

## **ECONOMIC DEVELOPMENT COMMITTEE**

The Economic Development Committee met on July 11, 2018 at 2:00 p.m. with Mayor Christiansen presiding. Members present were Mrs. Mitchell, Mr. Hugg, and Ms. Evans. Mr. Hare, Mr. Cole, and Mr. Hammond were absent.

Staff members present were Mr. Eddie Diaz, Mrs. Tracey Harvey, Mr. Kirby Hudson, Mrs. Dawn Melson-Williams, and Mr. Julian Swierczek. Councilman Neil was also present. Others present were Mr. Jim McCulley, Watershed Eco, LLC and President of the Home Builders Association of Delaware, Mr. Phil McGinnis, McGinnis Commercial Real Estate Company and Chair of the Public Policy Committee for the Kent County Association of Realtors, Mr. Beau Zebley, President of the Kent County Association of Realtors, Ms. Rebecca Rothenberg, NCALL Consultant, and Mrs. Karen Speakman, NCALL Director.

### **AGENDA ADDITIONS/DELETIONS**

**Due to the lack of a quorum, the agenda was not adopted.**

Mayor Christiansen stated that the meeting would be informational only and no action would be required.

Mayor Christiansen announced that no Economic Development Committee meetings would be held until September and, going forward, meetings would be scheduled for the Tuesday following the second Monday of the month from 5:00 p.m. to 6:00 p.m.

### **Discussion with Kent County Association of Realtors and Delaware Homebuilders - Housing Trends and Expectations for Dover's Future**

Mr. Dave Hugg, Director of Planning and Community Development, advised that the City is in the process of updating the 2008 Comprehensive Plan, which addresses housing at length, and he invited representatives of the Kent County Association of Realtors and Delaware Homebuilders to discuss current issues related to housing, housing affordability, the housing market, housing trends, etc., and to speculate about the five- and ten-year outlook for housing in general. He explained that staff wants to make sure that, as they go through the planning process, they reflect what statistics indicate, as well as the input from those who build and sell houses. Mr. Hugg stated that their input is important to help staff understand how the market has evolved and continues to evolve, and what that might mean in terms of future development.

Mr. Hugg stated that, prior to the meeting, he had provided everyone with a list of questions (**Attachment #1**) to guide the discussion. Those present discussed what they see happening in the Dover and greater Dover market.

Mr. Phil McGinnis reviewed a handout entitled “Kent County Residential Stats” (**Attachment #2**), noting that the statistics were from the Kent County multi-list system from the first quarter of 2015 through the second quarter of 2018. He noted that the data revealed that there was a decline at the end of 2017; however, it seemed to be climbing a little during the first half of 2018. Mr. McGinnis advised that the inventory represents the number of houses available for resale, not new construction. He stated that inventory is very low and the demand is high for entry level houses, which is the real

crux of the problem. Mr. McGinnis stated that there is an oversupply of homes in the range of \$350,000 and above, explaining that these were what was built when they were making a profit.

Mr. McGinnis informed members that it is difficult for first-time home buyers because they are competing with investors who are flipping homes or just want to buy rental property. He stated that the first-time home buyers are also competing against each other for the same properties, which sell in a matter of hours if they are priced right because there just isn't enough inventory.

Ms. Evans asked if there just weren't a lot of builders building entry level homes. Responding, Mr. McCulley noted that when he approached the executive committee, board of directors, and then the entire membership of the Home Builders Association of Delaware to try to find a builder who is building in Dover or interested in building to Dover to attend this meeting, everyone told him that they do not build in Dover and are not interested in building in Dover. In response to Mayor Christiansen, Mr. McCulley indicated that he did not know why but that he could go back and ask.

Mrs. Speakman noted that Ryan Homes is building in Dover. Responding, Mr. McCulley stated that Ryan Homes is definitely the biggest builder in the state and is surpassing every other builder; however, he noted that they do not get involved in anything like this.

Mr. McGinnis explained that builders do not want to build in Dover because they are not able to make a profit. He stated that credit availability is a problem, especially in Kent County and the City of Dover, and there are only new subdivisions coming through the pipelines in Sussex County. Mr. McGinnis explained that when a developer does come in and picks up 15 or 20 lots, which is the current norm, they can either pay cash or they can finance it. He stated that the bank will give them the money to build one (1) spec house and then they sell it and get money to build another spec house. Mr. McGinnis advised that the demographics and sales reports in the low \$200,000 show that the margins aren't good enough to carry the units. He stated that the home builders aren't capable of putting in the infrastructure. Mr. McGinnis explained that once they have five (5) finished lots, they need somebody to get the approvals, fund and install the infrastructure, and then carry the finished lots, noting that carrying finished lots is completely different from carrying paper lots.

Mr. Zebley stated that he represented the original owner that sold the Clearview Meadows property to Ryan Homes. He explained that Ryan Homes got quite a good deal to buy out the rest of the development because the original owner got it through foreclosure. Mr. Zebley noted that if Ryan Homes had not gotten such a good deal, they would have passed on it and the development would have continued to sit there selling one (1) or two (2) homes every six (6) months. He advised that someone has to make a profit each step along the way, and if there is no profit, there is no reason to build. He stated that it all comes down to jobs.

