MetroStats

METROPOLITAN COUNCIL

Slipping Behind: 2013 Affordable Housing Production in the Twin Cities Region August 2015

Key findings

- Residential development in the Twin Cities region is trending upward since 2009. However, only a small percentage of added housing units were affordable to households with low and moderate incomes. In 2013, the Twin Cities region added only 724 affordable housing units, which was 6% of all new housing.
- Though multifamily construction is on the rise, the share of multifamily units affordable to low- and moderate-income households has decreased. The share of townhomes that are affordable is rising though this remains a small fraction of overall new housing.
- Nearly two-thirds (62%) of the region's cities and townships said they used local tools and incentives to promote affordable housing in 2013.

About us

The Regional Policy and Research team at Metropolitan Council wrote this issue of *MetroStats*. We serve the Twin Cities region—and your community—by providing technical assistance, by offering data and reports about demographic trends and development patterns, and by exploring regional issues that matter. For more information, please contact us at research@metc.state.mn.us.

Download the data used in this report at http://metrocouncil.org/data. Select "Affordable housing construction," then your geographic areas of interest.

Please note that our data collection on development is ongoing—the numbers published in this report may not reflect the most current data available.

Housing—along with food, clothing, transportation and medical care—is a necessity. For many households, the rent or mortgage payment is the largest monthly expense. When people cannot find housing they can afford the effects are far-reaching: households make trade-offs between housing and other daily essentials, which can undermine their overall well-being. Understanding the landscape of housing options for households at all income levels is crucial to our region's short- and long-term success.

In our annual surveys of cities and townships in the Twin Cities region, we track the new residential units added to the region's housing stock and their monthly cost. We use the term 'affordable' to describe housing units that low- or moderate-income households earning up to 60% of the Area Median Income ($49,400 for a family of four) can afford without spending more than 30% of their income.

Less than 1,000 affordable units added in 2013

The Twin Cities region is steadily recovering from the Great Recession. After bottoming out in 2009, residential development across the region has increased each year, adding close to 13,000 housing units in 2013 alone. Most of these new housing units are the result of new construction, with some units resulting from conversions from former commercial property.

Affordable housing, however, is not keeping pace with overall residential development: the Twin Cities region added only 724 affordable housing units in 2013. This is a 29% decrease from the number of affordable units added in 2012, and the lowest total in our annual data to-date.[1]

With market-rate housing gaining momentum in the post-recession years, the overall share of affordable units also reached an all-time low (see Figure 8 on page 6). In 2013, only one in every 16 new housing units was affordable (Figure 1).

Figure 1. Housing units added in 2013

Source: Metropolitan Council's Affordable Housing Production Survey, 2013.

[1] Our definition of affordable changed in 2011—a direct comparison across all years of data is not possible. Even so, the annual totals both before and after 2011 show decline. See page 6 for the historical trend.

A-Mill Artist Lofts, Minneapolis

The redevelopment of the historic Pillsbury flour mill property added 251 affordable rental units. Residents are renter households who demonstrate a commitment to art.

Riverview Ridge, Eagan

The 27-townhome development is part of a Workforce Housing Program by Dakota County. Residents are renter households with minor children, preferably with ties to Dakota County.

