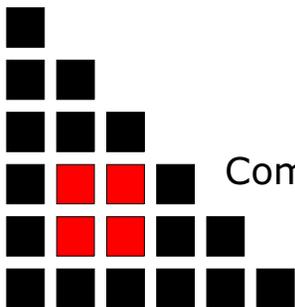


City of Winsted HOUSING STUDY

June 2015 Draft

An analysis of the overall housing needs
of the City of Winsted



Community Partners Research, Inc.

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Introduction

Overview

Community Partners Research, Inc., was hired by the City of Winsted to complete a comprehensive study of housing market conditions in the City and the surrounding area.

Methodology

A variety of resources were utilized to obtain information for the Housing Study. Community Partners Research, Inc., collected and analyzed data from February to June 2015. Data sources included:

- U.S. Census Bureau
- Minnesota State Demographer
- ESRI, Inc., a private data reporting service
- Records and data from the City
- Records and data maintained by McLeod County
- Records and data generated by the Metropolitan Council
- Data from the MN Dept. of Employment and Economic Development
- Data provided by HousingLink
- Data provided by the Multiple Listing Service
- Interviews with elected officials and staff from the City
- Interviews with community leaders
- Interviews with people familiar with the area's housing conditions including bankers, realtors, property managers, and developers
- Area housing agencies
- Rental property owner surveys

Limitations

This Housing Study represents an analysis performed with the data available at the time of the research. Any findings are based upon current solutions and the best available information on future trends and projections. Significant changes in the area's economy, employment growth, Federal or State tax policy or other related factors could change the findings and conclusions contained in this Study.

In 2015, a number of issues continue to negatively impact local and national housing markets. Many of these issues represent a significant departure from conditions that were present prior to 2007, and have the potential to alter traditional supply and demand calculations for housing.

In most cases, this Study has not attempted to project future economic conditions, but instead has relied on past patterns and practices, with modifications that are appropriate for the current conditions. Among the issues impacting housing markets are the following:

- ▶ High Rates of Delinquency and Foreclosure - after 2007, many communities witnessed an above-average level in the number of delinquent mortgages and foreclosures. As a result, there has been an above-average level of housing turnover, caused by "short sales", bank-owned sales and foreclosures.
- ▶ Mortgage Market Liquidity - In response to rising delinquency and foreclosure rates, the mortgage market has been altered, with both primary and secondary mortgage lenders changing their standards and the availability of credit.
- ▶ Fannie Mae and Freddie Mac Bailout - The federal government was forced to take over these quasi-public agencies to help keep home mortgages available. Changes to the federal government's role in the home mortgage market continue to be debated in Washington.
- ▶ National Retreat in Home Prices - After many years of steady gains, the median value of single family homes dropped in some major markets in the late 2000s. This had multiple effects, including a retreat of potential home buyers out of the market. While these price trends have generally reversed in recent years, market activity remains below the previous level.
- ▶ Over Supply of Housing - Strong housing market conditions earlier in this decade resulted in above-average activity in the housing development markets, including both housing units and residential lots. In some areas, an oversupply of inventory exists, which further depresses prices.
- ▶ Economic Recession - The economy of the United States was in a period of sustained recession, and recovery occurred slowly. After multiple years of above-average national unemployment, reduced consumer demand has been present in many areas, including housing.

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Demographic Data Overview

Sources of Data

The following pages contain demographic data obtained from a variety of local, state and national sources. Both the U.S. Census Bureau and the Minnesota State Demographer's Office have released demographic estimates for the year 2014 for Winsted and McLeod County. However, these annual estimates are generally limited to basic counts, such as population and household levels.

For more detailed demographic variables, the 2010 Census is viewed as the most reliable data source. While the last Census is an accurate benchmark for demographic data, it was more limited in scope than in the past, and is now more than five years old. As a result, some of the demographic variables, such as income and housing cost information, are not available. To supplement the decennial Census, the Census Bureau has created the American Community Survey, an annual sampling of households.

The American Community Survey does provide detailed demographic characteristics. However, because the American Community Survey is an estimate, based on sampling data, there is a margin of error that exists for each estimate. The following tables incorporate the 2010 Census data, when available, or the American Community Survey data, when it is viewed as reliable.

The frequency of American Community Survey estimates vary depending on the size of the jurisdiction. For the City of Winsted, the 2013 estimates were the most current at the time of this Study. They were derived from sampling that was done over a five-year period, between 2009 and 2013. For McLeod County, two sets of 2013 estimates exist, based on sampling completed over a five-year period, or over a three-year period between 2011 and 2013. For consistency with the Winsted data, the five-year sample has been used for McLeod County.

Community Partners Research also obtained some demographic estimates and projections from ESRI, a private company that produces demographic reports. The ESRI estimates are for the year 2014, and this company produces 5-year projections to the year 2019.

Population Data and Trends

Both the Minnesota State Demographer and the U.S. Census Bureau have released population estimates for the year 2014, although the State Demographer's estimates were still in draft form at the time of this Study. The following table includes the 2014 estimates from the State Demographer. The Census Bureau and ESRI estimates are contained in the text that follows.

Table 1 Population Trends - 1990 to 2014						
	1990 Census	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2014 Estimate
Winsted	1,581	2,094	32.4%	2,355	12.5%	2,308
Greater Winsted	2,684	3,081	14.8%	3,323	7.9%	3,227
McLeod County	32,030	34,898	9.0%	36,651	5.0%	35,942

Source: U.S. Census Bureau; MN State Demographer

According to the 2010 Census, Winsted had a population increase of 261 residents between 2000 and 2010, for a percentage gain of 12.5%. The City grew at a much faster rate in the 1990s, with the population increasing by more than 32%. However, some of the growth in past decades may have been due to annexation, as Winsted Township has been losing population over time. As a result, the percentage growth for the Greater Winsted area has been lower than the growth rate attributed to the City.

After 2010, both the Census Bureau and the State Demographer show minor population loss for Winsted. According to the State Demographer, the City lost 47 people between 2010 and 2014. According to the Census Bureau's 2014 population estimates, the City has lost 57 residents. Both of these sources also show a minor population reduction for Winsted Township since 2010.

Population patterns for all of McLeod County are generally similar, with solid gains made in the 1990s and 2000s, followed by a minor reduction after 2010. The most recent estimate from the State Demographer places the County's population down by 709 people between 2010 and 2014. The U.S. Census Bureau's 2014 county-level estimate shows McLeod County's population decreasing by 769 people.

In their county estimates, the Census Bureau also identifies the components of change. All of the recent loss has been attributed to domestic out-migration, as more residents moved out of the County than moved in from other U.S. locations. The County did have positive growth from natural increase, as births

exceeded deaths, and some minor additions from international in-migration. However, the positive growth components were not sufficient to overcome the losses caused by domestic out-migration.

ESRI Estimates

ESRI, a private data reporting service, has generated population estimates for area jurisdictions. For the City of Winsted, the 2014 ESRI estimate was 2,469 people, much higher than the 2014 estimates from the State Demographer and the Census Bureau. According to ESRI, Winsted added 115 residents between 2010 and 2014.

The rationale for ESRI's population growth estimate for Winsted is not defined. Between 2010 and 2014, very few new housing units were added in Winsted, based on building permit issuance. To achieve population growth at the level indicated, without an expansion of housing options, it would imply that ESRI believes that some formerly vacant housing was present in the City, which was then occupied after 2010.

The ESRI 2014 estimate for all of McLeod County was 36,487. While this estimate is higher than the 2014 estimate from the Minnesota State Demographer or the 2014 Census Bureau estimate, it still shows some loss of population when compared to the 2010 Census count.

Population by Race and Ethnicity

Winsted's population is primarily White and non-Hispanic. At the time of the 2010 Census, more than 97% of the City's residents identified themselves as White for race, and fewer than 2% of City residents identified themselves as Hispanic/Latino for ethnicity. Due to the City's limited diversity, no additional information has been provided in this Study.

Group Quarters Population

In 2010, the decennial Census counted 71 group quarters residents in the City, including 64 people in skilled nursing facilities and seven people in other, noninstitutional facilities. The State Demographer's 2014 estimate also shows 71 group quarters still living in the City.

Winsted does have a skilled nursing home, licensed for 65 beds in 2014. The seven noninstitutionalized group quarters residents in 2010 were not specifically defined by the Census. It is possible that some form of noninstitutional group homes exist within the community.

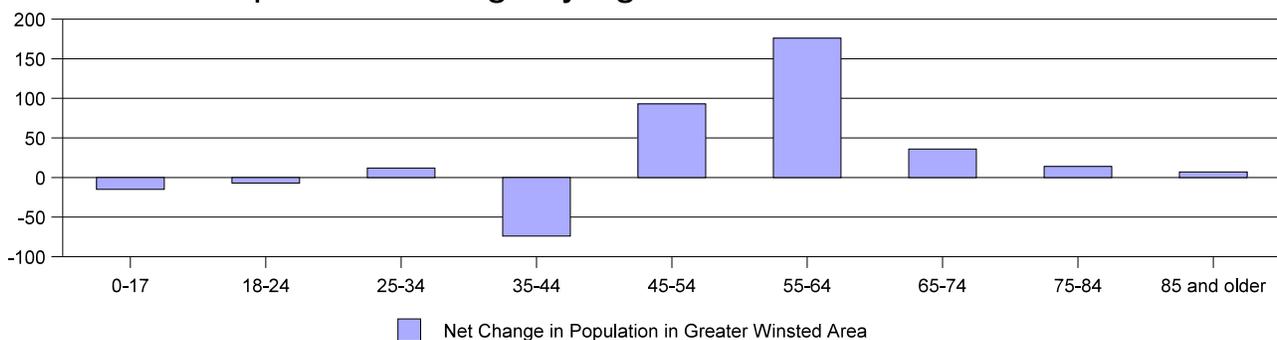
Population by Age Trends: 2000 to 2010

Demographic information from the 2010 Census allows for some analysis of the area’s changing age patterns. The following table compares population by age in 2000 and 2010, along with the numeric changes. Age changes are examined for the Greater Winsted Area and for all of McLeod County.

Table 2 Population by Age - 2000 to 2010						
Age	Greater Winsted Area			McLeod County		
	2000	2010	Change	2000	2010	Change
0-17	853	838	-15	9,684	9,265	-419
18-24	245	238	-7	2,708	2,708	0
25-34	427	439	+12	4,724	4,471	-253
35-44	490	416	-74	5,494	4,804	-690
45-54	394	487	+93	4,505	5,506	+1,001
55-64	219	395	+176	2,942	4,294	+1,352
65-74	204	240	+36	2,270	2,816	+546
75-84	164	178	+14	1,852	1,816	-36
85+	85	92	+7	719	971	+252
Total	3,081	3,323	+242	34,898	36,651	+1,753

Source: U.S. Census

Population Change by Age Between 2000 and 2010



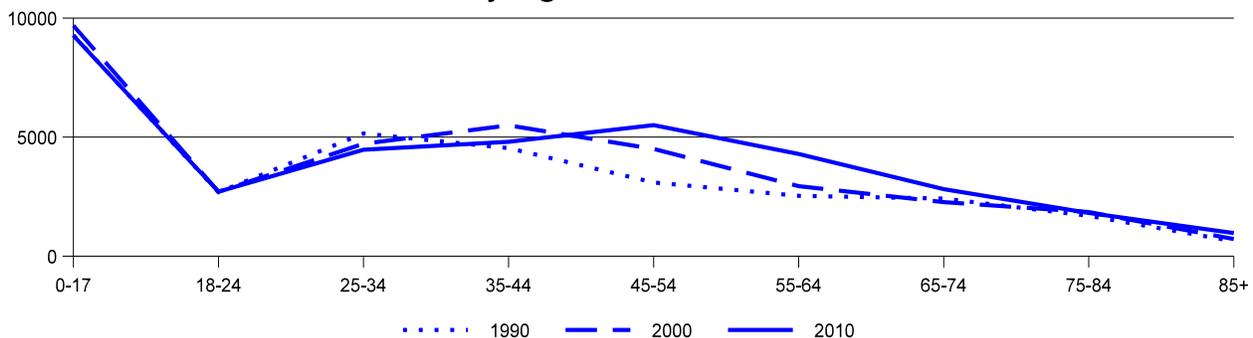
For many years, demographic analysts have been talking about the impact that is occurring as the large “baby boom” generation moves through the aging cycle. This trend has been very evident in the Winsted area. Between 2000 and 2010, the Greater Winsted area had a net gain of 269 people in the age ranges between 45 and 64 years old. In 2010, nearly all of the baby boomers were within these age ranges. The numeric net gain in the 55 to 64 year old age group was the largest of any defined age cohort.

Overall, the Winsted area experienced some net growth in each of the age ranges 45 years old and older. This was in contrast to net population losses in all but one of the defined age ranges age 44 and younger. When all of the age groups age 44 and younger are combined, the Winsted area had a net decrease of 84 people in these younger age groups.

Age progression patterns for all of McLeod County were often similar to the changes in the Winsted area. Once again, growth was especially strong in the primary baby boomer age groups, between 45 and 64 years old. Countywide there was also a net reduction in the number of people age 44 and younger. Countywide, there was an increase in senior citizens, age 65 and older, but this was primarily due to strong growth in the youngest senior age range, age 65 to 74.

The aging trends present in McLeod County can be traced back over the previous decades to see the movement of the baby boom generation. One notable trend that is evident in McLeod County is the advancing ‘wave’ created by the baby boom age ranges.

McLeod County Age Distribution: 1990 to 2010



Household Data and Trends

The Minnesota State Demographer's Office has issued preliminary 2014 household estimates for individual jurisdictions, which are displayed in the following table, along with totals from previous Censuses.

Table 3 Household Trends - 1980 to 2014						
	1990 Census	2000 Census	% Change 1990-2000	2010 Census	% Change 2000-2010	2014 Estimate
Winsted	585	822	40.5%	947	15.2%	940
Greater Winsted	947	1,152	21.6%	1,300	12.8%	1,282
McLeod County	11,815	13,449	13.8%	14,639	8.8%	14,585

Source: U.S. Census; MN State Demographer

According to the 2010 Census, Winsted added 125 households between 2000 and 2010. This represented household growth of more than 15%. The City had grown at a much faster rate in the 1990s. However, some of the past growth may have been due to annexation of existing rural households into the city limits.

When the entire Greater Winsted area is analyzed, there was a net gain of 148 households in the last decade, for an increase of 12.8%. This followed a net increase of 205 households in the 1990s. While the area has continued to grow, the rate of growth has been slowing over time.

Based on the most recent estimate from the State Demographer's Office, Winsted has lost seven households between 2010 and 2014, while the entire Greater Winsted area lost 18 households.

All of McLeod County has experienced very strong growth in previous decades, adding more than 1,600 households in the 1990s, and nearly 1,200 households between 2000 and 2010. However, after 2010, the County has experienced a minor reduction in the number of households, according to the State Demographer's Office.

The ESRI demographic data also contained household estimates to the year 2014. For the City of Winsted, ESRI estimated that the City has added 62 households after 2010, in contrast to the State Demographer's 2013 estimate which showed a reduction in households. ESRI shows the County adding 136 households from 2000 to 2010, once again in contrast to the household loss estimated by the State Demographer.

Household by Age Trends: 2000 to 2010

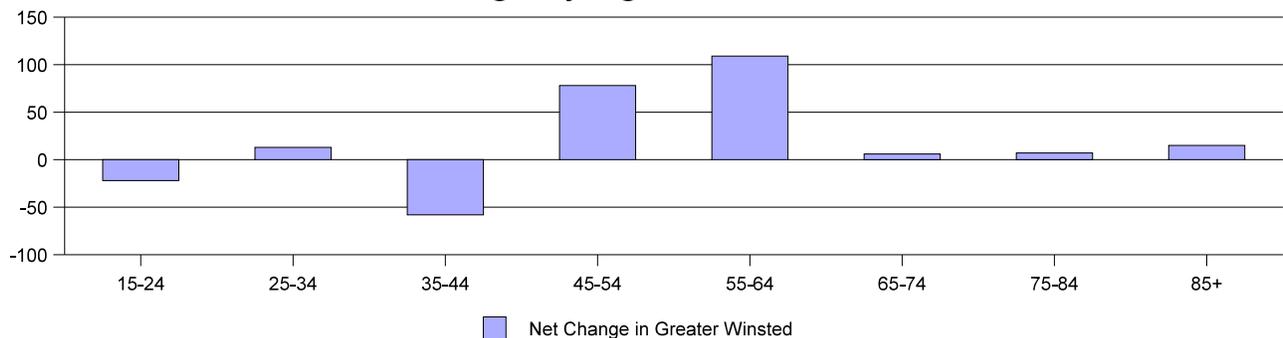
The 2010 Census allows for some analysis of the area’s changing age patterns. The following table compares households by age of householder in 2000 and 2010, along with the numeric changes.

Table 4 Households by Age - 2000 to 2010						
Age	Greater Winsted Area			McLeod County		
	2000	2010	Change	2000	2010	Change
15-24	69	47	-22	738	588	-150
25-34	205	218	+13	2,379	2,206	-173
35-44	280	222	-58	3,036	2,610	-426
45-54	213	291	+78	2,520	3,099	+579
55-64	117	226	+109	1,658	2,505	+847
65-74	129	135	+6	1,422	1,688	+266
75-84	105	112	+7	1,247	1,260	+13
85+	34	49	+15	449	683	+234
Total	1,152	1,300	+148	13,449	14,639	+1,190

Source: U.S. Census

Consistent with the population by age data presented earlier, the household patterns show most of the net change occurring in the baby boomer age groups. For the Greater Winsted area, the largest net growth in households occurred in the 10-year age group between 55 and 64 years old.

Household Change by Age Between 2000 and 2010

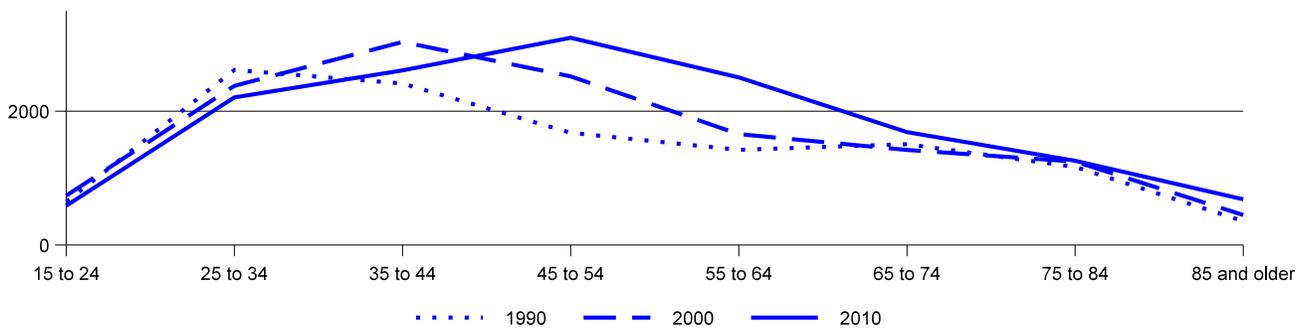


All of the defined age ranges 45 and older added some households during the last decade. However, all but one of the younger age ranges experienced a net reduction in the number of households. The biggest decline occurred in the 35 to 44 year old range, as the advancing baby boomers were not replaced by the succeeding generation.

Patterns were generally similar Countywide, as net increases occurred in all of the age groups 45 and older, while the number of young adult households, age 44 and younger, decreased during the decade. Growth was especially strong in the 55 to 64 year old group, as the oldest end of the baby boom generation increased substantially in numbers in McLeod County.

There was an overall increase in the number of senior-headed households in McLeod County, including a number of additional senior households age 85 and older.

McLeod County Households by Age of Householder: 1990 to 2010



As with the longer-term patterns for population, it is possible to track the progression of the baby boomer households over the past 20 years, using Census information for households by the age of householder.

One noticeable trend that is evident in this chart is the fact that households in the prime baby boom age groups have been growing in size through each progressive decade.

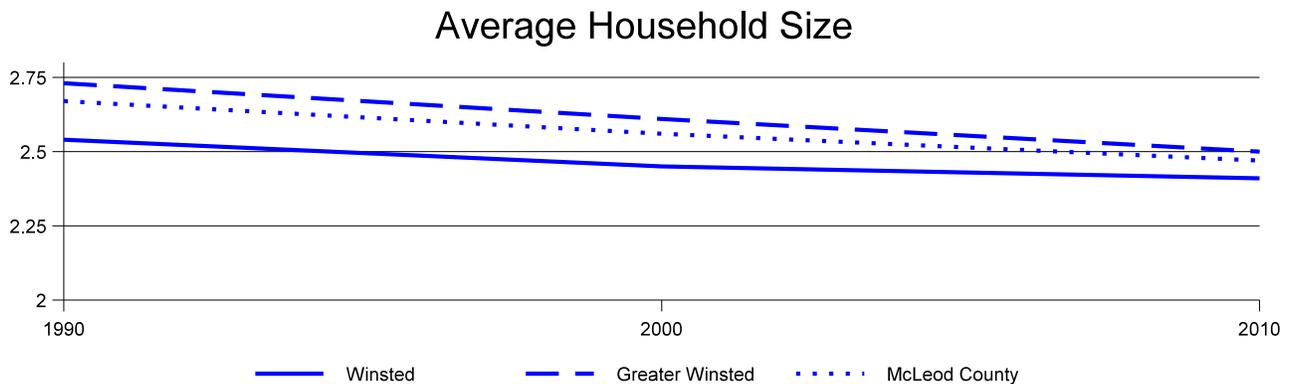
Average Household Size

The following table provides decennial Census information on average household size. Preliminary estimates from the State Demographer for 2014 are also included.

Table 5 Average Number of Persons Per Household 1980 to 2014				
	1990 Census	2000 Census	2010 Census	2014 Estimate
Winsted	2.54	2.45	2.41	2.38
Greater HL Area	2.73	2.61	2.50	2.46
McLeod County	2.67	2.56	2.47	2.43

Source: U.S. Census; MN State Demographer

Household formation has been occurring at a different rate than population change in recent decades due to a steady decrease in average household size. This has been caused by household composition changes, such as more single persons and single parent families, fewer children per family, and more senior households due to longer life spans.



For the City of Winsted, the average household size has decreased from 2.54 persons per household in 1990, to 2.38 persons in 2014. Although there is a trend of smaller average household sizes in the Winsted area and in all of McLeod County, the average size is still relatively large, by comparable standards.

