



## **Waseca Housing Study Overview**

**Presented to: City of Waseca**

**Presented by: Mace Wescott | Maxfield Research & Consulting LLC**

**February 18, 2016**

# Who we are

## Overview

- 30 years experience
- Diverse client base
- Multi-Industry capable  
residential  
commercial  
public + private sectors

**Maxfield Research and Consulting LLC** is a full-service real estate advisory company providing strategic value to our private and public sector client's real estate activities.



# Project Scope

## OBJECTIVE

Provide custom comprehensive housing study

## APPROACH

Identify current & future housing needs for residents in Waseca and provide framework for meeting housing needs

## PROJECT DELIVERABLES

- Short and long-term housing needs
- Recommendations guiding future housing development
- Tools/policies to implement the plan

## KEY DATES

- Data collection: 3<sup>rd</sup> and 4<sup>th</sup> Quarter 2015
- Draft: January 2016
- Presentation: February 18, 2016
- Final: TBD



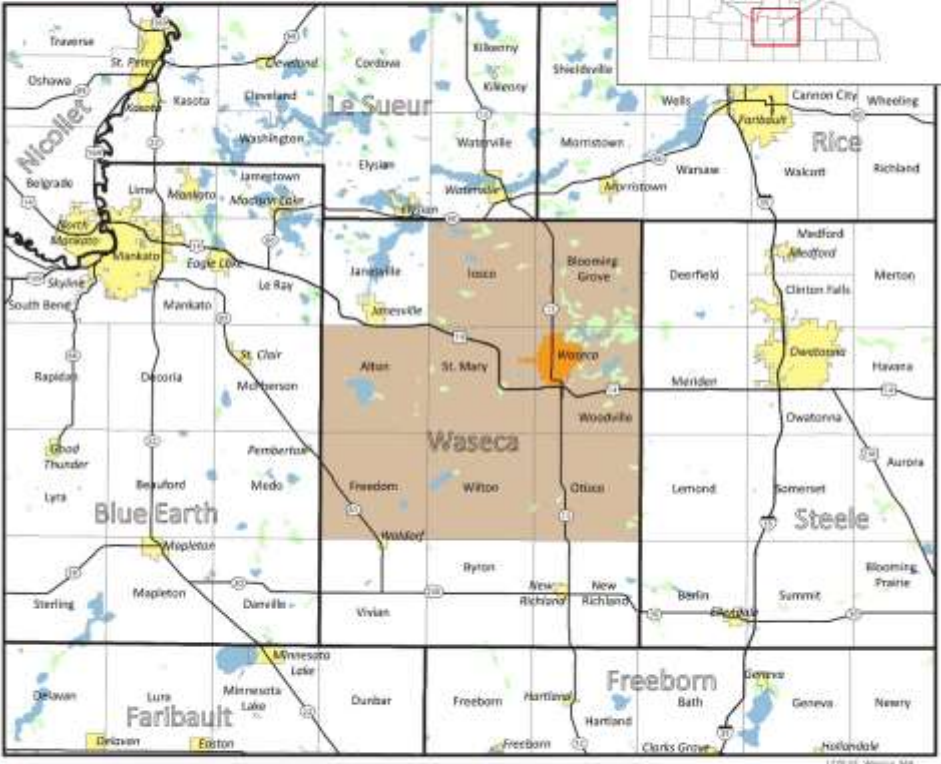
# End User Benefits

- Guide policy making decisions
- Assist the Comprehensive Planning process
- Assists area banks and lending-institutions to streamline the financial component
- Solicit interest from builders/developers and help streamline the process
- Help raise funding for housing and community development programs
- Better define the relationship between housing and economic development
- Create framework for accommodating future growth
- Help deliver strategic housing priorities



# Market Area

Waseca Minnesota  
Comprehensive Housing  
Market Area



- Defined as:
  - Waseca
  - 8 Townships
- Market Area will account for about 75%+ of Demand



# Slow declines through 2025

## Historic Findings

- Waseca last decade
  - Population +917 (10.8%)
  - Households +116 (3.4%)
- Market Area last decade
  - Population -453 (-3.1%)
  - Households +150 (2.9%)

## Projections (2010-2025)

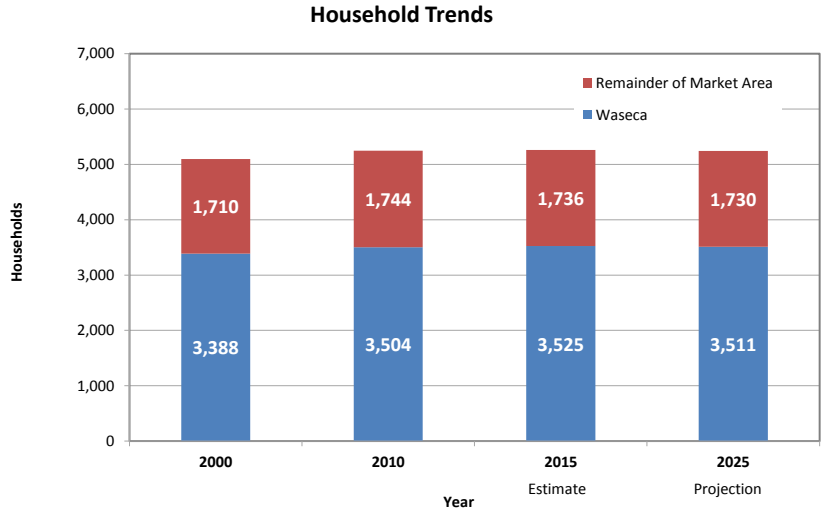
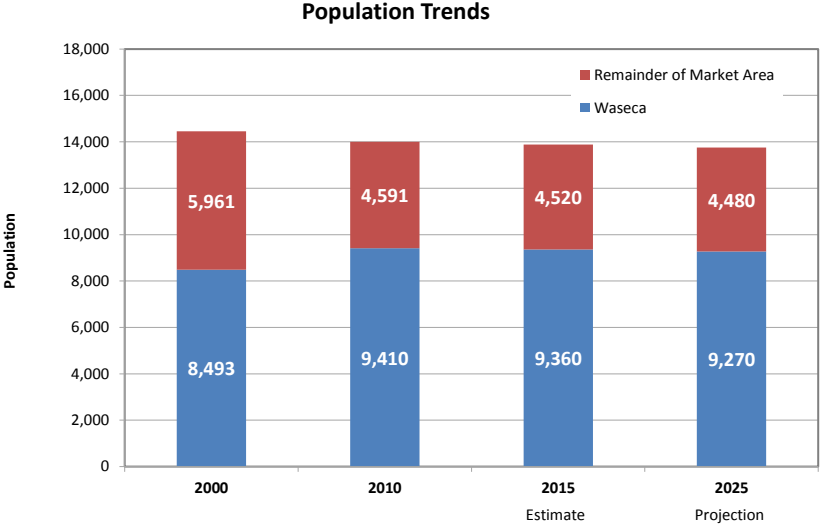
- Declining population and stagnant Households projected through 2025

