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FRANKLIN COUNTY DEVELOPMENT ASSOCIATION




Franklin County Comprehensive Housing Study Findings

Presented to: Franklin County Stakeholders

Presented by: Matt Mullins | Maxfield Research & Consulting, LLC

June 7, 2017

Maxfield Research & Consulting, LLC

Overview

- ➢ 30+ years experience
- ➢ Diverse client base
- ➢ Multi-Sector Capable
  - residential
  - commercial
  - public + private entities
- ➢ Market driven strategies
- ➢ Recommending highest & best uses
- ➢ Provide actionable plans

Maxfield Research & Consulting, LLC is a full-service real estate advisory company providing strategic value to our private and public sector clients' real estate activities.








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Project Scope

OBJECTIVE	Provide custom comprehensive housing study
APPROACH	Identify current & future housing needs for residents in Franklin County and provide framework for meeting housing needs
PROJECT DELIVERABLES	• Short and long-term housing needs • Recommendations guiding future housing development • Tools/policies to implement the plan
KEY DATES	• Data collection: 4^{th} Quarter 2016 to 1^{st} Quarter 2017 • Draft: April 2017 • Formal Presentation: June 7, 2017

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Purpose | Housing Study Objective

The Franklin County housing study:

- Identifies existing and future housing needs for Franklin County residents that will prove a framework for future housing development.

- Develops basis for community leaders, stakeholders, and decision-makers to guide future efforts of the community when addressing housing needs.

- Solicits interest & streamlines the housing development process

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Comprehensive Housing Study Components

- Demographics
- Employment
- Household Characteristics
- Rental Market Analysis
- Senior Housing Market Analysis
- Housing Affordability
- For-Sale Market Analysis
- Development Pipeline
- Housing Programs
- Housing Demand Analysis
- Challenges & Opportunities
- Recommendations

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Deep-dive into Property Types

GO Rental Housing

- Affordable
- Subsidized
- Market rate

Senior Housing

- Subsidized/affordable
- Active adult
- Congregate
- Assisted living
- Memory care
- Skilled Nursing

For-Sale

- Single-family
- Multifamily

Residential Lot Supply

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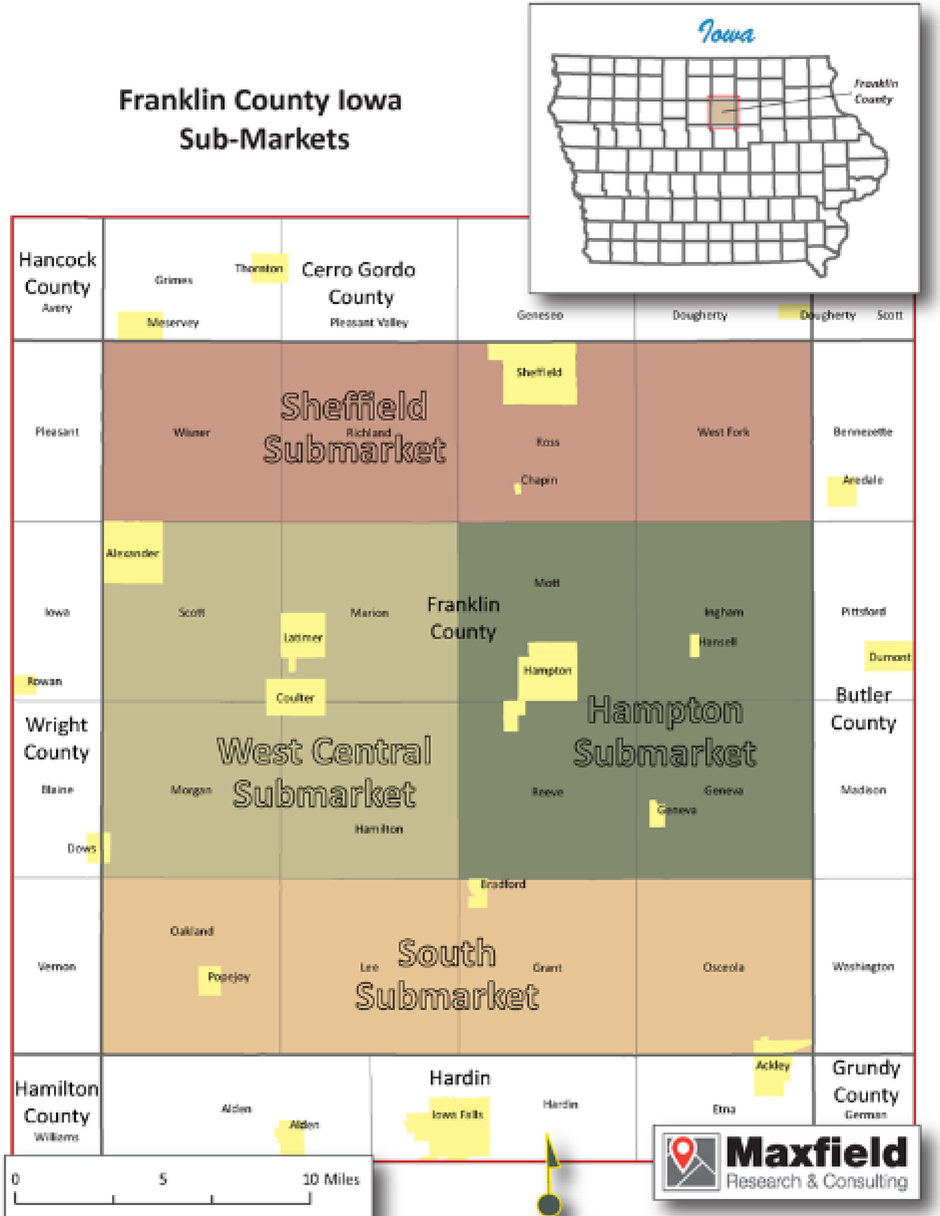
Franklin County Submarkets



- Defined as 4 submarkets:
  - Sheffield
  - Hampton
  - West Central
  - South

Submarket	Cities	Townships
Hampton	3	4
Sheffield	1	4
West Central	4	4
South	2	4
Subtotal	**10**	**16**

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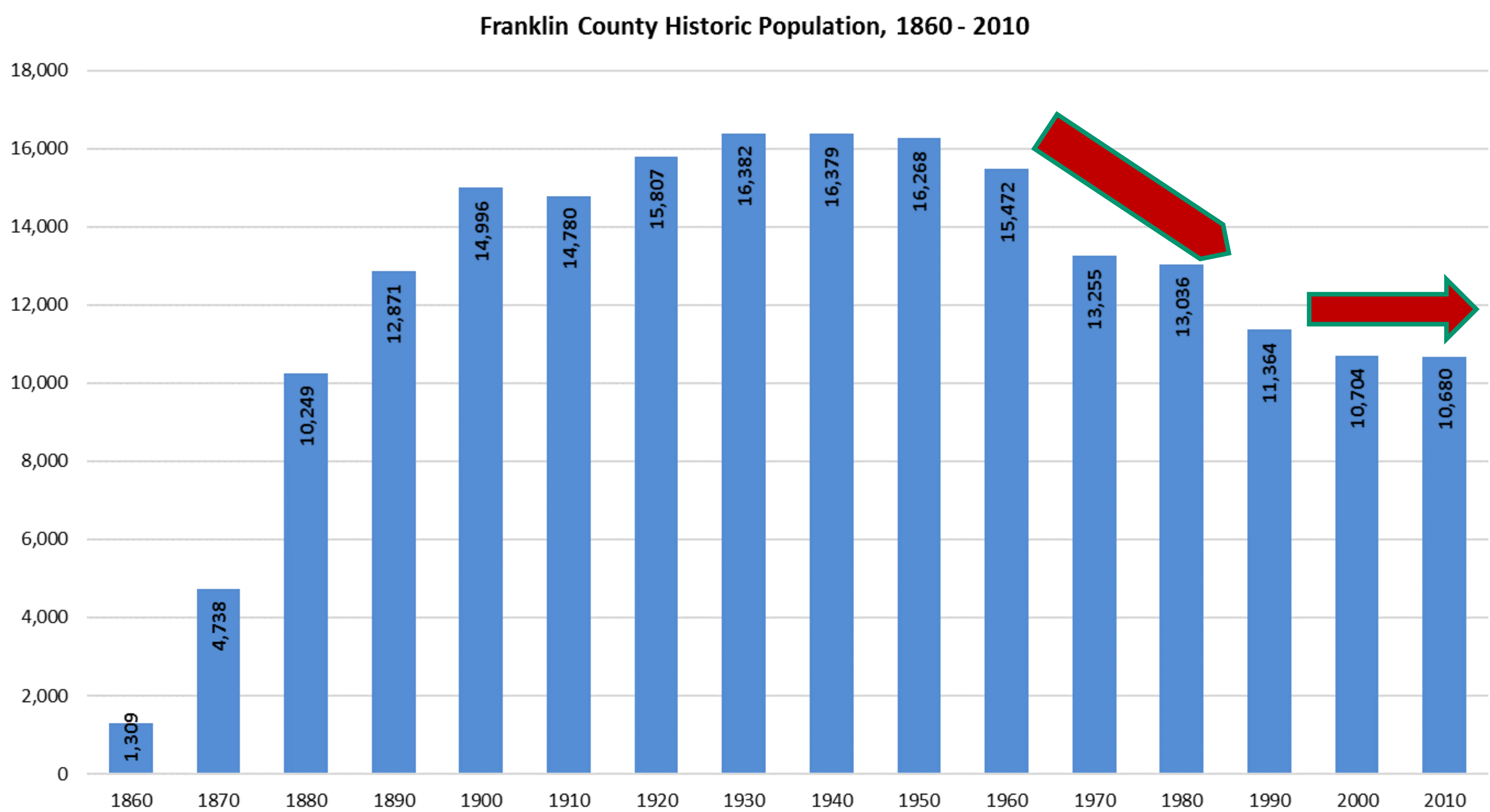
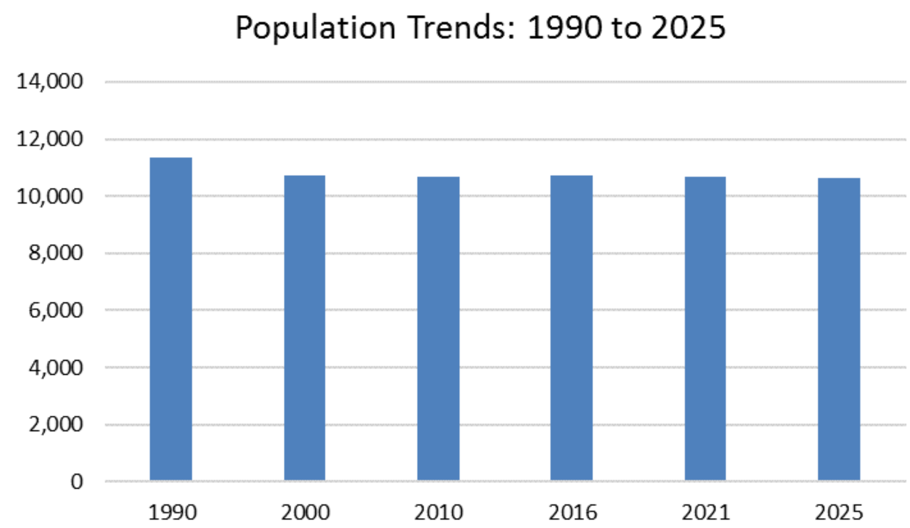
Historic Population Declines…



