

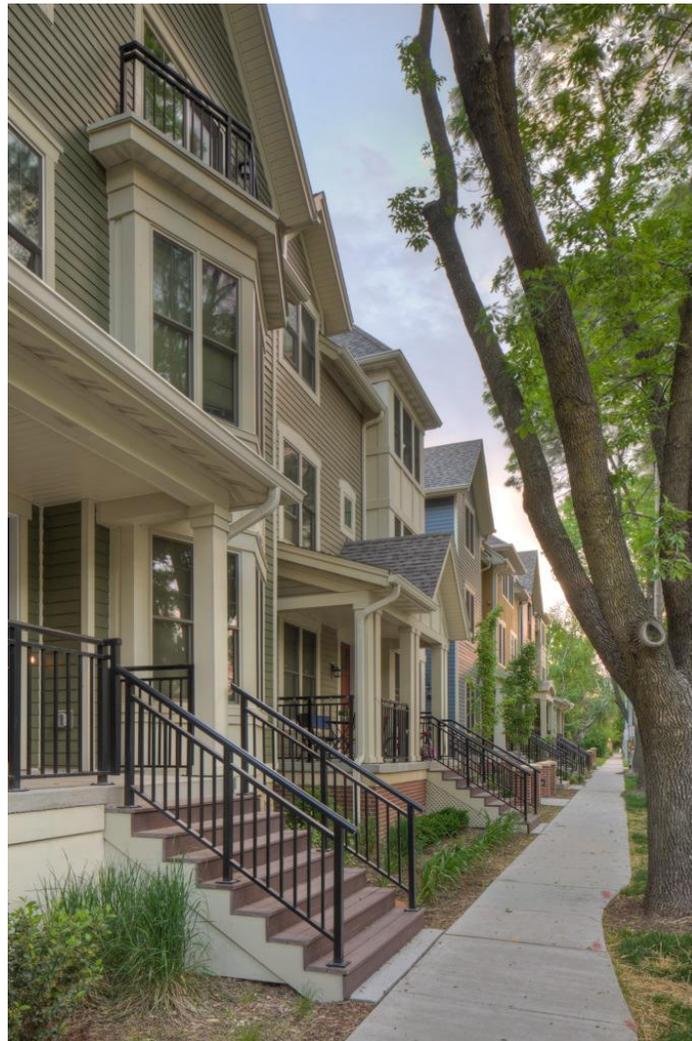
Affordable Housing

Downtown Madison, Inc. (DMI)

November, 2016

Prepared by: Katherine Rist/Foley & Lardner
Matt Wachter/City of Madison

The DMI Economic Development Committee's Affordable Housing ad hoc committee



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In 2016, DMI adopted a civic agenda with a commitment to support greater downtown housing densities, diversity, mixed-use, workforce housing and sustainability to serve all socio-economic groups in our downtown area. While each of these housing sectors are important to the vitality of downtown Madison, the shortage of affordable housing is at the forefront of the issues facing our City in 2016. DMI acknowledges that it cannot physically create new affordable housing units; however, DMI can serve as a catalyst for community support amongst our Members, in a way that promotes and facilitates the development of affordable housing in the City of Madison.

The creation and maintenance of affordable housing is very difficult to say the least. While responding to specific community and neighborhood needs, developers must find suitable land, obtain permissive zoning, and secure governmental or other non-conventional funding programs and financing sources to subsidize the development costs and the ongoing maintenance and operation of the development at affordable levels. Each of these financing sources adds a layer of complexity to the project such that no two projects come together in the same way or even in a way that is predictable at the outset of a project. Amongst all of these issues and despite our City's great need for affordable housing, developers continue to face strong, and oftentimes misguided, opposition when pursuing affordable housing projects. This adds time, expense and undue stress on projects that would otherwise help to alleviate Madison's affordable housing shortage.

With this paper, DMI hopes to demystify the subject of affordable housing in a way that may help our great community, neighborhoods and citizens to understand the importance and necessity of affordable housing in the City of Madison, both downtown and City-wide, and further come to support the development efforts of those taking on the great task of creating and maintaining affordable housing to serve our lower income populations.