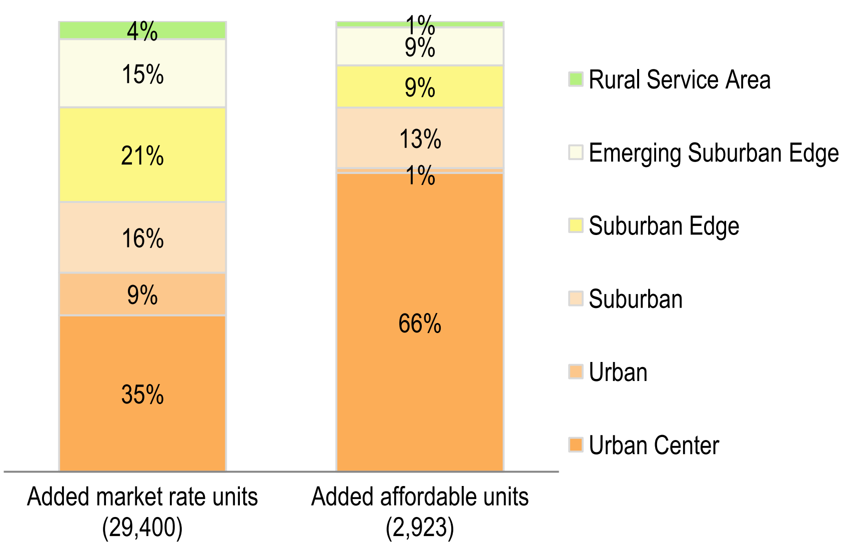
Midway Pointe, Saint Paul

These 50 affordable rental units are part of the Episcopal Homes senior housing project expansion, located along the METRO Green Line. Residents are age 62 or older and live independently.

Affordable housing development within and outside Urban Centers

The Twin Cities region consists of a wide-range of communities—from farming-based townships to densely developed downtown neighborhoods. Recognizing that one size does not fit all, we use Community Designations as defined in the Council's regional development guide, *Thrive MSP 2040*, to group cities and townships with similar characteristics to more effectively target policies. Each city and township in the region receives a designation based on its existing development patterns, common challenges and shared opportunities (Read more about Community Designations *Thrive MSP 2040*—pdf). The distinctions among the Community Designations are a proxy for the conditions facing affordable housing development in different parts of the region. For example, greenfield land is more available for new development in the Suburban Edge and Emerging Suburban Edge compared to the older parts of the region, such as the Urban Center and Urban communities, where new affordable housing is more likely to be redevelopment or adaptive reuse.

Figure 2. Housing units added between 2011 and 2013 by *Thrive MSP 2040* Community Designations



Source: Metropolitan Council's Affordable Housing Production Survey, 2011-2013.

Since 2011, market-rate housing production was balanced between the region's edge communities and Urban Centers, with each area capturing about a third of newly built units (Figure 2).

Over the same period (though at a much smaller scale) two-thirds of added affordable units were built in Urban Center communities, almost exclusively in Minneapolis and Saint Paul. Another third of added affordable units were built in the region's Suburban, Suburban Edge and Emerging Suburban Edge communities. Outside of Minneapolis and Saint Paul, the cities with the highest number of added affordable units between 2011 and 2013 were Farmington (87 units), Eagan (74), Forest Lake (74), Savage (70), Ramsey (68), Plymouth (67), Woodbury (64) and Burnsville (60).

In 2013, 146 cities and townships across the Twin Cities region added at least one market-rate housing unit in 2013 but only 28 added an affordable unit. Figure 3 lists the 10 cities with the highest number of added affordable units in 2013. While these 10 cities account for nearly all of the affordable units added in 2013 (96%), they contain only 44% of added market-rate housing. Cities like Shakopee, Inver Grove Heights and Cottage Grove added a balance of affordable and market-rate units in 2013. Even though 66% of the affordable housing added region-wide in 2013 was built in Minneapolis, affordable housing represents only 13% of Minneapolis' added housing units overall.

