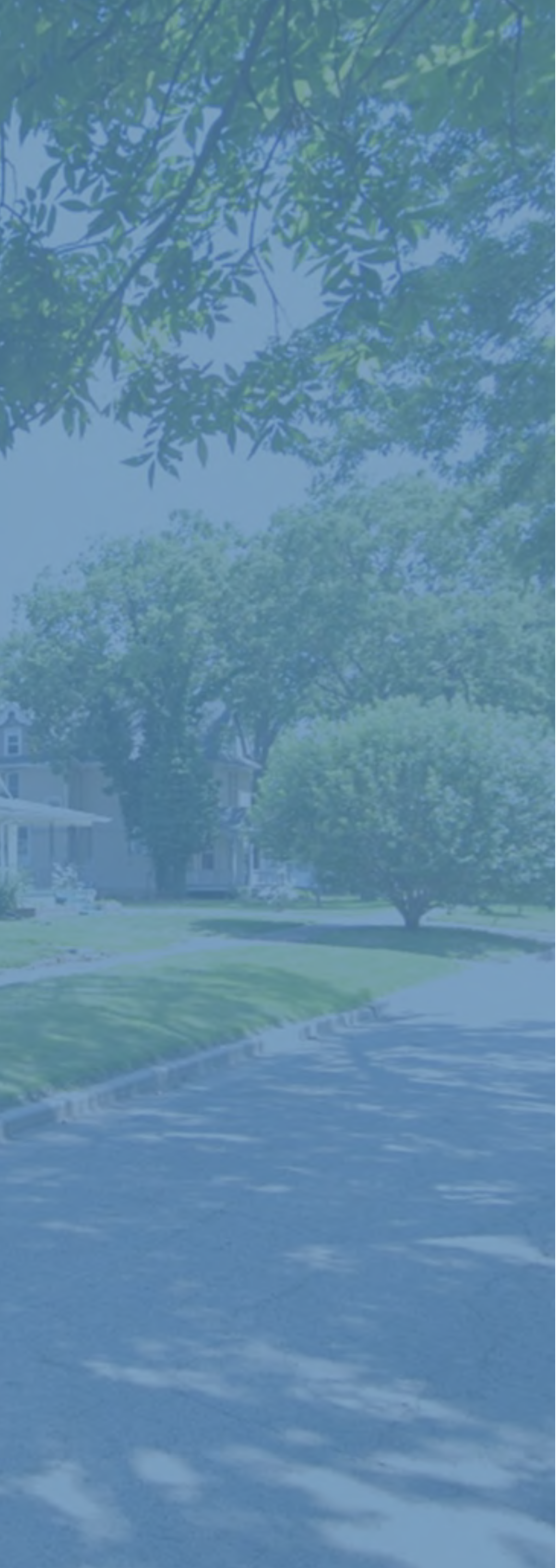


CHAPTER 3

HOUSING MARKET ANALYSIS

MARKET ANALYSIS: A PROCESS OVERVIEW

Market analysis helps understand current conditions and opportunity—it identifies gaps that exist in the housing supply today and likely housing needs in the future, including the specific needs of different populations based on income, age, and physical ability.

Market analysis can essentially be divided into the study of people, product, and place:

Supply Analysis

The first step in housing market analysis is to document what exists today. This information tells us a great deal about what the market will support in terms of rents, sale prices, and lease rates. It indicates preferences for specific products or locations. Sometimes, analysis of the competitive market can reveal specific opportunities for types of housing that the city lacks by identifying newer, more competitive types of development that achieve product differentiation by focusing on quality, amenity, design, or service offerings. Supply analysis provides critical foundational information for market analysis and the strategic framework designed to meet critical housing needs.

Demand Analysis

Demand analysis is fundamentally about people: who lives in the community today? Where do they live? What are their needs? Who is moving into the community. How many? This requires analysis of standard demographic data like household income, age, and population. It is important to analyze housing demand from multiple angles and for multiple populations. Seniors prefer different housing products than young professionals or families. Workforce housing looks different than upscale housing or housing for at-risk people. Demand analysis allows us to quantify how many units are needed at different price points and income levels.

Housing Gap Analysis

Housing gap analysis is the comparison of supply and demand. It allows us to determine what is currently missing in the market and what is needed to provide the "right" kind of housing for all Topekans. This may mean more affordable units so that fewer households are cost burdened, more Downtown units to support talent recruitment and attraction, or encouraging the development of more upscale single-family homes to keep higher-paid professionals from moving to Lawrence or Kansas City.

MARKET STRATEGY

Market Strategy focuses on how to change the conditions and capitalize on opportunities.

HOW DO WE GET THEM HERE?

WHAT DO WE BUILD?

WHERE DO WE CREATE IT?

MARKET ANALYSIS

Market Analysis identifies current conditions and quantifies opportunities.

PEOPLE
(WHO)

DEMAND

PRODUCT
(WHAT)

SUPPLY

PLACE
(WHERE)

LOCATION

SUPPLY OVERVIEW

A community-wide supply overview provides the baseline for the housing market analysis, and highlights the gaps in the range of housing products currently available to Topeka residents.

Single-family homes remain the dominant housing typology in Topeka. Early 20th century properties are concentrated in and around the urban core, followed by rings of post-war bungalows and mid-century ranches continuing outward. Contemporary suburban development of the past two decades continues this outward migration, and is almost entirely on the edges of the city. The overall pace of multi-family development has remained slow.

While housing values in Topeka were not impacted as significantly during the recession as other parts of the country and region, values remain below nearby cities such as Wichita, Lawrence, and Kansas City. Part of the challenge with the existing stock is its age—the median year built for homes in Topeka is 1965, while about 20 percent of the overall housing stock was built before the 1940s—and many properties have considerable deferred maintenance or are no longer marketable. This includes a significant proportion of former military housing that has outlived its practical usefulness. This issue is especially challenging in low-income areas where owners do not have the incomes to adequately maintain their properties.

Single-Family (For-Sale)

Housing typologies and conditions vary considerably across the city, reflected by a wide range of recent sales prices. Move-in ready homes sold in the past 12 months had a median sales price of about $140,000, or roughly $75 to $90 per square foot. In contrast, numerous lower quality, low-cost homes are scattered throughout the community. More than 200 homes sold for less than $75,000, though most require substantial additional investment to return them to a marketable standard.

Single-Family (Rental)

Single-family homes also represent a significant portion of the current supply of rental units in Topeka. Though approximately 37 percent of all housing units are renter-occupied, only 27 percent of all housing units are contained within properties of two or more units. ACS data for housing tenure and occupancy indicates there are approximately 5,000 single-family homes for rent community-wide. These properties tend to be smaller, and older, with an average current asking rent of about $850 per month across 200 listings.

Multi-Family (Market Rate)

Topeka's current inventory of approximately 10,300 market rate multi-family units is primarily contained within older garden-style apartment communities built more than 30 years ago. Construction over the past decade has been limited to fewer than 100 units, though some momentum has begun to build within the Downtown submarket as scattered former commercial spaces are converted to residential lofts. The average rent among all units market-wide is $735, while overall vacancy is about eight percent.

Multi-Family (Affordable)

Topeka has a total supply of about 4,820 affordable units, including nearly 3,000 LIHTC units, 745 public housing units, and just over 1,000 additional units contained within scattered properties supported by Section 8 vouchers or other rental assistance programs. Affordable housing is an important component of a larger strategy to ensure demographic, economic, and housing diversity throughout Topeka. Modern affordable models are a distinct departure for the subsidized high rises common in the 1960s and 1970s, and offer attractive mid-rise construction and increasingly robust amenities that are similar to other contemporary market rate apartments.

Senior

There are currently 15 independent living and assisted living communities serving senior residents of Topeka, though only two were built in the past decade. While most properties offer a similar array of services and care options, they vary more broadly in terms of amenities, design, and finishes. The high cost of long-term care is a barrier for many seniors, and existing facilities are generally concentrated in more affluent areas of west Topeka.

EXISTING SUPPLY: FOR SALE

With an aging stock of homes available for-sale in and around the urban core, nearly all of the contemporary construction of the past two decades occurred near Topeka's boundaries, or outside the city limits. Further, a lack of diversity in housing typologies has limited this stock's overall marketability.

Though broad differences in age, condition, location, and quality are apparent in home sales across Topeka over the last year, options continue to consist almost entirely of single-family homes. Single-family units accounted for approximately 97 percent of all sales in the past twelve months, and single-family units account for about 70 percent of the total housing stock despite only approximately 63 percent of units being owner-occupied. The remaining three percent of non-single-family sales consist of scattered, generally dated, townhome and condo units, and no contemporary multi-family for-sale options have been added in many years.

Low-cost homes comprise a significant portion of Topeka's overall housing supply. According to ACS data, approximately 45 percent of all homes in the city have a value of less than $110,000. However, these units do little to address the shortage of affordable housing options in the community given their generally poor condition. Approximately 55 percent of these homes are classified as being in "below average" condition or worse by the Shawnee County Appraiser's Office, indicating significant additional investment and repairs would be needed to return them to a livable standard. Even well-maintained homes at these price points face marketability issues, including limited neighborhood amenities, underperforming local schools, and the poor condition of many nearby homes.

