



Real Estate Research
Providing Comprehensive
Market Information
and Feasibility Studies

Benton County Housing Study

Presented to: Benton County Stakeholders

Presented by: Matt Mullins, Vice President
Maxfield Research & Consulting, LLC

May 24, 2023

Maxfield Research & Consulting, LLC

We are a full-service real estate advisory company providing strategic value to our private and public sector clients' real estate activities.



OVERVIEW

- 40 Years Experience
- Diverse Client Base
- **Multi-Sector Capable**
 - *Residential*
 - *Commercial*
 - *Public & Private Entities*
- Market Driven Strategies
- Recommending Highest & Best Uses
- Provide Actionable Plans

Project Scope

OBJECTIVE

Provide custom comprehensive housing study

APPROACH

Identify current & future housing needs for residents in Benton County and provide framework for meeting housing needs

PROJECT DELIVERABLES

- Short and long-term housing needs
- Recommendations guiding future housing development
- Tools/policies to implement the plan

KEY DATES

- Data collection: 3rd/4th Quarter 2022
- Draft: March 2023
- Presentation: May 24, 2023
- Final Report: After Review & Comment Period



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Submarkets

Demographics & Economics

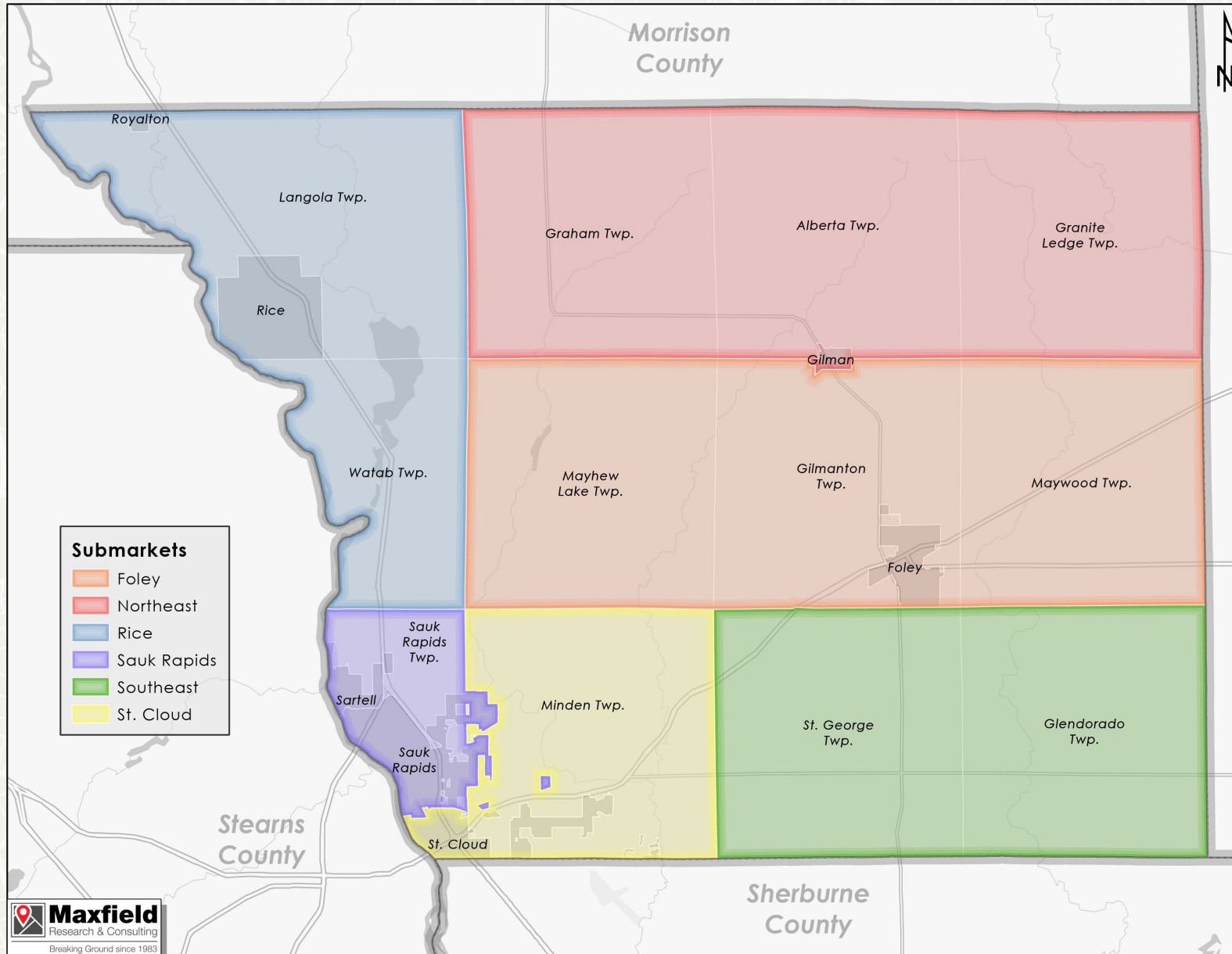
Market Overview

Demand & Recommendations

2023 Mid-Year Outlook

Discussion

Benton County Submarkets



6 Submarkets

- Foley
- Northeast
- Rice
- Sauk Rapids
- Southeast
- St. Cloud

19 Geographies

- 7 cities
- 12 townships



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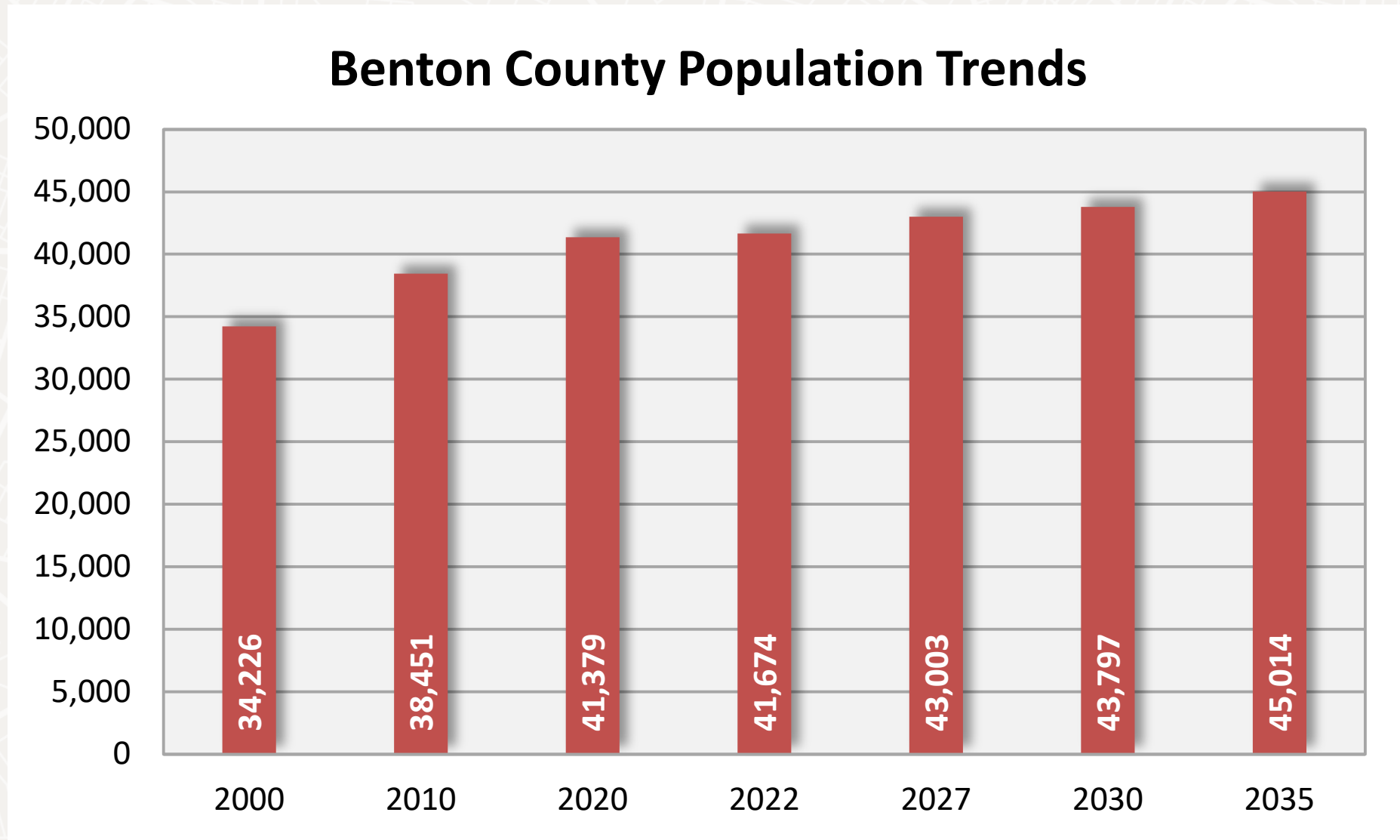
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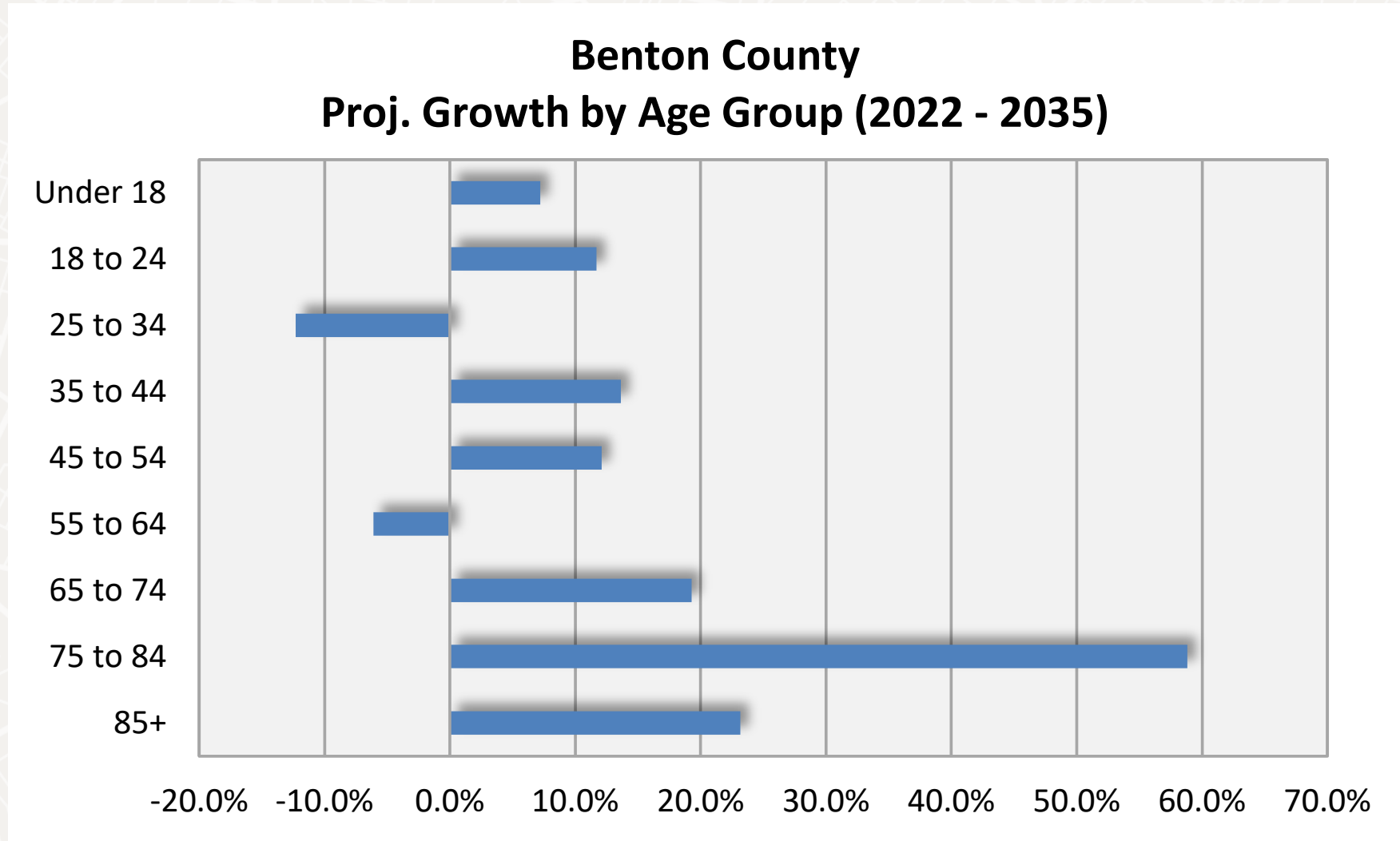
2023 Mid-Year Outlook

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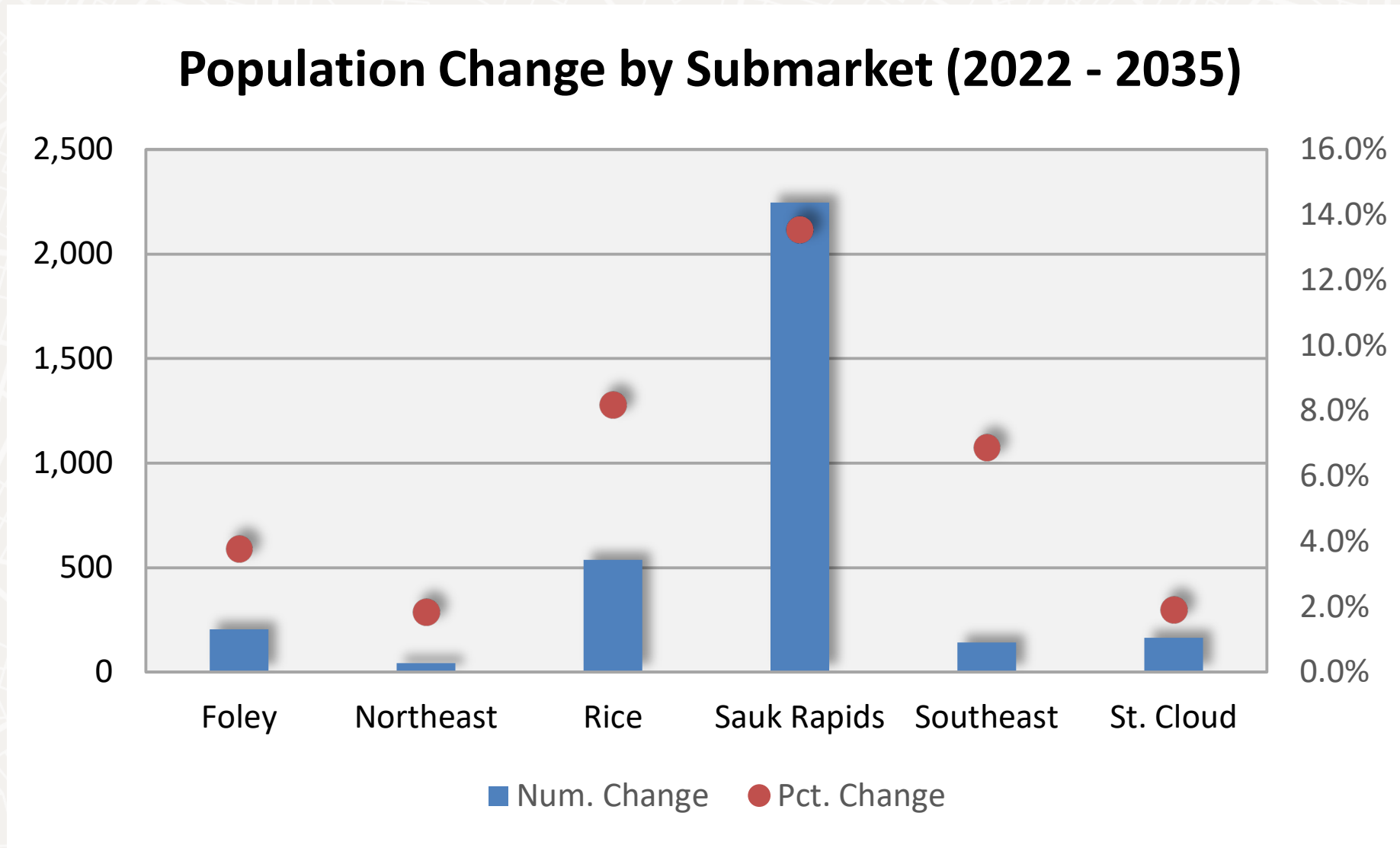
Growing, but deaccelerating...



