

**Watertown Economic Development Authority**May 17<sup>th</sup>, 2018**Agenda Item: Housing Needs Analysis****Request for Action: Discussion & Direction****Department: Shane Fineran, City Administrator****Background:**

In 2018 the EDA allocated additional resources in the annual budget to better understand market conditions related to senior housing. The EDA commissioned an addendum targeting a housing needs analysis done in 2017 related to the development of the 313 Territorial site that evaluated the need for independent senior housing with services (defined as congregate housing in the Maxfield studies). To complement that study an addendum was recently completed that focused-on needs for housing without services targeting seniors (defined as active adult housing in the Maxfield studies). Additionally, in 2017 the Carver County CDA commissioned an affordable housing update to their 2014 Housing study. All of this data can be used by the City to identify and plan for various housing needs in the community.

**Staff Analysis:**

In general, the City is one of the more affordable communities for housing within the County with 88% of the existing housing within the community priced at or below the applicable thresholds. This is largely met through the existence and creation of single family homes and the median value of \$220,000 that exist within the housing stock within the community. However, home prices have steadily increased the past few years as market conditions approved and costs of construction have increased; naturally occurring affordable housing is becoming less the norm.

Median area income is at \$56,000. Individuals and families that own their own home median income jumps to \$75,300 while renter household income dips to \$18,750, which is the lowest in the County. The City has approximately 426 rental units city wide with the majority of units available in rental rates available to low to moderate incomes. Rental units available serving the very low to higher end income ranges, in terms of number of units that exist compared to number of renter households that could likely fill those units, experience a deficiency in which more households exist at both ends of the range than the number of units that exist. Within the various income levels, 36% of all renters are considered "rent burdened" or pay more than 30% of their income in housing costs. All seniors who reported fell within the "rent burdened" category. As people age incomes within the senior population fall from \$43,362 to \$25,066.

Nearly three-quarters of all rental housing within the community fall into the "market rate" category. Nearly all of the multi-family rental options existing within the community are more than 20 years old. The most recent multi-family rental project brought online being the Waters Edge Townhomes, which provides 2-3 bedroom rental units for moderate income or income restricted families. The Clinic View Apartments recently met their tax voucher requirements for rent control and income limits and have begun the process of refurbishment in hopes of driving higher market rate rental prices.

The City trends higher in the percentage of households age 55 or older compared to the rest of the County, with nearly 33% of the households in this range according to the 2010 census. By 2021 nearly 45% of city households will be age 55 or older with few options related to affordable or market rate rental housing on the horizon. Existing senior rental housing primarily consists of rental housing that service income restricted, low income, or disabled individuals. We currently lost 11 units of independent senior housing with services with the closure of Elim Meadows. Nearly 80% of residents 65 or older currently own their existing home. Factoring out the demand

that was met by the Elim Meadows project the City could anticipate to need 29 units of independent senior housing with services by 2021 and likely more considering the units lost in the last year. In the housing market targeting active adult populations, or independent senior housing without services by 2021, the City can expect demand for 16 owned units (i.e. condo style) and 48 rental units.

**Attachments:**

Carver County Affordable Housing Update – July 2017 – Community Partners Research, Inc.

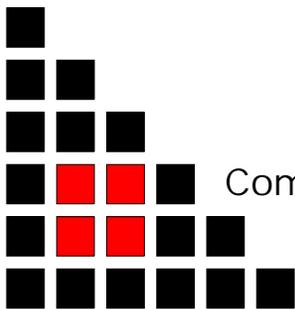
Preliminary Demand Estimate for Congregate Senior Housing in Watertown, MN – May, 2017 – Maxfield Research, Inc.

Preliminary Demand Estimate for Active Adult Senior Housing in Watertown, MN – April 2018 – Maxfield Research, Inc.

# **Carver County AFFORDABLE HOUSING UPDATE**

July 2017

**City of Watertown**



Community Partners Research, Inc.

Lake Elmo, MN

## Key Findings - 2017 Affordable Housing Study Update

- ▶ Watertown has seen some fluctuations in its growth pattern in recent decades. During the boom years of the early and mid-2000s, outward development pressure from the Metro Area moved into the community. From 2000 to 2004, more than 70 single family housing starts were occurring per year. But by 2012, only one single family building permit was issued. In 2014, the City began offering local new construction incentives, and in that year, 18 single family units were built. By 2016, 21 single family houses were permitted, the highest level achieved in the past 10 years.
- ▶ According to the most recent estimate from the Metropolitan Council, the City added only 39 households between 2010 and 2016, after adding 486 households between 2000 and 2010.
- ▶ Like many of the other cities in the County, housing construction activity in the early 2000s resulted in the development of multiple new subdivisions. When the housing boom ended, some of the subdivisions with unsold lots went into default. Lots were later sold at discounted prices. In 2017, a large lot inventory remains available in Watertown, but according to City staff, most of the recent home construction has been occurring in the areas that did not go through default.
- ▶ Given the wide swings in recent home construction and household growth, it is difficult to project future changes in Watertown using any trend-based calculation. A realistic expectation of annual growth through the year 2021 is approximately 25 to 34 households per year. However, if construction momentum continues to build, then this projection could be very conservative.
- ▶ Watertown has had very limited multifamily rental development in recent decades. The last multifamily project that can be identified is Water's Edge Townhomes, a 30-unit affordable rental project that opened in 2000. In 2017 a specialized care senior facility is being proposed that could add 58 units/rooms for assisted living and memory care.
- ▶ The Metropolitan Council analyzes the supply of housing that is affordable within each city. This placed approximately 88% of the existing stock in Watertown below the applicable price thresholds in 2015. Most of this affordable housing was in single family houses intended for owner-occupancy.

- ▶ The Metropolitan Council also calculates a Housing Performance Score for each city, based on the maintenance or expansion of affordable housing. Watertown received 50 out of 100 possible points, the fourth highest of the 11 cities in the County.
- ▶ In each of the past two years, the median home sale price in the City has been less than \$220,000. Home ownership is relatively affordable, when compared to the larger cities farther east in the County.
- ▶ According to the American Community Survey, the median income estimate for home owners was \$75,300 in 2015. A household at the median income level needed to apply 22.2% of income for housing costs.
- ▶ The American Community Survey also contained an estimate of the median renter household income in 2015, at only \$18,750, the lowest median in the County. A renter household at the median income needed to apply 39.1% of income for housing, making the City the least affordable rental market in the County. The American Community reported a median gross rent of \$672, which was relatively low, but the low median renter household income in Watertown resulted in a high incidence of housing cost burden.
- ▶ Going forward to the year 2021, this Update has made the following housing unit development recommendations to meet the projected growth-generated demand from approximately 25 to 34 households in an average year. The estimated tenure distribution is based on 75% owner-occupancy and 25% rental demand.
- ▶ To meet rental demand, a project creating 31 to 43 additional units would help to diversify the City's housing options.

**Minimum 5-year Rental Housing Recommendations for Watertown**

- |                                   |                |
|-----------------------------------|----------------|
| ▶ Moderate rent/income restricted | 20 to 30 units |
| ▶ Market rate                     | 12 to 14 units |
- ▶ To meet expected home ownership demand, between 94 and 127 new units may be needed over the five-year projection period.

**Minimum 5-year Ownership Recommendations for Watertown**

- |                          |                |
|--------------------------|----------------|
| ▶ Entry-level/affordable | 14 to 19 units |
| ▶ Moderate/trade-up      | 61 to 83 units |
| ▶ Higher-priced          | 19 to 25 units |

## Overview

### Purpose

In 2017, the Carver County Community Development Agency (CDA) contracted with Community Partners Research, Inc., to conduct research into affordable housing needs for the individual cities in the County. The project was based on updating a previous document, the ***Comprehensive Housing Needs Assessment for Carver County, Minnesota*** which was completed by Maxfield Research Inc., in June 2014.

At the time that the 2014 project was being completed, conditions were still being impacted by the housing market decline and national economic recession that began in the late 2000s. Housing construction activity had been suppressed for a number of years, and growth projections were being revised to adjust for actual development patterns.

In 2014, the Metropolitan Council had made a significant downward revision to their previously issued forecasts for the individual cities in the County. Since that time at least two additional revisions have been made for some of the individual cities to better track actual market conditions and future growth potential. The most recent revision for Watertown has increased the future growth forecast from the level originally set in 2014.

This 2017 Update has been able to access more recently released information, including an additional three years of actual housing construction data. While a broad range of housing information has been reviewed in the pages that follow, particular emphasis was placed on the more affordable housing market segments.

Most of the truly market-driven housing segments have been gradually recovering and stabilizing in Metro Area cities. Market rate housing segments can typically be addressed by the traditional for-profit development community.

Affordable housing development will often require some form of public financial intervention, as the costs associated with new housing development are generally prohibitive to generate housing that can be accessed by low and moderate income people. Since affordable housing creation does not happen naturally, a better understanding of demographic and housing market conditions is required to help cities and policy makers with informed decisions of future needs.

## Content

This document contains specific data updates on selected demographic and housing topics. A brief summary of the content is as follows:

- ▶ **Projected Community Growth** - There are various household growth projections that exist for the City. Existing projections have been reviewed, and compared to actual growth patterns in recent years. Based on this review, probable five-year growth projections have been created, and used for anticipating future housing development needs.
- ▶ **Building Permit Trends** - Updated annual totals for new housing development activity have been provided through the year 2016.
- ▶ **Affordable Housing Construction Trends** - The Metropolitan Council, with the assistance of individual cities, tracks new housing creation to determine if it is affordable. This information has been presented through 2015 to monitor the patterns within each city.
- ▶ **Existing Affordable Housing Assessment** - Using information from the Census Bureau's American Community Survey and other available data sources, the Metropolitan Council has produced an assessment summary of the total existing housing inventory in each community.
- ▶ **Future Affordable Housing Unit Allocation Needs** - The Metropolitan Council has assigned allocation goals for each community to help meet regional affordable housing needs in the future. While difficult to actually achieve, the goals are to be used to facilitate future housing development that can serve low and moderate income people.
- ▶ **American Community Survey Rental Data** - Using the detailed tables in the American Community Survey, information is presented on the overall rental inventory in the City.
- ▶ **Rental Housing Cost Burden** - Using the detailed tables in the American Community Survey, information is presented on rental housing costs compared to renter household income levels.
- ▶ **Rental Housing Inventory** - This section examines information about the total rental stock that exists along with an approximate allocation of units by market segment.

- ▶ **Rental Housing Telephone Survey** - As part of the research process for this Update, Community Partners Research Community conducted a telephone survey of the larger multifamily rental projects in the City. This survey attempted to collect current information on occupancy patterns, rent levels and market segments being served. Summary information is provided along with the property-specific findings.
- ▶ **Home Sales and Values** - Information from the Carver County Assessor's Office is provided on single family housing sales activity in 2015 and 2016, with a review of the share that are viewed as affordable.
- ▶ **Employment and Commuting Patterns** - Updated information is presented on the number of workers in the community, along with projected growth over time. Updated information on commuting patterns from the American Community Survey is provided.
- ▶ **Findings and Recommendations** - After analysis of the multiple sections presented, this final section presents projected housing development needs for the future.

## Projected Community Growth

There are various projection sources that exist for population and household growth in the City. These include long-range forecasts that extend as far as the year 2040, as well as shorter-term forecasts, that extend to the years 2020 or 2021. While long-range projections may be useful for planning purposes, they will be subject to revision over time, as growth patterns change and actual household formation is incorporated into any forecasting methodology.

For the purposes of this document, emphasis has been placed on projecting near-term growth. The following table examines some of the annual average growth projections that exist for the City of Watertown, taken from five to ten-year projection periods, depending on the base year used. Since the time frame differs, each projection has been reduced to an annual average.

The **Metropolitan Council Thrive MSP 2040** forecast uses the annual average household growth that is expected for the 10-year period between 2010 and 2020. The 2020 forecasts have been revised as recently as 2016.

The **2014 Carver County Housing Study** forecast uses the annual average household growth expected for the 6-year period from 2014 to 2020, as calculated by Maxfield Research Inc.

The **Esri** forecast uses the annual average growth for the 5-year period from 2016 to 2021. Esri is a private data service that is often used by government entities and financial institutions.

<b>Table 1 Projected and Actual Growth - City of Watertown</b>	
<b>Data Source</b>	<b>Average Annual Growth</b>
<b>Projected</b>	
Met Council Thrive MSP 2040	34 households/year projected
2014 Carver County Housing Study	76 households/year projected
Esri	105 households/year projected
<b>Actual</b>	
Average annual growth 2010-2016 estimate	7 households/year actual
Average annual housing unit construction 2010-2016	10 units/year actual
Housing units constructed in 2016	21 units actual

Source: Met Council; Maxfield Research; Esri; Building permits

As evident in the table above, there is a wide variation in the near-term growth expectations that exist for the City of Watertown.

The highest projection comes from the Esri forecast, showing 105 households per year. This projection is not supported by any of the available data, and is not viewed as reliable.

The projection contained in the 2014 Carver County Housing Study had expected Watertown to add an average of 76 households per year between the base year of 2014, and the end of the projection period, 2020. Once again, there is no other evidence indicating that the City can reach this level of growth near-term.

The lowest forecast, taken from the Metropolitan Council, shows the City adding an average of 34 households per year. While Watertown has not been able to achieve this annual increment growth in the past, it does appear to be a possible projection going forward. In 2016, Watertown had 21 single family housing starts. There has been some gradual improvement in the number of houses built in the past few years, and with some probable multifamily development, reaching 34 households per year in the future is possible.

