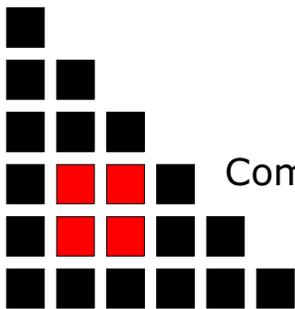


Downtown Mountain Lake Rental Housing Market Analysis

August 2018

An analysis of the feasibility of constructing market rate
rental housing units on a Downtown Mountain Lake site



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Introduction

Overview

Community Partners Research, Inc., was hired by the Mountain Lake Economic Development Authority to analyze the feasibility of constructing market rate rental housing on a site in Downtown Mountain Lake.

Goals

The goals of the market analysis will include:

- ▶ Proposed size and number of rental units
- ▶ Proposed unit amenities
- ▶ Proposed project amenities
- ▶ Proposed unit rents
- ▶ Projected absorption rate

Methodology

A variety of resources were utilized to obtain information for the Market Analysis. Community Partners Research, Inc., collected and analyzed data from May to August, 2018. Data sources included:

- U.S. Census Bureau
- American Community Survey
- Minnesota State Demographer
- Esri, Inc., a private data reporting service
- Records and data from the City of Mountain Lake
- Records and data maintained by Cottonwood County
- Interviews with City officials and staff
- Area and State housing agencies
- Interviews with housing stakeholders
- Survey of comparable rental properties

Limitations

This Market Analysis represents an analysis performed with the data available at the time of the analysis. The analysis/conclusions are based upon current solutions and the best available information on future trends and projections. Significant changes in the proposed rental project, the area's economy, employment growth, federal or State tax policy or other related factors could change the analysis/conclusion and recommendations contained in this Housing Study.

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Demographic Data Overview

Sources of Data

The following pages contain demographic data for Mountain Lake, the Mountain Lake Market Area and Cottonwood County. The demographic data was obtained from a variety of local, state and national sources.

At the time that research was completed for this Study, both the U.S. Census Bureau and the Minnesota State Demographer's Office had released basic demographic estimates for the year 2017. However, these annual estimates are generally limited to basic counts, such as population and household levels.

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

The frequency of American Community Survey estimates vary depending on the size of the jurisdiction. For Mountain Lake, the Mountain Lake Market Area and Cottonwood County, the 2016 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 2012 and 2016.

Additionally, Community Partners Research, Inc., has obtained information from Esri, a private company based in California that generates demographic and projection data. Esri estimates are included in this demographic data section.

Market Area Designation

In addition to the City of Mountain Lake, demographic information has been presented for a larger Market Area. The 12 jurisdictions included in the Mountain Lake Market Area are the Cities of Mountain Lake, Butterfield, Odin and Darfur, and Delton, Selma, Adrian, Carson, Midway, Butterfield, Mountain Lake and Odin Townships. All of these are located in Cottonwood or Watonwan County.

Population Data and Trends

Esri, a private data reporting service, has issued demographic estimates for 2018 which are included in the table below. Other estimates for 2017 are discussed in the text that follows.

Table 1 Population Trends - 1990 to 2017						
	1990 Census	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2017 State Demographer
Mountain Lake	1,906	2,082	9.2%	2,104	1.1%	2,119
Market Area	N/A	4,984	N/A	4,628	-7.1%	4,495
Cottonwood Co.	12,694	12,167	-4.2%	11,687	-3.9%	11,075

Source: U.S. Census; State Demographer

- ▶ The State Demographer, the Census Bureau and Esri have each released recent population estimates. These sources have differing opinions on population change in the City, Market Area and County.
- ▶ Esri’s 2018 estimate for the City of Mountain Lake is 2,070, which is a decrease of 34 people from 2010.
- ▶ The State Demographer’s estimate, effective on July 1, 2017, contradicts the Esri estimate and shows the population for Mountain Lake at 2,119 people, an increase of 15 people from the 2010 Census.
- ▶ The U.S. Census population estimate for Mountain Lake in 2017 aligns with Esri’s estimate and shows the population at 2,061, down 43 people from the 2010 Census.
- ▶ All of the estimating sources show a decline in the total population for the Market Area, although the level of decrease does differ. Esri’s 2018 population estimate for the Mountain Lake Market Area is 4,597, a decrease of 31 people since the 2010 Census. The State Demographer’s 2017 estimate for the Market Area is 4,495, a loss of 133 people since 2010. The U.S. Census 2017 estimate was 4,537, a loss of 91 people since 2010.

- ▶ For all of Cottonwood County, the State Demographer's 2017 estimate shows the population at 11,075, a decrease of 612 people from the 2010 Census. The U.S. Census 2017 estimate for Cottonwood County is 11,295 people, down 392 people since the 2010 Census.
- ▶ Mountain Lake's population is primarily White and non-Hispanic/Latino, although more than 10% of the population was Asian in 2010, and nearly 11% of residents were of Hispanic/Latino ethnicity. According to the 2010 U.S. Census, approximately 82.8% of the City's residents were White, 10.3% were Asian, 0.2% were American Indian and 0.8% were Black or African American. Additionally, 5.8% of the Mountain Lake population identified themselves as some other race or two or more races. Also, 10.7% of the population identified themselves as Hispanic or Latino.

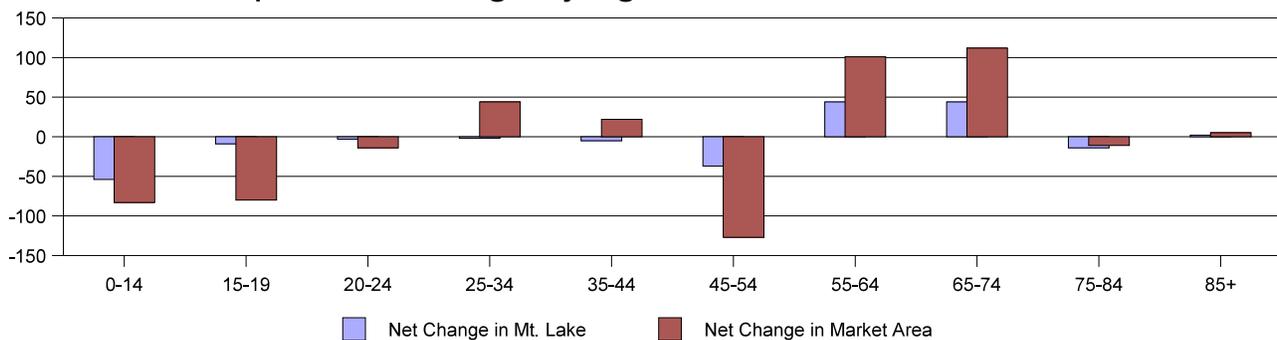
Population by Age Trends: 2010 to 2018

Age-based population estimates from Esri allow for some analysis of the changing age patterns for Mountain Lake and the Mountain Lake Market Area. The following table compares population by age in 2010 and 2018, along with the numeric changes.

