

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.

1. Information
2. Neighborhood Redevelopment
3. Development Process
4. Financing
5. Quality Control

DRAFT

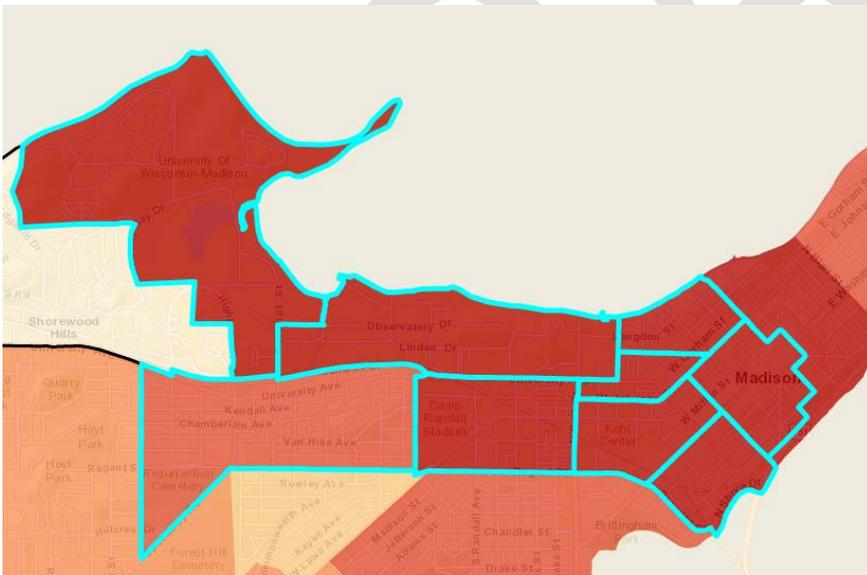
OVERVIEW

Where is the population growing the fastest and what kinds of housing types are growing fastest? Knowing where population growth is taking place is essential for projecting demand for infrastructure and public services. It can also be a window 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 has been tangled up in the housing bubble and its aftermath. The housing bubble fueled single family and condo construction and population growth on the city fringe and beyond, while the rental market actually shrunk. After the bubble burst, the number of renter households exploded, though the construction market was slow to respond. In the post-bubble years (2007-2013), renter growth accelerated while owner-occupied growth slowed dramatically compared with the bubble and its run-up (2000-2007). This lends support to the view that we are seeing a permanent shift toward more rental housing.

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.** In response to this undersupply of residential rental housing, **the market has seen rents rise and vacancy rates fall.** These market conditions have led to a boom in production to fill the market need.

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. 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

- 12,000 Households
- 10,700 are renters
- 8,000 make less than 30% of AMI
- **6,500 are housing cost burdened renter making less than 50% of AMI**

