



Good News And Bad News On The Housing Market

By: Gene Prim

Barnesville has had a long and distinctive presence in the housing market. There have been booms and there have been occasional busts in new home construction. But for the past half century it has been mostly an up market when it comes to a home in Barnesville.

In addition to new housing, which is a very important component in the growth of any community, we have done a remarkably good job of retaining our heritage, the older and perhaps the more significant homes from our city's history.

There are a lot of classic older homes scattered around "Old Town" Barnesville. Many of those homes are being visited in this issue of Barnesville's Streetlight. Look elsewhere in this special publication for a peek inside these gracious old homes and meet the people that live in them now. There are truly some unique structures that grace our residential streets, many of those homes dating back over a century.

New home construction is the backbone of any growing community. Any new home constructed is good news for the city, the school district and the county. A new home constructed now provides a constant source of tax revenue for all three entities for the better part of a century.

The city benefits on a second front as well. Every new home brings a new customer base for city utilities, such as telephone, electric, cable television, internet, sewer and water. The entire population of the community also realizes a benefit as each new home built means that the tax load from city, county and school is now stretched out over a larger field.

The local School District 146 is also a huge beneficiary from new home construction. The school district's benefit comes from new residents moving into new or existing homes within the district. In many, if not most cases, those home buyers moving to the district mean more kids in the classrooms.

Each of those students is worth a lot of dollars to the local district in the form of state aid directly from the State of Minnesota. Each of those student units is worth a differing amount of money with kindergarten elementary students being the lowest reimbursement at less than a whole unit. High school students, however, are worth more than a whole unit. While every family is different, a "typical" family with three students in the local school system is worth between \$15,000 and \$20,000 to the school.

Don't bet the farm on those exact numbers as they are constantly changing, but they are an approximation of what each of the new homes is worth to both the school and the city.

And each of those new homes adds a little money to each of our pockets once they are on the tax rolls. The tax burden is now spread out over more and more housing units. That can be a significant number when you start to deal in millions of dollars in debt for big projects such as the new school upgrades that were passed last summer.

But all of those benefits come with an up-front cost that must be recovered. That is the situation that Barnesville finds itself in today. We are rapidly running out of residential lots to build new homes.

That situation is being addressed now by City of Barnesville officials. A new 57-home sub-division, DelAcres/Gilbertson Phase III has been bid out and construction on the infrastructure will begin this spring. Streets, storm sewer, drain tile, sewer and water are all expected to be in place and ready for new home building sometime in the fall of 2020, weather permitting.

"The residential housing market in Barnesville could not be better," says Dionne Merckens, branch president of Midwest Bank of Barnesville. "We have people building, people buying and still moving up. Mortgage rates are fantastic with people with good credit pulling down 3.00 percent to 3.25 percent rates on 30-year mortgages. On a 10-year mortgage you can look at an interest rate below three percent.

"First time homebuyers, veterans and those eligible under other plans, can look at as little as five percent down to get into a home. The existing home market is also hot in Barnesville right now with homes in the \$200,000 to \$300,000 market selling quickly. We're in a very stable market here," Merckens concluded.

The new DelAcres/Gilbertson Phase III sub-division became necessary much sooner than had originally been planned. This is a



Last summer saw a beehive of activity occurring in the Del Acres/Gilbertson Sub-division in eastern Barnesville. A new development will be opened for construction before the end of 2020.

good news, bad news situation. The bad news is that it will take a major infusion of borrowed money to get the new sub-division built. The good news is that there is a huge demand for both existing and new housing in Barnesville right now. Demand is exceeding supply by a considerable margin. The inventory of existing homes on the market seldom reaches double digits.

Any existing home going on the market at a reasonable price in Barnesville right now can be expected to see a sold sign in front of it in a matter of days. The key to that statement is the "reasonable price." That amount has been changing upwards in relatively short order over the past couple of years. That's great news for sellers and a concern to home shoppers trying to get into a changing market.

While the price for existing homes continues to go up, the same is true for new home construction. Materials for new homes have been in short supply and in a rising market ever since Hurricane Harvey blew through the Gulf Coast of Texas in August of 2017. The rebuilding in that part of the country has put a crimp in the availability of materials necessary to build a new home, and the price keeps going up.

It seems hard to believe to those who have lived in their homes for a few years, but a new home now priced under a quarter of a million dollars is considered a bargain. There is sticker shock but the demand still exists for new home construction.

That new home market has created more than a few challenges to meet that demand.

Long-time developer Del Peterson and sons Steve and Kim opened the original DelAcres/Gilbertson sub-division in late 2006. The timing could not have been worse. The death of both Del and Steve Peterson stalled construction. The housing market crash of 2008 killed the market completely as there was virtually no money available on the mortgage market locally or nationally.

It was a long time coming but the housing market eventually worked through the financial crisis and new home construction began to pick up slowly. By 2015 it was evident that there was a crisis looming on the new housing market. The original DelAcres/Gilbertson was nearing a buildout and there were no developers appearing on the horizon.

The Barnesville Economic Development Association, in partnership with the City of Barnesville created a plan to open DelAcres/Gilbertson Phase II. The EDA would administer the sales and promotion of lots in the new development. The City of Barnesville would front end the money on a loan to the EDA so that land and development cost were covered. The city's money would be recovered as the lots were sold.

