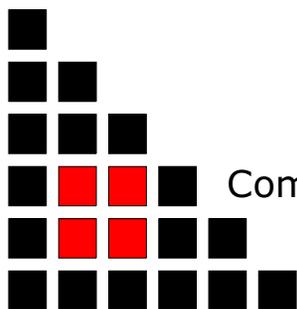


Carver County AFFORDABLE HOUSING UPDATE

July 2017

City of Watertown



Community Partners Research, Inc.

Lake Elmo, MN

Key Findings - 2017 Affordable Housing Study Update

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

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

Minimum 5-year Rental Housing Recommendations for Watertown

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

Minimum 5-year Ownership Recommendations for Watertown

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

Overview

Purpose

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

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

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

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

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

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

Content

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

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

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

Projected Community Growth

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

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

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

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

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

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

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

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

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

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

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

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

Long-Range Forecasts

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

Building Permit Trends

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

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

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

Source: Metropolitan Council

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

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

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

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

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

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

Pending Projects

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

Residential Lots

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

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

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

Infrastructure Limitations

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

Met Council Affordable Standard - Recent Construction

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

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

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

Source: Metropolitan Council

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

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

Metropolitan Council Housing Performance Scores

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

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

Affordable Housing Inventory Assessment

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

https://metrocouncil.org/Handbook/Files/Existing-Housing-Assessment/02397211_Watertown_ExistingHsg.aspx

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

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

Source: Metropolitan Council

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

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

Affordable Housing Allocation Needs

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

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

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

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	62	18	54	134	22%

Source: Metropolitan Council

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

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

American Community Survey Rental Data

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

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

Median Gross Rent

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

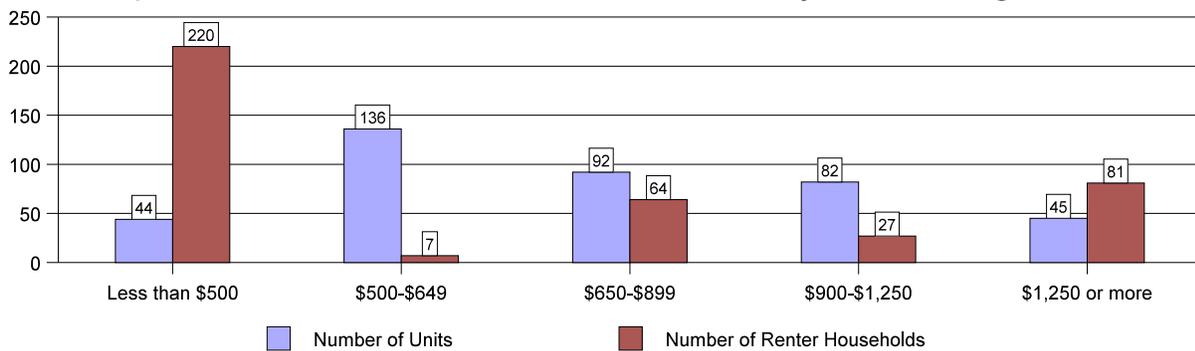
Table 6 Median Gross Rental Rates in 2015					
	0 Bedroom	1 Bedroom	2 Bedroom	3+ Bedroom	All Units
Median Gross Rent	-	\$555	\$666	\$1,138	\$672

Source: American Community Survey

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

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

Comparison of Income to Unit Distribution by Rent Range - 2015



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

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

Rental Housing Cost Burden

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

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%	133	0	133
30% or more	179	87	266
Not Computed	0	0	0
Total	312	87	399

Source: American Community Survey

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

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

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

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

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

Rental Housing Data

Census Records

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

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

City Rental Registration

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

Metropolitan Council Estimates

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

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

Reconciliation of Data Sources

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

Rental Market Segments

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

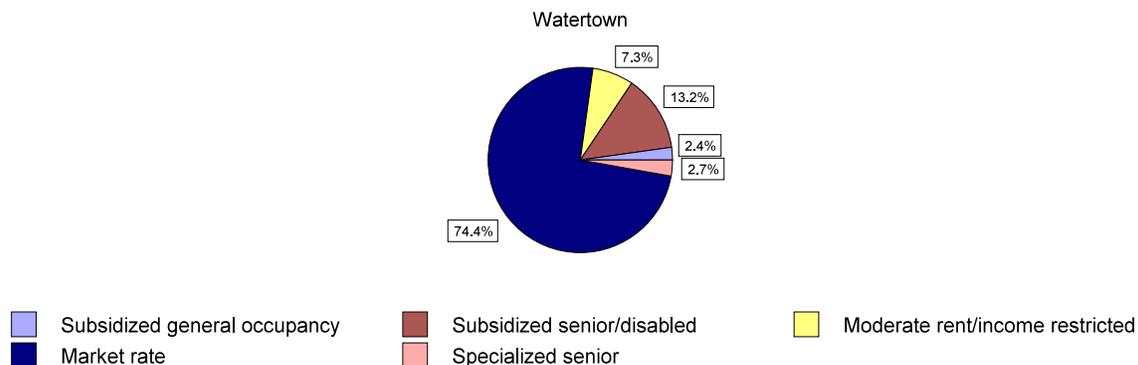
- ▶ Federally-subsidized units - 72 units
 - ▶ General occupancy - 18 units
 - ▶ Senior/disabled occupancy - 54 units

- ▶ Moderate rent units with income and occupancy restrictions - 22 units

- ▶ Specialized senior housing with services - 11 units (excludes sleeping rooms in Westwood Place)

- ▶ Market rate housing - 290 to 320 units

Rental Units by Market Segment



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

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

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

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

Affordable Housing Gains and Losses

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

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

Rental Housing Survey

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

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

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

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

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

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

Survey Coverage

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

The following rental segments were represented in the survey results:

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

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

Subsidized Housing Summary

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

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

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

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

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

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

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

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

Moderate Rent/Income Restricted Housing

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

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

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

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

Market Rate Housing Summary

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

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

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

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

Tenant-based Rent Assistance Vouchers

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

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

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

Table 8 Watertown Multifamily Rental Housing Inventory

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

Table 8 Watertown Multifamily Rental Housing Inventory

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

Table 8 Watertown Multifamily Rental Housing Inventory

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

Table 8 Watertown Multifamily Rental Housing Inventory

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

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

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

Single Family Home Sales

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

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

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

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

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

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

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

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

Employment and Commuting

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

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

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

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

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

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

Source: Metropolitan Council Thrive MSP 2040

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

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

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

Wages

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

Commuting

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

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

Findings and Recommendations

Overview

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

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

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

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

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

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

Projected Tenure Distribution

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

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

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

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

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

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

Metropolitan Council Affordable Allocation Goals

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

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

Rental Housing Recommendations

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

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

Minimum 5-year Rental Housing Recommendations for Watertown

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

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

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

Home Ownership Recommendations

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

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

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

Minimum 5-year Ownership Housing Recommendations for Watertown

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

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

Attached Housing Construction

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

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

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

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

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

Summary of Senior-Designated Market Share

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

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

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

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

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

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

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