



# Improving and Expanding Austin's Housing Supply



*Recommendations by the CRE® Consulting Corps*

APRIL 2022

**CRE®** THE COUNSELORS  
OF REAL ESTATE®



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## Executive Summary

The Counselors of Real Estate® (CRE®) Consulting Corps was asked by the City of Austin to conduct research, provide analysis, and make comments and recommendations pertaining to the current single family and multifamily homeownership and rental housing markets. The CRE® Consulting Corps team visited Austin in early November 2021. This report is the result of that assignment and analysis. This report analyzes the following housing sectors:

- New construction single family and plat development
- Existing owner-occupied single family
- Existing single-family rentals
- New construction multifamily rentals

Our analysis of the Austin housing market focuses on unsubsidized “market-rate” housing with limited consideration of subsidized or public housing or housing provided by charitable or religious organizations.

Our work is based on a review of Austin’s history and current economic situation, collection and analysis of State and local statistics and housing program information, in person and phone interviews with more than 25 community stakeholders, including developers, lenders, property managers, City Council members, and cost and market information on new construction and income and expense information on rental properties.

Austin has had recent success in attracting two new multifamily rental developments. But, there has been relatively little new single-family

construction since 1970, and much of the older single-family stock needs repair or replacement of major building components in order to remain functional, competitive, and attractive to homebuyers.

Our analysis finds Austin needs 25 to 30 new houses, 30 to 40 new multifamily units, and 170 single-family rehabilitations per year, just to replace aggregate depreciation of the existing stock. With current new single-family development of approximately 12 per year and 85 rehabs per year, an additional 15 new single-family houses and 80 rehabs are needed annually. If population and employment grow, even more units will need to be built and renovated.

The Consulting Corps recommends that the City of Austin:

- Implement programs to encourage and incentivize renovations of existing single-family homes.
- Market the community amenities, low costs and existing opportunities to single-family builders developing homes in nearby Minnesota communities to encourage single-family development.
- Track the single-family rental stock more closely and initiate performance and benchmarking to help improve quality and modernize the inventory.
- Engage owners of multiple rental units to address housing quality, and develop a strategy to physically preserve and enhance this segment of the housing stock.
- Consider establishing a formal structured housing planning process including

government, residents, and employers. A dedicated staff hire by the City, such as a Housing Director should be considered to spearhead efforts and establish actionable goals. In the absence of a dedicated staff hire, the community should consider an independent housing commission or committee with a budget for staff or consultants to provide strategic and operational support.

The work detailed in this report will require focus, research, and participation by all community sectors. An active planning effort supported by broad involvement and solid research is likely to be beneficial to all parties and provide the housing options and tenure that is needed within the community.

## Prologue

The current housing situation in Austin is not unlike that of communities around the country, which have seen a dramatic rise in construction costs and an increased need for multifamily and attached housing of higher density and economy. While this common thread runs through the housing market in Austin, there are discrete and unique housing assets, challenges, and opportunities in Austin.

Austin has robust physical, educational, and cultural assets and infrastructure. Streets, utilities, and parks are in excellent condition, education is well-funded, and the community has significant cultural and recreational offerings. These community resources are attractive, and the additional capacity within the community's infrastructure could benefit and support a large number of new housing units.

Austin has had considerable recent success in attracting new market-rate multifamily rental housing, with 82 new units added in 2020 and 91 new units currently under construction at the start of 2022. Austin enjoys an ample supply of existing single-family houses at relatively affordable price points for the community. Austin also has a well-managed and well-funded housing authority that supports the community's supply of rent-restricted and subsidized housing and rental vouchers, which enjoy very high occupancy and demand.

New multifamily rental housing been built in the last few years has been successful, with full occupancy and a wait list. There has been relatively little new single-family construction

since 1970, and much of the older single-family housing stock needs repair or replacement of major building components in order to remain functional, competitive, and attractive to homebuyers.

## Economic and Demographic Trends – Austin

Forecasting future demographic, economic, and employment trends for Austin is challenging and dependent on a concentration of economic and commercial activity. Austin's economy is anchored by Hormel Foods, whose corporate headquarters and largest plant are within Austin city limits. When analyzing the economics of the community, this concentration makes Austin similar to Rochester, which also has one large dominant employer. Of the 25 largest private employers in Minnesota, all but two are located in the Minneapolis/St. Paul area: Hormel and the Mayo Clinic. Traditionally, most small cities with populations of 25,000 to 100,000 do not have this kind of economic concentration and are therefore more tied to regional and national growth trends. Growth in Austin and Rochester are directly tied to food production and medical services, respectively, with less influence from regional economic trends, growth rates, and adjacent economic drivers. These two large employers have national footprints and are influenced by national consumer demands and trends, which impact the local economy in Austin. Both food processing and healthcare are relatively stable sectors of the economy. Therefore, compared with most other jurisdictions in the country of similar size, the Austin and Rochester economies need to be viewed in light of national trends for food production and healthcare, as well as projections for these two specific firms: Hormel and the Mayo Clinic.

Compared with other manufacturing industries, food processing is relatively stable and much less

cyclical than durable goods manufacturing (like dishwashers) or transportation manufacturing (like airplanes). Following the great recession, Hormel's revenues grew about 6% per year between 2011 and 2014. Between 2015 and 2020, gross revenues were extremely stable, only fluctuating up or down by a few percentage points every year. With recent acquisitions, including Planters, it is expected that total company revenues will be significantly higher for 2021 and 2022.

Hormel's annual reports show an expanding national and international footprint. In the past five years they have constructed five new manufacturing plants and added eight more plants through acquisitions. In the previous five years they acquired five more plants. They are expanding their sales into emerging markets, including Brazil and China. Their in-house sales and marketing team is deep, with over a thousand employees. In 2019, they initiated modernization of their information technology systems in conjunction with Oracle. Hormel HR executives indicated that with more acquisitions, greater sales, and new focus on IT and e-commerce, larger numbers of technical and marketing positions will be required. More productive processing plants will also require more engineers and technicians.

The labor force includes those employed and those without jobs who are currently seeking employment; it is a measure of the **short-term supply of labor**. Mower County saw a significant decrease in the labor force following the Great Recession. However, since 2014, the labor force has only grown half as fast as the state average.



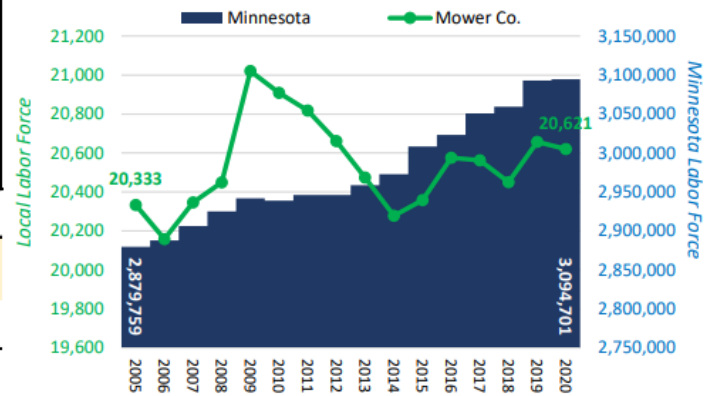
# COUNTY PROFILE Mower Co.

## LABOR FORCE TRENDS

At 4.7%, Mower Co. had a lower unemployment rate than the state in 2020. Due to the pandemic recession Mower Co.'s unemployment rate increased compared to 3.1% in 2019, but was lower than the 6.1% rate posted in 2010. The number of unemployed workers actively seeking work in Mower Co. increased over the past year, and is down compared to 2010.

<b>20,621</b>	available workers
Labor Force change, 2005-2020	288 workers 1.4% increase
<b>4.7%</b>	unemployment rate
6.2% state	
<b>969</b>	unemployed workers

Figure 6. Annual Labor Force Estimates



Source: DEED Local Area Unemployment Statistics

The graph below shows the actual number of jobs, which is the **short-term demand for labor**. The large decline following 2019 represents the short-term impact of the COVID-19 global pandemic. The green line shows the number of jobs by year in Mower County between 2005 and 2019, which shows some volatility over time. The graph indicates a relatively stable number over the long-term, especially considering the size of the county

relative to the state as a whole. We would expect to see a lot of up-and-down movement year by year, solely because of the small population of Mower County, not because of the types of jobs here. Because of the small size of the Austin labor market, small changes to individual employers (up or down) impact the statistics in outsized ways.

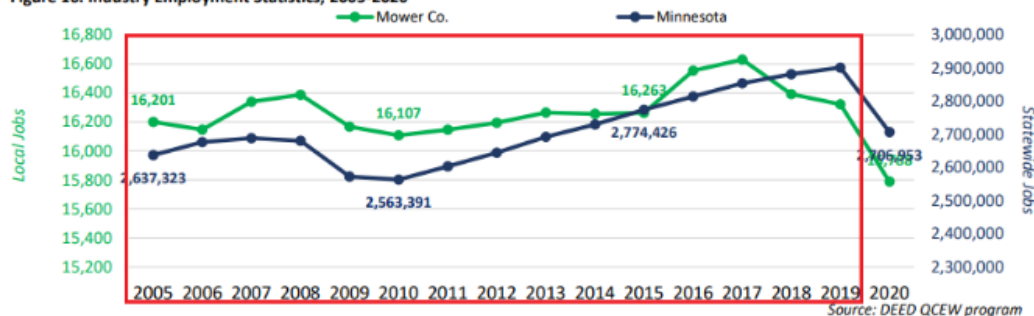
# COUNTY PROFILE Mower Co.

## ECONOMIC CHARACTERISTICS

Due to the pandemic recession, after losing jobs over the past year, Mower Co. had the 25th largest economy of the 87 counties in the state. Mower Co. was the 14th fastest growing in the past year and the 37th fastest growing since 2015. From 2015 to 2020, employers in Mower Co. cut jobs, but lagged the state.

<b>867</b>	business establishments
<b>15,788</b>	jobs
Job change, 2015-2020	-475 jobs -2.9% decline
<b>\$52,254</b>	annual average wage
<b>\$824,983,524</b>	total industry payroll

Figure 16. Industry Employment Statistics, 2005-2020



Source: DEED QCEW program

The exhibit below describes regional employment projections from the Minnesota Department of Employment and Economic Development. The data covers the Southeast Minnesota Planning Region and on average, the largest increase in the number of jobs by industry between 2018 to 2028 is expected in healthcare, at 12.6%. The right-hand portion of the chart indicates the number of jobs by industry that will need to be filled by 2028 due to retirements. Those absolute numbers are very large, not only in healthcare (14,000), but also in sales and marketing (13,000), office and

administrative (16,000), manufacturing and production (10,000) and transportation (7,600). Attracting new staff to replace those retiring will be an important goal for the Austin community over the next decade, and possibly more important than increasing the total number of jobs.