What IS affordable housing?

Housing is generally thought to be affordable when a household consumes less than 30% of its household income on housing costs. When families and households spend over 30% of their household income on rent and utilities they are "housing cost burdened" and when they spend over 50% of their household income on rent and utilities, these households are "severely housing cost burdened." Families and households that are severely housing cost burdened have a difficult time affording basic necessities like food, medication and transportation, and all it takes is one emergency—family illness, car accident, funeral costs—to put them at risk of homelessness.

Affordable housing is often confused with "public housing." Public Housing is affordable, rent-restricted housing for eligible low-income families, the elderly and persons with disabilities that is owned, managed and operated by governmental bodies, such as housing authorities and

community development authorities. In the City of Madison, the Community Development Authority owns and operates over 700 units of rent restricted, public housing, at over 40 locations throughout the City¹. While public housing is one form of affordable housing, today we are seeing lots of private development and entrepreneurship in affordable housing. Development costs for these private developments, are most often funded through a combination of low-income housing tax credits, governmental grants, subsidies, low-interest rate loans, tax incremental financing (TIF) and conventional financing, making them truly public-private partnerships.

Rental Market in the City of Madison

2016 finds the City of Madison in its fifth straight year of historically low vacancies in the rental housing market. This furthers the shortage of affordable housing, as the increased demand and limited supply of units pushes rental rates even higher. Current data show that there are approximately 52,000 renters in the City of Madison, and 30% of these renters (15,600) are severely housing cost burdened.² If we back out the student population using a conservative estimate of 9,500 student renters, that leaves over 6,000 renters in our community that are severely housing cost burdened. In other words, there are over 6,000 individuals and families at high risk of facing homelessness. This is a devastating figure for the City when viewed in light of the already high number of homeless people that are in the Madison area and served by the local shelter systems. The City is believed to have approximately 7,000 rent restricted units available for low income residents in service today. Maps showing the approximate locations of rent-restricted affordable housing units throughout the City and the downtown are attached as an exhibit to this paper. Given the rent limitations already in place on these units, we would assume that the 7,000 households occupying these units are not included as part of the 6,000 housing cost burdened renters. Based on the City's estimate of the number of housing cost burdened and severely housing cost burdened renters in the City, the City would need to double the number of rent restricted units within its boundaries to provide affordable housing for most or all of our severely housing cost burdened low income residents.

What is Affordable in the City of Madison?

As noted above, affordability of housing is measured by two main factors-household income (based on number of persons per household) and rental costs. It is helpful to understand these factors within the context of the actual income levels present in the City of Madison. Area median income (AMI) for households with one person is \$57,500 and this figure ranges up to \$88,750 for households with 5 persons³.

¹ <http://www.cityofmadison.com/dpced/housing/housing/478/>

² City of Madison Affordable Housing Strategy, Thursday, August 28, 2014

<https://www.cityofmadison.com/news/city-of-madison-affordable-housing-strategy>

³ City of Madison, Affordable Housing FAQ May 2016

AMI is an important figure to watch, as programs established to fund affordable housing typically require that some or all of the units in the project be set aside for very-low, low and moderate income households earning only *a percentage of* the AMI. By way of reference, very low income households typically means households whose annual income is 50% or less of AMI, low income households typically means households whose annual income is 60% or less of AMI, and moderate income households typically means households whose annual income is 80% or less of AMI.

AMI can also be used to determine the healthy “affordable” rental levels that households at these income levels can pay before becoming housing cost burdened (i.e. paying more than 30% of household income on housing costs). For example, a family of 5 earning 60% of AMI in the Madison area has household income of \$53,250 (60% of \$88,750) and can afford rent of \$1,331/month (30% of \$53,250). Actual rents in the City of Madison for a 3 bedroom apartment range from \$895 to \$3,400, leaving the vast majority of housing opportunities for this family of 5 out of range. Likewise, a single person earning 30% of AMI has household income of \$17,250, and can afford rent of \$431/month before being housing cost burdened. Actual rents in the City of Madison for a studio apartment range from \$300 to \$1,025 and for a one-bedroom apartment, between \$520 and \$2,550, making even the lowest end one bedroom apartment outside of a healthy affordable rental level for these individuals.⁴

