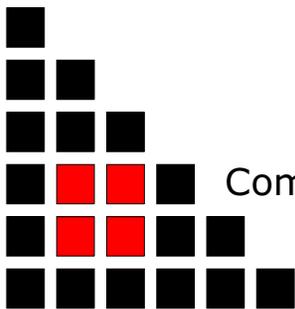


# **Carver County AFFORDABLE HOUSING UPDATE**

July 2017

**City of Cologne**



Community Partners Research, Inc.

Lake Elmo, MN

## **Key Findings - 2017 Affordable Housing Study Update**

- ▶ Cologne has been one of the rapidly growing cities in Carver County in recent decades, as development pressure from the westward expansion of the Twin Cities Metro Area moved into the community. Between 2000 and 2016 the City increased in size by more than 54%, according to the most recent estimate from the Metropolitan Council.
- ▶ In the early 2000s, housing development was very active in Cologne, but by 2011 and 2012, there were no single family building permits issued. By 2013, some recovery was underway and 20 new homes were built, followed by 23 houses in 2014.
- ▶ Given the swings in recent home construction and household growth, it is more difficult to project future changes in Cologne. A realistic expectation of annual growth through the year 2021 is approximately 26 to 29 households per year. If housing construction momentum continues to build, then this projection could be very conservative. However, it can also be argued that some of the recent home building was linked to lots that still remained in older subdivisions, and that future lot development will require higher prices, which could suppress construction.
- ▶ While Cologne added more than 200 single family houses since the year 2000, there has been no rental development in decades. The City has only one traditional apartment building, which was constructed in the early 1980s, providing subsidized housing for seniors and/or disabled tenants. Any other renter-occupancy housing in the City probably exists in single family homes that were converted to rental use.
- ▶ The Metropolitan Council analyzes the supply of housing that is affordable within each city. This placed approximately 77% all of the existing stock in Cologne below the applicable price thresholds in 2015. With a small rental supply, much of this housing existed in owner-occupancy units. However, this may represent some degree of "data lag". As development pressure has returned, it is probable that existing home values are rising.
- ▶ The Metropolitan Council also calculates a Housing Performance Score for each city, based on the maintenance or expansion of affordable housing. Cologne received 22 out of 100 possible points, the lowest score among the 11 cities in the County.

- ▶ In each of the past two years, the median home sale price in Cologne has been greater than \$220,000, and in 2016, was approaching \$240,000. Home ownership is relatively affordable, when compared to the larger cities farther east in the County, but home values appear to be rising rapidly as development pressure returns.
- ▶ The 2015 American Community Survey estimated that the median income for home owners in Cologne was \$87,500. A median income owner household needed to apply 23.2% of income for housing costs, the highest percentage in the County. It is possible that recent escalation for houses has been occurring, making ownership less affordable.
- ▶ The American Community Survey estimated the median renter household income in 2015 at just under \$26,000, the second lowest in the County. A median income renter needed to apply 27.3% of income for housing. However, as a community with few rental options, these estimates were based on limited sampling.
- ▶ 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 26 to 29 households in an average year. The estimated tenure distribution is based on 80% owner-occupancy and 20% rental demand.
- ▶ To meet rental demand, a project creating 25 to 30 new units would greatly expand the City’s housing options.

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

- ▶ Very affordable/subsidized 5 units
- ▶ Moderate rent 20 to 25 units
- ▶ To meet expected home ownership demand, between 105 and 115 new units may be needed over the five-year projection period.

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

- ▶ Entry-level/affordable 10 to 15 units
- ▶ Moderate/trade-up 80 to 85 units
- ▶ Higher-priced 10 to 15 units
- ▶ A new subdivision will come on-line in 2017, but newly created lots may not be able to offer a competitive price advantage that existed using the lot supply that remains from the previous decade.

## **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. 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 Cologne has slightly reduced the future growth forecast.

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 construction 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 stock 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 inventory 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 Cologne, 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 Cologne</b> |                              |
|--|------------------------------|
| <b>Data Source</b>   | <b>Average Annual Growth</b> |
| <b>Projected</b>   |                              |
| Met Council Thrive MSP 2040                                  | 26 households/year projected |
| 2014 Carver County Housing Study                             | 29 households/year projected |
| Esri   | 86 households/year projected |
| <b>Actual</b>  |                              |
| Average annual growth 2010-2016 estimate                     | 9 households/year projected  |
| Average annual housing unit construction 2010-2016           | 10 units/year actual         |
| Housing units constructed in 2016                            | 17 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 Cologne.

