To: Patrick Singer, President, Whitewater City Council
Whitewater City Council Members

Cc: John Weidl, City Manager
Taylor Zeinert, Economic Development Director

Re: Response to questions regarding my March 4, 2025 presentation

Date: April 4, 2025

President Singer and Council Members:

Thank you for the invitation to appear before you in March to talk about TIF and housing. I appreciated the robust conversation and questions, as the topics you are addressing are important and common for all cities in Wisconsin. I appreciate this opportunity to respond to questions raised, based on my own notes and an email from Taylor Zeinert. If I can provide any additional information, please do not hesitate to contact me.

1. I heard a number of questions from Council and citizens all requesting additional information and elaboration on comparisons between owner-occupied and renter-occupied housing, comparison to other communities in Wisconsin, particularly Menomonie (UW Stout) and Platteville (UW Platteville), and how I obtained the numbers on student rentals.

I understand these questions to be related to approval of new housing construction designed not for the student market and concerns among citizens that rental housing is oversupplied in Whitewater. But Whitewater's statistics are obviously skewed by the large student population relative to the non-student population. Therefore, as council considers additional development requests for single-family and multi-family, it would be helpful to estimate the housing demand in Whitewater outside of the student housing market.

For context, there is no single data source that regularly distinguishes between whether units are rented by college students or whether units are rented by other households. Even large commercial databases used by commercial real estate firms (which require subscriptions) such as CoStar or CoreLogic don't often have detailed occupancy characteristics at the building or property level.

As you are aware, Wis. Stat. 66.0104(2)(e)4 prohibits municipalities from establishing rental registries, other than collection of basic contact information. Even in municipalities that do have this minimal registry (such as Whitewater, Eau Claire, Madison, etc.), no characteristics on the occupants may be collected. And, as you are aware, any housing provider in the private market (i.e. not the university's dormitories) cannot limit or exclude possible tenants based on their student/non-student status.

These two facts make determining how many student-focused rentals exist in a city difficult. I would note that I was a member of a joint City-University task force on affordable student rental housing in Madison, and the consultant hired by the UW (JLL) was able to identify student-focused rental housing combining data from CoStar with AxioMetrics and College House firms. This report is available at: https://uwmadison.app.box.com/s/ytkwz3x3sulz23p84j2adgo7cw5d03du and the

analysis can be found beginning page 7. If additional information is required, the city could consider hiring firms like JLL to conduct a more detailed analysis.

The analysis I presented was designed as a quick, first-order approximation using only Census data to backout how much student rental housing exists in Whitewater as well as to estimate rental demand for non-student households. My hope is that this analysis might provide you with some additional perspective relative to the concern about how to measure vacancy levels in rental housing in the city and whether there is demand for additional non-student rental housing.

In this memo, I update the analysis I presented in March in two specific ways: 1) I add the Jefferson County portion of Whitewater to the data presented at Council, which was limited only to the Walworth County portion; 2) I include other cities in Wisconsin with similarly sized UW institutions: Menomonie (UW Stout), Platteville, Eau Claire, La Crosse, and Stevens Point. Comparing yourselves with these other schools may provide insight into resident concerns about the balance of rental vs ownership housing and the mix of single-family relative to multi-family housing.

Census data (2023 5-year ACS) is our best available source, but doesn't do demographic breakdowns by student status for the variables you are interested in. The closest we can come is to estimate the number of renter households headed by 15-24 year olds and to assume that these represent students. Using Census variable B25007 (tenure by age of household) I can separate out 15-24 year old households (assumed to be students) from 25-34 year old households (assumed to not be students).

All of the other census variables we would be interested in are found in table B25125 (Tenure by Age of Householder by Units in Structure). However, this table lumps together 15-24 year old households with 25-34 year household heads. (Census data is often presented in large demographic categories to protect privacy in smaller places).

The table below presents data from these census variables for Whitewater along with other cities with UW system schools of similar size. Note that these Census data would only measure students living off-campus in private housing, not dormitories. Residents of dormitories are considered to be residents of "group quarters" and don't show up in Census housing variables.

