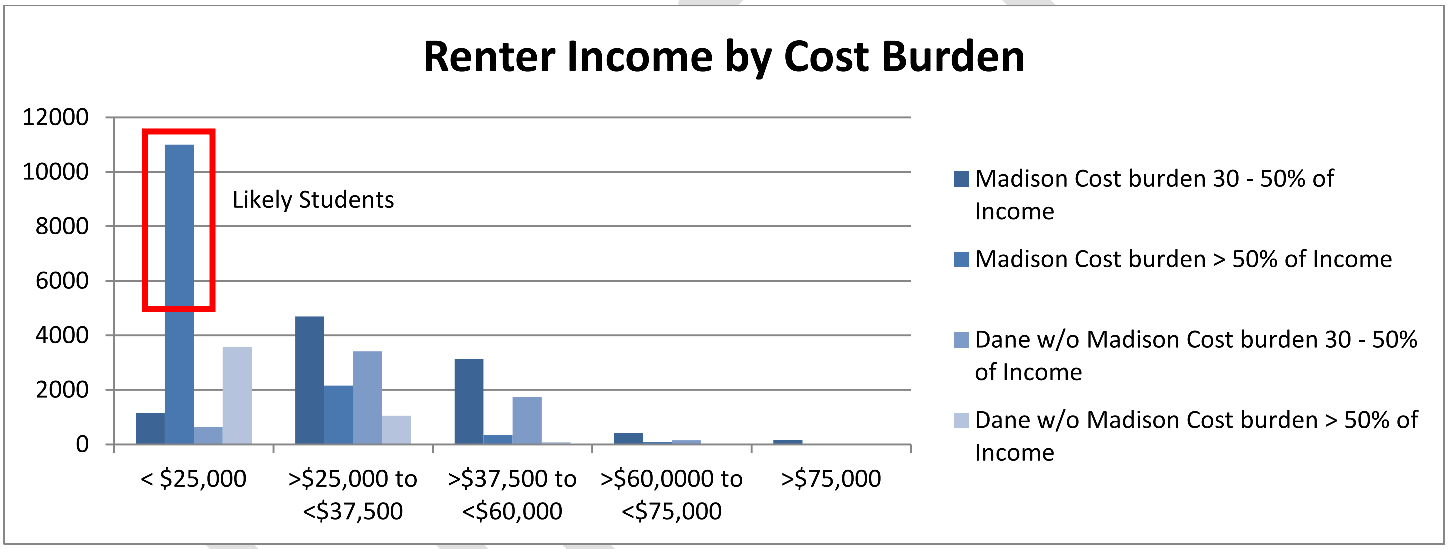
CHALLENGES – LOW-INCOME RENTAL

The supply of rental units affordable to low-income households and the demand for these units does not align. **There is a large persistent gap in the number units that are affordable to low income residents, as shown by the large number of low-income renters that are housing cost burdened**. This problem is further exacerbated by the low vacancy rate, which puts additional pressure on the low end of the market.

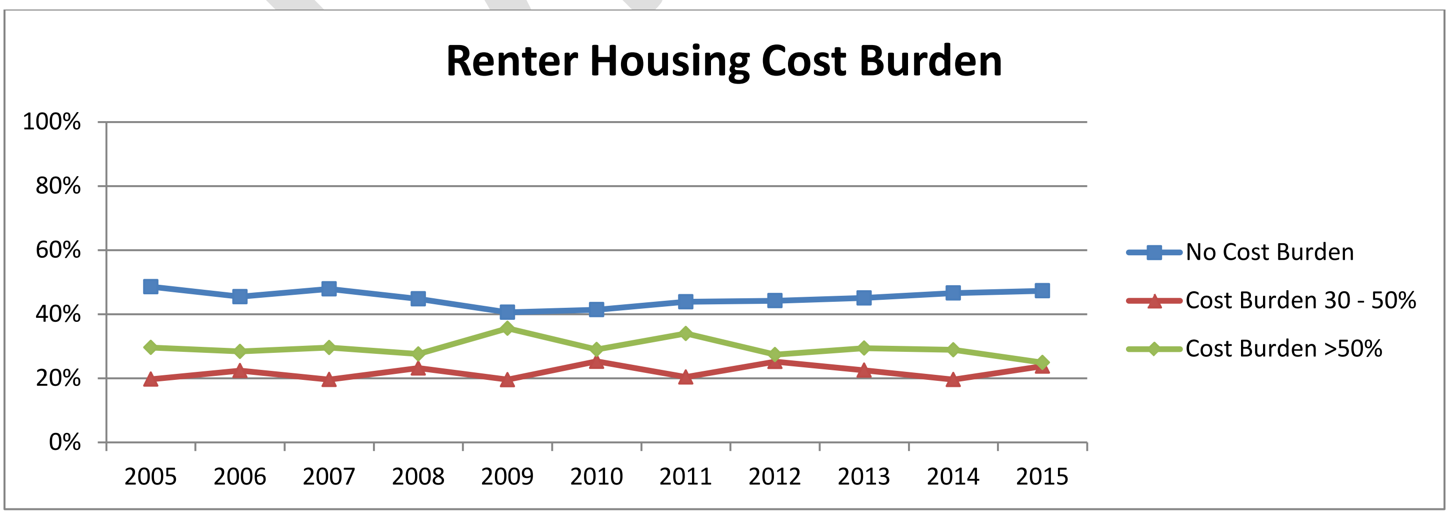
HOUSING COST BURDEN

The percentage of cost burdened renters has slowly risen since 2005.

- **A slight majority of renters pay more than 30% of household income in rent (cost burdened)**
- **Cost burden is particularly prevalent amongst renters with income of less than $37,500 (~60% of Household Median Income)**
- **Households with income of less than $25,000 (~40% of Household Median Income) often pay more than 50% of household income in rent**



Source: 2006-2010 CHAS – HUD



Source: 1 Year American Community Survey

MARKET FORCES

The main challenge to creating additional units of rental housing affordable to low income households is that in our market **it costs more to build a unit than can be covered by rents that would be considered affordable to low income renters.**

For example for a typical one-bedroom unit:

Construction and Land Cost	$125,000

Equity-to-Cost Ratio	20.00%	Loan-to-Cost Ratio	80.00%
Required Equity	$25,000	Mortgage Loan	$100,000
Annual Pre-Tax Distribution Rate	10.00%	Mortgage Interest Rate	5%
Cash Payments for Equity	$2,500	Cash Required for Debt Service	$6,250

Net Operating Income	$8,750
Operating Expenses	$2,500
Real Estate Taxes	$2,000
Replacement Reserve	$300
Effective Gross Revenues	$13,550
Vacancy Loss (5%)	$675
Gross Potential Income	$14,225

Breakeven: Annual Rent Per Unit	$14,225
Breakeven: Monthly Rent	$1,185

The cost to build a one-bedroom unit without subsidy would requires rents of $1,185 per month to cover expenses, debt service, and a modest return on equity, which is unaffordable to single person below 80% of AMI.

Household Size	100% of AMI	Affordable Monthly Rent by Household Income 90% of AMI	80% of AMI	70% of AMI	60% of AMI	50% of AMI	40% of AMI	30% of AMI
1 person	$1,418	$1,276	$1,128	$992	$851	$709	$567	$425
2 persons	$1,620	$1,458	$1,289	$1,134	$972	$810	$648	$485
3 persons	$1,823	$1,640	$1,450	$1,276	$1,094	$911	$729	$546
4 persons	$2,023	$1,820	$1,610	$1,416	$1,214	$1,011	$809	$606
5 persons	$2,185	$1,967	$1,740	$1,530	$1,311	$1,093	$874	$655
6 persons	$2,348	$2,113	$1,869	$1,643	$1,409	$1,174	$939	$704
7 persons	$2,510	$2,259	$1,998	$1,757	$1,506	$1,255	$1,004	$753
8 persons	$2,670	$2,403	$2,126	$1,869	$1,602	$1,335	$1,068	$801

*pink denotes populations that cannot afford rent of $1,185

LOCAL

- Large increase in apartment construction
    - Since 2012, the Madison rental market has seen a boom in construction of new units
    - While most projects are not targeted at low income renters, the volume of units in the pipeline should provide relief from the historically low vacancy rate which pushes rents up
    - From 2007-2015, 7,500 multifamily construction permits were granted
- City of Madison Community Development Block Grant Funding
    - The CDBG committee funds a number of new apartment developments targeted towards low-income renters every year with the goal of improving and expanding affordable housing options throughout the city
    - 2013 funding created 18 rental units and 154 households received rental assistance
    - 2014 Commitments
        - Pinney Lane Apartment - Royster Clark
            - To be developed by Stonehouse and Movin' Out
            - 59 Affordable units including 1,2, and 3 bedrooms
            - 25% of the units will be affirmatively marketed for people with disabilities
            - $128,318 HOME rental development funds
            - $265,841 in Housing Development Reserve funds
            - $265,841 from the Affordable Housing Trust Fund
            - Applying for Section 42 tax credits
            - Also receiving $400,000 in TIF funds
- City of Madison Community Development Authority
    - The CDA is recently added 8 new units and replaced 40 units at its Truax location
- TIF Policy Changes
    - The City of Madison is revising its TIF policy to specifically assist projects that target low-income households. The guidelines allow funding of residential real estate projects in which no less than 40% of the units are affordable to households making less than or equal to 40% of Area Median Income (AMI). Underwriting will be based on the WHEDA Low Income Housing Tax Credit application criteria

NATIONAL MODELS

Communities across the nation have applied different policies, funding models, and processes to increase the supply of low-income rental housing. Some models are less effective, would not apply well to the Madison market, or may not be permitted under current state law.

INCREASE SUPPLY

To address the needs of low-income renters, most communities rely on programs and policies that focus on increasing the supply of housing that is affordable for them. Most common is to focus on creating units specifically targeted at low-income households, which can be done through:

- Construction Subsidy
  - At its core, this strategy involves making Section 42 tax credits, Affordable Housing Trust Funds, CDBG, HOME, TIF, and other local funds available to assist developers in construction of low-income units.
  - Communities can go a step further and coordinate internal processes, eligibility criteria, timelines, and approvals in a one-stop-shop to maximize the potential of projects to stack subsidies
- Inclusionary Zoning
  - Require a given share of units in new construction developments to be affordable to people with low to moderate incomes
  - A portion of the City of Madison's Inclusionary Zoning Ordinance was struck down by the courts in 2006 and a portion was repealed years later
- Reduce Fees
  - Communities can reduce or waive the host of fees charged to low income housing developments as part of the development process which can add up to tens of thousands of dollars
  - The City of Longmont, California waives up to 14 fees for low income units averaging $2,283 per apartment
  - In the City of Madison, typical fees include:
    - Plan Examination Fee $ .03/sqft
    - Permits
      - Demolition $600
      - Plumbing - Based on floor area
      - Electrical – Based on floor area
      - Erosion Control $100
    - Inspection Fee $ .32/sqft
    - Conditional Use $950
    - Parks Fee up to $2,461.95 per unit
- Density Bonuses
  - Projects are allowed to exceed density or height limits normally allowed by zoning if the units are designated as low-income
  - For example zoning that normally allows for 24 units could be granted an additional 6 units if they are designated affordable without having to seek conditional use allowances
  - King County, WA allows projects to discount affordable units against density limits up to 150% of the normal unit limit
- Geographic Targeting
  - As part of the comprehensive and neighborhood planning process, zoning districts and areas within each neighborhood could be designated as appropriate for low-income housing development to drive low-income development to these areas
  - Zoning rules can be modified to facilitate low-income rental development in designated districts and subsidies can be targeted at projects that fall within the designated areas
  - The Wisconsin Housing and Economic Development Authority (WHEDA) awards bonus points on Low-Income Housing Tax Credit applications to projects that are in Census tracts that they designate as in high need of affordable rental housing

- Vancouver Model
    - The City of Vancouver has one of the tightest rental markets in Canada with less than a 1% vacancy. As a result, the City has implemented two policies to increase rental housing supply
        - A required 1-for1 replacement policy for any demolition of rental housing
        - Fast track city approvals for development that are 100% rental housing with relaxed zoning requirements and density bonuses
- Micro Housing Units
    - Densely configured very small studio units designed to serve single adults
    - The density and small size allows developers to build units in markets with high land costs at a lower cost than traditional apartments
    - Gaining popularity in New York, San Francisco, and Seattle where land costs are very high
    - Typically defined as studio units under 400 square feet, but can be as small as 150 square feet
    - Difficult to build in Madison because of restrictions on unit density (not minimum square footage requirements) in the zoning code
- Accessory Dwelling Units (ADUs)
    - A housing unit created within a building or as a separate structure whose use is clearly incidental to that of the main building and is located on the same lot as the principal building, and is subordinate to the principal building in height and floor area
    - Can come in the form or a basement apartment, carriage house, or garage apartment
    - The increased density on the parcel allows for reduced housing cost
    - The State of Florida requires by statute that ADU's be rented at rates affordable to low-income households
    - Allowed in select zoning designations within Madison
    - Challenge in financing their creation because they are not allowed by many common mortgage products

Supply can also be created within existing buildings by reducing rent rates through direct subsidy or by reducing building operating costs.