### Waseca

- Population -140 (-1.5%)
- Households 7 (0.2%)

### Market Area

- Population -251 (-1.8%)
- Households -7 (-0.1%)



# 55+ age cohorts driving growth

## ➤ Population is aging:

- 55+ age cohort accounts for most adult population growth
- Baby boomers account for 29% of total population (Market Area)
- 65-74 projected to have largest numerical growth (+42.6%) of total population

## ➤ Household types:

- Increase in all HH types except Married w/Children
- 33% of households live alone in Waseca (2010)

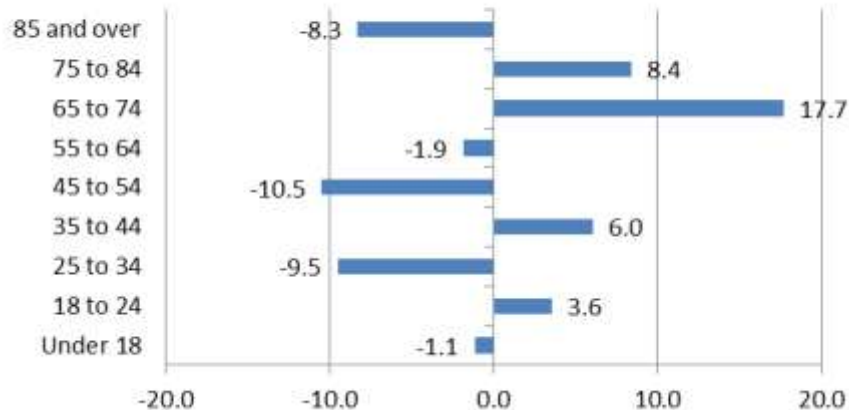
## ➤ Household size is decreasing:

2000: 2.84 | 2010: 2.67 | 2025: 2.62

## ➤ 76% Home ownership rate (2010)

- 91% Remainder of Market Area
- 69% Waseca
- 73% Minnesota

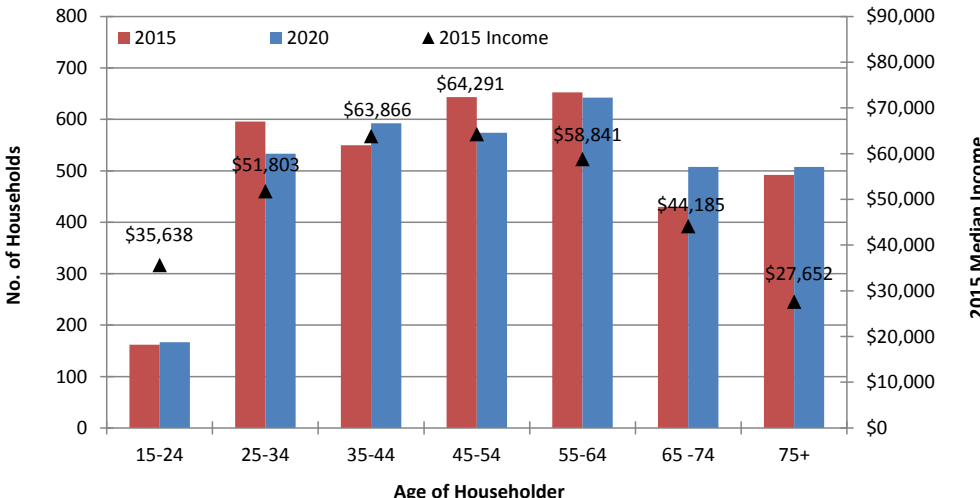
Market Area Age Distribution Percent Change  
2015 - 2025



# Household Incomes

- Median Income (2015):
  - \$52,739 – Waseca
  - \$56,591 – Market Area
  - \$60,056 Minnesota
- Highest earners between 45-54 age cohort (2015)
  - \$64,291 –Waseca
  - \$70,100 - Market Area
- Projected increase by 2020:
  - +7.5% to \$56,678 (Waseca)
  - +9% to \$61,698 (Market Area)
- 2015 Median income (Waseca)
  - Non-seniors: \$54,888
  - Seniors: \$35,919
- 2014 Income disparity by tenure (Waseca)
  - \$60,327 (owner) vs. \$28,298 (renter)

