ROBERT BROOKS

STATE REPRESENTATIVE • 60TH ASSEMBLY DISTRICT

Hearing Testimony
Assembly Committee on Housing and Real Estate
Tuesday, October 12, 2021
11:00 A.M.
Wisconsin State Capitol, Room 417 North

Chairman Summerfield and members of the Assembly Committee on Housing and Real Estate, thank you for affording me the opportunity to provide testimony on Assembly Bills 605, 608, and 610, relating to workforce housing.

Wisconsin is in the midst of a growing workforce housing shortage. According to a 2019 report titled *Falling Behind: Addressing Wisconsin's Workforce Housing Shortage*, since 2012, Wisconsin has created seventy-five percent fewer lots and fifty-five percent fewer new homes than pre-recession averages.

This scarcity has been further compounded by a series of other factors. The National Association of Home Builders estimates that excessive and outdated regulations add an average of $93,870 to the final price of a home – or increase the total by approximately 23.8 percent. Rents are also growing faster than incomes, and the cost of construction materials is increasing.

As a result, Wisconsin's median age for first-time home buyers has risen to thirty-three. The state is also running a migration deficit with individuals aged twenty to twenty-four and has a lower homeownership rate for households ages twenty-five to thirty-four and thirty-five to forty-four than all neighboring states, except Illinois.

These bills are part of a larger legislative package to provide safer, more affordable housing options across the state.

Assembly Bill 605

Assembly Bill 605 requires political subdivisions to use a portion of the funds received from the federal American Rescue Plan Act toward workforce housing projects. The bill requires a political subdivision to use at least $1,000,000 or at least ten percent of total stimulus money it receives, whichever is less, for one of the following: new workforce housing infrastructure, establishing a low-interest loan program for remodeling and rehabilitation of older workforce housing, creation of a low-interest loan for program for the building of new workforce housing, and redeveloping idle sites currently used for a shopping center or other commercial property of at least forty-thousand feet to workforce housing.

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Assembly Bill 608

Assembly Bill 608 is an important first-step towards reducing the regulatory burdens communities and developers face when trying to build affordable workforce housing. Assembly Bill 608 updates some outdated and burdensome regulations related to zoning and permit approval processes. This bill requires municipalities with zoning ordinances to zone at least one district for multi-family housing. It also establishes a ninety day process for the review and approval or denial of housing applications, and it mandates that street addresses within a plat are approved by the date the plat itself is approved.

The bill also provides that a person aggrieved by the failure of a political subdivision to approve an application for a workforce housing project including at least four residential units may appeal the decision to the circuit court or the county in which the project was to be completed. If the court finds that the political subdivision has failed to satisfy certain statutory requirements related to comprehensive planning or failed to prepare certain reports, the court must order the political subdivision to approve the application.

Finally, the bill provides that a county, town, city, or village (approving authority that has the right to approve or object to a map of a subdivision (plat) must, if the approving authority has the right to do so, assign street addresses to the lots within the plat no later than the date on which the plat is approved or deemed approved by the approving authority, unless the time is extended by agreement with the subdivider.

Assembly Bill 610

Assembly Bill 610 updates state appraisal practices to ensure fair and equal property tax assessments. The bill prohibits the use of mortgages or bank appraisals to determine the assessed value of a property, and it prohibits various uses when determining the fair market value.

Additionally, the bill clarifies that when an inconsistency or ambiguity exists between the *Wisconsin Property Assessment Manual* and state statutes, statutes take precedent.

Assembly Bill 610 modifies Wis. Stat. 70.32 while simultaneously updating and modernizing appraisal practices recommended by the *Wisconsin Property Tax Assessment Manual* in the following ways:

- **Statute controls**—When an inconsistency exists between the *Wisconsin Property Tax Assessment Manual* and state statutes, the statute shall control assessor practices. (Note: this is current law, but only found in court cases).

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- **Mortgage and bank or lender appraisals**—Clarify that assessors shall not use mortgage or bank appraisals to determine the assed value. Mortgages have no basis in determining an assessment.
- **Projected rents and other benefits**—Assembly Bill 610 clarifies that assessors shall not sue mortgage or bank appraisals to determine assessed value. Mortgages have no basis in determining an assessment.
- **Asking price and rents**—This bill clarifies that assessors cannot use list or prices (or rents) to determine fair-market value.
- **Value trends**—Assembly bill 610 clarifies that price trends cannot be used to determine fair-market value.
- **Club houses and swimming pools**—This bill clarifies that club houses, swimming pools, and amenity buildings that are part of multi-family properties shall not be considered part of the value of the subject property if the club house receives little to no rental income even if that club house building is located on a separate lot.

Quite simply, this bill states that assessors must base fair market value off the sale price of analogous properties in the same market segment. This approach, known as the sales comparison approach, refers to a real estate appraisal method that compares one property to comparables or other recently sold properties in the same area with similar characteristics. The bill makes clear that assessments must not be speculative or violate the state's uniformity clause.

As a realtor for more than twenty-five years, I have witnessed, first-hand, the devastating impact of Wisconsin's affordable housing shortage on our local communities. A lack of affordable workforce housing units has made Wisconsin an unattractive destination for job seekers and businesses

The bills contained in this package not only encourage the construction, restoration, and renovation of housing units through the expansion of tax credits, but once again make Wisconsin an attractive place to live, work, own a home and raise a family

I am happy to answer any questions you might have.

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To: The Assembly Committee on Housing and Real Estate
From: Sen. Dan Feyen
Re: Assembly Bill 610

Hello members of the committee, thank you for taking the time to hear testimony on AB 610.

This bill updates and modernizes appraisal practices recommended by the Wisconsin Property Tax Assessment Manual to ensure fair and equal property tax assessments.

AB 610 makes various changes, including prohibiting assessors from using mortgages or bank appraisals to determine assessed value. Many people budget around how much they will need to pay in taxes each year and property taxes should not be subject to ever changing housing prices.

The bill also prohibits using projected rents, list and asking prices, or price trends to determine fair market value. AB 610 also prohibits an assessor from considering the value of shared spaces such as a club house, swimming pool, or other amenities that are part of a multifamily property if these spaces generate little to no rental income.

The bill also states that when there is an inconsistency or ambiguity between the Wisconsin Property Assessment Manual and a statute, the statute controls the practices of the assessor. This is currently the law, but it is not codified in State Statute, only in court cases.

Thank you again for taking the time to hold a public hearing on this bill.

Wisconsin **REALTORS**® Association

To: Members, Assembly Committee on Housing and Real Estate

From: Cori Lamont, Senior Director of Legal and Public Affairs
Tom Larson, Executive Vice President

Date: October 12, 2021

RE: AB 610 – Prohibiting Certain Property Tax Assessment

The Wisconsin REALTORS® Association (WRA) supports AB 610, legislation creating uniformity and consistency in the assessment of Wisconsin real property.

Background
Wisconsin's constitution requires all property tax assessments to be assessed uniformly. Specifically, Article VIII, Section 1 states, "The rule of taxation shall be uniform …." This language, known as the "uniformity clause" to prevent state and local lawmakers from giving preferential treatment to some property owners over others. As stated by the Wisconsin Supreme Court, the purpose of the uniformity clause is "to protect the citizen against unequal, and consequently unjust taxation." See *Weeks v. Milwaukee*, 10 Wis. 186, 242 (1860).

The assessor's opinion of value is given tremendous deference by both the board of review and a reviewing court on appeal. And since the state's current framework presumes the assessor's opinion of value is correct, the property owner is challenged with the "burden of proof" to present significant evidence showing the assessor was incorrect.

The Wisconsin Department of Revenue (DOR) creates the Wisconsin Property Assessment Manual (WPAM). The WPAM is a "guide for uniform property assessment throughout the State. See https://www.revenue.wi.gov/documents/wpam21.pdf. In addition, Wis. Stat. §70.32(1) mandates assessors value real property as specified in the WPAM. The property assessment system utilized by assessors must maintain uniformity, integrity and avoid opportunity for assessors to individually create policy and interpretation.

AB 610 proposes to eliminate the repeated issues relating to certain practices implemented by assessors throughout the state that are inconsistent with the WPAM. Practices that increase the cost of property ownership, further exacerbating the lack of affordability of Wisconsin property.

This legislation
AB 610:

- **Statute controls** - When there is an inconsistency or ambiguity between the WPAM and statute, the statute shall control assessor practices
- **Disallows reliance on projected numbers** - Prohibits assessors from determining the assessed value of real estate based upon
    - *Mortgages or bank appraisals.* Mortgages have no basis in determining an assessment.
    - *Projected rents.* To consider income beyond actual contracted or received rents would be highly speculative and hypothetical. Actual received income shall

govern vs contracted income that never actually materialized (i.e. a tenant didn't pay the rent due).
    - *List or asking prices.* Asking prices represent desired, future value or rents of a property and should not be considered in determining value.
    - *Price trends.* Assessors should not increase the value of all or almost all properties by a general amount or percentage in a year.
- **Club house not to be valued in certain circumstances -** Prohibits assessors from considering the value of a club house, swimming pool, or amenity building if no rental income is generated from the facility.

The WRA respectfully requests your support for AB 610.

Wisconsin Assessor's Manual
and
Legal Reform and Update

Last Drafted October, 2021

(not in any particular order)

The Wisconsin Department of Revenue is the holder of the Wisconsin Assessor's Manual and makes changes as they desire. This legislation would be to direct the Wisconsin DOR to make the following changes permanently in the manual to clarify exactly the rules and regulations and how they are applied in every day use by the assessor.

In addition, the purpose of the amendments to the statutes governing assessments is to update them to reflect the current state of technology and available public data on property values.

This proposed statute shall state the overall objective of an assessment is to **value the property on a single day, January 1st of each year,** using financial information and subject property data and market data from the prior calendar year. An assessment shall be recognized under the statute as a **retrospective valuation** for tax assessment purposes only and shall not consider or speculate on the future, because each year the assessment can be updated on January 1st with the latest data.

1. **Open Book and Objection Filing Deadlines** - The single biggest flaw in the assessment process is that there are no set deadlines for the process, with every city having different time lines and deadlines and those vary year to year, which means the taxpayer has no idea as to what the deadlines are. Many times the deadlines are noticed with only a few days notice giving little time to redress their government.

2. Assessment notices for assessments that have changed shall be mailed (via first class mail) out to taxpayers no later than March 31 of each year. All local units of government shall allow objections to be filed up to midnight on May 31 of each year and hold open their open book sessions through midnight June 30 of each year so as to provide taxpayers with consistent dates throughout the state and year to year. Taxpayers shall be allowed to file an objection without providing a market value or any other data initially. However, no later than the open book session meeting with the assessor, the taxpayer shall be required to provide to the assessor the taxpayer's reasons for the objection, their guesstimate of value, and any data that would be helpful to the assessor in evaluating the case for a change in the assessment. However, a failure to provide such data shall NOT be a reason for denying the taxpayer an open book meeting or a Board of Review hearing recognizing that taxpayers have the right to redress their government and that taxpayers are laypeople with less than expert knowledge of property valuations. The city shall provide a standarized form for filing an objection, but said form shall not be required to file an objection; a statement in an email or letter shall be sufficient. The city shall then provide the form to the objecting party to follow up with. (The objection form shall be maintain and accessible on the city's web site and city clerk and assessor's offices.)

3. Likewise, within 5 days of receiving an objection notice, the local unit of government shall email or mail a complete copy of the subject property assessment file with 100% of the information therein to the taxpayer.

2. **Mortgages and Bank or Lender Appraisals -** The assessor shall not use mortgages or bank appraisals to determine the assessed value nor for any purpose at all recognizing that mortgages have no basis in determining an assessment and that bank appraisals are forward looking valuations conducted on entirely different terms and under different regulations than assessments, whereas assessments are historical-looking.

3. **Assessment Data and Process** - The assessor's office shall maintain and have in place a written and publicized process for assessing various types of properties, including check lists; a form or template showing the exact math used to calculate the assessment; details of the comparable properties of which there shall be at least five; how and what adjustments were made to the value; and showing exactly how the subject property value was determined. The assessor shall only use actual facts and real data available for determining the assessment and shall refrain from speculating or making assumptions. The assessor shall recognize that the best data to use for determining the assessment is *real data* from the actual subject property verses data from other properties. In exchange, if data in the local market is lacking, the assessor may use comparable data from another in-state similarly sized market to assist with the valuation. All such data and documentation shall be made available within 48 hours of verbal or written request by the property owner in the form of hard copy or electronic copy provided to the property owner. No conditions shall be placed on a taxpayer's request or demand for such information or data. (It's a one-way street, the assessor must provide data to the taxpayer, but the taxpayer does not have to provide data to the assessor.) The assessor shall maintain a complete hard copy file on each property for the subject year with copies of all data and information used to determine the assessment including calculations and spreadsheets and analyses. Hard copies are important in recognition of the risks of cyber attacks and hacking.

The assessor shall maintain a database of all property sales in the marketplace, grouped by property type, showing at a minimum the property address; the number of bedrooms, apartment units or square footage, or in the case of student housing the number of beds; building height in floors; the submarket (i.e. downtown, east, west, etc.); construction type; and latest assessed value; and assessed value by unit; and that database shall be made publicly available 24/7 on the assessor's web site and shall be in a form that is digitally searchable. In exchange, when the building permit is granted, local units of government may demand the information listed in this paragraph from the property if the local unit of government provides a standardized form for the property owner to complete. The building permit shall not be delayed or withheld for failure to provide this information.

4. **The 'Anticipation' paragraph** - The Anticipation paragraph shall be clarified to mean what was originally intended. Anticipation shall be understood to NOT include speculative income or hoped for income during the assessment year nor the anticipation of future leasing that has not been *realized* by holding a signed lease prior to January 1st of the assessment year. The assessor may only use <u>*actual*</u> income in place on January 1st or for the *prior* 12 months and as stated above. Likewise, the Anticipation paragraph shall be considered in the context of and in combination with the Change paragraph. Assessors shall not anticipate future income to determine assessments.

To consider income after January 1st beyond actual contracted or received rents or income would be highly speculative and hypothetical and would be double taxation as that future income will be captured in the following year assessment via the Change paragraph. Actual received income shall govern vs contracted income that never actually materialized (i.e. a tenant didn't pay the rent due).

5. **The Change paragraph** - The Change paragraph is intended to capture new income during the 12 months prior to a January 1st assessment date. Actual changes that occurred during the prior 12 months may be considered. The purpose of the Change paragraph is to capture changes during the prior year so that those are not anticipated in the prior year assessment, including both positive and negative changes.

6. **Club House** - Club Houses or amenity buildings at multi-family properties shall not be considered part of the value of the subject property if the club house receives little to no rental income even if that club house building is located on a separate lot. (Ancillary income from cleaning fees or hourly party rental fees shall not be considered.) Why? Because the value of the amenities are reflected in the income stream.

7. **Buildings Under Going Lease-Up and Absorption** - Buildings that are under going lease up or absorption and that are partially leased on January 1st shall be assessed using the income approach considering only the *actual net* income received (i.e. actual revenue less actual expenses) on January 1st from the year prior to the January 1st assessment year and shall NOT include any future hoped for or speculative or anticipated future income that has not yet materialized.

8. **Subdivision Lot Creation** - The assessor shall determine the value of individual lots within a subdivision of unbuilt-upon lots (single-family or commercial) that are not being farmed by considering the selling prices of other comparable lots in that same subdivision, then applying an absorption factor (number lots sold per year based first upon the sale of lots in that subdivision or secondarily, upon other comparable subdivision lots sold over time i.e. phases within the same neighborhood, and third, only if the first two conditions or market data are not available, then the assessor may consider the sale of lots in other subdivisions nearby and comparable to determine an estimated realistic market absorption based upon facts and real data from the sell out of other subdivisions, and then adjusting for any negative factors such as a recession or the like) to determine the sell out or absorption period. The assessor shall then apply a carrying cost factor (including holding costs such as interest on a loan or present value factor, property taxes, marketing costs, and all other carrying and holding costs, etc.) of no less than 20% per year to determine the net selling cash proceeds estimated to be received each year based upon those calculations with the carrying costs being subtracted off the lot asking prices. The comparable sales approach is the best approach to use for determining lot values for a series of lots that are offered for sale, and the values of the lots shall never exceed the asking prices or the actual net prices received from adjacent lots nearby in the subdivision.

