

On the Rise: New Residential Construction in the Twin Cities Region

Key findings

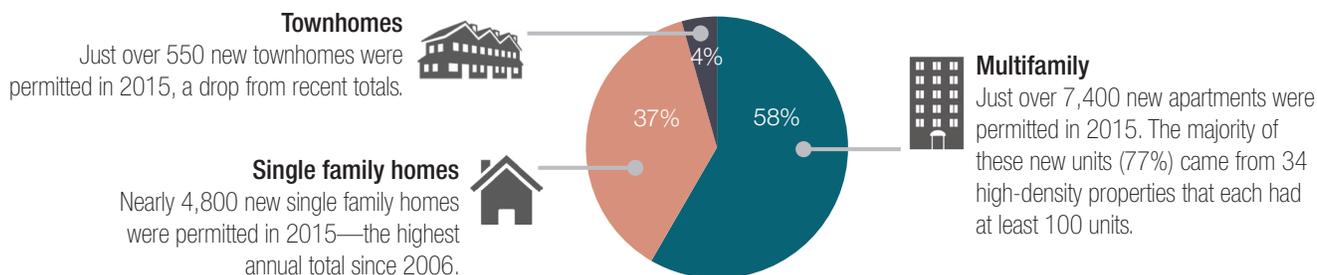
Each year the research team at Metropolitan Council asks cities and townships across the Twin Cities region about the building permits they've issued for new residential construction projects.¹ Homebuilding activity and the types of homes constructed is one measure of the health of the region's housing market. Currently, our real estate market is considered "tight," that is, a low vacancy rate, rising sale prices and rents, and fewer existing homes for sale. Adding new units to the region's housing stock helps to expand housing options.

<p>Our focus</p>	<p>What is the current level of new residential construction in the Twin Cities region?</p>	<p>Where is new residential construction taking place in the Twin Cities region?</p>	<p>What types of new housing are being built in the Twin Cities region?</p>
<p>Our findings</p>	<p>The Twin Cities region permitted the highest number of new housing units in 2015 since 2009, an encouraging sign for our regional housing market.</p> <p>Compared with other large metro areas however, homebuilding in the Twin Cities looks average at best—our "peer" regions have outpaced us since 2010.</p> <p style="text-align: right;">Page 2</p>	<p>Prior to the recession, Emerging Suburban Edge and Suburban Edge and edge communities permitted much of the region's new housing. Since 2010, however, Urban Centers, especially Minneapolis, have emerged as places with the highest levels of new residential construction. Some of the region's smaller cities are building a relatively high number of new homes as well.</p> <p style="text-align: right;">Pages 3 & 4</p>	<p>During and after the recession, the demand for rental housing soared, and multifamily housing (buildings with five or more units) has become the predominant housing type of new construction in the region since 2010. Urban Centers permitted most of these new buildings, many near transitways. New single family home construction is slowly returning to the region.</p> <p style="text-align: right;">Pages 5 & 6</p>

New housing permitted in 2015

Nearly 12,800 new housing units were permitted across the Twin Cities region in 2015—the highest annual total since 2009. The majority of permitted new housing are "attached"—mostly apartments, with a small number of townhomes, duplexes, and triplexes (Figure 1).