For use in this Update, average annual growth in a range between 25 and 34 households has been used. If rental housing development proceeds in the future, the upper end of this range could be surpassed.

### **Long-Range Forecasts**

Although this Study has not focused on longer-term projections, they are necessary for City planning efforts. The forecasts from the Metropolitan Council for the City of Watertown would expect average incremental growth of approximately 60 households per year between 2020 and 2030, and 40 households per year between 2030 and 2040. If achieved, growth at this scale would be substantially greater than any past pattern for the City.

## Building Permit Trends

The following table tracks new housing unit creation in the City of Watertown, using annual building permit reports. This information has been obtained from the Metropolitan Council and from City records. In most cases, the units represent new construction, but in some cases, units created through the conversion of existing structures could also be reported.

Information for the period from 2010 to 2013 has also been reviewed from the Comprehensive Housing Needs Assessment for Carver County, prepared by Maxfield Research Inc. in 2014.

<b>Table 2 Watertown Housing Construction Activity: 2010 to 2016</b>				
Year	Single Family Detached	Attached Single Family	Multifamily	Total Units
2016	21	0	0	21
2015	12	0	0	12
2014	12	6	0	18
2013	4	2	0	6
2012	1	0	0	1
2011	5	0	0	5
2010	6	0	0	6
2010-2016 Total	61	8	0	69

Source: Metropolitan Council

Like many communities in Minnesota, Watertown had a reduced level of new housing construction activity in the early years of the current decade, following the housing market collapse and economic recession of the late 2000s. During the construction boom years in the early 2000s, the City had achieved very high levels of home building, with more than 70 owner-occupancy houses permitted annually between 2000 and 2004. But by 2012, only one single family house was constructed in the City.

With a large inventory of improved residential lots and very limited construction activity, the City of Watertown began to offer some construction incentives, in the form of sewer/water/storm sewer connection fee waivers. The incentives were limited to the first 15 new houses built each year.

In 2014, the number of single family starts increased to 18 total units in Watertown, three times greater than in 2013. Although the fee waivers appeared to have had a direct link to increased construction, they were discontinued due to the financial impact to the City.

Despite the absence of new construction incentives, the number of units did continue to increase as housing market conditions have improved. In 2016, 21 new houses were built. This was the highest annual unit total since 2006.

Most of the recent construction has been in the form of single family detached houses. In 2013 and 2014, a few attached single family units were built, presumably intended for owner-occupancy.

While single family conditions have been improving, there has been no multifamily rental construction in many years.

### **Pending Projects**

According to City staff, it is probable that a specialized senior housing project will proceed in 2017. It would offer housing with services, including assisted living and memory care options, and is planned for 58 units.

### **Residential Lots**

Like many communities in the region, Watertown had a large supply of residential lots developed in the 2000s. When construction activity slowed, some of the subdivisions went into default. The oversupply of lots was one of the primary reasons the City began offering construction incentives in 2014.

While some absorption of lots continues, City staff believes that approximately 260 improved lots are still available in 2017.

Lots in two subdivisions reverted back to bank ownership and were then sold at discounted prices. However, most of the home construction activity in 2016 occurred in the subdivisions that had not changed ownership, so the recent improvement in construction is not the result of discounted lots.

### **Infrastructure Limitations**

The City's sewer capacity is adequate for near-term growth, but according to City staff, upgrades will be needed within the next four to five years, based on the current development pattern.

## Met Council Affordable Standard - Recent Construction

The Metropolitan Council conducts an annual survey to estimate the number of newly constructed owner and renter-occupancy housing units that are affordable to a household at 80% of the area median income level. Due to the timing of the reports, information on 2016 housing construction activity was not yet available.

There are some potential differences that may exist between the unit totals displayed in the table below, and the annual building permit summary presented on the previous pages. For most years, any differences would be minor. There can also be some differences in the estimated tenure of units, depending on the data source that was used.

<b>Table 3 Affordable Housing Construction Activity: 2010 to 2015</b>					
Year	Single Family Total	Single Family Affordable	Multifamily Total	Multifamily Affordable	Total Affordable Units
2015	12	0	0	0	0
2014	18	0	0	0	0
2013	6	2	0	0	2
2012	1	0	0	0	0
2011	5	0	0	0	0
2010	6	3	0	0	3
2010-2016 Total	48	5	0	0	5

Source: Metropolitan Council

As tracked by the Metropolitan Council, only 5 of the 48 housing units constructed within the City of Watertown between 2010 and 2015 would meet the basic definition of affordable housing, based on a standard set at 80% of median income.

All 5 of the affordable units were constructed between 2010 and 2013, when the local housing market was down. After 2013, there have been no affordable houses built in Watertown, according to the Metropolitan Council. As market conditions have improved, it would appear that less emphasis has been placed on building affordable homes by the builders/developers.

## **Metropolitan Council Housing Performance Scores**

The Met Council, in conjunction with the Minnesota Housing Finance Agency, issues an annual score for each Metropolitan Area community. These scores are used to give priority in funding to cities and townships that are maintaining or expanding their supply of affordable housing and using fiscal, planning, and regulatory tools to promote affordable and mixed-income housing. These scores can range from 0 to 100 points.

The Metropolitan Council Housing Performance Score gives Watertown 50 out of 100 possible points. The City had for the fourth highest score of the 11 cities in Carver County.

## Affordable Housing Inventory Assessment

To assist communities with their Comprehensive Planning efforts, the Metropolitan Council has analyzed American Community Survey and other available data sources to establish a starting point for addressing affordable housing needs. According to the Met Council, this information meets the minimum requirements for the Existing Housing Assessment component of the Comprehensive Plan. This document can be viewed at:

[https://metrocouncil.org/Handbook/Files/Existing-Housing-Assessment/02397211\\_Watertown\\_ExistingHsg.aspx](https://metrocouncil.org/Handbook/Files/Existing-Housing-Assessment/02397211_Watertown_ExistingHsg.aspx)

Only one of the items from the Existing Housing Assessment is provided below. It examines the number of existing units that are considered affordable to low and moderate income households. For the City of Watertown, this assessment used a total housing unit inventory count of 1,713 units in 2015.

<b>Table 4 Affordable Existing Housing Allocation - 2015</b>		
Affordable Level	Total Units	% of All Units
30% or less of median	167	9.7%
31% to 50% of median	562	32.8%
51% to 80% of median	778	45.4%
Above 80% of median	206	12.0%
Total	1,713	100%

Source: Metropolitan Council

According to the analysis by the Metropolitan Council, most of the existing housing stock in Watertown is affordable. Overall, approximately 88% of all units are below the price thresholds viewed as affordable for households earning 80% or less of the Twin Cities median income level.

While the affordable housing breakdown does not identify occupancy tenure, the overall affordable unit total implies that most of the affordable housing is in single family houses, presumably intended for owner-occupancy. In the analysis, there were only 426 total rental units citywide. With more than 1,500 units in Watertown that were considered to be affordable, this would indicate that nearly all of the single family houses were also viewed as affordable in 2015.

## Affordable Housing Allocation Needs

As part of the Metropolitan Council's assistance role in helping communities to plan for future development, a city-by-city allocation has been made which distributes the region-wide affordable housing needs. The Region's total need for affordable housing during the time period from 2021 to 2030 is 37,900 units. Watertown's allocation of this need is 134 units.

It is important to recognize that the allocation of units should be interpreted as a goal for the community, but the Metropolitan Council recognizes that most cities will not be able to create all of the units, especially serving the lowest end of the income range. Instead, these allocations are provided for planning purposes, to help assure that a city could accommodate this level of unit growth, if the opportunities emerge. While recognizing that these are targets for items such as land use planning or infrastructure extensions, the numbers could also be used to establish targets for actual construction.

Although the most recently released allocation targets span the period between 2021 and 2030, they represent better guidance than those released for the period between 2011 and 2020. The allocations for the current decade were based on a rate of growth that was projected to be substantially greater than what has actually occurred. As a result, the numeric targets are much too high for the share within more affordable price ranges. Instead, the allocations for the next decade are better matched to current growth trends.

<b>Table 5 Ten-year Affordable Housing Allocation Goals</b>					
	30% or less of median	31% to 50% of median	51% to 80% of median	Total Affordable	% of Expected Units
Unit Allocation	62	18	54	134	22%

Source: Metropolitan Council

The allocation goals cover a 10-year time period, and would include both rental and ownership housing options. However, in most cases, these would tend to represent rental housing creation, as serving low and moderate income households with ownership options would be extremely difficult, especially for households below 50% of the median income level.

In comparison to recent patterns, these allocations are very high. In actual practice between 2010 and 2015, only 5 affordable units were created in Watertown, based on these standards. To achieve 134 units over the ten-year allocation period would require an average of approximately 13 units per year moving forward.

## American Community Survey Rental Data

The Census Bureau’s annual American Community Survey collects information from renter households, and generates reports on renters and rental units. Since the data are collected from sampling, estimates are prepared that do contain a margin of error. However, this information source is consistent between communities and from year-to-year. As a result, the annual estimates do provide a comparative snapshot of the local rental market.

The most recent estimates available for Watertown are for 2015. In that year, they estimated that there were 399 renter-occupancy households living in the City, with a margin of error +/-133 households. Based on all other information, this estimate may be slightly high for occupied rental units, but there were 393 available units counted in the 2010 Census. Although potentially high, the American Community still represents useful data on the rental stock.

### Median Gross Rent

While information on rental rates from 2015 is already somewhat dated, the following median gross rent levels were defined.

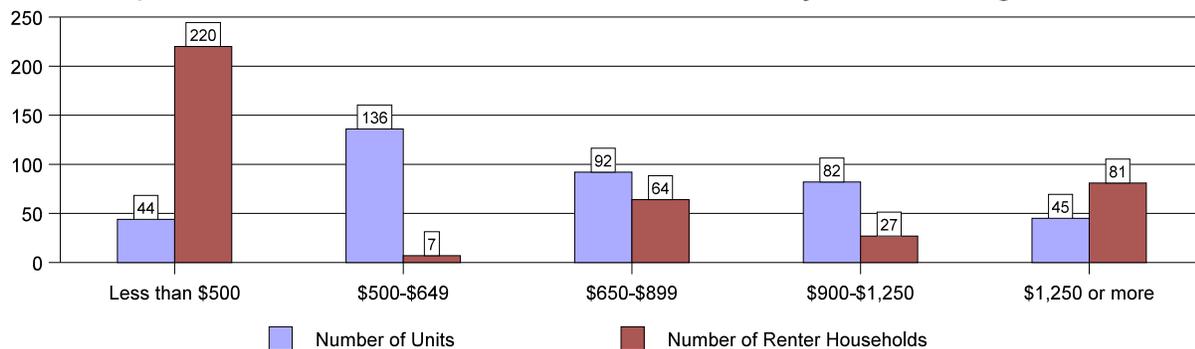
<b>Table 6 Median Gross Rental Rates in 2015</b>					
	0 Bedroom	1 Bedroom	2 Bedroom	3+ Bedroom	All Units
Median Gross Rent	-	\$555	\$666	\$1,138	\$672

Source: American Community Survey

For all rental housing in the City in 2015, the estimated median gross rent was \$672. This overall median was very similar to the median for two-bedroom units, which were the most common unit type reported. The median gross rent for units with three or more bedrooms increased rapidly and had an estimated median of \$1,138 per month.

Information on rental rate distribution in the American Community Survey can be compared to renter household incomes, to make some general comparisons of supply and demand.

### Comparison of Income to Unit Distribution by Rent Range - 2015



When renter household income levels in Watertown are compared to the rent distribution of available units, the following observations emerge.

- ▶ The City has many more households that need a very affordable unit, priced below \$500, than units that exist. However, it is assumed that some of these very low income renters, with an annual income below \$20,000 would be able to access some form of rent assistance, to make their housing more affordable.
- ▶ In the more moderate price ranges between \$500 and \$650 per month, there are more units available than households in a comparable income range. Presumably, some of the lower income households need to “rent up” into a more expensive unit, since the very affordable supply is limited. It is also probable that some higher income households elect to “rent down” and apply less than 30% of their income for housing.
- ▶ There were more rental units than renter households in the income ranges between \$25,000 and \$36,000. Once again, it would appear that some of the lower income households were renting these units, and would have been applying substantially more than 30% of income to housing.
- ▶ In the rental price ranges of \$900 or more per month, the number of units was slightly greater than the number of households with an income above \$36,000. Many of these moderate to higher income households had an annual income of \$50,000 or more, but Watertown had a relatively small supply of higher-priced rental units, with a rent above \$1,250 per month.

## Rental Housing Cost Burden

The American Community Survey also provides data on the number of renter households that are paying different percentages of their gross household income for housing in the City.

Percent of Income for Housing	Renter Households Age 64 and under	Renter Households Age 65+	All Renter Households
Less than 30%	133	0	133
30% or more	179	87	266
Not Computed	0	0	0
Total	312	87	399

Source: American Community Survey

Federal standards for rent subsidy programs generally identify 30% of household income as the maximum household contribution. When more than 30% of income is required, this is often called a “rent burden”. When more than 35% is required, this can be considered a “severe rent burden”.

According to the American Community Survey, approximately 36% of all renters in the City were paying 30% or more of their income for rent. The rental cost burden statistics showed all age groups were impacted.

There is probably a flaw in the estimates, as all of the senior households reported a cost burden. While many of the seniors would be residing in Rural Development subsidized housing and therefore paying 30% of their income, it is probable that at least some senior households are below the 30% level. More than 57% of the non-senior renter households also had a cost burden.