Table 2 Population by Age - 2010 to 2018						
Age	Mountain Lake			Mountain Lake Market Area		
	2010	2018	Change	2010	2018	Change
0-14	485	431	-54	970	887	-83
15-19	142	133	-9	352	272	-80
20-24	120	117	-3	262	248	-14
25-34	230	228	-2	480	524	44
35-44	204	199	-5	433	455	22
45-54	272	235	-37	653	526	-127
55-64	216	260	44	574	675	101
65-74	132	176	44	390	502	112
75-84	168	154	-14	318	307	-11
85+	135	137	2	196	201	5
Total	2,104	2,070	-34	4,628	4,597	-31

Source: U.S. Census; Esri

Population Change by Age Between 2010 and 2018



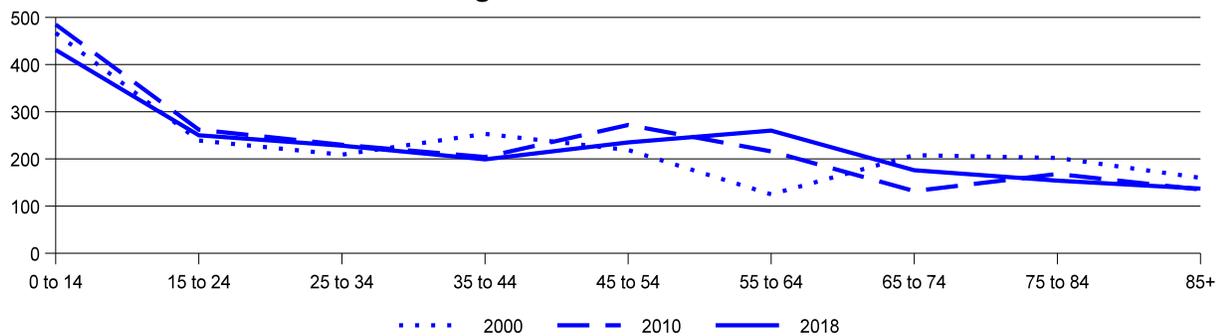
For many years, demographic analysts have been talking about the impact that is occurring as the large “baby boom” generation moves through the aging cycle. This trend has been evident in Mountain Lake and the Mountain Lake Market Area.

Between 2010 and 2018, Mountain Lake had a gain of 88 people and the Mountain Lake Market Area had a gain of 213 people in the age ranges between 55 and 74 years old. In 2018, nearly all of the baby boomers were within these age ranges. In addition to the population gain in the 55 to 74 age ranges, Mountain Lake had a gain of two people in the 85 and older age range. Mountain Lake had a loss of 110 people in the 54 and younger age ranges and a loss of 14 people in the 75 to 84 age range.

In addition to the population gain in the 55 to 74 age ranges, the Mountain Lake Market Area also had a gain of 66 people in the 25 to 44 age ranges and a gain of five people in the 75 and older age ranges. The Mountain Lake Market Area had a loss of 177 people in the 24 and younger age ranges, a loss of 127 people in the 45 to 54 age range and a loss of 11 people in the 75 to 84 age range.

The aging trends for Mountain Lake can be traced back over the previous decades to see the advancing “wave” created by the movement of the baby boom generation through the aging cycle.

Mt. Lake Age Distribution: 2000 to 2018



Population Projections

The following table presents population projections generated by Esri for the City of Mountain Lake and the Mountain Lake Market Area. No reliable projections exist from the Minnesota State Demographer for future population levels.

Table 3 Population Projections Through 2023				
	2010 Census	2018 Esri Estimate	2023 Esri Projection	Change 2018-2023
Mountain Lake	2,104	2,070	2,041	-29
Market Area	4,628	4,597	4,546	-51

Source: U.S. Census; Esri

Esri estimates that Mountain Lake had a loss of 34 people from 2010 to 2018, and projects a loss of 29 people from 2018 to 2023.

Esri estimates the Mountain Lake Market Area had a decrease of 31 people from 2010 to 2018 and Esri projects that the Mountain Lake Market Area will have a loss of 51 people from 2018 to 2023.

Household Data and Trends

Table 4 Household Trends - 1990 to 2017						
	1990 Households	2000 Households	% Change 1990-2000	2010 Households	% Change 2000-2010	2017 State Demographer
Mountain Lake	798	817	2.4%	829	1.7%	854
Market Area	N/A	1,893	N/A	1,819	-3.9%	1,795
Cottonwood Co.	5,060	4,917	-2.8%	4,857	-1.2%	4,807

Source: U.S. Census; State Demographer

- ▶ Esri has released 2018 household estimates for Mountain Lake and the Mountain Lake Market Area and the State Demographer has released 2017 household estimates for Mountain Lake, the Mountain Lake Market Area and Cottonwood County. The Census Bureau does not issue annual estimates for households.
- ▶ Esri’s 2018 household estimate for Mountain Lake is 811, a loss of 18 households since 2010. The State Demographer’s 2017 estimate is 854, which contradicts the Esri estimate and shows a gain of 25 households from 2010 to 2017.
- ▶ Esri’s 2018 household estimate for the Mountain Lake Market Area is 1,794, a loss of 25 households since 2010. The State Demographer’s 2017 estimate is 1,795, which is a loss of 24 households from 2010 to 2017.
- ▶ The State Demographer’s 2017 household estimate for Cottonwood County is 4,807, a decrease of 50 households from 2010 to 2017.
- ▶ According to the U.S. Census, Mountain Lake gained households and the Mountain Lake Market Area and Cottonwood County lost households from 2000 to 2010. Mountain Lake had 829 households in 2010. This was an increase of 12 households from 2000, which was a household gain of 1.7%.
- ▶ The Mountain Lake Market Area had 1,819 households in 2010. This was a loss of 74 households from 2000, which was a household decrease of 3.9%.
- ▶ Cottonwood County had 4,857 households in 2010. This was a loss of 60 households from 2000, for a household decrease of 1.2%.

Household by Age Trends: 2010 to 2018

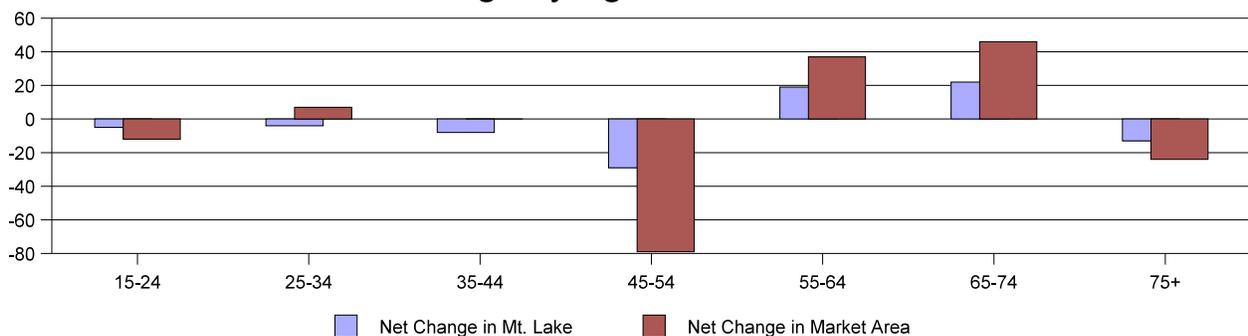
The 2018 Esri age data allows for some analysis of the changing age patterns in Mountain Lake and the Market Area. The following table compares households by age of householder in 2010 and 2018, along with the numeric changes.

