



WALWORTH COUNTY OWNER-OCCUPIED HOUSING REPORT

AN ANALYSIS OF
WALWORTH COUNTY
AND ADJACENT COMMUNITIES

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The WRA is one of the largest trade associations in the state of Wisconsin, headquartered in Madison. 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.

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ABOUT THIS STUDY

EXECUTIVE SUMMARY

This multipart report analyzes the owner-occupied housing market in Walworth County, Western Racine County and Western Kenosha County. The report is split into three sections:

Part 1: Walworth County and some of the major municipalities within the county

Part 2: Western Racine and Kenosha Counties

Part 3: Policy Relevance of Findings and Literature Review on affordable owner-occupied housing

SUMMARY OF MAJOR FINDINGS AND CONCLUSIONS

The results for the entire Walworth County housing market show signs of a shortage in the medium to long term. Policy changes that address this disequilibrium may improve the health of the owner-occupied housing market and prevent the current housing shortage from compounding. Of particular note, our results suggest a significant shortage of affordable owner-occupied housing — i.e., the price bracket of homes that includes starter homes.

Results from Western Racine and Kenosha counties also suggest an even more pronounced overall shortage of housing than Walworth County as well as a similarly pronounced shortage particular to affordable owner-occupied housing. Policy that addresses this sector of the housing market — for example, policies that reduce fixed development costs, which most heavily impact the development of the most affordable homes — may improve the overall health of the entire housing market and ensure that there is sufficient supply of affordable owner-occupied homes.

Local communities must remember that development fees such as building permits, stormwater management or plat review fees; impact fees; and the approval process itself all contribute to the cost and affordability of housing. Moreover, these costs are generally fixed regardless of the price or size of housing and, thus, have a regressive effect on the affordability of housing.

One change that could encourage housing development is to establish a consistent schedule of low fees and non-onerous regulations across communities, or setting reduced fees for starter-priced homes. The fees, permits and processes a prospective developer must adhere to vary considerably between communities. These hurdles create inefficient “shoe leather” costs, or the additional costs from time and effort that developers are required to incur while parsing through differing standards. The additional costs are inevitably passed on to the homebuyer or may even discourage developers from constructing affordable owner-occupied housing altogether and instead choose to construct larger homes with higher profit margins where these costs can be more easily absorbed. Ultimately, such costs are either passed on to the homebuyer, prevent the expansion of the affordable owner-occupied housing stock, or both.

PART 1 OVERVIEW: WALWORTH COUNTY

Determining Owner-occupied Housing Demand and Supply

Part 1 of this report is focused on determining owner-occupied housing demand and supply in the current Walworth County market. Months' supply of housing, home prices and other metrics were analyzed to determine the current demand. The months' supply of housing and price of homes over time both indicate high demand for housing in Walworth County, which is not being met by current supply. Our findings also suggest the housing shortage is compounded when affordable owner-occupied housing is analyzed in isolation.

Affordable Owner-occupied Housing Demand and Supply

The affordability of owner-occupied housing in Walworth County was also analyzed. Monthly homeowner housing costs as a percentage of income and months' supply of housing were analyzed. The months' supply of housing showed homes that were more affordable had higher demand than typical market housing. People in the market for affordable owner-occupied homes face few options and command little bargaining power. Similarly, when looking at the price of homes over time, we found that the price of the most affordable homes, for example, those in quartile 1 of home sales price, appreciated faster than the rest of the housing market.

Change in Demand for Owner-occupied Housing

The projected change in demand for owner-occupied housing is analyzed in the first part of the section titled "Population Projections and the Outlook of Walworth County's Homeowner Housing Market." Household population projections and other metrics are analyzed to provide estimates as to how many owner-occupied homes will be needed by 2025 and by 2030. Using Wisconsin Department of Administration (DOA) projections, we found that from 2020 to 2025, the projected increase in homeowner housing will be 2,353; while the projected increase from 2020 to 2030 will be 4,365. This increase in demand is important to keep in mind when determining the needed supply of housing for the future.

Major Findings and Conclusions: Walworth County

Based on the study's analysis, this report also concludes that:

- There is evidence of a shortage of owner-occupied housing in Walworth County.
- Results suggest that the shortage of owner-occupied housing in Walworth County is much more pronounced for more affordable owner-occupied housing.
- Comparison of construction rates, population growth and other related projections do not suggest that the current shortage is on track to improve.

Analysis of Municipalities Within Walworth County

Several prominent towns, villages and cities within Walworth County were analyzed in addition to Walworth County as a whole. Measures that were used on a countywide level were also used to determine the health of the housing market in local municipalities. Additionally, a select basket of fees associated with the building of an affordable owner-occupied home in each municipality was calculated. A significant variation of fees, regulations and building permit approval rates was found among the analyzed communities.

Part 2 Overview: Western Racine and Kenosha Counties

The western areas of Racine and Kenosha counties were included in the report due to their proximity to Walworth County. The city of Burlington was given particular focus, due to its comparatively large population. A broader outlook of the owner-occupied housing market across other municipalities showed trends similar to Walworth County. These municipalities show signs of housing shortages, and those shortages are amplified for more affordable owner-occupied housing.

Part 3 Overview: Policy Relevance of Findings and Literature Review

The final part of the report looks at the policy relevance of the study's major findings and conclusions. Possible policy-relevant outcomes of the projected affordable owner-occupied housing shortage are laid out, as are possible strategies and options for ensuring sufficient supply of affordable owner-occupied housing in the future. The section focuses on the potential benefits of reforming zoning codes, regulations and permit approval processes on a local level. The literature review captures policies other communities have initiated to address affordable owner-occupied housing development.



Part 1:

Walworth County

CURRENT SUPPLY FOR OWNER-OCCUPIED HOUSING

Part 1 of this report analyzes the current state of the owner-occupied housing market in Walworth County as a whole by estimating the month's supply of housing and home values over time.

The months' supply of housing is the ratio of houses for sale to houses sold. "This statistic provides an indication of the size of the for-sale inventory in relation to the number of houses currently being sold. The months' supply indicates how long the current for-sale inventory would last given the current sales rate if no additional new houses were built," according to the St. Louis Federal Reserve Bank. According to the National Council of Housing Market Analysts, "A market area's performance in adding and filling additional units is often a better gauge of its ability to accommodate additional units than household growth statistics, especially in an area with a stable or declining population or an aging housing stock that does not satisfy needs or expectations of current residents."

Housing prices over time are analyzed to evaluate demand directly. An unusual increase in housing prices over time in a particular area can suggest an undersupply of housing in combination with other factors.



MONTHS' SUPPLY OF HOUSING: WALWORTH COUNTY

The months' supply of housing is important for estimating housing supply because it provides insight on the rate at which houses are selling compared to the unused supply of homes. The months' supply of housing is calculated by taking the number of for-sale homes and dividing it by the number of sales per month over a certain period; in this case, one year. This metric can also be reframed as the absorption rate, which describes the percent of the existing for-sale homes that would be sold in one month if homes continued to sell at the same rate. For example, a three-month supply of housing corresponds to a 33.3% absorption rate, as one month supply/three months supply = 33% sold in a single month.

Months' supply of housing: methodology

The months' supply of housing was calculated using aggregate housing sales data from a multiple listing service (MLS). An analysis of Walworth County's for-sale single-family housing market was completed.

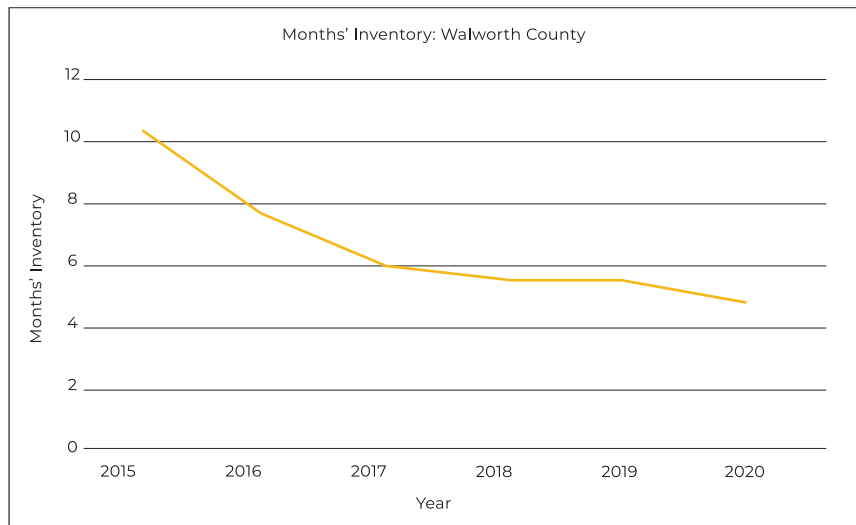
- Walworth County, single-family homes: The Walworth County single-family home MLS data showed 116 homes sold per month and 3.02 months' inventory as of June 2020. See Table 1.

Table 1

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	Homes Sold	Months	Sold Per Month	Available to be Sold	Months' Supply of Housing	Absorption Rate
Walworth County	1,397	12	116.42	351	3.02	33.2%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

According to the Seattle-based website Findwell, "Typically, a market that favors sellers has less than 6 months of supply, while more than 6 months of supply indicates an excess of homes for sale that favors buyers." In other words, a months' supply of housing lower than six months in a seller's market suggests that supply is not increasing as fast as demand is increasing; in other words, a shortage. Walworth County is below this six-month threshold. This suggests there is a shortage of single-family, owner-occupied housing in Walworth County.



Source: Aggregated MLS data averaged over the course of a year.

Even when averaged over each year, we see that Walworth County's months' supply of housing has been decreasing and has been below the six-month supply mark since 2018. Walworth County has averaged a 4.8 months' supply of housing in the first two quarters of 2020.

In addition to looking at the entire housing market, the months' supply of housing was analyzed based on home price intervals. Separating the housing market into intervals provides insight into the availability and demand for affordable owner-occupied housing. As can be seen in table 2, lower price intervals of more affordable owner-occupied housing have a lower months' supply of housing than the higher price brackets. For example, housing that costs less than \$200,000 has one month of housing inventory compared to housing that costs \$300,000-500,000, which has a housing inventory of 4.5 months. This suggests demand for housing in Walworth County is centralized around affordable owner-occupied housing and that demand for affordable owner-occupied homes is surpassing current supply, meaning buyers looking for affordable owner-occupied housing will have limited choices and little bargaining power.

Table 2

WALWORTH COUNTY MONTHS' INVENTORY: PRICE INTERVALS						
Price	Homes Sold	Months	Sold Per Month	Available to be Sold	Months' Supply of Housing	Absorption Rate
Less than \$200,000	456	12	38.00	36	0.95	105.6%
\$200,000 to \$299,999	438	12	36.50	70	1.92	52.1%
\$300,000 to \$499,999	340	12	28.33	128	4.52	22.1%
\$500,000 and above	163	12	13.58	117	8.61	11.6%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

HOUSING PRICES OVER TIME

Rate of appreciation in recent years

Rapidly increasing home prices can be an indicator of a supply shortage in a housing market. Housing prices across the state, and across the country, have trended upward since 2013. The data on the next page shows estimates provided by the WRA. As seen in the figures, median home prices for Walworth County have appreciated faster than both the Southeast region of Wisconsin and Wisconsin as a whole. The percent appreciation estimate demonstrates a 32.5% increase in the median single-family home sale closing price for Walworth County from 2015 to 2019. Compare this to Wisconsin as a whole, which had a 27.1% appreciation estimate in the median single-family home sale closing price from 2015 to 2019. This can be seen in Table 3.

