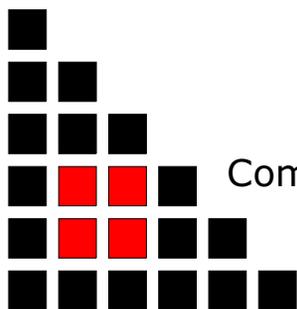


City of St. Peter HOUSING STUDY UPDATE

October 2014 Draft

An updated analysis of the affordable home ownership
market segment



Community Partners Research, Inc.

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Introduction

Overview

Community Partners Research, Inc., was hired by the City of St. Peter to update some select components of a study of housing market conditions in St. Peter and the surrounding area, last completed in 2012. The specific focus in 2014 was to examine market conditions pertaining to affordable subdivision development and affordable new home construction.

Methodology

A variety of resources were utilized to obtain information. Community Partners Research, Inc., collected and analyzed data from July to October 2014. Data sources included:

- U.S. Census Bureau
- Minnesota State Demographer
- ESRI, Inc.
- Records and data from the City
- Records and data maintained by Nicollet County
- Data from the MN Dept. of Employment and Economic Development
- Data provided by HousingLink
- Data provided by the Multiple Listing Service
- Interviews with staff from the St. Peter and neighboring cities
- Interviews with people familiar with the area's housing conditions including realtors, home builders and developers
- Area housing agencies
- 2012 St. Peter Housing Study Update

Limitations

This Housing Study represents an analysis performed with the data available at the time of the research. Any findings are based upon current solutions and the best available information on future trends and projections. Significant changes in the area's economy, employment growth, Federal or State tax policy or other related factors could change the findings and conclusions contained in this Study.

Consistent with the findings reported in 2012, a number of issues persist that are negatively impacting housing markets. Some of these issues are identified below. In most cases, this Study has not attempted to project future economic conditions, but instead has relied on past patterns and practices. It is important to note that these are often national issues, which may or may not be present in St. Peter.

- ▶ National Rates of Home Foreclosure - Beginning in the late 2000s, there was a significant increase in the number of home foreclosures. While the volume of foreclosures has diminished, a number of bank-owned property sales have continued to exist in many Minnesota communities in recent years. Additionally, some households have been removed from the home buying market due to prior foreclosures and/or poor credit histories.
- ▶ Mortgage Market Liquidity - In response to rising delinquency and foreclosure rates, the mortgage market has been altered, with both primary and secondary mortgage lenders changing their standards and the availability of credit. The federal government was forced to take over Fannie Mae and Freddie Mac to help keep home mortgages available. Recent changes have been advanced that would ease some of the more stringent lending requirements.
- ▶ National Retreat in Home Prices - After steady home value appreciation in many markets, the values for single family homes dropped after 2007 in most major markets. This has had multiple effects, including discouraging potential home building until after conditions had stabilized.
- ▶ Oversupply of Housing - Strong housing market conditions in the first half of the previous decade resulted in above-average activity in the housing development markets, including both housing units and residential lots. In areas where an oversupply of inventory existed, this resulted in downward pressure on prices.
- ▶ Economic Recession - The economy of the United States was in a period of recession. Although recovery has been occurring for many years, complete recovery has been slow. This reduced consumer demand in many areas, including housing.

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Demographic Overview

In July 2012, Community Partners Research completed a citywide housing study update for St. Peter. That document contained the new benchmark information for the community that had been established by the 2010 U.S. Census. Since that update provided a detailed look at demographic variables, the current research in 2014 has selectively examined only certain components, where more recent estimates and/or projections have become available after 2012. Primarily, the following section focuses on trend information for population and household changes. Updated projections are also included.

Market Area Definitions

Consistent with previous studies completed for St. Peter, a Primary Market Area has been defined which includes an aggregation of small cities and rural townships in Nicollet and Le Sueur Counties. These jurisdictions immediately surround St. Peter.

The Primary Market Area (hereinafter referred to as Market Area) includes the Cities of St. Peter, Kasota and Cleveland, and the Townships of Oshawa, Traverse, Lake Prairie, Granby, New Sweden, Cleveland, Kasota, and Ottawa. All of these jurisdictions are in either Nicollet County or Le Sueur County.

In addition to the Market Area information that is presented, some of the data tables may also show information for Nicollet County as a whole, to provide a larger geographical reference for St. Peter and the Market Area.

A Secondary Market Area has also been examined, which is referred to in this document as the Three-County area. It includes all of Nicollet, Blue Earth and Le Sueur Counties. This places St. Peter in a larger regional context and reflects the impact of Mankato, the area's regional center. Mankato is located approximately 11 miles south of St. Peter. The Mankato area has been growing in recent years, and is projected to continue to grow in the near future and has the potential to impact future housing development projects in St. Peter.

Sources of Data

The following pages contain demographic data obtained from a variety of local, state and national sources. The primary sources for this information are the U.S. Census Bureau, Minnesota State Demographer's Office, and ESRI, Inc., a private data reporting service. Some of the projection information has also been generated by Community Partners Research, Inc., if other secondary sources are viewed as unreliable.

Population Trends Analysis

Table 1 Population Trends - 1990 to 2013							
	1990 Census	% Change 1980-1990	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2013 Estimate
St. Peter	9,421	4.03%	9,747	3.46%	11,196	14.87%	11,445
Market Area	15,112	0.59%	15,621	3.37%	17,163	9.87%	17,339
Nicollet Co.	28,076	4.26%	29,771	6.04%	32,727	9.93%	33,002
Three-County	105,359	2.6%	111,138	5.5%	124,443	12.0%	126,054

Source: U.S. Census Bureau; MN State Demographer

According to the most recent estimate issued by the Minnesota State Demographer’s Office, St. Peter has continued to add residents. Between April 1, 2010 and July 1, 2013, the City added 249 people. If reduced to an annual average, this represented approximately 83 people per year.

The recent population growth for St. Peter continues a long-term trend, dating back to at least 1980. Between the 2000 Census and 2010, the City added 1,449 people, for an increase of nearly 15%.

Although the City has been adding residents after 2010, the pace of growth has slowed when compared to the rapid growth of the prior decade. If viewed as an annual average, the City was adding approximately 145 people per year from 2000 to 2010, compared to 83 people per year from 2010 to 2013.

As detailed in the table above, long-term growth patterns have also existed for the Market Area and Nicollet County. However, most of the recent growth for these larger areas has been generated by the City of St. Peter. Excluding St. Peter, the remainder of the Market Area has lost population from 2010 to 2013, according to the State Demographer. For all of Nicollet County, only 26 people were added from 2010 to 2013 in the remaining combined jurisdictions outside of St. Peter.

Stronger growth has been evident in the Three-County Area that includes Nicollet, Blue Earth and Le Sueur Counties. From 2010 to 2013 this area added more than 1,600 people, or approximately 537 in an average year. While population growth does continue to occur for the Three-County region, it is also occurring at a much slower pace. Average annual growth from 2000 to 2010 was above 1,300 people per year, compared to 537 people per year after 2010.

Estimates for the year 2013 also exist from the Census Bureau, through their annual estimates program. For St. Peter, the Census Bureau's 2013 estimate showed 11,439 people, nearly identical to 11,445 as estimated by the State Demographer. For the Three-County Area, the Census Bureau showed 126,370 people, slightly higher than the estimate of 126,054 from the State Demographer.

The analysts have also obtained current-year estimates for 2014 from ESRI, a private data reporting service. For St. Peter, the 2014 estimate shows 11,209 people. This estimate is well below the State Demographer's 2013 estimate. It also shows very limited growth since the year 2010. For St. Peter, the ESRI estimate is viewed as unreliable.

An ESRI estimate was also obtained for the entire Three-County Area. This shows 127,718 people in 2014. This estimate is substantially higher than the State Demographer's estimate for 2013. If accurate, the ESRI estimate shows the Three-County Area adding an average of nearly 820 people per year over the four-year period from 2010 to 2014. While this estimate may be accurate, it is substantially higher than other sources, such as the Census Bureau or the Minnesota State Demographer's Office.

St. Peter does have a large group quarter's population. Net growth in group quarter's residents represented 251 people between 2000 and 2010, according to the Census Bureau. The remaining population increase for the City, nearly 1,200 people, was due to non-group quarter's residents. After 2010, group quarters growth has represented only 21 people, according to the State Demographer's estimate. While group quarters growth continues to impact population estimates for the City, most of the growth has been occurring within traditional households.

Household Trends Analysis

Table 2 Household Trends - 1980 to 2013							
	1990 Census	% Change 1980-1990	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2013 Estimate
St. Peter	2,767	7.12%	2,978	7.63%	3,491	17.23%	3,611
Market Area	4,730	5.67%	5,143	8.73%	5,811	12.99%	5,939
Nicollet Co.	9,478	10.47%	10,642	12.28%	12,201	14.65%	12,410
Three-County	37,223	7.5%	41,334	11.0%	47,404	14.7%	48,527

Source: U.S. Census Bureau; MN State Demographer

According to the most recent official estimate from the State Demographer, St. Peter had 3,611 permanent households on July 1, 2013. The City had added 120 households from the time of the 2010 Census, or an annual average of 40 households per year.

Consistent with population patterns, the City has a long-term pattern of household growth. The rate of growth accelerated in the previous decade, but has slowed over the past few years. The 2010 Census reported 3,491 households in St. Peter, up by 513 households from the year 2000. The City's rate of growth in the 2000s was more than double the rate of the 1990s or 1980s. However, since 2010, the best available estimates show a more moderate rate of growth.

Most of the household growth within the Market Area and Nicollet County has been directly attributable to the City of St. Peter. Excluding St. Peter, the remainder of the Market Area added only eight households in the remaining jurisdictions from 2010 to 2013. At the County level, only 89 households were added in the remaining County jurisdictions, compared to 120 within St. Peter.

Household growth has been occurring within the larger Three-County region. From 2010 to 2013, this aggregated area added more than 1,100 total households, or nearly 375 households in an average year. However, 79% of the net household growth since 2010 was attributable to the City of Mankato. For all of the other jurisdictions within the Three-County Area outside of Mankato, average annual growth has been below 80 households per year since 2010.

The Census Bureau does not issue annual estimates for households. However, since their population estimates were generally very similar to those from the State Demographer's Office, it is reasonable to assume that household changes would also be similar.

The analysts did obtain 2014 household estimates from ESRI. Consistent with their overly conservative population data, ESRI shows St. Peter adding only six households over the period from 2010 to 2014. From 2010 to 2014, more than 225 new housing units were issued a building permit in St. Peter. While not all of these new units may be occupied, there is no logical basis for ESRI's belief that the City has added only six households. If true, large-scale housing vacancies would exist within the community.

As with the population data for the Three-County Area, ESRI appears to be overly optimistic about regional growth. Their 2014 estimate shows the aggregated area adding 1,664 households over the four-year time period, or 416 households in an average year. Based on the State Demographer's estimates, the area has been averaging nearly 375 households per year from 2010 to 2013.

Although ESRI's household estimates for the Three-County region may be high, they do form a possible range when combined with the State Demographer's data, reflecting recent growth of approximately 375 to 416 households in an average year after 2010.

Household Projections

The following table presents household projections obtained from various sources including ESRI and the State Demographer. Trend-based projections have also been created by Community Partners Research. The ESRI projections are to the year 2019, while the other projections extend to the year 2020.

The State Demographer’s Office has not issued household projections at the city or township level. However, a recent population projection for the City can be extrapolated into a household forecast for St. Peter. No similar recent projections exist for the township areas that surround St. Peter so no extrapolation can be made for the Market Area.

County-level household projections previously released by the State Demographer’s Office have been presented. It is important to note that the State Demographer has been recently revising their county population projection data. The household projections presented below predate the most recent population projections and no longer match the latest population forecasts. However, no revised household forecasts have yet been released. In the opinion of Community Partners Research, the most recent population projections are unreliable, and the original household forecasts are a more reliable data set than the most recent population projections.

Table 3 Household Projections Through 2019/2020				
	2010 Census	ESRI Projection: 2019	CPR, Inc. Projection: 2020	State Demographer Projection:2020
St. Peter	3,491	3,508	3,850	3,950
Market Area	5,811	N/A	6,250	N/A
Nicollet Co.	12,201	12,679	12,900	13,624
Three-County	47,404	50,699	51,200	51,521

Source: U.S. Census; Community Partners Research, Inc.

There is some variation in the available projections, even after adjusting for the one-year time difference between the ESRI projections and the other sources.

As stated previously, the ESRI estimates and projections for the City of St. Peter are too low, and viewed as unreliable. ESRI shows the City adding only 17 total households between 2010 and 2019, or less than two households in an average year.

The Community Partners Research projection would expect the City to add nearly 360 total households over the decade, or approximately 36 in an average year.

The extrapolated projection from the State Demographer's population data would expect St. Peter to add approximately 46 households in an average year from 2010 to 2020. The assumptions used for this extrapolation are based on a stable population of group quarters residents and a slight reduction in average household size through the decade.

When the Community Partners Research projection and the extrapolated State Demographer-based projection are used to form a range, possible annual growth of 36 to 46 households per year in St. Peter. As stated previously, the City has averaged 40 households per year from 2010 to 2013, very consistent with this projection range. However, much of the recent growth can be attributed to some larger-scale multifamily rental projects, which are less likely to recur on an annual basis. For growth within the projected range to continue into the future, it is probable that a higher level of home ownership growth will need to be present.