Table 5 Households by Age - 2010 - 2018						
Age	Mountain Lake			Mountain Lake Market Area		
	2010	2018	Change	2010	2018	Change
15-24	35	30	-5	69	57	-12
25-34	113	109	-4	224	231	7
35-44	111	103	-8	221	221	0
45-54	162	133	-29	366	287	-79
55-64	136	155	19	345	382	37
65-74	74	96	22	242	288	46
75+	198	185	-13	352	328	-24
Total	829	811	-18	1,819	1,794	-25

Source: U.S. Census; Esri

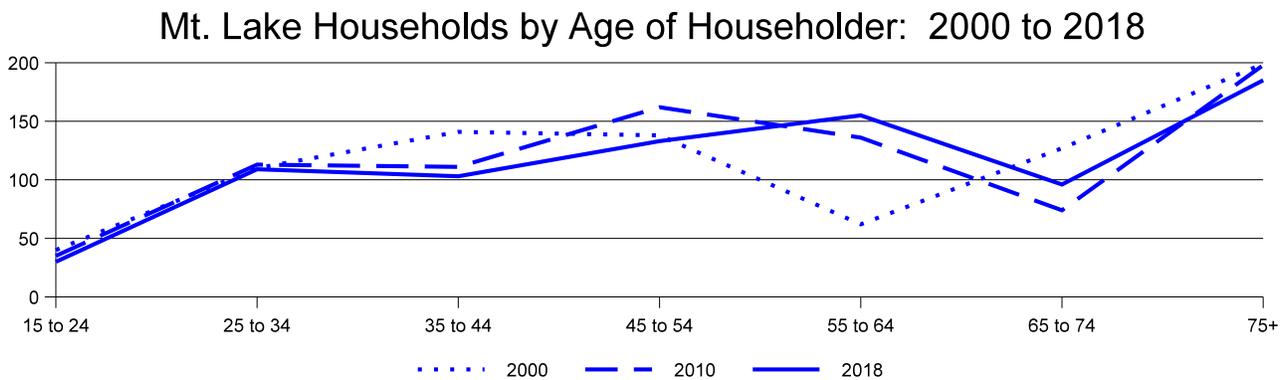
Consistent with the population by age data presented earlier, the household patterns show much of the change occurring in the baby boomer age groups. Mountain Lake had an increase of 41 households and the Mountain Lake Market Area had an increase of 83 households in the 55 to 74 year age ranges.

Household Change by Age Between 2010 and 2018



In addition to the household gains in the 55 to 74 age ranges, the Mountain Lake Market Area also had a gain of seven households in the 25 to 34 age range. However, the Mountain Lake Market Area had a loss of 12 households in the 15 to 24 age range, a loss of 79 households in the 45 to 54 age range and a loss of 24 households in the 75 and older age range. The City of Mountain Lake had a loss of 46 households in the 54 and younger age ranges and a loss of 13 households in the 75 and older age range.

As with the longer-term patterns for population, it is possible to track the “wave” progression of the baby boomer households since the year 2000 in Mountain Lake using information by the age of householder. One other noticeable trend is the relatively large number of older senior households, age 75 and above, that has been present in the City. However, the number of older senior households has been decreasing slightly over time.



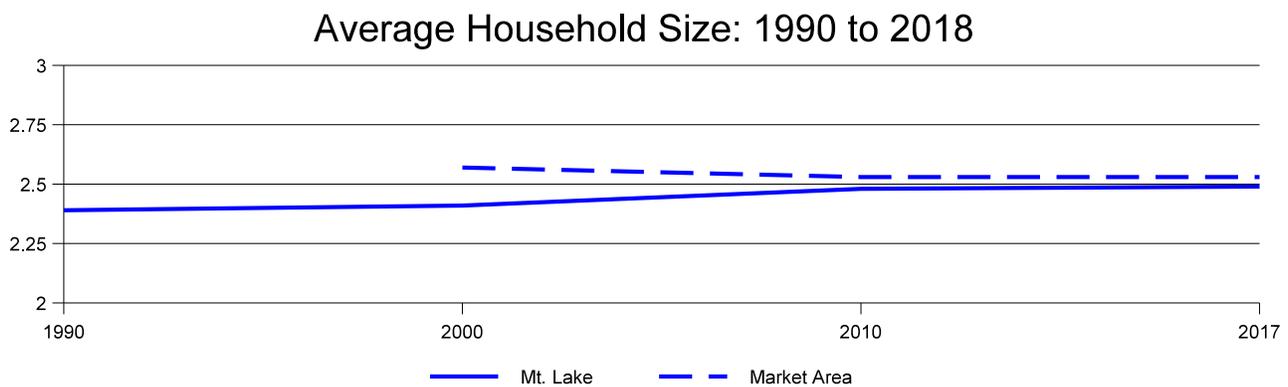
Average Household Size

The following table provides decennial Census information on average household size.

Table 6 Average Number of Persons Per Household: 1990 to 2018				
	1990 Census	2000 Census	2010 Census	2018 Esri
Mountain Lake	2.39	2.41	2.48	2.49
Market Area	N/A	2.57	2.53	2.53

Source: U.S. Census; Esri

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. However, an in-migration of families with children into Mountain Lake has resulted in growth in the average household size in the City.



There has been a long-term pattern of smaller household sizes in most rural jurisdictions, however, Mountain Lake has experienced an increase in average household size from 1990 to 2018. The average household size in Mountain Lake increased from 2.39 in 1990 to 2.49 in 2018. Esri estimates that the Mountain Lake Market Area’s average household size has not changed from 2010 to 2018.

Household Projections

The following table presents household projections generated by Esri for the City of Mountain Lake and the Mountain Lake Market Area. Once again, no reliable household forecasts exist from the State Demographer's Office.

Table 7 Household Projections Through 2023				
	2010 Census	2018 Esri Estimate	2023 Esri Projection	Change 2018-2023
Mountain Lake	829	811	798	-13
Market Area	1,819	1,794	1,776	-18

Source: US Census; Esri

Esri estimates that Mountain Lake had a loss of 18 households from 2010 to 2018, and projects a loss of an additional 13 households from 2018 to 2023.

Esri estimates that the Mountain Lake Market Area had a loss of 25 households from 2010 to 2018 and will lose an additional 18 households from 2018 to 2023.

Mountain Lake Household by Age Projections: 2018 to 2023

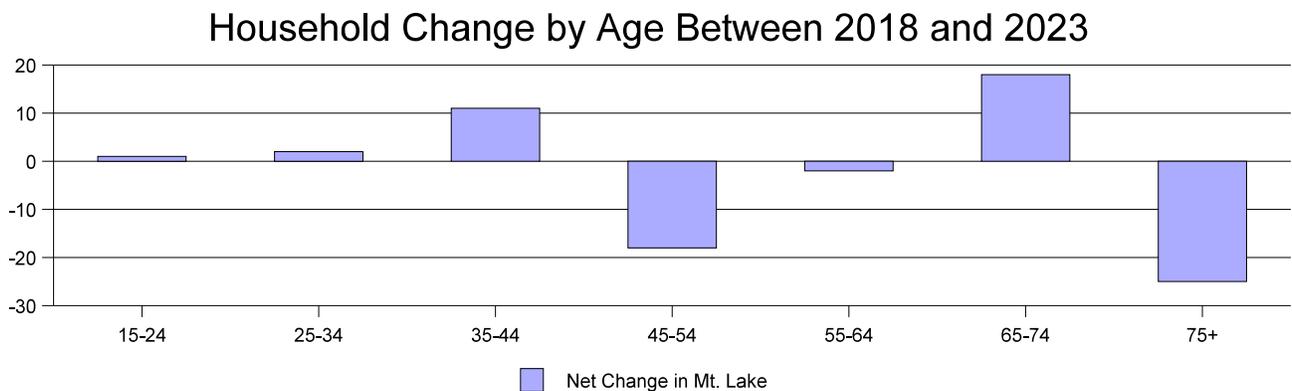
The Mountain Lake household by age projections were created by Esri.

