MARKET WATCH: Minneapolis

Trends in the unsubsidized multifamily rental market

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Across the Twin Cities, the growing ranks of renter households are facing an increasingly challenging housing market with rising rents and declining vacancy rates. While developers are leveraging public and private resources to create new affordable units, current owners of unsubsidized rental properties have few tools to preserve and improve aging properties to maintain homes for current and future tenants. In this new research series, Minnesota Housing Partnership will track key trends in the unsubsidized multifamily rental markets across the Twin Cities, starting with Minneapolis. **This report analyzes data for approximately 50,000 unsubsidized rental units in properties with four or more units in Minneapolis from the CoStar database.** Data information and limitations on page 2.

THOUSANDS OF FAMILIES PAYING TOO MUCH FOR RENT IN MINNEAPOLIS[1]

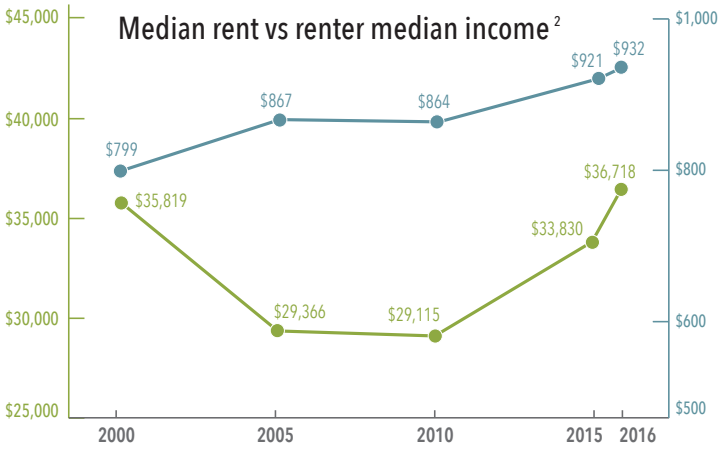
In Minneapolis, the renter population has grown 13% since 2000 to 89,420 households in 2016. Households of color are far more likely to be renters than white households. While 45% of white households are renters, 80% of Black, 80% of Native American, 75% of Latino and 66% of Asian households in Minneapolis are renters.

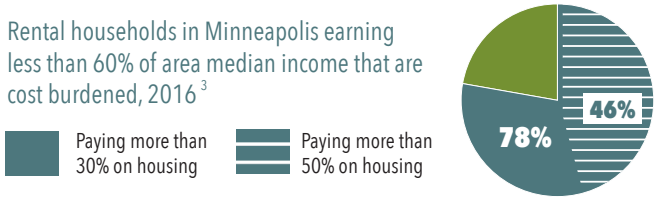
From 2000 to 2010, median income for renter households in Minneapolis plummeted by nearly 20%, while rents continued to rise. Though overall renter income has begun to rebound since 2010, incomes for households of color dropped more precipitously and have risen more slowly.[2]

Of the 89,420 renter households in Minneapolis, nearly 50,000 earned less than 60% of the area media income – or $51,500 for a family of four – in 2016. Of those families, 78% paid more than 30% of their income on housing and 46% paid more than half of their income on housing.[3]

That cost burden also falls disproportionately on households of color. According to an analysis from PolicyLink and University of Southern California, 66% of women of color in Minneapolis were cost burdened in 2015, compared to 37% of white men.[4]

RACE	% of households that are renters	Number of renter households
ASIAN	66%	5,067
BLACK	80%	22,070
LATINO	75%	7,609
NATIVE	80%	1,364
WHITE	45%	53,310





1- Unless otherwise noted, information in this section comes from the U.S. Census Bureau, 2012-2016 American Community Survey | 2- American Community Survey, 1-year estimates
3- Metropolitan Council staff analysis of U.S. Census Bureau, 2012-2016 American Community Survey Public Use Microdata Sample five-year data | 4- IPUMS Census 2000 and 2015 5-year ACS microdata files analyzed by the National Equity Atlas, a partnership of PolicyLink and University of Southern California Program for Environmental and Regional Equity.

DATA NOTES AND LIMITATIONS:

DATA SOURCE: Unless otherwise noted, data in this report comes from CoStar, a commercial real estate database that tracks multifamily properties with four or more units. This includes 6,627 multifamily properties in the 7-county Twin Cities metro, for which data is directly sourced from property management by CoStar researchers. **This report analyzes data for approximately 50,000 unsubsidized rental units in properties with 4 or more units in Minneapolis,** excluding those that are currently under construction or renovation. Data for this report was accessed and downloaded the first week of January 2018.

RENT DATA: CoStar provides average, rather than median, rent data. Of the approximately 50,000 unsubsidized rental units within the boundaries of the City of Minneapolis tracked by CoStar and included in this analysis, 67% include rent data. This coverage is not uniform across neighborhoods and, at the neighborhood level, on page 8, we include only neighborhoods with robust rent data across a high percentage of units. **All rents in this report are adjusted for inflation.**

NEIGHBORHOOD BOUNDARIES: There are minor distinctions between the delineation of CoStar sub markets and City of Minneapolis neighborhoods. While the boundaries largely align, there are distinctions in naming – most notably, CoStar's Uptown sub market comprises the East Isles and Lowry Hill East neighborhoods; CoStar's East Calhoun sub market aligns with the ECCO and CARAG neighborhoods; and CoStar's Downtown sub market includes Downtown West, Downtown East and Elliot Park. There are also several Minneapolis neighborhoods, including Kenny and Kenwood, that do not have any rental data in the CoStar database.

CLASSES: CoStar defines building class in the following way. **CLASS A** buildings represent current trends and standards in design and/or are of a timeless, perhaps historic quality. They include high quality finishes such as hardwood floors, granite countertops, and/or stainless steel appliances, as well as on-site shared facilities like clubhouse/party room, fitness center, business center, etc. **CLASS B** buildings are aesthetically average and contextually appropriate. They include average quality finishes and a few on-site shared facilities and spaces. **CLASS C** buildings are purely functional, often with below average finishes, small windows and likely no on-site facilities or shared spaces.

