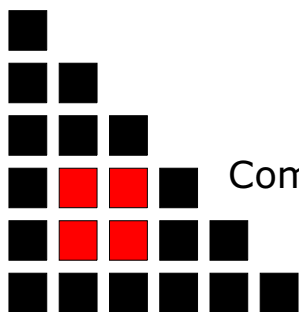


City of Annandale HOUSING STUDY

July 2014

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



Community Partners Research, Inc.

10865 32nd Street North

Lake Elmo, MN 55042

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Introduction

Overview

Community Partners Research, Inc., was hired by the City of Annandale to complete a comprehensive study of housing market conditions in the City and the surrounding area.

Methodology

A variety of resources were utilized to obtain information for the Housing Study. Community Partners Research, Inc., collected and analyzed data from April to July 2014. Data sources included:

- U.S. Census Bureau
- Minnesota State Demographer
- Records and data from the City
- Records and data maintained by Wright County
- Records and data generated by the Metropolitan Council
- 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 Housing Study 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, Federal or State tax policy or other related factors could change the findings and conclusions contained in this Study.

In 2014, a number of issues continue to negatively impact local and national housing markets. Many of these issues represent a significant departure from conditions that were present prior to 2007, and have the potential to alter traditional supply and demand calculations for housing.

In most cases, this Study has not attempted to project future economic conditions, but instead has relied on past patterns and practices, with modifications that are appropriate for the current conditions. Among the issues impacting housing markets are the following:

- ▶ High Rates of Delinquency and Foreclosure - Since 2007, many communities have witnessed an above-average level in the number of delinquent mortgages and foreclosures. As a result, there has been an above-average level of housing turnover, caused by "short sales", bank-owned sales and foreclosures.
- ▶ Mortgage Market Liquidity - In response to rising delinquency and foreclosure rates, the mortgage market has been altered, with both primary and secondary mortgage lenders changing their standards and the availability of credit.
- ▶ Fannie Mae and Freddie Mac Bailout - The federal government was forced to take over these quasi-public agencies to help keep home mortgages available. Changes to the federal government's role in the home mortgage market continue to be debated in Washington.
- ▶ National Retreat in Home Prices - After many years of steady gains, the median value of single family homes dropped in some major markets in recent years. This had multiple effects, including a retreat of potential home buyers out of the market until conditions stabilize. These price trends have generally been reversing in recent years.
- ▶ Over Supply of Housing - Strong housing market conditions earlier in this decade resulted in above-average activity in the housing development markets, including both housing units and residential lots. In some areas, an oversupply of inventory exists, which further depresses home prices.
- ▶ Economic Recession - The economy of the United States was in a period of sustained recession, and recovery remains slow in 2014. Above-average national unemployment levels exist and reduced consumer demand has been present in many areas, including housing.

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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. Both the U.S. Census Bureau and the Minnesota State Demographer's Office have released basic demographic estimates for the year 2013. However, these annual estimates are generally limited to basic counts, such as population and household levels.

For more detailed demographic variables, the 2010 Census is viewed as the most reliable data source. While the last Census is an accurate benchmark for demographic data, it was more limited in scope than in the past. As a result, some of the demographic variables, such as income and housing cost information, are not available. 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 Survey is an estimate, based on sampling data, there is a margin of error that exists for each estimate. The following tables incorporate the 2010 Census data, when available, or 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 Annandale, the 2012 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 2008 and 2012. For Wright County, three sets of 2012 estimates exist, based on sampling completed over a five-year period, a three-year period between 2010 and 2012, or a one-year period. After review of these data sets for Wright County, it appears that the one-year sampling estimates are better matched to the findings of the 2012 State Demographer estimates and are therefore viewed as the most reliable.

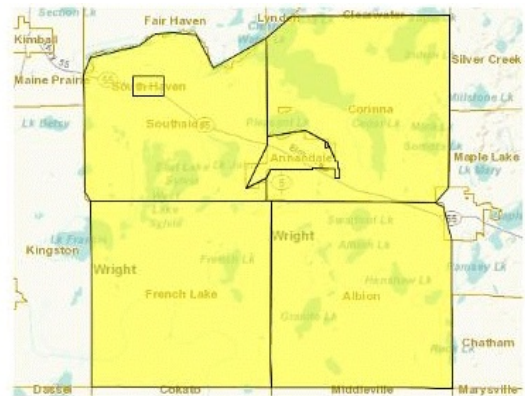
One final data source that was reviewed for Annandale was ESRI, Inc., a private data reporting service. ESRI estimates were available for 2013, with projections to 2018.

Market Area Definitions

In addition to examining demographic data for the City of Annandale, Community Partners Research has also assembled larger geographical aggregations of nearby jurisdictions, defined as follows.

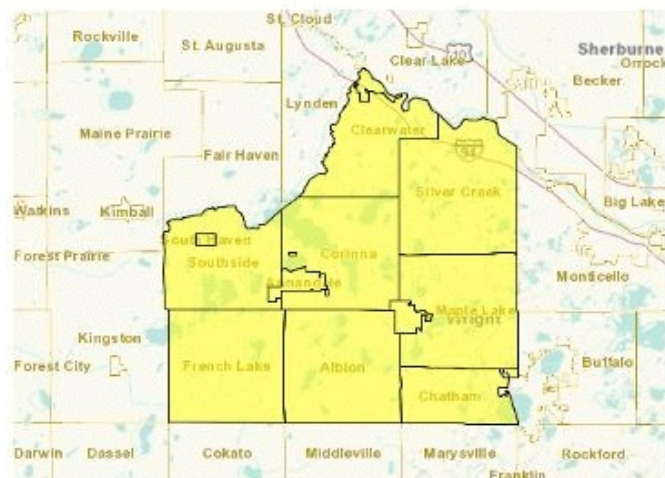
Greater Annandale

To help identify people that live outside of the City but orient to Annandale as their local community, five neighboring jurisdictions have been added to the City's demographic total, and defined as Greater Annandale. The five additional jurisdictions include the City of South Haven, and the Townships of Albion, Corinna, French Lake and Southside. This aggregated geography is considered to be a primary market area for the City.



Northwest Quadrant of Wright County

Wright County's Land Use Plan divides the County into different quadrants. Annandale is part of the NW Quadrant, which also includes the Townships of Albion, Chatham, Clearwater, Corinna, French Lake, Maple Lake, Silver Creek and Southside as well as the Cities of Clearwater (Wright County portion only), Maple Lake, and South Haven. This portion of the County allows comparison of Annandale within a larger region, and represents a secondary market area for the City.



Population Data and Trends

Both the Minnesota State Demographer and the U.S. Census Bureau have released population estimates for the year 2013. The following table includes the 2013 estimates from the State Demographer. The 2013 Census Bureau estimates are contained in the text that follows.

Table 1 Population Trends - 1990 to 2013						
	1990 Census	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2013 Estimate
Annandale	2,054	2,684	30.7%	3,228	20.3%	3,320
Greater Annandale	7,607	9,197	20.9%	9,685	5.3%	9,987
NW Quadrant	15,276	18,678	22.3%	20,470	9.6%	21,089
Wright County	68,710	89,986	31.0%	124,700	38.6%	128,459

Source: U.S. Census Bureau; MN State Demographer

According to the 2010 Census, Annandale had a net population increase of 544 residents between 2000 and 2010, for a percentage gain of more than 20%. The City grew at an even faster rate in the 1990s, with the population increasing by nearly 31%. It is possible that some of the past growth was due to annexation, as parts of the adjoining townships may have been added to the City.

After 2010, both the Census Bureau and the State Demographer show continued population growth in Annandale. According to the State Demographer, the City added 92 people between 2010 and 2013. According to the Census Bureau's 2013 population estimates, the City has added 61 new residents, a slightly lower population estimate.

While population growth has also been occurring for the area defined as Greater Annandale, in recent years this has been primarily due to the impact of the City. Between 2000 and 2010, the Greater Annandale aggregated area added 488 people, but Annandale alone added 544 people. If the City of Annandale is removed, the remainder of the area actually experienced a population loss in the previous decade. Once again, it is possible that annexation activity had some impact on the change for the different jurisdictions.

After 2010, the State Demographer's most recent estimates show growth both within the City of Annandale and within the remainder of the jurisdictions that comprise Greater Annandale, with the aggregated area adding 302 people.

The last decade was a period of strong growth for the jurisdictions in the Northwest Quadrant of Wright County. Between 2000 and 2010, this 12-jurisdiction aggregated area added nearly 1,800 residents, for a percentage of nearly 10%. Based on the Demographer's most recent estimates, the average annual growth was 206 people per year between 2010 and 2013.

Population growth has also been very strong in all of Wright County, as the Twin Cities Metropolitan Area has continued to expand. Between 2000 and 2010, the County added nearly 35,000 people, for a percentage gain of nearly 39%. Much of this growth occurred in the jurisdictions along the Interstate 94 corridor.

The most recent estimate from the State Demographer places the County population at 128,459 people in 2013, up by more than 3,750 people from the 2010 Census. The U.S. Census Bureau has also issued a 2013 County estimate that shows the Wright County population at 128,470 people, nearly identical to the State Demographer.

In their county estimates, the Census Bureau also identifies the components of change. In Wright County, nearly all of the recent increase is attributed to births exceeding deaths, with very little growth attributed to in-migration of people into the County. The Census Bureau actually shows a net loss of County residents from domestic migration patterns, as more people moved out of the County than moved in. However, some migration gains occurred from international immigrants moving into the County.

The jurisdictions that form the NW Quadrant accounted for approximately 5.2% of Wright County's net population growth between 2000 and 2010. Between 2010 and 2013, the net population growth within the NW Quadrant has represented approximately 16.5% of the County's recent net gain. Annandale had the largest numeric population growth of the NW Quadrant jurisdictions, adding 92 people between 2010 and 2013.

ESRI Estimates

ESRI, a private data reporting service, has generated population estimates for area jurisdictions. For the City of Annandale, the ESRI estimate was 3,283 people, lower than the 2013 estimate from the State Demographer, but very similar to the Census Bureau estimate.

Population Characteristics

Population by Race and Ethnicity

Annandale's population is primarily White and non-Hispanic. At the time of the 2010 Census, more than 96% of the City's residents identified themselves as White for race, and only 3% of City residents identified themselves as Hispanic/Latino for ethnicity. Due to the City's limited diversity, no additional information has been provided in this Study.

Group Quarters Population

In 2010, the decennial Census counted 107 group quarters residents in the City, including 83 people in skilled nursing facilities, 8 people in other types of institutional facilities and 16 people in undefined noninstitutional facilities. It is possible that some form of noninstitutional group homes exist within the community.

The City does have a skilled nursing home, licensed in 2014 for 60 beds. There have also been some memory care housing facilities constructed and due to their similarity, these may have been added to the nursing home total.

The 2013 estimate from the State Demographer shows limited change in the City's group quarters population, with 110 people living in some form of group quarters housing, compared to 107 in the year 2010.

At the time of the 2000 Census, there were only 58 group quarters residents counted in Annandale, and 54 of these were in skilled nursing homes. Part of the City's population growth in the previous decade was due to an expansion of group quarters housing.

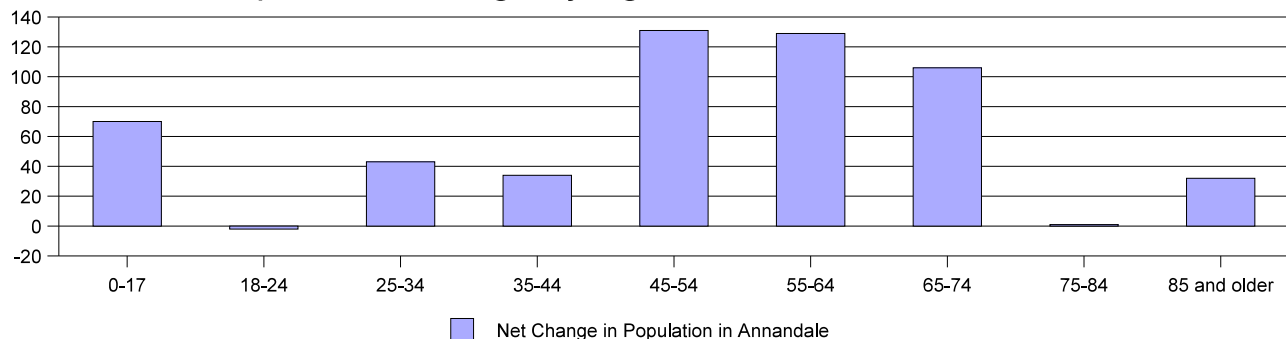
Population by Age Trends: 2000 to 2010

The release of demographic information from the 2010 Census allows for some analysis of the area's changing age patterns. The following table compares population by age in 2000 and 2010, along with the numeric changes. Age changes are examined for the City of Annandale and for all of Wright County.

Table 2 Population by Age - 2000 to 2010						
Age	Annandale			Wright County		
	2000	2010	Change	2000	2010	Change
0-17	734	804	+70	27,975	37,361	+9,386
18-24	228	226	-2	6,879	8,237	+1,358
25-34	399	442	+43	13,084	17,496	+4,412
35-44	381	415	+34	16,257	19,201	+2,944
45-54	275	406	+131	11,101	18,513	+7,412
55-64	206	335	+129	6,775	11,958	+5,183
65-74	169	275	+106	4,114	6,902	+2,788
75-84	185	186	+1	2,751	3,529	+778
85+	107	139	+32	1,050	1,503	+453
Total	2,684	3,228	+544	89,986	124,700	+34,714

Source: U.S. Census

Population Change by Age Between 2000 and 2010



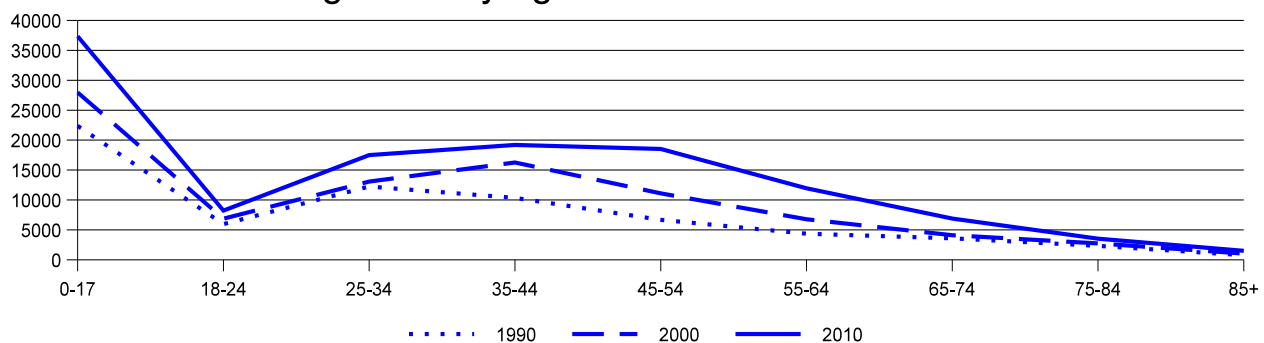
For many years, demographic analysts have been talking about the impact that is occurring as the large “baby boom” generation moves through the aging cycle. This trend has been very evident in the Annandale. Between 2000 and 2010, Annandale had a net gain of 260 people in the age ranges between 45 and 64 years old. In 2010, nearly all of the baby boomers were within these age ranges. The numeric net gain in the 45 to 54 year old age group was the largest of any defined age cohort.

Due to strong overall population growth in the previous decade, Annandale added people in most of the defined age ranges. However, less than 27% of the population growth was due to people age 44 and younger. There was also limited growth in the number of older senior citizens, age 75 and older.

Age progression patterns for all of Wright County differed from those in Annandale. Given the substantial population growth Countywide in the last decade, there were net gains recorded in all of the defined age ranges. However, much of the County’s growth was due to younger adult households, including families with children. Overall, more than 52% of the County’s growth was attributed to people age 44 and younger.

Countywide, there was an increase in senior citizens, age 65 and older, but for all of Wright County, this was primarily due to strong growth in the youngest senior age range, age 65 to 74.

Wright County Age Distribution: 1990 to 2010



The aging trends present in Wright County can be traced back over the previous decades to see the movement of the baby boom generation. One notable trend that is evident in Wright County is the ‘wave’ created by the baby boom age ranges has grown progressively larger with each successive decade.

Population Projections

The following table presents population projections using two different sources. The first set of projections has been generated by Community Partners Research, Inc., using short-term trends in population change, and calculating these trends forward. The second projection is based on data from the Minnesota State Demographer's Office, which has generated population projections for individual jurisdictions and counties in the State. Projections are provided for the years 2015 and 2020.

The State Demographer's Office has generated more recent projections at the city and county level, which better reflect the patterns made evident in the 2010 Census. However, projections at the township level were created in late 2007, and do not reflect the most recent information on growth trends. Because of the timing, the township forecasts tend to overweight the rapid growth that was occurring in the first half of the previous decade. Instead of using the Demographer's actual projection numbers, the following table uses the incremental change in each of the five-year periods. This helps to adjust downward for the overly high projected level expected in most of the townships in the year 2010, by readjusting the base number to the 2010 Census, and then focusing on the change going forward.

Table 3 Population Projections Through 2020					
	2013 Estimates	Community Partners Research Projection		State Demographer Projection*	
		2015	2020	2015	2020
Annandale	3,320	3,420	3,610	3,488	3,816
Greater Annandale	9,987	10,260	10,835	10,612	11,532
Wright County	128,459	130,855	137,055	143,740	155,175

Source: U.S. Census; Community Partners Research, Inc.; MN State Demographer

* Extrapolated for Townships

The Community Partners Research projections expect moderate population growth for the Annandale area through the years 2015 and 2020. Since these projections are based on past trends, they continue the patterns that have been evident in recent years, as the City and adjoining Townships have added a limited number of new residents.

It is important to note that these projections may prove to be very conservative, as greater growth potential does exist within the larger region, but in the past few year, the Annandale area has been growing at a more moderate rate.

The projections produced by the State Demographer's Office probably overweight the rapid growth patterns of the early 2000s, especially in the township areas. Although these projections may be reached by the area jurisdictions, recent patterns have not indicated that the Annandale area will add this many new residents within the next few years.

The projections for all of Wright County reflect a potential range of growth, depending on long-term versus short-term patterns. The projections generated by Community Partners Research are based on short-term trends, reflecting the more limited rate of growth that has been present in the past few years. These projections expect the County to add approximately 1,240 people in an average year through the year 2020.

The County projections from the State Demographer's Office are once again much more optimistic in the rate of growth, and expect the County to add more than 3,800 people per year between 2010 and 2015, and then nearly 2,300 people in an average year between 2015 and 2020. While growth of this scale is possible, it has not been realized in recent years. Based on the most recent annual estimates, the County has been experiencing actual net growth of 1,000 to 1,200 people per year, less than one-third the level needed to reach the Demographer's 2015 projections.

ESRI's population projections are for a 5-year time period between 2013 and 2018, a different increment than the other projections provided. However, the annual average change can be compared to other sources. For the City of Annandale, ESRI projects annual growth of approximately 27 people per year, lower than the incremental annual projection generated by Community Partners Research.

Household Data and Trends

The Minnesota State Demographer's Office has released 2013 household estimates for individual jurisdictions, which are displayed in the following table, along with totals from previous decennial Censuses.

Table 4 Household Trends - 1980 to 2013						
	1990 Census	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2013 Estimate
Annandale	804	1,098	36.6%	1,338	21.9%	1,372
Greater Annandale	2,746	3,511	27.9%	3,826	9.0%	3,934
NW Quadrant	5,331	6,845	28.4%	7,780	13.7%	7,992
Wright County	23,013	31,465	36.7%	44,473	41.3%	45,659

Source: U.S. Census; MN State Demographer

According to the 2010 Census, Annandale added 240 households between 2000 and 2010. This represented household growth of nearly 22%. The City had grown at a much faster rate in the 1990s, but this may have been due in part to annexation of existing rural households into the city limits.

Based on the most recent estimate from the State Demographer's Office, Annandale added 34 households between 2010 and 2013. This level of household growth was greater than the number of housing units constructed, and if accurate, it is probable that some of the growth was due to the availability of some formerly vacant housing.

Consistent with population trends presented earlier, the Greater Annandale area also added households in the previous decade, but this was primarily due to the growth within the City. Between 2000 and 2010, the aggregated area added 315 households, but only 75 households in the jurisdictions outside of Annandale.

After 2010, there were 74 additional households added outside of Annandale, based on the State Demographer's most recent estimates, compared to 34 households added within the city limits.

The jurisdictions that form the NW Quadrant had very substantial growth over the last decade, adding 935 households. On an annual average basis, this aggregated area added approximately 94 households per year.

Based on the most recent estimates from the State Demographer, annual average growth in the NW Quadrant after the year 2010 has been approximately 71 households in an average year through 2013.

All of Wright County experienced explosive growth between 2000 and 2010, with an increase of more than 13,000 households during the decade. However, in the three-year period from 2010 to 2013, only 1,186 households were added, or fewer than 400 per year.

The jurisdictions that form the NW Quadrant accounted for approximately 7.2% of Wright County's net household growth between 2000 and 2010. Between 2010 and 2013, the household growth within the NW Quadrant has represented approximately 17.9% of the County's recent net gain.

ESRI Estimates

The ESRI demographic report also contained a household estimate to the year 2013. For the City of Annandale, ESRI estimated 1,371 households, only one household lower than the State Demographer's 2013 estimate.