There is greater uniformity in the projections at the regional level, which cover the combined Three-County entity of Nicollet, Blue Earth and Le Sueur Counties. Since ESRI's projection period ends in 2019, the analysts have examined the annual incremental growth required to achieve the projections.

To reach the ESRI projections, annual average growth of 366 households per year would be required between 2010 and 2019. To reach the Community Partners Research projection, annual average growth of 380 households per year would be required over the decade. To achieve the State Demographer's regional forecast, average annual growth of 412 households would be required from 2010 to 2020. When combined, these projections form a reasonable range of expected household growth of 366 to 412 households per year.

For comparative purposes, the State Demographer believes that the Three-County region has averaged 374 households per year through the first three years of the decade. ESRI believes that the Three-County Area has been averaging 416 households per year through the first four years of the decade. Both of these estimates are generally consistent with the projected annual range over the entire decade.

Three-County Household Age Projections: 2010 to 2019/20

In the following table, two sets of household age projections have been presented for the Three-County area, which includes Nicollet, Blue Earth and Le Sueur Counties.

One set of projections has been prepared by ESRI, a private data reporting service. The projections extend to the year 2019, and have been compared to the household by age distribution that was present in 2010.

The second set of projections has been prepared by Community Partners Research, Inc. They are based on age distribution patterns reported by the 2010 Census, compared to retention patterns evident in the prior decade. These projections assume that historical patterns will continue into the near-future, especially related to household formation and household size within specific age groups. The Community Partners Research projections extend to the year 2020.

Table 4 Three-County Projected Households by Age: 2010 to 2019/20					
Age Range	2010 Census	ESRI Projection		CPR, Inc. Projection	
		2019 Projection	Change from 2010	2020 Projection	Change from 2010
15-24	4,720	4,439	-281	4,491	-229
25-34	8,105	8,451	+346	8,135	+30
35-44	7,328	8,137	+809	8,773	+1,445
45-54	9,121	7,604	-1,517	7,491	-1,630
55-64	8,140	9,195	+1,055	9,120	+980
65-74	4,796	7,054	+2,258	7,540	+2,744
75+	5,194	5,819	+625	5,650	+456
Total	47,404	50,699	+3,295	51,200	+3,796

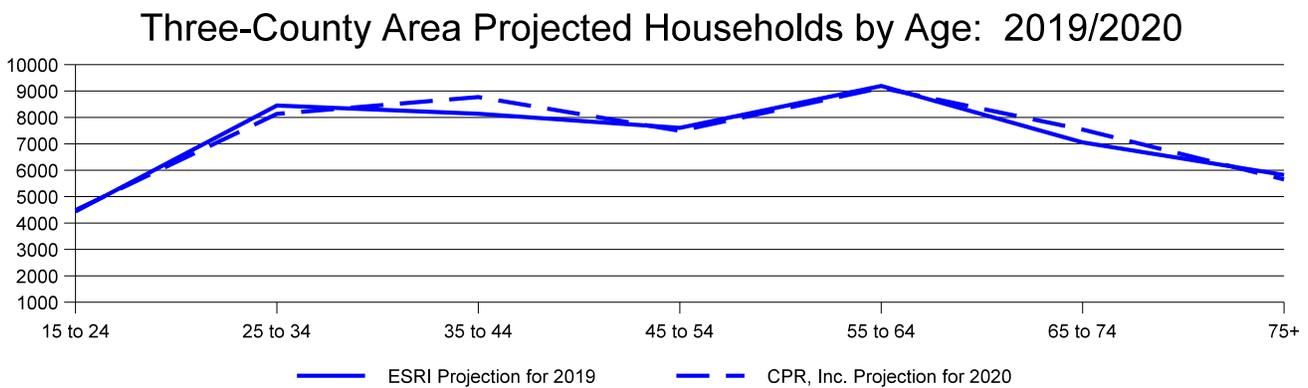
Source: U.S. Census; Community Partners Research, Inc.

Although there are some differences between the two sets of age-based household projections, they do show generally similar patterns for change in the Three-County area. Some of the differences may be due to the one-year projection end dates. The differences become less defined if 20-year or larger age groups are examined, instead of the 10-year groups displayed above.

Both projection sources anticipate some reduction in the number of households age 54 and younger. The ESRI projections expect 643 fewer households age 54 and younger in 2019, when compared to the level present in 2010. Similarly, the Community Partners Research projections expect 384 fewer households in these same aggregated age ranges.

Both projection sources expect significant growth in the number of households age 55 and older, when compared to the year 2010. ESRI forecasts net growth of 3,938 households, compared to net growth of 4,180 households as projected by Community Partners Research in these older adult age groups.

When displayed as a line chart showing age distributions in 2019/2020, the similarities between the two sources become more obvious.



It is important to note that these regional forecasts are largely based on past demographic patterns. To the extent that an above-average level of in-migration occurs in the future, such as working-age people moving in due to job growth, it is possible that these anticipated changes will be altered.

Home Ownership Income Data

The Census Bureau’s American Community Survey provides an annual estimate of household income levels, including income by housing tenure. In the 2012 study completed for St. Peter, income estimates from the 2012 American Community Survey had been presented. For this 2014 update, the most recent release is from the 2012 American Community Survey estimates, based on sampling completed between 2008 and 2012.

The following table provides household income for home owners in the City of St. Peter. It appears that the ACS is relatively accurate in its overall estimate of the number of home owners. The 2010 Census reported 2,278 owner-occupancy households in St. Peter, compared to the 2012 ACS estimate was 2,314 households, representing a gain of 36 owner households over that two-year time period.

Table 5 St. Peter Home Owner Household Income in 2012		
Household Income	2012 ACS Estimate	Percent
\$0 - \$34,999	528	22.8%
\$35,000 - \$49,999	348	15.0%
\$50,000 - \$74,999	577	24.9%
\$75,000 - \$99,999	503	21.7%
\$100,000+	358	15.5%
Total	2,314	100%

Source: 2012 American Community Survey 5-year estimate

To achieve home ownership in St. Peter, a moderate to higher annual income is generally required. According to the 2012 ACS, the median income level for all home owners in the City was \$62,708. Fewer than 23% of all home owners had an annual income below \$35,000, and this presumably represented some retirees that owned their housing but now lived on a fixed income.

Approximately 47% of all existing home owners in St. Peter had an annual income between \$50,000 and \$99,000. These income ranges would generally represent households that could be served by an affordable housing subdivision oriented to entry-level and moderately priced homes. The MHFA income limits in place in 2014 for their basic mortgage programs were at \$73,900 for one and two-person households, and at \$84,985 for households with three or more members. MHFA’s deferred payment loan assistance programs had a maximum income limit of \$59,500 for a four-person household.

Building Permit Trends

Like many communities in Minnesota, St. Peter has had significant variations in the annual level of new housing construction activity over the past 15 years. Single family housing construction was a very active market segment for a five-year period from 2001 to 2005, before decreasing substantially over the next several years. The following table identifies the units that have been issued a building permit since the year 2000, including partial-year information for 2014.

Table 6 Housing Unit Construction Activity - 2000 to 2014*				
Year	Single Family Detached	Single Family Attached	Multifamily Rental	Total
2000	17	14	12	43
2001	66	0	0	66
2002	51	0	82	133
2003	53	53	41	147
2004	65	9	55	129
2005	51	3	16	70
2006	37	0	0	37
2007	11	0	0	11
2008	7	0	8	15
2009	10	0	0	10
2010	8	0	117	125
2011	5	0	0	5
2012	7	0	6	13
2013	14	0	72	86
2014*	17	4	3	24
Total	419	83	412	914

Source: U.S. Census Bureau; City Records; Community Partners Research, Inc.

* 2014 is through October 20th

St. Peter experienced a strong period of single family housing construction in the early half of the previous decade. In each of the five years from 2001 to 2005, building permits were issued for more than 50 single family detached houses per year. In some years, such as 2003, a large volume of attached single family construction also occurred. Overall, during this five-year period, average annual production of single family units was approximately 70 homes per year.

The annual construction began to drop in 2006, although 37 single family detached houses were still permitted in that year. However, by 2007, only 11 single family permits were issued and the annual volume remained below that level through 2012.

Activity began to rebound in 2013, with permits issued for 14 single family detached houses. Some additional attached housing occurred in 2013, but the best information indicates that these units are intended for rental occupancy.

Partial-year information for 2014 already shows more construction activity than 2013 for single family units, with 17 single family detached units and four attached single family homes permitted through late October. However, as many as six of the units are believed to be speculative construction, intended to serve as model homes in the Welco West development. Excluding spec home activity, the year-to-date single family unit total in 2014 is similar to the yearly single family total in 2013.

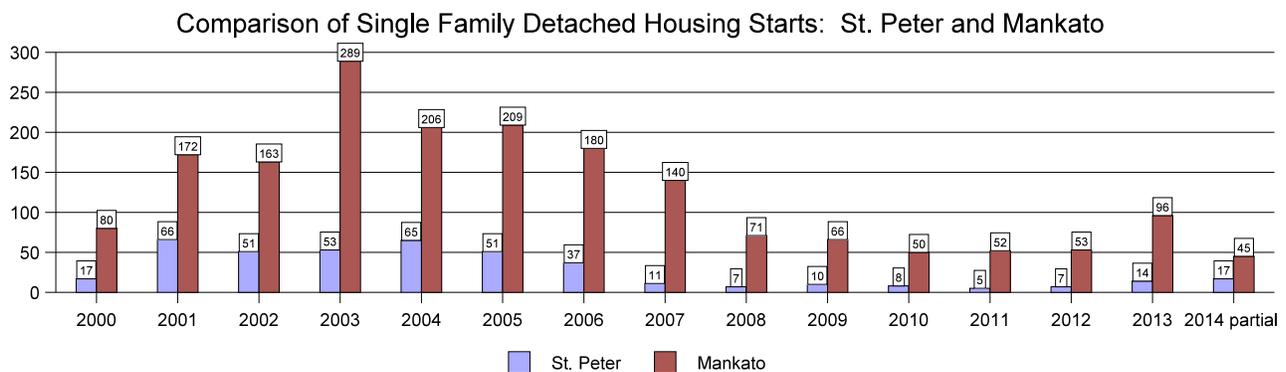
In 2013, a substantial amount of new multifamily rental construction took place. The largest single project is known as Park Row Crossing, which will have 40 total units, primarily serving moderate income renters. In addition, 12 units were constructed in six twin home configurations, and 20 units were added in five four-plex structures. These units will all serve the higher-rent, market rate segment.

In 2014, some additional rental housing was permitted, in a three-unit town house project. While some additional small-scale rental construction may occur, there are no larger multifamily projects that are pending.

Single Family Building Permit Activity Compared to Mankato

In the Competitive Environment section of this document, information has been presented on single family housing construction activity in other communities in the immediate region, including the City of Mankato.

As the regional center, Mankato has represented the largest share of new housing construction activity that has occurred within the Three-County area of Nicollet, Blue Earth and Le Sueur Counties. The following chart examines the number of single family detached houses that have been issued a building permit in Mankato and St. Peter in recent years.



As evident by the direct comparison between single family detached housing starts in St. Peter and Mankato, the construction patterns in the two cities are generally similar. Over the past 15 years, both cities experienced a strong increase in the volume of single family permits from 2001 to 2006. From 2001 to 2005, St. Peter had more than 50 single family detached houses constructed per year. From 2001 to 2006, Mankato had more than 160 single family starts per year in detached houses.

By 2008, both cities had experienced a large decrease in annual construction activity. In 2013, it appeared that some level of construction rebound was beginning to occur for single family homes, as St. Peter reached its highest level since 2006, and Mankato reached its highest level since 2007. However, partial year information for Mankato indicates that the levels reached in 2013 may not be repeated in 2014. St. Peter has already exceeded its 2013 single family total, but this was partially due to some spec home development in a subdivision looking to create some model home units.

Permit reports for Mankato were available through the end of September for 2014. During the first nine months of the current year, permits had been issued for 45 single family detached houses, compared to 75 units permitted through the end of September in 2013. Year-to-date activity in 2014 was more similar to 2011 and 2012 than in 2013, when an uptick in construction was evident. It is still possible that full-year permitting for Mankato in 2014 will rise, but through the first nine months, only 60% of the 2013 year-to-date volume had been achieved.

In St. Peter, 17 detached single family homes had already been permitted by late October of 2014, more than the 14 permitted in 2013. However, if four spec homes in Welco West are removed from the total, 2013 and 2014 are largely similar for unit volume.

Existing Home Sales

Overview

This section examines houses that have been sold dating back to 2005 in the City of St. Peter. The information used was obtained from the Nicollet County Assessor's Office.

Nicollet County collects and utilizes information from residential sales for the County's sales ratio study. The County compares the fair market sale price to the estimated taxable value for each home. As a result, the County information for sales primarily reflects existing homes that have an established tax value. New construction sales activity would generally not be recorded in the data that was used for this analysis, unless the house had been constructed some time ago and did have an established tax value.

For the analysis that follows, an adjusted sales price has been used for each transaction. The adjusted sales price takes into consideration any transfer of personal property as part of the sale, as well as any special financing that may have been offered as part of the sale.

The County also sorts the sales data into "qualified" and "unqualified" groupings. Qualified sales are also referred to as good sales, because they are considered to be fair market transactions. Unqualified sales are rejected because they are not viewed as fair market transactions. There are multiple reasons for rejecting a sale, including transfers between related parties, forced sales, such as foreclosures or bank-owned properties, and sales involving government entities, including houses that were sold by the City/EDA in prior affordable housing initiatives.

