



Maxfield
Research & Consulting

Real Estate Research
Providing Comprehensive
Market Information
and Feasibility Studies



Renville
COUNTY
Service • Stewardship • Shared Responsibility

Renville County Housing Study

Presented to: Renville County EDA/HRA

Presented by: Matt Mullins, Vice President
Maxfield Research & Consulting, LLC

September 24, 2020



Maxfield Research & Consulting, LLC

We are a full-service real estate advisory company providing strategic value to our private and public sector clients' real estate activities.



OVERVIEW

- 35+ Years Experience
- Diverse Client Base
- **Multi-Sector Capable**
 - *Residential*
 - *Commercial*
 - *Public & Private Entities*
- Market Driven Strategies
- Recommending Highest & Best Uses
- Provide Actionable Plans

Project Scope

OBJECTIVE

Provide custom comprehensive housing study

APPROACH

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

PROJECT DELIVERABLES

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

KEY DATES

- Kick-off Meeting: February 27, 2020
- Data collection: 2nd Quarter 2020
- Draft: July 2020
- Final: September 2020 – Review & Comments
- Presentation: September 24, 2020

Agenda

Submarkets

Demographics & Economics

Market Overview

Demand & Recommendations

COVID-19 Impacts/Housing Outlooks

Next Steps

Discussion



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COVID-19 | Housing Outlooks

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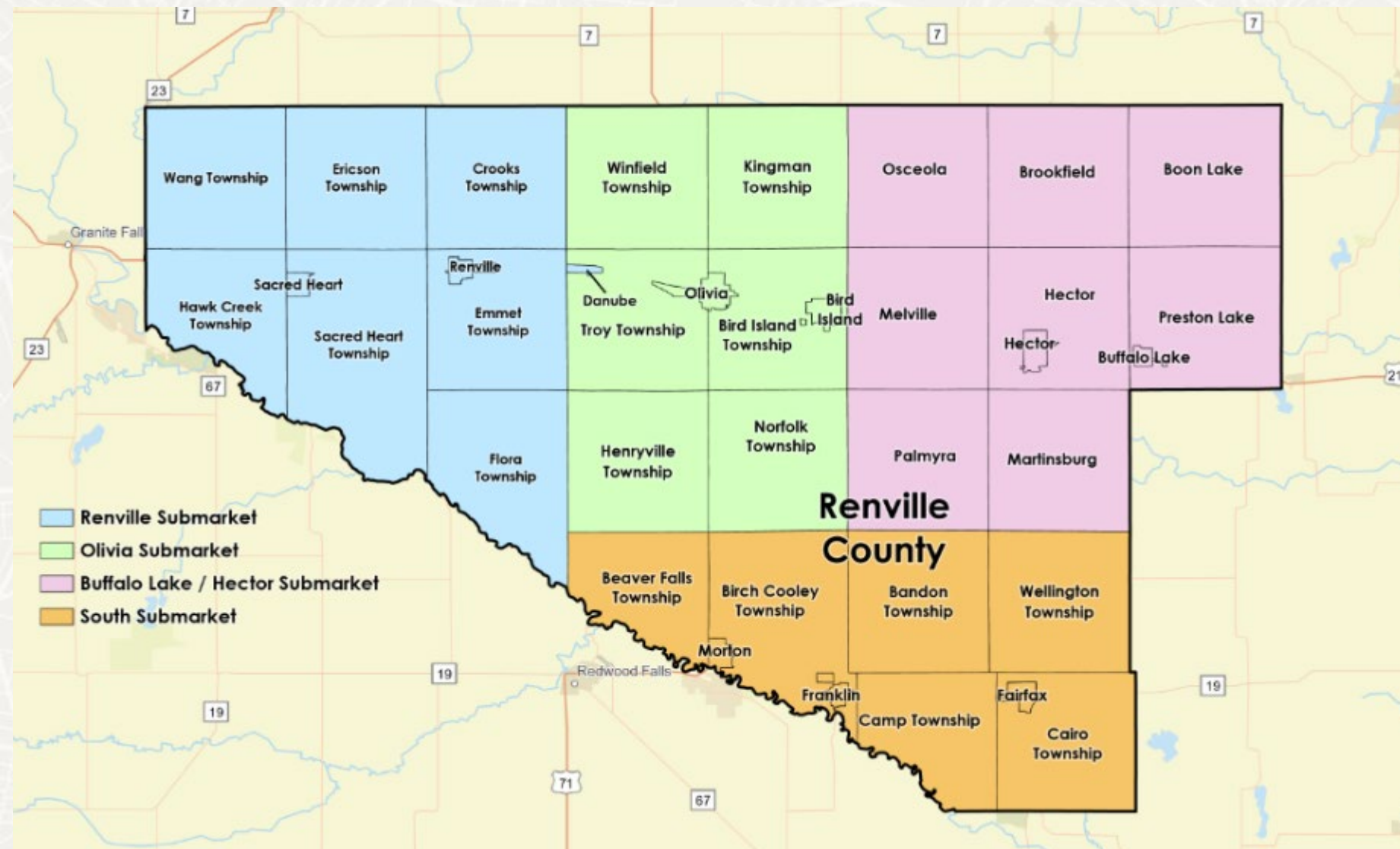
Discussion

Renville County Analysis Area Submarkets

4 Submarkets

27 Geographies

- 10 cities
- 27 townships





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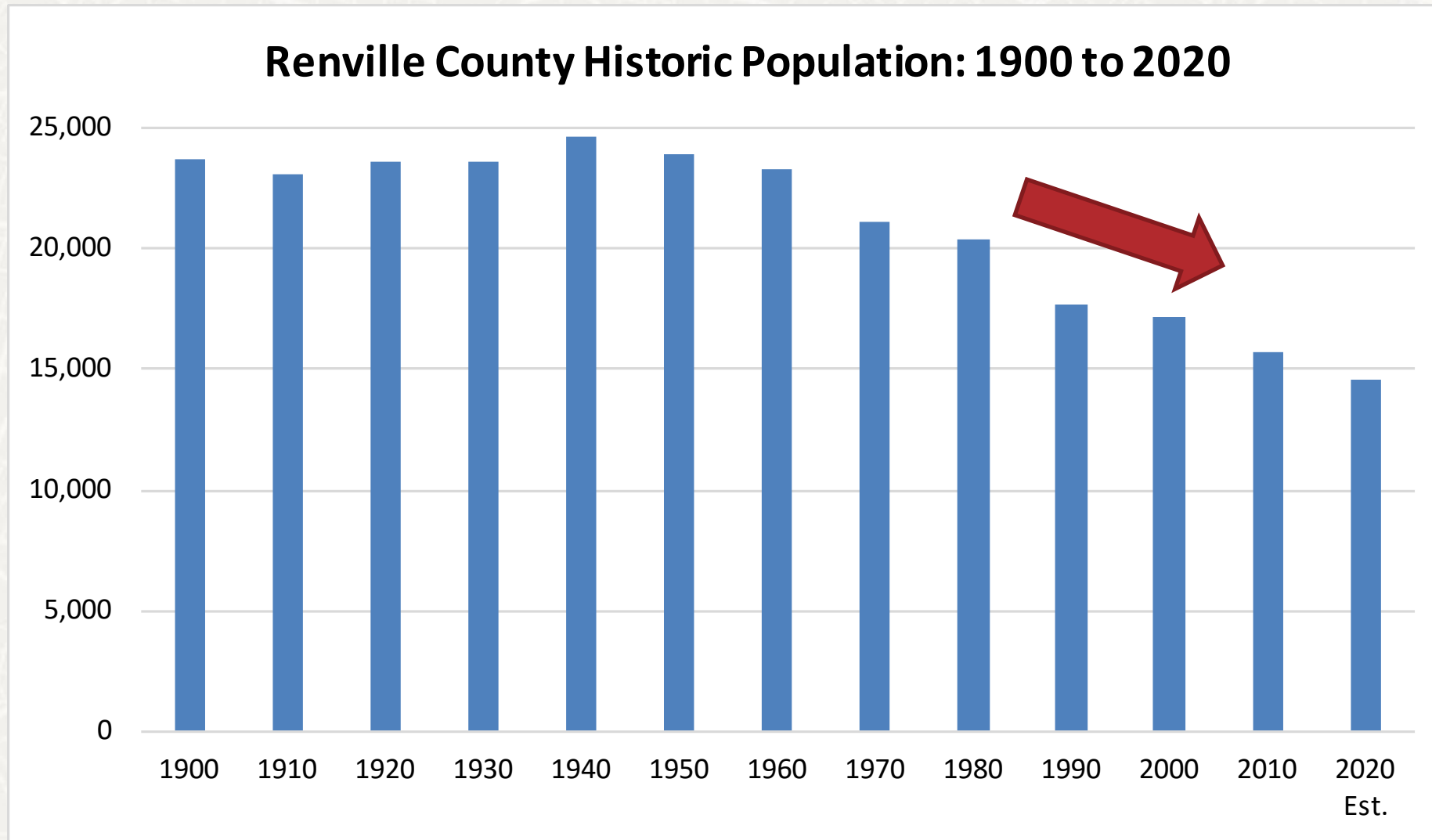
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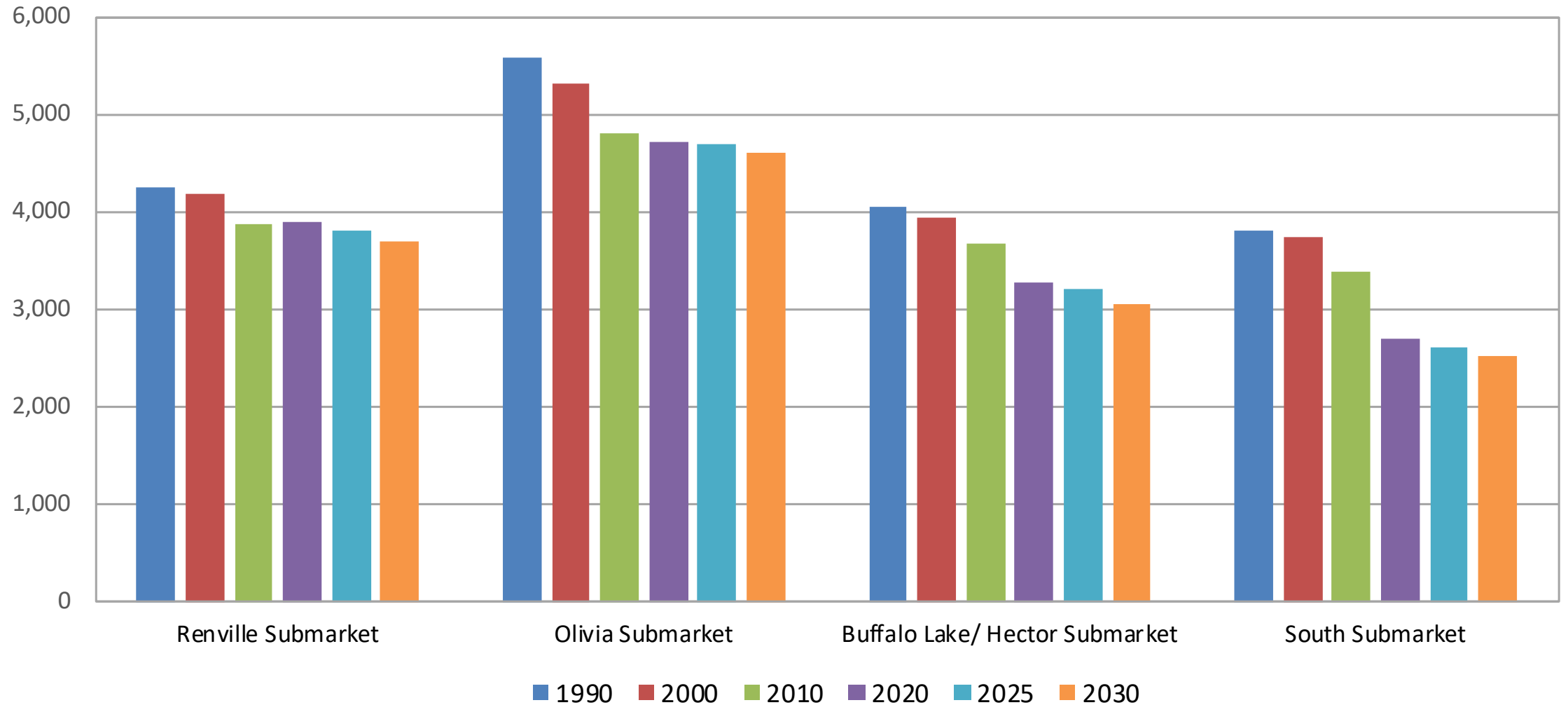
Discussion

Waning Population for decades...

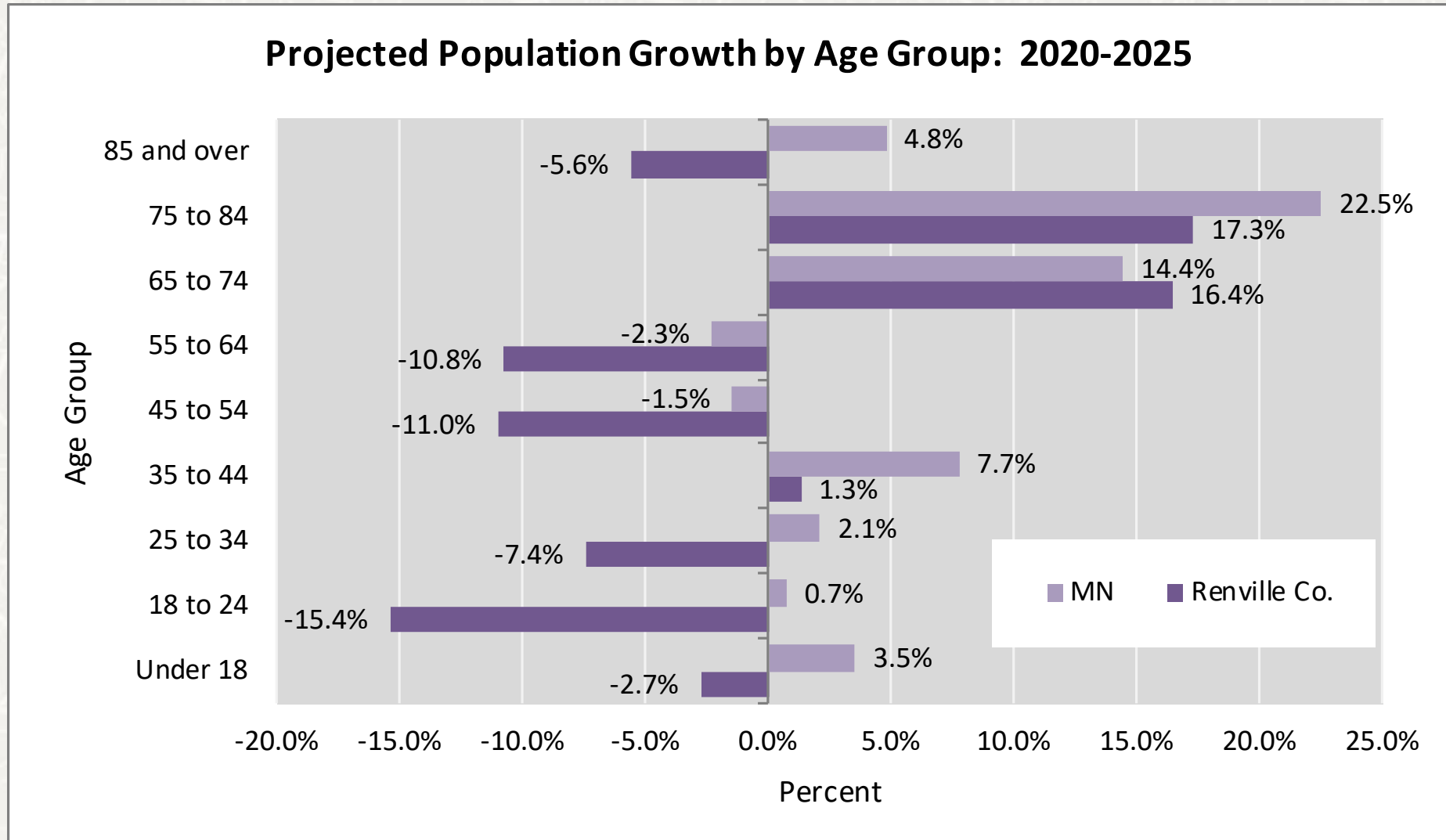


Declines Projected in all Submarkets...