Growth and Income Trends by Age of Householder  
City of Waseca: 2015 and 2020





# Peer City Comparison

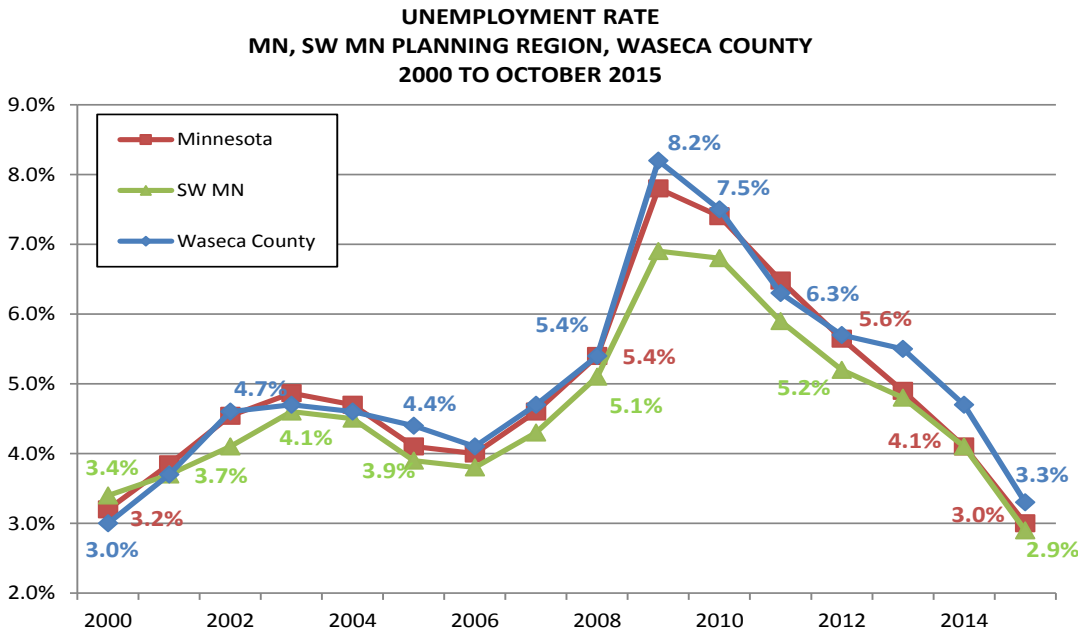
**TABLE D-12  
PEER CITY SUMMARY  
WASECA & PEER CITIES**

	Waseca		Eagle Lake		Faribault		New Prague		New Ulm		St. Peter	
	Num	Pct.	Num	Pct.	Num	Pct.	Num	Pct.	Num	Pct.	Num	Pct.
<b>Demographic Summary</b>												
Population (2010)	9,410		2,422		23,352		7,321		13,522		11,196	
Households (2010)	3,504		887		8,317		2,711		5,732		3,491	
HH Size (2010)	2.69		2.73		2.81		2.70		2.36		3.21	
HH Median Income (2014)	\$47,650		\$73,393		\$50,428		\$69,834		\$45,911		\$56,071	
<b>Housing Characteristics</b>												
Percent Own (2010)	68.7%		79.3%		67.7%		85.1%		75.1%		65.3%	
Percent Rent (2010)	31.3%		20.7%		32.3%		14.9%		24.9%		34.7%	
Median Home Value (2014)	\$127,200		\$158,300		\$150,600		\$226,000		\$123,800		\$160,400	
Median Contract Rent (2014)	\$505		\$746		\$665		\$806		\$518		\$752	
Percent with a Mortgage (2014)	55.5%		68.8%		69.9%		72.3%		55.8%		68.8%	
Single and Multi-Family Building Permits (2003 - 2014)	104		324		509		657		287		322	
<b>Employment</b>												
Avg. Annual Wage (2014)	\$713		\$523		\$756		\$645		\$704		\$751	
Unemployment Rate (2014)	5.9%		2.4%		9.1%		3.3%		4.5%		3.8%	
Source: U.S. Census Bureau; DEED; Maxfield Research and Consulting LLC												

# Waseca is a job importer

## Employment

- Waseca: Slightly higher than Minnesota's unemployment rate 3.0
- Key Waseca PMA Industry Sector Jobs:
  - Manufacturing: 27.3%
  - Education and Health Services: 27%
- Waseca is an importer of workers
  - 3,735 workers came into Waseca while 1,945 workers left
  - 1,790 net job gain
- Avg. weekly wages (2014)
  - Waseca: \$713
  - Highest in the Public Administration sector: \$1,052