Differences in home quality and value largely manifest themselves along geographic lines. Homes built inside the Interstate 470/Highway 24 boundary have a median home value of approximately $95,000, and about twelve percent of all homes are vacant. In contrast, homes outside this boundary have a median value nearly twice this level--$181,000—and an overall vacancy rate of just six percent[1]. The lack of new construction within the innerbelt and absence of developable lots is also evident in median property age. Approximately 25 percent of all homes within the interstate were built before 1940, with a median year built of 1958. This trend reverses along Topeka's periphery, where nearly 20 percent of all housing units were constructed since 2000, with a median year built of 1987.

Conversations with real estate professionals and policymakers throughout the community highlighted several additional trends in the for-sale market. Though recent sale prices remain low relative to the national market, it is a reflection of the age and condition of the current housing stock, not a lack of demand. Most well-located properties in stable urban neighborhoods of Topeka sell within a short time of being listed. Finally, investors have purchased a significant number of single-family homes in and around the more affordable focus areas, marketing them as rentals. While this can, at times, be a benefit in diversifying residential uses community-wide, speculative buyers in struggling areas may have little incentive to renovate properties until the surrounding neighborhood improves.

[1] ESRI, 2019

EXISTING SUPPLY: MARKET RATE RENTAL

While a small number of historic loft units have been added Downtown in recent years, much of Topeka's existing rental supply consists of a mix of traditional suburban garden-style apartment communities.

The city has a current inventory of roughly 10,400 multi-family units, contained primarily within traditional garden-style apartment communities. There has been only nominal development in the multi-family market over the past decade, with fewer than 100 new units added since 2010. Overall vacancy has remained steady between seven and eight percent, while asking rents have increased about 18 percent.

The residential conversion of several commercial buildings along Kansas Avenue have been well-received by the market, and indicates unmet demand for upscale rental units in a walkable environment. However, these efforts have been undertaken by a small number of individual developers, and is not yet at a scale that is representative of a broad trend.

Though they vary widely in terms of condition and age, the large majority of the current rental supply is contained within suburban-style garden apartment communities. These are located on large development sites outside of the urban core, and most consist of 10 to 20 two-story and three-story buildings situated around ample surface parking with centralized community amenities.

The correlation between the age and quality of these properties is intuitive. Communities built after 2000 have rents that are 20 percent higher than the city-wide average for comparable unit types, while the overall vacancy rate is also slightly lower.

Average rents for upscale units range from $0.85 to $1.30 per square foot with overall occupancy rates above 95 percent. Typically, the development of new and upscale multifamily properties puts downward pressure on the midscale supply, but due to the lack of new construction in the market, midscale properties—communities that are more than 30 years old—have maintained rental rates around $1.00 per square foot despite their condition and age. The absence of new upscale products has impacts on the broader housing market as well. Affluent renter households have few options of sufficient quality, and therefore opt for lower-priced rentals, enter the for-sale market, or choose to live elsewhere.

Sherwood Apartments
Built 1988
300 units
Occupancy: 96%

Rents
1BR: $860
2BR: $924
3BR: $1,040
$1.05 Avg. PSF

101 N Kansas Ave
Built 1900
33 units
Occupancy: 92%

Rents
2BR: $1,150
$1.12 Avg. PSF

Woodland Park at Soldier Creek
Built 2004
236 units
Occupancy: 95%

Rents
1BR: $825
2BR: $950
3BR: $1,090
$1.05 Avg. PSF

The Overlook
Built 2001
318 units

Rents
1BR: $785
2BR: $860
3BR: $1,050
$0.77 Avg. PSF

EXISTING SUPPLY: AFFORDABLE

Topeka's supply of affordable rental options consists of a mix of public housing, contemporary LIHTC properties, and scattered, deeply-subsidized units.

Topeka has a total supply of about 4,820 affordable units, including nearly 3,000 LIHTC units, 745 public housing units, and just over 1,000 additional units contained within scattered properties supported by Section 8 vouchers or other rental assistance programs. Similar to multi-family trends as a whole, relatively little has been constructed in the past few years. The most recently-developed properties have included a mix of family and senior units, including the rehab and conversion of the historic Santa Fe Railroad office building into Pioneer Motive Place Senior Apartments in 2012 and Pioneer's ongoing rehab of the Casson Building located along Topeka Boulevard near Downtown.

Affordable housing is an important component of a larger strategy to ensure demographic, economic, and housing diversity throughout Topeka. Modern affordable models are a departure for the subsidized high rises common in the 1960s and 1970s, and offer attractive mid-rise construction and increasingly robust amenities that are similar to other contemporary apartments. While a variety of affordable housing programs are available, LIHTC communities—affordable communities financed with low-income housing tax credits—Section 8 communities, and public housing are most common. Though all target households with incomes below the area median, there are key differences in how they operate and the tenants they serve.

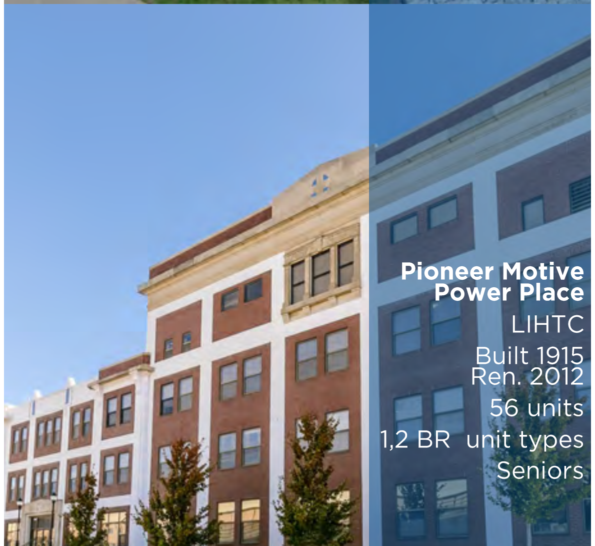
LIHTC provide an incentive for private developers to build housing that would not otherwise generate a sufficient profit to warrant investment. These credits allow the developer to offer units at below-market rents to low-to-moderate-income households. Unlike Section 8 or public housing, LIHTC units are not rent-subsidized. In practical terms, this creates a minimum income requirement for tenants, as they must be able to pay the full monthly rent without additional assistance. This minimum income differentiates LIHTC properties from many other affordable housing options as it targets households that may be overburdened by current market rents, but often have incomes too high to qualify for traditional public housing or Section 8 options.

In contrast to LIHTC properties, traditional public housing and Section 8 properties provide project-based rental assistance to fill the payment gap between a unit's monthly rent and the ability of a tenant to pay. In most instances, tenants allocate 30 percent of their monthly income towards rent and utilities, with the balance covered through HUD or the local housing authority.

Demand for affordable housing is persistent in communities throughout the country. Though subsidies and incentives are finite, a combination of these programs can be used to ensure the long-term provision of affordable units in improving neighborhoods, or dramatically improve the overall quality of the rental stock in struggling areas. In many communities, new resources are being created, including affordable housing trust funds, to more broadly address the need for affordable housing.

Jackson Towers
Public Housing
Built 1969
102 units
1,2 BR unit types
Families, Seniors

Oakbrook Terrace
LIHTC
Built 1979
Ren. 1995
170 units
1,2,3 BR unit types
Families



Pioneer Motive Power Place
LIHTC
Built 1915
Ren. 2012
56 units
1,2 BR unit types
Seniors

EXISTING SUPPLY: SENIOR

A relatively small proportion of Topeka's overall housing supply is tailored to the unique needs of senior residents, and existing communities are generally concentrated west of Downtown.

The senior living market has steadily moved away from institutional, dated skilled care facilities and nursing homes over the past several decades. These have be replaced by contemporary independent living, assisted living, and memory care communities that provide greater degree of independence for residents while providing assistance with activities of daily living in a comfortable, attractive environment.

Much of Topeka's existing supply is representative of an earlier wave of senior living communities completed in the 1980s. Though somewhat dated, these properties offer nearly identical arrays of amenities and services, including all daily meals, on-site medical staff, numerous community and activity spaces, and regularly scheduled social activities. Monthly rates are generally comparable as well, and range from $1,650 to $2,500 for independent living and $3,000 to $3,500 for assisted living, depending on unit type and size.

The distinction between these older communities and the newest properties added to the market is clear. The Healthcare Resort of Topeka and Legend of Capital Ridge were completed in 2016 and 2010, respectively. They are representative of a growing number of "upscale" senior living communities that offer an even broader array of amenities as well as higher-end finishes and higher staffing ratios for a greater degree of personalized care.

