

# Moorhead Housing Study January 2004

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## Introduction

Over the last few years, the City of Moorhead has made key decisions that have bolstered the community's housing demand. Two recent decisions involved the passing of bond referenda for infrastructure improvements and new school facilities that represent significant financial investments in the growth and stability of Moorhead. Although Moorhead has historically lagged behind its North Dakota neighbors in residential housing growth, a shift has occurred in the last few years and the rate of residential development in Moorhead has shown significant increases. The recent investments in schools and infrastructure are just a part of what has led to this shift. This Housing Study investigates the potential residential development demand in the City of Moorhead. It explores and reveals the economic, social, and geographic factors that influence the demand for housing and arrives at a projected range of potential residential growth over the next 10 years.

In reviewing this report, the reader should bear in mind the following comments regarding the nature of findings and forecasts:

- “Potential residential development demand” is distinct from “likely new development.” This document addresses the former. The former involves “potential” -- which by definition incorporates a “best-case” scenario – and describes demand unencumbered by constraints on supply.
- Potential demand can be defined as a market's achievable share of anticipated regional growth. Therefore, residential growth projections for Moorhead are the products of assumptions involving reasonably achievable (1) regional growth rates, and (2) achievable market shares within the region.
- This report focuses on *net new* potential demand for *net new* homes. Net new housing demand is distinct from new construction. Growth in households ultimately drives new housing demand. Absent increasing numbers of households, construction of new homes can still occur if existing homes are abandoned, moved or demolished, but such new construction would not equal *net new* demand.

The following pages provide an executive summary of the findings of the study and a detailed report to support those findings.

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## I. Executive Summary

A review of recent residential development activity in Moorhead reflects changing development conditions. Over the next ten years, Moorhead has the potential to continue to increase its share of the Fargo-Moorhead area's residential growth. However, while it is possible that a recent surge of development activity may continue or even accelerate in the short-term future – particularly in regard to various multi-family and attached housing categories -- over a longer-term, 10-year time frame, local and national economic factors are likely to exert moderating influences on this recent growth.

The following summarize the key findings of this initiative:

*Forecasts:* In forecasting household growth, the methodology applied in this analysis prepares separate forecasts for single-family and multi-family housing market segments. The analytical process works with demographic data, historical trends, and qualitative competitive factors to select among various growth rates and achievable market shares. Applying these assumptions, forecasts are then combined and further refined for reasonableness. A summary of potential residential demand is as shown below:

### POTENTIAL DEMAND SUMMARY FOR NET NEW HOMES (2004-2013): CITY OF MOORHEAD

	<u>Average Annual</u>		<u>10-Year Total</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
<u>Total Potential Annual Demand</u>	170	260	1,700	2,600
<u>Single-Family</u>	80	125	800	1,250
Detached	45	65	450	650
Attached	35	60	350	600
<u>Multi-Family</u>	90	135	900	1,350
Rental	70	100	700	1,000
For-Sale	20	35	200	350

*Historical development patterns:* In most instances, the Fargo-Moorhead market represents a single market. While Moorhead represents a submarket within this market, development and demand can flow freely across the submarket boundaries – and will respond to changes in the various submarkets. Within this market, the region's North Dakota communities have historically captured the dominant shares of residential development. This is largely attributable to developers' tendencies which in turn have been attributable to a range of factors including:

- State income tax rates that impose higher burdens on Minnesota residents;
- Fargo's critical mass and status as the region's commercial hub and primary residential market;

- Migration trends favoring Fargo as an urban destination for migrants from rural North Dakota;
- An accumulation of small development cost issues that (while individually minor) collectively encourage developers to favor North Dakota communities; and
- A general inertia wherein developers that have succeeded within North Dakota simply continue in these established modes of success (i.e., working in North Dakota).

Shifts in development patterns: Notwithstanding these historical patterns, within the Fargo-Moorhead market, development is sensitive to subtle differences among the various submarkets, and development trends in more recent years indicate a shift in the factors shaping regional development dynamics. To begin with, new home construction activity in Moorhead has surged: New home construction has proceeded at a rate of 363 units per year over the last two years, as compared to an average of 132 units over the preceding nine years. This recent increase can be attributed to changes in each of the (above-listed) factors that have historically favored North Dakota development locations which are further articulated as follows:

- In regard to tax rate issues, the imbalance in income taxes is in large part offset by differences in property taxes that give a relative advantage to *Minnesota* residences. Historically, developers and brokers have been quick to recognize the income tax disparities; in recent years, the City of Moorhead has embarked on a campaign to educate the real estate community in the relatively close cost-of-living comparisons between North Dakota and Minnesota communities. As a result, developers and brokers have attributed some of Moorhead's recent development surge to this new awareness.
- In regard to Fargo's critical mass, the long-standing patterns of development in Fargo have wrought two changes. First, development around the strategic commercial nodes has changed the area's character to the extent that many prospective residents may perceive significant differences between Moorhead's residential neighborhoods and the rapidly developed areas near West Acres Mall and Interstate 94. Residents who prefer Moorhead's community character will grow increasingly resistant to Fargo (and West Fargo) living alternatives. Second, as development consumes land in Fargo and West Fargo, new developments in North Dakota will occupy increasingly remote locations. In comparison to these more remote locations, Moorhead will offer increasingly favorable convenience to destinations such as downtown Moorhead, downtown Fargo, the area's college campuses, and the West Acres Mall.
- In regard to migration trends, in each of the last three years Clay County has achieved net in-migration from Cass County. While Cass County has continued to receive in-migration from other North Dakota locations, Clay County's recent ability to capture net in-migration from Cass County may indicate a shifting "net" market preference for Clay County.

- In regard to the assortment of relatively minor differences in development cost issues, anecdotal evidence collected from developer interviews indicates that Moorhead's "developer-friendliness" has improved, and may have contributed to increased development of recent years.
- In regard to "developer inertia," it should be noted that the catalytic effect of successful new development provides the primary weapon to combat such inertia. Such successes have occurred, and the recent increase in development activity in Moorhead indicates that the catalytic effect may have begun to take effect.

Character of construction: While all types of residential development have increased in recent years, much of the overall increase is attributable to attached housing products, including rental apartments, townhouses and twin homes. This niche has been fueled by growth among small households such as young home buyers seeking "starter" home products, empty-nesters seeking townhouses and an underserved market for apartments. Developers have encountered successful absorption in each of these markets.

Underserved Multi-Family Housing Niches: Since 1990, Moorhead's percentage of households living in multi-family housing has decreased, despite increasing demand fueled by ongoing growth among its small (1- and 2-person) households, and despite an increasing presence of multi-family housing in the metropolitan area. In recent years, the development of various multi-family (and attached single-family) products has encountered successful absorption; the convergence of these indicators identifies an undersupplied market for multi-family housing and a strong market opportunity.

Current economic and demographic forecasts for the Fargo-Moorhead metropolitan area generally anticipate positive but gradual growth. These are based on considerations of vital statistics, migration patterns, the area's economic structure and anticipated employment growth.

Growth rates and market shares: While various forecasts generally concur in their expectations for gradual growth in the metropolitan area, different sources offer varying views on Moorhead's share in such growth. Overall, residential growth potential will depend on (1) the metropolitan area's growth potential, and (2) Moorhead's ability to capture proportionate (increased) shares of regional growth. In preparing forecasts for potential housing demand, this analysis finds that Moorhead offers the potential to capture at least its proportionate share of the region's growth as well as a pentup demand in its underserved markets for students and other small households seeking rental housing and for-sale attached housing.

Supportable new home construction may well exceed the forecasted household growth. Historically, new construction has exceeded new household growth. For instance, from 1990 to 2000, households increased by only about 600; this represents net new occupied housing. During this same period, however, 1,425 new homes were built in Moorhead. In this case, the difference between the construction figure and the new households figure is attributable to a combination of factors including demolitions, physically moved homes, redeveloped properties, etc. Because Moorhead's existing housing stock is relatively old (compared with that of Fargo and other communities in the region), this disparity may continue as some older homes may be replaced. To the extent that

homes are demolished or moved, the demand for new homes will continue to exceed household growth forecasts. In general, it should be noted that, while recent construction activity has substantially exceeded household growth (or net new housing demand), the new construction has been absorbed as quickly as homes have been completed.

Additional upside potential: Several other factors could generate additional potential for more rapid demand growth:

- Faster-than-anticipated employment growth in the metropolitan area;
- A possible “boom” resulting from recent development successes in Moorhead;
- Competitive advantages gained from Moorhead’s recent investments in new public schools;
- Increased recognition in the development community of Moorhead’s underserved niches in areas such as senior housing and student housing;
- An emerging character of recent development in Fargo that give Moorhead an “ambience” that is distinct, and – to some buyers – preferable; and
- Additional successes resulting from new planning initiatives designed to further improve the breadth and quality of Moorhead’s neighborhoods and assets.

National Trends: National trends have introduced and popularized emerging housing formats, including new urban (downtown) lifestyles, senior housing formats, high-end, amenity-laden rental apartment products, and others. Many of these have just begun to appear (or have yet to appear) in various parts of the Fargo-Moorhead area, and offer potential development opportunities in Moorhead in the next five to ten years.

Attached Housing Niche: In projecting niches for specific market segments, the most prominent trend involves the emerging and ongoing growth among small, one- and two-person households. These households are likely to drive continued development in twin home, townhouse and rental apartment niches. As a result, within the single-family market, within an average annual increase of 80 to 120 new housing units, attached units will likely account for 35 to 60 units per year.

Rental Housing Niche: Within the multi-family market, the rental market represents an underserved niche, and within the average annual net increase of 90 to 135 multi-family units, 70 to 100 will be rental units.

Student Niche: The student niche presents a deep source of demand. Among the enrollments at Moorhead’s academic institutions, as many as 1,500 to 2,250 student-occupied units (up to 50 percent of Moorhead’s current rental market) are currently served outside the City of Moorhead. This inability to serve its “natural” internally-driven demand provides a strong opportunity for additional apartment development close to Moorhead’s campuses.

Senior Housing Niche: While various senior housing niches have delivered uneven market performances, the Moorhead market currently offers a limited range of products, excluding high-amenity (non-age-restricted) apartment buildings and senior co-op (or condominium) facilities, both of which have proven successful in other market areas. Over the next five to ten years, market opportunities to serve this market will emerge as:

- Gradual growth among seniors supports new products and senior housing concepts continue to evolve, and
- Moorhead's "empty nester" market continues its strong growth. Such empty nesters – typically age 45 to 64 – often provide care for their senior parents, and have increasingly influenced their parents' housing decisions.

Underserved High-End Niche: The region's high-end for-sale home market is underserved. While market forces will tend to direct new upper-tier home development to its existing concentrations, Moorhead's high-income households provide a natural (but as-yet underserved) market for high-priced homes in Moorhead.

Affordable housing projects should offer development opportunities under various publicly sponsored programs; the primary limitation on such opportunities will most likely involve the availability of funds for local projects under the various programs.

## II. Study Context

This section presents an overview of key factors (past and recent) that affect housing demand in Moorhead and the Fargo-Moorhead metropolitan area. Development in Moorhead occurs within the economic context of the metropolitan area; while each community may assume different roles in regional growth, each derives its own growth potential from the overall regional economy.

### A. Residential Development Trends

Exhibit 1 shows residential building permit activity in Moorhead since 1993. Over the 11-year period, single-family detached homes have captured the highest levels of activity, accounting for an average of 74 units per year, or 43 percent of total new dwelling units.

In recent years, however, this allocation has shifted. While building activity for all types of housing increased in 2002 and 2003, various attached housing products have accounted for the larger portions of this increase.

