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 attempts 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 of 2-3% in recent years.

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 two ways. First, is on a macro scale household growth is coming from the bottom of the income spectrum and the top, with very little growth in medium income tiers. Second is geographic, with wealth and poverty concentrated in different pockets of the city. This is mirrored by rising or stagnating property values.

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 based on a desire for flexibility rather than commitment and convenient access to work, entertainment, and shopping. This has manifested as a market wide shift towards rental housing with 9 out of 10 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
- Continued household growth of 1-2% (~1,900 net new households/year) through the recession (2007-2012)
  - Household growth was split between higher-income households (>$100,000) and very low-income households (<$25,000) with a stagnant or shrinking 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 relay 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

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-profit real estate developers, our limited federal resource allocation can be stretched further.
    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 facility plans to guide development

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 that 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 farther 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

MARKET RATE RENTAL

For market rate rental housing, the primary goal is to ensure that there is sufficient quantity and diversity of supply to meet the needs of a growing market. When possible, this housing should strive to meet broader goals of mixing incomes and uses to strengthen neighborhoods. To achieve these goals, this report identifies two main priorities:

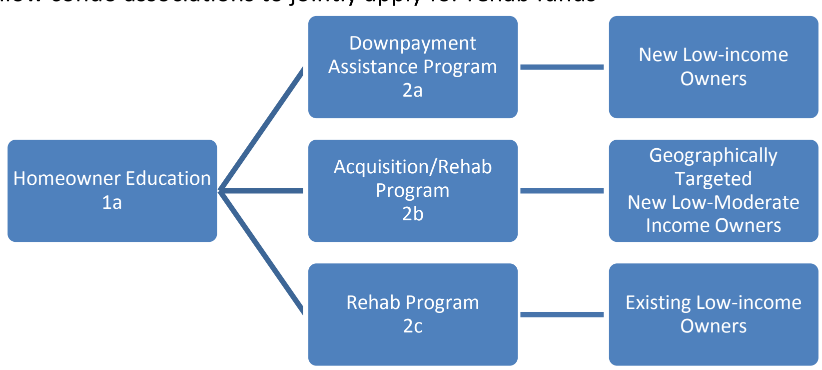
1. As housing preferences change and rental housing becomes a larger portion of our housing market, it is more important than ever that there is open communication and information sharing between rental housing providers and municipal government.
    a. **Create a quarterly Housing Data Report combining data on key market trends**
        i. Work with MG&E to improve their rental vacancy data (ex. reporting by Census tract)
        ii. Provide up-to-date City information on permits, development pipeline, year over year trends
        iii. Targeted towards policy makers, neighborhoods, developers to provide a common set of impartial data to inform decisions
    b. **Increase representation by rental housing providers on city committees** to foster greater communication and ensure that City policy is well informed of trends and concerns in the rental market
        i. Create dedicated seats in housing related committees (Community Development Authority, CDBG, Economic Development, Housing Strategy, and Tenant-Landlord) for rental housing providers

2. To meet the increased demand for rental housing and ensure that new supply serves a variety of incomes and household types, the City should **create a Development Zone Initiative (Appendix A)** to proactively encourage rental housing development in locations throughout the City that are suitably zoned, are well served by transportation infrastructure, and are in close proximity to amenities that renters demand.
    a. **Identify areas** throughout the City that are suitably zoned, are well served by transportation infrastructure, are in close proximity to amenities that renters demand, and are identified in other City plans as development priorities to designate as Development Zones
    b. **Create a TIF Strategy** to target the creation of TIDs and use of TIF to Development Zones as well as identify priorities and opportunities
    c. **Direct Affordable Housing Fund** spending to Development Zones to support the creation of affordable housing and its integration into the broader redevelopment area
    d. **Prioritize neighborhood planning** and the creation of zoning overlay and urban design districts in Development Zones
    e. **Create a Land Banking Fund** to finance land banking and pre-development costs to prepare sites and reduce barriers to rental housing development (Appendix B)
        i. Structured as a joint City/private equity fund with commitments from lenders for low-interest loans
        ii. Administered by the City, Community Development Authority, or a non-profit
        iii. Set clear parameters for acquisition targets and outcomes (Ex Require a portion of units be affordable, mixed-use, etc)

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 reaching 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**.

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 that will improve their financial standing.
    a. **Fund Individual Development Accounts with City matching funds and pair them to a comprehensive homebuyer education program funded by the City**
        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 provide homebuyer education to populations of color.
2. Simplify the City of Madison's ownership program structure to three tracks with a single intake stream
    a. **Use downpayment assistance programs as a tool to reduce mortgage size in order 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 through the Affordable Housing Fund

MARKET RATE OWNERSHIP

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:

3. 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
4. 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

SENIOR HOUSING

The overarching goal for the senior housing market is to **provide an affordable housing option with the appropriate level of service for every stage of a senior's life that is integrated into our community**. Because the vast majority of seniors prefer to age in place, the first priority must be to provide the services and financing tools to allow seniors to stay in their homes as long as possible or to transition to dedicated senior housing development in their neighborhood. The priority must then be to attract and retain senior households by ensuring that future senior housing developments are located in areas with a strong connection to transportation and services as well as offering options for low and moderate-income seniors.

1. **Increase the ability of senior households to age in place** by making it affordable to stay in their homes and bringing services to them
    a. Identify existing concentrations of seniors (Naturally Occurring Retirement Communities) and direct relevant services to them
        i. Facilitate neighborhood association/non-profit/Madison Senior Center coalitions to deliver services
        ii. Reorient public transportation to enhance services to these areas
        iii. Improve infrastructure to meet accessibility needs (ex improved sidewalks)
        iv. Create youth employment/after-school programming to support aging place by matching youth with seniors in need of assistance with basic tasks related to homeownership (yard work, snow removal, etc)
    b. Consolidate and expand existing City financing programs for seniors to retrofit their homes for accessibility and afford the ongoing operating costs of homeownership
        i. Expand the City Reverse Mortgage Program to finance gas, electricity, and municipal services bills in addition to property taxes
        ii. Expand the City Reverse Mortgage Program to finance accessibility retrofit work
        iii. Create or contract with an independent advisory service to help homeowners select remodelers, draw up contracts, and check quality of work before making payments
2. For seniors that can no longer stay in their homes due to affordability, work to **ensure the creation of affordable senior housing throughout the City** to allow them to continue to age in place
    a. Create a parallel "senior housing track" in the Affordable Housing Fund RFP
        i. In the "Senior Track" replace a preference for 3-bedroom units with a preference for senior housing with a connection to healthcare and services
        ii. Geographic preference for neighborhoods without senior apartments
    b. Work with WHEDA to guide future Section 42 tax credit Qualified Allocation Plans to support the creation of affordable senior housing developments
3. Position Madison as a destination for senior living to attract and retain senior households by addressing their demand for small, urban, walkable development. **Encourage new senior housing development in transit and service rich locations** in preparation of aging Baby-boomers rather than on the City edge or isolated areas
    a. Identify preferred development areas in future comprehensive and neighborhood plans, and other funding processes to encourage development in superior locations
    b. Implement the Demographic Change Working Group recommendation to create a city-led pilot project combining senior housing, mixed-income housing, transit oriented development with a strong connection to services and healthcare on an infill site
        i. Would likely require a City RFP process and possibly site acquisition
        ii. City participation through subsidy for the low-income component, onsite services, and transit

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.

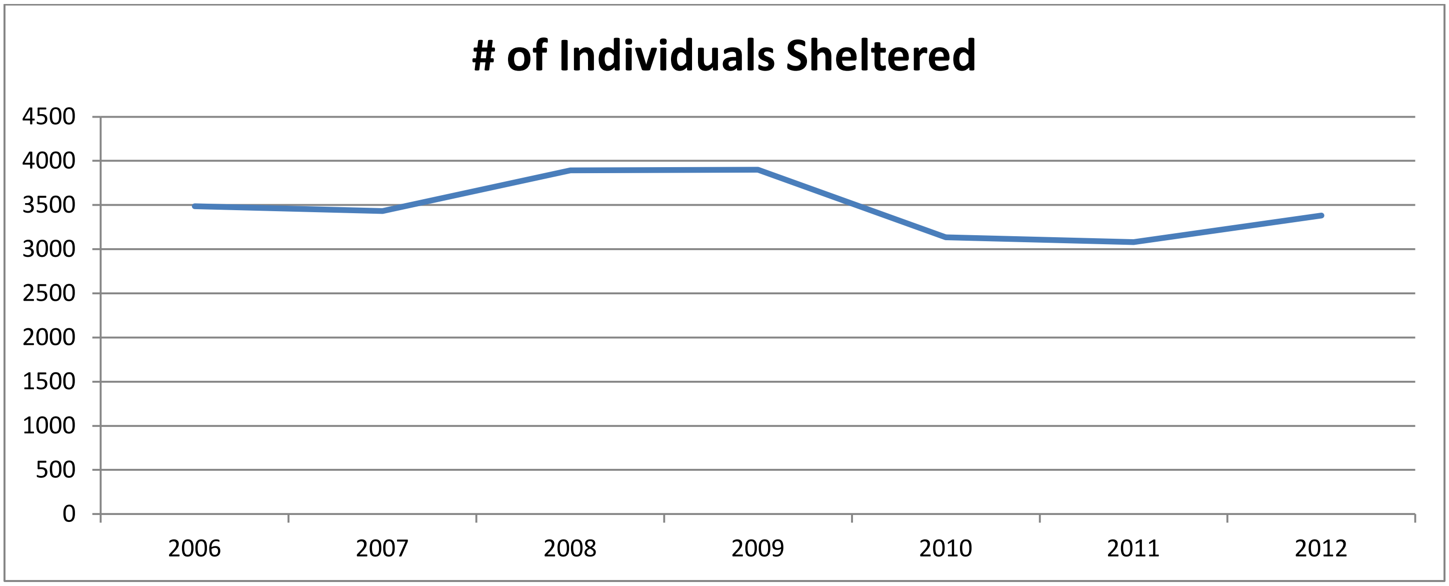
DEMAND - HOMELESSNESS

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.

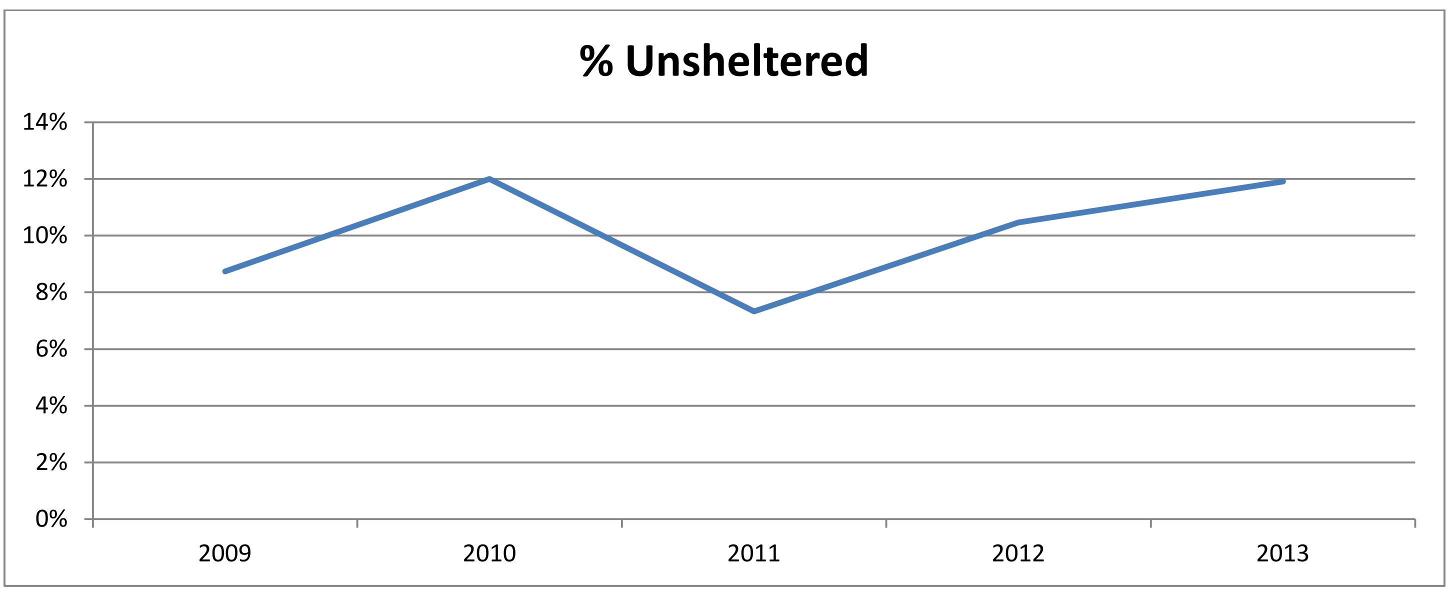
POPULATION GROWTH

In 2012, 1,661 individuals were housed in Dane County transitional or permanent supportive housing. At the same time, 3,382 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 seven 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: 2012 Annual Report on Homeless Served in Dane County

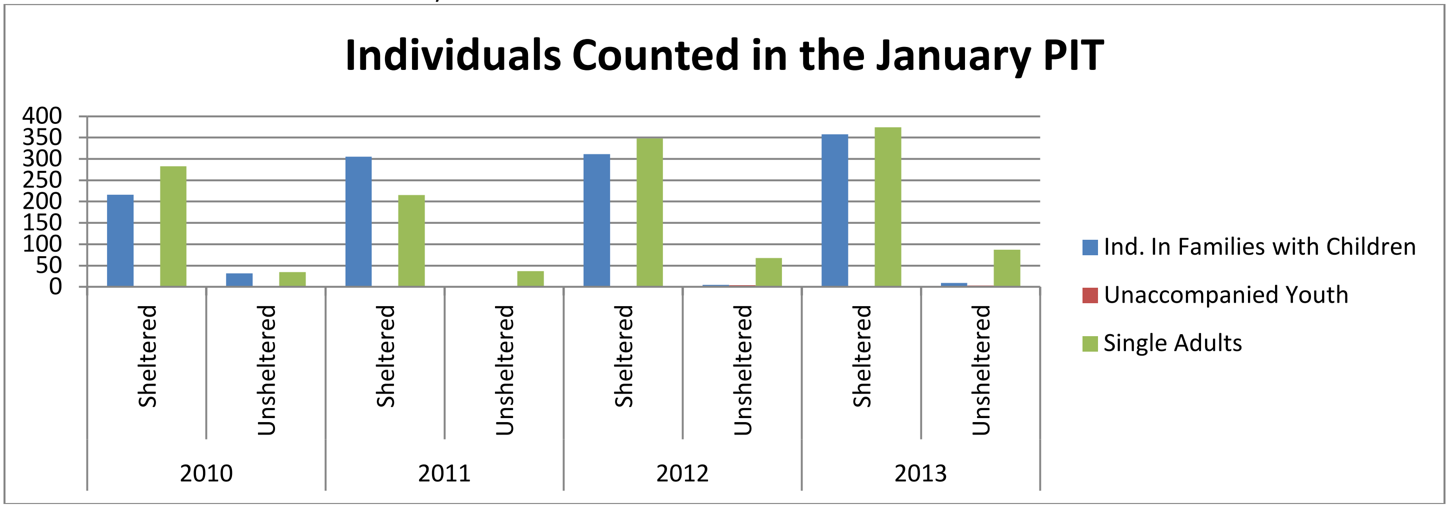
While we do not have reliable annual data on the number of unsheltered individuals, from a point in time (PIT) surveys taken annually on a single night in January to 2013 that **on average the unsheltered population is 10% of the sheltered population**.



Source: 2013 City of Madison Point in Time Survey

We know that in the January 2013 PIT 99 homeless individuals were unsheltered including:

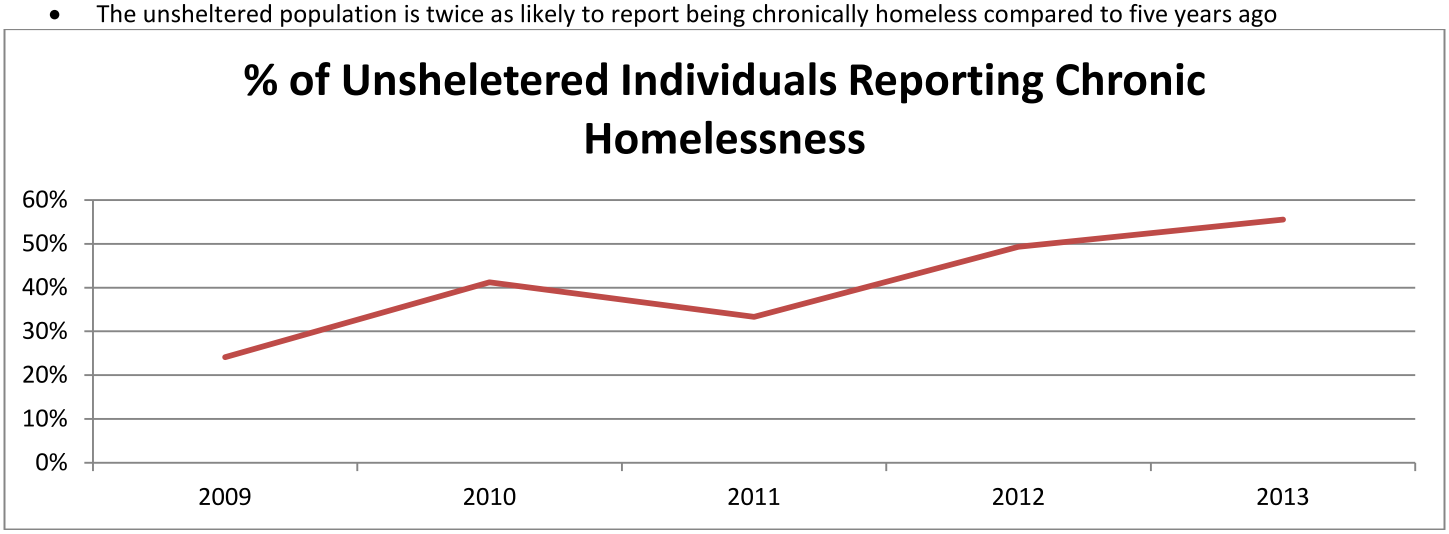
- 3 families (9 individuals in families)
- 3 unaccompanied youth
- 87 single adults
- 55 adults considered chronically homeless



Source: 2013 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 peak demand has seen relatively steady growth
- The unsheltered population has seen sustained growth in adults and a reduction in families
- The unsheltered population is twice as likely to report being chronically homeless compared to five years ago



Source: 2013 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):

- 476 (35%) single men
- 54 (10%) single women
- 47 (11%) families

The number of single men who slept in uninhabitable places (476) increased from 397 men in 2011, the highest reported number since data started being collected in 2000.

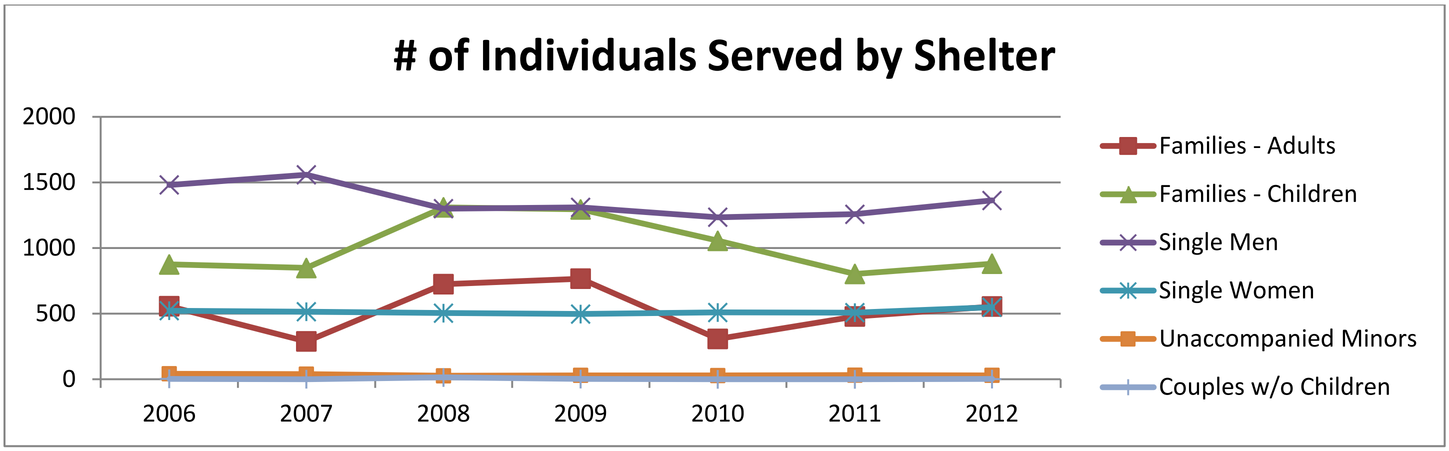
HOUSEHOLD SIZE

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 2012, our shelter system served:

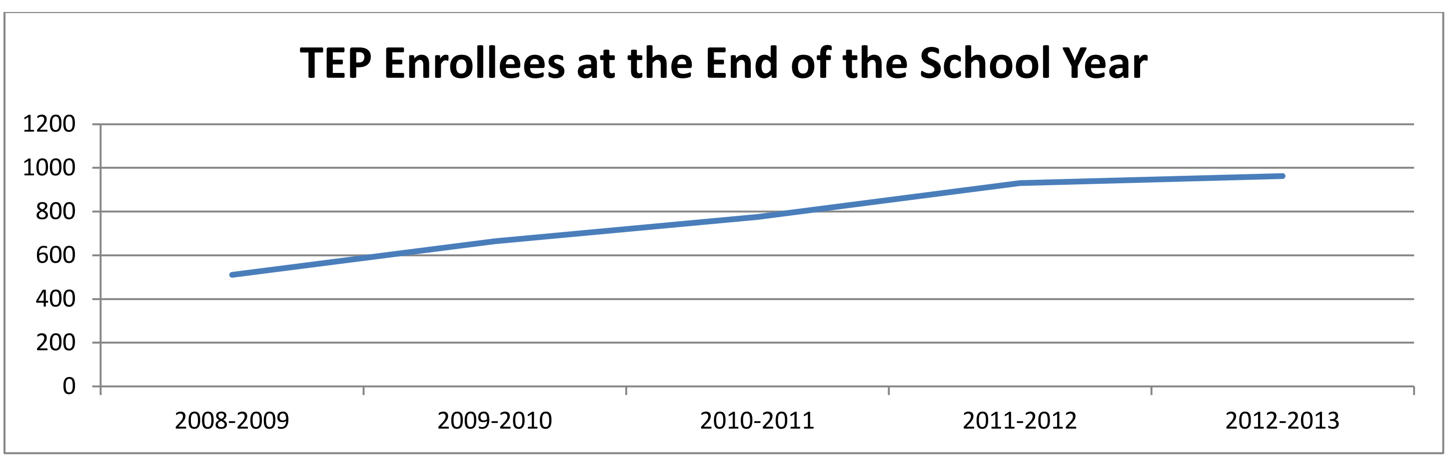
- 1,436 people in families (445 families with 881 children under 18 years of age) (42%)
- 1,362 single men (40%)
- 549 single women (16%)
- 31 unaccompanied youth under the age of 18 (1%)
- 2 couples without children (<1%)

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: 2012 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**.



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 seven 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:

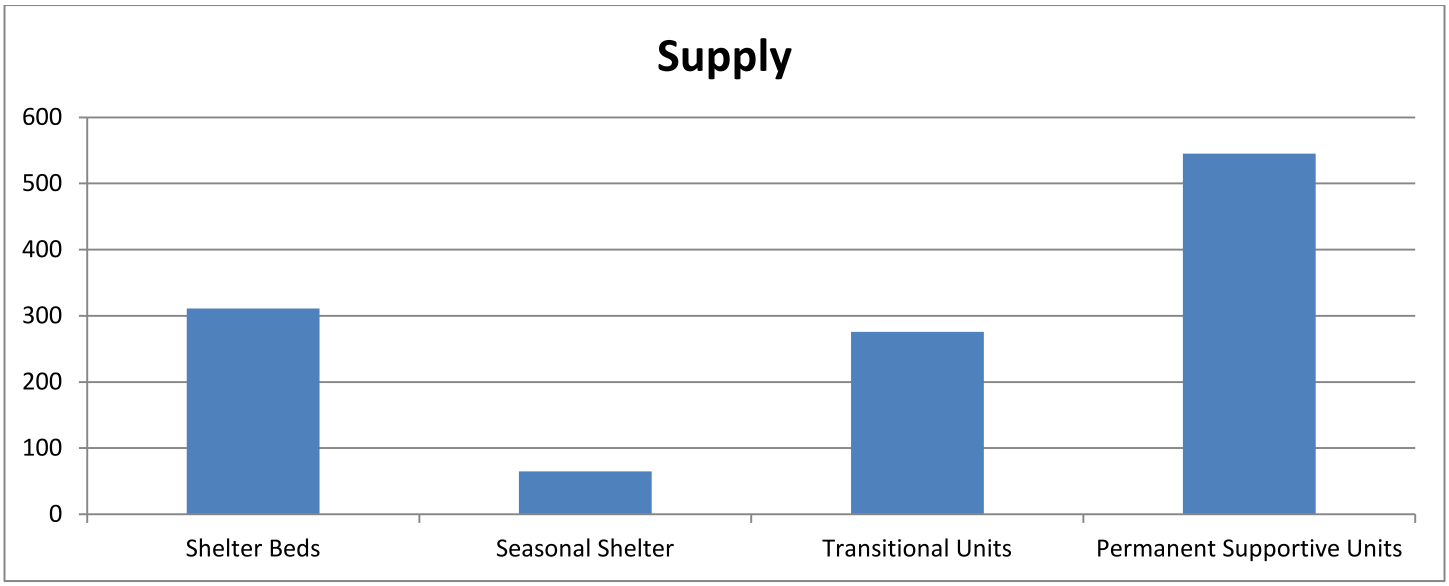
- Shelters
  - Overnight sleeping accommodations for homeless to provide temporary shelter
  - Characterized by shared sleeping, dining, and bathroom facilities
  - 60 night limit for single adult night-time only shelter use per person, per year (no provision for daytime storage). A cold weather exemption 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's 2013 Housing Inventory, the market consists of:

- Shelter
  - 311 Shelter beds in 9 programs
  - 65 seasonal and overflow shelter beds
- Transitional Housing
  - 155 units of transitional housing for homeless families
  - 121 units of transitional housing for homeless single adults
- Permanent Supportive Housing
  - 125 units of permanent supportive housing for homeless families only
  - 420 units of permanent supportive housing for homeless single adults only
  - 783 total units of permanent supportive housing



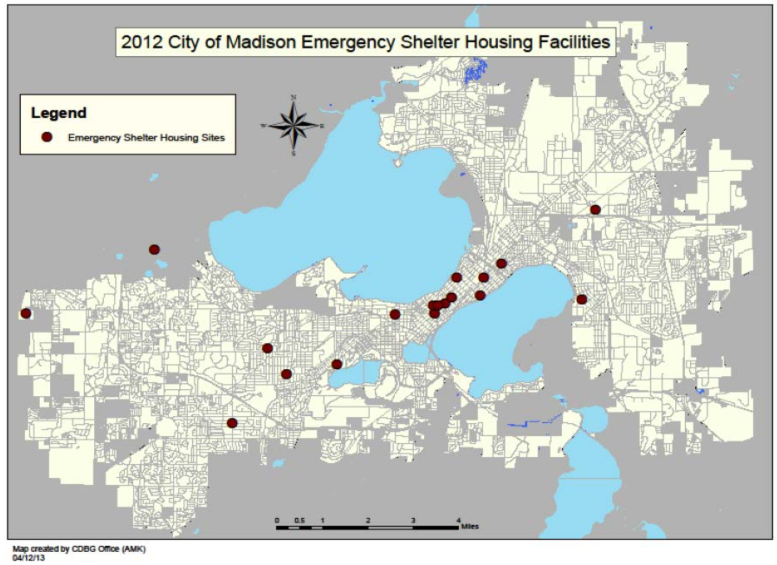
Source: 2012 Annual Report on Homeless Served in Dane County

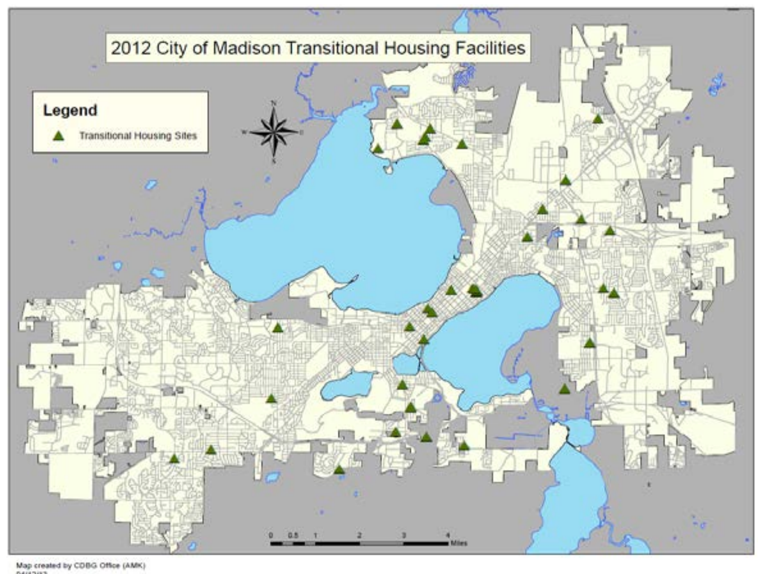
- 4 units of shelter were added in 2012
- 82 units of permanent supportive housing for homeless single adults were created in 2012
- 30 seasonal shelter beds for families added in 2012
- 15 seasonal shelter beds for single adults added in 2012

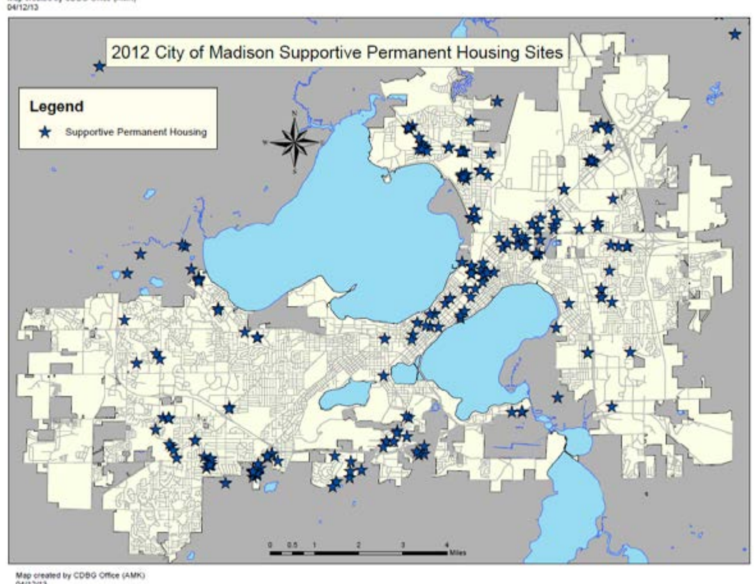
The Madison Consortium of Care has focused heavily on increasing the supply of permanent supportive housing with a goal of adding 15 units per year on average. The significant increase in supply in 2012 was the result of 5 years of planning, negotiations with the City, and a significant capital campaign. 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 generally well dispersed with locations downtown and on the north, south and east sides
- Permanent housing locations are generally well dispersed with throughout the city with the exception of the near west side







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

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 mananger

OPERATIONS

- Operations are subsidized through an endowment
- Targets homeless families

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 1,594 vouchers in use
  - Tenants pay 30% of their income
  - HUD funded
- HUD - VASH
  - Serves low-income veterans
  - Participants rent from private landlords
  - 110 vouchers are allocated
  - Tenants pay 30% of their income
  - HUD and VA funded

LOCAL SOURCES

- United Way of Dane County
  - Annual spending of $735,000
  - Supports 152 families through Housing First programs
  - Partners with local service providers
- 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
- 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 2013, Dane County added $1.1 million in new funding to be used to acquire and open a day shelter on East Washington Avenue and address the need for SRO and cooperative housing

CHALLENGES - HOMELESSNESS

- Demand for shelter exceeds the number of shelter beds
    - Limit on the number of stays per year
    - **1,035 individuals in families and 619 single adults were turned away from shelter** in 2012
- Creation of permanent supportive housing supply has not kept pace with demand
    - Approximately 15 units added per year on average
- 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**

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 "SRO" Project
    - The City of Madison in partnership with Dane County has issued an RFQ to identify a developer to create 100+ units of permanent supportive housing
    - Targets chronically homeless single adults
    - Capital budget authority for 2014
    - Relies on layering subsidy from local government, Section 42 tax credits, and Section 8 vouchers
    - Fund basic case management services 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

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

	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

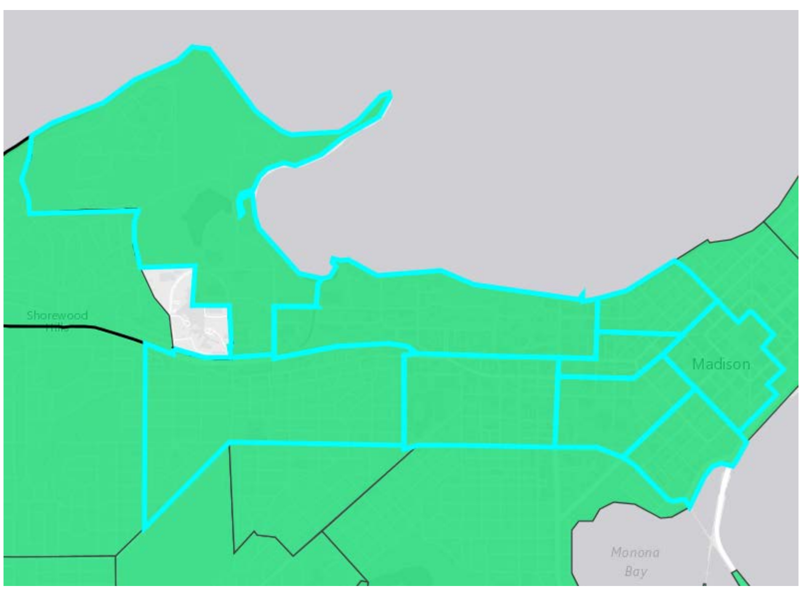
Since the beginning of the recession in 2007, the City of **Madison has experienced a continued rise in population and households that has outpaced its production of housing**. The resulting housing problem can be defined as an **undersupply of rental housing that is affordable to a range of household 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 Students

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

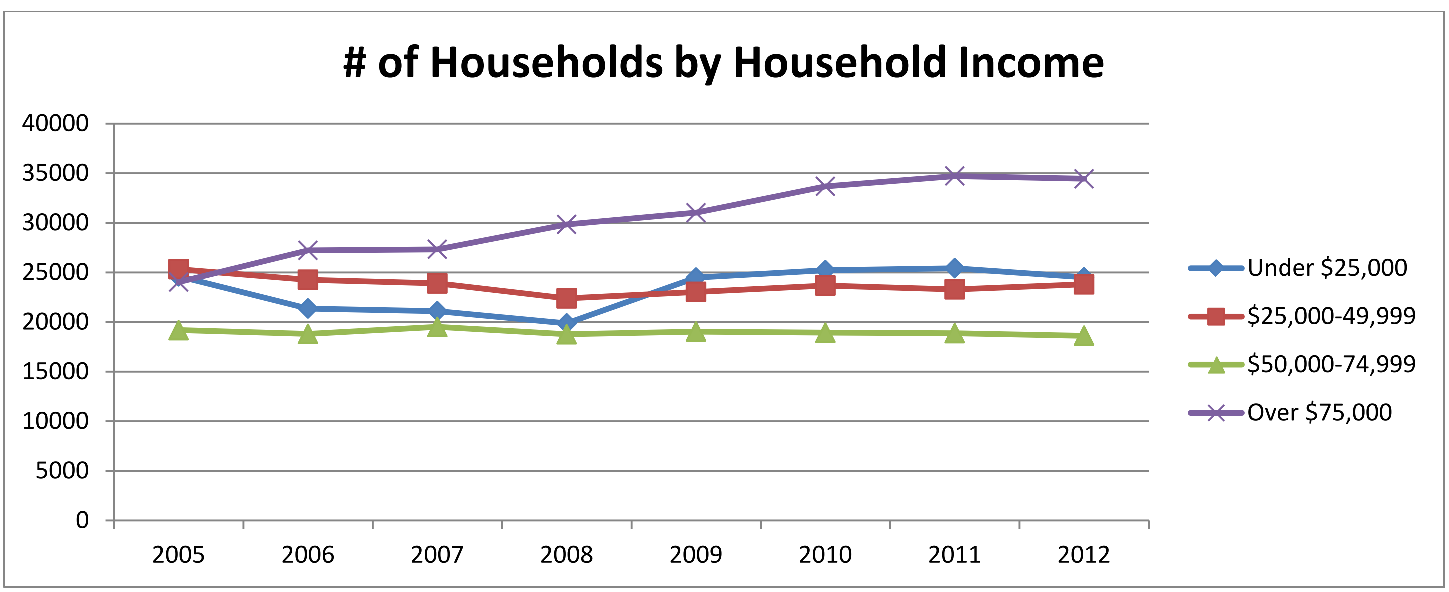
Demand can be reduced by raising incomes or the number of wage earners per household. For example, raising income from minimum wage of $7.25 to $12.00 would bring a two-income household from 50% of median area household income to 80% of median area household income and increase the amount of rent they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

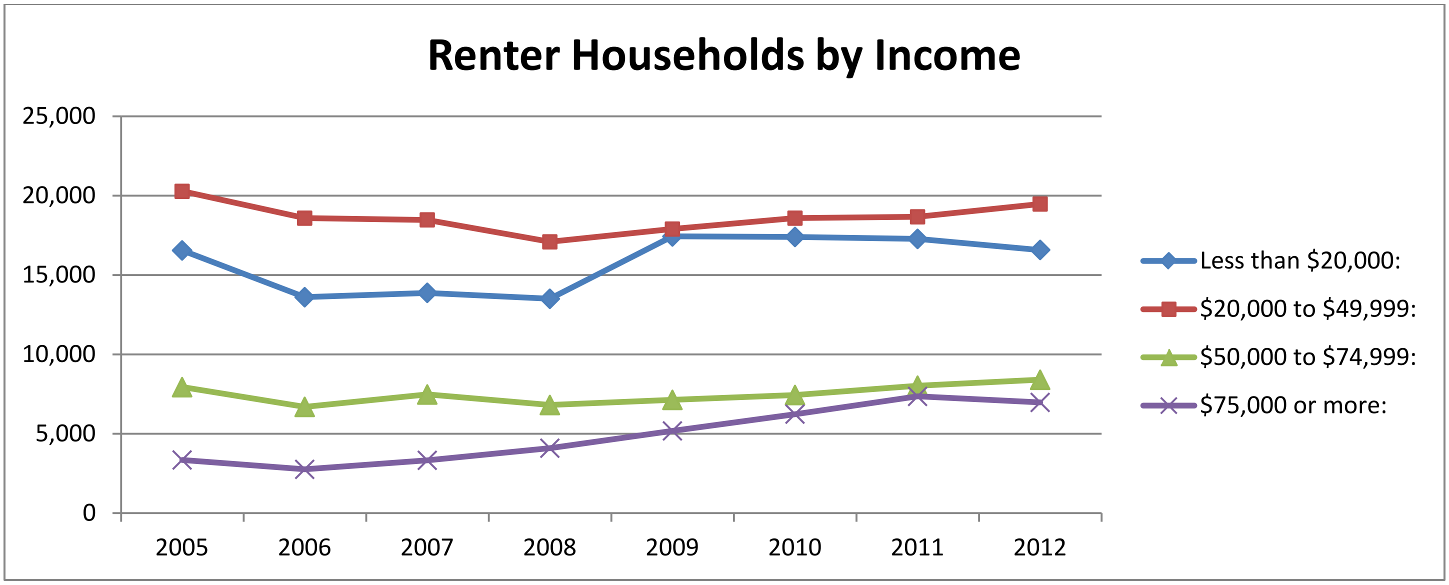
DEMOGRAPHICS

Since 2007, the City of Madison has added approximately:

- 9,500 new households
  - **3,400 households with incomes below $25,000 (~40% of Median Household Income)**
  - **-100 household with incomes below $50,000 (~80% of Median Household Income)**
  - -900 households with incomes below $75,000 (~120% of Median Household Income)
  - 7,100 households with incomes above $75,000 (~120% of Median Household Income)



Source: 3-Year American Community Survey



Source: 3-year American Community Survey

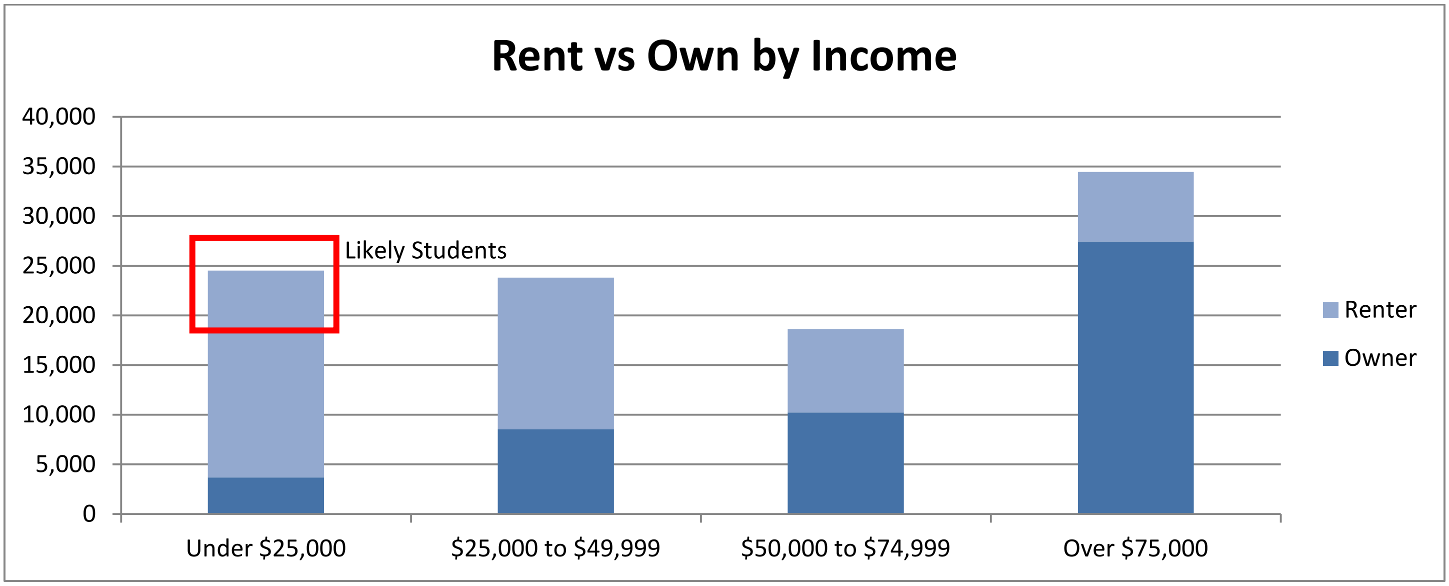
The income pattern of renter households in the City of Madison shows that almost all growth comes from renters with extremely low incomes (under 30% of Area Median Household Income) and higher incomes (over 120% of Area Median Household Income).

Since 2007, the City of Madison has added approximately:

- 8,300 new renter households
  - **2,700 households with incomes below $20,000 (~30% of Median Household Income)**
  - **1,000 household with incomes below $50,000 (~80% of Median Household Income)**
  - 1,000 households with incomes below $75,000 (~120% of Median Household Income)
  - 3,600 households with incomes above $75,000 (~120% of Median Household Income)

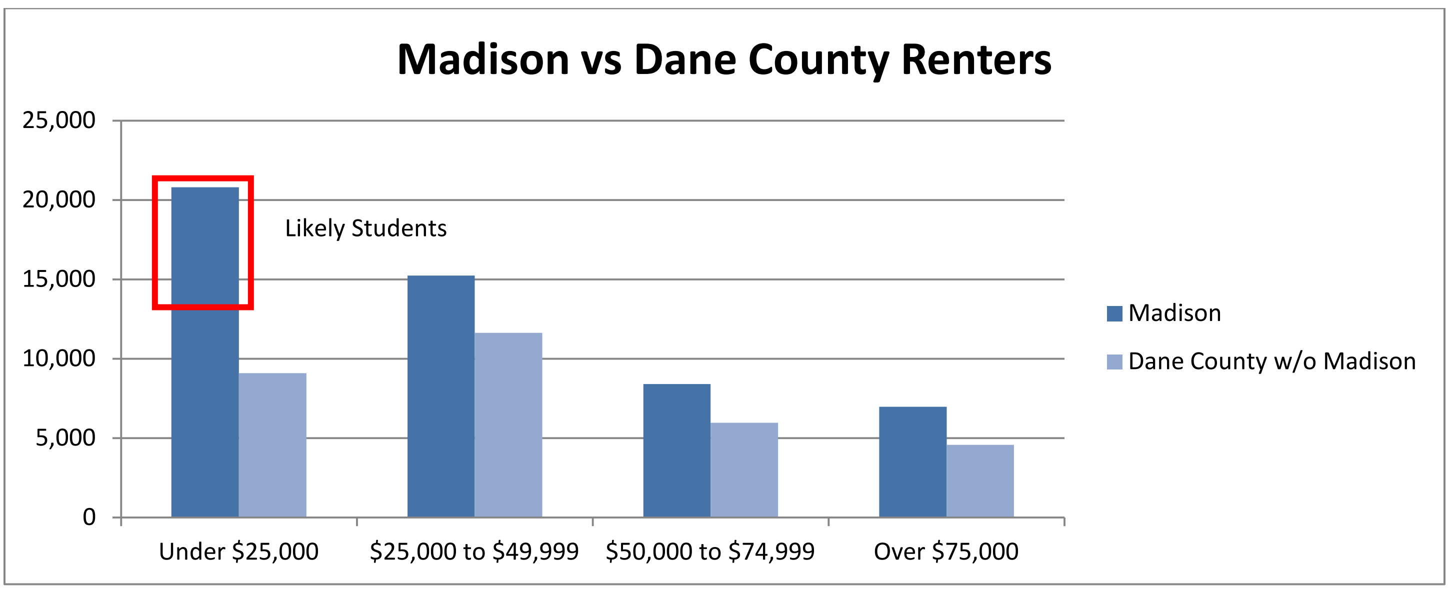
Since 2007, 90% of net new households became renters rather than homeowners.

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: 2010-2012 3-year American Community Survey

If likely students are excluded, the income pattern of renters in Madison is virtually identical to that of Dane County, with the largest block at $25,000-$49,999 (40-80% of Median Household Income).



Source: 2010-2012 3-year American Community Survey

TRENDS

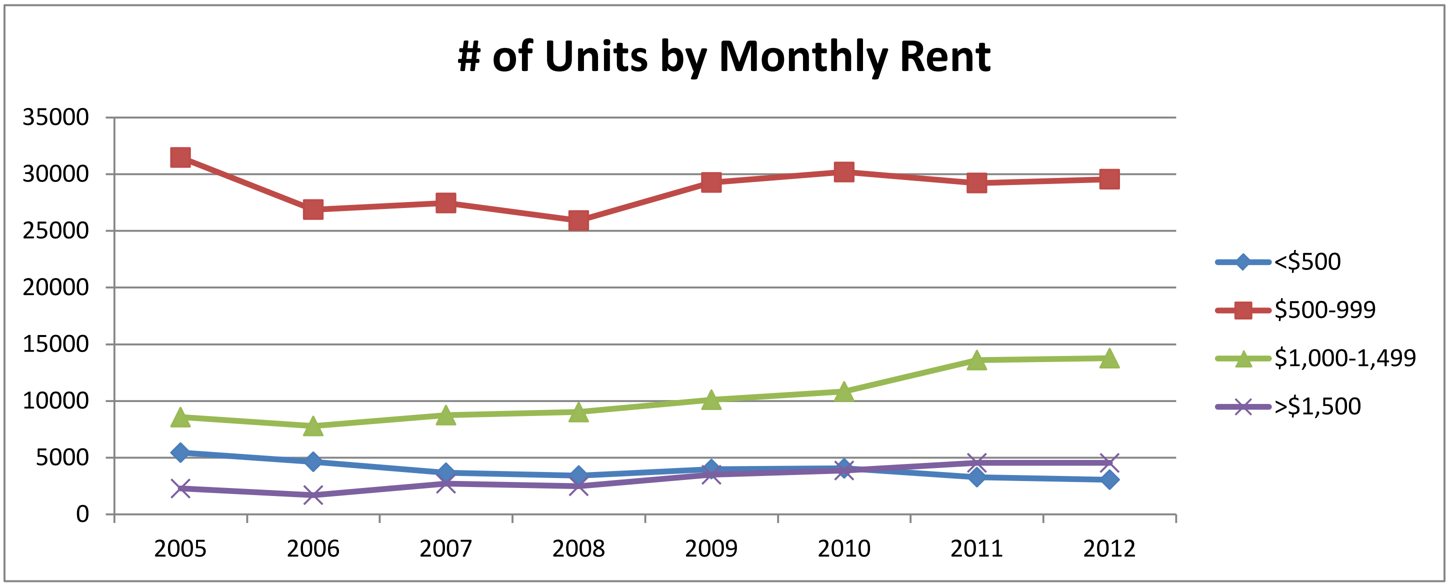
- Madison's population **growth is fueled by households on the bottom (<$25,000) and top (>$75,000) of the income spectrum**
- **Madison's rental market is currently dominated by households at the lower half of the income spectrum**

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.

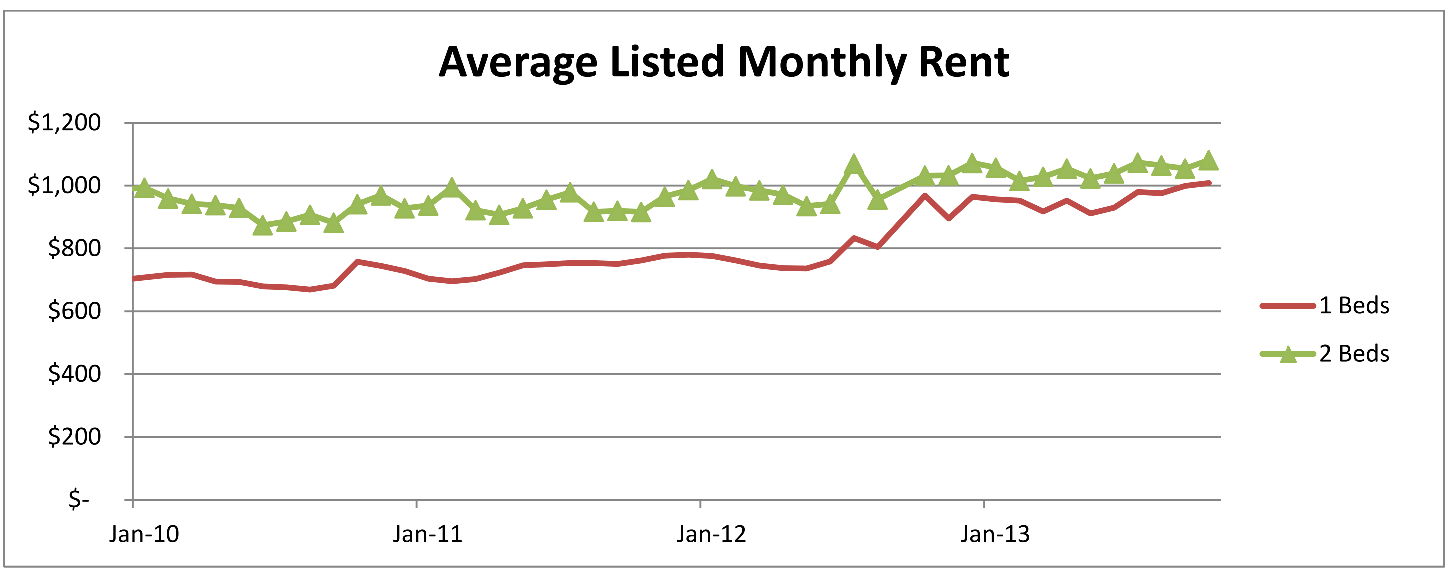
RENTS

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, **virtually all increase in supply has been in units unaffordable to households making less than $40,000 (~60% of Household Median Income).**



Source: 3 Year American Community Survey

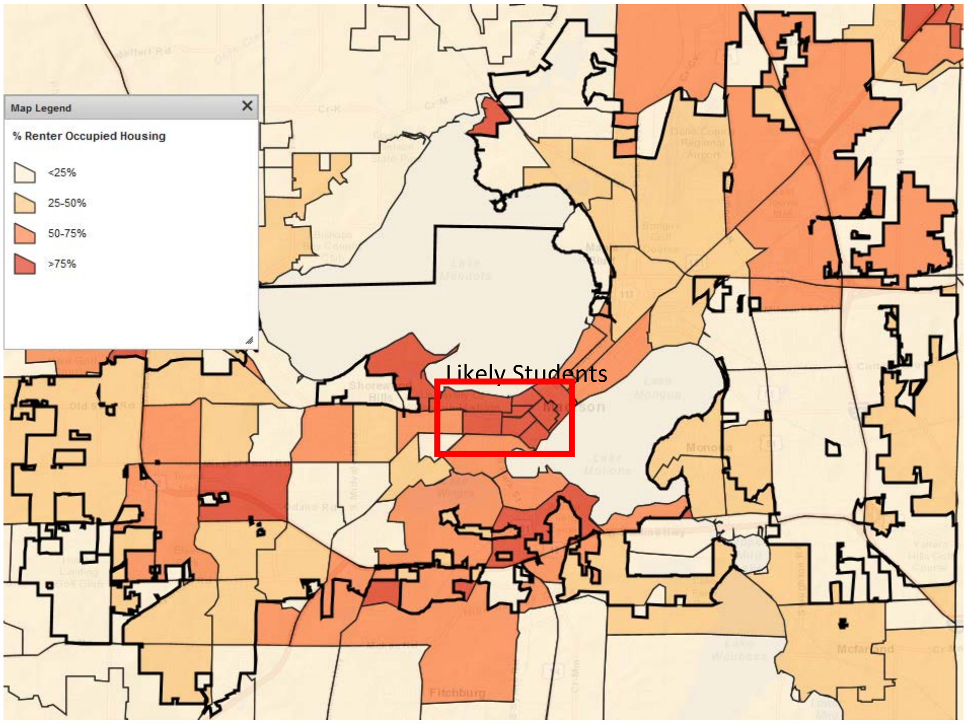
Market rents in Madison for one and two bedroom apartments have increased significantly in recent years, particularly since mid-2012 according to data from rentjungle.com, an aggregator of online rental listings. This increase is especially apparent in **the market for one bedroom units, which has seen a 30% increase in average list price since the beginning of 2012**.



Source: rentjungle.com

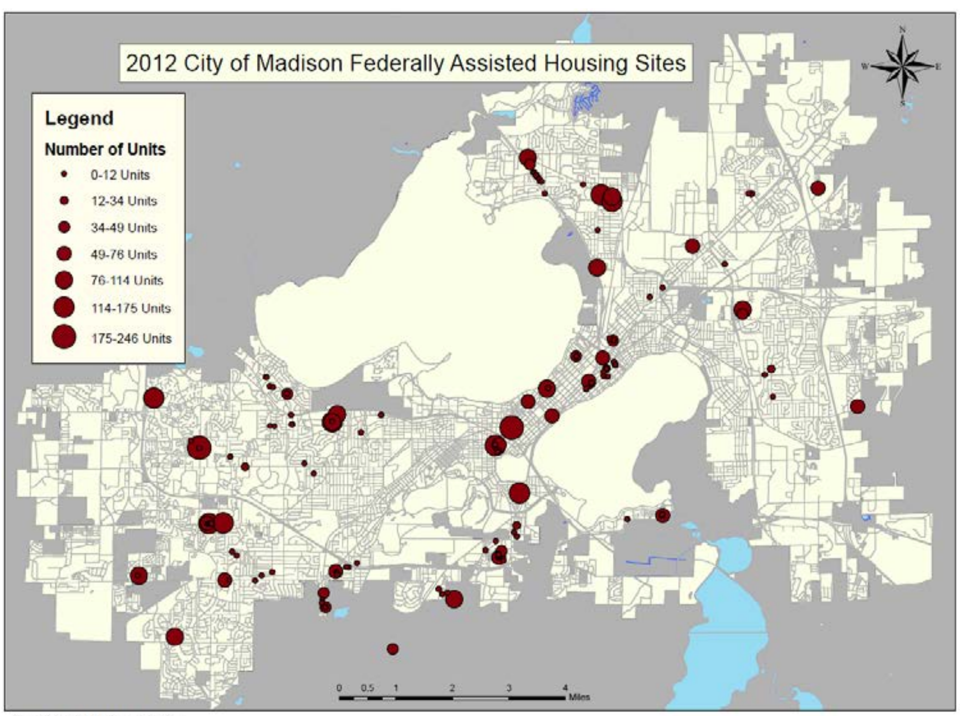
LOCATION

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

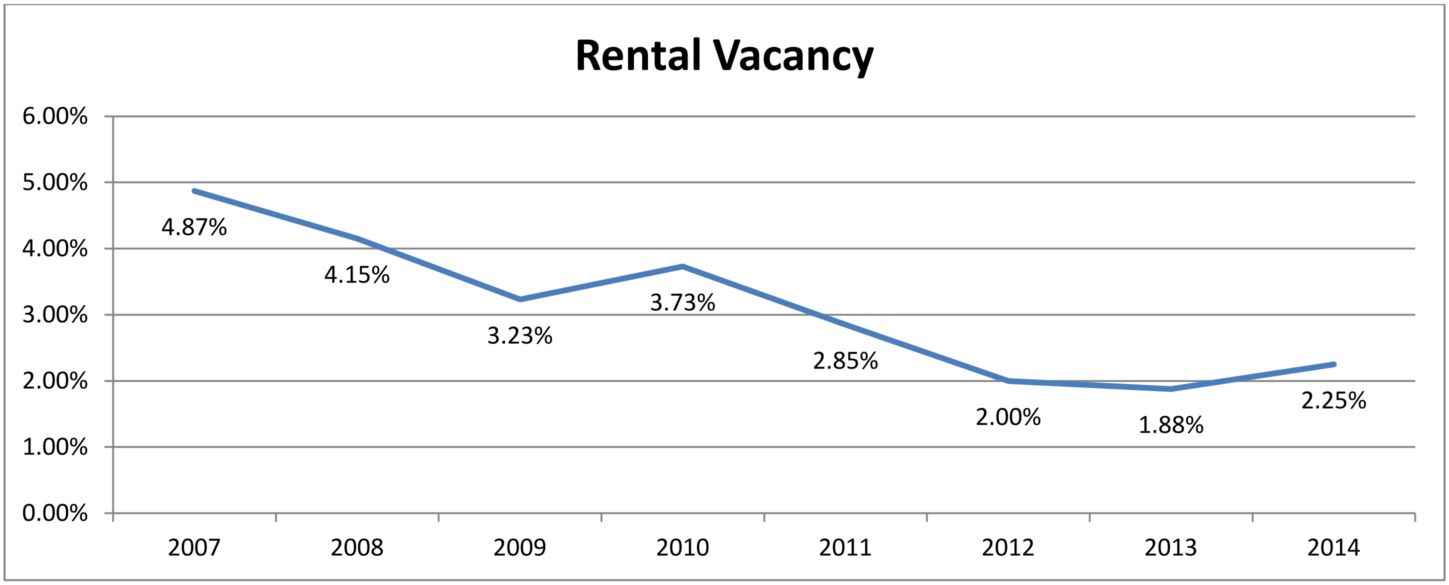
Federally subsidized low-income housing is more evenly dispersed across the city. However, individual sites can contain dramatically different numbers of subsidized units.



