Chapter 11

HOUSING

Overview

While people may work, shop or seek entertainment in Northfield, their decision to live in the community depends on the availability of a quality housing stock diverse enough to fit the needs of a person or family regardless of what those needs may be. Housing in Northfield has evolved over the years, reflecting the needs and desires of Northfield residents. Northfield's many neighborhoods will reveal a variety of styles, many of which are historically significant and distinct from other small college towns in Minnesota.

Northfield's vision recognizes the small town, and in many cases historic, character of the community. According to the land use principles in Chapter Four, the following principles relate to housing:

- The preference for accommodating future growth is in infill locations, then redevelopment opportunities, and then on the edge of existing developed areas.
- New and redeveloped residential communities (areas) will have strong neighborhood qualities.
- Environmentally-sensitive and sustainable practices will be integrated into new developments and redeveloped areas.
- A wider range of housing choices will be encouraged – in the Community as well as in neighborhoods.

These principles provide a framework for the housing plan.

This chapter summarizes findings from a housing market assessment prepared as input to the Comprehensive Plan update in 2007, and a housing study completed in 2006 for the Housing and Redevelopment Authority (HRA). The housing market assessment sought to focus on several key housing questions that have arisen as part of the comprehensive planning process. The housing study examined existing data on the City's housing supply and basic market trends. They have been summarized and further information is available in Appendix _____.

This chapter provides a brief summary of existing housing conditions and an analysis of supply and demand, as well as an assessment of demographics, rental housing inventory, and single-family housing stock. Specific attention is paid to the need for housing that is affordable to the existing residents and workers in Northfield.

Housing Goal

A goal is a policy statement that states a desired outcome in general terms. The goal for housing is provided below. The goal was developed by considering key findings related to housing and integrating public input generated as part of the Plan update.

The City's housing goal is to provide affordable housing opportunities for the people who live and work in Northfield. Housing should be available in a variety of styles and for a mix of incomes, and have options both for rental living and home-ownership. A variety of housing options should be available as first time homebuyers have families, become empty-nesters, become elderly and eventually need assisted living services. Technology and environmental considerations should be combined to provide a safe, secure and pleasing living environment.

Key Findings

Even though it has historic residential districts, Northfield is a relatively new city in terms of the majority of its housing stock. As a result, the condition and marketability of the housing stock is still relatively high. The City has recently passed through an extraordinary period of housing development that has left it with a large stock of new single-family detached and attached housing. The number of attached townhomes built in the past five or six years far exceeds that built during the City's past growth periods. At the absorption pace of the last six years, Northfield would currently have at least a five-year inventory of detached and attached building lots for build out. However, the pace of absorption has slowed significantly during the past year and build out is likely to take much longer.

HOUSING DEMAND ASSESSMENT

This section provides an assessment of housing demand in the city of Northfield. The Northfield market is characterized in terms of geography and key demand drivers. Housing sales trends are discussed as pertinent to the supply and demand for housing. A demographic analysis was conducted as a basis for determining future demand, which is related back to local supply and the competitive market.

Northfield Market Area & Sources of Demand

Northfield functions as part of the Rice County Housing Market. However, Northfield and Rice County are increasingly influenced by the ebb and flow of the housing market in Minneapolis-St. Paul. Roughly 21 percent of Northfield residents commuted to work in the Twin Cities area in 2000 as prices in the suburbs increased rapidly, and Northfield offered "more house for the money" for those workers, and that number continues to increase. At the same time, the number of workers commuting to Northfield from areas further south has also increased as some of those workers were priced out of the local housing market, suggesting a larger workforce population making a wage that is not livable for Northfield.

The geographic sources of Northfield's housing demand have therefore become more complex in the last few years. There are naturally some local "move-ups" from rental properties or smaller homes with Northfield, as well as some "move-downs," such as empty nesters moving from large homes to smaller ones. The general "aging" of the population suggests potential increase in demand for senior-oriented housing products. There are also college-related relocations from other parts of the country, such as faculty who are recruited or hired from other colleges or universities. And finally, there are the workers in Northfield's local industries and services who would relocate to Northfield if housing were affordable for them. Many of these workers appear to be bypassing Northfield and settling in communities to the south.

