

# DOWNTOWN HOUSING STUDY - FOND DU LAC

## EXECUTIVE SUMMARY

Downtown housing development represents a significant growth opportunity for Fond du Lac. Limited new residential development has occurred in downtown, despite local and regional growth in demographic groups which are attracted to urban multifamily developments. A strong downtown residential market can benefit downtown in many ways, including increased vitality, an expanded customer base and improved safety. The importance of residential development downtown was recognized as far back as 2001, when a survey conducted as part of Downtown Fond du Lac Partnerships strategic planning initiative identified the addition of market rate and affordable housing as the 5<sup>th</sup> and 6<sup>th</sup> most important project categories in terms of potential benefit for downtown.

From a market share perspective, Downtown Fond du Lac employs 9.6 percent of the City's daytime workforce, but only 2.5 percent of the City's residential population. Ideally, downtown would include a more balanced distribution of uses to maximize economic activity on a 24-7 basis. Additionally, the City, in keeping with State and National trends, has experienced a significant increase in the number of multifamily developments proposed Citywide. Downtown is a natural fit for this type of projects, where density, traffic and diversity are more easily absorbed by existing infrastructure.

An analysis of the existing housing stock, combined with 5-year projections for additional residential and employment growth, identified a demand for 69 additional owner-occupied downtown housing units in 2014, and 112 additional residential units within the downtown area by 2019. Future demand is split between owner-occupied (33%) and rental units (66%), which cater to different demographic and market segments. Development of owner-occupied units is currently difficult to finance, limiting near-term development opportunities to smaller projects which rely on pre-sales to finance development. Rental units, which are more easily supported in the current market, would need to achieve average rental rates of \$1,000 to support quality new development. Within the City, there are currently just over 10,000 individual workers and 10,250 households with incomes high enough to support this level of rent. These figures include approximately 12 percent of workers under age 30, and 47 percent of workers aged 30-54.

Based on the strong and growing demand for multifamily development, and especially apartment units, in Fond du Lac, coupled with the presence of supportive infrastructure and economic activity in downtown, there is moderate to strong demand for a variety of multifamily unit types within the downtown core and center city area. Provided that suitably sized and situated infill or redevelopment sites can be identified and assembled, additional market rate residential development (as well as additional more targeted development) can be supported within downtown Fond du Lac.

# EXISTING SUPPLY & DEMAND

The number, type, rental rate and occupancy status for existing owner-occupied and rental units in downtown Fond du Lac were analyzed to identify areas of strength and weakness in the current residential marketplace. This analysis compared the physical and economic composition of units within the downtown core, the center city and the City of Fond du Lac to determine if unmet demand exists for units which would be appropriate for downtown development. The downtown core and center city areas were defined using Census Block Group areas. The areas included in these districts, as defined by the Census, are illustrated in the map on the following page.