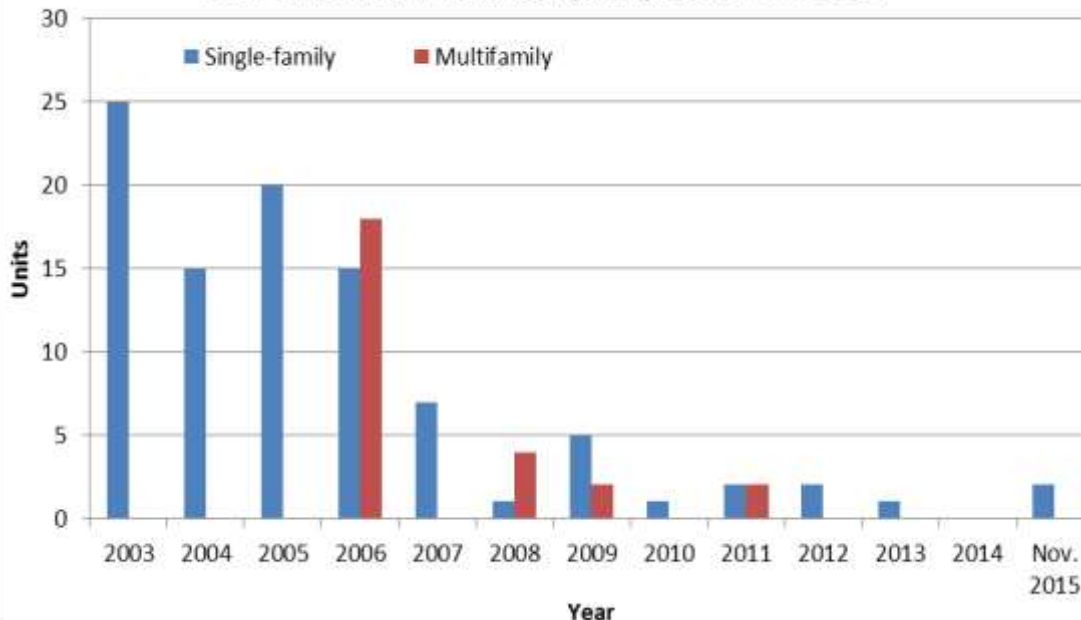


# Slowdown in housing starts since recession...

## New Construction Activity

- 122 housing units constructed in Waseca (2003-Nov. 2015)
  - Avg. 10 units/year
  - 2007-Nov. 2015: 3.2 units/year & 2.7 permits/year
  - 5 multifamily permits issued in 2006 after on a total of 4 permits

New Construction Permitted (Units): 2003 - Nov. 2015



## American Community Survey (2013)

- Older Housing stock (Waseca):
  - 93% built prior to 2000s
  - 25% built in the 1970s
  - 20% built prior to 1940
- Single Family Detached: 89% of all owner-occupied housing structures
- 56% of Waseca owners have mortgage



# Older rental market | Low vacancy rates

## Overall

- 467 units | 22 projects
- 3.6% vacancy rate

## Market Rate

- 193 units | 12 projects
- 6.2% vacancy rate
- Rent range:
  - 1BR: \$452
  - 2BR: \$593
  - 3BR: \$865
- Est. price per sq. ft. \$0.66

## Affordable

- 143 units | 6 projects
- 2.8% vacancy rate

## Subsidized

- 131 units | 4 projects
- 0.8% vacancy rate

5% Vacancy = Market Equilibrium



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# Low senior vacancy rates

## Market Area Overall

- 173 units | 4 projects & 1 Nursing Home

## Market Rate

- 22 units active adult rental
- 35 units congregate (independent living)
- 26 units assisted living
- 10 units memory care



## Subsidized

- 59 units independent living
- 21 units assisted living
- Rents based on income

## Skilled Nursing

- 55 Medicaid beds



# Home sales prices recovering

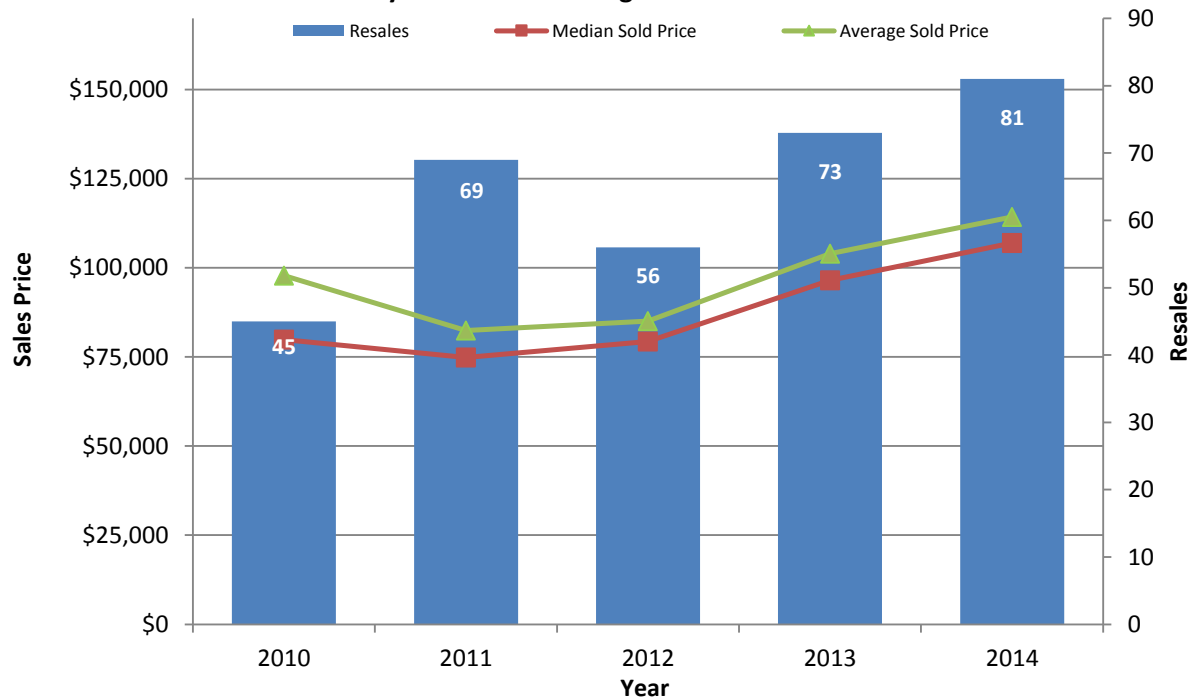
## Overall

- Market activity improving
- New construction market slow
- Lender-mediated properties waning

## Resales

- Median sales price:
  - Highest in 2005: \$127,500
  - As of Nov. 2015: \$116,375
  - PSF: \$71 (Nov. 2015)
  - Lowest in 2011: \$74,900
  - Resales peaked in Nov. 15: 83
- Single-family: Nearly all resales

