

2023 Rental Indicators

Housing Strategy - Rental Subcommittee

March 2023





City Growth Trends

	2011-2021		2019-2021	
	Compound Annual Growth Rate	Total % Growth	Compound Annual Growth Rate	Total % Growth
Population	1.4%	14.5%	2.0%	4.1%
Households (total)	1.7%	17.9%	3.1%	6.4%
Renter Households	2.4%	27.0%	2.6%	5.2%
Owner Households	0.9%	9.3%	3.8%	7.7%
<i>Households By Annual Income</i>				
< \$25,000	-1.6%	-15.0%	-0.1%	-0.2%
\$25,001 - \$50,000	-0.6%	-5.6%	-3.0%	-5.8%
\$50,001 - \$75,000	0.9%	9.7%	2.6%	5.2%
\$75,001 - \$100,000	1.7%	17.9%	6.2%	12.8%
> \$100,000	6.5%	87.4%	8.0%	16.7%

Key Takeaways:

- Faster growth overall since 2019
- Households are getting smaller
- Recent surge in owner HH
- Recent surge in high-income HH



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Building Permits



Key Takeaways:

- Above average multifamily growth, but 2022/3 well below 2021
- Total MF Units Permitted:
 - 2023: 1,912
 - 2022: 2,026
 - 2021: 3,273

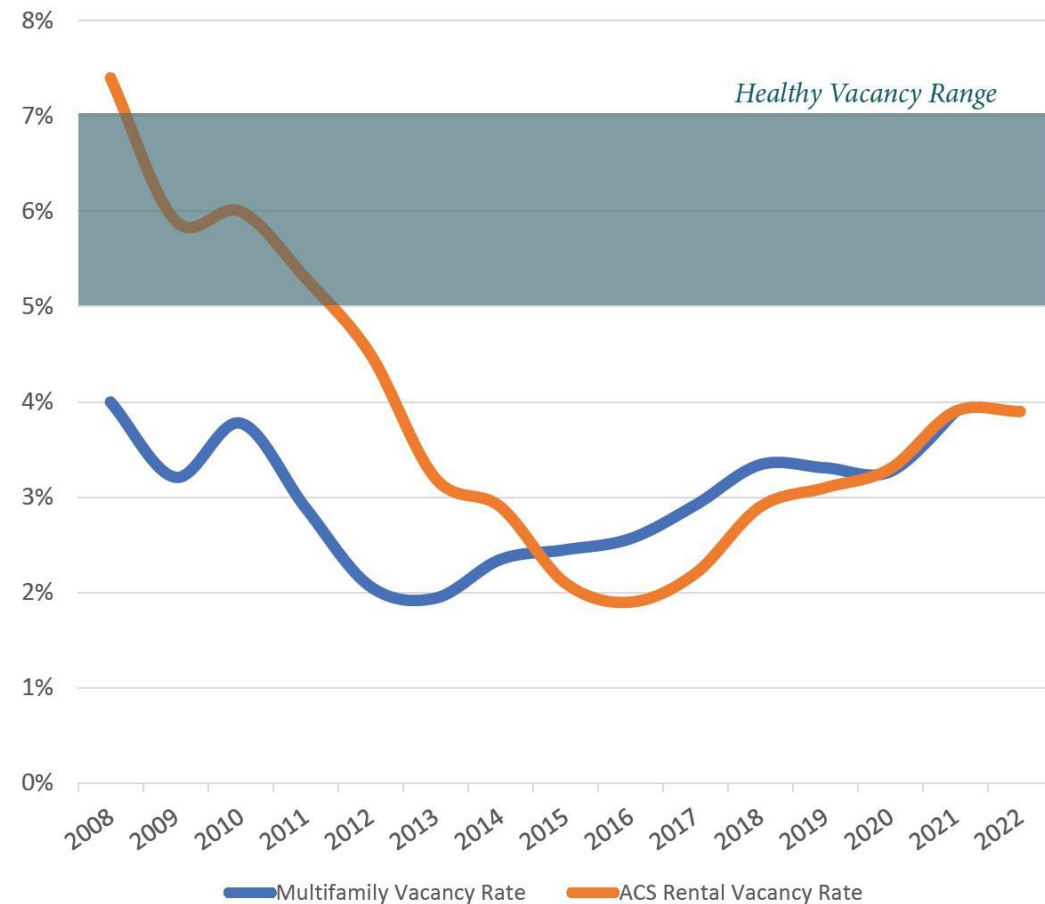


Rental Vacancy

Key Takeaways:

- Vacancy rates below healthy levels since the Great Recession
- Steady, small increases since ~2015
- Levelled off since 2020

