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Providing Comprehensive
Market Information
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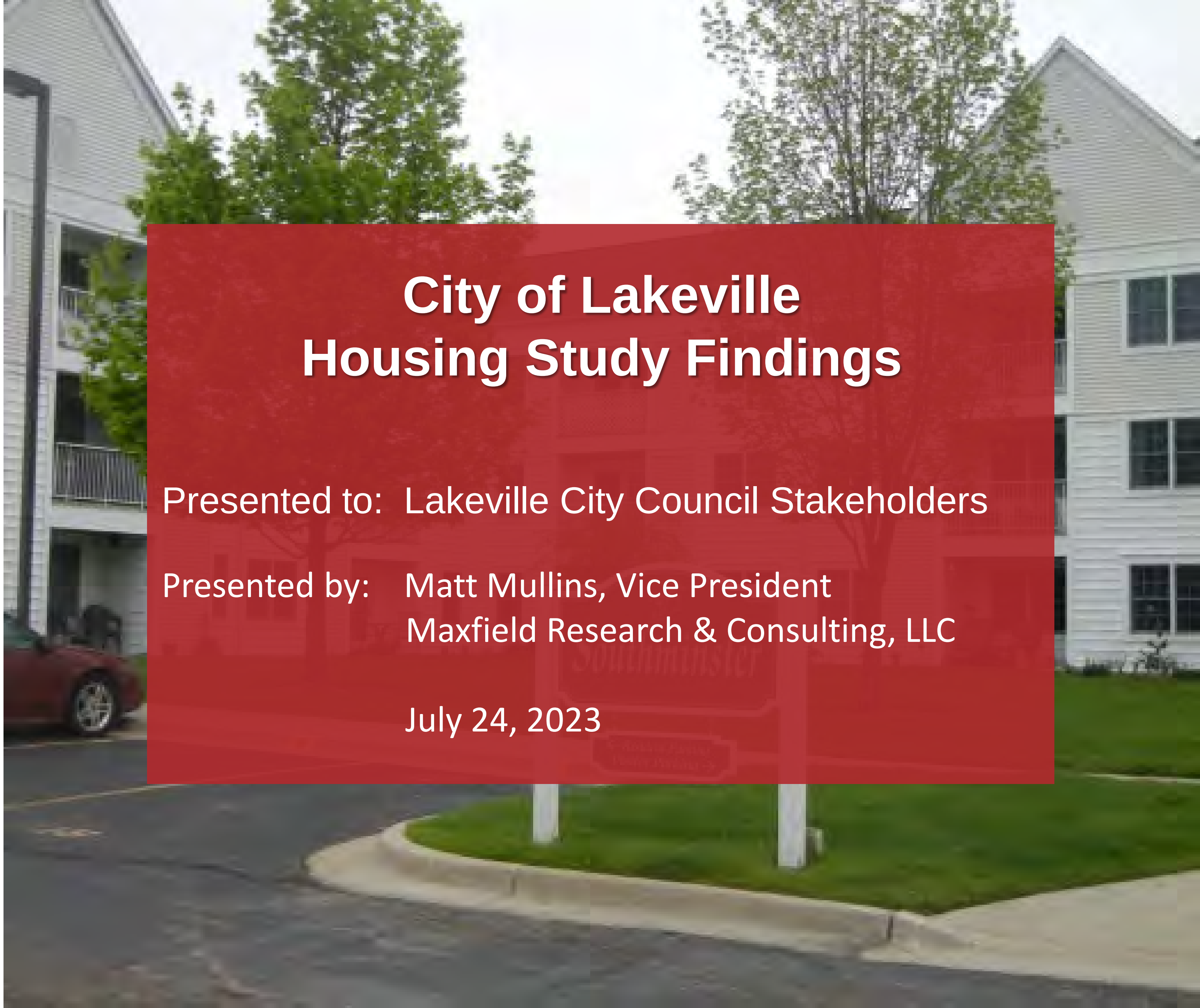

City of Lakeville
Housing Study Findings

Presented to: Lakeville City Council Stakeholders

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

July 24, 2023

Maxfield Research & Consulting, LLC

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






OVERVIEW

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

Project Scope

OBJECTIVE	Provide custom comprehensive housing study
APPROACH	Identify current & future housing needs for residents in Lakeville and provide framework for meeting housing needs
PROJECT DELIVERABLES	• Short and long-term housing needs • Recommendations guiding future housing development • Tools/policies to implement the plan
KEY DATES	• Data collection: 4th Quarter 2022 / 1st Quarter 2023 • Draft: April 2023 | Revised Draft: July 2023 • Council Presentation: July 24, 2023 • Final Report: TBD – After Review & Comment Period

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Demographics & Economics

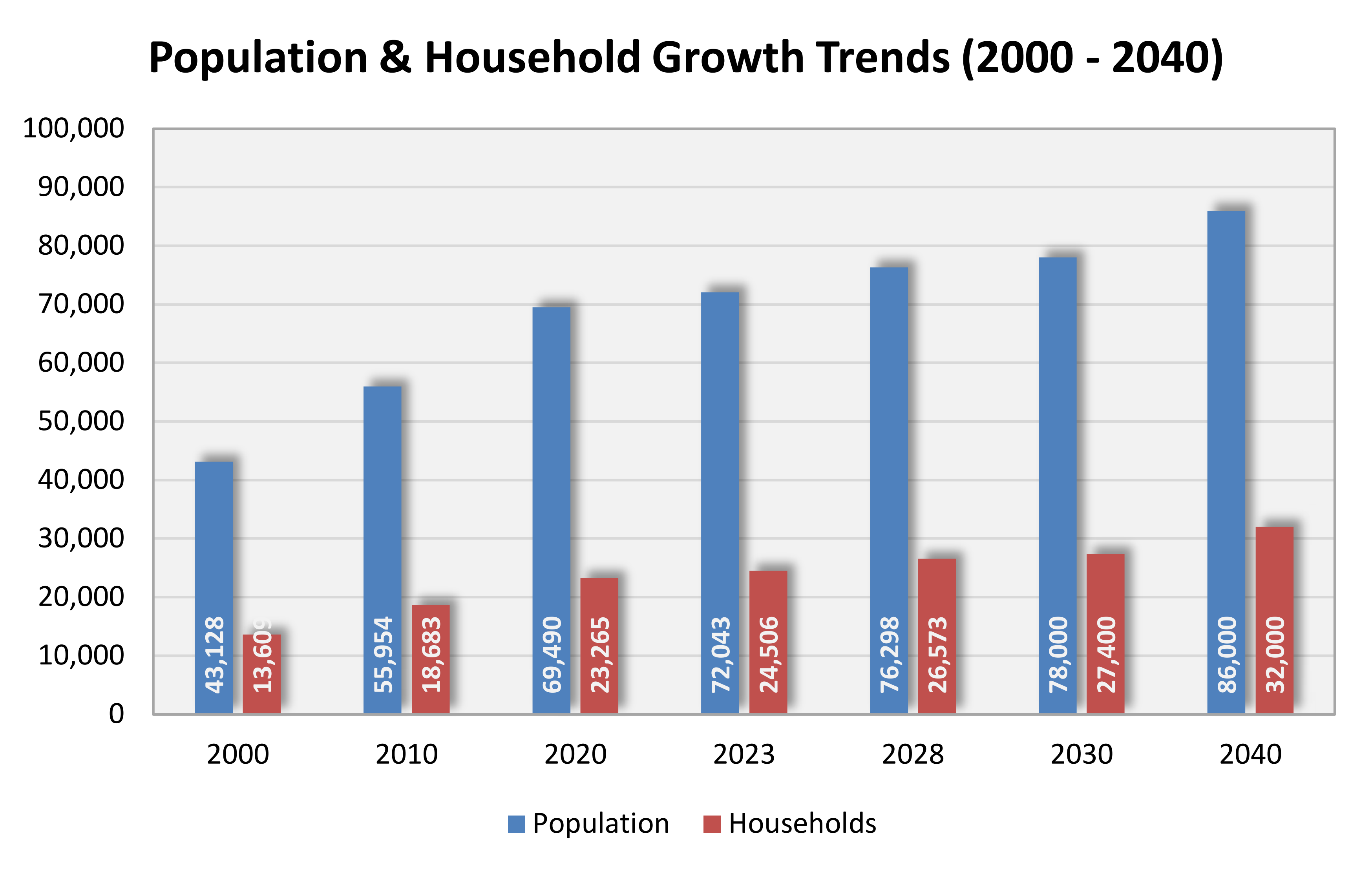
Market Overview

Demand & Recommendations

2023 Mid-Year Outlook

Discussion

Decelerated Growth through 2040



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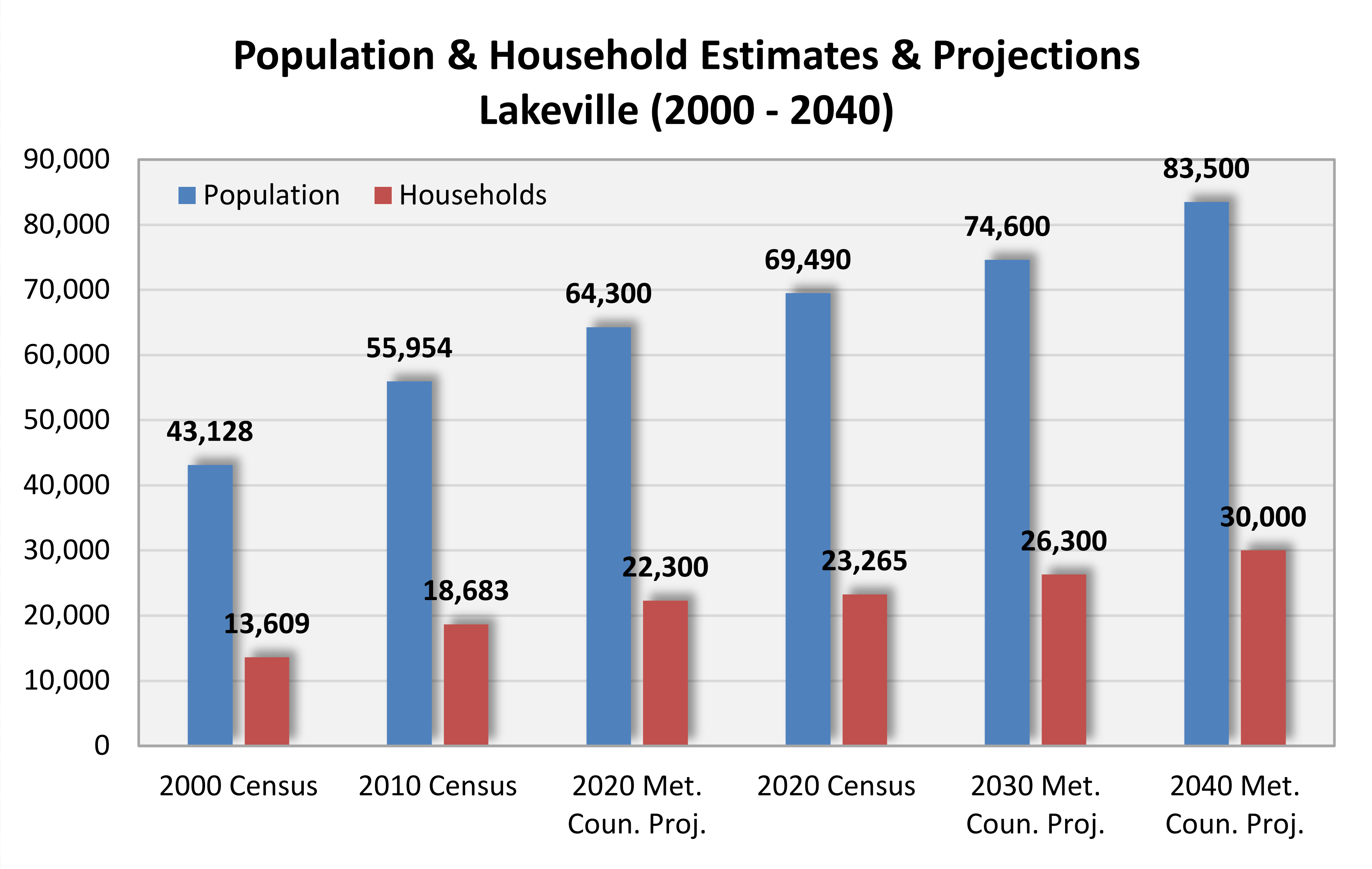
2020 Population Exceeded Met Council Projections…



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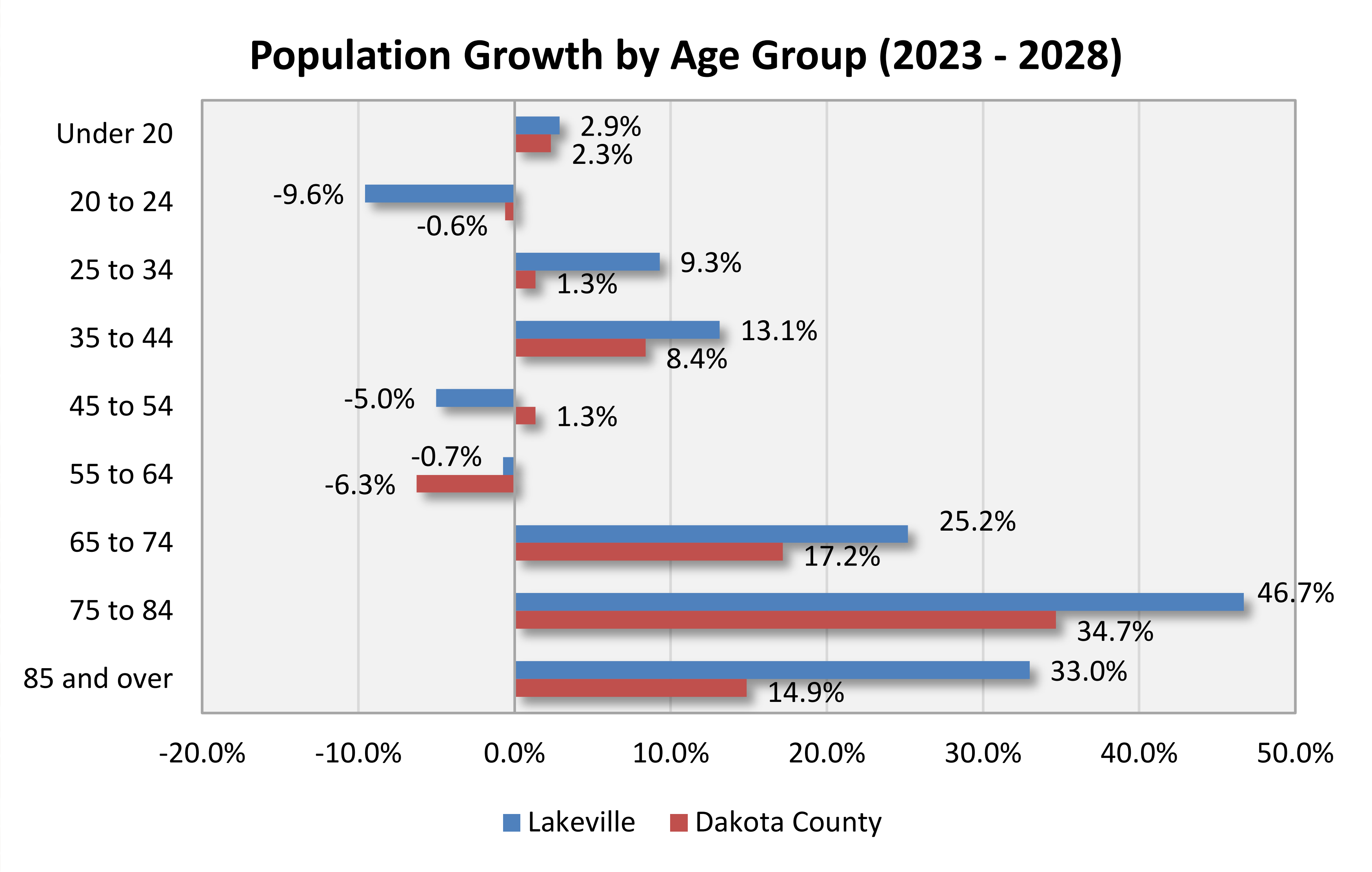
65+ Population Driving Growth in Near-Term



