



REAL PROPERTY **RESEARCH** GROUP

WASHINGTON/BALTIMORE ■ ATLANTA

Housing Market Assessment

City of Marshalltown
Marshall County, Iowa



Marshall County Courthouse, Downtown Marshalltown

Prepared for:

Marshall Economic Development

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TABLE OF CONTENTS

EXECUTIVE SUMMARY V

1. INTRODUCTION 13

A. Purpose of Report 13

B. Format of Report 13

C. Client, Intended User, and Intended Use 13

D. Scope of Work 13

E. Report Limitations 14

2. NEIGHBORHOOD AND SITE ANALYSIS 15

A. City Overview 15

 1. Introduction and Background 15

 2. Geographic Layout and Land Use Composition 15

 3. Housing Stock Characteristics 15

B. City Investment, Safety, and Connectivity 19

 1. Recent Investment and Development Activity 19

 2. Public Safety 19

 3. Vehicular Access 21

 4. Availability of Public and Inter-Regional Transit 21

 5. Pedestrian/Bicycle Access 21

 6. Accessibility Improvements Planned or Under Construction 21

C. Residential Support Network 22

 1. Location of Key Facilities and Services in Marshalltown 22

 2. Essential Services 22

 3. Commercial Goods and Services 25

 4. Recreational Amenities 25

D. Potential Housing Development Sites 26

3. ECONOMIC ANALYSIS 28

A. Introduction 28

B. Labor Force, Resident Employment, and Unemployment 28

 1. Trends in County Labor Force and Resident Employment 28

 2. Trends in County Unemployment Rate 28

C. Commuting Patterns 29

 1. Job Inflow and Outflow 29

 2. Marshalltown Worker Commuting Patterns 30

 3. Marshalltown In-Commuter and Resident Worker Characteristics 32

D. At-Place Employment 32

 1. Trends in Total At-Place Employment 32

 2. At-Place Employment by Industry Sector 32

E. Major Employers 35

F. Wage Data 36

G. Recent/Planned Economic Expansions and Contractions 38

4. MARKET AREA 39

A. Introduction 39

B. Delineation of Market Area 39

5. COMMUNITY DEMOGRAPHIC DATA 42

A. Introduction and Methodology 42

B. Trends in Population and Households 42

 1. Recent Past Trends 42

 2. Estimated/Projected Trends 42



3.	Building Permit Trends	42
4.	Trends in Older Adult and Senior Households	44
C.	Demographic Characteristics	45
1.	Age Distribution and Household Type	45
2.	Household Tenure Trends	46
3.	Income Characteristics	49
6.	COMPETITIVE HOUSING ANALYSIS	53
A.	Introduction and Sources of Information	53
B.	Overview of Market Area Housing Stock	53
C.	Survey of General Occupancy Multi-Family Rental Communities	55
1.	Introduction to the Rental Housing Survey	55
2.	Location	55
3.	Age of Communities	55
4.	Structure Type	56
5.	Size of Communities	56
6.	Vacancy Rates	56
7.	Rent Concessions	56
8.	Absorption History	56
9.	Subsidized Communities	57
D.	Analysis of Rental Pricing and Product	57
1.	Payment of Utility Costs	57
2.	Unit Features	58
3.	Parking	58
4.	Community Amenities	58
5.	Distribution of Units by Bedroom Type	59
6.	Effective Rents	59
E.	Survey of Scattered Site Rental Communities	60
F.	Survey of Senior Rental Housing Communities	61
1.	Affordable/Subsidized Independent Senior Rental Housing Characteristics	62
2.	Assisted Living Senior Rental Housing	63
G.	For-Sale Housing Analysis	64
1.	Introduction and Data Sources	64
2.	Annual MLS Trends	64
3.	Recent MLS Trends	66
4.	Active For-Sale Communities	67
H.	Foreclosures	70
I.	Housing Pipeline	70
J.	Housing Authority Data	71
7.	FINDINGS AND CONCLUSIONS	72
A.	Key Findings	72
B.	Derivation of Total Rental Demand	75
1.	Methodology	75
2.	Demand Analysis	76
3.	Conclusions on Demand	78
C.	Derivation of Independent Senior Rental Demand	78
1.	Senior Demand Methodology	78
2.	Senior Demand Analysis	79
3.	Conclusions on Senior Demand	80
D.	In-Commuting Housing Demand	81
1.	Demand Methodology	81
2.	Demand Analysis	82
3.	Conclusions on In-Commuting Housing Demand	82
E.	Product Recommendations	83