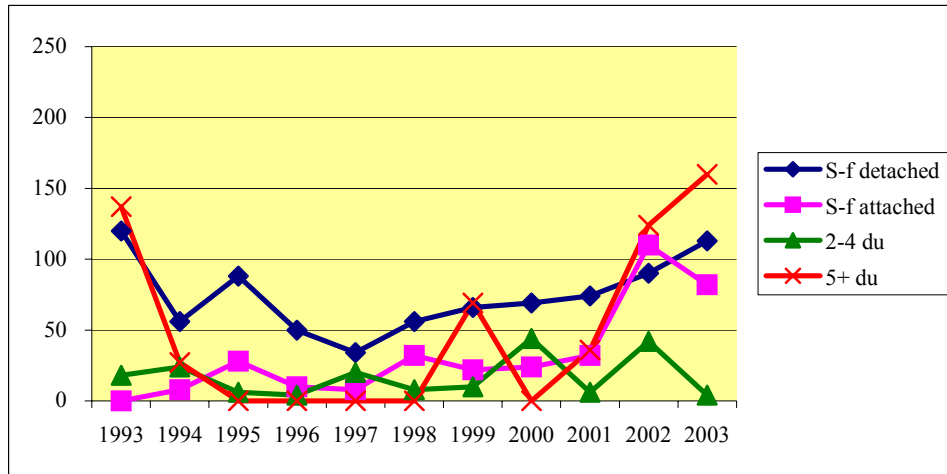
As shown in the exhibit, single-family attached homes have been built at rates of roughly 100 per year over the last two years, as compared to levels ranging from 0 to 32 in the preceding nine years. An even greater increase occurred among buildings with five or more dwelling units. Total permitted units have reached 124 and 160 in 2002 and 2003. In comparison, only 269 permits were issued in the entire nine-year period prior to 2002.

EXHIBIT 1—MOORHEAD RESIDENTIAL BUILDING PERMITS BY TYPE OF BUILDING

<u>Year</u>	<u>Single-Family</u>		<u>2 to 4</u>	<u>5+</u>	<u>TOTAL</u>
	<u>S-f detached</u>	<u>S-f attached</u>	<u>2-4 du</u>	<u>5+ du</u>	
1993	120	0	18	137	275
1994	56	8	24	27	115
1995	88	28	6	0	122
1996	50	10	4	0	64
1997	34	8	20	0	62
1998	56	32	8	0	96
1999	66	22	10	69	167
2000	69	24	44	0	137
2001	74	32	6	36	148
2002	90	110	42	124	366
2003	113	82	4	160	359
Total	816	356	186	553	1,911
Average	74	32	17	50	174
Percent of Total	42.7%	18.6%	9.7%	28.9%	100.0%

Source: City of Moorhead

EXHIBIT 1 CONTINUED.



In considering this recent increase in construction, it should be recognized that new construction has significantly exceeded household growth. During the 1990s, the difference between these indicators was attributable largely to the demolition and moving of existing dwelling units. Thus, while 1,425 new units were built in the 1990s, 749 units were demolished or moved during this same period. The resulting net gain of 676 new occupied units<sup>1</sup> is consistent with Census Bureau counts showing increases of 669 housing units (and approximately 600 households). Absent demolition/home moving activity, new household formations – which reflect the actual market demand for new homes -- by themselves would not have driven this level of activity in new home construction.

## B. Regional Residential Dynamics

Notwithstanding the recent positive gains in residential construction, over a long-term (30 year) time frame Moorhead's demographic share of the Fargo-Moorhead metropolitan area has declined. This pattern of relative decline has persisted for both Moorhead and Clay County over several decades. As shown in the following exhibit, over the 30-year period from 1970 to 2000, population in Moorhead and Clay County increased by 8.4 percent and 10 percent, respectively; in comparison, Fargo and Cass County populations increased by 70 and 67 percent during this period.

<sup>1</sup> City staff memorandum dated 4/14/03.

EXHIBIT 2—COMPARATIVE POPULATION GROWTH: 1970-2000

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>1970-2000</u>
Moorhead	29,687	29,998	32,295	32,177	8.4%
10-yr. Change	--	1.0%	7.7%	-0.4%	--
Clay County	46,585	49,327	50,422	51,229	10.0%
10-yr. Change	--	5.9%	2.2%	1.6%	--
Fargo	53,365	61,383	74,111	90,599	69.8%
10-yr. Change	--	15.0%	20.7%	22.2%	--
Cass County	73,653	88,247	102,874	123,138	67.2%
10-yr. Change	--	19.8%	16.6%	19.7%	--
Fargo-Moorhead MSA	120,238	137,574	153,296	174,367	45.0%
10-yr. Change	--	14.4%	11.4%	13.7%	--

Source: U.S. Census Bureau

This long-standing pattern has been perpetuated by factors influencing potential residents (demand) as well as potential residential developers (supply). Interviews, recent studies, additional research and general observations reveal the following key influences on these closely linked implementers of growth:

- General Geography and Sustainable Critical Mass: Fargo features a number of geographic advantages. The intersection of the area's two interstate highways has given Fargo the area's most easily identified strategic location. The West Acres Shopping Mall and its surrounding growth compounds this advantage, giving Fargo the region's dominant location for commercial development. The growing critical mass of this regional commercial hub has given Fargo an advantage in attracting additional retailers and hotels, all of which provide amenities that in turn help attract new office and residential development.

Despite Fargo's "natural" advantages, emerging factors are likely to reduce their significance. For instance, Moorhead's recent investments in public schools have increased the array of amenities offered in Moorhead. Then, in regard to other issues, Fargo's development around its strategic commercial nodes has changed the area's character to the extent that many prospective residents may perceive significant differences between Moorhead's residential neighborhoods and the rapidly developed areas near West Acres Mall and Interstate 94; many may prefer the character of Moorhead's neighborhoods. Finally, as development consumes land in Fargo and West Fargo, new developments in North Dakota will occupy increasingly remote locations. In comparison to these more remote locations, Moorhead will offer increasingly favorable convenience to destinations such as downtown Moorhead, downtown Fargo, the area's college campuses, and the

West Acres Mall. In addition, many Moorhead neighborhoods currently offer more convenient access to everyday goods and services as provided in grocery stores and smaller retail centers. A quick comparison of travel times using expedia.com calculations shows that many Moorhead households enjoy shorter travel times to locations such as downtown Fargo, West Acres Mall and smaller retail centers than many households in Fargo and West Fargo neighborhoods. While this is a general comparison, it nonetheless indicates a greater degree of convenience for living in Moorhead.

- Minnesota Income Taxes: Minnesota imposes a significantly higher state income tax burden than North Dakota. For those in many income brackets, the tax burden is nearly three times higher in Minnesota than in North Dakota. This presents a strong incentive for households to seek locations in the North Dakota parts of the metro area. It should be noted, however, that the imbalance in income taxes is in large part offset by differences in property taxes which give a relative advantage to Minnesota residences. Historically, developers and brokers have been quick to recognize the income tax disparities; in recent years, the City of Moorhead has embarked on a campaign to educate the real estate community in the relatively close cost-of-living comparisons between North Dakota and Minnesota communities. As a result, developers and brokers have attributed some of Moorhead's recent development surge to this new awareness.
- Domestic Migration Patterns: Exhibit 3 shows major origins and destinations for migration to and from Clay and Cass counties. While the data reveal no consistent pattern of movement between the two counties, the exhibit shows that while Cass County receives consistent net in-migration from rural North Dakota, Clay County does not receive a corresponding inflow from either rural North Dakota or Minnesota. Thus, rural North Dakota provides the region's largest source of new households. While many of these new residents may consider Moorhead locations, absent compelling incentives, many are likely to retain their North Dakota residencies.

An examination of Exhibit 3 will also show, however, that in each of the last three years Clay County has achieved net in-migration from Cass County. Thus, while Cass County has continued to receive in-migration from other North Dakota locations, Clay County's recent ability to capture net in-migration from Cass County may indicate a shifting "net" market preference for Clay County.

- "Developer-Friendliness": Interviewed real estate professionals cite a lack of development-friendliness in Moorhead and the Minnesota portion of the metropolitan area. Many of these references are general rather than specific; others involve relatively minor costs or processes involving issues such as energy-efficient construction standards, realtor licensing requirements, differences in landlord-tenant laws, etc.<sup>2</sup> While many of these may seem minor, in the Fargo-Moorhead area, where few major geological or sociological issues create major

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<sup>2</sup> Such issues are well documented in the *Report of the Moorhead Housing Task Force*, March 2002.

competitive distinctions (e.g., access to public transit, school systems, waterfront amenities, etc.), these relatively subtle differences can collectively drive preferences among development locations.

In recent years, Moorhead has sought to address this issue, and anecdotal evidence collected from developer interviews indicates that Moorhead's "developer-friendliness" has improved, and may have contributed to increased development of recent years.

- Developer Inertia: Most of the region's successful developers and builders have derived profits from projects primarily in Fargo and West Fargo. In addition to the fact that these communities comprise the larger portion of the regional market, developers have found it easier and therefore preferable to continue their proven methods for success. Where Minnesota jurisdictions impose different – and in some cases, more rigorous -- standards and procedures, developers concentrating their activities in Fargo and West Fargo have been slow to shift their focus.

In addressing this issue, it should be noted simply that the catalytic effect of successful new development precedents provides the primary weapon to combat such inertia. In Moorhead, recent developments in various market niches have succeeded, and may have provided an initial spark for the catalytic effect that can shift developer efforts to the Moorhead submarket.

EXHIBIT 3—MAJOR MIGRATION FLOWS

Clay County Tax Payer Migration Major Origins and Destinations: 1997-2002															
1997-1998			1998-1999			1999-2000			2000-2001			2001-2002			
Inflow	Outflow	Net in/(out)	Inflow	Outflow	Net in/(out)	Inflow	Outflow	Net in/(out)	Inflow	Outflow	Net in/(out)	Inflow	Outflow	Net in/(out)	
<b>Total</b>	1,251	1,496	(245)	1,406	1,510	(104)	1,475	1,446	29	1,627	1,673	(46)	1,475	1,493	(18)
<b>Major Counties of origin/destination</b>															
Cass County (ND)	482	603	(121)	537	590	(53)	600	539	61	647	615	32	620	551	69
Becker County	60	58	2	77	64	13	76	65	11	68	80	(12)	70	83	(13)
Hennepin County	31	79	(48)	28	89	(61)	32	84	(52)	44	99	(55)	36	83	(47)
Other Tail County	59	54	5	58	53	5	57	46	11	72	72	0	62	52	10
Polk County	34	13	21	26	13	13	24	16	8	24	17	7	26	17	9
Norman County	32	16	16	37	25	12	28	18	10	31	17	14	25	18	7
Other MN Counties	438	455	(17)	478	535	(57)	466	488	(22)	507	591	(84)	466	531	(65)
Other States	784	1,031	(247)	885	975	(90)	957	958	(1)	1,050	1,082	(32)	970	951	19
<b>Cass County (ND) Tax Payer Migration Major Origins and Destinations: 1997-2002</b>															
1997-1998			1998-1999			1999-2000			2000-2001			2001-2002			
Inflow	Outflow	Net in/(out)	Inflow	Outflow	Net in/(out)	Inflow	Outflow	Net in/(out)	Inflow	Outflow	Net in/(out)	Inflow	Outflow	Net in/(out)	
<b>Total</b>	4,330	3,781	549	4,386	3,889	497	4,226	3,902	324	4,237	4,034	203	4,223	4,051	172
<b>Major Counties of origin/destination</b>															
Clay County (MN)	603	482	121	590	537	53	539	600	(61)	532	578	(46)	551	620	(69)
Hennepin County (MN)	105	251	(146)	122	303	(181)	95	283	(188)	109	301	(192)	119	255	(136)
Grand Forks County	305	112	193	223	147	76	249	112	137	203	138	65	210	123	87
Burlingame County	183	119	64	196	116	80	214	120	94	177	108	69	213	116	97
Richland County	153	99	54	172	97	75	162	100	62	165	86	79	147	103	44
Other Tail County (MN)	111	89	22	117	102	15	115	100	15	119	85	34	118	94	24
Ward County	86	36	50	117	41	76	147	32	115	130	46	84	117	60	57
Becker County (MN)	80	74	6	93	90	3	78	107	(29)	104	117	(13)	98	107	(9)
Other ND Counties	1,622	779	843	1,690	769	921	1,742	726	1,016	1,695	778	917	1,562	862	700
Other States	2,587	2,966	(379)	2,595	3,091	(496)	2,378	3,148	(770)	2,417	3,211	(794)	2,536	3,158	(622)

Source: Internal Revenue Service.