Population by Submarket, Renville County, 1990 - 2030

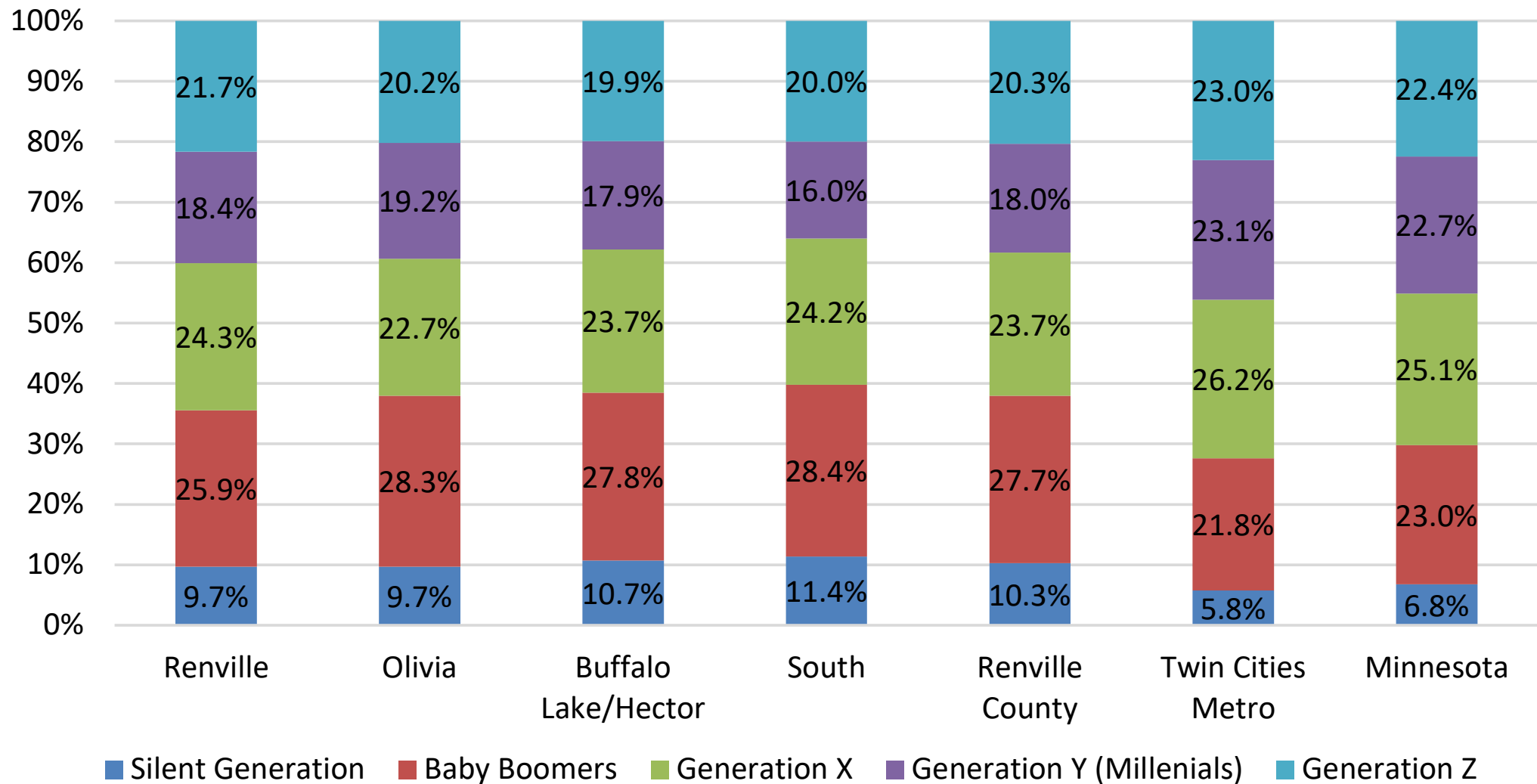


Highest Growth pct. Among Senior Population



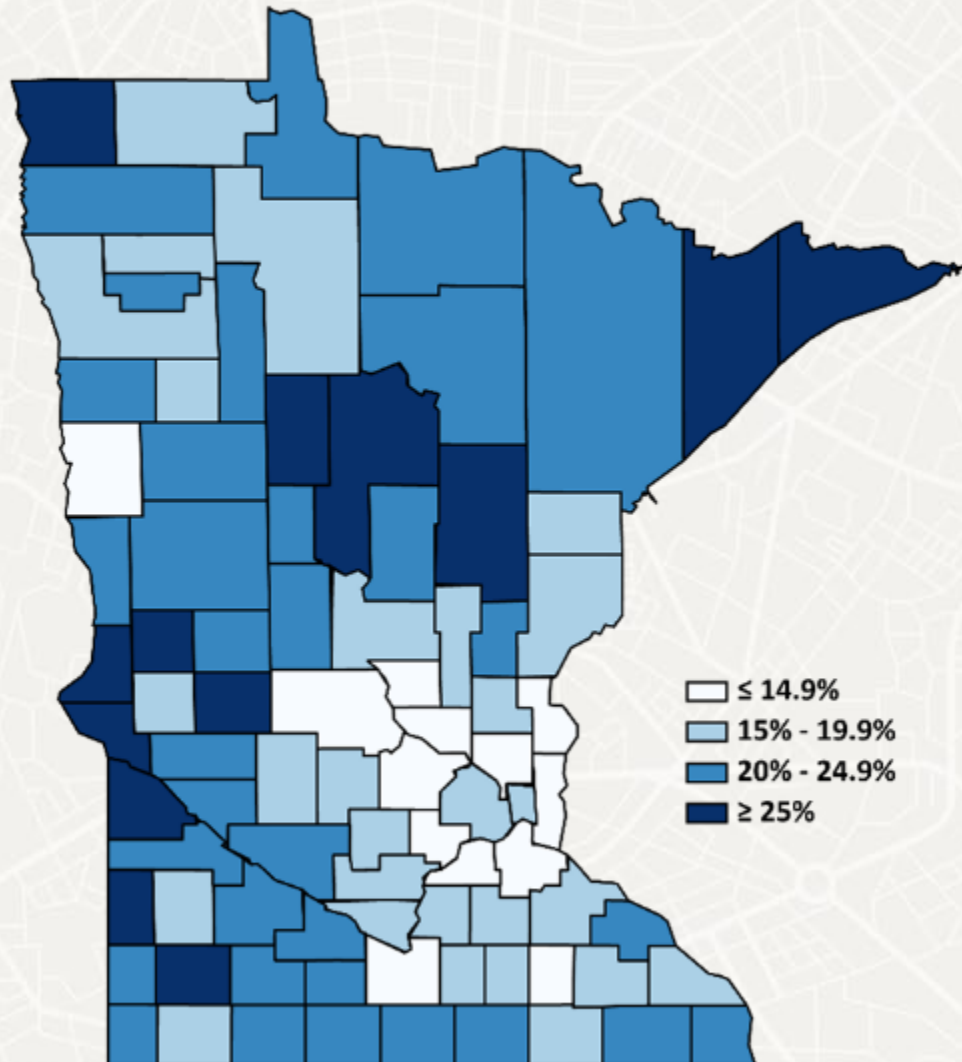
Baby Boomers/ Largest Adult Cohort in Renville County

Demographic Generations by Submarket: 2020



Big Picture: MN is Aging; Especially Rural MN

Percentage of 65+ Population
By County, 2019



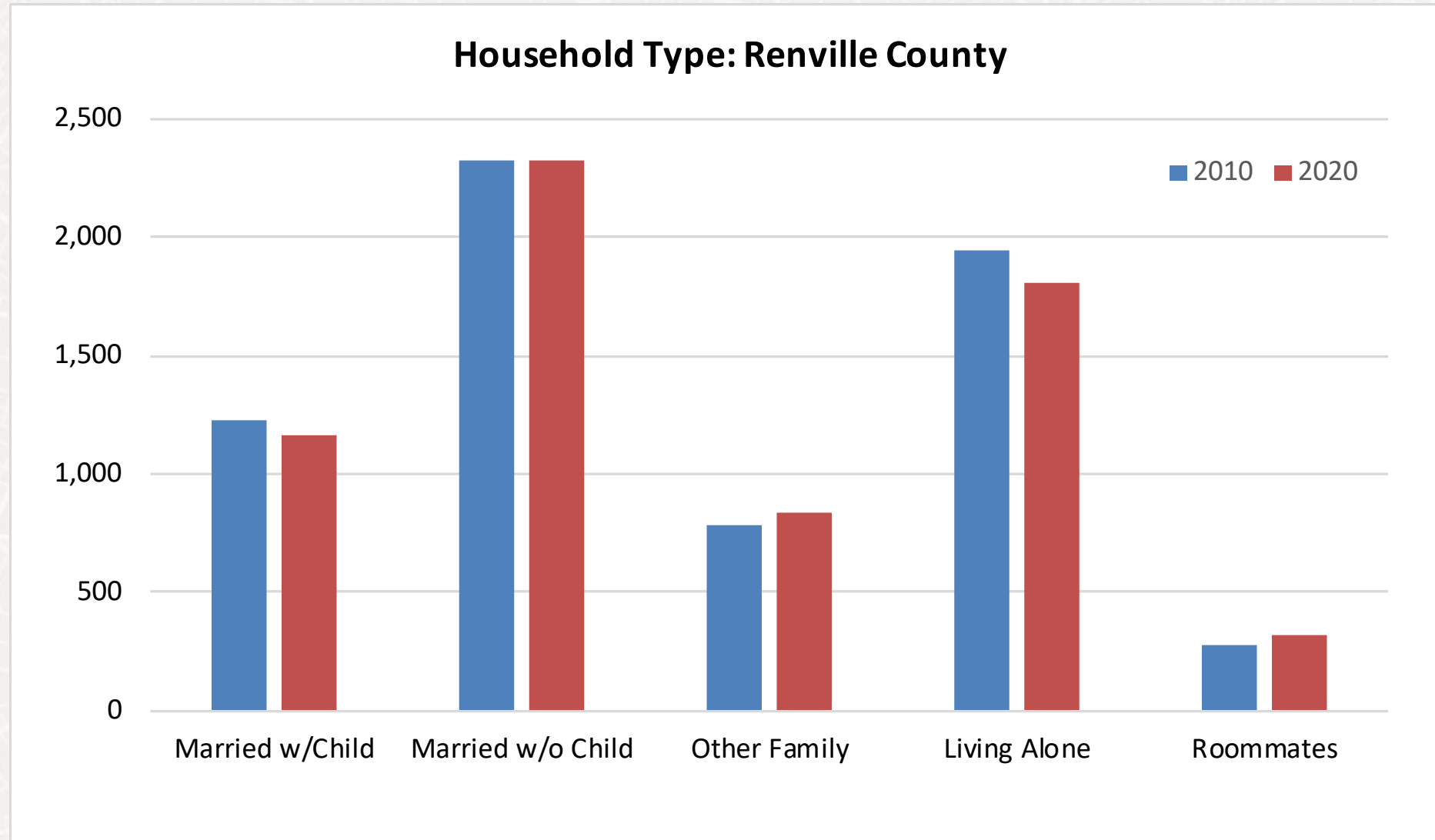
2019

- 5.7 million
- Millennials overtaking Boomers
- 16% pop. 65+
- Metro: 48% of MN 65+

