A Study of the Relationship Between Affordable Family Rental Housing and Home Values in the Twin Cities

Summary of Findings

Prepared for:
Family Housing Fund
Minneapolis, Minnesota

September 2000

Maxfield Research Inc.

Purpose of Research and Methodology

- Maxfield Research[1] conducted this research to determine whether there is evidence to support the claim that tax-credit rental developments for families erode property values in the areas surrounding them. The Family Housing Fund, a Minneapolis-based non-profit agency that supports the development of affordable housing throughout the Twin Cities, funded the research.

- We examined 12 neighborhoods in the Twin Cities in which a tax-credit rental housing development for families (built between 1993 and mid year 1997) was located within a dense district of owner-occupied homes, termed a "subject area." The subject areas generally contained between 150 and 300 owner housing units within one to three blocks.

- We presumed that negative impact by a tax-credit development could be determined by analyzing three measures of market performance among homes sold in the subject area: sales prices per square foot; the percentages of sales to asking (list) price and; time on the market. Comparing homes sold in each subject area before and after construction of a tax-credit development (a "*pre/post*" analysis), as well as comparing homes sold in each subject area to homes sold in areas without a similar tax-credit development (a "*subject/control*" analysis), would reveal the presence of negative impact.

- In the pre- and post-construction analysis, we compared market performance in the three years before and after construction start of the tax-credit developments under study. We focused on homes sales that were part of a continuous data set, representing a homogeneous *submarket* of properties that sold in all or most of the six years under study. In this manner, we analyzed roughly 600 records across 16 submarkets in 11 subject areas.

- In the pre- and post-construction analysis, we also addressed the claim that the overall Twin Cities housing market was becoming stronger, and that the subject areas around tax-credit housing simply did not increase in strength as much as they *should have*.

- In the subject versus control analysis, we compared subject area sales in the post-construction years to sales of similar homes (age and size) from the same community and school district, located in areas where there were no tax-credit developments for families built between 1993-1997. We completed 68 subject-control comparisons in this manner, involving roughly 470 subject area records.

[1] Market Research Partners completed the report under contract with Maxfield Research.

Specific Findings

- The homes that were sold in the subject areas around the 12 tax-credit developments in our study, in general, displayed *similar or stronger market performance in the period after the tax-credit properties were built*, as well as *similar or stronger performance to comparable homes sales from a control group*. We identified generally upward price trends, declining market times and stable or improving sales-to-list price percentages in most submarkets, over the six-year study period.

- Some subject areas displayed poorer market performance after construction of the tax-credit development in question as compared to before it, or poorer performance as compared to a comparable control group. However, such poorer performance was almost always *limited to one year*, or *isolated among one group of homes* in a subject area; there was little to suggest that there was a sustained, negative, post-construction trend in any given neighborhood surrounding a tax-credit development in this study.

- As a group, the subject areas had *far higher average annual per-square-foot price appreciation after the tax-credit developments were built* than before: 5.9% versus .9%. Housing style did not make a difference, as significantly superior growth in the post-construction period occurred among both townhomes and single-family homes in the subject areas, collectively. (Figure 1)

- The ability for sellers to gain the prices they asked for was not impeded in the years after the construction of the tax-credit developments under study, as *sales-to-list price percentages among homes sold in the subject areas were generally higher in the post-construction period* than in the pre-construction period. (Figure 2)

- Market times for homes sold in the collective subject areas were *shorter* in the post-construction years than in the pre-construction years, with the exception of single-family homes in period post-2, which showed a 24-day jump over the previous year. In this case, the jump in market time did not exceed the low point from the pre-construction period. This suggests that *the market, in terms of selling time, varied in similar fashion before and after tax-credit housing construction*. (Figure 3)

- We found that the subject areas, as a group, exhibited slower average sales price growth in the pre-construction years than the Twin Cities Metro Area overall (2.95% versus 4.23%). However, after construction, the gap in performance between the subject areas and the Twin Cities *narrowed by a half percentage point*. This indicates that, rather than weakening after construction, the markets surrounding the tax-credit developments *became stronger* as a group, relative to the Twin Cities overall.

- The subject areas performed similar to their respective control markets, as revealed in the subject-control comparison. Of the roughly 1,400 market-performance measurements we completed in the subject areas in the post-construction years, *96% fell within the range of values of similar age and size control group peers* from the respective larger market. Just

4% of subject area values (55 in number) fell below the range of values exhibited for comparable control sales.