- Conversion
    - Units located in a multifamily rental or ownership housing complex are converted from market rate non-affordable to affordable rental through the purchase of affordability restrictions.
    - The State of California allows public funds to be used by local governments to fund the conversion of existing units to meet housing targets.
        - Converted units must result in a net increase in the stock of housing affordable to low- and very low-income households
        - Converted units must be made available for rent at affordable housing costs, not be currently occupied by low- or very low-income households, and in decent, safe and sanitary condition when occupied
        - Long-term affordability covenants apply to these units
- Rent Subsidy
    - Like the Housing Choice and Project Based Voucher program, state and local governments can choose to directly subsidize rent in units for low-income households
    - Minnesota has a program to directly subsidize rent for those at risk of homelessness
- Reduce Property Taxes
    - Property taxes are the most direct cost that local governments impose on the operation of buildings including low-income housing
    - Depending on state law, local governments can adjust assessments or reduce property taxes for housing contingent on the affordability of rents charged
    - Cook County Illinois systematically phased in property tax reductions for multifamily rental properties by roughly 10% to bring assessments more in line with other residential buildings
    - Wisconsin's rules on equalized values limit the amount that assessments can be adjusted
- Rent Control and Rent Stabilization
    - Laws which limit the changes that can be made to rents in a building functioning as a price ceiling
    - Goal of limiting the price that would result from market forces, where inequality of bargaining power between landlords and tenants produces continually escalating prices
    - Can have the effect of creating shortages and exacerbate scarcity in the housing market
    - Illegal in Wisconsin

RECOMMENDATIONS – LOW-INCOME RENTAL

The overarching goal for the low-income rental market is to **ensure that non-student households are not paying more than 50% of their income in rent**, preferably not even paying 30%. The first priority in achieving this goal is to ensure that there is a sufficient supply of rental housing in the market to allow the market to properly function through moderate vacancy. **The priority must then be to substantially increase the number of units in the market that are affordable to households making less than $50,000 per year (80% of median household income).**

1. **For all new multifamily rental buildings proposed in the City of Madison that are well sited** for low-income populations (access to transportation, schools, grocery, walkability, not in a concentration of poverty), **integration of some affordable units should be encouraged**. As market rate projects begin the approval process, developers should be encouraged to include units affordable to low-income populations as part of their unit mix. This can be facilitated by:
    a. Dedicate a larger portion of City of Madison funds to subsidize low-income rental units
        i. Further enhance TIF policy to subsidize the development of low-income rental units
        ii. **Subsidize affordable units as part of the Affordable Housing Fund***
    b. Explore ways to **give a preference in the development approval process to rental developments that include affordable units.**
        i. Discount or exempt affordable units from density limits
        ii. Identify areas and zoning districts in which to encourage low-income rental development
        iii. Waive or reduce City fees on affordable units*
2. Existing affordable subsidized rental units should be preserved and additional **units should be converted to affordable housing by purchasing land use restrictions**. Converting existing units is the fastest way to add affordable units to the market.
    a. Explore programs to subsidize landlords to designate existing units as affordable
        i. Place a land use restriction on units
        ii. Commit to affordable rents for 15 years
        iii. List units for rent on WIHousingSearch.org
        iv. **Subsidize affordable units as part of the Affordable Housing Fund**
3. **For new multifamily developments pursuing Section 42 tax credits, City funding programs should be aligned** to maximize the likelihood of tax credits being awarded. Coordinating these programs leverages City subsidy, making subsidy go further or reach deeper down the income spectrum.
    a. Coordinate HOME, CDBG, TIF, Affordable Housing Fund, and Project-based Voucher award timelines to ensure that projects have awards in place in time to apply for Section 42 tax credits in January*
    b. Coordinate HOME, CDBG, TIF, Affordable Housing Fund, and Project-based Voucher award criteria and processes so that projects that meet a common set of criteria in line with City and WHEDA priorities (access to transportation, schools, grocery, walkability, not in a concentration of poverty) get funded by the City and therefore score higher on their tax credit applications*
    c. Annually release coordinated RFPs to drive development that achieves the priorities*
    d. Actively recruit developers to apply for Section 42 tax credits in the City of Madison*
4. **Pursue demonstration projects to test the viability of alternative housing forms** (Accessory Dwelling Units, Micro housing, Cottage Housing, Cooperative and Co-housing)
    a. Allow exceptions to existing funding programs and zoning rules to allow for demonstration projects
    b. Recruit and fund developers with experience constructing alternate forms of housing
    c. Recruit financial institutions to create portfolio loan products that would allow for housing types that might not conform with current lending rules

*Completed or in-process

	1a Increase funding to low-income rental through TIF and AHTF	1b Give preference to affordable developments	2a Convert existing units	3a Coordinate subsidy timelines	3b Coordinate subsidy priorities	3c Issue subsidy RFP	3d Recruit developers for Section 42 developments	4a Allow exceptions to demonstration projects	4b Recruit developers for demonstration projects	4c Recruit financial institutions for demonstration projects
CDA				X	X		X			
Common Council	X									
Community Development	X		X	X	X	X	X	X		
Economic Development	X			X	X		X	X		
Mayor's Office	X									
PCED				X	X					
Planning		X						X		

LOW-INCOME OWNERSHIP

OVERVIEW – LOW-INCOME OWNERSHIP

Since the beginning of the recession in 2007, the City of **Madison has experienced a severe decline in construction, sales, and values for owner occupied housing, which has only recently begun to rebound in part due to historically low interest rates**. The resulting housing problem can be defined as a **significant loss of wealth for existing homeowners but an opportunity for new buyers to enter the market at affordable rates, if they can obtain financing.**

Despite historically low interest rates and low home prices, **the market has not seen a large influx of low-income buyers**. In fact, **Madison has seen a net loss in low-income homeowners since 2007**. Affordability gaps still exist between the monthly housing payments a low-income household can afford and the cost of purchasing a median priced home ($205,100).

- A household must earn roughly $50,000 annually (~80% of Area Median Household Income) in order to afford mortgage payments, taxes, and insurance on a median valued house while allocating 30 percent of income to housing payments (with a 20% down payment)
- Less than 50% of Madison households can afford the resulting monthly payment
- Roughly 2/3 of existing Madison homeowners with household incomes under $50,000 are housing cost burdened

As a result, **households with incomes under $50,000 (80% Area Median Household Income) only represent 25% of the owner occupied housing market** and the number of homeowners with incomes under $50,000 is shrinking. Furthermore, select areas of the City and populations of color have lower rates of homeownership.

DEMAND – LOW-INCOME OWNERSHIP

Typically for City of Madison programs, low income is defined as 80% of Area Median Income based on the number of persons per household. However because households rent in a market, competing against households of different sizes, for the purposes of this report demand for low-income rental housing is defined as household income of less than 80% of Area Median Household Income or roughly $50,000.

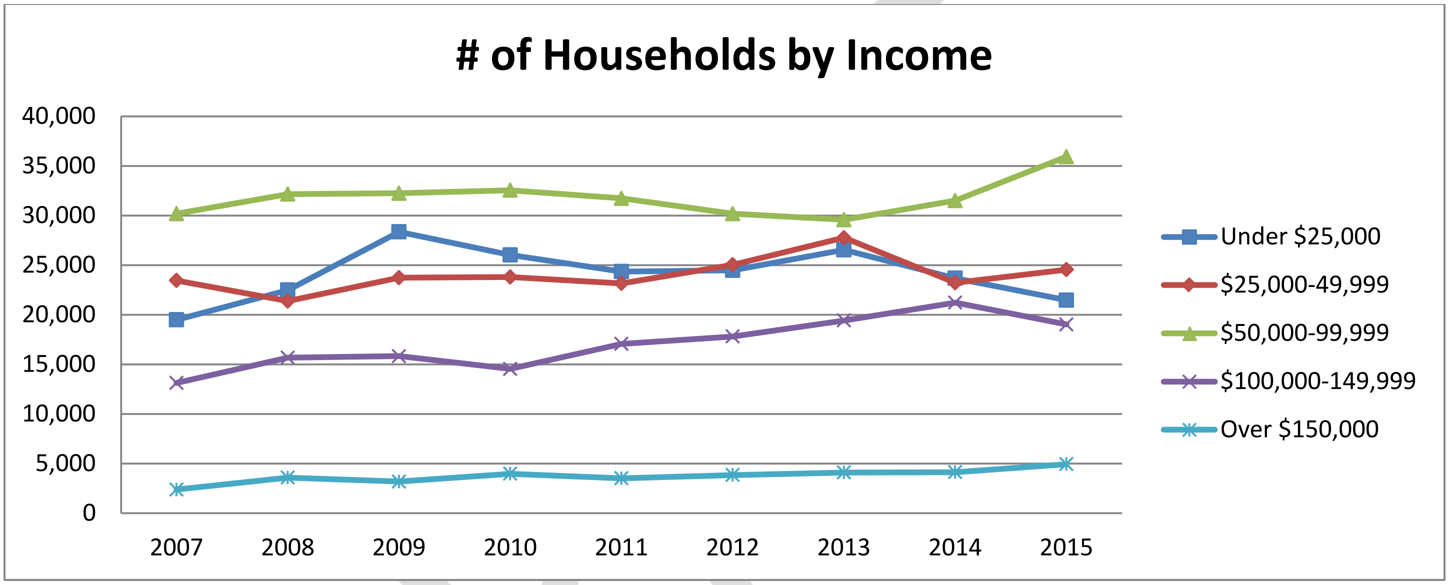
The most common professions with average incomes in this range include:

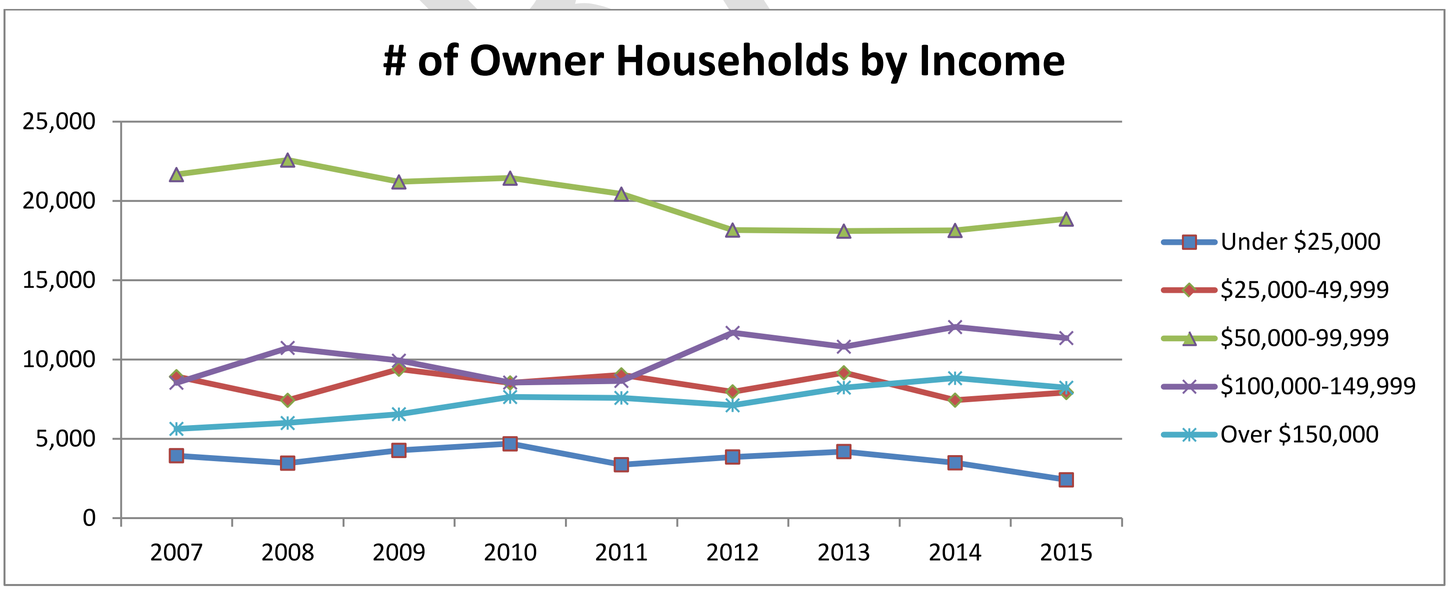
- Customer Service Representative - $33,940
- Cashier - $19,830
- Janitor - $25,800
- Laborer - $26,730
- Waiter/Waitress - $20,600
- Administrative Assistant - $35,340

Demand can be reduced by raising incomes or the number of wage earners per household. For example, raising income from minimum wage of $7.25 to $12.00 would bring a two-income household from 50% of median area household income to 80% of median area household income and increase the amount of rent they can afford to pay from $750 per month to $1,250 per month.

Since 2007, the City of Madison has added approximately:

- 17,000 new households
    - **2,000 households with incomes below $25,000 (~40% of Median Household Income)**
    - **1,100 household with incomes below $50,000 (~80% of Median Household Income)**
    - 5,700 households with incomes below $100,000 (~160% of Median Household Income)
    - 4,300 households with incomes below $150,000 (~240% of Median Household Income)
    - 4,100 households with incomes above $150,000 (~240% of Median Household Income)





Source: 1-Year American Community Survey

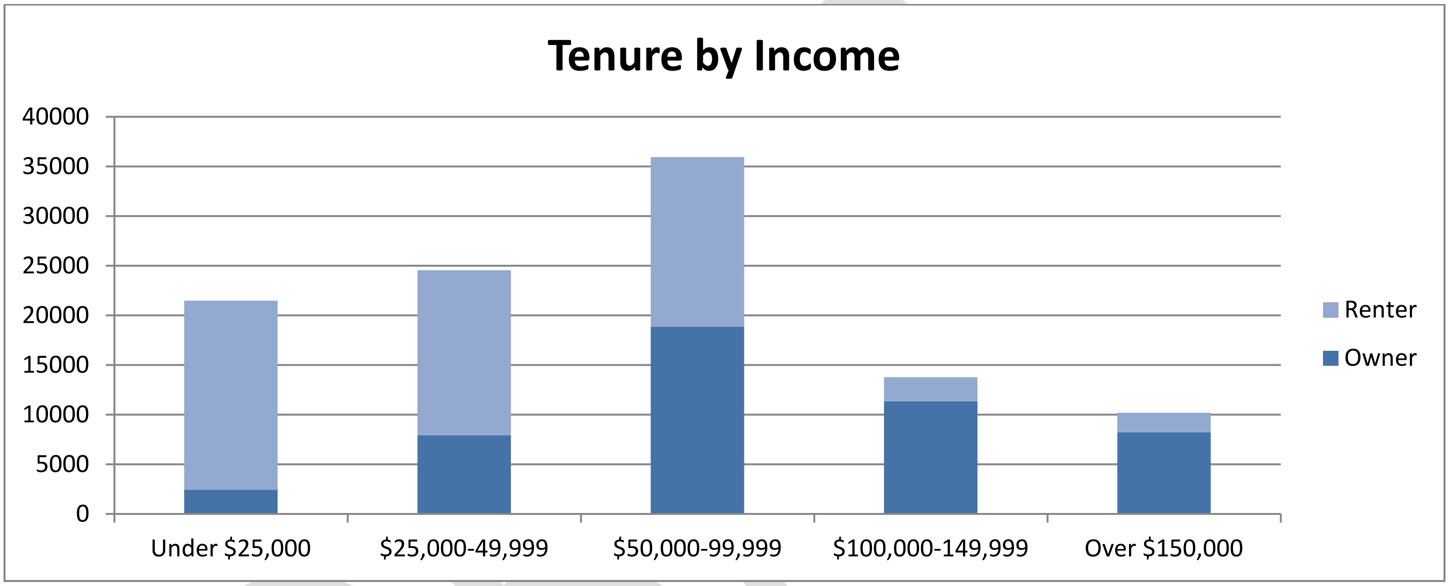
The income pattern of owner households in the City of Madison shows that all growth in homeownership comes from owners with high incomes (over 120% of Area Median Income) and there are fewer low-income homeowners now than in 2007.

Since 2007, the City of Madison has added approximately:

- 200 new owner households
    - **-1,500 households with incomes below $20,000 (~30% of Area Median Household Income)**
    - **-1,000 households with incomes below $50,000 (~80% of Area Median Household Income)**
    - -2,800 households with incomes below $100,000 (~160% of Area Median Household Income)
    - 2,800 households with incomes below $150,000 (~240% of Area Median Household Income)
    - 2,600 households with incomes above $150,000 (~240% of Area Median Household Income)

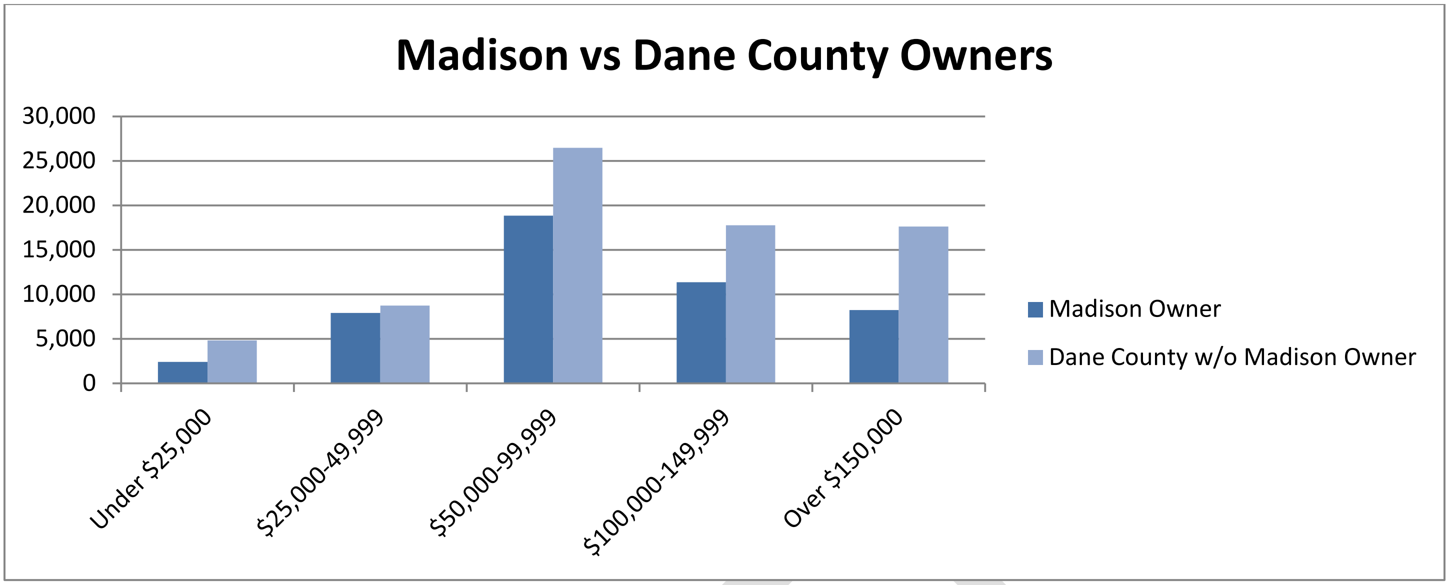
Since 2007, only virtually all net new households became were renters rather than owners.

A snapshot of the Madison market shows that **the majority of low-income households rent rather than own their housing.** As a result**, only 20% of owners are low to moderate income households**.



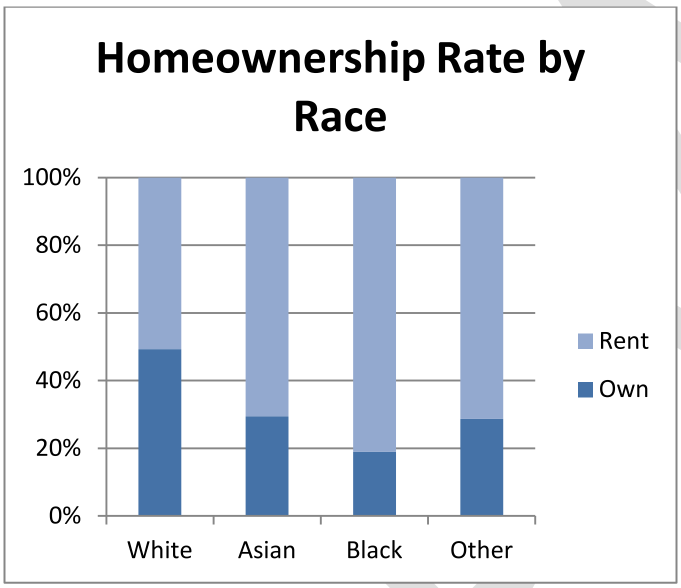
Source: 2015 1-year American Community Survey

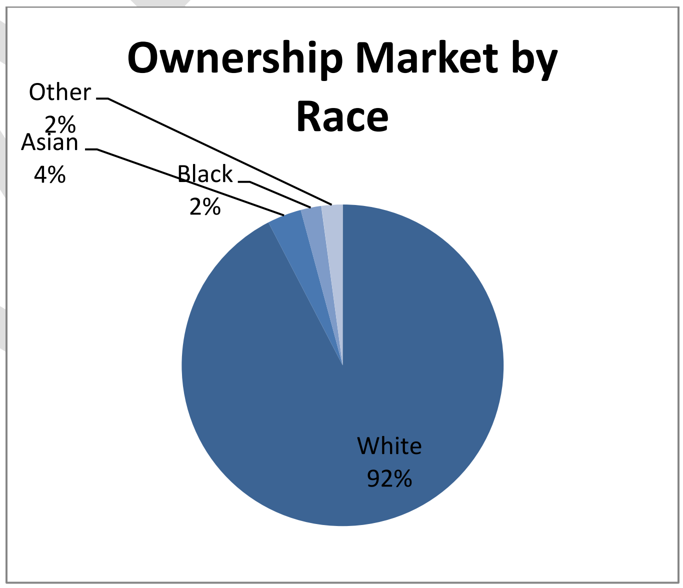
	Madison	Dane County w/o Madison
Under $25,000	5%	6%
$25,000-49,999	16%	12%
$50,000-99,999	39%	35%
$100,000-149,999	23%	24%
Over $150,000	17%	23%



