

Executive Summary

This 2013 Housing Study was completed for the Detroit Lakes Housing and Redevelopment Authority and the City of Detroit Lakes. The document has been organized into several different sections, as listed below. The Executive Summary follows in the same format, and provides some of the highlights from each of the individual sections.

- ▶ Demographic Estimates and Projections
- ▶ Existing Housing Data
- ▶ Rental Housing Inventory
- ▶ Senior Housing with Services Inventory
- ▶ Employment and Local Economic Trends
- ▶ Findings and Recommendations

Demographic Estimates and Trends Highlights

- ▶ The City of Detroit Lakes has had a long history of population and household growth. However, some of the net gain in recent decades has been the result of annexation activity, as existing residents of Detroit Township and Lake View Township were brought into the city limits. To better analyze actual growth, an aggregated area that includes the City and these two adjoining Townships was used, and referred to in the Study as Greater Detroit Lakes.
- ▶ Over the decade between 2000 and 2010, the Greater Detroit Lakes area added 850 people and 499 households. Due to the impact of annexation gains, Detroit Lakes added even more people and households, with the population increasing by 1,221 people, and 545 households added over a ten-year time period.
- ▶ Some official estimates have been released following the 2010 Census, but the most recent are effective for July 1, 2012. They show that the Greater Detroit Lakes area has continued to grow, with net gains of 180 people and 112 households between 2010 and 2012.

Demographic Projection Highlights

- ▶ This Study has examined different projections for future growth within the Detroit Lakes area. The household growth forecast that appears to be the most reliable would expect the Greater Detroit Lakes area to add 50 to 55 households in an average year through the year 2020.

- ▶ This has the potential to be a conservative household projection. In the early years of the previous decade it is probable that the area was growing at a faster rate. However, over the past five years, a more moderate growth rate has been present. Most of the growth within the Greater Detroit Lakes area is likely to be located within the City.
- ▶ The Study also included age-based projections, which acknowledge the movement of the large “baby boom” generation as it moves through the aging cycle. Net household growth between the years 2010 and 2015 will primarily be due to an increasing number of households in the age groups 55 and older. While certain younger age groups may also increase in size, overall the area should experience a decreasing number of households age 54 and younger, and an increasing number of households age 55 and older.

Existing Housing Inventory Highlights

- ▶ The last 13 years have been a very strong time period for new housing construction activity in Detroit Lakes. From January 2000 to the end of December in 2012, City building permit reports show that more than 740 housing units were issued a permit.
- ▶ Most of the units that have been permitted since 2000 are identified as single family housing, which would also include attached single family units, such as twin homes or town houses that would be intended for owner-occupancy. Between 2000 and the end of 2012, nearly 500 single family permits were issued.
- ▶ Building permit reports also identify 242 units in multifamily projects, presumably intended for renter-occupancy. However, the review of larger rental projects in Detroit Lakes points to more units being added than would be indicated by City building permit reports. This may be due in part to reporting differences, as some of the projects were senior-oriented projects that often included more intensive services. It is possible that these units were permitted as commercial or institutional projects, rather than as residential permits. There were also units added through conversion projects within existing structures, and these may not have been listed in the permit reports. When all types of units are added together, as many as 350 units were probably added that could be described as rental housing.

- ▶ Although the construction of single family units was significantly greater than the number of multifamily units, tenure patterns did not reflect this same trend. Between 2000 and 2010, the rental tenure rate in Detroit Lakes actually increased while the home ownership rate dropped. In terms of net change, the Greater Detroit Lakes area added 341 renter-occupancy households over the last decade, but only 158 owner-occupancy households. The growth in renter-occupancy households was generally well-matched to the estimated net growth in the rental unit inventory. However, the growth in the number of home owners was well behind the growth in single family-style units, as tracked by building permit issuance.
- ▶ There may be multiple reasons that growth in home ownership lagged behind construction activity. In the Detroit Lakes area, one of the primary reasons is probably the use of many housing units as seasonal/recreational properties. The Census reports households based on permanent residency, and many people owning homes in the area do not report Detroit Lakes as their place of permanent residency. The 2010 Census counted nearly 1,200 seasonal/recreational residences in the Greater Detroit Lakes area.
- ▶ Sales prices for existing homes were tracked using two different reporting sources. Becker County sales records show that the midpoint sale price for an existing home in Detroit Lakes in 2012 was at \$151,350. There has been a general upward trend over the past seven years in the median price. While there is some evidence that the annual volume of sales dropped during times of national economic recession and housing market difficulties, the midpoint sale price was not negatively impacted.
- ▶ Sales data from the area Multiple Listing Service were also reviewed, and provided an opportunity to separate lake shore and non-lake shore sales. The midpoint sale price for non-lake homes in 2012 was just below \$126,000. Although this MLS data only covered a 3 ½ year time period, it also showed a general upward pricing trend for the median sale prices of existing houses.
- ▶ Detroit Lakes has experienced some issues with home foreclosures and bank-owned sales, but this has not been a major problem for the area. The number of distressed sales in 2012 was only 15 homes, approximately half the level reached in 2010 and 2011. Countywide foreclosure statistics show that Becker County has a relatively low rate of foreclosure, ranking 63rd lowest among Minnesota's 87 Counties in the 2012 rankings.

