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.

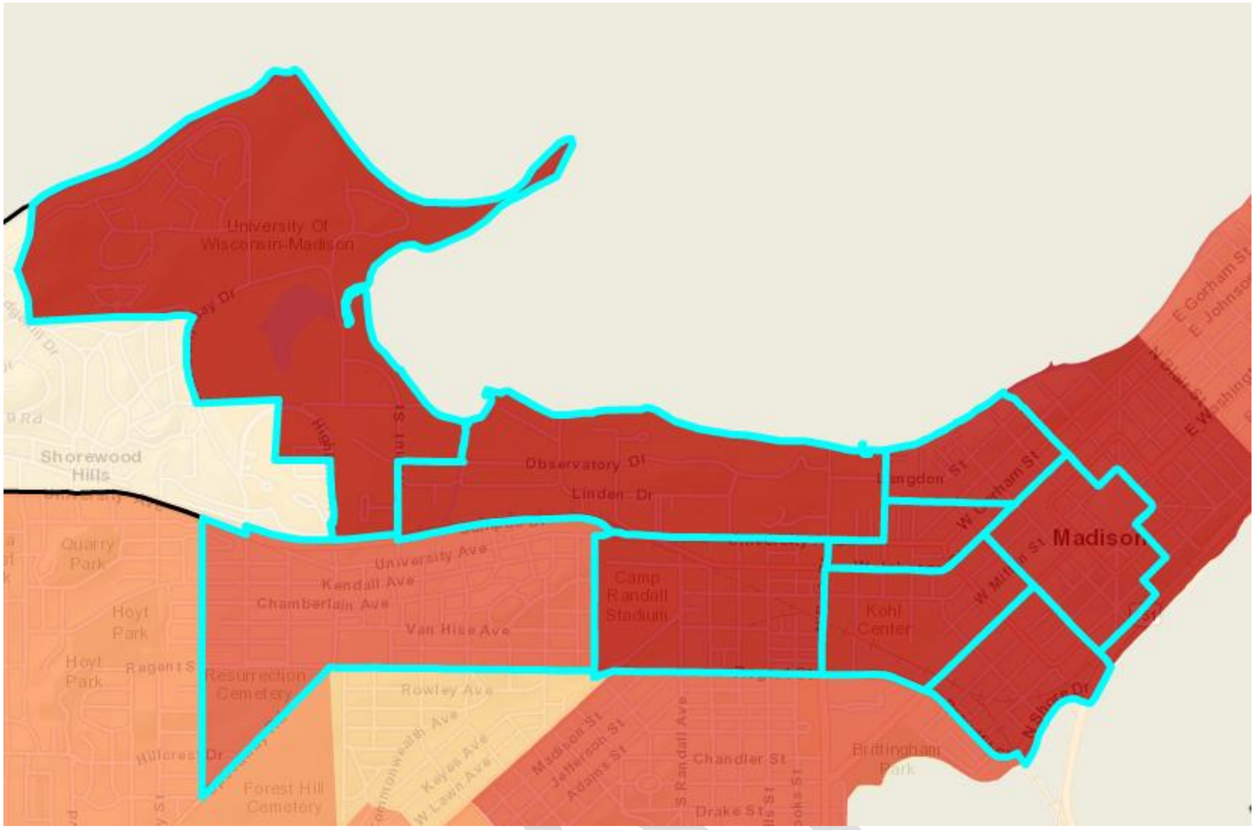
In response to this undersupply of residential rental housing, **the market has seen rents rise and vacancy rates fall**. Large affordability gaps exist between the rental payments a low-income household can support and median rent price:

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

As rents rise and vacancy rates fall, low-income households are increasingly priced out of Madison's rental market.

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, students are not included in this segment. To achieve this, renters from nine Census tracts have been removed from the data. 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 from landlords and UW Madison staff. For the purpose of this report, low-income rental exclude those nine Census tracts.