## C. Economic and Household Growth

### 1. Demographic Growth

As of the 2000 census, Moorhead contained 11,660 households and 32,200 persons. In the 1990s, according to these data, households increased by 600, or roughly 0.5 percent per year; population remained essentially unchanged.<sup>3</sup>

As shown in Exhibit 4, Moorhead's growth in the 1990s lagged behind that of the overall metropolitan area. The metropolitan area population increased by 1.3 percent per year; households increased at a rate of 1.9 percent per year. The fastest growth occurred among the area's North Dakota cities and counties, which grew at annual rates of 2.5 to 2.7 percent.

**EXHIBIT 4 – DEMOGRAPHIC TRENDS IN SELECTED AREAS: 1990-2000**

	<u>1990</u>	<u>2000</u>	Annualized Avg. Change	
			<u>#</u>	<u>%</u>
<u>Population</u>				
Moorhead	32,295	32,177	-12	0.0%
MSA	153,296	174,367	2,107	1.3%
<u>Clay County</u>				
Dilworth	50,422	51,229	81	0.2%
	2,562	3,001	44	1.6%
<u>Cass County</u>				
Fargo	102,874	123,138	2,026	1.8%
West Fargo	74,111	90,599	1,649	2.0%
	12,287	14,940	265	2.0%
<u>Households</u>				
Moorhead	11,063	11,660	60	0.5%
MSA	57,771	69,985	1,221	1.9%
<u>Clay County</u>				
Dilworth	17,490	18,670	118	0.7%
	953	1,160	21	2.0%
<u>Cass County</u>				
Fargo	40,281	51,315	1,103	2.5%
West Fargo	30,149	39,268	912	2.7%
	4,430	5,771	134	2.7%

Source: Claritas, Inc.; U.S. Census.

<sup>3</sup> Census population estimates for 1990 reflect a temporary spike in student enrollment at the Minnesota State University at Moorhead; absent this temporary spike, the City would have shown positive population growth in the 1990s.

In regard to current (2003) and future households, demographic data sources Claritas, Inc. and Geovue, Inc. generally provide reasonable, credible and widely accepted demographic estimates and projections. For Moorhead and the Fargo-Moorhead area, both sources estimate households at roughly 12,000 for Moorhead, 19,300 for Clay County, and 72,800 in the metropolitan area – for Moorhead their differences lead to significantly different conclusions regarding growth rates.

**EXHIBIT 5 – CURRENT HOUSEHOLD ESTIMATES AND RECENT GROWTH**

	<u>2000</u>	<u>2003</u>	<u>Average Change</u>	
			<u>#</u>	<u>%</u>
Moorhead				
Claritas	11,660	11,892	23	0.66%
Geovue	11,660	12,196	54	1.51%
MSA				
Claritas	69,985	72,759	277	1.30%
Geovue	69,985	72,869	288	1.36%
Clay County				
Claritas	18,670	19,270	60	1.06%
Geovue	18,670	19,364	69	1.22%

Source: Claritas, Inc.; GeoVue, Inc.; U.S. Census.

**2. Employment and Economic Indicators**

Since new job creation helps drive increased household growth (which ultimately drives housing demand), employment forecasts offer an outlook for potential demographic growth. Forecasts prepared by economy.com, a nationally recognized source for economic data and projections, anticipate employment growth in the Fargo-Moorhead metropolitan area at a rate in excess of 1 percent annually (1.16 percent per year over the next five years).

In general, economy.com’s forecasts for most economic indicators – employment, total personal incomes, etc. -- anticipate ongoing positive growth, but at more gradual rates than experienced in the 1990s.

As the national economy continues its recovery from the recent recession, the metropolitan area may be able to surpass current employment forecasts. Where employment gains exceed expectations, this will generate higher in-migration levels and drive increased housing demand.

**EXHIBIT 6 – FARGO-MOORHEAD METROPOLITAN AREA TRENDS AND PROJECTIONS 1996-2007**

1996	1997	1998	1999	2000	2001	2002	Indicators	2003	2004	2005	2006	2007
91.9	96	99.1	100.8	102.8	104.1	104.2	Total Employment (000)	104.3	104.9	107.1	108.9	110.4
3.1%	4.4%	3.2%	1.7%	2.0%	1.2%	1.0%	% Change	1.0%	0.6%	2.1%	1.7%	1.4%
9.2%	4.1%	9.1%	6.7%	5.0%	3.3%	4.4%	Personal Income Growth	2.2%	2.1%	3.7%	3.5%	3.4%
166.7	168.7	170.9	172.9	174.7	175.9	177.1	Population (000)	177.5	176.9	178	179.1	179.9
0.4	0.9	1.0	1.0	0.8	0.3	0.3	Net Migration (000)	-0.6	-1.6	0	0.1	-0.2
679	484	858	797	648	818	1,063	Single-Family Permits	797	723	710	709	684
526	826	718	590	656	711	1,097	Multifamily Permits	742	639	636	670	678
1,205	1,310	1,576	1,387	1,304	1,529	2,160	Total Housing Permits	1,539	1,362	1,346	1,379	1,362
\$83.1	\$85.9	\$91.2	\$93.4	\$96.7	\$99.9	\$107.2	Existing Home Price (\$Ths)	\$111.2	\$109.1	\$112.9	\$115.9	\$119.9
	3.4%	6.2%	2.4%	3.5%	3.3%	7.3%		3.7%	-1.9%	3.5%	2.7%	3.5%

Source: economy.com

**3. Income Characteristics**

A brief examination of household income profiles can offer insight into potential market niches. As shown in Exhibit 7, in Moorhead the largest income cohorts include those households with annual incomes (1) below \$25,000 and (2) with incomes between \$35,000 and \$75,000. This distribution is fairly consistent throughout the metropolitan area; one of Moorhead's few significant divergences from the metro area distribution involves its higher presence of lower-income (below \$25,000) households.

**EXHIBIT 7 – 2000 HOUSEHOLD INCOME DISTRIBUTIONS, SELECTED AREAS**

	Moorhead		Clay County		Fargo		Cass Co. ND	
	Households	%	Households	%	Households	%	Households	%
<b>Total Households</b>	11,892	100.0%	19,270	100.0%	40,785	100.0%	53,489	100.0%
Under \$15,000	2,117	17.8%	2,988	15.5%	6,242	15.3%	7,263	13.6%
\$15,000-\$24,999	1,764	14.8%	2,592	13.5%	5,921	14.5%	7,108	13.3%
\$25,000-\$34,999	1,554	13.1%	2,385	12.4%	5,783	14.2%	7,259	13.6%
\$35,000-\$49,999	1,886	15.9%	3,246	16.8%	7,290	17.9%	9,537	17.8%
\$50,000-\$74,999	2,182	18.3%	3,970	20.6%	7,349	18.0%	10,746	20.1%
\$75,000-\$99,999	1,224	10.3%	2,126	11.0%	3,638	8.9%	5,389	10.1%
\$100,000-\$149,000	836	7.0%	1,434	7.4%	2,993	7.3%	4,122	7.7%
\$150,000-\$249,000	238	2.0%	380	2.0%	1,034	2.5%	1,384	2.6%
\$250,000+	91	0.8%	149	0.8%	535	1.3%	681	1.3%
Median	\$39,066		\$42,717		\$40,034		\$43,044	

Exhibit 8 shows Moorhead households and income cohorts as shares of such cohorts in Clay County and the metropolitan area.

As shown, Moorhead households comprise 62 percent of households in Clay County and 16 percent of households in the Fargo-Moorhead MSA. Among the various income groups, Moorhead households equal or exceed its (62 percent and 16 percent) shares of total households in the income groups under \$35,000.

Among higher income groups, within the metropolitan area Moorhead's shares fall below its 16 percent overall household share. This is particularly notable for the highest-income cohorts (above \$150,000). In Clay County, however, in these highest-income cohorts, Moorhead's share of households equals or exceeds its share of total households. These comparisons indicate that, while Moorhead captures its proportional share of Clay County's upper-income households, Clay County itself does not capture its proportional share of the overall metropolitan area's upper-income households.

**EXHIBIT 8 – MOORHEAD YEAR 2000 SHARES OF REGIONAL HOUSEHOLD INCOME COHORTS**

	Moorhead Households	
	<u>% of Clay Co.</u>	<u>% of MSA</u>
<u>Total Households</u>	61.7%	16.3%
Under \$15,000	70.9%	20.7%
\$15,000-\$24,999	68.1%	18.2%
\$25,000-\$34,999	65.2%	16.1%
\$35,000-\$49,999	58.1%	14.8%
\$50,000-\$74,999	55.0%	14.8%
\$75,000-\$99,999	57.6%	16.3%
\$100,000-\$149,000	58.3%	15.0%
\$150,000-\$249,000	62.6%	13.5%
\$250,000+	61.1%	11.0%

Source: U.S. Census

**D. General Conditions**

The following present general descriptions of residential market conditions in Moorhead.

**1. Single-Family and For-Sale Housing Overview**

*Moorhead Conditions:* Much of the recent residential development activity in Moorhead has focused on starter and “move-down” market niches (which serves the later stages of a housing cycle, wherein homeowners seek reduced property maintenance burdens).

Prices for starter home products range from roughly \$85,000 to \$125,000<sup>4</sup>. These include twin homes as well as detached products. Higher-end products include single-family detached homes, with most homes occupying a price range from \$200,000 to \$300,000. Upscale townhouses targeting “empty nester” households (seeking smaller homes and the convenience of homeowner association services) have also proven popular, with prices ranging from approximately \$150,000 to \$250,000. In general, brokers and builders report that new

<sup>4</sup> Home price references exclude special assessment charges.

residential developments have achieved rapid absorption, with most new units under contract before completion.

Metropolitan Area Comparisons and High-End Tiers: In the metropolitan area, average single-family home prices (for existing as well as new homes) are highest in Fargo and West Fargo. However, while average prices in Moorhead fall somewhat below those in Fargo and West Fargo, realtors and MLS data indicate that comparable properties in Moorhead sell at prices that are generally comparable to those in Fargo or West Fargo; differences in average prices are attributable to Fargo and West Fargo's greater concentrations of homes in the market's highest price tiers (e.g., \$350,000 and higher).<sup>5</sup>

**EXHIBIT 9 – AVERAGE SALE PRICES FOR SINGLE-FAMILY DETACHED HOMES**

	North <u>Fargo</u>	South <u>Fargo</u>	North <u>Moorhead</u>	South <u>Moorhead</u>	West <u>Fargo</u>	<u>Dilworth</u>
1993	\$80,665	\$103,436	\$60,457	\$82,174	\$85,258	\$69,305
1994	\$72,725	\$107,324	\$60,351	\$82,539	\$83,108	\$53,650
1995	\$78,108	\$110,697	\$62,661	\$84,355	\$69,676	\$59,876
1996	\$86,743	\$111,226	\$68,418	\$86,277	\$83,759	\$71,521
1997	\$83,849	\$115,193	\$68,417	\$90,234	\$97,912	\$67,198
1998	\$94,350	\$121,351	\$72,094	\$91,255	\$101,226	\$70,448
1999	\$97,959	\$124,802	\$73,369	\$96,611	\$109,412	\$79,695
2000	\$93,744	\$130,883	\$80,082	\$104,720	\$116,196	\$82,120
2001	\$103,404	\$139,675	\$64,812	\$103,582	\$114,994	\$97,409
2002	\$110,048	\$155,322	\$92,695	\$117,313	\$126,616	\$107,559
Avg. Increase	3.5%	4.6%	4.9%	4.0%	4.5%	5.0%

Source: Multiple Listing Services; Kvamme Real Estate, Inc.

The region's main concentrations of high-priced (\$350,000 and higher) homes are located in Fargo and West Fargo. Normally, a lack of critical mass among top-tier homes will tend to perpetuate itself, as buyers, developers and lenders typically favor high-end homes located among similarly valued homes.