Households by Type

The 2010 Census can be compared to statistics from 2000 to examine changes in household composition. The following table looks at household trends within the Greater Winsted aggregation.

Table 6 Greater Winsted Household Composition: 2000 to 2010			
	2000 Census	2010 Census	Change
Family Households			
Married Couple with related children	332	300	-32
Single Parent with related children	98	118	+20
Married Couple without related children	341	400	+59
Family Householder without spouse	52	66	+14
Total Families	823	884	+61
Non-Family Households			
Single Person	266	340	+74
Two or more persons	63	76	+13
Total Non-Families	329	416	+87

Source: U.S. Census

Between 2000 and 2010, the Greater Winsted area experienced overall growth in the number of households. Most of the growth was due to “non-family” households, generally people living alone. The area also added “family” households, although there was a net decrease in the number of married couples with children. Fewer married couples with children would be consistent with the reduction in the average household size.

The Greater Winsted area did add married couples without children, as well as single parent families with children. There was also a small amount of growth in non-family households with two or more household members that were not related as families.

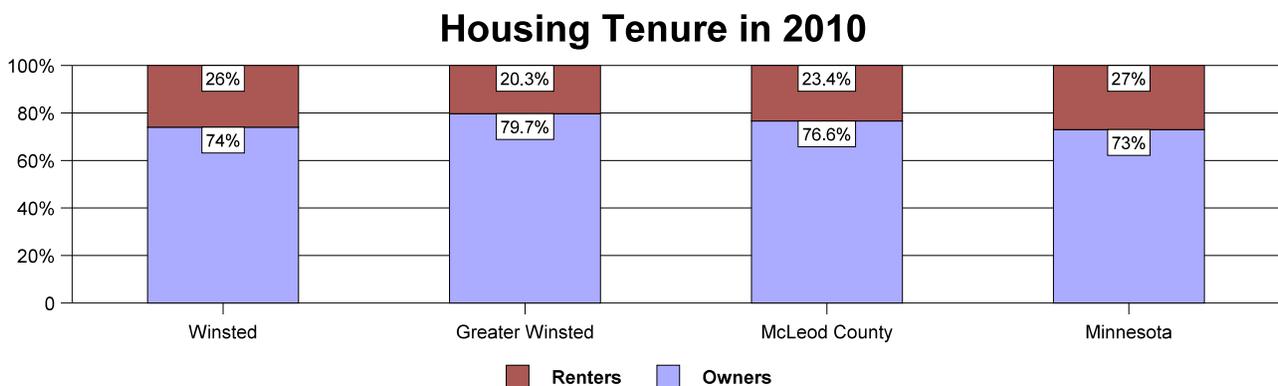
Housing Tenure

The 2010 Census provided an updated look at ownership versus rental housing tenure patterns. The following tables examine overall tenure rates, along with the changes that have occurred since 2000.

Table 7 Household Tenure - 2010				
	Number of Owners	Percent of all Households	Number of Renters	Percent of all Households
City of Winsted	701	74.0%	246	26.0%
Greater Winsted	1,036	79.7%	264	20.3%
McLeod County	11,210	76.6%	3,429	23.4%
State	-	73.0%	-	27.0%

Source: U.S. Census

According to the 2010 Census, the ownership tenure rate in the City of Winsted was 74%, with the remaining 26% of households renting their unit. When the entire Greater Winsted aggregation was reviewed, the home ownership rate increased to nearly 80%, well above the Statewide ownership tenure rate of 73% in 2010. For all of McLeod County, the home ownership rate was also high, at nearly 77%.



McLeod County has experienced a significant amount of growth in recent decades. Most of the County’s growth has been oriented to owner-occupancy housing, as reflected in an ownership tenure rate that was above the Statewide average in 2010.

Table 8 Households by Housing Tenure - 2000 to 2010

Tenure	Greater Winsted			McLeod County		
	2000	2010	Change	2000	2010	Change
Owners	904	1,036	+132	10,523	11,210	+687
Renters	248	264	+16	2,926	3,429	+503
Total	1,152	1,300	+148	13,449	14,639	+1,190

Source: U.S. Census

The rental tenure rate for the Greater Winsted area decreased slightly over the last decade. At the time of the 2000 Census, the area's rental tenure rate was 21.5%. By 2010, it had decreased to 20.3%.

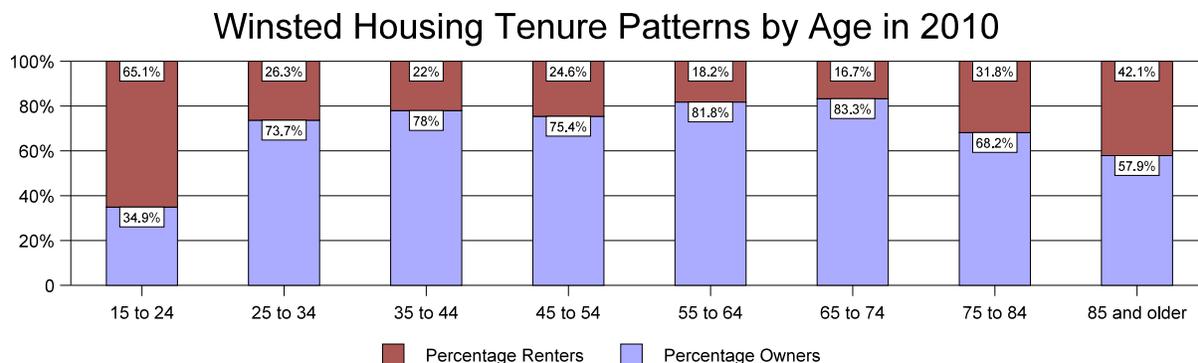
Although numeric growth in home owners exceeded growth in renters Countywide over the last decade, the renter household growth pushed up the County's rental tenure rate. In 2000, the McLeod County rental tenure rate was at 21.8%. By 2010, it had increased to 23.4%.

Tenure by Age of Householder

The 2010 Census provided information on the tenure distribution of households within defined age ranges. The following table examines renters and owners in each age group in the City of Winsted.

Table 9 Winsted Tenure by Age of Householder - 2010				
Age	Owners		Renters	
	Number	Percent within age	Number	Percent within age
15-24	15	34.9%	28	65.1%
25-34	140	73.7%	50	26.3%
35-44	128	78.0%	36	22.0%
45-54	147	75.4%	48	24.6%
55-64	121	81.8%	27	18.2%
65-74	70	83.3%	14	16.7%
75-84	58	68.2%	27	31.8%
85+	22	57.9%	16	42.1%
Total	701	74%	246	26%

Source: U.S. Census



Within the defined age ranges, typical tenure patterns were present, with households at the lowest and highest ends of the age spectrum showing greater preference for rental housing, while middle-aged adult households were primarily home owners. More than 65% of households age 24 and younger rented their unit, and more than 42% of households age 85 and older were renters. Home ownership rates for each of the 10-year age cohorts between 35 and 74 years old were above 73%.

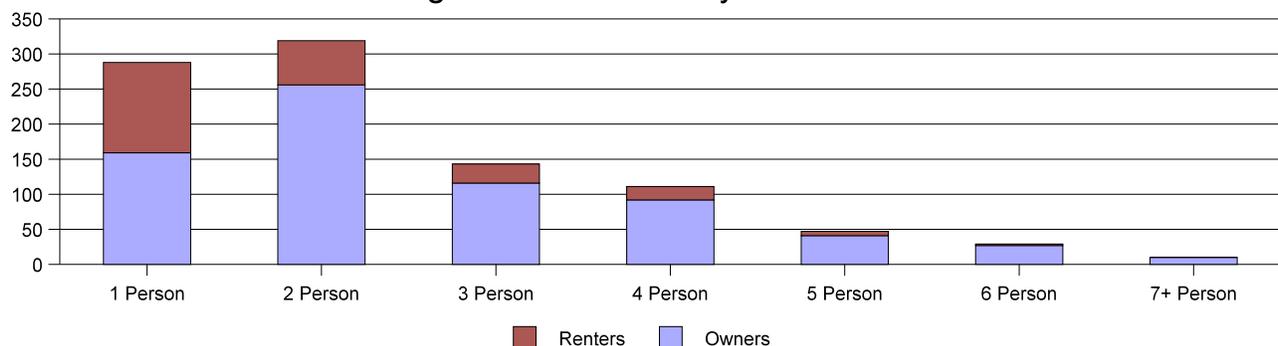
Tenure by Household Size

The 2010 Census did provide information on housing tenure by household size. This can be compared to 2000 Census information to better understand trends for housing unit needs. This information is for the City of Winsted.

Household Size	Owners			Renters		
	2000	2010	Change	2000	2010	Change
1-Person	111	159	+48	123	129	+6
2-Person	203	256	+53	66	63	-3
3-Person	115	116	+1	23	27	+4
4-Person	102	92	-10	8	19	+11
5-Person	49	41	-8	1	6	+5
6-Person	10	27	+17	3	2	-1
7-Persons+	8	10	+2	0	0	0
Total	598	701	+103	224	246	+22

Source: U.S. Census

Winsted Housing Tenure Patterns by Household Size in 2010



Over the past decade, there was substantial growth in the number of smaller households. Among home owners, nearly all of the net growth occurred among households with only one or two household members. Although most renter households have only one or two household members, the greatest net growth in the last decade occurred among households with four household members.

Households with only one or two household members represented nearly 78% of all renter households and 59% of all owner households in 2010.

2013 Median Income Data

The 2010 Census did not collect information on household income. However, estimates are available at the City, Township and County level through the American Community Survey. No median income information was available for the jurisdictions that form the Greater Winsted area, since these are separate jurisdictions that have been aggregated for analysis in this Study.

Household income represents all independent households, including people living alone and unrelated individuals together in a housing unit. Families are two or more related individuals living in a household.

Table 11 Median Income - 2000 to 2013			
	2000 Median	2013 Median	% Change
Households			
Winsted	\$41,588	\$53,278	28.1%
McLeod County	\$45,953	\$55,170	20.1%
Minnesota	\$47,111	\$59,836	27.0%
Families			
Winsted	\$50,272	\$59,479	18.3%
McLeod County	\$55,003	\$67,968	23.6%
Minnesota	\$56,847	\$74,683	31.4%

Source: U.S. Census; 2013 ACS 5-year survey

Income information contained in the 2013 American Community Survey showed that the median household income within the City of Winsted increased by more than 28% when compared to the level recorded by the 2000 Census. However the median household income in the City was still lower than the median for all of McLeod County.

Family household incomes tend to be much higher than the overall household median, as families have at least two household members, and potentially more income-earners. While there was some increase in the median family income in Winsted, the rate of increase lagged well behind the comparable Countywide and Statewide change between 2000 and 2013.

Using the commonly accepted standard that up to 30% of gross income can be applied to housing expenses without experiencing a cost burden, a median income household in Winsted could afford approximately \$1,330 per month for ownership or rental housing in 2013. A family at the median income level for the City could afford approximately \$1,490 for housing costs.

Although households at or near the median levels do have some buying power for housing, the overall medians can be somewhat deceptive. In general, renter households tend to have incomes that are well below the overall median levels, while home owners tend to have higher income levels.

In 2013, the median income level for home owner households in Winsted was \$62,782. The estimated median household income for renters in 2013 was only \$33,021. At 30% of income, a median income renter in the City could apply \$825 to gross rent without experiencing a housing cost burden.

Winsted Household Income Distribution

The 2013 American Community Survey household income estimates for Winsted can be compared to the same distribution information from the 2000 Census to examine changes that have occurred.

It does appear that the American Community Survey is very accurate in its overall estimate of the number of households in Winsted. The American Community Survey estimate was only four households higher than the estimate generated by the Minnesota State Demographer’s Office in 2013.

Table 12 Winsted Household Income Distribution - 2000 to 2013			
Household Income	Number of Households 2000	Number of Households 2013	Numeric Change 2000 to 2013
\$0 - \$14,999	104	132	+28
\$15,000 - \$24,999	107	78	-29
\$25,000 - \$34,999	107	137	+30
\$35,000 - \$49,999	178	93	-85
\$50,000 - \$74,999	210	193	-17
\$75,000 - \$99,999	59	175	+116
\$100,000+	49	136	+87
Total	814	944	+130

Source: 2013 ACS; 2000 Census



According to income estimates contained in the 2013 American Community Survey, household incomes have generally improved in Winsted, especially in the higher income ranges. When compared to the 2000 Census (1999 income), the number of households with an income of \$75,000, or more, had increased by more than 200 households.

Although there was a decrease in the number of households in some of the low and moderate income ranges, there was an increase of 29 households with an annual income below \$35,000. Overall, there were still nearly 350 households with an annual income below \$35,000 in 2013.

It is important to recognize that the improvement in household incomes was impacted by the rate of inflation. During this same time period, the Consumer Price Index increased by approximately 29%.

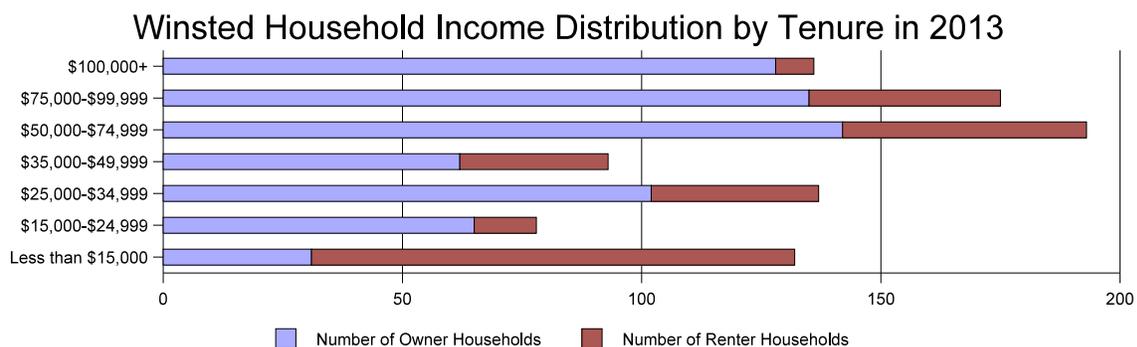
Winsted Income Distribution by Housing Tenure

The 2013 American Community Survey provides an estimate by owner and renter status. The following table examines income distribution within the City of Winsted.

Although the American Community Survey is an estimate, based on limited sampling data, it appears to have been reasonably accurate for Winsted. For total households, the American Community Survey reported only four more households than the 2013 State Demographer’s estimate. However, the ACS did report more renter households and fewer owner households than were present at the time of the 2010 Census. This may be due to the three-year time difference between the ACS and the Census, or it may represent a sampling margin of error.

Table 13 Winsted Income Distribution by Tenure - 2013			
Household Income	Number of Owner Households	Number of Renter Households	Total Households
\$0 - \$14,999	31	101	132
\$15,000 - \$24,999	65	13	78
\$25,000 - \$34,999	102	35	137
\$35,000 - \$49,999	62	31	93
\$50,000 - \$74,999	142	51	193
\$75,000 - \$99,999	135	40	175
\$100,000+	128	8	136
Total	665	279	944

Source: 2013 American Community Survey



Household income and housing tenure are often linked for most households, with home owners generally having higher annual income levels, and renters having lower incomes.

In 2013, approximately 53% of renter households in Winsted had an annual income below \$35,000. At 30% of income, more than half of all renter households would have \$875, or less, that could be applied to monthly housing costs.

Approximately 35% of renter households had an annual income of \$50,000 or more. These households could spend \$1,250 or more per month, if 30% of income was applied to rental costs.

Owner households generally had a higher income level. Nearly 61% of owner households had an annual income of \$50,000 or more. However, nearly 30% of all owner households had an annual income below \$35,000, and had a limited amount that could be applied to housing costs.

2013 Estimated Income and Housing Costs - Renters

The American Community Survey also collected information on housing costs. The following table provides data on the number of renter households that are paying different percentages of their gross household income for housing in the City of Winsted.

Table 14 Gross Rent as a Percentage of Household Income - Winsted		
Percent of Income for Housing	Number of Renter Households	Percent of all Renter Households
Less than 20%	118	42.3%
20% to 29.9%	11	3.9%
30% to 34.9%	24	8.6%
35% or more	79	28.3%
Not Computed	47	16.8%
Total	279	100%

Source: 2013 American Community Survey

According to the American Community Survey, nearly 37% of all renters in the City were paying 30% or more of their income for rent. The large majority of these households were actually paying 35% or more of their income for housing. Federal standards for rent subsidy programs generally identify 30% of household income as the maximum household contribution. When more than 30% of income is required, this is often called a "rent burden". When more than 35% is required, this can be considered a "severe rent burden".

Although a housing cost burden could be caused by either high housing costs or low household income, in Winsted it was primarily due to low income levels for renters. Approximately 82% of the renter households with a housing cost burden had an annual household income below \$20,000. To avoid a cost burden, these lower income households would have needed a unit with a gross monthly rent of \$500 or less.

2013 Estimated Income and Housing Costs - Owners

The American Community Survey also provided housing cost estimates for owner-occupants. The following table provides estimates of the number of households in the City of Winsted that are paying different percentages of their gross household income for housing costs.

Table 15 Ownership Costs as a Percentage of Income - Winsted		
Percentage of Household Income for Housing Costs	Number of Owner Households 2013	Percent of All Owner Households 2013
0% to 19.9%	261	39.2%
20% to 29.9%	226	34.0%
30% to 34.9%	36	5.4%
35% or more	142	21.4%
Not Computed	0	0%
Total	665	100%

Source: 2013 ACS

Most owner-occupants, which would include both households with and without a mortgage, reported paying less than 30% of their income for housing. However, nearly 27% of all home owners reported that they paid more than 30% of their income for housing. Most of these households were paying more than 35% of income for housing costs.

As would be expected, the large majority of cost-burden home owners had a mortgage on their home. However, more than 16% of owners reporting a cost burden had no mortgage. In these cases, it was generally a low annual income that has caused the cost burden, such as a retiree that lived on a fixed income.

Projections Overview

Using the information contained in the previous section, Community Partners Research has examined projection data for Winsted and the surrounding area. This includes population projections, total household projections, and household projections by age range.

In the section of this Study that immediately follows, the projections contained below have been analyzed and compared to other sources that also exist, including regional forecasts that have been changing over time.

Population Projections

The following table presents population projections using two different sources. The first set of projections has been generated by ESRI, a private data reporting service. ESRI’s projections span the period from 2014 to 2019.

The second projection set is from the Minnesota State Demographer’s Office, which has generated population forecasts for individual jurisdictions and counties in the State. Projections are provided for the years 2015 and 2020. The State Demographer’s Office has actually issued two sets of county-level projections since the 2010 Census was released. The most recent projections tend to be substantially higher for most counties, and do not reflect the patterns that have emerged after 2010. As a result, the lower projection set has been presented for McLeod County in the table below.

Table 16 Population Projections Through 2015/2020					
	2014 Estimates	ESRI Projection		State Demographer Projection	
		2014	2019	2015	2020
Winsted	2,308	2,469	2,515	2,424	2,498
McLeod County	35,942	36,487	36,194	37,740	38,841

Source: U.S. Census; ESRI, Inc.; MN State Demographer

As stated previously, ESRI’s 2014 population estimate for Winsted does show that some growth has occurred since 2010, which differs from other recent estimates that show the City losing population. ESRI also expects some limited population growth to occur in the future, although on an annual average basis, they project that the City will add only 9 or 10 new residents in a typical year.

The city-level population projections from the State Demographer are slightly lower in total, but the expected incremental change from year-to-year is actually larger. Over their five-year projection period, the Demographer’s Office expects the City to add 14 to 15 residents per year.

There is significant variation in the projections for all of McLeod County. ESRI projects that the County will lose population, at a rate of approximately 60 people per year between 2014 and 2019. Conversely, the State Demographer’s Office has projected that the County will add more than 1,100 residents between 2015 and 2020. While growth at this scale could have been supported by the patterns of prior decades, the best available estimates after 2010 show that the County has actually been losing permanent residents in recent years.

Household Projections

The following table presents household projections using different sources. As with population projections, Community Partners Research, Inc., has reviewed projections to the year 2019 from ESRI, a private data reporting service.

The State Demographer’s Office has only issued household projections at the county level. At the city and township level, it is possible to extrapolate household forecasts from the population projections provided earlier in this section. In converting population to households, it is assumed that group quarter’s populations will remain largely unchanged, and that the average household size will decrease gradually.

Table 17 Household Projections Through 2019/2020					
	2014 Estimate	ESRI		State Demographer*	
		2014 Estimate	2019 Projection	2015 Projection	2020 Projection
Winsted	940	1,009	1,036	992	1,032
McLeod County	14,585	14,775	14,717	15,285	15,910

Source: State Demographer; Community Partners Research, Inc.;

* Extrapolated by Community Partners Research, Inc.

ESRI believes that Winsted has added households since 2010. As a result, their current year estimate (2014) is substantially higher than other estimates that exist. Going forward, ESRI expects growth to continue, but at a limited rate. Over the five-year period from 2014 to 2019, ESRI expects a net gain of 27 total households, or between five and six households in an average year.

Utilizing the projections extrapolated from the State Demographer’s population forecasts, Winsted could be projected to add as many as 40 households over a five-year period, or eight households in an average year. However, growth of this scale has not occurred in the recent past, and a significant improvement in housing unit construction would be required to accommodate growth at this level going forward to 2020.