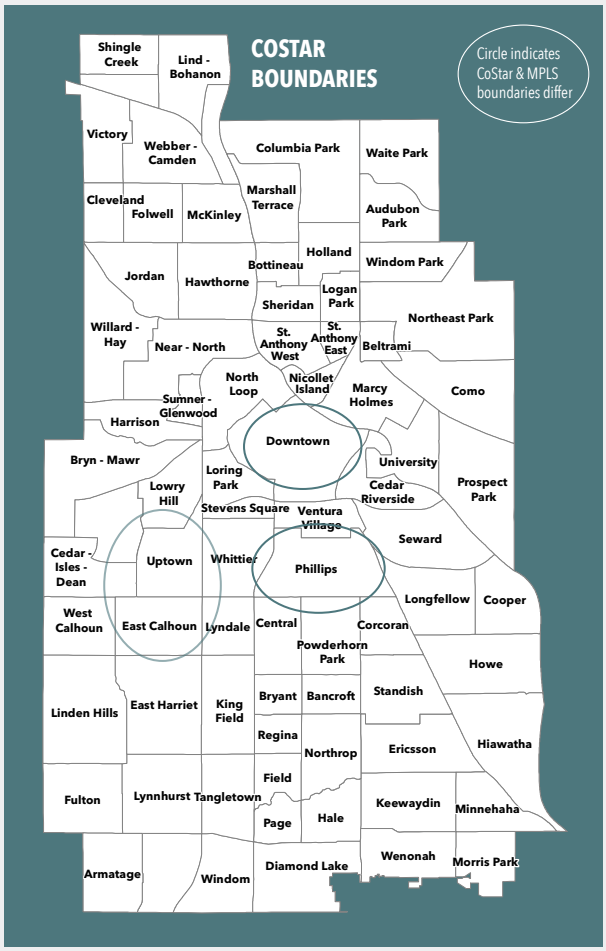
MINNEAPOLIS RENTAL STOCK: According to 2018 Minneapolis data, more than 70% of the city's licensed rental stock are in properties with four or more units. This includes all rental licenses, including units that are subsidized or were built with public funding assistance.

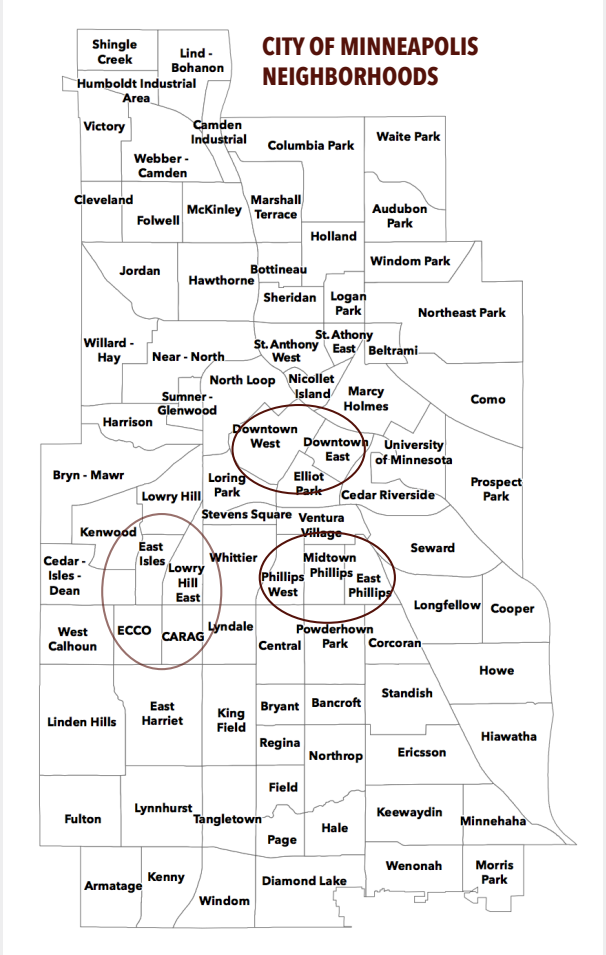
Properties with 4+ units | 71% (66,036 units)



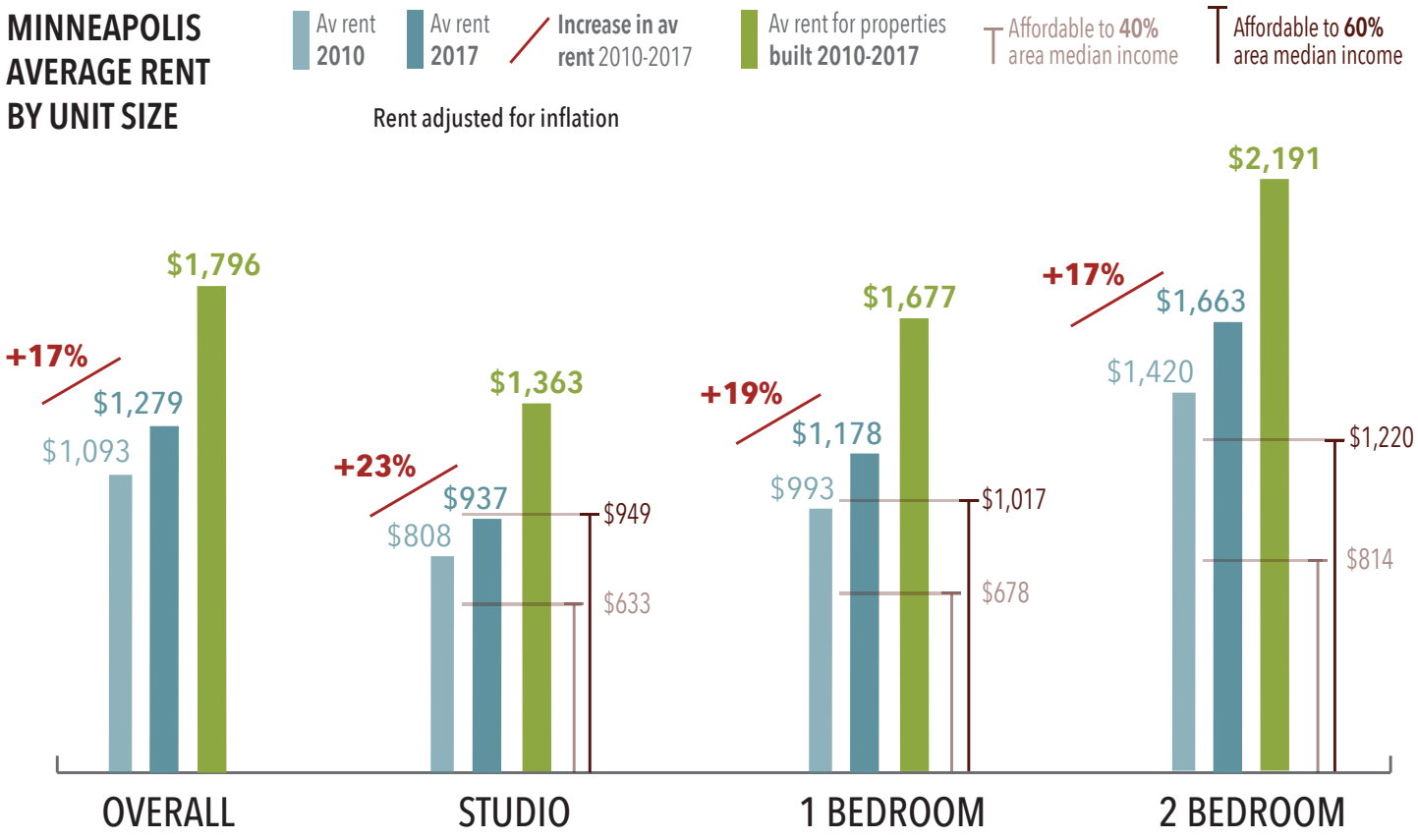


Properties with 1-3 units
29% (27,335 units)





MINNEAPOLIS AVERAGE RENT BY UNIT SIZE



AVERAGE RENT CLIMBS TO $1,279 IN MINNEAPOLIS

Average rent in Minneapolis rose to $1,279 in 2017, a 17% increase over 2010 (adjusted for inflation). This is slightly higher than the Twin Cities overall, which rose to $1,172 in 2017, a 14% increase over 2010 (adjusted for inflation).