Mr. McCulley advised that labor and regulation are the two (2) biggest concerns of the National Home Builders Association. He explained that Ryan Homes doesn't have a problem with labor because they are the biggest builder in the state and they have all the labor tied up; however, everyone else is struggling because of that. In regard to regulation, Mr. McCulley stated that a survey was done last year that revealed that more than 30% of the price of a new home is regulation

and that number keeps increasing every year. He indicated that he thought that regulations and fees needed to be looked at in order to determine how to make it more affordable to purchase a lot, build a home, and sell it for a profit. Mr. McCulley noted that the difference between Ryan Homes and other builders is that Ryan Homes offers their buyers financing, so they can sell a house at zero profit because they are making their money on the financing.

Mr. Neil noted that he had previously heard from builders that they are not getting people who are trained trade professions and it seemed to him that there was a disconnect with the local educational institutions. He stated that he thought that NCALL and Habitat for Humanity might be the biggest builders in the City and Kent County, through their efforts to demolish blights and build new homes in which people can become part of the community. Mrs. Speakman explained that NCALL subsidizes the cost.

Mr. McCulley indicated that the Home Builders Association completed a project with St. Georges Technical High School students last year in which they built and raffled off high-end sheds. He explained that they brought together superintendents from builders in the Association, carpenters, HVAC technicians, electricians, etc. to work with the students. Mr. McCulley noted that the students had no idea that they could go into a home building type business after graduation, so this was an eye-opening experience for them. He stated that they were planning to work with St. George Technical High School and Habitat for Humanity to build homes in Middletown. Mr. McCulley advised that he thought that, from the labor side, they needed to start working with the voc-tech schools because the students need to know that there are careers available where they can make money. Ms. Evans suggested that they also work with Polytech High School.

Responding to Mr. Hugg, Mr. McGinnis explained that from a cyclical standpoint the market in Kent County had been struggling since 2009 or 2010. He stated that the lack of credit availability and job growth were the main factors. Mr. McGinnis noted that if the credit availability would relax a little bit, they might see more houses being built, which would lead to more jobs, which would lead to more income.

Mr. McCulley noted that he could not remember the last residential project he worked on in the City of Dover. He stated that you can get a plan approved in three (3) months in Middletown and it is booming. Mr. McCulley explained that Middletown is business friendly, and people are building places where people can work, which leads to building places for people to live, and then more places for people to work and shop and eat, etc. He suggested that the City of Dover review its approval process, whether they are perceived as being business friendly, and if there are jobs available.

Mr. Neil noted that land availability is also a factor and asked how much land is available in the City of Dover. Mr. McGinnis stated that he did not know what the inventory for vacant land availability is in the City, but suggested that the City may need to look at expanding borders. Mr. Hugg noted that he thought that there was a reasonable inventory of unbuilt subdivisions, but not a lot of land for potential new subdivisions. Mr. McGinnis explained that even with "shovel ready" subdivisions, where the infrastructure is already in place and someone only needs to get a building permit, they still have to measure what the transaction activity will be before they can build,

explaining that if it is a subdivision with \$225,000 houses, someone can't start building \$350,000 units.

Mr. Zebley explained that, whether it's justified or not, the City has a reputation of being difficult to deal with and that is why builders say they will not build in Dover. He stated that it is important for the City to determine what is driving that perception, in order to change it. Responding, Mr. Hugg noted that the residential building permit process seemed to work pretty efficiently and quickly for Ryan Homes. He stated that he was not sure what the City could do to improve the process but was willing to take efforts to make improvements if someone would provide specific issues.

Mr. Hugg asked what the demographics are for those who are buying houses in Dover and where they are coming from. Responding, Mr. Zebley stated that most of the buyers are retirees, who are no longer working and moving to Delaware to buy homes. Mr. McGinnis stated that the demographic had moved toward retirees, for whom it seemed big, expensive houses aren't necessary. Mrs. Mitchell noted that a couple of candidates she had interviewed for jobs with the City indicated that they had retired from jobs in other states, were looking for a second career, and were interested in moving to Delaware because the cost of living, taxes, etc. are much lower. Mr. Zebley stated that everyone is competing for houses priced in the \$210,000 to \$215,000 range. He advised that credit is a huge issue and, based on his experience as a property manager, people are willing to pay 30% to 40% more than what the mortgage would be because they cannot buy a house.

Mr. McGinnis indicated that the jobs that young people have today are not quality enough to enable them to save for the down payment and closing costs to buy a house. He stated that last session the legislators raised the transfer tax from 3% to 4% and admitted that real estate sales had declined as a result. He noted that legislators said they would decrease the transfer tax; however, they did not. Mr. McGinnis advised that most mortgages require a down payment of 10%, plus there is a 4% transfer tax, which is 40% of the equity requirement and does not include property surveys, inspections, etc. He stated that the equity cost to get into a new house with 10% down is approximately 17% to 18%.