Map created by CDBG Office (AMK)
08/05/14

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 southwest, south, and east side have moderate vacancy of 3-4%. The west, far east, and downtown markets have vacancy rates as low as 1%.

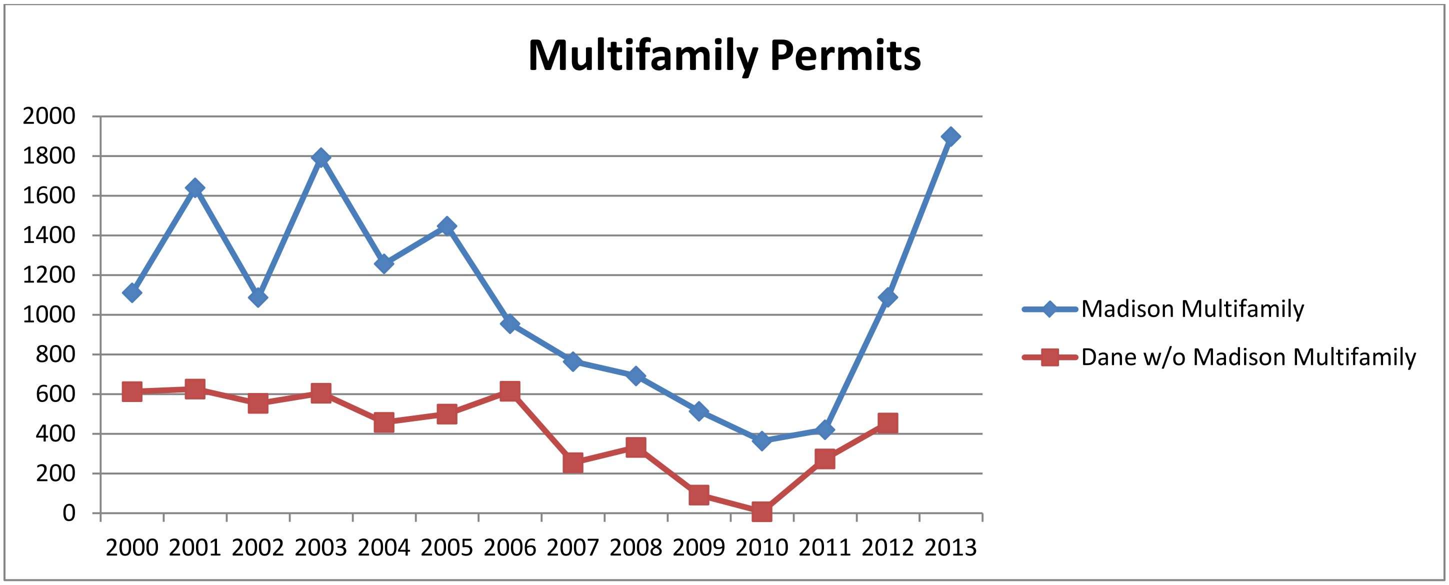
City	ZIP Code	Rental Units	Vacancy Units	% Vacant
Madison	53703	11,410	175	1.5%
Madison	53704	8,246	149	1.8%
Madison	53705	5,687	120	2.1%
Madison/Fitchburg	53711	5,967	131	2.2%
Madison	53713	6,509	277	4.3%
Madison	53714	2,014	67	3.3%
Madison	53715	2,807	96	3.4%
Madison/Monona	53716	1,783	66	3.7%
Madison	53717	1,090	12	1.1%
Madison	53718	1,699	20	1.2%
Madison	53719	1,391	45	3.2%
Madison	53726	1,347	14	1.0%
TOTAL	-	49,950	1,172	2.3%

*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 2012, only 3,000 multifamily units were added to the Madison market despite adding 8,000 renter households. The market has responded to the forces of rising rents and lower vacancy with a return to 2000-2005 levels of permits for multifamily units for both Madison and Dane County.

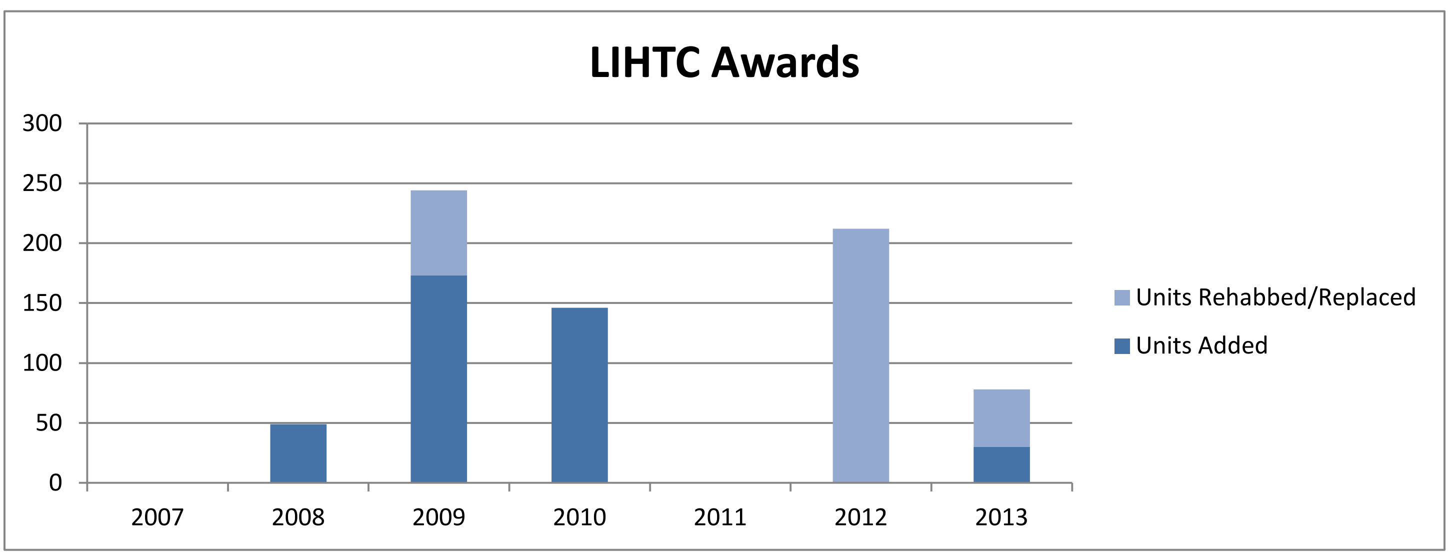


Source: Census Building Permits Survey

The City of Madison saw a significant increase in multifamily rental units in 2013 with:

- Projects Complete: 647 residential units
- Under Construction: 814 residential units
- Approved: 1287 residential units
- Major Pipeline Projects: 899 residential units
- TOTALS: 3,647 residential units

These units have yet to have a significant effect on the vacancy rate or median rent price.



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

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 1,594 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

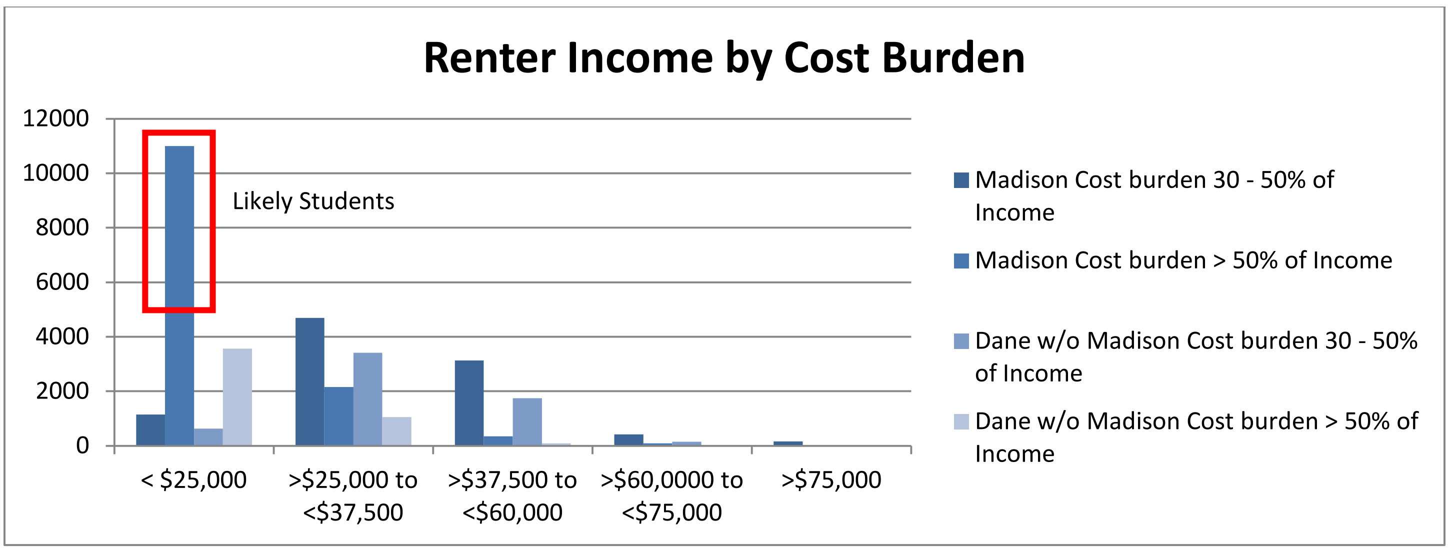
- Affordable Housing Trust Fund
  - City of Madison funded endowment for the creation of affordable rental and owner-occupied housing administered by the Community Development Division
  - Balance of over $3 million with disbursements limited to 50% of the balance
  - Provides installment loans and grants 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

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.

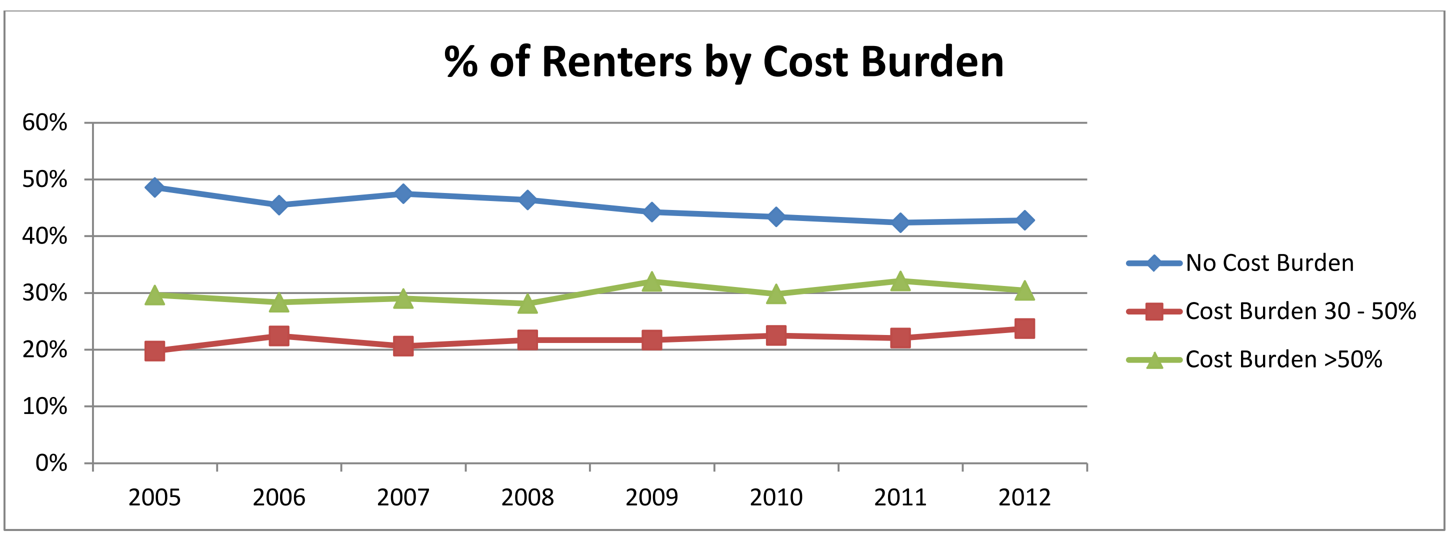
HOUSING COST BURDEN

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: 3 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
    - 2013 Projects
        - Projects Complete: 647 residential units
        - Under Construction: 814 residential units
        - Approved: 1287 residential units
        - Major Pipeline Projects: 899 residential units
        - TOTALS: 3,647 residential units
- 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 currently working to add 8 new units and replace 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

	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		

MARKET RATE RENTAL

MARKET RATE RENTAL - PRIORITIES

For market rate rental housing, the primary goal is to ensure that there is sufficient quantity and diversity of supply to meet the needs of a growing market. When possible, this housing should strive to meet broader goals of mixing incomes and uses to strengthen neighborhoods. To achieve these goals, this report identifies two main priorities:

4. As housing preferences change and rental housing becomes a larger portion of our housing market, it is more important than ever that there is open communication and information sharing between rental housing providers and municipal government.
    a. **Create a quarterly Housing Data Report combining data on key market trends**
        i. Work with MG&E to improve their rental vacancy data (ex. reporting by Census tract)
        ii. Provide up-to-date City information on permits, development pipeline, year over year trends
        iii. Targeted towards policy makers, neighborhoods, developers to provide a common set of impartial data to inform decisions
    b. **Increase representation by rental housing providers on city committees** to foster greater communication and ensure that City policy is well informed of trends and concerns in the rental market
        i. Create dedicated seats in housing related committees (Community Development Authority, CDBG, Economic Development, Housing Strategy, and Tenant-Landlord) for rental housing providers

5. To meet the increased demand for rental housing and ensure that new supply serves a variety of incomes and household types, the City should **create a Development Zone Initiative (Appendix A)** to proactively encourage rental housing development in locations throughout the City that are suitably zoned, are well served by transportation infrastructure, and are in close proximity to amenities that renters demand.
    a. **Identify areas** throughout the City that are suitably zoned, are well served by transportation infrastructure, are in close proximity to amenities that renters demand, and are identified in other City plans as development priorities to designate as Development Zones
    b. **Create a TIF Strategy** to target the creation of TIDs and use of TIF to Development Zones as well as identify priorities and opportunities
    c. **Direct Affordable Housing Fund** spending to Development Zones to support the creation of affordable housing and its integration into the broader redevelopment area
    d. **Prioritize neighborhood planning** and the creation of zoning overlay and urban design districts in Development Zones
    e. **Create a Land Banking Fund** to finance land banking and pre-development costs to prepare sites and reduce barriers to rental housing development (Appendix B)
        i. Structured as a joint City/private equity fund with commitments from lenders for low-interest loans
        ii. Administered by the City, Community Development Authority, or a non-profit
        iii. Set clear parameters for acquisition targets and outcomes (Ex Require a portion of units be affordable, mixed-use, etc)

OVERSIGHT AND IMPLEMENTATION RESPONSIBILITIES

	1a Create a Housing Data Report	1b Increase rental housing representation on City Committees	2a Identify Development Zones	2b Create a TIF Strategy to support Development Zones	2c Direct Affordable Housing Funds to Development Zones	2d Prioritize Development Zones in planning efforts	2e Create a Land Banking Fund
CDA			X				X
Common Council			X				X
Community Development			X		X		
Economic Development			X	X			X
Mayor's Office		X	X				X
Planning	X		X			X	

MARKET RATE RENTAL - OVERVIEW

Knowing where and what type of housing growth is taking place is essential for projecting demand for infrastructure and public services. It can also provide insights into what kinds of housing people prefer. Where people actually live depends on much more than what they say they want. Housing supply, energy prices, tax policy, and other factors all affect the availability and cost of housing and, as a result, where people end up living.

In recent years, pinpointing the true demand for housing in the City of Madison has been complicated by the ownership housing bubble and the resulting housing crash and recession. The housing bubble (2000-2007) fueled an ownership housing boom and pushed household growth to the city fringe and beyond, while the rental market actually shrunk. After the bubble burst, the market shifted dramatically with the number of (small) renter households increasing rapidly, and as a result, 9 out of 10 new households added since 2007 have been renters. This growth in the rental market is the result of four main demand drivers:

- An increase in the population and (larger) increase in the household growth rate in the City of Madison
- Growth is coming from young households (who traditionally rent at much higher rates)
- A return to historic rates of homeownership (after the homeownership boom anomaly)
- A shift in preference towards rental at all income levels (especially high incomes)

While some of these factors may be a short-lived correction, the combination of factors indicates a strong demand for rental housing for the foreseeable future.

Since the end of the homeownership boom, the market has been unable to keep up with demand, resulting in an undersupply. In response to this undersupply of residential rental housing, **the market has seen rents rise and vacancy rates fall dramatically**. These market conditions have led to a boom in production to fill the market need. The thousands of units that have been constructed in recent years have largely been in the form of studio, one, and two bedroom units in modest sized apartment buildings (under 75 units) located largely in the downtown and on major transportation corridors.

While the pace of multifamily residential development has been rapid, at this point there is little cause for concern about a bubble bursting comparable the recent single family housing bust because:

- Multifamily vacancy in Madison remains at 2-3%, meaning that 1,000 new units could be added tomorrow without pushing vacancy above 5% (a generally accepted standard for a healthy vacancy rate)
- Lenders underwrite multifamily developments much more stringently than single family homes and require a greater level of equity participation, reducing the likelihood of foreclosure
- Unlike the market for single-family homes, there are market mechanisms such as rent reduction, conversion to owner occupancy, and demolition/repurposing of obsolete stock to adjust for overbuilding in the multifamily rental market

If preferences rapidly shift to owner occupancy or the market is overbuilt, the primary concern of the City should be the reduced incentive of property owners to manage and maintain buildings, particularly bank owned properties.

It is in the best of interest of the City of Madison to have a robust market for rental housing because it provides a housing option for households that:

- Are not ready to make a long-term commitment to a location (young professionals)
- Are not financially prepared to purchase
- Prefer the convenience of professional 3rd party management
- Prefer living in a location where the land economics favor multifamily housing (downtown)

Additionally rental housing attracts outside capital to invest in our real estate market, contributes to the property tax base, and offers an opportunity to increase density.

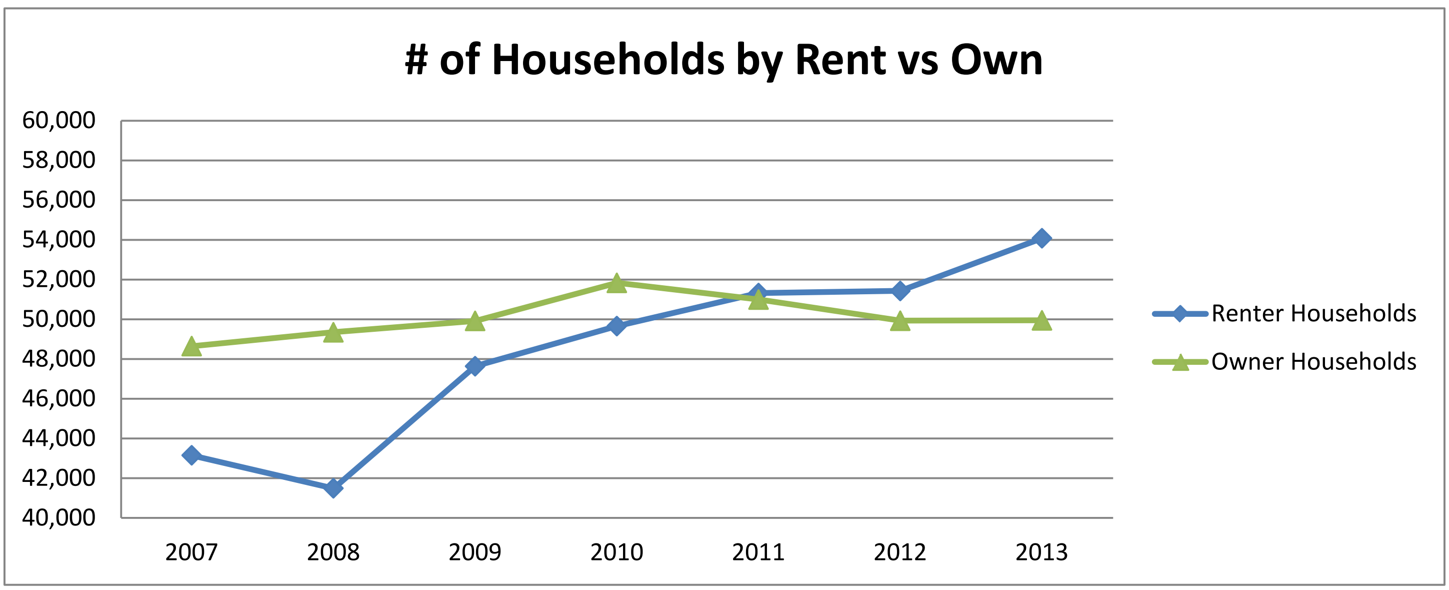
MARKET RATE RENTAL - DEMAND

As an earlier chapter focused exclusively on low-income renters (those with household incomes below $50,000) this chapter will place particular emphasis on renter households with incomes greater than $50,000. Demand for rental housing by this population is likely driven by a lifestyle preference for rental rather than ownership instead of strictly affordability factors. For this population, demand factors are also influenced by impediments to ownership including down payment and credit requirements.

POPULATION GROWTH

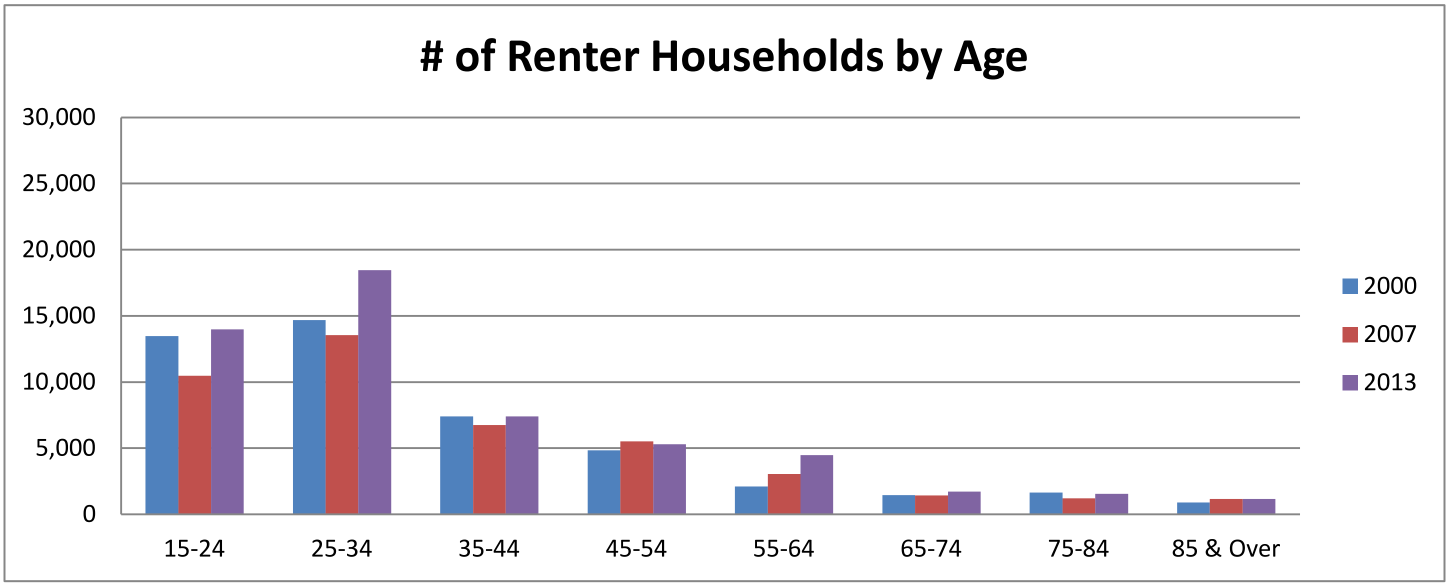
Prior to the recession, the City of Madison saw modest population growth in line with historic averages driven primarily by owner households and relatively large household sizes (more than two people) while the rental market was shrinking. **After the recession, Madison's population growth shifted into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

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



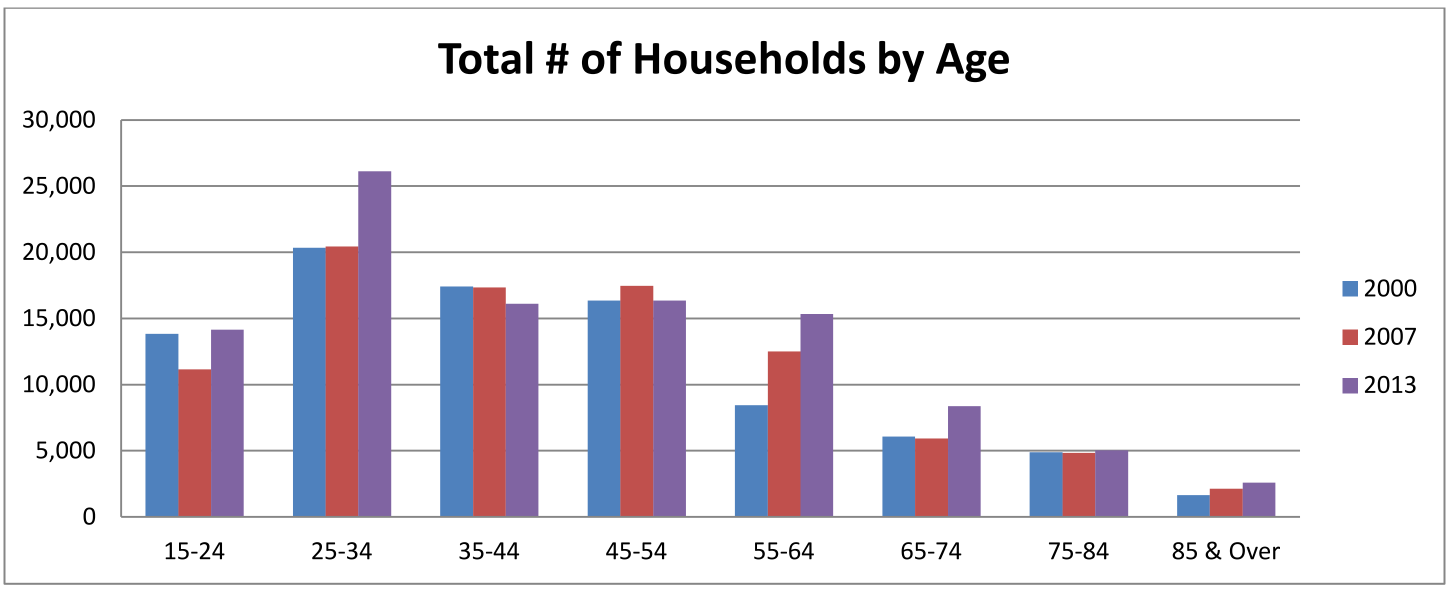
Source: 3-year American Community Survey

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

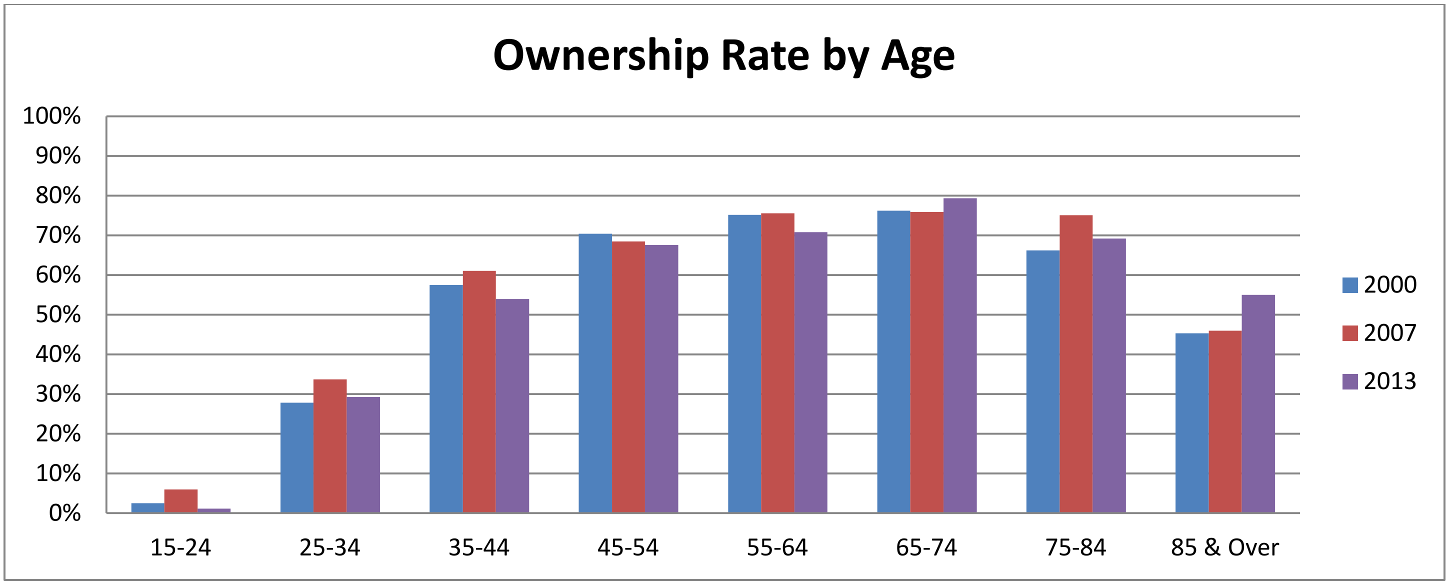


Source: 2000 Decennial Census, 3-year American Community Survey

Over 80% of the growth in renter households since 2000 has occurred in two age brackets, 25-34 year olds (Millennials) and 55-64 year olds (Baby Boomers). This trend is likely explained by two factors, first is that general population growth has been almost entirely driven by Millennials and Baby Boomers.



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



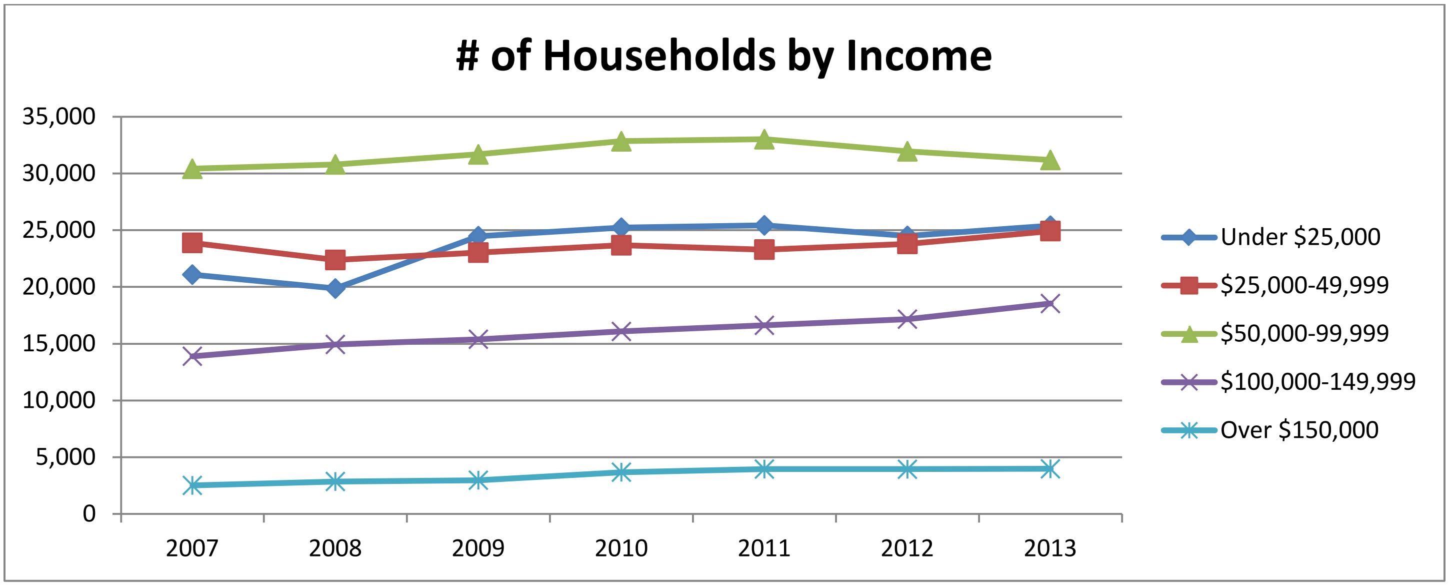
Source: 2000 Decennial Census, 3-year American Community Survey

The second factor is that households have returned to or are exceeding their historic ratio of renting to owning. Nationally, there was a dramatic increase in ownership rates leading up to the 2007 recession. This trend is particularly clear in the data for 25-34 year olds where the City saw a 5% increase in ownership rates from 2000-2007 only to have it return to 2000 levels by 2013. In other words, **the increased demand for rental is partially a correction from the abnormally high rates of ownership in the last decade**.

HOUSING TENURE BY INCOME

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

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



Source: 3-Year American Community Survey

Household Growth Rate 2007-2013

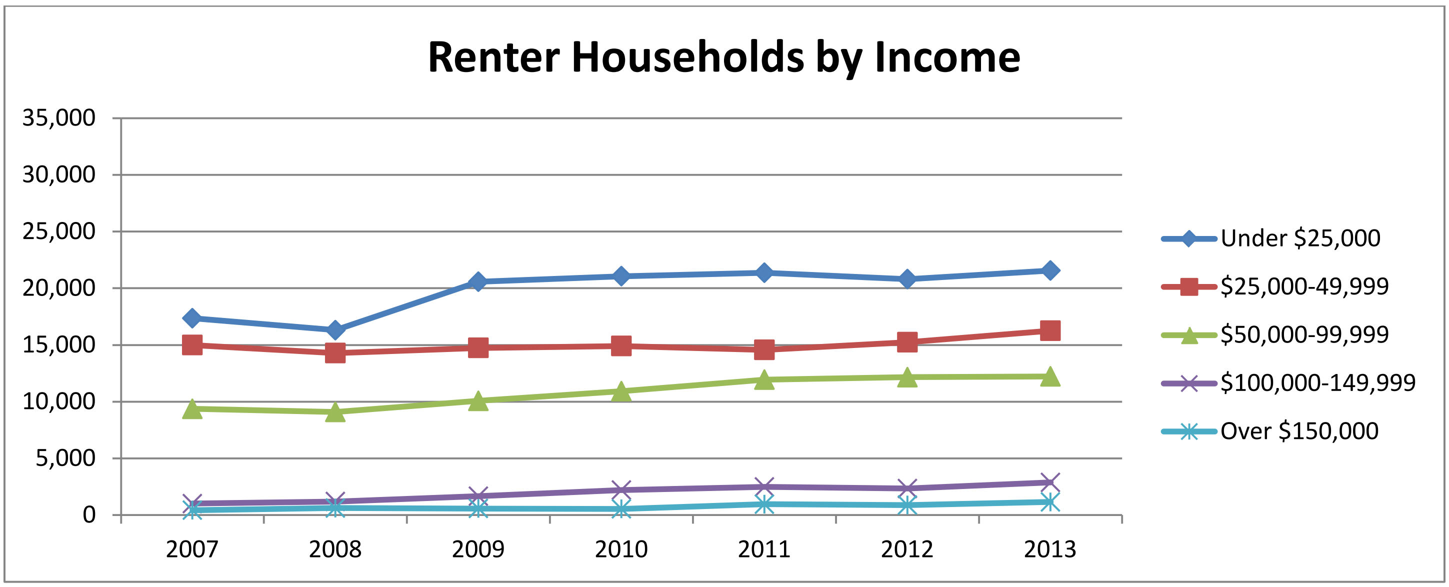
	Average Annual Growth Rate	Total Growth
Total Households	2%	13%
Under $25,000	3%	20%
$25,000-49,999	1%	4%
$50,000-99,999	0.4%	3%
$100,000-149,999	4%	24%
Over $150,000	8%	61%

The rental market however has seen strong growth at all income levels. The rental market has absorbed almost 90% of households added to the City since 2007.

Since 2007, the City of Madison has added approximately:

- 11,000 new renter households
- 4,200 households with incomes below $25,000 (<40% of Median Household Income)
- 1,300 households with incomes $25,000 to $49,999 (<80% of Median Household Income)
- 2,900 households with incomes $50,000 to $99,999 (<160% of Median Household Income)
- 1,900 households with incomes $100,000 to $149,999 (<240% of Median Household Income)
- 700 households with incomes $150,000 and above (>240% of Median Household Income)

While in absolute numbers households with income under $25,000 grew more than any other category, the rate of growth was significantly higher among higher income households. **As these higher income households are financially able to own and traditionally would have purchased homes, this indicates that preferences for rental housing are quickly changing for higher income households.**



Source: 3-year American Community Survey

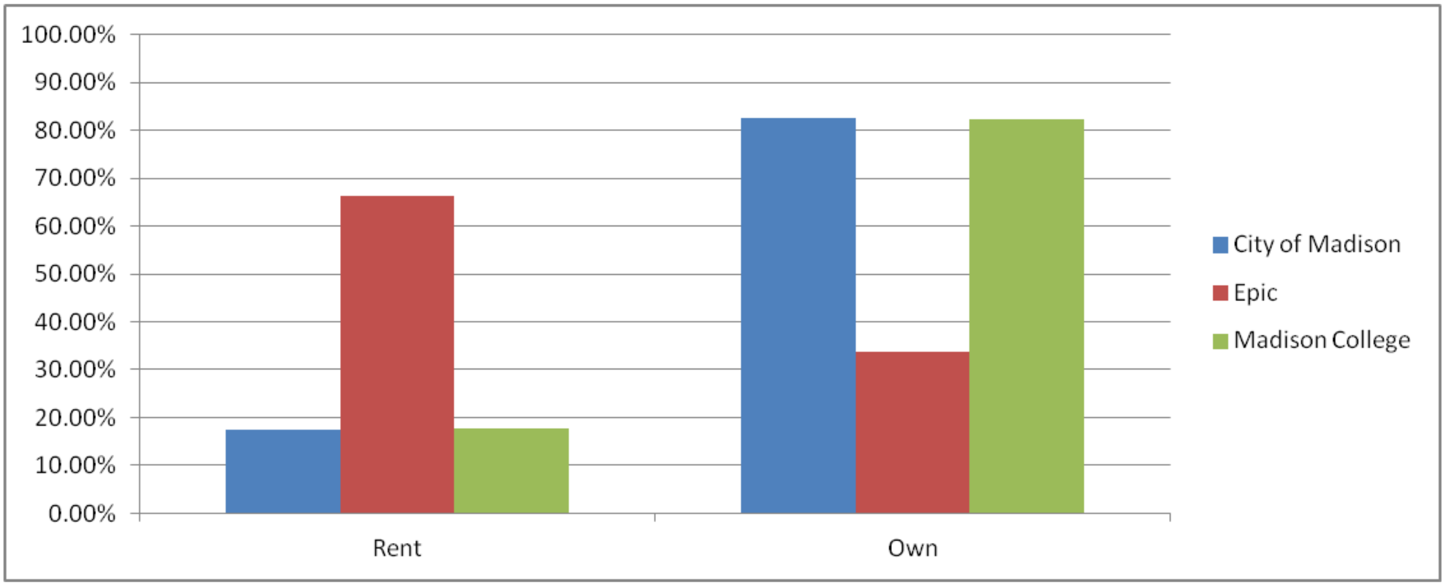
Renter Growth Rate 2007-2013

	Average Annual Growth Rate	Total Growth
Total Households	4%	25%
Under $25,000	4%	24%
$25,000-49,999	1%	8%
$50,000-99,999	4%	31%
$100,000-149,999	17%	185%
Over $150,000	16%	167%

HOUSING PREFERENCES

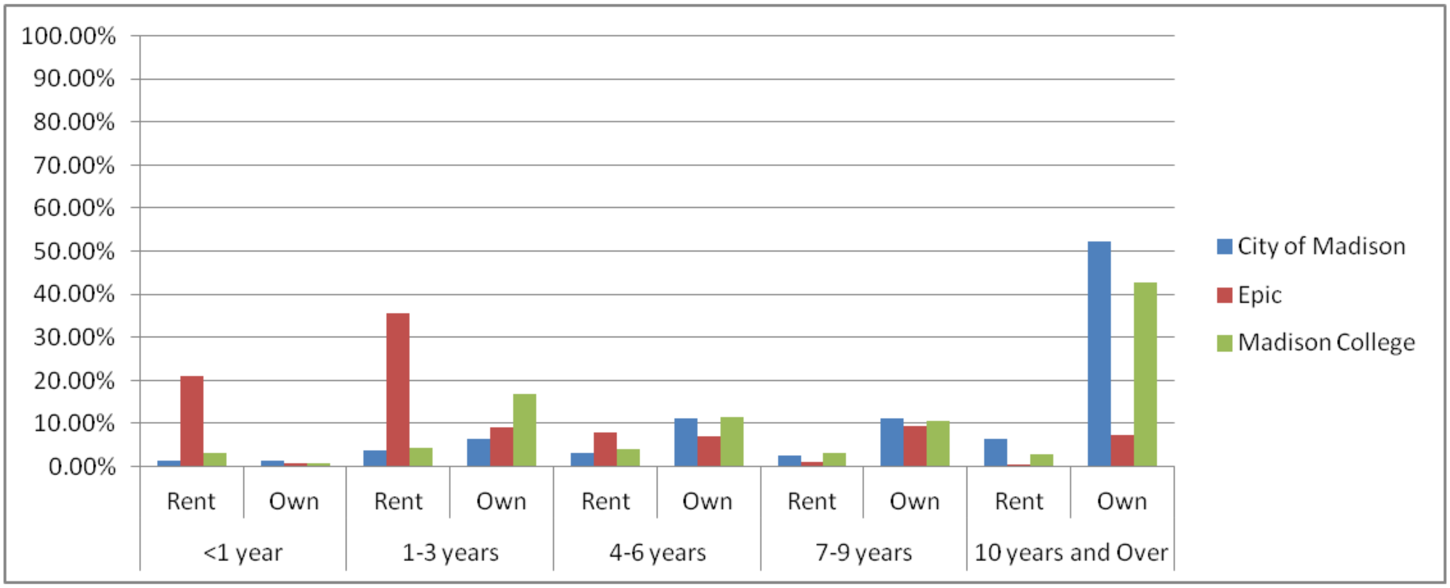
Combining all of the trends in the data, it is clear that **the surge in demand from 25-34 year olds and households with higher incomes are the major drivers of the current boom in the rental market, which is supported by interviews with developers**. To better understand this demand, the City of Madison commissioned a survey on housing preferences from area employers including the City of Madison, Epic, and Madison College (Appendix C). These employers serve as a reasonable proxy for three of the primary employment sectors in Madison (government, technology, and higher education). From these data, a number of trends appear.

RENT VS OWN



Source: 2014 City of Madison Housing Survey

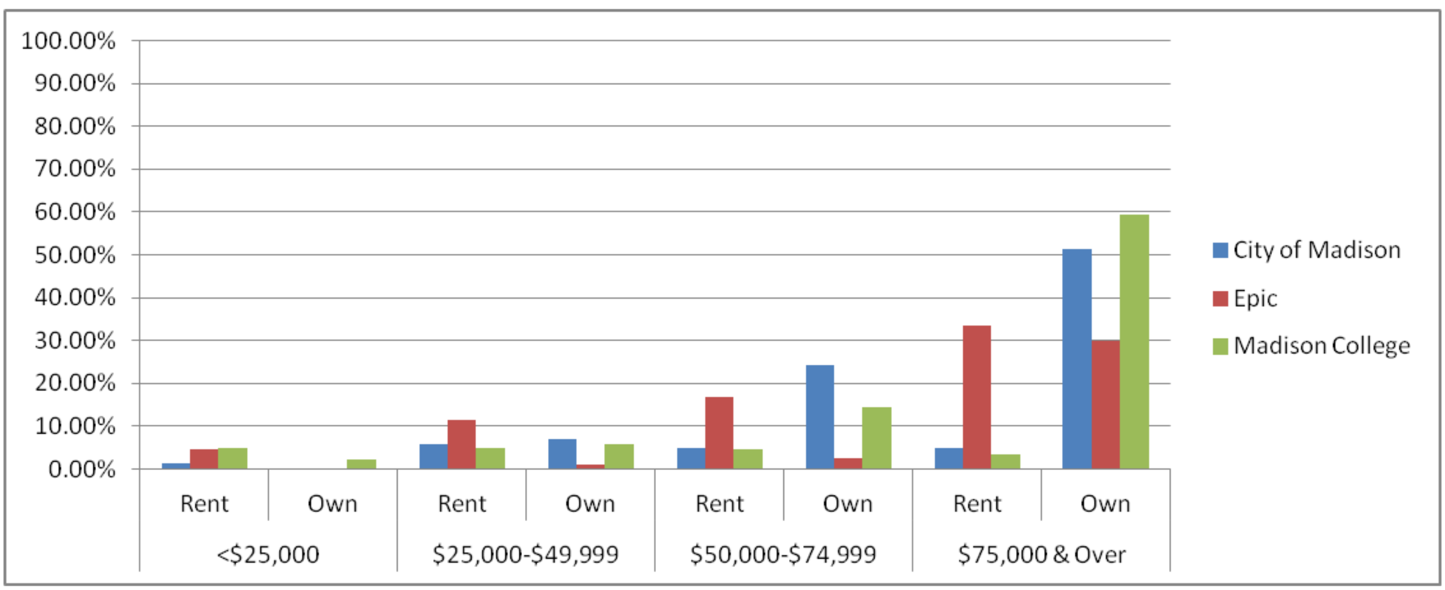
RENT VS OWN BY LENGTH OF EMPLOYMENT



Source: 2014 City of Madison Housing Survey

First, there is a very close correlation between the length of time an employee has worked for their current employer and their rate of homeownership. This relationship holds across all employers. This relationship indicates that **while high growth firms with large numbers of new employees such as Epic are driving the current increase in demand for rental housing, if those employees are retained it is likely that they will eventually become homeowners**. However, if we continue to see significant job growth or turnover of those employees, rental demand should stay high.

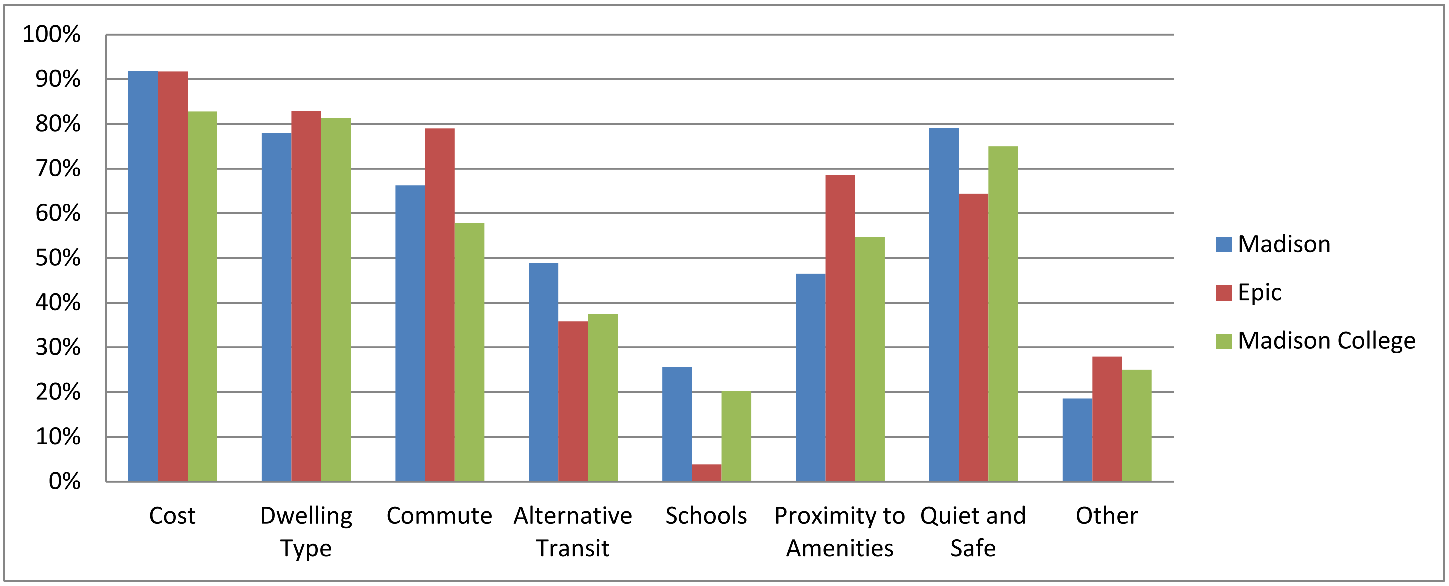
RENT VS OWN BY INCOME



Source: 2014 City of Madison Housing Survey

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

FACTORS IN CURRENT HOUSING SELECTION

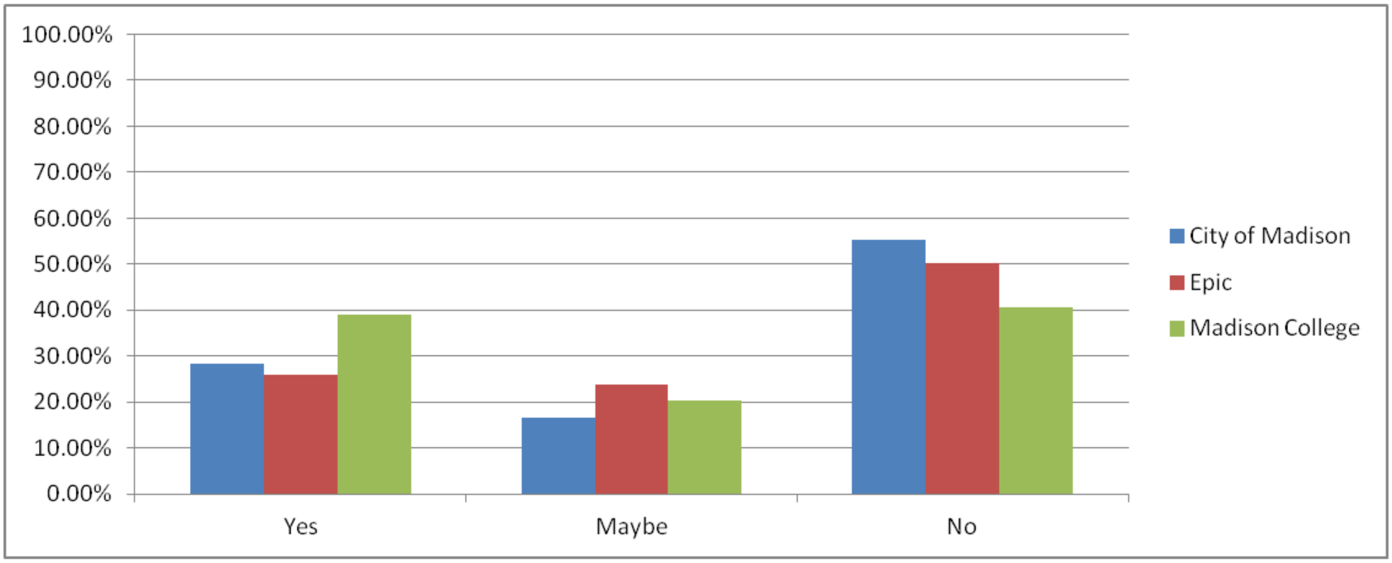


Source: 2014 City of Madison Housing Survey

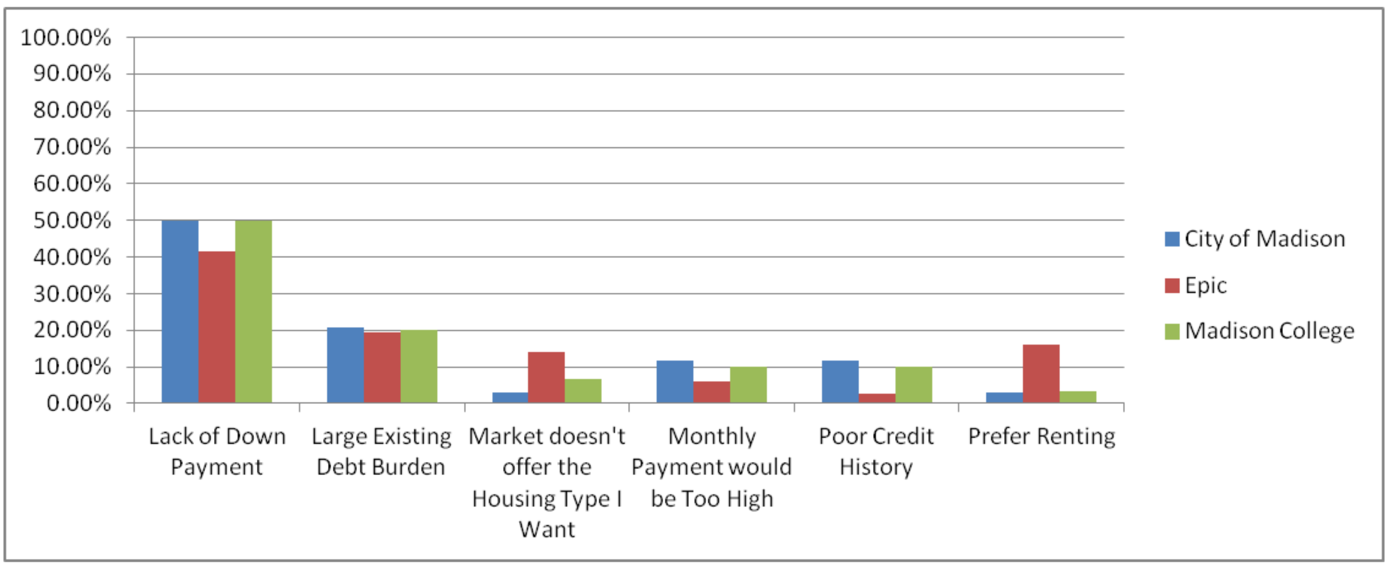
When asked why renters live where they do a few clear trends emerged:

- The unit itself is universally important as shown by responses regarding the cost and type of unit
- Location is nearly as important, as shown by commute, proximity to amenities, and quiet and safe neighborhood responses
- Proximity to amenities is particularly important to those who have worked for their employer for 6 years or fewer
- Quality of schools matters very little to renters, and barely registers to renters without children
- The most common answer in the "Other" category was a desire to live in downtown Madison in an urban/dense setting

INTEREST IN PURCHASING IN THE NEXT 2 YEARS



MAIN BARRIER TO PURCHASING



Source: 2014 City of Madison Housing Survey

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

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

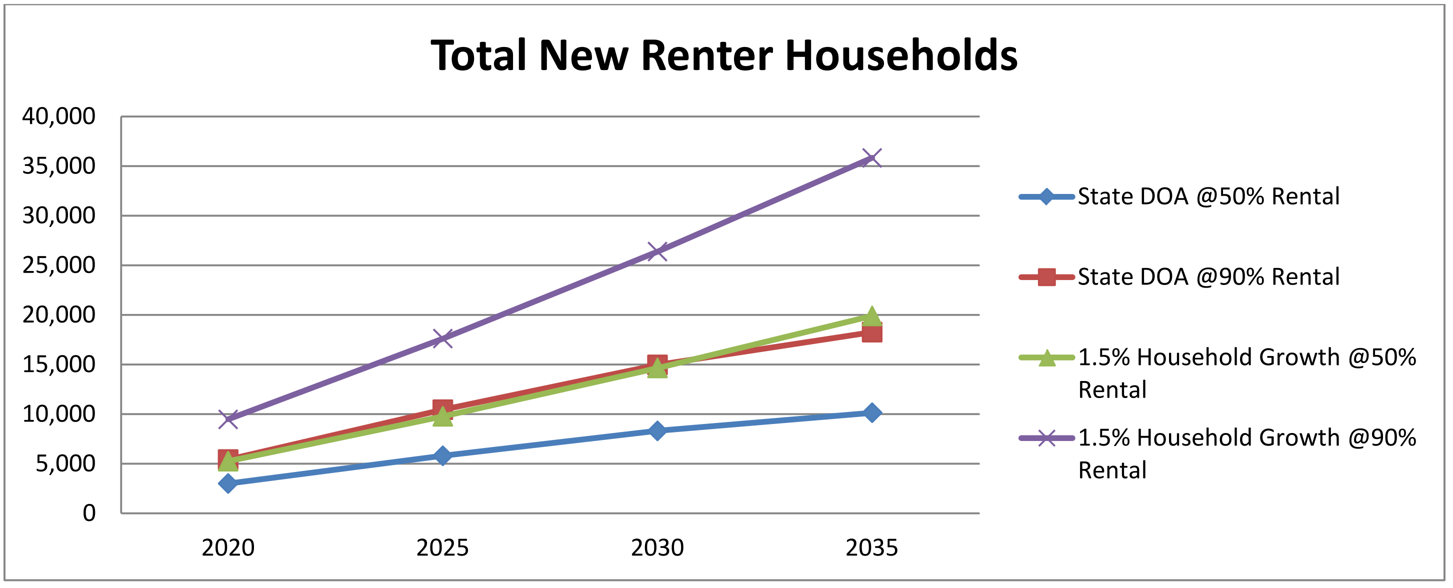
These data support the argument that it is not simply cost that is preventing renters from purchasing. Instead, there are number of factors that lead to renters not being ready at this point in their lives and careers to make a financial and personal commitment to ownership.

FUTURE DEMAND

The Wisconsin Department of Administration estimates that **the City of Madison will add approximately 20,000 new households over the next twenty years (1,000 per year), representing growth of less than 1% per year.** Combining this very conservative growth estimate with an equally conservative projection of a 50-50 mix of rental vs. ownership, would result in demand for roughly 500 new rental units per year.