For low- and moderate-income renters, this rise is significant. Thousands of households earning 40% to 60% of the area media income (AMI) – for instance, a family of four earning $34,340 to $51,480 annually – are able to call Minneapolis home by renting in unsubsidized apartments in the private market. Unsubsidized units that are affordable to these residents are often referred to as *naturally occurring affordable housing* (NOAH).

Affordability by race

Housing is affordable if a family or individual spends no more than 30% of its monthly income on housing – but income in Minneapolis varies widely by race. Here's what the median income household by race, including both renters and owners, can afford to spend per month:

Black: $522 | Native American: $562 | Latino: $1,005
Asian: $1,194 | White: $1,607

Citywide, average rent is moving out of reach for these families. As shown in the chart above, the average one-bedroom rents for $500 (74%) more per month than a household earning 40% AMI can afford and $161 (15%) more per month than a household earning 60% AMI can afford. The average two-bedroom is $850 (105%) more per month than 40% AMI can afford and $443 (34%) more per month than 60% AMI can afford.

Some of this increase in rent is likely driven by new construction, as average rent in properties that have come on the market since 2010 is 40% higher than the overall average. According to our dataset, the vast majority of new, unsubsidized construction was concentrated in neighborhoods surrounding or in close proximity to downtown, including Marcy Holmes (20), North Loop (13 properties), Uptown (11), Prospect Park (9), and Downtown (8).

Unsubsidized new production, 2010-2017

Class A
7,521 units
$1,863 average rent

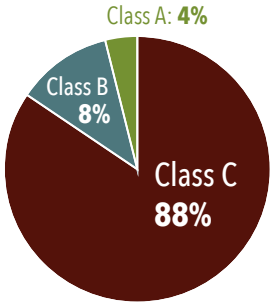
Class B
2,448 units
$1,634 average rent

SIGNIFICANT NEED FOR PRESERVATION

Unsubsidized affordable rental housing or NOAH is typically Class C: older properties that provide basic shelter without additional amenities.[5] The overwhelming majority of Minneapolis' rental properties are in this category, with 88% of properties in our dataset classified as Class C. However, these buildings, on average, are far smaller than Class A and Class B buildings. For instance, while there are vastly fewer Class A buildings than Class C buildings, Class A buildings average close to 150 units compared to less than 20 for Class C.

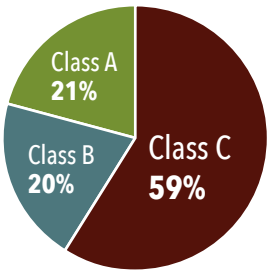
Class C buildings often have lower rents that have seen minimal increases but also have higher capital investment needs. They also may be susceptible to new property owners making upgrades to reposition the units for higher income residents. For instance, in Minneapolis, there are compelling gaps between average rent in Class C and B buildings. Overall, average rent in Class C buildings is $937 – 49% below the average rent for Class B buildings and 37% below the overall city average.

5- Full descriptions of CoStar class designations on page 2.



