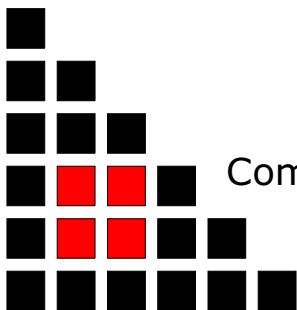


City of Alexandria HOUSING STUDY UPDATE

October 2018

An updated analysis of the overall housing needs
of the Alexandria area



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Executive Summary

This 2018 Housing Study Update was based on a previous document created for the Alexandria area in 2014. The Update has largely followed the format and content of the prior study, and is organized into sections as listed below. This Executive Summary follows in the same format, and provides some of the highlights from each of the individual sections.

- ▶ Demographic Data
- ▶ Projection Data
- ▶ Income and Housing Costs
- ▶ Existing Housing Data
- ▶ Rental Housing Inventory
- ▶ Senior Housing with Services Inventory
- ▶ Employment and Local Economic Trends
- ▶ Findings and Recommendations
- ▶ Alexandria in Comparison

Demographic Analysis Overview

- ▶ Consistent with past studies, the City of Alexandria has been analyzed as a separate jurisdiction, but also as part of a larger aggregation, referred to as Greater Alexandria. There are six other jurisdictions in addition to Alexandria, including the City of Forada, and the Townships of Alexandria, Carlos, Hudson, Lake Mary and LaGrand.
- ▶ One of the primary demographic data sources used for this report is Esri, Inc. Unfortunately Esri's data for the City of Alexandria are often viewed as inaccurate. This is attributed to Esri's inability to accurately track annexation activity between the City and adjoining townships in past years. However, Esri's data for the entire Greater Alexandria area are much more reliable, and the use of Esri information has been based on this larger aggregated area. Even then, Community Partners Research has sometimes made some upward adjustments to Esri's estimates and projections based on locally-collected information.

Demographic Highlights

- ▶ The City of Alexandria has continued its long history of population and household growth. The best available information shows that the City has accounted for the large majority of population and household growth for the Greater Alexandria area in recent years.

- ▶ Due to the unknown impact of past annexation, tracking growth within the City is difficult, but the Greater Alexandria area has been achieving average annual growth of up to 120 households each year during the current decade. But this average is impacted by some slower growth years earlier in the decade, and over the past few years this average has probably been closer to 150 or more households per year.
- ▶ Household growth at this estimated level is very consistent with identified growth in the housing stock. Since 2010, the combined jurisdictions that form Greater Alexandria have had annual new construction activity exceeding 150 units in an average year. With limited excess housing capacity, new unit creation and household growth have been directly connected.
- ▶ The anticipated age progression patterns identified in the 2014 Study have continued to unfold, as the large “baby boom” generation moves through the aging cycle. As a desirable place to live, Greater Alexandria continues to attract and retain older adult households. According to Esri, more than 51% of all Greater Alexandria area households in 2018 were headed by a person age 55 or older, up from approximately 47% of all households in 2010.

Projection Highlights

- ▶ This Update has once again examined different projections for future growth within the Greater Alexandria area. A realistic forecast over the next five years is that Greater Alexandria will add between 155 and 170 households in a typical year. With nearly all of the renter household growth expected within the City, and some of the owner-occupancy growth, Alexandria will capture most of the area’s increase in households.
- ▶ For this growth potential to actually be achieved, especially within the City of Alexandria, a commensurate level of new housing unit creation will be required. In 2018, rental vacancy rates remain low and upward price pressure for home purchase indicates that demand exceeds supply.
- ▶ This Update also contains new age-based forecasts to the year 2023. The Esri projections show that more than 52% of all Greater Alexandria households will be age 55 and older by the year 2023, with the 10-year range between 65 and 74 showing the greatest numeric increase.

- ▶ Overall, Esri is projecting more limited growth in the number of younger adult households, age 54 and under. However, in the opinion of Community Partners Research, the Alexandria area has demonstrated the ability to grow faster than expected, and attracting a larger number of younger adult households is possible if suitable housing options are available. The area has a strong local economy with significant job growth over time, making it a desirable place for younger adult households to live.
- ▶ Greater Alexandria and all of Douglas County will continue to see growth in the older senior age groups through the five-year projection period. Although the advancement of the baby boom generation into the older ranges (age 75+) will not begin until after the year 2021, over time there will be an increased number of older senior citizens living in the area.