In response to Mrs. Mitchell, Mrs. Speakman advised that NCALL is not subsidizing what the owner's equity and closing costs would have been, NCALL is able to reduce those costs. She stated that sometimes an owner will get a second mortgage for down payment assistance. Mrs. Speakman advised that NCALL had 275 closings last year for first time home buyers throughout the state, with approximately 60% in Kent County. She stated that the need is for houses between \$150,000 and \$200,000.

Mrs. Harvey noted that she had noticed a trend for energy efficient "green" houses, that are a very simple box style design, and asked if that was going to continue. Responding, Mr. McCulley advised that Delaware was currently in negotiations to try to boost the energy code, which would make it more expensive to build a house because it would have to be more energy efficient and that would change the design. He explained that in order to meet the new energy standards, a lot of builders are going to more boxy houses with less windows.

Mr. Hugg noted that one of the reasons that Ryan Homes is so successful is that they only have a few models for home buyers to choose from. He expressed concern with defaulting to a basic model for

every house, explaining that, while they will all meet the current standards and codes, every house will look the same and they will lose individual character. Mr. Zebley noted that allowing mixed use, like he has seen in Middletown and Sussex County, would provide flexibility and higher density. Mr. Hugg advised that the City has the capability to do traditional neighborhoods, which encourage a mix of density and types; however, currently, there are not any builders willing to do this. Mr. McGinnis noted that approximately three (3) or four (4) years ago, the City added residential uses to the commercial districts to allow mixed use; however, he noted that builders are not interested in 10 units.

In response to Mr. Zebley, Mrs. Melson-Williams explained that the approval process for a new subdivision depends on the project, noting that there are many variables, such as if it's a City or Delaware Department of Transportation (DelDOT) street, the infrastructure design, etc. She stated that they have had green build projects get through the Planning Commission process and ready to pull permits in less than six (6) months. Mr. Swierczek noted that he had worked for the City for a little more than one (1) year and had received calls from applicants regarding the status of a few project applications which he reviewed. He explained that in all of those cases, the applications were being held up by other agencies, like DelDOT; however, since the City is the main point of contact, applicants contact the City. Mr. Zebley asked how other communities had streamlined the DelDOT process. Mrs. Speakman noted that she thought there were more DelDOT roads within the City of Dover than other communities, like Middletown. Mayor Christiansen advised that years ago, one of the concessions that the City made, by virtue of being the capital of the state, was to concede street maintenance and construction for many of the streets to the State of Delaware. He indicated that, as a member of the Kent Economic Partnership (KEP), he knew that this problem was not isolated to the City of Dover. Mayor Christiansen stated that the KEP viewed this issue as a detriment to housing and industrial development in Kent County, and they had talked to Secretary Cohan about it and she is working to change the culture at DelDOT.

Mr. McGinnis recalled a previous discussion regarding a mixed use building at the plaza with commercial spaces on the bottom and apartments above it. He stated that he loved that idea, explaining that if downtown is going to prosper, it needs people to live, work, and shop there. Mr. McGinnis noted that many places had created little town centers but he was unsure whether the City had the land for this type of development.

Mr. McGinnis stated that he had talked to a number of people in the business community who commented that they love what Mr. Hugg had done in turning around his department, but he was not sure why the message that the City is open for business and willing to work with people had not spread to the development community. Mr. Hugg credited his predecessors and staff who had worked for the City for awhile, noting that he did not think that the City was ever as predisposed to saying no as people say. He stated that there had been some improvements in regard to up-front communication and working together during the last year; however, he indicated that the process cannot go faster due to Planning Commission meeting schedules and hearings that must be held. Mr. McGinnis noted that there are a lot of things that applicants have to do as part of the process; however, if they do them, they don't have to redo them. He indicated that regulation is part of the process and during previous years when there was a lot of construction there was a long wait because of the volume of applications. Mr. McGinnis noted that as construction increased, so did regulations; however, he indicated that people didn't feel that the regulations were always applied fairly and, as a result of those previous experiences, they don't want to come back now.

Mr. Hudson asked what the City was doing to attract people to move to the City of Dover. Responding, Mr. McGinnis explained that the major employment opportunities are in New Castle County but Route 1 allowed people to move further south and still commute north. He indicated that people were attracted to Middletown and Smyrna because a \$400,000 house in New Castle could be purchased for \$300,000 in Middletown or \$250,000 in Smyrna.

Mr. Hugg noted that the meeting was scheduled to adjourn at 3:00 p.m. and asked for final comments from those in attendance. In response, Mr. McCulley stated that he thought that flexibility and density were important topics for the City to consider. He also noted that it was important for the City to review the length of time and flexibility of the approval process, as well as how much it would cost a builder to complete the process and what the certainty would be. Mr. McGinnis stated that he thought that minimizing and consolidating regulations was the most important. Mr. Zebley indicated that he agreed that the most important issues related to regulations, and suggested that the City try to minimize time frames and increase density. He stated that he thought that the City needs to make it known that Dover is open for business in order to attract employers, employees, and builders, noting that economics and development are all tied together.

Ms. Rothenberg asked how the regulations in Dover differed from other area. Responding, Mr. McGinnis noted that Kent County has different building and construction codes than the City of Dover. Mr. McCulley indicated that continuous code changes cause problems for builders because it costs them money, so they would rather work in places that adopt new codes every three (3) to five (5) years, instead of every year.

