



Real Estate Research
Providing Comprehensive
Market Information
and Feasibility Studies

Northfield Housing Analysis Key Findings

Prepared for: Northfield HRA

Prepared by: Mary C. Bujold, President
Maxfield Research & Consulting

October 3, 2024

Project Scope

OBJECTIVE

Provide an analysis of Housing Needs for the City of Northfield

APPROACH

Identify current & future housing needs in Northfield and provide strategies for the development of housing

PROJECT DELIVERABLES

- Short and long-term housing needs
- Recommendations guiding future housing development
- Suggested tools/policies to for housing development

KEY DATES

- Data collection: 2nd/3rd Quarters 2024
- Draft: August 2024
- Final Report: September 2024
- Presentation: October 3, 2024



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Northfield Market Area

Demographics & Economics

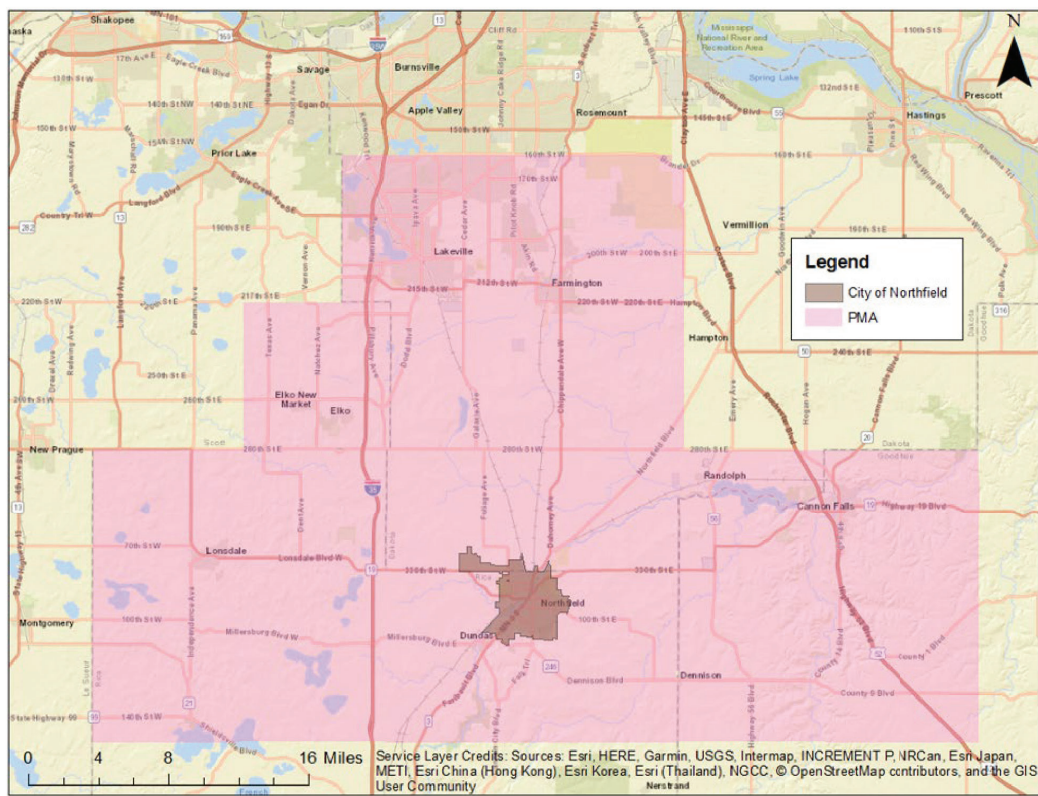
Market Overview

Demand & Recommendations

2024 Outlook

Discussion

Northfield Primary Market Area



Primary Market Area

Northfield city
26 Additional geographies

The Primary Market Area is expected to generate most of the demand for housing. Northfield can capture a portion of that demand.



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Submarkets

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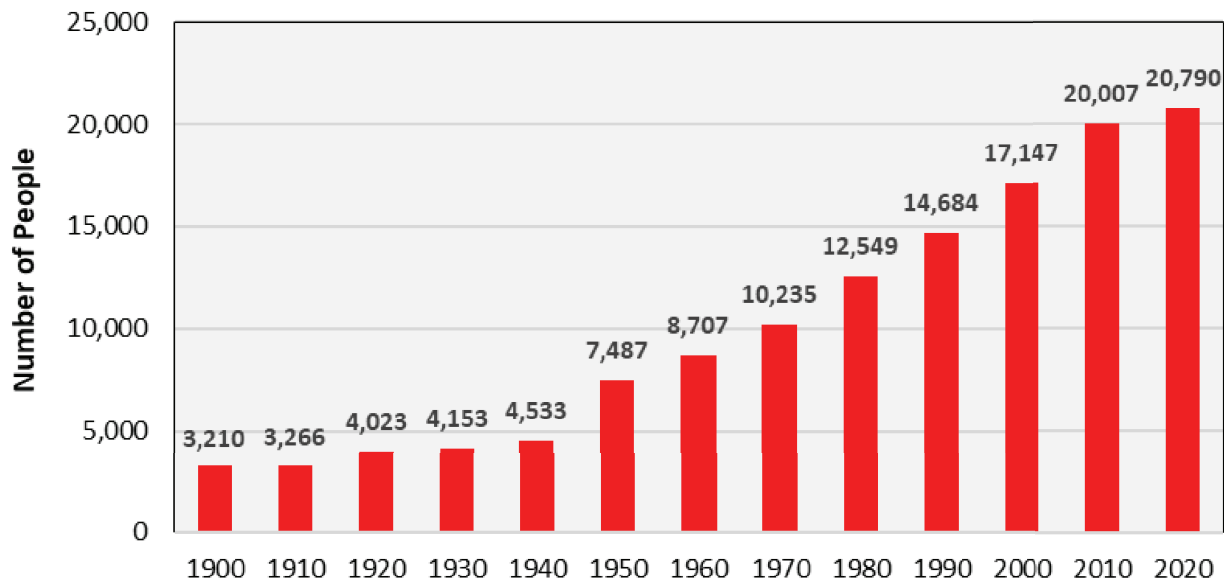
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Northfield had been growing at a Consistent Pace

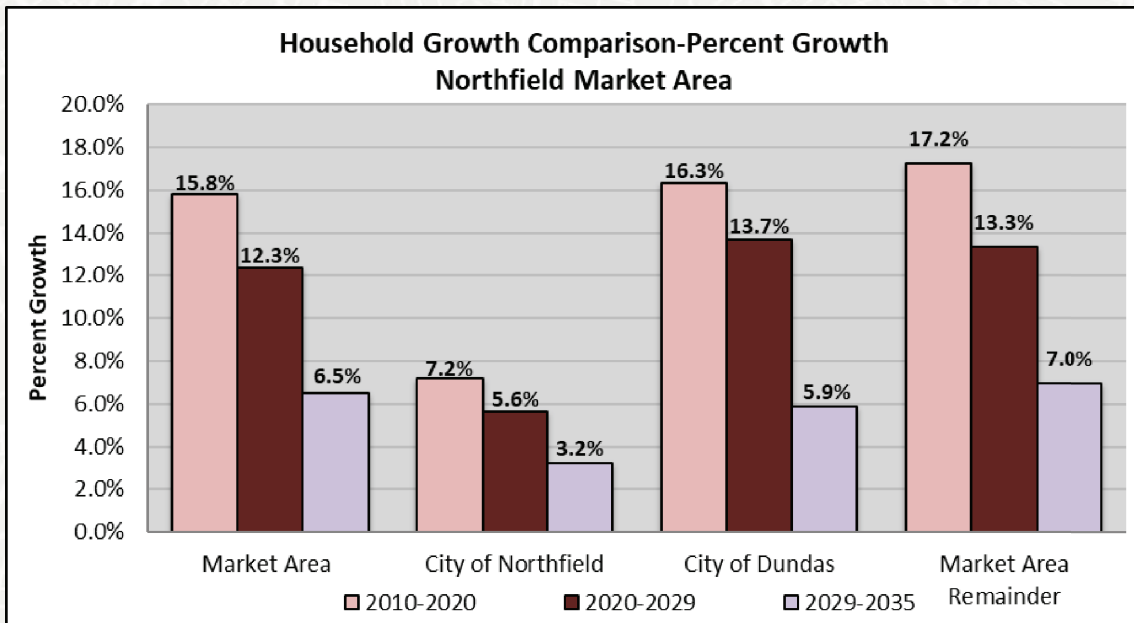
City of Northfield - Population



Northfield experienced significant growth between 1940 and 1950 (65.2%) and consistent double-digit growth over the past six decades (1960 to 2010).

Growth was low between 2010 and 2020 (3.9%) when many other cities in the region had significant growth.

Household growth in the Double Digits-Northfield Market Area

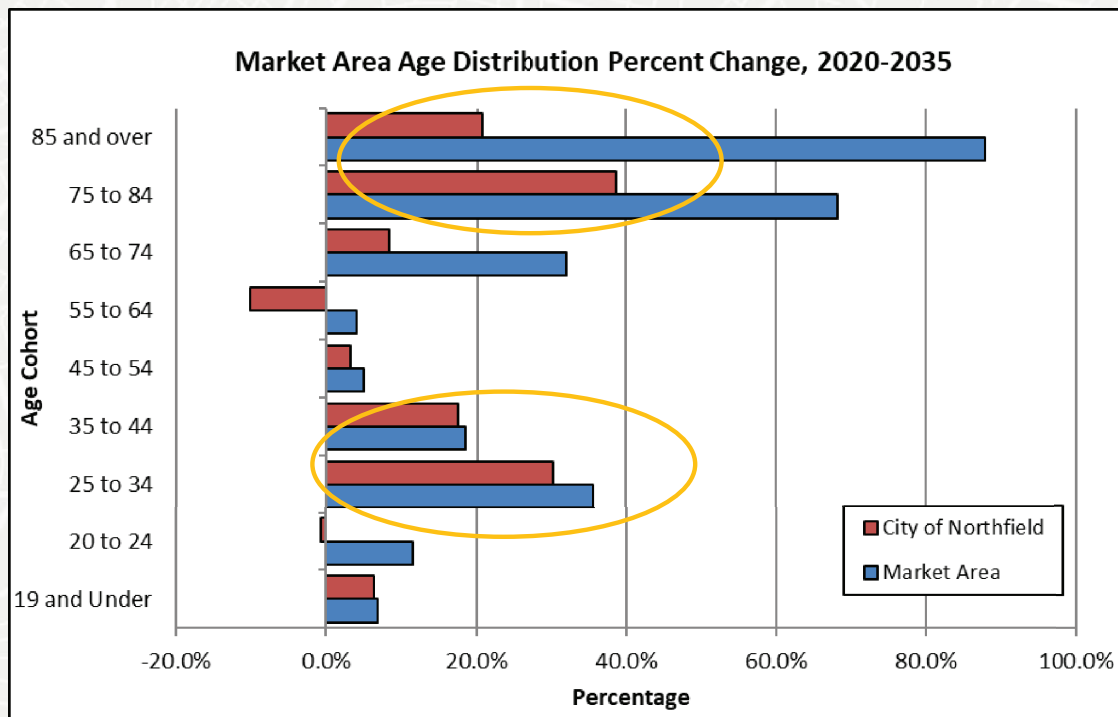


The surrounding Market Area and Dundas experienced double-digit household growth 2010-2020

Northfield's household growth was comparatively more moderate

Although forecasts indicate somewhat slower growth from 2029 to 2035 (smaller timeframe) jurisdictions have the ability to affect these trends by attracting more development

Age Distribution Trends



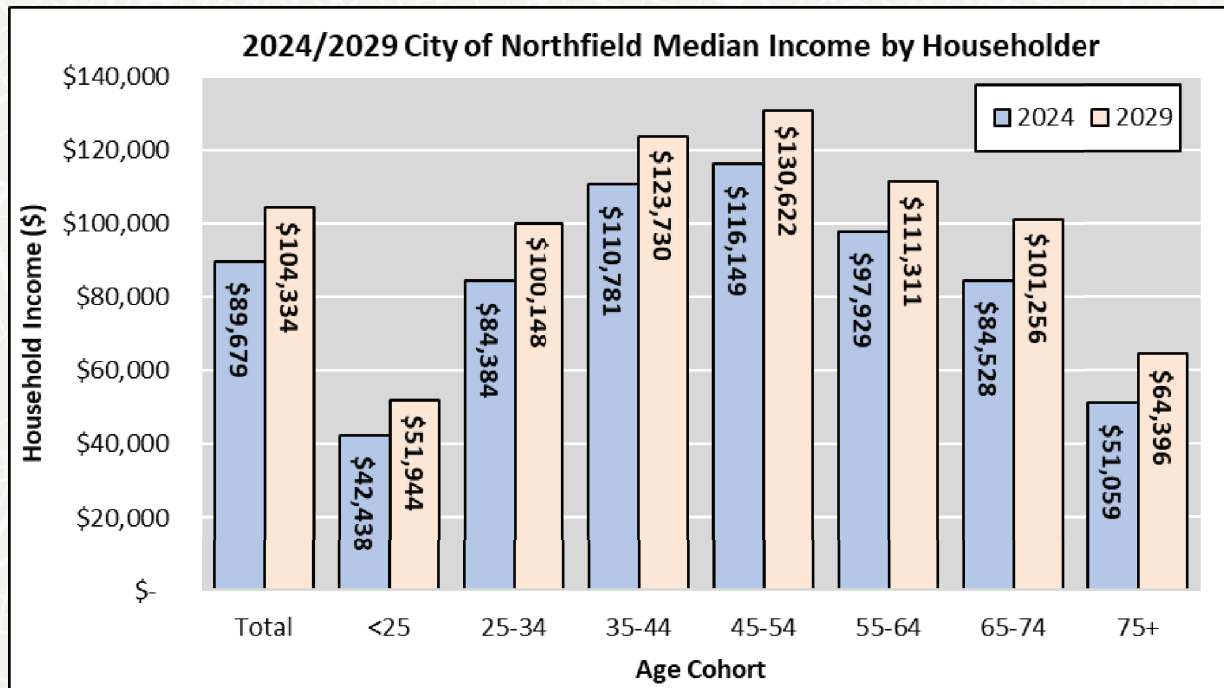
Northfield has two large population groups:

- Baby Boomers
- Gen Z

Demographically similar to other communities in the Metro Area, but a consistent higher proportion of 18- to 24-year olds because of the colleges

Housing production has been focused on empty-nesters and seniors, but workforce housing needs are important for the future

Median HH Incomes – Growth among Mid-Age/Older HHs



Median HH Incomes (2024)

Northfield = \$89,679

PMA = \$116,025

TCMA = \$96,905

Median HH Incomes (2029)

Northfield = \$104,334

PMA = \$130,909

TCMA = \$109,109

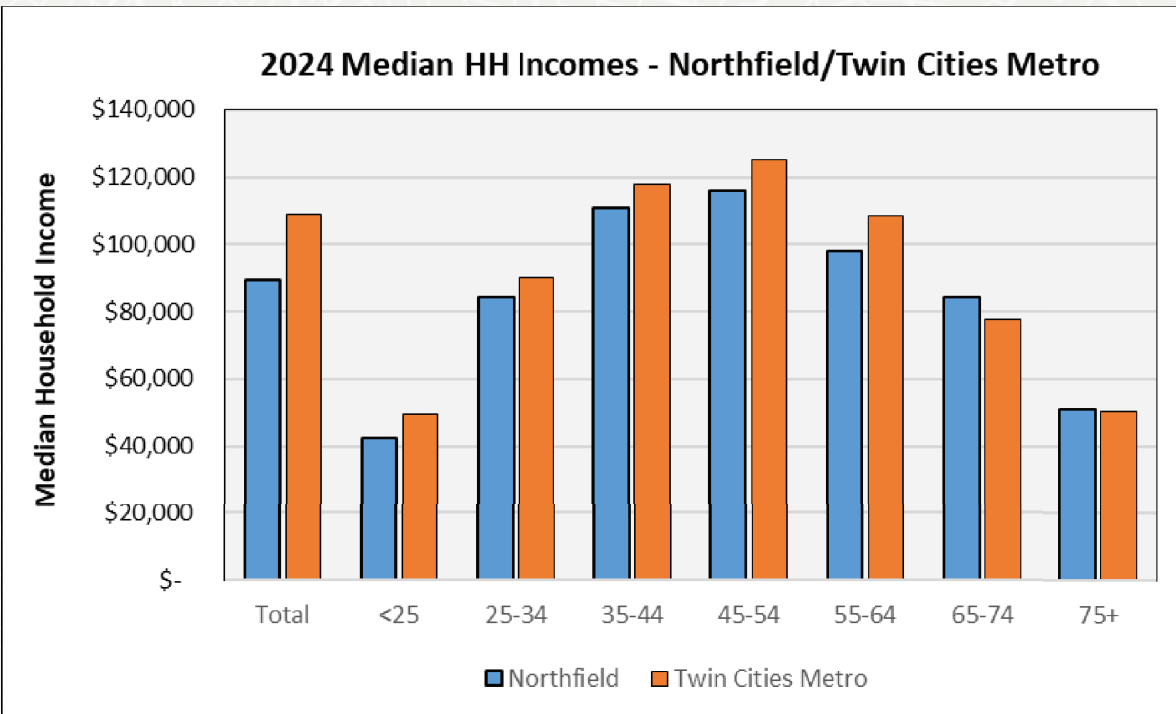
Average Annual Growth Rate:

Northfield = 3.07%

PMA = 2.44%

TCMA = 2.40%

Median HH Incomes – Higher than Metro Area – Younger HHs

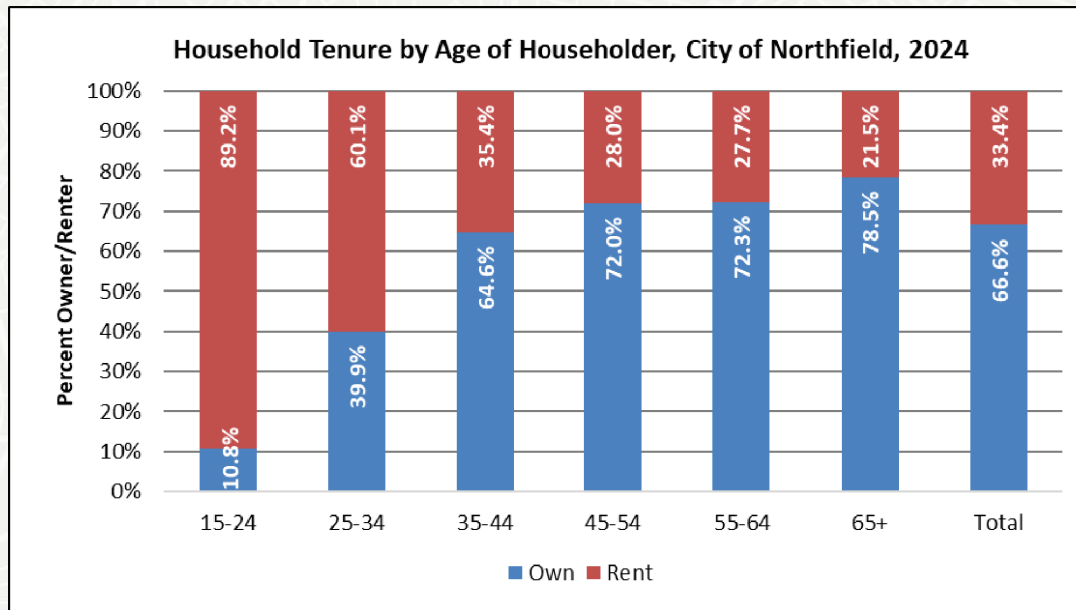


Median HH incomes in Northfield are somewhat lower in each age group except for

- 65 to 74
- 75+

This supports somewhat higher Priced housing for these age groups, but does not fully address workforce housing needs

Households – Owner/Renter



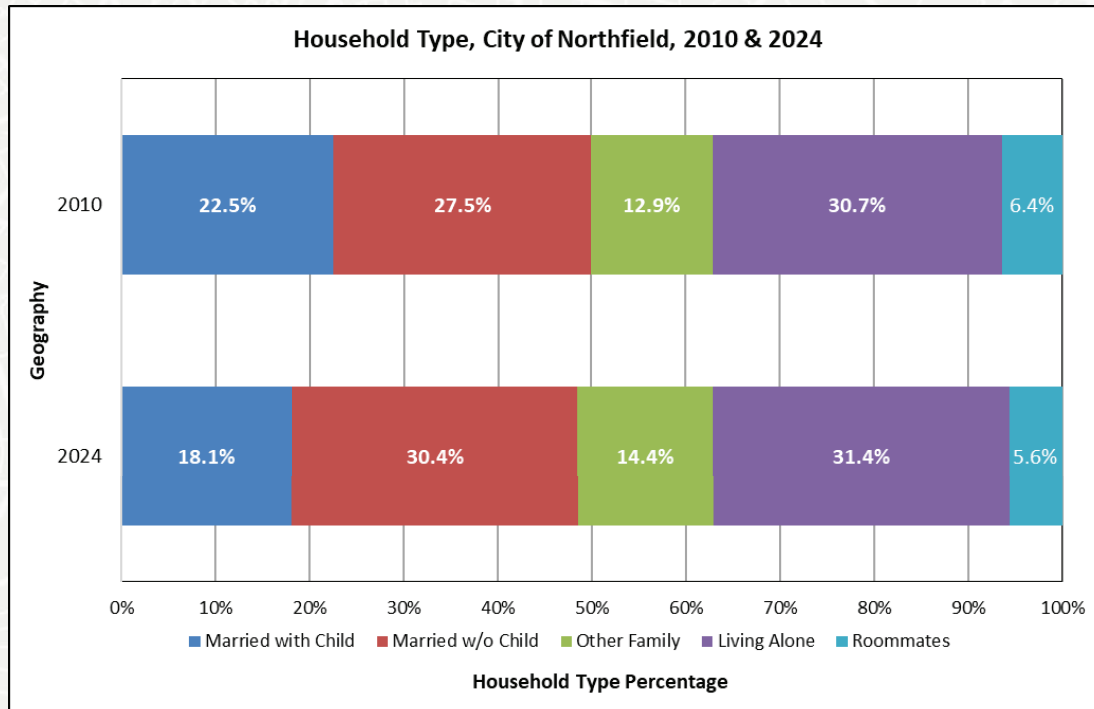
Fully-developed communities usually have higher proportions of renter households

Small cities and less developed townships have higher proportions of rental housing primarily because zoning and infrastructure do not permit higher density development

Northfield has a good balance between owned and rented housing (equal to the Metro Area).

Need to consider however, the number of single-family homes that may convert to rentals

Household Type Trends



Married Couples w/o Children Increases while those without children increased modestly

Married w/children households decreased

Living alone also exhibited an increase. As the population ages, this group will also increase

Housing Cost Burden

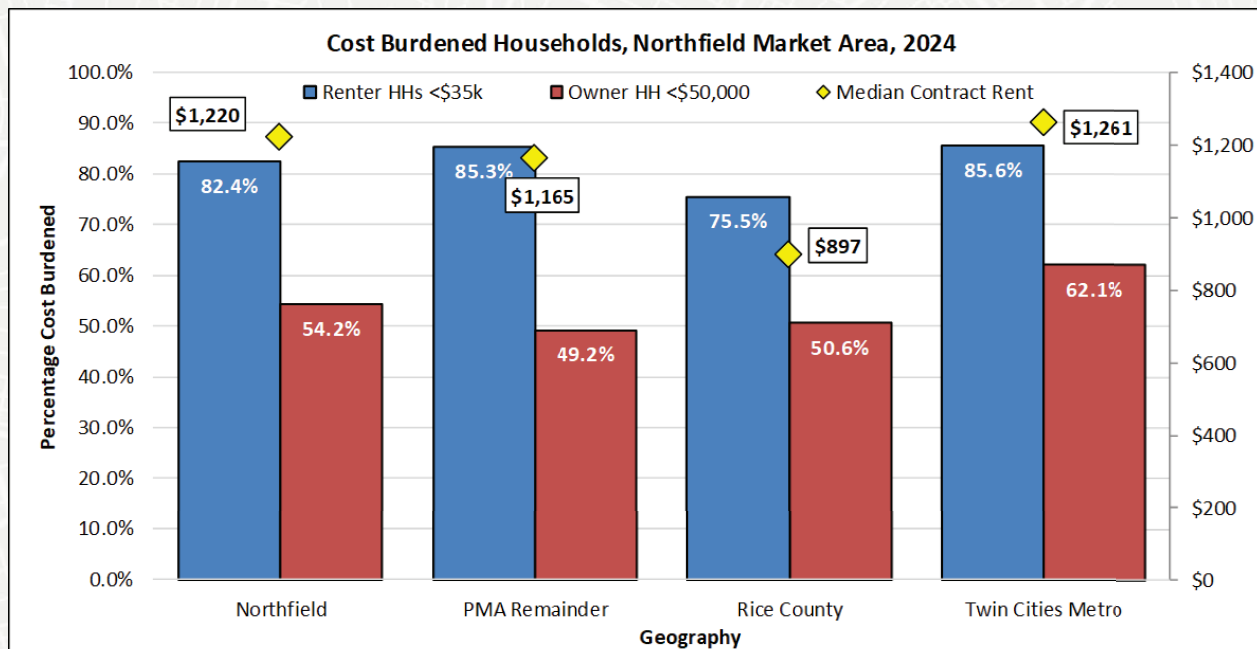
Cost Burden: more than 30% of gross income allocated to housing

Northfield Renters:

- 35% of all renters are cost burdened/45% TCMA
- 82% of renters w/ incomes <\$35,000 are cost burdened/86% TCMA

Northfield Owners:

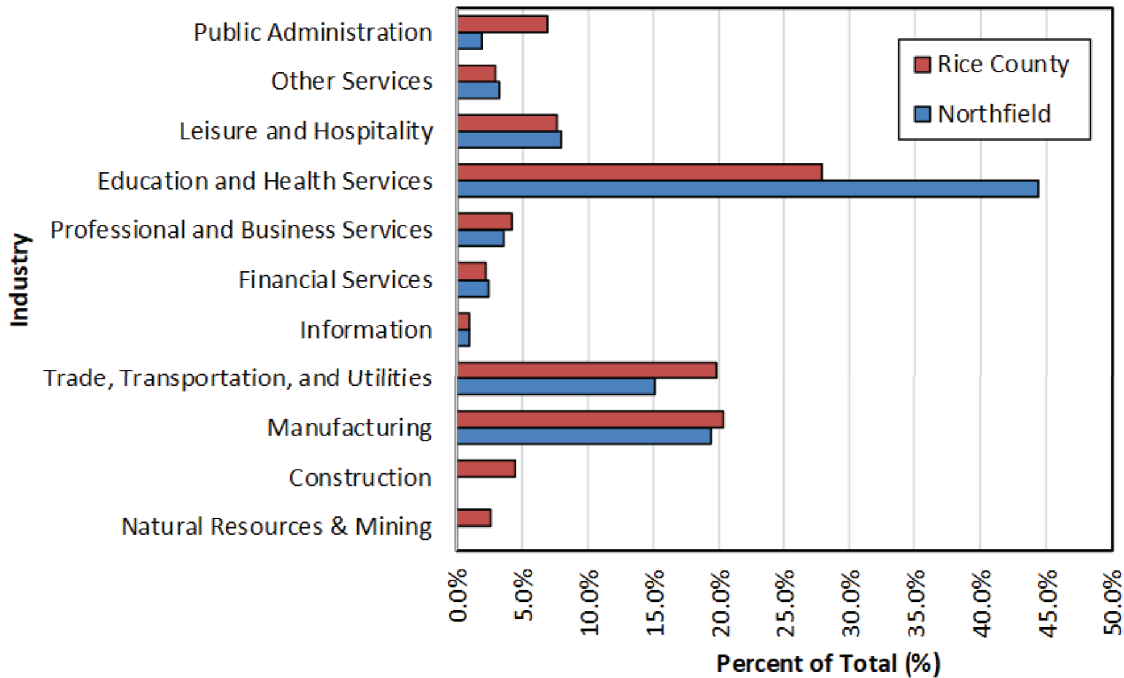
- 21% of all owners are cost burdened/18% TCMA
- 54% of owners w/ incomes <\$50,000 are cost burdened/62% TCMA



Median Contract Rent (2024)
 \$1,220 - Northfield
 \$897 – Rice Co
 \$1,261 - TCMA

Employment Proportion by Industry - Jobs in Northfield

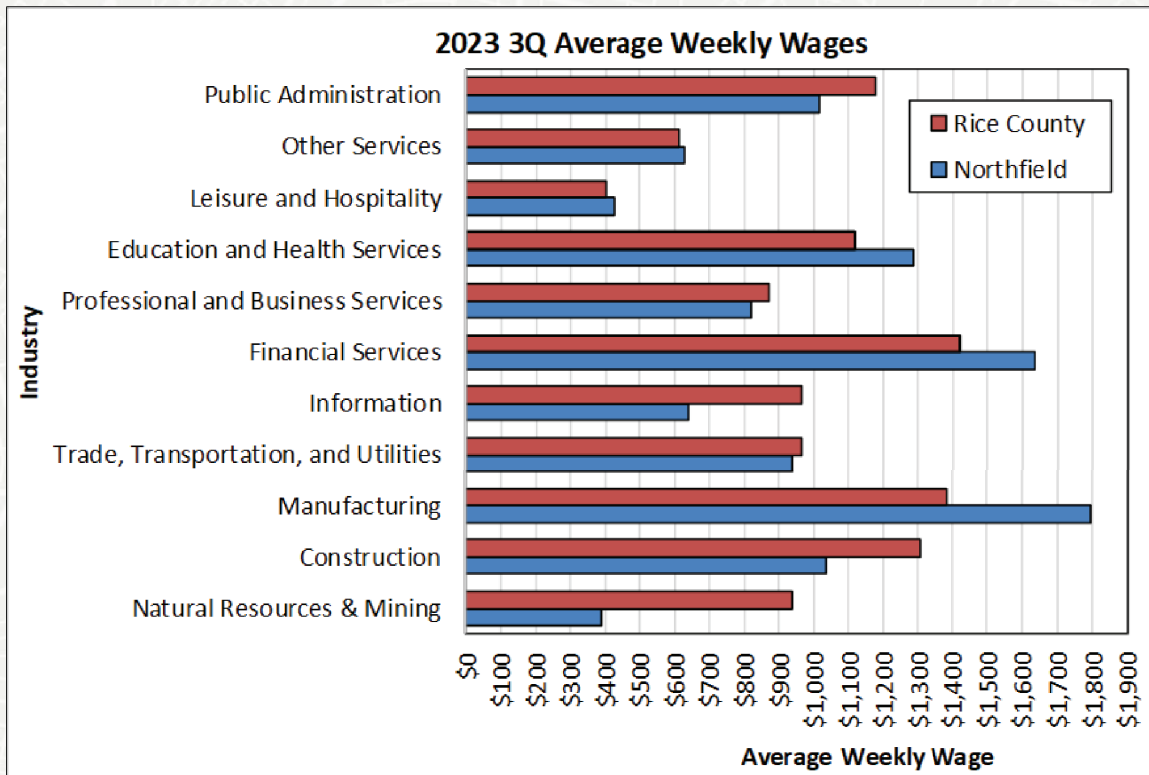
2023 3rd Q Employment: % of Total



Northfield's manufacturing sector accounts for 20% of employment versus 10% in the Metro Area

Education & Health Services accounts for nearly 45% of employment compared to 24.5% for the Metro Area

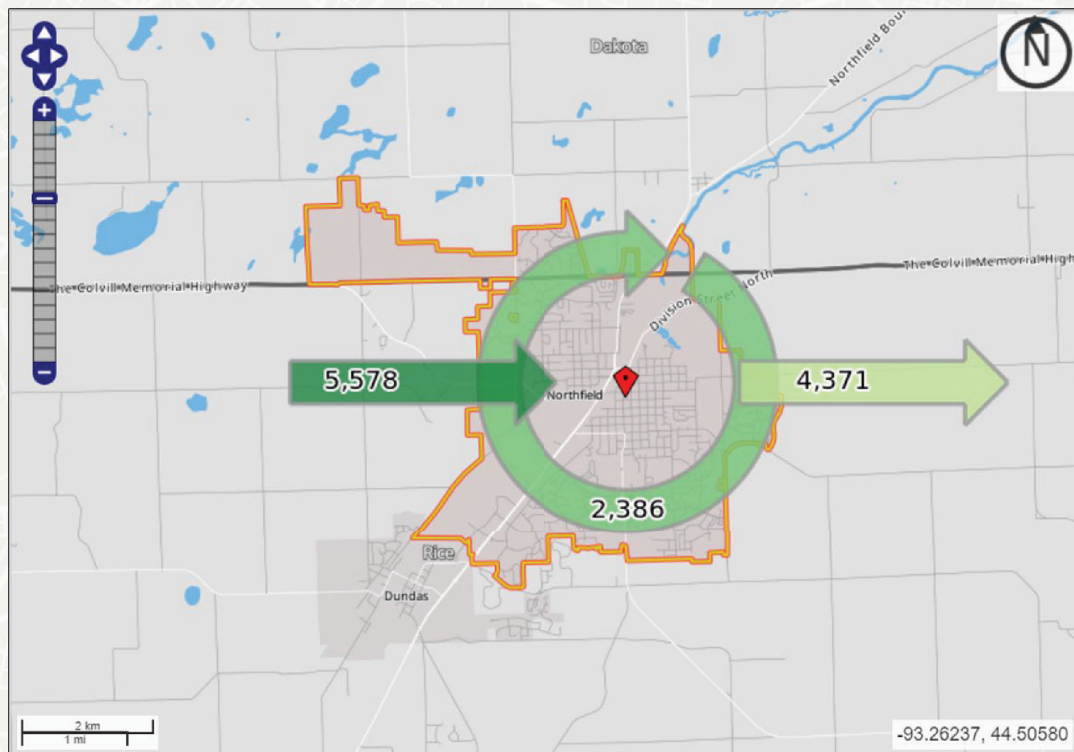
Avg Weekly Wages by Industry – Jobs in Northfield



Average weekly wages for Manufacturing and Financial Services are high.

This is typical for Financial Services but less so for Manufacturing.