Household by Age Trends: 2000 to 2010

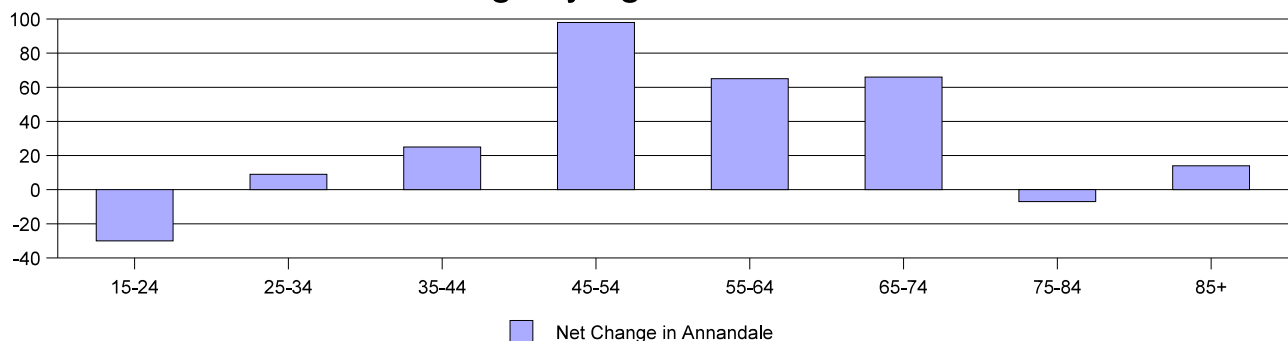
The 2010 Census allows for some analysis of the area's changing age patterns. The following table compares households by age of householder in 2000 and 2010, along with the numeric changes.

Table 5 Households by Age - 2000 to 2010						
Age	Annandale			Wright County		
	2000	2010	Change	2000	2010	Change
15-24	72	42	-30	1,315	1,270	-45
25-34	212	221	+9	6,210	8,167	+1,957
35-44	219	244	+25	8,864	10,170	+1,306
45-54	160	258	+98	6,196	10,463	+4,267
55-64	128	193	+65	3,914	6,910	+2,996
65-74	111	177	+66	2,538	4,194	+1,656
75-84	133	126	-7	1,820	2,342	+522
85+	63	77	+14	608	957	+349
Total	1,098	1,338	+240	31,465	44,473	+13,008

Source: U.S. Census

Consistent with the population by age data presented earlier, the household patterns show most of the net change occurring in the baby boomer age groups. For the City of Annandale, the largest net growth in households occurred in the 10-year age group between 45 and 54 years old.

Household Change by Age Between 2000 and 2010

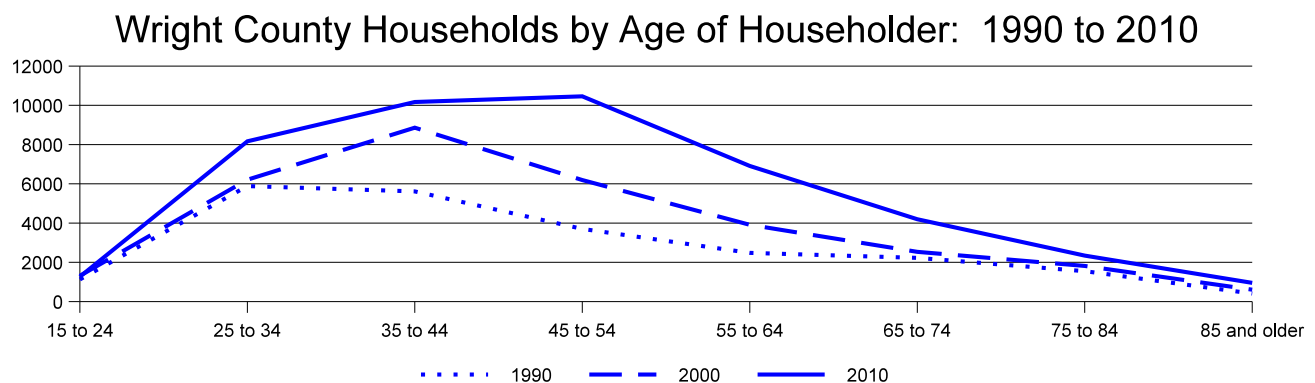


Nearly all of the net gain in households during the last decade can be attributed to the increase in households age 45 and older. The only exception in the older adult age ranges was the 75 to 84 year old group, which had a decrease of seven households. The number of younger adult households was largely unchanged during the decade.

Countywide, net increases occurred in all but one age range, as the number of young adult households, age 24 and younger, decreased slightly. Growth was especially strong in the 45 to 54 year old group, as the youngest end of the baby boom generation increased substantially in numbers in Wright County.

There was some overall increase in the number of senior-headed households in Wright County, due primarily to substantial net growth from younger seniors, age 65 to 74.

As with the longer-term patterns for population, it is possible to track the progression of the baby boomer households over the past 30 years, using Census information for households by the age of householder.



One trend that is once again evident in this chart is the fact that households in the prime baby boom age groups have been growing in size through each progressive decade. Rather than the existing households simply aging in place, net in-migration to Wright County has continually added population and households in the baby boomer ranges.

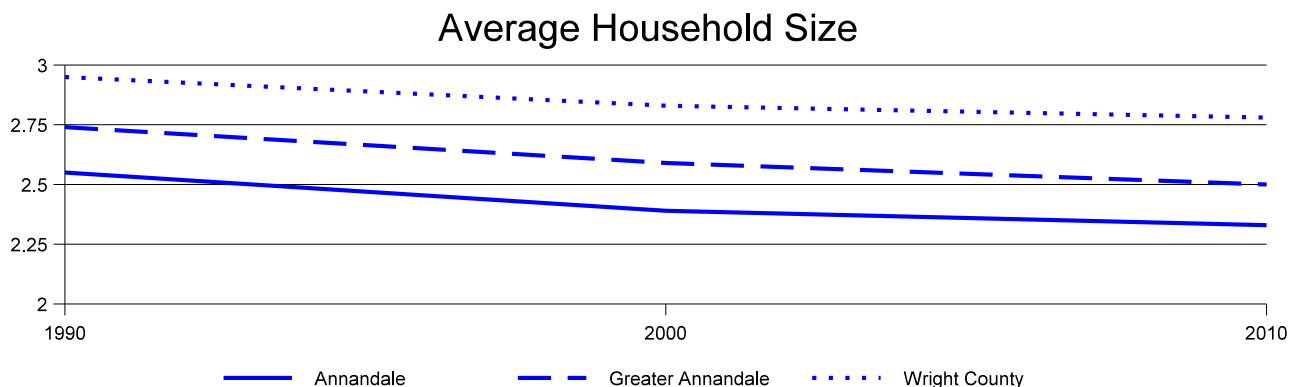
Average Household Size

The following table provides decennial Census information on average household size. Estimates from the State Demographer for 2013 are also included.

Table 6 Average Number of Persons Per Household 1980 to 2013				
	1990 Census	2000 Census	2010 Census	2013 Estimate
Annandale	2.55	2.39	2.33	2.34
Greater Annandale	2.74	2.59	2.50	2.50
Wright County	2.95	2.83	2.78	2.79

Source: U.S. Census; MN State Demographer

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



Although there is a long-term trend of smaller average household sizes in the Annandale area and in all of Wright County, the average size has remained relatively stable in recent years.

Household Projections

The following table presents household projections using two different sources. As with population projections, Community Partners Research, Inc., has generated projections to the years 2015 and 2020, by examining recent patterns and trends to predict future changes.

The State Demographer's Office had previously issued household projections at the county level. However, their more recent population projections for Wright County are much higher, and do not match the initial household forecasts. At the city and township level, it is possible to extrapolate household forecasts from the population projections provided earlier in this section. In converting population to households, it is assumed that group quarter's populations will remain largely unchanged, and that the average household size will decrease gradually.

Table 7 Household Projections Through 2015/2020					
	2013 Estimate	Community Partners Research		State Demographer	
		2015 Projection	2020 Projection	2015 Projection	2020 Projection
Annandale	1,372	1,415	1,490	1,455	1,610
Greater Annandale	3,934	4,005	4,180	4,235	4,645
Wright County	45,659	46,470	48,480	47,555	52,316

Source: State Demographer; Community Partners Research, Inc.

After examining past growth trends, along with the aging patterns for area residents, the projections created by Community Partners Research expect the City of Annandale to add approximately 15 households per year through the year 2020.

Utilizing the projections extrapolated from the State Demographer's population forecasts, Annandale would be projected to add as many as 30 households per year. However, growth of this scale has not occurred in the recent past, and is unlikely to occur in the near future.

The Community Partners Research projection for Greater Annandale expects approximately 35 households in an average year, including the growth in Annandale. The projection derived from State Demographer data is very high, and would require average annual growth of more than 80 households per year.

For all of Wright County, total projected growth over the two-year period to the year 2015 would be approximately 811 households. When based on an annual average, these projections point to approximately 405 households per year. For comparison, Wright County has averaged annual growth of 395 households per year between 2010 and 2013.

The Wright County projections created by Community Partners Research are much lower than those that have been calculated by the State Demographer's Office. The Demographer's Office has projected annual growth of approximately 615 households per year for Wright County between 2010 and 2015. However, this projection is not consistent with more recently released annual estimates that show that actual average growth has been less than 400 households per year so far in the current decade.

ESRI Projections

ESRI has issued projections for the five-year period from 2013 to 2018. Over this span, ESRI projects that Annandale will add 67 total households, or approximately 13 households in an average year. ESRI's projection for Annandale is very similar to the trend-based projection from Community Partners Research.

Household by Age Projections: 2010 to 2020

With the release of the 2010 Census, a new benchmark was established for examining age-related statistics. In the following table, Community Partners Research has generated age-based household projections for the Greater Annandale area to the year 2020.

The projections were created by Community Partners Research by trending forward past retention rates within defined age cohorts, and assuming that these past patterns are reasonable predictors of future age-based changes.

The projections assume that historical patterns will continue into the near-future, especially related to household formation and household size within specific age groups. If the area adds population at a rate that is faster or slower than past patterns would suggest, traditional age-based forecasts would be altered.

Table 8 Greater Annandale Household Projections by Age - 2010 to 2020			
Age Range	2010 Census	Community Partner Research	
		2020 Projection	Change from 2010
15-24	70	63	-7
25-34	434	412	-22
35-44	632	599	-33
45-54	884	713	-171
55-64	769	988	+219
65-74	556	823	+267
75-84	341	449	+108
85+	140	133	-7
Total	3,826	4,180	+354

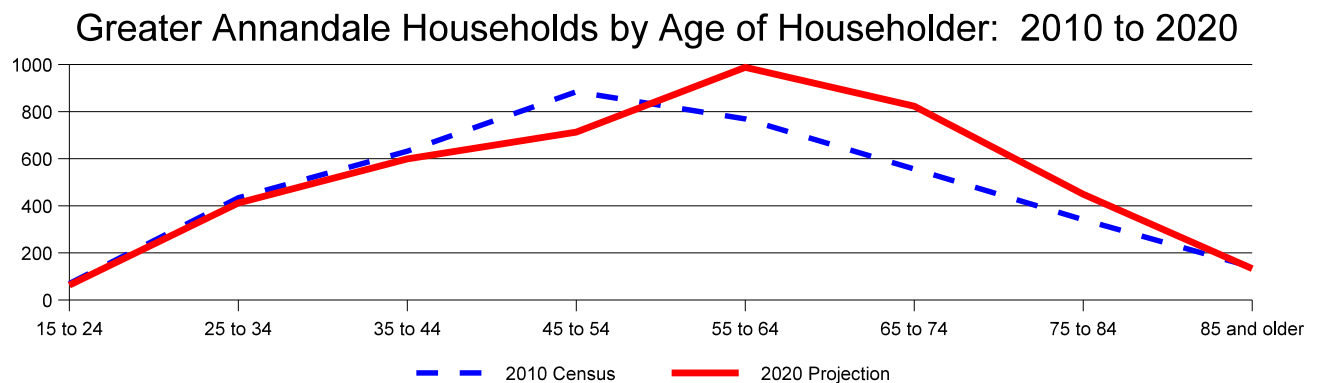
Source: U.S. Census; Community Partners Research, Inc.

The age-based projections for the Greater Annandale area expect that most of the net growth in households will occur in the 20-year age range between 55 and 74 years old. By the year 2020 all of the “baby boom” generation will be age 55 or older.

Most of the defined 10-year cohorts age 55 and older should increase in size, while most of the age ranges 54 and younger will show little growth or decrease in size. Overall, these projections point to a possible decrease of approximately 233 households age 54 and younger, and a probable increase of more than 585 households age 55 and older.

It is important to note that these projections are based on the past age distribution and retention patterns. It is possible that an increase in in-migration of new residents could alter the traditional age distribution patterns.

The following line chart shows the progression of the age ranges from 2010 to 2020.



Households by Type

The 2010 Census can be compared to statistics from 2000 to examine changes in household composition. The following table looks at household trends within the City of Annandale.

Table 9 Annandale Household Composition: 2000 to 2010			
	2000 Census	2010 Census	Change
Family Households			
Married Couple with related children	250	274	+24
Single Parent with related children	127	147	+20
Married Couple without related children	273	342	+69
Family Householder without spouse	48	56	+8
Total Families	698	819	+121
Non-Family Households			
Single Person	345	444	+99
Two or more persons	55	75	+20
Total Non-Families	400	519	+119

Source: U.S. Census

Between 2000 and 2010, the City of Annandale experienced an almost equal level of growth in the number of family and non-family households. The household type with the largest numeric gain was one-person households. Most of the increase family households resulted from more married couples without children, although there was also some increase in the number of married couples with children.

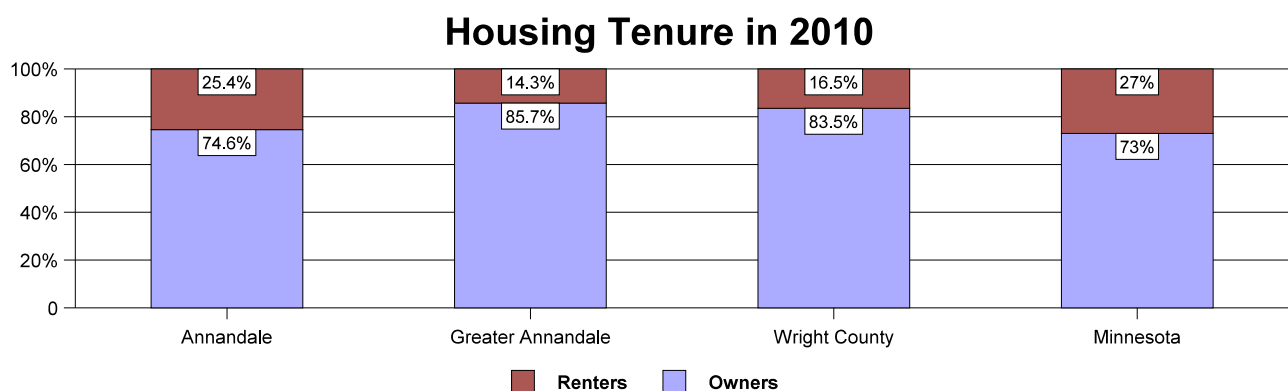
Housing Tenure

The 2010 Census provided an accurate look at housing tenure patterns. The following tables examine number and percentage of owner and renter households, along with the changes that have occurred since 2000.

Table 10 Household Tenure - 2010				
	Number of Owners	Percent of all Households	Number of Renters	Percent of all Households
City of Annandale	998	74.6%	340	25.4%
Greater Annandale	3,280	85.7%	546	14.3%
Wright County	37,156	83.5%	7,317	16.5%
State	-	73.0%	-	23.0%

Source: U.S. Census

According to the 2010 Census, the ownership tenure rate in the City of Annandale 74.6%, with the remaining 25.4% of households renting their unit. When the entire Greater Annandale aggregation is reviewed, the home ownership rate increased substantially, to nearly 86% and well above the Statewide ownership tenure rate of 73% in 2010. For all of Wright County, the home ownership rate was also very high, at 83.5%.



Tenure rates in 2010 can be compared to 2000 to determine the most recent trends in household preference for ownership versus rental housing.

Table 11 Households by Housing Tenure - 2000 to 2010

Tenure	Annandale			Wright County		
	2000	2010	Change	2000	2010	Change
Owners	838	998	+160	26,560	37,156	+10,596
Renters	260	340	+80	4,905	7,317	+2,412
Total	1,098	1,338	+240	31,465	44,473	+13,008

Source: U.S. Census

The rental tenure rate for Annandale increased slightly over the last decade, from 23.7% renters in 2000 to 25.4% in 2010. Wright County's tenure patterns moved in a similar direction, although the vast majority of households owned their unit. In 2000, the Wright County rental tenure rate was at 15.6%. By 2010, it had increased to 16.5%.

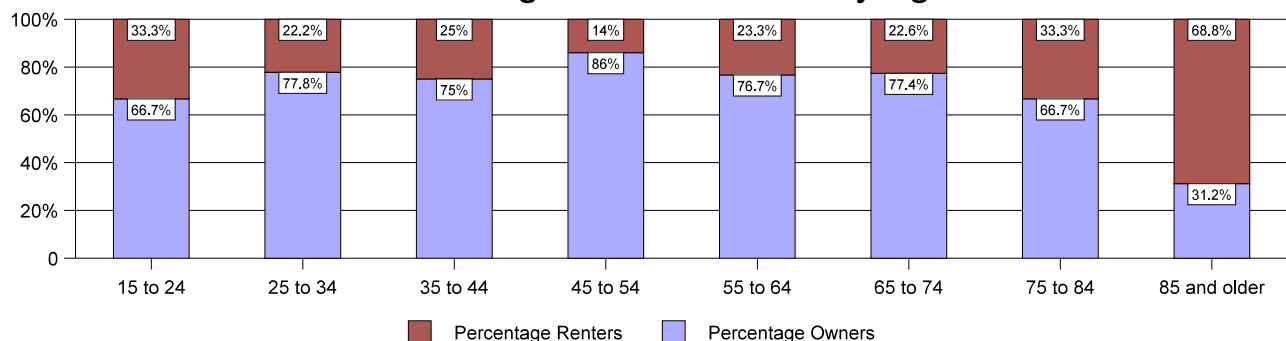
Tenure by Age of Householder

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 Annandale.

Table 12 Annandale Tenure by Age of Householder - 2010				
Age	Owners		Renters	
	Number	Percent within age	Number	Percent within age
15-24	28	66.7%	14	33.3%
25-34	172	77.8%	49	22.2%
35-44	183	75.0%	61	25.0%
45-54	222	86.0%	36	14.0%
55-64	148	76.7%	45	23.3%
65-74	137	77.4%	40	22.6%
75-84	84	66.7%	42	33.3%
85+	24	31.2%	53	68.8%
Total	998	74.6%	340	25.4%

Source: U.S. Census

Annandale Housing Tenure Patterns by Age in 2010



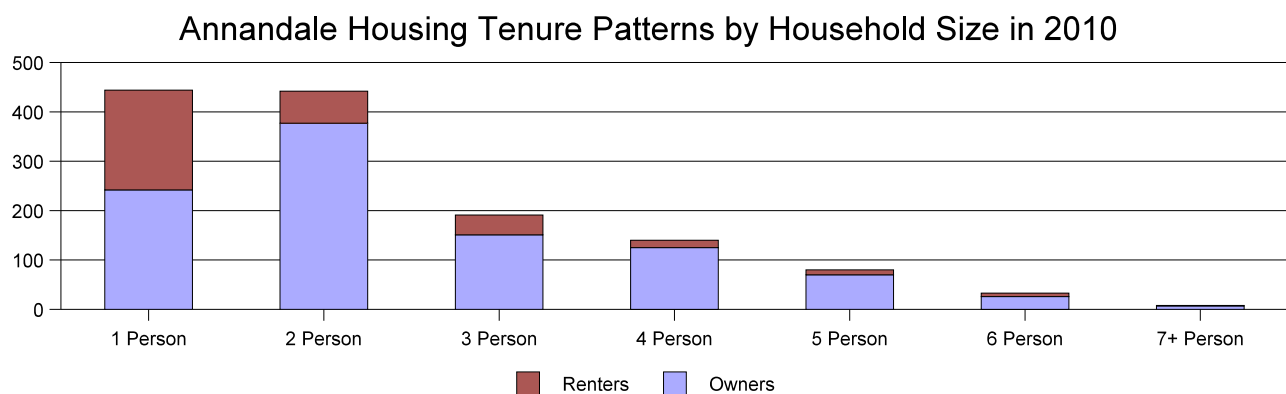
Within the defined age ranges, typical tenure patterns were present, with households at the lowest and highest ends of the age spectrum showing a greater frequency in renting their housing unit, while middle-aged adult households were primarily home owners. More than 75% of households age 25 to 74 years old owned their housing.

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.

Table 13 Annandale Tenure by Household Size: 2000 to 2010						
Household Size	Owners			Renters		
	2000	2010	Change	2000	2010	Change
1-Person	178	242	+64	167	202	+35
2-Person	289	377	+88	54	65	+11
3-Person	156	151	-5	21	40	+19
4-Person	128	125	-3	7	15	+8
5-Person	65	70	+5	10	10	0
6-Person	12	26	+14	0	7	+7
7-Persons+	10	7	-3	1	1	0
Total	838	998	+160	260	340	+80

Source: U.S. Census



Over the past decade, there was substantial growth in the number of smaller households. Among home owners, nearly all of the net growth occurred among households with only one or two household members. The patterns were generally similar for renters, but there was also fairly strong growth among three-person households. Households with only one or three household members represented more than 90% of all renters in the City in 2010.

2012 Median Income Data

The 2010 Census did not collect information on household income. However, estimates are available at the City, Township and County level through the 2012 American Community Survey.

Household income represents all independent households, including people living alone and unrelated individuals together in a housing unit. Families are two or more related individuals living in a household. No median income information was available for the jurisdictions that form the Greater Annandale area, since these are three separate jurisdictions that have been aggregated for analysis in this Study.