NOTE – These tracts have not yet been removed from the data



These tracts represent

- 10,000 Households
- 8,000 are renters
- 7,000 make less than 30% of AMI
- 6,500 are housing cost burdened renter
- 4,500 are severely housing cost burdened renters
- Income of less than 80% AMI = low income

DEMAND

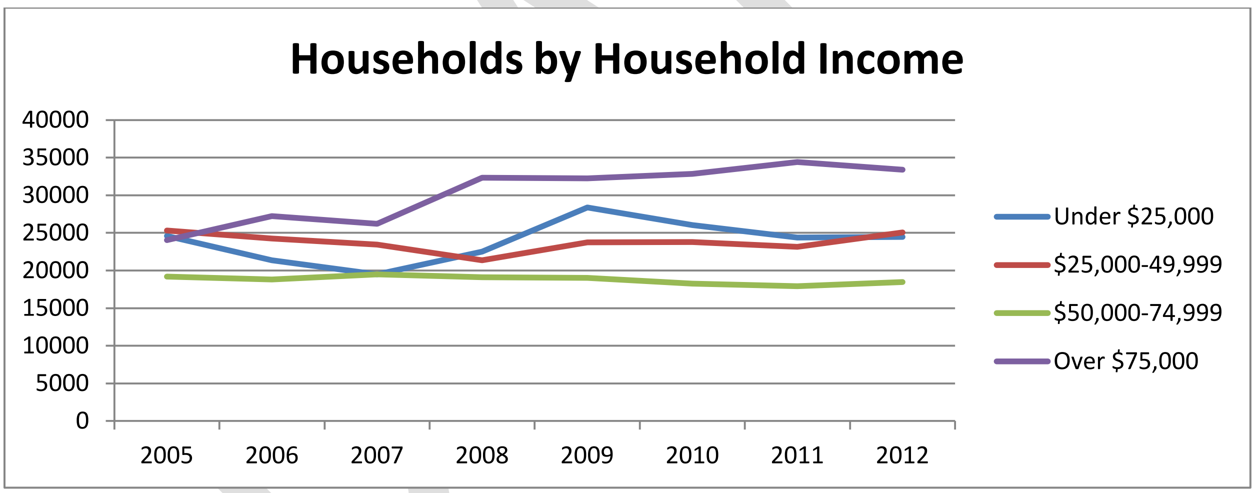
Typically for City of Madison programs, low income is defined as 80% of Area Median Income based on the number of persons per household. However because households rent in a market, competing against households of different sizes, for the purposes of this report demand for low-income rental housing is defined as household income of less than 80% of Median Household Income or 50% of Household Family Income (HAMFI). For Madison and Dane County 50% of HAMFI ~$40,000-50,000.

Demand for this segment is also defined by the preference for rental rather than ownership. For this population, demand factors are strongly influenced by impediments to ownership including downpayment and credit requirements. (cite IBER)