Mrs. Speakman suggested that the City meet with local builders, as well as local banks. She noted that, in regard to credit availability, local banks may be able to provide some deal within the City. Mrs. Speakman stated that NCALL has a loan fund of more than \$30M and participates with banks all the time, and suggested that there could be a special project for affordable housing or mixed use that they could help build through their loan fund. In response to Mrs. Speakman, Mr. McGinnis noted that development loans are governed by the federal government so you have to conform to federal regulations.

Mr. Hugg invited everyone to complete the survey associated with the Comprehensive Plan update, noting that approximately 300 responses had been received. He also encouraged everyone to send him any suggestions or comments in regard to improvements that can be made.

Meeting adjourned at 3:06 p.m.

Robin R. Christiansen  
Chairman

RRC/DD

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Attachments

Attachment #1 - A list of questions provided by Mr. Dave Hugg, Director of Planning and Community Development  
Attachment #2 - A handout entitled "Kent County Residential Stats," provided by Mr. Phil McGinnis

MAYOR'S ECONOMIC DEVELOPMENT COMMITTEE

July 11, 2018 @ 2:00 PM

REALTORS AND HOMEBUILDERS

QUESTIONS FOR THE JULY 11 EDC MEETING

The Dover residential market appears to be focused on apartments, townhouses and mostly entry level houses. Is this a fundamental shift in the market or simply a correction reflective of current economic conditions?

Recognizing that the housing market is cyclical, how long might this phase extend?

If the market is reacting to the desire or need for modestly sized and priced homes today, can opportunities for expansion and renovation be built-in, so residents can age in place – or will move up decisions lead to exodus from Dover toward the county?

What will be the future of the already built environment as older existing properties age in place?

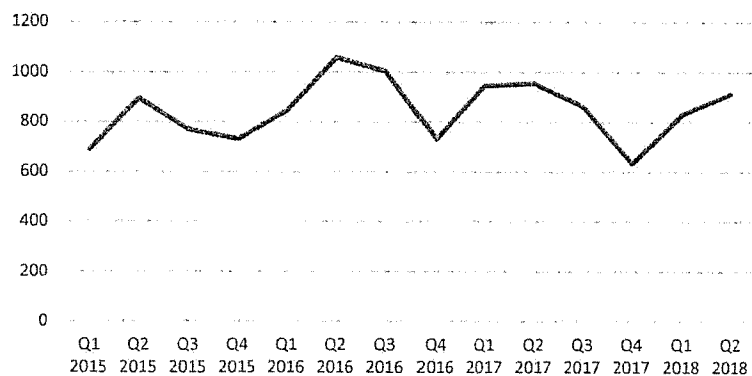
The market seems to be driven by millennials at one end and aging boomers at the other. What will these groups want as they age over the next 5-10 years, and will that be available in Dover?

What happens to the upscale very large older residences and the newer “McMansions” if current demographic trends continue?

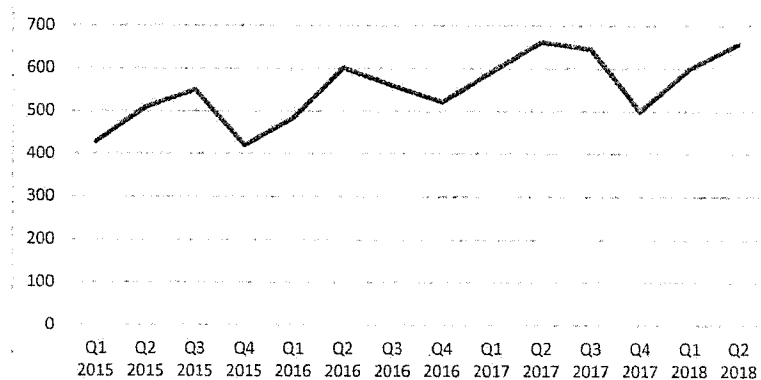
What can be done to address the needs of those residents who simply cannot afford what is being offered?

