WABASHA CITY COUNCIL
AND PORT AUTHORITY JOINT WORKSHOP

May 24, 2023
4:00 PM
Wabasha Public Library
https://us02web.zoom.us/j/82539841446

All matters listed under "Consent Agenda" are considered to be routine by the City Council and will be entered by one motion. Unless requested by a Council Member or citizen, there will be no separate discussion on these items. If discussion is required regarding an item, that item will be removed from the Consent Agenda and will be considered separately.

1. **Introduction**
    1. Introduction by Robin Gwaltney, WATCH Chair
2. **General Business**
    1. Presentation by Tom Leighton, STANTEC, on the Wabasha Housing Study
    2. Housing Study Discussion
    3. Concluding Remarks by Mayor Emily Durand
3. **Adjournment**

City Council Workshop **1. 1.**

Meeting Date: 05/24/2023

ITEM TITLE: Introduction by Robin Gwaltney, WATCH Chair

DEPARTMENT: Administration

PURPOSE:

ITEM SUMMARY:

City Council Workshop **2. 1.**

Meeting Date: 05/24/2023

ITEM TITLE: Presentation by Tom Leighton, STANTEC, on the Wabasha Housing Study

DEPARTMENT: Administration

PURPOSE:

ITEM SUMMARY:

Tom will present a presentation on data and research on the Wabasha Housing Market and strategies for addressing challenges identified in the study. Note cards will be provided to the public and the Council/Port to write down comments and questions that will be answered after the presentation.

Attachments

Wabasha Housing Study - Complete Draft, May 2023







Wabasha Housing Study

May, 2023

Stantec

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I. Introduction

The City of Wabasha is an attractive community in Wabasha County at the south end of Lake Pepin and midway between the cities of Redwing and Winona. Its greatest period of population growth was in the late 19th Century. By 1900 its population was around 2,500, which is similar to its current population.

Wabasha is a riverfront community with a walkable, pedestrian friendly main street. It is an employment hub and a medical and shopping destination for surrounding areas. It offers a mix of housing types but has seen only modest housing growth despite the fact that many of the workers in area businesses commute to Wabasha for work every day. Other needs include maintenance-free housing options for seniors, housing options that span the economic range from deeply affordable homes to starter homes to executive homes, and additional rental housing.

The Wabasha Housing Study was initiated in light of this general context to better understand Wabasha's housing inventory and market conditions, and to identify strategies for expanding housing options material that follows is organized in these sections.

- Demographics
- Housing Inventory
- Housing Development Market
- Estimating Housing Demand
- Housing Strategies

The first four sections of the report are the analytical elements of the study. Each section concludes with key findings and observations. They build a foundation for the fifth section of the report, which offers strategies for providing and preserving housing in Wabasha in ways that leverage opportunities and address community needs.

II. Demographics

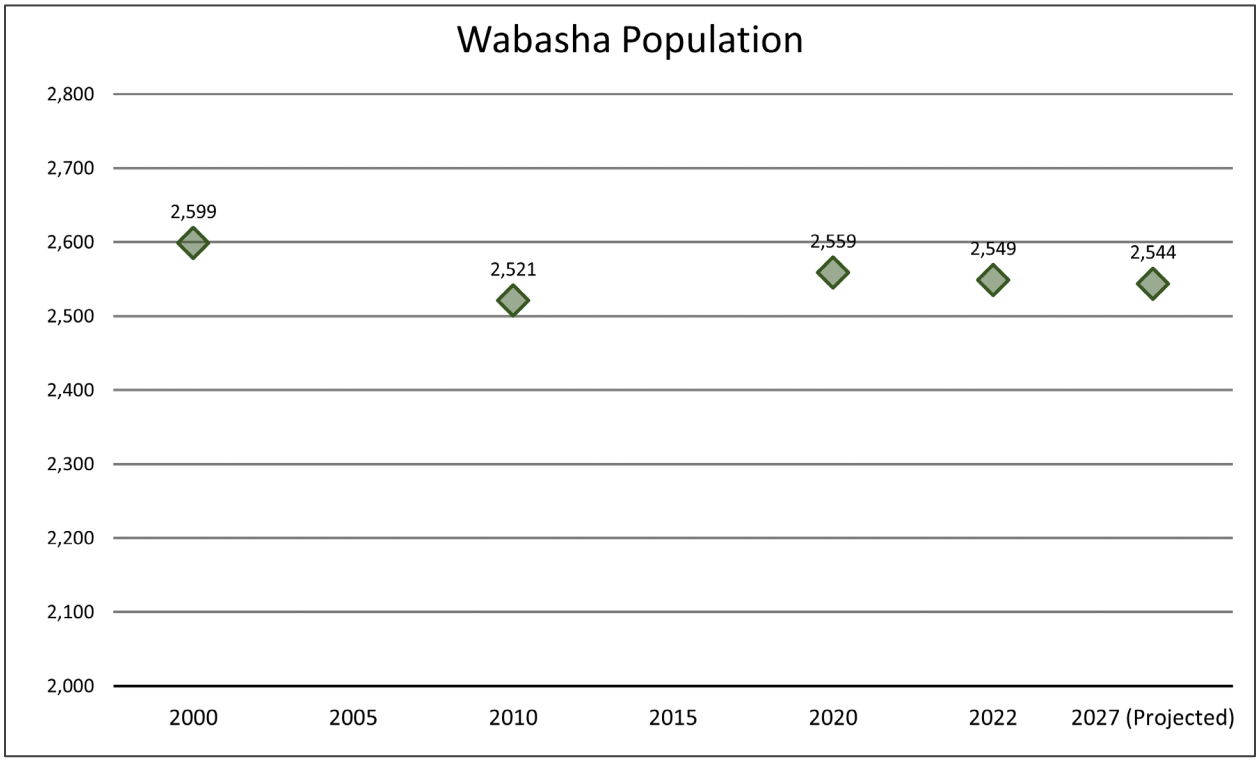
Understanding the demographics of Wabasha's population is important for understanding its needs and proposing effective housing strategies. These demographics are closely correlated with the types of housing that are common in the community—including a mix of single family homes, apartments and condominiums, and mobile homes.

Many of the charts in this section compare Wabasha's population with three nearby cities—Lake City, Plainview, and Zumbrota—as well as to the broader geographies of Wabasha County and the state of Minnesota.

Population Growth

Wabasha's population has held relatively constant over the last two decades, and ESRI's Business Analyst projects that pattern to continue in the near future.

Exhibit 1. Wabasha Population from 2000 to 2027, Including Estimated 2022 and Projected 2027



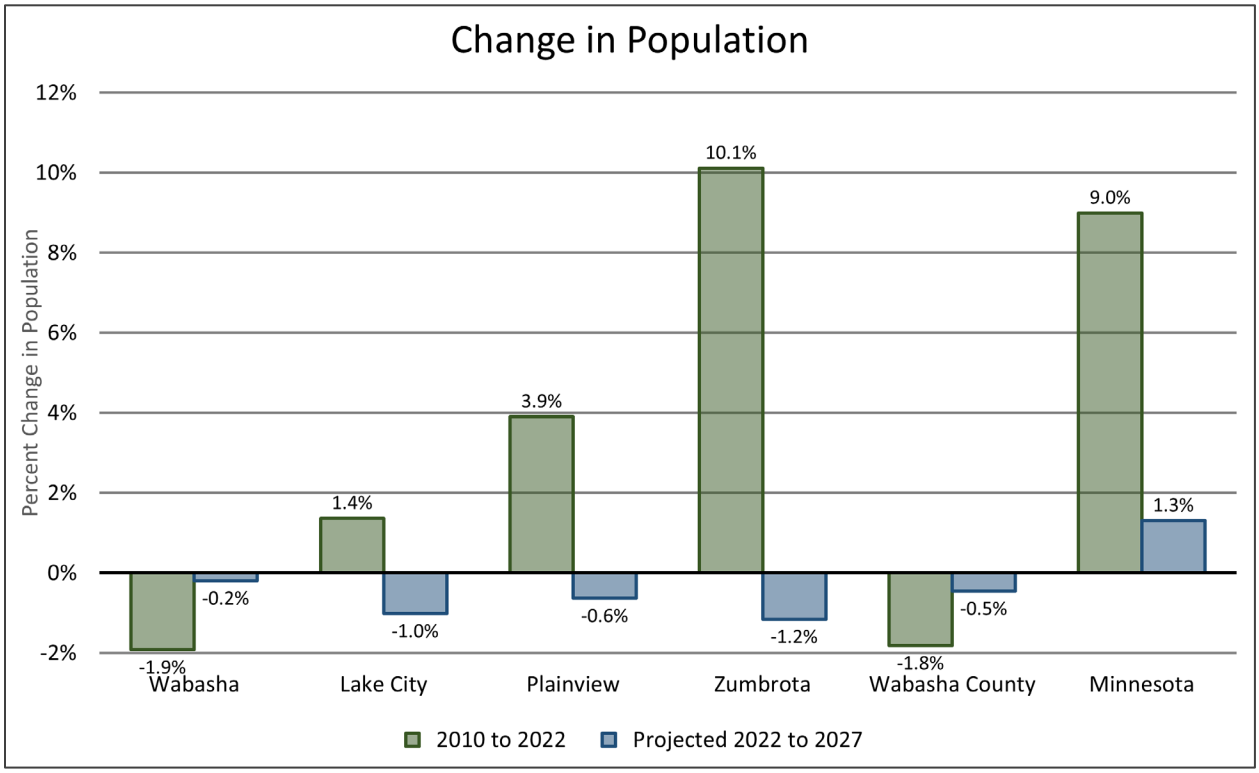
Source: US Census Bureau, ESRI Business Analyst

Of course, Wabasha's actual population trajectory can be influenced by strategies that increase the housing that is available.

Wabasha's growth in the past decade has lagged a bit in comparison to nearby Plainview and Zumbrota, but none of the comparison cities are projected to grow significantly over the next five years.

From 2010 to 2020 Wabasha's population grew at a similar rate to the comparison cities. (See Exhibit 2.) Like Wabasha, the growth rate of the comparison cities is forecasted to flatten out to some degree in the near future. Modest growth is also projected for the state of Minnesota overall.

Exhibit 2. Population Growth, Wabasha and Comparison Geographies, 2010 to Projected 2027

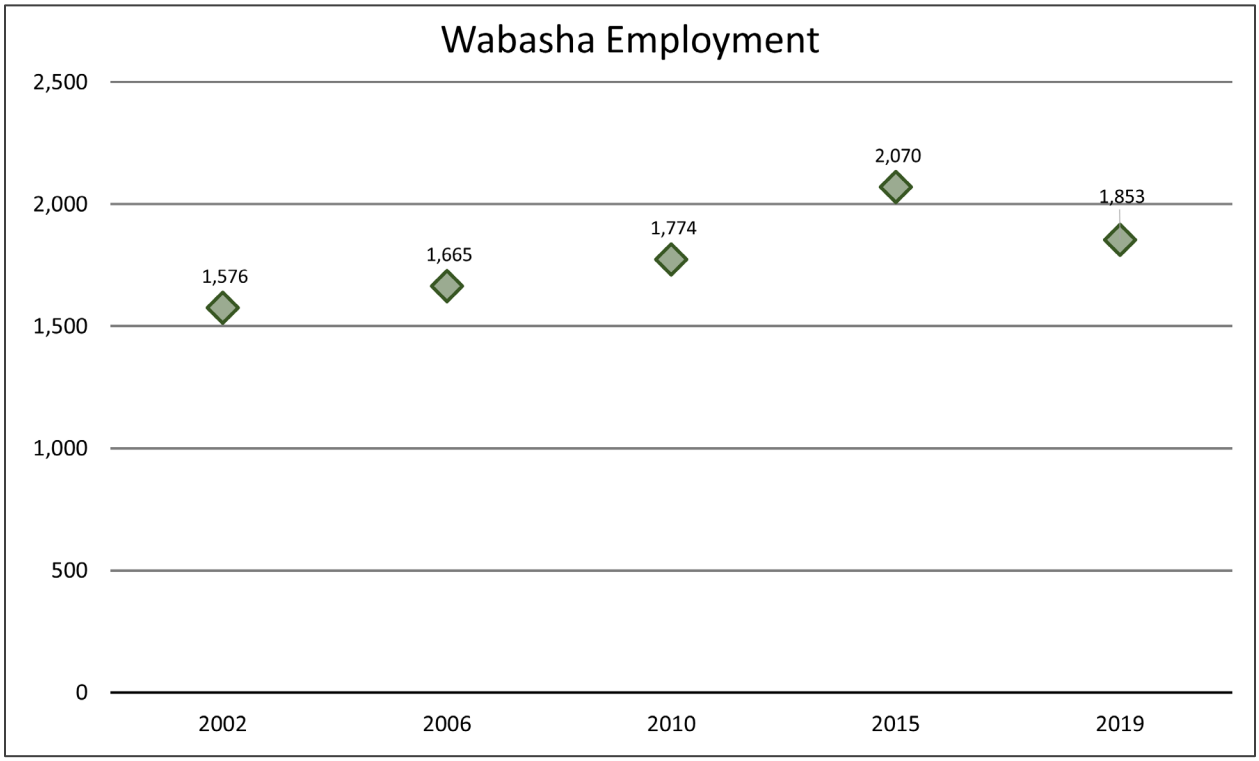


Source: US Census Bureau, ESRI Business Analyst

Employment

Employment growth can be a driver of housing demand. Wabasha is a jobs-rich community within Wabasha County. There are almost three jobs in Wabasha for every 4 persons living in Wabasha. Its employment has increased by around 17% between 2002 and 2019.

Exhibit 3. Total Employment in Wabasha, 2002 to 2019



Source: OnTheMap, US Census Bureau

Exhibit 4 shows that almost twice as many workers commute into Wabasha for work than there are Wabasha residents who leave Wabasha for work. Around 44% of all of the jobs in Wabasha County are located in the City of Wabasha.

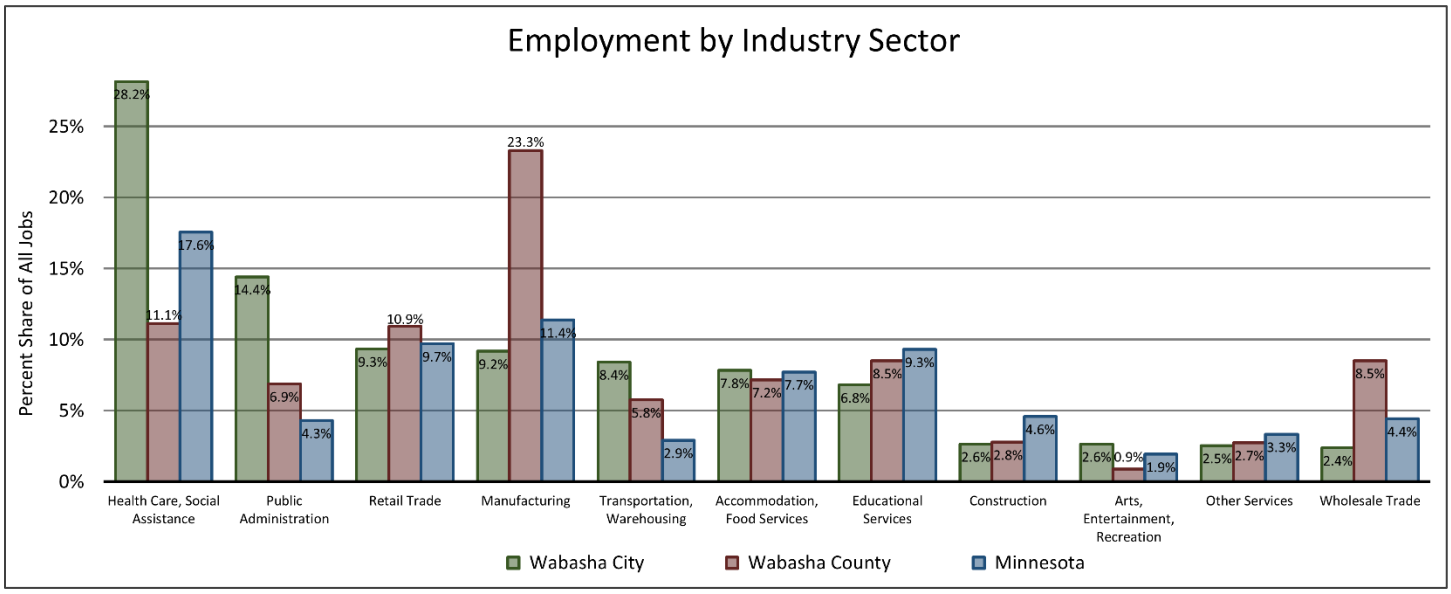
Exhibit 4. Employment Inflow and Outflow, City of Wabasha and Wabasha County, 2019



Source: OnTheMap, US Census Bureau

Wabasha's job base is anchored by the health care and public administration sectors, as can be observed in Exhibit 5. Manufacturing is the leading employment sector in Wabasha County as a whole.