Table 8 Mountain Lake Projected Households by Age - 2018 to 2023			
Age Range	2018 Estimate	2023 Projection	Change 2018 to 2023
15-24	30	31	1
25-34	109	111	2
35-44	103	114	11
45-54	133	115	-18
55-64	155	153	-2
65-74	96	114	18
75+	185	160	-25
Total	811	798	-13

Source: Esri

Esri is projecting a loss of 13 households in Mountain Lake from 2018 to 2023. From 2018 to 2023, Esri projects a gain of 14 households in the 15 to 44 age ranges and an increase of 18 households in the 65 to 74 age range.

Conversely, from 2018 to 2023, Esri estimates a loss of 20 households in the 45 to 64 age ranges and a loss of 25 households in the 75 and older age range.



Market Area Household by Age Projections: 2018 to 2023

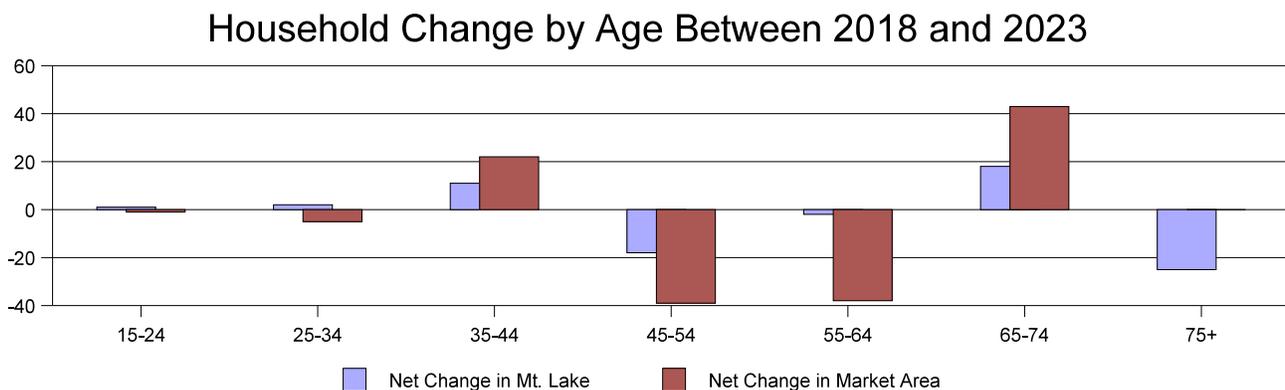
The Mountain Lake Market Area household by age projections were created by Esri.

Table 9 Market Area Projected Households by Age - 2018 to 2023			
Age Range	2018 Estimate	2023 Projection	Change 2018 to 2023
15-24	57	56	-1
25-34	231	226	-5
35-44	221	243	22
45-54	287	248	-39
55-64	382	344	-38
65-74	288	331	43
75+	328	328	0
Total	1,794	1,776	-18

Source: Esri

The Mountain Lake Market Area is expected to lose 18 households from 2018 to 2023, Esri projects a gain of 22 households in the 35 to 44 age range and an increase of 43 households in the 65 to 74 age range.

Conversely, from 2018 to 2023, Esri estimates a loss of six households in the 15 to 34 age ranges and a loss of 77 households in the 45 to 64 age ranges.



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 Mountain Lake.

Table 10 Mountain Lake Household Composition - 2000 to 2010			
	2000 Census	2010 Census	Change
Family Households			
Married Couple with own children	183	175	-8
Single Parent with own children	70	72	2
Married Couple without own children	250	239	-11
Family Householder without spouse	28	40	12
Total Families	531	526	-5
Non-Family Households			
Single Person	264	282	18
Two or more persons	22	21	-1
Total Non-Families	286	303	17

Source: U.S. Census

Between 2000 and 2010, Mountain Lake experienced a net loss of five family households. The net loss was due to a decrease of married couples with and without children. The other household types gained households.

The City had a 17 household increase in “non-family” households. This was due to an increase of 18 single person households.

Housing Tenure

The 2010 Census provided data on housing tenure patterns. The following tables examine overall tenure rates, along with the changes that have occurred from 2000 to 2010 for the City of Mountain Lake and the Mountain Lake Market Area Market Area.

Table 11 Household Tenure - 2010				
	Number of Owners	Percent of all Households	Number of Renters	Percent of all Households
Mountain Lake	592	71.4%	237	28.6%
Cottonwood Co.	3,757	77.4%	1,100	22.6%
State	-	73.0%	-	27.0%

Source: U.S. Census

According to the 2010 Census, the ownership tenure rate in the City of Mountain Lake was 71.4%. The Mountain Lake Market Area ownership rate was 77.4%. Mountain Lake’s rental rate of 28.6% was above the State of Minnesota’s rental rate of 27.0%.

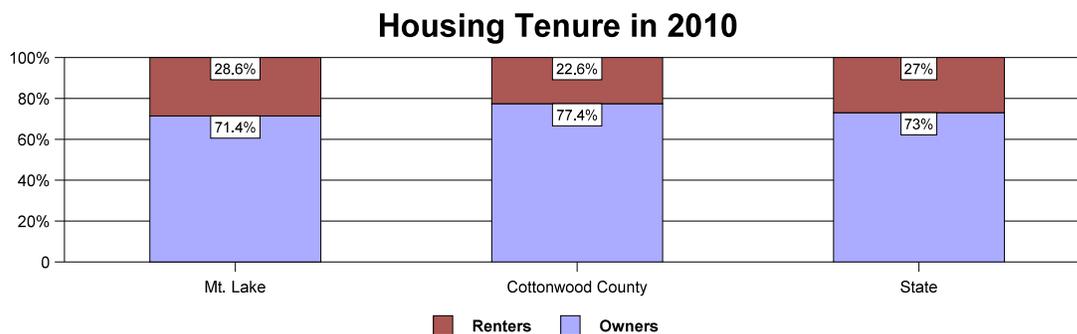


Table 12 Households by Housing Tenure - 2000 to 2010						
Tenure	Mountain Lake			Cottonwood County		
	2000	2010	Change	2000	2010	Change
Owners	658/80.5%	592/71.4%	-66	3,955/80.4%	3,757/77.4%	-198
Renters	159/19.5%	237/28.6%	78	962/19.6%	1,100/22.6%	138
Total	817	829	12	4,917	4,857	-60

Source: U.S. Census

Mountain Lake’s ownership tenure rate decreased from 80.5% in 2000 to 71.4% in 2010. For the Mountain Lake Market Area, there was also a decrease in the rate of owner-occupancy from 80.4% in 2000 to 77.4% in 2010.

2016 Income Data

Household and family income estimates are available at the City, County and State level through the 2016 American Community Survey. No median income information exists for the aggregated Mountain Lake Market Area designation.

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.

Table 13 Median Income - 2010 to 2016			
	2010 Median	2016 Median	% Change
Households			
Mountain Lake	\$39,712	\$45,573	14.8%
Cottonwood County	\$40,292	\$47,407	17.7%
Minnesota	\$57,243	\$63,488	10.9%
Families			
Mountain Lake	\$50,461	\$46,364	-8.1%
Cottonwood County	\$51,705	\$58,903	13.9%
Minnesota	\$71,307	\$79,893	12.0%

Source: American Community Survey

Income information contained in the American Community Survey provides income data within the City of Mountain Lake and in Cottonwood County from 2010 to 2016. The City’s median household income level increased by approximately 14.8% and Cottonwood County’s median household income increased by 17.7% between 2010 and 2016. The City’s median family income decreased by 8.1% and the County’s median family income increased by 13.9%. The City and County’s median household and family incomes were significantly lower than the Minnesota median household income in 2016.