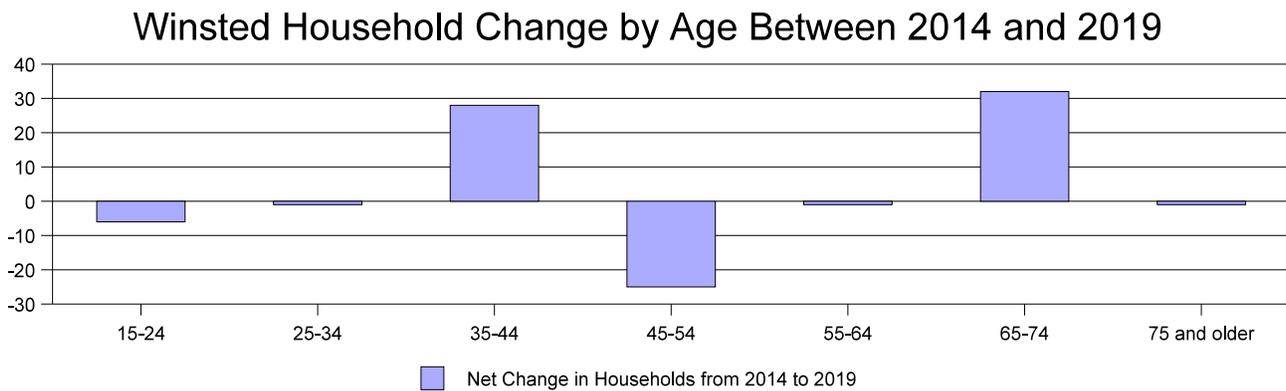
For all of McLeod County, ESRI is projecting a slight reduction in households from 2014 to 2019. Conversely, the State Demographer’s Office has projected substantial household growth by 2020. However, the Demographer’s projection is not at all consistent with more recently released annual estimates that show the County losing households after 2010. As a result, the Demographer’s 2020 projection is now viewed as unreliable.

Household by Age Projections: 2014 to 2019

ESRI has generated age-based projections for households to the year 2019. These projections can be compared to the data contained in the 2014 ESRI estimate to examine the change projected over the next few years.

Table 18 Winsted Projected Households by Age - 2014 to 2019			
Age	2019 Estimate	2019 Projection	Numeric Change
15-24	41	35	-6
25-34	175	174	-1
35-44	180	208	+28
45-54	201	176	-25
55-64	182	181	-1
65-74	111	143	+32
75+	119	118	-1
Total	1,009	1,035	+26

Source: ESRI; Community Partners Research, Inc.



According to ESRI’s projections, only two of the defined age ranges are expected to show net growth in the number of households from 2014 to 2019. The aging of the baby boomers should result in an increase in the number of households in the 65 to 74 year old group. Households in the 35 to 44 year old range should also increase, but overall, the number of households age 54 and younger should decrease slightly through the year 2019. No growth is projected among older senior households, age 75 and above.

Projections for Winsted and the Surrounding Area

There are various methods that can be examined to predict the growth potential that exists for the City of Winsted and the surrounding area. The following sources and methods have been reviewed to define a potential range of growth.

- ▶ Historic growth rates
- ▶ Available projections for Winsted
- ▶ Available projections for McLeod County
- ▶ Comparison to Hennepin County and Carver County projections

Historic Growth Patterns

Winsted has experienced some past growth, but much of this appears to have occurred in a six-year period from 2000 to 2005. Over the ten-year period between 2000 and 2010, the City added 125 resident households, or an annual average of 12 to 13 households per year. At an annualized rate, this would be growth of approximately 1.4%. However, individual year estimates during that period point to more than 90% of the net growth achieved during the entire decade having occurred by 2005. After 2005, the average annual growth in Winsted was less than two households per year.

Over a twenty-year period from 1990 to 2010, growth occurred at a significantly faster rate, with an annual average of approximately 18 households per year. At an annualized rate this was growth of approximately 2.5% per year. It is possible that some of the growth over the 20-year period was the result of annexation activity, and may not reflect true community growth from new household formation. However, most of the growth was the result of new households forming or moving into Winsted.

Official household estimates from the State Demographer's Office exist to the year 2014. Between 2010 and 2014, the Demographer believes that the City has actually lost seven households. After the 2010 Census, very little new housing has been built in the City. With the possibility that some vacancies were present in 2014, the estimate has the potential to be accurate.

An alternate household estimate from ESRI, Inc., a private data reporting service, indicates that Winsted added 62 households from 2010 to 2014. However, it appears that only one or two new independent housing units were constructed in the City during this same time period. For growth of 62 households to have occurred, it would have been due to the availability of a large number formerly vacant housing units. This is doubtful, and the ESRI projection is viewed by the analysts as overly optimistic. Even if vacant housing had existed after 2010, there is no evidence that a substantial supply remains, so future growth utilizing vacant housing can no longer occur.

Based on the historical growth patterns, it would be reasonable to expect future growth of fewer than 10 households in a typical year within the City of Winsted. While a higher level of annual growth, up to 15 to 20 households per year has been achieved in the past, it has been more than 10 years since this level of annual growth has been sustained. Short-term patterns would actually point to fewer than three new households in a typical year going forward.

Available Household Projections

As stated on the previous page, ESRI has been much more optimistic about recent conditions in Winsted, estimating that the City has been achieving annual average household growth of 15 to 16 households per year since 2010. The accuracy of this estimate is in question, however, as there is no evidence that the local housing stock was sufficient to add this many households, as only one or two new units have been constructed in recent years.

Going forward, however, ESRI projects that Winsted will add only 27 additional households during their five-year projection period from 2014 to 2019. At an annual rate, this would be between five and six households in a typical year.

The Minnesota State Demographer's Office has not issued household projections at the city level, although population projections do exist. It is relatively easy to convert the population forecasts into households, provided a few basic assumptions are made about the number of group quarters residents and the probable future average household size. These calculations yield an extrapolated forecast that the City of Winsted can be expected to add approximately 40 households over a five-year period spanning from 2015 to 2020. Reduced to an annual average this would be approximately eight households in a typical year.

Using the available projections that exist from two independent sources, a reasonable expected future growth range for the City of Winsted would be between five and eight households in a typical year for the remainder of the current decade. To be achieved, it is probable that Winsted will need some increase in annual housing unit construction. There is no evidence that the existing housing stock can accommodate sustained annual growth at the level predicted, as few vacant housing units probably remain in 2015.

McLeod County Forecasts

Although the State Demographer's Office has not produced household projections at the city or township level in recent years, it has generated county projections. For all of McLeod County, the Demographer expects that 625 households will be added in the five-year period from 2015 to 2020.

Since household projections do not exist at the city and township level, distributing this countywide growth is not specifically defined. However, once again some extrapolation can be made from the Demographer's population projections. The projections expect the City of Winsted to capture 6.7% of the net County population growth between 2015 and 2020.

If an approximate capture rate of 6% to 7% is applied to the McLeod County household forecast, this would yield between 38 and 44 households between 2015 and 2020. At an annual level this would be approximately seven to nine households per year. This average annual growth level is very consistent with the other sources that have been examined.

The average annual forecast can be tested, as official yearly estimates exist through the year 2014. From 2010 to 2014 McLeod County has actually lost households, based on the most recent State estimates. It can therefore be argued that the projected gain of 625 households from 2015 to 2020 is now unrealistic. However, as economic, employment, and housing market conditions continue to improve, it is possible that a modest growth rate will return to McLeod County and the larger communities in the County.

Met Council Forecasts for Western Hennepin and Northern Carver Counties

The Metropolitan Council does not cover McLeod County, but there are jurisdictions in western Hennepin County and northern Carver County that are covered by the Met Council's service area. These jurisdictions include Watertown, Mayer, New Germany and St. Bonifacius. In 2014, the Met Council issued revised household projections for these individual jurisdictions, reflecting their latest expectations based on recent growth trends. In general, these show a significant downward revision for the communities that are immediately south and east of Winsted.

Prior to the most recently issued projections in 2014, the Metropolitan Council had been operating with much more optimistic forecasts. The previous projection sets had been created using a continuation of the rapid growth period of the early and mid-2000s.

The original projections for the four aggregated cities of Watertown, Mayer, New Germany and St. Bonifacius had expected these combined jurisdictions to add 2,100 households between 2010 and 2020. However, with the housing market crash of the late 2000s, and the resulting change in outward migration patterns, the previous projections were proving to be very unreliable. The 2014 revised projections that were adopted by the Metropolitan Council now expect the four combined jurisdictions to add 468 net households from 2010 to 2020, or a level that is approximately 22% of the previous expectations.

Although the Met Council's most recent forecasting does not directly address Winsted and other McLeod County jurisdictions, they are an indicator of the latest observations on the westward expansion of the Twin Cities Metropolitan Area. The current belief is that the communities directly east and south of Winsted will grow at a substantially slower rate than had once been believed.

Each of the other growth indicators reviewed in this section expect that a limited amount of household growth is probable in Winsted for the remainder of the current decade. The Met Council's projections for nearby cities in western Hennepin County and northern Carver would be consistent with a future growth rate that is well below any expectations that had been created prior to the housing market slowdown that started late in the last decade.

Summary and Conclusions

It is important to stress that projections are an informed prediction of future activity. It is possible that Winsted could significantly outperform or underperform the probable scenarios outlined above.

However, multiple examinations tend to yield a realistic growth forecast that six to nine households could potentially be added in a typical year, and that a relatively similar number of housing units would be required per year in Winsted for the remainder of the decade. It can be argued that the housing downturn and national economic difficulties that have existed for several years suppressed growth and housing construction to a level that was lower than what normally should have occurred. The analysts acknowledge that a greater level of growth is possible, but a realistic forecast of fewer than 10 households per year can be supported by multiple different sources of information.

This would be total expected housing production to meet growth-generated demand. Based on past tenure patterns, approximately 20 to 30 owner-occupancy housing units and between 10 and 14 rental units would be needed. Some additional demand-generators also exist, especially due to pent-up demand for certain types of housing, and will be discussed in the specific development recommendations that are presented later in this document.

Building Permit Trends

Like many communities in Minnesota, Winsted has been experiencing a lower level of new housing construction activity over the past few years. In the first half of the previous decade, construction activity had been very strong. Activity slowed significantly after 2005, and since 2011 the City has been averaging fewer than two new units per year. The following table identifies the units that have been issued a building permit from January 2000 through May 2015.

Table 19 Winsted Housing Construction Activity: 2000 to 2015*				
Year	Single Family	2 Unit Structure	Multifamily Rental	Total Units
2015*	2	0	0	2
2014	1	0	0	1
2013	1	0	0	1
2012	0	0	0	0
2011	0	0	16 rooms**	0
2010	0	0	0	0
2009	1	0	0	1
2008	1	0	0	1
2007	2	0	0	2
2006	5	2	0	7
2005	19	4	0	23
2004	17	0	0	17
2003	42	0	0	42
2002	14	0	0	14
2001	43	0	0	43
2000	19	0	16	35
Total	164	6	16	186

Source: U. S. Census Bureau; City of Winsted * January through May 2015

** 16 room memory care/respice care facility that would be classified as group quarters

Most of the new housing unit construction activity in Winsted over the last 16 years occurred between 2000 and 2005. During this six-year period, 174 units were permitted, or nearly 94% of the total construction activity total dating back to the year 2000.

After 2005, activity slowed substantially. In the nine-year period from 2006 to 2014, only 13 new housing units were permitted, or an average of less than one unit per year. There were some additional senior memory care units created, but these do not represent housing for independent living. There had been two single family permits issued by May 2015, and it is possible that the current year will achieve a higher unit count than in the recent past.

Like many of the cities in the immediate region, Winsted experienced a small-scale “housing boom” in the early half of the prior decade. The highest single years of construction were in 2001 and 2003, when 43 and 42 single family houses were permitted, respectively. However, by 2010, no new single family houses were permitted, and since that time, the highest annual total has only reached two houses.

Very limited multifamily construction can be identified in Winsted over the past 16 years. There were 16 multifamily units permitted in 2000, when two eight unit apartment buildings were built. In 2011, 16 sleeping rooms were added as part of the Garden House at St. Mary’s project, but this represents very specialized care housing for people with memory loss issues.

While the City did achieve a significantly higher level of single family construction in the first half of the previous decade, there is some evidence that this was a time of over building. From 2000 to 2009, approximately 169 single family housing units were permitted in Winsted, include some twin homes. However, based on Census records, only 103 owner-occupancy households were added to the community between 2000 and 2010, below the level of new unit construction. This implies that actual demand for houses was lower than the production level.

There are possible explanations for some of this discrepancy. One was the foreclosure crisis that impacted the region late in the decade. Prior to the completion of the 2010 Census, a number of former home owners may have lost their houses to foreclosure or distressed sales. Some of the houses may have been vacant and listed for sale at the time of the 2010 Census.

Some of the discrepancy between housing construction and owner-occupancy can be explained by unit conversion, as Winsted added 56 rental housing units between 2000 and 2010, although only 16 of these were through new construction projects. This implies that up to 40 units represented older housing that became available for rent, including some single family homes that had been owner-occupied in the year 2000, but switched to rental use by 2010.

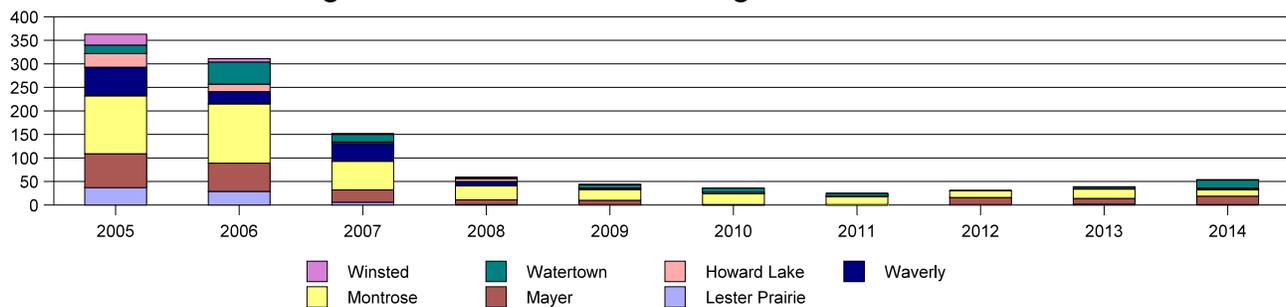
Regional Building Permits

The following table examines total housing unit construction activity for a ten-year period for nearby jurisdictions in Wright, Carver and McLeod Counties. The primary source for this information was the U.S. Census Bureau.

Table 20 Regional Housing Construction Activity: 2005 to 2014								
Year	Winsted	Waverly	Howard Lake	Montrose	Watertown	Mayer	Lester Prairie	Total Units
2014	1	4	0	15	17	18	1	56
2013	1	3	2	13	4	12	2	37
2012	0	0	0	20	1	15	1	37
2011	0	0	0	14	6	1	0	21
2010	0	1	0	17	9	1	0	28
2009	1	0	3	23	7	9	1	44
2008	1	3	0	23	2	10	1	40
2007	2	9	6	30	16	26	6	95
2006	7	38	3	61	47	60	29	245
2005	23	26	16	126	18	72	37	318
Total	36	84	30	342	127	224	78	921

Source: U.S. Census Bureau; Community Partners Research

Regional Cities Annual Housing Unit Construction



In the 10-year period between 2005 and 2014, the jurisdictions that are immediately north, east and south of Winsted issued building permits for more than 920 total housing units. However, more than 61% of this ten-year total occurred in the two-year period from 2005 and 2006. As a national housing bubble collapsed in 2007, construction activity slowed significantly. In the eight years after 2006, approximately 360 units were permitted, or an annual average of only 45 units per year for all of the combined jurisdictions.

The last full year reported, 2014, did represent the highest level of unit production since 2008. However, this was primarily due to stronger year-over-year unit production in the City of Watertown. This can be partly attributed to financial incentives that Watertown began offering for new home construction, which were valued at more than \$9,000 per house.

Over the entire 10 years reviewed, very few multifamily housing projects were permitted in the selected communities. No larger-scale traditional rental projects could be identified. There were probably some specialized senior projects, such as Garden House in Winsted, that are not always reflected in residential permitting, since they include extensive care services.

Comparison of Housing Starts to Home Ownership Growth

In the section above, a 10-year period from 2005 to 2014 was analyzed for certain jurisdictions that are located close to Winsted. However, a total can also be assembled for the years 2000 to 2009, which allows for comparison to 2010 Census records.

In the time period between 2000 and 2009, the Cities of Winsted, Howard Lake, Waverly, Montrose, Watertown, Mayer and Lester Prairie issued building permits for approximately 2,130 single family-style housing units that would appear to be intended for owner-occupants. While the large majority of these permitted units were identified as single family structures, there did appear to be a small number of attached units, such as twin homes or town houses in the total. The analysts have assumed that the attached units were also for owner-occupancy.

The period between 2000 and 2009 has been examined, because this largely coincides with the timing of the decennial Census. Units permitted in 2000 would probably not have been available for occupancy in April of that year when the 2000 Census was conducted. Conversely, units permitted in 2009 would have probably completed construction by April 2010, when that Census was completed. Therefore, the construction of these 2,130 single family units can be compared to occupancy and tenure patterns, as recorded by the Census Bureau.

Between 2000 and 2010, the seven selected cities had a net gain of 1,730 home owners, 400 households below the level of 2,130 single family units that were constructed. In each of the seven Cities, the level of home construction exceeded the corresponding growth number for home owners. This would imply that some units that were available for home ownership were either vacant or renter occupied by 2010.

There are various factors that probably contributed to the disparity between construction and home ownership. One issue was home foreclosures, which began to increase after the year 2007. By 2010, a number of households that had purchased a home were no longer home owners. While home foreclosure was a multifaceted issue, it was partly due to buyers that overextended their ability to pay, and some of which that should not have been in the ownership market.

If only the unit construction statistics are examined, it would appear that average annual demand between 2000 and 2009 approached 215 ownership units per year. However, if actual tenure change is analyzed, the demand for home ownership options between 2000 and 2010 was only 175 units per year within Winsted and the nearby communities.

Existing Home Sales

This section examines houses that have been sold within recent years in the City of Winsted. Information was obtained from the McLeod County Assessor's Office.

McLeod County collects and utilizes information from residential sales for the County's sales ratio study. The County compares the fair market sale price to the estimated taxable value for each home. As a result, the County information primarily reflects existing homes that have an established tax value. New construction sales activity would generally not be recorded in the data that was used for this analysis, unless the house had been constructed some time prior to the final sale and did have an established tax value. However, some of the annual sales in Winsted over time do appear to be sold by builders/developers, so some new construction is reflected in the analysis that follows.

The County also sorts the sales data into "qualified" and "unqualified" groupings. Qualified sales are also referred to as good sales, because they are fair market transactions. Unqualified sales are rejected because they are not considered to be fair market transactions. There are multiple reasons for rejecting a sale, but some are becoming more common, including sales of "bank-owned" properties, and foreclosures/short sales. Additional reasons for rejection would include transfers between related parties, or sales that were not conducted in the open market.

The sales reports obtained from the County did not differentiate between different styles of houses. All of the sales are for single family units, but they may potentially be for attached housing units, such as twin homes, town houses or condominiums. However, most of the houses in Winsted are in the form of detached single family homes.

Information was available on the "adjusted" sale price for each property. The Assessor's Office makes adjustments based on items that may have been included in the sale, such as personal property that was sold with the house, or if financial considerations are included, such as the seller assuming certain closing costs that would typically be paid by the buyer. The adjusted sale price is generally viewed as a better indicator of the true value of the real estate transaction.

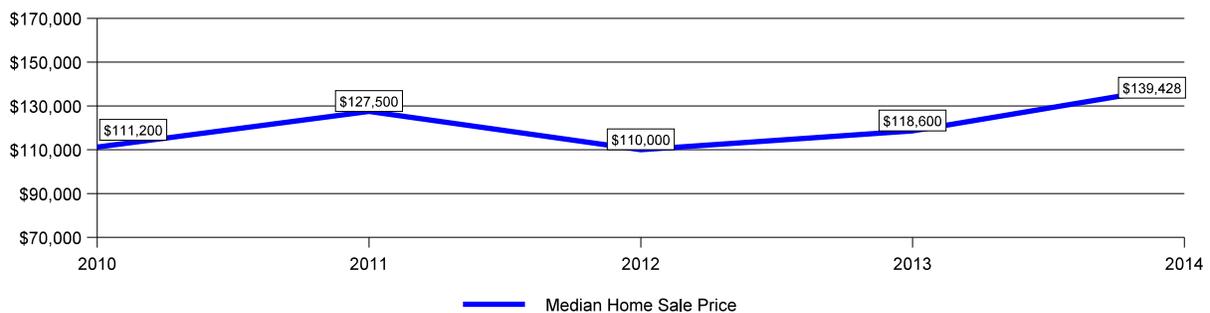
Information was available for each calendar year, from 2010 to 2014. Sales activity for the first four months of 2015 was also obtained, but this partial-year data may not be an accurate indicator of full-year activity.

Table 21 Winsted Residential Sales Activity - 2010 to 2015*				
Sales Year	Number of Sales	Median Price	Highest Sale	Lowest Sale
2015 (partial)	11	\$155,103	\$525,000	\$98,205
2014	30	\$139,428	\$410,000	\$70,810
2013	20	\$118,600	\$320,000	\$58,561
2012	18	\$110,000	\$212,000	\$60,000
2011	10	\$127,500	\$375,000	\$92,000
2010	10	\$111,200	\$142,923	\$92,350

Source: McLeod County Assessor; Community Partners Research, Inc.

As evident in the table, there has been some variation in the annual volume of “good” residential sales. In 2010 and 2011, only ten good residential sales were identified. During these years it is probable that an above-average number of distressed sales, including foreclosures, were taking place, which could have had a negative impact on open market transactions. However, in 2014, there were 30 good sales, the highest during the time period reviewed, and the year-to-date activity in 2015 was also proceeding at a greater level than was achieved in all of 2011.

Median Home Sale Prices in Winsted: 2010 to 2014



With some individual years having a low volume of sales, the actual midpoint sales price may not always be a good reflection of overall home values. However, over the five-year period, the median remained within a relatively stable price range, from a low of \$110,000 in 2012, to a high of \$139,428 in 2014, the last full year of data. Based on partial-year activity, the median sale price for 2015 has moved even higher, but this may change when a full 12-month period is available.

In four of the past six years, at least one house has been sold for more than \$300,000. In each of the years, there has been at least one house that sold for less than \$100,000.

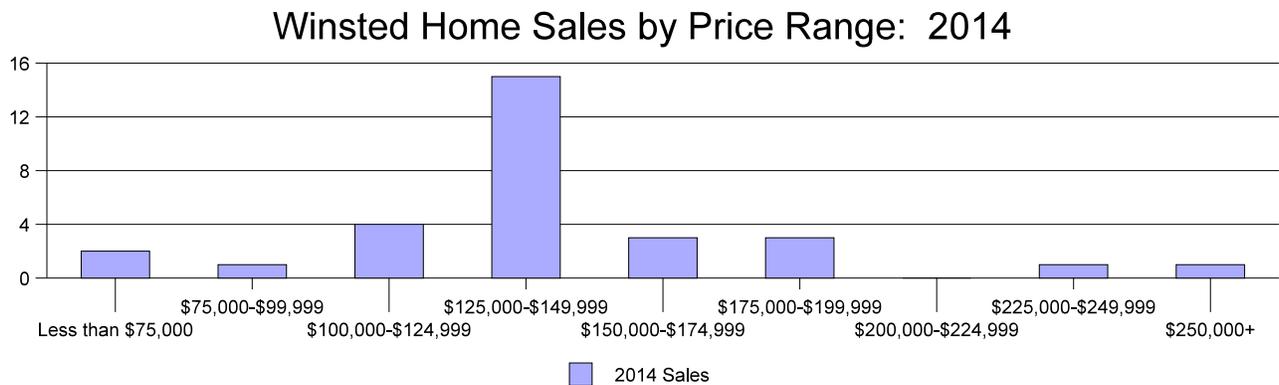
Recent Home Sales by Price Range

The following table looks at single family houses that sold in 2014 in Winsted by defined price ranges. This information is from McLeod County's sales records.

Table 22 Winsted Home Sales by Price Range: 2014		
Sale Price	Number of Sales	Percent of Sales
Less than \$75,000	2	6.7%
\$75,000 - \$99,999	1	3.3%
\$100,000 - \$124,999	4	13.3%
\$125,000 - \$149,999	15	50.0%
\$150,000 - \$174,999	3	10.0%
\$175,000 - \$199,999	3	10.0%
\$200,000 - \$224,999	0	0%
\$225,000 - \$249,999	1	3.3%
\$250,000+	1	3.3%
Total	30	100%

Source: McLeod County Assessor; Community Partners Research, Inc.

While there was a broad distribution for home sale prices in 2014, half of the sales were in a range between \$125,000 and \$149,999. Only three recent sales were for less than \$100,000 and only two sales were above \$200,000.



Active Residential Listings

The website Realtor.com, maintained by the National Association of Realtors, was used to collect information on active residential real estate listings in Winsted. A review in May 2015 found 22 single family homes listed for sale. There were also six twin home/town house units listed for sale. There were a few additional properties with acreages that appeared to be outside of the city limits but with a Winsted mailing address.

It is important to note that the active properties are those included in the Multiple Listing Service (MLS) and would generally be offered through a real estate agent. There are other properties that are posted for sale in Winsted that would not be part of the MLS, including most homes being offered "for sale by owner".

The following table examines the MLS listings by listing price. It includes all types of homes as posted on Realtor.com, including the attached single family units. Some of the listings were identified as foreclosures.

Table 23 Winsted Active MLS Listings by Price - May 2015		
Asking Price	Number of Listings	Percent of Listings
Less than \$100,000	6	21.4%
\$100,000 - \$124,999	0	0%
\$125,000 - \$149,999	12	42.9%
\$150,000 - \$174,999	4	14.3%
\$175,000 - \$199,999	2	7.1%
\$200,000 - \$224,999	1	3.6%
\$225,000 - \$249,999	1	3.6%
\$250,000+	2	7.1%
Total	28	100%

Source: Realtor.com; Community Partners Research, Inc.

Based on the listings on Realtor.com, most of the houses being offered for sale were priced below \$200,000. Overall, more than 85% of active listings in May 2015 were priced at \$199,999 or less. This included approximately 64% of the listings that were priced at \$125,000 or less.

Winsted Bank-Owned Sales Activity

There were additional home sales in recent years that were not viewed as fair market transactions. One of the reasons that a sale can be rejected as a qualified sale is because it was a transfer by the mortgage holder.

The McLeod County Assessor's Office was able to supply information on "unqualified" sales in Winsted between 2007 and 2014 where the seller was listed as a financial institution, including public agencies such as HUD, VA or MHFA. While this analysis may not identify all bank-owned sales, due to the limited details available in the public records, it does provide some indication of the possible extent of these types of distressed sales.

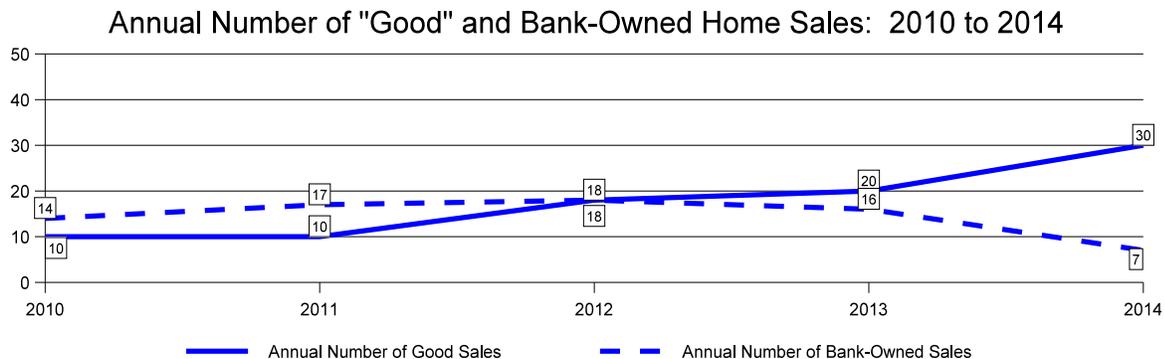
Table 24 Winsted Bank-Owned Sales - 2007 to 2014

	2007	2008	2009	2010	2011	2012	2013	2014
Number	9	20	15	14	17	18	16	7

Source: McLeod County; Community Partners Research

There was a rapid rise in the number of bank-owned sales in Winsted between 2007 and 2008, as the national economy moved into recession and housing markets began to retreat. In Winsted, the peak year for bank-owned home sales occurred in 2008, when 20 sales were recorded by the County. After 2008, the number of bank-owned sales then decreased for the next two years, before beginning to rise again. In 2012, the second highest level of sales occurred. However, by 2014, the number of bank-owned sales was lower than the level recorded in 2007.

The following chart displays the number of "good" sales that occurred from 2010 to 2014, as well as the number of bank-owned sales each year.



In each of the last two years, the number of bank-owned home sales in Winsted has been lower than the number of fair market transactions.

McLeod County Home Foreclosure Activity

Starting in 2006, many national reports began to surface about the growing number of home foreclosures. Initially linked to the popularity of adjustable rate mortgages and the expansion of sub-prime mortgage lending, as many housing markets cooled and the national economy moved into a period of recession, the foreclosure crisis spread to broader segments of the housing market.

HousingLink and the Greater Minnesota Housing Fund have been tracking mortgage foreclosure activity across the State for the past few years. They produced annual foreclosure reports from 2007 to 2013. Their reports provide details on foreclosure activity at the County level back to the year 2005, as well as a comparison with other Counties in the State.

In addition to collecting information on the number of foreclosures, based on Sheriff's Sale data, HousingLink has also attempted to calculate a rate of foreclosure, by comparing the annual total to the number of residential parcels in each County. While this rate calculation does not yield a perfect number, it does allow for a standardized comparison measure among all of the Counties in the State. The following table presents the actual number of foreclosures, followed by the calculated rate of foreclosure, as calculated by HousingLink.

Table 25 McLeod County Home Foreclosures - 2006 to 2013									
Foreclosures	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number	56	72	142	159	135	200	178	135	93
Rate	0.46%	0.58%	1.13%	1.26%	1.09%	1.58%	1.41%	1.07%	0.73%

Source: HousingLink; Community Partners Research

Based on the HousingLink data, McLeod County was significantly impacted by home foreclosures. This was especially true for the years from 2008 to 2012. In 2013, the number of annual foreclosures dropped to the lowest level since 2006.

HousingLink also attempts to put the rate of foreclosure in perspective, by comparing the number of foreclosures to the total number of residential parcels in the County. For comparative purposes, McLeod County still had the 17th highest rate of foreclosure among Minnesota's 87 Counties in 2013, the last full year of data.

Residential Lots

In 2015, Winsted has only a small inventory of improved residential lots. There have been no new subdivisions created in many years, and the available lot inventory exists in remnant lots that remain in subdivisions that are largely built-out.

Grass Lake Farms was one of the last subdivisions created for single family detached houses. The first development phase in this subdivision started in 2002, and more than 70 lots were planned in the first two phases. While the first phase largely coincided with the boom years for housing construction, lot sales slowed significantly in the second phase. Some of the vacant lots eventually went through foreclosure, and at least three bank-owned lots were listed for sale in 2014 at prices ranging from \$21,900 to \$23,900. By 2015, these lots were no longer listed. According to local sources, four vacant lots remained in Grass Lake Farms in early 2015, and these are all owned by a single investor.

The next phase, with 37 lots, had been platted at Grass Lake Farms shortly before the downturn in the housing construction market, but no infrastructure improvements were ever completed. This land eventually went through a foreclosure process, and is bank-owned at the time of this Study. This parcel is actively listed for sale, with approximately 16.5 acres listed for \$212,700.

Another subdivision, known as Winsted on the Lake, also has some vacant lots in 2015, although most of these are platted for attached single family units, such as twin homes or four-unit structures. According to local sources there are approximately 15 lots for attached housing and seven lots for detached house, although some of the detached lots may not be actively listed for sale.

The first development phase at Winsted on the Lake began in the late 1990s, and over time lots were developed for both attached and detached homes. The website Realtor.com listed attached single family lots in Winsted on the Lake, ranging from \$7,500 to \$14,900.

A few other remnant lots are also listed on the MLS, including a one acre lot on Lake Winsted that is available for \$119,900. This lot had been listed for more than nine months.

Competitive Environment

Overview

Winsted is located in the northeastern corner of McLeod County. Immediately north of the County border is Wright County, and a string of cities along Highway 12, including Howard Lake, Waverly and Montrose. To the immediate east and southeast is the border with Carver County, and the Cities of Watertown, Mayer and New Germany. South of the City, in McLeod County, is the City of Lester Prairie.

According to Mapquest, each of these communities is 15 miles or less from Winsted. Like Winsted, each of these communities has benefitted in the past from their locations within commuting distance of the Twin Cities Metropolitan Area. As the Twin Cities expanded westward, especially during the first half of the previous decade, these communities all experienced a housing construction boom. As the housing market collapsed later in the previous decade, all of these communities experience severe decreases in the level of single family home construction.

There are some additional cities, including Hutchinson and Cokato, which also compete with Winsted. However, both of these communities are west of Winsted, and farther removed from the Twin Cities. While they do have the potential to also attract commuters, their locations are less competitive in attracting growth due to the westward expansion of the Twin Cities.

Each of the identified communities that are within 15 miles of Winsted has capacity to add housing units. The following summary is provided for each city, identifying past housing construction activity and the available supply of residential lots for future construction.

City of Howard Lake

Howard Lake is located directly north of Winsted. The two cities are part of the same school district, and a new high school was constructed midway between the two communities. Howard Lake and Winsted have generally experienced somewhat similar market conditions for new housing construction. In the housing boom years from 2000 to 2005, Howard Lake issued building permits for approximately 100 single attached and detached units, compared to approximately 160 in Winsted. After the boom ended, both communities have averaged only one to two single family housing starts per year.

Howard Lake continues to have a large inventory of improved residential lots. Most of this inventory exists in three specific subdivisions.

Woodland is a privately-owned subdivision that has many lots available for single family construction. An active website exists with a sampling of lots listed. The posted prices range from \$27,900 to \$29,900.

Dutch Lake Preserve is a subdivision with lots available for single family and twin home construction. In 2013, this development went into tax forfeiture. As many as 14 single family lots and 18 twin home unit lots probably still exist in Dutch Lake Preserve. However, there has been interest in combining the twin home lots into larger lots for detached single family homes. In 2015 the City Council lowered the special assessment amounts per lot to help facilitate the development of single family homes, and they were recently sold to a single developer.

Terning Trails is primarily City-owned, having been acquired through a deed in lieu of tax forfeiture. Terning Trails has nearly 70 single family lots that are City-owned, plus some privately-owned lots. Terning Trails had originally been part of the Greater Minnesota Housing Fund's Building Better Neighborhoods initiative. No houses have ever been built in this subdivision.

In 2014, the City was hoping to develop a home ownership incentive program that will significantly lower the costs for entry-level buyers. This would include tax increment financing assistance to income-eligible households, along with potential down payment assistance, gap financing, and first-time home buyer mortgages. The goal would be to generate homes with a price that is less than \$150,000 for the end buyer. In 2015, no action had yet been taken on incentives.

The total inventory of lots in Howard Lake is estimated to be between 150 and 175 improved lots. Over the past seven years, the City has averaged less than one new single family home per year.

City of Montrose

The City of Montrose is the comparison community that is located the greatest distance from Winsted. However, one of the primary routes for travelers to the Twin Cities area using Highway 12 would pass through Montrose, making it a direct competitor for households looking to live in a smaller community that is located near the western Twin Cities. Of the Wright County cities along Highway 12, Montrose has actually been the fastest growing community in the past, adding even more households and housing units than Delano from 2000 to 2013.

Due to its strong past success with housing development, Montrose had experienced a substantial amount of subdivision development activity during the boom years of the prior decade. In 2005, building permits were issued for 126 houses in Montrose. By 2006, this volume had been cut in half, and was at 61 houses. In 2007, the volume was cut in half again, down to 30 houses. By 2013, only 13 houses were permitted in Montrose. In 2014, there were 15 single family houses permitted. While the number of houses in 2014 was higher than in many of the other communities examined in this section, it was still less than 12% of the volume the City had achieved in 2005, before market conditions began to deteriorate.

A lot inventory completed in 2014 found that the City's largest subdivision had an estimated 120 lots available for single family detached construction, and more than 20 lots for twin home units. However, according to City staff, this subdivision was effectively dormant 2014, as lots were not readily available for purchase. Due to the rapid decrease in lot prices, the owners of the subdivision were not actively marketing lots. Instead, they were reportedly waiting for lot and home prices to recover. As a result, it is doubtful that the houses built in Montrose in 2014 were in this subdivision. According to City staff, pricing for the lots in this subdivision were originally in the \$32,000 range. Recent sales in other Montrose subdivisions have since dropped below \$20,000.

The other larger subdivision in Montrose that has been active had approximately 50 remaining lots in March 2014 for single family construction. Although this subdivision probably accounted for most of the 15 permits issued in 2014, an estimated lot inventory of more than 30 vacant lots should have remained available in 2015. All of the lots in this subdivision are owned by a single developer and an exclusive builder constructs the homes. According to City staff, average lot pricing is approximately \$17,000, although corner lots may be higher. The current owner of this development acquired it after foreclosure and may have less than \$3,000 invested per lot.

The most active subdivision in Montrose was the most recent phase of development in a larger housing area. Originally, houses built in this area were in a moderate to higher price range. However, most recently the new subdivision owner has been focusing on more affordable houses, primarily in the \$150,000 to \$220,000 price range. This has somewhat changed the composition of the neighborhood and resulted in some controversy with longer-term residents.

The owner of the most active subdivision has access to additional adjoining land that could also be developed. However, this would require infrastructure investment. The lots in the current subdivision were purchased at a significant price discount and the owner has a much smaller investment per lot, which has helped to contribute to attractive home pricing.

The affordable houses being constructed may include some model home/speculative construction activity. In the past, the developer/builder have been willing to construct one or two houses as models. These models are then offered for sale, and if one is sold, another is constructed. This is one of the few identified examples of speculative home construction that has been identified in the area.

The other construction activity in 2014 utilized remnant lots that remained in some older subdivisions. One smaller cul-de-sac area has been the site of some affordable construction in 2014, with houses valued below \$160,000. However, only four or five lots remained in this area in 2014, so the volume that will occur at this site will be limited going forward.

City of Waverly

The City of Waverly is located north of Winsted, along Highway 12 in Wright County. Waverly had four or five years of strong single family home construction in the mid-2000s, but after 2006, new single family construction slowed significantly. Over the past seven years, Waverly has averaged less than two new houses per year, although four houses were permitted in 2014, and through the first five months of 2015 four permits had been issued, already matching the 2015 annual total.

During the boom construction years, Waverly had a large amount of lot development activity. As the market crashed, nearly all of the subdivisions went into foreclosure, and most then emerged as bank-owned or investor-owned properties. City staff estimated that approximately 300 vacant lots were available in early 2014. With only eight houses permitted since that time, this large inventory remains largely unchanged in May 2015.

There are at least three large subdivisions with large unsold lot inventories. Carrigan Meadows, Windgate at Carrigan Lake, and Woodland Shores have all gone through foreclosure or have transferred ownership, and are now owned by a financial institution or were acquired by private investors.

Carrigan Meadows has an active website and all available lots are listed for sale at \$10,900. Limited pricing information could be identified for Windgate at Carrigan Lake, but one listing existed for a lot at \$24,900, with new house options identified from the mid-\$160,000s. Only one listing could be found for Woodland Shores, with that lot priced at \$17,900, but this may have been a re-sale by a private owner.

Before these subdivisions entered foreclosure, lot pricing in Waverly was typically between \$30,000 and \$40,000. In 2014, City staff indicated that there were second-hand reports some that lots were being sold for \$8,000, so discounting of the posted prices may have occurred in the recent past.

There is one additional development area, originally known as Carrigan Estates, that the City acquired through tax forfeiture. This was originally a Planned Unit Development (PUD) project that had as many as 54 lots. Units were constructed as single family detached housing, but the land was association-owned. When the association failed, and the lending institution failed, the project went into City ownership. The City took the necessary legal action to re-plat the development, and then sold the developed lots to the individual owners of the 16 housing units that were already constructed.

In 2015, the vacant lot inventory of 20 lots was sold to a single developer that uses an exclusive home builder. The agreement that was part of the bulk sale requires four houses to be built in 2015, and a speculative home will soon be constructed. While most homes will be built as ordered, the initial target price for most homes was \$182,000. The developer was able to acquire the improved lots at an average price of \$7,500 per lot, with all assessments paid. This reduced land/infrastructure cost can help to yield a more affordable home purchase price.

There have been a large number of past home foreclosures in Waverly, which impacted home sale prices. By 2014, City staff believes that most of the bank-owned home inventory had been sold, which could benefit new construction activity going forward. While the four houses permitted in 2014 were the highest annual level since 2007, it still represented less than 11% of the construction volume achieved in Waverly in 2006, before market conditions deteriorated. It does appear that 2015 will exceed 2014 for the number of homes built.

City staff believed that many of the people that bought or built a home in Waverly are commuters that travel east toward the Twin Cities area for employment.

City of Watertown

Watertown is located directly east of Winsted, in Carver County. Carver County is part of the seven-County Twin Cities Metropolitan Area. As one of the fastest growing Counties in the Twin Cities area, Watertown was benefitting from the continued western expansion of the metropolitan area.

Between 2000 and 2004, nearly 400 single family homes were permitted in Watertown. However, from 2005 to 2014, only 127 additional houses were permitted. The low point was reached in 2012, when only one new house was permitted in the City.

In 2014, there were 17 houses permitted in Watertown, the largest volume since 2006. However, this uptick in construction was assisted through a special City incentive program that was offered. In 2014, Watertown had a program that waived sewer/water/storm sewer connection fees for the first 15 single family units. The approximate value of the waived fees was \$9,500. In the first two months of the program, 10 single family permits had been issued. There were 17 single family permits were issued for the entire year, so most of the activity had started shortly after the incentives were introduced. Only two houses appear to have been constructed that did not receive the incentive package.

While there is no formal verification that the incentive program directly caused increased home building, this is certainly implied from the results, as 2014 represented a substantial improvement over the level of home building that was occurring immediately prior to the start of the incentives.

The primary reasons that the program was created in Watertown were the combination of a low volume of single family housing starts and a large inventory of improved lots, estimated at approximately 385 lots in Watertown in 2014. While some of these lots were used in 2014 and so far in 2015, it is probable that 350 or more vacant lots remain available. No specific pricing information was obtained from the various lot offerings in Watertown.

Despite the apparent success of the City's incentive program, it was discontinued after 2014, due to the substantial cost per unit. Near the end of May in 2015, the City had issued four single family building permits and had two more in plan review. While there is no guarantee that the 2015 activity will reach the number of permits issued in 2014, the City had already exceeded the annual volume of units achieved in 2012 and 2013.

City of Mayer

The City of Mayer is located approximately 15 miles southeast of Winsted, in Carver County. The northern edge of Mayer borders with Highway 7, a major traffic route into the Twin Cities to the east, and Hutchinson to the west. Mayer is also located near Waconia, one of the larger cities in Carver County.

Prior to the housing market crash in the previous decade, Mayer was a very active community for developers, and at least four active subdivisions still have lots available in 2015. However, the number of lots that remain in any one subdivision is not overly large. Due to development plans that brought lots forward in smaller development phases, as construction activity slowed, none of the subdivisions had an overly large inventory when construction began to slow. As a result, it does not appear that any of the newer subdivisions went into foreclosure.

Despite the fact that no foreclosures occurred, at least two of the subdivisions sold all of their remaining lot inventory to a single buyer. These are now marketed under an exclusive builder arrangement, according to City staff. Coldwater Crossing has approximately 15 to 20 lots, and Hidden Creek has between 20 and 30 lots that now are owned by a single developer/home builder.

Fieldstone has as many as 20 to 30 vacant lots, although some of these may be scattered throughout the development, including remnant lots that may remain from earlier development phases.

Sunset Meadows was developed for twin home construction. There are 12 to 13 building sites that remain, representing 24 to 26 housing units. In recent years, one or two twin homes per year have been constructed.

In 2005, there were 72 single family housing starts in Mayer. By 2010, this had dropped to only one new house. The City has been rebounding recently, with 18 total units permitted in 2014, the largest volume since 2007. However, activity in 2014 was still at only 25% of the unit volume in 2005.

There has been no multifamily rental construction in Mayer. All of the housing is in the form of single family detached houses or twin homes.

A few years ago the City had been offering a \$1,000 construction incentive per unit. However, the City concluded that this limited incentive was not directly generating additional construction activity and the program was ended.

City of Lester Prairie

The City of Lester Prairie is located to the south and east of Winsted, and is also within McLeod County. Like other communities in the region, Lester Prairie has experienced large changes in the level of new home construction over time. In 2005 and 2006, the City was averaging more than 30 single family housing starts per year. In both 2010 and 2011, no homes were built. Since 2007, there has only been one year when two homes were permitted, and the annual average since that time is less than one house per year.