The Healthcare Resort of Topeka includes unique amenities such as a multimedia room, restaurant-style dining, a complete fitness center, outdoor spaces—including a fire pit—and an on-site "pub" that position it near the top of the overall market. Legend at Capital Ridge is slightly less upscale, but features many of the same amenities in an attractive, contemporary environment. It is also one of very few Topeka properties that offers Memory Care for residents with dementia or Alzheimer's. Monthly rates at these properties are positioned well above other options in the city, and range from approximately $3,700 to $4,500, depending on care level, with dementia care units positioned even higher.

Both senior housing typologies serve a key purpose of providing quality housing options across several price points as Topeka residents age. However, the distribution of these properties within the city is uneven. Essentially all contemporary assisted living and independent living communities are located west of Topeka Boulevard, and approximately half are located outside the Interstate 470-70 boundary. While there are affordability concerns for a wide spectrum of senior households—an issue that is addressed at greater length in the demand section of this report—low-income seniors in the northern, eastern, and southeastern portions of the city currently have few, if any, contemporary long-term care options.

DEMAND

There is clearly demand for affordable housing of all types, senior housing options, mid to upscale for-sale homes, and upscale rental options. The current condition of Topeka's housing stock, particularly in older neighborhoods, is a key challenge in meeting demand.

Quantifying Demand

Demand for housing comes from a number of "demand segments," which consist of existing residents and new residents moving to the area. Generally, the needs of these segments are different—many existing residents need access to quality affordable housing, while attracting new residents will require improving the conditions and marketability of neighborhoods and the city as a whole. For Topeka to be successful and economically vibrant, it will need to address the housing needs of each of these segments.

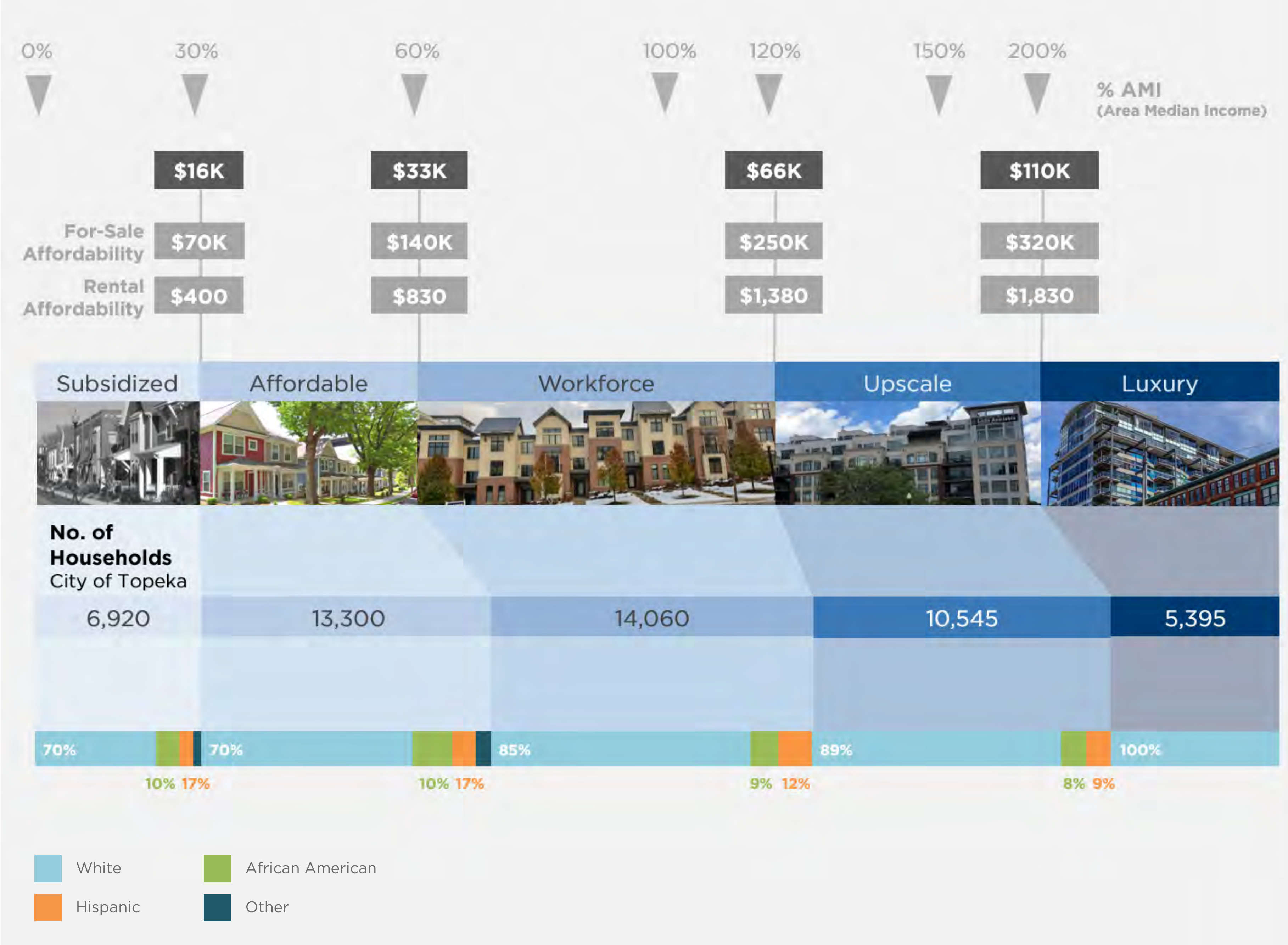
Existing Residents

The goal of any housing study is to address the needs of existing residents. Population loss and slow economic loss, along with suburban development focused outside the city limits, contributed to disinvestment in Topeka's core neighborhoods. From a sheer housing unit perspective, there is excess supply; however, this fact does not address housing conditions and neighborhood marketability. From a housing perspective, quantifying the number of households by affordability levels can inform the price and rent levels needed in the market to address existing demand. As presented previously, income levels are considerably lower in the many opportunity and transitional neighborhoods. Meeting demand for most households will require some level of subsidy, but understanding the number of households by affordability range can help inform the scale of the affordability challenge and amount of potential subsidy needed to provide adequate housing options.

Nearby Residents

With approximately 6,600 vacant units and dozens of vacant lots, there is capacity and a need to attract new residents; therefore, the next tier of the demand analysis was identifying potential households who, assuming an improvement to neighborhood and city marketability, would be interested in moving to the area rather than nearby markets.

INCOME DISTRIBUTION—STUDY AREA RESIDENTS AND THE REGION



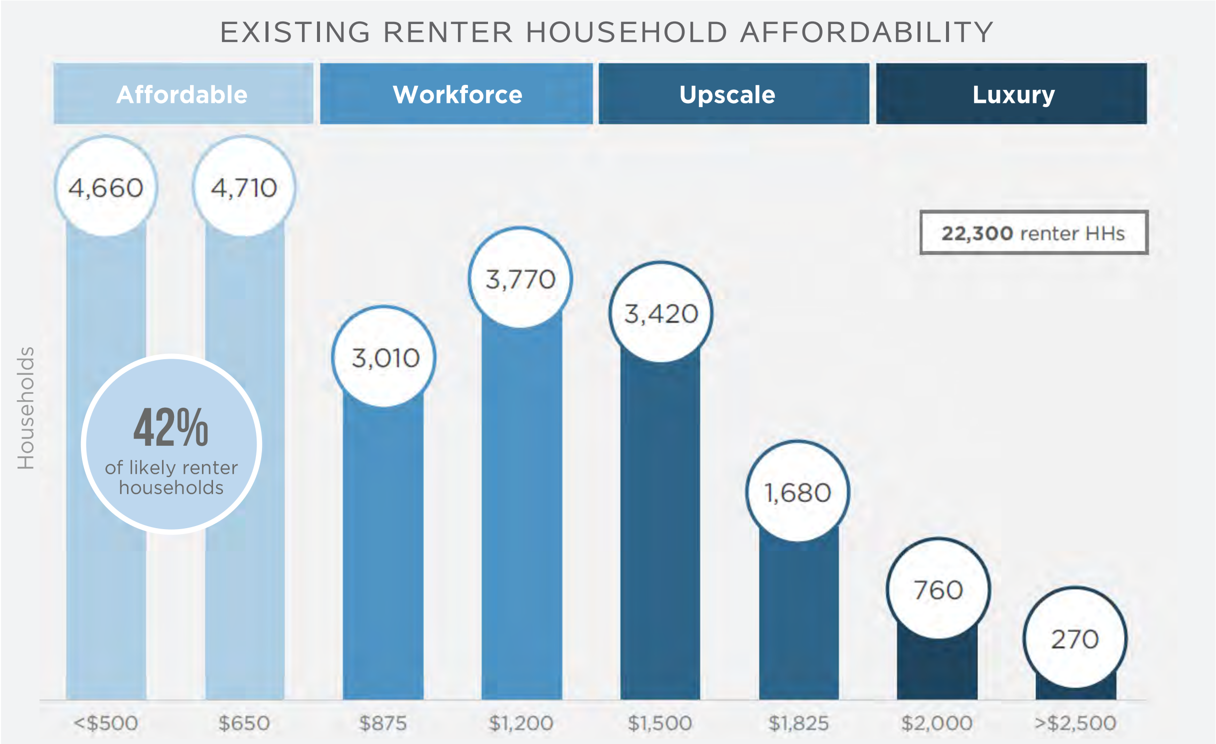
DEMAND OVERVIEW

In the absence of population and household growth, quantifying demand for housing in the near term will be driven by the income and affordability levels of existing Topeka households. Additional demand will be generated by attracting households from the broader metro area with diverse housing products currently absent in the market.

