

2015 CITY OF MADISON

HOUSING REPORT

MARKET RATE RENTAL

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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:

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)

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	

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 than 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.

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.

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.

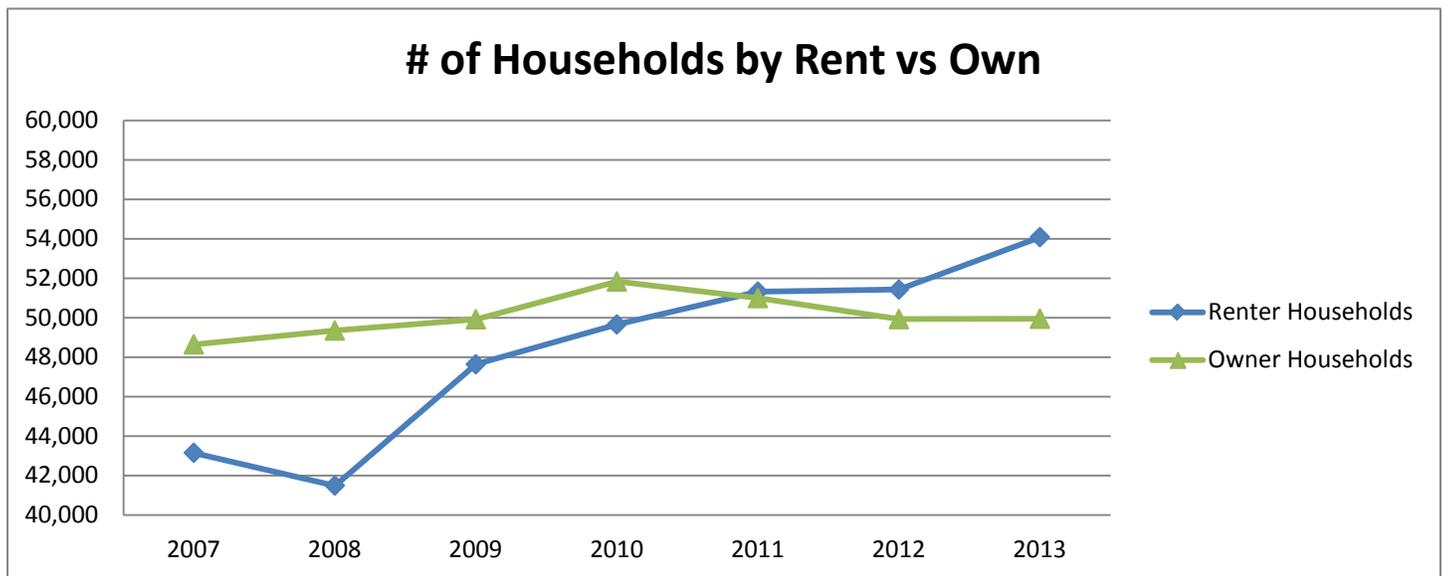
MARKET RATE RENTAL - DEMAND

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

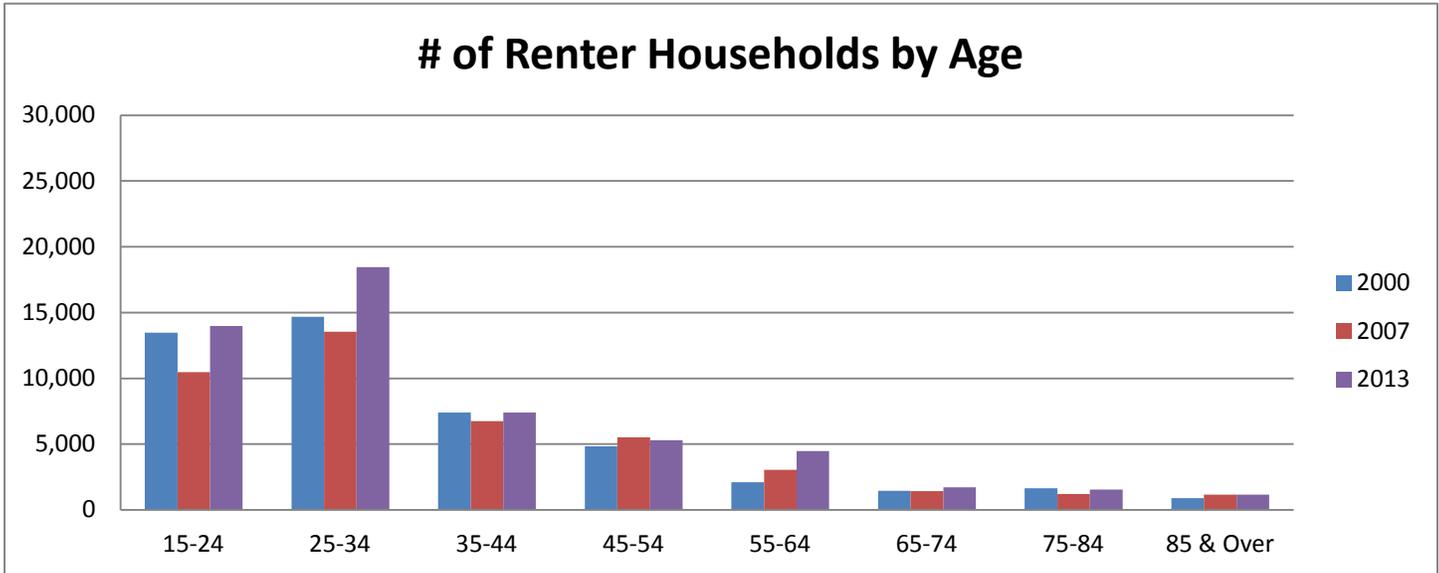
Prior to the recession, the City of Madison saw modest population growth in line with historic averages driven primarily by owner households and relatively large household sizes (more than two people) while the rental market was shrinking. **After the recession, Madison's population growth shifted into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



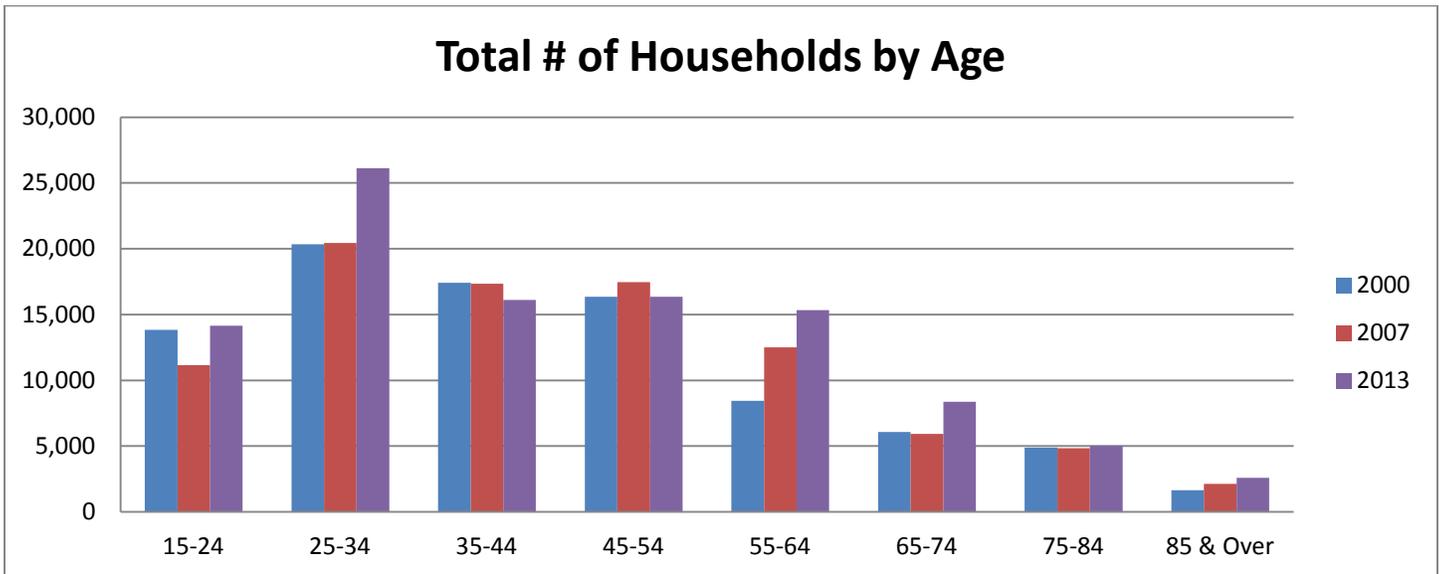
Source: 3-year American Community Survey

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



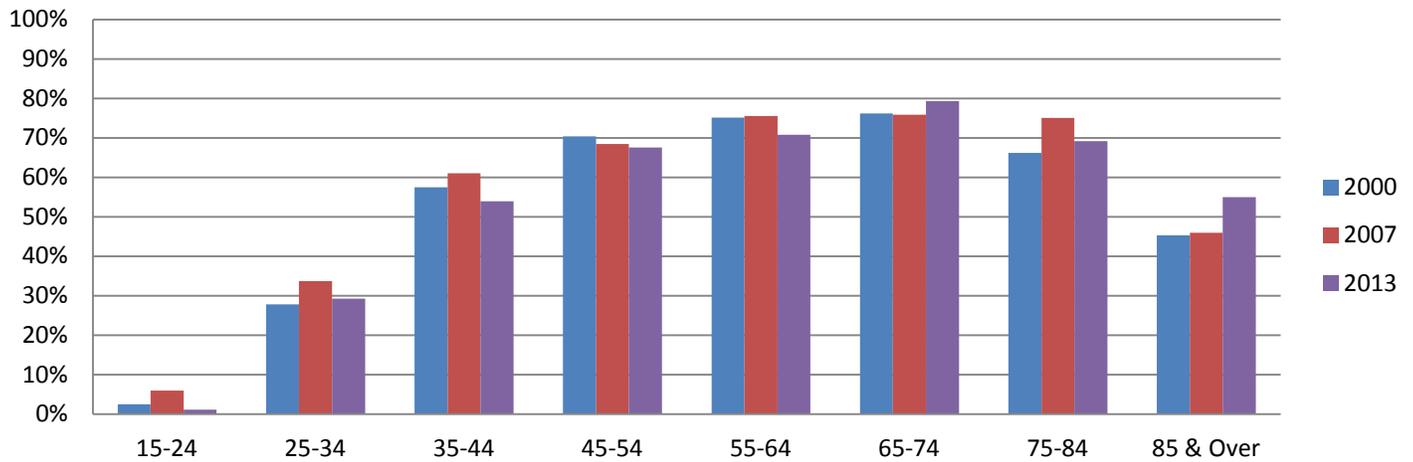
Source: 2000 Decennial Census, 3-year American Community Survey

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

Ownership Rate by Age



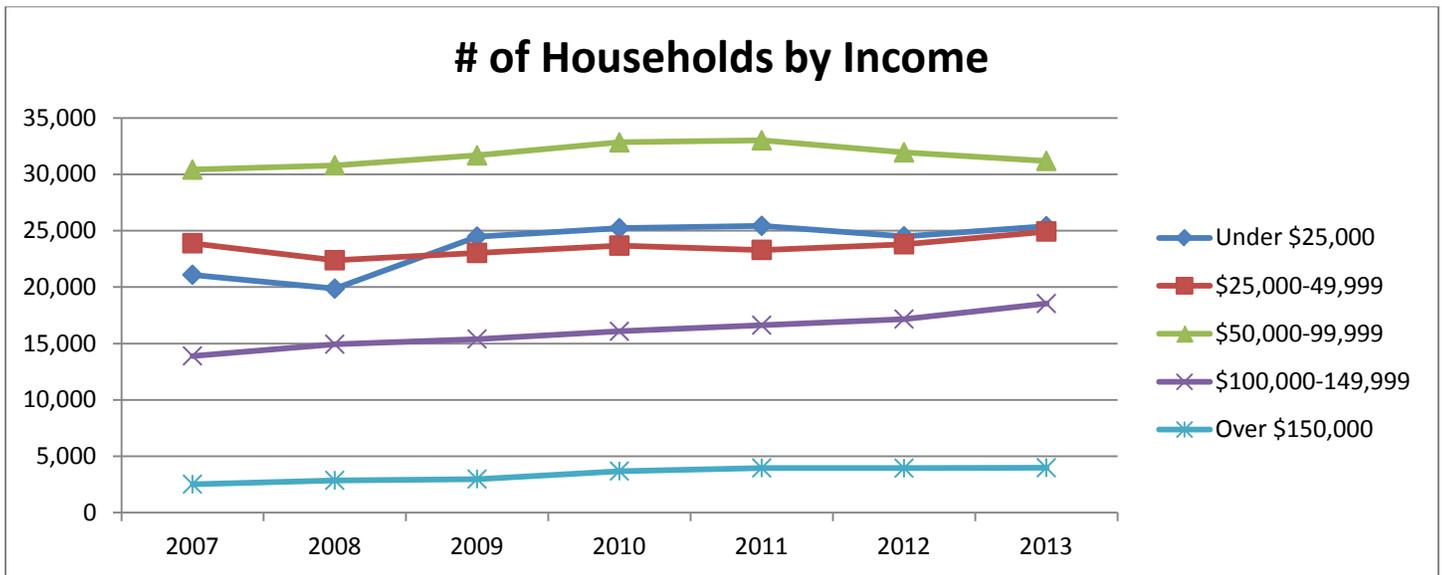
Source: 2000 Decennial Census, 3-year American Community Survey

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

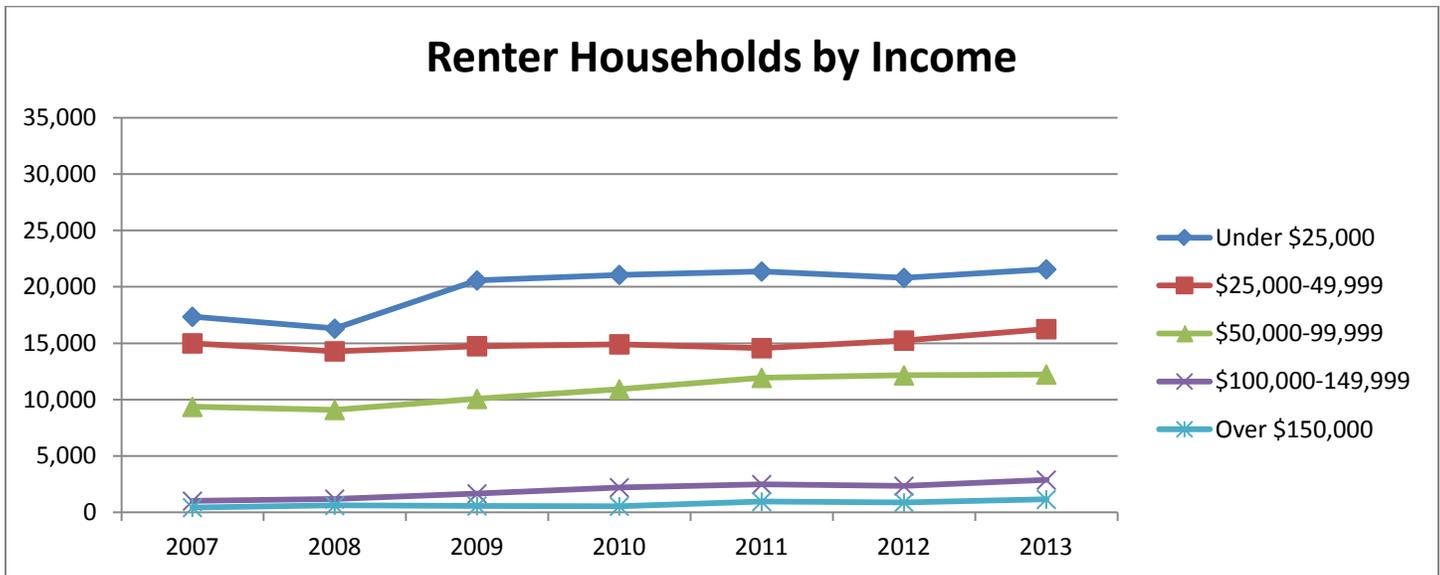
	Average Annual Growth Rate	Total Growth
Total Households	2%	13%
Under \$25,000	3%	20%
\$25,000-49,999	1%	4%
\$50,000-99,999	0.4%	3%
\$100,000-149,999	4%	24%
Over \$150,000	8%	61%

