



Sold Out

Apartment property sales are skyrocketing in the Twin Cities metropolitan area. Will affordable rental units disappear?

October 2016



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Cover photo: Concierge apartments in Richfield, Minn

INTRODUCTION

In 2015 residents of Crossroads at Penn discovered their apartment complex had been sold. For years, the 698-unit development provided reasonably priced apartments to nearly 2,300 residents in Richfield, a suburban community just south of Minneapolis. But after property and amenity upgrades, and rebranding the complex as the Concierge apartments, the new owner raised rents by 40 percent. Not only were the new rents far above what was affordable to most of the residents, but the new owner also discontinued acceptance of Section 8 Housing Choice Vouchers. **As a result, more than 1,000 people were displaced because of one real estate transaction. Less than one year later, tenant advocates estimate that no more than 20 percent of tenants there at the time of sale still reside at the Concierge.**

As the nonprofit public-interest law firm Housing Justice Center noted in a recent press release, “the conversion of the 698 apartments at Crossroads, by itself, offset virtually all of the production of new affordable housing in the metro area in 2014.”

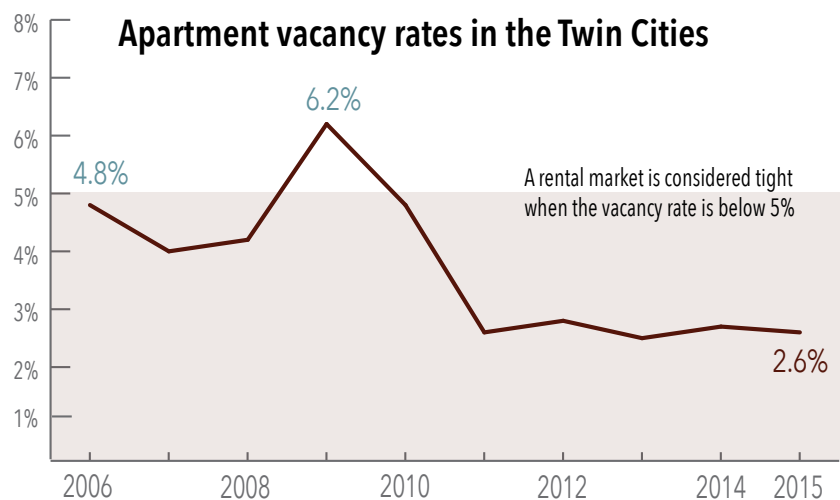
In recent years property owners and investors have capitalized on the growing number of higher income renter households in the region by building new luxury apartments, and by purchasing and renovating apartment complexes such as the Crossroads at Penn. Between 2010 and 2014, the number of Twin Cities renter households with incomes above \$50,000 increased by 31 percent, adding 30,000 tenant households with

incomes and rental purchasing power substantially higher than that of many renters.

Of that 30,000, nearly half (13,000) have incomes greater than \$100,000 — and these tenants with six-figure incomes are the target market for new construction and the monthly rents of more than \$2,000 associated with new luxury apartments. The 16,000 new renters with incomes from \$50,000 to \$99,000, typically cannot afford the new construction rents but still want apartments with high-quality amenities in high-demand areas. Investors are acquiring and “upscaling” older apartment properties to serve this expanding population.¹

Both the pace of transactions and price paid for existing rental housing are climbing.

Across the Twin Cities, rental housing is in short supply, especially for low-income families whose wages have not kept pace with rising monthly rental prices. Since 2010 the rental vacancy rate in the Twin Cities has remained well below 5 percent (a widely accepted indicator of a “tight” rental market) and the average rent increased by 16 percent, to \$1,046.



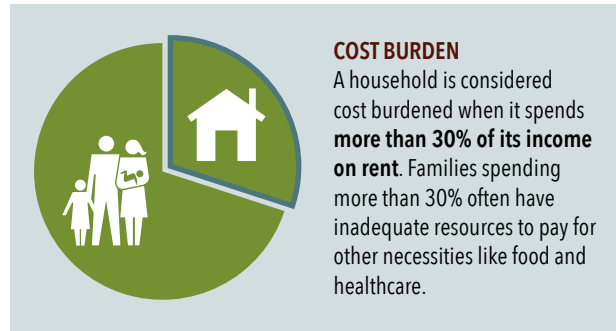
Source: Marquette Advisors Rent & Vacancy Data

¹ “Upscaling” as used in this report refers to when a new property owner provides amenities and renovations that command higher rents, and typically targets the property to renters with incomes higher than that of the tenant population at the time of purchase.

Introduction (cont)

The rising cost of housing accompanied by stagnant incomes of many renters, contributed to increased numbers of cost burdened households, particularly among those with lower incomes. In 2014, 72 percent of renter households with incomes below \$50,000 (158,000 households) were cost burdened.

The shortage of affordably priced housing and the likelihood of continued rent increases create the need for public policy and private efforts to both expand the region's housing supply and preserve the current stock of affordable rental housing, subsidized or not. In this report, Minnesota Housing Partnership (MHP) examines the potential impact of apartment sales and conversions across the metropolitan region,



focusing on the implications of the sharp increase in apartment sales between 2010 and 2015.

The purpose of this report is not to condemn investment in the region's rental housing but to encourage community dialogue and action to relieve the upward pressure on rents and protect vulnerable populations from displacement.

BENEFITS with property sales	CONCERNS regarding property sales
<p>Extending the life of aging apartment properties: Buying and renovating older, neglected apartment properties extends the lifespan of these buildings, improving living conditions for residents and the broader community.</p>	<p>"Upscaling" older properties diminishing affordability: "Upscaling" is the process of renovating unsubsidized affordable housing developments in a way that facilitates rent increases. "Upscaling" often involves increasing rents above what the low- and moderate-income tenants of these properties can afford.</p>
<p>Bringing better management: Residents and the surrounding community suffer when unsubsidized affordable housing developments are poorly managed. Those acquiring large rental property portfolios are likely to have strong property management operations.</p>	<p>New rental policies forcing tenants out of their homes: New owners have implemented policies intending to change the composition of the tenant population. This can include no longer accepting tenants using public rent subsidies, reducing the number of people per apartment, and imposing credit score requirements for continued occupancy.</p>
<p>Helping to change public perception of rental housing: Old or dilapidated unsubsidized apartment buildings are often stigmatized as unsafe or detrimental to values of surrounding properties. Buying and renovating these properties can combat stigma, and improve public perception of rental housing.</p>	<p>Making communities less diverse: Acquisitions with the purpose of serving tenants with incomes higher than the existing population can reduce housing options for a community's lower paid workers, young families and retirees. This also can frustrate regional efforts to provide locational options for segregated populations.</p>

KEY FINDINGS

This report weaves together multiple data sources to examine the frequency, geographic distribution, and demographic trends for apartment sales across the seven county Twin Cities metropolitan region.² *Sold Out* includes data from 2006 to outline the changing pace of apartment sales, but focuses on demographic and spatial analysis of apartment sales between 2010 and 2015, the time period when these sales increased dramatically across the region. The following sections of *Sold Out* feature the analysis behind these key findings, testimonials from advocates and tenants dealing with the consequences of apartment property sales, and a brief discussion of demographic trends associated with the Twin Cities rental market.

The number of apartment property sales increased rapidly between 2010 and 2015.

In 2014 and 2015, roughly 21,500 units of multifamily rental housing were sold. The number of units sold in these two years is 36 percent higher than in 2012-2013, and 165 percent higher than in 2010-2011. Overall, 13 percent of the region's rental housing stock was sold during this six-year period, and 11 suburban communities saw at least 25 percent of their community's rental housing changing hands.³

The average unit price for apartment properties increased dramatically.

Between 2010 and 2015, the average unit price in apartment properties sold increased by 56 percent, reaching \$87,700 in 2015.

Higher income households are driving the rental market.

The fastest growing segments of the rental population were the cohorts with 1) annual incomes ranging from \$50,000 to \$99,000 (19 percent growth), and 2) more than \$100,000 (70 percent growth). The largest gain in number of households was in the \$50,000 to \$99,000 cohort, which grew by 14,600 households.

A disproportionate number of rental units were sold in moderate income, racially diverse neighborhoods.

From 2010 to 2015, 31 percent of all units sold were in census tracts that are at least 26 percent non-white and have an area median income between \$40,000 and \$60,000. Across the region only 23 percent of all renter occupied units are in tracts meeting these racial and income criteria.⁴

² Sold Out synthesizes Costar Multifamily Apartment Sale data, a national market research firm, and Finance & Commerce Apartment Tracker data to track apartment sales in properties with four or more units across the seven-county Twin Cities metropolitan area from 2010 to 2015. We removed any duplicate property sales.

³ To determine the percent of the region's (and select communities) rental housing stock sold from 2010 to 2015, we divide the total number of units sold by the total number of renter occupied households. These percentages are based on our analysis of Costar and Finance &

Commerce data in the Twin Cities region, American Community Survey 5-Year Estimates (2010-2014), and Metropolitan Council Household and Population Estimates (2014).

⁴ The 26 percent non-white benchmark is based on the average racial composition of households in the Twin Cities Metropolitan region. In 2014, the average census tract was 26 percent non-white, thus we consider any census tract that is more than 26 percent non-white to be "racially diverse".

Building on *The Space Between*

Nearly a decade ago, affordable housing leaders in the Twin Cities identified the loss of unsubsidized affordable housing as a critical issue facing low income renters. In 2008, the Minnesota Preservation Plus Initiative (MPPI) was formed in an effort to preserve 1,800 units of affordable housing across the state by 2018.

To promote innovative affordable housing preservation strategies, the initiative brought together the Minnesota Housing Finance Agency (the state housing agency), and two nonprofits, the Greater Minnesota Housing Fund and the Family Housing Fund. In 2013, MPPI released *The Space Between*, an in-depth analysis that framed the loss of unsubsidized affordable housing and outlined potential policy and financing solutions. **This report provided the basis for MHP's current analysis.**

The Space Between found that emerging rental market conditions and reductions in federal housing funding threaten the continued affordability of as many as 120,000 unsubsidized affordable housing units. Between 2000 and 2011, the inflation-adjusted median statewide **renter income dropped by 16 percent while rents increased by 6 percent.** During that same time period, in the seven counties of the Twin Cities region, 78 percent of renters earning less than 50 percent of the area median income were forced to spend more than 30 percent of their income on housing. The report noted that continued cuts to federal funding for affordable housing and

Key term: Unsubsidized affordable housing

According to *The Space Between* the term "unsubsidized affordable housing" refers to units provided by the private market without government subsidy that are affordable to people earning 50 percent of the area median income. Such housing is also referred to as "naturally occurring affordable housing" (NOAH). Unlike federally or locally subsidized affordable housing, there are no regulations to ensure the long-term affordability of these units. *The Space Between* estimated that unsubsidized affordable units account for between 57 and 74 percent of the region's multi-family rental units.

inherent limitations of federal housing programs have decreased the state's ability to respond to these trends.