← Likely Students

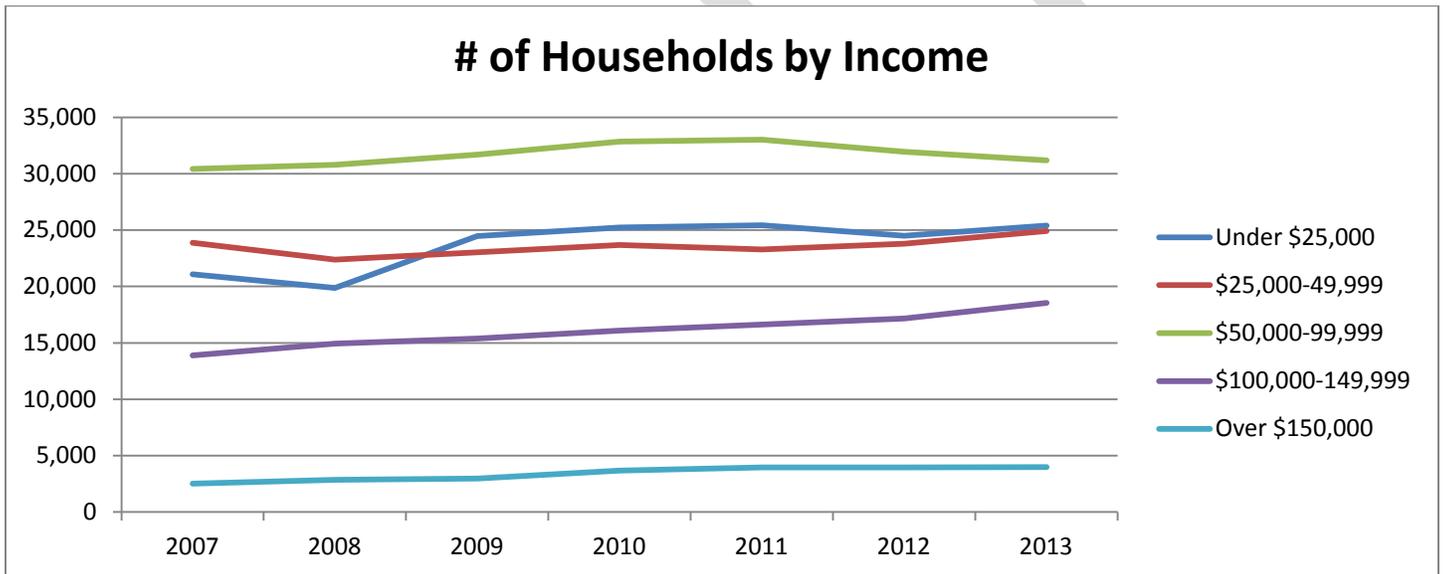
DEMAND

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 preference for rental rather than ownership rather than strictly affordability factors. For this population, demand factors are also influenced by impediments to ownership including down payment and credit requirements.

DEMOGRAPHICS

Since 2007, the City of Madison has added approximately:

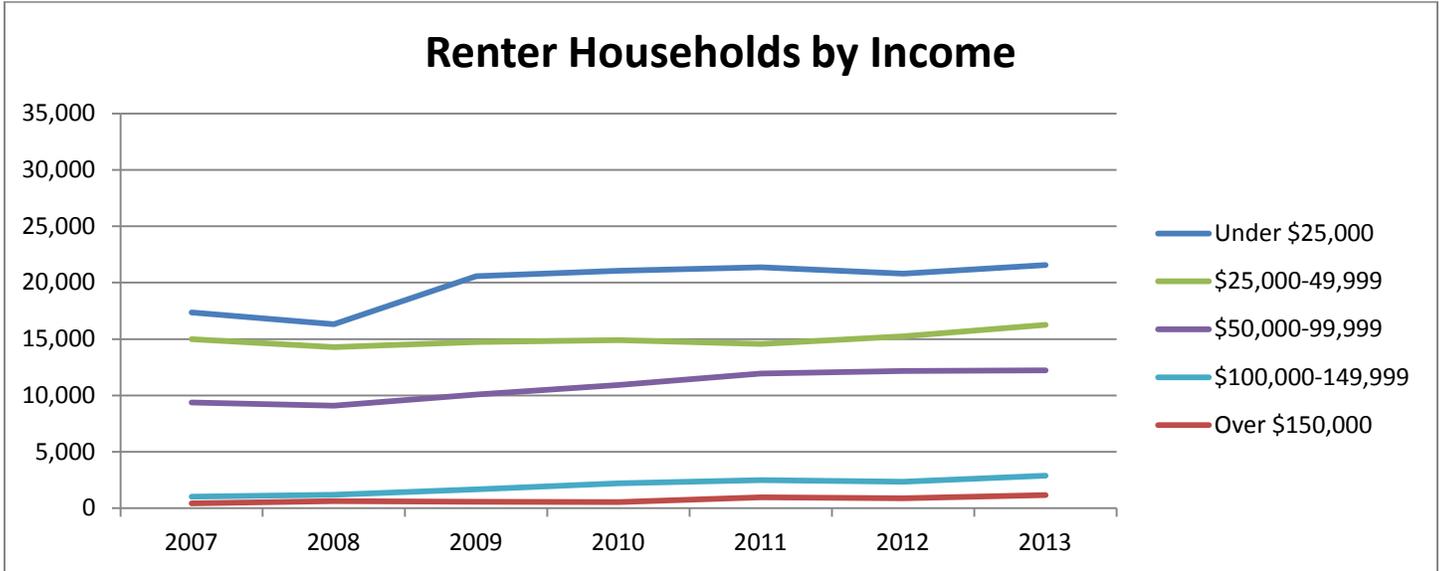
- 12,200 new households
- 4,300 households with incomes below \$25,000 (~40% of Median Household Income)
- 1,000 households with incomes below \$50,000 (~120% of Median Household Income)
- 800 households with incomes below \$100,000 (~160% of Median Household Income)
- 2,700 households with incomes below \$150,000 (~240% of Median Household Income)
- 3,400 households with incomes Above \$150,000 (~240% of Median Household Income)