The highest projection comes from Esri, showing growth of 86 households per year. This projection is not supported by any of the other available data, and is not viewed as reliable.

The projection contained in the 2014 Carver County Housing Study expected Cologne to add an average of 29 households per year between the base year of 2014, and 2020, the end of the projection period. That projection is very similar to the Metropolitan Council, which shows the City adding an average of 26 households per year.

While Cologne has not been able to achieve annual incremental growth of 26 to 29 households in the recent past, it does appear to be a somewhat reasonable projection going forward. In 2016, Cologne had 17 single family housing starts. Over the past four years there has been some improvement in the annual number of single family houses built. With some continued strengthening, reaching 26 to 29 households per year in the future is possible.

For use in this Update, average annual growth in a range between 26 and 29 households has been used. If larger-scale 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 Cologne would expect average incremental growth of approximately 37 households per year between 2020 and 2030, and 43 households per year between 2030 and 2040, as the annual level of household growth continues to accelerate.

With the expectation that Cologne will add between 26 and 29 households per year for the remainder of the current decade, these long-range growth forecasts would appear to be realistic. It is probable that Cologne will grow at an accelerating rate in the future, as the Twin Cities Metropolitan Area expands.

## Building Permit Trends

The following table tracks new housing unit creation in the City of Cologne, 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 Cologne Housing Construction Activity: 2010 to 2016</b> |                        |                        |             |             |
|--|------------------------|------------------------|-------------|-------------|
| Year   | Single Family Detached | Single Family Attached | Multifamily | Total Units |
| 2016   | 17                     | 0                      | 0           | 17          |
| 2015   | 7                      | 0                      | 0           | 7           |
| 2014   | 23                     | 0                      | 0           | 23          |
| 2013   | 20                     | 0                      | 0           | 20          |
| 2012   | 0                      | 0                      | 0           | 0           |
| 2011   | 0                      | 0                      | 0           | 0           |
| 2010   | 4                      | 0                      | 0           | 4           |
| 2010-2016 Total  | 71                     | 0                      | 0           | 71          |

Source: Metropolitan Council; City of Cologne

Cologne has experienced some dramatic swings in new construction activity. In 2005, there were 47 single family units permitted in the City, in a mix of detached and attached housing. This volume then dropped and by 2011 and 2012 there were no housing permits issued. But by 2013, 20 new homes were built, followed by 23 houses in 2014.

The level of activity dropped again in 2015, but this was attributed to a reduced lot supply that year. A new subdivision came online in 2016 and the number permitted houses more than doubled from 2015. In 2017, even more new lots will become available.

While the City has had improved construction for the last four years, all of the units have been in the form of detached single family houses. There has been no attached construction and no multifamily construction since 2010. The last multifamily rental project probably dates back to 1983, when Lakeside Villa Apartments were built.

### **Pending Projects**

According to City staff, there has been discussion of the need for rental housing or specialized senior housing, but no development projects are pending.

### **Residential Lots**

According to City staff, there were approximately 13 vacant lots remaining in the City at the end of 2016. There were 70 new lots becoming available in 2017. All of the lots are for detached single family housing.

## 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 or below 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 a previous page. 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  | 7                   | 0                        | 0                 | 0                      | 0                      |
| 2014  | 23                  | 0                        | 0                 | 0                      | 0                      |
| 2013  | 20                  | 0                        | 0                 | 0                      | 0                      |
| 2012  | 0                   | 0                        | 0                 | 0                      | 0                      |
| 2011  | 0                   | 0                        | 0                 | 0                      | 0                      |
| 2010  | 4                   | 3                        | 0                 | 0                      | 3                      |
| 2010-2016 Total   | 54                  | 3                        | 0                 | 0                      | 3                      |

Source: Metropolitan Council

As tracked by the Metropolitan Council, only three of the 54 housing units constructed within the City of Cologne between 2010 and 2015 would meet the basic definition of affordable housing, based on a standard set at 80% of median income. The three affordable units were constructed in 2010.

