CONNECTING PEOPLE AND PLACES

MULTI FAMILY HOUSING IN WISCONSIN®.

Wisconsin Economic Development Corporation

The 102 on Broadway, De Pere

UNDERSTANDING AND ATTRACTING RESIDENTIAL DEVELOPMENT

Many Wisconsin communities are experiencing a significant shortfall in the housing types that are necessary to retain and attract critical elements of the population. Young households, relocating professionals and empty nesters all have housing needs that are different from the needs of the populations for whom many residential developments were built. Consider the following (2017 U.S. Census American Community Survey (ACS):

- 66 percent of Wisconsin homes (and 89 percent of owner-occupied homes) are single-family detached, yet 29 percent of all Wisconsin households (and 43 percent of renters) are single adults, and only 29 percent of households have children (this percentage is the same for both owners and renters).
- 55 to 75 percent of relocating employees choose to rent for at least one year, depending on age and availability of residential options.
- 6 percent of all residential units in Wisconsin are more than 50 years old.
- 64 percent of households headed by individuals under age 35 and 30 percent of households headed by individuals over age 70 are renters.

This combination of factors has led to a critical mismatch between the type of housing present in our communities (single-family, multi-story, mid-century) and the type of housing demanded by the fastest-growing segments of the population (rental, one-story or multi-unit, modern)—yet often a combination of stigma, regulation and financial challenges prevent the construction of the quantity and type of housing that would close this gap. The outcome for communities over the long term can be reduced population growth, diminished net new construction, and fewer workers and school-aged children moving into the community.

Considering that households evolve over time (the average individual moves 11 times in his or her life, according to the Census Bureau), providing a full complement of residential options allows individuals and families to adapt to changing circumstances by relocating within the community. This cycle starts when an individual relocates for employment: his or her household may be required to either accept local residential options that do not meet all the criteria, or relocate instead to a nearby community with more offerings. Although the individual may remain committed to working and engaging in the local area, ultimately the fact that he or she resides elsewhere will lead to social and employment connections that may will draw him or her away, further depleting the local population and reducing the connection between employers and the community. Similar decision points may occur when children are added to the household or when older residents seek reduced maintenance obligations. Limited local options at any of these junctures can shift decisions toward alternate options and, over time, alter the character of the local community.

In addition to the mismatch between supply and demand for housing types, a further difficulty for many communities is the fact that increasing shares of residential units in many areas are dedicated to:

- seasonal homeownership (7 percent of all units statewide, but up to one-third of units in some counties, according to ACS 2017), and

- occupancy by seniors on fixed incomes with limited maintenance budgets (more than one-third of seniors have annual earnings under $30,000, and 12 percent of all owner-occupied homes (nearly 200,000) are owned by those over 75, per ACS 2017.Additionally, many communities have established internal policies that preclude necessary development, such as the prohibition of multi-unit housing with more than a handful of units or requiring only large units (i.e., over 1,200 square feet). These limitations make cost-effective development impossible, as housing values are lower in rural counties (by 31 percent) than in major metro areas, while construction costs and borrowing costs remain the same. As a result, new market-rate apartments need to generate at least $800 in monthly rent to be viable, while new single-family homes cannot be constructed for under $285,000 excluding land costs, according to the National Association of Home Builders (NAHB).

Zander Place Apartments, Cross Plains
(former Zander Creamery site)

Harbor Lights, Condominiums Port Washington

SOLUTIONS AND STRATEGIES

Solving this issue is a challenge that requires a multifaceted approach. There are only a handful of ways to create new residential opportunities, summarized in the table below. Each potential housing type has unique pros and cons from the perspective of addressing local housing challenges, and each also has financing and market requirements that must be met for new development to be feasible. Understanding what type of housing is required by and feasible within your community, and establishing tools to facilitate this type of development, are critical first steps in addressing the problem.

