

MARKET WATCH: Saint Paul

Trends in the unsubsidized multifamily rental market



JULY 2018 | Across the Twin Cities, the growing ranks of renter households are facing an increasingly challenging housing market with rising rents and declining vacancy rates. While developers are leveraging public and private resources to create new affordable units, current owners of unsubsidized rental properties have few tools to preserve and improve aging properties to maintain homes for current and future tenants. In this new research series, Minnesota Housing Partnership will track key trends in the unsubsidized multifamily rental markets across the Twin Cities. **This report analyzes data for 28,740 unsubsidized rental units in properties with four or more units in Saint Paul from the CoStar database.** Data information and limitations on page 2.

THOUSANDS OF FAMILIES PAYING TOO MUCH FOR RENT IN SAINT PAUL¹

Like many other cities, Saint Paul has experienced growth in renters in recent years, rising 12% from 2000 to 2016 to a total of 56,830 renter households in 2016. Like Minneapolis, **more than half of Saint Paul households are renters** rather than owners. And this is even more pronounced among households of color. While 41% of white households in Saint Paul are renters, 83% of Black households, 67% of Native households, 62% of Asian households and 66% of Latino households are renters.

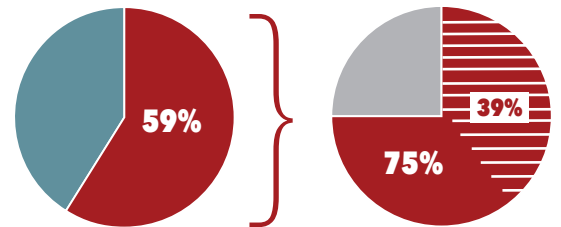
From 2000 to 2016, median rent rose 15%, while median renter income dramatically dropped from 2000 to 2010 and, by 2016, had barely rebounded to 2000 levels². Of the 56,830 renter households

in Saint Paul, 33,800 earned less than 60% of AMI in 2016. Of those families, 75% paid more than 30% of their income on housing and 39% paid over half of their income on housing³.

That burden falls disproportionately on communities of color. In Saint Paul, while 35% of white renter households earn less than 30% of area median income (AMI), 53% of Black households earn less than 30% of AMI⁴. In 2016, the average white household in Saint Paul could afford to spend \$1,519 monthly on rent, while the average Black household could only afford to spend \$659 monthly on rent.

RACE	BLACK	NATIVE	LATINO	ASIAN	WHITE
% of households that are renters	83%	67%	66%	62%	41%
Number of households that are renters	13,460	505	4,610	7,018	32,424
% of renter households earning less than \$25,750	53%	n/a	n/a	50%	35%
% of renter households earning less than \$42,900	77%	n/a	n/a	75%	59%
What households can afford to spend on housing	\$659	\$891	\$946	\$1,002	\$1,519

n/a = data withheld as sample size is too small, large margin of error



In St Paul, 59% of renter households (33,380 families) **earn less than 60%** of area median income

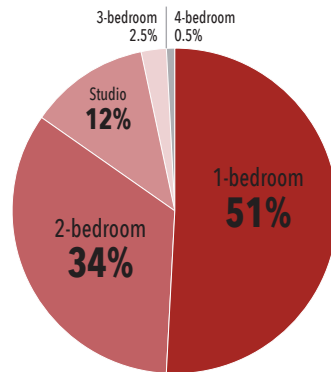
Of those households, **75%** pay more than 30% and **39%** pay more than half of their monthly income on housing

1- Unless otherwise noted, information in this section comes from the U.S. Census Bureau, 2012-2016 American Community Survey | 2- American Community Survey, 1-year estimates
 3- Metropolitan Council staff analysis of U.S. Census Bureau, 2012-2016 American Community Survey Public Use Microdata Sample five-year data | 4- MHP analysis of U.S. Census Bureau, 2012-2016 American Community Survey Public Use Microdata Sample five-year data

APARTMENTS TOO SMALL FOR AVERAGE RENTER HOUSEHOLDS

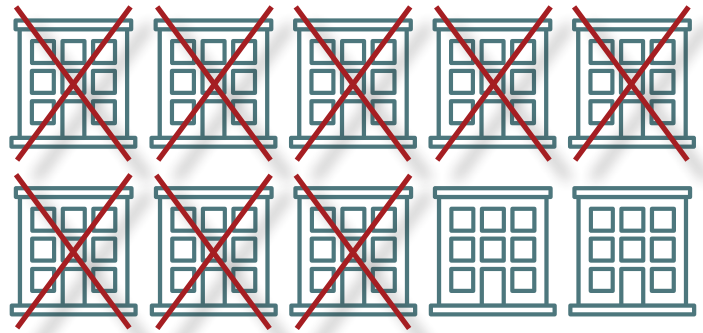
Based on the units in our dataset, there's a disconnect between apartment and household size. Citywide, the average renter household size is 2.54, meaning the average renting family would need a two-bedroom apartment. In our dataset, though, 12% are studios, 51% of units are one bedrooms, 34% are two bedrooms, 2.5% are three bedrooms and 0.5% are four bedrooms.

The average renter household in Saint Paul needs a two-bedroom apartment but nearly **2/3 of the units in our dataset are studios or one-bedrooms.**



In neighborhoods with a high percentage of people of color, this gap is even more pronounced. For instance, in Frogtown/Thomas Dale, where 79% of households are people of color, the average household size is 3.24 – but 64% of the units in our dataset are one-bedrooms and only 17% would adequately accommodate a household of that size.

In Frogtown, **only 17% of the units** in our dataset are big enough to accommodate the average renter household size.



DATA NOTES AND LIMITATIONS:

DATA SOURCE: Unless otherwise noted, data in this report comes from CoStar, a commercial real estate database that tracks multifamily properties with four or more units. This includes 6,627 market rate, existing multifamily properties in the 7-county Twin Cities metro, for which data is directly sourced from property management by CoStar researchers. **This report analyzes data for approximately 28,740 unsubsidized rental units in properties with 4 or more units in Saint Paul.** Data for this report was accessed and downloaded the first week of April 2018.

RENT DATA: CoStar provides average, rather than median, rent data. Of the approximately 28,740 unsubsidized rental units within the boundaries of the City of Saint Paul tracked by CoStar and included in this analysis, 42% include rent data. This coverage is not uniform across neighborhoods. **All rent data in this report is adjusted for inflation.**

NEIGHBORHOOD BOUNDARIES: There are distinctions between the delineation of CoStar submarkets and City of Saint Paul neighborhoods. While many of the boundaries align, there are areas of the city that are broken into many more submarkets within a neighborhood— most notably, Saint Paul's Greater East neighborhood

is divided into CoStar's 11 submarkets, Thomas Dale/ Frogtown is broken into three submarkets, and the West Side is broken into three submarkets. For this study, we analyzed data through both the lens of the 17 city planning districts and CoStar's 41 submarkets.