Source: 2013 3-Year American Community Survey

Household Growth Rate 2007-2013

	Average Annual Growth Rate	Total
Total Population	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%



Source: 3-year American Community Survey

The income pattern of renter household in the City of Madison shows strong growth at all income levels.

Since 2007, the City of Madison has added approximately:

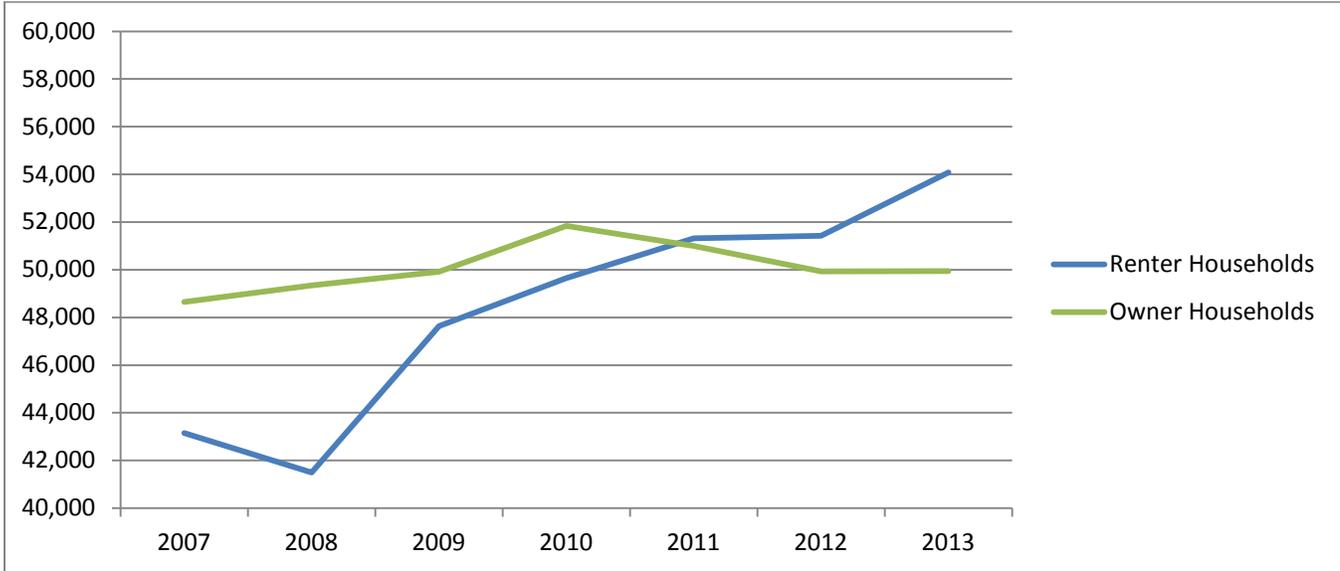
- 11,000 new renter households
- 4,200 households with incomes below \$25,000 (~40% of Median Household Income)
- 1,300 households with incomes below \$50,000 (~120% of Median Household Income)
- 2,900 households with incomes below \$100,000 (~160% of Median Household Income)
- 1,900 households with incomes below \$150,000 (~240% of Median Household Income)
- 700 households with incomes Above \$150,000 (~240% of Median Household Income)

The rental market has absorbed almost 90% of households added to the city since 2007.