DEMOGRAPHICS

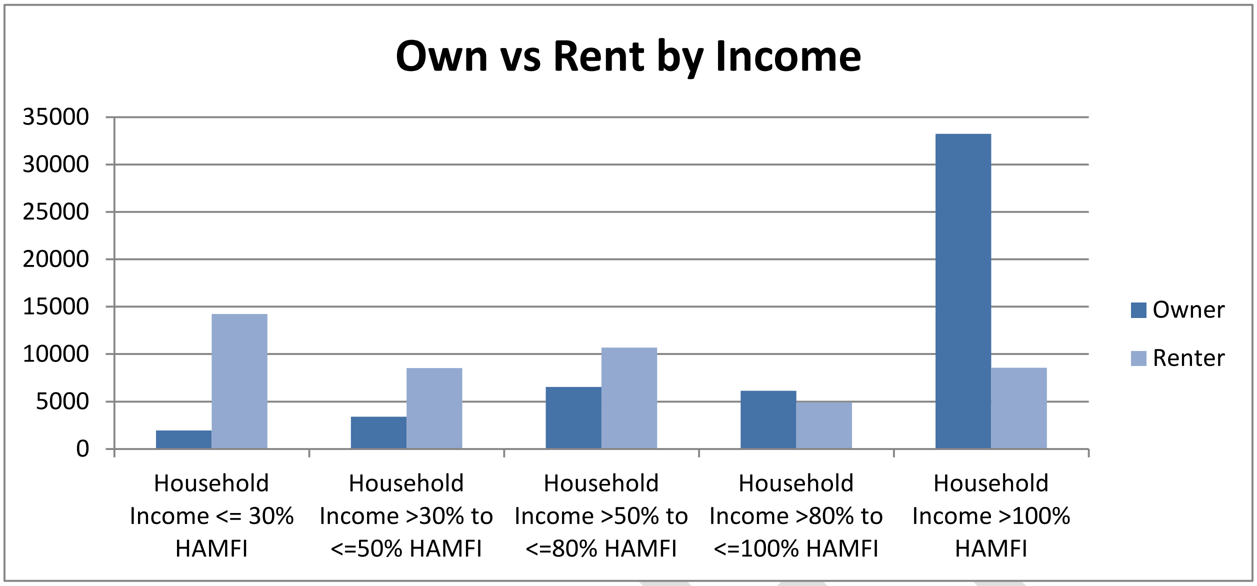
Since 2007, the City of Madison has added approximately:

- 23,000 new residents
- 10,000 new households
- 3,000 households with incomes below $25,000 (~30% of HAMFI)
- 6,000 households with incomes above $75,000 (~100 of HAMFI)



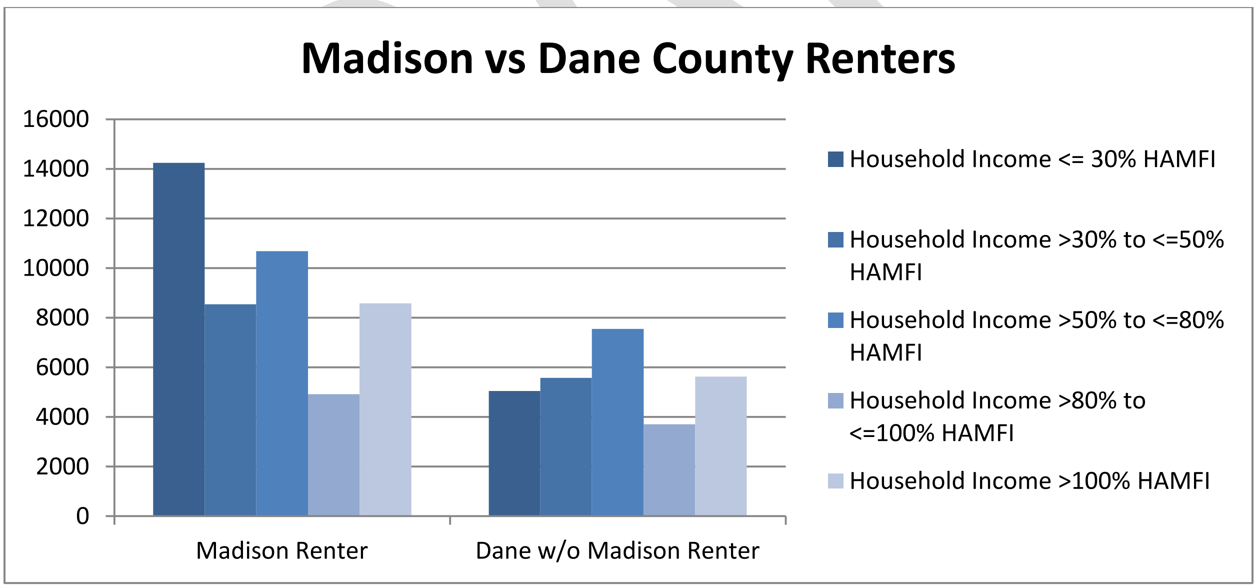
Source: 2012 3-Year American Community Survey