Sales Trends

The number of houses sold in Northfield had been increasingly gradually from 1995 through 2003, from about 150 to 250 per year.. Much of that activity has been focused in attached housing, with a 235 percent growth in the number of town-home sales in 2005 versus ten years earlier. Meanwhile, 78 percent more detached houses sold in 2005 than ten years earlier.

Even so, town-homes represent a smaller portion of all houses sold, as compared with detached houses. In 2006, detached homes accounted for 66 percent of all homes sold in Northfield, while town-homes accounted for 34 percent.

Days on Market

The number of days that housing spends on the market before it is sold provides an indication of the balance between supply and demand at that time. In 2001, houses spent an average of 66 days on the market before being sold. However, by 2006, the number had increased to 142 days. Condominiums spent an average 154 days on the market, and detached houses required an average 129 days in 2006. In March 2007, there were almost 200 houses listed in the Northfield market suggesting an inventory of at least one year's supply.

Pricing

There has been a steady, uninterrupted upward trend in Northfield housing prices since at least 1995. This trend generated average annual price increases of about 11 percent until 2006, when prices suddenly dipped by 6.2 percent. In 2006, the average housing sale price in Northfield was about $241,600, an increase of 122 percent over the 1995 average sale price of about $109,000.

Single-family home prices increased faster (12.2 percent annually) than those for townhouses and condominiums (10.9 percent). Townhouse and condominium prices peaked at $204,000 on average in 2005, up from only $87,000 in 1995. Single-family home prices peaked at $283,100, versus $114,600 in 1995.

Population

Northfield's population increased by almost 1,900 people, or 1.6 percent per year, between 2000 and 2006 based on Census data and estimates. The city's population is expected to increase at a slower pace during the next five years, adding 1,240 people or 1.3 percent per year by 2012.

Household growth is a primary driver for housing demand. Northfield gained about 650 households between 2000 and 2007, generating an annual growth rate of 1.9 percent. However, household growth is expected to slow significantly during the next five years, with the city adding a projected 426 households or 1.5 percent per year.

Median Income

Another important demographic indicator is household income growth, which can also feed demand for housing so long as interest rates remain relatively stable or decline. Between 2000 and 2007, Northfield's median household incomes increased from $49,964 to $58,456 in current dollars (including inflation), yielding an annual increase of 2.4 percent. Incomes are expected to increase at 1.8 percent annually through 2012

Demand Forecasts

Housing demand was forecasted primarily for for-sale units. There are two basic components of this demand assessment. First is the calculation of net demand during the period from 2000 to 2007. This period marked a transition from one in which there was a relative balance in the demand and supply of housing in Northfield to a situation where there is an "overhang" in supply over demand that has resulted in it taking longer for houses on the market to sell. The second component of the assessment focused on projected growth in the market from 2007 through 2012. This demand forecast accounted for demographic changes and other factors like the competitive framework.

Market Over-Supply

The analysis of existing supply and demand found that an over-supply of about 470 to 540 units was permitted during the period from 2000 through 2006 that is impacting on current market conditions. The supply of existing permitted units is at least five years from build-out, if not longer.

Projected Demand

Household growth was forecasted based on projected demographic growth within Northfield but also on a capture of household growth within the larger south suburban market area. Based on this analysis, it is anticipated that Northfield could expect to add a maximum of between 520 and 620 households through 2012 if housing were developed in such a way as to compete for higher market share in the region. But due to the competitive supply of housing in suburban communities closer to the Twin Cities, an overall lower share of housing demand could be generated from the regional market, resulting in a gross housing demand for 580 to 660 housing units.

However, given the current over-supply in the market, net demand for additional new housing stock would be closer to 110 to 160 for-sale units during the five-year period. This net demand calculation assumes the absorption and build-out of all existing lots, which is unlikely. It provides an indication of the impact of the existing over-supply in the market as summarized below.

Household Growth & Capture	500 – 600 Households
Locally-generated	40%-50%
Regional market	50%-60%
Gross Demand by 2012	560 – 640 Units
Net Demand by 2012	110 – 160 units

While demand is likely to call for more development than this, it will be important for the City to consider the current demand-supply imbalance when approving additional development in the near term. With careful consideration of proposed projects, balance can be returned more quickly to the local housing market.