Although foreclosures, short sales, bank-owned sales, and similar distressed sales have become more common in recent years, the rejection codes used by Nicollet County do not provide much insight into the number of transactions that have been occurring.

The sales year that is used by the Assessor's Office differs from the calendar year. The 12-month period begins on October 1st and ends September 30th. Information for 2014 did not extend to the end of September at the time the report was generated.

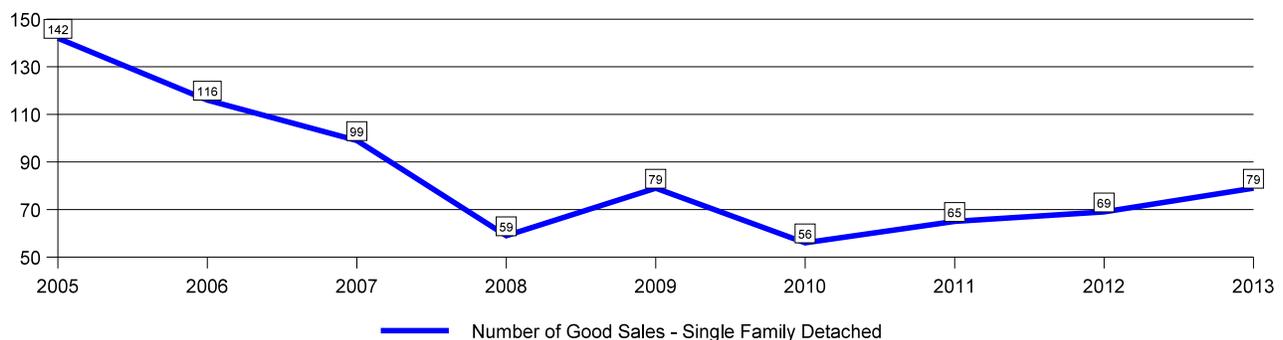
Home Sales

Nicollet County records do allow different types of units to be analyzed. The following two tables examine the sales of detached houses and attached single family units, primary town homes and twin home units.

Table 7 St. Peter Detached House Sales: 2005 to 2014*				
Sales Year	Number of Good Sales	Median Sale Price	Highest Sale	Lowest Sale
2014*	59	\$155,000	\$369,900	\$90,000
2013	79	\$138,000	\$368,000	\$63,920
2012	69	\$144,600	\$275,500	\$35,000
2011	65	\$142,000	\$350,000	\$40,758
2010	56	\$142,050	\$279,000	\$66,800
2009	79	\$152,000	\$352,000	\$45,000
2008	59	\$150,000	\$275,000	\$36,200
2007	99	\$159,000	\$395,000	\$42,900
2006	116	\$154,700	\$268,000	\$35,000
2005	142	\$147,900	\$298,000	\$42,500

Source: Nicollet County Assessor; Community Partners Research, Inc.
 The County sales year is from October 1 through September 30 each year
 * 2014 represents partial-year information

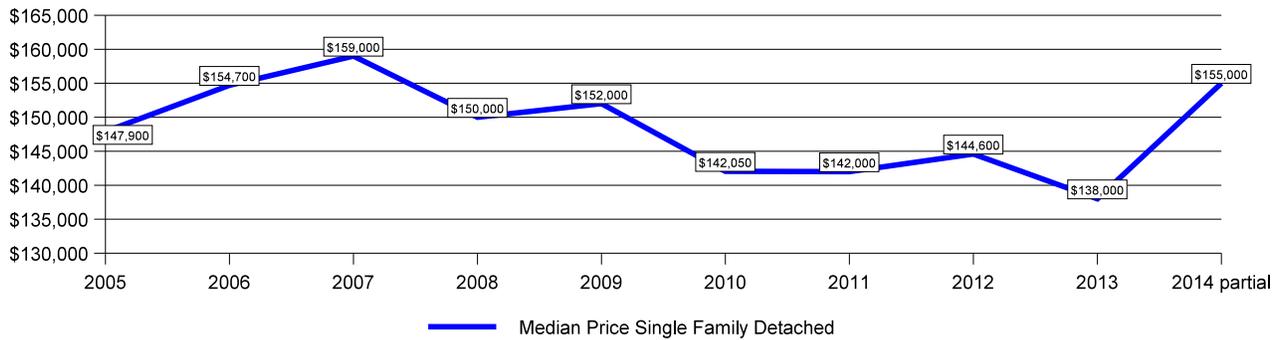
Sales Volume of Detached Homes in St. Peter: 2005 to 2013



As the national economy moved toward recession, and the national housing bubble collapsed, the volume and pricing of sales in St. Peter began to decline. Of the nine 12-month sales periods reviewed, the highest volume of good sales

occurred in 2005, at 142 transactions. The lowest volume of sales occurred in 2010, when only 56 good sales were recorded. Although the volume in the past few years is still well below the level reached in 2006, there has been a gradual upward trend in the number of good sales over the past three years.

Median Detached Home Sale Price in St. Peter: 2005 to 2014



The median sale price actually peaked in 2007, at \$159,000. The lowest median sale price was in 2013, at \$138,000. Although only partial-year information was available for 2014, the median sale price had increased substantially in the current year, and was on track to be at the highest level since 2007.

Table 8 St. Peter Attached House Sales: 2005 to 2014*

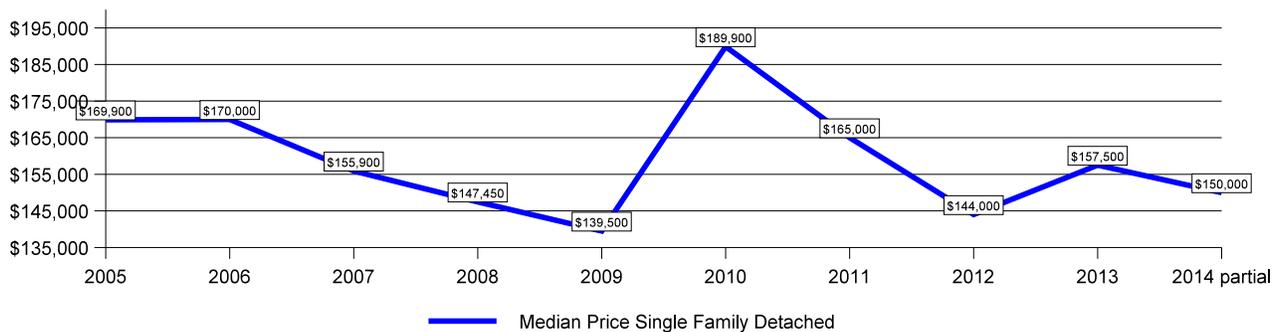
Sales Year	Number of Good Sales	Median Sale Price	Highest Sale	Lowest Sale
2014*	7	\$150,000	\$235,900	\$137,950
2013	9	\$157,500	\$236,000	\$130,000
2012	10	\$144,000	\$225,000	\$115,000
2011	9	\$165,000	\$232,500	\$125,900
2010	3	\$189,900	\$212,950	\$140,000
2009	7	\$139,500	\$165,000	\$134,000
2008	8	\$147,450	\$183,000	\$141,500
2007	14	\$155,900	\$125,000	\$180,000
2006	29	\$170,000	\$225,000	\$82,500
2005	7	\$169,900	\$216,000	\$150,000

Source: Nicollet County Assessor; Community Partners Research, Inc.
 The County sales year is from October 1 through September 30 each year
 * 2014 represents partial-year information

In any given year, the number of attached home sales can be very limited, and may not provide an accurate reflection of overall home values in St. Peter.

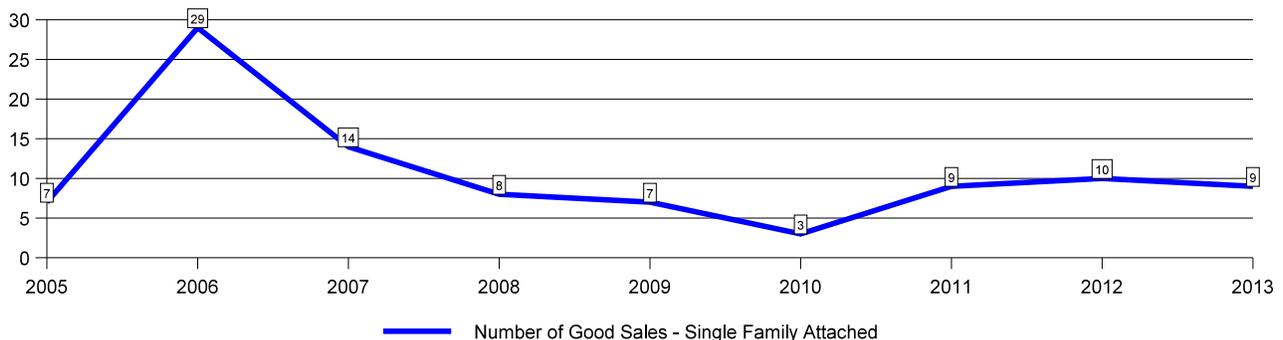
There have not typically been many sales of attached single family homes in St. Peter. The notable exception was 2006 when 29 good sales were recorded. That year had more than double the volume of the next highest year for the number of sales.

Median Attached Home Sale Price in St. Peter: 2005 to 2011



The median sale price for attached units peaked in 2010, at \$189,900. However, only three attached units were sold that year, and the median may not be a good indication of overall home values. In 2006, when the largest number of attached units sold, the median value was \$170,000. Excluding 2010 when few sales occurred, the median price for attached units has remained below the levels achieved in the pre-recession years of 2005 and 2006.

Sales Volume of Attached Homes in St. Peter: 2005 to 2013



The attached housing stock in St. Peter primarily reflects newer units, constructed within the last 25 years. All nine of the attached homes that were sold in 2013 had a date of construction between 1998 and 2008. The relative age of these units tends to be reflected in their sales price.

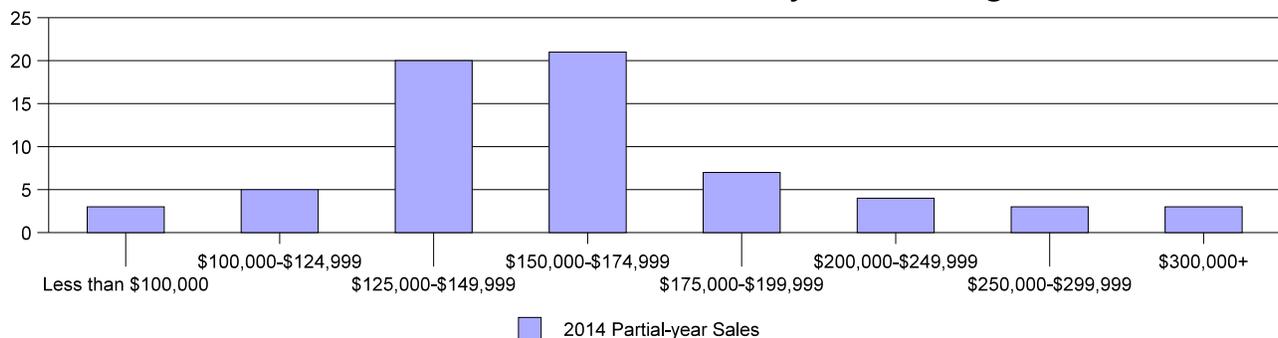
Home Sales by Price Range

The following table looks at single family houses that sold in the 2014 partial-year sales periods, starting October 1, 2013, and ending August 1, 2014, when the most recent transaction was recorded. This effectively represents a 9-month sales period. This information is from Nicollet County’s sales records and includes both attached and detached single family units.

Table 9 St. Peter Home Sales by Price Range: 2014*		
	2014 Partial-year	
Sale Price	Number of Sales	Percent of Sales
Less than \$100,000	3	4.5%
\$100,000 - \$124,999	5	7.6%
\$125,000 - \$149,999	20	30.3%
\$150,000 - \$174,999	21	31.8%
\$175,000 - \$199,999	7	10.6%
\$200,000 - \$249,999	4	6.1%
\$250,000 - \$299,999	3	4.5%
\$300,000+	3	4.5%
Total	66	100%

Source: Nicollet County Assessor; Community Partners Research, Inc.

Recent St. Peter Home Sales by Price Range



A large majority of recent home sales in St. Peter were priced below \$175,000. In the nine-month period, more than 74% of all sales were less than \$150,000. Most recent sales have been within a \$50,000 price range between

\$125,000 and \$174,999. Fewer than 10% of recent sales have been for \$250,000 or more. There has also been very little sales activity in the lower price ranges, with only three homes selling for less than \$100,000.

Active Residential Listings

The website Realtor.com, maintained by the National Association of Realtors, was used to collect information on active residential real estate listings in St. Peter. On October 2, 2014, there were 58 single family detached homes listed for sale, and six attached units. There were some additional listings that appeared to be outside of the City limits, based on the property address. Houses that appeared to be out of the City were removed from the analysis that follows.

It is important to note that the active properties are those included in the Multiple Listing Service (MLS) and would generally be offered through a real estate agent. There are other properties that are posted for sale in St. Peter that would not be part of the MLS, including most homes being offered “for sale by owner”.

The following table examines the MLS listings by listing price. It includes all types of homes as posted on Realtor.com.

Table 10 St. Peter Active MLS Listings by Price Range - October 2014		
Asking Price	Number of Listings	Percent of Listings
Less than \$100,000	9	14.1%
\$100,000 - \$124,999	8	12.5%
\$125,000 - \$149,999	12	18.8%
\$150,000 - \$174,999	13	20.3%
\$175,000 - \$199,999	9	14.1%
\$200,000 - \$249,999	9	14.1%
\$250,000 - \$299,999	1	1.6%
\$300,000+	3	4.7%
Total	64	100%

Source: Realtor.com; Community Partners Research, Inc.

