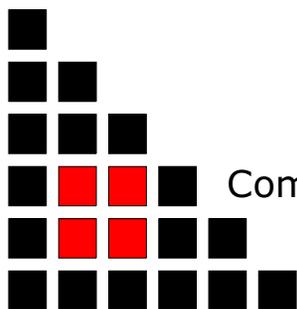


Carver County AFFORDABLE HOUSING UPDATE

July 2017

City of Victoria



Community Partners Research, Inc.

Lake Elmo, MN 55042

Key Findings - 2017 Affordable Housing Study Update

- ▶ Victoria is the fourth largest city in Carver County, behind Chaska, Chanhassen and Waconia. Located in the eastern portion of the County, and sharing a common border with both Chaska and Chanhassen, Victoria has strong future growth potential.
- ▶ A realistic expectation of annual growth through the year 2021 is approximately 110 to 140 households per year. To achieve the higher end of this range will probably require multifamily rental development.
- ▶ While an even faster rate of future growth is certainly possible, given Victoria's desirability as a residential community, the City has not been able to sustain annual average growth at this projected level for most of the past 10 years.
- ▶ Victoria has historically been a community that offers single family ownership housing. At the time of the 2010 Census, the City's rental tenure rate was less than 8%, well below the level for the other larger cities in the County. The City has only a small supply of multifamily rental properties, and any growth in the number of renter households between 2010 and 2016 would be attributable to single family units that are now renter-occupied.
- ▶ Between 2010 and 2016, the only possible rental construction may have been a duplex structure. However, in 2017, construction did begin on an 81-unit luxury rental building. Excluding some specialized care units for seniors, the new project in 2017 will represent the first significant addition of multifamily rental housing in Victoria since the early 1990s.
- ▶ Victoria has never had any subsidized or income-restricted rental projects. The Carver County CDA has three scattered site Public Housing units, but these are the only units with project-based rent assistance.
- ▶ The Metropolitan Council analyzes the supply of housing that is affordable within each city. This placed only 22% of the existing stock in Victoria below the applicable price thresholds in 2015, the smallest percentage in the County. With ongoing price escalation for existing single family houses, it is probable that this percentage is much lower in 2017.
- ▶ Recent construction patterns place only 1.4% of all units constructed between 2010 and 2015 as affordable, and the last new units under the price thresholds date to 2010.

- ▶ The Metropolitan Council calculates a Housing Performance Score for each city, based on the maintenance or expansion of affordable housing. Victoria received 30 out of 100 possible points, tied for third lowest among the 11 cities in the County.
- ▶ Victoria has the highest median home value among the cities in the County. In 2016, the estimated median value for detached single family house sales was \$433,500. The median price for existing attached single family units was lower, at \$239,000, but this was still above the affordable ownership threshold price used by the Metropolitan Council.
- ▶ While home values are high in Victoria, so are income levels. According to the 2015 American Community Survey, the median income level for home owners in Victoria was nearly \$143,000, and the median for renters was above \$54,000.
- ▶ When compared to the estimated housing costs in 2015, most Victoria home owners were able to secure housing they could afford, according to the American Community Survey. For a median income home owner, only 19.2% of income was required for housing costs. For a median income renter, approximately 22% of income was needed for housing.
- ▶ 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 110 to 140 households in an average year. The estimated tenure distribution is based on 85% owner-occupancy and 15% rental demand.
- ▶ To meet expected rental demand, at least 105 new units will be needed over the five-year projection period.

Minimum 5-year Rental Housing Recommendations

- ▶ Very affordable/subsidized 10 to 20 units
 - ▶ Moderate rent/income restricted 40 to 50 units
 - ▶ Market rate - all types 45 to 55 units
- ▶ To meet expected home ownership demand, at least 595 new units will be needed over the five-year projection period.

Minimum 5-year Ownership Housing Recommendations

- ▶ Entry-level/affordable 25 to 30 units
- ▶ Moderate/trade-up 220 to 240 units
- ▶ Higher-priced 325 to 350 units

Overview

Purpose

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

At the time that the 2014 project was being completed, conditions were still being impacted by the housing market decline and national economic recession that began in the late 2000s. 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 Victoria, the most recent revision increased the expected level of future growth.

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 Victoria, 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. This projection has been revised upward since originally issued for Victoria in 2014.

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.

Table 1 Projected and Actual Growth - City of Victoria	
Data Source	Average Annual Growth
Projected	
Met Council Thrive MSP 2040	107 households/year projected
2014 Carver County Housing Study	193 households/year projected
Esri	65 households/year projected
Actual	
Average annual growth 2010-2016 estimate	87 households/year actual
Average annual housing unit construction 2010-2016	89 units/year actual
Housing units constructed in 2016	117 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 Victoria.

The highest projection was contained in the 2014 Carver County Housing Study, which expected Victoria to add an average of 193 households per year between the base year of 2014 and 2020, the end of the projection period. That annual growth forecast was nearly double some of the other sources reviewed. The second highest projection, from the Metropolitan Council expected an annual average of approximately 107 households in a typical year.

Although the Maxfield forecast does appear to be too high, there is evidence that growth in Victoria has started to accelerate. In 2016, there were building permits issued for 117 single family units. In 2017, an 81-unit luxury apartment building started construction. If the City achieves a single family permit total in 2017 that is similar to 2016, it is possible that approximately 200 new housing units will be added this year. Going forward, it is possible that Maxfield's annual growth level could be reached in Victoria, if housing construction patterns remain strong.

However, to reach a sustained level of housing unit construction that approaches 200 units per year, it is probable that additional multifamily rental development will be needed. Since multifamily projects have not been consistently developed in the past, it is more likely that the City will instead see larger buildings constructed every few years.

A more consistent and sustained level of single family production is likely, as the City has had 110 or more single family permits issued in three of the last four years. As a result, this Update has proceeded with a projection that the City will add between 110 and 140 households per year through the year 2021. To reach the upper end of this range will generally require additional multifamily construction.

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 Victoria would expect average incremental growth of 107 households per year between 2020 and 2030, and 113 households per year between 2030 and 2040. This annual range of growth is projected to be relatively consistent from decade to decade.

Building Permit Trends

The following table tracks new housing unit creation in the City of Victoria, 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.

Table 2 Victoria Housing Construction Activity: 2010 to 2016				
Year	Single Family Detached	Attached Single Family	Multifamily	Total Units
2016	113	4	0	117
2015	81	0	0	81
2014	110	0	0	110
2013	95	24	0	119
2012	55	18	0	73
2011	53	15	0	68
2010	45	8	2	55
2010-2016 Total	552	69	2	623

Source: Metropolitan Council

Like many communities in Minnesota, Victoria had a reduced level of new housing construction activity in the early years of the current decade, following the housing market collapse and economic recession of the late 2000s. During the construction boom years in the early 2000s, the City had achieved very high levels of home building, with as many as 174 owner-occupancy units permitted in 2005. But by 2010, only 53 single family units were constructed in the City.

By 2013, recovery was well underway in the owner-occupancy housing segment, and more than 100 single family units have been constructed in Victoria annually in 2013, 2014 and 2016. There was some reduction in 2015, when only 81 houses were built, but that was followed by 117 single family units in 2016. The large majority of the new single family units are identified as detached house, but some limited attached single family construction has also occurred.

There has been almost no multifamily rental creation since 2010, although Metropolitan Council records did show a duplex in 2010. However, in 2017, construction did begin on an 81-unit luxury rental building known as Victoria Flats.

Pending Projects

According to City staff, there has been ongoing discussion of an affordable senior rental project through the Carver County CDA. A site change has been required due to development limitations at the original site, which made the project expensive to construct.

It is probable that one or more residential subdivisions may advance in 2017, but they have not yet received final approvals.

Residential Lots

According to City staff, Victoria has an adequate supply of improved residential lots to meet near-term construction needs. The City estimates that more than 300 vacant lots exist in 2017, including 88 that are platted for town houses or villas. However, at the recent pace of construction, this lot supply could be absorbed over the next two years. Developers have started preliminary planning for additional lot development phases in 2017.

Although the City did have a relatively large supply of lots when construction activity slowed, City staff believes that none of the developments went into foreclosure. There was also no evidence that lots had been liquidated at below-market prices.

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.

Table 3 Affordable Housing Construction Activity: 2010 to 2015					
Year	Single Family Total	Single Family Affordable	Multifamily Total	Multifamily Affordable	Total Affordable Units
2015	81	0	0	0	0
2014	110	0	0	0	0
2013	119	0	0	0	0
2012	73	0	0	0	0
2011	68	0	0	0	0
2010	53	7	2	0	7
2010-2016 Total	504	7	2	0	7

Source: Metropolitan Council

As tracked by the Metropolitan Council, only 1.4% of all housing units constructed within the City of Victoria between 2010 and 2015 would meet the basic definition of affordable housing, based on a standard set at 80% of median income.

All of the affordable units were created in single family attached structures. In some of the other cities, including Chaska, a higher percentage of housing was affordable due to multifamily rental construction, but there was an absence of apartment construction in Victoria.

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 Victoria 30 out of 100 possible points. Victoria was tied for the third lowest Score among the 11 cities in the 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/02397135_Victoria_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 Victoria, this assessment used a total housing unit inventory count of 2,966 units in 2015.

Table 4 Affordable Existing Housing Allocation - 2015		
Affordable Level	Total Units	% of All Units
30% or less of median	30	1.0%
31% to 50% of median	245	8.3%
51% to 80% of median	382	12.9%
Above 80% of median	2,309	77.8%
Total	2966	100%

Source: Metropolitan Council

According to the analysis by the Metropolitan Council, most of the existing housing stock in Victoria is not affordable. Overall, nearly 78% of all units are above the price thresholds viewed as affordable for households earning 80% or less of the Twin Cities median income level. Nearly 13% of all existing units were viewed as affordable for households between 51% and 80% of the median income level, but fewer than 10% of all units were affordable for households at or below 50% of median income.

While the affordable housing breakdown does not identify occupancy tenure, the overall affordable unit total implies that some single family ownership options exist. In the analysis, there were only 309 total rental units citywide. With more than 650 units in Victoria that were considered to be affordable, this would indicate that some 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. Victoria's allocation of this need is 434 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 median 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.

Table 5 Ten-year Affordable Housing Allocation Goals					
	30% or less of median	31% to 50% of median	51% to 80% of median	Total Affordable	% of Expected Units
Unit Allocation	235	150	49	434	41%

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 60% of the median income level.

In comparison to recent patterns, these allocations are very high. In actual practice between 2010 and 2015, only 7 affordable units were created in Victoria, based on these standards. This represented approximately 1.4% of all construction, while this allocation sets a goal that approximately 41% of future construction will be within the affordable price ranges.

American Community Survey Rental Data

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

The most recent estimates available for Victoria are for 2015. In that year, there were 261 renter-occupancy households estimated to be living in the City, with a margin of error +/- 90 households. Based on all other information, this estimate may have been slightly high for occupied rental units, as the 2010 Census only counted 210 available units. Although potentially high, the American Community still represents useful data on the rental stock.

Median Gross Rent

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

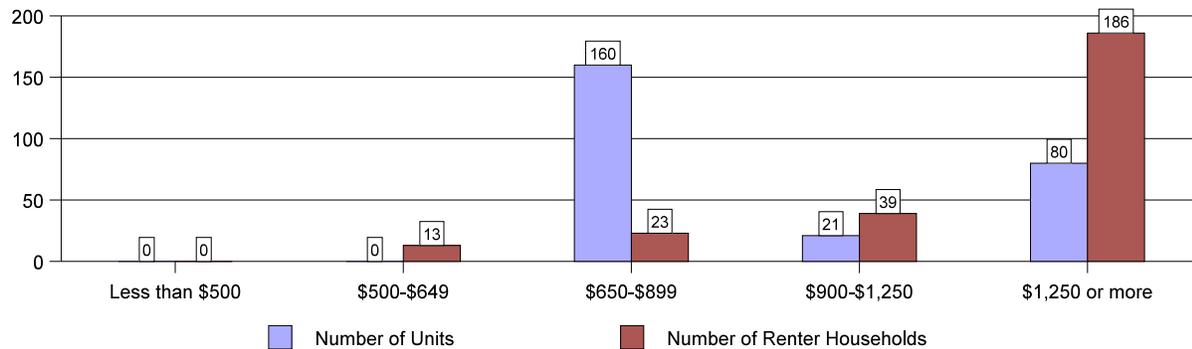
Table 6 Median Gross Rental Rates in 2015					
	0 Bedroom	1 Bedroom	2 Bedroom	3 Bedroom	All Units
Median Gross Rent	-	-	\$864	\$860	\$876

Source: American Community Survey

For all rental housing in the City in 2015, the estimated median gross rent was \$876. This overall median was very similar to the median for two and three-bedroom units, which were the most common unit types reported.

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 Victoria are compared to the rent distribution of available units, the following observations emerge.

- ▶ According to the American Community Survey, Victoria has no lower priced units, with a gross rent below \$650, and few lower income renter households. While this could be a sampling error in the American Community Survey, it may also reflect the fact that Victoria has also no income-based rental housing.
- ▶ In the moderate price ranges between \$650 and \$899 per month, there were more units available than households in a comparable income range. Presumably, many of the higher income households were electing to “rent down” and apply less than 30% of their income for housing.
- ▶ In the rental price ranges of \$900 or more per month, the number of units was much lower 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 Victoria had a relatively small supply of higher-priced rental units, with a rent above \$1,250 per month. In 2017, an 81-unit “luxury” apartment building had started construction which will expand the number of units in this higher-priced segment.

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.

Table 7 Gross Rent as a Percentage of Income by Age			
Percent of Income for Housing	Renter Households Age 64 and under	Renter Households Age 65+	All Renter Households
Less than 30%	190	0	190
30% or more	71	0	71
Not Computed	0	0	0
Total	261	0	261

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 27% of all renters in the City were paying 30% or more of their income for rent.

There is probably a flaw in the estimates, as no senior-headed renter households were reported in Victoria. As a result, all of the cost-burdened households were age 64 or younger.

Although a housing cost burden could be caused by either high housing costs or low household income, in Victoria it was primarily due to the gross rent levels charged in the City. Most of the renter households with a housing cost burden had an annual household income above \$35,000 in 2015.

For all renter households, the median percentage of household income applied to rental costs was only 21.1%. This was a much lower 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 Victoria was \$54,036 in 2015, well above the Countywide renter median of \$41,599. The estimated median renter household income in Victoria was the highest of all cities in Carver County.

Rental Housing Data

Census Records

According to the 2010 Census, the City of Victoria had 189 occupied rental housing units, and at least 21 unoccupied units, for a total estimated rental inventory of 210 units. The City's rental tenure rate was 7.8% in 2010, the lowest rental rate among the cities in the County and well below the Statewide rental rate of 27%.

Based on building permit reports, only two rental units have been permitted in Victoria after the 2010 Census. However, in 2017, a permit has been issued for an 81-unit rental project, that will be added to the rental stock later in the year.

When the newest project is added, the City's total rental housing stock should be between 275 and 300 total units by the end of the year, before allowing for any additional shifts due to changes in tenure-conversion.

Rental Registration Records

Victoria does not have a rental housing licensing requirement.

Metropolitan Council Estimates

The *Local Planning Handbook* prepared by the Metropolitan Council includes an "Existing Housing Assessment" for the City of Victoria. That research document estimates that Victoria had 309 rental housing units in 2015, which would include both occupied and vacant housing. Based on the overall distribution of units, regardless of occupancy, the estimated rental tenure rate was 10.4%, up from the level reported in the 2010 Census.

The Met Council's estimate implies an increase in the supply of rental housing in Victoria after 2010. The effective date of this estimate, for 2015, would predate the new apartment project that started construction in 2017. While the Met Council estimate is possibly accurate, it would imply that as many as 90 units have been added through means other than new construction.

Reconciliation of Data Sources

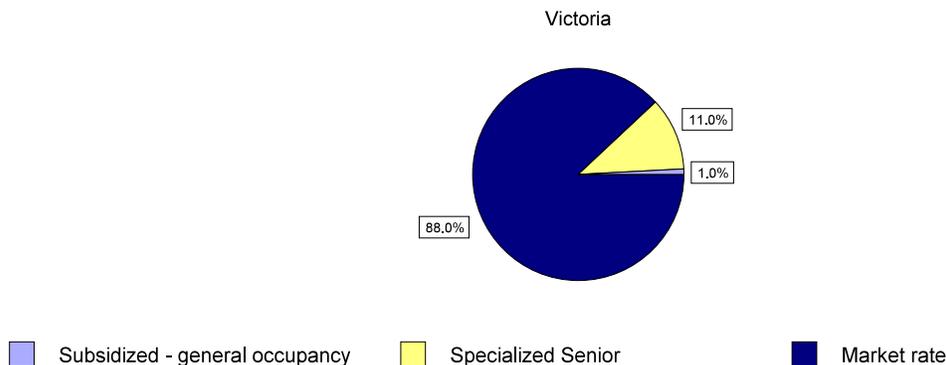
Although no precise number exists on the size of the overall rental stock, a working estimate of 290 to 310 total units by the end of 2017 represents a reasonable number for Victoria’s rental housing. While some of these units could be unoccupied, especially in the newest project which may still be under construction, the best available information would indicate that a low rental vacancy rate tends to exist in the County, so only a small percentage would be unoccupied at any point in time.

Rental Market Segments

Victoria has a relatively small supply of rental housing, and not all market segments are served. Although precise details do not exist, the following summary generally defines the different subsets of the local market. This summary does not include the various providers of specialized senior housing, such as nursing home rooms, assisted living or memory care units.

- ▶ **Federally-subsidized units** - 3 units
- ▶ **Specialized senior housing with services** - 33 suites
- ▶ **Market rate housing** - 255 to 275 units

Rental Units by Market Segment



Some of the defined housing segments listed 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 in a subsidized unit without project-based assistance would still be well below comparable market rents and would represent a very affordable housing option.

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

Including the specialized senior segment that includes services, approximately 88% of all rental units in Victoria serve the traditional market rate segment. Only 1% of the identified rental options are in some form of affordable housing, in projects that have rent subsidies, income restrictions and/or a maximum rent structure.

There are also some tenant-based rent assistance Vouchers in use. However, the exact locations within the City for these Vouchers cannot be determined. Since Victoria has no moderate rent/income restricted projects, any Vouchers are being used in market rate housing, increasing the percentage of units in Victoria that could be considered as subsidized housing.

Affordable Housing Gains and Losses

There has been no identified growth in the supply of income-restricted housing affordable housing in Victoria after the 2010 Census. The City has only three subsidized housing units, in scattered site Public Housing.

There have been no identified losses of affordable, income-restricted housing. Victoria has never had any tax credit or federally subsidized housing constructed in the City, other than the Carver County CDA's three scattered site units.

Rental Housing Survey

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

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

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

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

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

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

Survey Coverage

In Victoria, there were only three different rental projects, with a combined 51 rental units that were successfully contacted by the telephone survey. Attempts were made to contact additional multifamily properties, but these were not successful. When compared to the probable rental inventory in Victoria, the telephone survey collected usable information from approximately 17% of the local rental stock.

The following rental segments were represented in the survey results:

- ▶ 3 units of subsidized housing in one project
- ▶ 41 units of market rate housing in two projects

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

Subsidized Housing Summary

There are three Public Housing units in Victoria that can offer federally subsidized rental housing. These units reported full occupancy at the time of the rental survey. A Public Housing waiting list is maintained for all units countywide, and is not specific to the Victoria location.

Market Rate Housing Summary

Nearly all of the rental options in Victoria would be defined as purely market rate housing. However, much of this stock appears to be in single family houses and other small structures that were not included in the survey.

There are also few larger-scale rental complexes in the City. The two largest rental properties identified had 36 units and 12 units, respectively. However, in 2017, construction began on an 81-unit luxury rental project that will be the largest multifamily structure in Victoria.

Rental rate information was only collected from one market rate property in Victoria, the 36-unit Park Vista Apartments, which were constructed in phases between 1979 and 1991. The gross rents in this property would be below \$1,000 for a two-bedroom units, and below \$1,100 for a three-bedroom, with the inclusion of tenant-paid heat and electricity.

No specific rental rate information was available from Victoria Flats, the new luxury rental complex that is under construction, but a range was identified starting at \$1,000 for a studio apartment and up to \$2,350 for some two-bedroom options.

There were no vacancies reported in either Park Vista or Victoria Villa Apartments. Both reported good demand.

As stated previously, most of the market rate rental stock in Victoria exists in smaller properties that were not included in the survey. The American Community Survey for 2015 estimated that more than 160 rental units were in single family detached or attached structures. It is very probable that these single family rentals have a higher rent structure, especially when tenant-paid utilities are added.

Tenant-based Rent Assistance Vouchers

In addition to the subsidized projects with project-based rent subsidies, Carver County renter households have access to HUD Housing Choice Vouchers. In March 2017 there were 249 Vouchers in use in the County, including one household in Victoria. 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 8 Victoria Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
Market Rate					
Park Vista Apartments 1570-1635 Commercial Blvd	2 - 1 Bedroom 30 - 2 Bedroom 4 - 3 Bedroom 36 Total Units	\$750-\$775 \$825-\$850 \$950 +heat, electric	No vacant units	Mix of tenants	Apartment complex with 5 buildings constructed in 2 phases in 1979 and 1991. Tenant pays heat and electric in addition to rent. Amenities include stove, refrigerator, dishwasher, AC, in-unit laundry and detached garage for additional fee. One-bedrooms have 750 sq ft and 2-bedrooms have 1000 sq ft; all units have 1 bathroom. Manager reported full occupancy and good demand.
Victoria Flats 1699 Steiger Lake Ln	Studio 1 Bedroom 2 Bedroom 81 Total Units	Proposed rents range from \$1000-\$2350	N/A	N/A	New luxury rental project that started construction in 2017, with expected occupancy in November. Upscale rental units with amenities. Proposed rental rates start at \$1000 for a studio, and up to \$2350 for some two-bedrooms.
Victoria Villa Apartments 8045 Quamoelit	6 - 1 Bedroom 6 - 2 Bedroom 12 Total Units	N/A N/A +heat, electric	No vacant units	Mostly younger singles	Three-level walkup apartment building constructed in 1978. Tenant pays heat and electric in addition to rent. Amenities include stove, refrigerator and detached garage parking for an additional fee. No rent information disclosed. Full occupancy and good demand reported. Most tenants are commuters.
Point Victoria Apartments Commercial Avenue	1 Bedroom 2 Bedroom 6 Total Units	N/A +heat, electric	N/A	N/A	Unable to contact in 2017 - information presented is from secondary sources. Housing project constructed in 1990 - 14 units were sold as condominiums and 6 units are available for rent. Tenant pays heat and electric in addition to rent. Amenities include stove, refrigerator, dishwasher, AC, in-unit laundry and detached garage for additional fee.
8196 Petunia	4 Total Units	N/A	N/A	N/A	Unable to contact - no information available.

Table 8 Victoria Multifamily Rental Housing Inventory					
Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
Subsidized					
Public Housing Scattered Site Victoria	3 Bedroom <u>4 Bedroom</u> 3 Total Units	30% of income	No vacant units, waiting list	General occupancy	Scattered site HUD Public Housing units - CDA acquired single family houses. All tenants pay rent based on 30% of income. Age of units and floor plans vary. Manager reported full occupancy and a countywide waiting list for Public Housing.
Subsidized - Tenant-based Vouchers					
Housing Choice Vouchers	1 assisted households in Victoria	30% of income	N/A	N/A	Also known as the Section 8 Existing Program, HUD Housing Choice Vouchers provide tenant-based rent assistance that can be used in any suitable rental unit. Tenant rent contribution is based on 30% of income, with the assistance program paying additional subsidy. The County is served by Metro HRA program with 1 Voucher being used in Victoria 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.

Table 9 Victoria Single Family Sales						
Sales Year	Detached Houses		Townhouses		Condominiums	
	Number of Good Sales	Median Sale Price	Number of Good Sales	Median Sale Price	Number of Good Sales	Median Sale Price
2016	147	\$433,521	23	\$239,000	3	\$300,000
2015	150	\$403,600	17	\$249,900	3	\$355,000

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

Based on the County’s sales sample, the typical single family detached house in Victoria has a value above \$400,000. For sales recorded in 2016, the median price had reached \$433,521. Between 2015 and 2016, the median price increased by nearly \$30,000.

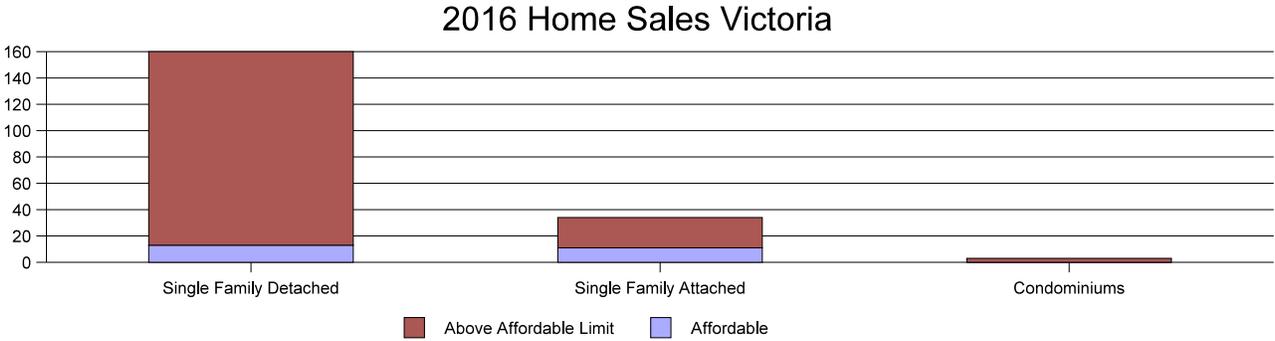
Although most townhouse sales were in a lower price range, the medians in both years were \$239,000 or above. Only a small number of condominium units have been sold annually, but most have been for \$300,000 or more.

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.

Table 10 Victoria Sales for Less than \$238,500						
Sales Year	Detached Houses		Townhouses		Condominiums	
	Number of Sales Under \$238,500	Percent	Number of Sales Under \$238,500	Percent	Number of Sales Under \$238,500	Percent
2016	13	8.8%	11	47.8%	0	0%
2015	14	9.3%	7	41.2%	0	0%

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

Only a small percentage of the detached home sales in Victoria in the prior two years occurred within a price range that could be viewed as affordable. More than 41% of the townhouse sales were priced below \$238,500. However, Victoria does not have a large supply of townhouses or condominiums, based on the annual sales volume.



An alternate home value estimate exists in the 2015 American Community Survey. Although somewhat dated, this source placed the City’s median owner-occupied home value at \$386,000, the highest among the cities in Carver County. The median home value estimate in Chanhassen, the second highest in the County, was more than \$50,000 lower than the 2015 estimate in Victoria.

According to the 2015 American Community Survey, the median household income level for owner-occupancy households in Victoria was just below \$143,000, also the highest among the cities in the County. When compared to the median estimated value of \$386,000, a median income owner household only needed to apply 19.2% of income for home ownership at that time. This was the second lowest percentage among the 11 cities in Carver County.

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

Table 11 Victoria Employment Projections			
	Employment in 2010	Projected Employment 2020	Change 2010 to 2020
Victoria	1,502	2,100	598 / 39.8%

Source: Metropolitan Council Thrive MSP 2040

The City of Victoria serves as a small employment center for Carver County. According to the latest Metropolitan Council forecasts, the City is expected to add some jobs in the future. Between 2010 and 2020, the projections expect an increase in local employment of approximately 40%, with the addition of nearly 600 jobs.

In the base year of 2010, approximately 4.7% of all jobs countywide were located in Victoria. By 2020, the projections indicate that this percentage will increase slightly to nearly 5%.

The accuracy of the projections can be tracked through changes that have occurred during the first five years of the current decade. The 2015 annual total showed only 1,015 QCEW jobs in Victoria, down by 487 jobs from the base year in 2010. At the pace of job change through 2015, the City is not on course to reach the projected level for 2020.

Wages

The last full year of wage data through the Quarterly Census of Employment and Wages (QCEW) is for 2015. In that year, the average wage paid for employment within the City of Victoria was \$33,852, 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, more than 95% of employed Victoria residents commuted out of the City for their job in 2014. The primary work destinations identified for Victoria residents were Minneapolis, Eden Prairie, Chanhassen, Chaska, Minnetonka, Waconia, Bloomington, Edina and Plymouth.

In addition to the people that both lived and worked in Victoria, the top locations that were supplying inbound commuters for Victoria-based jobs were Chaska, Waconia, Chanhassen, Minneapolis, Eden Prairie, Minnetrista and Shakopee.

Findings and Recommendations

Overview

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

In addition to direct household growth, Victoria is under served within the affordable housing segments. This is especially true for affordable rental housing, as only 1% of the City's total rental inventory exists in either subsidized rental housing or in moderate rent projects that have some form of income or rent restrictions.

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 on the eastern edge of the County and adjacent to Chaska and Chanhassen, Victoria has significant regional growth potential. For example, larger-scale rental development in Victoria would be a reasonable alternative location for households that might otherwise orient to communities in western Hennepin County.

Victoria, along with Chanhassen, Carver and Waconia, is defined as an "Emerging Suburban Edge" community, in recognition of its development status. The City of Chaska is designated as a "Suburban Edge" community.

The smaller cities in Carver County, and those located a greater distance from the Twin Cities core, represent a less likely alternative for 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 Victoria, the projection review provided earlier pointed to average annual household growth of between 110 and 140 households per year. The higher end of this range would seem to be a reliable predictor of growth potential if additional multifamily housing development is advanced.

Projected Tenure Distribution

In the 2014 Housing Study, an overall tenure distribution of 16% rental and 84% owner-occupied had been used for the City of Victoria 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 1% rental and 99% owner since that time.

However, a larger scale rental development project is under construction in 2017. With an assumption that single family construction in the current year will be similar to 2016, the estimated tenure distribution of newly constructed housing through 2017 will be approximately 10% rental and 90% owner-occupancy.

In the opinion of the analysts, Victoria has significantly greater potential for rental housing development than will actually be realized. At the time of the 2010 Census, the rental tenure rate in Victoria was substantially lower than the rates in the nearby cities of Chaska, Chanhassen and Waconia. While it would certainly be possible for Victoria to achieve a rental tenure rate of 25% or more going forward, history would indicate that this is very unlikely.

Looking to the next five years, a rental tenure rate of up to 15% rental would be a reasonable goal. While approximately double the City's historical rental tenure rate, it would be achievable given the first recent evidence of larger-scale rental development, in the Victoria Flats project.

Using the projected growth level of up to 140 households per year in Victoria, which is based on an assumption of renter household growth, results in the need for as many as 700 housing units over the five-year projection period. The anticipated tenure distribution yields:

- ▶ 105 total rental units to meet growth and pent-up demand
- ▶ 595 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. In Victoria, almost no income-based housing exists, and pent-up demand is present.

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 Victoria, the affordable unit goals are to place 41% of future production into units that serve households at or below 80% of the median income level. To actually reach these goals, Victoria would need to achieve the following probable unit distribution:

- ▶ Approximately 39 rental units per year that are very affordable and serve households below 50% of median income - 193 units over the five-years
- ▶ Approximately 5 rental units per year that are affordable, and serve households between 50% and 80% of median income - 23 units over the five-years

Rental Housing Recommendations

At a minimum, the City of Victoria should attempt to produce at least 105 total rental housing units over the next five years to keep pace with expected demand generated by household growth. Additional production above this level can be supported, to help the City achieve a more balanced tenure distribution.

To put the five-year unit production recommendation into context, the total number of units would be greater than the total construction that was achieved in Victoria over the 10-year period from 2008 through the end of 2017, including the 81-unit Victoria Flats project which is under construction.

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.

Minimum 5-year Rental Housing Recommendations for Victoria

- | | |
|-----------------------------------|----------------|
| ▶ Very affordable/subsidized | 10 to 20 units |
| ▶ Moderate rent/income restricted | 40 to 50 units |
| ▶ Market rate - all types | 45 to 55 units |

The target market for the very affordable/subsidized units would be households below 50% of median income.

The target market for moderate rent/income restricted units would be households typically served by the federal tax credit program, or through affordable housing efforts through the Carver County CDA, between 50% and 100% of median income, although rent levels should be at or below the 60% limits.

The target groups for market rate housing would be households that can generally be served without any significant development assistance being required to substantially lower the end rental rates.

It is important to recognize that the unit recommendations above are presented as realistic targets for Victoria, based on normal growth and development patterns. A larger level of rental production can be supported, especially with the more affordable price ranges. But a recognition is made that financial resources for affordable rental creation are limited, and achieving even these targets will present challenges for the community.

Additional Evidence of Unmet Need for Affordable Housing

Information that was identified during the research process for this Update that could be used to support additional affordable rental production above the targets identified above include:

- ▶ Victoria has an extremely small supply of subsidized housing to serve very low income renters. There are only 3 rental units citywide that can offer project-based rent subsidies. There is currently only one additional household with a tenant-based rent Vouchers. Overall, approximately 1% of renter households have access to some form of deep subsidy housing.
- ▶ There number of Vouchers being used in Victoria is substantially lower than in most of the County's other large communities, including Chaska, Chanhassen and Waconia. While there could be multiple reasons for the lower utilization, it is very possible that the supply of Voucher-eligible units is smaller, resulting in less use.
- ▶ Victoria has no moderate rent/income restricted affordable housing. Some of the older market rate units may offer a moderate rent structure, but there are no restrictions or regulations in place that preserve these as long-term affordable housing. There are also no tenant income limits that assure that only moderate income households can access this housing.
- ▶ According to the 2015 American Community Survey, 71 households were experiencing a "housing cost burden" with 30% or more of their income needed for month housing costs. Citywide, approximately 27% of all renter households in Victoria had a housing cost burden. This percentage is viewed as artificially low, due to the lack of rental options in Victoria. With few rental housing options citywide, there are also few renter households. Most renters appear to be renting single family units, and probably have higher income levels consistent with a higher rent structure. Victoria had the highest median household income level among the cities in Carver County.
- ▶ Although it may have been impacted by limited sampling, the 2015 American Community Survey showed no senior renter households with a cost burden. All of the cost-burdened households were age 64 or younger. However, the limited number of senior renter households in the community is once again viewed as a result of housing options, few of which are conducive to attracting older renters.

- ▶ At the time of the 2010 Census, approximately 32% of all County households were age 55 or older. Projections to the year 2021 indicate that approximately 42% of all households will be within these senior-designated age ranges. By the year 2030, long-range projections show even greater growth in the number of older adult households. Demand from households age 55 and older will grow over the next several years.
- ▶ The review of affordable housing options completed by the Metropolitan Council found that only 22% of all housing options in the City in 2015 were viewed as affordable to households at 80% or less of the median income level. It is very probable that this percentage continues to decrease as ongoing improvement in the single family housing market is presumably resulting in increasing home values in the older housing stock.

Home Ownership Recommendations

At a minimum, the City of Victoria will need to produce at least 595 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 nearly 119 units per year. Victoria has been at or near this level of annual production for three of the last four years. Going forward, an annual average of 119 or more single family units per year should be very achievable for Victoria, if both detached and attached single family houses are combined.

Minimum 5-year Ownership Housing Recommendations for Victoria

- | | |
|--------------------------|------------------|
| ▶ Entry-level/affordable | 25 to 30 units |
| ▶ Moderate/trade-up | 220 to 240 units |
| ▶ Higher-priced | 325 to 350 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 \$450,000. Higher-priced homes would generally be priced above \$450,000.

Attached Housing Construction

Achieving the production in the lower price ranges may be very difficult in Victoria, as only a small percentage of recent single family home construction has been below the affordable price threshold. Any affordable housing is most likely to be created in the attached single family segment.

As tracked by building permit reports, approximately 11% of single family housing starts since 2010 have been attached units.

In the future it is probable that up to 15% of the single family units in Victoria will be constructed as twin homes or town houses. Any affordable new construction is most likely to be in this style of housing.

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

- ▶ Entry level/affordable 25 to 30 units
- ▶ Above affordable price threshold 60 to 65 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, less than 10% of the attached housing construction has been rated as affordable by the Metropolitan Council. To achieve the targets above, approximately 28% to 33% of the attached single family construction would need to be in an affordable price range.

Summary of Senior-Designated Housing Market Share

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

Obtaining reliable age-based estimates and projections can be difficult between the decennial Census. Esri estimated that approximately 38% of all households in Victoria were age 55 and older in 2016, and approximately 38% countywide. Projections to the year 2021 indicate that approximately 42% of Victoria's households will be age 55 and older, again similar to 42% of all households in Carver County within these senior-designated age ranges.

According to Esri, the number of older adult households will grow rapidly in Victoria over the next five years. The City is an attractive place to live, and would be a desirable location for senior-oriented housing.

The 2014 Housing Study had recommended that up to 58% of the future rental development could be senior-designated. Based on the anticipated age distribution in 2021, this rental percentage would be greater than the overall percentage expected in these older adult age groups. However, there has been a plan in place for an affordable senior development in Victoria through the Carver County CDA, and this project probably impacted the unit distribution.

Increasingly, seniors and near-seniors will represent a growing share of housing demand. Housing developers are cognizant of the demand from households age 55 and older, and are designing projects that appeal to older adults. Although the rental project that is under construction in 2017 will not be senior-designated, the high quality units being created should attract older adult renters.

Housing that is developed in the future should be designed to appeal to older adults. In Victoria, it is probable that some projects will primarily target older adult households, especially in purely independent living opportunities.