*Attracting new staff to replace those retiring will be an important goal for the Austin community over the next decade.*

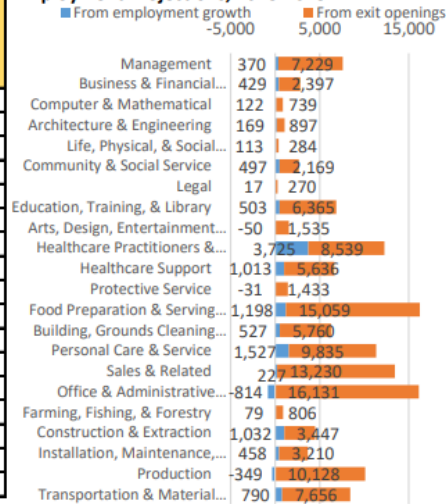
Mower Co. is a part of the Southeast planning region, which is projected to see a 4.6% increase in employment levels over the next decade. In addition to new jobs created, there will be a much larger number of exit openings (see Figure 15).

**Table 14. Regional Industry Employment Projections, 2018-2028**

	Estimated Employment 2018	Projected Employ- ment 2028	Percent Change 2018-2028
<b>Southeast Planning Region</b>			
<b>Total, All Industries</b>	<b>273,458</b>	<b>285,010</b>	<b>4.2%</b>
Natural Resources & Mining	3,253	3,457	6.3%
Utilities	1,204	1,147	-4.7%
Construction	9,146	10,359	13.3%
Manufacturing	38,571	38,221	-0.9%
Wholesale Trade	7,274	7,451	2.4%
Retail Trade	26,683	26,685	0.0%
Transportation & Warehousing	7,905	8,578	8.5%
Information	3,484	3,352	-3.8%
Finance & Insurance, Real Estate	7,657	7,664	0.1%
Professional Services & Mgmt. of Companies	6,816	7,069	3.7%
Administrative & Waste Services	8,526	9,229	8.2%
Educational Services	20,851	21,190	1.6%
Health Care & Social Assistance	64,634	72,782	12.6%
Leisure & Hospitality	23,658	24,140	2.0%
Other Services, Ex. Public Admin	9,197	9,073	-1.3%
Public Administration	14,438	14,635	1.4%

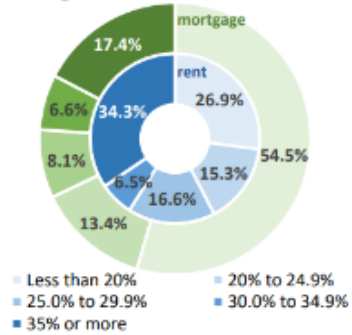
Source: DEED 2018-2028 Employment Outlook

**Figure 15. Regional Occupational Employment Projections, 2018-2028**



<b>Median monthly owner costs, owner-occupied units with a mortgage</b>	<b>\$1,129</b>
state	\$1,580
<b>Percentage of households with a mortgage spending 30% or more of their income on housing costs</b>	<b>24.0%</b>
state	21.8%
<b>Median monthly rent costs</b>	<b>\$716</b>
state	\$977
<b>Percentage of renters spending 30% or more of their household income on rent</b>	<b>40.8%</b>
state	45.1%
<i>Source: 2015-2019 American Community Survey, 5-Year Estimates</i>	

Figure 13. Housing Costs as a Percentage of Income, 2019



On an absolute basis, and as a percentage of income, housing in Mower County is relatively affordable, both for for-sale and rental units. The median monthly costs for the owner of a single-family house in Mower County is \$1,129 per month, or 28% below the statewide median. Median monthly rental costs are \$716 a month, or 27% below the state median. As a percentage of income, the fact that 40.8% of Mower County renters are spending more than 30% of household income on rent is an area for concern. However, that is 9% below the statewide average of 45.1%.

Fannie Mae and Freddie Mac record average house sales prices by county and state. Their long-term data show that house prices statewide grew 215% in the 30-year period between 1990 and 2020 and 95% in the 20-year period between 2000 and 2020. This results in an annual growth of approximately 7% per year and adjusting for inflation, results in an annual growth of approximately 4% per year. By comparison, Mower County saw growth rates about half that, at 121% between 1990 and 2020 and 39% between 2000 and 2020. Adjusting for the cost of living, Mower County effectively saw falling real house prices.

The broad discussion above provides some perspective on future economic, demographic, and housing trends in Austin and Mower County. Given Hormel's national and international corporate footprint, and their continued capital reinvestment, acquisition strategy, and projections for slow but steady growth in their historical markets and product lines, it is likely that their demand for administrative, marketing, engineering and technical staff will increase, possibly faster than in the past 20 years. Furthermore, based on state projections, there will be significant turnover in production, office, and sales jobs between now and 2028 due to retirements.

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*Likely growth in both retirees and new jobs will result in more demand for Austin's relatively fixed supply of housing.*

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Since Austin has relatively affordable rents and house prices, it is likely that a large percentage of employees who retire after working in Austin will stay in Austin. Second, growth anticipated in administrative, marketing, engineering, and technical jobs will increase the demand for new

multifamily and single-family housing, in both ownership and rental tenures. This likely growth in both retirees and new jobs will result in more demand for Austin's relatively fixed supply of housing, leading to increased growth in sales prices and rental rates, significantly higher than those rates experienced over the past 20 years. It should also attract production of new for-rent and for-sale housing.



## Description of the Housing Market

Our analysis of the Austin, Minnesota, housing market mainly focuses on traditional market-rate housing with limited consideration of the market for subsidized housing built with Affordable housing programs. We have not analyzed the current situation for subsidized or public housing, income restricted housing supported by Low Income Housing Tax Credits (LIHTC), or housing provided by charitable or religious organizations.

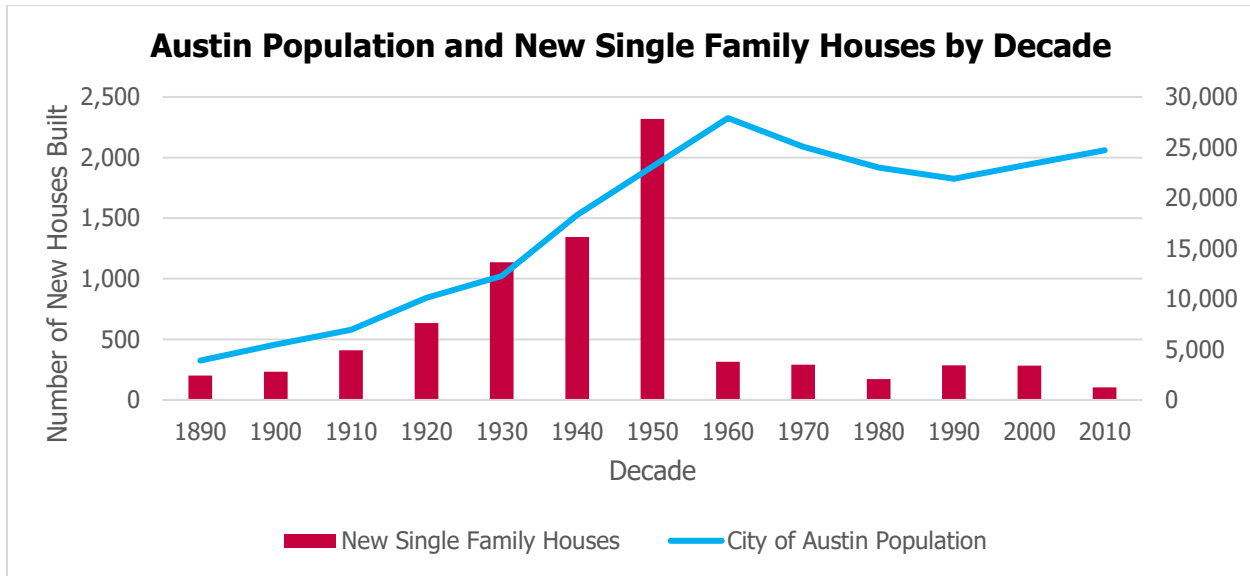
In terms of building type, 77% of all residential housing units within Austin are single-family detached houses, and the remaining units are multifamily residential, including duplexes. Recent additions to the housing stock in Austin have included a multifamily rental project of 82 apartment units completed in 2020 and another multifamily rental project of 91 apartment units which started construction in 2022. In terms of owner occupancy versus rental tenure, 64% of all residential units are owner-occupied and 36% are renter-occupied. Of all the single-family houses in Austin, approximately 80% are owner occupied, and about 20% are rented.

### Housing by Type and Tenure

Physical Type		
Single Family	7,519	77%
Attached/Multifamily	2,226	23%
<b>Total</b>	<b>9,745</b>	
Tenure		
Owner Occupied	6270	64%
Rented	3475	36%
<b>Total</b>	<b>9,745</b>	
Single Family Units Only		
Owner Occupied	6024	80%
Rented	1,506	20%
<b>Total</b>	<b>7,530</b>	

*2017 Maxfield Research*

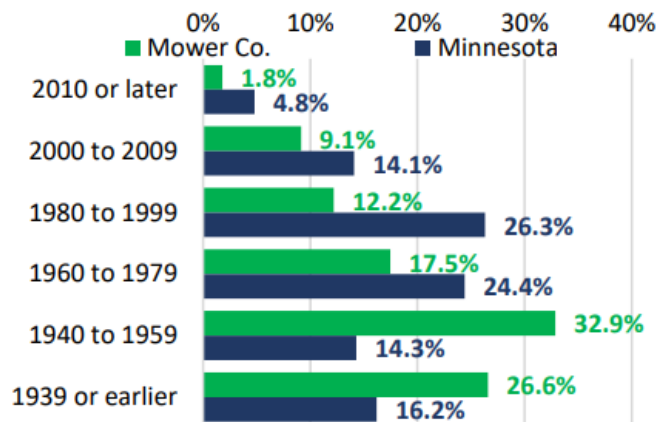
Real estate markets are unlike traditional financial markets, since buildings last much longer than one or two economic cycles. Therefore, it is important to look back in history for insights into the current supply and demand for housing. Austin saw strong population growth every decade from 1890 to 1960. Between 1960 and 1990, the population dropped by more than 20%. Since 1990, gradual growth of about 0.5% per year has brought the population to 26,000. Total employment in Austin has been very stable over the past 20 years, fluctuating between 19,000 and 20,000.



The chart above illustrates Austin's population in each of the decades since 1890 and overlays this with the number of new single-family houses constructed each decade. As population peaked in the 1960s, new single-family housing starts fell to only 300 houses that decade, down from 2,300 in the prior decade. Prior to the disruption caused by the Great Recession, new single-family starts were consistent at about 300 per decade. Following the Great Recession, there have only been about 10 new single-family houses constructed every year.

