

MARKET OVERVIEW

The Madison housing market is characterized by:

- Relatively high ratio of rental to ownership
- Concentration of students with low incomes near the downtown in high cost rental
- Relatively high prices compared to surrounding communities
- Concentration of wealth in the downtown and near west sides
- Majority of workers living outside of the city and commuting in to work

A number of these traits are linked to the demand driven by the concentration of government, University of Wisconsin, and major employers in the downtown, which brings a steady stream of students, young professionals, and high paid professionals to the center city. This interplay of limited supply and steady demand is the source of the strength of the Madison housing market as well as the friction that can make housing unaffordable to significant portions of the population.

These frictions have been exacerbated by the recession, which has led to a drop in incomes but an increase in rental prices and reduction in rental vacancy. While house prices have also dropped and rental supply has started to increase, the cost of housing remains a burden for many households, particularly those at the lower end of the income spectrum.

SUMMARY OF DEMAND

Demand for housing is primarily driven by population growth (more people to house), specifically growth in the number of households. However, other factors like income, cost and availability of credit, and consumer preferences also play a role. The City of Madison has experienced very consistent population growth of slightly more than 1% per year for the last 30 years, implying that housing supply should grow by approximately 1% per year to meet demand.

The Census reports that the median household income for the Madison metro area was \$59,674 in 2011. Madison median household income is \$9,279 higher than the median Wisconsin household income and \$9,172 greater than the US median household income.

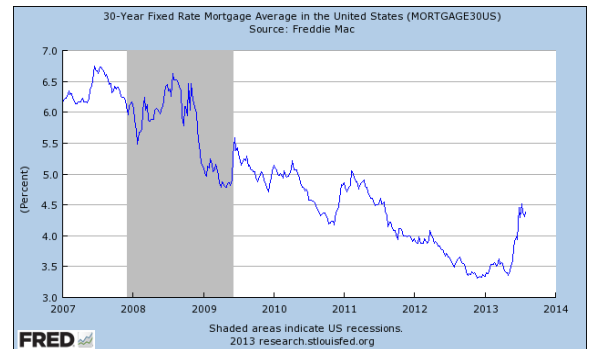
	2011	1 Year Change	3 Year Change
US	\$50,502	-2.18%	-7.08%
Wisconsin	\$50,395	-0.30%	-7.39%
Madison	\$59,674	+0.44%	-6.12%

The real median household income for Madison peaked in 2007 at \$64,768 and is now \$5,094 (7.86%) lower. From a post peak low of \$59,411 in 2010, real median household income for Madison has now grown by \$263 (0.44%).

Date	US	Wisconsin	Madison
2011	\$50,502	\$50,395	\$59,674
2010	\$51,625	\$50,547	\$59,411
2009	\$52,660	\$52,421	\$59,463
2008	\$54,349	\$54,417	\$63,563
2007	\$55,039	\$54,863	\$64,768

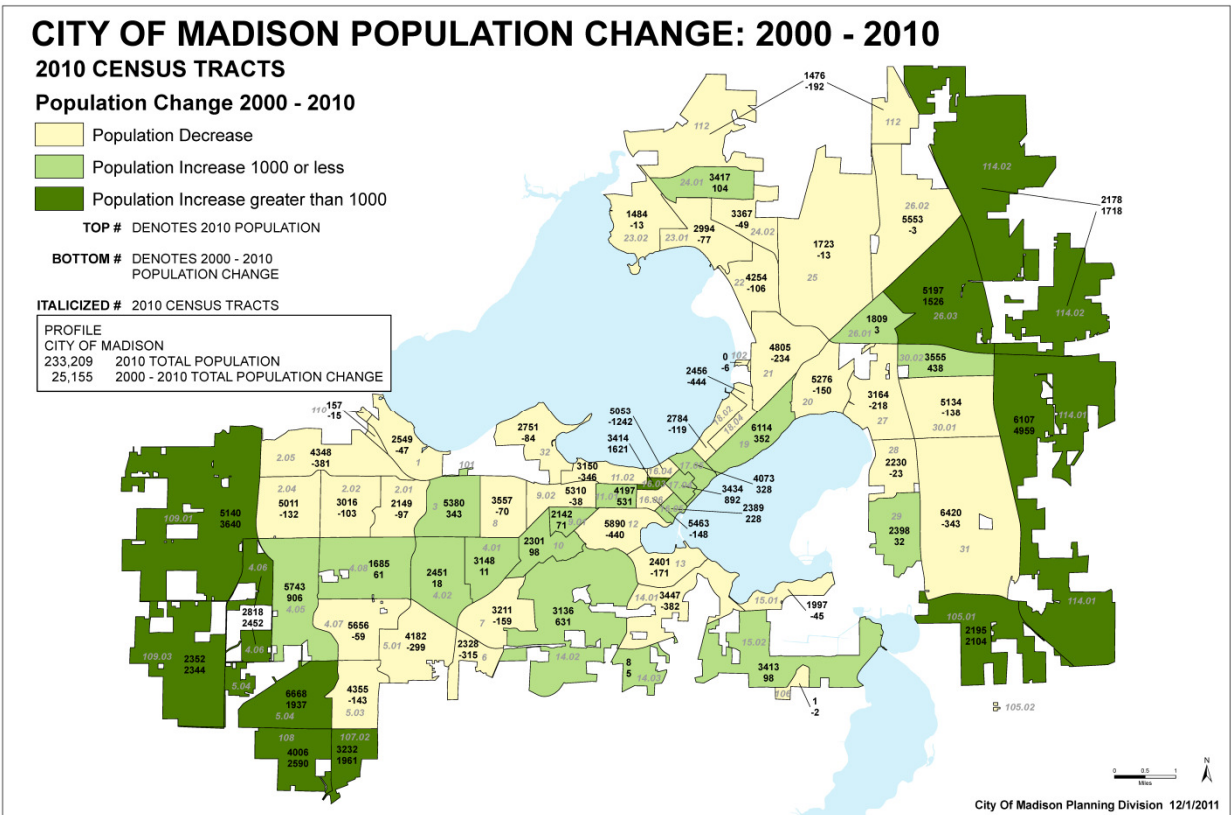
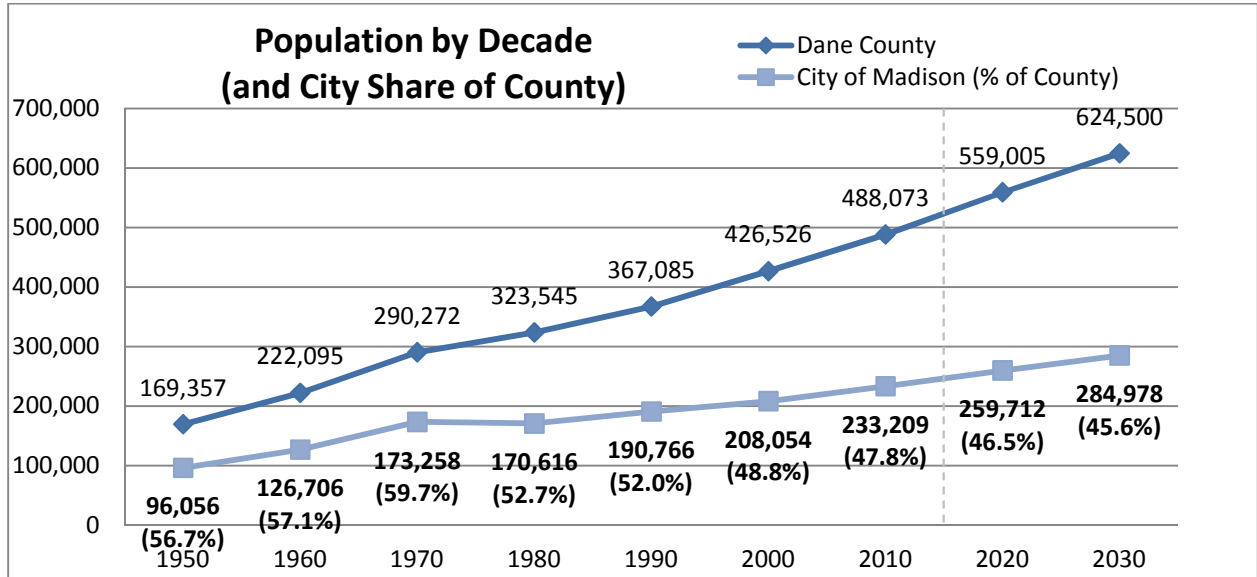
This start of a recovery in household income combined with the steady increase population should signal the beginnings of a recovery in demand for housing in Madison.

