



Maxfield
Research & Consulting

May 20, 2019

MEMORANDUM

TO: Mr. Randy Kempenich
Stone Arch Funding LLC

FROM: Mr. Matt Mullins
Maxfield Research & Consulting, LLC

RE: Market Opinion for market rate townhome apartments in Chisago Lakes, MN

Introduction/Purpose and Scope of Research

This letter provides a high-level market assessment of the market potential for general-occupancy rental housing in Chisago Lakes, Minnesota that would be located along the Swedish Immigrant Trail west of Sportsman Drive. We understand the client is proposing a 42-unit two-story townhome concept that would be developed in buildings of three to four units per structure.

This letter provides a brief overview of the project concept and a review of the recently completed Chisago County Comprehensive Housing Study that was also completed by Maxfield Research and Consulting. A more detailed market potential analysis or full feasibility study could be completed at a later time that would provide comprehensive market information and in-depth development concepts.

Overview of Chisago County Comprehensive Housing Study

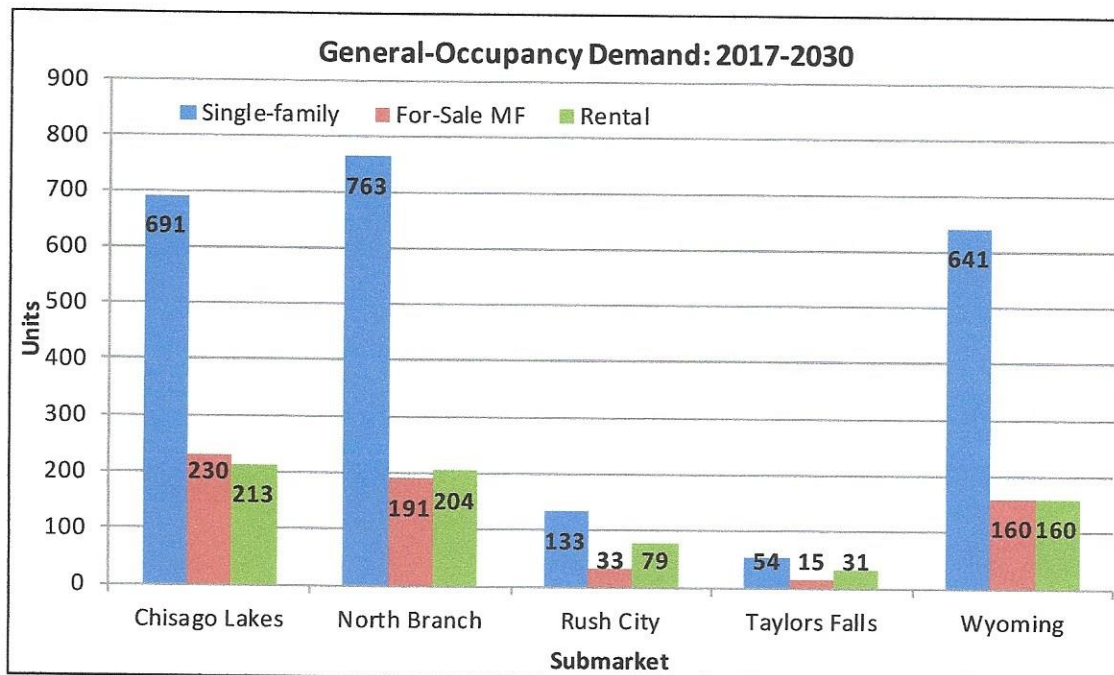
Maxfield Research and Consulting, LLC. was engaged by the Chisago County HRA-EDA in 2017 to conduct a *Comprehensive Housing Needs Analysis* for Chisago County, Minnesota. The housing study was commissioned to provide recommendations on the amount and types of housing that should be developed in order to meet the needs of current and future households who choose to reside in the County. Maxfield Research completed the analysis in June 2018 and provided recommendations on the number and types of housing products that should be considered for development in the County. (A company profile is located on the last page of this Memo).