- In the subject-control comparison, poor performance in the subject areas exhibited itself most often in the form of longer market times than control counterparts (28 outlying values) and lower sales-to-list price percentages (18 outlying values). In only 12 cases did an outlying subject area value take the form of a lower price per square foot, as compared to a set of control peers. The 12 cases of lower prices relative to control peers represented just 2.6% of the price values that we measured in the subject areas.

- The subject area around Arlington Ridge Apartments in Shakopee merits further research. Seven existing townhomes around Arlington Ridge took significantly longer to sell than their control area peers in the second and third years after construction of the development. However, this submarket was just *one* among 68 that we analyzed. This indicates that negative impact by the 12 tax-credit developments in our study, at worst, was limited to relatively longer market times for *one* submarket of units, in *one* subject area, over *two years*.

Conclusions

- We conclude from our research that there is *little or no evidence to support the claim that the tax-credit family rental developments in our study eroded surrounding home values*. The information from this research suggests that the various housing submarkets examined in our study performed normally in the years after construction of the tax-credit properties in question, varying in similar fashion to the pre-construction years, and responding to supply and demand forces in a similar manner as the larger market.

Figure 1
Sales Price Per Finished Square Foot Among Homes Sold
13 Housing Submarkets Surrounding Tax-Credit Properties (Combined)
3 Years Before and After Construction

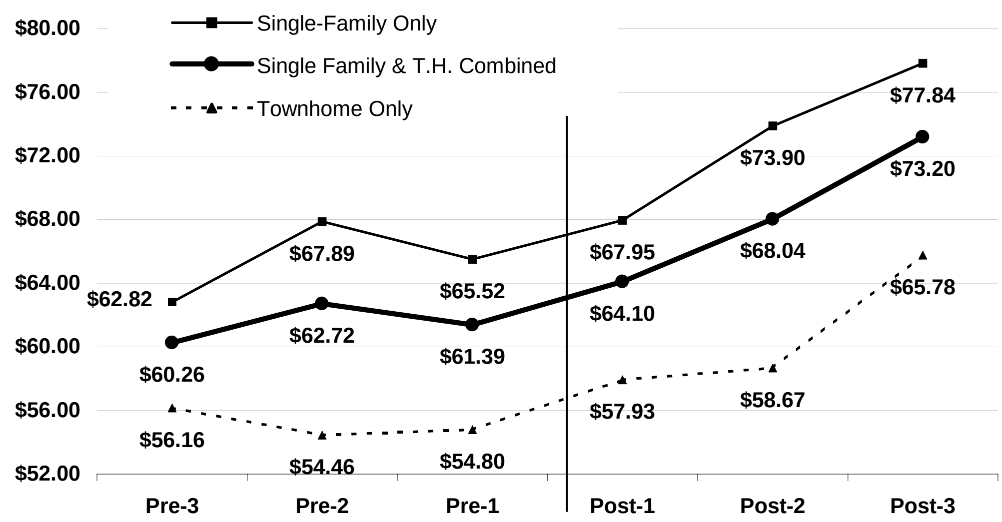
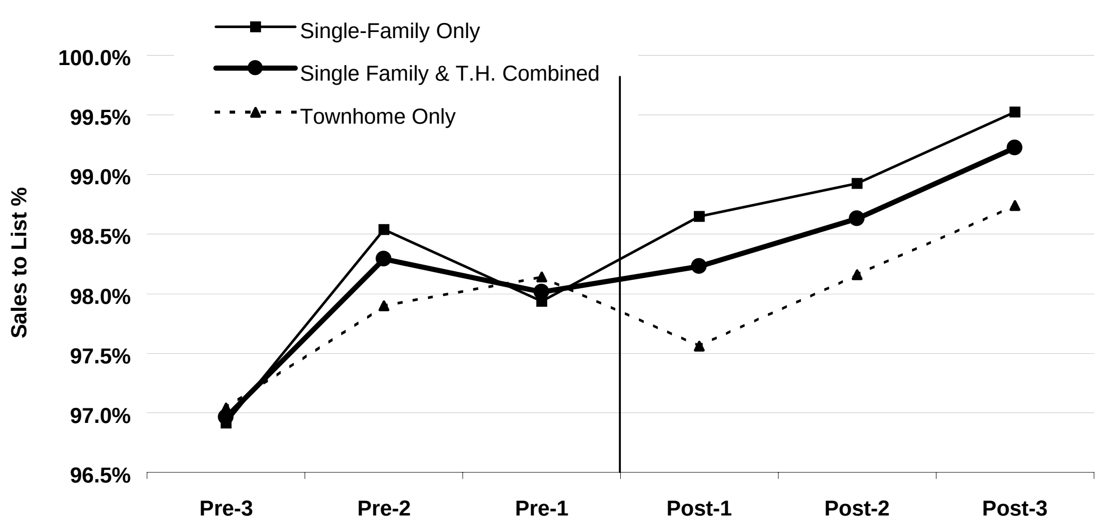