Source: 2015 1-Year American Community Survey

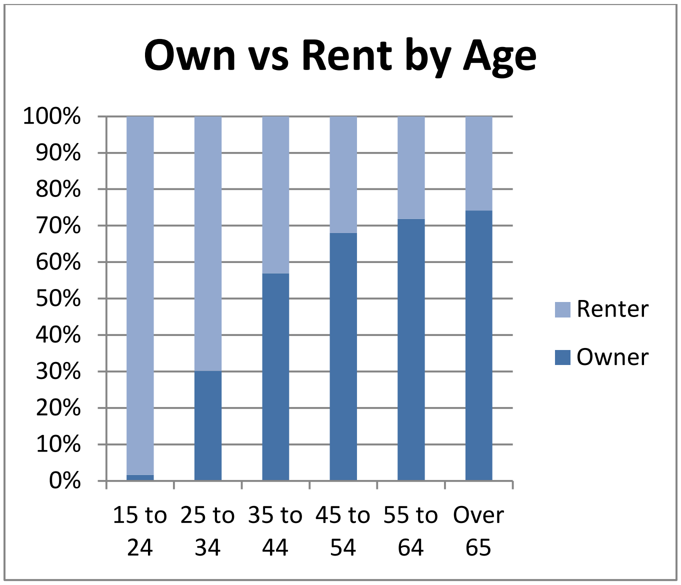
In addition to income factors, homeownership rates vary greatly based on race, with higher ownership rates among white households. **The ownership market is overwhelmingly occupied by white households.**

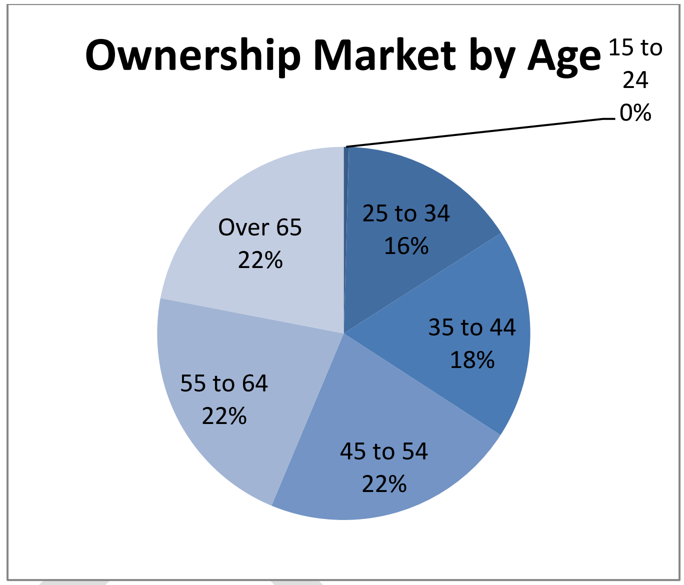




Source: 2010 Census SF1

Homeownership rates vary greatly based on age, with ownership rates increasing with the age of the homeowner.





Source: 2010-2012 3-Year American Community Survey

TRENDS

- Madison's population **growth is fueled by households on the bottom (<$25,000) and top (>$75,000) of the income spectrum**
- **Madison's ownership market is currently dominated by households at the top of the income spectrum**
- **Low-income households are shrinking as a percentage and absolute number in the ownership market**
- **Young people and people of color are very unlikely to be homeowners in the Madison market**

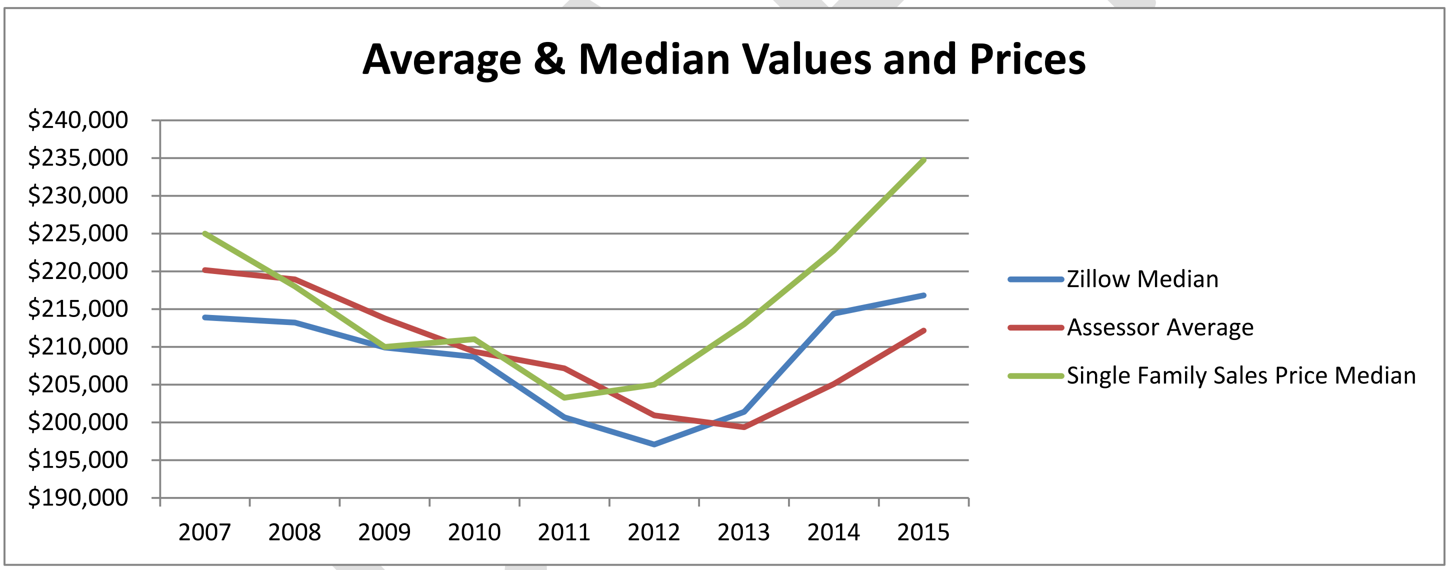
SUPPLY – LOW-INCOME OWNERSHIP

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 a larger portion of the market is affordable to low-income households**.

HOUSING COST

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)

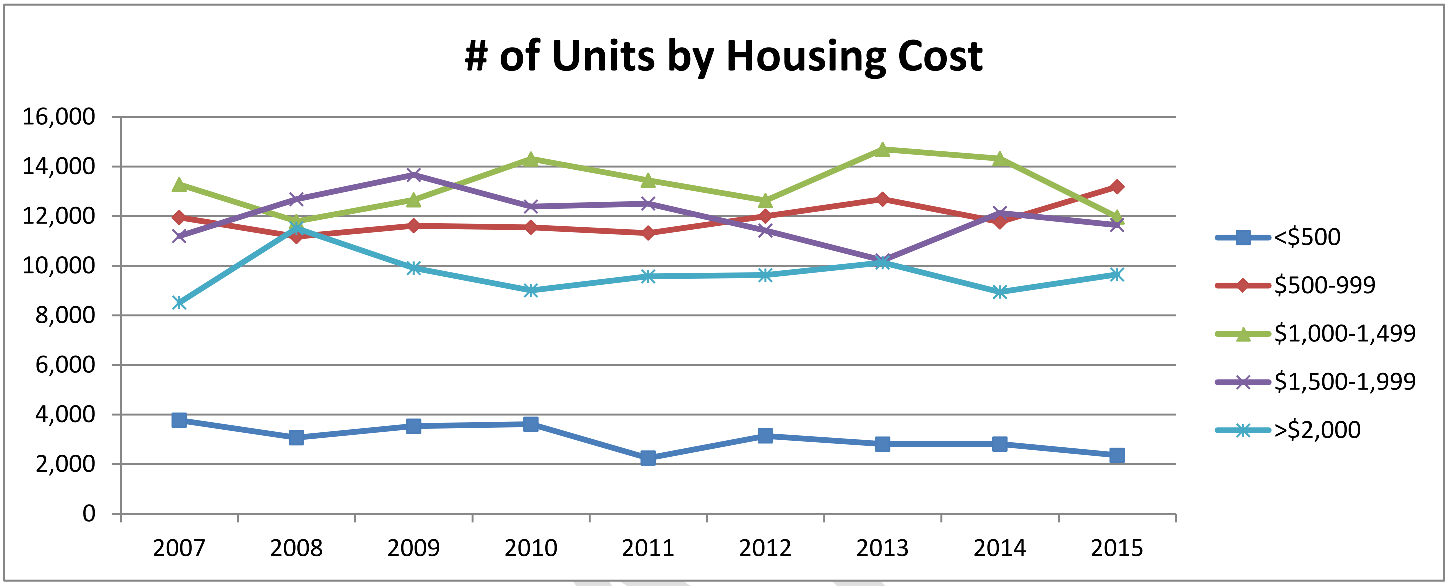
The 2007 recession was in part caused by the bursting of a credit driven housing bubble. The result was a nationwide drop in house values. In response, the Federal Reserve dropped interest rates effectively to zero to stimulate a recovery. **The combination of reduced home prices and historically low 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.



The median prices (50th percentile as computed by Zillow, a data aggregator) and average home values (total assessed value divided by number of units as computed by the Assessor's Office) as well as sale price in the City of Madison for single family homes 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 assessments have returned to 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 2015, the typical home only required an annual income of $51,000 (80% of Area Median Household Income)**. (*Assumes a 20% downpayment, low amounts of non-housing debt, and 30% of income spent on housing costs)