Income and Housing Cost Highlights

- ▶ The primary source of information on income is the 2016 American Community Survey. Since the estimates are based on limited sampling, there is a margin of error that is applied to each estimate.
- ▶ According to the American Community Survey, there has been solid growth in the median household income and the median family income for the City of Alexandria between 2010 and 2016. However, the medians for the City are still well below the comparable County and Statewide medians. In 2016, the estimated median household income in Alexandria was \$44,140, compared to \$56,347 for Douglas County.
- ▶ Income distribution information by housing tenure continues to show a significant disparity between home owners and renters. Most of the area's lower income households were renters. The estimated median household income for Greater Alexandria renter households was \$30,050 in 2016. Nearly 43% of all renter households in the City had an annual income below \$25,000 and limited buying power for housing.
- ▶ The estimated median household income for home owners in Greater Alexandria was \$70,040, more than double the median for renters. Approximately 46% of all current owners had an annual income of \$75,000 or more.

- ▶ Many of the lower income renter households had a “housing cost burden”, defined as applying 30% or more of their income to housing. According to the 2016 American Community Survey, more than 50% of all renter households in Alexandria had a housing cost burden, and most of these were applying substantially more than 30% of their income. These households were distributed in all age ranges, including seniors.
- ▶ Nearly 24% of all home owners in the City also reported a housing cost burden in 2016. These households typically had an annual income below \$35,000 and had a mortgage on their home.
- ▶ This document also contains comparative information with comparably-sized communities. For median income levels, Alexandria tends to rate well against the five communities used for comparison. Alexandria had the highest median income for renters, and the third highest median income for home owners. However, rental costs and ownership costs in Alexandria are also the highest among the comparison cities, so the above-average income levels are often negated by higher housing costs.

Existing Housing Inventory Highlights

- ▶ The current decade has seen ongoing construction of new single family houses in Alexandria. So far this decade, the City has been averaging more than 30 single family housing starts per year, including both detached houses and attached units, such as twin homes or town houses. This annual average is even higher within the building permit issuance area which extends outside the City limits.
- ▶ Multifamily rental housing production has been especially strong in Alexandria this decade. When all types of rental housing are combined, the City has averaged approximately 84 units in an average year, including the permitted projects in 2018. This has represented a mix of housing but primarily includes traditional market rate apartments or senior housing with the availability of some level of services. Some more affordable units were also created using federal low income housing tax credits, and City Tax Increment Financing (TIF) assistance, requiring a percentage of units to serve moderate income households.
- ▶ There were two multifamily rental projects that were under construction at the time of this research in 2018, and at least three proposed projects that had the potential to start construction in 2019. If all proceeded, the City would see a large number of rental units enter the market over the next two years.

- ▶ Specific details are not always available about each of the projects permitted so far this decade, but using the known information, these units can be segmented into the following housing types:
 - ▶ 303 units of conventional market rate housing (39.9%)
 - ▶ 88 TIF-assisted units in conventional market rate projects (11.6%)
 - ▶ 40 student-oriented housing units (5.3%)
 - ▶ 24 moderate rent income-restricted tax credit units (3.2%)
 - ▶ 199 light services/independent senior units including TIF (26.2%)
 - ▶ 59 assisted living/enhanced assisted living including TIF (7.8%)
 - ▶ 32 memory care units including some TIF-assisted (4.2%)
 - ▶ 15 supportive housing units (2.0%)

- ▶ Sale prices for existing homes, as tracked by City Assessor records, show an upward trend in the median value after a recent low was reached in 2011. Since that time, the median sale price in the City has increased by more than \$45,000, and was above \$173,000 for 2017. Some lake shore sales do impact the overall median, but in 2017 the median for off-lake sales was still above \$164,000.

- ▶ The median sale prices for houses outside the City limits in the neighboring Townships tended to be even higher. In Alexandria, Carlos, Hudson and LaGrand Townships, the median sales prices in 2017 were all above \$250,000, although once again lake shore sales would have some impact on the sales sample.