Highest growth pct. overwhelmingly the 65+ population

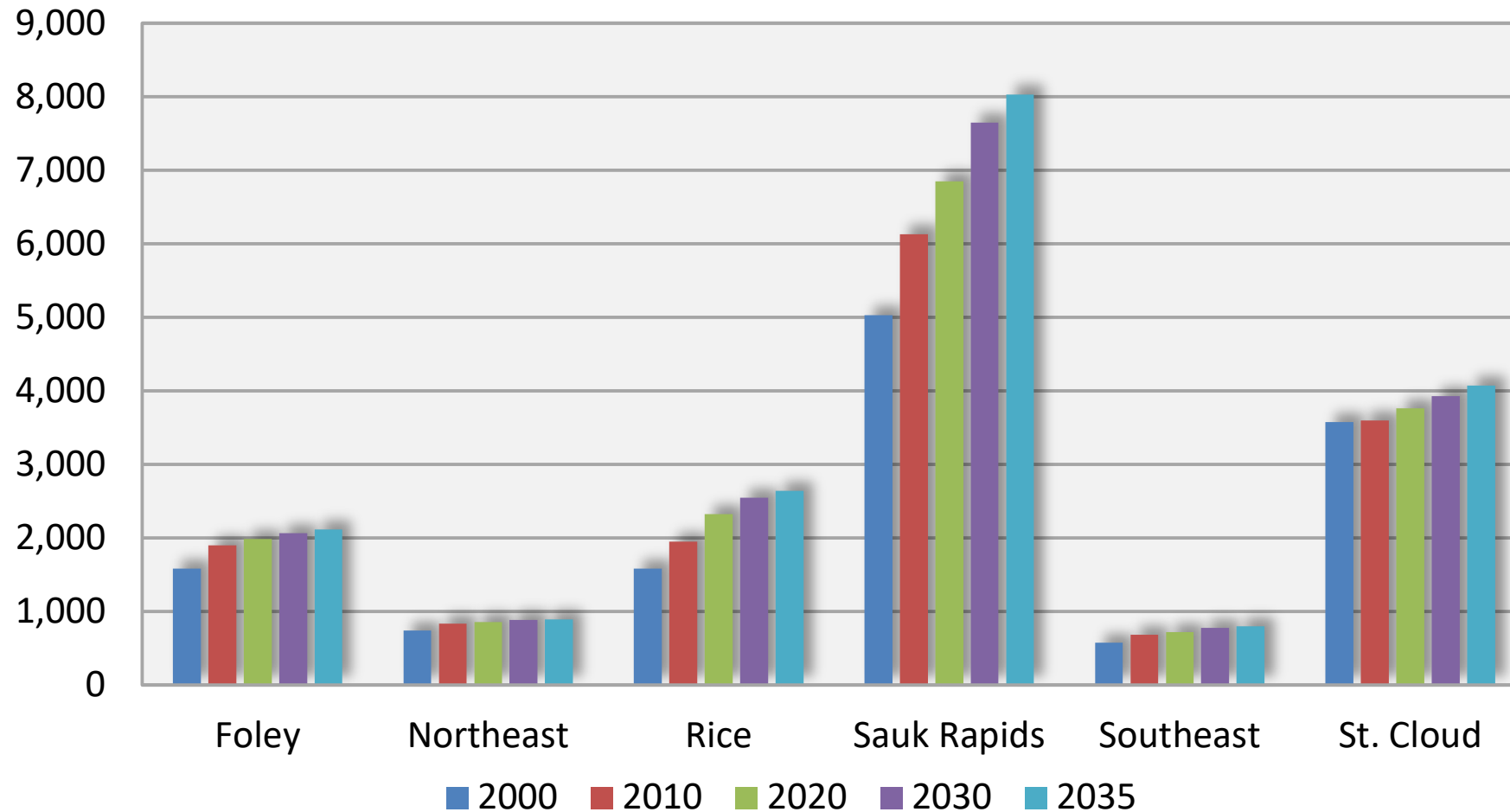


About 2/3s of Growth Slated for Sauk Rapids Submarket...



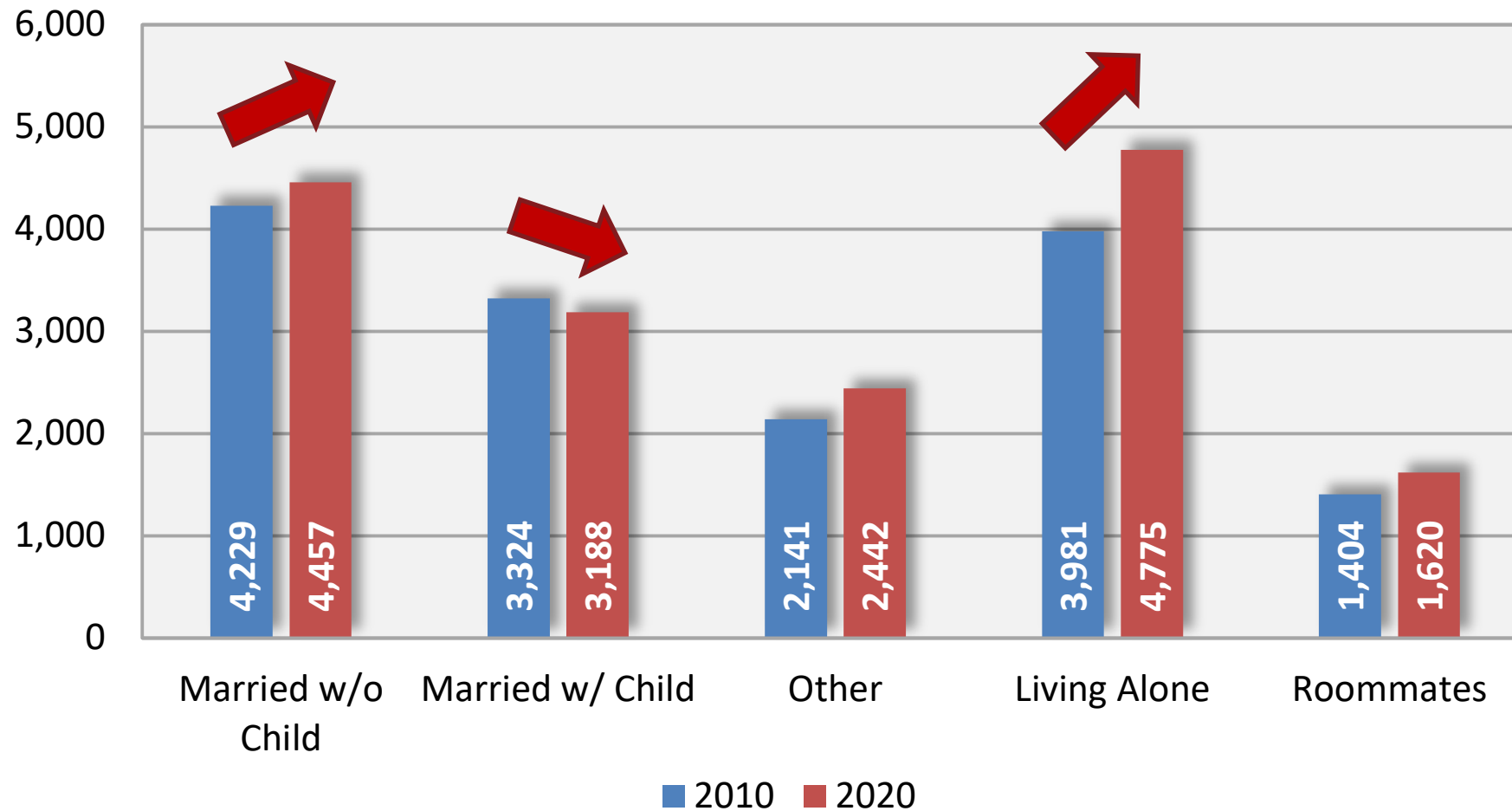
Household growth by submarket

Households by Submarket (2000 - 2035)

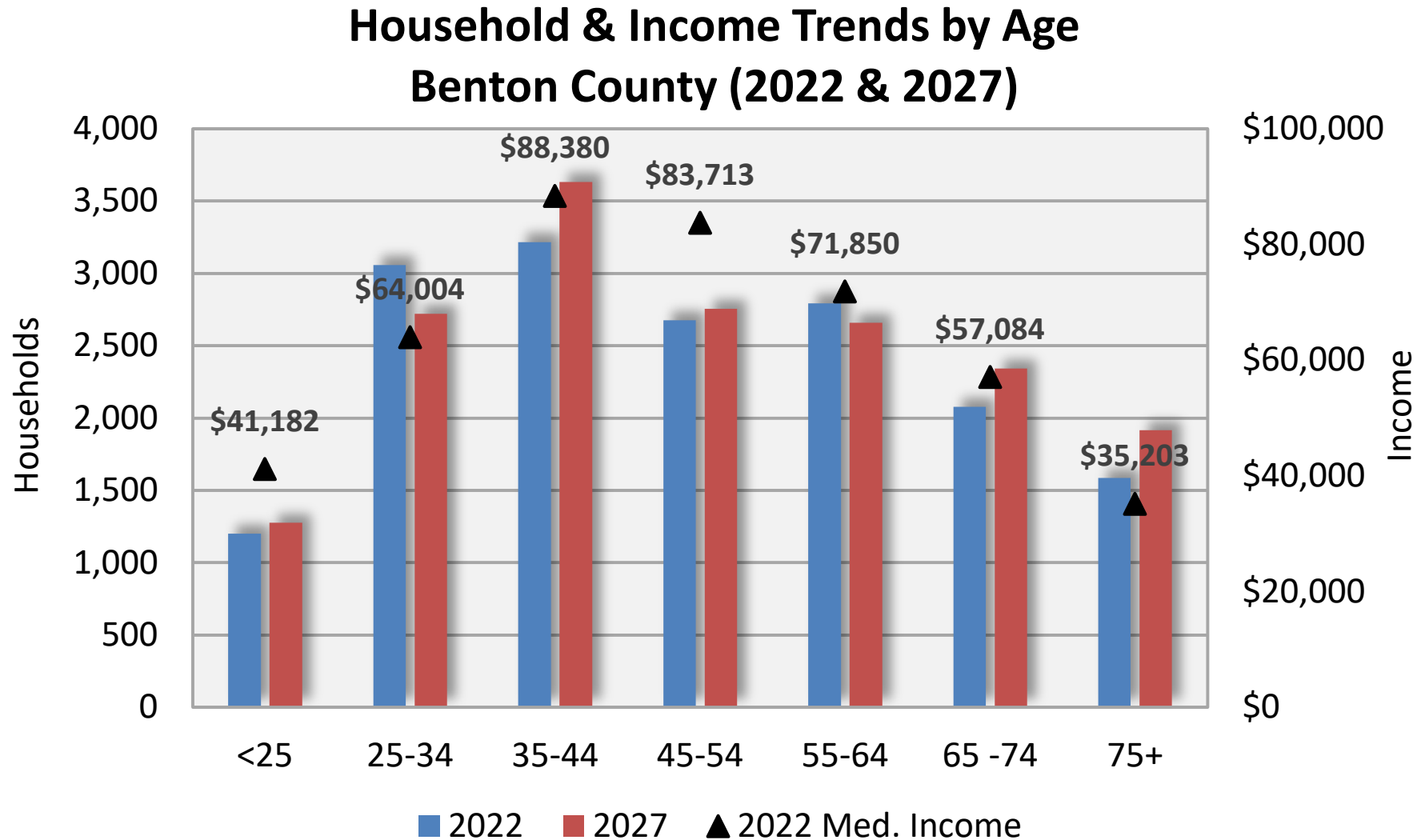


Household growth highest among those Living Alone

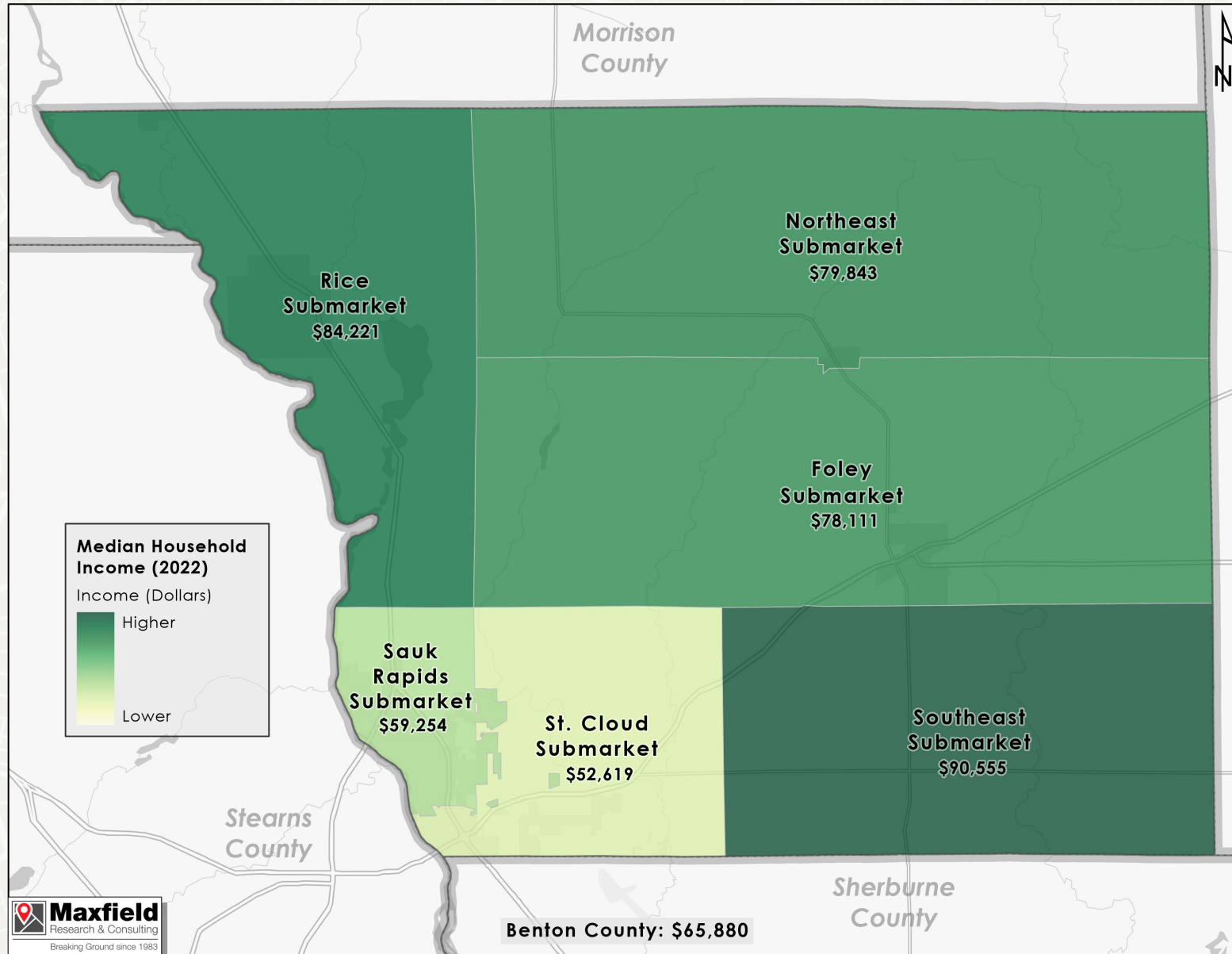
Benton County Household Type (2010 & 2020)



Median income highest in 35 to 44 cohort (Millennials)