1.	General Occupancy Rental Housing	83
2.	Independent Senior Rental Housing	87
3.	For-Sale Housing	87
4.	For-Sale Housing Recommendations:	87
5.	For-Sale Housing Price Projections:	88
F.	Affordability Analysis	88
1.	Methodology	88
2.	Rental Affordability Analysis – Market Rate Rental Units	89
3.	For-Sale Affordability Analysis	90
4.	Conclusions on Affordability	90
G.	Impact on Existing Market	91
H.	Final Conclusion / Recommendation	91
	APPENDIX 1 UNDERLYING ASSUMPTIONS AND LIMITING CONDITIONS	92
	APPENDIX 2 ANALYST CERTIFICATION	94
	APPENDIX 3 NCAHMA CERTIFICATION	95
	APPENDIX 4 ANALYST RESUMES	96
	APPENDIX 5 MARKET STUDY SPONSORS	99
	APPENDIX 6 MARKET AREA RENTAL COMMUNITY PROFILES	103

TABLES, FIGURES AND MAPS

Table 1	Key Facilities and Services	22
Table 2	2016-2017 Regional School District Test Scores	24
Table 3	Labor Force and Unemployment Rates	28
Table 4	2015 Job Inflow and Outflow, Marshalltown City Limits	29
Table 5	Change in Marshalltown Job Inflow and Outflow, 2011 to 2015	29
Table 6	2015 Jobs by Commuter Distance (Inflow), Marshalltown City Limits	30
Table 7	2015 Jobs by Commuter Distance (Outflow), Marshalltown City Limits	31
Table 8	2015 Inflow Job Characteristics, Marshalltown City Limits	32
Table 9	2017 Major Employers, Marshall County	35
Table 10	Wage Data, Marshall County	37
Table 11	Population and Household Projections	43
Table 12	Building Permits by Structure Type	43
Table 13	Senior Household Projections	44
Table 14	2017 Age Distribution	45
Table 15	2010 Households by Household Type	46
Table 16	Households by Tenure	46
Table 17	Senior Households by Tenure, 55+ and 62+	47
Table 18	Households by Tenure and Age of Householder	48
Table 19	2010 Renter Households by Household Size	49
Table 20	2017 Household Income	50
Table 21	2017 Household Income by Tenure	50
Table 22	2017 Senior Household Income, Householders 55+	51
Table 23	2017 Senior Household Income by Tenure, Householders 55+	51
Table 24	2017 Income by Age of Householder	52
Table 25	Dwelling Units by Structure and Tenure	53
Table 26	Dwelling Units by Year Built and Tenure	54
Table 27	Home Value	54
Table 28	Rental Summary, Surveyed LIHTC and Market Rate Rental Communities	57
Table 29	Rental Summary, Surveyed Deep Subsidy Rental Communities	57
Table 30	Utilities, Unit Features– Surveyed Rental Communities	58