City of Waseca Housing Resales - 2010 to 2014



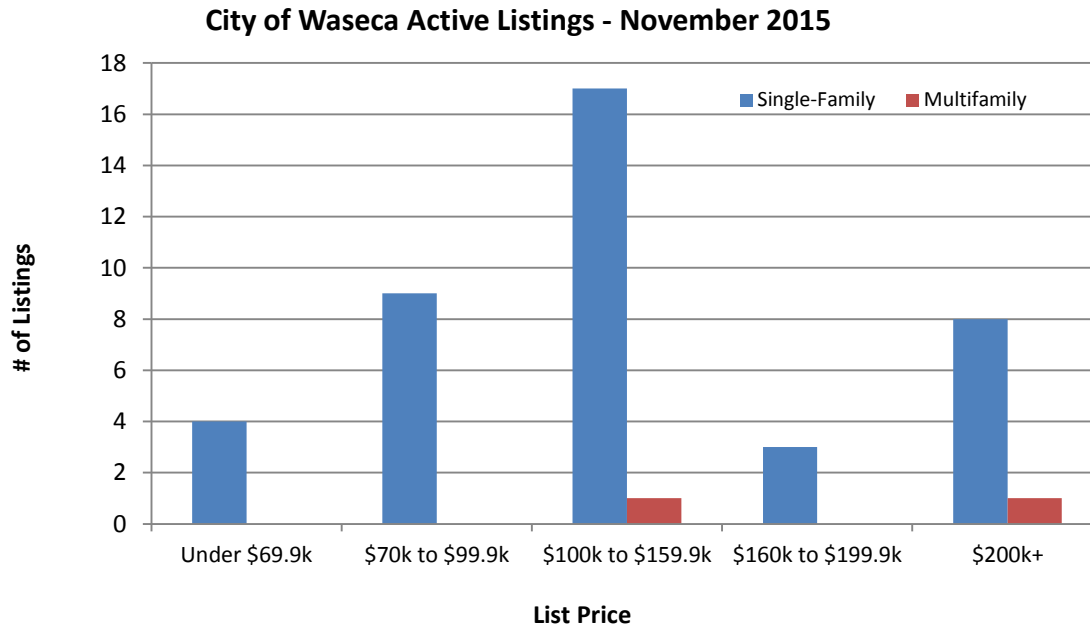
# Supply Side

## Active Listings (November 2015)

- 41 listings in Waseca
- Median list price: \$116,200
- Average price: \$140,845
- Most single-family listings, 2 multi-family listings

## Avg. Price Per Sq. Ft.

- Single-family: \$71/PSF
- PSF by type:
  - One-story: \$79/PSF
  - Two-story: \$65/PSF



# New Construction is stagnant

## Lot Inventory/Supply

- 81 vacant lots | 5 subdivisions
- No new lots platted since 2005
- Newer subdivisions
  - ❑ Avg. lot cost \$25k-\$40k
  - ❑ Home value w/lot: \$200k+
  - ❑ Avg. lot size: 0.34 acres



## New Construction Market

- Few housing starts in Waseca
- Spec too risky in today's market
- Build-to-suite premium (\$150 PSF+)
- No pending projects in development pipeline



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# Housing Cost Burden

**Cost Burden:** more than 30% of gross income allocated to housing

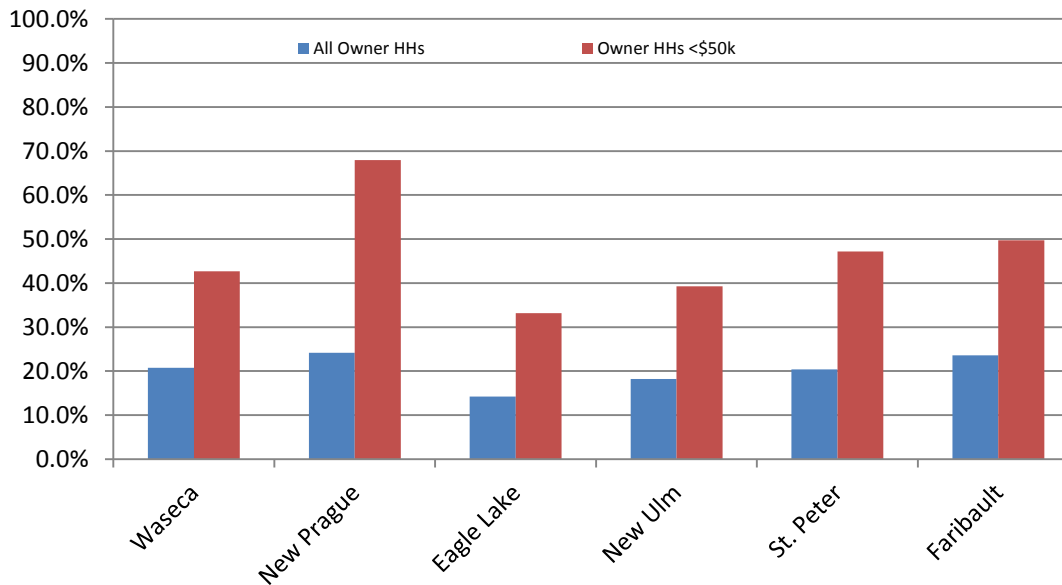
## Rental:

- 38% of Waseca renters are cost burdened
  - 39% Waseca Co. | 49% Minnesota
- 58% of renter HHDS < \$35k are cost burdened
  - 63% Waseca Co. | 77% Minnesota