- ▶ A separate estimate of owner-occupancy home values exists in the American Community Survey, although it had an effective date of 2016. But when compared to other communities, the median home value in Alexandria was substantially higher, and approximately \$17,000 above the next closest comparison community (Marshall).

- ▶ The analysts did not obtain a list of residential lots that are listed for sale in the area, but it does not appear that any shortage exists for new home construction in 2018. Annual lot absorption has resulted in ongoing private sector subdivision development, bringing new lots into the local inventory in recent years. There continue to be multiple locations with vacant lots within the sewer district service area.

Rental Housing Market Highlights

- ▶ No reliable information exists on the occupancy tenure distribution in Alexandria in 2018, but since 2010 more than 70% of the new units created in Alexandria have been for renter occupancy. Based on the identified construction, but excluding the units under construction in 2018, it is probable that between 575 and 625 rental housing units have been added to the City after the 2010 Census. When added to the 2010 Census total, there may be between 3,300 and 3,350 total rental housing units in Alexandria in 2018, with a rental tenure rate at or above 47%.
- ▶ This above-average rental rate does drop if the entire Greater Alexandria area is examined, as Alexandria is the primary rental center for the surrounding region and for all of Douglas County.
- ▶ As part of the research process for this Update, a telephone survey was conducted that attempted to contact the City's larger rental properties. The projects that were surveyed were then analyzed based on the market segment that they served. Overall, information was collected from more than 53% of the estimated rental inventory in 2018.
- ▶ Despite the introduction of a substantial number of new units in recent years, the estimated vacancy rate in the market rate rental segment was still below 2%. Each of the newly-built projects had achieved a high rate of occupancy and there was evidence of strong demand for the older rental options which tended to be available at a lower price.
- ▶ There were two new conventional rental projects under construction in 2018 and 141 new market rate apartment units are expected to become available for occupancy in 2019.
- ▶ There continues to be a wide variation in rates for market rate rental housing in Alexandria, with a mixture of new apartment buildings constructed in the past 20 years along with a large inventory of older units which are generally in a more modest range. Nearly all of the new rental projects constructed since 2010 have utilized TIF assistance and typically 20% of the units are designated for households at or below 50% of median income. In some projects, rents are skewed with the TIF units at a lower price, while in others a more uniform rent structure applies, with all units presumably benefitting from the use of TIF.
- ▶ Reported occupancy rates in TIF-assisted units were also very high.

- ▶ Alexandria has student renter households distributed across the general rental market. Projects that are student-oriented, and rented on a per-bedroom basis, had high occupancy rates when surveyed in August 2018.
- ▶ In the moderate rent, income-based segment that utilized federal low income housing tax credits, good demand was also evident. The estimated vacancy rate was below 2% but even the open units were generally in the process of being filled from waiting lists.
- ▶ In 2018, an application has been submitted for a 32-unit tax credit project. Although the application process is highly competitive, it is possible that this project could be developed in 2019 or 2020.
- ▶ The inventory of very affordable federally subsidized rental housing has not changed in recent years. Alexandria has 290 units oriented to senior/disabled tenant occupancy and 126 units for general occupancy. One 24-unit general occupancy project is “at risk” in 2018, and has filed paperwork to leave its subsidy program.
- ▶ Occupancy rates were very high in the subsidized projects. The estimated vacancy rates were below 1% in both senior-oriented and general occupancy projects. Waiting lists were common.
- ▶ The tenant-based Housing Choice Voucher Program also assists low income households but the waiting list has been closed in recent years due to the number of households already waiting for assistance.
- ▶ According to the American Community Survey, the median gross rent for all rental housing in the City was \$717 in 2016. Alexandria was the only city in the comparison section with an estimated gross rent above \$700.
- ▶ Information in the American Community Survey pointed to an under-supply of very affordable rental units in Alexandria, with a gross monthly rent below \$500. The number of renter households within a comparable income range was nearly double the supply of very affordable units.
- ▶ In the higher rent ranges of \$900 or more, the overall supply of units was much smaller than the number of renters with moderate to higher incomes. Overall, the American Community Survey estimates showed that 39% of all renter households in Alexandria in 2016 had an annual income of \$36,000 or more, but only 27% of all rental units were priced at \$900 or more for gross rent. Since 2016 there have continued to be some additions to this higher price range in newly constructed projects.