Figure 2
Sales Price to List Price Percentage Among Homes Sold
13 Housing Submarkets Surrounding Tax-Credit Properties (Combined)
3 Years Before and After Construction



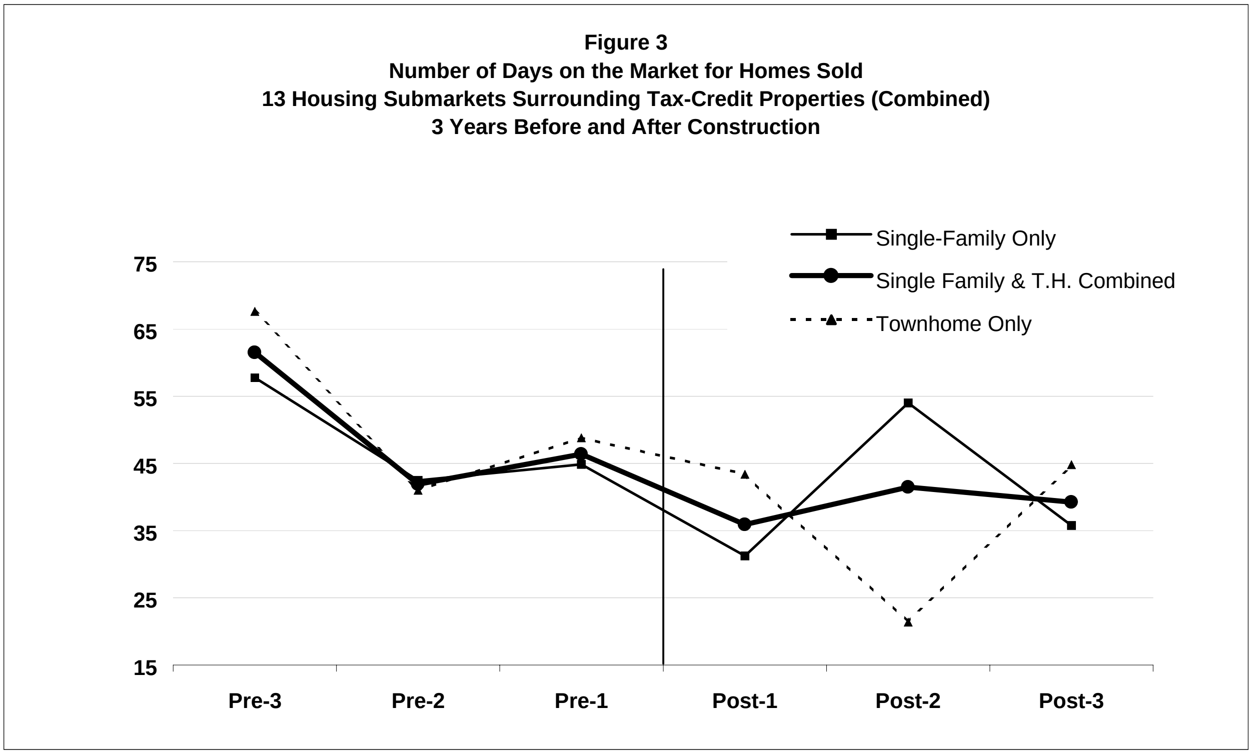


Figure 3
Number of Days on the Market for Homes Sold
13 Housing Submarkets Surrounding Tax-Credit Properties (Combined)
3 Years Before and After Construction
Single-Family Only
Single Family & T.H. Combined
Townhome Only
75
65
55
45
35
25
15
Pre-3
Pre-2
Pre-1
Post-1
Post-2
Post-3