

What a difference a rate makes: population growth, housing production, and vacancy in the Twin Cities region since 2010

Introduction and key findings

Each year, the Council's research team estimates the population and households of each city and township in the Twin Cities region. We track housing units in detail, then use data from the U.S. Census Bureau's American Community Survey, the U.S. Postal Service, and our own surveys to estimate people living in housing units, and people living in group quarters (such as people living in nursing homes and college dorms). With this information, we arrive at an annual estimate of total population for cities and townships in the region.¹

Our focus	How has the region's population changed since 2010?	Has population growth impacted the region's housing market?	Why does an overall low vacancy rate matter?
Our findings	The region's population is nearing 3.1 million. The region has added almost 226,000 residents since 2010, an increase of 7.9%. There was notable population growth in Urban Center and Suburban Edge communities. In context, however, these gains are less impressive: the region's growth is slightly below our peer metros' average.	The region's housing production has not kept pace with population growth, resulting in a housing production shortfall behind only San Francisco and Atlanta. Recent data show the region's housing production is now on the upswing, but lowering the vacancy rate to "healthy" levels will require a substantial increase in production.	"Healthy" vacancy rates—oft-cited as 5%—mean housing costs largely follow inflation. Low vacancy rates can result in rapidly rising costs. With a rental vacancy rate under 5% since late 2014, rents have grown three times faster than if they followed inflation since 2010. This amounts to about \$155 more per month, on average.

We have more people (and they need housing)

We estimate the Twin Cities region's total population was 3,075,563 on April 1, 2017, which is about 226,000 more residents than the region had in 2010 (Figure 1). Two-thirds of this population increase has come from "natural growth" (births outpacing deaths), and the remaining third is the result of net migration (more people moved into the region than moved out of it, primarily from outside the U.S.). This population growth translates to 83,100 households added region-wide since 2010. Over the same period, the region added about 63,600 housing units. Taken together, it's clear that the region's overall household growth considerably outpaced its housing production (7.4% versus 5.4%, respectively). As a result, about 20,000 new households occupied units within the existing housing supply, drawing down the region's vacancy rate to record lows.

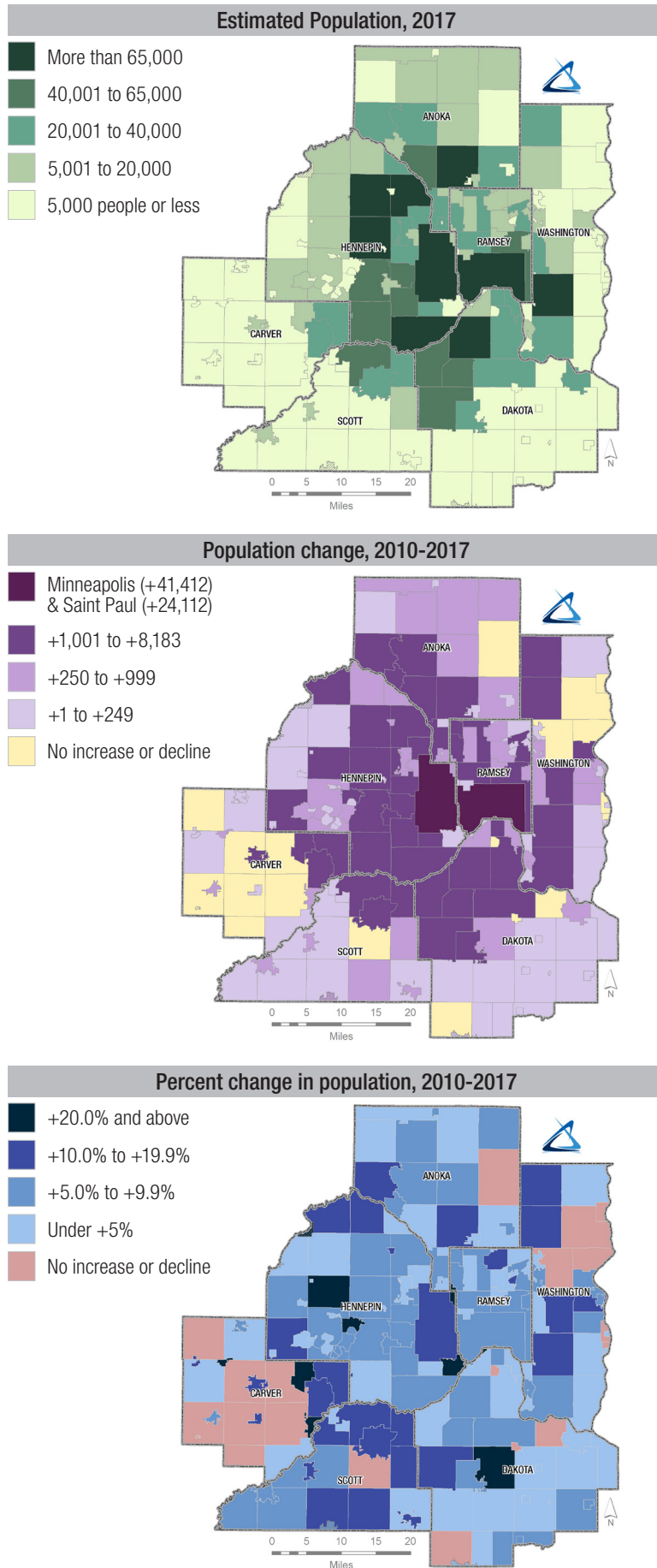
So what does this growth mean for the Twin Cities region? We explore the implications in the following pages.

