

Promoting Affordable Housing in Madison's Isthmus Neighborhoods

Purpose:

The purpose is to preserve income diversity in neighborhoods in the face of significantly rising housing costs. The objective is to establish a policy, procedures and investment guidelines that are followed by the city, developers and neighborhoods that result in measurable number of affordable units.

To achieve this end, an ad-hoc committee was established consisting of representatives from Greater Williamson Street Area Business Association, Common Wealth, Marquette Neighborhood Association, A Place to Be, and the Tenney-Lapham Neighborhood Association, to prepare this working draft. This committee met a number of times in addition to subgroup meetings and also included developers and independent experts.

Problem:

According to the 2014 City of Madison's Housing Report, "Madison's low-income population faces a large and persistent problem of a lack of affordable housing that results in high levels of housing cost burden and at the extreme, homelessness."

- The main challenge to creating additional units for affordable rental housing to low income households in Madison is that the cost of building a unit are higher than what can be covered by rents that are affordable. (See data 1).
- A large affordability gap exists between the rent that a low-income household can afford and median rent prices (See data 2).

Background:

"Since the beginning of the recession in 2007, the City of Madison has experienced a continued rise in population and households that has outpaced its production of housing." (Madison 2014 Housing Report)

A key problem is the undersupply of residential rental housing, resulting in rising rents, lower vacancy rates, and a growing affordability gap between the rental payments a low-income household can afford and median rent price (See Data 3).

Neighborhoods have an interest in affordable housing. But they lack the capacity and tools to effectively and efficiently work with developers and the city to reach agreements.

Isthmus neighborhoods are suitable locations for affordable housing because they can easily connect housing to other needs like jobs, schools, services and transit. They also are under development and pricing pressures that represent a threat to the maintenance and creation of affordable housing. At the same time, opportunities exist

also because of development pressure on the Isthmus to work with the private sector in achieving affordable housing goals in ways that support the profit motive. Isthmus neighborhoods are acutely aware that rising housing prices have reduced diversity in communities elsewhere in the U.S. They seek to avoid that outcome on the Isthmus.

Findings:

- There is a growing affordability gap: as housing prices rise faster than incomes, for a growing number of households, housing costs are consuming an excessive portion of their income (above 30% and even above 50%). This is a result of both escalating housing costs and stagnating household incomes.
- The affordability gap mostly is in rental housing (90% of new housing demand in Madison is rental), although affordable home ownership is also important.
- The current market will not provide affordable housing without subsidies. Conventional sources of subsidies (generally federal programs including CDBG, HOME and LIHTC) are insufficient to meet demand. Additional sources, especially TIF and the City Affordable Housing Fund, are needed.
- Subsidized housing projects typically have expiration dates (except for land trusts) after which housing may convert to market rates. Additional research is needed to determine how many units may convert to market rates in coming years.
- It is easier to achieve affordable housing outcomes in larger projects (economies of scale).
- Development pressure in Capitol East neighborhoods presents the city and neighborhoods with opportunities to use developers' desire for project speed and certainty as a part of win-win discussions.
- Increasing supply of all housing, and hence raising the vacancy rate, is part of an overall approach to easing price pressure on housing.
- There may be one or more local developers interested in working with neighborhood groups to make their projects case studies of incorporating affordable units.
- Approximately 2,000 new housing units could be added to the Isthmus in the next 10-20 years, mostly in the Capital East District (along East Washington Ave.).

Desired Outcomes:

- Ensure that new construction includes a significant amount of affordable units.

- Potential neighborhood-wide target: On a bi-annual basis, 20% of new construction housing units meet affordability criteria (half of the 20% affordable to households at 50-80% of County Median Income, or CMI; half affordable to households at 30-50% CMI)
- Preserve existing affordable subsidized rental units.
 - Potential target: no loss of existing affordable units
- Convert existing units to affordable housing.
 - Identify potential target for number of units converted from market to levels affordable to 60% of County Median Income.

