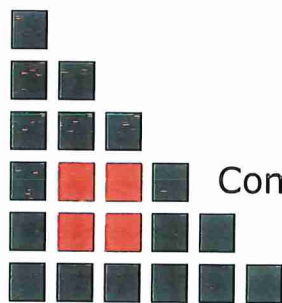


# City of Waterville HOUSING STUDY

November 2017

An analysis of the overall housing needs  
of the City of Waterville



Community Partners Research, Inc.

Lake Elmo, MN

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# Introduction

## Overview

Community Partners Research, Inc., was hired by the Waterville Economic Development Authority (EDA) to complete a comprehensive study of housing market conditions in the City of Waterville.

## Methodology

A variety of resources were utilized to obtain information for the updated Housing Study. Community Partners Research, Inc., collected and analyzed data from June to August 2017. Data sources included:

- U.S. Census Bureau
- Minnesota State Demographer
- Esri, Inc., a private data reporting service
- Records and data from the City
- Records and data maintained by Le Sueur County
- Data from the MN Dept. of Employment and Economic Development
- Data provided by HousingLink
- Data provided by the Multiple Listing Service
- Interviews with elected officials and staff from the City
- Interviews with community leaders
- Interviews with people familiar with the area's housing conditions including bankers, realtors, property managers, and developers
- Area housing agencies
- Rental property owner surveys

## Limitations

This Update represents an analysis performed with the data available at the time of the research. Any findings are based upon current solutions and the best available information on future trends and projections. Significant changes in the area's economy, employment growth, tax policy or other related factors could change the findings and conclusions contained in this report.

This Study has not attempted to project future economic conditions, but instead has relied on past patterns and practices.

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## Demographic Data Overview

### Sources of Data

The following pages contain demographic data obtained from a variety of local, state and national sources. The Minnesota State Demographer's Office has released demographic estimates for the year 2016 for Waterville and Le Sueur County. The Census Bureau has also released annual estimates for 2016. However, the estimates from these sources are generally limited to basic counts, such as population and household levels.

For some detailed demographic variables, the 2010 Census is still viewed as the most reliable data source. To supplement the decennial Census, the Census Bureau has created the American Community Survey, an annual sampling of households. The American Community Survey does provide detailed demographic characteristics. However, because the American Community Survey is an estimate, based on sampling data, there is a margin of error that exists for each estimate. The following tables incorporate the American Community Survey data, when it is viewed as reliable.

The frequency of American Community Survey estimates vary depending on the size of the jurisdiction. For the City of Waterville the 2015 estimates were the most current at the time of this Study. They were derived from sampling that was done over a five-year period, between 2011 and 2015.

Community Partners Research also obtained some demographic estimates and projections from Esri, a private company that produces demographic reports. The Esri estimates are for the year 2017, and this company produces 5-year projections to the year 2022.

### Market Area Definition

The City of Waterville is relatively close to some larger communities, including Waseca, approximately 11 to the south, Faribault, approximately 17 miles to the east, and Montgomery, approximately 17 miles to the north. Although smaller, the Cities of Morristown and Elysian each have more than 600 residents and represent competition for housing development.

For the purposes of this Study, a rather compact Primary Market Area has been analyzed which includes the Cities of Waterville, Elysian, Morristown and Kilkenny, and the immediately adjacent Townships of Waterville, Elysian, Kilkenny, Iosco and Morristown.



## Population Data and Trends

The following table includes the 2017 population estimates from Esri, Inc. The Minnesota State Demographer's and Census Bureau's 2016 estimates are provided in the text that follows.

<b>Table 1 Population Trends - 1990 to 2017</b>						
	1990 Census	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2017 Estimate
Waterville	1,771	1,833	3.5%	1,868	1.9%	1,787
Market Area	6,266	6,831	9.0%	7,052	3.2%	7,006

Source: U.S. Census Bureau; Esri

The City of Waterville has experienced very limited population change in recent decades. Although the City did have some minor growth in the 1990s and 2000s, the most recent estimates tend to show that this pattern has reversed, and minor population losses have been occurring over the past few years.

The 2017 population estimate obtained from Esri shows the City losing 81 people from the level that was recorded by the 2010 Census. Although this reduction is larger than from other available sources, the downward population trend is generally consistent with other estimates that exist for the years after 2010.

The Minnesota State Demographer's Office has released their 2016 estimates, and this shows Waterville's population at 1,866 people, down by just 2 people from 2010. However, this estimate does not reflect the closing of the Good Samaritan Home, which probably had between 20 and 30 residents before it was closed. Adjusting for a drop in group quarters residents, the State Demographer's corrected estimate would show a decrease of up to 30 people.

The Census Bureau produces annual population estimates for individual jurisdictions and this source placed Waterville's population at 1,845 people in 2016, down by 23 people from 2010. It is not known if the Census Bureau has incorporated the closing of the nursing home.

After reviewing the various sources that exist, it is probable that Esri has overestimated the reduction in population that has occurred in Waterville in recent years. However, none of the available sources show the City actually adding new residents since 2010, and with the closing of the nursing home, a minor reduction of the City's population has probably occurred after 2010.

The City of Waterville is the largest single jurisdiction in the Market Area aggregation, and a similar pattern of population loss is present for the combined nine cities and townships.

Esri places the Market Area's population at 7,006 people in 2017, down by 46 people from the 2010 Census. If the City of Waterville is excluded, the remainder of the Market Area added 35 people, according to Esri.

Using the State Demographer's annual estimates for the individual jurisdictions for 2016, this source would place the Market Area's population at 7,056 people, up by 4 people from the 2010 Census. But once again, a reduction for the closed nursing home is not reflected in this estimate.

Although some differences exist between the available estimating sources, they tend to show no real growth, or a possible small reduction, in the number of people residing in the combined Market Area jurisdictions.

### **Group Quarters Population**

In 2010, the decennial Census counted 79 group quarters residents in the City. Most of these people were living in a skilled nursing home, with the remainder living in some type of noninstitutional facility, such as group homes.

After the 2010 Census, the Good Samaritan nursing home was closed. It had 33 licensed beds, but the actual bed utilization rate was probably lower. It is possible that the group quarters total has decreased by approximately 30 people with the closing of the nursing home.

### **Population by Race and Ethnicity**

At the time of the 2010 Census, Waterville's population was primarily White and non-Hispanic/Latino. As a result, no specific demographic details have been provided on racial or ethnic minority populations.

## Household Data and Trends

Esri has also generated household estimates for 2017, which are presented in the following table. The Minnesota State Demographer's 2016 household estimates are discussed in the text that follows. The Census Bureau does not issue annual household estimates.

<b>Table 2 Household Trends - 1990 to 2017</b>						
	1990 Census	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2017 Estimate
Waterville	682	756	10.9%	785	3.8%	756
Market Area	2,286	2,652	16.0%	2,846	7.3%	2,848

Source: U.S. Census; Esri

Waterville has historically experienced stronger growth in the number of resident households than in population. This has been due to an ongoing decrease in the City's average household size, as will be discussed later, that has resulted in limited population change over time despite the addition of some permanent households.

The most recent estimate, obtained from Esri for the year 2017, shows some loss of households in the City since 2010. If accurate, the Esri data show the City losing 29 households from the level counted in the 2010 Census. In the opinion of Community Partners Research, the 2017 estimate from Esri is not accurate, as there is no other information that suggests a loss of households at this level in recent years.

The Minnesota State Demographer's Office shows the City adding seven households between 2010 and 2016, the effective year of their most recent estimate. Although the Demographer is tracking a different trend than Esri, the level of growth is limited, and represents approximately one additional household per year. While the State Demographer's population estimate missed the closing of the nursing home, this would not impact their household estimate, as nursing homes are viewed as group quarters housing, and not independent households.

The Census Bureau does not issue an annual estimate for households, but their 2016 population estimate would imply that very little change has occurred in recent years in the number of permanent resident households in Waterville.



In the 2000s, the City was averaging annual growth of approximately three households per year, and in the 1990s, the annual average was approximately seven households per year.

Esri has estimated that the Market Area has added only two households between 2010 and 2017. However, this includes their estimated loss of households in Waterville. Excluding the City, Esri believes that the remainder of the Market Area has added 31 households so far this decade.

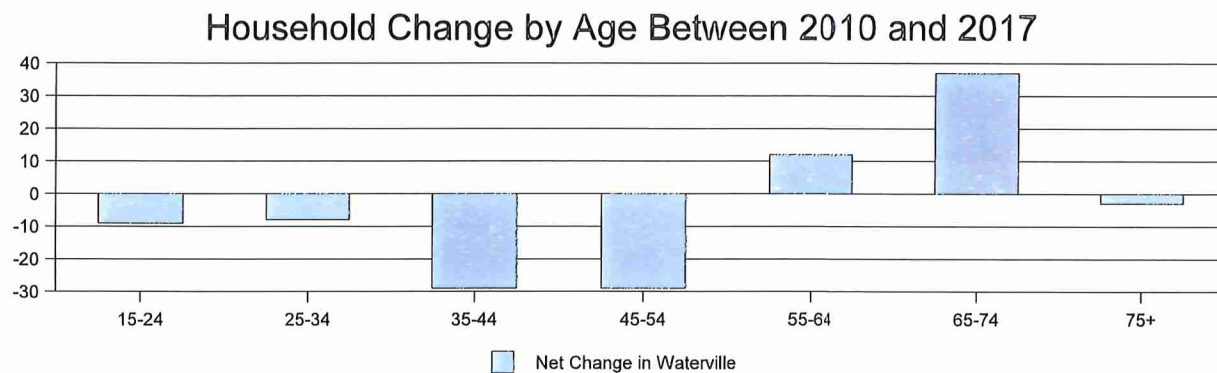
The State Demographer tracked the addition of 33 households in the Market Area between 2010 and 2016. According to the Demographer's Office, most of the household growth after 2010 is attributed to Market Area jurisdictions outside of Waterville.

## Waterville Household by Age Trends: 2010 to 2017

Esri's household estimates for Waterville also include information on households by age of the householder. The 2017 estimates can be compared to the 2010 Census to track changes during the current decade. Although Community Partners Research believes that Esri's household estimate for 2017 is too low, this undercount is off by only 30 to 40 total households. Most of the age-based information would therefore be relatively accurate.

Age	2010	2017	Numeric Change	Percentage Change
15-24	38	29	-9	-23.7%
25-34	92	84	-8	-8.7%
35-44	139	110	-29	-20.9%
45-54	159	130	-29	-18.2%
55-64	133	145	+12	9.0%
65-74	101	138	+37	36.6%
75+	123	120	-3	-2.4%
<b>Total</b>	<b>785</b>	<b>756</b>	<b>-29</b>	<b>-3.7%</b>

Source: U.S. Census; Esri



The household patterns show most of the net change occurring in the baby boomer age groups. For the City of Waterville, the largest net growth in households occurred in the 10-year age group between 55 and 64 years old, followed by an increase in households age 65 to 74. Overall, the estimates show that the City had an increase of 62 households age 55 and older, but a net reduction of 34 households age 54 and younger.



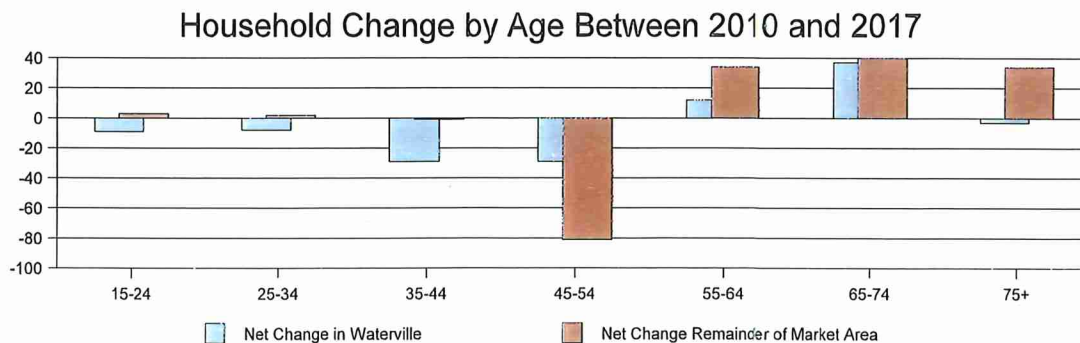
## Market Area Household by Age Trends: 2010 to 2017

Esri's household estimates also include information on households by age of the householder for the entire Market Area. The 2017 estimates can be compared to the 2010 Census to track changes during the current decade. Although Esri has underestimated the total number of households in Waterville, their estimate for the entire Market Area is very similar to other sources.

Age	2010	2017	Numeric Change	Percentage Change
15-24	72	66	-6	-8.3%
25-34	324	318	-6	-1.9%
35-44	472	442	-30	-6.4%
45-54	623	513	-110	-17.7%
55-64	554	600	+46	8.3%
65-74	430	507	+77	17.9%
75+	371	402	+31	8.4%
<b>Total</b>	<b>2,846</b>	<b>2,848</b>	<b>+2</b>	<b>0.1%</b>

Source: U.S. Census; Esri

For the entire Market Area, including Waterville, household patterns once again show most of the net change occurring in the baby boomer age groups. For the Market Area, the largest net growth in households occurred in the 10-year age group between 65 and 74 years old, followed by an increase in households age 55 to 64 years old.



Overall, the estimates show that the Market Area had an increase of 154 households age 55 and older, but a reduction of 152 households age 54 and younger.

## Average Household Size

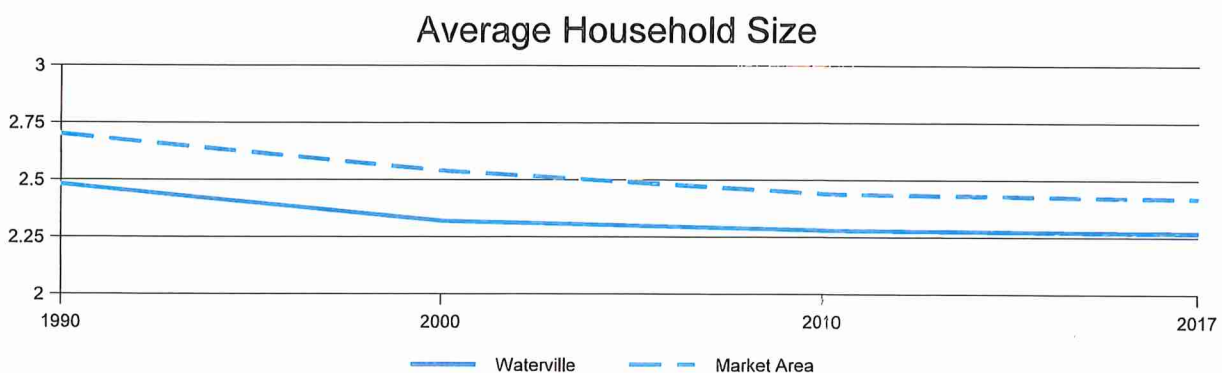
The following table provides decennial Census information on average household size. Estimates from Esri for 2017 are also included.

<b>Table 5 Average Number of Persons Per Household 1990 to 2017</b>				
	1990 Census	2000 Census	2010 Census	2017 Estimate
Waterville	2.48	2.32	2.28	2.27
Market Area	2.70	2.54	2.44	2.42

Source: U.S. Census; Esri

Household formation has been occurring at a different rate than population change in recent decades, generally due to a decrease in average household size. This has been caused by household composition changes, such as more single persons and single parent families, fewer children per family, and more senior households due to longer life spans.

Although the average household size in the City of Waterville has been decreasing over time, the rate of decrease has been slowing. The 2017 estimate from Esri shows 2.27 persons per household, compared to 2.28 persons in 2010. The State Demographer estimated the City's average household size at 2.26 persons in 2016.



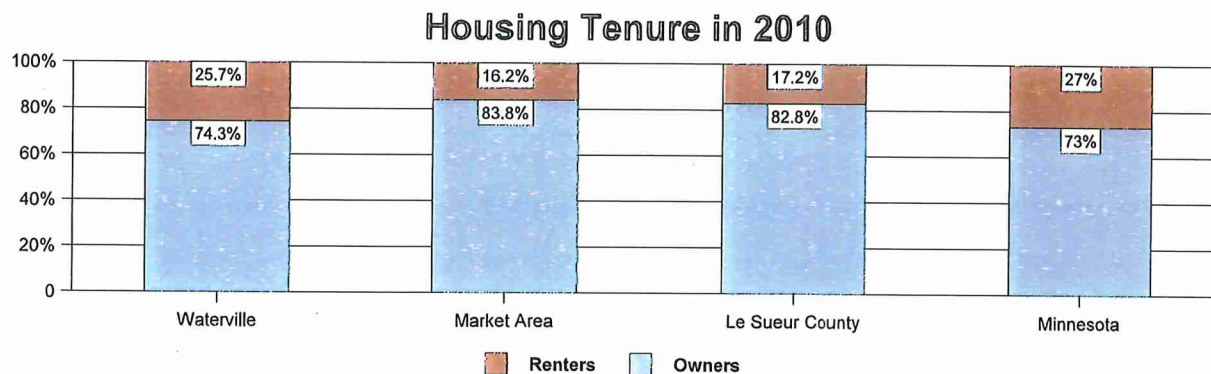
The average household sizes for the Market Area are larger, although they too have been continually decreasing over the past few decades. In 2017, Esri estimates that the average household in the Market Area had 2.42 persons, compared to 2.44 persons in 2010.

## Housing Tenure

The 2010 Census provided an updated look at ownership versus rental housing tenure patterns. The following tables examine overall tenure rates, along with the changes that have occurred after 2000. Although the American Community Survey contains housing tenure estimates for the year 2015, these are not viewed as reliable, given the margin of error that applies.

<b>Table 6 Household Tenure - 2010</b>				
	Number of Owners	Percent of all Households	Number of Renters	Percent of all Households
City of Waterville	583	74.3%	202	25.7%
Market Area	2,386	83.8%	460	16.2%
Le Sueur County	8,911	82.8%	1,847	17.2%
State	-	73.0%	-	27.0%

Source: U.S. Census



According to the 2010 Census, the ownership tenure rate in the City of Waterville was at 74.3%, with the remaining 25.7% of households renting their unit. The City's home ownership rate was above the statewide average of 73%.

When the entire Market Area aggregation was reviewed, the home ownership rate was even higher, at nearly 84%. For all of Le Sueur County, the home ownership rate was also very high, at nearly 83%. Much of the County's growth has been oriented to owner-occupancy housing, as reflected in an ownership tenure rate that was well above the Statewide average in 2010.