Workforce Housing

Another term that is often used in the conversation of affordable housing is “workforce housing.” Workforce housing can generally be described as affordable housing targeted to households earning from 80 percent to 120 percent of AMI. With income levels above 60% of AMI, our workforce do not always qualify for residency in affordable housing developments, as most of the funding programs for affordable housing traditionally restrict and require units at/or below 60% of AMI. With the increased rental rates across the board in the City of Madison, many workforce households are forced to be housing cost burdened or severely housing cost burdened. DMI encourages and supports entrepreneurship and cooperation between developers and the City in furtherance of creating additional workforce housing in the City of Madison. For example, this could be an area for the City to explore changes to zoning densities or creating efficiencies in the approval and permitting processes for projects with affordable housing units; effectively lowering the cost per unit of development. Lower development costs means less debt service, which allows for units with lower rents in the project’s operating budget.

What are Tax Credits and why are they such a powerful tool in Affordable Housing development?

Tax credits are perhaps the single most powerful tool for affordable housing development, yet they are not very well understood. Low-Income Housing Tax Credits (LIHTCs) are not a grant or a

⁴ Actual Madison rent figures used in this section based on high and low rents provided by padmapper.com, Craigslist-Madison and apartments.com.

loan. They are tax credits that can be used to reduce Federal income tax liability on a dollar-for-dollar basis. Governed by Section 42 of the Internal Revenue Code, the federal government allocates LIHTCs to each state on a per capita basis. At the state level, housing finance agencies (in our case the Wisconsin Housing and Economic Development Authority (WHEDA)) then allocate the credits annually to qualified projects through a competitive process. Once awarded LIHTCs, the owner of a housing development can use the tax credits to generate an equity investment in the property. This equity investment is substantial and oftentimes covers more than 50% of the project's costs, which in turn allows the owner to borrow less money to build the project. Lower debt, means lower monthly debt service, which means the owner can charge lower monthly rents, while still covering its operating and debt expenses. Essentially, the tax credit equity permits the owner to maintain the housing development at affordable rent levels. Generally speaking, developers using LIHTCs must commit to both keeping the project affordable at lower rent levels and keeping the designated units within the project available to low income households for a period of 30 years.⁵

Tax credits are not unlimited and the award process is highly competitive. In 2015, WHEDA received requests for more than \$27.5 million tax credits for 50 projects, and only 50% of those projects received an award of credits, with total annual tax credits awarded being approximately \$12.5 million. In the 2016 competitive process, WHEDA awarded credits to 27 out of 39 applications received, with a total allocation of annual LIHTCs over \$14 million, or \$140 million over the ten year credit period.

Combatting Misconceptions about Affordable Housing developments

Some of the opposition that affordable housing developers face is rooted in misconceptions about affordable housing and the residents that will occupy the projects. Some community members believe that the lower-income people who qualify to live in a particular affordable housing development may not fit into the surrounding neighborhood or will relocate too frequently to be stable community members. In most cases, this is simply not true. The stability of rents in an affordable housing project actually incentivizes tenants to stay in the project and invest in the neighborhood as a longer term resident; and while residents of affordable housing projects have a wide variety of educational and occupational backgrounds, they generally already live and work in the community. For example, some of the common professions in the Madison area with qualifying average household incomes include customer service representatives (\$33,940), cashiers (\$19,830), Janitors (\$25,800), waiter/waitress (\$20,600) and administrative assistants (\$35,340)⁶. These tenants are contributing members of our community who, without the benefit of the income qualifications and rent limitations imposed upon affordable housing developments, likely would find themselves housing cost burdened or severely housing cost burdened.

⁵ See <https://www.wheda.com/LIHTC/> for more information.