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



Source: 2006-2010 CHAS – HUD

The income pattern of renters in Madison is virtually identical to that of Dane County, with the largest block at 50-80% of HAMFI. (When students are removed)



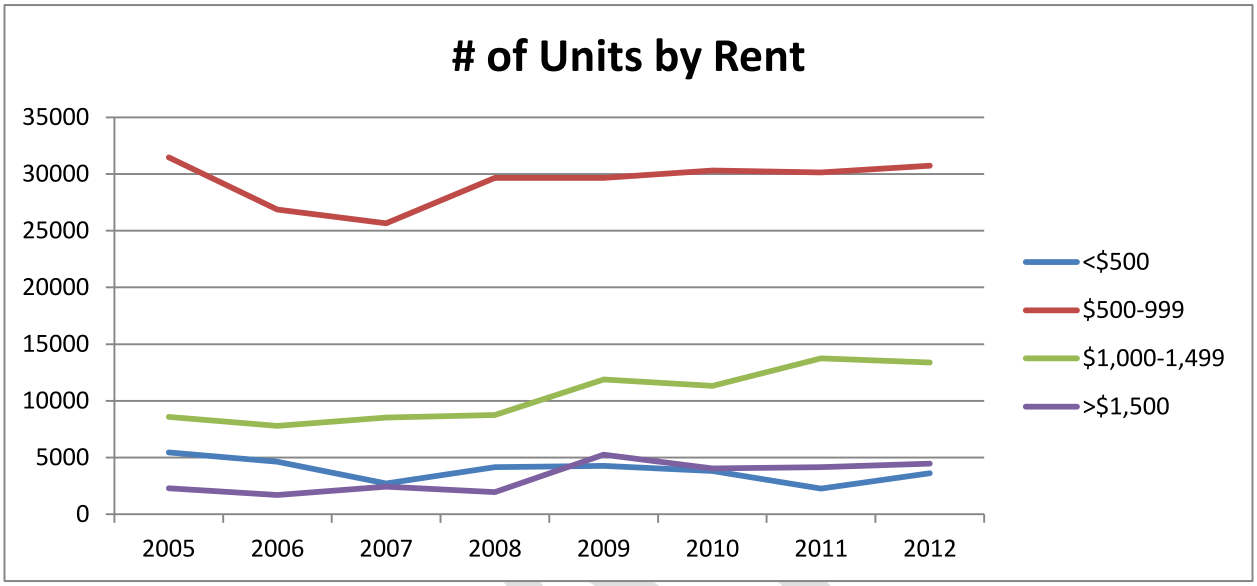
Source: 2006-2010 CHAS - HUD

TRENDS

- Is the population growing?
  - Recession related increase in extremely/very low income households 2007-2010, has reverted to 2005 levels
  - Largely stabilized levels
- Preferences?
  - Possible shift from ownership to rental for this market leading to increased demand
- Household formation?
  - Decrease in household formation since 2007 despite increased population indicating doubling up
  - Possible shadow demand from lack of household formation
- Change in is who is renting?