Rental Vacancy Rate - ACS and MGE

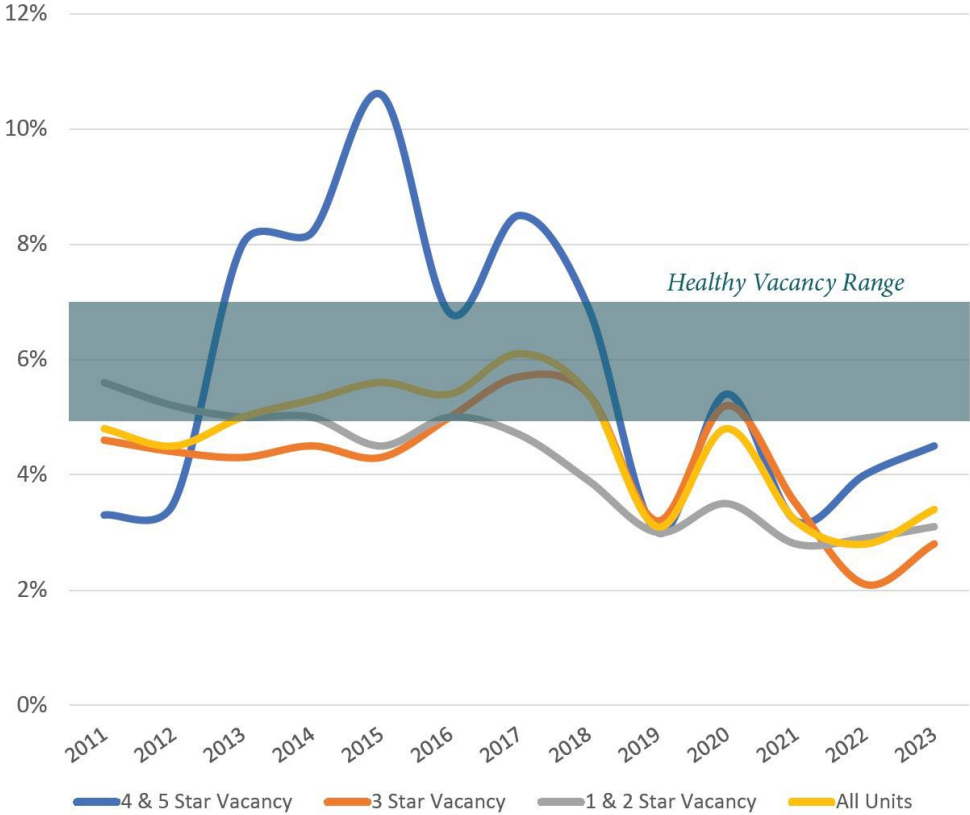


Note: MGE no longer provides Multifamily Vacancy Rate data as of Q2 2021



Rental Vacancy

Rental Vacancy Rates by Tier - CoStar Model



Key Takeaways:

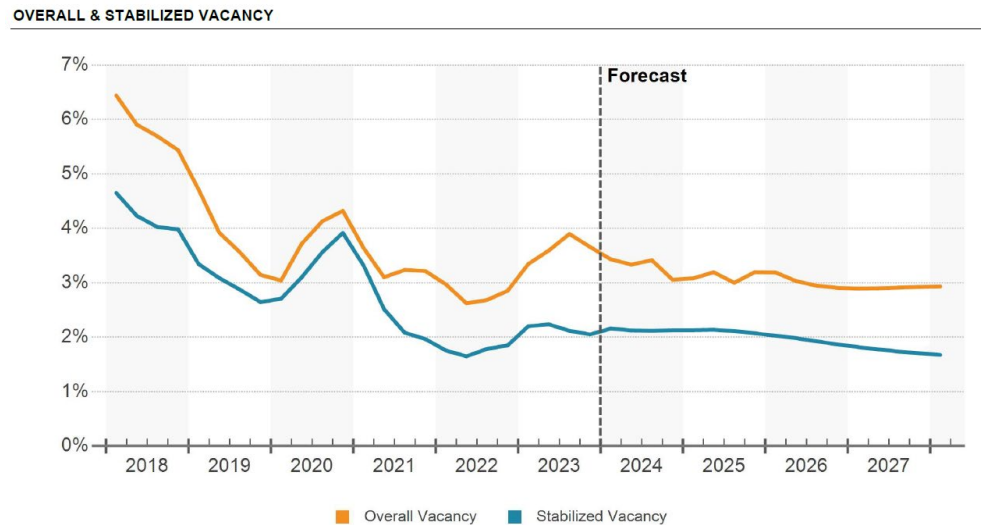
- CoStar captures “professionally-managed” properties
- Rental market tightest in lowest-cost segments (Class B/C buildings)
- Significant variability at beginning of pandemic, has since stabilized

Note: Stars indicate quality of finishes, construction materials, amenities, design, contemporary standards (floorplan, natural light, etc.), signs of age, etc.; such that 5-star is luxury, 4-star is market, 3-star is aged, 2-star is substandard/“inadequate”, and 1-star is functionally obsolete.



Rental Vacancy

CoStar's Assessment:



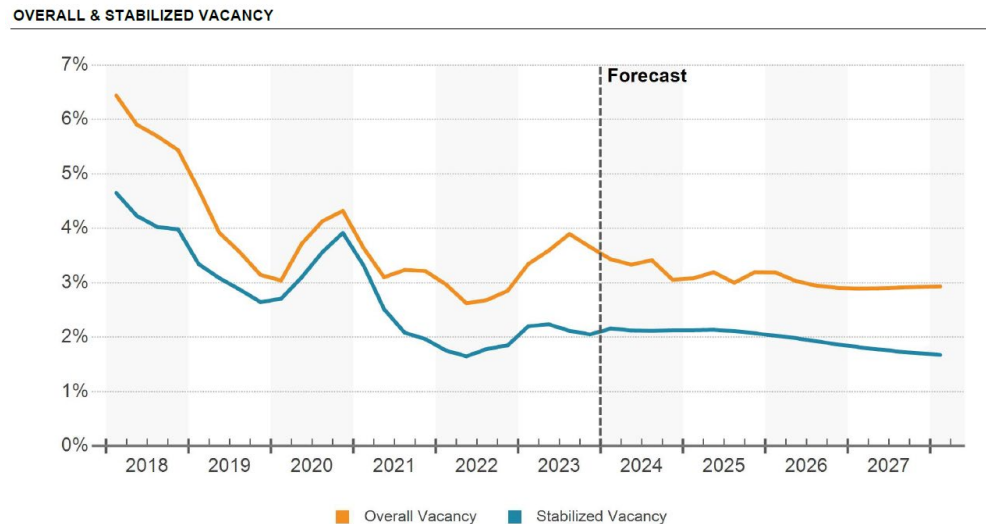
- “Over the past few quarters, vacancies have been trending upward as new supply enters the market, most of which has been in the 4 & 5 Star property segment.”
- “While this creates near-term softness for vacancies, declining construction trends point to declining vacancies over the long term.”



Rental Vacancy

CoStar's Assessment:

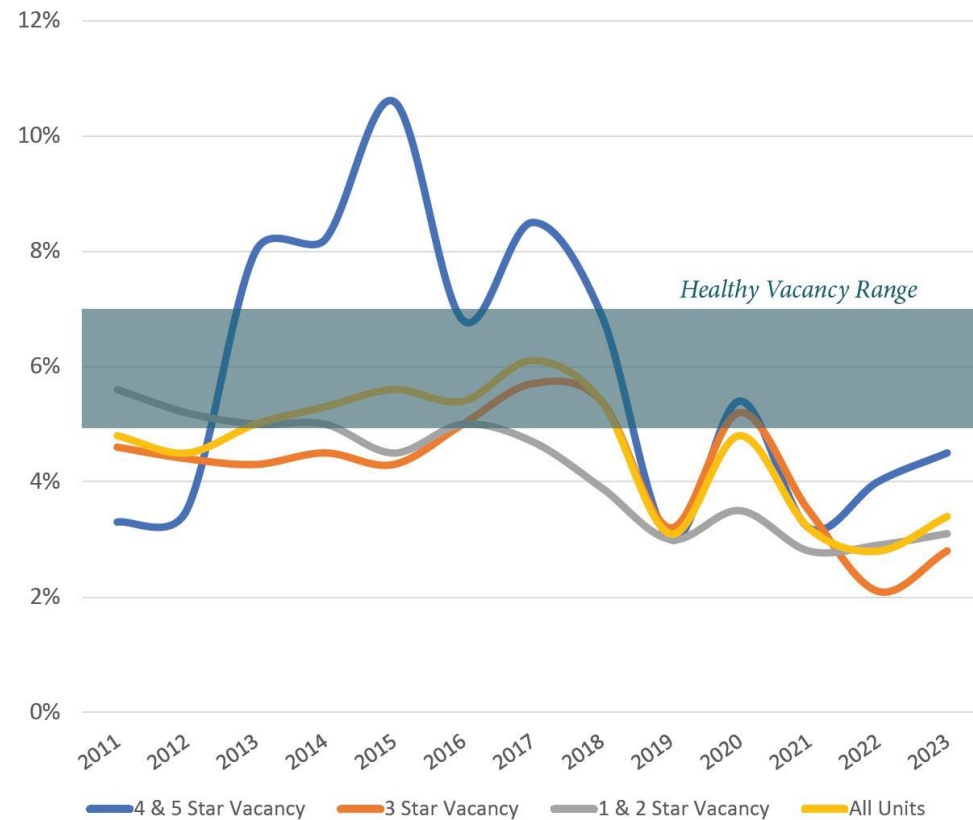
- 4/5 Star Vacancy:
 - Madison: 4.5%
 - National: 10.7%
- 3 Star Vacancy:
 - Madison: 3.1%
 - National: 7.2%
- Compared to 100 largest markets by inventory, current overall vacancy (3.4%) is 3rd lowest in country





Rental Affordability

Rental Vacancy Rates by Tier - CoStar Model



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CoStar's Assessment:

- Because vacancy tighter in lower-cost units, rent growth is uneven.
- YoY Rent Growth:
 - 4/5 Star Properties: 1.2%
 - 3 Star Properties: 4.7%
 - 1/2 Star Properties: 3.8%