Table 14 Median Income - 2000 to 2012			
	2000 Median	2012 Median	% Change
Households			
Annandale	\$37,929	\$50,924	34.3%
Wright County	\$53,945	\$70,930	31.5%
Minnesota	\$47,111	\$59,126	25.5%
Families			
Annandale	\$48,667	\$57,143	17.4%
Wright County	\$60,940	\$81,193	33.2%
Minnesota	\$56,874	\$74,032	30.2%

Source: U.S. Census; 2012 ACS 5-year survey

Income information contained in the 2012 American Community Survey shows solid income growth within Annandale over the prior decade, when the City's median household income level increased by more than 34%. Although the rate of increase was well above the Statewide rate, the City's actual median household income was still more than \$8,000 lower than the Minnesota median, and more than \$20,000 below the Wright County median. When compared to the County, Annandale has a larger number of renter households and a large number of senior citizen households, both of which tend to have lower incomes.

Family household incomes tend to be higher than the overall household median, as families have at least two household members. While the median family income in Annandale was higher than the median household income, it was still well below the comparable Countywide and Statewide medians for families.

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 Annandale could afford approximately \$1,275 per month for ownership or rental housing in 2012. A family at the median income level for the City could afford approximately \$1,430 for housing costs.

Although households at or near the median levels do have some buying power for housing, the overall medians can be somewhat deceptive. In general, renter households tend to have incomes that are well below the overall median levels, while home owners tend to be above the medians for households or families.

In 2012, the median income level for owner households in Annandale was \$56,327. The estimated median household income for renters in 2012 was only \$26,790. At 30% of income, a median income renter in the City could apply \$670 to gross rent without experiencing a housing cost burden.

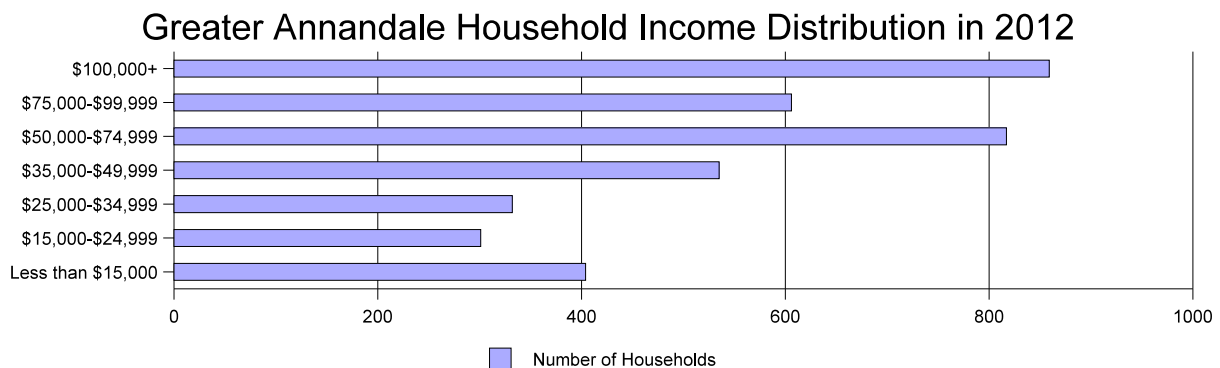
Greater Annandale Household Income Distribution

The 2012 American Community Survey household income estimates for the three jurisdictions that form the Greater Annandale area can be compared to the same distribution information from the 2000 Census to examine changes that have occurred over the previous 12-year period.

It does appear that the American Community Survey may have slightly underestimated the number of households in the Greater Annandale area in its 2012 data. Based on the State Demographer's estimates, there may have been 50 to 60 more households, a difference of approximately 1.5%. Despite the minor underestimate, the American Community Survey still provides the best comparative look at household income levels.

Table 15 Household Income Distribution - 2000 to 2012			
Household Income	Number of Households 2000	Number of Households 2012	Numeric Change 2000 to 2012
\$0 - \$14,999	402	404	+2
\$15,000 - \$24,999	345	301	-44
\$25,000 - \$34,999	389	332	-57
\$35,000 - \$49,999	649	535	-114
\$50,000 - \$74,999	900	817	-83
\$75,000 - \$99,999	463	606	+143
\$100,000+	389	859	+470
Total	3,537	3,854	+317

Source: 2012 ACS; 2000 Census



According to income estimates contained in the 2012 American Community Survey, household incomes have generally improved in the Greater Annandale area, especially in the higher income ranges. When compared to the 2000 Census (1999 income), the number of households with an income of \$75,000, or more, had increased by more than 600 households.

Although there was a decrease in the number of households in each of the low and moderate income ranges, there were still more than 1,000 households with an annual income below \$35,000, including more than 400 households with an income below \$15,000.

It is important to recognize that the improvement in household incomes was impacted by the rate of inflation. During this same time period, the Consumer Price Index increased by more than 29%.

Income Distribution by Housing Tenure

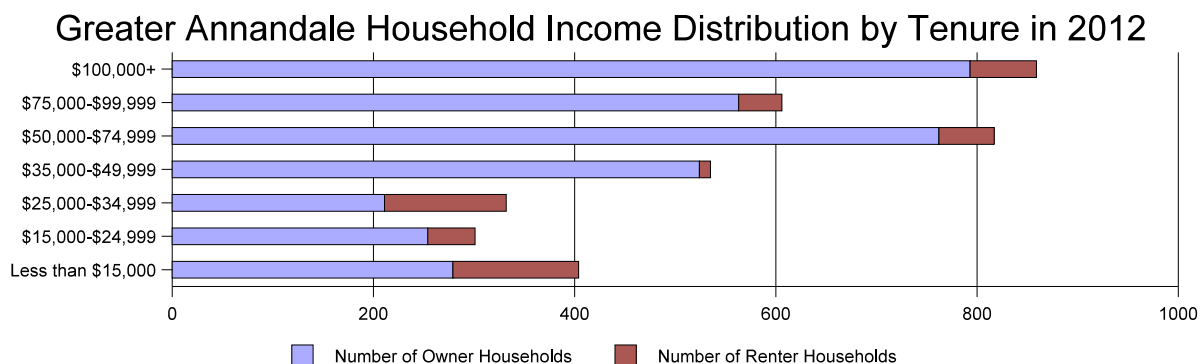
The 2012 American Community Survey provides an estimate by owner and renter status. The following table examines income distribution within the Greater Annandale area. The majority of the Greater Annandale area renter households live within the city limits, while a majority of the homeowners live in the Townships that surround the City.

Although the American Community Survey is an estimate, based on limited sampling data, it was reasonably accurate for the total number of area households in 2012. However, it was less accurate in its tenure-based estimates. When compared to the 2010 Census, the American Community Survey reported approximately 75 to 100 fewer renter households than were actually present. The home owner estimate is generally similar to the 2010 Census, with an allowance for the two-year difference in the effective dates.

Table 16 Greater Annandale Income Distribution by Tenure - 2012

Household Income	Number of Owner Households	Number of Renter Households	Total Households
\$0 - \$14,999	279	125	404
\$15,000 - \$24,999	254	47	301
\$25,000 - \$34,999	211	121	332
\$35,000 - \$49,999	524	11	535
\$50,000 - \$74,999	762	55	817
\$75,000 - \$99,999	563	43	606
\$100,000+	793	66	859
Total	3,386	468	3,854

Source: 2012 American Community Survey



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 2012, approximately 63% of renter households in the Greater Annandale area had an annual income below \$35,000. At 30% of income, these households would have \$875, or less, that could be applied to monthly housing costs. The median income for all renter households was \$26,790 in 2012.

Conversely, most owner households had a substantially higher income level. Nearly 63% of owner households had an annual income of \$50,000 or more. The estimated median household income for owners in 2012 was \$56,327.

2012 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 Greater Annandale area.

Table 17 Gross Rent as a Percentage of Household Income - 2012			
Percent of Income for Housing	Households Age 64 and Younger	Households Age 65 and Older	Total
Less than 20%	113 / 39.5%	16 / 8.8%	129 / 27.6%
20% to 29.9%	50 / 17.5%	35 / 19.2%	85 / 18.2%
30% to 34.9%	10 / 3.5%	19 / 10.4%	29 / 6.2%
35% or more	83 / 29.0%	91 / 50.0%	174 / 37.2%
Not Computed	30 / 10.5%	21 / 11.5%	51 / 10.9%
Total	286	182	468

Source: 2012 American Community Survey

According to the American Community Survey, more than 43% of all renters in the Annandale area were paying 30% or more of their income for rent. The large majority of these households were actually paying 35% or more of their income for housing. 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".

Although a housing cost burden could be caused by either high housing costs or low household income, in Annandale it was primarily due to low income levels for renters. Approximately 46% of the renter households with a housing cost burden had an annual household income below \$20,000. To avoid a cost burden, these lower income households would have needed a unit with a gross monthly rent of \$500 or less.

Senior citizen renters (age 65 and older) represented approximately 54% of all households with a rental cost burden. Households in the age ranges between 15 and 64 years old represented approximately 46% of all households with a rental cost burden.

2012 Estimated Income and Housing Costs - Owners

The 2012 American Community Survey includes information on housing costs for home owners. The following table examines the percentage of income required by Greater Annandale area owner households for monthly housing costs. Information is provided for owner households with and without a mortgage on their home. Percentages are calculated for each column.

Table 18 Greater Annandale Owner Household Cost Burden - 2012			
Percent of Income for Housing	Households with a Mortgage	Households without a Mortgage	Total
Less than 20%	679 / 30.1%	735 / 65.2%	1,414 / 41.8%
20% to 29.9%	717 / 31.8%	174 / 15.4%	891 / 26.3%
30% to 34.9%	200 / 8.9%	40 / 3.5%	240 / 7.1%
35% or more	647 / 28.7%	179 / 15.9%	826 / 24.4%
Not Computed	15 / 0.7%	0 / 0%	15 / 0.4%
Total	2,258	1,128	3,386

Source: 2012 American Community Survey 3-year estimates

Most owner-occupants, which would include both households with and without a mortgage, reported paying less than 30% of their income for housing. Mortgage lending practices generally attempt to keep monthly payments below this level of household income. However, nearly 32% of all home owners reported that they paid more than 30% of their income for housing. Most of these households were paying 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 21% of owners reporting a cost burden had no mortgage. In these cases, it was generally a low annual income that has caused the cost burden, such as a retiree that lived on a fixed income.

Building Permit Trends

Like many communities in Minnesota, Annandale has been experiencing a lower level of new housing construction activity over the past few years. In the first half of the previous decade, construction activity had been very strong. Activity slowed significantly after 2005, and since 2011 the City has been averaging fewer than three new units per year. The following table identifies the units that have been issued a building permit from January 2000 through May 2014.

Table 19 Annandale Housing Construction Activity: 2000 to 2014*				
Year	Single Family	2 Unit Structure	Multifamily Rental	Total Units
2014*	1	2	0	3
2013	1	0	0	1
2012	1	0	0	1
2011	4	0	0	4
2010	12	0	0	12
2009	13	0	0	13
2008	6	0	0	6
2007	10	0	0	10
2006	17	0	0	17
2005	45	0	0	45
2004	82	2	0	84
2003	41	0	0	41
2002	24	6	0	30
2001	28	0	0	28
2000	15	0	0	15
Total	299	8	0	307

Source: City of Annandale; Census Bureau; Community Partners Research

* January through May 2014

Most of the new housing unit construction activity in Annandale occurred in a five-year period between 2001 and 2005. During this period, 228 units were permitted, or more than 74% of the total construction activity total dating back to the year 2000.

After 2005, activity slowed substantially. In the eight-year period between 2006 and 2013, there were 64 new housing units were permitted, or an average of eight houses per year.

Like many of the cities in Wright County, Annandale experienced a “housing boom” in the early half of the prior decade. The highest single year of construction was in 2004, when 84 units were permitted. However, in 2012 and 2013, only one new house was permitted per year. Through the first five months of 2014, permits had been issued for three units, but one of these was for a speculative unit being constructed as half of a twin home.

Very limited multifamily construction can be identified in Annandale over the past 14 years. It is possible that four units were permitted in 2002, as part of the Spruce Manor project. The last larger-scale multifamily permits that can be identified date to 1999 when the Knollwood Square senior apartments started construction and Centennial Villa added to its specialized senior housing with assisted living and memory care options.

While the City did achieve a significantly higher level of single family construction in the first half of the previous decade, there is some evidence that this was a time of over building. From 2000 to 2009, approximately 289 single family housing units were permitted in Annandale. However, based on Census records, only 160 owner-occupancy households were added to the community between 2000 and 2010, well below the level of new unit construction. This implies that actual demand for houses was substantially lower than the production level.

There are possible explanations for some of this discrepancy. One was the foreclosure crisis that impacted Wright County 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 or distressed sales. There was also an increase in vacant housing, as recorded by the decennial Census. However, the number of vacant houses that were available for sale did not change significantly between 2000 and 2010.

Most of the discrepancy between housing construction and owner-occupancy can be explained by unit conversion, as Annandale added 80 renter households but probably constructed fewer than 10 new rental units. This implies that 70 to 80 units that had been owner-occupied in the year 2000 switched to rental use by 2010.

Northwest Quadrant Building Permits

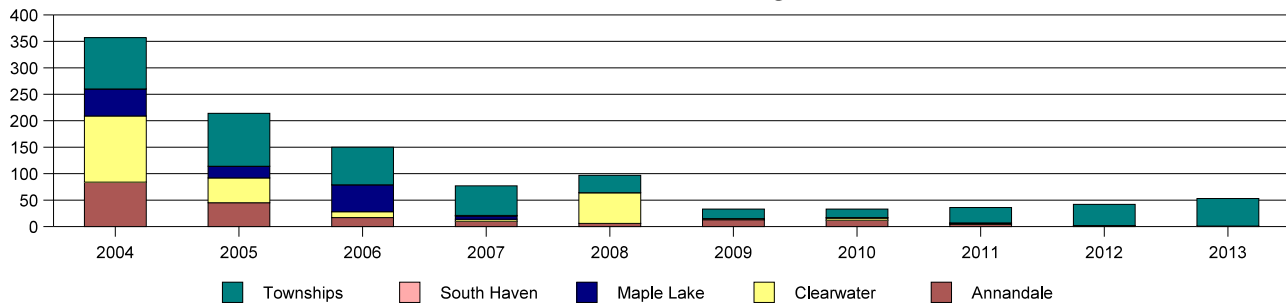
The following table examines total housing unit construction activity for a 14-year period for the cities in the NW Quadrant of Wright County. No information could be obtained from the specific Townships for the years prior to 2004. The primary sources for this information were the Census Bureau and Wright County.

Table 20 Northwest Quadrant Construction Activity: 2000 to 2013						
Year	Annandale	Clearwater	Maple Lake	South Haven	Townships	Total Units
2013	1	0	0	0	52	53
2012	1	0	1	0	40	42
2011	4	2	1	0	29	36
2010	12	4	1	0	16	33
2009	13	2	0	0	18	33
2008	6	58	0	0	33	97
2007	10	4	6	1	56	77
2006	17	11	51	0	71	150
2005	45	47	22	0	100	215
2004	84	125	51	0	97	357
2003	41	61	41	0	N/A	143*
2002	30	51	24	0	N/A	105*
2001	28	8	12	0	N/A	48*
2000	15	12	9	1	N/A	37*
Total	307	385	219	2	513	1,426

Source: U.S. Census Bureau; Wright County; Community Partners Research

In the 10-year period between 2004 and 2013, the Wright County jurisdictions that form the Northwest Quadrant issued building permits for nearly 1,100 total housing units. However, approximately 66% of this activity occurred in the three-year period from 2004 to 2006, and nearly 82% of the unit creation occurred in the five-year from 2004 to 2008.

Northwest Quadrant Annual Housing Unit Construction



As a national housing bubble collapsed in 2007, activity began to slow. In the five-years after 2008, approximately 197 units were permitted, or an annual average of only 39 units per year for all of the combined jurisdictions.

The last full year, 2013, did represent the highest level of unit production since 2008. However, this was primarily due to stronger unit production in the townships, and may represent construction of seasonal homes. In 2013, only one new house was permitted with the four cities in the Northwest Quadrant.

New home construction within the eight townships in the Northwest Quadrant has been very strong, especially between 2004 and 2006. County permitting reports were not available for the years prior to 2004, but it is probable that active home construction was occurring between 2000 and 2003 as well. The level of new home construction in these township areas was more than double the level of permanent resident household growth. The exact calculation cannot be made, since County building summaries could not be obtained prior to 2004, but even viewing construction after 2003, it is clear that most of the township home building did not result in a net gain of permanent resident households.

Annual reports at the city level are available back to the year 2000. Over the entire 14 years reviewed, only a limited number of multifamily permits can be identified. The only larger-scale projects were in Clearwater, where at least two phases of the Cedar Ridge Apartments can be tracked. There were 36 multifamily units permitted in 2002, and 55 multifamily units in 2008. One additional phase of construction in Cedar Ridge is not identifiable in the annual summaries, but may have occurred in 2009 or 2010.

No other multifamily rental projects can be identified, although it is possible that some of the single family housing may have been occupied by renter households. There were a few smaller-scale developments reported, such as four-unit structures, but it is assumed that these may have been town houses, and probably intended for owner-occupants.

Comparison of Housing Starts to Home Ownership Growth

In the section above, a 14-year period was analyzed for the jurisdictions along the Northwest Quadrant. The information stopped at 2004 for the township areas, but for the individual cities, a total can be assembled going back to the year 2000.

In the time period between 2000 and 2009, the four Cities of Annandale, Clearwater, Maple Lake and South Haven issued building permits for approximately 795 housing units that would appear to be intended for owner-occupants. While the large majority of these permitted units were identified as single family structures, there did appear to be a small number of attached units, such as twin homes or town house clusters.

The period between 2000 and 2009 has been examined, because this largely coincides with the timing of the decennial Census. Units permitted in 2000 would probably not have been available for occupancy in April of that year when the 2000 Census was conducted. Conversely, units permitted in 2009 would have probably completed construction by April 2010, when that Census was completed. Therefore, the construction of these 795 single family units can be compared to occupancy and tenure patterns, as recorded by the Census Bureau.

Between 2000 and 2010, the four cities in the Northwest Quadrant had a net gain of 515 home owners, well below the level of 795 single family units that were constructed. In each of the individual cities, the level of home construction exceeded the corresponding growth number for home owners. This would imply that some units that were available for home ownership were either vacant or renter occupied by 2010.

There are various factors that probably contributed to the disparity between construction and home ownership. One issue was home foreclosures, which began to increase after the year 2007. By 2010, a number of households that had purchased a home were no longer home owners. While home foreclosure was a multifaceted issue, it was partly due to buyers that overextended their ability to pay, and some of whom that probably should not have been in the ownership market.

If only the unit construction statistics are examined, it would appear that average annual demand between 2000 and 2009 approached nearly 80 ownership units per year. However, if actual tenure change is analyzed, the demand for home ownership options between 2000 and 2010 was only 52 units per year within the four Wright County cities in the Northwest Quadrant.

Existing Home Sales

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

Wright County 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 County information for sales 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 already had an established tax value.

The County also 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. There are multiple reasons for rejecting a sale, but some are becoming more common, including sales of "bank-owned" properties and foreclosures/short sales, which are presented later in this section. Additional reasons for rejection would include transfers between related parties, or sales that were not conducted in the open market.

The sales reports available from the County did not differentiate between different styles of houses. All of the sales are for single family units, but they may potentially be for either attached housing units, such as twin homes, town houses or condominiums, or detached single family homes. However, most of the houses in Annandale are detached single family homes.

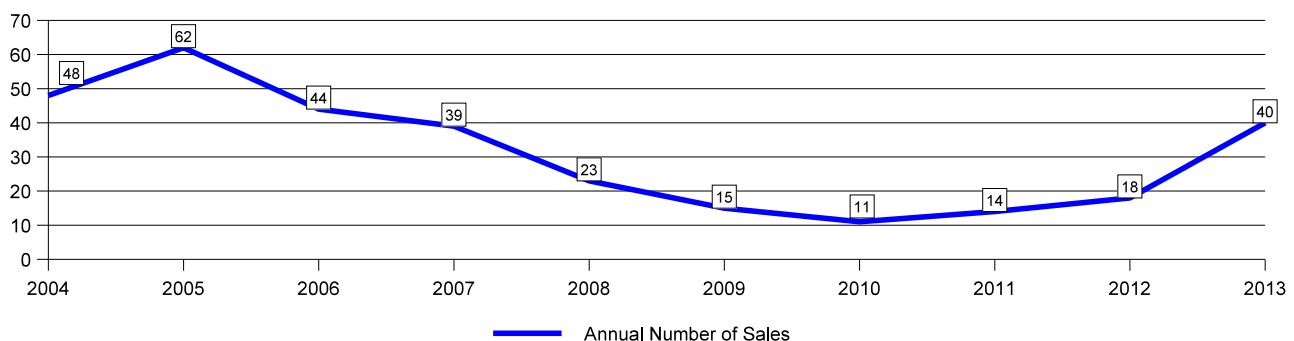
Information was available for each calendar year, from 2004 through 2013.

Table 21 Annandale Residential Sales Activity - 2004 to 2013

Sales Year	Number of Good Sales	Median Sale Price	Highest Sale	Lowest Sale
2013	40	\$143,500	\$555,000	\$52,000
2012	18	\$151,393	\$280,000	\$54,000
2011	14	\$166,437	\$445,000	\$72,500
2010	11	\$133,500	\$236,800	\$88,560
2009	15	\$156,300	\$500,000	\$90,000
2008	23	\$159,900	\$275,000	\$61,000
2007	39	\$171,000	\$274,900	\$96,900
2006	44	\$169,485	\$475,000	\$110,000
2005	62	\$172,971	\$333,000	\$95,000
2004	48	\$168,450	\$535,000	\$60,000

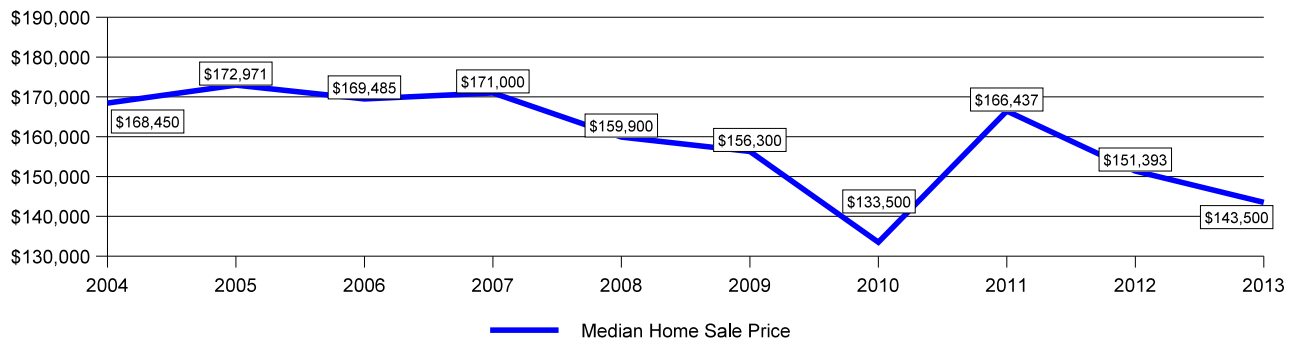
Source: Wright County Assessor; Community Partners Research, Inc.