KENT COUNTY  
RESIDENTIAL STATS  
GRAPHS

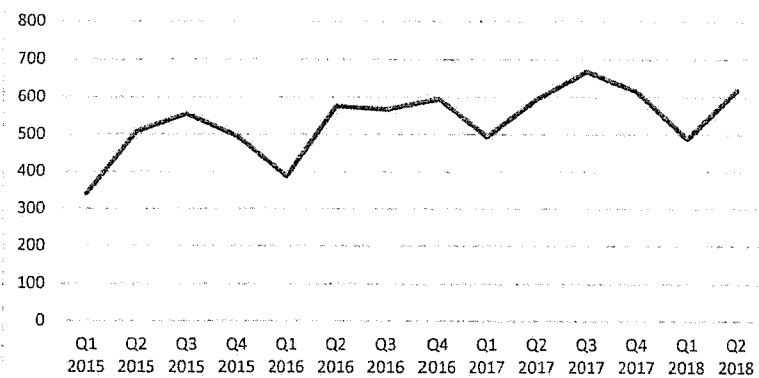
units listed



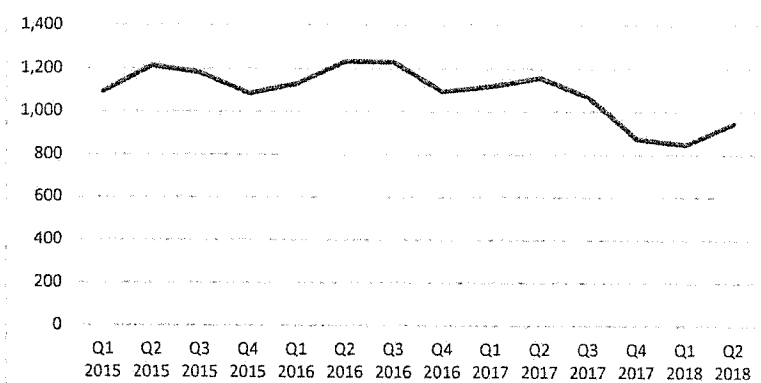
pending



units sold



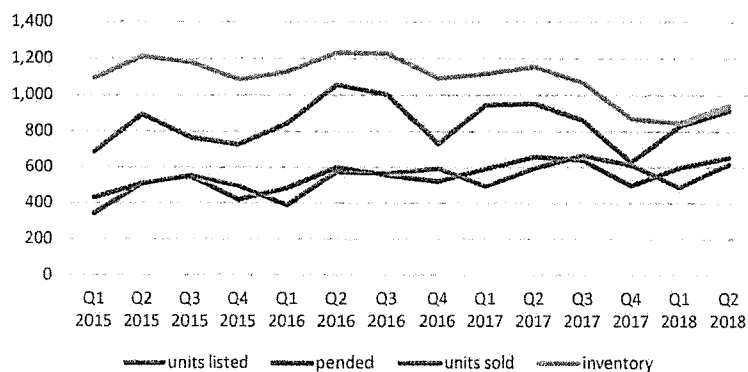
inventory



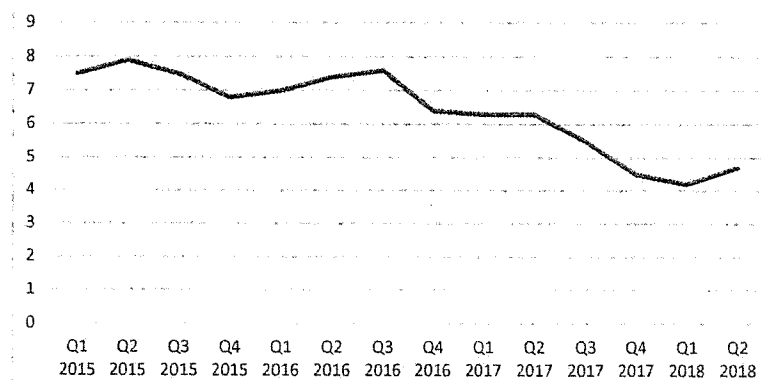


# KENT COUNTY RESIDENTIAL STATS GRAPHS

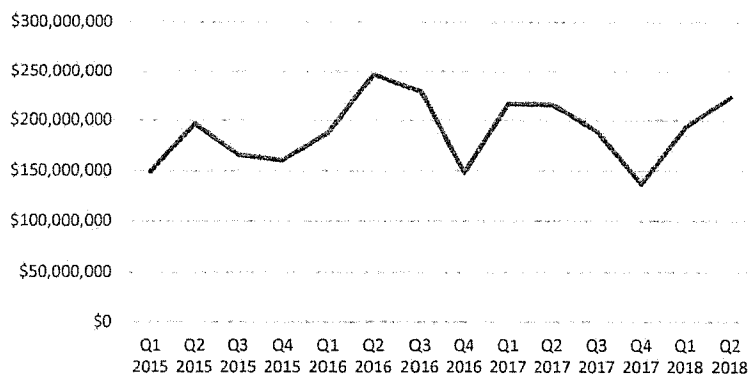
## units listed/pended/sold/inventory



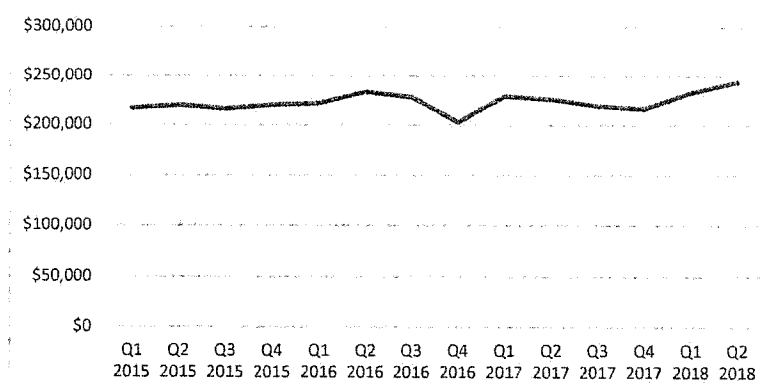
## months supply



## listed volume

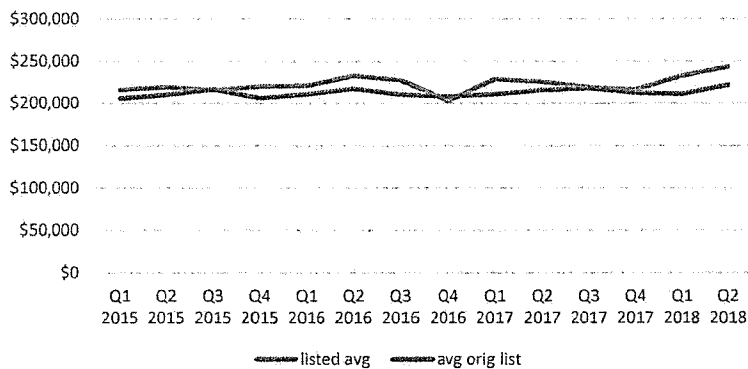


## listed avg

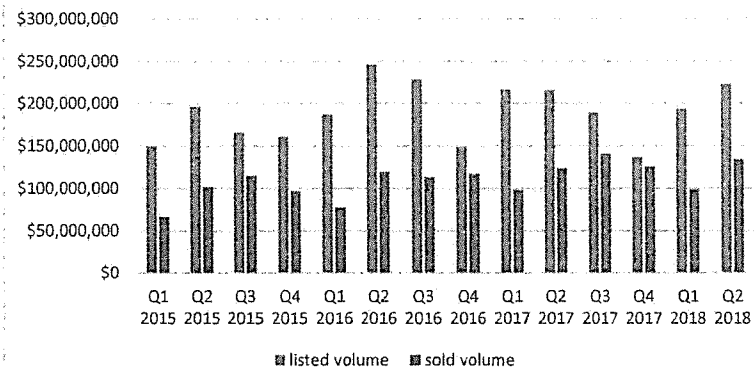


# KENT COUNTY RESIDENTIAL STATS GRAPHS

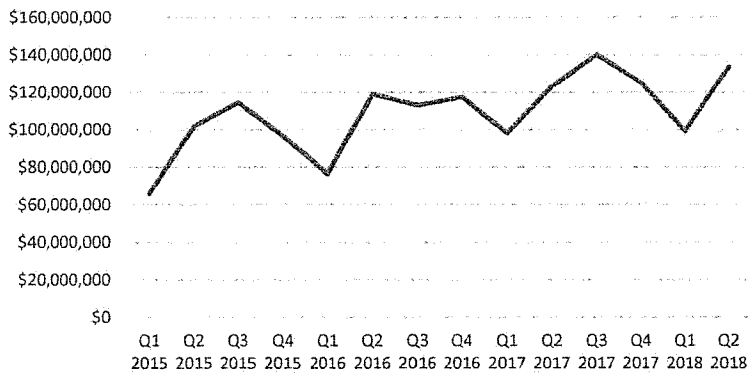
listed avg : original listed avg



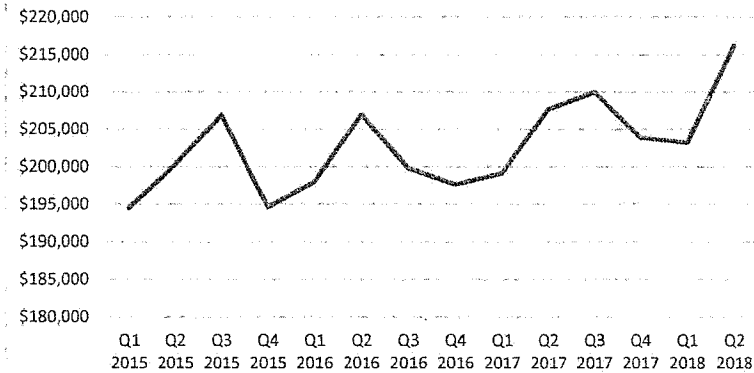
listed vs sold volume



sold volume

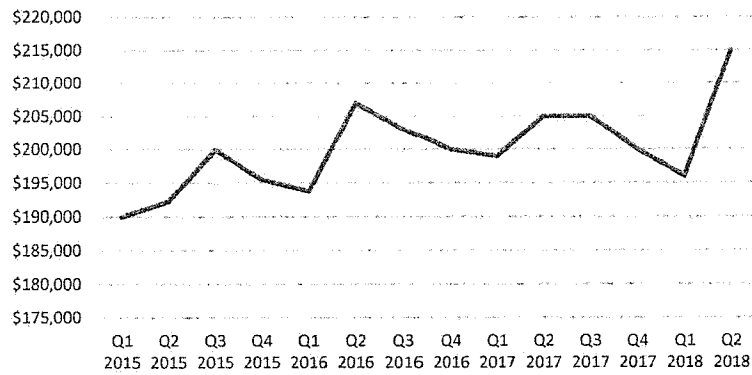


sold avg

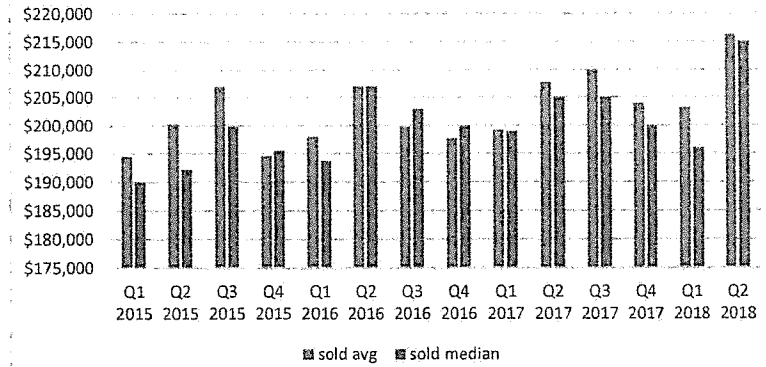


# KENT COUNTY RESIDENTIAL STATS GRAPHS

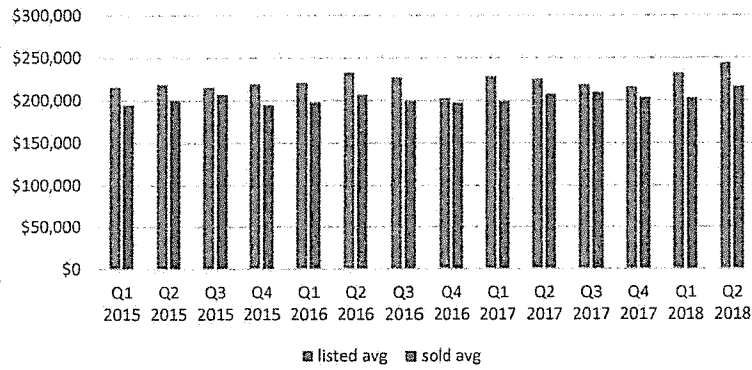
sold median



sold avg : sold median

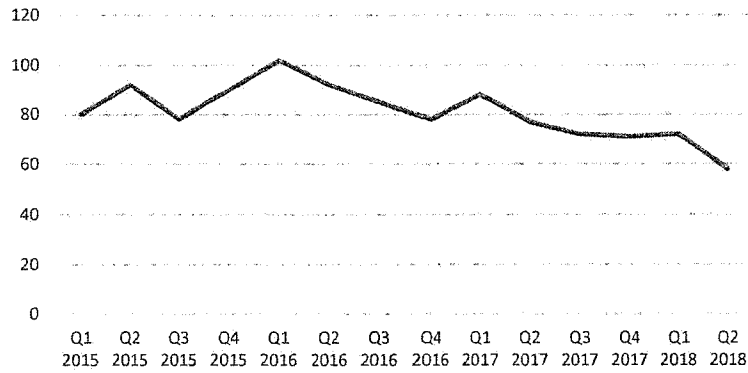


listed avg : sold avg