Demand for homeownership vs rental housing is driven by the cost and availability of credit (affordability) as well as mobility preferences and housing type preferences (influenced by age and household size). While mortgage rates have been at record lows for the last five years, this hasn't been enough to completely offset the tightening of lending practices and reduction in household income to push people towards homeownership. This combined with the large population of young and small households with a preference for downtown rentals (Urban Land Institute 2013) has led to a strong demand for rental housing.



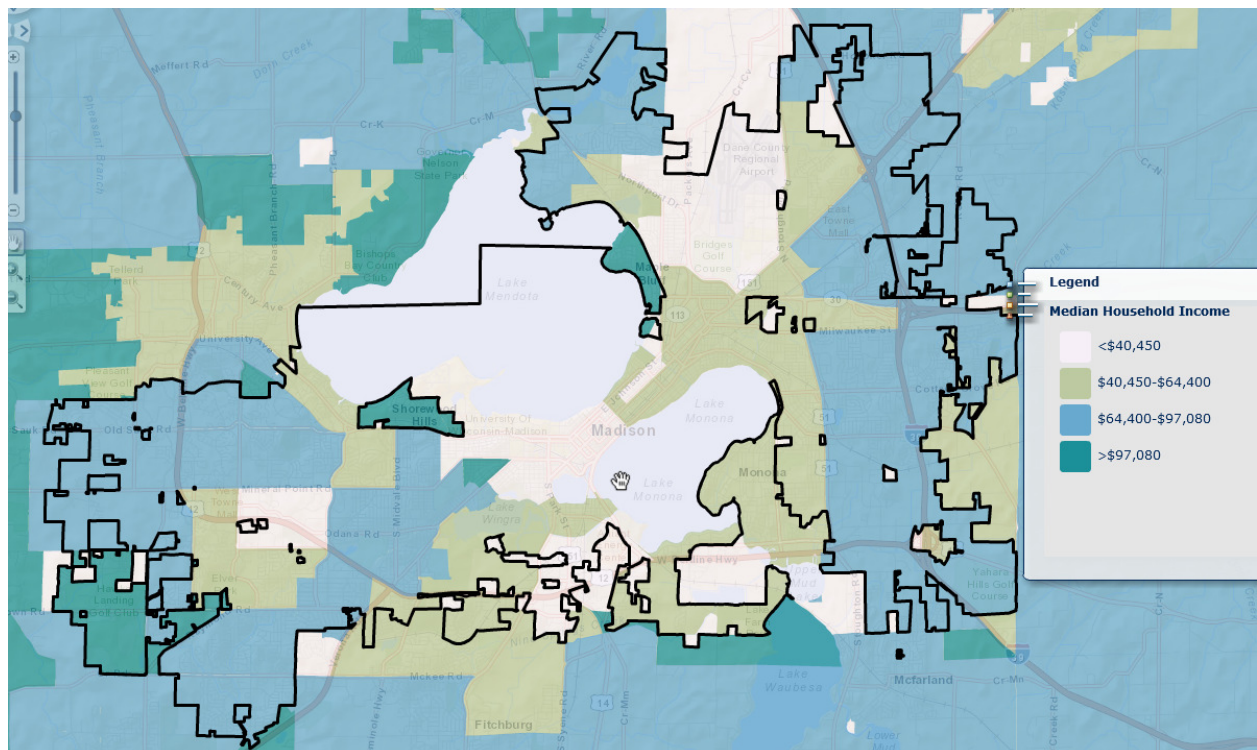
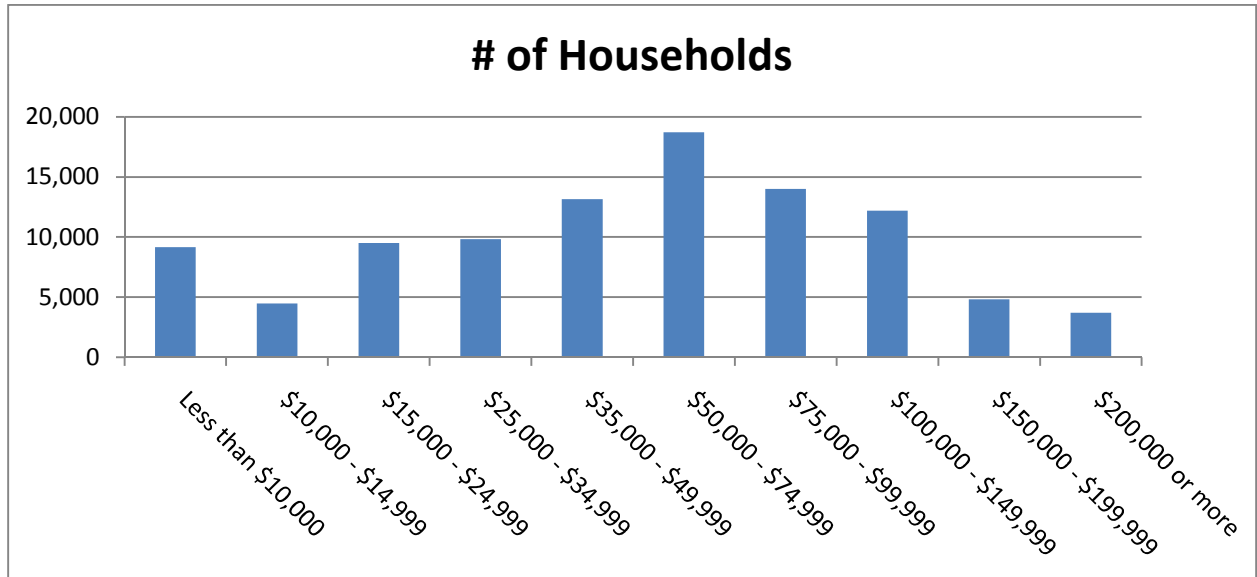
POPULATION GROWTH

- 1% average annual growth for past 30 years
- Consistent growth overall
- Growth has been concentrated in downtown and on city fringe



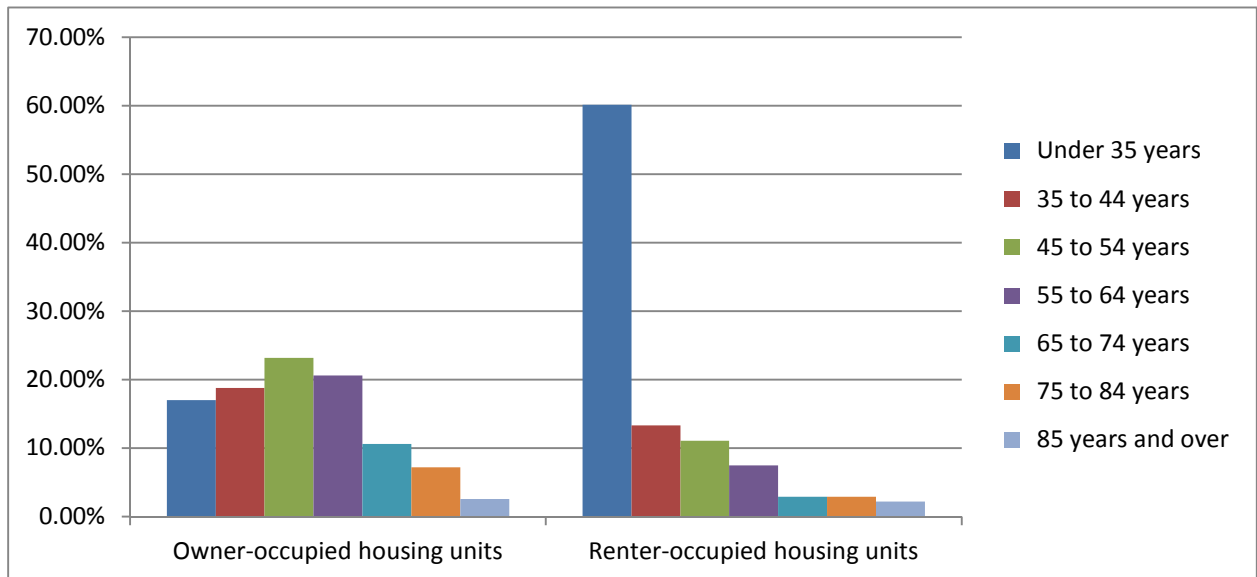
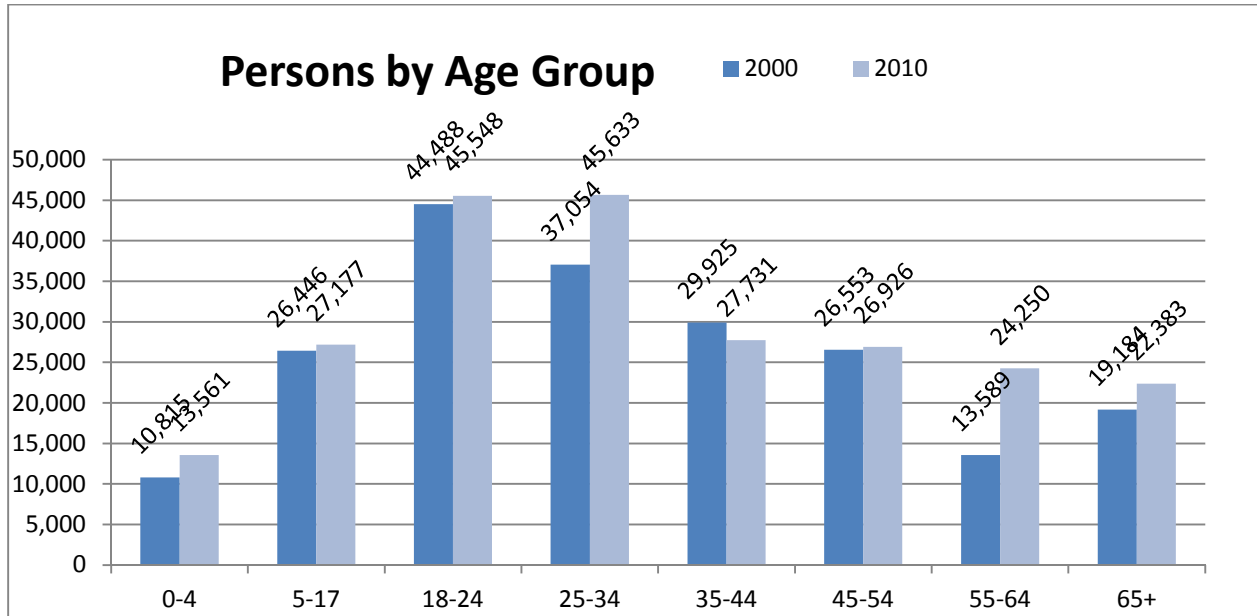
INCOME