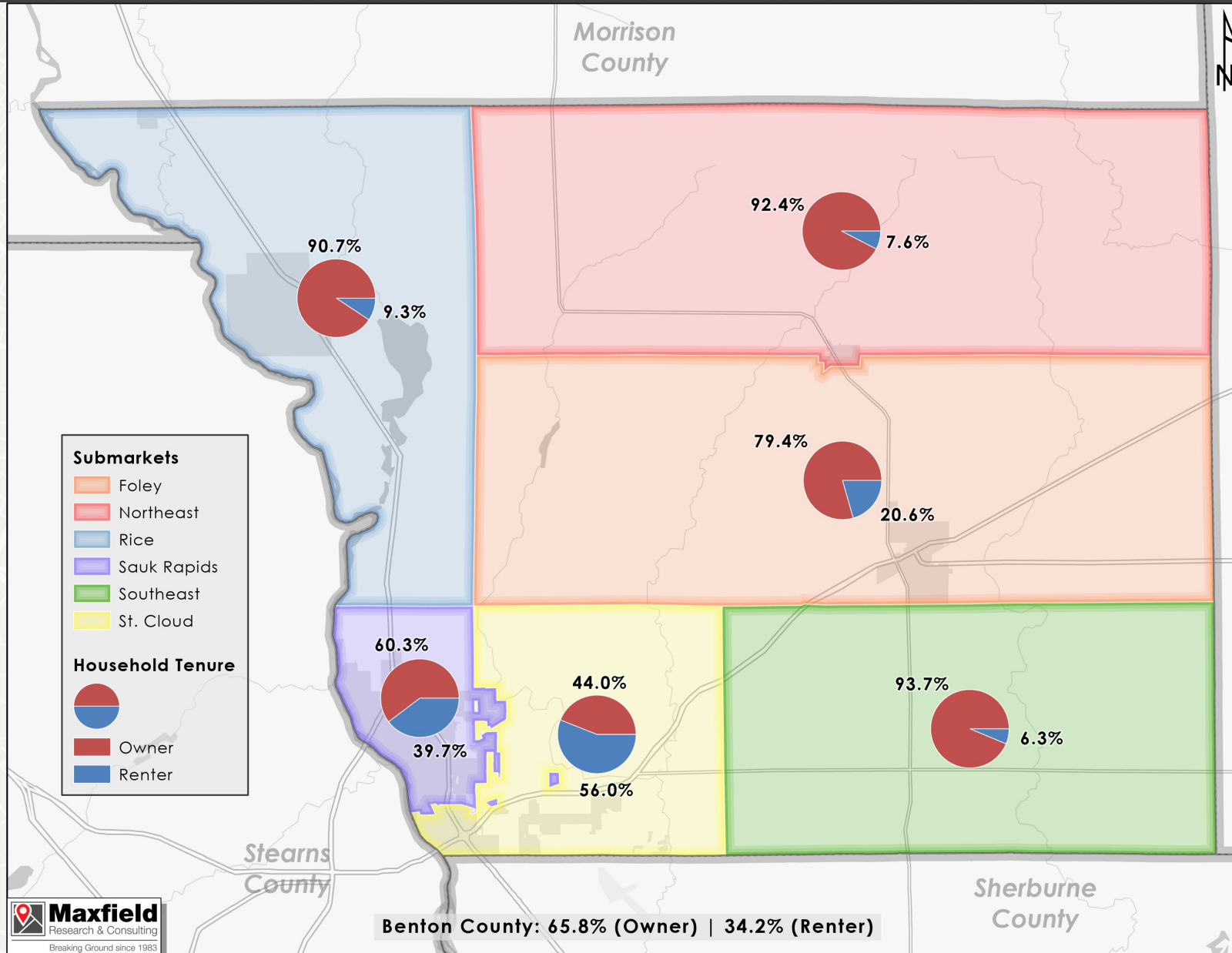
Median incomes various by Submarket...



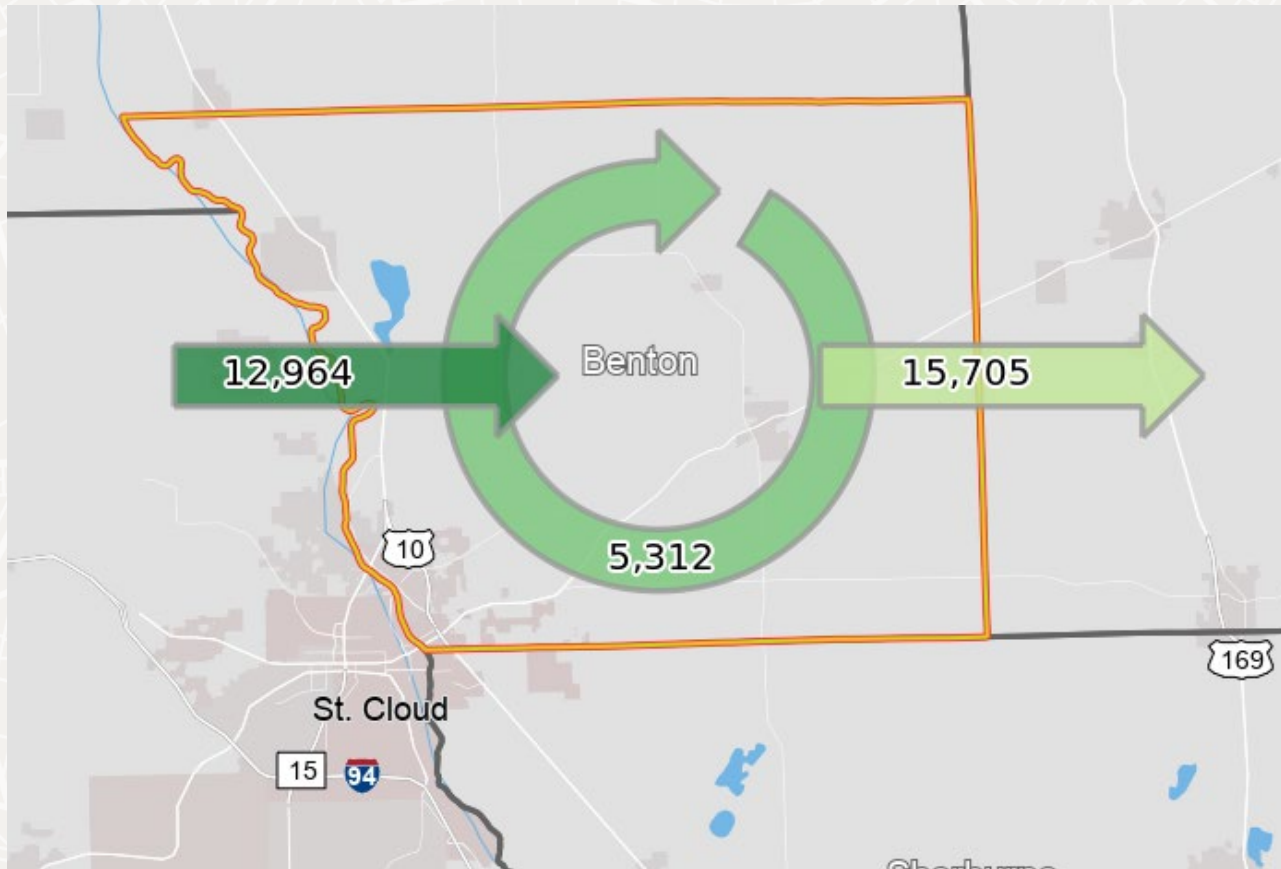
Median Income Comparison (2022):

- Benton: \$65,880
- Stearns: \$71,510
- Sherburne: \$102,154
- St. Cloud MSA: \$70,343
- MN: \$81,851

Homeownership rates vary by Submarket

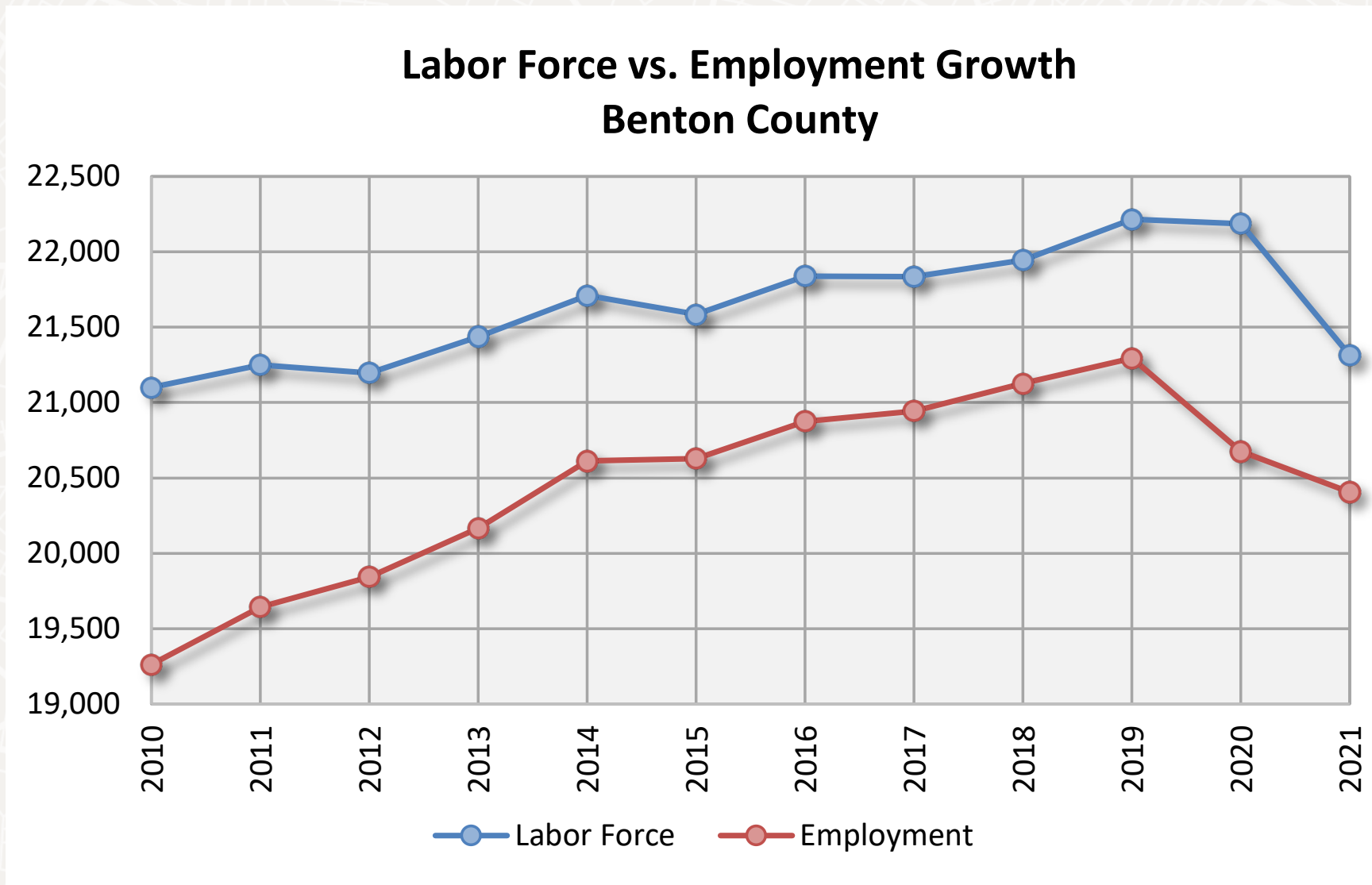


Benton County is both a job exporter & importer

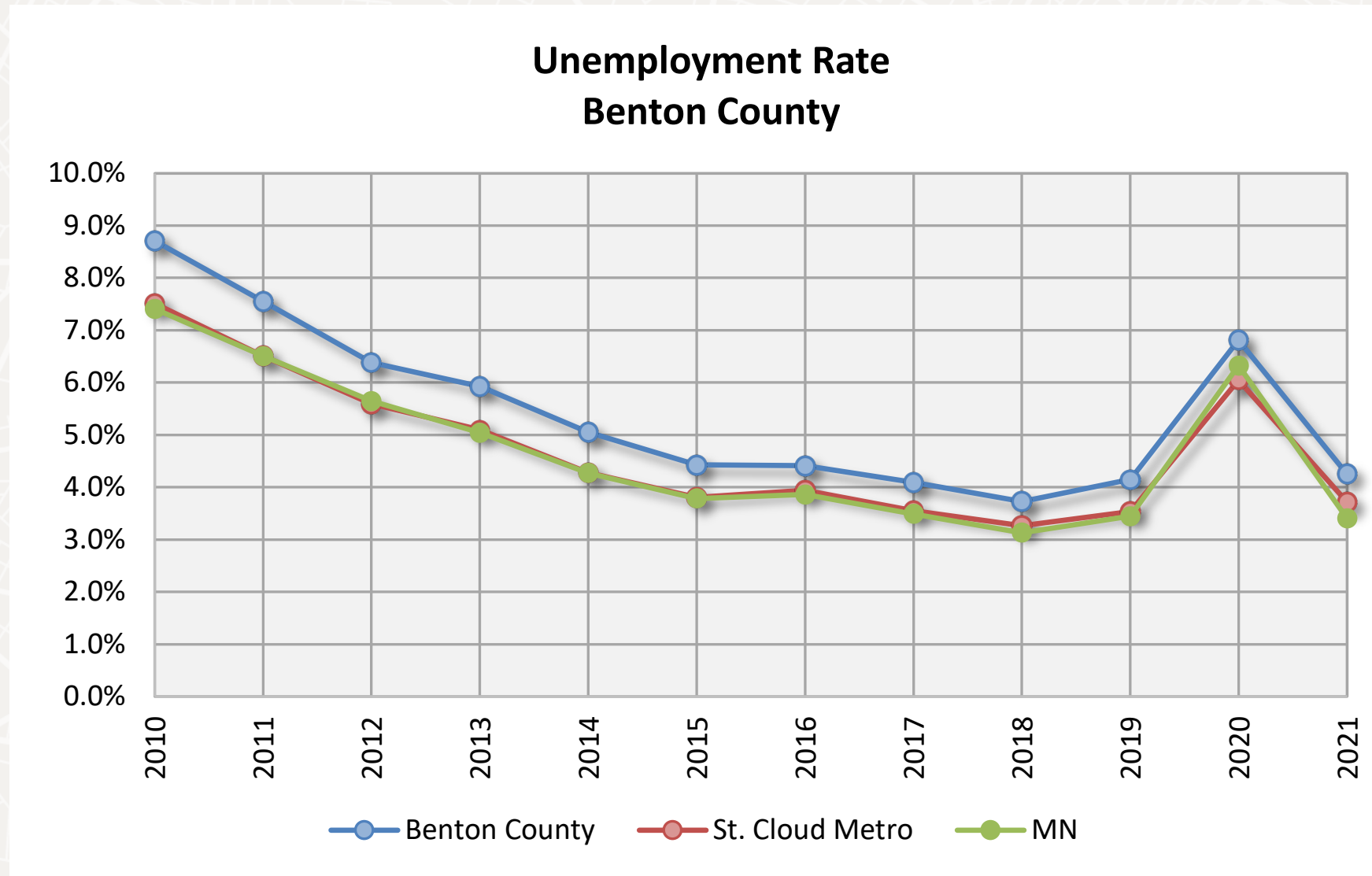


- 16,680 jobs (covered employment) Q1 2022
- Key Industry Sector Jobs:
 - Trade, Transp., & Utilities: 22%
 - Manufacturing: 21%
 - Edu. & Health Services: 20%
- Avg. weekly/annual wage:
 - \$945 | \$49,140 (Benton County)
 - \$989 | \$51,428 (Central MN Region)
 - \$1,376 | \$71,552 (MN)
- 46% residents leave County for employment
- 38% of Benton County workers employed in St. Cloud. 24% of County workers commute from 25 miles or greater

Labor Force & Employment down since Pandemic...

