MARKET WATCH:
Spotlight on Minnesota NOAH

Issue #6, May 2021

Across the state, growing ranks of renter households are facing an increasingly challenging housing market with rising rents and declining vacancy rates. Current owners of unsubsidized rental properties have few tools to preserve and improve aging properties to maintain homes for current and future tenants. New construction of rental units has skewed towards higher-end homes, leaving production gaps for lower income rental housing. Because the market does not produce enough housing across the housing continuum, the preservation of existing housing is often the most cost-effective way to provide affordable housing. In this spotlight map series, Minnesota Housing Partnership identifies areas of significant property sales activity and notable clustering of market rate units renting at or under 60% of AMI in Greater Minnesota; we also identify additional layers of affordability in the unsubsidized multi-family rental markets within the 7 County Metro.

Highlights from the report:



Of Greater Minnesota metro areas, the St. Cloud MSA presents as the most pronounced and dense market for NOAH multifamily buildings. The St. Cloud metro is also exhibiting significant activity in terms of property sales of multifamily buildings.



Larger metro areas Duluth and Grand Forks display a smaller number of property sales than expected, whereas some smaller cities like Owatonna, Faribault, and Willmar have a higher-than-expected amount of sales taking place.



Newly created maps for the 7 County Metro feature counts of NOAH at additional income thresholds and provide more information to the predominance of NOAH units within a building. This data, which conveys how many units are typically affordable within a multifamily building, may inform potential buyers interested in preserving affordable housing .

CONTACT US

Gabriela Norton, Research Manager
gabriela.norton@mhponline.org : : mhponline.org

mhp research

Minnesota Housing Partnership (MHP) expands housing and community development opportunity for those most impacted by economic and racial disparities by leading collaborative work to promote systems change and grow equitable development capacity.

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Definitions and Acronyms

NOAH: For this series 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.

DATA SOURCE: Unless otherwise noted, data comes from CoStar, a commercial real estate database that tracks multifamily properties with four or more units. Data was accessed and downloaded January 2021 for statewide Greater MN maps and May 2021 for 7-County Metro regional maps.

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.

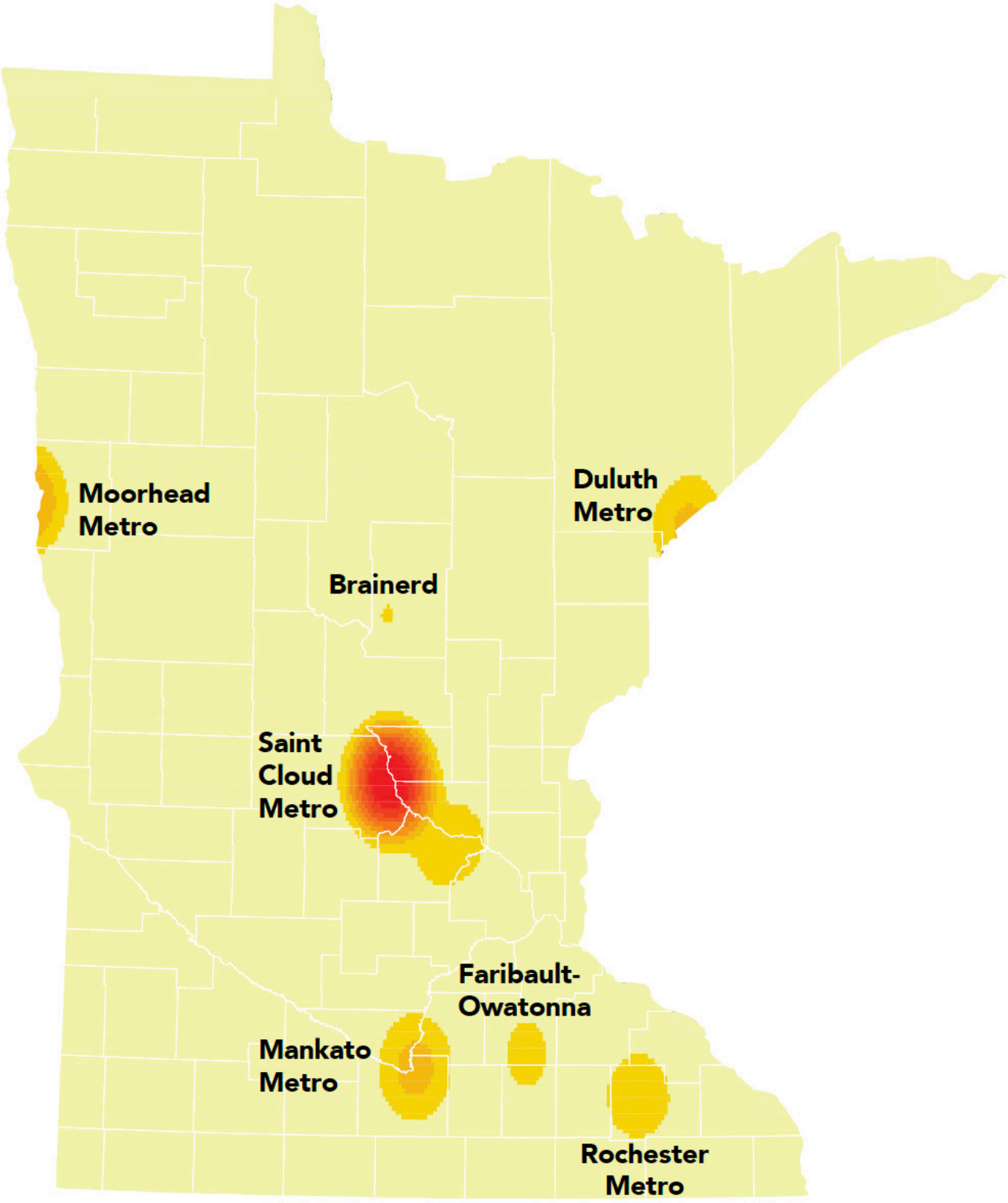
AREA MEDIAN INCOME (AMI): The midpoint in the income distribution within a specific geographic area. By definition, 50% of households, families, or individuals earn less than the median income, and 50% earn more. HUD calculates family AMI levels for different communities annually, with adjustments for family size. AMI is used to determine the eligibility of applicants for both federally and locally funded housing programs.