FIGURE 1. 2017 POPULATION ESTIMATES

	Census April 1, 2010	Estimated April 1, 2017	Change 2010-2017	Percent change 2010-2017
Population	2,849,567	3,075,563	225,996	7.9%
Households	1,117,749	1,200,840	83,091	7.4%
Housing units	1,186,986	1,250,590	63,604	5.4%

Source: Metropolitan Council's 2017 Population Estimates. The final estimates are available at metro council.org/populationestimates and in our Community Profiles at metro council.org/data.

FIGURE 2. THE REGION'S RECENT POPULATION TRENDS



Steady, balanced population growth in the region since 2010

The Twin Cities region has grown by over 1.2 million residents between 1970 and 2017. The overall population growth rate since 2010 was 7.9%, outpacing the previous decade (at 7.9% over a full decade between 2000 to 2010). However, this is well below growth during the 1980s and 1990s (both decades' rates were about 15%). What sets the current decade (so far) apart from the last is the location and scale of the population growth within the region:

- Cities that gained the most new residents between 2000 and 2010 were largely Suburban Edge communities like Shakopee, Woodbury and Lakeville. These three cities combined accounted for 21.6% of the region's overall population growth during that decade (an increase of 44,832 residents). In fact, Minneapolis and Saint Paul experienced population decline in the 2000s.
- Between 2010 and 2017, Minneapolis, Saint Paul, and Blaine had the highest population gains (Figure 2, middle). Combined, Minneapolis and Saint Paul (both Urban Center communities) accounted for 28.9% of the region's population gains during this period.

In short, population growth has shifted toward the region's center since 2010 and at a fairly large scale. Within the cities of Minneapolis and Saint Paul, population gains are tied to strong multifamily construction in the downtown neighborhoods and near the METRO Blue and Green lines since 2014. Even with this trend, 51 communities across the Twin Cities region have gained over 1,000 residents since 2010. This group includes cities from all seven counties and all community types (i.e., Thrive Community Designations), which is why we continue to describe this recent population growth as "balanced."²

Just over 100 communities had under 5,000 residents in 2017 (Figure 2, top). Within this group of small cities and townships, 18 have experienced "rapid" growth of 10% or more (Figure 2, bottom). For example, Wayzata, Medina, and Victoria each added under 2,000 residents since 2010, but relative to their size, that's a 30% increase. Plainly, population growth does not require large numbers to generate perceptible community change, perhaps even more so in the region's rural and edge communities.

Source: Metropolitan Council's 2017 Population Estimates. The final estimates are available at metro council.org/populationestimates.

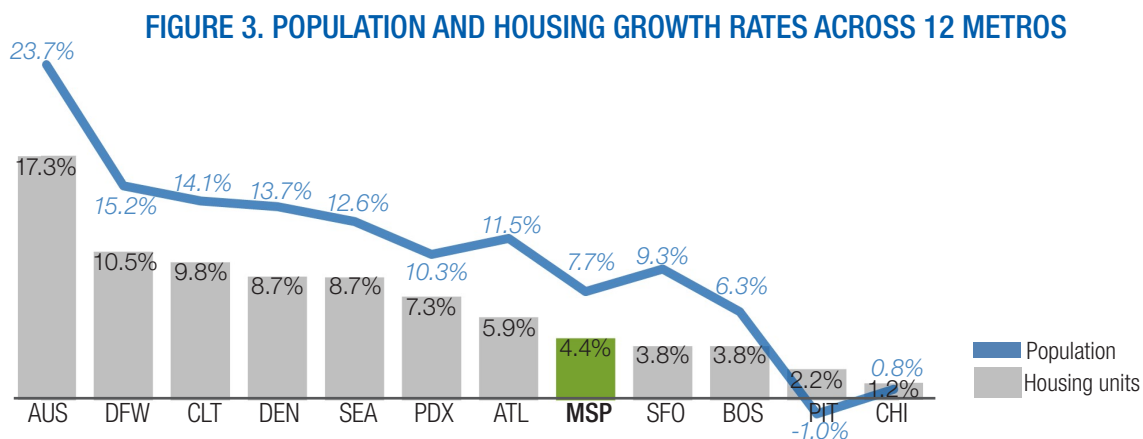
The Council's most current long-range regional forecast models a population growth rate of 10.9% between 2010 and 2020; we are largely on-track (in part because the regional forecast is updated every two years, and includes trends observed from the 2016 population estimates). The region's population gains since 2010 have so far accounted for a quarter of the region's forecasted population growth to 2040 (an additional 888,400 residents). In the coming decades, however, the region's population growth rate is expected to slow to 9.5% in the 2020s and 8.1% in the 2030s. The substantial demographic shifts that will accompany this growth are already underway: by 2040, the region's population will be more racially and ethnically diverse; older; and more often living in smaller households.³