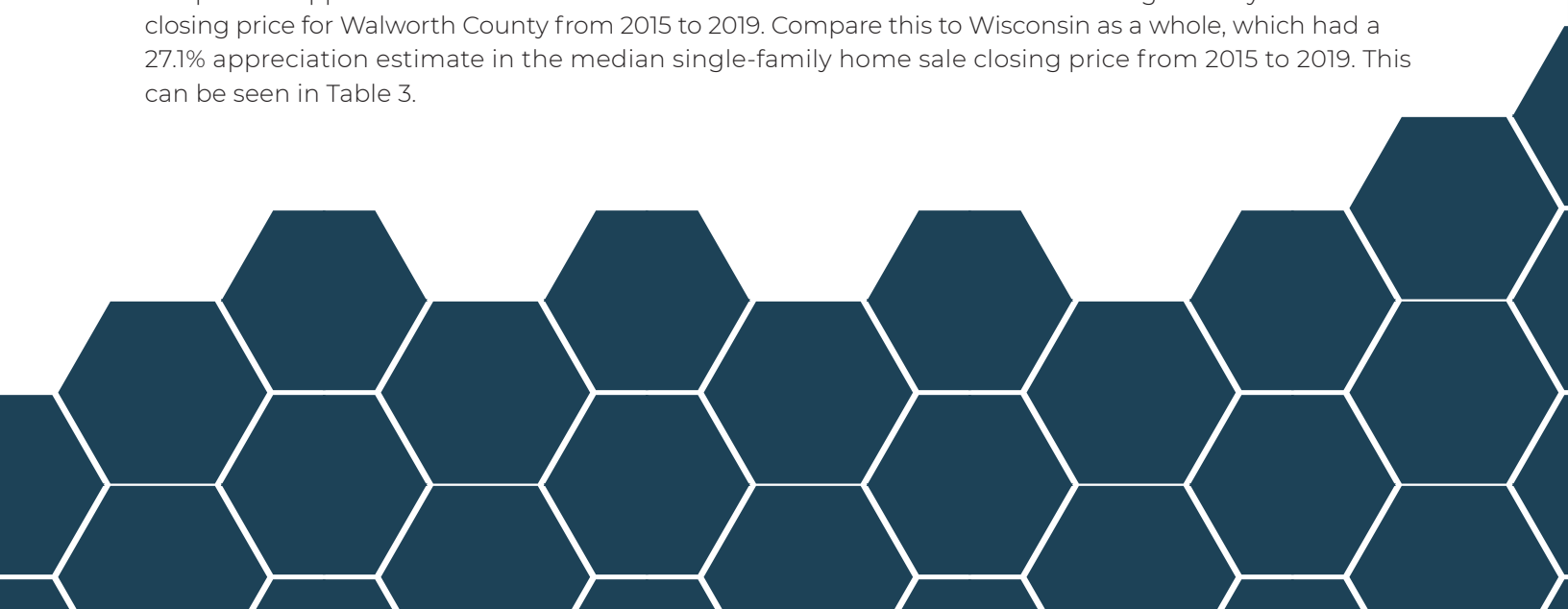
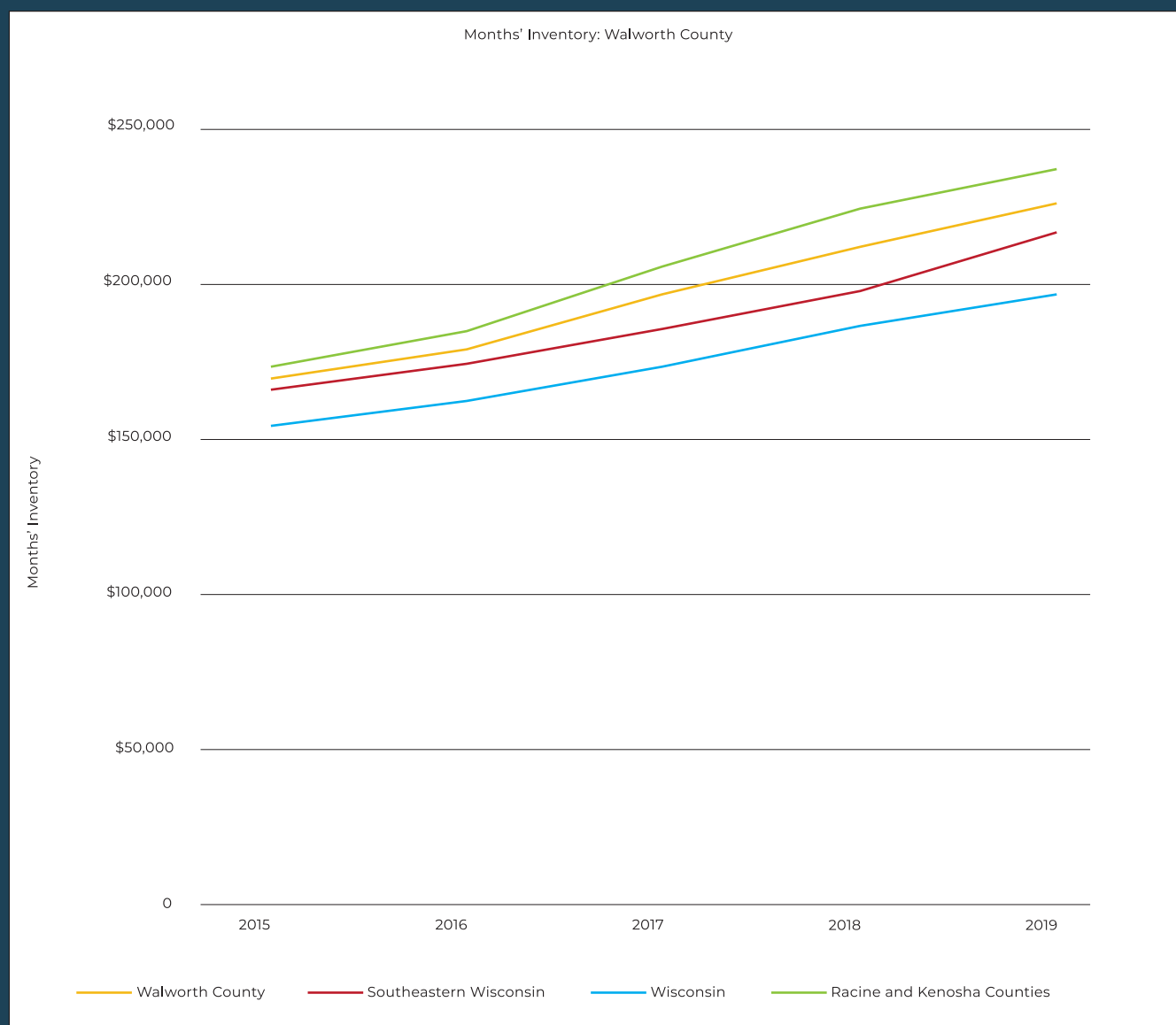


Table 3

WALWORTH COUNTY: MEDIAN HOME PRICE									
	Walworth County			Southeast Region			Wisconsin		
Year	Median	Yearly Increase	Total % Appreciation Since 2015	Median	Yearly Increase	Total % Appreciation Since 2015	Median	Yearly Increase	Total % Appreciation Since 2015
2015	\$169,900	-	-	\$167,000	-	-	\$155,000	-	-
2016	\$180,000	5.9%	5.9%	\$174,900	4.7%	4.7%	\$163,500	5.2%	5.5%
2017	\$195,000	8.3%	14.8%	\$185,000	5.8%	10.8%	\$172,500	5.2%	11.3%
2018	\$209,000	7.2%	23.0%	\$195,825	5.9%	17.3%	\$184,000	6.3%	18.7%
2019	\$225,100	7.7%	32.5%	\$214,900	9.7%	28.7%	\$197,000	6.6%	27.1%

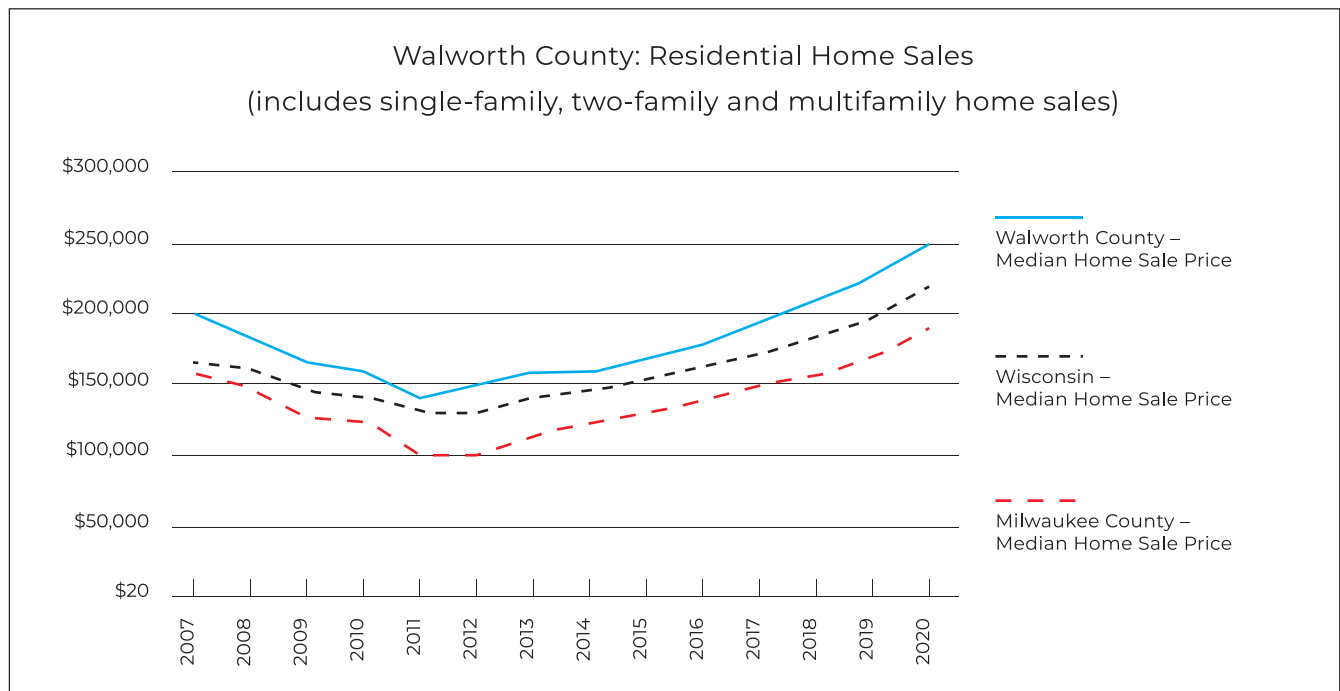
Source: Wisconsin REALTORS® Association.



Source: Wisconsin REALTORS® Association.

2007 to 2020: trend of all residential sales

A comparison between the residential sales price over time shows that in Walworth County, the 2020 (Q2) median residential sales price is \$55,000 more expensive now than it was in 2007, just prior to the Great Recession. Interestingly, over the last three and a half years, the median home sales price in Walworth County has increased by \$70,000, which is a larger change than the four years from the peak in 2007 to the bottoming out of housing prices in the wake of the Great Recession, which has a change of only \$51,000. For comparison, the 2007 to 2020 trend for the median home sales price in Walworth County, Milwaukee County and for Wisconsin as a whole is shown below.

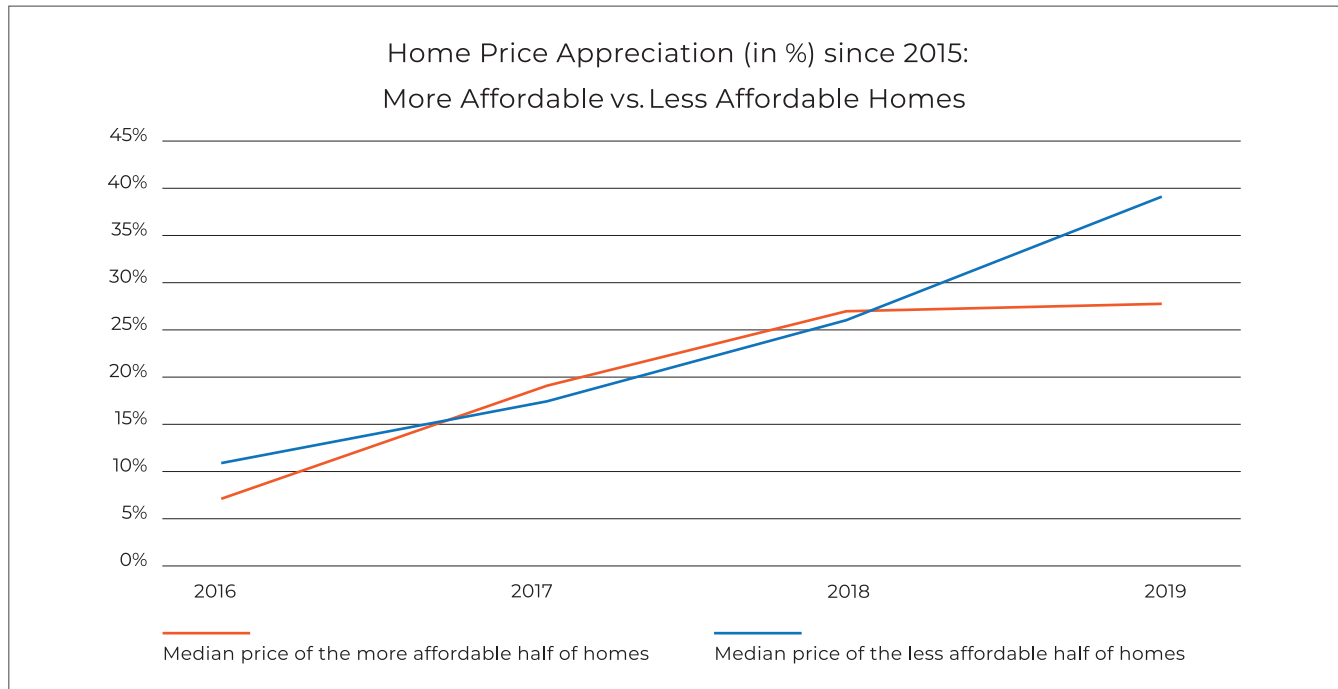


Source: Wisconsin REALTORS® Association.