<b>Table 7 Change in Households by Housing Tenure - 2000 to 2010</b>						
Tenure	Waterville			Market Area		
	2000	2010	Change	2000	2010	Change
Owners	578	583	+5	2,259	2,386	+127
Renters	178	202	+24	393	460	+67
Total	756	785	+29	2,652	2,846	+194

Source: U.S. Census

The home ownership tenure rate for Waterville decreased during the first decade of the 2000s, as the City added more renter than owner households between 2000 and 2010. At the time of the 2000 Census, the City's home ownership rate was at 76.5%, compared to 74.3% in 2010. Although additional changes in housing tenure may have occurred after 2010, this is difficult to track between the decennial censuses.

In 2000, the home ownership rate for the entire Market Area was at 85.2%. By 2010, it had decreased to 83.8%, but was still well above the home ownership rate in Minnesota of 73.0%.



## Tenure by Age of Householder

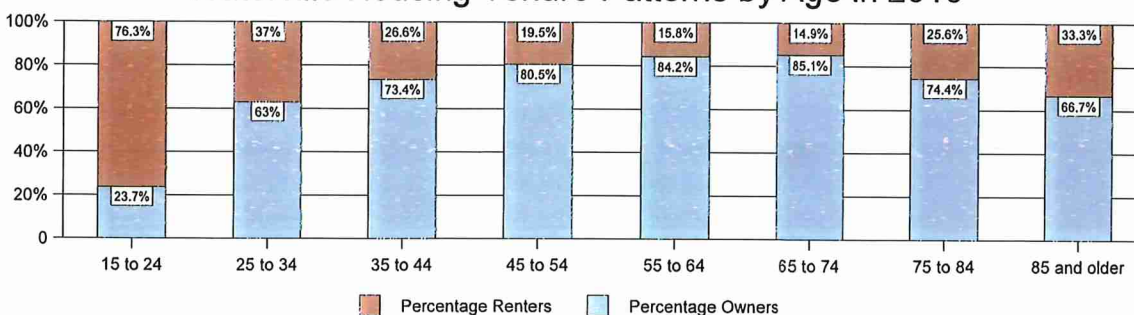
The 2010 Census provided information on the tenure distribution of households within defined age ranges. The following table examines renters and owners in each age group in the City of Waterville.

**Table 8 Waterville Tenure by Age of Householder - 2010**

Age	Owners		Renters	
	Number	Percent within age	Number	Percent within age
15-24	9	23.7%	29	76.3%
25-34	58	63.0%	34	37.0%
35-44	102	73.4%	37	26.6%
45-54	128	80.5%	31	19.5%
55-64	112	84.2%	21	15.8%
65-74	86	85.1%	15	14.9%
75-84	58	74.4%	20	25.6%
85+	30	66.7%	15	33.3%
Total	583	74.3%	202	25.7%

Source: U.S. Census

**Waterville Housing Tenure Patterns by Age in 2010**



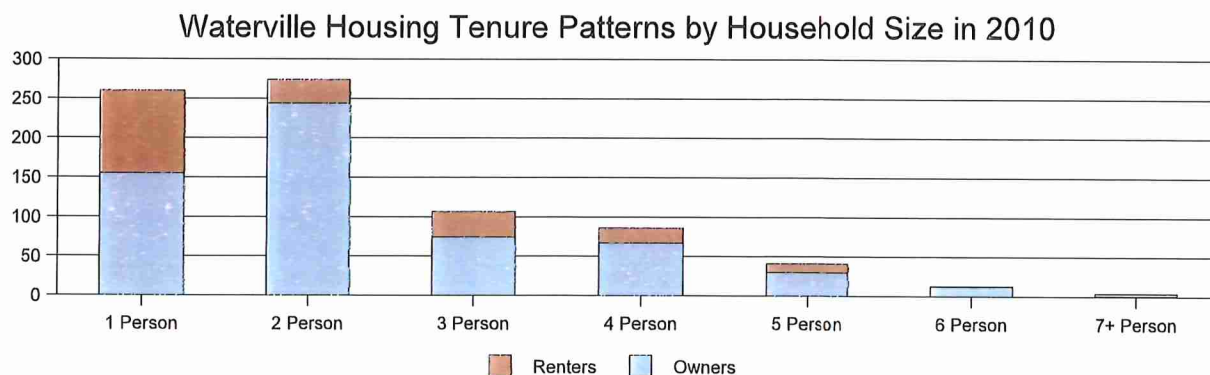
Within the defined age ranges, fairly typical tenure patterns were present, with households at the lowest end of the age spectrum showing a higher percentage of renter households, while middle-aged adult households were primarily home owners. One noticeable pattern in Waterville is the high home ownership percentage that existed for older adult households, especially seniors age 65 and older. Even among households age 85 and older the home ownership rate was above 66%.

## Tenure by Household Size

The 2010 Census also provided information on housing tenure by household size. This can be compared to 2000 Census information to better understand trends for housing unit needs. This information is for the City of Waterville.

Table 9 Waterville Tenure by Household Size: 2000 to 2010						
Household Size	Owners			Renters		
	2000	2010	Change	2000	2010	Change
1-Person	127	155	+28	91	105	+14
2-Person	250	244	-6	48	30	-18
3-Person	76	74	-2	16	33	+17
4-Person	77	67	-10	17	19	+2
5-Person	33	30	-3	4	11	+7
6-Person	13	12	-1	2	1	-1
7-Persons+	2	1	-1	0	3	+3
Total	578	583	+5	178	202	+24

Source: U.S. Census



Although most households in Waterville have only one or two members, there was some growth in the number of renter households with three or more members in the prior decade. Among home owners, the only net growth occurred from single person households.

At the time of the 2010 Census, more than 68% of all home owners and nearly 67% of all renter households had two or fewer household members.

## 2015 Median Income Data

Household income estimates are available at the city, township and county level through the American Community Survey. The most recent income information is from 2015, which can be compared to the estimates from 2010 to track recent changes.

No median income information was available for the jurisdictions that form the Market Area, since these are separate cities and townships that have been aggregated for analysis in this Study.

Household income represents all independent households, including people living alone and unrelated individuals living together in a housing unit. Families are two or more related individuals living in a household.

<b>Table 10 Median Income - 2010 to 2015</b>			
	2010 Median	2015 Median	% Change
<b>Households</b>			
Waterville	\$48,427	\$38,348	-20.8%
Le Sueur County	\$57,477	\$60,632	5.5%
Minnesota	\$57,243	\$61,492	7.4%
<b>Families</b>			
Waterville	\$61,103	\$50,357	-17.6%
Le Sueur County	\$68,053	\$72,581	6.7%
Minnesota	\$71,307	\$77,055	8.1%

Source: American Community Survey 5-year survey

Income information contained in the American Community Survey showed that the median household income level for Waterville has been decreasing in recent years. When compared to the level estimated in 2010, the City's median household income decreased by nearly 21%, and the median family income decreased by nearly 18%.

While it is possible that the American Community Survey estimates are flawed, the declining median levels have been tracked for the past several years. This may be due to a continued increase in the number of retired households living in the City that have moved to a lower, fixed income.

Using the commonly accepted standard that up to 30% of gross income can be applied to housing expenses without experiencing a cost burden, a median income household in Waterville could afford approximately \$960 per month for ownership or rental housing in 2015.

An alternate median household income estimate also exists from Esri. This estimate, for 2017, shows the median level at \$48,279. While this estimate is substantially higher than the American Community Survey, it would still show a level that is well below the medians for the County or the State.



## Waterville Income Distribution by Housing Tenure

The American Community Survey provides an estimate by owner and renter status. The following table examines income distribution within the City of Waterville.

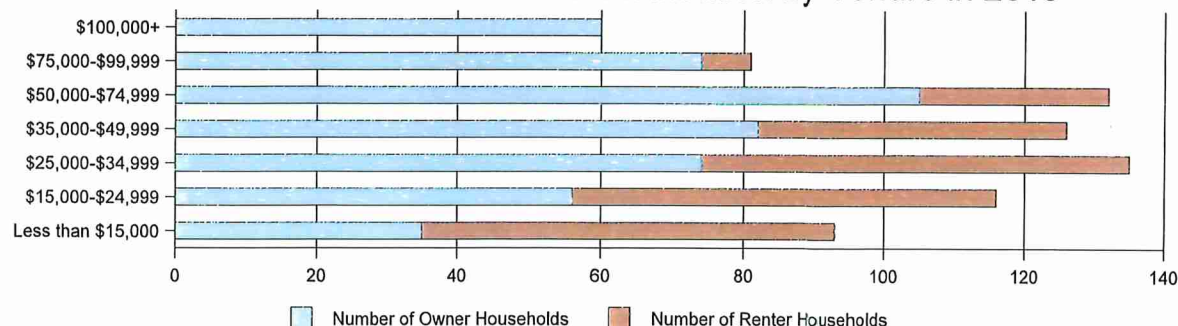
The American Community Survey is an estimate, based on limited sampling data, and a margin of error exists for each estimate. For total households in Waterville, the American Community Survey estimate was slightly low. The ACS estimated that 743 households were present, a number that was below the other available household estimates that exist. The ACS estimates also appear to be low for owner households but high for renter households, when compared to the tenure distribution present at the time of the 2010 Census.

**Table 11 Waterville Income Distribution by Tenure - 2015**

Household Income	Number of Owner Households	Number of Renter Households	Total Households
\$0 - \$14,999	35	58	93
\$15,000 - \$24,999	56	60	116
\$25,000 - \$34,999	74	61	135
\$35,000 - \$49,999	82	44	126
\$50,000 - \$74,999	105	27	132
\$75,000 - \$99,999	74	7	81
\$100,000+	60	0	60
<b>Total</b>	<b>486</b>	<b>257</b>	<b>743</b>

Source: American Community Survey

**Waterville Household Income Distribution by Tenure in 2015**



Household income and housing tenure are often linked for most households, with home owners generally having higher annual income levels, and renters having lower incomes.

In 2015, nearly 70% of renter households in Waterville had an annual income below \$35,000. At 30% of income, these low and moderate income renter households would have \$875, or less, that could be applied to monthly housing costs.

Owner households generally had a higher income level. More than 49% of owner households had an annual income of \$50,000 or more. However, approximately 34% of all owner households had an annual income below \$35,000, and a limited amount that could be applied to housing costs.

According to the American Community Survey, the median household income level for all renters in 2015 was \$26,010, while the median income for home owners was substantially higher at \$49,286.

## 2015 Estimated Income and Housing Costs - Renters

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

<b>Table 12 Gross Rent as a Percentage of Income - Waterville</b>			
Percent of Income for Housing	Renter Households Age 64 and under	Renter Households Age 65+	All Renter Households
Less than 20%	35	9	44
20% to 29.9%	79	10	89
30% to 34.9%	11	3	14
35% or more	57	44	101
Not Computed	4	5	9
<b>Total</b>	<b>186</b>	<b>71</b>	<b>257</b>

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 45% of all renters in the City were paying 30% or more of their income for rent. Most of these households were actually paying 35% or more of their income for housing, based on the available estimates.

The rental cost burden statistics showed all age groups were impacted. In numeric terms, most of the cost-burdened households were age 64 or younger. However, in percentage terms, the senior citizen renter households were more likely to be applying 30% or more of their income to housing costs.

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



## 2015 Estimated Income and Housing Costs - Owners

The American Community Survey also provided housing cost estimates for owner-occupants. The following table provides estimates of the number of households in the City of Waterville that are paying different percentages of their gross household income for housing costs.

<b>Table 13 Ownership Costs as a Percentage of Income - Waterville</b>		
Percentage of Household Income for Housing Costs	Number of Owner Households 2015	Percent of All Owner Households 2015
0% to 19.9%	239	49.2%
20% to 29.9%	104	21.4%
30% to 34.9%	47	9.7%
35% or more	93	19.1%
Not Computed	3	0.6%
Total	486	100%

Source: American Community Survey

Most owner-occupants, which would include both households with or without a mortgage, reported paying less than 30% of their income for housing. However, nearly 29% of all home owners reported that they paid 30% or more of their income for housing, including many that were applying more than 35% of income for housing costs.

As would be expected, the large majority of cost-burden home owners had a mortgage on their home. However, approximately 19% of owners reporting a cost burden had no mortgage. In these cases, it was generally a low annual income that had caused the cost burden, such as a retiree that lived on a fixed income.

## Population Projections

The following table presents population projections using two different sources. The first set of projections has been generated by Esri, a private data reporting service. Esri's projections span the period from 2017 to 2022.

The second projection set is from the Minnesota State Demographer's Office, which has generated population forecasts for individual cities and counties in the State. The Demographer's projections are for the year 2020. No updated projections have been released at the city level since 2013.

<b>Table 14 Population Projections Through 2020/2022</b>				
	Esri Projection		State Demographer	
	2017 Estimate	2022 Projection	2016 Estimate	2020 Projection
Waterville	1,787	1,756	1,866	1,993
Market Area	7,006	7,023	7,056	N/A

Source: Esri, Inc.; MN State Demographer

Esri's population forecast shows a minor loss of residents in Waterville through the year 2022. The projected loss of 31 permanent residents over the five-year period would be consistent with their belief that the City has had a reduced population level in recent years.

The State Demographer's Office had once expected the City to grow at a much faster rate, and reach a population of more than 1,993 people by the year 2020. However, the more recent annual estimates do not show this level of growth actually materializing, and the original projection now seems overly optimistic.

For the entire Market Area, including Waterville, the Esri projection expects approximately 17 people to be added, or between 3 and 4 people in an average year. This Market Area growth would be located outside of the City of Waterville according to Esri.

There are no reliable projections available for the Market Area from the State Demographer's Office, as projections at the township level were generated in the late 2000s, at a time when a substantially greater level of growth was occurring.

## Household Projections

The following table presents household projections. As with population, Community Partners Research, Inc., has reviewed projections to the year 2022 from Esri, a private data reporting service.

The State Demographer's Office has not issued any recent household projections at the city or county level. It is possible to extrapolate a household forecast from the population projection provided earlier in this section. In converting population to households, it is assumed that the average household size will continue to decrease gradually and the group quarter's population will remain stable.

<b>Table 15 Household Projections Through 2020/22</b>				
	Esri		Extrapolated State Demographer	
	2017 Estimate	2022 Projection	2016 Estimate	2020 Projection
Waterville	756	748	792	850*
Market Area	2,848	2,868	2,879	N/A

Source: State Demographer; Esri \* Extrapolated by Community Partners Research, Inc.

Esri believes that Waterville will lose eight total households between 2017 and 2022, or approximately one or two households in an average year. This pessimistic forecast is largely a continuation of recent patterns as estimated by Esri, which show that Waterville has been gradually losing permanent households since 2010.

The State Demographer has been tracking some limited household growth within the City of Waterville after 2010. However, their population projection to the year 2020 had expected a much faster rate of growth. Over the course of the entire current decade, the extrapolated projections had expected the City to add an average of 6 to 7 households per year. However, through the first six years of the decade, Waterville has only been averaging only 1 new household per year.

For the entire Market Area, Esri projections show total growth of 20 households over a five-year period, or four households in an average year. All of this projected growth would occur in the Market Area jurisdictions that are outside of Waterville, according to Esri. No household projection can be derived from the State Demographer's data for the aggregated Market Area, since updated population projections do not exist for individual townships from this source.

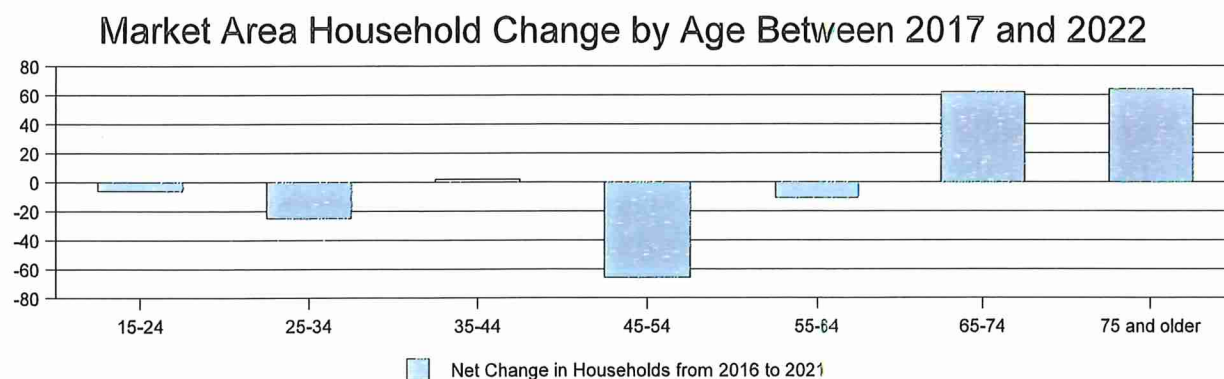


## Household by Age Projections: 2017 to 2022

Esri has generated age-based forecasts for households to the year 2022. These projections can be compared to the data contained in the 2017 Esri estimate to examine the anticipated change over the next few years. These age-based forecasts are presented for the entire Waterville Market Area.

<b>Table 16 Market Area Projected Households by Age - 2017 to 2022</b>			
Age	2017 Estimate	2022 Projection	Numeric Change
15-24	66	60	-6
25-34	318	293	-25
35-44	442	444	+2
45-54	513	447	-66
55-64	600	589	-11
65-74	507	569	+62
75+	402	466	+64
Total	2,848	2,868	+20

Source: Esri; Community Partners Research, Inc.



According to Esri's projections, most of the change in households by age of householder will occur within three defined age groups. The largest net growth should occur among households age 75 and older, followed by growth from households age 65 to 74 years old. However, a large net reduction is then expected among households age 45 to 54 years old, as the age group behind the baby boomers was not as large. Overall, the Market Area should have a decrease of approximately 106 households age 64 and younger, but an increase of 126 households age 65 and older.

## Summary and Conclusions

It is important to stress that projections are an informed prediction of future activity. It is possible that Waterville could significantly outperform or underperform the probable scenarios outlined above.

It can be argued that the housing downturn and national economic difficulties that existed for several years in the late 2000s and early 2010s suppressed growth and housing construction to a level that was lower than what normally should have occurred. Unlike most area communities, Waterville did not have much capacity to add housing. The vacant lot supply is small, and developers had few incentives to invest in subdivision development after the national housing market collapsed. Neighboring cities with vacant lots have tended to see some housing construction recovery in the past few years.

Going forward, it is possible that Waterville will add between four and six households in an average year, sustained over a five-year projection period. This growth may not be linear, with individual years above or below this average range. However, over a five-year period, total household growth of 20 to 30 households should be achievable in the City.