⁶ City of Madison, Affordable Housing FAQ May 2016

Another misconception is that affordable housing developments will bring down property values in a neighborhood. This is one of the most common and misleading misconceptions about affordable housing and also one of the biggest concerns raised by neighborhoods over the development of affordable housing. However, this notion has generally been disproven. Architectural standards and property maintenance lies at the heart of property values for developments and the surrounding properties. At the present time, the City of Madison does not relax architectural or planning standards for affordable housing. As such, these developments are built to the architectural and aesthetic standards desired by the City and the community and may even increase the property values of the surrounding properties. The incorporated pictures of City Row Apartments, a Section 42 tax credit project in the heart of downtown Madison, demonstrate this point. Further, as affordable housing projects are often funded with public money or, in the case of LIHTCs, with equity from large institutional investors, affordable housing projects generally can be found to have to comply with stricter maintenance and operating requirements, requiring professional property management and mandating property management and maintenance at higher standards than those imposed upon market rate rental projects. .

Affordable Housing in Downtown Madison

DMI's area of focus is generally from the Yahara River to the Stadium and for many reasons this area is well-suited for further affordable housing development. Of note, the downtown area is well-served by public transportation, is walkable to retail and service destinations and is located near employment opportunities, all of which are particularly important housing features for low-income tenants. However, because land located in the downtown area is generally more expensive, absent TIF or other financial assistance, housing developers are naturally inclined and incentivized to select sites located on the City's periphery. With somewhat limited public transportation options in the City, this poses a challenge to the low-income residents that do not own a car and can start to diminish the benefits of affordable housing assistance by increasing a household's expenditures on transportation, even as they save money on housing.

Keeping in mind that downtown Madison is a significant employment center in our community, we would also note that an insufficient level of affordable housing within the proximity of downtown can negatively affect downtown employer's ability to get and retain qualified employees. A lack of affordable housing often times makes it more difficult – and thus more costly – to recruit and retain employees. From an economic development perspective, we believe downtown employers would benefit from an increase in the affordable housing supply near and around downtown or located on direct transit lines to downtown.

City of Madison Action

In 2014, the City of Madison launched an initiative to add 1,000 new affordable low-income rental units to the City of Madison over five years, with 250 of those units serving the homeless. To achieve this, the City created the Affordable Housing Fund (AHF) which makes City funds available to provide below market loans to Section 42 LIHTC projects in the City of Madison. By providing AHF loans for proposed tax credit projects, the project receives more points in WHEDA's

competitive process making the projects in the City score higher. Thus far, the City has been successful in its efforts to leverage City AHF dollars with federal Section 42 tax credits. In 2015 and 2016 alone, 8 AHF recipient projects received tax credit awards, totaling over 50 million dollars in tax credits that will be invested in the City of Madison's affordable housing supply. AHF Funds are currently deployed or committed for almost 500 new units of affordable housing within the City.

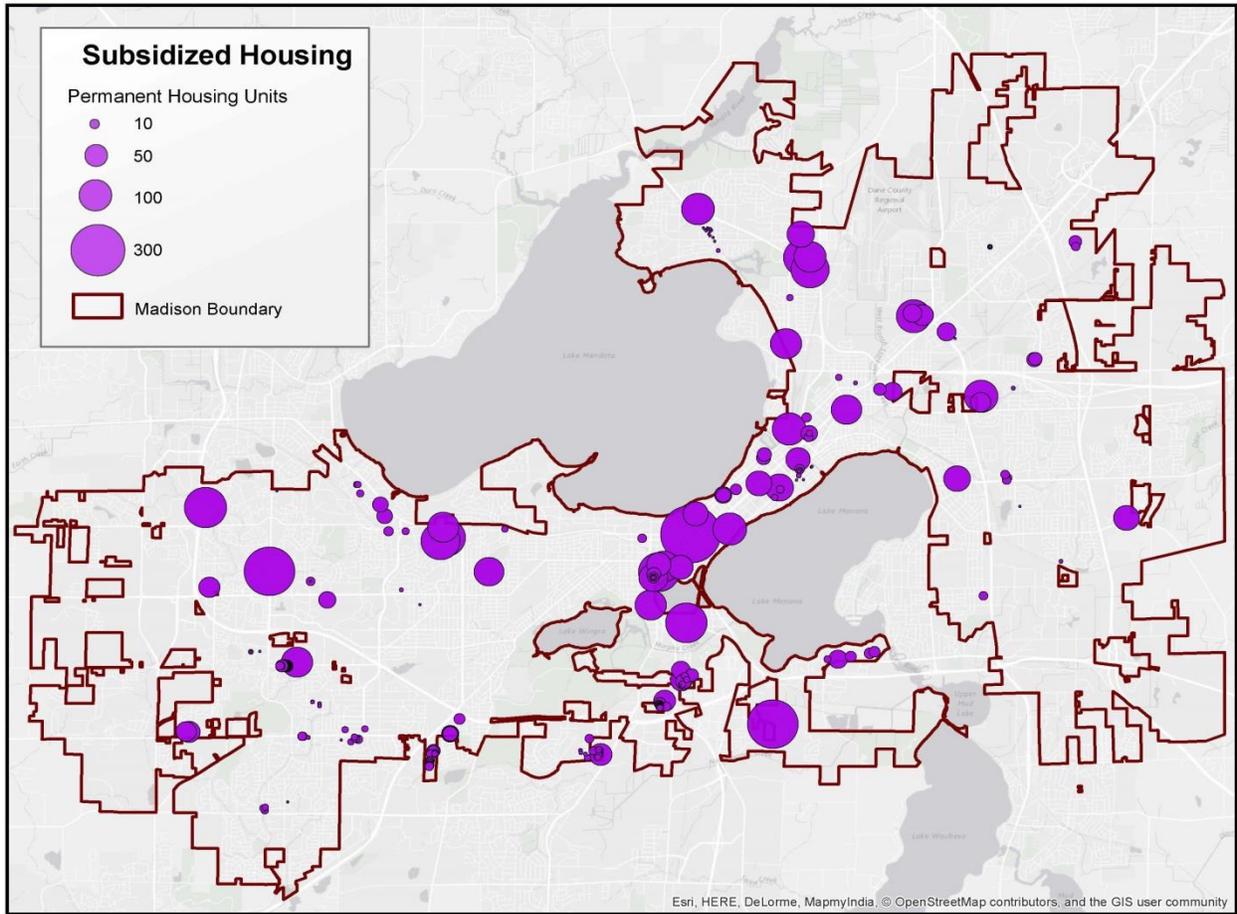
The City is currently considering an amendment to the City's park impact fee ordinance to eliminate park impact fees for low cost affordable units within housing developments. If adopted, this ordinance will reduce the upfront costs of affordable housing development, providing a significant financial incentive to include affordable units within housing developments.

The City is also taking advantage of a relatively new state law, which allows a municipality to hold a TIF district open for an additional year and utilize the additional increment generated by the district in that year to fund affordable housing developments (See Wis. Stat. 66.1105(6)(g)). Funds from TIF district 33 were utilized for affordable housing in 2016 and incremental revenue from TIF district 32 are scheduled to be used for affordable housing in the 2018 budget⁷.

Recommendations

There are limited known resources available for the creation and maintenance of affordable housing. We should strive as a community to work together to ensure that that these dollars are used in a way that maximizes the availability of affordable housing for our residents in strategic locations. DMI does not believe that there is a one-size fits all solution or mandate that would work for all projects, all developers and all financing structures. However, DMI commends the City of Madison for its efforts thus far in creating the AHF and considering other financial incentives for affordable housing development and strongly encourages the City to continue to look for ways to strategically leverage federal, state and local funding sources in coordination with the private sector to support additional affordable housing development. If we are going to make a dent in the 7,000 units needed in order to supply housing for our low income residents, this is going to have to be a community effort, exemplifying public private partnerships, innovation in development and support from the community's businesses and residents.