There are two newer subdivisions that remain in Lester Prairie with an unsold inventory of lots. Based on internet listings, Prairie Ridge has 20 or more vacant single family lots that are actively listed for sale. Posted lot prices range from \$12,900 to \$15,900 for an improved lot. There is also an additional 38-acre parcel that was planned for a future subdivision development phase that is actively listed for sale. Infrastructure improvements were not completed on this 38-acre parcel. Some of the lots in this subdivision may be available for town house construction in four unit structures.

The other active subdivision is East Park Estates. While specific information could not be obtained, City staff indicated that between six and eight vacant lots probably remain available. No pricing information was identified, but one lot is actively listed for \$29,900. It appears that this lot is being re-sold by a private owner.

According to City staff, neither of the subdivisions went into foreclosure. However, the developer of Prairie Ridge is attempting to sell the parcel that was planned for future development, rather than proceeding with another subdivision phase.

Rental Housing Data

According to the 2010 Census, the City of Winsted had 246 occupied rental housing units, and at least 34 unoccupied rental units, for a total estimated rental inventory of 280 units. The City's rental tenure rate was 26% in 2010, slightly below the Statewide rental rate of 27%.

At the time of 2000 Census, Winsted had 224 occupied rental units, and at least four vacant units, for a total rental housing inventory of 228 units. The City's percentage of occupied rental units in 2000, at 27.3%, was above the Statewide rate of 25.4%.

Based on a reconciliation of Census data, the City added 22 renter-occupancy households, and at least 56 rental housing units over the previous decade. During the decade there was very limited development of new rental housing in Winsted. Only 16 apartment units can be identified from building permit records. Based on the net gain in renter households and units as counted by the Census, it is probable that a significant level of unit conversion occurred, as units that had formerly been owner-occupied were changed to rental use.

The belief that units changed from owner to renter-occupancy is supported by statistics on home ownership. Between 2000 and 2009, there were approximately 169 single family houses (both detached and attached) that were issued a building permit in Winsted. It is assumed that any unit permitted in 2009 would have been suitable for occupancy when the Census was conducted in April 2010.

During the decade from 2000 to 2010, the City had an increase of only 103 owner-occupancy households, approximately 66 lower than the level of new single family construction. This would imply that much of the net gain of 50 to 60 rental units in Winsted was the result of single family housing/mobile homes being converted into rental use. The level of overall unit vacancy also increased over the decade.

Construction After 2010

After the 2010 Census was completed, no new traditional rental housing construction has occurred, based on building permit reports. One specialized senior project, Garden House, has been added, but these are considered group quarters housing, and not rental units for independent living. While it is possible that some minor unit conversion/unit removal has occurred since 2010, it is assumed that the City's total rental inventory in 2015 is generally similar to the level that existed at the time of the 2010 Census.

Rental Housing Survey

In May 2015, a telephone survey was conducted of multifamily rental developments in Winsted. The survey focused on rental properties with six or more units. The table that follows presents information for market rate, subsidized, and senior housing with services projects separately.

There were 189 independent housing units of all types that were contacted in the survey. This total includes assisted living apartments, since they would probably be counted as an individual living unit by the Census. However, memory care rooms and nursing home rooms have been excluded from the rental count. The fully functional rental housing units that were surveyed represent approximately 65% to 75% of the City's estimated total of rental housing units.

The units that were successfully contacted include:

- ▶ 125 market rate units
- ▶ 40 subsidized units for senior/disabled occupancy (including occupancy preference)
- ▶ 24 subsidized units for general occupancy

In addition to these independent living units, information was also obtained from specialized care housing providers.

The findings of the survey for different market segments are provided below.

Market Rate Summary

Usable information was available from 11 different market rate properties with a combined total of 125 market rate units. All of the individual properties contained six or more rental units, although one of the defined projects is a mobile home park with 13 mobile homes that are offered as rental housing.

Unit Mix

Specific unit mix information was available for all of the market rate units, as follows:

- ▶ One-bedroom - 15 units (12%)
- ▶ Two-bedroom - 99 units (79.2%)
- ▶ Three-bedroom - 11 units (8.8%)

Occupancy / Vacancy

Within the market rate multifamily segment there were only two units reported as vacant, but one of these was being renovated, and was not currently available for occupancy. The estimated vacancy rate was less than 1%.

The one unit that was truly vacant was a one-bedroom apartment located above a commercial building in the downtown area.

Some property owner/managers indicated that demand can be more limited during the winter months, when any turn over units can be more difficult to fill. In the warmer weather months, multiple calls will typically result when a unit is advertised, although the general sentiment is that prospective tenants are often price-sensitive, and are shopping for an affordable option.

Rental Rates

Rental units may include the primary utility payments within the contract rent, or the tenant may be required to pay some utilities separately, in addition to the contract rent. In the following summary, Community Partners Research has attempted to estimate the gross rents being charged in the Winsted, inclusive of the tenant-paid utilities.

The lowest and highest gross rents have been listed, as reported to the telephone survey. There is a fairly limited prevailing range in Winsted, and the rents listed are generally representative of the gross rents being charged in Winsted.

<u>Unit Type</u>	<u>Lowest/Highest Gross Rents</u>
1-bedroom	\$400-\$570
2-bedroom	\$525-\$725
3-bedroom	\$650-\$825

It is important to note that there can be significant variation in the age and style of units reflected in the rent ranges above. All of the three-bedroom options are in mobile homes, which can vary in age, size and quality.

Tax Credit Summary

Since the late 1980s, the primary federal incentive program for the production of affordable rental housing has been through federal low income housing tax credits, also referred to as Section 42 housing. In Minnesota, tax credits are awarded annually on a competitive basis.

There has never been an award of tax credits for affordable housing within the City of Winsted.

There have only been three tax credit projects that were funded in all of McLeod County, and all of these were placed in service prior to the year 2000. North Place Apartments and Huski Townhomes are in Hutchinson, and Kestrel Park is in Glencoe.

Subsidized Summary

Winsted has only two rental projects that provide subsidized rental housing. One of these projects, Winsted Park Apartments, provides general occupancy housing and has 24 units. It is subsidized through USDA Rural Development. Linden Wood Apartments is subsidized through HUD, and has 40 units designated for senior (age 62 and older) or disabled tenant occupancy.

Unit Mix

The bedroom mix is as follows:

- ▶ One-bedroom - 54 units (84.4% of all units)
- ▶ Two-bedroom - 8 units (12.5%)
- ▶ Three-bedroom - 2 units (3.1%)

When originally built, part of the Winsted Park Apartments was designated for senior/disabled occupancy, although all of the units were later changed to allow for general occupancy. As a result, Winsted Park contains more one-bedroom units than would typically be present in a family-oriented subsidized project.

Occupancy / Vacancy

The rental survey found only one vacant unit in Winsted Park, and four vacant units in Linden Wood. The vacancy rate in general occupancy units was 4.2%, and the vacancy rate in the senior/disabled segment was 10%.

The estimated vacancy rate within the general occupancy segment can be somewhat misleading. Winsted Park does not have project-based rent assistance available for 10 of the units, and the reported vacancy was in a unit without rent assistance. The manager reported that a waiting list exists for units with rent assistance, but that some vacancies can occur in the other units. Although rent levels in the units without rent assistance are moderate, they may often be higher than 30% of the tenant's income level.

The four reported vacancies in Linden Wood were partly attributed to an above-average level of recent turn over. However, households on the project waiting list had been offered a unit but were not prepared to move, indicating limited pent-up demand for this type of housing. An income waiver existed so that one of the current vacancies could be rented by a higher income household.

Rental Rates

Although most of the subsidized units in Winsted can access project-based rent assistance, allowing rent based on 30% of income, there are 10 units in Winsted Park that do not have rent assistance. In these units, the tenant must pay at least the basic rent amount that applies to their unit. The vacant three-bedroom that was reported in Winsted Park has a basic rent of at least \$560 per month.

There are also four units in Linden Wood that can use a waiver to serve higher income people. The market rent for a one-bedroom would be \$877.

There is less demand for units without rent assistance, even though waiting lists may exist for the rent assisted units. Generally, a new tenant will not have access to a rent assistance unit, but over time, as turnover occurs, the assistance is offered to in-house residents that are income eligible.

Tenant-based Rent Assistance Vouchers

In addition to the subsidized projects with project-based rent subsidies, Winsted also has two households being assisted with HUD Housing Choice Vouchers in May 2015. Since this rent assistance is tenant-based, and moves with the household, the actual number of participating households within the City can vary from month to month.

Voucher assistance is issued to income-eligible households for use in suitable, private market rental housing units. With the assistance, a household pays approximately 30% of their income for their rent, with the program subsidy paying any additional rent amounts. The rent assistance is administered by the Kandiyohi County/McLeod County HRA, which is based in Willmar.

In all of McLeod County, between 130 and 150 Vouchers are typically available. Hutchinson and Glencoe are the primary communities for Voucher use in the County.

The HRA maintains a waiting list of households looking to secure a rent assistance Voucher. In May 2015, the waiting list had 18 names, but 24 households had recently been selected from the list and were being processed for a Voucher.

Subsidized Housing Total Inventory

When tenant-based rent assistance is combined with the units in the subsidized projects, there are as many as 66 households with access to some form of subsidized housing. This represented approximately 26% of all renter households that were present in the City in 2015.

Senior Housing with Services Summary

Winsted has a senior housing campus affiliated with the Winsted St. Mary's/Benedictine Living Community that offers a continuum of care for seniors in different residential facilities. All of the buildings in the complex are on contiguous sites, and are adjacent to a medical clinic.

Linden Wood Apartments, with 40 units, is a HUD subsidized property that is designated for senior (age 62 or older) or disabled tenant occupancy. All units in Linden Wood have access to project-based rent assistance, allowing rent based on 30% of household income. As a result, 36 of the 40 units also have income restrictions for tenants, generally capped at 50% or less of the area's median income level.

Although Linden Wood was originally constructed to provide independent senior housing, its location adjacent to the Benedictine Living Community has facilitated access to services, including two meals daily, through home health care contracts. With availability of services, this project allows people to "age in place", by contracting for services in their existing apartment rather than having to move into a different building as their needs increase.

Garden House at St. Mary's was constructed in 2011 and has 20 beds available in 16 rooms. As currently configured, half of the beds are used for people with memory care housing needs, primarily private-pay. The other half of Garden House offers 10 beds for respite care. There are unused beds in the respite care wing. If additional demand surfaced from memory care residents, they could occupy rooms in the respite care wing, since this is also a secured facility.

The Benedictine Living Community is licensed for 65 nursing home beds in 2015, and the licensed capacity has been stable for many years. One floor, with 24 beds, is used as a specialized memory care wing. An additional 10 beds are dedicated to rehab/recovery stays, and tend to serve short-term residents. The remaining 31 beds are available to longer-term nursing home residents.

Occupancy / Vacancy

In May 2015, there were four available apartments in Linden Wood, including one that could be occupied by a higher income tenant. The project did maintain a waiting list, but no one on the list was prepared to move in at the time.

Garden House had unoccupied rooms and beds, and had never achieved full occupancy since opening in 2011. When originally planned, all of the beds were intended for memory care residents, but due to insufficient demand, one wing is now offered for respite care, and these are being marketed to people needing assisted living care.

According to the Administrator, there are generally four or five beds in the memory care wing of the nursing home that are unutilized. The annual occupancy rate in the traditional nursing home beds for longer-term residents is high.

Rental Rates

In senior housing with services projects, monthly rates are largely impacted by the services being accessed by the resident. As a result, rent information was collected, but would need to be compared to type and level of services that are included.

Table 26 Winsted Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Market Rate					
<p>A Plus Apartments 521 6th St N 541 6th St N 590 Fairlawn Ave W 320-282-4839</p>	<p><u>24 - 2 Bedroom</u> 24 Total Units</p>	<p>\$500-\$525 +heat, electric</p>	<p>No vacant units</p>	<p>Primarily working age tenants</p>	<p>Three 2-level split-entry buildings with 8 units each and no elevator constructed in the late 1980s and early 1990s. Tenant pays heat (electric) and electricity in addition to rent. Amenities include wall AC and 16 detached garages at higher rent listed. Unit sq ft not available but all units have 1 bathroom. Manager reports no vacancies, although turn over units in winter can sit vacant. Most tenants are working age although some seniors in the past. Many tenants are long-term, and include people that work in Winsted and commute out for employment.</p>
<p>Country Acres 685 6th St N 763-428-4123</p>	<p><u>2 - 2 Bedroom</u> <u>11 - 3 Bedroom</u> 13 Total Units</p>	<p>\$400 \$575-\$650 +heat, hot water, electric</p>	<p>No vacant units, waiting list</p>	<p>Mix of families, singles and couples</p>	<p>Rental homes in a 28-pad mobile home park. Units vary in size and age, but tenant pays heat, hot water and electric, with water, sewer and garbage included in the rent. Higher rent units tend to be larger and have 2 bathrooms. Manager reports no vacant units and good demand, with a waiting list of people interested in moving in.</p>
<p>DL Apartments 441 6th St N 952-353-2468</p>	<p><u>8 - 2 Bedroom</u> 8 Total Units</p>	<p>\$500 +heat, electric</p>	<p>No vacant units</p>	<p>Primarily working age tenants</p>	<p>Two-level split-entry building without elevator constructed in the early 1980s. Tenant pays heat (electric) and electricity in addition to rent. Units have approx. 850 sq ft and 1 bathroom. Manager reports no vacancies and strong demand over past few years as economy has improved and job growth occurs. Nearly all tenants are working age singles, couples and young families. Approximately 1/2 of the tenants are long-term, but some of these do not work in Winsted.</p>
<p>Hayden Apartments 150 5th St S 952-224-9846</p>	<p><u>5 - 1 Bedroom</u> <u>3 - 2 Bedroom</u> 8 Total Units</p>	<p>\$500 \$625-\$650 +heat, electric</p>	<p>1 vacant unit - being rehabbed</p>	<p>Primarily working age singles</p>	<p>Two-level walkup apartment building which was probably constructed in the 1980s. Tenants pay heat and electric in addition to rent. Amenities include community laundry and storage shed. One unit vacant at time of survey that is being renovated - multiple calls are received but units can stay vacant during winter months. Most tenants are working age single people.</p>

Table 26 Winsted Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Market Rate					
Junczewski Apartments 221-231 Baker Ave E 612-701-9421	<u>16 - 2 Bedroom</u> 16 Total Units	\$525 +heat, electric	No vacant units	Mix of tenants but primarily working age	Two 8-unit buildings, 2-level walkups, constructed in 2000. Tenants pay heat (electric) and electricity in addition to rent. Amenities include AC, detached garage parking and community laundry. Owner estimates that units have approx. 950 sq ft and 1 bathroom. Most tenants are working age although also some retirees. Units are fully occupied with many long-term tenants - rent has only increased 2 times in 15 years.
Northview Apartments 561 6 th St N 320-485-4108	<u>8 - 2 Bedroom</u> 8 Total Units	\$450 +heat, electric	No vacant units	Mix of tenants primarily working age	Two-level walkup apartment building constructed in the late 1960s. Rent includes water, sewer and garbage with tenant paying electric. Amenities include wall AC and community laundry. Owner reports a mix of tenants, with most working age but a few that are retired. Full occupancy at time of survey but vacancies can exist when unit turns over.
Sawatzke Apartments 160 5 th St S 612-791-1586	<u>1 - 1 Bedroom</u> <u>7 - 2 Bedroom</u> 8 Total Units	\$500 \$520-\$650 +heat, electric	No vacant units	Mix of tenants but primarily working age	Two-level walkup apartment building constructed in 1972. New ownership in past 6 months - property had been bank-owned. Tenants pay heat (electric) and electricity in addition to rent. Amenities include wall AC, storage shed and off-street parking with plugins. All units have 1 bathroom. New owner is making repairs and higher rents reflect new rent structure. No vacant units at time of survey. Most tenants are working age.
Security Bank 110 1 st St N 320-485-3831	<u>6 - 1 Bedroom</u> 6 Total Units	\$375 +electric	No vacant units	Single people	Apartments above 100+ year old bank building. Apartments are older and have few amenities - primarily occupied by single people with many longer term tenants. Rent includes heat and other utilities with tenant paying electric. Full occupancy reported.

Table 26 Winsted Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Market Rate					
105 2 nd St S 952-470-1102	2 - 1 Bedroom <u>4 - 2 Bedroom</u> 6 Total Units	\$525 \$625 +heat, hot water, electric	1 vacant unit, 1 - 1 Bdrm	Primarily single people	Rental units created in the late 1990s when a former theater was converted to commercial use with rental units added above. Tenant pays gas and electric in addition to rent. Amenities include dishwasher, central AC, community laundry and off-street parking. One-bedroom has 800 sq ft and 1 bathroom. All current tenants are single working age. One unit vacant at time of survey - turn over units can be slow to fill.
Shore Drive Apartments 301 South Shore Dr	1 - 1 Bedroom <u>11 - 2 Bedroom</u> 12 Total Units	N/A N/A +heat, electric	No vacant units	N/A	Two-level walkup apartment building. Building was recently sold and limited information was available. Tenants pay heat and electricity in addition to rent. Coin laundry facilities in building. No vacant units at time of survey.
Sunlight Properties 760-780 Main Ave W 952-353-2468	<u>16 - 2 Bedroom</u> 16 Total Units	\$550 +heat, electric	No vacant units	Primarily working age tenants	Two-level split-entry buildings with 8 units each and no elevator constructed in the late 1990s. Tenant pays heat (electric) and electricity in addition to rent. Amenities include wall AC and detached garage. Units have approx. 850 sq ft and 1 bathroom. Manager reports no vacancies and strong demand over past few years as economy has improved and job growth occurs. Nearly all tenants are working age singles, couples and young families. Many tenants are long-term.

Table 26 Winsted Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Subsidized - General Occupancy					
Winsted Park Apartments 241 E Baker Ave 507-345-1290	16 - 1 Bedroom 6 - 2 Bedroom <u>2 - 3 Bedroom</u> 24 Total Units	\$495-\$563 \$530-\$586 \$560-\$625 30% of income	1 vacant unit, 1 - 3 Bdrm	General occupancy	Rural Development subsidized apartments for general occupancy in two buildings. One building with 10 units was originally constructed for senior/disabled occupancy but later converted to general occupancy. Fourteen units have project-based rent assistance allowing rent based on 30% of income; remaining units charge 30% of income but not less than basic or more than market rents listed. Rent includes utilities. Building amenities include community room, coin laundry and off-street parking. All units have 1 bathroom. One unit vacant at time of survey due to turn over - renting units without rent assistance can be more difficult, but strong demand exists for rent assistance. Waiting list is maintained but generally out of date due to wait time for rent assistance.
Linden Wood Apartments 215 Linden Ave W 320-485-4303	38 - 1 Bedroom <u>2 - 2 Bedroom</u> 40 Total Units	\$724 \$877 30% of income	4 vacant units, waiting list	Senior/ disabled occupancy	HUD Section 202/8 subsidized senior (age 62+)/disabled occupancy project constructed in 1982. Project is located next to and managed by the St. Mary's Care Center which includes a nursing home, memory care and respite care senior complex. All units have project-based rent assistance allowing rent based on 30% of income up to maximum rents listed - waiver for 4 households above income limits. Location of St. Mary's campus facilitates home health care services under contract, and approx. 1/2 of tenants receive some services. Two daily meals also available for purchase. Four units vacant at the time of survey due to turn over - while a waiting list exists no one is interested in moving at this time. One additional over income tenant could be accepted.

Table 26 Winsted Multifamily Rental Housing Inventory

Name	Number of Units /Bedroom Mix	Rent	Vacancy/ Wait List	Occupancy Type	Comments
Senior Housing with Services					
Garden House at St. Mary's 300 Fairlawn Ave 320-485-3159	16 rooms with capacity for 20 residents	\$5600+ for single occupancy	5 vacant rooms with 7 vacant beds	Memory Care/ Respite Care	Secured memory care and respite care housing constructed in 2011 that is part of a senior campus that also includes a skilled nursing facility and subsidized senior apartments. Dived into 2 "houses" with 8 rooms per side - 2 rooms per side are suitable for shared occupancy, with total capacity for 20 residents. Residents have sleeping room with bathroom, but no kitchen - community spaces are shared. Originally planned for private-pay memory care use, but insufficient demand resulted in use for respite care, although the facility has not achieved full occupancy. Monthly package includes daily meals, 24-hour staffing and services - additional charges apply for residents needing lifts. County Waiver assistance is accepted for a limit of 2 residents.
Benedictine Living Community Winsted 551 4 th St N 320-485-2151	24 memory care 10 rehab <u>31 traditional</u> 65 licensed beds	N/A	Occupancy varies by use, with lower occupancy in rehab and memory care beds	Skilled nursing home	Skilled nursing home that is part of the St Mary's senior campus that also includes memory care, respite care and subsidized senior housing. Licensing had once been above 100 beds, but gradual de-licensing has occurred - resulted in more private rooms. First floor with 24 beds is dedicated to memory care, with typical occupancy of 19 to 20 beds. An additional 10 beds are used for short-term rehab/recovery stays and 31 beds are available to longer-term residents - high annual occupancy in longer-term beds.

Source: Community Partners Research, Inc.

Demand Calculations for Market Rate Rental Housing

Overview

The following calculations are based on information for the Winsted area which also includes Winsted Township. These calculations examine the demand potential, adjusted by number of households that would be income-qualified to live in a unit at prevailing market rate rents.

For the purposes of this Study, an income-qualified household has an estimated annual income of \$30,000, or more. If 30% of household income is applied to monthly housing costs, then these households can afford a gross rent of \$750 or more. For market rate housing, it is assumed that gross rental rates will generally need to be at or above this level.

While the City of Winsted is located within commuting distance of larger communities, including the Twin Cities Metropolitan Area and Hutchinson, the analysts have used the assumption that most rental demand will be more locally-oriented. The larger region does have the potential to supply some tenants to a new rental project in Winsted, but demand from longer-distance commuters is not viewed as a significant contributor and calculations from this secondary area are not included in the specific analysis that follows.

Demand from Household Growth

The projections provided earlier in this study have been based on Winsted area growth of approximately six to nine households per year, with approximately 30 to 45 households added over a five-year period. In the calculation that follows, annual growth of eight households per year has been used, near the upper end of the indicated range. This is largely due to the strong local economy, and employment opportunities that currently exist in Winsted.