While a housing cost burden could be caused by either high rent or low income, in Watertown it was primarily due to the income levels for renters. Nearly 83% of the renter households with a housing cost burden had an annual household income below \$35,000 in 2015. To avoid a cost burden, these households would have needed a unit with a gross monthly rent of \$875 or less.

According to the 2015 American Community Survey, the median household income for all renters in Watertown was only \$18,750 in 2015, well below the Countywide renter median of \$41,599. For all renter households, the median percentage of household income applied to rental costs was 39.1%, the highest percentage among the cities in the County.

## Rental Housing Data

### Census Records

According to the 2010 Census, the City of Watertown had 330 occupied rental housing units, and at least 63 unoccupied units, for a total estimated rental inventory of 393 units. The City's rental tenure rate was 21.1% in 2010, below the Statewide rental rate of 27%. However, the below-average rental tenure rate was partly impacted by the large number of vacant units in 2010.

Based on building permit reports, no multifamily projects have been constructed after the 2010 Census, although a specialized senior project could proceed later in 2017. It is therefore assumed that few changes have taken place within the City's rental stock after 2010, although a shift between vacant and occupied units has probably occurred. It is also possible that some tenure-conversion has happened, as houses once used by renters have been sold to owner-occupants, or the reverse.

### City Rental Registration

Watertown does not have a rental housing licensing or registration requirement.

### Metropolitan Council Estimates

The *Local Planning Handbook* prepared by the Metropolitan Council includes an **Existing Housing Assessment** for Watertown. That research document estimated that Watertown had 426 rental housing units in 2015, which would include both occupied and vacant housing. Based on the overall distribution of units, regardless of occupancy, the estimated rental tenure rate was 24.9%.

If accurate, this estimate from Met Council would show growth in the City's rental stock after 2010.

### Reconciliation of Data Sources

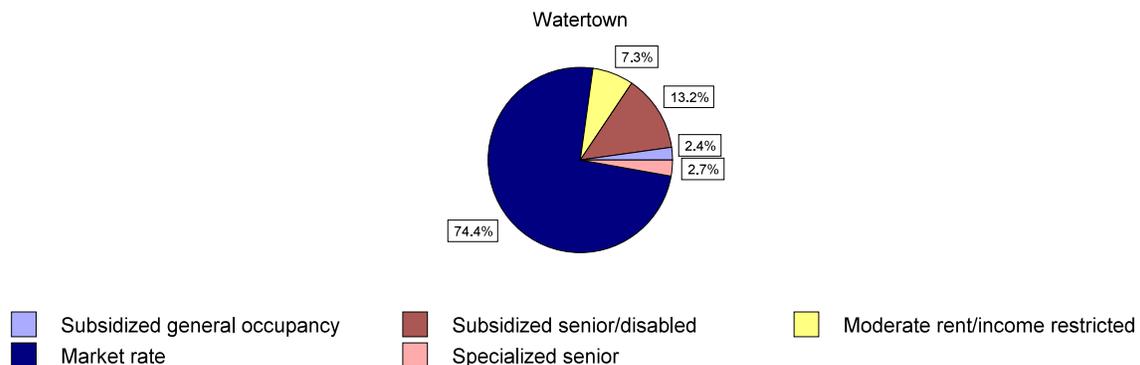
Based on the various estimates, the City probably has between 395 and 425 rental housing units in 2017.

## Rental Market Segments

Watertown has a diverse housing stock, serving different rental segments. Although precise details do not exist, the following summary generally defines the different subsets of the local market:

- ▶ Federally-subsidized units - 72 units
  - ▶ General occupancy - 18 units
  - ▶ Senior/disabled occupancy - 54 units
  
- ▶ Moderate rent units with income and occupancy restrictions - 22 units
  
- ▶ Specialized senior housing with services - 11 units (excludes sleeping rooms in Westwood Place)
  
- ▶ Market rate housing - 290 to 320 units

### Rental Units by Market Segment



Some of the defined housing types above may apply differing rules and regulations. For example, some of the federally subsidized housing units have project-based rent assistance, allowing tenants to pay rent on 30% of income, while other units may charge a basic rent amount, even if it exceeds 30% of income. However, the basic rent structure would still be well below competitive market rents and would still represent a very affordable housing option.

Within the moderate rent/income restricted properties, the maximum allowable income could be set at differing levels, from potentially 50% to 100% of the area median level. While the specific limits can vary, the goal of this housing is to serve more moderate income renters, and the applicable regulations attempt to keep these units in an affordable price range. Since these projects cannot typically offer any project-based rent assistance, they tend to serve moderate income households, while subsidized housing serves low income renters.

While more than 74% of all rental units in Watertown serve the traditional market rate segment, the City does have a distribution of units in other sectors. Nearly 23% of the identified rental options are in some form of affordable housing, in projects that have income restrictions and/or a maximum rent structure.

There is also one tenant-based rent assistance Vouchers in use Watertown. However, the exact location within the City for this Vouchers cannot be disclosed. It is possible that Vouchers could be used within the income-restricted projects, assisting very low income tenants that cannot afford an even low or moderate rent structure. It is also possible that Vouchers could be used in market rate housing, increasing the percentage of units in Watertown that could be considered as subsidized housing.

### **Affordable Housing Gains and Losses**

There has been no growth in the supply of income-restricted housing or subsidized housing in Watertown in many years. The last significant identified addition to the affordable inventory was the 30-unit Waters Edge Townhomes project which utilized federal tax credits and was placed in service in 2000. The maximum income limits for this property are set at 60% or less of median income.

There have also been unit losses. The 25-unit Clinic View Apartments has completed its USDA Rural Development compliance requirements. In 2017 this project operates as market rate housing. The owner is completing substantial renovation work and the target rents are substantially higher than had been charged when the building was still subsidized.

## Rental Housing Survey

In February and March of 2017, a telephone survey was conducted of multifamily rental developments in the cities in Carver County. The survey primarily focused on rental properties with six or more units. The table that follows presents information for subsidized, moderate rent/income restricted, and market rate projects separately.

The following basic definitions have been applied to identify these specific sectors within the broader housing market.

**Subsidized housing** is defined as units that have some form of federal or state subsidy assistance, typically provided through the U.S. Department of Housing and Urban Development (HUD), or through USDA Rural Development. In many cases, subsidized housing can offer project-based rent assistance, designed to allow households to pay rent based on 30% of income. However, not all subsidized projects can offer rent assistance for all units. In some cases, generally in Rural Development projects, a basic minimum rent is required. But these basic rents are still below the prevailing rental rates, and can offer a more affordable option, even if more than 30% of income is required from some households.

**Moderate rent/income restricted** housing is defined as projects that are regulated in some way, with maximum income limits, rent restrictions, occupancy restrictions, or all of the above. There are various programs that can be used to create this type of housing. The federal housing tax credit program is often used, and maximum tenant incomes are capped at 60% of median. The Carver County CDA has also developed some units that have income limits capped at either 80% or 100% of the area median income level.

These **moderate rent/income restricted** projects rarely have any type of rent assistance, although a small number of units may be designated as replacement Public Housing/MHOP, or as units serving people experiencing long-term homelessness. While a small percentage of units may be very affordable, most within this market segment tend to serve more moderate income households. Many projects will require that a tenant have a monthly income that is at least double the rent amount, so a unit priced at \$850 would require an annual income above \$20,000. Although the actual gross monthly rental rates in these projects may often approach the prevailing rental rates in the purely private market, the regulatory restrictions that apply are intended to keep these units in an affordable range for many years.

As used in this document, **market rate** rental housing defines projects that do not have any forms of rent, income or occupancy restrictions, other than those that pertain to the private competitive marketplace. Within the market rate segment, there may be newer, “luxury” projects with very high rent levels, as well as older conventional housing that offers low monthly rates.

### **Survey Coverage**

In Watertown there were only seven rental projects, with a combined 127 rental units that were contacted by the telephone survey. Attempts were made to contact additional multifamily properties, but these were not successful. When compared to the probable rental inventory in Watertown, the telephone survey collected usable information from approximately 32% of the local rental stock.

The following rental segments were represented in the survey results:

- ▶ 72 units of subsidized housing in six separate projects
- ▶ 22 units of moderate rent/income restricted housing in one project
- ▶ 25 units of market rate housing in one project

General summaries of the survey findings are presented by market segment.

## Subsidized Housing Summary

There are six different rental projects in Watertown that can offer federally subsidized rental housing. Combined, these projects have 72 very affordable units. However, only 62 of the 72 units actually have access to project-based rent assistance. In the remaining units a basic rent applies, although it is still relatively affordable.

Another project, Clinic View with 25 units, had also been available in the past, but this has left the Rural Development program and now operates as market rate housing.

Only three of the subsidized projects, with a combined total of 18 units, provide general occupancy housing. The other three projects, with 54 combined units, are designated for senior and/or disabled tenant occupancy.

The general occupancy options are Hillside Apartments, with eight units, Carver County Public Housing, with 2 scattered site units, and Waters Edge Townhomes which includes eight Public Housing units through the MHOP program.

Hillside was originally constructed for senior/disabled occupancy, and all eight units have one bedroom. As a result, Watertown has only 10 subsidized housing units with two more bedrooms that would be suitable for families with children.

Hilltop Apartments I and II, along with Riverside Apartments, are designated for senior/disabled tenant occupancy. Fifty-two of the 54 combined units in these properties have only one bedroom.

All of the subsidized projects reported full occupancy at the time of the rental survey, and most reported the existence of a waiting list. The Carver County Public Housing waiting list is maintained for all units countywide, and is not specific to the Watertown location.

The eight MHOP units in Water's Edge serve households on the Minneapolis PHA waiting list, and vacancies are filled through a referral process. There can sometimes be a delay in filling the MHOP units, due in part to Watertown's location and distance from Minneapolis.

## **Moderate Rent/Income Restricted Housing**

Currently, there is only one project in Watertown that meets the definition within this segment. Waters Edge Townhomes is a tax credit new construction project that was placed in service in 2000. There are 30 total units, offering two and three-bedroom rental options. Eight of the units in Waters Edge have project-based rent subsidies through the MHOP Public Housing program. The remaining 22 units offer more moderate rent housing, consistent with tax credit requirements.

The income restrictions that apply to tax credit housing require households to have an annual income that is at or below 60% of the area median level. The eight Public Housing units have a lower income limit that applies, but rent in these units is subsidized.

Waters Edge reported full occupancy on the date of the rental survey, and the manager indicated that sufficient demand existed. The project does maintain a waiting list, but there are times when an available unit is filled by advertising, since people on the waiting list may not be interested in moving when a unit becomes available.

Under the tax credit regulations, maximum rent levels would be capped at 60% of the median income level, but some projects charge rents that are below the maximum limits. The rent structure in Waters Edge was at or below the 55% limits for two-bedrooms and below the 50% limits for three-bedrooms.

## Market Rate Housing Summary

A majority of the rental options in Watertown would be defined as purely market rate housing. However, nearly all of the multifamily stock is more than 20 years old. While very limited information was obtained from this market segment, it is probable that market rate housing in Watertown generally has a moderate rent structure, consistent with the age and amenities offered.

No contact information could be found for most of the market rate multifamily buildings that exist in Watertown. The only building within this segment that was successfully contacted was Clinic View Apartments, which had originally offered subsidized rental housing, but apparently ended its Rural Development subsidy contract at some point after March of 2014.

According to the new owners of Clinic View, the project is undergoing major renovation in 2017, and only six of the 25 units are currently available for occupancy. After the renovation project is completed, the units will be offered for more than \$1,050 for a two-bedroom, and the three-bedrooms will be above \$1,200 for gross monthly rent. It is probable that these rents will represent the upper end of the prevailing rent range for purely market rate multifamily housing in the City.

Much of the market rate rental stock exists in smaller properties, which were not included in the survey. It is very possible that single family rentals have a higher rent structure, especially when tenant-paid utilities are added.

## **Tenant-based Rent Assistance Vouchers**

In addition to the subsidized projects with project-based rent subsidies, Carver County renter households are also being assisted with HUD Housing Choice Vouchers. In March 2017, there were 249 total Vouchers Countywide, including one in Watertown. Since this rent assistance is tenant-based, and moves with the household, the actual number of participating households within the City and County can vary from month to month.

Voucher assistance is issued to income-eligible households for use in suitable, private market rental housing units. With the assistance, a household pays approximately 30% of their income for their rent, with the program subsidy paying any additional rent amounts. The rent assistance is administered by the Metro HRA, and serves much of the Twin Cities Metropolitan Area.

Metro HRA maintains a waiting list of households looking to secure a rent assistance Voucher. No specific information could be obtained on the number of Carver County households that are currently on the waiting list. However, the waiting list is closed to new applicants due to its length.

