A wintered-in RV near Watford City, N.D.

# No room at the inn

*For newcomers to oil country, their first job is finding a place to live*

By PHIL DAVIES
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Scarce, expensive housing is the biggest impediment to the flow of labor into the oil patch from other parts of the district and the nation. Newcomers looking for digs in Williston and Dickinson, N.D., Sidney, Mont., and other communities find slim pickings, and the few available places often are priced beyond the means of many non-oil workers earning low to moderate wages.

Mention the large number of job openings to anyone in western North Dakota and northeastern Montana, and the conversation quickly turns to the housing crunch. "Everybody's looking for people," said Williston Mayor Ward Koeser, "and I think it would be easier to fill these jobs if there was housing available. But there's just no place to live."

Said Gaylon Baker, an economic development official in Dickinson: "To create jobs, all you have to do is build an apartment; two people will move into that apartment, and they'll have no trouble finding jobs."

Last winter, many workers slept in their cars or in campers parked at the local Walmart without water or sewer hookups; bitter cold forced an unknown number to quit their jobs and return to where they had come from.

New housing isn't being built fast enough to satisfy mounting demand from workers in the oilfields and related industries. Constraints on the region's housing supply include rising construction costs and a cautious approach to residential planning and financing by local governments and lenders. However, the pace of home construction has quickened across the Bakken in recent years, and in time housing stocks should increase and prices moderate.

## Gimme shelter

Oil country would be a real estate agent's dream, if only there were more homes to sell. Housing prices and rents have escalated over the past five years as workers have flooded the region, competing for a limited housing stock. Prices in some communities have risen to levels typical of the nation's biggest cities. In Williston, simple trailer homes were selling for over $100,000 last winter, and modest, two-bedroom apartments were renting for over $2,000 per month—triple the rate landlords were charging three or four years ago.

Shelter was less expensive in Dickinson, but average home prices have increased about 25 percent over the past two years, according to a recent report by engineering firm Kadrmas, Lee & Jackson.

Oil companies and large oilfield service and construction firms often rent entire apartment buildings, trailer courts and motels for their employees. Other workers, including those earning lower wages, must find their own accommodations—an increasingly iffy proposition in an area where virtually everything but the henhouse is already rented out.

"If you're new to the area, and you don't have a family member who says, 'Hey, stay in my basement,' it's going to be a significant challenge," said Phil Johnson, owner of Johnson Hardware & Furniture in Sidney. "You can find a job in 10 minutes; it might take you 10 months to find a place to live."

Instances of workers roughing it until something better comes along abound in the Bakken. One of Johnson's employees from outside the area was "couch surfing" with friends, he said. In Williston, a restaurant worker was paying $1,400 per month to park a camper outside town; two co-workers were sleeping in their pickup truck.

Crew camps—dormitory-style, prefab settlements built for oilfield and construction employees—are one option for workers living on their own; some "man camps" are open to individual renters. But the camps' small, one-bedroom units aren't suitable for families, and some counties have imposed moratoriums on the construction of new camps because of sanitation concerns and complaints by area residents.

The high price of shelter is hard on public employees whose paychecks don't cover the cost of a place in town. In a bid to retain police officers, street maintenance crews and other workers, the city of Williston started paying its workers a $350 per month housing allowance this year. And sharply rising rents have displaced residents on fixed incomes, such as the elderly and disabled. Faced with rents that consume most of their income, many seniors have had no choice but to leave their hometowns.

Demand for housing in the region is also driving up housing prices and rents in Minot and Bismarck, N.D., cities that serve as gateways to the oil patch. In Minot, an influx of oil and construction workers has further taxed housing supplies decimated by last year's flooding (see the October 2011 *fedgazette*), raising prices for both surviving and replacement housing. The average price of single-family homes increased 8 percent from 2010 to 2011, according to the Minot Board of Realtors.

In Bismarck, demand for homes and apartments has increased as families whose incomes are tied to oil and gas development move into the city. Because housing in the state capital is inexpensive relative to shelter in western North Dakota, many managerial workers with families choose to live in Bismarck and commute on a weekly basis to the oilfields, said Michael Ziesch, manager of the North Dakota Labor Market Information Center in Bismarck. "We're kind of becoming a bedroom community for the oil patch," he said.

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Kevin Cederstrom

Improvised housing in Alexander, N.D.

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## 'What if we fall off the cliff?'

Just as there are barriers to migration into the oil patch, the region's housing market has its own issues that curb the capacity of builders to meet demand for new homes. These obstacles are rooted in building costs and a long-standing conservative approach to financing housing construction—a legacy of the oil bust of the early 1980s, which left local banks and other investors financially exposed when demand for housing evaporated overnight.

The same forces driving housing demand are also increasing construction costs. Land purchases by expanding oil and oilfield service firms in recent years have bid up the price of residential lots in many communities. Lots developed for a new housing subdivision in Minot sold for about $60,000 apiece last fall, said Joel Feist, a Minot home builder who heads the North Dakota Builders Association. "We used to think that a $30,000 lot was a pretty premium lot," he said.

