

11. Housing

Organization

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Purpose

The purpose of the Housing Chapter is to describe current housing conditions in Northfield and plan for future development relative to need and demand.

A. 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 residents. Northfield's many neighborhoods will reveal a variety of styles, many of which are historically significant.

Northfield's vision recognizes the small-town, and in many cases the historic, character of the community. The following land use principles in Chapter 4, relate to housing:

- The preference for accommodating future growth is in infill locations, then redevelopment/land intensification opportunities and then on the edge of existing developed areas (Principle 3).
- New and redeveloped residential communities (areas) will have strong neighborhood qualities (Principle 4).
- Environmentally-sensitive and sustainable practices will be integrated into new developments and redeveloped areas (Principle 5).
- A wider range of housing choices will be encouraged – in the community as well as in neighborhoods.
- The small town character will be enhanced (Principle 1).

These principles provide a framework for the Housing Plan.

This chapter summarizes findings from a housing market assessment prepared in 2007 as input to the 2008 Comprehensive Plan, 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.

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 residents and workers in Northfield.

B. 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.

Provide housing opportunities for all people who live and work in Northfield. A variety of housing options, including rental housing, should be available as first-time homebuyers have families, become empty nesters, become elderly and eventually need assisted living services. Green technology, environmental considerations and strong neighborhood qualities should be combined to provide a safe, secure and pleasing living environment.

C. Existing Housing Conditions

This section summarizes existing conditions with respect to housing supply in Northfield. Information was collected through field reconnaissance, interviews with real estate professionals, and from Census and other data with respect to existing neighborhoods, tenure, construction trends and housing product. The city's housing stock was analyzed in terms of its overall marketability for meeting the demands of the current and future market.

Existing Housing Stock

As noted previously, the 2006 Housing Study summarized existing housing stock and provided information on housing conditions within each of Northfield's neighborhoods. In order to provide context for the 2007 market assessment, several key factors relating to existing housing stock are summarized below.

Housing Stock and Tenure

According to the 2000 Census, Northfield had a total of 5,119 housing units, of which 4,909 (95.9%) were occupied and 210 (4.1%) were vacant. This is a normal vacancy rate, which indicates that there was generally a balance in the supply and demand for housing in the market in 2000.

Housing Types. According to the 2000 Census, almost 56% of the city's housing was in single-family, detached units. Only 9% of the existing housing stock in 2000 was in attached housing, and yet attached twin homes have accounted for roughly 50% of all new housing permitted since 2000 (see Construction Trends). Thus, recent construction represents an aberration from historic trends. About 24.7% of Northfield's housing was in multi-family buildings with five units or more.

Much of the newer housing has taken the form of conventional suburban-style development, particularly in terms of site planning. The City's land use regulations have successfully encouraged developers to build at higher densities, but the style and layout of housing within new developments has typically not changed to match the change in density patterns. As a result, there are some new residential neighborhoods that appear over-built with houses. These areas contrast sharply with the city's older neighborhoods and historic districts, which offer a sense of place and a scale of housing that meets the requirements of the respective site.

Tenure. The national average of owner-occupied housing in 2000 was 66%. In Northfield, more than 68% of the city's housing was owner-occupied in 2000. Additionally, 96% of single-family housing stock was owner-occupied, and 77% of one- to three-unit structures are owner-occupied. Similarly, about 32% of the city's housing was renter-occupied, again consistent with national figures.

Age and Condition

Less than 20% of the city's housing stock was built prior to 1940, so there has been less time for Northfield's housing to age and for conditions to degenerate. In fact, most of the city's housing stock was built between 1970 and 2000, averaging 1,031 new units per decade.

However, the period since 2000 has seen the pace of housing construction double from its previous trend, with almost 1,200 units permitted during the five-year period from 2000 to 2005 alone. Construction trends are summarized below.

Construction Trends

A total of almost 1,200 residential building permits were issued by the City between 2000 and 2005. The vast majority of these units (91.9%) were issued for single-family homes, although the mix of units was split between detached houses (52.4%) and attached twin homes (47.6%).

There were also 88 multi-family (four or more) units constructed during the six-year period, accounting for 7.4%. This is a typical number for a small city, but is surprisingly small for a college town. Northfield also issued eight permits for three-unit buildings.