Figure 3. Top 10 producers of affordable housing in 2013

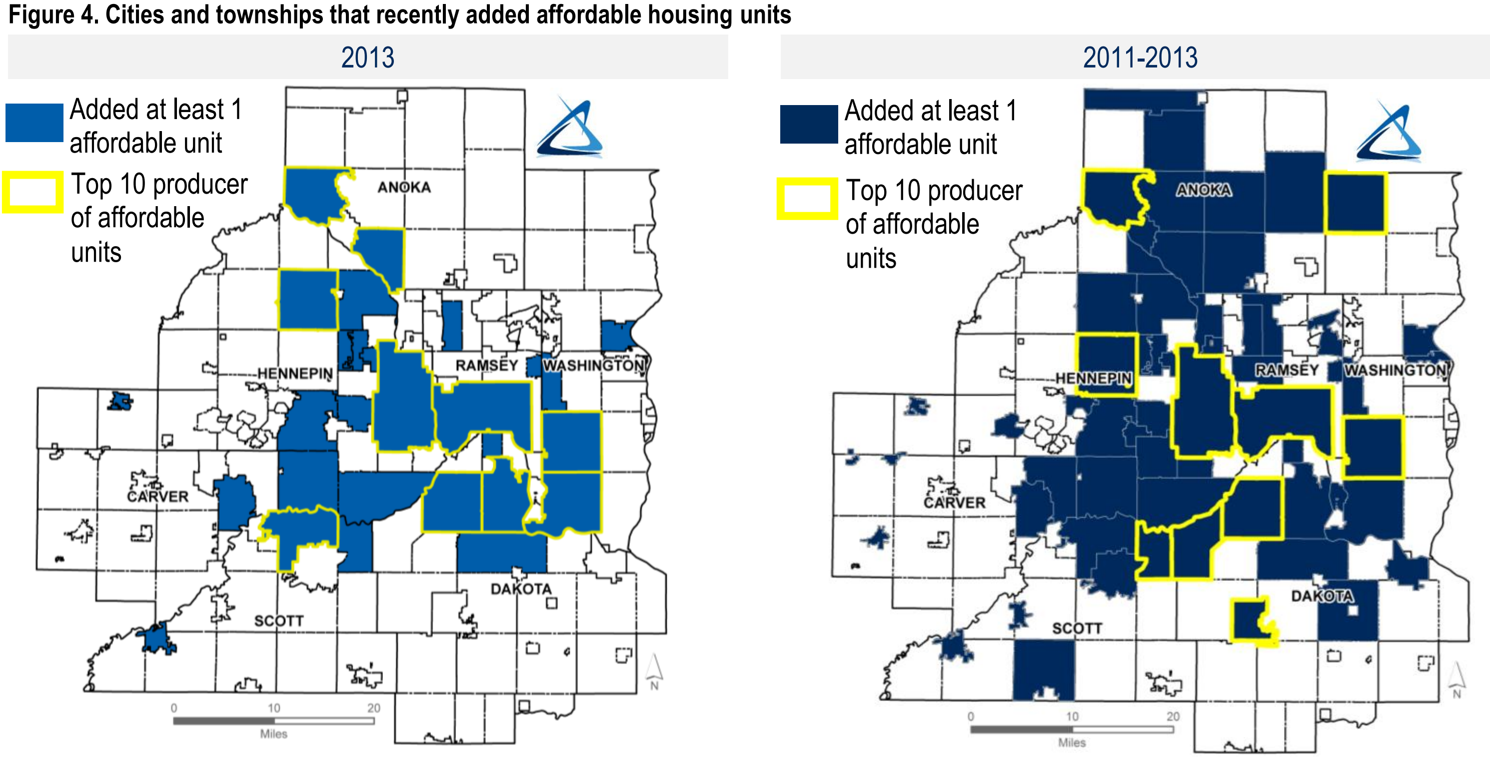
	***Thrive MSP* 2040 Community Designation**	**Added affordable units in 2013**	**Share of added housing that was affordable**
Minneapolis	Urban Center	457	13%
Saint Paul	Urban Center	58	8%
Maple Grove	Suburban Edge	51	9%
Shakopee	Suburban Edge	37	34%
Eagan	Suburban	27	7%
Inver Grove Heights	Suburban Edge	24	21%
Ramsey	Emerging Suburban Edge	16	10%
Cottage Grove	Suburban Edge	10	19%
Woodbury	Suburban Edge	10	3%
Coon Rapids	Suburban	5	4%

Source: Metropolitan Council's Affordable Housing Production Survey, 2013.

Each city's 2013 affordable unit total was often the result of one or two large affordable housing developments. For example, the A-Mill Artist Lofts accounted for 55% of Minneapolis' added affordable housing in 2013. Similarly, Midway Pointe in Saint Paul was nearly all (86%) of their total, and Riverview Ridge in Eagan was the sole source of Eagan's 27-unit total.

Figure 4 maps cities and townships across the region that added at least one affordable unit to the housing stock in 2013 (28 communities total) and between 2011-2013 (61 communities total).