As evident in the chart, there has been a wide variation in the volume of "good" residential sales over the past 10 years. In the housing boom years of 2004 to 2006, there were more than 40 home sales occurring in the City each year. This level began to drop significantly in 2008, and then reached a very low level, with only 11 good sales occurring in 2010. However, the volume of sales in 2013 was 40 homes, the largest volume since 2006.

Annual Number of "Good" Home Sales in Annandale: 2004 to 2013

With some individual years having a low volume of sales, the actual midpoint sale price may not always be a good reflection of overall home values. This is especially true from 2009 to 2012, when fewer than 20 good sales were occurring per year.

Median Home Sale Prices in Annandale: 2004 to 2013



Although the median price did move upward substantially to \$166,437 in 2011, this midpoint was based on only 14 qualified sales. However, in 2013 there were 40 good sales, and the median price of \$143,500 was the second lowest of the 10 years reviewed. The lowest median sale price was reached in 2010, at \$133,500.

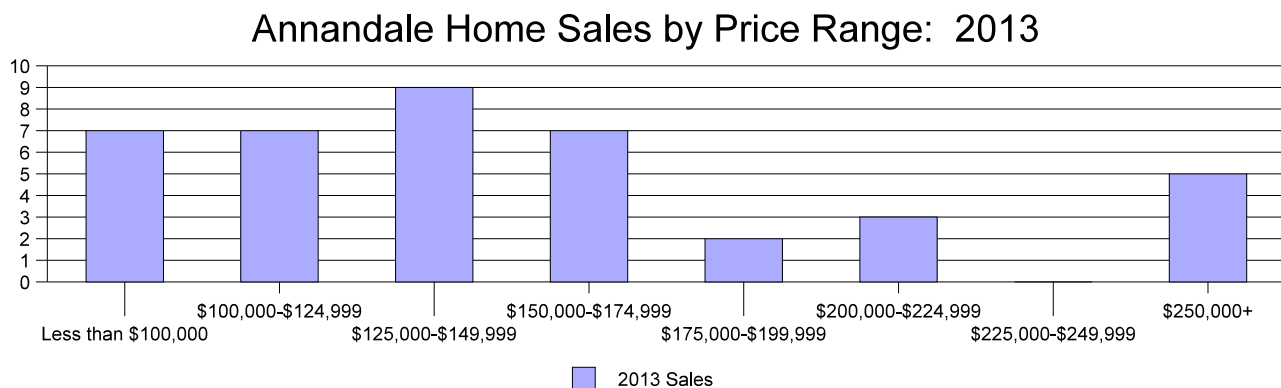
There were generally only a limited number of sales over this time period in the higher price ranges. But in most years there have one or more higher-valued sales. There are some lake shore properties within the city limits and some of the sales for \$300,000 or more may reflect lake properties. With the exception of 2006, there was always at least one sale that occurred for less than \$100,000.

Recent Home Sales by Price Range

The following table looks at single family houses that sold in 2013 in Annandale by defined price ranges. This information is from Wright County's sales records.

Table 22 Annandale Home Sales by Price Range: 2013		
Sale Price	Number of Sales	Percent of Sales
Less than \$100,000	7	17.5%
\$100,000 - \$124,999	7	17.5%
\$125,000 - \$149,999	9	22.5%
\$150,000 - \$174,999	7	17.5%
\$175,000 - \$199,999	2	5.0%
\$200,000 - \$224,999	3	7.5%
\$225,000 - \$249,999	0	0%
\$250,000+	5	12.5%
Total	40	100%

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



While there was a broad distribution for home sale prices in 2013, most sales were in a lower to moderate price range. Nearly 58% of the 2013 sales were priced less than \$150,000, and 75% were for less than \$175,000. There were five sales in the higher price range above \$250,000, although some of these may have been lake shore properties.

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 Annandale. On May 28, 2014, there were 74 homes listed for sale. However, approximately one-half of these listings were probably outside of the city limits, but were in the immediate area. The analysts attempted to remove rural properties, but it is probable that some of the listings still represent houses that are outside of the City of Annandale.

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 may be for sale in Annandale that would not be in the MLS, including 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 at least four attached single family units. Some of the listings may also be foreclosed properties.

Table 23 Annandale Active MLS Listings by Price - May 2014		
Asking Price	Number of Listings	Percent of Listings
Less than \$100,000	7	18.9%
\$100,000 - \$124,999	5	13.5%
\$125,000 - \$149,999	3	8.1%
\$150,000 - \$174,999	3	8.1%
\$175,000 - \$199,999	5	13.5%
\$200,000 - \$224,999	4	10.8%
\$225,000 - \$249,999	4	10.8%
\$250,000+	6	16.2%
Total	37	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 below \$200,000. Overall, approximately 57% of active listings in May 2014 were priced at \$199,999 or less. A local real estate agent indicated that approximately 20 houses in Annandale were listed on the MLS in late May. There were 127 listings in the Annandale area, including lake shore properties.

Annandale Distressed Sales Activity

There were additional home sales in recent years that were not viewed as fair market transactions. Some of the reasons that a sale can be rejected as a qualified sale is because of foreclosure or a "short" sale in lieu of foreclosure.

The Wright County Assessor's Office was able to supply information on "unqualified" sales in Annandale between 2004 and 2013 that were coded as either "forced sale; legal action; foreclosure" or for "short sales". While these rejection codes may not identify all distressed residential sales in Annandale, they do provide some indication of the possible extent of this issue.

Table 24 Annandale Bank-Owned/Short Sales - 2004 to 2013

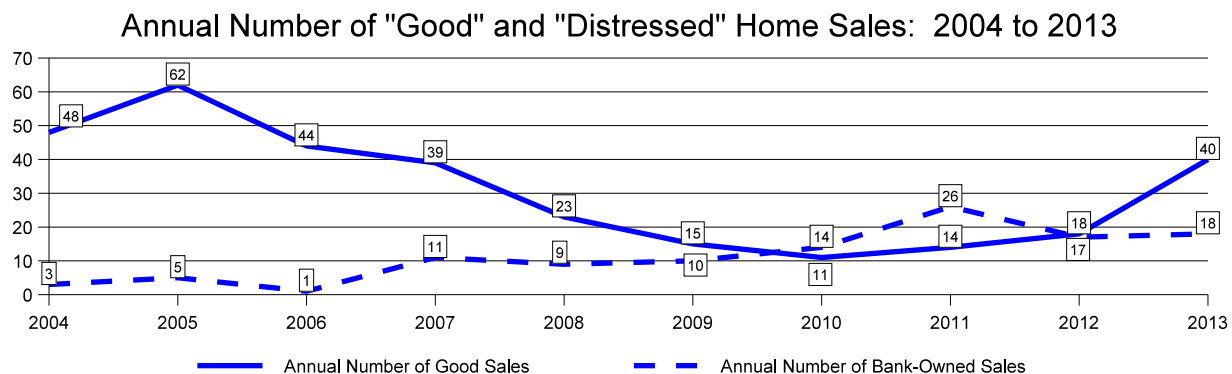
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number	3	5	1	11	9	10	14	26	17	18

Source: Wright County; Community Partners Research

There was a rapid rise in distressed home sales in Annandale between 2006 and 2007, as the national economy moved into recession and housing markets began to retreat. However, the past four years have represented the greatest volume of bank-owned/short sales. The year 2012 had the largest volume with 26 transactions, but 2013 was the second highest year of distressed sales.

Only partial year information was available for 2014, but only two distressed transactions had been recorded in the first five months. Through May of 2013, seven transactions had occurred. Based on the year-to-date information, the number of distressed transactions should be lower in the current year.

The following chart displays the number of "good" residential sales that occurred in each of the past 10 years in Annandale, as well as the number of distressed sales that were not considered good sales by the County.



In two of the last five years, the number of distressed home sales in Annandale exceeded the number of fair market transactions. The City's three highest years for the number of good sales all occurred prior to 2007, when the number of bank-owned/short sales was five or fewer per year.

As is often highlighted when discussing the home foreclosure crisis, distressed property transactions tend to have a negative impact on traditional home sales. This is certainly implied by the line chart above. One of the primary factors is the lower pricing that is often connected to distressed property sales.

The Wright County Assessor's Office has compared the ratio of each home sale to the County's estimated market value (EMV) for property taxes. If the home sold for the exact price as the EMV, the ratio would be 100%. If the home sold for more than the EMV, the ratio would be less than 100%, and if the home sold for less than the EMV, the ratio would be above 100%.

For the year 2013, the ratio for good sales that represented fair market transactions, the median ratio was 88.18%, meaning that these homes sold for more than their estimated value, according to County tax records. In contrast, the median ratio for the bank-owned/short sales in 2013 was 117.89%, meaning that these homes sold for less than their County EMV. Although this is an overview observation, and each sale was not examined in detail, it does imply that the ongoing issue with distressed residential sales in Annandale has continued to impact home sales in the community.

Wright County Home Foreclosure Activity

Starting in 2006, 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.

While tracking current foreclosures is relatively easy, predicting future foreclosure activity is difficult. Delinquent borrowers have a number of different procedural steps that must be met before actual foreclosure occurs. The research that follows examines information about past activity, but does not include a future prediction.

HousingLink and the Greater Minnesota Housing Fund have been tracking mortgage foreclosure activity across the State for the past few years. They have produced annual foreclosure reports since 2007. 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.

Table 25 Wright County Home Foreclosures - 2005 to 2012								
Foreclosures	2006	2007	2008	2009	2010	2011	2012	2013
Number	305	753	1,008	861	906	747	608	372
Rate	0.78%	1.87%	2.45%	2.08%	2.18%	1.80%	1.45%	0.89%

Source: HousingLink; Community Partners Research

Based on the HousingLink data, Wright County has been significantly impacted by home foreclosures. However, the number of annual foreclosures did reach a peak in 2008, and began to diminish after 2010. The number of foreclosures in 2013 was the lowest since the year 2005, when reporting began.

HousingLink also attempts 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, Wright County had the 8th highest rate of foreclosure among Minnesota's 87 Counties in 2013, the last full year of data.

Residential Lots

City officials were interested in assembling information on the supply of residential lots and subdivision areas that exist for new home construction. Community Partners Research utilized different information sources to collect information on lot and land availability.

Realtor.com

The website Realtor.com identified 51 vacant land parcels available for sale in the Annandale area in May 2014. However, many of these land parcels appeared to be outside the city limits, or were larger tracts of land that would need to be subdivided. The analysts attempted to remove these parcels and identify those that were suitable as residential lots.

There were 19 lots that were priced below \$50,000 that appeared to be served by city sewer and water. Seven of these lots were listed as foreclosure sales.

There were only two lots priced above \$50,000 that appeared to be on the MLS, and one of these was a lake shore property. There were a number of additional parcels listed for sale above \$50,000 that appeared to be in the rural areas, and were generally one acre or more in size.

According to local real estate agents, the number of lots listed on the MLS does not always reflect the total inventory. For example, there are more than 40 bank-owned lots in the Southbrook Addition, but only a handful of these are actually listed on the MLS.

Active Residential Subdivisions in Annandale

Community Partners Research has compiled the following summary of residential subdivisions that exist within the City.

Southbrook Addition

The Southbrook Addition is in the southwestern corner of the City, along Southbrook Golf Course. Southbrook has been developed in eight phases over a number of years. It is the location for much of the single family construction that has occurred in Annandale over the past 15 years. Lots are available for detached single family houses as well as some lots for patio homes.

The most recent phase of construction at Southbrook was negatively impacted by the housing construction slowdown that has occurred in Annandale, especially since 2011, as only seven detached single family homes have been constructed. Most of the unused lots that exist in Southbrook in 2014 are bank-owned, and acquired through a deed in lieu of foreclosure process. There were approximately 44 bank-owned lots available for sale in May 2014. There are also a smaller number of privately-owned lots that are also available, with some of these being infill lots in earlier phases at Southbrook that are still vacant.

Although a bank has taken ownership of most of the vacant Southbrook lots, significant price discounting has not been occurring. The lowest-priced lots are listed at \$19,900, but only a limited number are available at this price. Most of the bank-owned inventory is priced at \$25,000 to \$36,900. The listing price includes any remaining special assessments. It is not known what the original asking price was for these lots, prior to bank ownership.

Pintail Ponds

Pintail Ponds was platted in 2007, with approximately 20 lots designed for traditional single family houses and 22 lots for "bay homes" which are smaller homes with narrow widths on smaller frontage lots. Four bay homes were speculatively constructed at that time. One has been sold and the other three have been renter-occupied since construction. No other home building activity has occurred since shortly after the subdivision was created.

Different plans have been discussed for use of the lots in recent years, including possible multifamily rental construction, and a plan for long-term lease-to-own housing. However, none of these plans has advanced in 2014.

The owner of the development is currently in the process of re-designing the subdivision for patio homes. These units would be oriented to seniors, with approximate pricing between \$200,000 and \$225,000. One or more model units would be constructed.

Hunter's Cove

Hunter's Cove is a small development area that is platted for twin home construction. The site can accommodate 13 twin homes, with 26 total units. Four twin homes have been built, and one additional twin home had started construction in 2014. One site for a twin home had also been sold but the buyer had not started construction.

One of the units in the newest twin home has already been sold, and the other half is listed for sale at approximately \$180,000. The developers have considered replatting the remaining 12 lots (six twin homes) into lots for detached patio homes, if twin home sales do not improve.

Triplet Farms

Triplet Farms is a subdivision that is fully developed, according to City staff. This area was an active development location in the first half of the previous decade when a substantial number of new homes were being constructed in Annandale. Many of the houses were more affordable entry-level to moderately priced homes. According to a local realtor, some of the final homes were sold for approximately \$150,000 to move the final inventory as home buying began to slow after 2007.

The developers of Triplet Farms do have additional land holdings that could be used for a future phase of subdivision development. However, this land is not developed and municipal infrastructure would need to be extended.

Competitive Environment

Overview

Annandale is one of a number of cities along Minnesota Highway 55, in the northwestern portion of Wright County. The other nearby cities include Buffalo and Maple Lake to the east, Clearwater to the north, and the small community of South Haven to the west. Clearwater, Maple Lake and South Haven are part of the Northwest Quadrant of Wright County, and aggregated area defined in the County's Comprehensive Plan. The Northwest Quadrant jurisdictions have been included in the demographic analysis provided earlier in this document. The City of Buffalo is not part of the County's Northwest Quadrant, but is located along Highway 55 between Annandale and the Twin Cities Metropolitan Area.

With the possible exception of South Haven, each of these communities has capacity to add housing units. The following summary is provided for each city, identifying past housing construction activity and the available supply of residential lots for future construction.

Multiple attempts to contact the City of Buffalo were unsuccessful. Secondary information has been provided, but has not been verified by City staff.

City of Clearwater

Clearwater is located approximately 17 minutes north of Annandale. The City is located along Interstate 94, and has an interstate exit serving the community. Although it is still a rather small city, with fewer than 1,400 residents, Clearwater's location on the interstate makes it a more attractive commuter location to both the St. Cloud and Twin Cities urban areas.

Like some other Wright County communities, Clearwater has experienced wide fluctuations in housing construction activity over the past 10 to 15 years. In 2004, the annual summary report shows that permits were issued for 125 single family housing units. While it is possible that part of this total could have included a phase of multifamily housing that was misreported, the actual summary report shows all of these units as single family homes. However, by 2012 and 2013, no single family houses were permitted in Clearwater. Through the first six months of 2014, only one new house had been permitted.

Clearwater has a large lot inventory of approximately 70 single family lots in the Cedar South Subdivision. This subdivision is bank-owned. In 2014, the bank is not offering any steep price discounts, although lot prices were probably higher during the boom years when the subdivision was privately-owned. Lot prices range from a low of \$19,900 to a high of \$35,000. Very few lots sales have been completed within the past few years, as evidenced by the lack of building permits.

Clearwater experienced a short-term single family construction boom between 2003 and 2005. Over this three-year period, the City was averaging more than 75 single family housing starts annually. However, excluding these three years, the highest annual level of production occurred in 2002, when 15 single family permits were issued. In the seven-year period from 2007 to 2013, the City has averaged two new single family houses per year.

Clearwater is the location of one of the only market rate rental projects that can be identified in the smaller cities of Wright County. The Cedar Ridge Apartments complex was developed in three separate construction phases over the past 10 years. In total, there are 127 market rate apartments in 2014. According to the property manager, occupancy rates are high and many of the tenants are commuters to the Twin Cities area.

City of Maple Lake

Maple Lake is the closest comparably-sized Wright County city to Annandale. In 2012, Maple Lake had 2,099 residents, compared to 3,303 in Annandale. Maple Lake is also located on Highway 55, approximately seven miles to the southeast, slightly closer for commuters headed toward the Twin Cities area.

Like other cities in the Northwest Quadrant, Maple Lake had a significant amount of housing construction in the first half of the previous decade. In the seven-year period from 2000 through 2006, building permits were issued for 210 single family housing units in Maple Lake. During this same time period, 260 single family units were permitted in Annandale.

After 2006, housing activity in Maple Lake slowed significantly, with only nine single family permits issued in the seven-year period from 2007 to 2013. This compared to 47 single family permits issued in Annandale from 2007 to 2013.

Maple Lake does not have an overly large supply of lots for new houses. According to City staff, there are probably fewer than 20 improved lots for detached houses, and one small development that is platted for twin homes. There were some additional subdivision plans that were proceeding through the planning process late in the last decade, but as market conditions changed, these plans were dropped. If demand were to increase in the future, it is probable that these plans could once again move forward.

Limited information was available on lot pricing. There are 10 lots listed on the Multiple Listing Service for \$14,500. City staff indicated that they believe recent lot sales have been occurring between \$15,000 and \$20,000.

Maple Lake also has some land parcels that would be suitable for multifamily housing construction. No rental housing has been built in many years, and no proposals have been advanced. Some of the attached housing that was constructed in the previous decade was never sold and has been used for renter-occupancy.

In 2014, Maple Lake began offering certain incentives in an attempt to generate more housing construction activity. The primary incentive for home builders is a waiver of escrow deposit requirements for grading and landscaping. While this was a refundable escrow deposit, which was returned to the builder at successful project completion, it did increase the up-front costs. A secondary incentive that is also being offered is to allow \$2,000 in sewer/water connection fees to be assessed against the property, and repaid over a longer-term.

South Haven

The City of South Haven is a very small community, with an estimated population of only 190 people in 2012. South Haven is located northeast of Annandale, along Highway 55.

Unlike other cities in this part of Wright County, South Haven has not had any significant growth or housing development in recent decades. Census Bureau construction records show only two houses issued a building permit over the previous 14 years.

In 2006, South Haven did construct a municipal sewer system. This did result in some interest from developers, but the housing market crash that soon followed resulted in no development projects ever moving forward.

South Haven does not have any available subdivisions with residential lots. There may be scattered infill building sites in the community. Vacant land is available, but municipal infrastructure improvements would be required.

City of Buffalo

Repeated attempts to contact the Planning and zoning Office for the City of Buffalo were unsuccessful. The following information has been taken from Census Bureau records and from real estate websites.

Similar to other Wright County cities, Buffalo experienced substantial changes in home building activity in recent years. In the year 2000, Buffalo issued building permits for 255 single family houses. Over the next five years, the annual single family construction level ranged from approximately 260 to 350 units per year.

Starting in 2006, housing construction began to slow, but 116 single family homes were still permitted that year. However, by 2007, the level dropped to 52 single family houses, followed by only 13 in 2008, and then four units in 2009.

By 2012, the City had returned to 30 single family permits, followed by 33 in 2013. Through May of 2014, 19 single family permits had already been issued. This was five houses higher than the first five months of 2013. If the current pace is sustained, Buffalo may exceed 40 single family housing starts in 2014.

There has been a limited amount of multifamily housing construction in Buffalo, but details on these units could not be obtained. It is possible that these are blocks of town houses, or other single family attached units. The most recent of these multi-unit projects was permitted in 2010, when six four-unit structures were built.

The website Realtor.com does list approximately 40 lots in Buffalo, but some of these are located outside of the city limits. There are some lots listed for as little as \$19,900, but most of the lots are priced at \$30,000 or more. There are multiple lots listed as "foreclosures" but some of these may be outside the City.

Rental Housing Data

According to the 2010 Census, the City of Annandale had 340 occupied rental housing units, and at least 40 unoccupied rental units, for a total estimated rental inventory of 380 units. The City's rental tenure rate was 25.4% in 2010, below the Statewide rental rate of 27%.

At the time of 2000 Census, Annandale had 260 occupied rental units, and at least 21 vacant units, for a total rental housing inventory of 281 units. The City's percentage of occupied rental units in 2000, at 23.7%, was also below the Statewide rate of 25.4%.

Based on a reconciliation of Census data, the City added 80 renter-occupancy households, and at least 99 rental housing units over the previous decade. During the decade there was very limited development of new rental housing in Annandale. Based on the net gain in renter households and units as counted by the Census, it is probable that a significant level of unit conversion occurred, as units that had formerly been owner-occupied were changed to rental use.

