



**2-4 Unit
Housing
Market Brief**

May 2022

*Small Multifamily Homes
& Wealth Building*



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Introduction

The Twin Cities region is home to some of the nation's worst racial disparities in homeownership and wealth. Black households, Indigenous households, and People of Color (BIPOC) have long been locked out of homeownership opportunities due to a long history of racist policies and practices across the housing sector. As a result, in Minnesota, 42% of households of color own their homes, while 75% of white households are homeowners. For Black households, the disparity runs deeper; just 26% of Black households own their homes.¹ This is the largest Black-white homeownership gap of any metropolitan region in the nation, and it creates significant barriers to building wealth and prosperity for Black communities.

The small multifamily housing market – our region's stock of duplexes, triplexes, and fourplexes – offers a powerful opportunity to help close these stark racial gaps. 2-4 unit homes present affordable entries to homeownership and the potential for greater, faster wealth building than single-family homes. When a buyer purchases a 2-4 unit home, they can earn additional income from rent, additional mortgage paydown, and additional appreciation. The Family Housing Fund estimates that the typical buyer of a 2-4 unit home will see their wealth increase by \$300,000 over 15 years, at least \$100,000 more than the typical owner of a single-family home. Additionally, while 2-4 unit homes are present throughout the Twin Cities, many small multifamily homes are located along economic corridors and in neighborhoods with high BIPOC populations that are currently facing displacement pressures. As owner-occupants of 2-4 unit properties, families have the power to stay in the neighborhood of their choice, and they have the option to provide affordable, quality housing to their neighbors. This housing stock is an important, underutilized tool for supporting BIPOC homeownership, generational wealth, and thriving communities.

However, purchasing and owning a 2-4 unit home also comes with unique challenges that are especially difficult for households without access to generational wealth. As such, BIPOC ownership of these properties remains low, despite the strong demand for this opportunity that has been voiced by many BIPOC community members. The Family Housing Fund is leading a collaborative effort to expand access to small multifamily ownership for BIPOC households with low and moderate incomes (the Building Equity in Small Multifamily Ownership initiative).

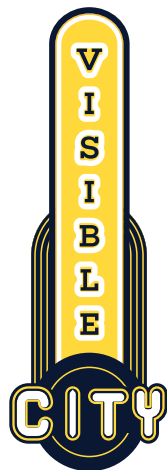
Understanding the current landscape of the 2-4 unit housing market is critical for removing barriers and creating equitable access to ownership. This brief examines the current conditions of the 2-4 unit housing market in the Twin Cities to inform the approach of housing partners throughout the region who are working to expand the small multifamily housing stock and support BIPOC homeownership.

¹ U.S. Census Bureau, 2016-2020 American Community Survey, analyzed by Minnesota Compass

About the data

- 2020 Home Mortgage Disclosure Act (HMDA) data includes information disclosed by mortgage applicants. The data analyzed in this brief includes owner-occupant buyers and excludes investor purchases and rehab/refinance mortgages.
- Multiple Listing Service (MLS) data analyzed in this brief includes all 2-4 unit home sales in the seven-county metropolitan area between May 2021-April 2022.
- In the seven-county Twin Cities region, the majority of the small multifamily housing stock is located in Minneapolis and Saint Paul; for this reason, much of the data in this brief focuses on these two cities.