Affordable owner-occupied homes are appreciating faster

When the data on home price appreciation was further broken down into quartiles based on home prices, it was found that the least expensive half of owner-occupied homes appreciated 11% faster than the most expensive half of owner-occupied homes. Note that the median price of the most affordable half of homes is represented by the 1st quartile, whereas the median price of the least affordable half of homes is represented by the 3rd quartile.

There are two likely causes for this discrepancy between quartile appreciation. One possibility is that buyers are favoring more expensive homes year over year, driving up the price of the 1st quartile significantly. Alternatively, buyers could be struggling to find affordable owner-occupied housing and have no choice but to either pay a higher price for an affordable home or find less expensive housing in a different market. The latter scenario seems more likely, especially considering the low months' inventory for less expensive homes, which suggests there is low supply and high demand for affordable owner-occupied housing.



Source: Wisconsin REALTORS® Association aggregated MLS data.

HOUSING AFFORDABILITY OVER TIME

Table 4

TYPICAL HOUSEHOLD PROFILE OF A FIRST-TIME HOMEBUYER	
Median Householder Age	25-35 years old
Typical Family Size	2-3 people
Median Household Income	\$60,000 per year

Source: National Association of Home Builders

A key part of the health of a housing market is ensuring that homeowner housing is affordable for new potential homebuyers. According to data from the National Association of Home Builders, the average household of a first-time homebuyer has a homeowner ages 25-35, with two to three people in the household, and a household income of \$60,000 per year.

To compare housing affordability for first-time homebuyers, imagine a hypothetical three-person homeowner household at various levels of income. As can be seen in the tables on the following page, such homeowner households with an income just under the poverty line, which is \$21,330 for a family of three, and up to just above the median income of the typical first-time homebuyer, housing is less affordable in Walworth County than in Wisconsin as a whole.

Even for the income bracket that had roughly the same proportion of owner-occupied households that paid 30% or more of their household income in housing costs in the \$20,000-\$35,000 income bracket, a larger proportion of these households still paid at least 20% of their income for housing in Walworth County than in Wisconsin as a whole. In short; homeowners — particularly homeowners with an income typical of first-time homebuyer — find their housing to be less affordable in Walworth County than in Wisconsin as a whole.

Table 5

PERCENT OF HOMEOWNER HOUSEHOLDS WITHIN EACH INCOME BRACKET WHOSE HOUSING COSTS ARE 30% OR MORE OF HOUSEHOLD INCOME		
Household Income Bracket	Walworth County	Wisconsin
\$20,000 to \$34,999	46%	48%
\$35,000 to \$49,999	40%	31%
\$50,000 to \$74,999	21%	15%

Table 6

PERCENT OF HOMEOWNER HOUSEHOLDS WITHIN EACH INCOME BRACKET WHOSE HOUSING COSTS ARE 20% OR MORE OF HOUSEHOLD INCOME		
Household Income Bracket	Walworth County	Wisconsin
\$20,000 to \$34,999	88%	76%
\$35,000 to \$49,999	65%	56%
\$50,000 to \$74,999	49%	45%

Source: U.S. Census Bureau American Community Survey data, 2014-2018.

Housing affordability index over time

A Housing Affordability Index was also calculated for Walworth County for the years 2015 to 2020. First, we estimated the monthly mortgage payment cost required to purchase the median-priced home for the given year under a 30-year fixed-rate mortgage. We then calculated how much monthly income a family would need to afford this mortgage, assuming that for a mortgage to be affordable, the principal and interest should be no more than 25% of a family's income. As detailed in the WRA's "Falling Behind" workforce housing shortage report in 2019, "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."

Specifically, the index is the ratio of the median household income to the income¹ that would be needed to afford the median-priced home² with 30-year fixed mortgage³. A higher number means that housing is more affordable. As can be seen in the graphs on the next page, housing affordability in Walworth County decreased 15 percentage points from 2015 to 2020.

Median Home Price vs Median Household Income Over Time

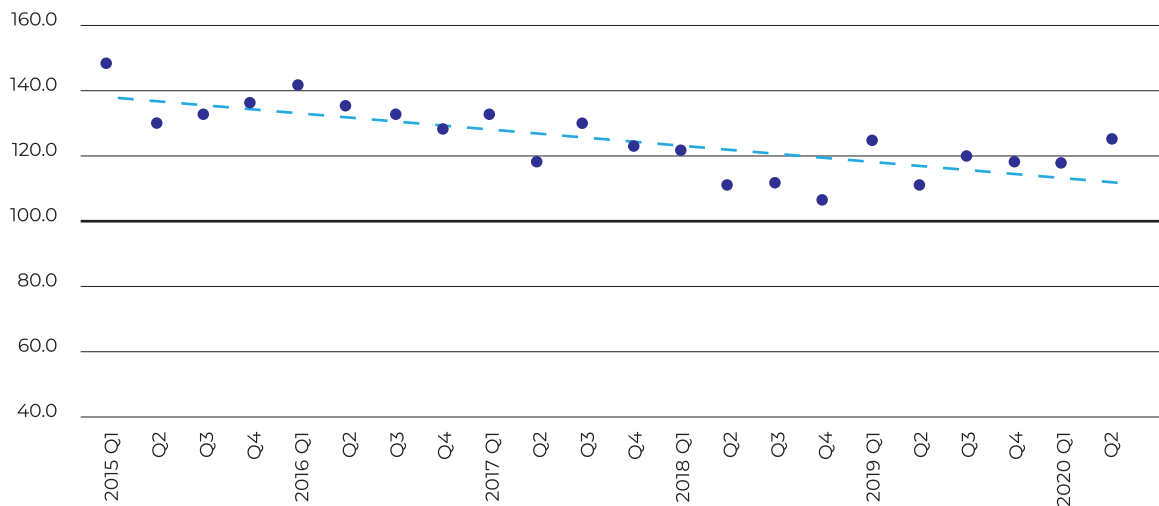
The comparison between Walworth County's median home price vs. its median household income also shows decreasing housing affordability. The median home price is growing much faster than the median household income.

¹ U.S. Census Bureau American Community Survey (ACS) five-year estimates were used for estimating the median household income for Walworth County. As ACS estimates were not available for the years 2019 and 2020, a linear extrapolation from the previous four years was used to estimate median income for 2019 and 2020.

² Using MLS data aggregates for Walworth County closing price, accessed June 11, 2020.

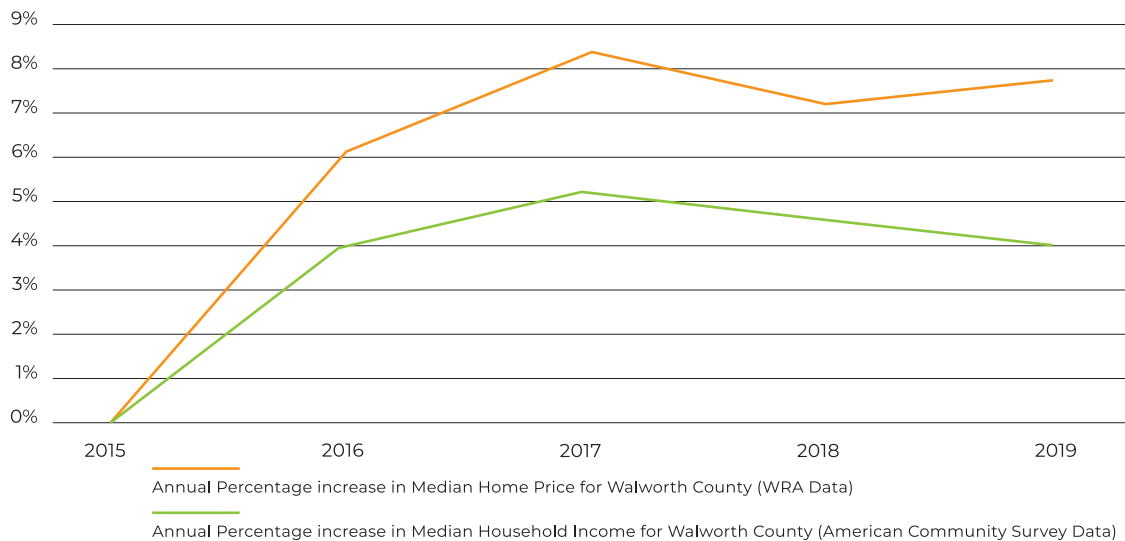
³ Source for 30-year fixed mortgage rate by date: Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis.

Walworth County: Housing Affordability Index (Quarterly Measure)



Source: Wisconsin REALTORS® Association.

Annual Percentage Increase in Home Price vs. Income: Walworth County



Calculated using U.S. Census Bureau American Community Survey data, 2014-2018 as well as Wisconsin REALTORS® Association data.



AFFORDABILITY OF HOUSING: WALWORTH COUNTY VS. WISCONSIN

In addition to the prior analysis of home values, this study also analyzed the affordability of housing using U.S. Census Bureau American Community Survey data. Specifically, this study analyzed the average monthly housing costs for homeowners across various income brackets as a percentage of their monthly income. This analysis was completed for both Walworth County and the state of Wisconsin. Table 7 and Table 8 show the Walworth County housing affordability for homeowner households vs. Wisconsin's overall housing affordability for homeowner households.

SUMMARY: CURRENT SUPPLY FOR OWNER-OCCUPIED HOUSING

Housing supply and demand were analyzed for Walworth County by examining the absorption rate and home values over time.

The months' supply of housing captures how long the current supply of available homes will remain on the market given the current demand. This rate can be used to determine the speed at which available housing will be depleted from the market. Walworth County has a three months' supply of housing, which is below the six months typical of market equilibrium, according to www.findwell.com. As this report went to press, Walworth County has 351 owner-occupied homes for sale, which amounts to three months' worth of housing inventory. The months' supply of housing analysis is suggestive of excess demand relative to the supply for owner-occupied housing in Walworth County.

Homes sales prices have risen since 2013 in Walworth County. Home sales prices rose on average 7.7% in 2019 compared to Wisconsin's overall home price growth of 6.6%. The median closing price of sold homes in Walworth County is also rising significantly. In 2019, the median home sales price has risen 6.2%. Quickly rising home values and a low months' supply of housing both coincide with strong demand.

As a whole, our findings suggest that there is a shortage of homeowner housing in Walworth County. In particular, the evidence suggests a more prominent shortage of the types of homes that would be considered starter homes. Home sales prices for the least-expensive quartile of homes are increasing at a faster rate compared to more expensive homes. Furthermore, affordable owner-occupied homes have a much lower months' inventory of homes than the rest of the market, indicating that the supply of affordable owner-occupied housing is falling short of meeting demand.

Table 7

WALWORTH COUNTY: COSTS BY INCOME BRACKET		
Yearly Income	Monthly Housing Costs as a Percentage of Average Monthly Income	Percentage of Owner-occupied Households for Specified Income Bracket
Less than \$20,000*	Housing Costs are Less Than 20% of Income	3%
	Housing Costs are 20 to 29% of Income	22%
	Housing Costs are 30% or More of Income	75%
\$20,000 to \$34,999	Housing Costs are Less Than 20% of Income	12%
	Housing Costs are 20 to 29% of Income	42%
	Housing Costs are 30% or More of Income	46%
\$35,000 to \$49,999	Housing Costs are Less Than 20% of Income	35%
	Housing Costs are 20 to 29% of Income	26%
	Housing Costs are 30% or More of Income	40%
\$50,000 to \$74,999	Housing Costs are Less Than 20% of Income	51%
	Housing Costs are 20 to 29% of Income	28%
	Housing Costs are 30% or More of Income	21%
\$75,000 or more	Housing Costs are Less Than 20% of Income	78%
	Housing Costs are 20 to 29% of Income	19%
	Housing Costs are 30% or More of Income	3%

Calculated using U.S. Census Bureau American Community Survey data, 2014-2018.