Table 31 Community Amenities – Surveyed Rental Communities	59
Table 32 Salient Characteristics, Surveyed Rental Communities.....	60
Table 33 Rental Summary and Effective Rents, Scattered Site Rentals.....	61
Table 34 Rental Summary, LIHTC Senior Communities	62
Table 35 Rental Summary, Deep Subsidy Senior Communities.....	63
Table 36 Features and Amenities, LIHTC and Deep Subsidy Senior Communities	63
Table 37 Rental Summary, Assisted Living Community	64
Table 38 Sales Activity and DOM by Sale Price, 2017 YTD.....	67
Table 39 South Pointe Homes and Villas Recent Sales Activity	68
Table 40 Active Custom Home Neighborhood Recent Sales and Lot Pricing	69
Table 41 Foreclosure Data, ZIP CODE 50158, October 2017	70
Table 42 CINCH Data.....	76
Table 43 Derivation of Demand.....	77
Table 44 Derivation of Senior Demand.....	81
Table 45 Derivation of Demand.....	82
Table 46 RPRG Sample Garden-Style Rental Community, Marshalltown Market Area.....	85
Table 47 RPRG Recommended Sales Prices, Marshalltown Market Area	88
Table 48 2020 Income Distribution, Marshalltown Market Area	89
Table 49 Market Rate Affordability Analysis, Marshalltown Market Area	89
Table 50 2020 Income Qualified Owner Households, Marshalltown Market Area	90
Figure 1 Views of Single-Family Housing Types in Marshalltown.....	17
Figure 2 Views of Multi-Family Housing Types in Marshalltown.....	18
Figure 3 Aerial Images of Potential Housing Development Sites	27
Figure 4 Residence locations of Workers Employed in the Marshalltown City Limits.....	30
Figure 5 Employment Locations of Workers Living in the Marshalltown City Limits.....	31
Figure 6 At-Place Employment, Marshall County.....	33
Figure 7 Total Employment by Sector 2017 Q1	34
Figure 8 Total Employment and Employment Change by Sector 2011 to 2017 Q1.....	34
Figure 9 Wage by Sector, Marshall County.....	37
Figure 10 Income by Age of Householder Household Distribution	52
Figure 11 Annual Median Sales Price, 2007 to 2017 YTD	65
Figure 12 Annual Units Sold, 2007 to 2017 YTD	65
Figure 13 Average Days on Market, 2007 to 2017 YTD	66
Figure 14 Price Position, RPRG Sample Garden-Style Project	85
Map 1 Site Location	16
Map 2 2017 CrimeRisk, Marshalltown.....	20
Map 3 Location of Key Facilities and Services	23
Map 4 Major Employers, Marshall County.....	36
Map 5 Marshalltown Market Area	40
Map 6 Marshalltown Market Area and Secondary Market Area.....	41
Map 7 Surveyed Rental Communities	55
Map 8 Surveyed Senior Rental Communities	62
Map 9 Active Home Builder For-Sale Communities.....	69



EXECUTIVE SUMMARY

Marshall Economic Development has retained Real Property Research Group, Inc. to conduct a Housing Market Assessment for the City of Marshalltown. This assessment is an update of a previous Housing Market Assessment completed by RPRG in July 2014. The purpose of the Housing Market Assessment is to evaluate current housing market conditions, assess the balance of supply and demand in the rental and for-sale markets, and identify housing gaps, if any. Based on these findings, RPRG will make conclusions regarding Marshalltown's current and future housing needs and recommendations for future development.

RPRG's expects this Housing Market Assessment to be utilized for internal assessment, helping to guide programs and policies. The report will also serve as a resource to other Intended Users, including potential investors, developers, and lenders, by documenting current/future housing needs in Marshalltown and the suitability of various housing products.

Based on our research, including a site visit from November 8-9, 2017, we have arrived at the following key findings:

- **Site and Neighborhood Analysis:** Marshalltown is a modest-sized community in east central Iowa that serves as both the population center and economic hub of rural Marshall County. The city is easily accessible from multiple major thoroughfares and contains all the necessary infrastructure, community amenities, and residential supportive services to be attractive to a wide variety of household types living and working throughout the region. Several sites in Marshalltown are suitable for future for-sale and/or rental housing development and would support a variety of housing types, target markets, and income segments.
- **Economic Context:** The Marshall County economy's performance has been cyclical over the past sixteen years with an overall trend of decline in both the Civilian Labor Force and At-Place Employment. Like most areas of the country, Marshall County suffered notable job loss and higher unemployment during the 2008-2009 national recession; however, economic conditions have stabilized over the last six years as the county's unemployment rate has fallen back down to pre-recession levels and the county's At-Place Employment remained stable with net growth of 12 jobs since 2010. As home to several major employers, including a substantial manufacturing base, Marshall County serves as a regional employment node and attracts a significant number of commuters that comprised more than half the county's workers as of 2015. Over the next two to three years, the county is expected to add approximately 80 to 100 new jobs based on recently announced and planned economic expansions, which should help offset the loss of 50 jobs at Kmart and any residual losses in the construction sector following the completion of the natural gas power plant. While economic growth in the county is unlikely to drive significant housing demand in Marshalltown over the next three years, it is unlikely to be a detriment either.
- **Growth Trends:** The Marshalltown Market Area's population and household bases are projected to remain relatively stable over the next five years, adding just 127 people and 20 households during this period. While this is consistent with trends since 2000 and the current economic environment in the county, the Marshalltown Market Area has the potential to grow if new housing options and city investment convert even a small percentage of the city's commuters into residents. Older adult and senior households are expected to increase at a faster rate than total households in the Marshalltown Market Area on both a total count and percentage basis, based largely on the existing population aging in place. Esri projects the Marshalltown Market Area will add 25 households with householder



age 55+ and 32 households with householder age 62+ per year through 2022, which equates to annual growth rates of 0.5 percent and 1.0 percent, respectively.