Determining Housing Affordability

Conventional market demand analysis utilizes household income data to determine for-sale and rental price points with the greatest degree of potential market support. Such analysis highlights potential opportunities for development where gaps exist between the existing supply and household affordability. Given Topeka's weak population trends, a target market analysis provides a more nuanced look at how consumer preferences in the study area align with specific housing products.

The American Community Survey provides income distribution data as well as the proportion of income spent on housing for homeowners and renters in Topeka. The following graphs represent the number of households able to afford residential products at various price points. However, this does not represent the existing supply. In some cases, households are spending more than what they actually afford on housing, while others may spend significantly less due to diminishing relative housing costs at higher incomes or the absence of a desired housing typology.



Sources: ESRI, ACS, Development Strategies, 2018

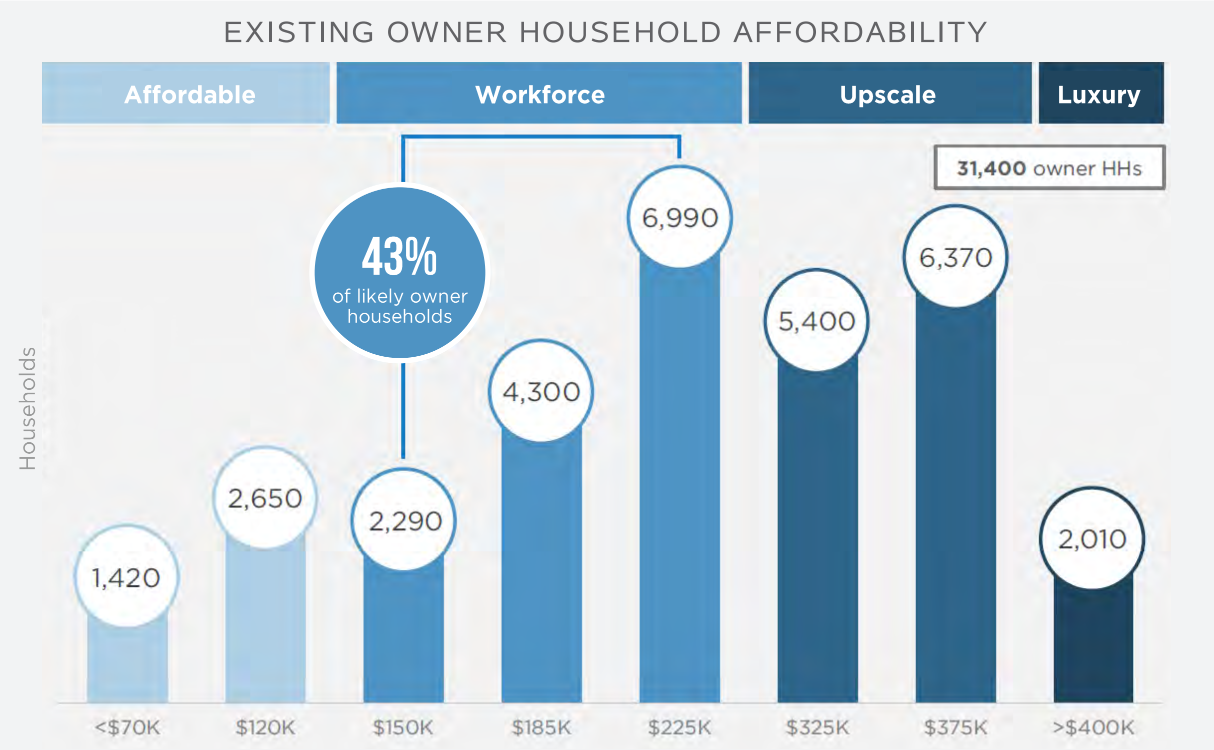
Each rent range is assigned to a housing type to pair product with affordability, ranging from subsidized units to high-end market rate products. The for-sale process is similar, with typologies ranging from substandard options to newly-constructed single-family homes.

Rental Market Demand

There are 22,400 renter households in Topeka and more than 4,600, or 20 percent, can only afford rents of up to $500 per month. Given the relatively limited supply of public housing, Section 8, and supportive rental units, many of these households are rent-burdened or are forced to choose substandard, low-rent options.

This creates a significant supply and demand issue, as there remains a need to invest in the existing housing stock while maintaining affordability.

Just under 30 percent of renter households fall in the affordability range of $500 to $850, which is the core affordable and workforce housing demographics. While there are a number of rental options in this range—including some contemporary LIHTC units—newly-constructed or recently renovated properties would achievable higher rents. There remains significant potential market support in this rent range, and approximately 9,000 Topeka households (40 percent) can afford rents at or



Sources: ESRI, ACS, Development Strategies, 2018

above $1,000. This is representative of a broader national trend of more affluent renters, though the existing supply of upscale units is extremely limited.

For-Sale Market Demand

The largest segment of Topeka homeowners can afford homes ranging from approximately $225,000 to $375,000, with market support decreasing sharply above this level. This range represents a diverse array of housing types. The vast majority of for-sale products are single-family homes—a nominal number of attached townhomes and condos are concentrated in southwest Topeka the Interstate 470 corridor—but quality and age of these homes vary. Properties in this range of affordability are concentrated outside the urban core, with only a handful of historic homes scattered in close-in urban neighborhoods west of downtown such as Westboro and Potwin.

Approximately 30 percent of area homeowners—just over 9,000—can afford homes in the $120,000 to $200,000 range. Homes at these price points are more widespread geographically, though properties at the lower end of this range tend to be older and may require renovations. A more significant obstacle is the limited supply of quality homes available to the 3,000 households with affordability levels below $120,000. This group is significantly smaller than the number of renter households in a comparable affordability range, as lower-income households are much more likely to rent. However, Topeka's relatively broad supply of homes at this level are generally low-quality or obsolete, and significant additional investment will be necessary at the individual property and neighborhood levels to make them marketable.

Conclusions

A community-wide demand analysis highlights gaps in the current housing stock for both renters and homeowners. A general shortage of quality affordable housing options is common in cities across the country, and Topeka is no exception. Many renter households, in particular are currently residing in substandard options, as the number of low-income renters far outpaces the existing supply of public housing, Section 8, and LIHTC units. While low-cost for-sale options are more abundant, they are also low-quality, and concentrated in neighborhoods with fewer services and amenities.

At the opposite end of the income spectrum, Topeka has relatively limited options to meet the demand of a growing number of affluent renter households. Approximately 40 percent of all renter households can affordable monthly rates above $1,000, though this comprises a relatively small proportion of the existing supply. Higher income households are taking advantage of the relative affordability of the community—that is, they could afford more expensive housing products than where they currently live. New single-family construction has been far more robust than multi-family, but nearly all homes have been priced below $300,000.