CLASSES: CoStar defines building class in the following way. **CLASS A** buildings represent current trends and standards in design and/or are of a timeless, perhaps historic quality. They include high quality finishes such as hardwood floors, granite countertops, and/or stainless steel appliances, as well as on-site shared facilities like clubhouse/ party room, fitness center, business center, etc. **CLASS B** buildings are aesthetically average and contextually appropriate. They include average quality finishes and a few on-site shared facilities and spaces. **CLASS C** buildings are purely functional, often with below average finishes, small windows and likely no on-site facilities or shared spaces.

RENTAL STOCK: According to 2018 Saint Paul data, 75% of the city's licensed rental stock are in properties with four or more units (49,418 in buildings with 4+ units, 16,509 in less than 4 units). This includes all rental licenses, including units that are subsidized or were built with public funding assistance with four or more units.

AVERAGE RENT RISES ABOVE \$1,000 – AND OUT OF REACH FOR MANY

From 2010 to April 2018, average rent rose 16% in Saint Paul to \$1,075. While this is still lower than the average for the 7-county metro (\$1,197 as of April 2018), for low- and moderate-income renters, this increase is significant.

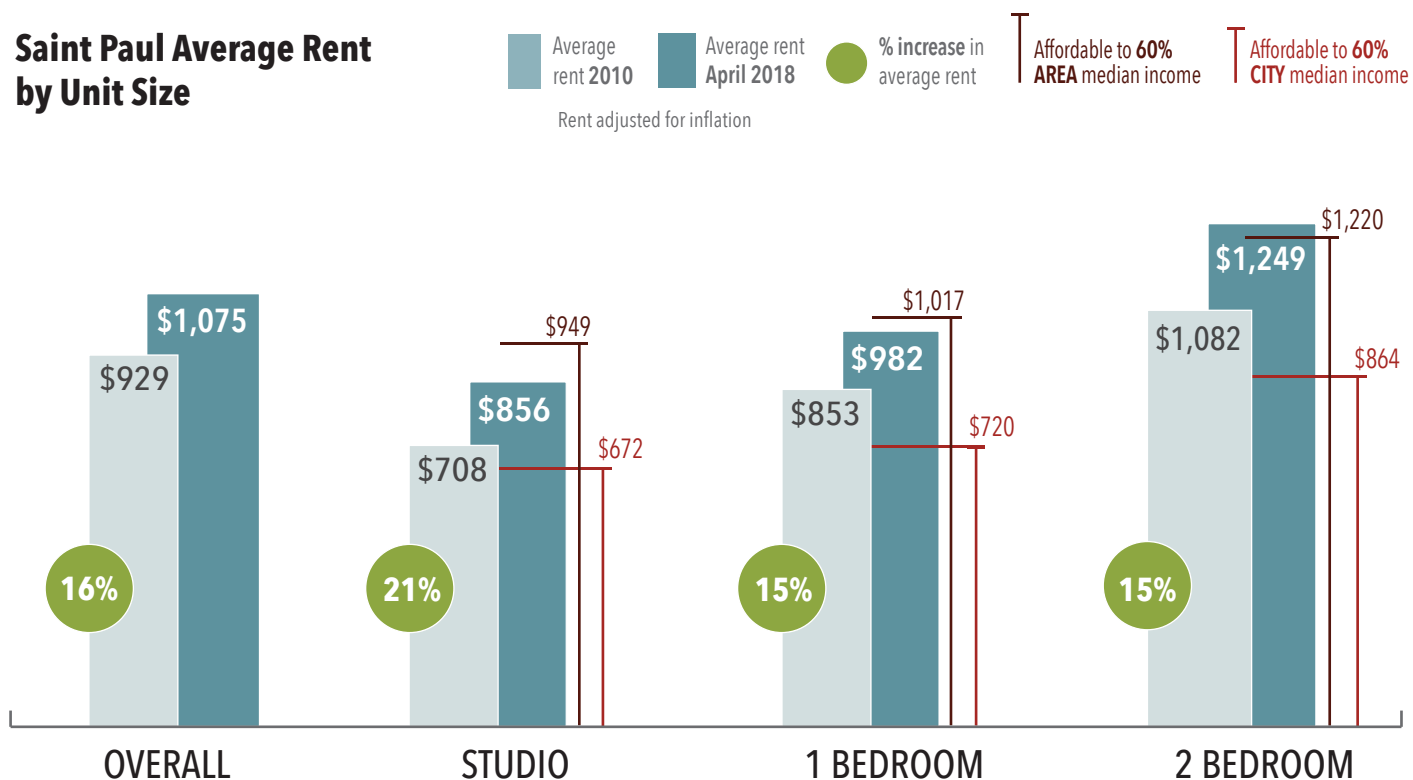
By traditional measures, rent is considered affordable when a household spends no more than 30% of its income on housing. At first glance, Saint Paul rental homes appear to be attainable to many families in need of affordable housing – based on **area median income (AMI)**⁵. As shown in the chart below, for households earning 60% of AMI the average rent in Saint Paul

is within reach. Even a two-bedroom apartment is just \$29 per month beyond what a four-person household earning \$51,480 annually (60% AMI) can afford.

However, when measured against the **city median income (CMI)** rather than the regional median income, that affordability evaporates. Again, as shown in the chart below, the average one-bedroom rents for \$262 more per month than a household earning 60% of CMI can afford. The average two-bedroom is also far out of reach, with the average rent \$385 more per month than a household earning 60% of CMI can afford.