9. **Asking Prices** - Asking prices for subject properties shall *not* be considered in determining value, as asking prices represent the hoped for future value of a property and are not reality. Likewise with asking rents. The assessor shall use only actual net prices received or net rents received. Likewise, vacancy factors used to determine assessments shall not be derived from property web sites in recognition that such properties typically do not list all their units that are available for sale at once. Instead, actual net effective monetary vacancy shall be taken from the subject property first, and then secondary, if actual vacancy is not available, from the market place looking at comparable properties and taking into account the vacancy, any discounted or free rent and any specials granted to tenants to secure a lease.

10. **Property Assessed Value, Income Approach** - Property assessed value shall be based upon the *actual* rent received (not just contracted for) to determine value under the income approach. The income approach as defined below by the direct capitalization method is the *best* approach to use for any income producing properties and shall be used for determining the assessment for all income properties without having to use the prices of comparable

properties sold, although comparable sales may be used to determine the cap rates in the market place that may be applied to the subject property's income to determine an assumed sale value. After revenue is determined, then actual expenses, to determine a real income (net operating income), a depreciation factor shall be applied based upon IRS depreciation schedules. For retail, office, commercial or other spaces in which the landlord provided a tenant improvement allowance, the assessor shall take the tenant improvement allowance and divide it by the number of years in the lease and deduct that amount from the annual income of the subject property.

11. **Never Assume** - Assessors shall never make up any data or assume any non-materialized 'facts'.

12. **Direct Capitalization Method** - The direct capitalization method shall be the most appropriate method used to value properties that have net rental income (revenue less expenses) and the assessor shall use the *actual* income received in the prior year to determine value and shall *not* use the future hoped-for or speculated income in the new year to determine assessed value, nor shall the assessor use a forward projecting ten year discounted cash flow method, recognizing that the assessed value is for one year only, using a single day as the window of value using past year's data. The Highest and Best Use concept shall be eliminated and replaced with the concept of the Most Probable Use. The Highest and Best Use concept misleads valuers and taxpayers into thinking that any use is possible on a site, when in fact, that is not true. The use of a property is limited by the governmental approvals such as zoning, height limitations, deed restrictions, setbacks and other regulatory constraints. Therefore, what matters in an valuation is the Most Probably Use, which is the use that is most likely to occur given those constraints. It is also no longer necessary for the assessor to justify or do an evaluation to determine the Highest and Best Use. Instead, the assessor may take it on face value that the current use is the use that is being valued. It is not the job of the assessor to determine what other uses may be possible, because the assessment is for the current use at the current tax date (January 1st).

13. **Cap Rates** - The cap rates used in determining the assessed value shall be determined by the assessor obtaining actual cap rates from the same submarketplace using the definition of comparable herein. The cap rate used in the direct capitalization method shall be determine by the assessor using actual real market cap rates of truly comparable properties, using cap rates as determined from actual sales in the last ten years using the most recent sales as most comparable of comparable or like-kind properties. A minimum of five sales must be used to determine the cap rate and the assessor must apply a replacement reserve as an expense to adjust and determine the net income of the subject property if the property's income did not include a replacement reserve. For apartment buildings that replacement reserve shall be a minimum of $300 per year per unit.

14. **Uniformity Clause Update; Comparable Property Clarification - Unstabilized Properties** - The assessor shall not compare a property in-transition (under going absorption or lease up) to fully stabilized properties (the opposite of the Bonstore case) as "comparable". Unstabilized properties in lease up shall only be compared to other **un**stabilized comparable properties (in the current year or past assessment years). The subject property's actual income and the income approach shall be recognized as the best approach to valuing income properties in particular during lease up or absorption, even though such properties will have secured less than full income at the time of the assessment; recognizing that the property will be re-assessed again the next year once fully leased and stabilized. This recognizes that a property in transition and leasing up is not yet receiving full market rents and income and therefore is not yet at full value.

15. **Comparable Definition - Stabilized Properties** - the Bonstore Case - The definition of comparable properties shall be strictly limited to properties that are truly comparable in terms of both economic characteristics and physical characteristics. Example - Stabilized properties shall only be compared to other stabilized properties. Specifically, economically characteristics shall also be similar. Example - A stabilized property with income either under a lease or income from an operating business that owns the property shall be compared to other similarly occupied properties with such rent or income. An income producing or business occupying property shall not be compared to a 'dark store' property. If a property is owned by a business and does not have a lease to value the property's economic value separate and distinct from the operating business, the assessor shall find comparable properties that have leases and use that to determine the value of the real estate separate from the operating business.

Another Example - Student housing shall be compared to student housing; farmed land to farmed land (even if legally subdivided); a golf course fronting lot to a golf course fronting lot; market rate apartments to market rate apartments. Market rate apartments shall **not** be compared to student housing. Comparable properties shall also be of comparable physical characteristics - buildings of a like-kind under the building code as defined by type of construction shall be used as comparable, but not for other building code type of structures. Example - a 4 story wood-frame building shall not be compared to a 10 story steel and concrete building. Wood-frame shall be compared to wood-frame and concrete and steel buildings shall be compared to concrete and steel buildings. Homes with frontage on a lake shall not be used as comparable for determining the assessment on a home without actual legally-owned lake frontage (vs. lake viewing).

16. **Trending** - 'Trending' shall not allowed. The concept of trending, i.e. the assessor marketing up all or almost all properties by a general amount or percentage increase in a year shall be prohibited. The assessor shall also not engage in a process in which the assessor marks up significantly whole classes of properties and then engage in property by property negotiations for reductions in assessed values. (The assessment process is not supposed to be a negotiation.) The assessor is supposed to be determining the value by using actual facts and real data, on a property by property basis, using a consistent process that is the same for all similar classes of properties and for all properties within the same class and submarket. The assessor shall not use a single sale (i.e. one sale of a single property) as a determinant of the overall market, and in particular, the assessor shall not use the sale of a property to a tax-exempt buyer (such as a pension fund) to compare to other privately owned properties. Just as a single sale of a property in a down market may not be reflective of the overall market, so too a single sale of one property at a high price in an up market is not the determinant of the overall market in terms of value.

16. **Property Appeals** - Properties assessed at up to $10 million shall have the right to appeal their assessment to a state of Wisconsin assessor after attending the Board of Review if the property owner feels that the assessment is still above market value or is not sustainable financially due to the level of assessment being so high as to cause the property to not make a profit or return on capital, so as to avoid the assessment causing the property failing financially. The $10 million threshold shall increase each year by the percentage increase each year in total value of the state as determined by the DOR, but no less than a 2% increase per year.

17. **Board of Review -** The Board of Review shall be reconstituted to create two separate boards of review; one for the purpose of handling appeals of single-family homes, and one for the purpose of handling appeals of all other property (commercial) classes. Each Board of Review shall be made up of members who are **not** current or retired government employees, but rather shall consist of truly independent members of the community. There shall be at least one independent MAI appraiser on each Board of Review and the other two members shall

have some kind of financial or real estate experience appropriate for that board. (The appraiser for the Board handling homes shall have home valuation experience, while the appraiser for the Board handling commercial properties shall have commercial property experience, each of at least 5 years experience.) The local unit of government shall appoint no more than three of the members of each Board of Review and the local assessor shall not have any input into determining the members so as to make the Boards of Review truly independent and the other two members of the Boards shall be voted in by majority vote of registered voters who vote during a November election. Membership on the board shall be for no more than ten years; members may not renew or serve again for at least one year; and members shall be compensated by the local government but without any conditions placed on them. The board positions shall be part-time and not full-time. Assessments can never be increased due to an objection or appeal.

18. **The Board of Assessors** - A local unit of government that has a Board of Assessors to review assessments (before they go to the Board of Review) shall not use such boards to raise any assessments, due to their inherent conflict of interest. (The board of assessors is made up of only assessors, is internal only with no property owner participation, and is made up of assessors from the same office.) They may only lower assessments. And Boards of Assessors, should a city choose to have one, should be made up of assessors only from another cities (at a minimum, at least 3 other local gov'ts, with one village or township).

19. **Cost Approach** - The cost approach should only be used as a last resort and only if there is no income for the subject property and no comparable sales to determine the value. The Markarian hierarchy shall be revised to state that the #1 most reliable valuation method is the income approach using subject property data. The second most reliable approach shall be the income method using cap rates from comparable sales. The third most reliable approach shall be the sales approach on a per unit basis. And only if all the other approaches are not possible, which is rare, then can the assessor use the cost approach less depreciation.

20. **Appeals** - During a challenge or appeal of an assessment, the assessor may only use that data and process and calculations that the assessor used to determine the value, and may not use new data, hindsight data (i.e. data gathered later, after the assessment was determined and published) and shall not use data from *after* the January 1st assessment date. Likewise, for appeals or objections the assessor may not use any *new* appraisal or consulting information (i.e. hire a new appraisal after the assessment determination). The assessor may not add to the file of the subject property after the assessment is determined and published. Upon notice to the property owner of the new assessment, the property owner shall have up to 16 weeks to file a notice of objection if they miss the original objection filing deadline.

The Notice of Assessment shall include the deadline for filing challenges, objections, appeals. In addition, the assessment may *not* be increased during or after an objection is filed, the board of review, the appeal process, or anytime after the original assessment was determined. The property owner shall not be penalized or punished for filing an assessment appeal or objection. Property owners shall be allowed to file an appeal or objection even if they have not paid their property taxes in full, recognizing it is the right of the property owner to object regardless of payment. Payment of property taxes is a separate issue. Collection of property taxes shall not be considered in determining assessments or appeals or objections. Likewise, the right to appeal shall be absolute and shall not be voided or infringed upon or conditioned and shall not be denied because the property owner refused to provide data or access to the assessor.

21. **Inspections** - The assessor may request entry to inspect a property, but may not demand entry or inspection. A property owner shall not be penalized for denying entry or inspection. The assessor may not determine a higher assessment than the assessor would have otherwise

determined simply because the property owner refused inspection or entry and the assessor may not threaten the property owner with a higher assessment for denying entry. A property shall be allowed to object and appeal the assessment even if entry or inspection is denied. Given the vast amount of data available publicly including the MLS, zillow.com, satellite photos, street level photos, data available in the city's building permit and inspection department, and other similar databases, it shall be recognized that the assessor does not need to actually physically inspect a property to determine the assessment but may do an inspection if allowed entry and if the assessor or property owner feels an inspection would be informative to determining the assessment.

22. **Notice Cards / Notice of Assessment** - Notice of a property assessment when the assessment has not changed shall not be required, but is usually a good idea. Assessments that change shall require notice to the property owner via a hard copy letter of a minimum size of 8.5 inches wide by 11 inches tall by letter using first class mail in an orange envelope with the words "Assessment Change" in bold black letters on the outside of a minimum font size of one-half inch. The Notice shall include the name of the assessor who determined the assessment including the assessor's work phone number and email address and U.S. postal service mailing address. Assessments that increase by more than 5% require notice that contains a larger heading on the letterhead saying "assessment increase".

23. **Assessor's Web Site** - The assessor's office shall maintain at all times on the assessor's web site and posted on the wall in the reception area of the assessor's office the following: a map showing the boundaries for each assessment district by type (residential vs commercial) with assessment district number, a key code displaying the name of the assessor linked to the appropriate assessment district, the blank forms, spreadsheets, processes and checklists used to determine assessments, the assessor's work phone number and email address, the assessor's office U.S. postal address, the appeal or objection process and forms, and a copy of the most recent Wisconsin assessor's manual for review by property owners.

24. **Use of Third Party Experts** - The assessor's office may use third party experts or appraisers or companies for either for the original assessment or in challenging an appeal or objection conditioned upon the following: such third party experts shall be a.) licensed appraisers in the State of Wisconsin, b.) shall reside in the State of Wisconsin (i.e. use of out of state appraisers is prohibited), c.) shall be MAI (Member of the Appraisal Institute), d.) shall be authorized or have conducted appraisals for at least one bank, and e.) shall have a minimum of five years valuation and/or appraisal experience work. If using such experts for an appeal or objection the expert must have been used in determining the original assessment (i.e. bringing in a third party expert to fight an appeal or objection shall be prohibited unless the expert was involved in the original assessment) recognizing that it is the assessor's job to determine the assessment.) The assessor's repeated use of the same third party solely for appeals and objections shall be prohibited because such repeated use of the same company or individual would create an inherent conflict of interest by making that person's allegiance to the assessor rather than a truly independent third-party. Repeated use shall be defined as three times within 3 years. This rule shall not apply to the use of local unit of government's use of a third party company acting as the local unit of government's actual assessor team in place of an in-house assessor if made on an annual contractual basis.

25. **No Deduction for Ownership Type** - There shall be no deduction or increase in the assessment due to ownership structure or ownership type, i.e. just because a property is broken into multiple condominium units (as is the case with some modern mixed-use buildings when one condo unit hold the retail component, another condo unit will hold the office component and a third condo unit will hold the apartment component or like when workforce housing is mixed in with the same building as market rate housing, with each component being held in a different condominium unit). The income of the properties (in this example, the

individual condominium units) shall govern the value of the assessment, recognizing that buyers buy the income stream, not the legal ownership unit type.

26. **No Presumption of Correctness -** The presumption of correctness on behalf of the assessor shall be deleted. A government assessor shall never be considered more correct than a private expert that has more data, better date, more education or more appropriate education (such as a masters degree from the Graaskamp Real Estate Center). The burden of proof of a correct assessment shall be on the assessor as the party who has the power to assess and who determined the assessment. The burden of proof should never be on the defendant (i.e. the taxpayer in this case).

27. **Assessment Team** - The assessor may use subordinate assessors to determine the assessment and those assessors may be assigned territories. However, an assessor may only be assigned a territory (submarket) for up to five years, after which that assessor must be switched to a different territory or catagory so as to offer a fresh look at the assessments by a new assessor.

28. **Raise Minimum Assessor Education** - There needs to be some minimum, state-wide standard for assessors to meet in order to become an assessor and minimum annual ongoing educational requirement. I've been at this for 40 years and I have only met a *single* assessor who had a University degree in real estate valuation. Most don't even have a college degree.

Did you know that in Wis an appraiser has to have a license and satisfy certain requirements, but an assessor only needs a minimal certification? So the gov't expert in valuation only has to know a tiny fraction of the valuation process but is presumed in the assessor's manual to be right, while the appraiser hired to challenge the assessment and the owner with a master degree in valuation is presumed to be wrong by default.

There are 5 certification levels, but no level for having an appraisal license.

The top two certification levels in larger cities like Madison and Milw should be required to meet the same requirements as appraisers (within 3 years) and the chief assessor in every city of more than 10,000 people should be required to have an appraisal license, at a minimum.