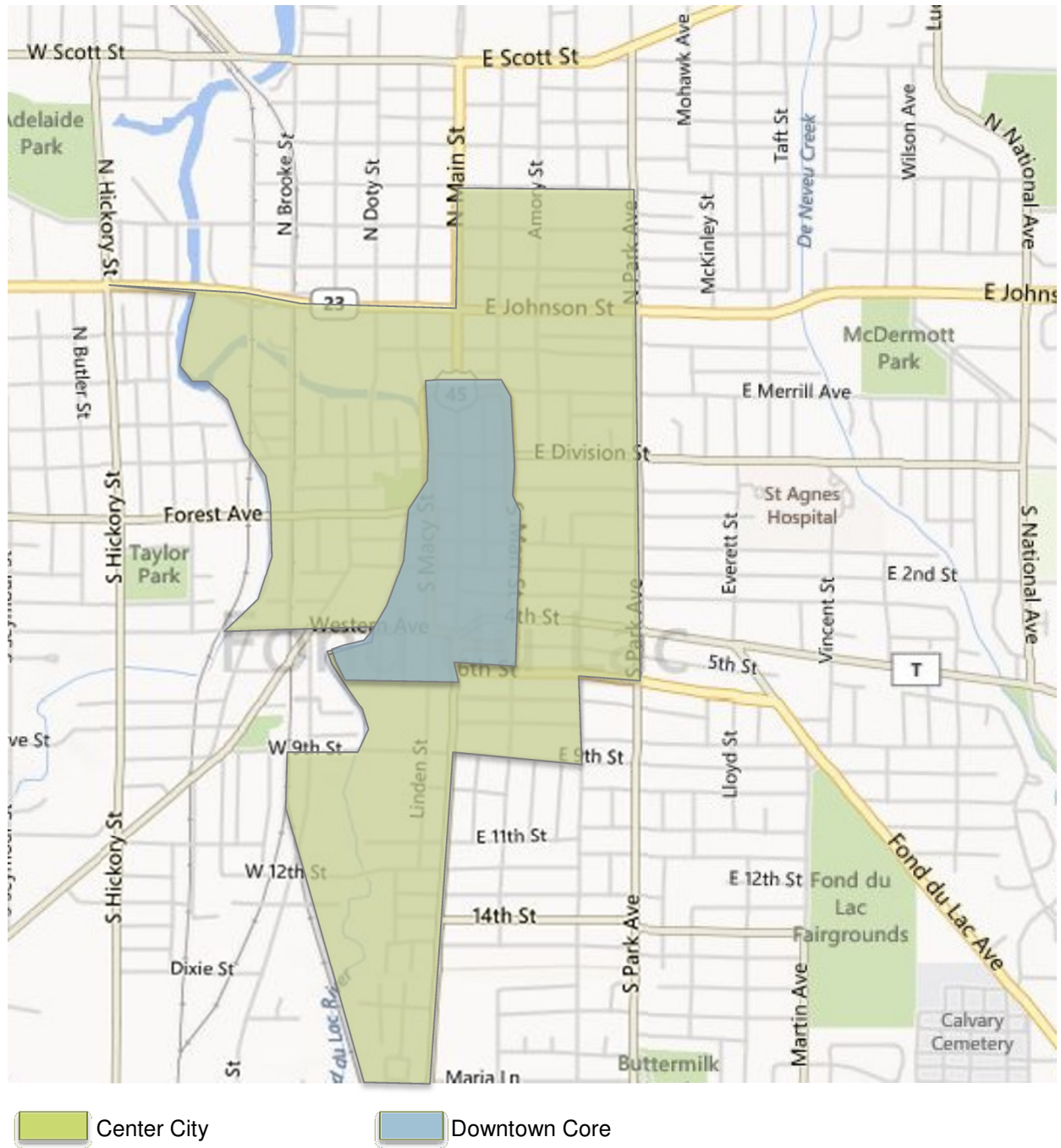
## Existing Supply

Fond du Lac has demonstrated consistent residential growth over the past half-decade. Since 1960, the population has increased by 11,299 residents, while 10,308 new residential units have been added, or 912 new housing units for every 1,000 new residents. For most of this period, the growth in residential units has occurred in new neighborhood and single family development at the expense of multifamily development. Only in recent years has multifamily development increased, with 42 percent of new units built since 1996 being located in buildings of more than five units. Only 7 percent of these units were added in the downtown core, although nearly half were constructed in the center city area. A significant number of these units are available exclusively to individuals qualifying for affordable units or to seniors, providing minimal options for younger households or downtown employees seeking quality housing in proximity to downtown employment options and amenities.

The unit mix in the downtown core is heavily skewed toward rental units, as indicated in the table below. Although this is common for multifamily structures as a whole, the more balanced mix of sale and rental units within the Center City indicates that there is demand for owner occupied units in proximity to downtown. A search of MLS listings in the winter of 2014 identified no individual units for sale within the core of downtown, and 23 within the Center City, for a 1 percent vacancy rate in the Center City. The average asking price of these units (all single family homes), is 57% below the citywide average, but represents only 3.7 percent of homes on the market within the City of Fond du Lac.