Development Type/ Strategy	Pros	Cons	Financing Options
New Single-Family Development	Accommodates family households Facilitates households wanting to expand Can promote turnover of existing homes	Difficult to finance speculative development Difficult to build new affordably priced units with high construction prices	TIF, but only if mixed-use district and 3 or more units per acre Deferred land payment options
Existing Home Renewal Program	Promotes home ownership and upgrades existing units Stops loss of value from existing infrastructure Creates stable consumer pool walkable to downtown	May not be able to address all housing needs (e.g., garages) May further limit rental housing pool	TIF Closure Renewal Program HUD HOME, USDA both have homeowner programs
Market-Rate Apartment Building	Ability of landlord to adapt to market conditions Accommodates variety of demographics over long term	Must achieve critical scale to attract outside developers (49 units average for market rate) Will likely have to charge rents higher than starting wages at most employers	TIF Guaranteed rent/leases by local employers
Affordable Apartment Building	Creates high-quality units affordable to most Fills identified gap in market Renters must be employed in stable position	Caters to only one area of need (e.g., seniors, entry level workers) Difficult to build mixed-use projects	WHEDA Low Income Housing Tax Credits USDA loan guarantee
Condominium Project	Can accommodate aging populations Can encourage turnover of units in market	In tourist markets, may be purchased as a second/vacation home difficult to finance – requires significant presales	Potentially historic preservation tax credits, if converted to condos after five years Presales
Upper-Floor Units Downtown	Potential for significant property value increase Encourages full utilization of existing properties Bonus of increasing storefront demand	Potential to displace current tenants Need to address overnight parking May not be accessible for all tenants If not previously residential, may require elevator and sprinkler	TIF Closure Renewal Program HUD HOME Dollars Regional CDBG Housing Funds (depending on charter)

THE ECONOMICS OF MARKET-RATE APARTMENTS IN WISCONSIN

While apartment demand may be strong and growing within rural communities, there is still a substantial gap between market rents in rural areas and comparable units in urban areas. However, construction materials cost the same (or even more with transportation), and labor costs are also likely comparable between the two settings. This leads to a fundamental imbalance in the potential return on development in rural areas. This imbalance is further compounded if the development company is not local and needs to factor in the cost of managing a property remotely (e.g., travel, outsourced repairs). Therefore, local individuals with real estate experience and a desire to hold a property over the long term offer the best chance for profitability. Their local ties also make them more likely to be able to attract investors from within the community. The impact of local rents on the development market are indicated in the table below. While high demand (need) will eventually push rents upward, it can take time (and several successful projects) to establish the true potential market rent for new product.

	La Crosse	Viroqua	Wausau	Marathon City
Median Gross Rent (built 2000 or newer)	$852	$719	$745	$606
Median Gross Rent (all rental units)	$711	$640	$653	$569
% Increase for New Construction	20%	12%	14%	7%

Source: 2017 census

Jefferson Street Apartments, Ripon

DISPELLING MYTHS

Even in instances where it is financially feasible to build new housing, political or public opposition can prevent development from occurring. Therefore, once a feasible development strategy is identified, the next step should be a public information campaign to educate about the need for this product and the positive impact that the new development and residents will have on the community, and to dispel negative myths about the impact of apartments in general and affordable housing specifically. Some of the most common myths are outlined below. Communities will need to take steps to counter these arguments when planning for a specific project locally.

Reedsburg's Park Place senior apartments provide an attractive, walkable and affordable option for older adults.

The market rate Rock Avenue Apartments in Viroqua are located adjacent to the downtown, library and Western Technical College.

1. Apartments and affordable housing are ugly. Affordable housing comes in all shapes, sizes and types. A well-designed development (of any type) should fit in with its surroundings and not be remarkable to passers-by. Having design standards or review processes in place that encourage the use of quality materials and promote attractive facades is critical for neighborhood support as well as project success (quality tenants want to live in attractive places). In addition, many historic renovation projects are designed as affordable housing. Access to additional tax credits makes these developments possible.

2. Apartments and affordable housing will increase traffic. Obviously, a development will increase the number of cars at its location during certain hours. However, if the project occupies a former industrial or commercial site, the total number of cars is actually likely to be fewer than with the former use. In addition, locating a project near employment centers or downtown districts gives employees who previously commuted long distances a shorter commute, translating into less traffic overall.

3 .Apartments and affordable housing increase crime. Multiple peer-reviewed studies have found no link between affordable housing and crime. In some cases, the addition of new units to existing areas with high (local) crime resulted in an overall reduced crime rate. It is probably true that there are apartment buildings in every community that generate more than their share of emergency calls. However, the screening requirements and professional management required for developers to be awarded tax credits for affordable housing provides significantly more oversight and quality control than exists in older apartment properties. For market-rate apartments, the quality of the operator determines the quality of the tenants, regardless of income level.