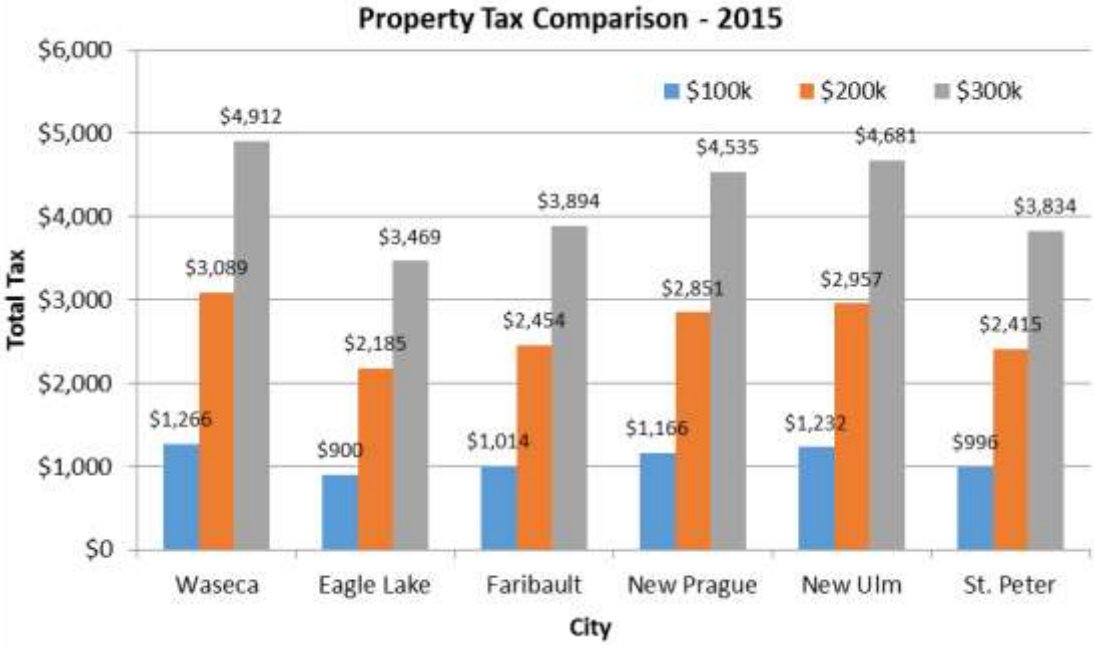
## Owners:

- 21% of owners are cost burdened
  - 20% Waseca Co. | 24% Minnesota
- 43% of owners HHDS < \$50k are cost burdened
  - 41% Waseca Co. | 52% Minnesota

Owner Cost Burdened - Waseca and Peer Communities



# Fee, Permit, Property Tax Comparison

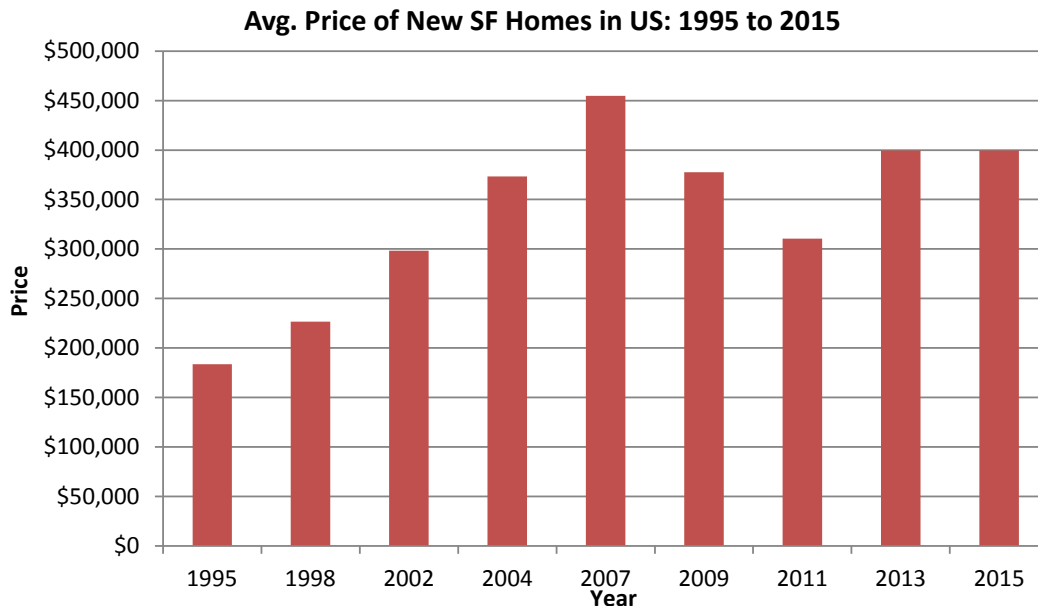


# Development costs restrain housing development...

Difficult to “break-even” on new housing products given the following costs:

- Infrastructure (i.e. street, curb & gutter, connection fees, etc.)
- Lack of skilled labor (increases expenses & delivery times)
- Rising construction costs

As a result, the price points for new construction will be significantly higher than existing housing products in Waseca.



# Rental housing difficult to cash flow...

Apartment Macro-Level Financial Assessment			
2015			
<b>Assumptions</b>		<b>Development Costs</b>	
No. of Units	24	Hard Costs	\$2,415,000
Avg. Sq. Ft./Unit	875	Soft Costs	\$724,500
Common Area Pct.	15%	Land Costs	\$120,000
Avg. Rent/Unit	\$1,000	Total Development Costs	\$3,259,500
Equilibrium Occupancy	95%		
Avg. Rent PSF	\$1.14	Development cost/unit	\$135,813
		Development cost/PSF	\$135
Total Rentable Sq. Ft.	21,000		
Total Bldg. Sq. Ft.	24,150		
<b>Monthly Financials</b>		<b>Annual Financials</b>	
Gross Monthly Rent	\$24,000	\$288,000	
Effective Rent	\$22,800	\$273,600	
Total Expenses	\$9,120	\$109,440	
NOI	\$13,680	\$164,160	
Less: Debt Service	(\$16,199.17)	(\$194,390.06)	
Net Operating Cash Flow	(\$2,519.17)	(\$30,230.06)	