Flat growth projections through 2025

Historic Findings

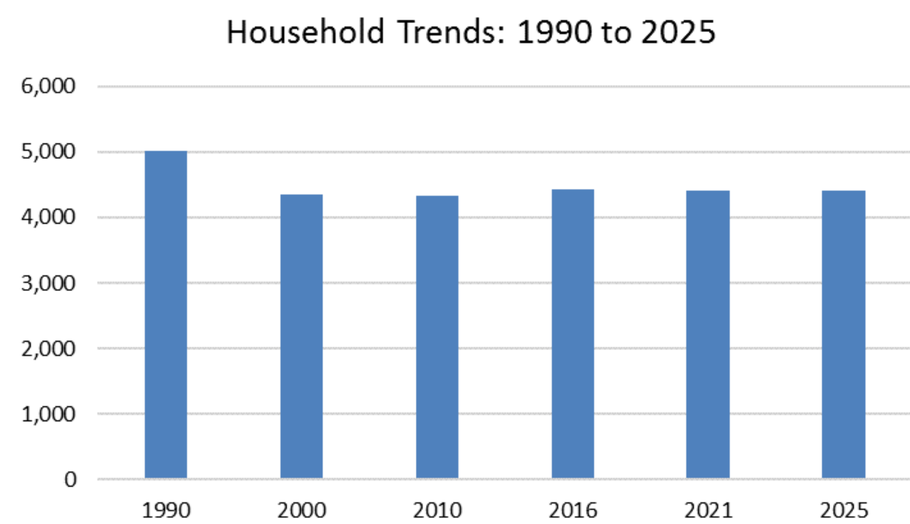
- Franklin County last decade
  - Population -24 (-0.2%)
  - Population losses in two submarkets:
    - West Central (-9.4%) | South (-12.3%
  - Population gains in two submarkets:
    - Hampton +2.0% | Sheffield +10.7%
  - Households -24 (-0.6%)



Projections (2016-2025)

- Population and households projected to be roughly flat though 2025

<u>Franklin County</u>
- Population -24 (-0.2%)
- Households +83 (+1.9%)



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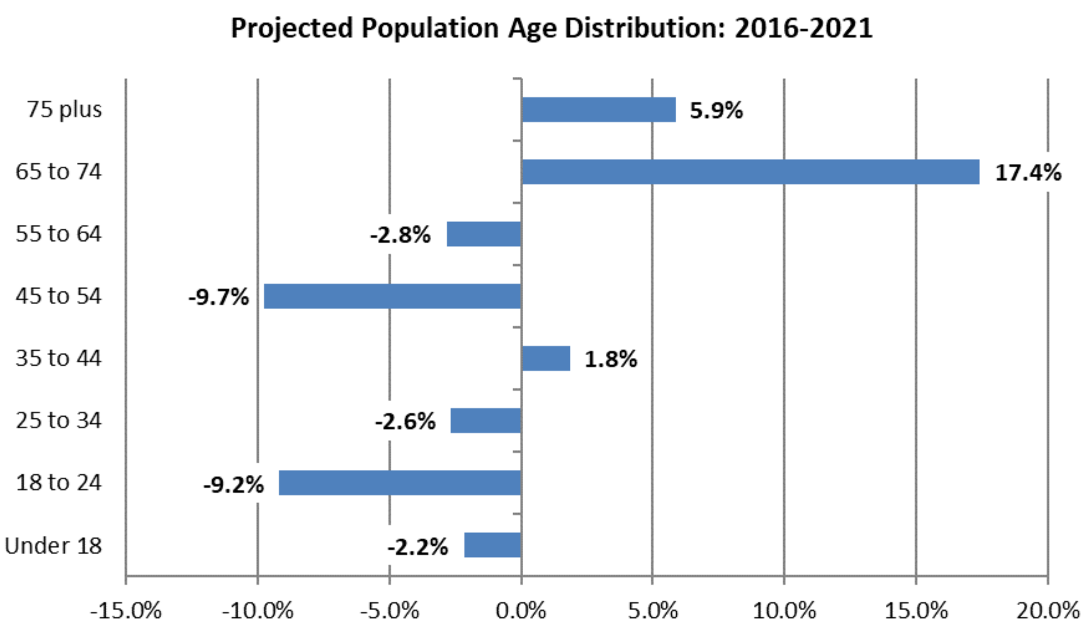
65+ age cohorts driving growth

- Population is aging:
  - 65+ age cohort accounts for most adult population growth
  - Baby boomers (ages 53 to 71) account for 25% of County population
  - 65-74: largest numerical growth (+17%)



- Household types:
  - Increase in all HH types except Married w/Children
  - Married w/o child: largest HH type (37%)
  - 28% of households live alone in Franklin County (2010)
- Household size is decreasing:
  2000: 2.46 | 2010: 2.47 | 2025: 2.41
- 76% Home ownership rate (2010)
  - Hampton: 72.3%
  - Sheffield: 83.1%
  - West Central: 79.4%
  - South: 80.0%
  - Iowa: 72.1%

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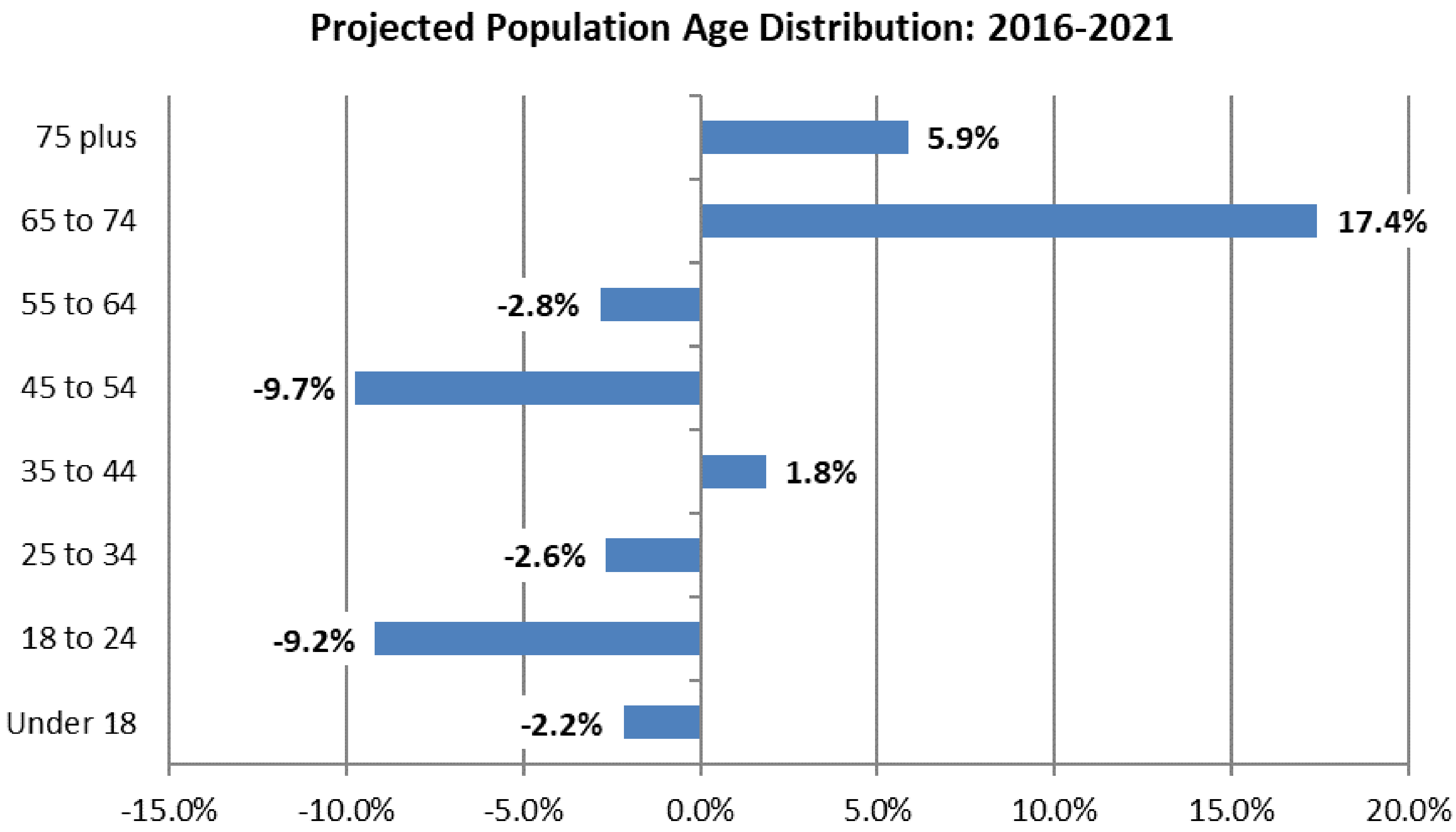
Highest growth rates among 65+ population…



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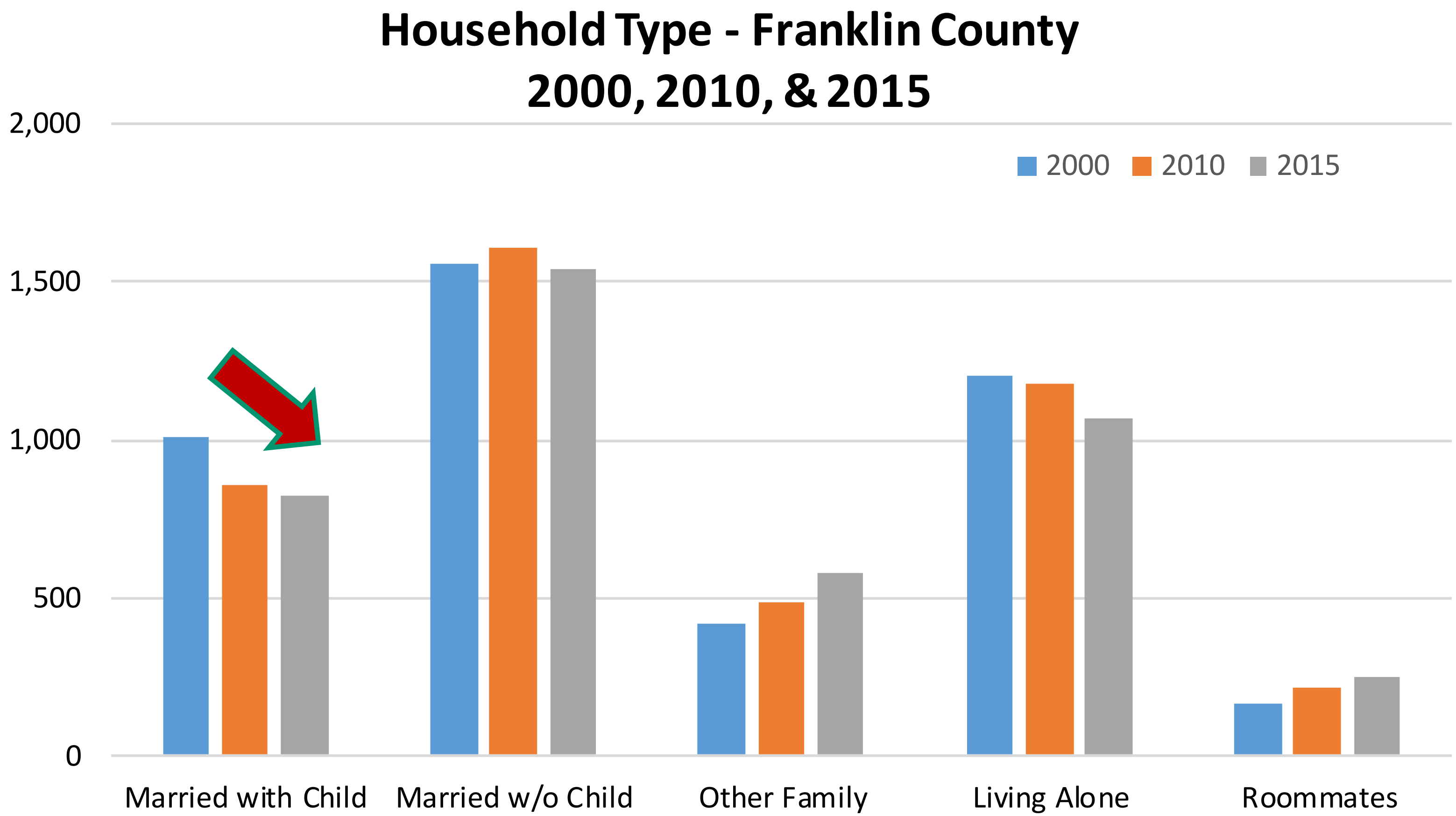
Household Types are Changing…