Despite this tendency, the relative lack of housing priced above \$350,000 presents a potential opportunity for developers. As evidence of this opportunity, the majority of Moorhead's upper-income homeowner households pay less than 20 percent of their incomes for housing costs. Thus, while a household earning \$75,000 to \$99,999 should be able to pay up to 30 percent of their incomes toward housing costs – and thus afford a home priced at roughly \$300,000 to \$430,000 (based on a 7 percent mortgage interest rate) – 87.5 percent of Moorhead's

<sup>5</sup> In addition to anecdotal evidence showing that the market's top price tiers are concentrated in Fargo (and increasingly in West Fargo), in a recent MLS listing of homes for sale, 13 of 16 listings priced above \$350,000 were located in Fargo; one listing was located in West Fargo and two in Moorhead. Also, in the 2000 census, Fargo contained 289 homes valued at \$300,000 or higher, versus 21 in Moorhead.

homeowner households in this income bracket pay less than 20 percent of their incomes for housing. In comparison, only 76.7 percent of Fargo's homeowner households in this bracket pay less than 20 percent of their incomes for housing; the national benchmark for this income group is even lower, at 67.3 percent. As shown below, similar relative patterns apply for the \$50,000 to \$74,999 and \$100,000 to \$149,999 income groups.

**EXHIBIT 10—HOMEOWNER HOUSEHOLDS PAYING LESS THAN 20% OF INCOME FOR HOUSING, MOORHEAD, FARGO AND U.S.**

Income Group	MOORHEAD				FARGO				U.S. paying less than 20%
	# Homeowners	% owners	# Paying less than 20%	% income grp	# Homeowners	% owners	# Paying less than 20%	% income grp	
\$35,000 to \$49,999	1,204	18.5%	628	52.2%	2,862	18.6%	1,216	42.5%	47.0%
\$50,000 to \$74,999	1,902	29.2%	1,263	66.4%	4,580	29.8%	2,720	59.4%	56.1%
\$75,000 to \$99,999	867	13.3%	759	87.5%	2,146	13.9%	1,646	76.7%	67.3%
\$100,000 to \$149,999	482	7.4%	460	95.4%	1,670	10.8%	1,373	82.2%	76.9%
\$150,000+	193	3.0%	187	96.9%	909	5.9%	878	96.6%	88.1%
Total \$50,000+	3,444	52.8%	2,669	77.5%	9,305	60.5%	6,617	71.1%	

Source: U.S. Census

These patterns may reflect a lack of desirable high-end housing options for such households. Given a lack of higher-priced homes, Moorhead's upper-income households must seek desirable new housing in Fargo or West Fargo. As a result, the highest income groups represent progressively smaller portions of Moorhead's households.

Overall, while many developers currently favor Fargo or West Fargo locations for such developments, Moorhead appears to offer an underserved market.

**2. Rental Market Overview**

*Market Indicators:* Of Moorhead's 11,660 households, renters accounted for 4,230 -- 36.3 percent -- in 2000. Most of these rental units are contained in midrise buildings with 20 to 50 units. Townhouse units comprise a small segment of the rental market, but new townhouses typically occupy the high-rent tiers of the rental market.

Monthly rents generally range from \$400 to \$550 for one-bedroom units and \$600 to \$675 for two-bedroom units. New townhouse units can command higher rents, in excess of \$800 for two-bedroom units and over \$1,000 for three-bedroom units.

In comparison, the Fargo apartment market is significantly larger, with nearly 21,000 renters (2000 Census) comprising 53 percent of Fargo's households.

Fargo's apartment inventory also addresses a wider rent range. Some recent upscale projects in Fargo offer luxury features such as indoor pools and underground parking, with higher rents in excess of \$800 for two-bedroom units. New two- and three-bedroom townhouses achieve the highest monthly rents, reaching \$1,150 and \$1,350 in some cases.

At this time, Moorhead's rental properties do not include luxury apartments with these high-end amenities. For the most part, however, comparable, mid-tier units in Moorhead and Fargo achieve comparable rents; some property managers state that Moorhead apartments may in fact command a slight premium, based on Moorhead's relative scarcity of supply.

*Recent Trends in Moorhead:* While very little apartment development occurred in the 1990s in Moorhead, activity has increased in the last two years. Recent market-rate projects have included four midrise buildings containing a total of nearly 170 units. These properties offer standard apartment units featuring covered parking, balconies and washer/dryer hookups, but no upscale amenities such as swimming pools, underground parking, fitness facilities or club rooms. Monthly rents at these properties generally range from \$500 to \$550 for one-bedroom and \$625 to \$675 for two-bedroom apartments.

These projects have achieved and maintained full occupancies, and the overall Moorhead market maintains respectable occupancies estimated at 5 to 6 percent. While this is roughly equivalent to the overall metropolitan area market occupancy rate<sup>6</sup>, property managers believe that high vacancy rates at some of Moorhead's older (and lower-quality) properties reduce the overall City-wide occupancy, and negatively distort the indicated strength of demand for new Moorhead apartments.

In addition to recent market-rate activity, two affordable housing projects featuring approximately 60 units have been developed in recent years. These have maintained high occupancies, and their developers have gained access to federal tax credit financing. This niche appears to offer a development opportunity and can provide high-quality housing for low- to moderate-income renters.

## **E. National Trends**

Moorhead and the Fargo-Moorhead region have not yet attracted some of the development concepts that have succeeded in other Minnesota and national markets. To date, the Fargo-Moorhead area has been served primarily by local developers. These developers have been for the most part successful working with established development formats, and have therefore had little motivation to assume additional risk with unfamiliar development prototypes. Despite this, such new prototypes offer the potential opportunities for Moorhead. Such opportunities include:

- *Downtown Housing:* Aging downtown areas throughout the nation have been able to attract small households (e.g., empty nesters, retirees, singles, students, young professional couples, divorcees) seeking proximity to urban amenities such as retail/entertainment amenities, employment locations, cultural facilities and other such features. Popular housing products have included a wide range of attached housing formats, including townhouses, mid-rise apartments, renovated industrial buildings and others. Recent successful loft developments in Fargo attest to the region's receptiveness to

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<sup>6</sup> Rental occupancy rates estimated by Neal A. Eriksmoen Appraisal Services, Inc.

these concepts. Where suitable properties – either land or buildings – can be available in convenient locations, these types of housing in Moorhead can provide attractive alternatives to more suburban developments.

- “Lifestyle” Rental Apartments: This emerging niche targets affluent households – typically younger households -- that can afford to purchase high-quality homes but nonetheless prefer to rent apartments. Such “renters-by-choice” seek to reduce their home-maintenance obligations while gaining the convenience of services and amenities such as swimming pools, club/party rooms, and physical fitness facilities, with most units featuring homeowner-type conveniences such as in-unit washer/dryers, walk-in closets, etc. This type of product has proven successful in major metropolitan areas throughout the nation, and recent projects in Fargo have successfully served this market. While this type of development targets a high-rent (and therefore somewhat narrow) market tier, it nonetheless offers a potential opportunity for developers in Moorhead.
- Senior Housing Niches: While Moorhead contains several successful types of age-restricted senior housing facilities, alternative senior housing products that have proven successful in other markets have not yet appeared. These include independent living co-op (or condominium) projects, as well as the "life care" forms of continuing care retirement communities (See Section IV.A.4 as well as definitions provided in Section V.B).

### III. Forecasts and Potential Demand

This section presents a range of forecast scenarios for potential residential demand in Moorhead, followed by a discussion of various residential market niches.

#### A. Demand Forecasts

##### 1. Comparative Forecasted Growth Rates

As noted previously, various sources maintain divergent demographic estimates and projections for Moorhead and the Fargo-Moorhead metropolitan area. In comparing these estimates and projections, Exhibit 11 shows current (2003) population estimates prepared by Geovue, Claritas, and the U.S. Census (2002 estimates). As shown, Geovue's estimates reflect a three-year (2000-2003) annualized growth rate that closely approximates the annualized two-year (2000-2002) growth rate reflected in the U.S. Census Bureau's estimates.

In general, Geovue estimates and projections anticipate that Moorhead will grow more rapidly (in percentage terms) than Clay County and the metropolitan area. Claritas's current estimates, on the other hand, are more consistent with historical relationships within the metropolitan area. Claritas projects considerably slower growth for Moorhead – at a rate equal to its growth in the 1990s – with higher growth rates projected for both Clay County and the metropolitan area.

**EXHIBIT 11 – POPULATION AND HOUSEHOLD ESTIMATES AND PROJECTIONS**

	2000	2003	Average Change		2008	Average Change	
			#	%		#	%
<u>MSA Population</u>							
Claritas	174,367	176,619	225	0.43%	183,299	1,336	0.75%
Geovue	174,367	178,242	388	0.74%	183,887	1,129	0.63%
Census 2002 <sup>1</sup>	174,367	177,064	270	0.77%			
<u>Clay County Population</u>							
Claritas	51,229	51,233	0	0.00%	51,343	22	0.04%
Geovue	51,229	52,268	104	0.67%	53,856	318	0.60%
Census 2002 <sup>1</sup>	51,229	51,947	72	0.70%			
<u>Households</u>							
<u>Moorhead</u>							
Claritas	11,660	11,892	23	0.66%	12,194	60	0.50%
Geovue	11,660	12,196	54	1.51%	13,007	162	1.30%
<u>MSA</u>							
Claritas	69,985	72,759	277	1.30%	77,666	981	1.31%
Geovue	69,985	72,869	288	1.36%	77,315	889	1.19%
<u>Clay County</u>							
Claritas	18,670	19,270	60	1.06%	20,143	175	0.89%
Geovue	18,670	19,364	69	1.22%	20,451	217	1.10%

<sup>1</sup> U.S. Census prepares annual updates of population for states and counties. Most recent update is for 2002. Average change reflects a 2-year (rather than 3-year) compounded average.

Considering these various projections, this analysis applies a growth rate of 1.3 percent per year. This growth rate represents Geovue's anticipated household growth rate for Moorhead itself, which exceeds Geovue's projected growth rates for Clay County and the metropolitan area. This rate also approximates Claritas's projected growth rate for the overall metropolitan area. In either case, the implicit assumption is that Moorhead's growth will equal or surpass that of the overall metro area. While this would reverse long-term historical trends (see Exhibit 2), this nonetheless provides a supportable basis for a forecast of *potential* demand, wherein Moorhead could overcome historical competitive disadvantages.

Evidence that Moorhead can achieve such performance is provided in the more recent, five-year history, wherein single-family development in Moorhead has captured an average of 18.9 percent of the Fargo-Moorhead market, capturing as much as 25.4 percent of the market in 2002. These shares exceed Moorhead's 16.3 percent share of the area's total households (in 2000). Given the rapid absorption of new construction, these figures indicate that Moorhead's single-family home market has the potential to grow at rates equal to the overall metropolitan area market.