BUILDINGS by class

Class A: 69
Class B: 159
Class C: 1,773

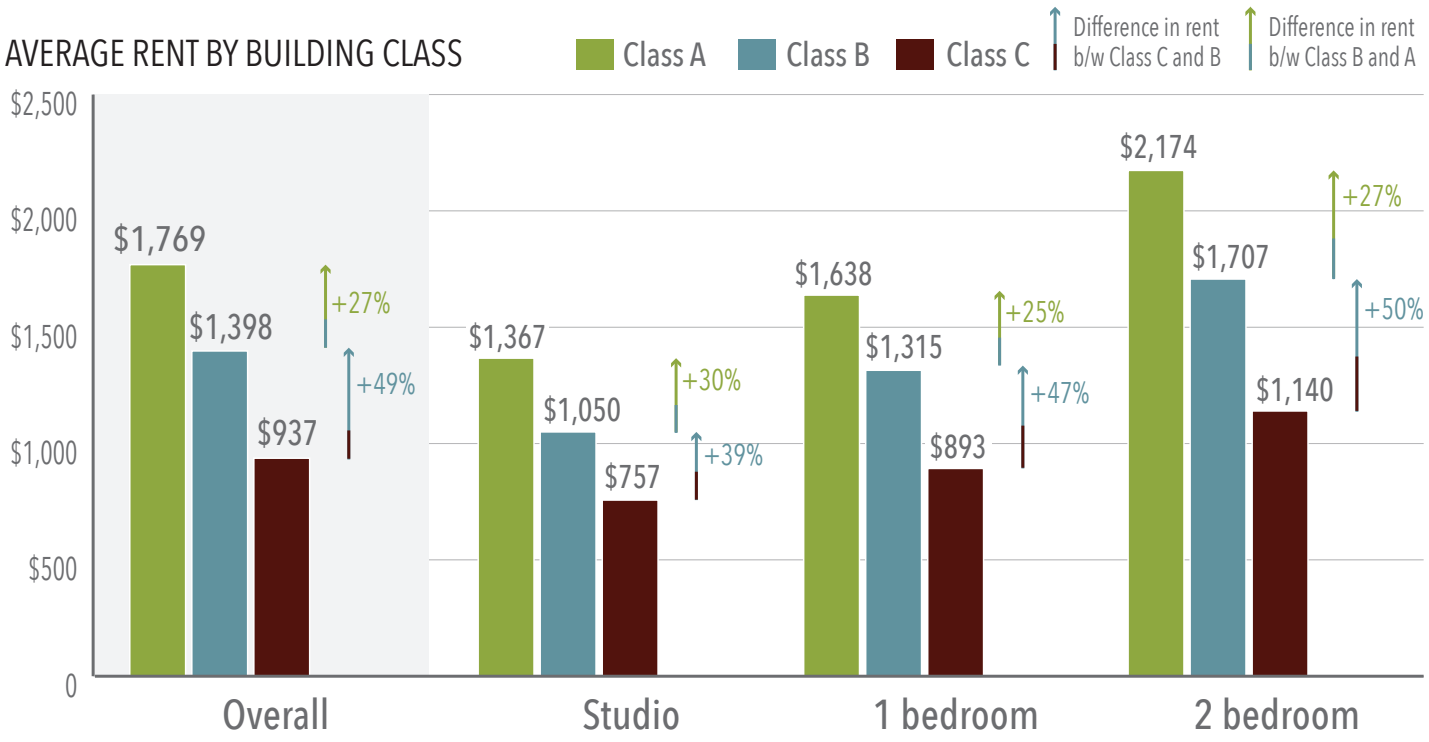


UNITS by class

Class A: 10,294
Class B: 10,040
Class C: 29,411

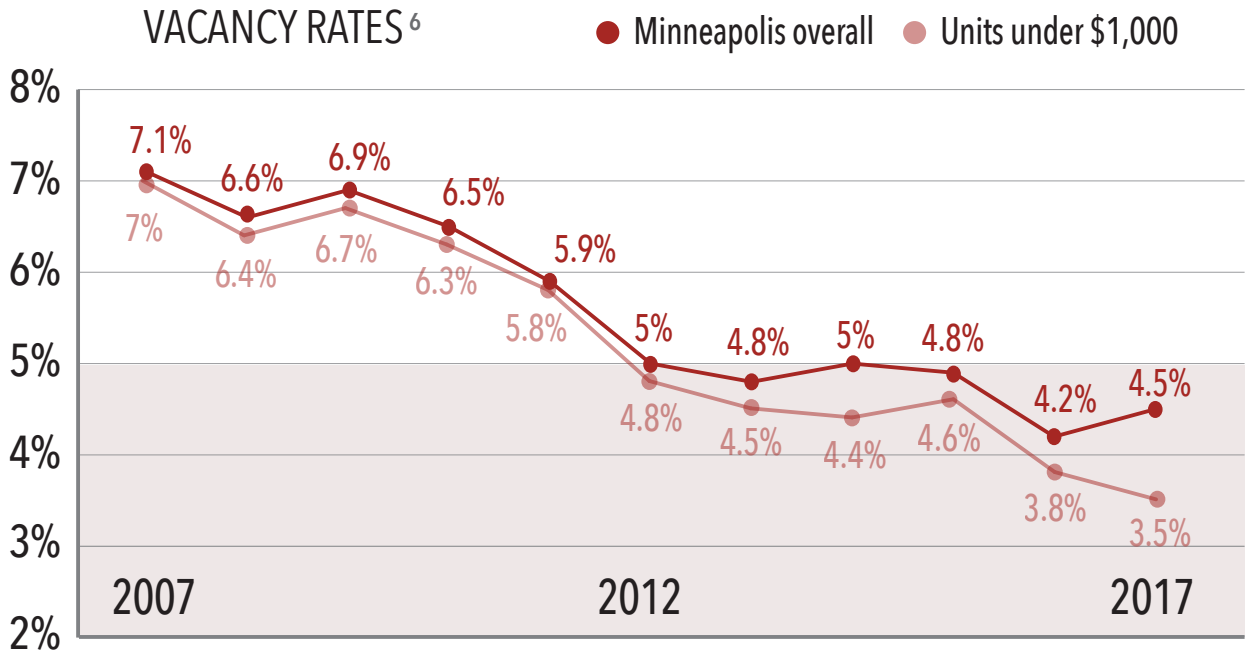
AVERAGE BUILDING SIZE (units) by class

Class A	Class B	Class C
149	63	17



LOW VACANCY RATES SHOW DEMAND FOR AFFORDABLE UNITS

When vacancy rates fall below 5%, renter households struggle to find affordable housing choices as property owners are able to be more selective in tenant screening and potentially more inclined to increase rent. While the overall vacancy rate in Minneapolis and the Twin Cities ticked up slightly to 4.5% in 2017, the overall vacancy rate has plummeted by 37% over the past decade. In all but three neighborhoods in Minneapolis, vacancy rates have declined since 2010, and in 60% of Minneapolis neighborhoods the vacancy rate was at or above 5% in 2010 but has now fallen below that mark.



VACANCY BY BUILDING CLASS

The overall vacancy number obscures trends at various price points. For instance, vacancy rates in higher-end Class A buildings is 7%, compared to just 3.3% in Class C buildings, demonstrating greater demand for these more affordable units.



6- For our vacancy data points, we remove any building in its first year of leasing. CoStar vacancy rate data is higher than reported by other data sources, like Marquette Advisors. This may be due to the fact that the sample size is much larger, includes properties with 4 or more units, as opposed to 10 or more, and is directly sourced rather than relying on survey data.