Exhibit 5. Top Ten Industry Sectors, by Share of All Jobs, 2019

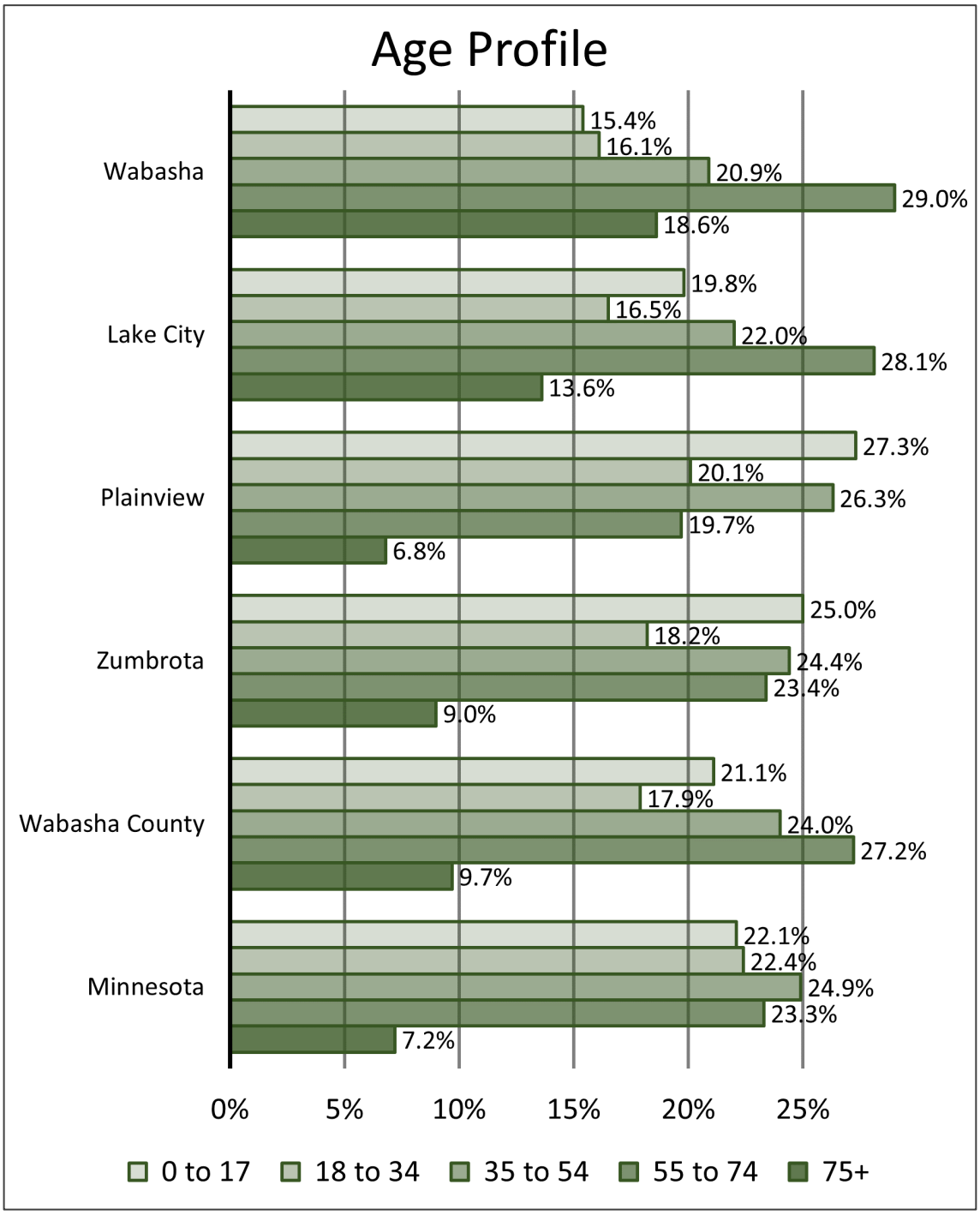


Source: OnTheMap, US Census Bureau

Age

Wabasha's age profile skews older than average for Minnesota cities. Nearly half the population is 55 years old or older. It has correspondingly fewer children and young adults.

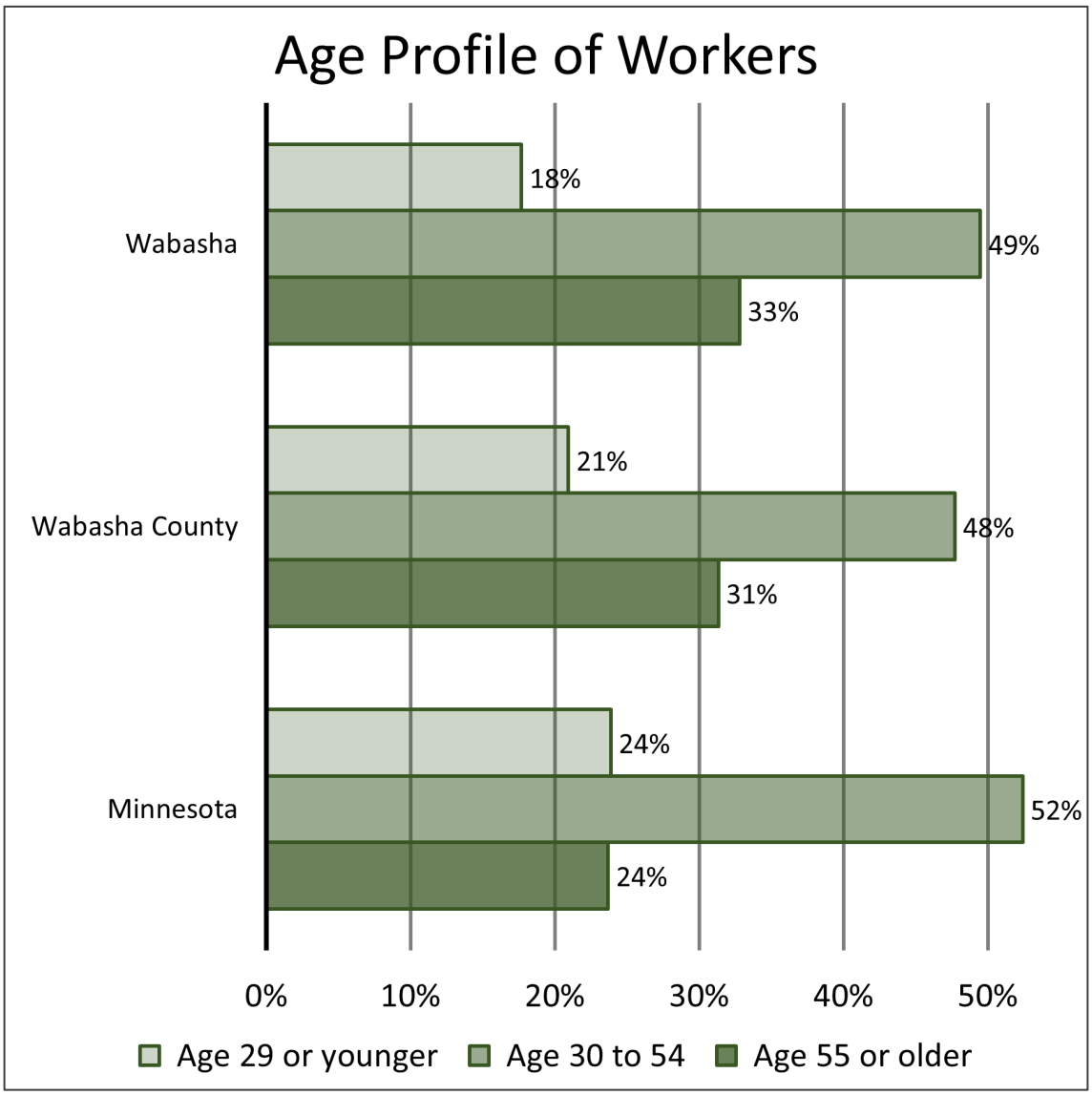
Exhibit 6. Age Profile, Wabasha and Comparison Geographies



Source: ESRI Business Analyst, based on U.S. Census Bureau, 2016-2020 American Community Survey

Note that the age profile of those who work in Wabasha is fairly similar to that of Wabasha County as a whole. (See Exhibit 4.) That suggests that building housing that is attractive to Wabasha's workforce would bring in a younger, more family oriented demographic, making the City's demographic profile more similar to that of other cities in the area, and the State of Minnesota as a whole.

Exhibit 7. Age Profile of Workers, Wabasha and Comparison Geographies

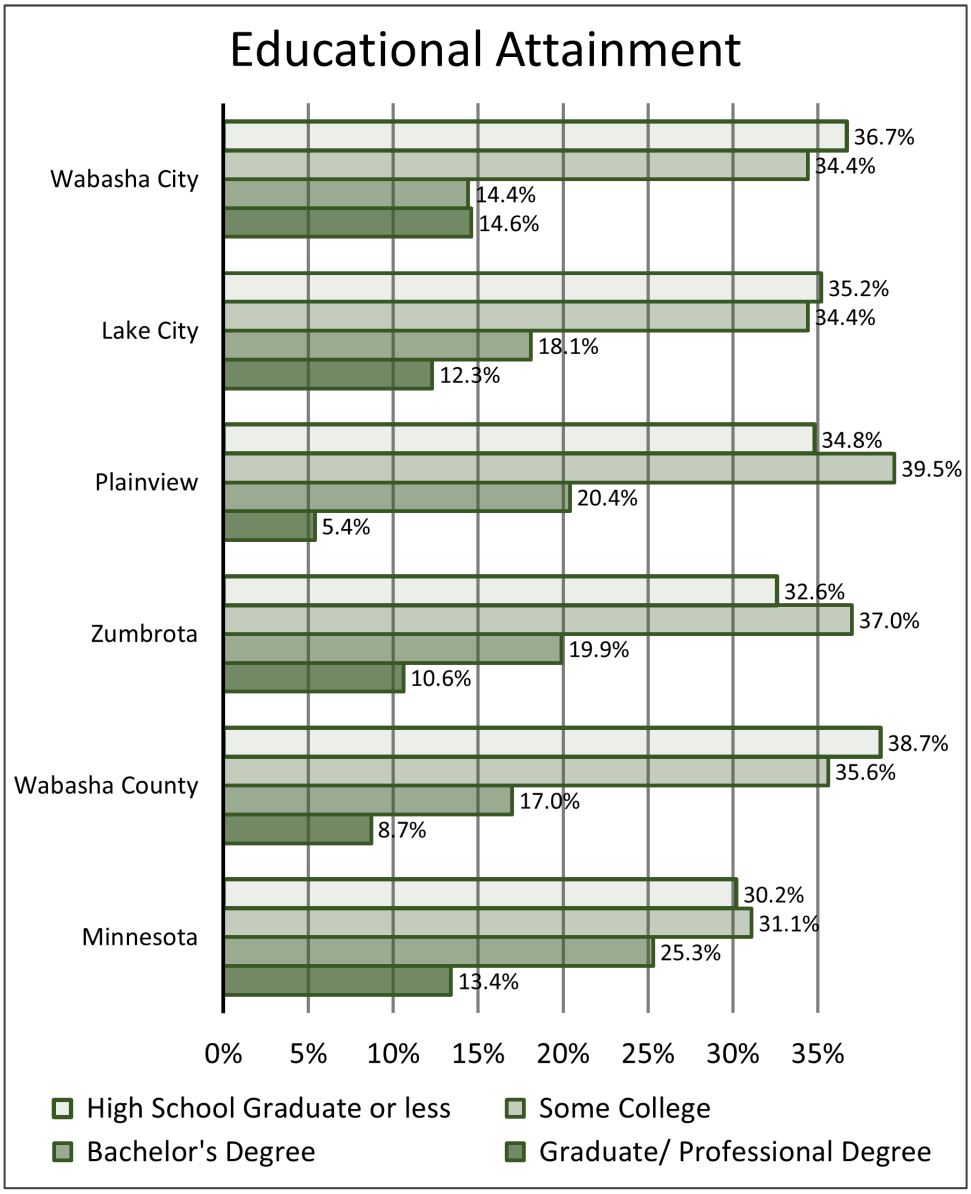


Source: OnTheMap, US Census Bureau

Educational Attainment

More Wabasha residents than average have advanced degrees, likely due to the City's health care employment. The City also has higher than average numbers of people who have not pursued additional education beyond high school.

Exhibit 8. Educational Attainment, Wabasha and Comparison Geographies

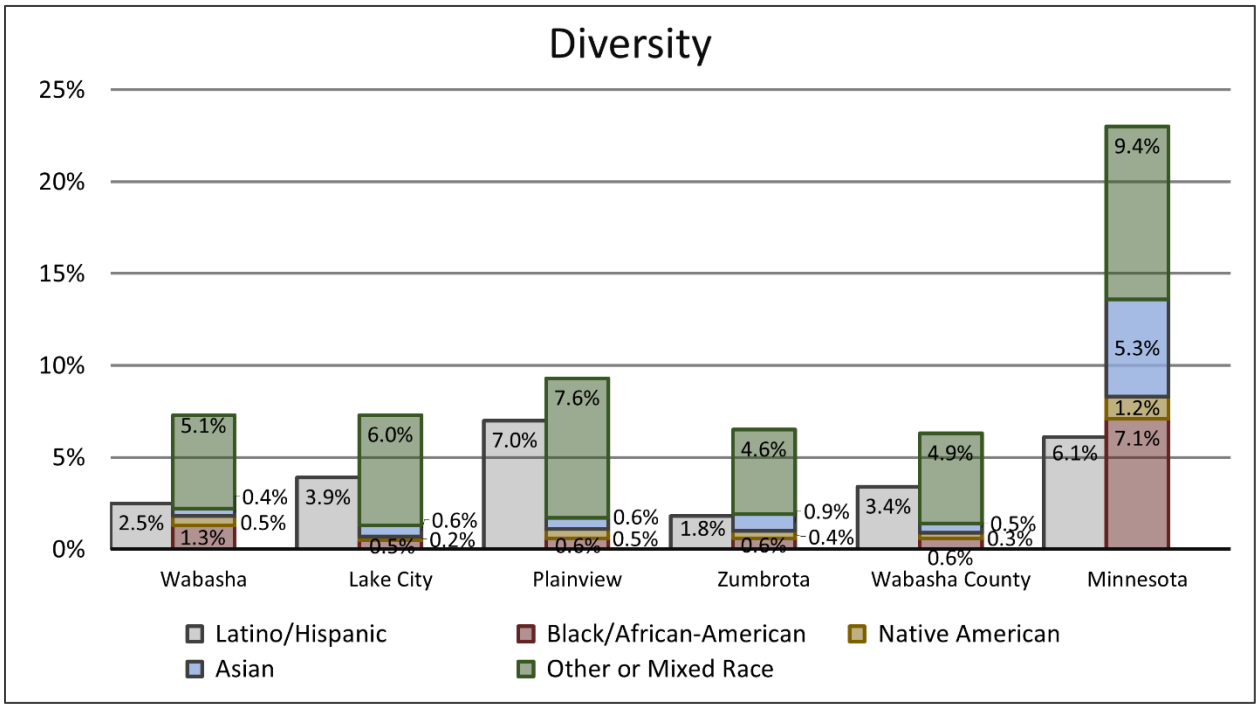


Source: ESRI Business Analyst, based on U.S. Census Bureau, 2016-2020 American Community Survey

Race and Hispanic Origin

Wabasha is quite similar to other nearby cities with respect to diversity. It has relatively low numbers of non-white residents, and low numbers of Latinos as well.

Exhibit 9. Nonwhite and Hispanic/Latino Share of Population
Wabasha and Comparison Geographies

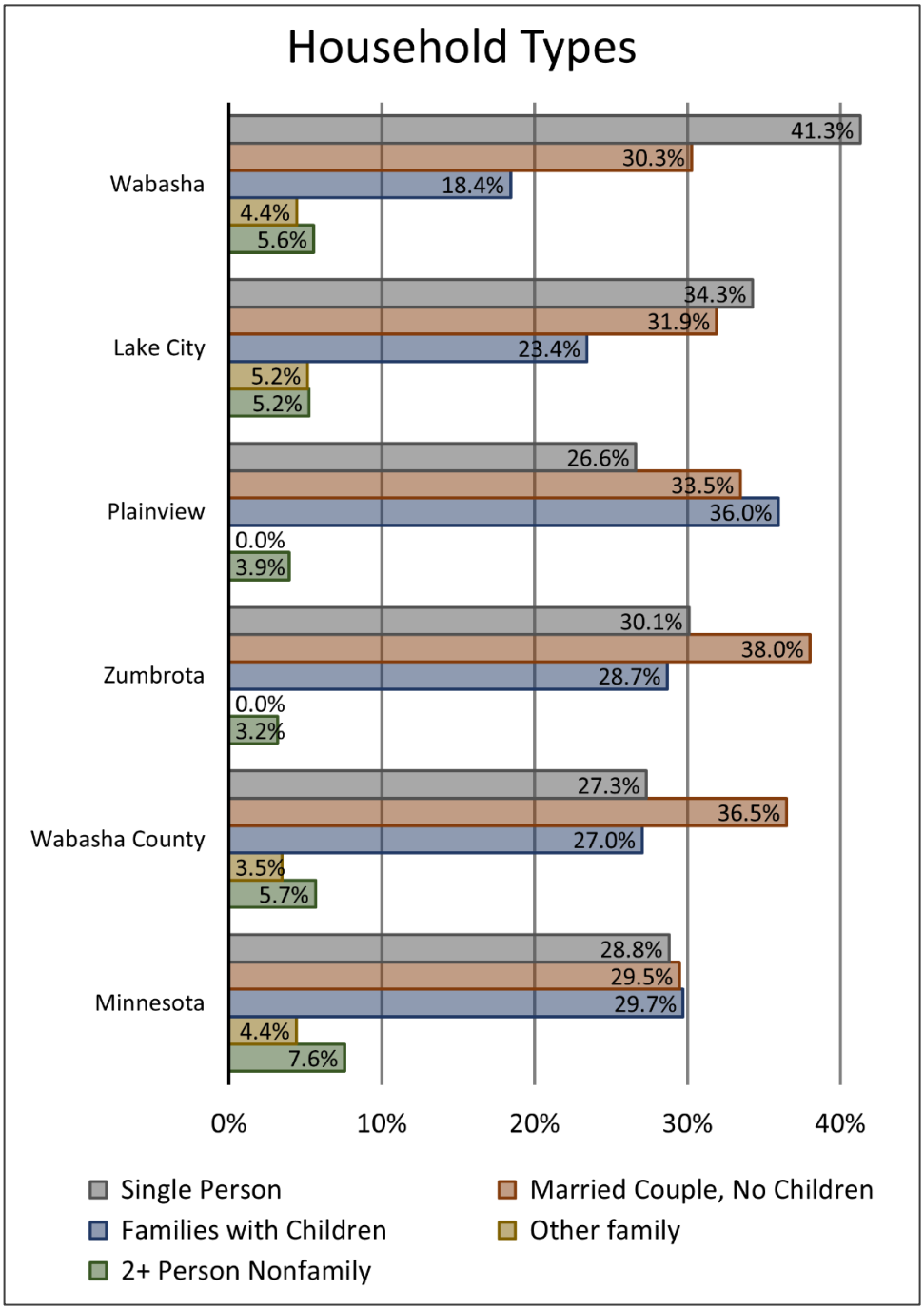


Source: ESRI Business Analyst, based on U.S. Census Bureau, 2016-2020 American Community Survey

Household Types

Wabasha has a higher than average proportion of single person households, and lower than average proportion of families with children. These observations are consistent with its older than average age profile.