**THE FAMILY HOUSING FUND THANKS
VISIBLE CITY FOR ANALYZING THE
DATA AND CREATING THE MAPS IN
THIS BRIEF.**

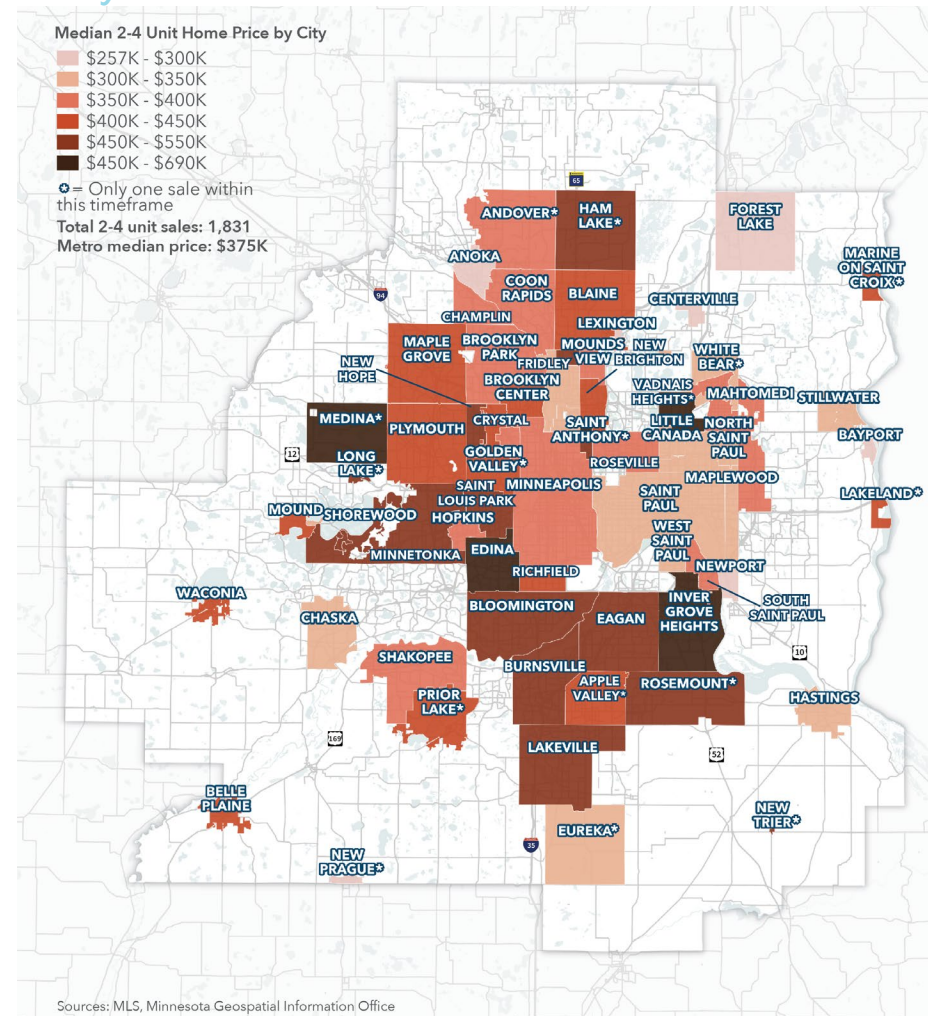


Small multifamily properties offer affordable, feasible homeownership options

Recent trends in small multifamily purchases indicate that, while home prices are high across the Twin Cities, 2-4 unit properties are relatively affordable on a per-unit basis when compared to a typical single-family home. (The median price for a detached single-family home in 2021 was \$370,000,² compared to \$375,000 for the median 2-4 unit home and \$355,000 for a duplex).

Notably, 2-4 unit properties are more affordable in Saint Paul than many of the surrounding cities, while Anoka, Fridley, and Colombia Heights are home to some of the most affordable options in the northwest metro (Figure 1).