Senior Housing with Services Market Highlights

- ▶ There has continued to be growth in the overall inventory of specialized senior housing in Alexandria. This is especially true in the more independent housing with access to light services, but some assisted living and memory care capacity has also been added. There has also been some shift to providing higher levels of care in assisted living, which is described as “enhanced” or “advanced” care.
- ▶ Despite the expanded inventory, it appears that utilization rates remain high in most market segments. However, some providers would not disclose occupancy information for this report. There were some unused units/beds identified within the assisted living options and in memory care facilities. However, with ongoing turnover in projects offering high levels of care, some open units/beds can often exist.
- ▶ Growth in the specialized senior care options does follow the demographic patterns showing more seniors over time. But Alexandria is also serving a large region, and some of the providers, such as Grand Arbor, continue to develop senior campuses that can offer a “continuum of care” as seniors move through the aging cycle.

Employment and Economic Trends Highlights

- ▶ The area’s employment status remains strong, with growth in the number of jobs and a low rate of unemployment. Since reaching a recent employment low point during the national economic recession in 2010, there have been nearly 1,100 jobs added back within Alexandria that are covered by unemployment insurance.
- ▶ The primary employment sectors in Alexandria are Education and Health Services, Manufacturing, and Trade/Transportation/Utilities. Nearly 68% of the identified employment in the City was in these three broad industry sectors.
- ▶ The average annual wage for full-time employment in 2017 was approximately \$42,850.
- ▶ Most of the area’s employed work force is locally-based, with a large majority traveling less than 35 minutes for employment in Alexandria. Most City residents were traveling less than 20 minutes for employment, including the large number that both live and work in Alexandria.

Findings and Recommendations Summary

The Findings and Recommendations for the Update have primarily focused on rental and home ownership housing opportunities in Alexandria, and followed the format of the previous housing study, completed in 2014.

Overview

The primary demand-generator used for the new housing development recommendations in this Update is expected household growth between 2018 and 2023. For the Greater Alexandria area, average annual household growth of between 155 and 170 households per year has been used. Over a five-year period, this results in expected demand for at least 775 to 850 total housing units just to address the increased number of households.

Other demand-generators will also contribute to the need for housing. For rental units this will include some overproduction to address the low rate of vacancy that has existed in recent years. For ownership housing, some higher level of production will be needed to address demand for specific types of units, especially customized new construction, some of which could be seasonal-use properties.

In determining the housing tenure needed, this Update has allocated the demand potential into approximately 60% owner-occupancy units and 40% renter-occupancy. This allocation is for all of Greater Alexandria, but nearly all of the rental units would be expected in the City, while much of the owner-occupancy housing may locate outside the city limits. The projected tenure distribution for units constructed within the City of Alexandria will probably be closer to 60% or more for renters and up to 40% for home owners.

Rental Housing

When all demand-generators are combined, the rental production recommendation for the five-year period from 2018 to 2023 would be at least 470 to 520 total rental units for the Greater Alexandria area. Some of the new construction needed to meet this goal is already in the development pipeline, or is in the planning phase.

- 1. Continue to Promote Annual Introduction of Market Rate Rental Projects with 260 to 300 Total Units Over Projection Period** - The new market rate apartments constructed in Alexandria have been very successful. Looking forward over the next five years, between 260 and 300 additional units would be recommended. There are already two projects under construction that will add approximately 140 units. Three additional projects have been proposed that could add another 125 units. If all proceed within the next one or two years, most of the unit recommendation could be met by 2021. The analysts assume that part of the proposed production would be TIF-assisted units, which would create at least 50 more affordable units within the market rate segment.
- 2. Observations on TIF Assistance for Market Rate Housing** - The City of Alexandria has been very active in attempting to generate more affordable rental housing production through the use of local resources. Most of the general occupancy market rate rental projects constructed in Alexandria in recent years have utilized Tax Increment Financing (TIF) assistance. Although conventional market rate housing will probably represent most of the new construction activity, a majority of area renter households need more affordable rental housing, as the median income level for renter households was just above \$30,000 in 2016. An affordable rent threshold at the median income is \$750, a level rarely achieved in purely market rate housing. TIF usage typically results in some units with significantly lower rents, or a lower rent structure for all units in the project.
- 3. Senior-Designated Housing Continues to be Appropriate for Future Development** - More than 42% of all renter households living in Greater Alexandria had a head of household that was age 55 or older in 2016, and this percentage should continue to grow as the baby boomers move through the aging cycle. This does include a large number of older seniors living in housing with some form of services, but approximately 20% of all renter households are between the ages of 55 and 74 years old, and more likely to live in fully independent housing. Part of the unit recommendation going forward could be senior-designated housing.

