

DRAFT PART TWO

Northfield

HOUSING MARKET ANALYSIS

Update to Comprehensive Plan

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For the ACP and the City of Northfield
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Section 3. NEW URBAN PRODUCT OPPORTUNITIES

This Part Two report of the Northfield Housing Market Analysis provides more detail on the opportunities for new urban “traditional neighborhood developments” (TND) (Section 3) and on the community’s affordable housing needs (Section 4).

Traditional Neighborhood Development (TND)

Traditional Neighborhood Development (TND) is a specific form of the “new urban” concept of development. TND projects explicitly de-emphasize the role of the automobile in the planning and design of entirely new, master-planned, mixed-use residential communities. By making communities more pedestrian friendly and walkable, the focus of development shifts more to an emphasis on people rather than cars, on homes rather than garages, and on the corner store rather than strip malls. The essence of new urbanism is a focus on creating stronger, more livable and more sustainable places where residents share a sense of community. In many ways, today’s TND developers are revisiting the traditional neighborhoods and communities developed in this country prior to the advent of the automobile over a century ago.

In addition to walkability, key components promoted by the advocates of TND development include connectivity, traditional grids and neighborhood structure, mixed-use and diversity, mixed types and tenure of housing, high-quality architecture and urban design, increased density, environmental sustainability, use of public transit and good transportation planning, and finally a high quality of life.

The planning of mixed-use communities that incorporate new urban principals often incorporates various elements not found in some of Northfield’s newer residential communities, including diverse and mixed-tenure housing, live-work units, town or neighborhood centers, public spaces, and small-scale commercial uses. Where some “neo-traditional” housing designs has been built in Northfield, planning and marketing have focused on creating a “traditionally-designed” house rather than on planning an true mixed-use, TND community. The neo-traditional housing in one new Northfield development has not proven to be popular with buyers, but this has more to do with the higher price, odd site design, and shallow lots of these particular houses than new urbanism. Without the implementation of the broader concept, the housing design elements are only variations on the suburban PUD model.

Market Opportunities

While this market analysis did not focus specifically on the demand for traditional neighborhood developments (TND), an assessment was conducted to identify a market base for this product and determine the type or scale of opportunities that might exist. TND communities appeal to a distinct demographic niche which typically includes white-collar professionals with high education levels, as well as empty nesters and academics. Often, TNDs appeal to professionals in the design fields, such as architects and graphic designers. Increasingly, affluent empty nesters are becoming a predominant demographic target for the TND.

Age & Income

The TND market opportunities assessment assessed key demographic niche populations within the primary market area comprised of Northfield and surrounding areas, plus Dakota County. Particular focus was given to the target “empty nester” age demographic of 45 to 69 years, and to the households with incomes in excess of \$40,000 or \$50,000 per year. Within these cohorts, there will be nearly 71,000 people within the market area by 2012. Significant growth is expected in all of the target age brackets except for the 45 to 54-age group. Otherwise, these cohorts will see combined growth of 20.8% during the next five years thanks to the aging of the baby boom generation at the same time that they have entered their peak earning years. This expansion in the niche market includes more than 2,100 people within Northfield itself.

Education and Occupation

Education levels are an important indicator of the interest in the TND style of community development. Based on in-house market research data, it has been determined that people with Masters degrees, professional degrees, and doctorates have a higher propensity to select TNDs as their community of choice. Based on this data, it was determined that a target educated population will exceed 31,000 within the market area by 2012, including 4,000 within Northfield. Not surprisingly, education levels are much higher among the Northfield adult population than in other parts of the market area. Within Dakota County, for example, only 6.4% of adults have achieved a Masters degree or higher. This compares with 20.0% in Northfield.

Additional research was completed assessing the occupations of residents within the primary market area, including Northfield and Dakota County. It was determined that up to 29% of area residents hold jobs within the target occupations identified for residents of TND communities, such as architects,

medical doctors, professors and social scientists, business managers, computer specialists, and others.