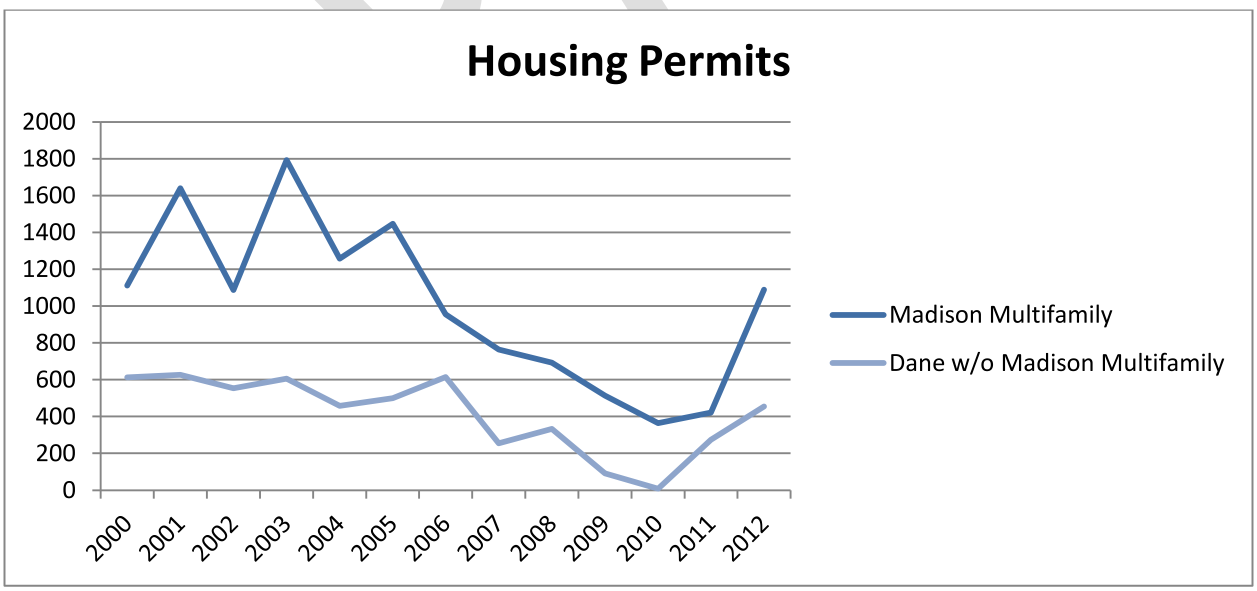
SUPPLY

A household with income of 50% of HAMFI can afford rent of roughly $1,000 per month and a household at 30% of HAMFI can only afford $600 per month. Since 2007, v**irtually all increase in supply has been in units affordable to