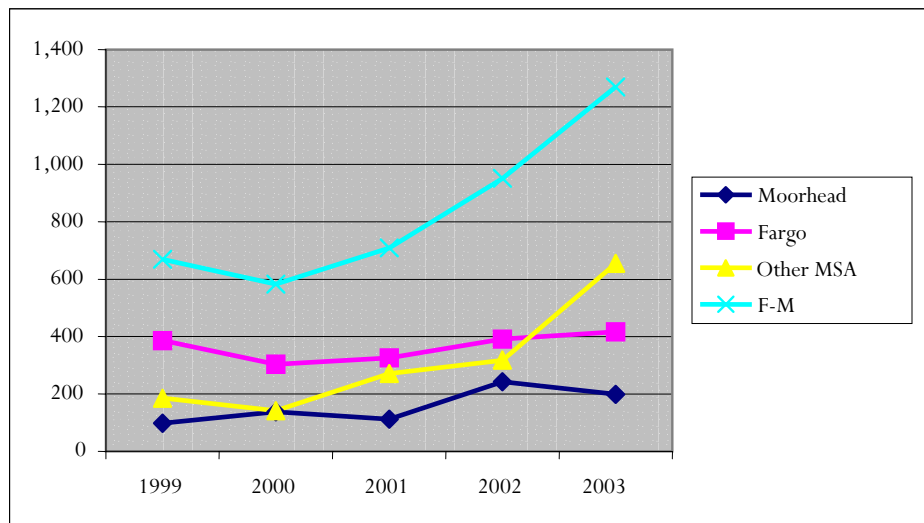
**EXHIBIT 12 -- MOORHEAD SHARE OF SINGLE-FAMILY HOME BUILDING PERMITS, 1999-2003**

	<u>Moorhead</u>	<u>Fargo</u>	<u>Other MSA</u>	<u>F-M</u>	<u>Moorhead Share of F-M</u>
1999	98	386	185	669	14.6%
2000	137	303	142	582	23.5%
2001	112	326	271	709	15.8%
2002	242	391	318	951	25.4%
<u>2003</u> <sup>1</sup>	<u>199</u>	<u>416</u>	<u>654</u>	<u>1,269</u>	<u>15.7%</u>
5-Yr. Total	788	1,822	1,570	4,180	18.9%

<sup>1</sup> Moorhead figures year-end; Fargo and metro area figures annualized based on figures through Sept.

Source: City of Moorhead; City of Fargo; Home Builders Association of Fargo-Moorhead.

EXHIBIT 12 -- CONTD.



This is also true even in the overall home construction market (including multi-family units), in which historically Moorhead has underperformed. As shown in the figure below, over the last five years, Moorhead's share of total new housing units has increased from a range of 10 to 13 percent to more recent shares of 17 percent and 17.4 percent.

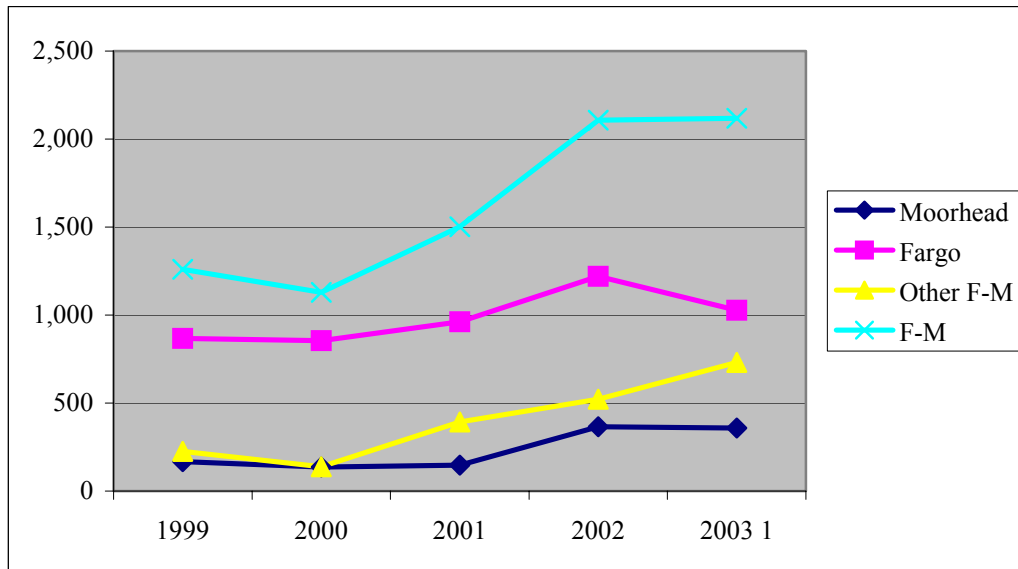
EXHIBIT 13-- MOORHEAD SHARES OF TOTAL RESIDENTIAL BUILDING PERMITS, 1999-2003

	<u>Moorhead</u>	<u>Fargo</u>	<u>Other F-M</u>	<u>F-M</u>	<u>Moorhead Share of F-M</u>
1999	167	867	226	1,260	13.3%
2000	137	854	139	1,130	12.1%
2001	148	961	393	1,502	9.9%
2002	366	1,220	522	2,108	17.4%
<u>2003</u> <sup>1</sup>	<u>359</u>	<u>1,027</u>	<u>732</u>	<u>2,117</u>	<u>17.0%</u>
5-Yr. Total	1,177	4,929	2,012	8,117	14.5%

<sup>1</sup> Moorhead figures year-end; Fargo and metro area figures annualized based on figures through Sept.

Source: City of Moorhead; City of Fargo; Home Builders Association of Fargo-Moorhead.

EXHIBIT 13 -- CONTD.



Overall, in light of this document's objective of projecting potential demand (rather than likely supply), it is reasonable and appropriate to apply a growth rate wherein Moorhead's growth would be proportional to the overall growth rates in the Fargo-Moorhead metropolitan area.

## 2. Projections

Single-Family Units: Applying the selected range of growth rates to the City's inventory of single-family units, Exhibit 14 shows that over the next five years, single-family development would proceed at an average of 123 new units per year.

EXHIBIT 14 – MOORHEAD SINGLE-FAMILY HOME (1-4 UNITS) DEVELOPMENT PROJECTIONS

	Estimate <u>2003</u>	Projected <u>2008</u>
Projected Annual Growth Rate		1.30%
Single-Family Units (in bldgs w/1-4 units) <sup>1</sup>	9,245	9,860
<u>Change</u>		
5-Year	--	615
Avg. Annual	--	123

<sup>1</sup> 2003 figure represents 2000 census figure plus new homes permitted since 2000.

Multi-Family Units: Multi-family development projections involve an additional step. This step rests upon the assumption that multi-family development in Moorhead should serve a portion of the Moorhead housing market that is consistent with the multi-family allocation in the overall metropolitan area market. This assumption is based on an understanding that the Moorhead multi-family market is underserved. The following facts support this finding:

- As of 2000, multi-family units (in buildings with 5 or more units) comprised just 27.4 percent of housing units in Moorhead, as compared to 28.5 percent in 1990. This declining presence occurred in a period in which multi-family units increased as a percentage of overall units (from 30.8 percent to 33.8 percent) in the overall metropolitan area (see Exhibit 15 below).

**EXHIBIT 15 – SELECTED HOUSEHOLD AND HOUSING CHARACTERISTICS**

	Moorhead 1990		Moorhead 2000		Change 1990-2000	MSA 1990		MSA 2000		Change 1990-2000
	#	%	#	%		#	%	#	%	
Households	11,063	100.0%	11,660	100.0%	597	57,771	100.0%	69,985	100.0%	12,214
Families w/children	3,667	33.1%	3,663	31.4%	(4)	19,909	34.5%	21,642	30.9%	1,733
Non-family and families w/o children	7,329	66.2%	7,997	68.5%	668	37,862	65.5%	48,343	69.1%	10,481
Owner	6,664	60.2%	7,430	63.7%	766	34,021	58.9%	41,250	58.9%	7,229
Renter	4,399	39.8%	4,230	36.3%	(169)	23,750	41.1%	28,735	41.1%	4,985
<u>Units by Type Structure (excl. mobile homes)</u>										
Single-family detached	6,192	56.6%	6,777	57.5%	585	31,735	55.4%	36,181	53.9%	4,446
Single-family attached	588	5.4%	852	7.2%	264	2,752	4.8%	4,056	6.0%	1,304
2-4 units	1,047	9.6%	926	7.9%	(121)	5,137	9.0%	4,266	6.4%	(871)
5-9 units	437	4.0%	440	3.7%	3	3,334	5.8%	4,197	6.3%	863
<u>10+ dus</u>	<u>2,677</u>	<u>24.5%</u>	<u>2,790</u>	<u>23.7%</u>	<u>113</u>	<u>14,310</u>	<u>25.0%</u>	<u>18,446</u>	<u>27.5%</u>	<u>4,136</u>
Total	10,941		11,785		844	57,268		67,146		9,878

Source: U.S. Census Bureau.

- Despite this pattern, one- and two-person households – those most likely to seek multi-family housing -- have increased as a portion of Moorhead households, and continue to comprise the largest portion – 63 percent -- of Moorhead’s future households. This is roughly consistent with corresponding percentages in Clay and Cass counties. Where smaller households continue to increase even as the City’s relative supply of multi-family falls, it appears that trends relating to market supply – rather than demographics and market demand – have driven multi-family development activity to other parts of the metropolitan area.

EXHIBIT 16 – 1990-2003 HOUSEHOLD SIZE DISTRIBUTION

	1990			
	<u>Moorhead</u>	<u>Clay Co.</u>	<u>Fargo</u>	<u>Cass Co.</u>
1-person	24.8%	23.4%	31.4%	28.2%
2-person	32.2%	31.8%	33.2%	32.6%
3-person	17.8%	17.2%	15.6%	16.0%
<u>4+ persons</u>	<u>25.2%</u>	<u>27.6%</u>	<u>19.8%</u>	<u>23.2%</u>
Total	100.0%	100.0%	100.0%	100.0%
<u>Household Size</u>	2003			
	<u>Moorhead</u>	<u>Clay Co.</u>	<u>Fargo</u>	<u>Cass Co.</u>
1-person	30.4%	27.0%	36.0%	32.4%
2-person	33.0%	33.7%	34.0%	33.9%
3-person	15.1%	15.4%	14.4%	15.1%
<u>4+ persons</u>	<u>21.5%</u>	<u>23.8%</u>	<u>15.6%</u>	<u>18.6%</u>
Total	100.0%	100.0%	100.0%	100.0%

Source: U.S. Census; Claritas, Inc.

- In recent years, multi-family development in Moorhead has increased. As shown previously in Exhibit 2, multi-family units have accounted for much of the increasing development activity in Moorhead. Interviews with developers and property managers indicate that recently opened apartment properties have achieved and maintained full occupancies, and some developers have begun to perceive Moorhead as an underserved opportunity for rental housing. It should also be noted that these rental housing developments have been successful in spite of the low-interest rate environment that has typically encouraged home-ownership in lieu of rental housing.

Given the above considerations, it is reasonable and appropriate to assume that the Moorhead market offers the potential to regain a multi-family apportionment that is more closely aligned with the metropolitan area housing profile. This would mean that multi-family housing would approach an allocation of roughly one-third of Moorhead's total housing market.

Applying this assumption, along with the assumed growth rates as discussed above, potential demand for multi-family housing is projected at 135 new units per year, as shown below:

**EXHIBIT 17 – MOORHEAD MULTI-FAMILY (5+ UNITS) DWELLING UNIT PROJECTION**

	Estimate <u>2003</u>	Projected <u>2008</u>
Projected Annual Growth Rate		1.30%
Total Households <sup>1</sup>	12,000	12,798
Units in Buildings w/5+ Units		
MSA 2000 %		33.0%
Moorhead Inventory <sup>2</sup>	3,550	4,223
<u>Change</u>		
5-Year	--	673
Avg. Annual	--	135

<sup>1</sup> Rounded figure based on Geovue and Claritas estimates.

<sup>2</sup> 2003 figure represents census figure plus new units permitted since 2000.

**3. Evaluation and Adjustments**

Combining the projections in Exhibits 14 and 17, total potential residential demand in Moorhead would support an average net increase of approximately 260 new units per year. Of this total, slightly more than 50 percent (135) would be multi-family; the remaining 123 units would be single-family dwelling units.

As a combined total, the forecasted demand for roughly 260 net new units per year would reflect an average annual growth rate of 1.9 percent, as shown in Exhibit 18. Such growth would exceed all projections for annual household as well as economic growth, which range from as low as 0.5 percent to 1.3 percent per year. This projected outperformance reflects Moorhead's potential to capture its "fair share" of (historically underserved) multi-family demand within the metropolitan area.

**EXHIBIT 18 – COMBINED RESIDENTIAL DEMAND PROJECTION**

	Estimated <u>2003</u>	Projected <u>2008</u>
Dwelling Units (single & multi-family)	12,795	14,083
<b>Combined New Dwelling Units/Year</b>		258
Annualized Growth Rate		1.9%

While the above projection thus presents a reasonable estimate of potential demand, an alternative, more conservative demand projection would simply apply a general range of 1.3 percent annual growth to the overall housing unit supply while making no assumptions regarding multi-family/single-family allocations. As shown below, this simpler methodology generates a projected demand for 171 new dwelling units per year.