Total Target Niche Household Base

Further analyses brought these demographic cohort data together as the basis for determining the total target household base for the TND niche market. These analyses identified a total household base of 1,455 within the primary market (Northfield and surrounding areas plus Dakota County). While relatively small, this target market base is growing rapidly, again thanks to growth in all demographic cohorts including age, income levels, education, and occupation.

**Table 6. TOTAL TARGET TND HOUSEHOLD BASE,
NORTHFIELD MARKET AREA, 2007-2012**

Key Sources	2007	2012	2007-2012 Change	
			Number	Percent
Dakota County	1,348	1,694	346	25.7%
Northfield	107	125	18	16.9%
TOTAL	1,455	1,819	364	25.0%

Source: Randall Gross / Development Economics.

It is anticipated that this household base will increase by about 360 to 1,820 in 2012, an increase of 25.0% in five years. Northfield itself will account for an increase of about 18 households within this niche market. The growth in this household base presents opportunities for development of a TND style community in Northfield. At the same time, the competitive environment must be considered as other communities provide alternatives to TNDs for this niche household base.

Competitive Product

There are a few examples of projects that have applied principals of new urbanism in the Twin Cities region. However, these projects have primarily included commercial developments and redevelopment of existing urban neighborhoods, rather than comprehensive traditional neighborhood development communities on green field sites. Among the several new urban redevelopment projects underway in the region include Burnsville's Heart of the City, Excelsior and Grand in St. Louis Park, and Village Creek in Brooklyn Park. St. Paul has long used new urban principals in the redevelopment of existing neighborhoods, such as in Upper Landing, Northeast Quadrant, and Lowertown. New urban principals have been applied to the redevelopment of public housing sites such as at Heritage Park in Minneapolis. Again, none of these sites represents the development of a TND specifically as an alternative to typical

suburban construction at a green field location. As such, there are few direct comparables.



However, there are some residential developments in the region that, while not exactly TND, still respect certain new urban principals. Among the most competitive of these is Liberty on the Lake, located in Stillwater. This development aims to blend new housing with old and create a walkable community. Six builders are designing homes that meet strict design standards that follow traditional housing styles and layout. Detached homes are priced from \$375,000 (comparable to prices at Northfield's new developments), while townhouses start at \$300,000. The project does not offer the mixed-use ideal of a TND, but it does provide a regional example of housing and neighborhood design aside from the typical suburban model.

The main competitor for the TND in Minnesota may very well be the existing traditional small town neighborhoods, which offer the amenities and walkable community lifestyle which new urbanism emulates. A number of smaller cities and towns within a 30 minute to one-hour drive of the Twin Cities are competitive with Northfield for those, such as empty nesters, with the resources to seek this lifestyle.

Key Market Constraints

Despite growth in the target TND market base, and the lack of direct competitors, there are a number of market constraints to the development of TNDs in Northfield at this time. Perhaps the most salient of these constraints is timing, since new urban communities are most successfully marketed when the overall housing market is strong enough to generate more demand for specialty products. In a "down" cycle, most developers and builders are more risk averse and will opt to promote a more predictable and housing product with the broadest possible appeal. Other key constraints include the following.

Narrow Niche Market. As noted in the market opportunities assessment, the market for TNDs is fairly specialized. Target markets for TND include move-up white-collar, mid-career professionals with high education levels, as well as empty nesters, and academics. While Northfield has a high share of academics, the share seeking new homes yields a very small buyer population. Even within these niches, the product typically appeals more to those who are explicitly seeking more of a sense of community. Those numbers are growing, but it is still not the primary consideration of most middle-market homebuyers.

Small Town Competition? Northfield already has a “small-town feel,” which is one of the things that has attracted residents to the area. The city offers a wonderful historic district and downtown that provide a traditional urban community. One might question why someone would move into a newly-built walkable “traditional neighborhood development” when there is existing, well-built housing in historic neighborhoods within walking distance to the traditional downtown. On some levels, such new development will create competition to the city’s traditional neighborhoods unless it is well-integrated with the existing community.