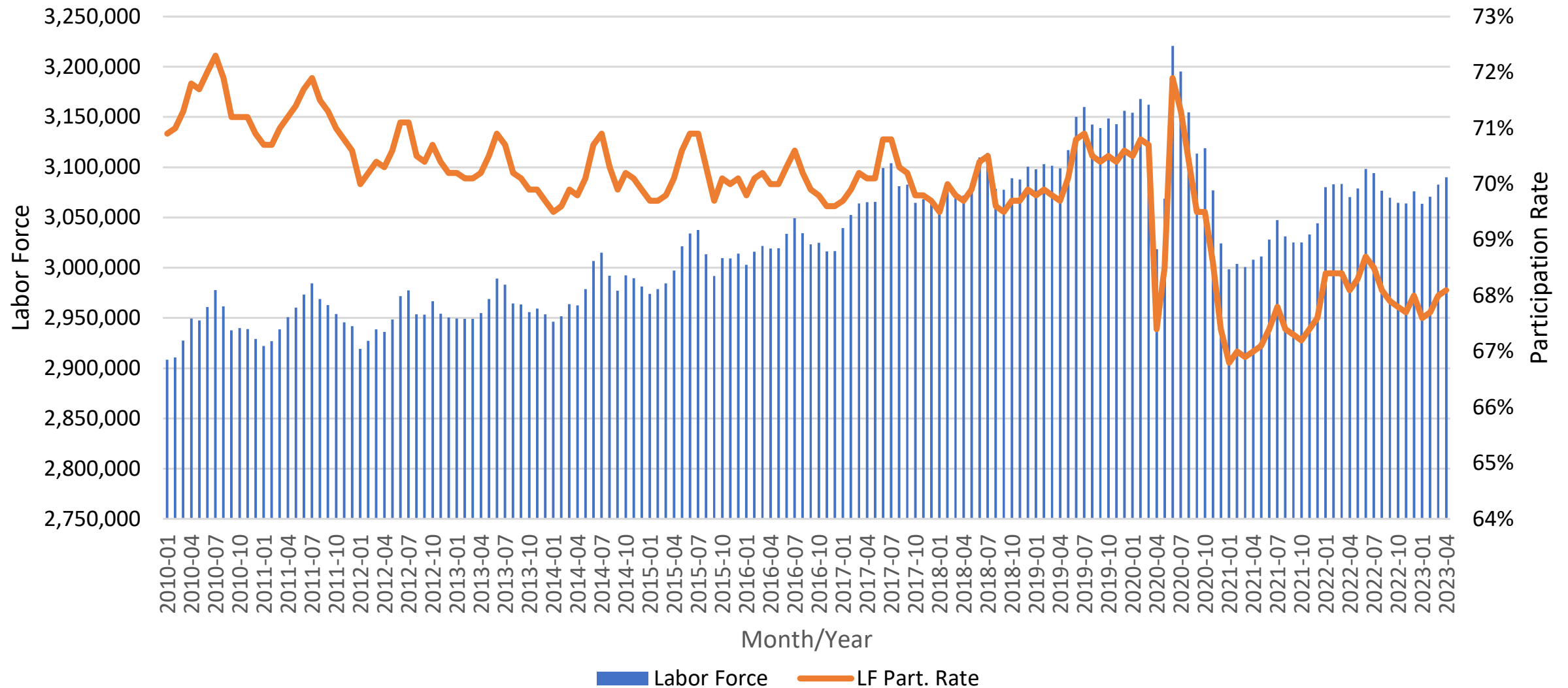


Unemployment mirrors MN



Labor Participation rate down...

Labor Force & Labor Force Participation Rate: Minnesota
2010 to April 2023





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Market Overview

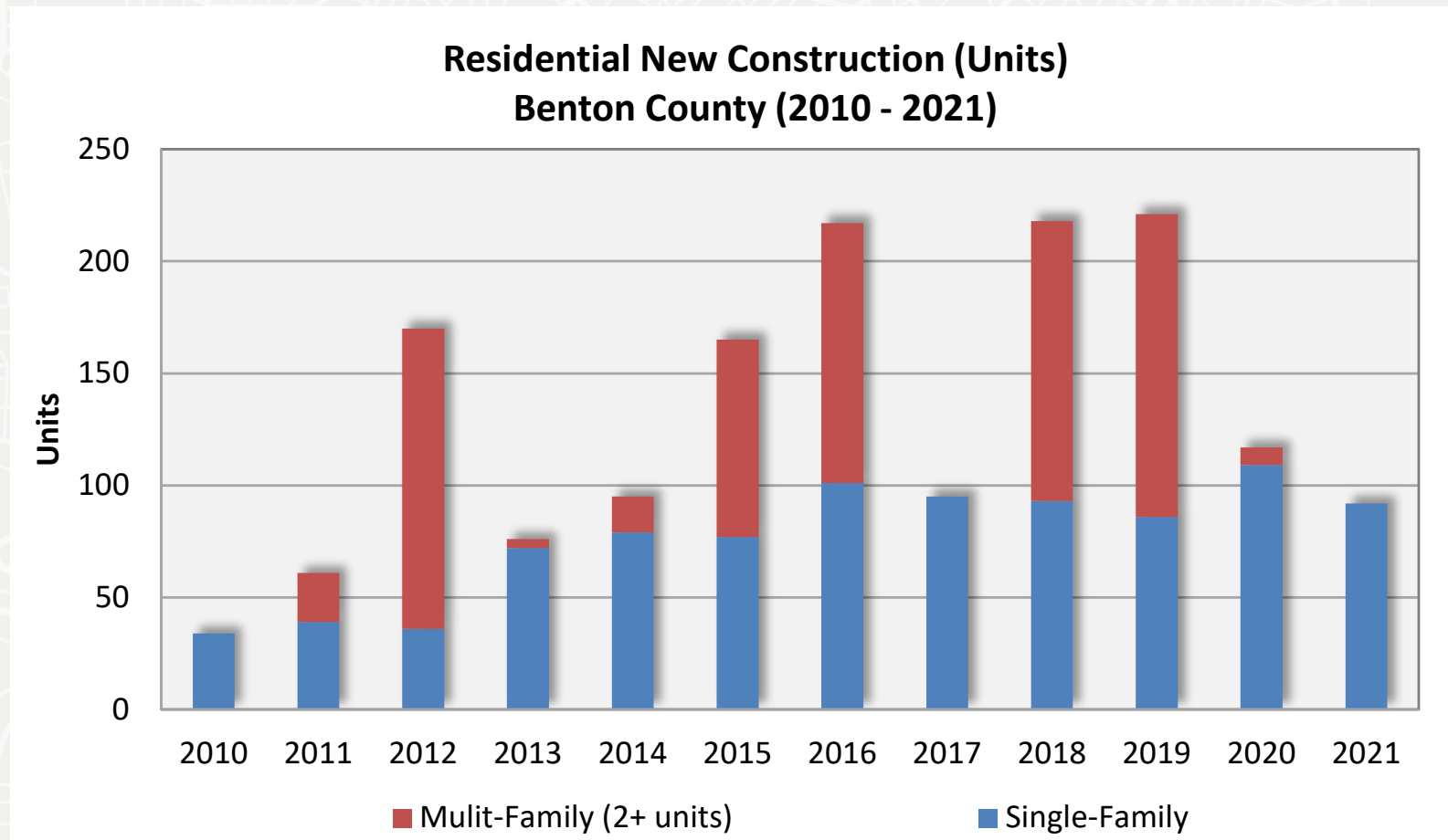
Demand & Recommendations

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Housing Construction Activity

- Averaging 130 units per year
 - 76 units of SF per year
 - 49 units of MF per year
- 59% of development is SF
- Uptick in development from 2016-2019
- 30% of permit activity in Sauk Rapids



Extremely low rental housing vacancies

Overall

- 3,626 units
- 1.5% vacancy rate
- 48% on rental inventory located in Sauk Rapids Submarket

Market Rate

- 3,375 units
- 1.6% vacancy rate
- Avg. monthly rent \$858 | \$0.99 PSF
 - \$723 1BR (\$1.02 PSF)
 - \$875 2BR (\$0.97 PSF)
 - \$1,038 3BR (\$1.01 PSF)

Affordable/Subsidized

- 251 units
- 0% vacancy rate



Catherine Square Apts. (Foley)

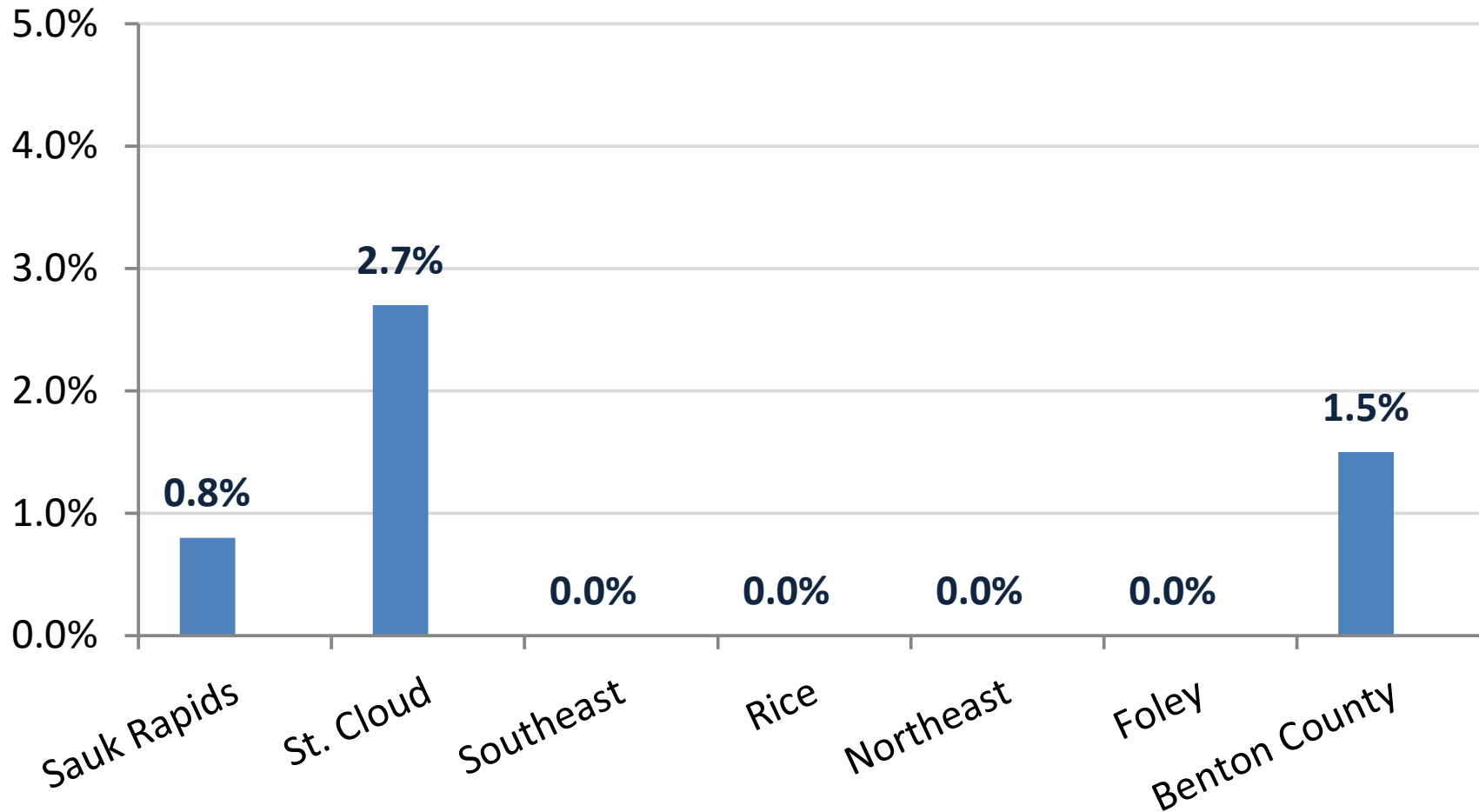


Hidden Hollow Townhomes (Rice)

5% Vacancy = Market Equilibrium

Low Vacancy Rates Across the County...

Market Rate Vacancy Rate by Submarket



Avg. Market Rate Rents:

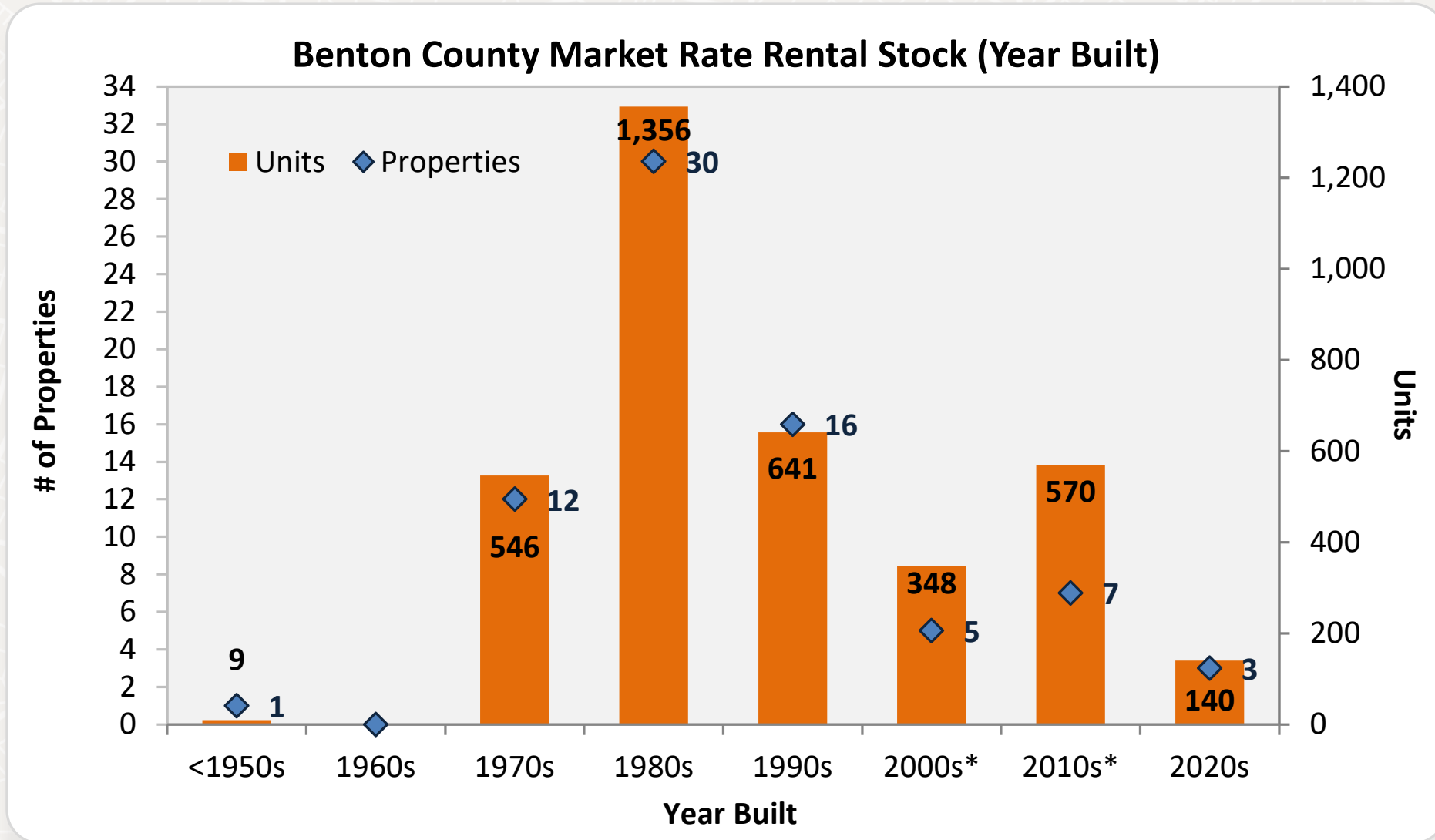
Sauk Rapids: \$945 | \$1.00 PSF

St. Cloud: \$846 | \$0.98 PSF

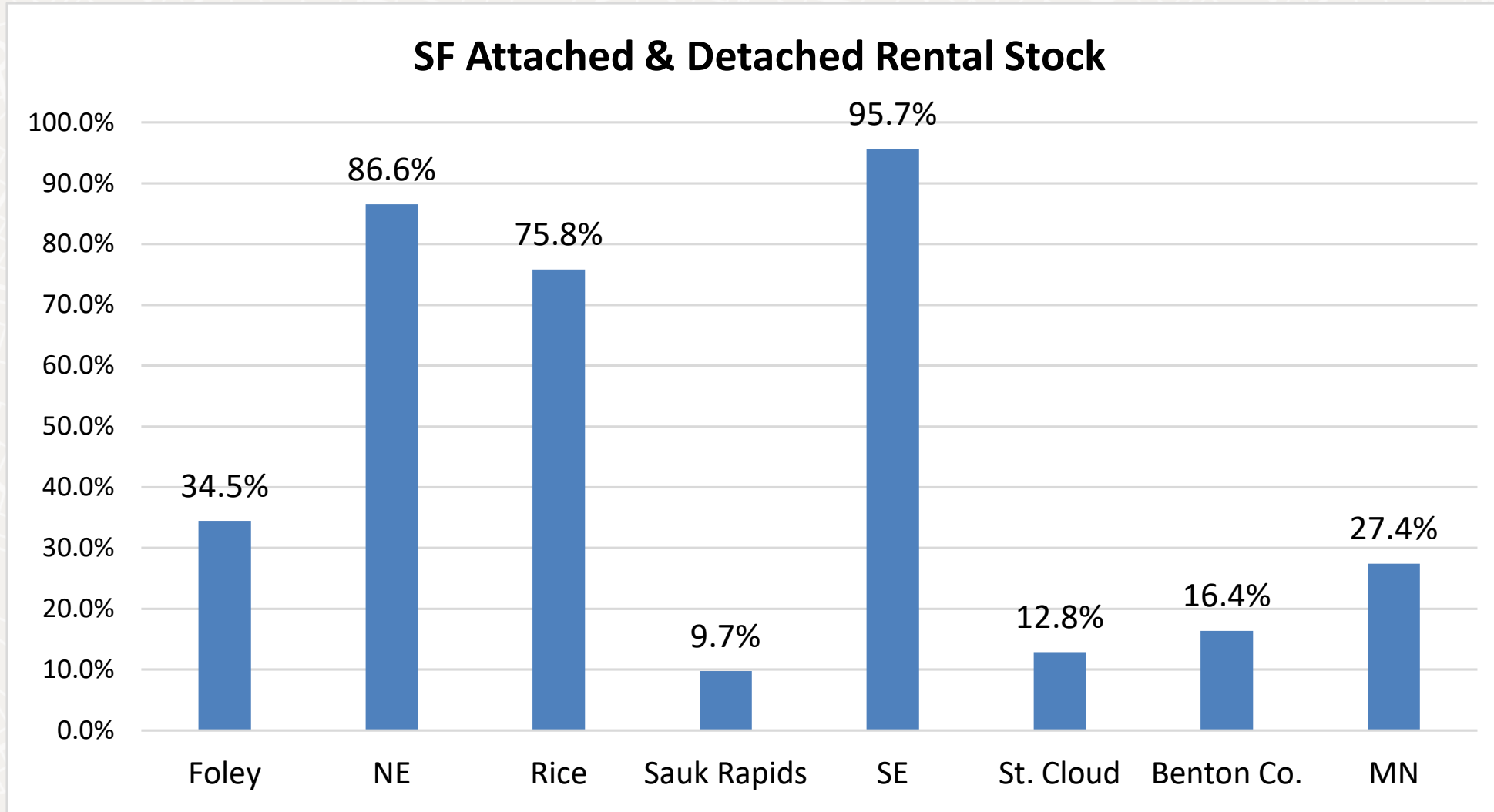
Rice: \$862 | \$1.01 PSF

Foley: \$826 | \$0.97 PSF

Older Rental Housing Stock...