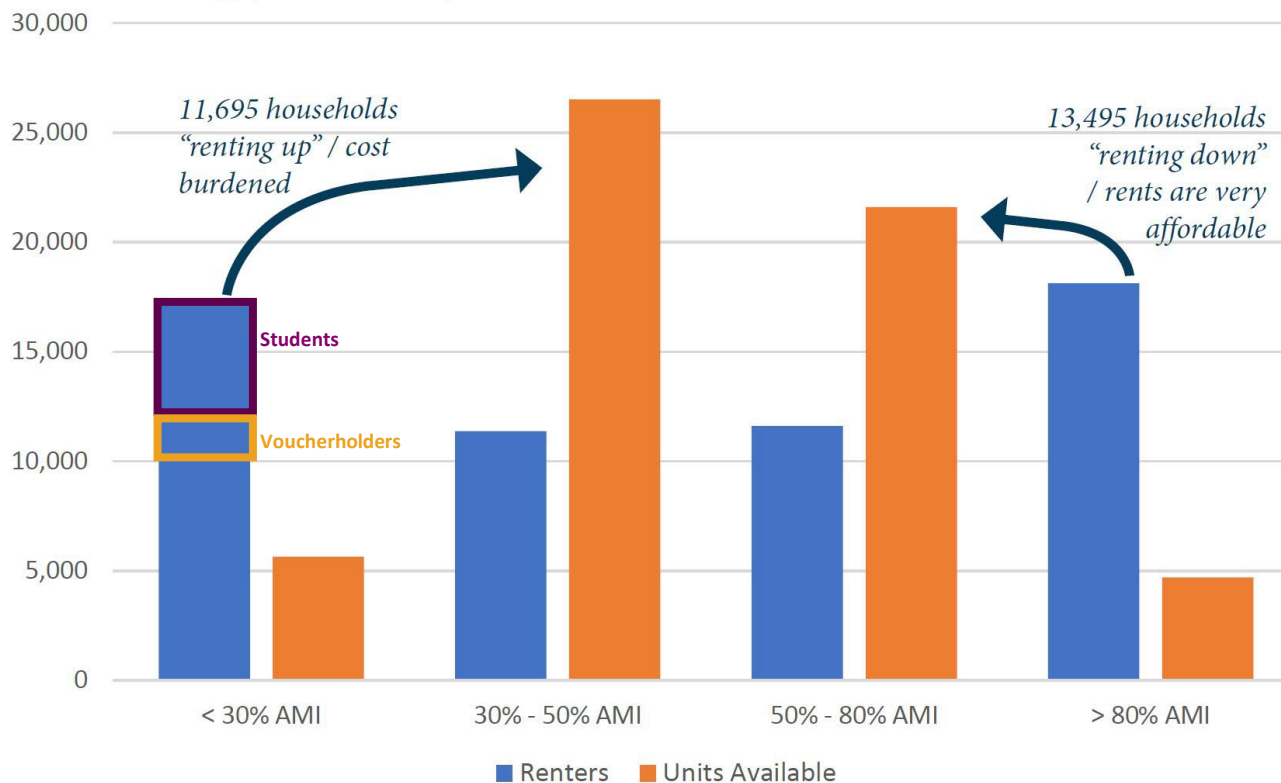


Rental Market Mismatch

Key Takeaways:

- Market gaps for:
 - < 30% AMI units
 - > 80% AMI units
- Market affordable for higher-income HHs, drastically unaffordable for lower-income HHs
- Need increasing for units at each end (gap/deficit is widening)

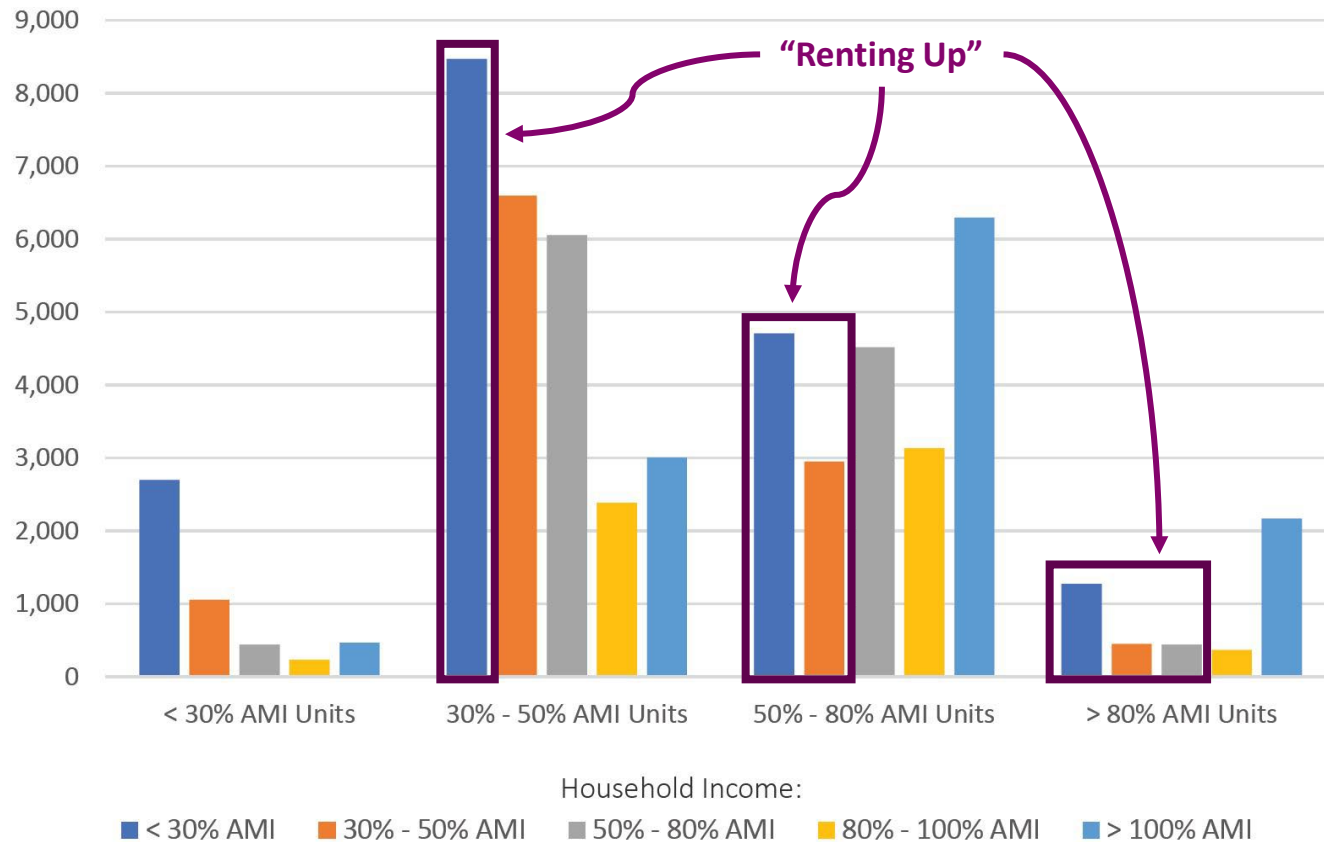
Rental Market Supply and Demand by Income/Rental Cost