A couple of observations to help your consideration:
a) Whitewater has a much higher percentage of renters aged 15-34 who are students than do the other cities. Further study could help you determine whether this is because those other cities do a better job attracting non-student young people to work or live in their community and/or retain them after graduation, or whether this is primarily driven by commuting patterns.
b) Looking at line 17, Whitewater has a higher percentage of its single-family-rental stock rented by students than do the other campus cities. Depending on the location of these units, the city could consider approving or supporting additional student-focused multifamily rental housing development near campus to absorb some of the student rental demand out from single-family housing units in order to re-convert those units back to homeownership for families.
c) The average percentage of all single-family housing units in the State of Wisconsin that are rented is 12 percent, and the percentages of single-family units rented in the college towns in this analysis are substantially higher.
d) the penultimate data line (line 23) shows the outcome of this analysis as the rental demand from non-students as a percent of all housing units. As you will see, Whitewater is below Menomonie, Platteville, and La Crosse on these measures. We can interpret this data roughly to answer the

question: outside of the student housing market, is the mix between rental and ownership housing titled too far in either direction. Whitewater is in the middle of these 5 other cities. Outside of housing serving students, Whitewater is not over-supplied in rental housing.
e) Whitewater has the highest percentage of its existing multifamily rental housing stock occupied by students of all comparison cities (line 18). This is suggestive of the potential need for additional non-student multifamily housing.
f) Whitewater has the highest percentage of all households as student renters (last line) compared to every other city in the analysis. Because the student population relative to the overall city population is a much higher percentage of Whitewater's population, there could be a misconception that rental housing is oversupplied.

2. Does Whitewater's distribution of housing (70% rental, 30% owner) affect market rate rents?

No. The market rate rent for any area is determined not by the percentage distribution of owner vs renter but instead by 1) the vacancy rate in the market in the past 3-6 months and 2) the level of income in the city. The first factor, vacancy rate, is the interplay between supply and demand. Outside of the student-specific market, when vacancy rates for rental housing are above about 5 percent, rents tend to fall. When vacancy rates are below 5 percent, rents tend to increase.

3. What is the impact of likely tariffs on construction costs?

In my presentation (slides 12 and 13), I showed that single family and multifamily construction costs are up over 40 percent since January 2020. A portion of this previous increase is due to the imposition of tariffs on Canadian lumber in 2017. More recently announced tariffs on aluminum, steel, and all imported products (such as gypsum from Mexico) will undoubtedly raise construction costs. Because the most recent round of tariff announcements (April 2, 2025) did exempt some construction materials, it is too early to tell the exact impact on construction costs.

4. How do other communities deal with the disclosures of financial information and rates of return in TIF approvals?

Whenever a developer applies for TIF assistance in any city I'm aware of, the developer presents a detailed proforma and financial information in a meeting with the finance staff or economic development/city manager staff or sends the information to the TIF consulting firm. In all the cities I'm familiar with, the process is that the developer submits a detailed proforma and then staff review those numbers based on their own expertise and experience to ensure compliance with TIF policies.

As I mentioned in my presentation, I did a very simple yield-on-cost analysis based only on the 1-page summary sheet from Ehlers that was made available to me. (Yield on cost calculations would be stabilized net operating income (NOI) divided by total cost. The Ehlers analysis summary provided and estimated assessed value, I applied a 5 percent cap rate to get an estimated NOI and divided by total project cost. I estimated the yield on cost with the TIF assistance to be 5 percent, which is on the lower end of market rate yield on cost. However, I did not see the detailed proforma and financial information).

Obviously, city staff and/or consultants conduct their own analysis on various measures of developer return (IRR or yield on cost) with- and without-TIF assistance. That's standard practice

and best practice. However, this detailed proforma information is never disclosed to the public, as it would expose a developer's personal financial position and trade secrets/business practices. In no city that I'm aware of does the city council or finance committee see the actual numbers, just a staff analysis indicating a) the analysis complies with city policy, b) the development would not be financially feasible (and therefore won't happen) but for TIF assistance, c) the recommended TIF incentive is enough make the project financially feasible but not too much to generate a higher-than-market return for the developer. The analysis summary I saw was prepared by Ehlers, one of the most respected and professional consulting firms in the state on TIF.

5. Explain more the comparison of rents between Madison and Whitewater: Madison has job growth but Whitewater does not?

My presentation made mention of median rents in the Madison and Whitewater markets for purposes of comparison of the possible need for TIF assistance for development in Whitewater that would not be needed in Madison. Based on a question and comment from a citizen, I should have been more clear that the median rent represents the 50th percentile rent: half of rents are higher and half of rents are lower.