households making more than 50% of HAMFI.**



Source: 1 Year American Community Survey

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

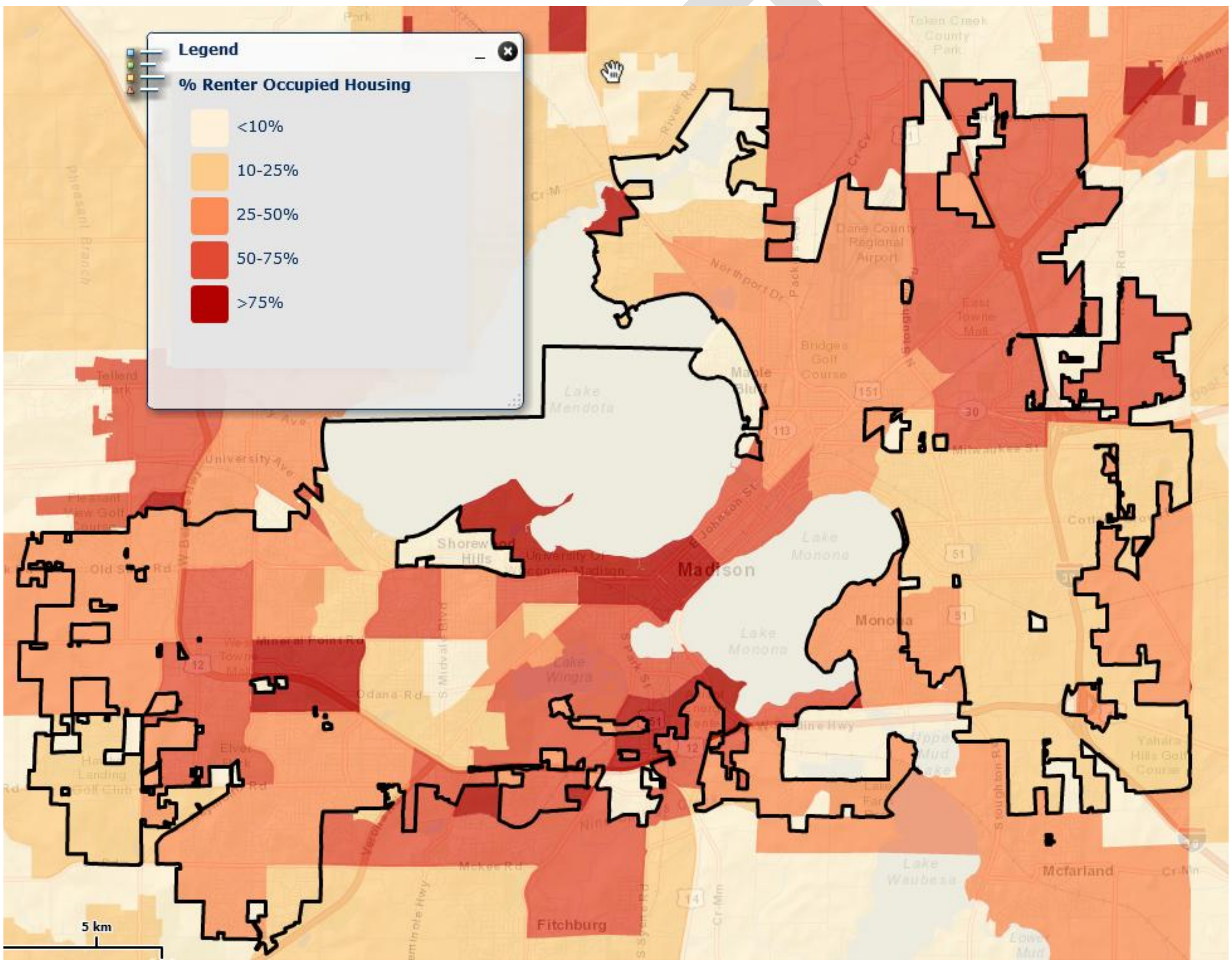
The City of Madison saw a significant increase in multifamily rental units in 2013 with:

- 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 rental rate.

- Who builds/operates it?

LOCATION



Source: HUD CPD Maps

MAP housing by median rent

RECENT ADDITIONS

Map/Case studies

FINANCE/FUNDING

NATIONAL

The majority of funding for low-income rental 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, they are typically financed with relatively high levels of equity rather than debt. New supply is funded by a combination of debt, investor equity and:

- 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
- Subsidized Debt
    - Freddie Mac/WHEDA
- 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 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 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

OPERATIONS & RENT SUBSIDY

Because tenants have lower income and therefore reduced ability to pay, rents are often locked at lower than market rates when there are subsidized capital funding sources or rents can be directly subsidized.

- 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 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

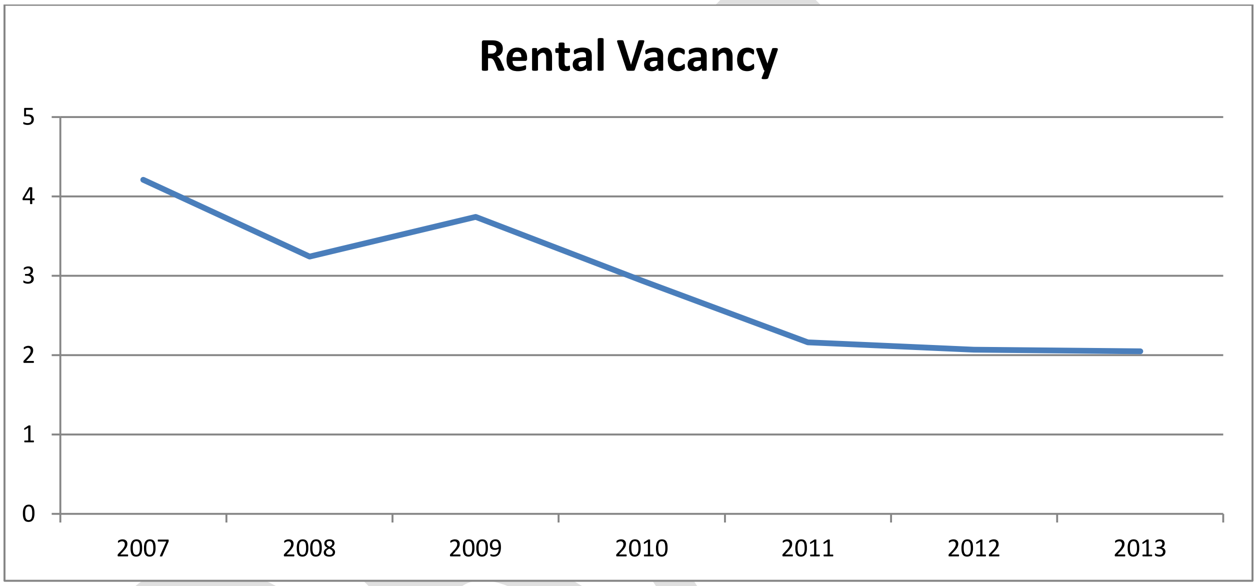
- Affordable Housing Trust Fund
    - City of Madison funded endowment for the creation of affordable rental and owner-occupied housing administered by the Community Development Division
    - Balance of over $3 million with disbursements limited to 25% of the balance
    - Provides installment loans 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

CHALLENGES

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.