FIGURE 1. OVERVIEW OF NEW HOUSING UNITS PERMITTED IN 2015

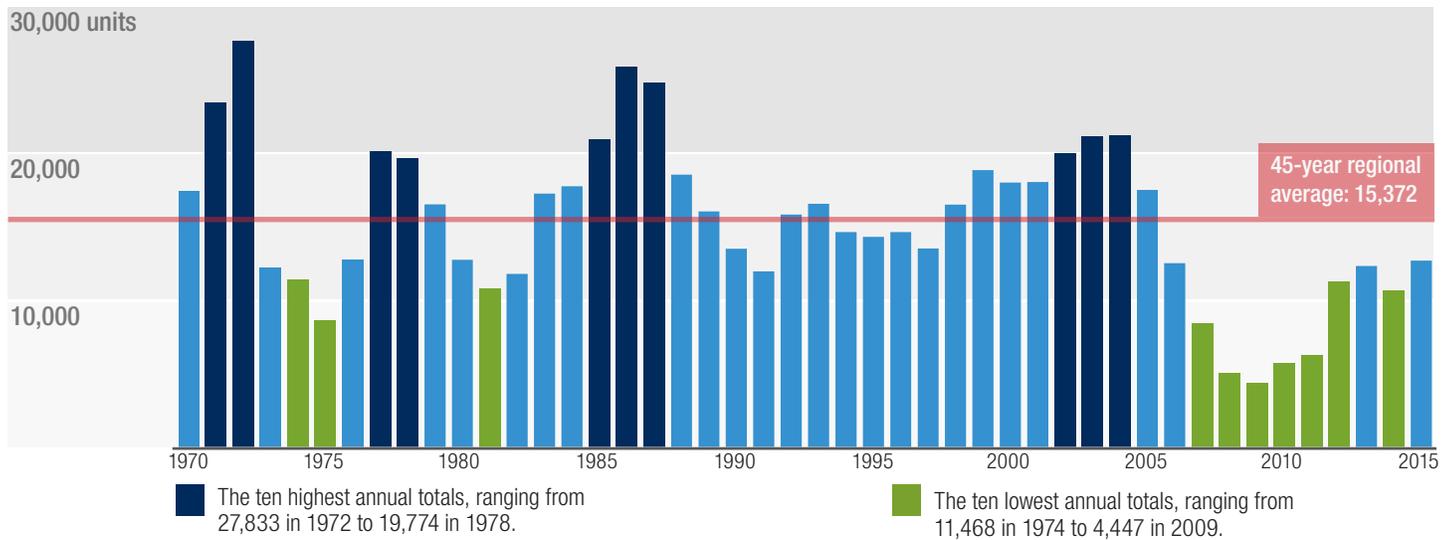


Source: Metropolitan Council's Residential Building Permit Survey, 2015. Building permit data are occasionally updated. The most current data are available to view and download at metro council.org/data.

Highest number of new housing units permitted in a decade

New residential construction in the Twin Cities region has ebbed and flowed with economic conditions since 1970, particularly in the past 15 years (Figure 2). After bottoming out during the Great Recession in 2009, the number of permitted new housing units in the region has increased annually. This upward trend signals an increasingly healthy real estate market. Notably, we're still not building new housing at levels seen in the 1990s or 2000s, and we have yet to reach the 45-year regional average of just over 15,300 units per year.

FIGURE 2. NEW HOUSING UNITS PERMITTED IN THE TWIN CITIES REGION, 1970-2015

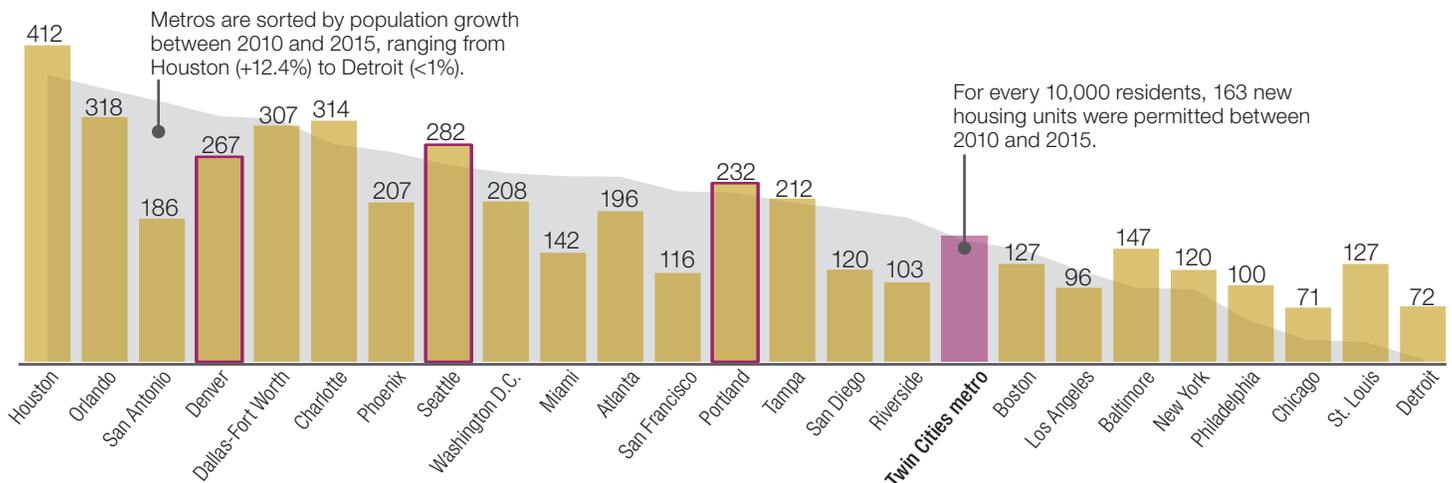


Source: Metropolitan Council's Residential Building Permit Survey, 1970-2015. Building permit data are occasionally updated. The most current data are available to view and download at metro council.org/data.