4. Apartments and affordable housing lower property values. As with any development, changes in property values in adjacent properties depend on how a development is designed and managed. Multiple studies have found that a cluster of poorly designed or managed units (of any type) located in already poor neighborhoods can have a negative effect on values. In contrast, new development in healthy neighborhoods, and developments that are well-designed (and potentially even add amenities, such as coffee shops or retailers) have a neutral or positive impact on adjacent property values.

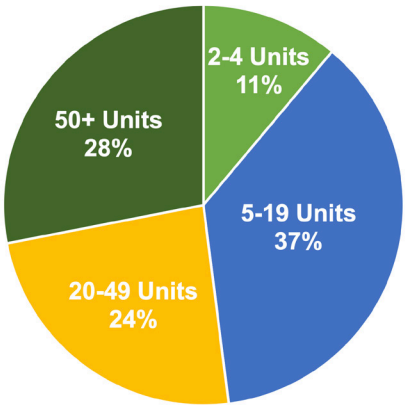
DEVELOPMENT FUNDAMENTALS

If you are planning for, or hoping to attract, new residential development to your community, it may be helpful to understand the type of projects that are being built, for what audiences, and with what financing.

PROJECT SIZE

As mentioned previously, larger-scale developers (especially those utilizing tax credits) require a certain size of project to achieve an economy of scale and cover the cost of management. The average project size for affordable projects in the past three years is 41 units per project, while the average comparable market-rate project in the same community is 92 units. Looking at all new multi-family construction in the state since 2010, the pie chart at right shows that smaller unit construction is still possible, comprising 37 percent of new units, but will often require a local contractor or builder connection to be feasible (according to ACS 2017).

Multifamily Construction by Units (2000 and Newer)



Platten Place Apartments, Green Bay

DEVELOPMENT VALUATION

One oft-heard argument is that residential uses are not the highest and best use of development sites. While it is true that commercial uses can result in a higher per square foot valuation, most communities cannot support the density of commercial property to fully maximize a site. A multi-story residential development will result in significantly higher valuation than a single-story retail development on the same site. Combining the two into a mixed-use development with first floor-retail and upper-floor residential units creates an even higher value, as each use creates a benefit for the alternate user base, making the location more compelling.

However, it is true that affordable housing projects are typically assessed at a lower rate than their market-rate counterparts, largely because the income approach plays a role in valuation, and affordable projects can achieve only a specific income threshold based on the rents they can charge. Comparing 16 communities where comparably-sized affordable and market-rate projects were built within the same five-year span, the assessed values of the market-rate projects on a per-unit basis were between 126 and 216 percent higher than the assessed values of the affordable developments.

Historic renovation projects convert former schools, factories and warehouses into residential uses. Because residential demand is strong in most areas of the state, and the creation of individual residential units can accommodate flexible floorplans, residential uses make sense for these properties. However, even with the availability of historic tax credits and low-income housing tax credits, it is still necessary to purchase the property for a reasonable amount to make the project feasible. The table below summarizes the acquisition price of former school facilities converted into various use types.

HISTORIC CONVERSIONS

Historic property conversions also significantly increase property values: a study of the first year of the state's Historic Preservation Tax Credit Program found that residential conversions increased the value of the properties in question by an average of 320 percent, creating an average assessed value of $88,760 per unit. (Source for school conversion data: 2016 WEDC study.)

Berlin Middle School Apartments, Berlin

AVERAGE PURCHASE PRICE OF FORMER SCHOOL BY CONVERTED USE

Community Use	Affordable Housing	Market Rate Housing/Office
$133,000	$210,000	$275,000

DEMOGRAPHIC OF RESIDENTS

The perception of the 'type' of people that live in apartments is often one of the primary arguments made against new multi-family development. As discussed previously, younger and older households have traditionally been the most likely to live in apartments. Of course, these households are typically the lowest-earning demographic groups, and renters have lower household earnings even among peer age groups (albeit with more one-person households). This trend is changing, as the number of renters 55 and older grew by 28 percent between 2009 and 2015, while renters ages 35 to 54 grew by 14 percent, even as the share of youngest and oldest households renting held steady (ACS 2017). Additionally, the segments of these populations choosing to rent are more highly educated (20 percent more have college degrees), and therefore have higher income than previous renter pools (source: Pew Research Center). Taken as a whole, renter populations much more closely resemble their local demographics than they did in decades past.