For the entire Market Area, including Waterville, an annual growth projection of approximately five to eight households has been used. This assumes that most of the Market Area growth over the next five years can be captured within the City of Waterville.

It is certainly possible that Waterville could exceed this expected level of growth. However, there is little historical evidence that a substantially greater rate of annual growth can be sustained. Looking back over the period from 1990 to 2016 (using State Demographer data) the City has averaged fewer than five households per year, and most of that growth occurred in the 1990s. After 2010, the best available estimates show the City adding approximately one new household per year.



## **Housing Age, Type and Use**

### **Median Year of Construction**

The 2015 American Community Survey included an estimate of the median year of construction for housing. In Waterville, the median year for owner-occupancy units was 1957. The median year of construction for rental housing was 1956.

The age of the owner-occupancy housing stock in Waterville is much older than the Countywide average. For all owner-occupancy housing in Le Sueur County, the estimated median year of construction was 1972. For rental housing, the City's stock is also much older than average. The County's median year of construction was 1971 for rental units.

### **Units by Structure Type**

The 2010 Census did not collect information about structure types. However, according to the 2015 American Community Survey estimates, nearly 80% of the housing units in Waterville were identified as one-unit structures, such as single family detached houses, single family attached units or mobile homes.

The City does have a limited number of multifamily rental buildings, but less than 12% of all housing options were in multiple unit structures with five or more units. The remaining 8% of the City's housing was in structures with two to four units.

### **Mobile Homes**

There are multiple mobile home parks in Waterville. Some of these are oriented to campers and seasonal occupants. The 2015 American Community Survey estimated that 49 mobile homes exist in the City. However, only 39 of these units were occupied by permanent resident households.

The 2010 Census did not include details of structures by type, but at the time of the 2000 Census there were 28 mobile homes counted, so the estimated inventory in 2015 may be high.

### **Seasonal/Recreational Use**

At the time of the 2010 Census, there were 88 housing units in Waterville that were used by seasonal/recreational occupants. This was up from 66 units in 2000.

## Building Permit Trends

Like many communities in Minnesota, Waterville has had a reduced level of new housing construction activity for several years. The following table uses information from the City and from the U.S. Census Bureau on annual building permit issuance from 2010 through 2017 (partial-year).

<b>Table 17 Waterville Housing Construction Activity: 2000 to 2017*</b>				
Year	Single Family Detached	Attached Single Family	Multifamily	Total Units
2017*	3	0	0	3
2016	1	0	0	1
2015	1	0	0	1
2014	0	0	0	0
2013	3	0	0	3
2012	0	0	0	0
2011	1	0	0	1
2010	3	0	0	3
<b>2010-2017 Total</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>12</b>

Source: City of Waterville

\* 2017 is thru August

Between January 2010 and July 2017, only nine new single family houses had been built in Waterville, according to City records. However, the City was expecting to issue three single family permits in 2017, bringing the total to 12 single family houses so far this decade.

There may have been some additional home construction, where an existing house was raised and replaced, but this activity did not represent a net gain to the overall housing stock.

Over the eight-year period, the City has averaged between one and two new housing starts per year. Prior to 2017, the last year with multiple single family permits was 2013, when three homes were constructed.

The last multifamily units in the City date to 2008, when the assisted living and memory care units were constructed in the Traditions of Waterville project.

### **Reconciliation with Census Records: 2000 to 2010**

At the time of the 2000 Census, there were 864 housing units counted in Waterville. By 2010, there were 963 housing units recorded. Based on this reconciliation, there were 99 total units added during that decade. Since building permit records could not be obtained for these years, it is not known if the increase was due to new construction, the placement of mobile homes in the community, structure conversion, or other means. A 24-unit assisted living/memory care facility was constructed during the decade, along with some single family homes.

### **Housing Unit and Household Growth Reconciliation: 2000 to 2010**

Although Census records indicated that 99 total housing units were added over the previous decade, only 29 permanent resident households were added. Some of the remaining growth in the housing stock was due to a 22-unit increase in seasonal/recreational use housing. There was also an increase in vacant rental housing, and units described as "other vacant" by Census enumerators.

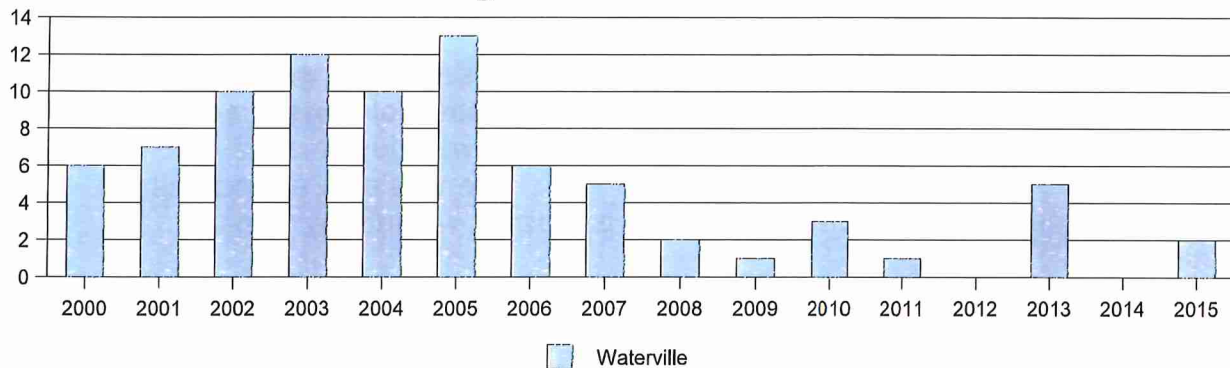
It is possible that some of the increase in vacant housing recorded by the 2010 Census was due to the foreclosure crisis that impacted the region late in the decade. Prior to the completion of the 2010 Census, a number of former home owners may have lost their houses to foreclosure. Some of these houses may have been vacant and listed for sale or for rent at the time of the 2010 Census.



## Regional Building Permits

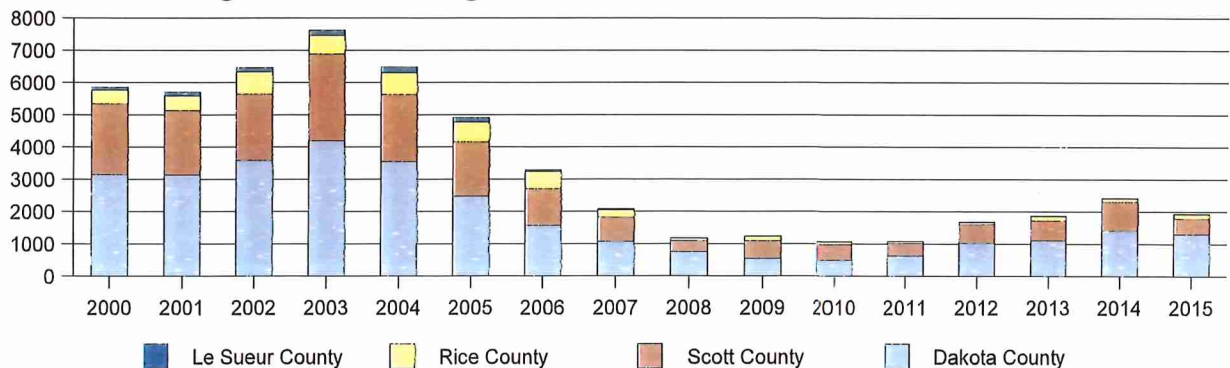
Although official records could not be obtained that detail housing construction activity in Waterville for the years prior to 2010, some information was obtained from secondary sites. The website city-data.com did list housing unit construction for the City dating back to the year 2000. Although these numbers could not be independently verified, they were probably obtained from the Census Bureau, and have been used in the chart below. This would represent all units constructed, even those that replaced an existing house. The following chart does not include the 24 specialized senior units constructed in 2008.

**Waterville Housing Unit Construction: 2000 to 2015**



The next chart shows the housing construction patterns for the four Counties of Scott, Dakota, Le Sueur and Rice from the year 2000 through 2015. The chart displays all units, including multifamily rental housing that may have been built, and have been taken from Census Bureau annual construction summaries. The Census Bureau's annual reporting may differ somewhat from the locally obtained records, but the annual patterns are still generally similar.

**Regional Housing Unit Construction: 2000 to 2015**



When annual construction patterns for Waterville are compared to the four-county region, some very similar trends are evident. Both in Waterville and in the region, the above-average construction activity from 2000 to 2005 was not sustained later in that decade.

For the four-county region, a substantial reduction began to occur in 2006 and 2007. From 2008 through 2011, annual construction totals remained very low, before some improvement began to reappear. Although the regional construction totals for 2014 and 2015 were better than the recent past, they were still less than half the level that was being achieved in most years of the early and mid-2000s.

In Waterville, there have been two years in the recent past when no new housing units were constructed. However, the City does not have a very large inventory of improved residential lots, and the lack of construction could be due in part to a shortage of desirable building locations.

## Existing Home Sales

This section examines houses that have been sold within recent years in the City of Waterville. Information was obtained from the Le Sueur County Assessor's Office.

The County Assessor collects and utilizes information from residential sales for the County's sales ratio study. The County compares the fair market sale price to the estimated taxable value for each home. As a result, the sales information primarily reflects existing homes that have an established tax value. New construction sales activity would generally not be recorded in the data that was used for this analysis, unless the house had been constructed some time prior to the final sale and did have an established tax value.

The County sorts the sales data into "qualified" and "unqualified" groupings. Qualified sales are also referred to as good sales, because they are fair market transactions. Unqualified sales are rejected because they are not considered to be fair market transactions, and could include sales of "bank-owned" properties, foreclosures/short sales, transfers between related parties, or sales that were not conducted in the open market.

The sales reports obtained from the County did not differentiate between different styles of houses. All of the sales are for single family units, but may include attached housing, such as twin homes, town houses or condominiums. However, in Waterville the large majority of all annual sales are believed to be in the form of detached single family homes.

Information was available for each sales ratio year, from 2012 to 2016. Partial-year sales activity for 2017 was also available, but this data may not be an accurate indicator of full-year activity.



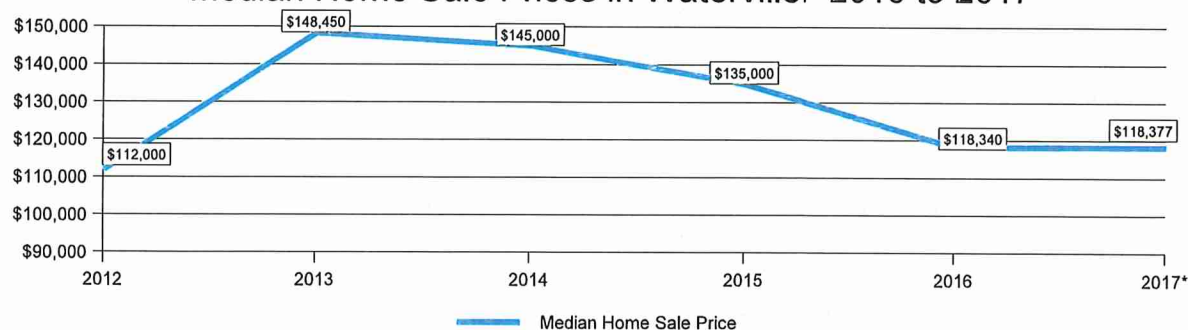
**Table 18 Waterville Residential Sales Activity - 2010 to 2017\***

Sales Year	Number of Sales	Median Price	Highest Sale	Lowest Sale
2017 (partial)	10	\$118,377*	\$333,000	\$66,500
2016	33	\$118,340	\$290,000	\$56,000
2015	37	\$135,000	\$370,000	\$42,000
2014	19	\$145,000	\$390,000	\$58,000
2013	18	\$148,850*	\$550,000	\$53,000
2012	13	\$112,000	\$294,250	\$30,000

Source: Le Sueur County Assessor; Community Partners Research, Inc.

\* 2017 sales were obtained in early July 2017

Home prices in Waterville are generally in a moderate range. Over the past six years (partial 2017), there has been some variation in the annual median, from a low of \$112,000 in 2012, to a high of \$148,850 in 2013. However, in 2015 and 2016, when the largest volume of home sales occurred within a 12-month period, the median ranged from \$118,340 to \$135,000.

**Median Home Sale Prices in Waterville: 2010 to 2017\***

The County sales records that were available in electronic form only extended back to the year 2012, so a longer-term review of home values was not possible. However, it is possible that values were higher during the housing boom years of the mid-2000s, before retreating after the national housing market collapse.

There have been some high-valued sales over the years reviewed. While notes are often not provided, some of the higher priced sales were waterfront homes.

An alternate home value estimate exists in the 2015 American Community Survey, based on home owner responses. This source placed the median owner-occupied home value at \$130,900, very similar to the median home sale price of \$135,000 for that year.

## Recent Home Sales by Price Range

The following table looks at single family houses that sold in 2016 and partial-year 2017 in Waterville by defined price ranges. This information is from County's sales records.

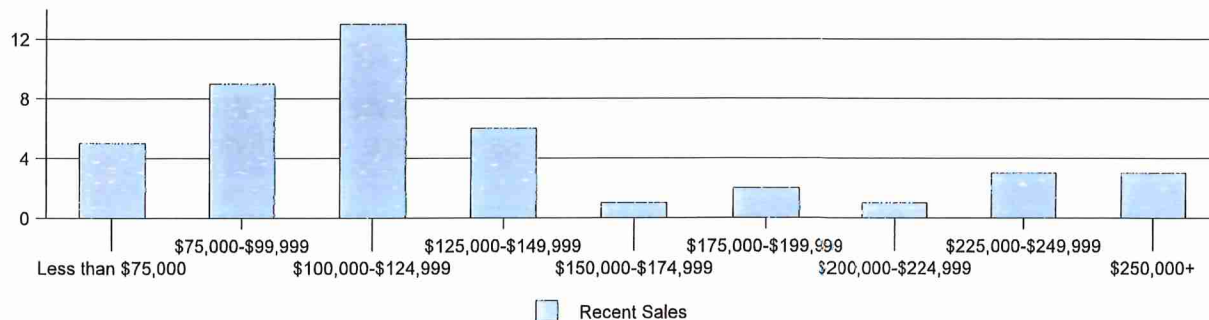
<b>Table 19 Waterville Home Sales by Price Range: 2016/2017*</b>		
Sale Price	Number of Sales	Percent of Sales
Less than \$75,000	5	11.6%
\$75,000 - \$99,999	9	20.9%
\$100,000 - \$124,999	13	30.2%
\$125,000 - \$149,999	6	14.0%
\$150,000 - \$174,999	1	2.3%
\$175,000 - \$199,999	2	4.7%
\$200,000 - \$224,999	1	2.3%
\$225,000 - \$249,999	3	7.0%
\$250,000+	3	7.0%
<b>Total</b>	<b>43</b>	<b>100%</b>

Source: Le Sueur County Assessor; Community Partners Research, Inc.

\* 2017 sales records were obtained in early July

While there was a broad distribution for home sale prices in 2016 and year-to-date in 2017, nearly 77% of the sales were in a range below \$150,000. Only seven recent sales were for \$200,000 or more.

**Waterville Home Sales by Price Range: 2016 and 2017\***





## Active Residential Listings

The website Realtor.com, maintained by the National Association of Realtors, was used to collect information on active residential real estate listings in Waterville. A review in July 2017 found 17 single family houses listed for sale and three attached units, such as condominiums or town houses. There were additional properties listed but these were all identified as "pending" sales. There were also some houses that appeared to be outside of the city limits but with a Waterville mailing address.

It is important to note that the active properties are those included in the Multiple Listing Service (MLS) and would generally be offered through a real estate agent. There are other properties that are posted for sale in Waterville that would not be part of the MLS, including most homes being offered "for sale by owner".

The following table examines the MLS listings by listing price. It includes all types of homes as posted on Realtor.com, including attached single family units.

<b>Table 20 Waterville Active MLS Listings by Price - July 2017</b>		
Asking Price	Number of Listings	Percent of Listings
Less than \$100,000	3	15.0%
\$100,000 - \$124,999	1	5.0%
\$125,000 - \$149,999	3	15.0%
\$150,000 - \$174,999	1	5.0%
\$175,000 - \$199,999	3	15.0%
\$200,000 - \$224,999	4	20.0%
\$225,000 - \$249,999	3	15.0%
\$250,000+	2	10.0%
Total	20	100%

Source: Realtor.com; Community Partners Research, Inc.

Based on the listings on Realtor.com, most of the houses being offered for sale were priced above \$150,000. Overall, 65% of active listings in July 2017 were priced at \$150,000 or more.

## Le Sueur County Home Foreclosure Activity

Starting in 2005, many national reports began to surface about the growing number of home foreclosures. Initially linked to the popularity of adjustable rate mortgages and the expansion of sub-prime mortgage lending, as many housing markets cooled and the national economy moved into a period of recession, the foreclosure crisis spread to broader segments of the housing market.

In response to the growth in foreclosures late in the last decade, HousingLink and the Greater Minnesota Housing Fund began tracking mortgage foreclosure activity across the State. They produced annual foreclosure reports from 2005 through 2013. Their reports provide details on foreclosure activity at the County level, as well as a comparison with other Counties in the State.

In addition to collecting information on the number of foreclosures, based on Sheriff's Sale data, HousingLink has also attempted to calculate a rate of foreclosure, by comparing the annual total to the number of residential parcels in each County. While this rate calculation does not yield a perfect number, it does allow for a standardized comparison measure among all of the Counties in the State. The following table presents the actual number of foreclosures, followed by the calculated rate of foreclosure, as calculated by HousingLink.

<b>Table 21 Le Sueur County Home Foreclosures - 2005 to 2013</b>									
Foreclosures	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number	39	70	174	167	144	160	129	98	70
Rate	0.38	0.67	1.65	1.57	1.35	1.50	1.21	0.92	0.66

Source: HousingLink; Community Partners Research

Based on the HousingLink data, Le Sueur County was impacted by home foreclosures. The number of annual foreclosures did increase substantially in the years from 2007 to 2011, before beginning to diminish.

HousingLink also attempted to put the rate of foreclosure in perspective, by comparing the number of foreclosures to the total number of residential parcels in the County. For comparative purposes, Le Sueur County had the 25<sup>th</sup> highest rate of foreclosure among Minnesota's 87 Counties in 2013, the last reported time period.

Although foreclosure/distressed sales records could not be obtained specifically for Waterville, a review of rejected sales for 2016 and year-to-date 2017 identified only a few residential transfers each year that were either bank sales or distressed sales of the property.