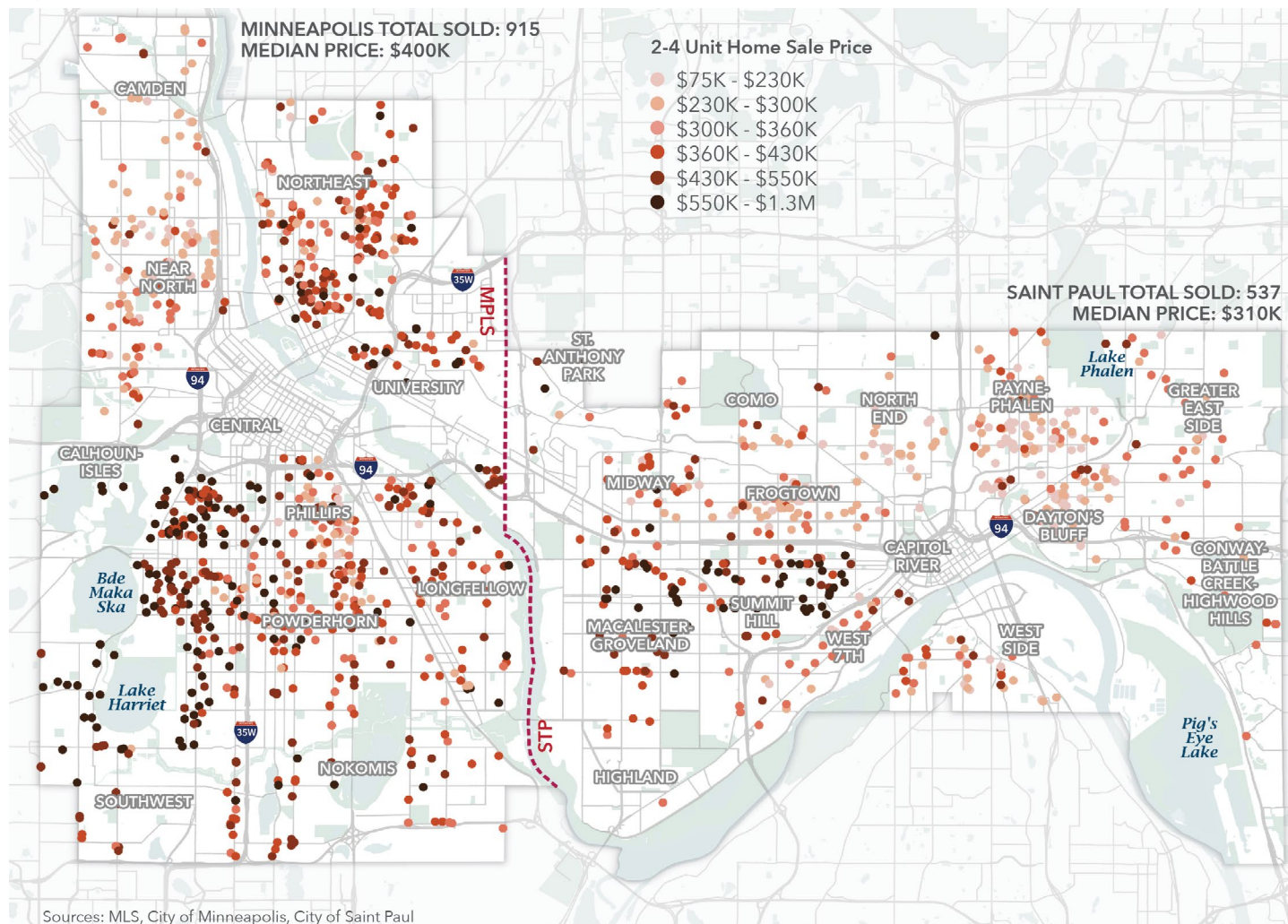
Figure 1. 2-4 Unit Home Prices in the Twin Cities Metro, January 2021-March 2022 Sales



² Minneapolis Area Realtors, 2021 Annual Housing Market Report – Twin Cities Metro

In Minneapolis and Saint Paul, duplexes are more affordable in neighborhoods with high BIPOC populations (Figure 2), such as Near North (78% BIPOC), Phillips (74% BIPOC), Frogtown (71% BIPOC), and Payne-Phalen (65% BIPOC).³