- ▶ The City does have a relatively large inventory of residential lots, being offered in a wide variety of subdivisions and price ranges. Even though more vacant lots exist, approximately 230 lots could be identified in the City's larger active subdivisions using County property tax records. In recent years, typical annual utilization has been between 30 and 35 lots per year for new construction. At this rate, the City has a multi-year supply of improved lots already available.
- ▶ There appears to be a smaller supply of land parcels that can be used for multifamily construction. This is a multifaceted issue, and is impacted by a property owner's willingness to sell a larger land tract, proper zoning that will allow multifamily construction, and the suitability of the site as an attractive location that has access to municipal infrastructure. This Study has attempted to identify some larger sites that may help to address near-term demand, but City actions, including proper zoning, may be required in some cases to assure that potential developers have land choices within the community.

Rental Housing Market Highlights

- ▶ At the time of the 2010 Census, the rental housing tenure rate in Detroit Lakes was at 39.5%, well above the Statewide average and above the rental rate that existed at the time of the 2000 Census. The rental rate dropped if the entire Greater Detroit Lakes area is examined, as Detroit Lakes is the primary rental center for the surrounding region and all of Becker County.
- ▶ While there is no definitive number on the size of the rental housing inventory in Detroit Lakes in 2013, the best estimate would place the number between 1,650 and 1,700 total units in the inventory. There have been no net gains from new construction projects since the last multifamily buildings were permitted in 2010.
- ▶ As part of the research process for this Study, a telephone survey was conducted that attempted to contact the City's larger rental properties. The projects that were surveyed were analyzed based on the market segment that they served. Within the conventional, market rate rental segment, the reported vacancy rate was less than 1%. There was evidence of strong demand for this type of housing, with many property owners/managers indicating that any available units could be filled by word-of-mouth, and that advertising was not required.

- ▶ Rental rates in market rate housing tend to vary in Detroit Lakes, with a mixture of older rental properties along with a number of buildings that have been constructed within the past 15 years. Units that are older generally are in a more modest range, but many newer projects also exist that offer attractive amenities within a more moderate price range. The rental survey did not identify any two-bedroom units with a gross rent above \$900, or any three-bedrooms above \$950.
- ▶ In the moderate rent, income-based segment, generally served by rental projects that utilized federal low income housing tax credits, good demand was also evident. In units with two or more bedrooms, the reported vacancy rate was only 1.1%, and waiting lists were often present. There were some vacancies in studio and one-bedroom tax credit units, but this was due in part to above-average turnover in the project that offers this type of housing.
- ▶ Most of the federally subsidized housing units in Detroit Lakes are oriented to senior/disabled tenants. There were no reported vacancies in these projects, although the waiting lists for occupancy were also often relatively small. There were also no reported vacancies in the units designated for general occupancy, often having two or more bedrooms. Waiting lists varied, but some were not very long.
- ▶ The tenant-based Housing Choice Voucher Program is probably a better indicator of demand for subsidized housing. In 2013, approximately 140 Detroit Lakes households were receiving this form of rent assistance. The waiting lists for the area Voucher Programs were closed at the time of the research for this Study. In May 2013, The Detroit Lakes HRA Program had 350 names on their waiting list, including 265 living in Becker County. There is a waiting list preference given to County residents.

Senior Housing with Services Market Highlights

- ▶ Detroit Lakes has a number of specialized senior housing providers. Some offer stand-alone facilities targeted to providing specific services. In other cases, senior campuses exist, which can offer a range of housing options to seniors, allowing them to age in place. A large number of units can be described as “flexible”, with the ability to offer largely independent senior housing or housing with a high level of services within the same apartment unit through the delivery of home health care services.