While in absolute numbers households with income under \$25,000 grew the most, the rate of growth was significantly among higher income households. This indicates that preferences for rental housing are quickly changing for higher income households.

Renter Growth Rate 2007-2013

	Average Annual Growth Rate	Total Growth
Total Population	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%



This growth in renters as a portion of our housing market is best illustrated with time series data, which show that **Madison became a majority renter community in 2011.**

Source: 3-year American Community Survey

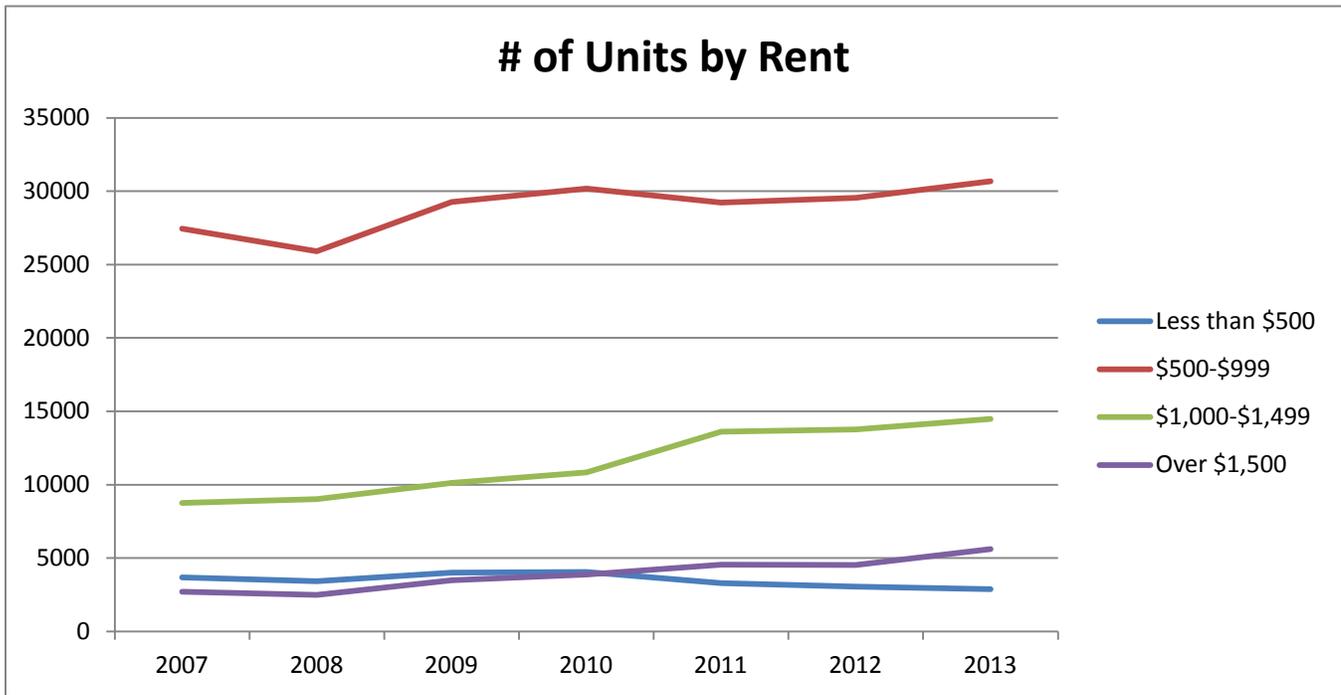
TRENDS

- Demand for rental housing is growing rapidly, outpacing homeownership
- Demand for rental housing is growing at all income levels
- Upper middle class households (Over \$100,000) are the fastest growing population and they account for half of household growth
- Upper middle class households (Over \$100,000) are the fastest growing group of renters and they account for ¼ of household growth

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.