The MPPI study also outlined the size of the unsubsidized affordable housing market in the Twin Cities and the need for policy and financing innovations that preserve these units. **Sold Out supplements the MPPI research by examining the demographic and economic trends driving the loss of unsubsidized housing, focusing on how recent apartment property sales may impact the overall availability of affordable housing in the Twin Cities.**

THE QUICKENING PACE OF PROPERTY SALES

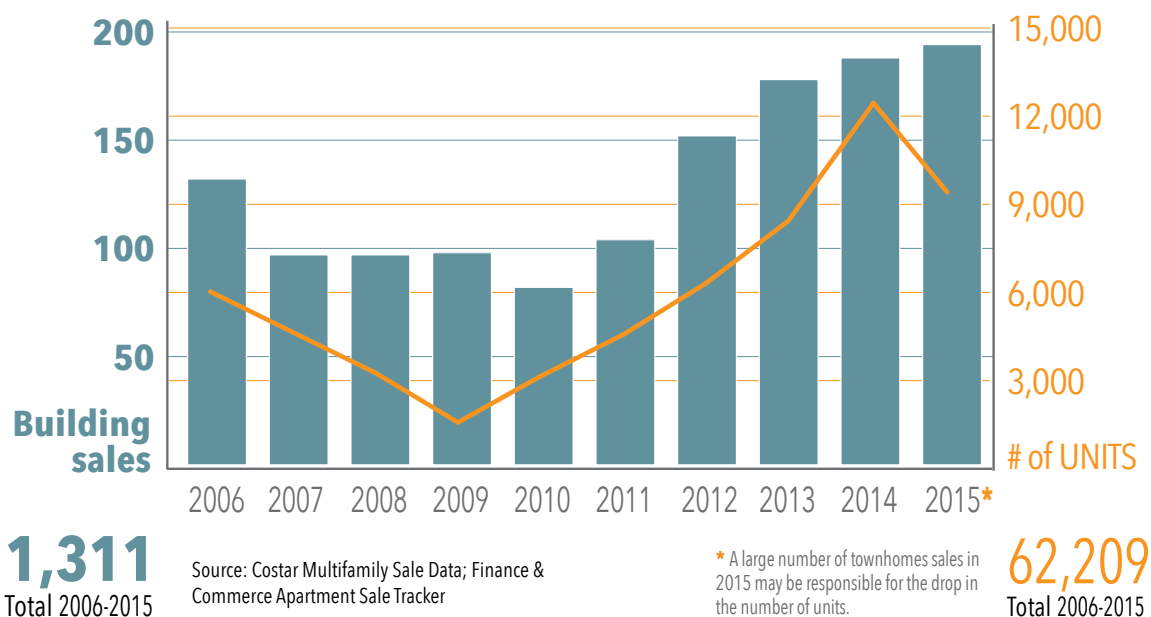
During the Great Recession years, from 2006 to 2009, apartment property sales and the number of units sold decreased steadily across the Twin Cities metropolitan area. But sales began to increase sharply in 2010. From 2006 to 2009, the average frequency of apartment property sales was 106 sales per year. After 2009, the frequency of apartment property sales rose by 40 percent to 148 sales per year. The number of units sold between 2010 and 2015 also increased significantly, jumping from 3,124 units in 2010 to 9,217 units in 2015.

In total, 68 percent of the 1,300 properties in our database were sold between 2010 and 2015 — and those properties accounted for 73 percent of all units sold during that time period. These changes coincided with low rental vacancy rates and an

influx of renters with annual incomes above \$50,000, substantially higher than the median renter income.⁵ These conditions, along with the low cost of real estate development financing, have fueled rental investment over the past several years.

While not all apartment property sales resulted in a loss of affordability, in the region's tight rental market many property owners can raise rents without seeing their vacancies increase. In most Twin Cities communities, new and existing apartment property owners are charging more for rent, with or without making improvements to their properties. By 2015, the average rent in the Twin Cities rose to \$1,046 per month, \$130 dollars more than the \$910 per month that the median-income renter could afford.⁶

Number of buildings and units sold per year



⁵ The 2014 median renter income for the Twin Cities metropolitan area was \$36,393 (Out of Reach Minnesota 2016, Minnesota Housing Partnership). The Out of Reach report uses ACS 5-Year Estimate (2010-2014) from the U.S. Census Bureau, and the data is compiled by the National Low Income Housing Coalition.

⁶ This calculation assumes that a median income renter should pay no more than 30 percent of his or her monthly income toward housing. Thus, \$910 represents 30 percent of the 2014 median renter income of \$36,393 divided over 12 months.

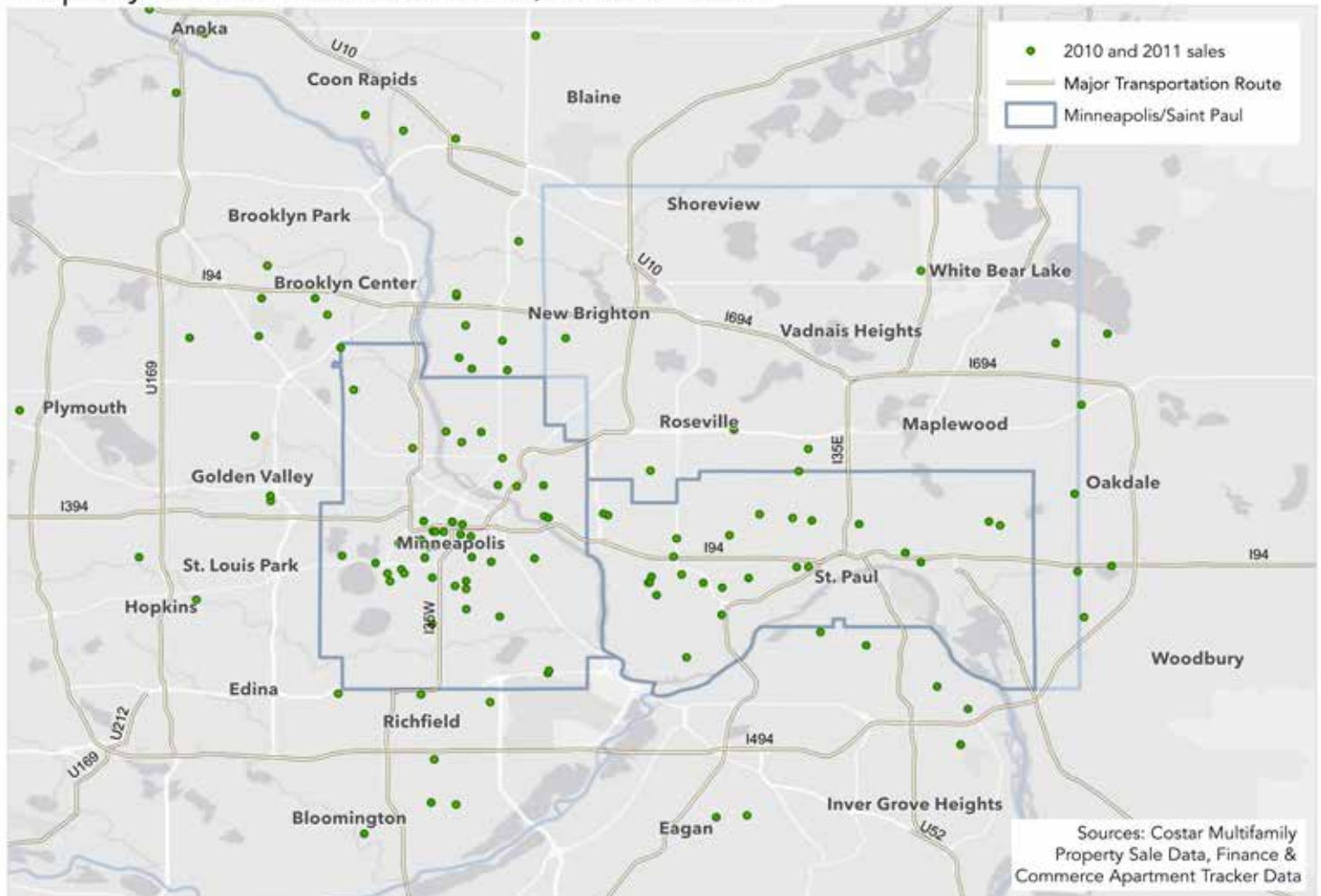
Mapping apartment property sales, 2010-2011

The following maps show the rapid increase of property sales between 2010 and 2015. The map below, identifying 2010 and 2011 sales, showcases the start of an upswing in the number of property sales and number of units sold in the Twin Cities.

Across the region, a total of 8,100 units (185 properties) were sold in 2010 and 2011. Unlike in later years, sales were fairly evenly dispersed throughout Minneapolis and St. Paul.

Outside the central cities, the northern Minneapolis inner-ring suburbs including Brooklyn Center, Brooklyn Park and New Brighton, saw the highest number of apartment property sales.

