Case Studies: Minneapolis

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with HR&A Advisors
Minneapolis, MN

Minneapolis is experiencing modest growth, limited new development, and moderately increasing rents, which have posed affordability challenges for low-income renters.

In recent years, the city’s new rental stock has predominantly served its small influx of higher-income renters. With few options to locate in the city, low-income renters have disproportionately located in surrounding metro areas.

**Drivers**

**Widening Gap in Renter Incomes**

The number of renter households grew by 16% (12,700 households) between 2000 and 2016. Nearly half of these renters were low-income, while 40% were high-income. As a result, the renter composition in Minneapolis has shifted away from middle-income renters.

**Low but Rising Hard Development Costs**

Hard costs have grown 29% since 2000, well below the national rate of 57%. Real land costs have grown 415% from their lowest point in 2011, though land prices are still relatively low and below the national median.

**Impacts**

**Moderately Rising Rents Overall but Very High Rents for Newly Built Units**

Rents have risen 14% since 2000 for both new and existing housing, at a rate on par with the national average. However, while rent levels for pre-2000 buildings have remained low, rents for units in new buildings are, on average, twice as expensive as rents for existing units, as much of the city’s new stock has targeted a new base of high-income renters.

**Limited New Development Attainable for Low- and Middle-Income Residents**

Minneapolis added zero units affordable for low-income renters in 2016 and 2017, and approximately half of new units were only affordable to high-income renters.

**Continued Challenges for Low-Income, Emerging Challenges for Middle-Income**

Once an extremely affordable city, Minneapolis’s housing stock is increasingly out of reach for low-income, and even middle-income, renters. Both income segments have disproportionately located in metro areas outside of the city.

**Relevant Tools**

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- Tax Abatement
- By-Right
- Inclusionary Zoning

**Cities Facing Similar Challenges**

Cities facing similar housing affordability challenges include:

- Charlotte, NC
- Raleigh, NC
- Louisville, KY
- Colorado Springs, CO
**DRIVER**

**Widening Gap in Renter Incomes:**
The median real renter income is 1% lower than in 2000, despite a recent growth in high-income households.

Between 2000 and 2016, the real median renter income fell by 1% on net. This percentage decline incorporates the steep decline in renter incomes prior to and after the Great Recession. Since 2010, renter income has risen largely due to an influx of high-income renters – which belies the number of renters whose wages remain stagnant.

Half of all net new renters in Minneapolis were low-income. This contributed to little change in the median renter income, despite there being a significant share of high-income renters. There was little increase in middle-income renter households between 2000 and 2016. Given the current makeup of the city, where half of renter households are low-income, the large share of new high-income renters is noteworthy.

The city added 12,700 net new renter households. This amounts to a 16% growth in renter households, below the national growth rate of 23%. A relatively high percentage of the net new renters occupied units in multifamily buildings.

Multifamily construction rates have been on par with the nation. 16,600 multifamily rental units were delivered between 2000 and 2016. This amounts to 30% of the multifamily housing stock that existed in 2000, the same rate of building seen on average nationwide.

Source: CoStar, ACS, U.S. Census, HR&A analysis
**Driver**

**Low but Rising Hard Costs to Development:** Hard costs have risen faster than the national average.

When development costs increase, rents must increase to cover the higher costs. This results in decreasing affordability for renters. The 14% increase in real asking rents for new units in Minneapolis is linked to rising development costs. Development costs are driven by three main components: land, labor and materials, and regulatory soft costs.

Local regulatory conditions further intensify the rising cost of development. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, limit development potential through stringent parking requirements, and other local requirements can each result in higher development costs.

In the Minneapolis area, hard costs, or the cost associated with labor and materials, increased significantly between 2000 and 2016. Hard costs increased from $94 PSF to $147 PSF for multifamily buildings in real terms, amounting to an increase of 60%.

Minneapolis land costs grew rapidly between 2011 and 2016 but remain fairly low. Real land costs have rebounded since hitting the bottom of the market in 2011. However, land prices in 2016 remain lower than the national median of $66,000. This indicates that there may be an abundance of developable land in Minneapolis. When cities increase the amount of developable land, rent pressure generally decreases.