SF Rentals dominate smaller submarkets

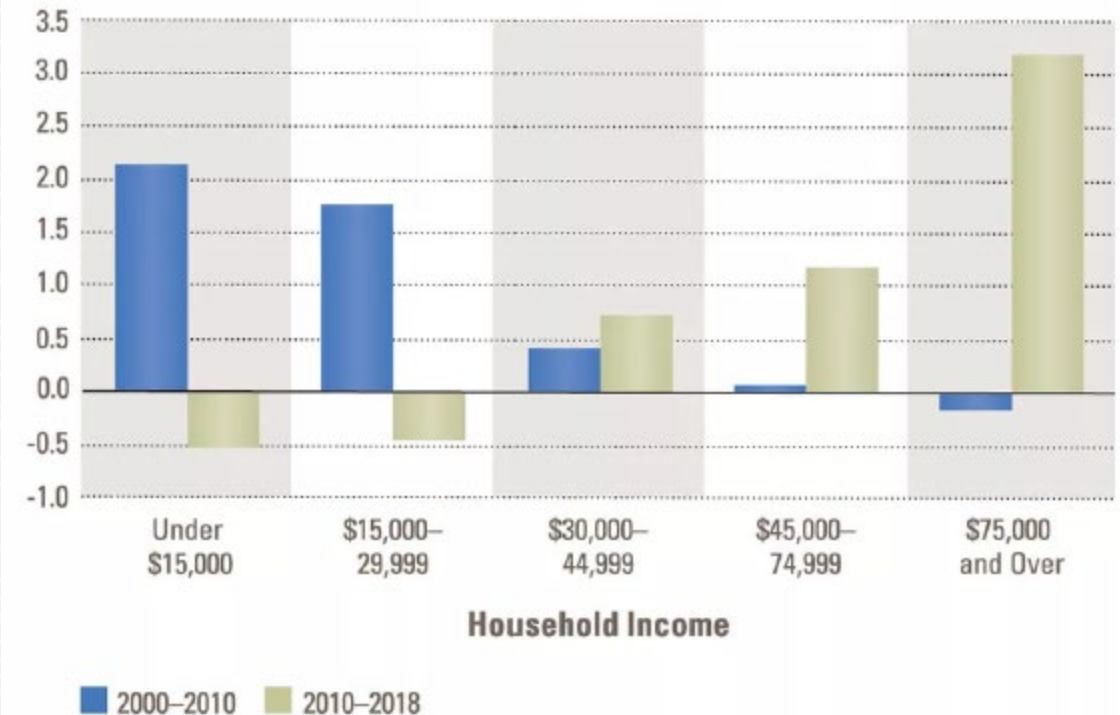


Lifestyle Renters Driving Rental Growth...

- 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)



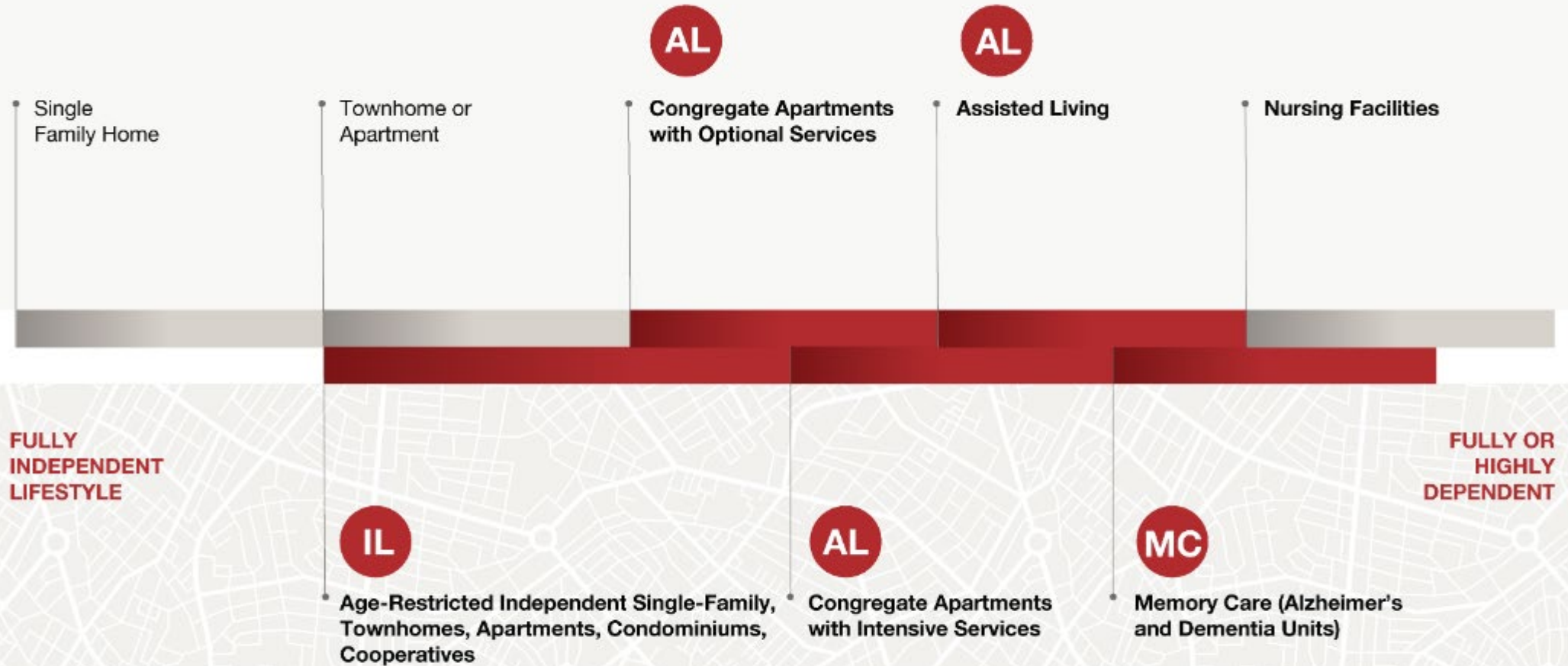
Note: Incomes are adjusted for inflation using the CPI-U for All Items.

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

Apartment Development Trends

- 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
- Amenity driven; today’s renters have higher expectations
- Strong desire for rental units with more space, yards, etc. (townhomes single-family, etc.)
- Lack of for-sale supply & higher mortgage rates has fueled renter demand
- Low vacancies = pent-up demand
- Challenges delivering new product @ reasonable price points
- Hospitality moving into rental space (i.e. short-term rentals)

Senior Housing Continuum

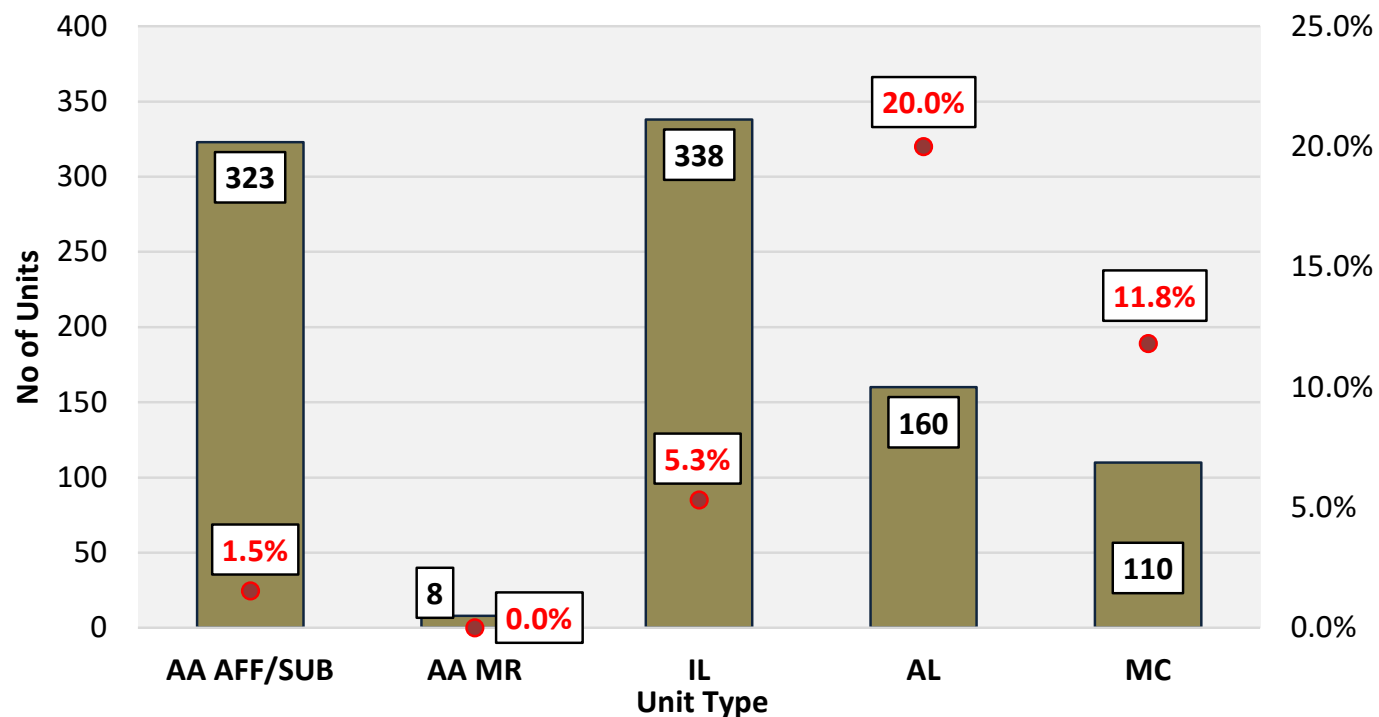


Senior housing inventory

Senior Inventory

- 939 units | 14 properties
- 6.2% Overall vacancy rate
- 77% located in Sauk Rapids Submarket

Senior Housing By Service Level
Benton County



Good Shepherd Campus – Sauk Rapids

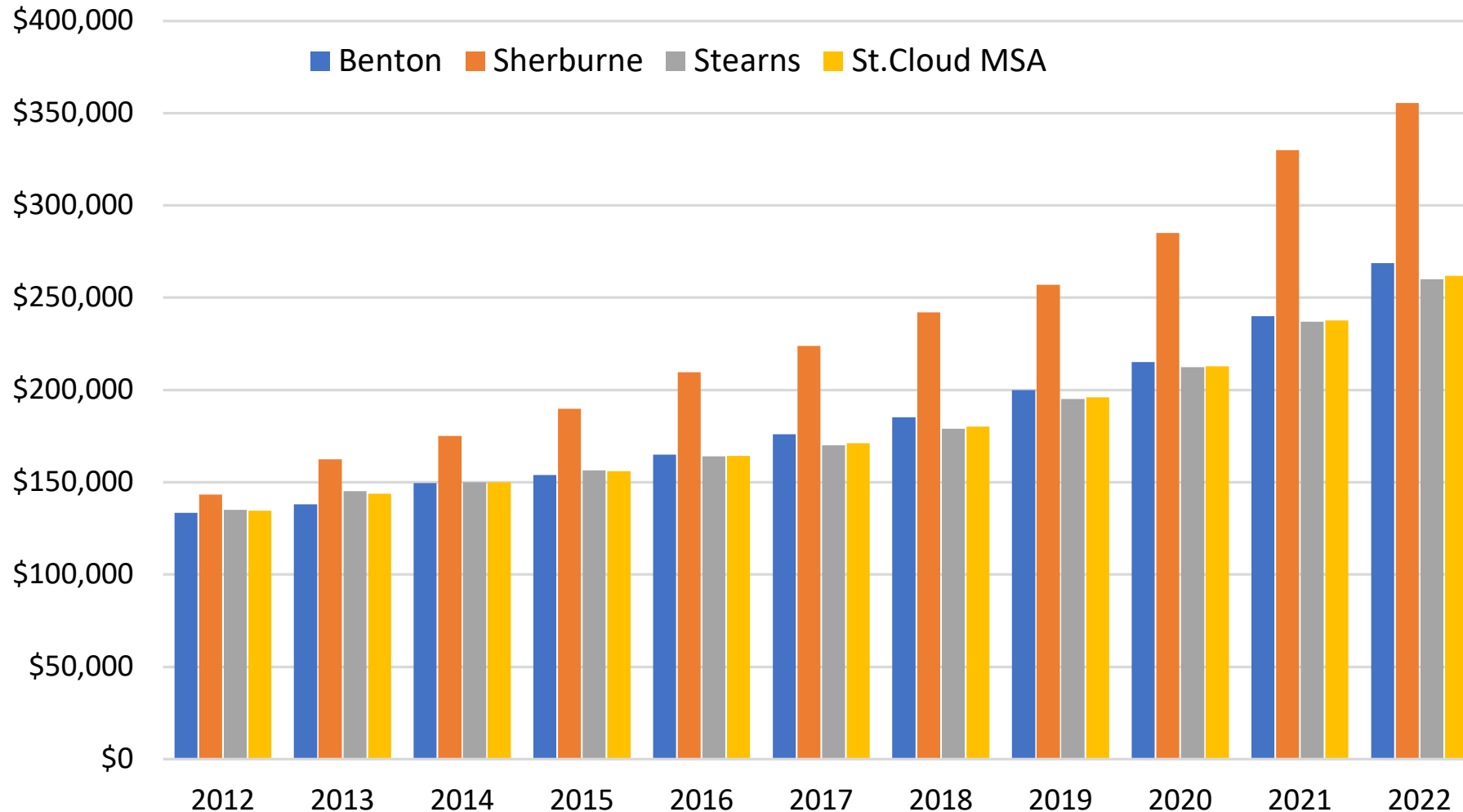


Benton Place (Rice)