<b>Table 8 Watertown Multifamily Rental Housing Inventory</b>					
<b>Name</b>	<b>Number of Units /Bedroom Mix</b>	<b>Rent</b>	<b>Vacancy/ Wait List</b>	<b>Tenant Mix</b>	<b>Comments</b>
<b>Market Rate</b>					
Clinic View Apartments 531 Stevens St SW	19 - 2 Bedroom <u>6 - 3 Bedroom</u> 25 Total Units	\$1000 \$1150 +heat, electric	Most units intentionally vacant for renovation	General occupancy	Originally constructed as USDA Rural Development subsidized apartments in 1984, this project left the subsidy program and now operates as market rate housing. New owner is in the process of major unit renovation activity and only 6 units are occupied - project is expected to complete by the end of 2017. Rents listed are target rents at completion of renovation project. Tenant pays gas heat and electric in addition to rent.
Chadwick Apartments	<u>6 - 2 Bedroom</u> 6 Total Units	N/A +heat, electric	N/A	N/A	Unable to contact in 2017 - information presented is from secondary sources. Rental units in a 4-plex and duplex configuration, with 4-plex built in 1987. Tenant pays heat and electric in addition to rent. Amenities include stove, refrigerator and in-unit laundry.
Ferry Apartments I & II	1 - 1 Bedroom <u>9 - 2 Bedroom</u> 10 Total Units	N/A +heat, electric	N/A	N/A	Unable to contact in 2017 - information presented is from secondary sources. Rental units in a 4-plex and town house configuration constructed in the 1960s. Tenant pays heat and electric in addition to rent. Amenities include stove, refrigerator and AC.
Newton Apartments 205 Newton Ave NE	2 - 1 Bedroom <u>6 - 2 Bedroom</u> 8 Total Units	N/A +heat, electric	N/A	N/A	Unable to contact in 2017 - information presented is from secondary sources. Split-level apartment building constructed in the 1960s. Tenant pays heat and electric in addition to rent. Amenities include stove, refrigerator and AC.

**Table 8 Watertown Multifamily Rental Housing Inventory**

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
<b>Moderate Rent/Income Restricted</b>					
Waters Edge Townhomes 818 Co Rd 24	10 - 2 Bedroom <u>20 - 3 Bedroom</u> 22 Tax Credit + 8 MHOP Units	\$905 \$935 +heat, electric 30% of income	No vacant units, waiting list	60% of median with 8 MHOP units	Tax credit rental project awarded credits in 1999 placed in service in 2000 - entered extended compliance in 2016. All units serve households at or below 60% of median income but 8 MHOP units allow rent based on 30% of income. Units are 1 or 2-level town homes with attached garage. Tenant pays electric heat and electricity in addition to rent. Amenities include stove, refrigerator, dishwasher, AC and in-unit laundry hook up. Two-bedrooms have 1040 to 188 sq ft and 3-bedrooms have 1206 sq ft; all units have 2 bathrooms. Five 2-bedrooms and three 3-bedrooms are MHOP and are filled through Minneapolis PHA. Some vacancies can exist in MHOP due to Watertown's distant location. Full occupancy reported on date of survey - waiting list can exist but units are also filled through advertising.

**Table 8 Watertown Multifamily Rental Housing Inventory**

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
<b>Subsidized</b>					
Hillside Apartments (formerly Halter Hyland) 101 Angel St SW	<u>8 - 1 Bedroom</u> 8 Total Units	\$610-\$770 30% of income	No vacant units	General occupancy	USDA Rural Development subsidized apartments that also used tax credits and placed in service in 1987 - tax credit compliance has been met but project still operates as subsidized housing. Originally designated for senior/disabled tenant occupancy but changed to general occupancy due to insufficient demand. Six units have project-based rent assistance allowing rent based on 30% of income; remaining tenants pay at least 30% of income but not less than basic or more than market rents listed. One-level building. Most tenants are age 50+. No vacant units at time of survey.
Hilltop Apartments I 309 Carter St SW	<u>16 - 1 Bedroom</u> 16 Total Units	\$490-\$680 30% of income	No vacant units, waiting list	Senior/ disabled occupancy	USDA Rural Development subsidized apartments constructed in 1983 and designated for senior (age 62+) or disabled tenant occupancy. Fourteen units have project-based rent assistance allowing rent based on 30% of income; remaining tenants pay at least 30% of income but not less than basic or more than market rents listed. Two-level building without elevator. Amenities include community room and emergency call system. Manager reported full occupancy and waiting list - over time demand has grown from younger disabled applicants and approx. 50% of tenants are under age 62.
Hilltop Apartments II 209 Grove Ave	14 - 1 Bedroom <u>2 - 2 Bedroom</u> 16 Total Units	\$490-\$655 \$520-\$690 30% of income	No vacant units, waiting list	Senior/ disabled occupancy	USDA Rural Development subsidized apartments constructed in 1985 and designated for senior (age 62+) or disabled tenant occupancy. Ten units have project-based rent assistance allowing rent based on 30% of income; remaining tenants pay at least 30% of income but not less than basic or more than market rents listed. Two-level building without elevator. Amenities include community room and emergency call system. Manager reported full occupancy and waiting list - over time demand has grown from younger disabled applicants and approx. 50% of tenants are under age 62.

**Table 8 Watertown Multifamily Rental Housing Inventory**

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
<b>Subsidized</b>					
Public Housing Scattered Site Watertown	<u>2 - 4 Bedroom</u> 2 Total Units	30% of income	No vacant units, waiting list	General occupancy	Scattered site HUD Public Housing units - CDA acquired single family houses. All tenants pay rent based on 30% of income. Age of units and floor plans vary. Manager reported full occupancy and a countywide waiting list for Public Housing.
Riverside Apartments (formerly Halter Valley) 210 Territorial St W	<u>22 - 1 Bedroom</u> 22 Total Units	\$610-\$798 30% of income	No vacant units, waiting list	Senior/ disabled occupancy	USDA Rural Development subsidized apartments that also used tax credits and placed in service in 1990 - tax credit compliance has been met but project still operates as subsidized housing. Designated for senior/disabled tenant occupancy. All units have access to project-based rent assistance allowing rent based on 30% of income; higher income tenants pay 30% of income but not less than basic or more than market rents listed. Project amenities include community room with kitchen and elevator. No vacant units at time of survey and waiting list exists.
Waters Edge Townhomes 818 Co Rd 24	10 - 2 Bedroom <u>20 - 3 Bedroom</u> 8 MHOP + 22 Tax Credit Units	30% of income	No vacant units, waiting list	8 MHOP units in mixed-income project	Tax credit rental project awarded credits in 1999 placed in service in 2000 - entered extended compliance in 2016. All units serve households at or below 60% of median income but 8 MHOP units allow rent based on 30% of income. Units are 1 or 2-level town homes with attached garage. Tenant pays electric heat and electricity in addition to rent. Amenities include stove, refrigerator, dishwasher, AC and in-unit laundry hookup. Two-bedrooms have 1040 to 188 sq ft and 3-bedrooms have 1206 sq ft; all units have 2 bathrooms. Five 2-bedrooms and three 3-bedrooms are MHOP and are filled through Minneapolis PHA. Some vacancies can exist in MHOP due to Watertown's distant location. Full occupancy reported on date of survey - waiting list can exist but units are also filled through advertising.

<b>Table 8 Watertown Multifamily Rental Housing Inventory</b>					
<b>Name</b>	<b>Number of Units /Bedroom Mix</b>	<b>Rent</b>	<b>Vacancy/ Wait List</b>	<b>Tenant Mix</b>	<b>Comments</b>
<b>Subsidized - Tenant-based Vouchers</b>					
Housing Choice Vouchers	1 assisted households in Watertown	30% of income	N/A	N/A	Also known as the Section 8 Existing Program, HUD Housing Choice Vouchers provide tenant-based rent assistance that can be used in any suitable rental unit. Tenant rent contribution is based on 30% of income, with the assistance program paying additional subsidy. The County is served by Metro HRA program with 1 Voucher being used in Watertown and 249 Countywide. The program maintains a waiting list for participation.

Source: Community Partners Research, Inc.; 2014 Comprehensive Carver County Housing Needs Assessment

## Single Family Home Sales

Information was obtained from Carver County on the annual number of “good” residential sales. Good sales represent fair, open market transactions, according to the County Assessor’s Office.

<b>Table 9 Watertown Single Family Sales</b>				
Sales Year	Detached Houses		Townhouses	
	Number of Sales	Median Price	Number of Sales	Median Price
2016	78	\$216,000	9	\$165,000
2015	62	\$207,250	5	\$156,500

Source: Carver County Assessor; Community Partners Research, Inc.

Based on the County’s sales sample, the typical single family detached house in Watertown has a value below \$220,000. For sales recorded in 2016, the median price was \$216,000. Townhouse sales were in a more affordable price range, but only 14 had been sold in the prior two year time period. The median townhouse sale price in 2016 was \$165,000, based on 9 sales.

To better define the share of annual home sales that would be considered more affordable for moderate income households, the following table examines the number of annual sales that have occurred for less than \$238,500, the current affordable ownership threshold used by the Metropolitan Council. The percentage of sales within each housing type is also provided.

<b>Table 10 Watertown Sales for Less than \$238,500</b>				
Sales Year	Detached Houses		Townhouses	
	Number of Sales Under \$238,500	Percent	Number of Sales Under \$238,500	Percent
2016	48	61.5%	8	88.9%
2015	45	72.6%	4	80.0%

Source: Carver County Assessor; Community Partners Research, Inc.

In each of the past two years, more than 61% of the detached home sales in Watertown occurred within a price range that could be viewed as more affordable. However, this percentage did decrease between 2015 and 2016, probably due to improving values in the City. Nearly all of the townhouse sales were priced below \$238,500.

## Employment and Commuting

Each of the individual cities in Carver County provide locally-based employment opportunities for area residents. The base employment data for the year 2010, as used in Metropolitan Council, showed 31,836 jobs available within the various County jurisdictions. This information was taken from the Quarterly Census of Employment and wages (QCEW), which tracks workers by place of employment that are covered by unemployment insurance.

The number of jobs varies greatly between communities. In 2010, nearly 66% of all covered jobs countywide were based in Chaska and Chanhassen, the two largest cities. If the employment in Waconia is added, more than 83% of the QCEW jobs were located within these three cities.

This does not imply that residents of Carver County primarily work within the County borders. Other data sources would indicate that most County residents actually leave the County for their primary employment. While some residents do both live and work within Carver County, most of the local jobs are filled by people that travel into the County from other locations.

Although many of the cities in the County serve as residential locations, and residents commute out for employment, job availability will have an impact on future housing needs. This is especially true for more affordable housing creation, as low and moderate income workers can be negatively impacted by the costs of commuting from more distant locations.

The following information is provided for the City of Watertown to better understand current and future employment patterns, and the potential demand created by locally based workers.

<b>Table 11 Watertown Employment Projections</b>			
	Employment in 2010	Projected Employment 2020	Change 2010 to 2020
Watertown	556	740	184 / 33.1%

Source: Metropolitan Council Thrive MSP 2040

Historically, the City of Watertown has primarily served as residential community, although some job opportunities exist. According to the latest Metropolitan Council forecasts, the City is expected to add some jobs in the future. Between 2010 and 2020, the projections expect an increase in local employment of approximately 33%, with the addition of 184 jobs.

In the base year of 2010, approximately 1.7% of all jobs countywide were located in Watertown. By 2020, the projections indicate that this percentage will increase slightly to nearly 1.8%.

The accuracy of the projections can be tracked through changes that have occurred during the first five years of the current decade. The 2015 annual total showed only 538 QCEW jobs in Watertown, down by 18 jobs from the base year in 2010. At the pace of job change through 2015, the City is not on course to reach the projected level for 2020.

## **Wages**

The last full year of wage data through the Quarterly Census of Employment and Wages (QCEW) is for 2015. In that year, the average wage paid for employment within the City of Watertown was \$29,900, assuming full-time employment. For all of Carver County, the average annual wage was \$52,208.

## **Commuting**

According to the Census Bureau's Center for Economic Studies, approximately 94% of employed Watertown residents commuted out of the City for their job in 2014. The primary work destinations identified for Watertown residents were Minneapolis, Waconia, Eden Prairie, Minnetonka, Watertown Township, Plymouth and Delano.

In addition to the people that both lived and worked in Watertown, the top locations that were supplying inbound commuters for Watertown-based jobs were Watertown Township, Delano, Mayer, Camden Township and Waconia.

## **Findings and Recommendations**

### **Overview**

Much of the future demand for housing production in the City of Watertown will be driven by anticipated household growth. With little evidence of vacant housing capacity, growth in the community will generally require a commensurate level of new housing unit creation.

The different cities in Carver County have varying degrees of potential to serve a larger, regional demand for housing. Watertown has demonstrated the potential to serve some of the regional demand for owner-occupancy housing. Watertown is also a small rental center for the western portion of the County. The City has a more diverse inventory of rental units, serving multiple segments.

During the “housing boom” years of the early 2000s, the City was seeing growth and interest from home builders. But then market conditions changed, and by 2012, only one house was built in the City. With a large inventory of distressed lots and suppressed construction activity, Watertown initiated some local incentive programs. While costly, the City saw single family housing starts triple between 2013 and 2014, probably due in part to the financial incentives.

Although the local incentives were ended, some rebound has continued, the City has only reached a recent high of 21 new houses in 2016. While much improved from previous years, the 2016 production was less than one-third the level achieved in the early-2000s.

The Metropolitan Council has defined Watertown as a “Rural Center” community, in recognition of its development status. The Rural Center cities in Carver County, which are all located in the western half of the County, represent a less likely alternative for large-scale outward migration. There has always been some desire from home owners to live in less developed communities, and a willingness to commute greater distances, but this has been much less evident for renter households. As a result, more locally-generated demand pertains to communities that are located farther west in the County, while more regional demand can apply to cities that are farther east, especially when the city is more fully developed.

For the City of Watertown, the projection review provided earlier pointed to average annual household growth of between 25 and 34 households per year.

## **Projected Tenure Distribution**

In the 2014 Housing Study, an overall tenure distribution of 20% rental and only 80% owner-occupied had been used for the City of Watertown to project unit demand to the year 2020.