## **Residential Lots**

No definitive inventory exists of the vacant lot supply in Waterville. Discussions with City officials and a visual inspection of the community identified some residential lots. However, not all of these were actively listed for sale, and a potential buyer may have difficulty determining the options that are actually available.

The largest identified cluster of vacant lots is in the Wolf Ridge Addition, in the western portion of the City. In 2017, at least five vacant lots remain, but these are not actively listed for sale. Two of the lots had a real estate sign, but were not included in the Multiple Listing Service, and the signs are no longer active. A local Realtor indicated that these had been listed in the past, but have since been removed from the market.

There are some other scattered lots located in the City, including potential sites for two or three twin home structures in a development area near the Cannon River, known as Riverview Townhomes. However, once again these lots do not appear to be actively listed for sale.

Prior to the housing market collapse of the late 2000s, there were plans advancing for a larger-scale subdivision development in Waterville. However, this project did not proceed after market conditions changed.



## Lot Price Comparison with Nearby Cities

The website Realtor.com has vacant lot listings for the communities that potentially represent direct competition with the City of Waterville. While there is no guarantee that the MLS listings include all lots that are for sale, the prices on Realtor.com do allow for some comparisons.

***Waseca*** - In August 2017 there were more than 50 vacant lot listings for Waseca. There are 33 lots listed for sale for \$25,000 or less.

***Faribault*** - In August 2017 there were more than 30 vacant lot listings in Faribault including 16 listings for less than \$30,000.

***Elysian*** - In August 2017 there were eight vacant lot listings in Elysian, including five listings for less than \$25,000.

***Morristown*** - Although vacant lots do exist in this community they are not on the Multiple Listing Service. Some pricing information was obtained directly from lot owners, and prices generally range from \$15,000 to \$25,000.

***Janesville*** - In August 2017 there were seven vacant lot listings in Janesville for less than \$35,000.

***Montgomery*** - In August 2017 there were more than 100 vacant lot listings for Montgomery. The lowest residential lot price listed is \$9,900. There are 20 lots listed for sale for less than \$15,000.

No specific pricing could be obtained for lots in Waterville. When the lots in Wolf Ridge had been listed with a Realtor some years ago, the asking prices ranged from \$27,000 to \$35,000. However, these lots have remained unsold for many years and are no longer actively listed.

## Competitive Environment

### Overview

Waterville is located in the southeast corner of Le Sueur County, within a few miles of the northern border of Waseca County and the western border of Rice County. The Market Area aggregation used for this Study has included jurisdictions from both of these adjoining Counties when examining the area's growth potential.

Le Sueur County is contiguous with the seven-county Twin Cities Metropolitan Area, but Waterville's location along the southern edge of the County makes it farther removed from the Twin Cities than most of the other Le Sueur County cities.

Much of the housing construction and resulting growth that was occurring during the boom years of the early 2000s in the northern communities, including parts of New Prague and Montgomery, was the direct result of an outward expansion of the southern Twin Cities area, into outlying communities in northern Le Sueur County. However, Waterville received only limited benefit from this regional growth, adding only 29 households between 2000 and 2010, or approximately 2.6% of the total household growth countywide during the 2000s.

After the housing market collapse later in the previous decade, most of the faster growing communities in Le Sueur and Rice Counties experienced a severe decrease in the level of single family home construction. For example, in Faribault nearly 200 owner-occupancy units (including condominiums) were permitted in 2002, but by 2009 only five single family permits were issued. Likewise, in the City of Montgomery, there were 79 housing units permitted in 2004, but no units permitted by 2010.

There has tended to be some rebound in housing construction in the past few years, but none of the nearby communities have been able to approach the volume of units added during the peak years of the housing boom.

Communities such as Waseca, Faribault, Elysian, Morristown, Janesville and Montgomery have the capacity to add housing units. Each of these cities represent competition for Waterville in attracting future growth. The following summary is provided for each city, identifying past housing construction activity and the available supply of residential lots for future construction.



## City of Waseca

Waseca is located approximately 12 miles directly south of Waterville. Waseca is substantially larger than Waterville, with 3,518 resident households in 2016, compared to 792 households in Waterville.

Waseca is along Highway 14, providing direct access to both Owatonna, approximately 15 miles to the east, and Mankato, approximately 29 miles to the west. Although Waterville is slightly closer in distance to Mankato, the drive time from Waseca is actually a few minutes less due to the Highway 14 route.

Like many communities, Waseca has experienced a severe decrease in home building activity in recent years. In both 2016 and 2014, no single family houses were built, and year-to-date in 2017, only one new building permit had been issued. Over the eight-year time period from 2010 through 2017 (partial), only 11 single family permits had been issued, or an annual average of less than two units per year. No multifamily construction has occurred since 2010, other than one twin home intended for owner-occupants.

During the housing boom years of the prior decade, developers were active in Waseca. One larger subdivision, known as Pondview, was developed in the mid-2000s with 60 lots. Due to a combination of regulatory issues concerning storm water and drainage issues, and slow lot sales, this project went into default. In 2017, a new owner emerged and lots are once again being actively marketed. The best available information indicates that more than 40 vacant lots remain. There are a number of lots in Pondview on the Multiple Listing Service, starting at \$25,000.

There is another newer development area on the north side of the community known as Woods Edge. The first phase of development started in 2005, and most of the lots have been sold. In 2017, it is possible that seven single family lots remain, as well as lots for twin home construction. The owners are planning a new phase that would add lots for single family houses, twin homes, and possibly some town house-style units. Specific details were not available.

In response to the limited amount of new home construction in recent years, the City and Waseca County have initiated a new residential tax abatement program for 2017 and 2018. Under the program, the home owner/home builder can elect an abatement period ranging from three to ten years, with between 50% and 100% of the city/county taxes abated. The City is also offering a waiver of utility connection fees. In total, the incentives could save home owners many thousands of dollars over a period as long as 10 years. The City has identified as many as 100 vacant residential lots that could be eligible for the abatement, although some of these would be older, infill parcels.



## City of Faribault

Faribault is located approximately 17 miles east of Waterville along Highway 60. Faribault is the largest city in a 20-mile radius of Waterville, with 8,512 resident households in 2016, compared to 792 households in Waterville.

Faribault's location along Interstate 35 makes it a possible location for people commuting into the southern portion of the Twin Cities Metropolitan Area, as well as other cities along the Interstate such as Northfield and Owatonna.

Like many communities, Faribault has experienced a severe decrease in home building activity in recent years. In 2016, 25 single family units were built in detached and town house configurations. Year-to-date in 2017, 16 permits had been issued for detached houses and twin homes. Over the eight-year time period from 2010 through 2017 (partial), approximately 13 to 15 single family permits have been issued annually.

During the housing boom years of the prior decade, developers were very active in Faribault. From 2000 through 2006, more than 75 single family permits were issued each year, and in 2002, more than 125 single family housing starts occurred, plus 71 condominiums presumably intended for owner-occupants. By 2009, only five single family houses were built. While some recovery has since occurred, the City has not reached 30 or more houses in a single year since 2007.

When home building in Faribault was very active, land developers were continually bringing new subdivisions and lots into the inventory. Prior to the housing market retreat, the City had as many as 1,200 residential lots, either in development or in a planning phase. Most of these were never actually improved, but many of the development areas went into default and have emerged under new ownership.

City staff does not maintain an updated inventory of vacant lots, but estimate that as many as 200 lots exist for detached and attached single family construction in 2017. In August 2017 there were 16 lots listed for sale on the website Realtor.com that were priced below \$30,000. A number of these lots were labeled as "foreclosure".

Only limited multifamily rental construction has occurred in Faribault in recent years. Most of the larger projects are oriented to seniors and offer various levels of care including assisted living or memory care. Some independent senior housing has been included in these senior campuses. One private developer has also constructed a few rental four-plex structures since 2010.

## City of Elysian

The City of Elysian is located approximately seven miles west of Waterville along Highway 60. Elysian is included as one of the jurisdictions in the Market Area designation used for this Study. Elysian is smaller than Waterville. In 2016, Elysian had 287 households, compared to 792 households in Waterville.

Elysian has shown some limited growth over time. Since the year 2010, the City has added 14 resident households according to the State Demographer, and this would not include some new houses that have been constructed in 2016 and 2017.

Over a longer period, from 2000 to 2016, Elysian added 83 total households, as subdivision creation in the early and mid-2000s resulted in new home construction in the City. During this same time period, Waterville has added only 36 resident households.

When housing market conditions changed later in the last decade, the unsold lots in Elysian's newer subdivisions went into default. According to City staff, the three primary development areas all changed ownership. One development area, known as Lakeview Manor, reverted to City ownership and was then re-sold.

Although specific lot pricing information was not available, it is believed that the distressed lot inventory has been sold at below-market prices. This has helped to generate some ongoing home construction in the City. In August 2017, there were five residential lots in Elysian that were listed for \$30,000 or less on the website Realtor.com. Some of these indicated that lake access was included.

Including partial-year information for 2017, it appears that 33 single family housing units have been permitted between 2010 and 2017. This total would include at least two twin homes (4 units).

According to City staff, approximately eight vacant lots remain in Lakeview Manor, where the newest twin homes have been built. Sakatah Trails Estates has approximately eight remaining lots. Roemhildt's Subdivision has approximately 10 remaining lots.

No multifamily rental housing has been built in Elysian in many years.



## City of Janesville

Janesville is located approximately 13 miles to the southwest of Waterville. In 2016, Janesville had 912 resident households, compared to 792 households in Waterville.

Janesville is along Highway 14, providing direct access to both Mankato and Waseca. However, the travel time to Mankato from Janesville is less than 20 minutes, compared to approximately 33 minutes from Waterville to Mankato.

Over the years, Janesville has continued to see housing development activity, due in part to its “bedroom community” status near larger regional centers. In 2005, near the peak of the last housing boom, Janesville had 20 single family housing starts. However, after 2007, the City has never achieved double-digits for single family permits in any year, and in both 2015 and 2016, no single family construction occurred. In 2017, three permits had been issued through early August.

Over the 8-year period from 2010 through 2017 (partial-year), Janesville has averaged between 3 and 4 single family houses permitted per year.

According to City staff, Janesville continues to have a relatively large supply of vacant residential lots, when compared to annual usage. Eastwood Estates and Northwood are two active subdivisions that have a combined lot inventory of between 20 and 25 vacant lots. Additional lots also exist in other development areas of the City.

Although specific pricing details were not obtained, the Multiple Listing Service does have some lots in Janesville in newer subdivisions with a price between \$30,500 and \$33,000. The listings also indicated that “buyer incentives” were available.

According to City staff, none of the subdivisions went into default or tax forfeiture, but some concessions have been made over time for special assessment payments. Janesville also began offering a City tax abatement program to help generate additional construction and lot sales. The combined incentives may be as large as \$7,800 per house, in the form of a property tax abatement for five years for up to \$6,000, and a cash rebate of up to \$1,800.

Based on City records, there have been no recent rental housing construction projects. However, in 2016 a specialized senior housing facility was constructed that provides skilled nursing care, assisted living and memory care housing.



## City of Morristown

The City of Morristown is located approximately seven miles east of Waterville along Highway 60. Morristown is included as one of the jurisdictions in the Market Area designation used for this Study. Morristown is smaller than Waterville. In 2016, Morristown had 398 households, compared to 792 households in Waterville.

Morristown has shown very limited growth over time. Since the year 2000, Morristown has added only 35 resident households according to the State Demographer, with 10 of these added since 2010.

In the mid-2000s, a new subdivision phase was created. Meschke South Haven 2<sup>nd</sup> Addition later went into default and was sold at auction. Some of these lots remain available for sale, and multiple lot owners exist, as a result of the auction. Some of these lots are priced at \$15,000 to \$20,000, with most assessments paid. Other owners may be asking more or less, but specific details were not available.

In the Southdale Addition, lots are priced at approximately \$25,000, with all assessments already paid. Again, multiple owners may exist, but one owner has at least three lots for sale.

It is believed that 20 or more vacant lots remain available in some of the City's newer subdivisions.

Over the past six years, City staff believes that only three houses have been constructed in Morristown, and two of these were Habitat for Humanity projects. No multifamily rental housing has been built in Morristown in many years.

## City of Montgomery

The City of Montgomery is located approximately 17 miles directly north of Waterville and is also located in Le Sueur County. Montgomery is larger than Waterville. In 2016, Montgomery had 1,222 households, compared to 792 households in Waterville. Waterville commuters to the southern Twin Cities area communities in Scott County would generally travel through Montgomery.

Like many other communities in the periphery of the Metropolitan Area, Montgomery went through a housing boom in the early 2000s. In 2004, the peak year of construction, permits were issued for 79 single family units in Montgomery. However, by 2010, there were no single family permits issued. While some recovery has since occurred, the City has not reached 10 single family housing starts in a single year so far this decade.

In response to the growing demand of the early 2000s, developers were very active in creating subdivisions in Montgomery. When the market crashed, many of the subdivisions went into default. In 2017, the City still has a large volume of single family lots in multiple subdivisions. Many of these are being offered for sale at prices that are substantially below the original costs of development. A review in 2016 found more than 70 lot listings in Montgomery for less than \$15,000 on the website Realtor.com. In July 2017, there were only 20 listed lots below \$15,000, but it is possible that not all of the lots in this price range are actively posted.

Despite below-market pricing, housing construction activity has remained limited. Based on recent absorption, the current inventory would provide an adequate supply for 10 to 15 years of home construction.

No multifamily rental construction has occurred in Montgomery in many years, other than specialized care housing for seniors.

## Rental Housing

### U.S. Census and Building Permit Inventory

According to the 2010 Census, there were 202 occupied rental units and at least 47 unoccupied rental units in Waterville. There were a few additional vacant units in the City that were not identified as either rental or owner housing, but it would appear that the City's total rental unit inventory was approximately 250 units when the last Census was completed.

At the time of the 2000 Census there were 178 occupied rental housing units and at least 18 vacant rental units in Waterville. Once again there were some additional vacant units in the City that were not identified as either rental or owner housing, but the rental inventory contained approximately 196 units in 2000.

Between the 2000 Census and the 2010 Census, the City added approximately 53 rental units, but only 24 renter-occupancy households. As a result, the number of vacant units counted by the Census had increased.

After the 2010 Census, no multifamily rental housing development can be identified in Waterville through annual building permit reports. Any changes in the supply of rental housing in recent years would have been due to conversion, including tenure changes, as houses may have converted from renter to owner-occupancy, or the reverse.

### Rental Housing Licensing Program Inventory

Waterville has just initiated a Rental Housing Registration Program in August 2017. Participation with this requirement should increase over time, but for this Study, no usable information was yet available.

However, City staff has compiled information on housing units that are believed to be rental properties, as part of the municipal utility billing system. There were 86 different addresses identified in this listing, with an estimated 170 rental units. This listing did not include the specialized senior units in the Traditions complex. The estimated mix of units by structure from City records showed the following:

▶	72	1-unit structures	▶	1	7-unit structure
▶	5	2-unit structures	▶	1	8-unit structure
▶	2	3-unit structures	▶	1	16-unit structure
▶	2	5-unit structures	▶	1	17-unit structure
			▶	1	24-unit structure



Based on this list of properties, there would be 170 identified rental units. If all 47 rooms/units at Traditions are added, the total would be approximately 212 rental units. This total would be lower than the number counted as occupied or vacant in the 2010 Census, but it is assumed that some additional rental units may exist in Waterville that are not on the City's preliminary property list.

## **Rental Housing Survey**

As part of this housing study, a survey was conducted of multifamily rental buildings in the City. The survey focused on larger rental projects with four or more units and was conducted in July 2017.

The survey attempted to define rental housing within different market segments, including conventional market rate housing, income-based subsidized units, and special-use housing such as senior assisted living. Based on the survey responses, the following unit distribution has been used in the more detailed analysis that follows:

- 39 rental units in market rate housing
- 23 rental units in subsidized housing
- 47 units/rooms in specialized senior housing offering services

Some of this housing would not be viewed as independent living units, including many of the rooms in the Traditions memory care facility. However, the units in the Traditions assisted living facilities could be viewed individual apartments, with either kitchens or kitchenettes. Despite the fact that these may be independent living units, they have been analyzed separately due to the specialized nature of the housing being offered.

After adjusting for the memory care rooms that are better defined as "group quarters" the 2017 rental survey collected usable information from 97 rental units in Waterville. Nearly all of the remaining rental housing in the City exists in single family houses, or in small rental structures with five or fewer units per building.

The more detailed analysis of units by market segment is presented on the following pages.

## **Market Rate Summary**

There were only two market rate multifamily projects contacted in the survey, with 39 total rental units. Excluding the specialized senior housing in Traditions, the two market rate apartment buildings are the two largest multifamily properties in Waterville. Parkside Apartments has 22 units (down from the 24 units indicated in the City utility report), and Sakatah Properties has 17 units.

### **Unit Mix**

The following information is the bedroom mix for the market rate units surveyed:

- 21 one-bedroom (53.8%)
- 18 two-bedroom (46.2%)

There are no apartments with three or more bedrooms in the larger apartment buildings. However, much of the market rate stock exists in single family houses that were not directly contacted in the survey. It is assumed that most of these rental houses have two or more bedrooms, and would include three and four-bedroom options for larger families.

### **Occupancy / Vacancy**

Usable occupancy information was obtained from both of the market rate projects. Overall, there was one unit reported as vacant, but the manager had received an application for this unit. The one vacant unit represented an overall vacancy rate of 2.6%.

### **Rental Rates**

Usable rental rate information was obtained from both of the market rate projects. It is important to note that no new market rate rental housing has been built in Waterville in the last 30 years, and due to their age, most units are in a very moderate price range.

Some of the units include the primary utility payments with the rent, while in other cases, the tenant pays the major utilities in addition to rent. We have attempted to estimate tenant-paid utilities into a gross rent estimate for the following ranges:

<u>Units Type</u>	<u>Prevailing Range</u>
one-bedroom	\$525-\$630
two-bedroom	\$640-\$940

There are one or two large two-bedroom apartments in Parkside that have a higher gross monthly rent. Excluding these few units, the remaining two-bedroom apartment options would generally have a gross monthly rent below \$800.



## **Tax Credit Summary**

There are no rental projects in Waterville that have been developed using federal low income housing tax credits.

Since the tax credit program started in the late 1980s, there have only been two projects in Le Sueur County that have received an award. Both of these projects also have Rural Development subsidies available and operate as subsidized housing. Maple View Apartments in Le Center has 24 units, including 12 units with rent assistance. Highland View Apartments in Le Sueur has 24 total units, with rent assistance for 15 units. Both received tax credits in 1990 and have fulfilled their federal compliance requirement but continue to operate as affordable subsidized housing.