Source: Maxfield Research & Consulting, LLC

Existing rentals avg. \$0.66 PSF | New Construction = \$1.35 PSF to break-even



# Demand Summary

## Demand Overview

- Household growth & tenure
- Turnover
- Income-qualified households
- Demand by product | Preferences



### Demand Driver Examples

- Demographics
- Economy & Job Growth
- Consumer Choice | Preferences
- Turnover/Mobility
- Supply (i.e. Existing Hsg. Stock)
- Replacement need (i.e. functionally /physically obsolete)
- Financing

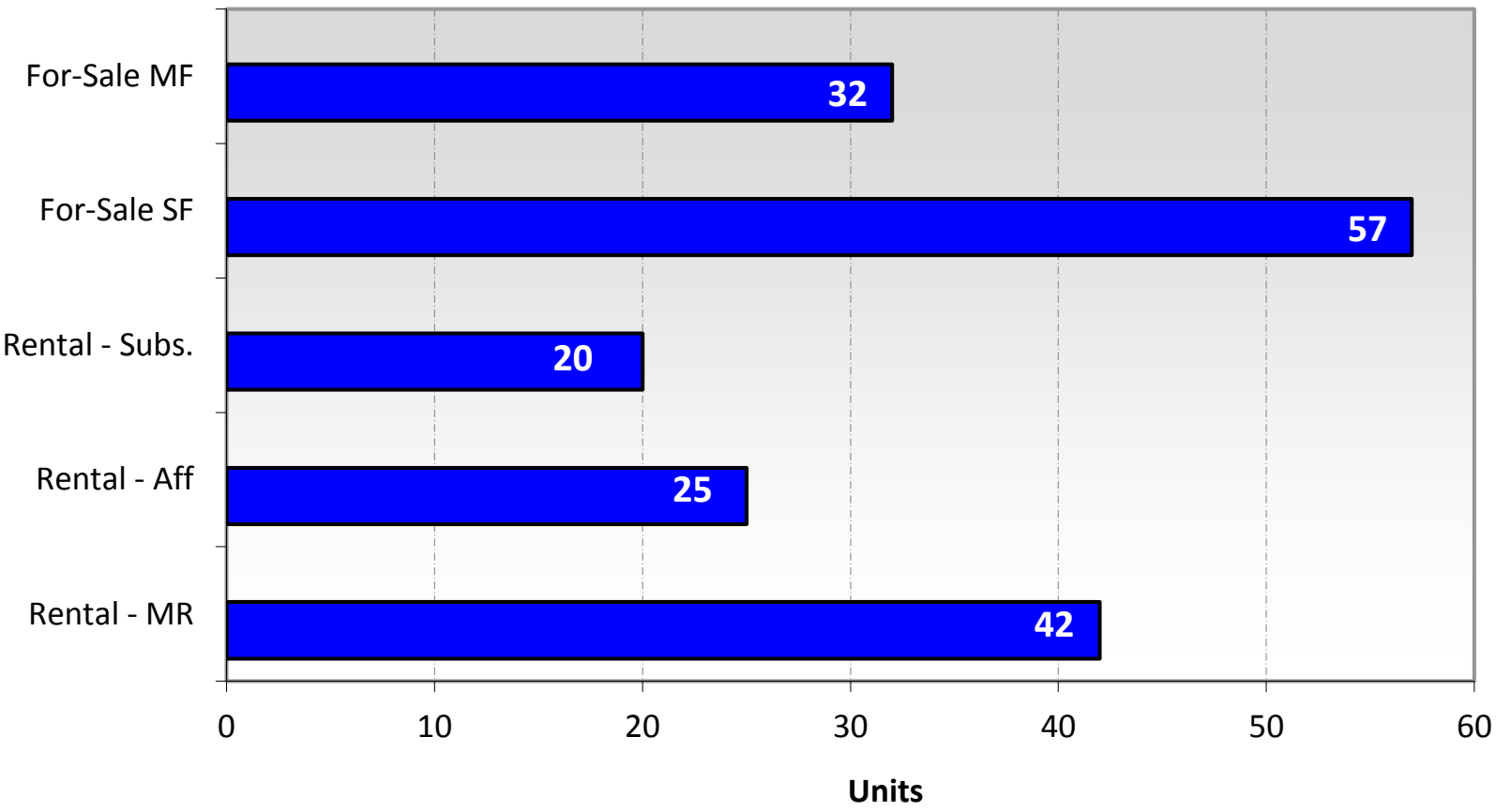
## Demand Assumptions/Methodology

- Household growth adjusted for local factors (i.e. building permits, etc.)