- **Demographic Trends:** The Marshalltown Market Area has a diverse household composition with a relatively even mixture of families with young children, young adults, established professionals, and seniors. Though the Marshalltown Market Area continues to be an owner dominated market, U.S. Census counts and Esri estimates indicate renters have accounted for all net household growth in the market area since 2000. Renter households are primarily comprised (65.8 percent) of one and two persons, though the market area still has a notable percentage of larger renter households with over one-third containing at least three people. Young and working age adults (age 25 to 44) account for the largest percentage of renter households in the market area while older adults and seniors age 55 or older comprise the majority (approximately 54 percent) of owner householders. While a sizable portion of the Marshalltown Market Area's households have lower incomes, more than 40 percent of renter households and nearly 55 percent of owner households have moderate incomes from \$35,000 to \$99,999 per year.
- **General Occupancy Rental Market Conditions:** RPRG identified eighteen multi-family rental communities in the Marshalltown Market Area including nine market rate communities, five tax credit communities (income restricted), and three deeply subsidized HUD Section 8 communities. The fifteen market rate and LIHTC communities reported an aggregate vacancy rate of 4.2 percent and all deeply subsidized rental communities were fully occupied with waiting lists. The two property management companies surveyed, which operate 143 scattered site rentals, also reported a low aggregate vacancy rate of 4.2 percent.

Among market rate/LIHTC communities, average effective rents, unit sizes, and rents/square foot were as follows:

- **Efficiency** units offered at Southern Hills reported an effective rent of \$515.
- **One-bedroom** effective rents averaged \$523 per month. The average one-bedroom square footage was 588 square feet, resulting in a net rent per square foot of \$0.89.
- **Two-bedroom** effective rents averaged \$650 per month. The average two-bedroom square footage was 795 square feet, resulting in a net rent per square foot of \$0.82.
- **Three-bedroom** effective rents averaged \$696 per month. The average three-bedroom square footage was 1,175 square feet, resulting in a net rent per square foot of \$0.59.

Among scattered site units, rent ranges and average rents were as follows:

- **Efficiency rents** ranged from \$380 to \$470 with an overall average of \$425.
- **One-bedroom rents** ranged from \$450 to \$510 with an overall average of \$478.
- **Two-bedroom rents** ranged from \$560 to \$590 with an overall average of \$573.
- **Three-bedroom rents** were \$675.

Two general occupancy rental communities are currenting in the pipeline in the Marshalltown Market Area – Brecken's Place Phase II and a mixed-use development in downtown. Brecken's Place II will consist of 24 units adjacent to the existing 24 units recently built in Phase I and is currently under construction. The downtown mixed-use development will contain four rental units over ground-floor retail space and will be income restricted to 80 percent of the Area Median Income for five years. Both developments are expected to be complete in 2018.



- **Senior Rental Market Conditions:** Five senior rental communities were surveyed for this analysis including one deeply subsidized property, three LIHTC communities, and one market rate assisted living community. Two additional senior rental communities, The Embers (service-enriched independent living) and Glenwood Place (independent/assisted living) were also identified in the Marshalltown Market Area; however, both communities refused/were not able to participate in our survey.

The three senior LIHTC communities reported just two of 104 units vacant, a rate of 1.9 percent. The HUD Section 8 community (Odd Fellow) and the assisted living community (The Bickford of Marshalltown) were both fully occupied with waiting lists.

Average effective rents at senior LIHTC communities were \$435 for 650 square feet or \$0.67 per square foot for one-bedroom units and \$615 for 900 square feet or \$0.68 for two-bedroom units. All units at the three senior LIHTC communities are restricted to households earning at or below 60 percent of the median income. The assisted living community The Bickford of Marshalltown has base rents of 2,800 for one-bedroom units and \$3,550 for two-bedroom units, which include the cost of all utilities, three meals per day, housekeeping, and other services.

- **For-Sale Market Conditions:** RPRG evaluated MLS data for Marshalltown, including overall trends and recent sales. RPRG also compiled housing data on active for-sale communities in the city from the Marshall County Tax Assessor.