Based on building permits issued from 2014 to 2016, the actual tenure distribution has been closer to 0% rental and 100% owner since that time. However, in 2017, a senior housing with services project is proposed. While some of these units may offer very specialized housing, such as memory care rooms that may not truly be defined as rental housing, this multifamily construction project will add a substantial number of living units.

Excluding the proposed senior project, a tenure distribution rate of up to 25% rental would appear to be realistic over the next five years. This rental rate would be generally consistent with the historical tenure distribution.

Using the projected growth level of approximately 25 to 34 households per year in Watertown results in the need for 125 to 170 total housing units over the five-year projection period. The anticipated tenure distribution yields:

- ▶ 31 to 43 total rental units to meet growth-generated demand
- ▶ 94 to 127 total owner units to meet growth-generated demand

Additional production to serve other demand-generators growth may also occur. This would include unit replacement and similar factors.

## **Metropolitan Council Affordable Allocation Goals**

As presented earlier in this document, the Metropolitan Council has set goals for each Metro Area jurisdiction to help address region-wide demand for affordable housing. When compared to the Met Council's growth projection for Watertown, the affordable unit goals are to place 22% of future production into units that serve households at or below 80% of the median income level. To actually reach these goals, Watertown would need to achieve the following probable unit distribution:

- ▶ Approximately 17 to 23 rental units over the five-year period that are very affordable and serve households below 50% of median income
- ▶ Approximately 11 to 14 units over the five-year period that are affordable to households between 50% and 80% of median income

## Rental Housing Recommendations

Given the limited potential for rental housing development in the City of Watertown over the next five years, it will be difficult to achieve the level of production within the most affordable price ranges (below 50% of median income). Instead, a larger allocation has been made to the more moderate price ranges, serving households up to 80% of the median income level.

At a minimum, the City of Watertown should attempt to produce at least 28 to 37 total rental housing units over the next five years to keep pace with expected household growth and to increase the housing opportunities for residents. Additional production above this level can be supported, if a larger regional market is targeted for new unit production.

### Minimum 5-year Rental Housing Recommendations for Watertown

- |                                   |                |
|-----------------------------------|----------------|
| ▶ Moderate rent/income restricted | 20 to 30 units |
| ▶ Market rate                     | 12 to 14 units |

The target market for moderate rent/income restricted units would be households typically served by the federal tax credit program, or through affordable housing efforts through the Carver County CDA, between 50% and 80% of median income. Although CDA units may have the ability to serve households up to 80% or more of the median income level, rents are typically targeted to the limits for households at or below 60% of median.

It is important to recognize that the unit recommendation above is presented as a realistic target for what is probable to occur in Watertown, based on normal growth and development patterns. A larger level of production can be supported if lower income groups can be served. But a recognition is made that financial resources for affordable rental creation are limited, and achieving even these targets will present challenges for the community.

## Home Ownership Recommendations

The City of Watertown will need to produce at least 94 to 127 total housing units for owner-occupants over the next five years to keep pace with expected demand generated by household growth. Additional production above this level can be supported, if a larger share of the regional market can be captured.

To put the five-year unit production recommendation into context, on an annual average basis this would yield 19 to 25 units per year. The City did reach this level of annual production in 2016. But over the past ten years, this is the only year when 20 or more single family units were permitted in a single year.

Watertown does have a supply of distressed lots in subdivisions that went into default were liquidated at discounted prices. However, according to City staff, most of the recent home construction has occurred in subdivisions that did not default. In other communities in the area, home builders have often entered the local market to capitalize on a supply of discounted lots. Going forward in Watertown, it is possible that increased activity will occur in the distressed subdivisions, potentially raising the annual production levels higher than contained in these projections.

### **Minimum 5-year Ownership Housing Recommendations for Watertown**

- |                          |                |
|--------------------------|----------------|
| ▶ Entry-level/affordable | 14 to 19 units |
| ▶ Moderate/trade-up      | 61 to 83 units |
| ▶ Higher-priced          | 19 to 25 units |

Entry-level affordable homes are defined as being below the Met Council's affordable ownership threshold, currently set at \$238,500. Moderate/trade-up housing would be defined as up to \$425,000. Higher-priced homes would be above \$425,000.

### **Attached Housing Construction**

Achieving the production in the lower price ranges may be very difficult in Watertown going forward. However, the City does have a supply of distressed lots which could yield more affordable construction in the future. As market conditions have improved, prices have been increasing, and no affordable construction has been tracked since 2013.

Based on building permit reports, approximately 12% of the single family housing starts since 2010 have been attached units. In the future it is probable that 20% to 25% of the single family units in Watertown will be constructed as twin homes or town houses. Any affordable new construction is most likely to be in this style of housing.

This would yield the following unit 5-year allocation in attached single family units:

- ▶ Entry level/affordable 12 to 16 units
- ▶ Above affordable price threshold 8 to 12 units

Although this would be a target for attached unit construction, it should be noted that this pattern has not been present in the recent past.

## Summary of Senior-Designated Market Share

The last reliable measure of households by age is contained in the 2010 Census. At that time, Watertown had 509 households age 55 and older. This represented nearly 33% of all households in the City. Countywide in 2010, approximately 32% of all households were age 55 or older.

More than 76% of the households in Watertown were home owners, and less than 24% renters. The City does have specialized housing targeted to seniors needing services. It also has multiple subsidized opportunities for senior/disabled tenants.

Obtaining reliable age-based estimates and projections can be difficult for a small city. Esri estimated that approximately 42% of all households in Watertown were age 55 and older in 2016, compared to approximately 38% countywide. Projections to the year 2021 indicate that nearly 45% of Watertown's households will be age 55 and older, compared to 42% of all households in Carver County within these senior-designated age ranges.

Based on Esri's estimates and projections, Watertown has an above-average distribution of older adult households. Increasingly, seniors and near-seniors will represent a growing share of housing demand.

The 2014 Housing Study had recommended that up to 44% of the future rental development could be oriented to seniors. Based on the anticipated age distribution in 2021, the rental percentage would be generally consistent with the overall percentage expected in these older adult age groups.

Since 2014, no senior-designated housing has been constructed in Watertown. It is probable that a specialized senior housing project will proceed in 2017. It would offer housing with services, including assisted living and memory care options, and is planned for 58 units.

Housing developers are cognizant of the growing demand from households age 55 and older. Housing that is developed in the future, including general occupancy units, should be designed to appeal to older adult renters, as households 55 and older will continue to represent a larger share of the potential market.



May 10, 2017

## MEMORANDUM

TO: Mr. Shane Fineran  
**City of Watertown, Minnesota**

FROM: Brian Smith  
**Maxfield Research and Consulting, LLC**

RE: Preliminary Demand Estimate for Congregate Senior Housing in Watertown, Minnesota.

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### Introduction/Purpose and Scope of Research

This memorandum provides a preliminary assessment of the market potential for senior housing products in Watertown, Minnesota. Maxfield Research and Consulting, LLC calculated the potential demand for congregate senior housing units in the Primary Market Area based on two primary factors: 1) the size of the income/asset-qualified target market and 2) the supply of existing and planned competitive senior housing projects.

The methodology used to calculate demand in this memorandum is proprietary to Maxfield Research but is consistent with methodologies used by analysts throughout the senior housing industry. It is important to note that demand estimates and conclusions contained herein are preliminary and are intended only to broadly assess the depth of the senior housing market in Watertown and the surrounding area to determine whether additional senior housing products could be supported. A more thorough investigation of the unique characteristics of the Primary Market Area, outlined in a *Full Feasibility Study*, would reveal more specific factors that might impact demand and appropriate market positioning.

This memorandum begins by delineating the primary draw (“market”) area for senior housing for the subject property located in Watertown and presents an overview of the demographic and economic characteristics of the Market Area. It then defines the various types of senior housing available in today’s market and inventories existing senior housing projects in the Market Area competitive with the proposed senior housing development.

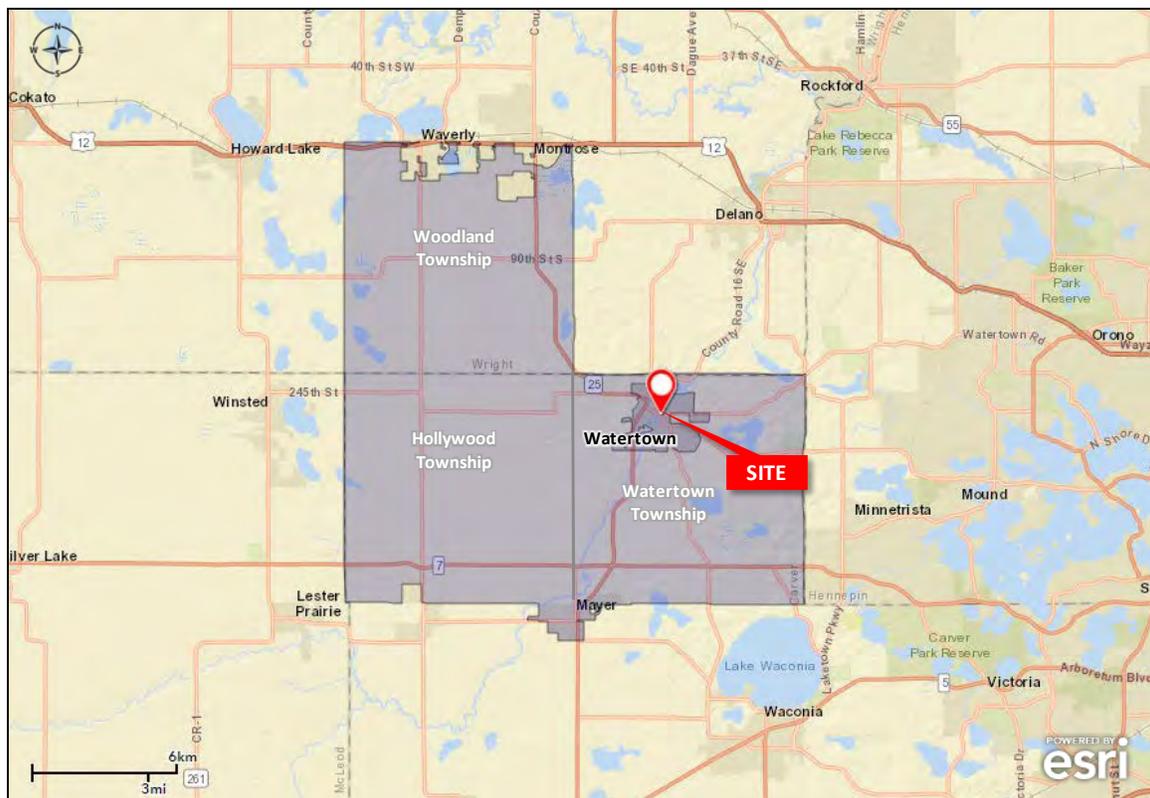
Finally, it presents demand calculations for congregate senior housing based on the supply of competitive product in the Market Area. The report closes with our preliminary conclusions regarding the development of additional senior housing in the Watertown Market Area.

## Market Area Definition

Maxfield Research determined the draw area for housing in Watertown based on geographic and man-made barriers, commuting patterns, and our experience in senior housing feasibility. The draw area, herein referred to as the “Primary Market Area,” includes the following communities: Watertown, Mayer, Hollywood Township, Watertown Township, and Woodland Township.

We estimate that the PMA will constitute 75% of the market support for senior housing. The remaining portion of the demand (we estimate 25%) for the subject development will come from outside the defined Primary Market Area (PMA). These individuals will include people currently residing just outside the PMA who have an orientation to the area (i.e. church, doctor, etc.), people who once resided in the area and desire to return, and parents of adult children living in the Primary Market Area. A map of the Primary Market Area is provided on the following page.

### PRIMARY MARKET AREA



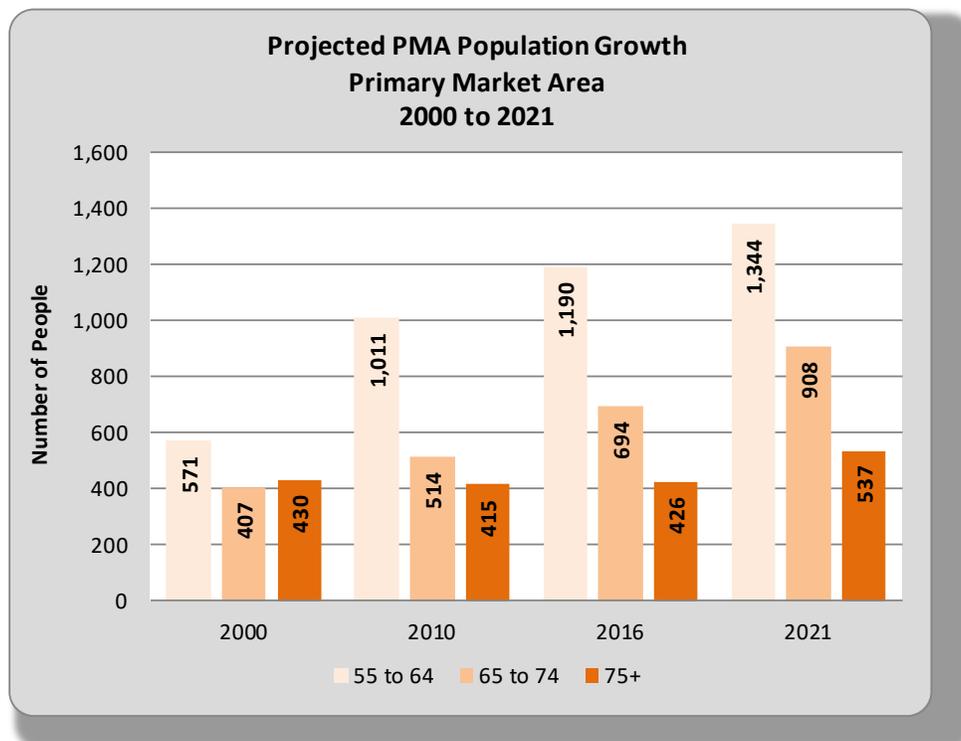
## Older Adult (Age 55+) Population and Household Trends

Table 1 shows the age distribution of people and households age 55 and older in the Primary Market Area in 2000 and 2010 according to the U.S. Census. Estimates for 2016 and projections for 2021 are calculated by Maxfield Research based on estimates and projections from the Metropolitan Council and ESRI, Inc., a nationally recognized demographic services firm.