- ▶ Although no new projects have been built in recent years to serve specialized housing needs of older senior citizens, there were some changes identified within the local inventory. These changes were primarily in the memory care segment, as Ecumen Emmanuel Nursing Home was adding 10 beds to its memory care wing, while reducing 10 beds for other uses. The Cottage, also an Ecumen property, was adding four suites to its memory care housing facility.
- ▶ When compared to the population of older senior citizens residing with the immediate Detroit Lakes area, the concentration of specialized senior housing requires a high capture rate within most market segments. Still, most projects did report high utilization/occupancy rates, pointing to the community's importance as a regional service center from a larger surrounding region.

Employment and Economic Trends Highlights

- ▶ There has been significant growth in the size of the County's available labor force over the past 13 years. When comparing 2012 to 2000, the available resident labor force increased by 2,314 people, or 14.8%. Much of this growth occurred within the past five years, as the labor force increased by nearly 1,100 people from 2008 to 2012. The County's employed work force has also increased in size, but at a lower level. As a result, the unemployment rate increased over the long-term and was at 5.8% in 2012, compared to 4.9% in 2000. However, the unemployment rate in 2012 was well below the recent peak of 8.9% reached in 2009.
- ▶ The average annual wage in Detroit Lakes for all industry in 2012 was \$33,488. The highest paying wage sectors were Construction, Public Administration, Manufacturing, and Financial Activities, which were all above \$40,000 for full-time employment. Manufacturing was also a relatively large employment sector in the City.

Findings and Recommendations Summary

The Findings and Recommendations for the Update have primarily focused on rental and home ownership housing opportunities in Detroit Lakes.

Rental Housing

- ▶ The demand calculations used for this Study indicate the need for as many as 155 to 175 total rental housing units to address growth-generated demand as well as pent-up demand from the current under-supply of units. This projected demand is over a five-year time period. Ideally, units would be introduced in smaller increments to prevent an over-saturation of the local market.
- ▶ Conventional, market rate housing will represent the largest share of the proposed construction, with a recommendation of 75 to 85 units over the next five years. Past history would indicate that multiple smaller-scale projects will probably be introduced over time. The primary concern with any new rental housing will be to offer a rent structure that is competitive with other high quality projects. In 2013, the achieved rents in the higher-rent projects are generally estimated to be less than \$1.00 per square foot of living space. Many of the larger two-bedroom and three-bedroom units are actually below \$0.90 per square foot for gross rent.
- ▶ Although Detroit Lakes has a good supply of moderate rent income-restricted units through the tax credit program, a combination of unmet demand for affordable housing and future household growth would support the development of another project with between 24 and 28 units. The last tax credit project in Detroit Lakes was constructed in 2002. Some of the older tax credit apartment buildings have completed their initial contract compliance period, although they are still offering income-restricted housing as an extended compliance phase.
- ▶ This Study defines subsidized housing as rental units that can serve very low income households, generally with monthly rent based on household income. Detroit Lakes has a relatively large inventory of subsidized units oriented to senior and/or disabled tenants, but a relatively small number of units with two or more bedrooms that are oriented to families. One project has ended its subsidy contract in the past and 53 project-based units were lost. With high rates of occupancy in existing subsidized housing, and waiting lists for rent assistance, this Study has made a modest recommendation that at least 24 additional units should be added, oriented to families. This recommendation is limited due to the lack of resources available to construct “deep subsidy” rental housing.