Figure 4. Cities and townships that recently added affordable housing units

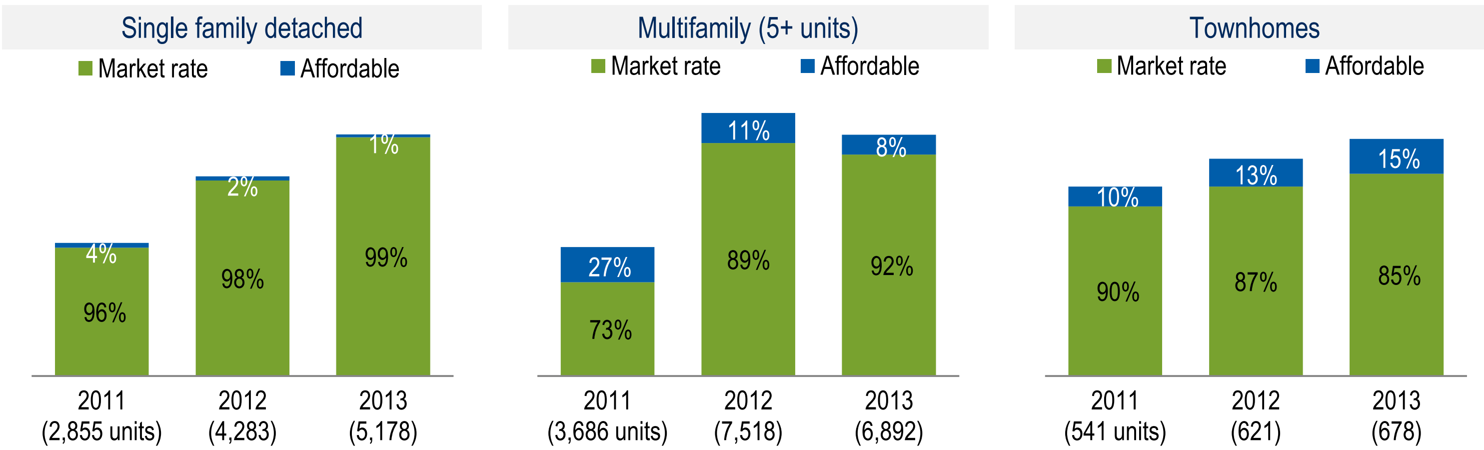


Source: Metropolitan Council's Affordable Housing Production Survey, 2011-2013.

Multifamily units less likely to be affordable, while share of affordable townhomes increases

Of the 724 affordable units added in 2013, 92% were a form of attached housing—mostly multifamily (563 units) and some townhomes (100 units). Even though multifamily construction led the housing market out of the recession, it is increasingly market-rate production. The share of affordable multifamily units fell over the past three years (Figure 5). In contrast, townhome construction is up since 2011, and the share of affordable units increased.

