Housing Strategy Committee
Meeting of July 27, 2023
Agenda #3, Legistar #79054

"Healthy" Rental Vacancy Rate, page 6

Since at least 2015, the City has said that a 5% rental vacancy rate is a healthy rate. Even the Comprehensive Plan, page 50, calls 5% "the healthy rental vacancy rate." Now, without explanation, the healthy vacancy rate is deemed to be 5-7%.

Though some economists and others state, in general, that a healthy vacancy rate ranges from 5-7%, what works in Madison? One can look back to Wisconsin State Journal ("WSJ") articles from 2005 and 2006 (attached) and see what happened when the rental vacancy rate was 6% or higher.

In 2005, the vacancy rate ranged from 5.95% in the first quarter (as reported by the City in the 2016 Biennial Housing Report), or 6.06% to 7.03% for the first 3 quarters (as reported by the WSJ). The 11/23/05 WSJ article talks of how landlords offered incentives and some converted apartments to condos because of the high vacancy rate. In the 8/7/06 WSJ article, a developer speaks to how "the rental market is regaining its footing a little bit from the previous softening" and another developer who said he was "among those willing to invest in the apartment market now that overall vacancy rates have improved." The 2006 first-quarter vacancy rate was 5.16% (as reported by the City in the 2016 Biennial Housing Report).

The question is whether Madison should strive for a 6-7% vacancy rate.

What is the vacancy rate?

In 2021, MG&E reflected a first-quarter vacancy rate of 3.9% and a second-quarter rate of 5.1% (including Fitchburg and Monona since the data was by zip codes).

The 2021 one-year DP04 table reflects a 4.9% rental vacancy rate. The graph on page 6 uses 5-year data, so that data includes vacancy rates back to 2017 when the rate was 2.2%, resulting in a 5-year rental vacancy rate of 3.9%.

The 2020 Census data used by the City for redistricting, reflected 126,116 total housing units with 5,333 units being vacant, for an overall (rented and owned) vacancy rate of 4.2%.

Just several years ago the City proposed talking to MG&E about trying to further refine MG&E data by using census tracts. MG&E data was much more useful – it tracked vacancies for 5+ units by zip codes. In the second quarter of 2021, the lowest vacancy rate was 2.03% (zip code 53718) while the highest was 11.1% (zip code 53705). That type of data could help focus efforts on areas where housing might needed most.

Yet MG&E is no longer providing that data. At the third quarter of 2021, MG&E said they were in the process of changing their systems and the third-quarter data would not be available. The question is (1) why MG&E no longer provides this data and (2) whether they could resume providing this data.

Renting Down

Page 8: "These households [those at >80% AMI] "underconsume" (rent down) within the housing market, which means units they rent are incredibly affordable to them, at the same time occupying units that are more appropriately affordable for lower-income cohorts."

- The presentation materials (page 13) use the underconsuming of renters with >80% AMI to argue that more high-end housing is needed. Paying 30% of income toward housing is the maximum, it is not a goal. Perhaps these residents have other obligations, whether student loans, paying for an elderly parent's medical expenses, or some other need. Or perhaps they just think it is stupid to waste the extra money on granite countertops and rooftop pools. Clearly, from the graph on page 6, these people have options to rent at 4&5 star properties since that vacancy rate is 4.5% or higher. Perhaps the City should take steps to encourage more development of 3 star properties rather than luxury housing.

- The pie charts on page 9 show that 45% of <30% AMI units go to underconsumers, 43% of the 30-50% AMI units, and 44% of the 50-80% AMI units. Underconsuming appears to happen across income levels.
- The pie charts on page 9 lack a "methodology" footnote.

Page 8: "Creation of income- and rent-restricted housing is critical to preserving the access of lower-income households to units affordable to them, as these units are inaccessible to households with drastically higher incomes, and become reserved for households who are within the corresponding income limits."

- Certainly creation of such housing is important. However, this should not be the sole strategy since, due to the cost, there will never be an income/rent restricted unit for everyone that qualifies. Other strategies, such as a focus on preserving naturally occurring affordable housing, should receive consideration. Or make an effort to join with other municipalities and actively work to change state law so that affordable units could be mandated in larger housing projects.
  - Per the HUD CHAS data for 2015-2019, 69% of renters are at 80% or less of the HUD Area Median Family Income. Per the ACS B25074 1-year data table for 2021, 55% of renters (35,184) earn under $50,000 and of those renters 76% (26,890) pay 30% or more of income toward housing.
  - In 2022, $14.3 million from the Affordable Housing Fund was allocated to support 754 affordable housing units, with about half at the 80% level.
- Perhaps this annual Snapshot should track the number of units that are income/rent restricted so that progress can be measured.