Limited Regional Development Experience. New urbanism, while growing in popularity throughout much of the south and west, has been slower to catch on among developers in the upper-Midwest. The Twin Cities have several new urban projects underway but few successful examples of completed TNDs. The area also has few developers with experience in this type of community concept. One local builder has had a poor experience with what is perceived to be new urban housing, although again that may relate more to the housing product than to the concept of a complete traditional neighborhood development. In general, TND projects are led by master developers, rather than by individual builders unlike some of Northfield’s recent housing developments. Finally, some believe that the harsh winter weather in the upper Midwest does not help support the marketing of a “walkable” TND community concept, although such communities have been successfully completed in cold places like Calgary, Stockholm, and Toronto.

Market Implications

At the stage when a TND-style development becomes more viable in the market, there are several recommendations provided below that would help to strengthen the concept’s marketability and enhance it’s overall positive impact on Northfield. These recommendations are provided below as an input to the planning process.

Master Developer

It may be in Northfield’s interests to recruit an experienced TND developer with the patience and interest required to follow through on a specialty project such as this. If the City is genuinely interested in encouraging new urban development, then some outreach may be required beyond the local or even regional market to find developers with experience in developing TNDs. Clearly, an incentive to attract such developers might be the use of City-owned land as part of the development package, such as to provide for public open space as part of the overall TND development.

Community vs Housing Design

The experience with new urbanism so far in Northfield has been limited to the design of individual houses. The focus should instead be on the master planning of TND communities which meet the criteria for such developments, above and beyond just “traditional” design for individual homes. In fact, some TNDs have incorporated daring new, “counter-traditional” design standards for the housing, although that is not necessarily recommended in the relatively conservative Minnesota housing market.

Timing

The timing of such projects will be important, with the success rate much higher when development occurs during an up-swing in market demand and pricing. The housing cycle is likely to generate such an upswing after the five-year forecast period used in this housing market analysis. At the same time, there will always be an opportunity for capturing the high-end, affluent “cream” of this market even during a down cycle. Risk acceptance by an experienced developer would be key.

Integration

Finally, it is highly recommended that any TND or new urban residential development should be well-integrated with, or at least sensitive to, the existing Northfield historic districts and downtown area. It would not be recommended for the City to encourage a competitive product that will reduce the viability of downtown neighborhoods and the central business district (which are competing for some of the same professors and other niche demographics). This is a particularly salient issue with TND town centers, which are often marketed as a new downtown. Where TND has helped cities, there is a synergy that is created between old and new. And again, this seems to work best when there is a healthy market all around.

Section 4. 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. As noted previously, Northfield's median housing prices increased by almost 12% per year from 1995 through 2005 before finally falling back in 2006. As the market cools and prices stabilize, the issue will become less intense. However, there is a need to continually monitor the affordability of housing in Northfield for its residents and workforce.