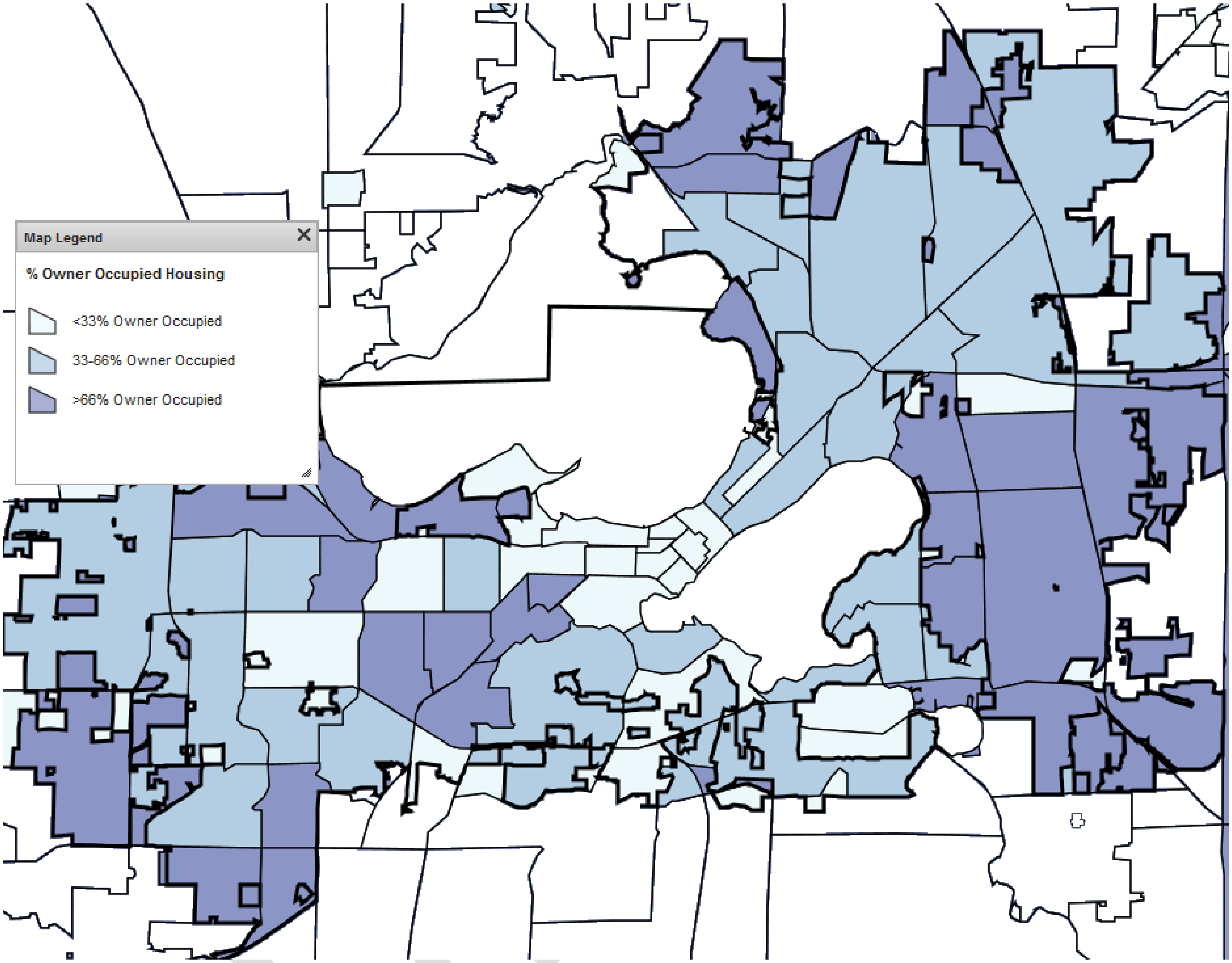


Source: 1-Year American Community Survey

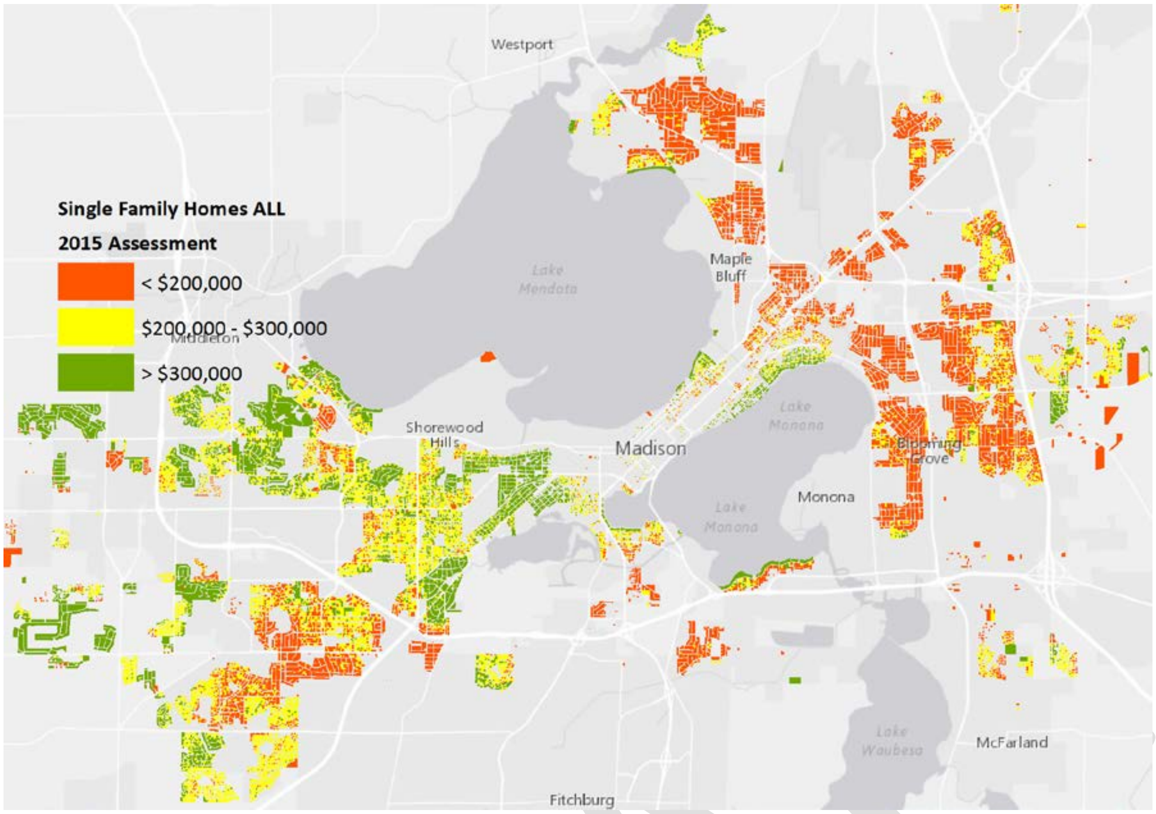
However, **according to Census data households did not realize a net reduction in housing costs**. Instead, the Census reported no net increase in low cost units and relatively steady monthly housing costs. This could be because homeowners stayed in their existing home negating the drop in home value, 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.

LOCATION

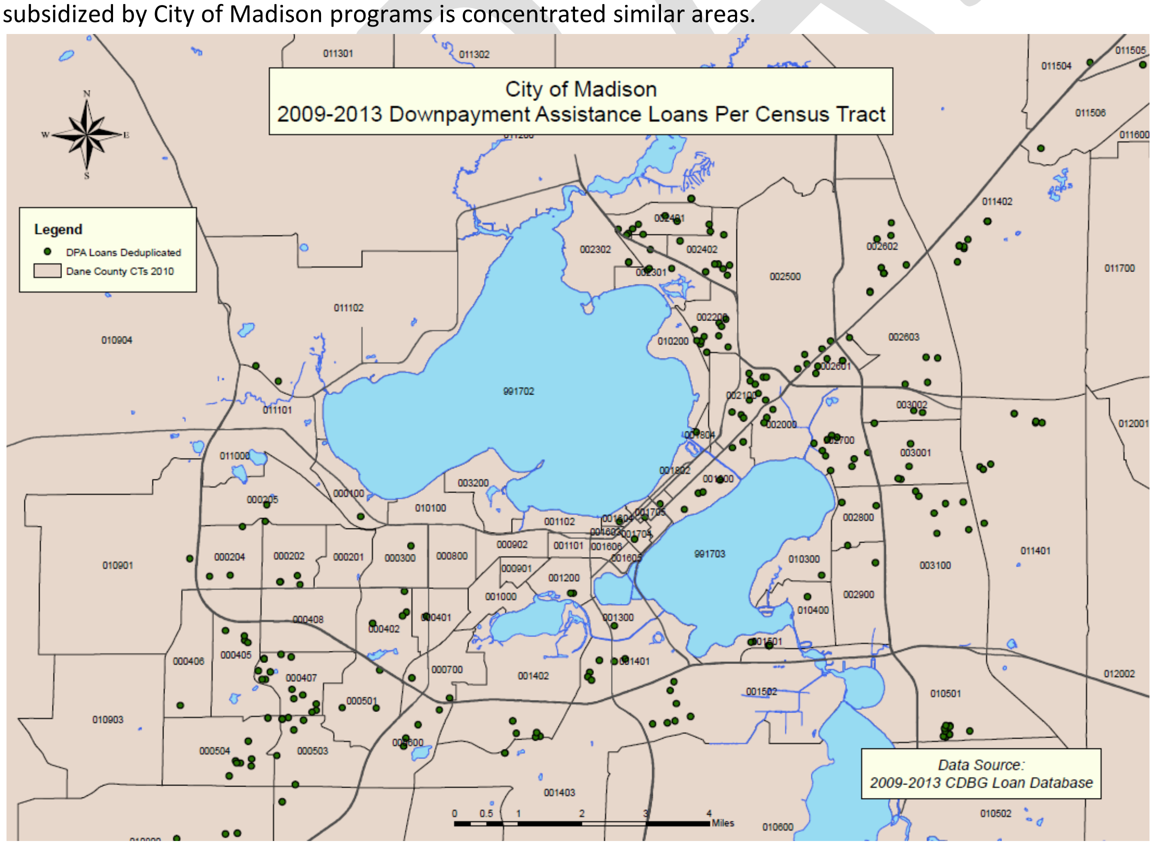
In the City of Madison, owner occupied housing is concentrated in the near west, east, far north, and southwest sides of the city.



Source: HUD CPD Maps

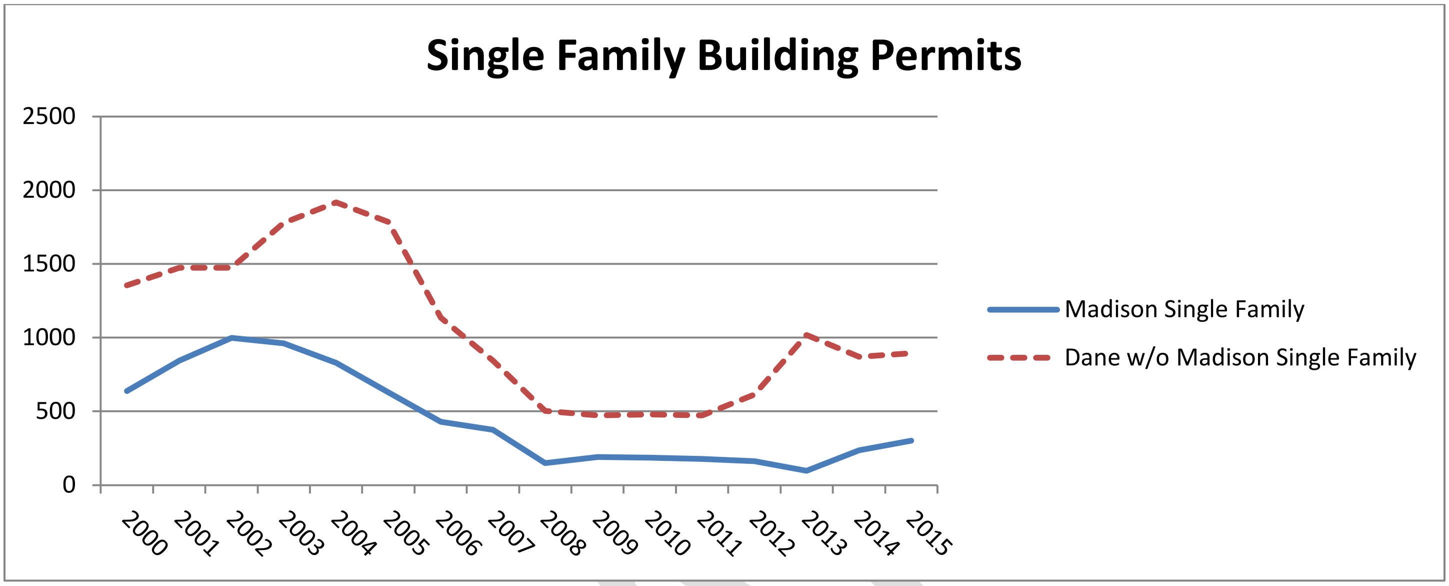


Owner occupied housing valued at the lower third of the market, and therefore more affordable to low income buyers, is concentrated on Madison's north, south, southwest, and east sides. As a result, low-income owner occupied housing that has been subsidized by City of Madison programs is concentrated similar areas.