- 4. Promote the Development of Additional Tax Credit Moderate Income Rental Housing with 60 to 70 Units over the Projection Period** - While Alexandria has some moderate rent tax credit housing, most of the inventory was constructed in the 1990s. Only one project, Deer Ridge Townhomes, was constructed in the past 20 years. In 2018, a new application was submitted for a 32-unit tax credit apartment project. Assuming that this project is funded, it would also be appropriate to pursue a similar-sized project later in the 5-year projection period.
- 5. Develop Additional Subsidized Rental Housing as Resources Allow with a Goal to Add 25 to 50 Units** - Subsidized housing is affordable for even very low income households, as the monthly rent will often be based on 30% of the renter household's income. The last physical addition to the subsidized inventory occurred in the early 2000s, but since that time subsidized units have been lost due to contract termination. Constructing any subsidized units going forward will be extremely difficult due to a lack of resources, but setting a goal of adding up to 50 very affordable units would be encouraged.
- 6. Monitor Demand for Student Housing** - Post-secondary students, primarily attending Alexandria Technical and Community College (ATC) form part of the local demand for rental housing. In 2018, students are widely dispersed in the rental inventory. A few projects, typically located very close to the campus, are specifically oriented to students. In general, students will be served by the new rental housing production that has been recommended. Student-specific housing could be developed, but a location near the campus would probably be required.

Senior Housing With Services

- 7. Promote an Expansion of up to 50 Additional Light Services Housing Units by 2023** - During the current decade, the largest unit expansion in Alexandria has been within the lighter services segment, in projects including Grand Arbor Lakes and Arabella Manor. Between 2018 and 2023, the total population of senior citizens, age 65 and older, is expected to increase by approximately 15%. By the year 2023, projections indicate that more than 52% of all households will be age 55 and older. Based on the current capture rates being achieved within the lighter services housing segment, an expansion of up to 50 lighter services units should be needed by the year 2023 in Douglas County. The City of Alexandria would be the best possible location for the large majority of these added units.

- 8. Promote an Expansion of 50 to 60 Additional Assisted Living Units by the Year 2023** - Despite some changes in the level of care offered, the overall supply of assisted living in Alexandria has not changed significantly from the inventory that existed in 2014. In the recent past, there has been a greater increase in the number of younger senior citizens, but going forward, the number of households age 75 and older should show stronger growth. Based on expected capture rates by the year 2023, approximately 50 to 60 additional assisted living units would be recommended by that time in Douglas County. Alexandria would be the preferred location for most of these units.
- 9. Promote an Expansion of 20 to 30 Additional Memory Care Units by the Year 2023** - Memory care housing represents a very specialized segment of the senior market. There have been additions to this housing segment since 2014. Going forward to the year 2023, at least 20 to 30 units/beds should be added to maintain the same basic capture rate.

Home Ownership

The demand calculations used for this Study indicate the need for as many as 93 to 102 owner-occupancy housing units annually over the five-year projection period. This unit recommendation is based on serving permanent resident households. Additional construction may occur of seasonal/recreational properties.