Property Sales in the Metro Area, 2010 to 2011



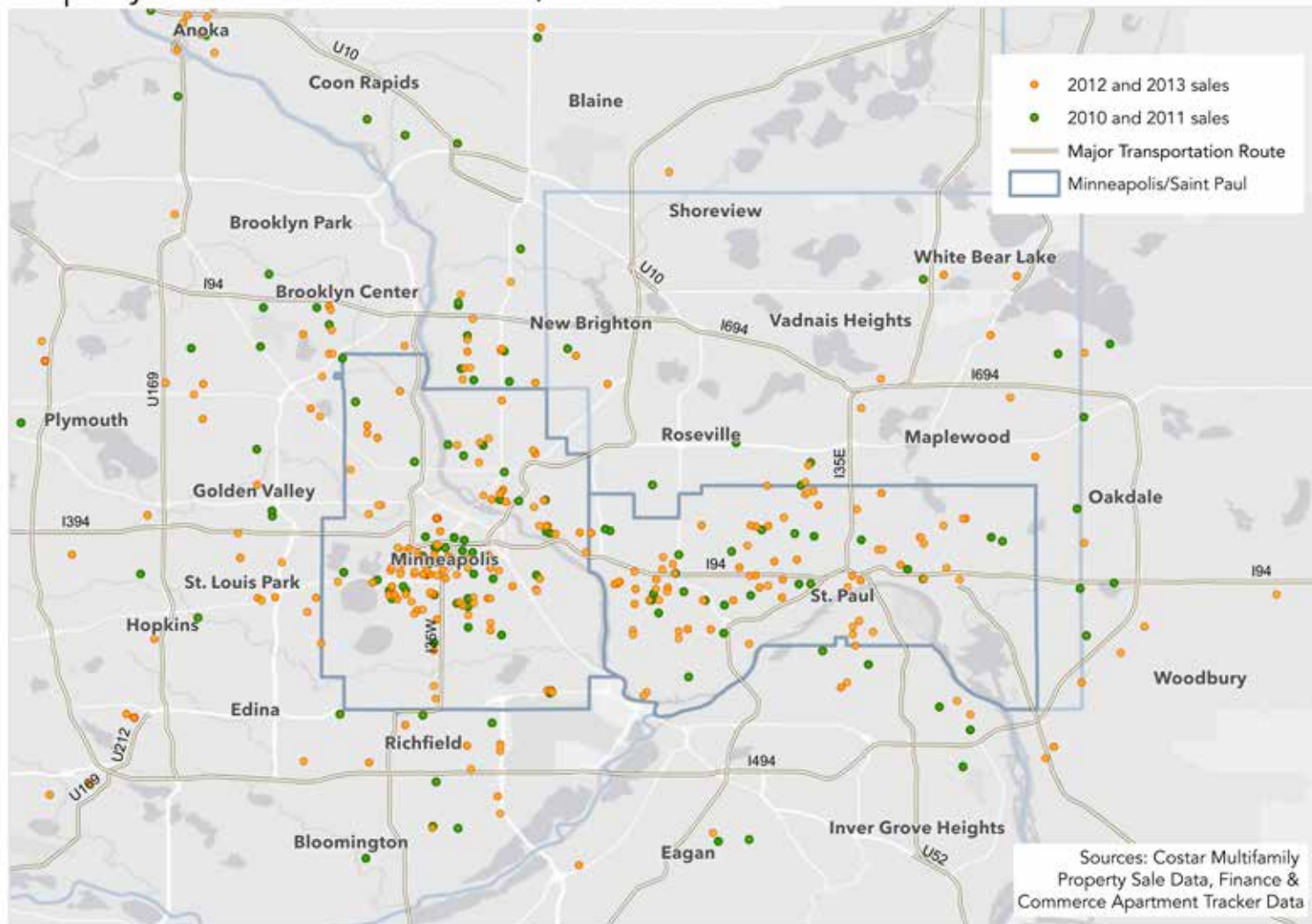
Mapping apartment property sales, 2010-2013

In 2012 and 2013, the number of units sold across the metro area increased from the previous two years by 96 percent, rising to 15,800 units sold (or 327 total sales).

During this time period, property sales began to cluster in both Minneapolis and St. Paul. In Minneapolis property sales increased primarily in South Minneapolis, just west of the I-35 West corridor in the Whittier, Lowry Hill East, and

Stevens Square neighborhoods. In St. Paul, property sales began to cluster south of the I-94 corridor in the Summit-University, Union Park, and Macalester-Groveland neighborhoods. (Detailed maps of Minneapolis and St. Paul appear on pages 14-15.) Unlike in the central cities, property sales in suburban communities scattered throughout the region with some clustering in northern and western suburbs of Minneapolis.

Property Sales in the Metro Area, 2010 to 2013



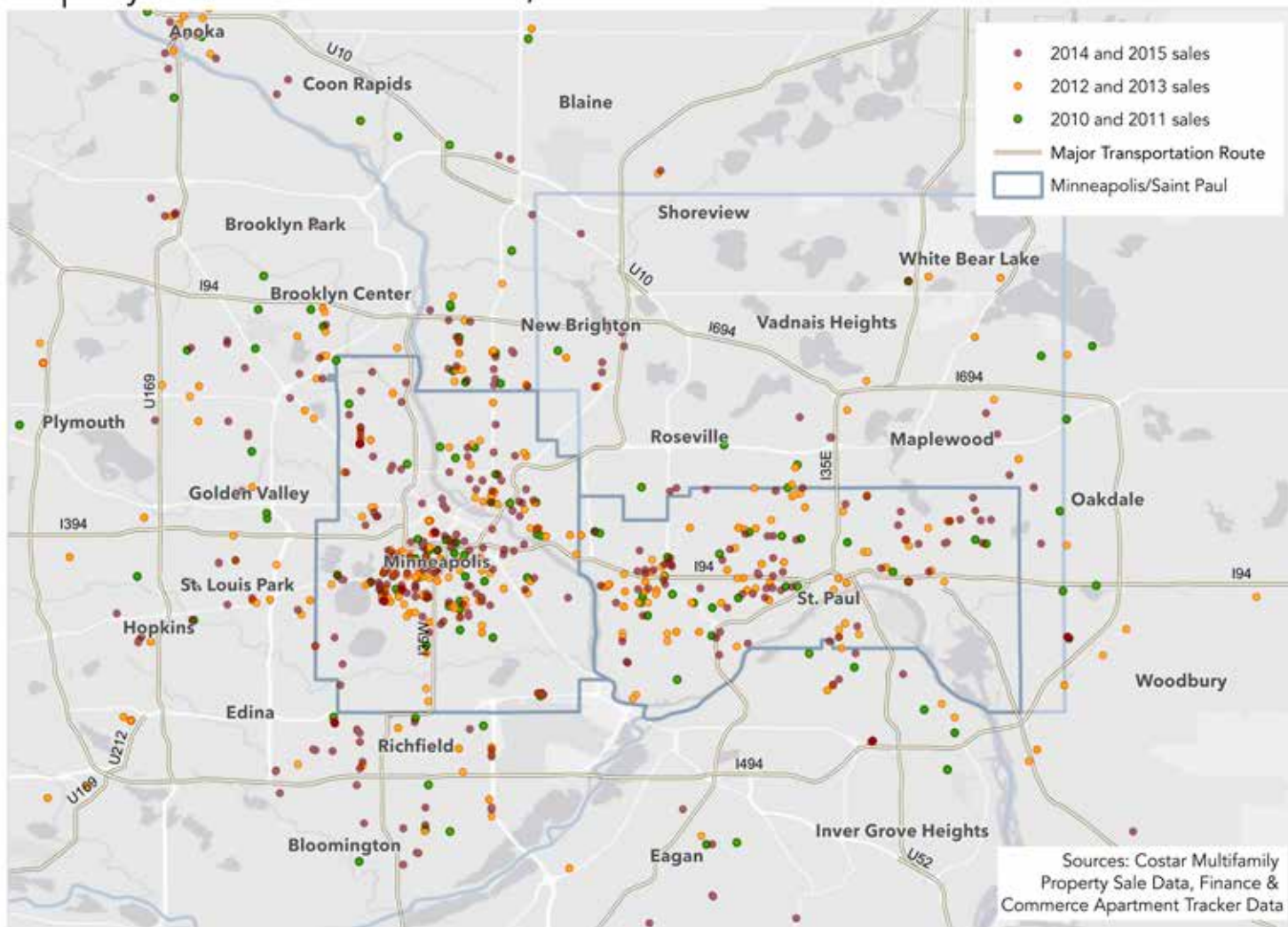
Mapping apartment property sales, 2010-2015

In 2014 and 2015, more than 21,400 units (374 properties) were sold, representing a 36 percent increase in the number of units sold from 2012-2013 and a 165 percent increase over 2010-2011.

Property sales continued to cluster in South Minneapolis and along the I-94 corridor in St. Paul. During these more recent years, property sales began to creep eastward, spilling into lower income neighborhoods such as Phillips West. In St. Paul there were a number of sales just north of the I-94

corridor in the Hamline-Midway and Thomas-Dale/Frogstown neighborhoods. While western and northern suburbs of Minneapolis continued to see a significant number of property sales during this time period, property sales in southern Minneapolis suburbs, such as Bloomington and Richfield, and northern suburbs, such as Anoka, began to increase.

Property Sales in the Metro Area, 2010 to 2015



GEOGRAPHY OF APARTMENT PROPERTY SALES

The uneven distribution of rental housing across the Twin Cities shaped both the geography of apartment property sales and the potential impact of those sales on different communities. As in most metropolitan areas, rental housing is concentrated in central cities.

In the Twin Cities, 42 percent of the region's rental housing is located in Minneapolis and St. Paul.⁷ But the central cities accounted for 61 percent of all apartment property sales and 37 percent of all units sold from 2010 to 2015.⁸ Most of the apartment sales in both cities were relatively small properties — 32 units on average — and many were clustered in several neighborhoods of each city.

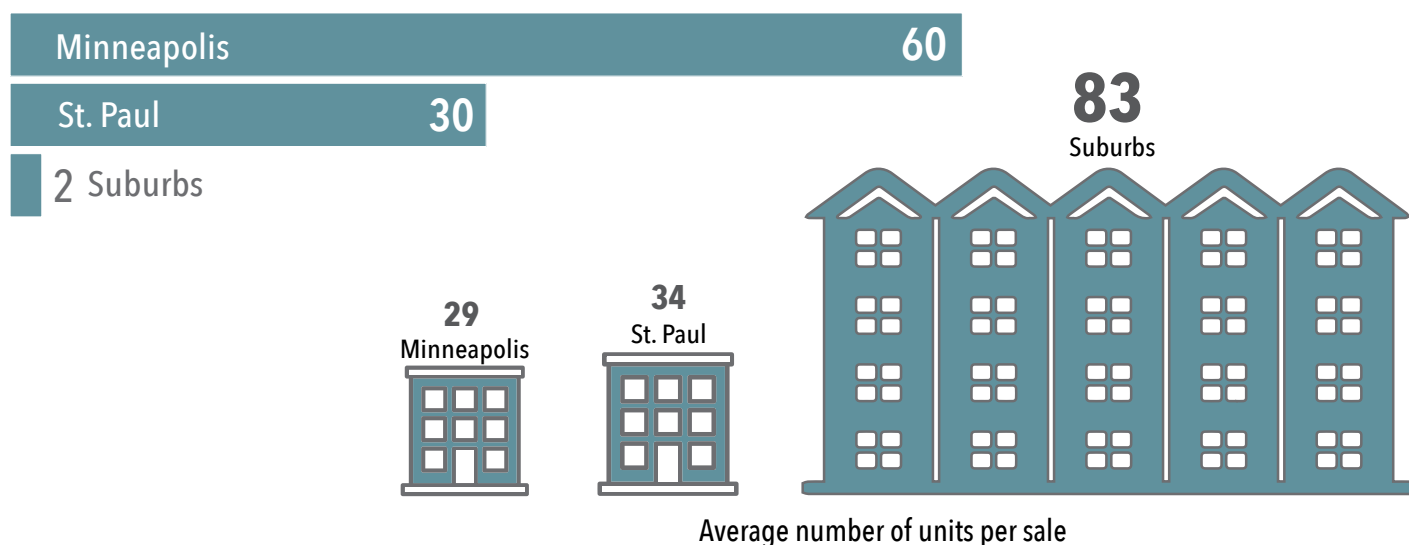
In contrast, apartment sales in suburban communities were less frequent, but were typically for larger apartment properties. And in suburban areas a single sale can account for a significant portion of a community's total rental housing stock.