	Downtown Core			Center City			City of Fond du Lac		
	Total Units	Percent Vacant	% Rental/ % Owned	Total Units	Percent Vacant	% Rental/ % Owned	Total Units	Percent Vacant	% Rental/ % Owned
<b>2000</b>	444	7.7%	82.9%/ 17.1%	2,905	7.2%	55.8% 44.2%	17,519	5.0%	38.3% 61.7%
<b>2010</b>	480	10.6%	79.0% 21.0%	3,116	9.1%	42.4% 57.6%	19,407	7.1%	41.8% 58.2%

## District Map

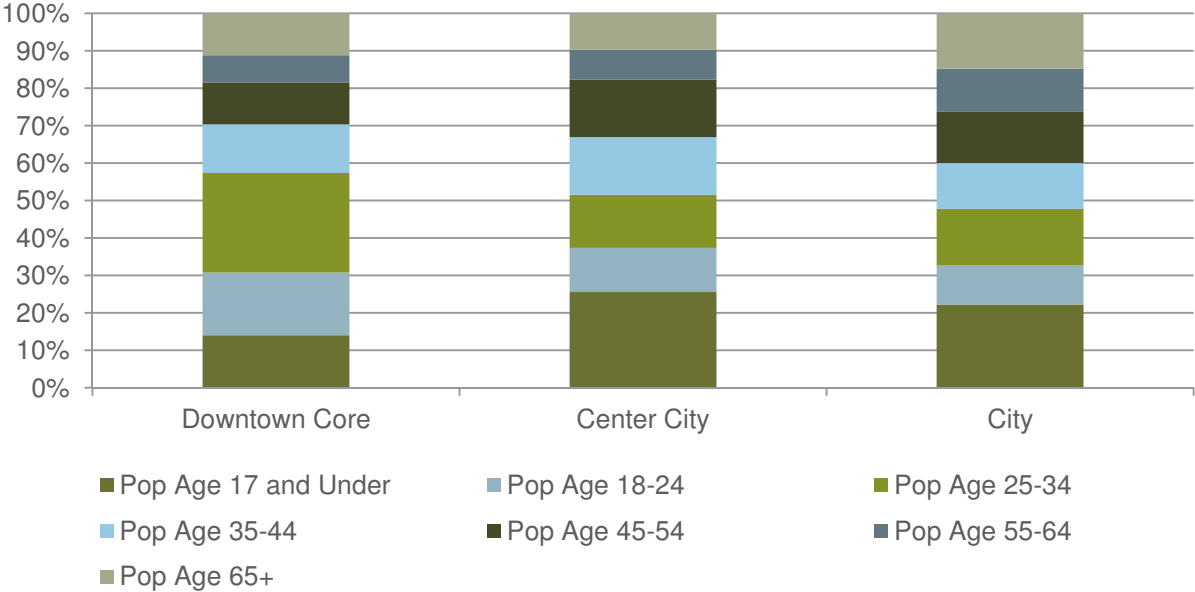


**Occupancy Characteristics**

Residential vacancy information from the Census suggests strong demand for multifamily units in downtown, especially rentals. City-wide, apartment units are experiencing sub-10 percent vacancy rates for apartments, a level which is considered to represent market equilibrium by most developers. Although vacancies are slightly higher in the downtown and center city areas, many vacancies appear to be represented by units that have occupancy restrictions such as age or income. A survey of online and other apartment listings in winter of 2014 uncovered only 3 actively marketed rental units available in downtown, and 18 additional units in the center city area, with the vast majority of these available only to households which qualify for income or age-restricted units. Additionally, 12% of downtown and center city units categorized as vacant in the census were also classified as unavailable either for sale or for rent, potentially indicating unsafe or uninhabitable conditions.

Despite the presence of several senior apartment and assisted living facilities in and around downtown, downtown residents are overall younger than the City as a whole. More than one quarter of residents in the core of downtown are between the ages of 25 and 34, versus only 15 percent Citywide. The population of 18-24 year olds is also higher in both the downtown core and center city than in the City as a whole, as shown in the following graph.