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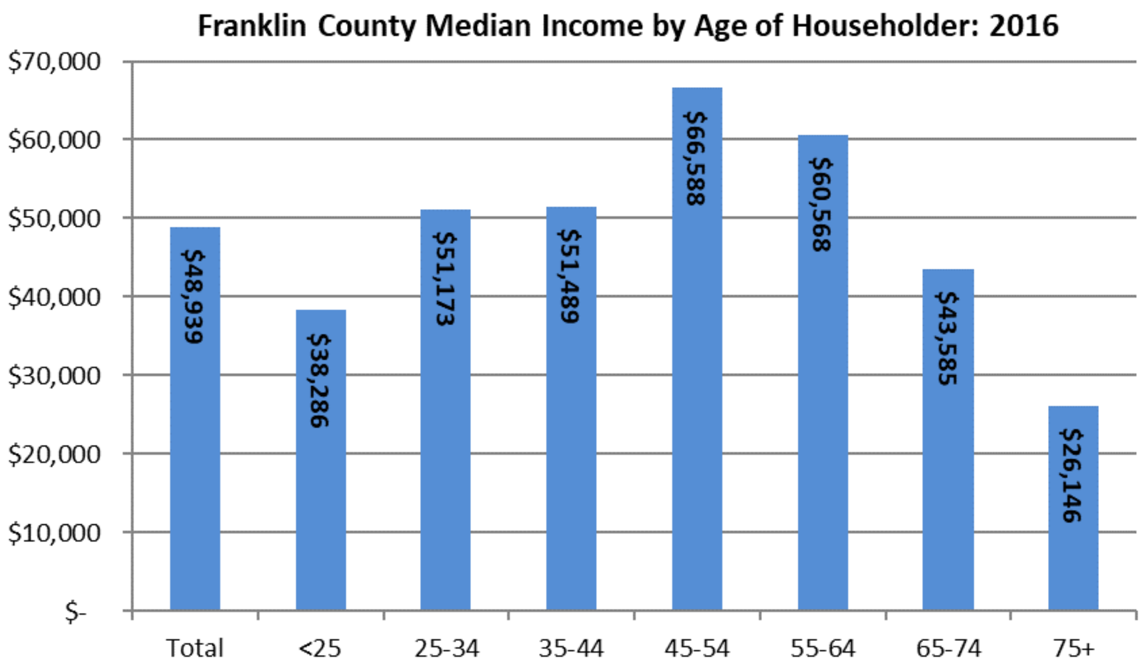
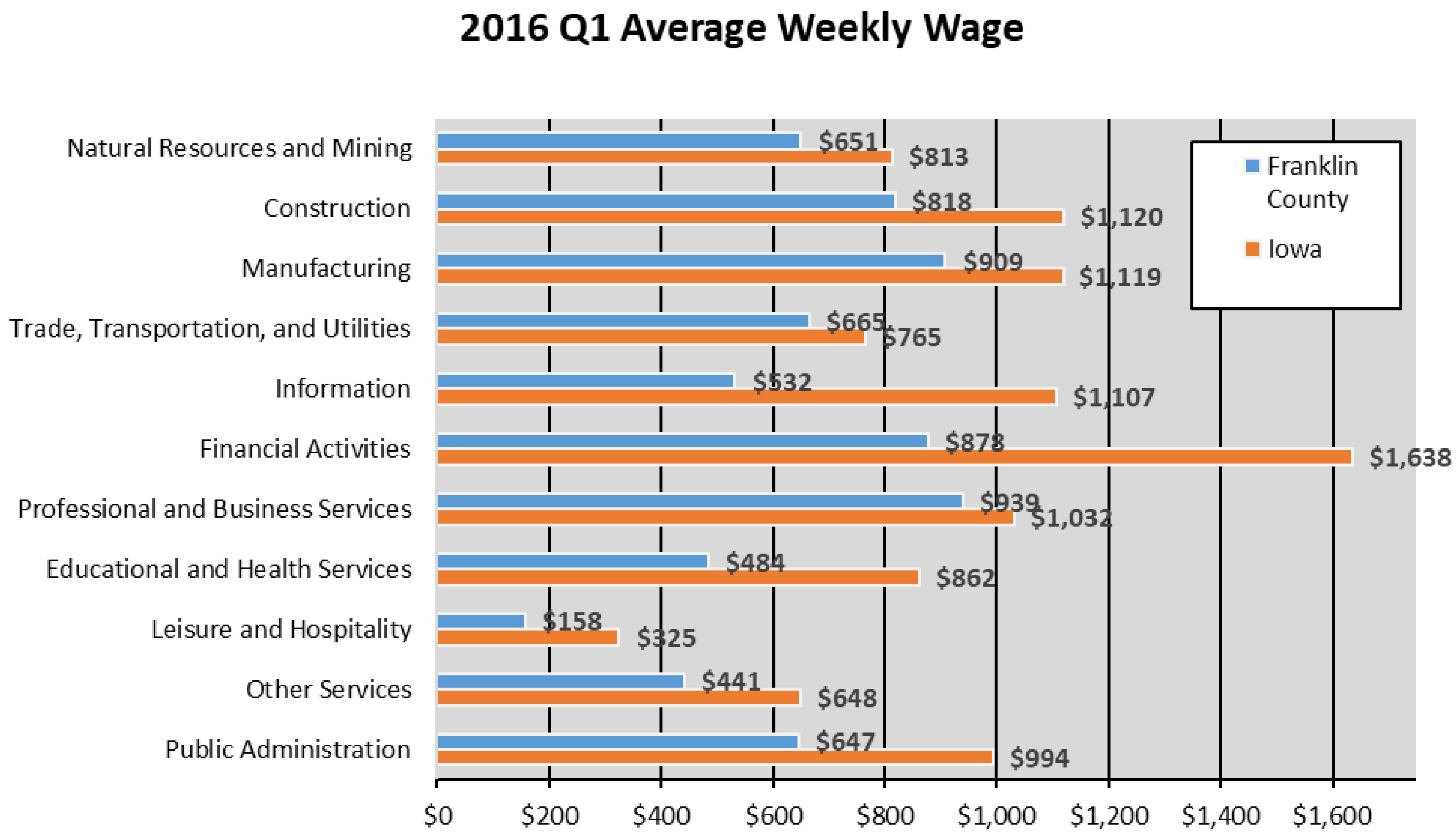
Household Incomes below Iowa Averages

- Median Income (2016):
  - Franklin County : $48,939
  - Hampton: $45,948
  - Sheffield: $54,857
  - West Central: $50,808
  - South: $47,717
  - Iowa: $53,696
- Projected increase by 2021:
  - +12.2% to $54,468
- Highest earners : 45-54 age cohort (2016)
  - $66,588
- 2016 Median income
  - Non-seniors: $51,489
  - Seniors: $34,866
- 2014 Income disparity by tenure
  $52,050 (owner) vs. $29,583 (renter)



Wages below state averages



- Avg. weekly wages (2016 Q1)
  - Franklin County: $707
  - Iowa: $884

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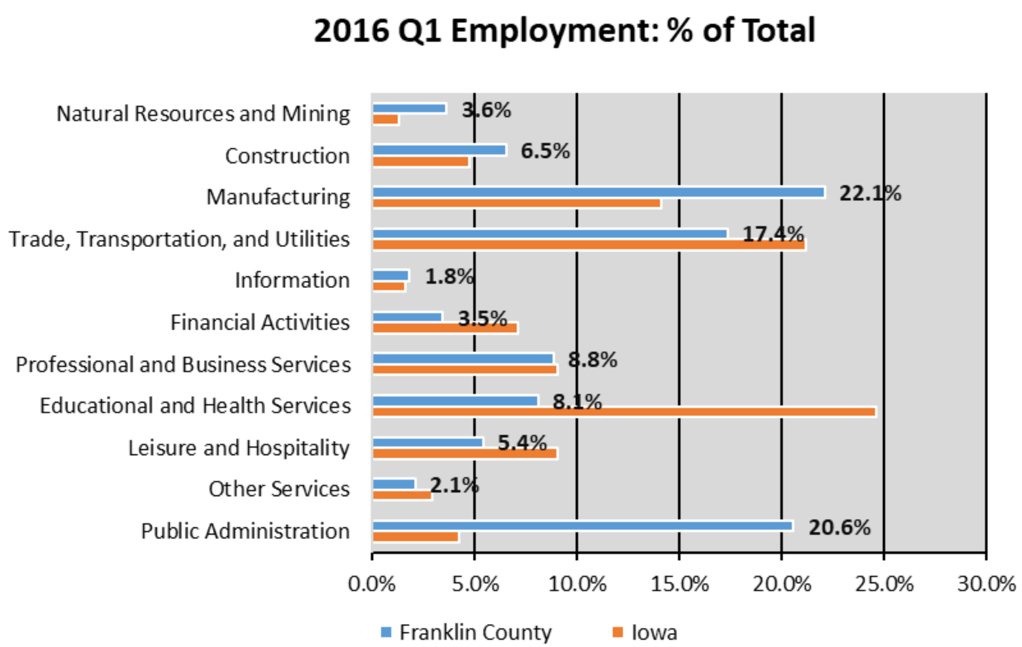
Major Employers cite difficulty in housing market…

- Major employers: (All Employees)
  - Sukup Manufacturing (564)
  - Hampton-Dumont Schools (215)
  - ABCM Corp (210)
  - Franklin General Hospital (166)
  - West Fork Schools (108)



- Employers remarked that new hires had difficulty finding places to live, in both rental and for-sale housing markets

- Manufacturing sector is largest employment base in the county (857 jobs, 22%)
- Public Administration is 2nd largest (798 jobs, 20%)
- Trade, Transportation and Utilities is 3rd largest (673 jobs, 17%)