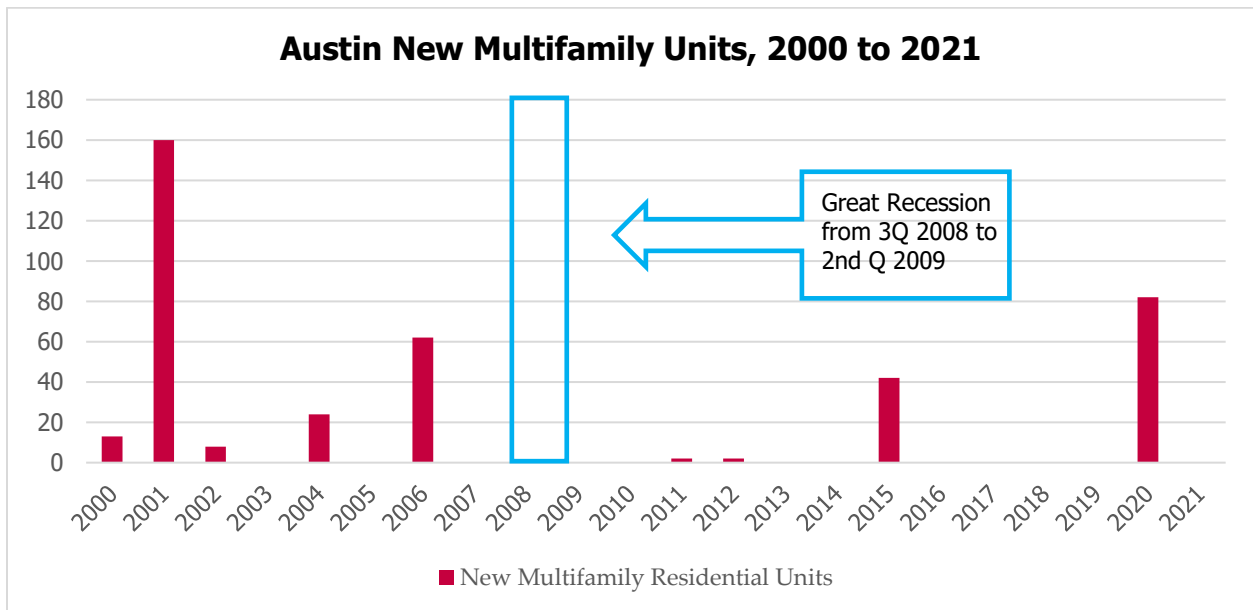
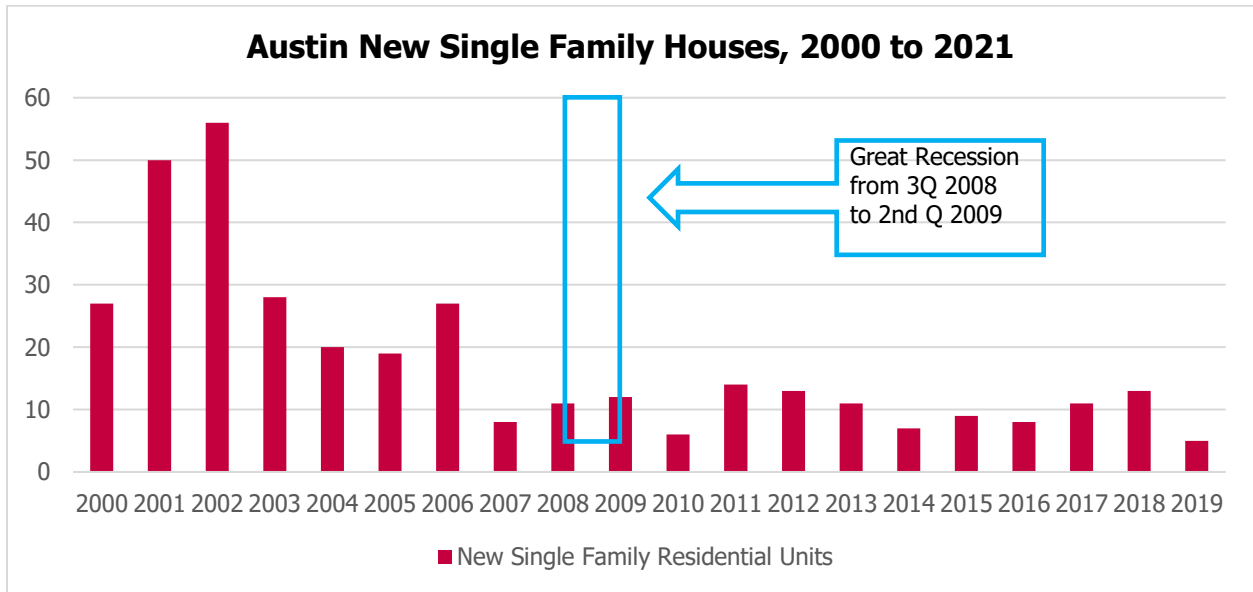
Mower County exhibits a very different pattern compared to the state as a whole. Below is a graph comparing the age of houses in Mower County relative to the state as a whole. The state as a whole saw housing construction peak in the two decades from 1980 to 1999. By comparison, Mower County saw peak development between 1940 and 1959.

**Figure 12. Year Structure Built, 2019**



The following two exhibits show the number of new single-family houses per year and new multifamily units per year from 2000 to 2021. After the Great Recession, from 2010 onward, new single-family housing starts averaged about 10 per year, or about 100 per decade. That rate of new supply is one-third of the rate seen between

1960 and 2000. The majority of these 10 houses per year have been custom built for a buyer who signs a purchase contract prior to the start of construction (often called custom homes), not houses speculatively developed by the builder for resale.



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*Houses constructed prior to 1980 represent 90% of all single-family houses....Therefore, any strategies intended to improve the...housing stock in Austin needs to explicitly consider this large existing supply of older single-family residences.*

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The chart “Austin Population and New Single Family Houses by Decade” on **page 12** shows single-family houses by age. Together, these houses represent 77% of all residential units in Austin. This shows that the average single-family house in Austin is 70 to 80 years old. Thus, the average residential unit in Austin is fairly old and subject to a fair amount of physical deterioration and functional inefficiencies. Houses constructed prior to 1980 represent 90% of all single-family houses and 72% of all residential units, inclusive of single-family and multifamily units. Therefore, any strategies intended to improve the quality and quantity of the housing stock in Austin needs to explicitly consider this large existing supply of older single-family residences.

Given the prominence of the existing stock of single-family housing in the Austin housing supply (77% of all units), an aggregate depreciation analysis is an important tool in understanding the impact of an aging housing stock on the overall market. The analysis looks at the number and age of the existing single-family housing stock in order to estimate the annual loss in value of the existing housing stock due to physical deterioration and older designs and

materials. This baseline analysis assumes no growth in employment or population in order to simplify the model. The result shows that Austin would need 27 new houses built each year and 168 rehabilitations of older houses to compensate for the annual deterioration of the housing stock. About 12 new houses per year have been developed or are under construction in Austin for 2021 and 2022. Our analysis indicates that 15 additional new houses per year are needed, above the current baseline of 12 per year, plus 80 to 90 single-family residential rehabilitation projects averaging \$30,000, assuming an existing baseline of 80 rehabs per year. Additional supply above these baselines will be needed if the City's population grows.

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*Austin would need 27 new houses built each year and 168 rehabilitations of older houses to compensate for annual deterioration of the housing stock.*

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If Austin sees a sharp increase in the total number of jobs, regional averages would support about 4.5 to 6 new housing units for every 10 new jobs, beyond the baseline replacement housing units estimated above.

Austin is developing about 12 new homes per year for 2021 and 2022, a level that is short of our estimated demand by 15 homes. Additionally, the city of Austin has about half the number of single family residential rehabilitation projects needed to meet demand.



**Aggregate Depreciation Analysis: Single Family Residential Housing Market**

Inputs in yellow						
<b>Single Family Residential Market, Austin</b>						
<b>Aggregate Depreciation Analysis</b>						
Total Single Family Residential Units in City					7,892	
Single Family Replacement Cost New, Pre 1990 Houses					\$270,000	
Single Family Replacement Cost New, Post 1990 Houses					\$340,000	
Lower value limit for standing houses					\$95,000	
Average Lot Value					\$35,000	
Straight Line Single Family Depreciation					55	Years
Cost of Single Family Residential Rehab					\$30,000	
Year Built	% of total Houses	Aggregate Replacement Cost New	Average Assessed Value	Assessed Value Less Land	Depreciated Aggregate Value	% of Replacement Cost New Remaining
<1930's	21%	\$440,640,000	\$87,431	\$52,431	\$85,567,479	19%
1930's	14%	\$306,990,000	\$89,698	\$54,698	\$62,191,777	20%
1940's	17%	\$363,150,000	\$99,387	\$64,387	\$86,600,582	24%
1950's	29%	\$625,860,000	\$139,275	\$104,275	\$241,709,421	39%
1960's	4%	\$84,780,000	\$189,276	\$154,276	\$48,442,563	57%
1970's	4%	\$78,570,000	\$200,767	\$165,767	\$48,238,161	61%
1980's	2%	\$46,710,000	\$243,058	\$208,058	\$35,993,965	77%
1990's	4%	\$77,490,000	\$278,955	\$243,955	\$70,015,068	90%
2000's	4%	\$76,140,000	\$276,350	\$241,350	\$68,060,736	89%
2010's	1%	\$28,080,000	\$289,455	\$254,455	\$26,463,296	94%
2020's	0.1%	\$3,740,000	\$400,000	\$365,000	\$4,015,000	107%
		\$2,132,150,000			\$777,298,047	
Aggregate Current Depreciated SFR Value						36%
Annual Depreciation, per year, straight line						\$14,132,692
Loss of aggregate Single Family Residential value per year						
New Single Family Residential Replacement Cost						\$340,000
Current addition to supply						\$4,080,000
Assuming 12 Single Family Houses per year based on past 5 years						
Current Shortfall per year						\$10,052,692
Shortfall of new Single Family Houses per year (over baseline), assuming no rehabs						30
Major Rehab						\$30,000
Rehabs per year if 50% of Depreciation is Rehab						168
Additional Single Family's per yr if 50% of Depreciation is Rehab						15
Total Needed New Single Family's and Rehabs						182
Rehab \$ Shortfall						\$5,026,346
New Single Family Residential \$ Shortfall						\$5,026,346
% of existing Single Family Houses Rehabbed per year						2.1%
143	Total # of Single Family Residentials divided by Straight Line Depreciation Estimate					
	Biased downward since so many of the houses are older					
182	Model Output					
	Units per Year of reinvestment, assuming 50% of annual new supply are rehabs and 50% is new construction					

Source: County Assessor. Some figures differ from Census data used elsewhere in this report. 7,892 includes some houses that were not built in 2017. Inputs are in yellow.