Rental Unit Consumption

Rental Market - Units Rented by Household Income



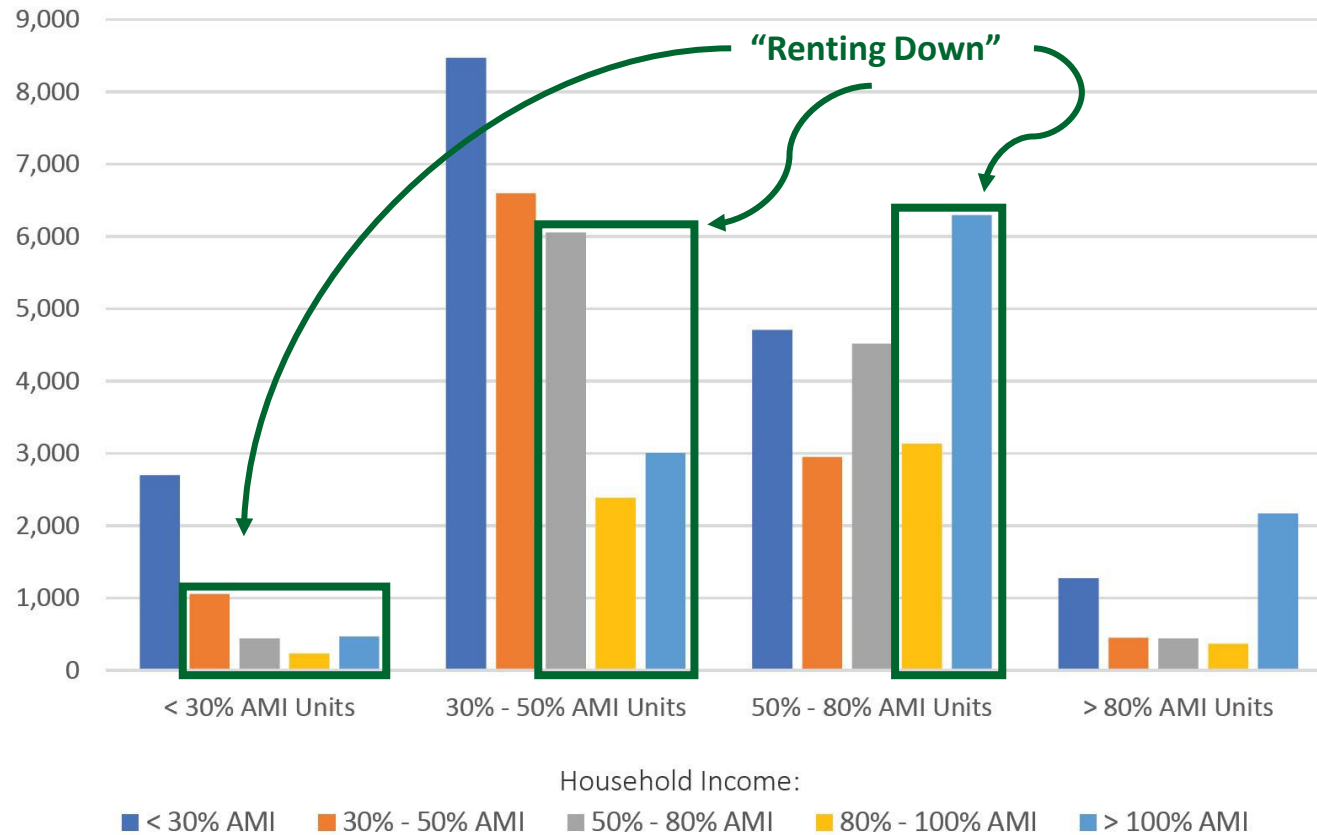
Key Takeaways:

- Renting Up = households are generally cost-burdened
- Generally, though not always, done by necessity to find an open unit in the City due to mismatch