**EXHIBIT 19– ALTERNATIVE COMBINED RESIDENTIAL DEMAND PROJECTION**

	Estimated <u>2003</u>	Projected <u>2008</u>
Selected Annualized Growth Rate		1.30%
Adjusted Projection	12,795	13,649
5-Year Increase		854
Average New Demand/Year		171

Under this scenario, applying the same apportionment among multi-family and single-family units as calculated in the prior projection scenario, multi-family units would account for slightly more than 50 percent of the total; the remaining new units would be single-family homes.

It may also be noted that, in comparison to recent and historical construction, this projected figure falls below the most recent five-year average, in which 1,177 building permits were issued, for an annual average of 235 units per year. Building construction, however, does not reflect potential demand for net new housing. For example, as mentioned previously in Section II.A, while Moorhead issued 1,425 new building permits in the 1990s, during this same period, net new housing demand – new households -- increased by a total of just 600, with the difference attributable to demolitions, moved homes, or renovations and reuse of previously existing homes.

Collectively, these two approaches define a reasonable and supportable forecast of demand for approximately 170 to 260 (net) new homes per year. Single-family development over the next ten years is likely to fall within a range of roughly 80 to 125 units per year; multi-family units would range from approximately 90 to 135 units. These figures are shown in Exhibit 20.

**EXHIBIT 20 – ADJUSTED ANNUAL RESIDENTIAL DEMAND FORECAST (NET NEW UNITS/YEAR)**

	<u>Low</u>	<u>High</u>
Total	170	260
Single-Family	80	125
Multi-Family	90	135

## IV. Possible Housing Niches and Strategies

While the previous section provides a general allocation between single-family and multi-family market segments, the following paragraphs provide insights into more specific niches.

### A. Single-Family: Detached vs. Attached Formats

As described above, single-family homes are likely to comprise just under 50 percent of total units, or roughly 80 to 125 units annually. Within this sector of the market, while detached units have accounted for 60 percent of single-family building permits over the last eleven years (see Exhibit 2); demographic factors indicate that this share is likely to decline.

*Factors Indicating Declining Detached Housing Share:* Smaller households tend to seek smaller homes and lots. Over the last ten years, smaller households (e.g., empty nesters, young couples, singles, seniors, divorcees) have increased their shares of the overall housing market (see “non-family and families without children” in Exhibit 15 and 1-person and 2-person households in Exhibit 16). This trend is expected to continue, as empty nesters and other small households continue to increase.

Empty nesters comprise one of the primary components of the smaller household market segment. As shown in the following exhibit, in the overall metropolitan area, households with householders age 55 to 64 – the primary empty nester age cohort – are expected to show the highest growth in terms of percentages as well as absolute numbers. The next-highest growth will occur in the age 45-to-54 cohort. Many of the households in this category will enter the empty nester segment within five to ten years, thus continuing the demand for smaller, attached homes.

EXHIBIT 21 – HOUSEHOLDS BY AGE OF HOUSEHOLDER, FARGO-MOORHEAD MSA, 2000-2008

<u>Age Group</u>	<u>2000</u>	<u>2008</u>	Avg. Annual	
			<u>#</u>	<u>%</u>
15-24	8,664	7,929	-92	-1.1%
25-34	13,881	14,987	138	1.0%
35-44	15,047	14,178	-109	-0.7%
45-54	13,169	15,936	346	2.4%
55-64	7,204	11,434	529	5.9%
65-74	5,842	6,228	48	0.8%
<u>75+</u>	<u>6,143</u>	<u>6,974</u>	<u>104</u>	<u>1.6%</u>
Total	69,950	77,666	965	1.3%

Source: U.S. Census; Claritas, Inc.

In contrast, the 35-to-44 age cohort is expected to decline over the next five years. This age group comprises the primary market for move-up, single-family detached housing. While development is likely to continue in the single-family detached niche (in some cases replacing aging homes), the market's net new demand in this category is likely to diminish.

Consistent with the figures shown in Exhibit 21, Exhibit 22 projects growth among smaller households in Moorhead as well as the overall metropolitan area. Again, while larger households are expected to decline, one-person households are expected to account for the largest shares of household growth.

**EXHIBIT 22 – PROJECTED HOUSEHOLD GROWTH BY HOUSEHOLD SIZE**

<u>Household Size</u>	Moorhead			MSA		
	<u>2003</u>	<u>2008</u>	<u>Change</u>	<u>2003</u>	<u>2008</u>	<u>Change</u>
<u>Total</u>	<u>11,892</u>	<u>12,194</u>	<u>302</u>	<u>72,759</u>	<u>77,666</u>	<u>4,907</u>
1-person	3,621	3,963	342	22,549	25,520	2,971
2-person	3,922	3,939	17	24,625	25,844	1,219
3-person	1,790	1,886	96	11,027	11,916	889
4+ persons	2,559	2,406	-153	14,558	14,386	-172

Potential for Maintained Detached Housing Share: Notwithstanding the preceding points, the market for detached single-family homes is likely to continue to support new homes. While demographic trends may prevent this market segment from capturing 60 percent of new home construction, two factors may potentially drive higher-growth scenarios for single-family detached homes:

- **Increased Employment Growth:** where employment growth exceeds current expectations, new migrants to the area will include traditional family households (with three or more persons) as well as the small households that are presently anticipated to drive most housing growth.
- **High-end Niche Potential:** As noted previously in Section II.B, Moorhead's existing inventory offers little inventory in the highest price tiers of the metropolitan area market. Detached single-family homes comprise most of this market tier. If and when the development community begins to recognize opportunities in this niche, this may open up new sources of potential demand in Moorhead.

Underserved High-End Niche: The region's high-end for-sale home market is underserved. While market forces will tend to direct new upper-tier home development to its existing concentrations, Moorhead's high-income households

provide a natural, internally generated – but as-yet underserved -- market for high-priced homes in Moorhead.

Outlook for Attached and Detached Single-Family Homes: In accordance with these demographic trends, twin homes, townhouses, and other attached formats targeting smaller households will comprise an increasing and suitable component for the Moorhead housing market. Given the increasing presence of these products – and their record of success thus far -- over the next ten years attached housing units are likely to account for roughly 40 to 45 percent of Moorhead's demand for new single-family homes.

Thus, within the annual market demand for 80 to 125 single-family homes, attached products will account for 35 to 60 units per year; detached homes will account for the remaining 45 to 65 units.

## **B. Rental Units**

Allocation: Over the next ten years, rental units in various multi-family or townhouse (single-family) formats will account for up to 40 percent of total new dwelling units. Moorhead renters currently comprise only 36 percent of its households, but this reflects an underserved rental housing market that should offer an opportunity for development. This finding derives support from the following considerations:

- The relative lack of multi-family development in Moorhead has not been attributable to differences in demographic characteristics. As discussed previously in Section II.B, Moorhead's multi-family market component has declined despite the fact that one- and two-person households – those most likely to seek rental housing -- have increased as a portion of Moorhead households, and continue to comprise the largest portion – 63 percent -- of Moorhead's future households.
- In recent years, new rental units have accounted for significant portions of new development, and new rental properties have delivered successful leasing performances. It should also be noted that these rental housing developments have been successful in spite of the low-interest rate environment that has typically encouraged home-ownership at the expense of rental housing.
- Moorhead's existing apartment inventory is relatively old. Exhibit 23 shows a comparison of the age of rental housing units in Moorhead, Fargo, and Clay and Cass counties. More than three-quarters of Moorhead's rental inventory was built prior to 1980; nearly 47 percent was built prior to 1970. In comparison, only 52 percent of Fargo's inventory predates 1980. This relative prevalence of aging properties in Moorhead creates a potential opportunity for newer rental properties to outperform existing properties and attract existing Moorhead renters who, absent new apartment development, may seek alternatives in other communities.

**EXHIBIT 23 – AGE OF RENTAL HOUSING UNITS, SELECTED AREAS**

	<u>Moorhead</u>		<u>Clay Co</u>		<u>Fargo</u>		<u>Cass Co.</u>	
	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
<u>Renters</u>	<u>4,228</u>	<u>100.0%</u>	<u>5,293</u>	<u>100.0%</u>	<u>20,802</u>	<u>100.0%</u>	<u>23,423</u>	<u>100.0%</u>
<u>1990-2000</u>	438	10.4%	609	11.5%	6,188	29.7%	6,548	28.0%
1995-2000	114	2.7%	207	3.9%	3,329	16.0%	3,466	14.8%
1990-1994	324	7.7%	402	7.6%	2,859	13.7%	3,082	13.2%
1980-1989	564	13.3%	702	13.3%	3,713	17.8%	4,067	17.4%
1970-1979	1,257	29.7%	1,520	28.7%	4,806	23.1%	5,700	24.3%
1960-1969	951	22.5%	1,071	20.2%	1,919	9.2%	2,481	10.6%
1950-1959	490	11.6%	589	11.1%	1,161	5.6%	1,302	5.6%
1940-1949	146	3.5%	225	4.3%	848	4.1%	945	4.0%
1939 or earlier	382	9.0%	577	10.9%	2,167	10.4%	2,380	10.2%

Source: U.S. Census Bureau

Rental Apartment Outlook: A prospective 40 percent renter split is generally consistent with the rental/owner split in the overall metropolitan area (see Exhibit 15). Moorhead renters comprised only 36 percent of its households in 2000, but this represents a decline from 39 percent in 1990, and this decline is largely attributable to the limited amount of new rental apartment construction (relative to apartment construction in Fargo) during the 1990s.

Overall, the Moorhead rental housing market offers an underserved niche in the regional market. Thus, within the overall market demand for 170 to 260 units per year, rentals are likely to account for 70(41 percent of 170) to 100 (38.5 percent of 260) units over the next ten years. Most of these would fall within the multi-family housing market, comprising roughly 75 percent of the 90 to 135 supportable multi-family units. For-sale townhouses and duplexes would comprise the remaining 20 to 35 multi-family units.

Student Market Segment: Moorhead contains three postsecondary educational institutions. These include two four-year institutions – Minnesota State University Moorhead and Concordia College – with a combined enrollment of nearly 11,000 (full-time and part-time) students.

The 2000 U.S. Census reported total student enrollment living in Moorhead at 6,505. This figure has declined substantially from a corresponding figure of 8,318 in 1990. While this decline can be attributed partly to decreased enrollment (of roughly 1,700 students) at MSUM, the more important cause may lie in the comparatively rapid apartment construction in other areas —most notably Fargo – while Moorhead’s aging apartment inventory has seen few substantial additions or upgrades.

By subtracting Moorhead’s 6,500 resident students from the total enrollment (in Moorhead’s two four-year institutions) of 11,000, one can identify a remaining total of 4,500 enrolled students living in other communities. University

administrators state that most of these students living in rental housing, primarily in Fargo.

Among the 6,500 students in Moorhead, roughly 3,550 are housed on campus.<sup>7</sup> This leaves a remainder of approximately 2,950 students inhabiting off-campus dwelling units in Moorhead. Assuming that an average of two to three students share most dwelling units, this would indicate that roughly 1,000 to 1,500 rental units are student-occupied. This comprises 24 to 36 percent of the current rental housing market in Moorhead.

While the Moorhead student market may not offer a growing niche, it nonetheless comprises a substantial market segment that has not been served in the local market; the 4,500 additional students – 1,500 to 2,250 dwelling units – housed outside of Moorhead represent a substantial potential opportunity for the Moorhead market.

In seeking to attract these renter households, convenience to the MSUM and Concordia campuses offers compelling incentives. While Fargo locations can also provide relatively convenient automobile access to these campuses, parking shortages – particularly at MSUM – present inconveniences to commuting students, and can help encourage residential locations closer to campus.