Family household incomes tend to be higher than the overall household median, as families have at least two household members, and potentially more income-earners.

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 Mountain Lake could afford approximately \$1,139 per month for ownership or rental housing in 2016. A family at the median income level for the City could afford approximately \$1,159 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 2016, the median income level for owner households in Mountain Lake was \$51,047. At 30% of income, a median income owner household could apply approximately \$1,276 to a mortgage without experiencing a housing cost burden.

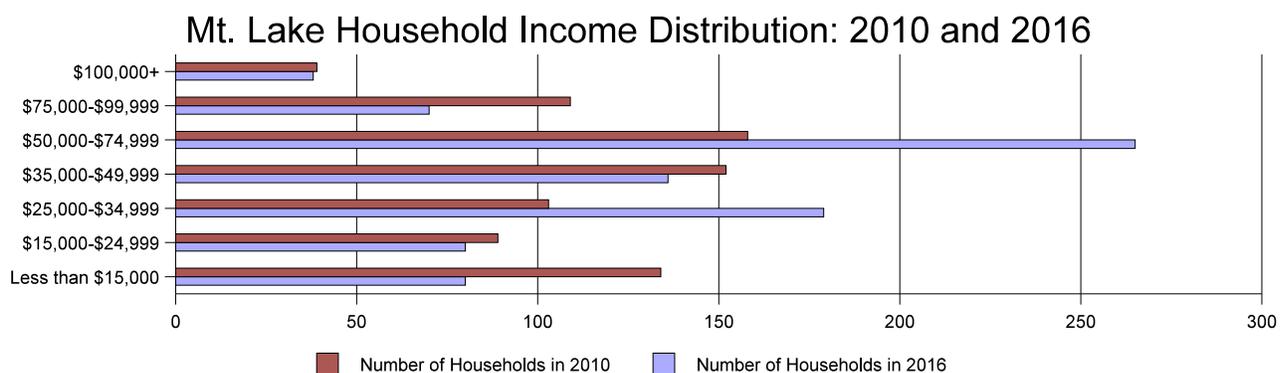
The estimated median household income for renters in 2016 was approximately \$31,250. At 30% of income, a median income renter in the City could apply approximately \$781 to gross rent without experiencing a housing cost burden.

Mountain Lake Household Income Distribution

The 2016 American Community Survey household income estimates for the City of Mountain Lake can be compared to the same distribution information from 2010 to examine changes that have occurred from 2010 to 2016.

Table 14 Mt. Lake Household Income Distribution - 2010 to 2016			
Household Income	Number of Households 2010	Number of Households in 2016	Change 2010 to 2016
\$0 - \$14,999	134	80	-54
\$15,000 - \$24,999	89	80	-9
\$25,000 - \$34,999	103	179	76
\$35,000 - \$49,999	152	136	-16
\$50,000 - \$74,999	158	265	107
\$75,000 - \$99,999	109	70	-39
\$100,000+	39	38	-1
Total	784	848	64

Source: American Community Survey



It appears that the American Community Survey undercounted the number of households in Mountain Lake in 2010 and overcounted the number of households in Mountain Lake in 2016. However, it is still a good indicator of household income distribution.

According to income estimates contained in the 2016 American Community Survey, household incomes have improved minimally in Mountain Lake. When compared to the 2010 American Community Survey, there was a net increase of 67 households with an income of \$50,000, or more. Conversely, there was a net decrease of three households with incomes below \$50,000. There were still 160 households in Mountain Lake that had an annual income below \$25,000 in 2016. This is approximately 19% of all households in the City of Mountain Lake.

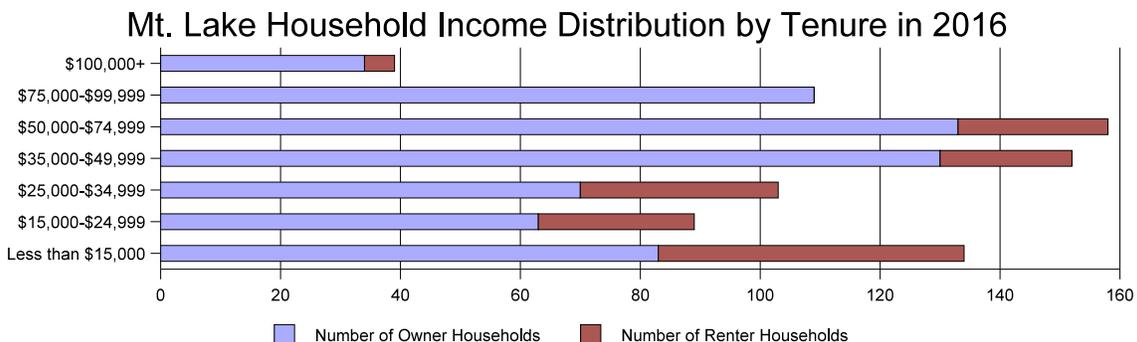
Mountain Lake Income Distribution by Housing Tenure

The 2016 American Community Survey provides an income estimate by owner and renter status. The following table examines income distribution within the City of Mountain Lake.

Table 15 Mt. Lake Household Income Distribution by Tenure - 2016			
Household Income	Number of Owner Households	Number of Renter Households	Total Households
\$0 - \$14,999	83/61.9%	51/38.1%	134
\$15,000 - \$24,999	63/70.8%	26/29.2%	89
\$25,000 - \$34,999	70/68.0%	33/32.0%	103
\$35,000 - \$49,999	130/85.5%	22/14.5%	152
\$50,000 - \$74,999	133/84.2%	25/15.8%	158
\$75,000 - \$99,999	109/100%	0/0%	109
\$100,000+	34/87.2%	5/12.8%	39
Total	622	162	784

Source: American Community Survey

Income and housing tenure are linked for most households, with home owners generally having higher annual income levels, and renters having lower incomes. In 2016, approximately 68% of all renter households in Mountain Lake 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. Conversely, a majority of the owner households had a substantially higher income level. Approximately 44% of all owner households had an annual income of \$50,000 or more. At 30% of income, these owners could afford approximately \$1,365 or more per month for housing costs.



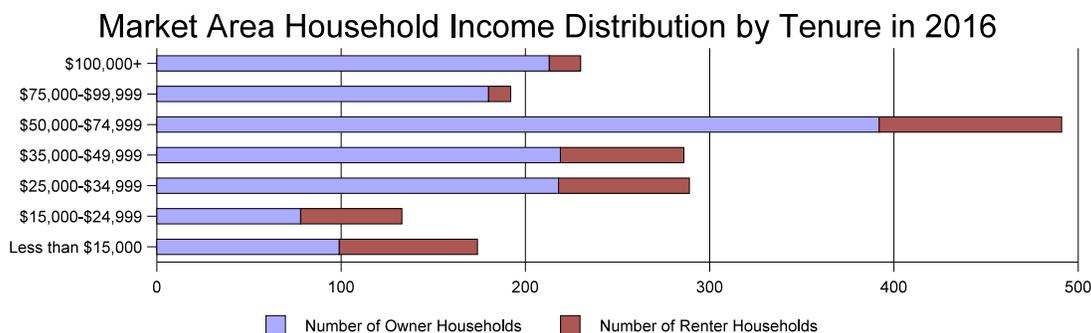
Market Area Income Distribution by Housing Tenure

The 2016 American Community Survey provides an income estimate by owner and renter status. The following table examines income distribution within the entire Market Area.