Rental Unit Consumption

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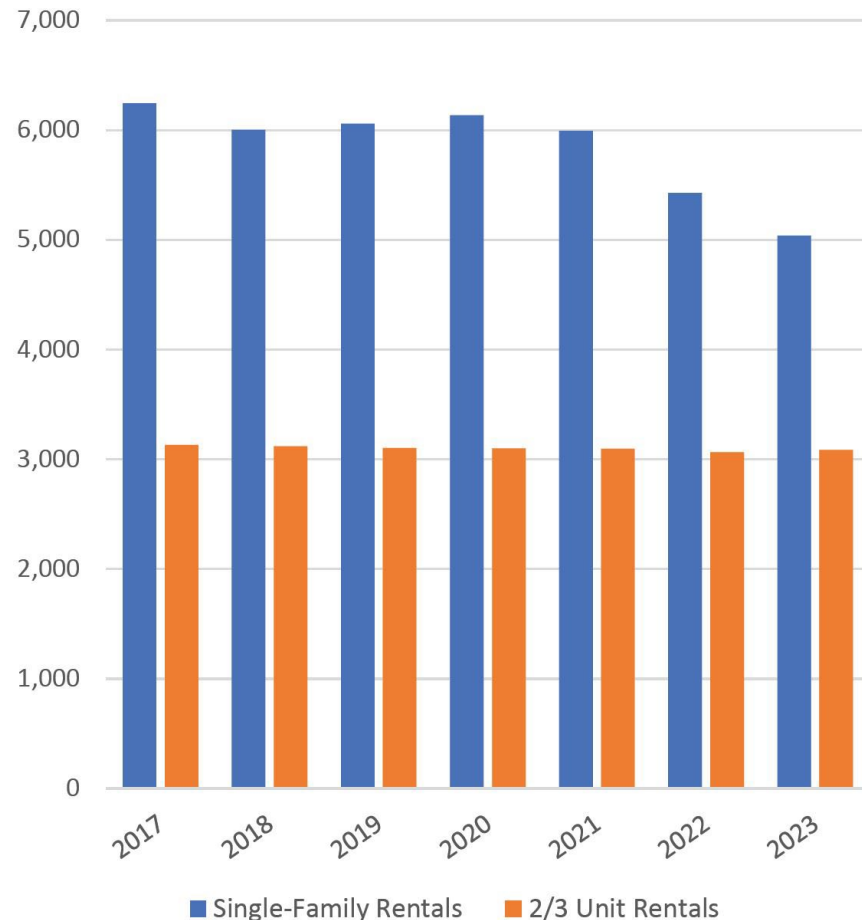
Key Takeaways:

- Renting Down = housing is generally affordable (less than 30% of income)
- Generally, though not always, done by choice to find an open unit that is more affordable to the household or location they prefer



Tenure Transitions – Small Structure

Small-Structure Rentals



Key Takeaways:

- Ownership market has tightened, single-family production remains low, and high-income households continue to move to the City
- Conditions have caused loss of single-family rentals
 - Structures are converting to ownership on open market
 - High demand and competition among potential buyers
 - Potentially some small-scale (“mom and pop”) landlords cashing out equity in appreciating market
 - Some indication nationally that equity firms selling off single-family portfolios
- Loss of 1,098 single-family rentals to ownership since 2020
 - Represents a loss of 18% of the entire 2020 single-family rental market



Rental Affordability by Income

Rental Affordability by Area Median Income



Key Takeaways:

- Tight low-cost market because 2 segments of households (<50% AMI) competing for those units
- Households at 80% AMI and above have general market affordability
- Significant increase in market rents since 2021