- In 2010, Seniors (age 65+) comprised 10% and 18% of the total population and households, respectively. Increasing to 14% and 24% of the total population and households by 2021, respectively.
- Strong growth in the older adult and senior population (55+) is observed since 2000. Between 2000 and 2010, the PMA's older adult and senior population increased by 532 people (38%) and 417 households (54%).

TABLE 1 55+ POPULATION & HOUSEHOLD AGE DISTRIBUTION PRIMARY MARKET AREA 2000 - 2021									
POPULATION									
Age	2000	2010	2016	2021	2000-2010		2010-2021		
55 to 64	571	1,011	1,190	1,344	440	77.1%	333	32.9%	
65 to 69	211	324	409	522	113	53.6%	198	61.1%	
70 to 74	196	190	285	386	-6	-3.1%	196	103.1%	
75 to 79	174	137	164	251	-37	-21.3%	114	83.6%	
80 to 84	138	130	112	140	-8	-5.8%	10	7.8%	
85 +	118	148	149	145	30	25.4%	-3	-1.9%	
Total 55+	1,408	1,940	2,309	2,789	532	37.8%	849	43.7%	
Total 65+	837	929	1,119	1,445	92	11.0%	516	55.5%	
Total 75+	430	415	426	537	-15	-3.5%	122	29.3%	
<b>Tot. Pop.</b>	<b>7,254</b>	<b>9,281</b>	<b>9,403</b>	<b>10,341</b>	<b>2,027</b>	<b>27.9%</b>	<b>1,060</b>	<b>11.4%</b>	
HOUSEHOLDS									
Age	2000	2010	2016	2021	2000-2010		2010-2021		
55 to 64	313	583	684	797	270	86.3%	214	36.7%	
65 to 74	225	334	448	611	109	48.4%	277	83.0%	
75 +	236	274	274	363	38	16.1%	89	32.4%	
Total 55+	774	1,191	1,406	1,771	417	53.9%	580	48.7%	
Total 65+	461	608	722	974	147	31.9%	366	60.2%	
Total 75+	236	274	274	363	38	16.1%	89	32.4%	
<b>Tot. HH</b>	<b>2,515</b>	<b>3,398</b>	<b>3,463</b>	<b>4,020</b>	<b>883</b>	<b>35.1%</b>	<b>622</b>	<b>18.3%</b>	
Sources: U.S. Census Bureau; ESRI.; Maxfield Research and Consulting, LLC									

- Projected forward, growth in the older adult and senior population is anticipated through 2021. Between 2010 and 2021, the Primary Market Area’s older adult and senior population (55+) is projected to grow by 849 people (44%) and 580 households (49%).
- The target market for congregate care is typically seniors age 75 and older. Between 2000 and 2010, the 75+ age segment actually declined by 15 people (-3.5%) and increased by 38 households (16%). By 2021, this age group is projected to add 122 people (29%) and 89 households (29%) by 2021.
- Representing the leading edge of the baby boom population, the significant growth among the 55 to 64 age cohort will directly impact the demand for housing with services in 20 years but also could immediately impact demand indirectly as this population is often the primary caregiver for their elderly parents and are usually involved in their parents’ decision making processes. This is of particular importance when considering those elderly parents that may not reside in the Primary Market Area but may desire to move closer to their adult children.



## Older Adult and Senior Household Incomes

Table 2 shows incomes for older adult and senior households in the Primary Market Area in 2016 and 2021, based on information provided by ESRI, Inc. It is important to note that the data does not account for the asset base of senior households or supplemental income that a senior household could gain from the proceeds of the sale of a home or from contributions from family members.

The data helps determine the demand for senior housing based on the size of the market at specific income levels. This data is incorporated into demand calculations, which are presented in a following section.

The frailer the senior, the greater the proportion of their income they will typically spend on housing and services. Studies have shown that seniors are willing to pay increasing proportions of their incomes on housing with services, beginning with an income allocation of 40% to 50% for market rate adult senior housing with little or no services, increasing to 65% for independent/congregate and to 80% to 90% for assisted living housing. The proceeds from the sale of their homes, as well as financial assistance from their adult children, are often used as supplemental income in order to afford senior housing alternatives.

- The median income for all age 65+ households in the Primary Market Area is \$34,779 as of 2016. Within this age group, the median incomes for households between the ages of 65 and 74 and 75+ are estimated to be \$43,632 and \$25,066, respectively. The higher incomes for younger senior households (age 65 to 74) compared to older seniors (age 75+) are primarily due to the fact that a higher proportion of younger seniors is married and more likely to have two pensions, along with the fact that many younger seniors continue to have income-producing employment.
- The target market for congregate housing with limited or optional services is generally senior households age 75 and older with incomes of at least \$35,000 (plus senior homeowners with incomes of at least \$30,000). Younger seniors, age 65 to 74, may also move into these facilities, but they usually account for a small portion of the demand in any given Market Area. As of 2016, there were an estimated 358 older senior households in the Primary Market Area with incomes of at least \$35,000, accounting for 50% of all older senior (age 75+) households.
- Including all households with incomes of \$40,000 or above (adjusted for inflation), the number of older senior households (75+) projected to income-qualify for market rate congregate housing is expected to increase by 102 households (28%) between 2016 and 2021, for a total of 460 income-qualified households in 2021.

<b>TABLE 2 OLDER ADULT INCOME DISTRIBUTION PRIMARY MARKET AREA 2016 &amp; 2021</b>								
<b>2016</b>								
	<b>55-64</b>		<b>65-74</b>		<b>75+</b>		<b>Total 65+</b>	
	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>
Under \$15,000	55	8.1	70	15.7	63	23.1	133	18.5
\$15,000-\$24,999	51	7.5	65	14.5	73	26.7	138	19.2
\$25,000-\$34,999	36	5.3	42	9.4	49	17.9	91	12.6
\$35,000-\$49,999	66	9.7	70	15.7	44	16.1	114	15.8
\$50,000-\$74,999	147	21.5	84	18.8	25	9.2	109	15.1
\$75,000-\$99,999	130	19.0	42	9.4	7	2.6	49	6.8
\$100,000 or more	198	29.0	74	16.6	12	4.4	86	11.9
<b>Total</b>	<b>683</b>	<b>100.0</b>	<b>447</b>	<b>100.0</b>	<b>273</b>	<b>100.0</b>	<b>720</b>	<b>100.0</b>
<b>Median Income</b>	<b>\$71,832</b>		<b>\$43,632</b>		<b>\$25,066</b>		<b>\$34,779</b>	
<b>2021</b>								
	<b>55-64</b>		<b>65-74</b>		<b>75+</b>		<b>Total 65+</b>	
	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>
Under \$15,000	53	108.2	95	15.5	84	23.2	179	18.4
\$15,000-\$24,999	52	106.1	82	13.4	94	26.0	176	18.1
\$25,000-\$34,999	32	65.3	50	8.2	56	15.5	106	10.9
\$35,000-\$49,999	69	140.8	93	15.2	64	17.7	157	16.1
\$50,000-\$74,999	143	291.8	101	16.5	34	9.4	135	13.9
\$75,000-\$99,999	165	336.7	66	10.8	11	3.0	77	7.9
\$100,000 or more	234	477.6	124	20.3	19	5.2	143	14.7
<b>Total</b>	<b>49</b>	<b>100.0</b>	<b>611</b>	<b>100.0</b>	<b>362</b>	<b>100.0</b>	<b>973</b>	<b>100.0</b>
<b>Median Income</b>	<b>\$80,629</b>		<b>\$46,999</b>		<b>\$25,450</b>		<b>\$37,436</b>	
<b>CHANGE 2016 TO 2021</b>								
	<b>55-64</b>		<b>65-74</b>		<b>75+</b>		<b>Total 65+</b>	
	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>
Under \$15,000	-2	-3.6	25	35.7	21	33.3	46	34.6
\$15,000-\$24,999	1	2.0	17	26.2	21	28.8	38	27.5
\$25,000-\$34,999	-4	-11.1	8	19.0	7	14.3	12	13.2
\$35,000-\$49,999	3	4.5	23	32.9	20	45.5	43	37.7
\$50,000-\$74,999	-4	-2.7	17	20.2	9	36.0	26	23.9
\$75,000-\$99,999	35	26.9	24	57.1	4	57.1	28	57.1
\$100,000 or more	36	18.2	50	67.6	7	58.3	57	66.3
<b>Total</b>	<b>65</b>	<b>9.5</b>	<b>164</b>	<b>36.7</b>	<b>89</b>	<b>32.6</b>	<b>250</b>	<b>34.7</b>
<b>Median Income</b>	<b>\$8,797 12.2</b>		<b>\$3,367 7.7</b>		<b>\$384 1.5</b>		<b>\$2,657 7.6</b>	

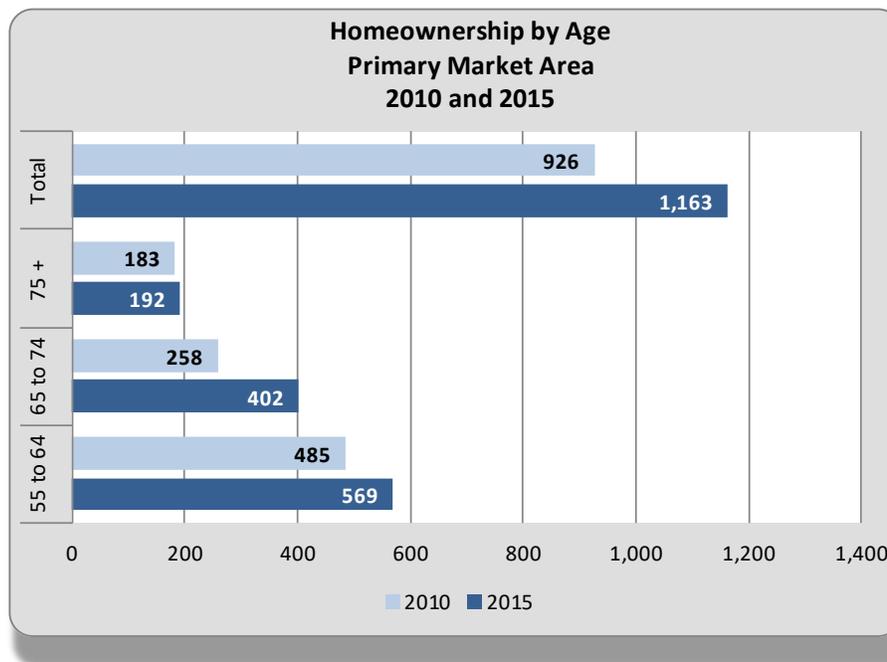
Sources: ESRI; Maxfield Research and Consulting, LLC

## Senior Household Tenure

In addition to their existing income sources, many senior households will be able to derive supplemental income by investing the proceeds from the sales of their homes. This additional income can be used to cover the costs associated with residency in a senior housing development. As Table 3 shows, 79% of the Primary Market Area's senior (65+) households owned their housing in 2015.

- In the Primary Market Area, 2015 homeownership rates were 89% among households ages 55 to 64, 87% among households ages 65 to 74 and 66% for households ages 75 and older.
- As seniors age, they may no longer desire or be able to maintain their single-family homes. They may prefer to move to housing that offers greater freedom from maintenance and/or has supportive services. The decline in homeownership in the 75+ age cohort indicates that seniors in the Primary Market Area consider moving into senior housing alternatives in their 70s.
- The relatively high homeownership rates of older adult and senior households would allow prospective residents to use the proceeds from the sales of their homes toward age-restricted housing alternatives. Additionally, the resale of a single-family home would allow a greater proportion of seniors to qualify for market rate housing products, since equity from the home sale could be used as supplemental income for alternative housing.

TABLE 3 OLDER ADULT HOUSEHOLD TENURE PRIMARY MARKET AREA 2010 & 2015								
	Age of Householder							
	55-64		65-74		75+		Total 65+	
	Own	Rent	Own	Rent	Own	Rent	Own	Rent
<b>2015</b>								
No. of Households	569	68	402	59	192	100	594	159
Homeownership Rate	89%		87%		66%		79%	
<b>2010</b>								
No. of Households	485	47	258	41	183	70	441	111
Homeownership Rate	91%		86%		72%		80%	
<b>Change 2010-2015</b>								
No. of Households	84	21	144	18	9	30	153	48
Pct. Change	15%	31%	36%	31%	5%	30%	26%	30%
Sources: U.S. Census Bureau, Maxfield Research and Consulting, LLC								



## Home Resale Values

Table 4 presents home resale data for single-family homes built before 2002 (at least 15 years old) in the PMA. Sales of newer homes were excluded because seniors typically have lived in their homes for at least a decade or more. The home sale data is useful in that it represents the amount of equity seniors may be able to derive from the sales of their homes that could be used to cover the cost of senior housing alternatives. The data on home sales in Table 4 was obtained from the Multiple Listing Services. The following points summarize key findings:

- As of April 2017, the average sales price of a single-family home built before 2002 in the PMA was \$233,113 and the median price was \$216,500. It should be noted that median sales prices are generally a more accurate portrayal of home equity since average figures can be skewed by a few very high- or low-priced homes.
- The median resale price of single-family homes has steadily increased from \$161,750 in 2012 to \$216,500 through April 2017. The median resale price increased by 33% between year-end 2012 and year-end 2016. Indicating that the housing market has recovered and seniors can gain equity from their homes.
- Consistent with housing conditions across the Nation, market activity has picked up as the housing market has improved in the PMA over the past five years, with homes remaining on the market for an average of 158 days prior to 2012 after which time the market velocity increased rapidly, with homes selling in half of that time or 80 days in 2016. As of April 2017, homes are selling in about 71 days.