## New Construction Single-Family Residential

### Finished Single-Family Lots

The inventory of new single-family house lots in Austin has remained relatively low for years. The absorption of house lots by house builders has also been slow during this time. In the past 18 months, there has been an increase in demand for house lots, evidenced by recent lot absorption, new house starts, and increased lot pricing.

Two subdivisions delivered the majority of new lots in the past 15 years: Meadows in the southwest part of Austin and Nature Ridge in the northeast area. Both are within city limits, and adjacent land is available for future expansion.

Meadows, located along 29<sup>th</sup> Street SW, delivered 42 lots in 2008. There remain 7 vacant finished lots (1 single family lot and 6 townhome lots), and these remain under the ownership of the original developer. The developer has additional adjacent land under site control to the west and can bring about 173 lots to market as demand warrants, but annexation will be required.

Nature Ridge delivered its first lots in 2007, with 47 lots in Phase 1. Phase 2 was completed in 2021 with 13 lots. Phase 3, with another 26 lots, is currently under way and planned for completion in 2022. At the completion of Phase 3, this development will total 86 single family house lots. This subdivision is in northwest Austin along 13<sup>th</sup> and 14<sup>th</sup> Avenue NE. The future Phase 4 extends 14<sup>th</sup> Avenue NE to the curve in 18<sup>th</sup> Street NE and would provide an additional 12 to 14 house lots. Additional expansion will require annexation.

### Nature Ridge Phasing

Nature Ridge Phase and Completion Date	Total # of Platted Lots	# of Lots Remaining*
<b>Phase 1 – 2007</b>	47	1
<b>Phase 2 – 2021</b>	13	3
<b>Phase 3 – Under construction 2022</b>	26	10
<b>Phase 4 - TBD</b>	12-14	NA
<i>* Counts and lot details provided by the developer</i>		

The two subdivisions discussed above have 21 remaining lots for future homes, 6 of which are townhouse lots. Given the very long absorption of the first phases of Meadows and Nature Ridge and the much faster absorption of Phases 2 and 3 of Nature Ridge in recent years, the Austin market looks to be under supplied in finished lots for the next several years. There are other home sites available outside the city limits; however, these tend to be on acreage lots, lack sanitary sewer, and are not directly comparable.

### Lot pricing

Single-family house lot pricing depends on location, the size of the lot, as well as topography. Recently delivered lots in Nature Ridge show pricing from \$42,000 for the smallest to \$62,000 for the larger, cul-de-sac lots. This is an increase from pricing of \$35,000 per lot a few years ago. As of the date of this report, the remaining single-family house lot within the Meadows development has

an asking price of \$54,900. The six townhome lots there are priced at \$37,900 each.

## Estimated cost to deliver new finished lots

Several land developers provided information and analysis for the preparation of this report regarding the feasibility and costs to develop finished lots in the Austin area. The following are estimates based on conversations and data acquired from the market. For 2022, all-in costs for delivering single-family house lots are approximately \$45,000 to \$50,000 per lot. This includes hard and soft costs, a contingency allowance, and raw land costs.

### Hard Costs

Hard costs for these subdivisions include: excavation, erosion control, storm water drainage and retention/filtration, public street improvements, driveways, sidewalk/curb/gutter, lighting, utility lines for water, sanitary sewer, gas, and electric, as well as fees to hook up to the water, gas, and electric systems. Additional costs include new pipes and lines for water, gas, electric (Austin Utilities) and sanitary sewer (City of Austin), plus hook up charges of approximately \$11,000. The remaining hard costs noted above are estimated at \$20,000 per lot. A contingency allowance of 5% of hard costs is assumed.

### Soft Costs and Miscellaneous Fees

Soft costs include city permit fees bonding/insurance for completion, property taxes due prior to the sale of the finished lots (beyond Plat Law exemptions), engineering, developer's

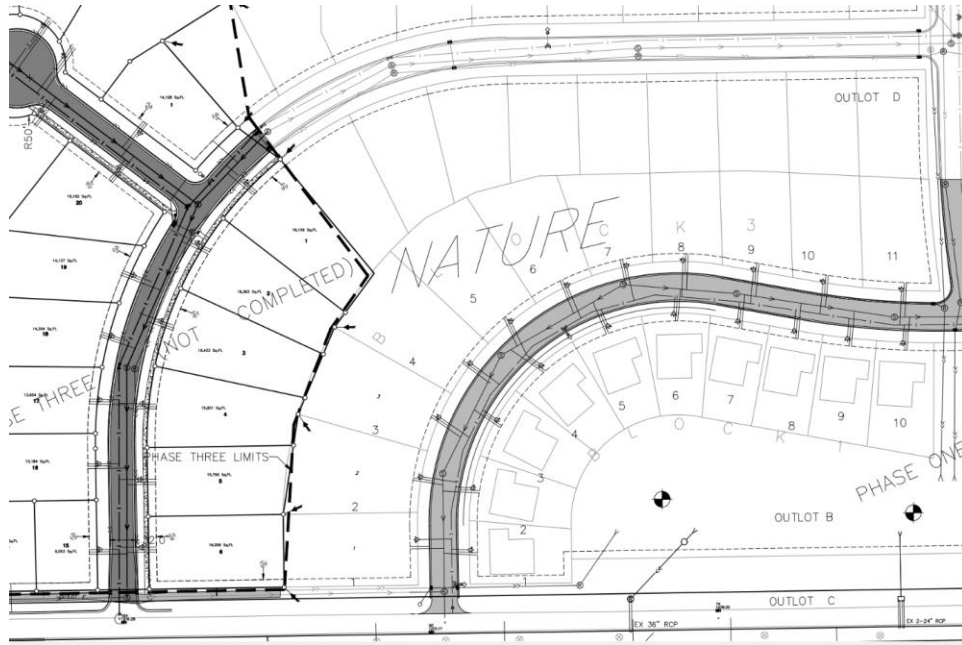
overhead costs, and a modest developer profit. Soft costs total about \$5,600 per lot. The costs of loan fees, due diligence inspections and reports for the lender, and interest during the term of construction and lot sellout add another \$3,200 per lot.

### Raw Land Costs

Raw land acquisition costs are challenging to estimate, as there have been few, if any, recent sales of land tracts. This analysis has assumed a raw land cost of \$10,000 per acre. Density for the existing developments range from 2.1 lots per acre to 2.7 lots per acre. Retention ponds and storm water management are often required as part of the subdivision process and can result in lower density. This analysis has assumed 2.2 finished lots per acre, which indicates raw land acquisition costs of about \$4,100 per lot.

### Summary of Single-Family Lot Development Costs

Hard Costs includes		Per Lot
<b>Lot Construction</b>	\$20,000	
<b>Water System, Storm and Sanitary System</b>	\$11,200	
<b>Contingency (5%)</b>	\$1,400	
<b>Total Hard Costs</b>		\$32,600
<b>Soft Costs + Loan Fees + Interest</b>		\$8,800
<b>Raw Land Costs</b>		\$4,100
<b>Total Development Cost</b>		<b>\$46,500</b>



## Plats – Conclusions

Plats in Austin are relatively low cost to build out compared to other jurisdictions in the region and receive good public infrastructure support, without high permit or utility hookup fees. The vast majority of the costs for new plats are fundamental hard costs, soft costs, land acquisition costs, and financing/holding costs. Aside from direct subsidy, it would be difficult for the City administration to reduce the total cost of new lot development and incentivize increased supply. In addition, there is ample land adjacent to city limits which can be transitioned to residential densities with straightforward utility and road extensions.

## New Construction Single-Family Houses

As discussed above, the absorption of finished single-family lots and construction of new houses in Austin was very slow prior to 2020. Most of the new houses constructed were not developed speculatively by a house builder and then placed

on the market when complete (termed “spec houses”). Instead, most of the new houses were constructed for a specific buyer based upon preapproved plans (termed “custom houses”).

Therefore, in order to gauge new construction demand, data from outside Austin must be analyzed. In the past five years, there has been new single-family product delivered in Rochester and Owatonna. Bigelow Homes, in Rochester, has housing developments in 10 communities from Kasson to Pine Island. They complete 30 to 40 homes per year and are the 13th largest homebuilder in the state. Information provided by Mike Paradise, President of Bigelow Homes, gave excellent insight into the home model types that can be delivered in the \$200,000 to \$400,000 price range, provided there is an inventory of affordable lots. Bigelow and Lennon Construction (affiliated with Bigelow Homes) has successfully completed a number of homes in the Nature Ridge plat. They offer simple floor plan iterations of ranch/rambler, two story, split level, and paired



("twins") as well as fourplex units.

<http://www.bigelowhomes.net/lots.html>

Ramblers or "California ranch" style houses are L shaped or rectangular and use a minimal number of interior walls to maximize the square footage of living space. The two-car garage is placed at the front of the house to make the most efficient footprint for a house on a smaller lot. Two- or three-bedroom, two full bath houses with full unfinished basements and ranging in size from 1,200 square feet to 1,500 square feet can be priced in the \$250,000 to \$300,000 range, or about \$200 per square foot, provided there is a subdivision of 10 lots +/- to allow for some economies of scale.



Split level homes with two full stories of living space accommodate growing family sizes with footprints of 1,000 square feet above ground, with 2,000 square feet total inclusive of the daylight basement. In Zumbrota, Minnesota, a community with population 3,500 approximately 30 miles north of Austin, Bigelow offers a house with an upper finished level of 982 square feet, two bedrooms, one bath and a 2-car garage for \$200,000. A finished lower level with two more bedrooms and one additional bath for a finished total of 1,944 square feet is priced at \$265,000.



Two-story homes with 1,400 square feet, 3 bedrooms, 3 baths, and 2-car garages are priced at \$300,000 in the same subdivision in Zumbrota, with a concrete slab-on-grade foundation. Full or partially unfinished basements add about \$50,000 to the pricing.



Townhomes provide the smallest building footprint and lowest cost. In Rochester, Bigelow Homes has a 12-unit townhouse project with garages tucked under and floor plans averaging 1,400 to 1,700 square feet. These sell for \$250,000 to \$300,000. Lower density buildings with three or four units in one building (triplex or fourplex) sell for \$350,000 to \$365,000 per unit.



In Kasson, a very successful fourplex model in the Prairie Willows subdivision offers two-story units with 1,600 interior square feet and 1½-story units on either end with 1,350 interior square feet. All units have 2-car garages and typically are slab-on-grade foundations. Pricing ranges from \$330,000 to \$350,000 per unit



The 5-year Austin tax exemption program provides a significant benefit for homeowners who buy new-construction. The exemptions provide a subsidy of approximately \$20,000 per single family house and \$8,5000 per multifamily unit on a present value basis. This is a substantial benefit for the 10 or 12 households a year who are acquiring new-construction houses; however, the program has not resulted in a boon of new houses. This indicates that initial cost is probably not the only factor limiting the number of new housing starts.