In context, current homebuilding in the Twin Cities metro is average

That the Twin Cities region reached a new post-recession high in permitted new housing in 2015 is an encouraging sign for the regional real estate market. In a broader context—however—recent residential construction in the 16-county Twin Cities metro area was quite average: we rank 13th (of 25 large U.S. metros) for the rate of new housing units permitted between 2010 and 2015 per 10,000 residents (Figure 3). Our rate of new residential development (163 new housing units permitted for every 10,000 residents) is relatively aligned with our overall population growth between 2010 and 2015.² Our "peer" metro regions (outlined below) have experienced greater population growth and are building new housing at much higher rates since 2010.

FIGURE 3. NEW HOUSING UNITS PERMITTED BETWEEN 2010 AND 2015 IN THE 25 LARGEST U.S. METROS



Source: U.S. Census Bureau, Decennial Census, 2010; U.S. Census Bureau, Annual Population Estimates, 2015; and U.S. Census Bureau, Building Permit Survey, 2010-2015.

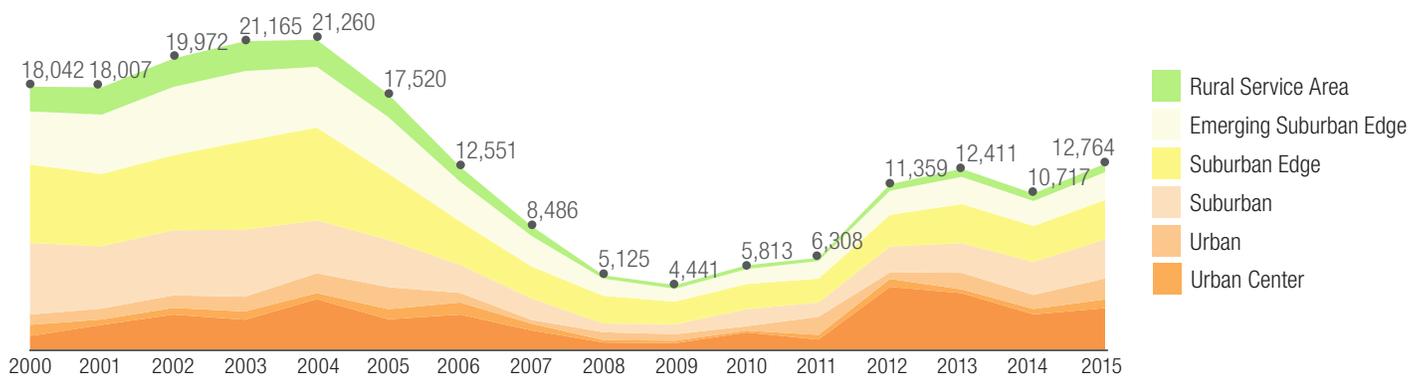
Urban Centers are now building most of the region's new housing

The seven-county Twin Cities region contains a wide variety of communities ranging from farming-based townships to densely developed downtown neighborhoods. Recognizing that one size does not fit all, we use *Thrive MSP 2040* Community Designations to group cities and townships with similar characteristics in order to more effectively target policies. Each city and township in the region receives a designation based on their existing development patterns, common challenges, and shared opportunities. [This [LINK](#) will open a regional map of *Thrive MSP 2040* Community Designations.]

The areas of the region with the largest share of permitted new housing have shifted considerably since 2000, a result of both the recession and other anticipated demographic trends starting to play out, such as the region's older adults entering the rental market to live in amenity-rich, walkable neighborhoods.³ Looking at new residential construction trends by Community Designations shows (Figure 4):

- During the "housing bubble" years (2002-2006), nearly half (49%) of all permitted new housing in the region was issued in Emerging Suburban Edge and Suburban Edge communities. Suburban and Urban communities permitted another quarter (25%), followed by Urban Centers 17%.⁴
- Between 2007 and 2010, the mortgage crisis and economic recession brought the region's housing market to a near-standstill. The region's Emerging Suburban Edge and Suburban Edge communities continued to permit the largest share of new housing during this period (53%), and little shifted elsewhere (Suburban and Urban communities permitted 23% and Urban Centers 19%).
- As the economy and housing market picked up in late 2011 and 2012, the distribution of permitted new housing balanced out across the region's Community Designations. Emerging Suburban Edge and Suburban Edge communities permitted 37% of new housing between 2011 and 2015, followed by Suburban and Urban communities (28%). The share of new housing permitted in Urban Centers rose to 31%. The post-recession pattern of new residential development mirrors the region's population growth since 2010. (Read more about the region's population growth patterns between 2010 and 2015 in our "Last Five Years" *MetroStats* from July 2016, [LINK](#).)