Actions:

Short-term actions focus on the first desired outcome above, ensuring that, in aggregate, new construction include a specific amount of affordable units. This outcome is identified for initial action because of significant development pressures that seek to increase residential construction in the Isthmus. Another reason for the focus on new construction is that neighborhood associations in the Isthmus are actively involved in development review, whereas preserving existing affordable rental units, and converting units from market rate to affordable (subsidized), would require new capacities among the associations.

I. City:

- Achieve recommendations of City Affordable Housing Program:
 - Achieve the promised goals of adding approximately 750 additional units of affordable rental housing in Madison over the next five years by committing more than \$20 million for an Affordable Housing Fund.
 - Add 2/3 of units that will be affordable at a variety of income levels (ranging from 30% to 60% AMI).
 - Have 1/3 of units that will be permanent supportive housing for individuals and families experiencing homelessness.
 - Expand down payment assistance and housing rehabilitation programs for low and moderate-income households.
 - Encourage developments to locate in neighborhoods served by public transit, healthcare, grocery, and other amenities.
 - Better align and coordinate City funding programs to leverage and secure Section 42 Low Income Housing Tax Credits.
- Work with neighborhoods and developers to create a template for incorporating affordable housing into development projects: portion of units, amount and sources of subsidies, process for working with the city and neighborhoods.

- Encourage developers in the beginning of the approval process, to include affordable units in the development plan.
- Identify the number of units as viable targets.
- Consider adding additional or stricter affordable housing criteria to calculations that allow bonus stories/features or zoning exceptions in new developments.
- Align affordable housing goals with TIF funding for large residential projects to prioritize inclusion of affordable housing.

II. Developers:

- Start working with neighborhood associations at the early concept stages (before architectural designs have been rendered, etc.)
- Familiarize themselves with city affordable housing policies, programs and neighborhood procedures.
- Incorporate affordable housing financial assistance into the development plans.

III. Neighborhoods:

- Adopt a policy that, to secure neighborhood association endorsement, apartment development proposals must show a good faith effort (such as working through the affordable housing template to be developed) to include an affordable housing plan that contributes to meeting affordable housing goals (above).
- Work with our the City (Mayor's Office, Alders, and appropriate agencies) to prioritize Marquette, Tenney-Lapham and similar neighborhoods for affordable housing subsidies.
- Work with other similar neighborhoods to strengthen message above.
- Promote accessory dwelling units – identifying suitable lots, marketing ADU programs and incentives.
- Promote alternative housing where possible, including co-housing, housing cooperatives and multi-family dwelling units.
- Disseminate information on cities programs and resources available to incorporate affordable units in the neighborhood.

IV. Next Steps:

- Share with ad hoc committee members for feedback and finalize the document

- Meet with the Alders to share the document and find out how we can work with the city to make this happen once the association boards have passed a resolution
- Share with MNA, GWABA, TLNA and request the associations to pass a resolution to adopt the policy
- Collaborate with developers on pilot projects to showcase best practices.
- Associations to jointly establish an Isthmus neighborhood affordable housing team, with the goal of becoming proficient and collaborative in achieving the associations' shared affordable housing goals.

Additional Notes:

DATA 1.

- The cost to build a one-bedroom unit without subsidy would require rents of \$1,185/ month to cover expenses, debt service, and a modest return on equity.
- A household with an income of \$40,000 (80% of household median income, the threshold for "low-income), can afford rent of roughly \$1,000 per month..

DATA 2.

- Slightly more than 50% renters pay more than 30% of their household income in rent
- Renters with income less than \$37,000 (about 60% of household median income) are typically cost burdened
- Households with income less than \$25,000(about 40% of household median income) often pay more than 50% of household income in rent.

DATA 3.

- A household must earn \$35,000 annually to afford median monthly rents at or below 30% of their household income.
- 35% of Madison households are unable to afford housing payments at or below 30% of their income.
- Roughly 50% of Madison renters are housing cost burdened, meaning they have to pay more than 30% of their household income in rent.