Other likely scenarios could result in significantly higher rental housing demand. For example:

- If the City's recent population growth rate continues and household size continues to shrink (due to growth from 25-34 year olds and over 55), household growth could be more than twice as high
- If recent trends hold and 90% of new households choose to rent, the City would require 18,000 new rental units or 900 per year at the more conservative growth rate
- **Combining these trends of slightly higher household growth rates and a preference for renting would lead to a demand for continued production of 1,500-2,000 new rental units per year**



Source: WI Department of Administration

TRENDS

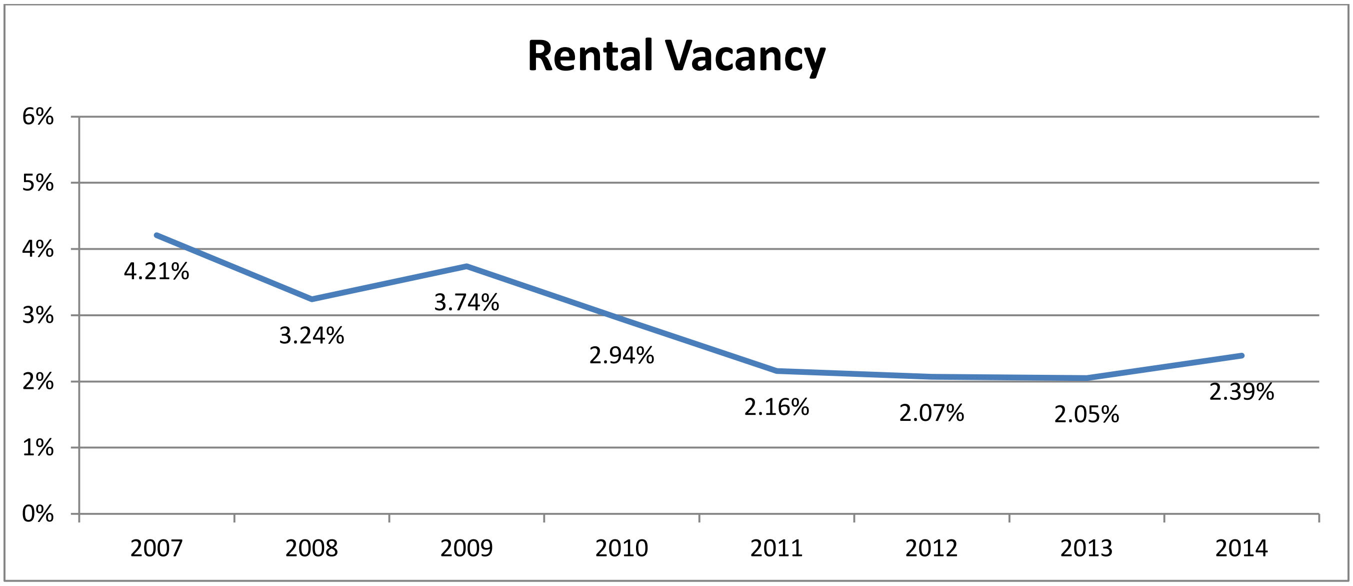
- **Demand for rental housing is being driven by four main factors:**
  - **Population growth and household growth has increased more rapidly 2007-2013 compared to 2000-2007**
  - **Household growth is occurring primarily in the 25-34 age cohort (too early in career to commit to ownership and have the financial resources to purchase)**
  - **There has been a reversion to historic lower rates of homeowners**
  - **There is a shift in preferences amongst all income groups towards rental (even high earners)**
- Upper middle class households (Over $100,000) are the fastest growing group of renters and they account for 25% of renter household growth
- Renters who have been with their employer for 6 years or less (likely Millennials) place a very strong value on the location of their housing, particularly its proximity to amenities

MARKET RATE RENTAL - SUPPLY

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, it has not been sufficient to meet the demand from the market as shown by low vacancy rates and increasing rents.

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.

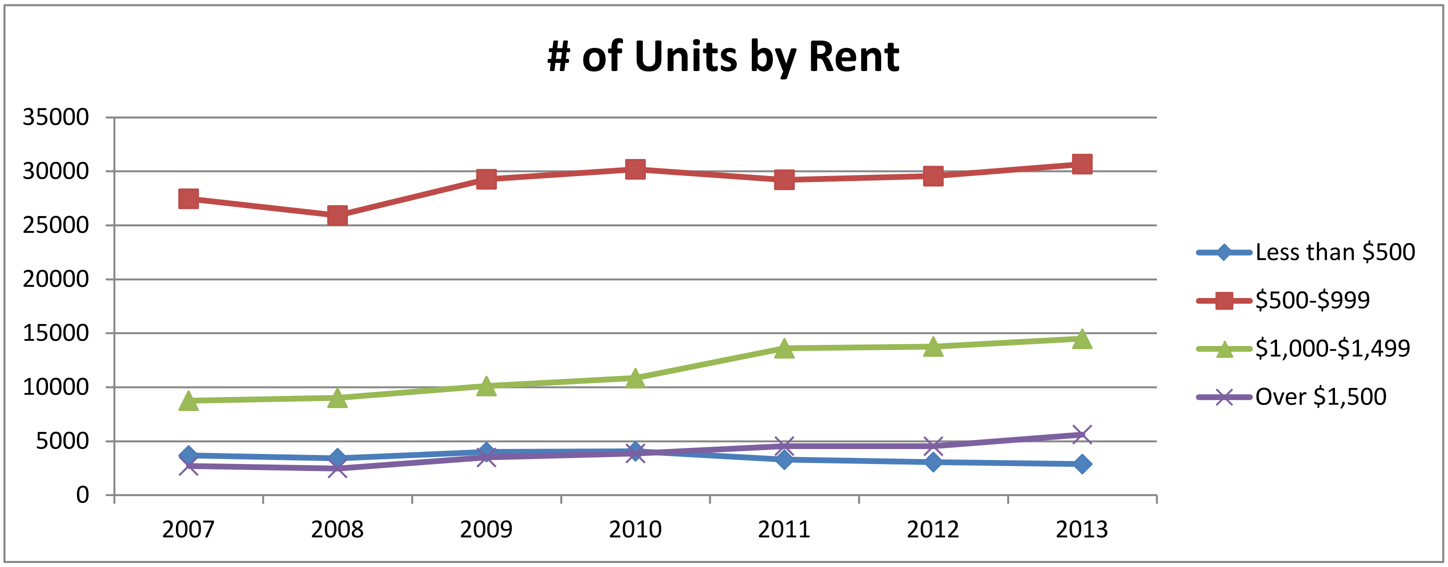


Vacancy is not evenly dispersed in the Madison market with some zip codes reporting virtually no vacancy while others reach 4% (still below the 5% target rate for a healthy market).

Rental Vacancy Rates by ZIP Code

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

Source: MGE Multifamily Vacancy

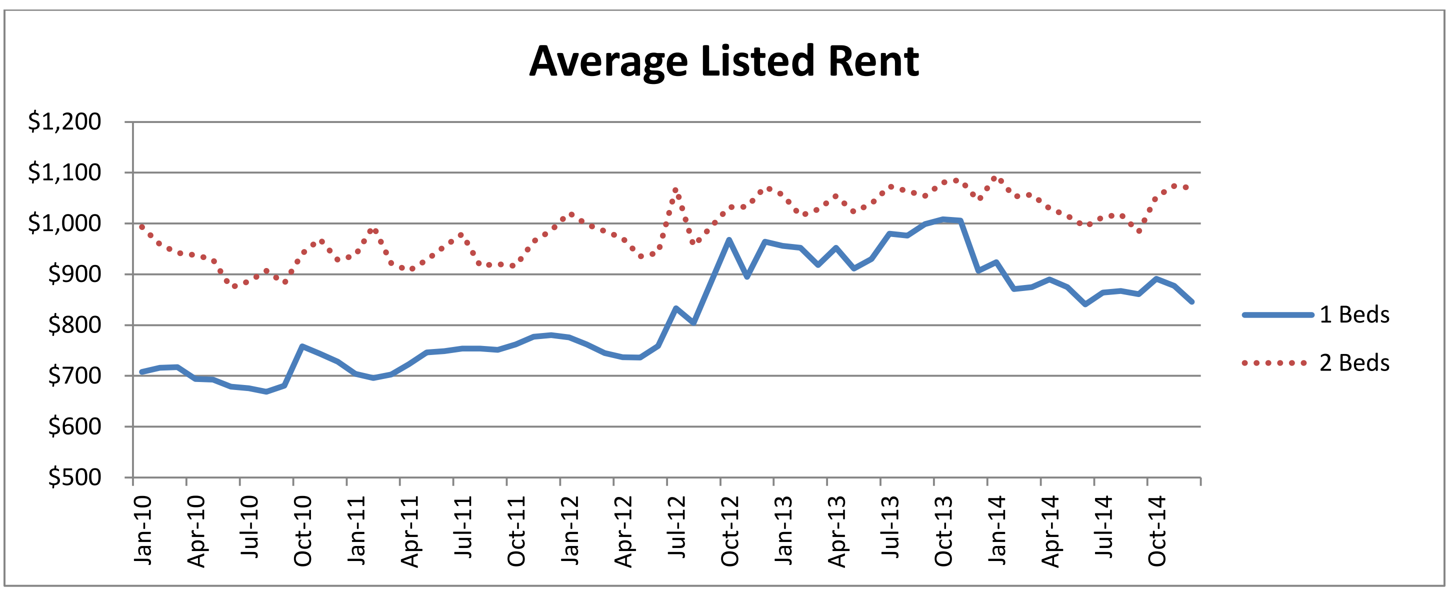


Source: 3 Year American Community Survey

Unit Growth Rate 2007-2013

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

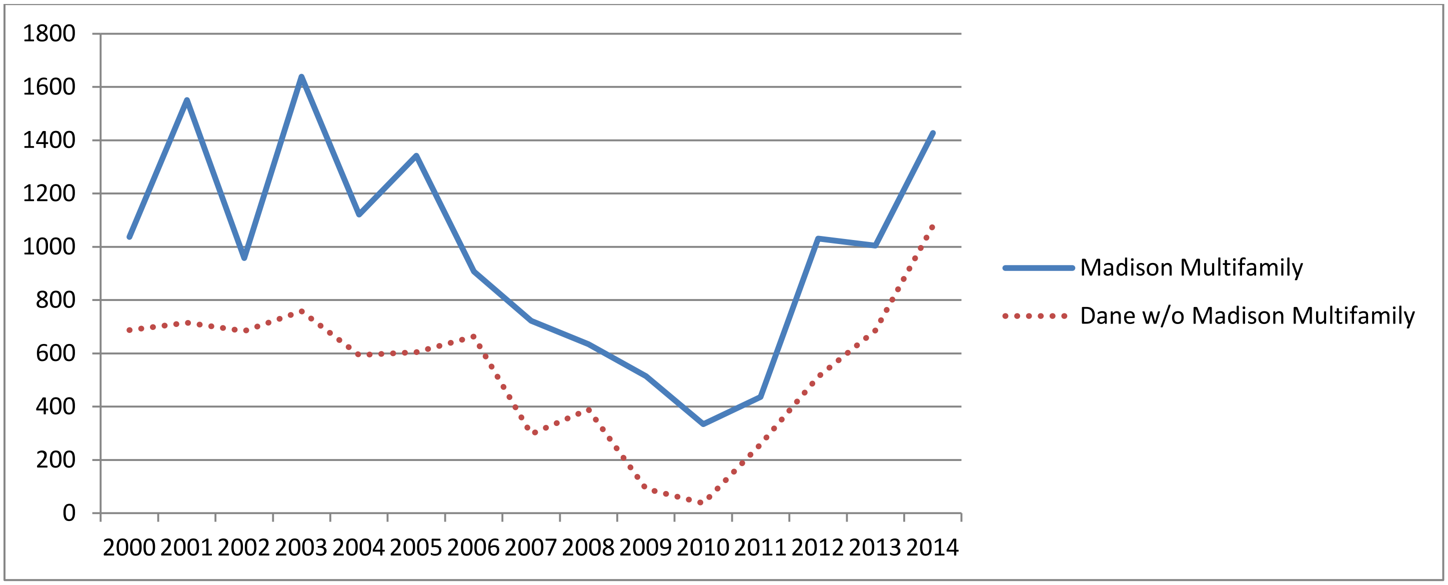
According to data from rentjungle.com, an aggregator of online rental listings, average market rents for one and two bedroom apartments increased dramatically from mid-2012 through the end of 2013, but appear to have stabilized and dropped slightly in 2014. This increase and drop was especially apparent in the market for **one bedroom units, which saw a 30% increase in average list price from the beginning of 2012 through the end of 2013**.



Source: rentjungle.com

NEW SUPPLY

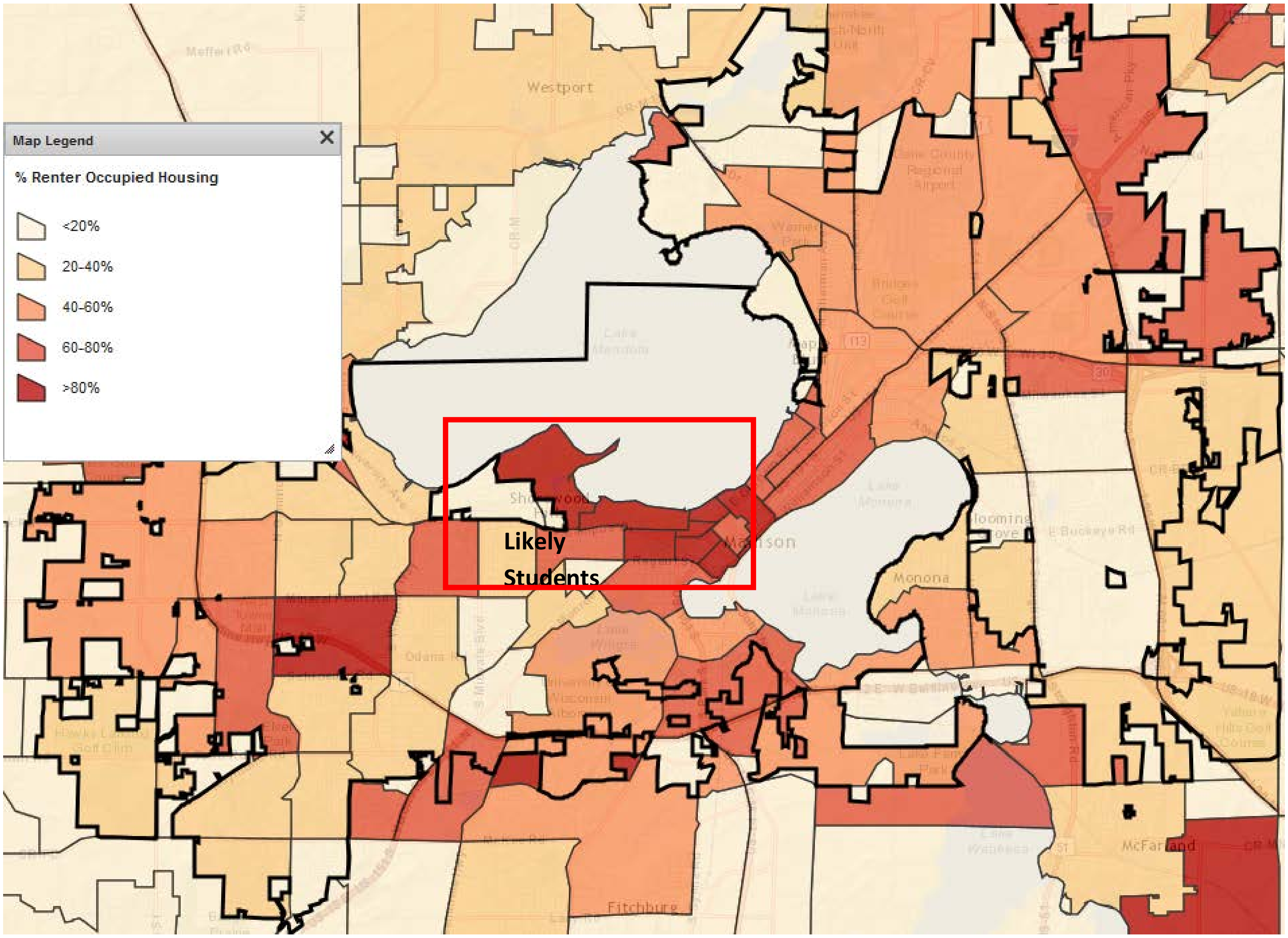
From 2007 to 2013, permits were pulled for only 4,675 multifamily units in Madison despite adding over 11,000 renter households in the same period. This gap has been filled by a sharp reduction in vacancy, conversion of owner occupied housing to rental, and the completion of projects begun before 2007.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



Source: Census Building Permits Survey

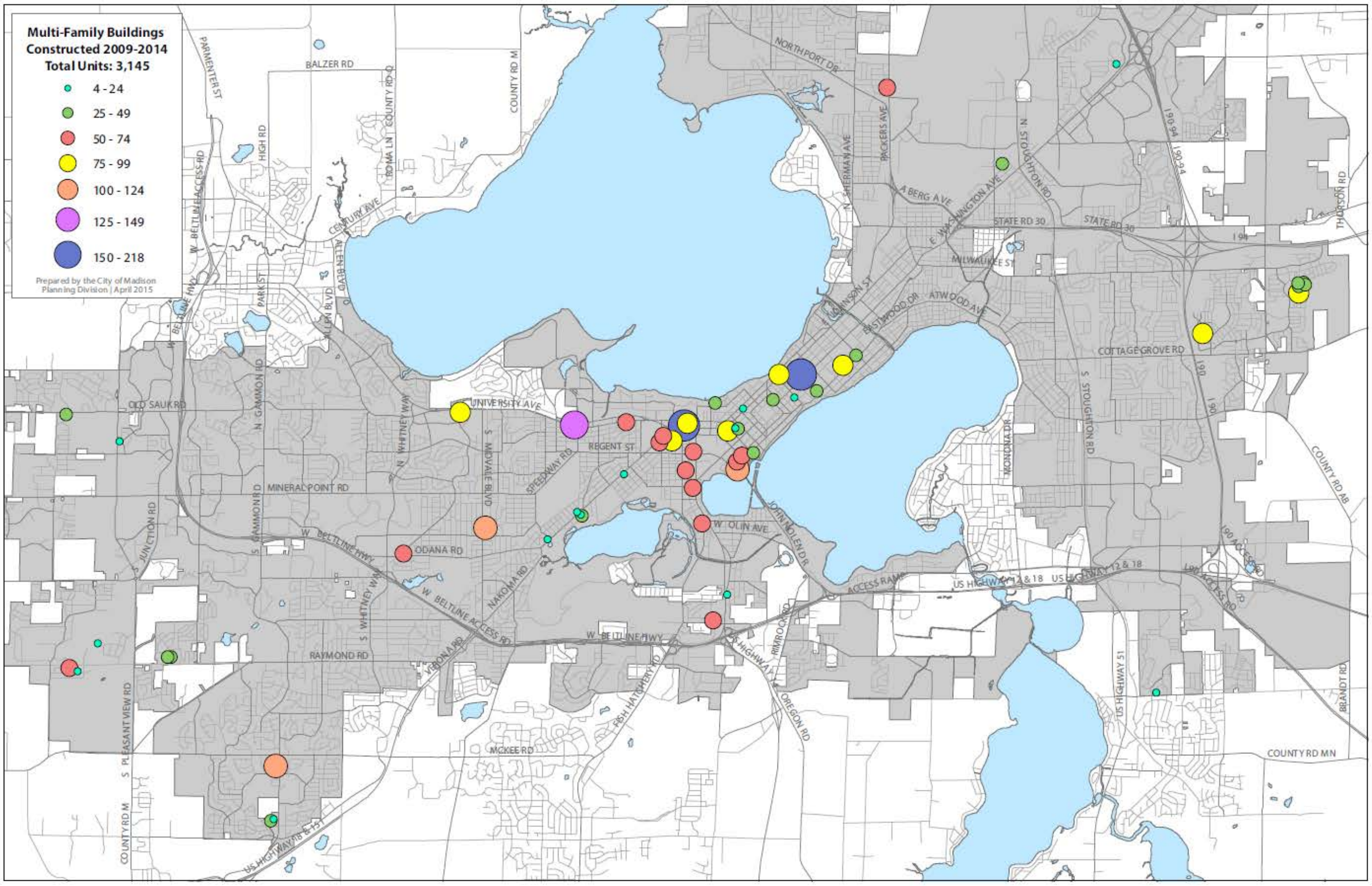
2014 Residential Development	
	Residential Units (#)
Completed	**1,002**
Under Construction	**2,355**
Approved	**1,507**
In Process	**436**
2014 Totals	**5,300**

Source: City of Madison Planning Department



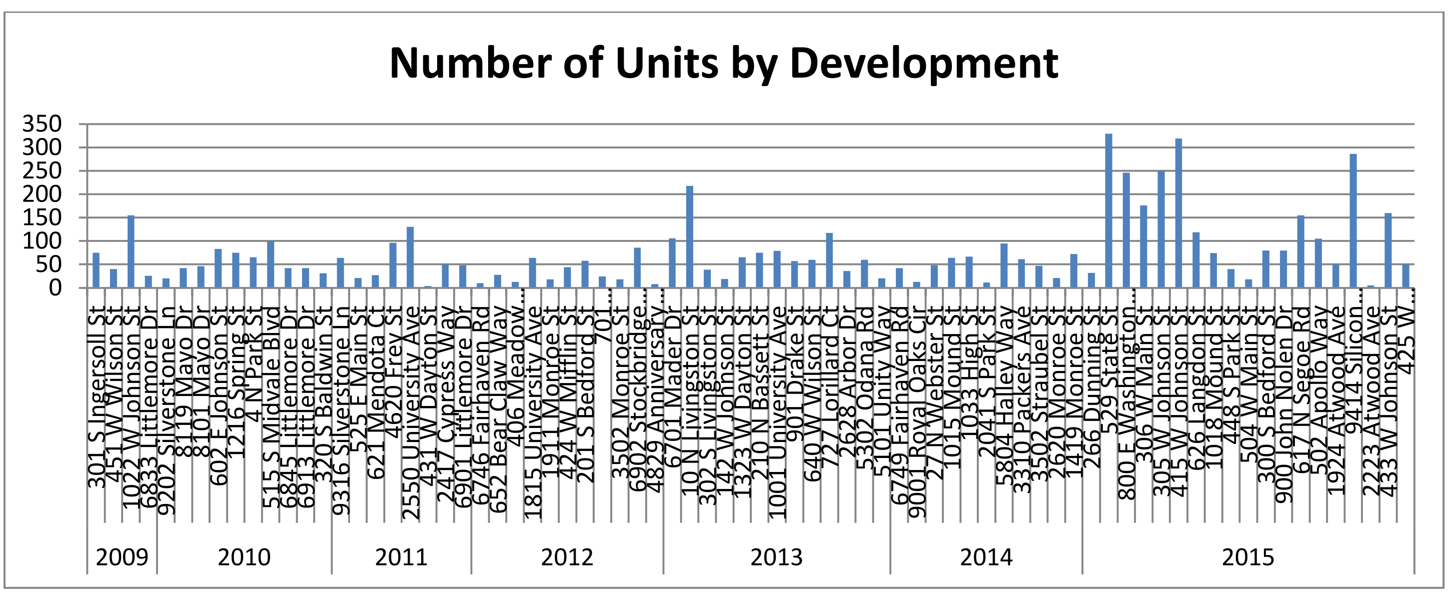
Source: HUD CPD Maps

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

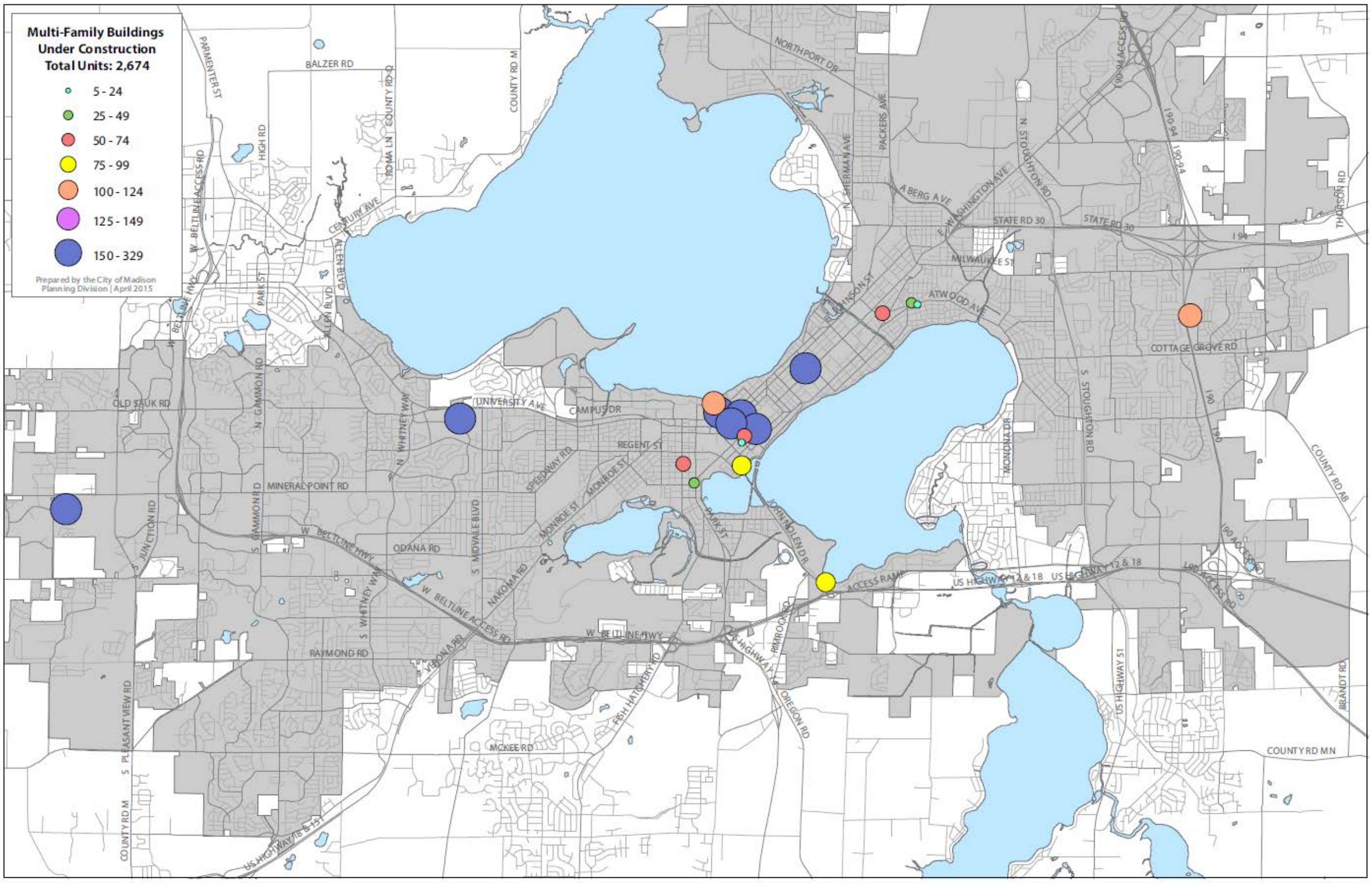


Source: City of Madison Planning Department

Over the past five years, Madison has seen development of new multifamily buildings (most likely rental) concentrated in downtown and along major transportation corridors. These developments have largely been in the 50-75 unit range.



CURRENT CONSTRUCTION



Source: City of Madison Planning Department

Looking forward, the majority of multifamily development projects under construction are in the form of very large buildings with over 150 units, and there is an even stronger concentration downtown.

TRENDS

- Supply has not kept up with demand
    - Very low vacancy and increasing prices
- New supply has largely been targeted at the high end of the income spectrum
- New supply has largely been concentrated downtown with some development along major transportation corridors
- The average building size of new developments has been increasing

NATIONAL

The majority of funding for rental housing is in the form of traditional commercial mortgages and investor equity.

- 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
- Real Estate Investment Trusts (REIT)
    - A company that owns real estate or mortgages, and sells ownership shares on an exchange (similar to mutual funds)
    - Often large and well funded, allowing them to purchase entire real estate portfolios from landlords, finance improvements, weather market difficulties better than smaller private landlords
    - Provide market liquidity and an exit strategy for private developers and landlords
    - Often require larger portfolios and markets than exist in Madison

LOCAL SOURCES

- Tax Incremental Financing (TIF)
    - City of Madison funded program that uses projected future increases in the property taxes from a defined area (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 use the funds for affordable housing within a municipality

MARKET RATE RENTAL - CHALLENGES

The greatest challenge currently facing our rental housing market is that the supply of rental housing has been unable to keep up with demand. During the recession, very few new units were created despite growing demand. Although there has been a recent boom in construction, supply has yet to catch up with demand. This is demonstrated by the persistently low vacancy rates and rising rents. **If recent trends in population and household growth, demographic changes, and housing preferences persist, our market will need to continue to add a significant amount of new rental housing.** Over the medium to long term if demand growth remains strong, the ability of the market to adequately increase supply to meet this demand and maintain affordability could be limited by:

PHYSICAL CAPACITY TO ADD SUPPLY

Continuing to add significant amounts of new rental housing supply will likely require adding additional housing density to existing concentrations of rental housing (downtown) as well in areas of the City zoned for multifamily housing and possess the infrastructure (transportation, retail, land) to support more intense use. Due to geographic constraints (lakes, adjacent municipalities), capacity of our transportation systems, and zoning restrictions **there are limited locations available that can accommodate the new housing supply needed to meet projected future housing demand**. **The additional factor of strong demand preferences from young professional renters to be in locations close to amenities further narrows the list of potential growth areas.** Acquiring sites, assembling property, and providing adequate onsite parking will pose a significant challenge to development in these locations. These challenges could both limit increases in supply and reduce affordability.

RISING CONSTRUCTION COSTS

According to contractors active in the Madison market, annual construction costs have increased 7-10% due to several contributing factors. With the large increase in demand for multifamily housing, Madison has experienced significant subcontractor pricing increases as well as material cost increases. The largest impact to those costs is a shortage of skilled labor in the trade fields. During the downturn in 2007-2010, many of the trades people left their respective fields to pursue other occupations. Despite the return in demand for those trades, the workers have not returned. This combined with a lack of young people entering the trades has caused a labor shortage and made it more difficult obtain the right labor mix on projects.

Continued increases in demand will continue to drive up construction costs for the foreseeable future.

LOCAL MODELS

- Capital East District
    - The Capital East District located on Madison's near east side is an example of a concerted effort to encourage real estate development in a specific corridor by the City of Madison
    - Very specific goal of encouraging housing and employment opportunities along a major transit corridor
    - Removes barriers to development and reduces development costs through:
        - Land banking large and underutilized parcels to be remediated and sold through an RFP process
        - Creating a TIF district to subsidize development
        - Rebuilding transportation infrastructure to accommodate increased density
    - Applied an Urban Design District to the target area to allow for increased height and modified land use process
    - The City further encourages development through branding and marketing efforts to attract developers
    - Has resulted in the completion of one significant mixed use housing development, another under construction, and a strong pipeline of others on their way

The Constellation

NATIONAL MODELS

INFORMATION

- Developer Liaison
    - Dedicated staff to guiding real estate developers through the land use, permitting, and/or public financing process to facilitate development
    - Helps mitigate the complexity and high barriers to entry for new and non-local developers
    - Can be done by city staff or 3rd party organization such as a community development corporation contracted by the local government
    - E.g. The City of Baltimore contracts the Baltimore Development Corporation to shepherd developers through the development process and facilitate site selection
- Economic Indicators
    - Release monthly or quarterly reports on key economic indicators that reflect supply and demand trends for the rental market (E.g. building permits, job growth, vacancy rate)
    - Provides timely, objective, 3rd party data for City committees, policy makers, developers, and investors to make decisions
    - Most of the data is publicly available but is spread across multiple sources, released annually, or poorly formatted
    - E.g. MetroDenver releases a monthly report of 18 key indicators for distribution to the business community displaying month to month and year over year trends

TARGETED DEVELOPMENT

- Expedited permitting or land use approval
    - Streamlining the process for building site permits and land use approvals can save developers substantial time and money
    - Lengthy approval processes cost developers money through land holding costs, added architecture expenses, and opportunity costs
    - Can be tied to specific areas of the city, meeting 3rd party standards (ex green building), or uses (ex affordable housing)
    - E.g. Chicago's Green Permit Program reduces permit approval to under 30 days for projects that commit to LEED certification
- Reduce/Eliminate Parking Requirements
    - Reducing or eliminating parking minimums from multifamily rental developments to reduce the costs and land requirements for new development
    - Structured parking can cost tens of thousands of dollars, increasing rents or constraining development potential
    - Reduced requirements are often tied to location (density, proximity to transit)
    - E.g. The City of Madison Zoning Code has multiple designations with no parking minimum
    - E.g. Boston, New York and Vancouver are proposing to systematically reduce parking minimums for multifamily housing to encourage development and increase affordability

- Land Banking
    - Local governments or related entities purchase and manage underutilized property for later redevelopment
    - Often involves the purchase of foreclosed or difficult to develop parcels
    - Gives local government the ability to encourage or control the eventual development to a much greater degree than would be possible through zoning or subsidy
    - E.g. The City of Madison purchased the Union Corners out of foreclosure and later identified a buyer through an RFP process
- Development Zones
    - Designate clearly defined areas of the city as development zones where a separate set of development rules apply to encourage development (E.g. fast track land approvals, Tax incremental financing districts, height or density bonuses, or other public subsidy)
    - Often actively marketed and branded by communities
    - E.g. Madison's Capital East District combines TIF, land banking, and marketing by EDD staff to implement a detailed plan with strong neighborhood support

FINANCING

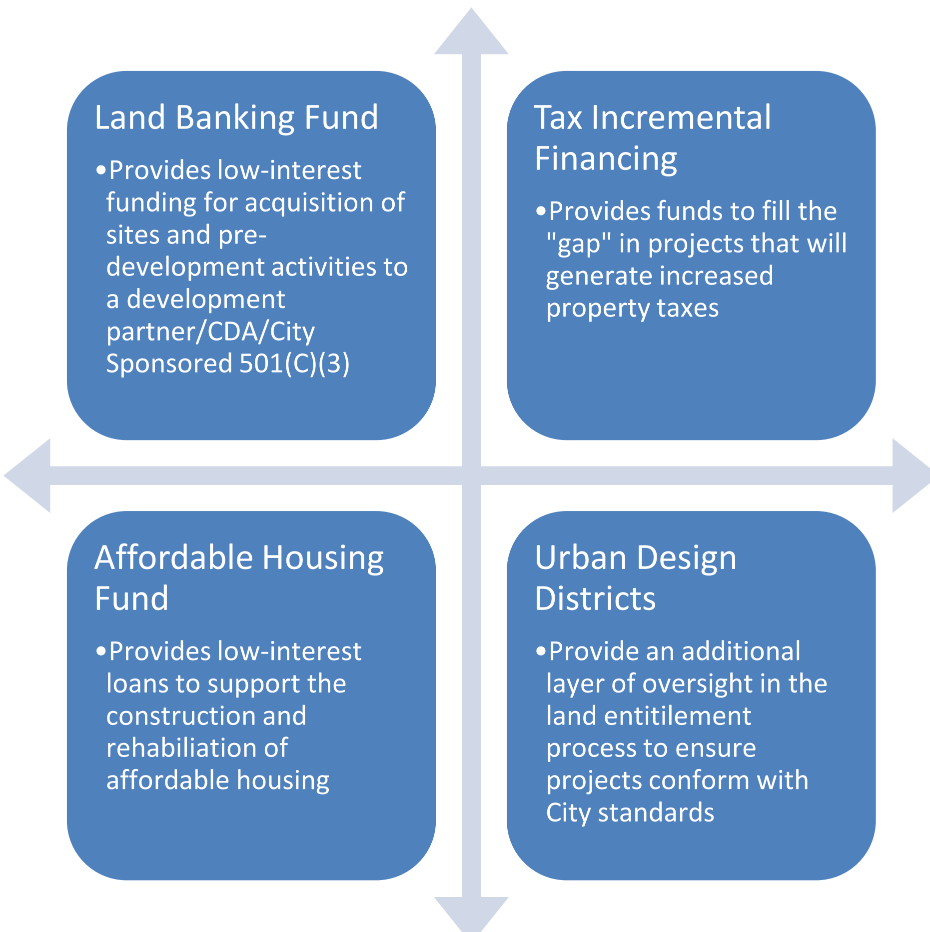
- Revenue and Housing Bonds
    - A special type of bond is repaid solely from lease revenues generated by a specified revenue-generating project, rather than from taxes
    - Can be used to finance housing or infrastructure
    - Exempt from state mandated borrowing caps on municipalities
    - Double tax exempt resulting in very low interest rates
    - Can be issued by the Community Development Authority (CDA)
- Municipal Real Estate Development Funds
    - Provides low interest financing through a revolving loan, loan loss reserve, or loan guarantee to fund land banking, site acquisition, and predevelopment costs for developments
    - Often a partnership between local governments who provide equity and lenders who agree to provide very low interest loans
    - Can be targeted to specific areas or types of development (affordable housing)
    - Can be administered by a community development authority or 3rd party non-profit
    - E.g. The $30 million Denver Transit Oriented Development Fund is funded by the City of Denver, Colorado Housing and Finance Authority, banks, and foundations to acquire property in transit corridors to preserve affordable housing or land bank for housing development
- Crowdfunding
    - A financing mechanism that allows small investors to invest in real estate developments
    - Allows neighbors to invest in projects in their community, giving them an opportunity to directly benefit from increased development and encourage the types of development that they want to see
    - Often managed through a website platform that matches investors with developers and handles transactions
    - Limited to SEC defined Accredited Investors with high income and net worth
    - E.g. In Oakland a grocery store raised $1.2 million in equity from neighbors who made $1,000 to $5,000 investments

APPENDIX A – CITY OF MADISON DEVELOPMENT ZONE INITIATIVE

The proposed Madison Development Zone Initiative (Market Rate Rental - Priorities) is a set of tools designed to be used together to remove barriers and spark housing development in specially designated areas of the city (Development Zones) that are in close proximity to amenities (schools, grocery stores, etc) and are particularly well served by transportation infrastructure. The goal of the initiative is to ensure a strong supply of high quality housing to meet our growing demand at all ends of the income spectrum. Specifically the initiative will:

- Establish priority locations for housing development
- Align funding mechanisms and concentrate them on priority areas
    - Allow for the acquisition of key parcels for land banking
    - Fund the creation of affordable housing
    - Support development projects with a funding gap
- Ensure oversight through the entitlement process

Key to the success of the initiative is the process for the selection of locations for Development Zones that meet City priorities for development. Potential Development Zones could include the *Growth Areas* identified in the Transportation Master Plan as well as the Economic Strategy. Successful implementation of this initiative will require coordination across the Planning, Community Development, and Economic Development Divisions as well as support from policymakers, neighborhoods, and the private sector.



LAND BANKING FUND

Create a new Land Banking Fund modeled as a Municipal Real Estate Development Fund to provide financing for the acquisition and site preparation of property in Development Zones for the creation of housing. Goal of leveraging City funds to create a larger funding pool at a low cost of capital to support land banking, and pre-development activity within Development Zones.

PROGRAM STRUCTURE

- Structured as a debt/equity fund composed of:
    - City of Madison
    - Foundations
    - Investors
    - Preferred Lenders
- Administered by the CDA/CDFI/City Sponsored 501(C)(3) with oversight from investors

DEVELOPMENT PARAMETERS

- Located in a City of Madison designated Development Zone
- Property will be acquired by a development partner/CDA/ City Sponsored 501(C)(3) and held for up to 5 years before being sold to a private developer

PROJECT TYPES

- Multifamily rental housing (for-sale may be considered)
- Mixed-use projects that include housing

COLLATERAL

- Real estate in a first priority position, with other secured loans subordinate to the Land Banking Fund loan

REPAYMENT

- Monthly interest-only payments; principal due at maturity or upon receipt of a repayment source

TAX INCREMENTAL FINANCING

Tax Increment Financing (TIF) is a governmental finance tool that the City of Madison uses to provide funds to construct public infrastructure, promote development opportunities and expand the future tax base within specifically created TIF Districts. To the extent possible, TIF Districts should be created to overlap the borders of the Development Zones to support developments within them.

PROGRAM STRUCTURE

- Structured as a zero interest loan from the City of Madison
- Administered by the Economic Development Division

DEVELOPMENT PARAMETERS

- Each project must demonstrate sufficient need for the City's financial assistance, so that without that assistance, the proposed project could not occur. Every other financial alternative is to be exhausted prior to the use of TIF, including equity investment, other federal and state funds, bonds, tax credits, loans, etc. TIF assistance shall be utilized as gap financing as determined through gap analysis. Each project must demonstrate a probability of success.
- Located in a City of Madison designated Tax Incremental District

PROJECT TYPES

- Encourage projects that:
    - Grow the property tax base
    - Foster the creation and retention of family-supporting jobs
    - Encourage adaptive re-use of obsolete or deteriorating property
    - Encourage urban in-fill projects that increase (or decrease where appropriate) density consistent with the City's Comprehensive Plan
    - Assist in the revitalization of historic, architecturally significant, or deteriorated buildings, or enhancement of historic districts, especially landmarked and contributing buildings
    - Create a range of housing types and specifically encouraging the development of workforce and affordable housing, especially housing that is for those earning much less than the area median income
    - Fund public improvements that enhance development potential, improve the City's infrastructure, enhance transportation options, and improve the quality and livability of neighborhoods
    - Promote superior design, building materials, and sustainability features in the built environment
    - Reserve sufficient increment for public infrastructure in both TIF project plans and TIF underwriting
- Cannot be:
    - "Luxury" Housing
    - Student Housing
    - Speculative Office Development

REPAYMENT

- Repaid through increased tax increment generated by increased assessed property value backed by a guarantee by the developer

AFFORDABLE HOUSING FUND

The City of Madison Affordable Housing Fund provides low interest loans to developers to support the creation or rehabilitation of affordable housing. Specifically, these funds have been made available to developments utilizing Section 42 Low Income Housing Tax Credits through an RFP process with clear geographic preferences. For future funding rounds, projects should be prioritizes if they are located within Development Zones.

PROGRAM STRUCTURE

- Structured as a loan that is:
  - 50% deferred until sale or change of use
  - 50% low interest loan
- Administered by the City of Madison Community Development Division through an RFP process

DEVELOPMENT PARAMETERS

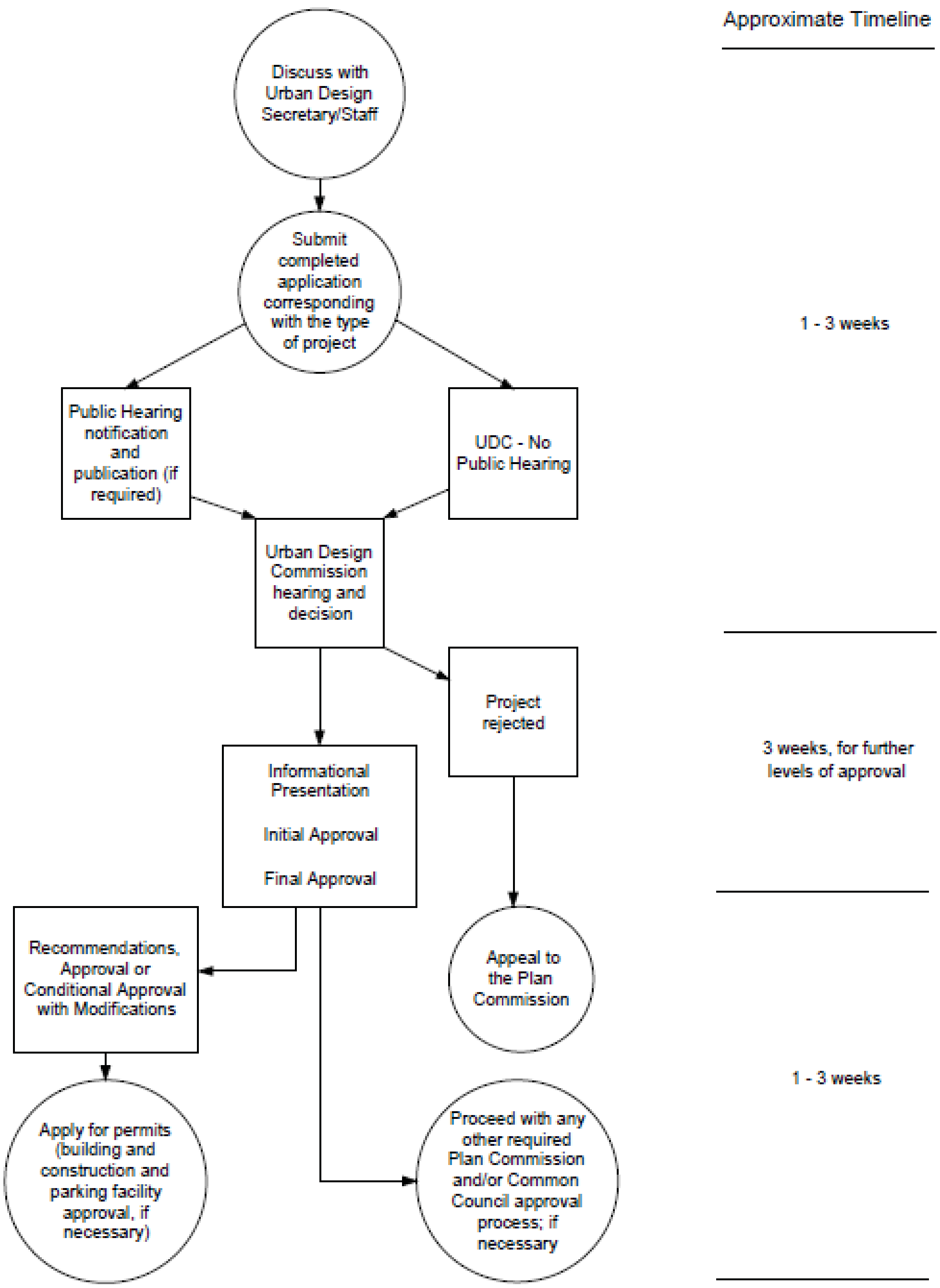
- The applicant must be a willing and capable developer with site control or the ability to establish site control
- Located in a superior location

PROJECT TYPES

- Section 42 Low Income Housing Tax Credit funding multifamily rental developments with a preference for
  - Serving a wide variety of incomes
  - Providing onsite support services
  - Offering a variety of unit sizes
  - Located in close proximity to transit and amenities
  - Demonstrate a high likelihood of receiving tax credits

URBAN DESIGN DISTRICT

In addition to the standard zoning code that regulates land use, the City of Madison employs Urban Design Districts in select areas of the city to further guide the design and appearance of developments. Developments in these areas are subject to extra layers of review by the City and the public to ensure that they meet the standards and expectations of the City.



APPENDIX B – MUNICIPAL REAL ESTATE DEVELOPMENT FUND MODELS

Across the country, cities have created funding pools dedicated to supporting real estate development that has a particular public benefit and would otherwise have difficulty securing private funding. Typically, these efforts are focused on housing and transit oriented development efforts. The purpose of these Municipal Real Estate Development Funds is to leverage a variety of funding sources to provide a low-cost financing tool to assist with land banking, pre-development costs, and acquisition. In the past, the City of Madison has employed a land banking program which worked by having the City of Madison directly purchase properties using entirely City funds.

CURRENT CHALLENGES

While the City of Madison does not have a land banking program, past efforts have been limited by:

- Funded 100% by City borrowing
  - Subject to borrowing limits
- Extremely broad scope
  - Citywide
  - Competing uses (housing, neighborhood centers, etc)

MUNICIPAL REAL ESTATE DEVELOPMENT FUNDS

Municipal Real Estate Development Funds have the advantages of:

- Leveraging City funds with outside funding sources
  - Increases the pool of funds
  - Spreads risk
  - Reduces impact on City balance sheet
- Providing low cost capital to facilitate holding land for longer terms
- Creating a clear process for identification and acquisition of parcels
  - Sets priorities for where and when to acquire property
  - Focuses efforts to have a more concentrated effect
  - Signals City intentions to the market
- Limits activity to geographies and project types identified as a high priority by the City
  - Transit Oriented Development sites
  - Affordable Housing

These Housing Development Funds are can be structured in one of two ways:

- Loan Programs for developers
- Debt/Equity Fund for a designated development partner to utilize

	Loan Program	Debt/Equity Fund
Borrower/Investor	Developers	Development Partner/CDA/City Sponsored 501(c)(3)
Fund Administrator	City/CDFI/Bank	CDA/CDFI/City Sponsored 501(c)(3)
Funding Source	City, Foundations, Preferred Lenders	City, Foundations, Preferred Lenders
Funding Structure	Revolving Loan, Loan Loss Reserve	Private Equity Fund
Advantages	Leverages 3rd party expertise	Greater City influence on outcomes and timing
Disadvantages	Requires strong developer interest	Riskier, greater admin burden

LOAN PROGRAM EXAMPLE

CHICAGO SOUTHLAND COMMUNITY DEVELOPMENT FUND

The Fund is currently a $6 million and growing fund offering two products for developers to finance predevelopment and acquisition of housing within one half-mile of Metra or South Shore stations and high-frequency bus routes. Key roles include:

- Borrower/Investor – Private Developers
- Fund Administrator – Enterprise Community Partners –underwrites and approves loans, aggregates and manages capital flow, lender relations, oversight committee, managing expansion
- Local Government/Housing Authority – high risk lender, sparks participation from others, strategy and vision, often the public “champion”
- Private Foundations - lender, often provides grants for start up costs, brings understanding of community issues and unique priorities
- CDFIs and Banks – lenders, often public champions, key for CRA officers to look for the best capital they can find

Funds can be used for:

- Purchasing existing multi-family properties
- Land banking
- Predevelopment costs (architecture, engineering, appraisals, market studies)

The program is structured as:

- $6 million year fund
- Up to $500,000 for predevelopment, $3m for acquisition
- 3% fixed rate interest only 3-year loans for predevelopment
- Interest rates vary by project for acquisition

DEBT/EQUITY FUND EXAMPLE

DENVER TOD FUND

The Denver Transit Oriented Development (TOD) Fund was created to preserve and create over 1,000 affordable homes and other community assets near high frequency transit by loaning funds to the non-profit Urban Land Conservancy who will use the funds to purchase properties in TOD areas to land bank and eventually sell to developers. Key roles include:

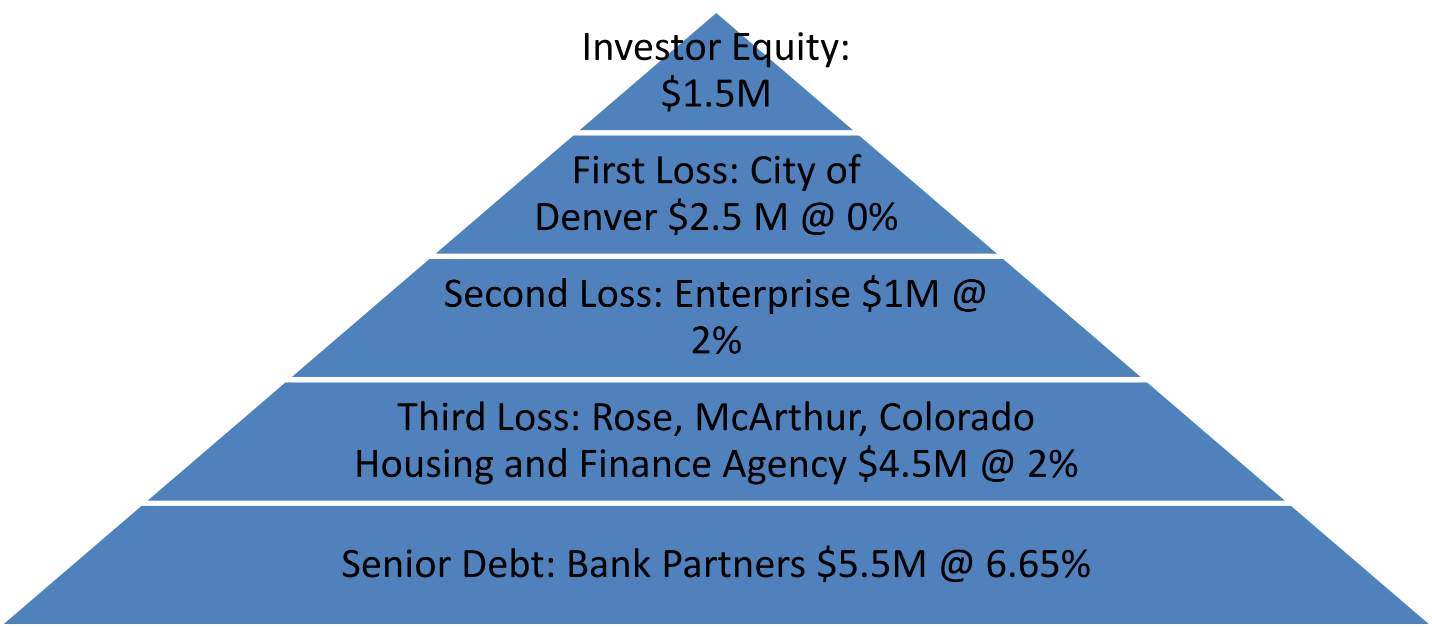
- Borrower/Investor – Urban Land Conservancy (ULC)
- Developers (non profit, public & for profit) –Purchase TOD Fund properties from ULC
- Fund Administrator – Enterprise Community Partners –underwrites and approves loans, aggregates and manages capital flow, lender relations, oversight committee, managing expansion
- Local Government/Housing Authority – high risk lender, sparks participation from others, strategy and vision, often the public "champion"
- Private Foundations - lender, often provides grants for start up costs, brings understanding of community issues and unique priorities
- CDFIs and Banks – lenders, often public champions, key for CRA officers to look for the best capital they can find

Funds can be used for:

- Purchasing existing multi-family properties
- Land banking
- Acquiring industrial/brown field sites for redevelopment

The Fund is structured as:

- $15 million, 10 year fund
- 3.38% fixed rate Revolving Line of Credit
- 3-5 year sub-loans for acquisition
- 90% LTV on 'as-is' basis
- Top 63% is Non-Recourse



APPENDIX C - 2014 CITY OF MADISON HOUSING SURVEY – RENTER DATA SUMMARY

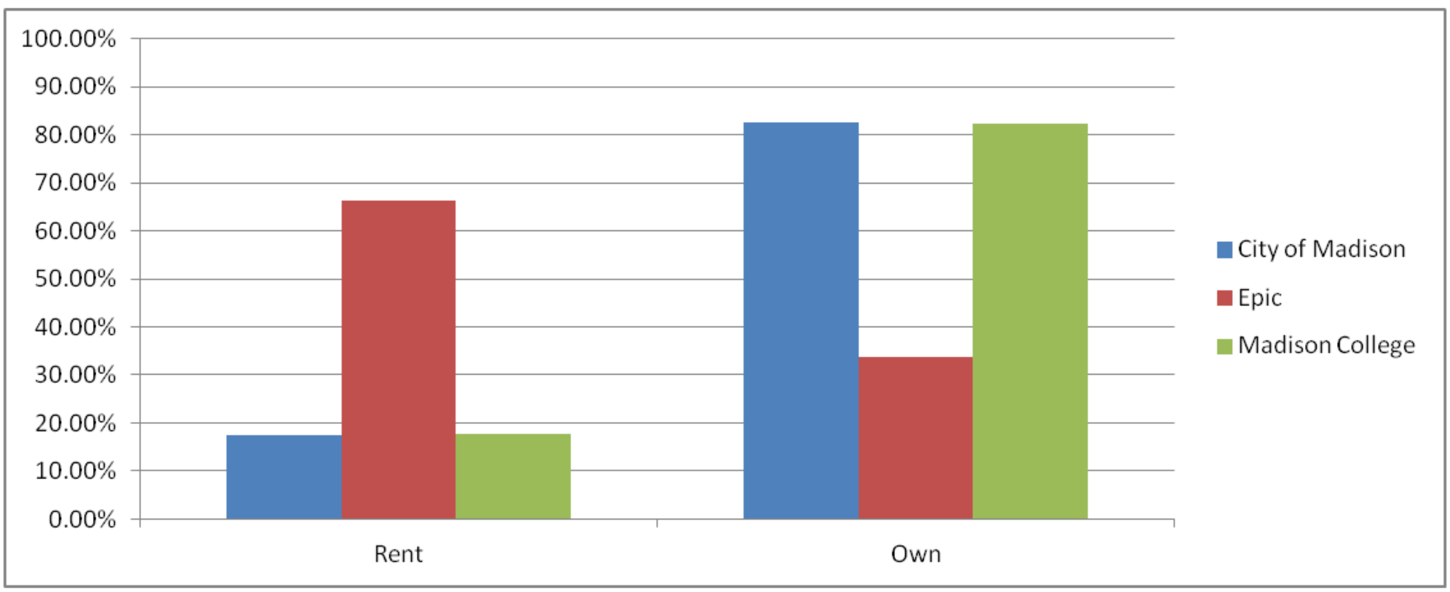
METHODOLOGY

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

SURVEY POPULATION

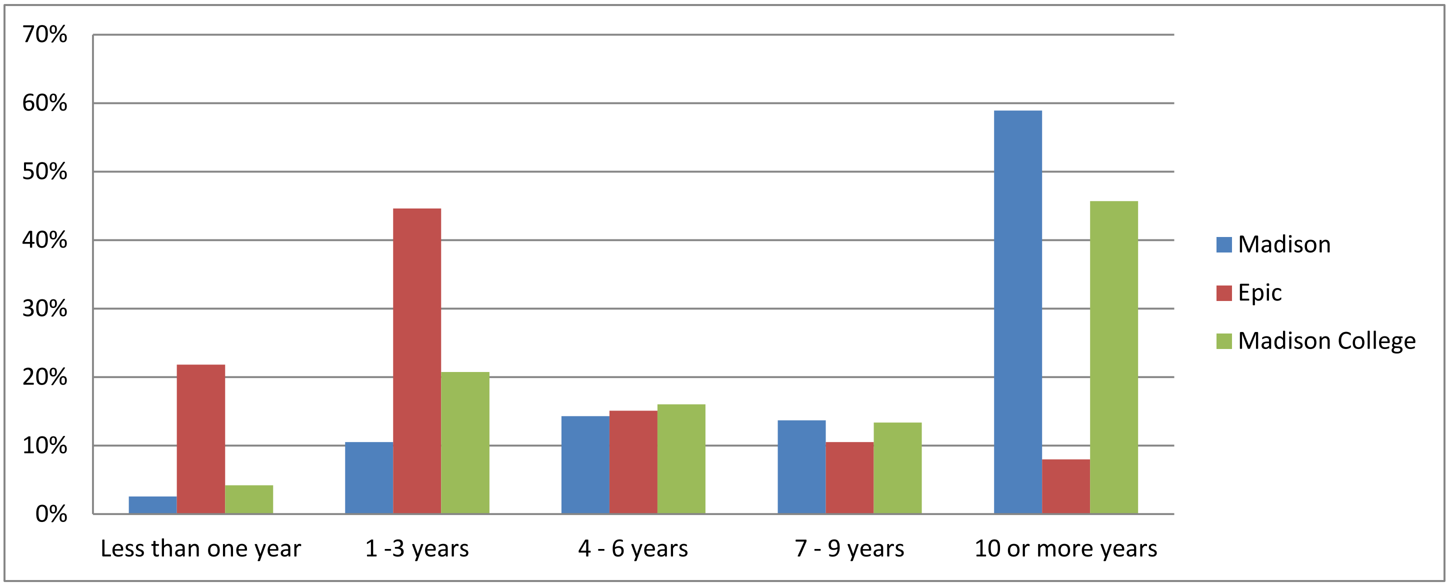
The final sample (N=2,400) consisted of two simple random samples of employees for the City of Madison (800 out of the list of 2,259) and Madison Area Technical College (800 out of the list of 3,334) and another sample of volunteers from Epic employees (N=800).