#### Tax Abatements Issued and Built and Estimated Benefits/Costs

\$340,000 Estimated Cost of House (excluding land)

\$5,032 Annual \$/SFR Benefit, assuming tax rate of 1.48%

Single Family			Multi Family	
	Total \$'s Over 5 Years	# of Units	Total \$	# of Units
2017	\$251,600	10		
2018	\$251,600	10	\$968,750	91
2019	\$352,240	14		
2020	\$75,480	3		
2021	\$301,920	12		
		49		91
Gross	\$1,232,840	\$25,160	\$968,750	\$10,646
Present Value Analysis @ Year 1		\$20,190		\$8,543

The existing five-year tax abatement program for the homeowner is very attractive, but often financial incentives are more effective when paired with strong public relations efforts and outreach.

In 2021 and moving into 2022, Austin appears to be on target to produce more new single-family houses than the average of 10 per year from 2015 through 2020. Nearby cities have much larger development pipelines generating increased supply. The Rochester Area Builders Association lists 73 residential building firms in their public directory and offers home shows, remodel tours, education classes, and social events which benefit charities. <https://www.rochesterareabuilders.com/>

We believe Austin should be able to capture some of this new supply, particularly given the projections for stronger population growth. It is practical and realistic to assume that active homebuilders in Rochester and other nearby communities can efficiently expand to Austin. We recommend the City and the Chamber prepare a marketing package with a compelling solicitation to the homebuilding community in southern Minnesota.

A focused effort to attract home-builders should be top priority. Austin should engage a marketing professional or firm to assemble an offering package of available lots and recent market data to solicit homebuilders.

The motivation to build in Austin could be further enhanced with labor and trades solutions. Riverland Community College has carpentry, construction management, electrician, and

supervisory management programs that produce skilled construction labor.

There are currently supply-chain backlogs that are roiling the new home market, upending efforts to accelerate construction, and limiting homebuyer choices throughout the country. It is expected that this situation will eventually become more balanced over the next 9 to 18 months.

Increased new-construction housing production is possible with an organized approach to promotion, engagement, and procurement. Multi-family construction and development has recently found opportunities in Austin and so can single family homebuilding.

## Existing Single-Family Residential Owner-Occupant Market

Austin's existing single-family residential housing stock is an important asset. Neighborhoods with these older houses make up a large portion of Austin. This existing housing stock supports and leverages public street, utility, and parks infrastructure and provides a very affordable housing option for long-term residents.

A high percentage of these houses is in need of repair, replacements, and upgrades to longer-lived building components such as roofs, gutters, windows, foundations, porches/stairs, drainage, and HVAC systems. Rehabbing these older houses will provide the biggest impact on a dollar per unit basis for improvement of Austin's housing stock.

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*Rehabbing these older houses will provide the biggest impact on a dollar per unit basis for improvement of Austin's housing stock.*

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Austin should see approximately 168 single-family rehabilitations per year (plus 27 new construction houses), in order to make up for annual deterioration of the existing single-family housing stock, **assuming no growth in population or employment**. This is a rehab rate of approximately 2% per year of the total number of existing houses. Expectations of population growth will increase the need for housing rehabilitations.

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*The Austin community should consider programs to promote and incentivize the rehabilitation of existing aging single-family houses.*

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The Austin community should consider programs to promote and incentivize the rehabilitation of existing aging single-family houses. These programs could take many forms and range from simple promotion and public messaging to comprehensive technical assistance and financial support. Initially, promotion and outreach could celebrate older single-family houses and rehabs and make them “trendy” and a more attractive housing alternative. Examples of promotional opportunities include:

- A monthly article in the Austin Herald on a recent rehab
- Home tours of rehabs
- A tool library (especially include a thermal imaging camera for detecting air infiltration and insulation levels)
- A speaker series or other workshops on DIY home improvements.
- Trade shows or fairs for contractors and designers
- Garden of the year competition
- Naming, marketing, and promotion of individual neighborhoods, combined with the formation of neighborhood improvement groups.

A more intensive program could involve technical assistance on rehabs to homeowners, such as that provided by Cleveland's Heritage Home



Program. Such a program could include site visits and technical assistance to discuss rehab plans with homeowners, recommendations on materials, methods, and modernization or energy efficiency improvements, helping homeowners review contractor bids and estimates, and color consults for exterior painting. A number of experts in the single-family residential rehabilitation field stress the importance of advisory services and technical assistance. Many households do not know how to evaluate a rehab project, get bids, and supervise contractors. At times, navigating this process can be a larger impediment than obtaining financing for the remodel.

Financial subsidies and incentives should also be considered. Austin already has a five-year tax exemption for new residential construction. Tax exemptions could be considered for the increase in assessed value resulting from a remodel. Another approach would be upfront incentives which help reduce the out-of-pocket costs of renovations. Denison, Texas, had a successful program which provided a number of incentives for rehabilitations, including waiving permit fees, providing discounted demolition dumpsters, repairing or replacing sidewalks at no cost following completion of the rehabilitation, a partial sales tax refund for building materials purchased within the city, and a one-time cash rebate set as a percentage of the increase in assessed value due to the remodel. Denison's upfront incentives for rehabilitations were not large monetary amounts, but their building department confirmed that they had a significant impact.

Many jurisdictions, including Austin, support loan programs for house rehabilitations and

repairs. There are a number of existing local Austin HRA and State Minnesota Housing Finance Agency rehabilitation loan programs. Many of these are currently restricted to households below specific income levels. One of these rehabilitation loan programs was started by the Austin HRA one year ago with a grant from the Hormel Foundation. This rehab program offers \$20,000 to \$30,000 loans at a 2% interest rate via a simple application and low loan fees and application costs. The HRA completed 15 loans averaging \$20,000 in the first year of operation. They used up all of the funds allotted to them by the foundation and then added HRA funding to meet demand.

The community could consider a similar streamlined rehab loan program, without income limits and at market interest rates, possibly utilizing a local lender for intake, administration, and loan servicing.

In addition to rehab loan programs, it is important to recognize the current financial support provided to the existing single-family owner occupant market. Both the City and the State have down payment loan programs which benefit this market. The largest program by benefit and participants is the Minnesota Housing Finance Agency Down payment loan program, which provides up to \$11,000 interest-free, with deferred payments, and can be forgiven if the house stays under the same ownership for 15 years. Up to \$17,000 can be borrowed if paid back with monthly payments, rather than deferred payments. The price limit for the house acquisition is \$311,900 and the annual income limits are \$120,600. (See Appendix I for more information.)

Austin has its own city-managed and financed down payment assistance program targeting households with lower incomes or lower credit ratings. The maximum house price is \$175,000.

There are about 50 new single-family residential down payment loans provided by this program per year with an average loan amount of \$3,800.





## REHABS



*New double pane windows - HRA rehab loan*



*Garage rehab - HRA loan*

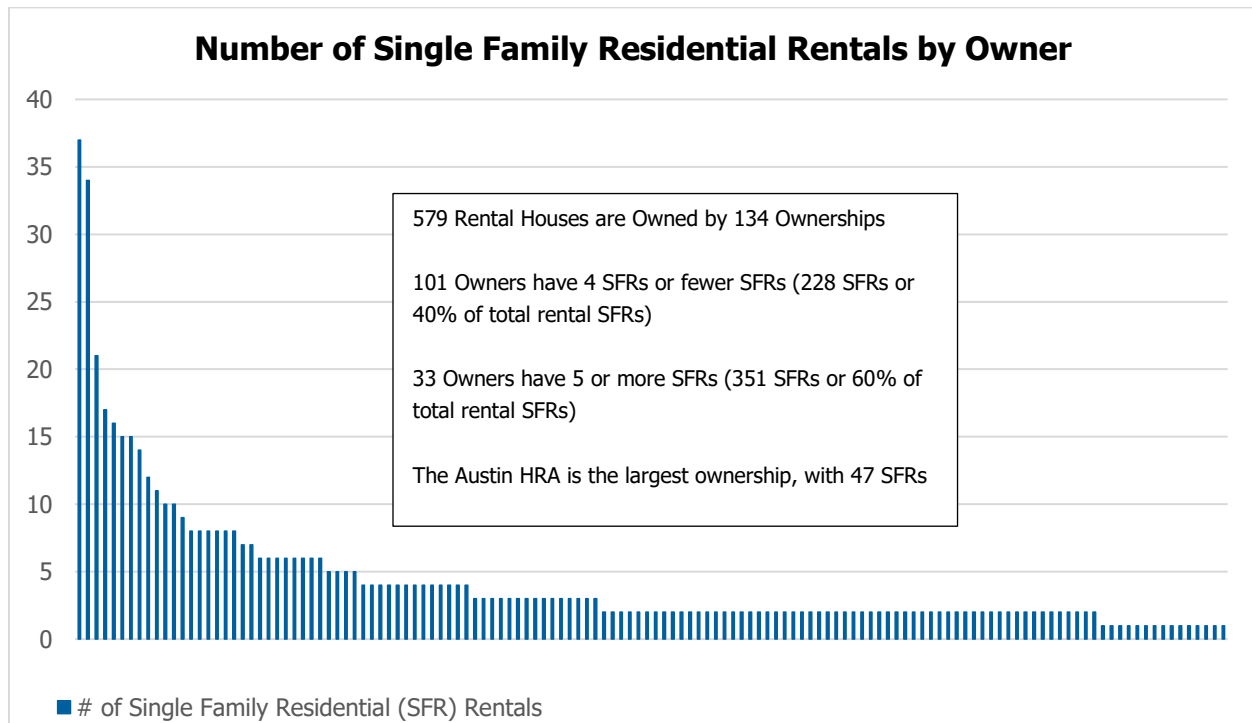
## Single-Family Rental Market

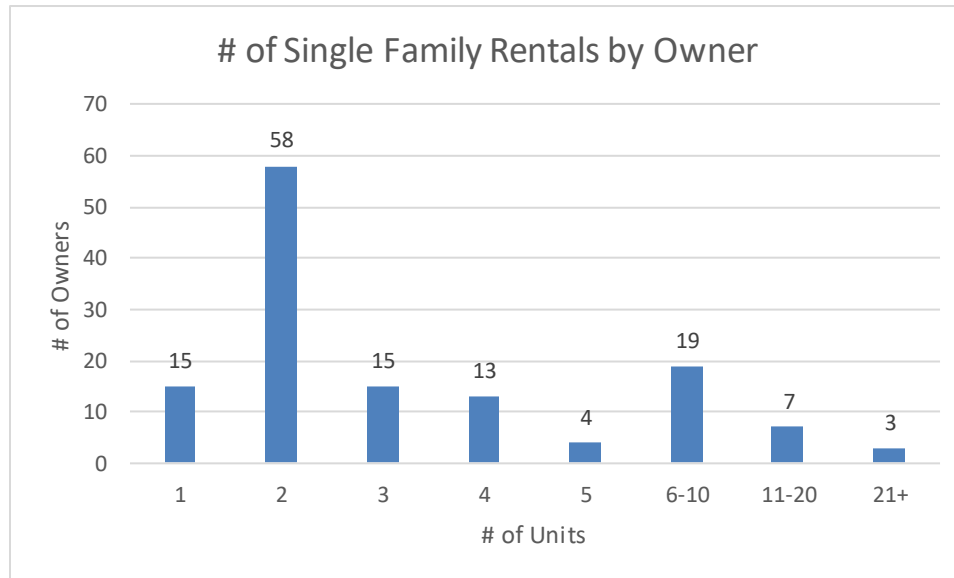
In Austin, 35% of all residential units are rented, and single-family houses account for 43% of this rental stock, with the remaining 57% being multifamily attached housing. Approximately 20% of all single-family houses in Austin are rented, not owner-occupied. Therefore, single-family houses which are rented out are a large part of the total rental market inventory in Austin, thus policies and strategies directly related to these types of units are warranted. Furthermore, the advanced age of Austin's single-family housing stock means that these rental units are characterized by significant physical deterioration and functional obsolescence.

A large percentage of single-family houses became rentals in Austin because rental demand exceeded demand by owner occupants, and there was little new supply of multifamily units.

Increased rental occupancy of single-family houses is also a national trend, especially combined with concentrated ownership. In 2010, many houses which had been repossessed by banks were sold in bulk to large investors and private equity firms. Since then, single-family rentals have continued to grow, as has the concentration of their ownership among large investors.

Austin may well see this segment continue to grow in the future. Currently, it is already characterized by relatively few owners holding a large number of houses. The City recently began a rental registration and inspection program. Currently 3,300 units are registered, of which 580 are single-family houses. 60% of that registered total number of units is concentrated in 33 ownerships. By comparison, 101 owners hold the remaining 40% of the registered single-family rental units.





Other than the rental registration and inspection program, there is limited public involvement or engagement with this part of the housing stock. Unlike the owner occupant market, there are no programs providing subsidized down payment loans or rehabilitation loans. The single-family rental market is a functional and efficient part of the housing market and requires no subsidy. However, it has shown tendencies for weak or aggressive management, poor maintenance, and high energy costs borne by tenants. Furthermore, limiting the deterioration and improving the livability of these older houses is in the interests of the broader community.

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*Limiting the deterioration and improving the livability of...older houses is in the interests of the broader community.*

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We recommend the City track the single-family rental stock more closely and initiate performance and benchmarking to help improve quality and modernize the inventory.

We also recommend outreach to those owners of multiple rental units in order to discuss common issues of concern and develop plans to physically preserve this segment of the housing stock.

Following are additional specific suggestions.

- Create a periodic audit method for identifying non-registered single-family rentals.
- Create an audit method for ensuring the quality and completeness of the inspections.
- Continue measuring and reporting the inspection work flow, such as the number of inspections and repairs completed following failed inspections.
- Survey renters and owner occupants for feedback and performance results.
- Measure revenue recovery and the total program costs versus registration fees.
- Consider initiating energy audits or standards. Energy efficiency is a problem with rentals, as landlords have less incentive to make energy efficiency repairs and improvements since tenants

often pay utility bills directly to the provider.

- Consider incentivizing registration of rental houses by owners by limiting evictions.
- Consider providing public access to rental code violation information. By providing tenants and the public with readily available registration status and code violation information about specific properties, localities can incentivize rental owners to comply with registration requirements and give the community tools for enforcement as well as critical information.

## New Construction Multifamily Residential

The City of Austin has an existing inventory of 2,200 apartment units with the HRA being the largest single apartment owner. The City appears to be making good progress on adding to the multifamily rental supply. In 2019, 128 income-restricted units were delivered with completion of the Fox Pointe townhouses, and in 2020, 82 market rate units were completed at Flats on 21. In 2022, Stencil Group started site work and construction on 91 market-rate units at Mill Pond (former YMCA site). Both Fox Pointe and Flats on 21 leased up immediately and both currently have waiting lists, indicators of demand. The highest rent level is \$1,300 per month for a 1,096 square foot two-bedroom apartment at Flats on 21.

Mill Pond will be completed in early 2023 and has pro-forma rents ranging from \$985 for a 461 square foot studio to \$1,480 for a 988 square foot two-bedroom apartment. Average monthly rent for all units is \$1,254 per unit. Without the City's tax increment financing, the average rental rate would have to be at least \$55 per month or \$660 per year higher. Tax increment financing is only available for redevelopment of blighted sites.



Construction costs have risen dramatically in the last few years and are expected to continue to increase. The development cost of Mill Pond was approximately \$181,000 per unit (inclusive of structured parking at \$15,000 per space for 66 spaces, which adds \$1,000,000 to project costs). Flats on 21, completed four years before Mill Pond, had a development cost of approximately \$110,000 per unit, but was a simpler design and lacked structured under-building parking. Rent levels in the market are unable to keep up with cost increases.

Private developers with a reputation for quality multifamily communities, such as Stencil Group, should be supported by the City, just as Flats on 21 and Mill Pond have been successfully entitled for market delivery. The community should focus on maintaining a pipeline of new multifamily communities offering a wide range of choices, including three-bedroom apartments for larger households. It seems reasonable to position one new market rate rental development every other year (40 units per year +/-) based on a carefully researched inventory of readily developable sites. Policy should be put in place to meet those goals.

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*The community should focus on maintaining a pipeline of new multi-family communities offering a wide range of choices.*

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Austin has good momentum and should promote this success to a targeted group of multifamily developers. Good data on market rents and vacancies is also important for engaging developers. The City should start a rent and vacancy study on these newer projects in order to create a long-term dataset and to help determine how much additional supply is warranted.

## Housing and the Local Economy

Austin is well positioned with the Hormel headquarters and plant and the Mayo Health System Clinic, as well as the main Mayo Clinic headquartered just 35 miles away. These two employers, along with Quality Pork Producers, comprise 40% of total employment in Austin. Together they are major influencers on the housing market. Austin's unemployment rate of 1.9% and a significant number of unfilled positions reflects a robust economy.

Hormel's HR department told us recruitment for their corporate headquarters averages about 120 relocation placements annually. In 2021, only 40 of the 120 relocations purchased houses. The average acquisition price was \$371,000. The remaining 80 relocations rented houses or apartments, often because their work in Austin lasts two to three years before they are rotated out to other plants of offices and two to three years is

too short of a timeframe to recapture the transaction costs of buying a house. Hormel reported to us significant recruiting issues due to a shortage of quality housing options and acknowledged that relocation prospects are often directed to Rochester for more housing variety, particularly for family-sized homes in the \$300,000 - \$500,000 price range. As Hormel grows, they will need more marketing professionals, software developers, and technical workers and will need to compete nationally and globally for a wide spectrum of skill sets.

Mayo Health System has 850-900 employees living and working in Austin, and this number does not include employees living in Austin or Mower County who commute to clinics in Albert Lea and Rochester. Mayo Clinic and Health System has a total of 73,000 employees and has a national reputation. Some of the Rochester Mayo employees work in Austin, but reside in Rochester.

The State of Minnesota has a well-established Employer Assisted Housing Program run by the Greater Minnesota Housing Fund which leverages employer investments in housing. These programs include helping employees access existing housing with down payment or rental assistance and helping employers invest through direct housing development, loan guarantees, and corporate master leases. Examples of programs are available from the Greater Minnesota Housing Fund.

Using these Greater Minnesota Housing Fund programs, numerous Minnesota employers – including Mayo Clinic and Hormel Foods - have invested in local housing solutions. In Rochester,



100 local businesses led by the Mayo Clinic raised \$13 million to build 500 single family homes and 375 affordable rental units almost 20 years ago, and this anchored a significant inventory for their workforce. Technical assistance was provided by the Greater Minnesota Housing Fund through the Employer Assisted Housing Programs.

Other employers such as Schwan Foods, headquartered in Marshall, Minnesota, have addressed housing by investing in the development and providing down payment and closing cost assistance. Hormel Foundation has been active with donations in projects like Murphy's Creek Townhomes for buyers that meet affordable housing income guidelines. Federal income tax credits are available to Hormel and other corporations for developing rental housing that assists income qualified renters.

Direct investment and longer-term ownership by corporations in multifamily and single-family rental housing is also a national trend to fill gaps in workforce housing. For instance, Whirlpool Corporation secured several state incentives to support a \$22 million 80 unit housing development near their headquarters in Benton Harbor, Michigan. As part of the same incentive package, the project includes a \$60 million 173,000 square foot Global Laundry and Dishwasher Technical Center for 400 engineers and research and development professionals. Harbor Shores Community Redevelopment, LLC was the non-profit development entity sponsored by Whirlpool for the land assembly and construction.

The role of housing as part of economic development could be addressed with a structured planning process including employers,

government, and the community. Austin provides a fairly low-cost market for new single-family and multifamily construction. An active planning effort supported by broad involvement and solid research is likely to be beneficial to all parties and provide the housing options and tenure that is needed within the community.

## Conclusions and Recommendations

Across the country, communities are experiencing tight housing markets with insufficient supply of housing options. While Austin is not unique in its recent low housing production, other Minnesota communities, some within 30-50 miles of Austin, are attracting greater attention from developers and builders and have seen additions to supply. We believe there is an opportunity to promote Austin to these developers and capture some of that activity in Austin. Especially as utility hookup fees, plat costs, and other development costs for new houses and apartments are relatively low.

Employers are adding workers, and retiring workers are expected to remain in Austin. Given employer needs and forecast retirement trends, increased housing supply is needed to support community stability and growth and to offset ongoing depreciation of the existing housing stock.

Austin has an aging housing stock: Austin's single-family housing stock was built between 60 and 90 years ago, with houses constructed prior to 1980 representing 90% of all single-family houses. Therefore, addressing the rehabilitation of existing houses must be the top priority. It is also one of the most cost-effective approaches to support the overall housing stock.

Our analysis finds that Austin needs 170 single-family rehabilitations per year – that is, 85 on top of the current annual 85 rehabs. The Austin community should consider programs to promote and incentivize the rehabilitation of existing aging single-family houses. These programs could take

many forms and range from simple promotion and public messaging to comprehensive technical assistance and financial support.

Our analysis finds Austin needs 25 to 30 new houses and 30 to 40 new multifamily units (beyond the above noted 170 single-family rehabilitations per year) just to replace aggregate depreciation of the existing stock. If population and employment grow, even more units will need to be built and renovated. Austin should set housing production goals for the next decade based on the numbers of new build single-family and multifamily housing units that the City would aim to achieve and establish benchmarks for achieving those goals.

A focused effort to attract home-builders should be the next priority. Engage a marketing professional or firm to assemble an offering package of available lots and recent market data to solicit homebuilders. Increased new-construction housing production is possible with an organized approach to promotion, engagement, and procurement. Multifamily construction and development has recently found opportunities in Austin and so can single-family homebuilding. In addition, developer needs for skilled trades can be filled by local workers from Riverland Community College's well-regarded programs which include carpentry, electrical and construction management.