FIGURE 4. PERMITTED NEW HOUSING UNITS BY THRIVE MSP 2040 COMMUNITY DESIGNATIONS, 2000-2015



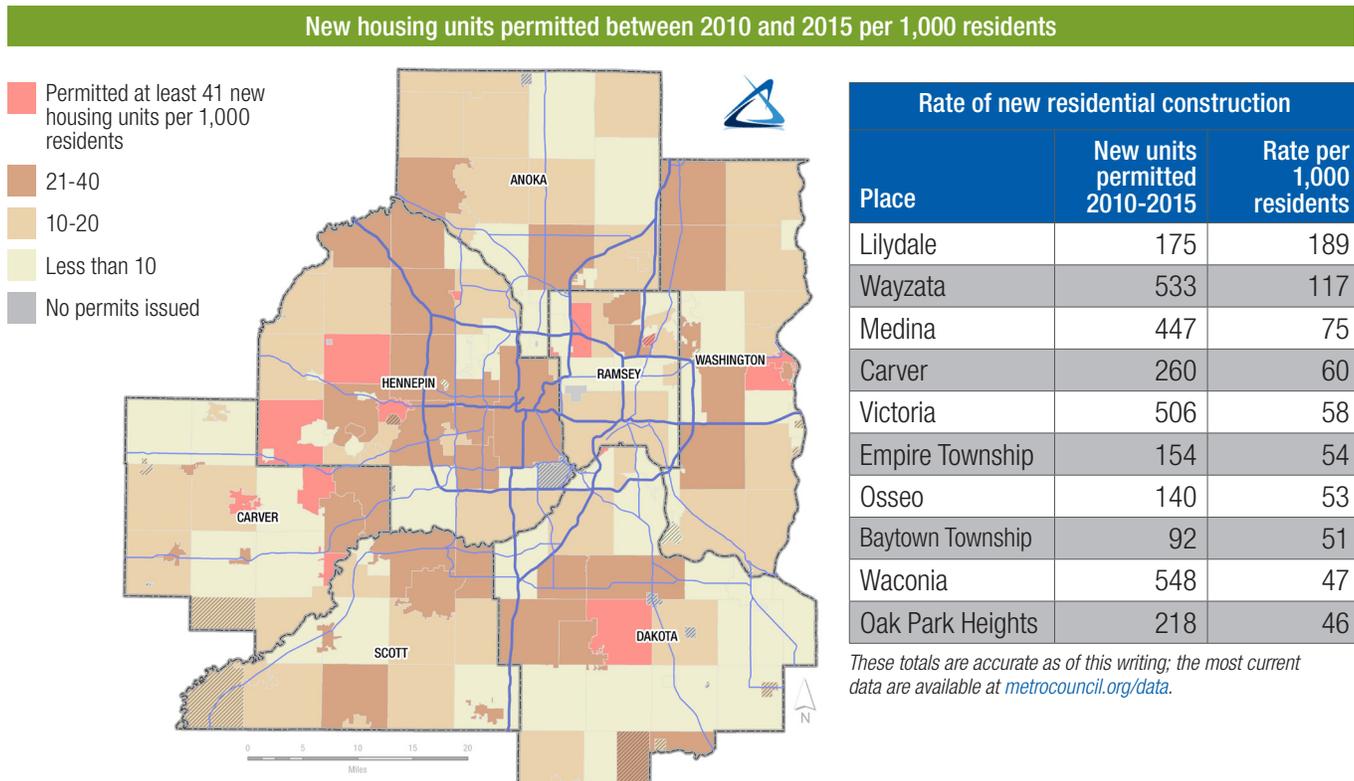
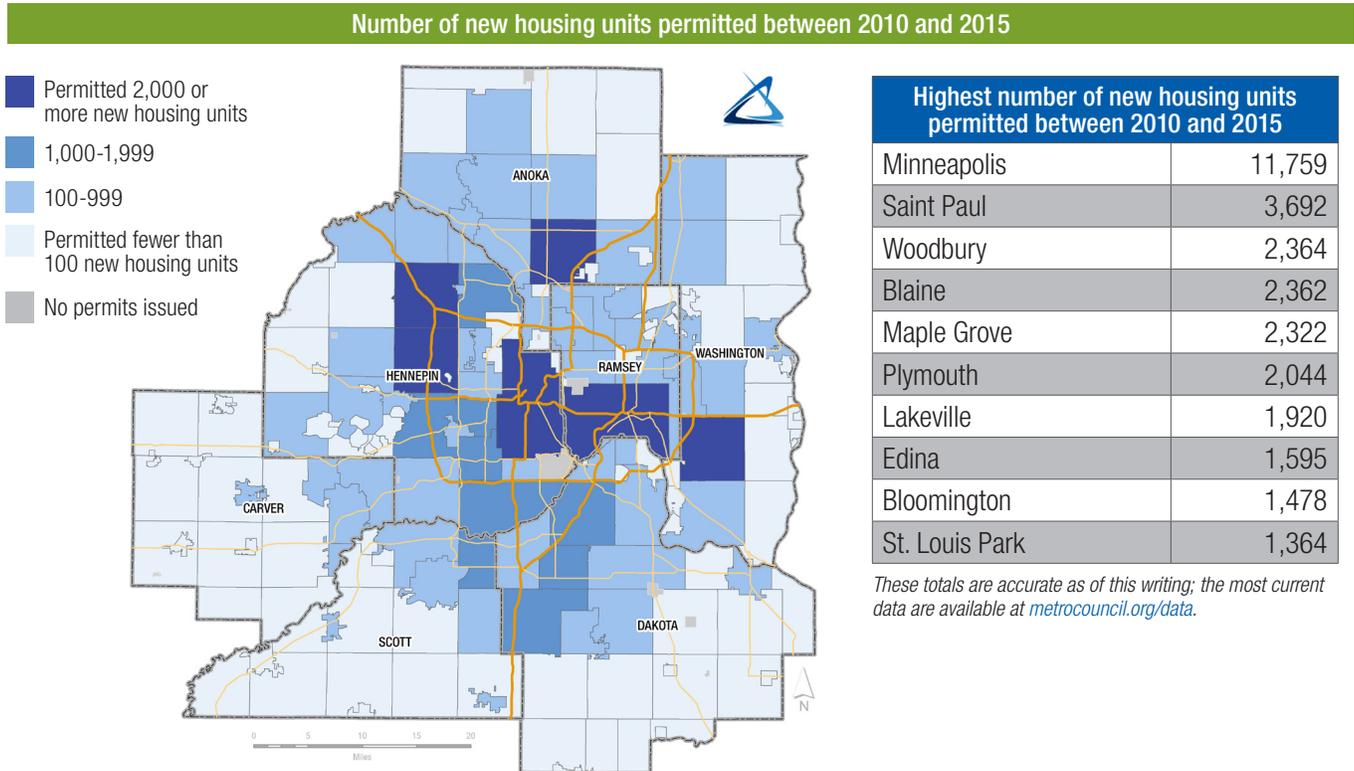
Source: Metropolitan Council's Residential Building Permit Survey, 2000-2015. Building permit data are occasionally updated. The most current data are available to view and download at metro council.org/data. A detailed description of Community Designations is available in the regional development guide, *Thrive MSP 2040* [PDF].