Based on the listings on Realtor.com, most of the houses currently being offered for sale are priced below \$175,000. Overall, approximately 66% of active listings are priced at \$174,999 or less. Only 6.3% of the listings are priced at \$250,000 or more, and fewer than 15% of the listings are below \$100,000.

In addition to the detached single family houses, the table above includes six attached single family units that are listed for sale. All six units are priced below \$160,000.

Residential Lots

Although no new subdivisions have been platted in St. Peter in recent years, there have been some changes in the existing inventory. Due to ownership changes, sometimes caused by foreclosure or tax forfeiture, there has been some re-platting of development areas that had previously been planned for attached housing construction. The following summary defines some of the active development areas with available lot inventories.

Welco West

One active subdivision that is attempting to serve the more moderate segment of the market is Welco West. This subdivision had originally been focused on attached single family construction, generally in two or three units per building configurations. When the market demand for these units dropped, the subdivision went through a tax forfeiture process and a new owner was selected through an RFP process. As part of the RFP process for selling the tax forfeited development, the new owner committed to building more affordable ownership options.

Some replatting has occurred and lots now exist for at least 32 single family detached houses, along with 12 town house units to be constructed in 3-unit/building configurations. There is also a larger parcel for a multifamily rental building. The new owner of Welco West, HeartLand Homes of Mankato, has constructed six spec homes and sold one additional lot, according to the project website.

Three of the spec home units are in town houses. They should be completed by November of 2014. These units will offer one-level living, with slab-on-grade construction. Each unit has two bedrooms and two bathrooms, and they range in size from 1,523 to 1,573 square feet. Estimated pricing will be between \$189,000 and \$193,000.

As a transition between the attached units and the detached houses, four lots will be used for one-level detached homes that will also be slab-on-grade construction. One of these units is currently under construction and will serve as a model/spec unit. It should be completed in November. These units will be smaller than the adjoining town homes, at 1,380 square feet. The estimated listing price will be \$215,000.

The remaining 28 lots for single family detached houses can be used for any style of construction. One lot has been sold for a custom home. Two speculative houses are under construction, with completion expected in October. Both of the model/spec homes are split-level designs with approximately 1,100 to 1,200 square feet of finished living space, plus the unfinished lower level. Each plan has two bedrooms and one bathroom on the upper level. The estimated listing prices for these homes will be in the \$190,000s. A slightly smaller design exists, with less than 1,000 square feet of finished space on the upper level, and this home could sell for approximately \$186,000.

The owner/builder in Welco West is HeartLand Homes of Mankato. This company also builds houses in other nearby communities, including Mankato and North Mankato. In general, they are able to offer detached houses in Welco West for approximately \$3,000 less than the comparable design in Mankato. This is primarily due to lower lot costs achieved in the Welco West purchase, compared to lot prices in Mankato. The price advantage could be even larger in St. Peter, but is partially negated by higher up-front costs related to permitting and utility charges, which are significantly higher in St. Peter than in Mankato.

Country View Ridge

Another active subdivision in St. Peter is Country View Ridge. The plat for this subdivision shows 23 lots for single family houses. According to the developer, 11 lots remain available in September 2014. Lot prices range from \$45,000 to \$59,000, and include special assessments. These lots are generally used for moderate to higher-priced homes, starting at approximately \$200,000, but going above \$300,000. Based on previous research, only three lots have been sold since June 2012.

Rock Ridge

Rock Ridge subdivision had 16 available lots in September 2014. As platted, these lots are intended for single family detached homes. Listed prices range from \$42,500 to \$69,900, including special assessments. According to the listing agent, only one lot has been sold in the past 12 months. Although there are no restrictions on home values, these lots have generally been used for moderate-priced homes, above \$200,000 price range, although some of the more expensive lots may attract higher-priced homes.

Orchard Ridge

Orchard Ridge Subdivision had six available lots for single family detached homes in September 2014. Listed prices range from \$45,000 to \$50,000, including special assessments. According to the listing agent, only one lot has been sold in the past 12 months. These lots are generally used for higher-priced homes, with a development covenant in place that requires a home value of \$250,000 or more, including the lot value.

Assuming that there are also some miscellaneous remnant lots that remain in other subdivisions, the best available information would point to approximately 60, or more, single family detached lots, and some additional attached lots available for sale in St. Peter, primarily in Welco West. Since 2007, the City has issued fewer than 15 single family building permits per year. Based on near-term usage, the City has an adequate overall supply of buildable lots for the next few construction years, although this does not imply that inventory will be available in all price ranges.

Nicollet County Home Foreclosure Activity

The 2012 Housing Study for St. Peter had tracked Countywide home foreclosure activity through 2011, using Sheriff’s Sale data collected and analyzed by HousingLink. Two additional years are presented in the table below.

Table 11 Nicollet County Home Foreclosures - 2007 to 2013							
	2007	2008	2009	2010	2011	2012	2013
Number	49	60	66	64	59	49	43
Rate	0.50%	0.61%	0.67%	0.64%	.59%	0.49%	0.43%

Source: HousingLink; Community Partners Research

Based on the HousingLink data, Nicollet County has seen a decline in Sheriff’s Sale activity, after reaching a peak in 2009. The number of annual foreclosures has decline over the past four years.

HousingLink has also attempted to calculate a rate of foreclosure, by comparing the annual total to the number of residential parcels in each County. While this rate calculation does not yield a perfect number, it does allow for a standardized comparison measure among all of the Counties in the State.

For comparative purposes, Nicollet County had the 48th lowest rate of foreclosure among Minnesota’s 87 Counties in 2013. The County’s rate, at 0.43%, was well below many neighboring Counties, including a rate of 0.66% in Le Sueur County and 0.4% in Blue Earth County.

Competitive Environment

Overview

The City of St. Peter is located on Highway 169, providing an attractive commuting route for residents looking to travel north toward the southern Twin Cities Metropolitan Area, or south toward the City of Mankato. As a residential location, St. Peter competes with other nearby cities that can also offer attractive options to potential home buyers. This section examines market conditions, recent home building activity and the residential lot supply in other communities in the immediate area. The specific cities examined are, Le Sueur, North Mankato, Mankato, Eagle Lake, Belle Plaine and Henderson.

City of St. Peter

Like other communities in the region, St. Peter has had significant variations in the annual level of new housing construction activity over the past 15 years. Single family housing construction was a very active market segment for a five-year period from 2001 to 2005, before decreasing substantially over the next several years.

In each of the five years from 2001 to 2005, building permits were issued for more than 50 single family detached houses per year. In some years, such as 2003, a large volume of attached single family construction also occurred, although some of this may have eventually become rental housing. Overall, during this five-year period, average annual production of single family units (both detached and attached) was approximately 70 homes per year.

The annual construction began to drop in 2006, although 37 single family detached houses were still permitted in that year. However, by 2007, only 11 single family permits were issued and the annual volume remained below that level through 2012. The lowest production occurred in 2011 when only five single family houses were built.

Activity began to rebound in 2013, with permits issued for 14 single family detached houses. Some additional attached housing occurred in 2013, but the best information indicates that these units were intended for rental occupancy. Partial-year information for 2014 shows more single family starts than in 2013. However, some of this increased volume is due to speculative homes built in the Welco West subdivision. In 2013, it is probable that very little spec construction occurred.

St. Peter has some improved lots available in newer subdivisions. Unlike some neighboring communities, the City did not have an overly large inventory of residential lots when construction activity began to slow. However, at least two of the development areas have changed ownership due to financial distress. Both of these were oriented to attached single family construction.

Lots exist in at least three active subdivisions for detached home construction. Although no specific pricing was obtained from each individual subdivision, lot prices as posted on the website Realtor.com ranged from a low of \$34,900 to a high of \$69,900.

There are at least two subdivisions with lots that are platted for attached single family construction. Both of these were developed prior to the housing market retreat in the late 2000s, and both have been acquired by new owners. One of these subdivisions now offers some lots for detached single family houses, initially oriented to the more affordable market segment.

Welco West

One active subdivision that is attempting to serve the more moderate segment of the market is Welco West. This subdivision had originally been focused on attached single family construction, generally in two or three units per building configurations. When the market demand for these units dropped, the subdivision went through a tax forfeiture process and a new owner was selected through a City RFP process. As part of its successful proposal, the new owner committed to building more affordable ownership options.

Some replatting has occurred and lots now exist for at least 32 single family detached houses, along with 12 town house units to be constructed in 3-unit/building configurations. There is also a larger parcel for a multifamily rental building. The new owner of Welco West, HeartLand Homes of Mankato, has constructed six spec homes and sold one additional lot, according to the project website.

Three of the spec homes are in town house units. They should be completed by November of 2014. These units will offer one-level living, with slab-on-grade construction. Each unit has two bedrooms and two bathrooms. They range in size from 1,523 to 1,573 square feet. Estimated pricing will be between \$189,000 and \$193,000.

As a transition between the attached units and the detached houses, four lots will be used for one-level detached homes that will also be slab-on-grade construction. One of these units is currently under construction and will serve as a model/spec unit. It should be completed in November. These units will be smaller than the adjoining town homes, at 1,380 square feet. The estimated listing price will be \$215,000.

The remaining 28 lots for single family detached houses can be used for any style of construction. One lot has been sold for a custom home. Two speculative houses are under construction, with completion expected in October. Both of the model/spec homes are split-level designs with approximately 1,100 to 1,200 square feet of finished living space, plus the unfinished lower level. Each plan has two bedrooms and one bathroom on the

upper level. The estimated listing prices for these homes will be in the \$190,000s. A slightly smaller design exists, with less than 1,000 square feet of finished space on the upper level, and this home could sell for approximately \$186,000.

HeartLand Homes of Mankato also builds houses in other nearby communities, including Mankato and North Mankato. In general, they are able to offer detached houses in Welco West for approximately \$3,000 less than the comparable design in Mankato. This is primarily due to lower lot costs achieved in the Welco West purchase, compared to lot prices in Mankato. The price advantage could be even larger in St. Peter, according to the builder's representatives, but is partially negated by higher up-front costs related to permitting and utility charges, which are significantly higher in St. Peter than in Mankato.

Country View Ridge

Another active subdivision in St. Peter is Country View Ridge. The plat for this subdivision shows 23 lots for single family houses. According to the developer, 11 lots remained available in September 2014. Lot prices range from \$45,000 to \$59,000, and include special assessments. These lots are generally used for moderate to higher-priced homes, starting at approximately \$200,000, but going above \$300,000. Based on previous research, only three lots have been sold since June 2012.

Rock Ridge

Rock Ridge subdivision had 16 available lots in September 2014. As platted, these lots are intended for single family detached homes. Listed prices range from \$42,500 to \$69,900, including special assessments. According to the listing agent, only one lot has been sold in the past 12 months. Although there are no restrictions on home values, these lots have generally been used for moderate-priced homes, above \$200,000 price range, although some of the more expensive lots may attract higher-priced homes.

Orchard Ridge

Orchard Ridge Subdivision had six available lots for single family detached homes in September 2014. Listed prices range from \$45,000 to \$50,000, including special assessments. According to the listing agent, only one lot has been sold in the past 12 months. These lots are generally used for higher-priced homes, with a development covenant in place that requires a home value of \$250,000 or more, including the lot value.

City of North Mankato

The City of North Mankato reached a low point for single family housing starts in 2011, when permits were issued for only 14 detached houses. Since that time, the number of permits has increased, but still remains well below the production levels of the mid-2000s.

According to Census Bureau construction records, more than 60 single family permits were issued per year from 2002 to 2006. In 2012, permits were issued for 35 single family houses, followed by 31 permits in 2013. Through the first seven months of 2014, permits had been issued for 21 houses. At this pace, 2014 appears to be similar to the previous two years, with more than 30 single family housing starts expected.

According to staff in the City's Planning Department, an estimated inventory of 130 to 140 residential lots existed in August 2014. These lots are scattered in 14 different development areas, although the number of lots in certain developments is often small. Over half of the existing lot inventory exists within three specific subdivisions.

The largest estimated inventory exists in The Reserve, a subdivision that was originally platted with 54 lots in the first phase. According to that project's website, 29 lots remained unsold in August 2014. City records show 32 undeveloped lots, so some privately-owned vacant lots also exist in addition to the inventory owned by the developer. No specific lot prices were posted on the website, but "reduced lot pricing" was being promoted. City staff indicated that this subdivision attracts higher priced homes. Sizes for the remaining lot inventory ranged from approximately 11,660 square feet to more than 20,000 square feet.

Parks Edge is a 28-lot subdivision. The development is owned by HeartLand Homes of Mankato, the owner of Welco West in St. Peter, and an exclusive builder arrangement may apply to lot purchases. According to the builder's website, 18 lots remain available. There are an additional two model homes in the subdivision. Lot sizes range from approximately 9,550 to more than 18,000 square feet. Posted lot prices range from \$49,900 to \$59,900. City staff has described this subdivision as serving moderate to higher priced homes.

Burnett's Ravine Ridge #3 was platted with 43 lots. According to City staff, 25 of these lots remain available in August 2014. Lot sizes range from 10,800 to more than 17,000 square feet. Posted lot prices range from \$49,000 to \$68,000, with certain lots identified as "negotiable". The website for this development is Pavek Homes, and it is possible that an exclusive builder relationship exists for these lots.