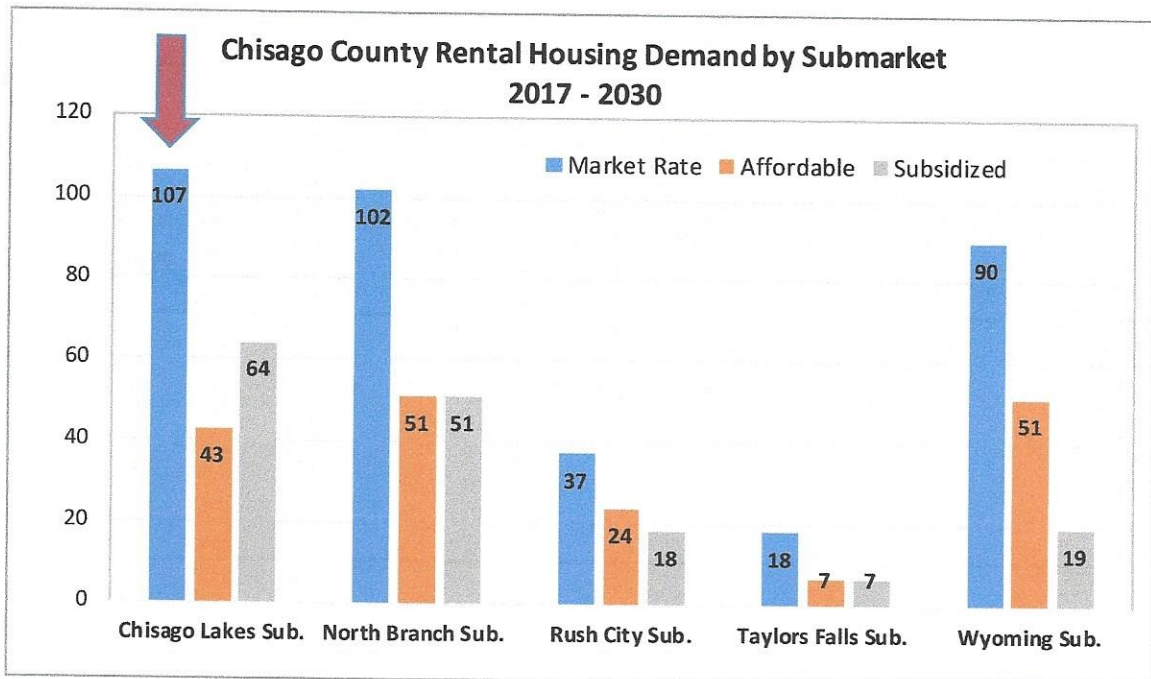
For purposes of the housing analysis, Chisago County was divided into five submarkets; Chisago Lakes, North Branch, Rush City, Taylors Falls, Wyoming. A map on the following page depicts the Chisago Lakes Submarket, where the proposed Swedish Trail Homes would be developed.

The following bullet point summarize key findings related to the demand for apartments in Chisago City and the Chisago Lakes area.

- The Chisago Lakes Submarket is projected to grow by 12% next decade with the addition of about 1,800 persons.
- In 2017, the median income in Chisago County was \$70,373; higher than the median income of MN at \$63,470. The Chisago Lakes Submarket posted a median income of about \$73,500.
- Due to the lack of rental housing supply, Chisago County and the Chisago Lakes Submarket both have a higher home ownership rate of about 85%. Across the County; tenure percentages for renters is very low. In addition, single family homes make-up about 91% of all owner-occupied units as for-sale multifamily production has been low.