## **Metropolitan Council Housing Performance Scores**

The Metropolitan Council, in conjunction with the Minnesota Housing Finance Agency, issues an annual score for each Metro 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 Cologne 22 out of 100 possible points. Cologne had the lowest 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/02393601\\_Cologne\\_ExistingHsg.aspx](https://metrocouncil.org/Handbook/Files/Existing-Housing-Assessment/02393601_Cologne_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 Cologne, this assessment used a total housing unit inventory count of 611 units in 2015.

| <b>Table 4 Affordable Existing Housing Allocation - 2015</b> |             |                |
|--|-------------|----------------|
| Affordable Level   | Total Units | % of All Units |
| 30% or less of median  | 26          | 4.3%           |
| 31% to 50% of median   | 119         | 19.5%          |
| 51% to 80% of median   | 327         | 53.5%          |
| Above 80% of median  | 139         | 22.7%          |
| Total  | 611         | 100%           |

Source: Metropolitan Council

According to the analysis by the Metropolitan Council, most of the existing housing stock in Cologne is affordable. Overall, more than 77% of all units are below the price thresholds viewed as affordable for households earning 80% or less of the Twin Cities median income level. Nearly 54% of all existing units were viewed as affordable for households between 51% and 80% of the median income level, but fewer than 24% of all units were affordable for households at or below 50% of median income.

While the affordable housing breakdown did not identify occupancy tenure, the overall affordable unit total implies that most of the affordable housing was in single family houses, presumably intended for owner-occupancy. In the analysis, there were only 81 total rental units citywide. With more than 470 units that were considered to be affordable, this would indicate that a fairly large number of 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. Cologne's allocation of this need is 97 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 numbers 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 patterns.

| <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   | 50                    | 27                   | 20                   | 97               | 26%                 |

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 construction patterns, these allocations are very high. In actual practice between 2010 and 2015, only three affordable units were created in Cologne, based on these standards. This represented less than 6% of all construction, while this allocation sets a goal that approximately 26% of future construction.

## 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, the estimates do include 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.

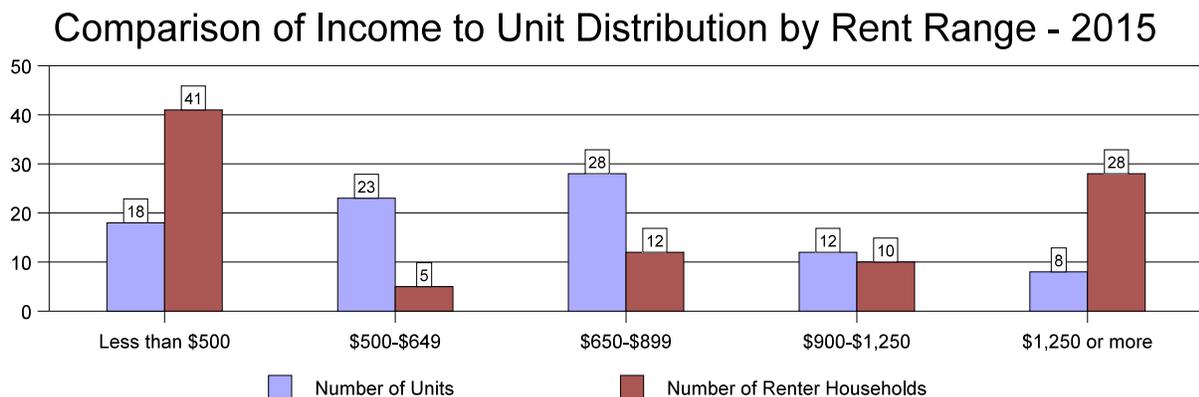
The most recent estimates available for Cologne are for 2015. In that year, they estimated that there were 96 renter-occupancy households living in the City, with a margin of error +/-28 households. Based on all other information, this estimate was high by approximately 30 households. Despite the overestimate, some data on the rental stock is presented below.

### Median Gross Rent

Due to the small number of rental housing units in Cologne, no median gross rent levels were estimated by bedrooms. However, for all rental housing in the City, the estimated median gross rent was only \$665.

### Rental Rates Compared to Household Income

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.



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

- ▶ The City has more households that need a very affordable unit, priced below \$500, than units that exist. The City has a relatively small number of subsidized rental units. As a result, most of the low income renters would be living in conventional market rate housing.
- ▶ In the more moderate price range between \$500 and \$650 per month, there are many 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 lower-priced 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 also substantially 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 moderate to higher income households were renting a less expensive unit, and could apply less than 30% of income toward housing.
- ▶ In the rental price ranges of \$900 or more per month, the number of units was smaller 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 Cologne had a relatively small supply of higher-priced rental units. When higher-priced rental units do exist, they are probably in single family houses that are offered for rent.