Northfield averaged permitted construction of about 200 units per year between 2000 and 2005. However, the city experienced a growth spurt in permits for

detached housing, starting in 2003. Prior to 2003, the City had issued about 75 detached housing permits per year. From 2003 to 2005, the City issued an average of 115 such permits per year.

The overall construction trend suggests an increase between 2001 and 2003 in terms of the supply coming on line each year. Most of this increase was attributable to a growth in the number of single-family detached permits.

Absorption

A sample of 23 active Northfield housing projects was analyzed to assess overall absorption trends, in terms of the pace at which residential lots are being built out in the city. This sample only includes projects that started building since January 2000, so it excludes older projects some of which are still building out.

Detached Lots

There are 15 detached housing projects in the sample with a total of 314 units built between 2000 and 2006. Total absorption among these projects has been averaging 3.97 units built per month or 47.7 units built per year. A typical project would have averaged absorption of about one unit every two months or slightly less than six units per year.

Consistent with the permitting data, construction of detached housing units increased markedly during the 2003-2004 period, when annual absorption jumped from 24.15 to 76.50. That pace appears to have fallen in the 2005-2006 period, based on data collected to date (although there is an estimated eight-month lag in the data).

The most active detached housing projects have been Liberty Park and Fargaze Meadows, with 55 and 53 units built between 2000 and 2006, respectively. These projects have also seen the fastest pace of absorption at 16.1 and 17.7 units per year, respectively. In fact, these two projects accounted for about 71% of all detached Northfield housing absorption over the six-year period.

Attached Lots

A total of 177 attached “twin-home” or townhouse units have been built since 2000 yielding a total annual absorption rate of 28.32. Thus, detached homes are being built at a faster rate than attached houses in Northfield. This trend is counter-intuitive given that attached housing is typically priced less than a detached

house and is, therefore, affordable to a larger cross-section of the market.

The typical attached home developed has seen monthly absorption of about 0.75 units or annual absorption of 9 units. The rate of building increased substantially during the 2003-2004 period, when lot absorption increased from 2.7 to 60.5 per year. Absorption appears to have fallen back to about 25 units per year through 2006. Most of the attached housing has been built at Liberty Park and Southbridge, with annual absorption rates of 21.4 and 23.2 respectively.

Development Build-Out

According to the City’s Community Development Department, there were 700 single-family detached lots in the development pipeline on November 29, 2006. Of that number, 465 (66%) had been built and there were approximately 235 remaining lots. Based on the average absorption pace of 47.7 lots per year in the newer developments, it would take about five years to build out existing projects. However, the overall absorption pace is much slower when including the older projects and the absorption trend has slowed in the past year, so build-out is likely to take somewhat longer.

Similarly, there were 324 twin home or townhouse lots in the development pipeline. Of these, approximately 200 (60%) had been built with another 120 lots remaining. With average absorption in new projects at 28.3 attached units per year, there would be another 4¼ years remaining to build out existing developments. Again, overall absorption is slower and the pace has declined significantly in the past year. At the 2005-2006 absorption rate, it would take closer to five years for build out of existing developments.

Population History

Group Quarters

Northfield has two liberal arts colleges, St. Olaf and Carleton, each having excellent national reputations. Carleton College has approximately 1,900 students and St. Olaf College has about 3,000. These colleges have an impact on the local housing market, although they provide campus housing for most of their students. As of 2000, Northfield had 4,713 residents in group housing (including mainly dormitories, but also senior homes). This group housing population accounted for 27.5% of the total population of Northfield, which is a significant number. Northfield’s group quarters population is

expected to continue growing, although at a slightly slower pace than in the recent past.

D. 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 years and build out is likely to take much longer. These should be considerations that influence near-term annexation decisions now and in the future. Moreover, there is a need to take a long-term perspective in housing and other land use components to maintain a balance in the makeup of the community.

Housing Demand Assessment

This section provides an assessment of housing demand in the community. 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% of Northfield residents commuted to work in the Twin Cities area in 2000. As housing prices in the suburbs increased rapidly and Northfield offered "more house for the money" for those workers, that number continued to increase. At the same time, the number of workers commuting to Northfield from areas further south has also increased. 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 within 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 local industries and services that would relocate to Northfield if housing were affordable. 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 increased gradually from 1995 through 2003, from about 150 units to 250 units per year. Much of that activity was focused in attached housing, with a 235% growth in the number of town-home sales in 2005 versus ten years earlier. Meanwhile, 78% more detached houses sold in 2005 than ten years earlier.