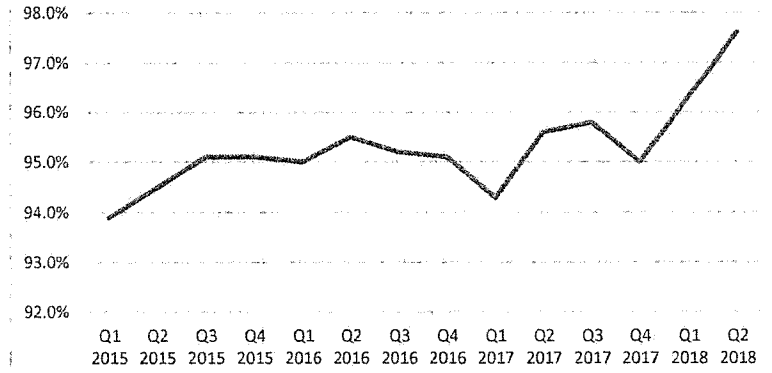


# KENT COUNTY RESIDENTIAL STATS GRAPHS

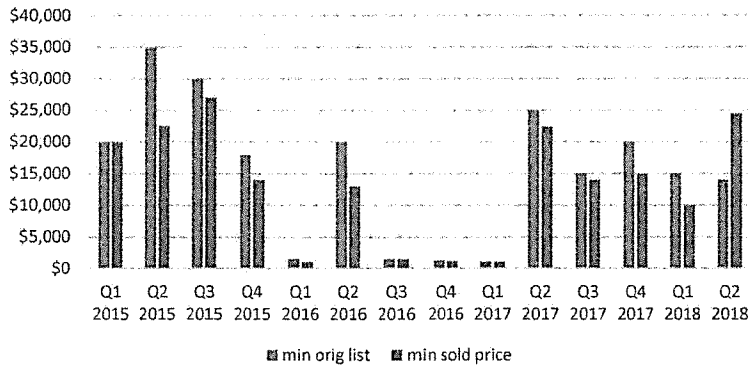
avg DOM



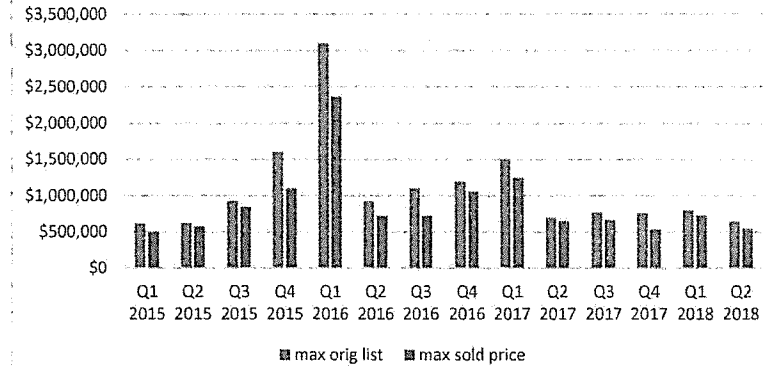
sale:list



min orig list:sold price



max list:sold price



KENT COUNTY  
RESIDENTIAL DATA

all residential

start date	end date	qtr	units listed	listed volume	listed avg	inventory	months supply
Jan-15	Mar-15	Q1 2015	689	\$149,005,942	\$216,264	1,094	7.5
Apr-15	Jun-15	Q2 2015	895	\$196,316,575	\$219,348	1,213	7.9
Jul-15	Sep-15	Q3 2015	769	\$165,948,866	\$215,798	1,181	7.5
Oct-15	Dec-15	Q4 2015	730	\$160,564,598	\$219,952	1,086	6.8
Jan-16	Mar-16	Q1 2016	846	\$187,213,576	\$221,293	1,131	7.0
Apr-16	Jun-16	Q2 2016	1058	\$246,516,333	\$233,002	1,233	7.4
Jul-16	Sep-16	Q3 2016	1004	\$228,652,912	\$227,742	1,230	7.6
Oct-16	Dec-16	Q4 2016	731	\$148,253,288	\$202,809	1,094	6.4
Jan-17	Mar-17	Q1 2017	946	\$216,375,766	\$228,727	1,119	6.3
Apr-17	Jun-17	Q2 2017	956	\$215,618,611	\$225,542	1,158	6.3
Jul-17	Sep-17	Q3 2017	863	\$188,935,009	\$218,928	1,069	5.5