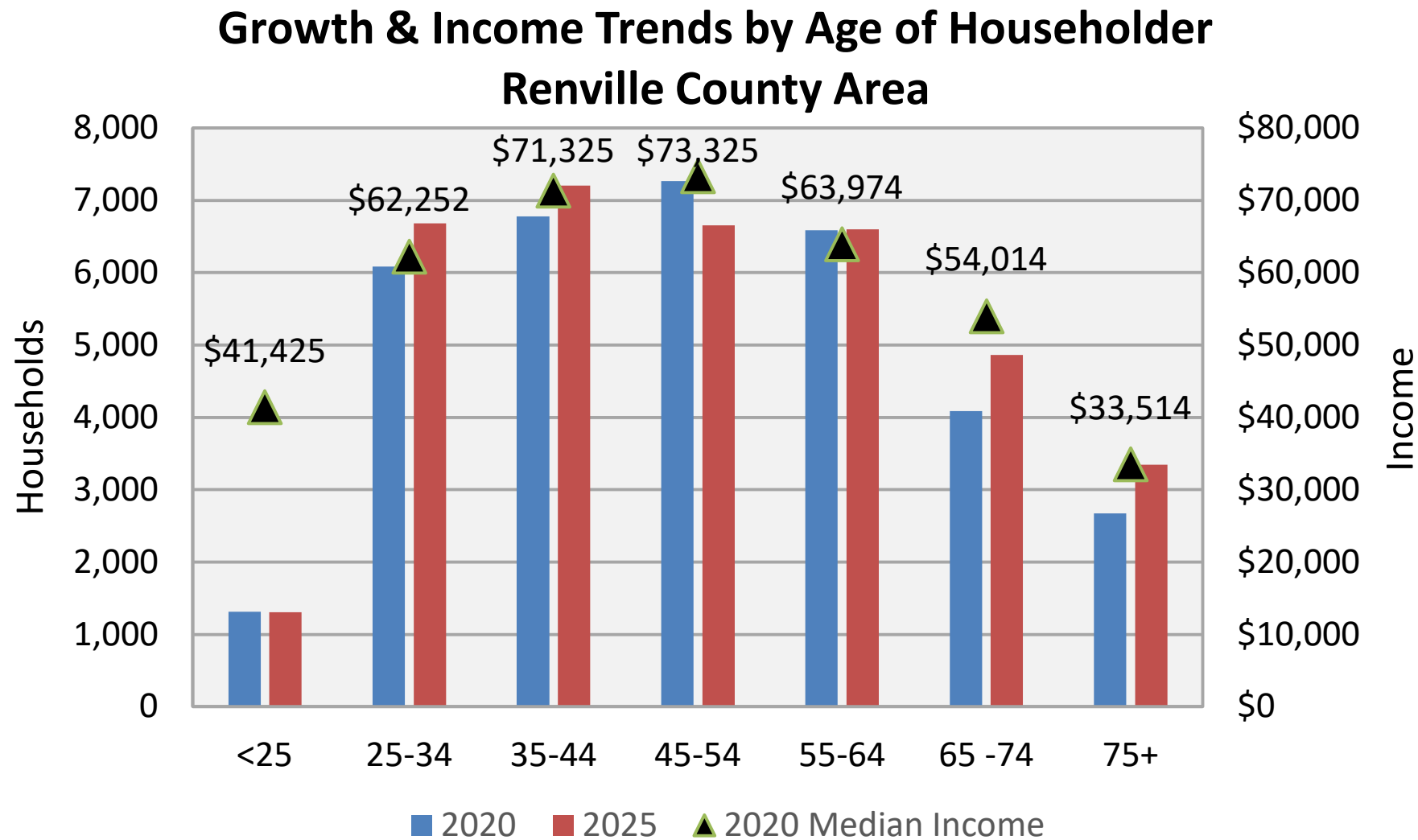
2040

- 6.1 million
- 21% pop. 65+
- Metro: 75% of MN 65+

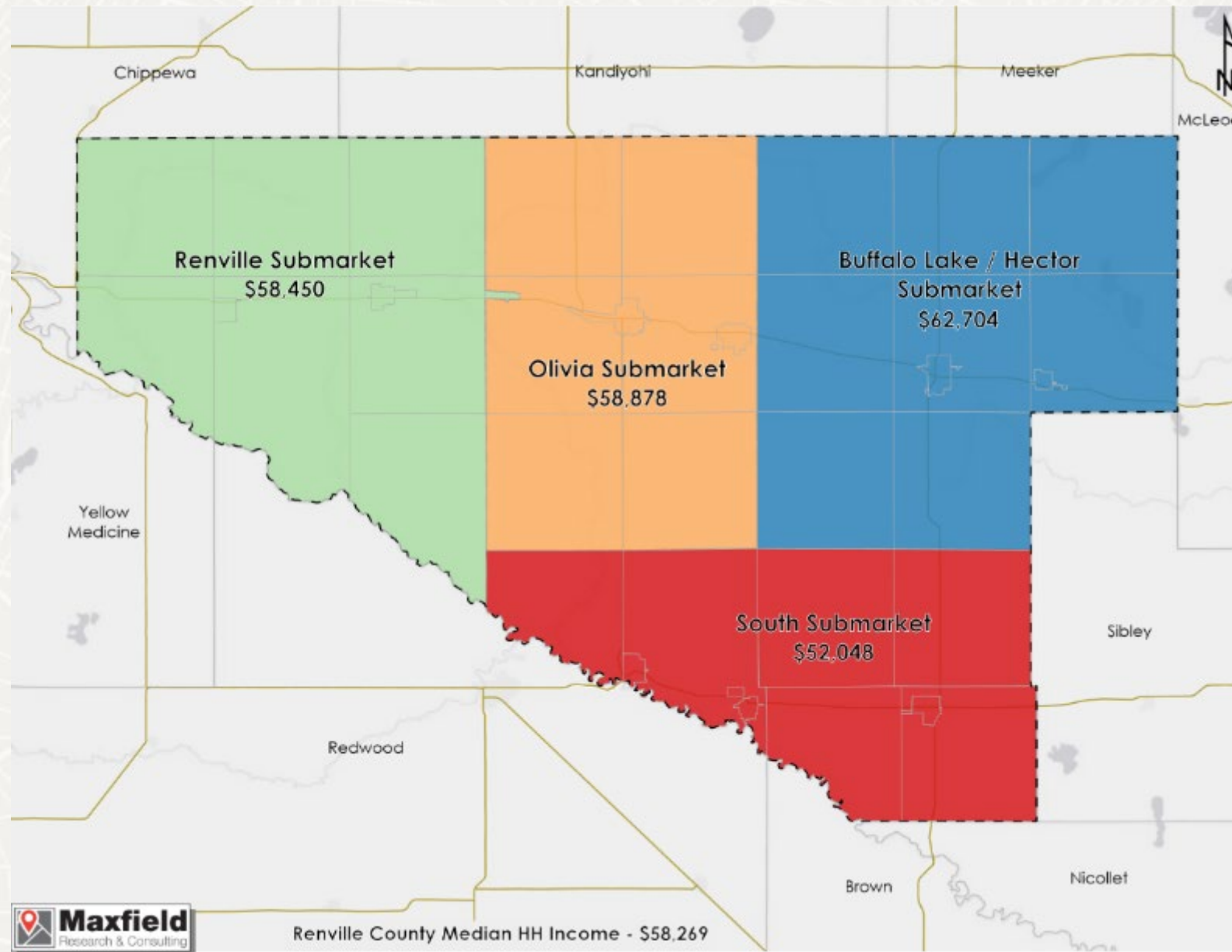
Empty/Never Nesters = 36% of Households



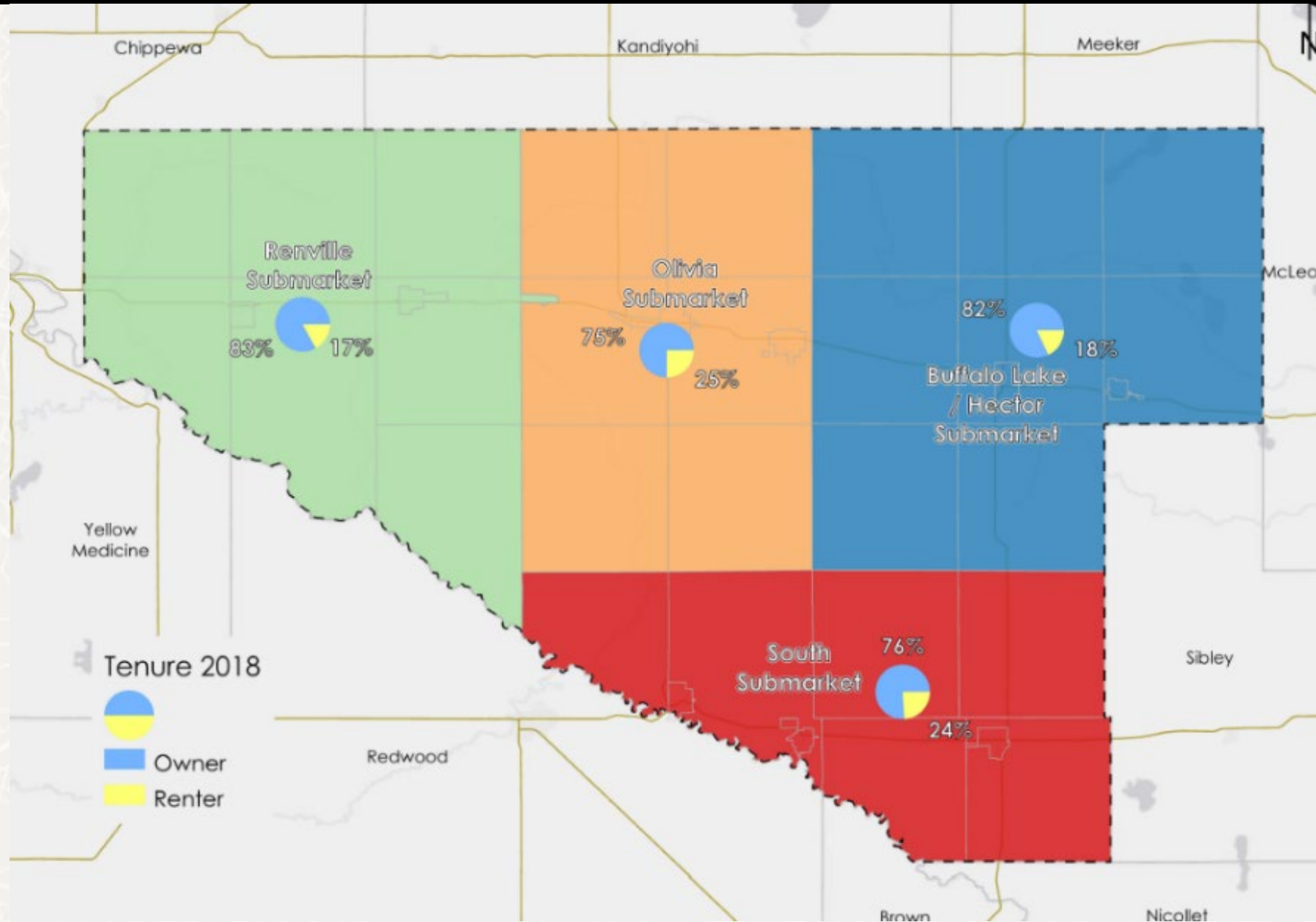
Median Income Highest in 45 to 54 Cohort



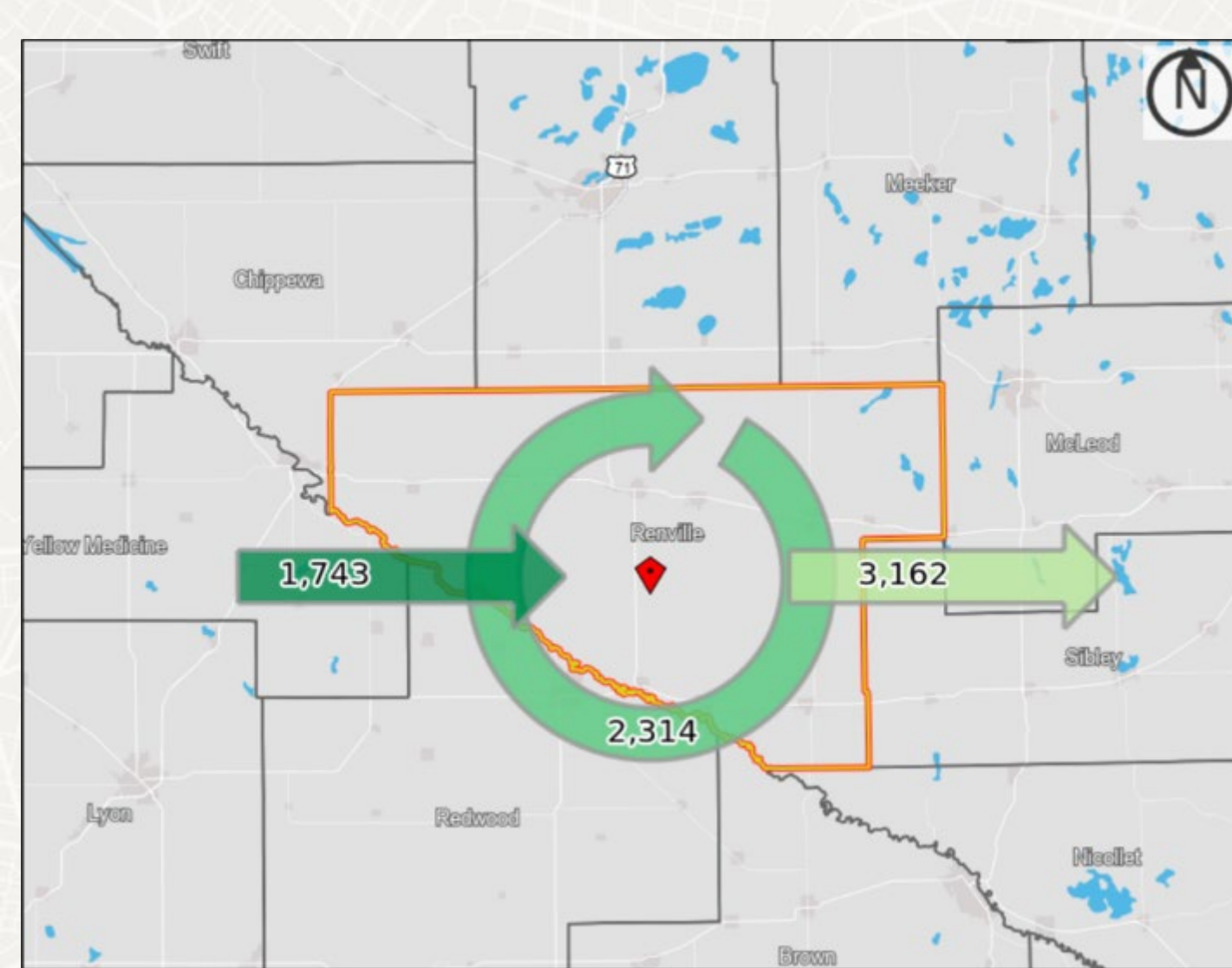
Buffalo Lake/Hector Submarket Highest Median Income



High HO Rates Across all of the County



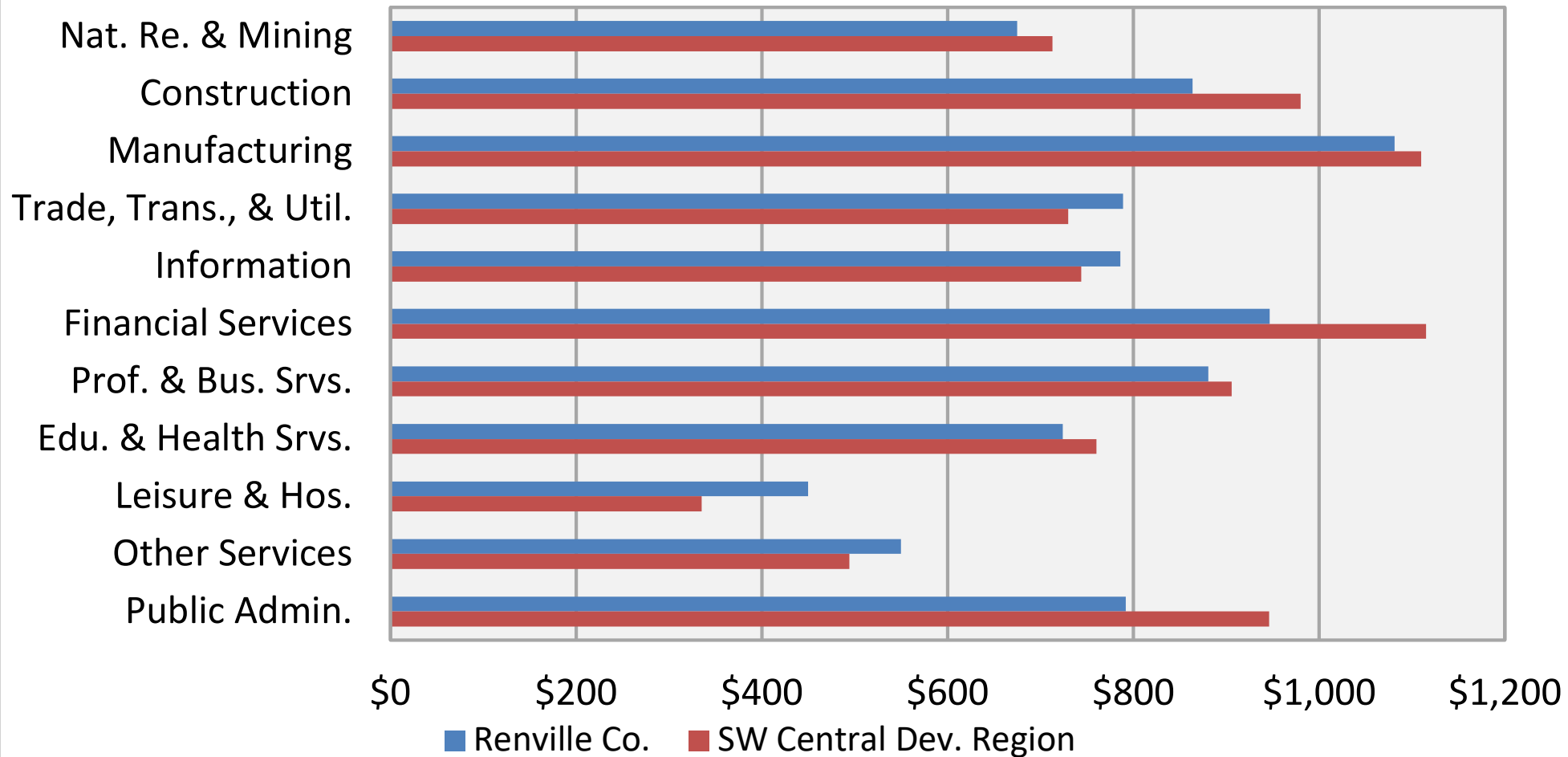
Renville County a Job Exporter



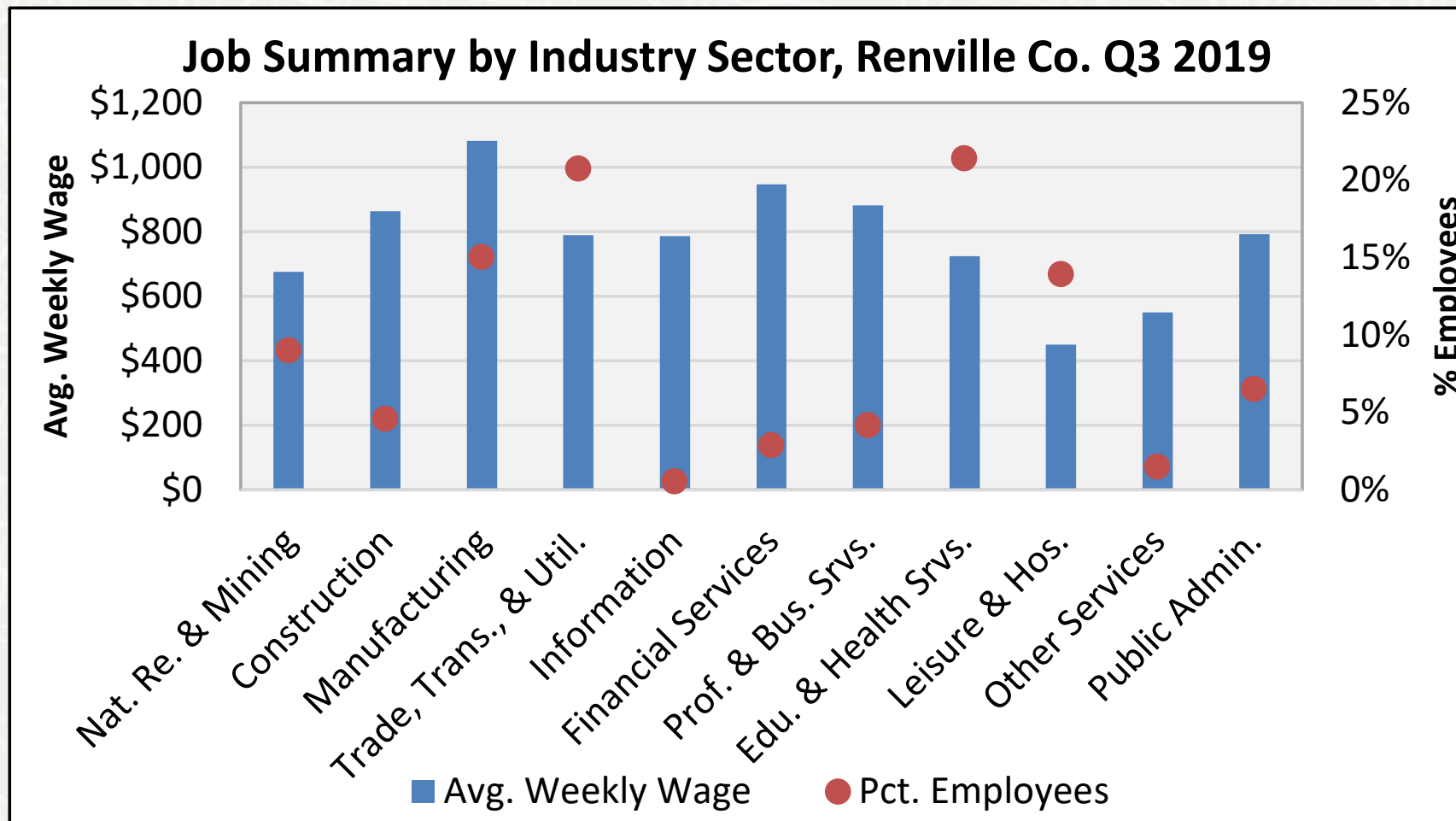
- Roughly 5,747 jobs (covered employment)
- Key Industry Sector Jobs:
 - Edu. & Health Services : 21%
 - Trade, Transportation & Utilities: 20%
 - Manufacturing: 15%
- Avg. weekly/annual wage:
 - \$700 | \$36,400 (Renville County)
 - \$1,233 | \$64,116 (Minnesota)
- 57% residents leave County for employment
- 5.5% of County residents commute to Willmar

Average Wages in the Region....