In any rental market, there is a range of rents based on size, quality, location, and age of the unit. Obviously, new construction in Madison or Whitewater rents for substantially above the median rents in those cities, because median rents represent already-existing units. So, as I showed, the median rent in Madison is about $700 more than in Whitewater. Median rents in Madison were about $1700, but new construction rents are well above $2400 for an equivalent sized unit. In the same way, the median rent in Whitewater is about $1200, but clearly a new construction rent in Whitewater would be much higher (like around $1700). Importantly, the comparison should not be between new-construction rents in Whitewater and median existing rents in Madison.

What the comparison shows is this: new construction rents in Madison of $2400 for a 2 BR can support market rate construction without the need for TIF assistance. But new construction rents of $1700 for a 2BR in Whitewater may not be able to support market rate construction without TIF assistance.

Higher rents in Madison means that developers can support more debt on each project for the same debt service coverage ratio (DSCR). The additional debt on a project is sufficient in Madison to make a development financially feasible.

Even with TIF assistance, a developer would need to finance a substantial portion of the construction costs with a loan. Relative to future rental demand, banks and other investors in the project will demand to see a market study by the developer indicating sufficient rental demand, otherwise they won't lend or invest in the project. You can be very certain that the bank scrutinized the project and market study very carefully. For the city, the PAYGO structure puts the risk on the developer (not the city) to demonstrate sufficient demand for the new housing.

6. Other cities do 50 percent on TIF, why does Whitewater do a higher number?

It is really hard, and not generally productive, to look for one summary measure to compare TIF projects across cities. Every project is different, and the percent of the increment going to the developer vs to the city is not a meaningful metric. Instead, the percentage of the increment going to

the developer is determined (as above) as that amount which turns a project from "no go" to go, but only enough to bring the developer up to a market return, no more. In some projects, that could be 50 percent of the increment, but in others it could be 90 or even 100 percent. There are too many other variables at play (timing of construction, length of time remaining for the life of the TID, interest rates on debt, etc.) to just look at the percentage of the increment going to a project vs the TID.

	Whitewater	Menomonie	Platteville	Eau Claire	La Crosse	Stevens Point
Total housing units	5,172	6,150	4,112	28,547	22,735	11,063
Renters 15-24	1,903	1,186	1,038	3,419	3,757	2,291
Renters 25-34	593	937	550	3,151	2,637	1,469
Estimate: Percent of 15-34 year old households that are students	76.2%	55.9%	65.4%	52.0%	58.8%	60.9%
Single-family units	2,162	2,887	2,258	18,121	12,537	6,115
Single-family units renter occupied	826	743	699	3,162	2,695	1,006
Percent of single-family units renter occupied	38.2%	25.7%	31.0%	17.4%	21.5%	16.5%
Single-family rentals, 15-34 year olds	498	344	410	1,597	1,590	502
Multi-family units (5+)	2,282	2,081	1,457	5,310	6,811	2,920
Multi-family units (5+) renter occupied	2,249	2,059	1,457	5,298	6,605	2,920
Mutlifamily rentals, 15-34 year olds	1,672	1,313	1,002	2,501	3,296	2,079
Estimate: Single-family units rented by students	380	192	268	831	934	306
Estimate: Multi-family units rented by students	1,275	733	655	1,302	1,937	1,267
Estimate: Single-family units rented by non-students	442	551	431	2,331	1,761	700
Estimate: Multi-family units rented by non-students	984	1,326	802	3,996	4,668	1,653
Percent of single-family rentals rented by students	46.0%	25.9%	38.3%	26.3%	34.7%	30.4%
Percent of multi-family rentals rented by students	56.7%	35.6%	45.0%	24.6%	29.3%	43.4%
Percent of all housing units renter occupied	69.7%	60.5%	62.1%	44.9%	53.9%	50.2%
Estimate: Student rental demand (households)	1,649	926	923	2,133	2,871	1,573
Estimate: Non-student rental demand (households)	1,426	1,876	1,233	6,327	6,429	2,353
Percent of all rental demand from students	53.6%	33.0%	42.8%	25.2%	30.9%	40.1%
Percent of all housing stock non-student rentals	27.6%	30.5%	30.0%	22.2%	28.3%	21.3%
Student renter households as percent of all households	31.9%	15.1%	22.4%	7.5%	12.6%	14.2%

Sources: Census 2023 5-year ACS, variables B25007 tenure by age of householder and B25125 tenure by age of householder by units in structure

Notes: Whitewater combines Whitewater (Walworth County portion) and Whitewater (Jefferson County portion)