With a recent annual average of 30 to 35 single family homes per year, the existing lot inventory would be adequate in number to accommodate more than three years of construction activity. Each of the three subdivisions profiled above have master plans that include additional phases of lot development, although no expansions have been proposed in the past few years.

City of Eagle Lake

Like many communities, the City of Eagle Lake has experienced some recovery in housing markets in the past few years, but the level of single family activity remains well below the peak years of the previous decade. In the mid-2000s, the City was permitting 25 or more single family homes in a typical year. Starting in 2008, construction activity dropped substantially, and fewer than 15 homes per year were permitted from 2008 to 2012.

In 2013, 18 single family houses were permitted, the highest yearly total since 2007. Through late August of 2014, 13 single family permits had been issued, so the City appeared to be on a similar pace to 2013.

Eagle Lake has maintained a higher volume of rental housing construction in recent years, especially rental town house units. In 2013, there were eight duplex units and 44 town house units constructed for renter occupancy. Through August 2014, an additional 38 rental town homes had been permitted.

Single family home ownership construction has primarily been occurring within three active subdivisions. Some additional lots may exist outside of these subdivisions, but the supply of remnant and infill lots is believed to be limited.

Prairie Run was originally developed with 51 single family lots. According to the development's website, 25 lots remain available for sale. Prices range from a low of \$31,000, to a high of \$46,000, but most of the inventory is priced at \$40,000 to \$41,000. Lot sizes range from approximately 9,500 to 13,700 square feet. These lots are owned by a home builder, and an exclusive builder arrangement applies to the purchase of lots in this subdivision.

Eagle Ridge 1st and 2nd Additions were originally developed with 137 single family lots. According to the development's website, 30 lots remain available for sale. Prices range from a low of \$24,900, to a high of \$39,900, with most of the inventory priced at \$29,900 or more.

Eagle Heights was originally developed as an 87-lot subdivision. In 2014, approximately 25 lots remain unsold, according to the real estate company listing the lots. Prices range from approximately \$39,000 to \$63,000. The higher-priced lots are limited, and are walkout lots with wildlife views. Lots range in size from approximately 12,000 to 14,000 square feet, according to the listing agent.

According to City staff, there has been no recent interest in any additional subdivision development. Some of the current subdivisions may have new owners, and others have bank-involvement, although none are believed to have reverted to bank-ownership.

At the recent pace of lot absorption, the current inventory of 80 or more lots would represent a four to five year supply.

City of Le Sueur

Le Sueur is located approximately 11 miles north of St. Peter, along Highway 169. Le Sueur does offer employment options, including a large Cambria plant that has expanded over time.

Le Sueur has generally been less successful than other area communities in attracting new home construction. In the high-construction years from 2000 to 2006, the City did average nearly 12 single family detached homes per year. However, the highest volume for detached houses achieved in any single year was 17 homes in 2004. Some limited attached single family construction also occurred, but the City never reached 20 single family units in any year dating back to 2000.

After building eight single family units in 2007, construction activity nearly stopped, with only two single family houses permitted over the next four years. In both 2008 and 2010 no single family construction took place. However, by 2012 and 2013, three houses were permitted each year.

There were at least two active subdivisions that had been created when home building was occurring at a higher level in Le Sueur. When construction activity slowed, especially after 2007, a relatively large lot inventory remained, based on annual absorption. In 2014, approximately 50 vacant single family lots are estimated to exist in Le Sueur.

Most of the lots are in Cedar Ridge Trails. Although this subdivision was partially successful, with 22 lots sold and a number of attractive homes built, as many as 29 vacant lots remain. In 2014, this subdivision was in the tax forfeiture process. It is possible that this subdivision will be acquired by the City or the EDA, and may proceed as a publicly-owned development. The City/EDA can acquire these lots for approximately \$25,000 per lot, the outstanding assessment balance and back taxes amount.

A second subdivision in Le Sueur, known as Turril Estates, is still privately-owned, and has approximately 14 vacant lots remaining for sale. Advertised lot prices are \$38,900. Limited lot sales have occurred in recent years.

Based on past absorption patterns, the lot supply in Le Sueur represents more than four or five years of expected construction activity. If the Cedar Ridge Trails subdivision does proceed as a publicly-owned development, it may represent some of the most affordable, better quality lots in the immediate area. However, with limited past demand evident in Le Sueur, it may not offer direct competition to a similar affordable subdivision in St. Peter.

City of Henderson

Located in Sibley County near the border with Le Sueur County, Henderson is located approximately 16 miles north of St. Peter. Although Henderson is not located along the Highway 169 corridor, and it is not viewed by the analysts as a directly competitive community, it has been added to this competitive section because the City is offering certain incentive programs, and has some of the lowest-priced lot options in the immediate area.

Henderson is a very small community, with fewer than 900 residents in 2013. Henderson has had limited past success in attracting new home building and never achieved more than 10 single family housing starts in a single year. However, the City has become more aggressive in attempting to attract housing construction.

Henderson has been offering a waiver of building permit and water/sewer connection fees for the past two years. The estimated value of the waived fees is between \$10,000 and \$11,000. The City had taken ownership of a 23-lot subdivision through tax forfeiture, and then sold the lots at a very steep discount, often less than \$1,000 per typical lot. To encourage home building on these lots, the fee waiver program was started, but only five houses in total have been constructed so far, and only three of these were in the tax-forfeited subdivision.

Potential home buyers looking to live within the immediate region would probably find the lowest lot and development costs within the City of Henderson.

City of Belle Plaine

Belle Plaine is located in the southwest corner of Scott County, along Highway 169. Although Belle Plaine is part of the Seven-County Twin Cities area, it is 27 miles north and east of St. Peter. While the analysts do not view Belle Plaine as directly competitive with St. Peter, it is along Highway 169, offering a commuting option for residents. It is also another community that has taken proactive steps in an attempt to generate a higher level of housing construction.

Like the other communities in the region, Belle Plaine has experienced wide fluctuations in housing construction activity over the past 10 years. In 2004, permits were issued for 139 single family housing units. By 2006, the number had dropped to 58 single family homes, and by 2008 was down to seven single family permits. In 2011, only two houses were permitted.

However, Belle Plaine has experienced some recent recovery in housing construction activity. In 2013, permits were issued for 12 single family units. This was the largest volume of housing starts since the year 2007, when 40 units were permitted. In late July of 2014, 14 single family permits had been issued year-to-date.

In 2012, the City started offering some incentive programs to help generate additional construction activity. The City has waived building permit and plan review fees for the first 10 houses that are constructed each year. In both 2013 and 2014, the 10 house maximum limit was reached. The actual value of the waived fees is dependant on the construction price of the home, but on average the fees are typically around \$3,300. A second incentive that is offered provides a \$2,000 down payment grant for new houses that utilize a local construction contractor. This incentive is limited to five houses per year.

Although it is not possible to directly link the incentive programs to housing starts, both initiatives have been utilized to their respective limits in 2013 and 2014.

According to City staff, there are approximately 175 to 180 residential lots available in Belle Plain. Most of these lots are within three specific subdivisions, although some scattered infill lots also exist in the community.

One of the most active recent subdivisions is Robert Creek Preserve, which was platted in 2006 with 35 detached single family lots and five lots for attached housing construction in the first addition. This subdivision was later sold by the original developer to a home builder that is the exclusive builder for the lots.

Since the lots are packaged with a home plan, no specific pricing was available. The builder's website shows various home designs and plans, with all but one of the plans within an approximate price range from \$170,000 to \$263,000. According to City staff, most of the incentive loans have been made for homes in this subdivision.

Provence on the River has approximately 25 available lots, according to the project website. Approximately 27 lots have been sold, although it is not known if houses have been built on all of the sold lots. According to the project website, lot prices start at \$39,900, with home prices starting at \$199,990. However, at least one lot in this subdivision was listed on the MLS for \$29,900, although this may have been a secondary sale, and not by the original developer. According to City staff, the original developer still owns this subdivision.

Farmer's Ridge has approximately 30 available lots, with 40 or more lots having been developed. According to internet listings, lot prices start at approximately \$26,900, with multiple lots priced below \$30,000. According to City staff, the current owner of this subdivision is not the original developer.

City of Mankato

Mankato is the largest city in the immediate region and has captured the largest share of past household growth and housing unit construction. Like other cities across the State, Mankato has experienced a large decrease in single family construction activity, when compared to the peak years of the early to mid-2000s.

Single family housing starts in Mankato showed some improvement in 2013, when compared to the recent past. Nearly 120 single family detached and attached units were constructed last year, presumably intended for owner-occupancy. This was approximately double the level that had been achieved in the prior three years.

However, year-to-date activity for 2014 shows a lower level of construction when compared to 2013. For single family detached units, 45 permits had been issued through September. In 2013, there had been 75 detached homes permitted through September.

The number of attached single family units permitted through the first nine months was also lower in 2014 than in 2013, although an exact comparison would require a permit-by-permit analysis of intended tenure. It appears that attached units for owner-occupants have probably decreased from the level in 2013, but it is also possible that the decrease is attributable to renter-occupancy town homes.

The Planning Department for the City of Mankato has tracked active residential subdivisions and the supply of lots for residential construction. However, this analysis has not been updated after 2012, as few new lots have been created. The analysts obtained a spreadsheet showing the changing lot supply between the years 2007 and 2012.

In 2012, this inventory for Mankato showed 282 single family lots for detached housing construction and 54 lots for attached single family units. In total, 336 lots were available, in 29 different subdivisions/phases for detached houses and six subdivisions/phases for attached construction. Some of the lots were in the development process and scheduled to be available in 2013.

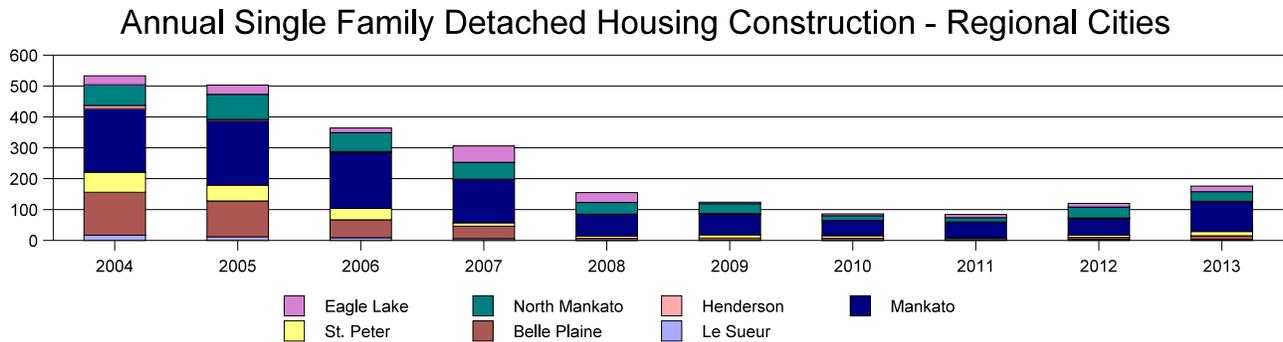
In 2013 and year-to-date in 2014, of 2013, more than 175 single family homes had been issued a building permit in Mankato, including both attached and detached units. Assuming that this construction activity further reduced the lot supply, it is probable that approximately 140 or more lots remain, plus any additional lots that were platted and/or developed in 2013 or 2014.

With ongoing home construction and limited subdivision development, the available lot inventory has dropped significantly in recent years. The inventory in 2007 had been relatively large, with 542 detached lots and 268 attached lots. Presumably, the high level of housing construction activity that had been occurring in the first half of the last decade had resulted in significant subdivision development activity. As the volume of new housing construction slowed, a surplus lot inventory remained, and this supply of lots has been gradually absorbed over the past few years. However, the large inventory that has been present in the past has served to discourage any significant new subdivision activity.

The website Realtor.com shows lots and land that are on the Multiple Listing Service (MLS). In September 2014, there were 122 MLS listings, although some of these were not suitable for single family construction. Some of the listings were also outside the city limits of Mankato, including listings for North Mankato, Eagle Lake and Madison Lake. The lowest identified prices for single family lots in Mankato started at \$38,000. The highest-priced lot was at \$199,900. Realtor.com had only 14 lots listed for less than \$50,000 that were in the City of Mankato.

Regional Construction Summary

Based on the Cities profiled above, it is possible to assemble an annual estimate of detached single family housing construction activity by year. Attached units have been excluded from this chart, since some of the twin homes and town houses have been built as rental housing.



This chart only tracks construction activity back to the year 2004, but provides a ten-year time period, ending in 2013. Over this time, there was a large decrease in annual construction activity. After reaching low points in 2010 and 2011, some rebound has started to occur, especially in 2013. However, most of the regional volume in 2013 was within the City of Mankato. Year-to-date statistics for 2014 show the City has built significantly fewer new houses than at this same point in 2013. As a result, it is probable that the regional total for 2014 will be lower than the level achieved in 2013, but comparable to or higher than the 2012 total production.

Detached Single Family Construction Comparison with Mankato

While the section above examines home building activity in a number of other cities in the immediate region, a more direct comparison can be made between the City of St. Peter and the City of Mankato over time. Mankato is the regional center and accounts for the largest single share of construction activity each year.

Annual construction statistics can be assembled back to the year 2000, and compared to see the relative share of activity that St. Peter has been able to achieve. This has been represented in percentage terms, with single family starts in St. Peter as a percentage of the single family starts in Mankato for detached units only.