Average Weekly Wage Q3 2019

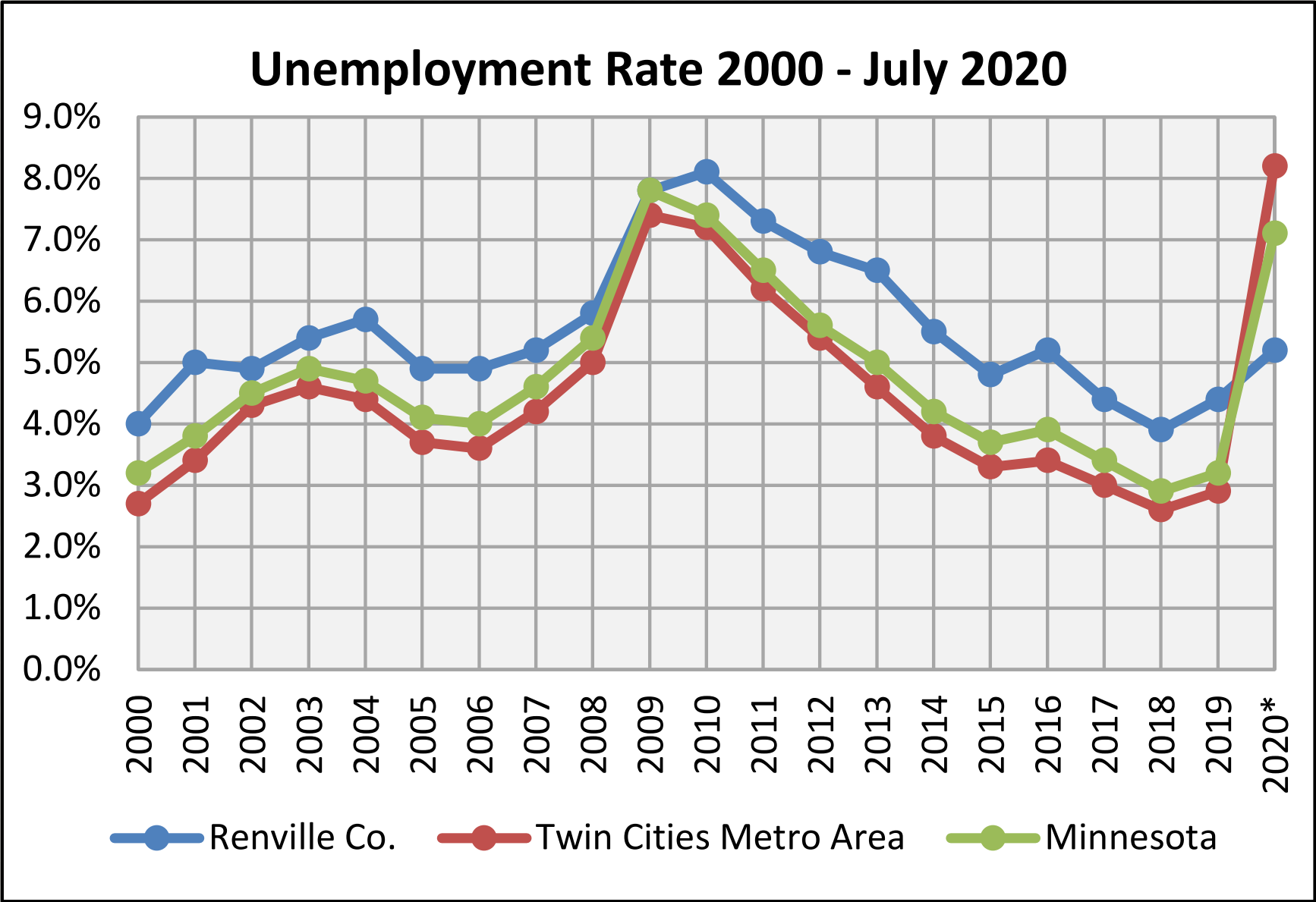


Wages Highest in Manufacturing



* Farming/Agriculture is not technically included in covered employment because the data omits large sections namely the self-employed and family farms.

County UE Rate Less Impacted by COVID-19





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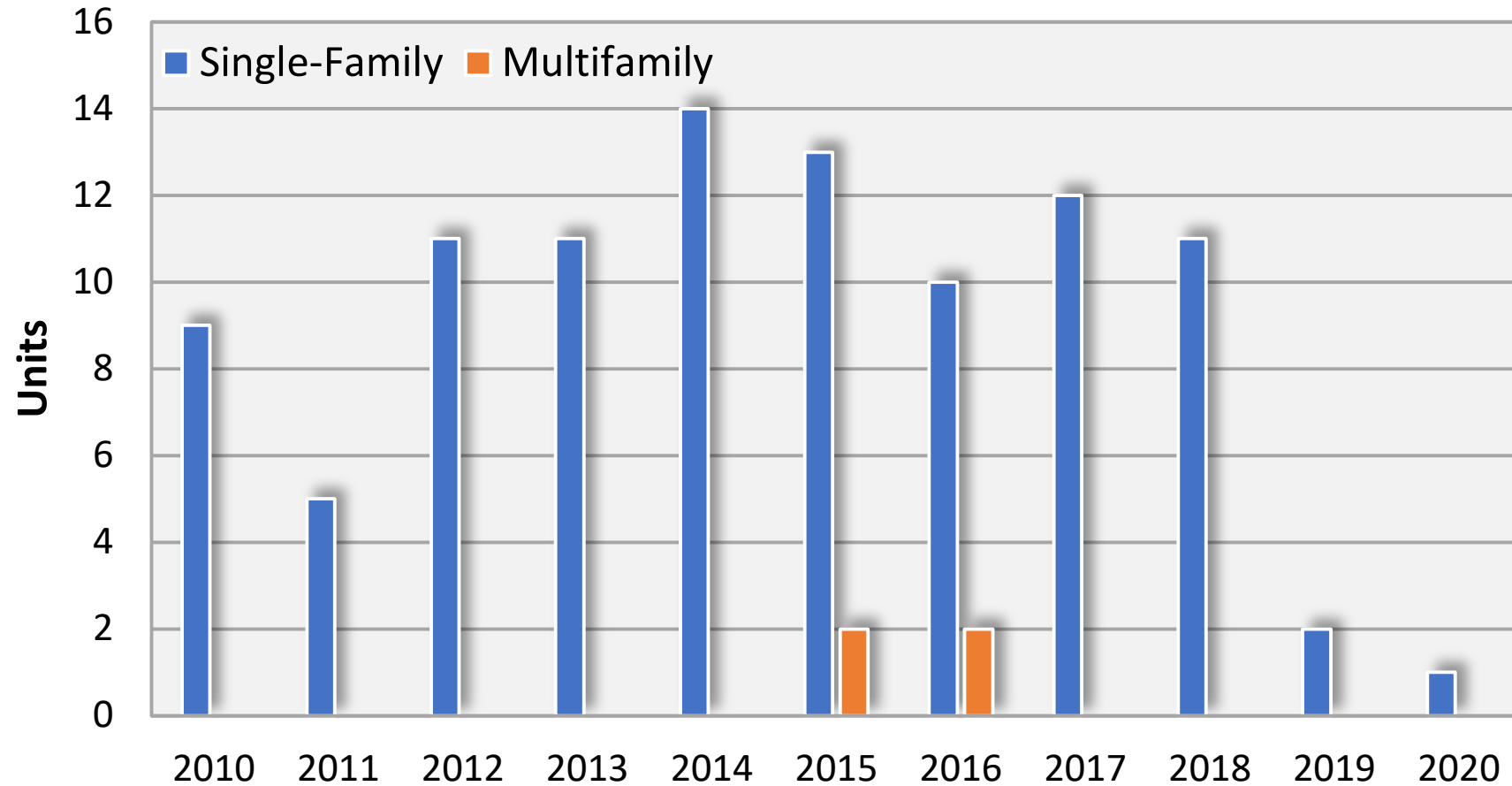
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New Construction Single-Family Driven...

**Residential Building Permits Trends
Renville County 2010 - 2020**



Lower Rental Housing Vacancies | Lack Rental Stock

Overall (Buildings w/8+ units)

- 385 units | 32 properties
- 4.2% vacancy rate
- No new development in the past 20 years
- Average year built - 1979

Market Rate

- 199 units | 20 properties
- 4% vacancy rate
- Avg. monthly rent \$540
- Avg. PSF rent: \$0.61
- Market rate rents lower than Affordable rents