- 10. Continue to Offer Affordable Home Ownership Programs** - Offering affordable home ownership options in Alexandria continues to be an issue. Much of this is due to home values in Alexandria, which are higher than in comparable communities. By 2017, the median home sale price in Alexandria had moved above \$173,000. New construction prices, even for modest houses, would generally be substantially higher. The Alexandria HRA has been active in the past in offering home ownership assistance programs in the City. In 2018, some new initiatives are being considered. With rapidly rising costs for both existing and new homes, continued efforts are encouraged.
- 11. Promote the Construction of 8 to 10 Affordable Homes Per Year** - New construction of affordable single family homes in the Alexandria area has been limited in recent years. The Alexandria HRA has been the most active promoter of affordable new construction, by offering lower-priced lots, home buyer assistance programs and some speculative home construction. Going forward, we continue to believe that some demand will exist in the entry-level segment.

- 12. Affordable Residential Subdivision Development** - In the past, the Trail's Subdivision had focused on the more affordable housing segment, with some lower-price lots combined with home ownership assistance programs. In 2018, nearly all of the lots in the Trail's have been sold. In 2018, the Alexandria HRA is using infill parcels for new home construction. Some of these sites were acquired through tax forfeiture, and yield affordable lots for new construction. Based on the annual usage, the existing supply of lots owned by the HRA will be adequate for two to three years of new construction.
- 13. Monitor the Overall Residential Lot Supply** - Tracking the actual supply of improved residential lots in the Alexandria area has been difficult, but in general, a large supply of lots and land exist that can be served by the sewer district. A number of recent subdivisions have been created in the past few years as developers have been able to add new lots in response to demand. The research completed for this 2018 Update continues to indicate that lot/land availability will not be a factor that will limit future housing development.
- 14. Mid-Priced and Higher-Priced Housing Should Continue to Represent Most of the New Construction Activity** - The analysis of projected demographic trends continues to indicate that the strongest demand should be for trade-up housing, especially units that are age-appropriate for empty nesters and young seniors. Consistent with the 2014 Study, we would continue to expect that 80% or more of the single family construction will be in the moderate to higher price ranges, generally defined as \$250,000 or more. The projected level of annual construction would include some attached single family units, such as twin homes and town houses.
- 15. Attached Single Family Housing Should Continue to Gain Market Share** - The age-based projections show strong overall household growth between 2018 and 2023, primarily within the 65 and older age ranges. The projections indicate that more than 52% of all households living in Greater Alexandria in 2023 will be age 55 and older. The near-senior and senior citizen age groups have historically had very high rates of owner-occupancy and represent a primary target market for attached single family housing that offers no maintenance or low maintenance living. The demand calculations used for this Update expect that approximately 25% to 30% of the future demand for owner-occupancy housing construction can be met through attached single family housing, such as twin homes and town house units.

Alexandria in Comparison Highlights

The last section in this document uses standardized data from the 2016 American Community Survey to compare Alexandria with a group of similar-sized communities. The cities selected for direct comparison include Bemidji, Brainerd, Fergus Falls, Marshall and Willmar. Multiple demographic, income and housing cost data comparisons have been made, and some of these are highlighted below:

- ▶ **Median Household Income** - Alexandria had the second highest median income of the six communities, at \$44,140. Marshall had the highest median household income of the comparison cities, at \$44,561, only slightly higher than in Alexandria. There was a significant difference in income by housing tenure, with the median for home owners at \$60,361, while the median for renters was \$26,851 in Alexandria.
- ▶ **Median Owner-Occupied Home Value** - Alexandria had the highest median home value of the comparison communities, at \$160,500. Alexandria and Marshall were the only two communities with a median home value of \$140,000 or more, and Alexandria's median was more than \$16,000 higher than the median value in Marshall in 2016.
- ▶ **Median Gross Rent** - Alexandria had the highest gross rent of the comparison cities, and was the only community with a median above \$700 in 2016.
- ▶ **Ownership Housing Costs** - Using median income and housing cost data, an estimate can be made of the percentage of household income that is required for ownership costs. This includes households both with and without a mortgage. Alexandria had the second highest percentage of income required for ownership, at 20.9% of median income. Alexandria did have a substantially higher median home value, but the median household income for home owners was also relatively high, so the percentage needed for ownership was not substantially different from the other communities.
- ▶ **Renter Housing Costs** - Alexandria was tied with Bemidji for the highest percentage of income needed for rental housing, at 30.6% of median income. With the higher rental housing costs in Alexandria, a renter household at the median income level would have a cost burden.