- Based on the 2016 median single-family resale value in the PMA (\$216,500), a senior household could generate approximately \$4,070 of additional income annually (about \$339 per month), if they invested in an income-producing account (2.0% interest rate) after accounting for marketing costs and/or real estate commissions (6.0% of home sale price).

TABLE 4 SINGLE-FAMILY HOME RESALE VALUES BUILT BEFORE 2002 PRIMARY MARKET AREA 2012 to 2017*				
Area	No. of Sales	Average Price	Median Price	Average DOM
2012	60	\$185,830	\$161,750	158
2013	78	\$179,879	\$169,250	109
2014	88	\$212,412	\$179,900	100
2015	79	\$199,467	\$195,000	84
2016	89	\$244,229	\$215,000	80
2017*	16	\$233,113	\$216,500	71
<b>% Change 2012-2016</b>		<b>31.4%</b>	<b>32.9%</b>	
* Data through April 2017				
Sources: Multiple Listing Service; Maxfield Research & Consulting, LLC				

## Senior Housing Defined

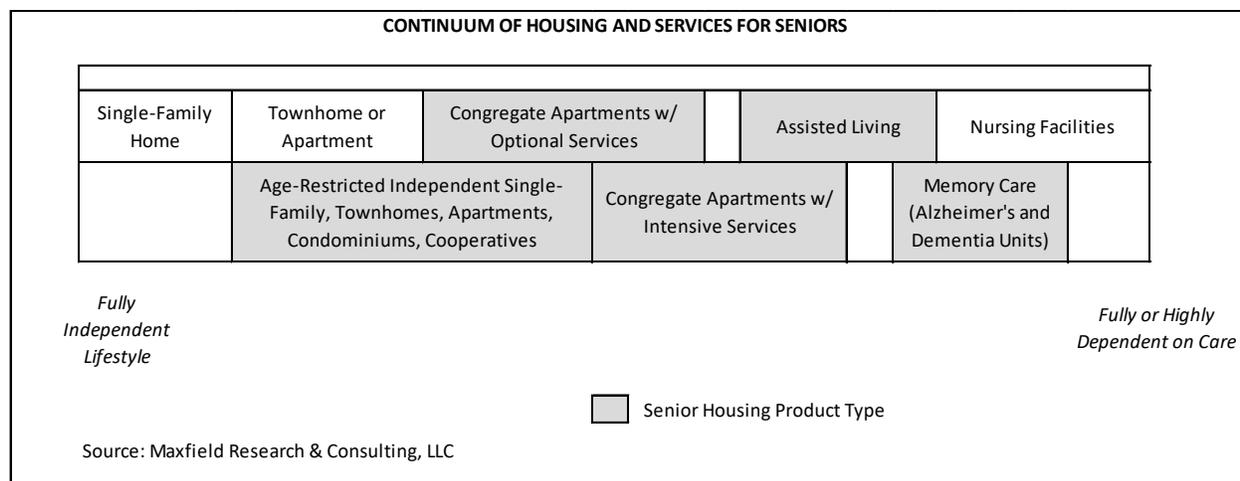
Senior housing is a concept that generally refers to the integrated delivery of housing and services to seniors. However, as the figure on the following page shows, senior housing embodies a wide variety of product types across the service-delivery spectrum, from independent apartments and/or townhomes with virtually no services on one end, to highly specialized service-intensive assisted living units or housing geared for people with dementia-related illnesses (termed "memory care") on the other end.

### *Types of Senior Housing in the Market*

For analytical purposes, Maxfield Research and Consulting, classifies market rate senior projects into four categories based on the level and type of services offered:

- ▶ **Active Adult** projects (or independent living without services available) are similar to a general-occupancy apartment building, in that they offer virtually no services but have age-restrictions (typically 55 or 62 or older). Organized activities, and occasionally a transportation program, are usually all that are available at these projects. Because of the lack of services, Adult/Few Services projects typically do not command the rent premiums of more service-intensive senior housing.

- ▶ This product has been one of the most popular types of senior housing developed in recent years because it appeals to seniors who do not need services, but desire to downsize their housing and/or rid themselves of home maintenance. Often, government entities will provide development assistance or own the project outright in exchange for reserving a portion of the units for seniors with moderate incomes. These income limits are frequently very liberal, allowing the vast majority of senior households to qualify for residency.
- ▶ **Congregate** projects (or independent living with services available) offer support services such as meals and/or housekeeping, either on an optional basis or a limited amount included in the rents. These projects typically dedicate a larger share of the overall building area to common areas, in part, because the units are smaller than in adult housing and in part to encourage socialization among residents. Congregate projects attract a slightly older target market than adult housing, typically seniors age 75 or older. Rents are also above those of the Adult/Few Services buildings, even excluding the services. Sponsorship by a nursing home, hospital or other health care organization is common.
- ▶ **Assisted Living** facilities come in a variety of forms, but the target market for most is generally the same: very frail seniors, typically age 80 or older (but can be much younger, depending on their particular health situation), who are in need of extensive support services and personal care assistance. Absent an assisted living option, these seniors would otherwise need to move to a nursing facility. At a minimum, assisted living projects include two meals per day and weekly housekeeping in the monthly fee, with the availability of a third meal and personal care (either included in the monthly fee or for an additional cost). Assisted living facilities also have either staff on duty 24 hours per day or at least 24-hour emergency response.



- ▶ Some projects offer self-contained dwelling units similar to a less service-intensive senior apartment building with full kitchens and spacious rooms. Projects offering kitchens in the units may include only two meals per day while those without kitchens in the units general-

ly provide three meals per day. Other projects do not have kitchens and are merely updated versions of board-and-care facilities with sleeping units and communal living spaces. Monthly fees vary depending on the number and type of services included, and the size of the units, but most facilities have fees starting at roughly \$3,500 per month. Because of the high cost of care, many facilities accept financial assistance through State programs like Medicare programs.

- ▶ **Memory Care** facilities, designed specifically for persons suffering from Alzheimer’s disease or other dementias, is one of the newest trends in senior housing. Projects consist mostly of suite-style or studio units or occasionally one-bedroom apartment-style units, and large amounts of communal areas for activities and programming. In addition, staff typically undergoes specialized training in the care of this population. Because of the greater amount of individualized personal care required by residents, staffing ratios are much higher than traditional assisted living and thus, the costs of care are also higher. Typical monthly fees for memory care units start at about \$4,500 per month. Unlike conventional assisted living, however, which deals almost exclusively with widows or widowers, a higher proportion of persons afflicted with Alzheimer’s disease are in two-person households. That means the decision to move a spouse into a memory care facility involves the caregiver’s concern of incurring the costs of health care at a special facility while continuing to maintain their home.

## **Supply of Competitive Senior Housing in the PMA**

Tables 5 shows an inventory of market rate senior housing properties in the Market Area. Our inventory revealed that there is only one congregate (independent living with services available) in the PMA that would be competitive with the subject Site.

### ***Independent Living (Congregate)***

- We identified only one congregate development in the PMA. Elim Meadows which is located in Watertown was built in 1989 and contains 11 units of congregate housing. The facility also has 30 skilled nursing beds. However, the City indicated that Elim Homes has announced they are closing Elim Meadows June 24<sup>th</sup>, 2017.

<b>TABLE 5</b> <b>MARKET RATE CONGREGATE SENIOR HOUSING DEVELOPMENTS</b> <b>PRIMARY MARKET AREA</b> <b>May 2017</b>				
<b>Project</b>	<b>Address</b>	<b>City</b>	<b>Year Built</b>	<b>Total Units</b>
Elim Meadows*	415 Jefferson Ave SW	Watertown	1989	11
* Closing June 24th, 2017				
Sources: Maxfield Research & Consulting, LLC				

### **Pending Senior Housing Developments in the PMA**

In order to assess future competition for the subject project, Maxfield Research interviewed planning staff of cities within the PMA about planned or proposed senior housing developments. We identified one proposed property within the PMA.

#### **Watertown**

- There is one pending project in Watertown that will consist of 16 assisted living units and 42 memory care units. This project is service intensive and would not be competitive with the proposed congregate facility.

### **Preliminary Demand Estimate for Congregate Housing**

Table 6 presents our demand calculations for market rate congregate senior housing in the Primary Market Area in 2016 and 2021. In order to arrive at the potential age-income qualified base for congregate senior housing, we include all senior households with incomes of \$35,000 or more and homeowners with incomes between \$35,000 and \$39,999 who would qualify with the proceeds from a home sale (this proportion was estimated based on the homeownership rates for each age cohort). We estimate the number of age/income/asset-qualified households in the Primary Market Area as of 2016 to be 392 households.

Adjusting to include appropriate capture rates for each age cohort (1.5% percent of households age 65 to 74, and 13% of households age 75 and older) results in a local demand potential for 166 market rate congregate units in 2016. We estimate that seniors currently residing outside the Market Area will generate 25% of the demand for congregate senior housing. This demand will consist primarily of parents of adult children living in the Primary Market Area, individuals who live just outside the Market Area and have an orientation to the area, and former residents

who desire to return upon retirement. Together, the demand from PMA seniors and demand from seniors who would relocate to the Market Area totals 24 congregate units as of 2016.

<b>TABLE 6 CONGREGATE LIVING DEMAND PRIMARY MARKET AREA 2016 &amp; 2021</b>				
	<b>2016</b>		<b>2021</b>	
	Age of Householder		Age of Householder	
	65-74	75+	65-74	75+
# of Householders w/ Incomes of \$35,000+ in 2016 / \$40K in 2021 (plus)	270	88	353	107
# of Hhldrs w/ Incomes of \$30K - \$35K in 2016 / \$35K - \$40K in 2021 (times) Homeownership Rate (equals) Potential Market	21 x 87%	25 x 66%	31 x 87%	21 x 66%
(equals) Total Potential Market Base	= 18	= 16	= 27	= 14
(times) Potential Capture Rate of Congregate Living Demand <sup>1</sup> (equals) Potential Demand	= 288 x 1.5%	= 104 x 13.0%	= 380 x 1.5%	= 121 x 13.0%
(equals) Potential Demand	= 4	+ 14	= 6	+ 16
Total Local Demand Potential (plus) Demand from Outside the PMA (25%) (equals) Total Demand Potential	= 18 + 6	= 24	= 21 + 7	= 29
(minus) Existing Competitive Units <sup>2</sup> <b>(equals) Excess Congregate Demand Potential</b>	= 24	= 24	= 29	= 29
(times) Proportion Capturable on Site <b>(equals) Excess Congregate Demand Potential on the Site</b>	x 85%	= 20	x 85%	= 24

<sup>1</sup> The potential capture rate is derived from data from the Summary Health Statistics for the U.S. Population: National Health Interview Survey, 2011 by the U.S. Department of Health and Human Services. The capture rate used is the percentage of seniors needing assistance with IADLs, but not ADLs (seniors needing assistance with ADLs typically need assistance with multiple IADLs and are primary candidates for service-intensive assisted living.).

<sup>2</sup> Competitive existing and pending units at 95% occupancy (market equilibrium).

Source: Maxfield Research and Consulting, LLC

Next, existing congregate units are subtracted from overall demand. There is one current competitive market rate congregate development with only eight units. However, this development is scheduled to close in June. Thus, we do not include these units in our demand calculations. We adjusted the units competitive based on the location within the PMA and after accounting for a 95% occupancy rate. With no competitive units, the resulting excess demand remains at 24 market rate congregate units in the Market Area as of 2016. No single location or development can capture all of the demand in a given market area. Based on the supply of senior housing in the PMA, we estimate that a site in Watertown could capture could apture 85% of the demand for of the excess demand for a total of 20 congregate units in the Market Area in 2016.

Adjusting for inflation, we have estimated that households with incomes of \$40,000 or more and homeowners with incomes of \$35,000 to \$40,000 would qualify for congregate housing in 2020. We project the age/income-qualified base for congregate housing to increase to 501 senior households in 2021. Using the same proportions of demand, we estimated that the subject property could capture 85% of the excess demand, resulting in demand for 24 market rate congregate units in 2021.

### Preliminary Conclusions

Our preliminary assessment of the factors impacting demand for senior housing, including demographic, economic and competitive variables, shows support for congregate products in the Primary Market Area currently and over the next five years.

Table 9 provides a summary of demand that could be captured at the proposed site. The potential demand capturable as of 2016 would be 20 units from all service levels increasing to 24 units from all service levels in 2021.