Overall, given a supply of apartments to accommodate potential demand, along with the development of new campus-related amenities, the Moorhead market would most likely be able to recapture substantial portions of its commuting student households. Given forecasted rental development of 70 to 100 units per year, this niche would comprise one of the primary sources of demand for new rental housing projects.

### **C. Affordable Housing Issues**

Regional economic growth relies on an ample and diverse supply of labor. In order to sustain its growth, the community must address this issue by ensuring a supply of housing that can be affordable to the various components of its labor force.

While most developers seek to maximize financial returns, developers throughout the nation have found it profitable to build affordable housing, often combining market-rate with affordable components. Such projects have proven beneficial to virtually all parties, including:

- Low- and moderate-income residents, who gain affordable housing;
- Market-rate residents, to whom mixed-income communities have proven acceptable;

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<sup>7</sup> Administrators at Minnesota State University Moorhead report that 1,850 of its 7,900 enrolled students live in campus housing; Concordia College reports that roughly 60 percent of its 2,856 enrolled students (1,713) are housed on campus.

- Developers, who derive funding assistance that is often required to facilitate their projects' market-rate residential components; and
- Communities, who derive greater residential diversity and capacity to accommodate potential labor force growth.

In general, the product model for mixed-income projects would be dictated by the requirements and conditions of specific federal, state or local assistance programs. In perhaps the most prominent example, under the federal low-income housing tax credit program, developers can allocate 20 to 40 percent of a project's dwelling units as affordable for households earning either 50 or 60 percent of the area's median household income. In return, the developers gain access to tax credits -- applicable to project equity -- that can amount to nearly 90 percent (over ten years) of development costs attributable to the affordable component.

Under this program, given prevailing Fargo-Moorhead income levels<sup>8</sup>, developers could charge maximum monthly rents of \$563 for one-bedroom and \$676 for two-bedroom and \$781 for three-bedroom units.<sup>9</sup>

Such rents exceed many market-rate rents in Moorhead. Therefore, this program (and others) offers an attractive market niche for prospective developers. Developers have recently identified such opportunities, building more than 60 units (100 percent of the projects' units) under this program in the last two years, with additional projects planned.

The primary constraint to development in this niche involves the highly competitive allocation system --administered by the State of Minnesota Housing Finance Agency -- for such credits. Given the state's allocation system for tax credit financing, it is likely that not more than one or two projects will receive tax credits in Moorhead in most years.

Other federal, state or local programs similarly require various affordable housing products as conditions for rent subsidies, assistance in land assembly (or cost), low-interest loans, grants, tax-exempt bond financing, and other incentives and forms of government assistance.

Overall, affordable housing developments and components under various programs should be appropriate and compatible within residential developments in Moorhead.

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<sup>8</sup> Median household income is currently \$60,100 for a 4-person household; in providing housing for households at 60% of median income, U.S. Department of Housing and Urban Development gross income-eligibility limits are set at \$25,260 for 1-person households, \$28,860 for 2-person households, \$32,460 for 3-person households, and \$36,060 for 4-person households.

<sup>9</sup> The State of Minnesota Housing Finance Agency actually limits rent rates to 30 percent of the gross income of a household receiving 50 percent of the local median. It should also be noted that much of the prospective student market would not qualify for housing under this program, as IRS regulations impose a definition of "household" that would enable students identified as "dependents" to qualify only if their parents' households satisfied the income threshold.

## D. Housing for Seniors

Seniors seek a wide range of housing types. Various types of “senior housing” facilities – where eligible residents must satisfy age thresholds -- have gained market acceptance in recent decades. These include independent living facilities, congregate care, assisted living or continued care retirement communities (CCRCs). For definitions of these senior housing types see Section V.B “Supporting Information”.

Despite the acceptance of these facilities, such facilities house a distinct minority of seniors. Most seniors prefer to remain in their own homes: In most markets the various types of senior housing facilities penetrate no more than 15 to 20 percent of the local market’s age- and income-eligible markets. Typically, demand for these types of facilities -- even “independent living” facilities – is driven not by choice, but by an element of need (for services as residents grow increasingly frail) or by events such as physical injury or loss of a spouse that signal a need for new living arrangements.

Notwithstanding general preferences not to move to age-restricted senior housing facilities, housing needs for seniors change; seniors living in detached single-family homes may seek smaller homes that offer (1) relief from burdens such as snow removal and grounds maintenance as well as (2) conveniences involving recreational amenities or security.

*Projected Growth Among Seniors:* Two scenarios project modest growth in the senior housing market. The first scenario arises from a simple age cohort analysis. This methodology calculates the most recent “net retention” (incorporating deaths as well as net migration) of 10-year age cohorts from one decade to the next, and then applies these rates to 2000 census population-by-age figures. For example, where the 55-to-64 age group contains 10,000 persons in 1980 and the 65-to-74 age group contains only 8,000 persons in 1990, the “net retention” rate over the decade is calculated at 80 percent. Application of this rate to the current 55-to-64 age group provides a method for projecting the 2010 population in the 65-to-74 age groups.

Under this scenario, the 75+ age group – which comprises the main source of demand for senior housing – would increase by approximately 1,150 persons in the metropolitan area. This would include more than 600 persons age 85 or older, and more than 500 persons in the 75-to-84 age group. In Moorhead, this increase would amount to just 205 persons, of which 202 would be age 85 or older.

EXHIBIT 24 -- SENIOR AGE COHORTS, NET RETENTION RATES AND 2010 PROJECTION

	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2000-2010 Change</u>	<u>Avg. Ann. % Change</u>
<u>Population 65-74</u>					
Moorhead	1,874	1,878	1,745	-133	-0.7%
10-year net retention rate of 55-to-64 cohort		85.4%			
Clay Co.	3,153	3,187	3,080	-107	-0.3%
10-year net retention rate of 55-to-64 cohort		82.2%			
MSA	8,546	9,241	10,200	959	1.0%
10-year net retention rate of 55-to-64 cohort		85.3%			
<u>Population 75-84</u>					
Moorhead	1,174	1,548	1,551	3	0.0%
10-year net retention rate of 55-to-64 cohort		82.6%			
Clay Co.	2,018	2,379	2,405	26	0.1%
10-year net retention rate of 55-to-64 cohort		75.5%			
MSA	5,395	6,497	7,025	528	0.8%
10-year net retention rate of 55-to-64 cohort		76.0%			
<u>Population 85+</u>					
Moorhead	541	678	880	202	2.6%
10-year net retention rate of 75+ cohort <sup>1</sup>		39.5%			
Clay Co.	811	1,031	1,243	212	1.9%
10-year net retention rate of 75+ cohort <sup>1</sup>		36.4%			
MSA	2,167	2,760	3,379	619	2.0%
10-year net retention rate of 75+ cohort <sup>1</sup>		36.5%			

<sup>1</sup> 75+ cohort includes 75-to-84 plus 85+ cohorts.

Source: U.S. Census; Bonz and Company, Inc.

Prevailing Conditions--Non-Age-Restricted Properties: Despite these moderate growth prospects, housing catering to seniors' needs is likely to derive support from existing seniors, many of whom will seek new homes such as non-age-restricted rental apartment and attached housing products that can alleviate maintenance burdens, provide security systems, and in some cases additional services and amenities. As discussed above, Moorhead's rental apartment and attached for-sale housing niches have achieved rapid market absorption and appear to offer ongoing development opportunities.

At this time, however, the Moorhead market features neither rental nor for-sale projects with "luxury" amenities such as underground parking, recreational/fitness

facilities, community rooms, and other such services. Senior households seeking increased services and convenience will support projects offering such amenities.

In general, however, new developments offering these types of amenities will occupy the market's highest price/rent tiers. While seniors will support rental as well as for-sale projects, many seniors' financial assets are concentrated primarily in their current homes. Such seniors seeking relatively high-amenity and high-priced units will derive much of their purchasing power from their home sale proceeds. For these seniors, for-sale rather than rental housing options are likely to present the more desirable opportunities.

Market for Senior Housing Facilities

Projections for senior households (as opposed to population) prepared by Claritas also show moderate growth trends over the next five years. As shown in Exhibit 25, in Moorhead, Claritas projects negative growth among 65+ and 75+ households. In the overall metropolitan area, however, Claritas projects an increase of roughly 900 households (from 12,335 to 13,202).

Within this growth, the potential market for market-rate senior housing development is pared down by considerations of income eligibility and by senior householders' preferences for remaining in their own homes.

The income eligibility threshold requires that, for most market-rate facilities, new residents would need to maintain annual household incomes of at least \$25,000. This qualification reduces the anticipated 2008 metropolitan area market from 13,200 senior (65+) households to 7,750, and reduces growth in the income-qualified market to a total of 518 households over five years.

**EXHIBIT 25 – PROJECTED GROWTH FOR MARKET-RATE SENIOR HOUSING**

	2003			2008		
	<u>Households</u>	<u>Income Qualified</u>	<u>Percent Qualified</u>	<u>Households</u>	<u>Income Qualified</u>	<u>Change</u>
<u>Moorhead</u>						
65-74	1,068	785	73.5%	1,018	748	-37
75+	<u>1,482</u>	<u>754</u>	<u>50.9%</u>	<u>1,454</u>	<u>740</u>	<u>-14</u>
Total	2,550	1,539		2,472	1,488	-51
<u>MSA</u>						
65-74	5,782	4,108	71.0%	6,228	4,425	317
75+	<u>6,553</u>	<u>3,124</u>	<u>47.7%</u>	<u>6,974</u>	<u>3,325</u>	<u>201</u>
Total	12,335	7,232		13,202	7,750	518

Source: Claritas, Inc.

Prevailing Conditions--Senior Housing Facilities: Among the various types of senior housing facilities, in the Fargo-Moorhead area, the inventory of competitive market-rate facilities includes approximately 1,000 units. In this market, various types of senior housing facilities show widely varying price ranges as well as occupancy levels.

For example, market-rate independent living facilities managed by Eventide maintain healthy occupancy levels of 94 percent and higher, with monthly rental rates for independent living units ranging from roughly \$1,350 to \$2,350. At the same time, independent living units at other facilities charging monthly rents of \$600 to \$800 sustain occupancy rates below 85 percent; one facility in Fargo reports a 60 percent occupancy rate among its independent living units.

The area's assisted living facilities also maintain a wide range of occupancy rates: while some facilities report occupancy rates as high as 97 percent, others report occupancies of 80 percent and 70 percent.

While Moorhead currently contains several successful types of rental facilities (with and without services) and assisted living facilities, additional niches or types of senior facilities have yet to appear. Other niches that may prove popular in Moorhead include life care facilities (see definitions in Section V.B) and/or senior condominiums or co-ops. The latter, in particular, have proven popular in the Twin Cities metropolitan area. Under this concept, residents buy shares in the condominium or co-op association, thereby enabling residents' to capitalize on their home equity assets, while gaining access to high-quality, non-institutional living units with access to convenient services, amenities, and senior-oriented programs provided by the facilities.

Overall, widely varying occupancy rates at Moorhead's facilities may suggest some "softness" in market demand. They do not necessarily signify a lack of opportunity, however: they may in some cases reflect an inappropriate quality, location or character of the existing facilities. In the short-term future, however, opportunities for more senior housing facilities face limited market growth prospects, as discussed below.

*Development Outlook:* Seniors are likely to support new attached housing projects. Among non-age-restricted projects, condominiums (or coops) are likely to offer an attractive opportunity for new high-end development.

Among age-restricted facilities, low occupancy rates at some of the existing facilities indicate that the market has been unable to absorb the current inventory of roughly 1,000 units. Despite this, the metropolitan area market is projected to increase by more than 500 age- and income-qualified households and may offer opportunities for additional future senior housing facilities. Such opportunities face significant challenges; potential developments must be able to:

- Identify and target carefully defined niches (for example, potential demand for for-sale independent living coops, which have not been introduced to the Fargo-Moorhead market);
- Attract residents currently living in outdated facilities or facilities that are not ideally tailored to their needs or preferences. While residents needing services or assistance may move to such facilities, newer, more suitable facilities may be able to outperform existing facilities;

- Attract potential non-local residents from outlying areas (e.g., Otter Tail and Becker counties); and/or
- Draw additional demand from the growing market of “caregivers” – those age 45 to 64 – who may urge aging parents to move to the Fargo-Moorhead area. These caregivers currently represent the fastest-growing age groups in the City, and ongoing local economic growth may attract even greater growth as in-migration increases: relatively rapid growth in this segment can fuel faster-than-anticipated growth in demand for age-restricted senior housing facilities.