Figure 5. Recently added housing units by type, 2011-2013



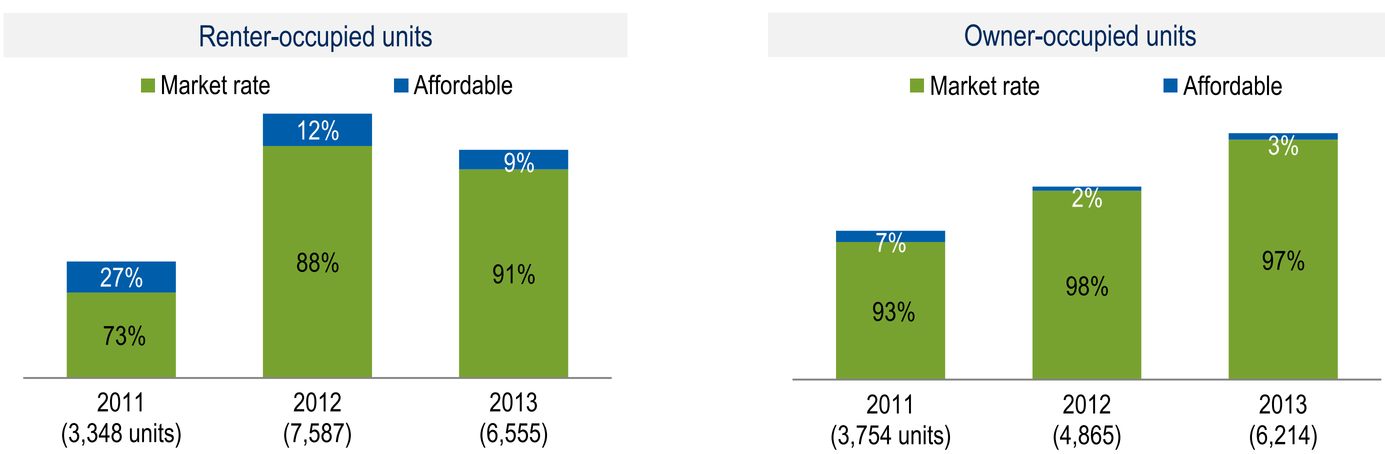
Source: Metropolitan Council's Affordable Housing Production Survey, 2011-2013. In this timeframe, affordable describes a housing unit that households with incomes at or below 60% of Area Median Income (AMI) can pay for without experiencing housing cost-burden.

Fewer affordable housing options for renters since 2011

Renters occupied most affordable units (77%) added in 2013, which is typical across years. Despite being the majority of consumers in the affordable housing market, fewer affordable rental units were built in the post-recession years: only one of every 11 new rental units across the region was affordable (Figure 6). The share of affordable rental housing decreased sharply over this three-year timeframe, going from 27% in 2011 to 9% in 2013. In the aftermath of the recession, affordable housing financing was a primary source of capital for apartment construction. Since the recovery, market-rate rental buildings have become easier to finance and more popular.[2]

Affordable owner-occupied units added in 2013 were primarily townhomes built in Shakopee, Eagan and Ramsey.

Figure 6. Recently added housing units by tenure, 2011-2013



Source: Metropolitan Council Affordable Housing Production Survey, 2011-2013. In this timeframe, affordable describes a housing unit that households with incomes at or below 60% of Area Median Income (AMI) can pay for without experiencing housing cost-burden.

[2] Becker, S. (February 2011). Redevelopment in the Twin Cities: A Developer's View. *Prepared for the Family Housing Fund and Urban Land Institute Minnesota.*

Local governments report leveraging tools and incentives

In addition to tracking the number of affordable units added to the region's housing stock annually, our Affordable Housing Production Survey asks cities and townships to describe the ways they support the development of affordable housing locally. Building housing at any price point can take years. Better understanding the extent to which cities and townships are providing pathways for future affordable housing projects helps us interpret development trends.

Fifteen percent of cities and townships in the Twin Cities region added at least one affordable housing unit. However, 62% reported using at least one local tool, strategy or incentive to promote affordable housing in 2013 (Figure 7). This suggests local governments across the region are leveraging resources to support future affordable housing development.