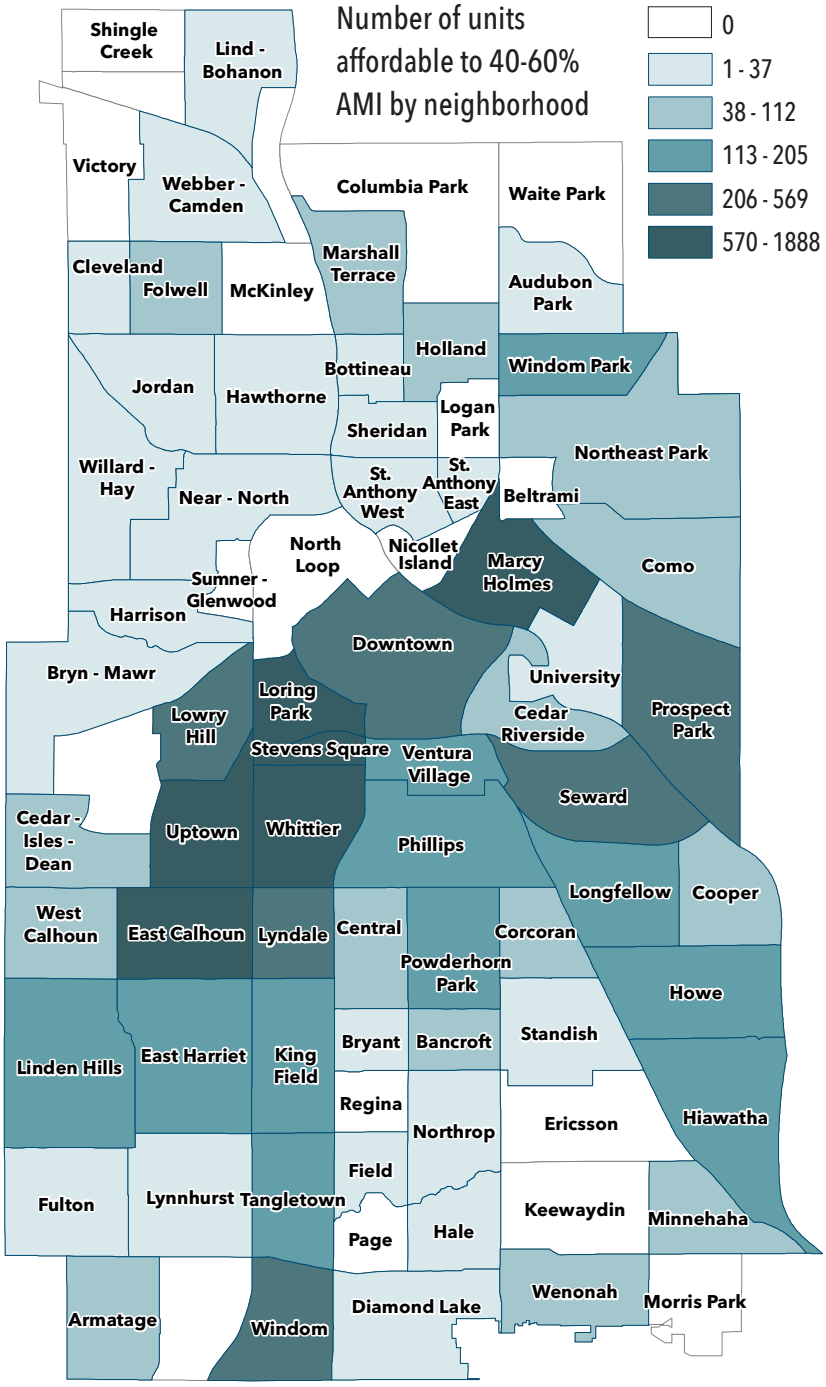
AREAS OF MINNEAPOLIS RETAIN AFFORDABLE UNITS FOR LOW- AND MODEST-INCOME FAMILIES

As rents have increased and vacancy rates have fallen, families with low to moderate incomes are faced with increasingly precarious affordability. Families earning 40% to 60% of the area media income (AMI) are able to call Minneapolis home by renting in unsubsidized, market rate apartments that have aged into affordability. Overall, in our dataset, there were 13,141 units affordable to households earning 40% to 60% of AMI and 1,817 affordable to households earning less than 40% AMI. These are overwhelmingly smaller units, with 2,912 studios, 7,846 one-bedroom units, 2,126 two-bedroom units, 239 three-bedroom units and just 18 four-bedroom units.

Rent affordable to	40% AMI	60% AMI
Studio	$633	$949
1 bedroom	$678	$1,017
2 bedroom	$814	$1,220
3 bedroom	$940	$1,410
4 bedroom	$1,049	$1,573

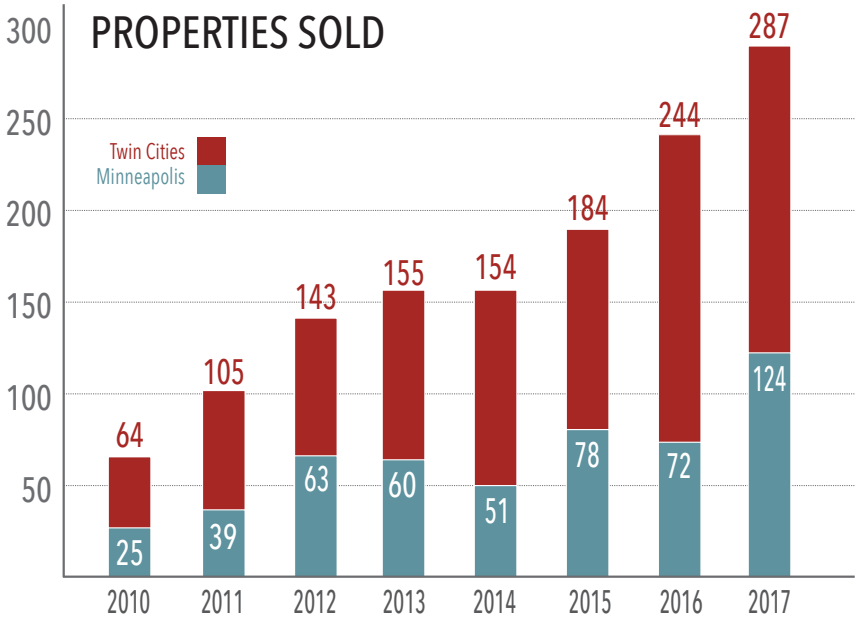
NOTE: Our dataset includes only properties with four or more units. Given the prevalence of smaller properties and rental of single family homes in North Minneapolis our analysis likely dramatically underrepresents the availability of affordable units in these neighborhoods.

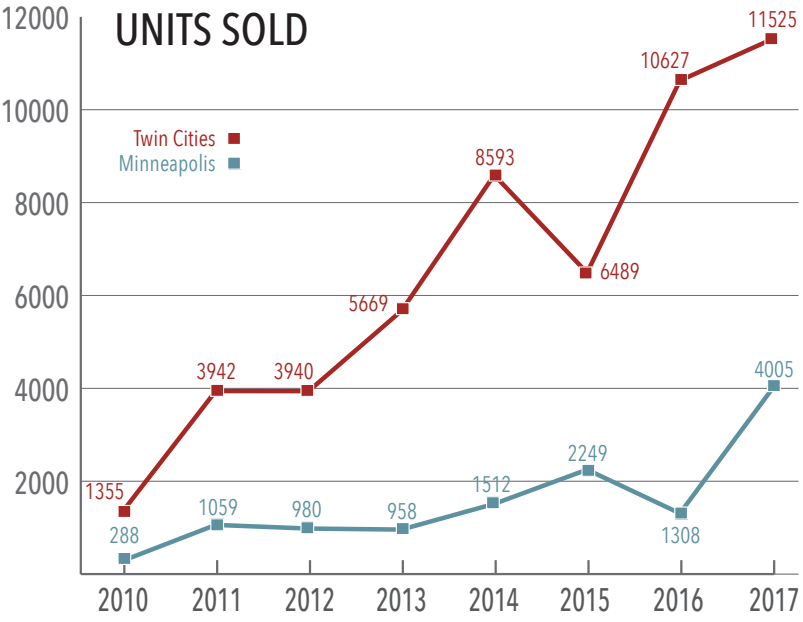
Neighborhood	40-60 AMI units	Neighborhood	40-60 AMI units
Whittier	1,888	Hiawatha	138
Marcy-Holmes	1,187	Howe	130
Loring Park	1,184	Ventura Village	125
Uptown	1,064	Cedar Isles Dean	112
East Calhoun	1,041	Cedar Riverside	107
Stevens Square	881	Wenonah	99
Lowry Hill	569	Folwell	98
Seward	503	Northeast Park	92
Windom	468	Corcoran	82
Downtown	375	Armatage	72
Lyndale	360	Minnehaha	70
Prospect Park	311	Marshall Terrace	66
Windom Park	205	West Calhoun	66
Phillips	188	Cooper	65
Tangletown	175	Central	61
Powderhorn Park	171	Como	58
Longfellow	156	Bancroft	51
Linden Hills	148	Holland	48
East Harriet	145	Webber-Camden	37
Kingfield	138	Cleveland	36