From a housing affordability perspective, it is useful to highlight the income levels of entry-level civil servant positions compared to the incomes required to qualify for residency in an affordable housing unit. The table below indicates which professionals in various counties would qualify for affordable housing under the 60 or 80 percent area median income (AMI) thresholds, the two most common types of units built in Wisconsin. Certainly, many communities would hope that their police officers, teachers and nurses would be able to live within the community, although in many cases, safe and comfortable rental units may not be available at these wages without the addition of subsidized units. It is important to remind individuals that 'those' people that are not wanted (i.e., the people who qualify for affordable housing) are often the same individuals that are admired and recruited by local employers.

COUNTY	Starting Police SALARY	Starting Teacher SALARY	Starting Librarian SALARY	Starting Welder Salary	Starting Nurse Practitioner Salary
Jefferson	$39,582	$41,870	$37,877	$37,877	$34,362
Vernon	$34,070	$25,938	$35,714	$35,714	$32,386
Marathon	$43,368	$46,280	$45,469	$45,469	$34,299
Ozaukee	$43,534	$46,758	$40,227	$40,227	$31,013
Rusk	$42,598	$46,738	$29,390	$32,885	$36,754

Affordability	60% AMI	80% AMI

Source: EMSI, HUD (2018)

Stoughton's Elven Sted project created affordable units on a former brownfield site near the river.

MAKING YOUR COMMUNITY DEVELOPMENT-READY

For those that suspect there is a need for housing in their community or are tired of hearing from employers about the challenge of recruiting and the lack of executive housing, or from the school district about declining enrollment, this document outlines some steps you can take to move the discussion forward in your community. Because demand is strong nearly everywhere, attracting a developer to build new units may take some effort, especially in a small or rural community. Additionally, in some cases, facilitating or encouraging multiple smaller projects by local investors or contractors can be easier and more effective. However, bringing new units to fruition through either mechanism requires some up-front leg work to reduce the risk to a potential developer and make the project more attractive.

First, do your research. Interview local employers, property managers, real estate agents, etc. to gain a true understanding of how much and what type of housing your community needs. Collect basic information on rents and vacancy rates in existing rental properties, and other insights on what types of employees/demographics are struggling to find suitable housing in the community. A housing study is also an option, although most developers will also need to do their own. The final section of this document includes two tools that can be used to determine rent and salary thresholds that are necessary to develop various types of housing.

- Make sure your elected officials are aware of the issue and that they hear personally from individuals impacted by the shortage (e.g., employers, downsizing households, young professionals). Provide them with accurate information on the market and local opportunities, and dispel myths. If necessary, schedule a tour of neighboring communities' facilities of the type that is needed.

- Identify locations in your community that are potentially suitable for multifamily development and create a map illustrating those sites, along with other major landmarks, amenities and employers. Once elected officials are comfortable with the idea of new development, help them to identify appropriate locations and understand tradeoffs.

    - Suitable locations for new development should be 1.5 acres or larger and zoned appropriately to accommodate developments of 20 units and greater. For locally based developers, identifying sites for 4- to 10-unit infill projects, or existing properties which can be rehabbed or converted, and zoning them for multifamily and/or relaxing unit size standards or parking requirements may be necessary.

    - Understand which locations qualify for funding sources such as Section 42, New Market Tax Credits, etc (these all have online searchable maps or databases by census tract).

Consider the context. Developments in or near downtown or near employment centers will typically be less controversial than projects in residential areas. Similarly, promoting sites that represent productive infill or removal of an existing eyesore could accomplish two objectives at the same time.

- Once a short list of sites is identified, it may be necessary to conduct some neighborhood outreach or hold meetings to introduce the concept. This should be done in much the same way as elected official education was conducted.

- It may also be necessary to address issues associated with the top sites. They may need to be rezoned to shorten the approval process necessary for multifamily housing, or zoning ordinances may need to be amended to reduce parking or square footage requirements to make development feasible. Depending on the former use, an environmental site assessment may be needed to determine if contamination exists. The availability and potential pricing of each site should also be considered. It may be prudent to secure an option on the site if there is a potential that public discussions will result in future price escalations by the current owner.