The contrast between small, frequent apartment sales in central cities and large sales in suburban areas is reflected in the visibility of tenant displacement.

In St. Paul and Minneapolis, apartment conversions and displacement are difficult to track because the average property sold is quite small. But in suburban communities, many apartment conversions and sales are much easier to identify because any significant changes within larger apartment properties affect hundreds of tenants. While more public attention in recent months has been given to sales and resulting displacement from large suburban properties, there is a less visible disruption occurring in the central cities (as well as for smaller properties in the suburbs).

When combining the central city with the suburban sales, the displacement problem is more pervasive and significant than has been communicated to the general public or policymakers.

Average number of properties sold per year



⁷ U.S. Census Bureau, ACS 5-Year Estimates (2010-2014)

⁸ After removing all duplicate property sales from our dataset, we used Excel Pivot Tables to analyze the change in property sales and per-unit prices by year and community. To determine neighborhood numbers, we plotted all property sales in Arc GIS and executed a spatial join between property sale points and their respective tables. We then exported this information to Excel, and analyzed it using Pivot Tables.

SOLD OUT: Bernard Campbell, former Crossroad tenant

Marriage and homeownership were at the top of Bernard Campbell's to-do list until the Crossroads at Penn complex in Richfield changed hands.

The deal, he said, pushed his priorities out the window. Tripped up by more stringent requirements for renters at the complex, imposed by its new owners, Campbell and his fiancée had to set aside their plans in favor of finding new housing. Now, they're trying to be patient while they reconfigure their future together.

"It's been a complete nightmare," Campbell said.

Campbell works a registration job at a local health care provider and earns enough to cover higher rent, especially with his fiancée's income lumped in. But his credit score falls short of the 625 mark imposed by the new landlord.

Stiffer credit requirements aren't uncommon when new landlords take over with plans for big changes. But for Campbell and his fiancée — and others like them — the measure means the difference between keeping their home and having to leave it.

Looser credit standards under the complex's former ownership provided an important gateway for Campbell to rebuild his credit. The way he had it figured, he would be able to afford a wedding early

in 2017, and shore up his finances enough to buy a home soon after that. "Now we have to worry about this," he said. "It's just really, really, really frustrating."

Credit problems complicated the search for another apartment. The high-demand Twin Cities rental market didn't help — Campbell and his fiancée began looking in earnest for a new apartment in April, but they only received good news in mid-July. Their Crossroads lease ran through August, doubling their rent for the month.

The new place is in the same general area, but it's further from bus connections Campbell relies on. The rent, at about \$900, is heftier. Plus, every rejected application from the hunt that included a credit check knocked down his score even more.

For Campbell, the past several months have brought a seemingly never-ending series of hurdles. Even a year after the Crossroads upheaval started, he's still straining to keep up.

"I'm trying to make sure everything is where it's supposed to be," he said, "but something like that is like a blow to the stomach. It kind of makes you question, 'What am I doing wrong? Am I a bad person?'"

Concierge Apartments, formerly Crossroads



SEEKING SOLUTIONS: Eric Hauge, HOME Line

Eric Hauge's phone has been ringing a lot lately.

But that's to be expected for an organizer at HOME Line, a tenant advocacy group at the center of a burgeoning Twin Cities housing crisis. When property owners' new plans force out existing tenants, many of them turn to HOME Line for support as they venture out into the increasingly challenging rental market.

It's tough to imagine a fair fight between property owners and under-resourced tenants.

Still, Hauge and his group have worked consistently for months to shift the power balance toward renters. But that's a tall order when hundreds of tenants — and counting — face displacement.

Between two complexes that changed ownership within the past year, in Richfield and St. Louis Park, Hauge and HOME Line fielded calls from dozens and dozens of tenants facing an uncertain hunt for new housing. It's happening faster than advocates can handle, he said, and more frequently than ever.

In large part, HOME Line's approach has focused on empowering renters to organize themselves and advocate for their individual homes. The organization was instrumental in mobilizing Crossroads residents around their Fair Housing Act lawsuit, and has been an active participant in housing resource fairs in communities hit by influxes of displaced renters.

In addition to rent increases, tenant advocates have identified numerous management practices causing displacement during the current wave of rental property sales. These practices include refusing to accept tenants with Section 8 housing vouchers, increasing credit score minimums, reducing the

allowed number of people per bedroom, raising rent/income ratio requirements, increasing rental history screening standards, and reapplication policies that require social security numbers.

Thinking bigger, Hauge and HOME Line are looking for a stronger platform to galvanize community members around the issue. That grassroots-level push is central to his strategy for solving a problem that has so far struggled to capture widespread attention.



"Cities have different policies and interests and a lot of them just don't even recognize this as a problem."

Eric Hauge

A lasting fix remains elusive given the expansive nature of the issue. "The problem is that [the affected rental units] are all over the metro area," Hauge said. "Cities have different policies and interests and a lot of them just don't even recognize this as a problem."

Plus, he said, not every case sparks the kind of lightning-rod debate that has thrust some apartment sales — notably, the Crossroads at Penn complex [in Richfield] and Meadowbrook Manor [in St. Louis Park] — into news reports and community conversations.

Many residents quietly leave when they can't find the help they need to fight for their homes. That group, organizers say, is large but impossible to quantify.

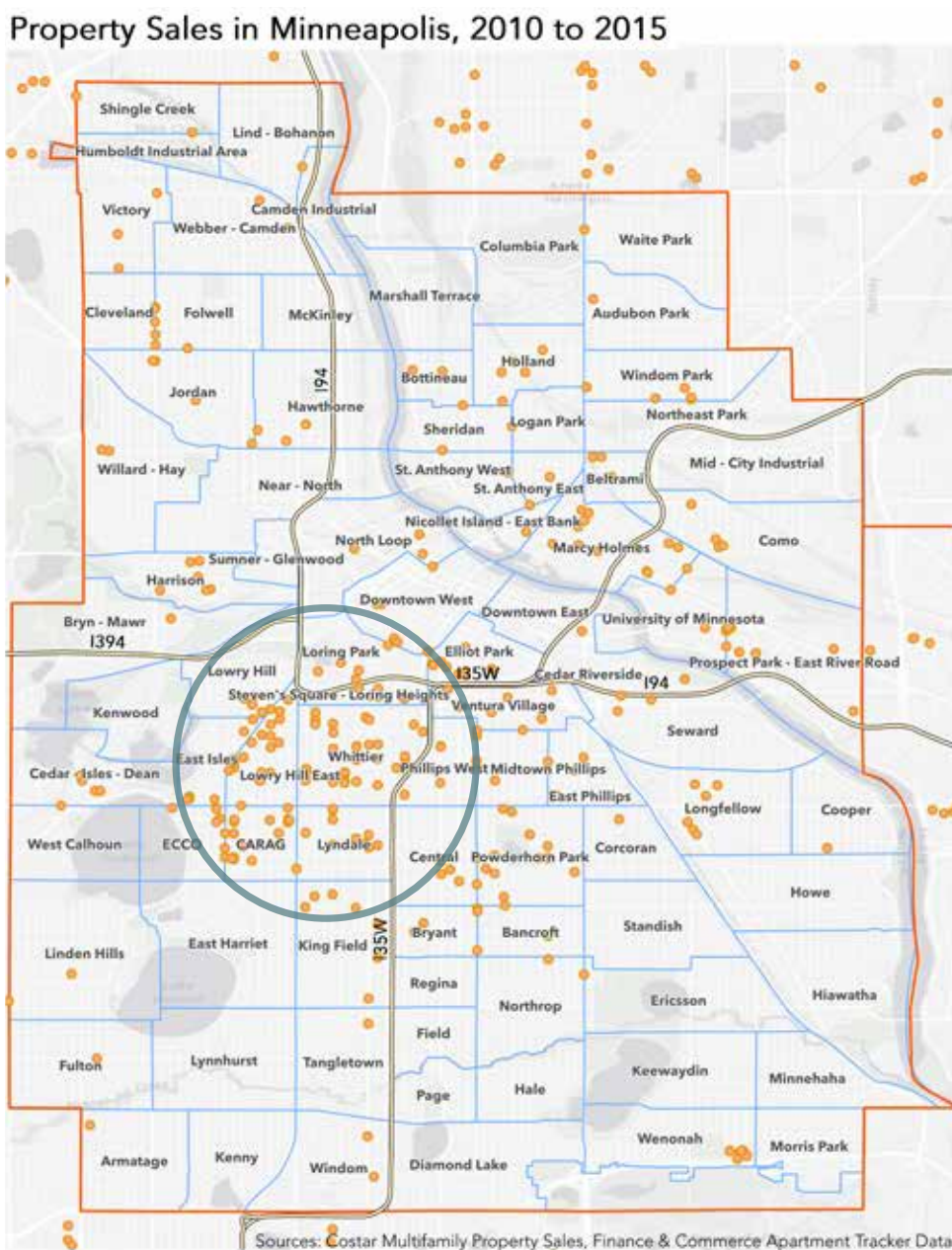
Apartment property sales in Minneapolis

From 2010 to 2015, Minneapolis saw the greatest number of apartment property sales compared to all other communities in the metropolitan region.

The city experienced 355 property sales that included 10,512 units during this time period. That accounted for 41 percent of all apartment property sales in the Twin Cities region and 3 percent of all renter occupied units in the region. When mapped, these sales show a large clustering in South Minneapolis,

specifically in the Lowry Hill East, Whittier, CARAG, Lyndale, and Powderhorn Park neighborhoods.

From 2010 to 2015, 104 apartment properties were sold in these neighborhoods, accounting for 29 percent of all sales. These sales included 2,133 units — 21 percent of all units sold in Minneapolis. On average, these apartment property sales included 29 units, relatively small compared to the regional average of 51 units per property.