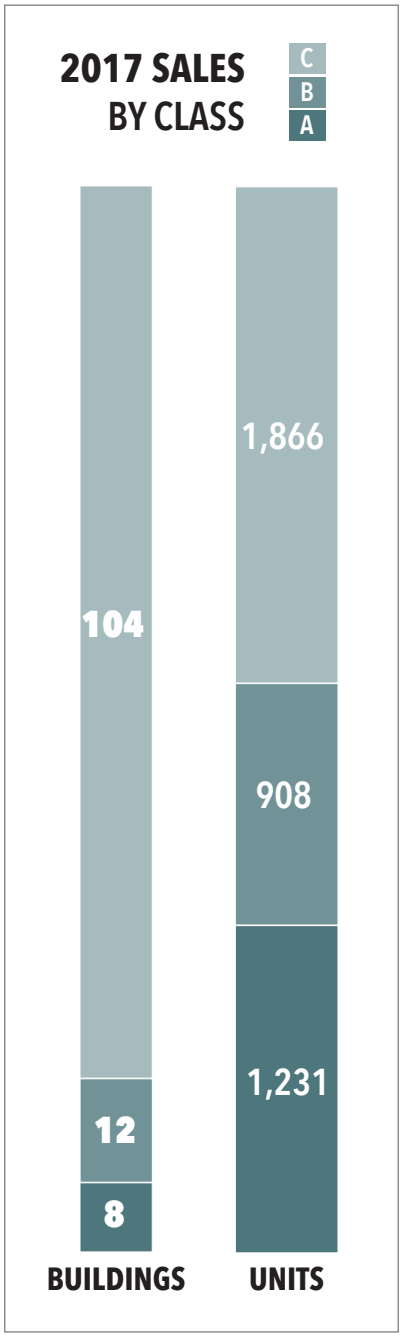


PROPERTY SALES CONTINUE TO RISE, SPIKE IN 2017

From 2010 to 2017, 512 apartment properties were sold in Minneapolis, affecting 12,350 units. After a dip in sales in 2016, the pace continued to climb, doubling to 124 properties sold in 2017 which affected more than 4,000 units – or 8% of all apartments in our dataset. Minneapolis represented 38% of all buildings sold in the Twin Cities region during that time and 24% of the units affected by property sales. Because of the distinction in building sizes by class, seen on page 4, while the vast majority of buildings sold in 2017 were Class C, those sales represented less than half of the units affected. That trend has held steady over the past five years, with Class C representing 80-90% of buildings sold but 40-50% of units affected.