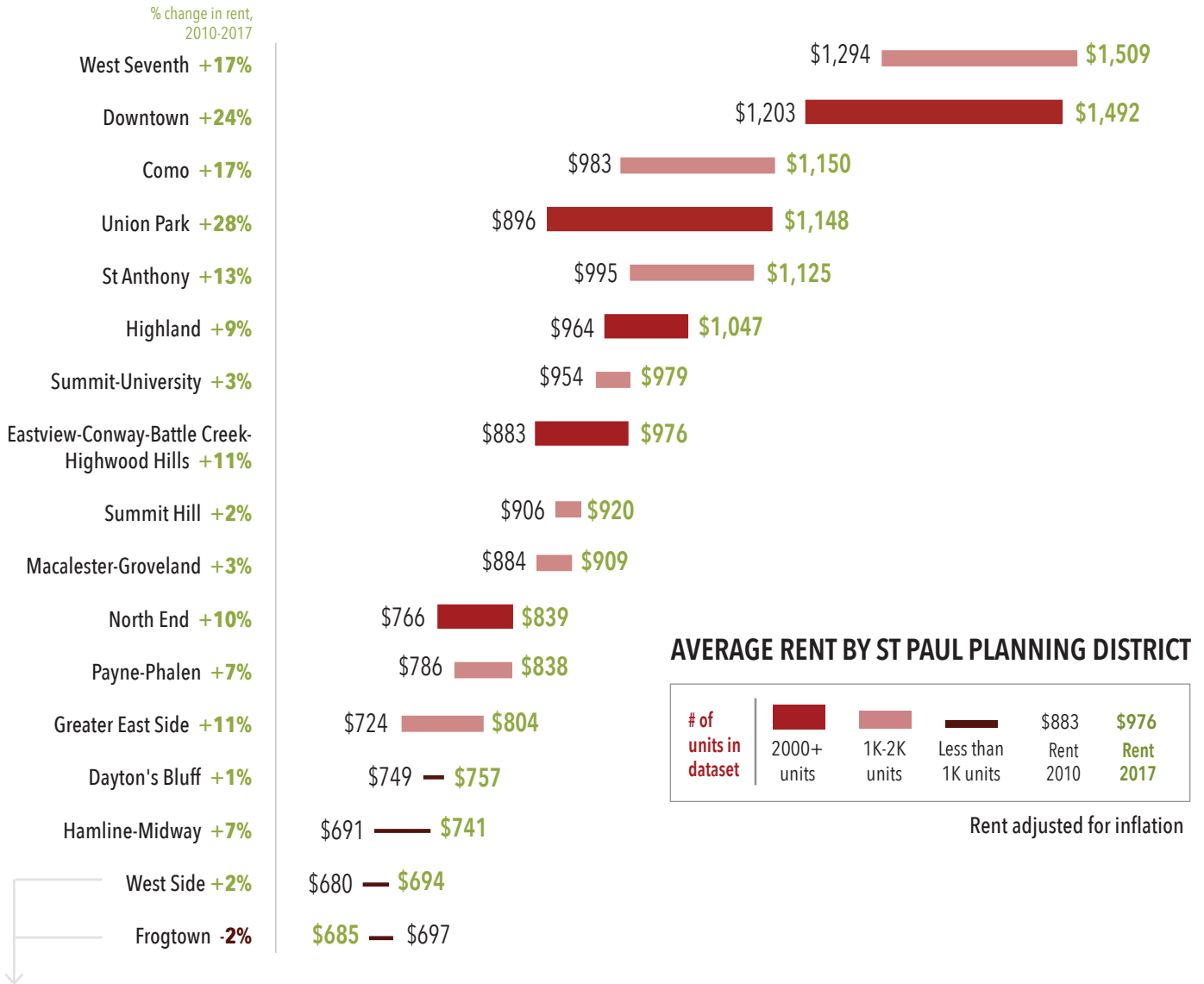
5- Area median income is calculated for the 13-county HUD Metro MN-WI area of Minneapolis- St Paul- Bloomington.

Saint Paul Average Rent by Unit Size

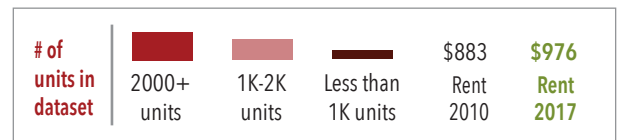


DRAMATIC RENT INCREASES IN SELECT NEIGHBORHOODS

Within the city's planning districts, the highest average rents are in West Seventh (\$1,509), Downtown (\$1,492), Como (\$1,150), Union Park (\$1,148), St. Anthony (\$1,125) and Highland (\$1,047). Those areas have also seen the greatest increases in average rent from 2010 to 2017: 28% in Union Park, 24% in Downtown, 17% in West Seventh and Como, and more than 10% growth in St. Anthony, the East Side, North End and Eastview-Conway-Battle Creek-Highwood Hills.



AVERAGE RENT BY ST PAUL PLANNING DISTRICT



Rent adjusted for inflation

RENTAL HOUSING IN 1-3 UNIT PROPERTIES

In some Saint Paul neighborhoods, including Frogtown and the West Side, properties with fewer than four units, including duplexes and single family homes, make up a significant segment of the rental market – but they are not included in our analysis. However, HousingLink's Twin Cities Rental Revue for the first quarter of 2018 tracked 338 rental building listings for these types of properties in Saint Paul. In total, Payne-Phalen, Summit-University, and Dayton's Bluff neighborhoods contain the most listings tracked by HousingLink for the first quarter of 2018. In these neighborhoods, rents for single

family rental homes average from \$1,339 in Dayton's Bluff to \$1,523 in Summit-University, with duplexes ranging from \$1,093 in Dayton's Bluff to \$1,344 in Summit-University. Thomas Dale/ Frogtown and the West Side also have significant listings. In these neighborhoods, the majority of listings are for duplexes, with average rents at \$1,160 to \$1,189, respectively. Overall, comparing the first quarter of 2018 to the first quarter of 2017, median rent increased 5% in two-bedroom listings, and 4% for three-bedroom listings.

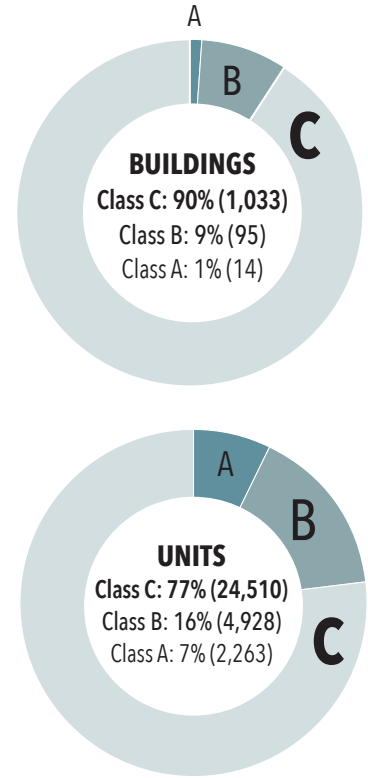
Learn more about this data source at housinglink.org.