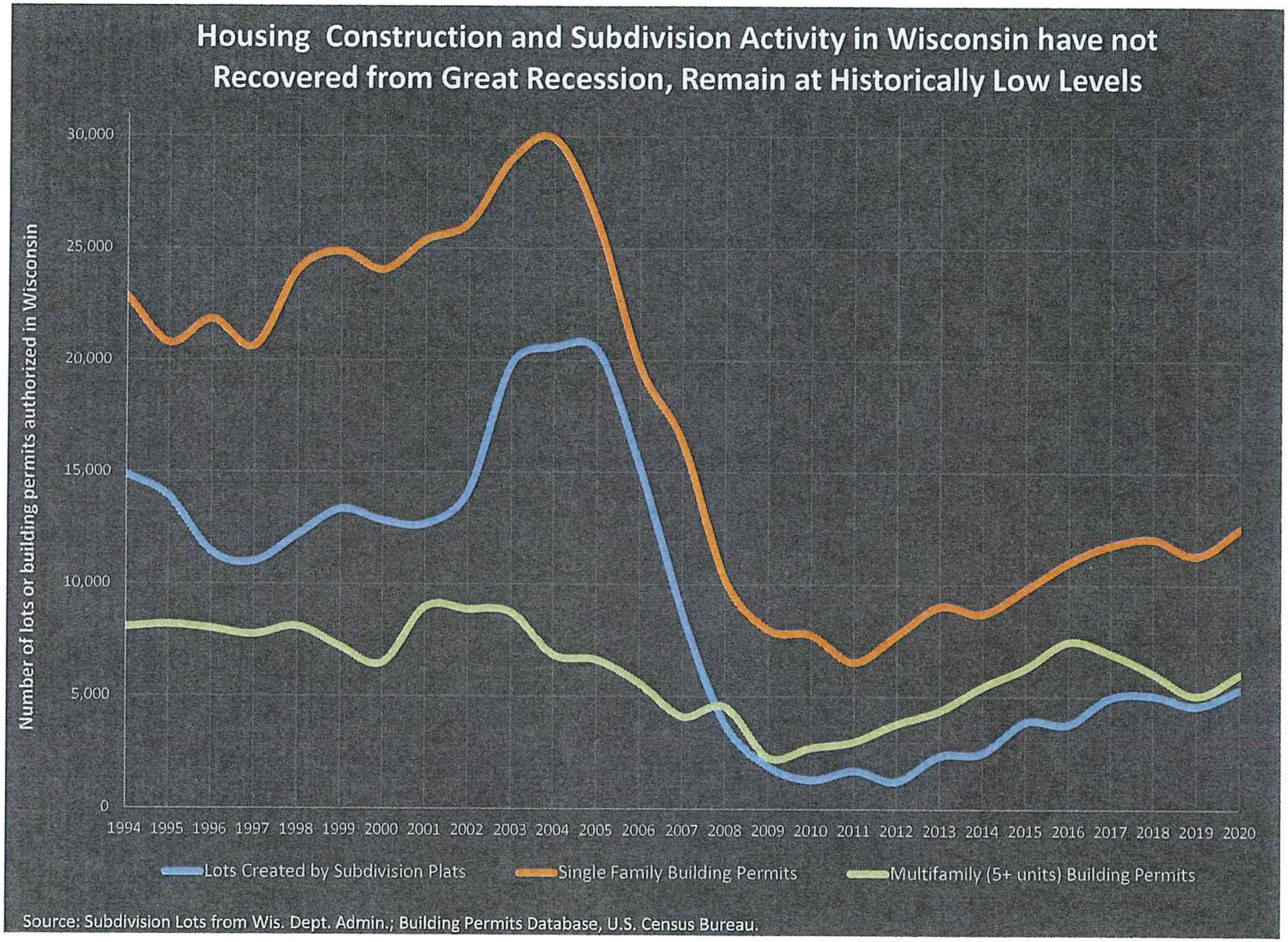
They should also be subject to having their license or certification suspended or revoked for abuse, such as knowingly and deliberately violating state law and the assessor's manual. When two exactly comparable properties located across the street from each other are assessed differently by 60%, there is something seriously wrong.

29. **Require Transparency in Assessment Reporting** - Require by law that property owners must report to their rental tenants annually the amount of taxes, prorata, per apartment or rental home that the renter pays through their rent.

CONCLUSION

In conclusion, abuses in assessor's offices have become wider spread, frequent, and intolerable. The problem is, a single taxpayer can't afford to fight the assessors on their abuses, because going to court costs a minimum of $100,000. That's not justice. There needs to be a wholesale rewriting of the approach so that assessor's office can be looked upon as fundamental fair and transparent, as the impartial experts that they should be.

I'd like to help you get there. Thank you.


Housing Construction and Subdivision Activity in Wisconsin have not Recovered from Great Recession, Remain at Historically Low Levels
Number of lots or building permits authorized in Wisconsin
30,000
25,000
20,000
15,000
10,000
5,000
0
1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
Lots Created by Subdivision Plats
Single Family Building Permits
Multifamily (5+ units) Building Permits
Source: Subdivision Lots from Wis. Dept. Admin.; Building Permits Database, U.S. Census Bureau.

Despite uptick in construction and subdivision lots (2018-2020), production remains less than half of historic trends.

Wisconsin Building Permits and Subdivision Lot Summary

	1994 - 2004	2012 - 2017	2018 - 2020
Avg. Lots (by subdivision), per year	14,255	3,120	4,996
Avg. Building permits, per year	35,908	16,070	18,733
Avg. building permits per 1,000 population	6.78	2.79	3.21

Lumber prices down from extreme Covid peak, remain high

Source: Random length lumber continuous contract price (LB00) (per 1000 board feet), Chicago Mercantile Exchange; last accessed 10/5/2021

WISCONSIN **REALTORS**® ASSOCIATION

SPECIAL REPORT

FALLING BEHIND

Addressing Wisconsin's workforce housing shortage to strengthen families, communities and our economy.

ALL ACROSS WISCONSIN communities and employers are recognizing the critical need to address Wisconsin's housing shortage.

WRA

SPECIAL REPORT

FALLING BEHIND

Addressing Wisconsin's workforce housing shortage to strengthen families, communities and our economy.

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ABOUT THE WISCONSIN REALTORS® ASSOCIATION

The WRA is one of the largest trade associations in the state, headquartered in Madison, Wis. The WRA represents and provides services to more than 16,500 members statewide, made up of practicing real estate sales agents, brokers, appraisers, inspectors, bankers and other professionals who touch real estate. The WRA is under the direction of a statewide board of directors, comprised of members from the top real estate firms around the state.

ABOUT THE AUTHOR

Kurt Paulsen, Ph.D., AICP, is a professor of urban and regional planning at the University of Wisconsin–Madison, where he teaches on and researches housing policy, land use planning and public finance. Professor Paulsen was born and raised in Wisconsin, and is a lifelong Badgers, Packers and Brewers fan. He lives in Middleton where he chairs the city's Workforce Housing Committee. His research has appeared in national academic journals; and he has conducted housing research and analysis for Dane County, Waukesha County, and the Wisconsin Housing and Economic Development Authority.

ACKNOWLEDGEMENTS AND DISCLAIMERS

All statements in this document are the opinion of Professor Paulsen himself and do not necessarily reflect the views of the University of Wisconsin, or any city, county or state agency.

Wisconsin REALTORS® Association

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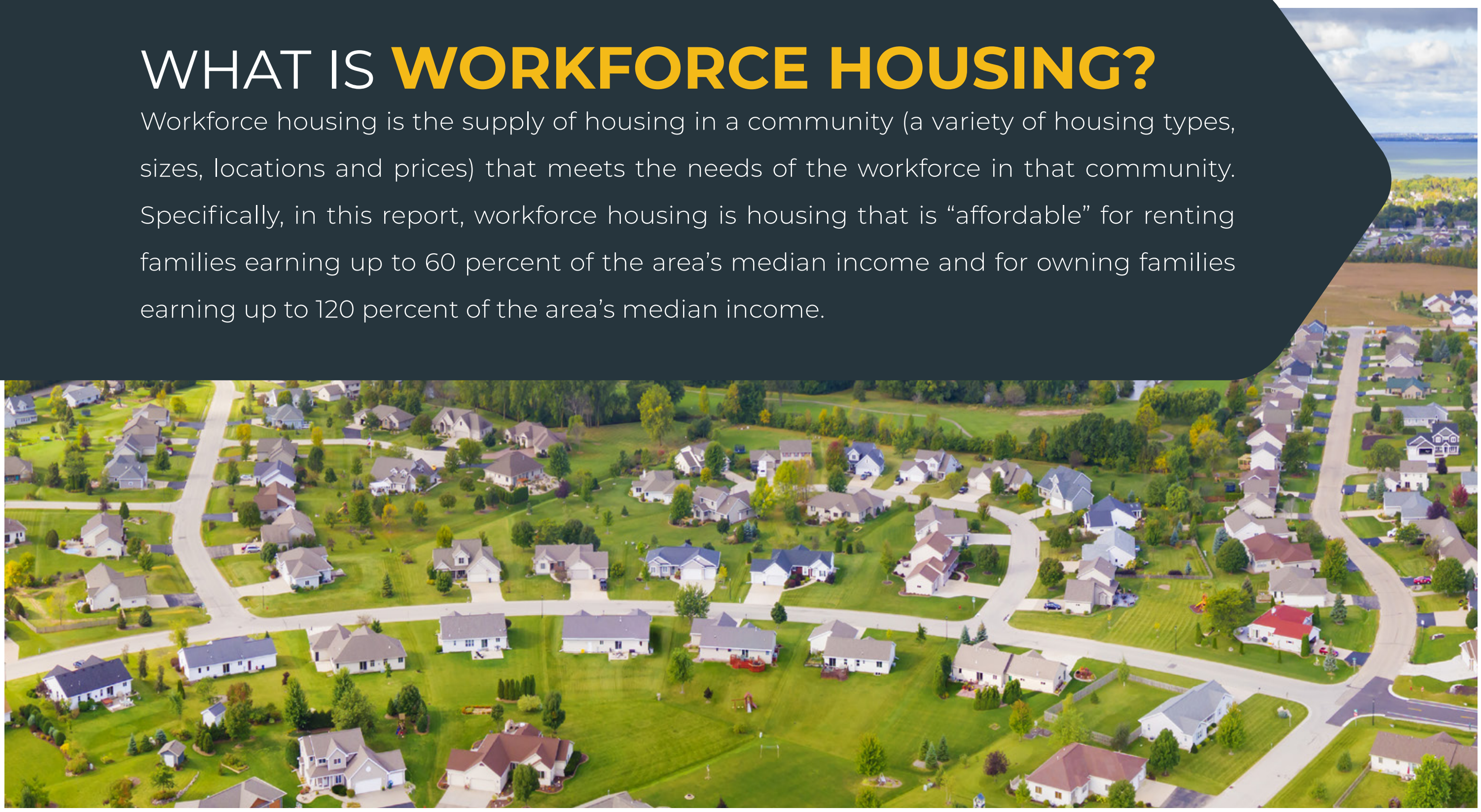
ABOUT THIS STUDY
EXECUTIVE SUMMARY

WHAT IS WORKFORCE HOUSING?

Workforce housing is the supply of housing in a community (a variety of housing types, sizes, locations and prices) that meets the needs of the workforce in that community. Specifically, in this report, workforce housing is housing that is "affordable" for renting families earning up to 60 percent of the area's median income and for owning families earning up to 120 percent of the area's median income.



Wisconsin has a workforce housing shortage. While the Wisconsin economy has returned to growth since the end of the Great Recession, our housing stock is falling behind. We are not building enough housing to keep up with demand for our growing workforce. Our existing housing stock is aging, and construction prices and housing costs are rising faster than inflation and incomes. This state has seen declining homeownership, particularly among younger families, first-time homebuyers, and African American and Hispanic families. Housing costs and rents are rising faster than incomes, too. Compared to our neighboring states, we have the highest rate of extreme rental cost burden for lower-income families and the second highest rate of extreme cost burden for lower-income homeowners.

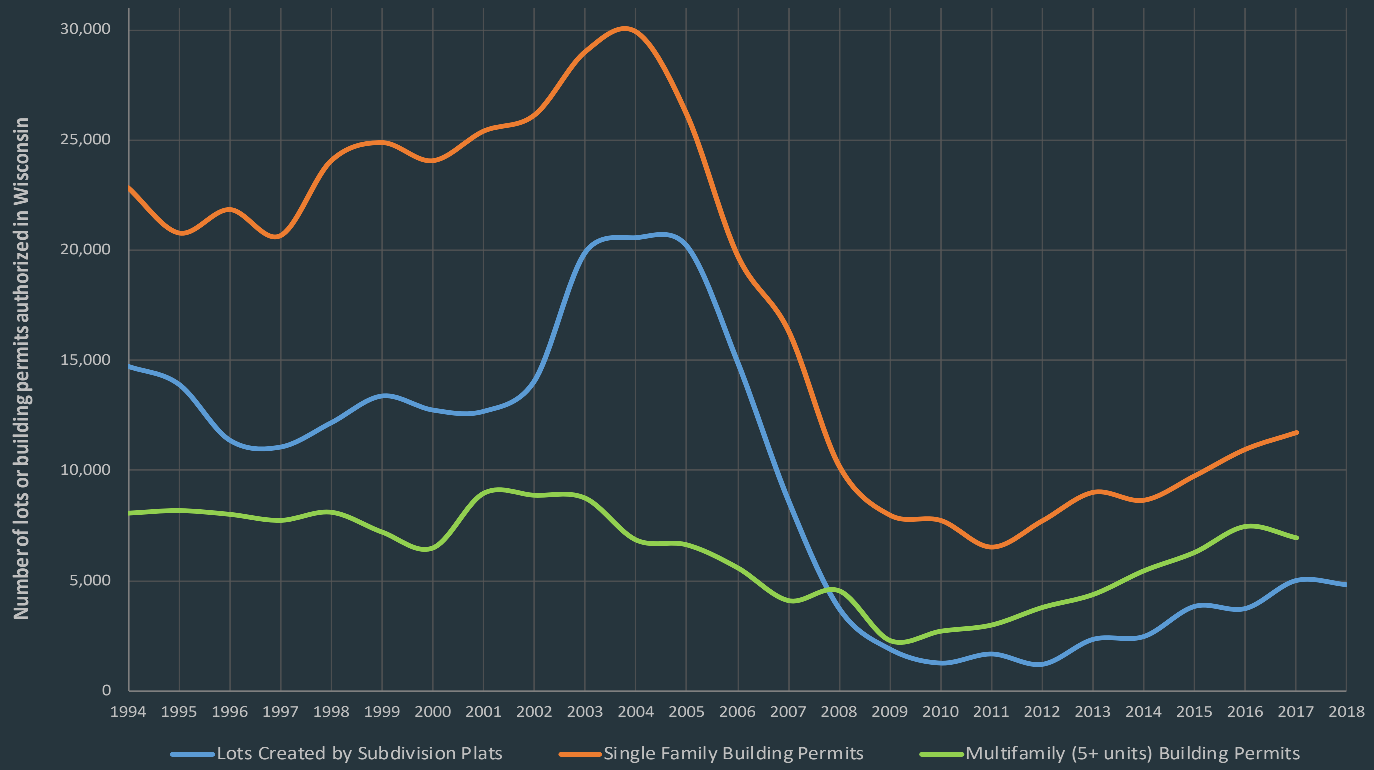
The purpose of this report is to document the significant workforce housing shortage in Wisconsin, and to explain the main causes (lack of supply, rising construction costs and outdated regulations) and main results (rising prices, decreasing homeownership and decreased affordability).

This report also outlines a roadmap to reform to meet our workforce housing challenges. Reforms and policies are focused on five key goals: building more housing, increasing housing choice through a diverse housing stock, rebuilding and strengthening homeownership, reinvesting in older housing and older neighborhoods, and making housing a priority. These reforms and policies can help Wisconsin address our workforce housing shortage; modernize our housing system; and ensure a more prosperous, equitable and sustainable future for all our residents.

CAUSES OF THE **WORKFORCE HOUSING SHORTAGE**

Cause 1: Wisconsin has not built enough homes to keep up with population and income growth. Housing units authorized by building permits and new housing lots are way down from pre-crisis levels, and we are creating about 75 percent fewer lots and 55 percent fewer new housing units than pre-recession averages. Our fastest-growing counties — such as Dane, Brown and Waukesha — have collectively under-produced 15,000 housing units in the past decade.

FIGURE **1**



Source: Subdivision Lots from Wis. Dept. Admin.; Building Permits Database, U.S. Census Bureau.

Cause 2: Construction costs are rising faster than inflation and incomes. In the past seven years, construction costs have risen substantially faster than inflation, and construction companies report severe labor shortages in Wisconsin.

Cause 3: Outdated land use regulations drive up the cost of housing. Large minimum lot sizes, prohibitions on non-single-family housing, excessive parking requirements, requirements for high-end building materials, and long approval processes do not protect public health and safety. They serve mostly to raise the cost of housing.

RESULTS OF
WORKFORCE HOUSING SHORTAGE

Result 1: Housing costs are rising. The report demonstrates how housing costs are rising across Wisconsin. Housing prices for ownership now exceed pre-crisis (2007) levels. Rents are growing faster than incomes.