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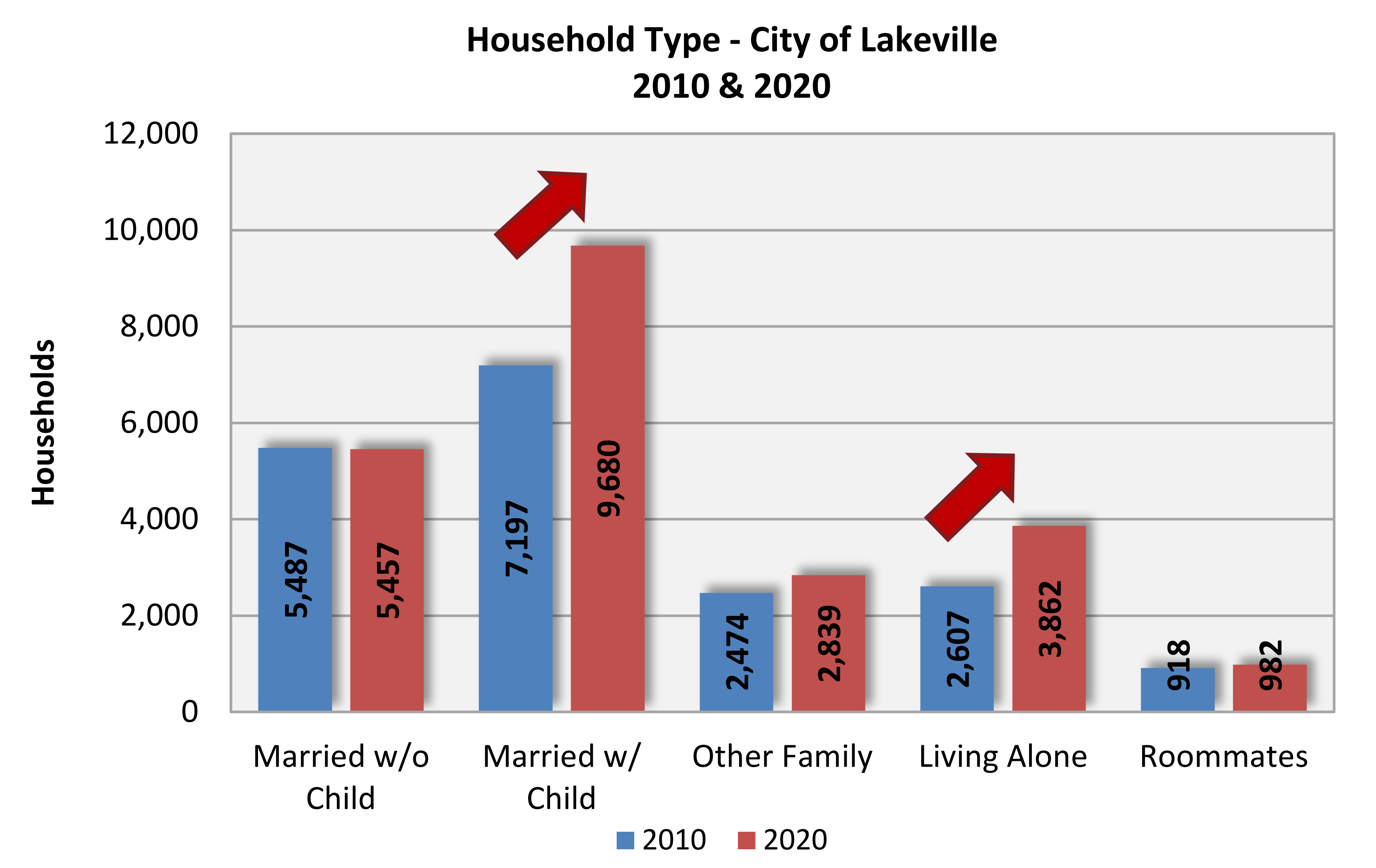
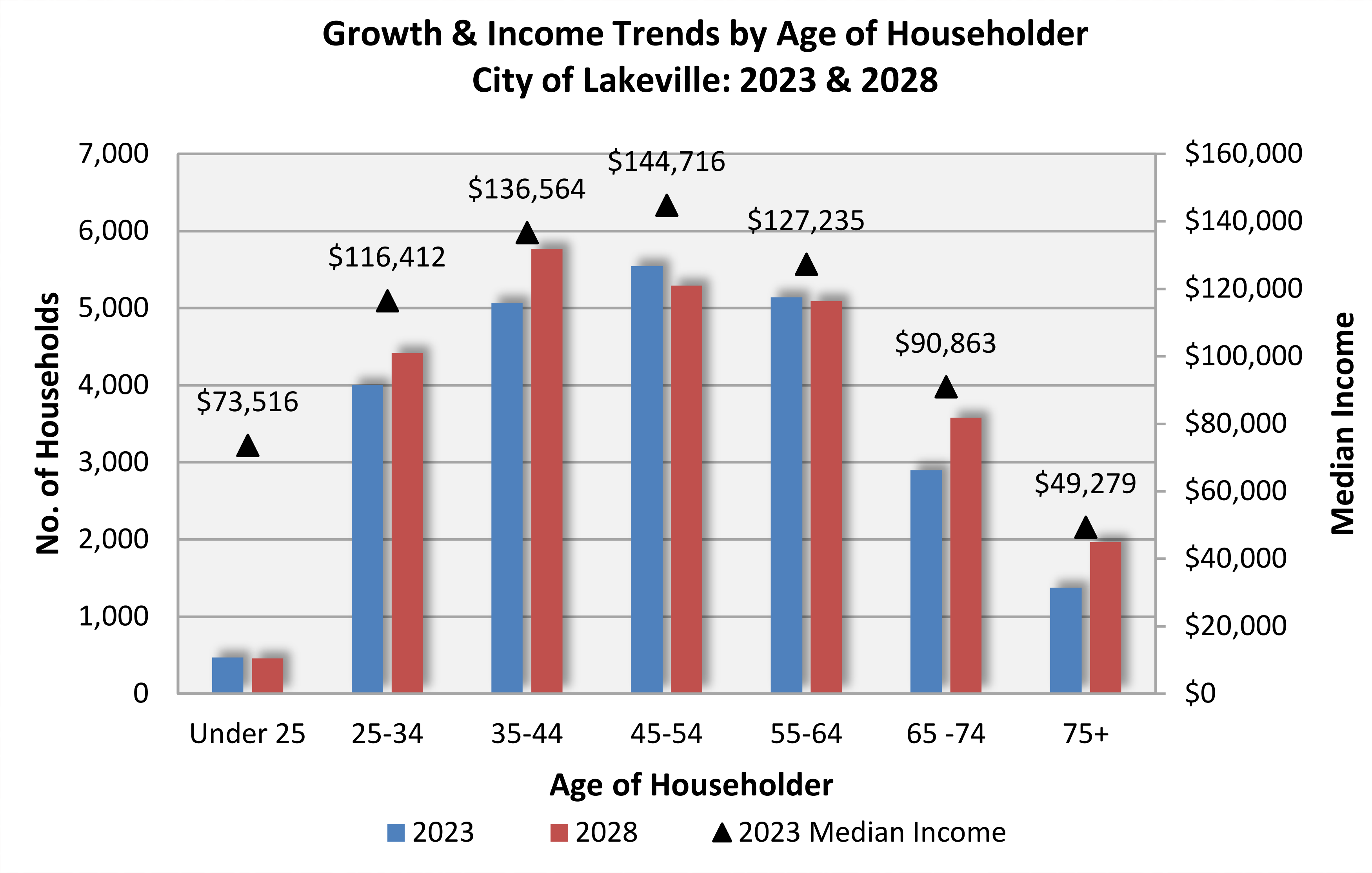
Lakeville Caters to Married w/Child Households (42%)



Gen. X & Millennials strongest household incomes…



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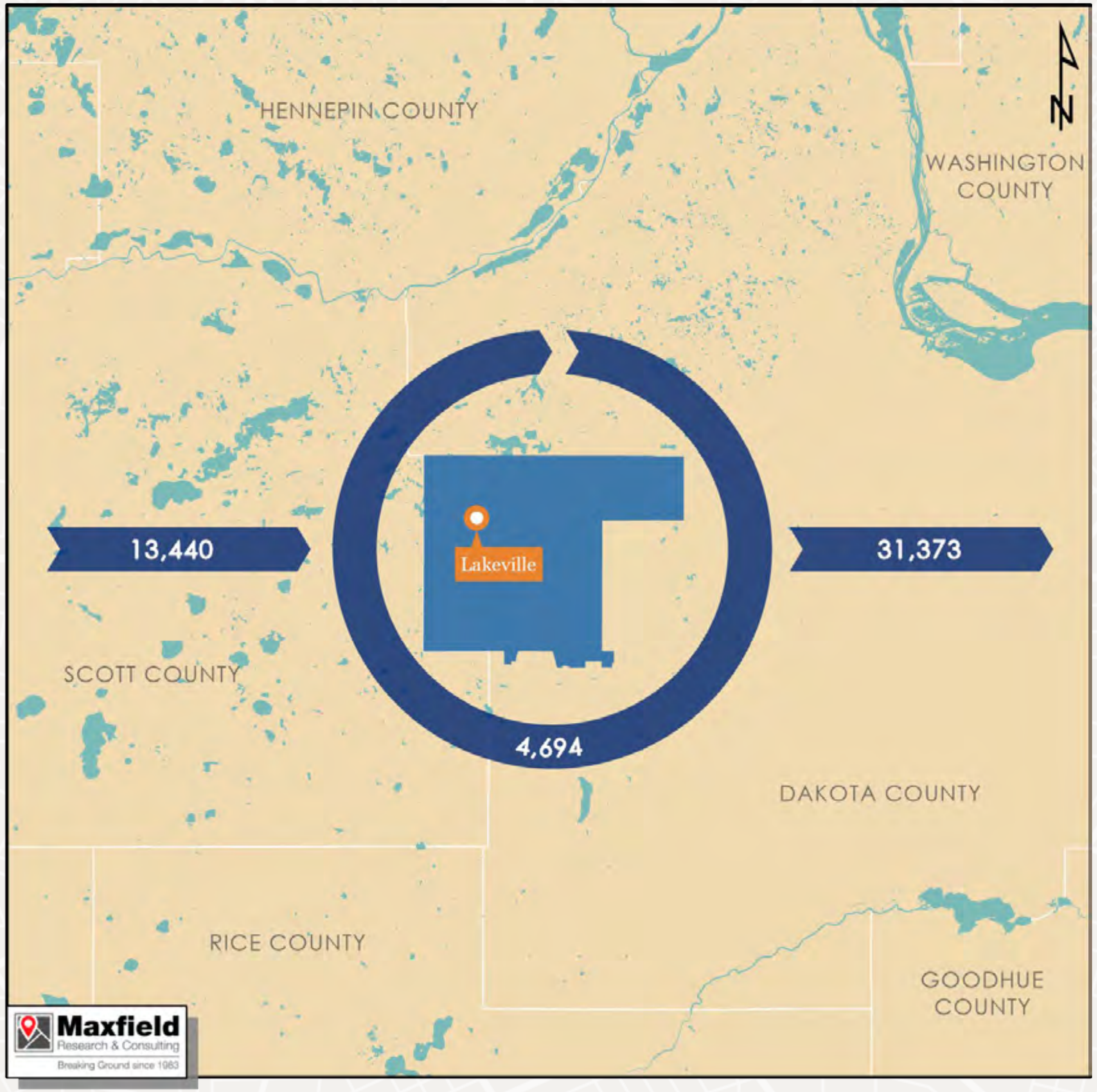
Lakeville a major job exporter…



- 20,669 jobs (covered employment) Q2 2022
- Key Industry Sector Jobs:
  - Trade, Transportation, and Utilities: 22%
  - Education and Health Services: 21%
  - Manufacturing: 13%
- Avg. weekly/annual wage (Q2 2022):
  - $1,055 | $54,860 (Lakeville)
  - $1,251 | $65,052 (Dakota County)
  - $1,409 | $73,268 (Twin Cities Metro)
  - $1,289 | $67,028 (Minnesota)
- 10% Interior Flow | 27% Inflow | 63% Outflow
- 35% of workers leaving the city for employment travel less than 10 miles