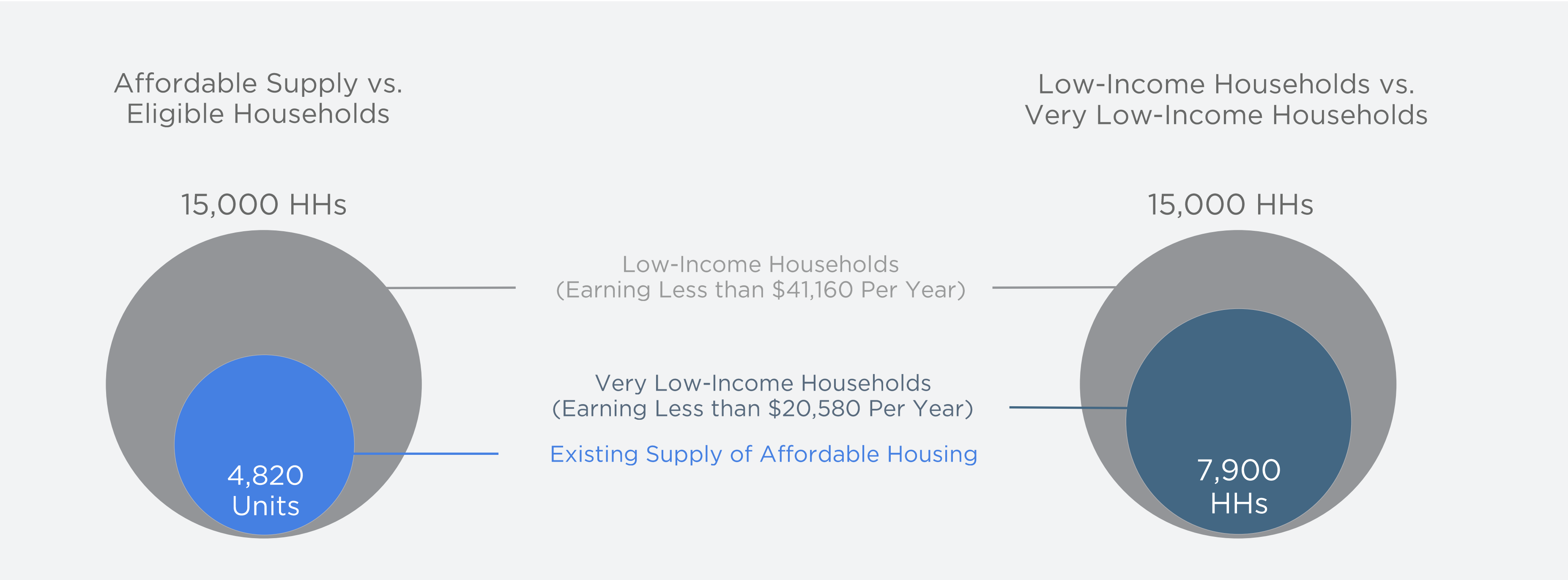
AFFORDABLE DEMAND

Affordable housing is typically developed with tax credits used as equity to help finance the development of a property, while subsidized housing is generally provided through federal programs that provide households a rent subsidy. Increased targeting and usage of these subsidies throughout Topeka could improve housing conditions for a large share of current residents.

The implications of the housing market analysis for affordable housing are significant. Low Income Housing Tax Credit and mixed-income properties help diversity the existing rental housing stock. Such properties provide quality residential options in neighborhoods that cannot support market rate development.

Housing affordability for Shawnee County is based on HUD-published household income limits for households, as well as tenure data from the ACS. Using this data, for a four-person household, there are roughly 15,000 renter households that would be income-eligible for units at 60 percent of Area Median Income (AMI). Of those, 7,900 households are very low-income households at or below 30 percent AMI. This far exceeds the existing supply of about 4,800 low-income affordable units in Topeka. Some portion of this excess demand could be met with a combination of federal programs that include LIHTC, Section 8 subsidies, and other development incentives.

At achievable LIHTC rents, roughly 4,600 renter households in Topeka would be income-qualified for affordable rental housing at 60 percent AMI without additional project-based rental assistance. Applying a capture rate of ten percent indicates that a series of affordable properties containing up to 450 additional units could be added to the market if appropriate sites are available. Section 8 vouchers or a similar form of rental subsidy would provide an additional demand pool of about 10,500 very low-income households.



SENIOR DEMAND

Seniors continue to live longer, yet many prefer to no longer care for a single-family home. New housing typologies will be necessary to allow seniors to remain in current neighborhoods.

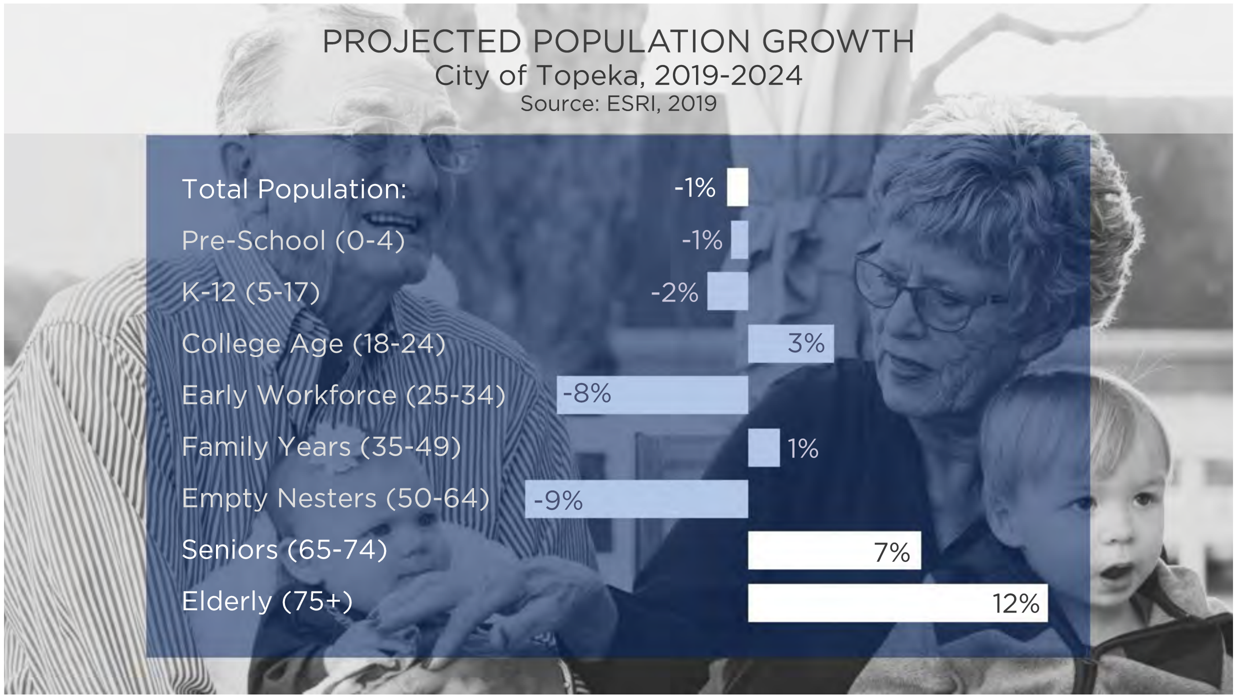
Like many cities in the Midwest—and across the country—the senior population in Topeka is expected to grow at a much faster rate than the population overall over the next several years. While many seniors will choose to stay in their homes as long as possible, alternative housing arrangements may be necessary as care needs change. This often presents a challenge in low-income areas due to the high costs of senior care. Additional senior housing options can accomplish at least two important goals: freeing up existing housing stock for first-time buyers, and providing seniors with a more suitable housing option to meet their lifestyle preferences.

The senior market has moved away from more institutional settings such as nursing and skilled care facilities over the past several decades, with contemporary assisted living, memory care, and independent living communities comprising the bulk of the current supply. However, costs for these properties are often prohibitively expensive for even moderate-income senior households, with monthly rates exceeding $3,000. This is amplified by relatively low housing values in more urban areas of the city, as seniors often rely on selling their home to cover a significant portion of these costs. This effect is apparent in the lack of contemporary senior care facilities near the core of Topeka, as they are simply not feasible without significant subsidy.

Overall, this market is relatively limited, totaling 1,100 senior households qualified for independent living units, and 550 qualified for assisted living units. Applying a somewhat aggressive capture rate of ten percent indicates a single continuum care community containing both typologies may be feasible, though additional market research would be required given the significant development costs associated with these facilities.

Senior-targeted affordable apartments can be an effective tool to bridge a portion of this supply gap. Though apartments do not provide the additional care services and meals associated with assisted or independent living, many offer senior-oriented amenities and programming, while the smaller units are easier to navigate—and can be made accessible—and require significantly less upkeep than a single-family home. Villa-style single-level duplexes and elevator-served buildings are both common, but the overall design is ultimately site-specific.

Assuming a mix of one-bedroom and two-bedroom layouts, there are approximately 3,200 senior households 55 and older in the market area that would be qualified for units restricted at 60 percent of AMI. Similar to the broader affordable housing analysis, a deep pool of approximately 4,000 additional senior households would be eligible with support from additional rental subsidies.



