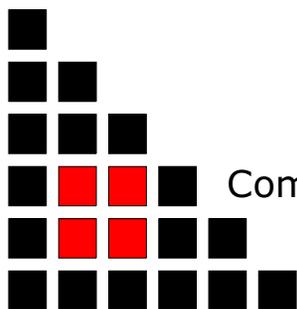


# **Carver County AFFORDABLE HOUSING UPDATE**

July 2017

**City of New Germany**



Community Partners Research, Inc.

Lake Elmo, MN

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

- ▶ The City of New Germany is the smallest city in Carver County, with only 422 people in 165 households according to the most recent estimate from the Metropolitan Council.
- ▶ A realistic expectation of annual growth through the year 2021 is approximately 3 to 5 households per year. This will be directly linked to residential lot availability. In 2017, the City still has a small supply of distressed lots that have been sold at deeply discounted prices, resulting in above average new construction activity. When the discounted lot supply is depleted, there is the possibility that some additional lots will be improved along two man-made lakes.
- ▶ The City has been offering incentives to encourage home building and development. This includes a planned waiver of outstanding assessments for one of the stalled subdivisions, and reduced sewer and water connection fees for new houses.
- ▶ New Germany did not have much housing unit growth in the 2000s, when most of the other cities in the County had a housing boom. But in 2016, there were nine single family building permits issued, and at least seven additional houses are planned for 2017. Low-priced lots in the Black Forest subdivision have attracted interest from area home builders.
- ▶ In 2018, the City plans to waive special assessment balances for sewer and water extensions provided to the Trophy Lakes subdivision. After that time, it is possible that these lots may be improved, providing additional locations for future home construction. Most of the lots in Trophy Lakes are “lake shore” and presumably will be used for higher-priced houses or even seasonal-use homes.
- ▶ New Germany has only one traditional apartment building, which was constructed in the early 1980s as subsidized housing for seniors. This property has left the Rural Development subsidy program and was converted to general occupancy, market rate rental housing.
- ▶ The Metropolitan Council analyzes the supply of housing that is affordable within each city. This placed nearly all of the existing stock in New Germany below the applicable price thresholds in 2015. Based on this analysis, New Germany is one of the most affordable communities for housing in Carver County.

- ▶ The Metropolitan Council also calculates a Housing Performance Score for each city, based on the maintenance or expansion of affordable housing. New Germany received 30 out of 100 possible points, one of the lower scores in the County. However, it is difficult for New Germany to receive a higher score in this rating system, since no significant construction of housing at any price has occurred between 2010 and 2015, when the ratings were made. It is believed that some of the houses constructed in 2016 would meet the affordable definition, which should raise the City's score in the future.
- ▶ Home ownership is relatively affordable in New Germany, especially when compared to most other cities in the County. Home value information obtained from both County sales records and the American Community Survey show that New Germany has the lowest median home value among the cities in the County.
- ▶ According to the 2015 American Community Survey, the median income level for home owners in New Germany was \$55,300, the lowest among the cities in the County. The estimated median for renters was just \$28,125, well below the Countywide median.
- ▶ When compared to the estimated housing costs in 2015, most New Germany owner households were able to secure housing they could afford, according to the American Community Survey. For a median income home owner, less than 22.5% of income was required for housing costs. However a median income renter needed to apply nearly 31% of income for housing, due largely to the relatively low income levels for most renter households.
- ▶ 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 3 to 5 households in an average year. The estimated tenure distribution is based on 80% owner-occupancy and 20% rental demand.
- ▶ To meet rental demand, a small-scale project creating four to six new units would help to diversify the City's housing options. Duplex or four-plex configurations with a moderate rent structure would be encouraged, with rents accessible to households below 80% of median.
- ▶ To meet expected home ownership demand, between three and five new units may be needed per year over the five-year projection period. Once lots are depleted in Black Forest, it is probable that most new homes will be in a higher price range if constructed in Trophy Lakes.

## 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. For New Germany, the most recent revision slightly raised the longer-term growth expectation.