The belief that units changed from owner to renter-occupancy is supported by statistics on home ownership. Between 2000 and 2009, there were approximately 289 single family houses (both detached and attached) that were issued a building permit in Annandale. It is assumed that any unit permitted in 2009 would have been suitable for occupancy when the Census was conducted in April 2010.

During the decade from 2000 to 2010, the City had an increase of only 160 owner-occupancy households, approximately 130 lower than the level of new single family construction. This would imply that the net gain of 80 to 100 rental units was primarily the result of single family housing/mobile homes being converted into rental use. The level of overall unit vacancy also increased over the decade.

Construction After 2010

After the 2010 Census was completed, no new rental housing construction has occurred, based on building permit reports. While it is possible that some additional unit conversion has occurred since 2010, it is assumed that the City's total rental inventory in 2014 is generally similar to the level that existed at the time of the 2010 Census.

Rental Housing Survey

In May 2014, a telephone survey was conducted of multifamily rental developments in Annandale. The survey focused on rental properties with four or more units. The table that follows presents information for market rate, tax credit, subsidized, and senior housing with services projects separately.

There were 246 independent housing units of all types that were contacted in the survey. This total includes assisted living apartments, since they would probably be counted as an individual living unit by the Census. However, memory care rooms and nursing home rooms have been excluded from the rental count. The fully functional rental housing units that were surveyed represent approximately 65% to 75% of the City's estimated total of rental housing units.

The units that were successfully contacted include:

- ▶ 50 market rate units
- ▶ 36 moderate rent tax credit units
- ▶ 74 subsidized units for senior/disabled occupancy (including occupancy preference)
- ▶ 38 subsidized units for general occupancy
- ▶ 48 apartment-style senior housing with services units
- ▶ 40 rooms/units for memory care needs (probably counted as group quarters residence)

The findings of the survey for different market segments are provided below.

Market Rate Summary

A limited number of market rate rental projects were identified and surveyed in Annandale. Usable information was available from five different properties with a combined total of 50 market rate units. One of these properties was a series of three bay homes in Pintail Ponds that were being offered as rental housing.

Unit Mix

Specific unit mix information was available for all of the market rate units, as follows:

- Studio/Efficiency - 3 units (6.0% of total units)
- One-bedroom - 21 units (42%)
- Two-bedroom - 20 units (40%)
- Three-bedroom - 2 units (4%)
- Four-bedroom - 4 units (8%)

Occupancy / Vacancy

Within the market rate multifamily segment there were approximately five units reported as vacant. All but one of these units was in Arenson's Apartments, a series of downtown buildings with mixed use commercial and residential tenants. The owner of Arenson's indicated that somewhat limited demand existed for these small, downtown apartments, but that strict screening policies also impacted the occupancy rate.

Excluding Arenson's there was one additional vacancy in the remaining 41 units, for a vacancy rate of approximately 2.4%. The two-bedroom vacancy in Spruce Manor had existed for the past few months, according to the manager.

Rental Rates

Rental units may include the primary utility payments within the contract rent, or the tenant may be required to pay some utilities separately, in addition to the contract rent. In the following summary, Community Partners Research has attempted to estimate the gross rents being charged in the Annandale, inclusive of the tenant-paid utilities.

In the first column, the lowest and highest gross rents have been identified, as reported in the telephone survey. Since the highest and lowest ends of the rent range may not be representative of most units, a second column has also been listed. The Prevailing Rents attempts to define the gross rents being charged by a majority of the units surveyed.

<u>Unit Type</u>	<u>Lowest/Highest Gross Rents</u>	<u>Prevailing Rents Majority of Units</u>
Efficiency	\$400-\$425	\$400-\$425
1-bedroom	\$400-\$560	\$425-\$560
2-bedroom	\$610-\$1350	\$610-\$630
3-bedroom	\$1400	N/A
4-bedroom	\$1150-\$1200	\$1150-\$1200

It is important to note that there can be significant variation in the age and style of units reflected in the rent ranges above.

Tax Credit Summary

Since the late 1980s, the primary federal incentive program for the production of affordable rental housing has been through federal low income housing tax credits, also referred to as Section 42 housing. In Minnesota, tax credits are awarded annually on a competitive basis.

Annandale was very successful in the early years of the tax credit program, with four projects receiving awards between 1987 and 1995. A fifth project was awarded tax credits in 2000.

The first tax credit award was made in 1987 to the Camelot Apartments, which was a conversion project where a former church was renovated into affordable apartments. Due to the age of this project, the compliance requirements have been met and Camelot Apartments now operates as conventional, market rate housing.

The next two projects, Annandale Apartments I and Annandale Apartments II, were awarded credits in 1992 and 1993, respectively. Both projects used tax credits along with USDA Rural Development subsidies, and have project-based rent assistance for most units. A 2000 award to Knollwood Apartments also combined tax credits with Rural Development subsidies. Since most tenants can pay rent based on income, all three of these projects have been included in the subsidized analysis that follows.

The other tax credit project, the Cottages of Annandale, received a tax credit award in 1995, and created 36 senior-designated units (age 55 and older). No project-based subsidies exist and the Cottages offer moderate rent housing serving households at or below 60% of the median income level. This project has completed its initial 15-year compliance period, but is not in an extended compliance phase and continues to offer affordable housing.

Unit Mix

The Cottages of Annandale has three buildings, each with 12 units. The bedroom mix is as follows:

- One-bedroom - 12 units
- Two-bedroom - 24 units

Occupancy/Vacancy

At the time of the May 2014 rental survey, there were no vacant tax credit units identified in the Cottages and a waiting list exists.

Rental Rates

The federal tax credit program places maximum rent limitations on assisted projects. The units are designated for households at or below the income limits set at 60% of median income. For 2014, maximum gross rents for units at 60% of median income are as follows:

<u>Bedroom Size</u>	<u>60% Rent Limit</u>	<u>Prevailing Rents</u>
One-bedroom	\$945	\$760-\$780
Two-bedroom	\$1134	\$865-\$885

The prevailing gross unit rents being charged by the Cottages are well below the maximum allowable limits. The reported gross rents are below the limits set at 50% of the federal median income level.

The maximum rents allowable under the tax program at 60% of median income are well above the prevailing rates for market rate units in Annandale. Although the Cottages of Annandale has income and rent restrictions in place, it actually has the highest monthly rent of all multifamily rental projects in the City.

Subsidized Summary

Annandale has five rental projects that provide subsidized rental housing. One of these projects, Annandale Square I Apartments, provides general occupancy housing and has 38 units. It is subsidized through USDA Rural Development.

Three projects, Annandale Square II, Knollwood and Oakdale Apartments, are designated for senior (age 62+) or disabled tenant occupancy and are subsidized through USDA Rural Development. Combined, these three projects have 50 units. The fifth project, Goldendale Homes, is HUD subsidized and has 24 units for senior/disabled tenant occupancy.

Unit Mix

The bedroom mix is as follows:

- ▶ One-bedroom - 72 units
- ▶ Two-bedroom - 28 units
- ▶ Three-bedroom - 12 units

Since most of the subsidized units in Annandale are designated for senior/disabled occupancy, they are heavily oriented to one-bedroom apartments.

Occupancy / Vacancy

The rental survey found only one vacant units in the subsidized segment of the rental market. The vacant unit was in the senior/disabled segment, for a vacancy rate of 1.4%. There were no vacancies in the general occupancy segment.

Rental Rates

Although most of the subsidized units in Annandale can access project-based rent assistance, each project has some units that do not have rent assistance. In these units, the tenant must pay at least the basic rent amount that applies to their unit. For example, in Oakdale Apartments, where the only vacancy was reported, the basic rent for a one-bedroom unit would be \$455.

There is less demand for units without rent assistance, even though waiting lists may exist for the rent assisted units. Generally, a new tenant will not have access to a rent assistance unit, but over time, as turnover occurs, the assistance is offered to in-house residents that are income eligible.

Tenant-based Rent Assistance Vouchers

In addition to the subsidized projects with project-based rent subsidies, Annandale also has six households being assisted with HUD Housing Choice Vouchers in June 2014.

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

Subsidized Housing Total Inventory

When tenant-based rent assistance is combined with the units in the subsidized projects, there are as many as 118 households with access to some form of subsidized housing. This represented nearly 35% of all renter households that were present in the City in 2010.

If the 36 tax credit units are added to the available inventory of assisted housing, more than 45% of all renter households have access to some form of either shallow subsidy or deep subsidy rental housing, although some of the Vouchers are probably being used in the tax credit and subsidized units without project-based rent assistance, resulting in some overlap in resources.

Senior Housing with Services Summary

Annandale has a senior housing campus affiliated with the Annandale Care Center that offers a continuum of care for seniors in five different residential facilities. All of the buildings in the complex are physically connected.

Centennial Villa Apartments, with 22 units, was originally constructed as more independent senior housing, but over time this project has made additional services available to residents, allowing seniors to “age in place” rather than move into a different building to access assisted living.

Centennial Villa Assisted Living is a service-intensive complex with 26 apartment units. A wing of this facility is dedicated to memory care residents and has capacity for 11 residents. A separate memory care facility also exists on the campus with capacity for an additional 29 residents.

The Annandale Care Center is licensed for 60 nursing home beds in 2014, and the licensed capacity has been stable for many years. Although no specific number of beds are dedicated to other uses, the facility estimates that approximately 30% of the beds are typically used for shorter-term rehab/recovery stays, and 70% of the beds by longer-term residents.

Occupancy / Vacancy

In May 2014, there were some available units/beds in the complex. There were two vacant units in Centennial Villa Apartments, seven available units in Centennial Villa Assisted Living and 10 vacant beds in the memory care facilities. Annual occupancy in the skilled nursing home was reported at 90% or higher.

Rental Rates

In senior housing with services projects, monthly rates are largely impacted by the services being accessed by the resident. As a result, rent information was collected, but would need to be compared to type and level of services that are included.

Table 26 Annandale Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Market Rate					
Arenson's Apartments 43 Oak Ave N 320-274-5415	<u>9 - 1 Bedroom</u> 9 Total Units	\$400-\$425 +\$25 summer AC surcharge	Annual 50% occupancy rate	Primarily retired singles	Smaller one-bedroom apartments in downtown mixed-use commercial/residential buildings, with some dating to the 1930s. Units are generally small but have kitchens. Rent includes all utilities, but summer \$25 surcharge applies to units with AC. Owner reports that tenants are single people, often retired and many are long-term. But approximately 50% of units are vacant due to limited demand and tenant screening practices.
Camelot Apartments 110 Cedar St E 612-889-9830	3 - Efficiency <u>9 - 1 Bedroom</u> <u>2 - 2 Bedroom</u> 14 Total Units	\$360-\$375 \$400-\$450 \$550 +heat, electric	No vacant units	Mostly singles, including some seniors	Former church building that was awarded tax credits in 1987 for conversion into rental housing - 15-year compliance requirement was met and new owner in 2006 and now operating as market rate housing. Units are on three levels, and no elevator in building. Rent includes heat, water and sewer, with tenant paying electric heat and electricity. Owner describes most of the units as small. No vacancies at time of survey, but vacancies had been present during the winter when attracting new tenants was difficult. Most tenants are singles, including working-age and retirees.

Table 26 Annandale Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Market Rate					
Spruce Manor Apartments and Townhomes 320-380 Spruce Dr E 612-237-8821	2 - 1 Bedroom 14 - 2 Bedroom <u>4 - 4 Bedroom TH</u> 20 Total Units	\$535 \$585 \$1000 +electric +utilities in town homes	1 vacant unit, 1 - 2 Bdrm	Mix of tenants including large families	Two 2-level walkup apartment buildings constructed in 1989 and 1992, plus 4 2-level town houses constructed in 2002. Tenants pay electricity in apartments, but other units included in rent; garage parking is extra fee. Tenants pay all utilities in town houses, but 1-car garage is attached. Apartments have stove, refrigerator, wall AC and coin laundry facilities. Town houses have stove, refrigerator, dishwasher, in-unit laundry and AC. One-bedroom have 480 sq ft and 2-bedrooms have 570 sq ft and 1 bathroom. Town houses have 1600 sq ft and 2 bathrooms. Owner reports a general mix of tenants, with larger families in town houses and low turnover. One apartment has been vacant for a few months due to lack of demand and low income levels for many applicants.
Pintail Ponds Bay Homes	2 Bedroom 3 Bedroom 3 Total Units	\$1200+ plus all utilities	No vacant units	Mix of tenants	Three bay homes that were constructed in the late 2000s and intended for owner-occupancy - when units did not sell they were converted to rental use. One-level unit has 2 bedrooms and approx. 1200 sq ft. Three-bedrooms have 2 levels, 2.5 bathrooms and 1400 to 1500 square feet. Units have attached garages, in-unit laundry and other features of a single family home. Tenants pay all utilities. Units have been successfully leased for past few years.
Waldale Apartments 85-99 Walnut St E	1 - 2 Bedroom <u>3 - 2 Bedroom</u> 4 Total Units	\$550 \$800 +heat, electric	N/A	Primarily senior renters	Property manager could not be contacted - information presented is from secondary sources. Four-unit building constructed in 1987. Units have private entrance, 1 car garage, in-unit laundry and dishwasher. Tenants pay heat and electric in addition to rents. Units have 800 to 850 sq ft. Primarily oriented to senior renters.

Table 26 Annandale Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Tax Credit					
Cottages of Annandale A Ash St W 612-861-8542	12 - 1 Bedroom <u>24 - 2 Bedroom</u> 36 Total Units	\$705 \$790 +heat, electric, hot water	No vacant units, waiting list	Senior- designated	Tax credit project constructed in 1995 with units in three buildings. Initial 15-year tax credit compliance was met and project entered extended compliance phase in 2011. All units serve households at or below 60% of median income. Units are senior-designated for households age 55 and older. Unit amenities include cottage-style design with in-unit laundry and garage. Project amenities include community room, activity room and barbeque area. Rent includes water, sewer and garbage, with tenant paying gas heat and electric. One-bedrooms have 730 sq ft and 2-bedrooms have 958 sq ft; all units have 1 bathroom. Manager reports full occupancy at time of survey, and at most 1 unit would typically be vacant. Waiting list is maintained.

Table 26 Annandale Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Subsidized - General Occupancy					
Annandale Square Apartments 313 Knollwood St W 320-274-5206	3 - 1 Bedroom 23 - 2 Bedroom <u>12 - 3 Bedroom</u> 38 Total Units	\$440-\$620 \$460-\$635 \$510-\$645 30% of income	No vacant units, waiting list	General occupancy	Tax credit and Rural Development subsidized general occupancy project constructed in 1992. Project includes 4 buildings. Apartment buildings are each 2-level without elevator. The 12 3-bedroom units are in town homes. Initial 15-year tax credit compliance was met and project entered extended compliance phase in 2006. Twenty-two units have project-based rent assistance allowing rent based on 30% of income; remaining units charge 30% of income but not less than basic or more than market rents listed. One-bedrooms have 660 sq ft, 2-bedrooms have 766 sq ft, and 3-bedrooms have 1026 sq ft. Project amenities include controlled entrance and coin laundry. Town houses have in-unit laundry hookup and extra storage. No vacant units at the time of survey and a waiting list exists. Any turnover units fill quickly, although new tenants are in units without rent assistance, and may get assistance in the future.

Table 26 Annandale Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Subsidized - Senior/Disabled Occupancy					
Annandale Square II Apartments 321 Knollwood St W 320-274-5206	14 - 1 Bedroom <u>1 - 2 Bedroom</u> 15 Total Units	\$455-\$565 \$480-\$590 30% of income	No vacant units, waiting list	Senior/ disabled occupancy	Tax credit and Rural Development subsidized apartments for senior/disabled occupancy constructed in 1993, in 1-level building. Initial 15-year tax credit compliance was met and project entered extended compliance phase in 2009. Twelve units have project-based rent assistance allowing rent based on 30% of income; remaining units charge 30% of income but not less than basic or more than market rents listed. Rent includes utilities. Building amenities include community room, coin laundry and car plug-ins. One-bedrooms have 624 sq ft and 2-bedrooms have 780 sq ft. All units occupied on date of survey and a short waiting list is kept for rent assistance units.
Goldendale Homes 400 Park St E 320-274-5871	<u>24 - 1 Bedroom</u> 24 Total Units	\$500-\$544 30% of income	No vacant units, waiting list	Senior/ disabled occupancy	HUD Section 202/236 with Section 8 rent assistance for 18 units constructed in 1974 and designated for senior/disabled occupancy. Units without rent assistance are subject to minimum/maximum rents listed. Manager reports full occupancy and a short waiting list. Most tenants are from Annandale or have family living in the community.
Knollwood Square 421 Knollwood St W 320-274-5206	13 - 1 Bedroom <u>4 - 2 Bedroom</u> 17 Total Units	\$525-\$695 \$695-\$745 30% of income	No vacant units, waiting list	Senior/ disabled occupancy	Tax credit and Rural Development subsidized apartments for senior/disabled occupancy constructed in 2000, in 1-level building. Initial 15-year tax credit compliance will be met this year and project will enter extended compliance phase in 2015. 15 units have project-based rent assistance allowing rent based on 30% of income; remaining units charge 30% of income but not less than basic or more than market rents listed. Rent includes utilities. Building amenities include community room, coin laundry and car plug-ins. One-bedrooms have 650 sq ft, 2-bedrooms have 800 sq ft. One unit unoccupied on date of survey but had been leased for the future. Short waiting list is kept for rent assistance units.

Table 26 Annandale Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Subsidized - Senior/Disabled Occupancy					
Oakdale Apartments 200 Oakdale Circle 320-493-0562	<u>18 - 1 Bedroom</u> 18 Total Units	\$455-\$599 30% of income	1 vacant unit	Senior/ disabled occupancy	Rural Development subsidized apartments for senior/disabled occupancy constructed in 1977, in 1-level building. Unit renovations have been ongoing over the past few years. Fourteen units have project-based rent assistance allowing rent based on 30% of income; remaining units charge 30% of income but not less than basic or more than market rents listed. Project amenities include community room, craft room, patio, coin laundry facilities and an adjacent private chapel. Units have 620 sq ft and 1 bathroom. One unit vacant at time of survey and no waiting list currently exists. Filling units without rent assistance can sometimes be more difficult.

Table 26 Annandale Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Senior Housing with Services					
Centennial Villa Apartments 600 Park St E	12 - 1 Bedroom 2 - 1 Bdrm large <u>8 - 2 Bedroom</u> 22 Total Units	\$978 \$1045 \$1184 +service packages as needed	2 vacant units, 1 - 1 Bdrm 1 - 2 Bdrm	Senior housing with services, with assisted living packages available	Independent living apartment project constructed in 1987 that is part of a senior campus that also includes a skilled nursing facility, memory care cottages, assisted living and a wellness center. Designated for households age 55 and older. While originally intended as independent housing, project allows seniors to purchase assisted living packages to remain in their unit - approx. 50% of current residents have higher service package. Basic rent includes all utilities, weekly housekeeping of kitchen and bathroom, congregate dining room where 3 meals/day can be purchased, emergency call system, membership in wellness center, and physical connection to other senior campus buildings. One-bedrooms range from 510 to 610 sq ft, and two-bedrooms have 850 sq ft. Manager reported 2 vacant units at time of survey with some level of vacancy typically existing.
Centennial Villa Assisted Living 660 Park St E	23 - 1 Bedroom <u>3 - 2 Bedroom</u> 26 Total Units	\$2512-\$2615 \$2848 +additional services a la carte	7 vacant units	Assisted Living	Assisted living in apartment-style project constructed in 2000 that is part of a senior campus that also includes a skilled nursing facility, memory care cottages, independent senior living apartments and a wellness center. This building includes an 11-room memory care wing which is listed separately. Assisted living package includes daily meals and snacks, 24-hour staffing, laundry and light housekeeping, wellness checks and nursing assessments, activities and scheduled transportation. Individualized services can be purchased a la carte. Building amenities include all utilities in rent, secured building, chapel, beauty/barber shop, and physical connection to other senior campus buildings. One-bedrooms range from 516 to 626 sq ft, and two-bedrooms have 826 sq ft. Manager reports 7 vacant units on date of survey. County assistance is accepted for lower income seniors.

Table 26 Annandale Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Senior Housing with Services					
Centennial Villa Memory Care 660 Park St E	11 rooms	\$4366+ depending on room size, +\$300 for higher service package as needed	10 vacant rooms of 40 in campus	Memory Care	Memory care housing constructed in 2000 that is part of the assisted living project and part of a senior campus that also includes a skilled nursing facility, independent senior living apartments and a wellness center. Residents have private sleeping room with private bathroom. Monthly package includes daily meals, 24-hour staffing, laundry and light housekeeping, hourly wellness checks and nursing assessments, medication dispensing and activities and scheduled transportation. Individualized services can be purchased for an additional \$300. Additional memory care options available in a separate building in the campus - 10 rooms vacant in all memory care at time of survey, which is higher than average.
Centennial Villa Memory Care 500 Park St E	29 rooms	\$4366+ depending on room size, +\$300 for higher service package as needed	10 vacant rooms of 40 in campus	Memory Care	Memory care housing constructed in 1999 that is part of a senior campus that also includes a skilled nursing facility, assisted living, independent senior living apartments and a wellness center. Residents have private sleeping room with private bathroom. Monthly package includes daily meals, 24-hour staffing, laundry and light housekeeping, hourly wellness checks and nursing assessments, medication dispensing and activities and scheduled transportation. Individualized services can be purchased for an additional \$300. Additional memory care options available in the assisted living building in the campus - 10 rooms vacant in all memory care at time of survey, which is higher than average.