Exhibit 10. Household Types, Wabasha and Comparison Geographies

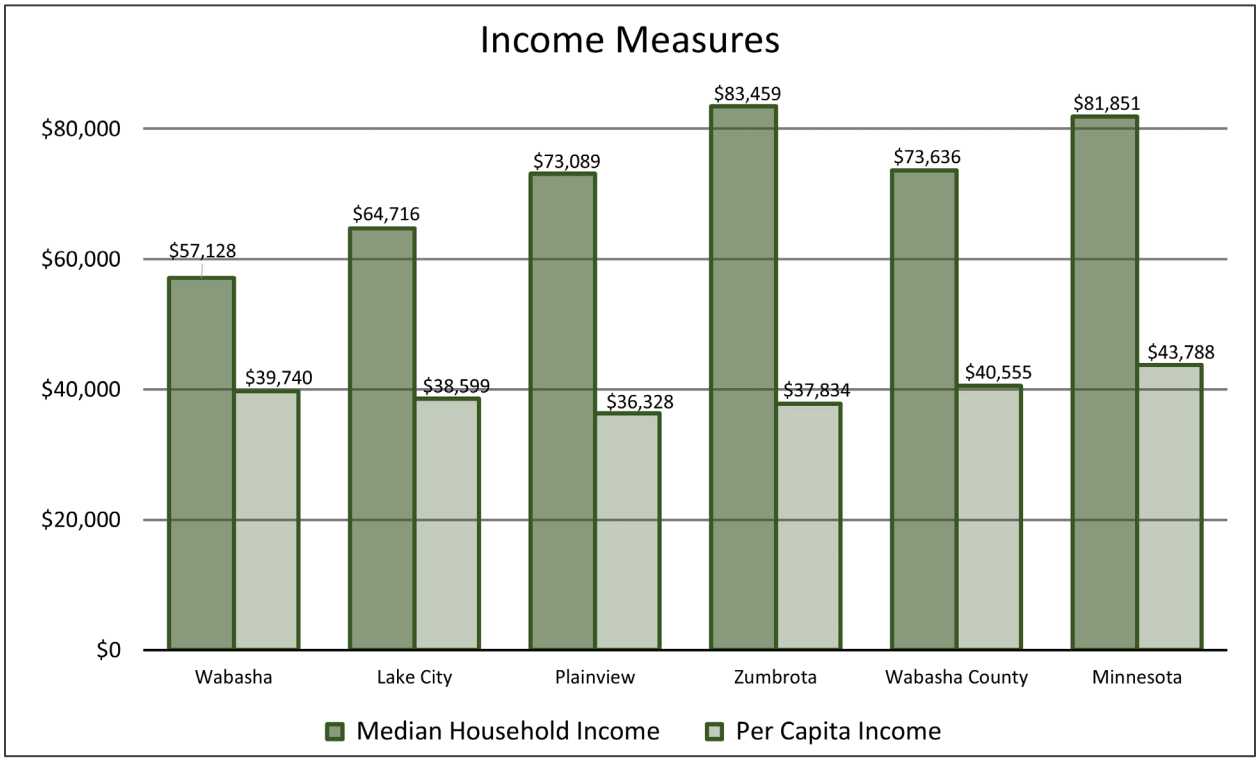


Source: ESRI Business Analyst, based on U.S. Census Bureau, 2016-2020 American Community Survey

Household Income

Household income levels in Wabasha are lower than the comparison geographies, although per capita incomes are similar. This observation aligns with the prevalence of smaller households in Wabasha.

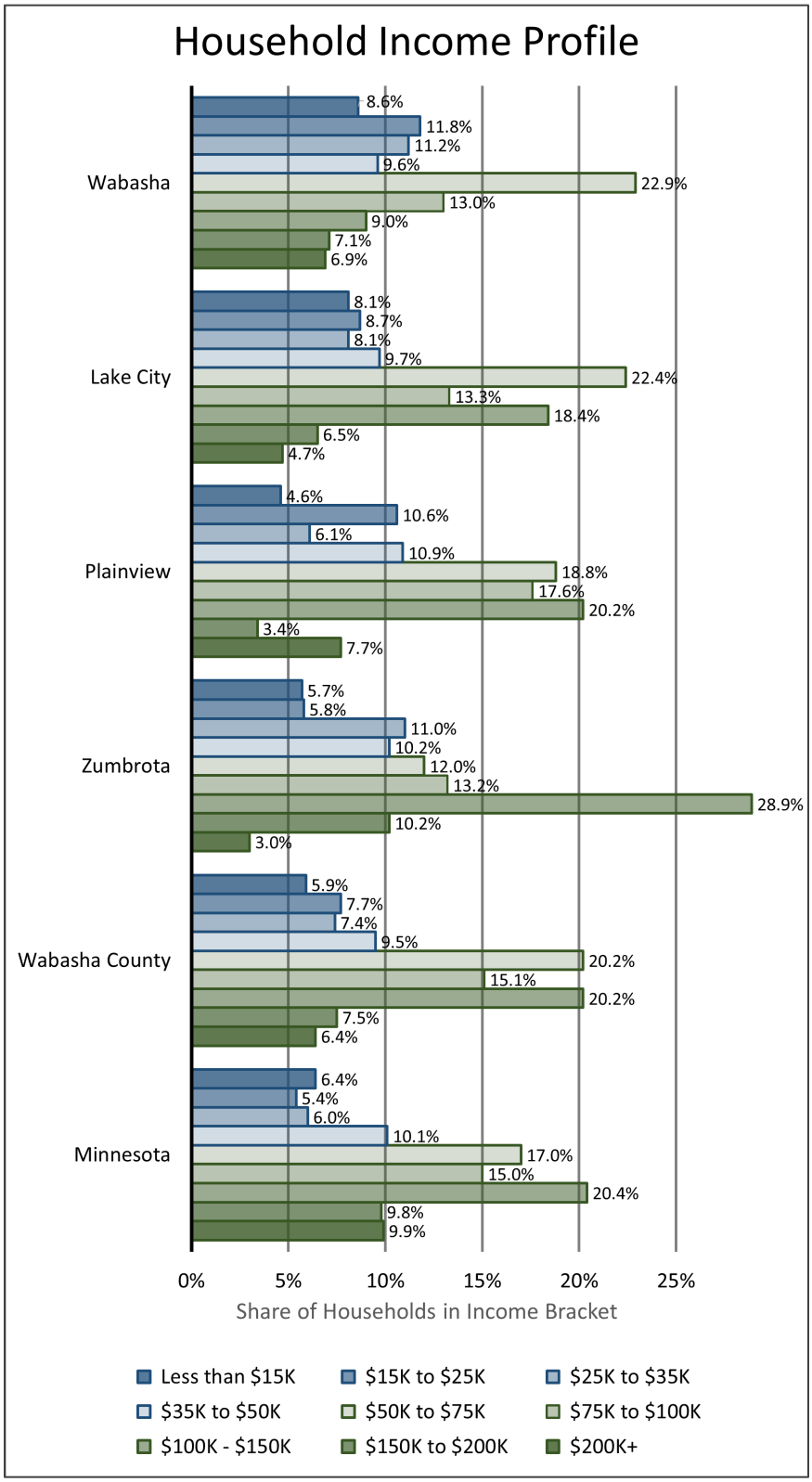
Exhibit 11. Household and Per Capita Income, Wabasha and Comparison Geographies



Source: ESRI Business Analyst, based on U.S. Census Bureau, 2016-2020 American Community Survey

Exhibit 12 provides a more detailed view of household incomes in Wabasha and comparison cities. Compared to the other geographies, a greater share of Wabasha's households are in the lowest income brackets. Over 30% of Wabasha's households earn under $35,000 per year.

Exhibit 12. Household and Per Capita Income, Wabasha and Comparison Geographies



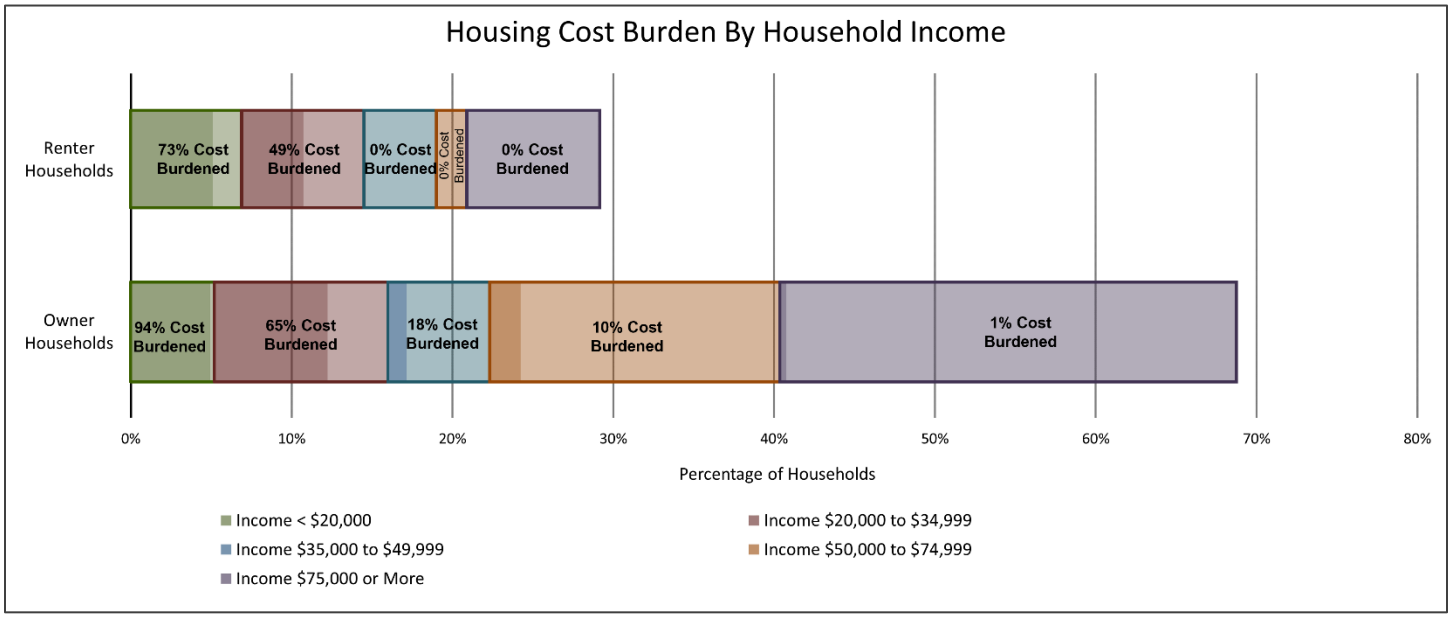
Source: ESRI Business Analyst, based on U.S. Census Bureau, 2016-2020 American Community Survey

Housing Cost Burden

"Housing cost burden"relates to the share of household income that is spent on housing costs. Households are considered to be housing cost burdened if their housing expenses require more than 30% of their household income. Housing cost burdens are a concern because housing is a priority expense, and all other household expenses need to be paid for with the resources that remain after housing related expenses are paid.

Exhibit 13 is a graphic that provides information about all owner and rental households in Wabasha at different levels of household income. Within each income bracket the label in the chart shows the proportion of those households that are housing cost burdened. It's clear from the chart that many Wabasha households are housing cost burdened—that is, they pay more than 30% of their income on housing costs—particularly among households who earn $35,000 in annual income or less. On the other hand, even in the lowest income categories, there are households that are not housing cost burdened. And most households who earn greater than $35,000 per year are not housing cost burdened.

Exhibit 13. Percentage of Wabasha Households that are Housing Cost Burdened, by Rental vs Ownership, and Household Income Category



Source: U.S. Census Bureau, 2016-2020 American Community Survey

Demographics – Key Findings

Wabasha's population has been fairly stable in recent years, and is forecasted to remain stable. Employment in Wabasha has been growing and there are currently more jobs in Wabasha than working age residents. That makes Wabasha's economy and business employment a potential driver of housing growth. And those who work in Wabasha are a target market for existing and new housing.

From a demographic perspective, Wabasha has the following characteristics.

- **Wabasha has an older population.** About 47% of its population is 55 and up. Only around 15% are children.
- **Wabasha has lots of small households.** Around 41% of households are single person households, and another 30% are married couples without children.
- **Wabasha's population has mixed educational achievements.** Wabasha has more than its share of people with advanced degrees, and more than the usual share of people who didn't pursue additional education beyond high school.
- **Wabasha is not very diverse.** Only around 7% consider themselves non-White, and 2.5 % Latino or Hispanic.
- **Household incomes are lower than average.** The median household income in Wabasha is about $57,000 per year in the most recent census reporting. Over 30% of households earn less than $35,000 per year.
- **Wabasha has its share of cost burdened households.** Most households earning less than $35,000 per year are housing cost burdened.

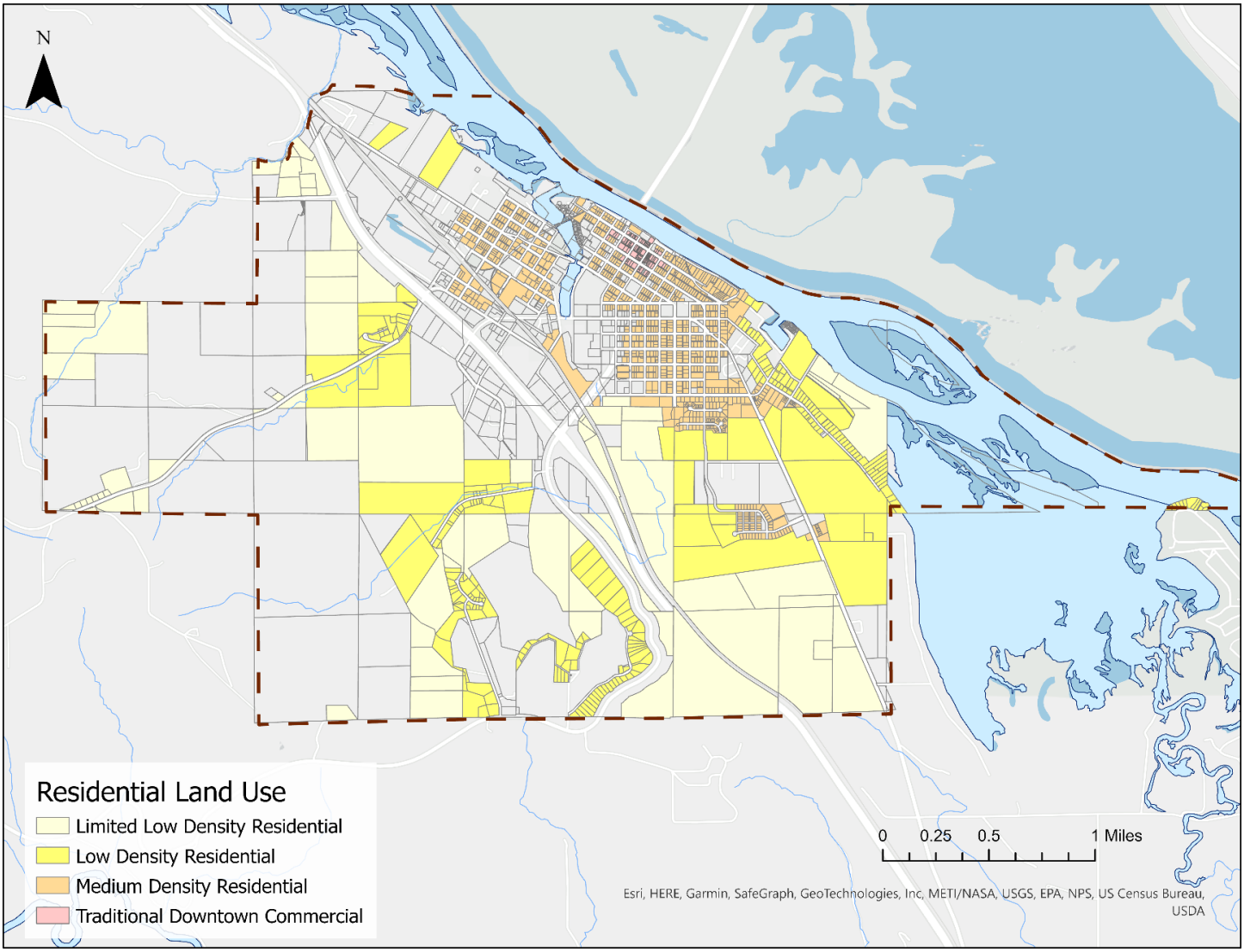
An opportunity that stands out in this analysis is fostering the production of housing that is attractive to those who work in Wabasha but don't live in the City. By doing that, Wabasha's community would on the average become younger, both because of the ages of the workers themselves and the addition of more families with children. Average household sizes and average income would also increase.