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 New Germany, 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 **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 New Germany</b>	
<b>Data Source</b>	<b>Average Annual Growth</b>
<b>Projected</b>	
Met Council Thrive MSP 2040	4 households/year projected
2014 Carver County Housing Study	5 households/year projected
Esri	3 households/year projected
<b>Actual</b>	
Average annual growth 2010-2016 estimate	3 households/year projected
Average annual housing unit construction 2010-2016	2 units/year actual
Housing units constructed in 2016	9 units actual

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

For the City of New Germany, there is relative consistency between the projection sources. The expected range of average annual growth is from a low of three households per year to a high of five households per year.

This range generally matches the estimated growth from 2010 through 2016, but is slightly higher than the average for housing unit construction in recent years.

However, it is important to note that in 2016, there were building permits issued for nine new single family houses in New Germany, the highest single-year total for at least the past 10 years. As will be discussed in greater detail on the following pages, the recent increase in home construction is probably linked to discounted lots along with City financial incentives.

While it is certainly possible that this higher level in home building may be sustained for multiple years, more normal patterns would indicate that 2016 and 2017 represent an aberration for permit issuance, rather than the expected level for the next few years.

Most communities find it financially difficult to extend incentives for multiple years. As the supply of discounted lots is used, there is less evidence that the higher level of home building can be sustained. Instead, future subdivision development in New Germany will be at market prices, and any competitive advantage in lot prices will no longer exist.

### **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 New Germany would expect average incremental growth of approximately 8 households per year between 2020 and 2030, and 7 households per year between 2030 and 2040, slightly higher than the near-term expectations.

## Building Permit Trends

The following table tracks new housing unit creation in the City of New Germany, 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 New Germany Housing Construction Activity: 2010 to 2016</b>				
Year	Single Family Detached	Attached Single Family	Multifamily	Total Units
2016	9	0	0	9
2015	2	0	0	2
2014	2	0	0	2
2013	0	0	0	0
2012	2	0	0	2
2011	0	0	0	0
2010	0	0	0	0
2010-2016 Total	15	0	0	15

Source: Metropolitan Council

As one of the smallest cities in Carver County, New Germany has had limited growth in recent decades. During the boom years between 2000 and 2009, only 12 new houses were built in the City according to annual building permit reports.

From 2010 to 2015, new construction activity remained low, with only six new houses permitted. However, in 2016, there were nine new single family houses constructed. In 2017, at least seven new houses are expected, based on preliminary plans.

The increased activity in 2016 and proposed for 2017 appears to be linked to discounted lot availability and construction incentives. Lots in the City's primary subdivision, Black Forest, have been selling for approximately \$14,000. In addition, the City has offered a 25% discount for new sewer and water connections. New builders have been attracted to the community and the volume of housing starts has increased. These are often more affordable homes targeted to first-time buyers. There are also some slab-on-grade patio homes oriented to older buyers.

There has been no development of multifamily housing in New Germany in many years, and no projects have been proposed. The only traditional apartment building that can be identified in New Germany was constructed in the early 1980s.

### **Residential Lots**

Although the construction activity has improved, the improved lot inventory is largely depleted. City staff believe that only two lots may remain if seven houses are built in 2017. The Black Forest subdivision has another phase planned, but the owner is not interested in improving the parcel based on the low prices for lots in the last phase.

There is another large subdivision, known as Trophy Lakes, that went into default. Lots were platted and City sewer and water service was provided to the property line, but individual lot improvements were never made by the owner. The development contains two man-made lakes for recreational use, and there are 34 lake lots and 11 off-lake lots. No homes were ever built since sewer and water connections were not made to individual lots.

The City has agreed to waive the outstanding special assessments against the Trophy Lakes property in 2018. After that time, it is possible that the lots will be improved, and made available for new home construction.

## 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	2	0	0	0	0
2014	2	0	0	0	0
2013	0	0	0	0	0
2012	2	2	0	0	2
2011	0	0	0	0	0
2010	0	0	0	0	0
2010-2016 Total	6	2	0	0	2

Source: Metropolitan Council

As tracked by the Metropolitan Council only two of the 6 houses constructed within the City of New Germany between 2010 and 2015 would meet the basic definition of affordable housing, based on a standard set at 80% of median income. Both of the affordable units were constructed in 2010.

In 2016, there were nine new houses built in New Germany, but the Metropolitan Council has not yet completed its analysis of affordable unit creation. Initial reports from City staff indicate that some of the new houses are oriented to entry-level buyers, and these may meet the threshold for affordable ownership that is used by the Met Council.