- Median Household Income is \$59,674
- Area Median Income for a family of 4 is \$80,900
 - 50% of AMI - \$40,450
 - 80% of AMI - 64,400
 - 120% of AMI - \$97,080
- Concentration of middle income households
- Concentration of low-income residents on UW-Madison campus (students), south side, north side



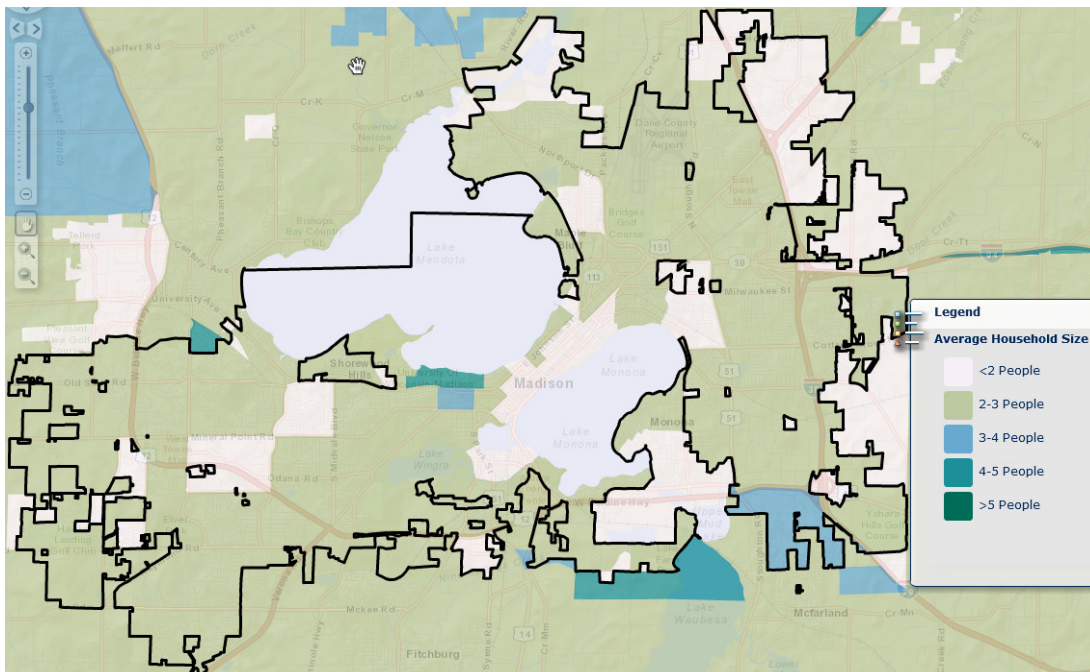
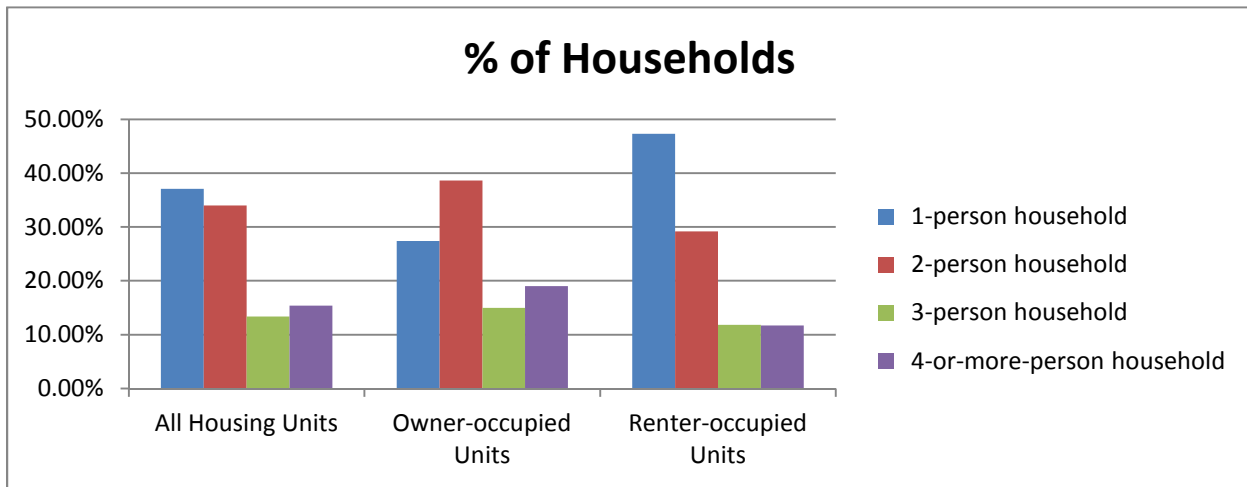
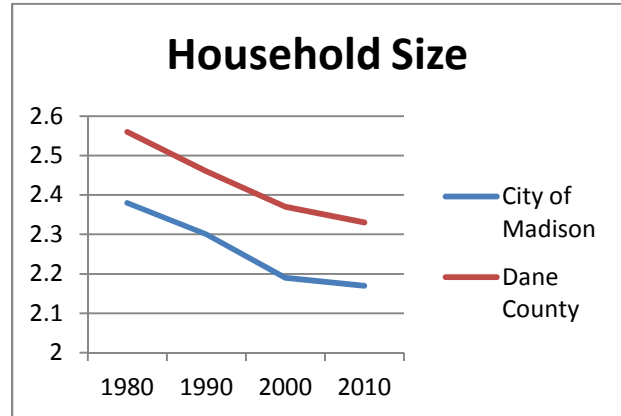
AGE

- Population skews younger due to large number of college students
- Greatest population growth has been in young adults (25-34) and older adults (55+)
- Younger populations tend to have lower incomes, less access to capital, and stronger preference for mobility making homeownership less likely
- Madison’s rental market is dominated by younger renters



HOUSEHOLD SIZE

- The vast majority of households are small 1 and 2 person households
- Majority of 1 person households are renters
- Majority of 2+ person households are owners
- Consistent reduction in household size over past 30 years
- Concentration of 1 person households in downtown
- Concentration of large households on UW-Madison campus and south side

