

A Comprehensive Housing Needs Analysis Update
For the City of Marshall, Minnesota
(Draft Copy-For Discussion)

Prepared For:

Marshall Economic Development Authority
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Overview

Maxfield Research and Consulting was engaged by the Marshall Economic Development Authority to update a Comprehensive Housing Needs Analysis for the City. The Housing Needs Analysis, which was last completed in 2015, provides recommendations on the amount and types of housing that should be developed in order to meet the needs of current and future households residing in the City.

The scope of this study includes: an analysis of the demographic and economic characteristics of the City and surrounding area; a review of existing housing stock characteristics; an analysis of the for-sale housing market; an evaluation of rental market conditions; a senior housing supply and demand analysis; and an assessment of housing affordability in Marshall. Detailed recommendations are provided for the housing types identified as being needed in Marshall to 2030 for general occupancy housing and 2030 for senior housing product types. An assessment of other challenges associated with housing development in the City is also provided.

Based on the demographic characteristics of Marshall and the PMA, there will be growing demand for a variety of housing products, including: rental housing targeting the young adult (25 to 34) age group as well as the empty nester population (55 to 74 age group); entry-level ownership housing for first-time home buyers (25 to 39); move-up housing for the 35 to 44 age group; and senior housing.

In total, we find demand to support 665 general occupancy housing units between 2021 and 2030. Demand is expected to favor rental housing, with 249 rental units and 183 for-sale housing units needed in Marshall by 2030.

Demand is strong for many types of housing in the area, but based on information from local area realtors, housing demand is highest for housing priced from the mid to high \$100,000s to low to mid \$200,000s.

We estimate that Marshall can accommodate 124 new market rate rental housing units, 75 shallow-subsidy units, and 128 deep-subsidy units through 2030.

In addition, we found excess demand for a total of 523 senior housing units to 2030. Of these senior units, 60.8% (about 314 units) would be market rate housing and the remaining 39.8% (208 units) would be shallow-subsidy or deep-subsidy units. Demand exists for all senior housing product types over the next several years. However, except for the independent living vacancy rate (4.2%), all other senior housing types in our inventory have vacancy rates above equilibrium. High vacancy rates among senior properties are largely a role of the COVID-19 Pandemic. As a result, service-based housing (assisted living, memory care, etc.) should not be built until 2023 or 2024.

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The table below displays demand by product type. Housing demand is comprised of several components, including projected household growth, pent-up demand (i.e. below equilibrium housing vacancy rates) and replacement needs (functionally or physically obsolete units).

SUMMARY OF HOUSING DEMAND MARSHALL MARKET AREA JUNE 2021						
Type of Use	Demand in Market Area			Demand in Marshall		
	2021-2030			2021-2030		
General-Occupancy						
Rental Units - Market Rate	166			108		
Rental Units - Shallow Subsidy	100			65		
Rental Units - Deep Subsidy	66			43		
For-Sale Units - Single-family	233			140		
For-Sale Units - Multifamily	100			60		
Total General Occupancy Supportable	665			415		
	Demand in Market Area			Demand in Marshall		
	2021	2026	2030	2021	2026	2030
Age-Restricted (Senior)						
Market Rate						
Adult Few Services (Active Adult)	196	238	242	128	155	157
<i>Ownership</i>	89	105	107	58	68	69
<i>Rental</i>	108	133	135	70	86	88
Independent Living	39	80	85	25	52	55
Assisted Living	63	102	107	43	70	72
Memory Care	21	48	45	13	31	29
Total Market Rate Senior Supportable	319	468	479	209	307	314
Shallow-Subsidy/Deep-Subsidy						
Active Adult - Shallow-Subsidy	154	154	187	100	100	121
Active Adult - Deep-Subsidy	85	85	134	55	55	87
Total Affordable Senior Supportable	239	239	320	156	156	208

Source: Maxfield Research & Consulting, LLC.

