MARKET WATCH: Dakota County

Trends in the unsubsidized multifamily rental market

Minnesota Housing Partnership

OCTOBER 2018 | 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 research series, Minnesota Housing Partnership tracks key trends in the unsubsidized multifamily rental markets across the Twin Cities. This report analyzes data for **23,800 unsubsidized rental units in properties with four or more units in Dakota County** from the CoStar database. Data information and limitations on page 2.

SIGNIFICANT INCREASE IN RENTER HOUSEHOLDS, THOUSANDS PAYING TOO MUCH IN RENT[1]

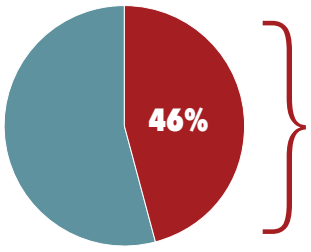
In 2016, slightly more than 1 in 4 households in Dakota County were renters, significantly lower than St. Paul and Minneapolis, where renters make up the majority of households. However, Dakota County has seen a higher rate of growth in the number of renter households, rising 18% since 2000 to a total of 40,564 renter households. This is notably higher than the 12% increase in renters statewide and 12% and 13% increases in St. Paul and Minneapolis respectively. A number of cities in Dakota County have seen dramatic increases in renter households, including Apple Valley (112%) and Inver Grove Heights (71%).

The cities with the highest renter populations are those that are closest to Hennepin and Ramsey counties, including West St. Paul (42%), Burnsville (36%), South St. Paul (34%), and Eagan (31%).

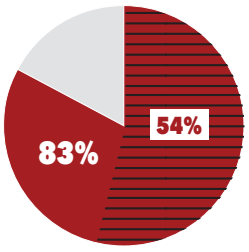
	Percent renter households	Change in renters, 2000-2016	% households of color that are renters
Dakota County	26%	18%	52%
West St. Paul	42%	-2%	70%
Burnsville	36%	17%	60%
South St. Paul	34%	22%	61%
Eagan	31%	36%	54%
Inver Grove Heights	31%	71%	59%
Hastings	28%	64%	78%
Apple Valley	21%	112%	39%
Rosemount	15%	114%	29%
Lakeville	13%	133%	26%
Farmington	13%	86%	14%
Mendota Heights	12%	64%	33%

These are also the cities with the largest percentages of people of color. Overall, 52% of Dakota County renter households are people of color, with West St. Paul (70%), Burnsville (60%), and South St. Paul (61%) containing the largest proportion of renter communities of color. Like the rest of the Twin Cities and the state, households of color are far more likely to be renters; for instance, only 22% of white households in Dakota County are renters compared to 66% of Black and 55% of Latino households.

From 2000 to 2016, median rent in Dakota County increased 6%, while median renter income decreased 8%. Of the 40,564 renters in Dakota County, 18,601 earn under 60% of AMI, and 15,376 of those renters earning under 60% of AMI (or 83%) are cost burdened, with 54% (8,275) paying more than half of their income on housing.[2]



In Dakota County, 46% of renter households (18,601 families) **earn less than 60%** of area median income



Of those households, **83%** pay more than 30% and **54%** pay more than half of their monthly income on housing

1- Unless otherwise noted, information in this section comes from the U.S. Census Bureau, 2012-2016 American Community Survey | 2- Metropolitan Council staff analysis of U.S. Census Bureau, 2012-2016 American Community Survey Public Use Microdata Sample five-year data

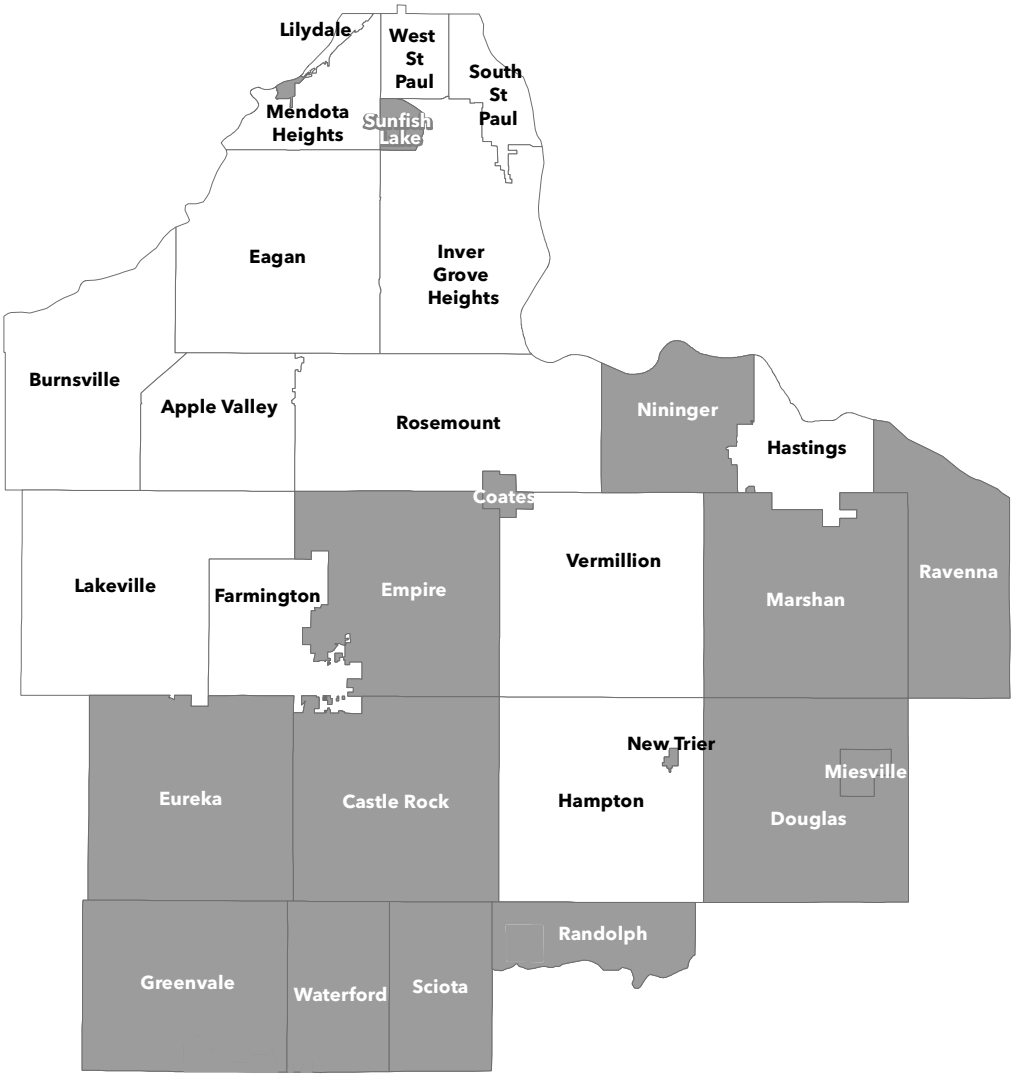
DATA NOTES AND LIMITATIONS:

DATA SOURCE: Unless otherwise noted, data on pages 3-11 in this report comes from CoStar, a commercial real estate database that tracks multifamily properties with four or more units. This includes 6,627 market rate, existing 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 23,800 unsubsidized rental units in 330 properties with 4 or more units in Dakota County, excluding those that are currently under construction or renovation. Data for this report was accessed and downloaded the first week of June 2018.

RENT DATA: CoStar provides average, rather than median, rent data. Of the approximately 23,800 unsubsidized rental units in Dakota County tracked by CoStar and included in this analysis, 56% include rent data. All rent data in this report is adjusted for inflation.

BOUNDARIES: This report analyzes Dakota County cities by city boundary. In the county, there are a total of 21 cities, 14 of which have properties in the CoStar database. Cities that do not have any rental properties in CoStar include: Coates, Mendota, Miesville, New Trier, Randolph, and Sunfish Lake.

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.



AVERAGE RENT OUT OF REACH FOR MANY

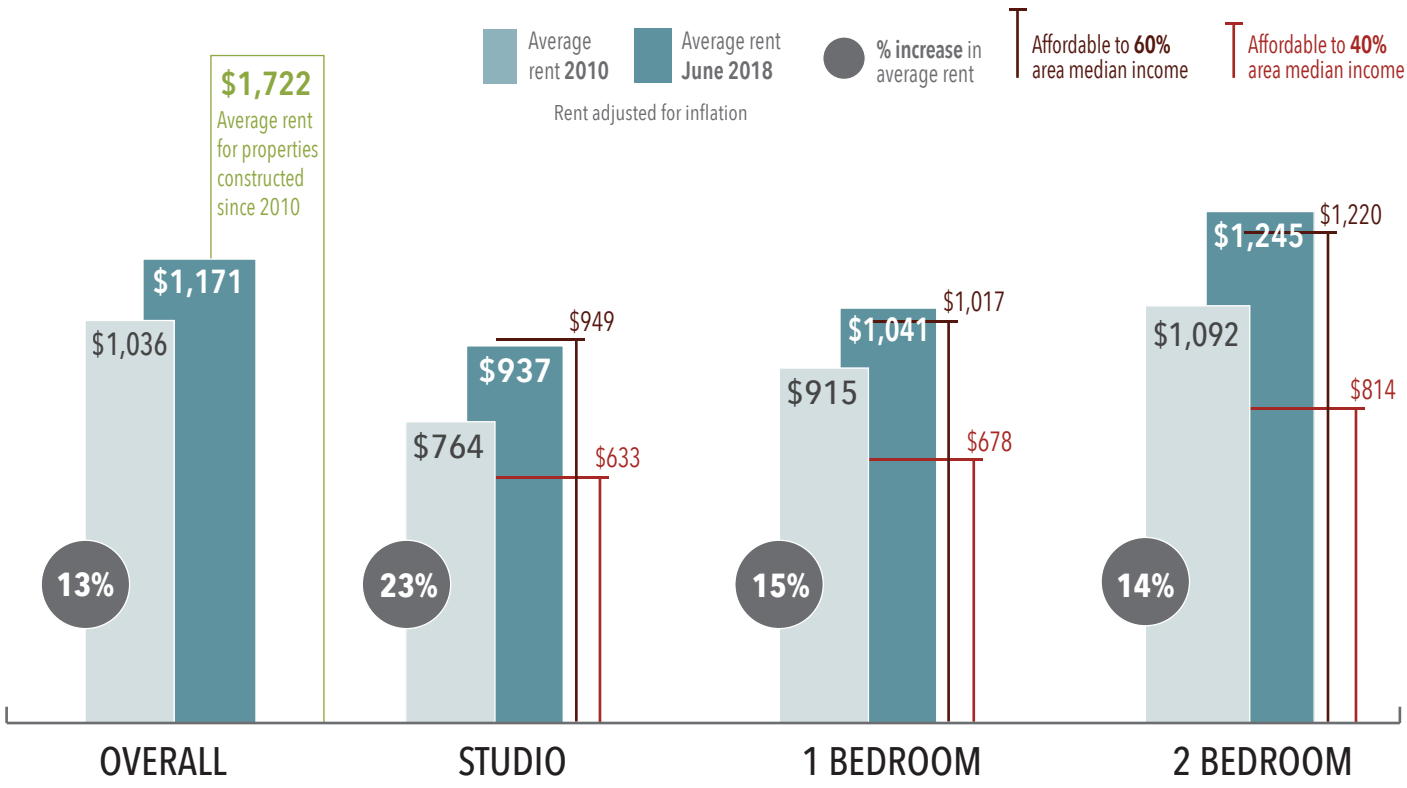
From 2010 to June 2018, average rent in Dakota County for multifamily properties with four units or more rose 13% to $1,171. Average rent is lower than that of the 7-county metro ($1,217 in Q2 2018) and the magnitude of increase has been slower (compared to a 17% increase for the 7-county region since 2010). Still, rent is moving out of reach for a large segment of the renting population.

Unsubsidized units that are affordable to households earning 40% to 60% of the area median income (AMI)[3] – for instance, a family of four earning $34,340 to $51,480 annually – are often referred to as naturally occurring affordable housing (NOAH). By traditional measures, rent is considered affordable when a household spends no more than 30% of its gross income on housing costs. Countywide, rent is largely affordable to families making 60% of AMI – but not for those at lower incomes.

For instance, as of June 2018, the average rent for a one-bedroom apartment is $1,041 – a full $363 more per month than a household at 40% AMI could afford. Similarly, the average two-bedroom apartment costs $1,245, just over $430 a month more than what a 40% AMI household could pay.

While 89% of the buildings in our dataset were constructed prior to 2010, new units that have been built in the past eight years are commanding much higher rents. The average rent in properties that have come on the market since 2010 is $1,722 – 47% higher than that of the county average. These new buildings are concentrated in just a few cities: Apple Valley (4), Eagan (3), Lakeville (1) and Lilydale (1).

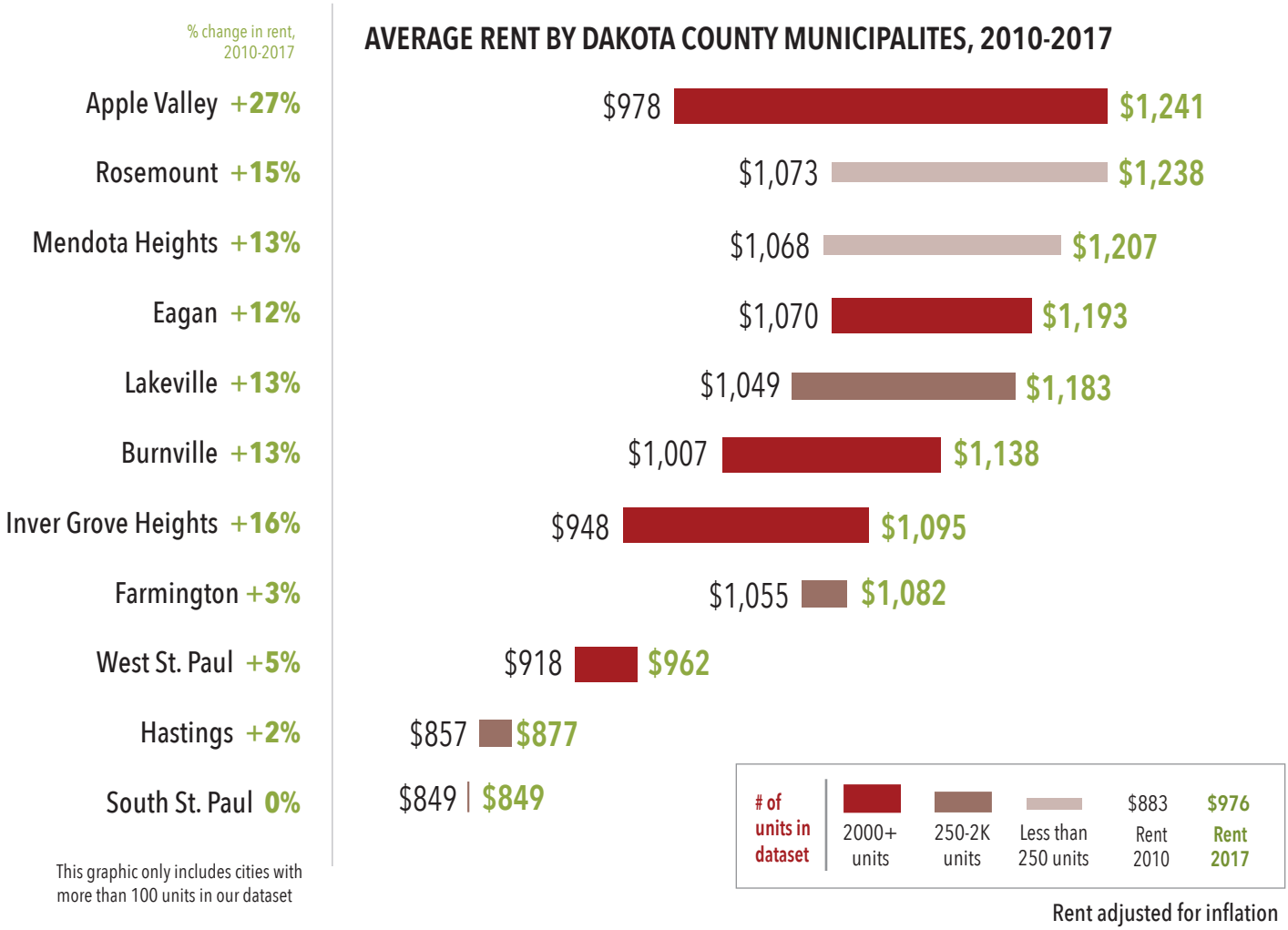
Dakota County Average Rent by Unit Size



3- Area median income is calculated for the 13-county HUD Metro MN-WI area of Minneapolis- St. Paul- Bloomington.

DRAMATIC RENT INCREASES IN NORTH/WESTERN CITIES

From 2010 to 2017, rent has increased the most in Apple Valley, with a 27% increase, followed by Inver Grove Heights (16%), Rosemount (15%) and Burnsville (13%). Nine of the 14 cities in our analysis have seen gains of more than 10%. South St. Paul is the only city that saw rent remain flat from 2010 to 2017.



This graphic only includes cities with more than 100 units in our dataset

Rent adjusted for inflation

RENTAL HOUSING IN 1-3 UNIT PROPERTIES

Our dataset includes only properties with four or more units, not townhomes, condos, duplexes, or single family rental homes. **HousingLink's Twin Cities Rental Revue** for the second quarter of 2018 tracked 323 rental unit listings (or vacant, available units) in Dakota County, for which the average rent was $1,567. This is slightly below the average across the 7-county metro ($1,645). The majority of these listings were for townhomes (51%) and single family rental homes (36%).

Countywide, condos had the lowest average rent at $1,146, while single family rental homes had the most expensive average rents at $1,835. Average rent for a two-bedroom unit was $1,350 and $1,509 for a three-bedroom units. Two and three-bedroom units in condos, townhomes or single family rental homes were more expensive than the multifamily market, where two-bedroom units average $1,225 and three-bedroom units average $1,361.

Burnsville, Eagan and Lakeville had the most listings tracked by HousingLink for the first quarter of 2018. In these cities, the rental properties are majority townhomes, with rent averaging from $1,424 in Lakeville to $1,658 in Eagan.

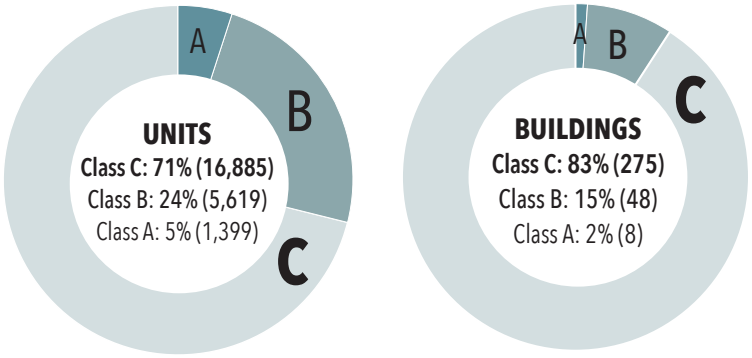
Learn more about this data source at housinglink.org.

SIGNIFICANT NEED FOR AFFORDABLE RENTAL PRESERVATION IN DAKOTA COUNTY

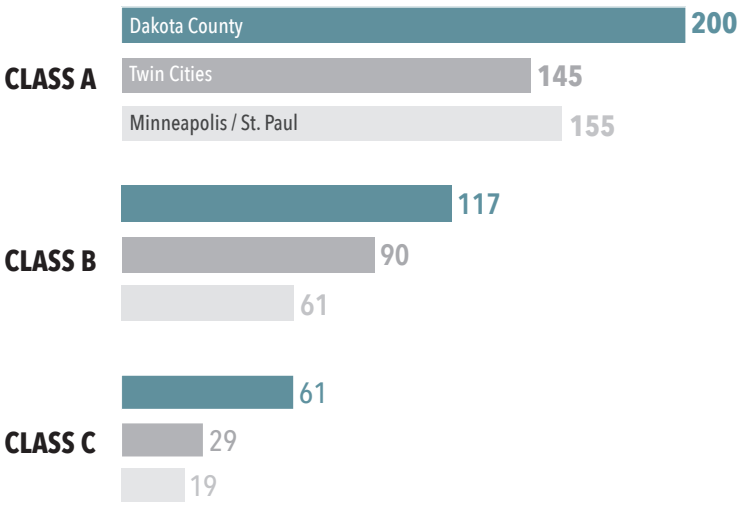
Unsubsidized affordable rental housing is typically Class C[4]: older properties that provide basic shelter without additional amenities. In Dakota County, the vast majority of buildings and units in our dataset are Class C: 83% of properties and 71% of units. Class B buildings comprise 24% of units, while Class A buildings comprise just 5% of the county's units in our dataset.

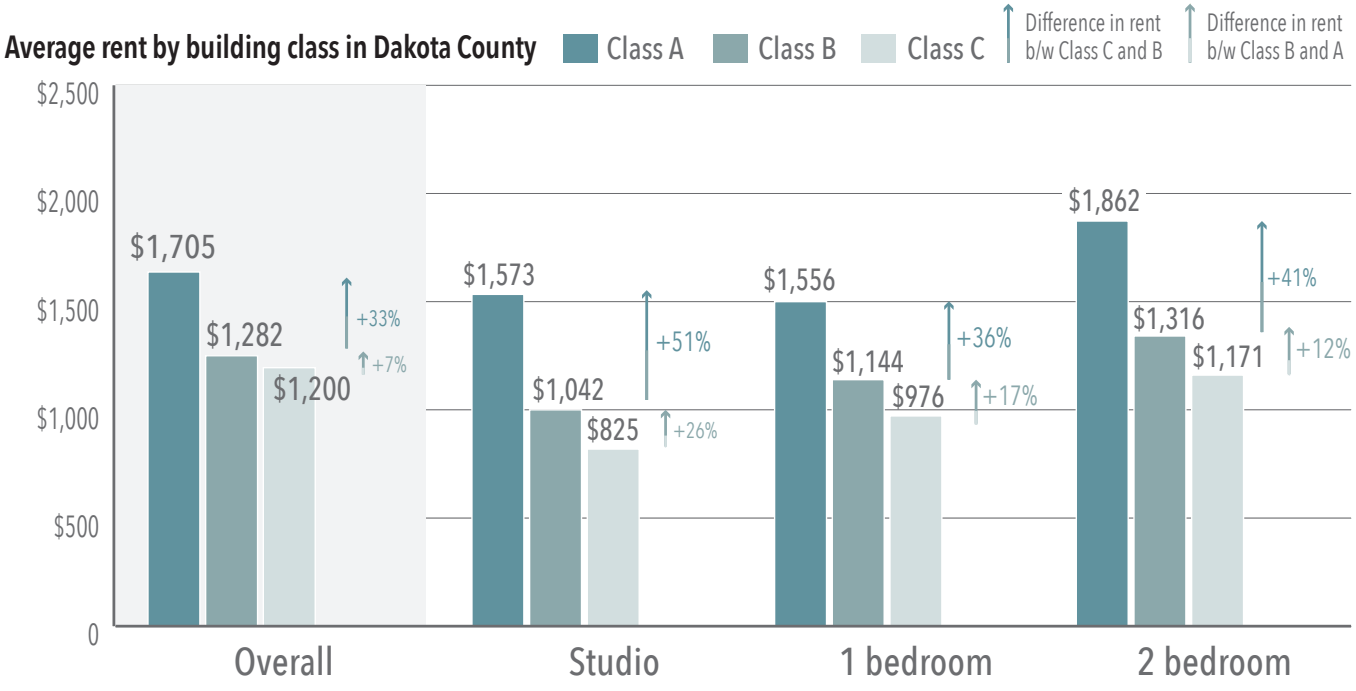
Average rent in Class C buildings during the second quarter of 2018 in Dakota County was $1,200, higher than that of the 7-County region at $1,023. In contrast to the 7-county region, which sees a 33% difference in average rent in Class C and B buildings, there is little variation between the two in Dakota County. However, there is a $423 distinction between Class B rents, and those of Class A.

Like other cities in the region, there is a dramatic distinction in building size by class. While Class A buildings in Dakota County average 200 units, Class C buildings average 61 units. This is dramatically larger than the central cities. For comparison, in Minneapolis the average Class C building contains just 17 units, and in St. Paul just 21 units.



AVERAGE BUILDING SIZE BY CLASS (# of units)





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

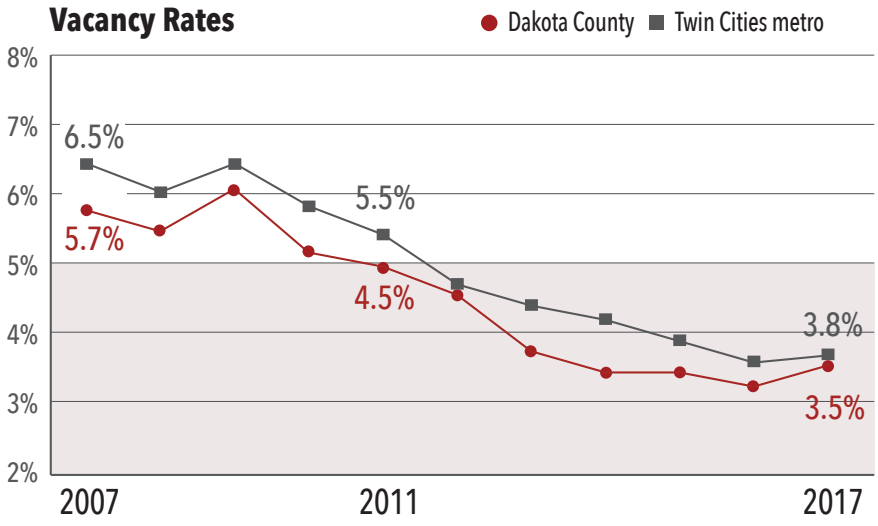
DESPITE UPTICK IN 2017, VACANCY RATES PLUNGE COUNTYWIDE

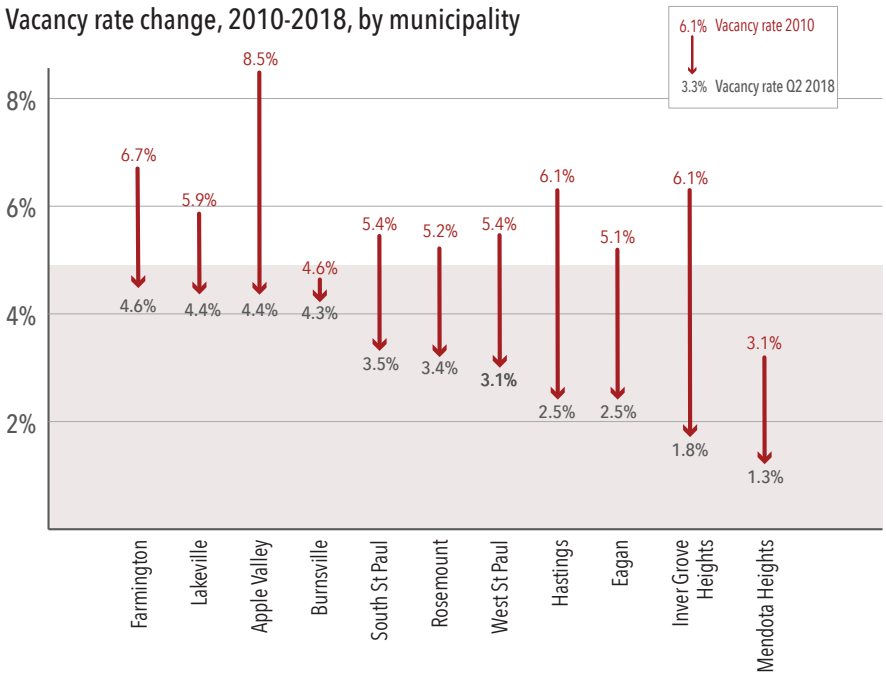
In Dakota County, the vacancy rate[5] has fallen from 5.1% in 2010 to 3.2% in the second quarter of 2018, a drop of 37%.

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. This has been the case in Dakota County since 2011.

Into the second quarter of 2018, vacancy rates are extremely low in the cities of Inver Grove Heights (1.8%) and Mendota Heights (1.3%). These two cities have seen enormous changes in vacancy rates over time, falling 64% since 2010 in Inver Grove Heights, and falling 58% in Mendota Heights.

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5- 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.

Vacancy by Building Class



Class A 6%

Class B 3.4%

Class C 3.3%

Similar to regional trends, in Dakota County vacancy rates are significantly higher for Class A buildings, at 6% in the second quarter of 2018, than Class B or Class C. However, this is markedly lower than the 7-county average of 10%. Like rent levels, Class C and Class B properties in Dakota County have similar vacancy rates – 3.4% for Class B and 3.3% for Class C. Again, for Class B, this is markedly lower than the regional average of 5%.

MORE THAN 9,000 NATURALLY OCCURRING AFFORDABLE UNITS IN DAKOTA COUNTY

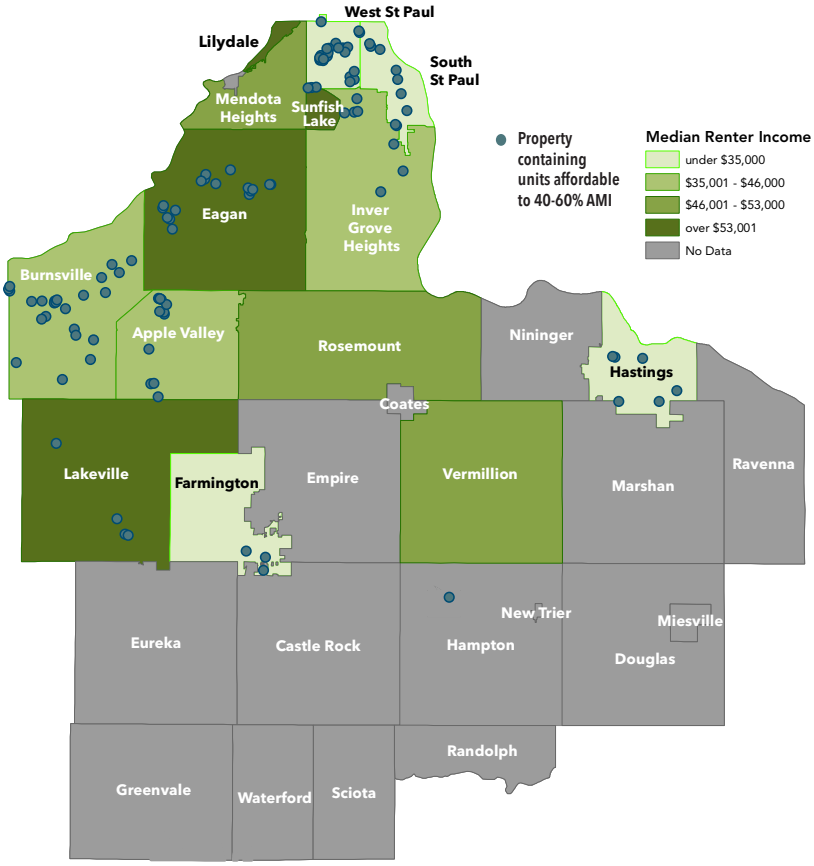
In Dakota County, renters with low or moderate income – 40 to 60% of AMI – are able to afford housing by renting in unsubsidized, naturally occurring affordable housing (NOAH). These properties are typically built from 1960 to 1990, and are basic, safe structures without extra amenities.

In our dataset, there are a total of 9,320 units in 111 buildings that are affordable to households earning 40% to 60% of AMI – or NOAH units. This accounts for 39% of all units in our dataset, which is notably higher than the 7-county region, in which 19% of units are NOAH.

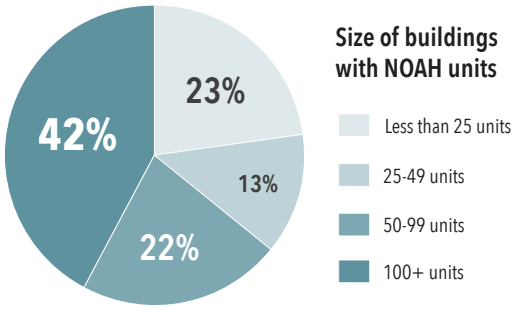
Geographically, the distribution of affordable units across Dakota County follows the cities that contain the most overall multifamily units in our dataset. Burnsville contains the most NOAH units with a total of 2,517 units. West St. Paul (2,001), Eagan (1,902), and Inver Grove Heights (1,121) also have more than 1,000 NOAH units.

Properties containing NOAH units are on average larger than similar properties in Minneapolis and St. Paul. Only 23% of these buildings contain less than 25 units, while 42% contain more than 100 units, with the average size of 108 units. Nearly half of NOAH units are two-bedroom apartments (4,521 or 48%), with one-bedroom apartments accounting for 42% of NOAH units (3,892). Like the central cities, though, three- and four-bedroom units are very scarce with just 374 three-bedroom NOAH units and 20 four-bedroom NOAH units in our dataset.

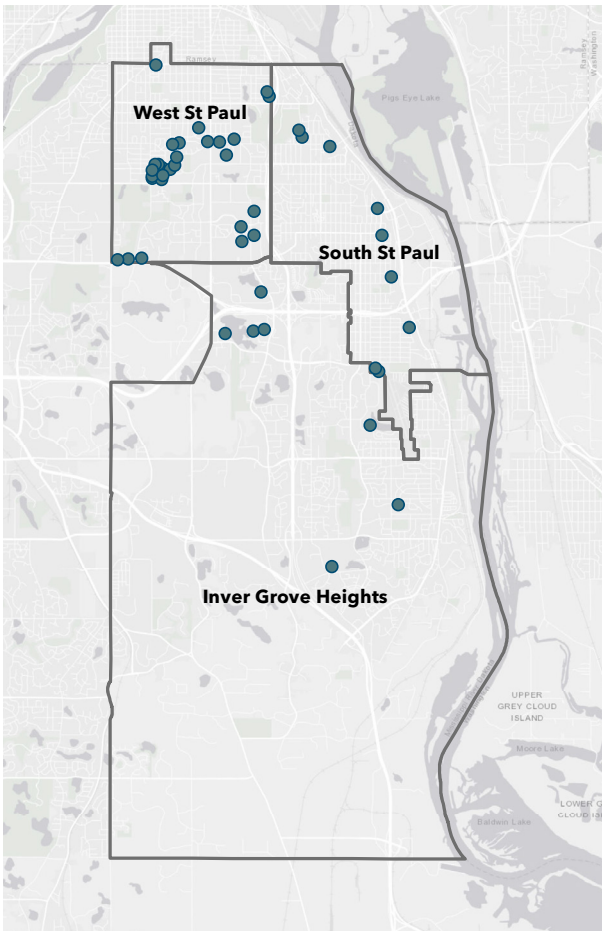
BUILDINGS WITH UNITS AFFORDABLE TO HOUSEHOLDS EARNING 40-60% OF AMI

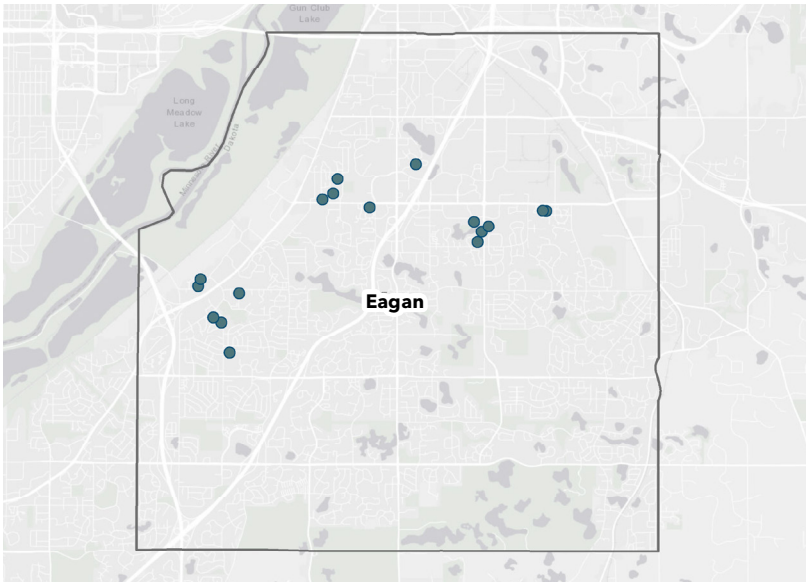


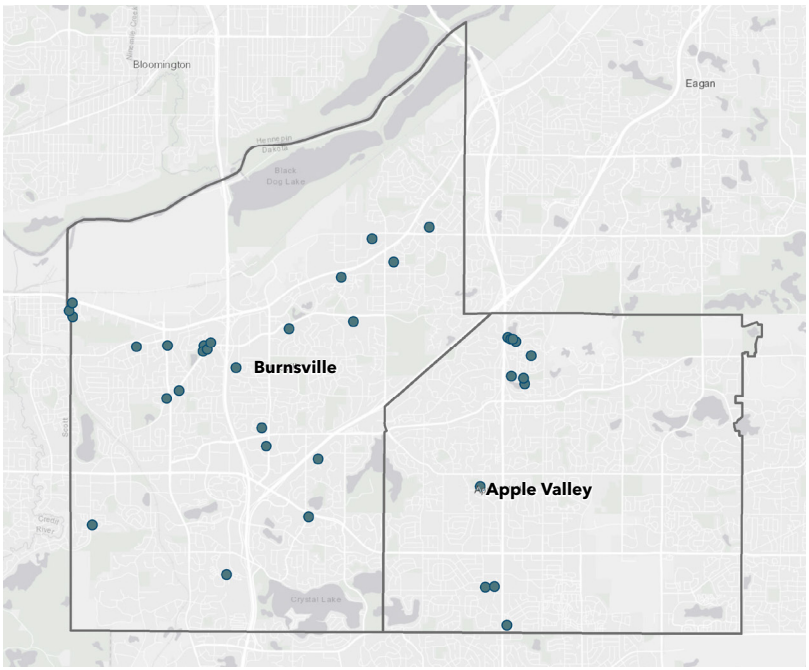
City	40%-60% AMI units
Burnsville	**2,517**
West St. Paul	**2,001**
Eagan	**1,902**
Inver Grove Heights	**1,121**
Apple Valley	**686**
Lakeville	**377**
Hastings	**357**
South St. Paul	**239**
Farmington	**112**
Hampton	**8**

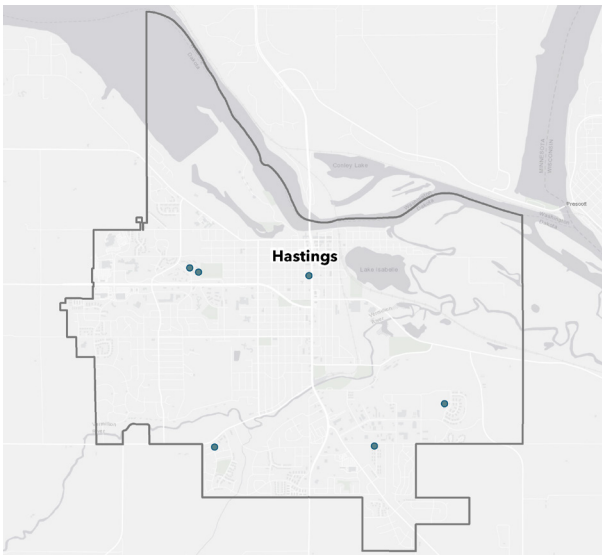


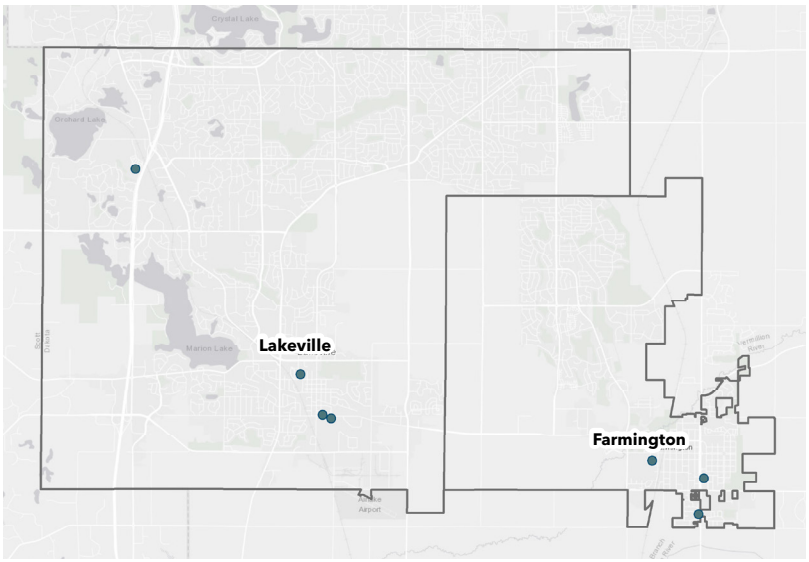
BUILDINGS WITH UNITS AFFORDABLE TO HOUSEHOLDS EARNING 40-60% AMI











MORE THAN 8,000 UNITS IMPACTED BY PROPERTY SALES SINCE 2010

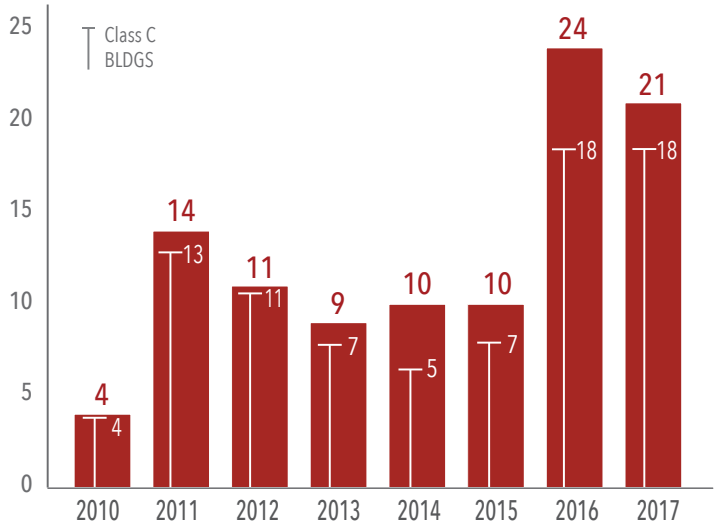
From 2010 to 2017, 8,158 units in 103 buildings were sold in Dakota County. These property sales peaked in 2016 with 24 buildings sold, impacting 2,975 units – or 13% of all units in our dataset in that year. In 2017, sales declined slightly to 21 impacting 1,215 units but still remained higher than the previous seven years.

In line with the regional trend, the overwhelming majority of sales were Class C properties, comprising 81% of buildings and 63% of units sold from 2010 to 2017. Class B buildings represented 17% of buildings and 33% of units. Only two Class A buildings experienced a sale.

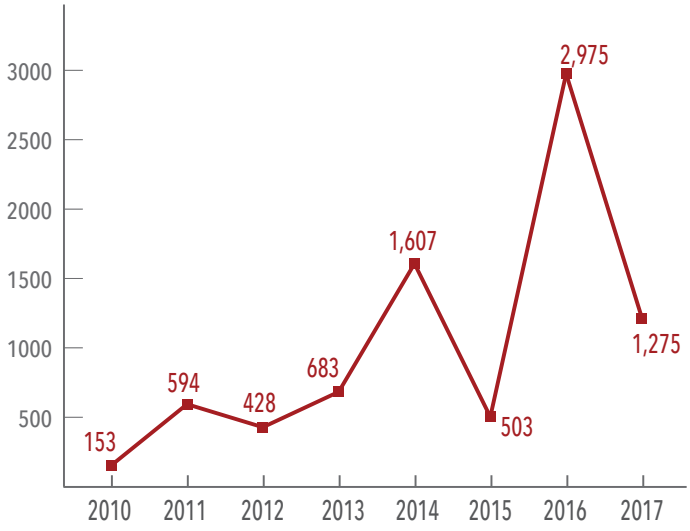
In contrast to the regional trend, sales in Dakota County impacted larger properties. The average size of buildings sold from 2010 to 2017 was 76 units – significantly higher than that of the overall 7-county metro, which saw an average of 45 units.

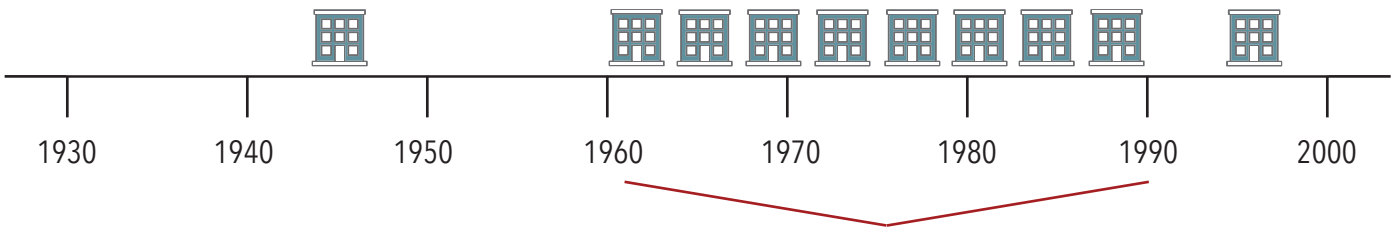
Of these sales, only 10% were built prior to 1960, while the vast majority were built between 1960 and 1989 (76%), and just 11% in buildings built in 1990 or after.