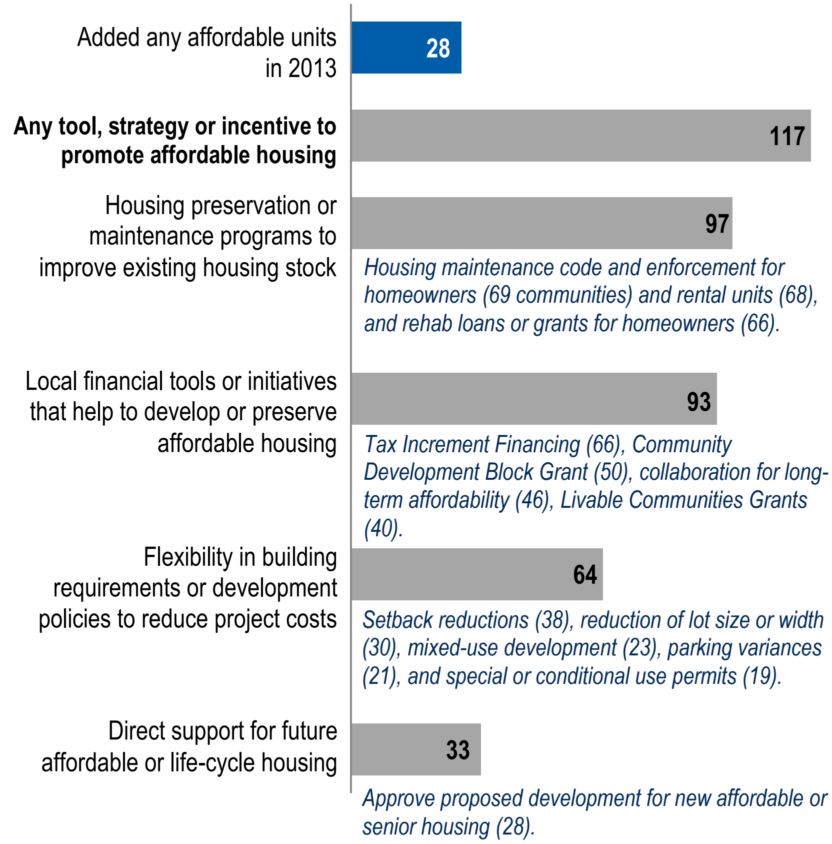
Over half (52%) of cities and townships across the region used a housing preservation or housing maintenance program to improve their existing housing stock in 2013. Most often, they identified housing code enforcement for homes and multifamily buildings as an example of their preservation efforts.

Just under half (49%) used a local financial tool or incentive designed to support new—or preserve existing—affordable units. Tax Increment Financing (TIF) and Community Development Block Grants (CDBG) were the most frequently identified financial tools. Forty cities reported using Livable Communities Grants to support affordable housing in 2013.

About one in three cities (34%) said they were flexible with building requirements or other development policies to reduce the cost of building new affordable housing. The top examples mentioned were setback reductions, lot size variances and flexibility with mixed-use development.

Fewer cities reported direct support—such as funding or acquiring land—for proposed affordable housing projects.

Figure 7. Number of cities that used local tools and incentives to promote affordable housing in 2013 and top responses

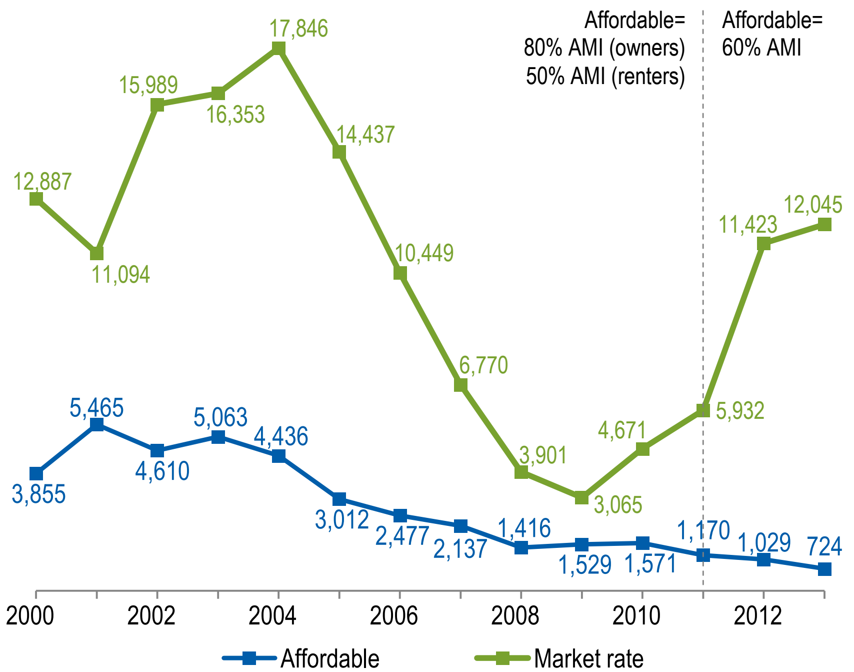


Source: Metropolitan Council Affordable Housing Production Survey, 2013. The 2013 response rate for the 2013 survey was 85%. The detailed responses are available in a separate appendix (PDF).