HOUSING AFFORDABILITY

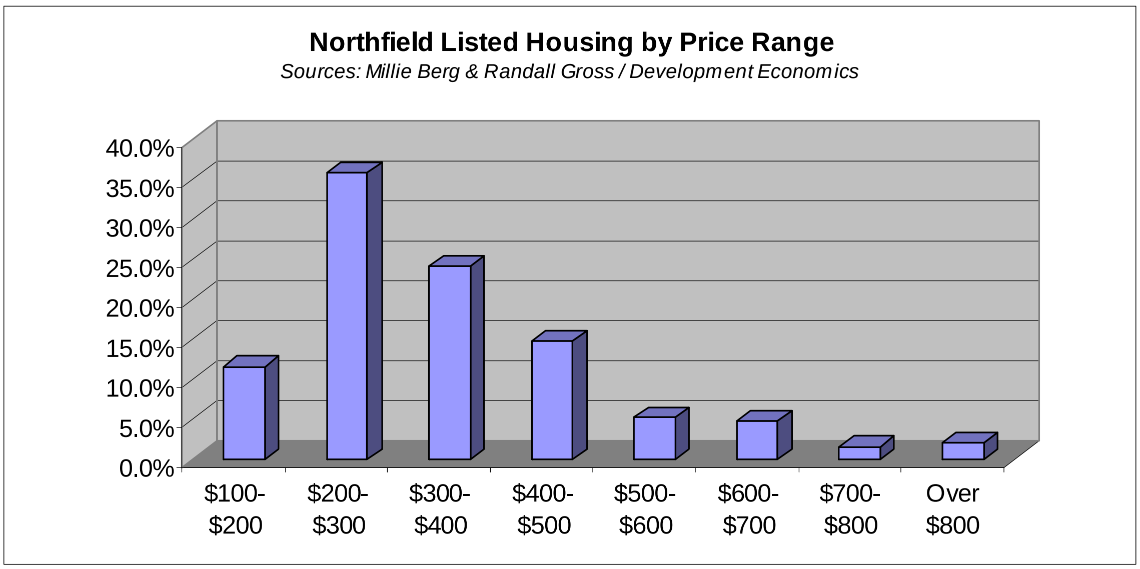
As part of the comprehensive planning process, it is important to consider whether the city's housing mix and pricing is meeting the needs of its residents and workers. Housing affordability has become a critical issue in many communities due to the rapid escalation in prices in recent years. There is a need to continually monitor the affordability of housing in Northfield for its residents and workforce.

Resident Housing Affordability

One way to assess affordability is to determine whether the community's housing prices are aligned with existing residents' ability to pay for housing. The U.S. Department of Housing and Urban Development (HUD) has a definition of affordability for housing used for Federal Housing Administration (FHA) loans, as well as several first-time homebuyer programs. Affordability is generally calculated by assuming that no more than 35 percent of a household's income is paid towards housing costs, and total debt to income ratio is less than 43 percent. According to Multiple Listing Service (MLS) data (the database available to real estate brokers to share data), the median price for single-family detached housing in Northfield was determined to be $241,600 (approximately $1600/month in principle and interest) while the median attached housing price was at $191,400 (approximately $1,259 in principle and interest monthly). This data suggests that to purchase a median-priced single family home in Northfield, a household must have an annual income of at least $54,857 and no more than $365 in monthly debt. To purchase a median-priced attached home, a household must have an annual income of $43,165 and no more than $287 in monthly debt.

While the simple equation of income to house payment may indicate that a large portion of Northfield's housing is affordable to the majority of the community, expenses such as car payments, credit card debt and school loan debt are not calculated into that equation. Caution should be taken when using only income and housing prices as a means to assess affordability.

Market Implications. A good share (35 percent) of the city's housing is priced within the $200,000 to $300,000 range, with up to 10 percent also priced lower in the $100,000 to $200,000 range. These prices may be relatively affordable on a national basis and for a portion of existing residents of Northfield, especially given the continuing low level of interest rates.



However, there are a number of residents who are priced out of home ownership in Northfield.   within Northfield. Homeownership is unlikely without public or non-profit assistance.