Result 2: Declining homeownership, especially among younger households and African American and Hispanic families. While homeownership rates across the United States declined from 2007-2017, Wisconsin was hit particularly hard. Compared to our neighboring states, Wisconsin has lower homeownership rates for 25-34 and 35-44 year-old households than all of our neighbors except Illinois. We have lower homeownership rates for African Americans than all of our neighbors except Minnesota, and have lower Hispanic homeownership rates than all of our neighbors.

Result 3: Declining housing affordability. Overall affordability of housing for our workforce, both owners and renters, has declined in the past decade in Wisconsin. This report presents new measures of workforce housing affordability for renters and owners for each of Wisconsin's counties. Entry-level housing affordability has declined from 2010 to 2017 in 57 of Wisconsin's 72 counties. There are 14 counties across the state where the typical renter household cannot afford the middle-priced rental unit, and another 37 counties where this typical renter household can just barely afford the middle-priced rental home. Over 158,000 renting households in Wisconsin pay more than half of their income for housing, and over 94,000 owning households pay more than half of their income for housing.

Roadmap to Reform:

Addressing Wisconsin's Workforce Housing Challenge. In this report, we present a number of strategies and policies based on our analysis of housing and zoning reform efforts in states such as Utah, New Hampshire, Oregon, New Jersey, Massachusetts and others. We present strategies organized under five goals.

Goal 1: Build more housing.
Strategies and policies under these goals include:

- Expedited permitting and development approval processes for housing at the state and local levels.
- Requiring all cities and villages to allow "missing middle" housing types in at least one residential zoning district.
- Requiring municipalities to allow accessory dwelling units (ADUs).
- Better enforcement of existing requirements.
- Establishing maximum/ minimum lot sizes in sewer service areas.

Goal 2: Increase housing choices with a more diverse housing stock.
Strategies and policies include:

- Using tax incentives to reduce costs for workforce housing.
- Requiring municipalities to allow multifamily housing construction in at least one zoning district.
- Encouraging and/or incentivizing municipalities to plan for a better balance between jobs and housing.
- Analyzing statewide workforce housing data.
- Financing for workforce housing in rural areas and small communities.
- Providing additional incentives to local governments to approve workforce housing.
- Workforce housing tax increment financing districts (TID).

Goal 3: Rebuild and strengthen homeownership.
Strategies and policies include:

- Encouraging cities, villages and counties to make funding available for Down Payment Assistance Programs (DPAP).
- Creating a first-time homebuyer savings account program.

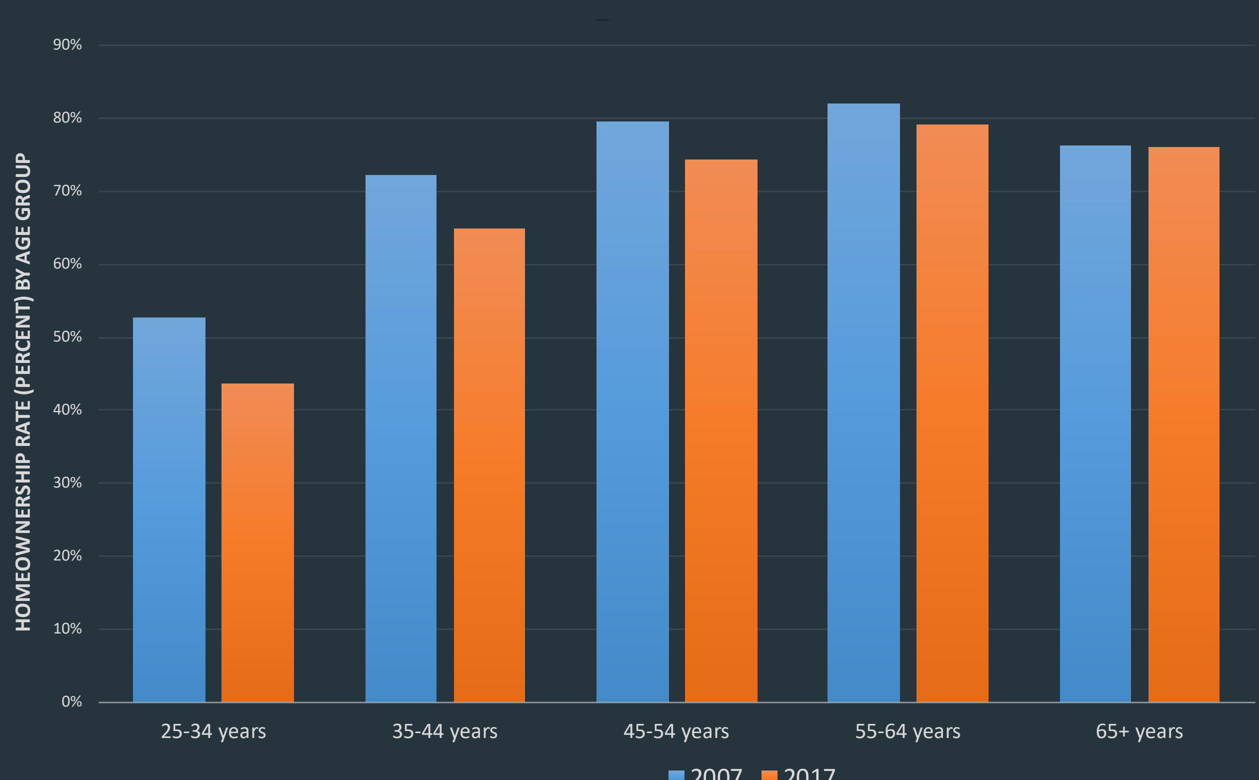
Goal 4: Reinvest in older housing stock and neighborhoods. Strategies and policies include:

- Expanding WHEDA's Transform Milwaukee Advantage program.
- Creating a state tax credit or other financial incentives for the rehabilitation of older housing in older neighborhoods.
- Expanding training and apprentice programs for displaced or underemployed workers.

Goal 5: Make housing a priority!
Policies and strategies include:

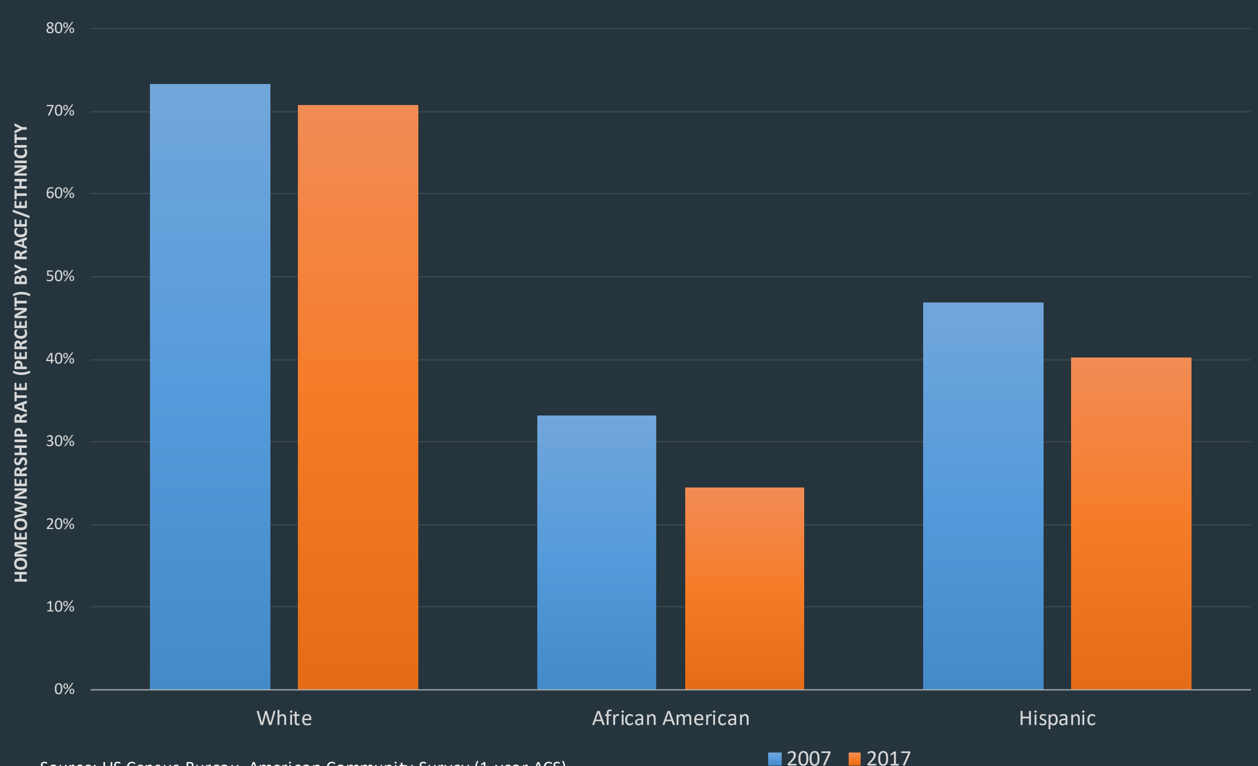
- Coordinating housing programs across state agencies, expanding financial incentives for development of new and rehabilitation of older housing in areas such as Opportunity Zones and rural areas.
- Providing technical and financial assistance to local governments.
- Providing financing incentives for innovative models, as well as providing pre-development funds for nonprofit and affordable housing providers.

FIGURE 3 Homeownership Rates Declined in Wisconsin from 2007-2017 Across All Age Groups (except Seniors), with Largest Drop for Youngest Families



Source: US Census Bureau, American Community Survey (1-year ACS).

FIGURE 4 Homeownership Rates Declined in Wisconsin from 2007-2017 Across All Racial/Ethnic Groups, with Largest Drop for African American Families



Source: US Census Bureau, American Community Survey (1-year ACS).

INTRODUCTION

WHAT IS **WORKFORCE HOUSING?**

Workforce housing is the supply of housing in a community (a variety of housing types, sizes, locations and prices) that meets the needs of the workforce in that community. Specifically, in this report, workforce housing is housing that is "affordable" for renting families earning up to 60 percent of the area's median income and for owning families earning up to 120 percent of the area's median income.

All across this great state — cities, suburbs, small towns and rural areas — communities and employers are recognizing the critical need to address Wisconsin's workforce housing shortage, to expand housing opportunities for all, and to update our housing system to reflect 21st century needs.

Our business leaders recognize that workers need quality, affordable homes close to where they work or easily accessible to a reliable transportation system. Communities increasingly recognize that workforce housing is economic development because a home is where a job goes to sleep at night.

The Wisconsin economy has slowly returned to growth since the end of the Great Recession. From 2010-2017, Wisconsin experienced a 7.6 percent increase in real (adjusted for inflation) median household income, an 8.2 percent increase in the number of jobs, and a 1.2 percent increase in population.

Our economy is growing, but our housing stock is falling behind.

We are not building enough new housing units to keep up with demand, and we are not building enough housing for our growing workforce. Our existing housing stock is aging faster than most neighboring states.

Construction costs are rising faster than inflation, and regulations often drive up the cost of housing.

The result of this workforce housing shortage has been declining homeownership, particularly among younger-adults, first-time homebuyers and African American and Hispanic families. The result of this workforce housing shortage also has been rising housing costs, with rents rising faster than incomes. And the results of this workforce housing shortage have been particularly hard on workers at the lower end of the wage scale.

On most of the housing indicators presented in this report, we are falling behind neighboring states.

The shortage of workforce housing makes it harder for businesses to recruit or retain workers and harms our economic competitiveness. If workers are unable to find decent, affordable homes near where they work, they either have to live further away and travel long distances or pay a higher portion of their income for housing. Some workers might leave the state altogether, or never come here.

WISCONSIN **ECONOMIC GROWTH**

The Wisconsin economy has slowly returned to growth since the end of the Great Recession, but our housing stock is falling behind.

The purpose of this report is to document the significant workforce housing shortage in Wisconsin, and to explain the main causes (lack of supply, rising construction costs and outdated regulations) and main results (rising prices, decreasing homeownership and decreased affordability).

This report also outlines a roadmap to reform to meet our workforce housing challenges. Reforms and policies are focused on five key goals: building more housing, increasing housing choice through a diverse housing stock, rebuilding and strengthening homeownership, reinvesting in older housing and older neighborhoods, and making housing a priority. These reforms and policies can help Wisconsin address our workforce housing shortage; modernize our housing system; and ensure a more prosperous, equitable and sustainable future for all our residents.

1. WISCONSIN HAS NOT BUILT ENOUGH HOMES *TO KEEP UP WITH POPULATION AND INCOME GROWTH*

From 1994 through 2004 (before the housing bubble and subsequent crash), building permits for new housing units in Wisconsin averaged nearly 36,000 units per year, including about 24,500 single-family permits and nearly 8,000 multifamily units. During this time period, land divisions ("subdivisions") to create building lots averaged over 14,000 new lots per year.

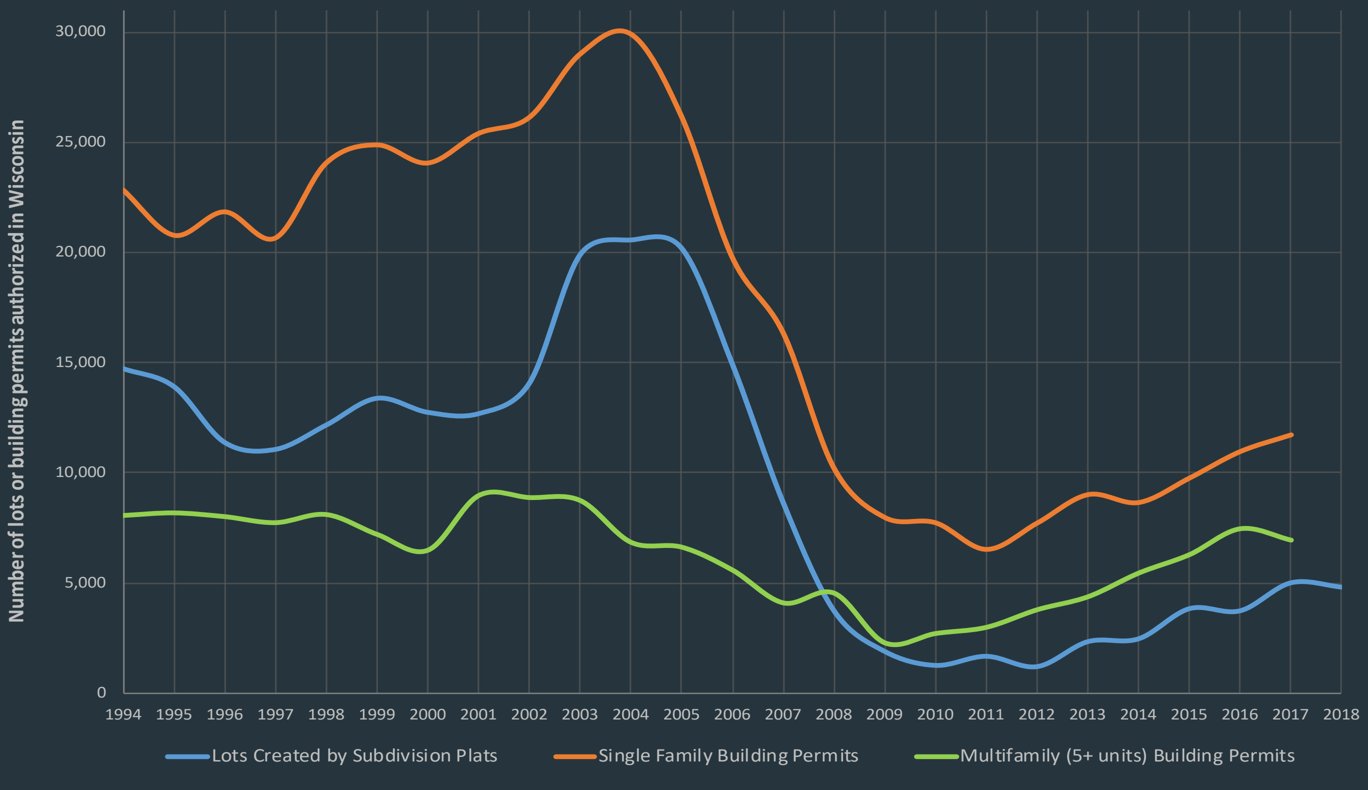
Like all states in the U.S., construction activity significantly declined in Wisconsin during the Great Recession and has not recovered to pre-crisis levels. From 2012 through the most recent data, annual lots created have averaged 3,375 lots per year, and building permits have averaged about 16,000 per year. Housing production is falling behind: we are creating approximately 75 percent fewer lots and 55 percent fewer new homes than pre-recession averages.