Affordable housing: a decade of decline

Before taking a closer look at the longer-term trend of affordable housing development across the Twin Cities region, it is important to reiterate that a direct comparison across all years is not possible. We determine a housing unit is "affordable" if a low- or moderate-income household can make the monthly rent or mortgage payments without becoming housing cost-burdened (that is, that they spend up to—but not more than—30% of their income on monthly rent or mortgage payments). Before 2011, we used a different income-level threshold to define "low and moderate-income" households. This income level was up to 50% of Area Median Income (AMI) for renters and the income level was up to 80% of AMI for homeowners. In 2011, the income threshold became 60% of AMI for both renters and homeowners. This change meant that since 2011, we began to capture more renters with moderate incomes, and fewer homeowners with moderate incomes. For context, the Area Median Income for the 16-county Minneapolis-Saint Paul-Bloomington metropolitan area in 2013 was $82,300 for a family of four. Sixty-percent of AMI for a family of four was $49,400.[3]

Figure 8. Added housing units by price point in the Twin Cities region, 2000-2013



Source: Metropolitan Council Affordable Housing Production Survey, 2000-2013. Please note that market-rate unit counts offered here do not necessarily match counts from our residential building permit survey.

Between 2000 and 2010 (years that use the same definition of affordable), affordable housing production reached its highest level in 2001, with over 5,400 units added (Figure 8). The number of affordable units fell in most years thereafter, and never again reached the 2001 peak. While market-rate construction plummeted in response to the housing market crisis, bottoming out in 2009, the decline in affordable housing was slow and steady between 2003 and 2010.

Affordable housing production continued to decline between 2011 and 2013, even as market-rate development gained momentum. Of all housing units added in 2011, 16% were affordable. By 2013, only 6% of new housing was affordable.

In 2006, an advisory panel of housing market specialists determined that the Twin Cities region would need to add over 52,000 housing units affordable to low- and moderate-income households to its existing housing stock between 2011 and 2020 in order to meet the future need for affordable housing. With less than 3,000 affordable units added since 2011, this level of production remains largely unrealized.

The unmet need for affordable housing in the region

Pairing several federal datasets, we estimate that the Twin Cities region had just over 360,000 housing units affordable to households with incomes at or below 50% of Area Median Income in 2013.[4] Moreover, higher income residents live in many of these affordable units, increasing the mismatch between household incomes and housing costs. This report shows that the region is adding new affordable housing homes but at a pace too slow to meet the growing need.