SIGNIFICANT NEED FOR PRESERVATION IN SAINT PAUL

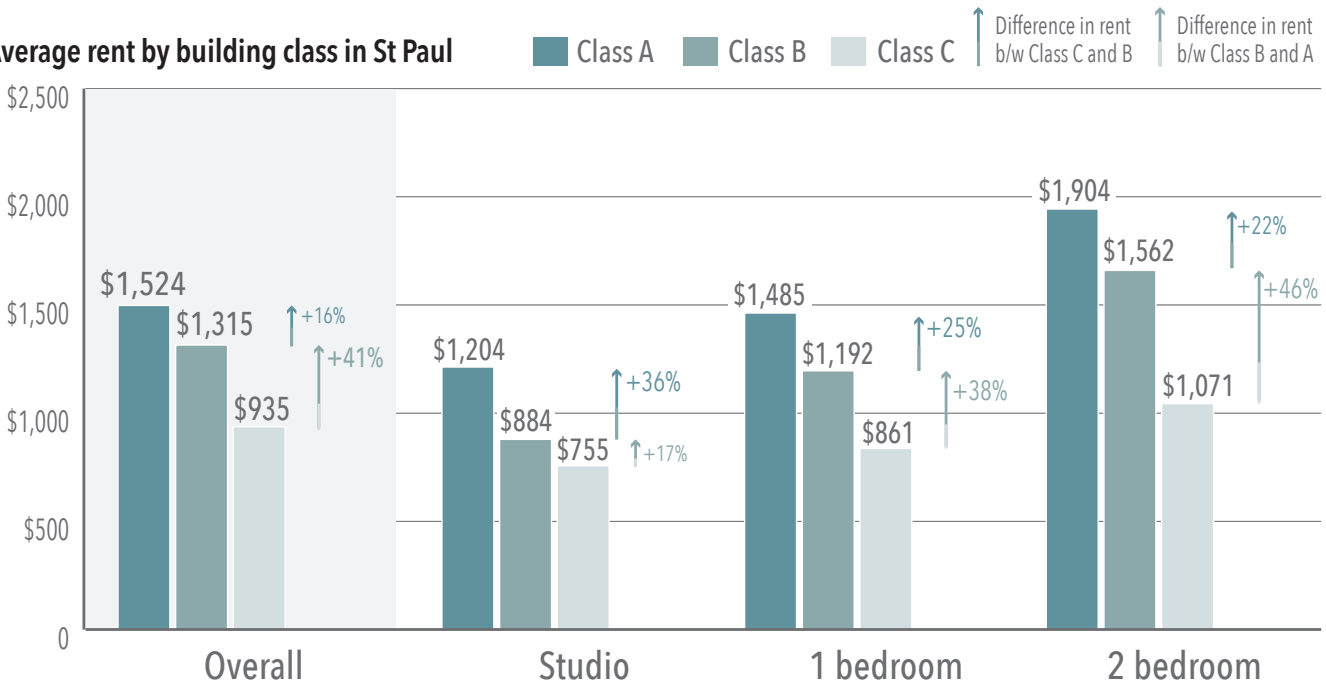
Unsubsidized affordable rental housing is typically Class C: older properties that provide basic shelter without additional amenities⁶. The vast majority of buildings in Saint Paul – 90% – are Class C, and these buildings contain 77% of units in the city. In 2017 there were 1,033 Class C buildings in Saint Paul, or 24,510 Class C units. Vacancy rates in these buildings are extremely low (3%).

In 2017, average rent in Class C buildings in Saint Paul was \$935, which is lower than the 7-county average (\$1,001). Overall, Class C rents are 41% lower than Class B rents in Saint Paul – much higher than the 30% gap between Class C and B rents at the metro level. This means that, if Class C buildings are purchased and upscaled the rise in rent could be more dramatic. Potential rent gains from upscaling are particularly acute among two-bedrooms in Saint Paul, where there is a 46% gap between Class B and Class C units. Conversely, there is a smaller gap between Class B and A rents in Saint Paul (16%) compared to the metro (31%), which could suggest that conversion from modest to luxury apartments is less likely.

Like the metro area, there is a dramatic difference in building size across classes. In Saint Paul, Class A buildings are typically larger with 162 units on average, while Class C buildings are much smaller with just 21 units on average. This tracks closely to the trend across the 7-county region, where Class A buildings average 145 units and Class C buildings average 29 units.



Average rent by building class in St Paul



6- Full descriptions of CoStar class designations on page 2.

VACANCY RATES PLUNGE ACROSS THE CITY

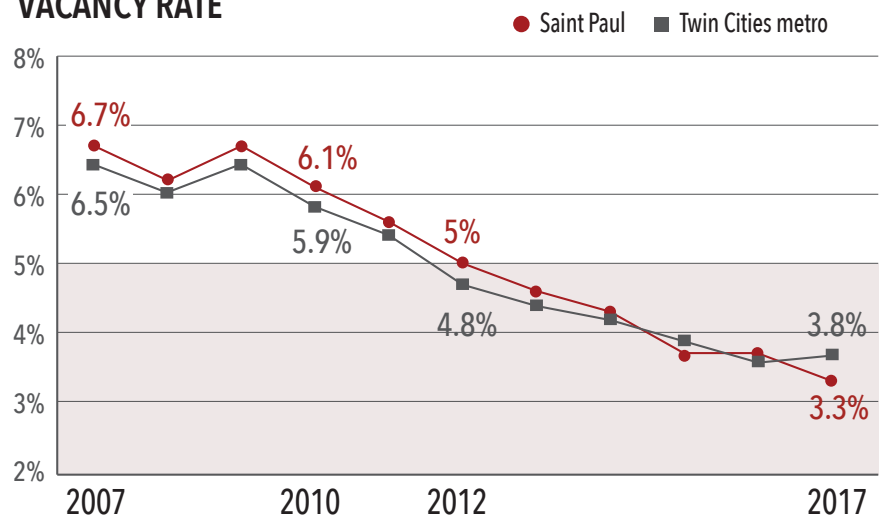
When vacancy rates fall below 5%, renter households struggle to find affordable housing choices as property owners are able to be more selective in tenant screening and potentially more inclined to increase rent.

In Saint Paul the vacancy rate⁷ has remained below 5% since 2012, with a tight market extending across the city. From 2010 to 2017, the vacancy rate in Saint Paul dropped nearly 50% to 3.3%. While largely matching the 7-county vacancy rate, Saint Paul's vacancy rate is lower than that of Minneapolis (3.5%).

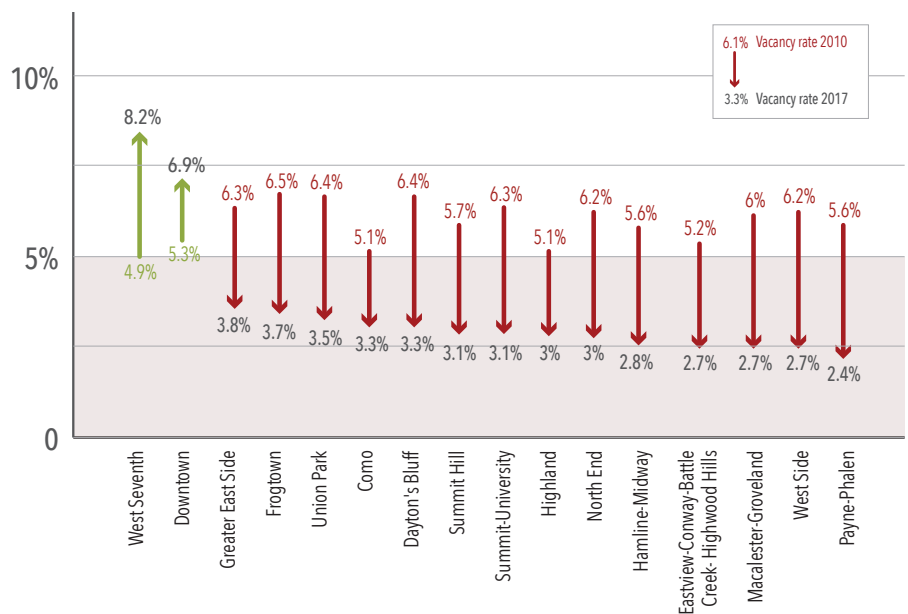
Vacancy rates are highest in neighborhoods that contain properties with higher average rent, including West Seventh (8.2%), and Downtown Saint Paul (6.9%), both of which have seen increases in vacancy in recent years. In contrast, the vacancy rate for units renting under \$1,000 per month is far lower at just 3.1%.