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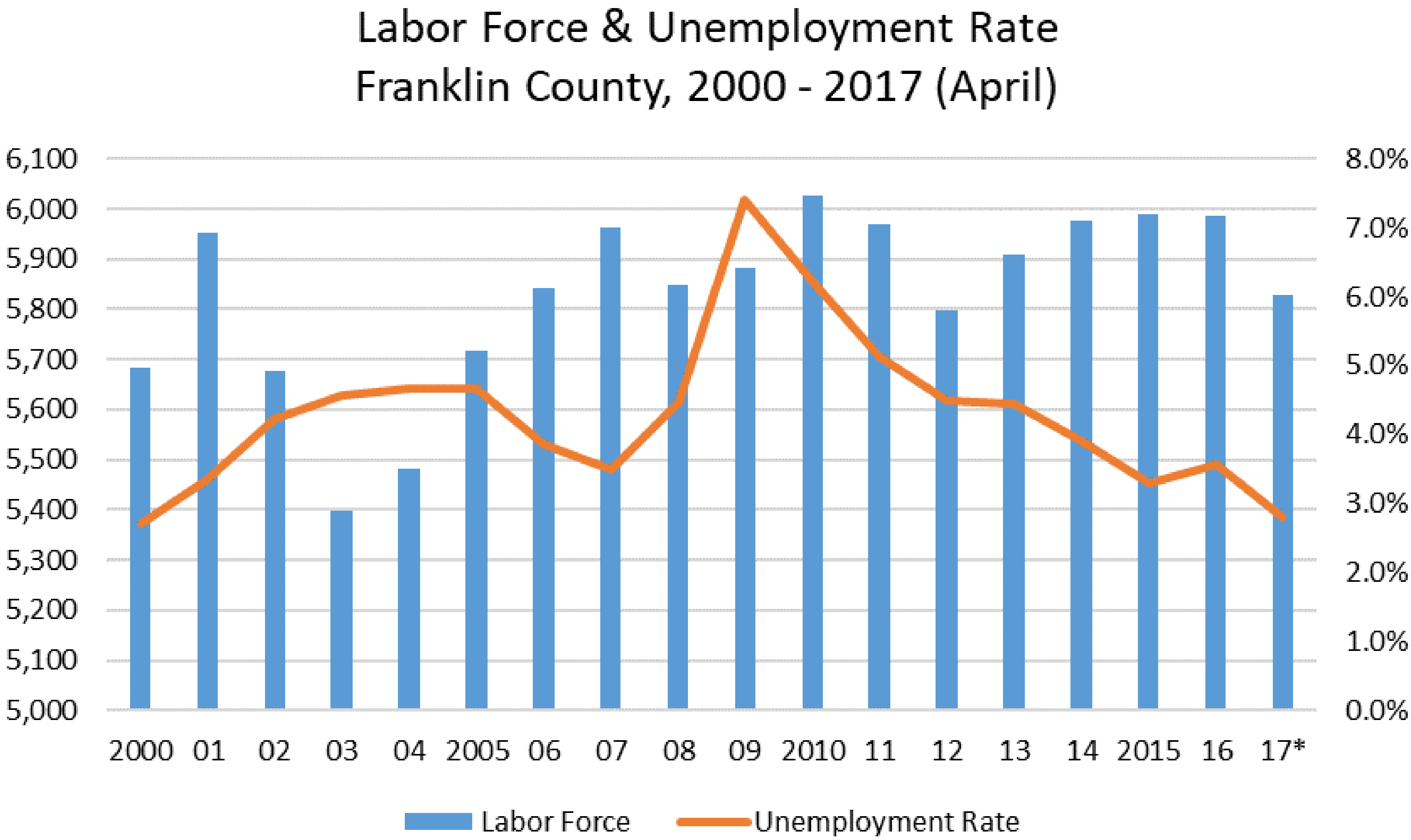
7 years of sub 5% unemployment



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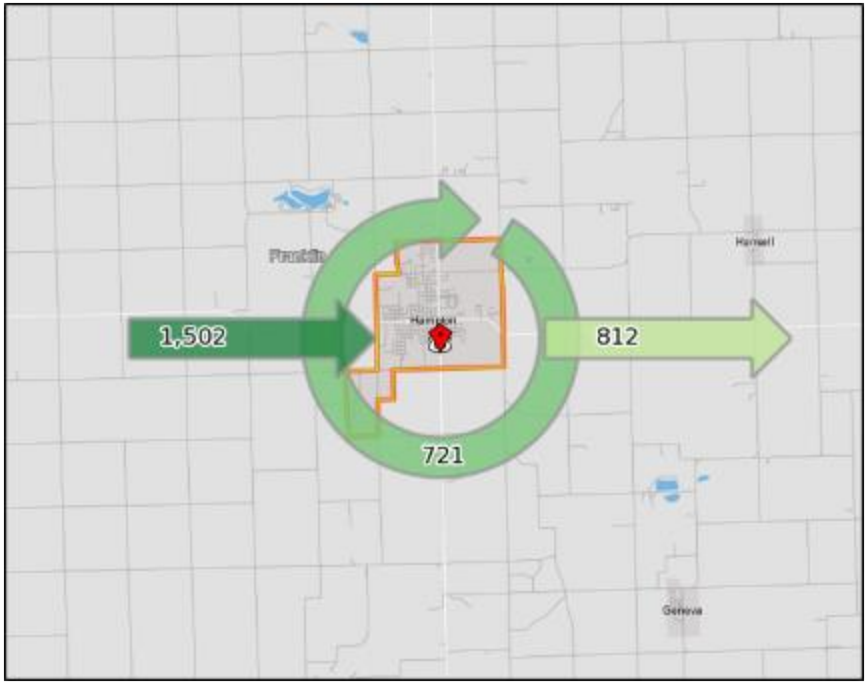
Franklin County: Job Exporter | Hampton: Importer

Employment

- Franklin County is an exporter of workers:
  - 2,094 workers; inflow
  - 2,614 workers; outflow
  - -520 net job loss
- Hampton is an importer of workers
  - 1,502 workers; inflow
  - 812 workers; outflow
  - +690 net job gain



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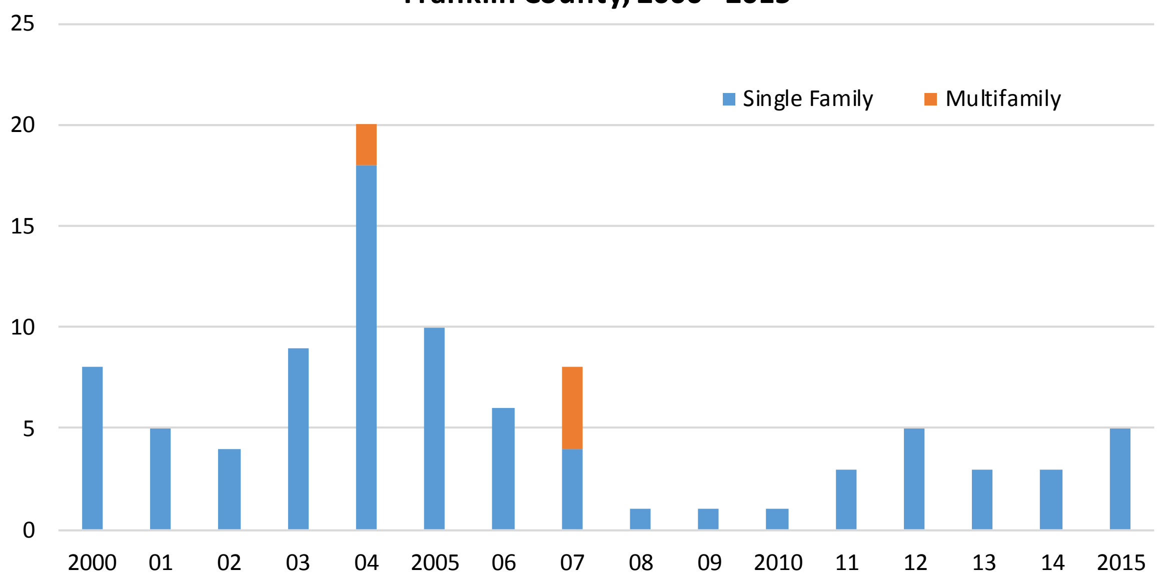
New Construction Slow since Recession…

New Construction Activity

- 92 housing units constructed in Franklin County (2000-2015)
  - Avg. 6 units/year
  - 2000-07: Avg. 9 units/year
  - 2011-15: Avg. 3 units/year
- Single-family dominate

New Residential Units Permitted, Franklin County, 2000 - 2015



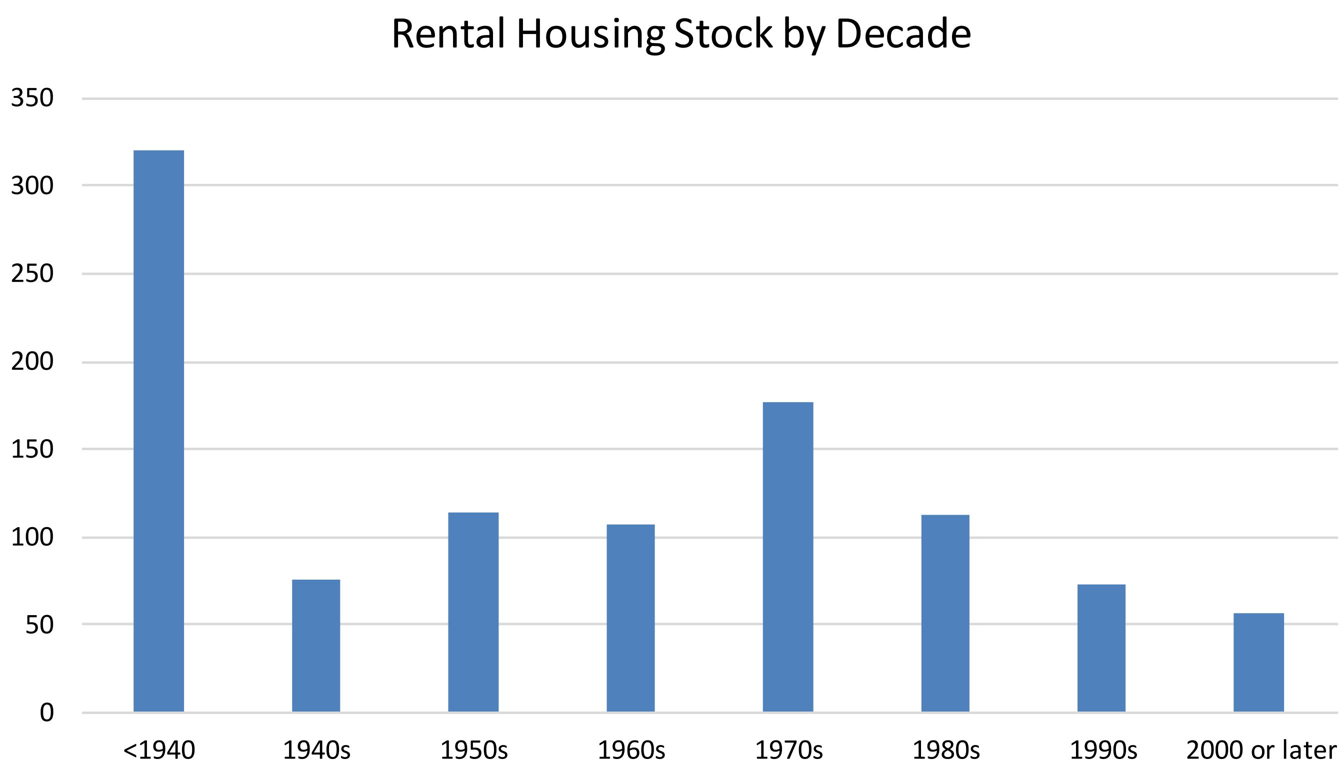
American Community Survey (2014)

- Housing stock:
  - 41% built prior to 1940s
  - 9% built in last 25 years
- Single Family Detached: 99% of all owner-occupied housing structures
- 50% of Franklin County owners have mortgage (62% in Iowa)

Older Rental Housing Stock

Overall

- 1,000+ renter units (24% of Franklin Co. households)
- Older rental housing stock
  - 88% built prior to 1990
- Few options for renters



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Low Rental Housing Vacancy Rate

Overall (interviewed properties only)

- 170 units | 12 projects
- 2.7% vacancy rate

Market Rate

- 126 units |9 projects
- 3.6% vacancy rate
- Avg. rent range:
  - 1BR: $300 to $650
  - 2BR: $350 to $650
- Est. Rent PSF: $0.70 PSF
- $650 is upper limit on apartment rentals

Affordable/Subsidized

- 44 units | 3 projects
- 2.3% vacancy rate

Single-family Rentals

- Make up 58% of all rentals in County
  - 70%+ (Sheffield, West Central, & South submarkets) vs. 35% in Iowa
- Interviewees stated high demand for SF rentals

5% Vacancy = Market Equilibrium

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Senior Housing @ Equilibrium