*Zero or negative income: <1%

Table 8

WISCONSIN: COSTS BY INCOME BRACKET		
Yearly Income	Monthly Housing Costs as a Percentage of Average Monthly Income	Percentage of Owner-occupied Households for Specified Income Bracket
Less than \$20,000*	Housing Costs are Less Than 20% of Income	5%
	Housing Costs are 20 to 29% of Income	12%
	Housing Costs are 30% or More of Income	83%
\$20,000 to \$34,999	Housing Costs are Less Than 20% of Income	24%
	Housing Costs are 20 to 29% of Income	28%
	Housing Costs are 30% or More of Income	48%
\$35,000 to \$49,999	Housing Costs are Less Than 20% of Income	44%
	Housing Costs are 20 to 29% of Income	26%
	Housing Costs are 30% or More of Income	31%
\$50,000 to \$74,999	Housing Costs are Less Than 20% of Income	55%
	Housing Costs are 20 to 29% of Income	30%
	Housing Costs are 30% or More of Income	15%
\$75,000 or more	Housing Costs are Less Than 20% of Income	80%
	Housing Costs are 20 to 29% of Income	17%
	Housing Costs are 30% or More of Income	3%

Calculated using U.S. Census Bureau American Community Survey data, 2014-2018.

*Zero or negative income: <1%

POPULATION PROJECTIONS AND THE OUTLOOK OF **WALWORTH COUNTY'S** **HOMEOWNER HOUSING MARKET**

As the population and demographics of Walworth County change, so too will the owner-occupied housing market. This study compiled various household projections and completed an in-depth analysis using the Department of Administration projection scenario. Also, the increase in the population of households — not to be confused with housing units — for recent years was compared to recent construction rates. Lastly, results from this section are interpreted to provide insight into the recent and future state of the Walworth County owner-occupied housing supply and projected demand.



HOUSEHOLD POPULATION PROJECTIONS

In terms of demand, the study analyzed household population projections. The estimated population of Walworth County as of 2019 was 104,062, according to U.S. Census estimates. More important for owner-occupied housing demand and housing needs, however, is the total number of households; for example, the household population. Various household population estimates can be seen in the figure below, which includes data from the U.S. Census Bureau American Community Survey (ACS), Wisconsin Department of Administration and the Southeastern Wisconsin Regional Planning Commission (SEWRPC). The Wisconsin Department of Administration projection was analyzed in-depth.

Figure 1

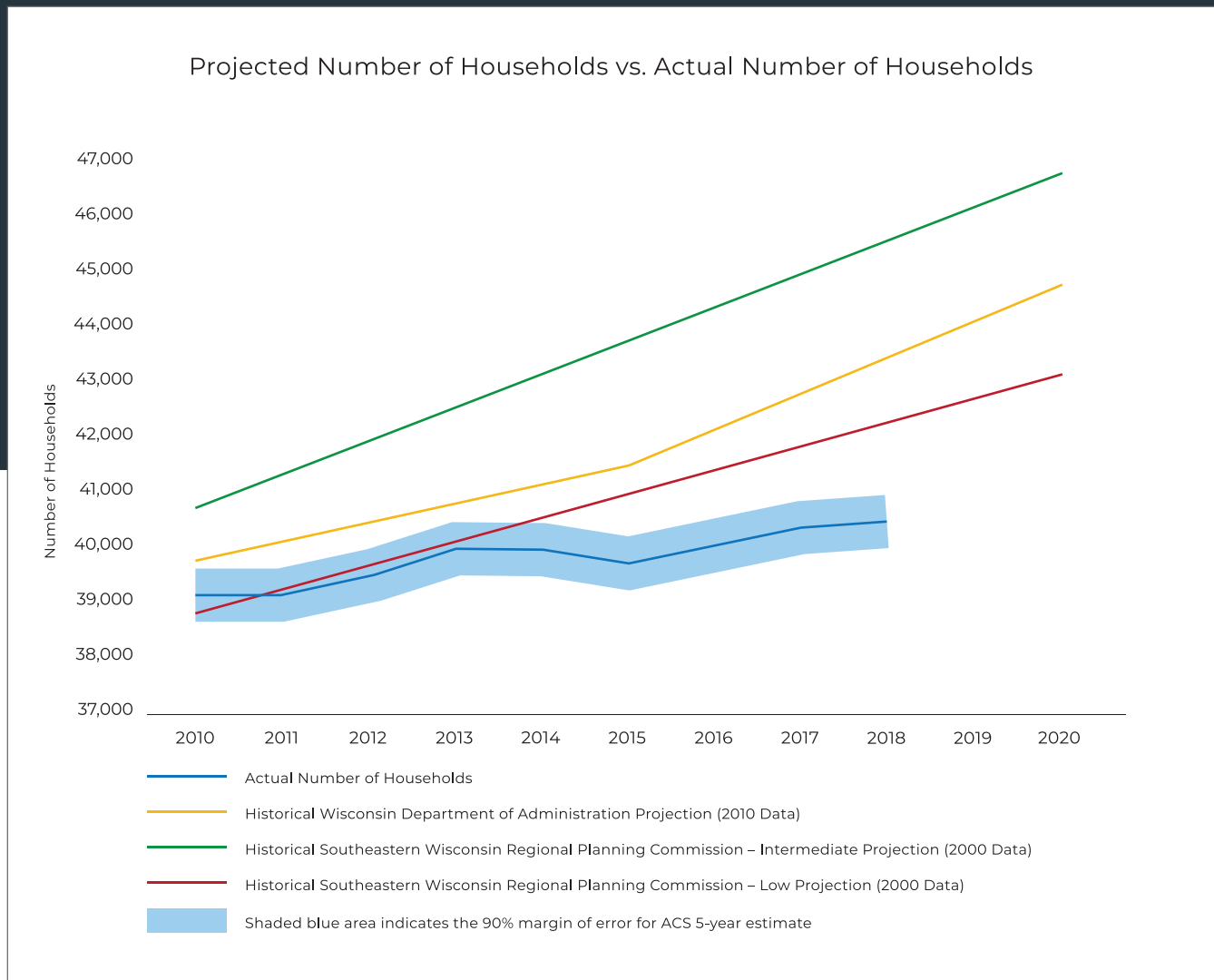


Figure 1 calculated using data from the U.S. Census Bureau American Community Survey; Wisconsin Department of Administration; Southeastern Wisconsin Regional Planning Commission.

2025 projection

The difference between the number of households in 2025 and 2020 was calculated to be 3,475 households, according to the Wisconsin Department of Administration. This corresponds to about a 2,353 increase in the number of homeowner households from 2020 to 2025; the majority of the rest are renter households.

Table 9

2020-2025 HOMEOWNER HOUSEHOLD PROJECTION	
	WISCONSIN DOA PROJECTION
Projected total household increase	3,475
Projected increase in the number of homeowner households*	2,353
Number of additional homeowner households per year	471

Calculated using the 2014-2018 U.S. Census Bureau American Community Survey estimate of a 67.7% owner-occupied household rate. It therefore assumes an owner-occupied household rate that does not change significantly in the future.

2030 projection

The difference between the number of households in 2020 and 2030 was calculated to be 6,448 households, according to the Wisconsin Department of Administration. This corresponds to about a 4,365 homeowner household population increase from 2020 to 2030; the majority of the rest are renter households.

Table 10

2020-2030 HOMEOWNER HOUSEHOLD PROJECTION (DOA)	
	WISCONSIN DOA PROJECTION
Projected total household increase	6,448
Projected increase in the number of homeowner households*	4,365
Number of additional homeowner households per year	437

Calculated using the 2014-2018 U.S. Census Bureau American Community Survey estimate of a 67.7% owner-occupied household rate. It therefore assumes an owner-occupied household rate that does not change significantly in the future.

THE PERSISTENTLY LOW CONSTRUCTION RATE SINCE 2010 MAY HAVE CONTRIBUTED TO THE MUTED POPULATION GROWTH IN RECENT YEARS

There are many factors that may have contributed to the muted population growth, not least of which may have been the housing crash and the Great Recession. One possibility of note is that the lack of construction in recent years may have actually contributed to muted household growth; if there are not enough homes for new homeowners, they will move elsewhere.

On the other hand, it seems unlikely that the muted population growth is a significant cause of the persistently low construction rate, rather than the other way around. For one, the construction rate in Walworth County bottomed out in 2010-2011, which is two years before the slowed rate of population growth became noticeable in the population estimates. If slowing population caused a decrease in the construction rate, one would expect the rate of population growth to decrease first.

Furthermore, given the increase in home prices and the fast rate at which homes are selling, which is explored later in this report, it seems unlikely that the slowing rate of household growth and low construction rates are simply a result of a lack of desire to live in Walworth County on the part of homebuyers. On the contrary, we see excess demand for homes in Walworth County, suggesting that Walworth County is a sought-after place to live for many potential homebuyers.

SINGLE-FAMILY AND TWO-FAMILY CONSTRUCTION AND DEVELOPMENT

Distribution of housing types

Residential housing can be categorized in three groups: single-family, two-family and multifamily. It is assumed in this section of the report that no multifamily housing is owner-occupied. For this reason, only single-family and two-family housing are analyzed here. It should be noted at the outset, however, that some percentage of two-family housing is actually renter-occupied.

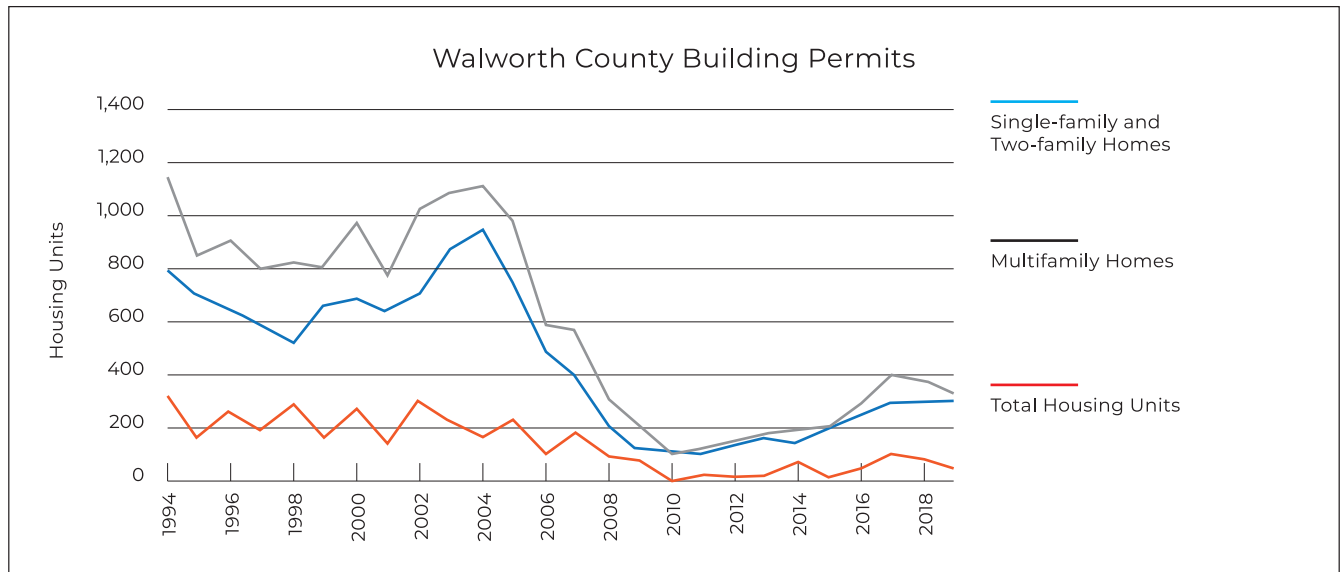
As can be seen in Table 11, two-family housing is estimated to make up 5.1% of all single-family and two-family housing units combined; single-family makes up the other 94.9%. This figure was created using data from the Southeastern Wisconsin Regional Planning Commission, which compiled data from the U.S. Census Bureau American Community Survey and the Wisconsin Department of Administration. The data includes structures such as mobile homes and should be treated as a rough estimate.