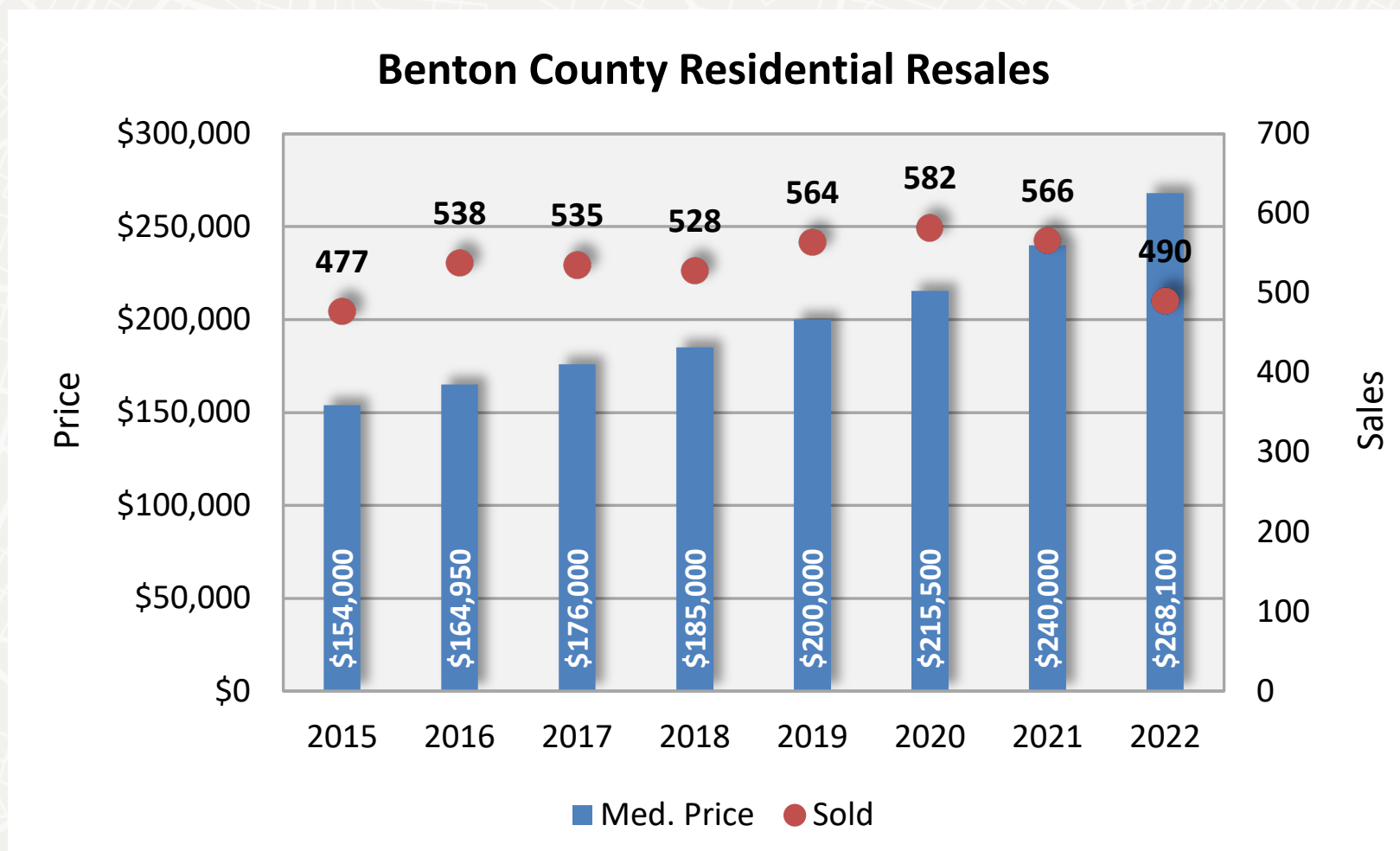
5% - 7% Vacancy = Market Equilibrium

St. Cloud MSA Pricing Comparison

Median Resale Price, Benton County and Comparison, 2012-2022



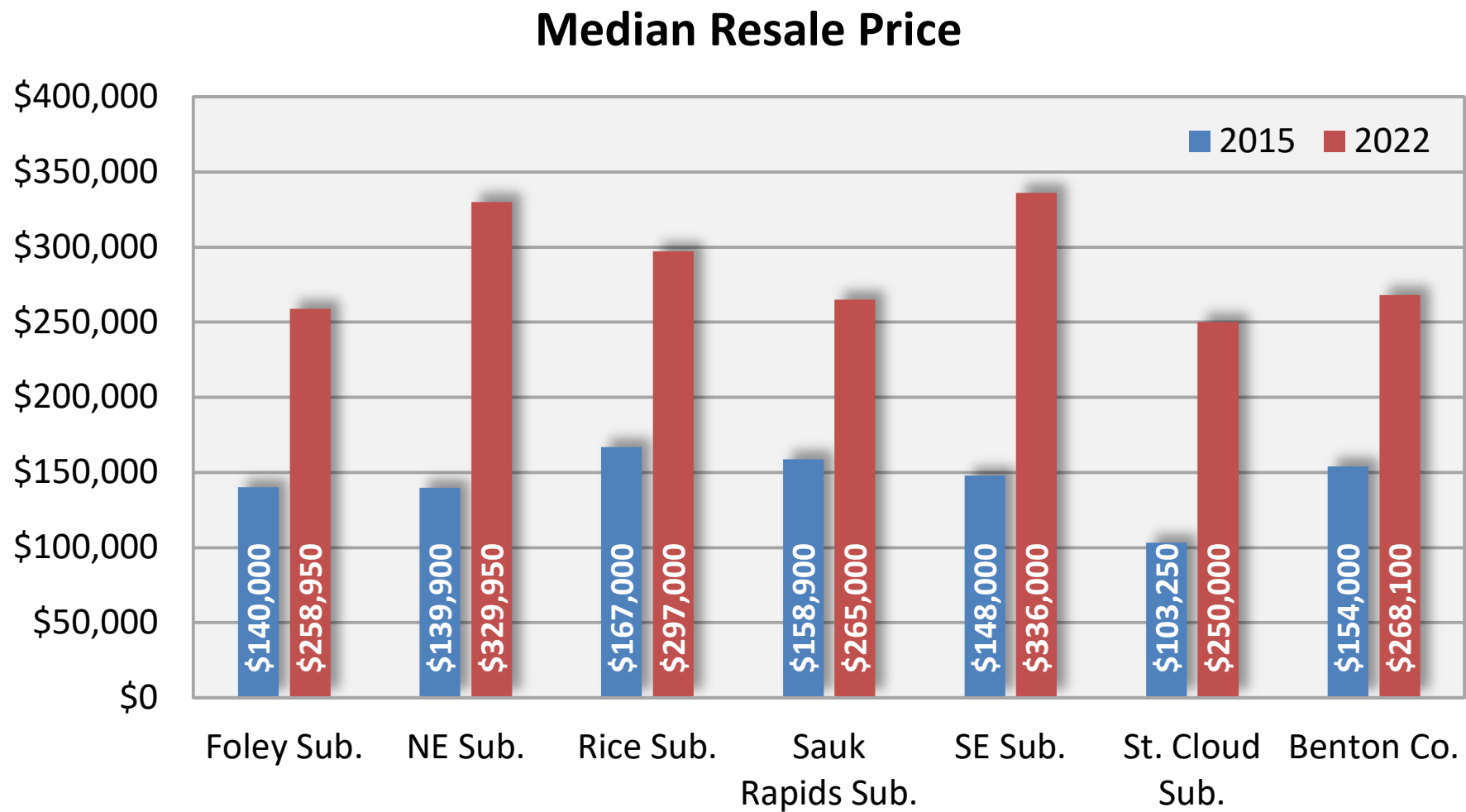
Pandemic Housing Boom: +30% since 2020



- Median sales price:
 - Highest – NE Sub. (\$329,950)
 - Lowest – St. Cloud Sub. (\$250,000)

- Resales:
 - Highest – Sauk Rapids Sub. (234) | 48% of County
 - Lowest – NE Sub. (6) | 1% of County

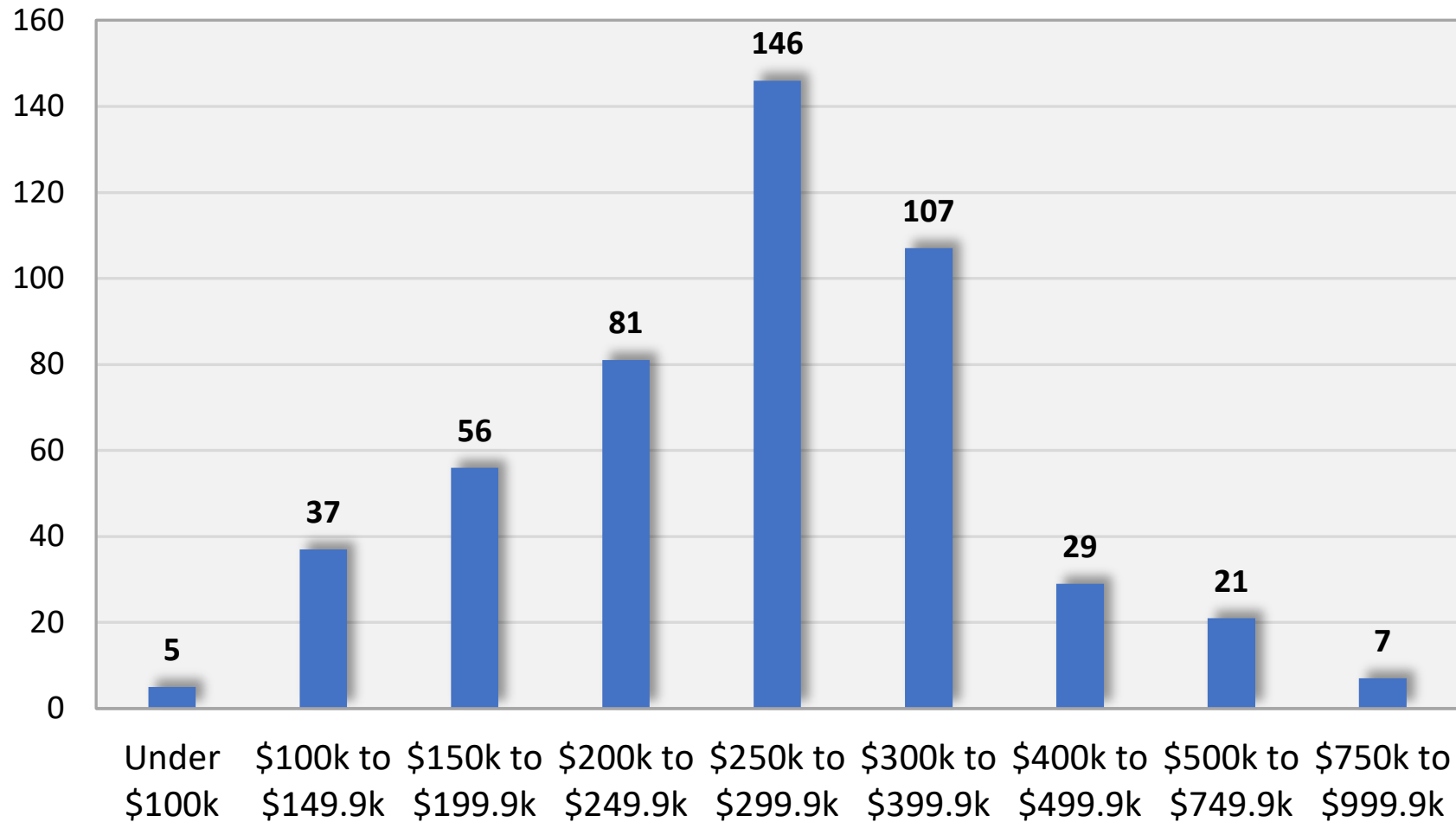
Home Prices up 11% annually since 2020



Note: No data available for the SE Sub. in 2022. Data presented for 2021.

2022: 46% of Resales between \$200k to \$300k

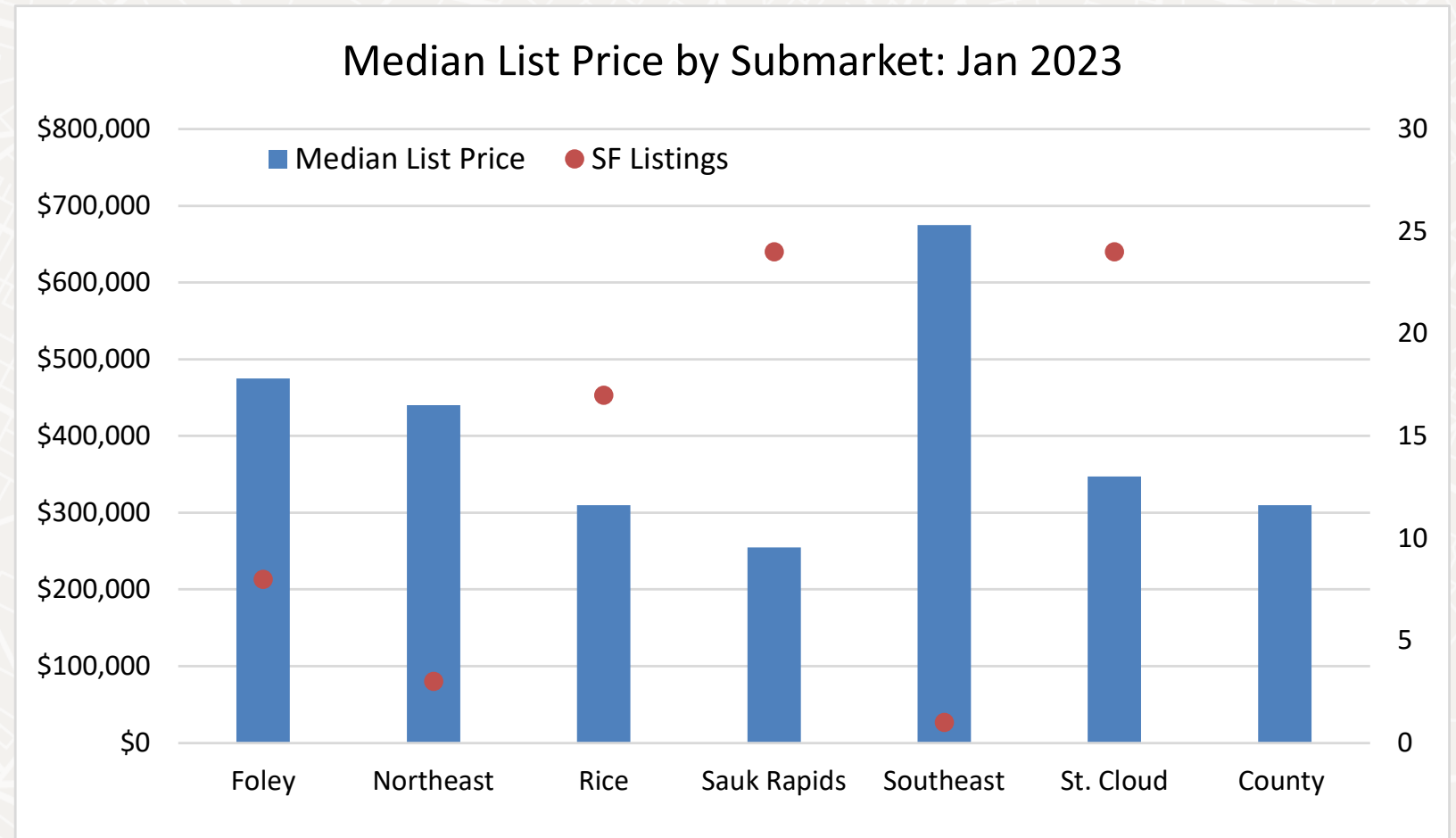
Resales by Price - Benton County (2022)



Limited For-Sale Inventory | Homes sell quickly

Active Listings (Jan. 2023)

- 77 active listings
- No multifamily listings
- Avg. price: | \$320k
- Median price | \$310k
- 62% in St. Cloud & Sauk Rapids
- Average PSF = \$144

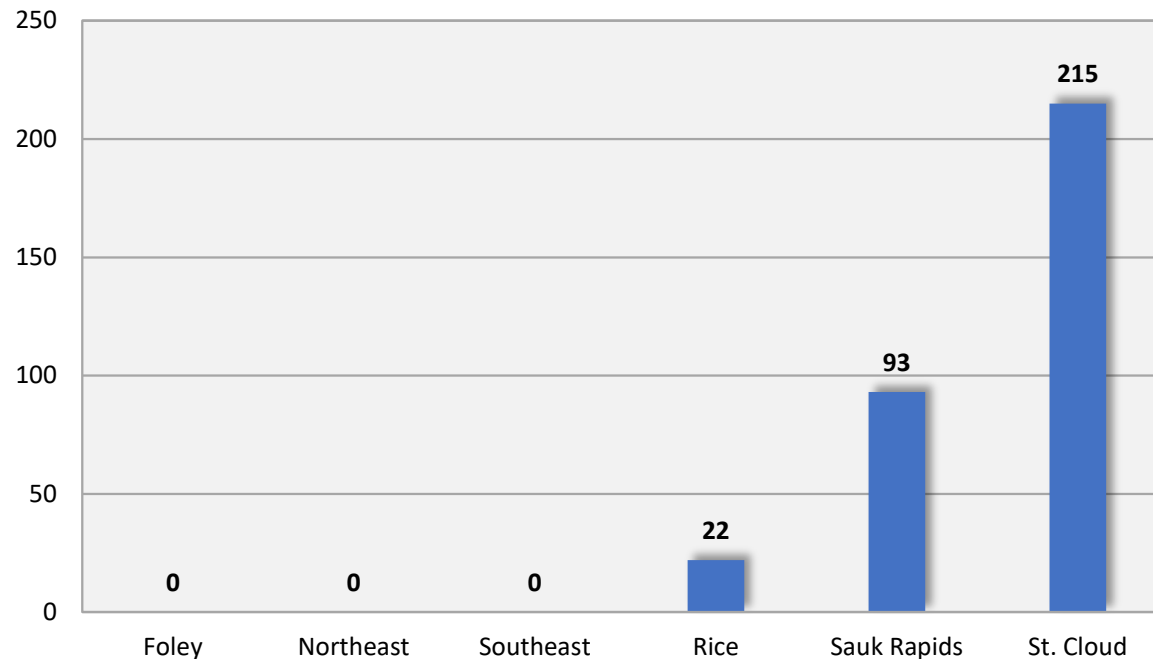


Lot Inventory | Lots Needed

Lot Inventory/Supply

- 330 vacant lots | 22 active subdivisions
- Nearly 65% in St. Cloud submarket (six subdivisions)
- No newer platted lots in Foley, Northeast, & Southeast submarkets

Vacant Lots: New Subdivisions by Submarket

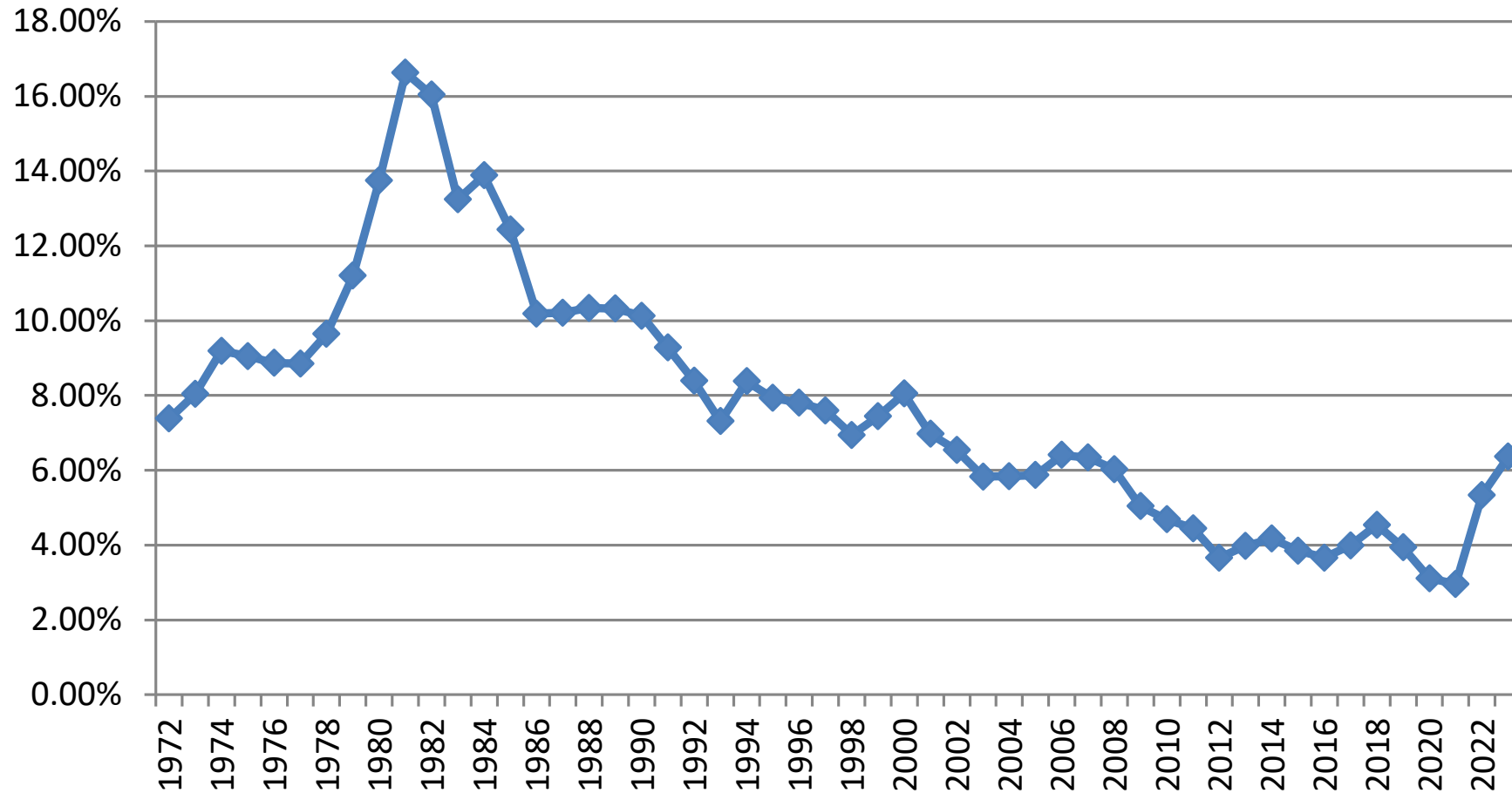


New Construction Market

- Build-to-suit
- No production builders | Local builders
- Few builders will construct spec homes
- New product targets entry-level to move-up or executive buyers
- All detached single-family housing | Split level dominated
- Avg. Price: \$343k | \$180 PSF

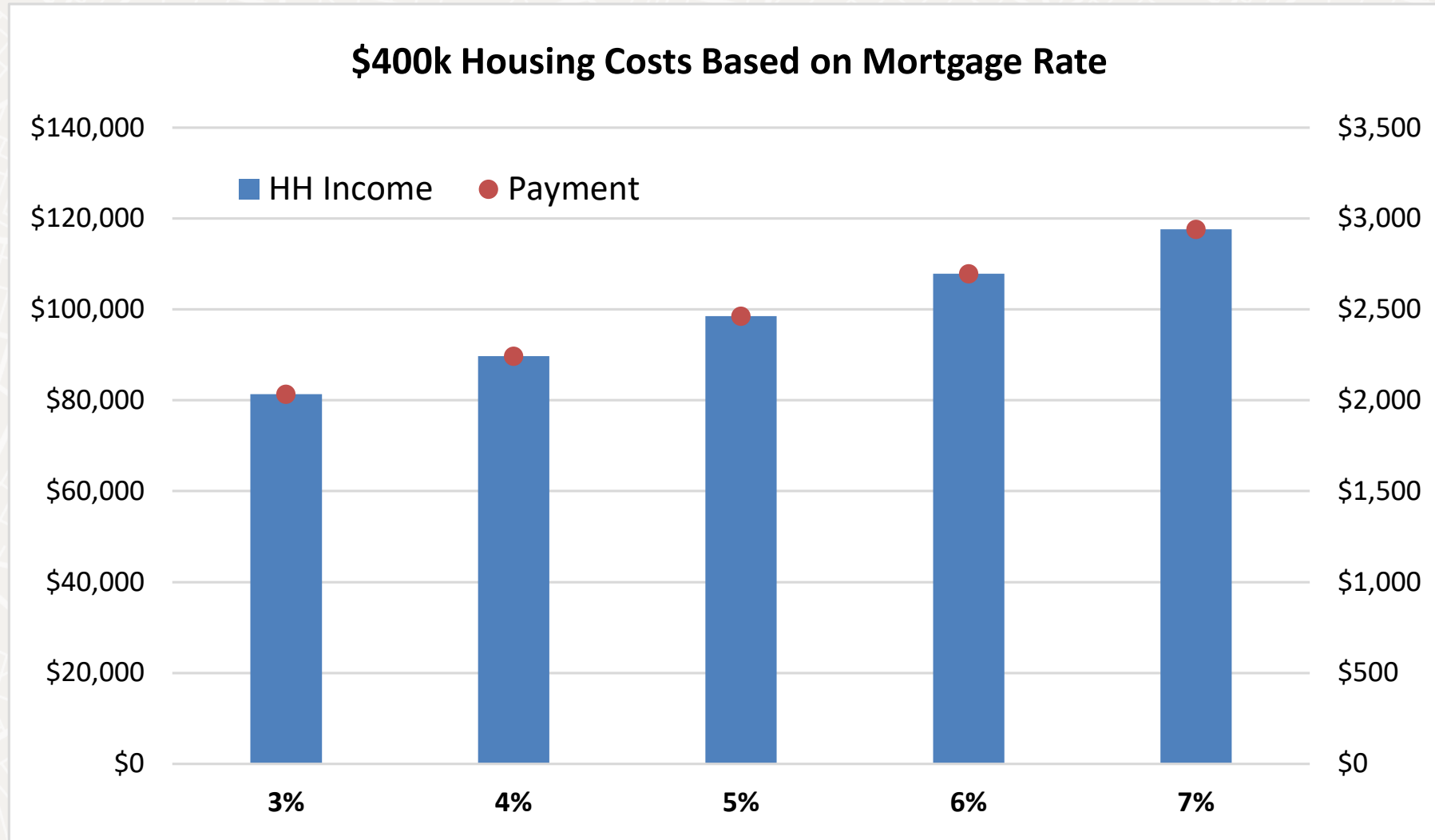
Interest Rates Rising...still historically low

Historic 30-year Mortgage Rates 1972 to 2023 YTD



FOMC Mtg. Mtg. Date	Rate Chage (bps)	Federal Funds Rate
3/3/2020	-150	1.0% to 1.25%
3/16/2020	-100	0.0% to 0.25%
3/17/2022	+25	0.25% to 0.50%
5/5/2022	+50	0.75% to 1.0%
6/16/2022	+75	1.5% to 1.75%
7/27/2022	+75	2.25% to 2.5%
9/21/2022	+75	3.0% to 3.25%
11/2/2022	+75	3.75% to 4.0%
12/14/2022	+50	4.25% to 4.5%
2/1/2023	+25	4.5% to 4.75%
3/2/2023	+25	4.75% to 5.0%
5/3/2023	+25	5.00% to 5.25%

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

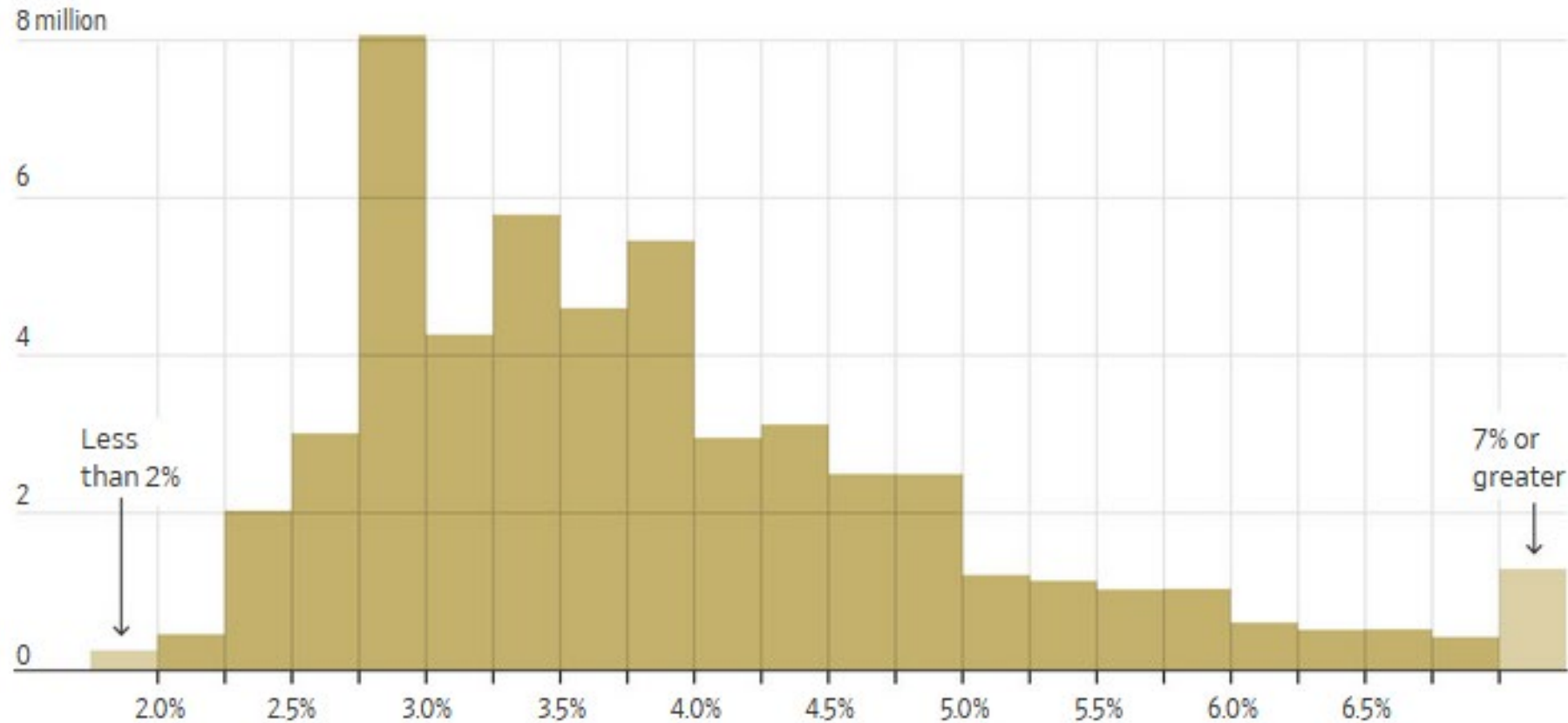


Note: Based on 10% down, 30-year fixed, good credit, HO insurance, property taxes, and PMI. Change between 3% and 7% mortgage rate.

Mortgage Rate Lock In Effect...holding back supply

Nearly 75% of existing mortgages are under 4%!

Active primary mortgages by interest rate



Note: As of March 31
Source: Black Knight

Why is the entry-level & middle market missing?

- Zoning regulations
- Density requirements
- Design/material requirements
- Permit/impact fees
- Infrastructure costs
- Building code changes
- Increasing labor and material costs
- Land/acquisition costs increasing
- Financing challenges for smaller developers/builders
- Lenders tightening underwriting standards/bank regulation increasing with bank failures
- Economies of scale needed



Tools to alleviate costs | New production not keeping pace

Multiple Strategies needed to address supply & demand challenges...