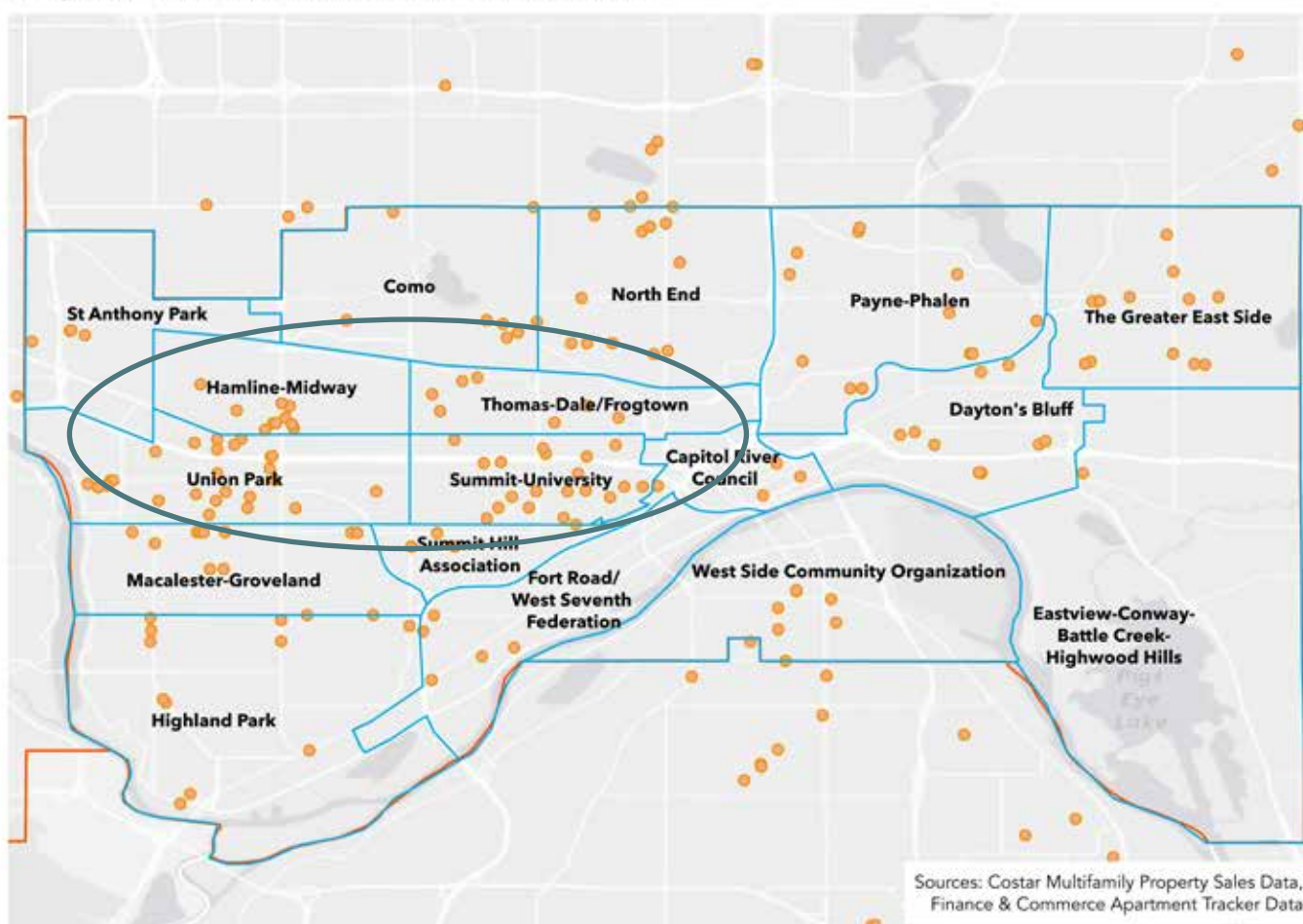
Apartment property sales in St. Paul

In St. Paul, there were 182 apartment properties sold — with 6,364 units — from 2010 to 2015. This accounted for 21 percent of all rental property sales in the Twin Cities region and 2 percent of all renter occupied units in the region.

Like Minneapolis, a significant cluster of apartment property sales was apparent in St. Paul, predominantly following the I-94 corridor in the

Hamline-Midway, Frogtown, Summit-University, and Union Park neighborhoods. Within the cluster along I-94, there were 82 apartment property sales, accounting for 45 percent of all apartment property sales in St. Paul. The average property sold in St. Paul during this time period contained only 35 units, 16 units less than the regional average of 51 units per property.

Property Sales in Saint Paul, 2010 to 2015



Sizable sales in the suburbs

The sale of Crossroads at Penn, the suburban property profiled in this report, impacted the tenants of nearly 700 units of unsubsidized affordable housing. Our dataset shows that most suburban communities experienced sales of sizable properties between 2010 and 2015, although few were as large as the Crossroads at Penn sale and not all resulted in displacement. A handful of suburban communities that experienced apartment sales saw significant proportions of their community's overall rental housing stock changing hands.

Combined, suburban communities accounted for 39 percent of all property sales and 63 percent of all units sold between 2010 and 2015. The tables below

show the total number of units sold as a percentage of total renter units occupied across Twin Cities communities. As the tables highlights, regardless of community size or geographic location, apartment sales in the suburbs are often for large apartment buildings — 83 units on average.

A single instance of an apartment sale and upscaling can significantly reduce the stock of unsubsidized affordable housing in a given community. The sales of apartment properties in suburban communities not only threaten the availability of the region's unsubsidized affordable housing, these sales limit the locational choices of low income families.

Top 10 communities for largest % of rental units sold

Community	Sales	Units Sold	Units overall	% of all rental units
Little Canada	3	945	1,767	53%
Burnsville	19	3,686	8,641	43%
Woodbury	7	2,204	5,363	41%
Hamburg	1	12	31	39%
Arden Hills	1	160	467	34%
New Germany	2	11	33	33%
White Bear Lake	7	929	2,873	32%
Inver Grove Heights	2	1,272	4,024	32%
Ramsey	2	235	800	29%
Columbia Heights	25	744	2,798	27%

Sales percentage for the top 10 communities with the largest share of the region's rental units

Community	Sales	Units Sold	Units Overall	% of all rental units
Minneapolis	355	10,512	89,963	12%
St. Paul	182	6,364	58,295	11%
Bloomington	21	479	11,660	4%
St. Louis Park	16	951	9,769	10%
Plymouth	4	1,782	8,361	21%
Brooklyn Park	3	816	8,050	10%
Eagan	9	1,736	7,778	22%
Eden Prairie	3	1,179	6,475	18%
Minnetonka	4	1,124	6,245	18%
Hopkins	8	564	5,842	10%

SALES PRICES INCREASE DRAMATICALLY FROM 2010-2015

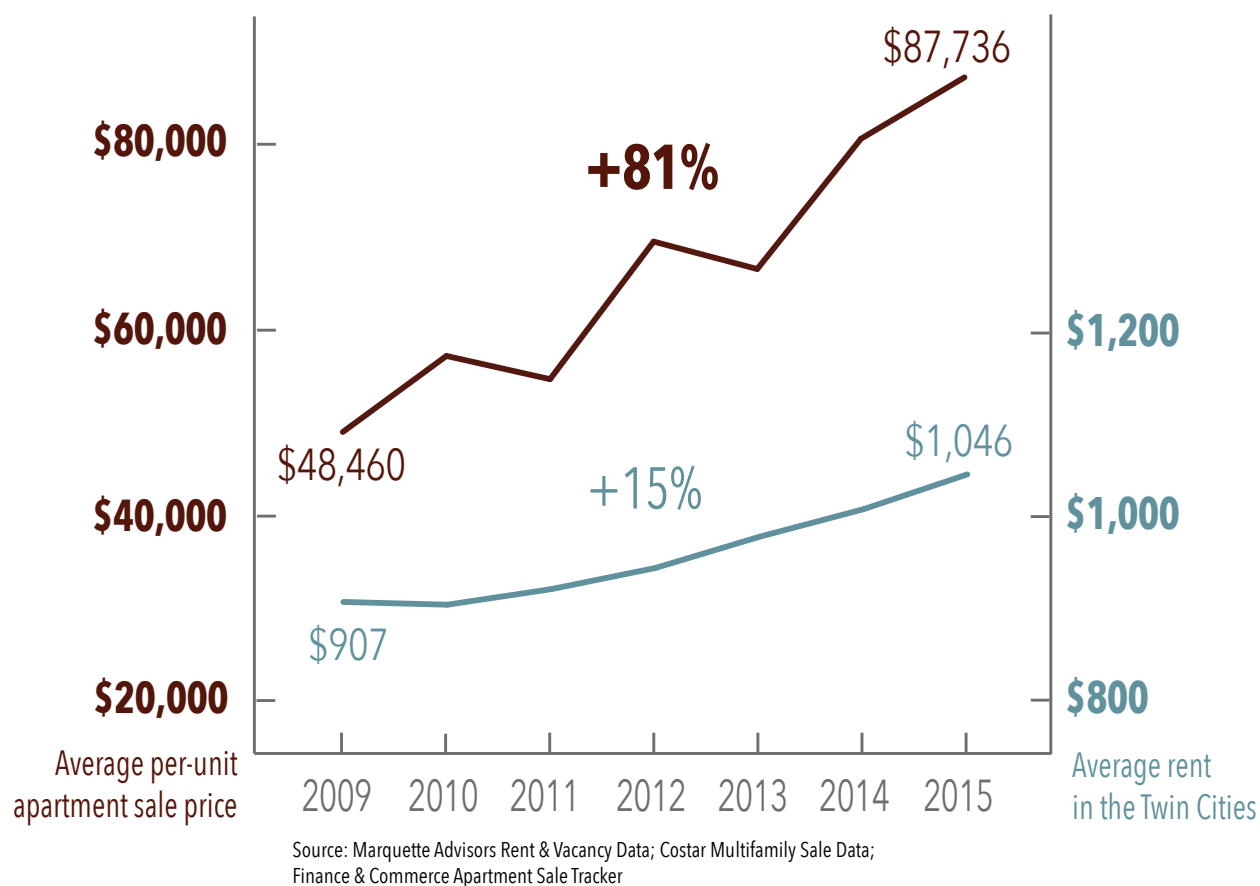
As apartment sales dwindled in the recessionary years between 2006 and 2010, the average per-unit sales price dropped from roughly \$75,000 in 2006 to a low of only \$48,400 in 2009.⁹ But as the region started its post-recession recovery, apartment sales prices began to climb. From 2010 to 2015, the average per-unit sales price for the Twin Cities region increased by 56 percent. In 2015, the average unit price eclipsed early recession prices, rising to nearly \$88,000 per-unit.