Northfield is both a job importer & exporter



- 26,030 jobs (covered employment) 2023
- Growth in Key Industry Sector Jobs ('10-'20):
 - Manufacturing: 12%
 - Construction: 41%
 - Professional/Technical Services: 31%
 - Leisure and Hospitality: 21%
- Avg. weekly/annual wage (2023):
 - \$1,195 | \$62,140 (Northfield)
 - \$1,507 | \$78,364 (Metro Area)
- 34% of residents leave the City for employment
- 45% of Northfield workers come into Northfield for employment.



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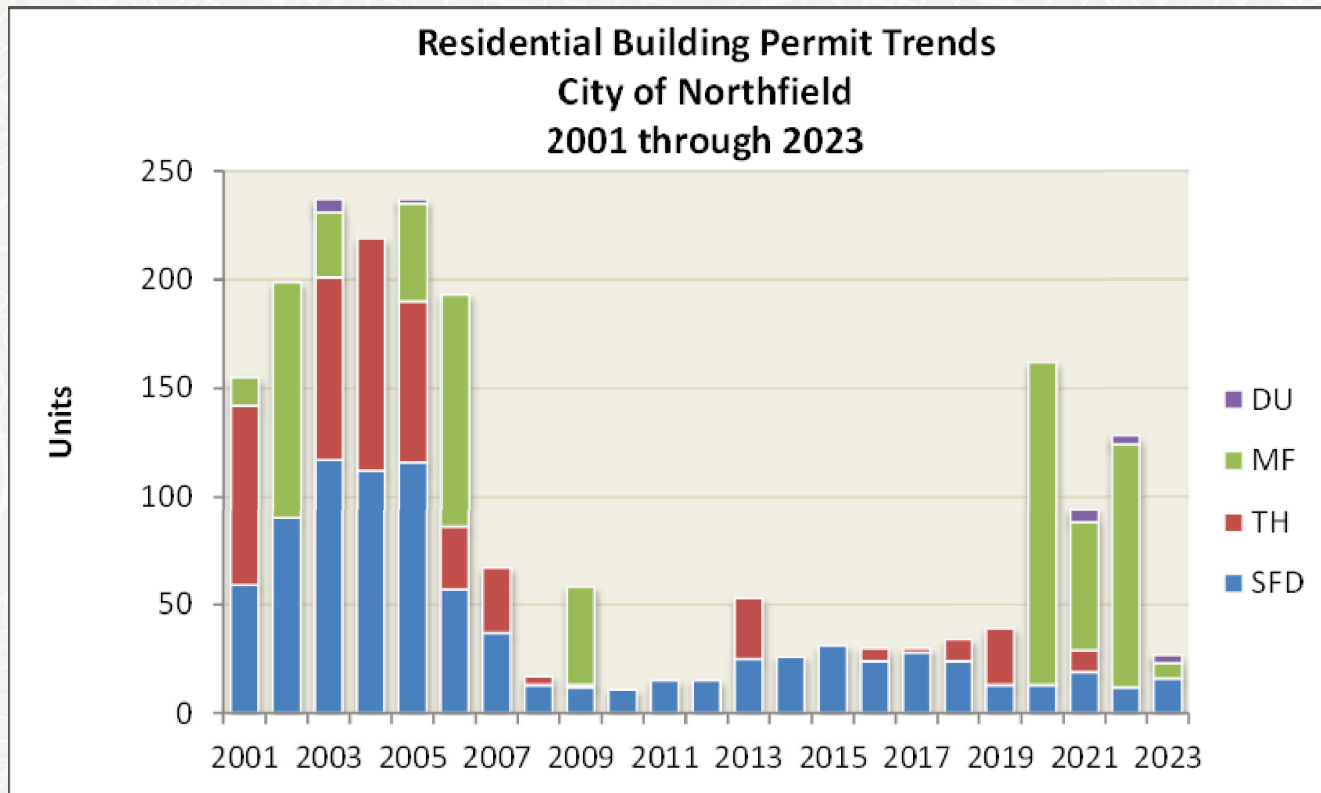
Market Overview

Demand & Recommendations

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Multifamily Development rivals For-Sale Development



Months of Supply for Homes is very low

Single-Family Homes

Northfield – 1.6 months
Dundas – 3.9 months
Lakeville – 2.8 months
Farmington – 2.8 months
Lonsdale – 2.5 months
Cannon Falls – 2.3 months
Faribault – 1.7 months

Owned Multifamily Homes (Townhome/Condo)

Northfield – 1.9 months
Dundas – 0.6 months
Lakeville – 2.8 months
Farmington – 1.5 month
Lonsdale – 0.3 months
Cannon Falls – 0.6 months
Faribault – 1.7 months

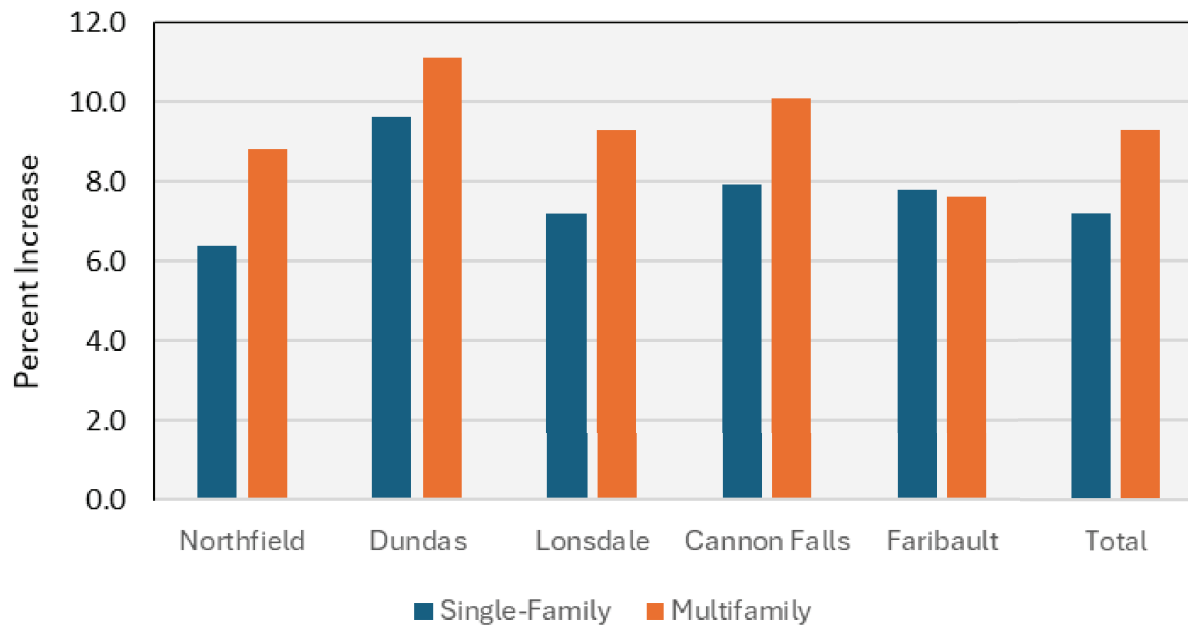
Single-family supply available on the market remains very low, similar to many other PMA communities and Metro Area cities.

With the average price of a new single-family home in the low \$400s, entry-level buyers are usually priced out of the market.

Inventories of owned multifamily homes are even lower than Single-family.

Annual Average Median Sales Price Increases

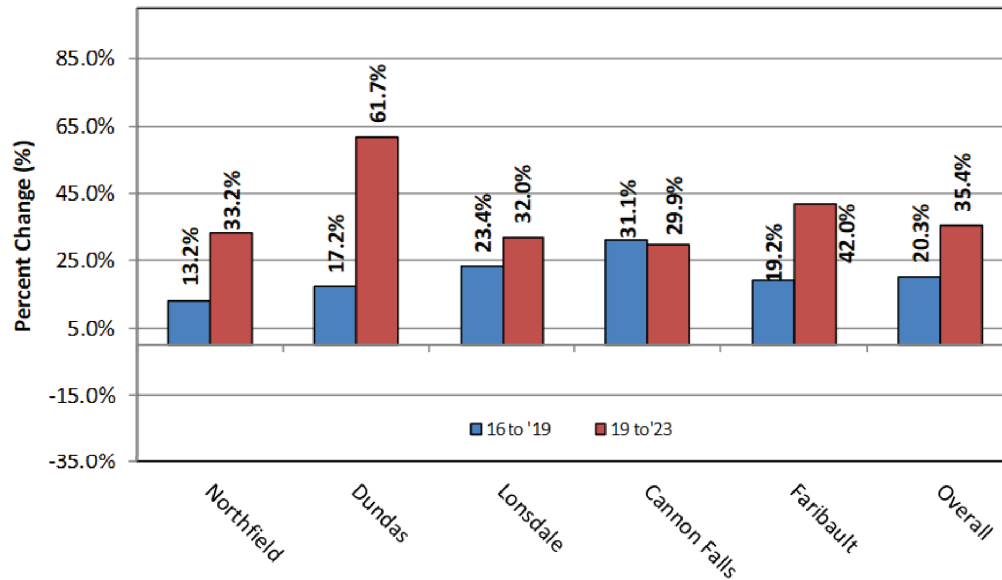
Annual % Increase Median Sales Price = '16 -'23



Although annual avg price increases for SF have been strong, owned MFy has been even stronger.