In targeting such niches, state border issues present additional potential limitations for prospective opportunities in Moorhead. While householders of all ages differ in their willingness to move to new states, seniors face additional issues. Such issues include the need for new drivers licenses – and required license tests – as well as more strongly established feelings of identification with one state or another. This issue could constrain opportunities in Moorhead, since the largest portion of the potential market currently resides in North Dakota. Therefore, Moorhead developments may need to offer new products and/or attract seniors from outside Cass and Clay counties.

Senior Housing Development Outlook: Overall, given the preceding opportunities and constraints, Moorhead holds the potential for one or two new facilities over the next five years. While development programs vary, such facilities would likely contain at least 40 units (and more in most cases). Overall, over a five-year time frame, this analysis anticipates a range of 0 to 120 new units in age-restricted senior housing facilities.

## **E. Strategies**

This housing study identifies what “*could*” happen in terms of housing demand and growth. The following list of strategies are initiatives that could help position the City of Moorhead to realize the upper end of the housing forecasts identified in this study. These strategies are as follows:

- *Continue initiatives* to promote or market Moorhead’s quality of life and attractiveness as a great place to live, learn, work and play. Anecdotal evidence has proven that these initiatives are paying off.
- *Hold annual developer/builder forums* that enable developers and builders to learn about what is happening in Moorhead. These forums would focus on sharing what is happening in the City of Moorhead as well as to obtain feedback on what may be barriers development in Moorhead. Another related strategy is to reach out to *non-local* developers and builders to increase development activity, competition and housing product types. This initiative may also help in understanding what barriers exist to entering the Moorhead housing market.
- *Pattern land uses and develop infrastructure* in a manner that supports strong neighborhoods. Through its Comprehensive Plan, the City of Moorhead can guide land use patterns and establish its policy to help build strong neighborhoods. As the

community looks at redevelopment and at growing areas on the edge, land should be guided for a complementary mix of supportive uses. Neighborhoods should have close proximity to commercial services, jobs, park and recreational opportunities and institutions such as schools and churches. Transportation infrastructure should provide adequate, safe and convenient connections and mobility options. Higher density nodes in particular should be served by the regional transit system. Public infrastructure systems such as regional trails, parks, streets and sewer systems should be constructed in a timely manner. Neighborhoods are often distinguished by street character, which in turn is distinguished by street trees. These elements are critical to the success of strong neighborhoods and help to distinguish Moorhead as the best place to live in the region.

- *Promote maintenance of existing housing stock.* As new housing is developed on the edge of the community, many of them will be filled by residents who leave behind existing housing stock. The existing housing stock will play an important role in satisfying the housing demand and in fulfilling the “starter home” life cycle of housing. Maintenance and upgrading of this housing stock is important to maintain an affordable supply of housing.
- *Guide housing development to areas desired by the community.* Housing demand can be met through redevelopment, infill development or new development on the growing fringes of the community. Housing is a tool to achieving redevelopment objectives such as supporting the vision for Downtown Moorhead or providing supportive land uses in and around college campuses. Attached housing is a particularly good fit in and around the downtown area close to amenities and full services. It also is appropriate near the college campuses. New development is needed to meet financial obligations for recent infrastructure investments. While most redevelopment areas will likely be guided for higher density or multi-family housing products, growing areas will need to accommodate a broad array of housing types that support family households and school aged children necessary to support investments in new schools.
- *Ensure adequate land area is planned and zoned* for various residential development opportunities and that there are adequate services available to meet this demand.
- *Determine type and volume of housing growth desired by the community.* In many cases housing demand goes hand in hand with a community’s housing needs. A community’s desire to diversify its housing stock may not always directly match up with demand and therefore needs a more proactive set of policies and strategies to achieve these objectives. Potential strategies include:
  - Encourage housing products (or community design) that are unique to the region and consistent with vision for Moorhead. Anecdotal evidence suggests that the market currently maintains an ample supply of the traditional 10,000 to 12,000 square foot single family lots. A variation of products and design may attract additional demand.

- Detached townhomes
  - Granny flats/accessory housing units
  - Small lot/large lot developments (something other than the standard 10,000 to 12,000 square foot single family lot)
  - Traditional neighborhood design (alleys, neighborhood commercial nodes, trail and sidewalk connections, water feature amenities, un-programmed open spaces.)
  - Vertical mixed use—housing over retail or office
- Partner with organizations (such as the Colleges and University) that seek to serve identified niches of the student population and senior populations.
  - Promote job growth on the regional and local level to encourage a diversity of wages that are supported by a diversity of housing opportunities. Initiatives to recruit or foster business development should be tied to initiatives to provide quality housing opportunities.
  - *Identify and remove unnecessary financial barriers.* This strategy includes local initiatives as well as more state or national political initiatives to help balance the disparities between Minnesota and North Dakota. On a local level, the focus should be on development regulations (zoning, subdivision) and development fees.
  - *Work on attracting community amenities.* Community amenities offer an advantage for nearby developments. Amenities that are appropriate to Moorhead may include an Indoor Aquatic Center, Arts/Cultural Center, and Recreation/Fitness Center. These often become selling points for developers marketing a product to potential buyers.
  - *Celebrate success.* This strategy ties into the first strategy because it is a way of marketing the community. New innovative housing projects or housing projects such as downtown redevelopment that have taken lots of time, energy, patience and public money to make happen, merit celebration (and maybe more than just a ground breaking ceremony).

## V. Supporting Information

### A. Primary Data Sources

Primary statistical sources used to generate base line understanding of demographic and economic conditions in the Fargo-Moorhead Area include the Cities of Moorhead, Dilworth, Fargo and West Fargo; the U.S. Census; economy.com, a nationally recognized economic research firm; the Home Builders Association of Fargo-Moorhead; and nationally recognized economic and demographic providers Claritas, Inc. and Geovue, Inc.

### B. Key Definitions, Technical Terms and Phrases

For the purposes of this document, key terms and phrases shall carry the following meanings:

“Fargo-Moorhead metropolitan statistical area,” “metropolitan area” or “MSA” encompasses the counties of Cass County, North Dakota and Clay County, Minnesota.

“Household,” unless otherwise specified, shall carry the definition assigned by the U.S. Census, which includes both family- and non-family households but excludes persons living in group quarters such as dormitories, nursing homes, institutional quarters, etc.

“Condominium” or “co-op” shall refer to properties wherein owners of defined units or property shares gain membership in associations that share common ownership in certain properties or improvements as well as responsibilities for maintenance and management thereof.

“Multi-family” shall refer to buildings or units that are attached to other dwelling units in the same building and share integrated plumbing systems as well as common properties (e.g., exterior grounds, roofs, driveways, corridors).

“Single-family” shall refer to single-family homes including (1) free-standing, “detached” buildings, or (2) “attached” units that share common walls with other attached units, but feature separate, individual plumbing services, and not do involve common ownership in properties such as land, roofs, etc. “Twin homes” and many – but not all – townhouses fall within this definition.

#### Senior Housing Types

“Independent living” facilities: these provide apartment or cottage units as well as various services – excluding health care or assistance in daily living activities. At truly independent living facilities, services are limited to snow removal, lawn maintenance and emergency response services. Such facilities may offer either rental or for-sale condominium or co-op alternatives.

“Congregate care” is a more service-intensive model that offers an environment (typically in a rental facility) for independent living residents wherein the facility provides services – which may be included in monthly fees or available on a per-service basis – such as meals, housekeeping, transportation services and activity

programs. Many such facilities in Moorhead describe themselves as “independent living with services.”

“Assisted living” facilities offer a more supervised environment. Resident units typically do not include full kitchens, and residents receive a full service package including all meals and housekeeping services as well as assistance in daily living activities such as bathing and dressing.<sup>10</sup> While various independent living facilities offer lifestyle alternatives, decisions to move to assisted living facilities are driven by need rather than choice.

“Continuing Care Retirement Communities, or “CCRCs”” provide a continuum of care, typically including independent living, assisted living and nursing care components. The CCRC concept involves monthly fees; certain types of facilities – known as “life care” facilities -- charge initial entrance fees, which are essentially purchase prices that entitle residents to the purchased residential unit as well as lower fees for higher levels of care if and when such care should be required.

### **C. Key Interviews**

Several key figures in the Fargo-Moorhead Area were interviewed in order to gain a local perspective on trends and factors that have historically or are currently influencing housing growth. The following list includes those individuals or entities who were interviewed:

- John Hough, developer
- Colette Haskins, property mgr.
- Paulette Ducharme, property mgr.
- Dale Buchholtz, developer
- Bruce Clapham, developer (Charleswood)
- Helen Frampton, Eventide
- Sandy Peterson, Eventide
- Steve Stoner, broker/developer
- Gerald Eid, developer
- Mike Gunter, broker (Kwamme)
- Linda Doden, broker/developer
- Heritage Homes, builders
- Don Dabbert, Contemporary Homes
- Bryce Johnson, Home Builders Association

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<sup>10</sup> Nursing, or health care, facilities are not addressed within the scope of this document.

- David Crockett, MSUM
- Jim Meier, Concordia
- Paul Krabbenhoft, developer/broker
- Neal Eriksmoen, appraiser
- Wayne Bradley, commercial broker
- Konrad Olson, commercial broker
- Ed Wilson, developer
- Tax assessors, cities of Moorhead and Fargo
- Cindy Gray, City of Fargo
- Stan Thurlow, Dilworth Planning
- Property Management representatives at senior housing facilities: Carriage House Retirement Home; Heritage Villa; Moorhead Manor; Waterford; Alterra Sterling; Bethany Towers; Evergreen, Heritage House; Riverview Towers, Cooperative Living Center; Pioneer House
- Richard Rathge, North Dakota State Demographer
- Becky Cusey, REALTOR
- Bill Richter, REALTOR

#### **D. Forecast Methodology**

Projected demand for local residential development can be defined as a market's achievable share of anticipated regional growth. Therefore, residential growth projections for Moorhead are the products of assumptions involving reasonably achievable (1) growth rates, and (2) market shares within the region.

In preparing residential demand forecasts, this analysis involves five steps producing "low" and "high" forecast scenarios:

- Select a range of reasonable growth rates: in considering various projected growth rates, selected rates reflect judgments regarding the City's achievable growth relative to metropolitan area growth.
- Project new demand by applying selected growth rates to existing housing inventories.
- Multi-family and single-family demand projections are prepared independently of one another. This is appropriate, since the two markets respond to different factors and do not necessarily bear direct or inverse relationships to one another. For example, while low interest rates may stimulate home

buying – and therefore home development -- activity, they would not exert similarly positive impacts on apartment construction.

- While single-family demand is projected by simply applying selected growth rates to the existing single-family housing inventory, multi-family projections involve an additional step. Based on a finding that constrained supply (rather than a lack of demand) has resulted in an underserved market, the methodology applies selected growth rates to forecast overall household growth, and then derives a multi-family projection by multiplying total households by the share of households that can be expected to seek multi-family units.
- Combine the multi-family and single-family forecasts. This produces an overall projection for residential demand, as well as a projected split between single- and multi-family demand.
- Evaluation and Adjustment: For the overall demand projection, calculate the resulting projected household growth rate. This is then compared with prevailing household growth forecasts as well as historical results. These comparisons provide benchmarks by which to judge the “reasonableness” of projections. Where projections vary significantly from such benchmarks, alternative forecasts employ a simpler method, wherein selected growth rates are used to project total households, which are then allocated in accordance with the previously derived (step 3) multi-family/single-family split.

In the current case, the first three steps result in a “high” forecast scenario; the last step of evaluation and adjustment produces a “low” scenario. Together these scenarios define a forecasted range of potential residential development demand.