## 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.

| <b>Table 6 Gross Rent as a Percentage of Income by Age</b> |                                    |                           |                       |
|--|------------------------------------|---------------------------|-----------------------|
| Percent of Income for Housing                              | Renter Households Age 64 and under | Renter Households Age 65+ | All Renter Households |
| Less than 30%  | 49                                 | 3                         | 52                    |
| 30% or more  | 34                                 | 3                         | 37                    |
| Not Computed   | 7                                  | 0                         | 7                     |
| Total  | 90                                 | 6                         | 96                    |

Source: American Community Survey

Federal standards for rent subsidy programs generally identify 30% of household income as the maximum 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 39% 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. However, very few senior renter households were recorded by the American Community Survey. In numeric terms, most of the households with a cost burden were age 64 or younger.

While a housing cost burden could be caused by either high housing costs or low household income, in Cologne it was primarily due to the income levels for renters. All 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 Cologne was only \$25,938 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 27.3%. This was a similar percentage to the Countywide median of 27.8% of income needed for monthly rent.

## **Rental Housing Data**

### **Census Records**

According to the 2010 Census, the City of Cologne had 74 occupied rental housing units, and at least 4 unoccupied rental units, for a total estimated rental inventory of 78 units. The City's rental tenure rate was 13.7% in 2010, approximately half of the Statewide rental rate of 27%.

Based on building permit reports, no multifamily projects have been constructed in Cologne after 2010. It is possible that a shift between vacant and occupied units has 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**

The City maintains a rental licensing program that had 64 units in March 2017. No rental property exclusions from the registration requirement were identified. It is possible that single family houses that recently changed from owner to renter use may not be registered.

### **Reconciliation of Data Sources**

When compared to the 2010 Census total of 78 units, it would appear that some reduction has occurred in the number of rental units in the City. With the housing market conditions that were present in 2010, it is very possible that unoccupied single family units at that time were being offered as rental housing. The rental use may have been temporary.

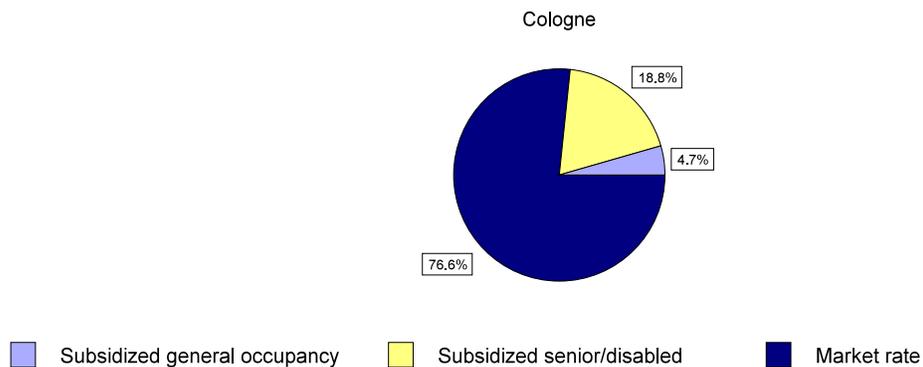
With some growth in the owner-occupancy single family housing stock since that time, and a possible reduction in available rental units, it is probable that the rental tenure rate has dropped even lower in Cologne and is below 13% in 2017.

## Rental Market Segments

With a small inventory of rental housing, only a few different rental segments are being served. Although precise details do not exist, the following summary generally defines the different subsets of the local market:

- ▶ Federally-subsidized units including project-based Vouchers - 15 units
  - ▶ General occupancy - 3 units
  - ▶ Senior/disabled occupancy - 12 units
- ▶ Market rate housing - 49 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 very affordable housing.

While approximately 77% of all rental units in Cologne serve the traditional market rate segment, the City does have some subsidized rental housing, primarily in Lakeside Villa, the City's only apartment building. In March 2017, there were no tenant-based rent assistance Vouchers in use in Cologne.

## Affordable Housing Gains and Losses

There has been no change in the supply of income-restricted housing or subsidized housing in many years. It is possible that some tenant-based Vouchers have been used in Cologne in the past, but this assistance is portable and moves with the household.