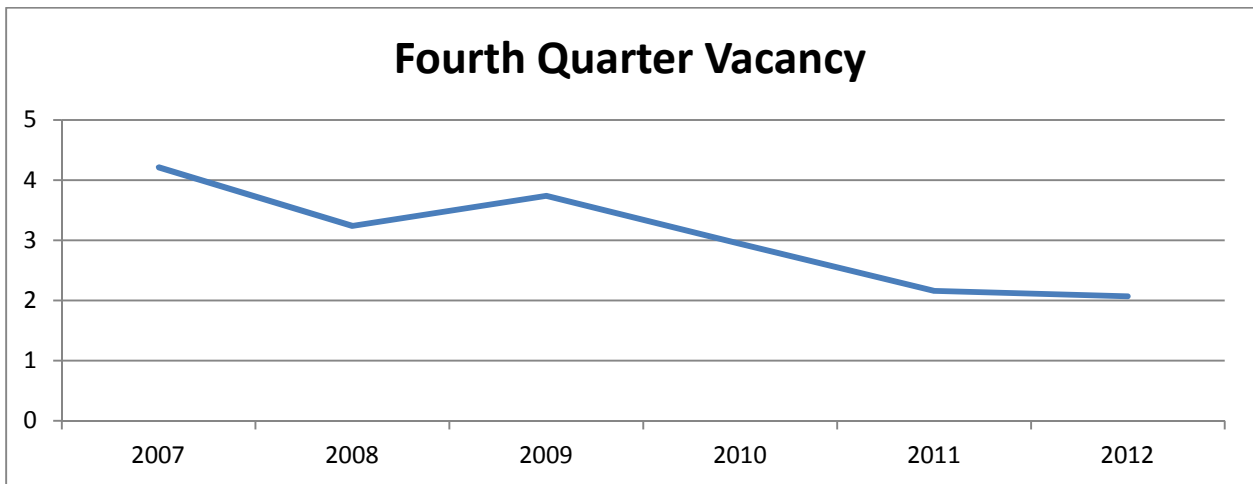


SUMMARY OF HOUSING SUPPLY

The supply of housing is a market response to the demand for housing influenced by the regulatory environment for construction, physical space constraints, financing constraints on construction, and cost of land, labor, and materials.

Because of Madison’s demographics, the market demands a significant amount of rental housing, especially for young and small households. As a result, the housing supply is evenly split between rental and homeownership.
HISTORIC TREND?

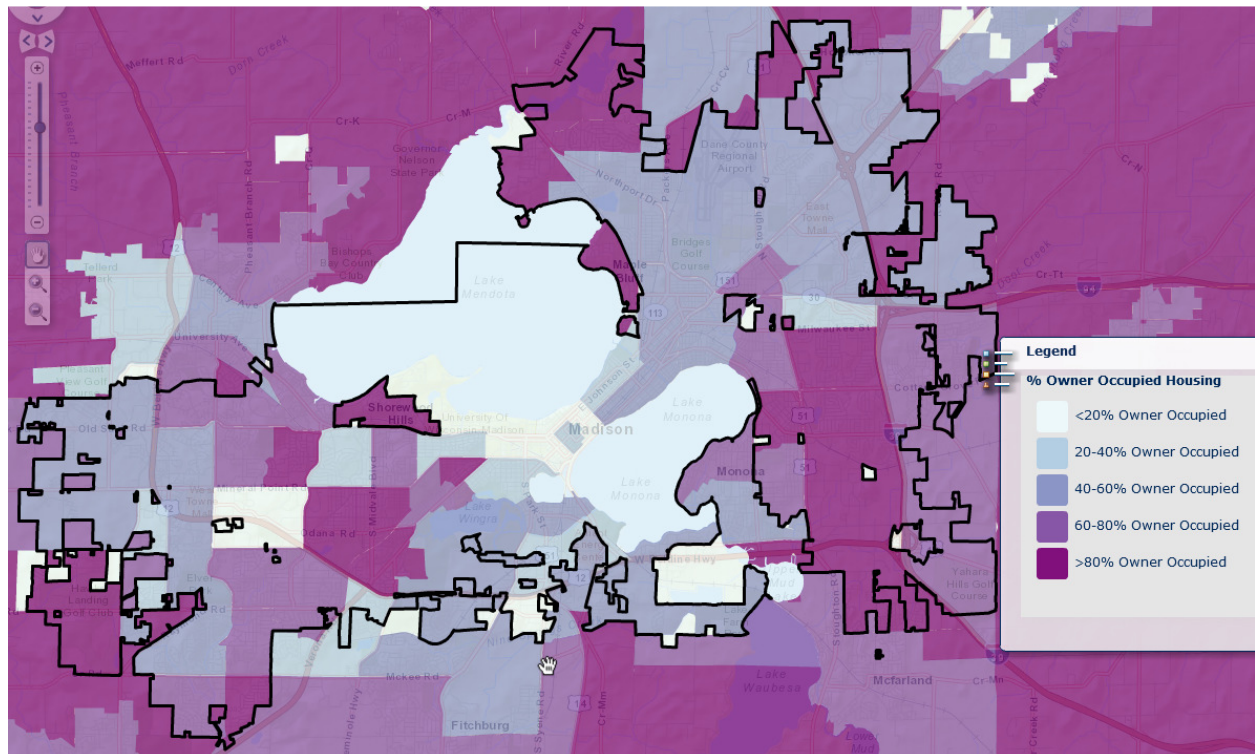
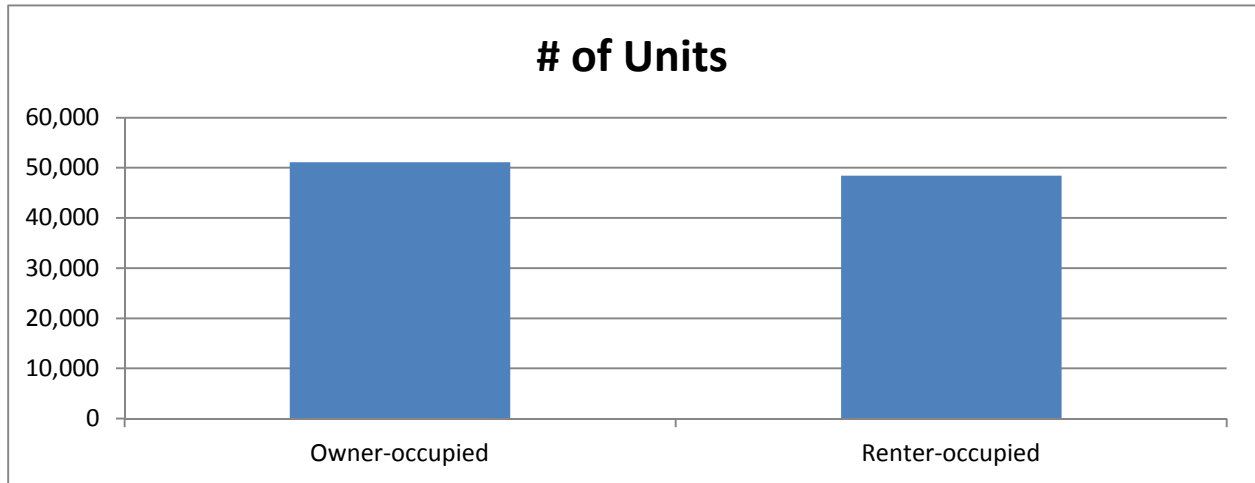
The municipal boundaries, high percentage of already developed land, and regulatory preference for density has lead to a significant increase in multifamily housing with more than twenty units. This trend has been further intensified by the financial system that has put an emphasis on multifamily rental housing in combination with historically low interest rates, resulting in the return of multifamily construction to pre-recession levels. Since 2007, the supply of rental property has not kept pace with demand resulting in historic lows in vacancy.