St. Peter/Mankato Competitive Comparison			
Year	Detached Houses St. Peter	Detached Houses Mankato	Percent of Mankato Total
2000	17	80	21.3%
2001	66	172	38.4%
2002	51	163	31.3%
2003	53	289	18.3%
2004	65	206	31.6%
2005	51	209	24.4%
2006	37	180	20.6%
2007	11	140	7.9%
2008	7	71	9.9%
2009	10	66	15.2%
2010	8	50	16.0%
2011	5	52	9.6%
2012	7	53	13.2%
2013	14	96	14.6%
2014*	15	45	33.3%
Total			

Source: Building permit records compiled by Community Partners Research, Inc.

* 2014 is through September

As documented in the table above, both St. Peter and Mankato have had significant changes in the level of detached single family home construction over the past 15 years. In comparison to activity in Mankato, the relative percentage of homes built in St. Peter has also changed over time.

During the active construction years between 2000 and 2006, both St. Peter and Mankato were experiencing a substantially higher level of new home construction than in the years that followed, especially after economic and housing market conditions began to deteriorate in 2007. During the seven-year period from 2000 to 2006, the number of new homes built in St. Peter represented between approximately 19% to 38% of the volume in Mankato.

After 2006, the comparison percentage dropped, and through the end of 2013, St. Peter's percentage ranged from approximately 8% to 16% of the volume in Mankato. Partial-year information for 2014 points to some percentage recovery in the current year, but that is partially due to a decreased volume of building in Mankato, along with some spec home construction in St. Peter.

Aggregated totals can be compared. For the 7-year period from 2000 to 2006, St. Peter achieved approximately 26% of the total single family volume achieved in Mankato. For the 7-year period from 2007 to 2013, the percentage achieved by St. Peter dropped to less than 12% of the volume in Mankato.

One probable explanation for the stronger competitive share that was achieved by St. Peter prior to 2007 was the impact of publicly-developed affordable subdivisions. Lots in the first phase of Nicollet Meadows were available from 2000 to 2002. The second phase of Nicollet Meadows then became available in 2002, with most lots sold by 2004. Lots in Washington Terrace became available in 2004, and by 2006, more than 75% had been sold. Although some remnant lots remained after 2006 in Washington Terrace, most lots had been sold and most of the houses on these lots had started or completed construction.

After the national economic recession and housing market crash, construction activity in St. Peter was going to slow significantly, regardless of the affordable lot supply. However, this appears to have been accentuated by the fact that the affordable subdivisions were nearing full build-out after 2006. Between 2006 and 2007, the volume of single family home construction in Mankato dropped by approximately 22%. In St. Peter, the volume dropped by more than 70%.

In hindsight, the strong construction activity that was occurring prior to 2007 may have represented a time of over-exuberance, as most cities experienced more growth in the single family housing stock than in they did in owner households. As a result, excess inventory was also a contributing factor to the building slowdown that followed.

Looking ahead, it is unlikely that the high volume of annual home construction of the early 2000s will recur in the region. Still, when compared to other area cities, including Mankato, there is evidence that St. Peter has the potential to increase its capture rate of households looking for a newly constructed home.

Employment and Economy

While many factors influence the need for housing, employment opportunities represent a predominant demand-generator. Without jobs and corresponding wages, the means to afford housing is severely limited. Employment opportunities are provided by a broad range of private and public business sectors. The type of employment, wage level, and working conditions will each influence the kind of housing that is needed and at what level of affordability.

Employment and Wages by Industry

The following table shows the annual employment and average annual wages by major employment sector in 2013. It is important to note that the major employment sectors listed do not represent all employment in the City. Some groups, including self-employment, are not represented. This information is only for the City of St. Peter.

Table 12 St. Peter Average Annual Wages by Industry Detail - 2013		
Industry	2013 Employment	2013 Average Annual Wage
Total All Industry	5,293	\$37,336
Manufacturing	334	\$41,496
Trade, Transportation, Utilities	458	\$21,632
Information	N/A	N/A
Financial Activities	129	\$47,372
Professional and Business Services	222	\$34,632
Education and Health Services	2,759	\$41,964
Leisure and Hospitality	401	\$9,724
Other Services	194	\$39,000
Public Administration	674	\$42,380

Source: MN Department of Employment and Economic Development

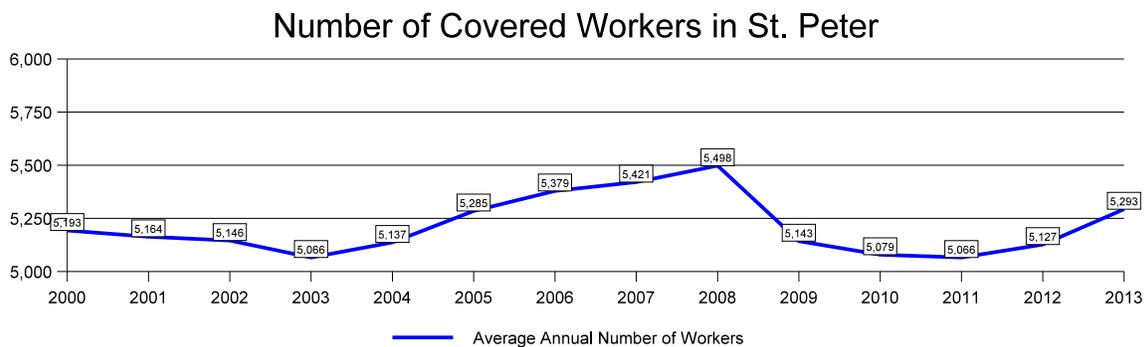
The average weekly wage for all industry in calendar year 2013 was \$37,336. This assumes full-time employment at the average weekly wage rate. The highest paying wage sectors were Financial Activities, at \$47,372, and Public Administration, at \$42,380 annually. Education and Health Services was the largest sector for employment, representing more than 52% of all classified employment options. The lowest paying wage sector was Leisure and Hospitality, with an average annual wage below \$10,000.

Annual Covered Employment

Since the Quarterly Census of Covered Workers (QCEW) tracks employees covered by unemployment insurance by location of the worker, it is possible to examine longer-term patterns in the employment level. The following table displays the total number of workers reported in St. Peter back to the year 2000.

Table 13 St. Peter Average Annual Employment: 2000 to 2013			
Year	Total Covered Employment	Year	Total Covered Employment
2000	5,193	2007	5,421
2001	5,164	2008	5,498
2002	5,146	2009	5,143
2003	5,066	2010	5,079
2004	5,137	2011	5,066
2005	5,285	2012	5,127
2006	5,379	2013	5,293

Source: QCEW - MN Department of Employment and Economic Development

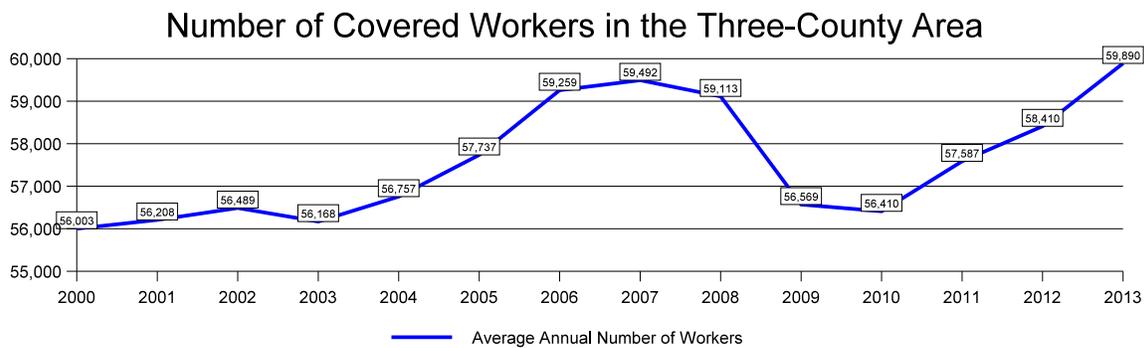


Over a longer-term period, there has been limited growth in the number of employees covered by unemployment insurance that are working in St. Peter. Growth had been occurring annually between 2003 and 2008, but then reversed. As national economic conditions began to deteriorate in 2008, the number of covered workers began to drop again, and reached the lowest level in 2011. Since that time, some growth has returned, although the number of covered workers in 2013 was only 100 people greater than in the year 2000.

The same patterns for the number of workers covered by unemployment insurance can be tracked for the entire Three-County area, consisting of Nicollet, Blue Earth and Le Sueur Counties.

Table 14 Three-County Average Annual Employment: 2000 to 2013			
Year	Total Covered Employment	Year	Total Covered Employment
2000	56,003	2007	59,492
2001	56,208	2008	59,113
2002	56,489	2009	56,569
2003	56,168	2010	56,410
2004	56,757	2011	57,587
2005	57,737	2012	58,410
2006	59,259	2013	59,890

Source: QCEW - MN Department of Employment and Economic Development



Over a longer-term period, there has been growth in the number of employees covered by unemployment insurance that are working in the Three-County area. However, year-to-year changes have been both up and down over the 14 years reviewed. From 2000 to 2013, the number of covered workers increased by nearly 3,900 jobs, or nearly 7%. However, most of this job growth occurred between 2000 and 2007. After a prolonged national economic recession began in 2008, the number of covered workers dropped significantly. The annual average for 2013 represented the first year that the number of covered workers exceeded the level that had been achieved by the year 2007.

Labor Force, Work Force and Unemployment

The Minnesota Department of Employment and Economic Development provides employment information at the County level only. The following table looks at statistics since 2000 for the three combined Counties of Nicollet, Blue Earth and Le Sueur.

Table 15 Three-County Labor Force and Employment: 2000 to 2014*						
Year	Labor Force	Employed	Unemployed	Unemployment Rate - County	Unemployment Rate - MN	Unemployment Rate - US
2000	66,911	64,916	1,995	3.0%	3.1%	4.0%
2001	68,425	66,034	2,391	3.5%	3.8%	4.7%
2002	69,482	66,624	2,858	4.1%	4.5%	5.8%
2003	69,169	66,116	3,053	4.4%	4.9%	6.0%
2004	68,367	65,509	2,858	4.2%	4.6%	5.6%
2005	68,501	65,877	2,624	3.8%	4.2%	5.1%
2006	69,604	67,009	2,595	3.7%	4.1%	4.6%
2007	69,926	66,945	2,981	4.3%	4.7%	4.6%
2008	71,741	68,189	3,552	5.0%	5.4%	5.8%
2009	72,388	67,001	5,387	7.4%	8.0%	9.3%
2010	72,677	67,654	5,023	6.9%	7.4%	9.6%
2011	72,839	68,546	4,293	5.9%	6.5%	8.9%
2012	72,318	68,561	3,757	5.2%	5.6%	8.1%
2013	73,193	69,834	3,359	4.6%	5.1%	7.4%
2014*	74,235	71,000	3,235	4.4%	4.8%	6.5%

Source: MN Department of Employment and Economic Development

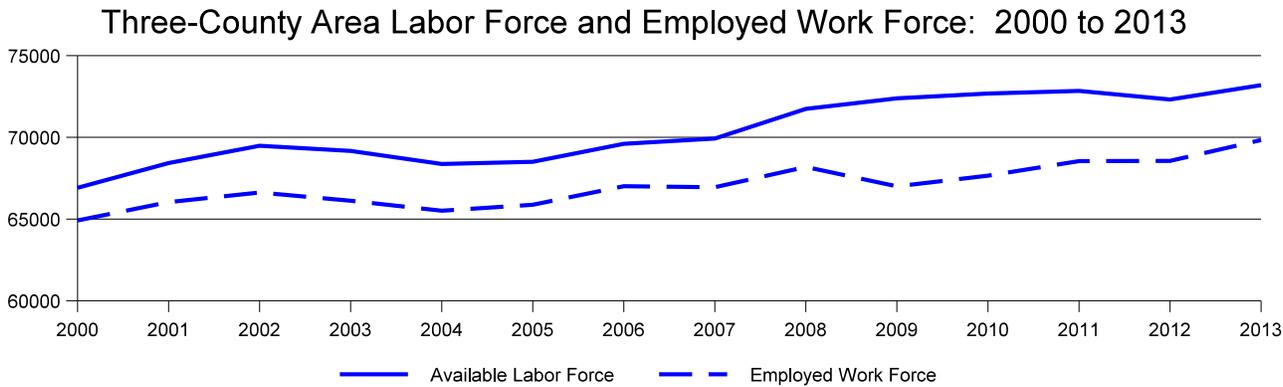
* 2014 is through August

The Local Area Unemployment Statistics data (LAUS) tracks employment by place of residence. It shows how many residents are actively in the labor force, and their employment status, regardless of where they actually work.

There has been growth in the size of the Three-County area’s available labor force in recent years. When comparing 2000 to 2013 (the last full year of data) the total labor force has increased by nearly 6,300 people, or 9.4%.

The employed work force has shown similar patterns when viewed over a longer time period. When comparing 2000 to 2013, the number of employed people residents of the Three-County area increased by more than 4,900 people, or 7.6%.

With the County’s available labor force growing at a faster rate than the employed work force, the unemployment rate has increased over the 14-year period, from 3.0% in 2000 to 4.6% in 2013. In relative terms, the unemployment rate for the Three-County area has consistently remained below the Statewide and National rates during the entire time period reviewed.



Although some year-to-year downward changes have occurred, the long-term trend shows growth in both the available labor force and the employed work force. Partial-year information for 2014 points to continued growth in the current year.

Commuting Patterns of Area Workers

Some information is available on area workers that commute for employment. The best information is from the 2012 American Community Survey, and has been examined for the City of St. Peter. The first table only examines people living in St. Peter that traveled to work and excludes people that work at home.