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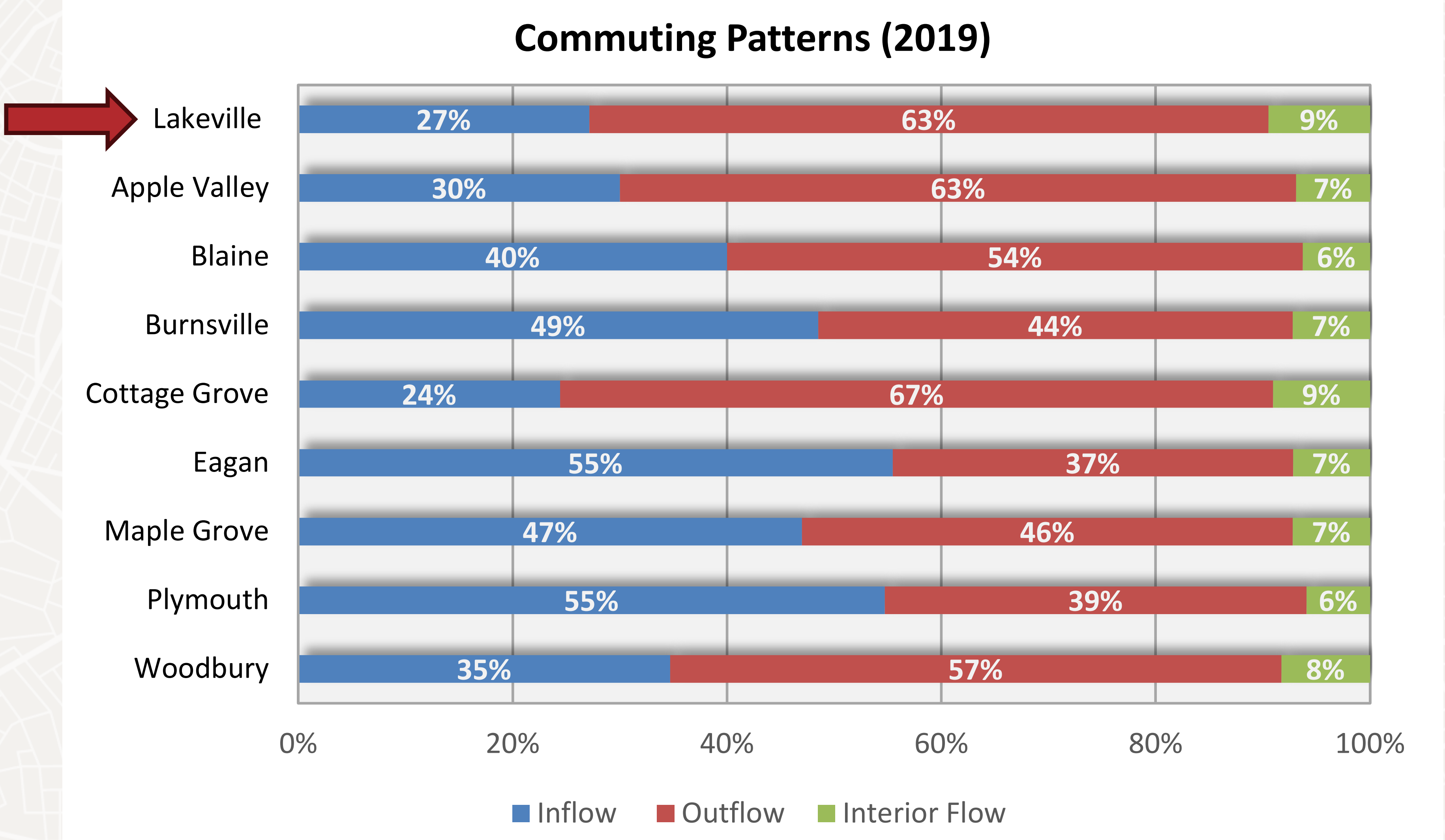
Commuting Patterns Comparison

Lakeville has one of the highest outflows for employment…



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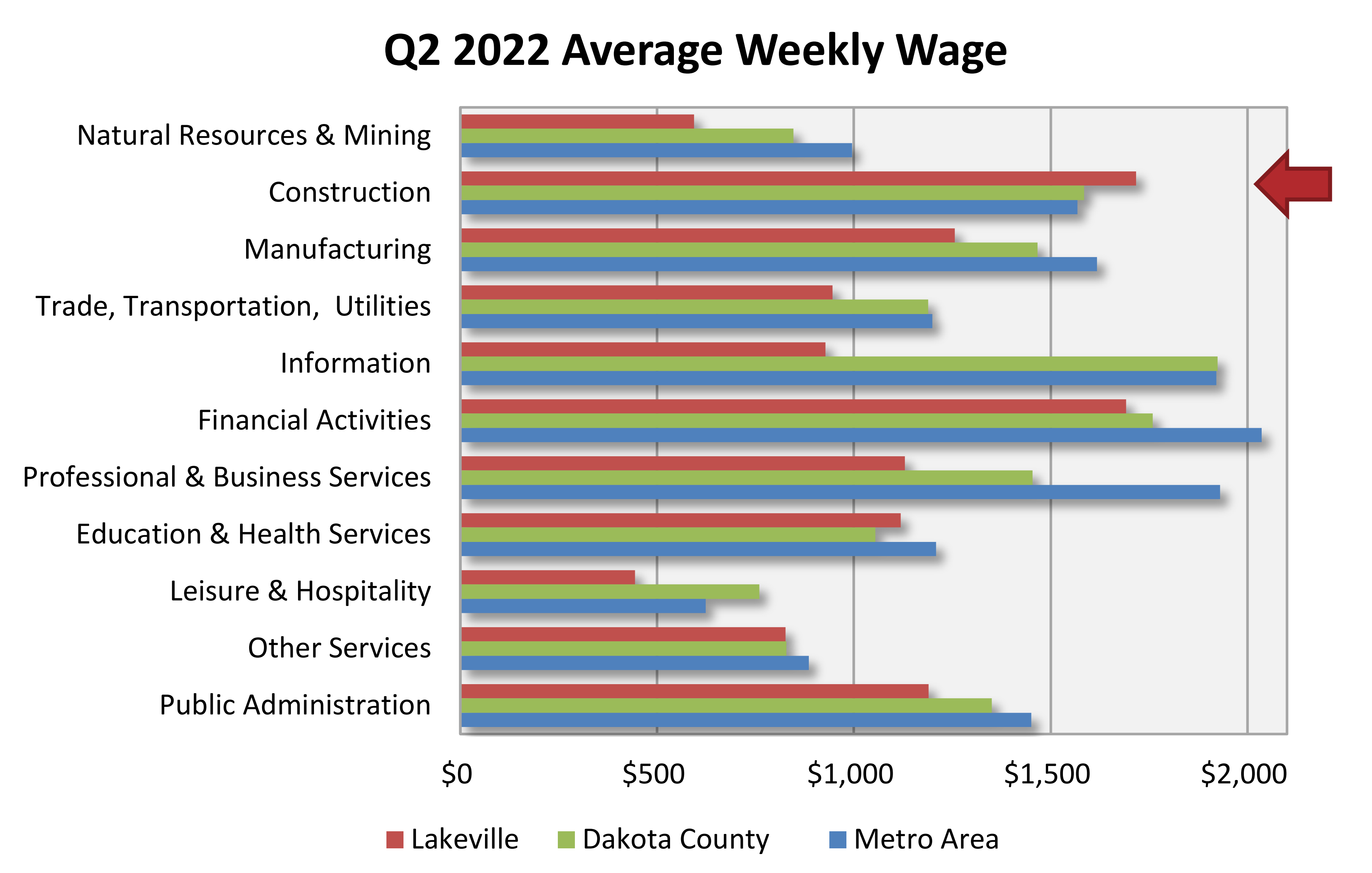
Wages lower in nearly all industry sectors…



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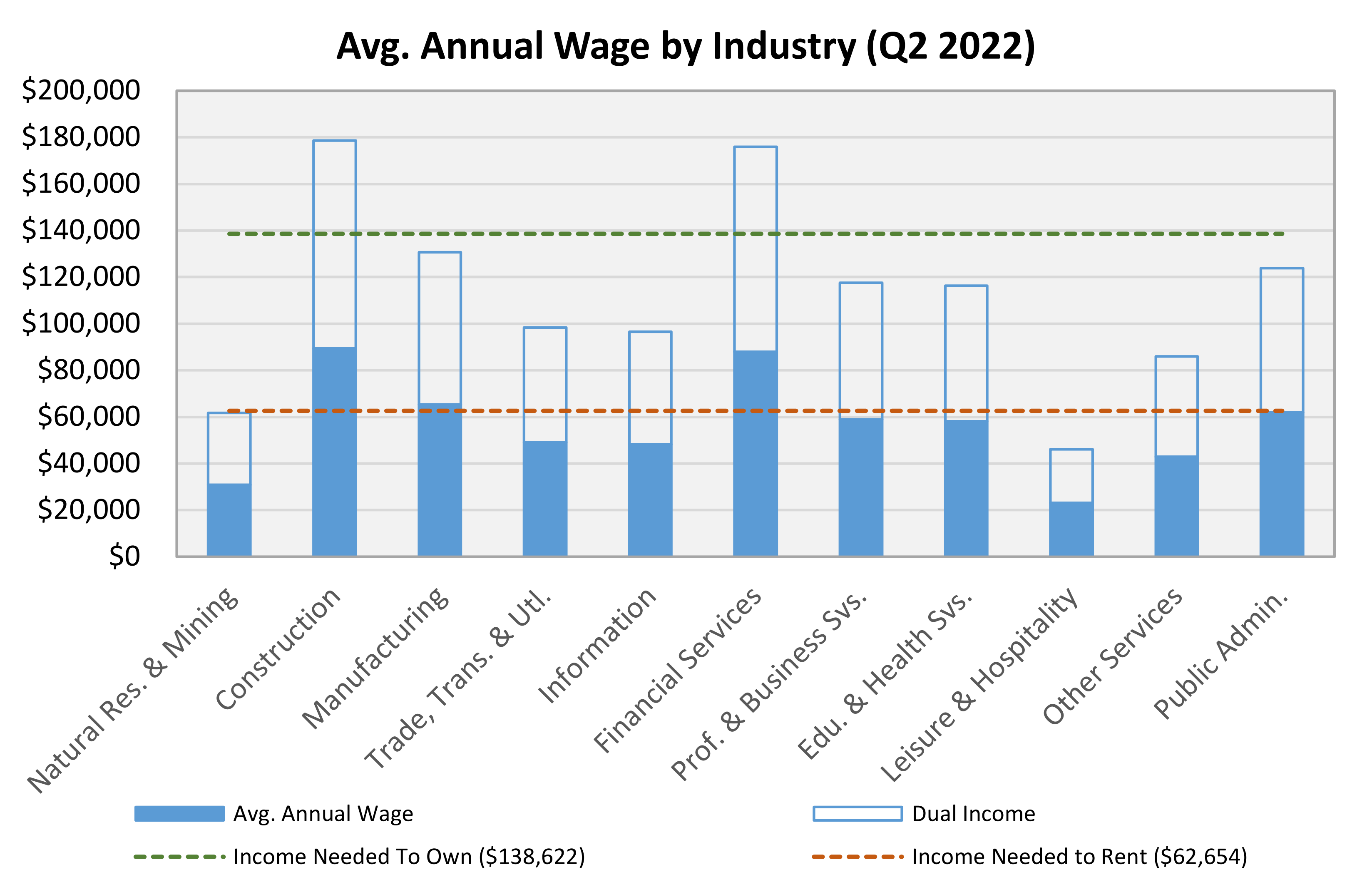
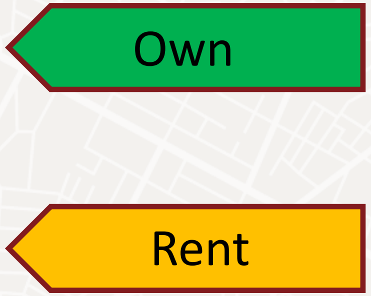
Wages vs. housing costs

Dual Income HH: 68% of Lakeville married couples both in labor force | Dakota County: 63%





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Peer Cities: Unaffordable on 1 income…

City	HO Rate (2020)	Median Price (2022)	Pct. New Const.	Median HH Income (2020)	Avg. Rent (1Q 2023)	Employment No. Jobs	Employment Avg. Ann. Wage	Employment Commuter Outflow	Can Afford Based on: HH Income, Wages, & Hsg. Costs Rent	Can Afford Based on: HH Income, Wages, & Hsg. Costs Home
Lakeville	**87.2%**	**$485,000**	**25.6%**	**$112,020**	**$1,625**	**20,669**	**$54,860**	**63.4%**	**N**	**N**
Maple Grove	85.2%	$400,000	7.8%	$113,793	$1,708	38,674	$66,924	45.8%	N	N
Plymouth	72.7%	$469,900	4.4%	$112,631	$1,410	55,195	$86,216	39.4%	Y	Y
Woodbury	81.3%	$450,000	15.4%	$108,055	$1,726	26,505	$50,440	57.0%	N	N
Cottage Grove	88.9%	$395,923	42.8%	$102,600	$1,399	9,940	$55,588	66.5%	N	N
Eagan	70.3%	$375,000	1.7%	$93,332	$1,440	51,198	$77,064	37.4%	Y	N
Apple Valley	77.7%	$350,000	1.3%	$90,162	$1,465	15,533	$49,348	63.1%	N	N
Blaine	87.0%	$370,000	20.7%	$86,796	$1,387	25,354	$52,156	53.7%	N	N
Burnsville	68.2%	$356,000	2.2%	$76,017	$1,291	33,669	$61,672	44.3%	Y	N

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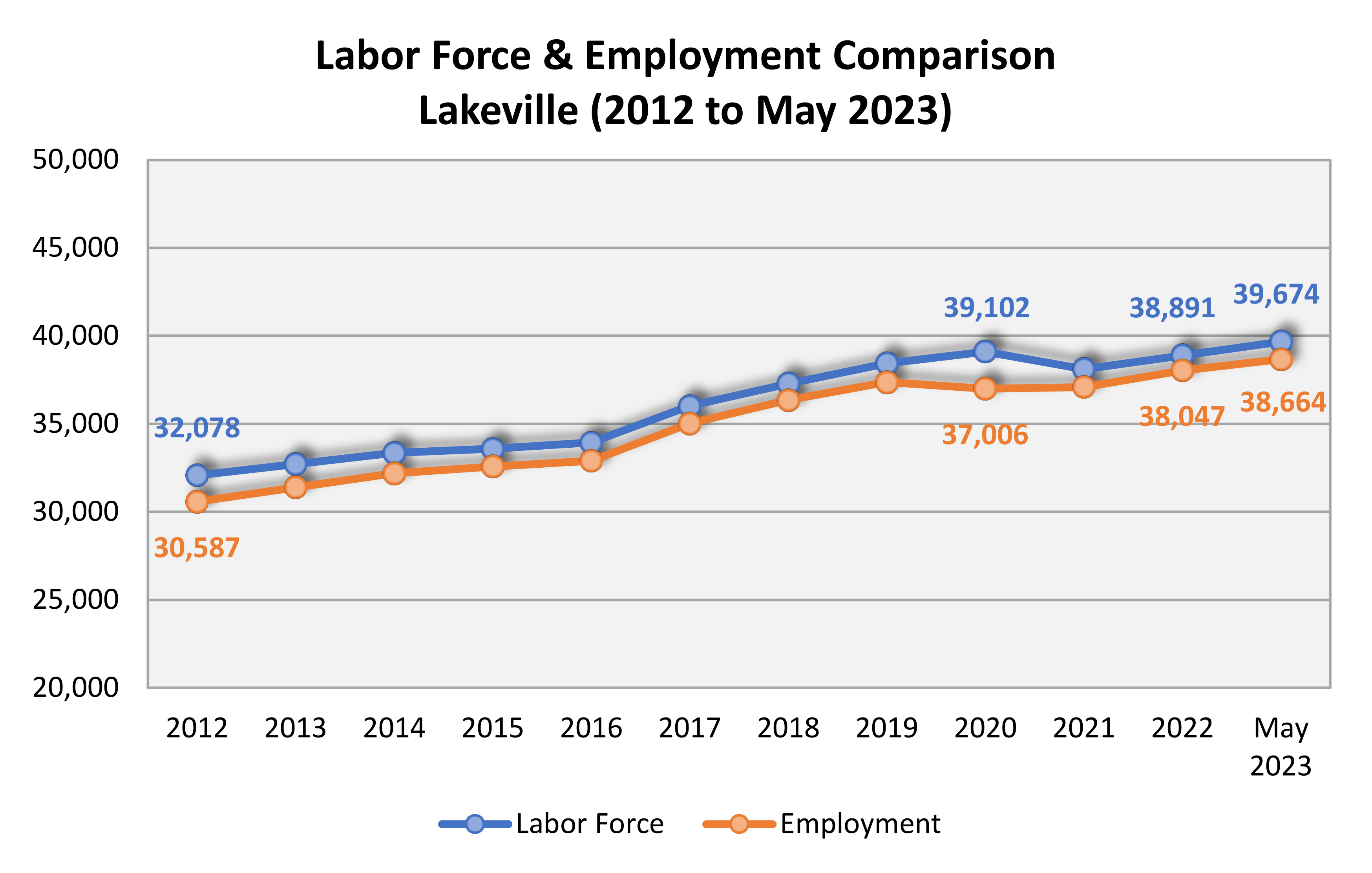
Rebounding Labor Force since Pandemic…



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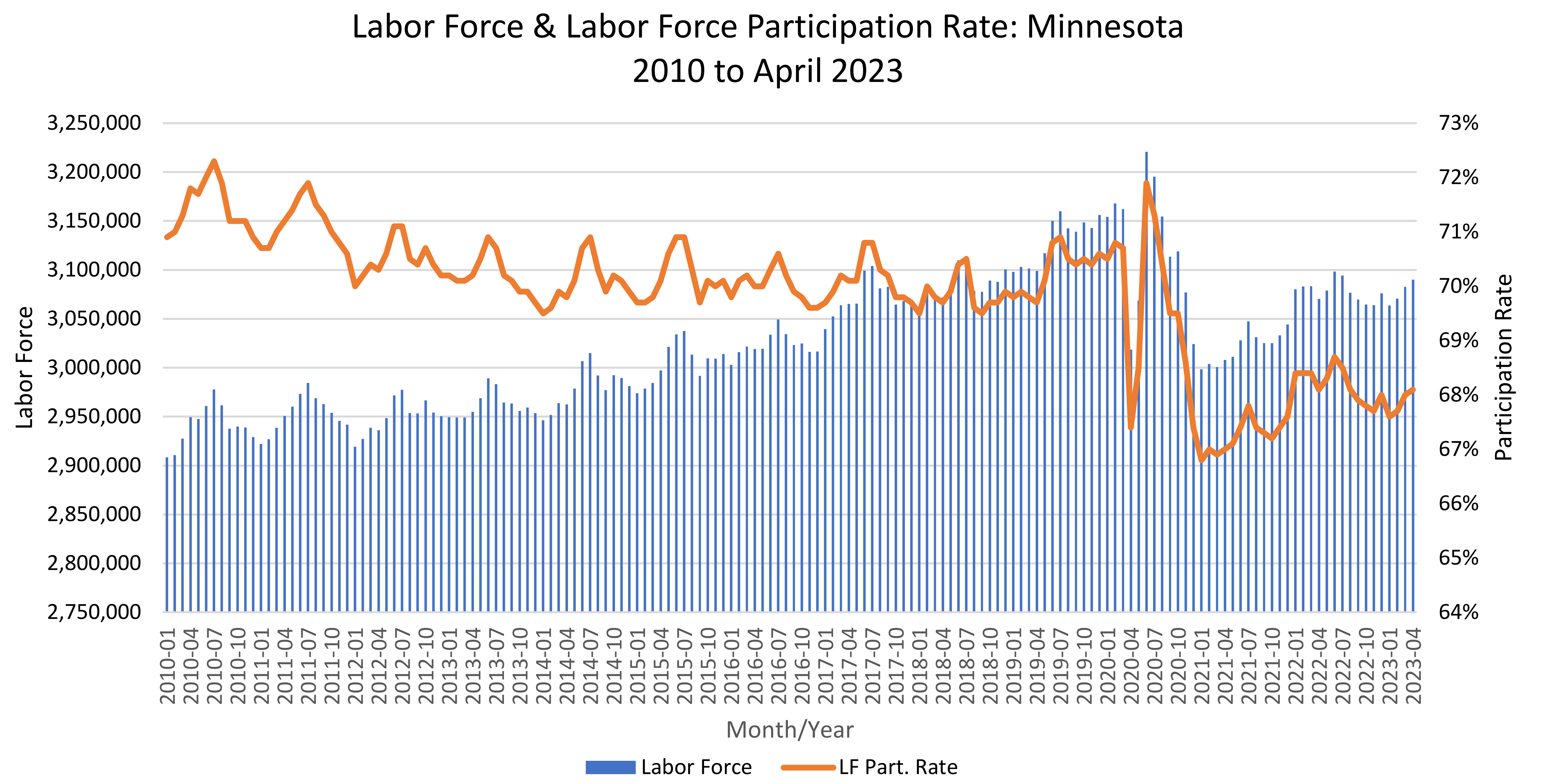
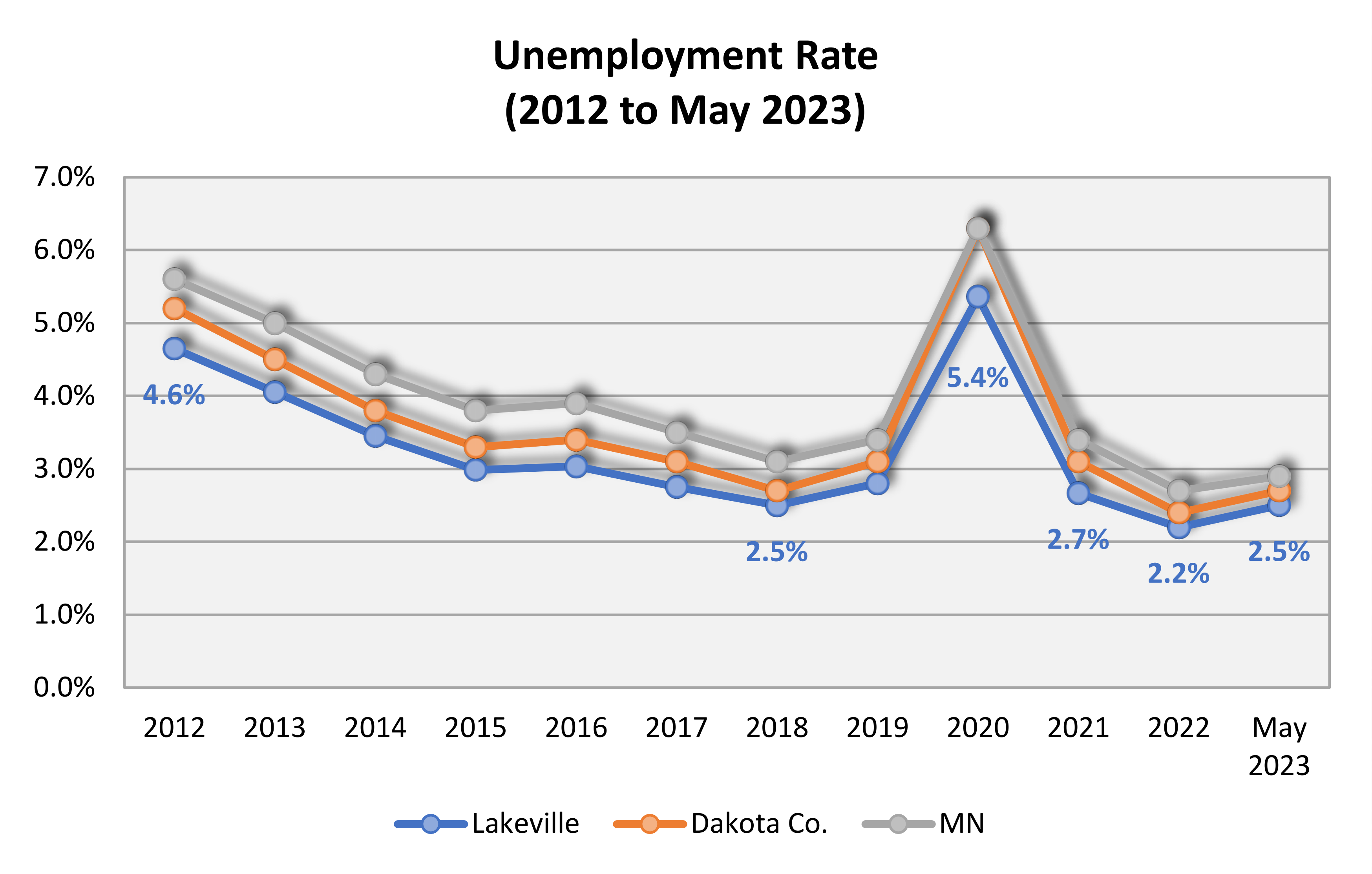
Labor Participation rate down…



Unemployment rate lower than pre-pandemic



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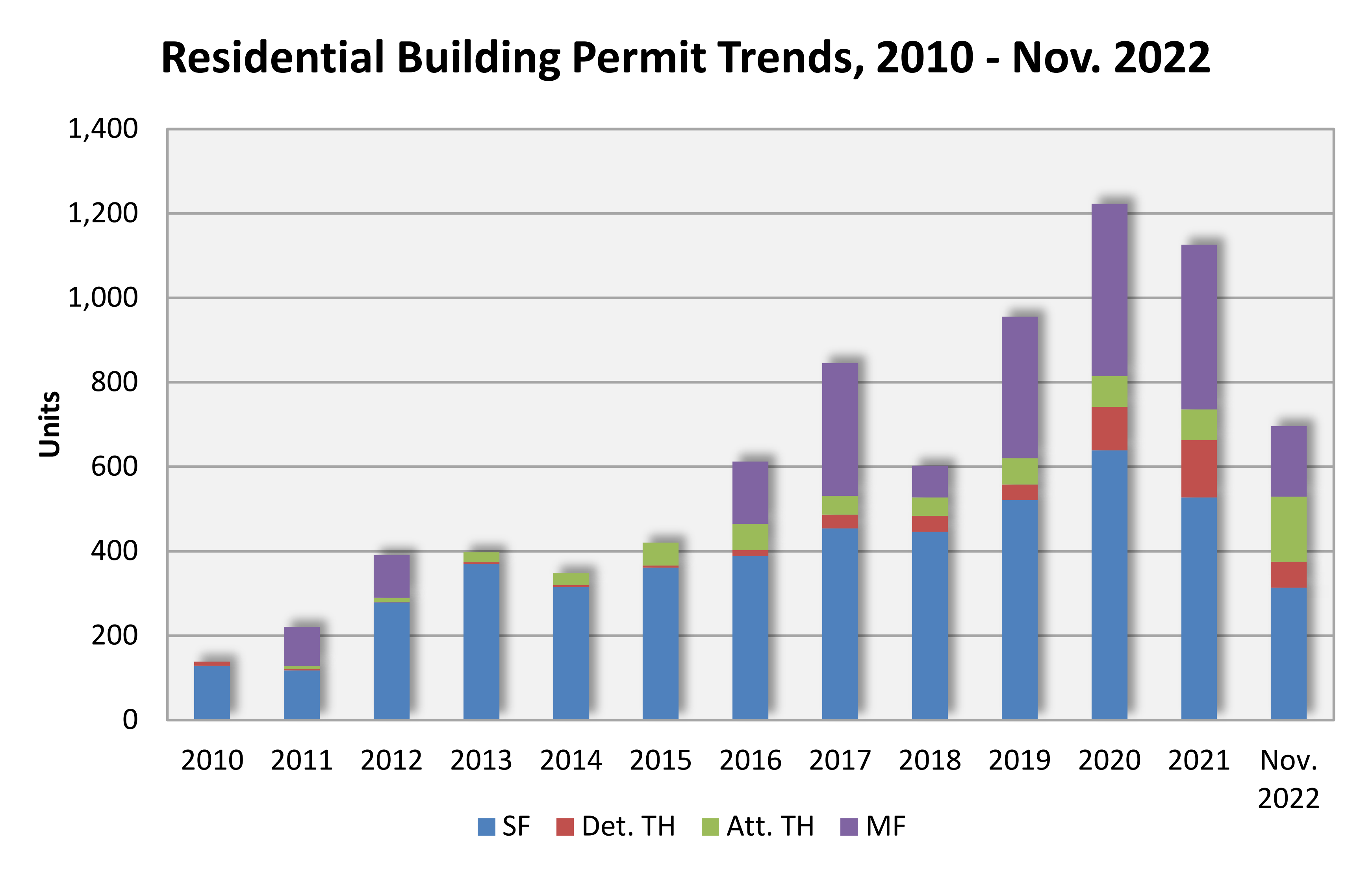
Recent uptick in Multifamily Construction



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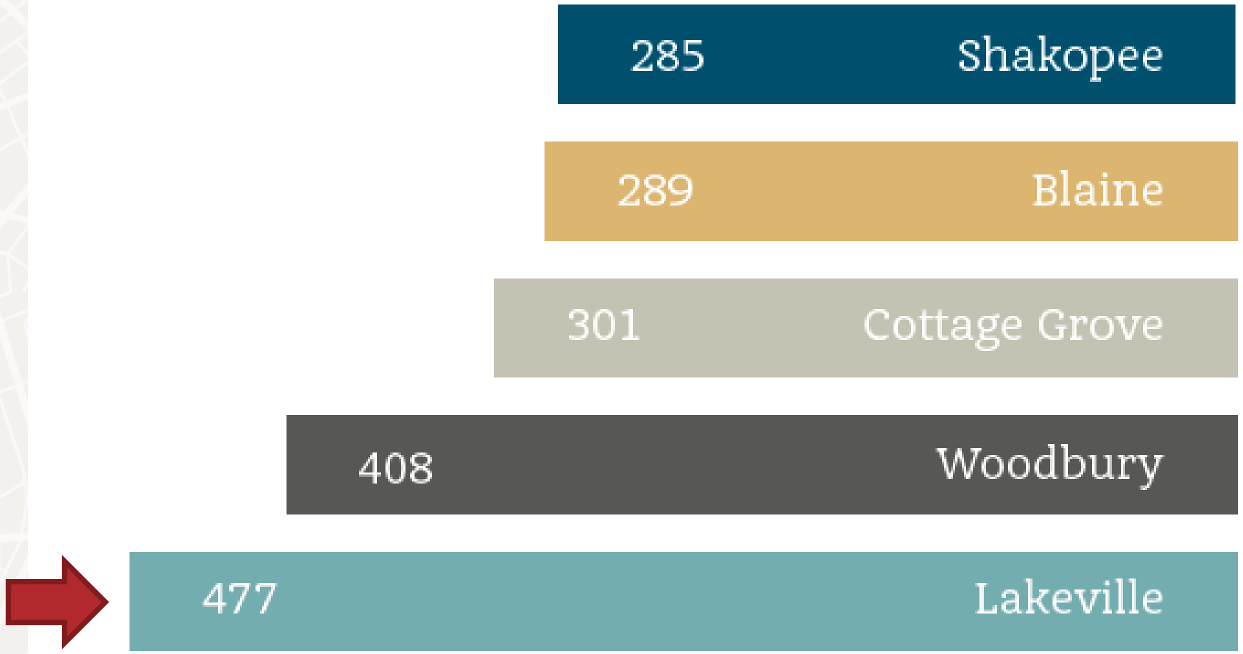
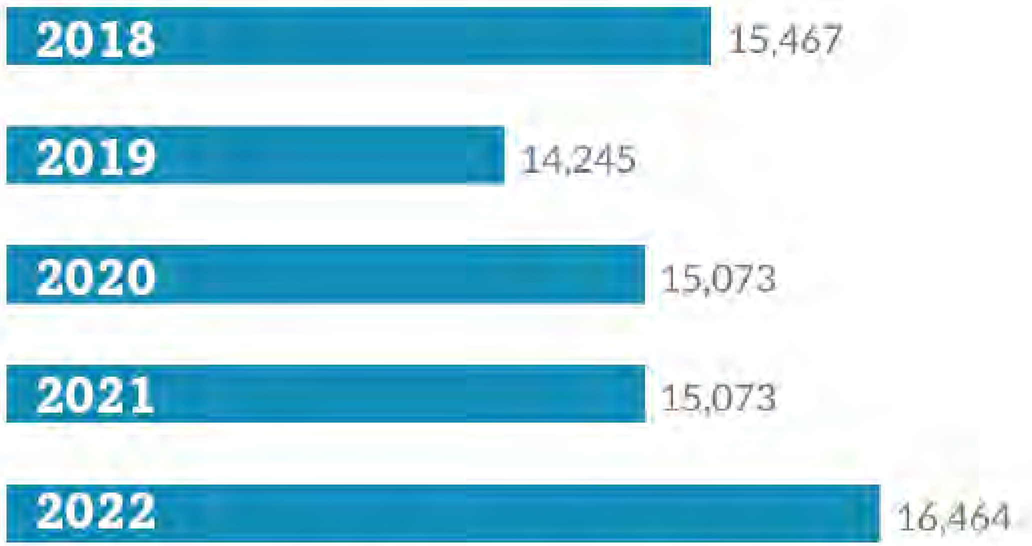
Building Activity: Top Market in Metro Area in 2022



2022 Top Cities for Residential Permits

SOURCE: KEYSTONE REPORT

Twin Cities Building Activity



Units Authorized Year-to-Date December 2018-2022

SOURCE: KEYSTONE REPORT

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Low rental vacancy rates among stabilized projects

Overall

- 1,947 units | 19 properties
- 7.7% vacancy rate
- 3.3% stabilized

Market Rate

- 1,660 units | 11 properties
- 8.2% vacancy rate (3.0% among stabilized properties)
- Avg. monthly rent $1,712
  - $1,521 1BR
  - $1,859 2BR
  - $2,167 3BR

Affordable

- 287 units | 8 projects
  - Five Dakota County owned (170 units)
- 4.9% vacancy rate

Arris Apts.

Cedar Valley Townhomes

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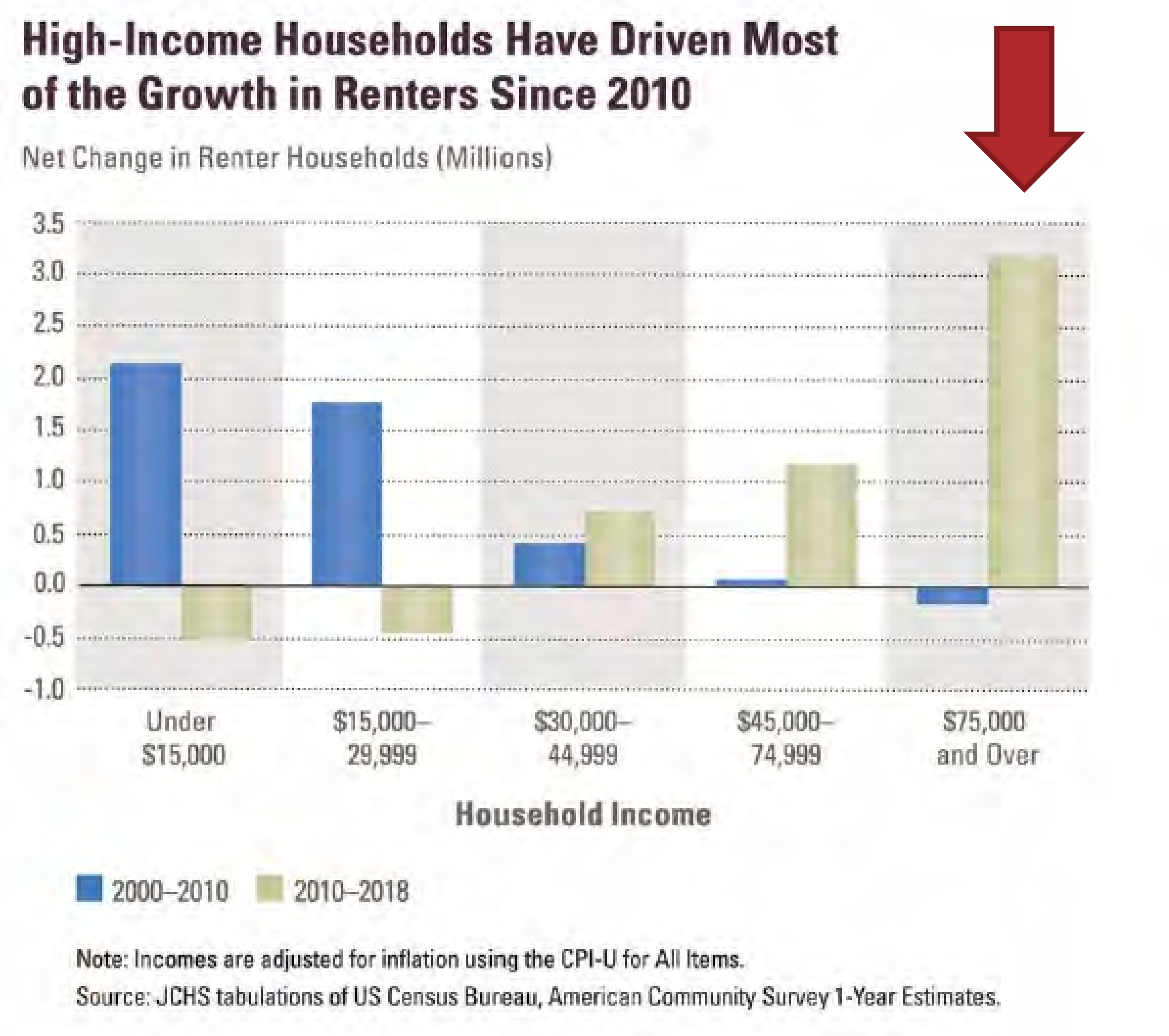
5% Vacancy = Market Equilibrium

Lifestyle Renters Driving Rental Growth…

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



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Apartment Development Trends

- Preferred asset class from developers, investors, & lenders
- Demand driven by strong demographics: Millennials & Baby Boomers (“barbell”)
- Renters by choice (“lifestyle renters”) driving market w/higher incomes
- Amenity driven; today’s renters have higher expectations
- Strong desire for rental units with more space, yards, etc. (townhomes single-family, etc.)
- Lack of for-sale supply & higher mortgage rates has fueled renter demand
- Low vacancies = pent-up demand
- Challenges delivering new product @ reasonable price points
- Hospitality moving into rental space (i.e. short-term rentals)

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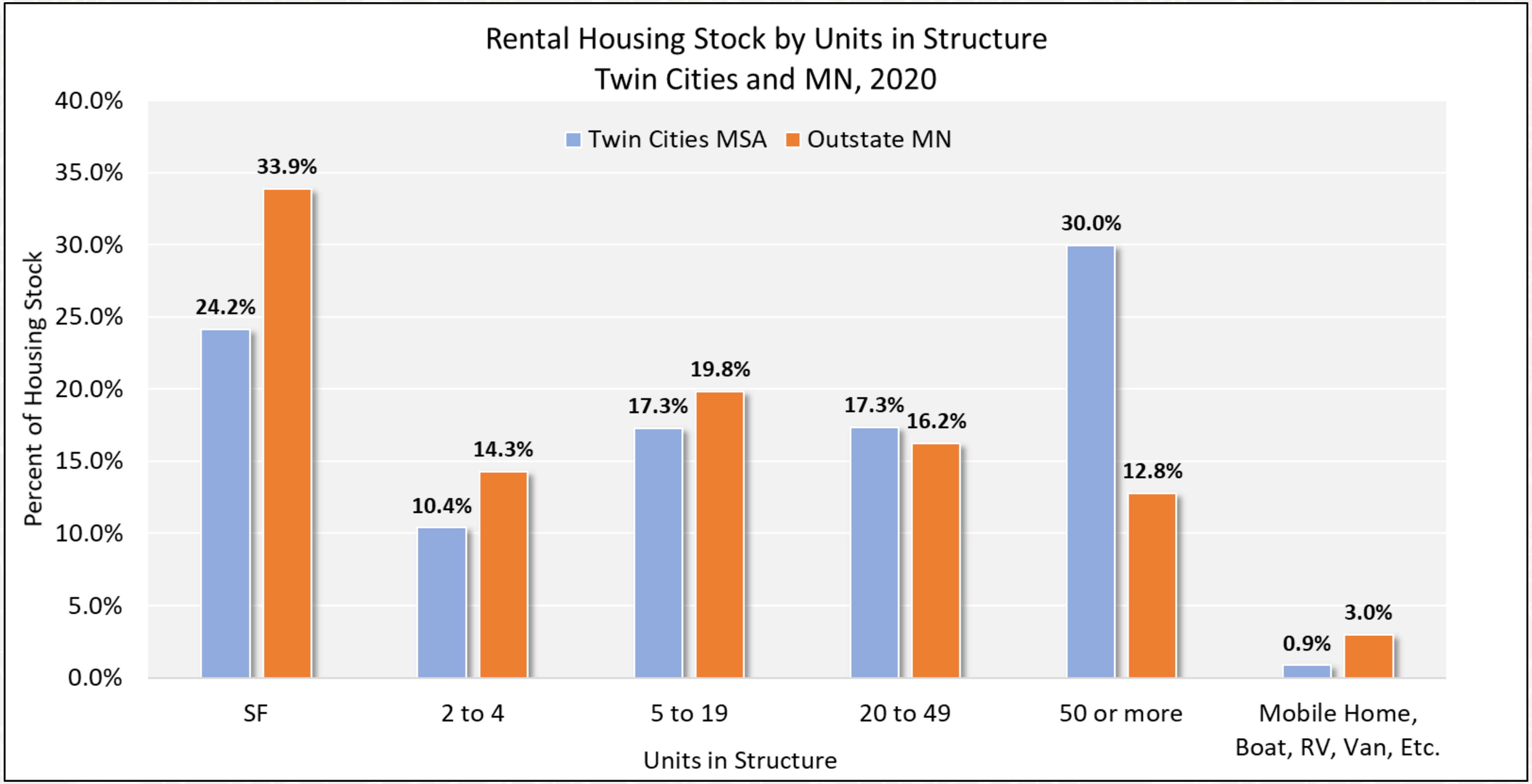
SF Rentals = 24% of stock in Metro Area (34% Outstate)



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What is Build for Rent ("BFR") Apartments?

Scattered Site - Portfolio

- Older homes (majority)
- New construction – often infill
- Historically smaller investors

Mills Creek: Maple Grove

Contiguous Communities

- Detached SF, Townhomes, etc.
- Horizontal Apartments/cottages
- Institutional investors entering the space; some with home builders

BFR Landscape

- Purpose-bult SFR accounted for about 5% of single-family construction in 2022
- Wave of investment/equity moving into BFR
- High mortgage rates fueling higher demand
- Highly fragmented ownership…Dominated by small investors
  - 77%: own 1-2 properties
  - 20%: Small and middle investors (under 100 properties): 20%
  - 2.5% to 3%: Institutionally owned
- Majority of new construction in the Sun Belt

Sundance of Woodbury

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Who Rents Single-family homes or SFBFR?

- Convenience of renting with quality of life of a single-family home
- More affluent – HH incomes $75k+ | Renters by choice
- First-time home buyers who are unable to find product in the for-sale market
- Families w/kids & larger HH sizes | More likely to be married
- 55+ renters (some 2nd home renters wanting to be close to grandkids)
- Tend to lease longer than traditional apartment dwellers
- Wants: privacy, more space, flexibility, amenities, technology, maintenance-free etc.

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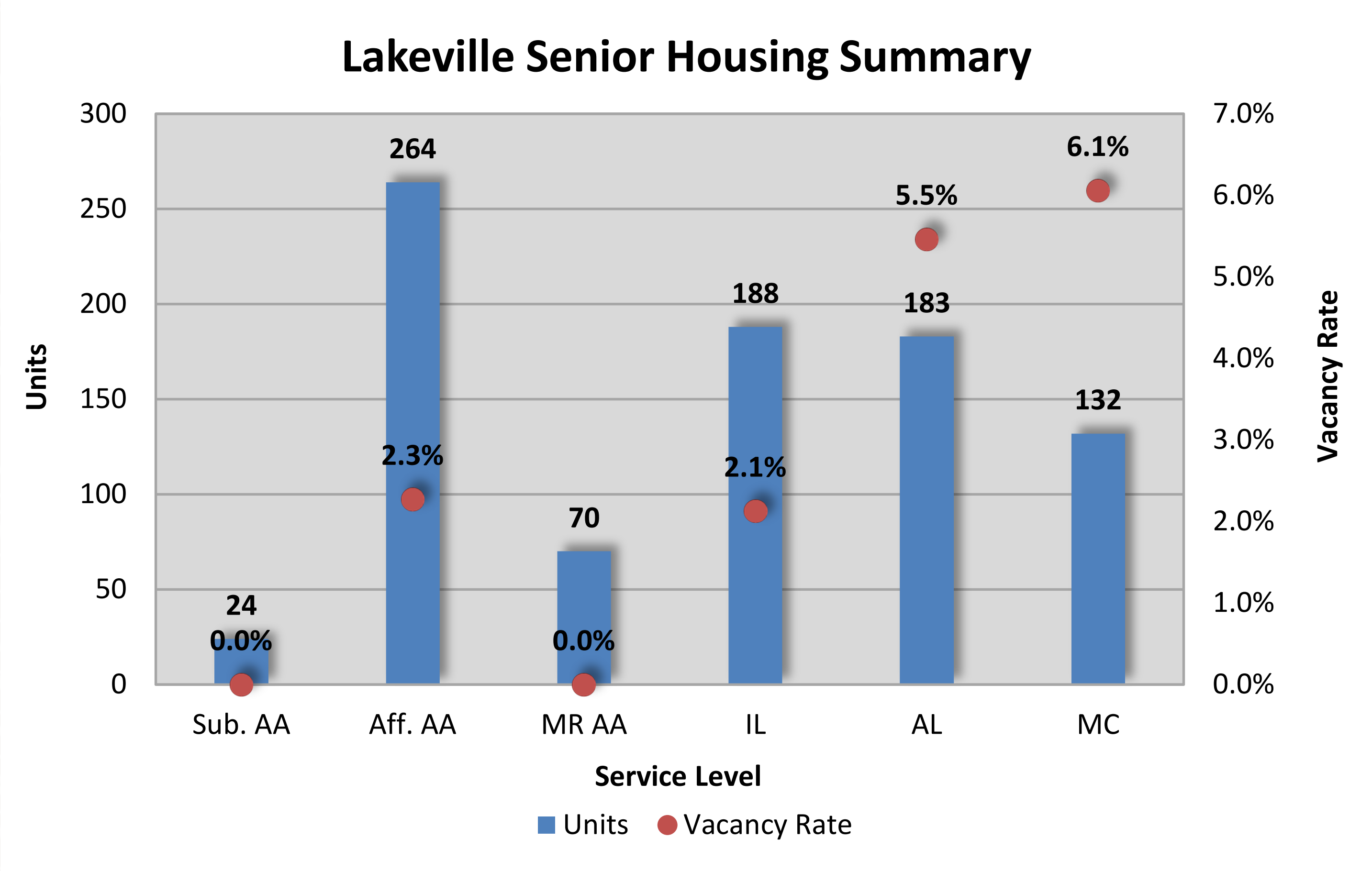
Senior Housing Continuum

Despite pandemic impacts…senior performing well

Senior Inventory

- 861 units | 11 properties
- 3.3% Overall vacancy rate



Kingsley Place

Argonne Hills

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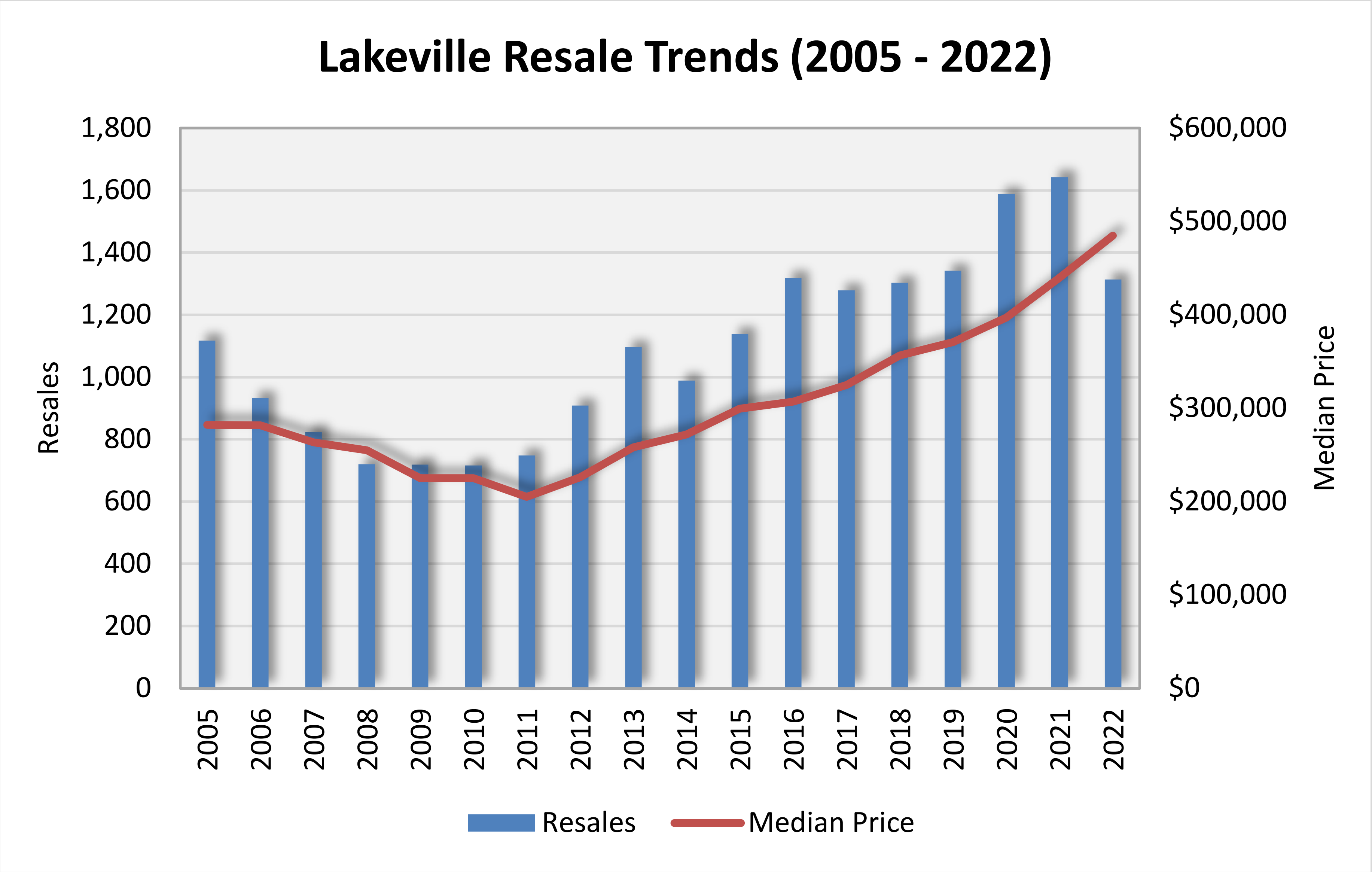
5% - 7% Vacancy = Market Equilibrium

Pandemic Housing Boom drove prices this past 2+ years…



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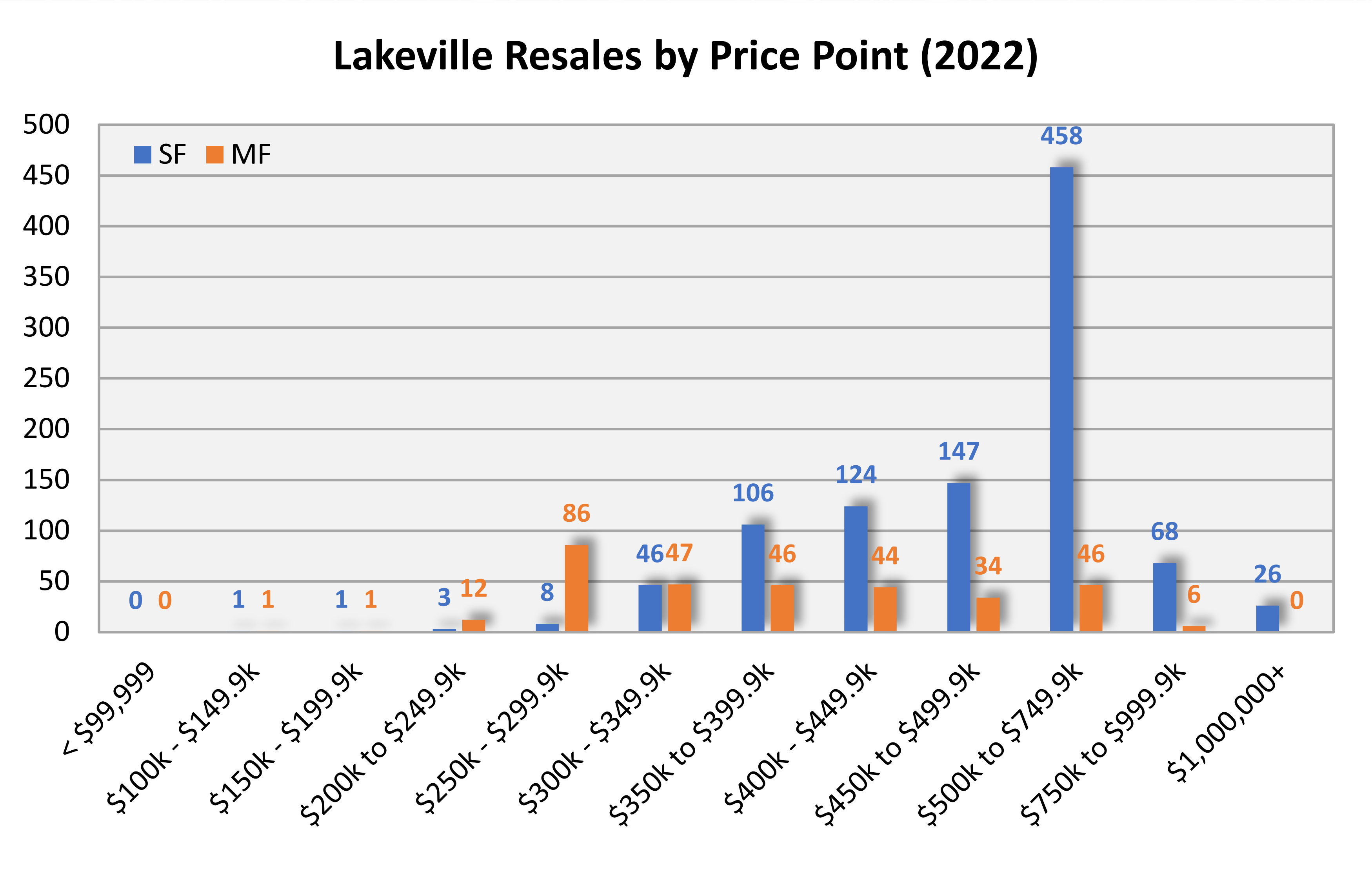
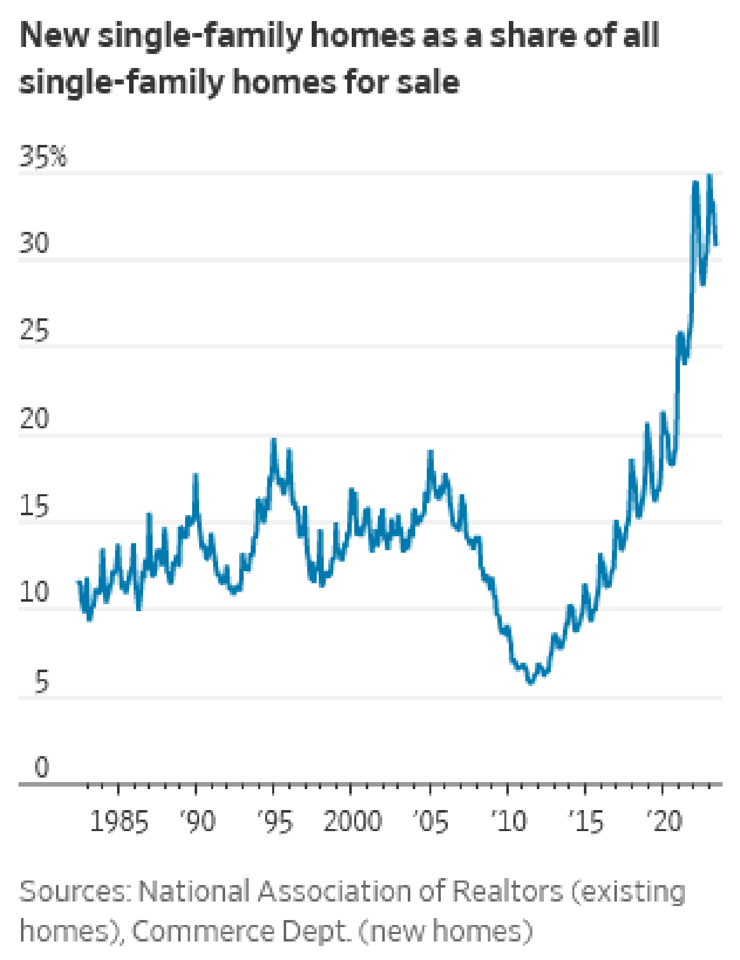
Low supply under $350k | New Const. Dominated





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Lot Inventory| New Construction

Lot Inventory/Supply

- 25 active subdivisions – 530 vacant lots (+1,300+ future lots)
- Most lots platted within past five years
- Supply sufficient in short term | More finished lots needed long-term
- Lot size compression…but larger than Metro Area trends

Model Home

New Construction – Single-Family

New Construction Market

- Targets move-up & exec. buyers
- Med. price $547,275k | $216 PSF
- Sweet spot: $400k to $600k
- New const. premium +35% over resale market
- Lack of entry-level product
- Mainly production builders: Lennar, D.R. Horton, Pulte, Brandl Anderson Homes, M & I, Capstone Homes, Hanson Builders, Robert Thomas Homes

Builder Incentives

- Rate lock buy downs
- Closing costs/lender credits
- Upgrades (basements, technology, etc.)
- “Waiver” of lot premium

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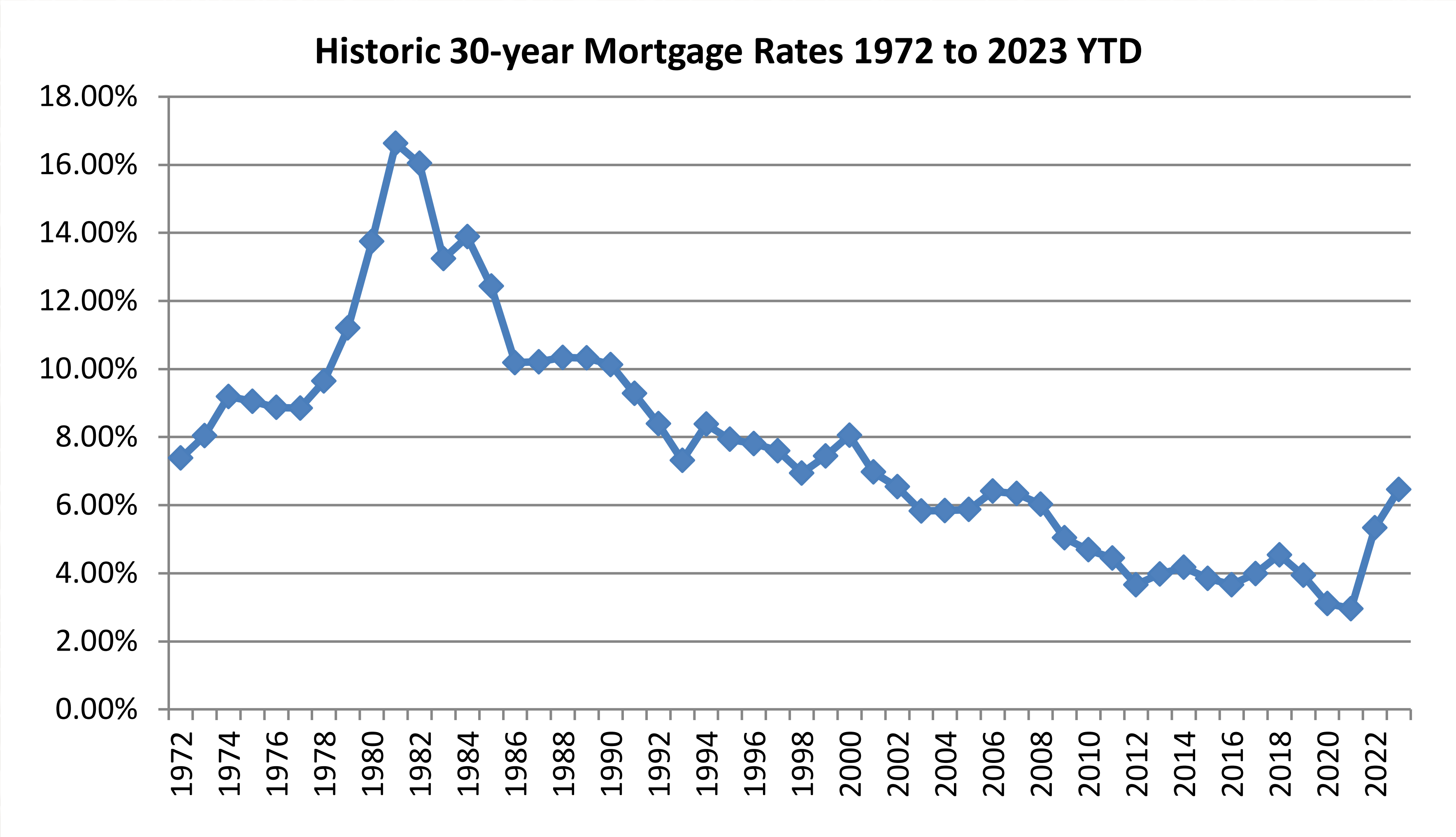
Interest Rates Rising…still historically low



FOMC Mtg. Mtg. Date	Rate Chage (bps)	Federal Funds Rate
3/3/2020	-150	1.0% to 1.25%
3/16/2020	-100	0.0% to 0.25%
3/17/2022	+25	0.25% to 0.50%
5/5/2022	+50	0.75% to 1.0%
6/16/2022	+75	1.5% to 1.75%
7/27/2022	+75	2.25% to 2.5%
9/21/2022	+75	3.0% to 3.25%
11/2/2022	+75	3.75% to 4.0%
12/14/2022	+50	4.25% to 4.5%
2/1/2023	+25	4.5% to 4.75%
3/22/2023	+25	4.75% to 5.0%
5/3/2023	+25	5.00% to 5.25%
6/14/2023	0%	5.00% to 5.25%

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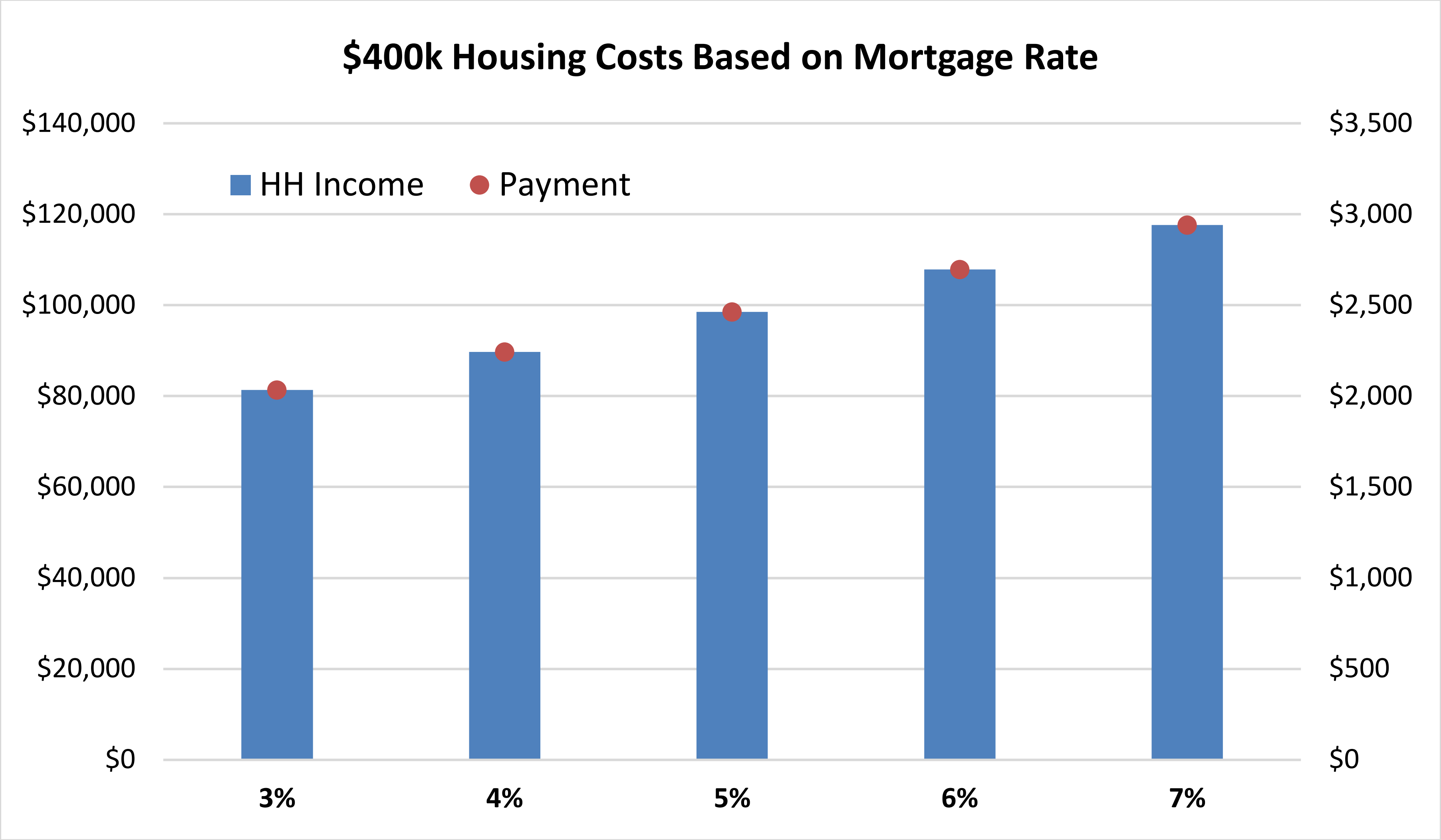
Housing Costs (via rate hikes) +45% Over Past Year…



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

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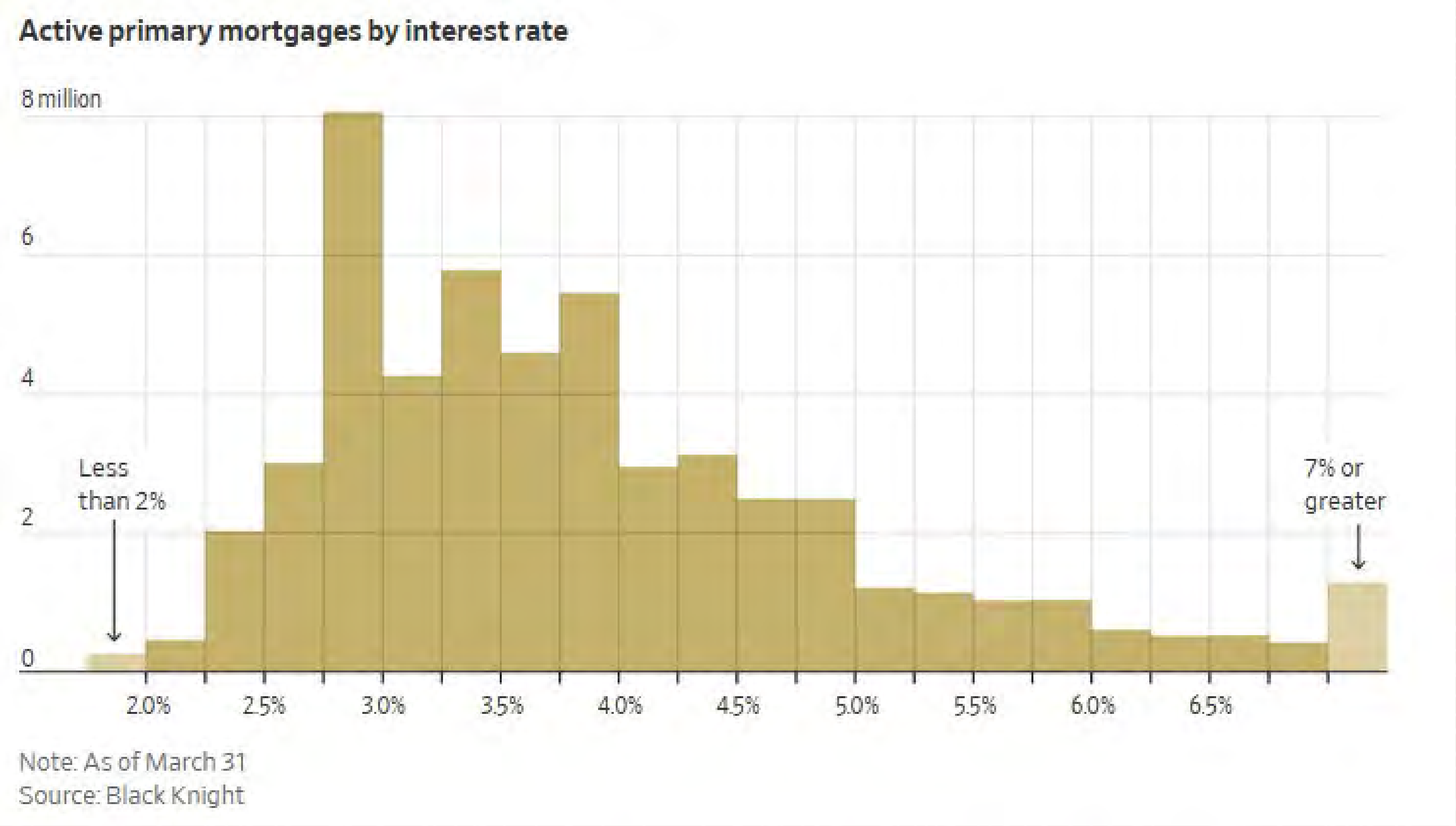
Mortgage Rate Lock In Effect…holding back supply

Nearly 75% of existing mortgages are under 4%!



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Why is the entry-level & middle market missing?