As apartment sales prices rose, the region also experienced a vacancy rate that fell to as low as two

percent and the average rent increased to more than \$1,000 by 2015.¹⁰ The interplay between rent and per-unit sales price in a tight rental market points to diminishing affordability for lower income renters.

The promise of significant financial returns incentivizes investors to buy and renovate buildings that are located in high-demand areas. At the same time, current property owners recognize the financial potential of their properties and are increasing asking prices, thereby limiting the ability of socially motivated purchasers to maintain affordable rents.

Rising price of rent and per-unit apartment sales



⁹ We did not adjust apartment price data for inflation, nor did we adjust demographic data for inflation.

¹⁰ Marquette Advisors, Quarterly Rent and Vacancy Data (Q1 2015 – Q4 2015)

SOLD OUT: Vicki Olson, former Meadowbrook Manor tenant

For Vicki Olson, the sale of her apartment complex to a new owner meant more than the loss of her longtime home.

After 13 years, she could no longer afford to live at Meadowbrook Manor in St. Louis Park, setting off a chain reaction that forced her to move into a new community, look for a new job, and rebuild her life at age 51.

Olson left Meadowbrook at the end of May, splitting time between her mother's one-bedroom apartment in Fridley and her father's house in Brooklyn Park until she finally found an apartment in Mound for a July move-in.

While the Mound apartment solved one problem, it opened another. It extended Olson's commute to her call center job in Hopkins from three miles to 30 miles — too far, she said, to justify the trip for the long term.

"I have to get a new job," she said. "I'm not going to drive 30 miles one way to make \$10.50 an hour. But that's the only [apartment] that I could afford that called me back."

The Mound rental wasn't her first choice — not by a long shot — but it was the first viable option to emerge after dozens of inquiries. A tight multifamily market across the Twin Cities meant few available units — and even fewer priced within Olson's range.

"Do I want to live in Mound? Am I going to enjoy going back and forth to Mound? No," Olson said. "But at least I can pay my rent."

Most of her calls to area landlords, and even to a commercial apartment hunter recommended by the new Meadowbrook owner, went unanswered. A different broker offered her services, but couldn't meet Olson's rent limitation. She had paid \$625 for her one-bedroom unit at Meadowbrook.

"I told her what I could afford, and she said, 'I don't know what you're going to do because I don't have anything that low,'" Olson recalled.

The uncertainty upended Olson's life, and the scramble to find a new home took its toll. Olson hasn't quite gotten over the shock of leaving her home of more than a decade.

She didn't move away from Meadowbrook on her own terms, and she didn't choose to grapple with other major life changes as a result.

"It really sucks that I lived there that long," Olson said, "and it didn't mean anything to those people at all."

Meadowbrook Manor



SEEKING SOLUTIONS: Debbie Wells, Meadowbrook Collaborative

Debbie Wells didn't ask to get roped into one of the Twin Cities' most contentious housing battles this year. But when St. Louis Park's Meadowbrook Apartments sold to a new owner in January, there she was.

When Wells stepped in to run a community organization nestled within the complex in early January, she figured she would put her experience as a school principal to work helping children and families. But then Meadowbrook's new owner raised rents and tightened tenant standards.

Hundreds of residents, including many longtime tenants, faced a 60-day window to find new housing after the landlord increased rent rates across the board by at least \$100 per month and ruled out residents with a history of late payments — even when there was a reasonable explanation.

"They were thorough-going," Wells said. "They went through everybody's files and they started noticing folks who were coming due for their lease. Either they would not be renewed, or they would be renewed but their rent would be going up."

The policy changes sparked upheaval for several dozen tenants, Wells says. She hasn't found a way to tally exactly how many tenants have been pushed out to date, but a recent count revealed 51 of 162 townhome units — which account for just one part of the complex — sit empty.

Now, several months after Wells started her crash course on the market dynamics reshaping Twin Cities housing, she's exhausted and frustrated. She and other groups trying to help residents found a significant resource gap — there was no assistance

available for displaced tenants, or ones who wanted to stay but needed to shoulder higher rent and other costs imposed by the new owner.

Wells estimates she spent half her work weeks navigating housing issues until recently, when squeezed-out tenants began making their way out of the Meadowbrook community. She still speaks with city officials and members of the new Meadowbrook management team, but there's little she can do for the residents who had been so desperate to stay in their homes.



"There's a big Swiss cheese hole in this whole thing. There's no way to bridge people through a systemic crisis like this."

Debbie Wells

"There's a big Swiss cheese hole in this whole thing," Wells said. "There's no way to bridge people through a systemic crisis like this."

As more leases approach the end of their set terms, Wells expects more Meadowbrook tenants will look elsewhere for housing. The short supply of affordable units in the region complicates the search, but the threat of more policy changes hangs ominously over the complex.

"Anything can change in 60 days," she said. "Your life as you know it is only secure for 60 days as long as you live here."

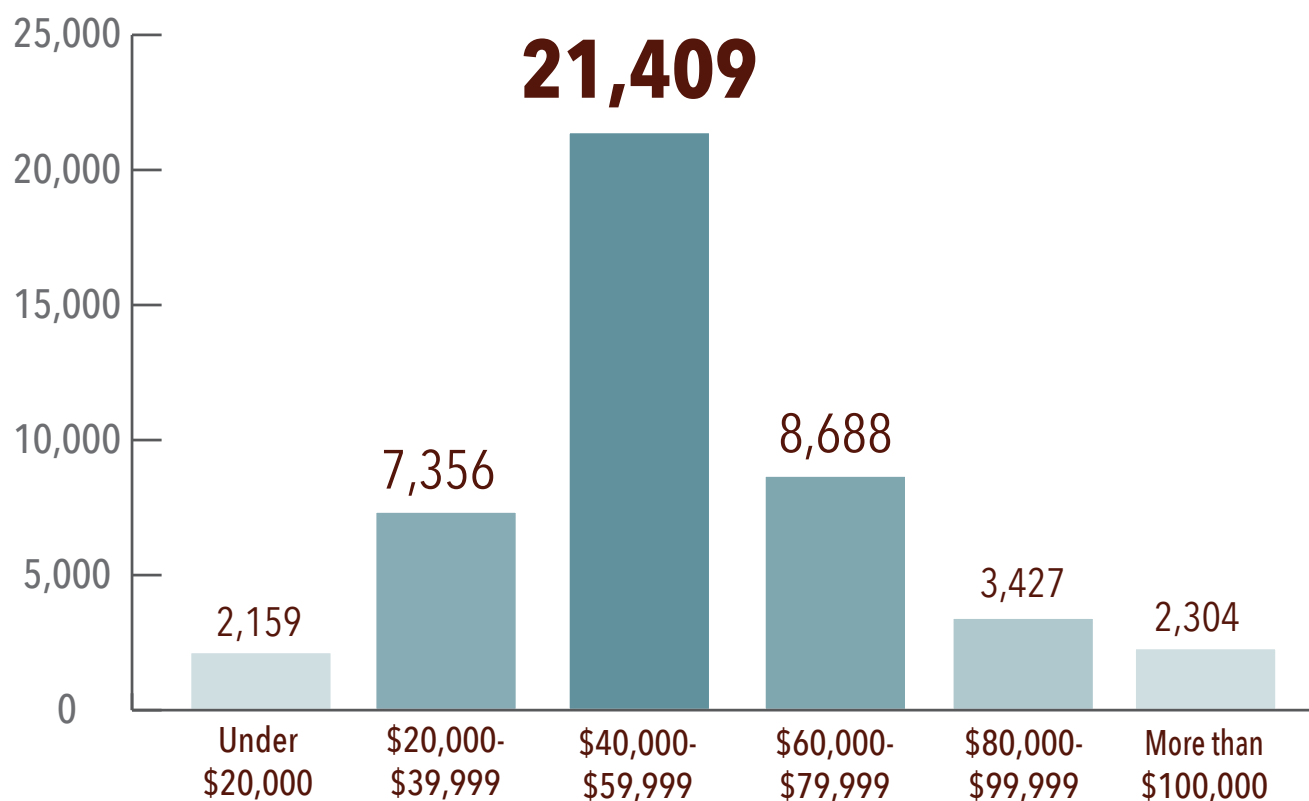
DEMOGRAPHICS OF APARTMENT PROPERTY SALES: Income

Apartment sales were disproportionately prevalent in census tracts where the household median income was between \$40,000 and \$60,000, which we identify as “moderate” income.

From 2010 to 2015, 47 percent of all units sold were located in these moderate income census tracts, yet only 36 percent of region’s rental housing units are located in these tracts. Moderate income census

tracts that experienced apartment sales were also much more likely to be “high volume census tracts” (HVT), categorized in this report as any census tract with at least 200 units sold between 2010 and 2015. In total, 30 of the 65 designated HVTs were moderate income tracts.¹¹

Units sold by census tract median income, 2010-2015



Source: US Census Bureau, 2010 Decennial Census; Metropolitan Council Household & Population Estimates (2014)

¹¹ To identify high volume tracts (HVTs), we determined the percentile rank for each census tract that experienced property sales, ranking these tracts by number of units sold from 2010 to 2015. HVTs represent the 80th percentile of units sold by census tracts, and 200 units sold refers to the minimum number of units (or threshold) needed to qualify for the 80th percentile.