RENTS

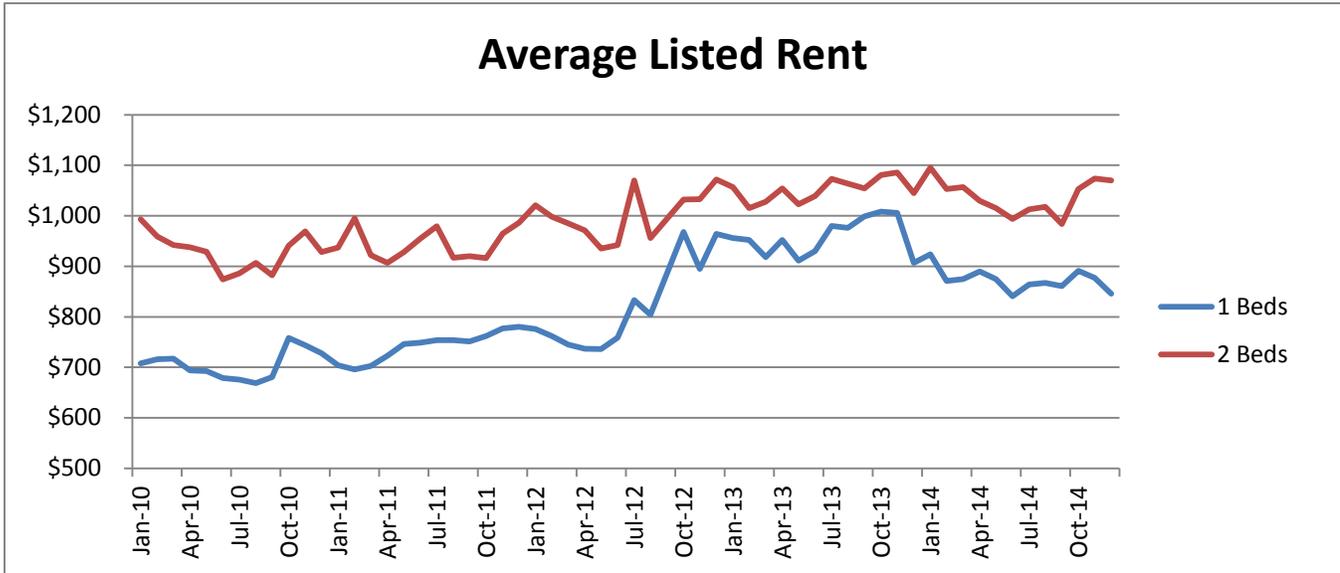


Source: 3 Year American Community Survey

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%

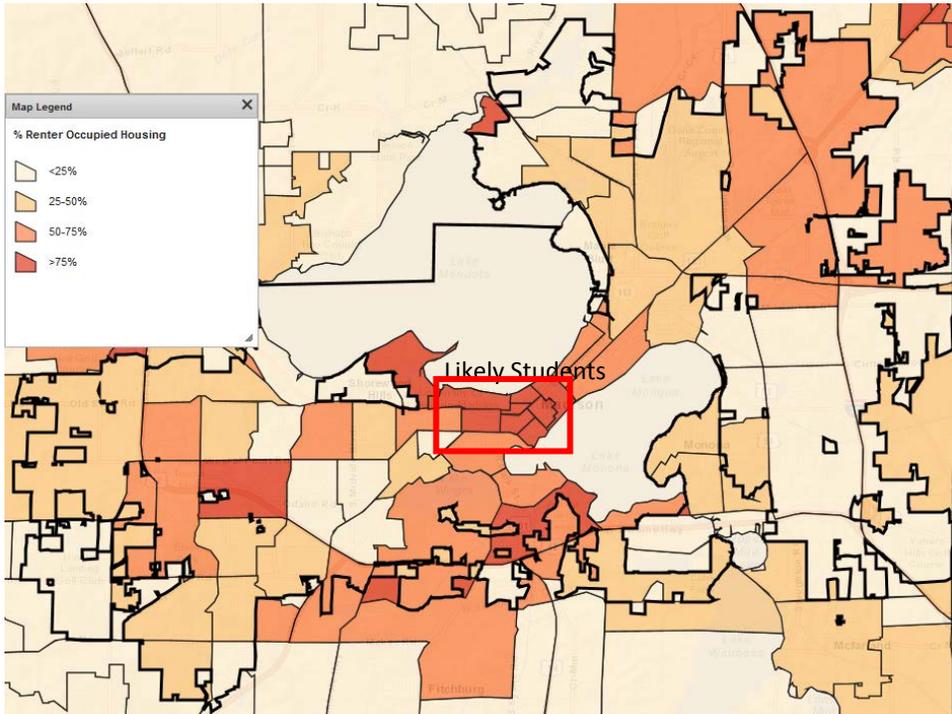
According to data from rentjungle.com, an aggregator of online rental listings, market rents for one and two bedroom apartments increased dramatically from mid-2012 through the end of 2013, but appear to have stabilized and dropped slightly in 2014. This increase and drop was especially apparent in the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

LOCATION

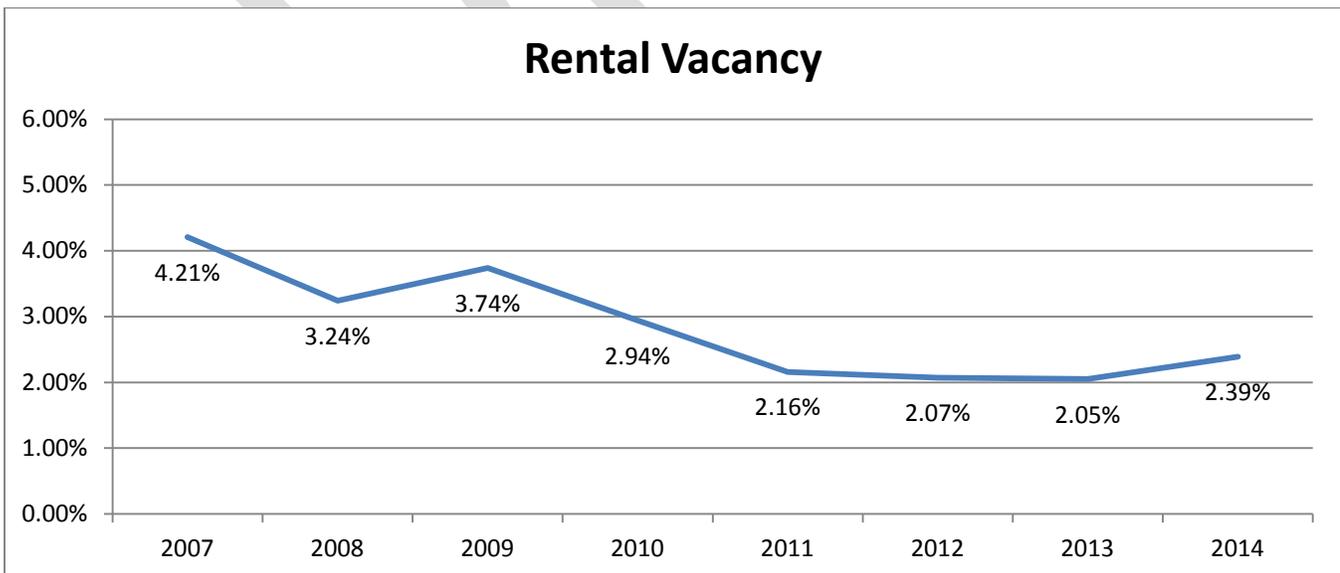
In the City of Madison, rental housing is concentrated in the downtown core, campus, south side, north east, and west sides of the city.



Source: HUD CPD Maps

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. 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%.