## 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 define these specific sectors within the broader housing market that are present in the cities in Carver County.

**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, a basic minimum rent is required. But these basic rents are generally 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 levels. 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. Some market rate projects may be senior-designated, for households age 55 and older.

## **Survey Coverage**

In Cologne there were only two multifamily rental projects identified, with a combined 15 rental units. Both of these projects offer federally subsidized housing. Both of these projects were successfully contacted.

There are no moderate rent/income restricted projects in Cologne.

All of the City’s market rate stock exists in small rental structures, such as single family homes, duplexes, or smaller structures with three or fewer units. No survey was conducted within the market rate segment.

## **Subsidized Housing**

The largest subsidized project in the City is Lakeside Villa, which has 12 units designated for senior/disabled tenant occupancy. All units have access to project-based rent assistance, allowing rent based on 30% of income.

The other subsidized project that was contacted is a collection of three scattered Public Housing units, with three or five bedroom offerings. These units charge rent based on 30% of household income.

Lakeside Villa reported one vacant unit at the time of the rental survey, attributed to recent turnover. According to the manager, this unit should be quickly filled when advertised, as good demand exists for affordable housing.

The Public Housing units were fully occupied and a waiting list exists. The Public Housing waiting list is maintained for all units countywide, and is not specific to the Cologne location.

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

In addition to the subsidized projects with project-based rent subsidies, Carver County renter households have access to HUD Housing Choice Vouchers. In March 2017 there were 249 Vouchers in use in the County, but no households in Cologne. 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 7 Cologne 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</b>   |  |               |                               |                            |   |
| Lakeside Villa<br>315 N Paul Ave                            | 11 - 1 Bedroom<br><u>1 - 2 Bedroom</u><br>12 Total Units | 30% of income | 1 vacant unit                 | Senior/ disabled occupancy | HUD Section 8 subsidized apartment project constructed in 1982 and designated for senior/disabled tenant occupancy. Building is 2-level walkup. All tenants have access to rent assistance that allows rent based on 30% of income. Unit amenities include stove, refrigerator and wall AC sleeve. Building amenities include community room and coin laundry on each floor. Manager reported 1 vacant unit at time of survey due to turnover but advertising will quickly fill unit. Most tenants are younger disabled households. |
| Public Housing Scattered Site Cologne                       | 3 Bedroom<br><u>5 Bedroom</u><br>3 Total Units           | 30% of income | No vacant units, waiting list | General occupancy          | Scattered site HUD Public Housing units - CDA acquired a single family house and 2 town homes. 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.  |
| <b>Subsidized - Tenant-based Vouchers</b>                   |  |               |                               |                            |   |
| Housing Choice Vouchers                                     | No assisted households in Cologne                        | 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 no Vouchers being used in Cologne 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 Values

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 8 Cologne Single Family Sales</b> |                 |                   |                 |                   |
|--|-----------------|-------------------|-----------------|-------------------|
| Sales Year                                 | Detached Houses |                   | Townhouses      |                   |
|  | Number of Sales | Median Sale Price | Number of Sales | Median Sale Price |
| 2016                                       | 38              | \$238,400         | 1               | \$190,000         |
| 2015                                       | 32              | \$221,444         | 2               | \$183,450         |

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

Based on the County’s sales sample, the typical single family detached house in Cologne has a value approaching \$240,000. For sales recorded in 2016, the median price had reached \$238,400, up from \$221,444 in 2015.

Townhouse sales were in a more affordable price range, but only three had been sold in the prior two-year time period.

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 9 Cologne 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   | 17                              | 44.7%   | 1                               | 100%    |
| 2015   | 20                              | 62.5%   | 2                               | 100%    |

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

In each of the past two years, approximately 45% or more of the detached home sales in Cologne occurred within a price range that could be viewed as affordable. However, this percentage did decrease substantially between 2015 and 2016. All of the townhouse sales were priced below \$238,500, but only a small number of annual sales were recorded.

## 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 Cologne to better understand current and future employment patterns, and the potential demand created by locally based workers.

| <b>Table 10 Cologne Employment Projections</b> |                    |                              |                     |
|--|--------------------|------------------------------|---------------------|
|  | Employment in 2010 | Employment in 2020 Projected | Change 2010 to 2020 |
| Cologne  | 270                | 370                          | 100 / 37.0%         |

Source: Metropolitan Council Thrive MSP 2040

Historically, the City of Cologne has primarily served as a residential community, with few locally-based jobs. Although the City is expected to add a substantial number of new residents during the current decade, the Met Council forecasts anticipate only a limited expansion of job opportunities within the community. Between 2010 and 2020, the projections expect an increase in local employment of approximately 37%, with the addition of 100 jobs.

In the base year of 2010, fewer than 0.9% of all jobs countywide were located in Cologne. By 2020, the projections indicate that this percentage will remain largely unchanged.

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 341 QCEW jobs in Cologne, up by 71 jobs from the base year in 2010. At the pace of job growth through 2015, Cologne is on course to exceed 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 Cologne was \$36,868, 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 98% of employed Cologne residents commuted out of the City for their employment in 2014. The primary work destinations identified for Cologne residents were Waconia, Chaska and Eden Prairie.

In addition to the people that both lived and worked in Cologne, the top locations that were supplying inbound commuters for Cologne-based jobs were Norwood Young America, Chaska, Benton Township and Glencoe.

## **Findings and Recommendations**

### **Overview**

Much of the future demand for housing production in the City of Cologne will be driven by anticipated household growth. With little evidence of vacant housing capacity in 2017, growth in the community will generally require a commensurate level of new housing unit creation.

In addition to direct household growth, Cologne is under served within the rental housing segment. At the time of the 2010 Census, fewer than 14% of all households living in Cologne were renters. The City has only one multifamily apartment building and it was constructed 35 years ago.

The different cities in Carver County have varying degrees of potential to serve a larger, regional demand for housing. As a community that is located near the center of the County, Cologne does have the potential to serve some of the regional demand. However, to get to Cologne, potential residents would need to bypass communities such as Chaska and Carver, both of which have been growing at a much faster rate than Cologne.

During the “housing boom” years of the early 2000s, Cologne was seeing rapid growth and strong interest from home builders. But then market conditions changed and no new houses were constructed in Cologne in 2011 or 2012. While some rebound has since occurred, the City has only reached a recent high of 23 new houses, achieved in 2014.

The Metropolitan Council has defined Cologne as a “Rural Center” community, in recognition of its development status. The Carver County cities to the east and north of Cologne are designated as a “Suburban Edge” or “Emerging Suburban Edge” communities.

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 Cologne, the projection review provided earlier pointed to average annual household growth of between 26 and 29 households per year.

The City has not sustained this level of growth for more than a decade, but reaching this level should be possible in the future, especially if home building activity continues to improve and some multifamily development is advanced.

### **Projected Tenure Distribution**

In the 2014 Housing Study, an overall tenure distribution of 17% rental and 83% owner-occupied had been used for the City of Cologne 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, any rental production is most likely to occur in a single, multifamily development project.

Looking forward over the next five years, a tenure rate of up to 20% rental would appear to be realistic, assuming at least one multifamily project proceeds. This rental rate would be substantially above the historical average in Cologne, but recognizes the City's need to diversify its housing stock.

Using the projected growth level of approximately 26 to 29 households per year in Cologne results in the need for 130 to 145 housing units over the five-year projection period. The anticipated tenure distribution yields:

- ▶ 25 to 30 total rental units to meet growth and pent-up demand
- ▶ 105 to 115 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 jurisdiction to help address region-wide demand for affordable housing. When compared to the Met Council's growth projection for Cologne, the affordable goals are to place 35% of future production into units that serve households at or below 80% of the median income level. To actually reach these goals, Cologne would need to achieve the following probable distribution:

- ▶ Approximately 8 rental units per year that are very affordable and serve households below 50% of median income - 39 units over the five-years
- ▶ Approximately 2 rental units per year that are affordable, and serve households between 50% and 80% of median income - 10 units over the five-years

## **Rental Housing Recommendations**

Given the limited potential for rental housing development in the City of Cologne over the next five years, it will be difficult to achieve the actual affordable housing goals outlined above. With the recognition that achieving the high level of production within the most affordable price ranges (below 50% of median income) is very unlikely, a larger allocation has been made to the more moderate price ranges, serving households up to 80% of the median income level.

To put the five-year production recommendation into context, there has been no past multifamily rental development in Cologne since 1982, when a 12-unit subsidized project was built.

