



HousingMinnesota

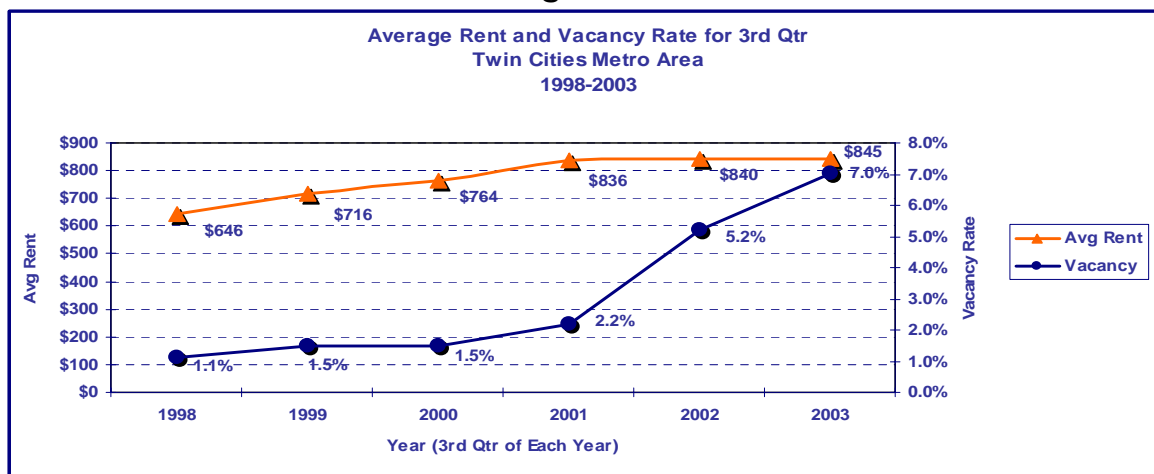
Homes For All By 2012

Apartment Vacancy Brief: Affordable Housing Crisis Persists

There is no clear indication that the demand for affordable rental housing has abated due to higher vacancy rates in the **Twin Cities metro area**.ⁱ In fact many indicators point to a growing affordability problem despite rising vacancy rates.

Apartment vacancy rates, a measure of available apartments, have continued to rise in the Twin Cities metro area since the economy began to falter in 2000. This reversed a trend of extremely low vacancy rates that bottomed out in September 1998.ⁱⁱ Low vacancy rates translate into higher demand for the limited number of apartments. Higher demand for apartments during the late 1990s into early 2000 drove rents up resulting in a 24% increase in rents between 1998-2003.ⁱⁱⁱ (Figure #1 depicts these trends between 1998-2003.)

Figure #1



Source: GVA Marquette Advisors

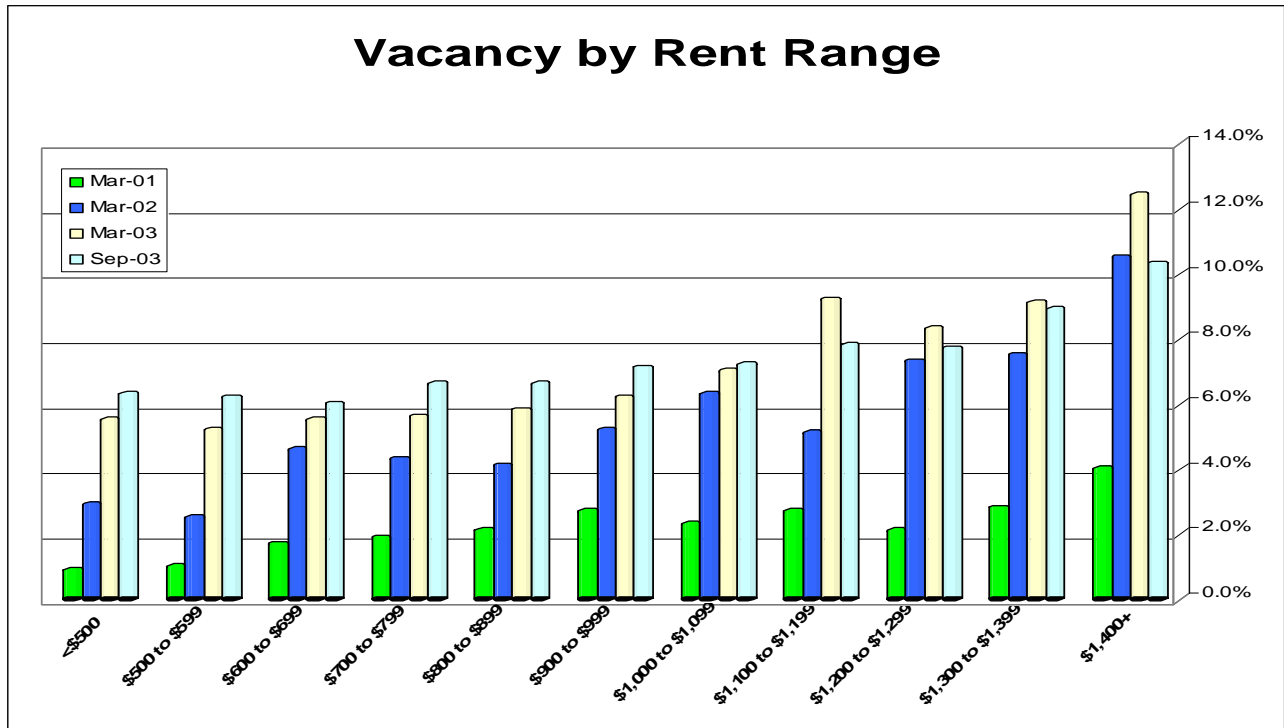
With a greater availability of apartments, the market would be expected to respond with a reduction in rents. So far this has not happened and average rent has actually continued to rise, albeit slightly. Minnesota Multi-Housing Association, a trade association of rental property owners, explains several reasons why rents have not been reduced significantly in response to the softening market^{iv}:

- **Operational expenses** have increased for property owners, including health insurance, liability insurance, high energy costs, court costs, and city fees.
- **Higher property valuations** have led to increased tax burden despite lower tax rates.
- Rental market statistics [from GVA Marquette] represent a very broad sample of the local rental market. The rental average is skewed higher with the **addition of newly constructed units**, which typically rent at much higher rates, are added to each survey.
- **Marketing concessions** that cost owners income, but are necessary in order to compete in the current soft market. Concessions often include one or two free months rent. This does not bring down the average monthly rent statistics, but does reduce the annual rent a tenant pays for the unit. [The renter must have an income level that qualifies them for the rent—the rent concession is not formally spread out over the life of the lease.]

Indications that the affordable housing shortage has not abated

While the vacancy rates have increased across all rent ranges over the last three years, the highest vacancies have been for luxury apartments with rents well above affordability levels for low and even moderate-income households. (See Figure #2) Affordability is typically defined as housing costs that do not exceed 30% of a household's income.

Figure #2



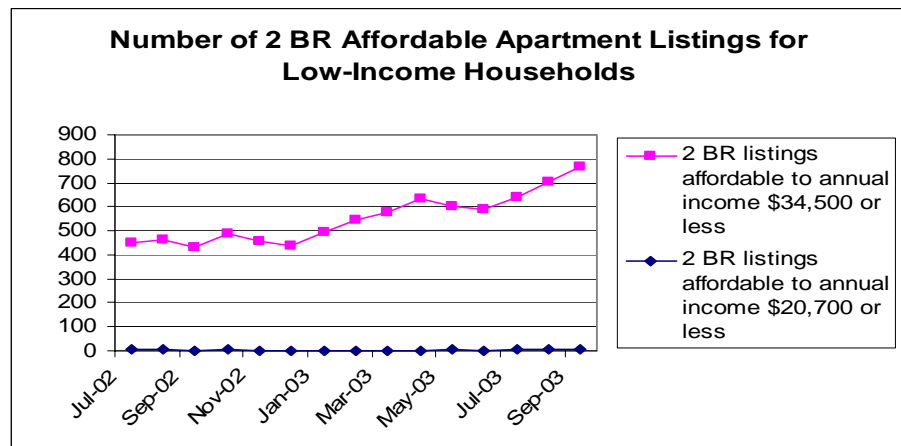
Source: GVA Marquette Advisors

During 2001 and 2002 apartments at the lower rent range had been much scarcer than apartments at the higher rent range. There has been a softening of the market for lower rent apartments in 2003. However, data compiled from rental ads from metro daily and weekly newspapers suggests the market is very tight for two-bedroom units affordable to extremely low-income households making less than \$20,700 per year. HousingLink data shows the number of listings for two-bedroom apartments with rents affordable at this income level (\$517.50/month or below) average between 1 and 6 listings per month during 2002 and 2003. (See figure #3)

Figure #3

Vacancies Do Not Equate with Affordability

New data shows that the housing affordability problem in Minnesota has grown dramatically worse since the 2000 Census and surpasses the affordability problems faced by renters in 1990.