<u>Home Ownership</u>
The graph on page 13 shows that people at the 80% AMI level can afford a home with a maximum price of $400,000. Per City Assessor records, 43% of the single family homes in Madison cost more than $400,000. And only about 25% of the homes built in the last 10 years have an assessed value under $400,000.

The HUD Comprehensive Housing Affordability Strategy for 2015-2019 shows that 60% of homeowners have a household income >100% HUD Area Median Family Income (31,240 out of 51,845 total).

Respectfully Submitted,
Linda Lehnertz

Apartment vacancy rate is high
Wisconsin State Journal
November 23, 2005
Marv Balousek

The Madison area's three- year home-buying boom has been a rental market bane.

Apartment vacancies in the Madison area reached their highest levels ever this year as continued low interest rates and no-down-payment mortgages have allowed many prospective and former renters to buy their own homes or condominiums.

Instead of reducing rents, landlords have responded by offering incentives ranging from a free iPod to two months free rent or a $1,000 shopping spree at American TV. The high vacancy rate also has spurred some apartment owners to convert their buildings to condominiums.

"They're the highest vacancy numbers the industry has ever seen," said Nancy Jensen, executive director of the Apartment Association of South Central Wisconsin. She said the high vacancy affects more than just landlords and tenants.

"With high vacancies and declining rents, rental housing is losing its assessment value," she said. "The vacancies will have an impact on the tax base of the community."

A second-quarter 2005 vacancy rate of 7.03 percent was the highest ever for the Madison area, Jensen said. Vacancy rates of 6.43 percent for the third quarter and 6.06 percent for the first quarter were the highest for those quarters in at least seven years.

Those vacancy numbers are compiled by Madison Gas and Electric Co., which tracks utility shutoffs. Jensen said they may be conservative and that she knows of at least one rental complex with a vacancy rate of 65 percent.

"We've been setting records for the last couple years," said Mark Faultersack, who compiles the MGE vacancy rates. He said the rental market has been hit by a double whammy. Low interest rates allowed renters to buy homes and the low cost of money also allowed developers to build more apartments.

Despite the apparent oversupply, Brenda Konkel, a Madison alderwoman and executive director of the Madison Tenant Resource Center, said she's surprised the vacancy rate hasn't made apartments more affordable.

"Theoretically, the rents should be coming down," she said. "We're seeing people having move-in specials, but we're not seeing rents come down."

Eileen Bruskewitz, president of the Madison Landlord Council, said rents have dropped in the last few years but now have stabilized.

A study of rental advertising this fall by the apartment association found that more West Side vacancies were advertised than other areas of the city. Two-bedroom apartments were advertised more frequently than other sizes.

"It (the vacancy rate) definitely has hurt newer and higher-end apartments," Jensen said. "Low interest rates have made it easier for renters paying $950 to $1,200 a month to move into home ownership. There's been a loss of the tenant pool."

While more-expensive properties struggle with occupancy, many of those with lower rents are doing well, said Tammy Connery, property supervisor at Fiduciary Real Estate Development. Fiduciary has about 2,000 units in the Madison area.

She said the company's Arbor Lakes in Middleton has a 5 percent vacancy rate and Valley View Apartments, 2925 Fish Hatchery Road, also has few empty units. The rent includes heat at both locations.

"Those communities are doing much better than they were in the last two years," she said, adding, "We did have to give incentives this year to obtain that type of occupancy."

Those incentives included iPods, free rent, gas cards and laptop computers. The apartment association study found other landlords also offered free health club memberships, mall gift certificates, free game tickets and free cable television and Internet access.

Connery said low interest and high vacancy rates have persuaded many apartment owners to convert their buildings to condominiums, such as a 64-unit development on Kings Mill Way.

"We lose renters to those options, too," she said. "But nobody's gone out of business and Fiduciary is still acquiring property."

While the rental market downturn hasn't led to a flurry of bankruptcies, it has hurt the bottom line of a lot of apartment owners, Bruskewitz said.

"It's also been very difficult because the applicant pool has diminished and those who are still out in the rental market may not have the best credit," she said. "You still have to pay all the bills. Rising taxes and utility bills are a real issue for landlords right now."

But Bruskewitz said she believes the vacancy rate will improve, especially if interest **rates** rise.

"I think we'll catch up," she said. "There are new people moving into this area. The thing we always tell landlords is it's better to have no tenant than a really destructive tenant."

Slowing market challenges homebuilders
Wisconsin State Journal
8/7/2006
Marv Balousek

Aug. 7--Single-family housing starts are down, condominium construction is up and investment in large apartment buildings is becoming more attractive.

That's a quick description of the residential housing market over the past year in Madison and Dane County.

The number of Dane County single-family and duplex housing starts dropped 22.2 percent over the past year to 1,911 from 2,456 a year earlier, according to a report by MTD Marketing Services of Neenah.