III. Housing Inventory

Housing Types

The exhibit below is a parcel-based map of Wabasha's housing stock, based on City Assessor records. Single family homes are the predominant residential development type in the Limited Low Density, Low Density, and Medium Density residential districts.

Exhibit 14. Wabasha Residential Properties

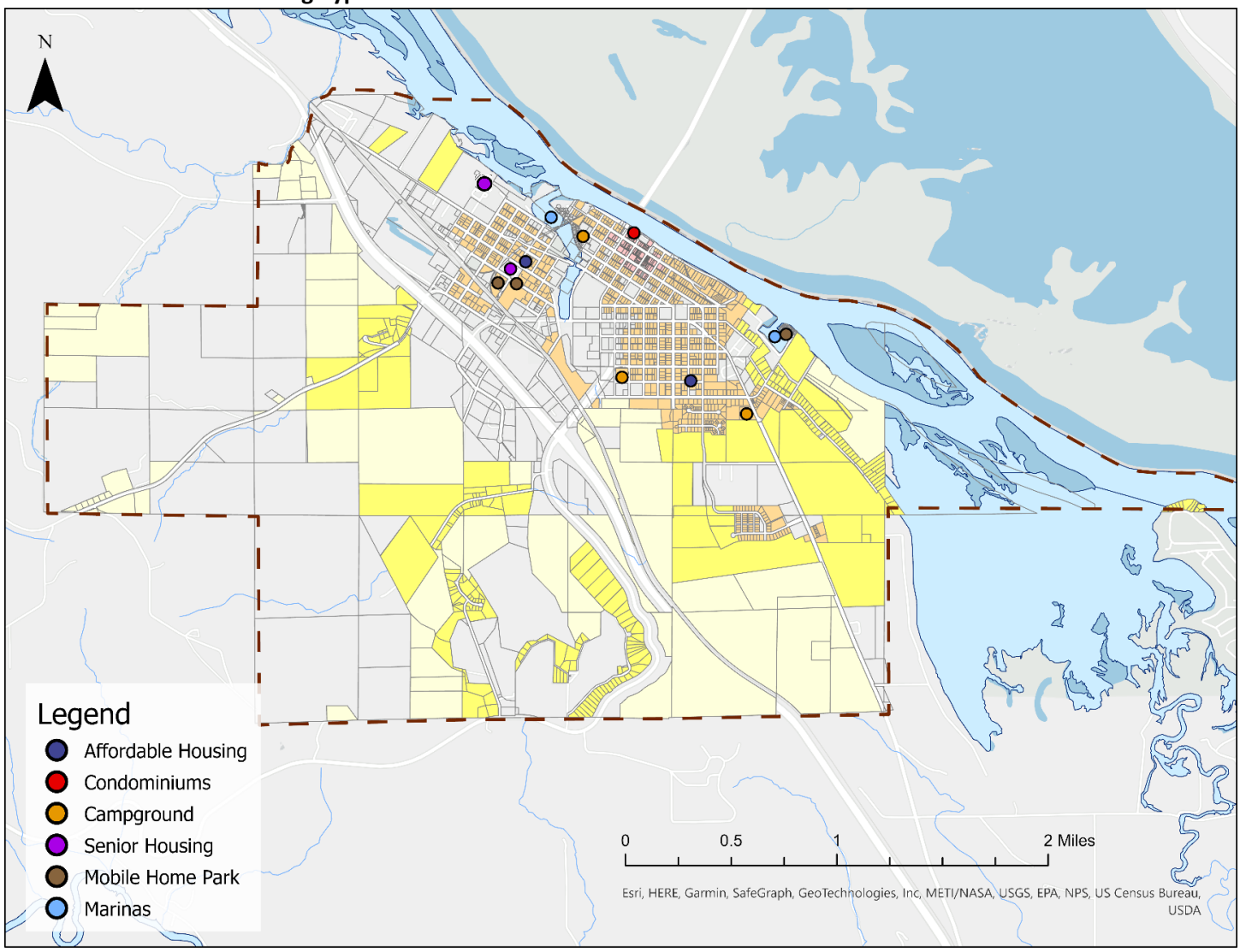


Source: Wabasha City Assessor Records

In addition to single familiy homes a range of other housing types are available in Wabasha. These include apartments, condominiums, townhomes, and mobile home parks.

Wabasha is unusual in that there are people who make their primary residences in Wabasha's campgrounds and marinas during the warm months of the year. Exhibit 15 show the location of these housing types.

Exhibit 15. Wabasha Housing Types

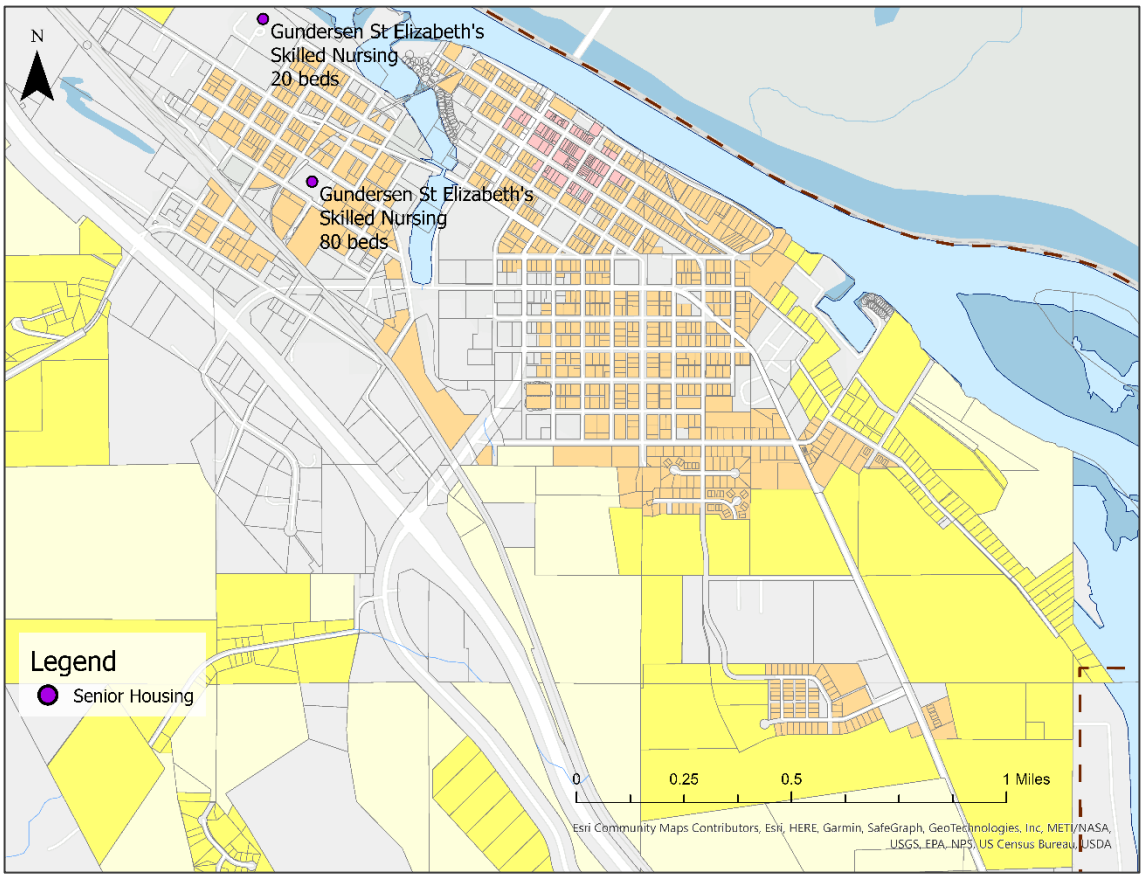


Source: City of Wabasha, Stantec

Senior Housing

Wabasha currently has 100 skilled nursing beds in two facilities—Gundersen St. Elizabeth's Care Center on Shields (80 beds) and Gundersen St. Elizabeth's Care Center on Grant (20 beds). Gundersen St. Elizabeth is evaluating a long range strategy to consolidate to one skilled nursing facility on the hospital campus.

Exhibit 16. Age-Restricted Senior Housing Developments



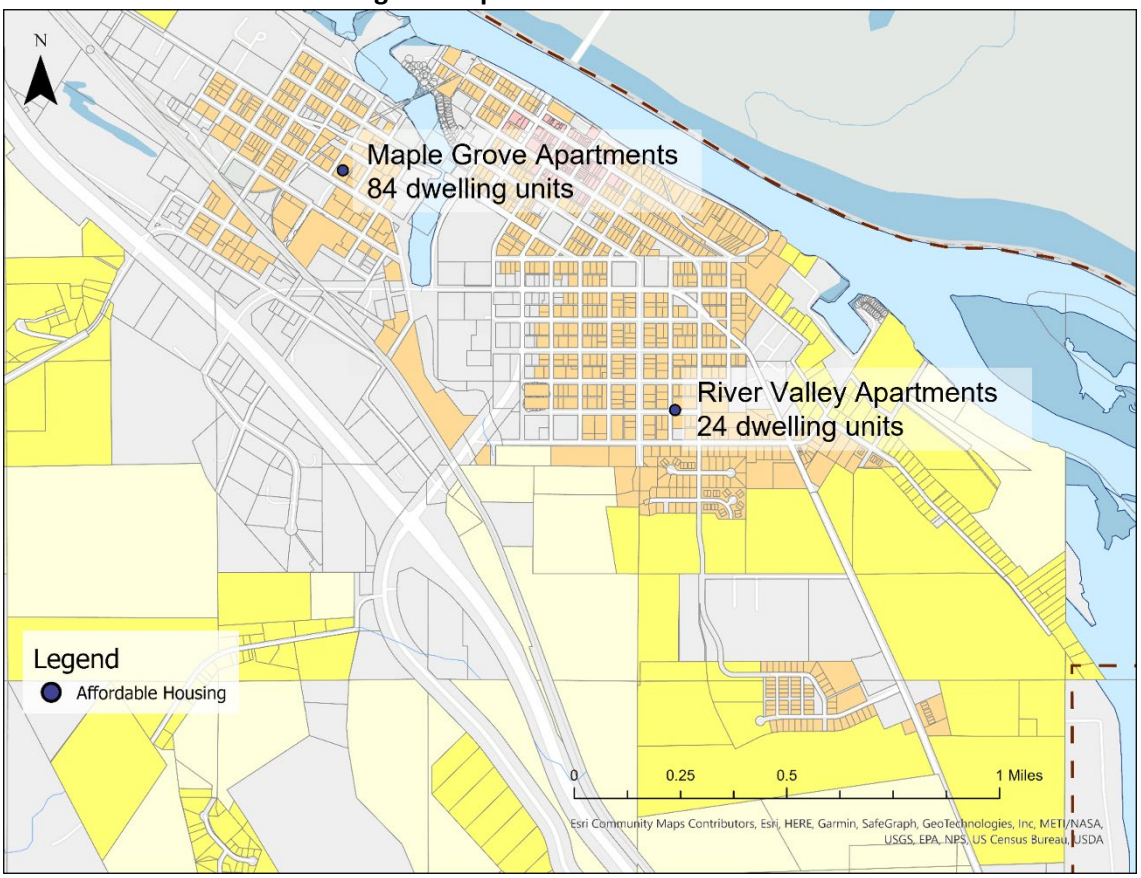
Source: City of Wabasha, Stantec

Gundersen St. Elizabeth also offers thirty-six assisted living aparments.

Affordable Housing

Two rent and income restricted affordable apartment buildings are present in Wabasha, both owned and managed by Southeastern Minnesota Multi-County Housing and Redevelopment Authority (SEMMCHRA). They are located in the Exhibit 17 map.

Exhibit 17. Affordable Housing Developments



Source: City of Wabasha, Stantec

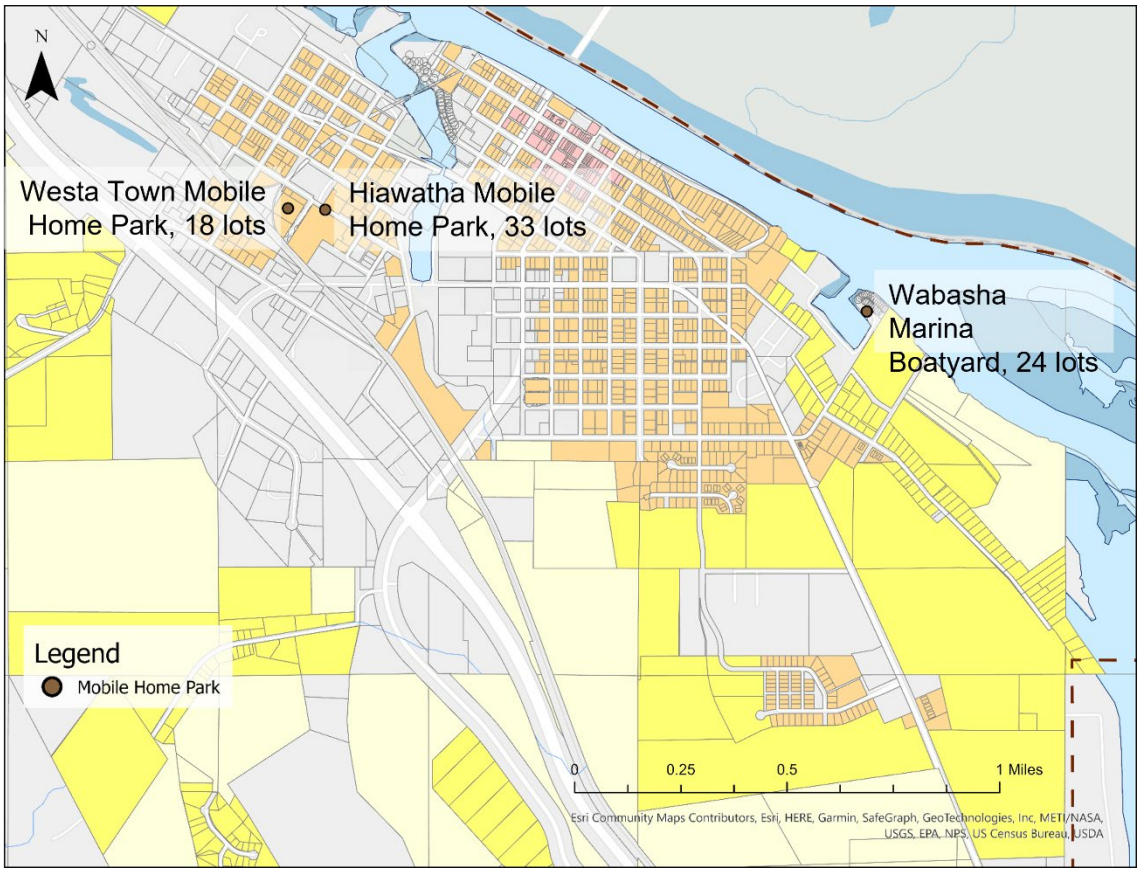
These apartments are affordable options for individuals and households who qualify. Tenant rents are based on the income of the tenant.

Naturally occurring affordable housing. Although not rent restricted by any regulatory mechanism, other market rate apartments in Wabasha offer affordable rental rates. They are considered naturally occurring affordable housing (NOAH) because they are affordable just by their nature of being older, more modest rental housing stock. Some of the single family homes in Wabasha are also rented at affordable rates.

Mobile homes parks. Mobile home parks provide an affordable home ownership opportunity. The owner of a manufactured home situates their manufactured home on a lot in the mobile home park, and pays rent to the mobile home park owner for the right to occupy the lot and connect to the utilities.