HEAT MAP: indicates statistically significant clustering of an event, rather than total count of an event.

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NOAH in Greater Minnesota, 2021:

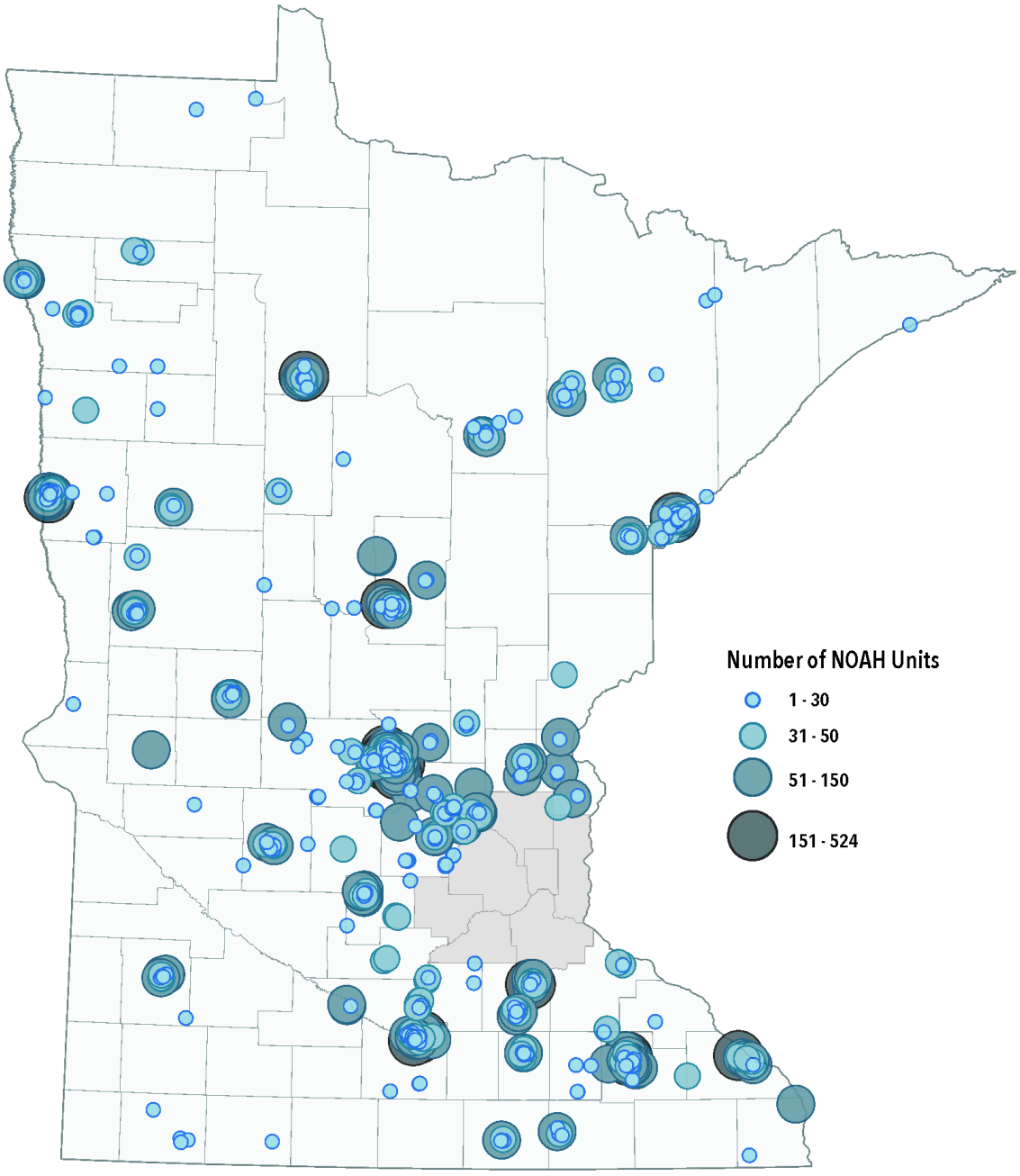
Hot Spots of NOAH Buildings



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NOAH in Greater Minnesota, 2021:

Market Rate Units with Rents Affordable at or under 60% AMI

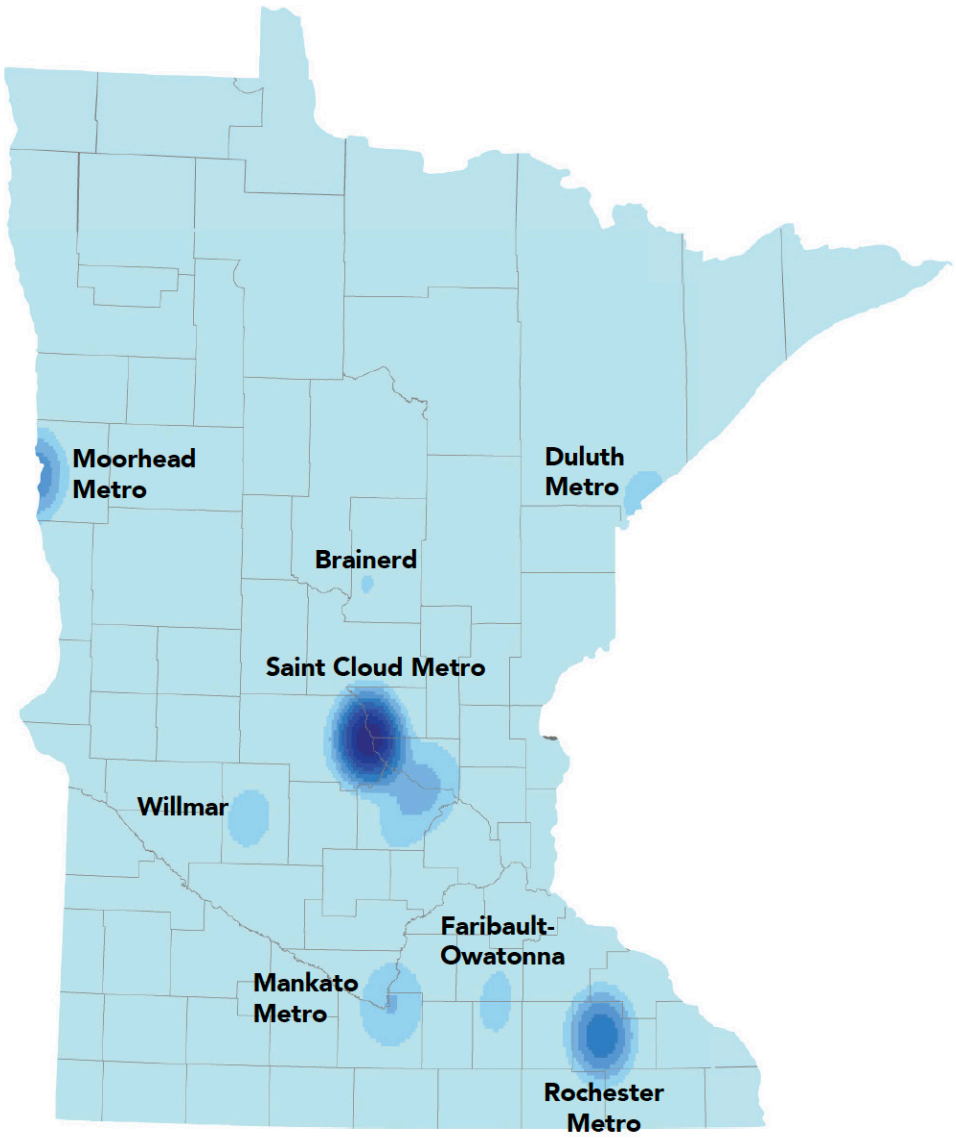


This map illustrates areas that contain a significant amount of multifamily, market rate buildings with units that rent at or below 60% of AMI. The St. Cloud metro area (Stearns, Benton, Sherburne, and Wright counties) appears most vividly as a pronounced and dense market for NOAH multifamily buildings in Greater Minnesota. Fargo-Moorhead, Duluth, Mankato, and Rochester also appear as areas containing substantial NOAH.

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Property Sales in Greater Minnesota, 2021:

Hot Spots of Multifamily Property Sales

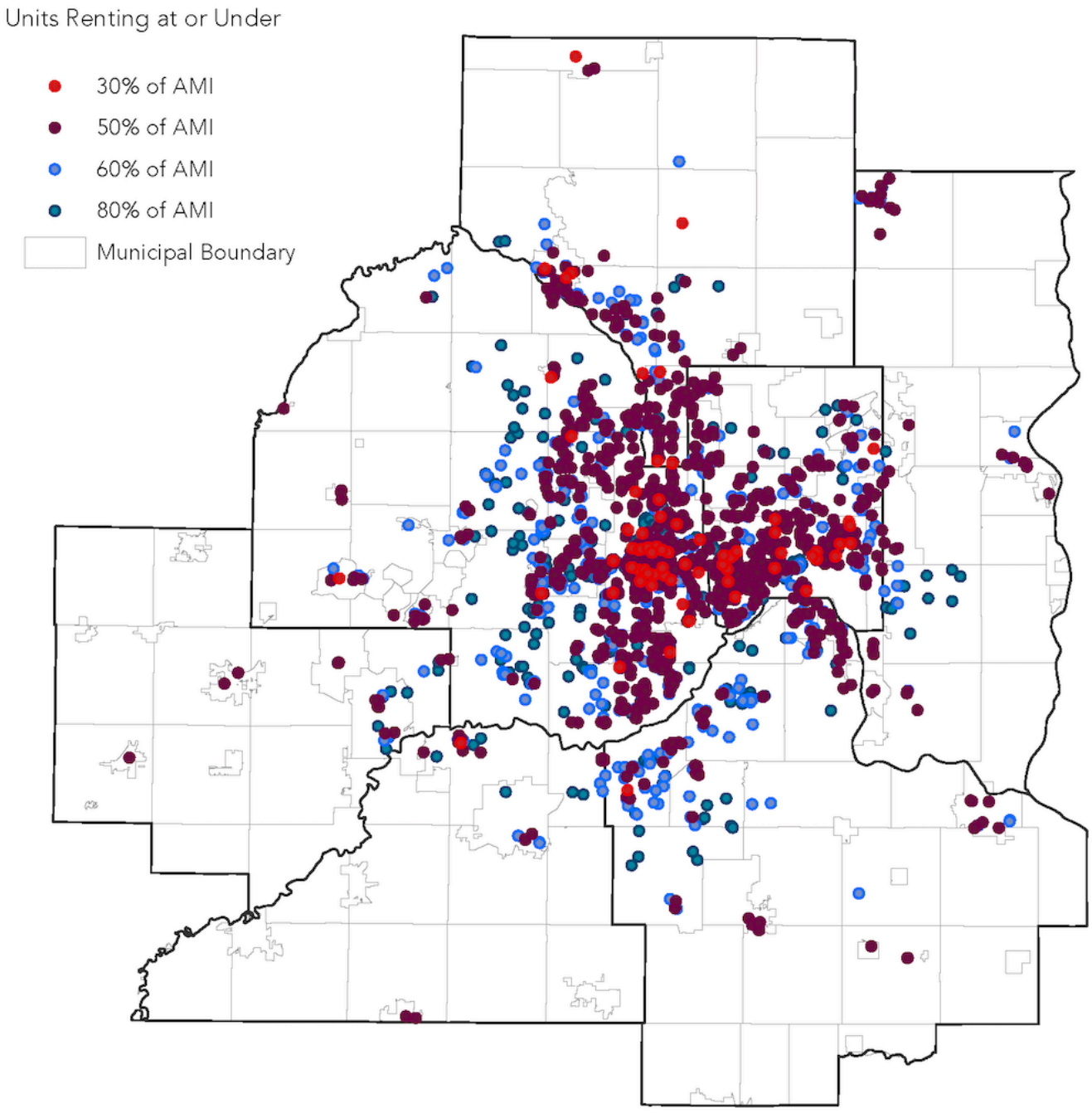


This map displays significant clustering of multifamily market property sales across the state, excluding the 7-county metro. The predominant hot spots appear in the St. Cloud regional area (Stearns, Benton, Sherburne, and Wright counties), the Rochester metro area, and the Moorhead-Fargo metro area. Meanwhile, other metro areas like Duluth and Mankato have a less vivid presence of property sales. Smaller cities like Owatonna, Faribault, and Willmar have a higher-than-expected number of sales taking place, whereas the larger Grand Forks metro area does not appear as a hotspot for property sales.

When there are hotspots in multifamily property sales or significant changes in ownership, new property owners may make upgrades to reposition the units for residents with higher income. Property sales can be a strong driver for rent increases, which could make NOAH buildings unexpectedly unaffordable to long-term residents.

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NOAH in the 7-County Metro, 2021:

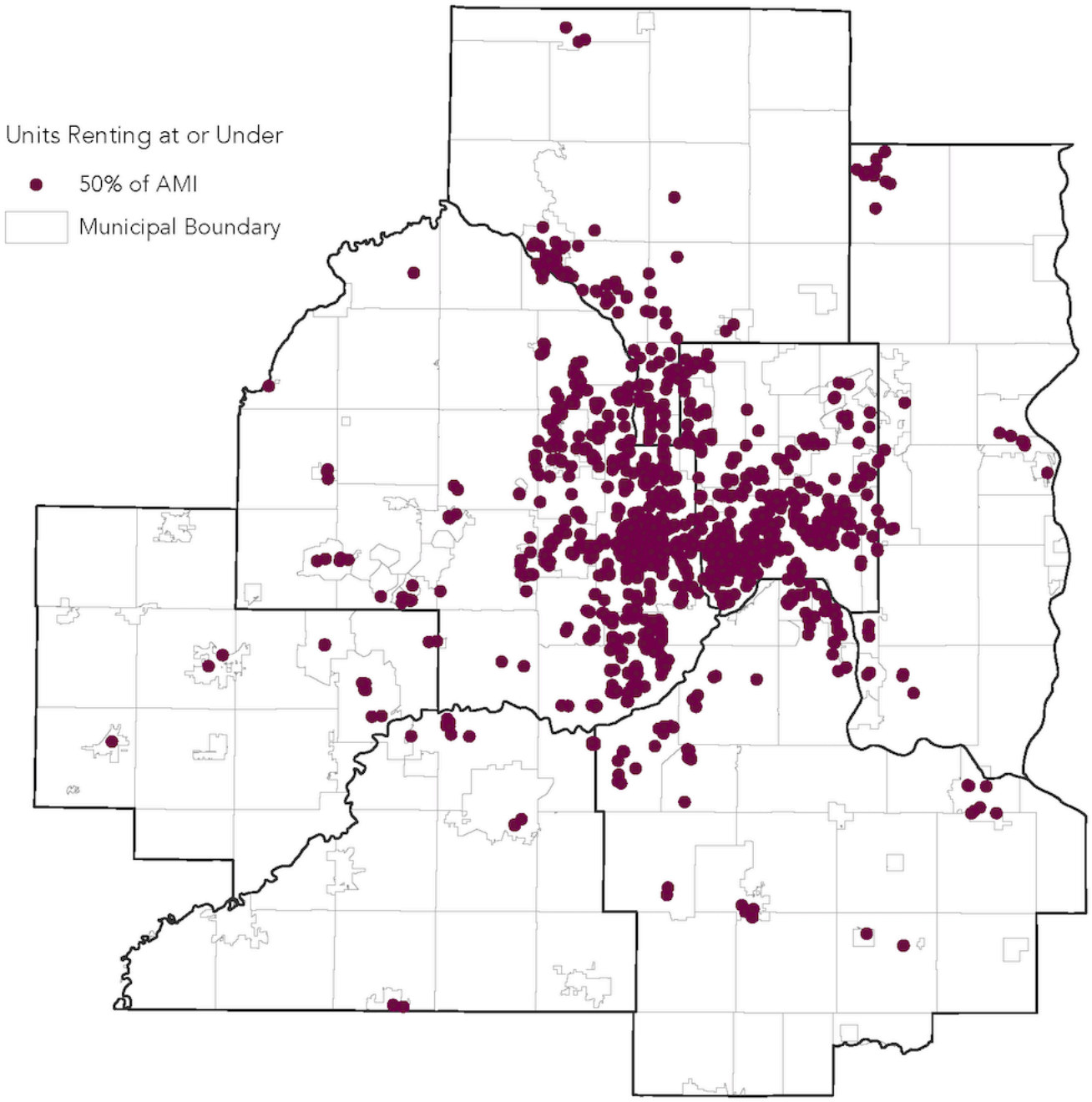


The following maps illustrate multifamily, market rate buildings with rent that is affordable at 30, 50, 60 and 80% of area median income. For low- and moderate-income renters, even slight increases in rent can be significant. Thousands of households earning under 60% of the area median income (AMI)—for instance, a family of four earning under $55,860 annually—are able to call Minnesota home by renting in unsubsidized apartments in the private market. Unsubsidized units that are affordable to these residents are often referred to as NOAH.

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NOAH in the 7-County Metro, 2021:

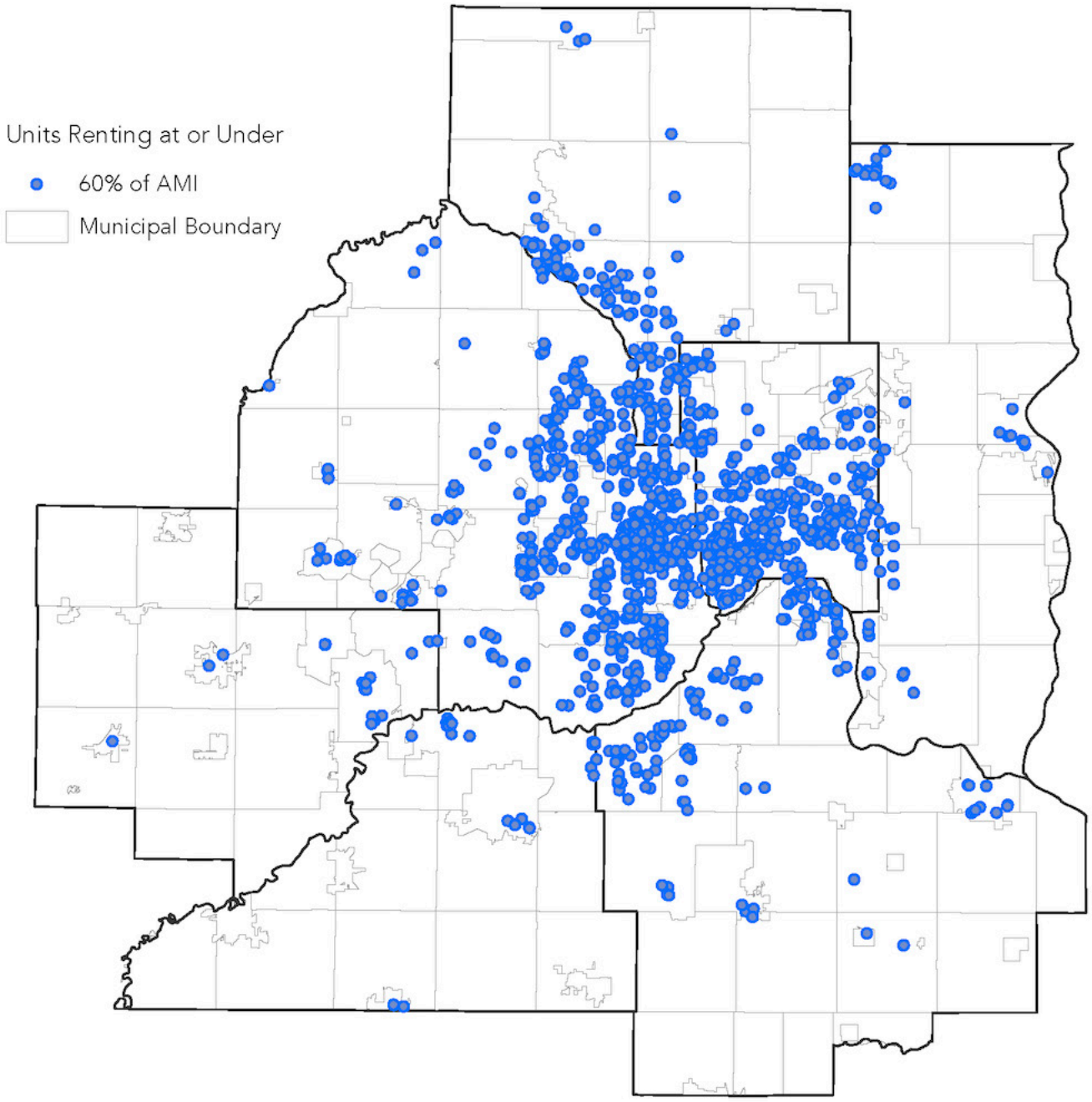
Units renting at 50% of AMI



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NOAH in the 7-County Metro, 2021:

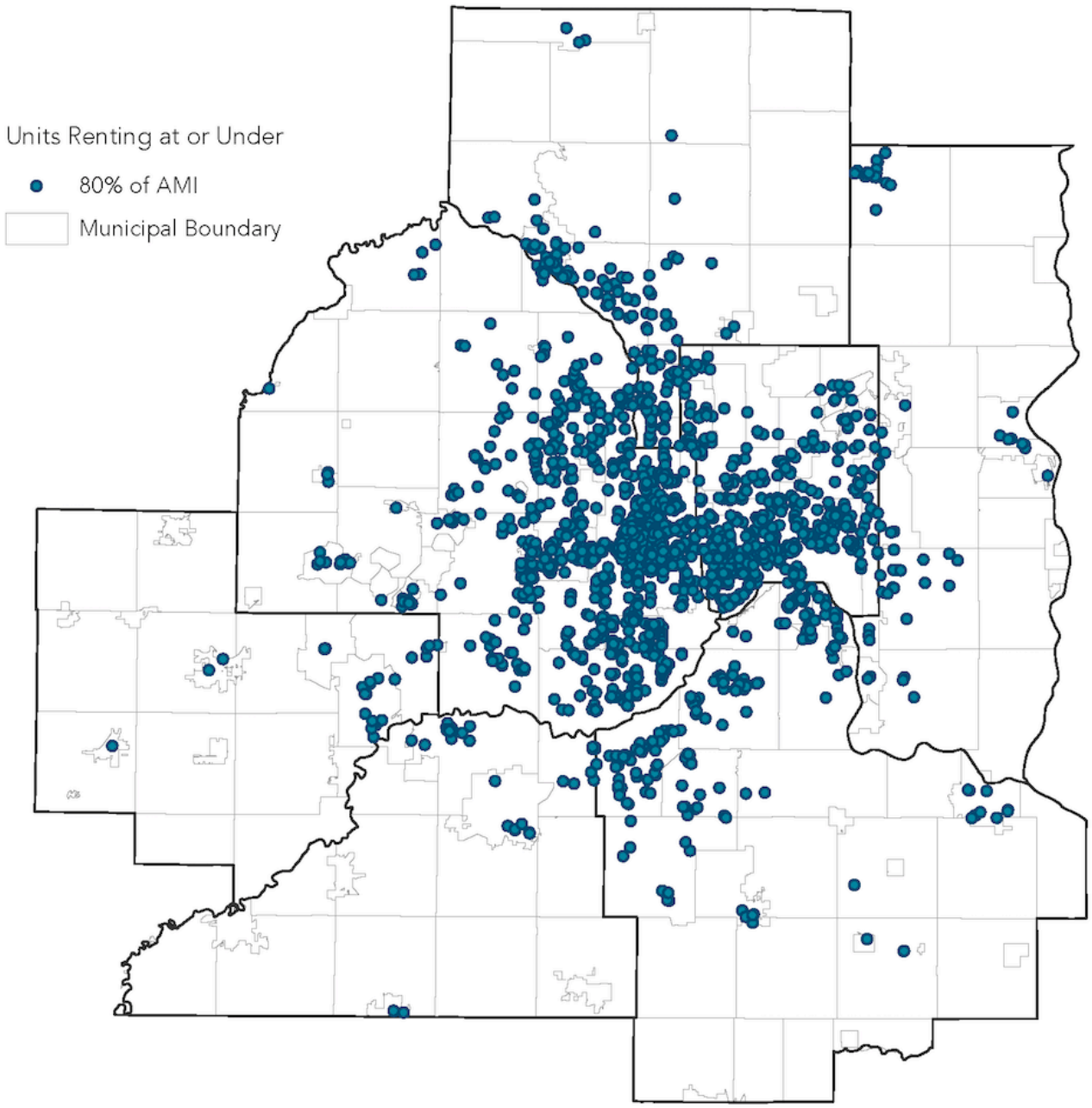
Units renting at 60% of AMI



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NOAH in the 7-County Metro, 2021:

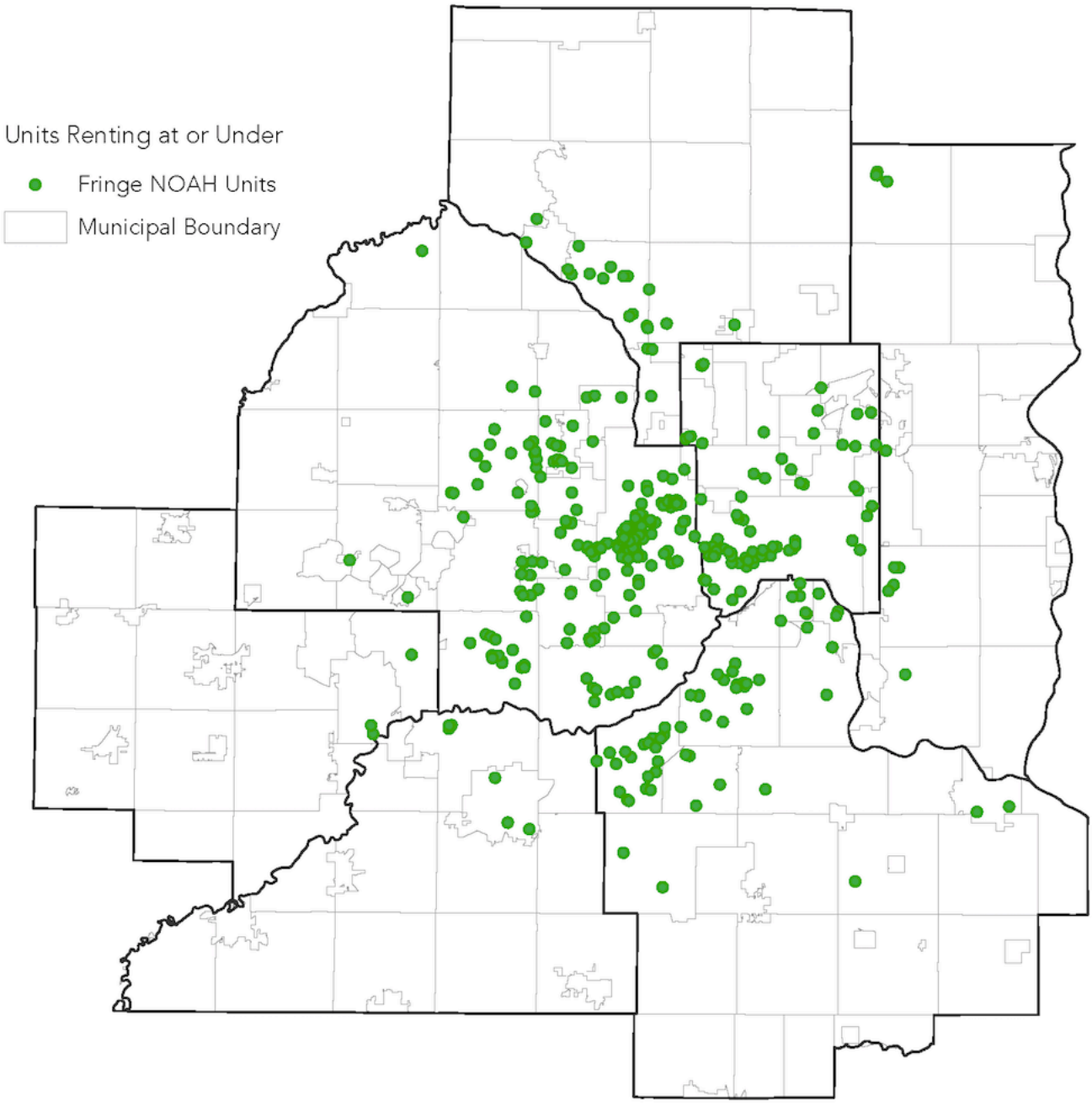
Units renting at 80% of AMI



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NOAH in the 7-County Metro, 2021:

Units on the borderline of affordability to those making 60% of AMI or less.