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

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Tools to alleviate costs| New production not keeping pace

Multiple Strategies needed to address supply & demand challenges…

Public Sector (sample)

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

Improving Productivity

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

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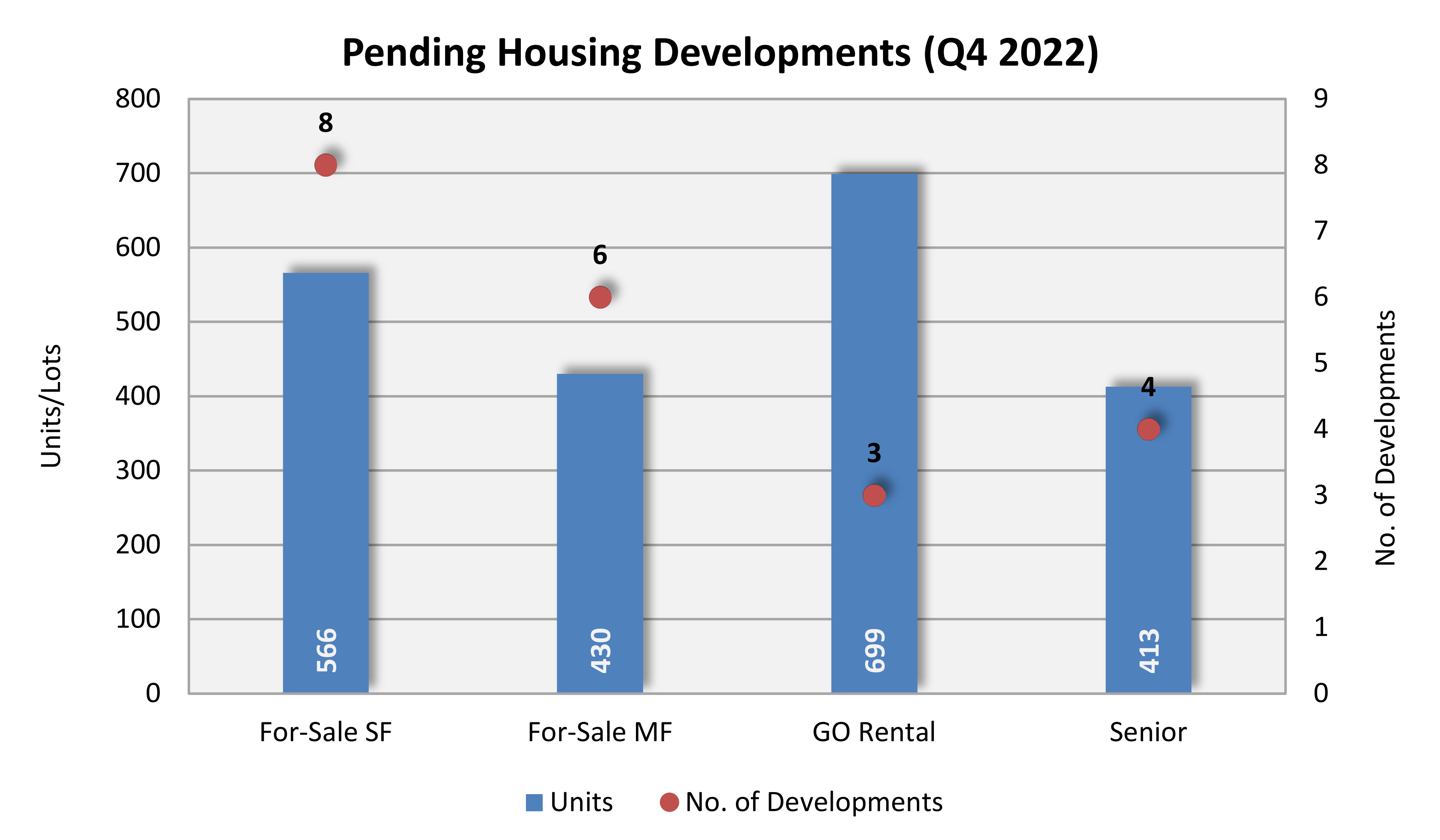
2,100 Housing Units in the Development Pipeline…



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Demand Methodology

Demand Overview

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

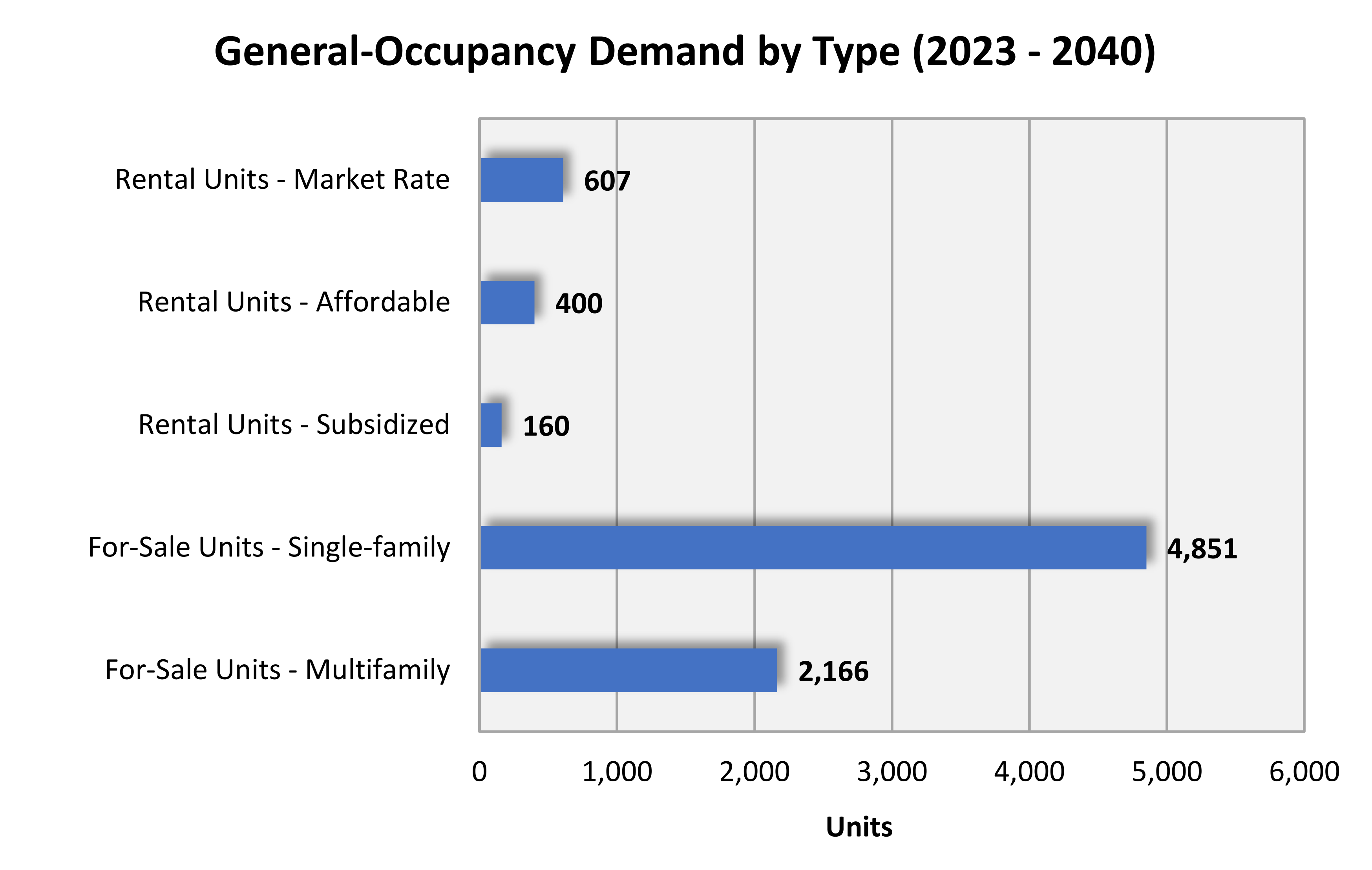
Demand Driver Examples

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

Demand Assumptions/Methodology

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

Demand for 8,100+ General-Occ. Units through 2040



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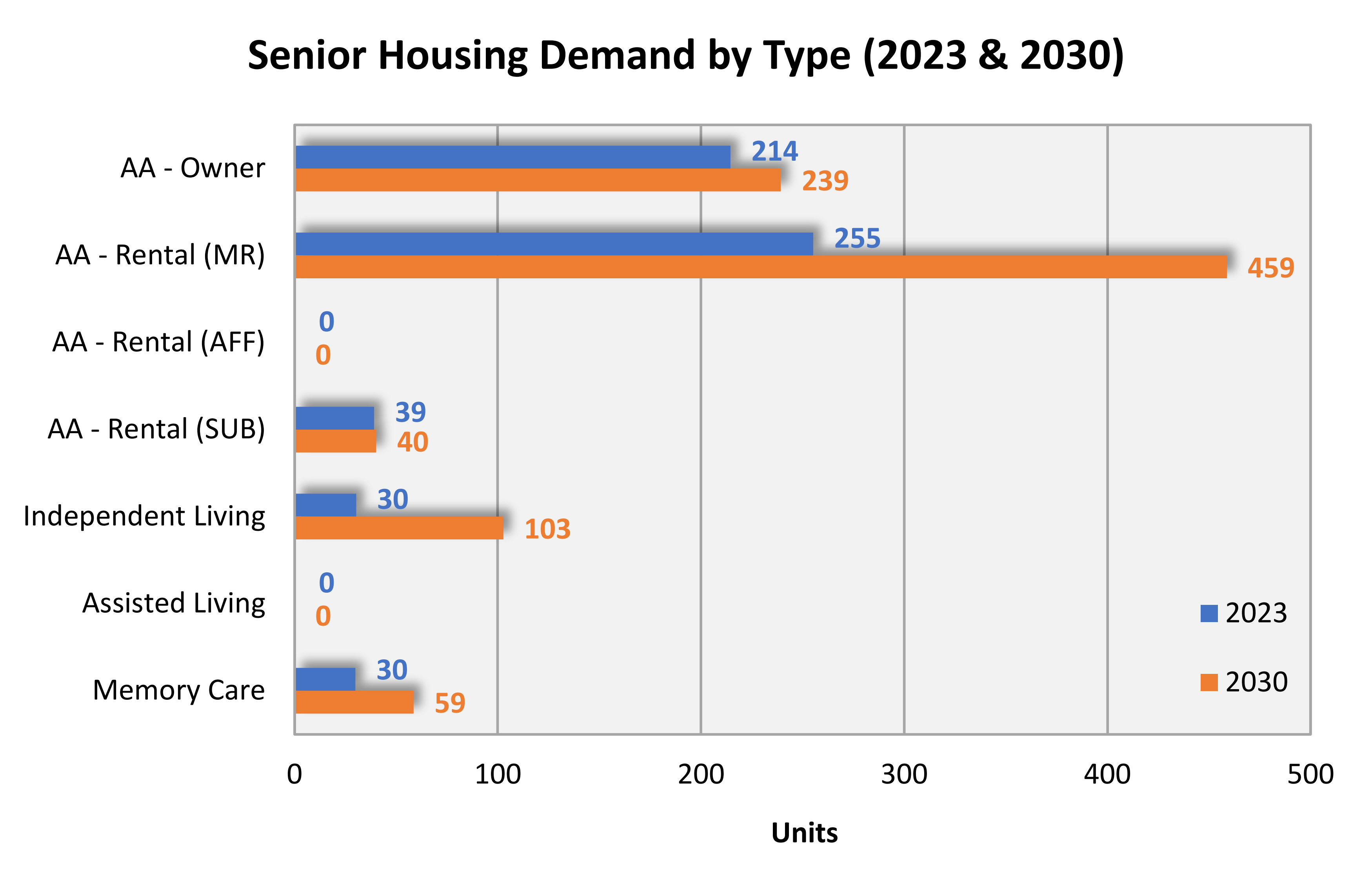
Demand for 900 Senior Housing Units by 2030



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For-Sale Housing Recommendations

Single Family

- Recommend 3 to 5-year lot supply
  - Lot supply sufficient in short-term | Long-term more platted lots
  - Need for diverse lot types (walk-outs, look-outs, etc.)
- Demand for 4,800+ SF homes (after existing vacant lots absorbed)
- Demand across all price points
  - However, entry-level difficult to build due to development cost

Multifamily

- Demand for 2,100+ units
- Strong demand for association-maintained product
  - Popular with older adult and senior households
  - More affordable price points compared to single-family
- Potential housing types:
  - Twin homes/townhomes
  - Detached townhomes/Villas
  - Quad homes/rowhomes

Rental Housing Recommendations

- Demand for 1,167 units
  - 607 market rate
  - 400 affordable
  - 160 subsidized

- Demand for all incomes, HH types, and product types

- Recommend various product/design types
  - Traditional vertical construction
  - Rental townhomes
  - Rental Single-family built for rent (BFR)

- Significant product in the pipeline

The Edison at Spirit Apts.

Meadowlark Townhomes

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Senior Housing Recommendations

- Significant demand through this decade & beyond..(i.e. boomers)

- Demand grows with time as boomers age…

- Strong Demand for most senior types except for Affordable/Subsidized AA & AL:
  - Active Adult
    - Ownership (cooperative/twinhomes)
    - Market Rate Rental
  - Independent Living
  - Memory Care

Crossroad Commons

Spero Senior Living

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Key Takeaways

- Strong growth last decade; but deacceleration this decade| HHs growing faster than population
- Growth led by Millennials & Boomers |65+ growing fastest = alternative housing products
- Families w/children = 42% of HH base | Persons living alone growing | High Pct. of Owners
- Lakeville is job exporter (64%) | Low wages (-17% Dakota County & -25% Metro Area)
- Low rental vacancy rates | SF & TH Rentals (56% in 2020)| Several projects in the pipeline
- Senior housing low vacancies | Poised for strong growth | Active-adult & Independent living driven
- For-sale slowing after 2020+ boom| Supply increasing | Interest rates impacting sales/affordability
- Lot supply sufficient in short-term..but new lots needed
- New construction pricing targets move-up buyers | Need for all price-points (entry to executive)
- Inflation, higher mortgage rates, and high construction costs impact development in term

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Economic Outlook…soft landing or recession?

On the Bright Side

- 2x as many job openings as unemployed
- Limited distressed real estate..for now
- Inflation is easing
- Retail brick and mortar on solid footing
- Shipping container costs leveled out
- Strong dollar
- Rising wages
- Consumer confidence inching up
- Labor “quit-rates” leveling out

Headwinds

- Persistent high inflation
- Hiring slowing
- Federal Reserve raised rates 10x….more rate hikes coming?
- Housing market cooling
- Supply chain disruption
- Labor shortage/Participation rate
- Geopolitical risk
- Gas prices

Pandemic Housing Boom deflating with rising rates…

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

Median Sales Price	↔
Home Sales	↓
Housing Starts	↓
Interest Rates	↑
Inventory	↓
Days on Market	↑
Affordability	↓

2023 Mid-Year Rental Housing Outlook...

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

Deliveries	↑
Absorption	↔
Rent Growth	↓
Vacancies	↑
Transactions	↓
Concessions	↑
Affordability	↓

2023 Mid-Year Senior Housing Outlook…

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

Deliveries	↑
Vacancies	↓
Rent Growth	↑
Housing Values	↔
Transaction Activity	↓
Concessions	↓
Affordability	↓

Maxfield
Research & Consulting

Real Estate Research
Providing Comprehensive
Market Information
and Feasibility Studies

Demographics & Economics

Market Overview

Demand & Recommendations

2023 Outlook

Discussion

Thank You!

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