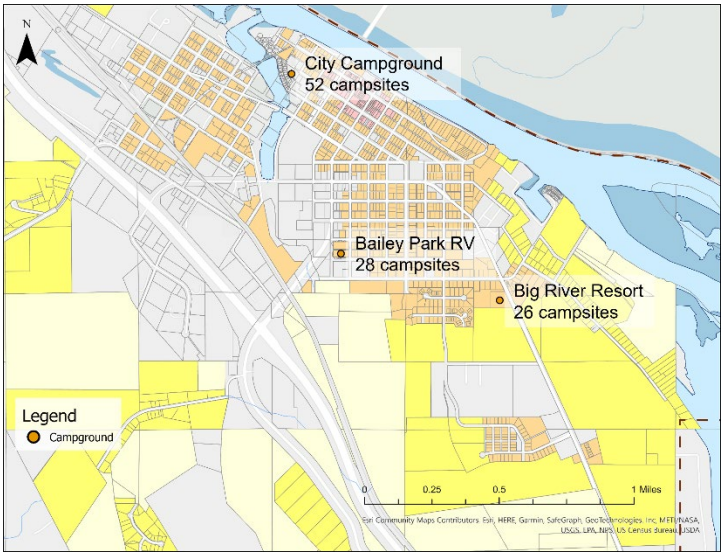
There are three existing mobile home parks in Wabasha, as illustrated in Exhibit 18. In recent years, many mobile home parks have been subject to dramatic increases in rent, sometimes after a change in ownership, causing hardship to residents.

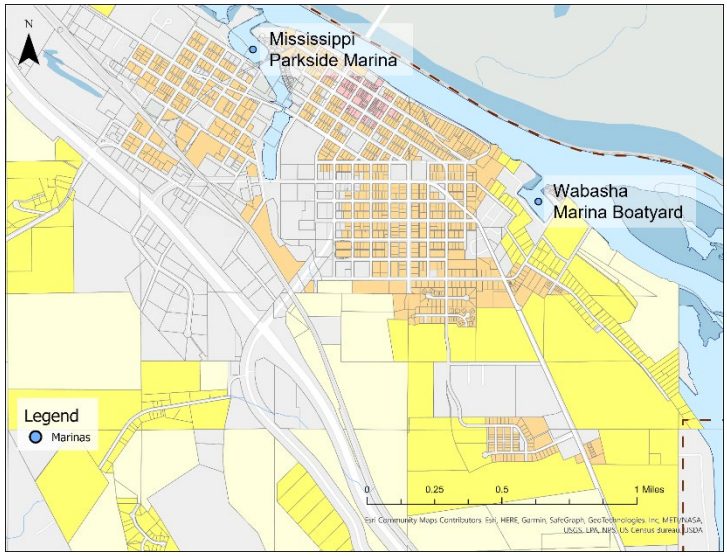
Exhibit 18. Mobile Home Parks



Source: City of Wabasha, Stantec

Exhibit 19 & 20. Campgrounds & Marinas





Source: City of Wabasha, Stantec

Campgrounds and marinas. Wabasha is unique in having quite a few campgrounds and marinas within its city limits. These are settings that provide camping and river recreation for

individuals and families who return to a traditional home after they visit. In other instances though, people have simplified their living quarters to a camper, RV or boat, and may reside in campgrounds and marinas full-time. In those instances these facilities can be thought of as representing another setting for affordable living.

One of the City's three campgrounds is owned by the City of Wabasha.

Housing Inventory – Key Findings

Wabasha has a diverse housing inventory encompassing apartment complexes, condominiums, townhomes, single family homes, and manufactured homes.

People are living affordably in the two SEMMCHRA owned apartment buildings. Older homes and apartmens in Wabasha offer naturally occurring affordable housing in both rental and ownership formats. And some are living affordably in the mobile home parks, and in some cases in campers, RVs and boats.

Gundersen St. Elizabeth operates a skilled nursing facility for seniors, but other senior specific options are absent.

This is a wide set of existing housing options in some respects, which undoubtedly meets the needs of many in the community. However, some housing formats that would meet important needs are missing, particularly in new development.

Housing formats that seem to be undersupplied include:

- Independent and assisted living senior apartments
- Senior supportive one-level homes and townhomes
- New construction market rate apartments
- New construction rent-restricted apartments
- New construction missing middle housing formats such as townhomes, twinhomes, and small apartment buildings

IV. Housing Development Market

Locational Context

Wabasha is a distinctive community with its Mississippi riverfront setting and well preserved walkable downtown storefront district. It provides the only Mississippi River crossing for 30 miles in either direction. It hosts the National Eagle Center. It is a health care and shopping destination for surrounding Wabasha County communities, and a place of employment for workers. These locational characteristics are durable and will anchor its value for residents and the developer community into the future.

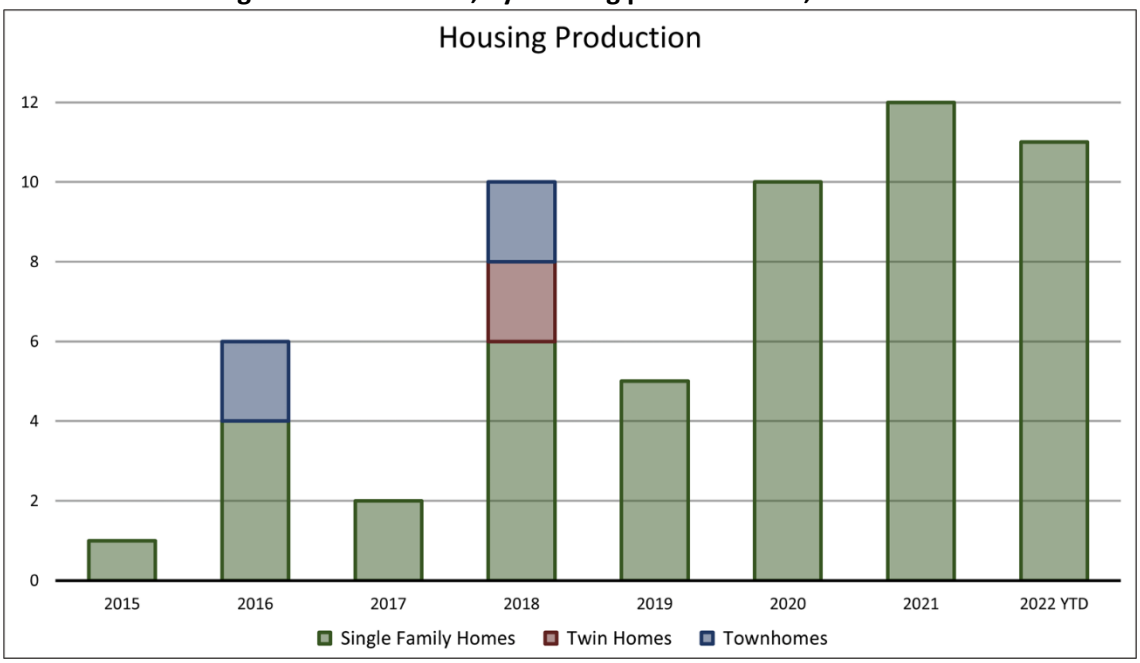
Exhibit 21. Market Context Map



Housing Development Trends

The most direct indicator of demand for new housing development under existing market conditions is the development that has been occurring. As illustrated in Exhibit X, the new housing development that has occurred in Wabasha since 2015 has been primarily in the form of single family homes. The pace of home building is modest but increasing over the period.

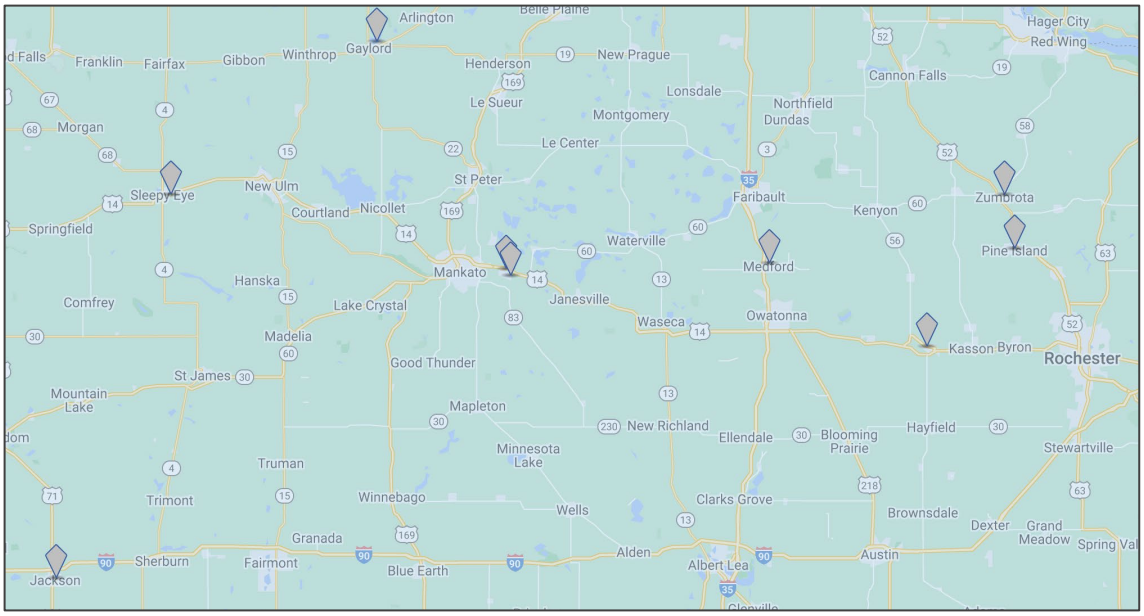
Exhibit 22. Housing Units in Wabasha, by building permits issued, 2015 to 2022



Source: City of Wabasha

No new apartment buildings have been built in the last decade, but apartment development is occurring on a limited basis in locations similar to Wabasha. Exhibit X is a map of apartment development since 2010 in smaller greater Minnesota communities similar to Wabasha. Table X provides some additional details about those developments.

Exhibit 23. Multifamily Housing Development Since 2010



Source: Costar

Table 1. Multifamily Housing Development Since 2010

Property Name	Address	City	Market Segment	Rent Type	Year Built	Units	Stories
Ashley Estates	314 1st St	Jackson	All	Market	2010	24	3
Medford Senior Care	108 3rd St NE	Medford	Senior	Market	2013	50	1
Autumn Wind Townhomes	100 Maple Ln	Eagle Lake	All	Market	2014	90	2
Linda Path	Parkway Ave	Eagle Lake	All	Market	2015	24	2
301 Apartments	301 S Main St	Pine Island	All	Market	2019	36	3
Wolverine Meadows	630 Harvey Dr	Gaylord	All	Market	2020	38	3
Town Center Apartments	300 West Ave	Zumbrota	All	Market	2022	57	4
Dodger 56	104 1st St NW	Dodge Center	All	Market	2023 (under construction)	56	3
Sleepy Eye Apartments	301 12th Ave SE	Sleepy Eye	All	Market	2023 (under construction)	44	3

Source: City of Wabasha

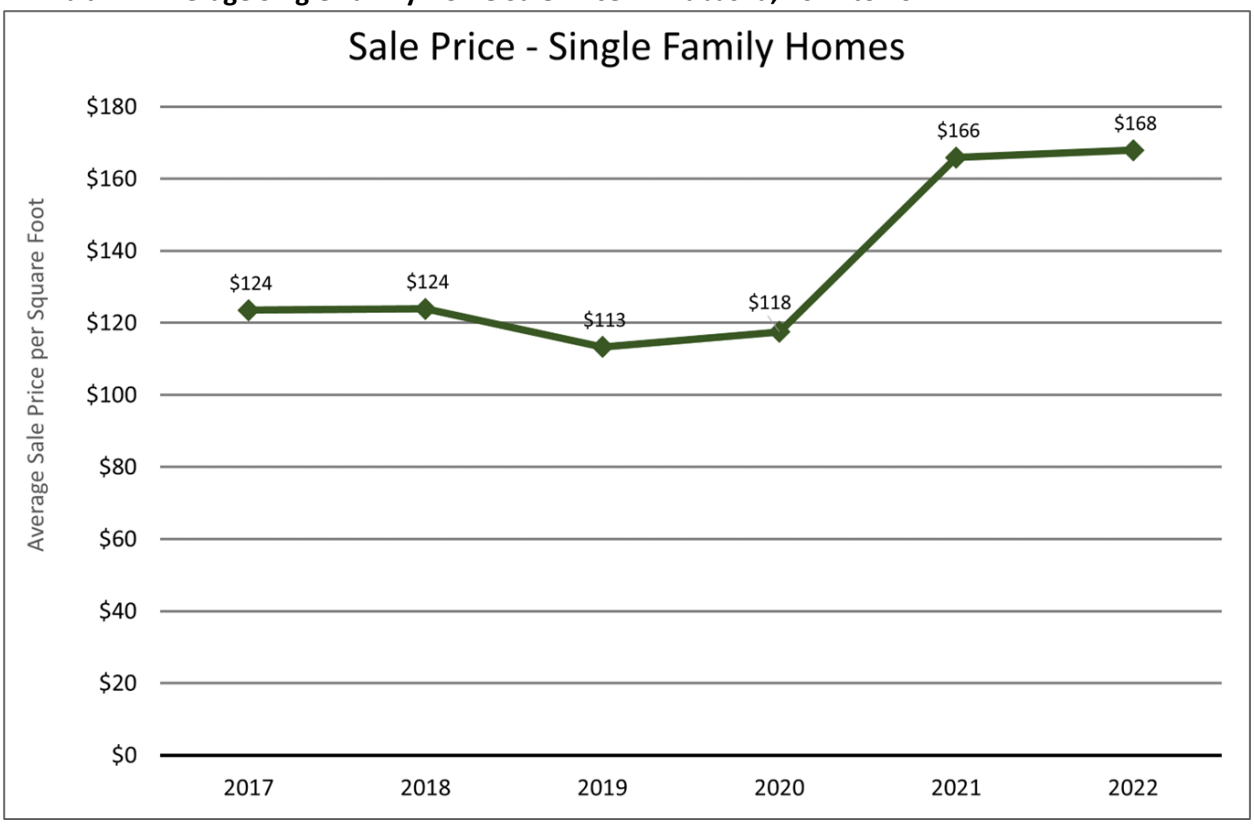
Aside from Medford Senior Care, which is a one story building that offers assisted living and memory care for seniors, all of the other developments are two to four storied in townhome or apartment formats. The two story developments are townhome style buildings, with garage parking integrated into the building. The three story buildings offer apartment flats, with parking available in surface parking lots and garage buildings. Town Center Apartments, the four story development in Zumbrota, is the only apartment development that provides some structured parking, located on the ground floor of the building.

Single Family Home Values

Home values have been rising in recent years both nationally and in Minnesota. The data in Wabasha shows that holds true in Wabasha as well. Using data from Redfin, the average home sale price in 2017 was $124 per square foot, and in 2022 it was $168, an increase of 38%. (See Exhibit 22 below.)

Rising home values have a range of impacts. Owners of homes gain equity as home values rise. However, rising sale prices also make it more difficult to purchase a home, particularly for first time buyers.

Exhibit 24. Average Single Family Home Sale Price in Wabasha, 2017 to 2022



Source: Redfin

Research Interviews

The housing market context in Wabasha was explored in additional detail through research interviews with five individuals. The interviews focused on the strengths and weaknesses of Wabasha as a location for housing development, the prospective tenant base or purchasers of new homes, the financial viability of different housing types and formats, and the role the public sector plays or could play in fostering housing development.

The following individuals were interviewed.

- Tony Bigelow, Bigelow Homes
- Corey Gerads, Alliance Building Corporation
- Pat Heydon, Two Rivers Habitat for Humanity
- Buffy Beranek, SEMMCHRA
- Leah Hall, Three Rivers Community Action

The perspectives and experience of these individuals contributed to an understanding of the market for new development in Wabasha, and potential strategies for fostering housing growth. Addition relevant information about the greater Minnesota housing context came from a set of 2022 interviews for the Wabasha Housing Study.

The following are key findings that came from the market analysis and research interviews.

Housing Development Market – Key Findings

Demand for housing in Wabasha is evident in the construction and sale of new homes, the rate of which has been increasing. It is evident in the tight market for existing homes. Very few are on the market, they sell very quickly, and the sale price has been rapidly rising. Many report looking for a home in Wabasha and not being able to find one. Both price and availability are limiting factors for purchasing a home in Wabasha.

Rental housing is also in demand in Wabasha. It is needed by both younger and older cohorts, and to attract the workers that Wabasha needs in its schools and commercial businesses, but existing options are limited. Rental housing for empty nesters and seniors often serves a need because it is lower maintenance than owning a home. And a move out of a home into an apartment frees up a home that can go on the market for others.

The following are development dynamics associated with different types of housing development.

Affordable housing. The existing affordable housing developments meet an important need in Wabasha, but the need for such housing far exceeds what is currently available.

Tax credits are the primary engine for new production of workforce housing in the United States, but it can be difficult to build this houisng in smaller communities in Greater Minnesota because they often don't score well against the criteria that has established for awarding tax credits. Wabasha is fortunate in that a northern section of Wabasha is a high scoring location under current scoring criteria. Given that, it could make a strong case for funding to support a housing development that could be affordably rented by moderate income households in the local workforce.