DEMAND GAP ANALYSIS AND CONCLUSIONS

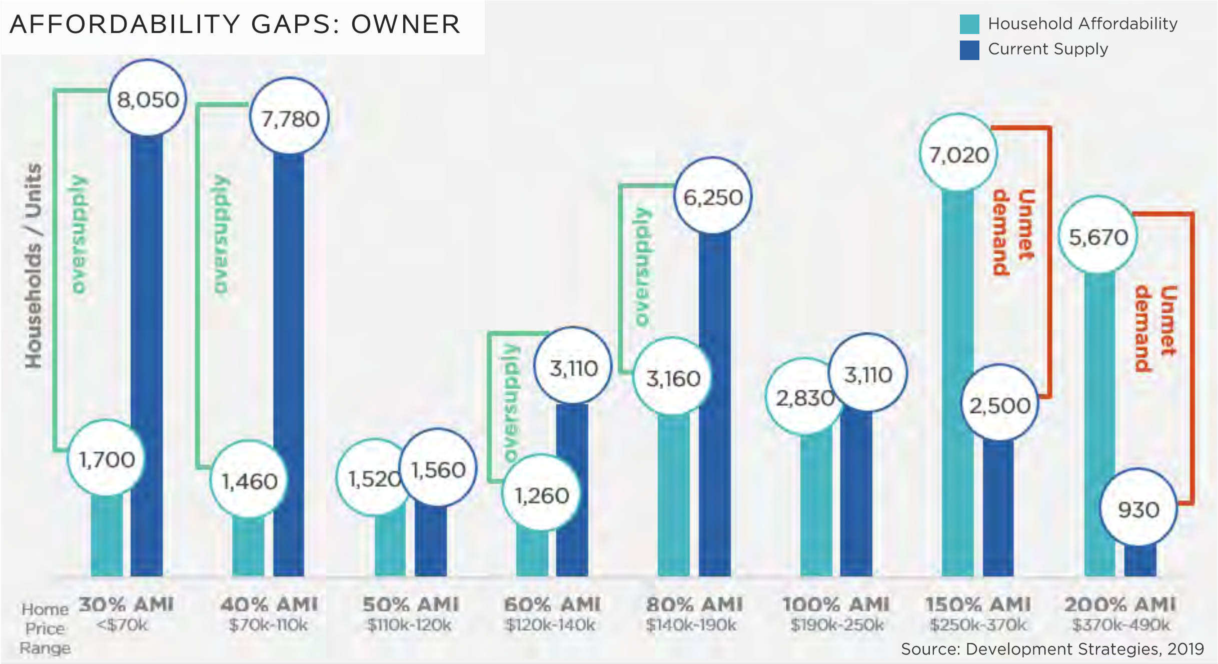
Affordability Gap Analysis: Owner

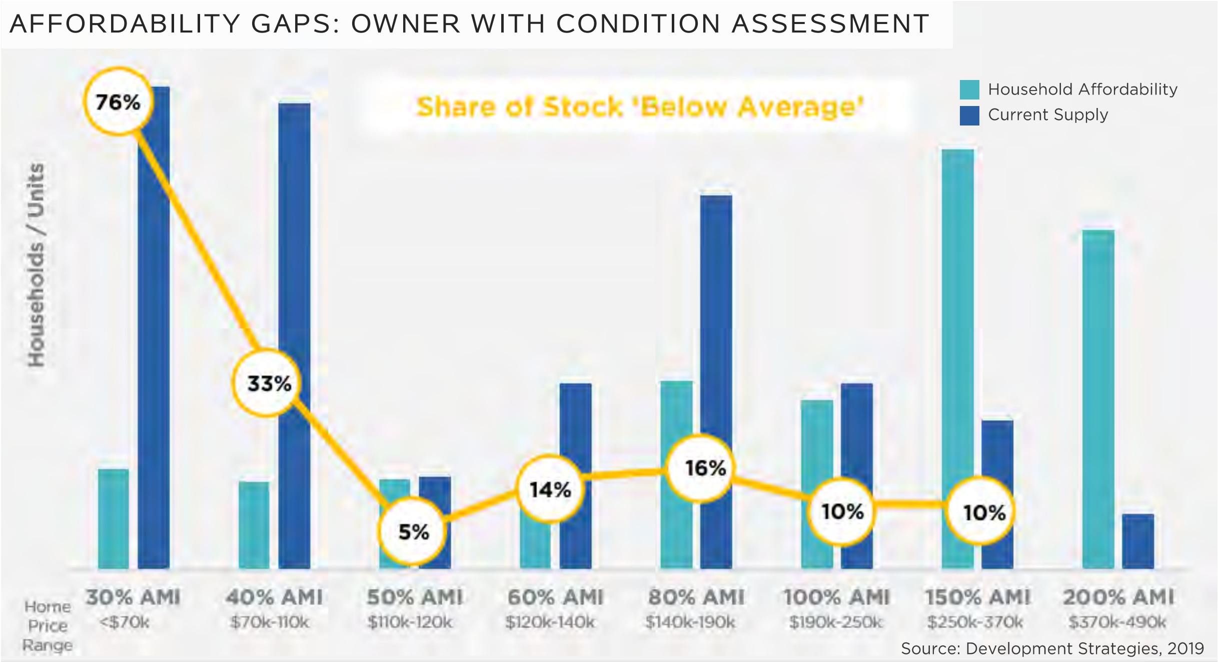
In the affordability gap analysis, "demand" refers to what existing households can afford assuming that 30 percent of income goes towards housing costs (rent/mortgage payment plus utilities). The graphs to the right summarize this data at different affordability levels.

The demand gap analysis for owners shows that there are many households in Topeka that could afford more expensive homes than they currently live in, specifically homes $250,000 or higher. This data also shows a substantial oversupply of homes $110,000 and below. However, this data does not take into consideration what the current condition of the housing stock is, or the viability of homeownership for many of these households.

An oversupply for moderately priced homes is also shown—$120,000 to $190,000—yet, based on conversations with realtors and stakeholders, the housing available does not meet market preferences. Thus, a substantial portion of the existing supply is not marketable because of condition, style, location, or a number of other factors.

The graph at the bottom right adds property ratings from the Shawnee County Appraiser's Office to the ownership gap analysis. As indicated, the vast majority (76 percent) of the housing priced $70,000 is in "below average" or worse condition, meaning that it requires significant upgrades and is not likely suitable for habitation. While inexpensive to purchase, this





housing is typically unaffordable because of the amount of work needed to stabilize it. A significant portion of the housing stock under $190,000 is also rated “below average”—much of this housing is not currently in the form or condition to meet housing needs.

Affordability Gap Analysis: Renter

The affordability gap analysis for renters looks significantly different than for owners. There is considerable unmet demand for very affordable housing—affordable to those earning at or below 30 percent of AMI—at rents $414 and below. There is an oversupply of moderately priced rental housing ($550 to $1,100 per month). However, as with the for-sale housing, a notable percentage of these units are substandard. It also reflects the fact that not much rental housing has been constructed over the past decade.

Finally, there is unmet demand for rental housing at the high end of the market, or $1,380 and up.

Conclusions

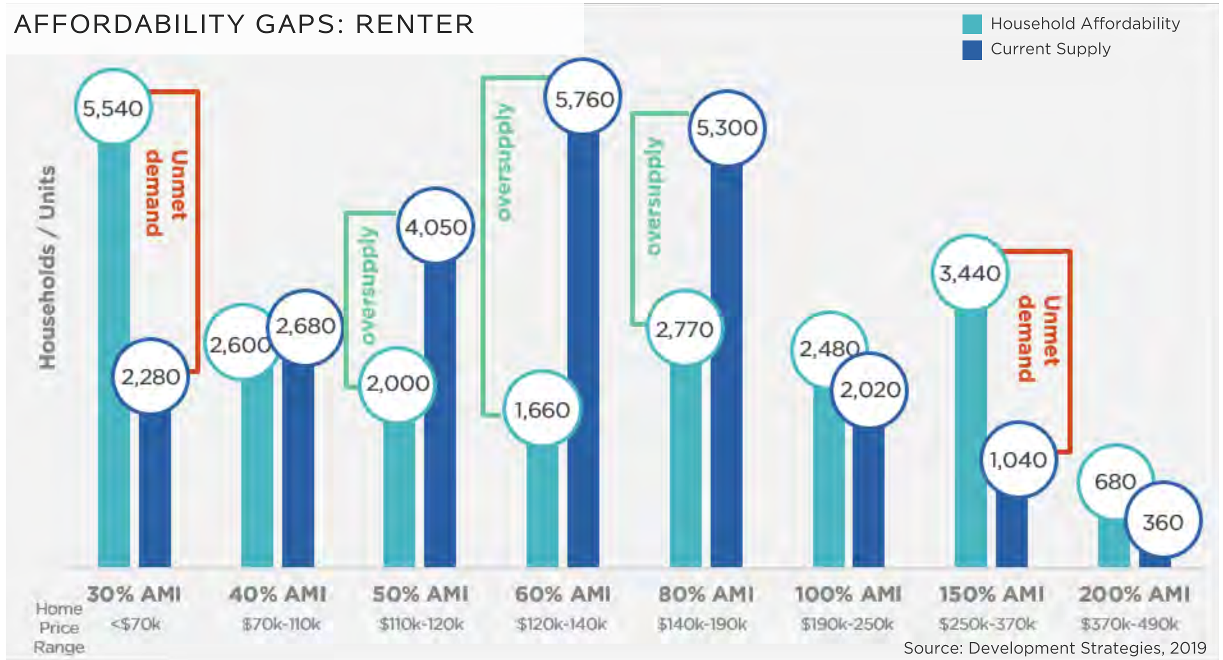
The affordability gap analysis provides a high-level overview of where there are clear mismatches between supply and demand. However, several other factors are important to consider. For instance, low-income households allocate a significantly greater proportion of income towards housing costs. Middle- and upper-income households may allocate less, creating an imbalance on both ends of the affordability spectrum.

Most low-income households in Topeka are housed, but rent burden is an issue. The “unmet demand” portion of the 30 percent AMI bracket are households burdened by housing costs in the 40% and 50% AMI levels. Housing quality is generally substandard at lower affordability levels. More than half of all units at or below 50 percent AMI are “below average” quality or worse. While these units are “affordable” their condition leads to higher utility bills and potential health and safety hazards.

This is compounded by uneven neighborhood cohesion. Lack of access to services and amenities in some parts of Topeka limits the potential buyer pool for many quality rehabs or well-maintained older homes.

Smaller for-sale units—condos, townhomes—can be positioned at a more accessible price point for moderate-income households than larger detached single-family homes. Diversity in housing stock can fill these gaps and create a pathway to homeownership for a broader range of households. At the same time, renovating and repurposing the existing housing stock will be key to meeting short- and long-term demand and can be used to address a wide range of housing needs.

There is an undersupply of rental units throughout the community. The absence of upscale rental properties—there is very little supply at 150 percent AMI and above—creates additional pressure as affluent households have fewer options of sufficient quality. These households opt for lower-priced rentals, enter the for-sale market, or choose to live elsewhere.



AFFORDABLE HOUSING DEMAND

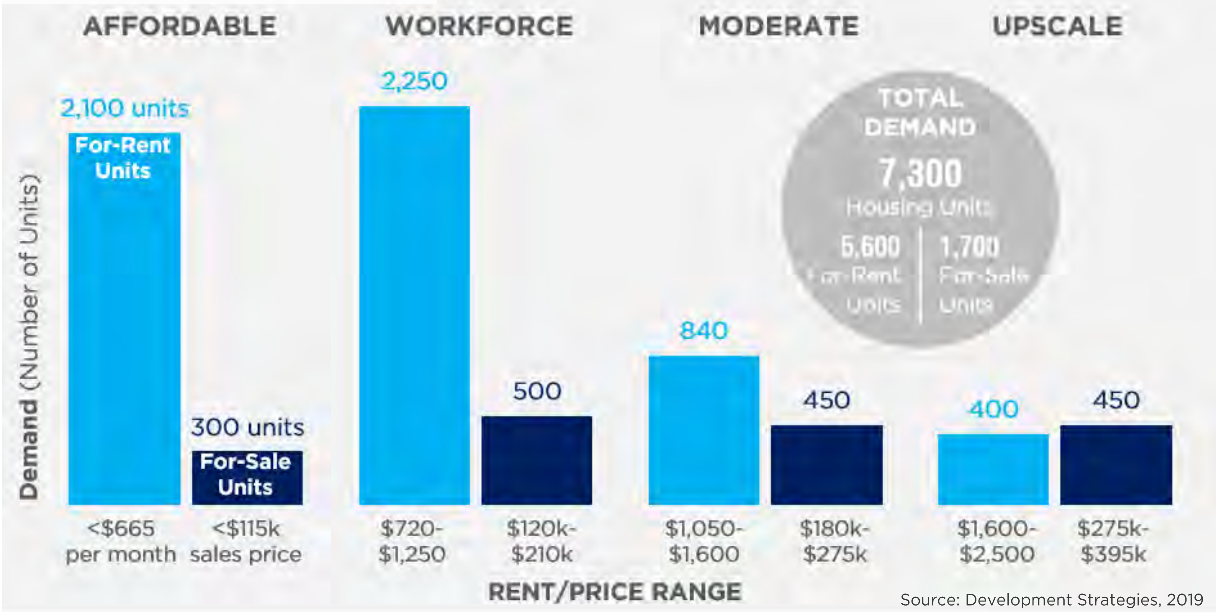
The market analysis raises the awareness of the significant need for quality affordable housing. It is important to more deeply understand the affordable market segment in order to establish clear goals for production and preservation over the next 20 years.

There are plenty of homes and apartments in Topeka that are sold or leased at affordable prices, yet a substantial portion of that housing stock is in fair or worse condition. Additionally, low-income households tend to be cost burdened and live in poor quality housing because they have no other options and lack the funds for adequate home repair. The challenge is particularly great at the 30 percent AMI level—there are not enough units to meet demand.

The graph at the top right show current annual demand by income classification—much of this demand is met by existing homes and is attributed to normal turnover. The results show substantial demand for affordable and workforce rental housing, underscoring the importance of meeting this need.

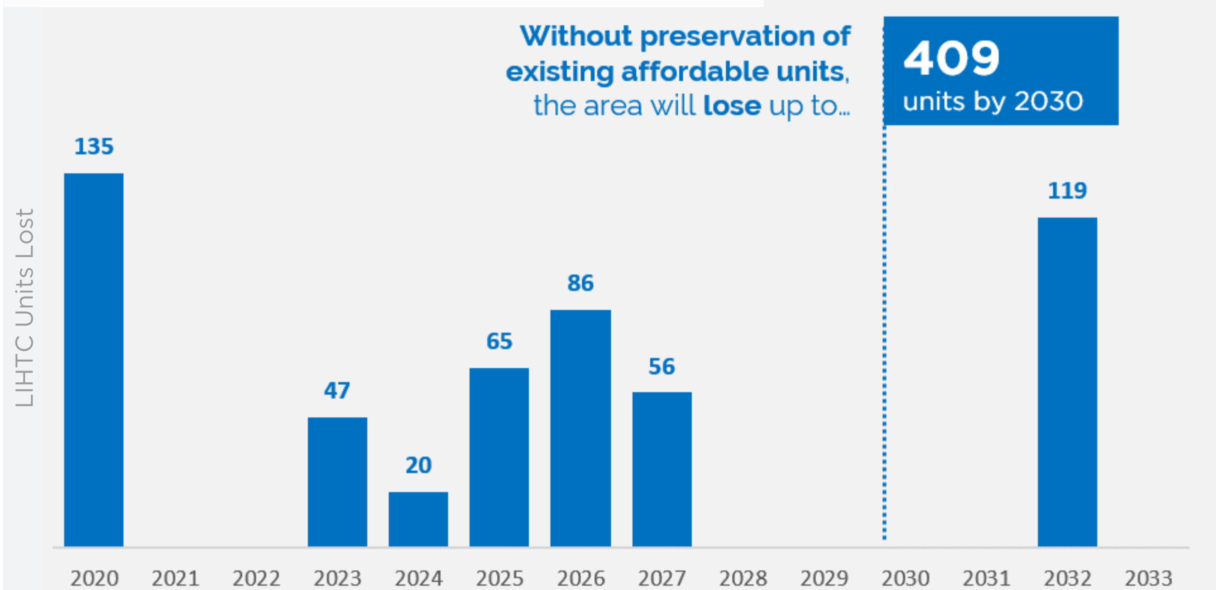
One way to meet the need for affordable and workforce housing is by preserving the subsidized housing stock that exists today. The graphic at the bottom right illustrates the number of units nearing the end of the initial 15-year compliance period for the LIHTC program. Some of these units will likely extend their affordability period for the second 15-year term; however, If nothing is done to preserve the affordability of these units, more than 400 dedicated affordable units would be lost, exacerbating a critical community need.

CURRENT ANNUAL DEMAND



Source: Development Strategies, 2019

LIHTC UNITS NEAR END OF COMPLIANCE PERIOD



Source: LIHTC database, assuming potential loss of affordability restrictions at 15 years after the property is placed in service

Demand projections were made for affordable housing over the next 20 years and several factors were considered, as summarized in the graphic below.

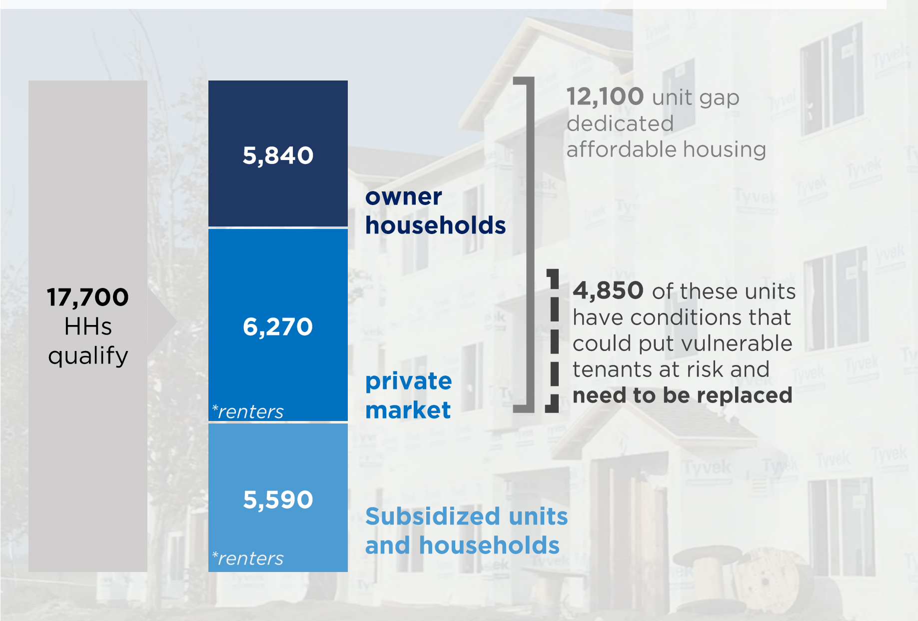
First, a determination of the number of households whose incomes indicate they need affordable housing at or below 60 percent of AMI to not be cost burdened. There are 17,700 of such households. Next, the number of dedicated affordable housing units, or those subsidized through LIHTC, HUD, and other programs, as well as housing choice and Shelter Plus Care vouchers, was identified—5,590 units.