Table 16 Market Area Income Distribution by Tenure - 2016			
Household Income	Number of Owner Households	Number of Renter Households	Total Households
\$0 - \$14,999	99/56.9%	75/43.1%	174
\$15,000 - \$24,999	78/58.6%	55/41.4%	133
\$25,000 - \$34,999	218/75.4%	71/24.6%	289
\$35,000 - \$49,999	219/76.6%	67/23.4%	286
\$50,000 - \$74,999	392/79.8%	99/20.2%	491
\$75,000 - \$99,999	180/93.8%	12/6.2%	192
\$100,000+	213/92.6%	17/7.4%	230
Total	1,399	396	1,795

Source: American Community Survey

Income and housing tenure are linked for most households, with home owners generally having higher annual income levels, and renters having lower incomes. In 2016, approximately 51% of all renter households in the Mountain Lake Market 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. Conversely, a majority of the owner households had a substantially higher income level. Approximately 56% of all owner households had an annual income of \$50,000 or more. At 30% of income, these owners could afford approximately \$1,365 or more per month for housing costs.



2016 Estimated Income and Housing Costs - Renters

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

Table 17 Gross Rent as a Percentage of Household Income - 2016			
Percent of Income for Housing	Households Age 64 and Younger	Households Age 65 and Older	Total
Less than 20%	70/43.2%	14/15.6%	84/33.3%
20% to 29.9%	45/27.8%	26/28.9%	71/28.2%
30% to 34.9%	2/1.2%	11/12.2%	13/5.2%
35% or more	45/27.8%	26/28.9%	71/28.2%
Not Computed	0/0%	13/14.4%	13/5.2%
Total	162/100%	90/100%	252/100%

Source: American Community Survey

According to the American Community Survey, approximately 33% of all renters in the City 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 Mountain Lake it was primarily due to low income levels for renters. The majority of the renter households with a housing cost burden had an annual household income below \$25,000. To avoid a cost burden, these lower income households would have needed a unit with a gross monthly rent of \$625 or less.

Senior citizen renters (age 65 and older) represented approximately 44% of all households with a rental cost burden. Households in the age ranges between 15 and 64 years old represented approximately 56% of all households with a rental cost burden.

2016 Estimated Income and Housing Costs - Owners

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

Table 18 Ownership Costs as a Percentage of Income - Mountain Lake		
Percentage of Household Income for Housing Costs	Number of Owner Households 2016	Percent of All Owner Households 2016
0% to 19.9%	371	62.2%
20% to 29.9%	145	24.3%
30% to 34.9%	15	2.5%
35% or more	65	11.0%
Not Computed	0	0%
Total	596	100%

Source: American Community Survey

Most owner-occupants, which would include households with and without a mortgage, reported paying less than 30% of their income for housing. However, approximately 14% of all home owners reported that they paid more than 30% of their income for housing. The majority of these households were paying more than 35% of income for housing costs.

As would be expected, most of the cost-burdened home owners had a mortgage on their home.

Existing Home Values

The 2017 American Community Survey provides an estimate of the median value for owner-occupied houses in each of the cities in the Mountain Lake Market Area. Although it represents an estimated value, with a margin of error, it does provide some insight into relative home values between the communities. It also provides information on the financial assets available to existing home owners if they elect to move in rental housing.

- ▶ Mountain Lake - \$67,700
- ▶ Butterfield - \$42,200
- ▶ Odin - \$55,800
- ▶ Darfur - \$27,100

The American Community Survey also generated a median year built for owner-occupied houses in each community.

- ▶ Mountain Lake - 1958
- ▶ Butterfield - 1942
- ▶ Odin - 1941
- ▶ Darfur - 1939

Rental Housing

Total Unit Inventory

U.S. Census Inventory

According to the 2010 U.S. Census, there were 237 occupied rental housing units and 27 vacant rental units in Mountain Lake for a total of 264 units. Mountain Lake's rental tenure rate was 28.6% in 2010.

At the time of the 2000 U.S. Census, Mountain Lake had 159 occupied rental units and 32 vacant units, for a total estimated inventory of 191 units. Between the 2000 Census and the 2010 Census, Mountain Lake added 78 renter households and 73 rental units to the total inventory. Mountain Lake's rental tenure rate in 2000 was 19.5%.

From 2010 to 2018, we are aware of only one rental housing construction project that has occurred in Mountain Lake. In 2013, the Lodge, a 24-unit assisted living project, was constructed in the City. Therefore, it is our estimate that the number of renter units in Mountain Lake in 2018 has increased to approximately 290 total units.

Rental Housing Survey

As part of this market analysis, a telephone survey was conducted of the market rate, subsidized and senior with services multifamily rental buildings in Mountain Lake. The survey focused on larger rental projects. Information was collected from May to August, 2018.

A total of 194 rental units/beds were contacted in the survey. This includes 139 rental units and 55 nursing home beds. This represents a significant percentage of all rental units in the Market Area. The breakdown of units surveyed is as follows:

- ▶ 27 market rate units
- ▶ 66 subsidized units
- ▶ 101 senior with services units/beds

Market Rate Summary

Usable information was obtained on 27 market rate rental units. The 27 rental units surveyed are in four multi-family rental projects.

Unit Mix

We obtained bedroom mix information on the 27 rental units. The bedroom mix is as follows:

- ▶ 2 one-bedroom (7.4%)
- ▶ 24 two-bedroom (88.9%)
- ▶ 1 three-bedroom (3.7%)

Occupancy / Vacancy

We found one vacant unit in the 27 market rate units that we surveyed. The one vacant unit represented a vacancy rate of 3.7%. At the time of the survey, R&R Apartments had one vacancy. Heritage Estates, Mason Manor and the Freitag 4-plex were all fully occupied with waiting lists.

Rental Rates

Rental rates in the market rate segment are generally moderate. Some of the units include the primary utility payments with the rent, while in other cases, the tenant pays the major utilities in addition to rent. We have attempted to estimate tenant paid utilities into a gross rent estimate for the following rent ranges:

	<u>Unit Type</u>	<u>Rent Range</u>
▶	One-bedroom	\$625
▶	Two-bedroom	\$725-\$1,075
▶	Three-bedroom	\$950

The rent for one-bedroom and three-bedroom units is based on only one rental project.

Subsidized Summary

The research completed for this Study surveyed the two income-restricted projects in the Mountain Lake Market Area Market Area that provide rental opportunities for lower income households. These projects have a combined 66 units. Both projects are general occupancy. Laker Apartments is a HUD Public Housing project, and Mountain Lake Apartments is a USDA Rural Development project.

Rental Rates

The units in the subsidized projects have access to project-based rent assistance. These units charge rent based on 30% of the tenant's household income. The subsidized projects have a maximum market rent and tenants do not pay more than the market rent.

Unit Mix

The bedroom mix breakdown for the 66 subsidized housing rental units is as follows:

▶	One-bedroom -	44 (66.7%)
▶	Two-bedroom -	<u>22 (33.3%)</u>
▶	Total -	66

Occupancy / Vacancy

At the time of the survey, four of the 66 units in the two subsidized projects were vacant. This is a 6.1% vacancy rate. All of the vacancies are in Mountain Lake Apartments. Laker Apartments was fully occupied.