Resale Prices Increased Rapidly Over the Past 7 Years

SF Sales Price Pct. Change (16' to 19' vs. 19' to 23)



Resale prices of SF and MF have increased substantially since 2016:

Increases of between 13% and SF 49.2% for MF

During the Great Recession, MF owned pricing hit rock bottom, but with an affordability crisis, MF pricing has increased at a faster rate than SF

Single HHs and couples w/o children attracted to MF

Low Rental Housing Vacancies – Increasing Rents

Overall

- 1,634 units
- 2.7% overall vacancy rate
- 0.7% stabilized properties

Market Rate

- 1,181 units
- 2.2% vacancy rate
- Avg. monthly rent \$990
 - \$983 Std
 - \$986 1BR
 - \$1,250 2BR
 - \$1,810 3BR

Affordable/Subsidized)

- 453 units
- 2.2% vacancy rate
- Avg. monthly rent
 - \$1,060 Std
 - \$903 1BR
 - \$1,098 2BR
 - \$1,264 3BR
 - \$1,327 4BR



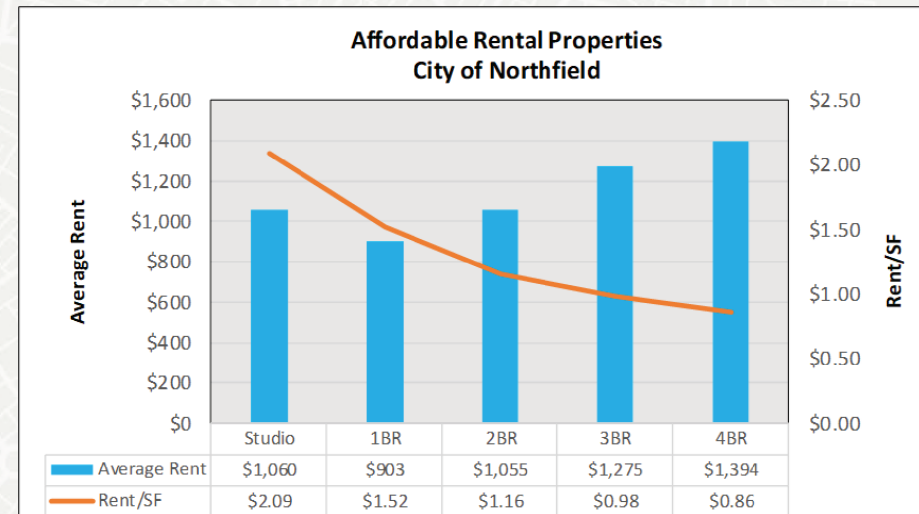
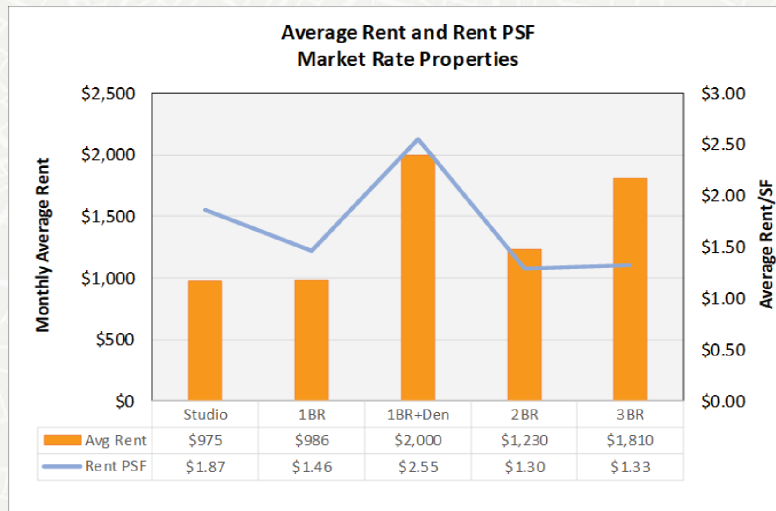
5th Street Lofts



Woodridge Apartments

5% Vacancy = Market Equilibrium

Mix of Vacancy Rates, Higher in areas w/new product

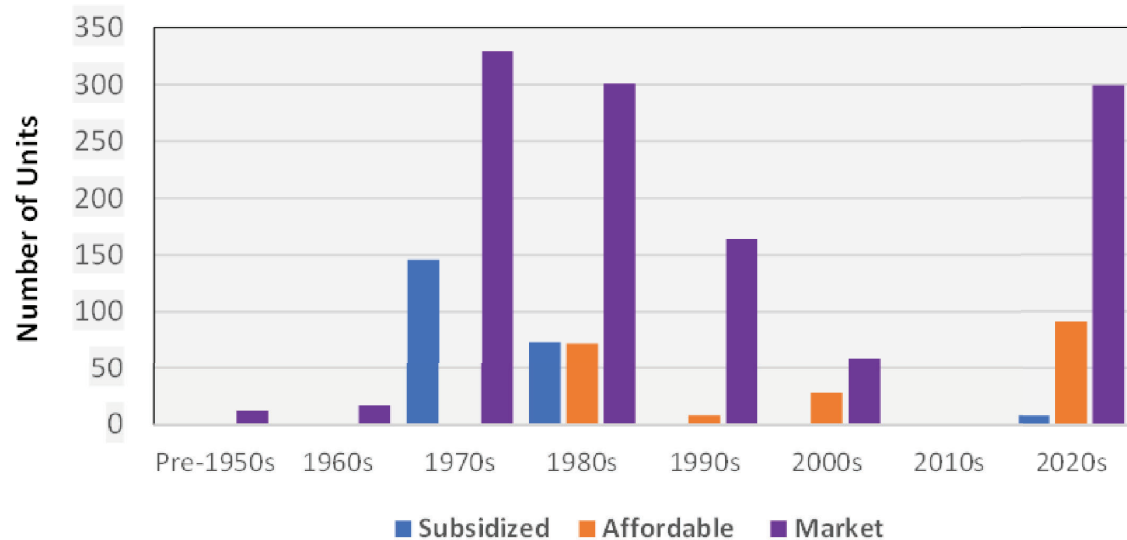


Average rents at market rate properties reflect the older age of most of the market rate rental housing in Northfield; affordable product is newer and therefore has rents commensurate with current rent levels.

Vacancies are very low among market rate and affordable rentals indicating additional demand for rental housing across the income spectrum.

Cluster of Rental Units (70s/80s), but also New Construction

Year Built - General Occupancy Apts by Type
City of Northfield



There was a dearth of new apartment construction in the 2010s in Northfield.

New construction increased in the 2020s with development activity similar to the 1980s

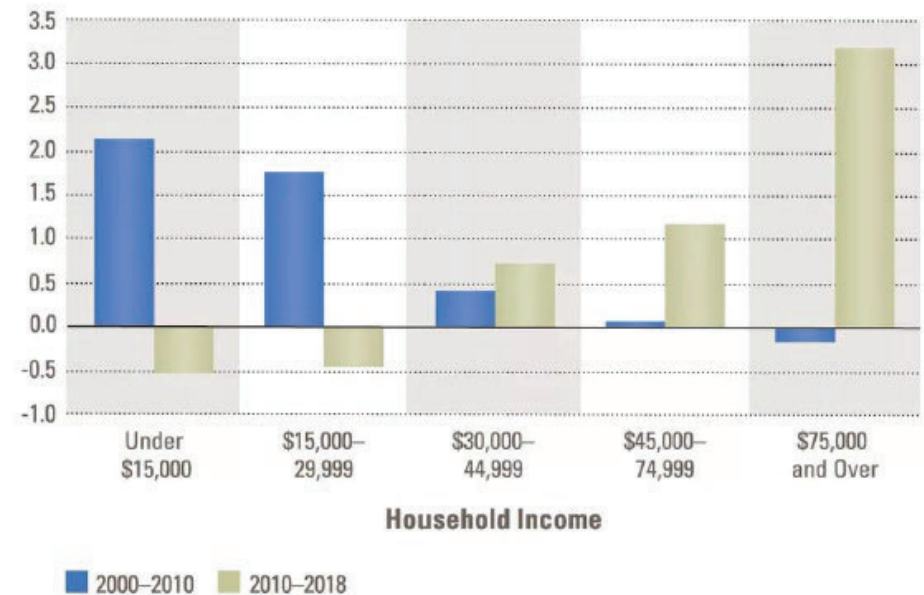
New construction slowed with the rise in interest rates but is expected to resume as interest decrease; developers are planning projects for moving forward