For-sale market conditions have steadily improved since 2011, following the national housing market downturn and subsequent recession. Marshalltown's median home sales price and number of units sold in 2016 and 2017 represent ten-year highs, surpassing pre-downturn levels. The average Days on Market also decreased dramatically during this period, with a DOM of 49 days in 2017 less than half the DOM in 2011. Current levels of home inventory in Marshalltown are low with twelve of fifteen price segments categorized as seller's markets. The most active segments of the for-sale housing market over the last year have been at middle price points ranging from \$100,000 to \$200,000; however, all segments of the market appear healthy and supportive of additional growth.

- Marshalltown has two new construction for-sale neighborhoods actively being built-out by home builders including the single-family detached home neighborhood South Pointe Homes and Villas and the attached home community The Woodlands. South Pointe Villas is nearing completion with just three homes left that are finishing up construction. New homes in South Pointe Homes and Villas have generally moved quickly and have recently sold for prices ranging from \$229,197 to \$289,457. The Woodlands is still in the initial stages of construction with only a few units currently complete. Homes in The Woodlands have not sold as fast as in South Pointe Homes and Villas, but are currently listed for-sale at \$279,000. A handful of other single-family neighborhoods have some lots available for sale and development, though lot owners would need to contract with a custom home builder. One additional for-sale single-family detached home community (Cross Creek Estates) may offer additional lots for development in an additional phase over the next three years, but no plans for the additional phase have been finalized.

Rental Housing Demand:

General Occupancy Rental Housing Demand:

Based on projected household growth, functional housing unit replacement, and a structural vacancy rate of five percent, a net demand for 122 rental units will exist in the Marshalltown Market Area through December 2020 in addition to the 28 units already under construction/planned in the market area. The market area could potentially support up to 158 additional rental units if current aggregate



vacancy rates were consistent across all rental units in Marshalltown. Depending upon the percentage of in-commuter demand the Marshalltown Market Area could capture with the development of new housing, potential housing demand exists for 24 to 119 rental units (in addition those projected from household growth, unit replacement, and the structural vacancy rate) over the next three years.

Senior Rental Housing Demand:

The independent senior rental market for households with householder age 62 or older is in relative balance with an excess demand for 39 senior rental units. It is important to note this senior demand methodology does not factor in senior homeowner conversion, which is often an additional source of independent senior rental demand in established markets with a large senior household base that is aging in place.

Conclusions and Production Recommendations:

Based on net demand estimates, the Marshalltown Market Area is projected to have demand for roughly 120 to 160 general occupancy rental units and 39 independent senior rental units over the next three years. This rental demand will be driven by a combination of housing unit replacements, in-commuter demand, and structural vacancies to allow for better market liquidity. Given the older age of the Marshalltown Market Area's for-sale housing stock, sizable in-commuting employment base, and strong for-sale market conditions, demand for additional for-sale housing development is also evident. Taking these factors into consideration along with the demographics of the market area and recent housing development, we offer the following general product recommendations and pricing for rental and for-sale housing opportunities in the Marshalltown Market Area:

General Occupancy Rental Housing: Current rental market conditions are tight with low vacancy rates among most rental communities, especially market rate communities that are reasonably well maintained. Based on the income characteristics of the Marshalltown Market Area's household base, we recommend new rental housing development focus on moderate income renters earning roughly between 80 percent and 150 percent of the Area Median Income. This segment of the market is the most underserved by the existing rental stock, as they earn too much to qualify for income restricted housing but do not earn enough to pay for more expensive single-family home rentals and may not have the credit or financial capital necessary for a home purchase. Many moderate-income renters are also likely to be renters by choice, as this segment of the household base includes many young adults who are interning or have just recently graduated college. One additional issue among existing market rate multi-family rental communities is the lack of three-bedroom units. Roughly one-third of all households in Marshalltown contain children and 34.2 percent of all renter households contain at least three people, making the lack of three-bedroom rental units for moderate-income families problematic. Based on conversations with property managers at various housing communities, larger units appear to be in higher demand and are scarce in the market outside of larger single-family rentals that may not be affordable to most moderate-income renters.