## **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 New Germany 30 out of 100 possible points. New Germany was tied with Victoria for the eight lowest score of the 11 cities in Carver County.

As with some of the other small cities, the very limited production of new housing in New Germany between 2010 and 2015 contributed to the low Housing Performance Score. There were few opportunities to create affordable housing options during this time.

## 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/02395195\\_NewGermany\\_ExistingHsg.aspx](https://metrocouncil.org/Handbook/Files/Existing-Housing-Assessment/02395195_NewGermany_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 New Germany, this assessment used a total housing unit inventory count of 173 units in 2015.

<b>Table 4 Affordable Existing Housing Allocation - 2015</b>		
Affordable Level	Total Units	% of All Units
30% or less of median	10	5.8%
31% to 50% of median	109	63.0%
51% to 80% of median	49	28.3%
Above 80% of median	5	2.9%
<b>Total</b>	<b>173</b>	<b>100%</b>

Source: Metropolitan Council

According to the analysis by the Metropolitan Council, most of the existing housing stock in New Germany is affordable. Overall, more than 97% 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 45 total rental units citywide. With 168 units in New Germany 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. New Germany's allocation of this need is 21 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	9	0	12	21	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 patterns, these allocations are very high. In actual practice between 2010 and 2015, only two affordable units were created in New Germany, based on these standards. To achieve 21 units over the ten-year allocation period would require an average of two 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 snap-shot of the local rental market.

The most recent estimates available for New Germany are for 2015. In that year, they estimated that there were 45 renter-occupancy households living in the City, with a margin of error +/-17 households. Based on all other information, this estimate was probably high, as the City estimates that only 32 units exist citywide in 2017. However, after 2010 the rental inventory has been getting smaller and the American Community Survey may be high by approximately 10 to 15 households. Despite the over-estimate, some data on the rental stock is presented below.

### **Median Gross Rent**

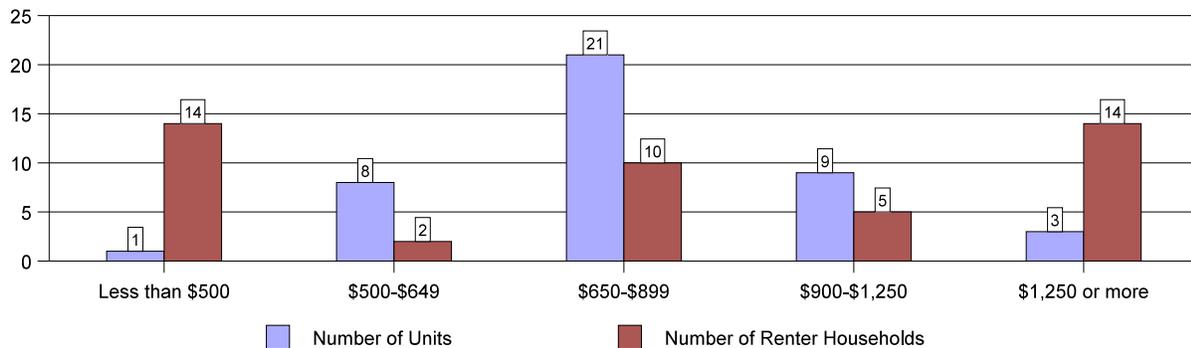
Due to the small number of rental housing units in New Germany, the only median gross rent estimates contained in the American Community Survey showed two-bedroom options at \$696 per month and three-bedroom rentals at \$1,156. For all units, regardless of the number of bedrooms, the median gross rent was \$715.

The median gross rent for three-bedroom units was probably a reflection of the existence of single family rentals. When tenant-paid utilities are included, the rental houses could be above the median for two-bedroom options, which may reflect apartment rentals.

### **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.

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



When renter household income levels in New Germany 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.
- ▶ 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 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 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 New Germany had a relatively small supply of higher-priced rental units. The rental units in this price range are probably in single family houses that are in the rental stock.

## 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%	20	0	20
30% or more	22	0	22
Not Computed	3	0	3
Total	45	0	45

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 49% of all renters in the City were paying 30% or more of their income for rent.

The American Community Survey estimates showed that all of the renter households in New Germany were age 64 or younger. This was probably due to a sampling limitation, as it is assumed that at least some of the City’s renters are senior citizens.