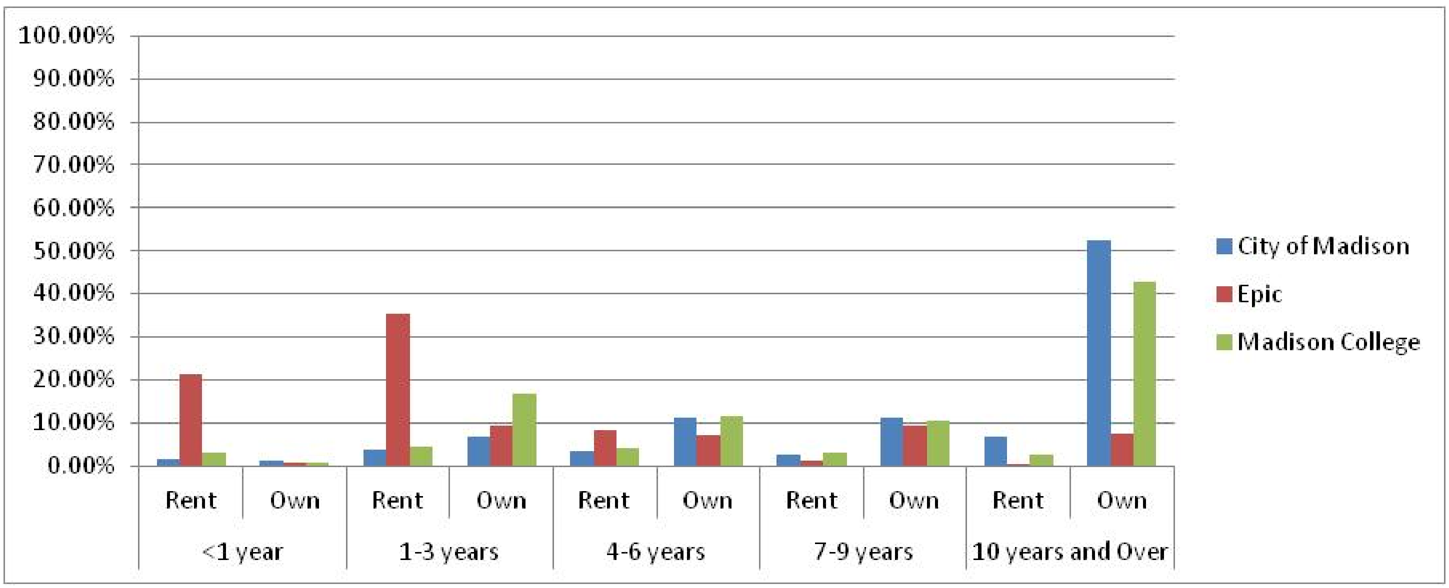
- The response rate for City of Madison was 64.01%
    - City of Madison = 498 returned surveys + 7 returned surveys w/out ID
- The response rate for MATC was 51.33%
    - MATC = 384 returned surveys + 2 returned surveys w/out ID
- The response rate for Epic was 98.63%
    - Epic = 789 returned surveys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



- Due to their extremely high survey response rate and ratio of renter to owner, Epic employees account for a very high percentage of rental responses in the data (~78% of renter responses)

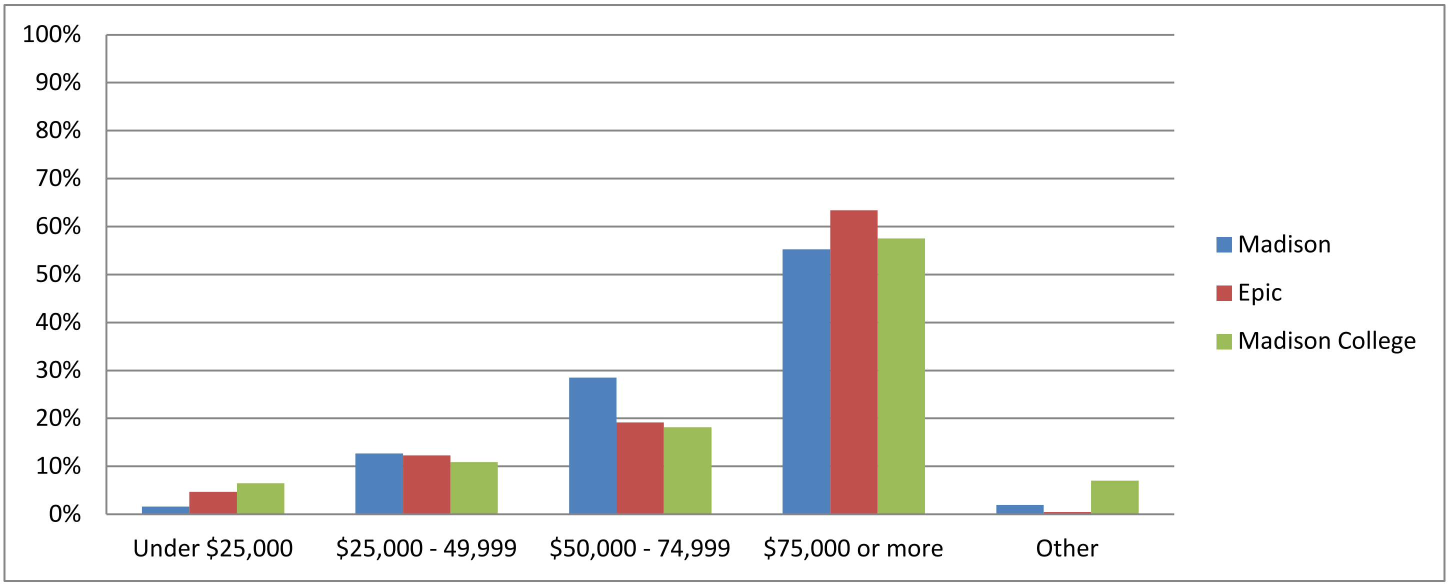
HOW LONG HAVE YOU WORKED FOR YOUR EMPLOYER?

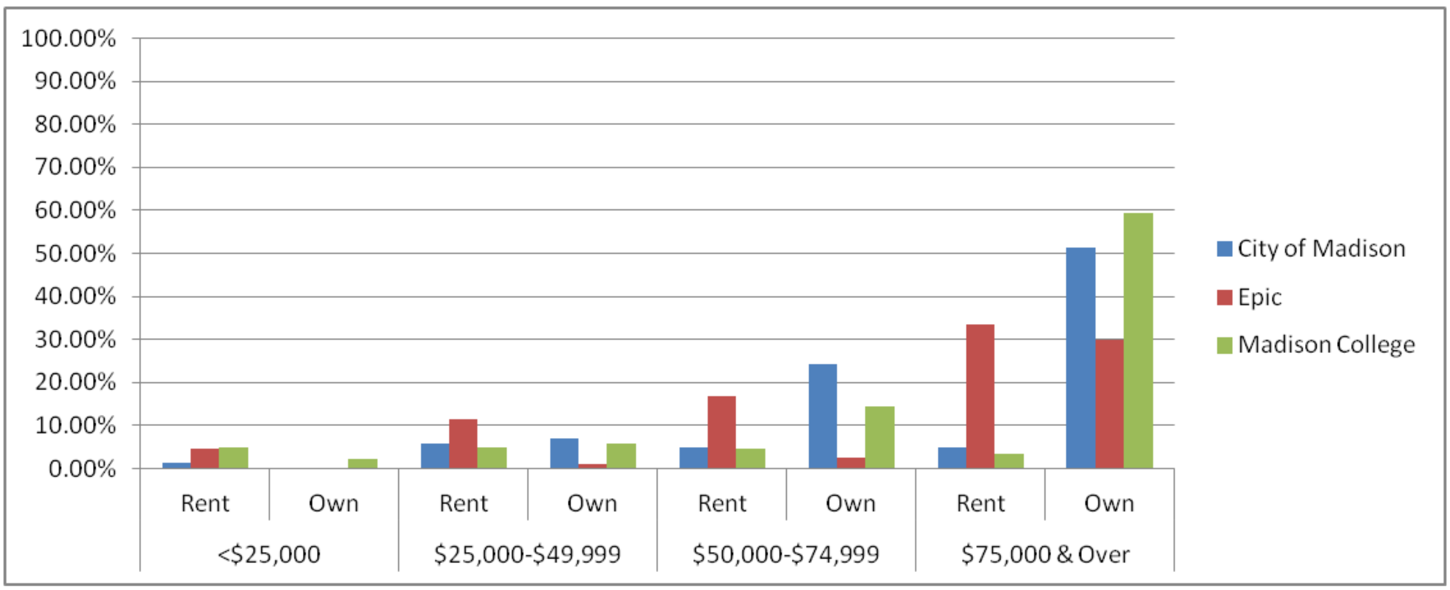




- The City of Madison and MATC have a very high percentage of employees that have worked there for over ten years, while Epic has a very high percentage of employees that have worked there for three years or less
- Length of employment has a very strong correlation to ownership rates, regardless of employer
- This factor explains much of the discrepancy in ownership rates between employers
- This implies that employee turnover rates could have a large effect on these rates in the future

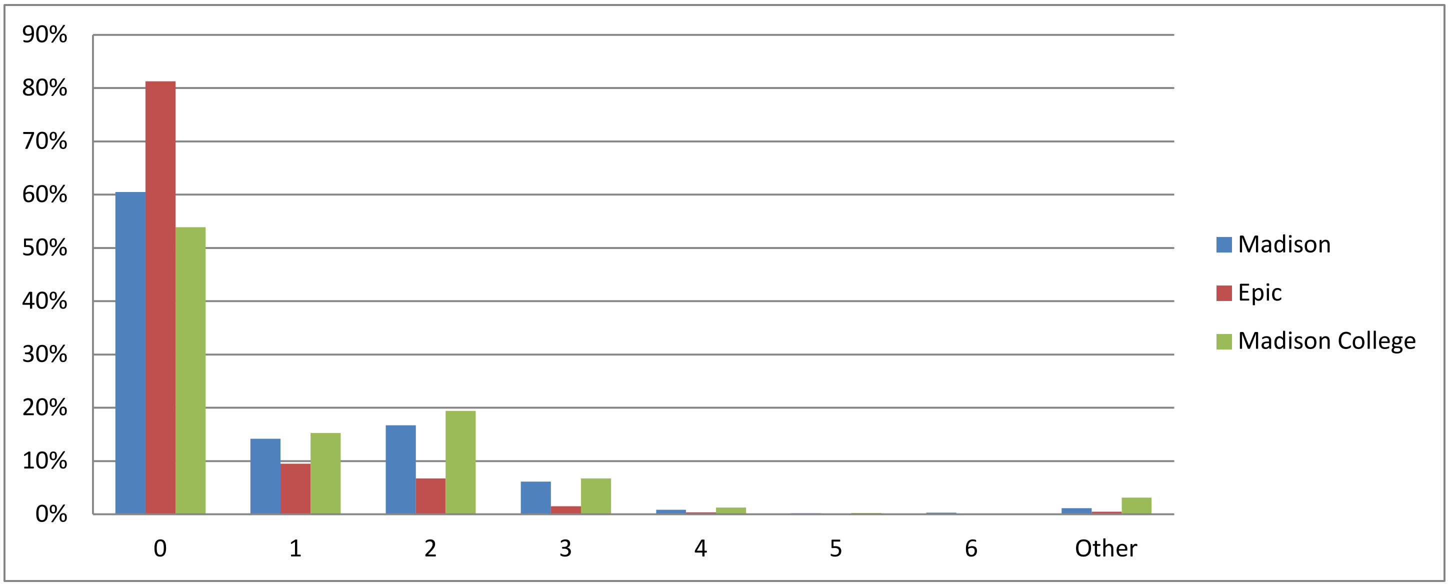
WHAT IS YOUR TOTAL HOUSEHOLD INCOME?

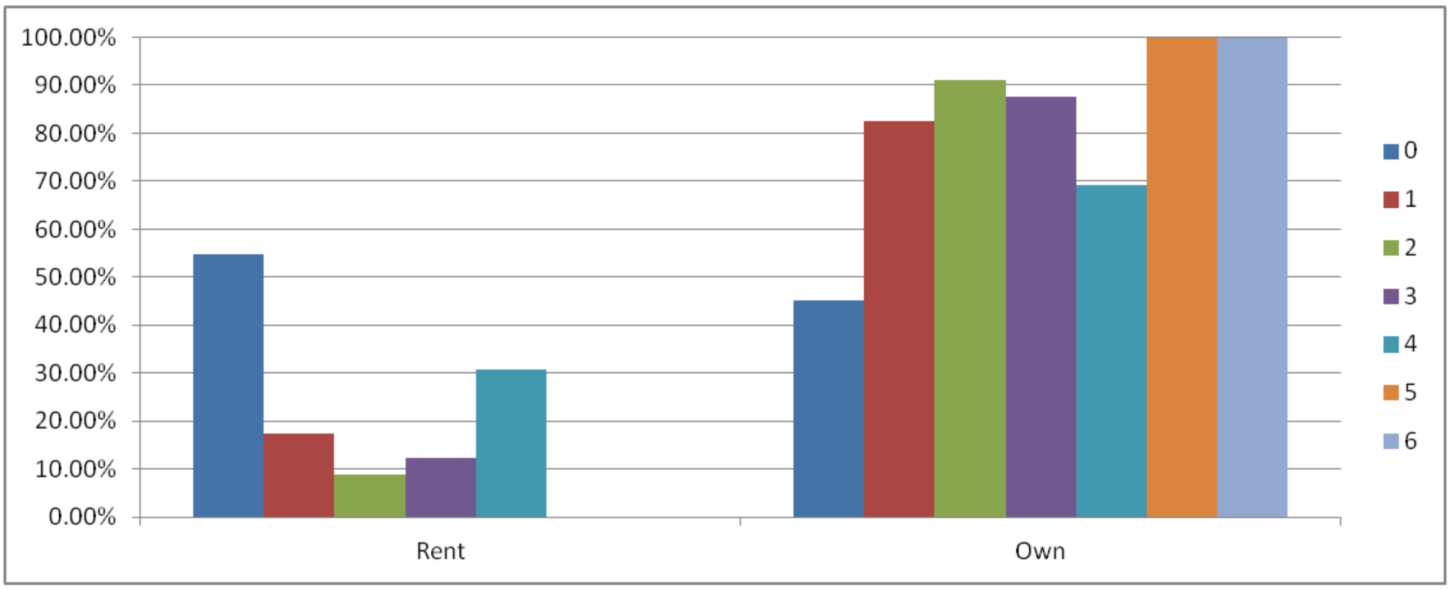




- The City of Madison, Epic, and MATC have very similar income distribution across their employees
- Higher household income is correlated with higher rates of homeownership across all three employers, however the correlation is weaker among Epic employees

HOW MANY CHILDREN ARE IN YOUR HOUSEHOLD?

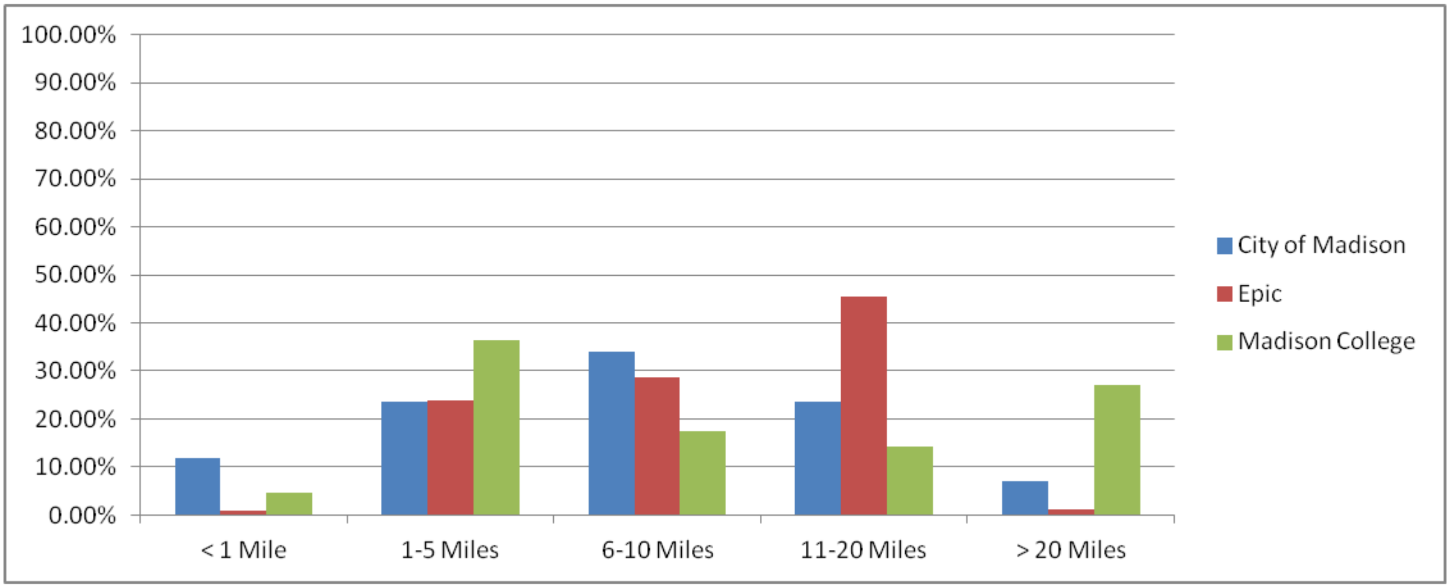




- Childless households are fairly evenly split between ownership and rental
- Households with children overwhelmingly own
- The majority of employees at all three employers do not have children in their household, particularly Epic

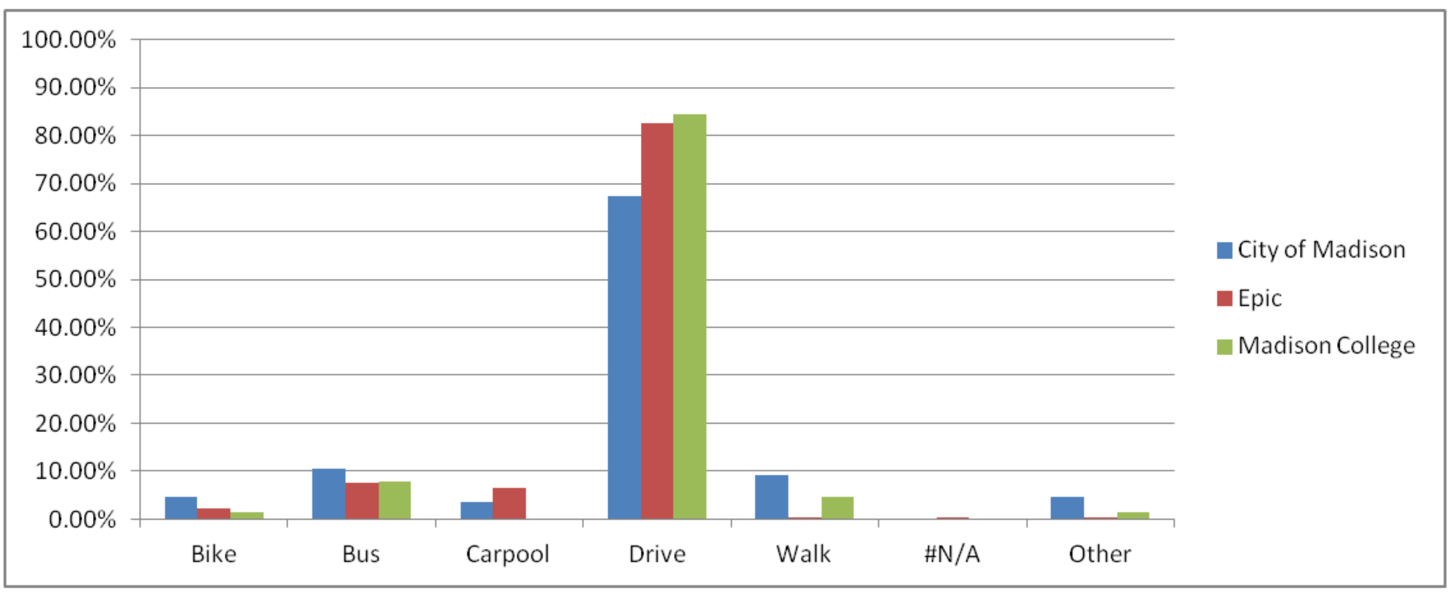
RENTER ONLY DATA

HOW FAR FROM WORK TO DO YOU LIVE? (RENTERS)



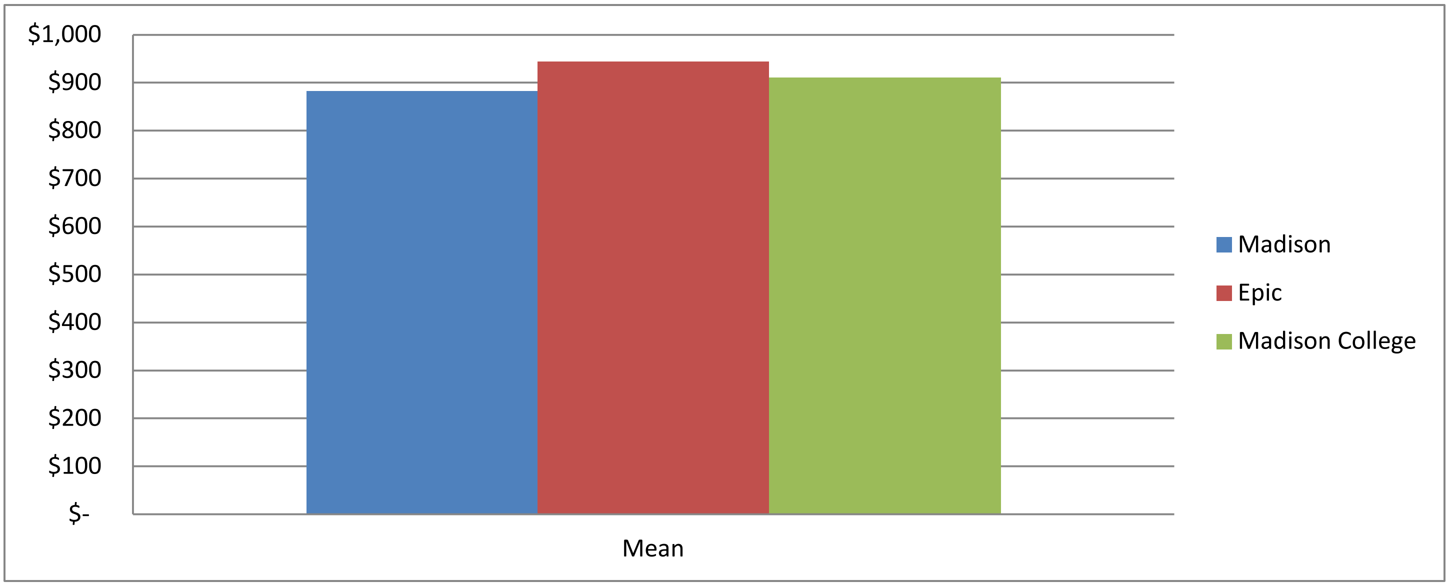
- City of Madison renter employees are fairly normally distributed around 6-10 miles from work, which is roughly the distance from the Capital Square to the eastern and western edges of the city on the extreme
- Epic renter employees have a large concentration of employees living 11-20 miles from work which corresponds with the distance from Epic to downtown Madison
- Madison College has an irregular distribution, which is likely a result of their dispersed campuses

HOW DO YOU GET TO WORK MOST OFTEN? (RENTERS)



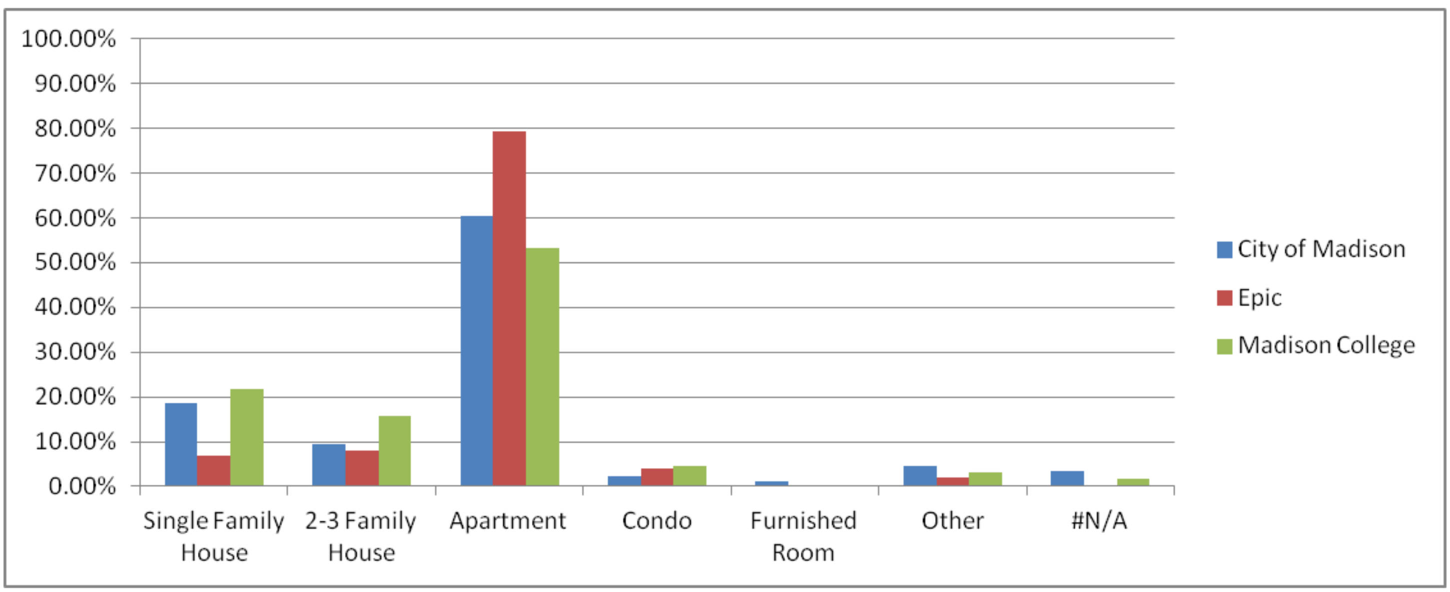
- The vast majority of renter employees at all three employers drive to work
- The City of Madison has a higher percentage of employees taking alternative forms of commuting, which is likely the result of the lack of free parking and free employee bus pass program

WHAT IS YOUR MONTHLY HOUSING COST? (RENTERS)



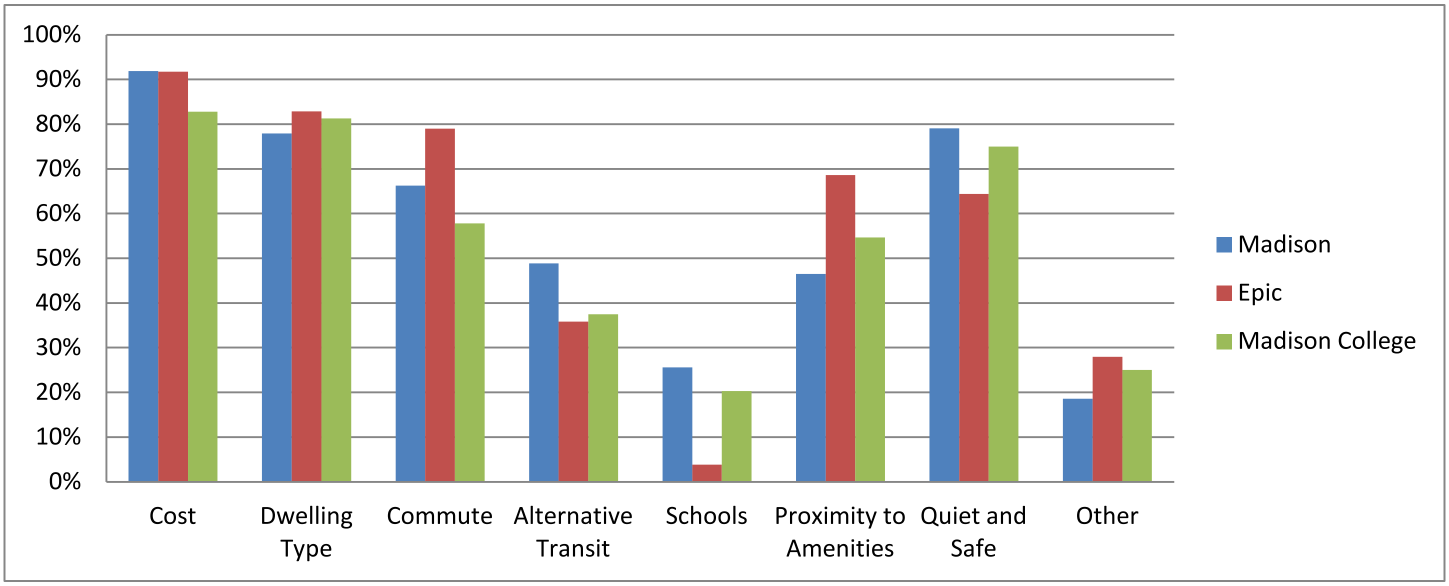
- All three employers have extremely similar average housing cost among their renter employees

IN WHAT TYPE OF DWELLING DO YOU CURRENTLY LIVE? (RENTERS)



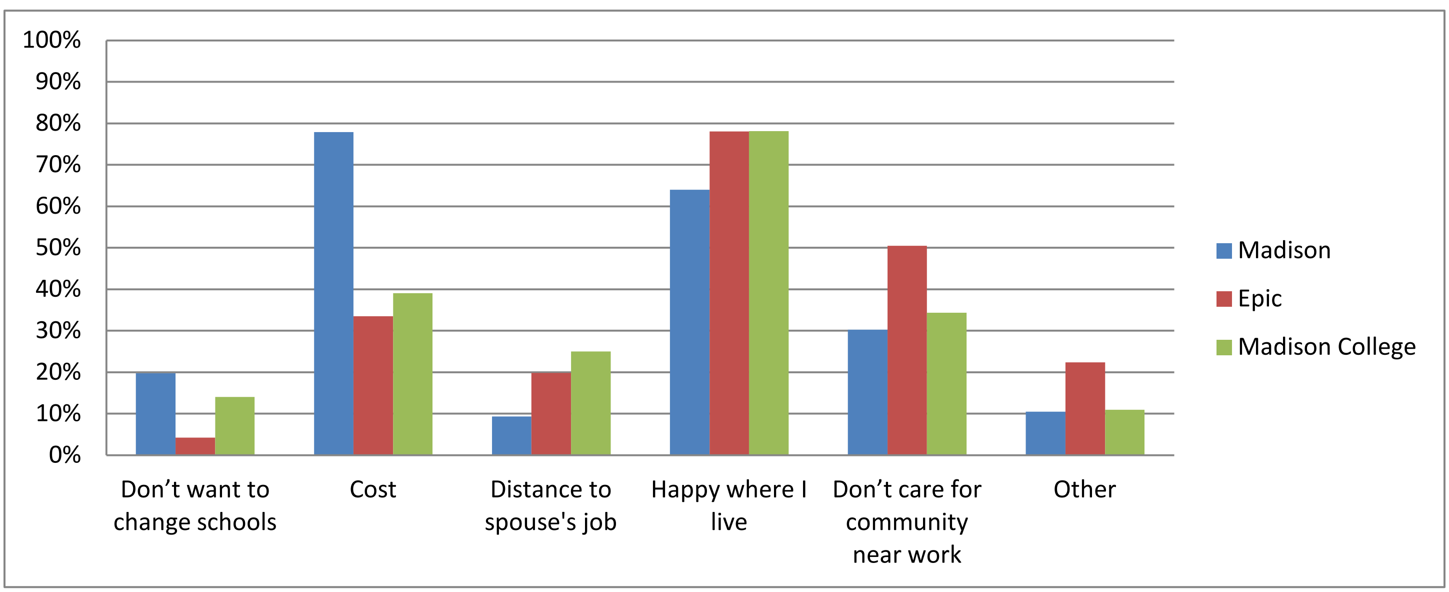
- The majority of renters are renting apartments
- City of Madison and MATC renter employees have higher rates of renting houses and condos which is likely tied to their higher rates of renter households with children

WHY DO YOU LIVE WHERE YOU DO? (RENTERS)



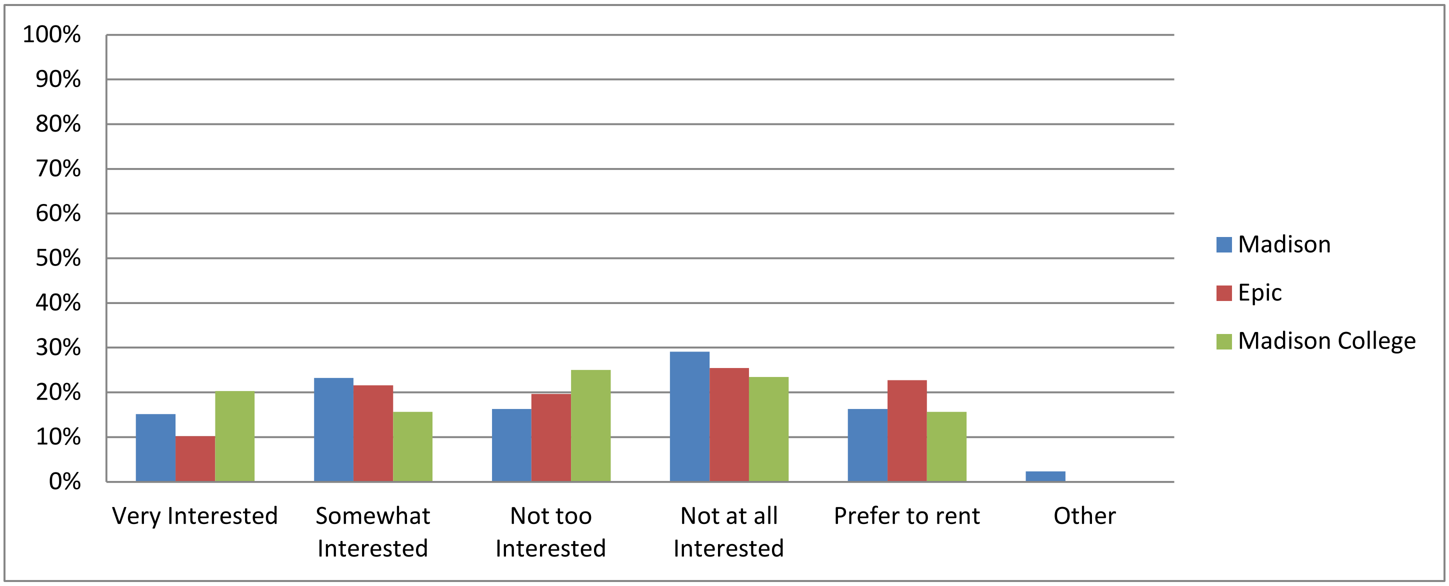
- The most important factor in selecting where to rent across all three employers is the unit itself (cost and type)
- Locational factors related to commute, proximity to amenities, and located in a quiet and safe neighborhood are the next most important factors
- Proximity to amenities is more important to Epic employees than the others, and even more important to their newest employees
- Quality of the schools is not a factor for the vast majority of renters
- The most common "Other" factor was a desire to be in downtown Madison

WHAT WOULD KEEP YOU FROM MOVING CLOSER TO WORK? (RENTERS)



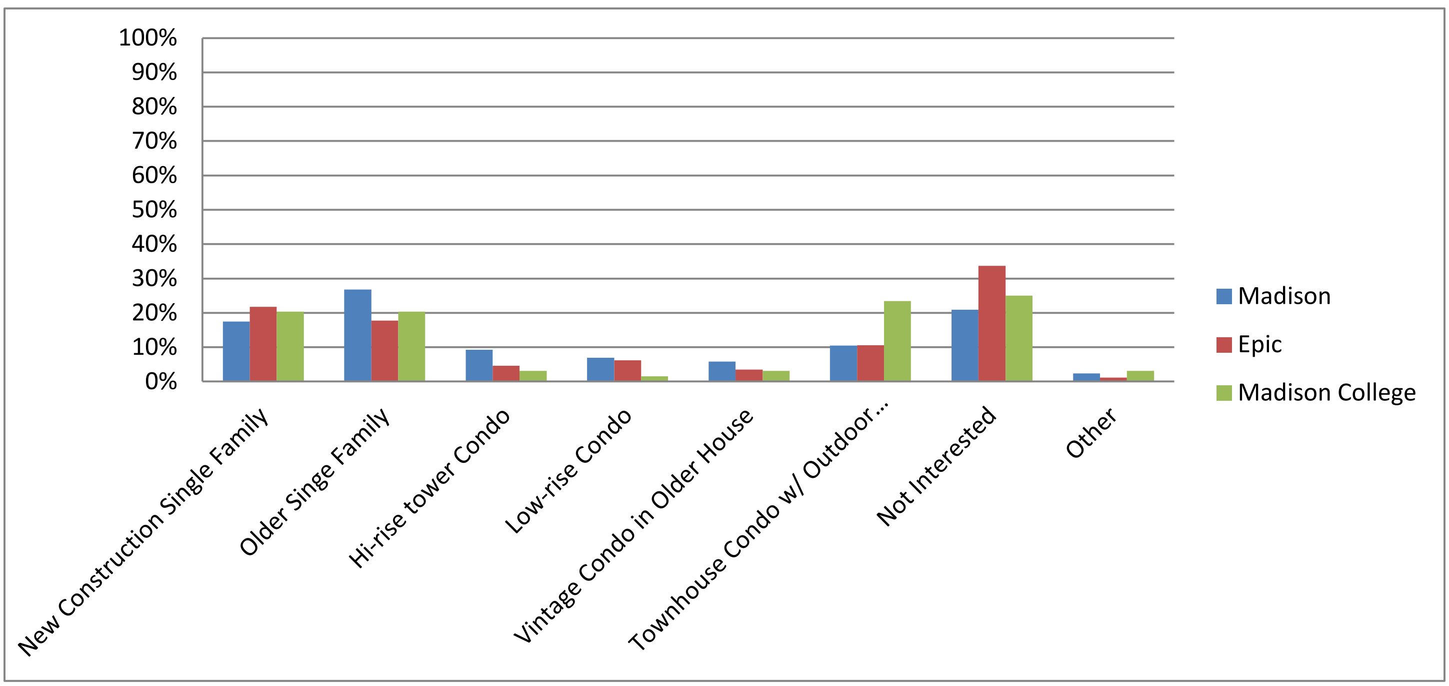
- The most common factor preventing employees from moving closer to work is that they are happy with where they live
- City of Madison renter employees overwhelmingly believe the cost of housing near work would prevent them from moving closer

HOW INTERESTED ARE IN YOU IN PURCHASING A HOME NEAR WORK? (RENTERS)



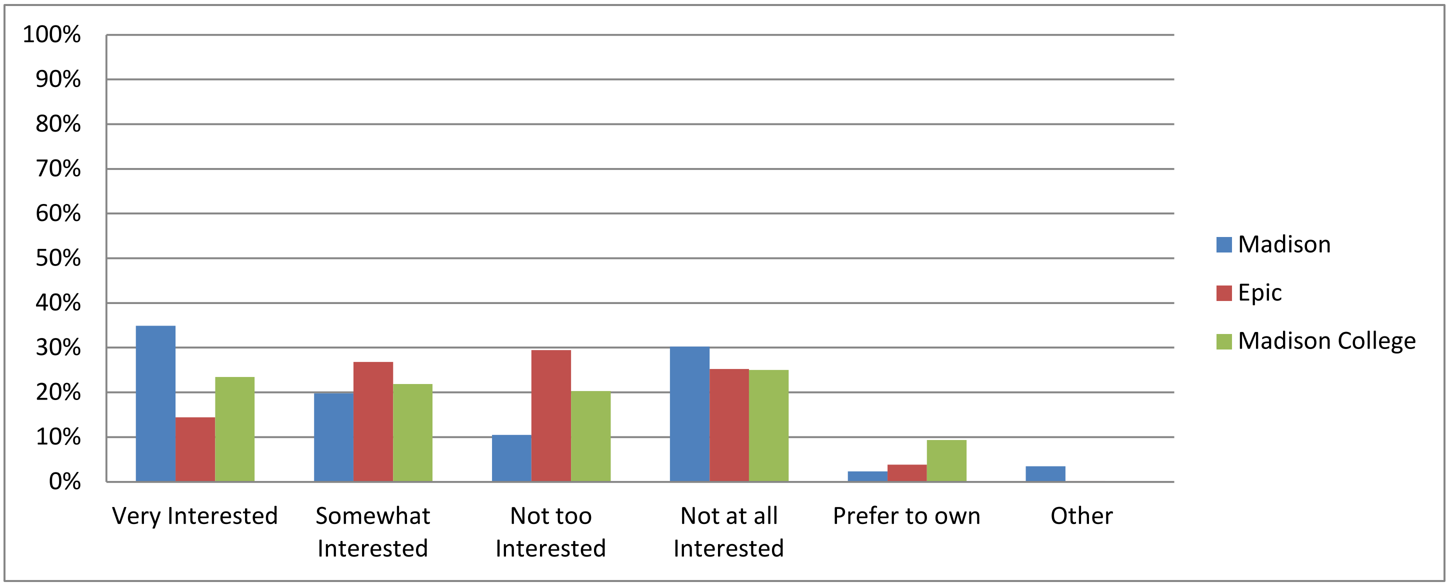
- The majority of renters at all three employers are not interested in purchasing a home near work

WHAT IS THE MOST APPEALING TYPE OF HOUSING TO PURCHASE NEAR WORK? (RENTERS)



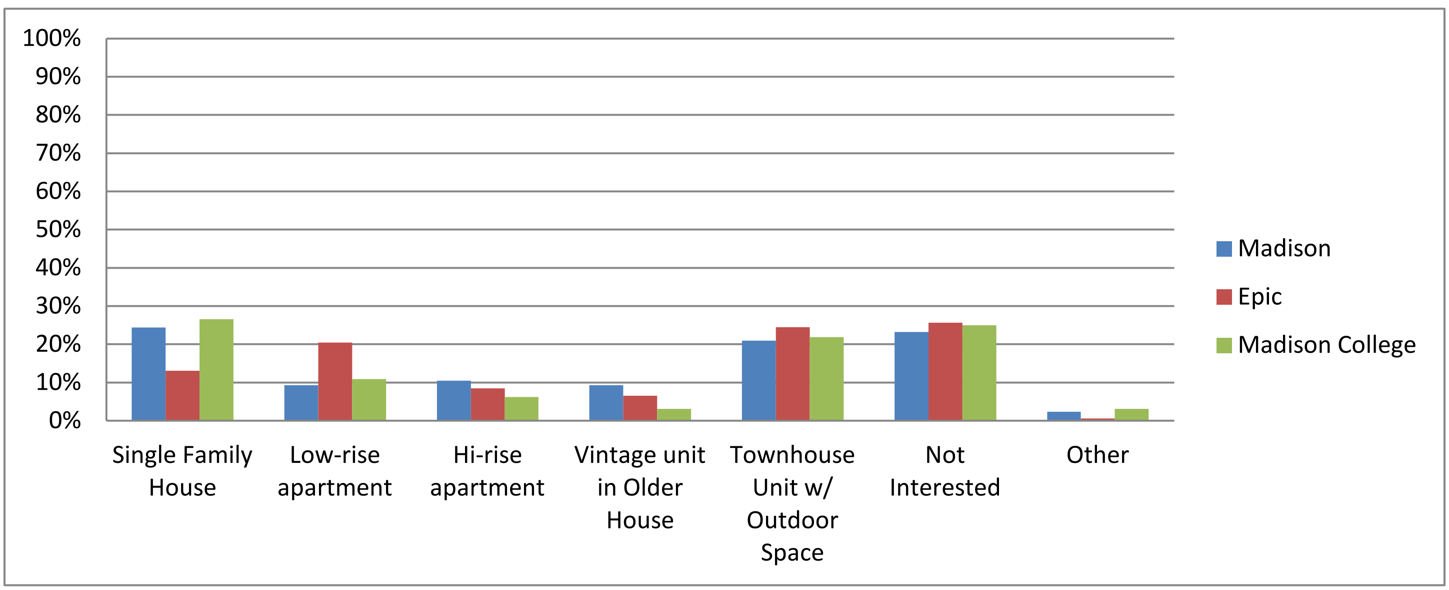
- For those interested in purchasing near work, single family homes were the most popular option
- Among those interested in condominiums, townhouse units with outdoor space were the most popular

HOW INTERESTED ARE YOU IN RENTING NEAR WORK (RENTERS)



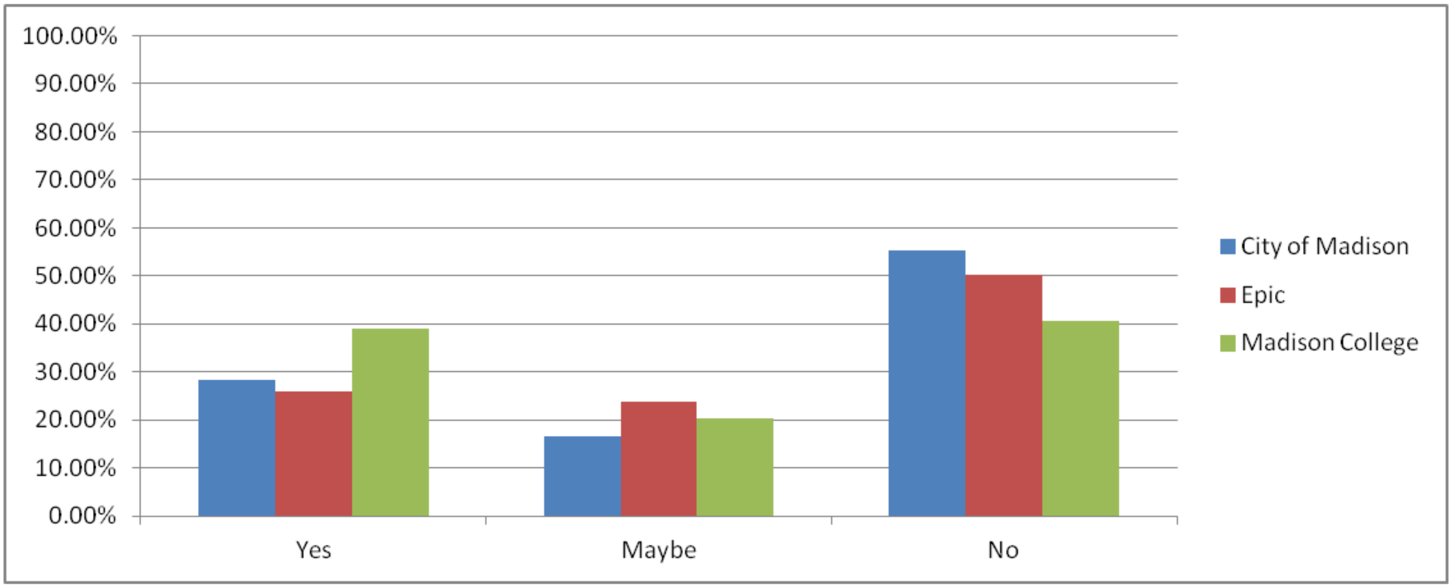
- Only the City of Madison had a majority of renter employees interested in renting near work, Madison College had an even distribution of interest, and Epic had a majority not interested in renting near work
- City of Madison renter employees were the most polarized between being very interested and not interested at all

WHAT IS THE MOST APPEALING TYPE OF HOUSING TO RENT NEAR WORK? (RENTERS)



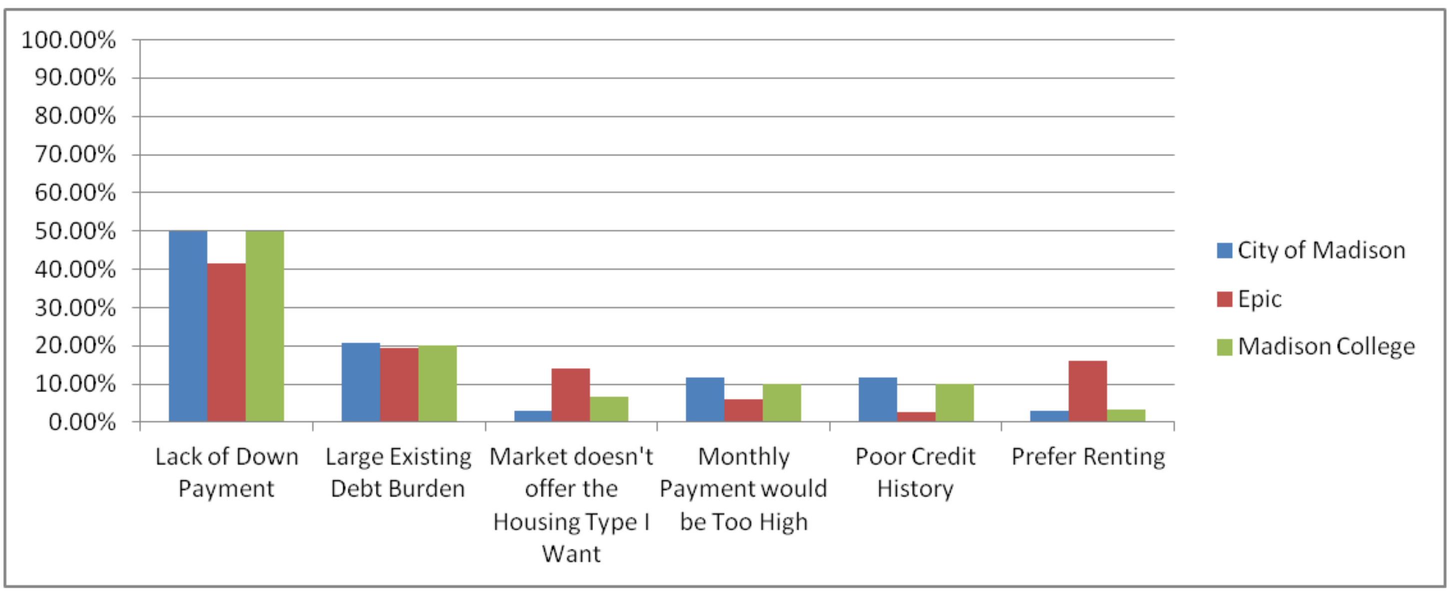
- For those interested in renting near work, townhouse units with outdoor space were universally popular
- City of Madison and Madison College renter employees had a strong preference for single family houses, while Epic employees had a preference for low-rise apartments

PLANNING TO PURCHASE IN THE NEXT 2 YEARS? (RENTERS)



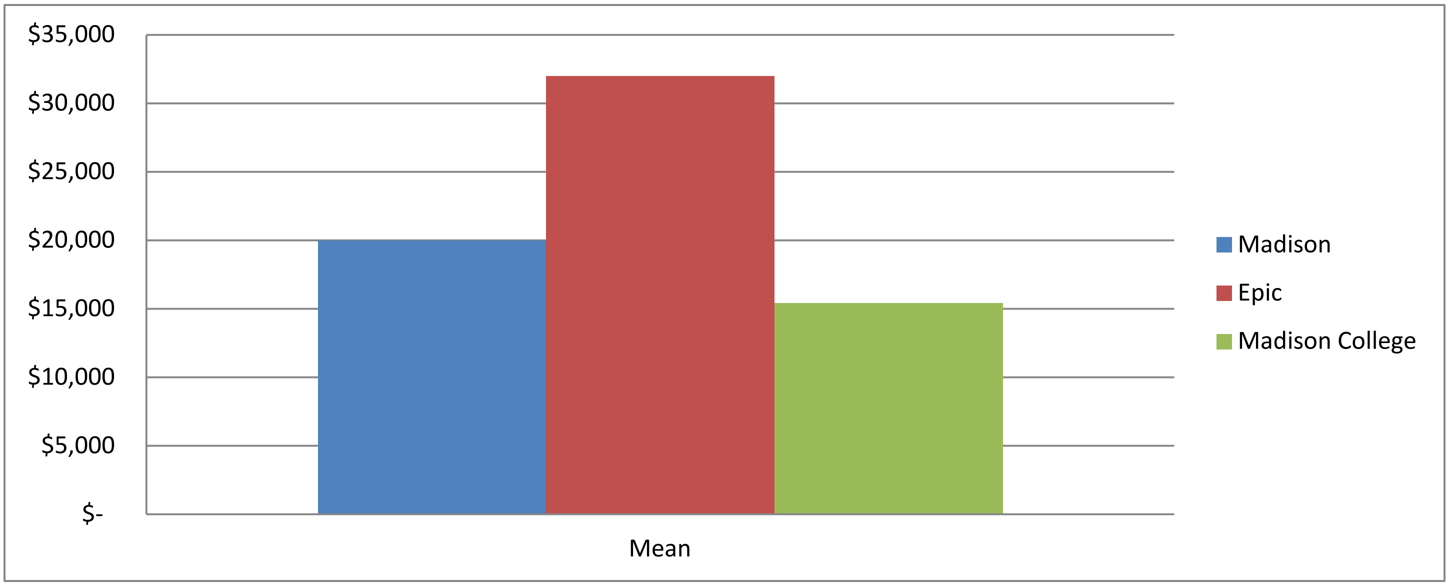
- Plans to purchase were roughly similar among renter employees at all three employers with half saying “yes” or “maybe” and half saying “no”

MAIN BARRIER TO PURCHASING? (RENTERS)



- Among those answering “yes” or “maybe” on planning to purchase in the next two years:
    - Lack of downpayment was the most common barrier by far
    - Non-financial barriers (“Market doesn’t offer the housing type I want” and “Prefer Renting”) are particularly high among Epic employees

ANTICIPATED DOWN PAYMENT? (RENTERS)



- The range of anticipated downpayment varied greatly within each employer
- The average anticipated downpayment at each employer is sufficient to purchase in our market, but would present limited options

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.