While low-income households comprise a sizable proportion of the Marshalltown Market Area's household base, current general occupancy LIHTC communities are experiencing some softness with an aggregate vacancy rate of 11.2 percent. While some of the LIHTC vacancies are likely transitional, follow-up conversations with LIHTC property managers revealed problems with income-qualifying tenants as many dual income households earn too much to qualify for a 60 percent LIHTC unit. As most of the existing general occupancy LIHTC units target households at 60 percent of the Area Median Income, these units all compete for tenants within the same relatively narrow income band. While we do not believe the long-term health of these LIHTC communities is a concern, we would advise caution in pursuing any additional LIHTC units targeting households at 60 percent of the AMI over the next three years. If an affordable housing tax credit community is pursued, we would recommend a mixture of units targeting multiple income levels, a higher percentage of three-bedroom units to serve low-income families, and additional project based subsidies if possible to serve very low-income renter households.

**General Occupancy Rental Product Recommendations:**

Over the next three years, we recommend focusing on market rate rental housing to address projected rental demand in the market area. This will help address the needs of 40.6 percent of renter households in the Marshalltown Market Area who earn from \$35,000 to \$99,999 per year. Based on a projected rental demand for at least 98 rental units and as high as 130 to 140 units (depending on in-commuter housing demand), we have provided general product recommendations appropriate for market rate rental housing.

Ideal building types for a market rate rental community in the Marshalltown Market Area include:

- **Garden-Style Buildings** – A modern two to three-story garden-style community comparable to Southern Hills would be ideal for new market rate rental housing in Marshalltown and would offer more flexibility to include a variety unit types. This higher-density product will also help with overall affordability as the greater number of units will help offset higher development and construction costs in Marshalltown that can cause lower-density rental products to require significantly higher rents. This housing type would appeal to a variety of target markets including young singles and couples looking for a modern but affordable rental option (including roommates), established professionals who may be employed on short-term contracts or are renters by choice, families with children, and possibly some empty nesters in transition. We recommend a garden-style community include a mix of one, two, and three-bedroom units, offering roughly 750 to 1,250 square feet, with all standard kitchen appliances including a microwave and washer/dryer connections at a minimum. If possible, a garden-style community should also include some base level of amenities of which a fitness center, business center, and playground would be ideal; however, a modern community design and unit interiors should be a priority.
- **Downtown Loft Apartments** – Loft apartments in downtown would be an ideal product type for young adults in Marshalltown, as they would be walkable to shopping, restaurants, and other community amenities in downtown and are likely to be smaller given the space limitations of most downtown buildings. The target market of this product type would primarily be single persons and some couples or possibly roommates.
- **Townhomes/Attached Homes** - Townhome units or attached homes (duplexes, tri-plexes, etc.) comparable to Brecken's Place would be a suitable product type for market rate rental housing in Marshalltown; however, the caveat with this product type is that higher development and construction costs spread over a smaller number of units could require much higher rents to make the project financially feasible. We would recommend a community comprised of two and three-bedroom floor plans for duplex buildings or one, two, and three-bedroom units for multi-unit attached buildings. Each unit should offer roughly 750 to 1,250 square feet, standard kitchen appliances (refrigerator, range/oven, dishwasher, and, garbage disposal), and washer/dryer connections. As with single-family homes, community amenities would not be required but would enhance the overall appeal of the property. The target market of this product type would include couples, roommates, and small to large families.
- **Single-Family Detached Homes** - While single-family detached rental homes would be well received within the community, the increased development costs and land requirements generally associated with this product type make large developments of single-family rentals less common. If such a community were developed, we would recommend building two and three-bedroom homes offering roughly 1,100 to 1,300 square feet and 1,300 to 1,500 square feet, respectively; however, smaller cluster homes of 800 to 1,000 square feet could also be well received if offered at reasonable price points. At a minimum, the homes should include an attached garage or carport (with the exception of cluster homes), standard kitchen appliances (refrigerator, range/oven, dishwasher, and, garbage disposal), and washer/dryer connections. The target market of this product type would primarily be couples and small to large families.