Although some additional households may elect to live in Winsted Township, any renter-occupancy households are likely to live in Winsted. For projected tenure, we have used a percentage of 30% for renter-occupancy. This rental tenure rate is slightly higher than the level reported in Winsted in the 2010 Census, but recognizes that near-term demand has the potential to be more heavily oriented to rental housing, as single family housing construction remains well below the levels achieved in the past.

Income-Qualified Demand from New Household Growth Calculation

Projected household growth 2015-2020	40
Percentage of renter-occupied households	30%
Projected rental household growth	12
Percentage of renter households in target income range	53%
Demand from income-qualified renter households	6

Utilizing the best available information on growth patterns, income levels and tenure rates, future household growth using normal growth assumptions is projected to add demand for approximately six additional market rate units by the year 2020 to serve the targeted income range.

It is important to note that additional demand will be present from even lower income groups that would benefit from lower rent or subsidized housing. If the same calculations are applied to all income ranges, the estimated demand from growth would increase to 12 rental units over the five-year period.

Pent-Up Demand from Existing Households and Movership

Winsted has a relatively average distribution of rental housing units, although almost no new rental construction has occurred since a 16-unit apartment project was built in the year 2000. There has been some ongoing growth in the rental inventory through conversion of older units, as it appears that some houses may have changed from owner-occupancy to rental use.

The survey of existing rental properties found almost no market rate vacancies, and reports of strong demand with multiple phone calls received when turnover units were advertised.

Demand for new rental housing would be generated from existing renters that would elect to move from their older housing unit, and potentially from current home owners, who have stayed in their single family home due to few acceptable new rental options in the community. For this calculation, existing renter households in both Winsted and Winsted Township have been examined, although the large majority live within the City.

To determine the number of potential renter households that would be expected to move on an annual basis if good quality, affordable units were vacant and available in the area, we have performed the following calculation using an annual turnover rate of only 10%, or less than 1% per month.

Income-Qualified Movership/Competitive Advantage

Total renter households in the Winsted area	280
Percentage in income-qualified range	53%
Total income-qualified households	148
Annual turnover @ 10%	15

Once again, this potential demand is even larger if all income ranges are examined, as nearly half of all current renter households could not afford the rent typically associated with a new rental unit.

Potential Demand from Employment Options

As documented earlier in this Study, Winsted provides employment opportunities for a larger trade area. In recent years, the number of jobs within the City has been growing, after contracting somewhat during the years of economic recession that occurred late in the last decade. However, a commensurate level of housing unit growth has not been occurring, indicating potential pent-up demand from local employees. Increasingly, job opportunities within Winsted must be filled by people that do not live within the community.

Like many cities in the immediate area, Winsted has tended to export its residents to other locations for employment, while importing workers from other areas to fill the jobs that exist in the community. The best analysis of these patterns is contained in the Census Bureau's inflow/outflow job count analysis, through the Center for Economic Studies. That research indicated that nearly 89% of the people employed within the City of Winsted did not live within the community in 2011.

Although this disparity between people working in the City and people living outside the City would seem to generate significant potential for future housing development that is not necessarily supported by other information that was also collected. The relatively small percentage of people that both live and work in the same community are patterns that are consistent with other cities in the area, including Delano (18.7%), Cokato (14.4%) and Howard Lake (11.4%). This implies that area residents do not consider commuting to be a significant deterrent when deciding where they choose to live.

While the analysts acknowledge limits on the potential attraction of households from local job options, it is also recognized that Winsted does have some ability to increase the percentage of local workers that reside within the City. For example, Winsted does have a lower percentage than nearby communities such

as Cokato, where more than 14% of the locally-based jobs are filled by people that also reside within the City, and Watertown, where nearly 17% of jobs are filled by residents.

Recent gains have been made in the number of local employment opportunities, recovering nearly all of the jobs that were lost in the late 2000s, yet few households have been added in Winsted over the past five years, and very few new housing units have been built. This points to potential demand from employment options that has not been captured within the City.

The following analysis is based on the estimated job growth that has occurred over the past three years, and the potential demand for rental housing that would be needed if up to 14% of these jobs could be filled by people that would both live and work in Winsted.

Income-Qualified Employee Pent-Up Rental Demand Calculation

Estimated job growth between 2010 and 2014	170
Times percentage goal to be filled by City residents	14%
Potential demand from Winsted new employees	24
Divided by 1.5 for household formation	16
Rental tenure rate	30%
Estimated total rental demand	5
Percentage in income-qualified range	53%
Estimated demand for market rate rental housing	3

While this can be viewed as a very conservative calculation of potential demand, it recognizes the pre-existing pattern that most workers in the area do not move for employment reasons. It also recognizes that new construction market rate rental housing does not have the ability to serve a large percentage of workers in the community.

It is also important to note that there have been periods of employment contraction in the past in Winsted, especially between 2001 and 2005, and then again between 2009 and 2011. While all the past job losses have later been recovered, the willingness of households to move for employment will be based in part on their belief in job security.

Demand from Unit Replacement/Obsolescence

Demand created by unit replacement and obsolescence may also occur. This would be in addition to normal tenant movership that occurs when people voluntarily move to a better or more suitable unit. Displacement caused by unit obsolescence and demolition is not voluntary.

Research completed for this Study did not indicate that many housing units were removed from the City between 2000 and 2010. Instead, it appears that some level of unit conversion has been occurring, as housing formerly used for owner-occupancy has changed to rental use. However, the rate of conversion has been limited. No allowance has been made for demand created by unit replacement.

Total Demand and Market Share

The combination of demand generators identified above results in market potential from approximately 20 to 24 households that are income-qualified for the gross rental rates typically required by market rate housing. This range is created by the fact that growth-generated demand is incremental, and increases over the projection period.

Typically, Community Partners Research would recommend that a single rental project can only capture a share of the overall demand. Therefore, a single project of approximately 12 units would be recommended. However, it is recognized that a multifamily project, such as an apartment building, may not be practical at this limited scale. While a longer absorption period should be incorporated, a project that attempts to capture most of the calculated demand may be the most feasible way to proceed.

Indicated Rent Structure

There are very few comparable examples of new construction market rate rental projects in the surrounding communities. No newer rental projects could be identified in the nearby Carver County cities of Watertown, Mayer or New Germany, or along the Highway 12 corridor communities in Wright County. No traditional multifamily projects could be identified in Hutchinson or Glencoe in the past 10 years, although a large specialized senior care project was built in Glencoe in 2009.

One of the only recent apartment complexes identified in a smaller Wright County community exists in Clearwater, on the northern edge of the County. Cedar Ridge Apartments was constructed in phases between 2004 and 2009. There are 127 market rate apartment units in this project. The buildings are located just south of Interstate 94, and according to the property manager, most residents commute to the Twin Cities area via the interstate.

Cedar Ridge Apartments has different floor plans, including one-bedroom/one-bathroom, two-bedroom/one-bathroom, two-bedroom/two-bathroom, and three-bedroom/two-bathroom apartments. Rent includes all utilities except for general electrical use. Amenities include in-unit laundry, a walk-in closet, a fully equipped kitchen including a dishwasher, microwave and disposal, and each unit has a balcony/patio. Garage parking is optional for an additional fee.

In 2014, gross rent per square foot of living space was approximately \$0.92 to \$0.98 for two-bedroom apartments, approximately \$1.03 for three-bedrooms, and approximately \$1.06 for one-bedroom apartments.

Community Partners Research has also completed past research in other non-metro communities around the State. For newer, good quality traditional apartment units, a rent per square foot of approximately \$1.00 is often targeted. A premium may be paid for one-bedrooms, and rates below \$1.00/sq. ft. are often present in two-bedroom offerings.

While there are few directly comparable projects to examine, a rent structure that is similar to other recent projects around the State should be targeted for any traditional apartment development in Winsted.

- ▶ One-bedroom, one bathroom with 600 sq. ft. \$625-\$650
- ▶ Two-bedroom, two bathroom with 850 sq. ft. \$800-\$850
- ▶ Three-bedroom, two bathroom with 1000 sq. ft. \$950-\$1000

This discussion of gross rental rates is provided as an indicator of potential market rents that would be competitive with similar new units, but actual rents would need to be altered based on the actual size of proposed units and the particular amenities and features that would be offered.

It is important for any potential developer to note that the current rent structure in Winsted is generally well below these rates. The last new apartment-style units in the City are approximately 15 years old, and the prevailing rental rates are relatively low.

Additional Considerations

There are some additional factors that should also be considered by a potential developer of rental housing in Winsted that could impact future development.

- ▶ The recommendations made in this Study are based on calculations of household growth, pent-up demand, and similar demand-generators, but do not include competitive positioning of a specific project. No specific sites or design ideas have been considered by the analysts. It is probable that newly constructed units would have certain competitive advantages over other apartment projects in the immediate area, but this is not assured until a development concept is identified.
- ▶ The research completed for this Study did not identify any pending projects that would directly compete for a share of the market, but there is no guarantee that other projects will not advance in Winsted or neighboring communities.
- ▶ Given the relatively small size of the community, any new rental project should attempt to serve a broad segment of the potential market. However, much of the potential demand does come from pent-up, or under-served portions of area existing residents, and this is primarily among older adult households, age 55 and above. Projections on growth also point to a growing demographic segment of older adults as the baby boomers move through the aging cycle. Any new housing should be designed to appeal to older adult renters, with age-appropriate features and amenities.
- ▶ Part of the demand calculation is based on serving people that work in Winsted. However, no reliable projections exist for future jobs located in the City. Over the past 15 years, there have been short-term periods of employment reductions in the City. While hiring has been ongoing in recent years, and all of the jobs lost in the last reduction have been recovered, the analysts have no information about future employment levels at this company.

The opinion of Community Partners Research has been formed with information on general market conditions in Winsted. The analysts have assumed that high quality construction and materials will be used, and that the property will be professionally managed. Community Partners Research has not reviewed construction plans or architectural drawings. We have not reviewed any project pro forma information, or cash flow scenarios based on proposed rents compared to total development costs.

Employment and Economy

While many factors influence the need for housing, employment opportunities represent a predominant demand-generator. Without jobs and corresponding wages, the means to afford housing is severely limited. Employment opportunities are provided by a broad range of business sectors. Jobs are available in manufacturing, commercial services, agriculture, and other industries. The type of employment, wage level, and working conditions will each influence the kind of housing that is needed and at what price level.

Labor Force, Work Force and Unemployment

The MN Department of Employment and Economic Development provides labor force and employment information for all of McLeod County. Due to the size of the community, similar information is not available specifically for Winsted. The following table looks at information for the County since 2000.

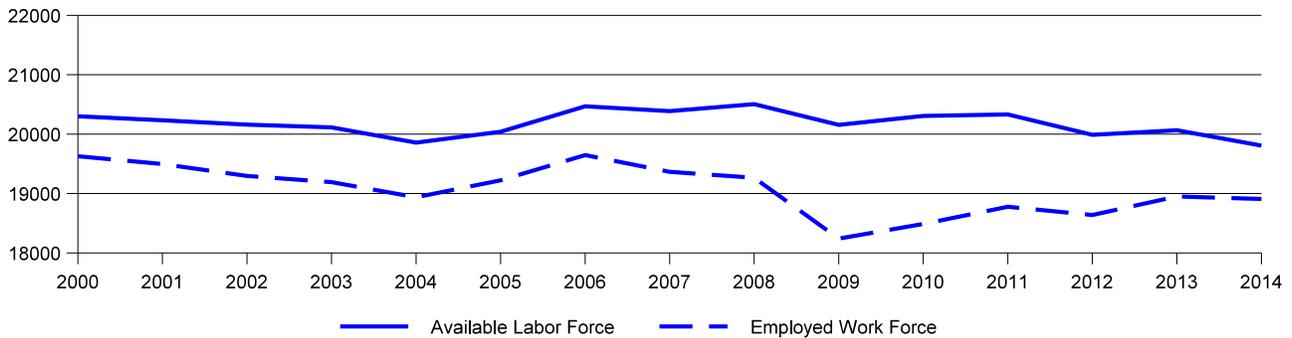
Table 27 McLeod County Labor Statistics: 2000 to 2014						
Year	Labor Force	Employed	Unemployed	Unemployment Rate - County	Unemployment Rate - MN	Unemployment Rate - US
2000	20,301	19,628	673	3.3%	3.2%	4.0%
2001	20,234	19,496	738	3.6%	3.8%	4.7%
2002	20,160	19,296	864	4.3%	4.5%	5.8%
2003	20,114	19,192	922	4.6%	4.9%	6.0%
2004	19,858	18,938	920	4.6%	4.7%	5.6%
2005	20,040	19,222	818	4.1%	4.1%	5.1%
2006	20,469	19,648	821	4.0%	4.0%	4.6%
2007	20,388	19,365	1,023	5.0%	4.6%	4.6%
2008	20,505	19,266	1,239	6.0%	5.4%	5.8%
2009	20,157	18,242	1,915	9.5%	7.8%	9.3%
2010	20,307	18,487	1,820	9.0%	7.4%	9.6%
2011	20,331	18,778	1,553	7.6%	6.5%	8.9%
2012	19,989	18,639	1,350	6.8%	5.6%	8.1%
2013	20,066	18,950	1,116	5.6%	4.9%	7.4%
2014	19,808	18,909	899	4.5%	4.1%	6.2%

Source: MN Department of Employment and Economic Development

The Local Area Unemployment Statistics data (LAUS) tracks employment by place of residence. It shows how many County residents are actively in the labor force and their employment status, regardless of where they work.

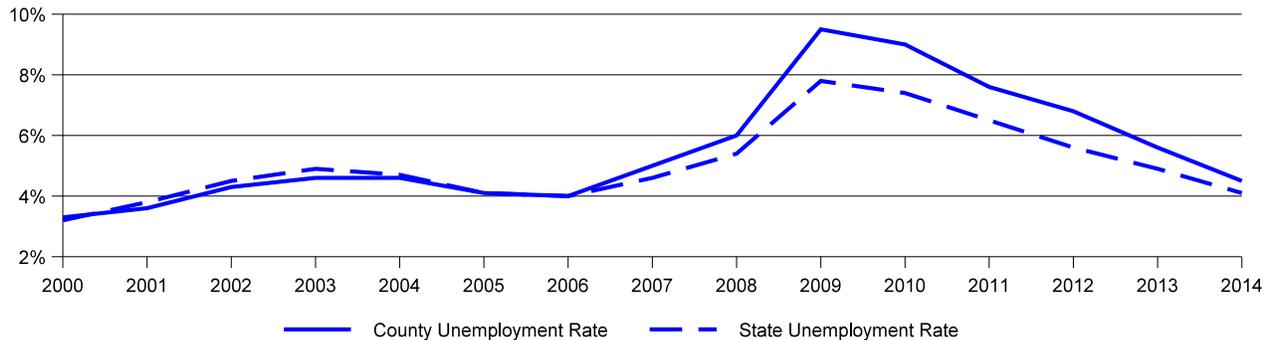
When viewed over a longer time period there has been no growth in the size of the County’s available labor force. If 2014 is compared to the year 2000, the County’s resident labor force had actually decreased by nearly 500 people, or -2.4%. The size of the labor force reached its peak level in 2008, and had decreased by nearly 700 people through 2014.

McLeod County Labor Force and Employed Work Force



The employed resident work force has followed similar patterns. From 2000 to 2014, the number of employed County residents decreased by more than 700 people, or -3.7%. Since the employed resident population decreased at an even greater level than the available labor force, the County’s unemployment rate increased from 3.3% in 2000 to 4.5% in 2014.

McLeod County Annual Unemployment Rate: 2000 to 2014



The County’s unemployment rate reached its highest level in 2009, at 9.5%, but has steadily declined since that time. However, since 2006 the McLeod County unemployment rate has consistently been higher than the Statewide rate.

Employment and Wages by Industry

The following table shows the annual employment and average annual wages by major employment sector for jobs within the City of Winsted in 2014. It is important to note that the major employment sectors listed do not represent all employment in the City. Some groups, including self-employment, are not represented.

The table only provides information for the City. The previous table, which provided information on the County’s labor force, represents the location of the worker by their home residence, while the following table, represents the location of the job.

Table 28 Winsted Average Annual Wages by Industry - 2014		
Industry	Employment	Average Annual Wage
Total All Industry	1,449	\$47,580
Construction	N/A	N/A
Manufacturing	705	\$65,520
Trade, Transportation, Utilities	150	\$34,996
Financial Activities	18	\$43,143
Professional and Business Services	99	\$53,768
Education and Health Services	261	\$23,244
Leisure and Hospitality	80	\$7,800
Other Services	N/A	N/A
Public Administration	17	\$33,176

Source: MN Department of Employment and Economic Development

The average annual wage in Winsted for all industry in 2014 was \$47,580. This assumes full-time employment for 52 weeks at the average weekly wage rate.

The highest paying wage sectors in Winsted was Manufacturing, with an annual wage above \$65,500. Manufacturing was also the largest single industry sector for average employment. Nearly 49% of workers in Winsted were employed in this industry sector.

The lowest paying wage sector was Leisure and Hospitality, with an average annual wage below \$8,000 at full-time employment.

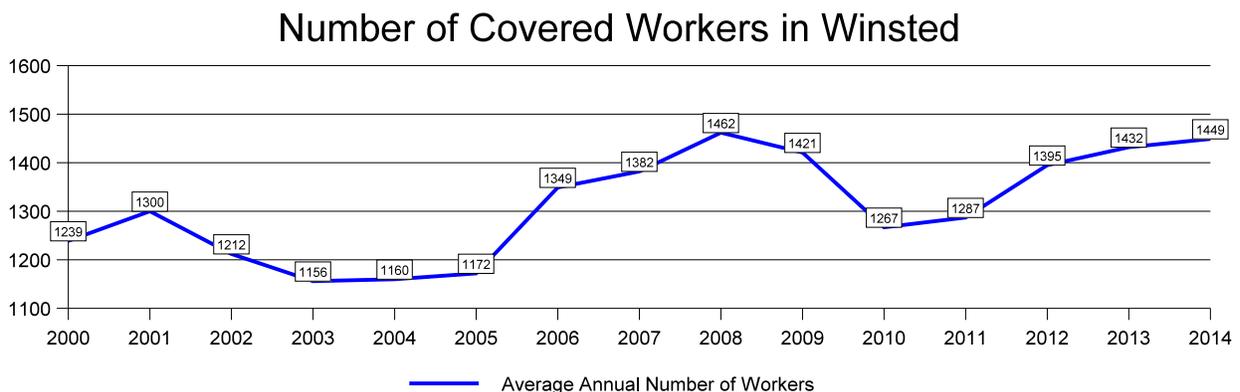
Winsted Annual Covered Employment

Since the Quarterly Census of Covered Workers (QCEW) tracks employees covered by unemployment insurance by location of the worker, it is possible to examine longer-term patterns in the employment level. The following table displays the total number of workers reported in Winsted back to the year 2000.

Table 29 Winsted Average Annual Employment			
Year	Total Covered Employment	Year	Total Covered Employment
2000	1,239	2008	1,462
2001	1,300	2009	1,421
2002	1,212	2010	1,267
2003	1,156	2011	1,287
2004	1,160	2012	1,395
2005	1,172	2013	1,432
2006	1,349	2014	1,449
2007	1,382	-	-

Source: QCEW - MN Department of Employment and Economic Development

There has been a relatively stable level of employment in Winsted over the past few years. If employment in 2014 is compared to the year 2000, there had been an increase of 210 workers, or growth of 17% over this longer period. However, since 2008, when the number of covered workers reached its highest level, there has been a reduction of 13 workers in the City.



As evident in the chart, there has been past up and down movement in the number of covered workers in Winsted, with employment reductions between 2001 and 2005, and then again from 2009 to 2011. However, by 2014, the employment level and largely recovered and was nearing the peak that had been reached in 2008.

Although job reductions within the City are not desirable, many City residents actually commute out of Winsted for employment, as will be detailed in the next section.

Commuting Patterns of Area Workers

While a number of jobs exist within Winsted, most City residents commute for employment. The best information on commuting patterns is from the 2013 American Community Survey, and has been examined for the City of Winsted. The first table only examines travel time for City residents, and excludes people that work at home.

Table 30 Commuting Times for Winsted Residents - 2013		
Travel Time	Number	Percent
Less than 10 minutes	271	26.7%
10 to 19 minutes	127	12.5%
20 to 29 minutes	136	13.4%
30 minutes +	481	47.4%
Total	1,015	100%

Source: 2013 American Community Survey 5-year estimates

The large majority of Winsted residents were leaving the City for employment in 2013. Given the City’s size, a travel time of 9 minutes or less would be required to reach the job options that exist within the community. However, more than 73% of the City’s residents were traveling 10 minutes or more for employment.

Approximately 47% of the City’s residents were traveling 30 minutes or more for employment. While these workers could potentially be going in different directions, it is assumed that many traveled eastward toward the Twin Cities Metropolitan Area.

The American Community Survey also identifies travel time by location of employment. For people that worked in Winsted, the following travel times were identified.

Table 31 Commuting Times for Winsted Employees - 2013		
Travel Time	Number	Percent
Less than 10 minutes	348	25.5%
10 to 19 minutes	343	25.1%
20 to 29 minutes	340	24.9%
30 minutes +	336	24.6%
Total	1,367	100%

Source: 2013 American Community Survey 5-year estimates

Just over one-half of the people that worked in Winsted lived within the surrounding area, as nearly 51% had a travel time of less than 20 minutes. This total would include people that both lived and worked within the City. However, nearly 25% of people employed in Winsted had a commute time of 30 minutes or more.

Census On the Map

The Census Bureau also produces commuter reports through its Center for Economic Studies division. This information is based on reports for the year 2011, but provides a further breakdown of worker movement patterns.

According to the report for Winsted, there were 1,146 people that were employed within the city limits in 2011. Only 127 of these Winsted-based employees actually lived within the City. The remaining 1,019 employees lived outside the City limits. The percentage of City-based workers that were also residents was only 11.1%.

The **On the Map** reporting service can be used to make comparisons between communities in the region. The following table presents information for other communities in the surrounding area, especially those along Highway 12, which runs north of Winsted and serves as a commuter route to the western Twin Cities Metropolitan Area. This table looks at the percentage of people in each community that both live and work in their home city, as well as the percentage of workers that come from outside of each city.