Oct-17	Dec-17	Q4 2017	633	\$136,860,922	\$216,210	874	4.5
Jan-18	Mar-18	Q1 2018	830	\$192,883,625	\$232,390	848	4.2
Apr-18	Jun-18	Q2 2018	914	\$222,839,482	\$243,807	944	4.7

KENT COUNTY  
RESIDENTIAL DATA

all residential start date	pending	units sold	sold volume	sold avg	sold median	avg DOM	sale:list
Jan-15	429	340	\$66,141,924	\$194,535	\$190,000	80	93.9%
Apr-15	509	508	\$101,769,227	\$200,333	\$192,250	92	94.5%
Jul-15	550	554	\$114,637,673	\$206,927	\$199,910	78	95.1%
Oct-15	420	495	\$96,333,743	\$194,614	\$195,500	90	95.1%
Jan-16	484	387	\$76,613,232	\$197,967	\$193,736	102	95.0%
Apr-16	601	575	\$118,999,693	\$206,956	\$207,000	92	95.5%
Jul-16	560	566	\$113,103,688	\$199,830	\$203,000	85	95.2%
Oct-16	521	594	\$117,417,378	\$197,672	\$200,000	78	95.1%
Jan-17	593	493	\$98,194,681	\$199,178	\$199,000	88	94.3%
Apr-17	662	595	\$123,568,524	\$207,678	\$205,000	77	95.6%
Jul-17	645	668	\$140,294,916	\$210,022	\$205,000	72	95.8%
Oct-17	500	615	\$125,393,325	\$203,892	\$200,000	71	95.0%
Jan-18	600	488	\$99,153,805	\$203,184	\$196,000	72	96.3%