General Occupancy Rental Pricing:

Assuming an appropriate product based on the recommendations above, RPRG judges a new market rental community in Marshalltown can be priced at the top of the rental market comparable to the newer market rate units at Southern Hills and the market rate units at Brecken’s Place. Regardless of product type and location, a newly constructed rental community will be attractive to prospective renters in and around Marshalltown and will be among the most attractive in the market upon construction. Among the product types recommended, single-family detached homes would likely have the highest achievable rents followed by townhomes/attached homes; however, given moderate income households earning between 80 percent and 150 percent of the Area Median Income are a priority, higher rents at these lower density product types may price out many of these moderate-income renters. As such, we have provided a sample product structure, including unit mix, unit sizes, and proposed rents, for an 84-unit garden-style rental community, which we believe would be best suited for Marshalltown’s current rental housing needs. Rents assume that residents are responsible for all utilities except the cost of trash removal (Table 46). Please note we have applied the largest unit sizes provided among surveyed communities to illustrate rents at communities unable to provide unit sizes to demonstrate current rents in the market in Figure 14.

Unit Type	Building Type	Units	Bed	Bath	Avg. Square Feet	Net Rent	Rent/Sq Ft
Market	Garden	24	1	1	750	\$700	\$0.93
Market	Garden	36	2	2	1,000	\$900	\$0.90
Market	Garden	24	3	2	1,150	\$1,000	\$0.87
Total/Avg.		84			967	\$867	\$1.12

Rents include: trash removal

Independent Senior Rental Housing: Based on net demand estimates, household growth projections, and the demographic characteristics of the Marshalltown Market Area, demand for an additional 39 independent senior rental units will exist over the next three years driven primarily from existing residents aging in place. All senior LIHTC and deeply subsidized communities are performing well with limited to no vacancies and waiting list for some units. The most recently constructed senior LIHTC community in the market area (Marshalltown Senior Residences) also was swiftly absorbed in three to four months and is fully occupied.

Taking these factors into consideration, sufficient demand exists in the market to support an additional senior LIHTC community similar in design to the existing senior communities Westown and Marshalltown Senior Residences. While information is limited on market rate senior housing options in Marshalltown, due to the limited participation of some senior communities, the lack of vacancies at The Bickford of Marshalltown, the recent expansion of Glenwood Place (independent and assisted living), and the aging population of the Marshalltown Market Area indicates additional demand for senior market rate rental units also likely exists; however, the recent expansion of Glenwood Place and the construction of the pipeline assisted living and memory care facility (The Willows) will likely satisfy much of this demand over the next three years.

For-Sale Housing: Most of the existing for-sale housing stock in the Marshalltown Market Area is of a significantly older vintage, though the steady construction of new for-sale housing units on infill sites and in South Point Homes and Villas has helped improve the quality of the for-sale stock at higher price points. We recommend continuing the gradual construction of new for-sale single-family homes with a bit more emphasis on affordable housing options in the more moderate price ranges of \$150,000 to \$225,000. We expect the demand for for-sale housing at mid-range price points to remain strong over the next three years, which can be satisfied with a variety of housing types.

For-Sale Housing Product Recommendations:



- Single-Family Detached Homes** – Single-family detached homes are the most common owner-occupied housing units in the Marshalltown Market Area and remains the most desirable product type for new for-sale housing units. Given the relatively high land and construction costs in Marshalltown, however, new single-family detached homes in Marshalltown tend to gravitate toward higher price points such as South Pointe Homes and Villas, where recent prices have ranged from roughly \$230,000 to \$290,000. While demand for these higher priced homes will likely remain steady over the next three years, smaller more affordable homes would also be well received and target a wider variety of moderate income households. We would recommend building three-bedroom homes offering roughly 1,500 to 2,500 of finished square feet. At a minimum, the homes should include updated exteriors, attached garages, standard kitchen appliances (refrigerator, range/oven, dishwasher, and, garbage disposal), washer/dryer connections, and a patio/deck. The target market of this product type would primarily be couples and small to large families.
- Townhomes/Attached Homes** – Townhomes and attached homes (duplexes, tri-plexes, etc.) are best suited for moderate income households, offering a semi-detached product with a partial yard and more privacy but a smaller more affordable housing unit overall. These unit types would be well received in the community and could target middle income price points. These unit types also require less land for development and can work as both a separate community or as an infill development, if necessary. We would recommend two-story units for townhomes and one to two-story units for attached homes with updated exteriors, attached garages, standard in-unit kitchen appliances (refrigerator, range/oven, dishwasher, and, garbage disposal), washer/dryer connections, and patios. Units should include both two and three-bedroom floor plans with approximate sizes ranging from 1,000 to 1,200 square feet and 1,300 to 1,500 square feet, respectively. The target markets of this product type would include couples, roommates, and small to large families.