Big numbers of new housing units in Minneapolis, notable development elsewhere in the region

Minneapolis has consistently led the region's cities and townships in new residential construction since 2010, adding over 11,700 permitted new housing units over the past five years. This puts the region's largest city in a category of homebuilding unto itself. That said, other places in the region have also permitted a considerable number of new housing units in the past five years (Figure 5). Between 2010 and 2015, Saint Paul permitted nearly 3,700 new housing units (about half of those in 2015 alone), followed by Woodbury, Blaine, Maple Grove, and Plymouth.

Only considering sheer numbers can overlook residential development in smaller cities and townships, which may be building rapidly for their population size. When permitted new housing is standardized per 1,000 residents, clusters of cities in Hennepin County near Highway 12 and Interstates 494 and 394, in northern Scott County, and in central Dakota County also emerge as places with notable new residential construction (21 new housing units or more per 1,000 residents) since 2010.

FIGURE 5. RECENTLY PERMITTED NEW HOUSING BY CITY AND TOWNSHIP



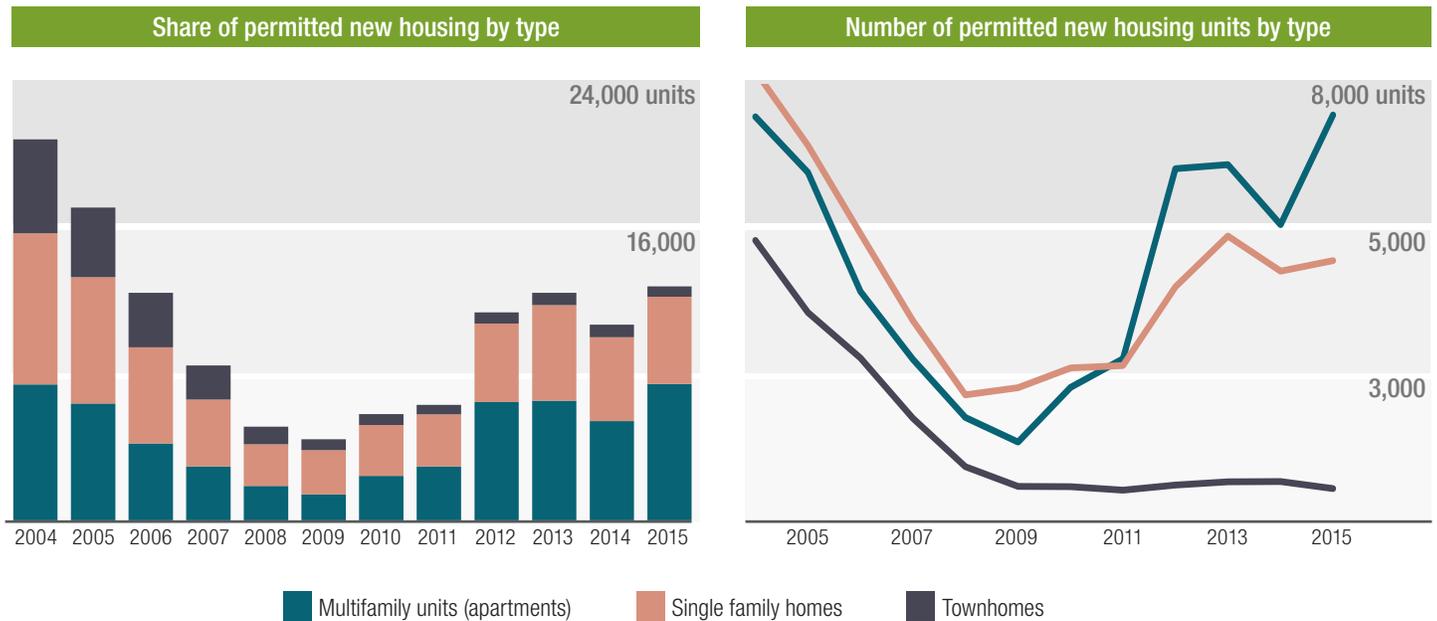
Source: Metropolitan Council's Residential Building Permit Survey, 2010-2015; Metropolitan Council's Population Estimates, 2015. Building permit data are occasionally updated. The most current building permit data are available to view and download at metro council.org/data.

Much of the region's new housing are multifamily units

Not only has the geographic pattern of homebuilding in the Twin Cities region shifted, the types of housing constructed have as well: Since 2010, over half (53%) of all permitted new housing in the Twin Cities region were multifamily units, over 31,000 units. That multifamily housing emerged as the predominant housing type built after the recession was due to several factors. The lingering effects of the recession and housing crisis—namely, unemployment and foreclosures drove many former homeowners into the rental market. Demand for rental housing was sustained during the recovery by demographic trends, such as Millennials entering the workforce and striking out on their own and older adults seeking to downsize and simplify their housing. Further, changes in the multifamily finance market, like expanded access to capital for multifamily developers through large commercial banks, helped get new projects off the ground more quickly.⁵

Within permitted new housing since 2004, the share of single family homes ranged from a high of 55% in 2009 to low of 37% in 2015 (Figure 6).⁶ The share of multifamily housing units (in buildings with five or more units) fluctuated from a third (32%) in 2009 to over half (58%) in 2015. The share of townhomes, however, has consistently decreased from about a quarter (25%) in 2004, down to just 4% in 2015. In sheer numbers, the Twin Cities region built the highest number of new multifamily units in 2015—nearly 7,500—just above the 2006 total. The number of new single family homes built in 2015 (just over 4,750) is about half the number built in 2004 during the "housing bubble." Most dramatically, the number of new townhomes built in 2015 was just over 550, a tenth of the 2004 total when over 5,100 were constructed.