We recommend the City track the single-family rental stock more closely and initiate performance and benchmarking to help improve quality and modernize the inventory. We also recommend outreach to those owners of multiple rental units in order to discuss common issues of concern and

develop plans to physically preserve and enhance this segment of the housing stock.

Austin has successfully partnered with the developer community to support new multifamily housing, which has fully leased up, demonstrating demand for this product. Austin should continue to support new multifamily housing to maintain a pipeline for additional multifamily rental supply, with clear public planning and structured engagement with private developers. Creating a long-term data set with rent levels and vacancy rates will be helpful. This effective approach should serve as a model for engagement with single-family home builders, developers, and rental owners.

The work detailed above will require focus, research, and participation by all community sectors. A dedicated staff hire by the City, such as a Housing Director should be strongly considered. In the absence of a dedicated staff hire, the community should consider an independent housing commission or committee with a budget for staff or consultants to provide strategic and operational support. An active planning effort supported by broad involvement and solid research is likely to be beneficial to all parties and provide the housing options and tenure that is needed within the community.

## Appendix I - Current Single-Family Residential Government Assistance Programs

There are a number of government programs which provide support to the single-family housing market within the city of Austin. Some of these are specific to the city, but the majority are statewide programs, although they may be administered by local agencies. The chart below summarizes these programs and approximates their dollar volume within city limits and approximates their cost to the government.

The first three on the list are exemptions, rebates, and grants. These include the city's five-year tax exemption program for new residential

construction, Austin Utilities' energy efficiency rebate program, and the state's weatherization grant program. These contribute about \$600,000 per year on the "equity" side of the single-family market.

The next six programs are loan programs for down payment assistance and rehabilitations. These provide about \$1,900,000 per year in loan volume into the Austin market. Costs to government approximate \$274,000 and include interest-rate subsidies and administrative costs. The largest programs by dollar volume are the Minnesota Housing Finance Agency's down payment loan program, Community Housing Improvement Program II – Remodels and Austin's tax exemption for new construction.

Single Family Ownership Assistance Programs					
	Annual Cost to Government	Sponsoring Organization	# of grants per year	Size of grant or loan per unit	Annual \$ Volume of Grants/Loans within City
<b>Grants/Exemptions</b>					
Austin Home Initiative, 5 year tax exemption for new SFR and MFR units	\$320,000	City	12 SFRs/Yr, 18 MFRs/Yr	\$25,200 per SFR, \$10,600 per MFR Unit	\$320,000
Austin Utilities Conserve and Save Rebate Program	\$200,000	Austin Utilities			\$200,000
MN Dept of Commerce Weatherization Assistance Program. Grants	\$140,000	SEMCA	18 SFR's/Yr	\$4,300 per SFR	\$80,000
	\$660,000				\$600,000
<b>Loan Programs</b>					
Austin/Mower County Home Ownership Fund (down payment loans)	\$26,000	City	50 SFRs /Yr +/-	\$3,800 per SFR	\$190,000
MHFA Minnesota Homeownership Assistance Fund (down payment loans)	\$80,000	State	38 SFRs /Yr +/-	\$11,000 per SFR	\$970,000
HRA Community Housing Improvement Program I - Health & Safety	\$29,000	HRA	12 SFR's/Yr	\$5,500 per SFR	\$60,000
HRA Community Housing Improvement Program II - Remodels	\$73,000	HRA	15 SFR's/Yr	\$20,000 per SFR	\$400,000
MHFA Housing Rehab Loan Program (RLP/ELP) SEMCAC	\$11,000	SEMCA	2 SFR's/Yr	\$21,000 per SFR	\$43,000
MHFA Fix Up Fund Loan Program	\$55,000	Local Banks	13 SFR's/Yr	\$20,000 per SFR	\$260,000
	\$274,000				\$1,923,000

## Existing Single-Family Housing Assistance Programs - Grants/Exemptions

### Austin Home Initiative, 5-Year Tax Exemption

The base tax rate is over 3% of assessed value, so it is a very large expense for commercial property owners. However, owner-occupant residential owners get a substantial state tax break which drops the tax rate to 1.48%+/-, not 3%.

### Austin Utilities Conserve and Save Rebate Program

Rebates/Discounts for energy efficient appliances, new furnaces, insulation, water heaters, and lighting. No rebates for new windows.

History of Austin Utility's contribution to the rebate program:

Residential Spend:

2020 \$100,000

2019 \$135,000

2018 \$310,000

Commercial Spend:

2020 \$267,000

2019 \$411,000

2018 \$614,000

### Weatherization Assistance Program

SEMCAC manages the State's Weatherization Assistance Program. This provides energy

efficiency grants for households at 200% or less of federal poverty guideline incomes.

According to a weatherization program manager at the Department of Commerce, the weatherization program is very management intensive. He described it as the equivalent of social service caseworkers, but for houses not people. After educating the homeowner about the program, an energy audit of the house and recommendations for improvements to considerable staff time. Plus, the program manages the contractor and then supervises completion of the work. In other words, homeowners who need this kind of help do not have a history of being able to manage contracting and installation well. This additional work means "soft costs" add 30 to 40% on top of the hard costs.

The annual program hard costs expended in Austin city limits are shown below. 2021 costs only include the first half of the fiscal year.

Row Labels	Sum of TotalCost
2016	\$42,857
2017	\$42,624
2018	\$41,230
2019	\$71,430
2020	\$123,052
2021	\$86,195
<b>Grand Total</b>	<b>\$407,388</b>

## Existing Single-Family Housing Assistance Programs - Loans

### Austin/Mower County Home Ownership Fund

- Down-Payment, Closing Cost, and Rehabilitation Assistance
- Funds are available in the City of Austin and throughout Mower County that provide a 2% loan up to \$6,000 to help cover down-payment and closing costs, or the rehabilitation necessary to purchase a home.
- The maximum term for Austin/Mower County Homeownership Fund loans is five years.
- The maximum adjusted income limits set according to the Minnesota Housing Finance Agency guidelines, plus \$5,000.  
Household size:
  - 1-2 people \$78,900
  - 3+ people \$89,985
- The maximum house price is \$175,000.
- The buyer cannot also be using the Minnesota State down payment assistance program.
- Started in 1997
- Revolving Fund. Currently has \$214,000 as Cash and \$418,000 as Outstanding Program Loans
- 50 new down payment loans per Year +/-
- Average loan of \$3,800 per single family home

### Minnesota Down Payment Assistance program

<https://www.mnhousing.gov/sites/Satellite?c=Page&cid=1519058662552&d=Touch&pagename=External%2FPage%2FEXTStandardLayout>

The state will provide a loan for down payment assistance for first-time homebuyers or homebuyers moving from a smaller house to a larger house.

If the loan is paid back monthly with a 10-year amortization, up to \$17,000 can be provided. The interest rate is set at the same interest rate as the prime loan.

If loan payments are deferred, the program is only available for first-time homebuyers.

The maximum amount is \$11,000 (will there also appear to be a \$15,000 maximum for the Deferred Payment Loan Plus program)

interest-free deferred loan for the length of the first mortgage term. Repayment is only required if the borrower moves out of the house or sells the house or refinances the loan.

[file:///C:/Users/spric/Downloads/MHFA\\_013282.pdf](file:///C:/Users/spric/Downloads/MHFA_013282.pdf)

Income limits up to \$120,600

Acquisition cost must fall under the following limits:

11-County Metro: \$352,300

Balance of State: \$311,900



## Minnesota Plat Law

Minnesota law provides for a phase-in of a property's estimated market value when raw land is platted into a subdivision. For nonmetropolitan counties, this is a seven-year phase-in.

The assessor determines the value of the raw subdivision land, and this sets value in Year One. The difference between the value of raw land and the value with finished subdivision improvements in a recorded plat is then calculated and phased in on a straight-line basis to the assessed value over a seven-year term.

Statewide, this program reduces assessed values of the plats enrolled by about \$400 million to \$450 million per year; translating into \$8M+/- per year in tax reductions.

## Rehab/Emergency Loan -SEMCAC

SEMCAC manages the Minnesota Housing Finance Agency Rehabilitation Loan/Emergency and Accessibility Loan Programs (RLP/ELP) Housing Rehab Loan Program. This program is intended for very low-income households.

- Income limits of 30% of Area Median Income
- Household has less than \$25,000 in total assets
- Loan amounts from \$37,500.
- Terms of up to 15 years.
- Payments are deferred
- No down payment required.
- Owner-occupied, primary residence.
- Loan is forgiven if occupancy is maintained for 15 years
- Most permanent home improvement projects are eligible.

## Austin HRA

### HRA Community Housing Improvement Program I - Health & Safety

CHIP I is an emergency loan program and provides needed repairs for Owners at 80% of median income and below. Loan amounts cannot exceed \$10,000 in the interest rate is 2%. These loans are secured by the real estate. The average loan amount is about \$5,500 and most of the loans have gone for new roofs or furnaces.

### HRA Community Housing Improvement Program II - Remodels

CHIP II is a new program started in 2021 utilizing a \$300,000 grant from the Hormel Foundation. The maximum loan amount is \$25,000, the interest rate is 2%, and the term is limited to 10 years. These loans are secured by the real estate.

20 loans averaging \$20,000 were made in the first year, With the HRA providing some additional funds beyond those provided by the Foundation.

#### Income Limits by Household Size

- 1 Person \$65,000
- 2 Person \$75,000
- 3+ Person \$85,000

### Minnesota Housing Finance Agency Fix Up Fund Home Improvement Loan

- Income limits of \$139,000/yr.

- Loan amounts from \$2,000 – \$75,000.
- Terms of 5 to 20 years. Rates of 2.6% to 4.1% depending on term
- No down payment required.
- Owner-occupied, primary residence.
- Most permanent home improvement projects are eligible.
- Run through local banks.

### **Minnesota Housing Finance Agency Home Energy Improvement Loan**

- No Income limits
- Loan amounts to \$25,000.
- Terms of 5 to 20 years. Rates of 3.1%
- No down payment required.
- 1-4 unit owner-occupied, primary residence.
- Most energy related improvements are eligible including heating and cooling systems, windows, water heaters, and insulation.

## Appendix II – Single-Family Residential Rehabilitation Programs in Other Cities

Denison, Texas, ran a successful Residential Renovation Incentive Program for five years starting in 2017. It applied to all rehab/remodel projects of \$40,000 or more. 120 rehab projects were enrolled representing \$7.5M in rehabilitation investments in the community. The incentives included:

- Waive remodel permit fees
- Two roll-off trash dumpsters provided at a discounted rate
- 1% of sales tax refund on any building materials purchased within city limits
- Following receipt of the final certificate of occupancy, the City will repair or replace any damaged sidewalks and driveways.
- Cash rebate from the City of 6% of the increase in assessed value resulting from the rehab

City staff reported “the program was a great success and helped bring life back into old decaying neighborhoods via remodels and attracting new builds. We have several great looking neighborhoods on the older side of town that would not have been without this program” and that in several neighborhoods, rehabilitations of existing houses led to new construction on the vacant lots adjacent to those houses.