Market Area Overall

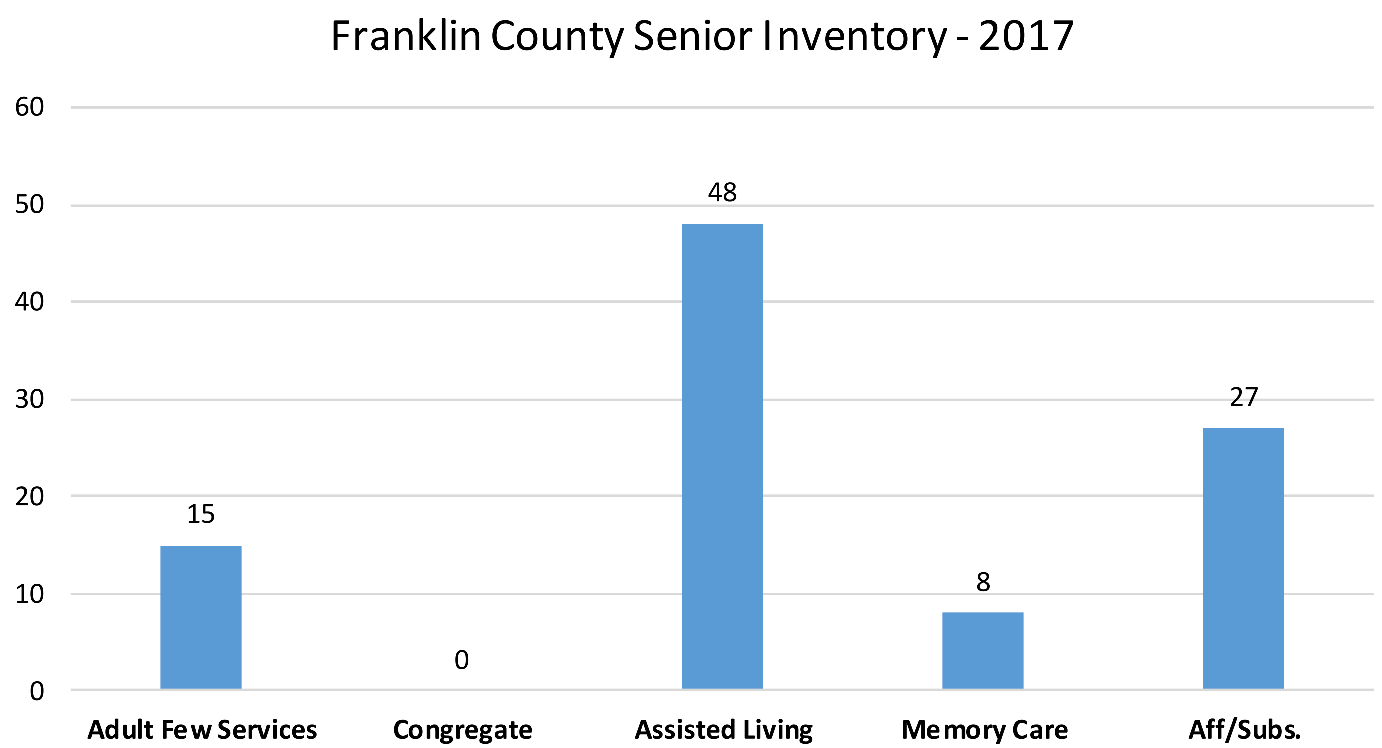
- 98 units |7 projects
- 6% vacancy

Market Rate

- 71 units | 6% vacancy
- No Independent units

Affordable/ Subsidized

- 27 units active adult rental
- Rents based on income



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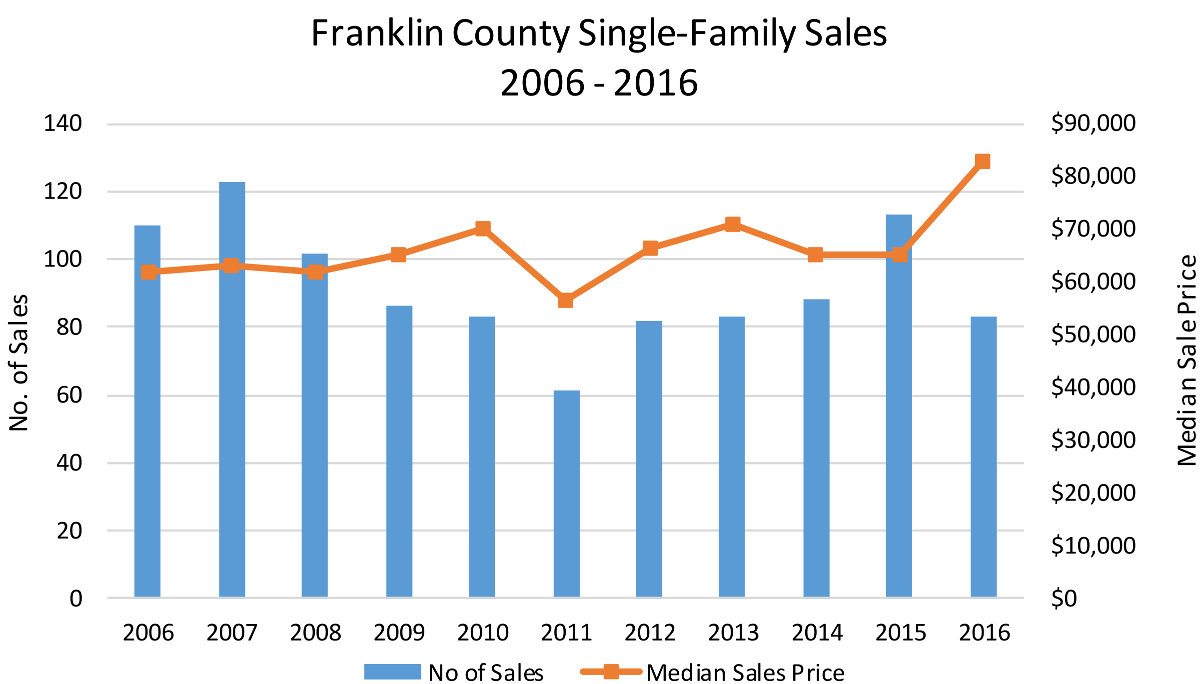
Home Sales Price Peaked in 2016

Overall

- Stronger appreciation in 2016
- Shortage of homes for sale
- Strong demand in the $80k-$100k price point



Resales

- Median sales price:
  - Peak Prices in 2016: $82,900
  - 2011: $56,500
  - Avg. 90+ resales annually
  - Resales peaked in 2007: 123
- Single-family: Nearly all resales
- Median sales price by submarket:
  - Hampton: $88,500
  - Sheffield: $56,000
  - West Cent.: $62,000
  - South: no sales
  - Townships: $97,450

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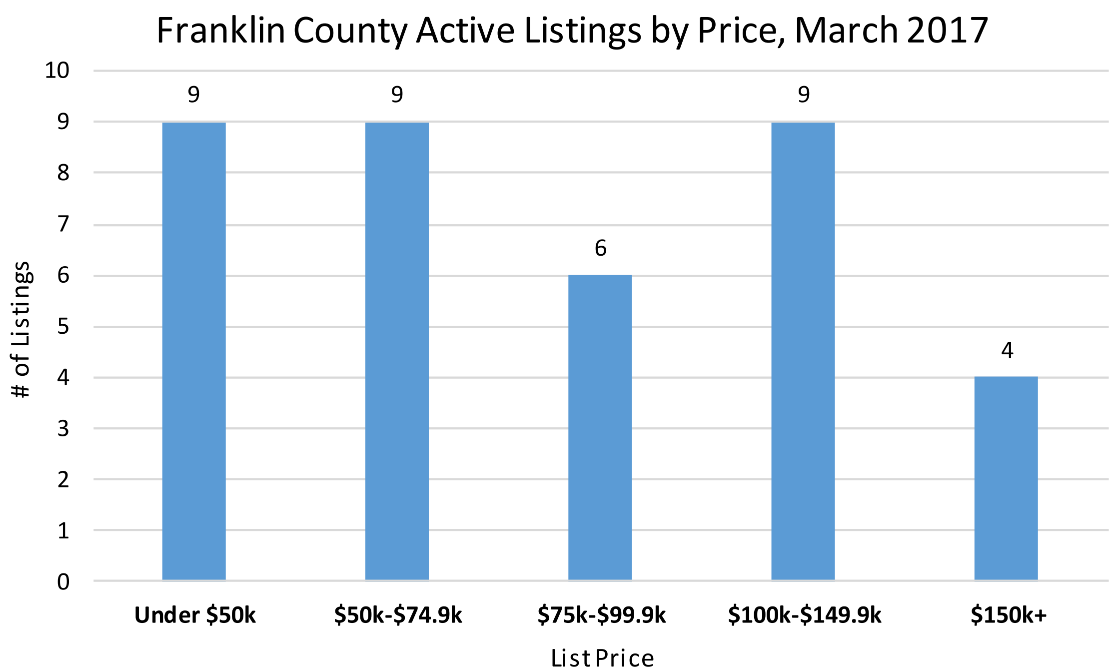
Inventory of Homes for Sale

Active Listings (March 2017)

- 37 listings in Franklin County
- List price:
  - Median $77,000
  - Avg.: $90,000
- 50% listings in Hampton Submarket



Median List Price by Submarket:

- Hampton: $88,500
- Sheffield: $89,900
- West Cent. & South: $54,450
- Franklin: $76,900
- Avg. PSF: $56

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Entry-level home inventory low across the country..

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New Construction targeting move-up buyers

Lot Inventory/Supply

- 47 vacant lots | 7 active subdivisions
- 67% of vacant lots in Sheffield submarket
- No actively marketing lots in West Central & South submarkets
- Average lot size: 0.31 Acres

New Construction Market

- Targets move-up buyers
- Build-to-suite premium ($150 PSF+)
- Newer subdivisions
  - Avg. marking lot cost $25k-$45k
  - Home value w/lot: $275k+
- No pending projects in development pipeline

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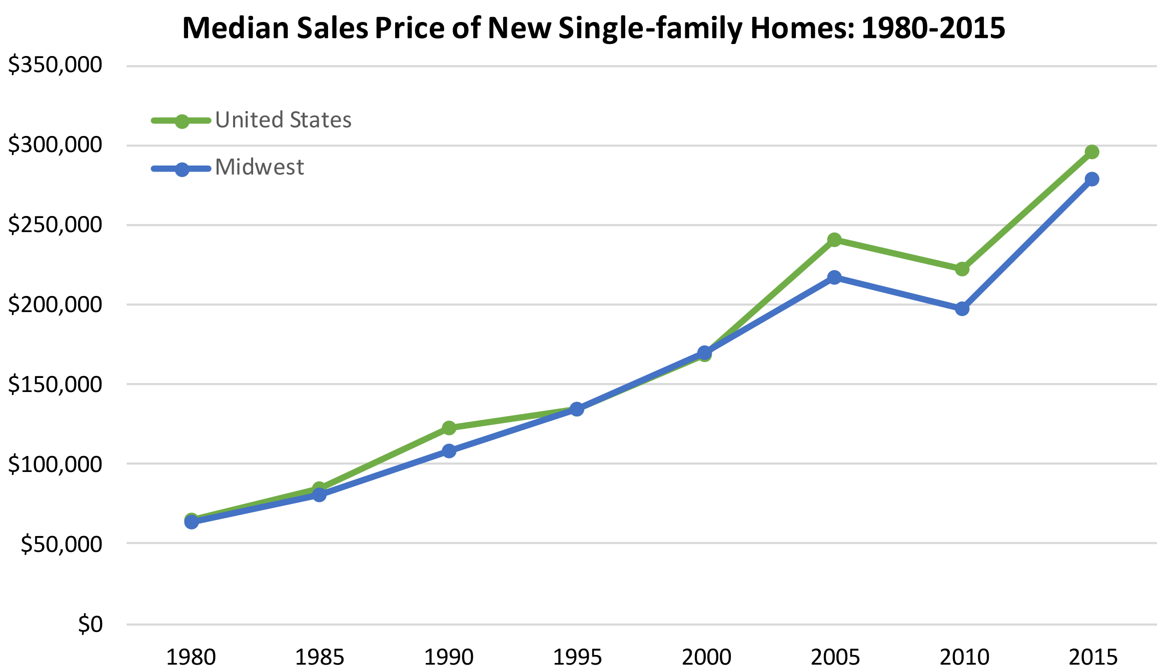
Development costs restrain housing development…