There have been applications submitted over time for tax credit projects in other communities in the County, including Montgomery, but they have not been successful in securing an award. The tax credit application process is very competitive, and it is often difficult for smaller communities in the State to obtain an award.

## **Subsidized Summary**

There are two federally subsidized apartment projects in Waterville. Combined, these projects have 23 units of subsidized rental housing. A third project, Parkside Apartments now with 22 units, had originally been constructed using USDA Rural Development assistance, but this project has left the subsidy program and no longer operates as income-based housing.

The largest remaining subsidized project, West Court Apartments, has 16 two-bedroom units and is designated as general occupancy housing. All of the units in West Court can access project-based rent assistance, allowing tenants to pay rent based on 30% of their income. West Court is subsidized through the U.S. Department of Housing and Urban Development (HUD).

The other subsidized property in Waterville, Parkside North, is designated for senior/disabled tenant occupancy, but has only seven one-bedroom apartments. It is subsidized through USDA Rural Development, but only three of the seven units have access to project-based rent subsidies. In the remaining units, the tenants must pay at least a basic monthly rent, even if that exceeds 30% of their income.

### **Unit Mix**

All 16 of the general occupancy units in West Court have two bedrooms, and all seven of the senior/disabled units in Parkside North have one bedroom.

### **Occupancy/Vacancy**

At the time of the survey, there were no vacant units in Parkside North, the project designated for senior/disabled tenant occupancy. With only seven total units, the manager indicated that very limited unit turnover occurs annually.

There were two open units in West Court at the time of the survey. A waiting list does exist but can be out-of-date as lower income households looking for an apartment may have often secured other housing by the time they move to the top of the list.

It is also important to note that vacancies can sometimes occur in subsidized housing due to the processing requirements, including income certification, for new applicants.

## **Rental Rates**

All of the tenants in West Court can pay rent based on 30% of income, due to the subsidies that exist.

In Parkside North, only three tenants can access project-based rent assistance. In the remaining four units, the household pays at least 30% of income, but not less than a basic rent of \$500 per month.

## **Tenant-Based Rent Assistance**

In addition to the subsidized projects in Waterville, Le Sueur County has a rent assistance program with authority for 118 households. However, due primarily to budget limitations, there were approximately 90 participating households countywide in July 2017.

The HUD Housing Choice Voucher (formerly Section 8 Existing Program) 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.

There are 11 Waterville households receiving assistance. Since this rent assistance is tenant-based, and moves with the household, the actual number of participating households within the City can vary from month to month. It is possible that some households may be using their rent assistance in Parkside North, in one of the four units that does not have project-based assistance available.



## **Senior Housing with Services**

There are two identified providers of senior housing with services in Waterville, according to the licensing information maintained by the Minnesota Department of Health. However, both Traditions of Waterville and Waterville Assisted Living are affiliated and are at the same address. For the purposes of this Study, this senior housing complex is referred to as Traditions of Waterville.

Traditions of Waterville includes the former Hilltop Terrace Apartment building, which now offers assisted living, and a memory care and assisted living building that was constructed in 2008. The two structures are physically attached.

The new construction wing of Traditions that was built in 2008 contains 12 studio units for memory care residents, and 12 one-bedroom apartments for assisted living. The former Hilltop Terrace building, constructed in the 1990s, now contains 23 apartments, all of which are used for assisted living.

There is one additional specialized care provider operating in the Market Area boundaries. Morristown Manor is a 10-bed licensed facility in Morristown. However, it serves a very targeted client group, adults with special needs such as chemical dependency or mental illness. Beds are often filled through a referral system. As a result, it has not been included in the analysis of specialized senior housing that follows.

## **Senior Demographics**

Specialized housing options, such as assisted living, can serve people of any age that need services along with their housing, but typically these facilities serve older senior citizens. As people age, their need for assistance with daily living activities increases rapidly.

To better understand the supply of units in Waterville, comparisons have been made to senior citizens, age 75 and older. According to Esri, the Waterville Market Area contains approximately 625 older senior citizens in 2017. There are 402 households with a householder age 75 or older.

By the year 2022, Esri is projecting that the older senior population will increase in size to approximately 730 people and 466 households, or an increase of nearly 16% to 17%.

### **Skilled Nursing Care**

There is no longer a skilled nursing facility operating within the Market Area. The Good Samaritan home in Waterville was closed in 2015. It had previously been licensed for 33 beds, although actual utilization was believed to be less.

### **Memory Care**

Traditions has capacity for 12 memory care residents in studio units. At the time of the rental survey, they reported full occupancy and a waiting list.

When compared to the older senior population within the Market Area, a capture rate of approximately 1.9% is being achieved to fill all 12 beds. This is a relatively normal capture rate, in the opinion of the analysts, but a higher rate would seem to be achievable.

With the anticipated increase in the number of older seniors over the next five years, the required capture rate will decrease in the future. To fill all 12 beds in 2022, the capture rate would only need to be 1.6%.

In 2017, there is some evidence of pent-up demand in the form of a waiting list. Due to physical limitations, Traditions does not have any plans to increase the number of rooms available at its current site. It is possible that a shift in room utilization could occur in the future, such as more units allocated to memory care and fewer to assisted living, or the reverse.

If a capture rate of 2.5% could be achieved among older seniors, the Market Area would need approximately 18 memory care beds by the year 2022. Due to the limited size of the Market Area, there will be only a small anticipated numeric increase in demand over the next five years.

### **Assisted Living**

Traditions of Waterville has 35 units available for assisted living. This includes the 23 apartments in the former Hilltop Terrace Apartment building, which was acquired by Traditions and has since been used for assisted living, and 12 one-bedroom units in the other Traditions building.

All of the assisted living units were occupied at the time of the rental survey and a waiting list was maintained. Traditions will accept County assistance programs, such as Elderly Waiver, which helps lower income seniors access the care they need.

When compared to the older senior households living in the Market Area, a capture rate of approximately 8.7% is being achieved to fill all 35 beds. This is a relatively high capture rate, in the opinion of the analysts, and may indicate that some residents are coming from outside of the Market Area boundaries. It is also due in part to the willingness to accept County assistance, which expands the potential target market to include lower income households.

The relatively high capture rate being achieved in Traditions assisted living may also be due to the lack of other specialized housing for seniors. Waterville does not have a skilled nursing home, and does not have any lighter services senior housing. An older senior looking to remain in Waterville would only have the assisted living option available if they needed some level of care to remain living independently.

With the anticipated increase in the number of older senior households over the next five years, the required capture rate will decrease in the future. To fill all 35 units in 2022, the capture rate would drop to 7.5%. While still high, the growth within the target market will add potential households looking for assisted living.

As with memory care, Traditions does not have any plans to increase the number of rooms available for assisted living, despite the existence of a waiting list. There are physical limitations at their current site that would not allow for a contiguous expansion.



**Table 22 Waterville Multifamily Rental Housing Inventory**

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
<b>Market Rate</b>					
Sakatah Properties 204 1 <sup>st</sup> St N	5 - 1 Bedroom <u>12 - 2 Bedroom</u> 17 Total Units	\$600 \$700-\$750 +electric	No vacant units	Mix of tenants	Apartments in three-level walkup building constructed in the 1970s. Rent includes heat, water, sewer and garbage, with tenant paying electricity in addition to rent. Unit amenities include stove, refrigerator, dishwasher, wall AC, balcony/patio. One-bedrooms have 600 sq ft and 1 bathroom; 2-bedrooms have 900 sq ft and 1 bathroom. Manager reported a mix of tenants with people working locally and commuters. No vacant units at time of survey and a waiting list exists.
Parkside Apartments 300 Hoosac St W	16 - 1 Bedroom <u>6 - 2 Bedroom</u> 22 Total Units	\$495 \$600-\$900 +electric	1 vacant unit 1 - 2 Bdrm	Senior- designated	Apartments in three-level elevator building constructed in the 1980s. Originally built as a Rural Development subsidized housing but then converted to market rate - conversion occurred before 2007. Senior-designated for tenants age 55 and older. Rent includes heat, water, sewer and garbage, with tenant paying electricity in addition to rent. Unit amenities include stove, refrigerator, dishwasher and wall AC. Project amenities include community room with kitchen, back patio, community laundry and sitting areas on each floor. Project had once contained 25 units but some 1-bedrooms were combined to create 2-bedrooms. Unit sizes vary, with some 2-bedrooms at 1020 sq ft and 2 bathrooms, and at highest rent listed. One unit vacant at time of survey, but an application had been received.
201 Paquin St E	8 Total Units	N/A	N/A	N/A	Unable to contact - older building in the downtown area that contains 8 rental units according to City utility records.

**Table 22 Waterville Multifamily Rental Housing Inventory**

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
<b>Subsidized</b>					
Parkside North Apartments 301 Hoosac St	<u>7 - 1 Bedroom</u> 7 Total Units	\$500-\$685 30% of income	No vacant units	Senior/ disabled occupancy	USDA Rural Development subsidized apartments for senior/disabled tenant occupancy constructed in 1985. One-level building. Three units have rent assistance that allows rent based on 30% of income and remaining tenants pay 30% of income but not less than basic or more than market rents listed. Amenities include stove, refrigerator, off-street parking with plug-in, community room and community laundry. Units have 624 sq ft of living space and 1 bathroom. Manager reported full occupancy with limited turnover - most tenants are seniors but also some younger disabled tenants.
West Court Apartments 214 Hoosac St	<u>16 - 2 Bedroom</u> 16 Total Units	\$649 30% of income	2 vacant units waiting list	General occupancy	HUD-subsidized apartments for general occupancy constructed in the 1980s. Two-level walkup building. All units have rent assistance that allows rent based on 30% of income up to maximum rent listed. Amenities include stove, refrigerator, AC, off-street parking and community laundry. Units have 926 sq ft of living space and 1 bathroom. Manager reported 2 vacant units at time of survey - a waiting list exists but can be out-of-date when a unit becomes available.
Section 8 Housing Choice Vouchers	11 households in Waterville	30% of income	N/A	N/A	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. In June 2017, there were 11 households in Waterville participating in the Le Sueur County program, with 90 households countywide. The County waiting list had 64 households waiting for assistance.

**Table 22 Waterville Multifamily Rental Housing Inventory**

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
<b>Senior Housing with Services</b>					
Traditions of Waterville Assisted Living (former Hilltop Terrace) 117 Paquin St E	18 - 1 Bedroom 4 - 1 Bdrm+den <u>1 - 2 Bedroom</u> 23 Total Units	Starting price of \$2425+ additional services as needed	No vacant units, waiting list	Assisted Living	Former Hilltop Terrace Apartment building that was developed by the City EDA in the 1990s and then later managed and eventually acquired by Traditions of Waterville. All tenants are now receiving assisted living services. Base monthly rent of \$2219 plus required service package of \$206 - additional services are then purchased as needed. Monthly package includes daily meals. One-bedroom units range from 517 to 630 sq ft with 1 bathroom, and 1-bedroom plus den units have 850 sq ft and 1 bathroom. Two 1-bedrooms were merged to create a large 2-bedroom. Manager reported full occupancy and a waiting list. County assistance is accepted and 50% to 60% of current residents receive assistance.
Traditions of Waterville Assisted Living 117 Paquin St E	<u>12 - 1 Bedroom</u> 12 Total Units	Starting price of \$2425+ additional services as needed	No vacant units, waiting list	Assisted Living	Senior facility that was constructed in 2008, offering both assisted living and specialized memory care housing, which is listed separately. Physically attached to former Hilltop Terrace Apartments which also offers assisted living. Apartments have one-bedroom, 1 bathroom and have kitchenette but no stove. Base monthly rent of \$2219 plus required service package of \$206 - additional services are then purchased as needed. Monthly package includes daily meals. One-bedroom units range from 647 to 688 sq ft. Manager reported full occupancy and a waiting list. County assistance is accepted and 50% to 60% of current residents receive assistance.
Traditions of Waterville Memory Care 117 Paquin St E	<u>12 - Studio</u> 12 Total Units	Starting price of \$3410+ additional services as needed	No vacant units, waiting list	Memory Care	Senior facility that was constructed in 2008, offering both memory care housing and assisted living, which is listed separately. Physically attached to former Hilltop Terrace Memory care is offered in studio units with private bathroom and 636 sq ft. Base monthly rent of \$2895 plus required service package of \$515 - additional services are then purchased as needed. Monthly package includes daily meals. Manager reported full occupancy and a waiting list. County assistance is accepted and 50% to 60% of current residents receive assistance.

Source: Community Partners Research, Inc.



## Demand Calculations for Market Rate Rental Housing

### Overview

The following calculations are based on information for the Waterville Market Area. These calculations examine the demand potential, adjusted by number of households that would be income-qualified to live in a unit at prevailing market rate rents.

For the purposes of this Study, an income-qualified household has an estimated annual income of \$30,000, or more. If 30% of household income is applied to monthly housing costs, then these households can afford a gross rent of \$750 or more. For new market rate housing, it is assumed that gross rental rates will generally need to be at or above this level. For households at or near the \$30,000 threshold, it is probable that an even larger percentage of income would be needed to afford a newly constructed market rate rental unit.

Based on its location near a number of larger cities such as Faribault and Waseca, it can be argued that Waterville has the potential to attract renter households from an even larger geographical area. However, the analysts have proceeded under the assumption that these larger communities will also be developing new rental housing in the future, and that part of the larger area's demand will be addressed elsewhere.

While the City has the potential to attract home owners that are willing to commute out for employment, there is less evidence that renter households are willing to travel longer distances to rent their housing. As a result, most rental demand will be more locally-oriented.

## **Demand from Household Growth**

The demographic projections provided earlier in this study have been based on the Waterville Market Area adding approximately five to eight households per year, with 25 to 40 households added over a five-year period. Some of this expected growth could be outside of Waterville. Households that elect to live in the rural areas are probably looking for owner-occupancy housing, while renter households will typically orient to a city.

For projected tenure, we have used a percentage of 30% for renter-occupancy. This rental tenure rate is substantially higher than the level reported in the Market Area in the 2010 Census, but is only slightly higher than the rental tenure rate that existed in Waterville. It is in recognition of the aging patterns that are present in the community as a growing number of households are moving into the age ranges where rental frequency begins to increase.

### **Income-Qualified Demand from New Household Growth Calculation**

Projected household growth 2017-2022	40
Percentage of renter-occupied households	30%
Projected rental household growth	12
Percentage of renter households in target income range	43%
Demand from income-qualified renter households	5

Utilizing the best available information on growth patterns, income levels and tenure rates, future household growth using normal assumptions is projected to add demand for approximately five additional market rate units by the year 2022 to serve the targeted income range.

It is important to note that additional demand will be present from even lower income groups that would benefit from lower rent or subsidized housing. If the same calculations are applied to all income ranges, the estimated demand from growth would increase to 12 rental units over the five-year period, but most of these would need to be in an affordable price range.

It is important to note that the growth-generated demand would be shared between the cities of Waterville, Elysian and Morristown.

## **Pent-Up Demand from Existing Households and Movership**

While Waterville has a relatively average distribution of rental housing units, no traditional rental housing has been added in many years through new construction. The last addition of conventional rental housing in a multifamily structure probably dates to the early 1990s, when Hilltop Terrace was developed by the City's EDA. However, this project was later converted to specialized senior housing and is now part of the assisted living options in Traditions of Waterville. Excluding Hilltop Terrace, all of the other conventional rental housing options in Waterville are believed to be more than 30 years old.

It should be noted that some apartment units were constructed in 2008 in the assisted living wing of Traditions of Waterville, but these are once again specialized use units that serve elderly households needing assistance with daily living.

The survey of existing multifamily rental properties found almost no market rate vacancies. Owners/managers talked about ongoing demand.

Future demand for rental housing would be generated from existing renters that would elect to move from their older housing unit. For this calculation, existing renter households in the entire Market Area have been examined, although many of the existing renters already live within the City.

To determine the number of potential renter households that would be expected to move on an annual basis if good quality, affordable units were vacant and available in the area, we have performed the following calculation using an annual turnover rate of only 10%, or less than 1% per month.

### **Income-Qualified Movership/Competitive Advantage**

Total renter households in the Waterville Market Area 2017	460
Percentage in income-qualified range	43%
Total income-qualified households	198
Annual turnover @ 10%	20

Once again, this potential demand is even larger if all income ranges are examined, as nearly half of all current renter households could not afford the rent typically associated with a new rental unit.

It is important to note that the movership demand would be shared between the cities of Waterville, Elysian and Morristown.



## Potential Demand from Senior Households

Part of the reason that the Waterville Market Area has a below-average rental rate is due to the fact that most seniors living in the area own their housing. While home ownership rates are typically high for younger seniors, more households tend to move into rental options as they age. The overall home ownership rate for senior-headed households in 2010 was approximately 87% in the Market Area, with only 13% of seniors renting their housing.

In larger communities in the region, such as Waseca and Faribault, where a more diverse set of rental options exist that would appeal to seniors, the rental tenure rate was approximately 26% to 28%. In the City of Waterville, the rental rate among seniors households was 22% in 2010.

In the opinion of the analysts, senior and near-senior home owners would potentially form an additional market for rental housing that is age-appropriate, and a 22% rental rate has been used in the calculation. This percentage is well above the level of 13% that was recorded in 2010.

The following analysis is based on the all senior-headed households living in the designated Market Area. Home owners living in the surrounding townships and small cities will look to move closer to services and amenities as they age.

### Income-Qualified Senior Demand Calculation

Number of households age 65 and older in 2017	909
Potential rental tenure @ 22% rate	200
Actual rental tenure/households	118
Potential unmet demand	82
Percentage in income-qualified range @63%	52

Since many of the households age 65 and older living within the Waterville Market Area are home owners, there is a fairly high percentage with an annual income of \$30,000 or more. As a result, up to 63% of the senior-headed households would be income-qualified for market rate rental housing.

Based on the under-supply of attractive rental housing options for moderate and higher income senior households within the Waterville Market Area, there is a below-average rental tenure rate within these older adult age groups. To reach a more normal rental utilization rate, as many as 52 additional households would typically be in the rental market, and have the ability to pay \$750 or more per month toward their housing costs.

## **Demand from Unit Replacement/Obsolescence**

Demand created by unit replacement and obsolescence may also occur. This would be in addition to normal tenant movership that occurs when people voluntarily move to a better or more suitable unit. Displacement caused by unit obsolescence and demolition is not voluntary.