Demographic Analysis

- As of 2021, the Primary Market Area contained an estimated 25,873 people and 10,302 households. Between 2010 and 2021, the population increased by 16 people (0.1%) while the number of households expanded by 75 (0.7%). The proportional rate of growth of new households was higher than the proportional rate of growth of the population suggesting a trend toward decreasing household sizes in the PMA. In 2010, the average household size in the PMA was 2.53 people per household. This number declined to 2.51 in 2021, a drop of -0.7%. Marshall's population increased 1.8% from 2010 to 2021 (248 people) against household growth of 2.9% (155). As of 2021, the average household size in Marshall was 2.51, which is down -1.0% from 2010. This trend indicates an aging household base and also reflects a general shift in demographic factors that favor smaller households, such as a declining proportion of married couple households with children.
- In 2021, the median household income is estimated to be \$48,268 in Marshall, compared to \$54,653 in the PMA. This data suggests more lower income households and students are concentrated in Marshall because the City provides access to more affordable housing options than outlying communities in Lyon County.
- In Marshall, 54.2% of all households owned their housing in 2021, resulting in a home ownership rate that is substantially lower than the Primary Market Area (68.4% in 2021). In the prime ownership years (35 to 64), nearly 68.4% of households in Marshall owned, compared to 78.8% of PMA householders and 88.5% in Remainder of the PMA. The number of owner households in Marshall increased by 129 (4.5%) between 2010 and 2021. The largest increases occurred in the 65 to 74 age group (178 households for a 21.0% gain) and the 55 to 64 age group (278 households for a 20.4% increase), while the 45 to 54 age group experienced the largest numeric contraction in owner households, decreasing by 317 households (-19.8%).
- Shifting household types can drive demand for housing in a community. Married couple families with children typically generate demand for single-family detached ownership housing. Married couple families without children often desire multifamily housing options for convenience reasons, however older couples in rural areas often hold onto their single-family homes until they need services. In 2010, the proportion of households in families was 55.5% in Marshall, 69.8% in the Remainder and 62.2% in the PMA. By 2021, these proportions increased to 60.6% in Marshall, 71.6% in the Remainder and 65.7% in the PMA in 2021.

Employment Trends

- Marshall's historic unemployment rates have been lower than Lyon County's, although the gap has lessened since 2009. As of March 2021, Marshall (3.6%) and Lyon County (4.2%) have unemployment rates lower than the Southwest Minnesota Economic Development Region 8 (SW MN Region - 8.4%). By comparison, Minnesota (4.5%) and the United States (6.2%) have unemployment rates higher than Marshall, Lyon County and the SW MN Region 8.
- Between March 2020 and March 2021, Marshall's labor force decreased by 355 while the number of employed residents decreased 5.5% (-404), causing Marshall's unemployment rate to rise 0.8% over the year to 3.6%. Similarly, Lyon County's unemployment rate rose 0.6% to 4.2% over the past year. The SW MN Region 8's unemployment rate rose 0.7%. By comparison, Minnesota's unemployment rate remained at 4.5% while the unemployment rate in the US increased to 6.2%.
- In 2020, the most recent year with annual available data, Education and Health Services was the largest employment sector in Marshall, providing 2,810 jobs (27.6% of the total); followed by Trade, Transportation, and Utilities with 2,145 jobs (21.0%); and Manufacturing with 1,479 jobs (14.5%). The Professional and Business Services Sector is another large employment sector in Marshall with 1,101 jobs (10.8% of the total).
- Marshall can be considered an importer of workers as a significantly higher number of non-residents commutes into the City for work. An estimated 6,643 workers come into Marshall for work (inflow) while 2,389 leave (outflow) and 4,530 both live and work in Marshall.
- A household earning the average weekly wage in Marshall (\$982) would be able to afford an apartment renting for \$1,178 per month to not exceed 30% of its monthly income on housing costs. Assuming that a potential home buyer has good credit and makes a 10% down payment, a household earning the average weekly wage would be able to afford to purchase a home priced \$178,724 or lower to not be cost-burdened (paying more than 30% of their income for housing). This is similar to the 2021 year to date average sales price of single-family homes (\$180,436).