Table 32 Employee Inflow/Outflow Analysis - 2011				
City	Number of People Employed in the City	Percent Employees that also Reside in the City	Percent Employees that Live Outside of the City	Number Employees that Live Outside of the City
Winsted	1,146	11.1%	88.9%	1,019
Howard Lake	875	11.4%	88.6%	775
Cokato	1,226	14.4%	85.6%	1,049
Delano	2,232	18.7%	81.3%	1,814
Watertown	505	16.6%	83.4%	421
Montrose	107	17.8%	82.2%	88
Waverly	288	3.8%	96.2%	277

Source: Census Bureau, Center for Economic Studies

As indicated in the table above, a very small percentage of the jobs based in Winsted were actually filled by people that live within the City. In 2011, nearly 89% of the people working within the City actually lived outside of the city limits.

While most Winsted-based workers were commuters, this pattern was not unique. In each of the cities along the Highway 12, and in the City of Watertown, more than 81% of the jobs were filled by commuters.

In certain communities, including Waverly and Montrose, there were few employment opportunities offered within the city limits, which limited the ability of residents to work in their home community. However, even cities such as Delano, Cokato, Howard Lake and Watertown, which had a larger number of employment options, most employees also lived outside of the community in which they were employed. Delano, Cokato and Howard Lake each had more than 750 jobs that were filled by people not living in the city in which they worked.

Findings and Recommendations

Growth Forecasts

This Study has focused on the growth potential that exists for the City of Winsted, and the resulting housing demand that could be created. To summarize much of the information that has been presented earlier in this document, the following general observations are made:

Winsted Growth Potential

This Study has used the assumption that the Winsted area has the potential to add between six and nine households per year in an average year through the remainder of this decade. But it is important to recognize this as potential growth. Most estimates indicate that the City has not realized this potential level of growth in the past eight or nine years.

The last year that six or more new housing units were constructed in Winsted was 2006. Since that time, the City has not come close to achieving the growth target identified in this Study, unless some vacant housing was present that was available for occupancy.

It should be noted that before 2006, the City had established a sustained period of housing unit and household growth. That occurred at a time when there was significant westward growth pressure occurring from the western Twin Cities area. Many of the communities in western Hennepin and Carver Counties were growing rapidly, as well as communities in southern Wright County and eastern McLeod County.

In Winsted, growth well above 10 households per year was sustained for multiple years. However, when the housing boom ended, nearly all of the regional communities that had once been growing rapidly saw housing markets collapse. The latest demographic forecasts do not expect a large-scale recovery to occur anytime soon.

For Winsted to achieve the modest growth potential outlined in this Study it is probable that proactive efforts will be required. Over the last nine years, the City has averaged fewer than two new housing units per year through new construction. While actual household growth in certain years may have been greater than the level of unit creation, this was probably due to the availability of vacant housing units, a pattern that cannot be sustained once vacancies are absorbed.

To reach a level of new unit construction that is three to five times greater than what has been happening naturally will require efforts that are not typically associated with the private market, such as potential development subsidies, recruitment of developers and community promotional efforts that encourage new households to locate within the City.

It is important to note that the annual growth potential of six to nine households would include both ownership and rental housing opportunities. Historically, between 25% and 30% of the households in Winsted have rented their unit, and this Study has recommended that some rental production should also occur.

Regional Growth Potential

Winsted historically has not been as successful as many of the other communities in the surrounding region in capturing a significant share of the housing growth that once occurred. For example, in the 10-year period from 2005 to 2014, the number of new housing units constructed in Winsted was less than 11% of the total constructed in Montrose, approximately 16% of the level constructed in Mayer, approximately 28% of the level constructed in Watertown, and less than 50% of the construction levels achieved in Waverly and Lester Prairie.

Although none of these other cities in the region have been able to recapture the level of growth that previously existed, there does appear to be some minor rebound underway in 2014 and 2015. Mayer, Watertown and Montrose each had 15 or more single family houses constructed in 2014, compared to only one house in Winsted. While these nearby communities are unlikely to reach the level of construction success achieved in the past, some growth has returned, and Winsted has not kept pace with this recovery.

Home Ownership Recommendations

Overview: Housing constructed for owner-occupants was the past strength of Winsted's new construction market in recent decades. Between 2000 and 2010, the City added 103 home owners compared to only 16 renter households. The home ownership rate increased in the previous decade and was above the Statewide average at the time of the 2010 Census.

In the surrounding region, almost all of the housing constructed over the past 15 years has been in units oriented to owner-occupants. From 2005 to 2014, the time period tracked by regional building permit reports, more than 900 new housing units were permitted in the combined cities of Winsted, Montrose, Waverly, Howard Lake, Watertown, Mayer and Lester Prairie. No multifamily rental buildings could be identified in the permit reports. However, there is evidence that a number of single family homes may have changed tenure, and were converted from owner-occupancy to rental use over time. This tenure conversion issue is less pronounced in Winsted than in some of the other communities in the region, but it has been occurring to some extent.

In the City of Winsted, the peak years for single family construction occurred from 2000 to 2005. During this six-year period, 158 single family units were permitted, or an average of approximately 26 units per year. However, after 2005, the annual level of home construction dropped substantially. In the nine-year period from 2006 to 2014, only 13 new single family housing units were permitted, or an average of less than two units per year.

The housing boom that occurred in Winsted and other communities in the region prior to 2007 can be attributed to a number of factors. In hindsight, one of the factors was probably "over exuberance" among potential home owners. This was evident in the home foreclosure period that followed, as some buyers could simply not afford the house that they had purchased.

Another factor that probably influenced the region's housing boom was the demographic pattern that existed at the time. In the year 2000, all members of the baby boom generation were in the age ranges from 35 to 55 years old. Baby boomer households at the younger end of this range probably accounted for much of the westward out-migration that was occurring from the Twin Cities area. By the year 2010, all of the baby boomer households were in the age ranges between 45 and 64 years old. Between 2000 and 2010, the large majority of the net household growth in all of McLeod County was in the prime baby boomer age ranges.

As the baby boomers advance through the aging cycle, they should begin to gravitate toward reduced maintenance housing options. In their older years, an increased preference for rental housing should appear.

Behind the baby boomers came a smaller demographic segment. The projections used for this Study point to a decreasing number of younger households in Winsted, age 54 and under, through the remainder of this decade. The demographic factors that were helping to contribute to demand for detached single family houses in the early 2000s will be much less pronounced by the year 2020.

However, even if the construction boom years of the past are unlikely to return, the City does have the potential to grow and add households. Much of this can be attributed to the strong local economy, and the multiple employment opportunities that exist both in the City and within a reasonable commuting distance.

The growth projections for Winsted expect annual average growth potential of between six and nine households in a typical year over the next five years. With the expectation that between two and four of these households will be looking for rental opportunities, this results in potential home ownership demand from four to six households annually, due to growth.

Some additional minor production can be justified for unit replacement and pent-up demand for under-served market segments. In the past, it is evident that actual unit construction has exceeded growth-generated demand, as some houses will be replaced over time. With some upward adjustment for factors other than household growth, an additional one to two owner-occupancy units per year can be justified, yield total demand potential of five to eight units per year, or 25 to 40 units over a five-year projection period.

The following specific findings and recommendations are made concerning home ownership issues:

1. Potential Demand for 3 to 5 moderate to higher priced houses annually

Findings: The research for this Study has indicated that the potential annual demand for new owner-occupancy housing construction will be approximately five to eight units in a typical year. Demographic patterns strongly support that most of this demand will be from moderate to higher-priced housing. The aging patterns for the Winsted area continue to show growth in the number of older adult households, primarily in the 55 to 74 year old age ranges. At the same time, trend-based projections would point to a declining number of younger adult households, age 54 and younger.

People age 55 and older have historically shown a strong preference for home ownership. In their peak earning years, and with time for asset accumulation, households in the 55 to 74 year old age groups tend to represent market potential for housing that is age-appropriate and contains amenities typical of the trade-up segment of the market.

At the time of the 2000 Census, households in the age groups 55 and older represented approximately 21% of all Winsted area households. By 2010, these older adult age groups represented approximately 33% of all households. Trend-based projections to the year 2020 point to more than 42% of all households in these older adult age ranges.

Demand for moderate to higher priced housing will also be impacted by income levels. The comparison of income levels for Winsted area households presented earlier in this document showed strong growth in the number of households with an annual income of \$75,000 or more. Households in the moderate to higher income ranges can apply a significant portion of their income to housing costs.

Existing home values also appear to be improving, and the median price may be up by \$30,000 or more from the level that existed as recently as 2012. Since most of the higher income households already own their housing, people that look to move into a newly constructed house should also have improved equity available from the sale of their previous home.

While these are all positive market trends, it should be noted that they have been gradually evolving over the past few years, and they have not necessarily resulted in increased demand for trade-up and/or age-appropriate housing. Over the past five years, fewer than five houses in total have been built in Winsted.

Despite the advancing aging patterns in the community, none of the recent housing starts are believed to be in the form of attached single family housing. The last twin home construction that can be identified dates to 2006.

Recommendation: Even though Winsted has not achieved much recent success, moderate to higher-priced single family housing should represent nearly all of the future demand. Based on the construction forecasts, this would yield potential for approximately three to five units in an average year.

Newly constructed units in the moderate to higher price ranges should continue to appeal to mature households as they age. While attached housing units would be well-matched to life-cycle needs, it is likely that this segment of the market will remain somewhat suppressed until people regain full confidence in the strength of the home ownership market.

Since households age 55 and older will typically already own a house, the decision to purchase a different house will be based in part on economic conditions. The perceived strength of the local economy will have an impact on the confidence to invest in new housing in the community. They will also need to sell their existing home, typically of lower value. Continued improvement in existing home values will have a positive impact on the demand for trade-up housing.

2. Winsted is at a competitive disadvantage for entry-level new construction

Findings: There were various reasons for the large-scale growth that occurred in the surrounding region in the 1990s and early 2000s, but one of the primary drivers of outward movement from the western Twin Cities area was the search for more affordable home ownership options. When compared to communities located closer to the Twin Cities Metropolitan Area, Winsted, Lester Prairie and the Wright County communities along Highway 12 were often viewed as a location to find a lower price for a quality house. While higher-priced homes were also built, more affordable housing was a primary concern for many families.

Although the growth forecasts used for this Study do anticipate some improved demand for new single family housing construction in Winsted over the next five years, the City will generally be less competitive in the lower priced, entry level segment of the new home construction market.

Significant competition will exist within the most affordable market segment, especially from communities such as Howard Lake, Waverly, Montrose, Cokato and Lester Prairie. Other communities in the general area, such as Watertown, have demonstrated a willingness to offer significant financial incentives to lower the cost of new construction and attract a greater share of area market activity.

Unlike most of the other cities in the immediate region, Winsted did not have an over abundance of improved lots when construction activity slowed significantly in the late 2000s. Most of the communities listed above had large unused residential lot inventories. In a number of cases, these lots and subdivisions reverted to bank, investor or public ownership. The lots have then been liquidated at below-market prices, creating options for home buyers looking for a very affordable new home.

In Howard Lake, Waverly and Cokato, a number of lots became publicly-owned through tax forfeiture or a similar process. In Howard Lake, a large vacant lot inventory in a subdivision known as Terning Trails is available, with lots priced on the outstanding special assessment balance that remains against the property. In Waverly, 20 city-owned lots were sold to a single developer, at approximately \$7,500 per lot with assessments paid. The negotiated target price for houses on these lots is approximately \$182,000.

Montrose, which has generally been able to generate more recent home construction than other cities in the region, had fire-sale prices on lots in the recent past. In one case, a developer was able to acquire a number of lots for as little as \$3,000 per lot. This has then resulted in below-market pricing for newly built homes, with many priced at or below \$180,000.

In addition to the competition that exists within the surrounding communities, it should also be noted that Winsted tends to have very moderate prices for existing houses. While there is some evidence of recent price escalation, over the past five years the median sales price in the City for existing houses has been less than \$140,000. With affordable options in the used home market, there is less incentive to look at new construction alternatives for entry-level buyers.

Recommendation: There will always be some demand that exists for lower-priced, entry level homes. However, in most cases, Winsted will have a competitive disadvantage when trying to attract activity within this segment of the market. The possible exception would be when older infill lots can be used. For the remainder of the decade, the potential exists for between one and two entry-level homes per year.

With very few current subdivision and lot options in 2015, any attempts to generate a greater level of construction within this affordable market segment would require the development and improvement of new lots. The resulting pricing would be substantially higher than the distressed lot inventory that still remains in other communities in the region. In communities such as Howard Lake, Waverly and Montrose, improved lots have been available for less than \$10,000. New houses built on these lots can sell for significantly less than a comparable lot in Winsted that would be developed and sold at the current market prices. Until this regional inventory is absorbed, we would view other cities in the region as the preferred location for most of the demand for entry-level new construction.

If a developer/builder does elect to pursue this market segment in Winsted, there are some successful models that could be examined. In Montrose, where some affordable new construction has been proceeding over the past two years, the affordable single family houses have approximately 1,328 square feet of living space on the upper level, and 644 square feet of unfinished space on the lower level. There are three bedrooms and two bathrooms. These units have a three-car tuck-under garage. Some have recently been sold for \$180,000, or less, although this price partly reflects the low cost the developer has in the lot.

This same builder in Montrose has now been expanding into other communities, and made a recent bulk lot purchase in Waverly. The anticipated pricing in Waverly is expected to be similar to Montrose.

3. Attached single family housing should regain some market share

Findings: Prior to the housing market downturn of the late 2000s, there had been some construction of attached single family housing units in Winsted, in the form of twin homes or town houses. One of the City's newer subdivisions, Winsted on the Lake, had platted lots for attached units.

At the time, many communities were seeing some level of activity in this housing segment. One contributing factor was cost savings, as reduced land, infrastructure and construction costs per unit resulted in a lower sale price. Another factor was lifestyle preference, as no/low maintenance housing appealed to the area's growing number of empty-nester and senior citizen households.

However, as national economic and housing market conditions began to change, construction activity slowed significantly. After 2006, the building permit summary reports used for this Study do not show the construction of any attached units in Winsted.

As the national housing markets retreated in the late 2000s, alternative housing products, such as attached single family, often suffered the greatest hit. When people became concerned about owning or investing in new construction, they became even more concerned about less traditional products. Although recovery within this market segment generally remains slow in most communities, there is some evidence of twin home and town house construction gaining in popularity in other communities.

The age-based projections used for this Study continue to show strong overall net household growth through the year 2019 in the 20-year age range between 55 and 74 years old. By the year 2020, all members of the baby boom generation will be age 55 or older. These age cohorts have historically had very high rates of owner-occupancy. They also represent primary target markets for attached single family housing that offers no maintenance or low maintenance living.

Recommendation: The demand calculations used for this Update expect that overall demand for single family housing should improve to an annual average level of five to eight units per year. Within the owner-occupancy segment, approximately one to two per year could potentially be met through attached single family housing, such as twin homes and town house units. As consumer confidence returns, it would not be surprising to see an even greater level of activity within this housing segment. Since attached housing projects occur in clustered phases, it is very possible that the volume of units constructed in a single year will be above or below this annual average.

Attached housing provides desirable alternatives for empty nesters and seniors to move out of their single family homes. These existing homes then become available for younger families. It is important for the community to offer a range of life-cycle housing options.

Most communities experiencing a rebound in attached housing construction have found the greatest success in the more moderate price ranges, with units up to \$250,000. Design features conducive to older adult households, such as one-level living, are well-suited to the growing target population.

One issue that did emerge after the national housing market difficulties of the late 2000s relates to attached housing projects that offer resident associations. As unit sales slowed, projects that had associations were sometimes unable to get the monthly payments out of unsold or foreclosed units. As a result, people that had bought into the project were required to pay extra amounts to support the association. In response, some lenders may now require attached housing projects that offer association management to demonstrate a certain percentage of pre-sale activity as a condition of securing financing.

4. Promote affordable existing home ownership options

Findings: This Study tracked the sales activity in Winsted back to the year 2010. Excluding the partial-year activity recorded so far in 2015, the annual median home sale price in the City has not exceeded \$140,000 in any of the previous five years. Although sales records were not available for the years prior to 2010, it is very possible that the median sale price was higher before the impact of the housing market downturn.

For the 2014 sales year, there were 30 “good” sales in the City, as tracked by the County Assessor’s Office. Half of the annual total were in the price range between \$125,000 and \$149,999. These moderately priced homes can represent a very attractive ownership option for potential home buyers in the larger region.

No direct sales information was available for other communities in the immediate region, but other evidence suggests that home prices in Winsted are lower than in most of the other nearby communities. The American Community Survey contains an estimate of the median owner-occupied home value for each city. In Winsted, the median value was estimated at \$131,400 in 2013. For comparison, the estimated median home values for other cities in the region include \$189,100 in Mayer, \$166,300 in Watertown, \$147,000 in Waverly, and \$141,900 in Montrose. The only neighboring city with a lower median value was Howard Lake, at \$124,700.

While the American Community Survey estimates may not be a perfect indicator of home values, this source does indicate that the average house in Winsted would be more affordable than in most of the surrounding communities. It should be noted that most of the communities with higher median home values had a larger number of homes that were constructed over the past 15 years, and the higher median price may be partly due to age and condition.

Recommendation: One of the community goals is to offer work force housing and attract a greater share of local workers to live in the City. Promotion of the affordable ownership options can help achieve this goal. Some communities have developed financial incentives for home buyers, which could also be offered to buyers of existing homes.

There is some limited evidence that over time, some of the City's existing single family homes have been converted to or purchased for use as rental housing. While this expands rental options, it is probably in the City's best long-term interest to attract home owners, and increase the rate of home ownership. Efforts to promote affordable home ownership can help to limit the conversion of houses to rental use.

5. Consider the creation of home ownership incentives using available resources

Findings: After the large drop in home building that occurred Statewide in the last years of the previous decade, many communities were left with large inventories of unsold lots, and significant investment in public infrastructure. In an effort to spur a higher level of new home construction, it has become more common to see special municipal incentives being offered.

In 2014, the City of Watertown started a program that waived connection fees for sewer/water/storm sewer for the first 15 single family units that were permitted. The approximate value of the waived fees was \$9,500. In the first two months of the program, 10 single family permits had been issued. In 2012 and 2013, the City had a cumulative two-year total of only six new single family homes. While the incentive program cannot be directly linked to increased home building, 2014 did represent a substantial improvement over the recent past. The incentives were discontinued in 2015 due to the high price tag for the program.

Maple Lake in Wright County also started some incentives in 2014 to encourage home construction. The City dropped the escrow deposit requirement for home builders that had required \$3,500 to be deposited for proper landscaping and site grading. This deposit was refundable to the builder after successful completion of the project, but did increase the initial investment for builders. Maple Lake has also allowed \$2,000 in home owner connection fees to be assessed against the property, once again lowering the initial costs for new houses.

Starting in 2012, the City of Belle Plaine in southern Scott County began waiving building permit and plan review fees for the first 10 houses that are constructed each year. In both 2013 and 2014, the 10 house maximum limit was reached. The actual value of the waived fees is dependant on the construction price of the home, but on average the fees are typically around \$3,300. In 2014, a second incentive that was also being offered provided a \$2,000 down payment grant for new houses that utilized a local construction contractor. That incentive was limited to five houses per year. Although it is not possible to directly link the incentive programs to housing starts, both initiatives were utilized to their respective limits in 2013 and 2014.

This list of examples has been compiled from research completed for other projects, and is not intended to represent all of the different approaches being used in the surrounding area. However, it does provide an indication of some of the proactive efforts that are being utilized as communities attempt to re-start a higher volume of new home construction

Prior to the housing market collapse in the late 2000s, many cities in Minnesota were very actively involved in promoting the development of affordable ownership housing. The most successful example occurred in the Rochester area, as part of an initiative to offer housing for workers. In the First Homes Program, financial incentives up to \$25,000 per house were offered to income-qualified buyers of new homes, priced below a certain limit. Rochester, as home to the Mayo Clinic, had sizable financial donations that were used to fund the program.

Some Minnesota communities have also worked with local employers to create employer-assisted housing programs. The Greater Minnesota Housing Fund (GMHF) may still be able to match employer contributions to expand the available resources. Winsted has a number of large employers that have an incentive to attract and retain a local quality work force. Employer financial contributions matched with GMHF funds could be a financial resource in the future.

Recommendation: New home construction at a level above one to two houses per year has not been occurring naturally in Winsted in many years. To reach the projected level of five to eight new houses per year may require the community to become actively involved in providing financial assistance and/or development subsidies.

Communities that have taken proactive steps, such as Watertown, have seen some increase in the level of new home construction. However, direct public involvement will limit the City's ability to generate this type of housing. Due to the substantial costs involved, the financial incentives in Watertown were only offered for one year, up to a limit of 15 houses.

It should be noted that in many of the examples identified above, city involvement appears to have been caused in part by troubled subdivisions, or the potential that subdivisions would fail in the future. These issues do not exist in Winsted. For example, the incentives being offered in Watertown were due to a low volume of single family housing starts with a pre-incentive average of only three houses per year, combined with a large inventory of improved lots, estimated at approximately 385 lots in 2014 when the program was initiated.

One final consideration that may impact the discussion of construction incentives is based on the legal power to waive fees. As part of the research on this issue, the League of Minnesota Cities was consulted concerning other examples of municipal efforts. Staff cautioned that the City Attorney may need to be consulted before any incentives are offered to be sure that they meet a "public purpose" test.

6. Monitor Home Foreclosure/Bank-Owned Sales Trends

Findings: Starting in 2006 and 2007, home foreclosures, short sales, and bank-owned real estate sales became an increasing problem across the State. McLeod County was directly impacted by these issues, and in 2013 was still among the top 20 counties in Minnesota for the highest rate of foreclosure.

In most communities, the number of distressed transactions tended to peak late in the last decade, and then began to decrease. This appears to be the case in Winsted, where bank-owned home sales in 2014 were at the lowest level over the past eight years.

In addition to losing individual home owners, foreclosure activity can impact the broader housing market. In 2010 and 2011, the number of bank-owned sales in Winsted exceeded the number of "good sales" each year. In 2013 and 2014, good sales outnumbered bank-owned sales, and the median home sale price has been increasing.

Recommendation: Although there are few direct City actions that can be taken concerning home foreclosures, Winsted may want to monitor the trends. The McLeod County Assessor's Office can produce annual reports of sales transactions of bank-owned homes. It appears that this is becoming a less important issue in Winsted, but an annual review can help to confirm the ongoing level of activity.