- About 35% of the renter-occupied housing stock in the Chisago Lakes Submarket is in a single-family home or townhome.
- Household incomes in the Chisago Lakes Submarket vary considerably between owners and renters. Owners have a median income of about \$74,000 compared to renters at \$25,000.
- Maxfield Research & Consulting profiled and surveyed all the apartment buildings in the County with more than eight or more units. The following bullet points summarize the inventory of apartments:
 - The overall vacancy rate for all apartments was 3%. The market is considered equilibrium at 5%, hence the current vacancy rate indicated pent-up demand for new rental housing.
 - The “newest” general-occupancy apartment building in the County was built in 2004 (15 years old). Hence, the current rental housing stock lacks contemporary features and amenities today’s tenants desire.
 - The average rent for a market rate project is \$761/month or \$1.03 PSF.
- Maxfield Research & Consulting calculated housing demand by product type through 2030 for each submarket. The chart below illustrates demand for the Chisago Lakes Submarket is over 200 units. The subsequent chart shows the demand by affordability; indicating the strongest demand is for market rate rental housing.





Proposed Development Concept & Comments

The proposed Swedish Trail Homes will consist of 42 rental townhomes designed in a row-house style. The two-story townhomes will feature three-bedrooms and two baths with approximately 1,360 square feet per unit. The concept is unique as the first floor off the tuck-under garage has main-level living with a flexible space that could be a separate apartment (Accessory Dwelling Unit – ADU) or utilized by the tenant on the 2nd floor. The second floor will feature two-bedrooms, open living space, and one-bathroom.

Given the lack of rental housing in the Chisago Lakes area, especially newer contemporary rental housing, we find demand is strong for a townhome-style rental that will target the market-rate/workforce household. The proposed project will capture only a portion of the total demand and will fill a niche of the marketplace with a townhome style with the ability to offer one-level living on the first floor. Because Chisago County has a growing senior population the main-level living option will be very appealing to older adults seeking an intergenerational housing option with no stairs.

The site of the proposed project will be well-received by tenants and multifamily housing will transition from commercial land uses to the south along Lake Boulevard and will complement the existing multifamily housing to the west of the site. Furthermore, the location along the Swedish American Trail will enhance the site as a multifamily housing use.

Maxfield Research & Consulting preliminary recommends base rents of about \$1,600 monthly, or \$1.17 PSF. These monthly rents would be considered affordable accordingly to Chisago County income guidelines that are as follows for a three-bedroom unit based on Area Median Income (AMI) in 2019:

- 60% AMI: \$1,300
- 80% AMI: \$2,000
- 100% AMI: \$2,500
- 120% AMI: \$3,000

As a result, the propose project would have rents falling between 60% and 80% AMI. Given the rent structure and lack of rental product in the Chisago Lakes Area; the project will be well-received and should experience strong leasing absorption.

It is important to note that this opinion letter is intended only to broadly assess the depth of the market for market rate rental housing and to estimate whether a project could be supported in Chisago Lakes. This analysis does not incorporate an initial market assessment or full feasibility analysis, which would provide greater insight into the overall demand potential in the Market Area and the ability of a new general occupancy development to capture demand.



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Maxfield Research & Consulting is a full-service research firm providing timely and comprehensive real estate market information and analysis that is critical to the success of our clients. With 35 years of experience in real estate market feasibility and consulting, our expertise enables us to offer solutions to difficult challenges. We assess the needs of each project, anticipate problems and provide solutions. We work closely with each client to assure our research data and analysis provide exactly the information needed in planning and developing new projects. We provide customized studies designed to deliver strategic framework for each of our clients' objectives to optimize land use and value of their real estate needs.

Developing dynamic relationships and delivering strategic solutions has earned us our clients' confidence in our expertise. Our broad experience and varied customer base includes public, private and institutional clients seeking crucial information in making decisions regarding the latest trends in the real estate industry.

Maxfield is a local, regional, national and international player in the real estate consulting industry.

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Public Sector—Recommendations provide decision makers a guide to future planning. Strategic counsel on market trends and real estate activities assists clients with a value added service.

Private Sector—Provides clients with objective and unbiased advice to position themselves to maximize opportunity and reduce risk.

Institutional Sector—Extensive experience serving broad spectrum of clients with unique organizational needs.

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