Housing Characteristics

- The dominant housing type in the Primary Market Area, as of 2019, was the single-family detached home, representing 95.0% of all housing units in the County. The most common rental housing unit in the PMA was a single-family detached home (25.6% of all rental units) followed by 3- to 4-unit structures (13.4% of all rental units). In Marshall, the most common type of rental housing was a 3- to 4-unit structure with 16% of all rental units in the City, followed closely by a 10- to 19-unit structure, which represented 15.8% of the City's rental stock.
- Building permits were issued for 1,570 residential units in Lyon County from 2000 through 2020; equating to 75 units per year. A little under two thirds or 64% of these units were single family while 4.7% were duplexes and 31.3% were multifamily structures.
- As of 2019, the greatest percentage of homes in Lyon County (PMA) was built prior to 1940, which comprised 19.4% of the County's housing stock. As a comparison, only 9.4% of homes in Marshall were built prior to the 1940s. In Marshall, most of the housing stock was built in the 1980s (18.1%).
- Lyon County's median monthly contract rent in 2019 was estimated at \$539. Based on a 30% allocation of income to housing, a household in Lyon County would need an income of \$21,560 to afford a median monthly rent of \$539. Considering an annual increase of 2.0% per year for inflation, the median monthly rent in 2021 would be \$561.

For-Sale Market Analysis

- From 2017 through 2020 (2021 data is only year to date), there were 606 single-family residential sales, 17 duplex/triplex/townhome sales and 29 condo sales in Marshall. This equates to an average annual rate of 163 units between the four years. In Marshall, 92.9% of all sales were for detached single-family homes during this period. The multifamily market appears to be a very small proportion of residential sales in Marshall, as there have been only 46 combined duplex, triplex, townhomes, and condo sales since 2001 (7.1% of the total).
- The median sale price for single-family homes lowest post-recession price point was in 2011, at \$121,049 in Marshall. For owned multifamily products such as duplexes, triplexes, and townhomes, the lowest post-recession median price occurred in 2017 at \$75,000. The median price for condos is currently at its highest price, with a median price of \$152,900 as of April 2021.
- Marshall's single family median sales price has continued to rise and was at a high of \$173,200 as of April 2021, up 43.1% from its low of \$121,049 in 2011. Duplex, triplex, and

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townhome median sale prices have been more volatile over this period and have fluctuated from a low of \$75,000 in 2017 to a high of \$164,713 in 2014. Marshall's condo price of \$125,000 as of April 2021 is down from its highest price point of \$226,000 in 2019.

- Maxfield examined lot prices of recent City subdivisions and compared them to home sale prices to determine a home to lot price ratio. In many communities, the lot price is often between 15% and 25% of a homes combined home/lot value. Estimated single-family home values range from as low as \$160,000 in the Camelot Square Subdivision to as high as \$275,000 in the third and fourth additions of Carr Estates Subdivision.
- Lot prices vary depending on location, features, community amenities, and its own unique situation. Average prices range from as low as \$0.68 per square foot for an 11,151 average sq. ft. (0.25 acres) site in the 2nd addition of the Parkway Subdivision to an average high of \$4.68 per square foot for an 11,326 square-foot (0.26 acres) lot in Prairieview East subdivision. Parkway's price per square foot is low because it is a publicly assisted property. Throughout Marshall, the average per square foot cost for single-family lots is \$2.23 with an average lot price of \$30,669.
- Sizes range from as small as 8,276 square feet (0.19 acres) for a lot in the second addition of the Parkway Subdivision to 22,207 square feet (0.51 acres) for a single-family lot in the third addition of Carr Estates Subdivision. The average single-family lot in Marshall is 13,638 square feet (0.31 acres).
- Homes in high demand in the Marshall housing market range from the mid to high \$100,000s to the low to mid \$200,000s.
- Demand was estimated at 333 units of new for sale housing in the PMA by 2030. Of those 333 units, we estimate that Marshall could capture 55% of the PMA's demand. As a result, Marshall could support 183 for sale housing units by 2030. This includes single-family detached and attached homes such as townhomes and rowhomes.