Mountain Lake Apartments is in the process of converting from subsidized to market rate, thus, the manager of is not allowed to fill any vacant units until the conversion has been completed.

Subsidized Housing Gains/Losses

Federal subsidy sources for low income rental housing have been very limited for the past few decades. Most subsidized projects were constructed in the 1970s and 1980s. Some of the older projects around the State of Minnesota have completed their compliance requirements and have the opportunity to opt out of their subsidy program and convert to conventional rental housing.

Mountain Lake Apartments is in the process of converting from subsidized to market rate. Therefore, 24 subsidized units will be lost from Mountain Lake's subsidized rental inventory. Current tenants in Mountain Lake Apartments who are receiving rental assistance will receive a Housing Voucher, which will enable them to continue to pay 30% of their income for rent after the conversion to market rate.

Senior Housing with Services

Mountain Lake has three senior with services projects. The three senior with services projects include:

- ▶ **Parkwood Place** - Parkwood Place is a 24-unit independent/light services project that provides a light level of services. The light services include a noon meal, light housekeeping, activities and on-site laundry. The 22 units include 10 one-bedroom, 11 two-bedroom units and one three-bedroom unit. The rent ranges from \$800 to \$1,100 and includes services and utilities. The manager reported seven vacancies at the time of the survey.
- ▶ **The Lodge** - The Lodge was constructed in 2013 and includes 24 one-bedroom units. The facility provides the full array of assisted living services including meals, laundry, housekeeping, bathing, 24-hour staffing, etc. At the time of the survey, there was one vacant unit. The Lodge is part of a senior campus that includes the Good Samaritan Village.
- ▶ **Good Samaritan Village** - The Good Samaritan Village is a 55-bed nursing home. The facility's occupancy rate averages 90%. The Good Samaritan Village is part of a senior campus that includes the Lodge.

Table 19 Mountain Lake Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
Heritage Estates	<u>12 - 2 Bedroom</u> 12 Total Units	\$610-\$640	No vacancies	General occupancy	Heritage Estates includes 12 two-bedroom market rate general occupancy units owned and managed by the EDA. The units are town home-style and were constructed in 1999. Rent ranges from \$610 to \$640 and tenants also pay utilities. The units have attached garages. At the time of the survey, there were no vacancies and a waiting list.
Mason Manor	<u>4 - 2 Bedroom</u> 4 Total Units	\$665	No vacancies - waiting list	General occupancy	Mason Manor includes four two-bedroom town home market rate general occupancy units. The units were constructed in 2009. The units are owned and managed by the EDA. Rent is \$665 plus utilities. The units have attached garages. At the time of the survey, there were no vacancies and a waiting list.
Freitag 4-plex	<u>4 - 2 Bedroom</u> 4 Total Units	\$875 plus utilities	No vacancies	General occupancy	The Freitag 4-plex includes four two-bedroom general occupancy town home units. The units include an attached garage, dishwasher, washer/dryer hook ups, etc. The rent is \$875 plus utilities. The owner reports that the units are always fully occupied.
R&R Apartments	2 - 1 Bedroom 4 - 2 Bedroom <u>1 - 3 Bedroom</u> 7 Total Units	\$550 \$650 \$850	1 vacancy	General occupancy	R&R is a downtown hotel that was converted to rental housing in 1992. There are seven units including two one-bedroom, four two-bedroom and one three-bedroom. Tenants pay electricity in addition to rent. The building does not have an operating elevator which limits its appeal. The owner reported one vacancy at the time of the survey.

Table 19 Mountain Lake Multifamily Rental Housing Inventory					
Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
Subsidized					
Laker Apartments	<u>42 - 1 Bedroom</u> 42 Total Units	\$440 30% of Income	No vacancies	General Occupancy	Laker Apartments is a 42-unit Public Housing Project. The project was senior/disabled, but converted to general occupancy. Tenants pay 30% of their income up to the maximum rent of \$440. At the time of the survey, the manager reported no vacancies.
Mountain Lake Apartments	<u>2 - 1 bedroom</u> <u>22 - 2 Bedroom</u> 24 Total Units	\$532-\$607 \$632-\$707 30% of Income	4 vacancies	General Occupancy	Mountain Lake Apartments is a 24-unit USDA Rural Development General Occupancy Project. However, the project has been sold and will convert to market rate. The rent after the conversion has not yet been determined. Current tenants with rent assistance will receive a Voucher, which allow them to continue paying 30% of their income after the conversion. At the time of the survey, the manager reported four vacancies.

Table 19 Mountain Lake Multifamily Rental Housing Inventory					
Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Tenant Mix	Comments
Senior Housing with Services					
Parkwood Place	10 - 1 Bedroom 11 - 2 Bedroom <u>1 - 3 Bedroom</u> 22 Total Units	\$800-\$900 \$1,100	7 vacancies	Housing with light services available	Parkwood Place is the former hospital that was converted into 22 rental units in 1996. Rent includes light housekeeping and laundry services are available. Rent varies based on the size of the unit. A garage is available for an additional \$40 per month. At the time of the survey, the owner reported seven vacancies.
The Lodge	<u>24 - 1 Bedroom</u> 24 Total Units	Based on level of services	1 vacancy	Assisted Living	The Lodge is a 24-unit assisted living project constructed in 2013. The project provides a full array of services including meals, laundry, bathing, housekeeping, etc. At the time of the survey, there was one vacant unit. The Lodge is part of a senior campus that includes the Good Samaritan Village.
Good Samaritan Village	55 skilled <u>nursing beds</u> 55 Total Beds	Based on level of services	Average 90% occupancy	Skilled nursing home	Good Samaritan Village is a nursing home with 55 skilled nursing beds. The Administrator reported that the average occupancy rate is 90%. Good Samaritan Village is part of a campus that includes The Lodge, which is an assisted living project.

Source: Community Partners Research, Inc.

Comparable Rental Projects in the Market Area

The most comparable rental properties to the proposed development project that were identified in the City include four general occupancy market rate and one senior with services project.

1) Heritage Estates - Heritage Estates is a 12-unit general occupancy market rate town home project. The project is owned and managed by the Mountain Lake EDA. All of the units have two bedrooms. Rent ranges from \$610 to \$640 plus utilities. Heritage Estates has a high level of amenities including attached garages, dishwashers, microwaves, washer/dryer hookups, patios, etc. The units have 1,162 sq. ft. and the garages have 266 sq. ft.

2) Mason Manor - Mason Manor is a four-unit general occupancy market rate town home project. The project is owned and managed by the Mountain Lake EDA. All of the units have two bedrooms. Rent is \$665 plus utilities. Mason Manor has a high level of amenities including attached garages, dishwashers, microwaves, washer/dryer hookups, patios, etc. The units have 1,162 sq. ft. and the garages have 266 sq. ft.

3) Freitag 4-plex - The Freitag 4-plex includes four two-bedroom general occupancy town home units. The units were constructed in 2005. The rent is \$875 plus utilities. The units include a high level of amenities including attached garages, dishwashers, microwaves, washer/dryer hookups, patios, etc. The units have 1,350 sq. ft.

