



MORE HOUSING
W I S C O N S I N

HELPING COMMUNITIES DEVELOP
HOUSING SOLUTIONS.

WHITEPAPER SERIES
Briefing Paper **3**

MAY 2024

Municipal Housing *Solutions*

LEAGUE
OF WISCONSIN
MUNICIPALITIES

**WISCONSIN
BUILDERS
ASSOCIATION**

WRA
Wisconsin REALTORS[®] Association



More Housing Wisconsin

Wisconsin is experiencing a **significant housing shortage**. A recent study estimates Wisconsin will need to build **over 200,000 housing units by 2030** to accommodate all the people who want to live and work hereⁱ. More Housing Wisconsin, a collaboration between the League of Wisconsin Municipalities, Wisconsin REALTORS® Association, and the Wisconsin Builders Association, seeks to educate and inform Wisconsin city and village leaders and staff about zoning changes and other strategies communities can use to help **address this state's housing shortage**. Our goal is to bring tools, resources, and best practices to municipalities to help communities initiate housing solutions that meet their unique needs and **strengthen our economy**.



THIS MONTH'S TOPIC MAY 2024

Laying the foundation for making informed local housing policy decisions

This briefing paper is the third in a series designed to educate and inform municipal officials and interested citizens about actions local governments can take to help increase the number and types of housing available in their communities. This project is sponsored by the **League of Wisconsin Municipalities**, **Wisconsin REALTORS® Association**, and the **Wisconsin Builders Association**.





Laying the foundation for making informed local housing policy decisions

The housing supply shortage and related housing affordability problem within Wisconsin and nationwide has been a frequent topic of discussion within the media, the housing industry, the academic community, and among policy makers at all levels of government. As a local policy maker or community leader, you may be hearing about the lack of workforce housing within your community. Residents might feel frustrated and challenged by sky-high rents and home prices, and they want you to do something about it.

More Housing Wisconsin seeks to educate and inform municipal officials and interested citizens about actions local governments can take to help increase the number and types of housing available in their communities.

As a part of that process, it is critical to begin with a basic understanding of key terms and the current problems plaguing the housing market. Discussions about a community's housing situation can involve many interrelated concepts and terms. This briefing paper reviews the root causes of the housing shortage and the related housing unaffordability crises. It also defines key terms like affordable housing, attainable housing, workforce housing, missing middle housing, and subsidized housing.

IS THERE A HOUSING SUPPLY SHORTAGE?

Yes. Freddie Mac has estimated that the nation is short [3.8 million housing units](#) to keep up with household formation.ⁱⁱ Closer to home, a recent study concludes that Wisconsin needs to build at least 140,000 housing units by the end of the decade to keep pace with current demand, and that number jumps to 227,000 units if the state hopes to grow and house its working-age population.ⁱⁱⁱ

WHAT ARE THE MAIN CAUSES OF THE HOUSING SHORTAGE?

There are many reasons for the continuing housing shortfall. In general, however, the primary causes are:

1. The construction of new housing has not kept pace with demand since the housing market collapsed during the Great Recession.^{iv} Nationally, all types of housing starts fell sharply after the Great Recession and have not yet recovered to pre-2007 levels. Fewer new homes were built in the decade following the Great Recession (2008-2018) than in any decade since the 1960s.^v The decline in new housing construction has been exacerbated by the reduced availability of relatively small “starter homes” and low-cost rental units. The fraction of all new single-family homes under 1,400 square feet declined from nearly 40 percent in the early 1970s to about 7 percent in the early 2020s.^{vi}
2. Rising costs of construction materials, supply chain issues, and labor shortages stemming from COVID has also negatively impacted housing inventory.^{vii}

Other reasons for the housing shortage include:

1. Many current homeowners with relatively low mortgage interest rates are hesitant to place their homes on the market and face higher interest rates, thereby keeping the inventory of existing homes for sale relatively low. Indeed, according to [new research](#) from economists at the Federal Housing Finance Agency, this mortgage rate “lock-in effect” was responsible for about 1.3 million fewer home sales in America during the rise in mortgage interest rates that occurred from the spring of 2022 through the end of 2023.^{viii}
2. Builders find that the costs of new construction make building smaller or what might be referred to as starter homes not cost effective for the builder or the consumer.^{ix}
3. Profit margins in higher-end homes are more attractive to home builders.^x

Finally, out of date local land-use regulations and zoning restrictions limiting what can be built contributes to the continuation of the housing shortage by slowing down, hampering, or preventing the construction of more housing in some markets. For example, restrictions on housing density and building size, design standards, setbacks and other lot configuration requirements, parking requirements, prohibitions on building multi-family housing, and long approval processes -- can create artificial barriers to more housing.^{xi} “Research consistently finds that increasingly stringent zoning restrictions lead to lower housing construction.”^{xii} Conversely, reducing local zoning regulations, streamlining the permitting process, and in some cases offering local financial support, can facilitate and accelerate the housing recovery. Local government did not cause the housing supply crisis, but it can be a big part of the solution.