Currently, 90% of the 41 Saint Paul neighborhood submarkets delineated in CoStar have a vacancy rate below 5%. And more than half saw vacancy rates plummet by more than 50% from 2010 to 2017.

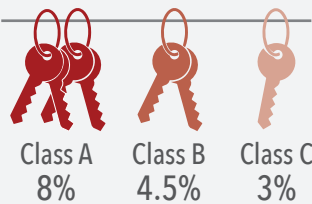
VACANCY RATE



Vacancy rate change, 2010-2017, by neighborhood



Vacancy by Building Class



There are dramatic distinctions in vacancy rates by Class. Class A buildings in St. Paul in 2017 had a vacancy rate of 8% (slightly higher than the 7-county average of 7%), while Class B buildings had a rate of 4.5% and Class C was just 3%.

⁷ For our vacancy data points, we remove any building in its first year of leasing. CoStar vacancy rate data is higher than reported by other data sources, like Marquette Advisors. This may be due to the fact that the sample size is much larger, includes properties with 4 or more units, as opposed to 10 or more, and is directly sourced rather than relying on survey data.

11,000 NATURALLY OCCURRING AFFORDABLE UNITS IN ST PAUL

Thousands of households earning 40% to 60% of the area media income – for instance, a family of four earning \$34,340 to \$51,480 annually – are able to call Saint Paul home by renting in unsubsidized apartments in the private market. Unsubsidized units that are affordable to these residents are often referred to as *naturally occurring affordable housing* (NOAH).

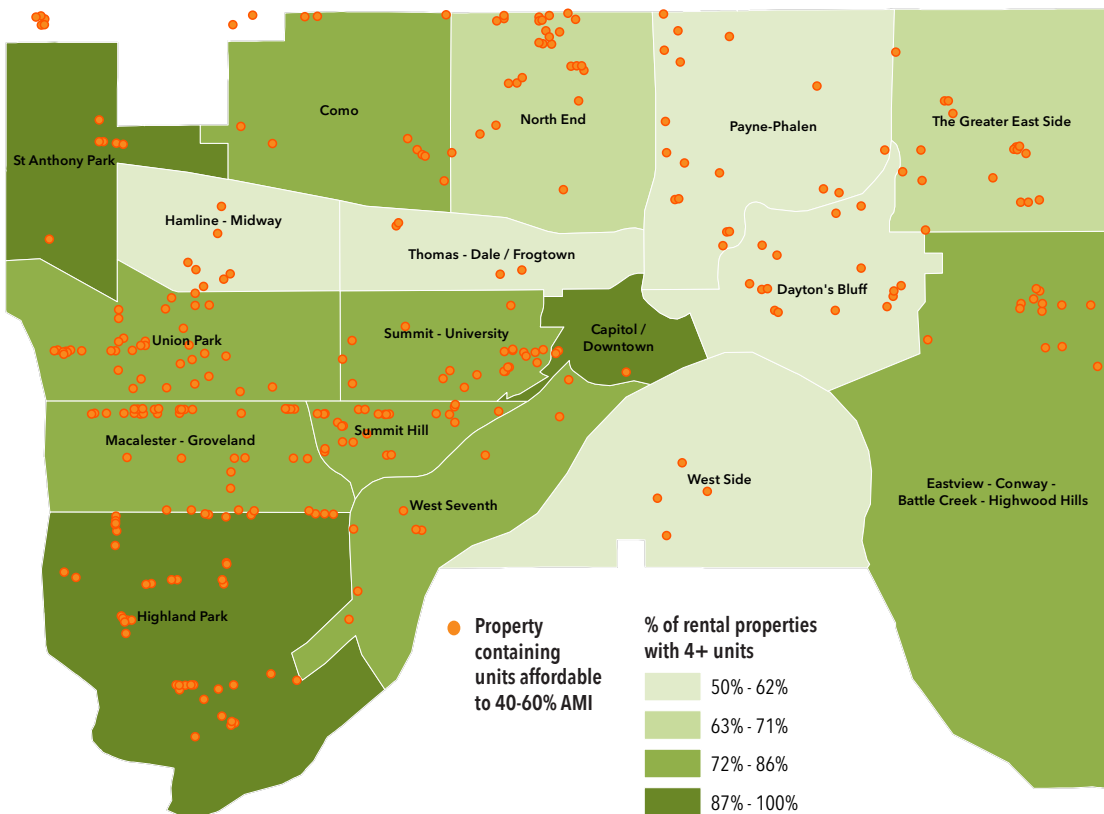
In total, 27% of the buildings in our dataset contain apartments that are affordable to those earning 40 to 60% of AMI, which is notably higher than the 7-county average overall (19%). Of all the units in our dataset, 38% are affordable to that income bracket, totaling 10,918 units overall.

Of the units in our dataset, the district with the most units affordable to families earning 40% to 60% AMI is Eastview-Conway-Battle Creek-Highwood Hills with 1,914 units –

constituting 70% of all units for that district in our dataset. In contrast, Highland has the second highest number of units affordable to this income (1,754) but they constitute just 48% of all the units for this district in our dataset. Other neighborhoods with a significant number of affordable units include the North End (1,486), East Side (892) and Macalester-Groveland (806).

These NOAH units are predominantly in smaller buildings. More than half (51%) of the buildings containing NOAH units have fewer than 25 units overall – and only 28% of these buildings have more than 50 units. In addition, the units themselves are overwhelmingly in smaller layouts, with 1,228 studios and 6,167 one-bedroom units. Two-bedroom units are far more scarce (3,313 units), and three-bedroom (199) and four-bedroom units (11) are virtually nonexistent.

UNITS AFFORDABLE TO HOUSEHOLDS EARNING 40-60% AMI



Affordable to	Studio	1-bedroom	2-bedroom	3-bedroom
40% AMI	\$633	\$678	\$814	\$940
60% AMI	\$949	\$1,017	\$1,220	\$1,410

8- Eastview-Conway-Battle Creek-Highwood Hills

Neighborhood	40%-60% AMI units
ECBCHH ⁸	1,914
Highland	1,754
North End	1,486
East Side	892
Mac-Grove	806
Payne-Phalen	774
Como	583
Union Park	579
Summit Hill	524
St Anthony	489
Summit-Univ	281
Hamline-Midway	245
Dayton's Bluff	235
West Seventh	209
Downtown	58
West Side	56
Thomas Dale/Frogtown	33