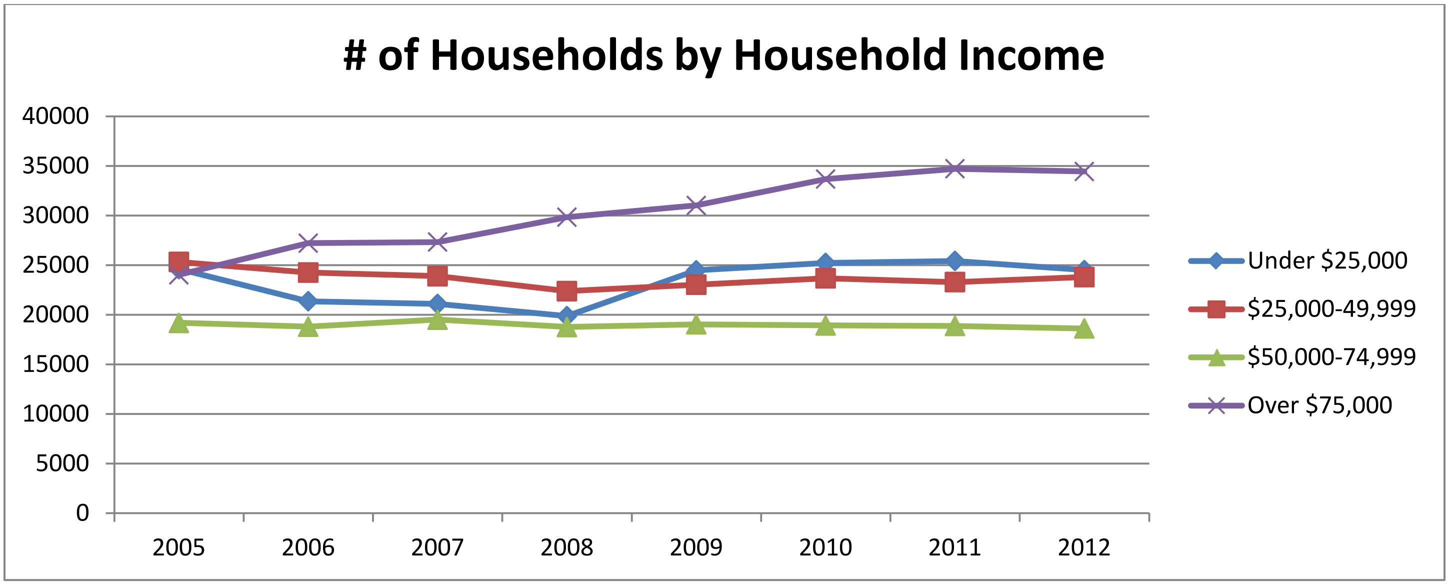
The most common professions with average incomes in this range include:

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

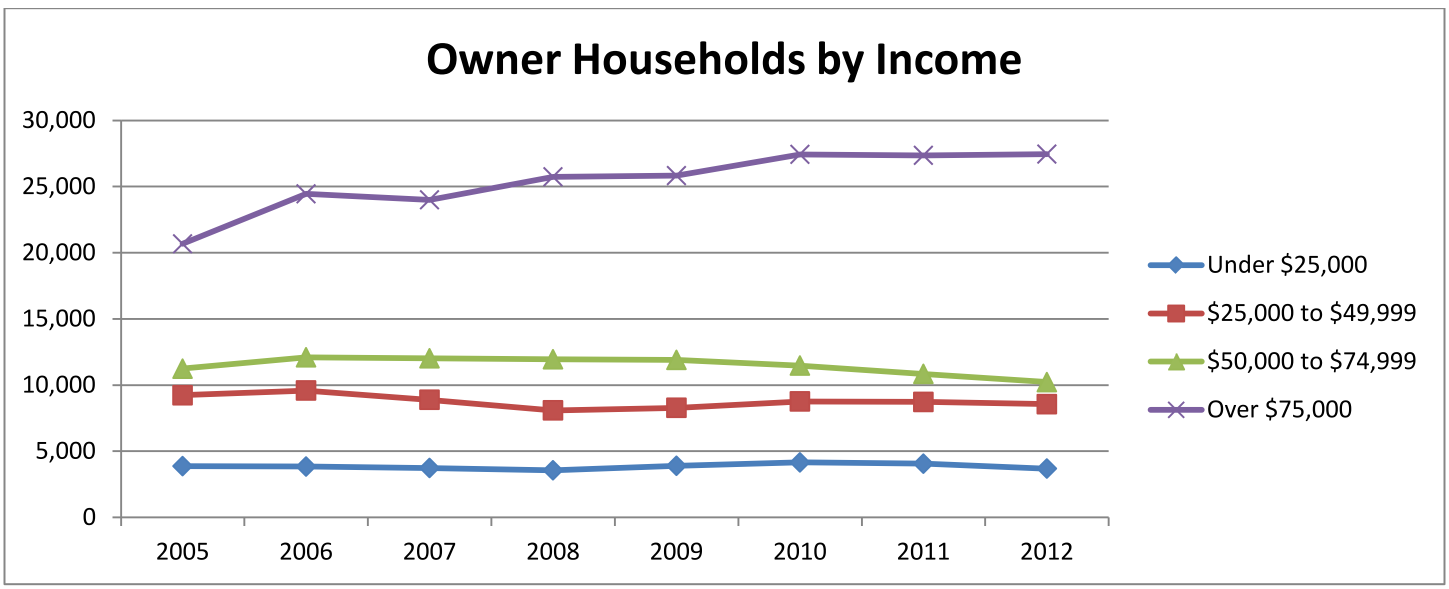
Demand can be reduced by raising incomes or the number of wage earners per household. For example, raising income from minimum wage of $7.25 to $12.00 would bring a two-income household from 50% of median area household income to 80% of median area household income and increase the amount of rent they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

Since 2007, the City of Madison has added approximately:

- 9,500 new households
  - **3,400 households with incomes below $25,000 (~40% of Area Median Household Income)**
  - **-100 household with incomes below $50,000 (~80% of Area Median Household Income)**
  - -900 households with incomes below $75,000 (~120% of Area Median Household Income)
  - 7,100 households with incomes above $75,000 (~120% of Area Median Household Income)



Source: 3-Year American Community Survey



Source: 3-Year American Community Survey

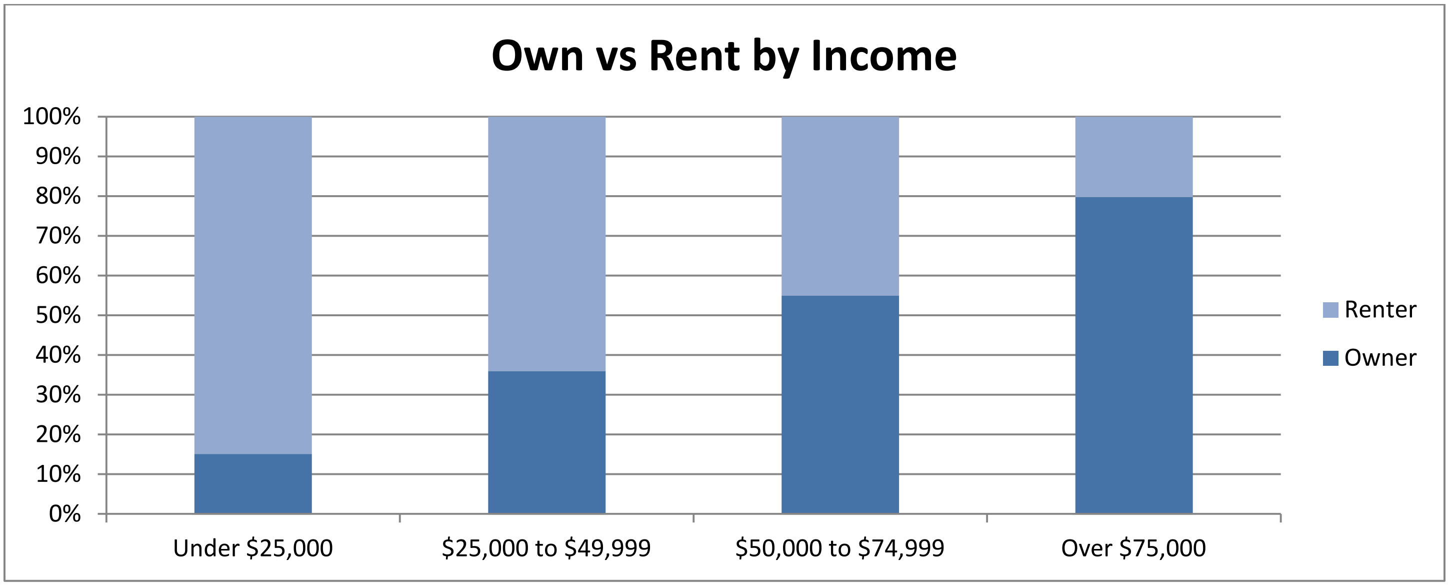
The income pattern of owner households in the City of Madison shows that all growth in homeownership comes from owners with high incomes (over 120% of Area Median Income) and there are fewer low-income homeowners now than in 2007.

Since 2007, the City of Madison has added approximately:

- 1,300 new owner households
  - **0 households with incomes below $20,000 (~30% of Area Median Household Income)**
  - **-300 households with incomes below $50,000 (~80% of Area Median Household Income)**
  - -1,800 households with incomes below $75,000 (~120% of Area Median Household Income)
  - 3,500 households with incomes above $75,000 (~120% of Area Median Household Income)

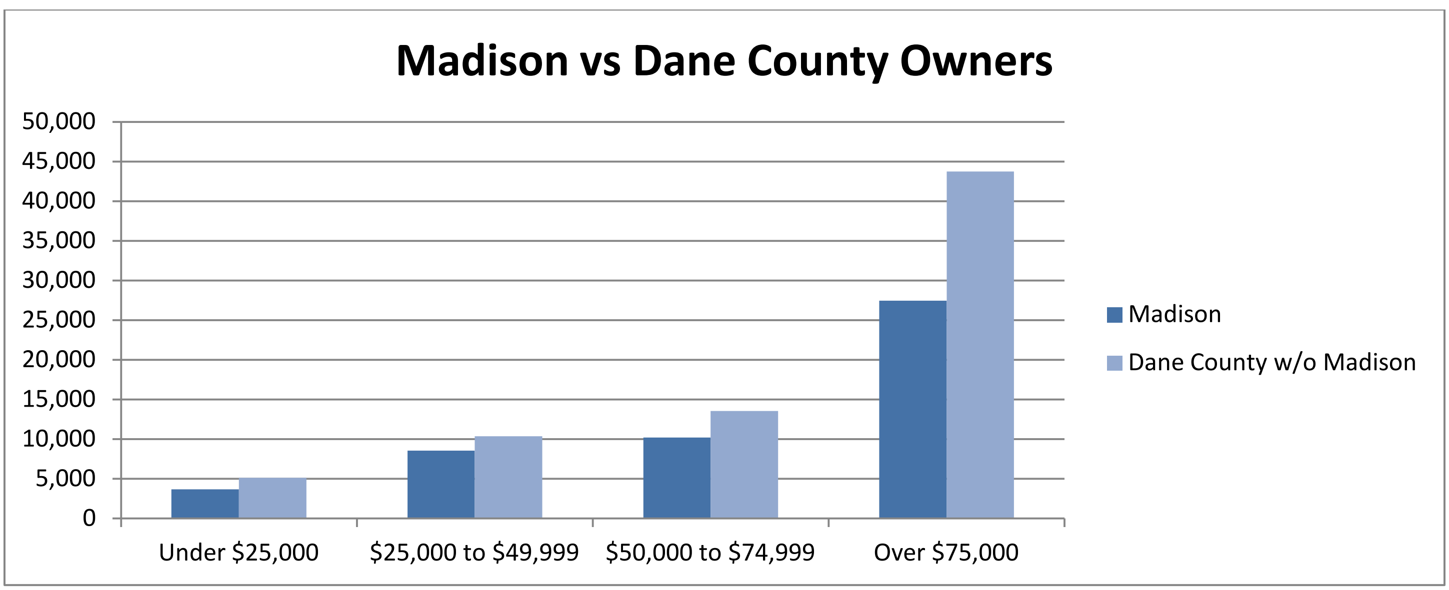
Since 2007, only a little over 10% of net new households became homeowners.

A snapshot of the Madison market shows that **the majority of low-income households rent rather than own their housing.** As a result**, only 25% of owners are low to moderate income households**.



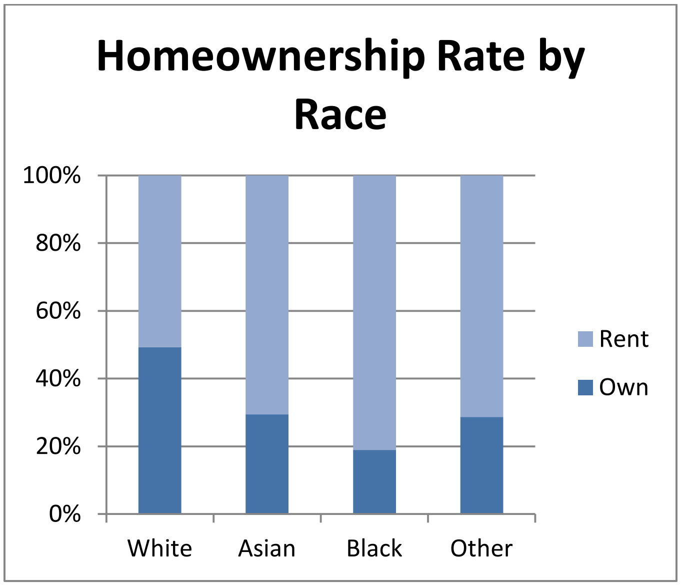
Source: 2010-2012 3-Year American Community Survey

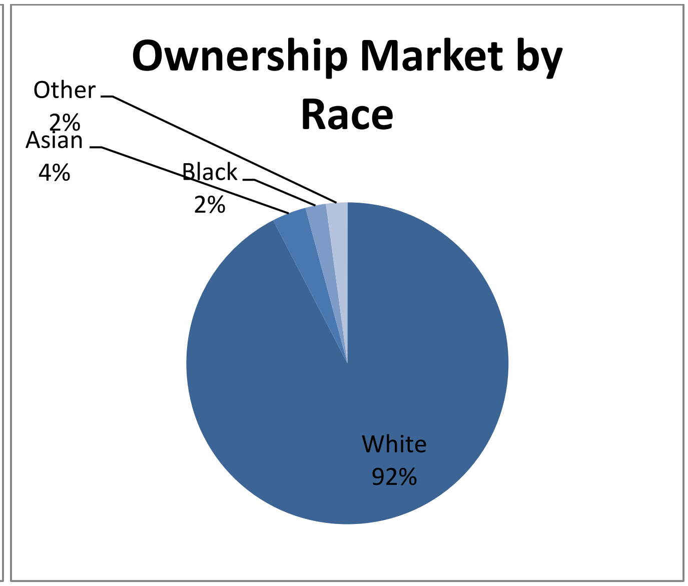
The income pattern of owners in Madison is virtually identical to that of Dane County, with the **market overwhelmingly occupied by households with incomes over $75,000** (>120% of Area Median Household Income).



Source: 2010-2012 3-Year American Community Survey

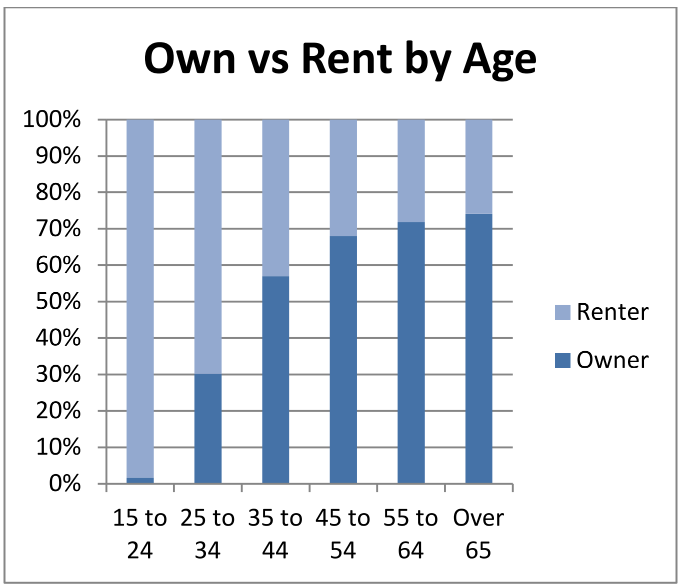
In addition to income factors, homeownership rates vary greatly based on race, with higher ownership rates among white households. **The ownership market is overwhelmingly occupied by white households.**

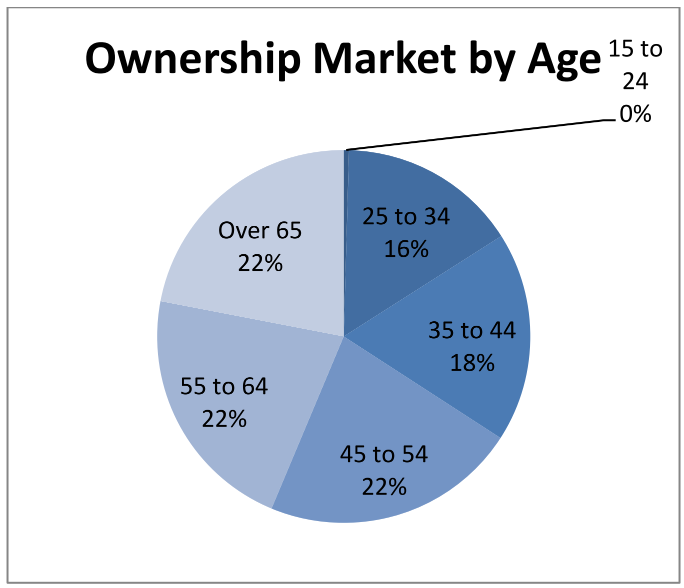




Source: 2010 Census SF1

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**

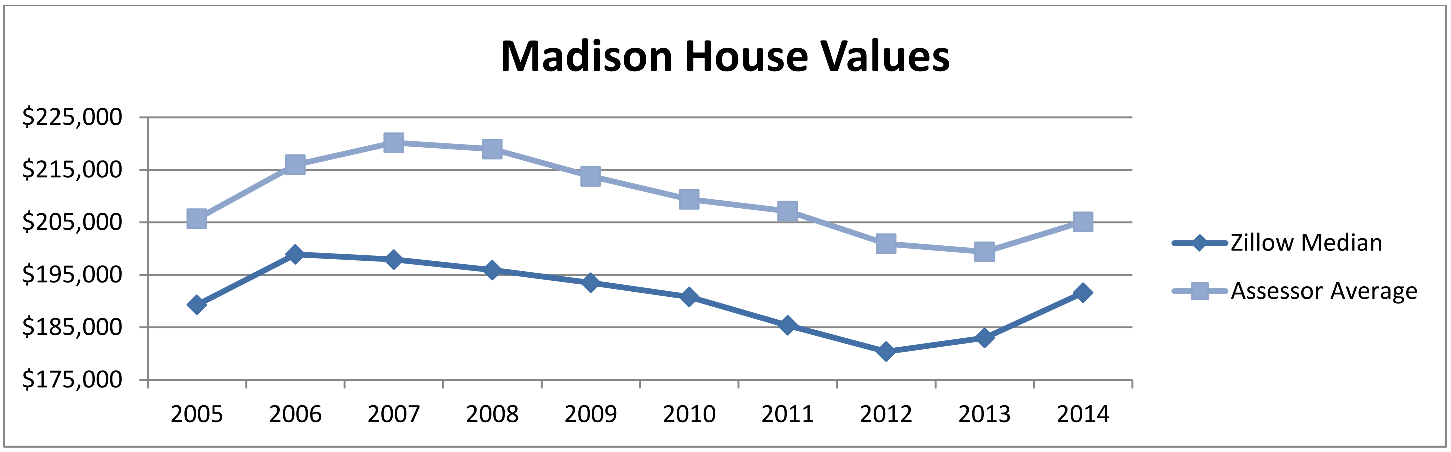
SUPPLY – LOW-INCOME OWNERSHIP

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.

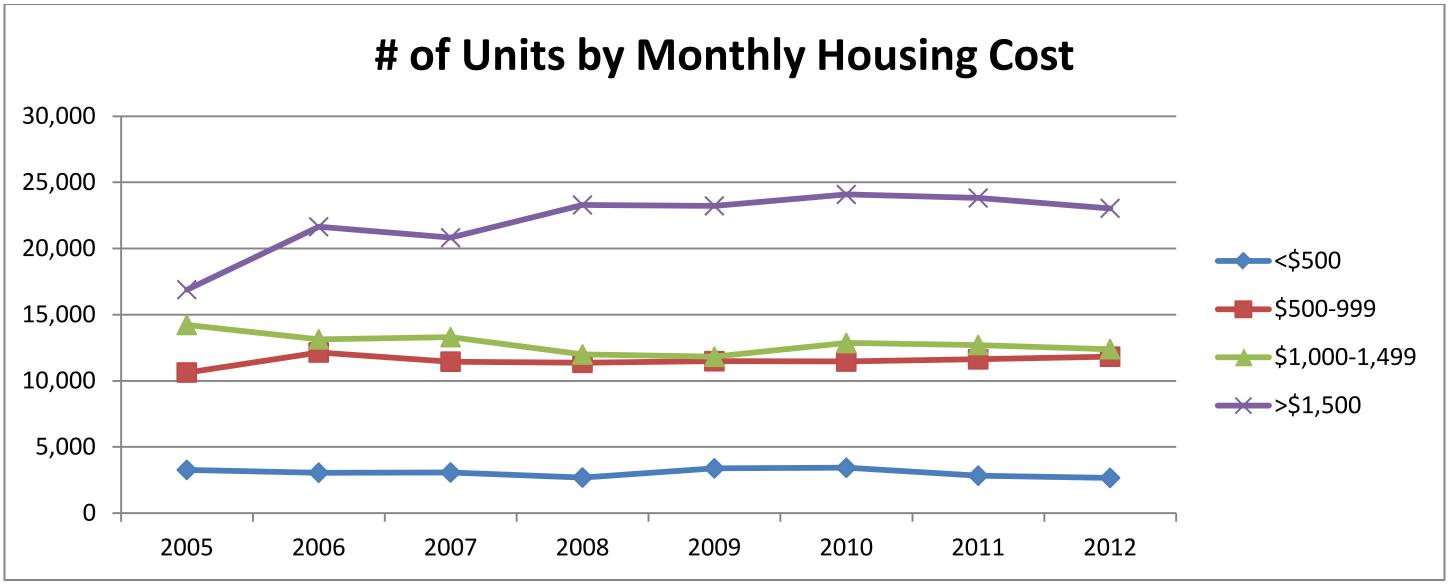


Source: Zillow.com and City of Madison Assessor

Both the median (50th percentile as computed by Zillow, a data aggregator) and average (total assessed value divided by number of units as computed by the Assessor's Office) home values in the City of Madison dropped significantly after the start of the recession and only recently began to rise again, which should have made homeownership more affordable. For example, the average house in 2007 was assessed at $220,150. Assuming a 20% down payment and average mortgage interest rate of 6.25%, monthly mortgage payments would be $1,085 with a tax payment of $365 totaling $1,450 per month. **In 2012, the average house assessment had dropped to $201,000 and interest rates had gone down to 4% resulting in monthly payments of $770 and taxes increased to $400, resulting in a 19% reduction in average housing cost.** Today, average assessment have begun to return to pre-recession values, but interest rates remain at a near record low of 4.25%, resulting in a typical monthly mortgage and tax payment of $1,215.

	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
2014	$205,100	4.25%	$810	$415	$1,225

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

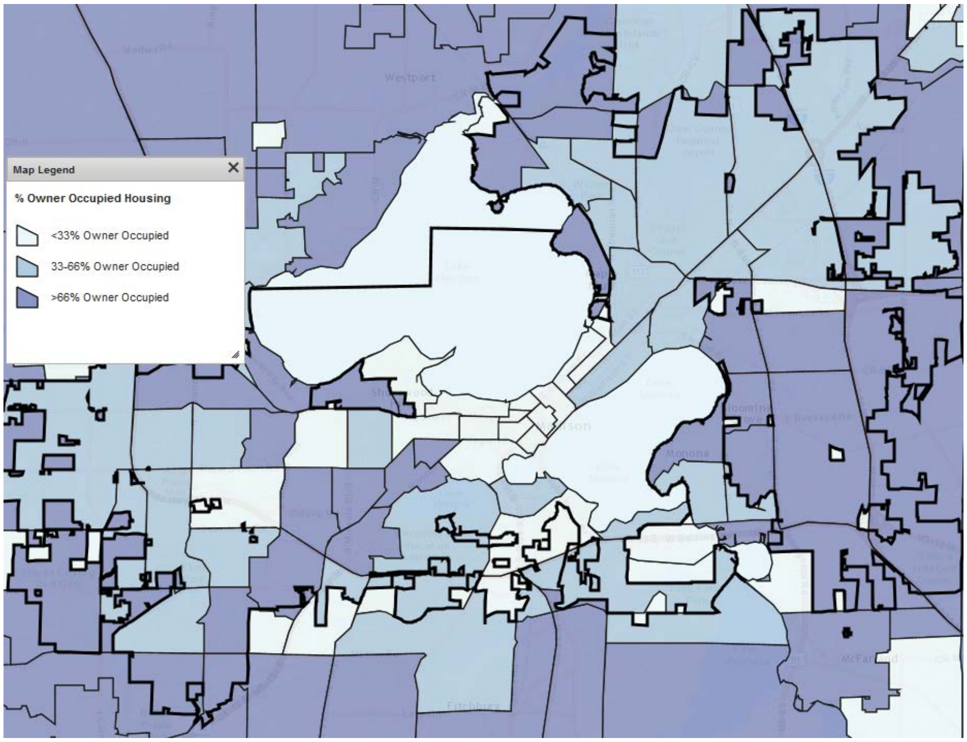


Source: 3-Year American Community Survey

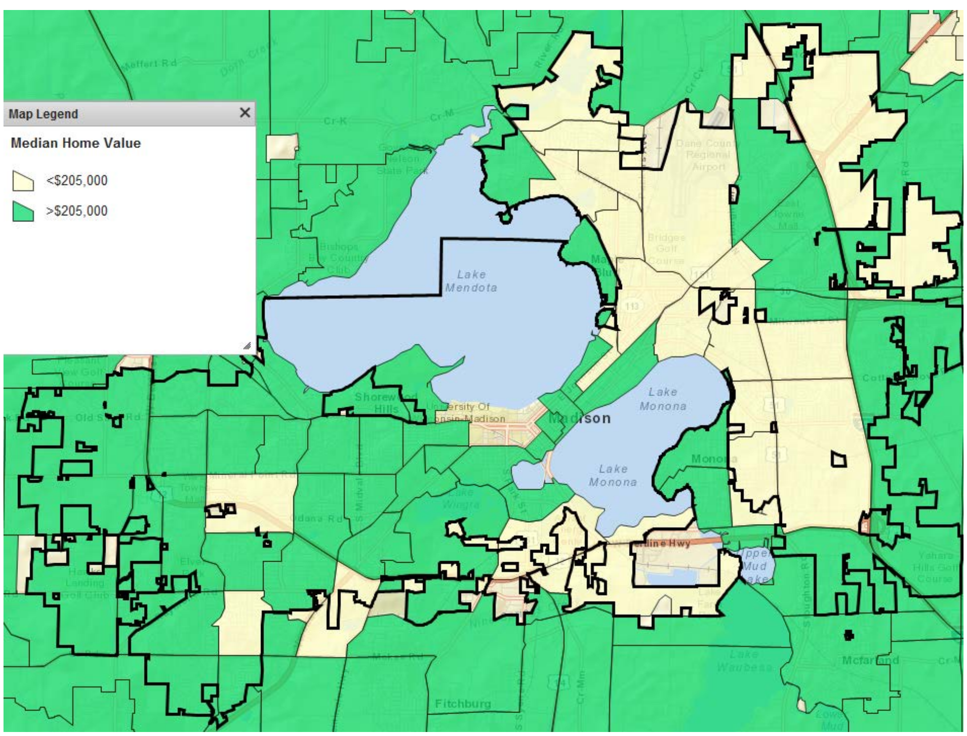
However, **according to Census data households did not realize a net reduction in housing costs**. Instead, the Census reported no net increase in low cost units and a rising number of households paying over $1,500 in monthly housing costs. This could be because homeowners stayed in their existing home 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.

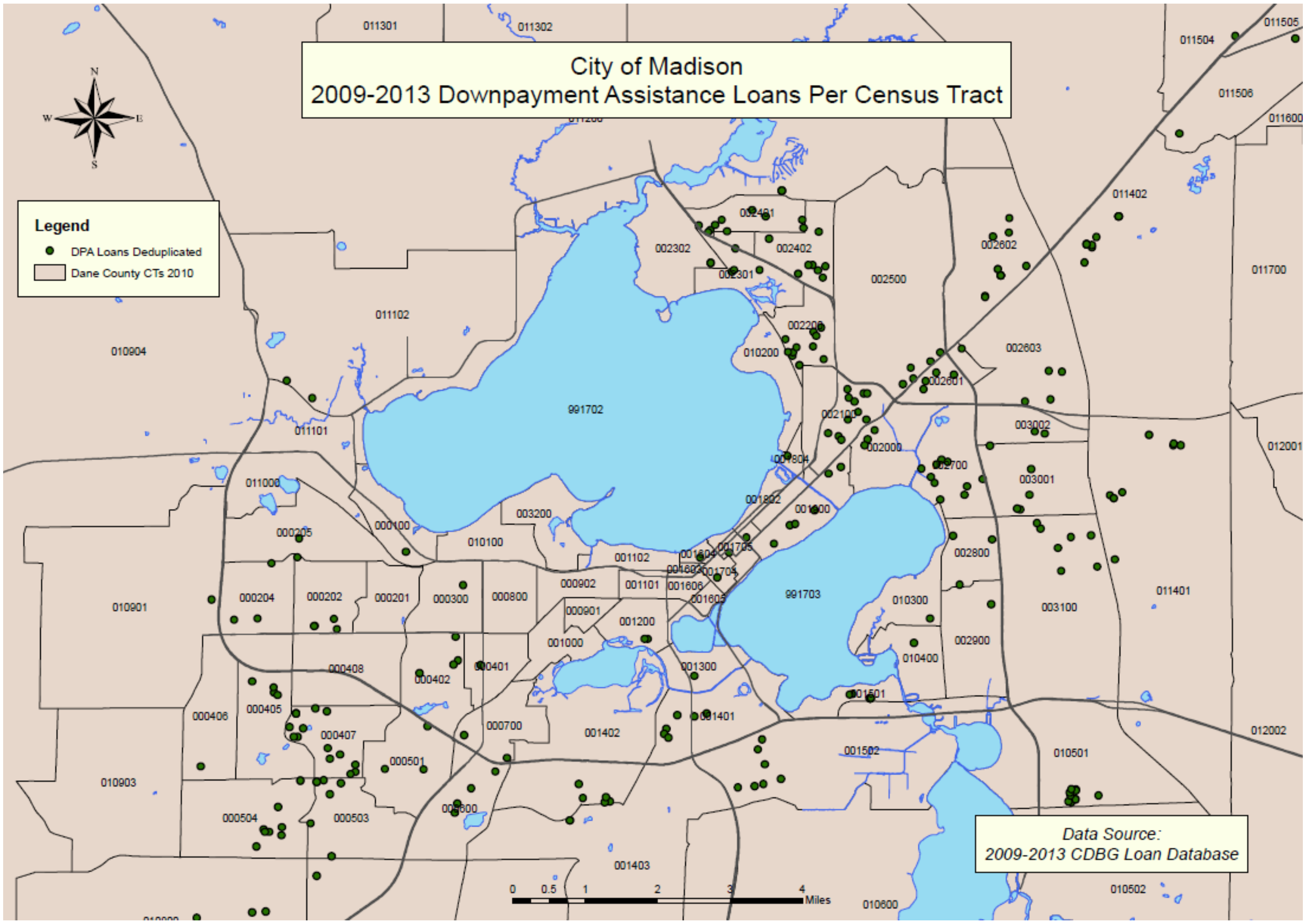


Source: HUD CPD Maps



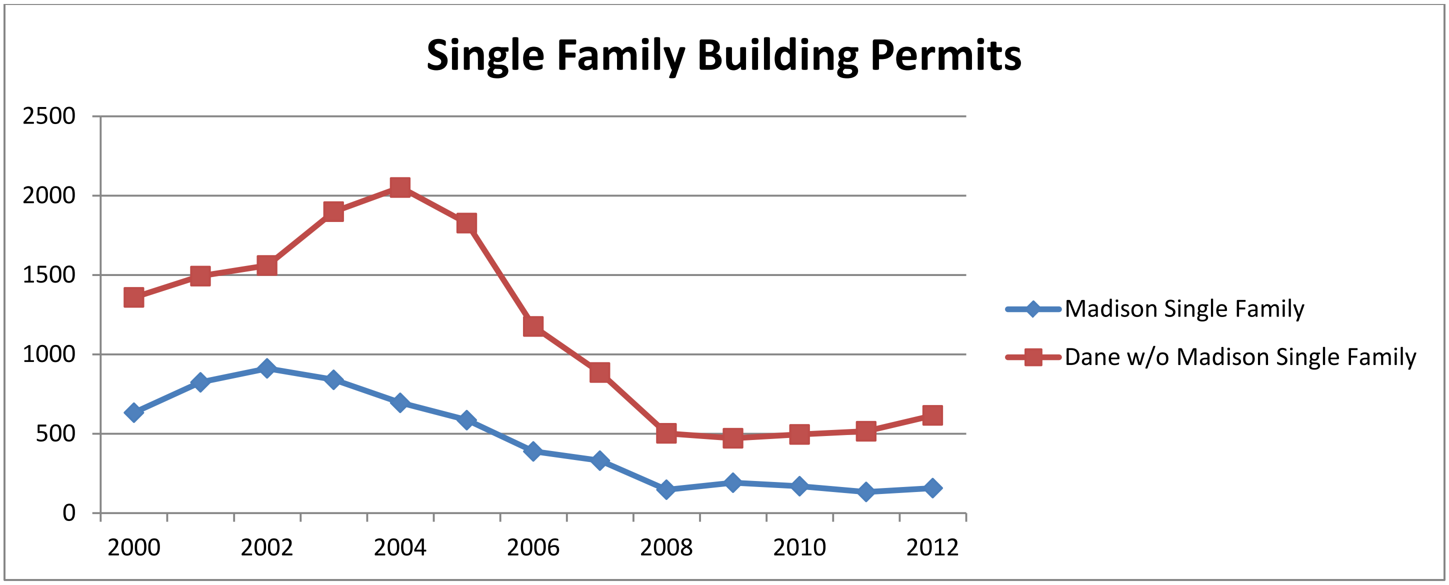
Owner occupied housing valued below the average home assessment ($205,000) is concentrated on Madison's north, south and east sides.

Low-income owner occupied housing that has been subsidized by City of Madison programs is concentrated the north, far east, and southwest sides of the City. This pattern only roughly correlates with patterns of below average assessments.



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.



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.

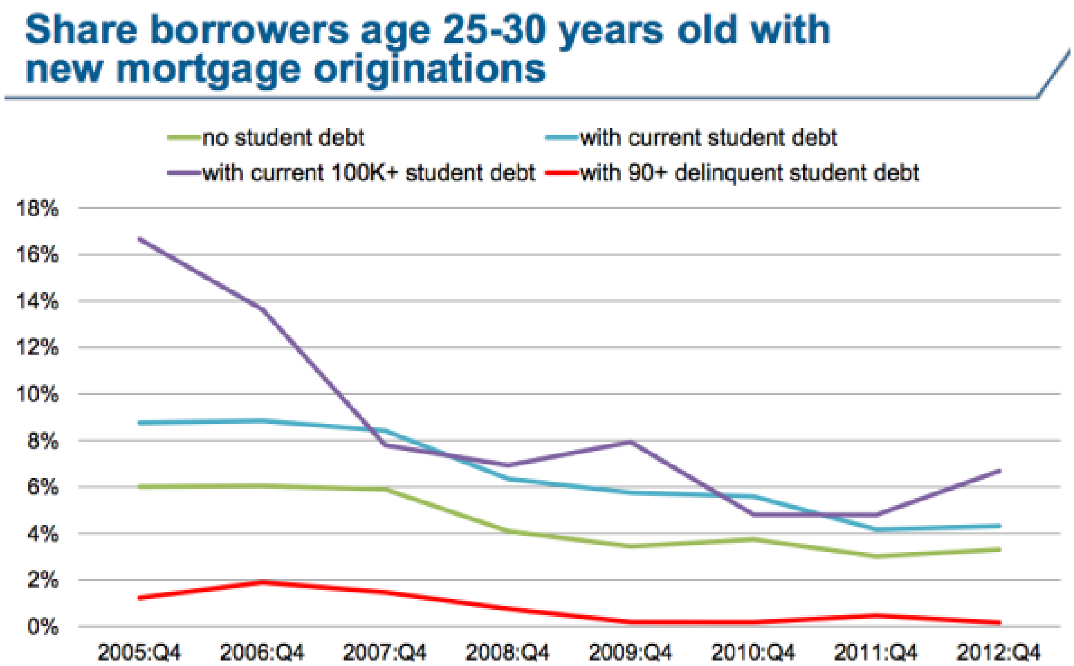
While these **rules are intended to reduce the risk of housing cost burden and foreclosure, the other result of these rules is that QM mortgages require borrower to have larger downpayments and higher incomes** to get a loan than before.

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

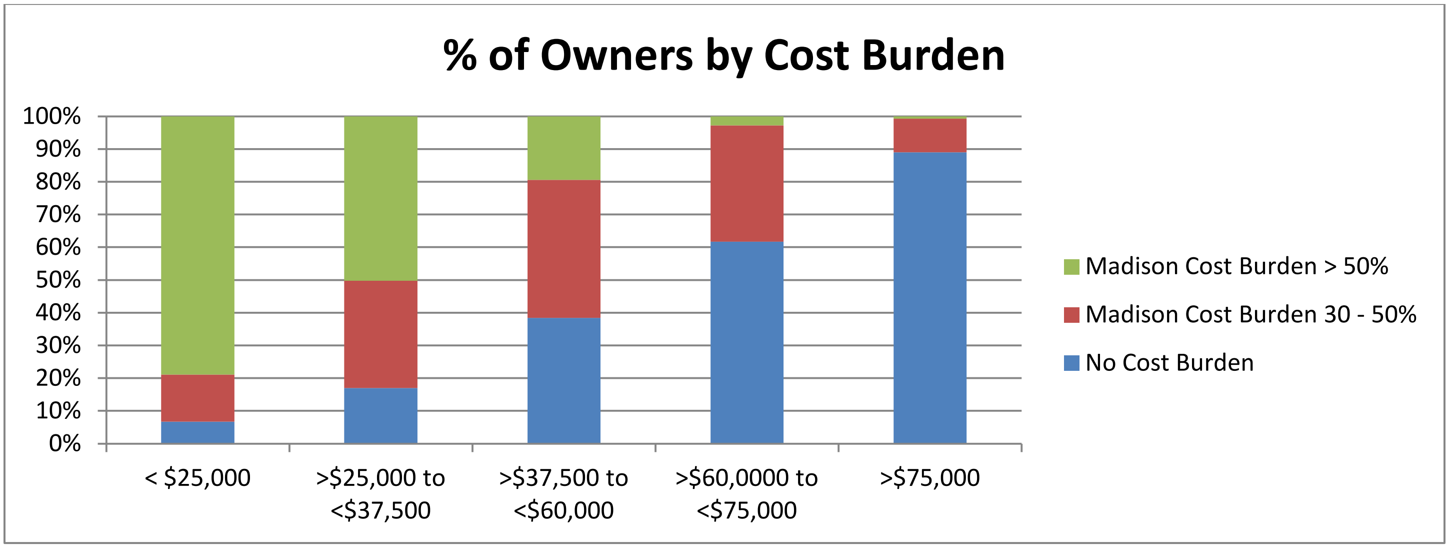
The report does however point out that borrowers from low-income households or borrowers attending colleges with lower completion rates are the most likely to seek private rather than federal student loans which carry higher interest rates and less generous repayment terms. **The authors suggest that 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

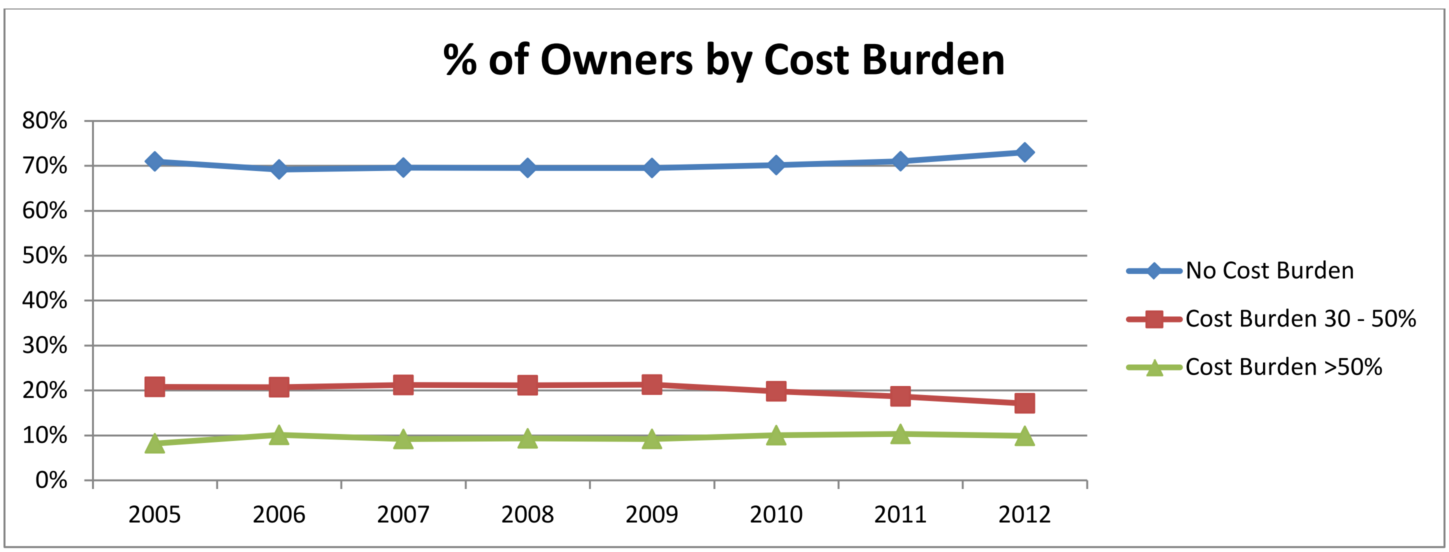
The percentage of cost burdened owners has held steady since 2005.

- 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)**

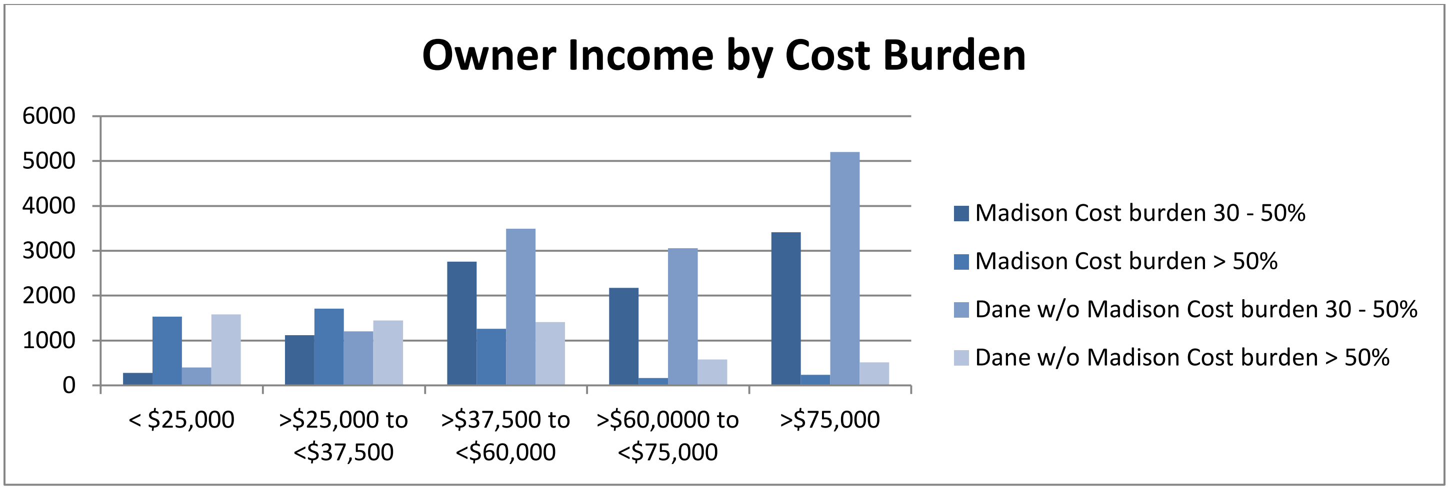


Source: 2006-2010 CHAS – HUD

The percentage of homeowners that are housing cost burdened has held very steady since 2005. The slight decrease in recent years could possibly be attributed to increased affordability from lower prices and interest rates or from tighter lending standards.



Source: 3 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

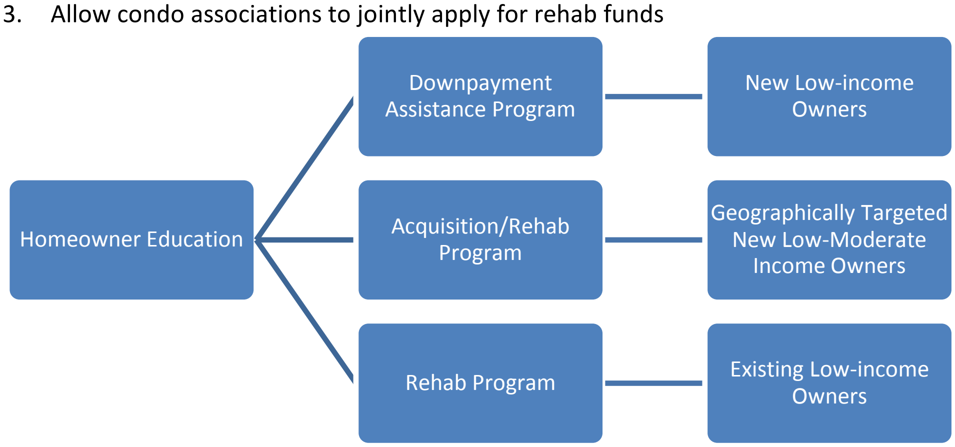
Supply can also be increased by creating units that are lower cost or specifically targeted at low-income households, which can be done through:

- 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

	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

MARKET RATE OWNERSHIP - OVERVIEW

In the past 20 years homeownership has been a rollercoaster ride of boom and bust, leaving us with a homeownership market that looks dramatically different today than 5, 10 or 15 years ago. For Millennials (18-35 years old), our next generation of homeowners, there is a historically large chance that they are living with their parents, and if not, they are renting with only 29% percent owning a home. Among those that are renting, 56% are housing cost burdened meaning that housing eats up around a third or more of their income making saving for a down payment nearly impossible.

By many measures, a significant portion of renters in our market could afford to own a home. Not just the mortgage, but the full range of responsibilities involved with homeownership from property taxes to home insurance. Given this fact, we would expect to see more of them buying homes yet young renters do not appear to be transitioning into homeownership at the rate they could be. Either renters are opting out of the American Dream or it remains out of reach for reasons beyond simple affordability.

The most likely financial hurdle facing these potential buyers is the difficulty in obtaining a mortgage despite their relatively high incomes. As previously mentioned high rents make saving for a down payment difficult. Similarly, the historically large amount of student debt held by Millennials makes it difficult to save while at the same time challenging their credit scores. These challenges are multiplied by the tightened credit market that sets a much higher bar for credit worthiness, putting homeownership out of reach for young renters who have yet to firmly establish their credit. Another factor muddying the water for would-be homeowners is competition from existing homeowners who have significant downpayments and established credit histories.

Once a household decides to choose ownership over rental, the issue of where to purchase becomes relevant. The classic way to understand this decision is that households self sort into neighborhoods that have the best combination of housing and amenities that they can afford. The data indicate that the next generation is putting a greater emphasis on the amenity side of the equation than previous generations of buyers. However in these more urban/walkable central neighborhoods with more amenities, our housing stock is often priced out of reach for these first time homebuyers and redeveloping them to add moderately priced entry level ownership products is limited by zoning, demolition, and subdivision rules that can hinder middle sized development as well as a lending market that discourages alternative ownership structures such as condominiums and cooperatives.

As a city, we have a vested interest in ensuring that the thousands of renters that we have added in recent years have an option to stay in our community if and when they choose to become homeowners.

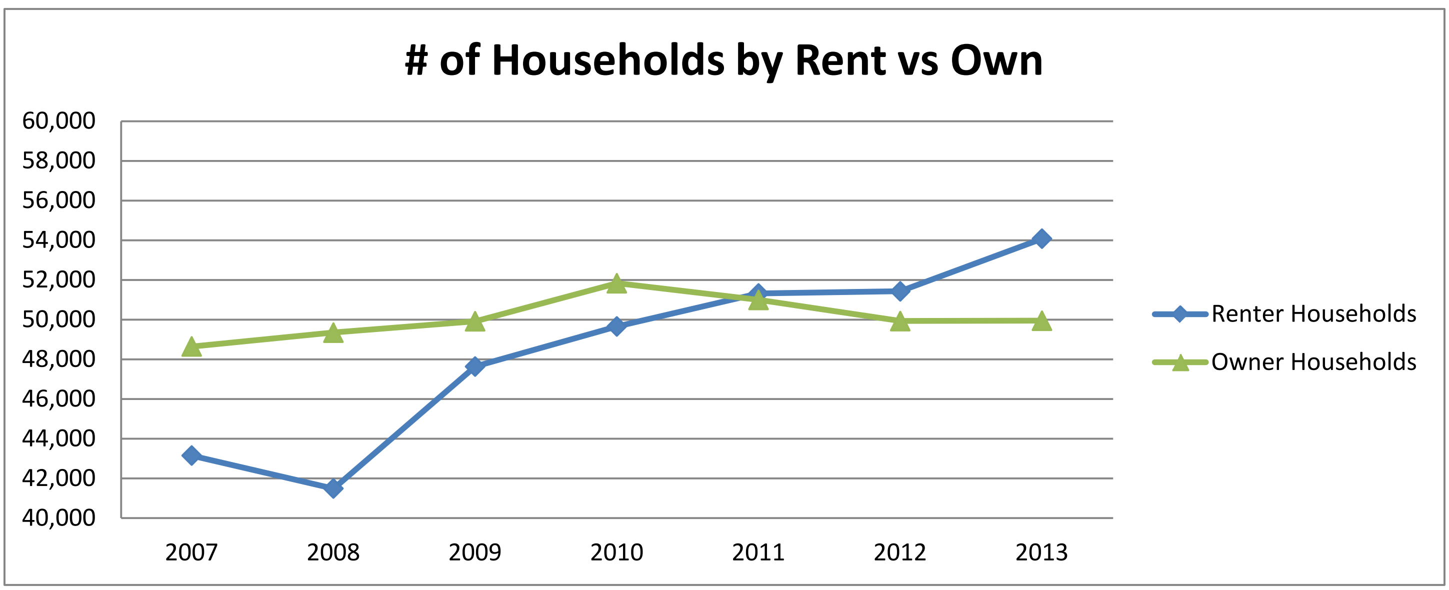
MARKET RATE OWNERSHIP - DEMAND

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

POPULATION GROWTH

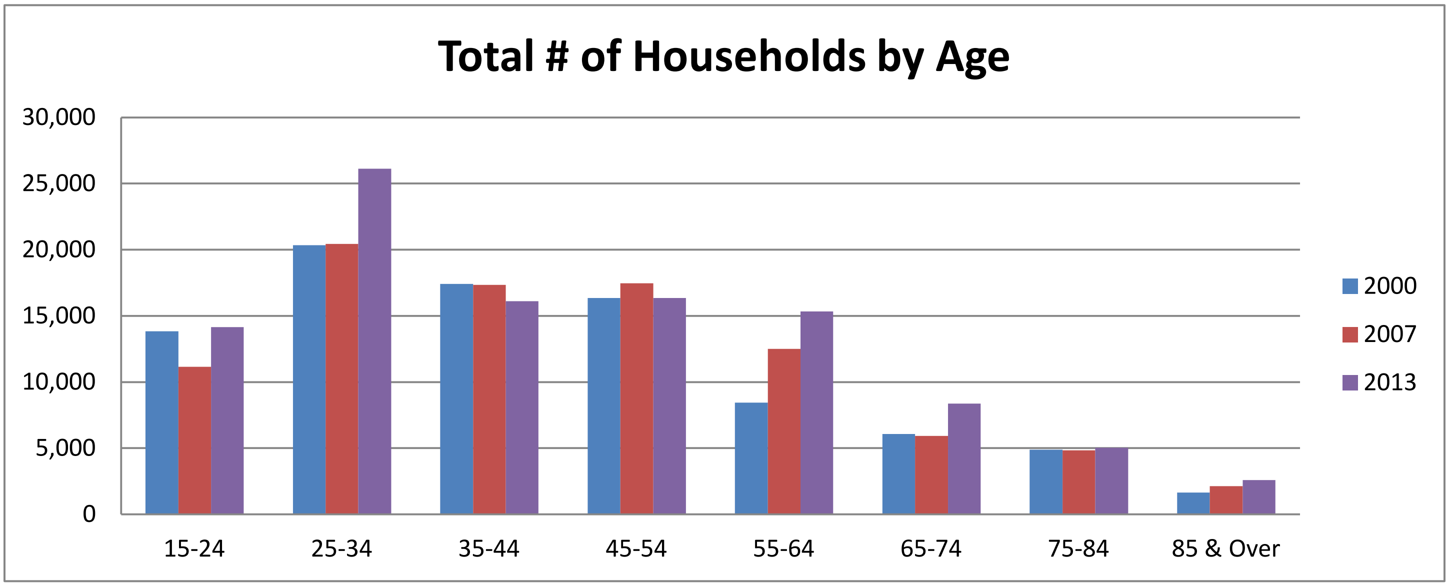
Prior to the recession, the City of Madison saw modest population growth in line with historic averages driven primarily by owner households and relatively large household sizes (more than two people) while the rental market was stagnant. **After the recession, Madison's population growth shifted into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

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



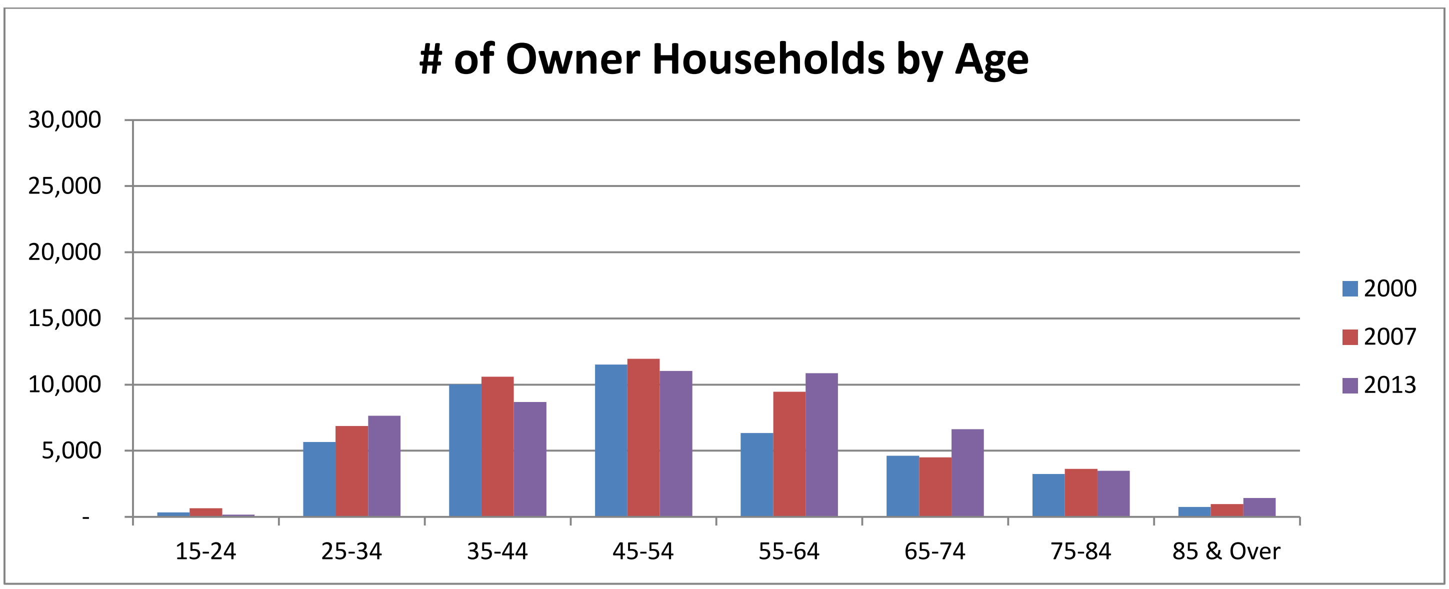
Source: 3-year American Community Survey

The combination of strong household growth and clear preference for rental housing made **Madison a majority renter community in 2011**.