Table 11

PERCENTAGE OF HOUSING BY UNITS		
Units in Structure	Estimated Number of Units	Percent
Single-family	40,728	94.9%
Two-family	2,188	5.1%
SUBTOTAL	42,916	100%
Multifamily	10,417	19.5%
Single-family and Two-family	42,916	80.5%
TOTAL	53,333	100%

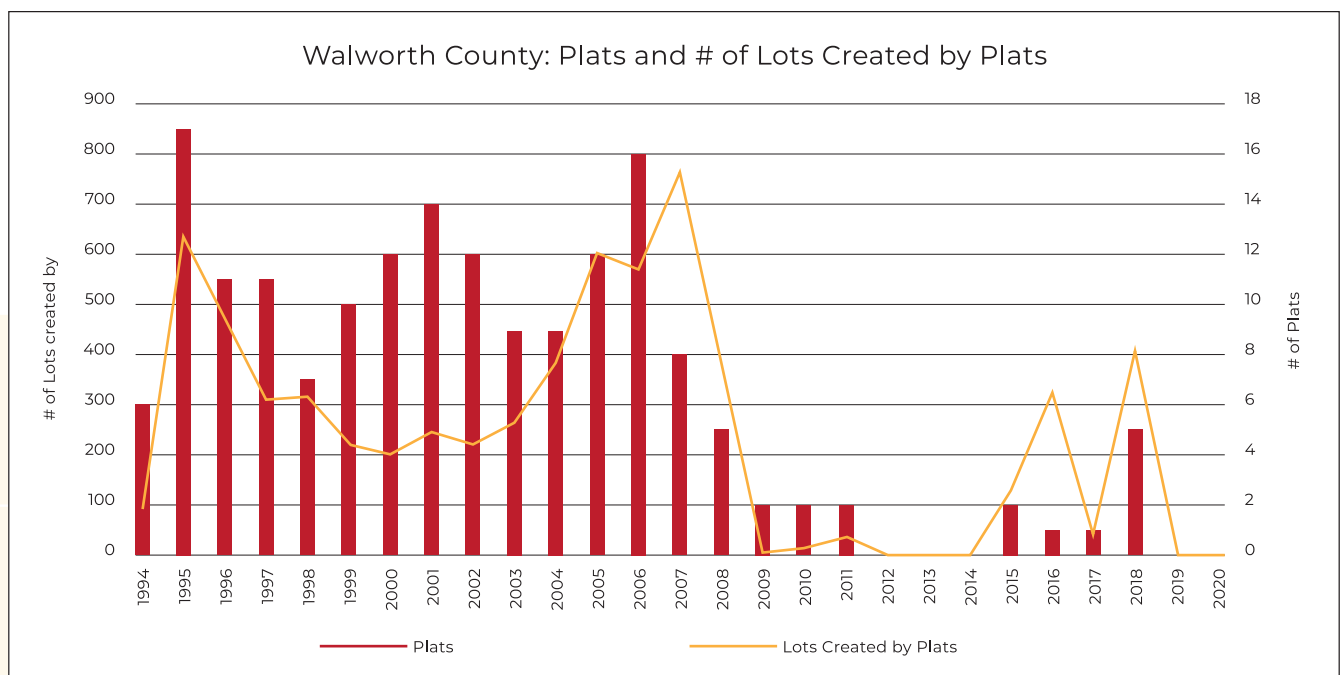
Platted lots and construction rates over time

It is no surprise that construction rates plummeted in Walworth County around the time of the Great Recession. However, since 2011, construction rates in Walworth County have only improved at a very slow pace and have not come close to pre-Great Recession levels. As measured by building permits, the number of housing units planned for construction in 2019 was 303 units, which was still less than half the number of housing units planned for construction in either 2001 or 1997, which had 789 and 793 units, respectively. 2001 and 1997 were the two years prior to 2006 that had the lowest rates of construction. Similar trends are apparent when looking only at permits for single-family and two-family homes.



Source: Building Permits Database, U.S. Census Bureau.

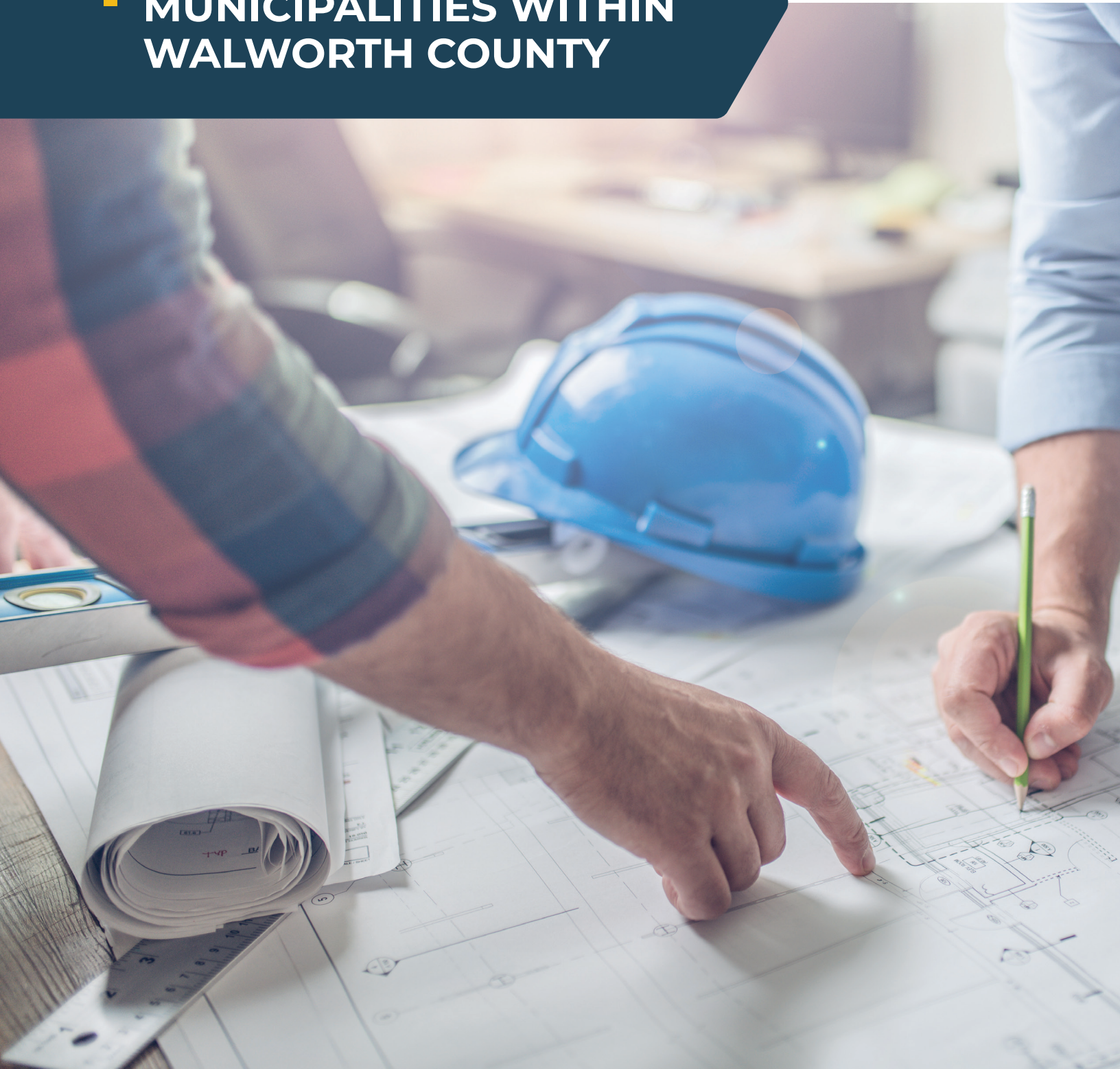
As can be seen in the table below, this trend is also reflected in both the number of subdivision plats and the number of lots created by subdivision plats within Walworth County.



Source: Wisconsin Department of Administration, Subdivision Plats.



FOCUSED ANALYSIS OF **MUNICIPALITIES WITHIN** **WALWORTH COUNTY**



METHODOLOGY AND SECTION OVERVIEW

For a number of towns, villages and cities within Walworth County, measures similar to those used in the countywide section were analyzed to determine the state of the housing market in those local municipalities. Specifically, for each municipality, the following metrics were calculated and interpreted:

1. Median home sales price over time.
2. Current months' supply of housing.
3. Number building permits issued by year.
4. The estimated cost of a select basket of building fees for an example starter home; see below.

Example starter home

The estimated cost of a select basket of building fees for an example starter home was estimated based on a standard 1,000-square-foot affordable homeowner house built on an 8,712-square-foot lot. The house was assumed to contain two bedrooms, one and a half bathrooms, an A/C unit, a deck and no garage.

Basket of fees: model

A fee model was created in order to compare fee schedules between municipalities. The fees included in the calculations consisted of universal fees most municipalities charge to obtain permits for new construction such as building, plumbing, HVAC, electrical, erosion control, occupancy and zoning permits. Therefore, certain fees that were obscure, fees that could vary widely in ways not possible to estimate based on the given characteristics of the assumed starter home, or fees that did not otherwise fit the model were omitted from the tables. These omissions were performed to allow for a more consistent comparison between municipalities. This fee model was not designed to be inclusive of all fees charged by a specific municipality, but to illustrate the deviations in standard building fees found across municipalities in the same region. Any unusual or potentially cost-prohibitive fees that did not fit the fee schedule were mentioned in their respective municipality section.



CITY OF DELAVAN

HOME PRICES

The city of Delavan had a high rate of home price appreciation in 2019. Our estimate suggests a 30% increase in the median single-family home sales price from 2015 to 2019. Home values have appreciated in the city of Delavan at a slightly slower rate compared to Walworth County as a whole.

Table 12

WALWORTH COUNTY: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$173,031	-	-
2016	\$187,625	8.43%	8%
2017	\$202,313	7.83%	17%
2018	\$221,625	9.55%	28%
2019	\$235,275	6.16%	36%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 13

DELAVAN: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$130,787	-	-
2016	\$143,050	9.38%	9%
2017	\$136,148	-4.82%	4%
2018	\$153,737	12.92%	18%
2019	\$169,559	10.29%	30%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

MONTHS' SUPPLY OF HOUSING

The data also suggests homes in the city of Delavan are selling quickly. Delavan has a months' supply of housing of 0.9. Six months of supply is considered the optimal months' supply in a balanced market. The city of Delavan's extremely low months' inventory indicates homes are selling quickly due to high demand.

Table 14

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
City of Delavan	67	12	5.58	5	0.90	111.7%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

POLICY, BUILDING PERMITS AND FEES

The city of Delavan has a minimum lot size requirement for conventional single-family homes of 8,000 square feet. The nationwide median lot size of new single-family homes sold in 2018 rests at 8,567 square feet, according to the U.S. Census Bureau's Survey of Construction in 2018. The city of Delavan's 8,000-square-foot requirement is close to this median and, therefore, may be constricting the supply of affordable owner-occupied housing. Smaller lot requirements allow developers to build more affordable homeowner homes providing access to first-time homebuyers.

Another issue potentially contributing to appreciating home prices and a lack of housing affordability is the number of construction permits approved. They have decreased from eight approved in 2018 to only one approved in 2019, or an 88% drop, despite home prices continuing to rise.

Table 15

CITY OF DELAVAN BUILDING PERMITS			
	2018	2019	2020 (JANUARY-MAY)
Building Permits (Single- and two-family housing)	8	1	5

Source: Wisconsin Department of Safety and Professional Services.

A specific basket of construction fees for a new development of a prototypical starter home⁴ was estimated for each of the municipalities. For the city of Delavan, the building permit fees were estimated at \$2,194. The actual costs involved vary considerably depending on the specific development and location of the property; furthermore, fees that could not be reasonably estimated using only the zoning codes were excluded from this sample of fees.⁴

With all these limitations in mind, the specific sample of fees was calculated for each of the municipalities analyzed, including the city of Delavan. The city of Delavan's sample of fees was estimated as more costly than the city of Whitewater's fee schedule, which totaled \$1,400.