Table 26 Annandale Multifamily Rental Housing Inventory					
Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Senior Housing with Services					
Annandale Care Center 500 Park St E	60 licensed beds	N/A	Typical occupancy of 90% or higher	Skilled nursing home	Skilled nursing home that is part of a senior campus that also includes memory care, assisted living, independent senior living apartments and a wellness center. Licensing has remained stable in recent years. Approx. 70% of beds are typically used by longer-term residents and 30% by shorter-term rehab/recovery stays. Rooms are a mix of shared occupancy or private occupancy, including some with private bathroom. Renovation project is currently underway. Typical occupancy is between 54 and 57 people.

Source: Community Partners Research, Inc.

Demand Calculations for Market Rate Rental Housing

Overview

The following calculations are based on information for the Greater Annandale area which also includes the City of South Haven, and the Townships of Albion, Corinna, French Lake and Southside. 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 market rate housing, it is assumed that gross rental rates will generally need to be at or above this level.

While the City of Annandale is located within commuting distance of larger metropolitan areas, including the Twin Cities and St. Cloud, the analysts have used the assumption that most rental demand will be more locally-oriented. The larger region does have the potential to supply some tenants to a new rental project in Annandale, but demand from longer-distance commuters is not viewed as a significant contributor and calculations from this secondary area are not included in the specific analysis that follows.

Demand from Household Growth

The projections provided earlier in this study have been based on Greater Annandale area growth of approximately 35 households per year, with approximately 175 added over a five-year period.

Although one-half or more of these new households would be expected to live in the Townships, any renter-occupancy households are likely to live in Annandale. For projected tenure, we have used a percentage of 28% for renter-occupancy. This rental tenure rate is higher than the level reported in Annandale in the 2010 Census, but recognizes that near-term demand has tended to be more heavily oriented to rental housing.

Income-Qualified Demand from New Household Growth Calculation

Total projected number of households - 2018	4,109
Less current number of households - 2013	3,934
Projected household growth	175
Percentage of renter-occupied households	28%
Projected rental household growth	49
Percentage of renter households in target income range	50%
Demand from income-qualified renter households	25

Utilizing the best available information on growth patterns, income levels and tenure rates, future household growth is projected to add demand for approximately 25 additional market rate units by the year 2018 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 49 rental units over the five-year period.

Pent-Up Demand from Existing Households and Movership

Annandale has a relatively average distribution of rental housing units. However, a large percentage of the existing inventory is income-designated housing that cannot serve moderate to higher income tenants. No new general occupancy market rate rental construction has occurred in the past 15 years. There has probably been some ongoing growth in the rental inventory through conversion of older units, as it appears that some houses and mobile homes may have changed from owner-occupancy to rental use.

The survey of existing rental properties found few market rate vacancies, and nearly all of the unoccupied units were in a single older building that only had one-bedroom apartments.

Demand for new rental housing would be generated from existing renters that would elect to move from their older housing unit, and potentially from current home owners, who have stayed in their single family home due to few acceptable new rental options in the community.

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.

<u>Income-Qualified Movership/Competitive Advantage</u>	
Total renter households in the Greater Annandale area	550
Percentage in income-qualified range	50%
Total income-qualified households	275
Annual turnover @ 10%	28

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

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 did not indicate that many rental housing units were removed from the City between 2000 and 2010. Instead, it appears that some level of unit conversion has been occurring, as housing formerly used for owner-occupancy has changed to rental use. 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 up to 33 to 53 households that are income-qualified for the gross rental rates typically required by market rate housing. This range is created by the fact that growth-generated demand is incremental, and increases over the projection period.

Typically, Community Partners Research would recommend that a single rental project can only capture a share of the overall demand. Therefore, a single project of approximately 16 to 26 units would be recommended. However, it is recognized that a multifamily project, such as an apartment building, may not be practical at this limited scale. While a longer absorption period should be incorporated, a project that attempts to capture a larger share of the calculated demand may be the most feasible way to proceed.

Indicated Rent Structure

There are very few comparable examples of new construction market rate rental projects in the smaller communities in Wright County. Within the Northwest Quadrant communities only one recent apartment project could be identified.

A newer apartment complex exists in Clearwater, on the northern edge of the County. Cedar Ridge Apartments was constructed in phases between 2004 and 2009. There are 127 market rate apartment units in this project. The buildings are located just south of Interstate 94, and according to the property manager, most residents commute to the Twin Cities area via the interstate.

Cedar Ridge Apartments has different floor plans, including one-bedroom/one-bathroom, two-bedroom/one-bathroom, two-bedroom/two-bathroom, and three-bedroom/two-bathroom apartments. Rent includes all utilities except for general electrical use. Amenities include in-unit laundry, a walk-in closet, a fully equipped kitchen including a dishwasher, microwave and disposal, and each unit has a balcony/patio. Garage parking is optional for an additional fee.

Gross rent per square foot of living space is approximately \$0.92 to \$0.98 for two-bedroom apartments, approximately \$1.03 for three-bedrooms, and approximately \$1.06 for one-bedroom apartments.

Community Partners Research has also completed past research in the St. Cloud rental market, which continues to have very successful examples of multifamily rental construction projects that serve the market rate segment. There are developers in the St. Cloud area that have continually brought new projects into the marketplace. In the opinion of Community Partners Research, many of these new projects have achieved a relatively affordable rent structure, especially considering the quality of the units and the amenities provided.

Some of the more recently constructed projects in the St. Cloud area have achieved a range between \$0.85 and \$1.00 per square foot for gross rent. There are examples that have achieved a higher rent structure, but these projects identify themselves as “luxury” rentals, and offer features and amenities, including indoor swimming pools and movie theaters, which would not be practical for a moderately-sized project in Annandale.

While there are few directly comparable projects to examine, a rent structure that is similar to other recent projects in the larger region should be targeted for any apartment development in Annandale.

- ▶ One-bedroom, one bathroom with 600 sq. ft. \$625-\$650
- ▶ Two-bedroom, two bathroom with 850 sq. ft. \$800-\$850
- ▶ Three-bedroom, two bathroom with 1000 sq. ft. \$950-\$1000

This discussion of gross rental rates is provided as an indicator of potential market rents that would be competitive with similar units in the region, but actual rents would need to be altered based on the actual size of proposed units and the particular amenities and features that would be offered.

Additional Considerations

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

- ▶ The recommendations made in this Study are based on calculations of household growth, pent-up demand, 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 Annandale or neighboring communities.
- ▶ Given the relatively small size of the community, any new rental project should attempt to serve a broad segment of the potential market. However, much of the potential demand does come from pent-up, or under-served portions of area existing residents, and this is primarily among older adult households, age 55 and above. Projections on growth also point to a growing demographic segment of older adults 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.
- ▶ Part of the demand calculation is also based on serving people that work in Annandale. However, no reliable projections exist for future jobs located in the City. Over the past several years there have been no dramatic changes in the local employment level, but also no long-term job growth. The analysts have no specific information about future employment levels the City.

The opinion of Community Partners Research has been formed with information on general market conditions in Annandale and in the Northwest Quadrant. 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 Wright County. Due to the size of the community, similar information is not available specifically for Annandale. The following table looks at information for the County since 2000.

Table 27 Wright County Labor Statistics: 2000 to 2013						
Year	Labor Force	Employed	Unemployed	Unemployment Rate - County	Unemployment Rate - MN	Unemployment Rate - US
2000	52,498	50,841	1,657	3.2%	3.1%	4.0%
2001	54,490	52,374	2,116	3.9%	3.8%	4.7%
2002	56,843	54,056	2,787	4.9%	4.5%	5.8%
2003	59,279	56,234	3,045	5.1%	4.9%	6.0%
2004	61,192	58,204	2,988	4.9%	4.6%	5.6%
2005	62,756	60,017	2,739	4.4%	4.2%	5.1%
2006	64,789	61,967	2,822	4.4%	4.1%	4.6%
2007	66,202	62,810	3,392	5.1%	4.7%	4.6%
2008	67,546	63,447	4,099	6.1%	5.4%	5.8%
2009	68,324	62,009	6,315	9.2%	8.0%	9.3%
2010	68,909	63,257	5,652	8.2%	7.4%	9.6%
2011	69,480	64,541	4,939	7.1%	6.5%	8.9%
2012	69,178	64,960	4,218	6.1%	5.6%	8.1%
2013	69,704	65,969	3,735	5.4%	5.1%	7.4%

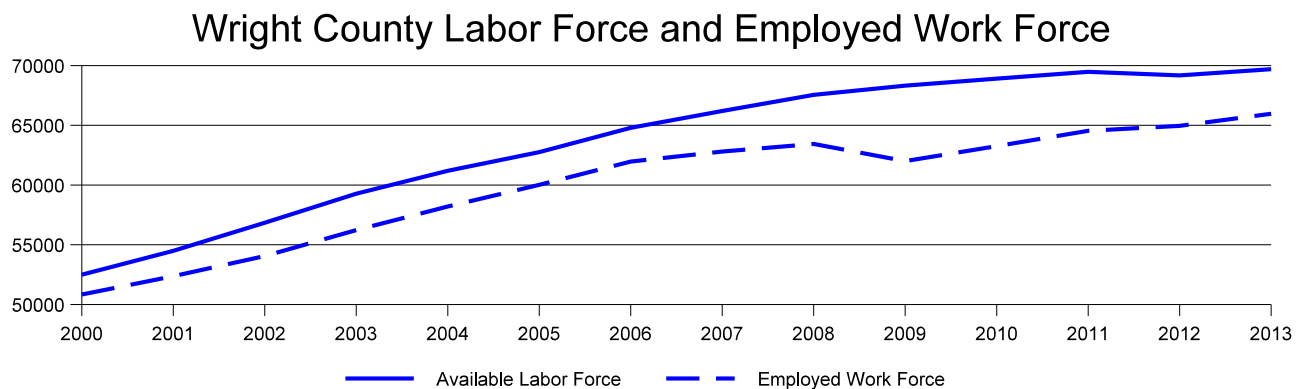
Source: MN Department of Employment and Economic Development

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 actually work.

When viewed over a longer time period there has been strong growth in the size of the County's available labor force, even though there has been some slight downward movement in certain years. When comparing 2013 to 2000, the County's resident labor force increased by more than 17,000 people, or 32.8%. The size of the labor force reached its peak level in 2013, the last full year of data.

The employed work force has also increased substantially in size. From 2000 to 2013, the number of employed County residents increased by more than 15,000 people, or 29.8%. Since the employed resident population increased at a lower rate than the growth in the available work force, the County's unemployment rate increased from 3.2% in 2000 to 5.4% in 2013.

The County's unemployment rate reached its highest level in 2009, at 9.2%, but has steadily declined since that time. However, over the last 14 years the Wright County unemployment rate has consistently been higher than the Statewide rate.



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 Annandale in 2013. 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.

Table 28 Annandale Average Annual Wages by Industry - 2013		
Industry	Employment	Average Annual Wage
Total All Industry	1,382	\$27,508
Construction	90	\$36,608
Manufacturing	131	\$38,584
Trade, Transportation, Utilities	264	\$26,364
Financial Activities	59	\$40,196
Professional and Business Services	N/A	N/A
Education and Health Services	522	\$29,224
Leisure and Hospitality	202	\$8,580
Other Services	N/A	N/A
Public Administration	21	\$40,508

Source: MN Department of Employment and Economic Development

The average annual wage in Annandale for all industry in 2013 was relatively low, at \$27,508. This assumes full-time employment for 52 weeks at the average weekly wage rate. For comparison, the average weekly wage for all Wright County employees in 2013 was \$36,972.

The highest paying wage sectors in Annandale were Public Administration and Financial Activities, both above \$40,000 at full-time employment. However, both of these sectors employed a relatively small number of people.

The largest employment sector, Education and Health Services had an annual average wage below \$30,000. Nearly 38% of workers in Annandale were employed in this industry sector.

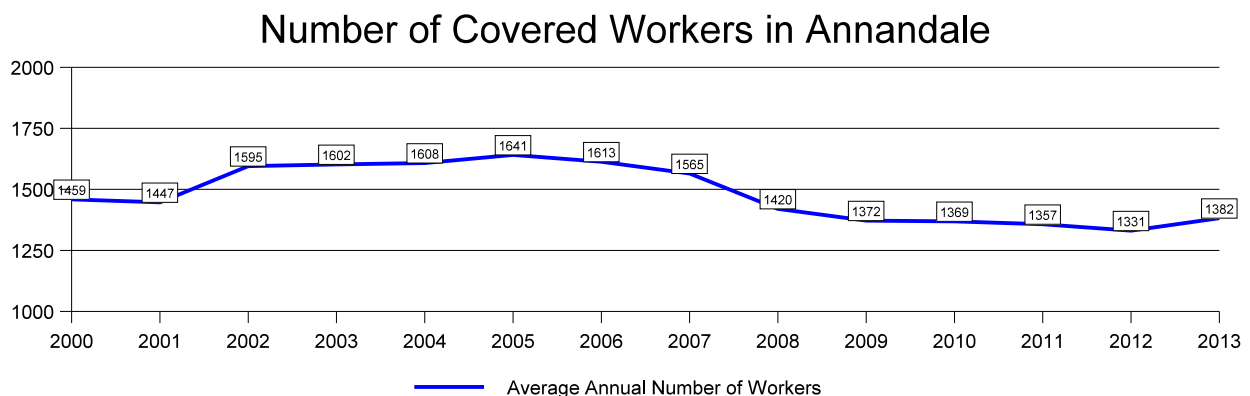
The lowest paying wage sector was Leisure and Hospitality, with an average annual wage below \$9,000 at full-time employment. Nearly 15% of the workers in the City are employed in this sector.

Annandale Annual Covered Employment

Since the Quarterly Census of Covered Workers (QCEW) tracks employees covered by unemployment insurance by location of the worker, it is possible to examine longer-term patterns in the employment level. The following table displays the total number of workers reported in Annandale back to the year 2000.

Table 29 Annandale Average Annual Employment			
Year	Total Covered Employment	Year	Total Covered Employment
2000	1,459	2007	1,565
2001	1,447	2008	1,420
2002	1,595	2009	1,372
2003	1,602	2010	1,369
2004	1,608	2011	1,357
2005	1,641	2012	1,331
2006	1,613	2013	1,382

Source: QCEW - MN Department of Employment and Economic Development



There has been a relatively stable level of employment in Annandale over the past 14 years. After gradual growth in the number of employees working in Annandale between 2001 and 2005, the number of covered workers then dropped slightly from 2006 to 2012. In 2013, the employment level moved upward slightly for the first time since 2004/2005.

Although the reduction in workers in Annandale somewhat coincided with a national period of economic recession starting in 2007, the City did not experience any great drop in overall employment. Instead, the annual movements tend to be gradual. If 2013 is compared to 2000, the number of covered workers in the City decreased by only 87 people, or less than 6%.

Although job reductions within the City are not desirable, most City residents actually commute out of Annandale for employment, as will be detailed in the next section.

Commuting Patterns of Area Workers

While a number of jobs exist within Annandale, most City residents commute for employment. The best information on commuting patterns is from the 2012 American Community Survey, and has been examined for the City of Annandale. The first table only examines travel time for City residents, and excludes people that work at home.

Table 30 Commuting Times for Annandale Residents - 2012		
Travel Time	Number	Percent
Less than 10 minutes	460	31.6%
10 to 19 minutes	269	18.5%
20 to 29 minutes	196	13.5%
30 minutes +	532	36.5%
Total	1,457	100%

Source: 2012 American Community Survey 5-year estimates

The large majority of Annandale residents were leaving the City for employment. Given the City's size, a travel time of 9 minutes or less would be required to reach the job options that exist within the community. However, more than 68% of the City's residents were traveling 10 minutes or more for employment in 2012.

Approximately 50% of the City's residents were traveling 20 minutes or more for employment, including nearly 37% that traveled 30 minutes or more. While these workers could potentially be going in different directions, it is assumed that many traveled eastward toward the Twin Cities Metropolitan Area or toward St. Cloud.

The 2012 American Community Survey also identifies travel time by location of employment. For people that worked in Annandale, the following travel times were identified.

Table 31 Commuting Times for Annandale Employees - 2012		
Travel Time	Number	Percent
Less than 10 minutes	519	34.5%
10 to 19 minutes	580	38.6%
20 to 29 minutes	150	10.0%
30 minutes +	254	16.9%
Total	1,503	100%

Source: 2012 American Community Survey 5-year estimates

Most people that worked in Annandale lived within the surrounding area, as more than 73% had a travel time of less than 20 minutes. This total would include people that both lived and worked within the City. Fewer than 17% of people employed in Annandale 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 2011, but provides a further breakdown of worker movement patterns.

According to the report for Annandale, there were 1,207 people that were employed within the city limits in 2011. Only 214 of these Annandale-based employees actually lived within the City. The remaining 993 employees lived outside the City limits. The percentage of City-based workers that were also residents was only 17.7%.

The ***On the Map*** reporting service can be used to make comparisons between communities in the region. The following table presents information for other communities in the Northwest Quadrant, along with the City of Buffalo, located farther east on Highway 55. It looks at the percentage of people in each community that both live and work in their home city, as well as the percentage of workers that come from outside of each city.

Table 32 Employee Inflow/Outflow Analysis - 2011				
City	Number of People Employed in the City	Percent Employees that also Reside in the City	Percent Employees that Live Outside of the City	Number Employees that Live Outside of the City
Annandale	1,207	17.7%	82.3%	993
Maple Lake	1,120	3.8%	96.2%	1,077
Clearwater	419	7.2%	92.8%	389
South Haven	38	0%	100%	38
Buffalo	6,318	23.4%	76.6%	4,842

Source: Census Bureau, Center for Economic Studies

As indicated in the table above, fewer than 18% of the jobs based in Annandale were actually filled by people that live within the City. In 2011, more than 82% of the people working within the City actually lived outside of the city limits.

While most Annandale workers were commuters from other jurisdictions, this pattern was not unique. In each of the cities in the Northwest Quadrant, and in the City of Buffalo, more than 76% of the jobs were filled by commuters. Annandale had a much higher percentage of city-based jobs filled by residents than either Maple Lake or Clearwater.

Findings and Recommendations

Growth Forecasts Overview

This Study has focused on the growth potential that exists for the City of Annandale, 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 general observations are made:

Annandale Growth Potential

This Study has used the assumption that the Annandale area has the potential to add approximately 35 households per year in an average year through the remainder of this decade. However, more than half of this growth would be expected outside of the City limits, as the surrounding township areas contain a number of attractive lake shore and rural locations that are appealing to potential home owners.

For the City of Annandale, a realistic forecast is between 13 and 15 households per year. But it is important to recognize this as potential growth. The City has not had a commensurate level of new housing unit construction at this level in many years. While some household growth has continued to occur over the past three years, it has probably been due to the availability of formerly vacant housing. As vacant housing is absorbed, housing unit growth and household growth will be more directly linked.

The last year that 13 or more new housing units were constructed in Annandale was 2009. There have not been consecutive years when 13 or more housing units were built since 2005 and 2006. Achieving the City's growth potential will therefore require proactive efforts. Over the last seven years, the City has averaged fewer than seven new housing units per year through new construction.

To reach a level of new unit construction that is more than double the level that has been happening naturally may require efforts that are not typically associated with the private market, such as development subsidies, recruitment of developers and community promotional efforts that encourage new households to locate within the City.

It is important to note that this growth-generated potential demand would include both ownership and rental housing opportunities. Historically, nearly 26% of the households in Annandale have rented their unit, and this Study has recommended that some rental production should also occur.

Regional Growth Potential

The Northwest Quadrant of Wright County, which includes the cities of Annandale, Clearwater and Maple Lake, has generally accounted for a relatively small share of the County's overall growth. From 2000 to 2010, the aggregated jurisdictions that form the Northwest Quadrant represented approximately 7.2% of all household growth in Wright County.

This share captured by the Northwest Quadrant has increased after 2010, but this is primarily due to a large reduction in the annual growth that has been occurring elsewhere in the County, especially in the communities that had once been growing at a very rapid rate. Prior to the housing market crash late in the last decade, many of the communities in the eastern portions of the County had experienced household growth and housing unit construction that were especially strong, before slowing significantly in 2007.

The growth potential for all of Wright County is still significant, despite the slowdown that occurred after 2007. The City therefore has the possibility of capturing a larger share of the regional activity. However, this would probably require that household growth be taken away from other communities that have been successful in the past, such as Buffalo, Monticello, Albertville, St. Michael and Otsego. Since most of these cities have the capacity to add more housing, there are no indications that a larger percentage of housing starts would begin to shift westward, to communities such as Annandale that are farther removed from the Twin Cities area.

Home Ownership Recommendations

Overview: Housing units constructed for owner-occupants were the strength of the Wright County new construction market in recent decades. Between 2000 and 2010, Wright County added more than 10,500 home owners compared to 2,400 renters, and much of the rental growth probably occurred late in the decade when some unsold single family units were occupied by renters. At the time of the 2010 Census, 83.5% of all households in the County owned their housing, a very high rate of home ownership.

Within the Northwest Quadrant of Wright County, most of the housing constructed over the past 15 years was intended for owner-occupancy. From 2004 to 2013, the time period tracked by building permit reports, nearly 1,100 new housing units were permitted in the Northwest Quadrant jurisdictions. Only one multifamily rental complex was permitted during this time, and this complex is in Clearwater. No multifamily rental construction occurred in Annandale, Maple Lake or South Haven.

In Annandale, the peak years for single family construction occurred from 2001 to 2005. Over this five-year period, building permits were issued for 228 single family detached and attached housing units, or an average of nearly 46 units per year. However, after 2005, the annual level of home construction dropped substantially. In the eight-year period from 2006 to 2013, only 64 new housing units were permitted, or eight units per year. This annual average was even lower over the past three years.

While the City did achieve a significantly higher level of construction in the first half of the previous decade, there is some evidence that this was a time of over building. From 2000 to 2009, approximately 289 single family housing units were permitted in Annandale. However, based on Census records, only 160 owner-occupancy households were added to the community between 2000 and 2010, well below the level of new unit construction. This implies that actual demand from home owners was substantially lower than the production level. If actual growth in home ownership is analyzed, Annandale had average annual demand for approximately 16 units per year during the prior decade.