DRASTIC DROP IN AFFORDABLE UNITS WHEN COMPARED TO CITY MEDIAN INCOME

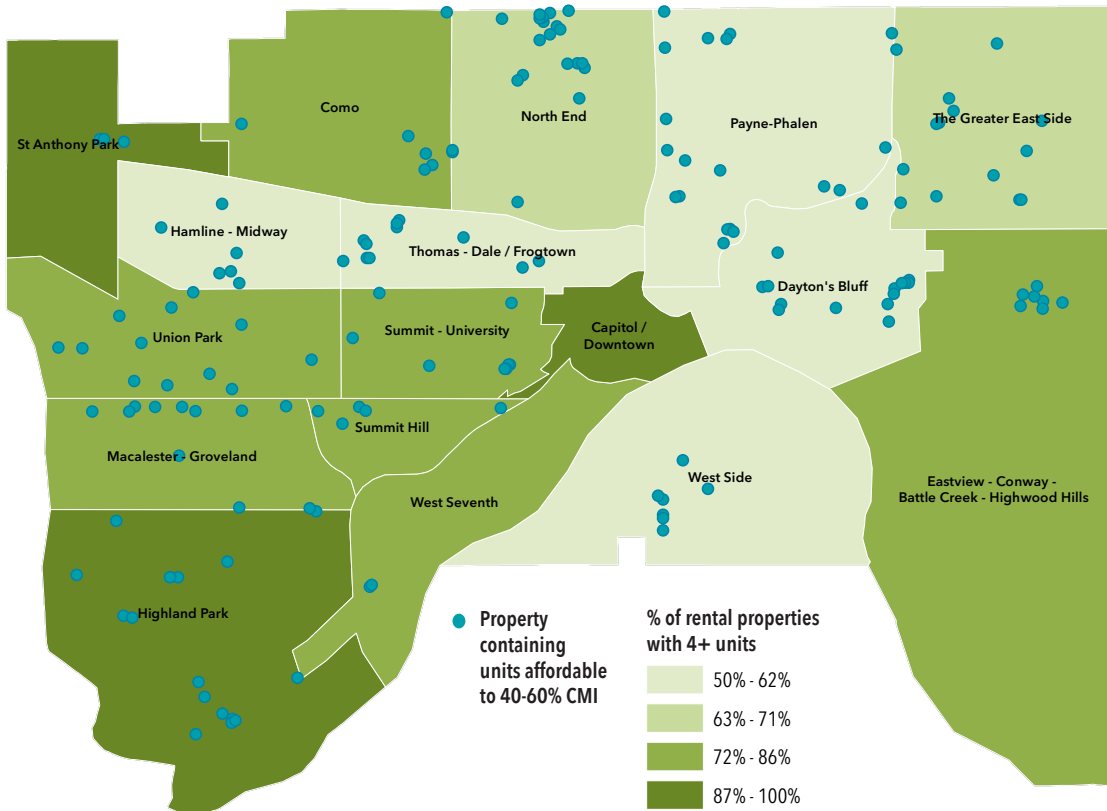
While affordable housing metrics are based on area median income, there's a wide gap between what households earn in the city of Saint Paul and the region overall.

In 2016, the area median income for a family of four was \$85,800, compared to \$64,070 for a family of four in Saint Paul. The AMI standard assumes a median income family can afford to spend \$2,145 on housing without being cost-burdened, when, in fact, the median income Saint Paul family can afford just \$1,602 on housing per month. This means that rents that are affordable to 40-60% of AMI are still out of reach for many Saint Paul residents.

When we apply the 40% to 60% standard to the **city median income (CMI)**, thousands of units fall out of affordability. In our dataset, there are only 3,120 units in Saint Paul that are affordable to 40% to 60% of CMI, compared to 10,918 when applying the AMI standard.

These NOAH units are overwhelmingly in smaller buildings. Fully 70% of the buildings containing units affordable to those earning 60% of CMI and less have fewer than 25 units overall – and only 13% of these buildings have more than 50 units. The majority of these units are also in smaller layouts, with 586 studios, 1,509 one-bedroom units, 1,088 two-bedroom units, 34 three-bedroom units and 3 four-bedroom units.

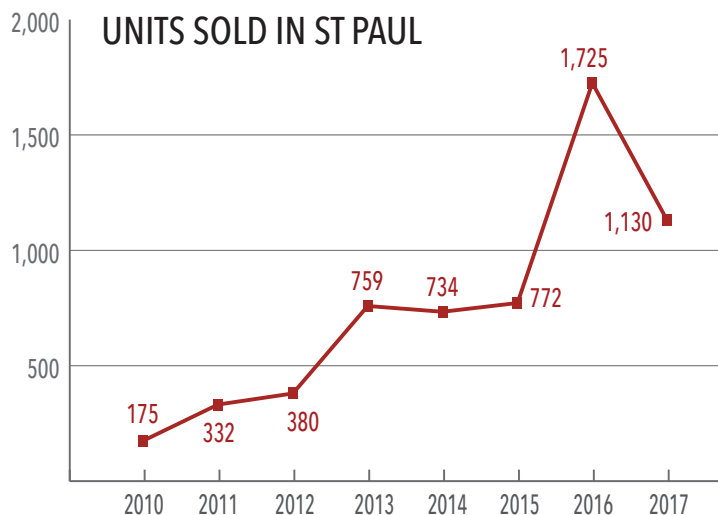
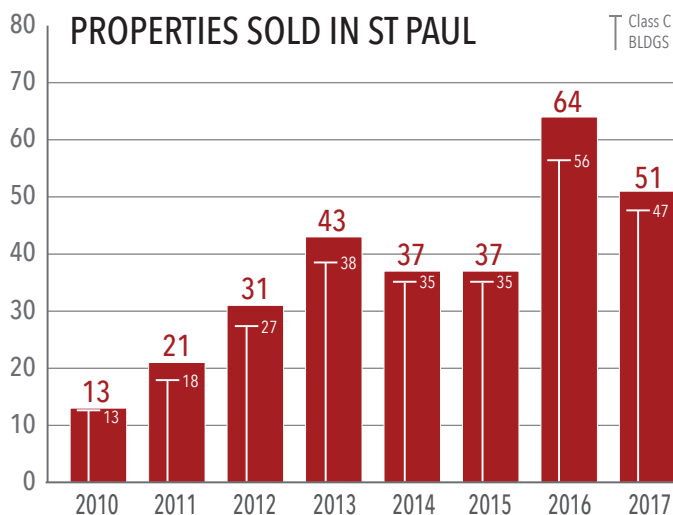
UNITS AFFORDABLE TO HOUSEHOLDS EARNING 40-60% CMI



Neighborhood	40%-60% CMI units
Highland	753
East Side	421
North End	367
Payne-Phalen	308
ECBCHH ⁹	278
Dayton's Bluff	221
Mac-Grove	150
Thomas Dale / Frogtown	134
Como	128
West Side	111
Summit-Univ	89
Hamline-Midway	87
Union Park	81
St Anthony	45
Summit Hill	25
West Seventh	22
Downtown	18

Affordable to	Studio	1-bedroom	2-bedroom	3-bedroom
40% CMI	\$448	\$480	\$576	\$666
60% CMI	\$672	\$720	\$874	\$999

⁹ Eastview-Conway-Battle Creek-Highwood Hills



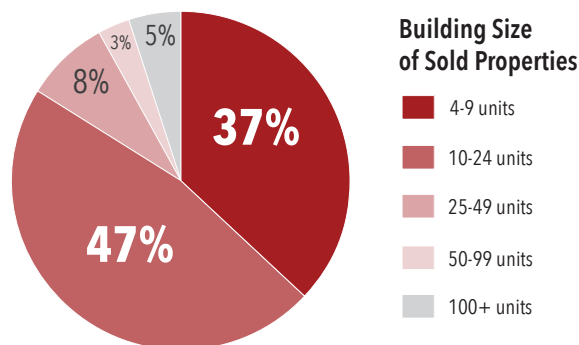
PROPERTY SALES SPIKE IN 2016, TREND UP IN 2018

From 2010 to 2017, nearly 300 buildings with more than 6,000 apartments collectively were sold in Saint Paul. Over this timeframe, property sales peaked in 2016, with 64 buildings and 1,725 units sold that year. That represented 6% of all rental properties and 6% of all units existing in that year. While sales declined in 2017, the first quarter of 2018 saw 16 buildings with 256 units sold, indicating a potential uptick after a one-year decline.