Rental Market Analysis

- The equilibrium vacancy rate for market rate and shallow-subsidy rental housing is considered to be 5.0% which allows for normal turnover and an adequate supply of alternatives for prospective renters. Shallow-subsidy properties are well below equilibrium with only 2 vacancies out of 117 units. This suggest a need for more shallow subsidy units in the City. In contrast, market rate units are well above equilibrium at 9.8%. However, both the newest market rate properties, The Nexus I and II and Colonial House, have vacancy rates at or below equilibrium. This suggest that there is demand for newer housing while already sufficient older rental housing stock.

- For deep-subsidy rental housing the equilibrium vacancy rate is 2.0%. The overall vacancy rate for deep-subsidy rental housing in Marshall was 5.6% at the time of the survey. With a deep-subsidy vacancy rate of 5.6%, it appears as though there is sufficient supply to meet current demand. There are often wait lists for deep-subsidy units and it may require longer periods of time to occupy units on turnover. This must also be accounted for in considering if there is a sufficient supply of deep-subsidy units in the market.
- The strongest sources of demand for rental housing in Marshall will likely be young singles and couples without children in their late-20s and early-30s who work in Marshall or in nearby communities, who would desire new apartment units with modern amenities. In addition, SMSU students could be targeted for new housing options. Shallow-subsidy rental housing will draw from a wide variety of population segments, including; low-wage workers, single-parent households and low-income family households. In total, we find demand for 50 deep-subsidy units, 75 shallow-subsidy units and 124 market rate rental units in Marshall between 2021 and 2030.

Senior Housing Market Analysis

- Large population growth is expected to occur among older adults in the Market Area. Aging of the baby boomers in the PMA led to an increase of 412 people (14.9%) in the 55 to 64 population and 740 people (46.1%) in the 65 to 74 population between 2010 and 2021. As baby boomers continue to age, individuals between 65 and 74 and 75 and older are expected to see increases over the next five years (2021 to 2026) of 120 people (11.1%) and 137 people (14.2%), respectively.
- Maxfield Research identified eight separate senior housing developments in Marshall. Combined, these projects contain a total of 478 senior housing units. Four of these properties with 149 units are deep-subsidy, while the remaining are market rate. Of the 478 senior housing units, 51 were vacant, representing a 10.7% vacancy rate.
- There are 149 units of deep-subsidy housing that are restricted to households age 62 years or older or those that have physical or cognitive limitations. Of the 149 units, 17 were vacant representing an 11.4% vacancy rate. The equilibrium vacancy rate for deep-subsidy active adult housing is considered to be 2.0% which allows for normal turnover and an adequate supply of alternatives for prospective residents.
- A possible reason for the high vacancy rates among senior properties is the effect of the COVID-19 Pandemic. Many seniors who can are staying in their homes longer. We don't recommend constructing more senior housing units until two to three years in the future.

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- One deep-subsidy senior property, Windsong Apartments, a rural development property, offers three market rate units, renting for \$645 per month for a one-bedroom unit, none of which are currently vacant.
- Demand was identified for most senior housing product types over the next several years. However, one must proceed with caution as vacancy rates are above equilibrium for all senior housing types except independent living. This is likely a result of the COVID-19 Pandemic and a reluctance of those who could delay a move to senior housing. Nevertheless, demand was projected for 284 market rate rental (148 units) and owner-occupied (136 units) active adult units in Marshall to 2030. We also estimate there is demand for 509 shallow-subsidy and 520 active adult units to 2030. Demand for service-enriched units totals 388 service-enhanced units in Marshall to 2030 (independent living, assisted living and memory care units). This level of demand will likely best be satisfied with a continuum of care project, so a resident can change their level of care as they age without having to relocate from the facility.