FIGURE 6. PERMITTED NEW HOUSING IN THE TWIN CITIES REGION BY TYPE

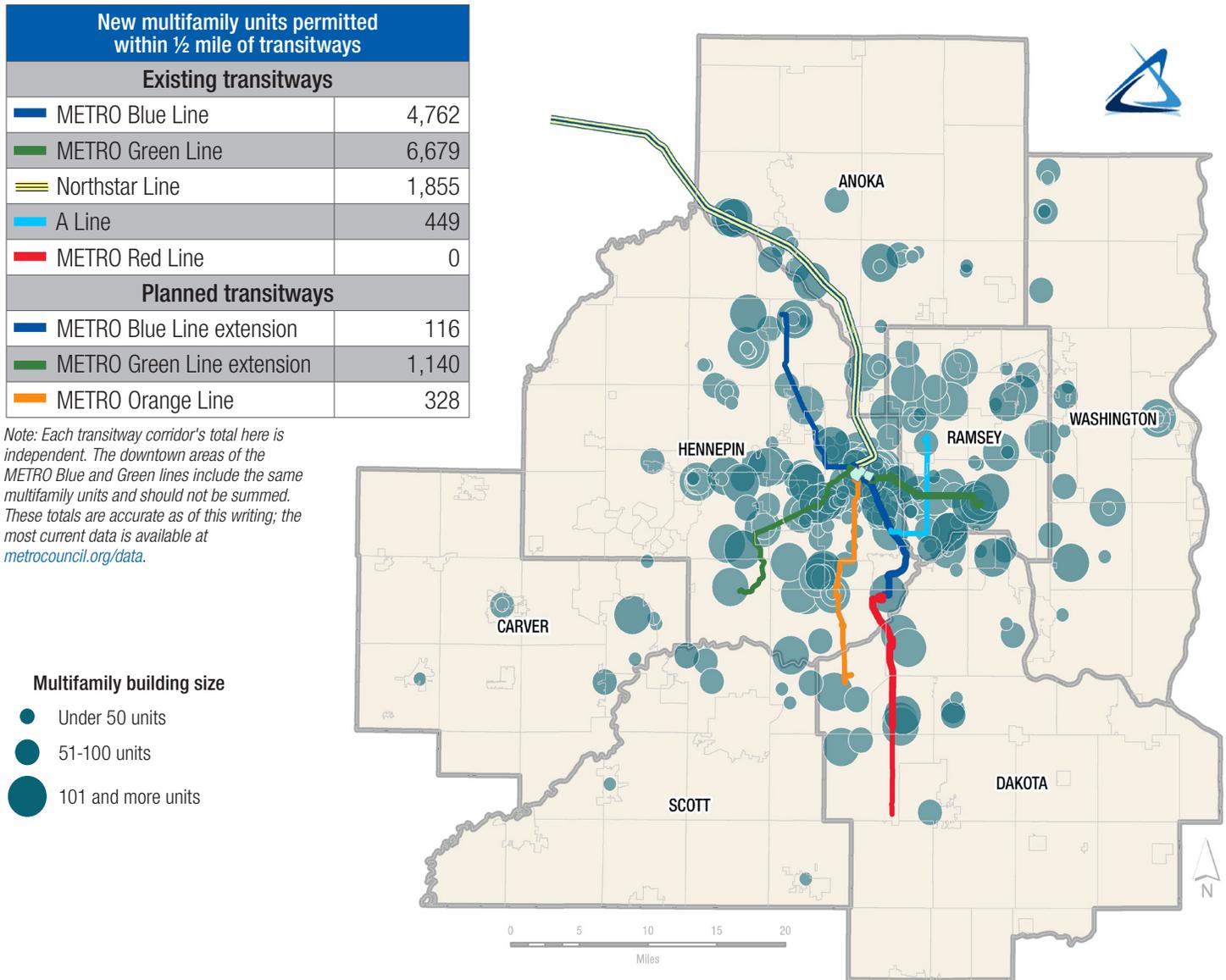


Source: Metropolitan Council's Residential Building Permit Survey, 2004-2015. Building permit data are occasionally updated. The most current building permit data are available to view and download at metro council.org/data.

Much like the overall geographic shifts in where new housing was permitted, where particular housing types were constructed also changed. Leading up to and during the recession (2005-2009), 44% of new multifamily housing was permitted in Urban Centers, with the remaining share split between Urban and Suburban communities (26%) and Suburban Edge and Emerging Suburban Edge communities (28%). Between 2011 and 2015, however, Urban Centers permitted 57% of the region's new multifamily housing, Urban and Suburban communities permitted 35%, followed by Suburban Edge and Emerging Suburban Edge communities (16%). In contrast, the geographic pattern of new single family home and townhomes went largely unchanged in these two periods, reflecting land availability and development patterns built into our Community Designation definitions. Since 2004, Suburban Edge and Emerging Suburban Edge communities permitted over half of new single family homes and, in most years, over two-thirds of the region's townhomes. Urban and Suburban Communities typically permitted about one in every five new single family homes, and one in every four new townhomes. Urban Centers have permitted very few new single family homes or townhomes since 2004.