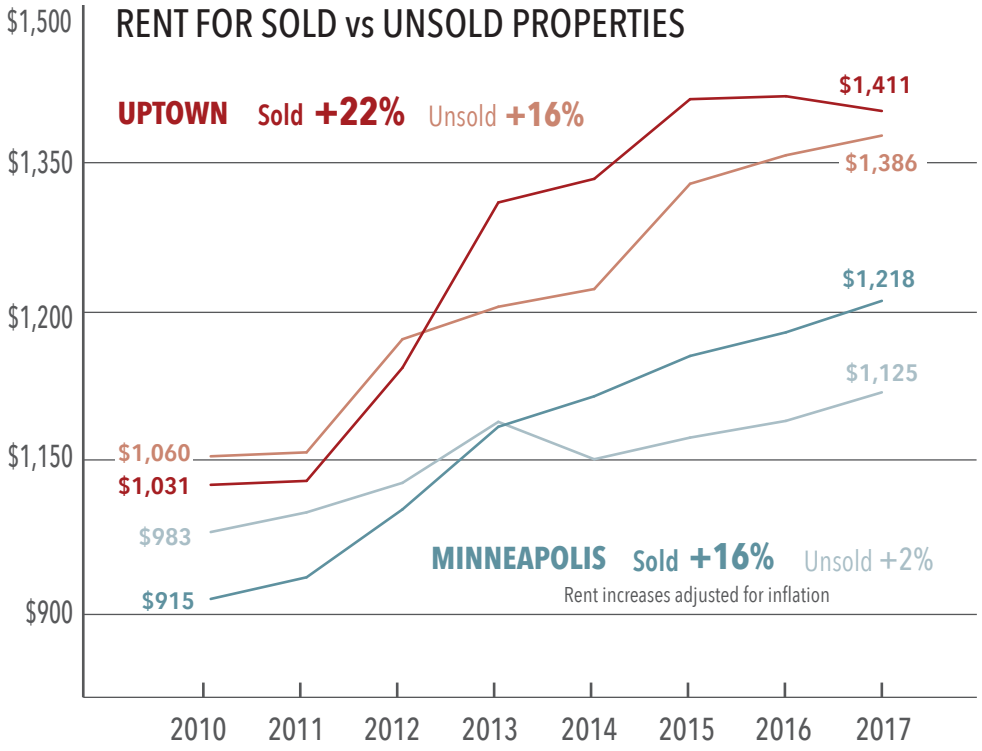




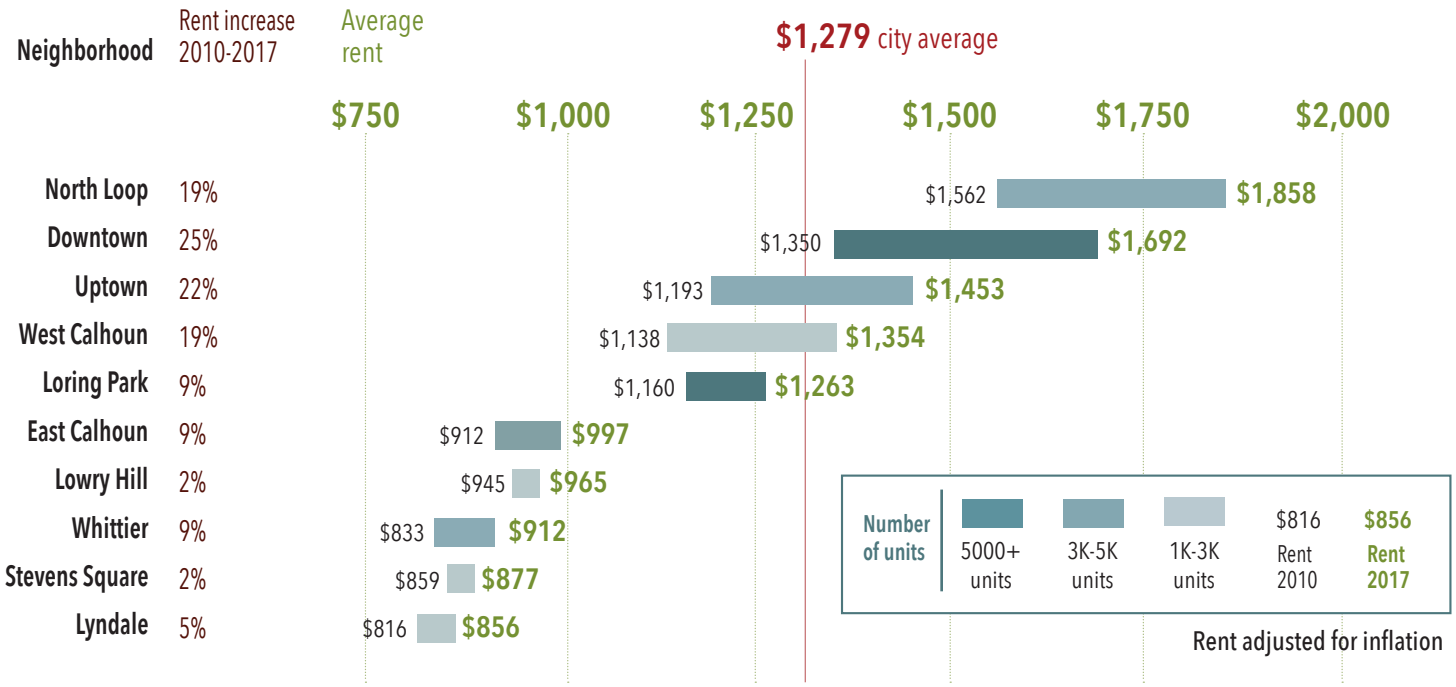
PROPERTY SALES REPOSITION RENTS

As highlighted on page 9, more than 2/3 of property sales from 2010 to 2017 were in just 11 neighborhoods. At the building level, nearly 20% of all properties sold from 2010 to 2017 were in just two neighborhoods: Uptown and Whittier.

In our dataset, rents across the city have increased faster at properties that have been sold. In certain neighborhoods that distinction has been particularly apparent. For instance, in Uptown average rent since 2007 has increased by 22% in buildings that have been sold compared to 16% percent in buildings that have not been sold.

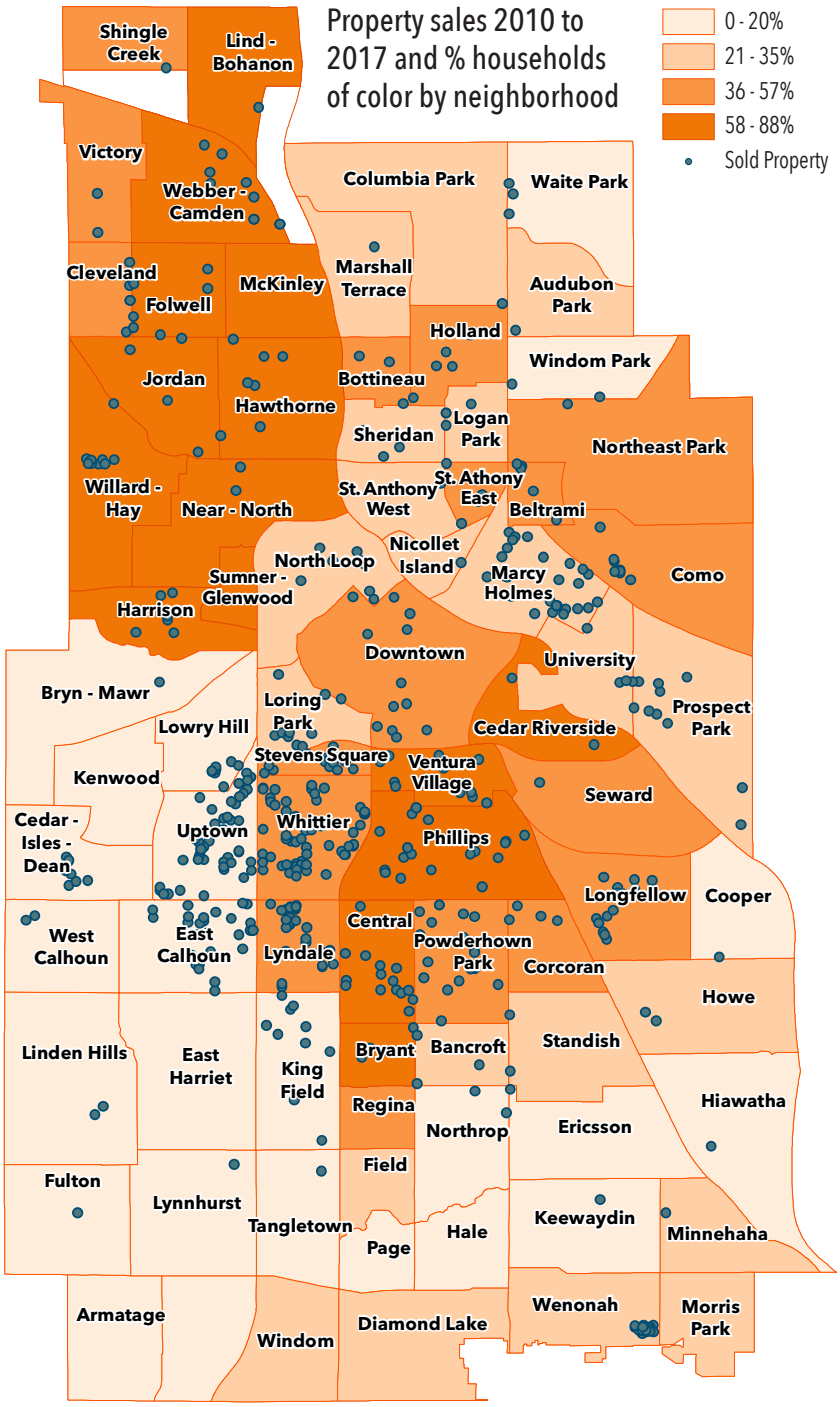


NEIGHBORHOODS WITH MOST UNITS & PROPERTY SALES SEE HIGHEST RENT INCREASES More than half of the units in this analysis are contained in just six neighborhoods, each of which have more than 3,000 rental units, including Downtown, Loring Park, Uptown, Whittier, North Loop and Marcy Holmes, which have seen some of the most significant gains in rent. Meanwhile, a significant number of neighborhoods with units still affordable to moderate income families – like Whittier and Stevens Square – have seen only minimal increases in rent, keeping these pockets well below the citywide average rent of $1,279.