Senior housing. Wabasha's skilled nursing facility is much needed, and Gundersen St. Elizabeth is exploring the development of another. Attracting market rate age restricted senior housing is challenging in smaller communities because of the rental rates that need to be charged to justify construction costs, and the fact that you are limiting demand for apartments when they are restricted to seniors. However, the needs of seniors can often be met in a general occupancy apartment development by making it senior friendly, without restricting the market to seniors only. Apartment developments of this kind can have the effect of giving long-time, elderly homeowners a lower maintenance option, and by doing so it can free up a single family home for a younger household.

Apartment development. A modest amount of apartment development has been occurring in small cities in the region. Developers are cautious because new construction rent levels are quite a bit higher than the rent levels in existing apartment buildings. But they have found there is a sufficient tenant market in many smaller communities to support new apartment developments.

In addition to researching the depth of the tenant market in a community, developers will also need a close financial partnership with a local community to make a development work. Local government actions that may be needed to attract multifamily development include:

- **Financial contribution.** Apartment development in greater Minnesota will generally face a financial shortfall. Tax increment financing and/or other financial support will be necessary to attract multifamily development.
- **Regulatory flexibility.** Zoning or subdivision regulations can add cost to development. For example, parking requirements are often higher than what tenants need.
- **Community engagment.** Communities can be skeptical about multifamily development. City leadership that sees the value of the development can play a role in championing the development through a proactive community engagement process.

Subdivision development. New homes are being built and sold in Wabasha. Some of these homes are specifically restricted to lower or moderate income households. The supply of land available for subdivision development seems to have increased recently, but it's not clear that the pace of new home construction will increase.

New home construction and sales has become more challenging recently because the cost of construction has risen due to increasing cost of materials, labor and interest rates. Prices of new homes have risen as a result, reaching a level that fewer buyers can afford.

Increasing the rate of new home construction will depend on reducing the cost and risk of such development. Municipalities that play a greater and more proactive role in the development of the streets and utilities that support subdivision development will reduce both the risk and cost of subdivision development for the builder, and support a greater rate of development.

V. Estimating Housing Demand

What is housing demand? Housing demand cannot be observed directly, and it cannot be conveyed by a single metric[1].

- **Demand for housing varies by the cost of housing.** If brand new one-bedroom rental units are priced at $1,200 per month, they will fill up at a slower pace than new units that are priced at $1,000. New homes that are offered for sale at $250,000 will sell faster than the same homes priced at $300,000. In other words there isn't one level of demand for new apartments or homes.
- **Demand for housing varies for different housing products.** Most people would be willing to pay more for newly constructed apartments or homes than an apartment or home built decades ago. "Executive homes" are appealing or attainable for a narrow high income demographic, while twin homes or patio homes may appeal to other demographics. Housing for seniors is of interest to some older households, but it includes features that make it highly desirable or even essential for some of those. Ownership housing appeals to some, while rental housing is of interest to others.
- **Housing demand is not silo-ed.** Some who rent would buy at the right price or if they could get a mortgate. Some who own would move to a rental situation that required less attention to home and yard upkeep.

In classical economic terms, the demand for housing is on a price curve that shows diminished demand as the cost of housing increases. Multiple price curves can be derived for different housing products. And the relative availability of one housing product impacts the demand for other housing products.

The developer perspective. Since a community that desires additional housing development has to attract the interest of developers or builders, the developer perspective is as important as the perspective of home buyers and renters. Housing developers and builders will build housing if they feel the demand for their product is high enough to repay construction costs plus a reasonable return. But in addition to estimating demand for their proposed product, they will also need to consider the level of risk and uncertainty associated with the project. If it's a housing type that hasn't been built in the area the project is more risky. If gaining approval for the project looks involved and uncertain, the project is more risky.

Many projects that are viable in theory based on demand are not pursued in favor of projects that are less risky.

Understanding and addressing developer perceptions of risk is often more important for fostering new housing production than estimating levels of demand.

[1] Some housing studies give the impression that housing demand can be simplified to a single metric which can be estimated with a fair degree of precision.

Demand indicators. With this context in mind, the rest of this section observes and discusses a set of housing demand indicators. They can be thought of as multiple lenses through which we can consider housing demand.

Estimated Latent Demand Based on Wabasha's Workforce

As discussed above, Wabasha is oversupplied with jobs relative to its population. There are an estimated 1,306 people who commute to Wabasha to work, and 718 people who live in Wabasha and leave the City for their jobs. If all those who work in Wabasha could find the housing they want at a price they can afford, it is reasonable to believe that many would move to Wabasha to be closer to their work. And because of Wabasha's livability and quality of life, there are undoubtedly others who would consider living in Wabasha if the right housing was available.

Roughly 600 housing units would be required to balance the the employment inflow/outflow dynamic in Wabasha. That can be thought of as one estimate of latent demand that would pertain at a certain level of housing availability and cost.[2][3]

The overall latent demand estimate can be used as a basis for considering how the demand might be distributed among different housing types. Table X is an analysis of the demand for rental vs ownership housing.

Table 2. Latent Demand for Ownership Vs Rental Housing

	Owner	Renter	Vacant	Non-Vacant	Total
1. Existing Housing Units (Estimated 2022)	872	301	169	1,173	1,342
2. New Housing Units (based on existing ratio of ownership to rental housing)	424	146	30	570	600
3. Total Housing Units Demanded, based on shift to 70%:30% preference	1,220	523	199	1,743	1,942
4. New Housing Units Demanded, based on shift to 70%:30% preference	348	222	30	570	1,942

Source: ESRI Business Analyst, based on U.S. Census Bureau, 2016-2020 American Community Survey

[2] As discussed above, this estimate of latent demand is a point on a demand curve. The more new housing that is available and the lower its asking rents or sale prices, the greater the demand would be for that housing.

[3] An alternative method of deriving an estimate of latent demand is to outline a trade area from which Wabasha might attract homeowners and renters, and make a set of assumptions that results in an estimate of the number of households from that area which could be attracted to live in Wabasha. We didn't utilize that methodology because it relies on more subjective assumptions that this straightforward method without any clear advantages.

Note in Line 1 of the table that roughly 74% of all of the occupied housing units in Wabasha are owner occupied. Line 2 shows that if those preferences hold true today, the latent demand estimate of 600 housing units would break out to a latent demand of roughly 450 units of owner occupied housing and 150 units of rental housing.

Generational shifts have, however, increased demand for rental housing. Consider that the two dominant age brackets are the baby boomers who are generally retired or nearing retirement, and young adults between 20 and 35. These are life stages that are often moving to rental situations. We also see formerly owner occupied single family homes shifting to rental homes.

The demand for new housing is very sensitive to shifts in preferences. Line 3 shows a scenario where the preferences for ownership housing in Wabasha decreased slightly from 74% of housing units to 70%. Line 4 shows how that would need to be addressed in the distribution of new housing stock, if all of the shift in demand occurred via new housing. In that scenario, around 370 owner occupied housing units are demanded, and around 230 rental housing units are demanded.

Given the sensitivity of new housing demand to slight shifts in preference, the precise distribution of demand for ownership and rental housing is best observed by taking measures to increase the production of both.

Gap Analysis

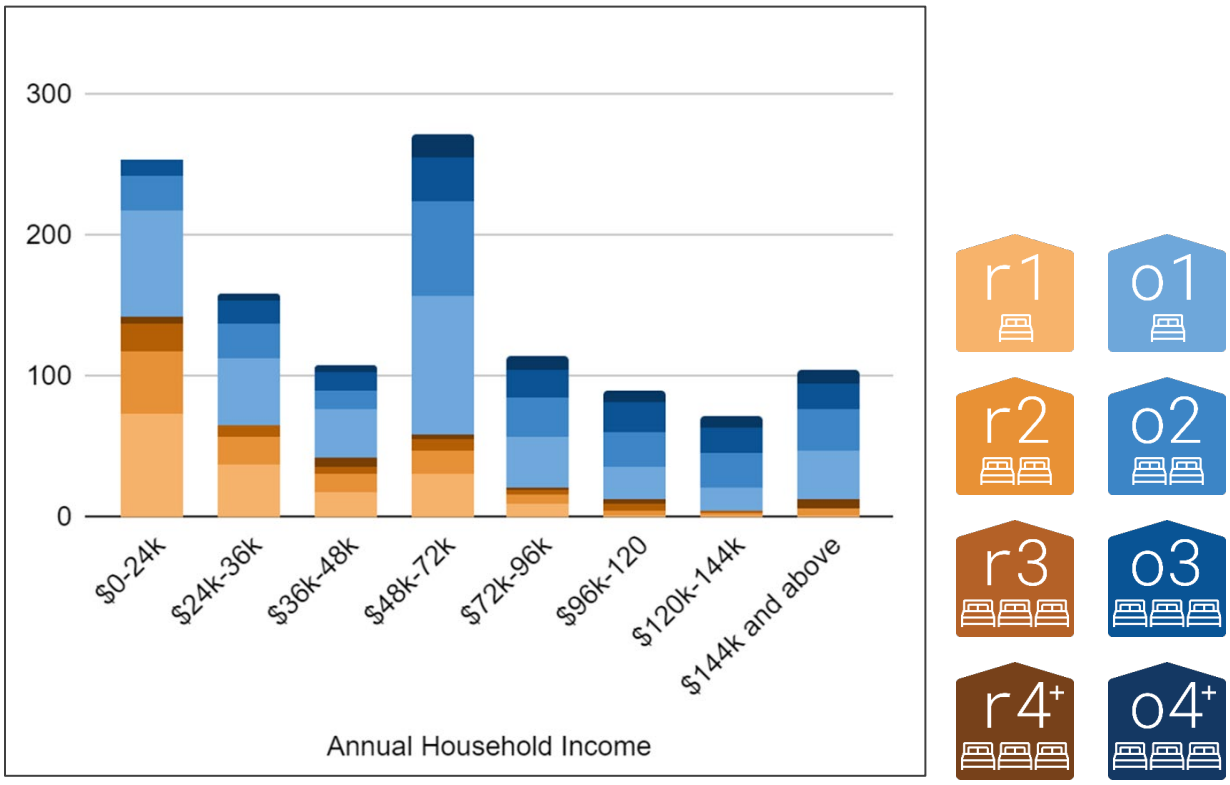
Another approach to analyzing housing demand is to look at the mismatch between the housing that is needed and the housing that is available. We've built a detailed methodology for doing that. It housing demand based on household composition and income, and housing supply based on the bedroom count and cost of existing housing units, and compares the two. Additional details:

- **Housing demand.** The demand analysis is based on a database that we purchase from Replica that builds a synthetic description of every household in Wabasha in such a way that it aligns with all of the census data for the community. We use detailed information about household composition and household income for each household to estimate the number of bedrooms that household needs and what it can afford to pay for rent or mortgage payments.
- **Housing supply.** The supply analysis makes use of all existing information about the City's housing stock from sources such as Costar, online rental housing listings, City parcel data, etc. It extrapolates from there to assign a likely bedroom count and housing cost to every residential parcel in the City.
- **Housing gap.** The gap analysis compares the array of housing that is needed, by bedroom count and cost to the array of housing units that are present, by bedroom county and cost. Housing units are undersupplied when there is more demand than

supply—as is common for more affordable housing products—and oversupplied when there is more supply than demand.

Housing demand. Using this methodology, Exhibit X shows the demand for housing of different sizes by rental and ownership households at different income levels.

Exhibit 25. Wabasha Housing Demand

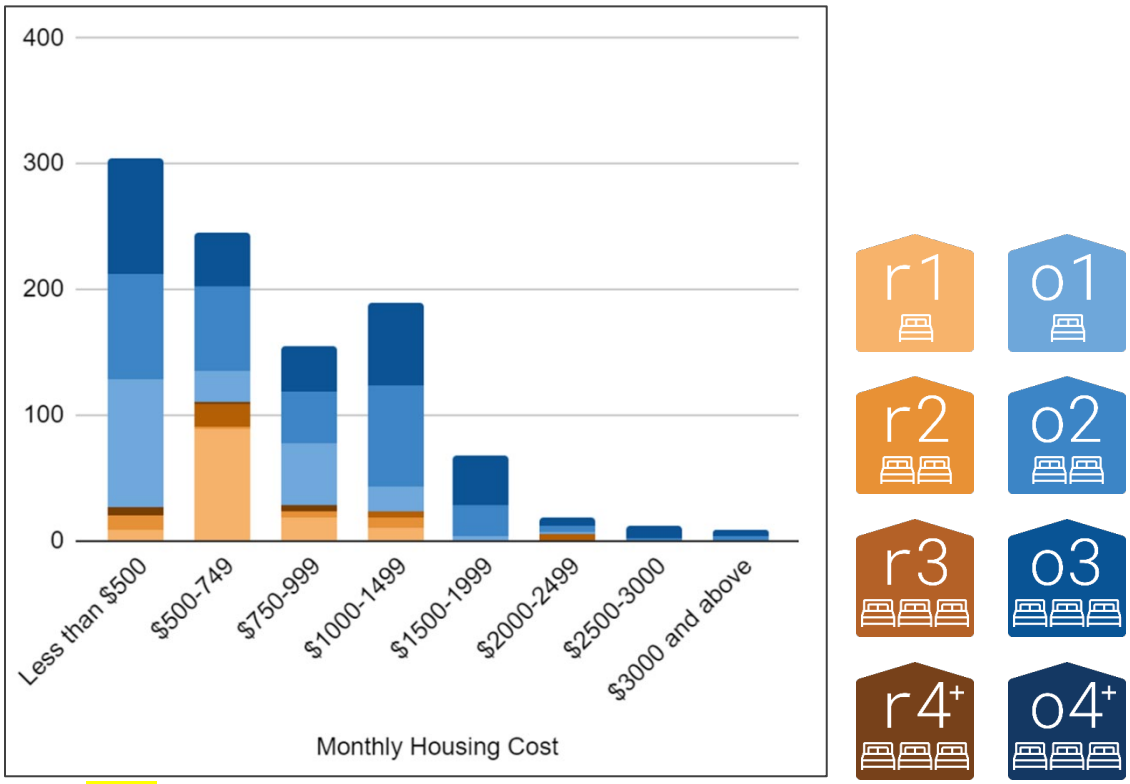


Source: Replica

Unit types are coded by ownership vs rental, and number of bedrooms. "r3" for example refers to 3-bedroom rental units. Overall demand for housing is highest for households earning $48,000 to $72,000, and households earning less than $24,000. The greatest demand for rental housing is from households in the lowest income bracket. The greatest demand for ownership housing is from households in the $48,000 to $72,000 income bracket. There is greater demand for 1-bedroom housing units than any other type, in both ownership and rental housing formats, but note that in this methodology a 1-bedroom unit is sufficient to accommodate both single person households and married couples. Obviously many couples may prefer and seek out a two bedroom housing unit.

Housing supply. Exhibit X shows the supply of housing of different sizes by rental and ownership form across the housing cost spectrum. In this case the cost information is provided on a monthly basis.

Exhibit 26. Wabasha Housing Supply

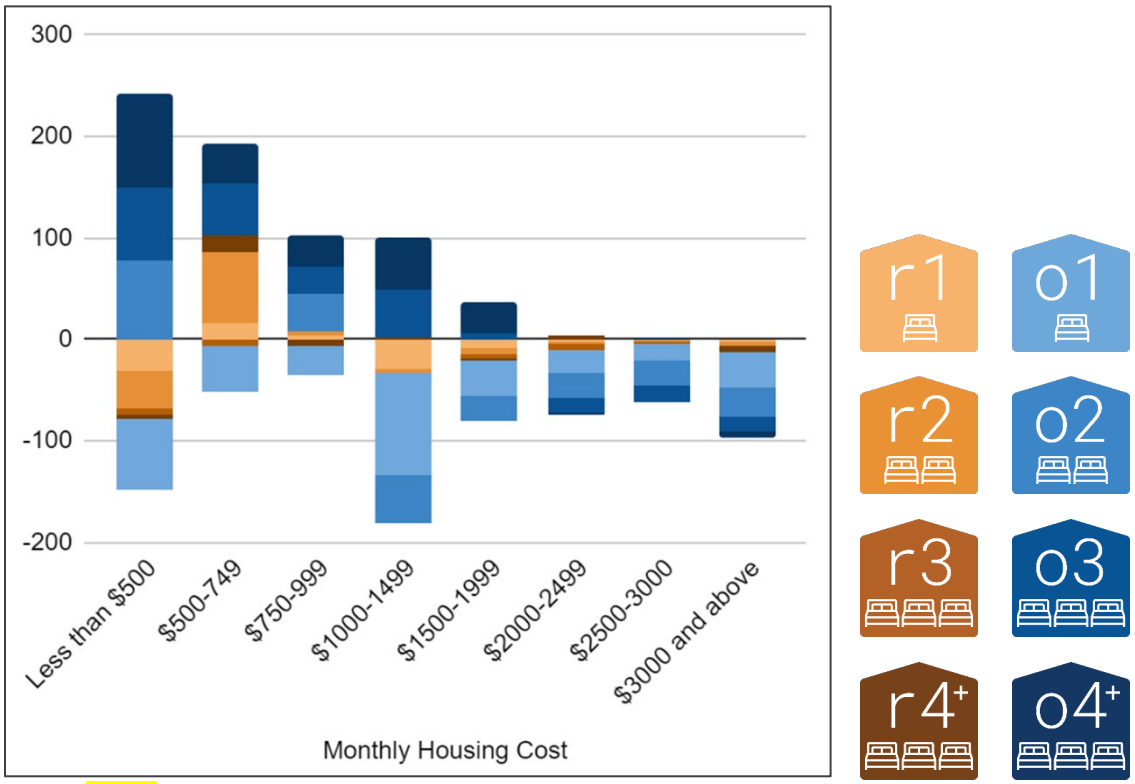


Source: Replica

Note that the housing supply is heavily weighted toward ownership types of housing, and much of it is priced at affordable rates.