For all renter households, the median percentage of household income applied to rental costs was 30.7%. This was a higher percentage than the Countywide median of 27.8% of income needed for monthly rent.

According to the 2015 American Community Survey, the median household income for all renters in New Germany was only \$28,125 in 2015, well below the Countywide renter median of \$41,599.

## **Rental Housing Data**

### **Census Records**

According to the 2010 Census, the City of New Germany had 31 occupied rental housing units, and at least 14 unoccupied rental units, for a total estimated rental inventory of 45 units. The City's rental tenure rate was only 21.2% in 2010, below the Statewide rental rate of 27%. However, this was due in part to a large number of vacant rental units.

Based on building permit reports, no multifamily projects have been constructed in New Germany 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. However, the rental inventory in 2017 is probably very similar to the level reported in the 2010 Census.

### **City Rental Registration**

The City of New Germany does not have a rental housing registration or licensing requirement. However, City staff estimated that approximately 32 rental units exist in 2017. The City is aware of some houses that were offered as rental earlier in the decade, that have since been sold, and no longer used for rental housing.

### **Rental Market Segments**

With a small inventory of rental housing, the only rental segment currently being served in New Germany is the conventional, market rate segment.

At one time, there was a subsidized apartment project in New Germany, but within the past 10 years this project was converted to market rate housing.

In March 2017, there were no tenant-based rent assistance Vouchers in use in New Germany.

## **Rental Housing Survey**

In February and March of 2017, a telephone survey was conducted of multifamily rental developments in the cities in Carver County. Information was collected for subsidized, moderate rent/income restricted, and market rate projects. In New Germany, only traditional market rate projects exist.

For the other cities in the County, the following basic definitions have been applied to define 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, 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 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 New Germany there was only one rental project identified, with eight apartment units. Deutchland Apartments was originally built as subsidized housing but now offers traditional market rate housing. Deutchland Apartments was successfully contacted.

The City’s remaining rental stock exists in small rental structures, such as single family homes, duplexes, or smaller structures with four or fewer units.

There are no subsidized or income restricted rental options in New Germany. In March 2017, there were no rent assistance Vouchers being used in New Germany. However, it is possible that some special Vouchers were provided to the existing tenants in Deutchland Apartments, as a mitigation effort when that project terminated its subsidy contract

### **Market Rate Housing**

All of the rental options in New Germany would be defined as purely market rate housing. However, the largest rental complex, known as Deutchland Apartments, had originally been constructed as subsidized housing. Within the past 10 years it was converted to market rate housing. The senior/disabled occupancy designation which had applied when it was subsidized has changed to general occupancy.

There are eight apartment units in Deutchland, which probably represents approximately 25% of all rental options in the City. Deutchland reported full occupancy.

Although it is no longer income-restricted housing, the rental rates in Deutchland Apartments are very moderate, with two-bedroom gross rents estimated at approximately \$700 per month, including tenant-paid utilities. It is very possible that single family rentals in New Germany 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 have access to HUD Housing Choice Vouchers. In March 2017 there were 249 Vouchers in use in the County. However, no households in New Germany were receiving Voucher assistance. 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.

**Table 7 New Germany Multifamily Rental Housing Inventory**

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
<b>Market Rate</b>					
Deuchland Apartments 600 Broadway East	1 -1 Bedroom <u>7 - 2 Bedroom</u> 8 Total Units	\$500 \$525 +heat, electric	No vacant units	General occupancy	Originally constructed in 1983 as USDA Rural Development subsidized apartments, this project has now converted to market rate housing. The senior/disabled occupancy designation has changed to general occupancy. Rent assistance Vouchers were provided to income-eligible tenants to mitigate impact of contract termination. Two-level walkup building. Tenant pay electric heat and electricity in addition to rent. Unit amenities include stove, refrigerator and wall AC. Two-bedrooms have 750 sq ft and 1 bathroom. Manager reported full occupancy

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 8 New Germany Single Family Sales</b>				
Sales Year	Number of Good Sales	Median Sale Price	Highest Sale Price	Lowest Sale Price
2016	9	\$142,000	\$186,926	\$80,000
2015	9	\$153,610	\$191,500	\$13,500

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

Based on the County’s sales sample, the typical single family detached house in New Germany has a value below \$155,000. For sales recorded in 2016, the median price was only \$142,000.

All of the recorded sales in New Germany were identified as single family detached homes.

The current affordable ownership threshold used by the Metropolitan Council is \$238,500. All 18 sales recorded in 2015 and 2016 combined were for less than \$238,500 and would be viewed as affordable.

## Employment and Commuting

Each of the individual cities in Carver County provides 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 New Germany to better understand current and future employment patterns, and the potential demand created by locally based workers.

<b>Table 9 New Germany Employment Projections</b>			
	Employment in 2010	Projected Employment in 2020	Change 2010 to 2020
New Germany	46	70	24 / 52.2%

Source: Metropolitan Council Thrive MSP 2040

Historically, New Germany has primarily served as a residential community, with few locally-based jobs. The Metropolitan Council’s forecasts to the year 2020 show limited growth potential for both population and jobs in the City. Between 2010 and 2020, the projections expect an increase in local employment of approximately 52%, but this only represents the addition of 24 jobs.

In the base year of 2010, fewer than 0.2% of all jobs countywide were located in New Germany. 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 59 QCEW jobs in New Germany, up by 13 jobs from the base year in 2010. At the pace of job growth through 2015, New Germany is 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 New Germany was \$16,900, 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, nearly all of employed New Germany residents commuted out of the City for their employment in 2014. The primary work destinations identified for New Germany residents were Waconia, Eden Prairie and Chaska.

In addition to some people that both lived and worked in New Germany, the top location that was supplying in-bound commuters for New Germany-based jobs was Lester Prairie.

## Findings and Recommendations

### Overview

Most of the future demand for housing production in the City of New Germany will be driven by potential household growth. With a limited existing housing stock, any future growth in the community will generally require a commensurate level of new housing unit creation.

New Germany is under-served within the rental housing segment. At the time of the 2010 Census, only 21% of all households living in New Germany were renters. City staff believe that the number of rental housing options have decreased after 2010, as some rental houses have been sold to owner-occupants.

However, as a City with few services or retail options, New Germany has primarily served as a “bedroom” community, for owner-occupants looking to live in a small town that is within commuting distance of larger, more full-service communities. As a result, demand for any new rental housing will largely be locally-generated. Affordable rental units would generally succeed, by attracting households that would otherwise not live in New Germany, but these households could also be served by rental options built in the larger communities in the County.

New Germany has had very limited single family home construction in the past. Even during the “housing boom” years of the early 2000s very few houses were built in the City. However, some subdivision activity advanced. Lots later went into default, and some have since been sold at deeply discounted prices. This helped attract interest from home builders, and in 2016 there were nine building permits issued. In 2017, there are expectations that at least seven additional single family houses will be built.

The larger-scale activity in 2016 and 2017 can be directly linked to the supply of discounted lots and a City incentive program that reduced sewer and water connection fees. While it is possible that some additional houses will be constructed in the future, by the end of 2017 it is probable that most of the discounted lot supply will be depleted, and any future home building would require newly improved lots, which will negate the current price advantage that has helped to generate new construction activity.

The Metropolitan Council has defined New Germany as a “Rural Center” community, in recognition of its development status. All of the cities in the western portion of the County are also designated as “Rural Centers”. These cities represent a less likely alternative for large-scale outward migration.

For the City of New Germany, the projection review provided earlier pointed to average annual household growth of only 3 and 5 households per year. Even sustaining this modest level of growth could be challenging for New Germany, as it is likely that the supply of improved residential lots may be depleted, unless future investment is made in infrastructure extensions or subdivision development.

The City does have one potential development area, known as Trophy Lakes, which has been platted with up to 45 lots. However, sewer and water lines were never extended to serve the individual lots. In 2018, the City is planning to waive the current assessments against the property, for the main lines that were brought to the property edge. After that waiver, it is possible that a private investor may be willing to make the infrastructure improvements necessary to make these lots available for home building.

Most of the lots in Trophy Lakes are “lake shore” properties on two man-made lakes. It is assumed that these would be marketed for higher-priced homes, although the marketability of the lots and lakes was not specifically reviewed by the analysts.