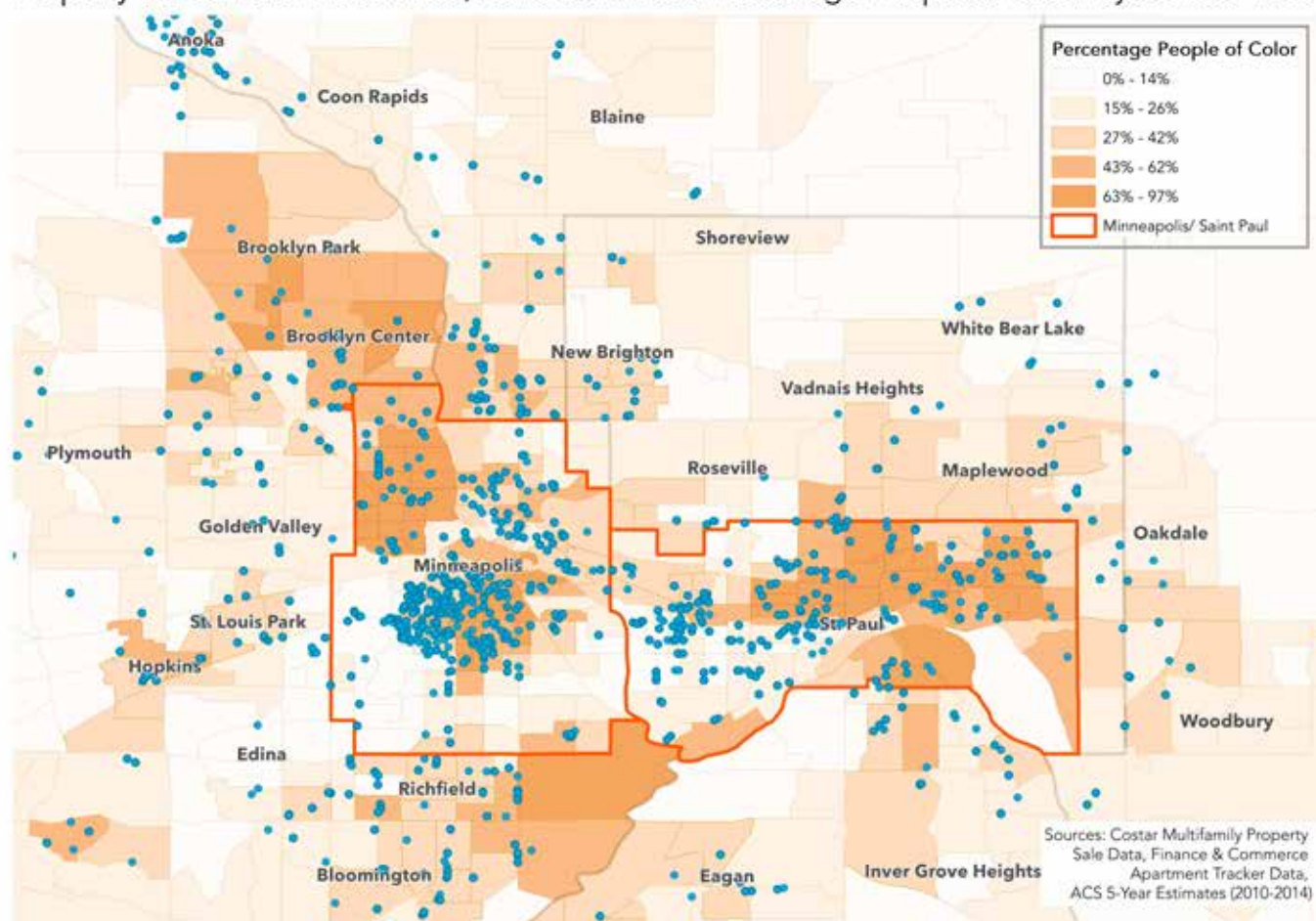
Apartment property sales and race

From 2010 to 2015, 57 percent of all units sold were in racially diverse census tracts, defined here as any tract where people of color make up at least 26 percent of the household population.¹²

With respect to the high volume tract indicator, we found that 38 percent of all units sold were located in racially diverse, high volume census tracts where households of color made up on average 42

percent of the total household population. High volume census tracts with greater concentrations of people of color than the regional average also saw increases in per-unit apartment prices well above the regional average. Between 2010 and 2015, the average per-unit sale price of these tracts increased by 108 percent, from \$52,547 to \$109,381.

Property Sales in the Metro Area, 2010 to 2015 & Percentage People of Color by Census Tract



¹² The 26 percent non-white benchmark is based on the average racial composition of households in the Twin Cities Metropolitan region. In 2014, the average census tract was 26 percent non-white. Thus, we consider any census tract that is more than 26 percent non-white to be "racially diverse."

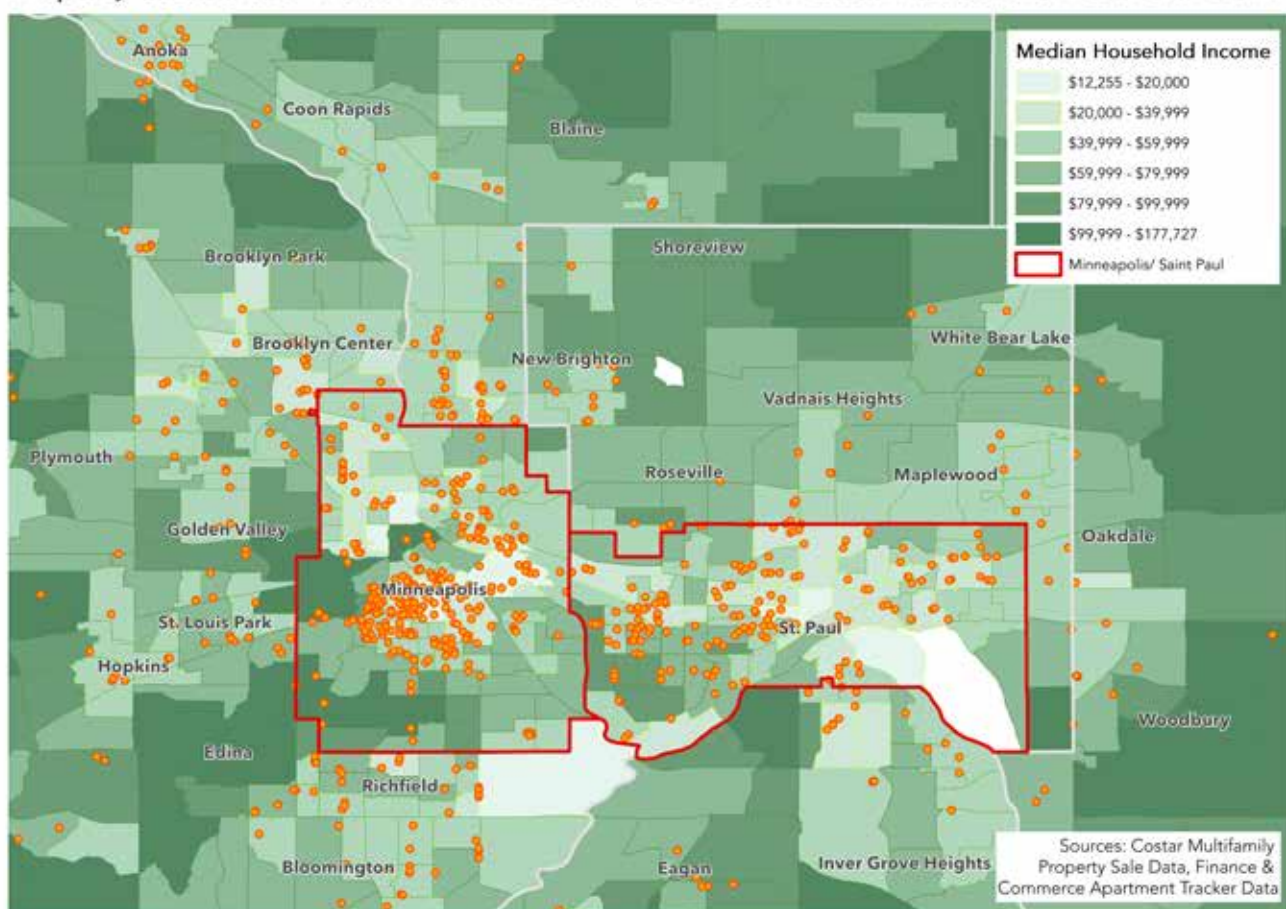
Property sales and place-based opportunity

A significant number of units sold from 2010 to 2015 were in moderate income census tracts that are racially diverse compared to the region.

From 2010 to 2015, 31 percent of all units sold were in tracts with a median income between \$40,000 and \$60,000 and at least 26 percent non-white, but only 23 percent of all renter occupied units in the Twin Cities metro are located in tracts that meet the same criteria.

The escalating number of apartment sales and increasing per unit prices paid may limit the ability of low income renters, especially people of color, to find unsubsidized affordable housing in communities recognized for their economic opportunity. Many studies show that economically stable and racially diverse neighborhood environments correlate with positive social and economic outcomes.¹³ Thus, there is a value with respect to addressing place-based racial disparities in efforts to preserve the region's stock of unsubsidized affordable housing.

Property Sales in the Metro Area from 2010 to 2015 & Median Household Income in 2014



¹³ See, for instance Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. "The effects of exposure to better neighborhoods on children: New evidence from the Moving to Opportunity experiment." *The American Economic Review* 106.4 (2016): 855-902

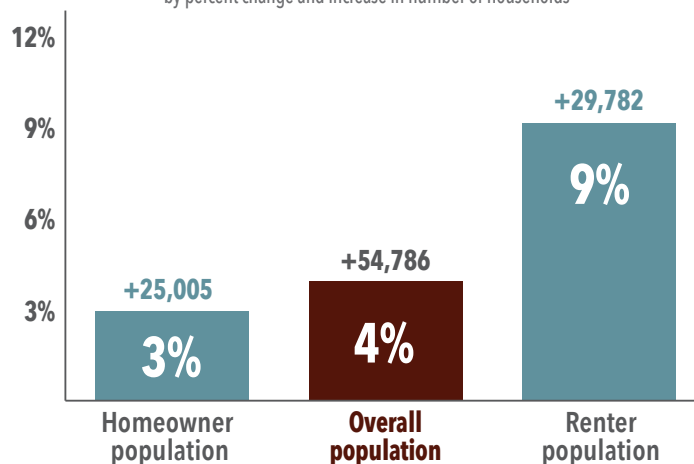
WHAT'S DRIVING THIS TREND?

Following the Great Recession, many metropolitan areas saw younger people and those whose homes were foreclosed choosing or requiring rental housing. In the Twin Cities, these factors have increased the number of households competing for rental housing, and led to rising average rent prices and consistently low rental vacancy rates. For low income households, these factors make it difficult to find adequate, affordable housing.

The Twin Cities renter household population grew by 9 percent (29,782 households) between 2010 and 2014, accounting for 64 percent of region's entire household growth.¹⁴ By 2014, there were 345,500 renter households in Twin Cities metropolitan area. During the same time period, the number of owner-occupied households increased by only 3 percent and the overall number of households grew by only 4 percent.

Change in Household Population, 2010-2014

by percent change and increase in number of households



Source: US Census Bureau, 2010 Decennial Census; Metropolitan Council; Household & Population Estimates (2014)

¹⁴ Calculations apply ACS 5-Year (2010 - 2014) estimates of the percentage of total occupied units that are renter households to Metropolitan Council Household Estimates, 2014. Met Council household estimates are utilized rather than ACS household estimates because they better reflect overall household and population dynamics in 2014.

Capitalization Rate

The capitalization rate (or "cap rate") is a formula indicating the relative value a real estate investor places on a particular revenue stream. It is a simple measure that allows investors to compare different income producing alternatives, such as apartment, retail, industrial or office properties. The formula to determine the cap rate is the net operating income divided by the current value (indicated by sales price). The lower the cap rate for a given property, the more bullish investors are on its future economic potential. Two different investment alternatives may have the same current revenue stream, but one might be perceived as a better option for increasing revenue in the future. This asset will capture a higher purchase price relative to its current income; thus the cap rate will be lower than the rate for the other asset.