Apr-18	657	619	\$133,833,821	\$216,210	\$215,000	58	97.6%

KENT COUNTY  
RESIDENTIAL DATA

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all residential

start date	min orig list	max orig list	avg orig list	min sold price	max sold price
Jan-15	\$19,900	\$625,000	\$205,644	\$19,900	\$505,000
Apr-15	\$34,900	\$625,000	\$210,189	\$22,500	\$575,000
Jul-15	\$30,000	\$924,900	\$216,691	\$27,000	\$849,000
Oct-15	\$17,900	\$1,600,000	\$206,299	\$14,000	\$1,100,000
Jan-16	\$1,500	\$3,100,000	\$210,839	\$1,100	\$2,365,000
Apr-16	\$20,000	\$924,000	\$217,608	\$13,000	\$725,000
Jul-16	\$1,500	\$1,100,000	\$210,622	\$1,500	\$725,000
Oct-16	\$1,300	\$1,200,000	\$207,950	\$1,250	\$1,055,000
Jan-17	\$1,100	\$1,500,000	\$210,798	\$1,100	\$1,250,000
Apr-17	\$25,000	\$699,000	\$215,638	\$22,400	\$660,000
Jul-17	\$15,000	\$775,000	\$217,847	\$14,000	\$670,000
Oct-17	\$20,000	\$759,900	\$212,529	\$15,000	\$540,000
Jan-18	\$15,000	\$800,000	\$210,890	\$10,000	\$735,000
Apr-18	\$14,000	\$650,000	\$221,676	\$24,500	\$550,000