### **Projected Tenure Distribution**

In the 2014 Housing Study, an overall tenure distribution of 37% rental and 63% owner-occupied had been used for the City of New Germany to project unit demand to the year 2020. It is not clear why the near-term demand for rental housing was viewed as being higher in New Germany than in most of the other small cities in the County. After the year 2020, the projected demand for rental was lowered to only 12% between 2020 and 2030.

Looking forward over the next five years, a tenure rate of up to 20% rental would appear to be a realistic goal. However, in all likelihood, it is doubtful that a small-scale rental project would be constructed in New Germany, and nearly all of the future construction will probably continue in the single family segment for owner-occupants.

Using the projected growth level of approximately 3 to 5 households per year in New Germany results in the need for 15 to 25 housing units over the five-year projection period. If a 20% rental share is achieved this would yield:

- ▶ 3 to 5 rental units to meet growth-generated demand
- ▶ 12 to 20 total owner units to meet growth-generated demand

Additional production to serve other demand-generators growth may also occur, but would tend to be limited in scale. For example, it is possible that a greater level of home building could occur within the Trophy Lakes subdivision, from people looking to access the water skiing opportunities on the man-made lakes.

### **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 New Germany, the affordable unit goals are to place 26% of future production into units that serve households at or below 80% of the median income level. For New Germany, this would only be approximately one to two affordable units per year, or five to 10 total units over a five-year time period.

Since it is possible that some affordable single family houses have been built in 2016, and planned for 2017 using the discounted lots in the Black Forest subdivision, it is possible that New Germany has already achieved its goals for households between 50% and 80% of the median income level. To serve households below 30% of median income would probably require the construction of a small-scale subsidized rental project.

## **Rental Housing Recommendations**

While there is limited potential for larger-scale rental housing development in the City of New Germany over the next five years, it may be possible to see some smaller-scale rental housing proceed, such as duplex or four-plex buildings. With the recognition that achieving any level of production within the most affordable price ranges (below 50% of median income) is very unlikely, the City should attempt to encourage construction in a moderate price range, serving households up to 80% of the median income level.

It is important to recognize that the unit recommendations above are presented as realistic targets for what is probable to occur in New Germany, based on normal growth and development patterns. A larger level of production could be supported, especially within the more affordable price ranges. But financial resources for affordable rental creation are limited, and achieving even these targets will present challenges for the community.

As a City with few services and amenities, New Germany is not a preferred location for low income housing. Residents need reliable transportation to travel for even basic services, such as groceries. It would be more appropriate to locate larger-scale rental development within the County's larger communities.

## **Home Ownership Recommendations**

The City of New Germany has experienced an above-average level of new home building in 2016 and 2017, due to the availability of deeply discounted lots in the Black Forest subdivision. By the end of 2017, it is probable that this lot supply will be depleted, and future construction will be more limited. The City should attempt to produce at least three to five housing units annually for owner-occupants over the next five years. Additional production above this level can be supported, if lake shore homes in the Trophy Lakes subdivision proceed.

The challenge for New Germany will be to have more residential lots improved at market prices. The low-priced lot sales that have been occurring in Black Forest resulted in affordable new home construction. But when this distressed lot inventory is sold, there is less evidence that demand for new houses in New Germany can be sustained.

If lot improvements are made in Trophy Lakes after 2018, it is likely that these will be oriented to higher-priced houses along the two lakes. It is also possible that “seasonal-use” housing could be constructed, providing an option for people that want to access the skiing opportunities on the lakes, but not living there on a permanent basis.

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

The last reliable measure of households by age is contained in the 2010 Census. At that time, New Germany had 46 households age 55 and older. This represented approximately 32% of all households in the City. Countywide in 2010, approximately 32% of all households were also age 55 or older.

Obtaining reliable age-based estimates and projections can be difficult for a small city. Esri estimated that approximately 43% of all households in New Germany were age 55 and older in 2016, compared to approximately 38% countywide. Projections to the year 2021 indicate that nearly 49% of New Germany'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 not recommended any senior-designated housing, given New Germany's small size and limited overall market potential. Since 2014, no senior-designated housing has been created in New Germany and no pending projects were identified.

Although seniors and near-seniors will represent a growing share of housing demand in the future, New Germany is a very small city, and the number of older adult households is also relatively small. Any housing that is developed should be designed to appeal to older adult renters, but in a community as small as New Germany, general occupancy housing would be encouraged, to serve broad segments of the potential market.