- ▶ The City has an array of specialized housing projects aimed at seniors needing some level of services with their housing. This Study has concluded that the City has a relatively balanced market, with supply and demand being well-matched in most of the specialized senior housing segments. Future additions, therefore, would primarily be based on the expected growth within the targeted populations over time. The age-based projections used for this Study expect limited growth in the number of older senior citizens through the year 2015. After 2020, growth begins to accelerate as the large baby boom generation moves through the aging cycle. Minor additions to certain segments of the market can be justified over the next few years, but this is likely to occur as existing providers adjust their unit mix to better serve market conditions.
- ▶ Student renters contribute to the demand for rental housing in Detroit Lakes. While College officials indicated that finding suitable housing is a challenge each year, they did not believe that students have been lost due to lack of housing. Eventually, students do secure housing each fall. Since most students are at the College for two years or less, there is an annual turnover that occurs, helping new students find vacated units. Many of the newer apartment buildings constructed in Detroit Lakes over the past decade have been in the general vicinity of the College. This has helped to make possible housing options available within walking distance of the campus.
- ▶ A student-oriented rental project was constructed in 2002. Although successful as a rental project, it proved less successful as student-oriented housing. In 2013, approximately half of the tenants were students and the other half represented general renter households. Since student renters would also be served by an expansion of general occupancy rental units, a student housing project would not be recommended unless no new market rate projects are built in the near-future.
- ▶ To achieve the recommendations for rental unit production contained in this Study, it is likely that at least five to eight project sites will be required over the next few years, with additional sites required over a longer time period. Assuring that multifamily developers have adequate land availability will be an important community strategy to provide affordable housing and to promote community growth. Public officials will need to be proactive in taking the policy steps that will be required, including proper zoning for higher density development, and making sure that public infrastructure can be extended to future development areas.

Home Ownership

- ▶ The calculations used for this Study continue to show ongoing demand for owner-occupancy housing opportunities in Detroit Lakes. Overall, growth-generated demand is expected to create the need for 25 to 27 units per year to serve resident households. With some additional needs for unit replacement and other causes, approximately 30 units per year would be projected over the next five years. Additional demand has been generated in the past from seasonal/recreational home buyers. However, it is believed that much of the seasonal housing demand will be oriented to high amenity locations, such as lake shore property, and may involve the removal of an existing housing unit with replacement through new construction. While seasonal/recreational demand will generate economic benefits to construction companies and materials' suppliers, it will have less impact on subdivisions that are not on area lakes. In many cases it may also utilize existing infrastructure connections.
- ▶ Most of the net growth that is anticipated over the next few years will be among households in the age ranges between 55 and 74 years old. Households in these age ranges tend to be predominantly home owners, and form a market for higher priced and trade-up housing. The forecasts used in this Study expect between 60% and 70% of the demand to be in a moderate to higher price ranges.
- ▶ New construction of entry-level and lower priced single family homes in Detroit Lakes has been limited in recent years, despite the fact that some subdivisions have been designed specifically to offer more affordable housing. While multiple reasons may contribute to limited demand in recent years, demographic characteristics are part of the reason. Going forward, there should be a decreasing number of households age 54 and younger in the Detroit Lakes area, as a large segment of the population advances into the older adult age ranges. Based on our calculations on projected age patterns and tenure demand, we would expect between 20% and 30% of the annual demand to be for a more affordable product. To achieve a higher level of activity, additional financial incentives, such as gap financing programs, may need to be created or expanded.
- ▶ There has been limited demand in Detroit Lakes in recent years for attached single family housing construction. While some small-scale projects may have proceeded, twin homes and town house units have not represented a large share of construction activity. Throughout the five-year projection period, it is probable that attached units could attract a

larger share of the new construction market. If a 20% share can be reached, this could be potentially five to six units in an average year. We believe that demand will primarily come from older adult households and the features and amenities should be conducive to the life-cycle needs of empty-nester and senior households.

- ▶ The research for this Study identified as many as 230 improved/partially improved lots available in at least 12 larger subdivisions. There are additional lots scattered around the community, including some lots that have previously been purchased, but are now being resold by the owner. Specific pricing information was not available for many of the lots, but listings for new lots below \$12,000 existed, as did prices above \$100,000. Many of the lots appear to be in a relatively affordable range, with multiple options below \$30,000. The best available information on lots and subdivisions suggests that the supply is more than adequate for several years of future housing construction.

Housing Rehabilitation

- ▶ For owner-occupancy units, the estimated median year of construction for houses in Detroit Lakes was 1967, and nearly 500 owner-occupied housing units were constructed before 1940. Maintenance and improvement of older housing will remain an important housing strategy. The most affordable ownership options in the City will typically exist in older housing, and maintaining the quality of this stock will assist with promoting home ownership.
- ▶ Over the last decade, the City's rental tenure rate increased, and nearly 40% of all households in 2010 were renters. The 2011 American Community Survey placed the median year of construction for rental units at 1976. According to this source, approximately 350 rental units in the City were constructed before 1960. The rehabilitation of older units can be one of the most cost-effective ways to maintain a supply of decent, safe and sanitary affordable housing for the future.