Fully realizing the opportunities of a growing region requires mitigating the challenges to livability and prosperity that can accompany it, such as infrastructure maintenance, traffic congestion, and—as we discuss below—keeping up with an increasing demand for housing.

Our peer regions also face growth-related challenges but the Twin Cities metro stands out

Before we dig into the Twin Cities region's housing supply trends, the broader national context is worth considering. Figure 3 shows population and housing growth rates for the 16-county Minneapolis-Saint Paul-Bloomington metropolitan statistical areas (or Twin Cities metro) and those of our 11 peer metros as identified by Greater MSP.³ (Here, we use Census estimates, not the Council's population estimates, for an apples-to-apples comparison.) Three key takeaways emerge from this comparative analysis:

- The Twin Cities metro's population growth rate between 2010 and 2017 was slightly below the collective average of our peers. Metros we're often compared with—like Denver, Seattle and Portland—experienced double-digit gains during this period.
- In all but two of the 12 metros studied (Pittsburgh and Chicago), population growth rates between 2010 and 2017 exceeded housing unit growth. Housing production shortfalls are not unique to the Twin Cities—they are a national trend.
- Dividing each metro's housing-unit growth rate by its population growth rate provides a rough measure of the degree to which housing production lags behind population growth. The Twin Cities metro showed the third-largest shortfall during this period (-43%) behind only San Francisco (-59%) and Atlanta (-49%). (The actual number of units required to catch up differ drastically across metros, which is why we use relative rates here). That the Twin Cities metro's housing production shortfall is on par with that of San Francisco's or Atlanta's may sound strange but is—in fact—where we are today.



Source: U.S. Census Bureau Population Estimates Program, 2010 and 2017.

Note(s): Population growth rate only includes people in households. We are using largely comparable metropolitan statistical areas, as identified by U.S. Office of Management and Budget. Peer metros include Atlanta (ATL), Austin (AUS), Boston (BOS), Chicago (CHI), Dallas-Fort Worth (DFW), Denver (DEN), Phoenix (PHX), Pittsburgh (PIT), Portland (PDX), San Francisco (SFO), and Seattle (SEA).

There is another reason the Twin Cities metro stands out among our peers: housing affordability. Our metro ranks 2nd for its overall low rate of housing cost burden (28.8%) as of 2012-2016, second only to Pittsburgh at 26.2% (and far lower than San Francisco's rate at 39.9% and Atlanta's at 33.9%). This suggests the Twin Cities still has the critical opportunity to address housing supply issues while keeping affordability within reach, an uphill and ongoing struggle in other metro areas.

Low vacancy has become the norm, affecting housing costs

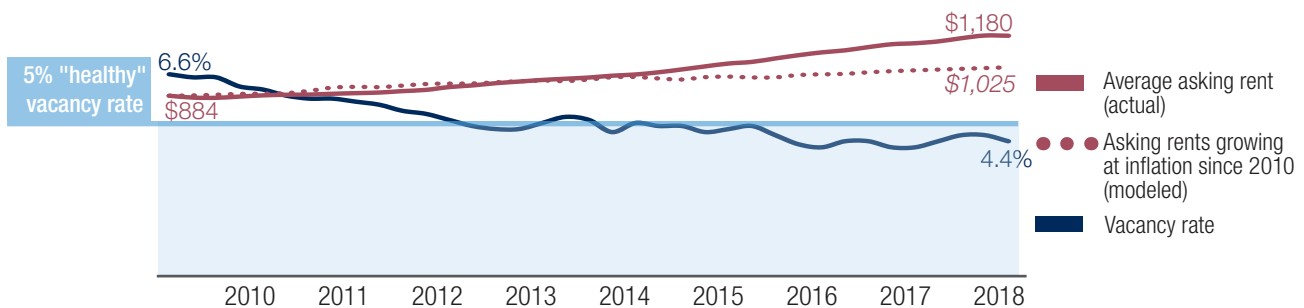
The vacancy rate—that is, the share of built but unoccupied housing units—provides a useful metric for assessing an area's housing supply relative to its demand. A commonly used benchmark for a "healthy" vacancy rate is 5%.⁵ At "healthy" vacancy, housing costs rise with inflation. Low vacancy rates (below 5%) can add undue, upward pressure on housing costs while high vacancy rates can result in an excess of unoccupied units.