Table 16 Travel Times for St. Peter Workers - 2012		
Travel Time	Number	Percent
Less than 10 minutes	2,209	43.7%
10 to 19 minutes	1,174	23.2%
20 to 29 minutes	1,001	19.8%
30 minutes or more	671	13.3%
Total	5,055	100%

Source: 2012 American Community Survey 5-year estimates

A large majority of St. Peter residents were commuting less than 20 minutes to work in 2012. Presumably, most residents commuting fewer than 10 minutes were working in the City or just outside the City limits. People driving 10 to 19 minutes to work may have been commuting to Mankato/North Mankato, the regional center, or toward the City of Le Sueur. Overall, more than 86% of St. Peter residents commuted less than 30 minutes to work.

The American Community Survey also identifies travel time by location of employment. For people that worked in St. Peter, the following travel times were identified.

Table 17 Commuting Times for St. Peter-based Employees - 2012		
Travel Time	Number	Percent
Less than 10 minutes	2,390	38.8%
10 to 19 minutes	1,890	30.7%
20 to 29 minutes	1,069	17.3%
30 minutes +	814	13.2%
Total	6,163	100%

Source: 2012 American Community Survey 5-year estimates

For people that worked in St. Peter, only 13% traveled 30 minutes or more, as longer-distance commuters. Overall, nearly 70% of City-based employees traveled less than 20 to work and lived either within the city limits or in one of the nearby jurisdictions.

Census On the Map

The Census Bureau also produces commuter reports through its Center for Economic Studies division. This information is based on reports for the year 2011, but provides a further breakdown of worker movement patterns.

According to the report for St. Peter, there were 5,148 people that were employed within the city limits in 2011. Of the St. Peter-based employees, 1,826 also lived within the City. The remaining 3,322 employees lived outside the city limits and commuted for employment. The percentage of city-based workers that were also residents was 35.5%.

The **On the Map** reporting service can be used to make comparisons between communities in the region. The following table presents worker inflow information for other communities along Highway 169, including Belle Plaine, Le Sueur, Mankato and North Mankato. It looks at the percentage of people in each community that both lived and worked in their home city in 2011, as well as the percentage of workers that come from outside of each city.

Table 18 Employee Inflow Analysis - 2011				
City	Number of People Employed in the City	Percent Employees that also Reside in the City	Percent Employees that Live Outside of the City	Number Employees that Live Outside of the City
St. Peter	5,148	35.5%	64.5%	3,322
Le Sueur	2,244	31.0%	69.0%	1,548
Belle Plaine	2,124	29.2%	70.8%	1,503
North Mankato	5,904	21.3%	78.7%	4,646
Mankato	28,106	25.0%	75.0%	21,092

Source: Census Bureau, Center for Economic Studies

As indicated in the table above, only 35.5% of the jobs based in St. Peter were actually filled by people that live within the City. While this percentage may seem to be low, St. Peter outperformed other nearby communities in attracting

local workers to also live within the City. Only Le Sueur was also above 30% in the percentage of jobs filled by city residents.

In addition to defining residents that work within the City, the Census data can also be used to determine worker outflow, measuring residents that leave their home city to work elsewhere.

Table 19 Employee Outflow Analysis - 2011			
City	Number of Employed City Residents	Percent of Residents that Live and Work in the City	Percent of Residents that Leave the City for Employment
St. Peter	4,387	41.6%	58.4%
Le Sueur	1,941	35.9%	64.1%
Belle Plaine	3,166	19.6%	80.4%
North Mankato	6,127	20.5%	79.5%
Mankato	14,173	49.5%	50.5%

Source: Census Bureau, Center for Economic Studies

Although a majority of employed St. Peter residents worked outside of the community, a relatively large share of residents were employed within the City in 2011. Nearly 42% of working residents have a local place of work, while more than 58% commuted elsewhere.

Among the nearby communities used for comparison, only Mankato had a larger percentage of residents that both lived and worked within the community. In both Belle Plaine and North Mankato, approximately 80% of residents left their home community for employment.

Growth Trends and Projections Overview

The updated demographic section of this Study has presented information on current population and household estimates for the City and the surrounding areas. In general terms, St. Peter and the Three-County area have been able to consistently add population and households for more than thirty-three years (this and previous reviews have not analyzed data prior to 1980).

While overall growth has been consistently taking place, the rate of growth has varied from decade to decade. When examining the entire Three-County area, consisting of Nicollet, Blue Earth and Le Sueur Counties, the rate of household growth has not always been consistent. In the 1980s, the number of households in the Three-County area increased by 7.5%. In the 1990s, the percentage increase was at 11.5%. The decade of the 2000s represented an even faster period of growth, as the number of households increased by 14.7%.

However, the pace of growth has slowed more recently, with a more modest increase over the past seven years. The best available projections for the Three-County area would expect household growth of between 8% and 9% during the current decade. While this still represents a substantial increase, recent patterns suggest a more moderate rate of growth going forward, when compared to the rapid growth that was taking place in the early 2000s.

Housing unit construction patterns for the larger region have generally followed the trends for household growth. The number of housing units constructed each year between 2000 and 2006 was more than double the average that occurred from 2007 to 2013. The change was most severe in Le Sueur County, but even in Blue Earth County, the annual average after 2006 was at one-half the level of the preceding seven years.

This regional pattern was also very evident in the City of St. Peter. Although exact annual incremental change cannot be accurately measured, it is probable that St. Peter was adding more than 70 resident households in an average year from 2000 to 2006. After 2006, growth and housing unit construction slowed significantly. The best recent estimates show the City adding 40 or fewer households per year, approximately one-half the rate being achieved in the earlier part of the previous decade.

This 2014 analysis has examined different household projections that exist for the City of St. Peter and the larger region, and expects that near-term growth will remain reasonably similar to the most recent patterns. For the City of St. Peter, this represents annual average growth of between 36 and 46 households in a typical year through the year 2020.

For the larger Three-County region, annual average growth of approximately 366 to 412 households would be expected. Most of the regional growth will likely occur within the City of Mankato. The City of St. Peter would be expected to capture approximately 10% to 11% of this regional growth. While growth at this scale will continue to generate demand for new housing construction, it will be at a much lower level that had been occurring prior to the year 2007.

It is important to state that these calculations represent potential growth based on current conditions and expectations. Although the City of St. Peter has not experienced significant upward change in city-based employment, there may be larger-scale job growth within the region. In Mankato, projects such as a WalMart Distribution Center hold the potential for greater household growth within the near-future. Similarly, expansions at the Cambria facility near Le Sueur could also result in faster than expect growth within the regional work force, generating greater household growth potential. The projections contained in this Study may prove to be overly conservative in the future, but are supported by the patterns that have been present for the past seven or eight years.

Summary of Growth Projections by Age Group

The Demographic section of this Study presented information on the changing age makeup of the City and the surrounding area. Tracking age-based changes can be informative in predicting future housing needs.

In general terms, much of the net change in households between 2000 and 2010 was generated by older adults. Nearly 68% of the City's net increase in households over the last decade was due to an increasing number of households age 55 and older. At the time of the 2000 Census, approximately 35% of all households in the City had a head of household age 55 or older. By 2010, this had increased to nearly 40% of all households. By the year 2020, this percentage will be even larger, as existing residents move through the aging cycle.

The same basic patterns have been present in the entire Three-County area, although the impact of a large student population in Mankato does lower the overall percentages. In 2010, more than 38% of all households in the Three-County area had a head of household age 55 or older. By the year 2020, nearly 44% of all households will be in the 55 and older age groups. The largest age-based changes among older adult households should occur in the groups between 55 and 74 years old. This would reflect the aging "baby boomers", all of whom will be age 55 or older by the year 2020.

Conversely, no growth would be projected among younger adult households, below the age of 55. While certain age cohorts in these younger ranges, such as the number of households age 25 to 44, will increase in number, they will be negated by even larger reductions in other age groups, especially households age 45 to 54 years old, as the advancing baby boom generation will not be replaced by the smaller demographic cohort that immediately followed.

The age-based projections from ESRI expect a net reduction of 643 households age 54 and younger between 2010 and 2019. The age-based forecasts from Community Partners Research expect a net reduction of 384 households age 54 and younger during the current decade.

Between 2000 and 2010, St. Peter did a better job than many other communities in attracting/retaining younger households. This was probably due in part to affordable subdivisions such as Nicollet Meadows and Washington Terrace. However, in the early 2000s, when these subdivisions were most active, most of the baby boomers were in the age groups between 35 and 54 years old, and were driving much of the demand for new single family homes. By 2020, all of the baby boomers will be older than 55, and less likely to build or buy a traditional single family detached unit in an affordable subdivision.

Summary of Housing Unit Demand and Tenure Projections

St. Peter has developed a diverse range of housing options for area residents. Although the last decade was generally regarded as a very strong period for home ownership, the rental tenure rate in St. Peter actually increased, while the home ownership rate dropped. In terms of net change, St. Peter added 288 renter-occupancy households over the previous decade, compared to 225 owner-occupancy households, according to the 2010 Census.

After 2010, it is probable that the disparity between renter and owner household growth has been even greater. Most of the net increase in households after the 2010 Census count would be directly linked to the new housing opportunities that were created during this same time period. Based on building permit reports from 2010 to 2013, there were 195 rental housing units permitted (including very specialized senior housing with services) compared to only 34 single family homes.

As identified in the previous study completed for St. Peter, the level of owner-occupancy household growth from 2000 to 2010 was well below the level of single family housing unit construction during that same time. Housing units issued a building permit between 2000 and 2009 would probably have completed construction and been available for occupancy by the time the 2010 Census was completed. Based on building permit records, there were nearly 450 single family units constructed in St. Peter during this time period, but a net gain of only 225 owner-occupancy households.

Conversely, the level of renter-occupancy household growth between 2000 and 2010 exceeded the level of new unit creation, based on construction records. The City added 288 renter-occupancy households, but fewer than 220 actual rental units through new construction. The capacity to house more renter households was achieved either through access to formerly vacant housing, or through the conversion of units, as owner-occupancy housing changed use to become rental housing. The fact that owner-occupancy unit construction greatly exceeded growth in the number of owner households is probably a significant contributing factor to the slowdown in new home construction activity after 2006.

Tenure Projections to 2020

There are multiple methods available for converting projected household growth over the next few years into expected tenure preference. The following summary is provided of the different methods reviewed. These methods have

then been compared to the projected annual growth potential of 36 to 46 households in an average year in St. Peter. Following this analysis, a tenure-based projection has been identified.

Long-term Tenure Patterns

Based on historical tenure patterns for St. Peter, most of the demand should come from owner-occupancy households. At the time of the 2010 Census, 65.3% of all St. Peter households were owner-occupants. Although the home ownership rate in 2010 was down from the rate of 68.9% in 2000, the large majority of households still owned their housing unit.

If an ownership tenure rate of even 64% is applied to the expected annual range of future growth, this would yield growth-generated demand for approximately 23 to 29 additional owner-occupancy units in an average year.

Short-term Tenure Patterns

While most St. Peter households have traditionally owned their housing, this pattern is much less evident in the incremental growth over the past 15 years. As tracked by the decennial census, the net tenure change for net household growth between 2000 and 2010 was approximately 56% renters compared to 44% owners. After 2010, it appears the rental tenure rate has probably been above 70% based on unit construction patterns.

If the home ownership tenure pattern from the prior decade of only 44% is applied to the expected annual range of future growth, then this would yield growth-generated demand for approximately 16 to 20 additional owner-occupancy units in an average year.

Age-based Tenure Patterns

Aging patterns for City residents can also be used to predict future tenure demand, as households have distinct ownership versus rental preferences at different stages of their lives.

An analysis of future age distribution patterns for households would yield a reasonably similar forecast to historic tenure preferences, as most of the net household growth is expected to occur within the age ranges that have traditionally had very high rates of home ownership. If future households maintain the tenure preferences that are similar to historic precedent, then approximately two-thirds of the demand would exist for ownership options.

If an ownership rate of 67% is applied to the expected annual range of future growth, then this would yield growth-generated demand for approximately 24 to 31 owner-occupancy units in an average year.

Reconciliation of Projected Demand

The various calculation methods presented above yield a range of annual demand for additional home ownership options, from a low of 16 units per year, to a high of 31 units per year.

Although this represents a fairly wide range, it is important to note that actual construction activity has not generally achieved even the lower end of this projected range since the year 2006. The possible exception is the current year, 2014, when as many as 21 owner-occupancy housing starts have occurred so far, although as many as six of these are believed to be speculative homes that may or may not sell during the year.

Going forward, this Study has used a forecast near the middle of this projected range, with growth-generated demand yielding the need for an additional 20 to 25 owner-occupancy units in an average year. Unit replacement and pent-up demand for certain types of units could take this annual demand as high as 30 units in an average year to the year 2020.

This level of production would be well below the levels the City was able to achieve from 2001 to 2006. However, it would be more than double the average level that has been reached annually since 2007.

While the analysts do anticipate ongoing recovery in single family construction activity, it is not necessarily evident in 2014. St. Peter has exceeded its prior year production total for single family homes, but this has not been the case in Mankato, which is unlikely to reach its 2013 construction level. With lowered construction levels in Mankato, it is probable that the regional total for single family production in 2014 will be lower than in 2013.

For St. Peter to achieve a higher level of annual production in the future, it is assumed that new home ownership promotional efforts, including gap financing, down payment assistance, and reduced lot pricing will all generate a level of construction that has not been reached recently without these types of incentives. It is also probable that the projections to 2020 will not necessarily result in a consistent level of annual construction. Reaching as many as 30 single family housing starts per year may not occur in the early years of this projection period, but then should gradually increase as market conditions continue to improve over time.