Difficult to "break-even" on new housing products given the following costs:

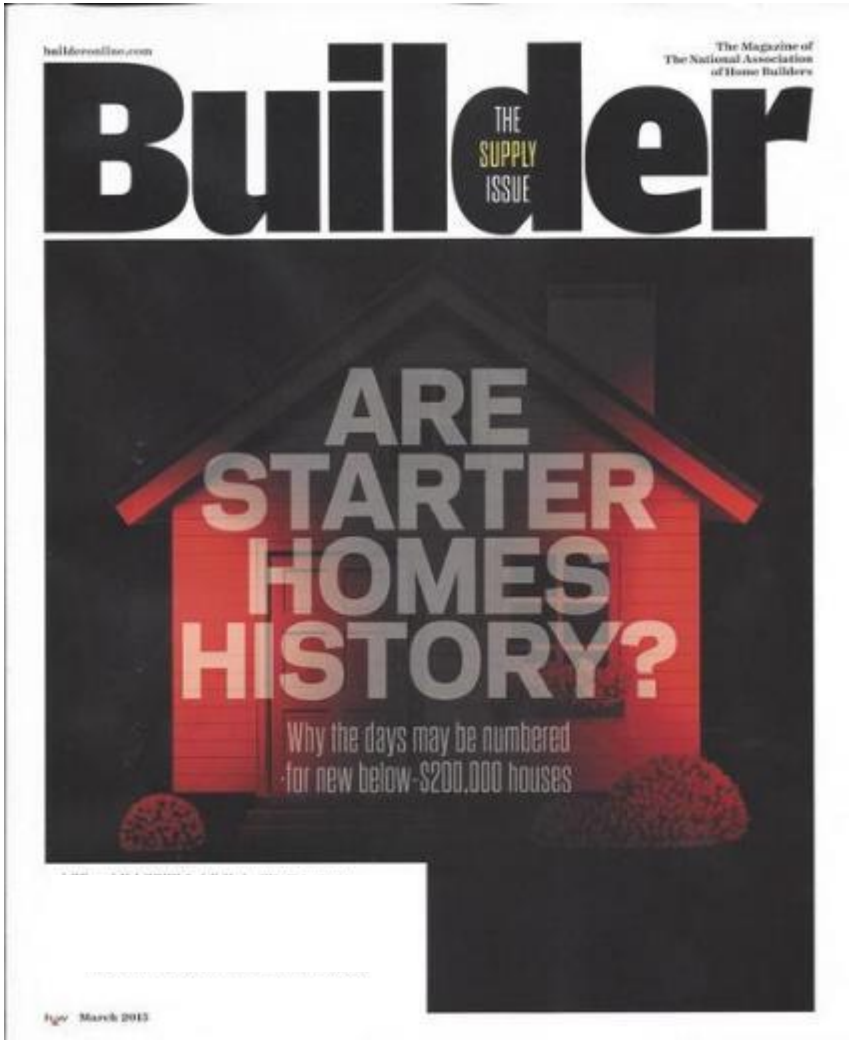
- Infrastructure (i.e. street, curb & gutter, connection fees, etc.)
- Lack of skilled labor (increases expenses & delivery times)
- Rising construction costs

As a result, the price points for new construction will be significantly higher than existing housing products in Franklin County.



Why is the entry-level & middle market missing?

- Zoning regulations
- Density requirements
- Permit/impact fees
- Building code changes
- Increasing labor and material costs
- Land/acquisition costs increasing
- Financing challenges for smaller developers/builders
- Infrastructure costs
- Economies of scale needed
- Buyer preference – rambler/ranch style $$



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Rental housing difficult to cash flow…

Apartment Macro-Level Financial Assessment
2016 Construction Costs

Assumptions		**Development Costs**	
No. of Units	24	Hard Costs	$2,041,020
Avg. Sq. Ft./Unit	850	Soft Costs (excluding land)	$510,255
Common Area Pct.	15%	Land Costs	$120,000
Avg. Rent/Unit	$875	Total Development Costs	$2,671,275
Equilbrium Occupancy	95%		
Avg. Rent PSF	$1.03	Development cost/unit	$111,303
		Development cost/PSF	$114
Total Rentable Sq. Ft.	20,400		
Total Bldg. Sq. Ft.	23,460		

Monthly Financials		**Annual Financials**
Gross Monthly Rent	$21,000	$252,000
Effective Rent	$19,950	$239,400
Total Expenses	$7,980	$95,760
NOI	$11,970	$143,640
Less: Debt Service	($11,471.99)	($137,663.83)
Net Operating Cash Flow	$498.01	$5,976.17

Note: Mason City area construction cost estimates

Source: Maxfield Research & Consulting, LLC

Existing rentals avg. $0.70 PSF | New Construction =$1.03 PSF to break-even

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Demand Summary

Demand Overview

- Household growth & tenure
- Turnover
- Income-qualified households
- Demand by product | Preferences

Demand Driver Examples

- Demographics
- Economy & Job Growth
- Consumer Choice | Preferences
- Turnover/Mobility
- Supply (i.e. Existing Hsg. Stock)
- Replacement need (i.e. functionally /physically obsolete)
- Financing

Demand Assumptions/Methodology

- Household growth adjusted for local factors (i.e. building permits, etc.)

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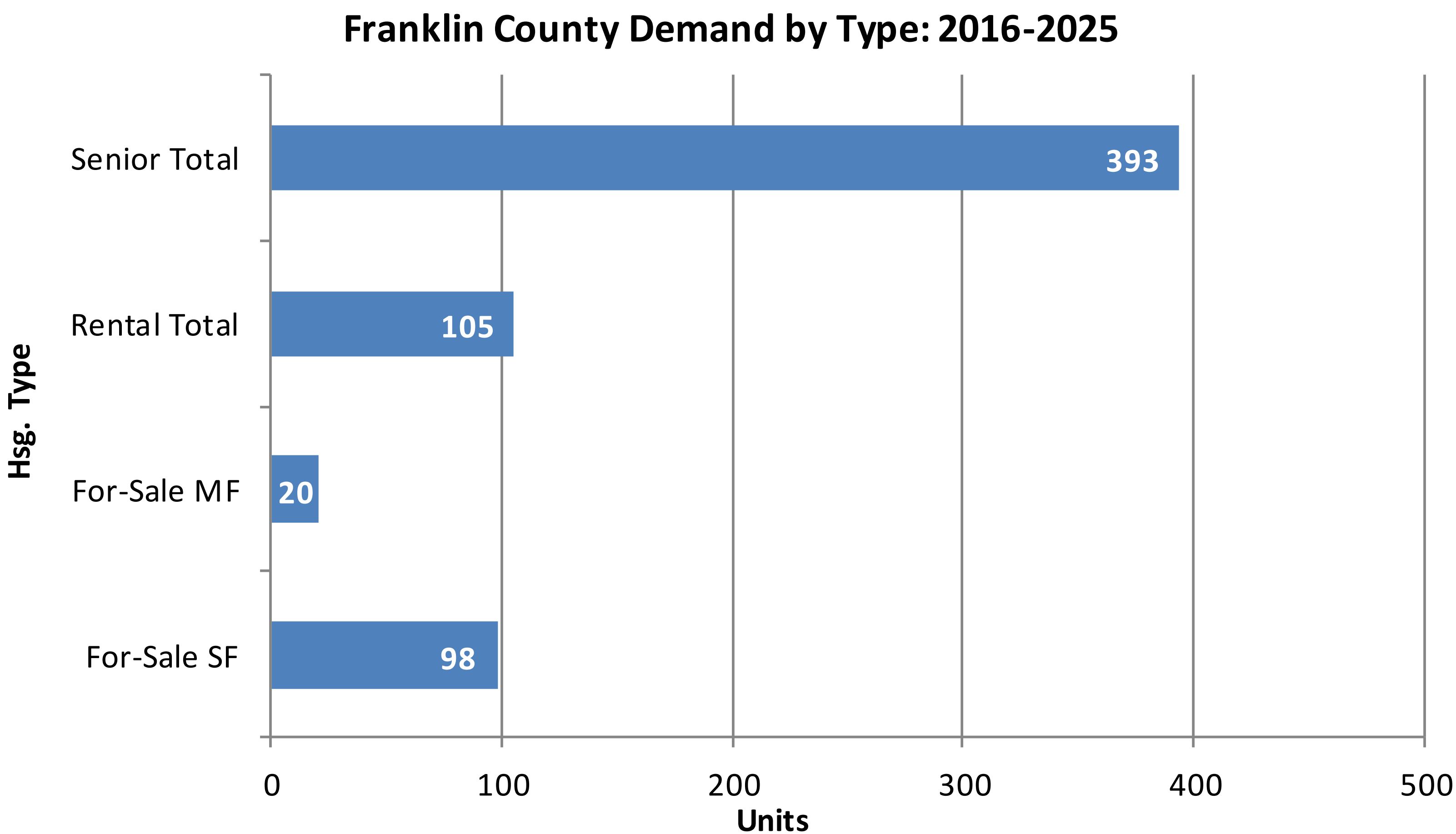
Demand for 600+ Housing Units through 2025



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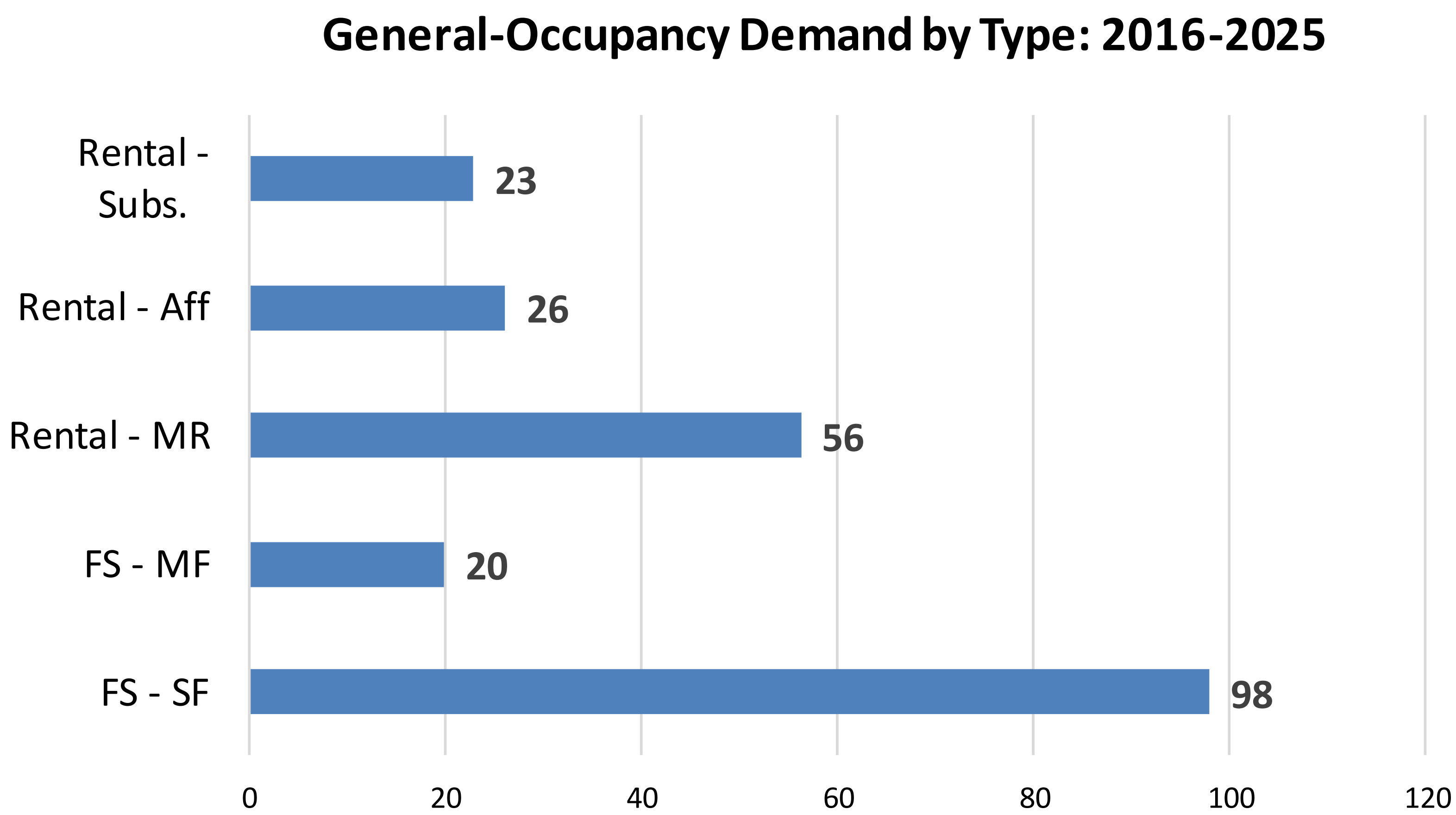
Demand for 220+ General-Occ. units through 2025