Affordable/Subsidized

- 186 units | 12 projects
- 4.3% vacancy rate



Parklane Apartments

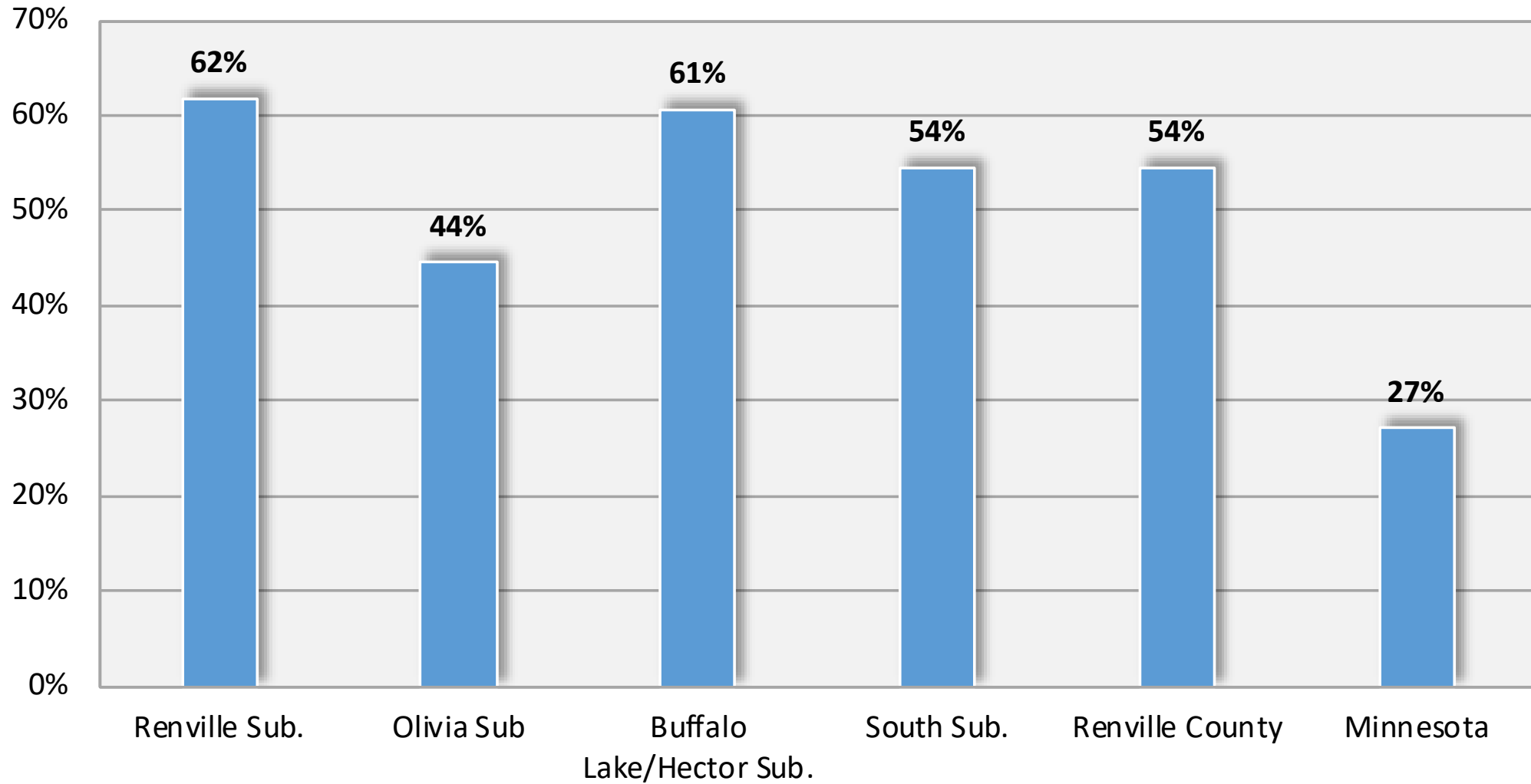


West Court Apartments

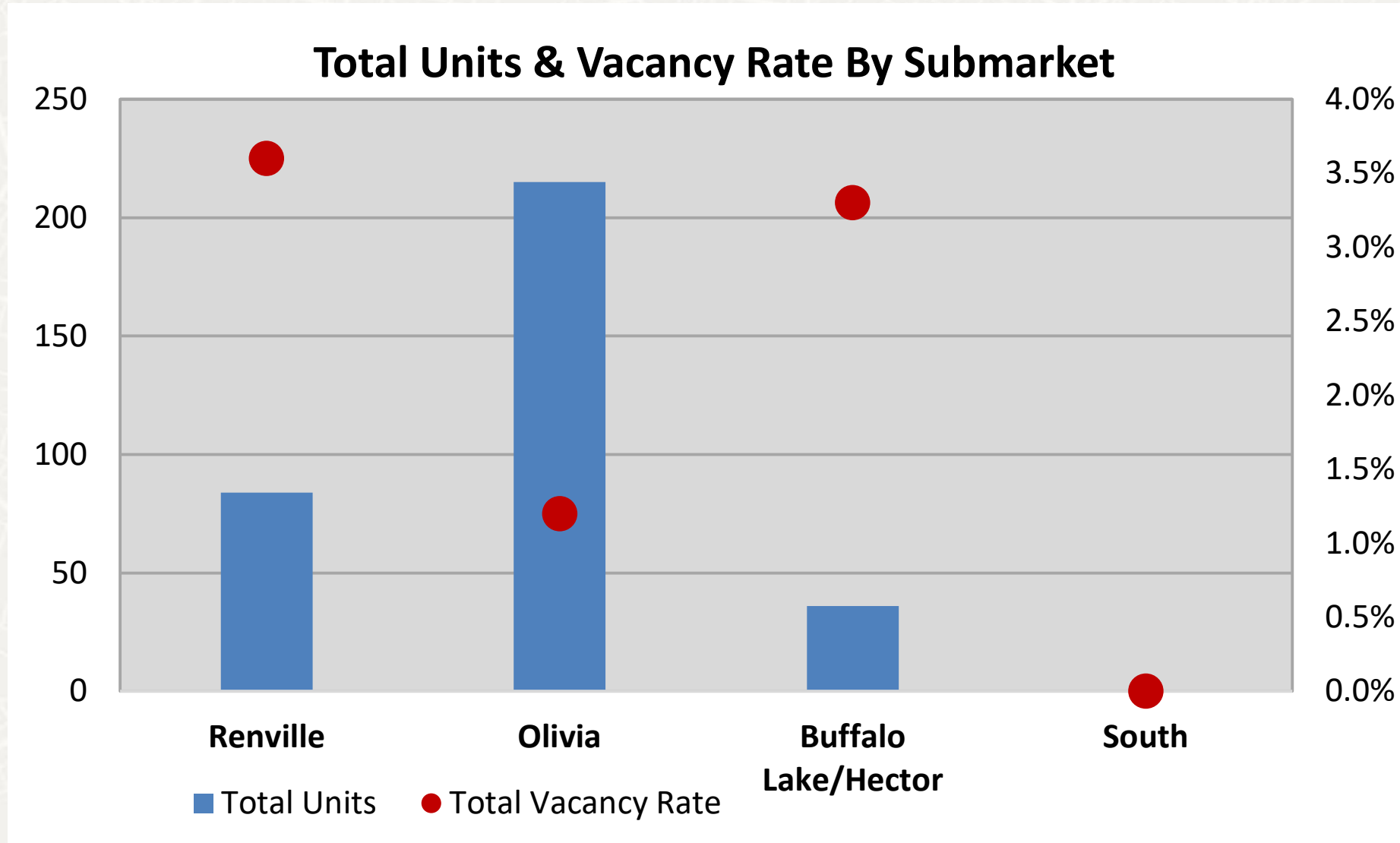
5% Vacancy = Market Equilibrium

Single-family dominates Rental Housing stock

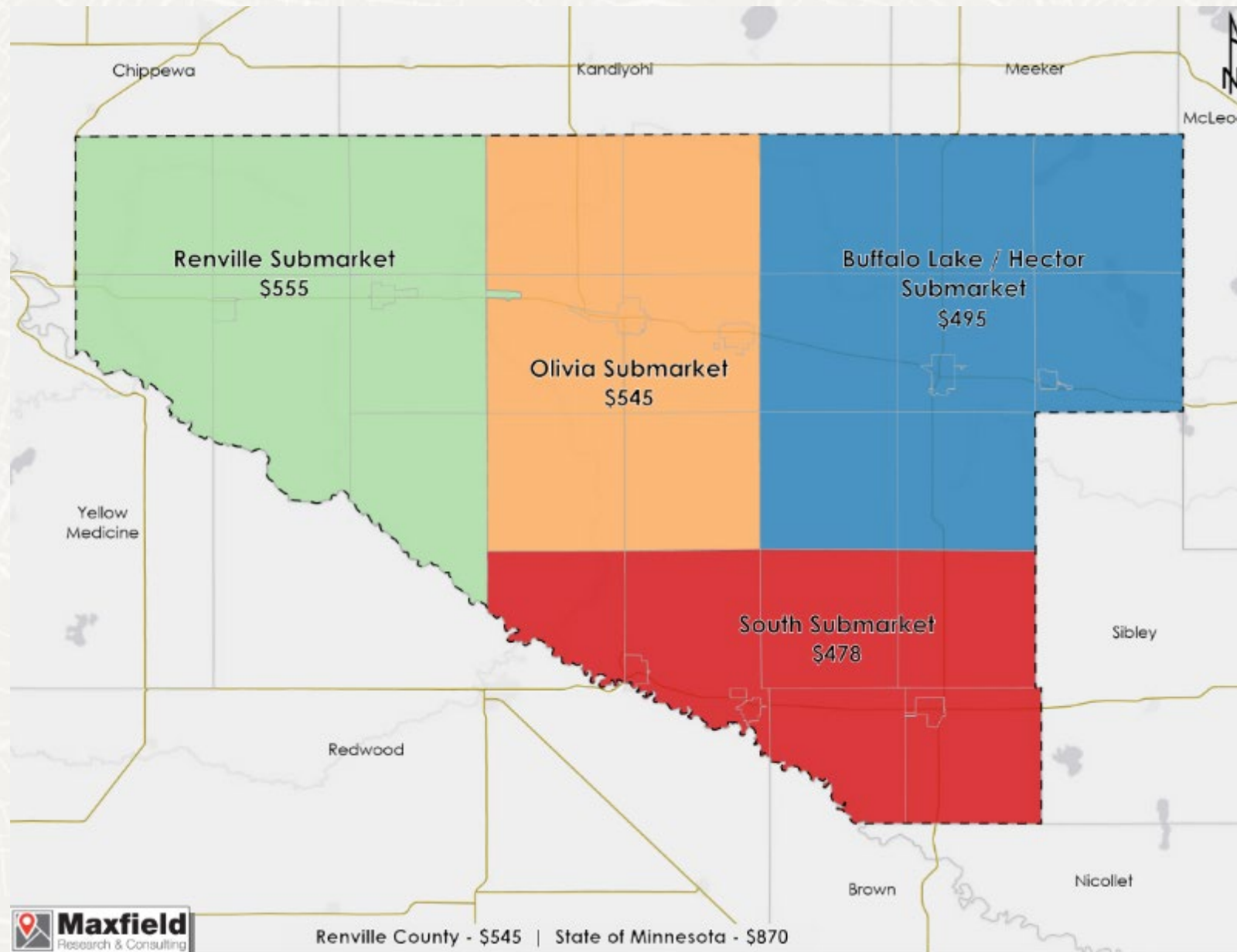
SF Attached & Detached Rental Stock



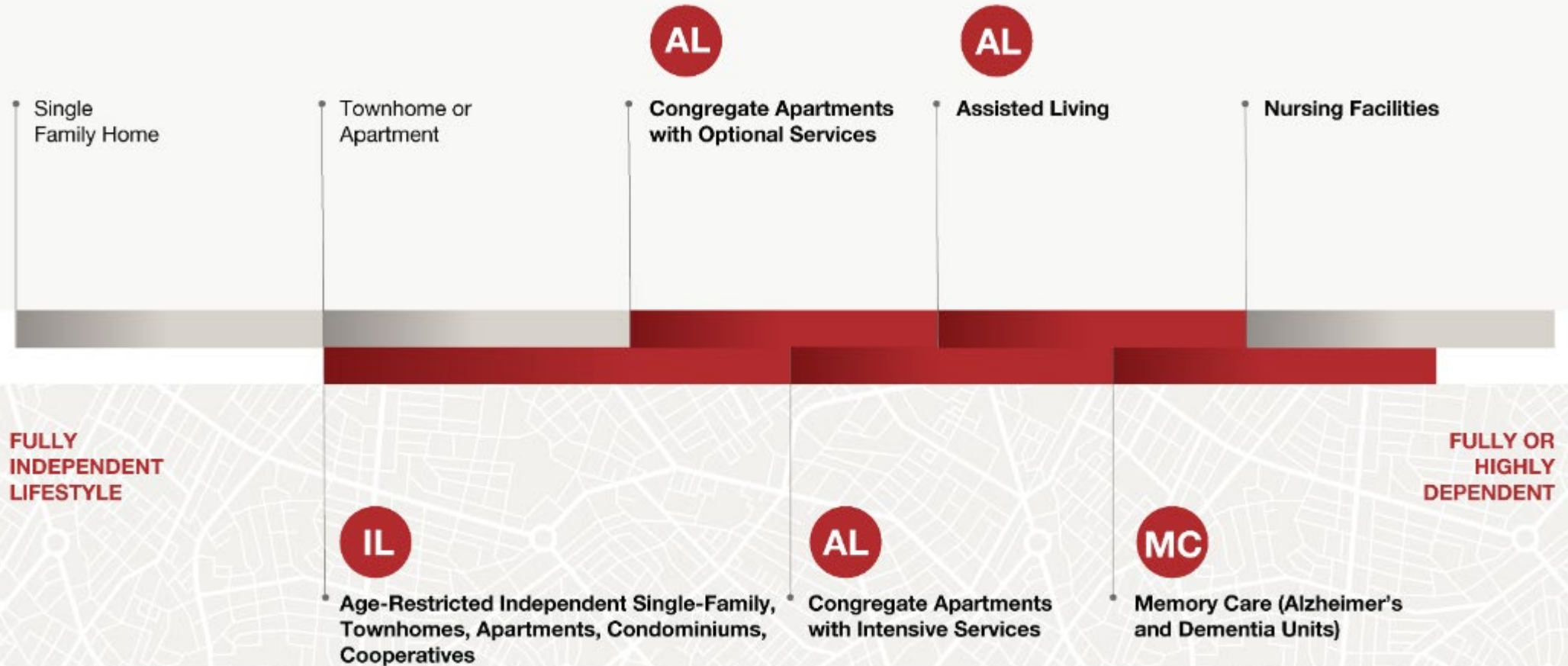
Rental Summary by Submarket – Market Rate



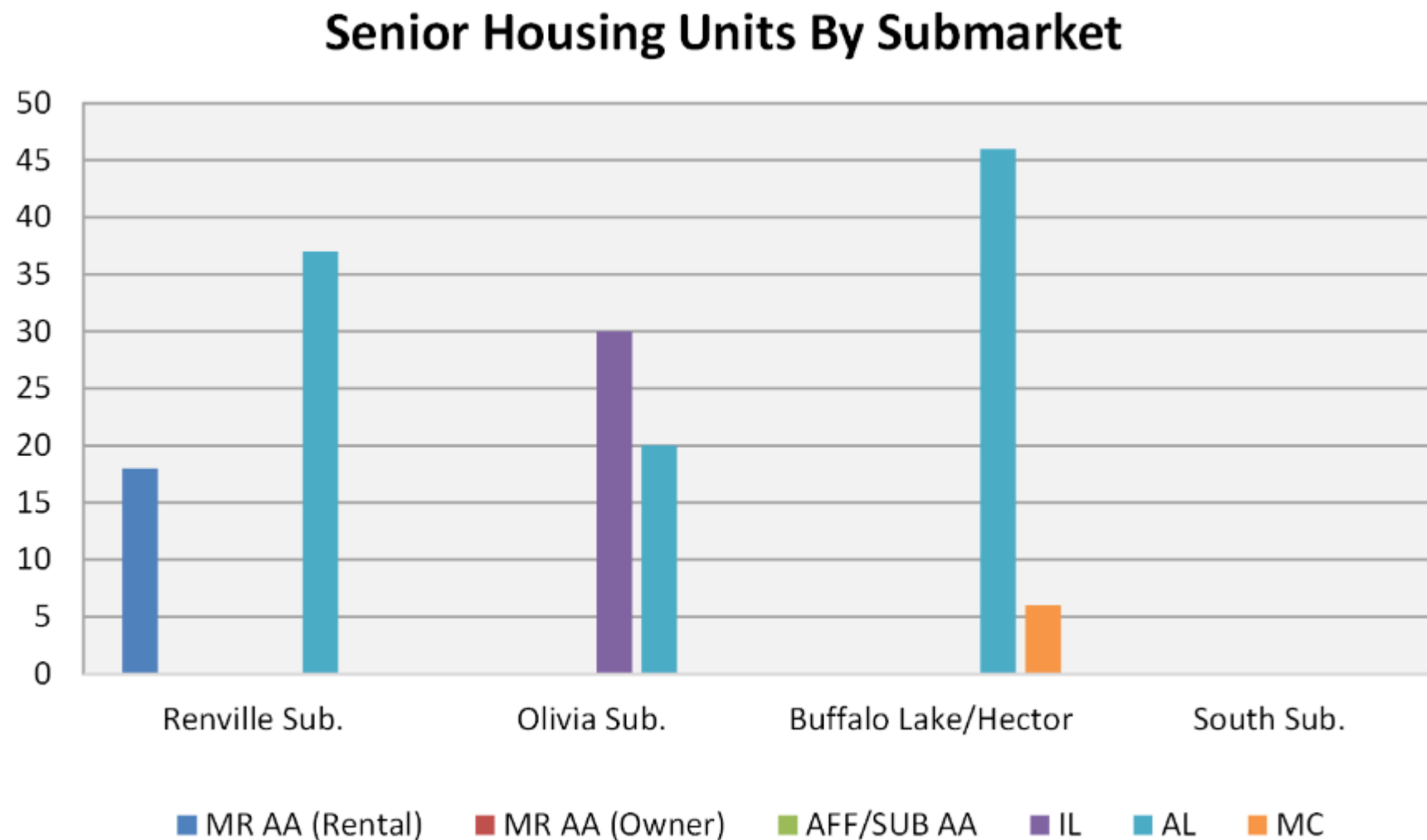
Median Contract Rent by Submarket



Older Adult Housing Continuum



Senior Units by Submarket



Note: Chart only includes properties that provided complete market information

Baby Boomers (56 – 74) – 75 Million Strong!

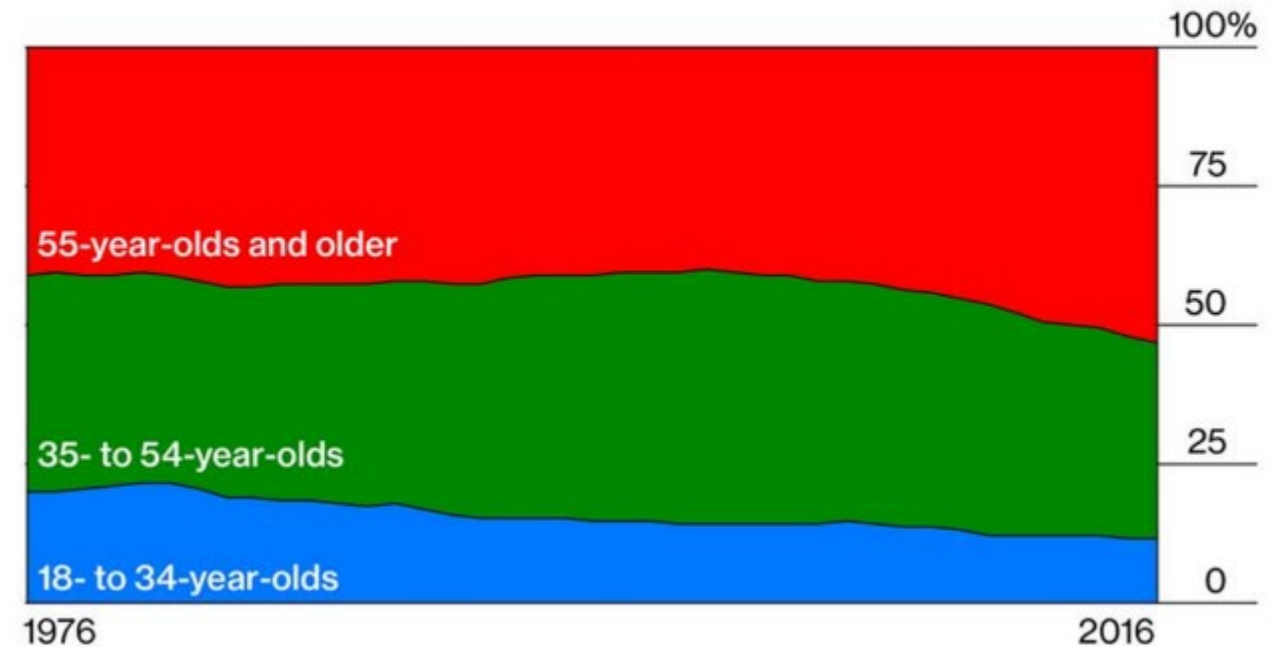
- 10,000 baby boomers turn 65 every day in the US until 2030
- Healthier, savvier than previous generations
- Highest spending power (70% of disposable income in US) | 71% of all net worth in the U.S.
- 50%+ of baby boomers support their adult children
- 65% of boomers plan to work past age 65
- 45% of boomers have no retirement savings
- Boomers and seniors carrying more debt: 40% of 65+ population carry a mortgage
- 45% of boomers purchased their 1st home between 25-34 (37% Millennials today)
- Boomers 80% Home ownership rate | 20% of the new construction market
- Accumulated substantial home equity | \$6.3 Trillion!

Boomers Creating Housing Gridlock?

- 55+ owns 53% of all homes in the U.S.
- Longer tenure in home:
 - 70% 10+ years
 - 47% 20+ years
- Senior Turn Over Rate is Slower than Previous Generations
- Lack of Inventory for Downsizing
- Affordability Concerns
- “Wait and See” if Housing Prices Continue to Rise