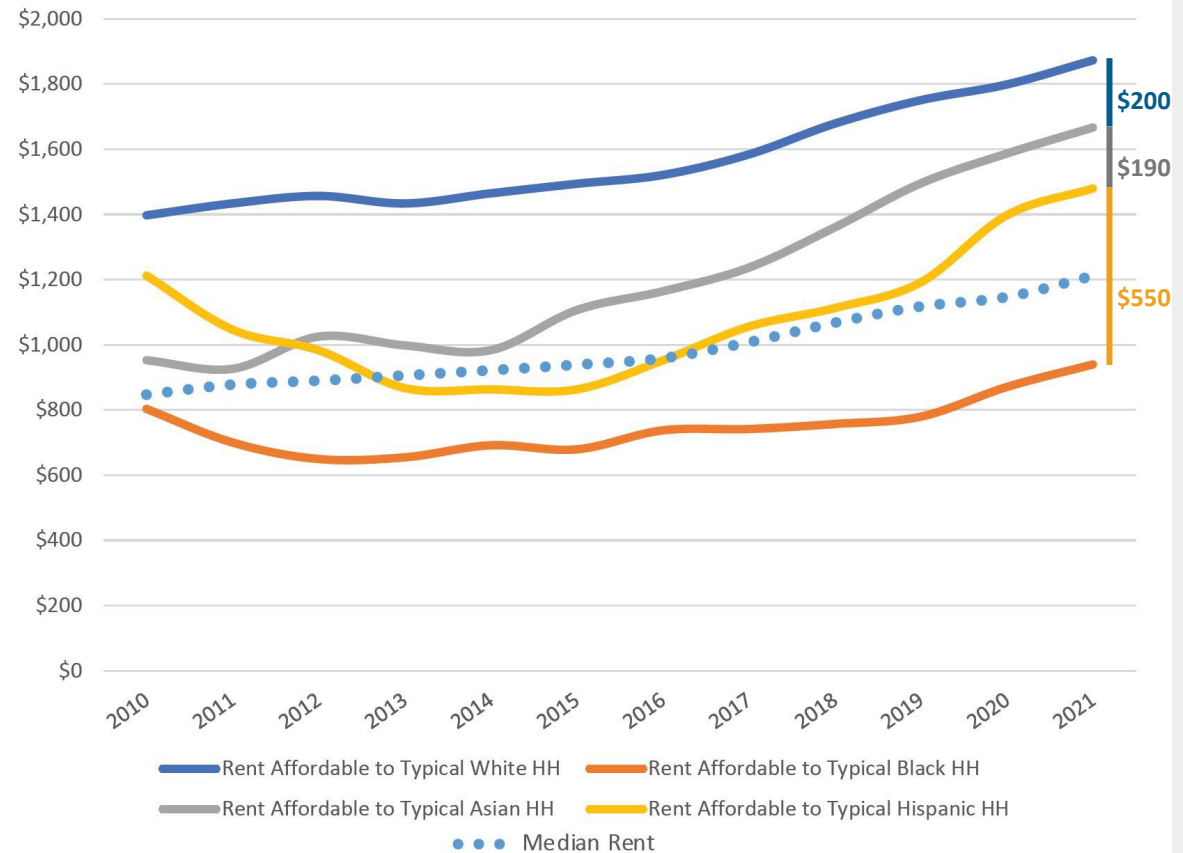


Rental Affordability by Race & Ethnicity

Key Takeaways:

- Median income has increased across all demographics
- Black households in the City are the only demographic where the median household could not afford the median rent

Rental Affordability by Race/Ethnicity



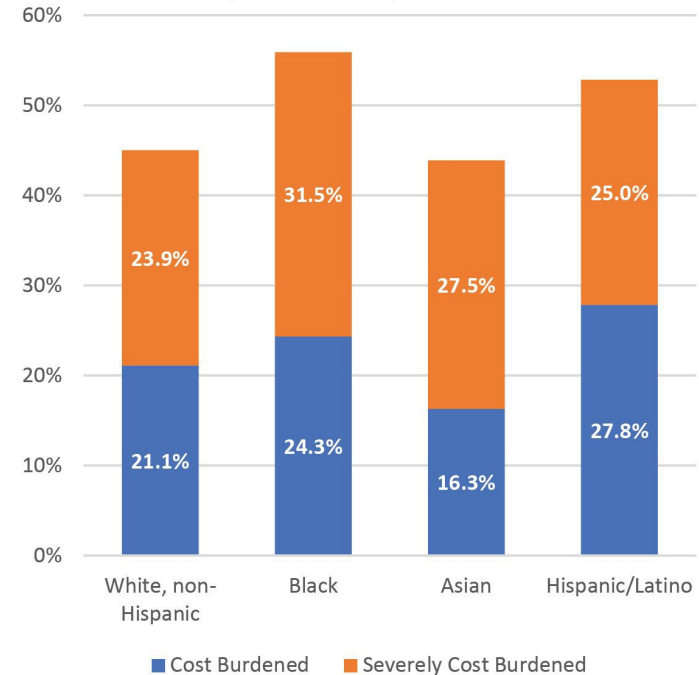


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Rental Cost Burden by Race/Ethnicity, 2019

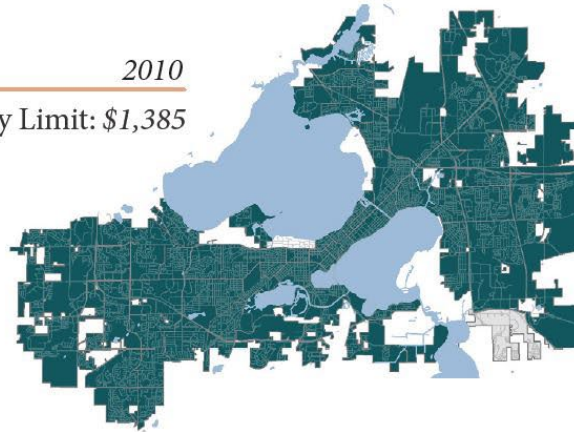




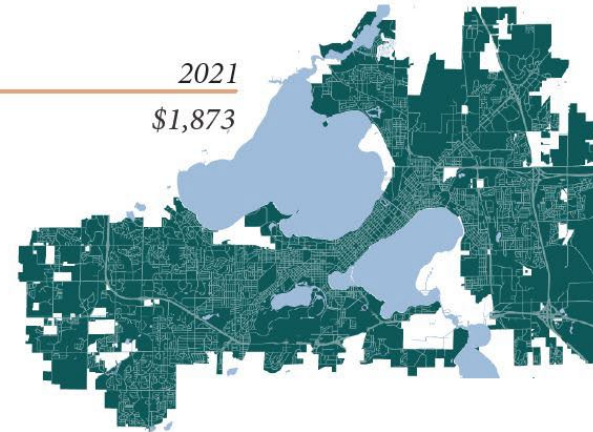
Rental Affordability & Access

Less than 50% of Rental Units Affordable to a Typical Household
50% of Rental Units or More Affordable to a Typical Household