Public Sector (sample)

- Relax zoning requirements (density, lot size, parking, etc.)
- Regulatory fees (passed to end consumer)
- Fee reductions (Entitlement, permit, impact)
- Fast tracking (time is money)
- Tax abatement/TIF, etc.
- Housing Trust Funds & other housing programs
- Land acquisition contribution, infill sites, etc.
- Opportunity zone tax breaks
- Accessory Dwelling Units (ADU), Multi-gen, tiny homes, etc.
- Financing instruments
- Private-public partnerships

Improving Productivity

- Modular housing or Prefab
- Emerging construction (AI, 3D printing, automatize, etc.)
- Alternative construction materials
- Design innovations
- Promotion of the trades (schools)
- Builders in interim:
 - Reduce lot size
 - Reduce square footage
 - Less expensive finishes



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Demand Methodology

Demand Overview

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

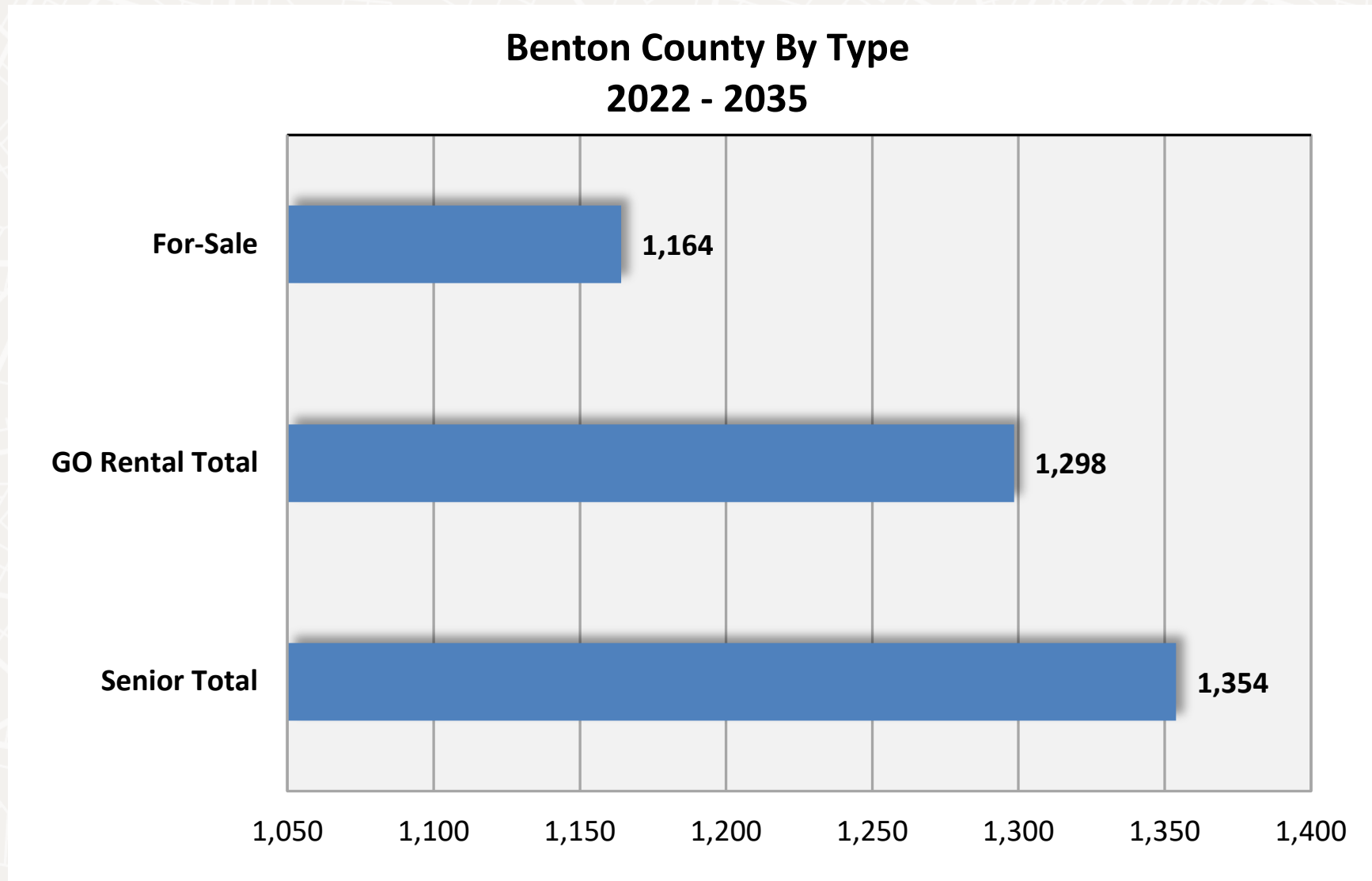
Demand Driver Examples

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

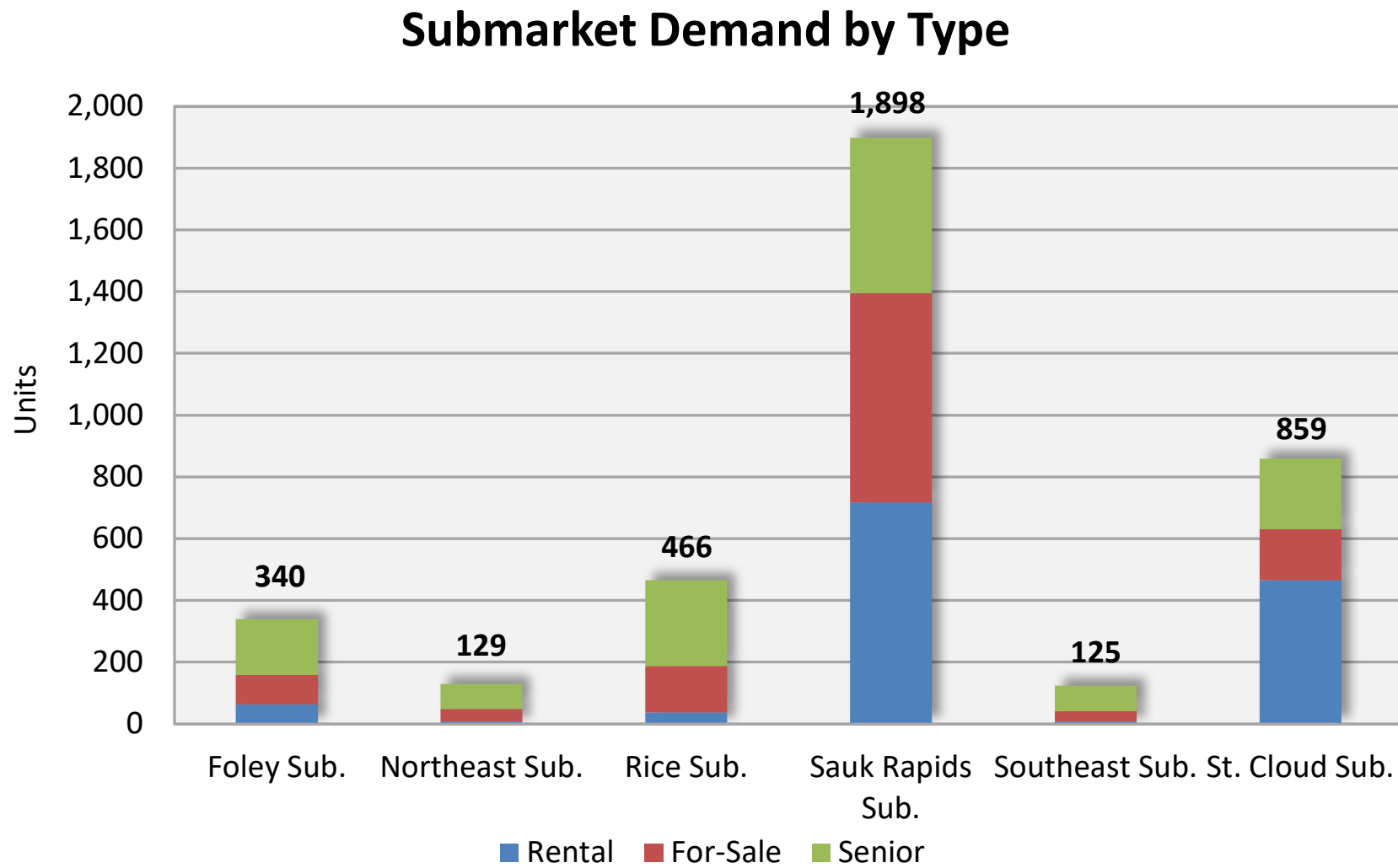
Demand Assumptions/Methodology

- 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

Demand for 3,800 housing units through 2035



Sauk Rapids Submarket – 50% of all demand



SF For-Sale Recommendations

- Recommend 3 to 5-year lot supply
- Demand for over 800 SF homes
- Demand across all price points, however entry-level SF becoming more difficult to build given development cost
- \$250k - \$400k highest demand, but growing need for executive homes too

Single-Family Demand by Submarket by 2035

Submarket	Units	Pct.
Foley	68	8.4%
Northeast	33	4.1%
rice	113	13.9%
Sauk Rapids	440	54.1%
Southeast	28	3.4%
St. Cloud	132	16.2%
Total	814	100.0%



Pine Oaks Subdivision (Center Twp.)



Manufactured Home (Davis Homes)

MF For-Sale Recommendations

- Demand for 350 units
- Lack of association-maintained product
- Potential housing types:
 - Twin homes/duplex
 - Att. / Det. Townhomes/Villas
 - Townhomes/Quads

Multifamily For-Sale Demand by Submarket by 2035

Submarket	Units	Pct.
Foley	29	8.3%
Northeast	8	2.3%
rice	38	10.9%
Sauk Rapids	237	67.7%
Southeast	5	1.4%
St. Cloud	33	9.4%
Total	350	100.0%



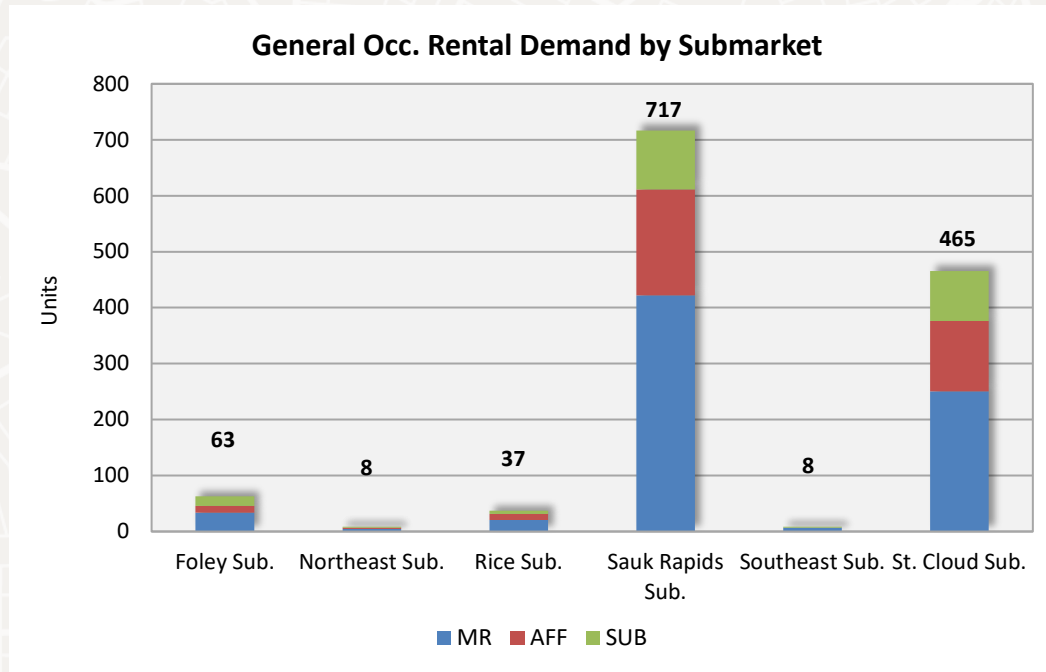
Garden Villas Sauk Rapids



Waters Edge at Don Lake

Rental Housing Recommendations

- Demand for nearly 1,300 units
 - 738 market rate
 - 340 affordable
 - 220 subsidized
- Demand for all incomes, HH types, and product types



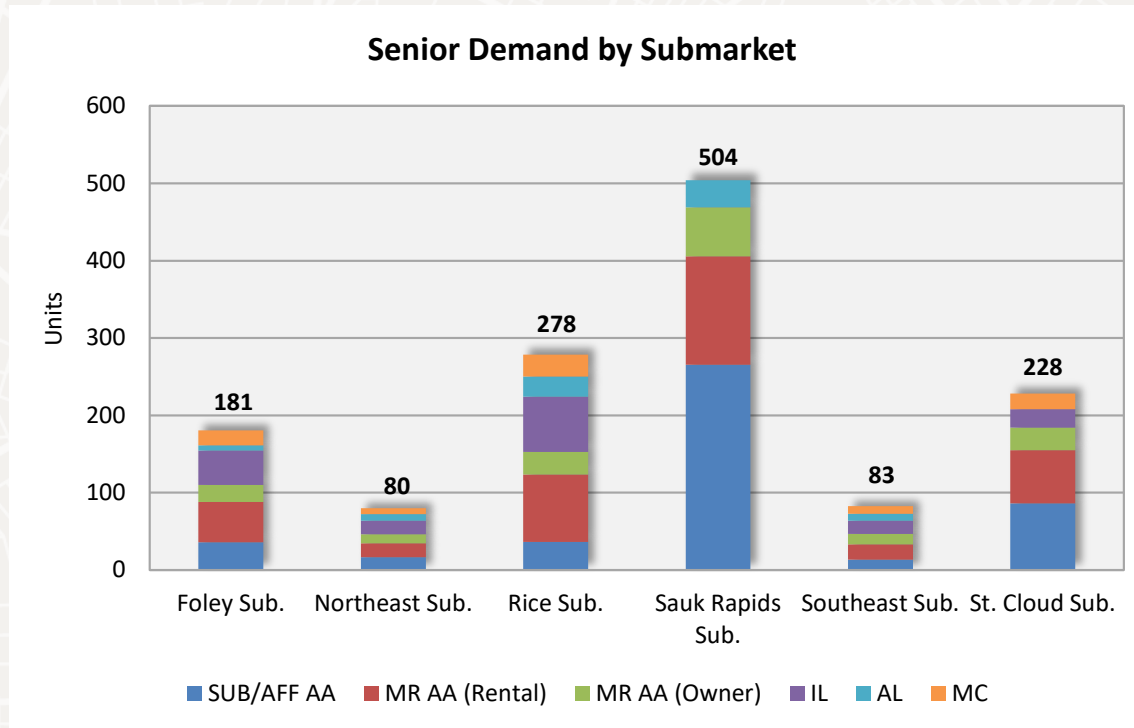
Camden Apts. (Sauk Rapids)



Plainfield Townhomes (Rice)

Senior Housing Recommendations

- Significant demand through this decade & beyond..(i.e. boomers)
- Strong Demand for most senior types except for AL and MC



The Gardens (Foley)



Summit Ridge Place (Sauk Rapids)

Key Takeaways

- Moderating growth past decade, but deacceleration this decade | Sauk Rapids Sub. driving growth
- Growth led by Millennials & Boomers | 65+ growing fastest = alternative housing products
- Living alone HHs highest of all households (29%) | Followed by Empty/never nesters (27%)
- UE rate lower than pre-pandemic, but labor force is still down | Plenty of job openings
- 46% of workers commute outside the County for employment (i.e. higher wages)
- Low rental vacancy rates (1.6%) | Older stock | Pent-up demand for new rental housing
- Senior housing market poised for strong growth | Short-term need for active adult & Independent
- For-sale market @ peak, but slowing | lack of supply | Interest rates impacting sales/affordability
- Vacant lot supply deficient in most submarkets | New platted lots needed
- Inflation and rising construction costs impact development opportunities



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Economic Outlook...soft landing or recession?

On the Bright Side

- 2x as many job openings as unemployed
- Limited distressed real estate..for now
- Car pricing finally stabilizing
- Inflation is decelerating
- Retail brick and mortar on solid footing
- Shipping container costs leveled out
- Strong dollar

Headwinds

- Persistent 40-year high inflation
- Debt ceiling
- GDP growth falling
- Consumer confidence  from 2022
- Federal Reserve raised rates 7x in 2022, 3x in 2023 more rate hikes coming?
- Housing market cooling
- Labor shortage
- Geopolitical risk
- Banking crisis/financial tightening
- Gas prices

Pandemic Housing Boom deflating with rising rates...

- Mortgage rates up significantly in 2022/03 (3% vs. 7%..back to 6.4%)
- Buyers priced out/on sidelines
- Rate lock-in effect: will home-owners stay put with historic low rates?
- Builder buy-downs to move inventory
- Land demand...down for now...
- Construction starts stall, but confidence up

Median Sales Price



Home Sales



Housing Starts



Interest Rates



Inventory



Days on Market



Affordability



2023 Rental Housing Outlook...

- HH formations slowing w/weakening economy
- Record breaking supply (Metro, MN, USA)
- Lack of for-sale product & rising interest rates boosts renter demand
- Hybrid work/mobility drives new submarkets
- Bid/ask spread wide..potential distress on way?
- Rising debt & construction cost constraints...
- Rising Op Ex. (taxes, labor, etc.)

Deliveries



Absorption



Rent Growth



Vacancies



Transactions



Concessions



Affordability



2023 Senior Housing Outlook...

- Pop. growth led by younger seniors
- Strongest demand for independent & middle market products
- Labor shortages hinder occupancies
- Another year+ of recovery until we reach pre-pandemic occupancies
- Transactions muted w/higher int. rates
- New construction suppressed w/higher financing costs
- Margin compression: expenses rising faster than revenue
- More aggressive rent growth

Deliveries



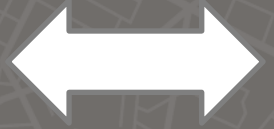
Vacancies



Rent Growth



Housing Values



Transaction Activity



Concessions



Affordability





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Thank You!



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