Research completed for this Study could not document any significant rental unit losses in the City, although some unit loss is probable. However, this has probably offset by unit conversion, as housing formerly used for owner-occupancy changed to rental use. Going forward, as the home ownership market stabilizes, the rate of conversion should slow or even reverse, as people look for affordable home ownership options. But with no evidence of a net loss of rental housing, no allowance has been made for demand created by unit replacement.

## **Total Demand and Market Share**

The combination of demand generators identified above results in market potential from approximately 77 households that are income-qualified for the gross rental rates typically required by market rate housing. Some of this demand is growth-generated and will continue to increase over the projection period, but most of the calculated demand exists from under-served market segments, such as seniors that have continued to own their housing since there are no suitable rental choices in the local market.

Typically, Community Partners Research would recommend that a single rental project can only capture a share of the overall demand. For the Waterville Market Area, it is also probable that some of the demand should be met within the cities of Elysian and Morristown, in addition to future units in Waterville.

Therefore, a series of rental development projects would be recommended, with only a portion of the recommended units constructed in Waterville.

## **Additional Considerations**

There are some additional factors that should also be considered by a potential developer of rental housing in Waterville that could impact future development.

- ▶ The recommendations made in this Study are based on calculations of household growth, pent-up demand, under-served market segments and similar demand-generators, but do not include competitive positioning of a specific project. No specific sites or design ideas have been considered by the analysts. It is probable that newly constructed units would have certain competitive advantages over other apartment projects in the immediate area, but this is not assured until a development concept is identified.
- ▶ The research completed for this Study did not identify any pending projects that would directly compete for a share of the market, but there is no guarantee that other projects will not advance in Waterville or other Market Area communities.
- ▶ Any new rental project should attempt to serve a broad segment of the potential market. Projections point to a growing demographic segment of older adults, age 55 and above, as the baby boomers move through the aging cycle. Any new housing should be designed to appeal to older adult renters, with age-appropriate features and amenities.

The opinion of Community Partners Research has been formed with information on general market conditions in Waterville. The analysts have assumed that high quality construction and materials will be used, and that the property will be professionally managed. Community Partners Research has not reviewed construction plans or architectural drawings. We have not reviewed any project pro forma information, or cash flow scenarios based on proposed rents compared to total development costs.



## Employment and Economy

While many factors influence the need for housing, employment opportunities represent a predominant demand-generator. Without jobs and corresponding wages, the means to afford housing is severely limited. Employment opportunities are provided by a broad range of business sectors. Jobs are available in manufacturing, commercial services, agriculture, and other industries. The type of employment, wage level, and working conditions will each influence the kind of housing that is needed and at what price level.

### Labor Force, Work Force and Unemployment

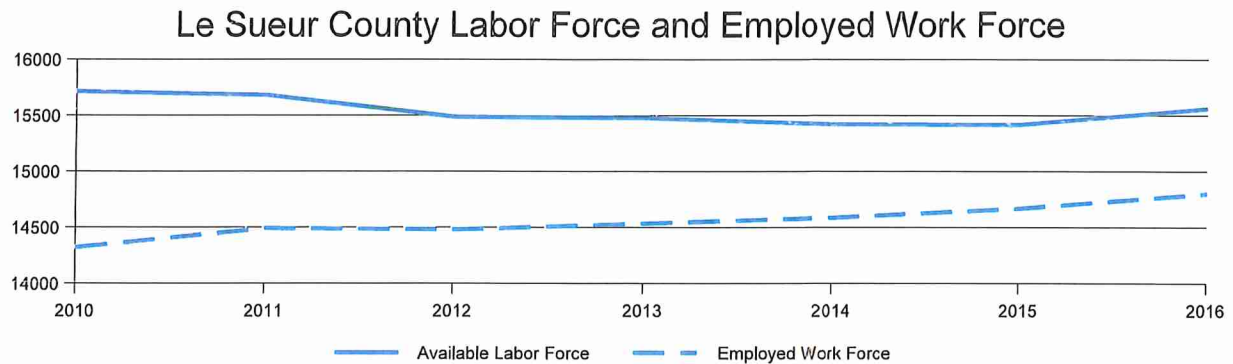
The MN Department of Employment and Economic Development provides labor force and employment information for all of Le Sueur County. Due to the size of the community, similar information is not available specifically for Waterville. The following table looks at information since 2010.

<b>Table 23 Le Sueur County Labor Statistics: 2010 to 2016</b>						
Year	Labor Force	Employed	Unemployed	Unemployment Rate - County	Unemployment Rate - MN	Unemployment Rate - US
2010	15,715	14,324	1,391	8.9%	7.4%	9.6%
2011	15,684	14,494	1,190	7.6%	6.5%	8.9%
2012	15,488	14,482	1,006	6.5%	5.6%	8.1%
2013	15,481	14,538	943	6.1%	5.0%	7.4%
2014	15,423	14,590	833	5.4%	4.2%	6.2%
2015	15,420	14,672	748	4.9%	3.7%	5.3%
2016	15,564	14,803	761	4.9%	3.9%	4.8%

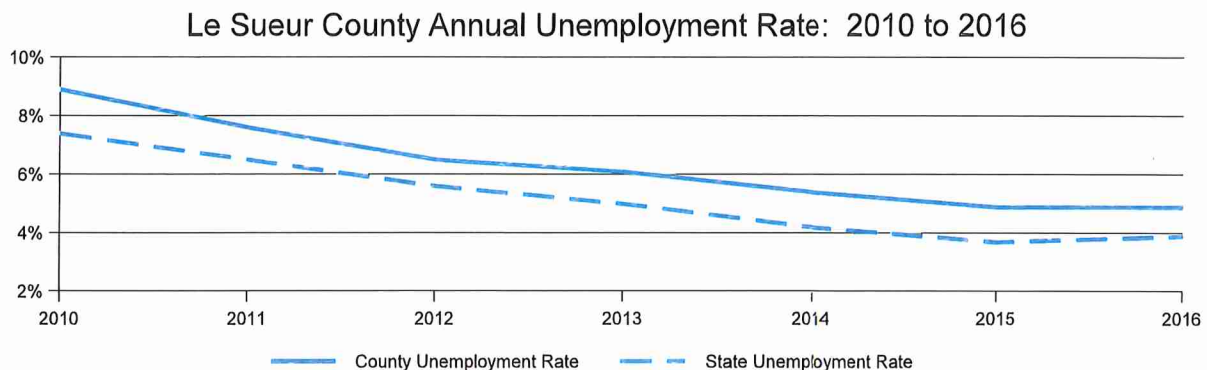
Source: MN Department of Employment and Economic Development

The Local Area Unemployment Statistics data (LAUS) tracks employment by place of residence. It shows how many County residents are actively in the labor force and their employment status, regardless of where they work.

Since 2010, there has been a minor reduction in the size of the County's available labor force. If 2016 is compared to the year 2010, the County's resident labor force had decreased by 151 people, or nearly 1%.



The resident labor force had actually decreased in size immediately after 2010, probably due to broader economic conditions, and continued downward through 2015. However, the number of County residents then began to increase again in 2016. Although not displayed in the table above, partial-year information for 2017 indicates that the available labor force may continue to increase in size for the current year.



There has been stronger growth in the employed resident work force. From 2010 to 2016, the number of employed County residents increased by 479 people, or 3.3%. Since the employed resident population increased at the same time that the available labor force dropped in size, the County's unemployment rate decreased substantially over this time, from 8.9% in 2010 to 4.9% in 2016. However, the Le Sueur County unemployment rate has consistently been higher than the Statewide rate over the last seven years.

## Employment and Wages by Industry

The following table shows the annual employment and average annual wages by major employment sector for jobs within the City of Waterville in 2016. It is important to note that the major employment sectors listed do not represent all employment in the City. Some groups, including self-employment, are not represented.

The table only provides information for the City. The previous table, which provided information on the County's labor force, represents the location of the worker by their home residence, while the following table, represents the location of the job.

<b>Table 24 Waterville Average Annual Wages by Industry - 2016</b>		
Industry	Employment	Average Annual Wage
Total All Industry	444	\$28,600
Trade, Transportation, Utilities	106	\$23,036
Financial Activities	19	\$27,248
Education and Health Services	198	\$32,240
Leisure and Hospitality	20	\$12,012
Other Services	4	\$22,932
Public Administration	20	\$37,388

Source: MN Department of Employment and Economic Development

The average annual wage in Waterville for all industry in 2016 was \$28,600. This assumes full-time employment for 52 weeks at the average weekly rate.

The highest paying wage sectors in Waterville were Public Administration and Education and Health Services, both with an annual wage of more than \$32,000. Public Administration was a relatively small employment sector, but Education and Health Services was the City's largest industry sector for annual employment.

The lowest paying wage sector was Leisure and Hospitality, with an average annual wage of approximately \$12,000 at full-time employment.



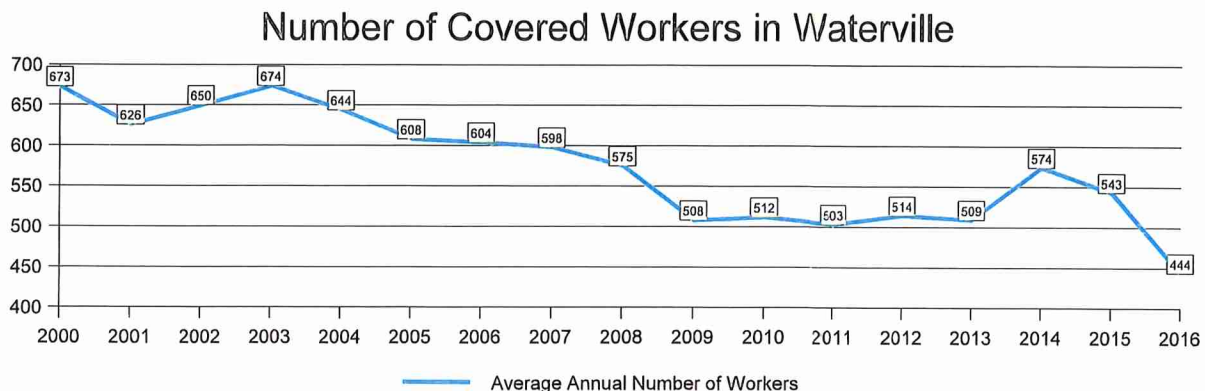
## Waterville Annual Covered Employment

The Quarterly Census of Covered Workers (QCEW) allows for tracking the longer-term patterns in the employment level. The following table displays the total number of workers reported in Waterville back to the year 2000.

Table 25 Waterville Average Annual Employment			
Year	Total Covered Employment	Year	Total Covered Employment
2000	673	2009	508
2001	626	2010	512
2002	650	2011	503
2003	674	2012	514
2004	644	2013	509
2005	608	2014	574
2006	604	2015	543
2007	598	2016	444
2008	575	N/A	N/A

Source: QCEW - MN Dept. of Employment and Economic Development

When viewed over a longer-term there has been some employment loss in Waterville, as tracked by reporting for unemployment compensation. If annual employment in 2016 is compared to the year 2000, there had been a decrease of 229 workers, or a reduction of 34% over this longer period. The single largest employment change occurred between 2015 and 2016, when the number of jobs decreased by 99 jobs in a single year. This was probably due to the closing of the Good Samaritan nursing home and the drug store in 2015.



## Commuting Patterns of Area Workers

While a number of jobs exist within Waterville, many City residents commute for employment. The best information on commuting patterns is from the 2015 American Community Survey, and has been examined for Waterville. The first table only examines travel time for City residents, and excludes people that work at home.

<b>Table 26 Commuting Times for Waterville Residents - 2015</b>		
Travel Time	Number	Percent
Less than 10 minutes	238	29.1%
10 to 19 minutes	142	17.3%
20 to 29 minutes	174	21.2%
30 minutes +	265	32.4%
Total	819	100%

Source: American Community Survey

Most Waterville residents were leaving the City for their primary employment in 2015. Given the City's size, a travel time of 9 minutes or less would generally be required to reach the job options that exist within the community. Approximately 71% of the City's residents were traveling 10 minutes or more to their job. More than 32% of the City's residents were traveling 30 minutes or more for employment.

The American Community Survey also identifies travel time by location of employment. For people that worked in Waterville, the following travel times were identified.

<b>Table 27 Commuting Times for Waterville Employees - 2015</b>		
Travel Time	Number	Percent
Less than 10 minutes	287	46.0%
10 to 19 minutes	123	19.7%
20 to 29 minutes	114	18.3%
30 minutes +	100	16.0%
Total	624	100%

Source: American Community Survey

A majority of the people that worked in Waterville lived in the City or within the surrounding area, as nearly 66% had a travel time of less than 20 minutes. However, approximately 16% of people employed in Waterville had a commute time of 30 minutes or more.

## Census On the Map

The Census Bureau also produces commuter reports through its Center for Economic Studies division. This information is based on reports for the year 2014, and provides a further breakdown of worker movement patterns.

According to the report for Waterville, there were 418 people that were employed within the city limits in 2014. Approximately 23% of these Waterville-based employees also lived within the City. The remaining 322 employees, 77%, lived outside the City limits. Some of the primary identified home locations for people working in Waterville were Elysian, Waterville Township, Janesville and Elysian Township.

A large majority of Waterville residents were commuters. Fewer than 11% of employed City residents actually worked in Waterville. More than 89% of residents left the City each day for their primary job. The primary identified employment locations for City residents, other than those working in Waterville, were Waseca, Mankato, Faribault and Owatonna.





## Summary of Findings and Recommendations

The findings/recommendations for Waterville have been formulated through the analysis of the information provided in the previous sections and have been divided into the following categories:

- **Home Ownership Recommendations**
- **Rental Housing Recommendations**
- **Housing Rehabilitation and Preservation**

<b>Findings and Recommendations</b>	
<b>Home Ownership Recommendations</b>	
1.	Potential demand for 3 to 5 moderate to higher priced houses annually
2.	Potential demand for 1 to 2 entry-level new construction houses annually
3.	Attached single family housing should regain some market share
4.	Promote affordable existing home ownership options
5.	Consider the creation of home ownership incentives using available resources
6.	Promote moderate-scale residential lot development
<b>Rental Housing Recommendations</b>	
7.	Develop 24 to 30 market rate town house-style rental units
8.	Preserve the inventory of subsidized rental housing
9.	Monitor options for moderate rent income-restricted housing development
10.	Monitor opportunities to add to the senior housing complex
<b>Housing Rehabilitation and Preservation</b>	
11.	Promote owner-occupied housing rehabilitation programs
12.	Promote rental housing rehabilitation programs
13.	Demolish and clear substandard structures
14.	Continue to promote downtown improvements

Prior to the specific recommendations, a summary of some of the key growth-related findings and projections has been presented.

## **Overview**

This Study has analyzed the growth potential that exists for the City of Waterville and a surrounding Market Area, and the resulting housing demand that could be created. To summarize much of the information that has been presented earlier in this document, the following observations are made:

### **Waterville Growth Potential**

This Study has used the assumption that Waterville has the potential to add up to six households per year in an average year over a five-year projection period. But it is important to recognize this as potential growth. The available estimates that exist for 2016 or 2017 indicate that the City has not been realizing this level of growth in many years. The most reliable recent estimates, obtained from the State Demographer, show that Waterville has been adding approximately one household per year so far this decade.

There is also some additional growth potential for the surrounding Market Area, which includes rural townships and some smaller communities. While Waterville is the largest city in the Market Area, new rental housing development demand will be shared with Elysian and Morristown. These cities will also compete for demand that exists for home ownership. The rural township areas around Waterville will also have some appeal to potential home owners, especially if lake shore opportunities exist.

With the exception of the year 2008, when a 24-unit/room specialized senior project was constructed in Waterville, it has been more than 10 years since six or more new housing units were built in a single year in Waterville. While it is possible that some vacant houses remain in the community which could also accommodate household growth, to reach the projected level of six households per year going forward will require an increased level of housing unit construction.

During the boom years of the early and mid-2000s, Waterville did achieve a substantially higher annual level of home building. The other communities in the region were also seeing increased housing construction activity at that time. However, after 2007, the boom largely ended, and most of these cities have not recovered the level of construction that had been occurring prior to the national housing market crash.



Home building activity in Waterville probably peaked in 2005, when as many as 13 single family attached and detached houses were built. While the volume of houses in 2005 was above any other single year, over the six-year period from 2000 through 2005, the City was averaging nearly 10 single family housing starts per year. However, it is very possible that some of the new units built within this time were not successfully sold. A cluster of twin homes that was built during this time took many years to sell, and in 2017, there is one unit that has still not been sold.

After 2005, the City never again exceeded six single family units in any year, although a restricted lot supply may have also resulted in suppressed home building. In two of the past six years, no new single family permits were issued. According to City officials, as many as three single family permits are expected in 2017, although one of these houses will only replace an older home that was removed.

For Waterville to even achieve the modest growth potential outlined in this Study it is possible that proactive efforts will be required. Although the City has a very limited residential lot inventory in 2017, there are many available lots within a 20-mile radius. Many of these date back before the housing market crash, and have changed ownership over time. In some communities, lots are being offered for sale at prices that are substantially below the original costs of development. Despite below-market pricing, housing construction activity has generally remained limited even in the cities with the capacity to attract new construction.

To reach a sustained level of new unit construction in Waterville in the future may require efforts that are not typically associated with the private market, such as potential development subsidies, recruitment of builders, and community promotional efforts that encourage new households to locate within the City. In 2017, at least two nearby cities, Waseca and Janesville, are offering financial incentive programs for new house construction.

It is important to note that the annual growth potential of up to six households would include both ownership and rental housing opportunities. Historically, between 25% and 30% of the households in Waterville have rented their unit, and this Study has recommended that rental production should also occur to meet growth-generated demand.



## Home Ownership Recommendations

**Overview:** Between 2000 and 2016, various reports point to as many as 84 single family units that were constructed in the City. In 2017, it is possible that three new homes will be built. While most of these were detached single family homes, some twin homes have also been constructed over time. It is important to note that not all of the new construction represents a net gain in housing units. In Waterville, some of the new homes are on lake or river lots where an older structure has been replaced by a newly built structure. Consequently, the housing stock has not increased at the same level as construction, and some of the new houses are used as seasonal/recreational properties.

The large majority of this home construction occurred during the boom years of the early 2000s. Approximately 69% of the 84 units had been constructed by 2005. After 2006, new construction slowed significantly, due to a combination of factors. In recent years, a limited lot supply has been a limiting factor.

Although the City did see better new home building activity during the 2000s, the level of construction was significantly greater than the growth in home ownership. From 2000 to 2009, as many as 72 single family units were built in Waterville, presumably for owner-occupancy. But between the 2000 and 2010 Censuses, Waterville had a net gain of only five owner-occupancy households.