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

When there is a significant upturn in housing prices, demand increases significantly for more affordable product such as townhouses (or twin homes) and condominiums, as well as detached housing located in less accessible or less desirable communities. During the 2003-2005 period, Northfield experienced both the push out from closer, more accessible suburbs of Minneapolis-St. Paul as well as increased demand for townhouse products.

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 of all types spent an average of 66 days on the market before being sold. However, by 2006, that number had increased to 142 days. Condominiums spent an average of 154 days on the market, and detached

houses required an average of 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% until 2006, when prices suddenly dipped by 6.2%. According to the Southern Twin Cities Association of Realtors, the average housing sale price in Northfield was about \$245,064 in July 2007, an increase of 123% over the 1995 average sale price of about \$109,000.

Single-family home prices increased faster (12.2% annually) than those for townhouses and condominiums (10.9%). 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% 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% 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%. However, household growth is expected to slow significantly during the next five years, with the city adding a projected 426 households or 1.5% per year. Therefore, the need for new housing unit production will decrease in the near term as well. Complete demographic data can be found in Chapter 2 of this Comprehensive Plan.

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%. Incomes are expected to increase at 1.8% 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 2007 that is affecting current market conditions. The supply of existing permitted units is at least five years from build-out, if not longer. Therefore, in reviewing residential annexation requests, the City should consider possible market over-supply as a factor in determining whether an annexation request is approved.

Table 11.1 illustrates market-over-supply for housing in Northfield. The building department issued 1,180 housing (lot) permits and projected growth for the City was 650-760 households. The number of permits allowed was higher than the projected number of households, subsequently creating an “overhang” of potential units to be built. “Overhang” indicates the number of potential units to be built, whereas “over-supply” indicates an actual number of units already constructed.

TABLE 11.1 – MARKET OVER-SUPPLY, 2007

Housing (lot) Permits	1,180 Permits
Household Growth	650 – 760 Households
Housing Units Built	750 Units
“Overhang” by 2006	420 – 530 Units

Source: City of Northfield

Projected Demand

The projected demand in housing involved looking at household growth as well as housing demand (housing demand includes projected household growth, plus replacement, vacancy and other factors affecting housing

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 of *household growth*, 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. However, an overall lower share of housing demand could be generated from the regional market than in the past few years, due to the competitive supply of housing in suburban communities closer to the Twin Cities (See Table 11.2).

Gross *housing demand* for 580 to 660 housing units could be anticipated, accounting for competition, replacement, normal vacancy and other factors.

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 in Table 11.1.

TABLE 11.2 HOUSEHOLD GROWTH AND CAPTURE, 2007

Household Growth & Capture Households	520 – 620
Locally-generated	40%-50%
Regional market	50%-60%

Source: Randall Gross/Development Economics

It is important for the City to consider the growth demand-supply imbalance when approving additional residential developments in the future. Over the life of the Comprehensive Plan, care should be taken with proposed residential projects to make certain balance with commercial and industrial development can be achieved and maintained throughout the community.

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. Additional discussion of affordable housing for those who wish to live and work in Northfield is found in Chapter 10. 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

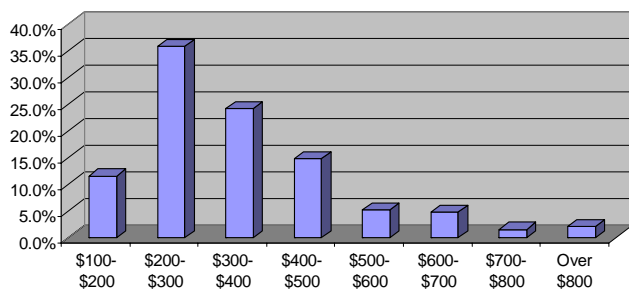
One way to assess affordability is to determine whether the community’s housing prices are aligned with existing residents’ ability to pay for housing. The U.S. Department of Housing and Urban Development (HUD) has a definition of affordability for housing used for Federal Housing Administration (FHA) loans, as well as several first-time homebuyer programs. Affordability is generally calculated by assuming that no more than 35% of a household’s income is paid towards housing costs, and total debt to income ratio is less than 43%. 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 \$1,600/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.