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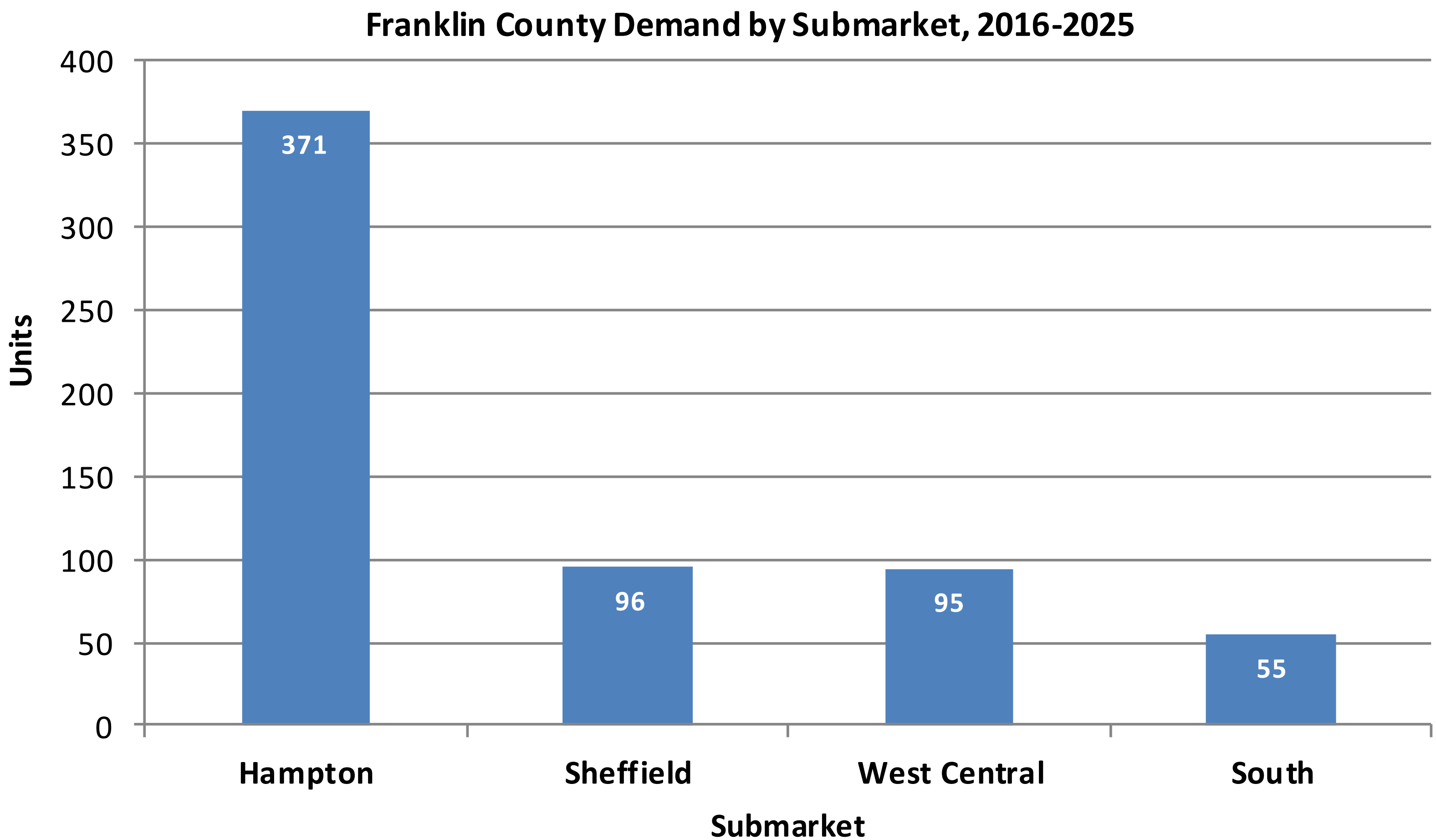
60% of all GO demand in Hampton Submarket



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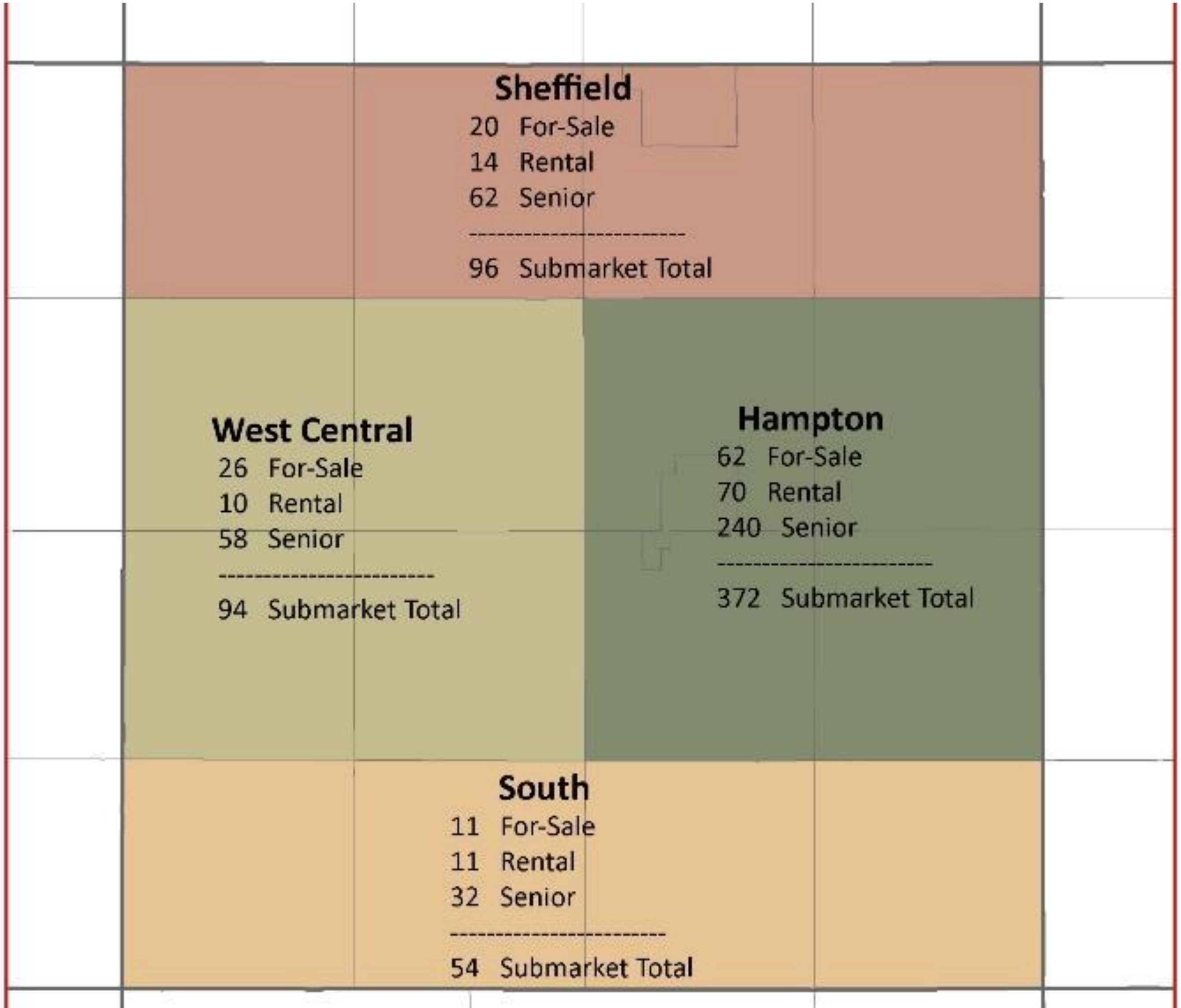
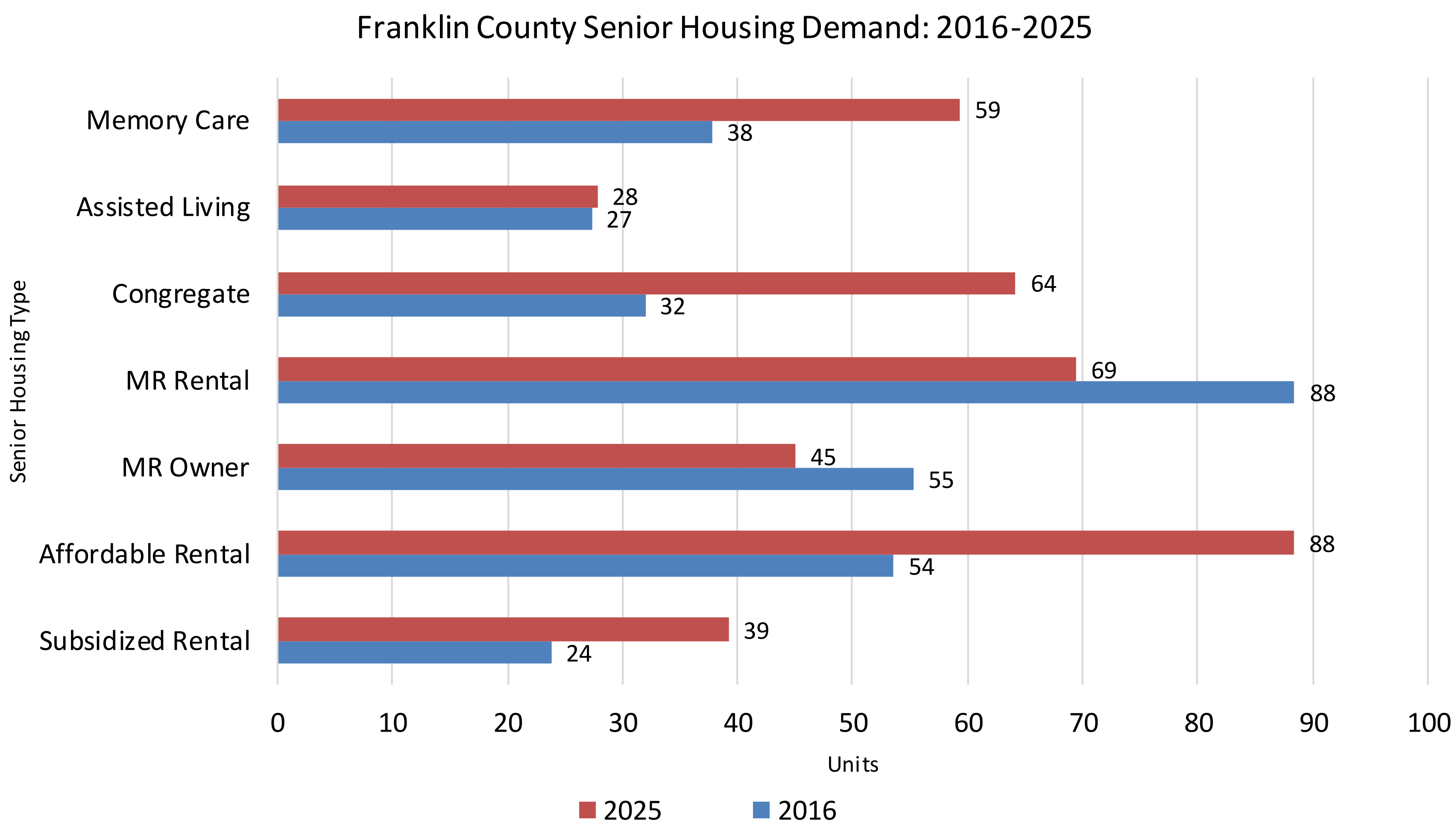
Demand Summary by Submarket