NEW SUPPLY

The market has responded to the forces of reduced prices and declining demand by dramatically scaling back the volume of new construction of single-family homes. Madison saw a much less severe decline than Dane County because permits began to taper off in Madison in 2003, while they continued to rise even faster in Dane County for a few more years before steeply dropping off. Construction has only recently begun to rebound.



Source: Census Building Permits Survey

FINANCE/FUNDING – LOW-INCOME OWNERSHIP

NATIONAL

The majority of funding for low-income ownership is in the form of traditional residential mortgages and owner equity, while the majority of subsidy comes from the US tax code and the US Department of Housing and Urban Development (HUD).

CONSTRUCTION/ACQUISITION

Virtually all owner occupied housing in the United States is subsidized by the federal government through the tax code and mortgage markets. Low-income ownership is more directly supported through a variety of subsidies and regulations.

- Fannie Mae
  - Offers securitized debt products to the single family home market
  - Sets the market standard for mortgage products at 30 year fixed loans with no prepayment penalty, which might not exist without government support
  - Goal of reducing interest rates and increasing housing supply through providing stability and liquidity to the single family loan market
- FHA Loans
  - The Federal Housing Administration (FHA) provides mortgage insurance on loans made by FHA-approved lenders
  - Allows for lower down payments without a mortgage insurance premium

- Down Payment Plus - Federal Home Loan Bank AHP
  - Funded by Federal Home Loan Bank profits
  - Typically $8,000 per unit or 25% of the first mortgage
  - Locally administered by the Wisconsin Partnership for Housing Development
  - 20% is forgiven each year for 5 years
  - Requires applicants to have household income below 80% of area median income
- Habitat for Humanity
  - Global non-profit low-income housing developer
  - Prospective homeowners are screened for eligibility and are expected to put in 500 hours of sweat equity as a down payment
  - The mortgage has no interest payments and mortgage payments go to a local "Fund for Humanity" to fund future construction
  - The mortgage agreement gives Habitat for Humanity the right of first refusal. Until the mortgage is paid in full, a Habitat home has no equity and can only be sold back to Habitat for Humanity
  - If a homeowner decides to sell their home during the period of their mortgage, the affiliate will buy it back and return only the money that the homeowner has paid into the mortgage, not the current market value of the home
- Community Reinvestment Act
  - Federal law designed to encourage commercial banks to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods and to reduce discriminatory credit practices against low-income neighborhood (redlining)
  - Mandates that all banking institutions that receive Federal Deposit Insurance Corporation (FDIC) insurance be evaluated by federal banking agencies to determine if the bank offers credit in all communities in which they are chartered to do business. It does not require institutions to make high-risk loans that may bring losses to the institution
  - The Obama administration has increased scrutiny of the provision of credit to poor and African American neighborhoods. Lenders have come under investigation for not operating or stopping service there in such areas

PAYMENT SUBSIDY

Federal programs can also directly subsidize units by providing subsidy for a homeowner's monthly or annual housing costs.

- Mortgage Interest Deduction
  - The federal tax code allows mortgage interest to be deducted from taxable income for the first $1 million of debt used to construct, acquire, or improve a residence
  - Because it is a tax deduction, it is of limited value to households with low (taxable) income to deduct against
  - The homeowner must elect to itemize their deductions, limiting its usefulness to low income households with few deductions
- Housing Choice Ownership Vouchers
  - Serves low-income families, the elderly, and persons with disabilities
  - Participants can use their Housing Choice Voucher to make payments on their mortgage
  - Tenants pay 30% of their income, the voucher covers the remaining PITI up to the area payment standard
  - HUD funded
- Mortgage Credit Certificate
  - Tax credit for first-time homebuyers
  - Reduces a borrowers federal income taxes over the term of the mortgage
  - Administered by WHEDA

LOCAL SOURCES

- City of Madison Homeownership Programs
  - Home-Buy the American Dream
    - Down Payment Assistance
    - Deferred loan
    - Up to $10,000
    - Averages 55 loans/year
    - Income restricted to 80% of AMI
    - Federal HOME funds from HUD, State and local funds
  - Deferred Payment Loan (DPL)
    - Rehabilitation Assistance
    - Deferred loan
    - Up to $19,000 with an additional $12,000 for lead remediation or $5,000 for energy efficiency
    - Averages 20 loans/year
    - Income restricted to 80% AMI
    - Federal HOME and CDBG funds from HUD
  - Homeownership Contracts
    - Down Payment Assistance
    - Deferred loan
    - Up to $54,000
    - Delivered through partner non-profits
    - Averages 20 loans/year
    - Income restricted to 80% AMI
    - Federal HOME and CDBG funds from HUD
  - Rehabilitation Contracts
    - Rehabilitation Assistance
    - Loans, grants, and contracts
    - Delivered through partner non-profits
    - Averages 200 projects/year
    - Income restricted to 80% AMI
    - Federal HOME and CDBG funds from HUD
  - Home Buyer's Assistance
    - Combined Down Payment and Rehabilitation Assistance
    - Deferred or installment loan
    - Up to $40,000 with an additional $10,000/unit
    - Maximum of 8 units
    - Averages 6 loans/year
    - Income restricted to $100,100
    - City funds

- Small Cap TIF
    - Combined Down Payment and Rehabilitation Assistance
    - Forgivable loan
    - Up to $60,000 with an addition $10,000/ unit
    - Maximum of 8 units
    - Averages 2 loans/year
    - Geographically restricted to relevant TID
    - Not income restricted
    - TIF funds
- Installment Loan
    - Rehabilitation Assistance
    - Installment loan
    - Up to $19,000 with an additional $3,000 for each housing unit
    - Maximum of 8 units
    - Averages 11 loans/year
    - Income restricted to $129,000
    - City funds

CHALLENGES – LOW-INCOME OWNERSHIP

Despite recent drops in home prices and historically low interest rates, the majority of the supply of owner occupied housing in Madison is not affordable to low income households and as a result low income owners only make up a modest fraction of the market. **Furthermore, those low-income households that can afford the monthly payment required for homeownership still have to overcome requirements on down payments and their existing debt obligations to qualify for a mortgage. Those low-income households that are homeowners have a very high instance of being housing cost burdened**.

FINANCING

LENDING STANDARDS

As a result of the housing led recession and foreclosure crisis, the newly formed Consumer Financial Protection Bureau (CFPB) created a new set of banking rules designed to make safer loans by prohibiting or limiting certain high-risk products and features with a goal of reducing a borrower's risk of being housing cost burdened or facing foreclosure. The primary rules define a "qualified mortgage" (QM). Lenders that make QM loans will receive some degree of legal protection against borrower lawsuit. Key features include:

- **No Excessive Upfront Points and Fees**
- **No Toxic Loan Features**
    - Eliminate Interest-only loans
        - These are mortgage products where the borrower defers the repayment of principal and pays only the interest, usually for a certain period of time
    - Eliminate negative-amortization loans
        - These are loans where the principal amount borrowed increases over time, even while monthly payments are being made. This often happens as the result of the interest-only payments mentioned above.
    - No terms beyond 30 years
        - In order to meet the definition of a qualified mortgage, the loan must have a repayment term of 30 years or less

- Eliminate balloon loans
    - In most cases, balloon loans will be prohibited by the QM rules, a balloon mortgage is one that has a larger-than-normal payment at the end of the repayment term
- **Limits on Debt-to-Income Ratios**
  - In general, the qualified mortgage will be granted to borrowers with debt-to-income / DTI ratios no higher than 43%. As the name implies, the debt-to-income ratio compares the amount of money a person earns each month (gross monthly income) to the amount he or she spends on recurring debt obligations. This aspect of the QM rule is intended to prevent consumers from taking on mortgage loans they cannot realistically afford.
  - A temporary (after January 2014) exception will be granted for loans that are eligible to be sold or insured by Freddie Mac, Fannie Mae, FHA, or the VA.

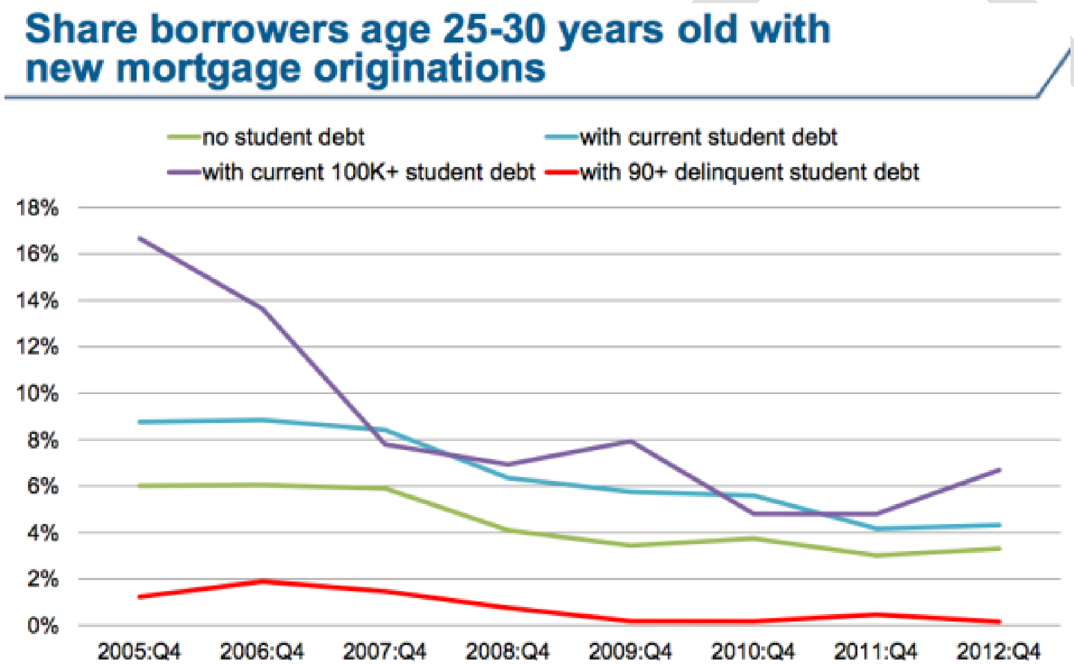
While these **rules are intended to reduce the risk of housing cost burden and foreclosure, the other result of these rules is that QM mortgages require borrower to have larger downpayments and higher incomes** to get a loan than before.

The alternative for borrowers is to obtain a loan that is kept in-house by the lender (rather than being sold on the secondary market after issuance). These loan products often have higher interest rate and income restrictions in exchange for reduced downpayment requirements.