Note: 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

About 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 (See Table 11.3). 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 completely priced out of home ownership in Northfield. Homeownership is unlikely without public or non-profit assistance.

TABLE 11.3 NORTHFIELD LISTED HOUSING BY PRICE RANGE

Source: Randall Gross/Development Economics

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 now; and, in fact, many of them commute from other places. Based on 2005 projected 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. Therefore, 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 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.

E. Objectives and Strategies

Outlined below are four objectives and 31 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 will strengthen the unique physical character of the community.

HS 1.1 For new developments, establish standards for creating a rich diversity of architectural housing styles appropriate for Northfield in order to avoid monotony.

HS 1.2 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.

HS 1.3 Establish development regulations that provide for a greater degree of connection between neighborhoods through efficient street design and use of pedestrian trails and sidewalks.

HS 1.4 Establish standards for creative mixed-use development that integrates housing with public places, retail and service commercial.

HS 1.5 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.

HS 1.6 Establish standards for compact residential development and intensified land uses.

HS 1.7 The preference for new residential development should be for infill, then redevelopment/land intensification, and then greenfields within the city limits, and then within the Priority Growth Area.

HS 1.8 The needed balance between housing and commercial/industry and the current supply of housing will be important factors in consideration of annexation requests for additional housing.

Objective 2: Preserve the character and style of existing neighborhoods that have created Northfield’s sense of place.

HS 2.1 Establish standards for replacement of homes in existing neighborhoods to ensure new homes are compatible with the design and scale of the neighborhood.

HS 2.2 Encourage the preservation of existing neighborhoods by rehabilitating deteriorating houses where practical, adaptive reuse of existing buildings and construction of new homes on infill lots and redevelopment sites.

HS 2.3 Establish regulations for the demolition or moving of buildings in neighborhoods.

HS 2.4 Consider establishing a review board to determine if infill housing is compatible with the design and scale of the existing neighborhood.

HS 2.5 Encourage the preservation of historically-significant structures, business and commercial areas and neighborhoods. Historical significance includes architectural features as well as significant historical and cultural events.

HS 2.6 Consider creating historic neighborhood conservation overlay district(s).

Objective 3: The City should assist in providing affordable housing.

HS 3.1 Encourage private developers to provide a variety of housing options by providing financial assistance, assistance in planning, building, and renovation, reducing right-of-way and street widths, waiving various City fees, reducing minimum lot sizes and increasing densities, consistent with the Comprehensive Plan.

HS 3.2 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.

HS 3.3 Encourage developments with a mix of housing price ranges and incomes. Options should be considered for both owner-occupied and renter-occupied units.

HS 3.4 Continue to utilize community organizations and area agencies that promote affordable housing, such as the Rice County HRA, land trust organizations, non-profit organizations familiar with affordable housing and Habitat for Humanity, to plan and develop affordable housing.

HS 3.5 Provide housing that is accessible to community resources such as jobs, commercial districts, and bike and pedestrian paths.

HS 3.6 Research available funding for programs that rehab existing rental or single-family home-owner properties.

HS 3.7 Provide public education of various federal, state, county and local financial assistance programs for first time home-buyers.

HS 3.8 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.

HS 3.9 Strive to identify and subsequently eliminate or reduce the impact of various factors that increase housing prices.

HS 3.10 Encourage the availability and upgrading of manufactured home parks for affordable housing.

HS 3.11 Encourage local employers to identify and meet the housing needs of their workforce by providing opportunities for local government and employers to cooperate in the provision of housing. Cooperation could occur through low-interest loans, employee-buyer programs and other housing-related benefits.

Objective 4: The City will encourage homes to be well-maintained, environmentally friendly and energy efficient.

HS 4.1 Establish standards for and encourage the use of “green” building techniques to provide housing that is energy efficient and environmentally friendly.

HS 4.2 Investigate “green” practices that would reduce the costs of housing.

HS 4.3 Review the City's non-conforming structures ordinance for mechanisms to allow homeowners to intensify, rehabilitate and maintain nonconforming structures.

HS 4.4 Enforce rental ordinances that provide for minimums in housing maintenance.

HS 4.5 Enforce blight standards for all city residences.

HS 4.6 Revise City zoning and other applicable ordinances to ensure implementation of these Objectives and Strategies.