PROPERTY SALES OCCURRING ACROSS THE CITY

While Uptown has become an often-cited illustration of the loss of affordability in Minneapolis, similar factors are at play in other neighborhoods. While rent has begun to climb in Whittier – 9% from 2010 to 2017 – the Uptown-adjacent area still has the largest supply of units affordable to families earning 40% to 60% AMI and vacancy rates have dropped from 6.3% to 2.8% over the past seven years, indicating strong demand for these units. Meanwhile, Whittier has seen the highest number of property sales in our dataset, pointing to a need to provide tools for property owners to keep units affordable after purchase. While the largest number of units affected by property sales have been in less diverse neighborhoods[9], like Loring Park, North Loop and Marcy Holmes, buildings are also being purchased in majority communities of color, with property sales affecting 427 units in Phillips (80% households of color[10]), 262 in Ventura Village (78% HOC), and 130 in Willard-Hay (78% HOC) since 2010.



PROPERTY SALES, 2010-2017

Neighborhood	% HOC	Units	Bldgs
Downtown	43%	2,201	12
Loring Park	31%	1,561	9
North Loop	25%	1,149	12
Prospect Park	27%	1,140	11
Uptown	20%	994	45
Marcy-Holmes	25%	888	28
Whittier	44%	857	56
Stevens Square	38%	463	18
Phillips	80%	427	20
Lyndale	52%	315	26
East Calhoun	12%	307	23
Ventura Village	78%	262	16
Powderhorn Park	53%	242	21
Lowry Hill	12%	168	14
Wenonah	33%	135	18
Willard Hay	78%	130	11
Longfellow	38%	112	14
Central	74%	105	15
Folwell	69%	85	7
Harrison	65%	58	6
Webber Camden	61%	42	10
Hawthorne	85%	40	7

HOC = Households of color

9- Demographic data by Minneapolis neighborhood comes from Minnesota Compass | 10- The boundaries for Phillips in CoStar include the Minneapolis neighborhoods of Phillips West, Midtown Phillips and East Phillips.

MARKET RATE RENTAL PROPERTIES WITH THREE OR FEWER UNITS

Not included in the analysis of this report are townhomes, condos, duplexes, or single family rental homes. HousingLink's Twin Cities Rental Revue for the fourth quarter of 2017 tracked 1,703 such units in Minneapolis, for which the average rent was $1,563. Geographically, while underrepresented in our data set, the North Minneapolis neighborhoods of Jordan, Webber-Camden, Folwell and Hawthorne are among the top 10 neighborhoods for the units tracked by HousingLink. The rental properties in these neighborhoods are primarily single family homes or duplexes and the average rent is $1,359 per month. In contrast, the Downtown area, which includes three sub-markets in the top 10, consisted overwhelmingly of condos (71%) with an average rent of $2,511. Overall, comparing the final quarter of 2017 to the final quarter of 2016, rent trends were mixed. For two-bedroom units, median rent increased 4%, while one-bedroom units saw median rent decline by 11%.

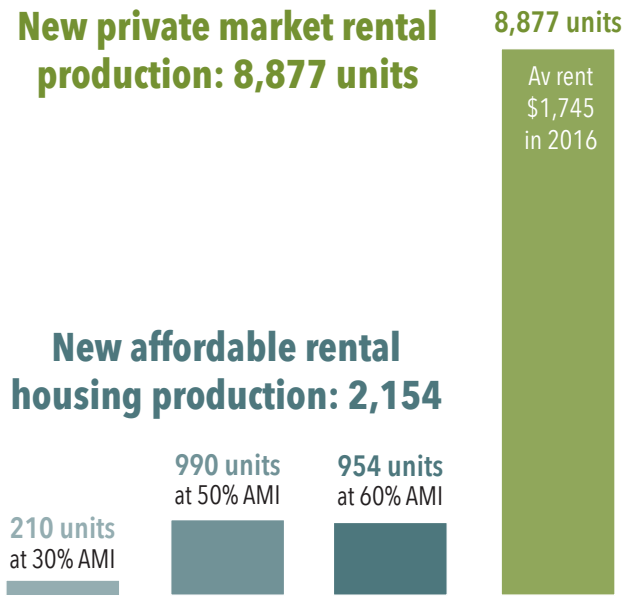
Building Type	Average Rent	Average Bedroom
Condo	$1,795	1.45
Duplex	$1,439	2.65
Single family home	$1,902	3.68
Townhome	$2,056	2.70
AVERAGE	**$1,563**	**1.89**

Data in the HousingLink Twin Cities Rental Revue is based on actual market rate listings from private market sources.

SUBSIDIZED AFFORDABLE HOUSING DEVELOPMENT 2010-2016

Not included in this report are affordable rental housing developments created with public and/or private capital funding that include affordability obligations. According to *Housing Counts: Measuring Affordable Housing Production and Preservation in the Twin Cities*, 2,154 new units of affordable rental housing were created in Minneapolis from 2010 to 2016. The vast majority are affordable to households earning 50% or 60% of area median income; less than 10% are affordable to 30% of area median income. Over that same timeframe, 8,877 unsubsidized rental units were created with an average rent of $1,745 in 2016.

Only developments with public and/or private capital funding that includes affordability obligations are listed; rental assistance to renters is not tracked.



CONCLUSION

While rents are rising across the city, Minneapolis still has a notable number of affordable rental homes for moderate and lower-income families. These older properties with basic amenities still rent for far less than newer construction and have much lower vacancy rates. But, while there are a wealth of support systems in other areas of the housing continuum – for instance, preventing homelessness and assisting first-time homebuyers – there are very few tools to ensure housing stability for low to moderate-income renters. Working with policy makers, nonprofit and for-profit property owners to preserve naturally occurring affordable rental housing must be a priority.

Data analysis and mapping for this report was conducted by Gabriela Norton, Research Associate at Minnesota Housing Partnership, with writing and design by Carolyn Szczepanski, MHP Director of Research and Communications. Research assistance and input provided by Matt Schroeder (Metropolitan Council), Rachel Robinson and John Errigo (Greater Minnesota Housing Fund), Tony Damiano (Univ of MN Center for Urban and Regional Affairs), Sarah Berke (Family Housing Fund), Dan Hylton (HousingLink), Tom O'Neil (Dougherty Mortgage), and Michael Peterson (City of Minneapolis).

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