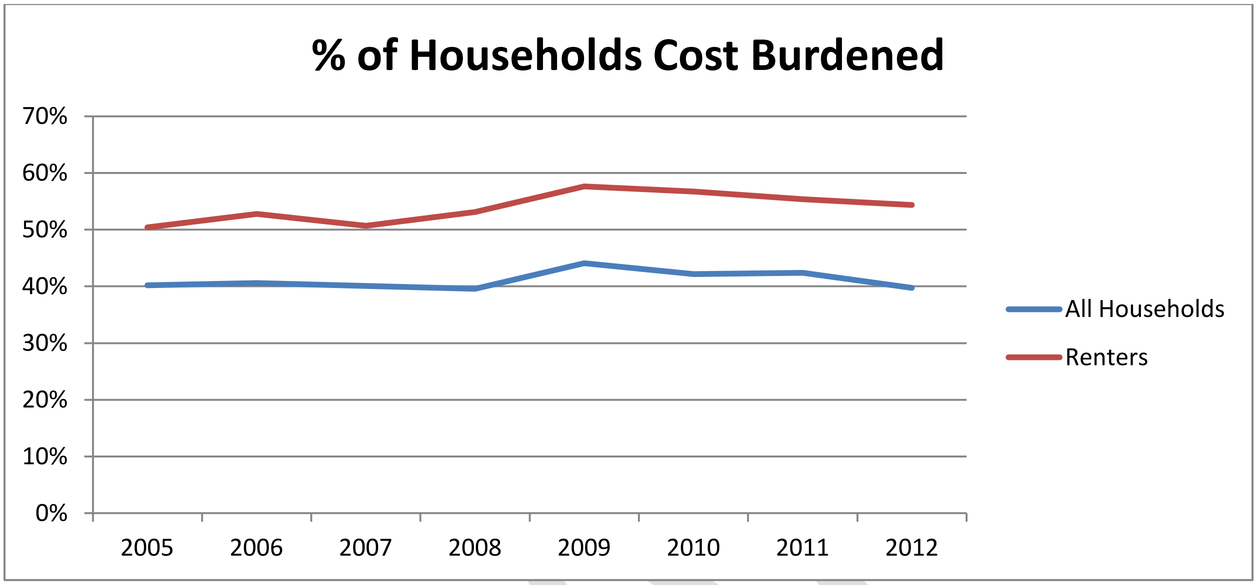
VACANCY

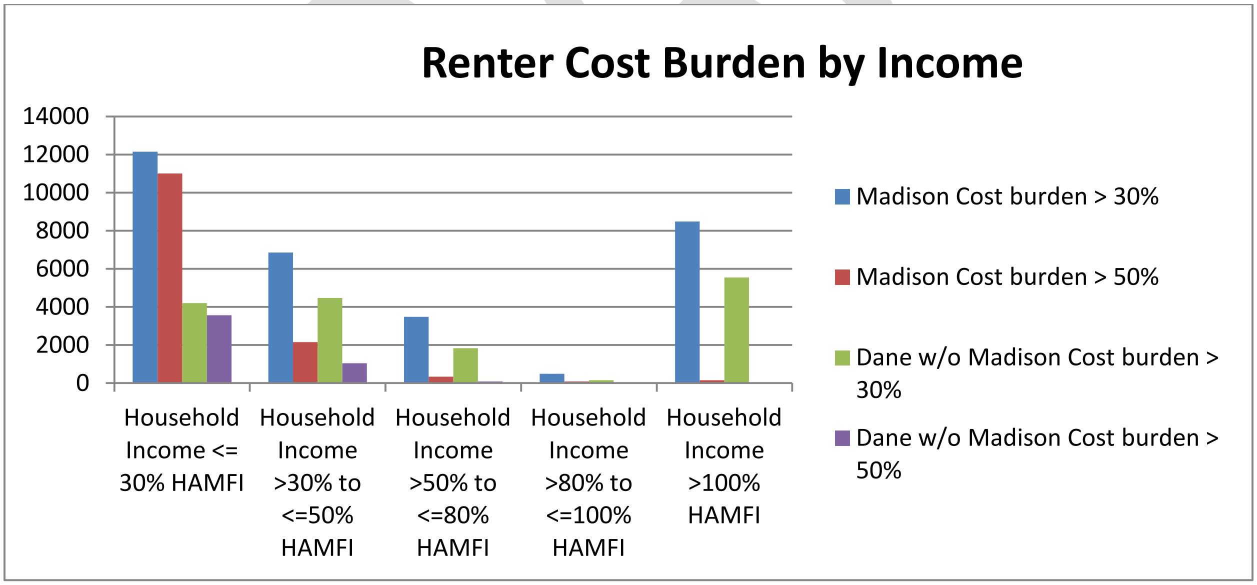
Vacancy in the Madison rental market has been at or near historic lows for a number of years, implying that **the market is undersupplied.**



HOUSING COST BURDEN

The percentage of cost burdened renters has held relatively steady since 2005 with **a slight majority or renters paying more than 30% of household income in rent**. Rent burden is particularly prevalent amongst renters with income of less than 50% of HAMFI. Moreover, **households with income of less than 30% of HAMFI often pay more than 50% of household income in rent.**





SOLUTIONS

LOCAL PLANS

- What are we doing in Madison?
  - Supply Increases
    - 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
  - TIF Policy Changes
  - CDBG
  - CDA

NATIONAL MODELS

- Increase Supply
  - Generic Increase to Reduce Vacancy/Prices
    - Reduce land use restrictions (historic preservation, height restrictions, density restrictions, zoning)
      - Consistent economic theory, mixed empirical results (endogeneity)
      - Glaeser, Malpezzi, Wachter studies
  - Specific Increase of Low Rent Units
    - Section 42/subsidy
    - Inclusionary zoning
    - Reduce Fees
    - Fast-track permitting
    - Geographic Targeting
    - Vancouver Model
  - Reduce Housing Costs
    - Reduce Property Taxes
    - Rent Subsidy
- Reduce Demand
  - Increase Incomes
  - Move people to homeownership

PRIORITIES

- Increase supply of low rent units
  - Permanent funding source for Affordable Housing Trust Fund
    - Dedicate a portion to low-income rental
  - Create a cheaper/fast process for low-income rental developments
    - Density bonus
    - Waved fees
    - TIF Priority/ Relaxed Underwriting
  - Align funding
    - Coordinated timelines
    - Coordinated process
    - Coordinated funding programs