Lifestyle Renters Driving Rental Growth (US Figures)

- High-earning renters: +45% last decade
- Barbell: Millennials & Baby Boomers
- Young, college educated with high incomes
- Baby Boomers: Lack of active adult product, desire to right size, simpler lifestyle, etc.
- Married couples w/kids: +14%
- Fewer renters “doubling up” in the pandemic recession

High-Income Households Have Driven Most of the Growth in Renters Since 2010

Net Change in Renter Households (Millions)



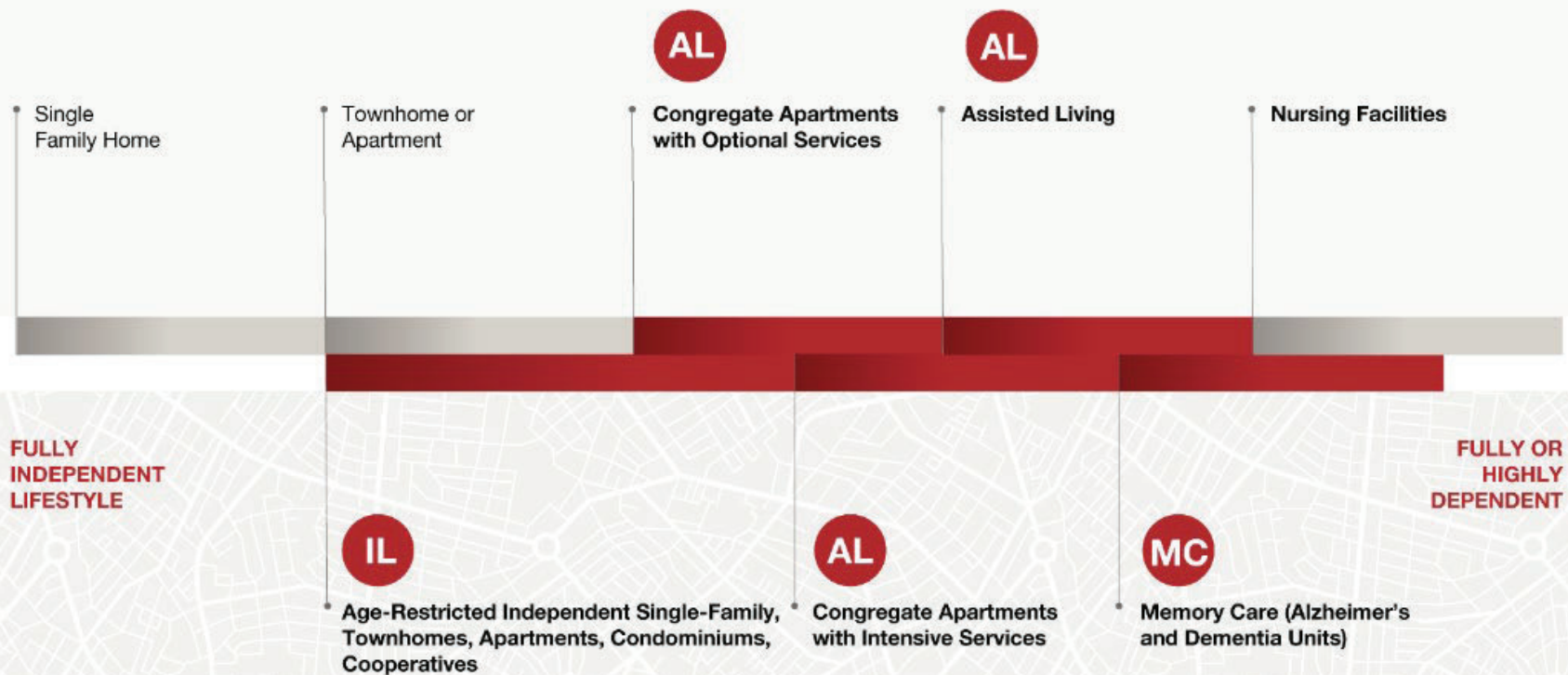
Note: Incomes are adjusted for inflation using the CPI-U for All Items.

Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Apartment Development Trends

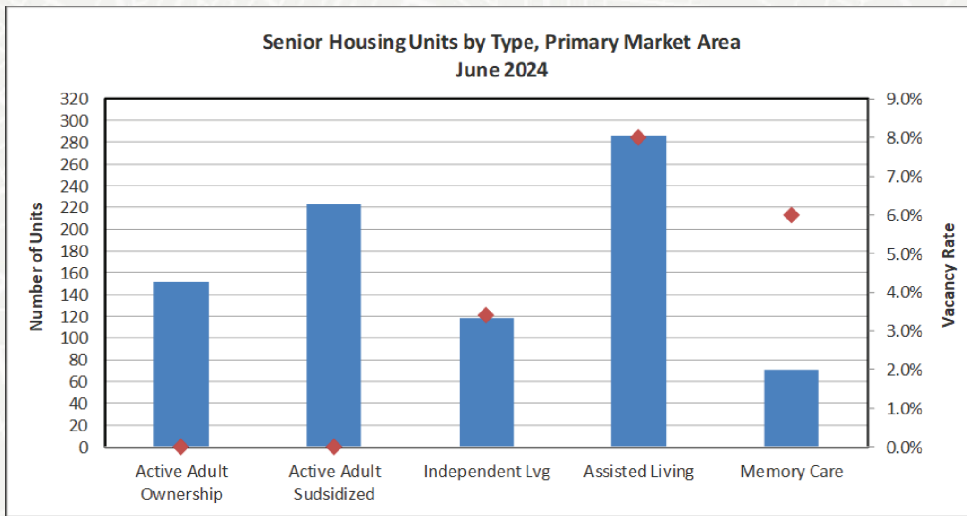
- Despite higher mortgage interest rates, multifamily remains the preferred asset class from developers, investors, & lenders
- Demand driven by strong demographics: Millennials & Baby Boomers (“barbell”)
- Renters by choice (“lifestyle renters”) driving market w/higher incomes
- Affordable rentals in very high demand as market rate pricing escalates
- Increased demand for units with more space, indoor and outdoor
- Lack of for-sale supply & higher mortgage rates has fueled renter demand, but construction of more affordable owned product would increase demand from buyers
- Low vacancies = pent-up demand
- Continued pressure to deliver new product @ prices the market will bear

Senior Housing Continuum



● SENIOR HOUSING PRODUCT TYPE

Senior Housing Inventory/Vacancy Rates



Northfield has a diverse supply of senior housing.

- 223 Aff/Sub Rental
- 152 Mkt Ownership
- 0 Active Adult Mkt Rental
- 119 Independent Living
- 286 Assisted Living
- 71 Memory Care

Vacancy rates for Assisted Living and Memory Care increased substantially during the Pandemic. Vacancy rates are decreasing but independent living and adult rentals have been in higher demand.



Wellstone Commons



Millstream Commons



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Demand Methodology

Demand Overview

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

Demand Driver Examples

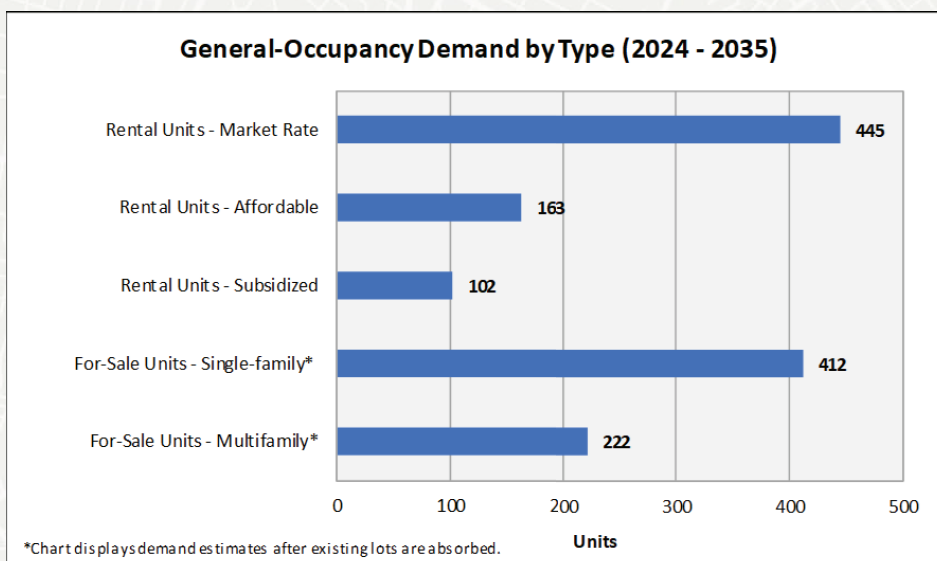
- Demographics
- Economy & Job Growth
- Consumer Choice | Preferences
- Turnover/Mobility
- Supply (i.e. Existing Hsg. Stock)
- Replacement need (i.e. functionally /physically obsolete)
- Financing

Demand Assumptions/Methodology

- Household growth adjusted for local factors (i.e. economy, building permits, etc.)
- Senior demand estimates apply capture and penetration rates and are presented as “Point in Time” vs. Cumulative

SF For-Sale Recommendations

- Recommend 3 to 5-year lot supply
- Currently there are 131 lots available, but price points for different types of housing may require alternate lot configurations
- Demand remains strong in the mid-price range, \$350k to \$500k, but affordable units are needed for first-time homebuyers.