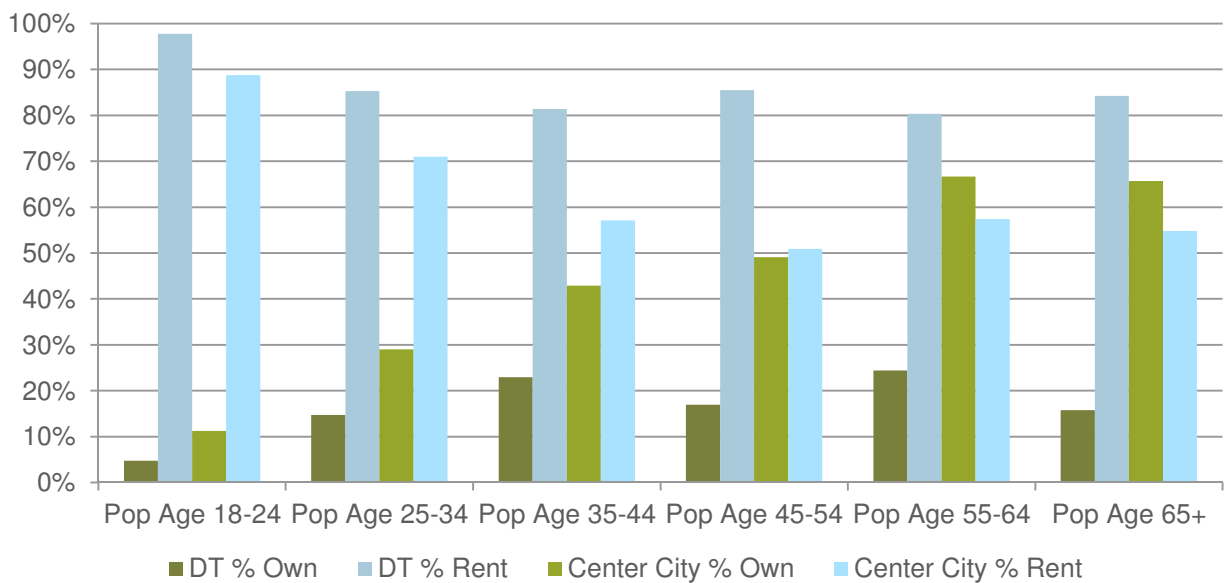
**Residential Age Profile by Geography (2010)**



The balance between owner and renter-occupied units within the downtown core and the city center is significantly different than the mix within the larger community. Although a disproportionate share of rental units is common within higher density areas, cultivating a diverse demographic mix requires an appropriate mix of property types and price points downtown. Fond du Lac appears to have fewer ownership opportunities for young professional and empty nester households than would be expected. The tables on the following page indicate the unit mix within the downtown and center city, and also provide a comparison to citywide ownership patterns, illustrating areas where the existing housing mix may not be adequate to meet demand. For instance, while the vast majority of households aged 25 and under rent in all parts of the City, the home ownership percentage of downtown and center city

households aged 25-34 is far lower than the citywide average (15% and 29% versus 52% citywide). Similarly, while 55-64 year olds tend to own their own homes in the City (70%), only 24% of downtown core residents in this demographic own their home. Although these two demographic segments are attracted by differing amenities and price points, both represent core downtown resident demographics nationwide, and may therefore represent a growth area for downtown Fond du Lac. Although household demand alone suggests a market for 114 additional owner occupied units in downtown, it is unlikely that a majority of households over aged 65 will pursue traditional ownership opportunities in downtown, if available. Therefore, the analysis reveals demand for as many as 69 additional owner-occupied units in downtown to meet the needs of singles and couples aged 25-64. These could include units in a wide variety of forms, ranging from condominium, town home and live-work or loft type units.