From 2010 to 2017 the overwhelming majority of sales were Class C buildings. For instance, in 2017, 92% of all buildings sold were Class C.

Compared to the 45-unit average for buildings sold throughout the 7-county region, properties sold in Saint Paul were much smaller. Only 8% of buildings sold had more than 50 units, while 84% had fewer than 25 units. These buildings are also likely in need of capital reinvestment: Of all properties sold from 2010 to 2017, 91% were built prior to 1970, with a sizable portion (36%) constructed prior to 1930.

For properties in our dataset that have been sold, on average, buildings saw rent increase by 18% since 2007, whereas buildings that have not been sold saw a more modest 10% rise.



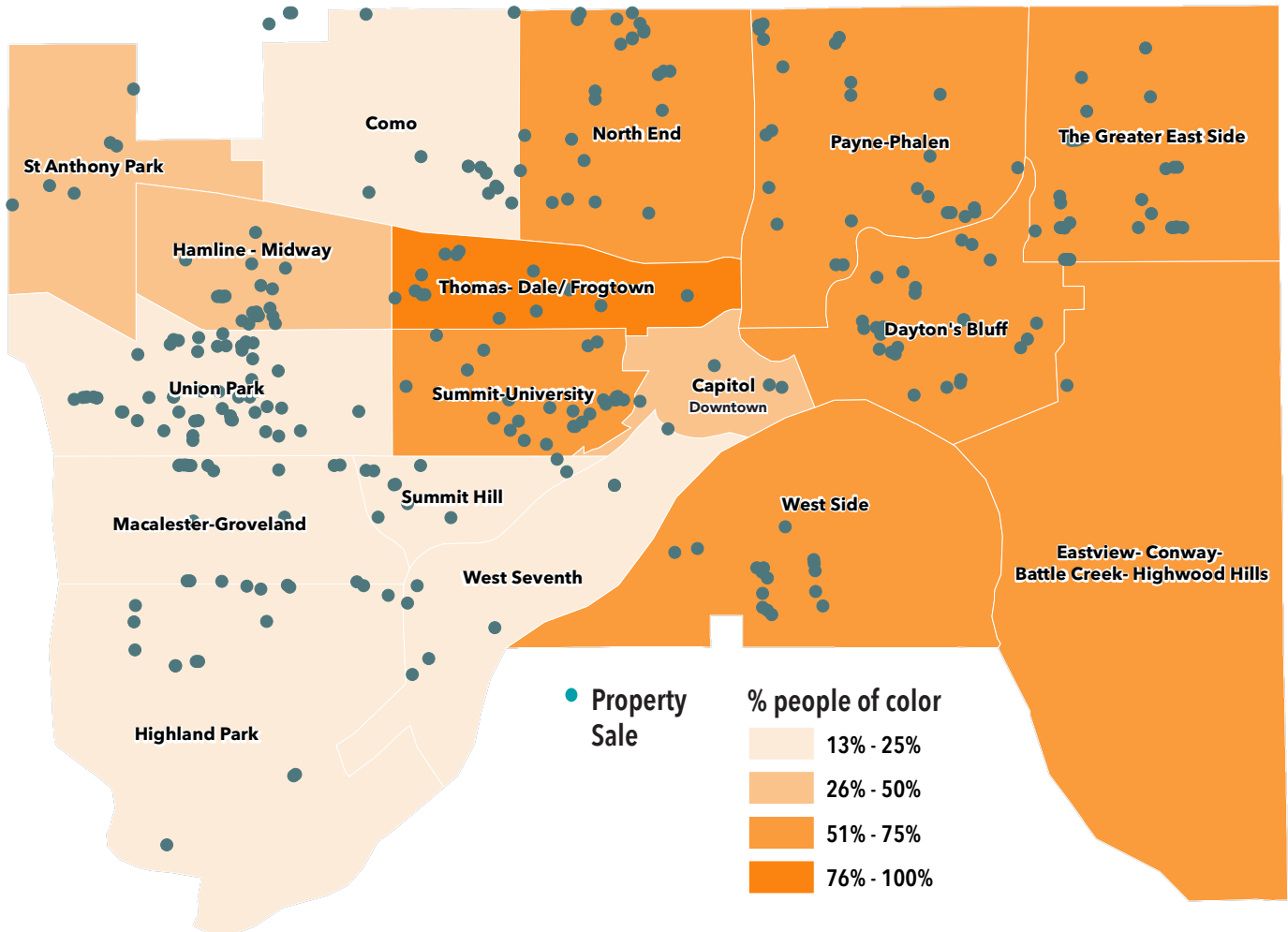
SOLD versus UNSOLD

From 2010 to 2017, in buildings that had experienced a sale **rent increased 18%** compared to a 10% increase in rent in buildings that hadn't experienced a sale.

PROPERTY SALES SPAN THE CITY, ESPECIALLY IN COMMUNITIES OF COLOR

As shown in the map and table below, property sales occurred across the city from 2010 to 2017. The largest number of buildings sold were in Union Park (51) and the largest number of units sold were in Como (688). Neighborhoods where people of color reside – which also have higher percentages of renters – have seen a large number of property sales, as well. Of the 6,000 units affected by property sales from 2010 to 2017, more than half (3,123) were in neighborhoods where more than 50% of the neighborhood population is people of color (POC), including 25 properties in the North End (72% POC), 31 properties on the East Side (61% POC) and 26 properties in Payne-Phalen (68% POC).