FIGURE **1**

HOUSING CONSTRUCTION AND SUBDIVISION ACTIVITY IN WISCONSIN HAVE NOT RECOVERED FROM THE GREAT RECESSION AND REMAIN HISTORICALLY LOW

Figure 1 shows the dramatic decline of housing production in Wisconsin. Single-family building permits only climbed back over 10,000 per year in 2016 and remain well below historical levels. Likewise, multifamily building permits dropped off significantly duriang the recession, even as demand for apartments surged. The number of units authorized by multifamily permits are still thousands of units below permit levels in the 90s and early 2000s.

FIGURE 1



Source: Subdivision Lots from Wis. Dept. Admin.; Building Permits Database, U.S. Census Bureau.

1. WISCONSIN HAS NOT BUILT ENOUGH HOMES *TO KEEP UP WITH POPULATION AND INCOME GROWTH*

[CONTINUED]

The population of Wisconsin has increased faster than housing construction. When adjusted for population, building permits per capita and development lots per capita are less than half what they were in the 90s and early 2000s.

If the same rate of construction from 1994 through 2004 were applied to our most recent decade, Wisconsin would have created over 200,000 more new homes and more than 115,000 new building lots.

If housing is not produced to meet demand, housing prices go up and families have difficulty finding housing they can afford in communities where they want to live. Families trying to save for a down payment fall further behind.

To create a lot or parcel where a home can be built, developers must first get subdivision approval from a local government, and then have that subdivision certified by the Wisconsin Department of Administration (DOA). Figure 1 (on page 11) shows the number of building lots approved in Wisconsin each year based on DOA data. In the past two years, 2017 and 2018, fewer than 10,000 buildable house lots were approved in Wisconsin, even though Wisconsin usually adds 10,000-20,000 net new households each year.

Future homes require buildable lots. The current supply pipeline of buildable lots is low, which only exacerbates the existing housing shortage. If we don't create more lots today, we will fall further behind in the future.

Although a shortage of new housing construction affects all areas of the state, the magnitude of the problem varies across different regions. In a balanced regional housing market, the rate of growth of housing units (supply) should be about the same as the rate of growth of households (demand).

However, if an area adds more households than housing units, vacancy rates decline, prices rise, and families have difficulty accessing housing. If developers and builders are unable to secure building sites and permission to meet the increased housing demand in an area (supply constraint), housing is being "under-produced," resulting in a "housing gap."

THE THREE FASTEST-GROWING COUNTIES — DANE, BROWN AND WAUKESHA — ACCOUNTED FOR OVER HALF OF THE HOUSEHOLD GROWTH IN WISCONSIN, AND COLLECTIVELY UNDER-PRODUCED 15,000 HOUSING UNITS FROM FROM 2006-2017

TABLE **1**

Table 1 shows the growth in the number of households compared to the growth in net new housing units for Wisconsin's 20 largest counties from 2006-2017. Table 1 shows that the largest 20 counties in Wisconsin under-produced nearly 20,000 units of housing from 2006-2017. The three-fastest growing counties — Dane, Brown and Waukesha — accounted for over half of the household growth in Wisconsin, and collectively under-produced 15,000 housing units, more than three-quarters of the state total. Dane county alone was responsible for the most new households and most new housing units, while also contributing more than half of the statewide supply gap.

Wisconsin's 20 Largest Counties Underproduced Nearly 20,000 Housing Units from 2006-2017

	Growth in households (2006-2017)	Growth in housing units (2006-2017)	Ratio of household growth to housing unit growth	Housing "Underproduction"
Milwaukee County	206	10,754	0.0192	
Dane County	36,334	25,128	1.4460	11,206
Waukesha County	13,199	10,986	1.2014	2,213
Brown County	9,806	8,145	1.2039	1,661
Racine County	2,319	2,645	0.8767	
Outagamie County	5,727	6,249	0.9165	
Winnebago County	3,134	4,903	0.6392	
Kenosha County	3,737	3,922	0.9528	
Rock County	2,516	1,480	1.7000	1,036
Marathon County	3,183	3,231	0.9851	
Washington County	4,019	4,289	0.9370	
La Crosse County	3,402	3,859	0.8816	
Sheboygan County	1,772	1,440	1.2306	332
Eau Claire County	2,504	3,156	0.7934	
Walworth County	3,208	2,671	1.2010	537
Fond du Lac County	3,727	2,929	1.2724	798
St. Croix County	3,164	3,246	0.9747	
Ozaukee County	2,909	2,082	1.3972	827
Dodge County	1,311	1,354	0.9682	
Jefferson County	3,469	2,241	1.5480	1,228
20 Largest Wisconsin Counties	***109,646***	***104,710***	***1.0471***	***19,838***

Source: Author's calculations based on 2006 and 2017 1-year American Community Survey data, U.S. Census Bureau. Households are 1- or more persons who occupy a housing unit. Housing units include vacant structures for sale or rent.

What caused the workforce housing shortage?

2. CONSTRUCTION COSTS *ARE RISING FASTER THAN INFLATION AND INCOMES WISCONSIN*

Compounding the housing supply gap, construction costs have been rising faster than inflation and income in recent years. From 2010-2017, construction costs have increased by 14.7 percent in Madison, 14.9 percent in Milwaukee, and 16.2 percent in Green Bay. When construction costs go up, new housing becomes more expensive, but so too does existing housing due to increases in repair, remodeling and replacement costs.

The rise in construction costs is due to an increase in material prices, but also due to a severe labor shortage in the building and construction trades. According to the Association of General Contractors survey, 73 percent of Wisconsin construction firms reported labor shortages.

Rising construction costs mean that all forms of housing are becoming more expensive and less available. This creates barriers to homeownership and to rental affordability.

RISING CONSTRUCTION COSTS

Rising construction costs mean that all forms of housing are becoming more expensive and less available. This creates barriers to homeownership and to rental affordability.

3. OUTDATED LAND USE REGULATIONS *DRIVE UP THE COST OF HOUSING*

There is a growing bipartisan consensus that restrictive municipal land use regulations constrain housing supply and drive up the cost of housing. This bi-partisan consensus is seen in policy proposals to reduce regulations from HUD Sec. Ben Carson (Republican) and Sen. Cory Booker (Democrat). Major research publications from the National Association of Home Builders (NAHB) and the Obama Whitehouse call attention to the effects of zoning restrictions on housing prices. Proposals to reduce restrictive zoning regulations so that developers can supply a greater variety of housing at all price points have been presented by the American Enterprise Institute and the Metropolitan Milwaukee Fair Housing Council.

Academic research by economists like Harvard's Ed Glaeser demonstrates that restrictive zoning policies, such as large minimum lot sizes, excessive parking requirements, prohibitions on multifamily development, accessory dwelling units, townhouses or duplexes collectively reduce housing supply and variety and therefore drive up housing costs.

The NAHB regularly surveys developers of housing and estimates that regulations can drive up the cost of single-family homes by at least 24 percent and multifamily housing by 30 percent.

Of course, regulations to protect public health and safety — such as fire safety, building codes, stormwater management and protecting environmentally sensitive lands — are necessary and proper roles for local governments. But large minimum lot sizes, prohibitions on non-single-family housing, excessive parking requirements, requirements for high-end building materials, and long approval processes do not protect public health and safety. They serve mostly to raise the cost of housing.

Restrictive zoning regulations drive up the cost of housing in at least three ways. First, they lower the overall supply of housing units in an area. When supply is restricted but demand is increasing, more families chase fewer units, and prices go up. Second, for housing that is built, the underlying land is more expensive. For example, in the latest national survey of developers by the NAHB, the average price per square foot for a finished residential lot is $8.22 ft². This would mean that a minimum lot size of 15,000 ft², about 1/3 of an acre, would cost $123,300 while an 8,000 ft² minimum lot size would cost only $65,760. In this example, public health and safety are not affected by smaller lot sizes, but the cost of the land for residential development is reduced nearly $58,000. Third, when land is more expensive and larger lots are required, developers are forced to build more expensive and larger homes to recover their land costs. Large homes on large lots are not affordable to most of the workforce in a community.

LARGE MINIMUM LOT SIZES, PROHIBITIONS ON NON-SINGLE-FAMILY HOUSING, EXCESSIVE PARKING REQUIREMENTS, REQUIREMENTS FOR HIGH-END BUILDING MATERIALS, AND LONG APPROVAL PROCESSES DO NOT PROTECT PUBLIC HEALTH AND SAFETY. THEY SERVE MOSTLY TO RAISE THE COST OF HOUSING.

Across the country, there is a growing "YIMBY" (Yes In My Backyard) movement that is calling attention to the outdated zoning and land use regulations in municipalities as a counter to the prevalence of "NIMBY" (Not in My Backyard) residents.

What is the result of the workforce housing shortage?

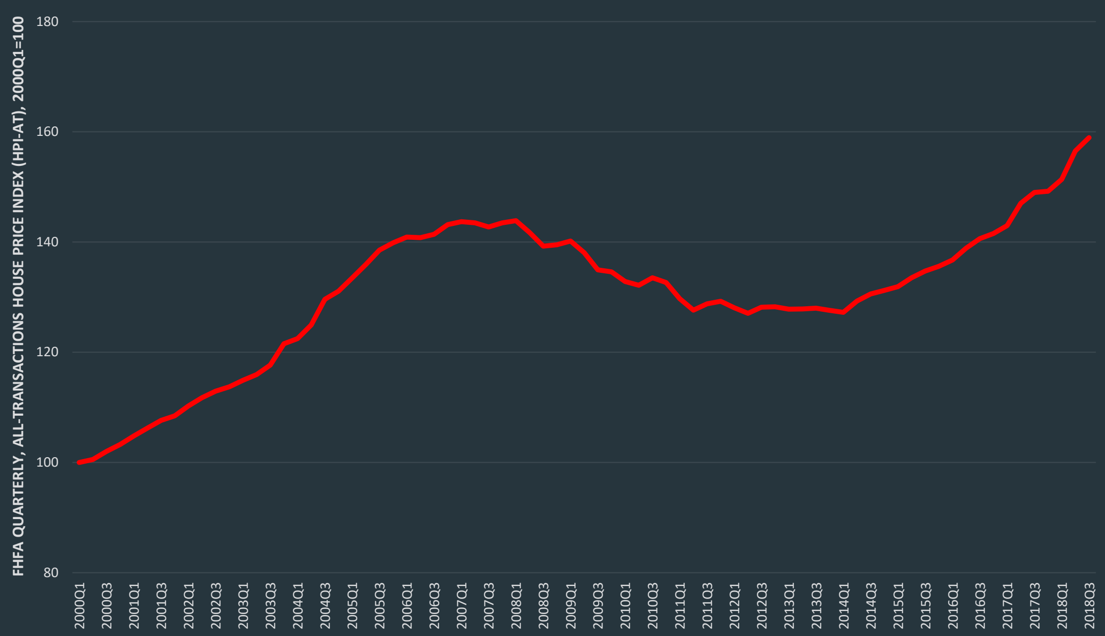
RESULT 1
HOUSING COSTS ARE RISING

With housing demand growing but housing supply lacking, the cost of housing is rising. While price growth might be good for current homeowners, it can make it harder for first-time homebuyers to enter the market and for seniors to downsize. This can stifle the housing market as families are constrained from moving for job opportunities or are unable to adjust their housing consumption to meet their current lifestyle stage.

Homeownership costs are rising. Figure 2 shows the Federal Housing Finance Agency's (FHFA) House Price Index (HPI-AT) for Wisconsin. This House Price Index is the broadest measure of housing costs because it includes all mortgage transactions — purchase and refinance — and measures the price change for a "constant quality" house. Because newer homes are almost always priced higher than existing homes, the average sales price of new homes can overstate the costs for the average family.

We re-scaled the House Price Index so that the first quarter of the year 2000 equals 100 so the value of the index represents the percent change in housing costs since 2000. The most recent data for Wisconsin, third quarter 2018, shows a value of 158.9, which means that house prices in Wisconsin have increased 58.9 percent since 2000. House prices in Wisconsin now exceed pre-crisis (2007) levels.

FIGURE **2** **Wisconsin House Prices Now Exceed Pre-crisis (2007Q1) Levels**



Source: Federal Housing Finance Agency

AND RENTS HAVE GROWN **FASTER THAN INCOMES**

According to data from the U.S. Census, from 2000 to 2017, the median household income in Wisconsin grew 35 percent, not adjusted for inflation, while the median house price grew 59 percent, not adjusted for inflation. When housing costs are growing faster than incomes, fewer families can afford a home.

Rental costs are rising. Table 2 shows changes in median rents and median household income for Wisconsin and our neighboring Midwestern states from 2007 to 2017.

In Wisconsin and all neighboring states, rents grew faster than incomes, which makes workforce housing harder to find and decreases housing affordability.

In Wisconsin, for example, rents grew 21.7 percent while incomes only grew 17.3 percent, not adjusted for inflation.

In terms of rental prices, however, Wisconsin had the slowest rate of rent growth compared to our neighboring states and slower than the nation as a whole. While rents in Wisconsin have increased 21.7 percent since 2007, rents have increased over 28 percent nationwide and over 30 percent in neighboring states Minnesota and Iowa. The difference between the percent change in rents and percent change in income is the smallest in Wisconsin, at 4.4 percent, compared to our neighbors and the U.S. as a whole.

FROM 2000-2014, WISCONSIN PERMITTED MORE MULTIFAMILY UNITS ON A PER-CAPITA BASIS THAN DID ALL OF OUR NEIGHBORS, AND HAD SLOWER RENT GROWTH THAN OUR NEIGHBORING STATES. EXPANDING RENTAL HOUSING SUPPLY CAN IMPROVE RENTAL AFFORDABILITY.

TABLE **2**

Rents rose faster than household incomes in Midwestern states

State	***Increase median rent, 2007-2017***	***Increase median income, 2007-2017***
ILLINOIS	24.4%	16.4%
INDIANA	24.3%	14.2%
IOWA	34.0%	23.8%
MICHIGAN	22.3%	14.5%
MINNESOTA	32.1%	22.6%
WISCONSIN	21.7%	17.3%
U.S. AVERAGE	***28.3%***	***18.9%***

Source: US Census, 1-year American Community Survey (ACS) data, not inflation adjusted

The data from other states actually confirms the link between housing supply, rents and housing affordability. During the time period from 2000-2014, Wisconsin permitted more multifamily units on a per-capita basis than did all of our neighbors. Higher rates of production were associated with a slower increase in rents. Even though Wisconsin did not produce enough total units to meet overall demand, this data demonstrates that expanding rental housing supply can improve rental affordability.

RESULT 2

DECLINING HOMEOWNERSHIP IN WISCONSIN, ESPECIALLY AMONG YOUNGER HOUSEHOLDS AND AFRICAN AMERICAN AND HISPANIC FAMILIES

With housing prices now exceeding pre-crisis (2007) levels, housing prices and rents rising faster than incomes and inflation, and a shortage of new supply, the ability to attract new workers to Wisconsin or for existing workers to move into homeownership is constrained. Even though incomes and jobs in this state have recovered from the Great Recession, homeownership has not.

Younger adults entering prime homebuying years or families trying to re-enter homeownership face multiple barriers. Because home prices are more expensive, they need to save for a larger down payment, but higher rents make it harder to save for this down payment. Stagnant incomes, decreased credit availability, and higher levels of student loan debt also make it hard for many to transition into homeownership.