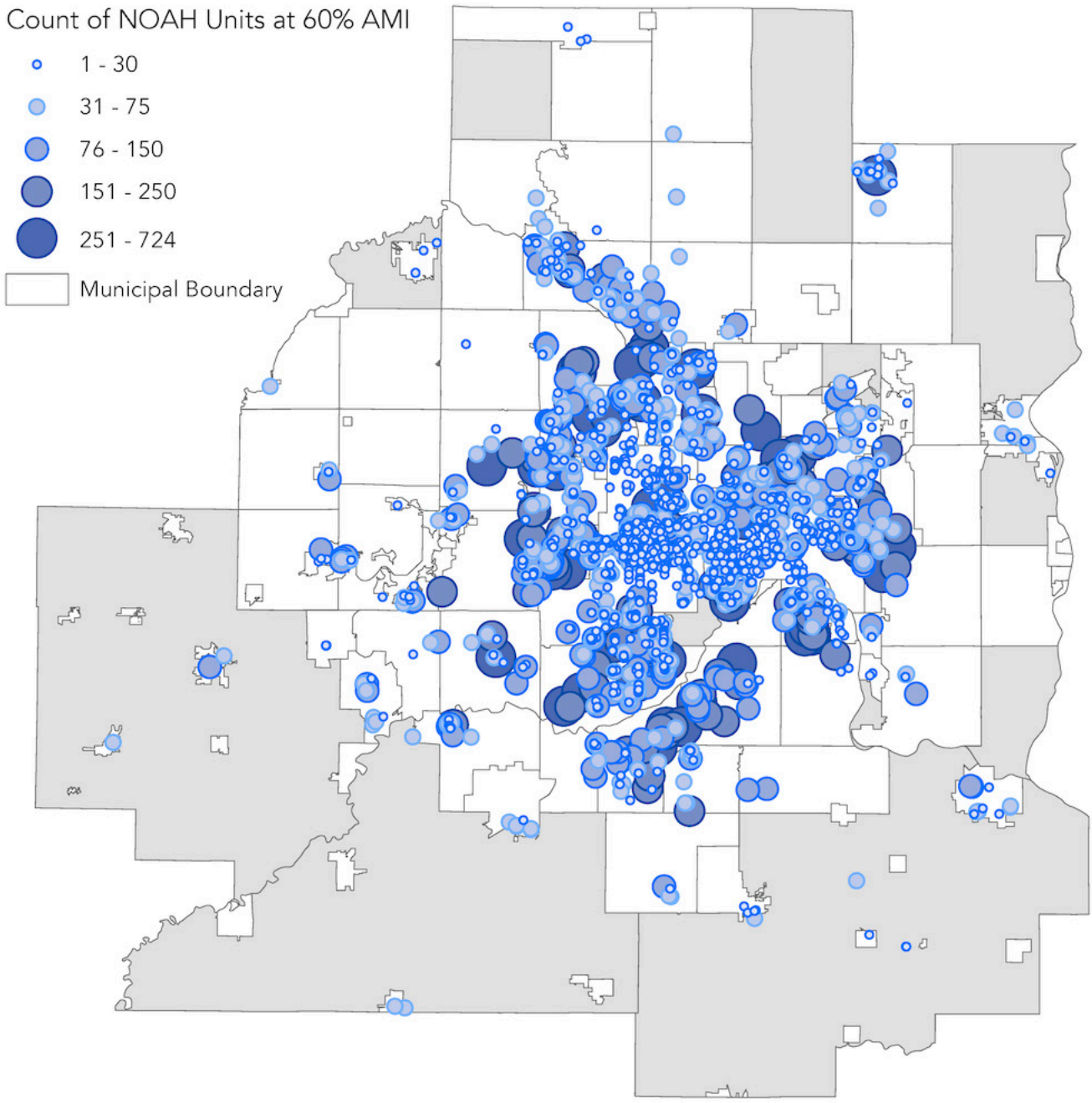


Presented here are units that contain rents 5% below or above 60% AMI; these units could easily be lost (i.e. no longer affordable to those at the 60% AMI income threshold) due to slight rent increases.

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NOAH in the 7-County Metro, 2021:

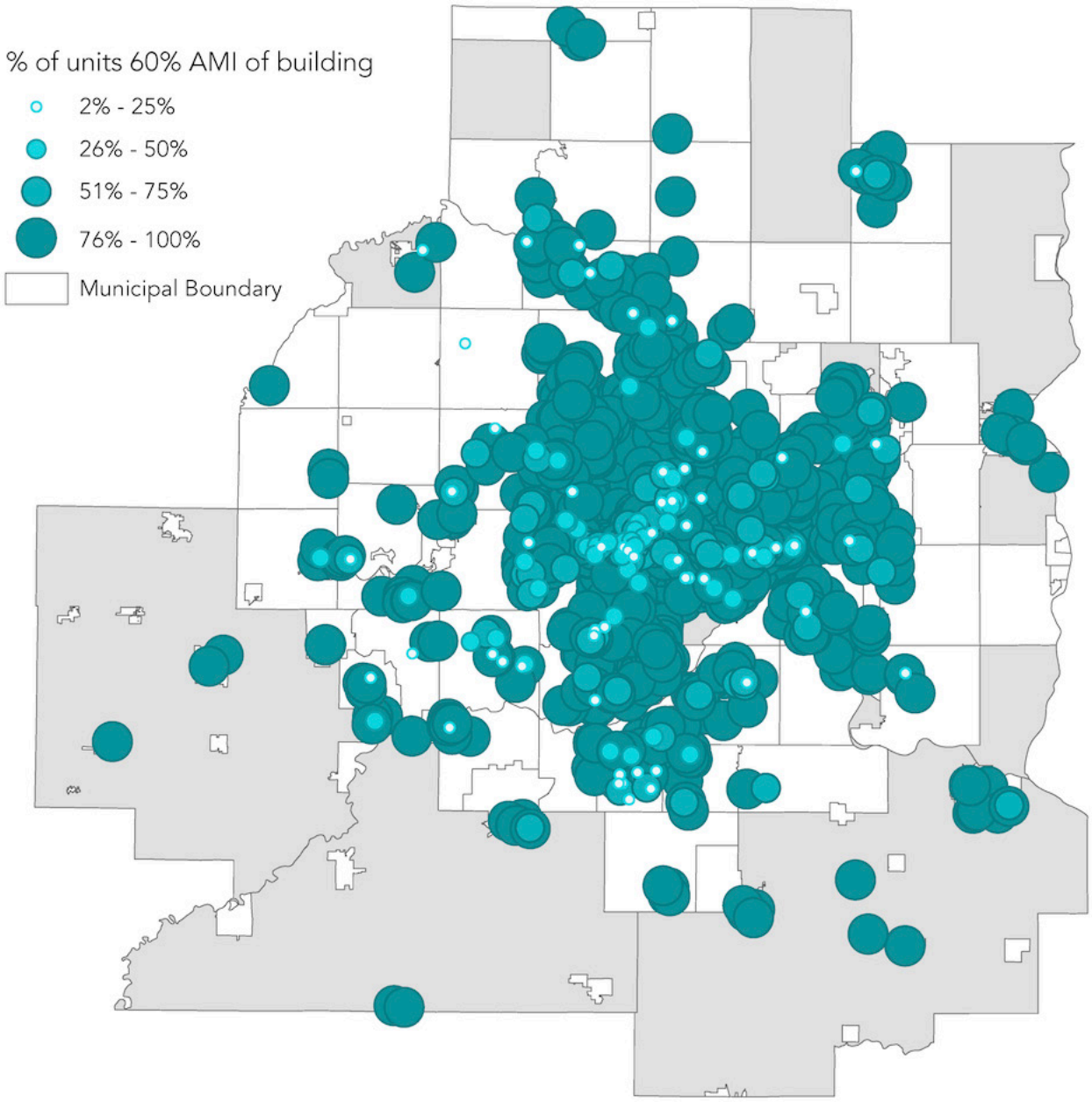
Market Rate Units with Rents Affordable at or under 60% AMI



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NOAH in the 7-County Metro, 2021:

Percentage of units renting at 60% AMI within a multifamily building



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