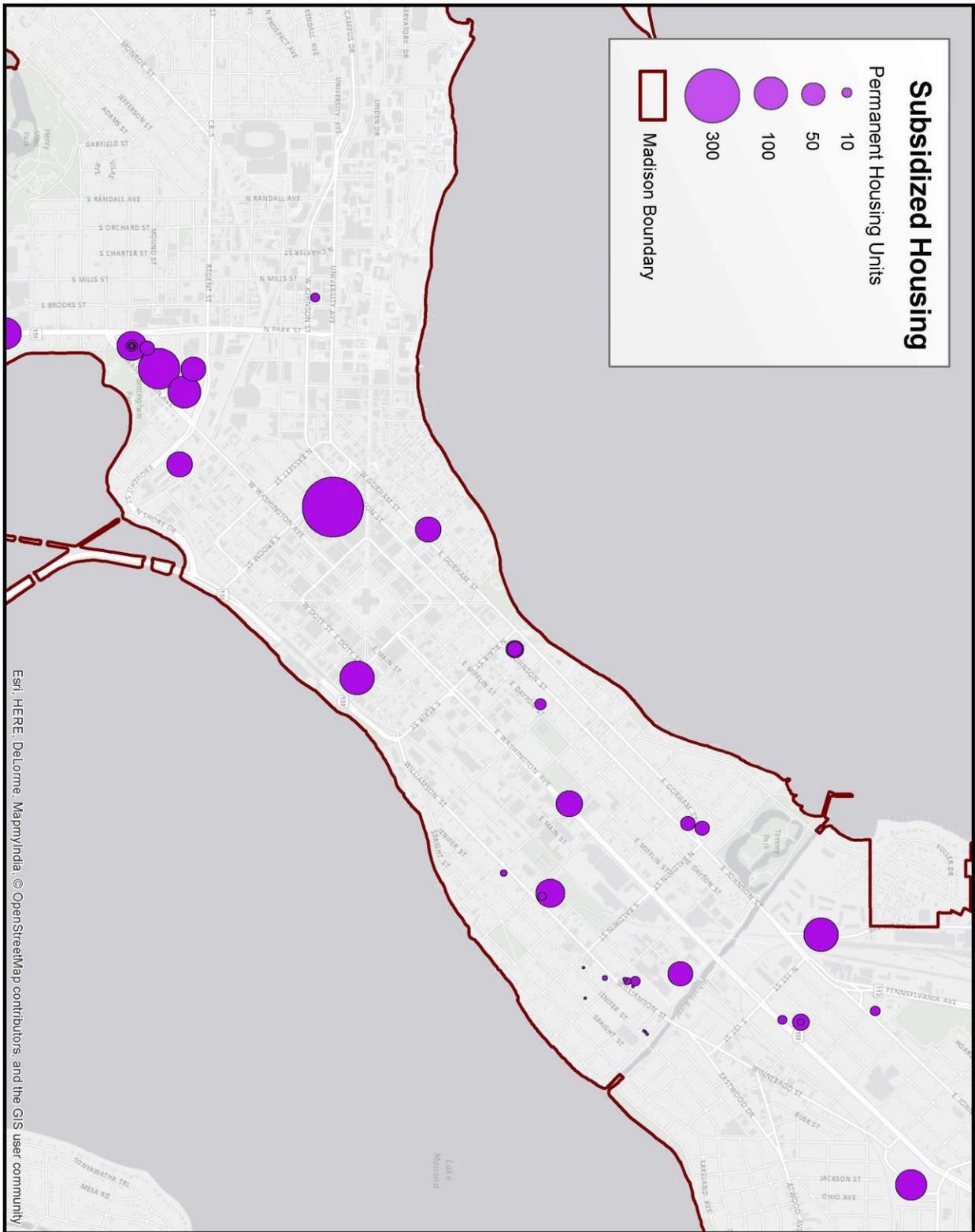
⁷ <https://www.cityofmadison.com/finance/documents/2017CapBud/220-TIFexec.pdf>



City-Wide Affordable Housing Locations



**Stone House Development's
City Row Apartments, 602 E. Johnson Street, Madison**



Esri, HERE, DeLorme, MapmyIndia, © OpenStreetMap contributors, and the GIS user community

Downtown Affordable Housing Locations