Source: Madison Gas and Electric

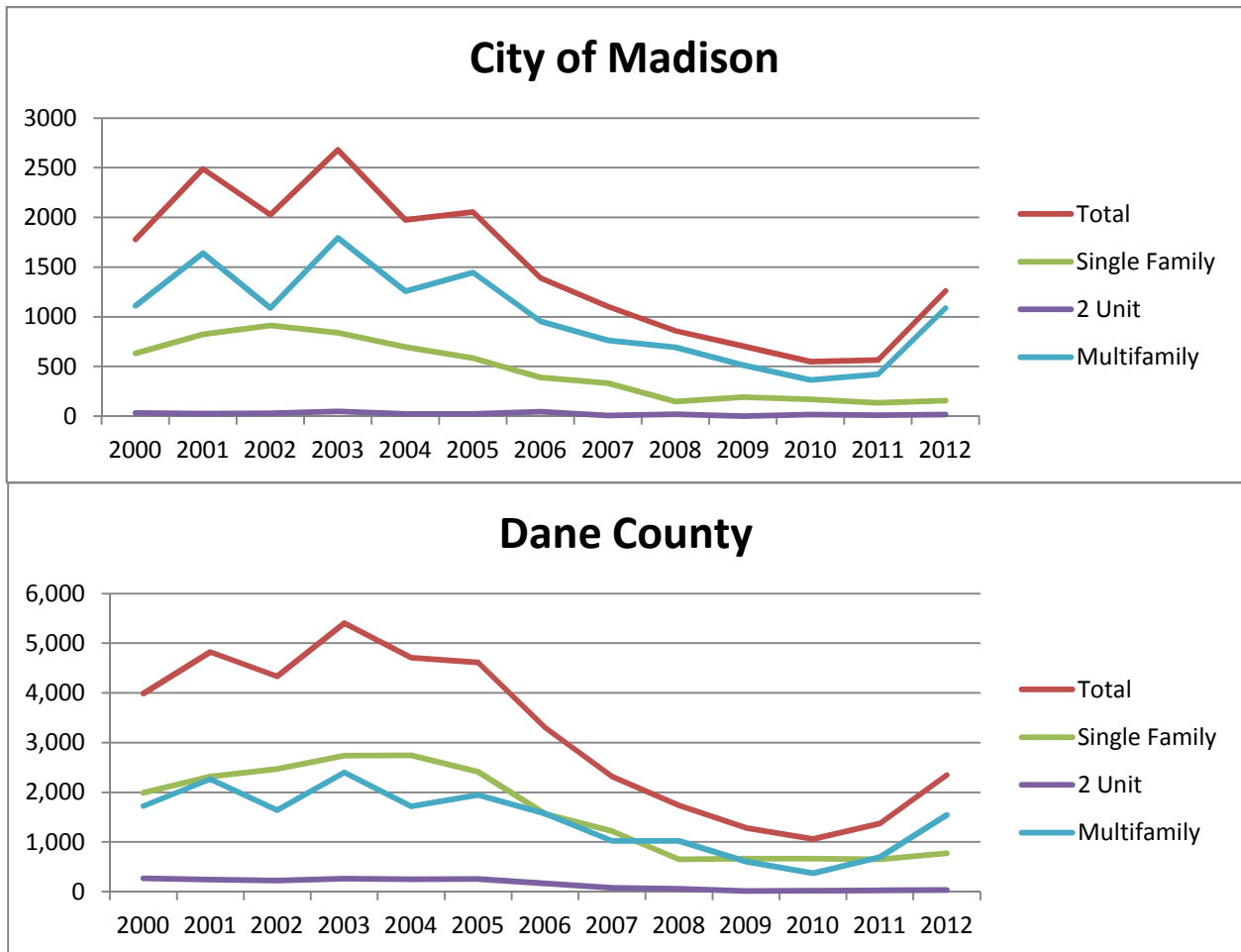
RENT VS. OWN

- Even split between ownership and renters
- Concentration of rental downtown and on the south side
- Concentration of owner occupied on the near west and east sides



HOUSING PERMITS

- Single family home construction in Madison peaked in 2002
- Single family home construction in Dane County peaked in 2004
- Multifamily home construction in Madison peaked in 2003
- Multifamily home construction in Dane County peaked in 2003
- Precipitous drop in all housing starting in 2005 bottoming in 2010
- Multifamily has recovered to pre-recession levels, led by Madison
- Single family has not risen since the beginning of the recession (as of 2012)



PRICE AND AFFORDABILITY

Housing price and affordability are measurements of the relationship between supply and demand. For example, high rent prices are an indication of demand outstripping supply and vice versa. On a very basic level housing is a fungible good with a large number of substitutes, homeowners can choose to rent, west side residents can choose to move to the east side, today's luxury apartment can become tomorrow's affordable rental, and aging luxury homes become today's student rental. As a result, creation of supply of one type of housing in one part of the city can have an effect on prices in a different market in the city. However, people demand more than just shelter from their housing, they place value on the location, quality, size, and amenities of specific properties which affects housing prices. Because households demand these things, housing prices are not uniform across the geography and various housing types in the city.

Affordability is defined by HUD as housing cost of less than 30% of gross household income. Affordability is the measurement of the relationship between income and expense for a particular property and a particular household. Therefore, our housing market generally becomes more affordable when household income grows more quickly than housing costs.

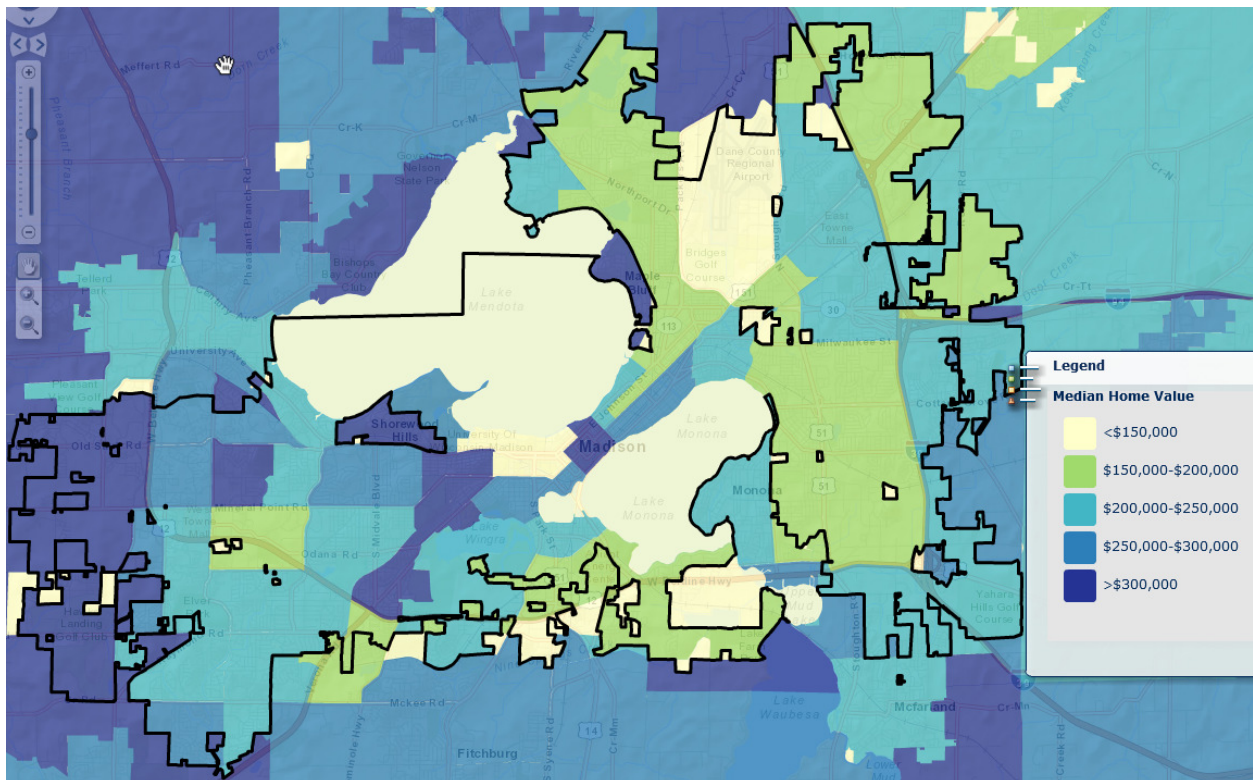
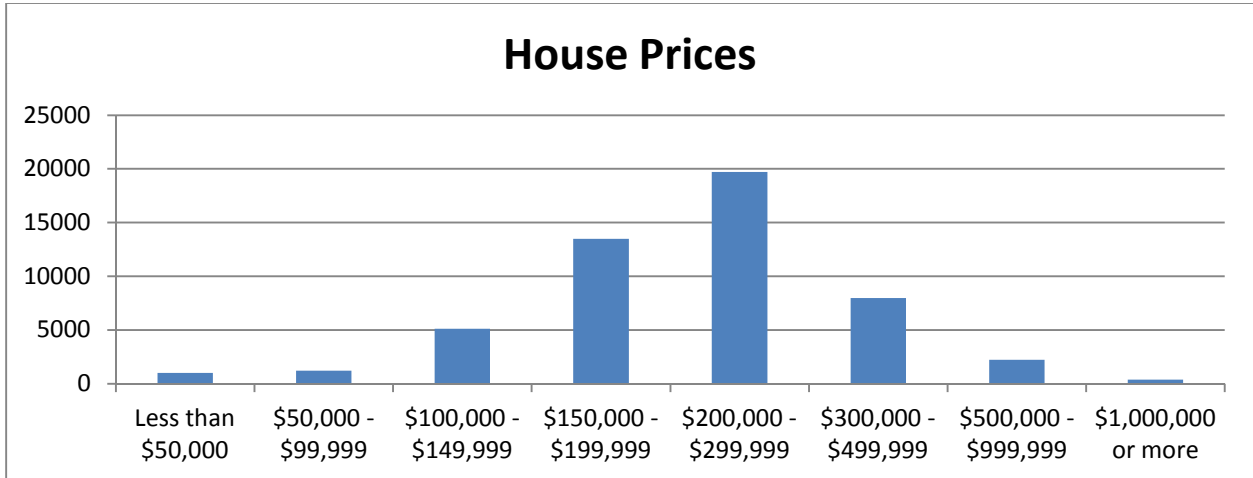
The ways to make the housing market more affordable are to:

- Raise incomes
- Reduce costs
 - Subsidize rent
 - Reduce the cost of capital (ex. interest rates)
 - Reduce property taxes
 - Reduce utilities
 - Increase supply to put downward pressure on prices
 - Allow for the increased supply of substandard housing

While approximately 1/3 of households in the City of Madison are considered burdened by their housing cost, this number is skewed by the higher percentage of students in the city, as they have incomes near zero yet live in some of the more expensive rental housing. However students often have access to non-income based financial resources (subsidized student loans and parental financial resources) as well as geographic constraints that changes the economics of their housing decisions. Because of these unique demographic properties and financial resources, students will be treated as a separate housing sector for the body of this report.