Video about the program:

<https://www.youtube.com/watch?v=m12IzmDyeOs>

The Heritage Home Program<sup>SM</sup> in Cleveland, Ohio, provides the following services for houses 50 years or older:

- Site visits from a construction specialist to review your home improvement projects and to answer home repair and maintenance questions
- Recommendations on maintenance, repair, rehab, additions, and modernizations
- Information on local contractors
- A review of contractor bids and estimates
- Advice on energy efficiency methods and guidance on materials, supplies, and resources
- Color consults for exterior painting

They also provide minimum materials and installation specification sheets that can be included in construction contracts. They have created a “Preservation Toolkit” webpage with significant information on house renovations and a before and after picture gallery of completed projects. They have produced a webpage and PDF manual describing the characteristics and terminology for houses constructed between the 1800s and the 1970s.

<https://www.heritagehomeprogram.org/what-we-do/homeowner-gallery/>

## Appendix III – Acknowledgements

The CRE Consulting Corps team was privileged to talk to a wide variety of stakeholders while onsite in Austin. Some of those people are listed below, and we thank them for their time.

Austin City Council

Austin Area Chamber of Commerce

Eric Brownlow, SEMAR

Jeremy Carolan, Carolan Homes

Craig Clark, City of Austin

Sheri Dankert, Hormel Foundation

Tom Dankert, City of Austin

Jay Edgerton, Mortgage Finance Consultant,  
Edgerton Consulting LLC

Angie Goetz, Science Park

Jeff Gross, U.S. Bank

Elaine Hanson, Chamber of Commerce

Kris Heichel, Fairway Independent Mortgage  
Company

Heidi Heskett, Campus View

Janet Hogan, Hormel

Mary Lindgren, RE/MAX

Doug McGaffey, McGaffey Property Management

Taggert Medgaarden, HRA

Jana Norman, Flats on 21

Kristen Olson, Austin Area Chamber of  
Commerce

Mike Paradise, Bigelow Homes

Lance Pogones, Turtle Creek Construction

Duane Salinas, City of Austin

Amy Sheehan, Hormel

Nate Stencil, Stencil Group

Paul Sween, Dominion

Tony To, former Executive Director, HomeSight

Holly Wallace, City of Austin

Natosha Walsh, Hormel

Sarah Wayne, Hormel

## Appendix IV – The Counselors of Real Estate and CRE Consulting Corps

The Counselors of Real Estate is an international organization of commercial property professionals from leading real estate, financial, law, valuation, and business advisory firms, as well as real property experts in academia and government. Membership is selective and extended by invitation; commercial real estate practitioners with 10 years of proven experience may apply.

Counselors have created and endowed the MIT Center for Real Estate, resolved the dispute between the developer of the World Trade Center and its insurers post Sept. 11, 2001; led the privatization of U.S. Army Housing; developed a multi-billion-dollar, 10-year master plan for Philadelphia Public Schools, and valued both the Grand Canyon and Yale University. Counselors reside in 20 countries and U.S. territories, with only 1,000 professionals holding the CRE credential worldwide.

### CRE Members:

- Recognized records of accomplishment
- Commitment to excellence
- Uncompromising adherence to high standards of professional conduct
- Visionary, yet practical approaches, to real estate issues

The CRE Consulting Corps, a public service program created and managed by The Counselors of Real Estate, provides real estate analysis and action plans for municipalities, not-for-profit

organizations, educational institutions, and government agencies that address their clients' real estate dilemmas and often enhance the performance of a property or a portfolio. Each Consulting Corps project is conducted by a small group of volunteer members selected for experience and skillsets to address the specific needs of the client. The extensive talent base available within the CRE community ensures that teams can provide expertise on virtually any real estate issue.

### CRE Consulting Corps

- Reliable solutions from experienced professionals
- Non-partisan, objective advice
- Exceptional service for fees that are a fraction of current market value
- Advice and recommendations provided quickly on site

### Finding the Right CRE

The Counselors of Real Estate welcomes the City of Austin to engage Counselors (either members of this panel or area professionals) for future real estate advice and service. Please contact CRE staff members for assistance in identifying Counselors with the right skill sets to address your needs.

### How to Find a Counselor of Real Estate

- Contact CRE staff Samantha DeKoven (312-329-8431; email [sdekoven@cre.org](mailto:sdekoven@cre.org))
- Contact any member of the AI Consulting Corps team
- Search the CRE website ([www.cre.org](http://www.cre.org)) to view member profiles

## Appendix V – Austin Minnesota CRE® Consulting Corps Team



**Steven Price, MAI, CRE**  
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**Steve Price, CRE**, is owner of Terra Property Analytics, LLC, which provides appraisals and consulting for vacant land and complex real estate. His practice focuses on acquisitions and dispositions, eminent domain, large land parcels, and complex properties. His appraisal work in Washington state started in 1986 at Shorett & Riely. He formed Therrien & Price, LLC, in 1994 and Terra Property Analytics, LLC, in 1998.

He graduated from Wesleyan University in 1986 with a BA in Economics. In 2000, he completed a two-year postgraduate certificate in Theoretical and Applied Geographic Information Systems through Simon Fraser University in Vancouver, BC. In 2021, he completed a Masters Degree in Civil Engineering at the University of Washington with a focus on energy infrastructure.



**Brett Pelletier, CRE**  
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**Brett Pelletier, CRE**, is a finance and land economics professional specializing in commercial real estate problem solving and Affordable Housing finance, advisory, and policy matters. An adjunct faculty member of Salve Regina University's Department of Business and Economics, he teaches courses in finance and economics.

Professional and academic interests include: Land Economics, Real Estate Finance, Land Use Planning, Healthy Housing, Housing and Economic Inequality, and High-Performance Building Standards.

He provides clients with real estate valuation and counseling services for all types of commercial property on a national basis with a concentration on income-producing property within New England. His clients include non-profit, community, and private developers, non-profit organizations, institutional investors, lenders, municipalities, public housing authorities, and government agencies.

He received a BS in Finance from Bentley College, an MBA from Bryant University Graduate School of Business, and a Master of Liberal Arts in Finance from Harvard Extension School. He is on the Board of Directors of Preserve Rhode Island and contributing writer for the New England Real Estate Journal, among other involvements.





**Doug Prickett, CRE**  
Senior Managing Director,  
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**Doug Prickett, CRE**, directs investment analytics and strategy for the Transwestern companies, a real estate operating, investment management and development organization. He has been active in the commercial real estate business since 1983 and joined Transwestern in 2020, leading the research efforts, developing advanced analytics and using cutting-edge technologies to guide and support real estate investment strategy, market and asset selection, underwriting, portfolio management, and workplace solutions for Transwestern and its clients.

Prior to joining Transwestern, Mr. Prickett co-founded Strongside Financial Group (SFG), a diversified platform aligning capital with Qualified Opportunity Zone businesses and property for tax-advantaged investing. Prior to SFG, he spent 5 years with Lionstone Investments. Prior to Lionstone, he spent 15 years with Goldman Sachs RMD, formerly known as Archon Group, where roles included global head of investment real estate research, head of valuations and division lead for the Data Resources Group.

Mr. Prickett earned his BBA in Real Estate and Finance from the University of North Texas. He has earned designations from the CCIM Institute and Appraisal Institute, as well as a named Homer Hoyt Fellow.



**Nick A. Tillema, CRE,**  
MAI, SRA, AI-GRS, AI-RRS, CCIM Attorney at Law (MBA/JD)  
President, Access Valuation  
Indianapolis, Indiana  
[nick@accessvaluation.com](mailto:nick@accessvaluation.com)

**Nick Tillema, CRE**, has been involved in the real estate/finance industry since 1972. His education includes a BS in Business (Finance) from Indiana University, MBA from Arizona State University, and JD from Indiana University - Indianapolis. His background includes leasing and management with a Chicago-based, regional, shopping center owner; mortgage banking (origination, underwriting, secondary marketing & management), title company (co-owner); property management, real estate development (residential condominiums); investment, consulting and appraising (residential, commercial, easements and diminutive damages).

His teaching includes real estate broker and appraiser pre-licensing classes, continuing education seminars and real estate college classes for private schools, professional organizations, Indiana University and Butler University. He has written numerous seminars for both law and real estate professionals.

He has both prosecuted and defended real estate appraisers as attorney. As an appraiser, he has reviewed both residential and commercial appraisals as part of a litigation team, valued farms (including CAFOs), shopping centers, service stations, municipal water and sewage disposal facilities, apartment buildings, steel mills, oil refineries, and mega-warehouses.

Board service includes the national Appraisal Institute, the Appraiser Liability Insurance Program, the Indiana Data Bank Association, and others.



**Wendy Timm, CRE**  
Timm Real Estate  
Consultants  
Keystone, Colorado

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She has served in advisory or board roles with Enterprise Bank & Trust, St. Louis Development Corporation, and others. She has a BS in Finance from the University of Illinois with emphasis in Real Estate and Urban Economics.

**Wendy Timm, CRE**, is a real estate industry leader with advanced expertise in owner representation and advocacy from start to finish and in all aspects of real estate ownership and investing, including asset acquisition and development, partnership structure and management, designing and procuring debt and equity financing, valuations and appraisals. Her professional experience extends to advisory and consulting services, as well as brokerage and transaction services.

Prior to joining Enhanced Value Strategies and Colliers International in 2011, Ms. Timm was the COO/ CFO and Principal for Conrad Properties Corporation where she led finance, investment and sales activities. She was instrumental in developing several urban infill developments, primarily high-rise residential condominiums and apartments, mid-rise office parks, and mixed-use office and commercial developments. Ms. Timm is currently a development consultant in mixed-use and age-in place housing for seniors. Total career development, financing, investment and brokerage transactions exceed \$1.2 billion.

## Appendix VI - Resources

Greater Minnesota Housing Fund

<https://gmhf.com/>

Minnesota Down Payment Assistance program

<https://www.mnhousing.gov/sites/Satellite?c=Page&cid=1519058662552&d=Touch&pagename=External%2FPage%2FEXTStandardLayout>

City of Denison Residential Renovation Incentive Program

<https://www.youtube.com/watch?v=m12IzmDyeOs>

Cleveland Heritage Home Program

<https://www.heritagehomeprogram.org/what-we-do/homeowner-gallery/>

Bigelow Homes

<http://www.bigelowhomes.net/lots.html>

Rochester Area Builders, Inc.

<https://www.rochesterareabuilders.com/>