- Understand what the municipality is willing and able to do to support the development financially. Is there a TIF in place? Will the municipality purchase the property or contribute to the project? Are there infrastructure needs that the municipality can help address (brownfields, access roads, sewer/water)? Is there an already planned project that will help support the project or partner with the project? (For example, planned road reconstruction can extend laterals or upgrade lines, or a planned senior center can be located adjacent to or on the first floor of a senior housing project.)

Explore other partnerships in the community. What other stakeholders would like to see the project happen? Will the local bank provide favorable lending? Will a local employer guarantee some rentals for the first few years? Is there a business or investor that would purchase the first-floor condo level for commercial space to support the project?

- Depending on the type of housing development envisioned in the community, it is useful to consider the type of assistance that is most valuable. For instance, small-scale developers may require up-front assistance or overall cost reduction to secure construction financing, while rent guarantees may make larger projects more bankable. For affordable housing, there are various means by which projects are awarded points toward funding; these include criteria such as providing supportive services to residents, incorporating desirable amenities, being located in a walkable area, being part of an existing city plan and/or responding to a municipal RFP, and receiving 5 percent of funding from public dollars.

CALCULATING MARKET FEASIBILITY

Understanding your market fundamentals is essential for determining what can be built in your community, and by what type of developer. The table below provides a formula for comparing the rental rates needed to break even on a project versus the impact of zoning requirements that designate a certain minimum size on development feasibility. The table below provides a reference point for identifying affordable rental rates for various salary thresholds common to specific industry groups. Furthermore, this information highlights the type of housing products that can be built and also be affordable to the targeted populations.

Line		800 square feet	1,000 square feet	1,200 square feet
1	Estimated Market Rents (rents from newer units)	$800	$900	$1,000
2	Vacancy Factor (at least 5%, up to 10%)	5%	5%	5%
3	Realizable Rents (Subtract line 2 from line 1)	$760	$855	$950
4	Operating Expenses (35%) (35% of line 3)	($266)	($299)	($333)
5	Operating Income per Unit/Month (subtract line 4 from 3)	$494	$556	$617
6	12 Months (multiply line 5 x 12)	$5,928	$6,672	$7,404
7	Debt Coverage Ratio (lending standard)	1.25	1.25	1.25
8	Cash Available for Debt Service (divide line 6 by line 7)	$4,742	$5,338	$5,923
9	Debt Service Constant (lending standard)	8.10%	8.10%	8.10%
10	Justified Mortgage (divide line 8 by line 9)	$58,543	$65,901	$73,123
11	Justified Equity (10% return) (Line 10 x 10%)	$5,843	$6,590	$7,312
12	Justified Investment (line 10 plus line 11)	$64,386	$72,491	$80,435
13	Anticipated Per Unit Cost ($85 per SF)	($68,000)	($85,000)	($102,000)
	Estimated Profit/Gap per Unit (subtract line 13 from line 12)	($3,614)	($12,509)	($21,565)

CALCULATING AFFORDABILITY

Once you have identified the type of supply that is feasible to be built under market conditions, you must determine the amount of demand that exists at that price point. The department of Housing and Urban Development (HUD) defines affordable housing at the point where gross rent (rent plus utilities) does not exceed 30 percent of a household's income. The table below provides statewide average annual earnings for common and fast-growing occupational categories and shows the rental rates that would be affordable to households at these levels. Since rents are typically marketed in net terms, but the HUD standards are for gross rent, a statewide average monthly utility cost of $112 has been used to arrive at the net rents included in the table.

OCCUPATIONS IN WISCONSIN BY MEDIAN EARNINGS AND ASSOCIATED AFFORDABLE MONTHLY RENT

Occupation	Hourly Median Earnings	Monthly Net Affordable Rent
Retail Salesperson	$11	$460
Office Clerks	$16.31	$736
Food Preparation & Service Workers	$9.00	$356
Customer Service Representative	$17.09	$776
Registered Nurses	$32.50	$1,578
Real Estate Agents	$19.58	$906
Bookkeeping & Accounting	$17.34	$789
Elementary School Teachers	$26.78	$1,280
Construction Laborers	$15.12	$674
Home Health Aides	$10.58	$438
Software Developers	$38.99	$1,915
Sales Representatives	$34.21	$1,557
Dental Technicians	$17.40	$792

*hourly median x 2080 hours. 30% rental rates, excluding $112 in utilities.

Source: Economic Modeling Statistics Inc.