4) Parkwood Place - Parkwood Place is a 22-unit senior with services project. Parkwood Place was a hospital building that converted to rental units in 1996. The 22 units include 10 one-bedroom, 11 two-bedroom units and one three-bedroom unit. Rents are \$800 to \$900 for a one-bedroom unit and \$1,100 for a two-bedroom unit. The rent includes utilities. The rent also includes housekeeping and activities. Garage stalls are available for an additional \$40 per month.

5) R&R Apartments - R&R includes seven general occupancy market rate units. The units include two one-bedroom and four two-bedroom units and one three-bedroom unit. The units are in a former hotel that was converted to rental housing in 1992. Rents range from \$550 to \$850 plus electric. The elevator in the building is not operable.

Table 20 Analysis of Comparable Market Rate Properties

Project	Year built	Occupancy designation	Total units	Vacant units	Unit mix	Unit size sq. ft.	Monthly contract rent	Gross rent per sq. ft.	Comments
Heritage Estates	1999	General Occupancy	12	0	12 - 2 bdrm	1,162	\$610-\$640	\$.74-\$.77	Tenant pays all utilities. Town home-style units, attached garages. High quality amenities.
Mason Manor	2009	General Occupancy	4	0	4 - 2 bdrm	1,162	\$665	\$.79	Tenant pays all utilities. Town home-style units, attached garages. High quality amenities.
Freitag 4-plex	2005	General Occupancy	4	0	4 - 2 bdrm	1,350	\$875	\$.83	Tenant pays all utilities. Town home-style units, attached garages. High quality amenities.
Parkwood Place	1996	Seniors	22	7	10 - 1 bdrm 11 - 3 bdrm 1 - 3 bdrm	500-875	\$800-\$900 \$1,000 N/A	\$1.29-\$1.50 \$1.28 N/A	Senior with services project. Utilities included with rent. Garage stall available for \$40 per month. Light housekeeping and activities included with rent.
R&R Apartments	1992	General occupancy	7	1	2 - 1 bdrm 4 - 2 bdrm 1 - 3 bdrm	Information not available	\$550 \$650 \$850	Information not available	Units in a converted hotel. Elevator not operable on street parking.

Site Description

The Downtown Mountain Lake Rental Project will include the development of 12 to 16 market rate rental units in Downtown Mountain Lake on a vacant parcel at the corner of 10th St. And 4th Ave. The site's size is approximately 18,000 sq. ft. The Mountain Lake Economic Development Authority owns the site. The site is in a Tax Increment District.

The City's library is east of the site, a city park is west of the site, a residential neighborhood is north of the site and commercial/retail is south of the site. It is our opinion that the site is ideal for a rental project as it is centrally located and in close proximity to many services and amenities.

Demand Calculations for Market Rate Rental Housing

The following calculations are based on information for the Mountain Lake Market Area, which includes four cities and eight townships. The City of Mountain Lake is the largest city in the market area. The calculations examine the demand potential, adjusted by the number of households that would be income qualified and age qualified to live in a unit at prevailing market rate rents.

For purposes of this study, an income-qualified household has an estimated annual income of \$35,000 or more. If 35% of income is applied to monthly housing costs, then these households can afford a gross rent of \$875 or more. For the Downtown Rental Project, we are recommending gross rents of \$900 to \$1,000 for a one-bedroom unit and \$1,050 to \$1,150 for a two-bedroom unit.

The following calculations examine demand from 2018 to 2023 based on household growth, the number of income-qualified households, and pent up demand based on movership and demand from owner-occupied households moving to rental housing.

General Occupancy Housing (not age-designated)

The following demand calculations look at overall demand for market rate rental housing, with no age restrictions for tenants, such as senior-designated housing.

Growth-generated demand for general occupancy market rate rental housing (no age restrictions):

- ▶ Projected household growth in the market area over 5 years = 20
- ▶ Potential percentage of renter-occupied households = 60%
- ▶ Projected renter household growth = 12
- ▶ Number of rental households income-qualified (\$35,000+) = 6

Pent-up demand for general occupancy market rate rental:

- ▶ Total renter households in the market area = 396
- ▶ Percentage of income-qualified = 49%
- ▶ Total income-qualified households = 194
- ▶ Annual turnover of 10% = 19
- ▶ Total owner households in the market area = 1,399
- ▶ Percentage of income-qualified = 72%
- ▶ Number of owner households income-qualified = 1,007
- ▶ Number of households moving to rental housing next 5 years = 60

Combined potential demand captured by subject property

- ▶ Total growth and pent-up demand over the next 5 years = 85
- ▶ Percentage capture for the subject property = 20-25%
- ▶ Potential demand for Downtown Project = 17-21
(general occupancy units)

Downtown Rental Housing Project Recommendation

Based on the analysis of comparable rental properties in the Mountain Lake Market Area and based on interviews, surveys and demographic data, we are recommending the following number of units, unit mix, sizes and rents for a General Occupancy Market Rate Rental Project in Downtown Mountain Lake:

<u>Unit Type</u>	<u>No. Of Units</u>	<u>Size/Sq. Ft.</u>	<u>Gross Rent</u>
One bedroom	3-4	800-900	\$900-\$1,000
Two bedroom	9-12	950-1,050	\$1,050-\$1,150
Total	12-16		

Note: Rents are quoted in 2018 dollars and include all utilities. An additional \$35 to \$45 could be charged for a designated adjacent garage or parking stall.

It is projected that three to four rental units will be leased by the date of project completion and two to three units will be leased each month, for a total initial occupancy period of five to six months.

Assumptions: The above recommendation is based on the following:

- ▶ Our analysis provides evidence that there is some demand for a market rate rental housing project in the Market Area.
- ▶ The proposed gross rents are \$1.11 to \$1.13 per sq. ft. for a one-bedroom unit and \$1.10 to \$1.11 per sq. ft. for a two-bedroom unit. The rents are higher than the highest quality comparable rental properties in the Market Area.
- ▶ To achieve the above rents, the unit and building construction must be high quality with state of the art amenities.
- ▶ The rental unit amenities should include:
 - ▶ In-unit washer/dryer
 - ▶ Dishwasher
 - ▶ Garbage disposal
 - ▶ Microwave oven
 - ▶ Patio or deck
 - ▶ Ample closet space
 - ▶ Air conditioning
 - ▶ two-bedroom units should have two bathrooms
 - ▶ Window treatments

- ▶ Building amenities should include:
 - ▶ Entry security system
 - ▶ Adjacent reserved parking and garages
 - ▶ Sprinklers
 - ▶ Community room
 - ▶ Elevator
 - ▶ High level of maintenance and housekeeping of common areas
 - ▶ High quality common areas
 - ▶ Storage lockers
 - ▶ Appealing exterior and entrance

- ▶ The market analysis was based on the highest gross rents that can be achieved. Lower rents may increase demand but would decrease revenues.

- ▶ Adjacent reserved parking and garages are necessary to achieve the proposed rents as several comparable properties have attached covered parking. There should be garage stalls to accommodate at a minimum 75% of the units. The remaining units should have access to adjacent reserved parking.

- ▶ The recommendation range of 12 to 16 rental units is based on how many units can be constructed on the site and still meet the per unit square footage, project amenities and parking recommendations.

- ▶ One one-bedroom and two two-bedroom units are recommended. Although the demand for two-bedroom units is higher, there is still a demand for one-bedroom units and it is our recommendation that 25% of the units are one-bedroom.

- ▶ The recommendation assumes the City of Mountain Lake, the EDA, the Chamber of Commerce and the Downtown property owners will continue its Downtown redevelopment efforts.