Housing gap. Exhibit X shows the alignment and misalignment between the housing that is demanded, in accordance with household composition and income, and that which is available.

Exhibit 27. Wabasha Housing Gap (negative) and Surplus (positive)



Source: Replica

The diagram in Exhibit X requires some interpretation. Some of the apparent deficits are not a cause of concern. For example:

- At the lowest cost levels the exhibit shows a shortage of one bedroom ownership units. (See light blue band at the bottom of the bar on the left of the chart.) But the darker blue bands on the bar indicate that there is an overall surplus of ownership housing units in the same cost bracket. That means some ownership households (such as single person households) that could get along with one bedroom will need to occupy a two bedroom home in the same cost bracket.
- Similarly, the deficit in high priced ownership housing (See blue bands in the bar at the right end of the chart) may indicate there is a lack of high end housing to purchase. However, if a household of means wanted that type of housing, they can usually pay the going rate to have a home built to their needs. So the deficit of high end homes may simply mean that many high earning households are content to own a home that costs less that what they could afford.

The deficit in rental housing (orange to brown bands) in the mid to higher cost categories may be a positive indicator for new apartment development, where the new construction rents are

higher than prevailing rents in Wabasha. Although again, some of these rental households may be perfectly content to rent an apartment or home in a lower cost bracket than what they can afford.

The most concerning deficit highlighted in the exhibit is the need for rental housing units at the lowest cost level. Those are no offsetting considerations in that instance. The households that need rental housing in that cost bracket are simply paying more than they can afford. Most of them are probably paying rents that are in the next category--$500 to $749 per month—since there is a surplus of rental units in that cost bracket.

One of the underlying assumptions in this analysis is that the surpluses and deficits arise from an ideal allocation of the existing housing. In the real world, households will often live in housing that is less expensive than what they could afford, and that increases the scarcity of affordable units beyond what is observied in this analysis. The primary challenge that is observed in this analysis is the 75 households in the lowest earning category that are confronted with an insufficient supply of housing units that are affordable to them. The housing cost burden analysis above indicates that around 24% of all Wabasha households, the great majority of whom earn $35,000 or less, are actually paying more than 30% of their household income. That amounts to around 300 households total.

Based on these findings, we can estimate that around 300 additional housing units would be needed in the lowest two rent brackets to meet the needs of Wabasha's existing population.

Housing Demand – Key Findings

Housing demand can't be reduced to a single metric. All things being equal housing that costs less will generate more demand than housing that costs more. And there are different submarkets and demand profiles for different types of housing.

With those caveats, by balancing Wabasha's employment inflow and outflow we derived a plausible level of latent demand for housing growth. If it can be priced appropriately, it seems possible to absorb 600 additional housing in Wabasha.

That housing growth should be include both ownership and rental housing formats in order to meet community needs.

To achieve this production will require addressing barriers to development. In some instances it will also require public financial support.

An analysis of the alignment between the housing needs of Wabasha's residential community, and its housing stock yields the following findings.

- The existing housing stock can easily accommodate Wabasha's population in terms of housing unit size, because of the predominance of one and two person households in Wabasha's household mix.

- The greatest deficit evident in the analysis is the lack of rental housing that is affordable to households in the lowest income bracket.

VI. Housing Strategies

The strengths and challenges of Wabasha's housing context, and the housing related needs of Wabasha's residents, are framed in the previous sections of this housing study. In this section, we review Wabasha's goals and policies, and present a set of strategies that can further these goals. They advance the preservation or production of housing in ways that are needed but are unlikely to be accomplished through the mechanisms of the housing market alone.

Wabasha's Housing Goals

The *City of Wabasha 2016-2035 Comprehensive Plan* includes two housing-related goals and five objectives, as follows.

Goal 1. A range of housing options to meet the needs of Wabasha's population at all stages of the life cycle.

- Encourage the preservation and enhancement of existing housing stock to provide for the needs of current and future residents.
- Promote development and redevelopment of housing for all income levels, special needs and senior housing.
- Encourage mixed use development that includes housing, employment, shopping and recreational opportunities in a compact pedestrian setting.

Goal 2. High quality residential neighborhoods with well-maintained housing stock

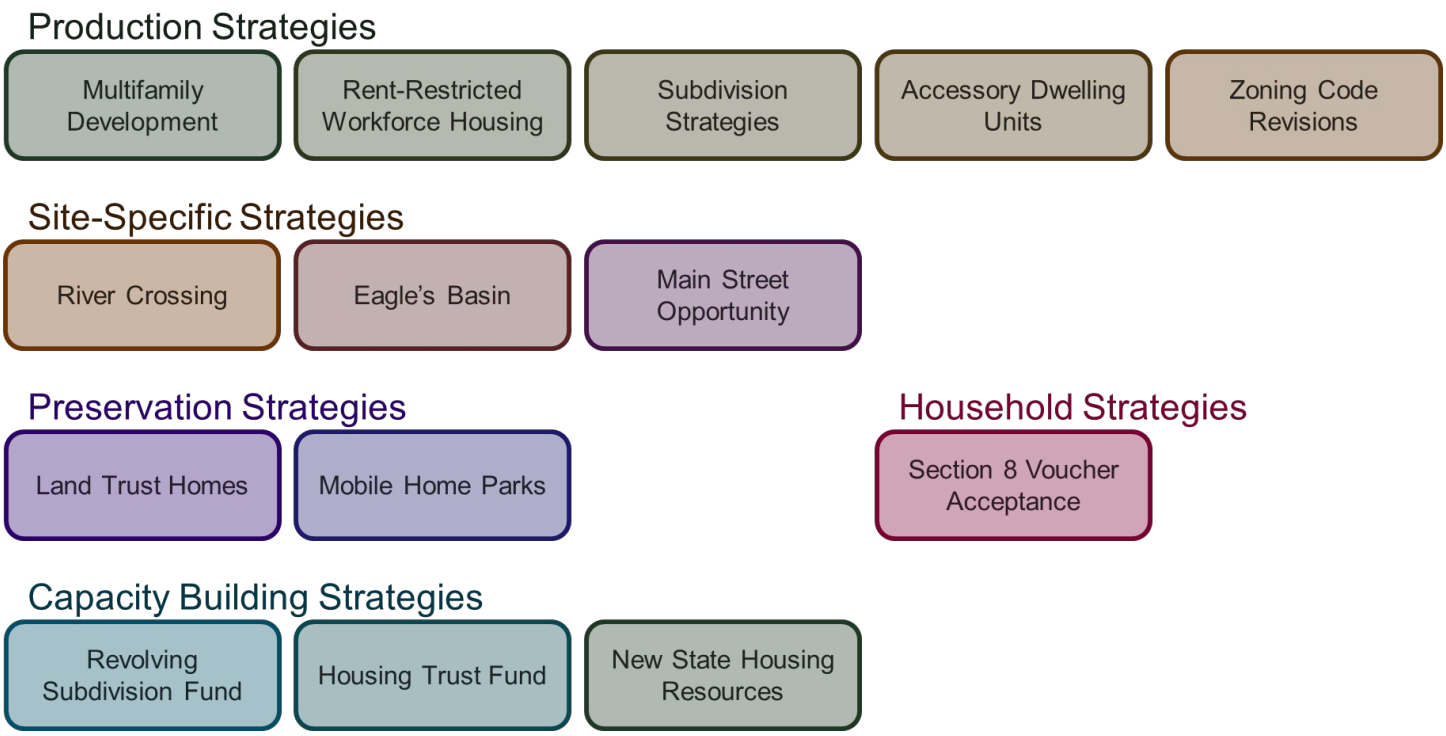
- Encourage strong homeowner maintenance and improvement activities.
- Ensure that all our neighborhoods are safe and attractive and served by municipal services.

These goals and objectives underscore the City's priority of diversifying housing choices and addressing housing affordability challenges.

Menu of Housing Strategies

Fourteen housing strategies are presented here. Five focus on production of new housing. Three relate to attracting development to specific publicly owned sites. Two focus on the preservation of existing housing or housing affordability. Three are about building resources for housing-related investments. One supports low income households in their pursuit of housing that meets their needs.

[Note to Caroline Cathy and Emily: I haven't changed this diagram yet. Based on the prioritization exercise, should I leave off Accessory Dwelling Units, Land Trust Homes, and Section 8 Voucher Acceptance? And should I add Tiny Homes? I went ahead and did a write up for all of these, except the Section 8 Voucher one.]



The strategies are presented individually in the following pages, providing:

- Relevant context related to the strategy
- The public objective being advanced by the strategy
- A brief description of the actions or alternatives that will be required to advance the strategy
- The resources required to advance the strategy

In most cases, additional research and focused attention will be required to shape the strategy further based on Wabasha's specific context and resource availability.

Production Strategy 1 – Market Rate Apartment Development

Context. Multifamily housing development supports a rural community in several ways. It can retain young adult singles and couples in Wabasha that might otherwise move out of the community. It can provide housing for the local businesses who are trying to attract workers. It can offer seniors a housing option when they're ready to spend less time on home and yard upkeep—and where that occurs it can free up a single family home for resale.

New multifamily housing development is challenging in rural communities because the prevailing rents are low, and, without public support, new construction rents are higher than what most will be willing can pay. Despite this, some rural communities similar to Wabasha are finding it feasible and worthwhile to partner with developers on new multifamily development.

Objective. Foster the production of one or more new multifamily housing projects in Wabasha in appropriate locations.

Strategy. Invite interest from a developer with a track record of building in rural communities. Partner with the developer in goal setting, site identification, financial support, and community engagement.

Resource Requirement. Public financial support will be needed in the form of tax increment financing or tax abatement.



Case studies

- Sleepy Eye Apartments in Sleepy Eye. Developer: Alliance Building Corporation.
- Town Center Apartments in Zumbrota. Developer: Keller Bartman.

Production Strategy 2 – Rent Restricted Workforce Housing

Context. Rents in new apartment developments will be set at levels that are out of reach for most rental households in Wabasha. A workforce housing project can provide additional multifamily housing that meets the cost criteria of another set of households.

Producing new workforce housing requires leveraging layers of external funding. Most often federal Low Income Housing Tax Credits are the foundational and most important source of funding. Local financial support will also be needed to make the project viable.

Tax credits are in high demand. They are awarded competitively based on how projects score against criteria established by the Minnesota Housing Finance Agency. The scoring includes some important criteria related to the location of the project, such as the availability of other affordable housing, the housing cost burden of nearby residents, proximity to jobs, public transportation, and walkability. The location score is often times a critical determinant in whether the project is able to secure a tax credit award. Wabasha has a high scoring location in the north part of the City, which is unusual for a rural city.

Tax credit workforce housing supports families earning 50% to 60% of the area median income (AMI). At the 60% AMI level, the household income of a tenant household is around $43,000 per year. Rent levels for a nearby workforce housing development are $715 for a 2-bedroom unit and $830 for a 3-bedroom unit.

Three Rivers Community Action builds tax credit workforce housing in Wabasha County, and they are open to pursuing a project with the City of Wabasha.

Objective. Foster the production of one or more tax credit funded, workforce housing project in Wabasha.



Strategy. Collaborate with Three Rivers in seeking a suitable site, identifying financial resources, and building community support for an affordable housing development.

Other measures that would support an affordable housing project include:

- A proactive review of the City's zoning requirements related to multifamily housing to remove or modify requirements that are expensive and unnecessary.
- Visible and sustained leadership and advocacy by the City's elected officials

Resource Requirements. Staff time in collaborating with Three Rivers, site selection, funding. Tax increment financing and additional financial support will be required.

Case Studies. Eagle Ridge Apartments, Harvest Ridge Apartments, and the Three Rivers project under construction in Lake City are all Three Rivers projects.

Production Strategy 3 – Subdivision Strategies

Context. New homes support City growth, and they serve as move-up housing so existing homes can be sold. New home development has occurred in Wabasha in recent years, some of which are being sold subject to buyer income restrictions.

Subdivision development is challenges by increasing construction and financing costs, as well as multiple risk factors. A major risk factor is the up front cost of installing the street and utility infrastructure for the subdivision without knowing how quickly the future homes will sell. Municipalities can mitigate those costs and risks through different subdivision approaches.

Objective. Increase the pace of new home construction to grow Wabasha and provide a mix of housing formats.

Strategy. Consider models for fronting the development costs of public streets and infrastructure, and having those paid back through future homeowner assessments. That reduces developer risk, and makes it more attractive for a builder to pursue subdivision development. Complementary steps can be considered, including delaying or reducing development fees, reducing overall development cost, and/or expediting development processes, which reduces cost and risk.

Resource Requirement. Public financial support is required to install infrastructure, but it can be recouped later. The most important "cost" of the strategy is the risk of housing market downturn, which can slow down anticipated repayment of the public investment.

One approach to mitigating the risk of funding infrastructure is to fund it from a capital fund as opposed rather than a bond. In that instance is repayment is slow there's no risk of defaulting on a bond or need to raise property tax rates.

Case studies

- Maple Grove, Chaska. The city builds the roads and utility infrastructure. The cost is billed to developer when land is platted, or to the homeowner who pays it over an assessment period (e.g. ten years).
- Sleepy Eye. In a previous subdivision, the city developed the land, built the infrastructure, and sold lots to owners who hired their own homebuilders.



Production Strategy 4 – Tiny Homes

Context. Tiny homes are a housing format that can dramatically reduce the cost of home ownership. A tiny home with footprint of 16 feet by 20 feet can be constructed for as little as $100K.

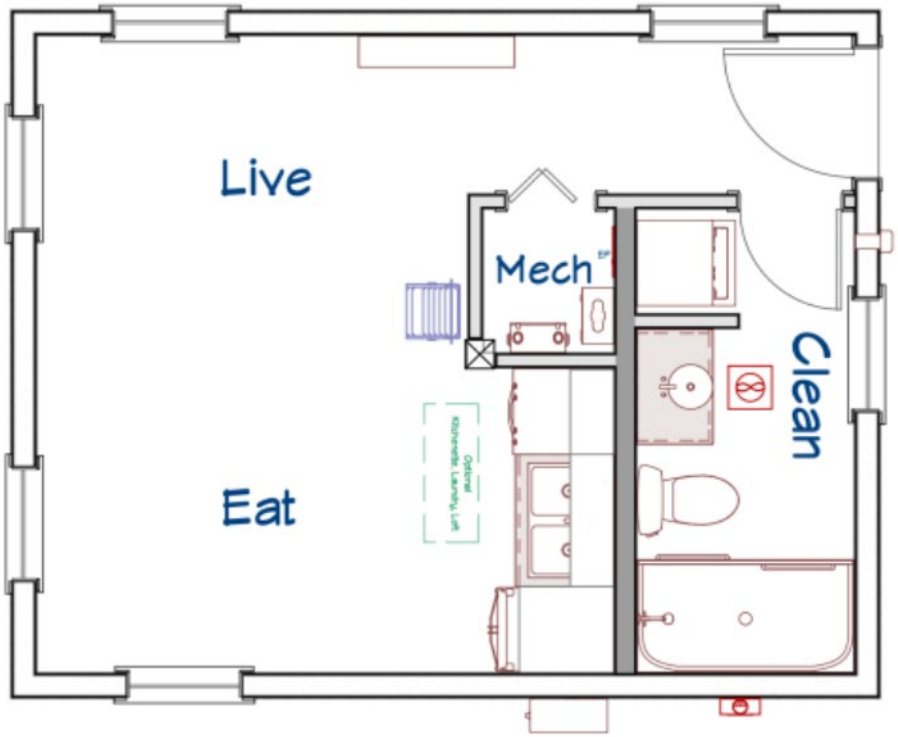
Yard Homes MN is a Minnesota based company that has pioneed a couple of tiny home models. They have a factory in which they build the home structure. The homes are insulated so that they are highly energy efficient in our Minnesota client. Yard Homes can provide and install the structures, or they can provide the components for a local company to install.

Objective. Support households of modest means with an ownership home format that is similar in size to a manufactured home in a mobile home park but more durable and energy efficient.

Strategy. Tiny homes could be accommodated in multiple ways. They could be replacement units in mobile home parks. They could provide a cluster of homes on traditional sized lts. They could be the future of a repurposed campground. Or they could be situated on a new tiny home subdivision, with appropriately sized lots.

Resource requirements. Resources required will vary according to the selected strategy. Staff or consultant time will be required to explore best practices and support decisionstee up options for consideration. Financial support may not be required for some strategies.