Aging in Place

Share of U.S. owner-occupied houses



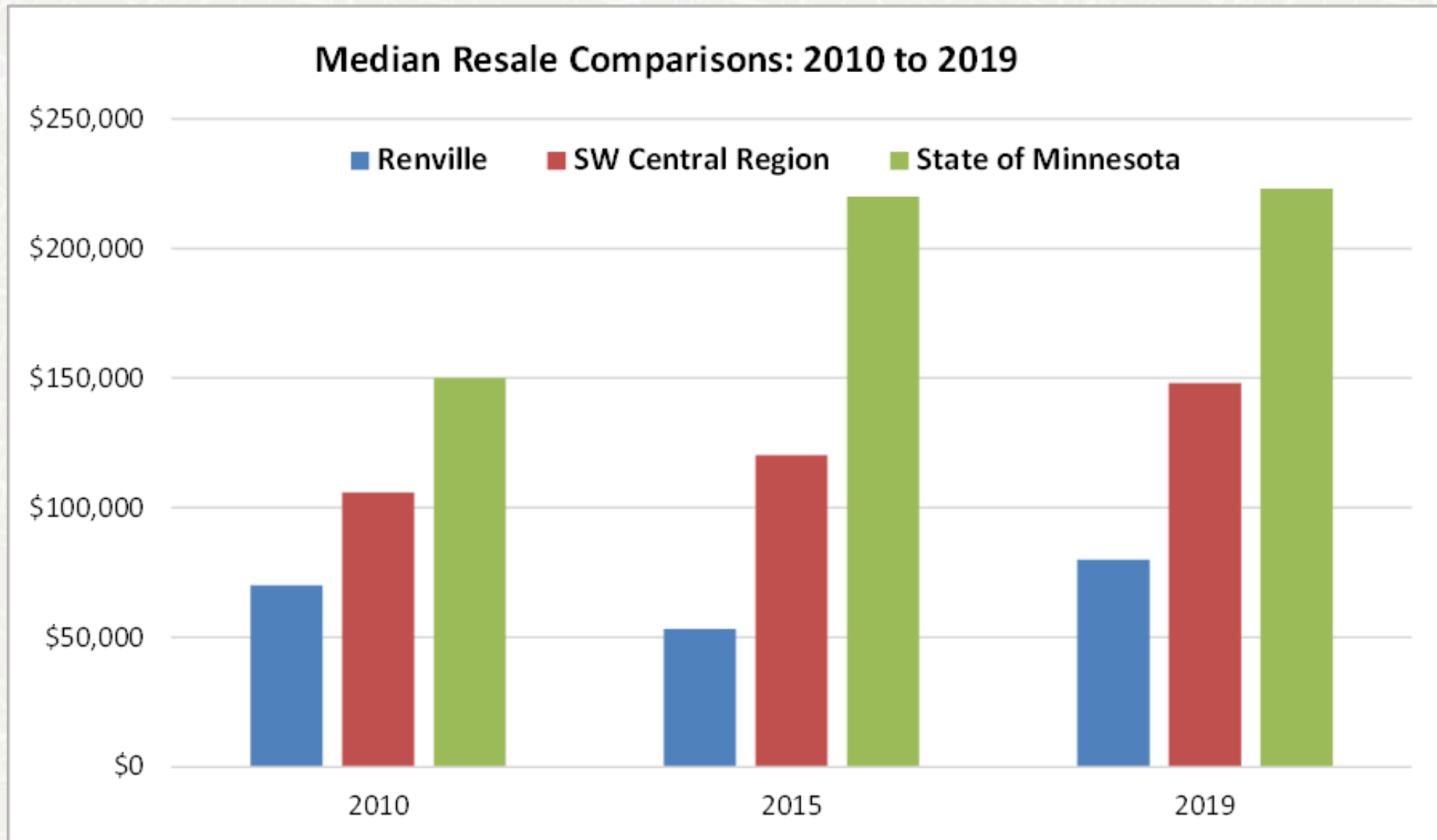
GRAPHIC BY BLOOMBERG BUSINESSWEEK; DATA: TRULIA ANALYSIS OF CENSUS DATA

Aging in Place

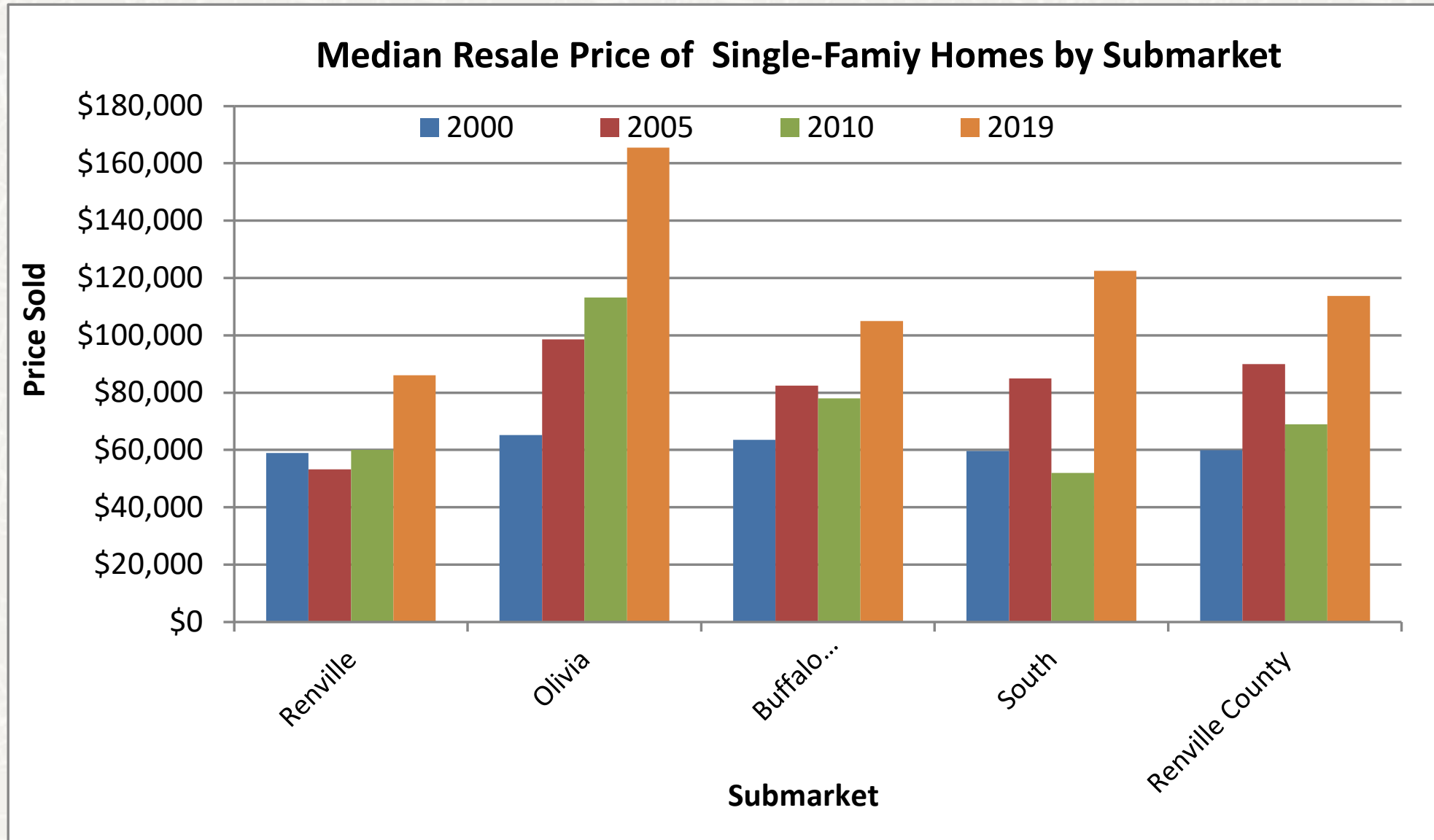
➤ **AARP Home Preference Study (2018):**

- 76% of 55+ would prefer to remain in their current residence
- 77% would like to stay in their community as long as possible
- Proximity to health care, grocery stores, and transportation very important
- 31% would consider building an ADU (i.e. granny flat)
- About one-third of older adult homeowners anticipate home improvement modifications needed to stay in their homes
- Only 3.5% of all U.S. homes are considered accessible

Renville County For-Sale Housing Costs are “affordable” ...



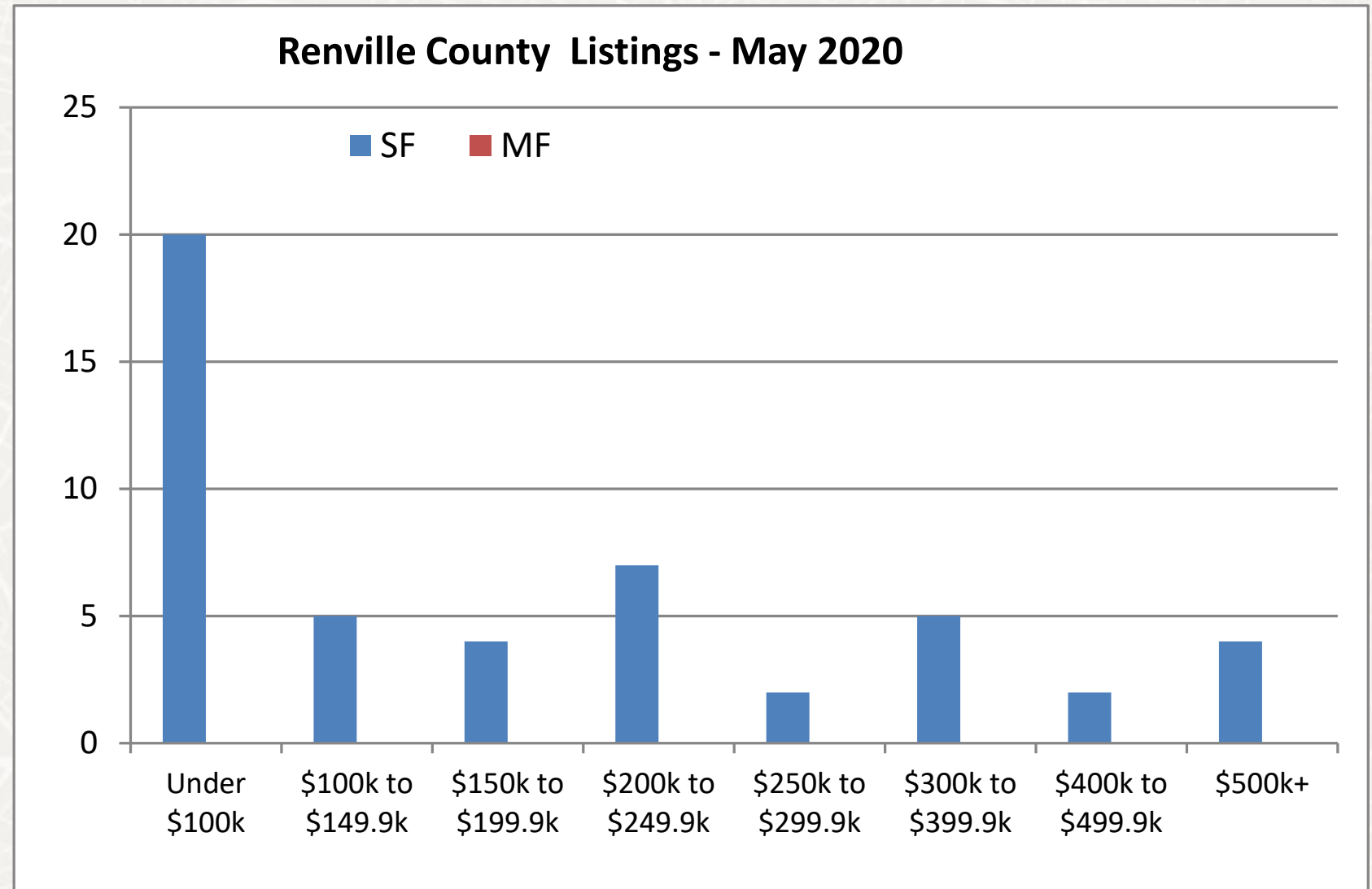
Home Pricing varies by Submarket



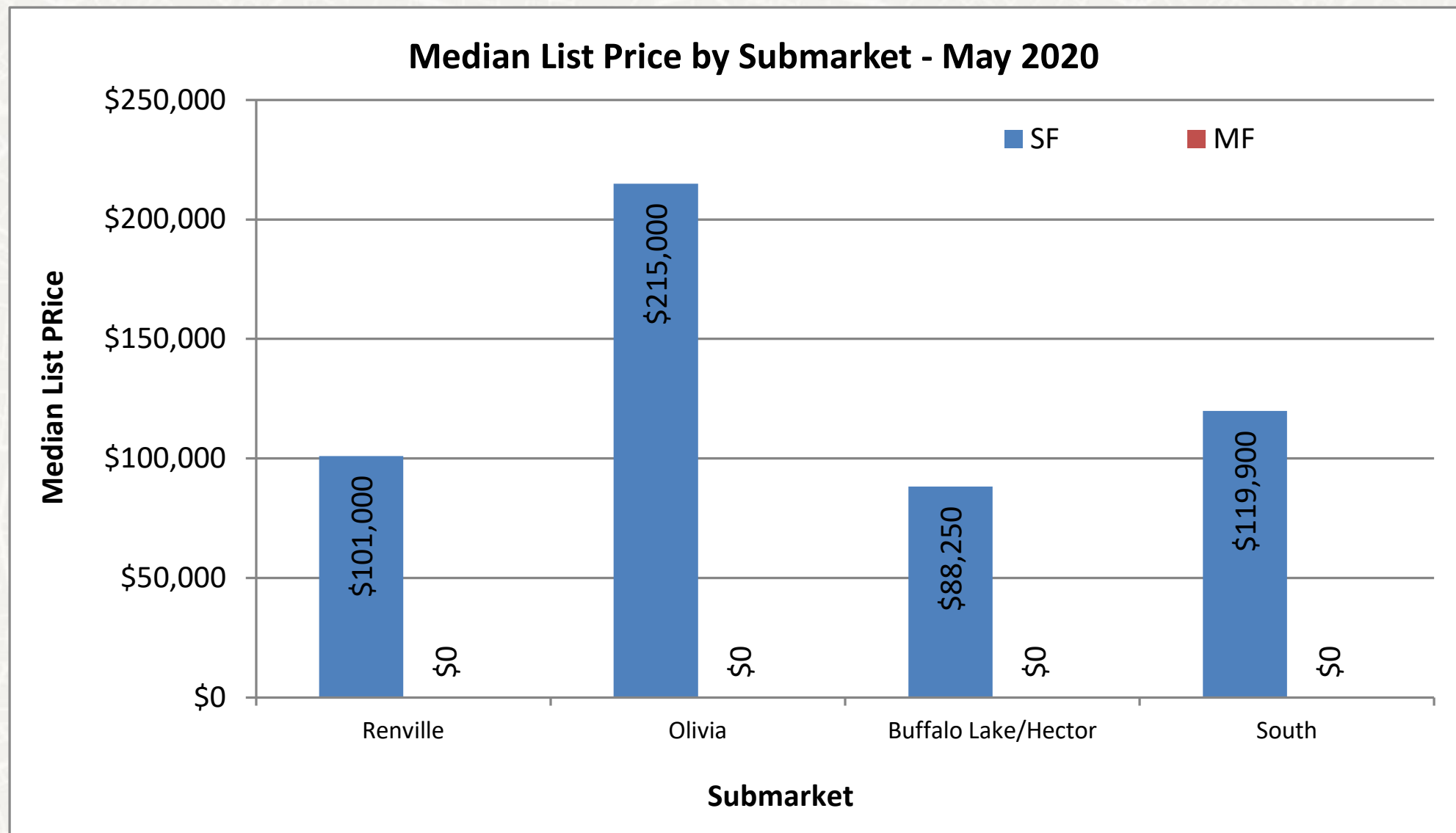
Few Homes For-Sale | Single-family dominated

Active Listings (May 2020)

- 49 active listings | 100% SF
- 3.1-month supply
- Avg. price: \$148k
- Median year built 1940



Median List Price Driven by Submarket



Few new construction options...

Lot Inventory/Supply (“newer subdivisions”)

- 73 vacant lots | 16 active subdivisions
- Olivia: 7 subdivisions w/17 lots
- Bird Island: 3 subdivisions w/28 lots
- Not all subdivisions actively marketing
- Average lot size: 0.31 acres



New Construction Market

- Few options; no spec development
- Targets move-up buyers
- Build-to-suite premium: (\$150 PSF+)
- Avg. new lot assessed value: \$21,000
- No pending subdivisions



Market for One –Level Living Product

Single-level Living Products in Demand from Boomers:

- ✓ Rambler single-family homes
- ✓ Detached Townhomes & Twinhomes, villas, etc.
- ✓ Condominiums
- ✓ Single-level and walk-out lower level townhomes
- ✓ Cooperatives
- ✓ Active Adult Rentals
- ✓ General-Occupancy Rentals
- ✓ Retirement Communities



Desired Home Features for Older Adult Home Buyers

- ✓ Proximity to family and grandkids
- ✓ Desire smaller, lower-maintenance....yet higher-quality than their current home
- ✓ Prefer single-family detached product; but many will consider attached products
- ✓ 90% consider *a 1-story*; but 1/3rd would still consider a two-story
- ✓ Prefer master bedroom and laundry room on main floor
- ✓ No-Step entry preferred, wider doorways & hallways, lever-style handles
- ✓ Abundant storage | Guest bedroom/hobby space
- ✓ Adequate lighting with sensors or timers, home automation, security, smart technology

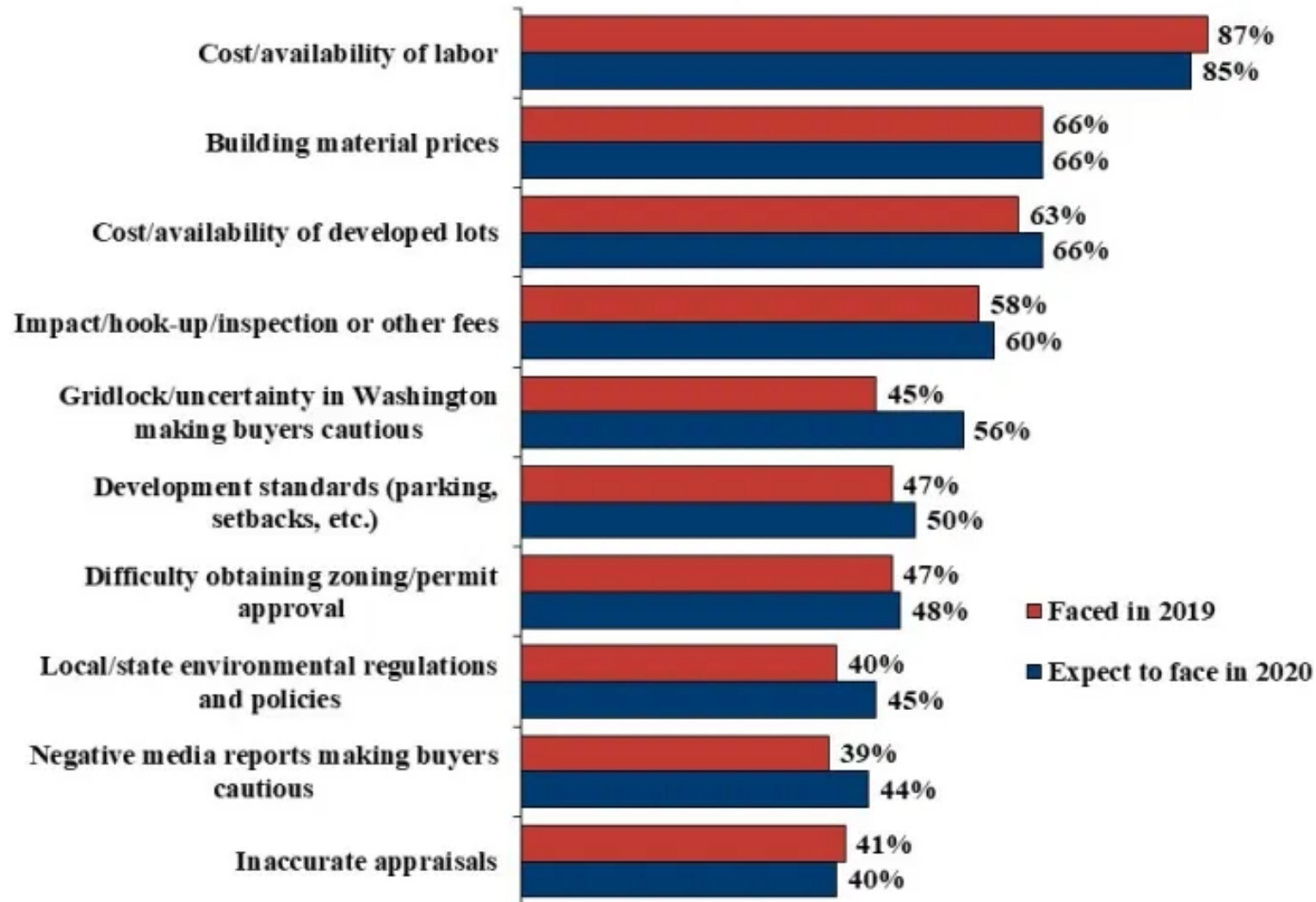
Why is the entry-level & middle market missing?

- Zoning regulations
- Density requirements
- Permit/impact fees
- Building code changes
- Increasing labor and material costs
- Land/acquisition costs increasing
- Financing challenges for smaller developers/builders
- Infrastructure costs
- Economies of scale needed
- Buyer preference – rambler/ranch style \$\$
- Appraisal values in rural areas coming in low



Labor affecting affordability & production...

Top 10 Significant Problems Faced in 2019 and Expect to Face in 2020



Source: HMI Special Survey, NAHB EcHp.

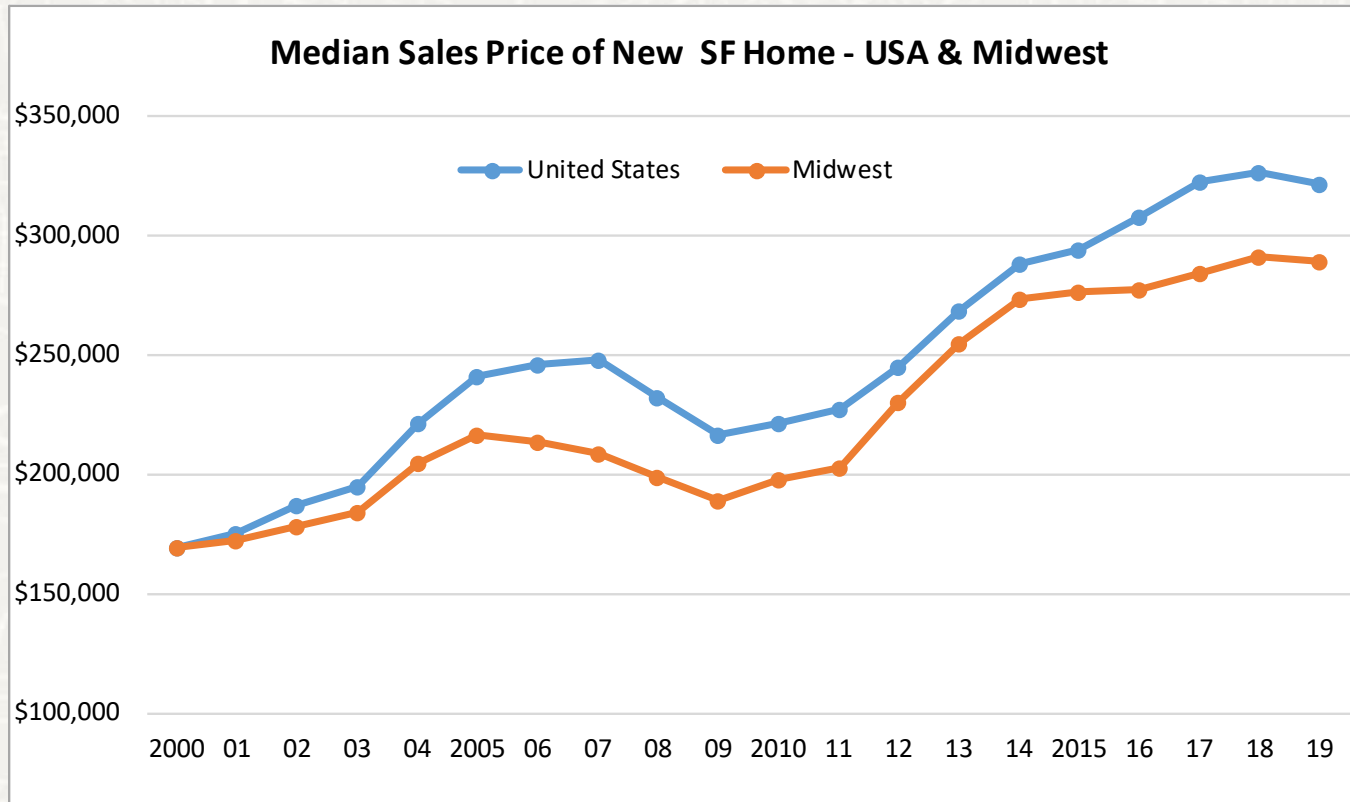
- Interviews suggest there is a lack of builders & subcontractors in Renville County

Development costs restrain housing development...

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

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

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



Rental Housing difficult to cash flow.....

Apartment Macro-Level Financial Assessment

Assumptions

No. of Units	24
Avg. Sq. Ft./Unit	850
Common Area Pct.	15%
Avg. Rent/Unit	\$900
Equilibrium Occupancy	95%
Avg. Rent PSF	\$1.06
Total Rentable Sq. Ft.	20,400
Total Bldg. Sq. Ft.	23,460

Monthly Financials

Gross Monthly Rent	\$21,600
Effective Rent	\$20,520
Total Expenses	\$8,208
NOI	\$12,312
Less: Debt Service	(\$13,843.97)
Net Operating Cash Flow	(\$1,531.97)

Development Costs

Hard Costs	\$2,346,000
Soft Costs	\$703,800
Land Costs	\$84,000
Total Development Costs	\$3,133,800
Development cost/unit	\$130,575
Development cost/PSF	\$134

Annual Financials

\$259,200
\$246,240
\$98,496
<hr/>
\$147,744
(\$166,127.61)
(\$18,383.61)

Source: Maxfield Research & Consulting, LLC

Breakeven:

Monthly Rent: \$1,012

Rent PSF: \$1.19

Existing Stock:

Monthly Rent: \$540

Rent PSF: \$0.61

= Big Gap to Fill



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Demand Methodology

Demand Overview

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

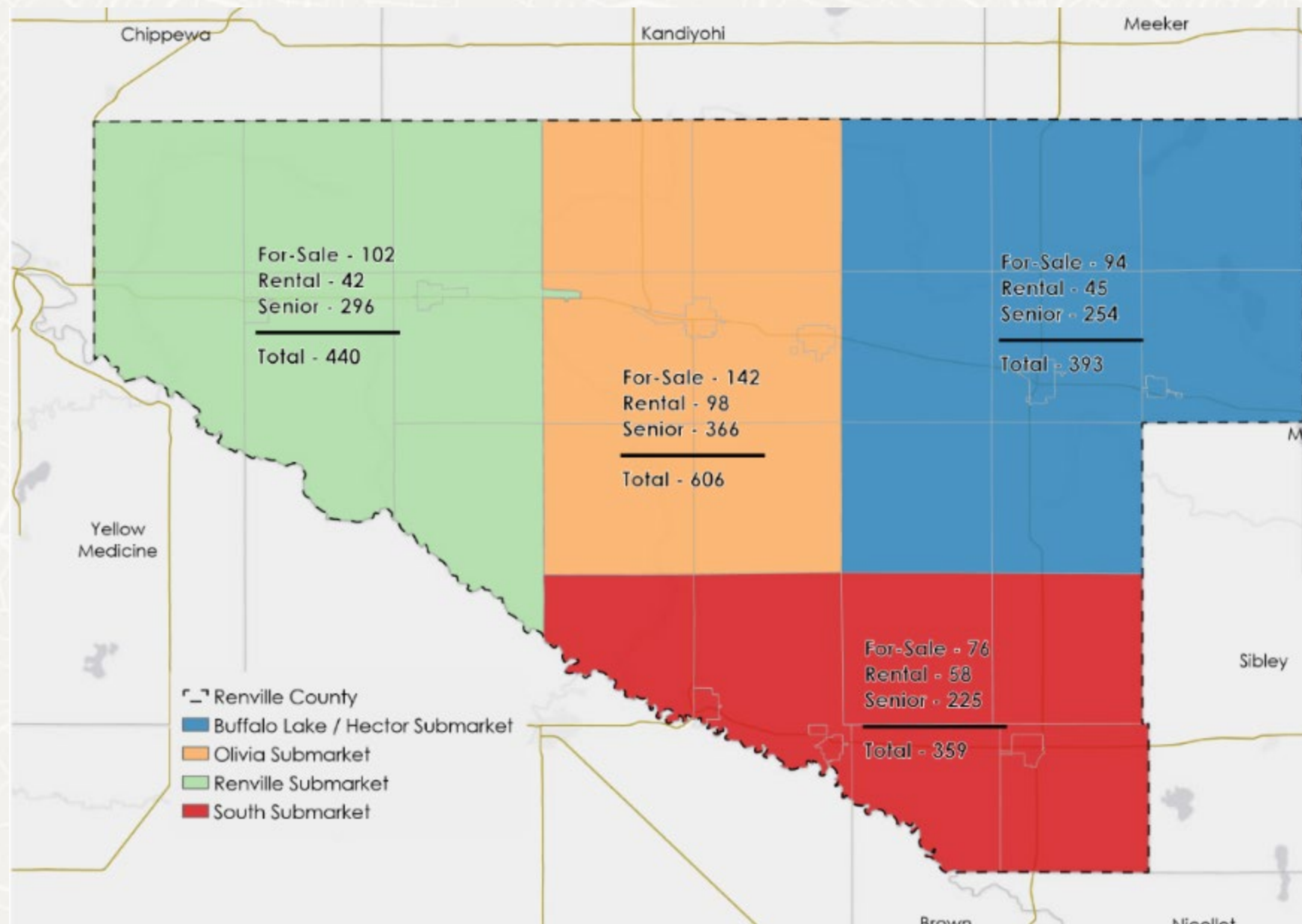
Demand Driver Examples

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

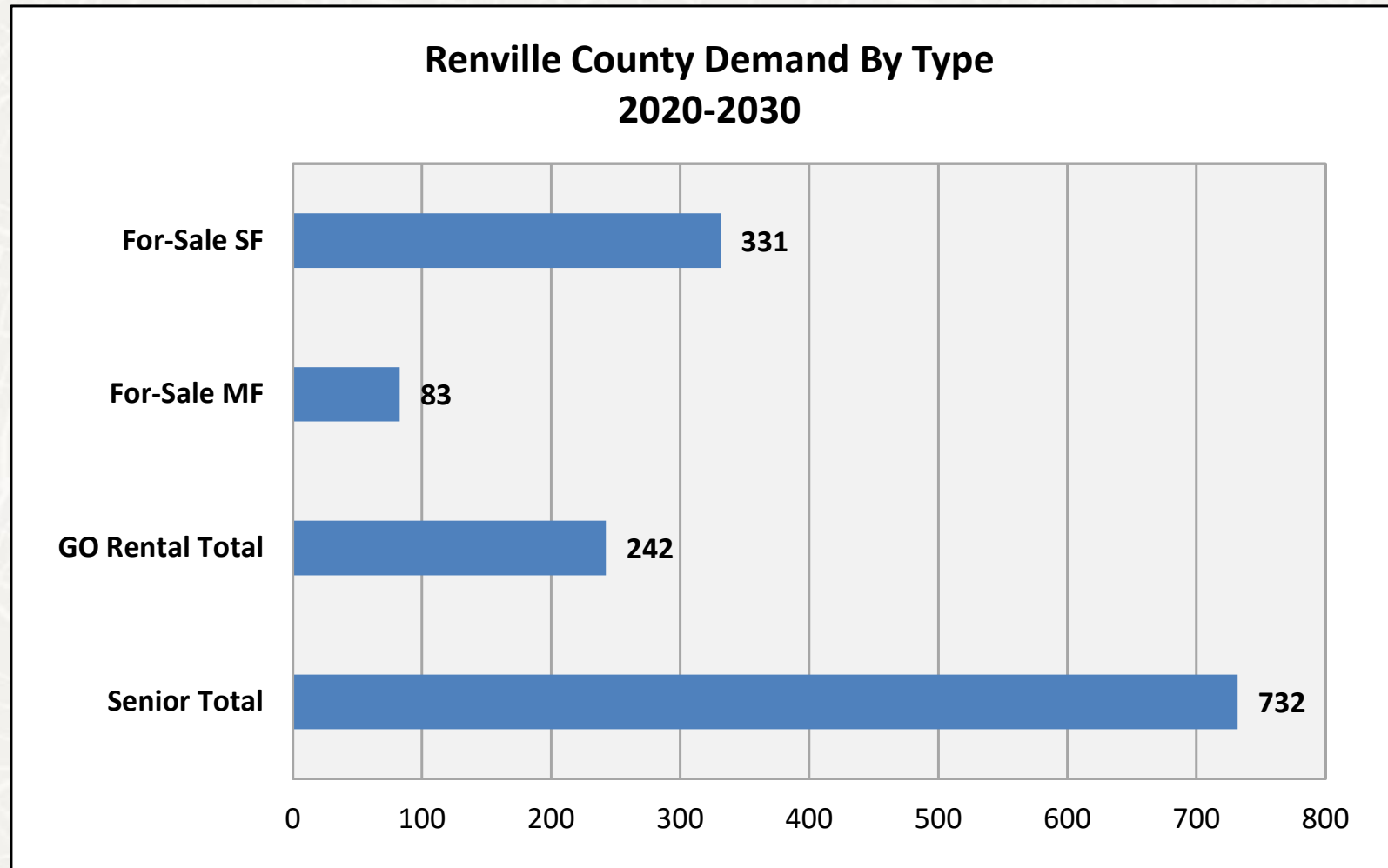
Demand Assumptions/Methodology

- Household growth adjusted for local factors (i.e. economy, building permits, etc.)
- Senior demand estimates apply capture and penetration rates and are presented as “Point in Time” vs. Cumulative

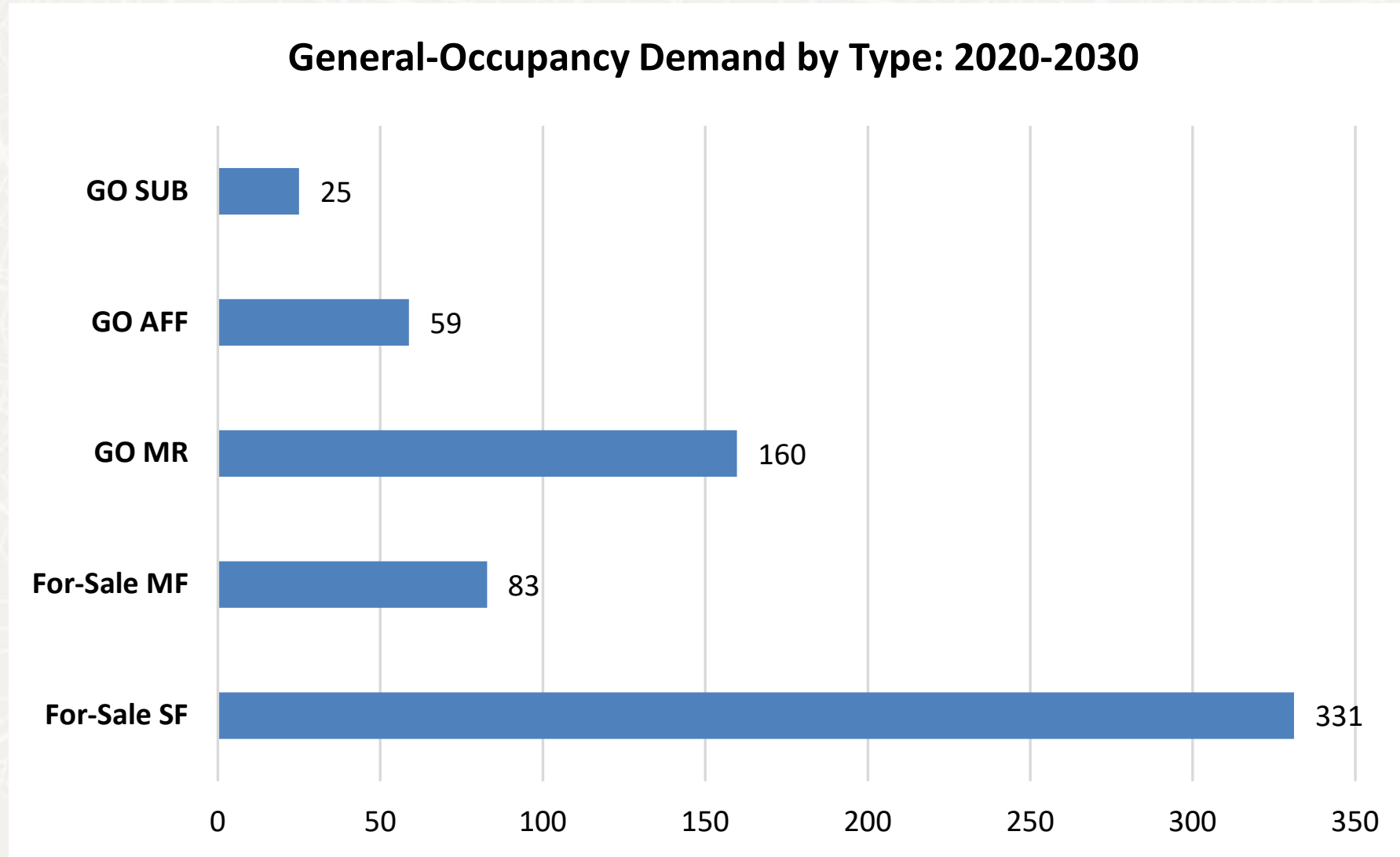
Demand Summary



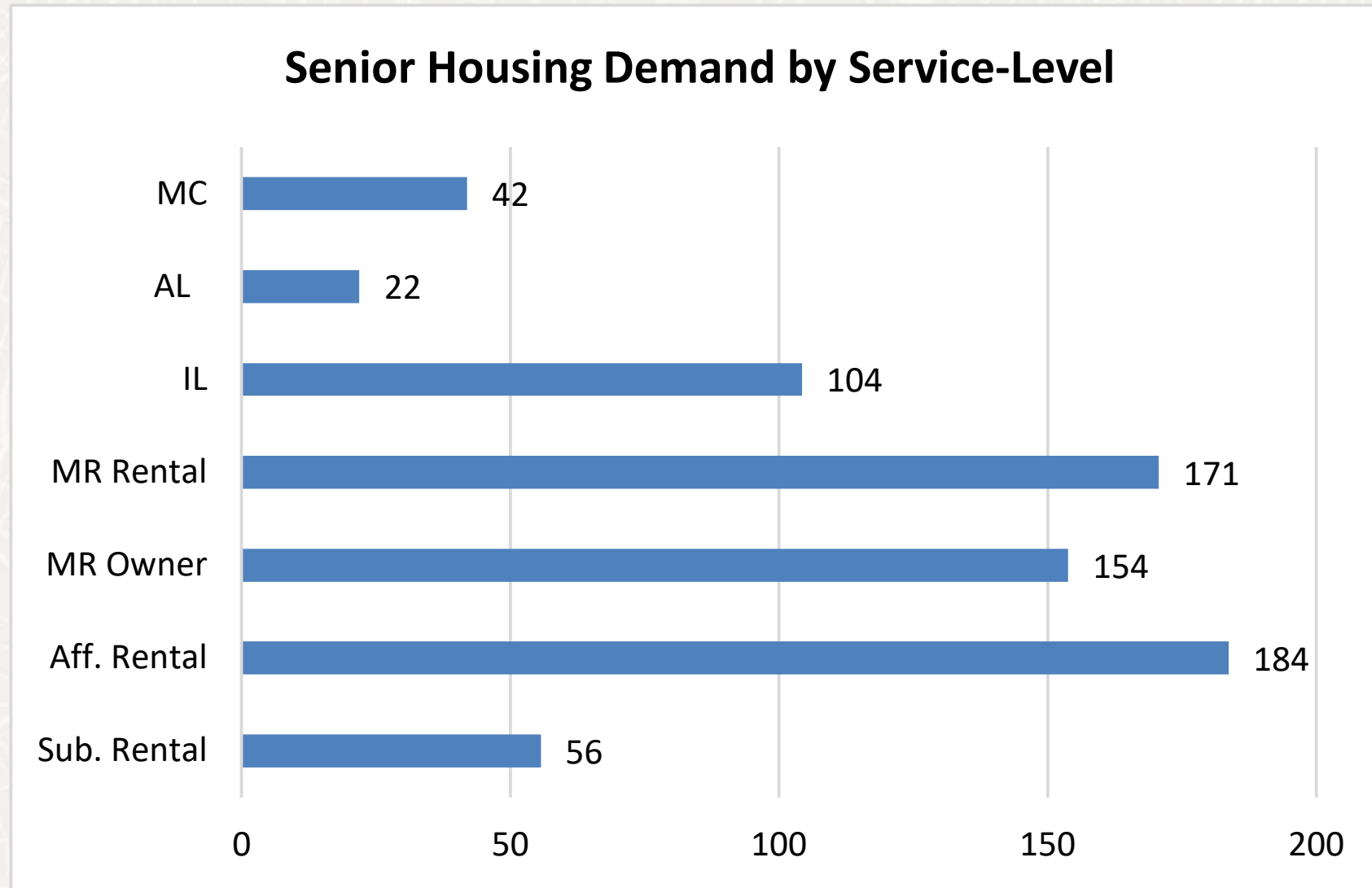
Demand for nearly 1,400 housing units through 2030



Demand for 650+ General-Occ. Units through 2030



Demand for over 730 Senior Housing Units by 2030



Single Family For-Sale Recommendations

- Recommend 3 to 5-year lot supply
- Demand for 331 SF homes
- 73 vacant available lots as of May 2020
- Demand across all price points..however entry-level SF becoming more difficult given development cost
- \$150-\$250 most demand; but growing need for move-in homes too

Single-Family Demand by Submarket

Submarket	Units	Pct.
Renville	82	24.6%
Olivia	114	34.3%
Buffalo Lake/Hector	75	22.7%
South	61	18.4%
Total	331	100.0%



Single-Family (Olivia Sub.)



Single-Family (Buffalo Lake/Hector Sub.)

Multifamily For-Sale Recommendations

- Demand for 80 units+
- Lack of association-maintained product
- Potential housing types:
 - Twin homes/duplex
 - Detached townhomes
 - Townhomes/row homes
 - Patio homes/villas

Multifamily For-Sale Demand by Submarket

Submarket	Units	Pct.
Renville	20	24.6%
Olivia	28	34.3%
Buffalo Lake/Hector	19	22.7%
South	15	18.4%
Total	83	100.0%



Detached Villa Example



Twin Home Example

Rental Housing Recommendations

- Demand for over 240 units
 - 160 market rate
 - 59 affordable
 - 24 subsidized
- Demand for all incomes, HH types, and product types

GO Rental Demand by Submarket

Submarket	Units	Pct.
Renville	42	17.4%
Olivia	97	40.2%
Buffalo Lake/Hector	44	18.3%
South	59	24.2%
Total	242	100.0%



12-plex TH Example



2-story Example

Senior Housing Recommendations

- Significant demand through this decade & beyond..(i.e. boomers)
- Highest demand:
 - Active-adult rental (no services – market rate)
 - Senior ownership (i.e. coop or condo)
 - Affordable active-adult rental
 - Mixed-Income potential

Senior Housing Demand by Submarket

Submarket	Units	Pct.
Renville	170	23.2%
Olivia	221	30.1%
Buffalo Lake/Hector	148	20.3%
South	193	26.4%
Total	732	100.0%



Prairie View of Hector



Fairview Place

Key Takeaways

- Declining population for decades; short-term slow declines than past decades
- Population is aging and will impact alternative housing types
- 70% of households are 1-2 persons | Growth in non-family households (i.e. living alone)
- Lower unemployment rates compared to State of MN (despite pandemic)
- Low rental vacancy rates | Older stock | Pent-up demand | No product in the pipeline
- Seniors continue to “age in place” resulting in gaps in the real estate cycle
- For-sale housing prices @ peak | lack of new supply
- Lack of “maintenance-free” for-sale housing | Single-family dominated
- Low supply of vacant lots | Additional platted lots needed
- Difficulty cashing flowing new rental development...
- COVID-19 has not impacted housing market yet...



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COVID-19

- Pre- March 2020: Real Estate industry strong across almost all market segments; especially for Residential Housing (pent-up demand and under supplied)
- Post COVID-19:
 - Record-long economic expansion comes to an end
 - UE rate: 11.1% in U.S. (June 2020) vs. 3.5% Feb. 2020
 - Retail, hospitality, senior housing, and office hit the hardest
 - Industrial, health care, multifamily apartments, and for-sale residential holding up
 - Construction delays (permitting, labor issues, materials distribution, etc.)
 - Lenders tightened belts: higher credit scores, more equity/liquidity...capital on the sidelines
 - Land Acquisitions on-hold; unless discounted

Impact on Local Housing Markets – Big Picture

- Housing market & the Economy linked....will this be a housing-led recovery?
- Expired unemployment benefits will impact housing markets...will there be a new stimulus?
- Residents expected to spend more time @ home
- Emphasis on healthy living, cleanliness, air quality, natural light, green space, & fresh air
- Working from home could be a positive for Renville Cty....shift to more affordable housing
- Demand for homes w/home offices, flex space, home-schooling, technology upgrades, etc.
- More outdoor spaces (open space, balconies, patios, decks, gardens,)
- Desire for additional exterior entrances (i.e. townhomes, SF rentals, etc.)
- Demand for multigeneration living and ADUs

Impact on Local Housing Markets – For-Sale Housing

- Realtors/Builders very busy; have not been negatively impacted
- Spring market pushed back into summer...and potentially fall
- Inventory constraints as sellers pulled homes off during stay at home mandate...
- New Construction demand increased as buyers feel “safer” in new construction
- Mortgage forbearances low for now... (7.7% nationwide as of July 2020)
- 1st-time buyers have been most impacted by COVID-19 (job situation, lender requirements)
- Movement for more exterior improvements (decks, sunrooms, pools, sport courts, etc.)
- New construction timing slightly impacted (material logistics, labor delays from distancing)
- Mortgage rates @ all-time lows (2.88%)
- Movement to virtual showings (virtual tours, 3D, Zoom, etc.)
- Will the pandemic delay homeownership?

Impact on Local Housing Markets – Rental Housing

- Renters making monthly rent for now... (93% nationwide as of July 2020)
- Class B & C properties hit the hardest
- Lease renewals are up | Concessions more prevalent | Desire for separate entrance
- Demand for affordable rentals and Single-family built-for-rent expected to increase
- Leasing moved to virtual, contactless showings, etc.
- Focus on cleaning and sanitation | Closed some amenities temporarily (pools, gyms)
- Building “touchless” design features (doors, lighting, elevator, etc.)
- Emphasis on better ventilation (HVAC systems and UV treatment)
- Amenities catering to remote employees (work-spaces, sound-proofing, high-tech, etc.)
- Balconies and patios “a must”
- Will renters desire larger unit sizes?

Impact on Local Housing Markets – Senior Housing

- COVID-19 impacted nursing facilities and Assisted Living the hardest | PR Challenge
- Quarantines | Move-ins and personal tours halted during the stay at home mandate
- Senior housing vacancies risen across the country (85% occupancy Q2 2020)
- Desire to age in place longer
- Senior facilities experiencing increased labor, operational, and technology costs
- Seniors housing is need based...will bounce back; long-term outlook very positive

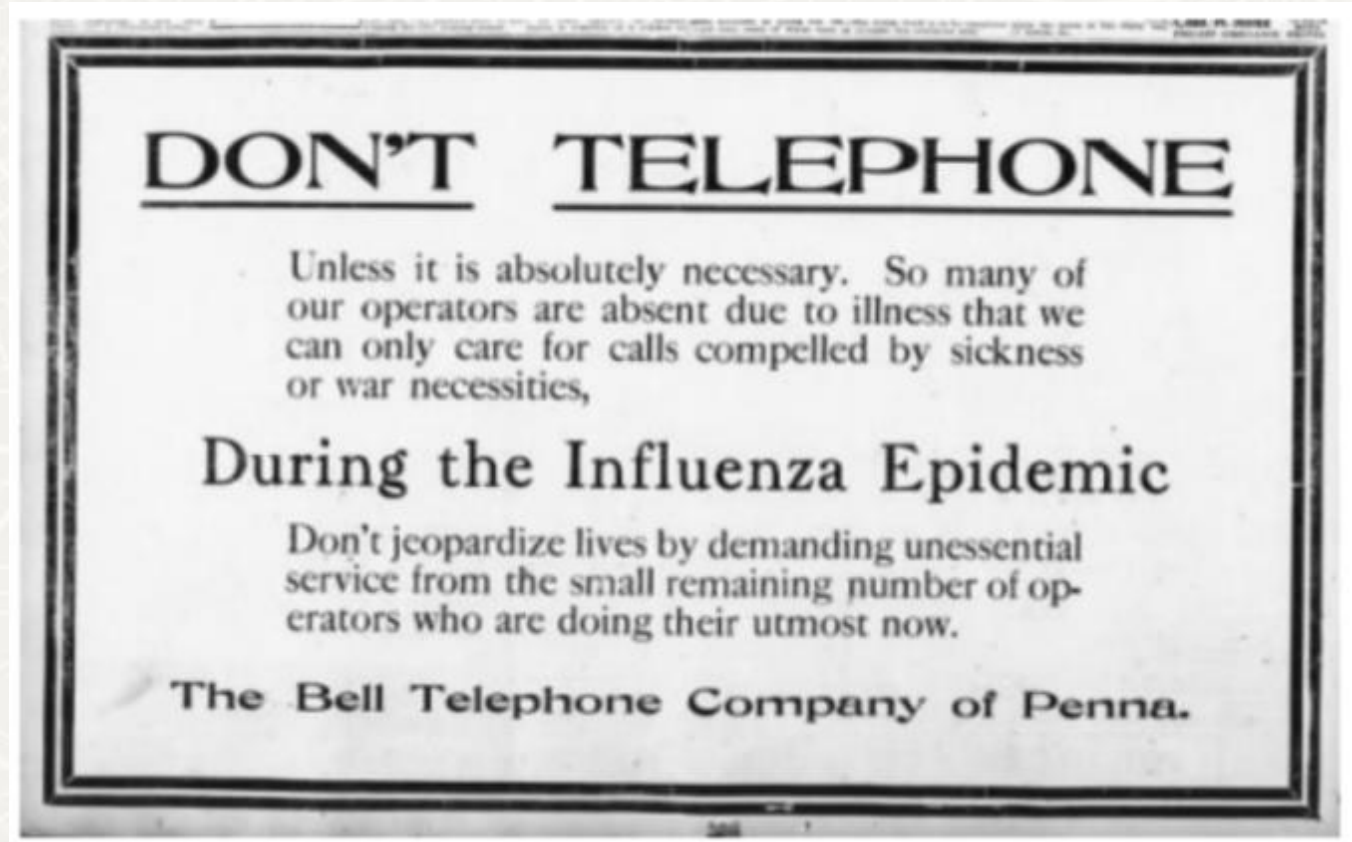
COVID-19 tests Internet Access

➤ Broadband challenges facing rural areas:

- Less consistent internet options
- Stronger signals needed
- Higher cost of rural broadband
- Online learning challenges



**Bell Telephone Advertisement from 1918
during the influenza pandemic**





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Next Steps....

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

Fundamentals to Succeed...

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

Priorities

- Promote market rate rental housing production
- Finished platted lots needed
- Promote private-public-partnerships (PPP) to stimulate housing markets
- Inventory future sites for housing development (each city)
- Site specific: Issue RFP to development community to stimulate housing production
- Implement “One Stop Shop” Housing Resources
- Continue to promote & expand city/county assistance programs
- Update housing action plan regularly
- Promote affordability, schools, recreation, open space, & working from home

Advantages of Living in Rural Minnesota

- Lower cost of living
 - Housing costs
 - Childcare (if available...)
 - Taxes
- Increased remote work options/Telecommuting
- Desirable schools
- Sense of community
- Room to breathe, privacy, fewer restrictions, nature, recreation, etc.

Cost of Living		
Rural Minnesota Compared to the Twin Cities		
Monthly Cost	Greater MN	Twin City Metro
Childcare	\$300	\$700
Housing	\$800	\$1,200
Taxes	\$400	\$660
Totals	\$1,500	\$2,560
Source: Center for Rural Policy & Development		



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