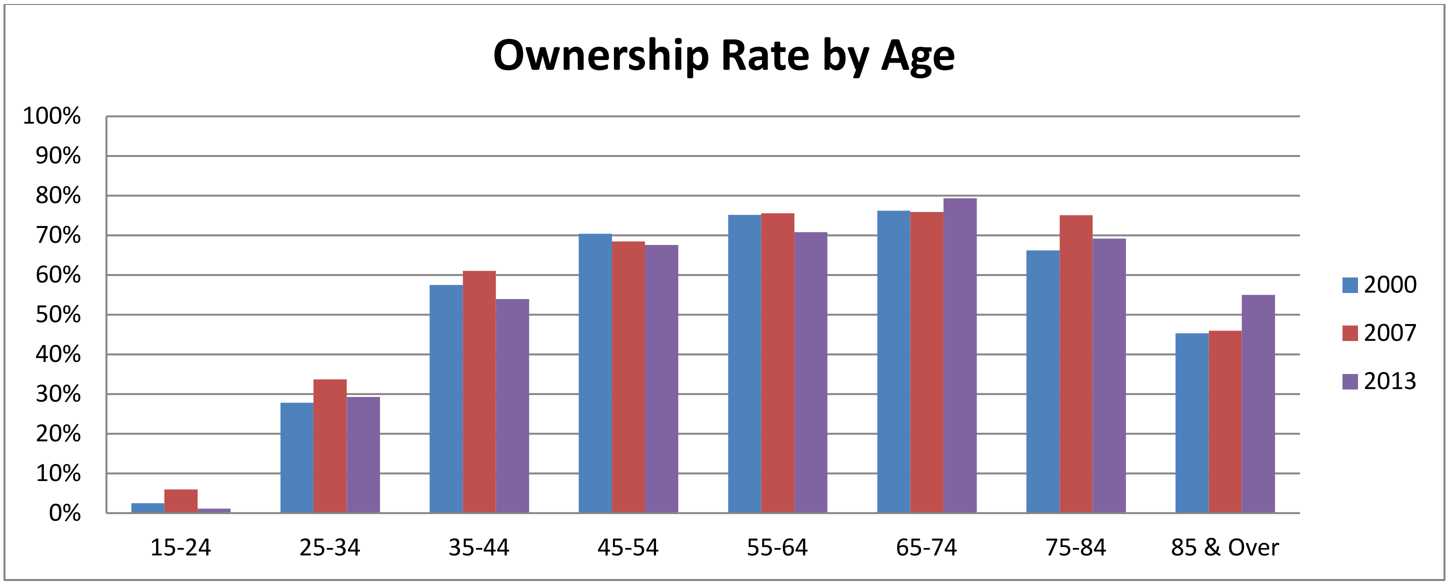


Source: 2000 Decennial Census, 3-year American Community Survey

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

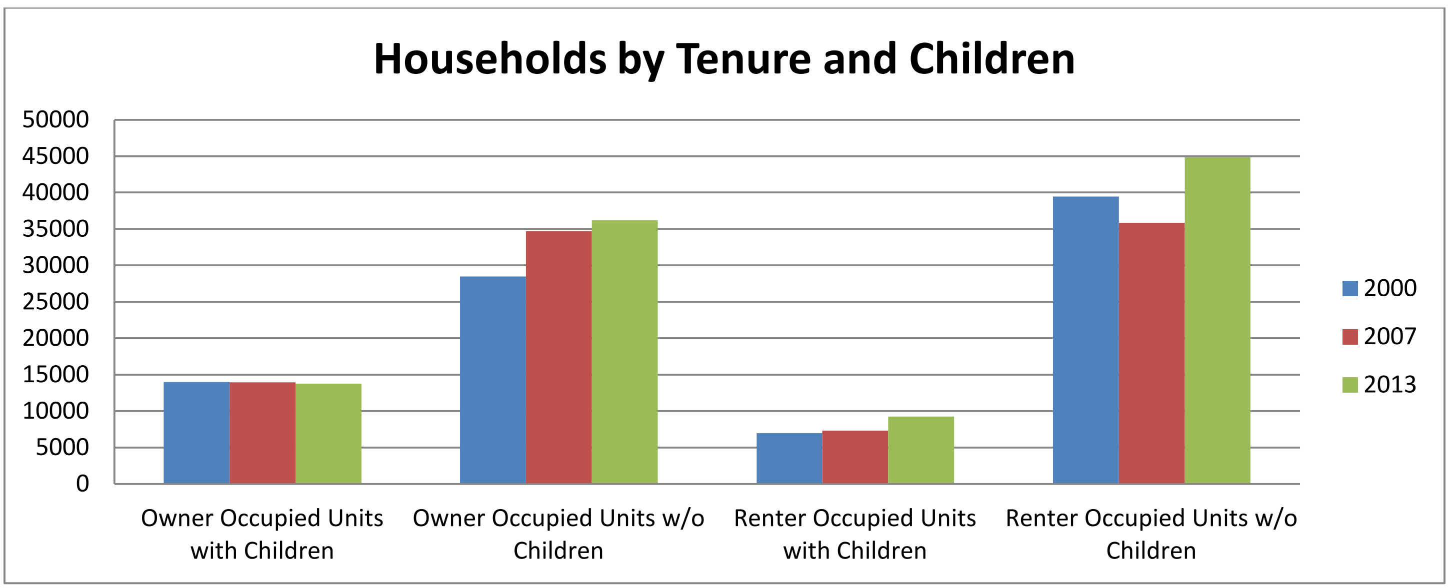


Source: 2000 Decennial Census, 3-year American Community Survey



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

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

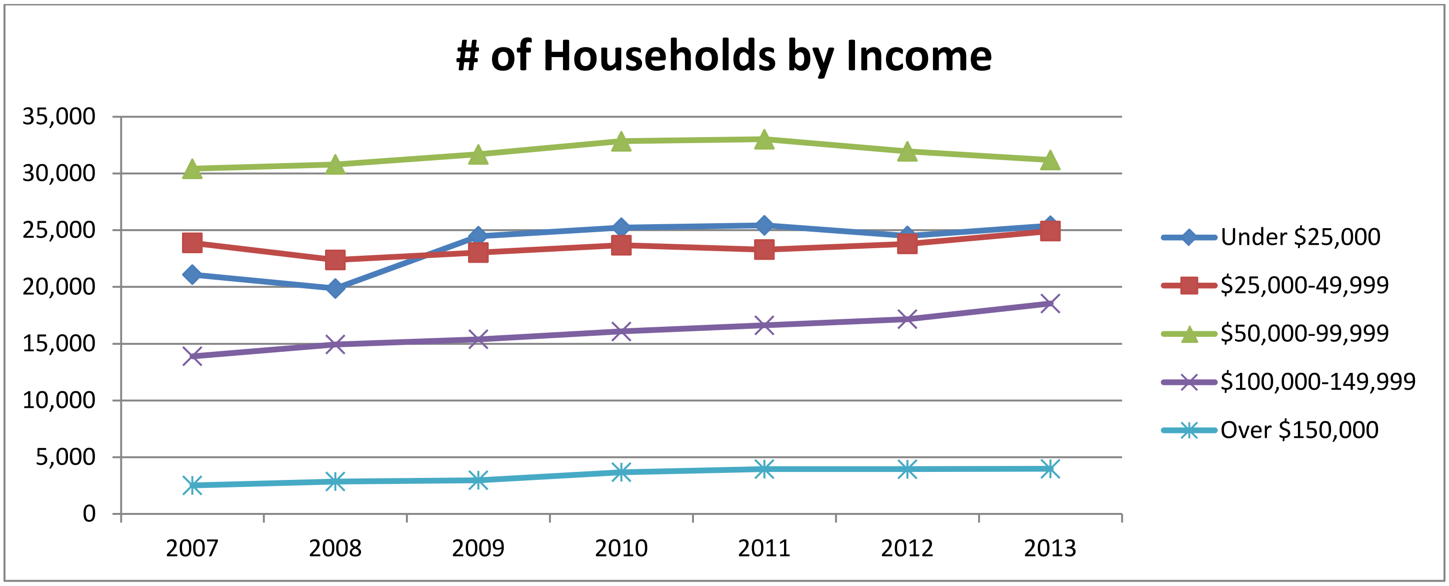


Source: 2000 Decennial Census, 3-year American Community Survey

HOUSING TENURE BY INCOME

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

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



Source: 3-Year American Community Survey

Household Growth Rate 2007-2013

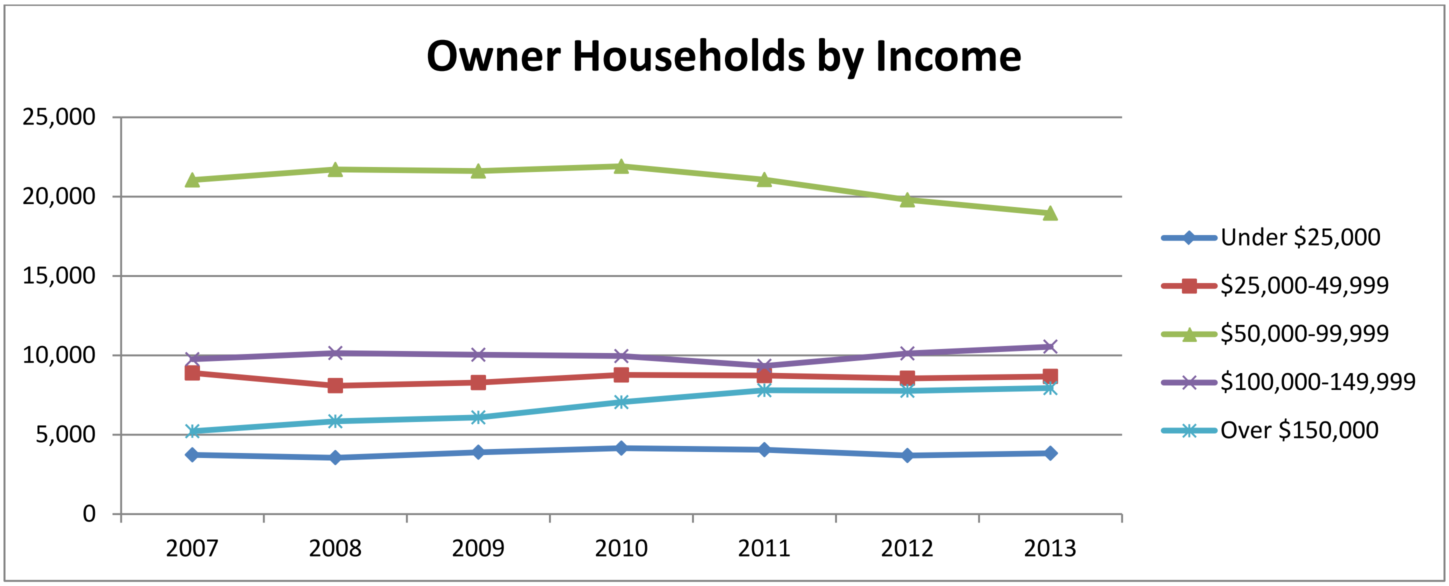
	Average Annual Growth Rate	Total Growth
Total	2%	13%
Under $25,000	3%	20%
$25,000-49,999	1%	4%
$50,000-99,999	0.4%	3%
$100,000-149,999	4%	24%
Over $150,000	8%	61%

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

Since 2007, the City of Madison has added approximately:

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

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



Source: 3-year American Community Survey

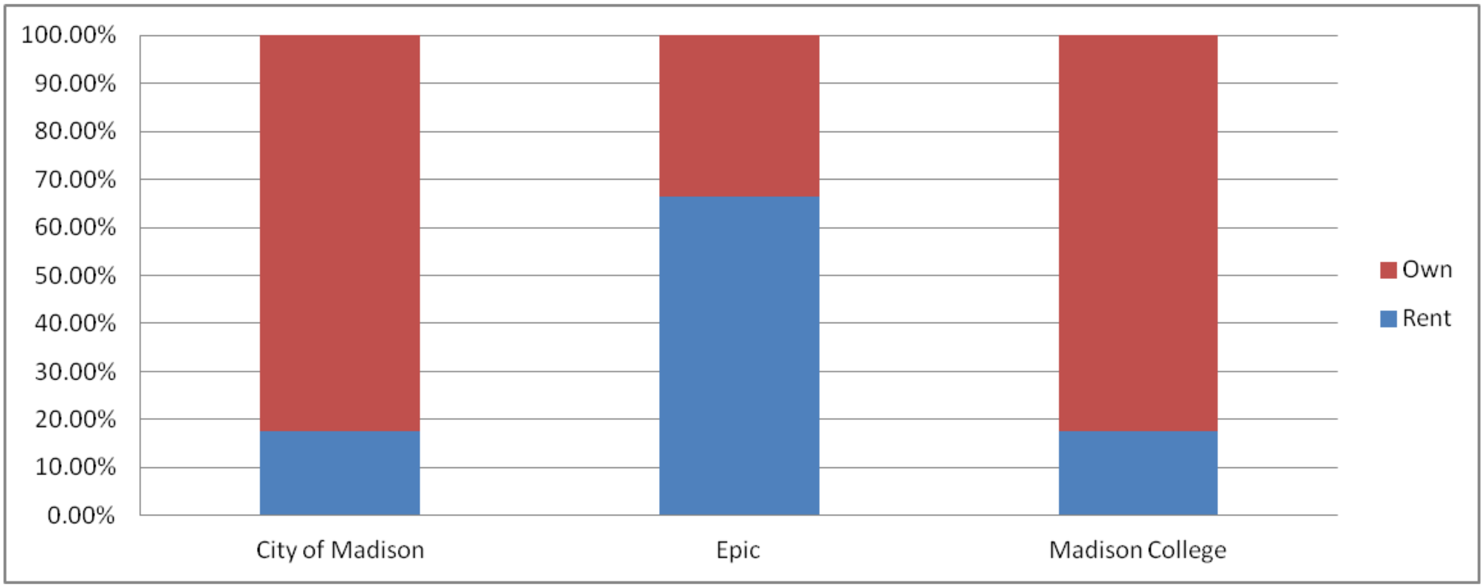
Homeownership Growth Rate 2007-2013

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

HOUSING PREFERENCES

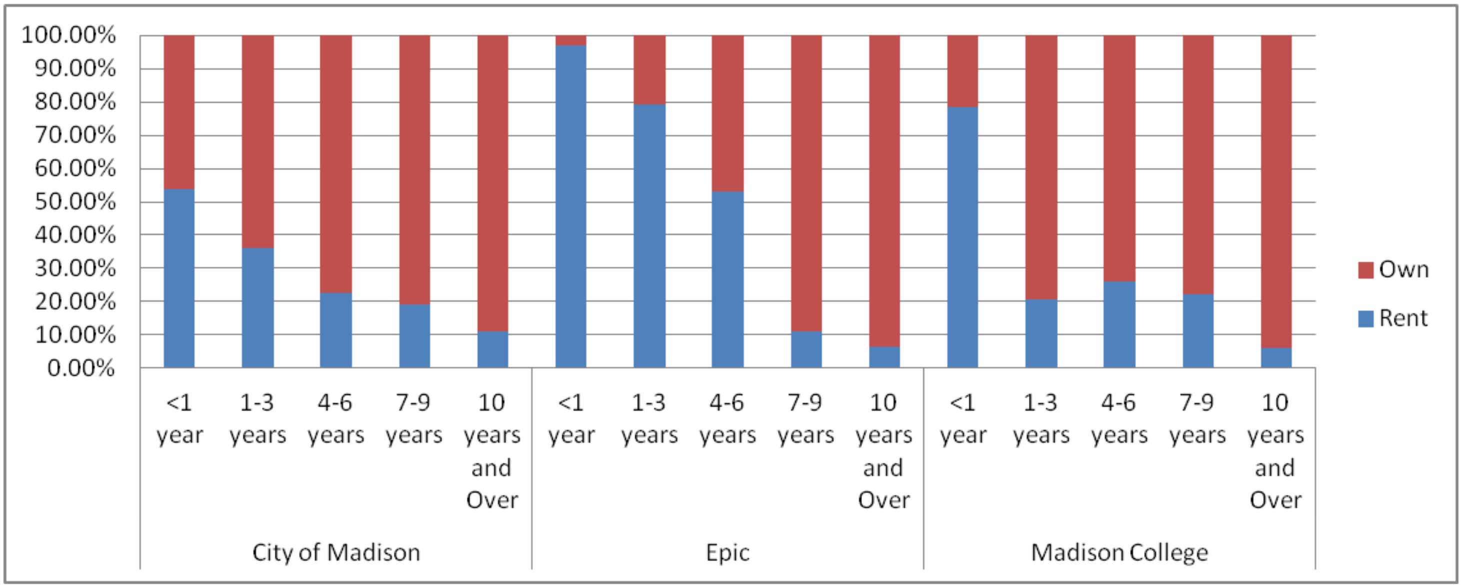
Combining all of the trends in the data, it is clear that there has been a shift in housing preferences towards rental and that there are new hurdles to homeownership holding back those who do want to own. To better understand this demand, the City of Madison commissioned a survey on housing preferences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

RENT VS OWN



Source: 2014 City of Madison Housing Survey

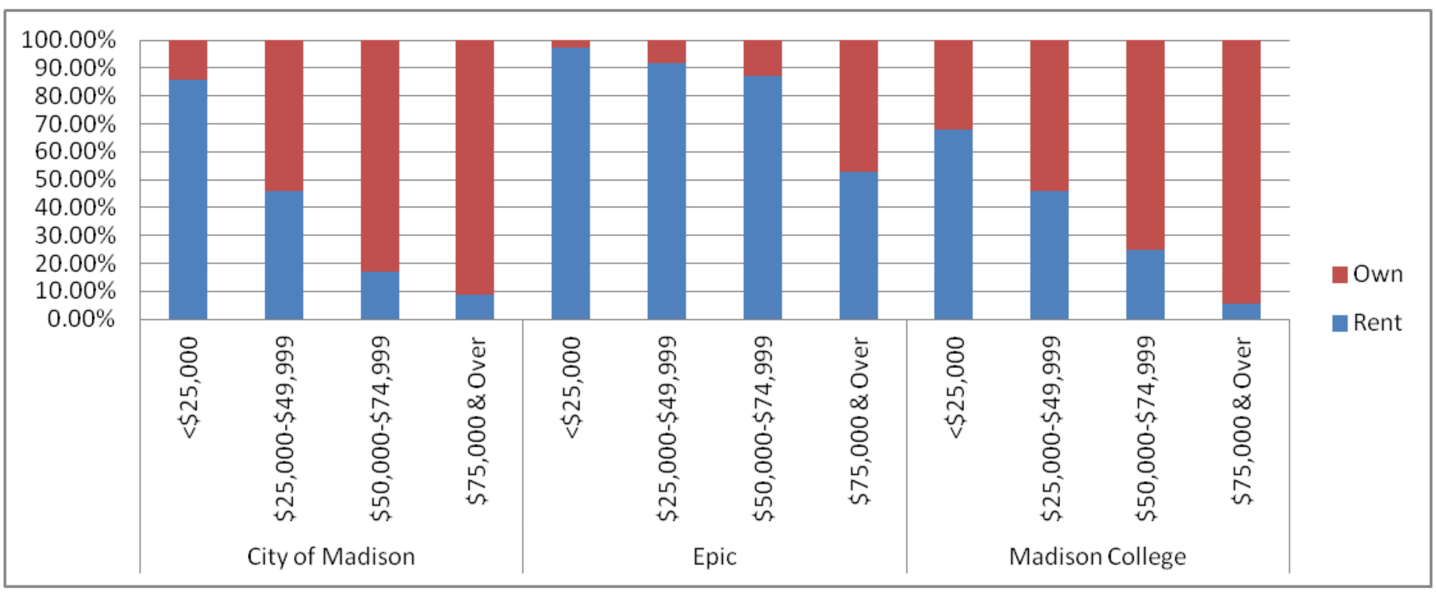
RENT VS OWN BY LENGTH OF EMPLOYMENT



Source: 2014 City of Madison Housing Survey

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

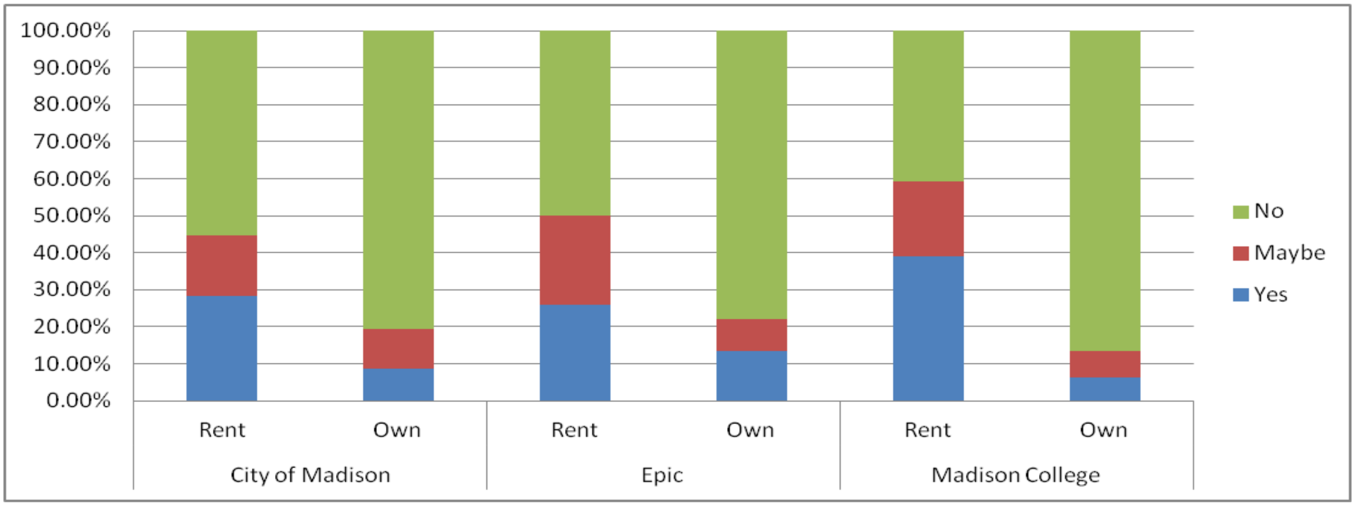
RENT VS OWN BY HOUSEHEOLD INCOME



Source: 2014 City of Madison Housing Survey

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

INTEREST IN PURCHASING IN THE NEXT 2 YEARS



Source: 2014 City of Madison Housing Survey

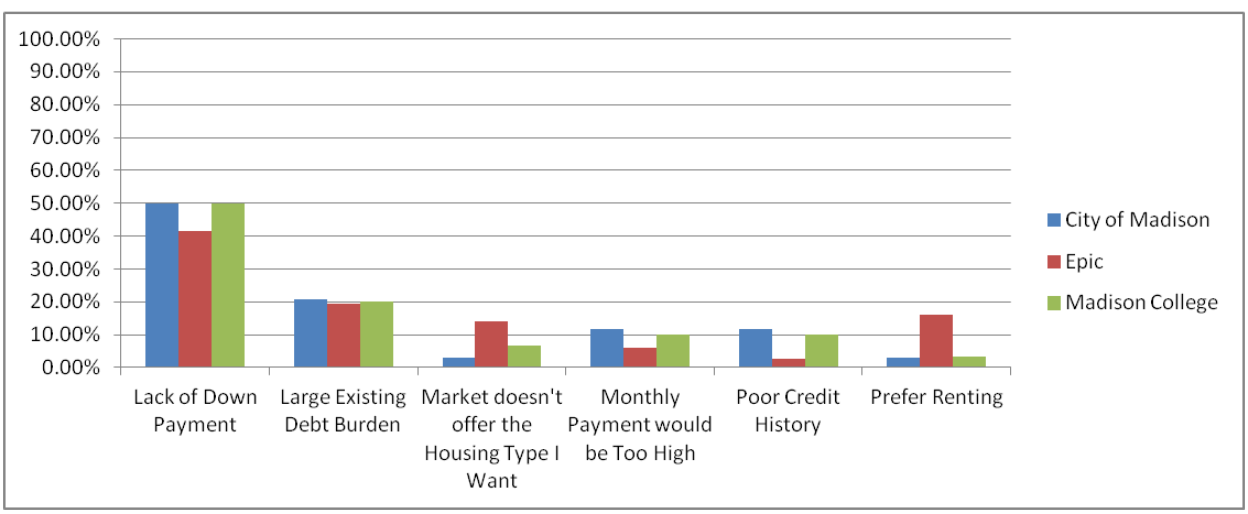
Renters, when asked if they planned to purchase a home in the next two years, 50% said no, 25% said maybe and 25% said yes. For those in the yes and maybe categories, a few factors prohibiting ownership dominated:

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

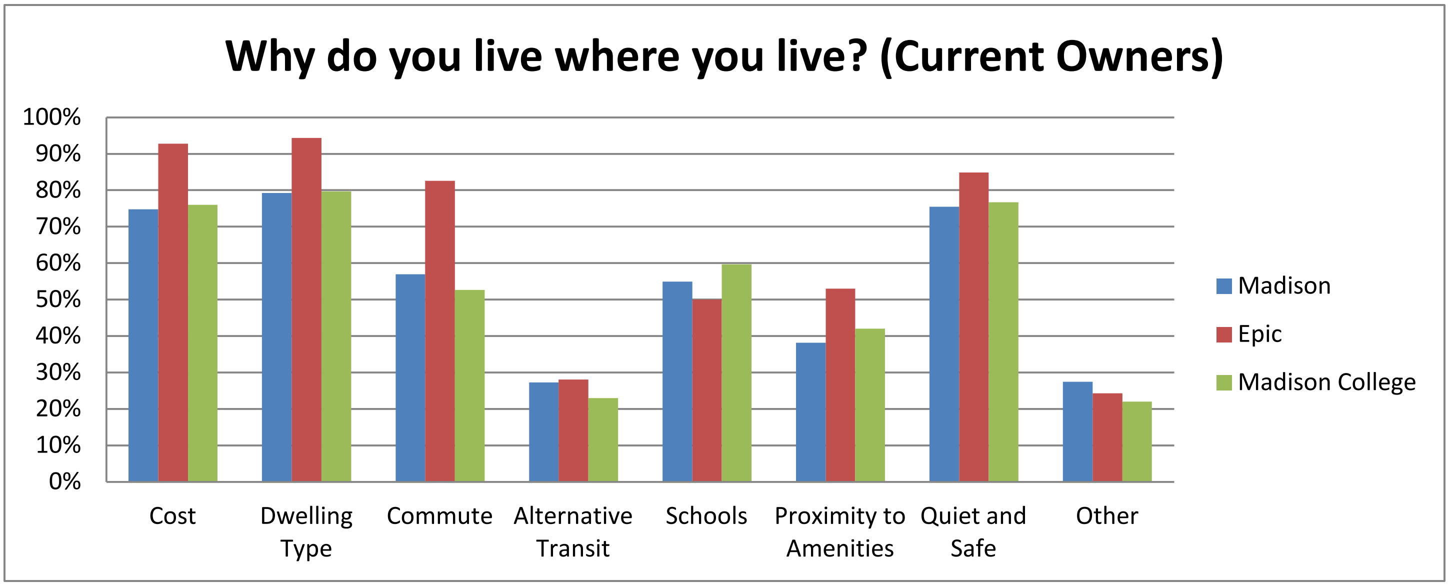
These data support the argument that it is not simply cost that is preventing renters from purchasing. Instead, there are number of factors that lead to renters not being ready at this point in their lives and careers to make a financial and personal commitment to ownership.

Furthermore, comments regarding “Market doesn’t offer the Housing Type I Want” focused on the lack of condominium and townhouse products in central locations (29% of likely buyers stated these as their preferred housing types)

MAIN BARRIER TO PURCHASING



FACTORS IN CURRENT HOUSING SELECTION – CURRENT OWNERS



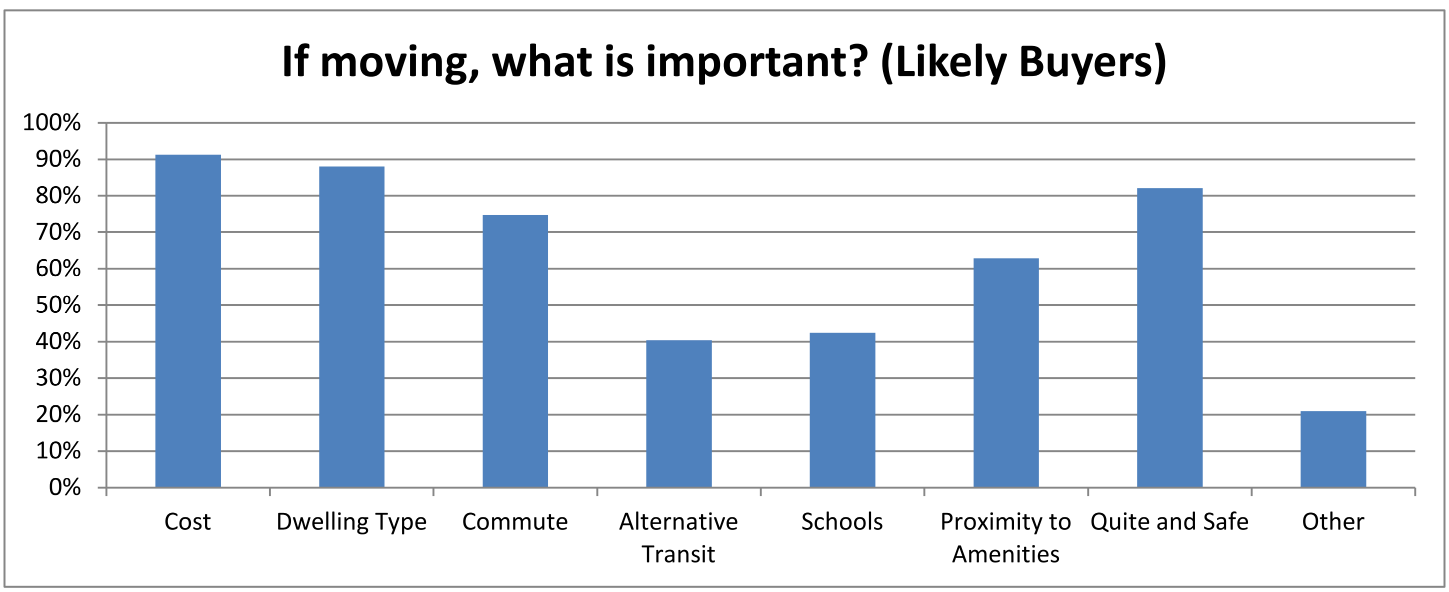
Source: 2014 City of Madison Housing Survey

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

- The unit itself is universally important as shown by responses regarding the cost and type of unit
- Location is somewhat less important, as shown by lower responses for Commute, Alternative Transit, and Proximity to Amenities (but not quiet and safe neighborhood)

When asked what factors matter to renters and owners planning to purchase in the next two years, a slightly different pattern emerges as locational factors of Commute, Alternative Transit, and Proximity to Amenities are greater priorities to those planning to purchase than they are to our current homeowners. **These results support recent studies confirming that 25-34 year olds have experienced a strong preference shift placing a premium on proximity to amenities when choosing housing**.

FACTORS IN CURRENT HOUSING SELECTION - LIKELY BUYERS

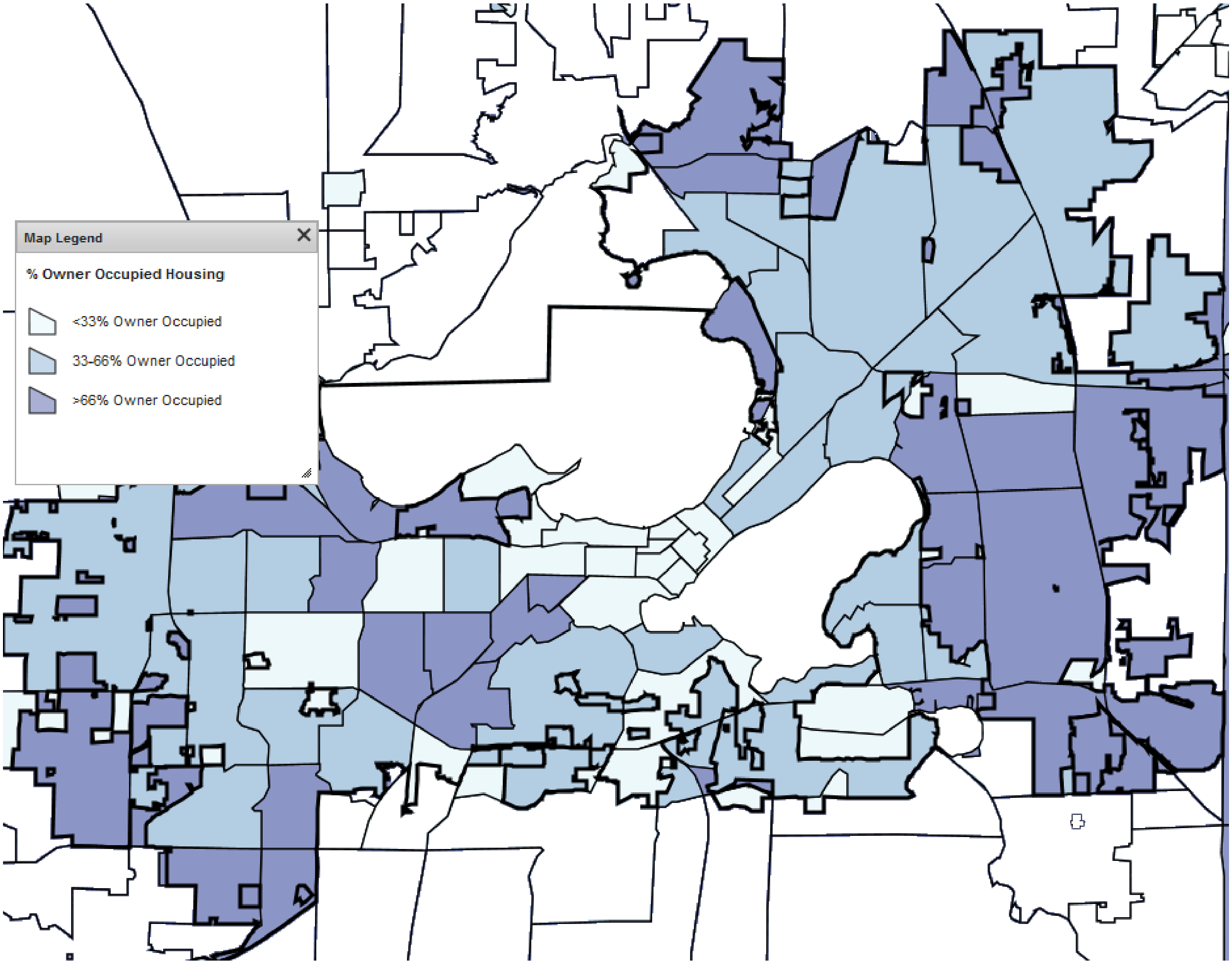


Segregating households with children from those without, a noticeably different set of priorities emerges as quality of schools becomes a significant factor in selecting where to live. Of households planning to purchase in the next two years that have children in the household, 90% consider the quality of schools an important factor in choosing where to live compared to only 27% of households without children.

TRENDS

- Compared to 2000 and 2007, today's homeowner is:
  - Older
  - Wealthier
  - Less likely to have children in the home
- Middle class households are leaving or failing to enter the ownership market
  - Significant loss of $50,000-$100,000 (80%-160% of AMI) households
  - Only 30% of new households at $100,000-$150,000 (160%-240% of AMI) were/became homeowners
    - Despite likely having the financial means to purchase
- New households are not entering the ownership market
  - 9 out of 10 households added since 2007 chose to rent
  - Homeownership rates in younger age groups have dropped since 2010
- Preferences are shifting
  - The next generation of likely buyers puts a premium on the location of their housing (Commute, Alternative Transit, and Proximity to Amenities) compared to previous generations of buyers
  - The majority of potential buyers do not have children (yet) or place much emphasis on schools when choosing housing locations
    - But those with children place extra emphasis on schools

HOUSING STOCK



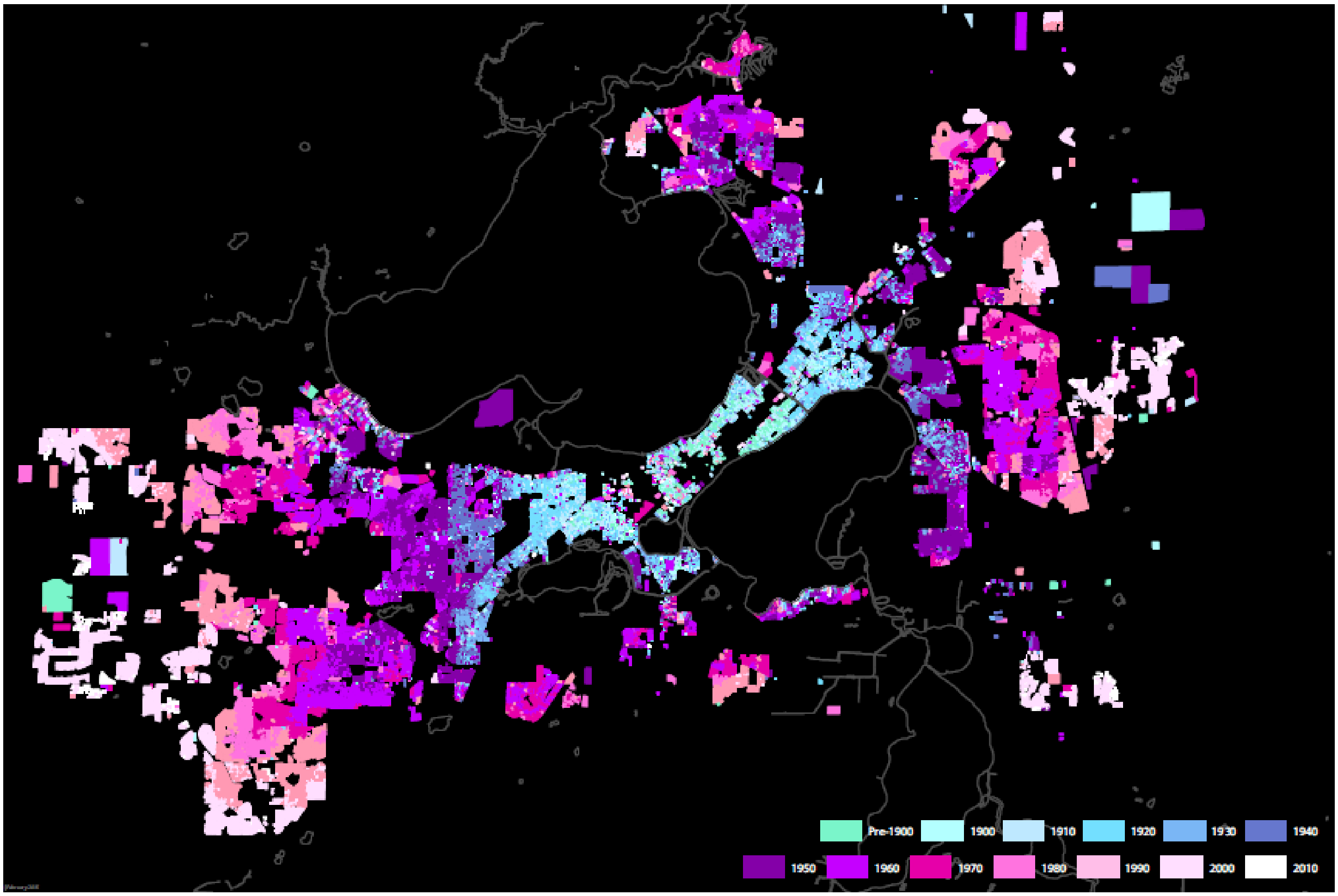
Source: HUD CPD Maps

In the City of Madison, the stock of owner occupied housing is not equally distributed across the city. Centrally located neighborhoods and commercial/transportation corridors have a mix of owner and rental housing. Broad swaths of the west and east sides as well as the city edge have significantly higher concentrations of owner occupied housing stock.

This pattern is partially the result of market forces and city planning that has denser multifamily development in centrally located neighborhood and commercial/transportation corridors. It is also a product of when areas of the city developed. The most centrally located neighborhoods were originally developed over 100 years ago and as the housing became obsolete it was largely converted to or replaced with commercial buildings and rental housing.

Madison saw significant population growth and development in the decades following World War II resulting in the creation of subdivisions dominated by single family owner occupied housing on the north, east, west, and southwest sides.

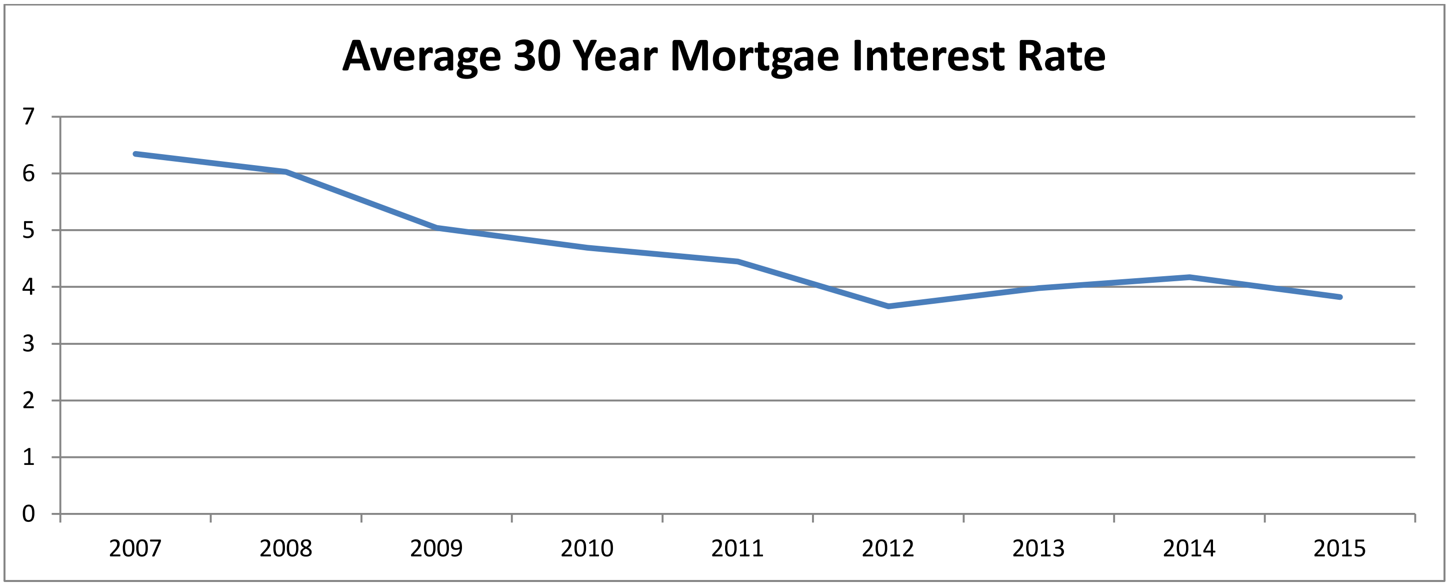
More recent subdivisions have been created along the edges of the city, but in general they have been smaller in scale than post World War II subdivisions and many have a rental or commercial component breaking up the concentration of single-family owner occupied homes.



HOUSING COST, PRICE, AND VALUES

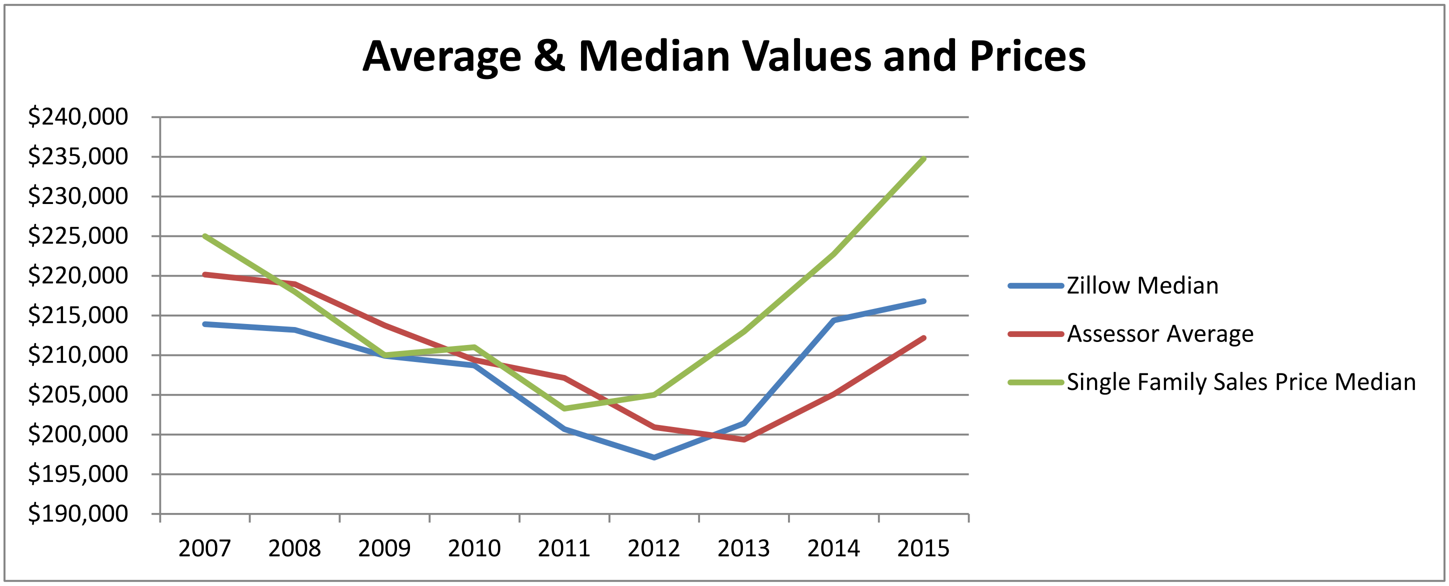
The cost of ownership is driven by three primary factors: housing prices, interest rates, and property tax rates**. Due to the decline in prices and historically low interest rates, home ownership is more affordable than ever**.

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



Interest rates continue to hold at or near historic lows, making homeownership more affordable.

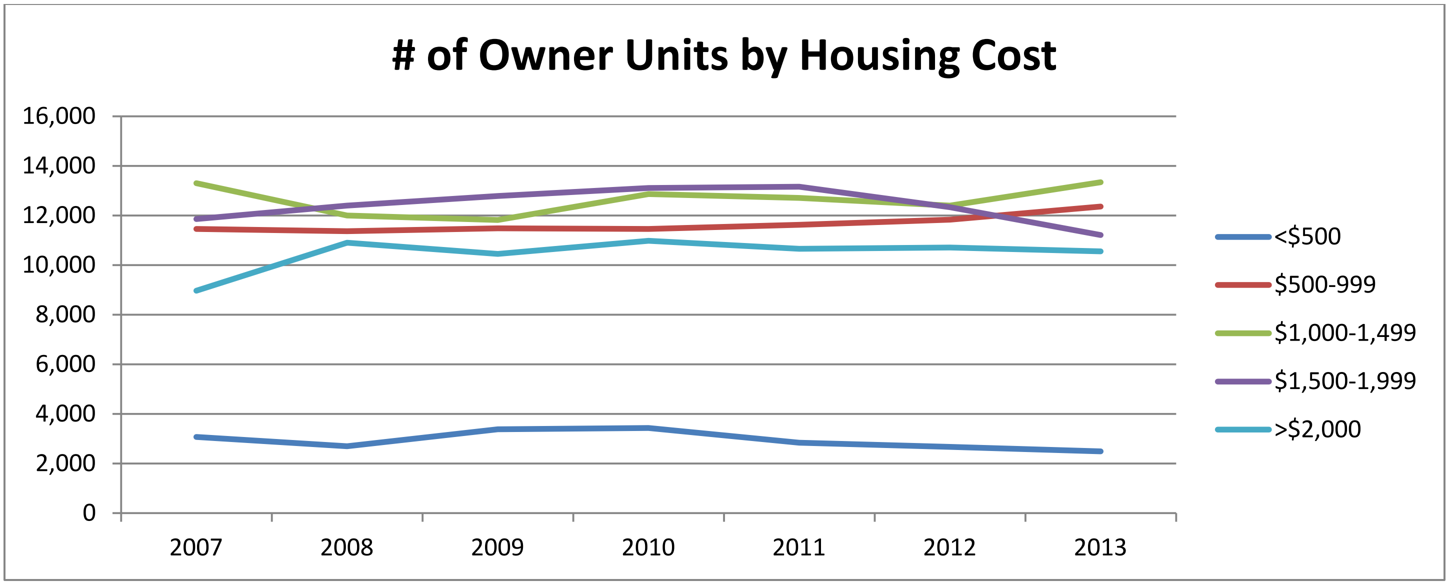
The 2007 recession was in part caused by the bursting of a credit driven housing bubble. The result was a nationwide drop in house values. In response, the Federal Reserve dropped interest rates effectively to zero to stimulate a recovery. **The combination of reduced home prices and historically low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



Unit Growth Rate 2007-2013		
	Average Annual Growth Rate	Total
Less than $500	-4%	-22%
$500-$999	2%	12%
$1,000-$1,499	8%	65%
Over $1,500	12%	108%

Source: 3-Year American Community Survey

However, **according to Census data households did not realize a net reduction in housing costs**. Instead, the Census reported rising housing costs for homeowners. This could be because homeowners stayed in their existing home negating the drop in home value, 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. Another likely culprit is the inability of many homeowners to refinance their mortgage to the new lower rates due to their reduced home equity.

While citywide median values give a picture of the overall market, households looking to purchase segment the market by geography and by price. To illustrate patterns in price and geography, the market can be segmented into:

Starter Homes

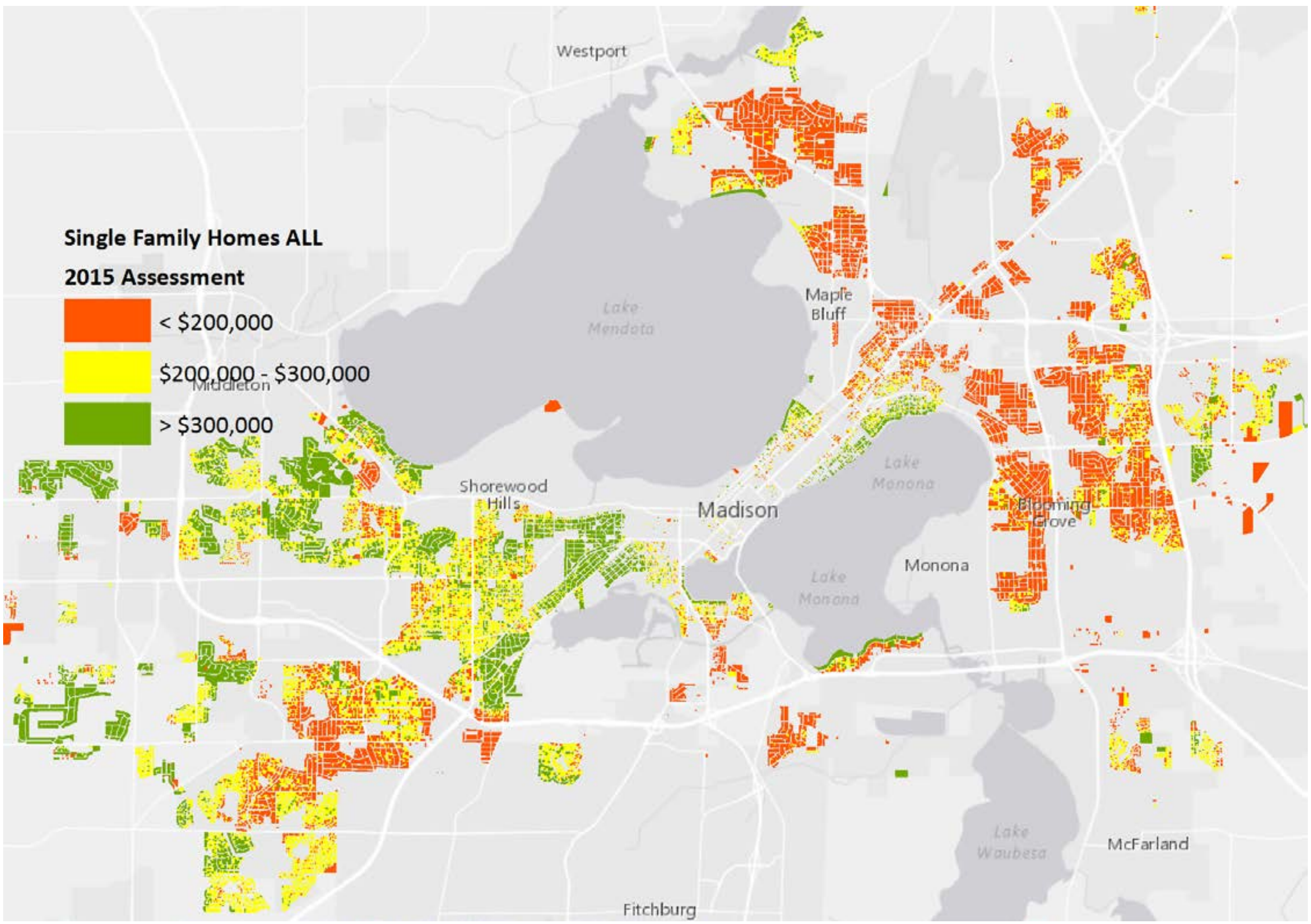
- The least expensive 1/3 by list price
- Under $200,000 in the City of Madison

Mainstream Homes

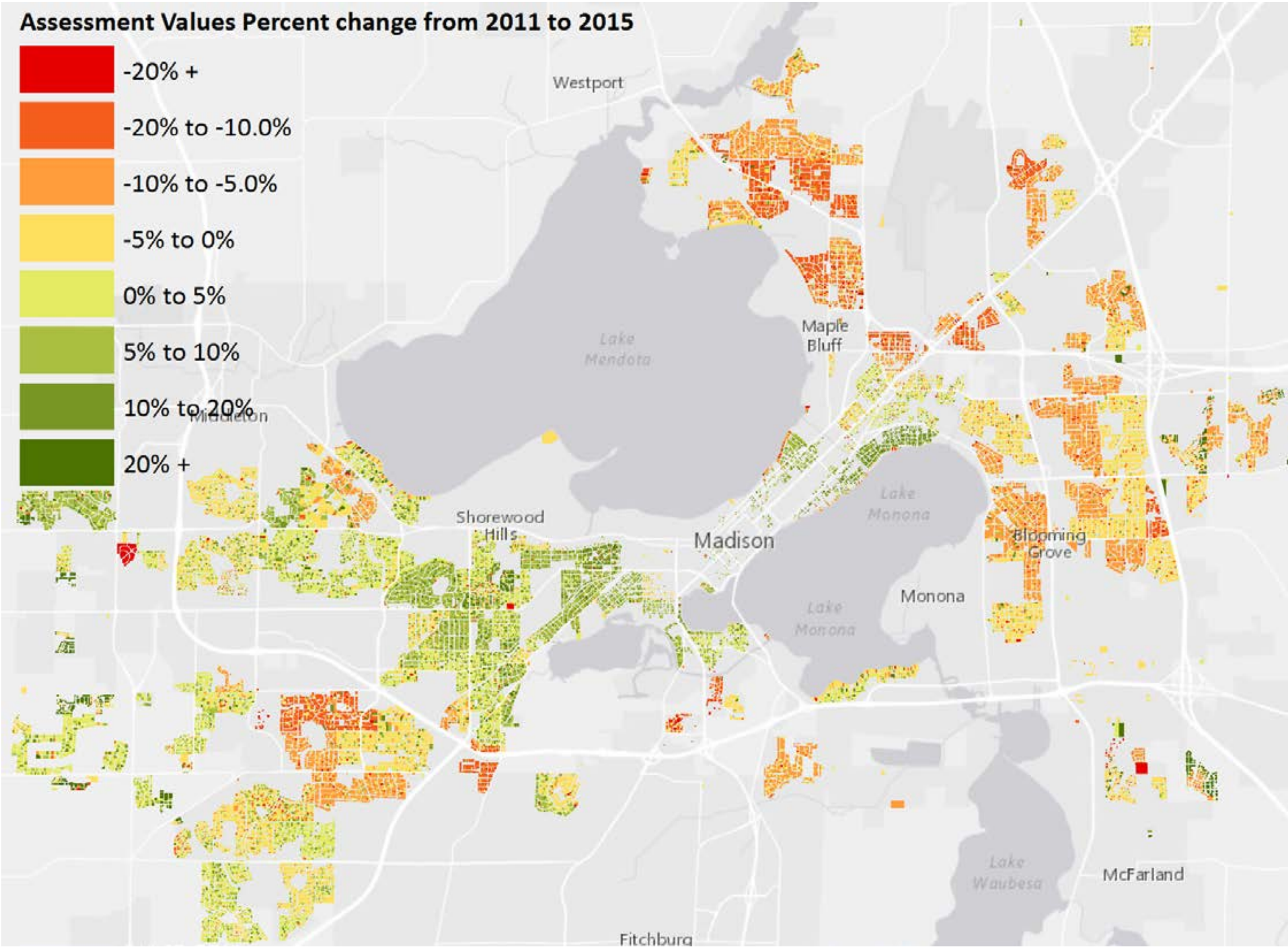
- The middle 1/3 by list price
- $200,000 to $300,000 in the City of Madison

Premium Homes

- The most expensive 1/3 by list price
- Over $300,000 in the City of Madison



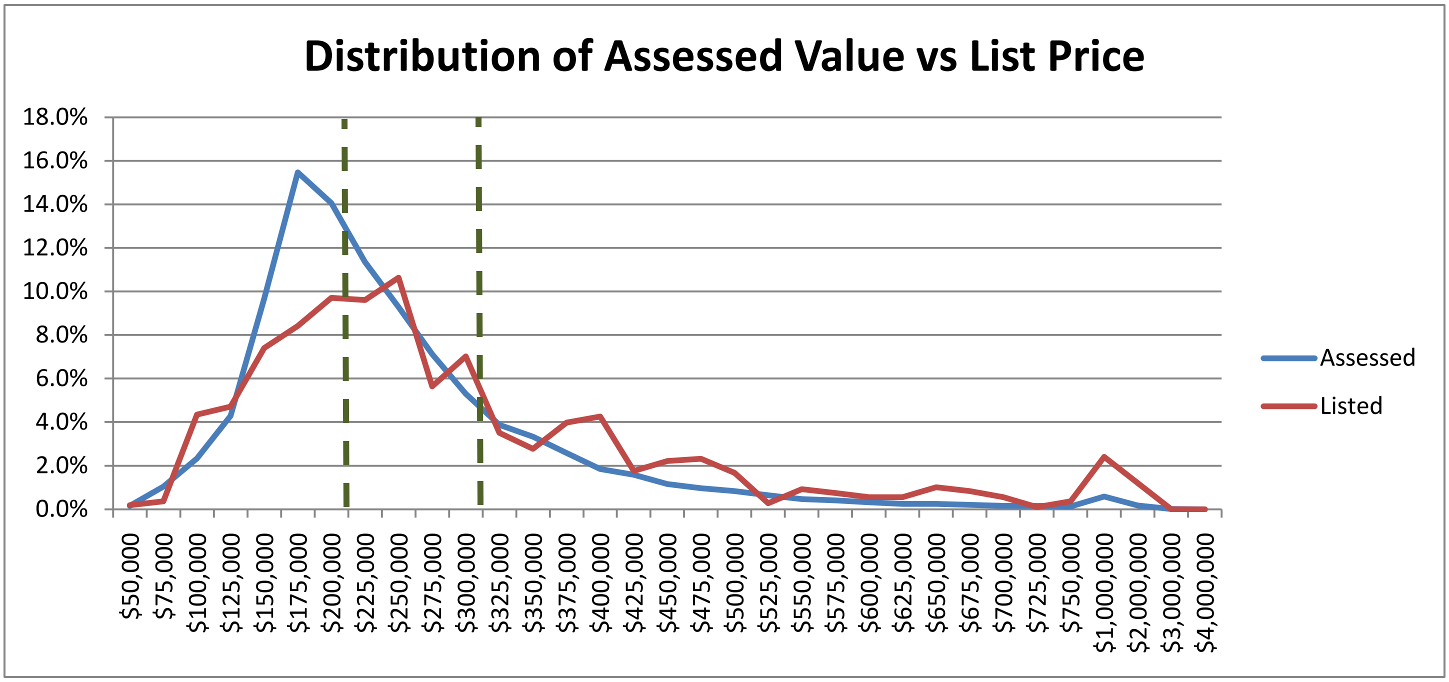
The general pattern is higher values in neighborhoods that are closer to downtown and have older homes (pre-WWII) as well as in neighborhoods on the city edge that have relatively new houses (post-1990). Neighborhoods dominated by mid-century housing stock are more mixed in value, which is likely driven by lot size, house size, and neighborhood amenities.



The geographic pattern of changes in assessed value from 2011 to 2015 shows a very uneven recovery with centrally located near east and near west neighborhoods as well as far west and southwest side neighborhoods recovering value and seeing greater appreciation than the north, east, and southwest sides. This pattern demonstrates a strong market desire for the location, type, age, or prices in those neighborhoods.

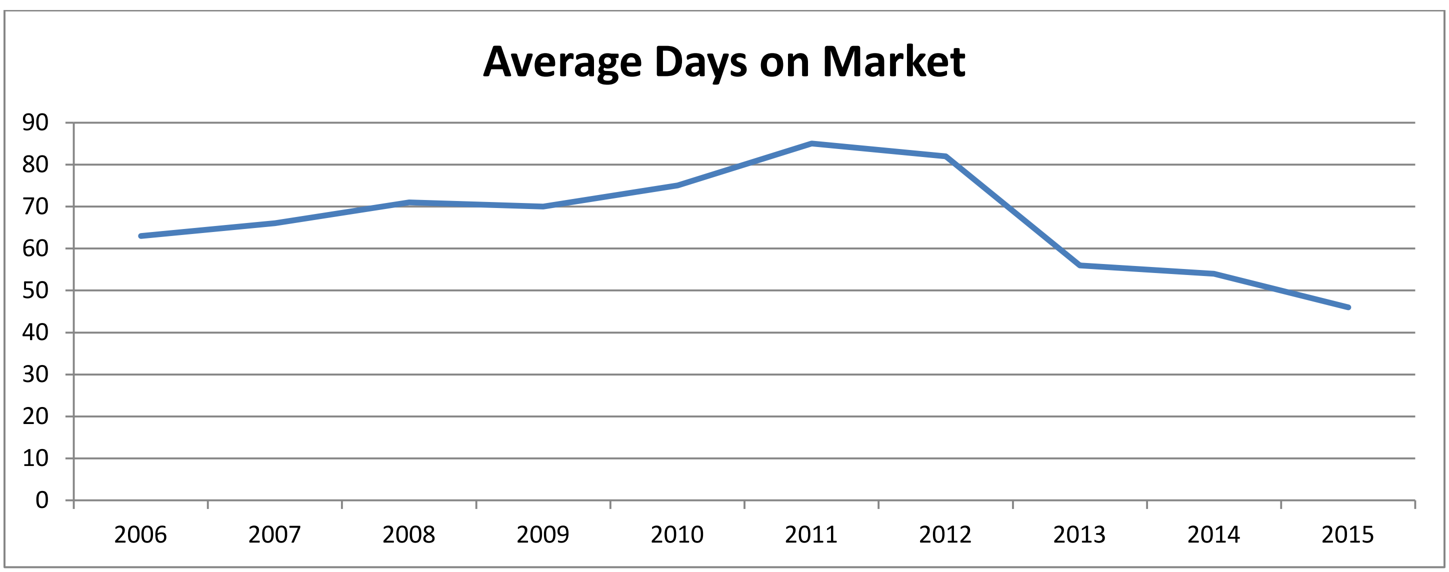
HOME INVENTORY

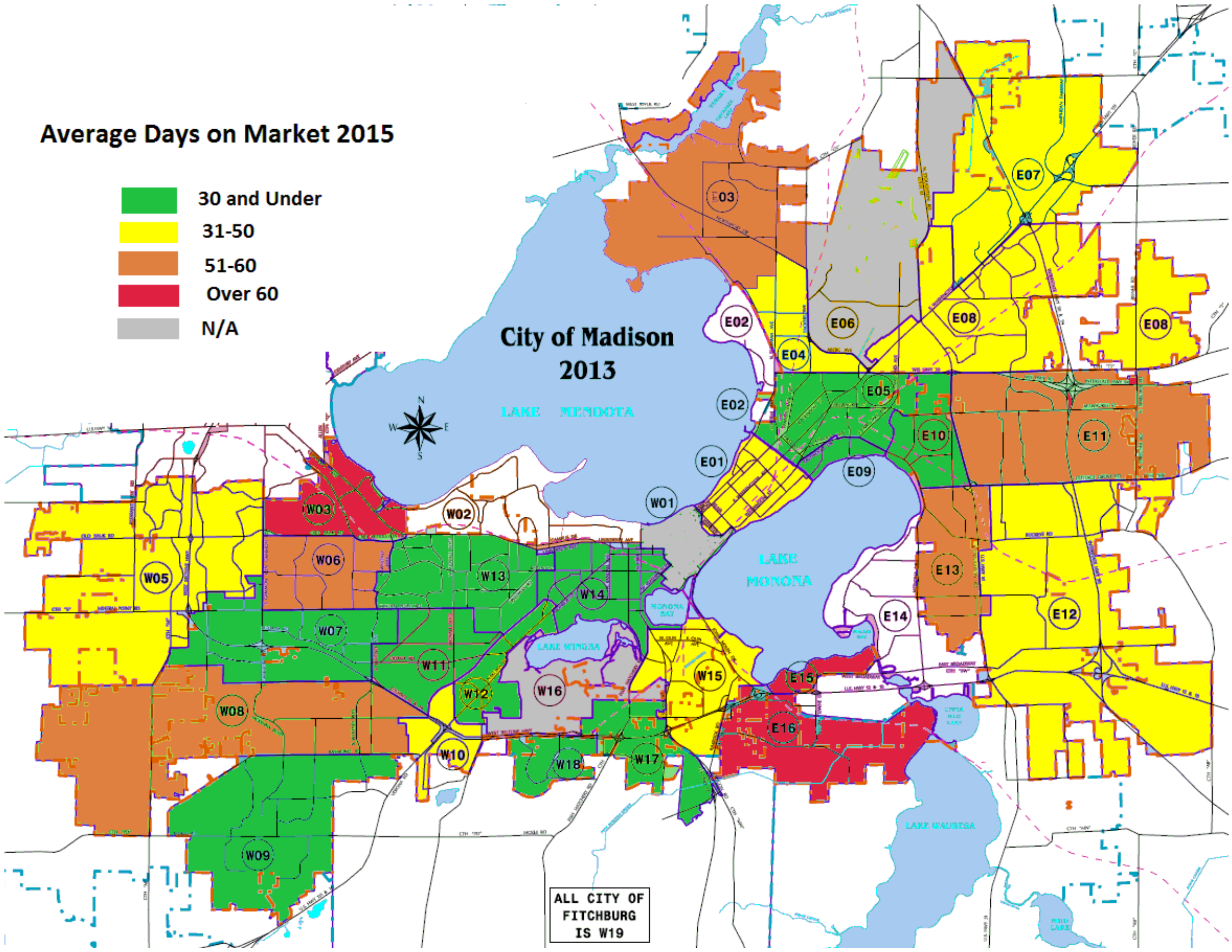
Nationally, regionally, and locally the inventory of homes for sale has dropped dramatically since the housing market recovery began. This low inventory has lead to a very competitive market for homes in Madison. It is common for homes to have multiple offers and sell within a few days of being listed for sale. However, this inventory tightness is not universal across all price points.