Condominiums accounted for about 48 percent of all Madison residential construction in 2005, up from about 42 percent in 2004, according to the city assessor's office.

With interest rates creeping up, home sales lagging and apartment vacancy rates declining, large apartment buildings apparently are becoming a better investment, and several major Madison projects were started over the past year.

Major Madison condominium and apartment projects started from July 2005 to June 2006 are:

-- Metropolitan Place, Phase 2 condominiums, 333 W. Mifflin St., 164 units, KBS Construction, $38 million.

-- Equinox student apartments/retail, 409 W. Gorham St., 115 units, Stevens Construction, $16 million.

-- Avalon Madison Village apartments, 4601-61 Atticus Way, 104 units, Gorman & Co., $14.7 million.

-- Monroe Commons condominiums/retail, 1802 Monroe St., 53 units, KBS Construction, $14 million.

-- Kennedy Point Condominium Homes, 1835 Winnebago St., 42 units, Krupp Construction, $7.5 million.

-- The Brownstone condominiums, 8502 Old Sauk Road, 60 units, McGann Construction, $5.5 million.

-- Randall Station Apartments, 53 N. Mills St., 75 units, Laker Construction, $5 million.

-- Oak Park Assisted Living Center apartments, 709 Jupiter Drive, 65 units, Stevens Construction, $4.7 million.

-- Troy Gardens CoHousing condominiums, 514-570 Troy Drive, 30 units, McGann Construction, $4.2 million.

The value of Madison condominium projects started over the past year topped $100 million for the first time with 46 projects totaling 614 units, according to the city building inspection office. Permits also were issued for 21 apartment projects worth $62.2 million and totaling 707 units.

"What's ahead with new construction for apartments will be interesting," said Randy Handel, vice president of McGann Construction. "As I listen to and talk with developers, my sense is the rents are beginning to stabilize and the rental market is regaining its footing a little bit from the previous softening."

Steve Brown, a longtime owner of campus-area housing who sold five private student dormitories last year, is among those willing to invest in the apartment market now that overall vacancy rates have improved. He's developing the Brownstone project at 8502 Old Sauk Road that includes 60 upscale units with fireplaces, hardwood floors and stainless-steel appliances.

"It's a cyclical business," he said. "I saw this as an opportunity to do something outside of the campus area."

Despite rising home values, the total value of single-family home and duplex construction in Dane County was down 19.2 percent to $466.9 million between July 2005 and June 2006 from $577.5 million during the same period in 2004-05, according to the MTD report.

"Residential construction has slowed down to more of a normal pace than it has been the last couple of years," said Chad Wuebben, president of the Madison Area Builders Association. "One of the biggest problems is that people want to build new homes, but can't sell their existing homes."

The number of housing starts declined or stayed even in every Dane County community that had 15 or more starts last year, except the town of Pleasant Springs, where replacement of tornado-damaged homes boosted the number of housing starts to 48 from 17 the prior year.

In Madison, housing starts were down 11.4 percent over the past year to 601 from 678 during 2004-05. Housing starts also were down in Sun Prairie, Fitchburg, Middleton and Stoughton.

"We have had a substantial decrease in the number of single-family permits," said city planner Scott Kugler of Sun Prairie, where the number of housing starts dropped 31.2 percent to 141 over the past year. "Even though they're down, we have a number of developers moving forward with their projects."

He said they're continuing to work on streets and sidewalks in some of the city's new subdivisions, indicating the developers remain optimistic that the slowdown won't last.

"There are just a lot of homes on the market," said Dick Wasserburger of Design Shelters, which builds about two dozen homes a year. "Until those are absorbed, I think it'll stay down."

The slowdown has meant belt-tightening for some homebuilders. Veridian Homes, the state's largest homebuilder, announced in June that it was cutting 18 jobs, or 15 percent of its work force, and scaling back the homes it would build this year to 500 to 550, down 50 to 100 from its original plan.

Veridian also has expanded the scope of its products to include more homes at the low end of the price range and its Architectural Series at the upper end. The company's condominium business also is thriving, said David Simon, Veridian president.

Terry Temple of Temple Construction said he has no plans to cut back on the 10 higher-end single-family homes he builds each year. But Temple said that he's also planning to build 160 higher-end condominium units in the Hawk's Landing area and that 37 of 40 units are sold in another project he recently completed.

"We're still real confident in the condominium market," he said.

Hart Denoble of Denoble Builders said he'll be starting a 168-unit condominium project this fall. He said the slowdown may weed out speculators who built homes to cash in on the booming market of the past few years.

"Sometimes when you get a little bit of a lull like we're experiencing right now, it's kind of a good thing," he said. "It'll shake out some of the people who shouldn't be in the building business. It's also a great time for someone to build, because subcontractors have reduced costs to stay busy."