**In Minneapolis, increasing real hard costs are the greatest contributor to growth in rents.** Land costs have a lesser impact but may be a factor in highly desirable neighborhoods, from well-established ones such as North Oaks to rapidly growing ones such as Richfield.

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*Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis*
**IMPACT**

**Moderately Rising Rents:** Rents have risen moderately, at a pace on par with the nation.

The real gross median rent in Minneapolis increased by 16% from 2000 to 2016, slightly below the national average. The increase in the median gross rent is moderate, but affordability challenges continue to increase due to stagnating renter incomes.

The average asking rent for new multifamily apartment units increased by 14% from $1,604 in 2000 to $1,828 in 2016. Minneapolis has seen only a moderate increase in the asking rent for new units, at a pace similar to growth in rents for existing units. Still, the asking rent for new units remained high relative to renter incomes.

The share of occupied rental units priced under $800 a month fell by 15.1 percentage points in Minneapolis, compared to a decrease of 12.2 percentage points nationally. However, this decline is especially significant given the high number of low-income renters in this market who rely upon rents at this level.

The share of occupied rental units priced under $800 in 2016, down from 51% in 2000.

**Rents for existing units are increasing at a similar rate as those for new units, an indicator of a potential supply shortage.** Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 13%. This overall rate of growth is low compared to many cities but still indicates excess demand for existing rental units. Rent increases for existing buildings likely varied across neighborhoods and occurred at a much higher rate in communities such as the Warehouse District and Loring Park.

**Lack of Units for Renters At and Below Median Income:** The city’s new rental supply is out of reach for many of its renters.

Real median renter income growth has not kept pace with real median gross rent growth. In 2000, the median renter could afford the median gross rent with a $130 surplus. In 2016, the median renter could no longer afford the median gross rent.

Source: CoStar, ACS, U.S. Census, HR&A analysis
The vast majority of units produced in 2016 and 2017 were out of reach for the median renter. Only 102 units were produced with average asking rents below $918, equal to the monthly rent affordable for a median-income renter in Minneapolis. About 2,600 units with asking rents over $918 were delivered in 2016 and 2017.

**ASKING RENT DISTRIBUTION OF MULTIFAMILY UNITS BUILT IN 2016 AND 2017**

- 1,384 units for high-income renters ($1,875 or more)
- 1,308 units for middle-income renters ($875 - $1,875)
- 2,692 New Rental Units Built in 2016 and 2017
- 102 units affordable to the median renter ($918 or less)
- 0 units for low-income renters ($875 or less)

Note: Subsidized units are not included.

**IMPACT**

**Continued Challenges for Low-Income Renters, Emerging Challenges for Middle-Income Renters:** Affordability challenges are a new phenomenon for middle-income households, and many households have been led to locate outside of the city.

Like renters nationwide, renters in Minneapolis are increasingly struggling to pay rent. The total share of rent-burdened households increased from 38% to 45% between 2000 and 2016. The number of rent-burdened households grew by nearly 12,000, equal to 86% of the total renter households added.
Low- and middle-income renters saw large increases in affordability challenges. The rate of rent-burdened middle-income households grew from 11% in 2000 to 26% in 2016. Three quarters (77%) of low-income renters were burdened in 2016, up from 70% in 2000. This is on par with the national trends of rapidly increasing rent burdens for low- and middle-income households.

Minneapolis is struggling to attract and retain low- and middle-income renters. Between 2000 and 2016, the number of low-income renters grew by 14% in the city and 61% in the surrounding metro area. During the same period, middle-income renters demonstrated a similar difference in growth rate. This trend likely indicates that both low- and middle-income renters are increasingly being priced out of the city, due to the increasing difficulty of paying for quality rental housing in the city.

**SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016**

- **77% of low-income renters** were rent burdened, up from 70% in 2000.
- **11% of middle-income renters** were rent burdened, up from 15% in 2000.
- **2% of high-income renters** were rent burdened, up from 0% in 2000.

**GROWTH IN THE NUMBER OF LOW-INCOME RENTERS**

- **14%** Minneapolis
- **61%** Surrounding Metro

**GROWTH IN THE NUMBER OF MIDDLE-INCOME RENTERS**

- **8%** Minneapolis
- **38%** Surrounding Metro

Source: CoStar, ACS, U.S. Census, HR&A analysis