For-Sale Housing Price Recommendations:

Assuming an appropriate product based on the recommendations above, RPRG’s recommended prices for each product type are as follows:

For-Sale Units - Recommended Pricing						
Product Type	Bed	Bath	Square Feet	Base Price	*Sales Price	Sales Price/Sq. Ft.
Townhome	2	1.5	1,000	\$110,000	\$126,500	\$126.50
Townhome	2	2	1,200	\$130,000	\$149,500	\$124.58
Townhome	3	2.5	1,300	\$150,000	\$172,500	\$132.69
Attached Home	3	2.5	1,300	\$150,000	\$172,500	\$132.69
Attached Home	3	2.5	1,500	\$175,000	\$201,250	\$134.17
Detached Home	3	2.5	1,500	\$190,000	\$218,500	\$145.67
Detached Home	3	2.5	1,800	\$210,000	\$241,500	\$134.17
Detached Home	3	2.5	2,500	\$245,000	\$281,750	\$112.70
Average				\$170,000	\$195,500	\$130.40

*Increased by 15 percent for options

The pricing and unit sizes of each product type are based on recent sales data and the pricing of newly constructed homes from the past five years; however, exact prices could vary significantly depending on the location of the home and the product constructed. Newly constructed for-sale units at these general size and pricing recommendations would be competitive in the market place and attractive to prospective moderate and upper income owner households living in and around the Marshalltown Market Area.

Conclusions on Affordability and Impact on Existing Market:



Affordability estimates for rental and for-sale housing show sufficient income-qualified households to support additional housing units based on RPRG product and pricing recommendations. The affordability estimates shown for the Marshalltown Market Area are also conservative, as they do not account for potential renter and owner households willing to relocate from other parts of the region or state due to in-commuter migration. Overall, sufficient income qualified households exist to support rental and for-sale housing development over the next three years.

Given the projected rental demand in the Marshalltown Market Area and the potential housing demand from in-commuting workers, we do not believe the addition of roughly 100 market rate rental units or 40 senior LIHTC rental units will have a negative long-term impact on existing communities in the Marshalltown Market Area. While it is possible some existing communities could experience short-term increases in vacancy as the new rental units are absorbed into the market, this is typical of most markets and will not have any adverse lasting effects. Likewise, strong for-sale housing market conditions, low inventory, and sufficient income qualified households indicate continued steady growth in the for-sale housing market will not have a long-term negative impact on the Marshalltown for-sale housing market overall.

Final Conclusion / Recommendation

Marshalltown is home to several major employers, making it a regional economic hub for workers living throughout the surrounding counties, nearby cities, and major metropolitan areas of Des Moines and Ames. Despite the cyclical nature of the county's economy, due largely to its substantial manufacturing presence, Marshalltown's population and household base has remained steady over the last seven years and has continued to have just over half of its jobs filled by commuters from outside the city. This decision is due in part to the quality and condition of Marshalltown's existing housing stock, most of which is at least 40 years old and not attractive to or suitable for many of its current workers. Higher development costs have also raised prices for the newest and most attractive housing options (both rental and for-sale), making quality and affordable housing options scarce. As many moderate-income households have the means to obtain suitable housing at more affordable prices in Marshalltown's immediately surrounding area, they have a greater deal of flexibility on where they choose to live and work. While the city has made progress since the previous housing study in 2014 with the development of senior and family rental housing communities and slow but steady for-sale housing growth, additional rental and for-sale housing is needed to satisfy demand projected over the next three years.

Based on current rental market conditions, net demand/affordability estimates, and the age/condition of Marshalltown's existing housing stock, sufficient demand will exist in the market area to support roughly 120 to 160 general occupancy rental units, approximately 40 independent senior rental units, and steady for-sale housing growth through 2020. We recommend that new rental housing units primarily target moderate income households earning from \$35,000 to \$99,999 per year, which are the most underserved households in the rental market. An assortment of product types is suitable for development within the Marshalltown Market Area, but we would recommend a higher density rental product to help keep rents at a newly constructed community from pricing out moderate-income households. Based on all the factors discussed above, we believe a variety of opportunities exist for housing development in Marshalltown and would be well received in the community. Given the continued pent-up demand for quality housing units in the city, we do not expect any of the recommended new housing communities to have an adverse long-term impact on the existing housing stock.