IS THERE A HOUSING AFFORDABILITY PROBLEM?

Yes. Across the country, housing price increases have outpaced wage growth in the last 20 years. Between 2000 and the early 2020s, housing prices tripled while household income doubled; in other words, the price of housing rose by 50 percent more than household income in the last 20 years.^{xiii} Studies show that nationwide 45 percent of renters are now cost-burdened, meaning that they spend 30 percent or more of their family income on rent, more than twice the share who were cost-burdened in 1960.^{xiv}

IN WISCONSIN, median sales price of homes increased by more than half (53.3%) in just five years, from \$172,900 in 2017 to \$265,000 in 2022.^{xv} During those years, the state's median household income increased by only 19.7%.^{xvi} The median price of homes sold in Wisconsin was 3.7 times the state's median household income in 2022.^{xvii} A general rule often used by real estate agents is that homebuyers can afford to spend about 2.6 times their household income on a home.^{xviii}

WHY IS HOUSING UNAFFORDABLE?

- The housing supply shortage described above is the key contributor to housing unaffordability.^{xix} In Wisconsin, since 2010, the number of households has increased by more than 211,000, while fewer than 145,000 housing units have been permitted. That deficit of nearly 67,000 units has contributed to rising prices.^{xx}
- In certain parts of the country, such as the Sun Belt, in recent years the percentage of home purchases made by institutional investors has increased and caused average home sales prices to skyrocket, making homeownership more expensive^{xxi}
- The rise of remote work since the pandemic is responsible for soaring home prices and rentals in some areas around the country (e.g., remote work enabled workers in high-cost areas to move in droves to lower-cost cities such as Boise, Idaho, during the pandemic).^{xxii}

WHAT IS AFFORDABLE HOUSING?

[The U.S. Department of Housing and Urban Development defines](#) “affordable housing” as housing, including utilities, that costs no more than 30 percent of a household’s monthly income. Policymakers and stakeholders consider households who spend more than 30 percent of income on housing costs to be housing cost burdened. The definition of affordable housing is nebulous, however, with different programs and stakeholders often adopting their own slightly different definitions of what is considered “affordable housing.”^{xxiii}

There are two broad categories of affordable housing.

- **Naturally Occurring Affordable Housing.** Refers to residential properties that are “affordable” but are not subsidized by any federal programs. The rents are determined by the market and are naturally low compared to the regional housing market. This type of housing is not government regulated but is considered affordable to households at market rate because costs amount to less than 30% of their monthly income.^{xxiv}
- **Subsidized Affordable Housing.** Housing that is subsidized by federal, state, or local government programs to ensure that low-income households do not pay more than 30% of their income on rent, or that rents are restricted at a level that is affordable for low-income households. Housing can be subsidized in numerous ways—giving tenants a rent voucher, helping homebuyers with downpayment assistance, reducing the interest on a mortgage, providing deferred loans to help developers acquire and develop property, giving tax credits to encourage investment in low- and moderate-income housing, authorizing tax-exempt bond authority to finance the housing, providing ongoing assistance to reduce the operating costs of housing, and others. Public housing, project-based Section 8, Section 8 vouchers, tax credits, and the State Housing Trust Fund, are all examples of subsidized housing. Subsidized housing can range from apartments for families to senior housing high-rises.^{xxv}



OTHER TYPES OF HOUSING

Attainable housing

Attainable housing is related to but distinct from naturally occurring affordable housing. The Urban Land Institute defines attainable housing as nonsubsidized, for-sale housing that is affordable to households with incomes between 80 and 120 percent of the area median income (AMI).^{xxvi} While each community is unique, often people within the median income of an area include firefighters, police, utility workers, nurses, paramedics, teachers, plumbers, electricians, road maintenance crew members, and other workers essential to the local economy.