There are possible explanations for some of the discrepancy between construction and demand. One was the foreclosure crisis that impacted Wright County late in the decade. Prior to the completion of the 2010 Census, a number of former home owners may have lost their house to foreclosure or a distressed sale.

There was also some overall increase in vacant housing as recorded by the decennial Census. However, the number of vacant houses that were available for sale in Annandale did not change significantly between 2000 and 2010.

Most of the discrepancy between housing construction and owner-occupancy can be explained by unit conversion, as Annandale added 80 renter households but constructed substantially fewer new multifamily rental units. This implies that up to 80 units that had been owner-occupied in the year 2000 switched to rental use by 2010.

This pattern of single family construction exceeding home ownership growth was not unique to Annandale. Information examined for other cities in Wright County pointed to similar trends. In Maple Lake, as many as 216 single family units were constructed in the last decade, compared to owner-occupancy growth of 122 households. In Clearwater, nearly 290 single family units were built from 2000 to 2009, compared to home owner growth of 241 households. In each of these cities, some units that were available for home ownership were either vacant or renter-occupied by 2010.

Looking forward, the growth projections for the Greater Annandale area expect annual average growth potential of approximately 35 households in a typical year over the next five years. With the expectation that between seven and nine households will be looking for rental opportunities, this results in potential home ownership demand from 26 and 28 households annually. Historically, more than half of this demand has been located in the surrounding townships, including lake shore locations. However, with attractive subdivision options within Annandale, a realistic capture of between 10 and 15 owner-occupancy households per year represents potential demand within the City.

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

1. Most demand will continue to exist for moderate to higher priced homes

Findings: Although some potential demand will exist in the entry-level segment of the market, demographic patterns strongly support moderate to higher-priced housing. The aging patterns for the Annandale area continue to show growth in the number of older adult households, most in the 55 to 74 year old age ranges. At the same time, trend-based projections would point to a declining number of younger adult households.

People age 55 and older have historically shown a strong preference for home ownership. In their peak earning years, and with time for asset accumulation, 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 2000 Census, households in the age groups between 55 and 74 years old represented approximately 27% of all Greater Annandale area households. By 2010, these older adult age groups represented nearly 35% of all households. Trend-based projections to the year 2020 point to more than 43% of all households in these age ranges.

In the Annandale area, demand will also be impacted by household income. The comparison of income levels for Greater Annandale households presented earlier in this document showed strong growth in the number of households with an annual income of \$75,000 or more. The greatest net growth actually occurred among households with an annual income of \$100,000 or more. These households can apply a significant portion of their income to housing costs, and again support demand for moderate to higher priced homes.

Existing home values also tend to be relatively strong, and appear to have recovered from the recent low, reached in 2010. Since most of the higher income households already own their housing, people that look to move into a newly constructed house should also have equity available from the sale of their previous home.

It is important to note that these positive market trends have been gradually evolving in recent years, but have not necessarily resulted in increased demand for trade-up and/or age-appropriate housing. Over the previous five years, only 31 houses in total have been built in Annandale. Only one twin home has been constructed, and that structure was permitted in 2014, with only one unit pre-sold. The City has attractive locations for detached and attached housing construction, but actual demand has not been present.

Recommendation: Even though Annandale has achieved limited recent success, moderate to higher-priced single family housing should represent as much as 70% to 80% of future activity. Based on the construction forecasts, this would yield potential for approximately seven to twelve units in an average year.

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 also 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 need to sell their existing home, typically of lower value. The projected decline in the number of households age 54 and younger through the year 2015 would imply some reduced future demand from younger buyers for lower priced houses.

Annandale has two active residential subdivisions for detached home construction and two or three subdivisions with lots suitable for attached single family units. While the supply of lots is not excessive, when compared to some other Wright County communities, there are multiple attractive lot options for home construction in the moderate to higher-priced market segments.

The private development market is well-positioned to serve demand for these types and prices of housing. There is a limited public role that should be required within this segment of the market. However, in some other communities, certain incentives are being offered, in an attempt to generate a higher level of construction activity. Some of these incentive ideas will be discussed later in this section.

2. Some potential demand will exist for entry-level houses

Findings: There were various reasons for the large-scale growth that occurred in Wright County over previous decades, but one of the primary drivers of outward movement was the search for more affordable home ownership options. When compared to communities located closer to the Twin Cities Metropolitan Area, the cities in Wright County were often viewed as a location to find a high quality housing unit at a lower price.

While many higher-priced homes were also built, especially in the high amenity locations around Annandale, more affordable housing was a primary concern for many families.

Some of the most successful subdivisions in Annandale in the previous decade reportedly catered to the more affordable segment of the market. Triplet Farms was a subdivision that was fully developed in the 2000s. According to local real estate experts, some of the houses built in this subdivision were in the \$150,000 price range, especially in the later stages of the development.

Demographic patterns in the Annandale area will not necessarily be conducive to strong demand for entry-level new home construction. The age-based projections presented earlier in this Study expect a reduced number of younger households in the Greater Annandale area between 2010 and 2020. Households age 44 and younger will still represent nearly 26% of all households in 2020, but in the year 2000, when starter-home construction activity was more active, younger adult households represented more than 40% of all Greater Annandale households.

Significant competition will also exist within this affordable market segment, especially from communities that have large inventories of distressed lots and subdivisions. Other Wright County communities such as Maple Lake, Waverly, Howard Lake and Cokato have lots that are available at below-market pricing. For example, the City of Waverly has taken ownership of some lots that will be offered for as little as \$6,000. The City of Howard Lake may soon offer starter-home lots at an even lower price. Some lots in Maple Lake are currently listed at \$14,999.

The lowest-priced lots that can be identified in Annandale in 2014 are at \$19,900, and few exist at this price. Most of the lots in Annandale are priced at approximately \$25,000, or higher. While Annandale may represent a more desirable community for some potential entry-level buyers, this segment of the market tends to be price sensitive, and discounted lots in neighboring cities will represent a competitive advantage. In some cases, the lot price discount may be \$15,000 or more when compared to Annandale.

Recommendation: Approximately 20% to 30% of the potential annual demand for new homes in Annandale has been allocated to the more affordable market segment, generally defined as less than \$175,000. This would yield approximately three to five houses in a typical year.

If an attractive home design and the right builder achieve success with a certain product, a higher volume of affordable homes is certainly possible. For example, a builder/developer in Montrose has been successfully selling a split-level floor plan that is priced at \$169,900. Most of the 13 single family housing starts in Montrose in 2013 were due to this basic home design.

The affordable single family houses being sold in Montrose generally have 1,328 square feet of living space on the upper level, and 644 square feet of unfinished space on the lower level. There are three bedrooms and two bathrooms. These units have a three-car tuck-under garage. They have a list price of \$169,900. In addition to Montrose, the same builder has had success with this same basic home plan in Buffalo, Mayer and Monticello.

It is also important to recognize that part of the success in these other nearby communities was due the availability of high quality lots at low prices. The successful home builder in Montrose was able to acquire distressed lots at a deep discount. In Montrose, the lots had previously been intended for higher-valued homes before the market crash. According to second-hand reports, the builder was able to acquire these lots for less than \$3,000 per lot, which contributes to the end home pricing below \$170,000. With higher lot prices in Annandale, this same house plan would potentially need to sell for a substantially higher price, and would have a competitive disadvantage.

To realize the market potential of three to five entry-level homes per year in Annandale, competitive pricing would need to be achieved. Until the regional inventory of distressed lots at deeply discounted prices is absorbed, there will continue to be very strong competition within this segment of the market.

3. Promote affordable existing home ownership options

Findings: This Study tracked the sales activity in Annandale back to the year 2004. Over the past 10 years, the median home sale price in the City has only exceeded \$170,000 in two years, and these were 2005 and 2007, near the peak of the housing boom. In five of the last six years the median sale price has been below \$160,000. While these median prices are relatively strong compared to many smaller communities in Greater Minnesota, they still represent a more affordable option than the price typically required for new construction.

For the 2013 sales year, there were 40 “good” sales in the City, as tracked by the County Assessor’s Office. Fourteen of these home sales, or 35%, were for less than \$125,000. Moderate to lower-valued existing homes can represent a very attractive ownership option for potential home buyers in the larger region.

Recommendation: Promotion of the affordable ownership options can help the City attract younger families. According to local real estate agents, good demand exists for lower to moderately priced houses, especially homes priced below \$160,000. Most recent home sales in Annandale have been below this price level.

There is some evidence that over time, some of the City’s older, lower-valued homes has been purchased for use as rental housing. Between 2000 and 2010, as many as 80 units that had formerly been owner-occupied may have switched to rental use. While this expanded rental options, it is probably in the City’s best long-term interest to attract home owners, and increase the rate of home ownership.

4. Consider the creation of innovative ownership programs for older homes such as lease-to-purchase arrangements or purchase/rehab loans

Findings: As stated earlier in this Study, there is evidence that Annandale has experienced a significant amount of tenure conversion in the past, primarily as single family units switched from owner-occupancy to renter-occupancy between 2000 and 2010. Some of this conversion may have occurred late in the last decade, as a retreat in housing market conditions, combined with a national economic recession, resulted in more foreclosures, short sales and distressed property transfers.

Based on renter household growth over the last decade, it appears that as many as 80 units may have changed from owner to renter use. This assumption is supported by information contained in the 2012 American Community Survey, which estimated that 106 single family detached units were renter-occupied in 2012. This was well above the level of 27 units recorded in the 2000 Census. Although the 2012 American Community Survey provides an estimate, with a recognized margin of error, it does match the evidence on unit conversion implied by the household tenure changes from 2000 to 2010, as recorded by the decennial Census.

According to the American Community Survey, approximately 180 owner-occupied homes in Annandale were constructed before 1960. This represented more than 21% of all owner-occupancy units in 2012. Nearly 14% of all homes in the City were built before 1940. While older housing can appeal to some buyers, others are reluctant to purchase a home if it needs repair.

It is possible that older, lower valued homes have been purchased in the recent past by investors for use as rental property. This may include houses that are in need of repair. While tenure conversion does add to the rental housing stock, it can have negative impacts on older neighborhoods in the City. It also often results in less community and work force stability, as renter households are more likely to move than home owners.

Recommendation: Some communities have taken proactive steps to promote the ownership of older, lower valued housing units. These approaches may include lease-to-purchase arrangements, attempting to move renter households into home ownership. Another possible program is to promote purchase/rehab loan packages, where the buyer of an older home needing repairs can access special rehabilitation funding sources at the time of sale.

A lease-to-purchase program enables a family that currently cannot purchase a home due to poor credit, lack of a down payment, etc., to initially lease with the intent of purchasing the home at a later date. While leasing, the household can work to remedy the problems that have prevented them from buying. This rental period can also be used as a time to save for a down payment. There have been successful models in the past, although they often require the involvement of a public or nonprofit agency, due to the potential risk involved. Any lease-to-purchase model generally has very defined milestones that attempt to complete the transaction within a specific period of time.

Purchase/rehab loans were gaining popularity before the housing market crash and financial collapse that changed the way mortgage loans are made. In this concept, the rehabilitation loan is made in conjunction with the permanent mortgage. The loan amount may initially exceed the home's pre-rehab value. Once again, public or nonprofit involvement may be necessary due to the inherent risks of lending an amount that is larger than the home's value.

An employee survey that was recently completed in the nearby community of Howard Lake asked people about their interest in purchase/rehab. Of the survey respondents that answered the question, 48% said that they would consider the purchase of an older home needing repair if financial assistance programs were available for rehabilitation.

5. Monitor home foreclosure/bank-owned sales trends

Findings: Starting in 2006 and 2007, home foreclosures, short sales, and bank-owned real estate sales became an increasing problem across the State. Wright County was directly impacted by these issues, and in 2013 was still among the top 10 counties in Minnesota for the highest rate of foreclosure.

In most communities, the number of distressed transactions tended to peak late in the last decade, and then began to decrease. This may not be the case in Annandale. Bank-owned home sales have remained as an issue in the City over the past three years. The number of bank-owned property sales did reach a peak in 2011, when 26 transactions were recorded, and was lower in the next two calendar years. Partial-year information for 2014 points to an even lower number of transactions in the current year.

Although the annual number of bank-owned sales has been dropping since 2011, the 18 bank-owned sales in 2013 did represent the second highest level of annual activity, and the 17 sales in 2012 were the third highest level.

There is no clear explanation for the past three years having the highest volume of bank-owned sales. One possibility is that financial institutions were slow in bringing these properties back into the market, waiting for some rebound in housing prices.

In addition to losing individual home owners, foreclosure activity and the resulting bank-owned sales, can impact the broader housing market. The actual median transfer price for the bank-owned sales is generally below the median sale price for fair market transactions, as houses are often liquidated at a discount. While this did not seem to have an overly large impact on the median home sale price in Annandale, the volume of fair market transactions was low in three of the past four years, possibly due to the volume of bank-owned sales.

Recommendation: Although there are few direct City actions that can be taken concerning home foreclosures, Annandale may want to monitor this trend. The Wright County Assessor's Office can produce annual reports of sales transactions of bank-owned homes.

While the final disposition of bank-owned home sales cannot be easily tracked, it is possible that some of the lower-valued properties are being sold to investors, and converted to rental use. Property tax classifications may also help to identify whether bank-owned home sales have been purchased for owner or renter occupancy.

6. Monitor lot/subdivision availability and promote additional development as needed

Findings: In 2014, the City of Annandale has a relatively large supply of residential lots, when compared to recent annual absorption rates. From 2007 to 2013, the City has averaged fewer than seven single family housing starts per year.

The research for this Study identified between 80 and 100 improved/partially improved lots in Annandale. This total includes some lots that are platted for attached home construction, such as twin homes. However, most of the lots are intended for detached home construction.

Some of the subdivisions are in financial distress, including at least one where most of the remaining inventory is bank-owned. The City's active subdivisions were created in response to the active home construction market that had previously existed, especially between 2001 and 2005, when approximately 30 to 80 lots were being used each year for single family houses. However, when average annual lot absorption dropped, starting in 2007, some of the subdivisions began to experience financial difficulties.

Most of the detached home lots exist in two subdivisions, Southbrook Addition and Pintail Ponds. In Southbrook, more than 40 lots are bank-owned in 2014, and some privately-owned lots also exist and are listed for sale. In Pintail Ponds, approximately 20 single family lots exist. Some additional lots in Pintail Ponds had been designed for "bay homes", but it is probable that some redesign will be completed and these lots may be available for attached single family construction in the future. Twin home lots exist in Hunter's Cove and in an area of Southbrook Addition.

Specific pricing information was not available for many of the lots, but no steep discounting was evident in Annandale in 2014. Some of the bank-owned lots in Southbrook were listed for less than \$20,000, but most lots were priced between \$25,000 and \$37,000. The financial institution that owns the largest lot inventory was cautious about the impact that deep discounting could have on adjoining property values.

Recommendation: The projections used in this Study expect annual demand for up to 15 single family homes per year in Annandale going forward. If this rate of construction can be sustained, much of the current lot inventory could potentially be absorbed within the next three to four years. However, at the recent average of approximately seven homes per year, the current inventory represents a supply that would be adequate for more than 10 years.

We would recommend that lot utilization patterns be monitored. As the existing inventory is used for new home construction, land developers may need to be encouraged to initiate additional development.

We would typically recommend that the supply of improved lots, or those in the development pipeline, be adequate to accommodate at least 2 ½ years of anticipated construction. At the higher end of the forecast range, this would require between 35 and 40 lots. The current inventory is larger than this near-term demand.

As stated previously, additional demand for lots will exist in the Greater Annandale area, but historically, many home buyers have looked to the rural areas and lake shore locations for their preferred site. If a larger share of this potential demand shifts to lots within the city limits, the existing lot inventory could be absorbed at a faster rate.

It should be noted that the analysis in this recommendation is based on the overall lot supply, and no detailed listing was completed of the exact supply of lots for any specific home construction style. For example, it is possible that additional lots could be needed to accommodate 'walk out' style construction in the future, if these lots are limited in supply. It is therefore possible that development proposals may surface within the next few years, even though unused lots may still be available in existing subdivisions.

It should also be restated that competitive pricing is likely to continue in nearby communities. Maple Lake and Waverly already have lots that are priced below \$15,000. It is probable that additional lots will soon be available in Howard Lake and Waverly for less than \$10,000. Although these lower-priced lots may generally be inferior in quality to those available in Annandale, these substantially lower prices may also serve to discourage near-term subdivision development in the region.

7. Consider possible incentives to promote housing construction

Findings: Prior to the market retreat of the late 2000s, housing construction activity in Annandale was proceeding at a strong pace. Between 2001 and 2005, 24 or more new houses were being built annually. Over the past seven years, the largest number of single family housing starts in a single year was 13 homes in 2009.

The research for this Study has identified a very large unused lot inventory within the surrounding region. The cities of Clearwater, Howard Lake, Montrose, and Waverly, in particular, have a large number of vacant lots. Many of the subdivisions in neighboring communities are in financial distress or have reverted back to bank or investor ownership.

In some cases, lots are being sold at a deep discount to their original asking price. For example, the City of Waverly has city-owned lots that will be sold for as little as \$6,000. Howard Lake also has a number of city-owned lots that may be sold at an even lower price. In Montrose, where some greatest success is being achieved by affordable home builders, one development company was able to acquire a large number of distressed lots for less than \$3,000 per lot after a higher-priced subdivision went into foreclosure.

These are just some current examples of the distressed pricing pressures that exist within the larger region. Based on the research completed for this Study, the following approximate lot inventory exists in 2014:

- ▶ Clearwater - 70 to 75 lots
- ▶ Howard Lake - 150 to 175 lots
- ▶ Montrose - 190 to 200 lots
- ▶ Waverly - 290 to 300 lots
- ▶ Delano - 60 to 70 lots
- ▶ Maple Lake - 20 to 30 lots
- ▶ Cokato - 25 to 30 lots

In total, as many as 800 to 900 lots exist within the communities listed above. It is also probable that a number of lots are available in Buffalo, but attempts to contact City officials in that community were unsuccessful. The website Realtor.com lists nearly 40 lots in Buffalo, and it is typical that only a few lots in larger subdivisions are actually posted to the Multiple Listing Service, so the inventory in Buffalo is probably larger.

The regional total does not include between 80 and 100 lots that are available in Annandale. Even if demand improves for new homes, the current lot inventory in the larger region probably represents a supply that will not be fully absorbed for more than six years, and probably longer.

Recommendation: In response to a large inventory of lots and many years of below-average construction activity, some communities in the region are attempting to offer financial incentives to encourage additional housing construction. These types of initiatives could be considered in Annandale.

City of Watertown - Located in northern Carver County, Watertown in 2014 started a program that waives sewer/water/storm sewer connection fees for the first 15 single family units. The approximate value of the waived fees is \$9,500. In the first two months of the program, 10 single family permits had been issued. In 2012 and 2013, the City had a cumulative two-year total of only six new single family homes. While the incentive program cannot be directly linked to increased home building, 2014 does represent a substantial improvement over the recent past.

City of Maple Lake - Maple Lake, also part of the Northwest Quadrant of Wright County, has started some incentives to encourage home construction. The City has dropped the escrow deposit requirement for home builders that had required \$3,500 to be deposited for proper landscaping and site grading. This deposit was refundable to the builder after successful completion of the project, but did increase the initial investment for builders. Maple Lake has also allowed \$2,000 in home owner connection fees to be assessed against the property, once again lowering the initial costs for new houses.

City of Belle Plaine - Belle Plaine, located in southwestern Scott County, has been offering different housing incentive programs. The City is currently waiving building permit and plan review fees for new single family homes. Homes must be constructed on an existing, platted, subdivision and only two spec homes are allowed to be constructed per builder. The homes must be owner-occupied. The amount of the waived fee is dependent upon the home's value, but an average of \$3,300 would generally apply for a permit and plan review. This waiver only applies to the first 10 homes constructed per year, and in 2013 and 2014, the 10 house limit was reached. The City also offers a \$2,000 down payment assistance grant for homes that are built using at least one local contractor. This grant is limited to five homes per year.

City of Henderson - Located in Sibley County near the border with Scott County, Henderson has been offering a waiver of building permit and water/sewer connection fees for the past two years. The estimated value of the waived fees is between \$10,000 and \$11,000. The City had taken ownership of a 23-lot subdivision through tax forfeiture, and then sold the lots at a very steep discount of less than \$1,000 per typical lot. To encourage home building on these lots, the fee waiver program was started, but only five houses in total have been constructed so far, and only three of these were in the distressed subdivision.

City of Howard Lake - Howard Lake has taken ownership of a distressed affordable housing subdivision that had originally been part of the Greater MN Housing Fund's Building Better Neighborhoods initiative. No houses have ever been built in this subdivision. The City is hoping to develop a home ownership incentive program that will significantly lower the costs for entry-level buyers. This would include tax increment financing assistance to income-eligible households, along with potential down payment assistance, gap financing, and first-time home buyer mortgages. The goal would be to generate homes with a price that is less than \$150,000 for the end buyer.

This list of examples has been compiled from research completed for other projects, and is not intended to represent all of the different approaches being used in the surrounding area. However, it does provide an indication of some of the proactive efforts that are being utilized as communities attempt to re-start a higher volume of new home construction

It should be noted that in many of the examples identified above, city involvement appears to have been caused in part by troubled subdivisions, or the potential that subdivisions would fail in the future. For example, the incentives being offered in Watertown were due to a low volume of single family housing starts with a recent average of three houses per year and a large inventory of improved lots, estimated at approximately 385 lots in Watertown in 2014.

The City of Annandale has not experienced problems at the scale of some of these communities. However, in an attempt to increase the annual level of new home construction, a policy discussion on measured incentives may be appropriate.

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.

Rental Housing Recommendations

Overview: According to the 2010 Census, more than 25% of all households in Annandale rented their housing. The City offers a mix of rental opportunities, in conventional, market rate projects, to income-restricted affordable and subsidized housing. The City also has a range of unit types, from single family houses, patio homes and mobile homes that are renter-occupied, to more traditional multifamily apartment buildings.