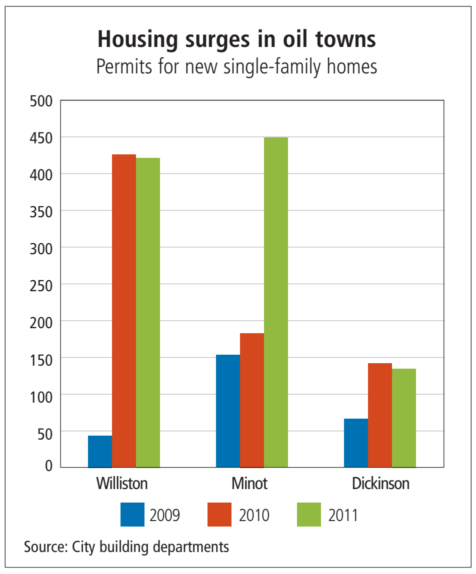
Oil-driven demand has also increased costs of construction materials such as concrete, copper and electrical supplies—much of which must be trucked into the region at high rates. And to compete with oilfield wages, builders must pay their workers more; Feist anticipates a 7 percent to 10 percent increase in labor costs at his firm this year.

To meet these additional expenses, developers must either draw upon their own capital or borrow the money—a challenge for smaller builders that rely on local bank financing. As a rule, banks based in the region try to minimize their exposure on loans for housing construction, insisting on lower loan-to-value ratios than is the norm in other parts of the country.

"We require housing developers to bring a lot of their own capital to the table; that's pretty much the way we've always done it," said David Hanson, CEO of American State Bank and Trust Co. in Williston. Like other financial institutions in the oil patch, the bank is especially careful about lending for large developments such as tract housing or apartment complexes—it considers the risk of default high.

Lenders in the region haven't forgotten the early 1980s, when a drop in oil prices led to widespread home foreclosures in former boomtowns such as Williston and Sidney. Despite growing institutional confidence that this boom is more sustainable than the last one in the 1970s—industry experts predict at least 20 years of intensive oil drilling—"there's always that concern about the cliff out there; what if we fall off the cliff?" Hanson said.

Local governments also worry about getting burned in the event of a bust. Williston was saddled with millions of dollars in bond debt for infrastructure when developments planned during the last oil boom were never built. Today, Williston "shares the risk" of residential development, Mayor Koeser said, using local tax revenue and state grants to extend trunk sewer and water lines, but making developers foot the bill for improvements within subdivisions. This philosophy, shared by other oil communities, increases upfront costs for developers.




Because of high development costs and credit constraints, local contractors typically build a few units at a time, slowing the overall pace of housing construction in the oil patch. Most housing projects with 20 or more units have been built by large, deep-pocketed developers from outside the region.

## Pouring concrete, pounding nails

Despite these obstacles, the pace of home building has picked up; over the past two years, new subdivisions and apartment buildings have sprung up throughout the oil patch. Soaring home prices and rents have spurred development, said Mike Marcil, a Fargo, N.D., real estate developer who is involved in an apartment project near Stanley, a burgeoning town between Minot and Williston.

Marcil notes that other developers based outside the region are breaking ground on housing projects, and he sees increased investment in housing. "I think the mentality has started to change," he said via email. "The economics are so staggering, it has silenced some of the biggest skeptics. I see more locals getting involved and a lot more lenders starting to chase the opportunity."

Approvals for new homes and apartments have surged, in stark contrast with sluggish building activity nationwide. In Williston, permits for new single-family homes and townhouses increased more than 10-fold between 2009 and 2011 (see chart). Last year, permits were issued for over 400 homes, almost matching a city record for annual home permits set the previous year.


Above: New crew camps near Williston, N.D.

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—Phil Johnson, owner of Johnson Hardware & Furniture

Koeser estimates that by this fall, roughly 1,200 new dwellings, including hundreds of apartment units—the most efficient way to house people on increasingly expensive land—will be ready for occupancy.

Home construction has also shot up in Minot and Dickinson, and in smaller oil communities such as Stanley and Watford City, N.D., and Sidney. In Watford City, a community south of Williston, two housing developments to be built on annexed land will double the number of dwellings in the city, said Mayor Brent Sanford in an email.

Sidney added more than 100 living units last year, and construction was slated to start this spring on a massive mixed-use development on the town's outskirts. Preliminary plans by a Bozeman, Mont., developer called for more than 150 houses and 60 apartments—one of the biggest subdivisions ever proposed in the city.

## Visions of spreading rooftops

Despite the increased activity, a lot more of the same has to occur for housing supply to catch up with demand in the Bakken. "The effort is there … but [home building] doesn't move as quickly as we'd like it to move," said Shawn Wenko, Williston's assistant director of economic development.

A 2010 analysis of Williston's housing market by Ondracek, Witwer & Bertsch, a Minot research firm, estimated that the city's permanent housing stock would have to swell by 50 percent over the next 15 years—to more than 11,000 units—to accommodate new households. Similar proportional increases in housing demand were projected for Watford City, Stanley and other communities.

Those projections are probably outdated, and low; Watford City officials estimate that the community's population already exceeds the 2,700 people the study anticipated would live there in 2030.

At least in the near term, many non-oil workers will struggle to find lodging at a price commensurate with their earnings in Watford City and other boomtowns. Government efforts to provide "affordable" housing are ramping up—the 2011 North Dakota Legislature provided $15 million in tax credits to encourage construction of inexpensive apartments in high-rent areas—but it remains to be seen how many workers will benefit from state and federal housing subsidy programs aimed mainly at low-income households.

Current housing prices in the region reflect the huge impact of thousands of new workers on communities ill prepared for their arrival. But, as Marcil observed, there's nothing like high prices to encourage more home building. Given time—two years, five years, nobody really knows—housing stocks should increase to the point where prices plateau.

Extraordinary demand for housing in the oil patch "will eventually be met," said David Flynn, an economist at the University of North Dakota. "It's just taking time; it's taking adjustments on the part of builders and other local market participants." f