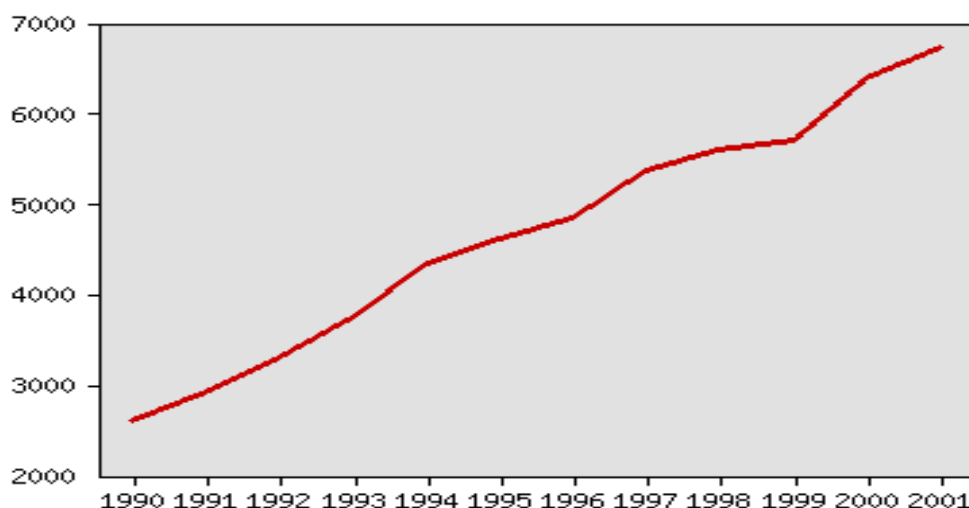
Source: HousingLink

The most recent housing information available for the state comes from the 2002 American Community Survey, an annual update of the US Census.^{vi} According to their statewide estimates, 196,000 renter households were paying 30% or more of their income on rent in 2002, up from 165,000 when the 2000 Census was taken in 1999. This represents a 16% increase (31,000 households) between 1999 and 2002. The American Community Survey 2002 estimates that **97,000 renter households were spending over half of their income on housing**, up from 73,000 in 1999.

The number of households seeking **federal rent assistance** is also an indicator of the high demand for affordable rental housing. All twelve metro waiting lists for Section 8 rental assistance are currently full and taking no further applications.^{vii} There are over 24,000 households currently on metro area Section 8 waiting lists.^{viii} The average estimated wait to receive a Section 8 voucher is 4.3 years.^{ix}

Homelessness is the most poignant indicator of demand for affordable housing. The table below depicts the dramatic increase in homelessness in Minnesota over the last 10 years—the number of people staying at a homeless shelter nearly tripled between 1990 and 2001.^x The economic boom of the late 1990s did not reduce homelessness; it is likely that the economic downturn since 2000 drove homelessness up even further.^{xi} The most frequent reason given for homelessness is the lack of affordable housing.^{xii}

Number of People in Minnesota Using a Homeless Shelter on a Given Night



Source: Minnesota Demographic Center

What does the future hold for people seeking affordable apartments?

GVA Marquette Advisors predicts that apartments with affordable rents (\$700/ month or less) will fill up quickly once the economy rebounds: "Higher vacancy rates in the workforce and affordable rental markets relate to the stagnant job market. When job growth returns, we expect a decline in the apartment vacancy rate, with the affordable and workforce units filling first."^{xiii} If this prediction bears out, the trend toward a softening rental market will be short-lived and any substantial reduction in rents across the market will be unlikely. The shortage of affordable rental housing is likely to persist.

End Notes

- ⁱ This paper examines trends documented in the Twin Cities metro area, not greater Minnesota or the state as a whole where current vacancy rate and rent data is not broadly available.
- ⁱⁱ Data provided by GVA Marquette Advisors.
- ⁱⁱⁱ Data provided by GVA Marquette Advisors.
- ^{iv} Minnesota Multi-Housing Association, Oct. 16, 2003.
- ^v "Private Market Vacancy Report," HousingLink, July 2002-Sept. 2003. HousingLink's listings are compiled from numerous suburban and metro daily newspapers, as well as HousingLink's landlord listing line, using only the information they provide. Listings are included in the Private Market Vacancy report if the rent amount is within a specific rent range or advertise a willingness to accept Section 8 Vouchers. For further information see HousingLink's web site at www.HousingLink.org.
- ^{vi} American Community Survey 2002 may be accessed at <http://factfinder.census.gov/home/en/acldata.html>
- ^{vii} "Waiting List Status Report," HousingLink, Oct. 8, 2003.
- ^{viii} Phone survey of 11 of the 12 Twin Cities metro area agencies that administer Section 8 Oct. 22, 2003.
- ^{ix} Waiting list time period data provided by HousingLink, Oct. 2003. Average calculated by HousingMinnesota.
- ^x "Minnesota Milestones," Minnesota Demographic Center, chart accessed Oct. 22, 2003 from <http://www.mnplan.state.mn.us/mm/goal.html>, data source MN Dept. of Children Families and Learning.
- ^{xi} The Wilder Research Center will be conducting their statewide survey on homelessness on Oct. 23, 2003. Complete results will be available Summer of 2004.
- ^{xii} "Minnesota Statewide Survey of People Without Shelter," Wilder Research Center, 2001.
- ^{xiii} "Apartment Trends: Third Quarter 2003," GVA Marquette Advisors, 2003.