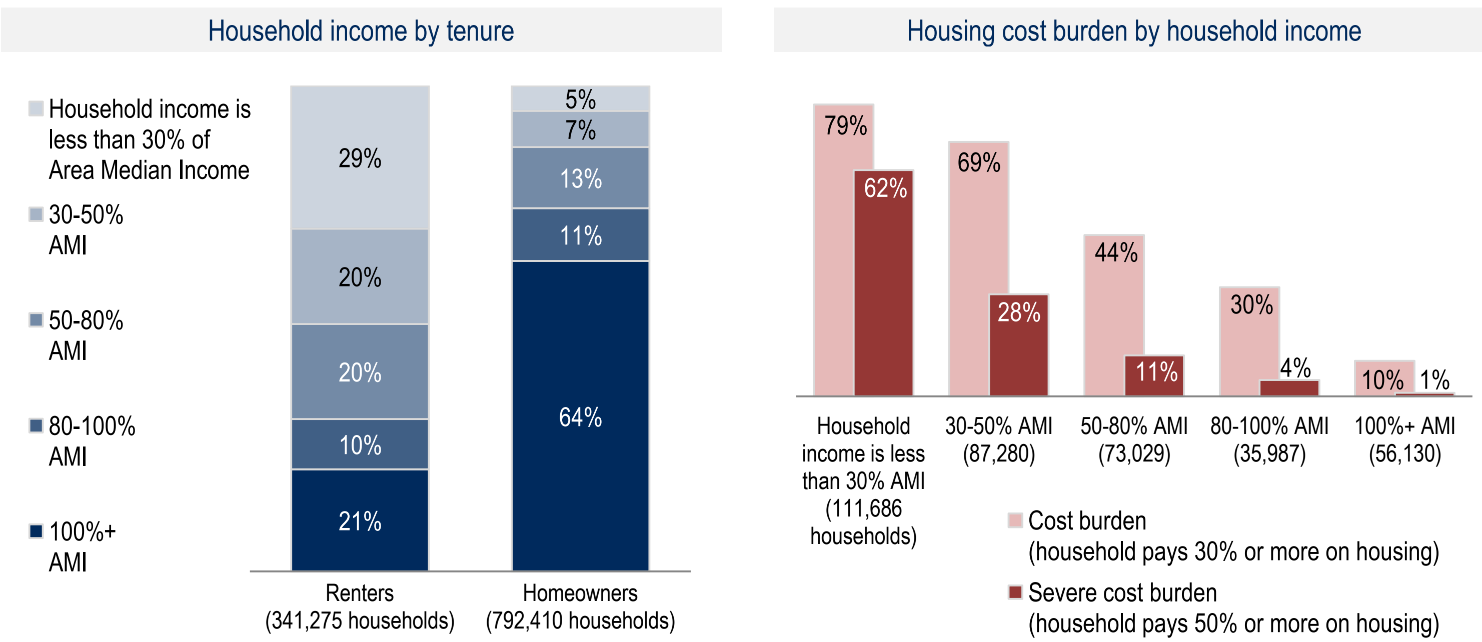
So how do we know there is a regional need for more affordable housing? First, we can look at the household income of homeowners and renters in the region. Nearly half (49%) of the region's renters have a household income at or below 50% of Area Median Income (Figure 9). However, as we discussed earlier in this report, multifamily housing production is increasingly market-rate with rents that are typically out of reach for low- and

[3] Area Median Income (AMI) is determined by the U.S. Department of Housing and Urban Development (HUD). HUD's website explains these calculations in detail.
[4] The full methodology for calculating existing affordable housing is in an adopted amendment to the 2040 Housing Policy Plan.

moderate-income households. Current homeowners tend to have higher income-levels than renters (12% of homeowners have incomes at or below 50% Area Median Income). With few housing units produced that low- and moderate-income households can afford, homeownership in the region could remain largely unattainable for households with income considerably below the region's Area Median Income.

Second, the level of housing cost burden suggests a misalignment of household incomes and housing costs. Recent data published by the U.S. Department of Housing and Urban Development show one in every three households in the Twin Cities region experienced housing cost burden—that is, spending at least 30% of their income on housing costs—in the 2008-2012 period. Further, one in every eight households experienced severe housing cost burden (spending at least half of their income on housing costs). Figure 9, which shows levels of housing cost burden by household incomes, confirms that households with low- and moderate-incomes are more likely to experience housing cost burden than households with income levels closer to the region's Area Median Income. Increasing the affordable housing options for low- and moderate-income households would help to reduce housing cost burden in the region.

Figure 9. Household income by tenure and housing cost burden by income level, 2008-2012



Source: U.S. Department of Housing and Urban Development, Comprehensive Housing Affordability Strategy (CHAS), 2008-2012.

About our Affordable Housing Production Survey

We conduct our Affordable Housing Production Survey as part of the 1995 Livable Communities Act.[5] The goal of the Livable Communities Act (LCA) is to stimulate housing and economic development in the seven-county metropolitan area. Metro-area municipalities participate in the Livable Communities Act program voluntarily. The responses to the survey help us determine local housing performance scores through the *Guidelines for Priority Funding for Housing Performance* that, in turn, help us determine how to award Livable Communities grants.

Each year we send the Affordable Housing Production Survey to every city and township in the Twin Cities region in our jurisdiction. Cities and townships submit their responses by mail or email. In 2013, the response rate was 85%.

[5] Minnesota Statutes(section 473.254, subdivision 10), states that the Metropolitan Council is responsible for producing an annual report that includes information on government, non-profit and marketplace efforts in producing affordable and life-cycle housing.