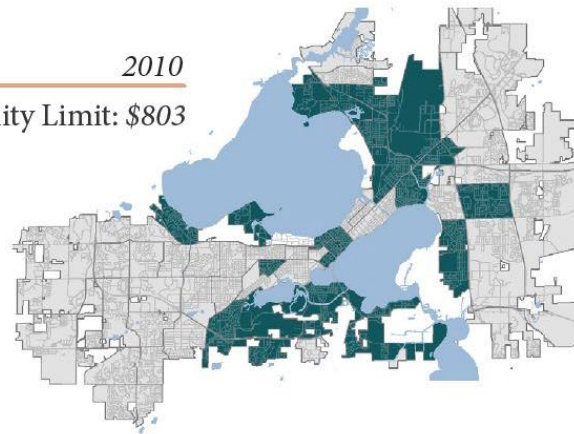
White Households: 2010
2010 Affordability Limit: \$1,385



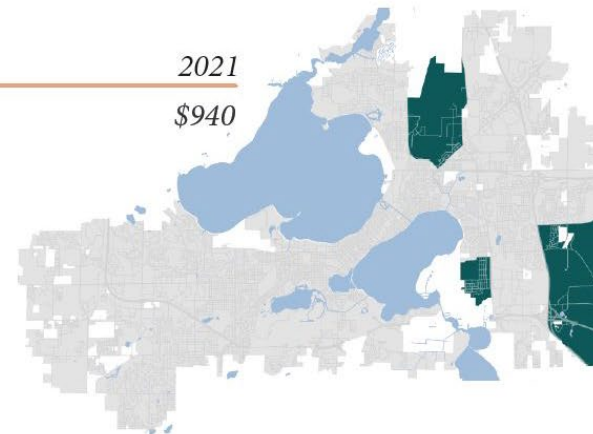
2021
\$1,873



Black Households: 2010
2010 Affordability Limit: \$803



2021
\$940

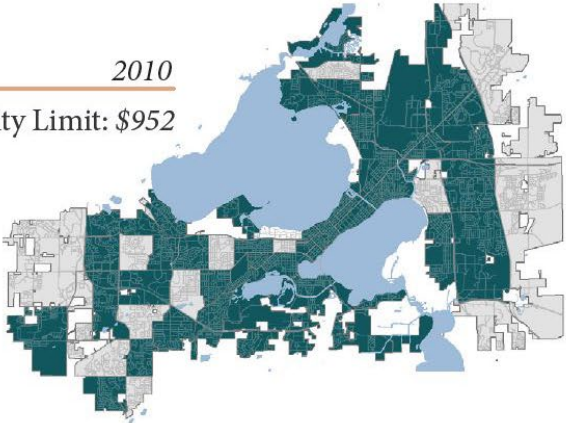




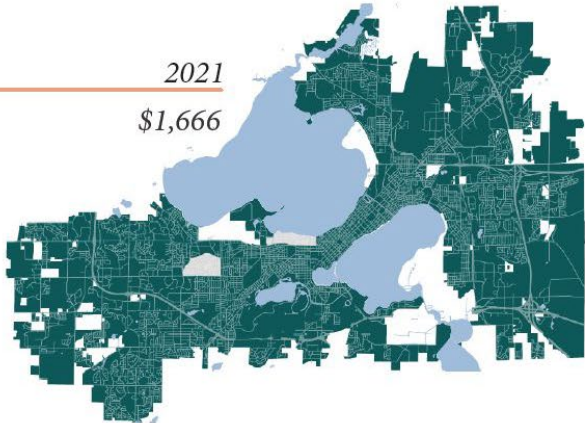
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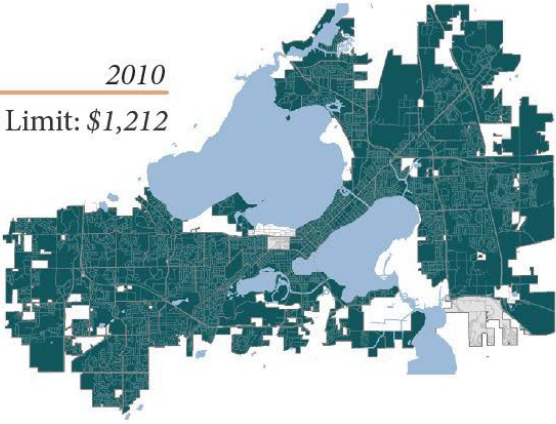
Asian Households: 2010
2010 Affordability Limit: \$952



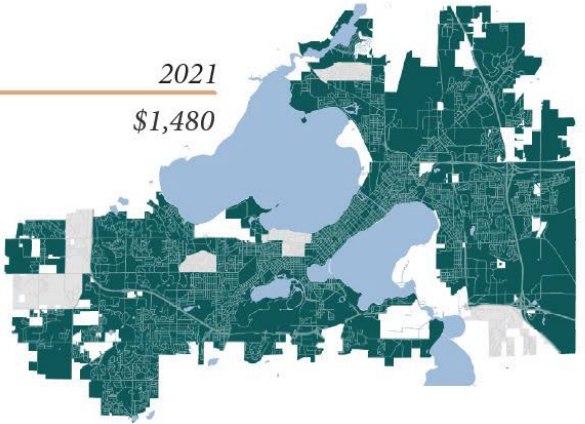
2021
\$1,666



Hispanic/Latino Households: 2010
2010 Affordability Limit: \$1,212



2021
\$1,480





Impact of City Funding

Key Takeaways:

- City financial support has assisted in the creation of 17% of all new rental units since 2016
- Reduced impact in 2022
- Pandemic delays, cost increases, smaller scale developments, subsidy type

City-Supported Rental Development, 2016-2022