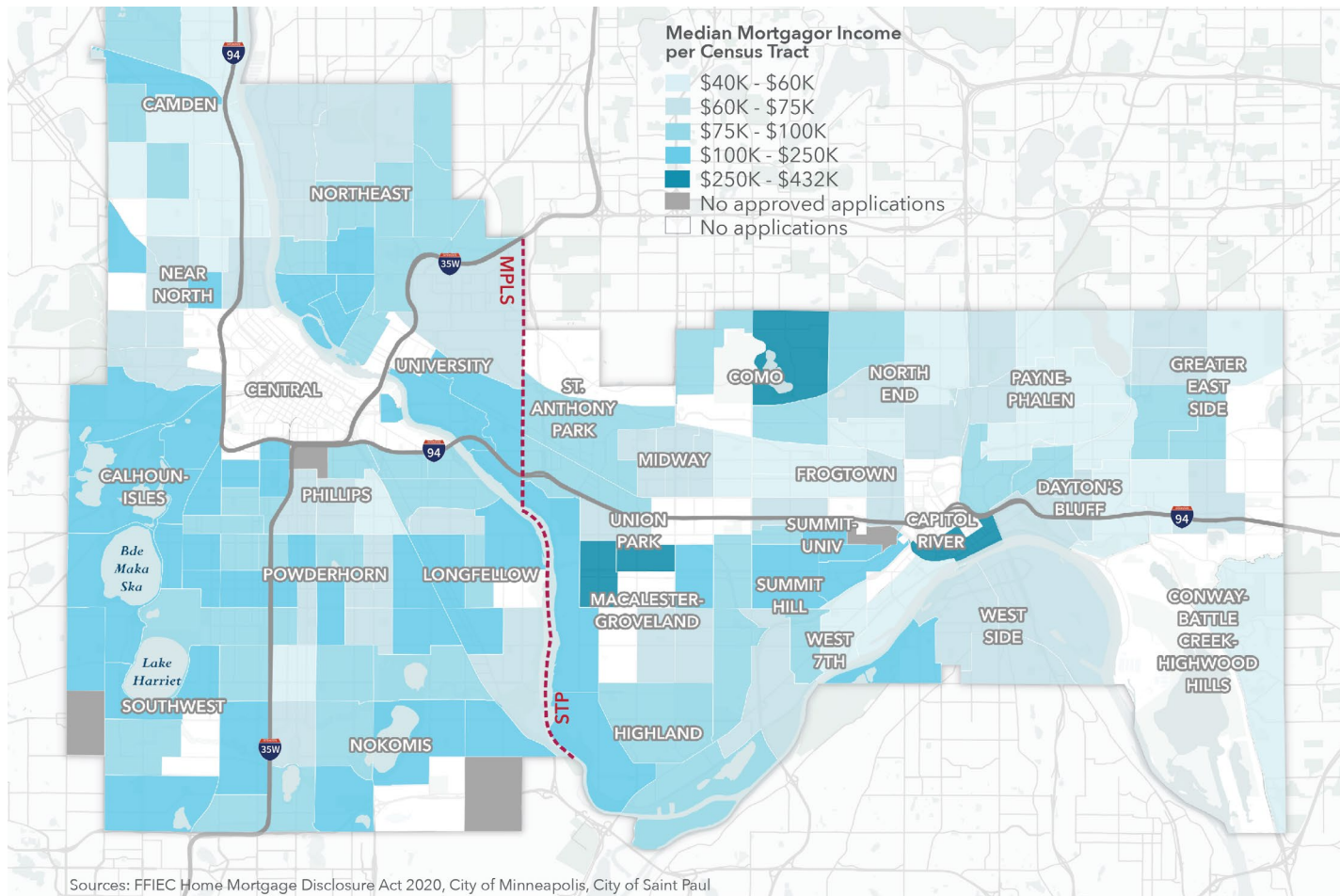
Figure 2. 2-4 Unit Home Prices in Minneapolis and Saint Paul, January 2021-March 2022 Sales



³ U.S. Census Bureau, 2016-2020 American Community Survey, Minnesota Compass Community Profile analysis

Recent purchases by owner-occupants demonstrate that, despite high home prices across the market, 2-4 unit ownership can be feasible for families with low and moderate incomes (at or below \$89,400 for a family of four⁴). In 2020, more than half of owner-occupant buyers in Minneapolis earned incomes below \$85,000, and 72% of buyers earned incomes below \$110,000. In Saint Paul, more than half of all buyers earned incomes below \$75,000; 77% of buyers earned incomes below \$100,000 (Figure 3).