Implicit in the idea of attainability is the idea that a range of housing options (type, size, tenure, cost) exists in the local market. Attainable housing includes diverse housing types beyond single-family detached units that tend to be smaller and more affordable than the typical new detached home in that area.^{xxvii}

While attainable housing is not directly subsidized, government policies may influence the development of such more affordable market rate housing through incentives or changes in zoning and land development regulations and approval processes.^{xxviii}

Missing middle housing

Missing middle housing, a term coined in 2010 by [Daniel Parolek](#), principal and CEO of Opticos Design, consists of multifamily structures of several floors that offer minimal density and more affordability, while being compatible in scale with detached single-family homes.^{xxix} Common forms of missing middle housing are duplexes, triplexes, townhomes, cottage courts, and courtyard buildings. They are called “missing” because they have typically been illegal under local zoning to build since the mid-1940s and “middle” because they sit in the middle of a spectrum between detached single-family homes and mid-rise to high-rise apartment buildings.^{xxx} Missing middle housing is often proposed as a solution to bringing a greater variety of housing types and housing prices into a community.^{xxix}

Workforce housing

Workforce housing is similar to affordable and attainable housing. The term is “most often used to indicate a program targeted at households that earn too much to qualify for traditional affordable housing subsidies.”^{xxxii} Workforce housing is typically intended for households with incomes between 80% and 120% of AMI.

Historically, some “workforce” housing programs have been tied both to household income and to specific occupations or industries.^{xxxiii}

Wisconsin law precisely defines “workforce housing” for purposes of certain workforce housing infrastructure loan programs managed by the Wisconsin Housing and Economic Development Authority. Under that definition, “workforce housing” means residential housing that satisfies all the following:

1. For housing intended to be rented, the estimated annual housing costs do not exceed 30 percent of the area median income.
2. For housing intended to be occupied by the owner, the estimated annual housing costs do not exceed 30 percent of 140 percent of the area median income.
3. For housing intended to be rented, the housing is for occupancy by individuals whose annual household income does not exceed 100 percent of the area median income.
4. For housing intended to be occupied by the owner, the housing is for purchase by individuals whose annual household income is not more than 140 percent of the area median income.^{xxxiv}

NEXT BRIEFING PAPERS: Future briefing papers in this series will focus on specific strategies and steps local governments and community leaders can take to increase many of the types of housing discussed above.

ⁱForward Analytics, *A Housing Hurdle: Demographics Drive Need for More Homes*; January 2023.

ⁱⁱ<https://www.freddiemac.com/research/insight/20210507-housing-supply>

ⁱⁱⁱForward Analytics, *A Housing Hurdle: Demographics Drive Need for More Homes*; January 2023.

^{iv}Deller, *Wisconsin's Housing Dilemma*, June 2023.

^v<https://www.fanniemae.com/research-and-insights/perspectives/us-housing-shortage>



^{vi}<https://www.whitehouse.gov/wp-content/uploads/2024/03/ERP-2024-CHAPTER-4.pdf>

^{vii}<https://www.whitehouse.gov/wp-content/uploads/2024/03/ERP-2024-CHAPTER-4.pdf>;
www.wra.org/FallingBehind

^{viii}NY Times, *A Huge Number of Homeowners Have Mortgage Rates Too Good to Give Up*, April 15, 2024.

^{ix}Deller, *Wisconsin's Housing Dilemma*, June 2023.

^xIbid.

^{xi}www.wra.org/FallingBehind;

^{xii}<https://www.whitehouse.gov/wp-content/uploads/2024/03/ERP-2024-CHAPTER-4.pdf>

^{xiii}<https://www.whitehouse.gov/wp-content/uploads/2024/03/ERP-2024-CHAPTER-4.pdf>

^{xiv}Ibid.

^{xv}Wisconsin Policy Forum, *Home Prices Outpace Incomes*, March 2024.

^{xvi}Ibid.

^{xvii}Ibid.

^{xviii}Ibid.

^{xix}Economic Policy Institute, Working Economics Blog, *The growing housing supply shortage has created a housing affordability crisis*, July 2022.

^{xx}Wisconsin Policy Forum, *Home Prices Outpace Incomes*, March 2024.

^{xxi}HUD Office of Policy Development and Research, *Evidence Matters*, Winter 2023.

^{xxii}Federal Reserve Bank of San Francisco, *Economic Letter*, September 26, 2022.

^{xxiii}National League of Cities, *What is Affordable Housing*, January 2024.

^{xxiv}Ibid.

^{xxv}[HUD Archives- Glossary of Terms](#)

^{xxvi}Tyler August, Michigan State University Extension, *Community discussions around housing: Explaining common key terms*, March 15, 2022.

^{xxvii}<https://montgomeryplanning.org/planning/housing/attainable-housing-strategies-initiative/>

^{xxviii}Tyler August, Michigan State University Extension, *Community discussions around housing: Explaining common key terms*, March 15, 2022.

^{xxix}<https://missingmiddlehousing.com/about>

^{xxx}Ibid.

^{xxxi}Tyler August, Michigan State University Extension, *Community discussions around housing: Explaining common key terms*, March 15, 2022.

^{xxxii}<https://www.brookings.edu/articles/workforce-housing-and-middle-income-housing-subsidies-a-primer/>

^{xxxiii}Ibid.

^{xxxiv}Wis. Stat. § 234.66(1)(i).