Generally, inventory has dropped for Starter and Mainstream homes, but less so for Premium homes. Comparing the distribution of assessed values of Madison's existing stock to what is currently listed for sale, it appears that the market has shifted upwards in price. This is likely caused by a combination of general price increase due to a recovering economy (assessments have not caught up yet) and greater inventory tightness for Starter and Mainstream homes.

Since peaking in 2011-2012, the average amount of time that a single family home stays on the market has dropped dramatically to an average of 44 days in 2015. This is not uniform across the City, with neighborhoods on the near east, near west, and far southwest sides staying on the market for significantly less time.





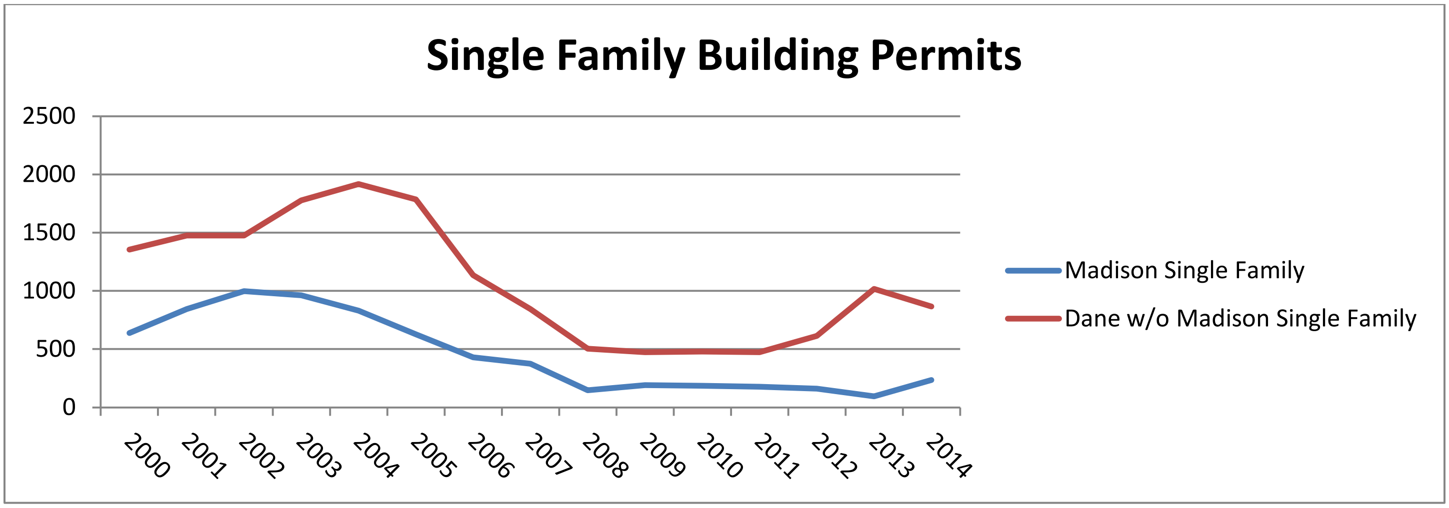
*Areas W17 and W18 only saw a handful of transactions which may not be representative of the larger neighborhood market

When combined with the change in assessment data, the pattern of days on market hint at neighborhoods where the single family housing stock is not matching the demands of the market. These neighborhood can be considered an "Opportunity" in that they currently represent a bargain in our housing market. These neighborhoods contain an abundance of housing that is currently priced as "Starter Homes" that could be nudged into "Mainstream" with strategic investment. In general these neighborhoods have:

- Moderate to high percentage of owner occupied homes
- 40+ year old housing stock
- Average property value below the City average
- Longer than average days on market
- Flat or declining assessed values
- Located between more centrally located urban/walkable neighborhoods and newer development

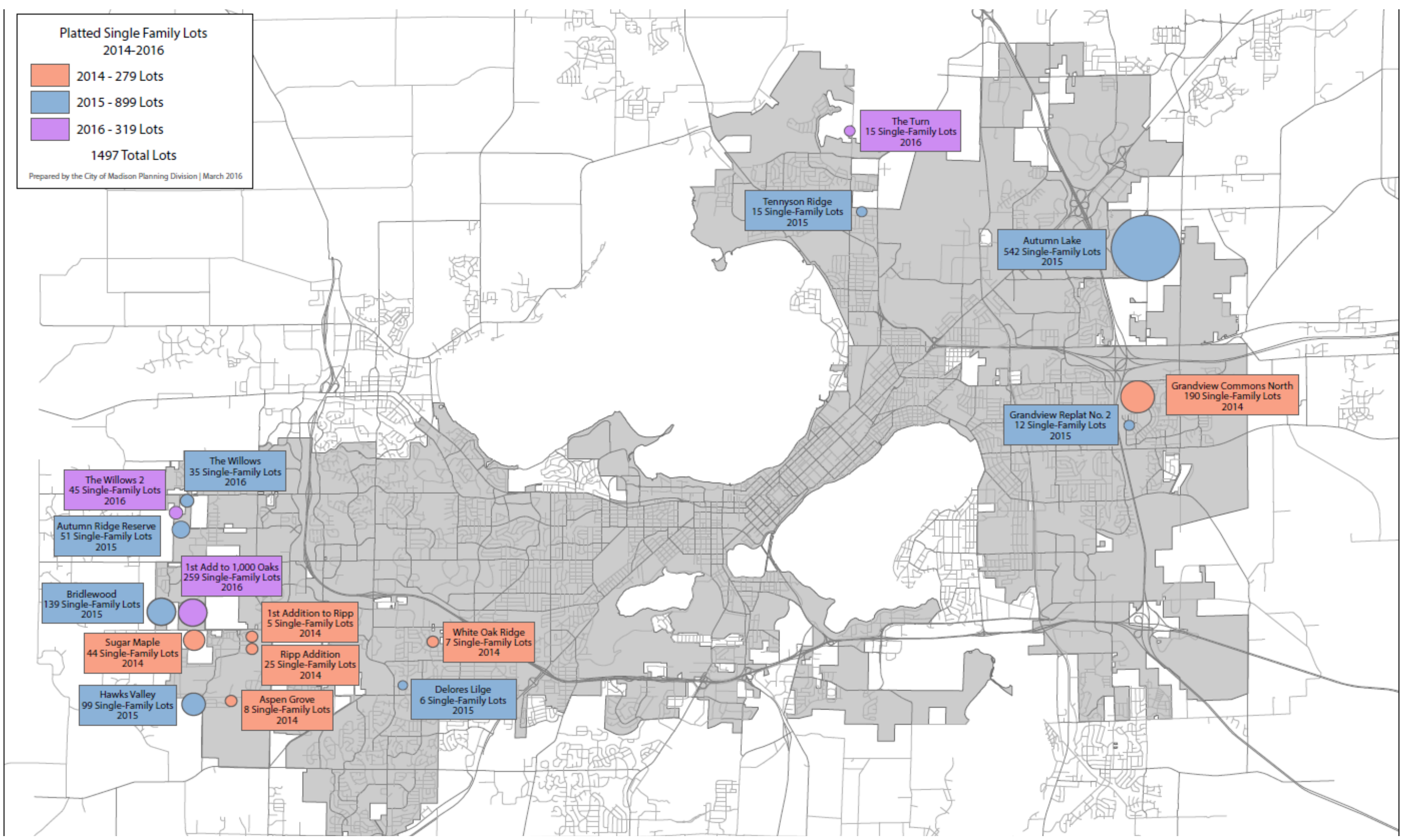
NEW SUPPLY

The City of Madison avoided many of the excesses of the housing bubble of the 2000's and single-family housing construction peaked years before the rest of the county. However, construction has also been slower to recover, with permits in the City essentially flat since 2008, while Dane County started recovering in 2012.



Source: Census Building Permits Survey

Since 2014, roughly 500 new single-family lots have been platted per year. For comparison, 1,000 new homes were built per year as recently as 2003 and 2,661 existing homes were sold in Madison in 2015. Naturally, these newly platted subdivisions are overwhelmingly concentrated on the far east and far west sides of the city.



TRENDS

- Ownership is still relatively affordable in historic terms
  - Low interest rates
  - Recession related price drop
- Very little new supply is being currently being added
- “Opportunity Neighborhoods” are struggling to attract buyers and recover their value
  - Moderate to high percentage of owner occupied homes
  - 40+ year old housing stock
  - Average property value below the City average
  - Longer than average days on market
  - Flat or declining assessed values
  - Located between more central urban/walkable neighborhoods and newer development

MARKET RATE OWNERSHIP - FINANCE/FUNDING

NATIONAL

The majority of funding for ownership housing is in the form of traditional mortgages and owner equity. Virtually all owner occupied housing in the United States is subsidized by the federal government through the tax code and mortgage markets.

- 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 the need for private mortgage insurance

LOCAL SOURCES

The majority of local home ownership programs are targeted at households with incomes below 80% of AMI. Madison has three programs with higher income limits:

- Home Buyer's Assistance
  - Combined Down Payment and Rehabilitation Assistance
  - Deferred or installment loan
  - Up to $40,000 with an additional $10,000/unit
  - Averages 6 loans/year
  - Income restricted to $101,125
  - City funds
- Small Cap TIF
  - Combined Down Payment and Rehabilitation Assistance
  - Forgivable loan
  - Up to $80,000 with an addition $10,000/ unit
  - Averages 10 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
  - Averages 11 loans/year
  - Income restricted to $129,250
  - City funds

MARKET RATE OWNERSHIP - CHALLENGES

The greatest challenge currently facing our ownership housing market is the loss of middle class of homeowners and lack of new entrants to our homeownership market. There are currently a number of barriers preventing the next generation of homebuyers from purchasing their first home in Madison including:

- Tightened federal mortgage underwriting standards
    - Student debt burden
        - Reduced borrowing capacity because of debt-to-income ratio
        - Lack of downpayment
        - Lower credit score
- Lack of Starter and Mainstream Homes in Central Neighborhoods
- Opportunity Neighborhoods with large amounts of Starter Homes lack amenities that Millennials are looking for

TIGHTENED FEDERAL MORTGAGE UNDERWRITING 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:

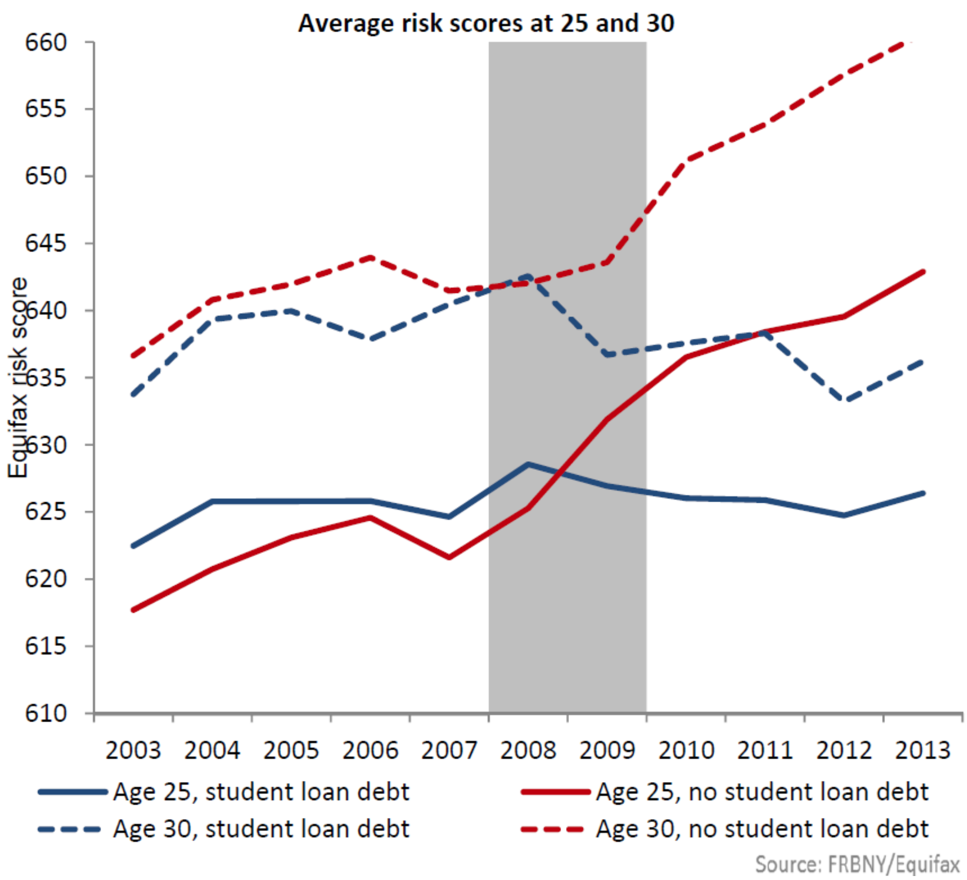
- **No Excessive Upfront Points and Fees**
- **No Toxic Loan Features**
    - ELIMINATE INTEREST-ONLY LOANS
        - These are mortgage products where the borrower defers the repayment of principal and pays only the interest, usually for a certain period of time.
    - ELIMINATE NEGATIVE-AMORTIZATION 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 **25-30 year olds have record levels of student debt, which can reduce the size of the mortgage they qualify for and limits their ability to save for downpayments**. In Wisconsin, the average college student graduates with over $28,000 in student loans. (National Center for Education Statistics)



It is not clear if this rise in student debt has significantly reduced borrowers' ability to purchase home, because despite a drop in mortgage originations overall, 25-30 year olds with significant student debt burdens are more likely to purchase a home than their peers without student debt. However, **the data are clear that students with student loan debt have measurably lower credit scores**.

LACK MAINSTREAM OWNERSHIP HOUSING IN CENTRAL NEIGHBORHOODS

As a city, Madison is gaining a significant number upper-middle income households ($100,000-$150,000) that are choosing to rent rather than own. This group would normally comprise the core of the home buying market. Using standard measures of affordability, these groups would be likely purchasers of Mainstream Homes priced at $200,000 to $300,000. The options for Mainstream ($200,000-$300,000) product have been generally limited to three categories:

- Older homes and rental properties that need significant improvements but are in Central Neighborhoods
- Post WWII homes that may need some updating located in Opportunity Neighborhoods
- Newer homes that are move-in ready but are located on the City Periphery

As a result of the housing market crash, a significant portion of our single family homebuilders left the market or retreated to the still profitable high-end of the market. New construction of Mainstream housing products that has returned has been limited to single-family homes along the periphery of the City. New construction of owner occupied housing in more centrally located neighborhoods is rare due to a lending market that does not support condominiums and a regulatory/development community struggles with middle scale/density product types (town houses, small lots/court houses).

The data locally and nationally show that Millennials are more interested than previous generation in living in neighborhoods that provide convenient commutes, alternative transportation, and abundant amenities. Unfortunately, those places tend to be in Madison's more expensive Central Neighborhoods, pricing them out of owning there.

OPPORTUNITY NEIGHBORHOODS

Where Madison has a large supply of moderately priced Starter Homes is in "Opportunity Neighborhoods" which are areas defined by:

- Moderate to high percentage of owner occupied homes
- 40+ year old housing stock
- Average property value below the City average
- Longer than average days on market
- Flat or declining assessed values
- Located between more central urban/walkable neighborhoods and newer development

These areas are generally located in neighborhoods outside of the city core. These areas in general do not have as robust access to alternative transportation and abundant amenities as our more Central Neighborhoods, which is what new buyers indicate they value.

MARKET RATE OWNERSHIP - SOLUTIONS

LOCAL MODELS

- Small Cap TIF
    - Program to encourage the rehabilitation and conversion of old rental housing back to ownership
    - Combined Down Payment and Rehabilitation Assistance
    - Forgivable loan
    - Up to $80,000 with an addition $10,000/ unit
    - Geographically restricted to relevant TID
    - Typically located in Central Neighborhoods
    - Not income restricted
    - Utilizes TIF funds
- Mosaic Ridge
    - City of Madison CDA development to encourage owner occupancy in a challenged neighborhood
    - Demolished rental housing and replaced it with single family owner-occupied housing
    - Mixed income goal of 1/3 market rate, 1/3 under 80% AMI, 1/3 under 50% AMI
    - Targeted downpayment assistance to low income buyers

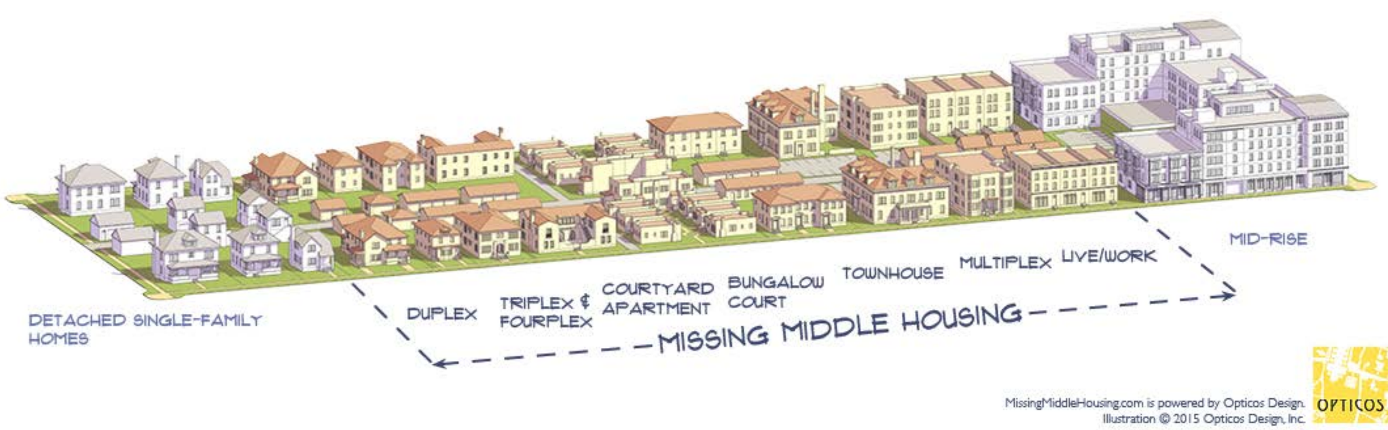
ALTERNATIVE OWNERSHIP MODELS

- 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
- 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

“MISSING MIDDLE” PRODUCT TYPES

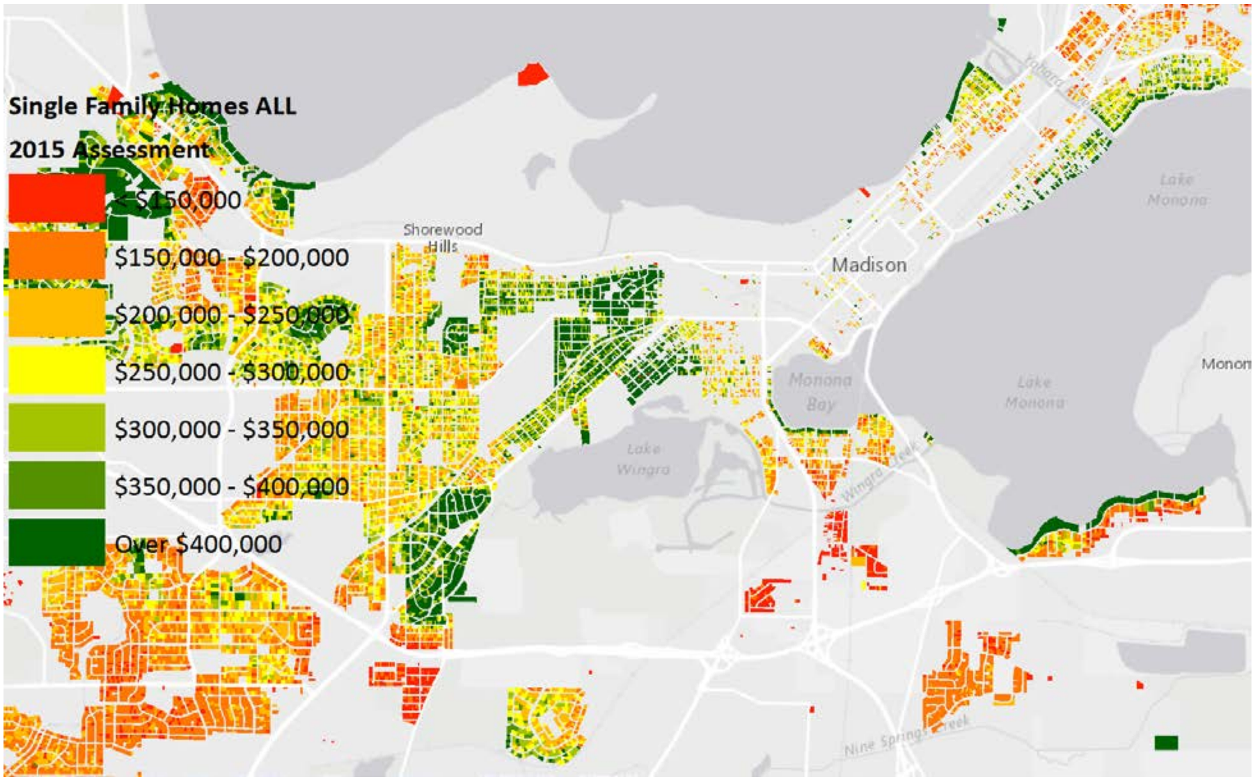
Between detached single-family homes and mid-rise condominium buildings there are a variety of “middle scale” building types that offer the cost savings of efficient construction and density while maintaining neighborhood appropriate size. In Madison, this has typically taken the form of duplexes, but other forms include courts, townhouses and accessory dwelling units. These housing forms are less common in part because of zoning and subdivision rules that prohibit their development. The City of Portland Residential Infill Project serves as a model for systematically reviewing their zoning and subdivision rules to remove barriers to these alternate forms of housing.

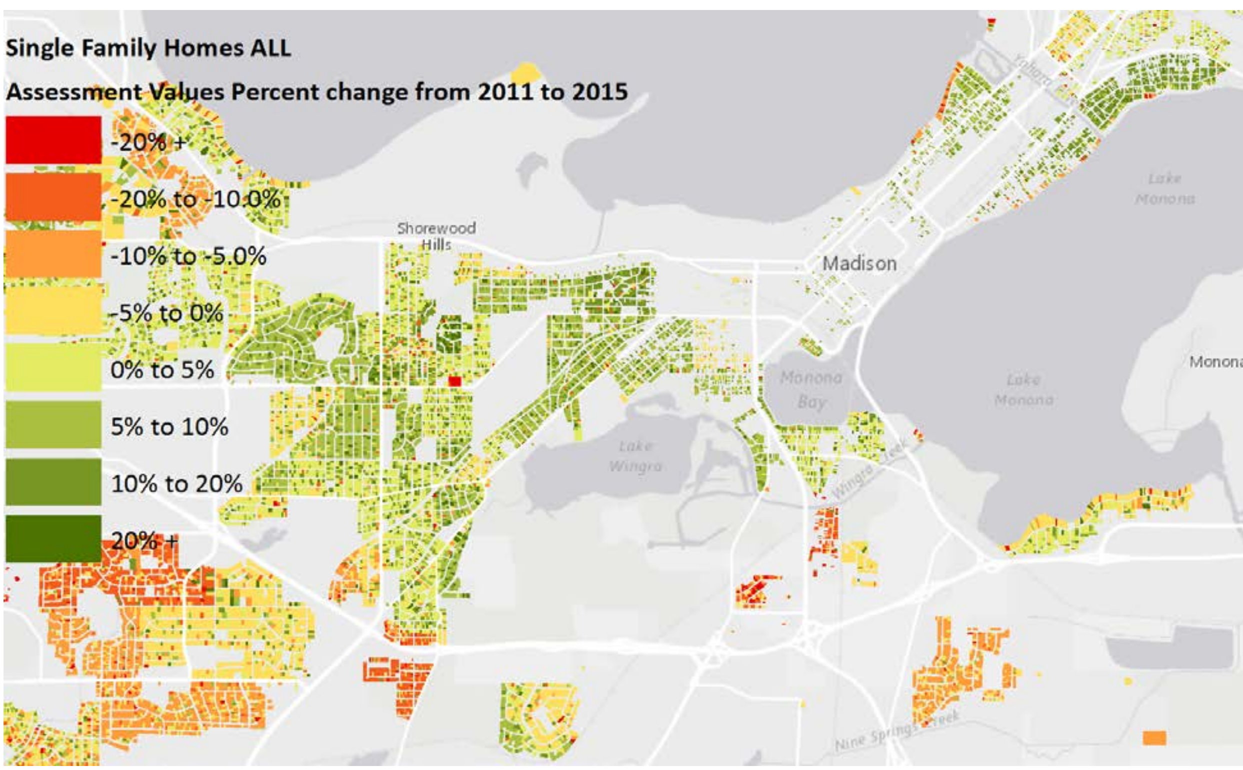
- Small Lots/ Cottage Courts/ Flag lots
  - Zoning Code/Subdivision changes that allow for very small and/or irregular lots to reduce per unit land costs
  - Allows construction of fee-simple, infill housing on small lots with compact building footprints and minimal street front and setback requirements
  - Avoids costs and funding challenges of condominium structures
  - Existing large residential lots can be subdivided to provide smaller more affordable lots
    - E.g. A house on 10,000 sqft single family lot valued at $240,000 can be divided into three lots sold at $80,000
  - Madison currently allows some of these configurations, however they often require rule exemptions
  - E.g. The Los Angeles Small Lot Subdivision Ordinance reduced minimum lot size from 5,000 to 600 square feet and shrinking mandatory setbacks to encourage new housing for “professionals seeking an urban lifestyle in a walkable neighborhood” while maintaining affordability
- Attached Housing/Townhouses
  - A row of identical or mirror-image houses share side walls allowing for smaller lots and construction efficiencies to reduce cost
  - Often owned as a condominium but can be fee simple ownership (usually required a small gap between buildings)
  - Existing large residential lots can be subdivided to provide smaller more affordable lots
    - E.g. A house on 10,000 sqft single family lot valued at $240,000 can be divided into eight lots sold at $30,000
  - E.g. Portland, OR Residential Infill Project
- 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)

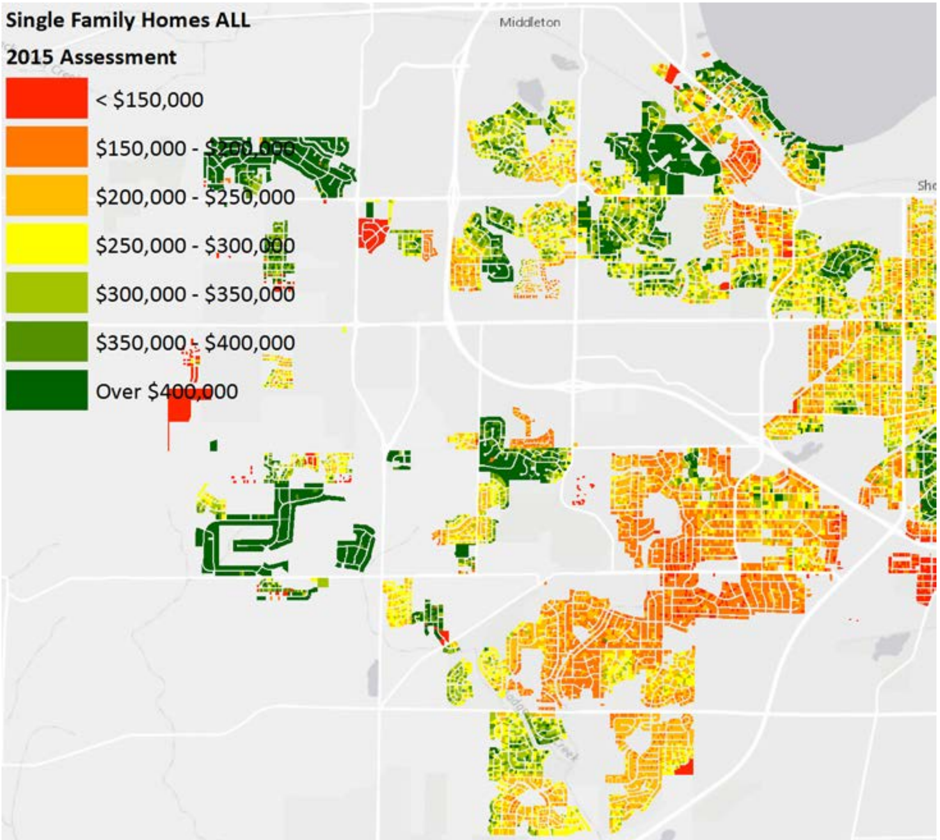


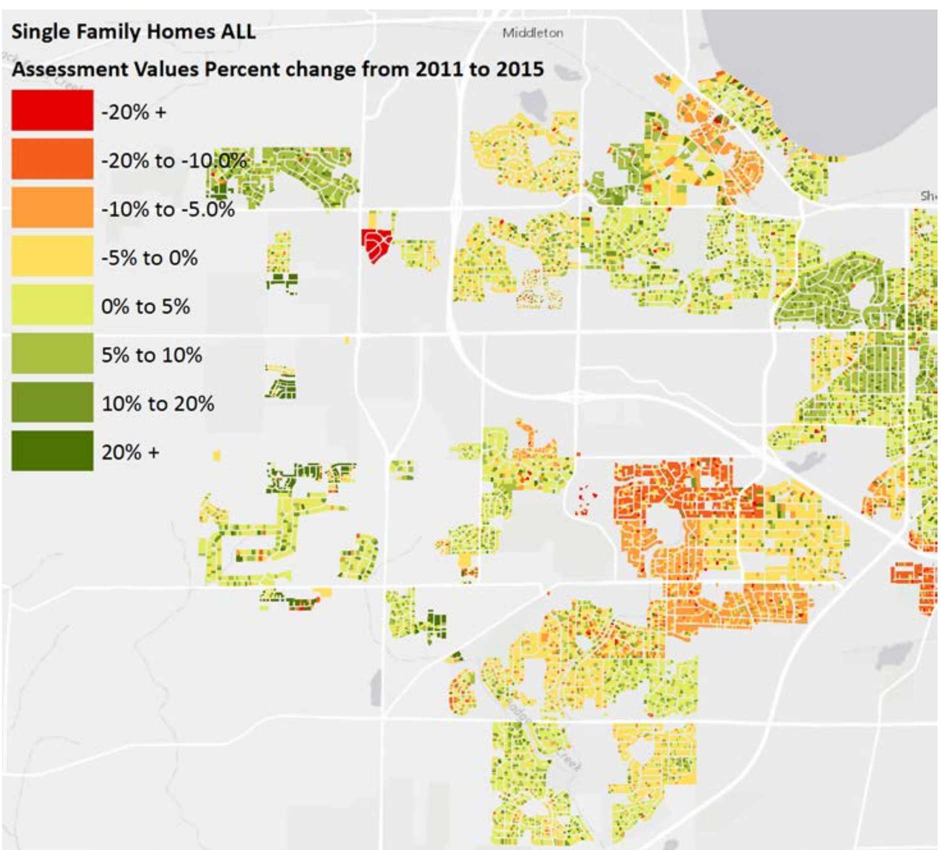
- Exterior Renovation Programs
  - Subsidizes limited exterior renovations to improve neighborhood perception
  - Usually very targeted areas
  - Structured as a matching grant or low interest loan
  - E.g. PAINT Youngstown offers free exterior house painting in targeted neighborhoods on priority streets of Youngstown, OH through the Youngstown Neighborhood Development Corporation
  - E.g. Paint-Up, Fix Up in Westminster, MD provides matching funds for exterior beautification projects in target neighborhoods
- 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 or HOME funds
  - Often awarded as a second mortgage that is deferred or gradually forgiven
  - E.g. City of Madison Home-Buy the American Dream, Federal Home Loan Bank Down Payment Plus
- 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
  - E.g. 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 or HOME funds
  - Often awarded as a second mortgage that is deferred or gradually forgiven
  - E.g. City of Madison Deferred Payment Loan, Installment Loan, Green Madison

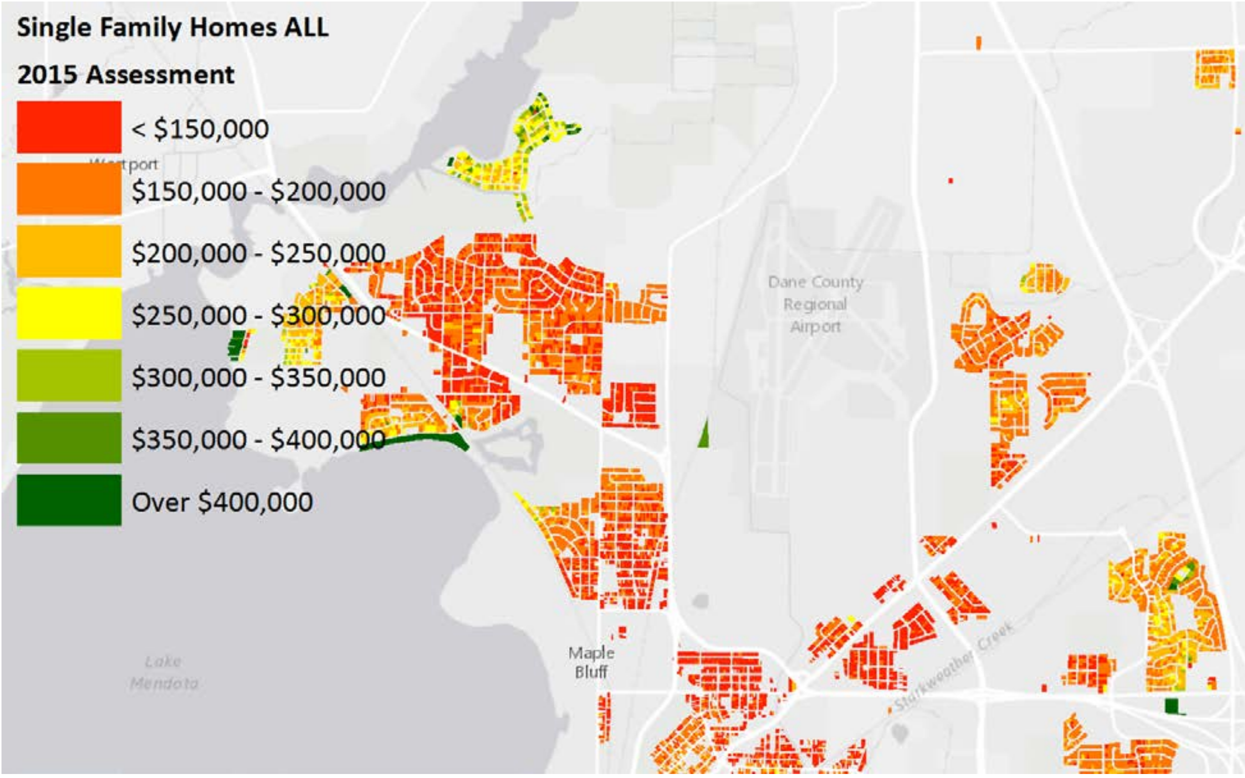
CENTRAL – NEAR EAST – NEAR WEST - SOUTH






Single Family Homes ALL
2015 Assessment
< $150,000
$150,000 - $200,000
$200,000 - $250,000
$250,000 - $300,000
$300,000 - $350,000
$350,000 - $400,000
Over $400,000
Middleton


Single Family Homes ALL
Assessment Values Percent change from 2011 to 2015
-20% +
-20% to -10.0%
-10% to -5.0%
-5% to 0%
0% to 5%
5% to 10%
10% to 20%
20% +
Middleton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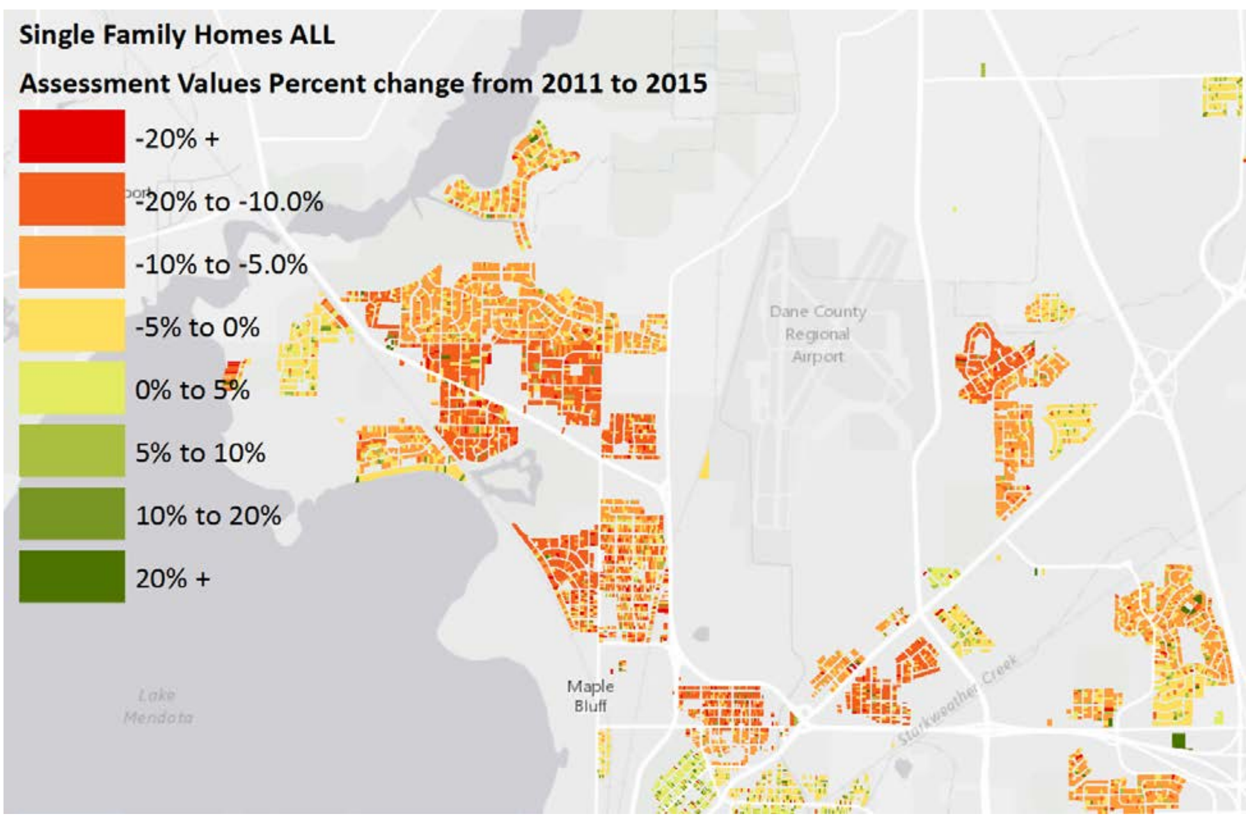
$350,000 - $400,000
Over $400,000
Dane County Regional Airport
Maple Bluff
Lake Mendota
Starkweather Creek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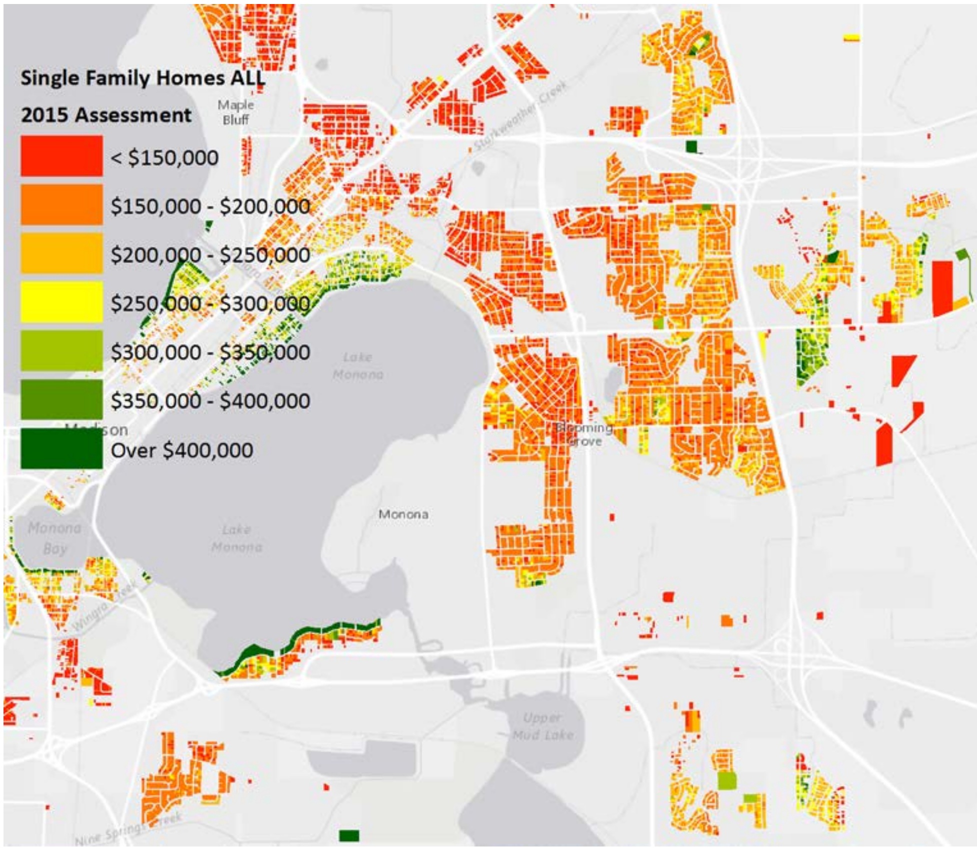
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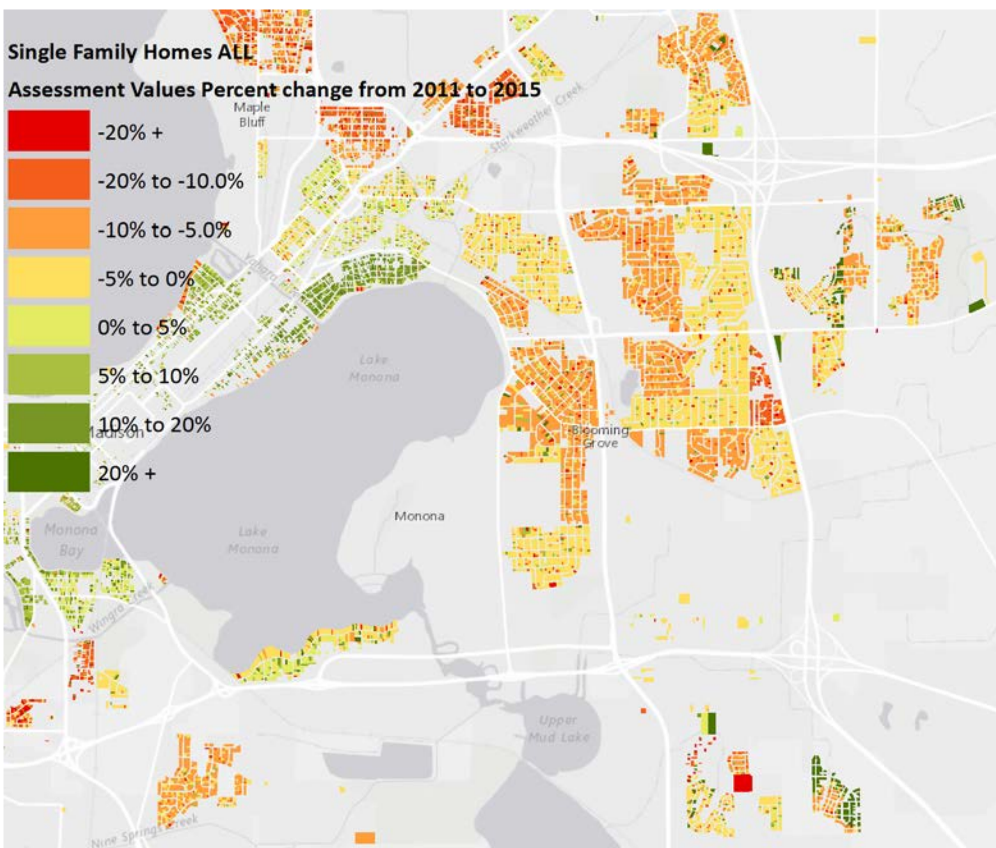
Maple Bluff
Lake Monona
Monona
Monona Bay
Blooming Grove
Upper Mud Lake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0% to 5%
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10% to 20%
20% +
Maple Bluff
Lake Monona
Monona
Monona Bay
Blooming Grove
Upper Mud Lake

SENIOR HOUSING

SENIOR HOUSING - PRIORITIES

The overarching goal for the senior housing market is to **provide an affordable housing option with the appropriate level of service for every stage of a senior's life that is integrated into our community**. Because the vast majority of seniors prefer to age in place, the first priority must be to provide the services and financing tools to allow seniors to stay in their homes as long as possible or to transition to dedicated senior housing development in their neighborhood. The priority must then be to attract and retain senior households by ensuring that future senior housing developments are located in areas with a strong connection to transportation and services as well as offering options for low and moderate-income seniors.

8. **Increase the ability of senior households to age in place** by making it affordable to stay in their homes and bringing services to them
    a. Identify existing concentrations of seniors (Naturally Occurring Retirement Communities) and direct relevant services to them
        i. Facilitate neighborhood association/non-profit/Madison Senior Center coalitions to deliver services
        ii. Reorient public transportation to enhance services to these areas
        iii. Improve infrastructure to meet accessibility needs (ex improved sidewalks)
        iv. Create youth employment/after-school programming to support aging place by matching youth with seniors in need of assistance with basic tasks related to homeownership (yard work, snow removal, etc)
    b. Consolidate and expand existing City financing programs for seniors to retrofit their homes for accessibility and afford the ongoing operating costs of homeownership
        i. Expand the City Reverse Mortgage Program to finance gas, electricity, and municipal services bills in addition to property taxes
        ii. Expand the City Reverse Mortgage Program to finance accessibility retrofit work
        iii. Create or contract with an independent advisory service to help homeowners select remodelers, draw up contracts, and check quality of work before making payments
9. For seniors that can no longer stay in their homes due to affordability, work to **ensure the creation of affordable senior housing throughout the City** to allow them to continue to age in place
    a. Create a parallel "senior housing track" in the Affordable Housing Fund RFP
        i. In the "Senior Track" replace a preference for 3-bedroom units with a preference for senior housing with a connection to healthcare and services
        ii. Geographic preference for neighborhoods without senior apartments
    b. Work with WHEDA to guide future Section 42 tax credit Qualified Allocation Plans to support the creation of affordable senior housing developments
10. Position Madison as a destination for senior living to attract and retain senior households by addressing their demand for small, urban, walkable development. **Encourage new senior housing development in transit and service rich locations** in preparation of aging Baby-boomers rather than on the City edge or isolated areas
    a. Identify preferred development areas in future comprehensive and neighborhood plans, and other funding processes to encourage development in superior locations
    b. Implement the Demographic Change Working Group recommendation to create a city-led pilot project combining senior housing, mixed-income housing, transit oriented development with a strong connection to services and healthcare on an infill site
        i. Would likely require a City RFP process and possibly site acquisition
        ii. City participation through subsidy for the low-income component, onsite services, and transit

OVERSIGHT AND IMPLEMENTATION RESPONSIBILITIES

	Identify NORCS and Redirect Services	Coordinate financing for housing retrofits	Add a "Senior Track" to the Affordable Housing Fund	Work with WHEDA guide future tax credit allocation plans	Identify preferred areas for future senior housing	Create a pilot mixed-use senior housing TOD
CDA				X		X
Common Council						X
Community Development	X	X	X	X		X
Mayor's Office						X
Metro	X					
Planning	X				X	
Senior Center	X					X

SENIOR HOUSING - OVERVIEW

Nationally, there is a demographic shift occurring as the Baby-boomer generation (born 1946-64) ages that will create a surge in demand for senior housing over the next fifteen to twenty years. While Madison's share of Baby-boomers is smaller than in surrounding communities, this still represents a significant shift in our housing market as well as an opportunity to attract and retain a population that has relatively high levels of wealth and discretionary income, is associated with lower crime rates, and has ample free time to help contribute to the community.

While Madison is already recognized as a top ranked place to live by numerous magazines and reports, more can be done. For example, the Milken Institute's Best Cities for Successful Aging report identifies Madison as the best place to live for seniors, but where the city scored lowest were in categories related to housing and transportation for seniors. By increasing the variety and affordability of housing options while ensuring that new developments are well located, we can ensure that Madison remains the best place for seniors to live.

Indicator	Rank	Score	Average Score	Percent +/-
General	23	82.37	79.76	3.27 %
Health Care	2	95.14	63.90	48.89 %
Wellness	21	83.50	78.90	5.83 %
Financial	43	86.74	86.07	0.78 %
Living Arrangements	70	67.40	71.14	-5.26 %
Employment / Education	9	80.82	67.28	20.12 %
Transportation/ Convenience	11	61.38	51.60	18.95 %
Community Engagement	4	90.39	69.00	31.00 %

Source: Best Cities for Successful Aging – Milken Institute 2014

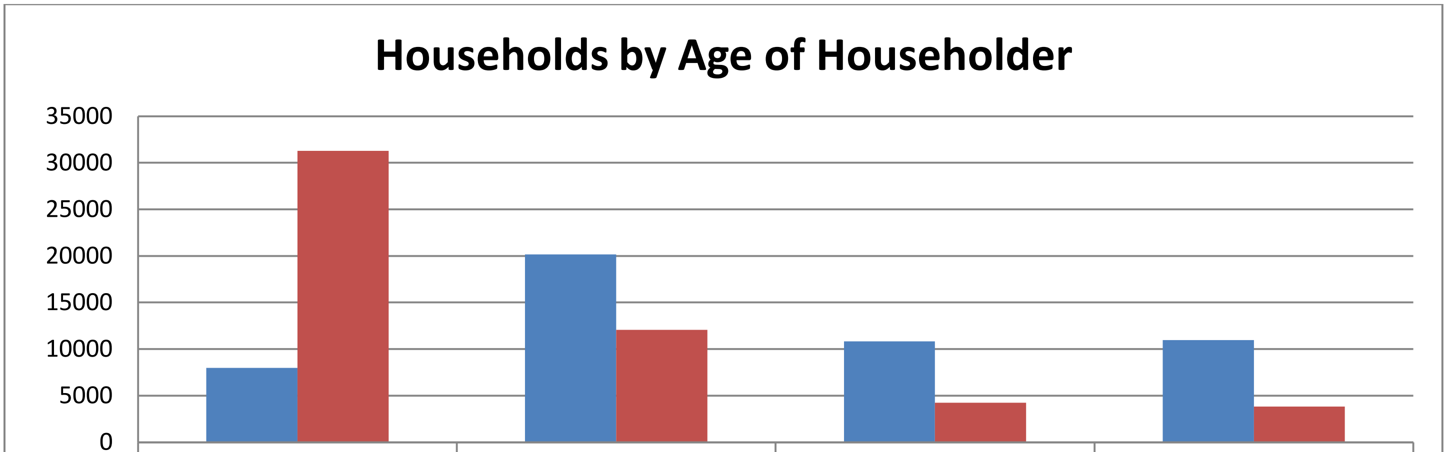
SENIOR HOUSING - DEMAND

For the purposes of this report, senior housing demand will be defined as any household that has a member age 65 or above. Where possible, data will be shown for all households that have a senior member, however a number of data sets will only reflect households where the primary householder is age 65 or older because of how data are reported by the Census.

The vast majority of the 65 and over population currently lives independently rather than in institutional care facilities. Many are still in the workforce, with younger members of this age group juggling work, care for children, and care for parents. Even among individuals aged 85 and over, the majority owns their home. Aging in place is the preference of most people as shown in a recent AARP survey of 1,600 people aged 45 and older. **73% percent strongly agreed that they would like to stay in their current residences as long as possible, while 67 percent strongly agreed that they would like to remain in their communities as long as possible** (AARP). The decision to move from their existing homes is triggered by retirement, children moving from the home, a disability, or death of a spouse that changes their housing needs and preferences. In addition to these changing needs and preferences, cost constraints can become a greater concern for those living on fixed incomes, but financial constraints also prevent people from adapting to their changing circumstances. In the same AARP survey, **24% of survey respondents expressed a preference to stay in their homes for as long as possible because they could not afford to move**.

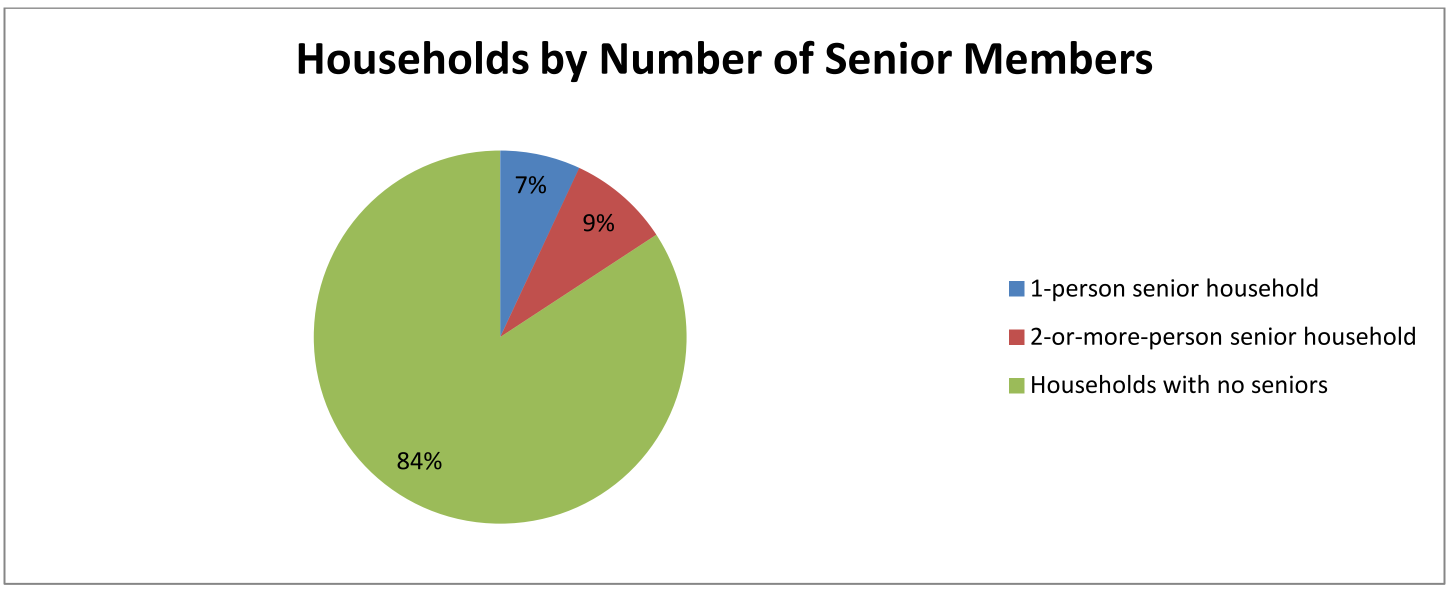
DEMOGRAPHICS

While senior households make up a relatively a relatively small percentage of Madison households, they represent a significant portion (22%) of Madison's owner-occupied housing.