Figure 3. Mortgagor Income for 2-4 Unit Owner-Occupant Purchases in Minneapolis and Saint Paul, 2020

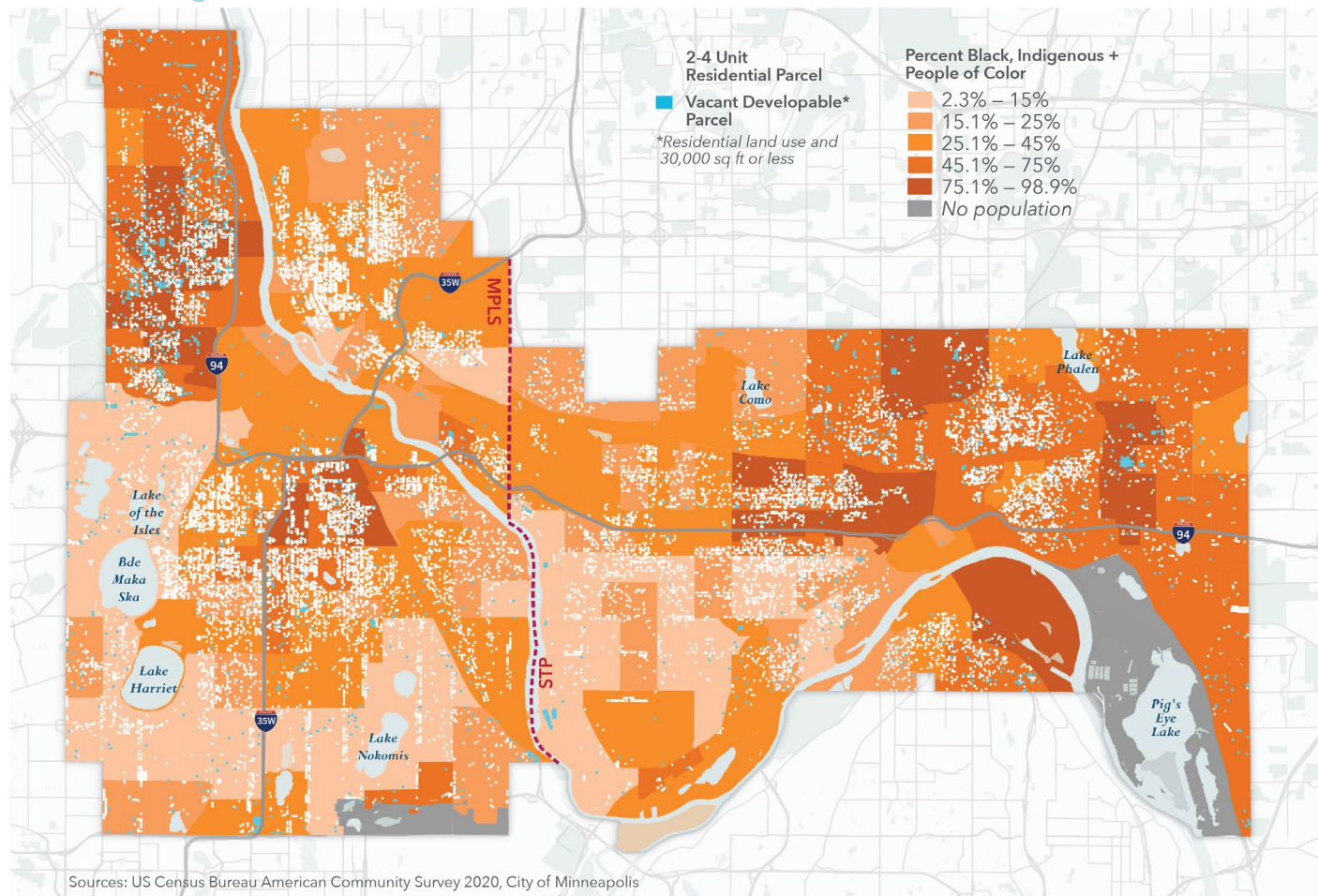


⁴Metropolitan Council, 2022 Affordability Limits for Ownership and Rental Housing

Small multifamily properties are found in nearly every neighborhood of Minneapolis and Saint Paul. While the number of properties available to purchase is limited, there are many vacant lots throughout the two cities where new construction may add to the available housing supply. Approximately 60% of the 2-4 unit housing stock in region is currently investor-owned rather than owner-occupied; there is an opportunity to return these properties to owner-occupancy from investor ownership.