Table 16

CITY OF DELAVAN: SELECT SAMPLE OF FEES FOR AN EXAMPLE STARTER HOME	
Building Fees	\$995
Plan Review/Administrative Fee	\$200
Zoning	\$195
Erosion Control	\$75
Occupancy Permit	\$50
Wisconsin Uniform Building Permit Submittal (WUBPS)	\$35
Plumbing	\$154
HVAC	\$165
Electrical	\$325
Total	\$2,194

⁴See page 25 for the characteristics of the example home and the specific basket of fees.

VILLAGE OF EAST TROY

HOME PRICES

The village of East Troy had a high rate of home price appreciation in 2019. Our estimate suggests a 33% increase in the median single-family home sales price from 2015 to 2019. We also see a comparable pace of appreciation with Walworth County as a whole.

Table 17

WALWORTH COUNTY: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$173,031	-	-
2016	\$187,625	8.43%	8%
2017	\$202,313	7.83%	17%
2018	\$221,625	9.55%	28%
2019	\$235,275	6.16%	36%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 18

VILLAGE OF EAST TROY: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$186,612	-	-
2016	\$197,737	5.96%	6%
2017	\$221,462	12.00%	19%
2018	\$218,000	-1.56%	17%
2019	\$248,375	13.93%	33%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

MONTHS' SUPPLY OF HOUSING

The months' supply of housing data also suggests homes in the village of East Troy are selling quickly. The village of East Troy has a months' supply of housing of 1.8. Six months of supply is considered the optimal months' supply in a balanced market. The village of East Troy is significantly below this threshold, indicating homes are selling quickly due to high demand.

Table 19

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
Village of East Troy	53.0	12	4.42	8	1.81	55.2%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

POLICY, BUILDING PERMITS AND FEES

The village of East Troy has a minimum lot size requirement for single-family, traditional-rear residential district homes of 5,000 square feet. The median lot size of new single-family homes sold in 2018 rests at 8,567 square feet, according to the U.S. Census Bureau's Survey of Construction in 2018. Smaller lot requirements allow developers to build more affordable owner-occupied homes, providing access to first-time homebuyers. See the policy relevance section on page 46.

An issue potentially contributing to appreciating home prices and a lack of housing affordability is the number of construction permits approved. They have decreased from 19 approved in 2018 to 13 approved in 2019, or a 32% drop, despite home prices continuing to rise.

Table 20

VILLAGE OF EAST TROY BUILDING PERMITS			
	2018	2019	2020 (JANUARY-MAY)
Building Permits (Single- and two-family housing)	19	13	9

Source: Wisconsin Department of Safety and Professional Services.

A specific basket of construction fees for a new development of a prototypical starter home⁵ was estimated for each of the municipalities. For the village of East Troy, the building permit fees were estimated at \$1,897. The actual costs involved vary considerably depending on the specific development and location of the property; furthermore, fees that could not be reasonably estimated using only the zoning codes were excluded from this sample of fees.⁵

With all these limitations in mind, the specific sample of fees was calculated for each of the municipalities analyzed, including the village of East Troy. The village of East Troy's sample of fees was estimated as more costly than the city of Whitewater's fee schedule, which totaled \$1,400.

Table 21

VILLAGE OF EAST TROY: SELECT SAMPLE OF FEES FOR AN EXAMPLE STARTER HOME	
Building Fees	\$885.00
Plan Review/Administrative Fee	\$160.00
Zoning	\$135.00
Erosion Control	\$110.00
Occupancy Permit	\$75.00
WUBPS	NA
Plumbing	\$137.00
HVAC	\$110.00
Electrical	\$285.00
Total	\$1,897.00

⁵See page 25 for the characteristics of the example home and the specific basket of fees.

ELKHORN

HOME PRICES

Elkhorn had a high rate of home price appreciation in 2019. Our estimate suggests a 40% increase in the median single-family home sales prices from 2015 to 2019. We see an accelerating pace of appreciation, even more so than Walworth County as a whole.

Table 22

WALWORTH COUNTY: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$173,031	-	-
2016	\$187,625	8.43%	8%
2017	\$202,313	7.83%	17%
2018	\$221,625	9.55%	28%
2019	\$235,275	6.16%	36%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 23

ELKHORN: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$163,325	-	-
2016	\$169,528	3.80%	4%
2017	\$190,463	12.35%	17%
2018	\$205,163	7.72%	26%
2019	\$229,075	11.66%	40%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

MONTHS' SUPPLY OF HOUSING

The data also suggests homes in Elkhorn are selling quickly. Elkhorn has a months' supply of housing of 2.9. Six months of supply is considered the optimal months' supply in a balanced market. Elkhorn is significantly below this threshold, indicating homes are selling quickly due to high demand.

Table 24

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
Elkhorn	125	12	10.42	30	2.88	34.7%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

POLICY, BUILDING PERMITS AND FEES

Elkhorn has a minimum lot size requirement for single-family, residential homes of 8,000 square feet. The median lot size of new single-family homes sold in 2018 rests at 8,567 square feet, according to the U.S. Census Bureau's Survey of Construction in 2018. Elkhorn's 8,000-square-foot requirement is close to this median and, therefore, may be constricting the supply of affordable owner-occupied housing. Smaller lot requirements allow developers to build more affordable owner-occupied homes, providing access to first-time homebuyers.

Another issue potentially contributing to appreciating home prices and a lack of housing affordability is the number of construction permits approved. They have decreased slightly from 25 permits approved in 2018 to 22 approved in 2019, or a 12% decline, despite home prices continuing to rise.

Table 25

ELKHORN BUILDING PERMITS			
	2018	2019	2020 (JANUARY-MAY)
Building Permits (Single- and two-family housing)	25	22	9

Source: Wisconsin Department of Safety and Professional Services.

Table 26

A specific basket of construction fees for a new development of a prototypical starter home⁶ was estimated for each of the municipalities. For Elkhorn, the building permit fees were estimated at \$2,192. The actual costs involved vary considerably depending on the specific development and location of the property; furthermore, fees that could not be reasonably estimated using only the zoning codes were excluded from this sample of fees.⁶

With all these limitations in mind, the specific sample of fees was calculated for each of the municipalities analyzed, including Elkhorn. Elkhorn's sample of fees was estimated as more costly than the city of Whitewater's fee schedule, which totaled \$1,400.

ELKHORN: SELECT SAMPLE OF FEES FOR AN EXAMPLE STARTER HOME	
Building Fees	\$1,090
Plan Review/Administrative Fee	\$175
Zoning	\$255
Erosion Control	\$115
Occupancy Permit	\$60
WUBPS	NA
Plumbing	\$117
HVAC	\$90
Electrical	\$290
Total	\$2,192

⁶ See page 25 for the characteristics of the example home and the specific basket of fees.

LAKE GENEVA

HOME PRICES

Lake Geneva had a slight home price depreciation in 2019. However, our estimate suggests a 43% increase in the median single-family home sales price from 2015 to 2019. Lake Geneva's home appreciation increased rapidly between 2017 and 2018 before leveling off in 2019. Total appreciation over the five-year period in Lake Geneva has exceeded home appreciation in Walworth County as a whole.

Table 27

WALWORTH COUNTY: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$173,031	-	-
2016	\$187,625	8.43%	8%
2017	\$202,313	7.83%	17%
2018	\$221,625	9.55%	28%
2019	\$235,275	6.16%	36%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 28

LAKE GENEVA: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$207,625	-	-
2016	\$209,741	1.02%	1%
2017	\$256,725	22.40%	24%
2018	\$316,238	23.18%	52%
2019	\$297,710	-5.86%	43%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

MONTHS' SUPPLY OF HOUSING

The data also suggests homes in Lake Geneva are selling quickly. Lake Geneva has a months' supply of housing of 4.07. Six months of supply is considered the optimal months' supply in a balanced market. Lake Geneva is below this threshold, indicating demand for homes is overtaking current supply.

Table 29

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
Lake Geneva	115	12	9.58	39	4.07	24.6%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

POLICY, BUILDING PERMITS AND FEES

Lake Geneva has a minimum lot size requirement for conventional single-family homes of 9,000 square feet. The median lot size of new single-family homes sold in 2018 rests at 8,567 square feet, according to the U.S. Census Bureau's Survey of Construction in 2018. Lake Geneva's 9,000-square-foot requirement is above this median and, therefore, may be constricting the supply of affordable owner-occupied housing. Larger lots mean that it might make sense for developers to build larger homes with more amenities, thereby pricing first-time homebuyers out of the market. See the policy relevance section on page 46.

Another issue potentially contributing to appreciating home prices and a lack of housing affordability is the number of construction permits approved. Although permit approval rates have remained more or less steady in the past few years, home prices continue to rise.

Table 30

LAKE GENEVA BUILDING PERMITS			
	2018	2019	2020 (JANUARY-MAY)
Building Permits (Single- and two-family housing)	44	49	20

Source: Wisconsin Department of Safety and Professional Services.

A specific basket of construction fees for a new development of a prototypical starter home⁷ was estimated for each of the municipalities. For Lake Geneva, the building permit fees were estimated at \$3,005. The actual costs involved vary considerably depending on the specific development and location of the property; furthermore, fees that could not be reasonably estimated using only the zoning codes were excluded from this sample of fees.⁷

With all these limitations in mind, the specific sample of fees was calculated for each of the municipalities analyzed, including Lake Geneva. Lake Geneva's sample of fees was estimated as more costly than the city of Whitewater's fee schedule, which totaled \$1,400. Lake Geneva has the highest permit fee total, which can largely be contributed to a minimum building permit fee of \$1,000 regardless of the square footage of the house.

Table 31

LAKE GENEVA: SELECT SAMPLE OF FEES FOR AN EXAMPLE STARTER HOME	
Building Fees	\$1,695
Plan Review/Administrative Fee	\$150
Zoning	\$120
Erosion Control	\$125
Occupancy Permit	\$60
WUBPS	\$45
Plumbing	\$165
HVAC	\$245
Electrical	\$400
Total	\$3,005

⁷ See page 25 for the characteristics of the example home and the specific basket of fees.

CITY OF WHITEWATER

HOME PRICES

The city of Whitewater had a low rate of home price appreciation in 2019. Our estimate suggests a 25% increase in the median single-family home sales price from 2015 to 2019. We also see a lower overall pace of appreciation compared to Walworth County as a whole.

Table 32

WALWORTH COUNTY: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$173,031	-	-
2016	\$187,625	8.43%	8%
2017	\$202,313	7.83%	17%
2018	\$221,625	9.55%	28%
2019	\$235,275	6.16%	36%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 33

CITY OF WHITEWATER: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$142,850	-	-
2016	\$146,050	2.24%	2%
2017	\$155,178	6.25%	9%
2018	\$177,513	14.39%	24%
2019	\$178,538	0.58%	25%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

MONTHS' SUPPLY OF HOUSING

The data also suggests homes in the city of Whitewater are selling quickly. The city of Whitewater has a months' supply of housing of 1.79. Six months of supply is considered the optimal months' supply in a balanced market. The city of Whitewater is significantly below this threshold, indicating homes are selling quickly due to high demand.

Table 34

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
City of Whitewater	87	12	7.25	13	1.79	55.8%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

POLICY, BUILDING PERMITS AND FEES

The city of Whitewater has a minimum lot size requirement for single family, residential district homes of 8,000 square feet. The median lot size of new single-family homes sold in 2018 rests at 8,567 square feet, according to the U.S. Census Bureau's Survey of Construction in 2018. The city of Whitewater's 8,000-square-foot requirement is close to this median and, therefore, may be constricting the supply of affordable owner-occupied housing. Larger lots mean that it might make sense for developers to build larger homes with more amenities, thereby pricing first-time homebuyers out of the market.

Another issue potentially contributing to appreciating home prices and a lack of housing affordability is the number of construction permits approved. Although permit approval rates have remained steady in the past few years, home prices continue to rise.

Table 35

CITY OF WHITEWATER BUILDING PERMITS			
	2018	2019	2020 (JANUARY-MAY)
Building Permits (One- and two-family Housing)	3	3	2

Source: Wisconsin Department of Safety and Professional Services.

A specific basket of construction fees for a new development of a prototypical starter home⁸ was estimated for each of the municipalities. For the city of Whitewater, the building permit fees were estimated at \$1,400. The actual costs involved vary considerably depending on the specific development and location of the property; furthermore, fees that could not be reasonably estimated using only the zoning codes were excluded from this sample of fees.⁸

With all these limitations in mind, the specific sample of fees was calculated for each of the municipalities analyzed, including the city of Whitewater. The city of Whitewater's sample of fees was estimated as the least expensive compared to the five other municipalities. However, new construction is additionally charged an \$896 park acquisition and improvement fee, which is not captured in Table 36. The city of Whitewater also offers connection to the city sewer, which carries a \$1,824 sewer connection fee.