DEBT BURDEN

Related to stricter underwriting criteria regarding debt to income ratios is the fact that many household still have high debt loads. Since the beginning of the 2007 recession, American households have undergone a significant deleveraging resulting in a 30-year low in debt to income ratios. However, this deleveraging has not been universal. Student loan debt in particular has continued to rise. In Wisconsin, the average college student graduates with over $28,000 in student loans. (National Center for Education Statistics)

It is not clear however if this rise in student debt has significantly reduced borrowers' ability to purchase a home, because despite a drop in mortgage originations, **25-30 year olds with significant student debt burdens are more likely to purchase a home than their peers without student debt. However, those with delinquent student debt are extremely unlikely to obtain a mortgage.** When compared with other types of consumer credit, student debt has the highest share of balances 90 or more days delinquent at 11 percent. (Federal Reserve Bank of New York) According to the Brookings Institute, while the level of education debt has risen over all among young households (ages 20 to 40), the monthly burden of student loan repayment has not increased greatly over the last two decades. From 1988 to 2010, the typical household spent 3 to 4 percent of its monthly income on student loan payments. The monthly burden has remained steady because of offsetting increases in income, lower interest rates, and longer repayment terms. [1]



Source: Federal Reserve Bank of New York

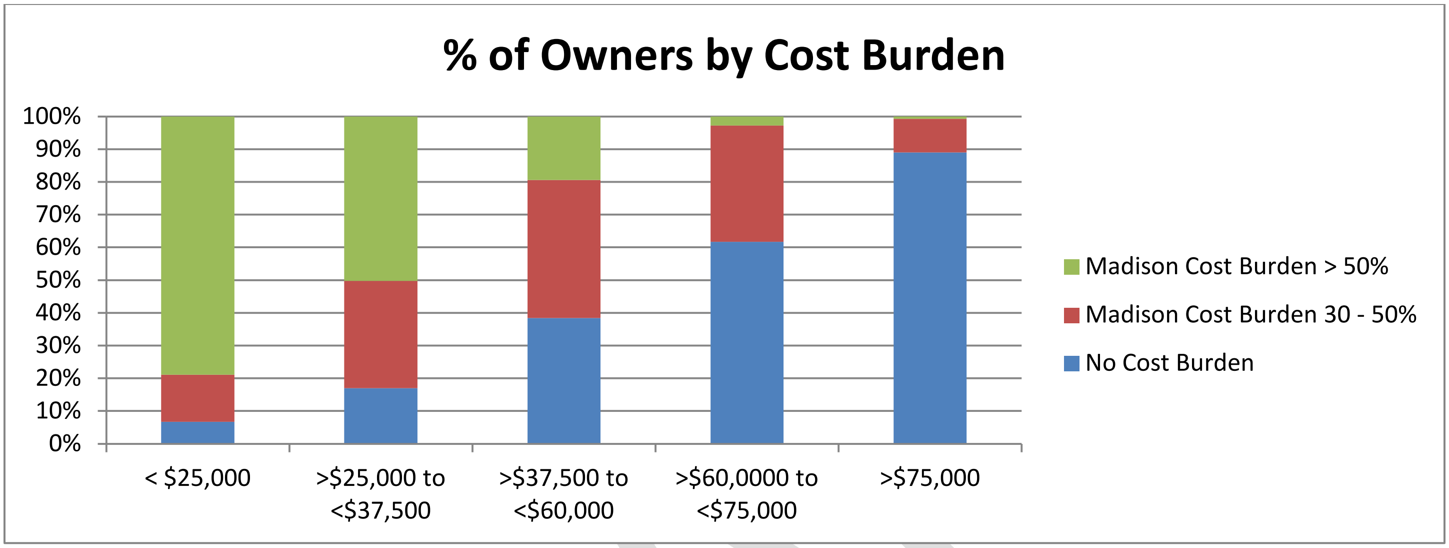
The report does however point out that borrowers from low-income households or borrowers attending colleges with lower completion rates are the most likely to seek private rather than federal student loans which carry higher interest rates and less generous repayment terms. **The authors suggest that borrowers who do not graduate may be particularly high risk of suffering from their student debt burden.**

[1] Beth Aker and Matthew Chingos, *Is a Student Loan Crisis on the Horizon*, Brookings Institute, 2014

HOUSING COST BURDEN

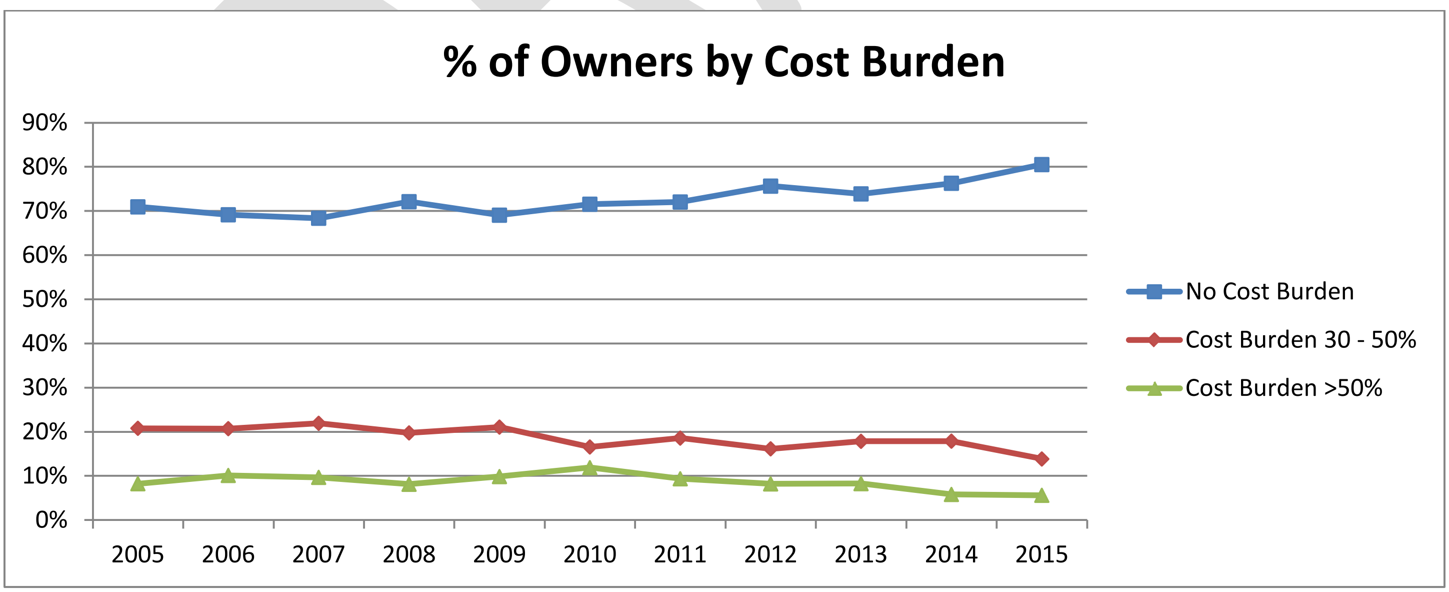
The percentage of cost burdened owners has held steady since 2005.

- About 30% of homeowners pay more than 30% of household income in housing costs (cost burdened)
- **About 70% of low-income homeowners pay more than 30% of household income in housing costs (cost burdened)**
- **About 80% of homeowners with income of less than $25,000 (40% of Area Median Household Income) pay more than 50% of household income in housing costs (severely cost burdened)**

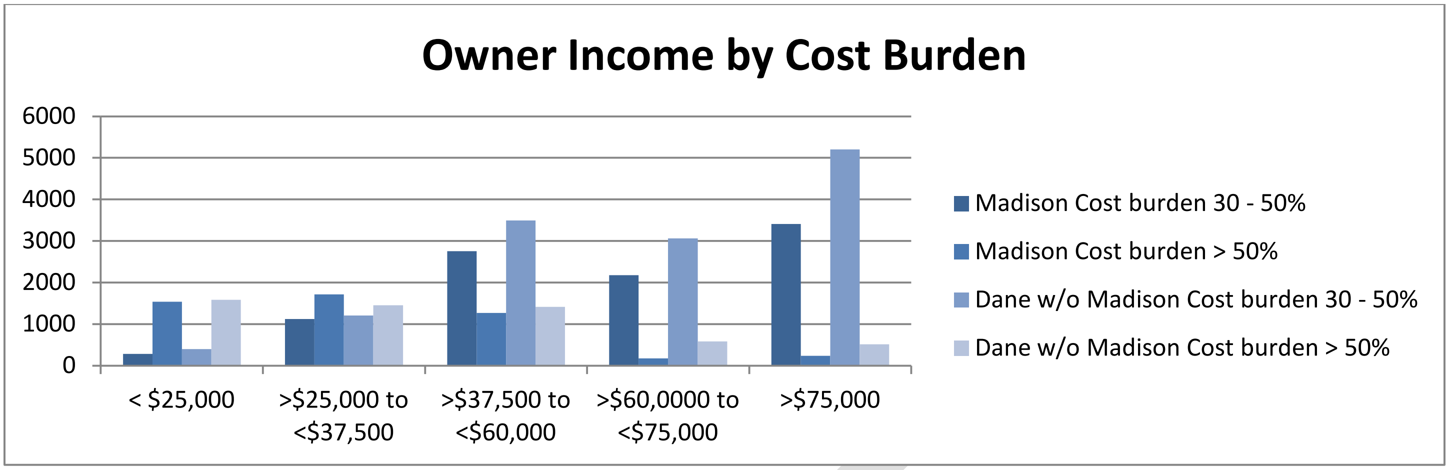


Source: 2006-2010 CHAS – HUD

The percentage of homeowners that are housing cost burdened has been declining for the last five years. The slight decrease in recent years could possibly be attributed to increased affordability from lower prices and interest rates, the tighter lending standards, or the general shift in ownership towards higher income households.



Source: 1 Year American Community Survey



Source: 2006-2010 CHAS - HUD

Dane County has a similar but larger issue of homeowner cost burden, particularly for homeowners making over $75,000.

SOLUTIONS – LOW-INCOME OWNERSHIP

LOCAL

- City of Madison Community Development Authority
  - The CDA is currently working to add 25 new homes on Allied Drive with 1/3 affordable to households at 50% of AMI, 1/3 at 80%, and 1/3 at market rates

NATIONAL MODELS

Communities across the nation have applied different policies, funding models, and processes to increase the supply of low-income owner occupied housing. Some models are less effective, would not apply well to the Madison market, or may not be permitted under current state law.

HOMEBUYER EDUCATION

By providing good information and guidance, housing counseling combats the unfamiliarity with home buying and home owning processes that make many low-income and minority borrowers vulnerable to predatory lending practices and unprepared for homeownership.

- HUD-Approved Counseling
  - HUD-Approved counseling consists of a one day class covering the entire process of homeownership, including the decision to purchase a home, the selection and purchase of a home, issues arising during or affecting the period of ownership of a home, and the sale or other disposition of a home
  - The Dodd-Frank Wall Street Reform and Consumer Protection Act requires lenders to distribute a list of HUD-approved counseling providers to consumers
  - Homebuyers receiving City of Madison downpayment assistance are required to participate in HUD-approved homebuyer education
- Comprehensive Homebuyer Education
  - Long-term credit counseling and financial education over the course of several months focusing on repairing credit as well as preparing for homeownership
  - Offered through Greenpath as part of the CDA's Mosaic Ridge housing development

INCREASE SUPPLY

To address the needs of low-income homebuyers, most communities rely on programs and policies that focus on increasing the supply of housing that is affordable for them. Most common is to focus on making existing homes more affordable by reducing monthly housing costs through subsidizing loans, down payments, or improvements.