The overproduction that occurred resulted in an increased level of housing vacancy in the City, as recorded by the 2010 Census. It also appears that some level of tenure conversion was taking place, as older homes were being changed to rental use. Tracking tenure conversion is difficult from the available records, but it is known that some increased level of single family rentals has been present in recent years.

The housing boom that occurred in the region prior to 2006 can be attributed to a number of factors. In hindsight, one of the factors was probably “over exuberance” among potential home owners. This was evident in the home foreclosure period that followed, as some buyers could simply not afford the house that they had purchased.

Another factor that probably influenced the region’s housing boom was the demographic pattern that existed at the time. In the year 2000, all members of the baby boom generation were in the age ranges from 35 to 55 years old. Baby boomer households at the younger end of this range probably accounted for much of the out-migration that was occurring into smaller communities. By the year 2020, all of the baby boomer generation will be age 55 or older, and most will be age 60 and above.

The demographic patterns that helped to fuel above-average single family home construction in the early 2000s are unlikely to be repeated. Behind the baby boomers came a smaller demographic segment. Once referred to as the “baby bust” generation, this group was much smaller than the baby boomers.

While the next generational group, referred to as “millennials” is larger once again, they have not demonstrated the same interest in owning a home. Many of the millennial generation have also oriented to urban living. The projections used for this Study point to a decreasing number of younger households in Waterville, age 54 and under, through the remainder of this decade.

However, as the large baby boomer generation advances through the aging cycle, they should begin to gravitate toward reduced maintenance housing options, such as twin homes or town house units. In their older years, an increased preference for rental housing should begin to appear.

Even though the single family construction boom years of the past are unlikely to return, the City does have the potential to grow and add households. Much of this can be attributed to the attractiveness of the community, situated along lakes and rivers. There are also many employment opportunities that exist both in the City and within an acceptable commuting distance.

The growth projections for Waterville expect annual average growth potential of up to six households in a typical year over the next five years. With the expectation that some of these households will be looking for rental opportunities, this results in potential home ownership demand from three to four households annually due to growth.

Some additional single family production can be justified for unit replacement and pent-up demand for under-served market segments. In the past, it is evident that actual unit construction has exceeded growth-generated demand, as some houses will be replaced over time. With an upward adjustment for factors other than growth, an additional one to two owner-occupancy units per year can be justified, yielding total demand potential of four to six owner-occupancy units per year, or 20 to 30 units over a five-year projection period.

The following specific findings and recommendations are made concerning home ownership issues:



**1. Potential demand for 3 to 5 moderate to higher priced houses annually**

**Findings:** The research for this Study has indicated that the potential annual demand for new owner-occupancy housing construction will be approximately four to six units in a typical year. Demographic patterns strongly support that most of this demand will be from moderate to higher-priced housing.

The aging patterns for the Waterville area continue to show growth in the number of older adult households, primarily in the 55 and older age ranges. At the same time, trend-based projections would point to a declining number of younger adult households, age 54 and younger.

People age 55 and older have historically shown a strong preference for home ownership. Prior to retiring, these households are often in their peak earning years. Retirees often have significant asset accumulation. As a result, households in the 55 to 74 year old age groups tend to represent market potential for housing that is age-appropriate and contains amenities typical of the trade-up segment of the market.

At the time of the 2010 Census, households in the age groups 55 and older represented less than 48% of all Waterville Market Area households. By 2017, these older adult age groups represented nearly 53% of all households. Trend-based projections to the year 2022 point to more than 56% of all households in these older adult age ranges.

Demand for moderate to higher priced housing will also be impacted by income levels. The comparison of median income levels for Waterville households presented earlier in this document showed that most owner-occupant households have an annual income at or above \$50,000. Households in the moderate to higher income ranges can apply a larger portion of their income to housing costs.

Existing home values also appear to be relatively strong. The median value for an existing home has ranged between \$118,000 and \$145,000 in recent years. Since most of the moderate to higher income households already own their housing, people that look to move into a newly constructed house should also have some equity available from the sale of their previous home.



While these are all viewed as positive market trends, it should be noted that they have been gradually evolving over the past few years, and they have not necessarily resulted in increased demand for trade-up and/or age-appropriate housing. Although some improvement has occurred, there has only been a handful of new houses constructed in Waterville in since 2010, and most of the other nearby communities have also had limited new home construction.

**Recommendation:** Moderate to higher-priced single family housing should represent most of the future demand. Based on the construction forecasts, this would yield potential for approximately three to five units in an average year. Since demand for moderate to higher-priced houses is market driven, there is no direct public role required within this market segment, although it is possible that local incentive programs could be offered, as will be discussed later in this section.

Newly constructed units in the moderate to higher price ranges should continue to appeal to mature households as they age. While attached housing units would be well-matched to life-cycle needs, it is likely that this segment of the market will remain somewhat suppressed until people regain full confidence in the strength of the home ownership market.

Since households age 55 and older will typically already own a house, the decision to purchase a different house will be based in part on economic conditions. The perceived strength of the local economy will have an impact on the confidence to invest in new housing in the community. They will also need to sell their existing home, typically of lower value. Continued improvement in existing home values will have a positive impact on the demand for trade-up housing.

## **2. Demand will exist for 1 to 2 entry-level new construction houses annually**

**Findings:** There were various reasons for the large-scale growth that occurred in the surrounding region in the early 2000s, but one of the primary drivers was outward movement from the larger regional centers, including Mankato, Faribault, Owatonna and the Twin Cities area. Smaller cities were sometimes viewed as a more affordable home ownership option. When compared to the larger cities, smaller communities located in the region were potential locations to find for a quality house at a lower price.

Although the growth forecast used for this Study does anticipate some improved demand for new single family housing construction in Waterville over the next five years, the City will generally see limited demand in the lower priced, entry-level segment of the new construction market.

Part of this is due to demographic considerations. But it is also due to the significant competition that still exists within the most affordable market segment. Many communities within the larger region had an oversupply of residential lots following the housing market retreat, and subdivisions went into default. Many emerged under bank or public ownership, and lots have subsequently been sold at below-market prices. In recent years, bulk lot sales have occurred in communities, where clusters of lots were sometimes sold for \$12,000 or less per lot.

Although Waterville has the potential to offer some lower-priced lot options that would suit affordable new home construction, this supply is limited. In many of the surrounding communities, a much larger inventory of discounted lots remains available.

In addition to the competition that exists within the surrounding region, it should also be noted that existing home prices still represent a relatively affordable option for first-time buyers in Waterville. In the past few years the median sales price in the City for existing houses has been less than \$140,000. With affordable options in the used home market, there is less incentive for entry-level buyers to look at new construction alternatives.

**Recommendation:** There will always be some demand that exists for lower-priced, entry level homes, and Waterville may have some lots that would be suitable for this segment of the market. There are probably five vacant lots in the Wolf Ridge Subdivision that have remained unsold for many years. Although actual pricing information could not be obtained, it is assumed that these would be available in a lower price range. Over the next five years, the potential exists for between one and two entry-level new construction homes per year.

There have been some recent examples of communities achieving an above-average share of entry-level home construction. This is often tied to a specific builder that can offer an attractive home plan at a very affordable price. In these instances, momentum has often been created, allowing the builder an economy of scale by building multiple structures at the same time.



### 3. Attached single family housing should regain some market share

**Findings:** Prior to the housing market downturn of the late 2000s, there had been some construction of attached single family housing units in Waterville. Specific building permit reports could not be obtained, but as many as eight twin homes (16 total units), were constructed in one development area in the mid-2000s, known as Riverplace Townhomes. Attached single family units probably represented between 20% and 25% of the single family housing starts in Waterville during that decade. However, no additional attached single family construction can be identified in the past 10 years.

The twin home units that were constructed in Riverplace in the mid-2000s met with limited success. According to local real estate experts, some of the units were very slow to sell. It is believed that one unit has never been sold, despite being available for sale for more than 10 years. While the original pricing details could not be obtained, recent unit sales have been in the range of \$250,000, while the original asking prices may have been at \$350,000 or more.

Riverplace still appears to have as many as three building sites (6 units) that remain vacant, but no new units have been built in more than 10 years. Only one of the remaining lots is along the Cannon River. Six of the eight structures that were built have river frontages.

Waterville also has some additional attached single family housing units, although the exact number is not known. Some of this housing represents lake shore properties, and appears to be oriented to seasonal/recreational use, although year-round residents could also occupy this housing.

Attached single family housing is often well-suited to an aging population, as no/low maintenance housing can appeal to the area's increasing number of empty-nester and senior citizen households. However, when national housing markets retreated in the late 2000s, alternative housing products, such as attached single family, often suffered the greatest hit. As people became concerned about owning or investing in new construction, they became even more concerned about less traditional products. Although recovery within this market segment generally remains slow in most communities, there is some evidence of twin home and town house construction gaining in popularity in other cities.



The age-based projections used for this Study continue to show strong overall net household growth through the year 2022 in the 20-year age range between 65 and 84 years old. By the year 2022, all members of the baby boom generation will be age 55 or older. These age cohorts have historically had very high rates of owner-occupancy. They also represent primary target markets for attached single family housing that offers no maintenance or low maintenance living.

**Recommendation:** The calculations used for this Update expect that overall demand for single family housing should improve to an annual average level of four to six units per year. Within the owner-occupancy segment, approximately 20% of this demand could potentially be met through attached single family housing, such as twin homes or town house units. Over a five-year period, this would equate to approximately five to eight total units. Since attached single family housing is built in clusters of two or more units, it is probable that this housing will be created in one or two development phases.

Although demand should grow over time, as aging households look for life-cycle housing options, the limited success of past efforts in Waterville may suppress developer interest. The last attempt at twin home construction found limited demand, and one unit still has never been sold, despite price discounting. Three twin home lots have remained undeveloped for more than 10 years.

Most small communities experiencing a rebound in attached housing construction have found the greatest success in the more moderate price ranges, with units up to \$250,000. The recent re-sales in the Riverplace development have also been in this basic price range.

Attached housing provides desirable alternatives for empty nesters and seniors to move out of their single family homes. These existing homes then become available for younger families. It is important for the community to offer a range of life-cycle housing options.

One issue that did emerge after the national housing market difficulties of the late 2000s relates to attached housing projects that offer resident associations. As unit sales slowed, projects that had associations were sometimes unable to get the monthly payments out of unsold or foreclosed units. As a result, people that had bought into the project were required to pay extra amounts to support the association. In response, some lenders may now require attached housing projects that offer association management to demonstrate a certain percentage of pre-sale activity as a condition of securing financing.

#### 4. Promote affordable existing home ownership options

**Findings:** This Study tracked the sales activity in Waterville back to the year 2012. During this time, the annual median home sale price in the City has not exceeded \$150,000 in any year.

The housing market downturn in the late 2000s, followed by the foreclosure crisis, appears to have impacted home sales in Waterville. In 2012, only 13 good sales were recorded in Waterville, and the median sales price for that year was only \$112,000. County records on foreclosures could not be obtained, but secondary sources indicated that home foreclosures and resulting bank sales were occurring in Waterville.

However, over time the distressed home inventory has cleared, and a more normal sales pattern is returning. In both 2015 and 2016 there were more than 30 “good” sales recorded in the City, as tracked by the County Assessor’s Office. For these years the median price ranged from approximately \$118,000 to \$135,000.

While the number of fair market transactions has increased, home values generally remain in a moderate range. A review of the home sales in 2016 and partial-year 2017 found that nearly 77% of the sales were in a range below \$150,000. Only seven recent sales were for \$200,000 or more, and some of these may have been lake shore properties. Moderately priced homes can represent a very attractive ownership option for potential home buyers in the larger region.

**Recommendation:** Among the community goals are to attract more families and to retain a high rate of home ownership. With most existing homes selling for significantly less than the costs for new construction, promotion of the affordable existing ownership options can help achieve these goals. Some communities have developed financial incentives for home buyers, which could also be offered to buyers of existing homes.

There is some evidence that over time some of the City’s existing single family homes have been converted to rental housing. While this expands rental options, it is probably in the City’s best long-term interest to attract home owners, and increase the rate of home ownership. Efforts to promote affordable home ownership can help to limit the conversion of houses to rental use.



**5. Consider the creation of home ownership incentives using available resources**

**Findings:** After the large drop in new home construction that occurred Statewide in the last years of the previous decade, many communities were left with large inventories of unsold lots, and significant investment in public infrastructure. In an effort to spur a higher level of new home construction, it has become more common to see special municipal incentives being offered, if the private market activity has not recovered.

There were two current municipal incentive programs identified in the area during the research for this Study. In the City of Janesville, both a property tax abatement and a cash rebate are available to builders/buyers of new houses. According to the promotional materials, the combined incentives could be as large as \$7,800. The program is being offered through the City's EDA. In 2017, Janesville has issued three single family building permits. However, no permits were issued in 2015 or 2016, despite the availability of these financial incentives.

The City of Waseca has also started a property tax abatement program for new houses that will be offered in 2017 and 2018. The amount of the abatement and the term can vary, from a 100% abatement of City and County property taxes for three years, to a 50% abatement for 10 years. When contacted in August 2017, only one single family permit had been issued.

Other types of approaches have also been used in the larger region. In recent years the City of Belle Plaine in Scott County has waived building permit and plan review fees for the first 10 houses that were constructed each year. However, by 2016 this incentive program was discontinued. Belle Plaine has also offered an incentive that provided a \$2,000 down payment grant for new houses that utilized a local construction contractor. That incentive was limited to five houses per year.

These examples have been compiled from research completed for other projects, and are not intended to represent all of the different approaches being used in the surrounding area. However, they do provide an indication of some of the proactive efforts that have been utilized as communities attempt to restart a higher volume of new home construction.



Some Minnesota communities have also worked with local employers to create employer-assisted housing programs. The Greater Minnesota Housing Fund (GMHF) may still be able to match employer contributions to expand the available resources. Employer financial contributions matched with GMHF funds could be a financial resource in the future.

**Recommendation:** New home construction has been slow to recover in Waterville, and has not reached six or more houses per year since 2006. To reach the projected level of up to six new houses annually over the next five years may require the community to become actively involved in providing financial assistance and/or development subsidies.

Some of the communities that have taken proactive steps, such as Belle Plaine, did experience an increase in the level of new home construction. However, due to the substantial costs involved, the financial incentives were only offered for a limited duration, and were capped at a maximum participation level per year. As annual construction activity improved, the most lucrative incentives were then discontinued.

However, in other communities it appears that the incentives have had limited impact. In Janesville no new houses were built in 2015 or 2016, despite the offer of cash rebates. In 2017, at least three new houses will be built in Janesville.

It should be noted that in the examples identified above, city involvement appears to have been caused in part by troubled subdivisions, that were at risk of tax forfeiture. With a small vacant lot supply, there is less risk in Waterville, and all of the vacant lots in the City are privately-owned.

One final consideration that may impact the discussion of construction incentives is based on the legal power to waive fees. As part of the research on this issue, the League of Minnesota Cities was consulted concerning other examples of municipal efforts. Staff cautioned that the City Attorney may need to be consulted before any incentives are offered to be sure that they meet a "public purpose" test.

**6. Promote the development of a moderately-sized residential subdivision**

**Findings:** Unlike most of the other communities in the region, Waterville does not have an overly large vacant lot inventory. Prior to the housing market retreat of the late 2000s, the private development community had been very active in creating subdivisions and residential lots. However, in Waterville, new subdivisions were still in the planning phase when market conditions changed. Instead of improved vacant lots, a proposed subdivision site in Waterville remained in agricultural use.

Various development plans remain for vacant land tracts. The largest potential plat, known as Twin Lakes, is in the southwestern portion of the City. The original plan for Twin Lakes shows that the site could eventually be developed into more than 90 single family lots. This would offer a variety of lot options, from slab-on-grade homes, to walk-out construction.

One other preliminary plat exists that could create between 14 and 20 lots for single family houses. Most of these lots would be located across the street from Lake Tetonka.

While the existing lot supply in Waterville is not overly large, options do remain, some dating back to the early or mid-2000s. At least five vacant lots exist in Wolf Ridge subdivision, and sites for up to six twin home units remain in Riverview. A few other vacant remnant lots are believed to exist, although some home building planned for 2017 may use this remnant lot supply.

Over the past 10 years, Waterville has been averaging fewer than two new single housing starts per year, excluding possible replacement of lake shore structures. While limited home building can be linked to the small lot supply, there are available lots that have not been sold for many years.

In the surrounding communities, a large lot supply exists. Most of the vacant lots were developed in the early or mid-2000s. All of the cities surrounding Waterville have a multi-year supply of single family lots, including Morristown, Elysian, Waseca, Janesville, Montgomery and Faribault. As detailed earlier in this document, many of these lots are being sold at-below market pricing. At least two of the cities, Waseca and Janesville, are offering municipal financial incentives to help generate new home construction.



**Recommendation:** In the opinion of Community Partners Research, Waterville would benefit from the creation of a new residential subdivision, with good quality single family lot options. However, the scale of any new development area should be limited, to reflect expected near-term absorption.

Based on the projected demand used in this Study, Waterville could average between 4 and 6 new single family houses per year going forward. But not all of this potential activity would be expected in a single subdivision. If a new subdivision could capture three to five sales per year, this would yield only 15 to 25 expected sales over a five-year period. Gradual phases of lot development would therefore be recommended.

No information existed from any of the possible development sites in Waterville, but to be competitive, a moderate price structure would be needed. In most of the surrounding communities, multiple lots are listed for sale at \$30,000 or less, and in a community like Montgomery, there are many lots priced below \$15,000.

Within the immediate Market Area boundaries there are single family lots in newer subdivisions in both Elysian and Morristown. In Morristown, good quality lots are for sale for between \$15,000 and \$25,000, in most cases with assessments already paid. Despite this very affordable pricing, few lots have been sold in recent years.

In Elysian, multiple lots in newer subdivisions are probably available for less than \$30,000. Although specific details could not be obtained, it is likely that some or all of the special assessments have been paid, based on the fact that the lots were improved 10 or more years ago.

Although this Study does anticipate some demand going forward for attached single family units, once again the volume of anticipated construction is not large. In 2017, there are probably six sites for twin home units, which should address near-term demand. No additional attached lot development would be recommended until some of the existing attached single family inventory is absorbed.



## Rental Housing Recommendations

**Overview:** At the time of the 2010 Census, Waterville's rental tenure rate was slightly below the Statewide average of 27% renter-occupancy housing. Most cities are typically at or above the statewide average for rental housing.