The City of Barnesville, as it always has, also front-ended the infrastructure costs that will be recovered in special assessments from the new home owner.

That development was completed in very late 2016 with one home started that first fall. It was expected that DelAcres/Gilbertson Phase II would provide a residential housing inventory that would last for as long as 10 years. It wasn't even close. Since the development opened in 2016, the demand has continued to increase for homes.

That demand was apparent to the EDA, which keeps close tabs on the housing inventory. Plans were made to accelerate the need to open DelAcres/Gilbertson Phase III. Originally it was anticipated that plans would be developed

in 2020 with construction of the new development taking place in 2021. By early fall of 2019 it was becoming apparent that the long-range plan needed to be updated and moved ahead. The sub-division that was intended to supply the residential housing inventory until 2026 was just about sold out.

DelAcres/Gilbertson Phase I opened in 2006 and took more than a decade to sell out. DelAcres/Gilbertson Phase II, 46 residential housing lots, has been open for only five years and is nearing a sellout. DelAcres/Gilbertson Phase III was bid out in January and construction on that infrastructure can be expected this summer.

Total cost for the Phase III infrastructure will be over \$2 million dollars with Dirt Dynamics the likely contractor. They were the low bidder when bids were opened in late February. The bid was slightly under Moore Engineering's original estimate.

There will also be legal, platting, engineering and land costs involved. Those costs will be recovered through city special assessments that will be attached to the property. Most will be set up on a 20-year repayment schedule at very low interest rates. Development costs will be reduced substantially as the local EDA does not attach nearly as much profit to the land which a private developer would have to do.

The new development is 57 residential lots in size with two cul-de-sacs, one on the north and one on the south end, highlighting the sub-division. The new lots are expected to be very popular as this is likely as far as Barnesville can expand to the east. This will be the far edge of town for the foreseeable future as eastern expansion will be blocked by Whiskey Creek and Interstate 94. Those building in the new development will enjoy living "in the country" with all of the city services and benefits.

The rapid sellout of DelAcres/Gilbertson Phase II came as a surprise to city planners. It occurred for two very specific reasons. Number one reason is that all of the buildable lots in all of the other sub-divisions have been sold out. The last lots have all been sold in the Heartland, Stoneridge, Blue Eagle and all of the DelAcres sub-divisions scattered around town.

The only place left to build within the city are a few scattered parcels of land or an existing home can be demolished and a new home can be constructed. Those are ideal situations because the new home can be built without any special assessments. However, these "in-fill" lots tend to be small and there are precious few of them within the community.

The other reason for the rapid sell out of DelAcres/Gilbertson Phase II was the speculation market. That was a market that had simply not existed for the past 30 years. Developer Del Peterson was the last person to even venture into that market and he did so cautiously.

Peterson never had more than one home under construction without it being pre-sold. And there was a very good reason that he was cautious. He had been burned in that market at least twice before when the markets had turned around and housing demand stalled.

But these are different times with different players. One of the major players in the new market is Adams Development out of Fargo. They have ventured out to Barnesville and it has proven to be a good partnership for both the company and the Barnesville EDA and City of Barnesville as developers.

Adams entered the local housing market in 2018 when they purchased

seven lots in DelAcres/Gilbertson Phase II. Over the summer of 2018 they got all seven foundations in the ground and completed the homes over the winter of 2018-19. Those homes went on the market in the spring of 2019 and were all sold before mid-summer. Another spec home was constructed by Barnesville Homes during that time-frame and is now available for occupancy.

With the success of the spec homes, Adams was committed to expanding the business during the summer of 2019. They purchased 10 residential lots with the intention of

building five homes over the summer and starting five more in the fall. Five foundations were dug between monsoons over the summer. The company also picked up a large pre-sold home in the sub-division which also occupied some of their time.

Couple the shortage of building materials with the late start and horrible weather during the 2019 construction season and five of the planned homes did not get started during the construction season. Those homes are slated for construction beginning as soon as conditions permit in the spring

of 2020. Plus Adams has already committed to five additional lots and wants to purchase five more. Simple mathematics shows that the available inventory within the sub-division is gone making the development of the next phase necessary now.

During the peak of new home construction back in the late 1990s and early 2000s, the Barnesville housing market could see as many as 25 new housing starts when there were Heartland, Stoneridge, the various DelAcres developments and in-fill lots available. It is always difficult to put an exact number on housing starts because homes may be started one year and finished in another. But we are definitely building at a more modest rate today. There is also a two-year lag time on new homes hitting the tax rolls.

But it looks like even with the dismal weather of 2019, the city will see a dozen new housing starts around the town. That includes five spec home starts from Adams plus one pre-sold home. There were also two other pre-sold homes constructed by other contractors as well as another spec home that was begun right at year's end. The rest of the new home construction is scattered around the few remaining in-fill lots around town.

Barnesville is a town "on the grow." The big question now is will our recent growth spurt translate into enough new bodies moving to town to take us over the magic 3,000 mark in the 2020 census?



Spec homes have been a rarity in the Barnesville housing market but there are a few such homes now being built and occupied. The home pictured above was built by Barnesville Homes and is now on the market.



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