Table 36

CITY OF WHITEWATER: SELECT SAMPLE OF FEES FOR AN EXAMPLE STARTER HOME	
Building Fees	\$795
Plan Review/Administrative Fee	NA
Zoning	\$100
Erosion Control	NA
Occupancy Permit	\$65
WUBPS	NA
Plumbing	\$105
HVAC	\$75
Electrical	\$260
Total	\$1,400

⁸ See page 25 for the characteristics of the example home and the specific basket of fees.

ESTIMATING THE EXTENT OF THE SHORTAGE BY COMMUNITY

Using the months' supply of homes measure, the total number of additional for-sale homes needed to alleviate the shortage can be estimated. These estimates can be seen in the table below. Although these estimates are only a rough approximation of the shortage as they are based on a single measure, they help illuminate how the extent of the shortage differs by community.

Table 37

THE EXTENT OF THE SHORTAGE BY COMMUNITY: MONTHS' SUPPLY OF HOMES		
Community	Months' Supply of Homes*	Number of additional for-sale homeowner housing units needed to achieve optimal months' supply of homes
Walworth County	3.02	347.5
City of Delavan	0.90	28.5
Village of East Troy	1.81	18.5
Lake Geneva	4.07	18.5
Elkhorn	2.88	32.5
City of Whitewater	1.79	30.5
City of Burlington	1.21	47.5
Twin Lakes	1.46	53.0
Union Grove	1.71	17.5
Village of Waterford	1.83	20.5

*Optimal months' supply of homes is typically considered to be six months, according to findwell.com

WALWORTH COUNTY CONCLUSION AND FINDINGS

The goal of this report was to analyze the state of the owner-occupied housing market for Walworth County. Various metrics were analyzed. Altogether, the findings of the report provide evidence of insufficient supply, i.e., a shortage, of housing in Walworth County. Furthermore, the shortage of housing in Walworth County appears to be concentrated around affordable owner-occupied housing.

CURRENT SUPPLY AND DEMAND

The current state of the market for owner-occupied housing, as revealed by the months' supply of housing and home prices over time, presents evidence for a shortage of owner-occupied housing, at least in the short term. The months' supply of housing for single-family housing, which comprises the lion's share of all owner-occupied housing, was far below the "optimal" six-month supply, suggesting homes are selling fast. Home prices in Walworth County have also continued to rise significantly recently, even in comparison to Wisconsin as a whole.

Although the evidence taken together suggests a shortage for the overall housing stock in Walworth County, this shortage appears to be much more pronounced for the most affordable price bracket of homes analyzed, or those less than \$200,000.

HOUSING SUPPLY AND MARKET OUTLOOK

Although projections of the increase in the number of homeowner households compared to recent construction rates would, in isolation, suggest significant shortages in the future, available projections have significant uncertainty, are outdated, and have significantly overestimated the increase in the number of homeowner households for recent years. A comparison of recent years' construction rates and household growth suggests the overall supply of housing is neither exceeding nor lagging behind demand.

However, these future projections are less precise and more contingent than current MLS data, which

does show evidence of slightly excess demand for homeowner housing as a whole and evidence of significant excess demand for homes less than \$200,000. Furthermore, it is possible that a shortage of affordable owner-occupied housing within Walworth County has actually contributed to the consistent underperformance of actual population growth compared to even the most conservative projections of population growth for the county. If that is the case, it would mean that the comparable pace of construction rates and recent population growth actually suggest a further deviation from market equilibrium.

DEMAND BY PRICE INTERVAL AND AFFORDABILITY OF HOUSING

The market for owner-occupied affordable housing shows signs of high demand. The portion of homes that consist of the lowest price interval sell the quickest on the market and are experiencing the highest price increases. The months' supply of homes for single-family housing in the lowest price interval was drastically below the "optimal" six-month threshold, indicating a severe lack of supply. Additionally, increasing in price of the lowest price quartile suggests that the rising cost of the bulk of least expensive homes is applying the most pressure to the rising median home price in Walworth County.

A comparison of housing affordability, reviewing housing costs as a percentage of income, for homeowner households by income bracket for Walworth County vs. Wisconsin as a whole was also completed, but the comparison proved inconclusive. Despite somewhat substantial differences depending on specific income bracket and exact level of affordability, there still was no clear trend toward lower income households finding their housing to be more or less affordable in Walworth County vs. Wisconsin as a whole.

Part 2:

Western Racine and Kenosha Counties

OVERVIEW OF WESTERN RACINE AND KENOSHA COUNTIES



The second part of this report gives a broad look at the state of the owner-occupied housing market across various municipalities in western Racine County and western Kenosha County. The state of the housing market in western Racine and Kenosha counties affects Walworth County as well due to their close proximity.

As the city of Burlington is the only city located in the area comprised of the western parts of Racine and Kenosha counties, an entire subsection is dedicated to the analysis of the city of Burlington's housing market. The format is similar to the format used in the analysis of the Walworth County municipalities.

Aggregated MLS data for Twin Lakes, Union Grove and the village of Waterford is analyzed and compared in the other municipalities section.



CITY OF BURLINGTON

HOME PRICES

The city of Burlington had a high rate of home price appreciation in 2019. Our estimate suggests a 23% increase in the median single-family home sales price from 2015 to 2019. Home values have appreciated in the city of Burlington at a significantly slower rate than Walworth County as a whole.

Table 38

WALWORTH COUNTY: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$173,031	-	-
2016	\$187,625	8.43%	8%
2017	\$202,313	7.83%	17%
2018	\$221,625	9.55%	28%
2019	\$235,275	6.16%	36%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 39

CITY OF BURLINGTON: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$170,038	-	-
2016	\$162,250	-4.58%	-5%
2017	\$188,125	15.95%	11%
2018	\$191,550	1.82%	13%
2019	\$209,100	9.16%	23%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

MONTHS' SUPPLY OF HOUSING

The data also suggests homes in the city of Burlington are selling quickly. The city of Burlington has a months' supply of housing of 1.2. Six months of supply is considered the optimal months' supply in a balanced market. The city of Burlington's extremely low months' inventory indicates homes are selling quickly due to high demand.

Table 40

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
City of Burlington	119	12	9.92	12	1.21	82.6%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

POLICY, BUILDING PERMITS AND FEES

The city of Burlington has a minimum lot size requirement for conventional single-family homes of 8,000 square feet. The median lot size of new single-family homes sold in 2018 rests at 8,567 square feet, according to the U.S. Census Bureau's Survey of Construction in 2018. The city of Burlington's 8,000-square-foot requirement is close to this median and, therefore, may be constricting the supply of affordable owner-occupied housing. Larger lots mean that it might make sense for developers to build larger homes with more amenities, thereby pricing first-time homebuyers out of the market. See the policy relevance section on page 46.

Another issue potentially contributing to appreciating home prices and a lack of housing affordability is the number of construction permits approved. They have slightly decreased from 18 approved in 2018 to 16 approved in 2019, or an 11% drop, despite home prices continuing to rise.

Table 41

CITY OF BURLINGTON BUILDING PERMITS			
	2018	2019	2020 (JANUARY-MAY)
Building Permits (One- and two-family housing)	18	16	11

Source: Wisconsin Department of Safety and Professional Services.

A specific basket of construction fees for a new development of a prototypical starter home⁹ was estimated for each of the municipalities. For the city of Burlington, the building permit fees were estimated at \$2,550. The actual costs involved vary considerably depending on the specific development and location of the property; furthermore, fees that could not be reasonably estimated using only the zoning codes were excluded from this sample of fees.⁹

With all these limitations in mind, the specific sample of fees was calculated for each of the municipalities analyzed, including the city of Burlington. The city of Burlington's sample of fees was estimated as more costly than the city of White-water's fee schedule, which totaled \$1,400. The city of Burlington also offers connection to the city sewer, which carries a \$1,650 sewer connection fee.

Table 42

CITY OF BURLINGTON: SELECT SAMPLE OF FEES FOR AN EXAMPLE STARTER HOME	
Building Fees	\$1,155
Plan Review/Administrative Fee	\$175
Zoning	\$75
Erosion Control	\$150
Occupancy Permit	\$65
WUBPS	\$50
Plumbing	\$325
HVAC	\$195
Electrical	\$360
Total	\$2,550

⁹ See page 25 for the characteristics of the example home and the specific basket of fees.

OTHER MUNICIPALITIES

HOME PRICES

Home prices in Twin Lakes, Union Grove and the village of Waterford have all experienced considerable appreciation in the last five years. All three municipalities have experienced annual double-digit price appreciation over the last several years.

Table 43

WALWORTH COUNTY: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$173,031	-	-
2016	\$187,625	8.43%	8%
2017	\$202,313	7.83%	17%
2018	\$221,625	9.55%	28%
2019	\$235,275	6.16%	36%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 44

TWIN LAKES: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$170,038	-	-
2016	\$162,250	-4.58%	-5%
2017	\$188,125	15.95%	11%
2018	\$191,550	1.82%	13%
2019	\$209,100	9.16%	23%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 45

UNION GROVE: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$154,588	-	-
2016	\$196,863	27.35%	27%
2017	\$182,713	-7.19%	18%
2018	\$199,206	9.03%	29%
2019	\$266,125	13.51%	46%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

Table 46

VILLAGE OF WATERFORD: MEDIAN CLOSING PRICE			
Year	Median Home Price	Increase from Previous Year	Total % Appreciation Since 2015
2015	\$198,425	-	-
2016	\$217,738	9.73%	10%
2017	\$236,294	8.52%	19%
2018	\$269,950	14.24%	46%
2019	\$274,000	1.50%	38%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

MONTHS' SUPPLY OF HOUSING BY MUNICIPALITY

Twin Lakes, Union Grove and the village of Waterford all have similarly low months' supply of housing from 1.5 to two months of available inventory.

Table 47

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
Twin Lakes	140	12	11.67	17	1.46	68.6%
Union Grove	49	12	4.08	7	1.71	58.3%
Village of Waterford	59	12	4.92	9	1.83	54.6%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

BROADER WESTERN RACINE AND KENOSHA COUNTIES

Table 48

MONTHS' INVENTORY: SINGLE-FAMILY, OWNER-OCCUPIED HOMES						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
Western Racine and Kenosha Counties*	367	12	30.58	45	1.47	68.0%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

*Includes only homes sales in the four municipalities analyzed (city of Burlington, Twin Lakes, Union Grove, village of Waterford)

Table 49

WESTERN RACINE AND KENOSHA COUNTIES MONTHS' INVENTORY: PRICE INTERVALS						
	HOMES SOLD	MONTHS	SOLD PER MONTH	AVAILABLE TO BE SOLD*	MONTHS' SUPPLY OF HOUSING	ABSORPTION RATE
Less than \$200,000	128	12	10.67	5	0.47	213.3%
\$200,000 to \$299,999	140	12	11.67	7	0.60	166.7%
\$300,000 to \$499,999	86	12	7.17	23	3.21	31.2%
\$500,000 and Above	13	12	1.08	10	9.23	10.8%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

*Includes only homes sales in the four municipalities analyzed (city of Burlington, Twin Lakes, Union Grove, village of Waterford)

Table 50

WESTERN RACINE AND KENOSHA COUNTIES: MEDIAN CLOSING PRICE			
Year	Median Home Value*	Increase from Previous Year	Total % Appreciation since 2015
2015	\$173,272	-	-
2016	\$185,791	7.22%	7%
2017	\$204,852	10.26%	18%
2018	\$222,202	8.47%	28%
2019	\$236,591	6.48%	37%

Source: Aggregated MLS data, accessed on approx. June 11, 2020.

*Includes only homes sales in the four municipalities analyzed (city of Burlington, Twin Lakes, Union Grove, village of Waterford)

WESTERN RACINE AND KENOSHA COUNTIES: **CONCLUSION AND FINDINGS**

The data on median home sales prices over time shows an appreciation that even exceeds Walworth County; a five-year appreciation of 32% for Walworth County, and 37% for the western Racine and Kenosha counties sample. This suggests, much like in the case of Walworth County, that demand for homes is growing. Additionally, the overall months' supply of housing of the combined dataset of Union Grove, the city of Burlington, Twin Lakes and the village of Waterford is well in excess of the six months commonly considered to be optimal, according to www.findwell.com.