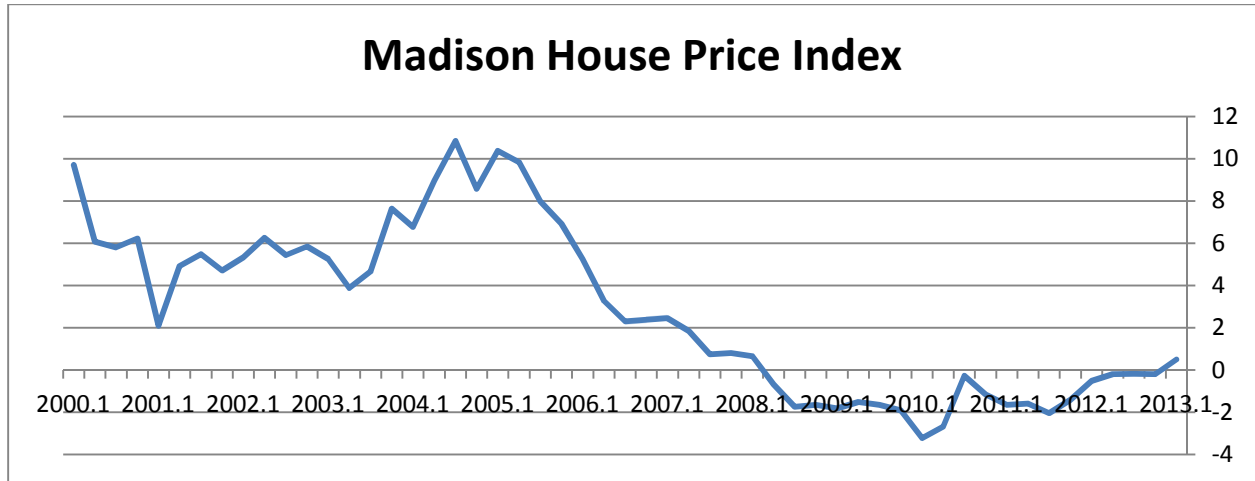
HOUSE PRICES

- House prices are concentrated in the \$200,000-300,000 range
- Most expensive homes are in downtown, Monroe St corridor, and far west side
- Least expensive homes are in the south, east, and north sides



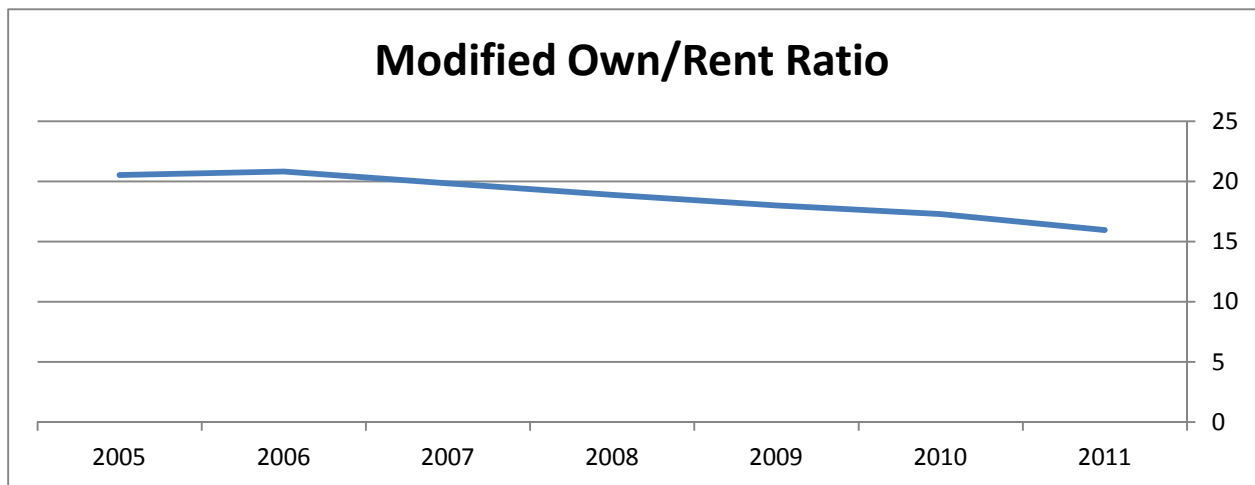
The Federal Housing Finance Agency maintains an index of house values for cities called the House Price Index (HPI). The HPI is a broad measure of the movement of single-family house prices that measures average price changes in repeat sales or refinancings on the same properties. For Madison, this index tells us that:

- Housing prices peaked in 2005
- Housing prices continued to fall through 2010
- Housing prices have stabilized and begun to rise over the past year



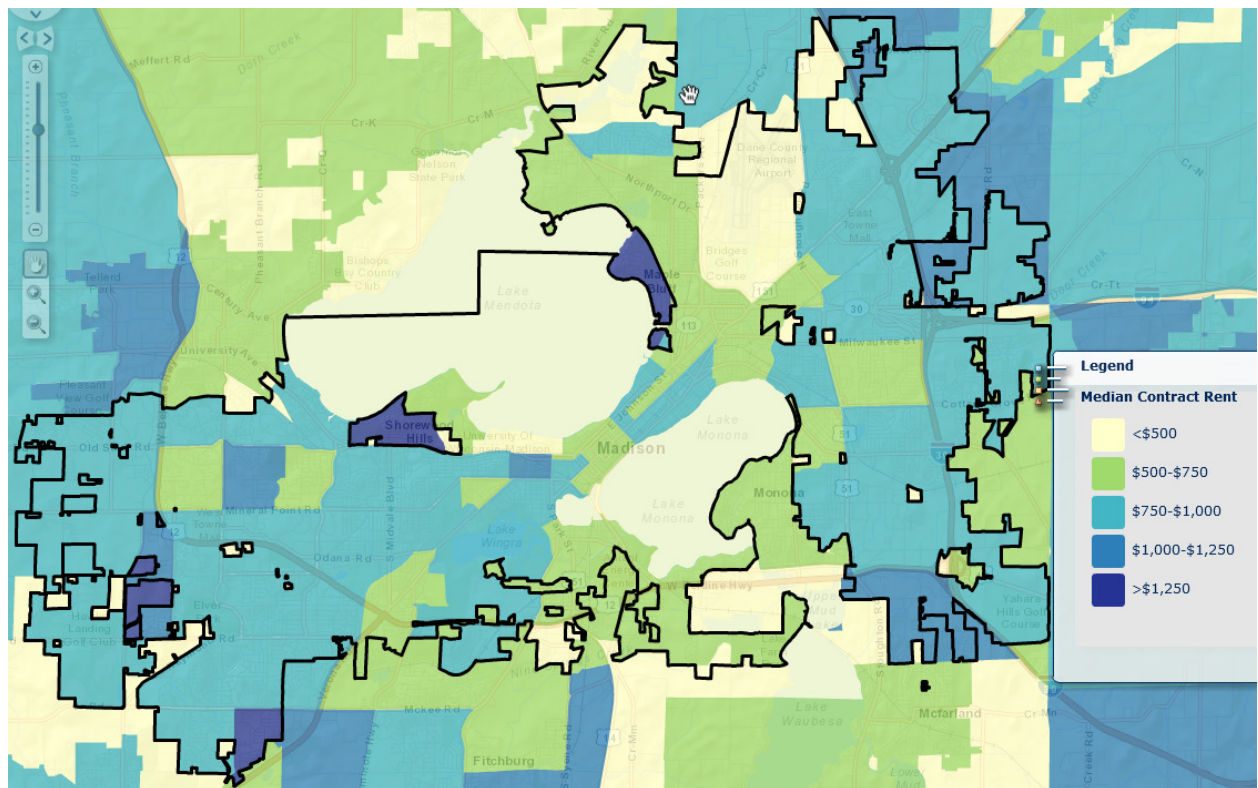
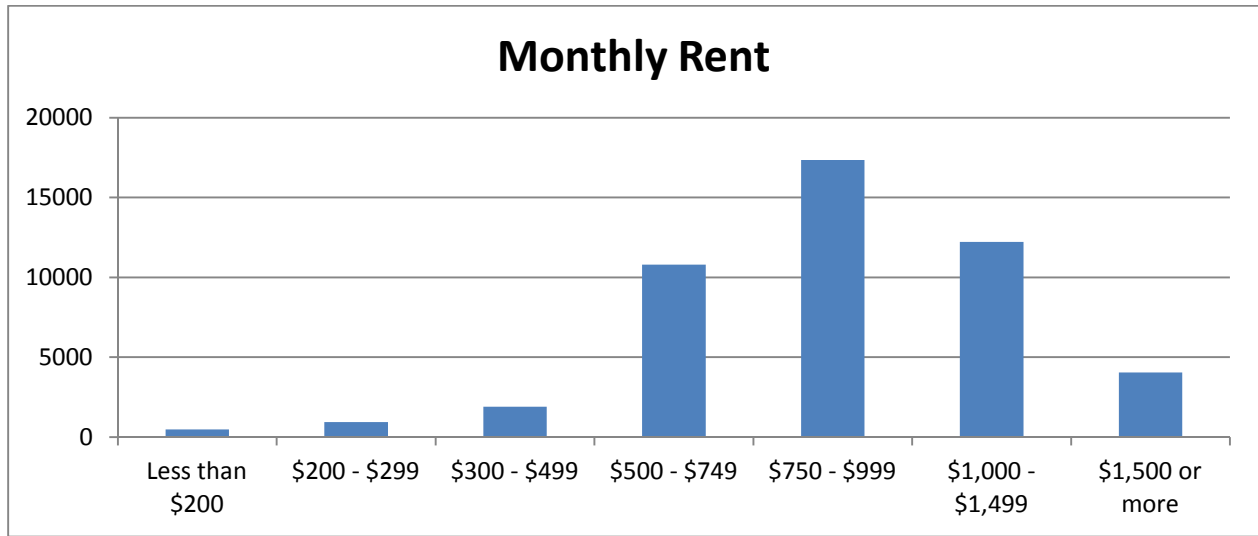
Another way to look at house prices is by comparing them to cost to rent.