Despite the fact that more than 25% of all households are renters, Annandale has not had any direct rental unit construction in many years. The last larger multifamily project that can be identified is Knollwood Square Apartments, which was probably issued a building permit in 1999. Some additional multifamily development occurred on the Centennial Villa campus at this time, including assisted living and memory care buildings, but these projects also appear to have been permitted in 1999.

There may have been four rental units constructed in 2002, as the last phase of the Spruce Manor project. However, it appears that these four units may have been permitted in 1999, and also possibly pre-date the 2000 Census. There were three “bay homes” in Pintail Ponds that were constructed in the late 2000s for owner-occupancy, but due to limited demand, they were converted to rental use. In total, it is probable that fewer than 10 housing units were permitted and constructed after the year 2000 for renter-occupancy.

Although almost no new traditional multifamily rental housing has been built in many years, Annandale has added renter households. Between 2000 and 2010, the Census recorded a net gain of 80 renter households and 99 rental housing units (including vacant housing). Much of the growth in renters appears to have resulted from unit conversion, as houses previously occupied by home owners converted to rental occupancy. While no official estimates exist after 2010 on tenure patterns, it is possible that unit conversion has continued to occur.

The absence of multifamily rental construction in Annandale is generally consistent with the experience of other Wright County communities, especially in the cities that are farther removed from the Twin Cities. As part of the research for this Study, building permit reports were reviewed for the Cities of Annandale, Clearwater, Maple Lake and South Haven in the Northwest Quadrant of Wright County. Construction records were also reviewed for the Cities of Delano, Montrose, Waverly, Howard Lake and Cokato along the Highway 12 Corridor. Dating back to the year 2000, only three multifamily rental projects could be identified in these nine cities.

The largest single project was the Cedar Ridge complex in Clearwater, where 127 traditional apartments were constructed in three development phases, starting in 2002. This is the only larger-scale market rate project that can be identified. The Cedar Ridge project is along Interstate 94, providing direct commuter access to the Twin Cities or the St. Cloud metropolitan areas.

There were two projects in Delano that were issued a building permit in 2004. Both of these projects offer income-restricted housing. One is a federally subsidized project through HUD, and the other utilized federal low income housing tax credits.

The heavy emphasis on constructing single family housing in Wright County's smaller cities, originally intended for owner-occupants, is generally consistent with the explosive growth patterns that were occurring in Wright County in the early 2000s. The cities in the County were often attracting younger households looking to buy a home, and home owners looking to live in a smaller community within reasonable driving distance of a larger metropolitan area.

Renters typically have less motivation to live far from their place of work. There tend to be concentrations of rental housing available within larger communities. Since most renter households have moderate income levels, the costs of commuting create a greater burden. The exception seems to be renters looking for a single family home. Families that want to rent a house have been willing to live in the Northwest Quadrant communities, as evidenced by the probable net gain of renter households occupying units that had previously been owner-occupied. However, the analysts are not aware of any feasible model of constructing new single family homes for rental use.

Going forward, this Study has allocated approximately 28% of the annual household growth potential in the Annandale area to rental housing. While attracting long-distance commuters to live in Annandale is less likely, there is locally-generated demand, especially given the lack of new unit construction in recent decades.

The following findings recommendations are made concerning rental housing issues:

8. Develop two phases of 16 to 26 units of market rate housing over a five-year period

Findings: A specific section of this Study has examined the potential market for conventional, market rate rental units in Annandale. This methodology calculated adequate demand for approximately 33 to 53 units over a five-year projection period.

Additional demand would exist for more affordable rental housing, but for market rate units, an assumption has been made that qualifying households would need an annual income of \$30,000 or more. Approximately 50% of the existing renter households are within this income range.

There have been few comparable examples of market rate rental development in Annandale. A few units were added over the past 15 years, but these were often single family-style rentals, such as town homes. In some cases, such as units in Pintail Ponds, the housing was intended for owner-occupants but has been converted to rental use.

Recommendation: Typically, Community Partners Research would recommend that a single rental project can only capture a share of the overall demand. Therefore, a single project of approximately 16 to 26 units would initially be recommended. After the first project has achieved a stable occupancy pattern, a second project of a similar size could be developed later in the five-year period.

There are various construction styles that could be considered. One approach would be a multistory, traditional apartment building. A number of smaller communities have also achieved success with moderately-priced town house-style rental units.

Much of the future demand for rental housing will be driven by net growth from households age 55 and older. As stated earlier in this document, the largest growth segment of the local population is among people age 55 and older. Through the years 2015 and 2020, most of the net increase in households will be the result of growth in the age groups between 55 and 74 years old. Rental projects that can appeal to empty-nesters and seniors should find that these groups represent a significant share of their potential tenant base.

There are very few comparable examples of new construction market rate rental projects in the smaller communities in the Northwest Quadrant of Wright County. The only market rate apartment project that can be identified in recent

years is in Clearwater. While there are few directly comparable projects to examine, a rent structure that is similar to other recent projects in Clearwater and in the larger St. Cloud region, should be targeted for any apartment development in Annandale. Approximate rents are as follows:

- ▶ One-bedroom, one bathroom with 600 sq. ft. \$625-\$650
- ▶ Two-bedroom, two bathrooms with 850 sq. ft. \$800-\$850
- ▶ Three-bedroom, two bathrooms with 1000 sq. ft. \$950-\$1000

This discussion of gross rental rates is provided as an indicator of potential market rents that would be competitive with similar units in the region, but actual rents would need to be altered based on the size of proposed units and the particular amenities and features that would be offered.

While this rent structure has been identified as possible for developers to achieve, it should be noted that some recent projects have been reaching an even lower rent structure, which increases the potential target market. In the City of Perham in Otter Tail County, recent apartments have been built. Estimated gross rents are less than \$775 for a two-bedroom apartment, with the approximate square footage identified above. These units have been very well received in that community.

There is a different style of rental product that has also been very successful in communities north and west of St. Cloud. A developer based in Little Falls has been constructing rental patio homes, with a two-car attached garage. Gross rents are below \$850 for a two-bedroom unit with one bathroom and approximately 800 square feet, and less than \$1,000 for a three-bedroom unit with 1.5 bathrooms and approximately 1,100 square feet.

Although the rent structure for this town house project is higher than those recommended for apartment-style units, the product has been very well received. Tenants get a town house-style unit, with a private entrance, in-unit laundry and a 2-car attached garage for a price that is often comparable to apartment-style housing.

Although Community Partners Research does not endorse or recommend specific developers, we are not aware of other recent examples of development projects offering this type of unit within this price range. This developer will often construct units in phases of 16 to 18 units, with another phase added within a few years once a stable occupancy pattern has been sustained. Annandale may wish to consider further research with this developer to determine potential interest in the community.

This town house-style product has generally been occupied by households age 55 and older, and could be senior-designated in Annandale. The product has been very well received in communities generally similar to Annandale, including Sauk Center, Long Prairie, Glenwood and New York Mills.

9. Monitor opportunities for income-restricted housing development

Findings: There are six income-restricted housing projects that exist in Annandale. One of these provides moderate rent housing opportunities, having been assisted through federal low income housing tax credits. The other five projects utilized federal subsidies through HUD or USDA Rural Development, and can generally offer rent based on household income, which can serve very low income renters.

The City's only moderate rent tax credit project, the Cottages of Annandale, has 36 total units that are designated for senior occupancy, defined as age 55 or older. All households must be at or below 60% of the County's median income level.

The Cottages of Annandale is somewhat unique, in the opinion of the analysts, with its senior designation. Current priorities for tax credit new construction awards are typically oriented to family and work force housing, with senior-designated projects generally being a lower priority. The presence of 36 moderate rent senior units in Annandale has been well-received, as the project reported full occupancy and a waiting list in the rental survey.

Only one of the five subsidized projects, Annandale Square I, offers general occupancy housing. This project has 38 apartment units, with most tenants having access to project-based rent subsidies.

The other four subsidized projects, Annandale Square II, Knollwood Apartments, Oakdale Apartments, and Goldendale Homes are designated for senior (age 62+) or disabled tenant occupancy. These projects are subsidized through USDA Rural Development or HUD. Combined, these projects have 74 units. Since most of the subsidized units in Annandale are designated for senior/disabled occupancy, they are heavily oriented to one-bedroom apartments.

When all of the income-restricted properties are combined, they represent between 38% and 44% of all rental options in the community. This is a relatively high percentage of the total rental inventory. With the possible addition of some tenant-based Vouchers, this percentage of income-restricted housing would be even higher.

Despite the large supply of units, the rental survey found only one vacant unit in the subsidized segment of the rental market. The vacant unit was in the senior/disabled segment, for a vacancy rate of 1.4%. There were no vacancies in the general occupancy segment. There were also no vacancies in the moderate rent tax credit project.

Recommendation: The rental demand calculations presented in an earlier section of this document indicated that approximately 50% of existing renter households in the Annandale area have an annual income below \$30,000. Most of these households would be candidates for income-based rental projects. Over the next five years, potential demand exists for more than 30 affordable rental units, including subsidized units with rent based on household income.

However, actually constructing new income-restricted units will be very difficult, given the resources available, and the City should look to expand its affordable housing supply as resources allow.

The rental housing cost data presented earlier also indicated that more than 43% of all renters in the Annandale area were paying 30% or more of their income for rent. Although a housing cost burden could be caused by either high housing costs or low household income, in Annandale it was primarily due to low income levels for renters. Approximately 46% of the renter households with a housing cost burden had an annual household income below \$20,000. To avoid a cost burden, these lower income households would have needed a unit with a gross monthly rent of \$500 or less.

Senior citizen renters (age 65 and older) represented approximately 54% of all households with a rental cost burden. Despite the number of senior-designated housing options that already exist, a number of senior renters were still experiencing a cost burden. Households in the age ranges between 15 and 64 years old represented approximately 46% of all households with a rental cost burden.

Another issue concerning supply and demand of affordable rental housing is the large supply of smaller units, as nearly 57% of all income-restricted housing is offered in one-bedroom rentals. Only one project, Annandale Square I is designated for general occupancy, such as families with children.

It would be appropriate to look for opportunities to expand the supply of income-based housing with two or more bedrooms. However, resources for deep-subsidy 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. In June of 2014, only six Annandale households had Vouchers. With a Voucher, a lower-income household can rent any suitable private unit in the community that meets the program standards.

It may also prove to be difficult to secure additional shallow-subsidy resources, such as low income housing tax credits. The Minnesota Housing Finance Agency (MHFA) awards additional application points based on various rating factors. For work force housing, MHFA examines items such as commuting patterns and the number of low/moderate wage jobs within the community.

Based on MHFA's interactive website, Annandale would not score well in these geographic categories. A separate economic integration rating system, based on income levels and job growth, also does not prioritize Annandale. New construction tax credit applications are highly competitive, and the ability to secure points based on these rated criteria can impact the chances for a successful project.

One final community strategy concerning income-based housing is to prevent the loss of any units, through contract termination or opt-out. In 2014, none of the subsidized projects in Annandale are identified as being "at risk" of leaving its subsidy program. However, it is possible that some projects may be able to opt-out of their subsidy contract in the future.

9. Monitor demand for specialized senior housing

Findings: Annandale has already developed a number of senior housing options, serving senior residents as they move through the aging cycle. All of these senior facilities are interconnected with the Annandale Care Center. The senior campus that has been created provides a "continuum of care", as residents can move from largely independent housing to more advanced care as their needs change.

The Annandale Care Center is a skilled nursing facility that is licensed for 60 beds in 2014. Typically, up to 15 of these beds are used by people needing rehab/recovery stays. The remaining beds are available to longer-term residents. According to staff, licensing at the Care Center has remained stable in recent years. Typical occupancy is at 90% or higher.

The first addition to the campus was Centennial Villa Apartments, which opened in the late 1980s with 22 senior-designated apartment units. Although identified as independent living for seniors, up to half of the current residents purchase some additional services. The building has a dining room where three meals each day can be purchased and the basic monthly rent includes light weekly housekeeping. Tenants can individually contract for home health care services.

In 1999, significant expansions began to occur on the campus as both memory care and assisted living options were constructed. The Centennial Villa Assisted Living has 26 apartments offering more intensive services for seniors. A total of 40 rooms exists in two separate buildings for people needing memory care housing. Some of the units are in a wing of the Assisted Living building, and the remainder in a separate Centennial Villa Memory Care building.

In May 2014, there were some available units/beds in the complex. There were two vacant units in Centennial Villa Apartments, seven available units in Centennial Villa Assisted Living and 10 vacant beds in the memory care facilities. Annual occupancy in the skilled nursing home was reported at 90% or higher.

The Greater Annandale designation used in this Study can provide an informative look at planning for specialized senior housing. At the time of the 2010 Census, there were 717 older senior citizens, age 75 and above, that were residing in the Greater Annandale jurisdictions. This population of older seniors had increased by 82 people when compared to the year 2000.

Patterns were similar for households headed by older seniors. In 2010, there were 481 households with a head-of-household age 75 or older, up by 43 older senior households from the year 2000.

The projections contained in this Study anticipate some increase in older seniors within the Greater Annandale aggregation during the current decade. When 2015 projections are compared to 2010, approximately 50 additional older senior households would be expected. Between 2015 and 2020, growth of 51 additional older senior households would be projected, based on the current age distribution patterns.

It is important to note that the senior demographic statistics for Greater Annandale would include people already residing in senior housing, including the Annandale Care Center complex. In 2010, there were approximately 80 residents of skilled nursing homes counted by the Census. This count probably

reflected residents of both the Annandale Care Center and Centennial Villa Memory Care. If an assumption is made that approximately 65 older seniors were long-term residents of the nursing home or memory care (with the additional occupants representing short-term recovery stays), the number of older seniors in the Greater Annandale area would decrease to approximately 652 people in 482 older senior households.

By 2015, this group of older seniors will probably increase to approximately 530 older senior households and approximately 790 older senior citizens, including those already living in advanced care facilities. This would form a primary target population for any new specialized senior housing.

The current estimated capture rates for the existing providers are summarized as follows:

Annandale Care Center - With approximately 45 or more beds that are available for longer-term occupancy, the Care Center would need to capture approximately 5.7% of all of the older senior residents in the Greater Annandale aggregation to achieve full occupancy. This is viewed as an achievable capture rate. In 2014, the annual occupancy does appear to be relatively high, and no bed de-licensing has been occurring, consistent with sustained or growing demand.

Centennial Villa Memory Care - In total, the senior campus has capacity for 40 memory care residents in two separate facilities. These rooms/beds would need to capture approximately 5% of all of the older senior residents in the Greater Annandale aggregation to achieve full occupancy. This is viewed as a high capture rate for this very specialized form of housing. However, since memory care options do not always exist in other communities, this form of housing does have the potential to attract people from an even larger area. There were 10 vacant beds at the time of the rental survey, for a vacancy rate of 25%, indicating that the supply of beds was exceeding actual demand.

Centennial Villa Assisted Living - The assisted living facility that is part of the senior campus has 26 apartment-style units. To achieve full occupancy, this facility will need to capture nearly 5% of the older senior households residing in the Greater Annandale area. Once again, this percentage is viewed as achievable, based on the capture rates in other communities. To the extent that additional residents can be attracted from outside the Greater Annandale Area, this capture rate would be reduced. However, at the time of the rental survey, there were seven vacant assisted living units reported, or a vacancy rate of more than 25%. In 2014, there did not appear to be any evidence of unmet demand.

Centennial Villa Apartments - The independent living portion of the project offers 22 apartment units. Seniors have some limited services included in the basic monthly rent, such as weekly light housekeeping and an emergency call system, with additional services available for purchase. The 'a la carte' options range from one or more daily meals to home health care services. According to the manager, up to half of the residents typically purchase some additional services and this is viewed as a housing with services/congregate senior project. To achieve full occupancy, this facility will need to capture nearly 4.2% of the older senior households residing in the Greater Annandale area. This is viewed as an achievable capture rate. However, at the time of the rental survey, there were two unoccupied units, and the manager indicated that it is typical to have some unoccupied units.

Recommendation: We would recommend that the opportunities for any expansion of the Annandale Care Center senior campus be monitored for the next few years. In 2014 there appears to be unused capacity in the various senior with services segments. With no current evidence of unmet demand, there is no immediate need to add specialized senior housing. However, over the next five years the primary target market should continue to increase in size, and if unmet demand does materialize, a modest expansion of units would be appropriate.

The projections used in this Study expect continued growth in the older senior population between 2015 and 2020. However, the actual scale of this growth will not result in substantial increase in demand. For example, over a five-year projection period, the Greater Annandale area will probably add about 50 additional older senior households. At a capture rate of 5%, this would only generate demand for approximately three additional units. With seven assisted units vacant at the time the rental survey was completed, the near-term growth in demand can generally be met with the existing supply of specialized senior housing.

The Annandale Care Center campus, as the only current provider of senior housing with services, will be well-positioned to monitor changes in demand, and can respond accordingly. After the year 2020, the baby boomers will begin to enter the older senior age groups, which will have more impact on demand. Future phases of specialized unit development could gradually be introduced as opportunities arise.

The supply and demand summary provided in this Study is not based on competitive positioning between projects. It is possible that more specialized senior with services units may be proposed in Annandale in the future.

However, if supply significantly exceeds demand, this would probably result in a higher level of vacancy, as evidence already exists that the supply of units exceeds the current demand within each market segment.

11. Consider the creation of a rental registration program

Findings: A rental housing registration program can be a valuable community tool in tracking changes in the supply of rental units. When combined with an inspection requirement it can also improve the quality of rental housing by assuring safe and sanitary housing for occupants. Neighborhood deterioration, lower property values and unsafe rental units are often prevented when a rental housing inspection program is successfully implemented. The City may enforce housing codes on a complaint or random basis, but there is no set policy on annual rental registration or inspection.

There is evidence that over time, that a number of houses that had formerly been owner-occupied have been converted to rental use. This often occurs in older, lower valued homes that can economically be purchased by investors and then offered as rental housing.

Rental inspections can also be an important part of neighborhood revitalization efforts. Rental units need to be maintained to keep the integrity of the neighborhood and stabilize property values. Deferred maintenance, cluttered lots, trash and debris all have a negative impact on residential neighborhoods.

There are additional benefits that can be gained by the community. A rental inspection program provides an accurate record of rental units and owners. The program provides a better opportunity for coordination of city programs and codes, and the program assures that rental units comply with minimum housing standards.

Recommendation: We recommend that the City investigate the possibility of implementing a rental housing registration and inspection program. The program could assure that rental units are safe and sanitary. The program could also assist with the removal of blighted and unsafe conditions.

It should be noted that rental inspection programs are controversial and may be opposed by rental property owners. However, in most communities, a majority of residents have been found to support community efforts that improve the rental housing stock.

Housing Rehabilitation Recommendations

Overview: Annandale has a significant asset in its older housing stock. Existing 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 available inventory.

Efforts and investment in housing rehabilitation activities will be important to offering future 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 potentially decrease in size.

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

12. Promote owner-occupied housing rehabilitation programs

Findings: The older single family housing stock will continue to represent the most affordable home ownership option in the community. Investment in owner-occupied housing rehabilitation activities will be important to offering affordable housing opportunities in the future. According to the American Community Survey, the median year of construction for owner-occupied houses in Annandale is 1984, so the City does have a relatively new stock of owner-occupied housing units. This reflects the substantial level of home construction that has occurred in recent decades.

However, nearly 11% of all owner-occupancy units are identified as pre-1940 housing. This represents 116 older single family houses in the City. There are an additional 66 single family houses identified as pre-1960 housing.

While age does not always indicate a need for rehabilitation, older housing does require more maintenance to remain in good condition. If investments in maintenance and improvement are deferred, older housing can quickly slip into disrepair.

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). 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 changed back, and larger awards are again being made, making targeted neighborhood projects more achievable.

Additional resources for owner-occupied housing rehabilitation are available from the Minnesota Housing Finance Agency.

13. Promote rental housing rehabilitation programs

Findings: Much of the rental housing in Annandale is in multifamily projects, most of which were constructed over the past 30 years. Although no specific condition survey was completed, it is assumed that the units in these larger projects are generally well maintained. An estimate on the age of rental housing, from the 2012 American Community Survey, placed the median year of construction for rental units at 1992.

However, the City also has 55 rental units that are identified as pre-1970 built housing. Most of this older rental housing exists in single family homes, which have presumably converted over time to rental use. This may represent lower valued homes that are purchased by investors for use as rental housing.

The rehabilitation of older rental units can produce decent, safe and sanitary 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 affordable housing. In addition to the SCDP-funded activities, other resources are available for rental rehab. In 2011, the Minnesota Housing Finance Agency (MHFA) announced a new rental rehabilitation program for use in Greater Minnesota, called the Rental Rehabilitation Deferred Loan program. This program is administered regionally by the Central Minnesota Housing Partnership.

14. Develop mobile home park improvement programs

Findings: Annandale has a large mobile home park with approximately 270 mobile homes and 40 vacant mobile home lots. Mobile homes represent between 18% and 20% of all housing options in the City. With as many as 40 vacant mobile home sites, this percentage could increase in the future.

The 2012 American Community Survey estimated that approximately 45% of the City's mobile homes were constructed before 1980 and are more than 30 years old. The median value for mobile homes in 2012 was estimated at \$25,600.

Recommendation: Based on the estimated value, and a visual inspection of the City's mobile home park, most of the units in Annandale are generally well maintained. However, since mobile homes represent a very large percentage of the City's overall housing stock, preventing deterioration and addressing substandard mobile homes should remain as community housing strategies.

Some cities have established programs that provide for the acquisition and removal of substandard mobile home units, provided a newer unit is purchased to replace the acquired dwelling. While this approach can work well in upgrading the stock, it can be expensive, especially if there are a large number of homes in poor condition.

It may also be appropriate for the community to initiate programs to improve the quality of mobile homes, even if these programs can only address a few units per year.