Furthermore, when the months' supply of housing is broken down by price bucket, the data demonstrates that homes under \$200,000 have been selling extremely quickly. The \$200,000 price bracket includes the types of homes commonly considered starter homes as well as some homes that are a bit pricier. There are many factors that can contribute to the unevenness of the months' supply of housing by price bracket — for example, a homeowner of a more expensive home may be more willing or able to wait longer for a higher price. Nonetheless, the large magnitude of the difference in months' supply of housing of the starter home price bracket vs. the more expensive price bracket is suggestive of an undersupply of starter homes. This is even more apparent considering the low overall months' supply of housing.

Again, it is necessary to keep in mind that our findings suggesting a shortage of homeowner housing, particularly starter homes, in western Racine and Kenosha counties do not necessarily apply uniformly to all towns, villages and cities. There may be more or less unmet demand for homes in the city of Burlington vs. the village of Waterford vs. Twin Lakes vs. Union Grove, even though the size of these individual housing markets are too small to perform in-depth quantitative analysis.

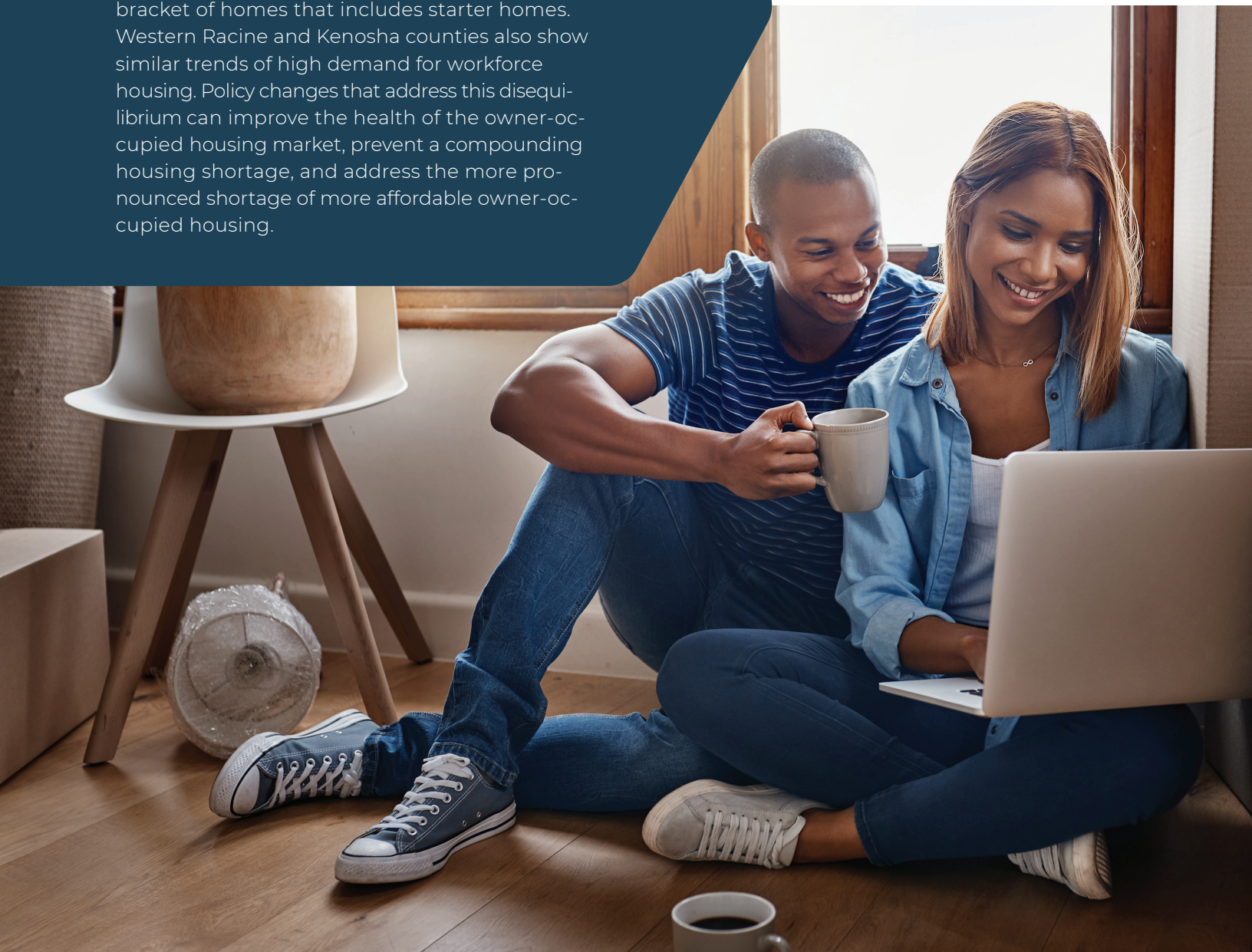
Potential strategies to ensure adequate supply of starter homes are discussed in part 3 of this report, which addresses the policy relevance of our findings.

Part 3:

Policy Relevance of Findings and Literature Review

REVIEW OF FINDINGS

The results for the entire Walworth County housing market show signs of a shortage. Of particular note, our results suggest a significant shortage of more affordable owner-occupied housing, i.e., the price bracket of homes that includes starter homes. Western Racine and Kenosha counties also show similar trends of high demand for workforce housing. Policy changes that address this disequilibrium can improve the health of the owner-occupied housing market, prevent a compounding housing shortage, and address the more pronounced shortage of more affordable owner-occupied housing.



ENSURING AFFORDABLE OWNER-OCCUPIED HOUSING

Affordable owner-occupied housing shortages can prove challenging for communities to remedy. Although Walworth County's situation has not risen to extremes faced by larger cities, taking action now may alleviate the detrimental effects of an affordable owner-occupied housing shortage in the mid to long term.

Local communities should remember that development fees such as building permits, stormwater management or plat review fees; impact fees; and the approval process itself all contribute to the cost and affordability of housing. Moreover, these costs are generally fixed regardless of the price or size of housing and, thus, have a regressive effect on the affordability of housing. As detailed in a paper by White (2018), high regulatory costs and other barriers to entry such as strict land use requirements, cause such costs to be passed on to less affluent households, and the overall affordability of housing in an area becomes less affordable in the long run.

Having high fixed costs in the form of development fees and large lot size requirements means that, for their business models to work, developers need to build larger homes with more amenities in order to offset such fixed costs. This means that starter homes and affordable owner-occupied homes will not be developed, thus fees with an unnecessarily high fixed or minimum cost effectively price first-time homebuyers out of the market. Even an increase in cost of \$1,000 can price a significant number of people out of buying a particular home. A study by Zhao (2020) concluded that for every \$1,000 increase in the cost of a median-priced newly developed home in Wisconsin, an additional 3,561 households would be pushed out of the market. A reduction in the cost of development fees, particularly fees with a minimum or fixed cost, could make substantial headway toward addressing the apparent shortage of affordable owner-occupied housing.

Also, of note regarding development costs is that any delay in the approval of various aspects of construction, which necessarily lengthens the development's construction, also imposes hidden costs on developers that are ultimately passed on to homebuyers. If developers can only develop three homes every year instead of four due to construction approval delays or related delays, that means, all else equal, in order to earn the same profit, developers would need to either a) charge the homebuyer more per home, or b) simply develop in a different place with fewer delays. Homebuyers are then forced to choose a home that is either not affordable or simply buy a home in a different municipality, town or county.

One change that could encourage housing development is to establish a consistent schedule of low fees and nononerous regulations across communities, or setting reduced fees for starter-priced homes. The fees, permits and processes a prospective developer must adhere to vary considerably between communities. These hurdles create inefficient "shoe leather" costs, or the additional costs from time and effort that developers are required to incur while parsing through differing standards. The additional costs are inevitably passed on to the homebuyer or may even discourage developers from constructing affordable owner-occupied housing altogether and instead choose to construct larger homes with higher profit margins where these costs can be more easily absorbed. Ultimately, such costs are either passed on to the homebuyer, prevent the expansion of the affordable owner-occupied housing stock, or both.

For these reasons, reducing the cost of construction fees, especially fees with a fixed or minimum cost, or setting reduced fees for starter-priced homes, as well as increasing the speed of construction approval and improving the transparency-related planning requirements, are steps that can make homeowner housing more affordable for first-time homebuyers in Walworth County, and for homebuyers more generally.

OTHER POLICY CONSIDERATIONS

Many of the municipalities within Walworth County and in western Racine and Kenosha counties appear to be facing a housing shortage. As such, Walworth County should not be considered in isolation since negative effects from municipalities experiencing owner-occupied housing market disequilibrium, either a shortage or surplus, will trickle through to the county level. An adequate solution to any disequilibrium on the city level will likely require cooperation between county and city governance.

It should be noted that some of the policy challenges related to a limited supply of land that are critical on a city level are not necessarily applicable on a countywide level; for example, annexation of surrounding land due to an absolute lack of limited buildable space is generally not a key issue for counties as much as it is for cities. However, adequate amounts of properly zoned and platted land in particular regions within counties are still an important factor for maintaining a market equilibrium.

It is also important to keep in mind that the characteristics among the population of homeowner households are always shifting, and as such, the optimal policy response regarding zoning maps, zoning codes and housing affordability are not necessarily static.

LITERATURE REVIEW

The housing markets of Walworth County, western Racine County and western Kenosha County all show signs of facing an affordable owner-occupied housing shortage. This literature review outlines how different cities and counties have addressed the often difficult task of encouraging development of affordable housing. The review provides context, in conjunction with the policy relevance, of how policy can be initiated to support such initiatives. Several counties and cities across America are currently battling affordable housing crises. Developers are often discouraged from building affordable housing, which tends to yield lower profit margins than typical market-rate housing or custom housing requests. A few programs other communities have integrated are highlighted below, including inclusionary zoning and management of permit fees.

In many housing markets, the presence of exclusionary zoning has restricted the development of affordable housing. One attempt to rectify zoning codes is inclusionary zoning, a government policy that mandates a certain percentage of new home construction must be affordable for lower income households. On paper, inclusionary zoning may appear reasonable, but in practice, it often produces the opposite effect. Keep-Barnes (2017) explains how Madison, Wisconsin's implication of inclusionary zoning decreased housing development over the next two years by more than a third. As the supply of housing dropped and demand remained the same, prices for all housing units increased. Keep-Barnes reasoned that by requiring developers to meet a certain quota of "affordable housing" units that carry smaller profit margins, developers were forced to raise prices of non-affordable homes or paid less for land to compensate for lost revenue. Iglesias (2015)

describes how inclusionary zoning can also decrease demand for market-rate housing that is suddenly surrounded by affordable housing. However, if inclusionary zoning or similar projects are not introduced, poverty and potentially racial segregation can become an issue in low opportunity areas. The most successful instances of inclusionary zoning coexist with other programs such as housing subsidies and good administration. Inclusionary zoning in its current forms does not seem prudent as an adequate solution to address a lack of affordable housing, yet some of its underlying principles may be applicable to future policy.

Fees associated with new construction are often pointed to as a leading cause for rising affordable housing costs. These fees are typically imposed by the public sector to cover the cost of permits, inspections and housing-related administrative requirements including building, zoning, planning, plumbing and utilities charges. According to White (2018), the fees, also known as impact fees, are ultimately paid for by the home purchaser. Developers, in the long run, would be unwilling to absorb the fees and ultimately pass them on to the landowner or housing consumers. Landowners push the price on to consumers by charging a higher sales price or higher rent. Ultimately, the amount of control developers and landowners have over the fee burden is based on the elasticity of demand for housing, which largely depends on the supply of houses. If the housing supply is high, demand is relatively elastic, and people would choose to purchase homes elsewhere. If the housing supply is low, demand will be inelastic, leaving consumers with limited options and forced to burden the fees. The latter scenario is predominant among the majority of housing markets.

There have been instances where impact fees

were exempt such as Monroe County, Florida. In Monroe, most of the permit, inspection and administrative fees were exempt, but this had little effect on lowering housing prices for affordable housing. The county was unable to waive water and utility fees, which make up a large portion of new construction fees. The exemptions also created administrative problems. Monroe found it difficult to monitor projects to ensure they remained within the specifications of affordable housing. The county was also still required to perform plan reviews, approve zoning and conduct inspections, which resulted in a loss of revenue for Monroe and its respective cities.

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