PROPERTY SALES, 2010-2017



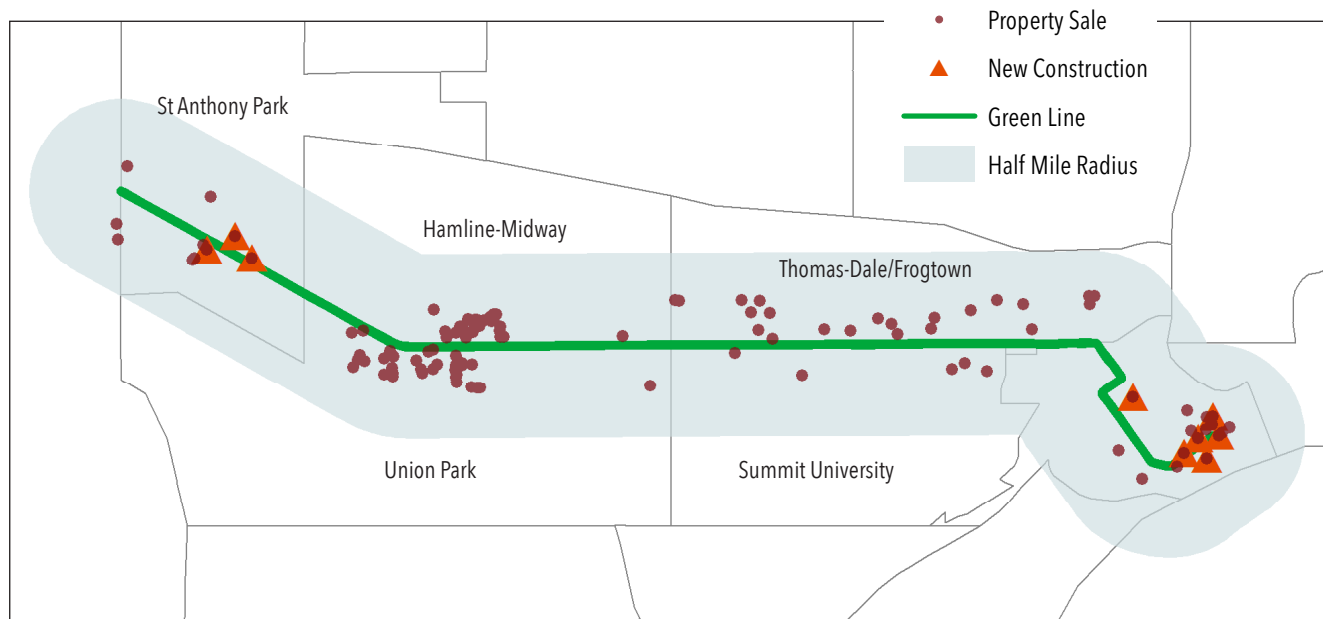
Neighborhood	UNITS	BLDGS
Como	688	15
Union Park	632	51
North End	615	25
Greater East Side	596	31
Payne-Phalen	548	26
Highland	483	18

Neighborhood	UNITS	BLDGS
Summit-Univ	346	26
Dayton's Bluff	309	24
Frogtown	291	13
Mac-Grove	274	17
Capitol/Downtown	267	5
West Seventh	264	8

Neighborhood	BLDGS	BLDGS
West Side	260	16
Hamline-Midway	248	21
St Anthony	202	6
ECBCHH	158	1
Summit Hill	82	10

RISING RENTS AND SIGNIFICANT SALES ALONG THE GREEN LINE

While transit brings opportunity, such public investments can also lead to displacement. Based on our dataset, average rent has increased 24% since 2010 in the 157 market rate multifamily properties within a half mile radius of the Green Line in both Minneapolis and Saint Paul. In the 114 market rate multifamily buildings in Saint Paul alone that increase was 19% – markedly above the citywide rise of 16%. Since 2010, nine properties have been built in Saint Paul within a half-mile radius of the Green Line; seven of those properties are Class A, with a current average rent of \$1,712 per month, far above the current citywide average of \$1,075. In these buildings, rent has increased 24% since 2010. There have also been 37 property sales from 2010 to the first quarter of 2018 along this corridor, with the bulk of these sales happening in 2016 (11 sales), 2017 (6) and 2014 (6).

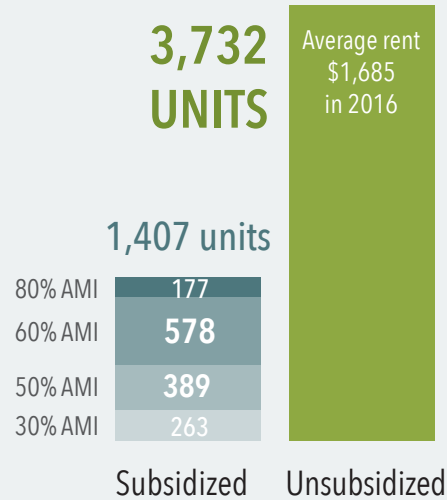


SUBSIDIZED AFFORDABLE HOUSING NOT FILLING THE GAP

Not included in this report are affordable rental housing developments created with public and/or private capital funding that include affordability obligations. According to data from the Metropolitan Council¹⁰, 1,407 new units of affordable rental housing were created in Saint Paul from 2010 to 2016. The majority (54%) are affordable to households earning 60% of area median income or more, while 60% of Saint Paul renter households earn less than 60% of AMI. Only 19% are affordable to 30% of area median income. Over that same timeframe, 3,732 unsubsidized rental units were created with an average rent of \$1,658 in 2016.

10- Data for rental housing production is based on building permits issued during each calendar year by cities and townships within the 7-county Twin Cities region. Data is collected via an annual survey of community officials, in conjunction with collection of data on residential building permits. The data on returned surveys were verified by Metropolitan Council staff.

NEW MULTIFAMILY PRODUCTION IN SAINT PAUL, 2010-2016



CONCLUSION

Like Minneapolis and the Twin Cities region overall, Saint Paul has seen rising average rent, declining vacancy rates and significant sales of multifamily rental properties over the past decade, challenging the thousands of renter households already struggling to afford safe, stable housing in their communities. Our analysis shows that, while 33,380 renter households earn less than 60% of area median income, our dataset contains fewer than 12,600 units that are affordable to those families.

Compounding this challenge, our analysis also highlights the distinction between the **area** and **city** median incomes. While the area median income, which includes more affluent parts of the region, is widely used as an affordability metric, renter households in Saint Paul earn less. In fact, in our dataset, fewer than 3,220 units are affordable to households earning 60% of the city median income. This means that, when rising rents price families out or these properties with naturally occurring affordable units are upscaled, displaced families will be far less likely to find affordable units elsewhere. In fact, even subsidized affordable housing units at 60% of AMI will be out of reach for their income. Our analysis therefore highlights the importance of utilizing localized rental market data as opposed to using standard area-level data.

Our analysis also underscores an important potential distinction between the central cities and the suburbs in the size of NOAH properties. In our dataset, more than half of the buildings in Saint Paul that contain NOAH units have fewer than 25 units overall – and fewer than 1/3 have more than 50 units. In addition, the vast majority of properties sold have fewer than 25 units, as well. As advocates and policymakers explore and implement efforts to preserve NOAH units, these distinctions in property sizes will require different interventions and solutions.

Finally, our analysis provides further evidence that additional state and local resources are needed to address the lack of housing affordable to local residents, especially for those at the lowest income levels. Potential solutions could include city investment in an Affordable Housing Trust Fund and a statewide dedicated revenue source for affordable housing that targets investment for households earning less than 30% of AMI.

This report was published in July 2018, with data analysis, writing and mapping by Gabriela Norton, Research Associate at Minnesota Housing Partnership, with editing, graphics and design by Carolyn Szczepanski, MHP Director of Research and Communications.

Research assistance and input provided by Matt Schroeder (Metropolitan Council), and Erin Olson.