Resident Housing Burden and Affordability

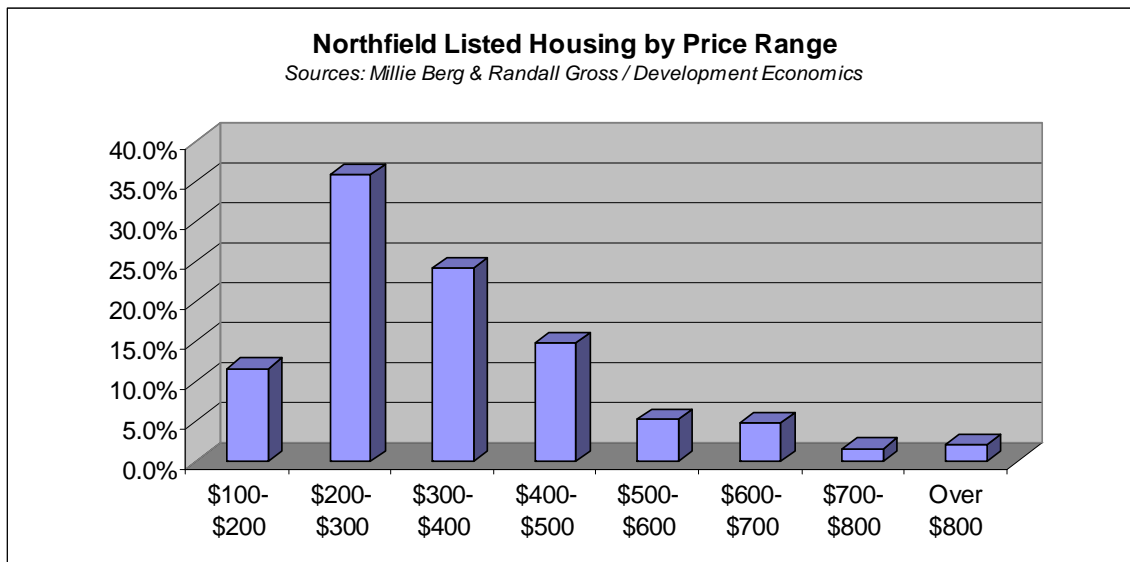
As noted in Part One of this report, a relatively small share of Northfield's households experienced an exceptional housing "burden" in 2000, as defined by the percentage of householders paying more than 35% of their income for housing costs. In 2000, 12% (364) households were carrying that housing burden for homeownership and 23% for rentals. These are not exceptionally high numbers, especially given that some of those rentals are occupied by students at the two colleges in town.

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. In Northfield, the recent median price for single-family detached housing was determined to be \$241,600 (based on MLS data), while the "affordable" price based on the city's median household incomes was \$243,100. Thus, the middle-income resident of Northfield should be able to afford the middle-priced detached home currently on the market. The median attached housing price was at \$191,400, so the middle-income resident can actually afford 27% more than the median priced townhouse in Northfield. This information suggests that Northfield's home prices are aligned with existing residents' ability to pay and may even offer a value for some homebuyers.

However, income is not distributed equally among all Northfield neighborhoods. Within north-central Northfield (Census Block Group 6001), the median income of households can support the purchase of homes priced at \$186,200, which is only 77% of the citywide median detached housing price but still comes close to the median twin home or condominium price. Median incomes in the northwest Historic District (Block Group 6002) can support a home purchase of \$193,800, or slightly higher than the median twin home price.

Market Implications. Housing is generally available and “affordable” to the median homebuyer citywide, regardless of the origin of the homebuyer within the city. As illustrated below, a good share (35%) of the city’s housing is priced within the \$200,000 to \$300,000 range, with up to 10% also priced lower in the \$100,000 to \$200,000 range. These prices are relatively affordable on a national basis and for existing residents of Northfield, especially given the continuing low level of interest rates.



However, there are pockets of residents who are priced out of homeownership. Based on an analysis of data by neighborhood, it was determined that there are up to 170 residents of the Northwest Historic District that are completely priced out of homeownership within Northfield. Similarly, there are 160 residents in North Central, and some in other neighborhoods, that are also priced out of homeownership.

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 can support a housing price of approximately \$214,330 which is lower than the median price of a detached house in Northfield. However, attached housing is affordable for those with the average income or higher.

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. An effort to determine the number of workers who cannot afford housing in Northfield and the requirements for housing affordability would require further analysis that is not included in the scope of this study. Nevertheless, 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 as Dundas. 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. It is recommended that the City consider conducting a survey of workers to assess their housing needs and to identify any 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. The question of employee housing will also be discussed through the economic development process as part of this planning effort.

Next Steps

This housing market assessment has forecasted the overall demand for housing in Northfield and focused on several specific questions relating to traditional neighborhood development (TND) and housing affordability. Some recommendations have been made to help inform the planning process. These recommendations may be expanded and refined with input from the steering committee.