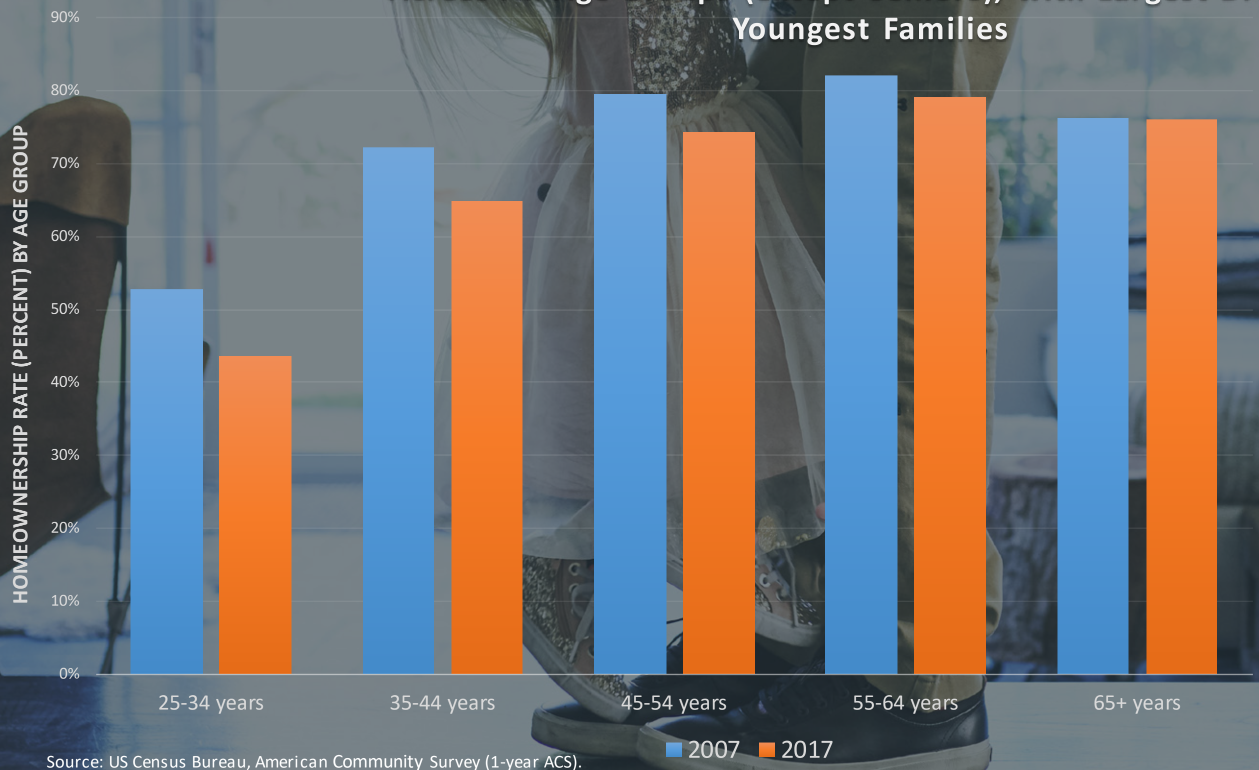
While homeownership rates across the United States declined following the Great Recession, Wisconsin has been hit particularly hard. Rebuilding homeownership is vital for economic development. Workers need to be able to find stable and affordable homes for purchase near where they work. Many businesses across the state are experimenting with down-payment assistance and homebuyer counseling programs in order to recruit and retain their workers.

If we are to rebuild and strengthen homeownership in Wisconsin, many of these new homeowners will come from demographic categories of workers not currently in the homeownership market: younger adults, first-time homebuyers, and African American and Hispanic families. Figure 3 shows changes in homeownership rates in Wisconsin across all age groups from 2007-2017, and Figure 4 highlights changes in homeownership rates for racial and ethnic groups. Homeownership rates declined for all age groups except seniors, with the largest declines seen in younger adults.

Among our neighboring states, Wisconsin has a lower homeownership rate for the two youngest age categories — 25-34 year-old households and 35-44 year-old households — than Indiana, Iowa, Michigan and Minnesota. Only Illinois has lower homeownership rates for these age groups. Among our Midwestern neighbors, only Minnesota has a lower rate of homeownership for African American families than Wisconsin. Wisconsin's homeownership rate for Hispanic families is now the lowest of all our Midwestern neighbors.

FIGURE **3**

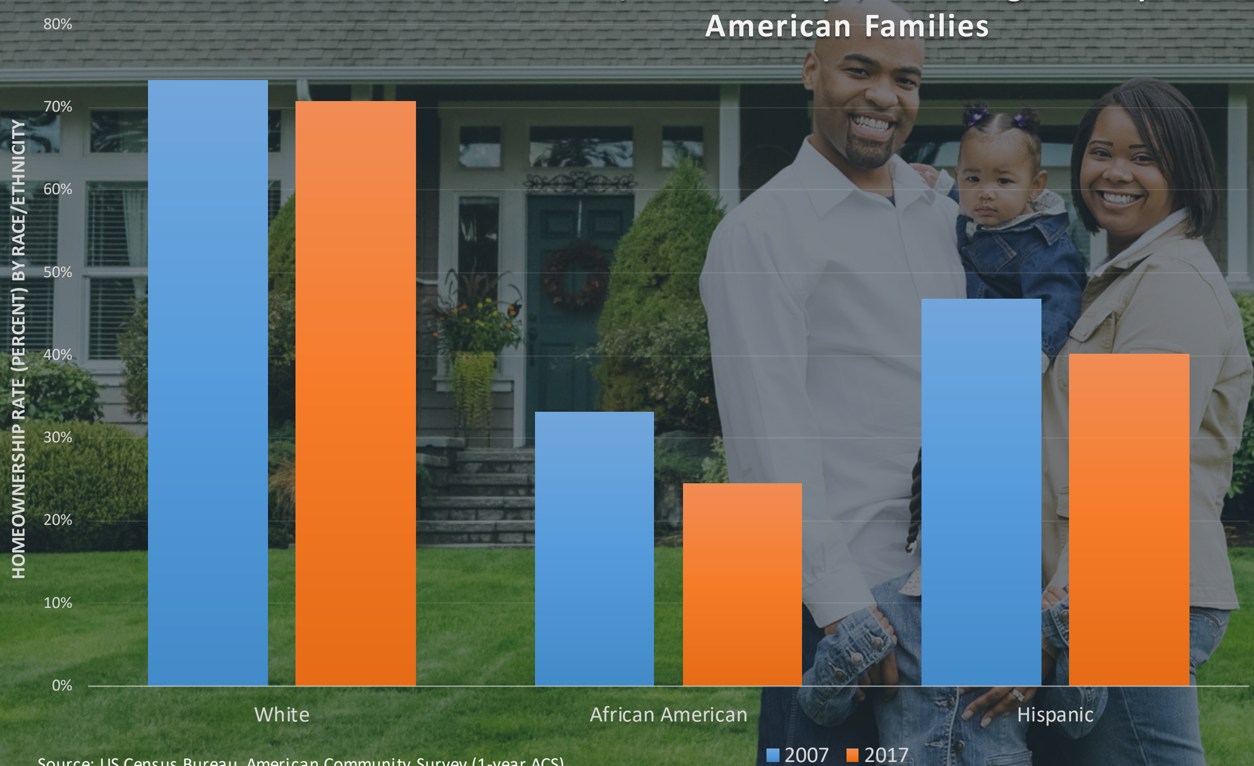
Homeownership Rates Declined in Wisconsin from 2007-2017 Across All Age Groups (except Seniors), with Largest Drop for Youngest Families



Source: US Census Bureau, American Community Survey (1-year ACS).

FIGURE **4**

Homeownership Rates Declined in Wisconsin from 2007-2017 Across All Racial/Ethnic Groups, with Largest Drop for African American Families



Source: US Census Bureau, American Community Survey (1-year ACS).

HOMEOWNERS BORROWING MORE IN WISCONSIN

Families respond to increasing housing prices and a housing shortage near where they want to work in one of three ways: renting, purchasing a less expensive home further away from work, or stretching to purchase a home with more mortgage debt. We see all three happening in Wisconsin.

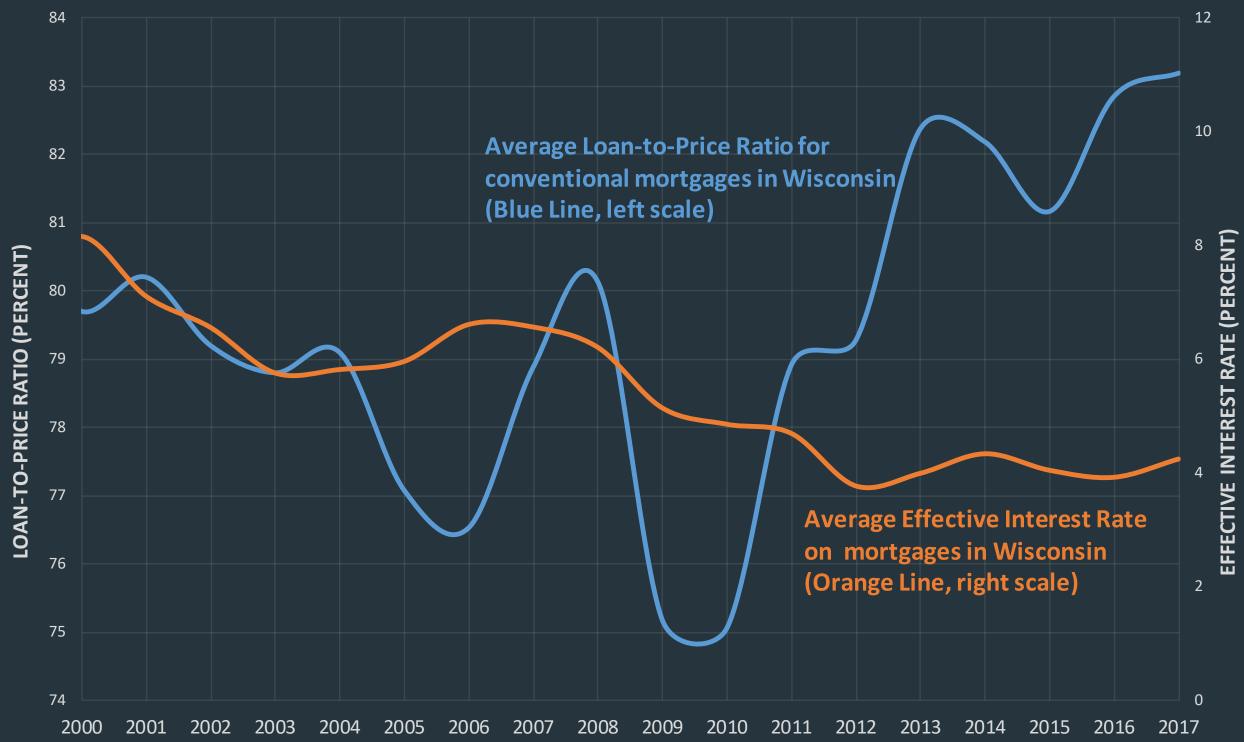
Despite historically low interest rates, homeowners who have been able to qualify for mortgages have been increasingly taking out larger loans compared to their home's value.

FIGURE **5**

WISCONSIN HOMEOWNERS ARE BORROWING A LARGER PERCENTAGE OF THEIR HOME'S VALUE WHILE INTEREST RATES ARE AT HISTORIC LOWS

Figure 5 shows changes in the loan-to-price ratio (also called loan-to-value ratio or LTV) for mortgages in Wisconsin since the year 2000. The loan-to-price ratio equals one minus the down-payment percentage. For example, an 80 percent loan-to-price ratio is the same as a 20 percent down payment. When average loan-to-price ratios exceed 80 percent, this indicates a higher percentage of homeowners utilizing lower down payment loan products. Since 2013, the average loan-to-price ratio for mortgages in Wisconsin has exceeded 80 percent and is over 83 percent in the most recent data (2017).

FIGURE **5**



Source: Federal Housing Finance Agency, Rates and Terms on conventional, single family, fully amortized, non-farm, mortgages, by state (purchase and refinance, new and existing houses). Effective interest rate amortizes fees and points. Loan-to-price ratio is the ratio of the loan amount to the house value. An 80% loan-to-purchase ratio is equivalent to a 20% downpayment.

RESULT 3

DECLINING HOUSING AFFORDABILITY

HOW IS AFFORDABILITY MEASURED?

"Affordability" measures whether a typical household, usually the median income household, can afford the housing in an area. Because this report focuses on workforce housing, we focus on affordability for entry-level homeownership, using a low-down-payment product, and affordability for rental homes.

We create two new indices for Wisconsin counties focusing on housing affordability at the county level. While many workers might live and work in different counties, these indices measure whether the typical household in a county can afford the housing in that county. Our data shows that housing affordability concerns encompass urban and rural areas across the state.

INDEX 1

ENTRY-LEVEL HOUSING AFFORDABILITY

Figure 6 shows the "entry-level" housing affordability index for Wisconsin counties. For this workforce housing ownership index, we focus on households utilizing a low-down-payment (3.5 percent down-payment) FHA-insured mortgage. For many first-time homebuyers without the savings for a down payment, FHA-type products are often the only way to become homeowners.

We first calculate what an FHA-insured low-down-payment mortgage would be for the median-priced house in the county. This calculation tells us the monthly mortgage payment that a homeowner would need to pay to purchase the median-priced home. We then calculate how much annual income a family would need to afford this FHA mortgage, assuming that for a mortgage to be affordable the principal and interest should be no more than 25 percent of a family's income. This 25 percent of income for principal and interest standard is used by the National Association of REALTORS® in its housing affordability research, leaving room in housing expenses to account for property taxes, homeowners insurance and utilities.

The index is then the ratio of the median household income to the income that would be needed to afford the median-priced home with a low down payment mortgage product. Another way to think about this is what percentage of the income needed for the median-priced home does the typical family have? A score of 150, for example, means that the median income household has 50 percent more income than would be necessary to afford the median-priced home with an FHA mortgage. A value of less than 100 means that the median income household in a county cannot afford the median-priced home in the county. Any value greater than 100 indicates that the median income household can afford the median-priced home.

Figure 6 shows that in four Wisconsin counties — Dane, Door, Sawyer and Vilas — the median income household cannot afford the median-priced home, even with a low down-payment FHA mortgage product. There are 31 counties where the index score is above 100 but below 120, meaning that the median income household has enough income to purchase the median-priced home, but just barely. These areas include the southeast — Milwaukee, Racine and Kenosha metropolitan areas — as well as the northwest rural areas.

We can also calculate how this entry-level affordability index has changed over time. From the time period of 2010 through 2017, this index of affordability has declined in 57 out of 72 Wisconsin counties. In eight of those declining affordability counties — Vilas in the north; Marathon, Wood and Portage in the central; La Crosse in the west; and Richland, Grant and Iowa in the southwest — the declines were greater than 10 percentage points.

FIGURE **6**

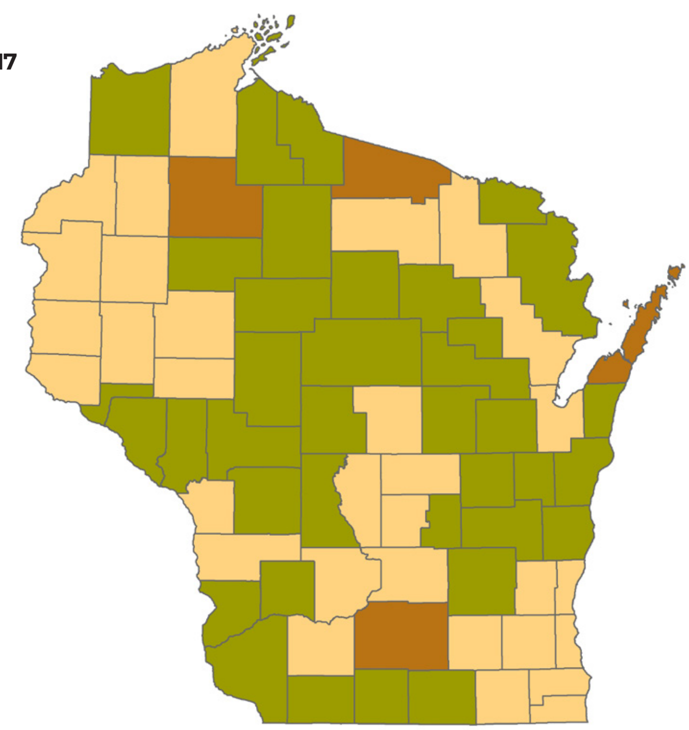
Wisconsin Entry-level Housing Affordability Index by County, 2017

Not affordable (less than 100)

Barely affordable (100-120)

Affordable (greater than 120)

Note: A value of less than 100 means that the median-income household in a county cannot afford the median-priced home in the county. Any value greater than 100 indicates that the median-income household can afford the median-priced home.