- Down Payment Assistance
  - Communities can create programs to subsidize all or part of the down payment necessary for a household to qualify for a mortgage
  - Often funded by federal CDBG, HOME, or local funds
  - Often awarded as a second mortgage that is deferred or gradually forgiven
  - Ex. City of Madison Home-Buy the American Dream, Federal Home Loan Bank Down Payment Plus
- Individual Development Accounts
  - Individual Development Accounts (IDAs) are matched savings accounts that help people with modest means to save towards the purchase of a lifelong asset, such as a home
  - Can be funded with local or federal matching funds (or both)
  - Often paired with long-term financial education
- Subsidized Mortgages
  - Local governments can offer mortgage products tailored to low-income populations by offering lower interest rates and fees or relaxed underwriting criteria
  - The Wisconsin Housing and Economic Development Agency (WHEDA) offers low interest fixed rate mortgages through partner lenders for low income homebuyers
- Subsidized Acquisition/Rehab Loans
  - Combination Acquisition/Rehab loans allow buyers to use part of the funds for downpayment with remainder paying for renovations
  - Has the advantage of allowing homebuyers to purchase lower priced homes in need of improvement
  - Ex. City of Madison Homebuyers Assistance (HBA), Small Cap TIF
- Subsidized Rehabilitation Loans
  - Communities can create programs to subsidize all or part of the cost necessary for a household to rehabilitate a home
  - Focused on existing low-income homeowners with limited capital or access to financing
  - Programs typically focus on improvements to achieve building code compliance and energy efficiency
  - Often funded by federal CDBG, HOME, or local funds
  - Often awarded as a second mortgage that is deferred, gradually forgiven, or has a reduced interest rate
  - Ex. City of Madison Deferred Payment Loan, Installment Loan, Green Madison
- Lease To Own
  - A type of legally documented transaction under which property is leased in exchange for a weekly or monthly payment, with the option to purchase at a predetermined price some point during the agreement
    - If the tenant is unable to exercise the option to buy, the owner is then free to rent or sell the property to another buyer, or to restructure the contract
  - Can be structured so a portion of the monthly rent paid during the lease period is counted towards the down payment on the property
  - Can be combined with homebuyer education and other subsidy to increase affordability
  - Ex. Urban League's Home Ownership Program funded by the City of Madison
- Land Trust
  - An agreement whereby one party agrees to hold ownership of a piece of real property for the benefit of another party
  - Can be used to create a program where an entity owns the land (trustee) and rents it to a household that owns the improvement that sits on the land (house)
  - Provides affordability by separating the cost of land (held by a trustee) from the cost of the improvements (house)
  - Ex. Madison Area Land Trust Homeownership Program funded by the City of Madison retains ownership of the underlying land and sells the improvement (house) to qualified homebuyers

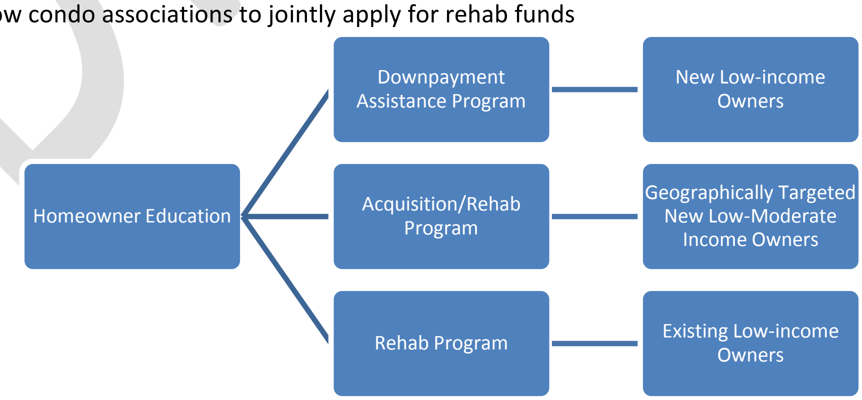
Supply can also be increased by creating units that are lower cost or specifically targeted at low-income households, which can be done through:

- Construction Subsidy
    - This strategy involves making Affordable Housing Trust Funds CDBG, HOME, TIF, and other local funds available to assist developers in the construction of units for sale to low-income buyers.
    - Income restrictions can be enforced by maintaining a mortgage on the property and/or through a land use restriction.
- Inclusionary Zoning
    - Require a given share of units in new construction developments to be affordable to people with low to moderate incomes
    - A portion of the City of Madison's Inclusionary Zoning Ordinance was struck down by the courts in 2006 and a portion was repealed years later.
- Condominiums
    - A form of property ownership where a specified part of a piece of real estate is individually owned. Individual home ownership within a condominium is construed as ownership of only the air space confining the boundaries of the home. Use of and access to common facilities such as hallways, heating system, elevators, and exterior areas are executed under legal rights associated with the individual ownership. These rights are controlled by the association of owners.
    - Individuals purchase units in a process similar to single-family homes
        - Recent rule changes at FHA have made financing more difficult
    - Provides affordability through shared use of common facilities and shared activities to reduce housing and living costs
    - Can be in the form of a single multifamily building or clustered single-family buildings
    - Can be newly constructed or converted from existing rental properties
    - Common area maintenance is paid for by the association of owners which collects dues from individual owners
        - Dues can be large, negating any potential savings from sharing common areas
        - Can be difficult to obtain debt financing for common area repairs if a condo association is underperforming or has dues delinquencies
- Co-housing
    - Multifamily housing composed of private homes supplemented by shared facilities
    - Can be in the form of a single multifamily building or clustered single-family buildings
    - Provides affordability through shared use of common facilities and shared activities to reduce housing and living costs
        - Common facilities may include a kitchen, dining room, laundry, childcare facilities, offices, internet access, guest rooms, and recreational features
        - Shared activities may include cooking, dining, child care, gardening, and governance of the community
    - Can take three legal forms of real estate ownership:
        - Individually titled houses with common areas owned by a homeowner association, condominiums, or a housing cooperative
        - Condo ownership is most common
- Micro Housing Units
    - Very small houses or condos, often 100-300 square feet, designed to house single adults or small families
    - The small size allows developers to build units in markets with high housing costs at a lower cost than traditional homes
    - Difficult to build as single family homes in Madison because of the need to meet the requirements of the building code related to energy efficiency, electrical, HVAC, and plumbing (not minimum square footage requirements)

RECOMMENDATIONS – LOW-INCOME OWNERSHIP

The overarching goal for the low-income ownership market is to **increase the rate of success for low-income households that pursue homeownership**. The first priority in achieving this goal is to ensure that these low-income homebuyers are ready for homeownership through enhanced homebuyer education. For low-income households that then choose to become homeowners, the goal must be to **make ownership more affordable by reducing the size of their mortgage and giving them access to funds to maintain their home to make it safe and energy efficient**.

1. For households interested in homeownership focus first on homebuyer education. The best way to increase a household's chance of successful homeownership is to prepare them to budget for the unexpected costs and work that homeownership requires and to correct problems in their credit history to improve their financial standing.
    a. **Fund and pair Individual Development Accounts with City matching funds to comprehensive homebuyer education**
        i. Incentivizes households to participate in long-term education programs
        ii. Helps build a nest egg for downpayment or future home repairs
    b. Enhance partnerships with the Homebuyer Roundtable, Neighborhood Resource Teams, and hold homebuyer resource fairs in underserved neighborhoods to push homebuyer education to populations of color.
2. Simplify the City's ownership program structure to three tracks with a single intake stream
    a. **Use downpayment assistance programs as a tool to reduce mortgage size to increase affordability**
        i. Consolidate existing downpayment programs (ADDI, Home-Buy) *
            1. The goal of these programs is to provide stable housing for individual households
            2. Reduce future housing cost burden and risk of foreclosure
            3. Target low-income households with high likelihood of successful homeownership or particular housing need (disability, large family size)
    b. **Use acquisition/rehab programs as a tool to stabilize and revitalize neighborhoods**
        i. Consolidate existing acquisition rehab programs (HBA, Small-Cap TIF) *
            1. Should be geographically targeted to neighborhoods with aging/blighted housing stock or land use issues (single-family homes used as multifamily rental, high turnover)
            2. Allow moderate income households to participate (80-120% of AMI) to mix area incomes
    c. **Use rehab programs as a tool to stabilize existing low-income homeowners in their housing**
        i. Consolidate existing rehab programs (DPL, Installment, Green Madison) *
            1. Target projects that makes houses safer and less expensive to operate
            2. Goal of reducing housing cost burden and risk of foreclosure for existing owners
            3. Allow condo associations to jointly apply for rehab funds



3. Expand revamped ownership programs
    a. Rebrand and market programs through advertising and outreach *
    b. Educate alders on programs to serve as a toolkit for improving their districts
    c. Dedicate a larger portion of City of Madison funds to subsidize low-income ownership programs

*Completed or in-process

	1a Fund and pair Individual Development Accounts to comprehensive education	1b Enhance Education Partnerships	2a Consolidate downpayment programs	2b Consolidate acquisitions programs	2c Consolidate rehab programs	3a Rebrand and market programs through advertising and outreach	3b Educate alders on programs	3c Increase funding to low-income ownership
CDA			X	X	X	X		
Common Council	X						X	X
Community Development	X	X	X	X	X	X	X	
Economic Development	X	X	X	X	X	X	X	
Mayor's Office	X							X
PCED							X	

MARKET RATE OWNERSHIP

MARKET RATE OWNERSHIP - PRIORITIES

For market rate ownership housing, the primary goal is to ensure that there is sufficient quantity and diversity of supply to meet the demands of a growing population and allow a new generation of homebuyers to enter our market who have demonstrated a strong desire for housing in a location proximate to amenities and convenient transportation. When possible, efforts to provide this housing should strive to meet broader goals of strengthening neighborhoods by mixing incomes, improving aging housing stock, and adding neighborhood amenities. To achieve these goals, this report identifies two main priorities:

6. Create programs to make our existing reasonably priced neighborhoods more attractive to first-time and middle income homebuyers
    a. Identify and create a designation for Opportunity Neighborhoods that are based on factors such as:
        i. Aging housing stock
        ii. Average property value below the City average
        iii. Flat or declining property values
        iv. Located outside of the city center
        v. Longer than average days on market
    b. Encourage the development of mixed-use nodes along transit corridors in Opportunity Neighborhoods to bring amenities (restaurants, retail, civic uses) to the neighborhood to increase its desirability
        i. Create new TIF districts to support development
        ii. May require rezoning and demolition of existing single family homes
        iii. Create a pilot neighborhood program to test strategies
    c. Create a "Residential Facade Grant Program" targeting houses on high traffic residential streets in Opportunity Neighborhoods based on the City's successful Business Façade Grant Program
        i. Identify high priority corridors
        ii. Fund small matching grants or loans repaid by special assessment (~$5,000) to support exterior upgrades
        iii. Potentially funded by TIF
    d. Modify existing homeownership loan programs to drive first-time and middle income homebuyers into Opportunity Neighborhoods
        i. Increase loan limits and/or reduce interest rates for homes located within Opportunity Neighborhoods
        ii. Raise income requirements to 120% of AMI within Opportunity Neighborhoods
        iii. Rebrand and market programs through advertising and outreach
7. Support the creation of new owner occupied housing developments in urban, walkable, and amenity rich neighborhoods through middle scale/density development priced between $200,000 and $300,000
    a. Remove regulatory barriers in zoning, demolition, and subdivision rules restricting middle scale/density housing types (condominiums, town houses, small lots)
        i. Create staff team to identify code and process challenges
        ii. Research national models and best practices
        iii. Create a set of recommended code and process solutions
    b. Identify appropriate areas for middle scale development
        i. Target Neighborhoods
        ii. Target Sites
    c. Facilitate the development of new entry level owner occupied middle scale/density housing
        i. Recruit developers familiar with these product types
        ii. Encourage developers to create middle scale housing on parcels too small to support larger multifamily development or to transition from commercial development to single family neighborhoods
        iii. Support developments through TIF

OVERSIGHT AND IMPLEMENTATION RESPONSIBILITIES

	1a	1b	1c	1d	2a	2b	2c
Common Council	X	X	X	X			
Community Development	X		X	X			
Economic Development	X	X					X
Planning	X	X			X	X	X