Findings and Recommendations Concerning Affordable Subdivision/Unit Construction

Findings: The primary goal of this updated research project is to review and comment on market conditions pertaining to affordable home ownership housing potential in St. Peter. A similar research project had been completed in 2012. With slow home ownership market conditions present at that time, that study had not identified a near-term need for an affordable housing subdivision project. The City also recognized at that time that market conditions were not conducive to publicly-sponsored initiatives.

As local housing markets have stabilized, and some improvement has started to appear in new home construction activity, this topic has been examined based on information available in 2014.

It is important to acknowledge that St. Peter has had past success with promoting affordable home ownership options. In the previous decade, two publicly-owned subdivisions were developed, known as Nicollet Meadows and Washington Terrace. In addition to offering affordable residential lots, these development areas also packaged subsidy and financing programs that assisted income-eligible and first-time home buyers.

Lots in the previous subdivision projects were well-timed with peak market activity. Lots in the first phase of Nicollet Meadows were available from 2000 to 2002. The second phase of Nicollet Meadows then became available in 2002, with most lots sold by 2004. Lots Washington Terrace became available in 2004, and by 2006, more than 75% had been sold. Although some remnant lots remained after 2006 in Washington Terrace, most had been sold and houses on these lots had either started or completed construction before the housing downturn occurred.

During the years that active home building was underway in these affordable subdivisions, St. Peter was in a solid competitive position for attracting home owners. In the Competitive Environment section of this document, single family detached housing starts in St. Peter were compared to single family starts in Mankato, the single strongest jurisdiction in the immediate region for home construction activity.

From 2000 to 2006, when lots were being utilized in the City's affordable subdivisions, St. Peter was able to achieve a level of annual home building that ranged from approximately 20% to more than 38% of the level achieved each year in Mankato. The only exception was 2003, when Mankato reached its

single year peak for home building, and the level in St. Peter was only 18% of the volume achieved in Mankato.

From 2007 to 2013, when nearly all of the affordable lots had been sold, St. Peter never achieved a percentage above 16% of the volume being reached in Mankato. The exception could be in 2014, when the volume of construction is up and St. Peter and down in Mankato year-to-date. However, this is primarily due to the fact that through the end of September, Mankato was only at 60% of the single family housing starts reached at the same point in 2013.

After the national economic recession and housing market crash started in 2007, construction activity in St. Peter was going to slow significantly, regardless of the affordable lot supply. However, this appears to have been accentuated by the fact that the affordable subdivisions were nearing full build-out after 2006. Between 2006 and 2007, the total volume of single family home construction in Mankato dropped by approximately 22%. In St. Peter, the volume dropped by more than 70%.

Recommendation: The research completed as part of this 2014 update is generally supportive of a renewed effort to develop an affordable single family home subdivision in St. Peter, especially if this effort can include special buyer incentives and assistance programs. However, the City should not expect that the past successes can be directly replicated. Going forward, a goal of approximately 8 to 12 affordable homes per year represents the expected potential for affordable new construction efforts. There are also reasons to possibly delay the start of development activity, as will be further defined below.

The updated research in this document supports overall demand for up to 30 single family ownership units in an average year in St. Peter. Approximately 30% of this demand can be expected within the entry-level to more moderate price ranges that could be served by an affordable subdivision. At this rate, fewer than 10 affordable new homes would be needed in a typical year. However, with added financial incentives, such as "gap" financing, deferred loans and down payment assistance, a higher level of construction should potentially be achievable.

The annual projected demand of 8 to 12 affordable new homes per year would be substantially lower than the peak levels achieved in the previous Nicollet Meadows and Washington Terrace projects. However, broader market conditions were much stronger at that time, and overall home building activity in St. Peter and the surrounding region was proceeding at a pace that was more than double the overall level projected forward to the year 2020.

There is evidence that the elevated construction levels prior to 2007 may have actually exceeded actual demand, as tracked by growth in home ownership. A more moderate expectation for home building and home owner growth has been used when forecasting demand over the next few years.

Based on the projected demand, any affordable subdivision development would be recommended at a moderate scale, with smaller phases of lot improvement. An initial phase of 20 to 30 affordable lots should allow for absorption within two to four years. Additional phases could then be introduced based on the sales patterns that are established in phase 1.

Although this update is supportive of affordable ownership initiatives and subdivision development, there are a number of additional findings and concerns that should be considered before action is taken. These are summarized below.

- ▶ **Welco West will also address this market segment** - A tax forfeited subdivision was sold to an area home builder/developer, which included goals to provide some affordable housing options, including single family detached homes. In the fall of 2014, limited sales activity had occurred within Welco West, although some speculative model homes were nearing completion and would be actively used to market the lots and available design plans. State financial incentives had been applied for, but not yet awarded, which could offer incentive programs to income-eligible households.

Potential floor plan options for homes in Welco West could be as low as the \$150,000s, although most designs would be priced above \$180,000, before any incentives are applied. The application for buyer assistance funds had assumed a first mortgage of approximately \$165,000 for the affordable homes. Welco West has as many as 28 single family detached lots that could be used to serve this more affordable segment of the market.

In the near-term, Welco West has the potential to meet demand in St. Peter for the more affordable ownership market. A City-sponsored affordable subdivision created before lots in Welco West are absorbed would offer direct competition. In the opinion of the analysts, the lot sales and home building activity in Welco West should be closely monitored before any additional lot development is initiated. As lots/homes in Welco West are sold, there will be direct evidence of demand for this type of housing.

- ▶ **Privately-owned subdivisions will view a City-sponsored project as direct competition** - In addition to Welco West, there are other active subdivisions with unsold lot inventories in 2014. These include Country View Ridge, Rock Ridge, Orchard Ridge and possibly others. With the downturn in single family construction after 2006, many of these developments have been holding unsold lots for a prolonged period of time.

The basic research completed for this update indicates that lot prices in these other subdivisions tend to be higher than those typically associated with an affordable subdivision. The style and prices for homes built in the private subdivisions also tend to be higher, although no specific research was done on construction covenants that may be in place that would impact final pricing.

While these private subdivisions would generally not represent direct competition, based on lot pricing, the owners of existing subdivisions would generally view this as competition that will further limit their ability to sell their remaining lot inventory. Some of the representatives of these private subdivisions expressed their displeasure when interviewed for this update.

- ▶ **No direct competition appears to exist within neighboring communities, but may be present in the future** - As part of the research for this project, the analysts contacted other communities in the immediate area to learn about market activity and competitive developments. Specific cities included Mankato, North Mankato, Eagle Lake and Le Sueur. Although both Belle Plaine and Henderson are farther removed from St. Peter, they were also contacted.

The analysts did not identify any publicly-owned subdivisions that could also offer financial incentives to qualified buyers, similar to what is being considered in St. Peter. In Le Sueur, it is possible that a tax forfeited subdivision may be acquired by a public entity in the future. This would be the closest example to the possible project in St. Peter. However, in the past Le Sueur has been less attractive than St. Peter as a location for potential home buyers.

While no directly comparable example to the Nicollet Meadows/Washington Terrace projects could be identified in 2014, these types of projects could surface in the future. Part of the success of previous affordable subdivisions in St. Peter can be attributed to the lack of direct

competition, offering a combination of affordable lots and attractive financial assistance programs. To the extent that direct competition develops, this could lower demand from the larger region that would be oriented to St. Peter.

The City of Mankato represents the single strongest community in the immediate area for attracting single family housing starts. After the market crash of the late 2000s, Mankato was left with a relatively large inventory of vacant lots and reduced annual absorption. This has generally limited any significant new subdivision development in many years. However, as this remnant lot supply is gradually absorbed, the analysts would expect to see renewed subdivision activity in Mankato. It is possible that this could include an affordable subdivision(s), which could also offer buyer incentive programs.

- ▶ **Tax forfeit or bank-owned lots may still exist that could impact market potential** - After the market collapse of the late 2000s, communities with an oversupply of lots often experienced defaults or tax forfeiture issues. This is similar to the experience in Welco West in St. Peter, where a new owner has acquired the property at a discounted price due to tax forfeiture, and can offer attractive pricing to home buyers.

While distressed sales have largely subsided by 2014, the potential does still exist for some “fire sale” pricing for lots in other communities. As identified above, a subdivision in Le Sueur is in the tax forfeiture process and may revert to public ownership. Past public sale of tax forfeited lots in Henderson generally netted less than \$1,000 per lot in that community. While no deeply discounted lot pricing was identified in Mankato, North Mankato or Eagle Lake, which are viewed as the most directly competitive communities, it is still possible that this could occur in the future. Some of the subdivisions in North Mankato were identifying lot prices as “negotiable” or “reduced” on project websites.

- ▶ **St. Peter is reported to have higher front-end development costs, negating some of the cost savings in an affordable subdivision** - The analysts did not complete a detailed comparison of up-front development costs within each of the comparison cities in the area. However, reputable sources indicated that St. Peter has a competitive disadvantage due to higher costs for initial development charges related to items such as plan reviews, permit fees, water and sewer charges and related municipal infrastructure costs. One builder reported a cost disparity exceeding \$4,000 per unit between St. Peter and Mankato.

While lower lot pricing and buyer incentives are intended to lower the purchase price for end buyers, some of this may be negated by higher development charges in the City.

- ▶ **Some cities are offering limited special financial incentives to generate higher construction levels** - After the large drop in home building that occurred Statewide in the last years of the previous decade, many communities were left with large inventories of unsold lots, and significant investment in public infrastructure. In an effort to spur a higher level of new home construction, it is becoming increasingly common to see special municipal incentives being offered. The Competitive Environment section of this document specifically highlights these efforts in Belle Plaine and Henderson.

The Belle Plaine example is probably best representative of local efforts that are attempting to generate a greater level of new home construction. Starting in 2012, Belle Plaine waived building permit and plan review fees for the first 10 houses that are constructed each year. In both 2013 and 2014, the 10 house maximum limit was reached. The actual value of the waived fees is dependant on the construction price of the home, but on average the fees are typically around \$3,300. A second incentive that is offered provides a \$2,000 down payment grant for new houses that utilize a local construction contractor. This incentive is limited to five houses per year. Although it is not possible to directly link the incentive programs to housing starts, both initiatives have been utilized to their respective limits in 2013 and 2014.

If an affordable housing subdivision is developed, and sales do not reach their potential, these types of additional incentives may need to be considered in St. Peter. Making these types of limited incentives available citywide could also help to generate some additional activity in the privately-owned developments.

- ▶ **Home buyer assistance programs will represent a market advantage** - St. Peter has a successful track record in offering affordable home ownership options. Projects such as Nicollet Meadows and Washington Square were models for other communities looking for successful local initiatives. With a demonstrated history of success, St. Peter can build on its reputation as a preferred community for potential home buyers.

Part of the past achievement can also be linked to financial incentives for qualified buyers, such as gap financing and down payment assistance, funded through various sources, including state agencies such as the Minnesota Housing Finance Agency (MHFA) and the Greater Minnesota Housing Fund (GMHF). At the time of the research for this update, an application had been submitted to MHFA for gap funds for eight households with incomes at or below statewide median income. The intent would be to offer an average of \$15,000 in gap funding per unit, up to a maximum of \$25,000 per home. The success of Welco West and any future publicly-sponsored subdivision will be directly impacted by the availability of buyer incentive programs.

- ▶ **Demographic patterns are less conducive to starter home construction than in the past** - The Demographic and Projection Data section of this document has highlighted the shifting demographic profile that continues to exist within the St. Peter area. Based on projected patterns, the Three-County area including Nicollet, Blue Earth and Le Sueur Counties would be expected to have a decreasing number of households age 54 and younger through the remainder of this decade. Certain subgroups, such as households in the 24 to 44 year old range should increase in number, which could drive demand for affordable homes, but significant reductions in the immediately younger and older age cohorts should result in an overall reduction in the number of households age 54 and younger.

Conversely, there should be a substantial increase in the number of households age 55 and older. As these households increasingly look to move to age-appropriate housing options, it should generate above-average availability in the sale of traditional single family houses suitable for younger families. With existing homes generally selling at a discount to comparable new construction, the demand for affordable housing can be partially addressed within the existing home resale market.

For comparison, in the year 2000 when the initial activity was underway at Nicollet Meadows, households age 54 and younger accounted for more than 67% of all households residing in the Three-County area. Projections to the year 2019/2020 point to approximately 56% of all households to be age 54 and younger by that time.

Real growth in the region's total number of households from 2000 to 2020 means that the number of younger adult households has not decreased, but their percentage has been reduced significantly, as large baby boom generation has moved through the aging cycle.

- ▶ **Existing homes will address part of the demand for affordable home ownership** - With the demographic trends identified above, there should be more traditional single family homes that become available for resale in the next several years. Available information shows that existing home values in St. Peter retreated after 2007. The median sale price recorded in 2007, at \$159,000, was the highest level reached over the past nine full sales years. Partial-year information for 2014 points to the potential that the median in the current year could approach the 2007 peak, but it may also drop as more transactions are recorded.

When housing construction markets were extremely active in the early 2000s, rising prices for existing homes were closing the gap between prices for affordable new construction and the average existing home. Price retreats after 2007 tended to widen this gap, making existing houses more attractive to potential buyers. For the 2013 sales period, the last full-year of data, the median existing home sale price in St. Peter was \$138,000, nearly \$10,000 lower than the median sale price in 2005.