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

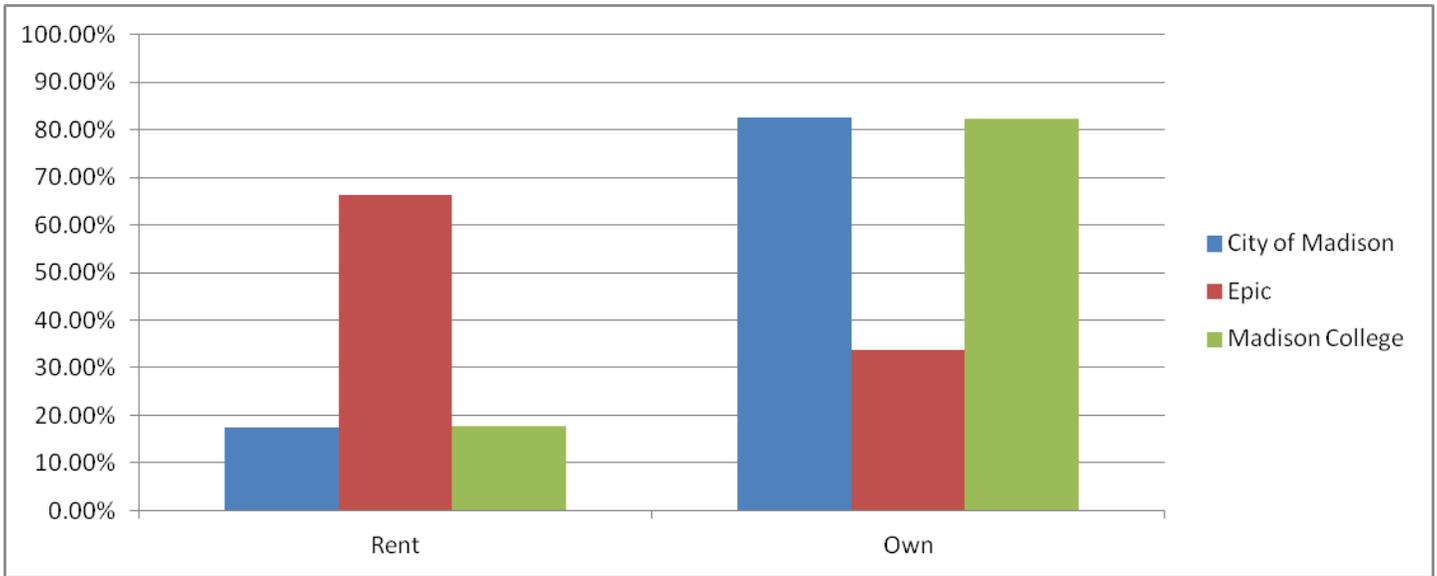
Renter Growth Rate 2007-2013

	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

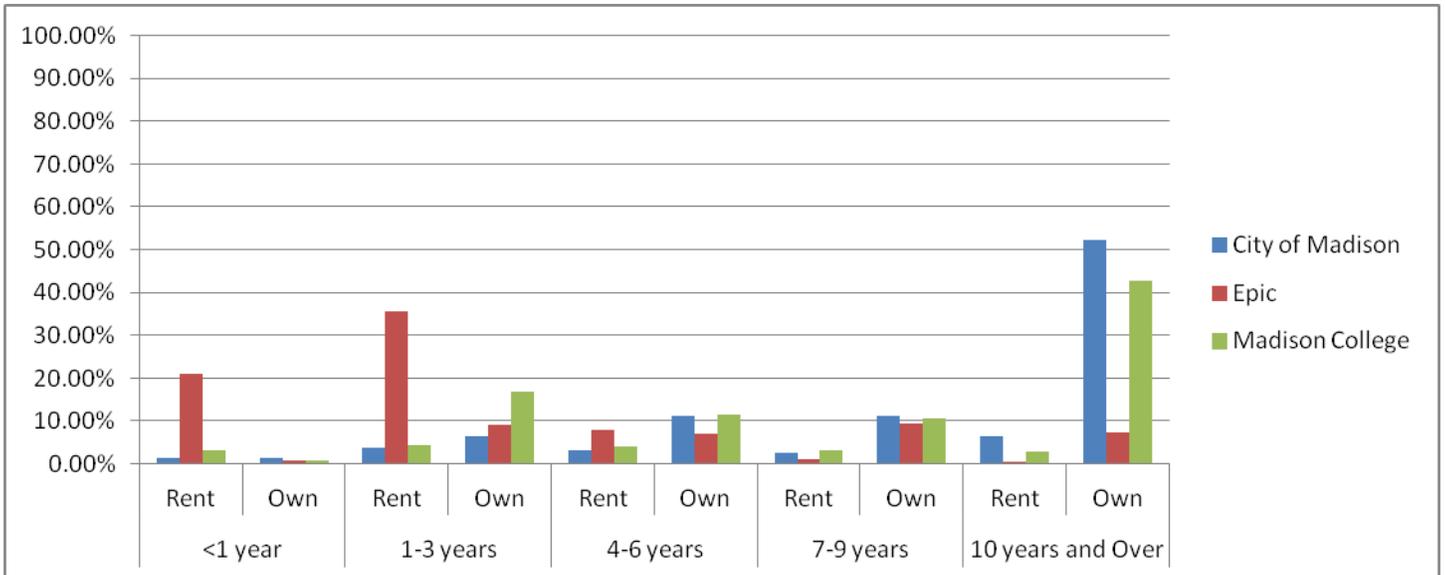
Combining all of the trends in the data, it is clear that **the surge in demand from 25-34 year olds and households with higher incomes are the major drivers of the current boom in the rental market, which is supported by interviews with developers.** To better understand this demand, the City of Madison 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

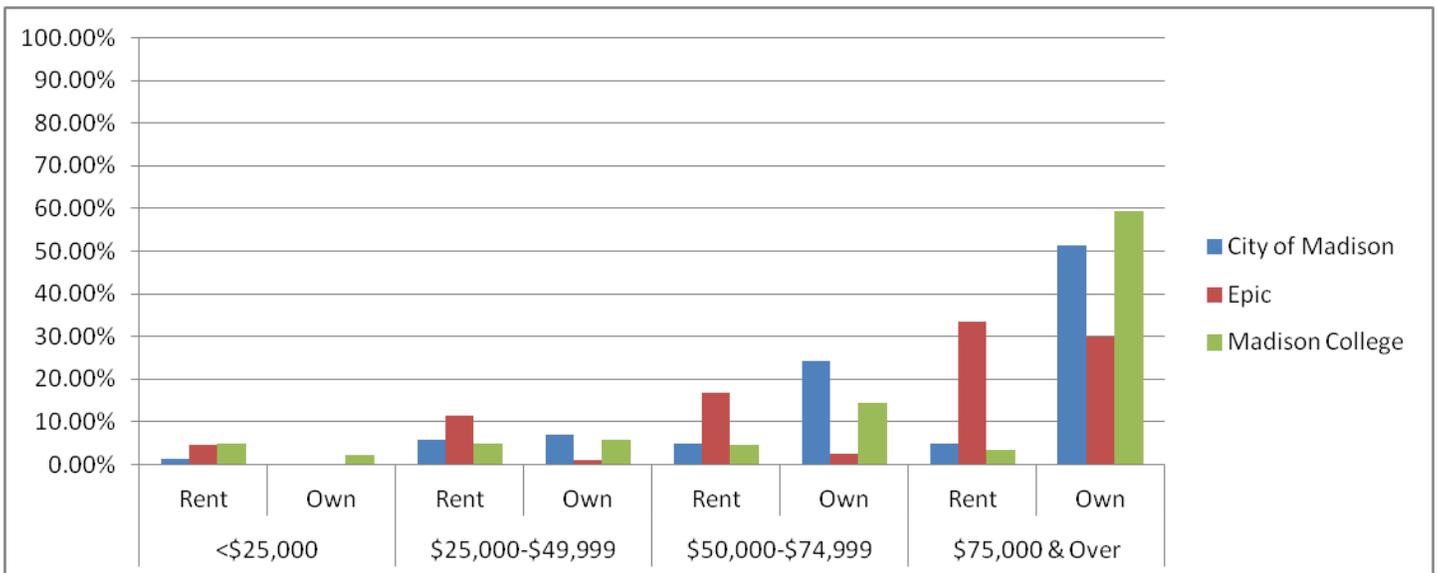
RENT VS OWN BY LENGTH OF EMPLOYMENT



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.

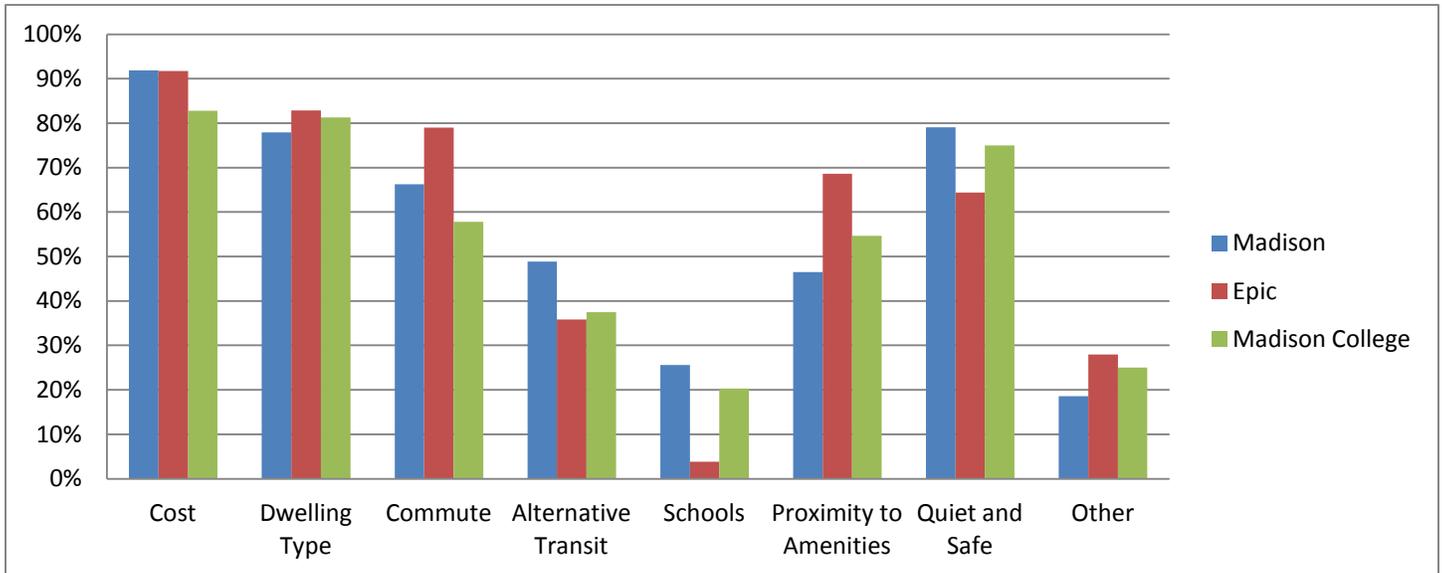
RENT VS OWN BY INCOME



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

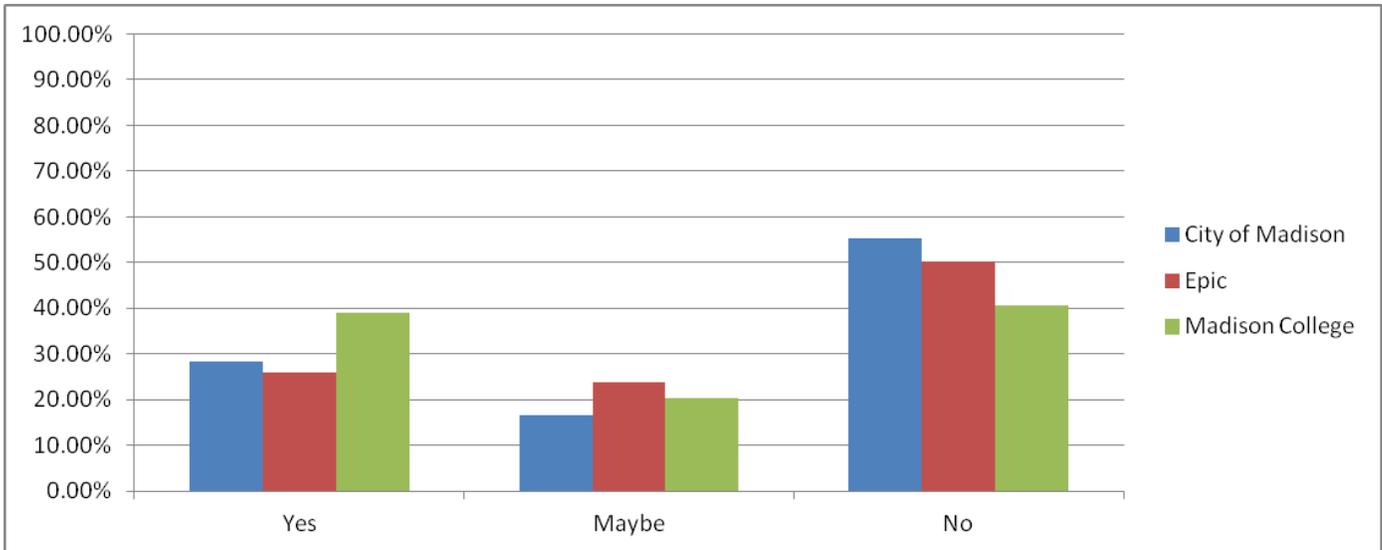


Source: 2014 City of Madison Housing Survey

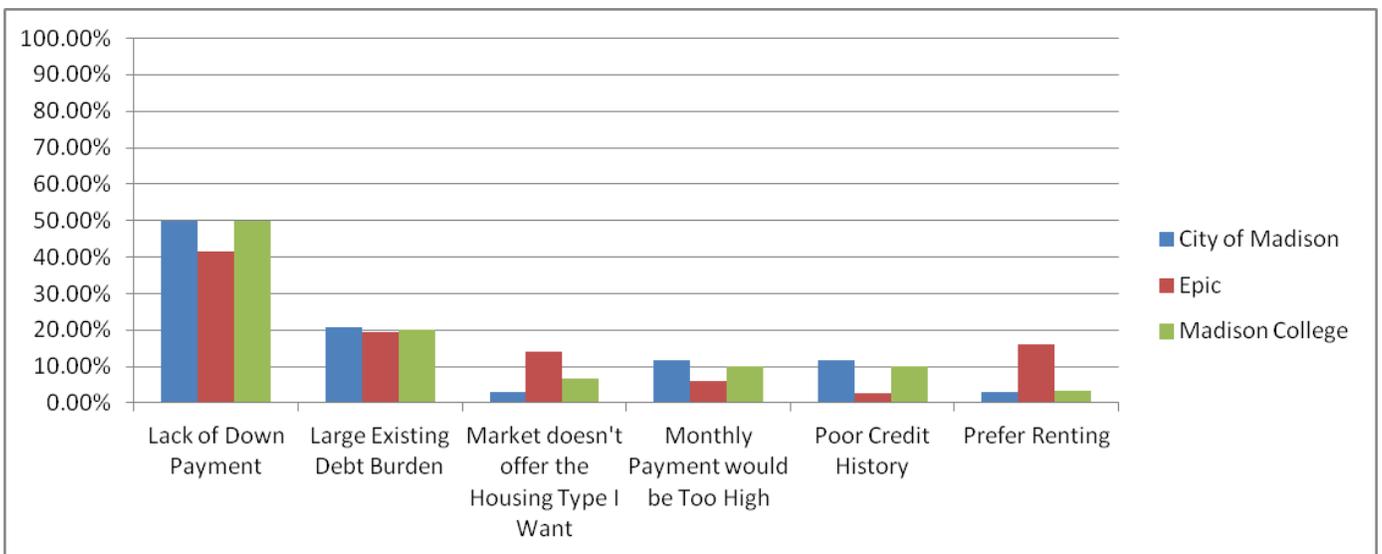
When asked why renters live where they do a few clear trends emerged:

- 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

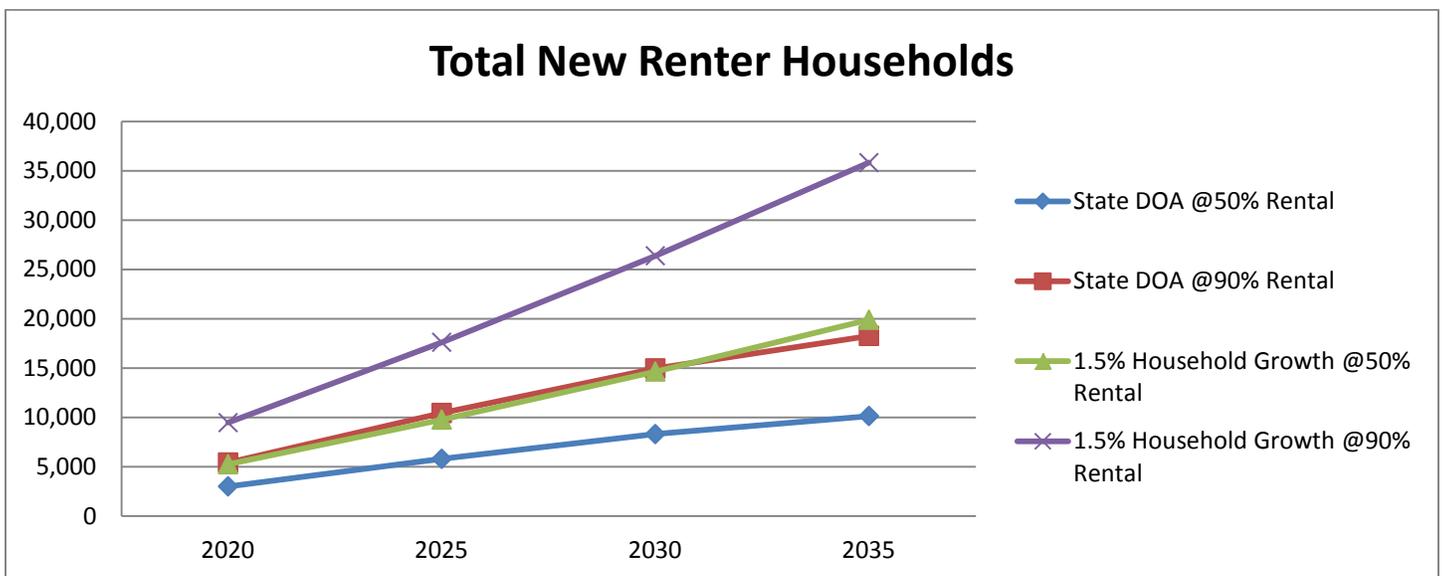
These data support the argument that it is not simply cost that is preventing renters from purchasing. Instead, there are number of factors that lead to renters not being ready at this point in their lives and careers to make a financial and personal commitment to ownership.

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

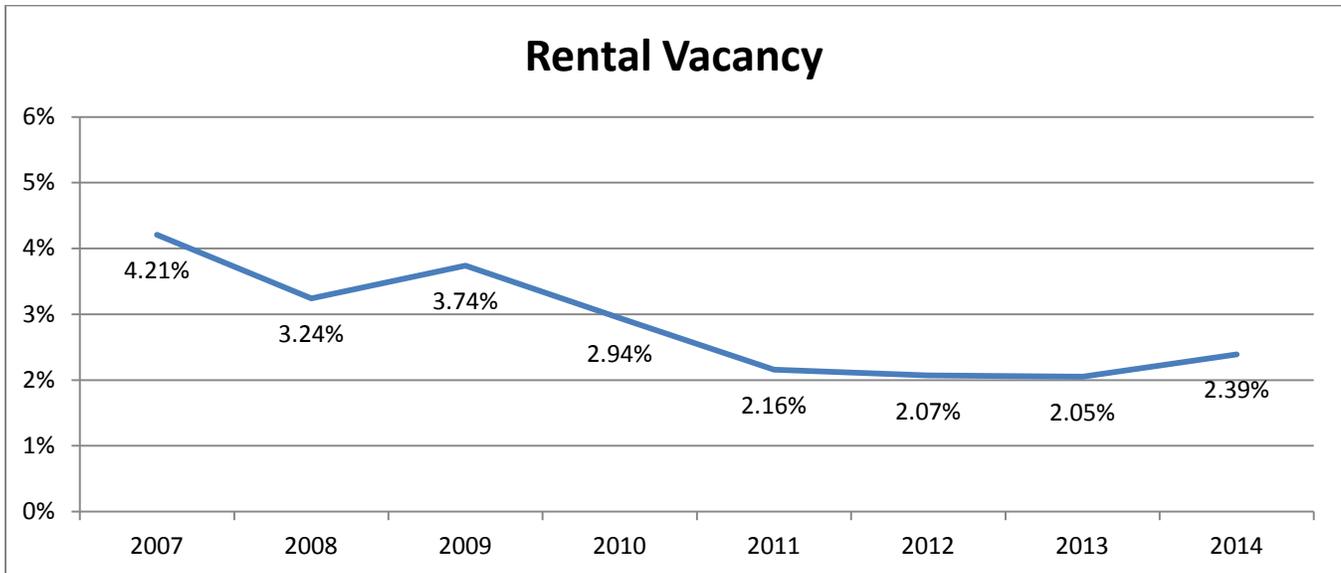
- **Demand for rental housing is being driven by four main factors:**
 - **Population growth and household growth has increased more rapidly 2007-2013 compared to 2000-2007**
 - **Household growth is occurring primarily in the 25-34 age cohort (too early in career to commit to ownership and have the 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.



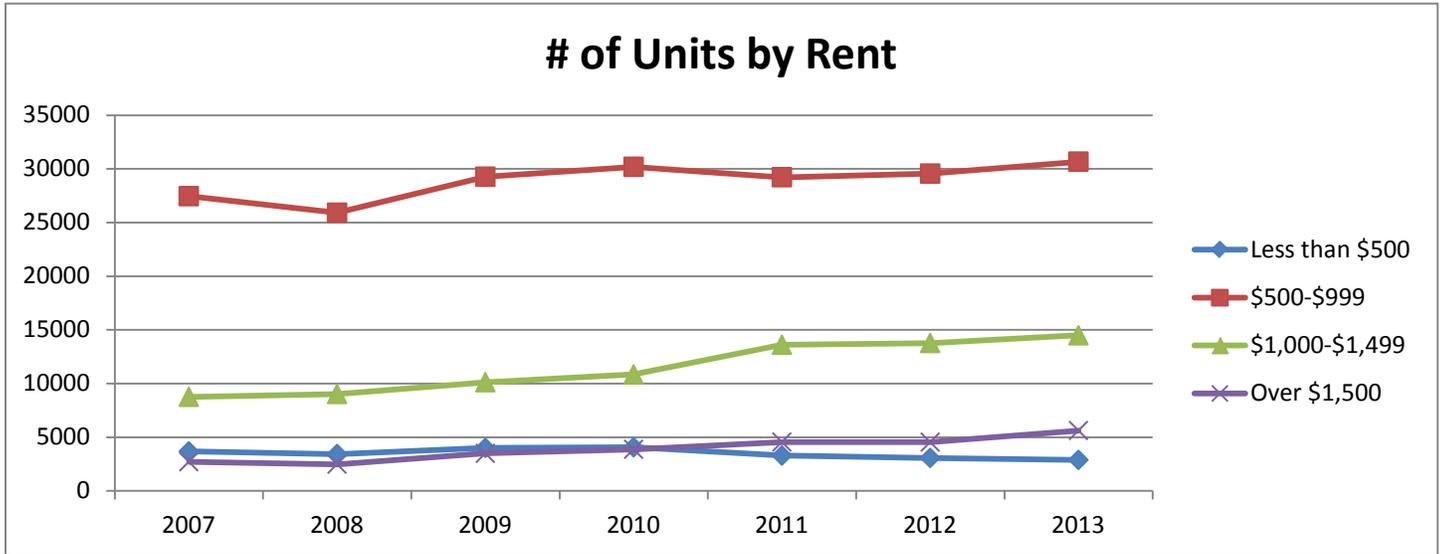
Vacancy is not evenly dispersed in the Madison market with some zip codes reporting virtually no vacancy while others reach 4% (still below the 5% target rate for a healthy market).

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

RENTS

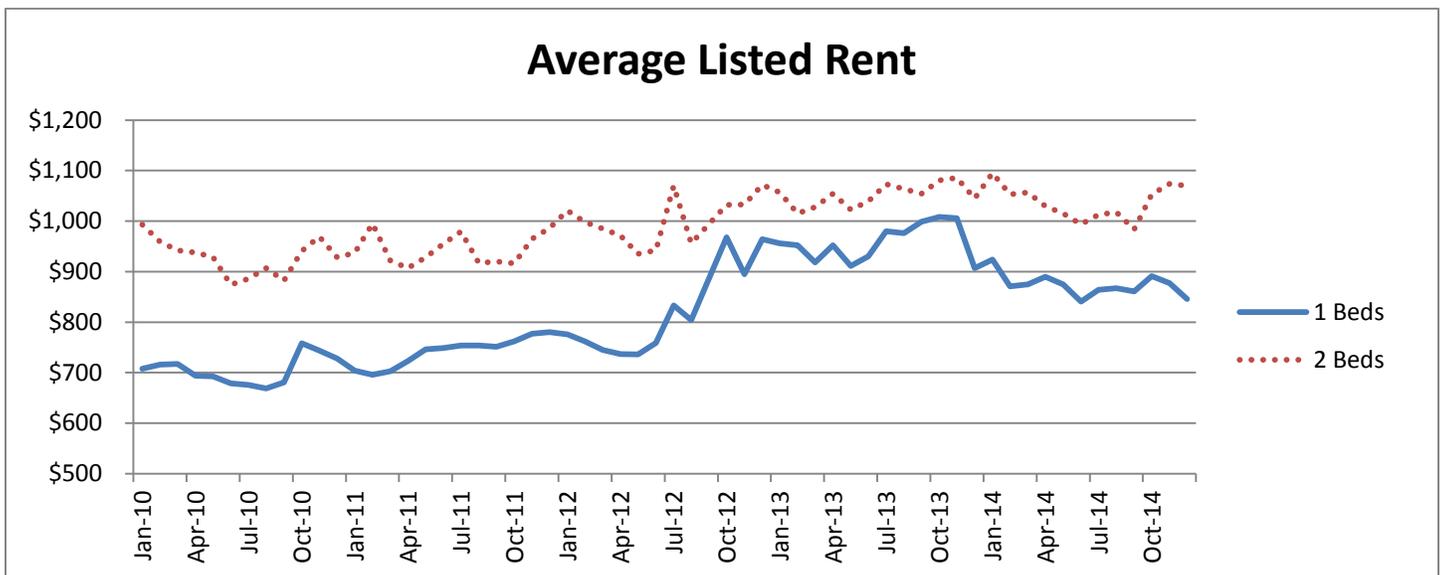


Source: 3 Year American Community Survey

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%

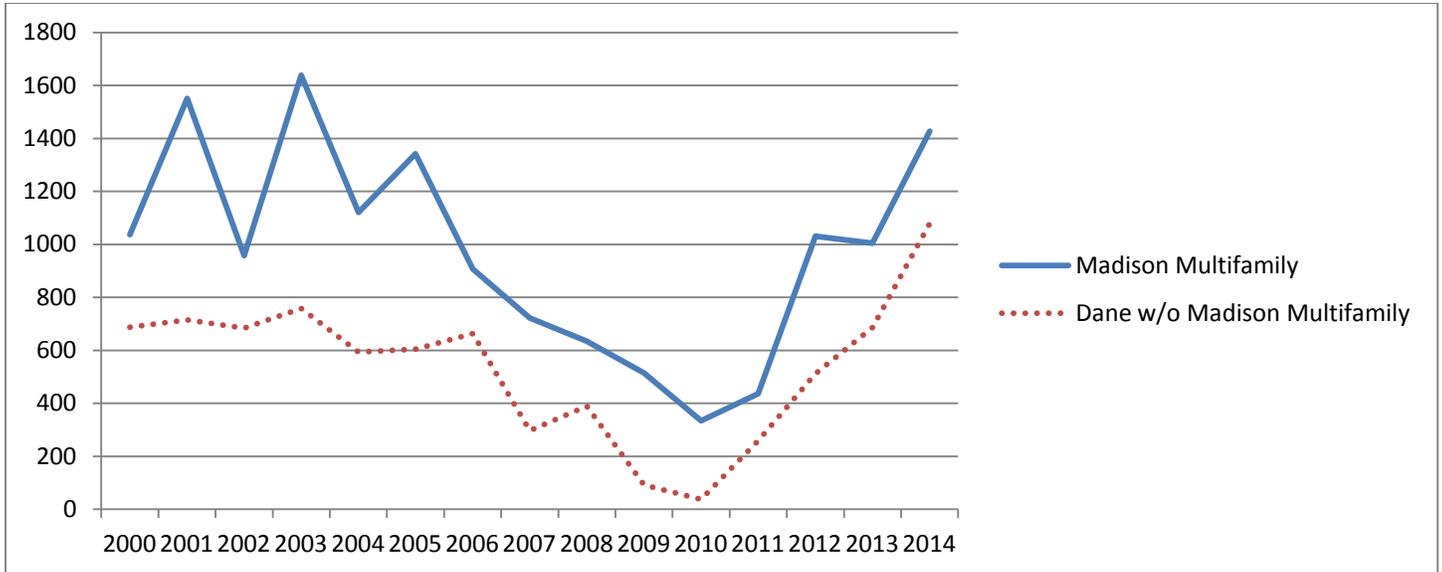
According to data from rentjungle.com, an aggregator of online rental listings, average market rents for one and two bedroom apartments increased dramatically from mid-2012 through the end of 2013, but appear to have stabilized and dropped slightly in 2014. This increase and drop was especially apparent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

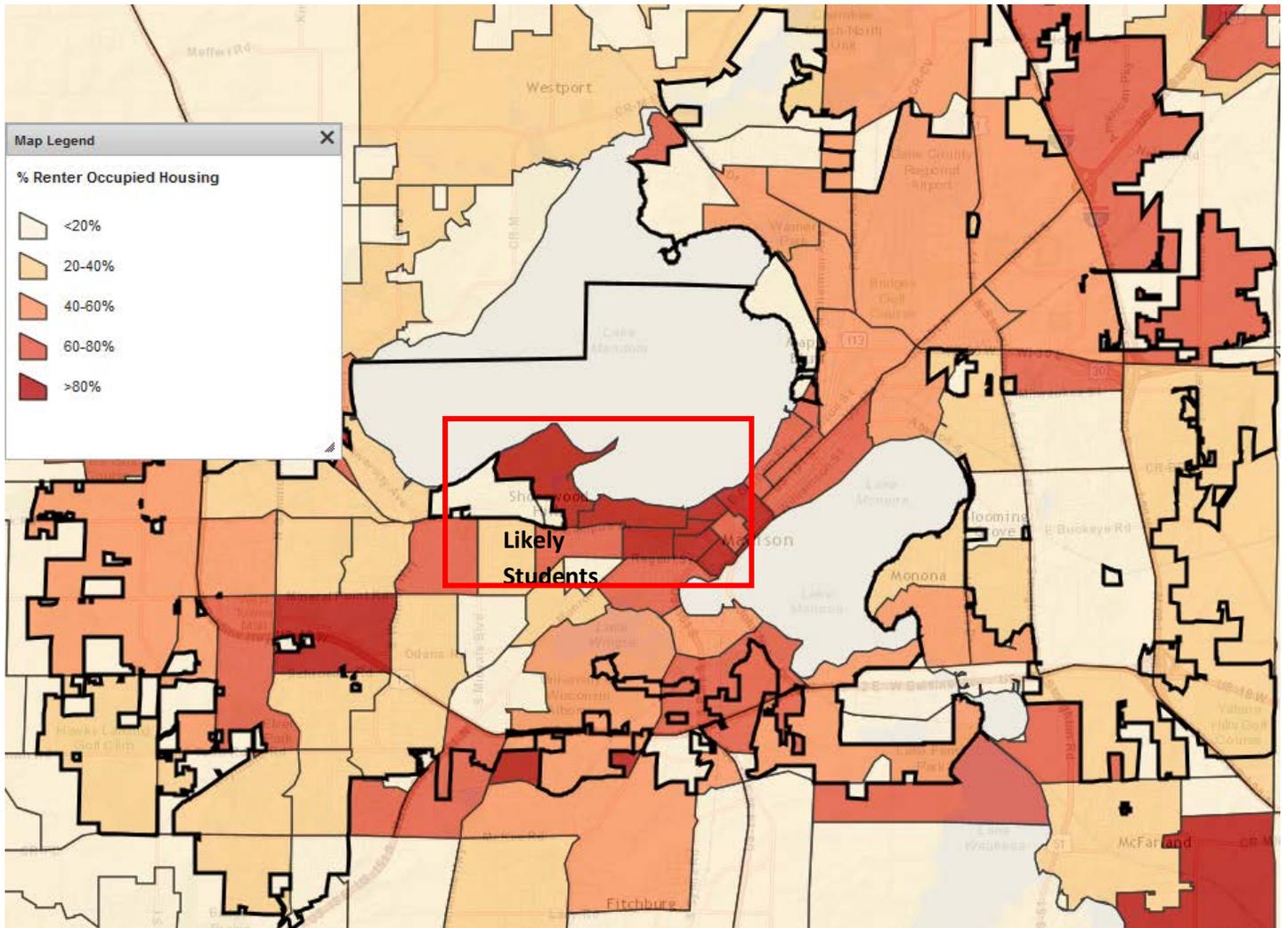


Source: Census Building Permits Survey

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

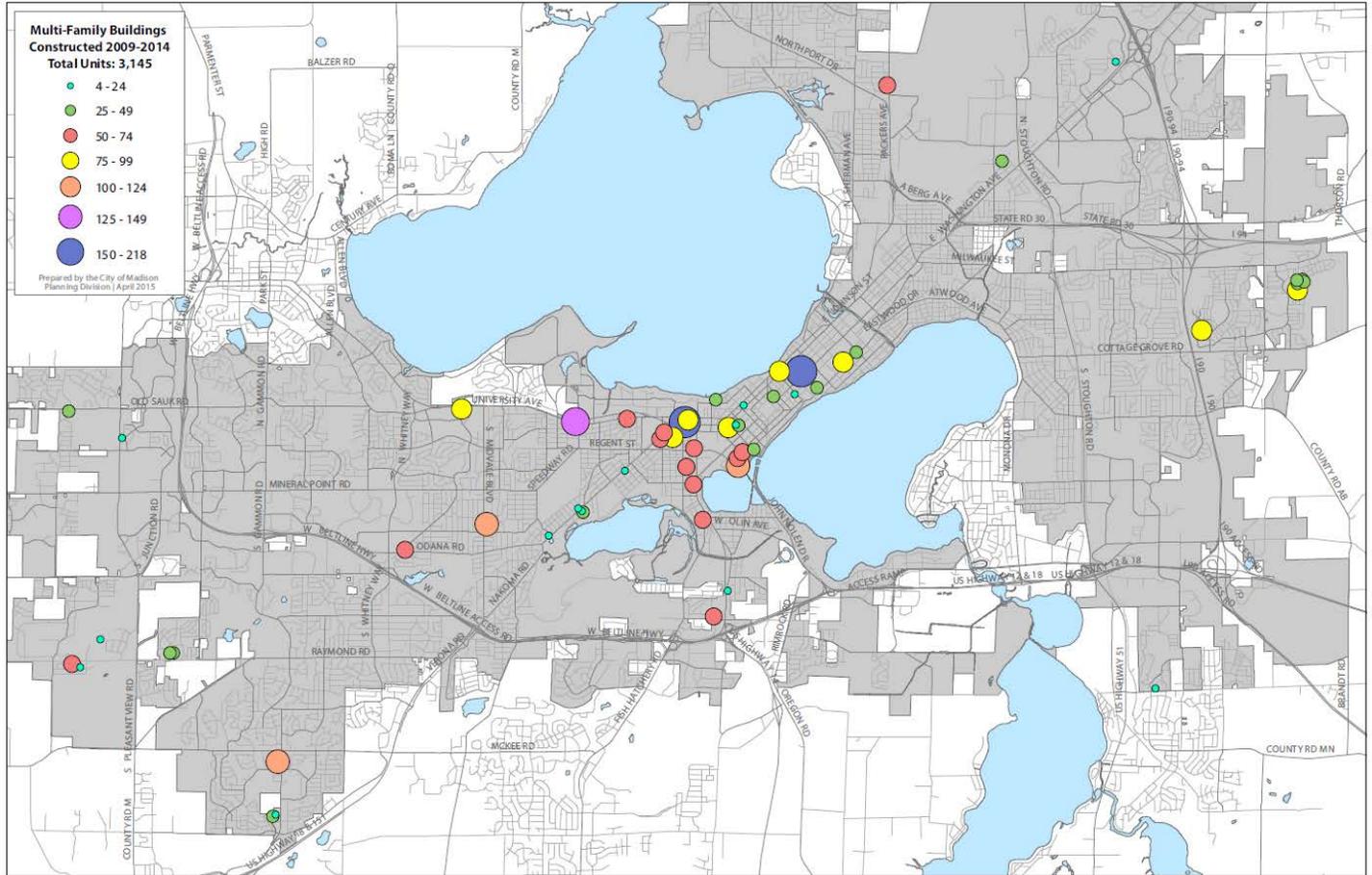
CURRENT RENTAL



Source: HUD CPD Maps

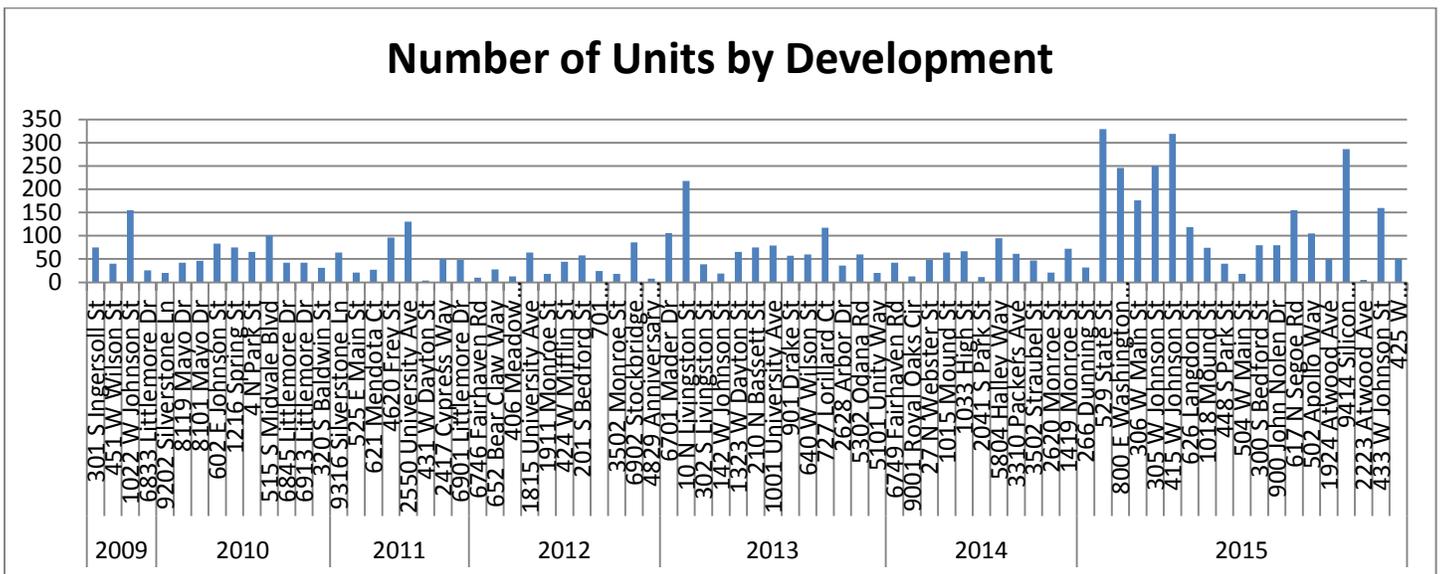
In the City of Madison, rental housing is currently concentrated in the downtown core, campus, south side, north east, and west sides of the city.

RECENT CONSTRUCTION

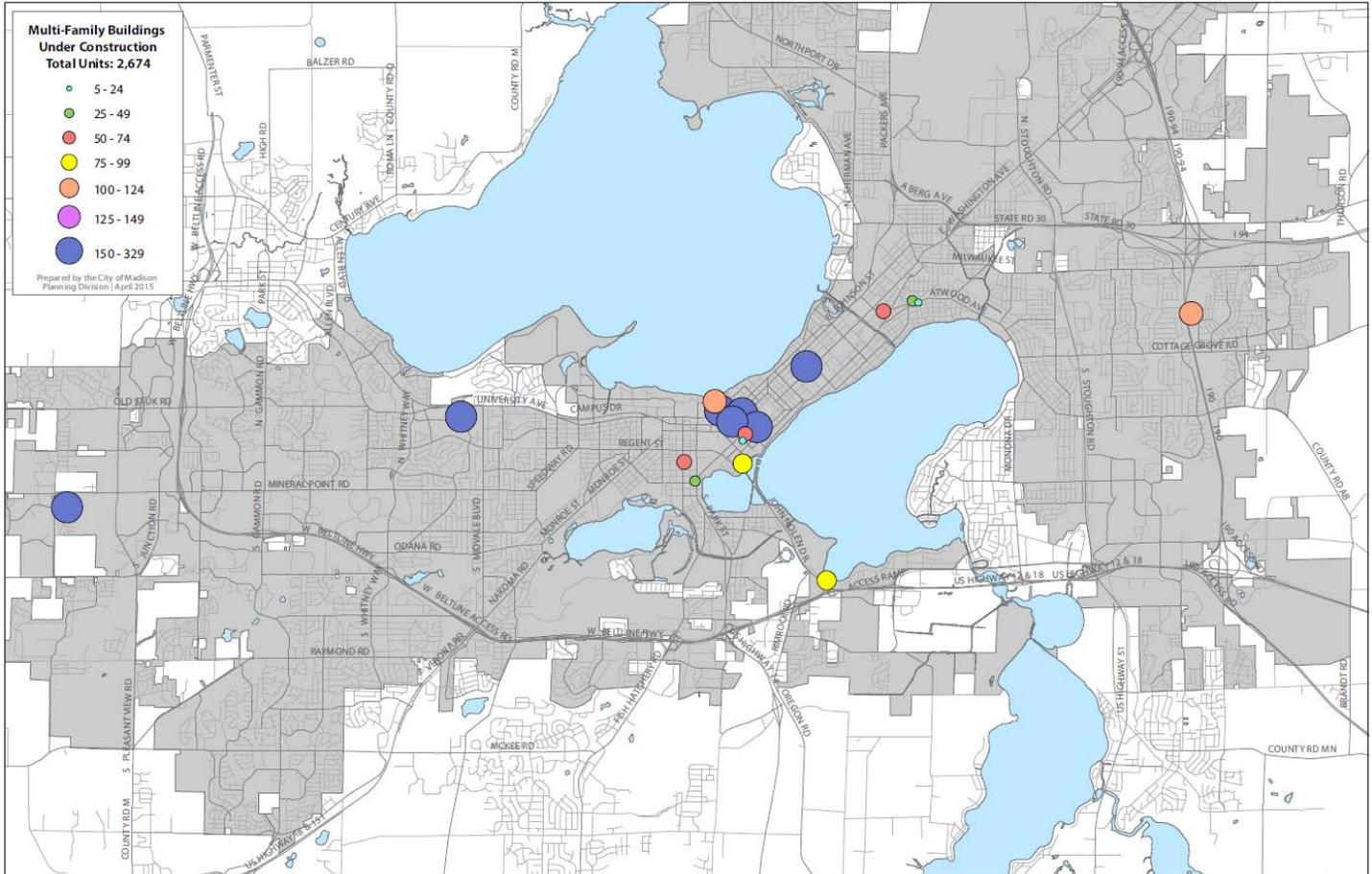


Source: City of Madison Planning Department

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

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

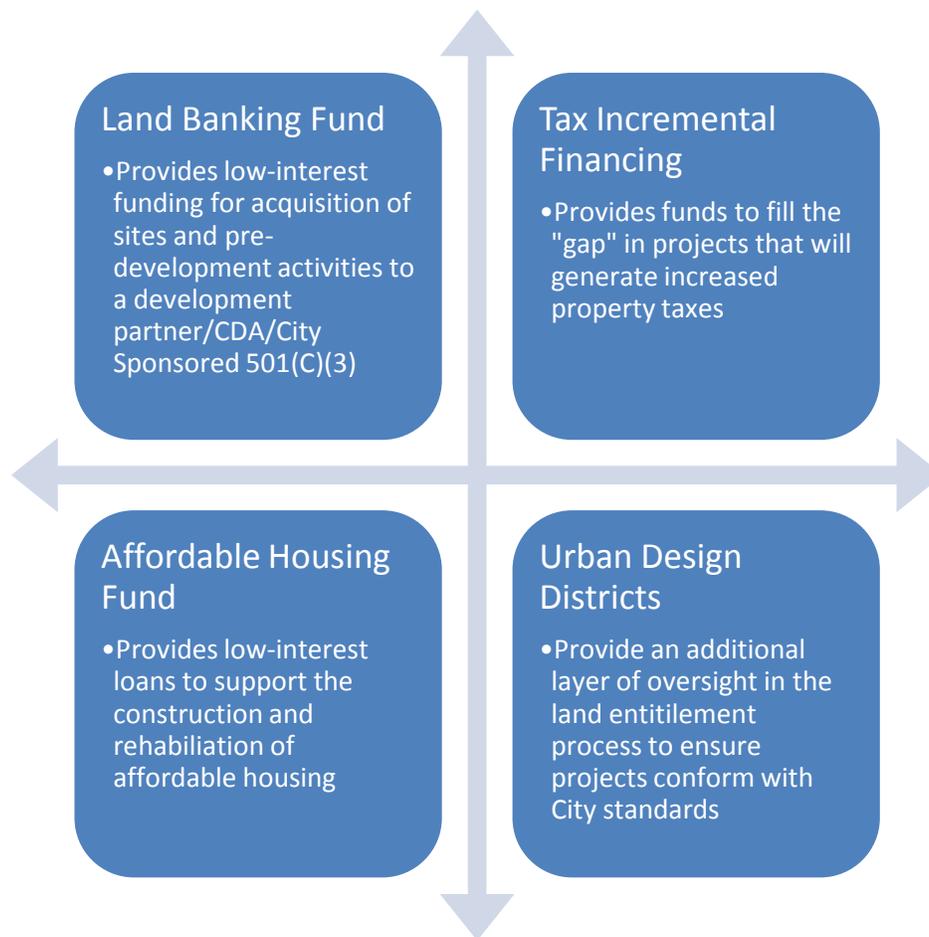
- Revenue and Housing Bonds
 - A special type of bond is repaid solely from lease revenues generated by a specified revenue-generating project, rather than from taxes
 - Can be used to finance housing or infrastructure
 - Exempt from state mandated borrowing caps on municipalities
 - Double tax exempt 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 prioritized 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

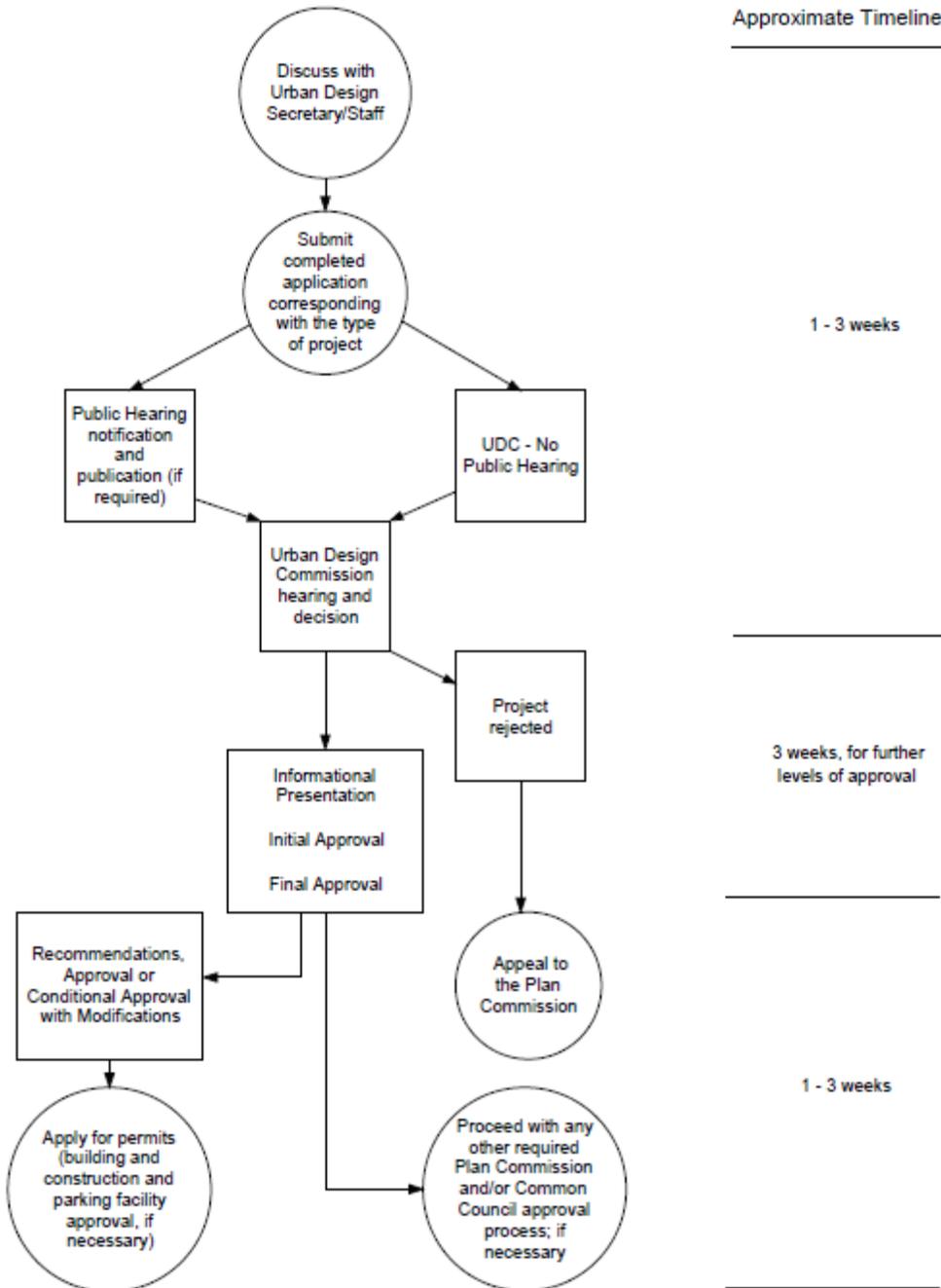
- The applicant must be a willing and capable developer with site control or the ability to establish site control
- Located in a superior location

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 3 rd party expertise	Greater City influence on outcomes and timing
Disadvantages	Requires strong developer interest	Riskier, greater admin burden

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

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:

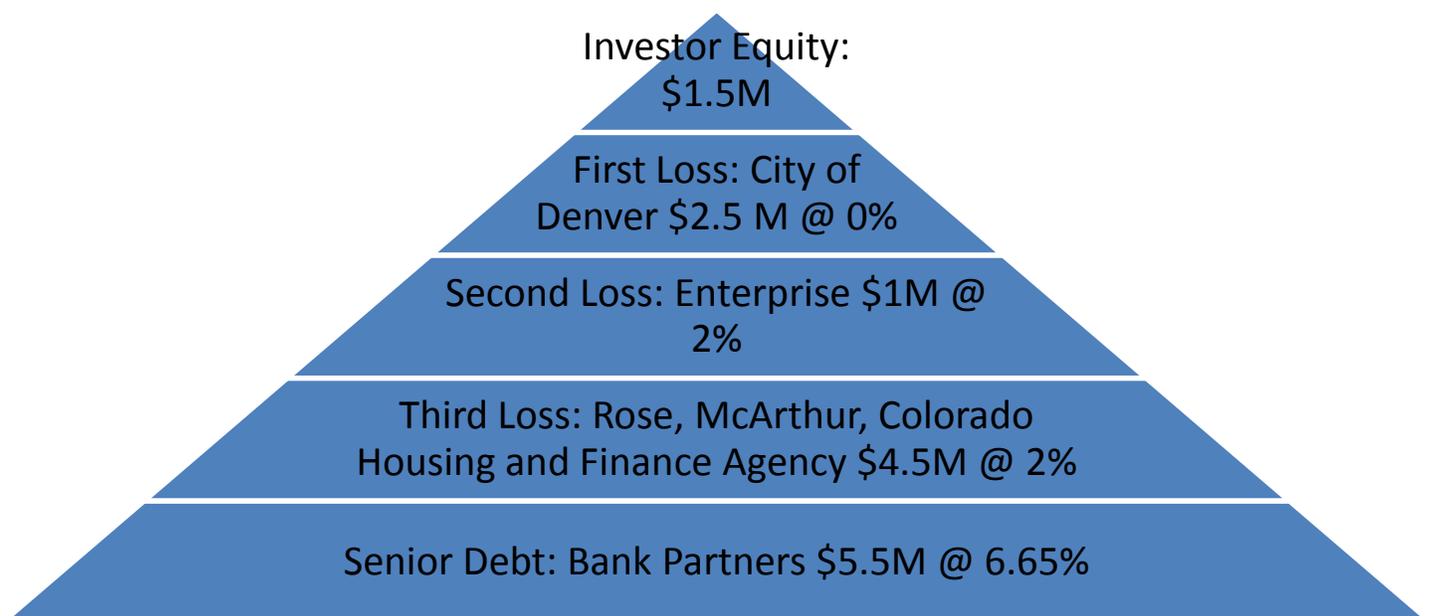
- Borrower/Investor – Urban Land Conservancy (ULC)
- Developers (non profit, public & for profit) –Purchase TOD Fund properties from ULC
- Fund Administrator – Enterprise Community Partners –underwrites and approves loans, aggregates and manages capital flow, lender relations, oversight committee, managing 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



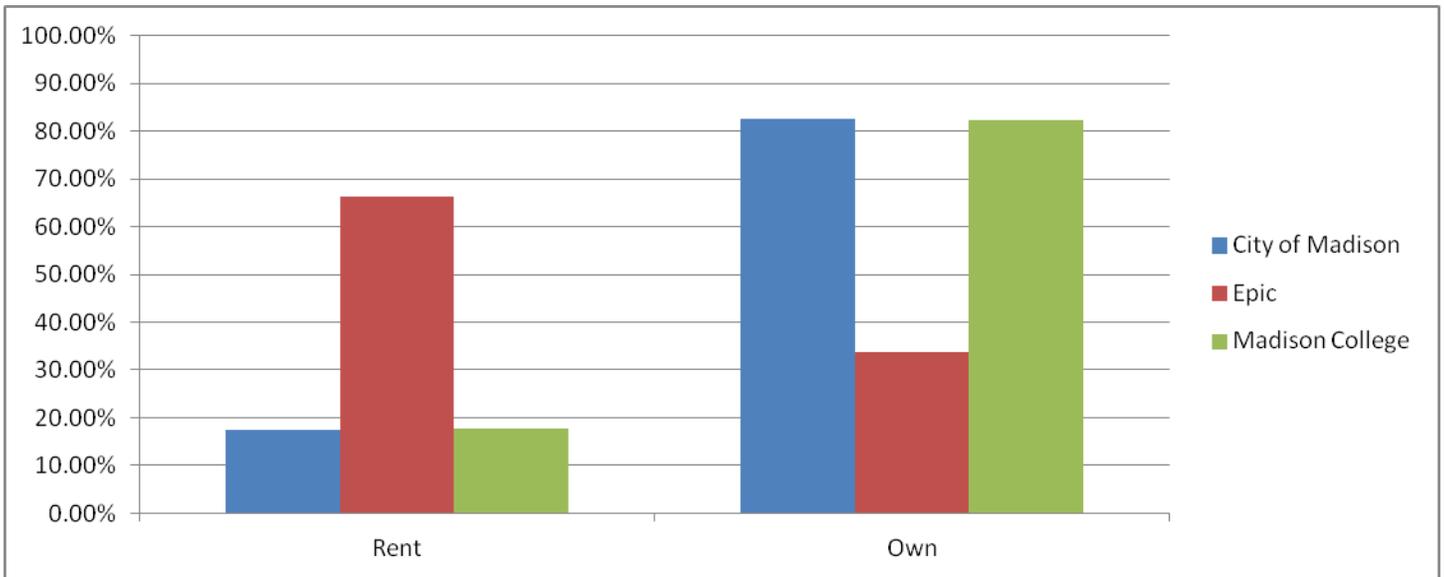
METHODOLOGY

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).

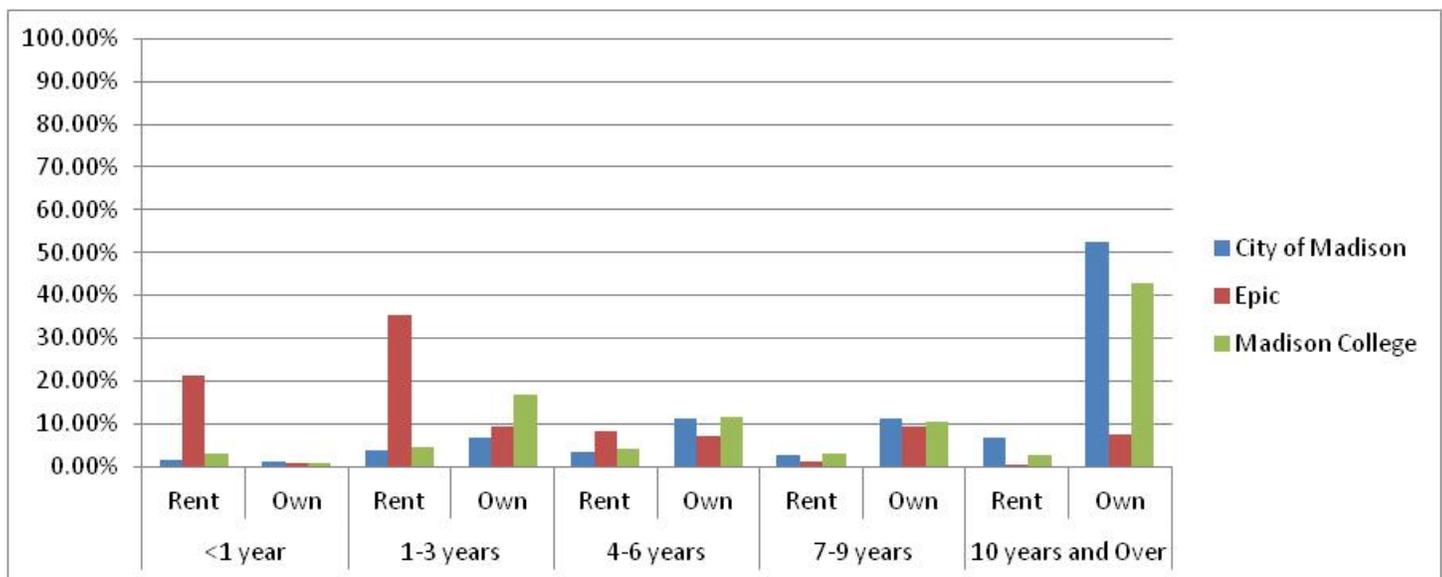
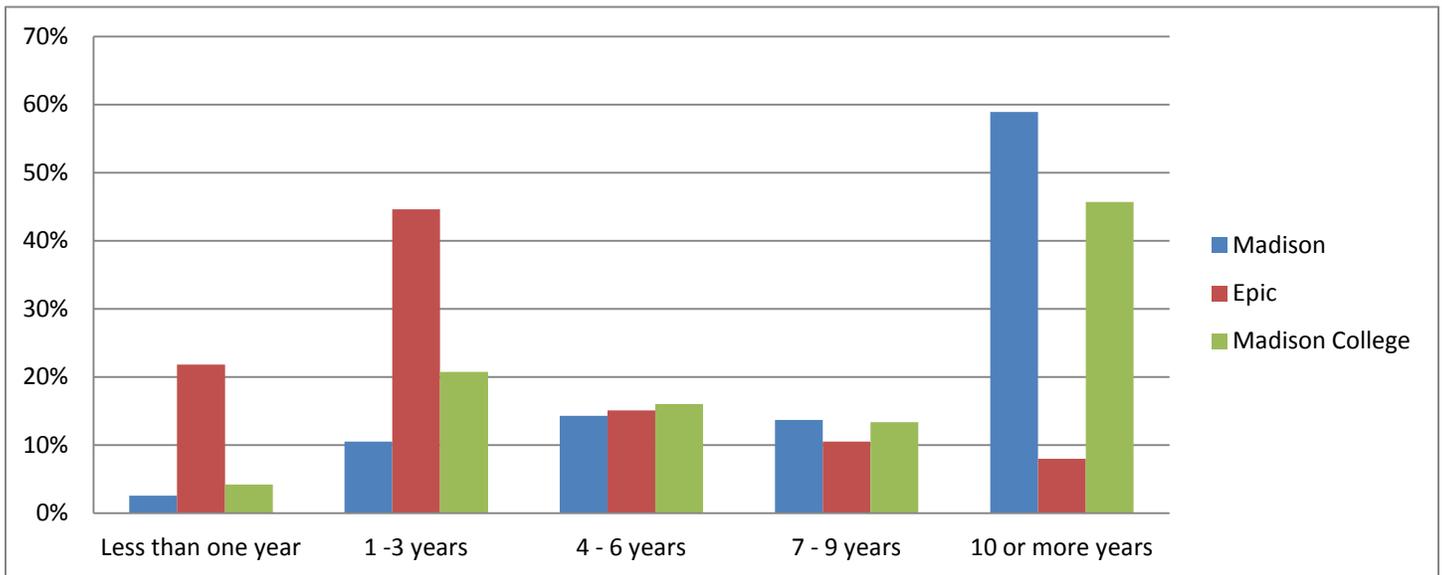
- The response rate for City of Madison was 64.01%
 - City of Madison = 498 returned surveys + 7 returned surveys w/out ID
- The response rate for MATC was 51.33%
 - MATC = 384 returned surveys + 2 returned surveys w/out ID
- The response rate for Epic was 98.63%
 - Epic = 789 returned surveys + 0 returned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

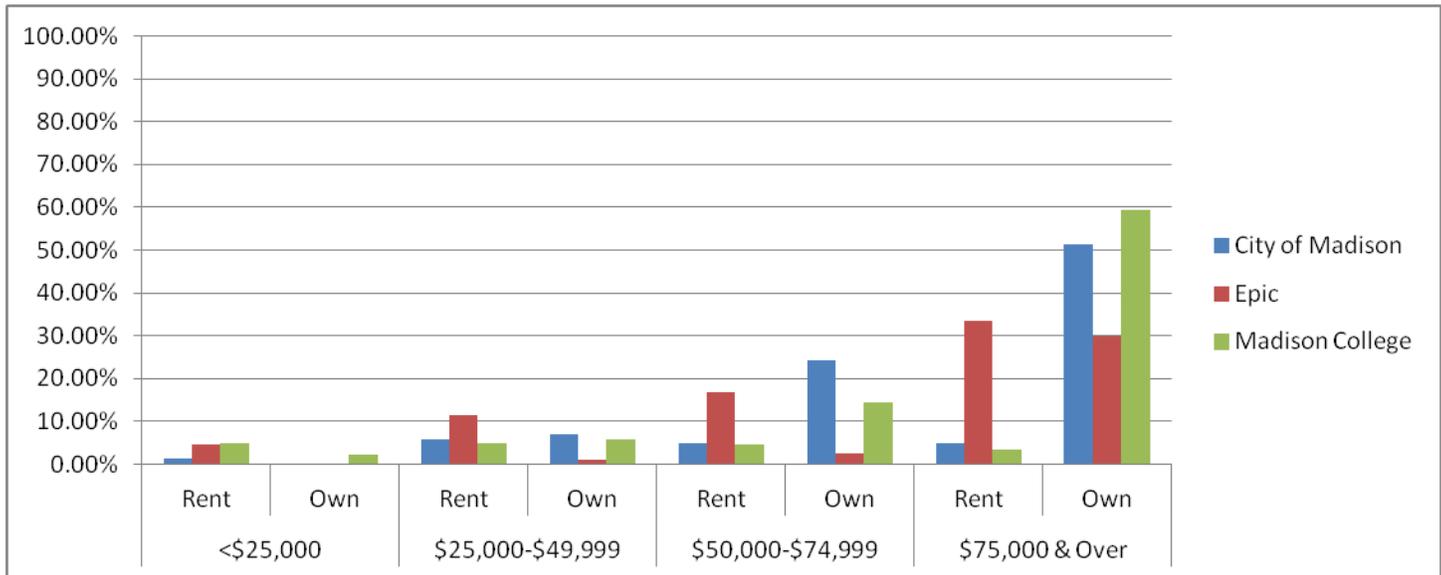
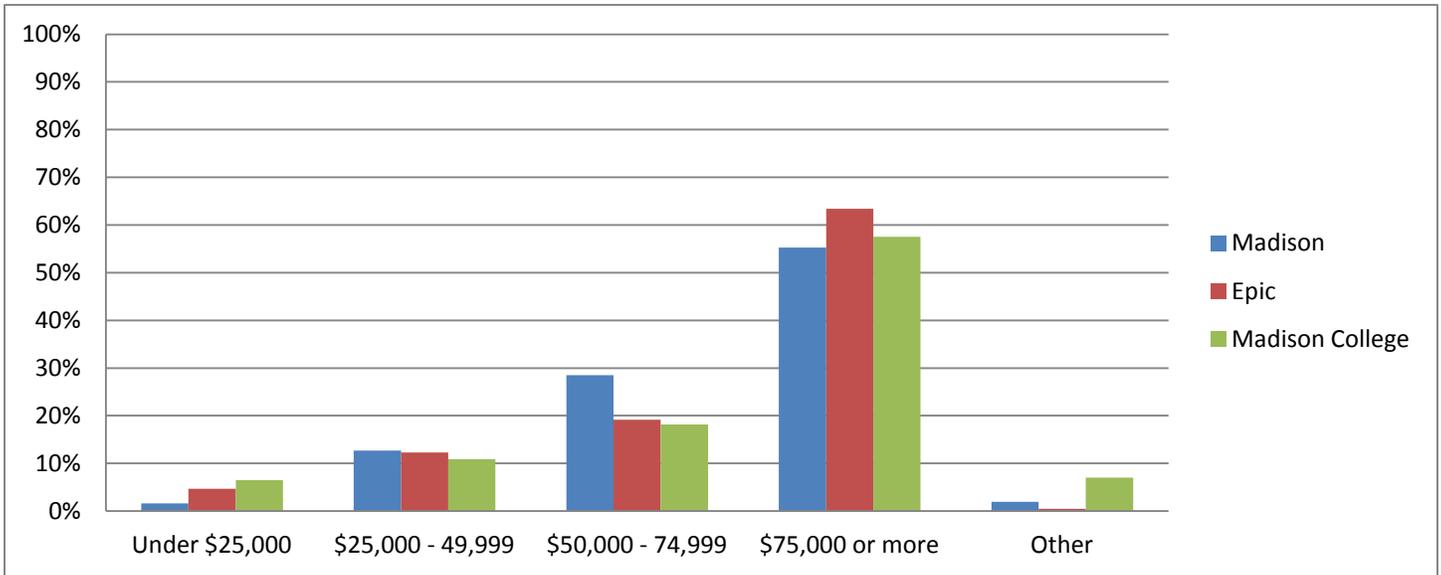
FACTORS IN RENTING VS OWNING

HOW LONG HAVE YOU WORKED FOR YOUR EMPLOYER?



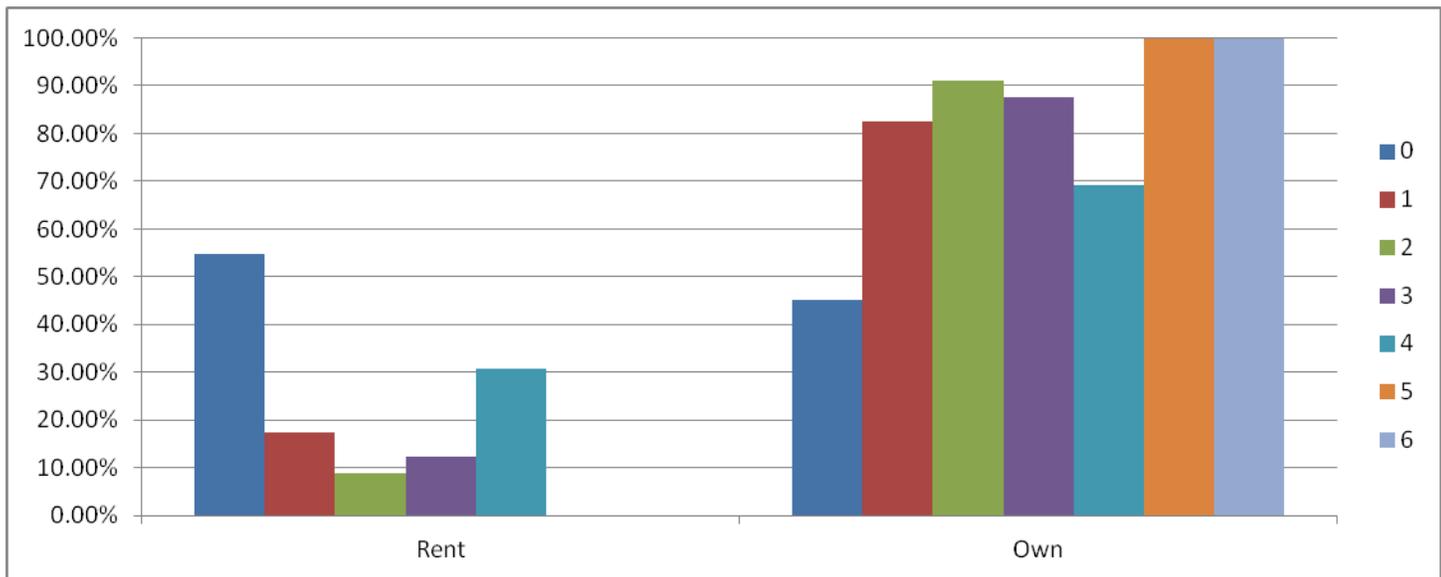
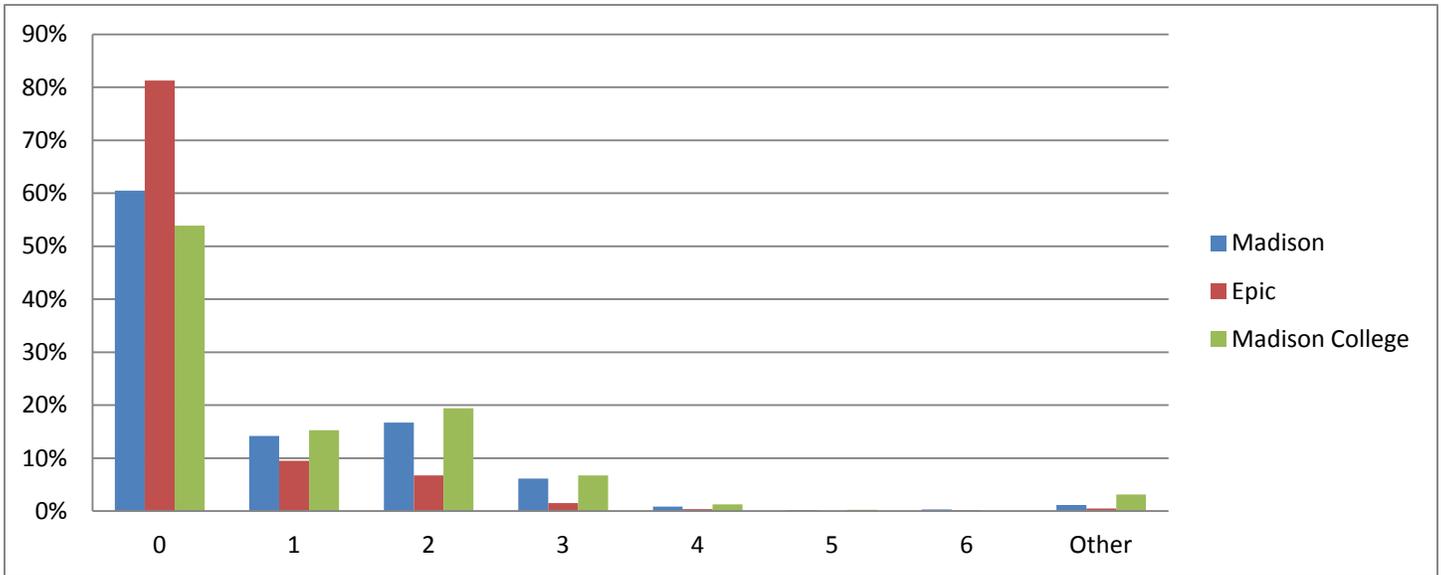
- The City of Madison and MATC have a very high percentage of employees that have worked there for over ten years, while Epic has a very high percentage of employees that have worked there for three years or less
- Length of employment has a very strong correlation to ownership rates, regardless of employer
- 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

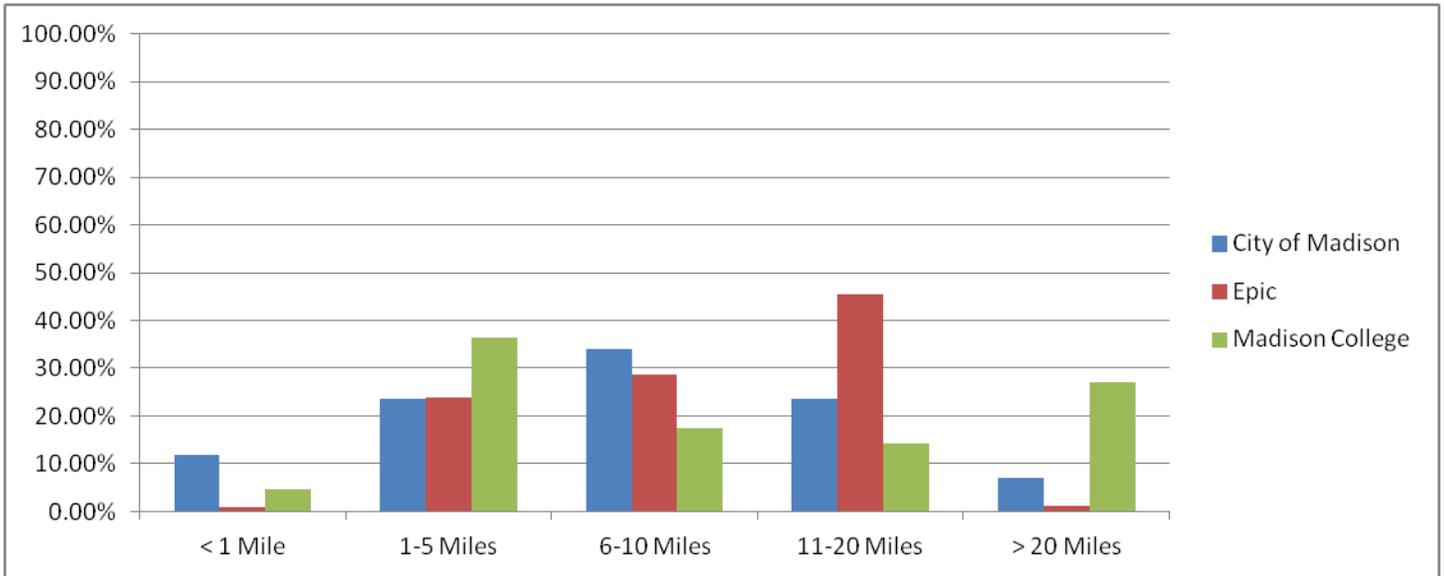
HOW MANY CHILDREN ARE IN YOUR HOUSEHOLD?



- 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

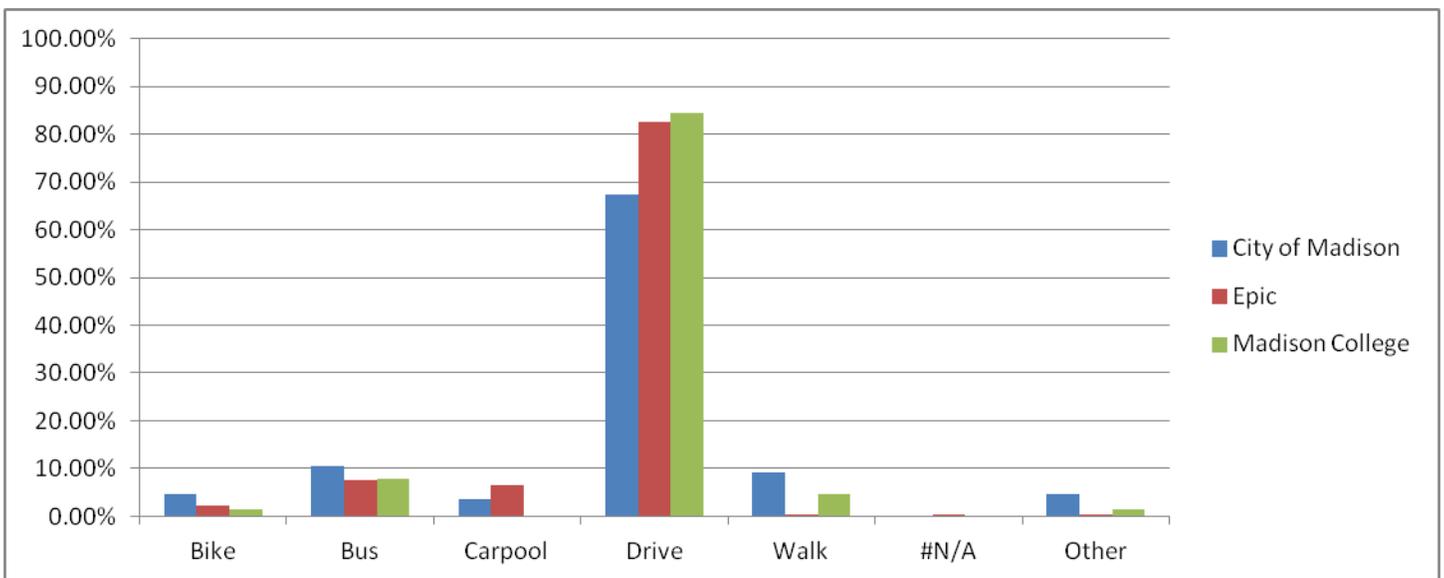
RENTER ONLY DATA

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



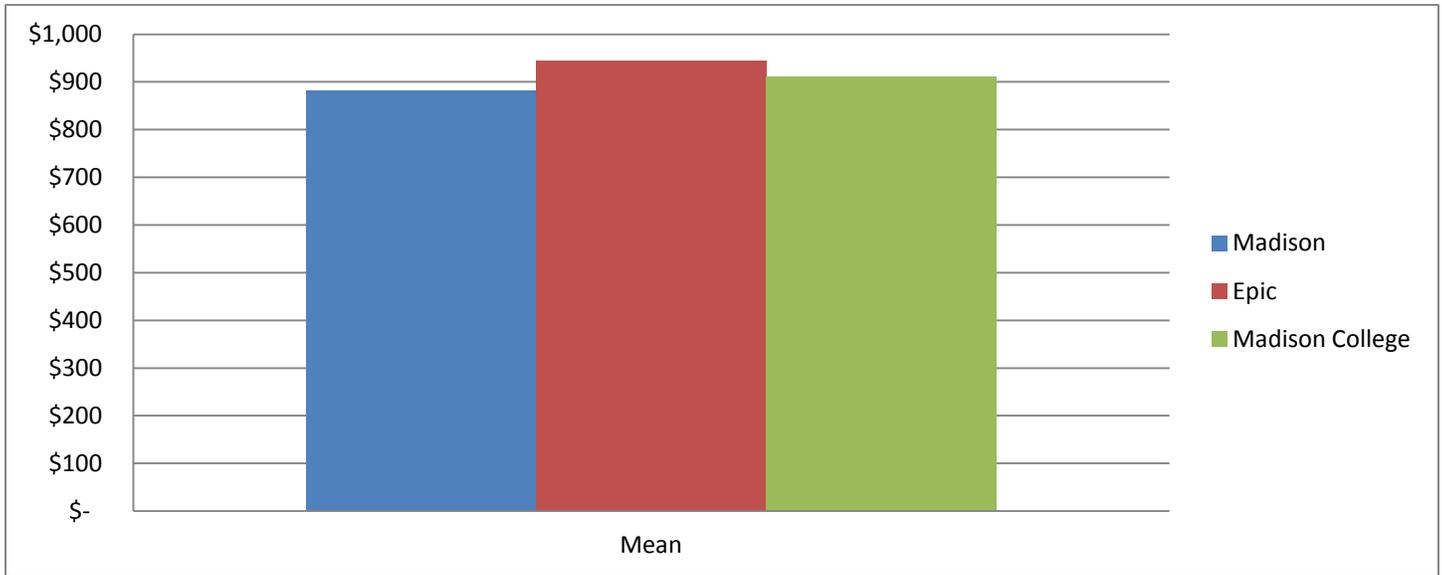
- City of Madison renter employees are fairly normally distributed around 6-10 miles from work, which is roughly the distance from the Capital Square to the eastern and western edges of the city on the extreme
- Epic renter employees have a large concentration of employees living 11-20 miles from work 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)



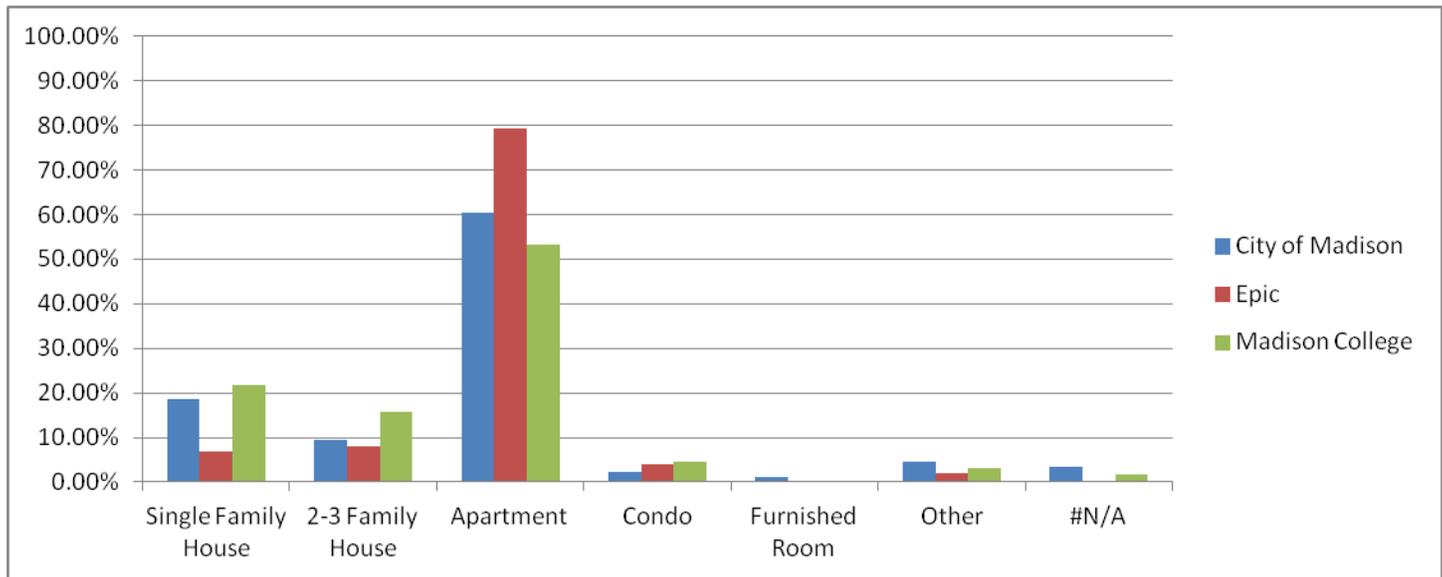
- The vast majority of renter employees at all three employers drive to work
- The City of Madison has a higher percentage of employees taking alternative forms of commuting, which is likely the result of the lack of free parking and free employee bus pass program

WHAT IS YOUR MONTHLY HOUSING COST? (RENTERS)



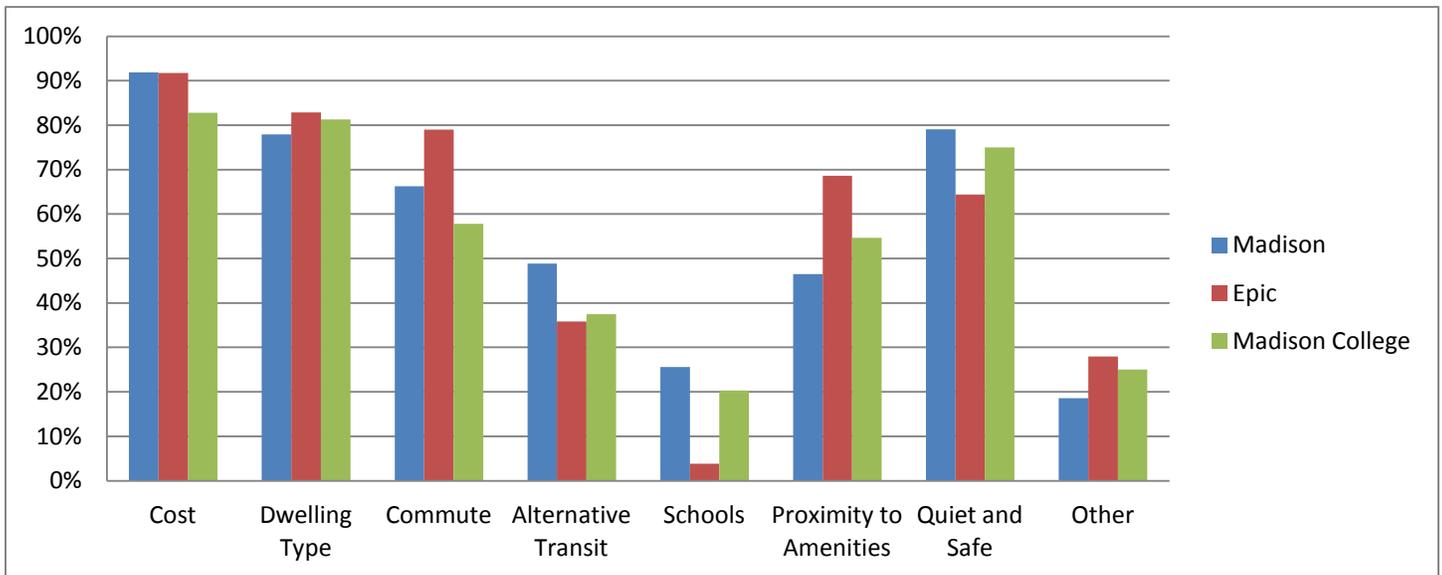
- All three employers have extremely similar average housing cost among their renter employees

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



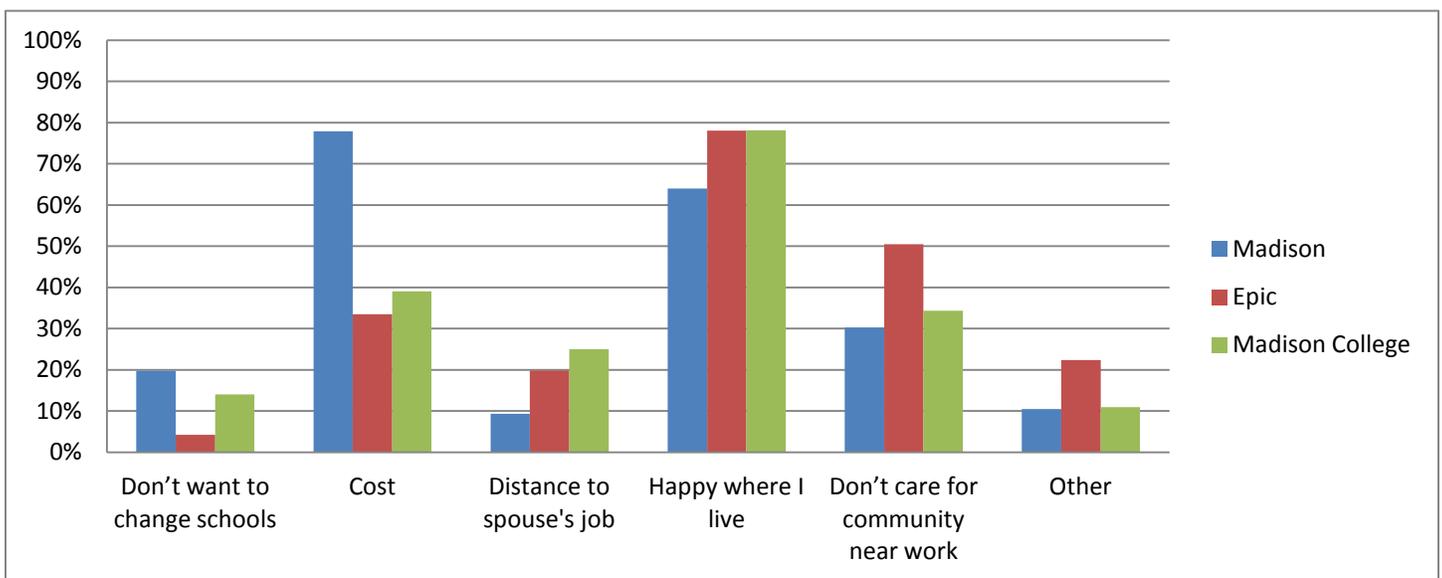
- The majority of renters are renting apartments
- City of Madison and MATC renter employees have higher rates of renting houses and condos which is likely tied to their higher rates of renter households with children

WHY DO YOU LIVE WHERE YOU DO? (RENTERS)



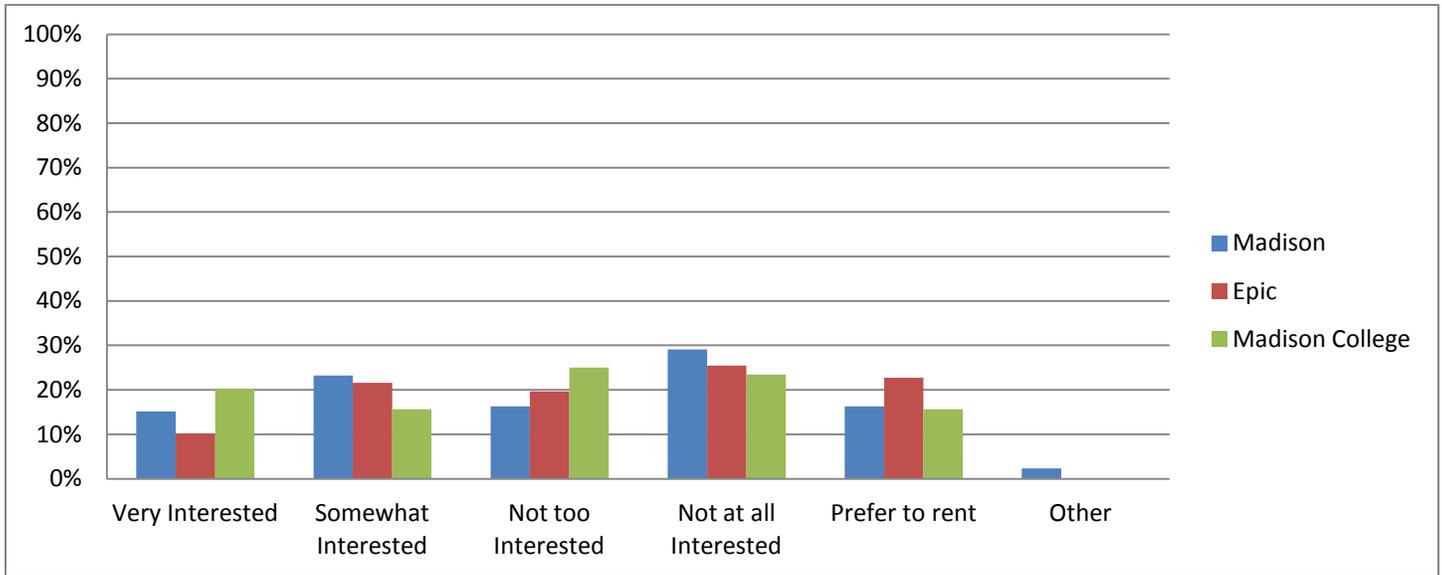
- The most important factor in selecting where to rent across all three employers is the unit itself (cost and type)
- Locational factors related to commute, proximity to amenities, and located in a quiet and safe neighborhood are the next most important factors
- Proximity to amenities is more important 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)



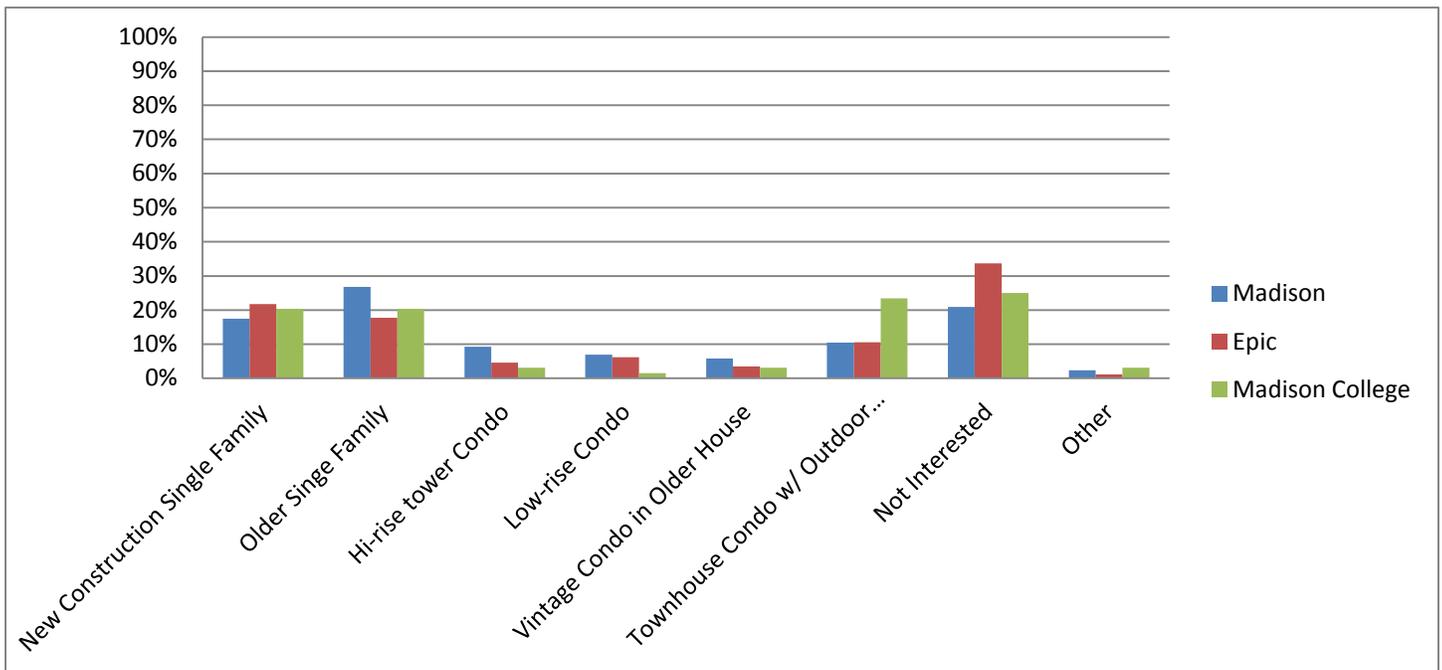
- The most common factor preventing employees from moving closer to work is that they are happy with where they live
- City of Madison renter employees overwhelmingly believe the cost of housing near work would prevent them from moving closer

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



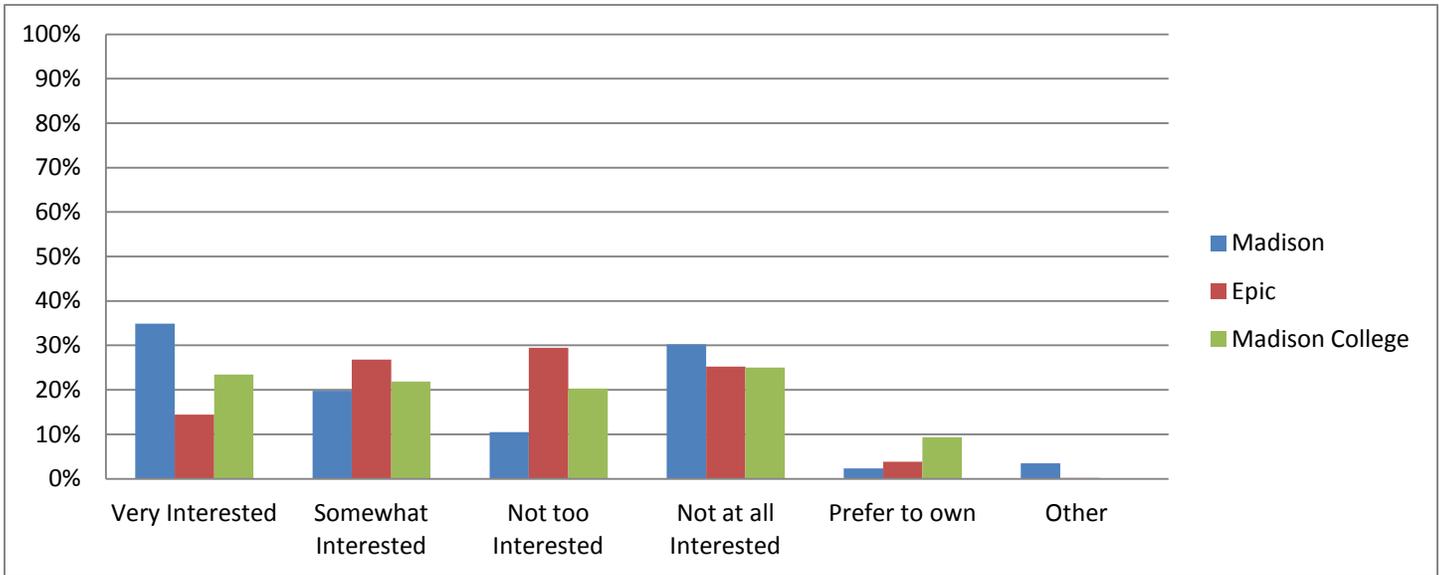
- The majority of renters at all three employers are not interested in purchasing a home near work

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



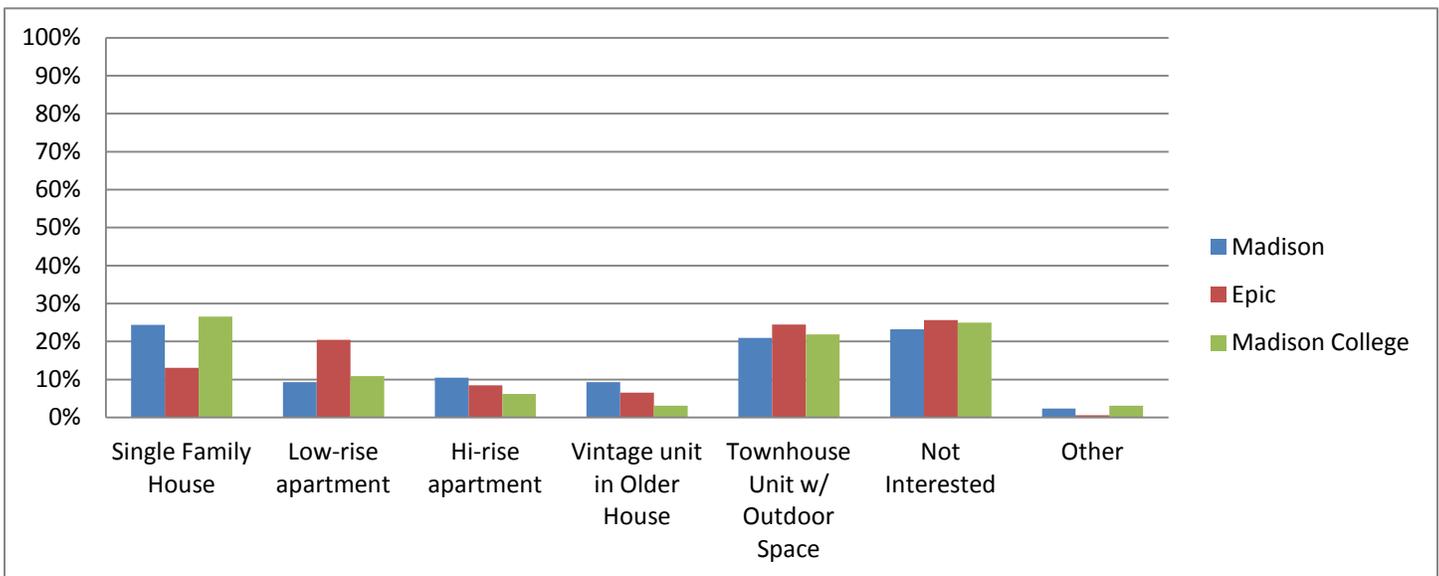
- For those interested in purchasing near work, single family homes were the most popular option
- Among those interested in condominiums, townhouse units with outdoor space were the most popular

HOW INTERESTED ARE YOU IN RENTING NEAR WORK (RENTERS)



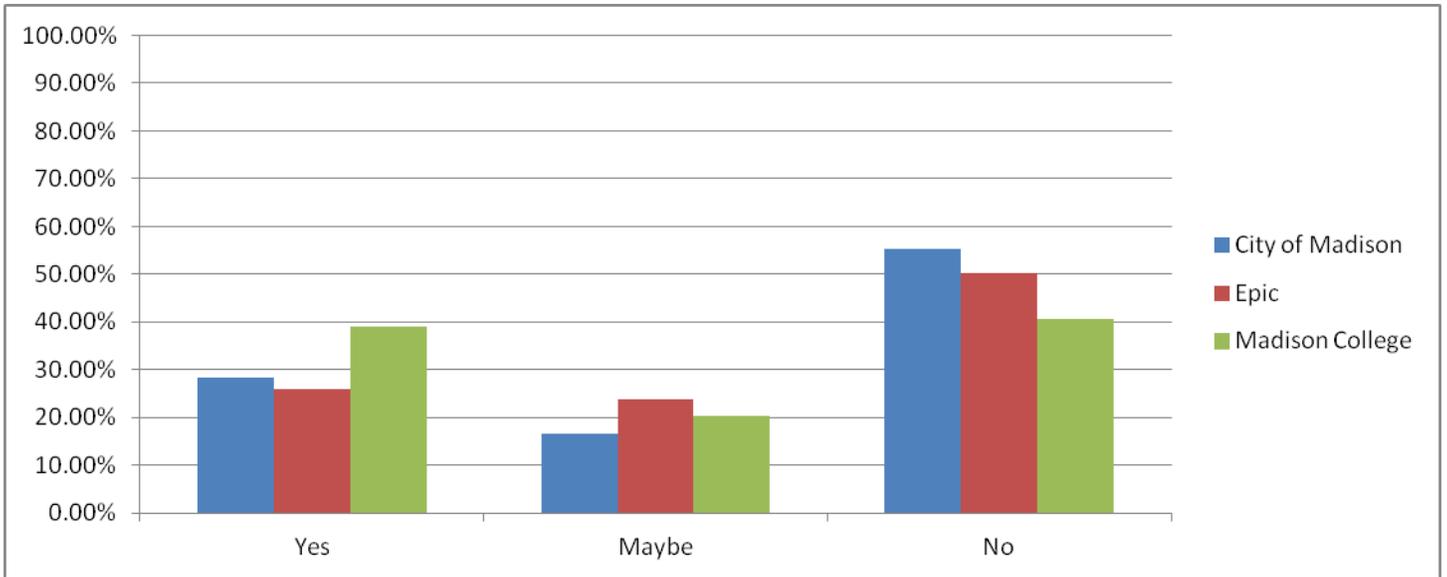
- Only the City of Madison had a majority of renter employees interested in renting near work, Madison College had an even distribution of interest, and Epic had a majority not interested in renting near work
- City of Madison renter employees were the most polarized between being very interested and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

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



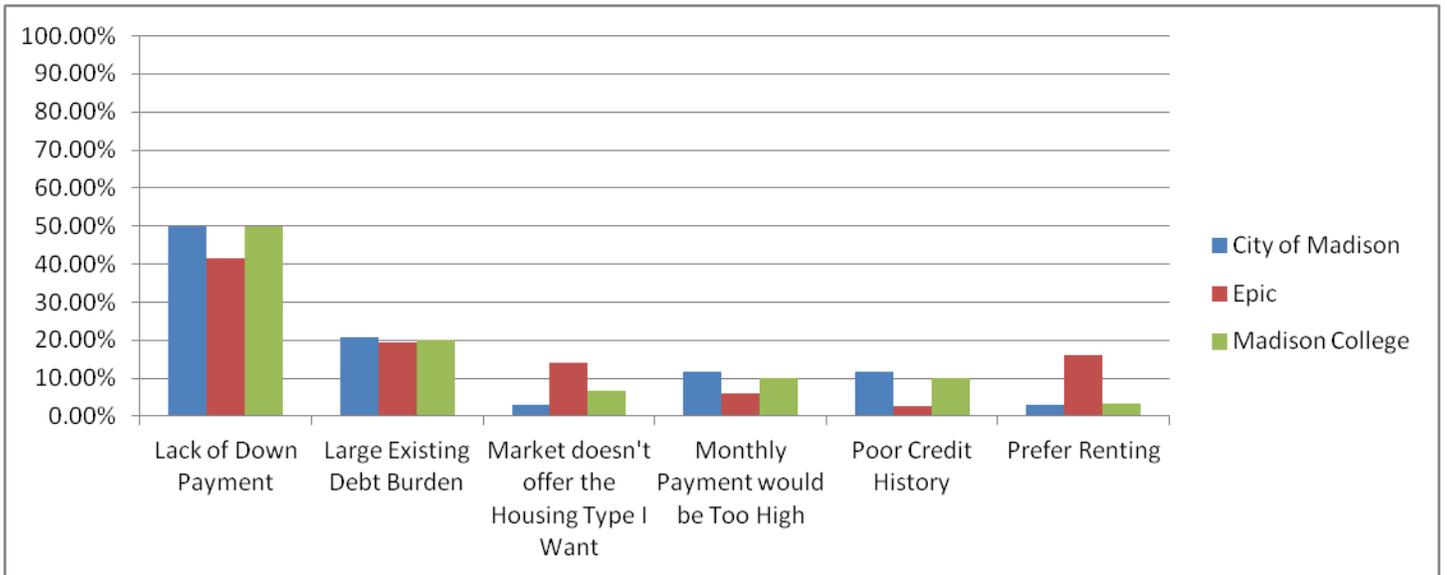
- For those interested in renting near work, townhouse units with outdoor space were universally popular
- City of Madison and Madison College renter employees had a strong preference for single family houses, while Epic employees had a preference for low-rise apartments

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



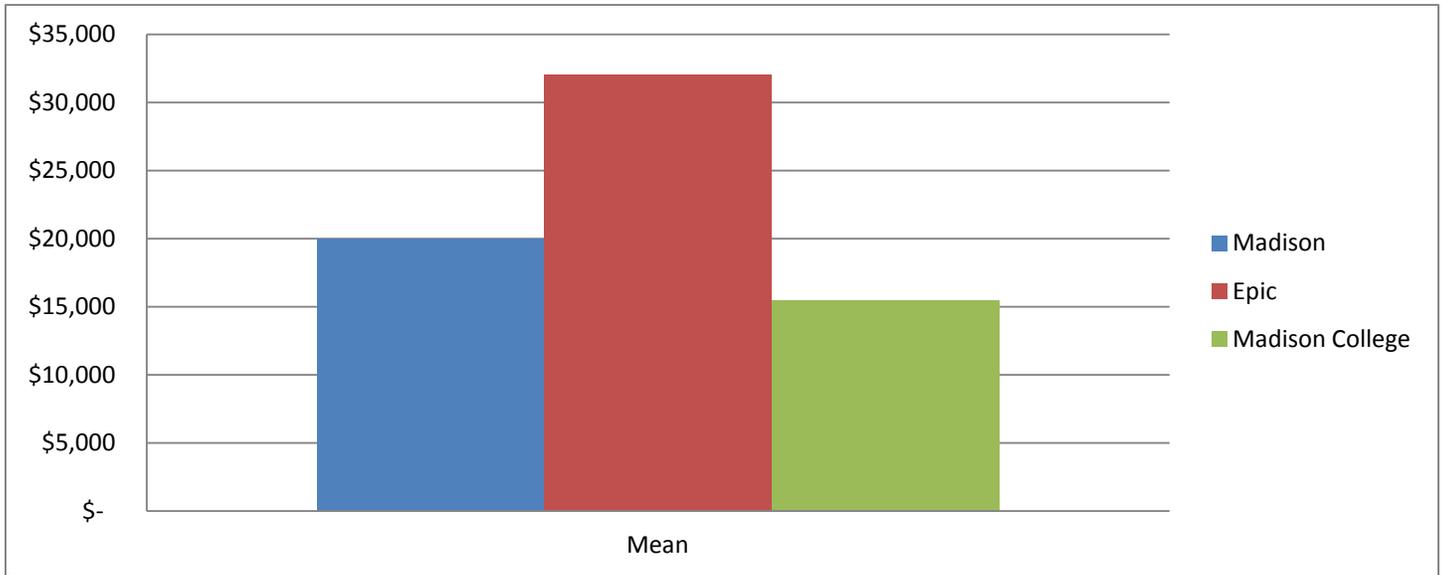
- Plans to purchase were roughly similar among renter employees at all three employers with half saying “yes” or “maybe” and half saying “no”

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