Workforce Housing

Another approach to the question of housing affordability is to examine whether the city's housing is affordable to its existing workforce. These workers do not necessarily live in Northfield and in fact, many of them commute from other places. Based on 2005 Census data, the average annual wage for employees of firms and agencies located in Northfield is $30,105. Assuming 1.8 wage earners per household, the total wage income for these households is estimated at $54,189. This annual income cannot support the median price of a detached house in Northfield. However, attached housing may be more affordable for those with the average income or higher. This in turn may suggest that many homeowners in Northfield are not employed in Northfield

Clearly, as with residents, there is a share of workers who will not be able to afford housing in Northfield. This is especially true for singles or for those households with only one wage earner. In those cases, the average wage can only support housing priced up to $119,100, which is significantly lower than the median price of housing in Northfield, and almost out of range for the purchase of any housing currently on the market. There is clearly a gap in housing affordability for single workers and one wage-earner households in the Northfield labor market.

The lack of affordable housing for lower wage and single workers may help explain why there has been "leakage" in the housing market to more affordable towns. Such communities have attracted homebuyers who work in Northfield's service and industrial sectors, as well as those on moderate income who want more house for their money.

Objectives and Strategies

Outlined below are three objectives and 23 strategies. The objectives indicate a specific policy direction and help organize strategies. Strategies are detailed actions necessary to initiate or complete an objective such as a program, policy or a project.

Objective 1
Housing should strengthen the unique physical character of the community.

1.1 Establish standards for replacement of homes in existing neighborhoods to ensure new homes are compatible with the design and scale of the neighborhood.

1.2 Encourage the preservation of existing homes by rehabilitating deteriorating houses, adaptive reuse of existing buildings, and construction of new homes on infill lots and redevelopment sites.

1.3 Develop standards for creating a rich diversity of architectural housing styles appropriate for Northfield in order to avoid monotony.

1.4 Revise zoning and subdivision ordinances to ensure opportunities for development of alternative housing types and styles including mixed-use neighborhoods, accessory or mother-in-law apartments, modular homes, manufactured home parks, and other innovative approaches to housing.

1.5 Establish development regulations that provide for a greater degree of connection between neighborhoods through efficient street design and use of pedestrian trails and sidewalks.

1.6 Encourage creative mixed-use development in and near downtown that integrates housing with public places, retail and service commercial.

1.7 As determined necessary, conduct a city-wide housing analysis to identify current housing types, densities, values, vacancy rates and locations for use as a guide to future housing development and as a measure of affordable housing.

1.8 Encourage compact residential development and intensification of land uses.

Objective 2
The City should assist in providing affordable housing.

2.1 Encourage private developers to provide low-cost housing by providing financialassistance, such as reducing right-of-way and street widths, waiving various City fees, reducing minimum lot sizes and increasing densities. Also, provide assistance in planning, building or renovating low-cost housing.

2.2 Encourage joint public and private participation through local, state and federal programs to help cover the financial gap between affordable housing and the actual cost of developing housing.

2.3 Encourage developments with a mix of housing price ranges and incomes. Options should be considered for both owner-occupied and renter-occupied units.

2.4 Continue to utilize community organizations and area agencies that promote affordable housing, such as the Rice County HRA, Cannon River Community Land Trust and Habitat for Humanity, to plan and develop affordable housing.

2.5 Provide housing that is accessible to community resources such as jobs, commercial districts, and bike and walk paths.

2.6 Research available funding for programs that rehab existing rental or single-family home-owner properties.

2.7 Provide public education of various Federal, State, County and local financial assistance programs for first time home-buyers.

2.8 Work with local lending institutions, real estate professionals and government agencies to provide homebuyer and seller education seminars, and to provide a publication identifying local resources for homebuyer assistance.

2.9 Strive to identify and subsequently eliminate or reduce the impact of various factors that increase housing prices, such as a shortage of available land.

2.10 Study what avenues are available to update and retain the manufactured home parks for affordable housing.

2.11 Work with local employers to identify the housing needs of their workforce, and research opportunities for local government and employers to participate in the provision of housing such as through low-interest loans, employee-buyer programs, and other housing-related benefits.

Objective 3
The City will encourage homes to be maintained, environmentally friendly and energy efficient.

3.1 Encourage the use of “green” building techniques to provide housing that is energy efficient and environmentally friendly.

3.2 Investigate “green” practices that would reduce the costs of housing such as reducing impervious surfaces, constructing raingardens and allowing for streets with no curbs.

3.3 Review the City’s non-conforming structures ordinance for mechanisms to allow homeowners to intensify, rehabilitate and maintain nonconforming structures.

3.4 Enforce rental ordinances that provide for minimums in housing maintenance.

3.5 Enforce blight standards for all city residences.