RESULT 3

DECLINING HOUSING AFFORDABILITY [CONTINUED]

INDEX 2
RENTAL AFFORDABILITY
(2017)

Our second index for workforce housing affordability focuses on rental housing. Figure 7 shows the "rental affordability index" for each county for the most recent year available, 2017. This index measures whether the median-income renting household can afford the median rental unit in the county by spending no more than 30 percent of income on rent. The index is the ratio of the actual county median-renter-household income to the income that would be needed to afford the median rental unit. Just like the entry-level affordability index above, a score less than 100 means that the median-income renting household cannot afford the median-priced rental unit, and a score above 100 means that the median-income renter household can afford the median-priced unit. Again, a score of 150, for example, means that the typical renting household has 50 percent more income than would be needed to rent the median-priced unit.

In Figure 7, there are 14 counties where the typical renting household cannot afford the middle-priced rental home: Kenosha, Racine, Milwaukee and Rock in the southeast; Burnett, Sawyer, Ashland, Iron and Vilas counties in the north; Vernon County in the southwest; and Adams and Waushara counties in the central part of the state. Finding adequate and affordable rental homes is thus a problem not only in larger cities and suburbs, but in small towns and rural areas of the state. There are 37 counties where the typical renter household can barely afford the median-priced rent, with scores between 100 and 120.

FIGURE **7**

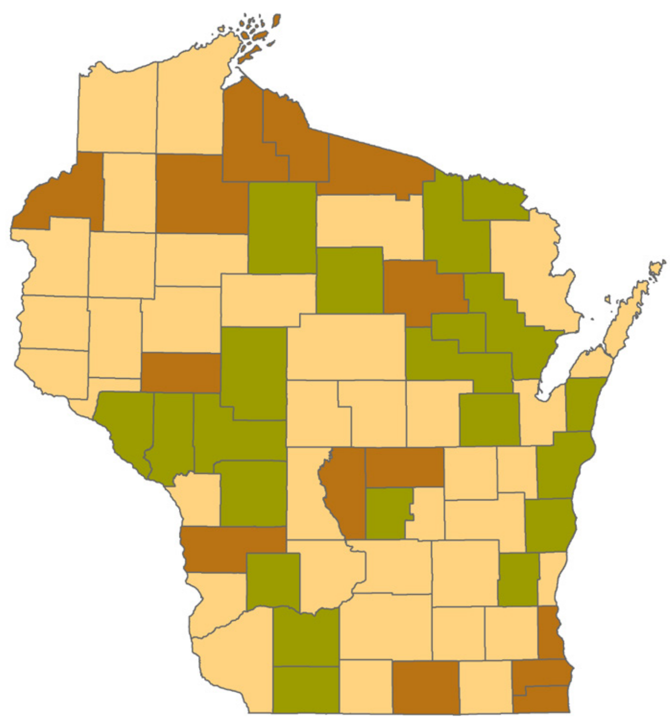
Wisconsin Renter Affordability Index by County, 2017

Not affordable (less than 100)

Barely affordable (100-120)

Affordable (greater than 120)

Note: A value of less than 100 means that the median income renter-household in a county cannot afford the median rental unit in the county. A value greater than 100 indicates that the median income renter-household can afford the median rental unit.



RESULT 3
DECLINING HOUSING AFFORDABILITY
[CONTINUED]

Workforce housing affordability, of course, is more than whether the median-income families can afford housing opportunities. When there is a shortage of housing at all price points, the workers earning below median income as well as seniors can face significant affordability challenges. So, while the overall affordability indices in Figures 6 and 7 give a picture of the middle of the workforce housing market, it is also important to provide details at a wider range of income levels.

TABLE **3**
MANY LOWER-INCOME HOMEOWNERS **PAY MORE THAN 50 PERCENT OF THEIR INCOME ON HOUSING**

	Percent of homeowners "extremely cost-burdened," by income categoy				
State	0-30 percent of area income	30-50 percent of area income	50-80 percent of area income	80-100 percent of area income	above median area income
ILLINOIS	64.1%	32.6%	13.7%	5.3%	1.0%
INDIANA	56.1%	22.3%	6.3%	1.9%	0.3%
IOWA	51.9%	17.0%	4.5%	1.4%	0.3%
MICHIGAN	62.2%	27.4%	9.6%	3.1%	0.6%
MINNESOTA	56.0%	24.3%	8.1%	2.5%	0.5%
WISCONSIN	**63.5%**	**28.8%**	**10.4%**	**3.2%**	**0.6%**

Source: US. Dept. Housing and Urban Development, Comprehensive Housing Affordability Strategy Data, 2011-2015

Table 3 shows the percent of homeowners in Wisconsin and neighboring states by income levels who pay more than 50 percent of their income for housing, considered "extremely cost-burdened." Across all income categories, Wisconsin's proportion of homeowners with extreme cost burdens is worse than Indiana, Iowa, Michigan and Minnesota. Only Illinois among our neighbors fares worse. Of course, many of the homeowners with incomes below 50 percent of the median are likely seniors who are no longer in the workforce, but still bear significant housing costs due to an overall shortage of units and a particular shortage of units for downsizing. Households with incomes between 50 percent and 100 percent of median income are in the workforce but face significantly higher rates of cost burdens than similarly situated workers in other states.

Translating Table 3 into actual numbers, we see that in Wisconsin, currently over 94,000 homeowners whose income is below 50 percent of area median income spend more than half of their income on housing.

TABLE **4**

WISCONSIN LEADS THE MIDWEST WITH THE **HIGHEST PERCENTAGE OF LOWER-INCOME RENTERS WITH EXTREME COST BURDENS**

	Percent of renters "extremely cost-burdened," by income categoy				
State	0-30 percent of area income	30-50 percent of area income	50-80 percent of area income	80-100 percent of area income	above median area income
ILLINOIS	62.1%	25.2%	4.6%	1.4%	0.3%
INDIANA	63.3%	24.0%	3.1%	0.8%	0.5%
IOWA	60.6%	14.9%	3.0%	0.8%	0.6%
MICHIGAN	65.0%	28.9%	5.6%	1.6%	0.6%
MINNESOTA	58.7%	18.0%	3.9%	1.2%	0.3%
WISCONSIN	**65.3%**	**20.0%**	**2.9%**	**0.6%**	**0.3%**

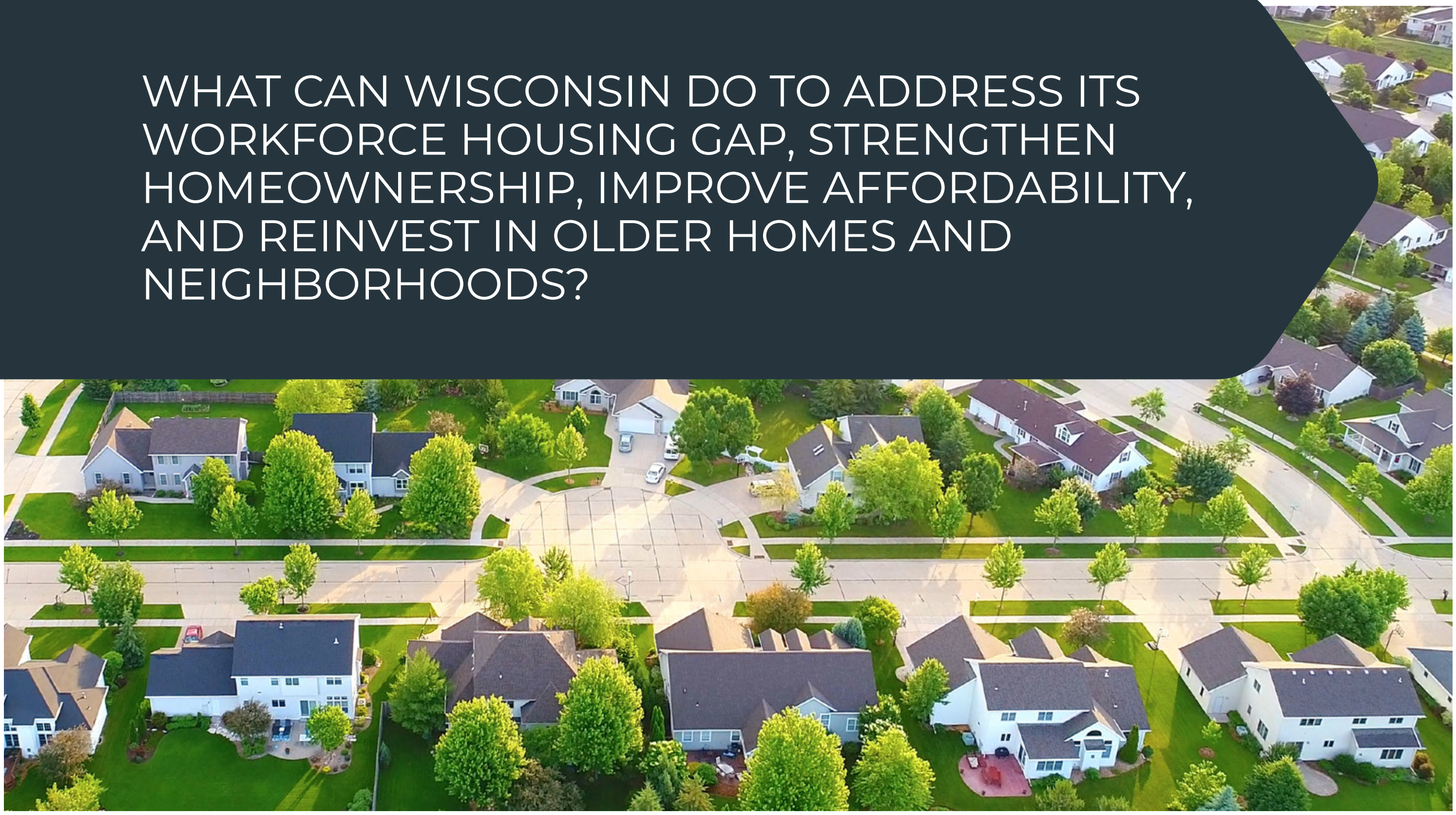
Source: US. Dept. Housing and Urban Development, Comprehensive Housing Affordability Strategy Data, 2011-2015

Table 4 now shows the same information for renting families, comparing the percent of renters by income category who are paying more than 50 percent of their income on rent in Wisconsin to our neighboring states. Wisconsin has the highest percentage of all of our neighbors of lower-income renters who are extremely cost-burdened, paying more than 50 percent of their income on rent.

Converting Table 4 into actual numbers, currently in Wisconsin, over 158,000 renting households with income below 50 percent of the area median income spend more than half of their income on housing.

The consequences of our workforce housing shortage, therefore, can be seen not only in rising prices and decreased homeownership opportunities, but also in decreased affordability for owners and renters. In the next section, we outline a series of reform possibilities to address our housing shortage and improve workforce housing affordability.

WHAT CAN WISCONSIN DO TO ADDRESS ITS WORKFORCE HOUSING GAP, STRENGTHEN HOMEOWNERSHIP, IMPROVE AFFORDABILITY, AND REINVEST IN OLDER HOMES AND NEIGHBORHOODS?



ROADMAP TO REFORM
ADDRESSING WISCONSIN'S WORKFORCE HOUSING CHALLENGE

Many states across the country are wrestling with these same questions. Many states are proposing or are implementing innovative policy, legal, planning and finance options for dealing with the housing crisis. In this section, we identify key goals and specific recommendations for Wisconsin based on analysis of reform proposals and actions in other states. In the past years, major housing reform efforts have been proposed in California, Connecticut, New Hampshire, Oregon, South Carolina, New Jersey, Utah, Massachusetts and others.

We highlight five key goals for Wisconsin in the coming years:

Goal 1: Build more housing
Goal 2: Increase housing choice with a more diverse housing stock
Goal 3: Rebuild and strengthen homeownership
Goal 4: Reinvest in older housing stock and older neighborhoods
Goal 5: Make housing a priority

ROADMAP TO REFORM: GOAL 1

BUILD MORE HOUSING

Wisconsin needs to reduce regulatory barriers to ensure an adequate housing supply. Local government elected officials and community leaders need to take leadership to ensure their city, village or town is providing adequate opportunities for housing supply and to build more housing where people want to live. This involves reforming and updating zoning and subdivision codes, removing regulatory barriers, providing financing, and helping to educate their community to overcome NIMBY opposition to new housing.

Wisconsin law currently requires cities, villages, towns and counties with zoning or subdivision ordinances to have plans to:

"provide an adequate housing supply that meets existing and forecasted housing demand in the local governmental unit." (Wis. Stat. 66.1001(2)(b))

The data presented in this report clearly indicates that we are falling behind in providing an adequate housing supply and in meeting existing and forecasted housing demand.

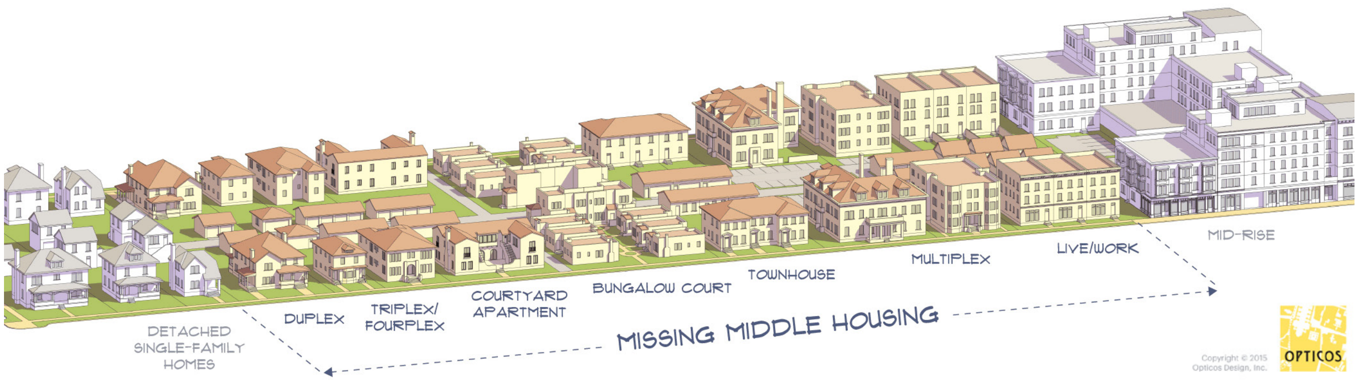
Cities and states across the country are re-examining their zoning and other land use regulations to reduce unnecessary regulations that limit housing supply, limit housing diversity with different types and sizes of units, and impose unnecessary delays. Regulations that raise the cost of housing and limit housing choices for the workforce can limit the ability of businesses to hire workers, can force workers to drive long distances to their jobs, or can force residents to pay too much for their housing.

Cities and states across the country are also recognizing that restrictive zoning can be exclusionary and foster excessive segregation. Cities and states are increasingly realizing that separating land uses so that people have to drive everywhere and imposing large minimum lot sizes is expensive to service, causes excessive traffic and creates unhealthy communities.

Improving our housing supply and modernizing our regulations and zoning codes will create many economic and social benefits for our communities. Housing construction creates quality jobs and increases a community's tax base. Expanding choices and housing opportunities for families can improve schools and reduce traffic congestion. And building more housing overall will reduce upward pressures on prices and rents.

ROADMAP TO REFORM: GOAL 2

INCREASE HOUSING CHOICES WITH A MORE DIVERSE HOUSING STOCK



Demographics and housing demand are shifting. Average household size is declining. Baby Boomers are aging. Younger households are more diverse and have greater preferences for "walkable urbanism," smaller or more sustainable housing options, and a diversity of experiences. Families are increasingly looking for multigenerational options and flexible housing arrangements.