One of the reasons that the rental tenure rate is somewhat low is that very little rental housing development has occurred in recent decades. In the late 2000s, Traditions of Waterville did construct a multifamily project, but this provides specialized care for seniors, including assisted living and memory care rooms.

The last identified construction of independent rental housing dates to the 1990s, when the City EDA constructed a publicly-owned apartment project known as Hilltop Terrace. According to City officials, this project was never financially successful, and management was later transferred to Traditions of Waterville. The building was then sold to Traditions, and it is also used as an assisted living facility.

It is probable that over time the City has gained some rental housing units, but this has been through conversion, as housing that had once been used by owner-occupants shifted instead to rental use. Tracking conversion activity between the decennial censuses can be difficult, but in 2017, Waterville started a rental housing registration requirement which should allow the City to monitor tenure conversion patterns going forward.

Looking at the growth potential for the City to the year 2022 yields a reasonable projection that some additional rental units will be needed to keep pace with expected growth. However, most of the demand for rental housing will come from pent-up demand and unit replacement. As a result, Community Partners Research has recommended the development of a substantially greater number of units than would be needed to just accommodate expected growth.

An earlier section of this document had calculated potential demand for up to 77 additional market rate units in the designated Market Area, to serve the moderate to higher income ranges. Much of this would be oriented to people that currently own their home but would represent a market for new, high quality rental options.

At least 63 additional affordable units could also be justified to serve low and moderate income households that cannot typically afford market rate options. The affordable demand is primarily driven by an under-supply of units, along with some anticipated household growth over the next five years.

The following findings and recommendations are made concerning specific rental housing issues in Waterville.

**7. Promote the development of 24 to 30 market rate town house-style rental units**

**Findings:** Waterville, like most non-metro communities in Minnesota, is seeing an increase in its older adult population. Much of this is attributed to the movement of the large baby boom generation through the aging cycle.

At the time of the 2010 Census, households in the age groups 55 and older represented less than 48% of all Waterville Market Area households. By 2017, these older adult age groups represented nearly 53% of all households. Trend-based projections to the year 2022 point to more than 56% of all households in these older adult age ranges. Most of these households will be within the 20-year age group between 65 and 84 years old. Increasingly, these mature households will look for age-appropriate housing.

A number of similar-sized communities around the State have seen the successful development of rental housing in town house-style or cottage-style units. These are typically barrier-free, with one level living, an attached garage, and offering features that are typical in single family housing. While very few of these projects are actually senior-designated for households age 55 and older, they often find that a large percentage of tenants are seniors and near-seniors who are looking for a life-cycle housing option that is a transition from an owner-occupancy single family house. A project of this type could also appeal to working-age residents.

As part of the development process, other communities have been willing to utilize tax increment financing. As a result, a certain percentage of the units would typically need to meet a definition of "affordable" as defined by TIF statutes. Therefore some of the units may need to be below a defined gross rent threshold, and occupied by tenants below a set income limit.

Although the similar projects developed in other Minnesota communities primarily offer market rate housing, they generally target a more moderate rent range. Since a large percentage of tenants tend to be seniors, some of whom live on modest fixed incomes, meeting a moderate income limit is often achieved within the traditional tenant base.



In some of the more successful examples in Greater Minnesota, units have a gross two-bedroom rent below \$900, and three-bedrooms at approximately \$1,050 per month or less. In the City of Jackson, the Eagle Ridge Townhomes project offers two-bedroom units with 900 square feet of living space, one bathroom and a one-car attached garage with a gross monthly rent below \$900. Eagle Ridge opened for occupancy in 2016.

The demand calculations presented earlier were based on an assumption that market rate renter households would need an annual income of at least \$30,000. After examining various demand generators, these calculations indicated potential demand from up to 77 households for a good quality market rate rental unit. However, this potential demand is from the entire Market Area, which also includes Elysian and Morristown. As a result, the development recommendation would be shared between these communities, and only a portion has been recommended in Waterville. It is also important to note that this style of rental housing would not appeal to all of the household demand, and not all of the new units should be in a single construction style.

Most of this potential demand comes from our belief that the Waterville Market Area is under-served by independent rental housing options that would appeal to seniors. As a result, the rates of home ownership remain well above-average in the older adult age ranges.

**Recommendation:** Within this style of rental housing, between 24 and 30 units would be recommended within the City of Waterville, assuming an attractive rent structure can be achieved. This would address approximately 30% to 40% of the calculated Market Area demand that is expected over the next five years. If this product is well-received, and pent-up demand is evident, an additional construction phase could be advanced later in the five-year projection period. However, it is also possible that other types of rental housing will be created, and the need for a second development phase should be reexamined in the future.

It is important to note that much of the anticipated demand for this type of housing would come from seniors that currently own their home. As a result, demand would gradually build over time as more people elect to move from home ownership into age-appropriate rental housing. A town house-style rental project can help former home owners transition into rental housing.

The recent success of town house-style rental projects in other Greater Minnesota communities such as Jackson could serve as a model that could be replicated in Waterville. If these units are examined on a price per square foot basis, with the amenities and features offered, they would be viewed as a very



reasonably-priced option. However, based on the total monthly cost, these units would typically appeal to households with an annual income above \$30,000, and in most cases, an annual income above \$35,000 would be needed to avoid a housing cost burden.

Waterville has not had any market rate independent living rental units constructed approximately 20 years. The last known traditional project, Hilltop Terrace, was later converted to senior assisted living. As a result, prevailing rental rates are very moderate, and there are no real comparable properties that can be examined. The highest achieved gross rents for two-bedroom apartments are estimated to be less \$0.90 per square foot. In any newly-built housing it is probable that gross rents will exceed \$1.00/square foot.

#### Recommended Market Rate Housing Units:

<u>Unit Type</u>	<u>No. of Units</u>	<u>Size/Sq. Ft.</u>	<u>Rent</u>
Two Bedroom	16-20	850 - 950	\$850 - \$950
Three Bedroom	<u>8-10</u>	1,000 - 1,100	\$950 - \$1,100
Total	24-30		

**Note:** The recommended rents are gross rents including all utilities. The rents are quoted in 2017 dollars.

While empty-nesters and seniors would form a primary target market, a town house rental unit could also appeal to younger households, including families with children.

## 8. Preserve the existing inventory of subsidized rental housing

**Findings:** The term subsidized housing, as used in this Study, refers to rental units that have been constructed to serve low and moderate income people. In nearly all cases, subsidized housing has utilized federal resources that provide a "deep subsidy", allowing very low income people access to the housing at an affordable price. Much of this housing has project-based rent assistance, or a similar subsidy available, that allows tenants' to pay rent based on 30% of the household's monthly income.

There are two federally subsidized apartment projects in Waterville. Combined, these projects have 23 units. One of the projects, Parkside North Apartments, has seven units and is designated for senior/disabled tenant occupancy. The other project, West Court Apartments, has 22 general occupancy units.

Parkside North is subsidized through USDA Rural Development, while West Court is subsidized through HUD.

The supply of subsidized housing had once been much larger in Waterville, but Parkside Apartments, which originally had 25 units, converted from USDA Rural Development subsidized housing to conventional market rate housing. The actual year of conversion cannot be identified, but it was probably more than 10 years ago. Parkside Apartments now represents the largest single market rate project in Waterville that provides general occupancy housing.

In addition to the subsidized projects in the City, Waterville also has 11 households that received tenant-based rent assistance through the Voucher Program. Since this rent assistance is tenant-based, and moves with the household, the actual number of participating households within the City can vary from month to month.

When project-based and tenant-based assistance programs are combined, there are potentially 34 renter households with access to some form of very affordable housing. This probably represents 15% to 17% of all renter households living in the City.

At the time of the survey, there were no vacant units in Parkside North, and very limited turnover was reported, with only seven total units in the project. There were two open units in West Court. While a waiting list is maintained, it can become out of date as some lower income households will secure other affordable housing while waiting.

Despite the subsidized housing options that do exist, the American Community Survey reported that approximately 45% of all renters in the City were paying 30% or more of their income for rent. Most of these households were actually paying 35% or more of their income for housing, based on the available estimates.

The rental cost burden statistics showed all age groups were impacted. In numeric terms, most of the cost-burdened households were age 64 or younger. However, in percentage terms, the senior citizen renter households were more likely to be applying 30% or more of their income to housing costs.

Although a housing cost burden could be caused by either high housing costs or low household income, in Waterville it was primarily due to low income levels for renters. All of the renter households with a housing cost burden had an annual household income below \$35,000.



**Recommendation:** In 2017, Waterville has a relatively small distribution of very affordable subsidized housing. The supply of units had once been more than double the current inventory, but over time the City's largest single project, Parkside Apartments, was converted to market rate housing.

Unmet demand exists for very affordable/subsidized housing opportunities in Waterville. A high percentage of renter households have a lower income level, and many are experiencing a housing cost burden. It would be appropriate to look for opportunities to expand the supply of income-based housing. However, resources for subsidized rental construction have not existed in many years. A more realistic option would be to look to expand the use of the tenant-based rent assistance program. With a Voucher, a lower-income household can rent any suitable private unit in the community that meets the program standards.

Another community strategy concerning income-based housing is to prevent the future loss of any units, through contract termination or opt-out. In 2017, Parkside North would be viewed as "at risk" of leaving its subsidy program. In 2011, the property owners had filed paperwork indicating intent to prepay the mortgage and leave the USDA Rural Development subsidy program. However, by 2017 this has not happened, and Parkside North is still offering subsidized housing.

In some communities, housing agencies or nonprofit groups have become involved in acquiring and preserving subsidized housing that is at risk of leaving its subsidy program.

## **9. Monitor options for moderate rent income-restricted housing development**

**Findings:** There are two income-restricted housing projects that exist in Waterville, but both of these offer federally subsidized housing that can serve very low income people. The City does not have any income-restricted moderate rent housing, typically created through the low income housing tax credit program.

Since the tax credit program was created in the late 1980s, only two awards have been made in Le Sueur County, with one project in Le Center and the other in Le Sueur. Both of these projects were funded in 1990 and also involved USDA Rural Development funding. As a result, both are better defined as subsidized housing.



Tax credits alone do not produce "deep subsidy" rental units that can serve very low income people, but tax credits do provide a "shallow subsidy" that allows for the construction of units that can serve households at or below 60% of the median income level established for the County. When other resources are combined with tax credits, even lower income households may be served.

The use of federal tax credits does impose income and occupancy restrictions on tenants. For new construction projects, priority is generally given to units with two or more bedrooms.

Moderate rent tax credit housing is sometimes referred to as "work force" housing, as it generally serves households that have more moderate incomes. While a maximum cap applies, a minimum income is also required, as the rent structure requires tenants to have at least some ability to pay. For example, a unit with an estimated gross rent of approximately \$750 would generally require a tenant to have an income of \$25,000 or more, and even at this income level, a large share of monthly income would need to be applied to housing costs. As a result, only a narrow band of low and moderate income tenants typically qualifies for moderate rent tax credit housing.

There have been some past attempts by other cities in Le Sueur County to secure affordable housing resources, but with the exception of the two projects identified above, no tax credit awards have been made. This is largely attributed to the highly competitive nature of the tax credit program. A small city like Waterville would have a very difficult time successfully competing for these scarce resources.

**Recommendation:** In the opinion of the analysts, Waterville would benefit from the construction of tax credit units. The high quality of the housing created, along with the below-market rent structure, would prove to be successful in the local market. However, securing tax credit resources can be very difficult, given the strong competition that exists statewide.

There are self-scoring factors that can be examined to help determine the potential for a successful application. Based on a preliminary review by Community Partners Research, Waterville would not receive points as a job growth community, a long-commute city, an Economic Integration Zone, or as a HUD Qualified Census Tract. Some Greater Minnesota communities would qualify for additional points under one or more of these ratings, and would therefore have a competitive advantage in securing a tax credit award.

There are a limited number of renter households in the Waterville Market Area that would be within the primary income ranges typically served by tax credit housing. Due to the limited growth projections for the area, this would yield little growth-generated demand. There would be additional demand created from potential tenant movership, but a relatively limited demand could be substantiated through traditional calculations.

We would encourage the City to monitor options and resources for moderate rent income-restricted housing development. At this time, it is unlikely that the City could compete, but this could change in the future.

#### **10. Monitor opportunities to add to the senior housing complex**

**Findings:** Waterville has a housing provider that offers different levels of care for seniors as they move through the aging cycle. In 2008, Traditions of Waterville was constructed, with 24 units/rooms offering assisted living and memory care housing.

Traditions took over the management of the EDA-owned Hilltop Terrace Apartments and later acquired this building. Also known as Traditions of Waterville, the apartment units in the former Hilltop Terrace are now used for assisted living care.

An earlier section of this document has provided details on the demographic profile of senior citizens living within the Waterville Market Area, along with a comparison of available units to the number of seniors in 2017. In general, there is a high rate of utilization in both the assisted living and memory care wings of Traditions of Waterville.

At the time that the rental survey was conducted, waiting lists existed for both types of specialized housing, although the length of these lists was not disclosed. Despite the occupancy patterns, staff at Traditions indicated that there were no plans to expand the facility, due in large part to no available land that is contiguous to the current facilities.

**Recommendation:** Waterville has housing options available in the assisted living and memory care segments. Based on the current supply of units within these market segments, Waterville is generally well-served in 2017. However, some level of unmet demand does exist, in the form of waiting lists. There will also be some near-term growth in the primary target market of older senior citizens. We would recommend that demand for assisted living and memory care be monitored, and adjusted as needed as demand changes in the future.

Going forward, the estimates and projections used for this Study do not expect any significant growth in the primary senior target market over the next five years. The age-based projections from Esri expect an increase of approximately 16% to 17% in the number of older senior households between 2017 and 2022. However, in numeric terms, this represents net growth of fewer than 70 additional households age 75 and older. At traditional capture rates, this growth-generated demand would be less than six additional units for assisted living. Although some pent-up demand also appears to exist, the expansion of assisted living or memory care would not be sufficient to justify a new stand-alone project. Instead, a modest expansion of the existing facility would be the most practical way to expand the unit supply.

Many new facilities in other communities are private-pay, and do not accept public programs. However, in Waterville, Elderly Waiver and CADI assistance are accepted in Traditions and the number of recipients is not capped, allowing lower income seniors access to housing with services. Willingness to accept this County assistance has contributed to the high rate of occupancy in Traditions.



## Housing Rehabilitation and Preservation

**Overview:** Waterville has a significant asset in its existing housing stock. Older units, both now and into the future, will represent the majority of the most affordable housing opportunities. Existing units generally sell at a discount to their replacement value. Units that are not maintained and improved may slip into disrepair and be lost from the housing stock.

Efforts and investment in housing rehabilitation activities will be critical to offering affordable housing opportunities and in preventing the deterioration of neighborhoods. As this existing stock ages, more maintenance and repair are required. Without rehabilitation assistance, the affordable stock will shrink, creating an even more difficult affordability situation.

The following specific recommendations are made to address the housing rehabilitation needs.

### 11. Promote owner-occupied housing rehabilitation programs

**Findings:** The older housing stock represents the most affordable home ownership option in the community. Investment in owner-occupied housing rehabilitation activities will be important to ongoing efforts to provide affordable housing opportunities.

According to the American Community Survey, the median year of construction for owner-occupied houses in Waterville is 1957, so the community does have a stock of older than average single family houses. Countywide, the median year of construction is 1972.

**Recommendation:** The primary funding source for concentrated neighborhood rehabilitation programs is the Small Cities Development Program (SCDP), administered by the MN Department of Employment and Economic Development (DEED). Waterville has secured funding in the past, but the last grant obtained by the City was more than 10 years ago. The City has been able to recapture some program income to fund "spot" rehabilitation activity. Some City residents may also have been able to access assistance through countywide grant programs.

For several years, the SCDP program had moved away from larger grant awards that were focused on larger-scale impact. Instead, smaller annual awards were made to support sustained rehabilitation approaches.

The program has since changed back, and larger awards are again being made, allowing for targeted neighborhood projects. Additional resources for owner-occupied housing rehabilitation are available from the Minnesota Housing Finance Agency.

## **12. Promote rental housing rehabilitation programs**

**Findings:** Waterville has only a limited number of multifamily rental structures. Much of the rental housing exists in small properties, with one to four units, including rental houses and units above storefronts in the downtown area. Most of the City's rental housing is older, and the estimated median year of construction was 1956 for all units, according to the American Community Survey.

Over time, it appears that there has been some ongoing conversion of single family houses to rental use. This type of tenure change typically happens in older homes that can be purchased by investors at a lower price.

The rehabilitation of older rental units can help to produce or maintain a supply of affordable housing. However, it is often difficult for rental property owners to rehabilitate and maintain their rental properties while keeping the rents affordable for the tenants.

**Recommendation:** The rehabilitation of older units can be a cost-effective way to maintain a supply of decent, safe and sanitary housing that is affordable for low and moderate income households. In addition to the SCDP-funded activities, other resources are available for rental rehab include programs through the Minnesota Housing Finance Agency (MHFA).

In 2017, Waterville started a rental housing registration requirement. This will help the City to monitor rental trends and the properties being used in the housing inventory. This will also allow for the promotion of rental rehabilitation assistance programs that may be available.



### **13. Demolish and clear substandard structures**

**Findings:** This Housing Study did not include a visual housing condition survey, so no primary information was collected on substandard units. However, in most cities there are some single family houses, mobile homes or other residential structures that are deteriorated, and possible candidates for demolition and clearance.

**Recommendation:** Ongoing efforts to clear severely substandard structures are encouraged. This will help to enhance the appearance and appeal of the community as a residential location. Cleared lots could then be offered as sites for new home construction.

### **14. Continue to promote downtown improvements**

**Findings:** Waterville has an older downtown area that includes some vacant and underutilized store fronts. In some cases, these buildings contain housing on the upper floors, and some buildings have also converted the street level to housing use. The downtown area also has a number of active businesses, including a grocery store, hardware stores, restaurants and other retail options that attract customers to the downtown area. These active businesses also create employment opportunities for people living in the downtown area.

**Recommendation:** As Waterville works to attract new households and families to move into the community, the overall attractiveness of the City will be an important factor. The City can offer desirable residential options, but services and amenities that are available locally will also be a determining factor as people make residential decisions.

Solving issues within older downtown areas is not easy for most small communities, but ongoing efforts should be promoted. There is evidence that some downtown buildings contain spaces that could potentially be used for housing. Depending on the cost for renovation or conversion, this may represent an affordable way to add to the housing stock, by utilizing existing buildings instead of new construction.

The Small Cities Development Program (SCDP) identified earlier could also be a potential funding source for downtown rehabilitation activities. Store fronts and accessory housing improvements are both eligible activities.