New transit investments in the Twin Cities region have attracted new multifamily construction, especially along the new METRO Green Line, which opened in 2014 and connects Minneapolis and Saint Paul (Figure 7). Of the nearly 3,700 new multifamily units permitted in Saint Paul since 2010, 94% were located within a half a mile of the METRO Green Line. Downtown Minneapolis, an area well-served by the METRO Blue and Green Lines and many bus routes, permitted close to 1,500 new multifamily units between 2010 and 2015. The region's first arterial Bus Rapid Transit service, the A Line on Snelling Avenue, was completed in July 2016. Over 400 new units of multifamily housing were built in within a half-mile of this corridor. In 2015, new multifamily development in Eagan and Apple Valley was built close to the METRO Red Line (but just outside the half-mile area). Lastly, over 1,100 new multifamily units have already been constructed within a half-mile of the METRO Green Line extension (Southwest Light Rail), a planned transitway.

FIGURE 7. NEW MULTIFAMILY HOUSING PERMITTED BETWEEN 2010-2015



Source: Metropolitan Council's Residential Building Permit Survey, 2010-2015. Building permit data are occasionally updated. The most current building permit data are available to view and download at metro council.org/data.

As economic conditions improve, more renters may be looking to buy homes only to find the availability of moderately priced "starter" homes is too limited or that mortgage financing requirements put loans out of reach, keeping them in the rental market until more supply is added or lending conditions relax.⁷

For the Twin Cities region, and most other large metropolitan regions growing in the U.S., the demand for housing remains high and will require much higher levels of homebuilding of all types to avoid home sale prices and rents that are simply out of reach for moderate income households.

About our building permit survey

Each year the research team at Metropolitan Council asks cities and townships across the Twin Cities region about the building permits they've issued for new residential construction projects. Data from the Residential Construction Branch of the Manufacturing and Construction Division of the U.S. Census Bureau are used if a community did not return the survey. The data on returned surveys are verified by Metropolitan Council staff through various means including: contact with community staff, comparison to data from the Residential Construction Branch of the Manufacturing and Construction Division of the U.S. Census Bureau, community websites, and comparison to data submitted by communities in the Metropolitan Council's annual affordable housing production survey. Data may be periodically updated to reflect corrections. The most current year's data are considered preliminary until the publication of final population and household estimates in July of the following year: for example, 2014 data are preliminary until July 2015.

Endnotes

¹The response rate for the Metropolitan Council's 2015 building permit survey was 97%.

²See our *MetroStats*, "The Last Five Years: Population Growth in the Twin Cities Region Since 2010," [\[LINK\]](#).

³See, for example, this report commissioned by Metropolitan Council: Nelson, Arthur, "Metropolitan Council Area Trends, Preferences, and Opportunities: 2010 to 2020, 2030 and 2040," 2014, [\[LINK\]](#).

⁴The *Thrive MSP 2040* Community Designations refine the Geographic Planning Areas used in Metropolitan Council's previous development guide, 2030 Regional Development Framework, [\[LINK\]](#). In the Framework, communities in which at least 85% of the land was already urbanized were "Developed"; the *Thrive* Community Designations disaggregate the "Developed" Area into Urban Center, Urban, and Suburban communities. In the Framework, communities within the Urban Service Area in which at least 15% of the land was available for future development were "Developing"; the *Thrive* Community Designations disaggregate the "Developing" Area into Suburban Edge and Emerging Suburban Edge communities.

⁵Joint Center for Housing Studies of Harvard University (2013), "The Changing Landscape for Multifamily Finance." [\[LINK\]](#)

⁶Prior to 2004, we tracked multifamily development as buildings with three or more units. Beginning in 2004, our data defined multifamily development as five or more units. We're unable to provide consistent historic data on multifamily development across our dataset.

⁷Various 2016 Real Estate Matters blog posts, University of St. Thomas [\[LINK\]](#).

METROSTATS

Metropolitan Council | Regional Policy and Research

390 Robert Street North

Saint Paul, MN 55101-1805

metro council.org/metrostats contact us: research@metc.state.mn.us