Cap rates also reflect the overall cost of capital across the economy. When over the past several years interest rates and returns on alternative investments fell, the cap rate for apartments also declined. In this environment investors can pay higher prices for apartment buildings without increasing rents. However, currently the cost of capital (reflected in the

cap rate) has stabilized and higher building prices will be based on expectation of higher future rents. For purchase of existing property, the greatest increase in value will go to those properties where investors believe that they can most increase rents.

Recently in the Twin Cities, real estate investors have been drawn to apartment buildings in general, and older Class-B and Class-C apartment buildings in particular. Many buyers believe that putting money toward upgrades in properties built in the 1960s, 1970s and 1980s will yield significantly higher future rents in the market. By renovating kitchens, baths and common-area amenities, many buyers believe they can increase rents to more than compensate for the investment. This is known as a "value-add" opportunity. The heightened competition for value-add opportunities has been evidenced by lower to stable cap rates (tied to rents at time of purchase) and increased prices for older apartment properties throughout the region.

Thomas G. O'Neil, Dougherty Mortgage LLC

The new renter population has incomes significantly higher than the median renter income of \$36,393. From 2010 to 2014, the number of renter households earning above \$50,000 annually increased by 29 percent, adding 27,371 renter households¹⁵ — while the total number of renters with incomes below \$50,000 increased by only one percent (adding 2,411 households). The growth in higher income renters drives the market for amenity-rich apartments that rent for amounts above what the typical renter can afford to pay.

There is a different type of developer response to the higher and lower ends of the renter population with incomes above \$50,000. The market response will go one way for those with incomes of \$100,000 and up, and a different way for those with incomes between \$50,000 and \$100,000. From 2010 to 2014 there was a 70 percent growth (12,750 households) in high-income renters, earning more than \$100,000 annually.¹⁶ These new high-income

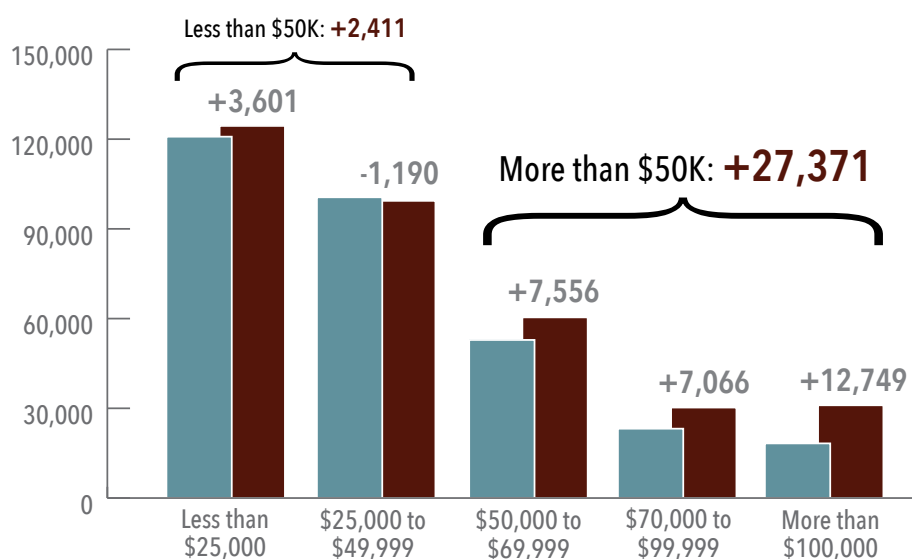
renters have found units meeting their location and amenity requirements thanks to increased construction of luxury rental housing.

With the new supply of luxury housing largely meeting this demand, the next opportunity for rental investors lies in units that are affordable to people earning \$50,000 to \$99,000, where there was a 19% growth in households (14,620 households). However, for this tier of renters — particularly for those with incomes near \$50,000 — new construction is too expensive, typically requiring monthly rents above \$2,000 for family-sized apartments. But what we have seen is that the second tier income group will pay higher than current rents for well-located existing rental housing, either for rental housing that is in very good condition or for upscaled older apartment properties.

Today, lower income renters must compete with a growing number of renters with higher incomes

for sparsely available non-luxury apartments of decent quality and in safe neighborhoods. Those particularly disadvantaged in this competitive market are renters with any blemishes on their rental record or with less than stellar credit.

Number of renter households by income, 2010-2014 ■ 2010 ■ 2014



Source: US Census Bureau, 2010 Decennial Census; Metropolitan Council Household & Population Estimates (2014)

¹⁵ Metropolitan Council Household Estimates, 2014; U.S. Census Bureau, 2010 Decennial Census. These calculations apply ACS 5-Year (2010 – 2014) estimates of the percentage of total occupied units that are renter households – sorted by income – to Met Council household and population estimates for 2014. We use this approach because Metropolitan Council household estimates better reflect household and population dynamics in 2014.

¹⁶ Metropolitan Council Household Estimates, 2014; U.S. Census Bureau, 2010 Decennial Census.

SEEKING SOLUTIONS: Tim Thompson, Housing Justice Center

Tim Thompson got the call more than a year ago, soon after a new owner took over the 698-unit Crossroads at Penn apartment complex in Richfield.

For him, the policy changes and rent hikes mapped out by the landlord represented a call to action. Thompson, an attorney who heads the St. Paul-based Housing Justice Center, spearheaded an effort to bring a new kind of attention to the problem by heading to court.

On behalf of tenants facing displacement, and in some cases homelessness, Thompson filed a first-of-its kind lawsuit accusing the Crossroads purchaser of flouting the Fair Housing Act.

The landlord's overhaul, the suit says, is designed to unfairly push out existing tenants — a disproportionate number of which are people of color or those with disabilities, both protected from discrimination under the federal law.

Typically, the Fair Housing Act comes into play in zoning disputes. But shifting market dynamics that increasingly threaten to displace low-income renters add a new wrinkle. Thompson, a longtime affordable housing advocate in the Twin Cities, leveraged the law as part of a push to ease the purchaser's dramatic changes.

"It has been applied in situations involving private landlords in some cases, but a case where we are essentially arguing that there is a less discriminatory business model available to an owner to accomplish their goals without displacing everyone is pretty unique," Thompson said.

A federal judge refused to dismiss the suit this summer, a significant win for tenants at risk of losing their home at a time when they badly needed a boost. Over the past year in particular, Thompson said, out-of-state investors have dramatically changed the Twin Cities multifamily landscape.

The trend toward higher rents and upscale properties shows no sign of stopping, at least in the foreseeable future. That further complicates the dynamics in a marketplace where affordable units are already scarce.

"So far, it seems to be continuing unabated," Thompson said. "The overall net effect is that people are being forced out and have to end up competing for an ever-smaller supply of this kind of housing."



"The net effect is that people are being forced out and have to end up competing for an ever-smaller supply of this kind of housing."

Tim Thompson

Several Crossroads residents have rallied around the fair housing case, showing up in court and sharing their stories with local policymakers. "When these things happen, rather than simply take a defeatist attitude, they are really interested in the things they can do to save their homes," Thompson said.

SEEKING SOLUTIONS: Greater Minnesota Housing Fund

In 2016, the Greater Minnesota Housing Fund created the “NOAH Impact Fund”¹⁷ to help preserve the state’s stock of unsubsidized affordable rental housing.

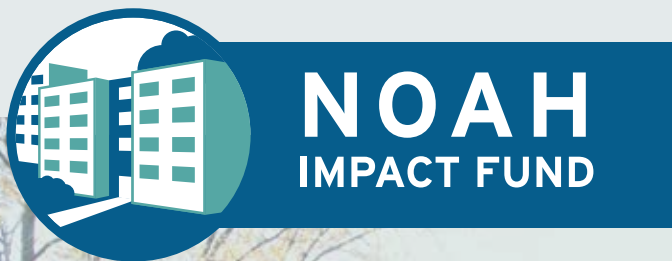
The fund utilizes investments from foundations, banks, and local and regional governments to finance the acquisition and preservation of rental housing to preserve affordability for the long term. GMHF plans to use the fund to preserve 1,000 of the roughly 167,000 rental units in the Twin Cities region that are affordable to households earning less than 60 percent of the area median income.

In August 2015, as the first pilot project for the new fund, GMHF partnered with Real Estate Equities to purchase a 72-unit unsubsidized affordable housing

complex in the northern Twin Cities suburb of New Brighton. Real Estate Equities is a St. Paul based for-profit residential management and ownership company. The company has a strong track record of providing quality rental housing throughout Minnesota and neighboring states.

GMHF provided 90 percent of the equity needed to purchase the building. Real Estate Equities provided the remaining ten percent and is responsible for managing the property. Under this joint ownership model Real Estate Equities agreed to maintain affordable rents (with any annual increase above 5 percent requiring GMHF’s approval) and accept Section 8 Voucher holders for at least 15 years.

¹⁷ NOAH refers to “naturally occurring affordable housing,” another term for unsubsidized affordable housing.



Fountain Terrace apartments

CONCLUSION

As the region continues to grow, preserving the stock of unsubsidized affordable housing is critical to ensuring the stability of low income families and the communities they call home.

The recent influx of higher income renter households creates a competitive rental market characterized by increasing rents and low vacancy rates. Many real estate investors recognize that these conditions can yield profitable returns for property owners. This situation is fueling new construction of mostly luxury units, and the acquisition and upscaling of older rental properties.

It is important to recognize the benefits of the new wave of rental investments to communities and, ultimately, to renters. The tax base of communities rises from this investment. Existing rental properties are often receiving improvements that extend their useful lives and professional management is brought in to ensure a property's continued viability and attractiveness. However, communities also suffer when, for instance, children in displaced households experience setbacks in their learning due to their housing instability.

The loss of unsubsidized affordable rental housing threatens the stability of low income families throughout much of the region, particularly for those with any blemishes in their rental history. In 2016, the pressures to increase rents continue and there are few local or state policies that protect tenants of the unsubsidized affordable apartments that are being sold and upscaled to serve a higher income market.

More must be done to encourage development of new non-luxury rental housing, subsidized and market rate, in order to relieve the upward pressure on rents in a period of extremely low vacancy rates. While efforts to expand the supply of rental housing take effect, other initiatives are needed to minimize the displacement of lower income renters.

There must be a public response — one that encourages continued public and private investment but also provides greater protections to renters and communities as unsubsidized affordable rental housing is being sold out.



Renters' Rights Tour in St. Paul, September 2016

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