The region's overall vacancy rate was 4.0% in 2018, down from 5.8% in the 2010 Census. Housing market studies point out that a "healthy" vacancy rate can vary by tenure (vacancy tends to be higher in the rental market) and by price point (more expensive housing shows a higher vacancy than lower-cost units).⁶ Its worth emphasizing that 5% is a national benchmark for a "healthy" vacancy rate. The "healthy" vacancy rate for the Twin Cities region may be higher or lower, depending on the specific dynamics of our housing market. Further, a healthy vacancy rate likely varies by submarkets within the region. (A future topic for this research team.)

With those caveats in mind, Figure 4 presents an analysis of the seven-county region's rental vacancy rate and rents between 2010 and 2018. Several points jump out:

- The region's rental vacancy rate has been under 5% since the fourth quarter of 2014. The rental vacancy rate remained below "healthy" levels despite the addition of nearly 25,000 rental units region-wide between 2015 and 2017.⁷
- Average asking rents rise with inflation when the rental vacancy rate is close to or above 5%. After several consecutive years of low rental vacancy, average rents began to rise much faster than inflation (three times faster, in fact). Had the cost of rental housing rose with inflation since 2010, the average asking rent would be \$155 less per month, on average.

FIGURE 4. THE TWIN CITIES REGION'S RENTAL VACANCY RATE AND RENTS



Source: CoStar data on multifamily rentals in the seven-county Twin Cities region, 2010-2018.
Note(s): We set the baseline year of inflation to 2010 and modeled average asking rents.

Increasing housing supply is only one piece of the puzzle to the region's livability

Taken together, the Twin Cities region's recent population growth, lagging housing production, and record-low vacancy all call for an increase in residential development. In fact, looking at recent levels of housing production, the region would need an additional 13,500 housing units overnight (which is about what we currently build region-wide in an entire year) to bring the region's vacancy up to 5%. Put simply: we need more housing.

However, more units alone will not ease the region's growing housing affordability issues. The largest unmet demand within the region's housing market is for housing that is affordable to low- and moderate-income households. In 2006, the Council estimated the region would need an additional 52,000 units of affordable housing to meet the existing demand between 2011 and 2020.⁸ With the decade quickly coming to a close, the region is woefully behind, adding just over 7,000 units as of 2016 (gains that are likely offset by losses of unsubsidized affordable units). In other words, increasing production will only take the region so far. Pairing increased housing production with intentional strategies to prioritize equitable development that meets the region's most pressing demands is most likely to support the region's livability in the coming decades.

Endnotes

¹A detailed methodology for the Council's population estimates is available on our website [\[LINK\]](#).

²A pdf map of Thrive 2040 Community Designations [\[LINK\]](#).

³For a full discussion, see "The Twin Cities Regional Forecast to 2040: Steady Growth and Big Changes Ahead," (June 2017) [\[LINK\]](#).

⁴Greater MSP describes their peer metro selection process in the technical appendix of the MSP Regional Indicators Dashboard [\[LINK\]](#).

⁵See, for example, "Rental Housing and the Natural Vacancy Rate" (2010) [\[LINK\]](#) or "Vacancy: America's Other Housing Crisis" (2018) [\[LINK\]](#).

⁶See, for example, "In expensive cities, rents fall for the rich — but rise for the poor" (2018) [\[LINK\]](#).

⁷We track residential construction through our annual Building Permit Survey. Explore the most current data through an interactive web tool [\[LINK\]](#) or click through a recent presentation of development trends through 2017 (June 2018) [\[LINK\]](#).

⁸For a full discussion, see "Determining Affordable Housing Need in the Twin Cities, 2011-2020" [\[LINK\]](#). The 2021-2030 Allocation of Affordable Housing Need can be found on the Council's website [\[LINK\]](#).

About our population estimates

Each year, the Council's research team estimates the population and households of each city and township in the Twin Cities region. We do this by tracking housing units in detail: we count newly built residential units, housing demolitions, and housing units created from former commercial uses. We also track the number of people living in group quarters (such as nursing homes and college dorms).

Once we arrive at a number of housing units, we then use the U.S. Census Bureau's American Community Survey and other data sources to estimate: 1) the likely occupancy rate of these housing units (households), and 2) the number of people living in them (population in households). The final population estimate includes both people living in housing units and people living in group quarters.

Generally, a city or township's population increases if:

- new housing is added;
- housing vacancy decreases; and/or
- the number of people living in a typical household increases

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