### Rental and Ownership Profile by Geography (2010)



Demographic Segment	Citywide Ownership Rate	Downtown Ownership Rate	Potential Unit Shortfall (Owner-occupied)
Age 18-24	7.6%	4.8%	Adequate supply
Age 25-34	51.6%	14.7%	27 units
Age 35-44	53.3%	22.9%	10 units
Age 45-54	56.2%	17.0%	15 units
Age 55-64	70.5%	24.4%	16 units
Age 65+	67.5%	15.7%	45 units

Source: US Census 2010

## Projected Demand Growth

In addition to the potential to meet existing demand through the construction of downtown units, Fond du Lac's population is expected to increase by 4 percent over the next five years (Applied Geographics). This is in line with projections by the Wisconsin Department of Administration (DOA) which anticipate an 8% increase in households within the City through 2020. Although household formation has lagged slightly behind DOA projections for the past five years, accelerating household formation post-recession is likely to close this gap in the next few years. Household growth in Fond du Lac, as with most other communities, is expected to grow at a faster pace than overall population growth due to the increasing share of single person households. These new households represent growth at both the upper and lower end of the age spectrum, as younger individuals remain single into their 30s and older individuals live longer, with one spouse frequently outliving the other.

### ***Residential & Demographic Generators***

Moving forward, the most rapidly growing demographic segments mirror those which have demonstrated the greatest preference for multifamily housing, which can be easily accommodated in downtown. Over the next five years, the City is expected to witness the addition of 560 net new households. The fastest growing household segments will be those headed by individuals aged 30-39 (110 additional households), and those headed by individuals over age 60 (270 additional households), while other segments will shrink. Based on housing preferences by age, the combination of population growth and changing demographics will create a need for an additional 231 owner occupied units and 330 rental units within the City over the next five years.

Downtown will need to add at least 19 new owner occupied units and 20 rental units to keep pace with demand during this period. However, adjusting for shifting demographic profiles favoring younger and older household formation, it is anticipated that downtown would be an appropriate location for a larger share of new residents, creating demand for an additional 27 owner occupied units and 52 rental units by 2019.

	Citywide Household Growth/ Decline	Citywide Change in Owner Occupied Unit	Citywide Change in Rental Unit
Households age 20-29	-317	-67	-250
Households age 30-39	350	111	239
Households age 40-49	-119	-47	-72
Households age 50-59	-84	-36	-47
Households age 60-64	143	62	80
Households age 65+	587	208	380

Source: US Census 2010, Applied Geographics 2014



**Employment Generators**

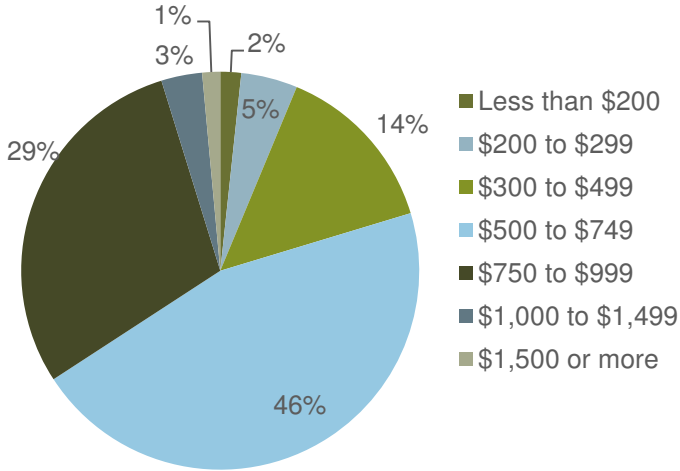
Currently, downtown businesses employ more than 2,600 individuals, many of whom commute in daily. For the City as a whole, 33 percent of all employees both live and work within the City. In keeping with national trends, a majority of employment growth in the County is expected to occur in professional, technical and service sectors. These industries are most commonly associated with office and commercial space tenancy, and are also more likely to locate in a downtown area. According to EMSI, the number of Fond du Lac County jobs in manufacturing, distribution, construction and other industrially oriented jobs is expected to decline by 16 percent over the next five years, while the number of jobs in professional and retail/service sectors is expected to increase by 30 percent (30% increase in each of retail/service and professional/technical fields). If downtown attracts its relative share of new companies and workers, this would mean an additional 285 downtown employees by 2020, requiring 36,000 square feet of office space and as much as 50,000 square feet of retail and service space.