While the disposition of bank-owned home sales cannot be easily tracked, it is possible that some of the lower-valued properties were sold to investors, and converted to rental use. Property tax classifications may also help to identify whether bank-owned home sales have been purchased for owner or renter occupancy.

7. Promote the development of a new residential subdivision

Findings: Prior to the housing market retreat of the late 2000s, the private development community had been very active in creating subdivisions and residential lots. In Winsted, the Grass Lake Farms project and Winsted on the Lake had introduced multiple development phases over time. Most of the subdivision phases were well-timed to demand, and most lots were successfully sold.

Unlike other communities in the region, Winsted did not have a large inventory of improved residential lots when the new construction markets crashed. While this largely saved developers from large-scale defaults, and the City did not gain ownership of lots through tax forfeiture, it also resulted in only a small residual lot inventory that remains available for new housing construction going forward. The best available estimates place the vacant lot inventory for detached single family houses at fewer than 12 lots in 2015, with up to 15 additional lots platted for twin homes or other attached housing construction.

A third phase had originally been planned at Grass Lake Farms, and a large outlot is currently listed for sale. It is bank-owned. No infrastructure improvements were made, so any future development of this site, or other locations in the community would require the construction of all public infrastructure. Based on the 37-lot plat, this parcel would sell for less than \$6,000 per lot, although the infrastructure investment would then need to be made.

Although Winsted needs to have some additional lots created, to allow for community growth and an expansion of new housing construction activity, market conditions in 2015 make the required investments a challenge. The research for this Study has identified a very large unused lot inventory within the surrounding region.

Many of the subdivisions in neighboring communities are in financial distress or have reverted back to bank or investor ownership. Often, lots are being sold at a deep discount to their original asking price. In some cases, fully improved lots have been sold for the same basic price as the unimproved lots in the Grass Lake Farms parcel.

In Montrose, one of the most successful cities in the affordable ownership segment, a development company was able to acquire a large number of distressed lots for less than \$3,000 each after a higher-priced subdivision went into foreclosure. Another private subdivision in Montrose has not been actively selling its lots, waiting instead for market conditions to improve.

The affordable home developer in Montrose has recently acquired 20 tax-forfeited lots in Waverly for approximately \$7,500 per lot. The target price for houses being built on these lots starts at \$182,000. Waverly probably has as many as 200 additional lots that are still privately owned and listed for sale.

Howard Lake has a very large volume of vacant lots, and very limited recent construction activity. At least two subdivisions have reverted to public ownership, and the City's goal in the largest project is to only recover the outstanding balances for special assessments. One of the privately-owned subdivisions is attempting to sell its remaining inventory at deeply discounted prices, according to City staff.

In Watertown, as many as 350 vacant lots are believed to exist, and the City only built 17 houses in 2014. As stated previously, Watertown initiated a financial incentive program in 2014 to help generate a higher level of construction. These incentives waived as much as \$9,500 in sewer, water and storm sewer connection fees.

Lester Prairie probably has between 25 and 30 lots still available, which are privately owned. At least one of the subdivisions is actively marketing lots for less than \$20,000, which are assumed to be below the original cost of development.

There are probably between 50 and 60 vacant lots in Mayer. This still represents a multi-year supply, as Mayer has been building an average of 15 homes per year in recent years. However, Mayer is one of the few communities in the region that may look for additional lot development within the next few years, as the remaining inventory has the potential to be absorbed within three years.

In the communities identified above, it is probable that more than 800 single family lots are still available in 2015. With the combined communities averaging fewer than 50 single family housing starts per year since 2010, the current supply would be sufficient to meet construction needs for more than 10 years.

Recommendation: The City of Winsted will need some lots created to allow for the community to grow, and to capture a share of the improving regional housing construction market. However, any developer needs to be aware that a significant amount of competition exists within nearby cities. Due to limited regional demand, some severe price concessions are being made, and in most communities, some lots are available for less than the investment amount that was initially required.

The growth projections used for this Study do anticipate potential demand for between five and eight lots per year through the remainder of this decade. A subdivision phase in Winsted with 20 to 25 lots would have a reasonable expectation to be fully absorbed within a three to five year time period.

Newly developed lots in Winsted would often be at a competitive disadvantage for pricing, when compared to options in other communities. Prices will need to be kept as low as possible. Earlier in this section, some model programs were identified that involved community financial incentives that have attempted to help generate additional construction activity. If incentives could be offered in Winsted it would assist in the potential success of a new subdivision.

Rental Housing Recommendations

Overview: According to the 2010 Census, approximately 26% of all households in Winsted rented their housing. The City offers a mix of rental opportunities, in conventional, market rate projects, to income-restricted subsidized housing. The City also has a range of unit types, from single family houses that are renter-occupied, to more traditional multifamily apartment buildings.

Despite the fact that 26% of all households are renters, Winsted has not had any direct rental unit construction in many years. The last multifamily project that can be identified is Juncewski Apartments, constructed in 2000. In the past 15 years, no other rental projects have advanced to construction, other than a senior facility offering sleeping rooms to people with memory care needs.

Although no new traditional rental housing has been built in many years, it is possible that Winsted has added renter households. Between 2000 and 2010, the Census recorded a net gain of 22 renter households, greater than the unit creation in Juncewski Apartments. It appears that some single family houses were converted to rental use, as the City had a reported net gain in rental units, even though many of these were listed as vacant. While no official estimates exist after 2010 on rental tenure patterns, the low vacancy conditions that exist in 2015 would imply that formerly vacant rental housing may now be occupied.

The absence of multifamily rental construction in Winsted is consistent with the experience of other cities in the region. As part of the research for this Study, building permit reports were reviewed for the neighboring cities of Howard Lake, Waverly, Montrose, Watertown, Mayer and Lester Prairie. No multifamily rental projects could be identified from building permit reports over the past 10 years. It is possible that some specialized use senior projects have been built, but no conventional general occupancy rental. However, most communities also show evidence of some rental gain through tenure conversion of single family homes.

The rapid growth that was occurring in the region in the early 2000s was based on the construction of single family housing intended for owner-occupants. The communities in the region were often attracting younger households looking to buy a home, and home owners looking to live in a smaller community within reasonable driving distance of a larger metropolitan area.

Renters typically have less motivation to live far from their place of work. Since most renter households have moderate income levels, the costs of commuting create a greater burden. The exception seems to be renters looking for a single family home. Families that want to rent a house have been willing to live in smaller communities, even if commuting may be required. However, there is no feasible model of constructing new single family homes for rental use.

Going forward, this Study has allocated up to 30% of the annual household growth potential in Winsted to rental housing. While attracting long-distance commuters to live in Winsted is less likely, there is locally-generated demand, especially given the large number of job opportunities that exist at Winsted-based employers.

The following findings recommendations are made concerning rental housing issues:

8. Develop 20 to 24 units of moderate rent market rate housing

Findings: A specific section of this Study has examined the potential market for conventional, market rate rental units in Winsted. This methodology calculated adequate demand for approximately 20 to 24 rental units over a five-year projection period.

Additional demand would exist for more affordable rental housing, but for market rate units, an assumption was made that qualifying households would need an annual income of \$30,000 or more. Approximately 53% of the existing renter households are within this income range.

It is important to note that greater demand could develop, especially with potential job growth in Winsted. However, commuter information for cities in the region tend to show that most households do not live in the community where they work. Some of the calculated demand for rental housing was based on capturing a higher percentage of local workers, but this was not a large contributor to the unit recommendation. If a greater share of the local work force could be captured, additional rental unit development could be supported.

Recommendation: Typically, Community Partners Research would recommend that a single rental project can only capture a share of the overall demand. Therefore, a single project of approximately 10 to 12 units would generally be preferred. However, it is recognized that a multifamily project, such as an apartment building, may not be practical at this limited scale. While a longer absorption period should be incorporated, a project that attempts to capture most of the calculated demand may be the most feasible way to

proceed. A project with 20 to 24 units should therefore be advanced to meet near-term demand for rental units in Winsted.

There are very few comparable examples of new construction market rate rental projects in the region. However, the following rent ranges are generally comparable to other moderate rent apartment projects that have been built in other small communities in Greater Minnesota.

- ▶ One-bedroom, one bathroom with 600 sq. ft. \$625-\$650
- ▶ Two-bedroom, two bathrooms with 850 sq. ft. \$800-\$850
- ▶ Three-bedroom, two bathrooms with 1000 sq. ft. \$950-\$1000

This discussion of gross rental rates is provided as an indicator of potential market rents that would be competitive with similar units, but actual rents would need to be altered based on the actual size of proposed units and the particular amenities and features that would be offered.

While this rent structure has been identified as possible for developers to achieve, it should be noted that some recent projects have been reaching an even lower rent structure, which increases the potential target market. In the City of Perham in Otter Tail County, recent apartments have been built. Estimated gross rents are less than \$775 for a two-bedroom apartment, with the approximate square footage identified above. These units have been very well received in that community.

There is a different style of rental product that has also been very successful in communities north and west of St. Cloud. A developer based in Little Falls has been constructing rental patio homes, with a two-car attached garage. Gross rents are below \$850 for a two-bedroom unit with one bathroom and approximately 800 square feet, and less than \$1,000 for a three-bedroom unit with 1.5 bathrooms and approximately 1,100 square feet. Although this rent structure is higher than those recommended for apartment-style units, the product has been very well received. Tenants get a town house-style unit, with a private entrance, in-unit laundry and a 2-car attached garage for a price that is often comparable to apartment-style housing.

Although Community Partners Research does not endorse or recommend specific developers, there have not been other recent examples of development projects offering this type of unit within this price range. This developer will often construct units in phases of 16 to 18 units, with another phase added within a few years once a stable occupancy pattern has been sustained. Winsted may wish to consider further research with this developer to determine potential interest in the community.

9. Monitor opportunities to add to a senior housing campus

Findings: Winsted has a senior housing community that offers different housing, serving senior residents as they move through the aging cycle. These senior facilities are all interconnected with St. Mary's/Benedictine Care Center.

The original senior housing option is a skilled nursing facility that is licensed for 65 beds in 2014. This project has downsized its bed count over time, and has also dedicated some beds to specific uses. One part of the facility, with 24 beds, is used for memory care housing. An additional 10 beds are used for rehab/recovery stays. The remaining 31 beds are generally available for longer-term residents.

In the early 1980s, Linden Wood Apartments opened with 40 senior/disabled subsidized apartment units. Linden Wood is located next to the St. Mary's campus and is managed by the Care Center. Linden Wood offers independent living for seniors, but the relationship with St. Mary's also facilitates the delivery of tenant-contracted services, including daily meals and assistance with daily living. Income limits apply to all but four of the units and tenants pay rent based on 30% of household income.

In 2011, Garden House at St. Mary's was constructed and has 20 beds available in 16 rooms. As currently configured, half of the beds are used for people with memory care housing needs, primarily private-pay. The other half of Garden House offers 10 beds for respite care. There are unused beds in the respite care wing. If additional demand surfaced from memory care residents, they could occupy rooms in the respite care wing, since this is also a secured facility.

Winsted does not currently have any senior assisted living facilities, although the respite care units in Garden House are being promoted for people needing care normally associated with assisted living.

Although Winsted has a relatively high percentage of older adult households, in the opinion of Community Partners Research, there is a fairly small primary market area that surrounds the City. The City of Howard Lake is approximately seven miles north of Winsted and has a skilled nursing home, assisted living and independent senior housing options. The City of Watertown is approximately 12 miles to the east, and also offers a skilled nursing home and assisted living, as well as independent senior housing. Silver Lake has an assisted living option, and Hutchinson and Glencoe, the two largest cities in McLeod County, have multiple senior housing options that offer services.

Although no occupancy survey was conducted for senior housing options in the larger region, the presence of competing facilities all around Winsted does result in a limited primary market area that would principally orient to the community. Residents may come from a more distant location if they cannot gain access to their preferred community, but they would initially look at facilities that are closer to where they live. As a result, in the opinion of the analysts, there is a limited geographical area that contains seniors that would primarily view Winsted as their preferred location for advanced housing with services.

For the purposes of this Study, a senior market area that includes Winsted, Lester Prairie and Winsted Township has been examined. Although Lester Prairie is only slightly smaller than Winsted, it currently has no specialized senior housing options. While this small geographic designation may not be a perfect indicator of overall demand, it does provide an informative look at planning for specialized senior housing.

At the time of the 2010 Census, there were 361 older senior citizens, age 75 and above, that were residing in this area. This population of older seniors had increased by 32 people when compared to the year 2000.

Patterns were similar for households headed by older seniors. In 2010, there were 231 households with a head-of-household age 75 or older, up by 34 older senior households from the year 2000.

The projections contained in this Study anticipate a slight increase in older seniors within this senior market area during the current decade. When 2020 projections from ESRI are compared to the 2010 Census totals, only four additional older senior households would be expected over the entire decade. The population projections from ESRI actually show a decrease of 10 people age 75 and older by 2020, despite the minor growth in older senior households.

It is important to note that the senior population estimates and projections would include people already residing in existing senior housing, including the skilled nursing home and memory care options that already exist.

If an assumption is made that there will be 60 or more older seniors already receiving advanced care in the skilled nursing home or memory care facilities, the number of older seniors that would consider other senior housing would be reduced. The projected number of older senior households would not be impacted by the presence of the nursing home or memory care facilities in 2020.

ESRI's 2020 projections, when adjusted for existing care options, would form a primary target population for any new specialized senior housing. In 2020, this senior market area would contain approximately 290 to 300 older seniors age 75 and above, not residing in advanced care housing. These older seniors would form approximately 235 households. These demographic forecasts do not yield much potential for a new project, unless a larger draw area is anticipated, bringing more older seniors from outside the immediate area.

Recommendation: St. Mary's/Benedictine Care Center had secured an independent market analysis prior to the construction of the Garden House project in 2011. Community Partners Research did not have access to this project-specific study. Based on the scale of units created in Garden House, it is probable that a larger primary market area was used at that time. It is also probable that the prior research had included some additional recommendations for other types of senior housing. The following general observations on the senior market in Winsted are offered by Community Partners Research, Inc., but the project-specific study ordered directly by St. Mary's is viewed as the best available information on senior demand.

The current estimated capture rates for the existing providers are summarized as follows:

Benedictine Care Center - With 31 or more beds that are available for longer-term occupancy, this facility would need to capture nearly 9% of all of the older senior residents projected for the area in the year 2020 to achieve full occupancy. While this is viewed as a relatively high capture rate, a similar percentage is required in 2015, and the high current annual occupancy rate does indicate adequate demand. Over time, the Care Center has de-licensed beds and converted other beds to specialized uses, to better position traditional nursing home options to market demand. De-licensing has also allowed more rooms to be used for private occupancy, versus shared occupancy in the past.

Benedictine Care Center Memory Care - One floor of the Care Center has been devoted to memory care use, with 24 beds. At the time of the rental survey, there were unoccupied beds, and it is typical for four or five beds to be available at any time. Base on the older senior population living in the immediate area, a high capture rate would be required to fill all of the beds in this wing. Since residents can be assisted with public programs, it is probable that some of the demand for this facility comes from a larger geographic region.

Garden House Memory Care - When Garden House was constructed, all 16 rooms with 20 beds were designed for private-pay memory care residents. Over time, only half of the facility has been used for this purpose. The other half of the facility is now available for respite care and/or assisted living. When combined with the Memory care wing in the Care Center, the 10-bed memory care capacity in Garden House represented 34 total beds within this specialized housing segment. Based on the older senior population within the immediate area, a capture rate of more than 10% of all older seniors would be required for full occupancy. At the time of the rental survey, unused capacity was present in the respite wing of Garden House, but all of the memory care rooms were occupied and only one bed was unused.

Garden House Respite Care - With an excess supply of memory care units, half of the Garden House was changed from memory care to respite care use. Respite care may involve shorter-term occupancy during a period of recovery, or may be used for longer-term residents, needing a higher level of assisted living services. Although the units are now being marketed to people needing assisted living, the units were not originally designed for this purpose. They are private sleeping rooms, and not individual apartments with some kitchen facilities. At the time of the rental survey, only three of the eight respite care rooms were occupied. The facility has never achieved full occupancy since opening in 2011.

Linden Wood Apartments - Linden Wood is an independent living apartment project for seniors. However, due to its affiliation with the St. Mary's campus, it facilitates the delivery of contracted services and meals. As a result, as many as 50% of the residents acquire some additional services with their housing. Most of the apartments in Linden Wood are subsidized, although four units are free of any income limitations. With the availability of contracted services, including meals, Linden Wood tends to serve a portion of the local demand for light services housing, although primarily for low and moderate income people due to the income limits. Linden Wood had vacant units at the time of the rental survey, including one that had an income waiver.

Based on the existing supply of senior units in Winsted, and the unused capacity in most of the current facilities, the most logical area for expansion would be in apartment-style units offering services to residents, such as a traditional assisted living project. If a capture rate of 5% is applied to the area's older senior population not currently living in more advanced care housing, approximately 15 units could be justified. With the recognition that a relatively small market area has been examined, a larger project could potentially be justified, depending on the area to be served.

Although a traditional assisted living apartment project would compliment the other options that exist on the St. Mary's campus, it would probably have a detrimental impact on the Garden House rooms that are being made available for respite care. The unused rooms in this portion of the facility are being marketed to people needing assisted living care. If a newer, more attractive option was available, the Garden House units would be less marketable.

It is important to note that while some unmet needs do exist in the specialized care segment in Winsted, the older senior population is not expected to grow over the next few years, based on available projects. However, after the year 2020, the advancing baby boomers will begin to create a greater level of demand for housing with services.

10. Monitor opportunities for income-restricted housing development

Findings: There are two income-restricted housing projects that exist in Winsted. Linden Wood, is a senior/disabled project with 40 apartments including 36 that have project-based rent subsidies.

Winsted Park Apartments provides general occupancy housing subsidized through USDA Rural Development. This building can serve very low income renters, with project-based rent assistance available for 14 of the 24 units.

At the time of the rental survey, Linden Wood had four vacant apartments. While a waiting list is maintained, none of the waiting households was interested in moving at the time units became available.

Winsted Park had one open unit. The project does maintain a waiting list of households looking for a unit with rent assistance. However, less demand exists for the 10 units without rent assistance and some vacancies can occur.

Recommendation: The rental demand calculations presented in an earlier section of this document indicated that approximately 47% of existing renter households in the Winsted area have an annual income below \$30,000. Most of these households would be candidates for income-based rental projects. Based on the demand calculations presented earlier, 20 or more very affordable rental units could be justified to serve households with an annual income below \$30,000.

The income data presented earlier also indicated that approximately 37% of existing renter households had a housing cost burden, with 30% or more of their income required for housing costs. These were primarily low income renters that would generally need a unit with project-based rent subsidy.

Another issue concerning supply and demand is the limited number of subsidized rental options with two or more bedrooms. There are only eight general occupancy units in Winsted Park Apartments that have more than one bedroom, and would be suitable for families with children.

It would be appropriate to look for opportunities to expand the supply of income-based housing with two or more bedrooms. However, resources for subsidized rental construction have not existed in many years. A more realistic option would be to look to expand the use of the tenant-based rent assistance program. In 2015, only two Winsted households had Vouchers. With a Voucher, a lower-income household can rent any suitable private unit in the community that meets the program standards.

Another community strategy concerning income-based housing is to prevent the loss of any units, through contract termination or opt-out. In 2015, neither of the subsidized projects in Winsted was identified as being "at risk" of leaving its subsidy program. However, other projects in McLeod County, including Brownton and Silver Lake, were listed on the State's opt-out log.

Housing Rehabilitation Recommendations

Overview: Winsted has an affordable housing asset in its existing housing stock. Existing units, both now and into the future, will represent the majority of the affordable housing opportunities. Existing units generally sell at a discount to their replacement value. Units that are not maintained and improved may slip into disrepair and be lost from the housing stock.

Efforts and investment in housing rehabilitation activities will be critical to offering affordable housing opportunities and in preventing the deterioration of neighborhoods. As this existing stock ages, more maintenance and repair are required. Without rehabilitation assistance, the affordable stock will shrink, creating an even more difficult affordability situation.

The following specific recommendations are made to address the housing rehabilitation needs.

11. Promote owner-occupied housing rehabilitation programs

Findings: The older housing stock will continue to represent the most affordable home ownership option in the community. Investment in owner-occupied housing rehabilitation activities will be critical to ongoing efforts to provide affordable housing opportunities. According to the American Community Survey, the median year of construction for owner-occupied houses in Winsted is 1977, so more than half of all owner-occupied units in the City are more than 35 years old.

Approximately 11% of all owner-occupancy units are identified as pre-1940 housing. There are also 16 single family rental units identified as pre-1940 housing. Conversion from owner to renter housing often occurs when older homes deteriorate in condition and quality and are not purchased by future home owners.

While age does not always indicate a need for rehabilitation, older housing does require more maintenance to remain in good condition. If investments in maintenance and improvement are deferred, older housing can quickly slip into disrepair.

Recommendation: The primary funding source for concentrated neighborhood rehabilitation programs is the Small Cities Development Program (SCDP), administered by the MN Department of Employment and Economic Development (DEED). For several years, the SCDP program had moved away from larger grant awards that were focused on larger-scale impact. Instead, smaller annual awards were made to support sustained rehabilitation approaches. The program has changed back, and larger awards are again being made, making targeted neighborhood projects more achievable.

Additional resources for owner-occupied housing rehabilitation are available from the Minnesota Housing Finance Agency.

12. Promote rental housing rehabilitation programs

Findings: Much of the rental housing in Winsted is in multifamily projects, most of which were constructed over the past 30 years. Although no specific condition survey was completed, it is assumed that the units in these larger projects are generally well maintained. An estimate on the age of rental housing, from the 2013 American Community Survey, placed the median year of construction for rental units at 1978.

However, the City also has 16 rental single family houses that are identified as pre-1940 built housing. These houses may have converted to rental use because of deterioration, as most often it is lower valued homes that are purchased by investors for use as rental housing.

The rehabilitation of older rental units can be one of the most effective ways to produce decent, safe and sanitary affordable housing. However, it is often difficult for rental property owners to rehabilitate and maintain their rental properties while keeping the rents affordable for the tenants.

Recommendation: The rehabilitation of older units can be a cost-effective way to maintain a supply of decent, safe and sanitary affordable housing. In addition to the SCDP-funded activities, other resources are available for rental rehab.