This goal recognizes the need not only to build more housing but to build a greater variety of housing that people want in places where they want to live. We need to update our housing delivery system to meet 21st century tastes and technologies.

Architects, developers and planners have successfully implemented a wider range of newer housing models across the country that allow developers and builders to respond to housing demand and changing demographics. These have included tiny houses, the "not-so-big" house, small lot houses, cottage clusters, "pocket neighborhoods," courtyard neighborhoods and live-work units. Innovative designs are available for multifamily structures that blend into neighborhoods and look like single-family houses. Cities across the country are trying to re-weave the urban fabric by permitting "missing middle" housing types, such as duplexes, 3- or 4-plexes, small garden apartments, courtyard apartments, townhouses and city-houses. This includes allowing flexibility in design standards, parking requirements, set-backs, frontage requirements and other regulations. Overwhelmingly, these new units add value to existing neighborhoods, re-weave the urban fabric, and are constructed with modern materials and methods.

Communities should provide a greater range of housing in every neighborhood that offers options for people at different life stages to stay in the same area. In fact, Wisconsin state law requires communities to provide both an adequate housing supply to meet forecasted needs and "a range of housing choices that meet the needs of persons of all income levels and of all age groups." (Wis. Stat. 66.1001(2)(b))

A wider variety of housing styles, types and sizes in each neighborhood will help meet changing market demands, reduce the workforce housing gap, and promote housing affordability.

Goal 2 Strategies: Increase housing choices with a more diverse housing stock

Based on our analysis of planning, zoning and regulatory reform efforts in other states, Wisconsin could consider any or all of the following menu of policies and strategies:

- **Expedited permitting and development approval processes for housing at the state and local levels:** New developments often take years to get through the local approval process, which increases the price of new housing units. Expedited approval processes reduce costs, time to develop and uncertainty, which will provide an incentive for developers and builders to create more workforce housing. Some states, for example, require municipalities to make final determinations on development applications that involve housing within 90 or 120 days.
- **Require all cities and villages to allow "missing middle" housing types in at least one residential zoning district as a permitted use by-right:** Missing middle could be defined as "attached townhouses, duplexes, triplexes or quads, and cottage clusters." Encourage communities to plan for "complete neighborhoods" and to allow "missing-middle" housing types in all neighborhoods, based on proposals in Oregon.
- **Require municipalities to allow accessory dwelling units (ADUs), sometimes called "granny flats" as a permitted use by-right in all residential zoning districts:** Consider developing a state-level "model ordinance" to be adopted by municipalities for ADUs, including reducing parking requirements and impact fees for ADUs. Consider a task force of design professionals — architects, landscape architects and interior designers — to develop "off-the-shelf" ADU building plans that meet state building codes and reduce design costs and uncertainty. Consider requiring that applications for ADUs that conform to state-approved building plans are automatically granted building and zoning permits.
- **Better enforcement of existing requirements:** Wisconsin law currently requires cities, villages, towns and counties with zoning or subdivision ordinances to have comprehensive plans that "provide an adequate housing supply that meets existing and forecasted housing demand in the local governmental unit." (Wis. Stat. § 66.1001(2)(b)) However, the evidence in this study demonstrates that local governments are not meeting this requirement. Stronger enforcement standards should be added to the law to ensure this requirement is being met.

  Many northeastern states including New Jersey, Connecticut, Massachusetts and New Hampshire, as well as the state of Washington, have created state appeals systems. If a municipality is not providing an adequate housing supply or not meeting its workforce housing needs, developers can appeal to a statewide board of housing and land use experts. Alternatively, Wisconsin could create an expedited appeals process to circuit court and require municipalities to approve workforce housing projects unless the municipality can demonstrate that the denial of a proposed project is necessary to protect community health or safety.
- **Establish maximum minimum lot sizes in sewer service areas:** Require municipalities with residential zoning districts in areas served by public water and sewer, "sewer service areas" under NR 121, to provide extraordinary justification for large single-family minimum lot sizes — for example, larger than 6,000 ft^2 or 8,000 ft^2; or consider prohibiting a municipality from enacting, amending or enforcing a zoning ordinance with a minimum lot size larger than 6,000 ft^2 or 8,000 ft^2 in sewer service areas.

[CONTINUED]

Goal 2 Strategies: Increase housing choices with a more diverse housing stock

- **Use tax incentives to reduce costs for workforce housing:** State and any county sales taxes, for example, can add 5 to 5.5 percent to the cost of the materials. Exempting building materials for workforce housing from state and local sales taxes would lower the construction costs for such housing.
- **Require municipalities to allow multifamily housing construction in at least one zoning district as a permitted use by-right:** This has the effect of prohibiting municipalities from outright bans on multifamily construction.
- **Encourage and/or incentivize municipalities to plan for a better balance between jobs and housing:** Provide incentives for high-employment cities or areas to expand nearby housing opportunities or transit service. Incentives could include financial benefits to the city and/or higher priority for state economic development and infrastructure investments; "pay for success." Encourage municipalities to reduce or eliminate minimum parking requirements in proximity to transit.
- **Analyze statewide workforce housing data:** Cities and villages with a population over 10,000 are required to prepare annual reports on implementation of the housing plans, progress toward meeting forecasted housing demands, and analyses of the cost of land development regulations on the price of housing. See 2017 Wis. Act 243. This data, however, is not required to be analyzed on a statewide basis to evaluate whether Wisconsin's workforce housing issues are being addressed at the local level. The state should prioritize analyzing these reports, providing educational materials to citizens, publishing best practices and innovative plans, and reporting on municipal compliance with reporting requirements.
- **Financing for workforce housing in rural areas and small communities:** The state should consider creating funds targeted toward support for new workforce housing construction and reinvestment in rural areas and small communities. Construction costs in rural areas and small communities are often as expensive as nearby cities, but rents and property prices would not support construction costs. Technical assistance and gap-financing to access USDA rural housing funds would help smaller communities respond to their housing challenges.
- **Provide additional incentives to local government to approve workforce housing:** For example, 2017 Wisconsin Act 243 allows municipalities that permit new housing on less than a quarter-acre lot and that sells for less than 80 percent of other new housing to increase levy limits for police, fire and EMS. The state could consider additional financial incentives to municipalities to produce workforce housing, including rental.
- **Workforce housing tax increment financing districts (TID):** Allow the use of tax-increment financing (TIF) for the construction of the infrastructure — roads, sewer and water — necessary to service new workforce housing developments. TIF uses the increase in property tax revenues generated from the new development to pay for infrastructure and other costs.

ROADMAP TO REFORM: GOAL 3
REBUILD & STRENGTHEN HOMEOWNERSHIP

Rebuilding homeownership by expanding homebuying opportunities to groups currently underserved in the market — younger families, first-time homebuyers, and African American and Hispanic households — is crucial to the long-term economic health of Wisconsin and our communities. Reducing racial disparities in homeownership will reduce racial disparities along other dimensions. In many of our cities and older neighborhoods, plenty of older houses for purchase exist, but there are not enough "purchase-ready" households.

In nearly every county in Wisconsin, a number of nonprofit and for-profit housing counseling organizations, homebuyer assistance programs, banks and financial institutions catering to first-time homebuyers currently exist. We already have the infrastructure of lenders and housing counselors, and state and federal programs to assist first-time homebuyers. But these programs need to be scaled up, promoted, coordinated and funded to achieve a statewide impact.

The African American homeownership rate in Wisconsin is currently at 24.5 percent, while the national African American homeownership rate is at 41.7 percent. If Wisconsin's black homeownership rate increased to the national average, which, of course, is still too low, the state would add at least 22,000 new homeowners.

Likewise, the Hispanic homeownership rate in Wisconsin is currently 40.2 percent, while the national Hispanic homeownership rate is 47.2 percent. If Wisconsin's Hispanic homeownership rate increased to the national average, which, of course, is still too low, the state would add nearly 8,000 new homeowners.

The homeownership rate for 25-34 year-old households in Wisconsin is 43.6 percent, while the average for our neighboring states is 48.8 percent. If Wisconsin's homeownership rates for 25-34 year-old households increased to the average of our neighbor states, we would add 18,000 new homeowners in this state.

Improving homeownership among these three underserved populations could result in about 48,000 new homeowners in Wisconsin. Such a goal is certainly within the financial and administrative capacity of the state.

Years of experience already tell us what works to move families into sustainable homeownership: mandatory housing counseling, including credit repair; plus financial assistance for down payments, either through down payment assistance programs or other savings vehicles; plus neighborhood property stability and neighborhood revitalization.

In short, we need to create more purchase-ready borrowers and purchase-ready homes. This connects to the next goal of reinvesting in our aging housing stock.

ROADMAP TO REFORM: GOAL 4

REINVEST IN OLDER HOUSING STOCK AND OLDER NEIGHBORHOODS

Wisconsin's aging housing stock and older neighborhoods provide great value and great places. But, like any physical infrastructure, homes need reinvestment and rehabilitation to maintain value. Many of our older homes are occupied by seniors, who may experience cash-flow difficulties in updating important house systems. Many older homes are not energy efficient, resulting in higher-than-needed electricity, heating and cooling costs for homeowners. Seniors in particular may live in older housing and may not be able to afford energy efficiency improvements, which can increase costs or leave them more vulnerable to extreme heat or cold events. For first-time homebuyers or buyers looking for housing in older neighborhoods, financing the necessary improvements along with the house purchase may be financially out of reach.

Wisconsin's older single-family housing stock can provide many opportunities for entry-level housing or move-down housing for seniors. However, over 60 percent of our single-family structures were built before 1980 and are often in need of substantial repair, modernization or energy-efficient investments.

Reinvesting in older housing stock and older neighborhoods pays off in the long run. Property values are stabilized, housing is made more efficient and sustainable, and communities are renewed. Although we clearly need to build more housing, as outlined in goal 1, the majority of our workforce and seniors in the next 20 years will live in already-built housing.

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Goal 3 Strategies: Rebuild and strengthen homeownership

- **Encourage cities, villages and counties to make funding available for Down Payment Assistance Programs (DPAP):** Statewide resources for DPAPs through WHEDA and the Federal Home Loan Bank of Chicago (FHLBC) already exist. Communities should design their programs to leverage and maximize these sources. For example, the FHLBC Downpayment Plus program provides matching funds, which could come from local banks, pools of employers, or a community development authority.

- **Create a first-time homebuyer savings account program:** Create incentives to help workers and families save enough money to purchase a home by providing a state tax deduction and a tax-advantaged savings vehicle for accumulation of a down payment for future homeowners. Matching contributions from employers, community organizations or financial institutions could be allowed. Currently, Colorado, Iowa, Minnesota, Mississippi, Montana and Wyoming offer some form of tax-advantaged first-time homebuyer savings accounts. The program could be enhanced by providing employers with financial incentives or tax credits for contributions to an employee's homebuyer savings account.

Goal 4 Strategies: Reinvest in older housing stock and older neighborhoods

- **Expand WHEDA's Transform Milwaukee Advantage program:** Expand WHEDA's Transform Milwaukee Advantage program to the entire city of Milwaukee and possibly expand to reinvestment in targeted areas in other older urban neighborhoods. WHEDA's Transform Milwaukee Advantage program partners with local housing counselors and community development groups to expand homeownership in underserved markets in a limited number of Milwaukee neighborhoods. Products like the Transform Milwaukee Advantage are particularly useful for acquisition and rehabilitation of single-family structures.

- **Create a state tax credit or other financial incentives for the rehabilitation of older housing in older neighborhoods:** Much of the workforce housing stock is located in older neighborhoods. Improvements to older, existing homes such as new windows or insulation add value to the house. Tax credits or low-interest loans could be provided to owners, including seniors, to rehab or improve their homes. Tax credits or other financial incentives could be directed to nonprofit housing agencies to acquire, rehabilitate, and then re-sell older housing at an affordable price.

- **Expand training and apprentice programs for displaced or underemployed workers:** Continue and expand partnerships with community colleges and the Department of Workforce Development (DWD) to expand training and apprenticeship programs for displaced or underemployed workers and at-risk youth to become skilled contractors in skilled trades in construction and rehabilitation of older housing. The shortage of construction workers for new construction also constrains rehabilitation and reinvestment in existing housing. Consider reduced tuition or financial incentives for students who take construction classes at technical college and enter the building trades.

ROADMAP TO REFORM: GOAL 5
MAKE HOUSING A PRIORITY!

Meeting Wisconsin's workforce housing challenge, expanding housing options for seniors and younger workers, and reinvesting in our communities will require leadership and effort at all levels. We need to think big — at a large enough scale to address the scale of our housing challenges.

Public statements from the governor and legislative leaders already indicate that making housing a priority is a bipartisan idea. Housing needs are present in all of our communities — big cities, small towns, suburbs and rural areas. Making housing a priority will mean legislative and administrative changes as well as new and expanded funding and financial incentives at the state level. But much of the implementation of strategies to meet our housing needs will mostly come from local governments and the private sector: developers, builders and lenders.

Making housing a priority will require a sustained partnership across all sectors, including leadership from statewide associations such as the Wisconsin REALTORS® Association, which has funded this report to highlight the critical housing needs in the state.

The proposals in this report are just a starting point for reform and modernization efforts, and we hope that ongoing conversations all across the state will continue to invent creative, innovative and flexible methods of expanding housing choices.

Goal 5 Strategies: Legislative, financial and administrative reforms

A key approach for these strategies is to leverage existing programs and structures for maximal advantage, and to provide opportunities for municipalities and the private sector to innovate and respond to new housing challenges.

Leverage, partnership and flexibility are important approaches to solving the housing crisis.

- **Target state incentives to build and preserve workforce housing in Opportunity Zones:** The state should leverage the Federal Opportunity Zone tax incentives from 2017 tax reform legislation to coordinate housing investments into designated Opportunity Zones in the state. The federal tax incentives will focus investment into new construction and new business creation in Opportunity Zones, but there will still be a need for preservation and reinvestment in existing rental and ownership housing. Preserving and upgrading the existing housing stock in these areas would benefit workforce housing, as workers in these new businesses can live near work.

  Specifically, the state could consider expanding the recently passed Affordable Housing Tax Credit (Act 176) to create a special pool of tax credits for investment preservation and/or rehabilitation of existing rental units in Opportunity Zones. These state credits would leverage federal tax credits and the housing bond program. Likewise, the state could target homebuyer assistance programs or loans to housing developers and/or nonprofits located within Opportunity Zones.

- **Expand state housing tax credit for rural areas:** The state could consider expanding the successful state housing tax credit program with additional funding designed for rural areas and small towns, including financial assistance and technical assistance to help deal with application and financing costs for many small buildings across a larger area. WHEDA's recent coordinated efforts in Barron County are a great example of this strategy.

- **Financial incentives for innovative models:** The state could consider special financing incentives for new or innovative models of housing supply and affordability. This could include, for example, lease-to-purchase programs, community land trusts, cooperative housing, and shared-equity programs. The state could also consider special financing incentives or programs for homeowners who want to develop an ADU on their property. Currently, it is difficult for existing homeowners to finance construction of an ADU on their property because of federal mortgage rules. State financing or credit guarantees could facilitate investment.

- **Coordinate housing programs:** Currently, many state housing programs and regulations are scattered across different state agencies. Executive and legislative action could bring all housing programs together in a centralized, coordinated way.

- **Technical and financial assistance for local governments:** Because local governments play such a critical role in shaping housing opportunities, the state should provide more technical assistance, training and grant funding to help communities plan for and meet their housing needs. This could take many forms, either through a state agency or through partnerships with the University of Wisconsin, UW-Extension or statewide associations.

- **Create a revolving loan fund for nonprofit and affordable housing developers:** Because land costs in many of our cities are so high, nonprofit and affordable housing developers often face difficulties in pre-development financing and land acquisition. The state should consider a revolving loan fund for these developers. California, Florida and the city/county of Denver all have financing programs worth considering.

- **Maintain and expand rental assistance programs:** Even though expanding housing choices and reducing regulatory barriers to supply will bring down housing costs, many working families, seniors and those with disabilities or special needs will continue to face housing affordability challenges in the private housing market. Maintaining and expanding rental assistance programs and fair housing enforcement will continue to be critical to meeting the needs of all our residents.

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