	Under 35	35 - 54	55 -65	Over 65
Own	7970	20,147	10,839	10,972
Rent	31,288	12,069	4,239	3,830

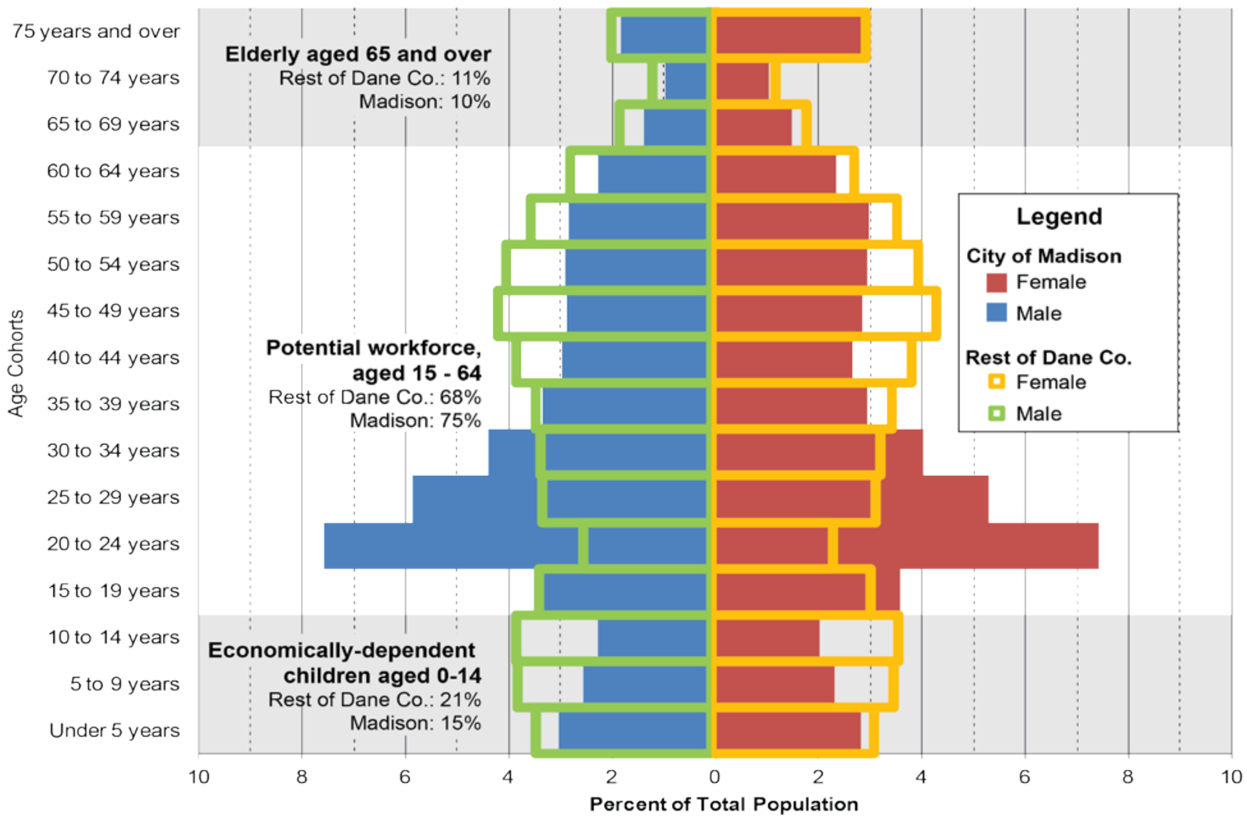
Source: 2010-2012 3-year American Community Survey



Source: 2010-2012 3-year American Community Survey

Compared to the rest of Dane County and Wisconsin, seniors make up a significantly smaller percentage of the population of Madison. **While Madison also has a comparatively small percentage of Baby Boomers (ages 45 – 64 in the 2010 Census), this age cohort will drive a significant increase in senior housing demand as they age.**

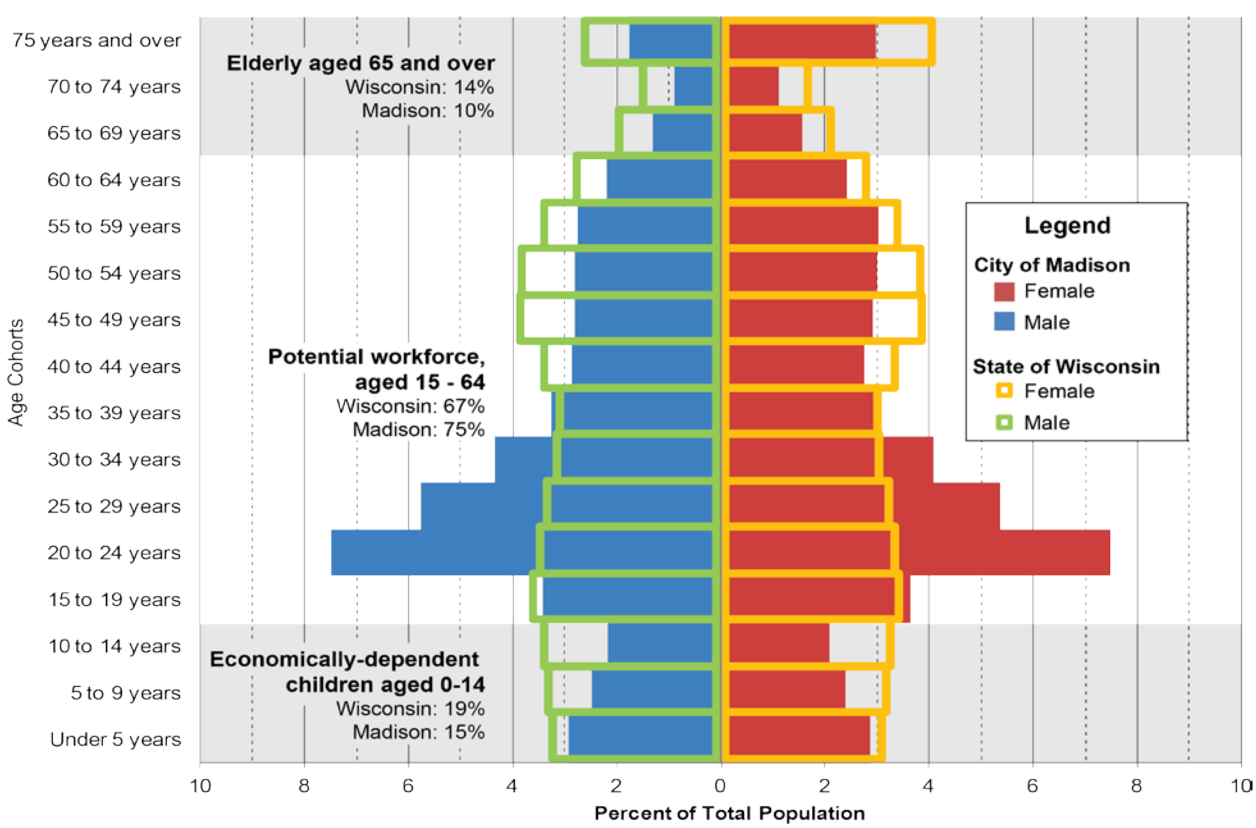
City of Madison vs. Rest of Dane Co.: Age



Source: US Census 2010, SF1 data

Prepared by the City of Madison Planning Division | August 2012

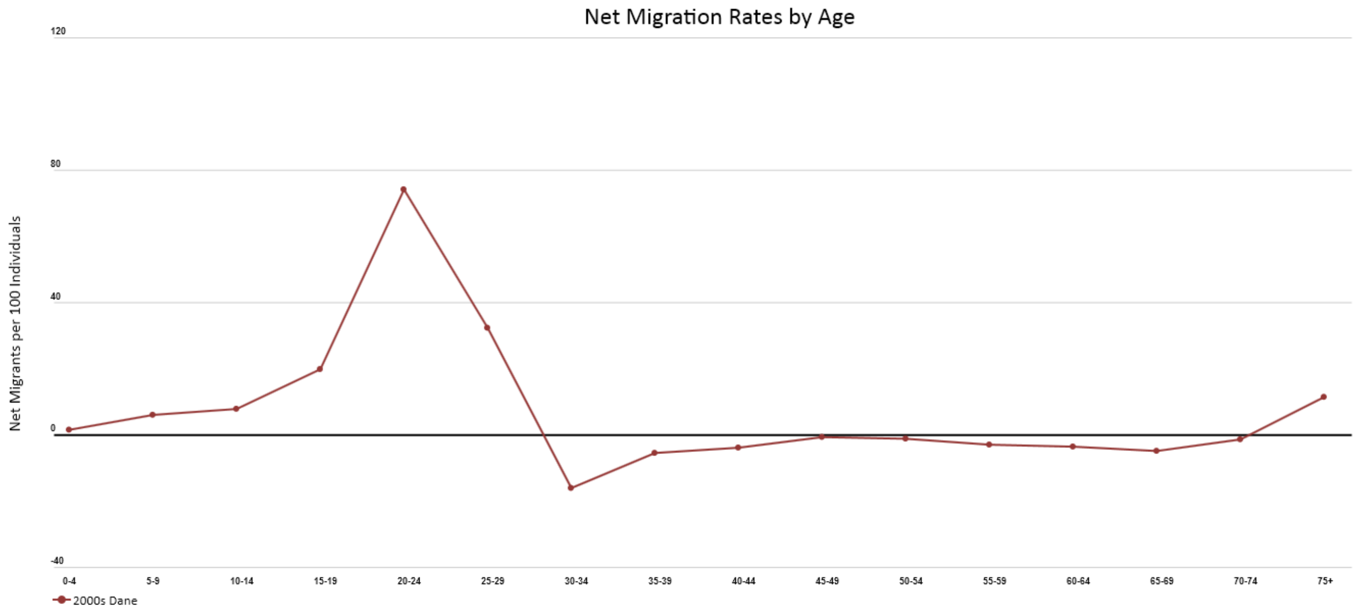
City of Madison vs. Wisconsin: Age



Source: US Census 2010, SF1 data

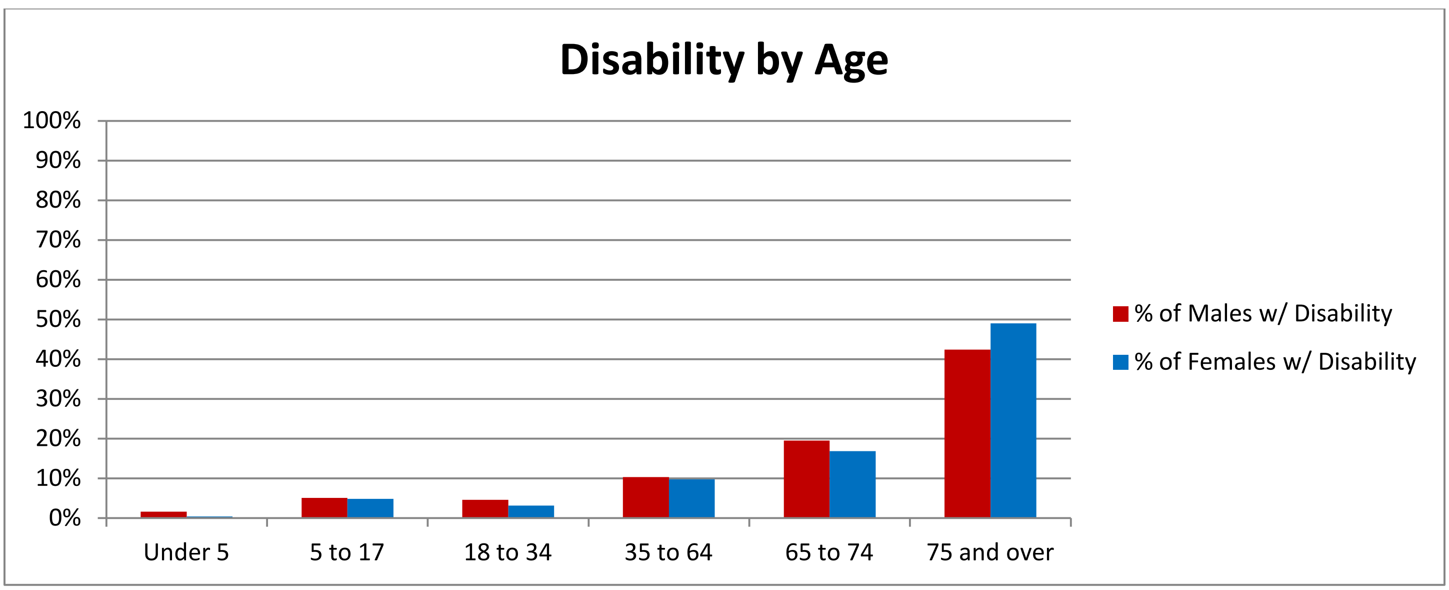
Prepared by the City of Madison Planning Division | July 2012

Aside from the demographic shift occurring as our current population ages, Madison is a net importer of households over the age of 75.



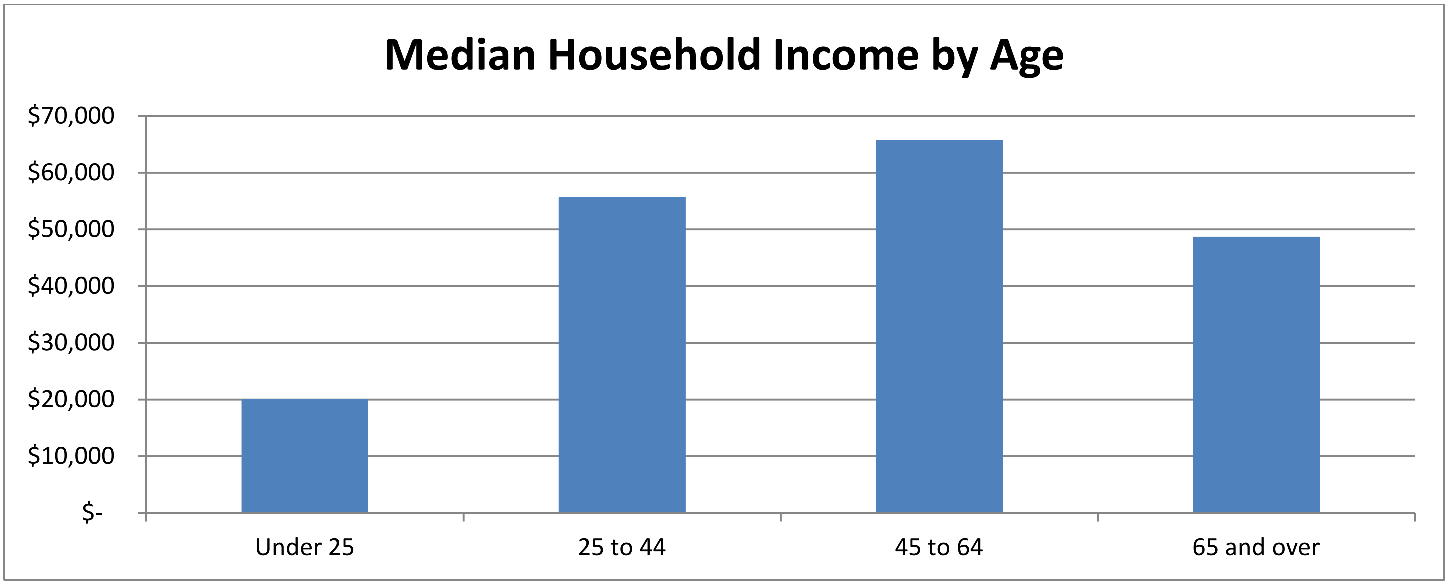
Winkler, Richelle, Ken Johnson, Cheng Cheng, Jim Beaudoin, Paul Voss, and Katherine Curtis. Age-Specific Net Migration Estimates for US Counties, 1950-2010. Applied Population Laboratory, University of Wisconsin- Madison, 2013. Web.

While staying healthier and living longer than ever before, most older adults and their families eventually face the challenges of aging, particularly disability. The rate of disability is twice as high amongst individuals 75 and older when compared to 65 to 74 year olds. **This increase in rates of disability is a major driver of demand for housing designed for and serving seniors.**

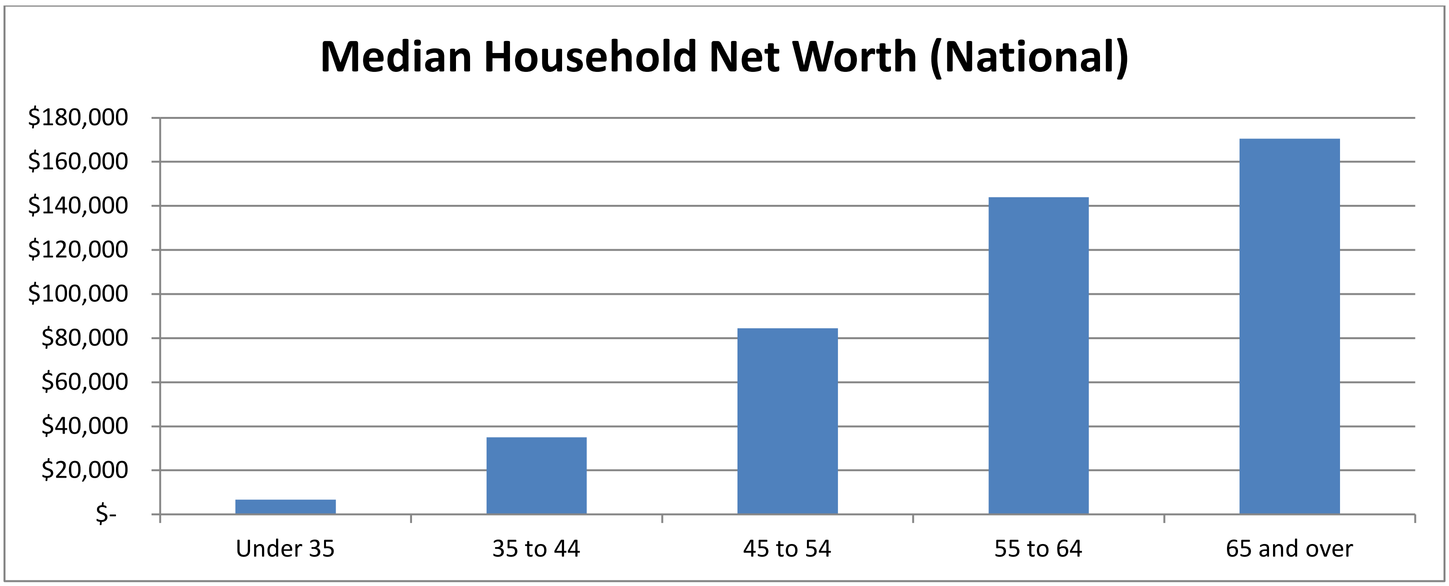


Source: 2010-2012 3-year American Community Survey

Income is the third major driver of demand for senior housing. Median household income drops with age. The typical income of a senior household is $48,736 compared to $65,758 for households age 45-64, a 25% reduction.



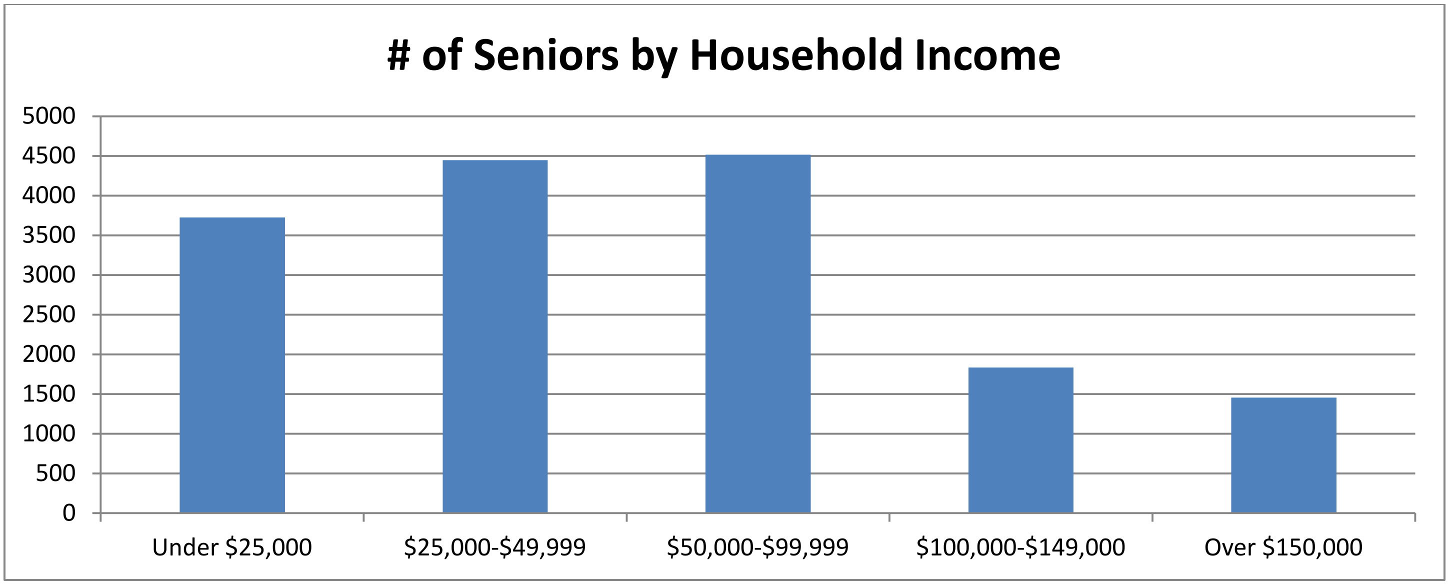
Source: 2010-2012 3-year American Community Survey



Source: US Census Survey of Income and Program Participation 2008 Panel, 2011 Data

While the median senior household has a lower income than younger cohorts, they also have measurably higher net worth. In addition to retirement savings, this net worth is likely tied to higher rates of homeownership and accumulated equity in their homes. This wealth represents a resource that can be used as either an annuity to deliver returns as income or as an asset that can be borrowed against. These higher levels of wealth can often disqualify a household from receiving subsidized benefits such as Medicaid, catching lower to middle-income households that might otherwise qualify.

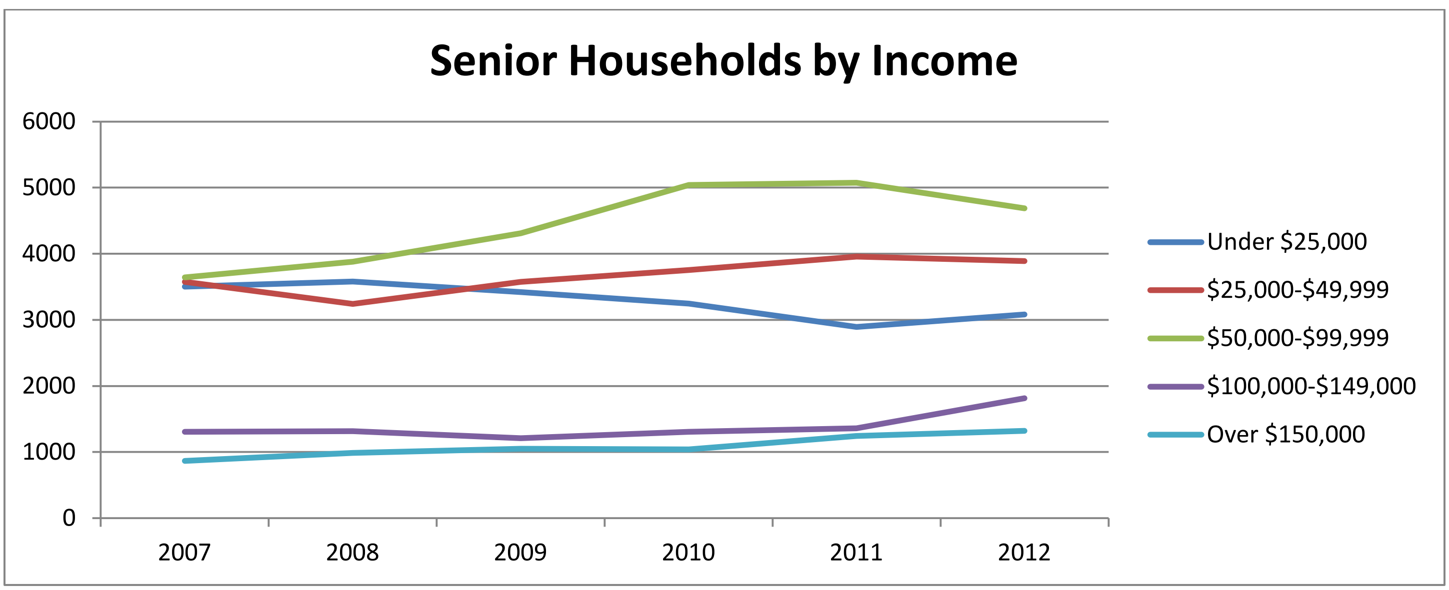
Furthermore, while median household income is lower for senior households, senior households are significantly smaller on average than non-senior households resulting in relatively high per-capita income.



Source: 2011-2012 3-year American Community Survey

Moreover, the fastest growing groups of seniors are middle class and affluent households, while the number of very low-income seniors is shrinking slightly. Since 2007, the City of Madison has added approximately:

- 1,900 new senior households
- -400 households with incomes below $25,000 (~40% of Median Household Income)
- 300 households with incomes below $50,000 (~80% of Median Household Income)
- 1,000 households with incomes below $100,000 (~160% of Median Household Income)
- 500 households with incomes below $150,000 (~240% of Median Household Income)
- 500 households with incomes above $150,000 (~240% of Median Household Income



Source: 3-year American Community Survey

A 2014 survey of baby boomers and seniors by AARP designed to measure the demand for amenities and locational preferences asked respondents what amenities they want within a mile of home.

1. Bus Stop 50%
2. Grocery Store 47%
3. Pharmacy 42%
4. Park 42%
5. Hospital 29%
6. Church 29%
7. Commuter Rail 23%
8. Large Retail 18%
9. Entertainment 16%
10. Mall 13%

Further questions showed that the top four amenities were also the top ranked as being desirable to have within ¼ mile of home. Additionally, survey participants were asked whether they would prefer (a) to drive to nearby amenities or (b) to be able to walk to nearby amenities. These data indicated that there are a subgroup of seniors with a strong preference for walkability, which was echoed in their responses related to adding additional bus and transit lines.

A 2013 survey of Baby Boomers by the Demand Institute (a Nielson subsidiary) shows that while the majority of boomers plan to age in place by staying in their current homes, of those planning to move roughly half plan to downsize while the other half plan to upgrade to the "dream home". Interestingly, **those most likely to want to downsize are high net worth households**. Those looking to upsize are lower income renters or owners who have delayed moving due to the recession.

These studies indicate that there is a segment of the Baby Boomer, soon to be senior, market that has a strong preference for housing located in transit-oriented, walkable neighborhoods, in close proximity to amenities. While this type of housing is not universally preferred, the studies indicate that this is a growing trend.

TRENDS

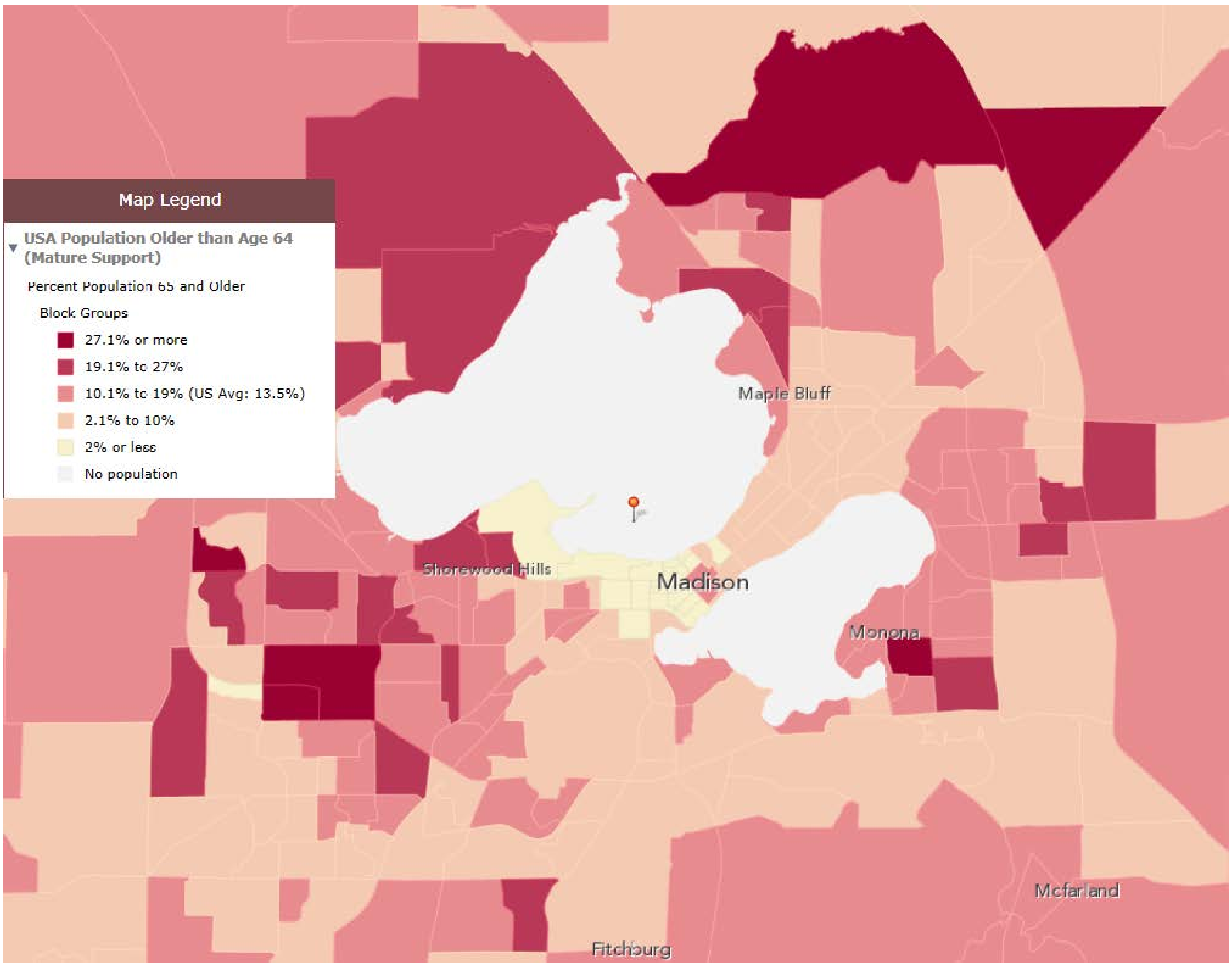
- Madison's senior population growth is fueled by households at the middle and top of the income spectrum
- Seniors typically have relatively high per-capita incomes and net worth
- The number of senior households will increase substantially at the end of the decade as Baby Boomers age
- Higher incidence of disability will drive housing decisions as people age
- Changing preferences of the Baby-boomers towards walkable and sometimes smaller housing

SENIOR HOUSING - SUPPLY

The supply of senior housing is divided among a variety of property types ranging from owner occupied single family homes to multifamily facilities offering a wide range of senior focused services.

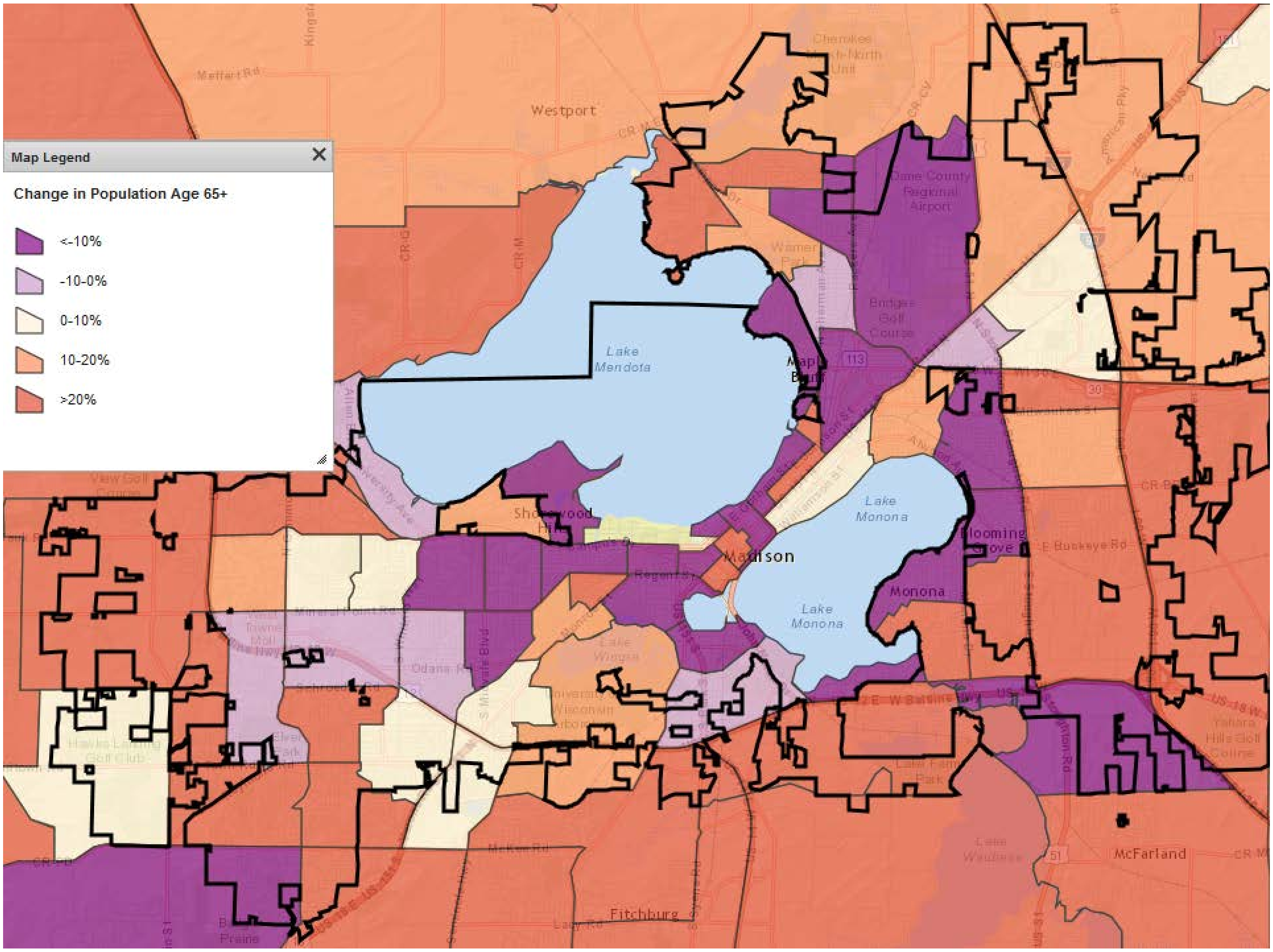
LOCATION

The concentration on senior households varies greatly across the city, with large concentrations on the east and west sides likely reflecting large multifamily senior developments. The concentration of seniors is particularly low in the areas near downtown. New multifamily senior development tends to occur as large developments on the edges of the city.



Source: 2010-2012 3-year American Community Survey

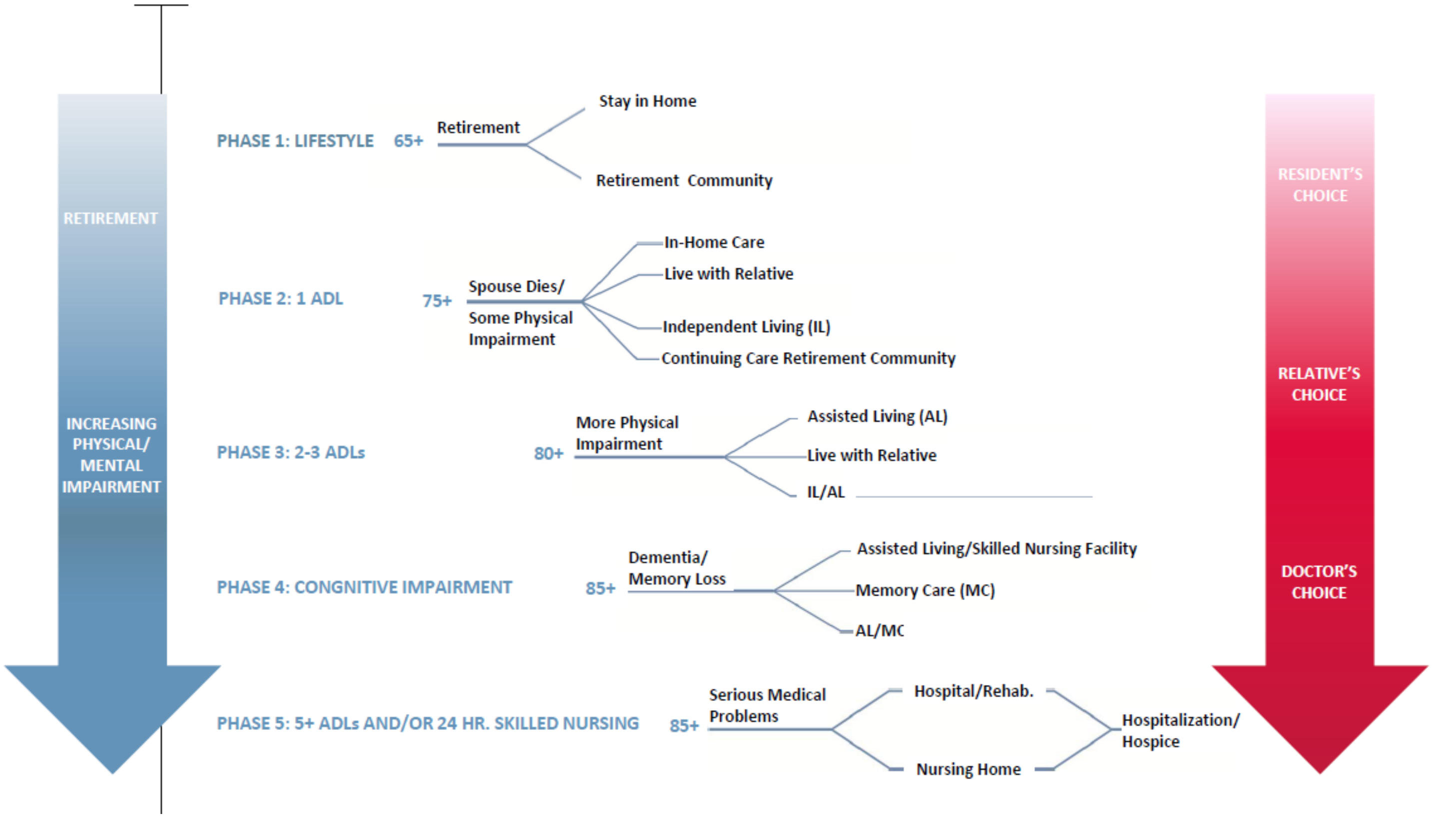
This pattern is exacerbated by the growth pattern in senior populations, with large amount of growth on the edges of the city and reductions in senior populations near the city center. This is likely caused by a combination of existing populations aging in place as well as migration.



Source: HUD CPD Maps

SENIOR HOUSING PROPERTY TYPES

Senior housing supply is delivered on a continuum from standard market rate housing with no amenities, to housing with hospitality services included, all the way to housing that provides healthcare services. As you move along this spectrum, the housing becomes further removed from real estate fundamentals and more closely resembles healthcare. Because of this, the report will limit its scope and not cover memory care, skilled nursing, and hospice care.



Source:

AGING IN PLACE

The Centers for Disease Control and Prevention (CDC) defines aging in place as "the ability to live in one's own home and community safely, independently, and comfortably, regardless of age, income, or ability level." If needed, those aging in place may receive care or assistance by paid or unpaid (often family) caregivers. Aging in place often requires adjustments in daily living including adaptations of physical space, modes of transportation, or other routines based on physical or cognitive need. Aging in place may reflect a desire to maintain their current living arrangements or may occur simply by default. For some, it may involve moving to other homes that are more comfortable, safe, affordable, or convenient within their current community or to locations with more resources or closer to family. When a community with a high concentration (40% or more) of senior households in an area not specifically designated as a retirement community, it is referred to as a "Naturally Occurring Retirement Community." These communities may now have a density of older adults high enough to achieve the economies of scale found in retirement communities to deliver services that are more robust.

According to senior advocates and service providers, the key elements to successful aging in place are:

- affordable, secure, and physically accessible housing
- affordable, safe, and reliable transportation alternatives for those unable or unwilling to drive
- opportunities to engage in recreational, learning, cultural, volunteering, and/or social experiences
- options for in-home health care and/or assistance with activities of daily living (ADLs) if needed

RETIREMENT (ACTIVE ADULT) COMMUNITIES

For-sale single-family homes, townhomes, cluster homes, mobile homes and condominiums with no specialized services, restricted to adults at least 55 years of age or older. Rental housing is not included in this category. Residents generally lead an independent lifestyle; projects are not equipped to provide increased care as the individual ages. Many include amenities such as clubhouse, golf course, and recreational spaces. Outdoor maintenance is normally included in the monthly homeowner's association or condominium fee.

Multifamily residential rental properties restricted to adults at least 55 years of age or older. These properties do not have central kitchen facilities and generally do not provide meals to residents, but may offer community rooms, social activities, and other amenities.

INDEPENDENT LIVING COMMUNITIES

Age-restricted multifamily rental properties with central dining facilities that provide residents, as part of their monthly fee, access to meals and other services such as housekeeping, linen service, transportation, and social and recreational activities. Such properties do not provide, in a majority of the units, assistance with activities of daily living (ADLs) such as supervision of medication, bathing, dressing, toileting, etc. There are no licensed skilled nursing beds in the property.

ASSISTED LIVING RESIDENCES

State regulated rental properties that provide the same services as independent living communities listed above, but also provide, in a majority of the units, supportive care from trained employees to residents who are unable to live independently and require assistance with activities of daily living (ADLs) including management of medications, bathing, dressing, toileting, ambulating and eating. These properties may have some nursing beds, but the majority of units are licensed for assisted living. Many of these properties include wings or floors dedicated to residents with Alzheimer's or other forms of dementia.

A property that specializes in the care of residents with Alzheimer's or other forms of dementia that is not a licensed nursing facility should be considered an assisted living property.

SKILLED NURSING

Licensed daily rate or rental properties that are technically referred to as skilled nursing facilities (SNF) or nursing facilities (NF) where the majority of individuals require 24-hour nursing and/or medical care. In most cases, these properties are licensed for Medicaid and/or Medicare reimbursement. These properties may include a minority of assisted living and/or Alzheimer's/dementia units.

CCRCS

Age-restricted properties that include a combination of independent living, assisted living and skilled nursing services (or independent living and skilled nursing) available to residents all on one campus. Resident payment plans vary and include entrance fee, condo/coop and rental programs. The majority of the units are not licensed skilled nursing beds.

NEW SUPPLY

According to experts in the field, the Madison market does not have a large number of projects in the pipeline for the immediate future. Rather developers are exploring land acquisitions with the intent of planning significant developments to come online in roughly 10 years when the bulk of Baby Boomers begin to make the transition to independent and assisted living. In the near term, more modest developments will be focused on replacing aging stock and filling in underserved submarkets.

INDEPENDENT LIVING – TENNYSON LANE

Over the next 5-7 years, Independent Living Inc plans to develop a campus of nearly 300 senior apartments and assisted living units on Madison's north side. The first phase will have 75 senior apartments and 60 assisted units, which are slated to break ground in 2015. This phase will also include common spaces and a wellness center for residents. The project is unique in that is located in area of the city with a sizable senior population, but little designated senior housing.

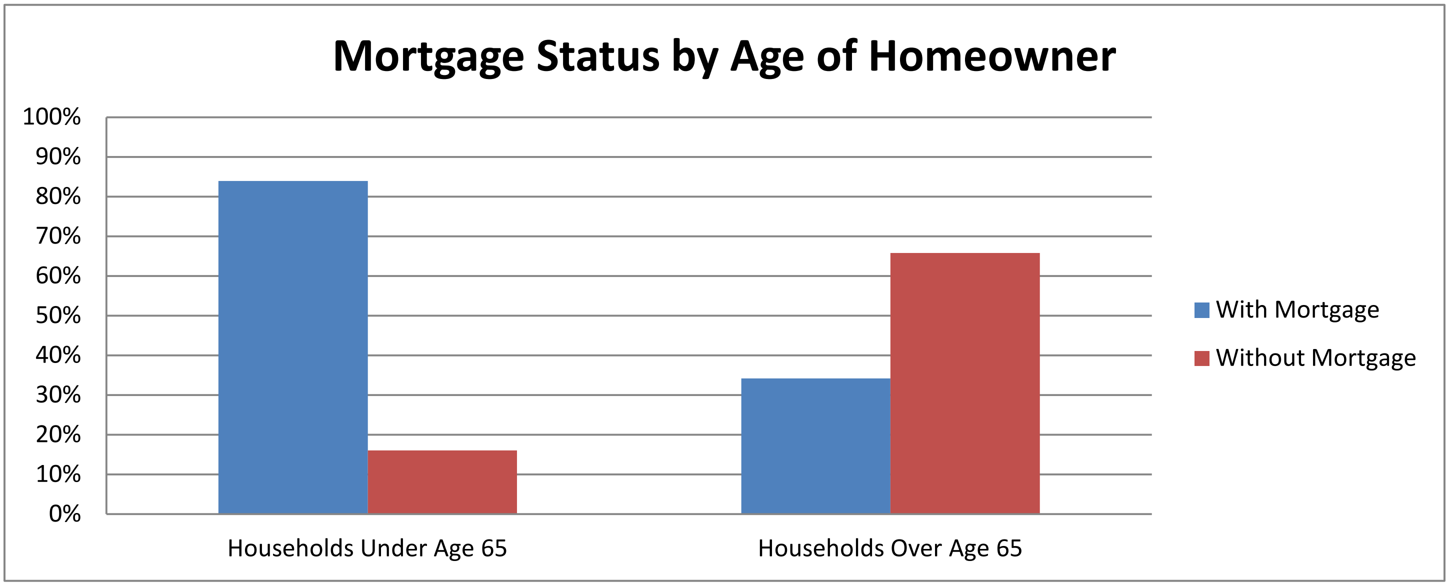
UNION CORNERS – LGBT COHOUSING

On Madison's east side, Outreach Inc, a non-profit serving lesbian, gay, bisexual, and transgender (LGBT) clients, is exploring the development of cohousing targeted at LGBT seniors. The project is unique in that it plans to target a particular affinity group rather than the broader senior market. They have identified unique housing challenges for this population including higher rates of single person households, affordability concerns, and specific services that the development would be positioned to address. The development is also unique in that it would be structured as cohousing, rather than a traditional apartment or condominium, giving potential residents a larger role in development and management decisions.

VACANCY

Unlike the general rental market, it is common nationally for the Independent Living and Assisted Living markets to operate at vacancy rates of 10% with rates approaching 15% during the recession. Our local market did not experience these high vacancy rates instead staying around 5% for market rate units and much lower vacancy in subsidized units. This strong occupancy is the result of a relatively competitive market with a lack of low quality properties or operators.

OWNER OCCUPIED



Source: 2011-2013 3-year American Community Survey

Unlike most homeowners in Madison, only 1/3 of senior have a mortgage on their owner occupied home. Seniors are subject to standard mortgage underwriting and financing rules. Even those with existing mortgage can qualify for a reverse mortgage if they have sufficient equity in their home. In a reverse mortgage transaction, an owner receives funds as a line of credit, from a lender in a lump sum paid at closing, as a line of credit, in monthly payments or as a combination of any of the three. Payment of the loan is typically deferred until the borrower dies, sells, or moves out of the home.

RENTAL

The majority of funding for multifamily senior rental housing comes from traditional debt and equity sources as with any market rate rental housing. However, senior projects can be more difficult to underwrite and providing services adds an additional level of complexity. Much like hotels, senior facilities rely on cash flow from a business operation in addition to lease income to provide cash flow for the repayment of debt. Additionally, a loan like this requires increased monitoring to account for the multifaceted regulatory risk with the business operations including routine annual inspections of the property to ensure maintenance is kept up and licensing is not at risk. As such, underwriting tends to favor companies that have a proven record of strong historical performance. Additional factors complicating senior housing are the additional expense of medical equipment which brings a risk of obsolescence, questionable liquidity and resale value; higher accounts receivable on services; higher vacancy rates; and specialized architectural design that does not always easily convert to other uses. These additional risks are reflected in higher cap rates in comparison to market rate rental properties.

LOW-INCOME

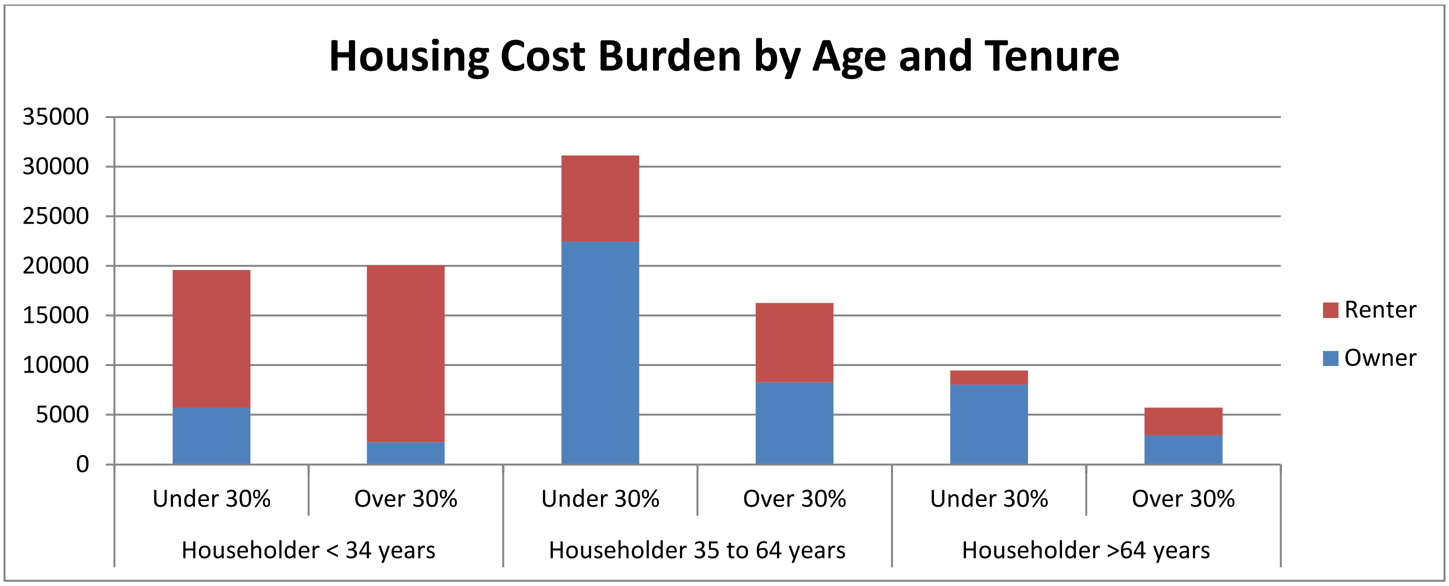
- Low Income Housing Tax Credits (LIHTC)
    - In Wisconsin credits are awarded by WHEDA according to its Qualified Allocation Plan which is updated on a biennial basis
    - Credits are converted to cash equity by a direct buyer or syndicating partner
    - After syndication, funds typically cover 70% 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
    - Has additional scoring for elderly housing
    - 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
- Section 202
    - Nationally, $400 million proposed for FY2014 budget, a $26 million increase
    - HUD capital advances to finance the construction, rehabilitation or acquisition of structures that will serve as supportive housing for very low-income elderly persons
    - Provides rent subsidies for the projects to help make them affordable
    - Development must be operated by a private nonprofit and Is not receiving a majority of its operational funding from the public body
- Housing Choice and Project Based Vouchers
    - Serves low-income families, the elderly, and persons with disabilities
    - Participants rent from private landlords
    - Over 1,816 vouchers are currently allocated locally to the City of Madison Community Development Authority (CDA)
    - Because of HUD funding constraints 1,594 in use, 482 are held by elderly households
    - Tenants pay 30% of their income
    - HUD funded
- Public Housing
    - Federal contract administered locally by the CDA
    - Approximately 700 public housing apartments in Madison are owned and managed locally by the CDA, 208 are occupied by elderly households
    - Tenant pays 30% of income and the federal government provides the difference between estimated operating costs and the tenant-paid portion
- Affordable Housing Fund
    - City of Madison funded endowment for the creation of affordable rental and owner-occupied housing administered by the Community Development Division
    - Annual allocation of approximately $4 million
    - Program goal of creating 250 new affordable rental units per year
    - Provides loans and grants to for-profit and non-profit housing developers for acquisition/rehab or new construction
    - Designed to provide gap financing to support other housing programs including LIHTC applications
    - Currently has a preference for developments that incorporate 3-bedroom units, social services, and mixed income

SENIOR HOUSING - CHALLENGES

The challenges faces the senior housing market are direct results of the demand drivers; lower incomes drive housing cost burden, the demographic shift caused by aging Baby Boomers drives a need for new units in the medium to long term, and high rates of disability amongst seniors drives a need to connect senior housing to services and amenities.

HOUSING COST BURDEN

The percentage of cost burdened seniors is not significantly different from other age cohorts, with roughly 1/3 of households paying more than 30% of income in housing costs. However, **housing cost burden in much more common amongst senior renters compared to senior owners**.



Source: 2011-2013 3-year American Community Survey

FUTURE DEMAND GROWTH

While seniors currently represent a relatively small portion of the housing market, Madison is poised to see a significant increase in senior households as the Baby-boomers age. As a result, we can expect to see entire neighborhoods transitions from majority working age/households with children to majority senior. This shift in composition will drive a change in demand for services in neighborhood centers, transit, parks, etc. It is also unclear whether our stock of owner, renter, and senior-specific housing matches the preferences of our aging Baby-Boomer population.

CONNECTION TO SERVICES

Senior population growth is concentrated further from the urban core/amenities. Healthcare services in particular are concentrated on the near west side, which is simultaneously experiencing the greatest reductions in senior population. As our senior population because more decentralized, services will need to follow or transportation options will need to be adjusted to accommodate them.

LOCAL

In 2014, the City's Demographic Change Working Group issued a report identifying the health risks and isolation caused by limited housing and transportation options for our growing senior population faces as one of the primary challenges facing our city. Their main recommendation was to increase affordable multi-family housing options for seniors with an emphasis on pedestrian and transit access. The City of Madison would identify zones suitable for affordable and desirable housing for seniors and people with disabilities, together with market rate housing at a transit hub or station. The development would support the Senior Center's goals of helping seniors to:

- Live as independently as possible
- Maintain and improve health and well being
- Reduce isolation

The development would address community goals to increase access to affordable housing, provide diverse housing options for people with disabilities, utilize transit centers as activity hubs and support development along possible Bus Rapid Transit corridors.

The Common Council passed a resolution that year instructing staff in consultation with the Sustainable Madison Transportation Master Plan Oversight Committee, the Committee on Aging and the Housing Strategy Committee to develop recommendations to guide the development of a transit oriented housing project for seniors.

NATIONAL MODELS

Communities across the nation have applied different policies, funding models, and processes to increase housing options to attract and retain seniors. Some models are less effective, would not apply well to the Madison market, or may not be permitted under current state law.

INCREASE RANGE OF HOUSING TYPES

- Subsidize Senior Housing Construction
  - Reduced Park Impact Fees
    - In the City of Madison, park impact fees are already reduced for senior housing
  - Affordable Housing Fund
    - The City of Madison has recently created an Affordable Housing Fund to support the creation and rehabilitation of affordable housing
- Transit Oriented Development
  - Encourage production of more diverse and flexible housing, including mixed-use developments with housing located near services and amenities
  - Develop mass transit systems tailored to the needs of older adults
    - Routes to access healthcare, grocery, and services from senior housing developments
    - Enhanced accessibility and safety measures near transit stations or bus stops
    - Increased routes during non-peak times
- Shared Housing
  - Two or more unrelated people sharing a home, typically with individual bedrooms but shared common areas
  - Reduced housing cost from shared expenses
  - In some cases one roommate provides services such as housekeeping or transportation in exchange for reduced housing cost
  - Can be a matching service for a stand-alone unit or part of a cooperative/community living development
- Accessory Dwelling Units
  - Allow construction of accessory dwelling units for those wishing to downsize, reduce their housing costs, or house a live-in caregiver
  - Allowed by Madison zoning, but can be difficult to finance
- Intergenerational Housing
  - Develop housing suitable for intergenerational living and/or flexible enough to accommodate changing household needs
  - Allows for housing costs to be spread across a larger household and provides a built-in support network
- Encourage Dispersion of Senior Housing development
  - Promote construction of more rental housing throughout the area providing additional housing options for older adults preferring to remain in their current communities
  - Ex – Burr Oaks Apartments on Madison south side was built to provide for an underserved area
- Affinity Housing
  - Develop housing targeted at populations with a particular affinity (ex. College alumni, LGBT)
  - Built-in support network
  - Robust, focused amenities
  - Ex. The Village at Penn State, a senior living development near Penn State University marketed at college alumni that includes access to campus amenities, discounted tickets to college events, and ties to the university medical system

SUPPORT AGING IN PLACE

- Naturally Occurring Retirement Communities (NORCS)
  - After identifying existing NORCs, communities have developed NORC programs to serve their senior residents by providing social and health care services tailored to their specific needs. These community-based programs are often partnerships of housing/neighborhood organizations, residents, health and social service providers, and other community stakeholders.
  - Programs are funded by a mix of public and private sources to provide case management, health care management, recreational and educational activities, transportation, and volunteer opportunities.
- Subsidize Senior Housing Renovation/Retrofits
  - Offer incentives that reduce housing cost burdens and allow older households to modify and maintain their homes to accommodate disabilities
  - Ex. Miami has created the Senior Housing Assistance Repair Program which provides deferred interest free loans to assist seniors rehabilitate their homes to bring them up to code and provide minor modifications to the homes of seniors with physical disabilities such as accessible bathroom fixtures, grab bars and railings
- Independent Advisory Services
  - Create or contract with an independent advisory service to help homeowners select remodelers, draw up contracts, and check quality of work before making payments
    - Contractors are pre- screened and have experience with accessibility remodeling
    - Customers are given multiple contractors to compare and from which to choose
    - Can be tied to preferred financing or incentives
  - The City of Madison has an existing arrangement with Access to Independence and Project Home to provide similar services
- Property Tax Deferral
  - Allow senior homeowners to defer their property tax payments. This deferred payment is a lien on the property and becomes due upon sale, change of residence or death.
  - Reduces monthly housing expense for those on a fixed income
  - The state of Georgia has in place a property tax deferral that allows homeowners over the age of 62 to defer a portion of their county and state property taxes. This has not proven a popular program, and to date very few Georgians have exercised the option to defer their property taxes.
- Property Tax Assistance
  - Provide grants to assist low-income senior households who cannot pay property taxes
  - Filing for the program does not reduce the amount of taxes owed, nor does it place a lien on a homeowner’s property
  - Can be used in cases where state law does not allow for modifications to property taxation
- Reverse Mortgages
  - In a reverse mortgage transaction, an owner receives funds as a line of credit, from a lender in a lump sum paid at closing, as a line of credit, in monthly payments or as a combination of any of the three. Payment of the loan is typically deferred until the borrower dies, sells, or moves out of the home. Local communities can:
    - Educate citizens about reverse mortgage programs and distinguish them from predatory lending scams
    - Change intangible taxes to exclude reverse mortgages
    - Exempt proceeds from reverse mortgages from a homeowners' eligibility for state means-tested programs and from annual income taxes
  - The City of Madison currently offers a reverse mortgage product through the Community Development Division that allows residents to borrow at an extremely low interest rate (~2.7%) to make property tax payments