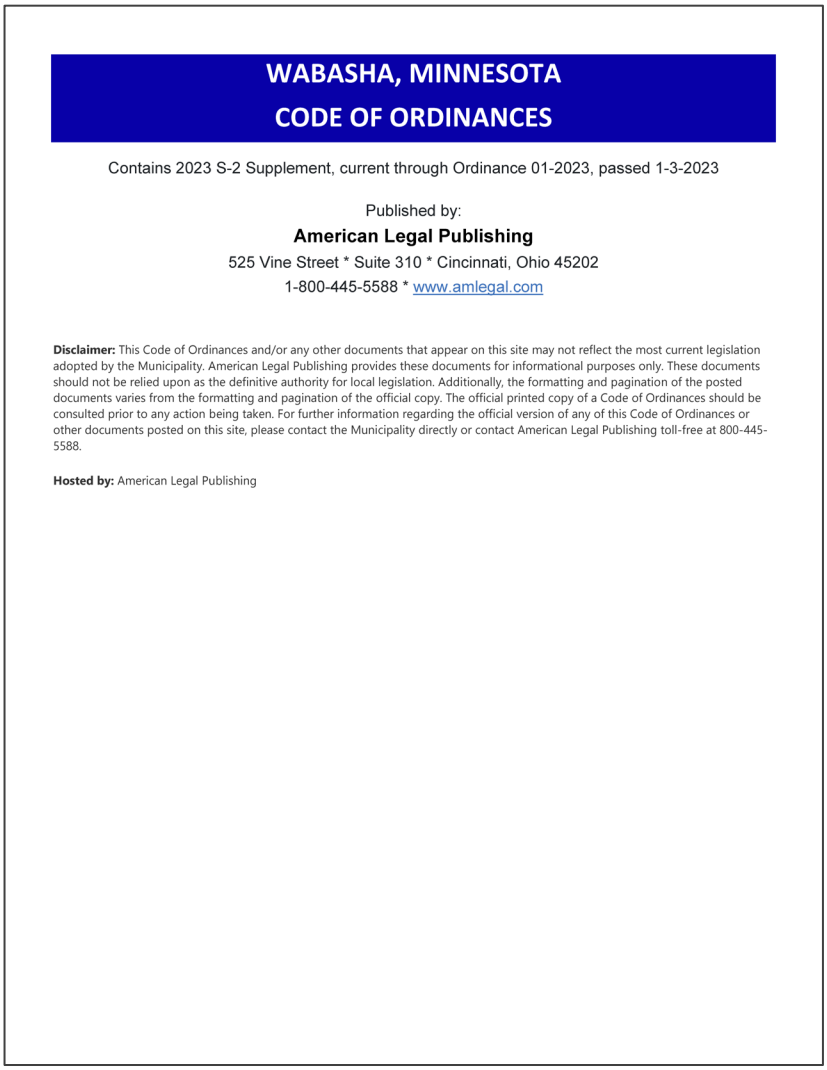
Case Studies. Goodhue County is exploring a collaboration with YardHomes.



Production Strategy 5 – Zoning Code Revisions

Context. Zoning Code requirements can decrease developer interest and the pace of housing production if they are overly prescriptive or unnecessarily add cost to housing development. The Wabasha Zoning Code includes some provisions that could be reconsidered to reduce barriers to development. Those include:

- Loosen setback requirements, and allow porches in front setbacks
- Reduce parking requirements in residential zoning districts
- Raise density caps in some of the residential zoning districts
- Allow missing middle housing (townhomes, twin homes, small apartment buildings, accessory dwelling units) in more residential zoning districts



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CODE OF ORDINANCES

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Objective. Remove hindrances to housing development to increase the pace and variety of housing development.

Strategy. Review and modify unnecessary zoning code provisions that may dampen housing production.

Resource requirements. No financial resources required.

Production Strategy 4 – Tiny Homes

Context. Tiny homes are a housing format that can dramatically reduce the cost of home ownership. A tiny home with footprint of 16 feet by 20 feet can be constructed for as little as $100K.

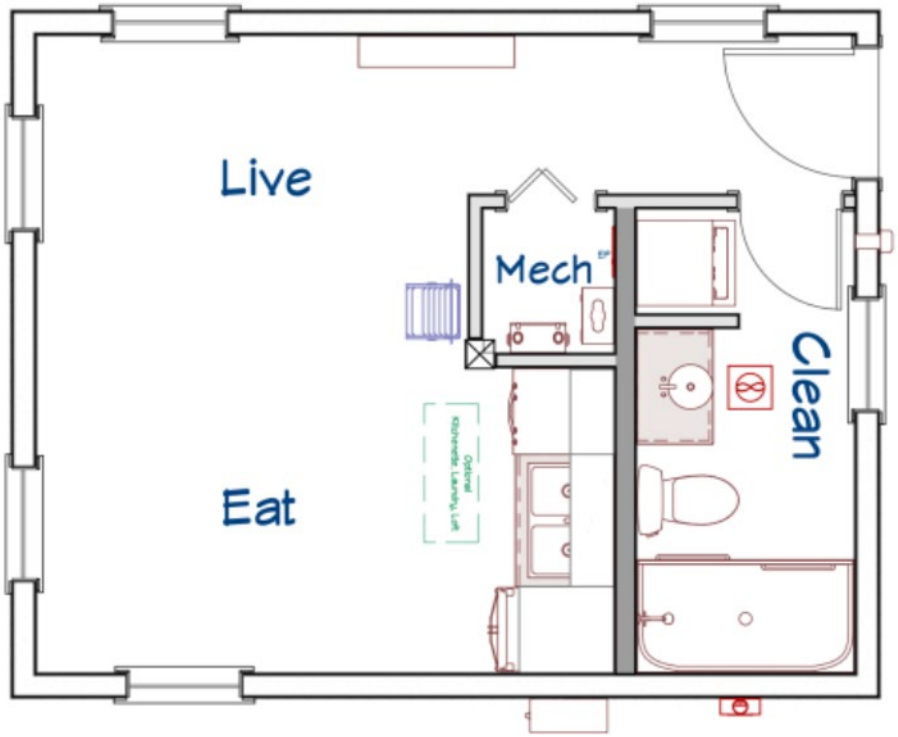
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Objective. Support households of modest means with an ownership home format that is similar in size to a manufactured home in a mobile home park but more durable and energy efficient.

Strategy. Tiny homes could be accommodated in multiple ways. They could be replacement units in mobile home parks. They could provide a cluster of homes on traditional sized lts. They could be the future of a repurposed campground. Or they could be situated on a new tiny home subdivision, with appropriately sized lots.

Resource requirements. Resources required will vary according to the selected strategy. Staff or consultant time will be required to explore best practices and support decisionstee up options for consideration. Financial support may not be required for some strategies.

Case Studies. Goodhue County is exploring a collaboration with YardHomes.



Site Specific Strategy 1 – River Crossing

Context. River Crossing is a large, publicly owned site in an attractive, well-connected location near downtown Wabasha. A compelling vision has been created for the site. City staff and stakeholders have put a focus on attracting development to the site through assembling marketing materials and getting the word out about the opportunity.

The City is also actively pursuing funding that could be used to prepare the site for development by building the street and utility infrastructure.

Developers are drawn to locations where public ownership and community support are present.



Objective. Foster the development of the River Crossing site with a mix of multifamily housing and commercial development.

Strategy. Pursue state or federal grants for the public infrastructure.

Utilize the WATCH Committee's Concept Paper and targeted networking to attract compatible development partners for the first phase and subsequent phases of the development project.

Work collaboratively with the developer to advance the project.

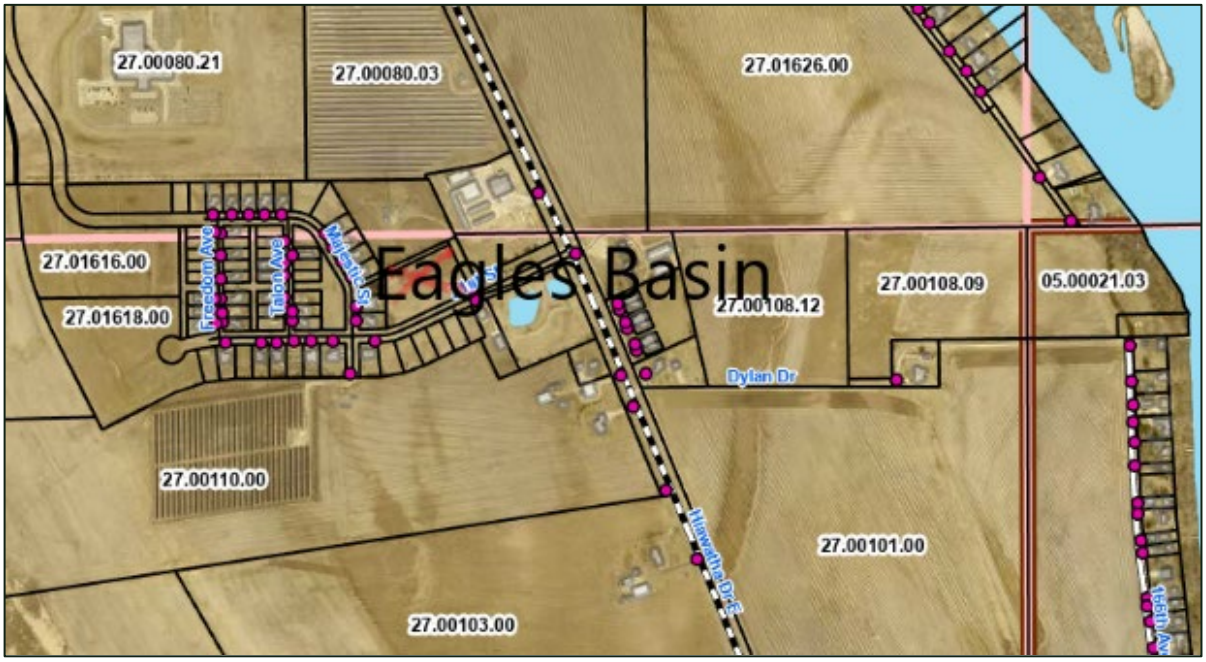
Resource Requirements. Requires time in developing a working relationship with a compatible development partner. Will require public financial support to make the project economically viable.

Site Specific Strategy 2 – Eagles Basin

Context. Eagles Basin is a successful single family housing project executed by SEMMCHRA. A site remains available for a multifamily workforce housing component of the development, which would complement the new homes.

Developers are drawn to locations where public ownership and community support are present.

The project will need to meet affordability goals, but making apartments affordable to low and moderate income households without housing tax credits can be a challenge.



Objective. Attract a multifamily workforce development project to Eagles Basin.

Strategy. Be proactive in working with SEMMCHRA to identify gap financing resources that would be potentially available to a developer that is interested in pursuing this project.

Utilize the WATCH Committee's Concept Paper and targeted networking to attract a compatible development partner for the project.

Work collaboratively with the developer and SEMMCHRA staff to advance the project.

Resource Requirements. Requires time in developing a working relationship with a compatible development partner. Will require public financial support to make the project economically viable.

Site Specific Strategy 3 – Main Street Opportunity

Context. There is a set of lots along Main Street East that are publicly owned and in an attractive location near downtown Wabasha. The site isn't ready for new development. The current platted lots are too narrow for development. Floodwater issues are present and need to be investigated. Some fill is required to elevate the site above the flood plain.

If viable for infill development, single family homes, twinhomes or townhomes may be appropriate for this location.

Developers are drawn to locations where public ownership and community support are present



Objective. Attract a development project to this Main Street loction.

Strategy. Do the proactive due diligence and site preparation that makes this property buildable including a) investigating the floodplain issues, b) replatting the property to narrow the right of way and expand the parcel, and c) fill the site above the flood plain.

Utilize the WATCH Committee's Concept Paper and targeted networking to attract a compatible development partner for the development site.

Resource Requirements. Requires time in developing a working relationship with a compatible development partner. After site preparation, the project may or may not require public financial support to make the project economically viable.

Preservation Strategy 1 – Mobile Home Parks

Context. Mobile home parks play an important role in a community's housing mix because they provide a location for the most affordable type of owner-occupied housing. Nationally such properties are being lost to redevelopment or unaffordable rent increases.

Owners of manufactured homes can also face hurdles relative to maintaining conditions. Their relatively low value and semi-permanent condition make lenders hesitant to extend home improvement financing or home equity lines of credit, which may be needed to finance more significant maintenance or renovation projects. So homes can fall into disrepair.

Preservation of affordability of manufactured home parks is being done nationally and locally. The model is to similar to apartment preservation projects. The property is acquired, any necessary upgrades are made to the street and utility infrastructure, and the property is sold into a cooperative owned by the owners of the manufactured homes. The national leader in facilitating cooperative conversion of manufactured home parks is ROC (Resident-Owned Communities) USA.

Wabasha has three manufactured home parks—Westa Town Mobile Home Park, Hiawatha Mobile Home Park, and the mobile home park in the Wabasha Marina Boatyard.

Objective. Increase the long-term stability of mobile home park resident households through a range of strategies.

Strategy. There is a menu of strategies that can be employed to address challenges and preserve the affordability of manufactured home parks.

- Through city ordinance, mobile home parks can be brought explicitly into the City's rental licensing program so that the mobile home park operator and property owners can be held accoutable for site conditions.
- The City can adopt a tenant notification ordinance so that there is advanced notice to mobile home owners if there is going to be a change in ownership, and there is an opportunity to assemble a competing purchase offer if desired.
- Small scale home loan programs or matching grants can be extended to owners of manufactured homes.
- Steps can be taken to explore a cooperative conversion of one or more local mobile home parks—through learning from other examples, building relationships with local owners and residents of mobile home parks, and connecting with ROC.

Resource Requirement. Staff or consultant time for research and relationship building, program development. Financial resources would be required if cooperative conversion is pursued.

Case Study. Zumbro Ridge Estates, in Rochester, created a Resident-Owned Cooperative from a preexisting mobile park with the support of an organization called ROC (Resident-Owned Communities) USA.

Capacity Building Strategy 1 – Revolving Subdivision Fund

Context. Cities can be proactive in setting the stage for subdivisions by building the required road and utility infrastructure. Doing that increases the rate of housing development because it reduces costs and risks for builders. It increases the diversity of housing because it gives the City more leverage in pursuing its desired development mix.

If the infrastructure is funded through traditional bond financing, the bonds are paid back via an additional levy in the first years of the new homeowners' property tax payments. But that entails some public sector risk, because if new home development stalls out, the City needs to draw from other resources to make the bond payments. This risk can be reduced by paying for the infrastructure out of a capital fund. The capital fund needs to be raised once, and then it is replenished as lots are sold and homes are built.

Objective. Reduce the risk of proactively providing subdivision infrastructure by raising and utilizing a subdivision capital fund.



Strategy. Determine and institute the mechanism for capitalizing revolving fund, exploring resources such as TIF pooling or other value capture models, or a temporary levy.

Case study. Sleepy Eye. The City bought/developed land and infrastructure, sold lots to owners who hired their own homebuilders.

Capacity Building Strategy 1 – Housing Trust Fund

Context. Wabasha can utilize tax increment financing or tax abatement to advance many of the strategies in this housing study. Where applicable, these are preferred methods of funding housing related activities, since the funds are derived from the property itself, and for that reason they don't require a reduction in funding for other City priorities.

Some of Wabasha's housing strategies will require another source of funds, and those strategies can be advanced more effectively with the creation of a local housing capital fund (often referred to as a Housing Trust Fund) targeted to priority goals. Funds could be used for:

- Creation or preservation of additional affordable housing units
- Land assembly for housing projects
- Increasing community development staffing

Objective. Increase capacity for furthering the City's housing goals through building a housing related capital fund.

Strategy. Study models for creating an affordable housing capital fund, such as:

- Dedicate excess tax increment financing from The Exchange Apartments
- Value capture models
- Deploy resources from Wabasha's Municipal Development Fund.

Case study. Bloomington's Housing Development Fund and Housing Trust Fund

Housing Strategies – Implementation

The preceding strategies are suitable and achievable for the City of Wabasha. Each of them would advance City goals related to housing choice, preservation and/or affordability.

Effective implementation of this strategic agenda will require the ongoing focused attention of City staff and leadership. The strategies will need to be prioritized for initial and subsequent action. Many of the strategies will require additional research relative to best practices in order to make decisions about how they should be implemented locally. Some require building relationships with other organizations or local property owners. Some require deploying resources, which may derive from the new development itself (such as when tax increment financing is utilized) or from other sources. Given limitations on staff availability, some ongoing external support may be needed to maintain focus and momentum, take the actions required to advance specific strategies, and tee up concrete actions for City Council consideration.

The long term strategic agenda will benefit from a regular schedule of review and goal setting—because not everything can be undertaken in any given year, and strategies that are being implemented can be tuned up with periodic review. An annual review cycle is recommended for:

- Reviewing City-wide indicators of housing availability and affordability
- Reporting progress and outcomes for City housing strategies underway
- Making adjustments to ongoing housing initiatives as warranted
- Establishing the housing agenda to be initiated or advanced in the coming year
- Setting goals relative to specific strategies, such as establishing targets for affordable housing production and/or preservation

Wabasha is an asset rich community with a wide variety of existing housing choices and talented staff and leadership. It has shown creativity and initiative in the development of its existing housing programs. For all of these reasons it is well positioned to take futher steps in addressing the housing needs of its residents by advancing this strategic agenda.

City Council Workshop **2. 2.**

Meeting Date: 05/24/2023

ITEM TITLE: Housing Study Discussion

DEPARTMENT: Administration

PURPOSE:

ITEM SUMMARY:

City Council Workshop **2. 3.**

Meeting Date: 05/24/2023

ITEM TITLE: Concluding Remarks by Mayor Emily Durand

DEPARTMENT: Administration

PURPOSE:

ITEM SUMMARY:
