MARKET WATCH: Twin Cities

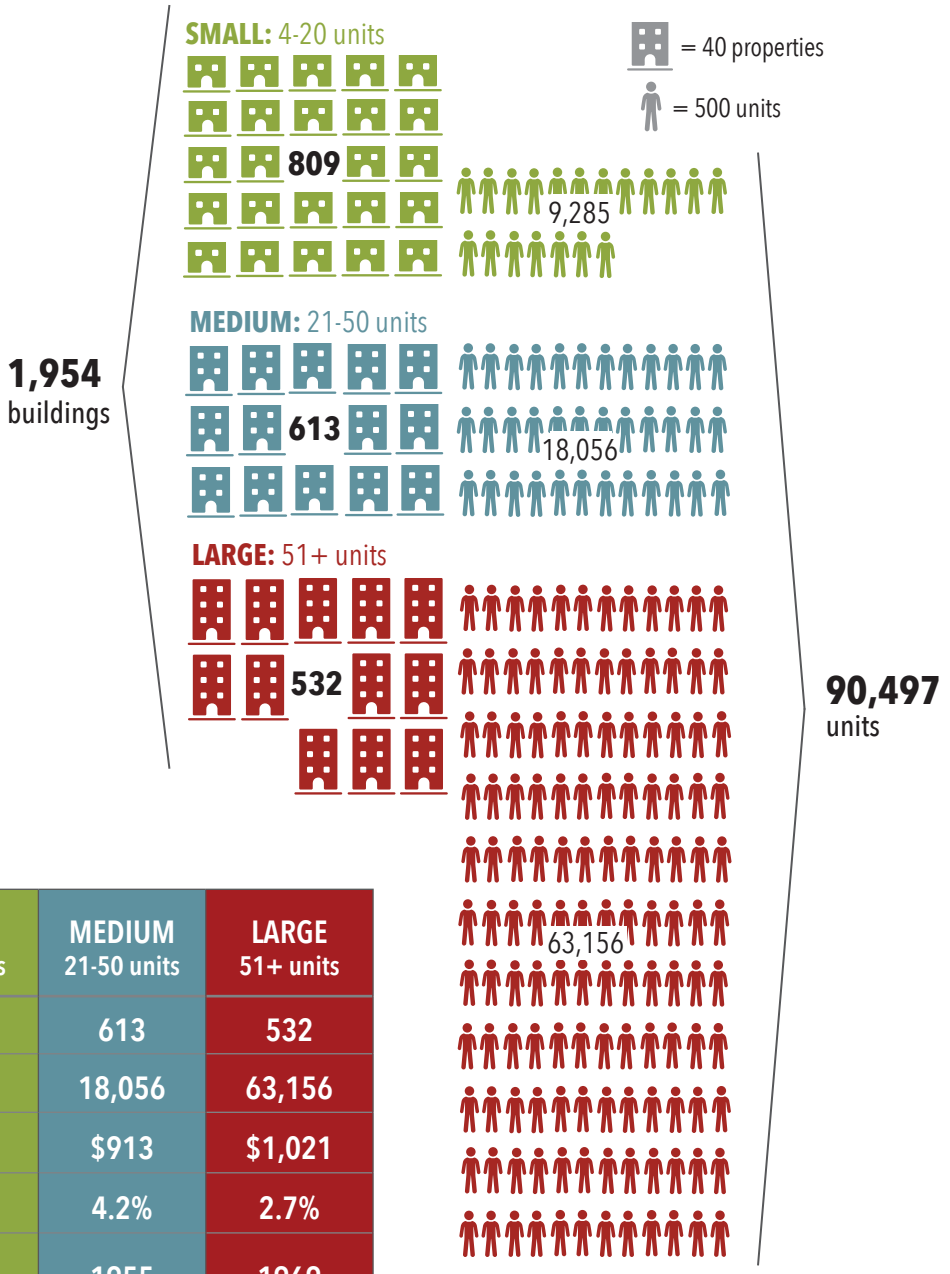
Trends in the unsubsidized multifamily rental market

Issue #3
NOV 2018

Naturally occurring affordable housing (NOAH) appears in distinctly different forms throughout the 7-county metropolitan region. To effectively preserve these critical rental homes for lower-income families, it is essential to understand not only where these units are located but their size and composition as well. **This report analyzes data for approximately 210,915 unsubsidized rental units in 5,309 properties with four or more units in the 7-county metro in the CoStar database. Of these properties, we identified a subset of 1,954 NOAH properties and 90,497 NOAH units.**

NOAH BUILDINGS AND UNITS BY SIZE IN THE TWIN CITIES

In this report we define naturally occurring affordable housing (NOAH) as unsubsidized, Class C properties that contain units renting at or below 60% of area median income (AMI) respective to unit size and expected number of persons per unit. We delineated NOAH buildings into three categories: small, medium and large. Small NOAH buildings contain 4-20 units; medium buildings contain 21-50 units; and large buildings contain more than 50 units. In our analysis, we identified a total of 1,954 NOAH buildings containing 90,497 NOAH units in the 7-county Twin Cities region.



	SMALL 4-20 units	MEDIUM 21-50 units	LARGE 51+ units
Buildings	809	613	532
Units	9,285	18,056	63,156
Average rent	$865	$913	$1,021
Average Vacancy	3.9%	4.2%	2.7%
Average Year Constructed	1949	1955	1969

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 5,309 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 210,915 unsubsidized rental units in properties with 4 or more units in the 7- county metropolitan area, excluding those that are currently under construction or renovation. Data for this report was accessed and downloaded the first week of October 2018.

RENT DATA: CoStar provides average, rather than median, rent data. Rent data coverage is not uniform across geographic area. All rents in this report are adjusted for inflation. Affordability is determined using HUD's 2018 FY income limits; the 7-county metro falls within the Minneapolis- St Paul- Bloomington MN-WI HUD Metro Area, which is comprised of 13 counties. Affordability by unit size is determined using assumed persons per bedroom (by IRS regulation), then determining by household size, the anticipated annual income for the household assumed to live in that unit.

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.

NUMBER OF NOAH UNITS AND % OF NOAH BUILDINGS BY SIZE

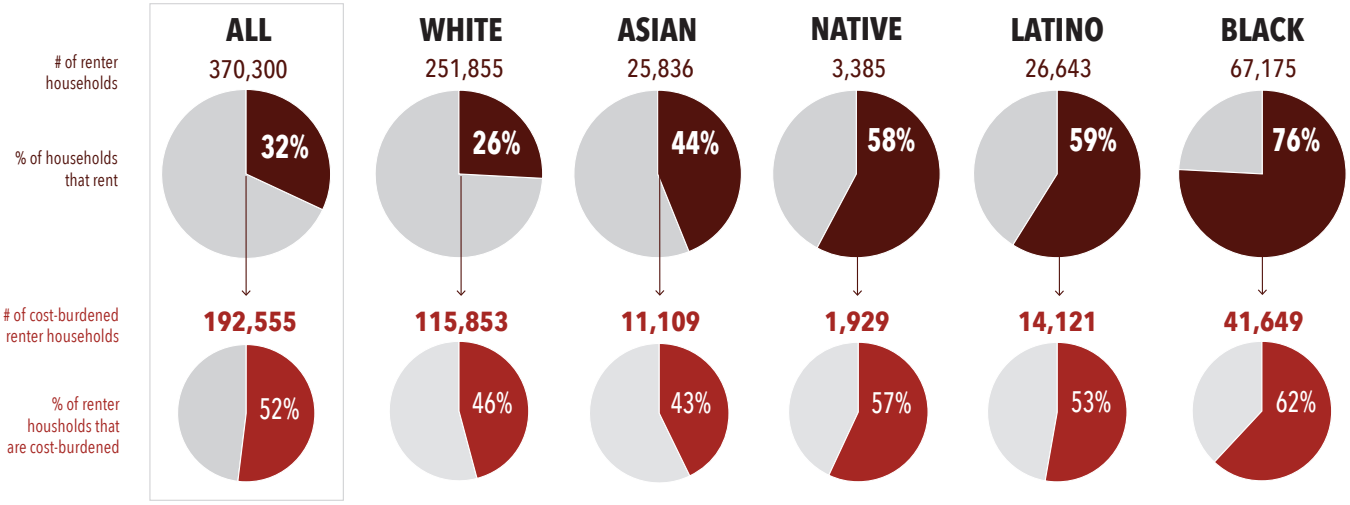


RENT IS A RACIAL EQUITY ISSUE: PRESERVING NOAH IMPACTS COMMUNITIES OF COLOR

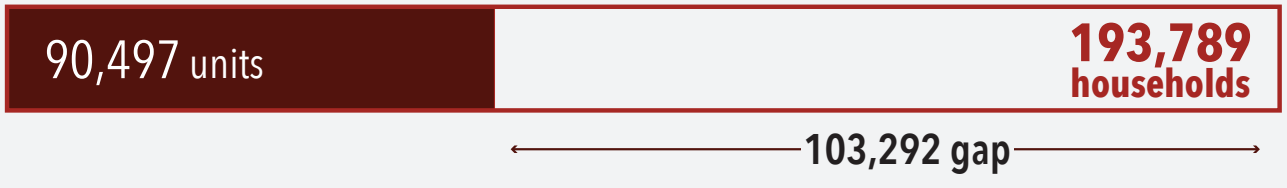
In the Twin Cities region, nearly one in three households (370,300) are renters, an increase from 18% in 2010. Households of color are far more likely to be renters. For instance, while 26% of White households are renters, nearly 60% of Native and Latino households are renters and 76% of Black households are renters.

Overall, 52% of renters across the region – 192,555 households – are cost burdened, meaning they spend more than 30% of their gross monthly income on housing. Research has shown that this results in families spending less on other necessities like food, transportation, and medical care. This burden falls disproportionately on communities of color. As seen below, 43% of White renter households are cost burdened while 57% and 62% of Native and Black renters are forced to pay more than they can afford for housing.

Families served by NOAH are particularly impacted by cost burden. Of the 193,789 renter households earning 60% of the area median income or less, 76% pay more than 30% of their gross monthly income on rent and 42% (nearly 82,000 families) pay more than half of their income on rent.



NOAH UNITS RENTING AT 60% AMI OR LESS vs HOUSEHOLDS EARNING 60% AMI OR LESS



SMALL NOAH OVERVIEW

Properties with 4-20 units

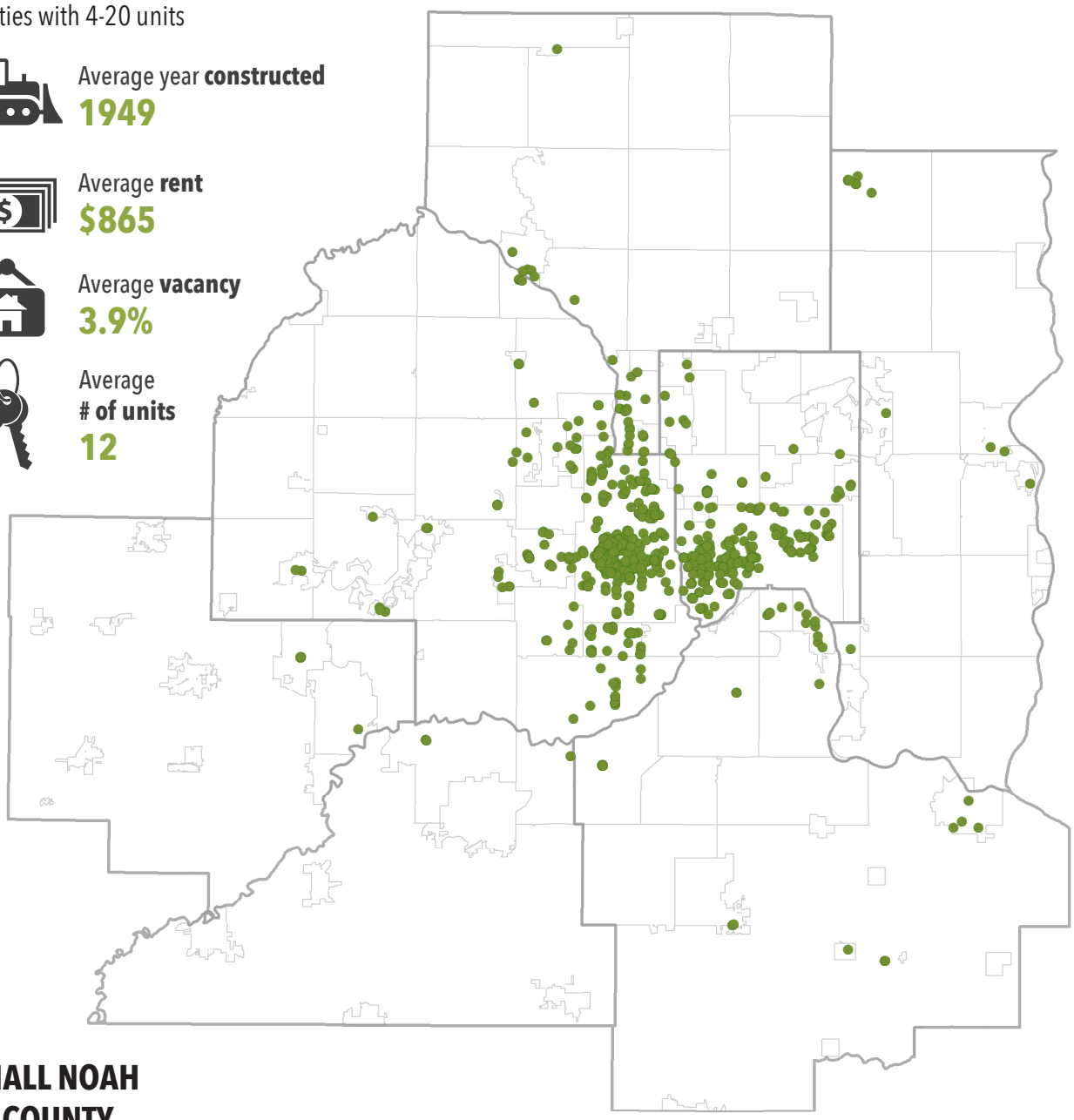
807 buildings | 9,285 units

Average year **constructed**
1949

Average **rent**
$865

Average **vacancy**
3.9%

Average
# of units
12



SMALL NOAH BY COUNTY

	units	bldgs
Anoka	331	**29**
Carver	42	**4**
Dakota	276	**26**
Hennepin	5,943	**504**
Ramsey	2,531	**229**
Scott	26	**3**
Washington	136	**12**

	bldgs
Minneapolis	**392**
Richfield	**32**
St Louis Park	**21**
Bloomington	**14**
Brooklyn Park	**11**

Small NOAH buildings are concentrated in Minneapolis and St. Paul with 91% of properties located in Hennepin and Ramsey Counties. For Hennepin and Ramsey, small NOAH comprises a sizable portion of all NOAH buildings at 45% and 43% respectively. Many were constructed during a surge of multifamily production in the 1920s or the next major surge in the 1960s. In small NOAH buildings, average rent is 15% lower than large NOAH buildings.

MEDIUM NOAH OVERVIEW 612 buildings | 18,056 units

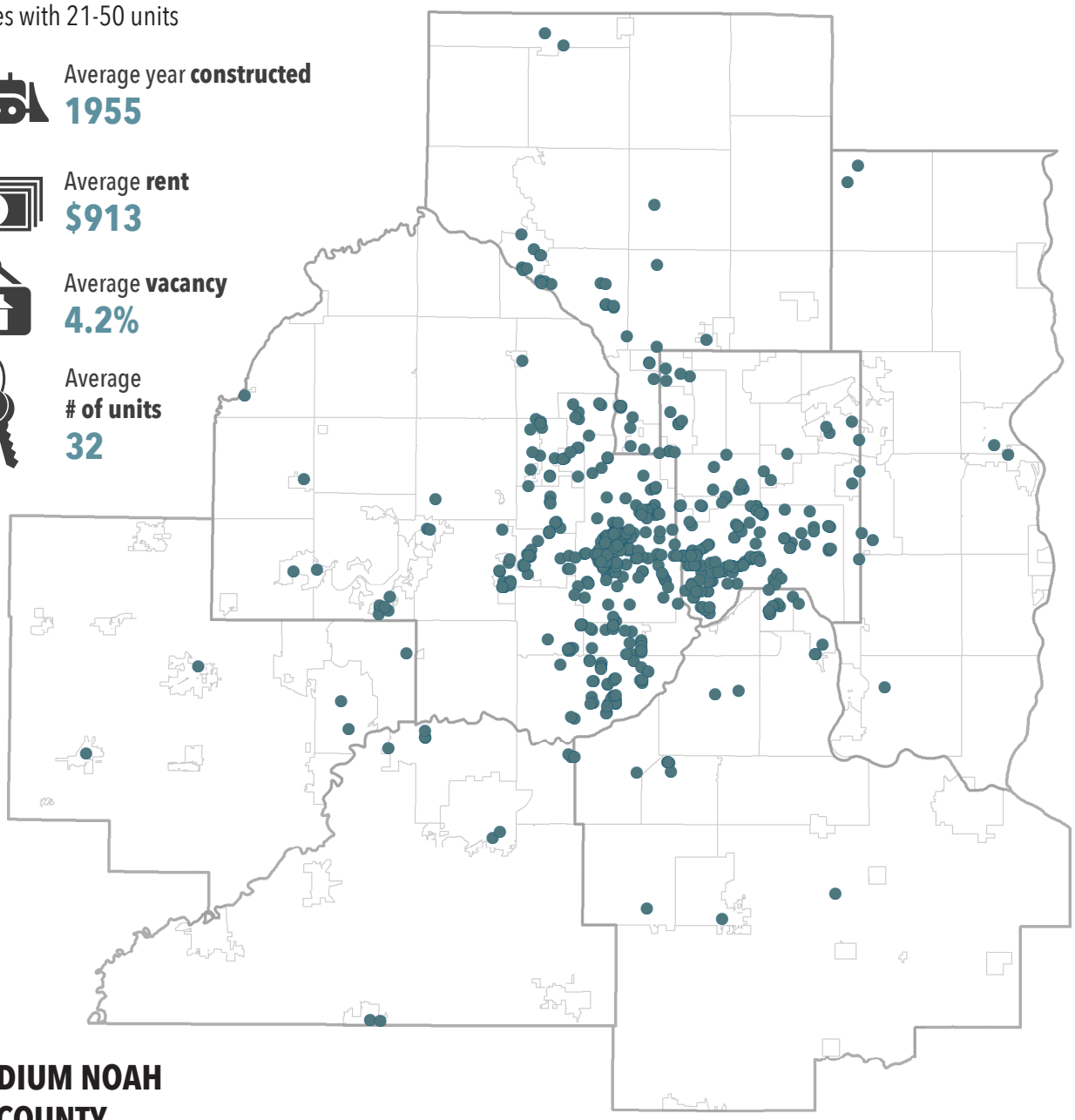
Properties with 21-50 units

Average year **constructed**
1955

Average **rent**
$913

Average **vacancy**
4.2%

Average
# of units
32



MEDIUM NOAH BY COUNTY

	units	bldgs
Anoka	1074	**36**
Carver	212	**5**
Dakota	809	**25**
Hennepin	10,708	**371**
Ramsey	4,583	**156**
Scott	399	**12**
Washington	271	**7**

	bldgs
Minneapolis	**224**
Richfield	**18**
St Louis Park	**17**
Bloomington	**38**
Edina	**13**
Hopkins	**12**

Medium NOAH buildings are prevalent in the core cities and first ring suburbs. Anoka and Scott Counties see the largest percentage of their NOAH properties in medium buildings at 38% and 43% respectively. Medium NOAH building have the highest vacancy rate at 4.2%, compared to 2.7% for large and 3.9% for small NOAH buildings.

LARGE NOAH OVERVIEW

532 buildings | 63,156 units

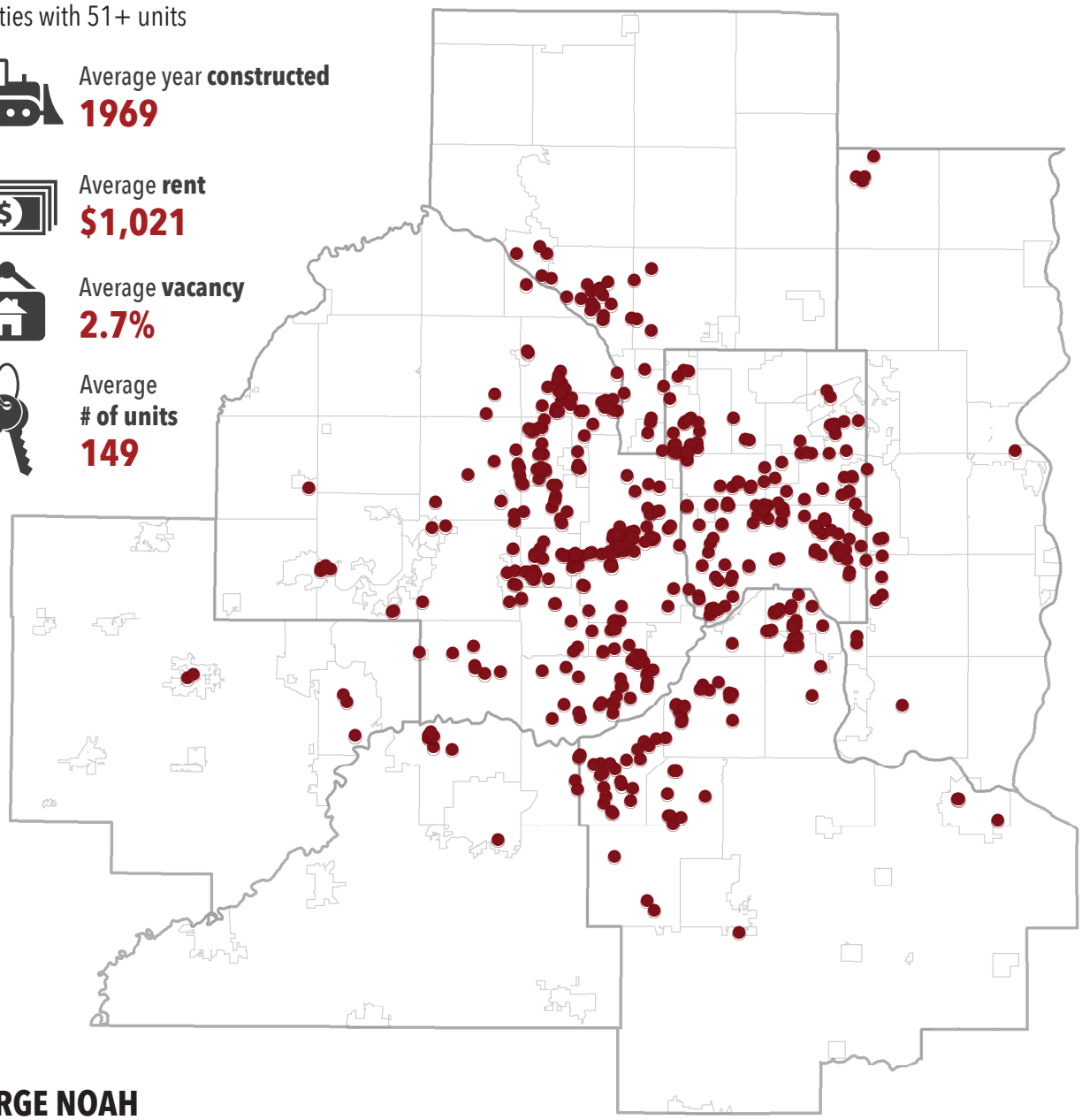
Properties with 51+ units

Average year **constructed**
1969

Average **rent**
$1,021

Average **vacancy**
2.7%

Average
# of units
149



LARGE NOAH BY COUNTY

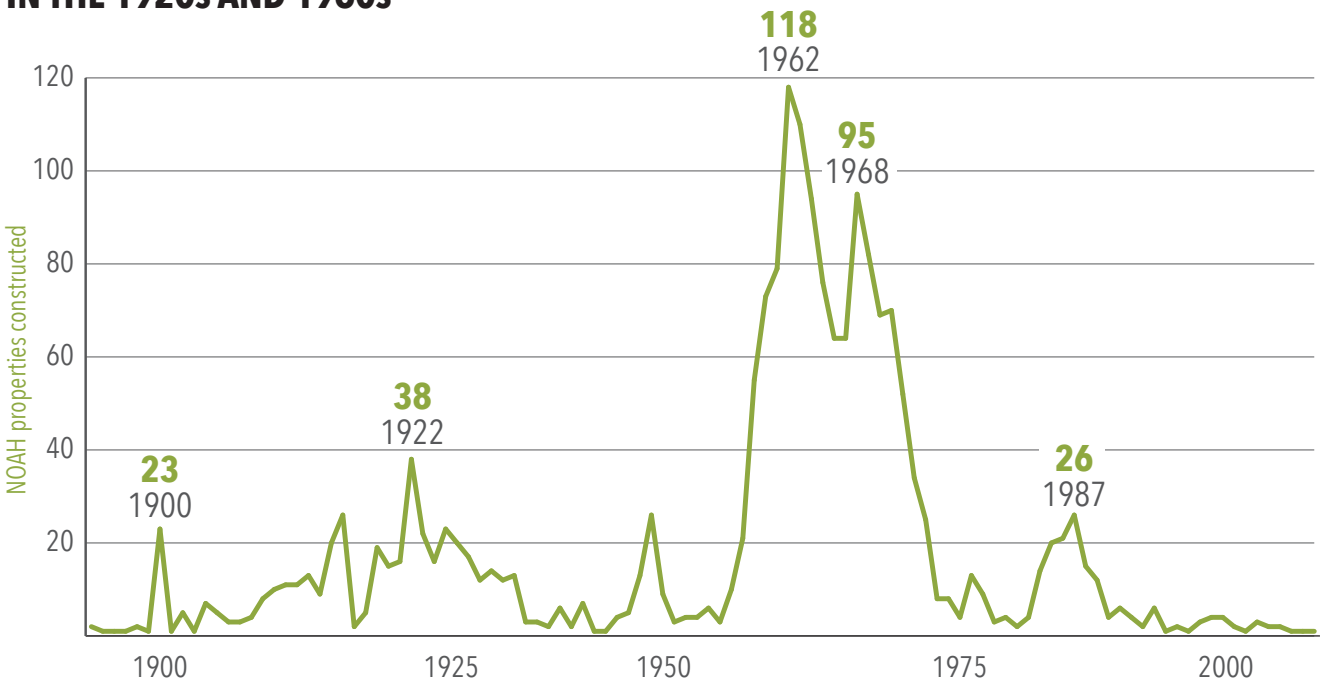
	units	bldgs
Anoka	2,959	**31**
Carver	444	**6**
Dakota	11,814	**82**
Hennepin	26,895	**238**
Ramsey	18,194	**147**
Scott	1,220	**13**
Washington	1,630	**15**

	bldgs
Burnsville	**23**
Eagan	**19**
West St Paul	**15**

Minneapolis	**69**
Bloomington	**27**
St Louis Park	**17**

Large NOAH buildings are more widely distributed with more concentration in the suburbs. While large NOAH comprise the smallest percentage of NOAH properties in Hennepin and Ramsey counties they make up 60% of NOAH buildings in Dakota County and nearly half (46%) in Scott County. These buildings are significantly newer than small and medium NOAH buildings, with an average construction year of 1969. They also command the highest rents and see the lowest average vacancy rates.

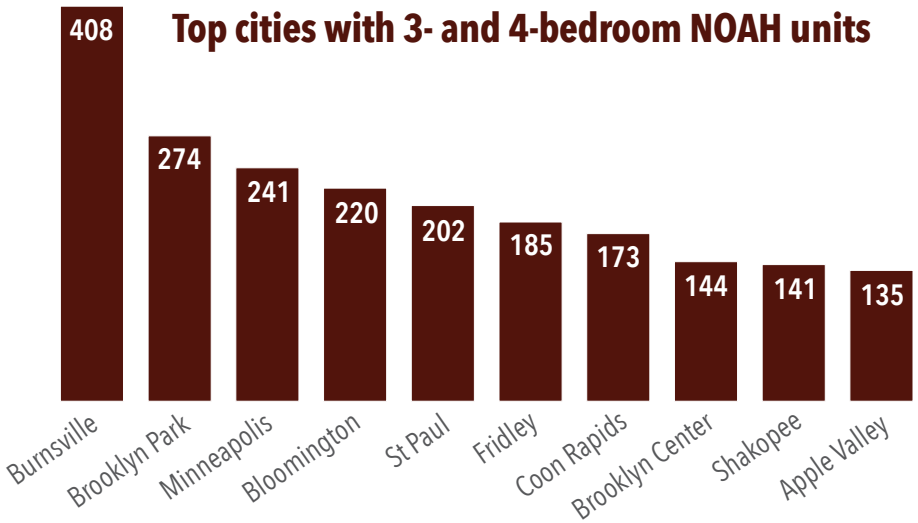
NOAH BUILDING CONSTRUCTION BOOMS IN THE 1920s AND 1960s

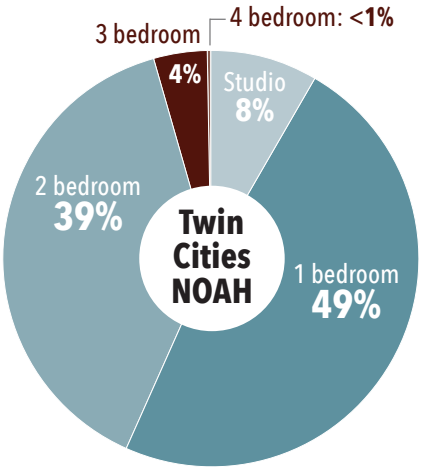


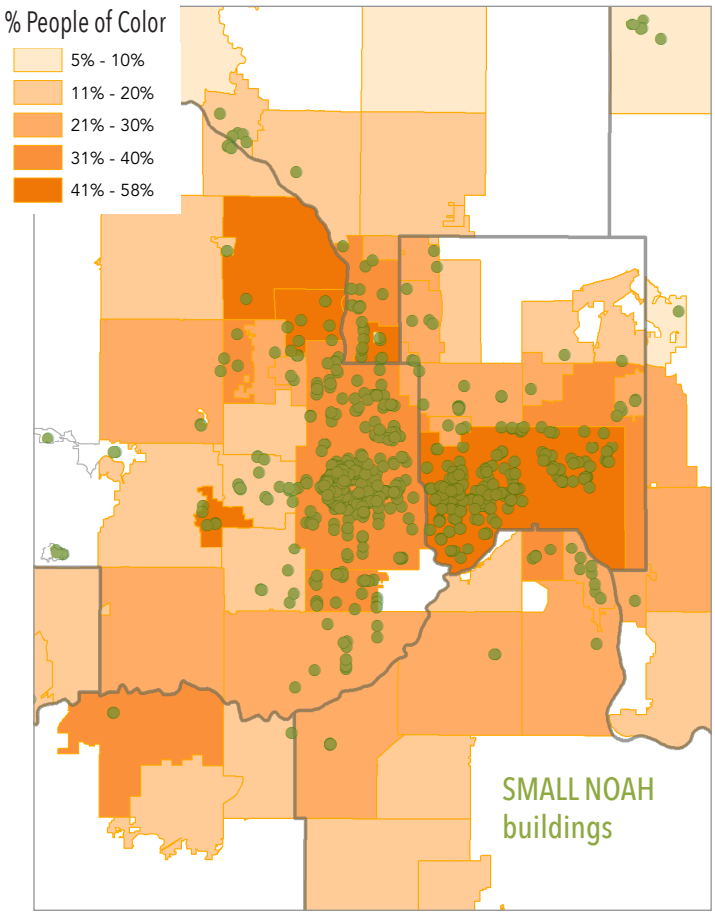
Of the 344 total NOAH properties constructed from 1910 to 1930, 93% are categorized as small or medium. Within large NOAH properties, 65% were constructed from 1960 to 1972. Of all NOAH properties identified in our dataset, 55% were produced in a boom of construction from 1960 to 1972. Construction in the 1960s, in contrast to the previous wave of construction of the 1920s, yielded much larger properties, predominantly in the suburbs, with many more units.

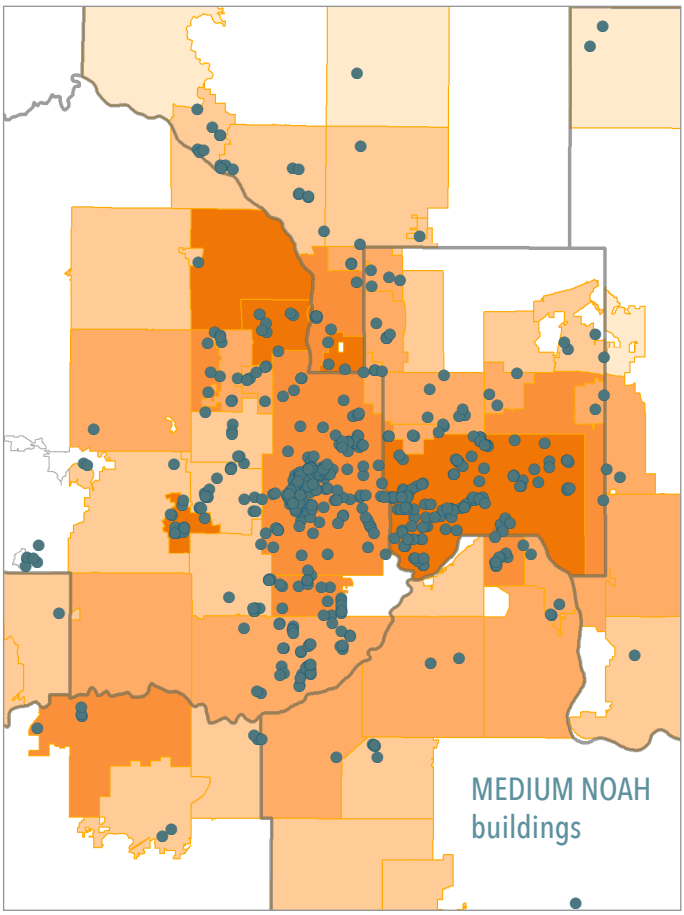
FEW UNITS FOR LARGER FAMILIES

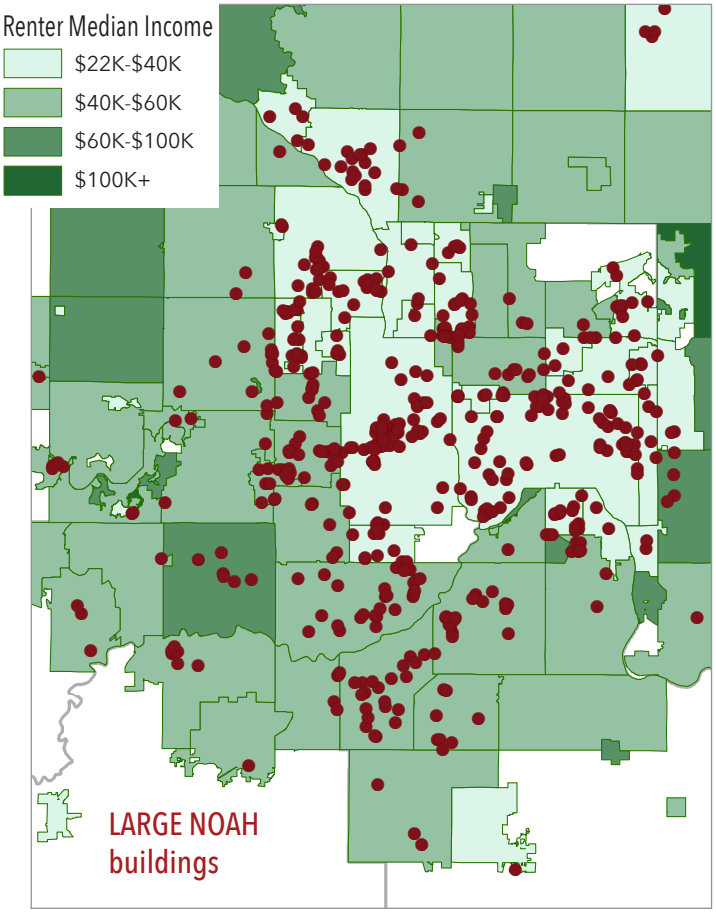
Of all NOAH units, the vast majority are one-bedroom (49%) or two-bedroom apartments (39%). Three- and four-bedroom naturally occurring affordable apartments makeup only 4% of the total NOAH stock. The vast majority of three- and four-bedroom units (77%) are in large NOAH buildings. And, of these large NOAH buildings, 87% are outside of the core cities, with the most sizable number of units located in Burnsville and Brooklyn Park.











SMALL & MEDIUM NOAH CONCENTRATED IN LOWER INCOME AND COMMUNITIES OF COLOR

The majority of small and medium NOAH buildings are in cities with more than 30% people of color. Of the 79 cities in the 7-county metro area, 11 have more than 34% people of color, including Brooklyn Center, Brooklyn Park, Saint Paul, Minneapolis, Richfield, and Hopkins. These cities are home to roughly 413,492 people of color, and include 83% of medium and 67% of small NOAH buildings, compared to just 43% of large NOAH buildings.

While small and medium NOAH buildings are primarily concentrated in the core cities, large NOAH are distributed across suburban Hennepin and Ramsey Counties, with 71% of large NOAH buildings in Hennepin County located in suburban cities and 54% of large NOAH buildings in Ramsey County located in suburban cities. Large NOAH buildings, given their wider distribution, are more likely to be in cities with higher renter median income. While 40% of large NOAH buildings are in cities with median renter incomes from $40,00 to $66,600, 78% of medium and 89% of small NOAH buildings are in cities with median renter incomes below $40,000.

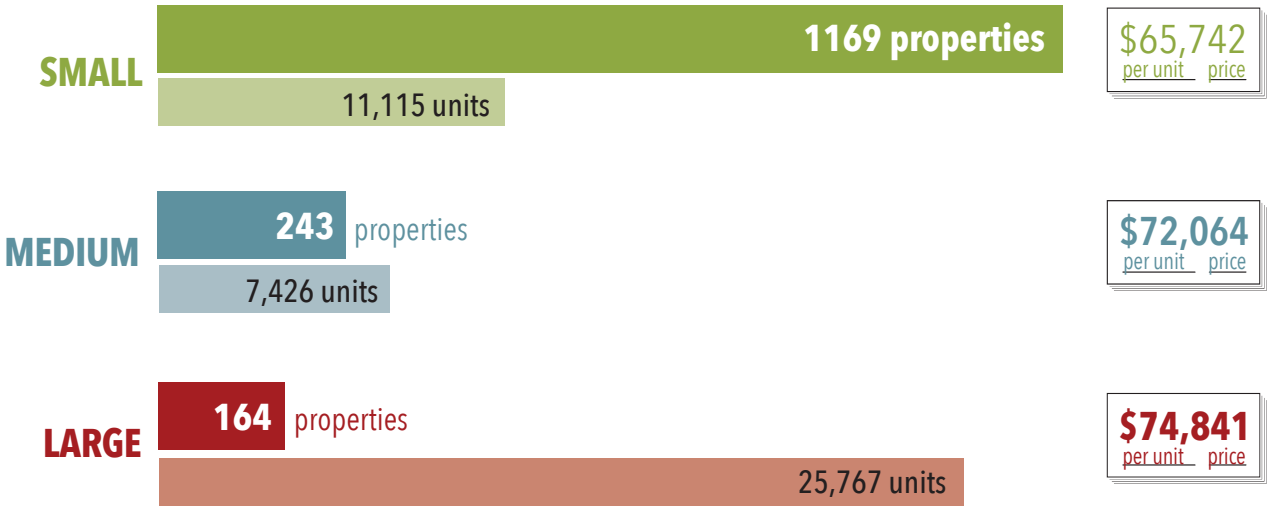
PROPERTY TRANSACTIONS MOST PREVALENT IN SMALLER PROPERTIES

Of the total 1,576 sales transactions in Class C properties, 74% were small buildings, with just 10% occurring for large buildings with more than 50 units. Not surprisingly, however, of the total 44,305 units impacted by property sales in Class C buildings, 58% of units sold were in large buildings, followed by 25% (11,115) in small buildings.

The age of the buildings varied widely by property size. Overall, 47% of the buildings sold were 51 to 75 years old at the time of sale, though 85% of small buildings were more than 51 years of age at the time of sale, while 59% of large buildings were less than 50 years old. Large buildings had a higher average sales price per unit at $78,841 than medium or small properties at $72,064 and $65,742 respectively.

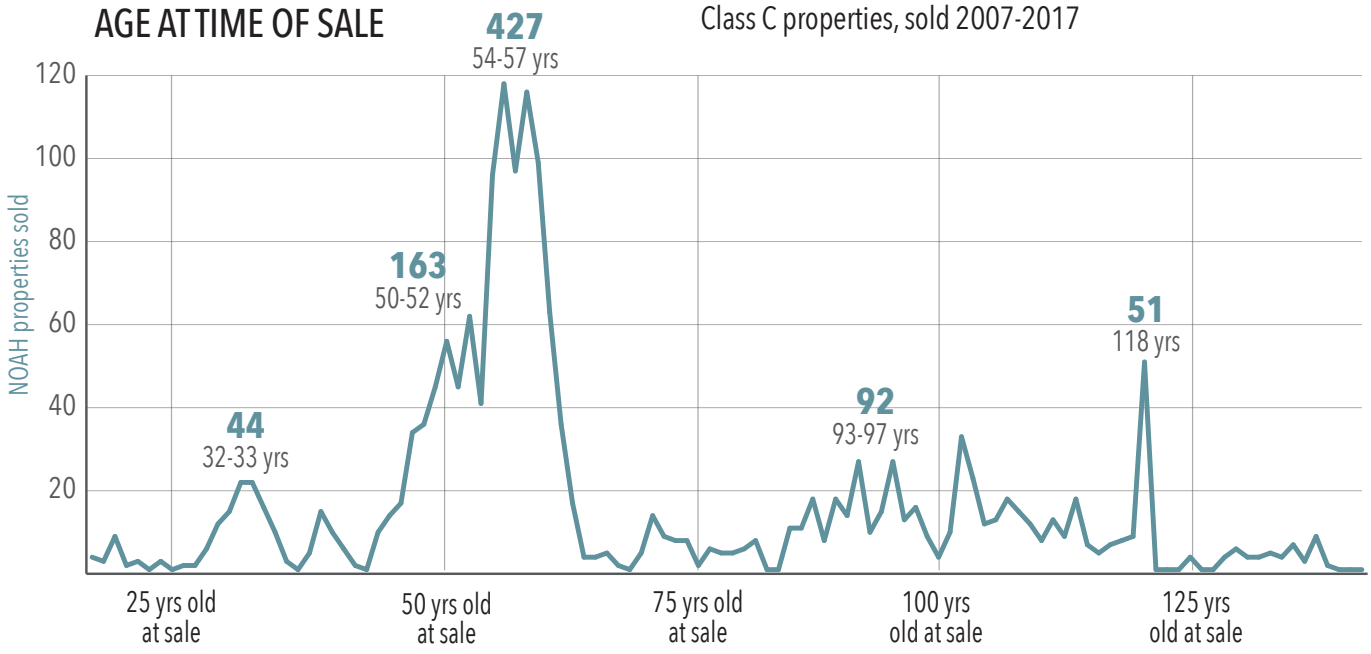
PROPERTY SALES AND UNITS IMPACTED BY SIZE, 2007-2017

AVERAGE PER UNIT SALE PRICE



AGE AT TIME OF SALE

Class C properties, sold 2007-2017



CONCLUSION

While several high-profile property sales and transitions, like the Crossroads at Penn in Richfield, have focused the attention of policymakers and the public on the need to preserve naturally occurring affordable housing, it is important to recognize that the geography and make-up of NOAH properties is not uniform. To craft effective and viable preservation policies and financing tools, it's essential to identify and understand these distinctions. While there is a need to preserve larger properties, notably in the suburbs that contain hundreds of units, there is also a significant stock of smaller buildings, especially in the central cities of Minneapolis and St Paul and areas that lower median income renters and communities of color call home. It is essential that policymakers, advocates, and developers work to find solutions that fit the needs of their communities and the realities of their housing stock.

For additional analysis of NOAH trends in Minneapolis and St Paul, please reference MHP's previous Market Watch reports at **www.mhponline.org/market-watch**.

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