PROPERTIES SOLD IN DAKOTA COUNTY



UNITS SOLD IN DAKOTA COUNTY

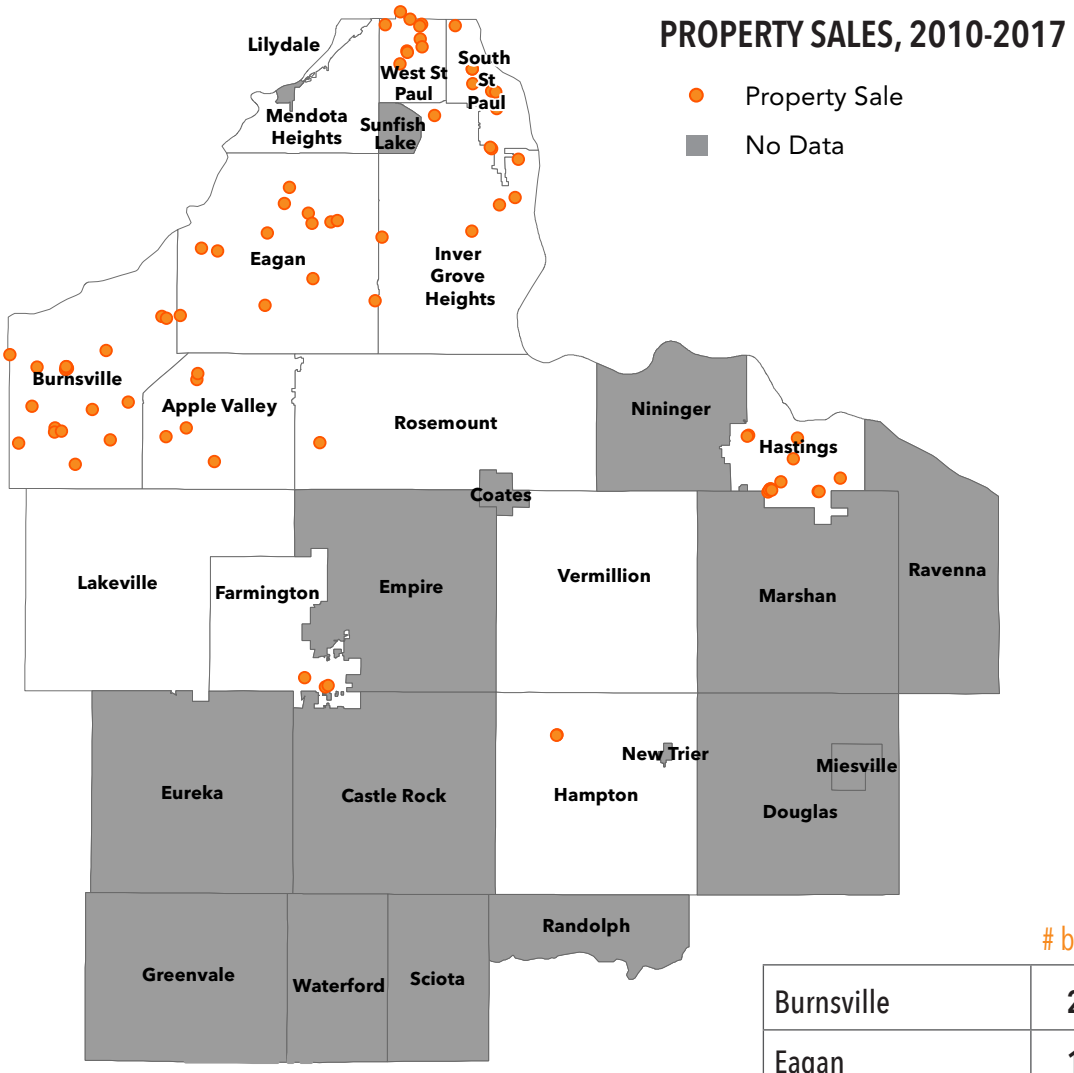




76% of buildings sold from 2010-2017 were built between **1960 and 1989**

PROPERTY SALES CONCENTRATED IN NORTHWEST CITIES

From 2010 to 2017, the largest number of sales occurred in Burnsville (20), Eagan (13), Hastings (13) and West St. Paul (10). However, the largest number of units impacted is slightly different with 2,623 units impacted in Burnsville, 2,388 in Eagan, 902 in Inver Grove Heights and 428 in Apple Valley.



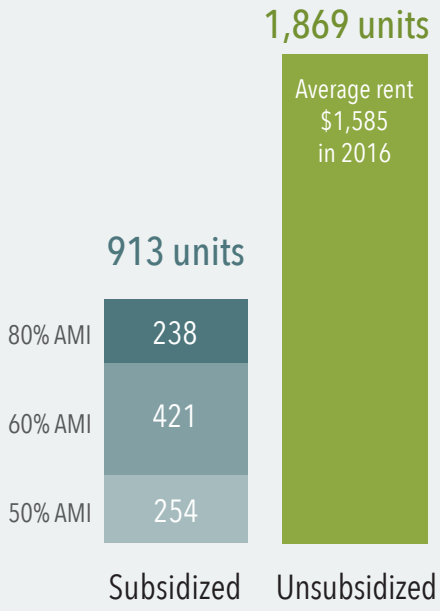
	# bldgs	# units
Burnsville	20	2,623
Eagan	13	2,388
Inver Grove Heights	6	902
Apple Valley	5	428
Hastings	13	228
West St. Paul	10	183
South St. Paul	9	114
Farmington	3	50
Hampton	2	16
Rosemount	1	11

SUBSIDIZED AFFORDABLE HOUSING NOT FILLING THE GAP

Not included in this analysis are affordable rental housing developments created with public and/or private capital funding that include affordability obligations. Therefore, in addition to the 23,800 unsubsidized rental units analyzed in this report, the Metropolitan Council reported there were 913 new units of affordable rental housing created in Dakota County from 2010 to 2016. Over this timeframe, there were no rental units produced that were affordable to under 30% of AMI; the vast majority of units created were affordable at 60% or 80% of AMI with fewer than 30% of units affordable to those earning 50% of AMI. These production counts are similar to the distribution at the 7-county level; regionally, 54% of affordable housing units were affordable at 60% of AMI, followed by 25% affordable to 50% AMI, 17% affordable at 80% AMI, and finally 4% of all produced units were affordable to 30% of AMI. Over that same timeframe, 1,869 unsubsidized rental units were created in Dakota County, with an average asking rent of $1,585 in 2016.

Data for rental housing production is based on building permits issued during each calendar year by cities and citys within the 7-county Twin Cities region. Data is collected via an annual survey of community officials, in conjunction with collection of data on residential building permits. The data on returned surveys were verified by Metropolitan Council staff.

NEW MULTIFAMILY PRODUCTION IN DAKOTA COUNTY, 2010-2016



This report was published in August 2018, with data analysis, writing and mapping by Gabriela Norton, Research Associate at Minnesota Housing Partnership, with editing, graphics and design by Carolyn Szczepanski, MHP Director of Research and Communications.

Research assistance and input provided by Matt Schroeder (Metropolitan Council), and Erin Olson.

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