Demand for about 390 senior housing units by 2025



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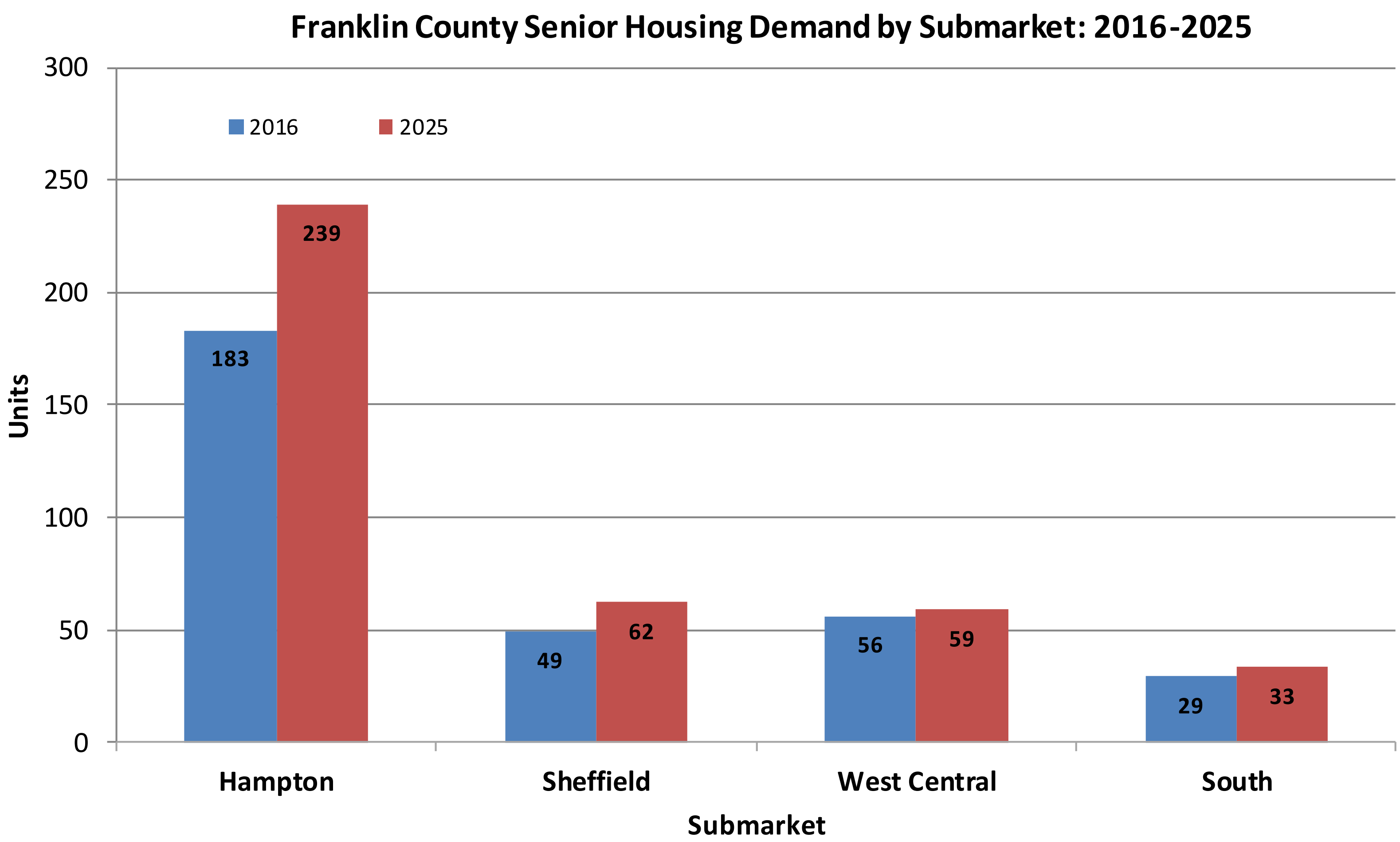
Senior Demand Across all Submarkets



Single-Family Development Recommendations

- Recommend 3 to 5-year lot supply
- No "actively marketing subdivisions" in West Central & South submarkets
- Demand for 118 SF homes…however existing lot supply will satisfy portion of this demand
- Demand across various price points..however entry-level SF difficult given development cost

Single-Family Demand by Submarket

Submarket	Units	Pct.
Hampton	49	50.0%
Sheffield	16	16.3%
West Central	23	23.5%
South	10	10.2%
Total	**98**	**100.0%**

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Multifamily For-Sale Development Recommendations

- Demand for about 20 units

- Lack of association-maintained product in Franklin County

- Potential housing types:
  - Twin homes/duplex
  - Detached townhomes
  - Quads
  - Townhomes/row homes
  - Condos

Multifamily Demand by Submarket

Submarket	Units	Pct.
Hampton	12	60.0%
Sheffield	4	20.0%
West Central	3	15.0%
South	1	5.0%
Total	**20**	**100.0%**

Twin Homes Example

Existing Twin Home

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Rental Housing Recommendations

- Demand for 100+ units
  - 70 market rate
  - 26 aff. & 26 subs.
- Need for newer, contemporary rental units
- Demand for all incomes, HH types, and product types

Apts. above retail - Hampton

Birchwood Apts. - Hampton

GO Rental Demand by Submarket

Submarket	Units	Pct.
Hampton	70	66.7%
Sheffield	14	13.3%
West Central	10	9.5%
South	11	10.5%
Total	**105**	**100.0%**

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Senior Housing Recommendations

- Strong demand through this decade & beyond for most service levels

- Highest demand:
  - Affordable rental (88 units)
  - Market Rate Rental (69 units)
  - Congregate (64 units)
  - Memory Care (59 units)
  - Market Rate Owner (45 units)

Senior Demand by Submarket

Submarket	Units	Pct.
Hampton	239	60.8%
Sheffield	62	15.8%
West Central	59	15.0%
South	33	8.4%
Total	**393**	**100.0%**

Deerfield Place- Sheffield

Apple Valley Assisted Living-Hampton

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Recommendations by Submarket

HOUSING RECOMMENDATIONS BY SUBMARKET
2017 to 2025

Housing Type/Program	Hampton Submarket 17-'19	Hampton Submarket 20-'25	Sheffield Submarket 17-'19	Sheffield Submarket 20-'25	West Central Submkt 17-'19	West Central Submkt 20-'25	South Submarket 17-'19	South Submarket 20-'25
For-Sale Housing								
Single-family (infill as needed)	x	x		x		x		x
Twinhomes/Townhomes/Condos		x						
General Occupancy Rental Housing								
Market Rate	x	x		x				
Affordable/Subsidized	x	x						
Senior Housing								
Market Rate								
Active Adult - For-Sale	x	x						
Active Adult - Rental	x	x						
Congregate/Independent	x	x		x				
Assisted Living		x						
Memory Care		x		x				
<u>Alternative Concept:</u>								
Catered Living	x	x		x				
Affordable Senior Housing								
Active Adult	x	x	x	x		x		
Housing Programs								
Demolition Programs	x		x		x		x	
Renovation Programs	x		x		x		x	
Code Enforcement	x		x		x		x	
Tax Abatement	x		x					
Developer\Builder Incentives	x		x					

Note: Although many of the smaller communites show housing demand for a variety of housing types; it will not be feasible due to the economies of scale needed. Therefore, recommedations are based on the need and density needed to be feasible.

Source: Maxfield Research & Consulting, LLC

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Key Takeaways…

- Declining population for decades; but flat/stabilizing over next decade
- Population is aging and will impact alternative housing types
- Low 2.8% unemployment rate & job exporter (importer in Hampton)
- Older rental housing stock | low vacancies | Need for new rental housing
- Senior housing at equilibrium |Strong senior housing demand
- Home prices at record highs| lack of inventory
- Lack of “maintenance-free” for-sale housing | Single-family dominated
- New construction sector caters to build-to-suit
- Lot inventory supply inadequate in most submarkets; more lots needed
- Difficulty cash flowing new housing development
- Promote public-private partnerships & housing programs
- Development financial incentives likely needed

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Housing Programs

Policies and Programs

- Recommend housing programs & resources
- Review housing policies | modify as necessary
- Discuss need for public/private partnerships to strengthen development potential
- Identify and discuss additional challenges and opportunities in Franklin County communities

Home Improvement Programs

- Fix-up/Rehab Loans
- Energy Efficiency Programs
- Deferred Loan Programs
- Remodeling Advisor
- Neighborhood improvement grants

Examples of Other Programs

- Down Payment Assistance
- Homeownership Education
- Waiver of development fees
- Lower interest rates
- Tax Increment Financing
- Tax Abatement
- Rent to Own
- Housing Trust
- Employer Assisted Programs

Lot Incentives – Real World Examples

Estherville, Iowa

- City developed lots – sell from $16k to 18k
- Tax Abatement for New Construction– 5 years of the first $75k

Clarion, Iowa

- New subdivision lead by non-profit development group of local businesses and local stakeholders
- Lots marketing from $20k to $38k
- Auctioned lots to builders initially to spur interest
- TIF district established by City
- City paid for infrastructure costs

Rock Rapids, Iowa

- Rock Rapids Development Corporation developed two subdivisions; funding from two foundations
- Single-family lot costs from $35k to $40k
- Rock Rapids Municipal Utilities offers $5k lot credit to each builder based on lot take down

Cherokee, Iowa

- EDA has led effort in developing new lots
- Lots marketing from $12k to $18k | some free lots
- Financed through City offering G.O. bonds and local bank offering low interest loans to builders
- City provides free hook-ups and building permit fees

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Lot Incentives – Real World Examples (Continued)

Spencer, Iowa

- Grant to new construction home owners up $12,500 to $15k
- New single-family homes must have assessed values ranging from $110, to $195k
- Funded through two rounds of $600,000 grants (city, county, utilities, banks)

Luverne, MN

- $2,500 credit per person on the lot (i.e. a family of four = $10k) with a max of $12,500.
- Most newer lot costs range from $25k to $37k; however older subdivisions have lots as low as $5,000

Jackson, MN

- EDA has developed three subdivisions
- Lots generally sell from about $15k to $25k
- Promote spec home building with incentives to builders

Spring Valley, MN

- Landscaping allowance ($500)
- Community dollars ($1,500)
- City and utility permit fees waived ($3,000)

Free Lots!

- Claremount, MN
- Halstad, MN
- Marne, IA

Next Steps…

- Share the findings!
- Establish housing strategy (key goals & objectives)
- Establish city/county priorities
- Evaluate existing programs/policies (revise as necessary)
- Seek partnerships
- Monitor market conditions and modify goals/objectives over time

Fundamentals to Succeed…

- Recognition of Challenges
- Political Will
- Community involvement/outreach
- What is the consequence of doing nothing?
- Get Creative!

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Questions & Comments

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