At a minimum, the City of Cologne should attempt to produce at least 25 to 30 total rental housing units over the next five years to keep pace with expected household growth and to increase the rental 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 Cologne**

- |                              |                |
|------------------------------|----------------|
| ▶ Very affordable/subsidized | 5 units        |
| ▶ Moderate rent              | 20 to 25 units |

The target market for the very affordable/subsidized units would be households below 50% of median income. If possible, units targeted to households as low as 30% of median income would expand the options for very low income renters.

The target market for moderate rent units would be a rent structure that is at or below the limits set at 60% of median income. This may be possible to achieve through affordable housing efforts through the Carver County CDA, which would generally also require maximum income limits on tenants. It may also be possible through a market rate project with a moderate rent structure.

Ideally, a moderate rent project would not have income limits capped at 60% of median income, even if the rent structure is at or below this level. In 2015, the estimated median income level for all households in Cologne was \$79,167, and less than \$26,000 for renter households. While many households would qualify if income limits apply to a new project, a broader income range would be recommended to serve potential renters in the City.

The City has discussed the possibility of promoting senior housing with services, but this Update did not specifically analyze that specialized housing segment. There are no examples of this type of housing in the smaller cities in the County.

It is important to recognize that the unit recommendations above are presented as achievable targets for what may potentially occur in Cologne, based on normal growth and development patterns. A larger level of production can be supported, especially within the more affordable price ranges. But a recognition is made that financial resources for very affordable rental creation are limited, and reaching even these targets will present challenges for the community.

## **Home Ownership Recommendations**

At a minimum, the City of Cologne should attempt to produce at least 105 to 115 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 21 to 23 units per year. Cologne was within this production range in 2014, but did not reach 20 single family housing starts in 2015 or 2016.

The analysts have assumed that as market conditions continue to improve, single family construction activity will increase in Cologne. Going forward, sustained annual production of 21 or more single family units per year should be very achievable for Cologne.

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

- |                          |                |
|--------------------------|----------------|
| ▶ Entry-level/affordable | 10 to 15 units |
| ▶ Moderate/trade-up      | 80 to 85 units |
| ▶ Higher-priced          | 10 to 15 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 Cologne, as only a small percentage of recent single family home construction has been below the affordable price threshold. In the future, any affordable housing is most likely to be created in the attached single family segment.

As tracked by building permit reports, none of the single family housing starts since 2010 have been attached units. In 2017, there may not be any available lots that are suitable for attached unit construction.

In the future it is probable that 10% to 15% of the single family units in Cologne will be constructed as twin homes or town houses. This will be dependent upon an adequate supply of lots for these units. Any affordable new construction is most likely to be in this style of housing.

This would yield the following unit allocation in attached single family units.

- ▶ Entry level/affordable 5 to 10 units
- ▶ Above affordable price threshold 5 to 10 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. Between 2010 and 2015, approximately 29% of the attached housing construction has been rated as affordable by the Metropolitan Council.

## **Summary of Senior-Designated Market Share**

The last reliable measure of households by age is contained in the 2010 Census. At that time, Cologne had 128 households age 55 and older. This represented approximately 24% of all households in the City. Countywide in 2010, approximately 32% of all households were age 55 or older.

As a fast growing city in the early 2000s that was offering single family home ownership options, Cologne was primarily attracting younger adult households. Cologne had a much smaller distribution of senior and near-senior households.

Obtaining reliable age-based estimates and projections are difficult for a small city. Esri estimated that approximately 32% of all households in Cologne were age 55 and older in 2016, compared to approximately 38% countywide. Projections to the year 2021 indicate that less than 37% of Cologne's households will be age 55 and older, compared to 42% of all households in Carver County within these senior-designated age ranges.

The 2014 Housing Study had recommended that up to 33% of the future rental development could be senior-designated, although this only represented 10 total units. Based on the anticipated age distribution in 2021, the rental percentage would be reasonably consistent with the overall percentage expected in these older adult age groups. Since 2014, no senior-designated housing has been created in Cologne and no pending projects were identified.

Although seniors and near-seniors will represent a growing share of housing demand in the future, Cologne does not have the same concentrations of older adult households as many of the other cities in the County. Any housing that is developed should be designed to appeal to older adult renters, but in a community as small as Cologne, general occupancy housing would be encouraged, to serve broad segments of the potential market.