Rental Vacancy Rates by ZIP Code

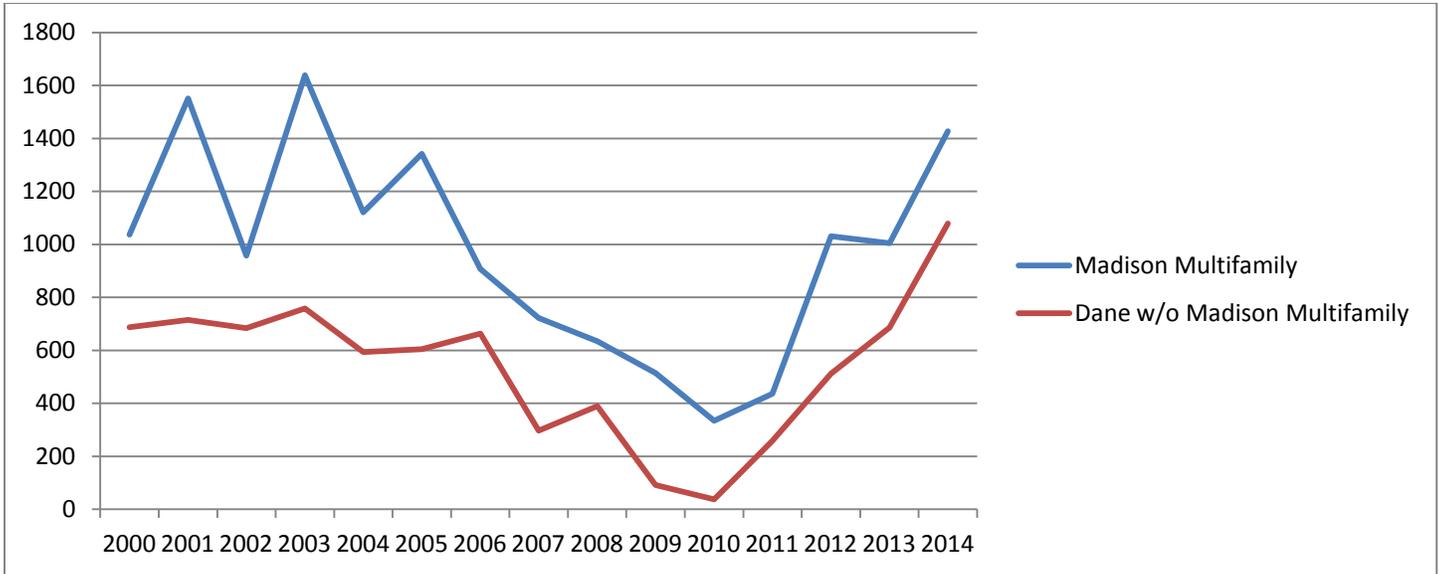
City	ZIP Code	Total Rental Units	Vacant Units	Vacancy Rate
Madison	53703	11,972	245	2.0%
Madison	53704	8,308	159	1.9%
Madison	53705	5,711	221	3.9%
Madison/Fitchburg	53711	6,281	121	1.9%
Madison	53713	6,569	213	3.2%
Madison	53714	2,046	83	4.1%
Madison	53715	3,021	120	4.0%
Madison/Monona	53716	1,754	59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

*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 2013, permits were pulled for only 4,675 multifamily units in Madison despite adding over 11,000 renter households in the same time 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

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

*Update data

Insert Map of new construction

FINANCE/FUNDING

NATIONAL

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

CONSTRUCTION/REHAB

- 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

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

CHALLENGES

The supply of rental units and the demand for these units does not align.

RISING CONSTRUCTION COSTS

PARKING/TRANSPORTATION

SOLUTIONS

LOCAL

NATIONAL MODELS

INFORMATION

- Monthly/Quarterly Economic Indicators
 - Ex MetroDenver

NEIGHBORHOOD REDEVELOPMENT

- Development Zones
- Land Banking

DEVELOPMENT PROCESS

- Developer Liaison
- Reduce/Eliminate Parking Requirements
- Expedited permitting or land use approval

FINANCING

- Bonding
- TIF
- Municipal Real Estate Development Funds
- Crowdfunding
- REITs

QUALITY CONTROL

- Landlord licensing
- Building Inspection Database