# Demand for 176 General-Occ. units through 2025

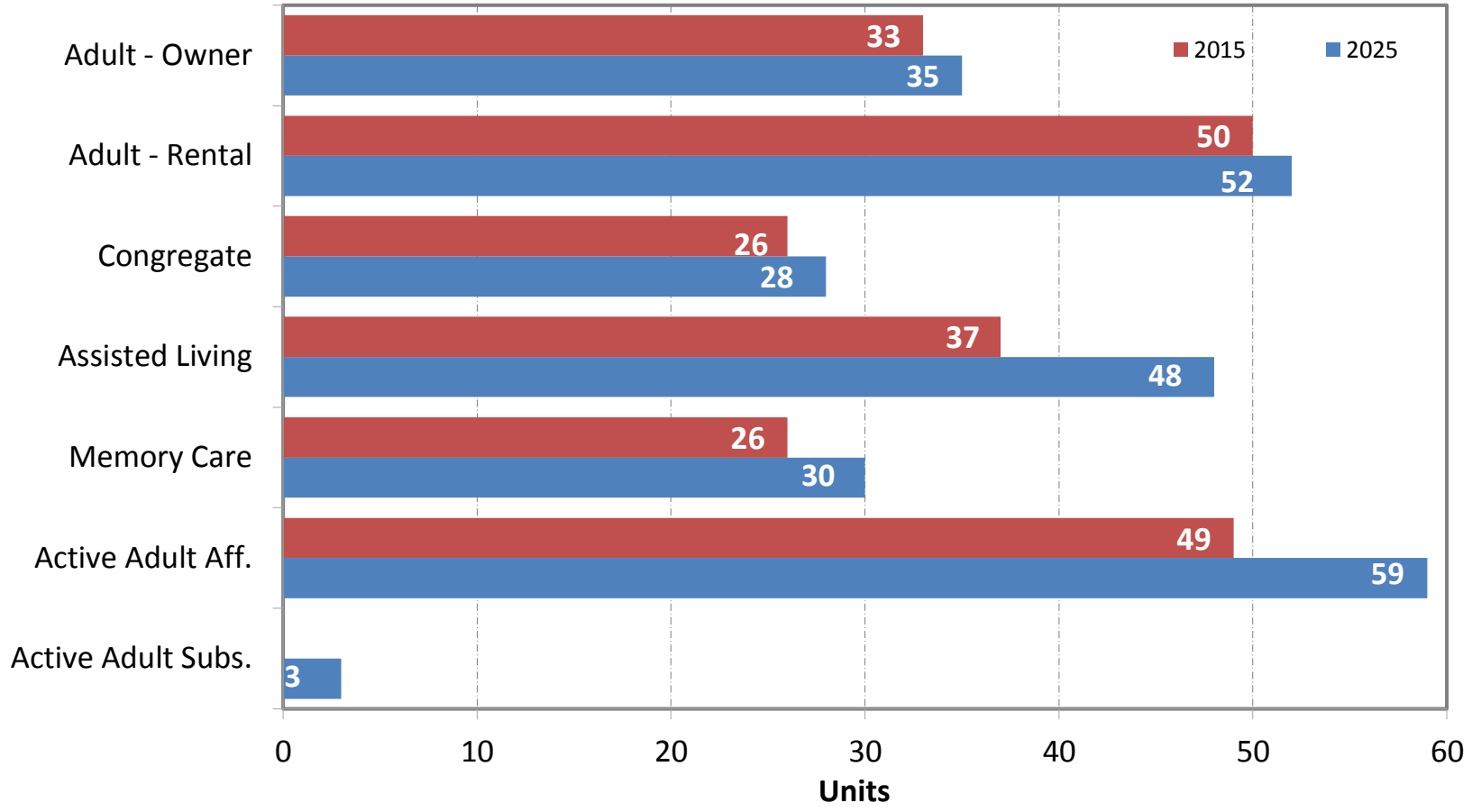
General-Occupancy Demand by Type  
2015 to 2025



Note: existing lot supply will meet most of SF demand

# Demand for 255 senior housing units in 2025

Senior Housing Demand by Type  
2015 and 2025



# Single-Family Development Recommendations

- Recommend 3 to 5-year lot supply
- Demand for about 87 SF homes. However, absorb existing lot supply before platting new subdivisions/lots
  - About 80 vacant SF lots (excludes scattered lots)
- Entry-level SF construction very difficult given development costs
- Demand by price point:
  - move-up (\$175k-\$225k)
  - executive (\$250k+)



*Pond View split-level example*



*Pond View – 50 lots vacant*





# Multifamily For-Sale Development Recommendations

- Demand for 32 units
- Potential housing types:
  - Twin homes/duplex
  - Detached townhomes
  - Quads
  - Townhomes/row homes
- Demand by price point:
  - Entry-level (<150k)
  - Move-up (\$150k+)



*Woods Edge*



# Rental Housing Recommendations

- Demand for nearly 90 units
  - 42 market rate
  - 25 affordable
  - 20 subsidized
- Clear need for newer, contemporary rental units
- Demand for all incomes, HH types, and product types
- Recommend the following types:
  - Market rate rental – both apartment & townhome style
  - Affordable & subsidized - difficult to finance



*Waseca Manor*



*17th Ave. Apts.*

# Senior Housing Recommendations

- Demand for 255 units | Demand across most service-levels
- Recommend the following:
  - Senior cooperative (30-34 units)
  - Active adult rental (44-50 units)
  - Affordable rental (50-60 units)
  - Independent/congregate (24 to 28 units)
  - Assisted living (40 to 48 units)
  - Memory care (26 to 30 units)



*Colony Court*



*Latham Place*



# Key Takeaways...

- Stagnant population and household growth this decade
- Population is aging and will impact alternative housing types
- Household types changing
- Low 3.9% unemployment rate & job importer
- Older rental housing stock w/modest rents | low vacancy rates
- Senior housing market w/ low vacancy rates | pent-up demand
- Home prices rebounding, yet still down from peak last decade (-9%) | lack of middle-market & updated, turn-key product
- New construction sector soft | lot inventory supply adequate in short-term
- Demand for most housing types this decade & beyond
- Low-cost housing market; difficulty cash flowing new development
- Encourage promotion of housing programs to enhance existing housing stock



# Next Steps...

- Share the findings!
- Establish housing strategy (key goals & objectives)
- Establish city's priorities
- Evaluate existing programs/policies (revise as necessary)
- Seek partnerships
- Monitor market conditions and modify goals/objectives over time

## Fundamentals to Succeed...

- Recognition of Challenges
- Political Will
- Community involvement/outreach
- What is the consequence of doing nothing?
- Get Creative!



# Questions & Comments

## Contact Information:

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