The remaining 12,100 households find their housing in the private market, both as homeowners and renters. Based on the fact that approximately 40 percent of the housing stock is in below average condition or worse, this results in a need for approximately 5,000 units of quality and dedicated affordable housing unit. The remaining 7,000 households live in decent affordable housing provided by the private market.

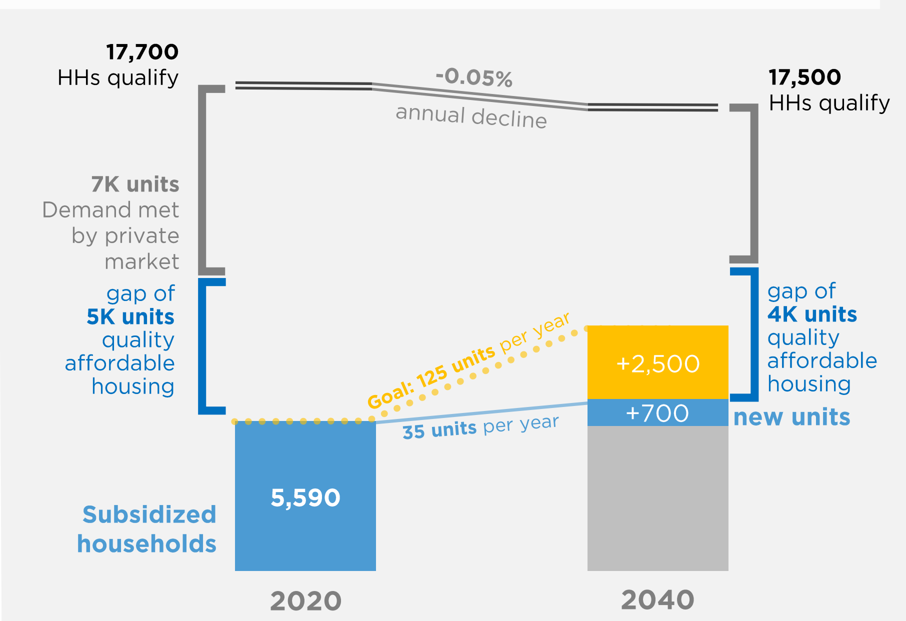
The final step is to project demand over the next 20 years. Current projections suggest a slight decrease in population and households. Based on affordable housing production, primarily through the LIHTC program, approximately 35 units were added each year over the past decade. If these trends persist, about 700 new units would be added to the market, bringing the total gap of dedicated affordable housing down to 4,000 units.

However, if new tools were created and funding sources aligned to support an average of 90 additional units per year—125 units in total—2,500 new dedicated affordable housing units would be constructed over the next 20 years, moving Topeka much closer than many of its peers to meeting the affordable housing need.

DEDICATED AFFORDABLE HOUSING SUPPLY AND DEMAND



DEDICATED AFFORDABLE HOUSING DEMAND PROJECTION



Source: Production based on past 10 years of LIHTC allocations; demand based on estimate of households with incomes below 60% AMI; growth based on Heartland 2050

20-YEAR DEMAND PROJECTIONS

In the medium and long terms, new housing demand will be driven primarily by the replacement of aging housing stock and the capture of a larger proportion of regional growth.

Demand for new housing generally consists of a combination of household growth and the replacement of obsolete residential units, Demographic indicators over the next five years estimate a slight population decline in Topeka, though the overall age of the existing housing stock has presented some opportunities for new construction, as evidenced by the addition of several hundred homes around the city's periphery over the past decade.

While replacement housing provides a baseline for new housing demand, it can result in increased vacancy in the urban core, particularly in cities where vehicular access to Downtown amenities and employment centers remains very good from more suburban areas. Creating new demand—growth without growth—requires the addition of new housing options currently absent from the market.

A mix of smaller, more affordable for-sale typologies such as condos or townhomes can attract urban-minded residents into denser neighborhoods by offering walkable access to various amenities and services. These typologies are currently concentrated almost exclusively in Lawrence and Kansas City, and households are willing to commute from these areas to live in the types of housing they prefer.

Unmet demand also persists for a smaller number of large, upscale single-family homes to accommodate executive-level Topeka workers, which are generally absent from the market.

Demand estimates in the short-term are relatively conservative, and reflect the existing condition and quality of the housing stock. However, as additional improvements are made, Topeka can capture a greater proportion of households currently commuting from metropolitan areas to the east, resulting in growing housing demand over time. The projections summarized in the table below assume that Topeka will begin to capture some of the regional growth in the 15-year and 20-year time periods.

20-year Projections: Demand by Income Level and Housing Tenure

INPUTS						NET DEMAND									
AMI	Income	Households	% Owner	For Sale	For Rent	Current		5 year		10 year		15 year		20 year	
						Sale	Rent	Sale	Rent	Sale	Rent	Sale	Rent	Sale	Rent
30%	-	7,240	23%	1,670	5,570	60	200	60	200	60	200	60	210	70	230
50%	$16,560	7,590	36%	2,730	4,860	100	170	100	170	100	180	100	180	110	200
80%	$27,600	8,850	48%	4,250	4,600	150	200	150	200	150	200	160	210	170	230
120%	$44,160	9,910	63%	6,240	3,670	220	130	220	130	220	130	240	140	250	150
150%	$66,240	5,860	71%	4,160	1,700	146	200	150	200	150	200	160	210	170	230
>150%	$82,800	14,280	88%	12,570	1,710	440	60	440	60	450	60	470	70	510	70
					Units per Period	1,110	940	1,110	940	1,130	970	1,190	1,020	1,280	1,100
					Total Units by Type	1,110	940	2,210	1,890	3,350	2,850	4,540	3,870	5,820	4,970

DEMAND BY HOUSING TYPE

The dominant housing type in Topeka is the single-family home and development over the past decade included a higher proportion of this type that most cities in the Midwest. There is demand for different housing types, and the types of housing available in Topeka are likely to shift over the next 20 years.

As detailed in this study, single-family homes were the primary type of housing built in Topeka over the past decade. Compared to peer cities and the state, single-family homes disproportionately dominated housing development in Topeka. Other markets had more multifamily development, and more missing middle development—duplexes, fourplexes, townhomes, and smaller walk-up multifamily properties.

The market analysis clearly concludes that there is a need to diversify the housing stock to retain and/or attract residents. A shift in development typologies will take time to occur, Therefore, it is important to assess how demand for different housing types will change over the 20-year demand projection period. These projections are summarized in the table below.

The housing stock in Topeka is currently 66 percent single-family, 4 percent duplex, 7 percent fourplex, and 10 percent each for small and large multifamily, respectively. A target of 60 percent single-family, 7 percent each for duplex and fourplex, 14 percent for small multifamily, and 12 percent for large multifamily was established for the 20-year projection This would shift the housing stock to include more missing middle typologies, proving a wider range of housing types. Single-family would remain an important housing type.

Understanding the projected shift in housing type over the next 20 years will allow the city to identify ideal sites, work with land and housing developers, review its zoning code, and assess its comprehensive plan to ensure that these types are adequately supported.

DEMAND SUMMARY

Several different approaches were used to quantify demand for various housing types. The following bullet points reconciles these methodologies. There is a need for the following housing to support demand and provide equitable housing choices over the next 20 years:

- 4,000 units of **affordable housing** (2,800 rental and 1,200 for-sale)
- 3,650 units of **workforce-affordable housing** (1,650 rental and 2,000 for-sale)
- 4,500 units of **market-rate housing** (1,400 rental and 3,100 for-sale)
- 2,250 units of **senior housing** (1,500 affordable rental, 400 for-sale market rate, 200 independent living, and 150, assisted living)

20-year Projections: Demand by Housing Type

DESCRIPTION		NET DEMAND									
Units in Structure	Current Distribution	Current		5 year		10 year		15 year		20 year	
		% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units
Single-Family*	66%	66%	1,353	66%	1,353	64%	1,344	62%	1,370	60%	1,428
Duplex	4%	4%	82	4%	82	6%	126	7%	155	7%	167
Fourplex	7%	7%	144	7%	144	7%	147	5%	111	7%	167
Small Multifamily (5-19 units)	10%	12%	246	12%	246	12%	252	13%	287	14%	333
Large Multifamily (20+ units)	10%	11%	226	11%	226	11%	231	12%	265	12%	286
	Total Unit Demand		2,050		2,050		2,100		2,210		2,380

**A small percentage (<0%) of the existing housing stock is mobile homes, which are anticipated to make up an even smaller proportion in the future and are distributed in the multifamily housing categories..*