TABLE 9 MARKET RATE DEMAND SUMMARY PRIMARY MARKET AREA 2016 & 2021				
Service Level	Market Area		Subject Site	
	2016	2021	2016	2021
Congregate	24	29	20	24
<b>Total Units</b>	<b>24</b>	<b>29</b>	<b>20</b>	<b>24</b>

Source: Maxfield Research and Consulting, LLC

### Conclusions

Our preliminary assessment of the factors impacting demand for senior housing, including demographic, economic and competitive variables, shows support for additional market rate congregate senior housing in the PMA currently and over the next five years. A growing older adult and senior population should maintain long-term demand for senior housing alternatives in the PMA. We believe that there is demand sufficient to support 23 private pay units through 2021.

It should be noted that these conclusions are preliminary and do not consider the historical performance of other senior housing developments in the Market Area, price and positioning of the proposed development, or other important factors (i.e. architectural, marketing and management issues) that would likely impact the potential success of the subject development.



April 12, 2018

## MEMORANDUM

TO: Mr. Shane Fineran  
**City of Watertown, Minnesota**

FROM: Matt Mullins  
Max Perrault  
**Maxfield Research & Consulting, LLC**

RE: Preliminary Demand Estimate for Active Adult Senior Housing in Watertown, Minnesota.

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### Introduction/Purpose and Scope of Research

This memorandum provides a preliminary assessment of the market potential for active adult senior housing in Watertown, Minnesota. Maxfield Research and Consulting, LLC calculated the potential demand for active adult senior housing units in the Primary Market Area based on two primary factors: 1) the size of the income/asset-qualified target market and 2) the supply of existing and planned competitive senior housing projects.

The methodology used to calculate demand in this memorandum is proprietary to Maxfield Research but is consistent with methodologies used by analysts throughout the senior housing industry. It is important to note that demand estimates and conclusions contained herein are preliminary and are intended only to broadly assess the depth of the senior housing market in Watertown and the surrounding area to determine whether additional senior housing products could be supported. A more thorough investigation of the unique characteristics of the Primary Market Area, outlined in a *Full Feasibility Study*, would reveal more specific factors that might impact demand and appropriate market positioning.

This memorandum will supplement the study titled "A Market Potential Assessment for Commercial and Multifamily Residential Development on a Site at 313 Territorial Street East in Watertown, Minnesota", which was completed in February 2017 and the hourly consulting for congregated housing that was completed in May 2017.

## Senior Housing Defined

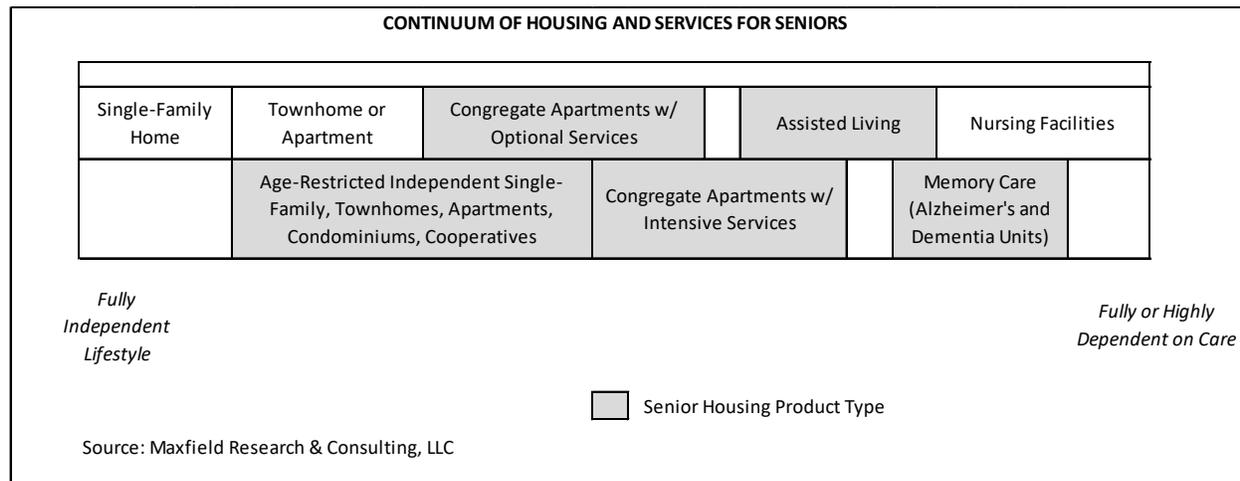
Senior housing is a concept that generally refers to the integrated delivery of housing and services to seniors. However, as the figure on the following page shows, senior housing embodies a wide variety of product types across the service-delivery spectrum, from independent apartments and/or townhomes with virtually no services on one end, to highly specialized service-intensive assisted living units or housing geared for people with dementia-related illnesses (termed "memory care") on the other end.

### *Types of Senior Housing in the Market*

For analytical purposes, Maxfield Research and Consulting, classifies market rate senior projects into four categories based on the level and type of services offered:

- **Active Adult** projects (or independent living without services available) are similar to a general-occupancy apartment building, in that they offer virtually no services but have age-restrictions (typically 55 or 62 or older). Organized activities, and occasionally a transportation program, are usually all that are available at these projects. Because of the lack of services, Adult/Few Services projects typically do not command the rent premiums of more service-intensive senior housing.
- This product has been one of the most popular types of senior housing developed in recent years because it appeals to seniors who do not need services, but desire to downsize their housing and/or rid themselves of home maintenance. Often, government entities will provide development assistance or own the project outright in exchange for reserving a portion of the units for seniors with moderate incomes. These income limits are frequently very liberal, allowing the vast majority of senior households to qualify for residency.
- **Congregate** projects (or independent living with services available) offer support services such as meals and/or housekeeping, either on an optional basis or a limited amount included in the rents. These projects typically dedicate a larger share of the overall building area to common areas, in part, because the units are smaller than in adult housing and in part to encourage socialization among residents. Congregate projects attract a slightly older target market than adult housing, typically seniors age 75 or older. Rents are also above those of the Adult/Few Services buildings, even excluding the services. Sponsorship by a nursing home, hospital or other health care organization is common.
- **Assisted Living** facilities come in a variety of forms, but the target market for most is generally the same: very frail seniors, typically age 80 or older (but can be much younger, depending on their particular health situation), who are in need of extensive support services and personal care assistance. Absent an assisted living option, these seniors would otherwise need to move to a nursing facility. At a minimum, assisted living projects include two

meals per day and weekly housekeeping in the monthly fee, with the availability of a third meal and personal care (either included in the monthly fee or for an additional cost). Assisted living facilities also have either staff on duty 24 hours per day or at least 24-hour emergency response.



- Some projects offer self-contained dwelling units similar to a less service-intensive senior apartment building with full kitchens and spacious rooms. Projects offering kitchens in the units may include only two meals per day while those without kitchens in the units generally provide three meals per day. Other projects do not have kitchens and are merely updated versions of board-and-care facilities with sleeping units and communal living spaces. Monthly fees vary depending on the number and type of services included, and the size of the units, but most facilities have fees starting at roughly \$3,500 per month. Because of the high cost of care, many facilities accept financial assistance through State programs like Medicare programs.
- **Memory Care** facilities, designed specifically for persons suffering from Alzheimer’s disease or other dementias, is one of the newest trends in senior housing. Projects consist mostly of suite-style or studio units or occasionally one-bedroom apartment-style units, and large amounts of communal areas for activities and programming. In addition, staff typically undergoes specialized training in the care of this population. Because of the greater amount of individualized personal care required by residents, staffing ratios are much higher than traditional assisted living and thus, the costs of care are also higher. Typical monthly fees for memory care units start at about \$4,500 per month. Unlike conventional assisted living, however, which deals almost exclusively with widows or widowers, a higher proportion of persons afflicted with Alzheimer’s disease are in two-person households. That means the decision to move a spouse into a memory care facility involves the caregiver’s concern of incurring the costs of health care at a special facility while continuing to maintain their home.

## **Supply of Competitive Senior Housing in the PMA**

Our inventory revealed that there are no market rate active adult properties within the PMA. Riverside Apartments, located at 210 Territorial St E, Watertown, MN is a 22-unit affordable active adult property and would not be directly competitive with the subject Site.

## **Pending Senior Housing Developments in the PMA**

In order to assess future competition for the subject project, Maxfield Research interviewed planning staff of cities within the PMA about planned or proposed senior housing developments. At this time, there are no planned or proposed senior housing developments within the PMA.

## **Preliminary Demand Estimate for Active Adult Senior Housing**

Table 1 presents our demand calculations for market rate active adult senior housing in the PMA in 2016 and 2021.

In order to determine demand for independent senior housing, the potential market is reduced to those households that are both age and income qualified. The age-qualified market is defined as seniors age 55 and older, although independent living projects will primarily attract seniors age 65 and older.

We calculate that the minimum income needed to afford monthly rents is \$35,000 or more plus homeowner households with incomes between \$25,000 and \$34,999 who would be able to supplement their incomes with the proceeds from a home sale. We estimate the number of age/income-qualified senior households in the PMA in 2016 to be 1,000 households.

Adjusting to include appropriate long-term capture rates for each age cohort (0.5% of households age 55 to 64, about 5.5% of households age 65 to 74, and 16.5% of households age 75 and over) results in a market rate demand potential for 40 active adult senior rental units in 2016.

Some additional demand will come from outside the PMA. We estimate that 25% of the long-term demand for active adult senior housing will be generated by seniors currently residing outside the PMA. This demand will consist primarily of parents of adult children living in the PMA area, individuals who live just outside of the PMA and have an orientation to the area, as well as former residents who desire to return. Together, the demand from seniors in the PMA and demand from seniors who would relocate to the PMA results in a demand for 53 market rate active adult units in 2016.

Active adult demand in the PMA is apportioned between ownership and rental housing. Based on the age distribution, homeownership rates and current product available in the PMA, we project that 25% of the PMA's demand will be for adult ownership housing (13 units) and 75% will be for rental housing (40 units).

TABLE 1 MARKET RATE ACTIVE ADULT HOUSING DEMAND PRIMARY MARKET AREA 2016 and 2021						
	2016			2021		
	Age of Householder			Age of Householder		
	55-64	65-74	75+	55-64	65-74	75+
# of Households w/ Incomes of >\$35,000 <sup>1</sup>	541	270	88	588	352	106
# of Households w/ Incomes of \$25,000 to \$34,999 <sup>1</sup>	36	42	49	46	62	43
(times) Homeownership Rate	x 89%	x 87%	x 66%	x 89%	x 87%	x 66%
(equals) Total Potential Market Base	= 573	= 307	= 120	= 629	= 406	= 134
(times) Potential Capture Rate	x 0.5%	x 5.5%	x 16.5%	x 0.5%	x 5.5%	x 16.5%
(equals) Demand Potential	= 3	= 17	= 20	= 3	= 22	= 22
<b>Potential Demand from Residents</b>	= 40			= 48		
(plus) Demand from Outside the PMA (25%)	+ 13			+ 16		
<b>(equals) Total Demand Potential</b>	= 53			= 64		
	<b>Owner-Occupied</b>		<b>Renter-Occupied</b>	<b>Owner-Occupied</b>		<b>Renter-Occupied</b>
(times) % by Product Type	x 25%		x 75%	x 25%		x 75%
(equals) Demand Potential by Product Type	= 13		= 40	= 16		= 48
(minus) Existing and Pending MR Active Adult Units <sup>2</sup>	- 0		- 0	- 0		- 0
<b>(equals) Excess Demand for MR Active Adult Units</b>	<b>= 13</b>		<b>= 40</b>	<b>= 16</b>		<b>= 48</b>

<sup>1</sup> 2021 calculations define income-qualified households as all households with incomes greater than \$40,000 and homeowner households with incomes between \$35,000 and \$44,999.  
<sup>2</sup> Existing and pending are deducted at market equilibrium (95% occupancy).

Source: Maxfield Research & Consulting LLC

Adjusting for inflation, we have estimated that households with incomes of \$40,000 or more and homeowners with incomes of \$35,000 to \$44,999 would income qualify for market rate independent senior housing in 2021. Considering the growth in the older adult base, the income distribution of the older adult population in 2021 the methodology projected that demand will be 16 adult owner-occupied units and 48 adult rental units in the PMA.

## Preliminary Conclusions

Our preliminary assessment of the factors impacting demand for senior housing, including demographic, economic and competitive variables, shows support for active adult products in the Primary Market Area currently and over the next five years.

Table 2 provides a summary of demand that could be captured at the proposed site. The potential demand capturable as of 2016 would be 13 units of market rate owner active adult, 40 units of market rate renter active adult, and 24 units of congregate housing. By 2021, demand increases to 16 units of market rate owner active adult 48 units of market rate renter active adult, and 27 units of congregate housing.

<i>Service Level</i>	<i>Market Area Demand</i>	
	<b>2016</b>	<b>2021</b>
Active Adult Owner	13	16
Active Adult Renter	40	48
Congregate	24	27
<b>Total Units</b>	<b>77</b>	<b>91</b>

Source: Maxfield Research & Consulting, LLC

## Conclusions

Our preliminary assessment of the factors impacting demand for senior housing, including demographic, economic and competitive variables, shows support for additional market rate active adult senior housing in the PMA currently and over the next five years. A growing older adult and senior population should maintain long-term demand for senior housing alternatives in the PMA. We believe that there is demand sufficient to support 16 owner active adult units, 48 renter active adult units, and 27 congregate units through 2021.

It should be noted that these conclusions are preliminary and do not consider the historical performance of other senior housing developments in the Market Area, price and positioning of the proposed development, or other important factors (i.e. architectural, marketing and management issues) that would likely impact the potential success of the subject development.