- Lower ratios indicate ownership is relatively more affordable
- Ratio is equal to the number of years of median priced rent it takes to buy a median priced home
- Ratios have been steadily dropping since 2006



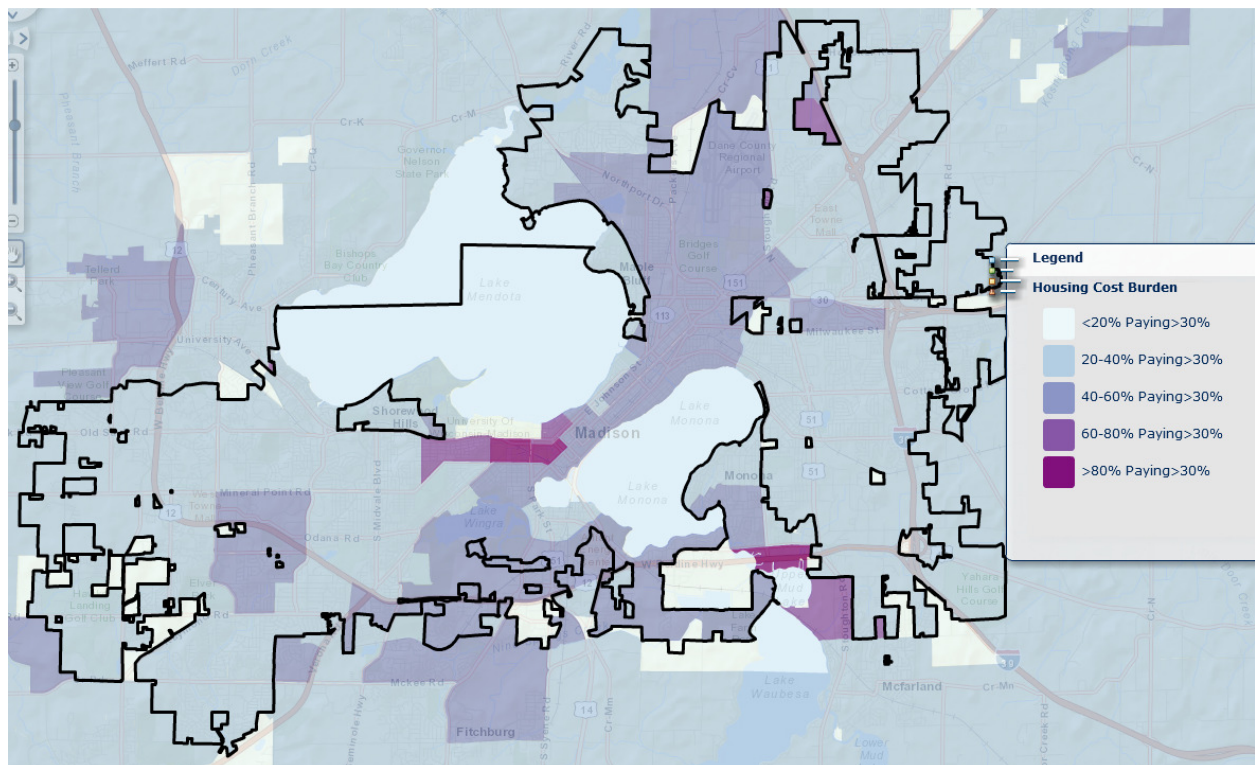
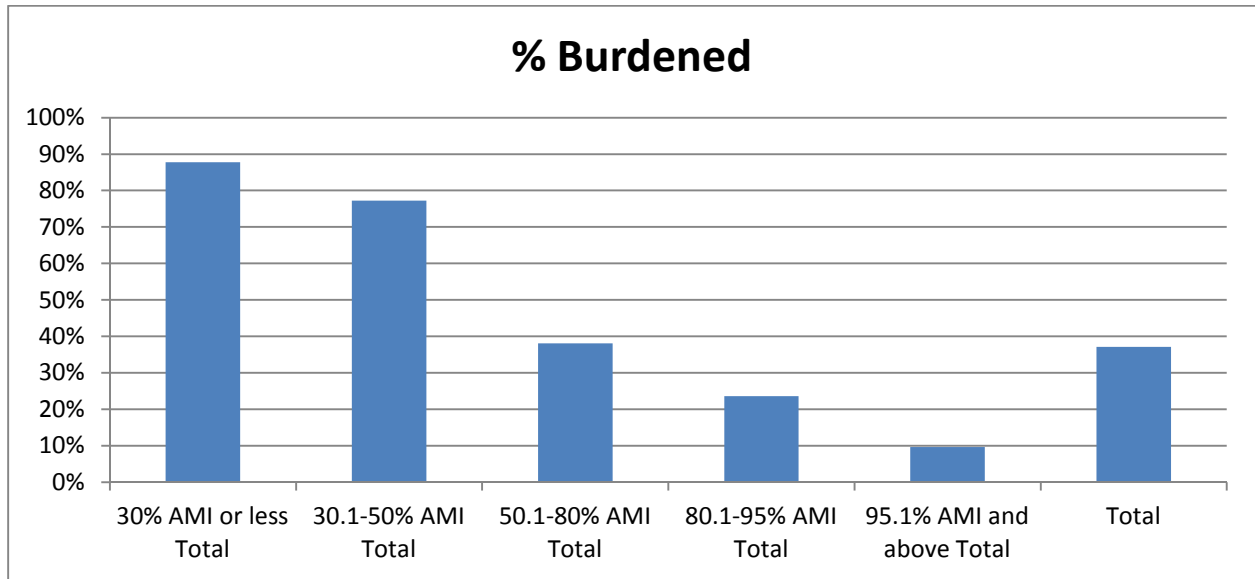
COST TO RENT

- These prices do not account for unit size
- Rent averages \$750-\$1,000 per month
- Most expensive rent is on campus and on the west side
- Least expensive rent is in downtown, south side, and north side
- Low prices downtown are likely the result of smaller units rather than lower rent per square foot