This growth in downtown workforce will create additional demand for adjacent housing at multiple price points. Younger workers, older workers and service sector employees are most likely to appreciate the presence of downtown amenities, a walkable lifestyle and proximity to work. Based on current commuting patterns, as many as 112 of these new workers may be candidates for downtown and center city housing options, if suitable housing is available. Although a certain number of these households may overlap with previously predicted household growth, the strength of the downtown commercial sector should contribute to demand for at least 33 additional housing units.

**Rental Rates and Development Pricing**

Currently the median gross rent for Fond du Lac apartments is \$665 per unit. As a whole, this represents an average annual increase of 3.1% over the past decade. However, the increase in rent is attributable to an increase in higher end options rather than increasing rates for all units. For instance, the number of units charging between \$750 and \$999 in gross rent increased by more than 450 percent, while the number of units charging more than \$1,000 increased by 142% over the decade. The number of units at the lower end of the spectrum (charging \$750 or less) actually declined by 13%, indicating that many of these units are no longer in the rental pool (having been demolished, left vacant, or transitioned to owner occupied properties).

**Number of Units by Gross Rental Rate**



Source: US Census 2010

Of course, the amount of rent which is affordable to potential tenants varies depending on household income. Downtown and other professional employees represent a target demographic for center city residential developments based on the ability to promote the type of

walkable lifestyle desired by many younger professionals. The average annual wage in the County in the professional, technical, service and retail sectors which best represent this demographic is \$30,085. For professional and technical sectors only, the average annual wage in the county is \$35,381. For a typical one person household (54% of downtown and 43% of center city households are single individuals, versus 23% and 29% two-person households, respectively), this salary would make a monthly gross rent of \$884 affordable under HUD standards\*. A two person household would be able to afford twice that amount. Additionally, 29 percent of Fond du Lac workers (10,102 individuals) make more than \$3,333 per month, supporting rents of \$1,000 and up.

In addition to downtown employees, many urban districts have discovered that downtown living appeals equally to empty nester households and young professionals who work outside downtown. These two groups tend to have higher incomes downtown retail and service workers, and also different housing preferences. Empty nester populations as a group represent one of the top purchasers of condominium units (National Association of Realtors). Although this market has slowed in recent years, sales of condominium units are on the rise in urban markets, including Milwaukee and Madison.

Young professionals working outside of downtown seek out downtown housing for its proximity to nightlife and entertainment. Perhaps because they do not work downtown, they appreciate the ability to walk from home to dining and entertainment uses, even while commuting daily to work. These individuals tend to prefer units with additional lifestyle amenities and mixed-use buildings.

According to current construction data from RS Means, a new moderately sized apartment project (20 units) would cost an average of \$3.3 million to construct. Based on standard underwriting, the project would likely need to receive average rents of \$1,000 per unit to achieve an adequate return and meet debt coverage ratios. This rent would be achievable for most empty nesters and middle aged professionals in the Fond du Lac market, as well as for younger professional couples, as shown in the table above. Additional units targeting older households or retail and service workers may be able to take advantage of tax credits or other programs to reduce required borrowing in order to create a marketable project.

**Age & Profession of Fond du Lac Workers Earning \$3,333 or Greater Per Month**  
(Affordable monthly rent of \$1,000+)

<b>Age of Worker</b>	<b>Number of Workers</b>
Age 29 or younger	738
Age 30-54	6,843
Age 55 or older	2,521

<b>Industry of Worker</b>	<b>Number of Workers</b>
Agriculture & Mining	34
Utilities & Construction	942
Manufacturing & Warehousing	3,486
Education	1,390
Health Care	1,238
Retail Trade, Entertainment, Services & Accommodation	810
Finance, Information, Insurance & Real Estate	823
Public Administration	1,286

Source: Economic Census 2012, City of Fond du Lac

\*HUD defines affordable housing as a gross rent which does not exceed 30% of household income.