Rental Housing Recommendations

- Demand for:
- 445 market rate
 - 163 affordable
 - 102 subsidized

We recommend a balance of rental product types for market rate units, although the focus recently has been for market rate development. We recommend a focus on affordable rentals and expanding the rental product types available in the short-term.



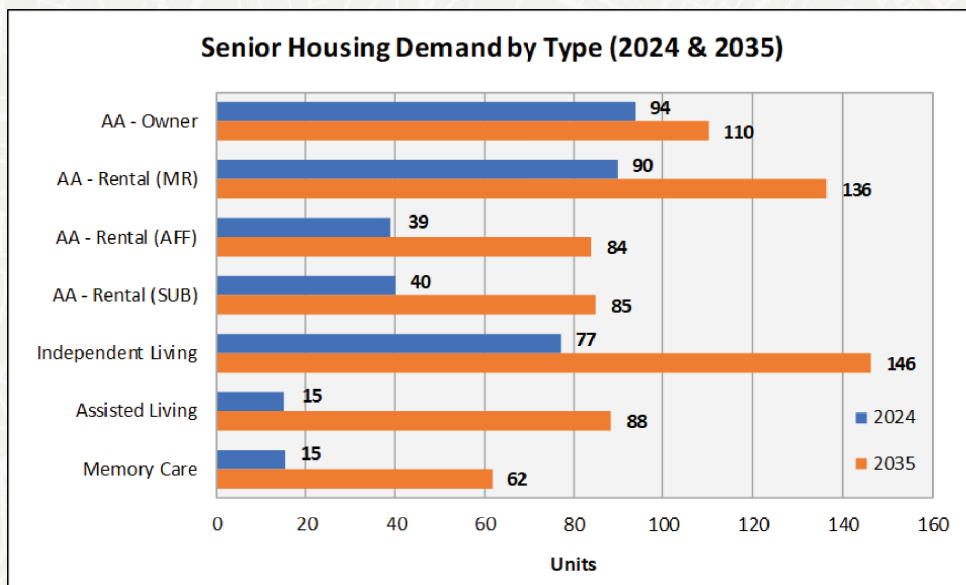
(Timberfield Apartments)



Spring Creek II TH's

Senior Housing Recommendations

- Demand for Senior Housing will continue to increase over the next 20 years (aging of baby boomers)
- Labor shortages continue to hamper AL and MC segments; Independent living concepts are trying to cover a higher proportion of aging in place

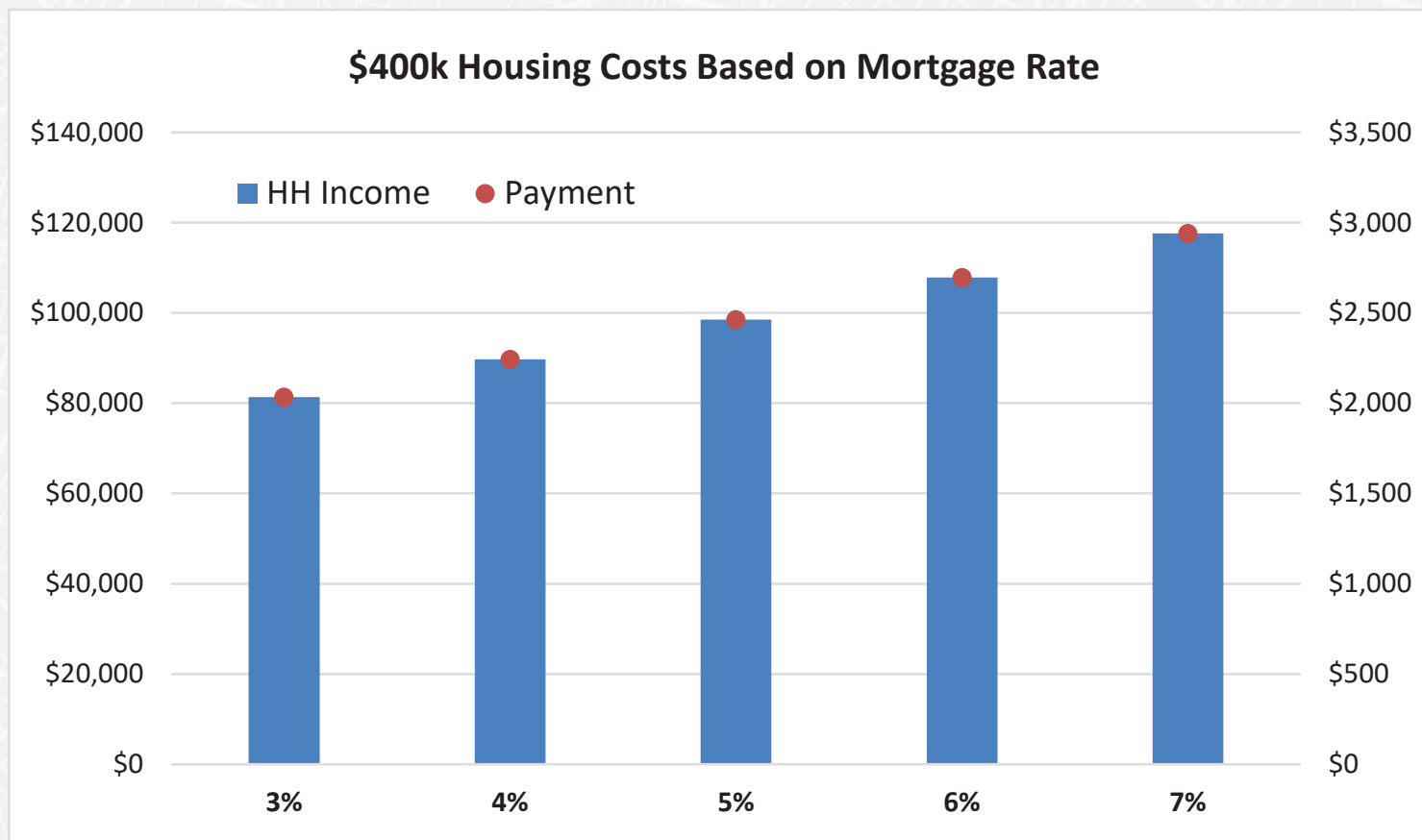


Cedar Creek Senior Living (East Bethel)



Select Senior Living (Coon Rapids)

Housing Costs (via rate hikes) +45% Over Past Year...



Note: Based on 10% down, 30-year fixed, good credit, HO insurance, property taxes, and PMI. Change between 3% and 7% mortgage rate.

Why is the entry-level & middle market missing?

- Zoning regulations
- Density requirements
- Design/material requirements
- Permit/impact fees
- Infrastructure costs
- Building code changes
- Labor and material costs remain high
- Land/acquisition costs increasing
- Financing challenges for smaller developers/builders
- Lenders have much tighter underwriting standards
- Economies of scale needed



Key Takeaways

- Population growth was limited from 2010 to 2020 (3.9%), household growth was higher proportionally suggesting that the overall population is aging.
- Age distribution indicates somewhat of a barbell effect with 65+ people and 25 to 44 people increasing in age
- Although growth age 65+ cohort will dominate ; what housing products are needed? Consider options other than traditional senior housing
- Renter households increased against owner households; trend is expected to continue unless more affordable housing options can be provided
- Northfield is a net importer of workers
- Northfield has a strong manufacturing sector which boosts wages
- Low rental vacancy rates | New rental construction| Pent-up demand | Some projects in the pipeline
- Demand for active adult and independent living senior housing
- For-sale market rising prices | lack of supply | sufficient lot supply | need more affordable product
- Housing production (innovation/creativity/not business as usual)



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mpany/maxfield-research-inc](http://www.linkedin.com/company/maxfield-research-inc)

MARY BUJOLD

Maxfield Research & Consulting LLC

612.904-7977

MBujold@MaxfieldResearch.com