AFFORDABILITY

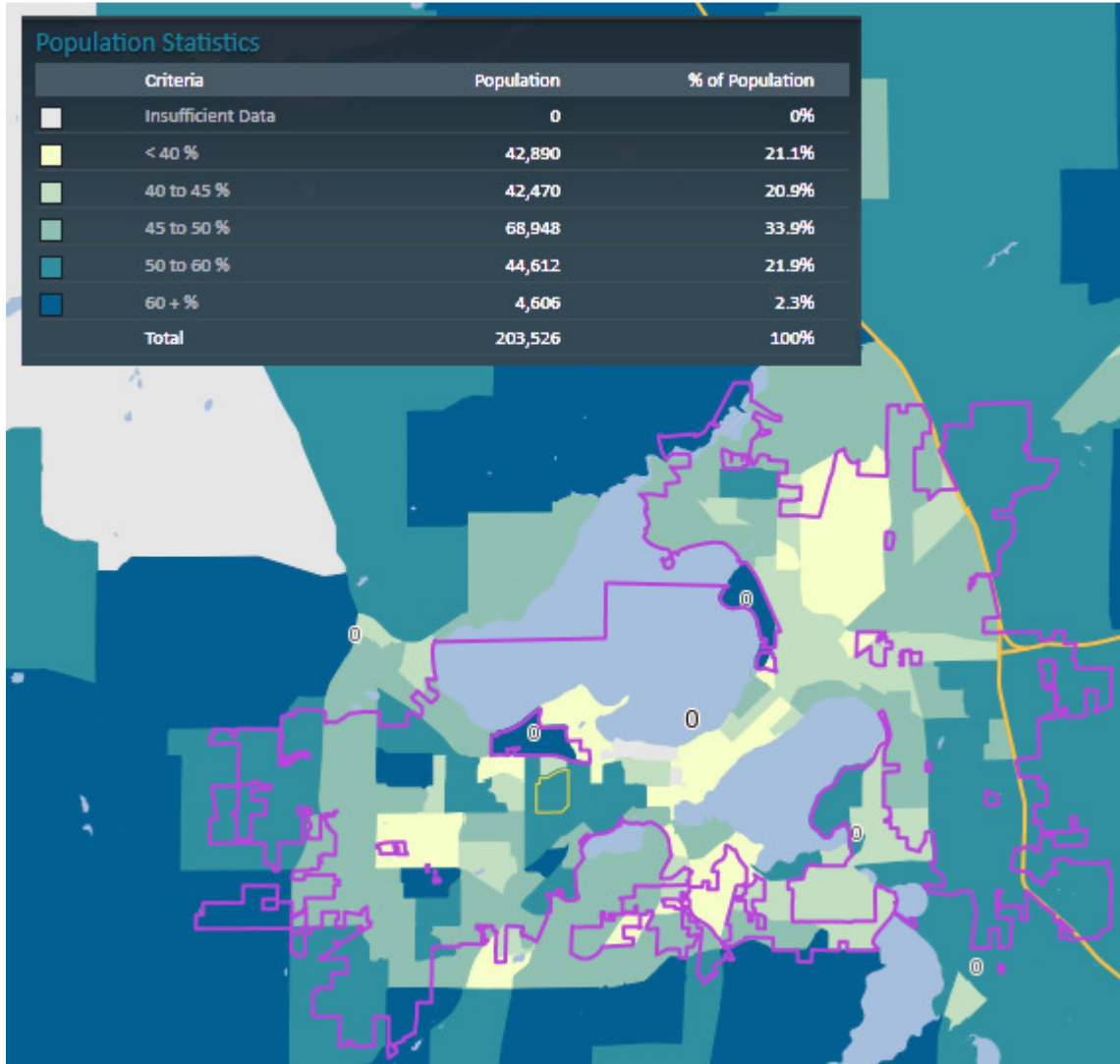
- Housing burden is defined as housing cost of more than 30% of gross income
- Housing burden can be a choice
- The majority of households under 80% of AMI are burdened
- The majority of people at or above area median income are not burdened
- Housing burden is concentrated on the UW-Madison campus, downtown, south side, near east side, and north side



OTHER FACTORS

TRANSPORTATION

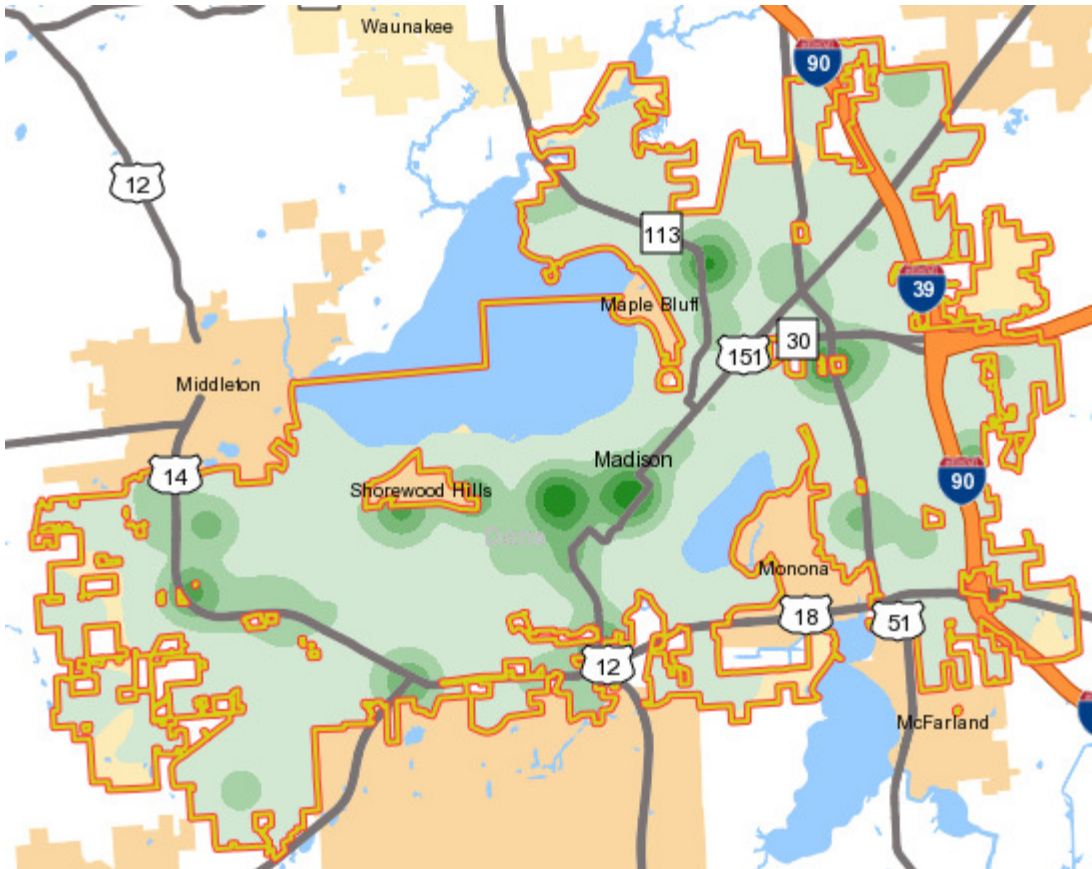
- Housing + transportation costs under 45% of gross income are considered affordable
- Based on Madison’s area median income for a household of two, 58% of housing is unaffordable
- The most affordable housing is located downtown and on the south side
- The least affordable housing is located on in the Monroe St corridor, far east and far west sides



EMPLOYMENT

- Jobs are clustered in downtown and on highways
- Most workers live within 10 miles of their job
- Most people that work in Madison do not live in the City

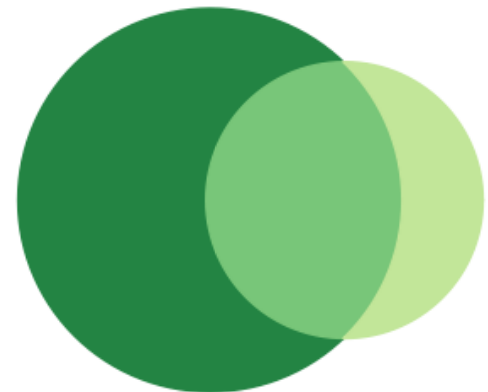
Employment Heat Map



Jobs by Distance - Work Census Block to Home Census Block

	2011	
	Count	Share
 Total Primary Jobs	199,241	100.0%
 Less than 10 miles	103,710	52.1%
 10 to 24 miles	38,370	19.3%
 25 to 50 miles	21,272	10.7%
 Greater than 50 miles	35,889	18.0%

Inflow/Outflow Job Counts in 2011



	129,790 - Employed in Selection Area, Live Outside
	34,077 - Live in Selection Area, Employed Outside
	69,451 - Employed and Live in Selection Area