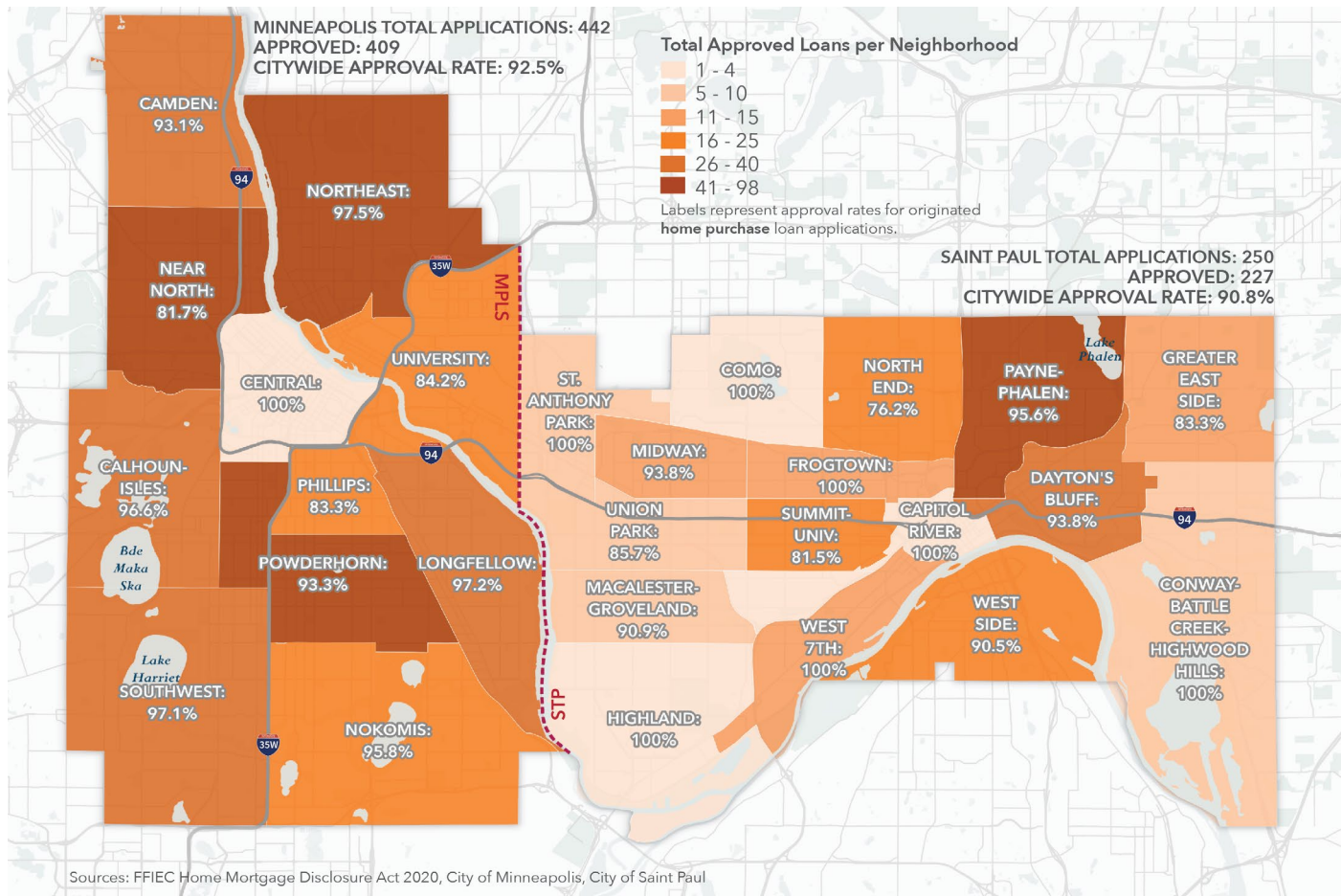
Many neighborhoods with high BIPOC populations have significant numbers of 2-4 unit homes and vacant developable parcels (Figure 4). Opening opportunities to 2-4 unit ownership will expand housing choices for families whether they wish to stay in their current neighborhoods or move to different neighborhoods in Minneapolis and Saint Paul.

Figure 4. Existing 2-4 Unit Homes and Vacant Developable Parcels; BIPOC Population Minneapolis and Saint Paul Neighborhoods



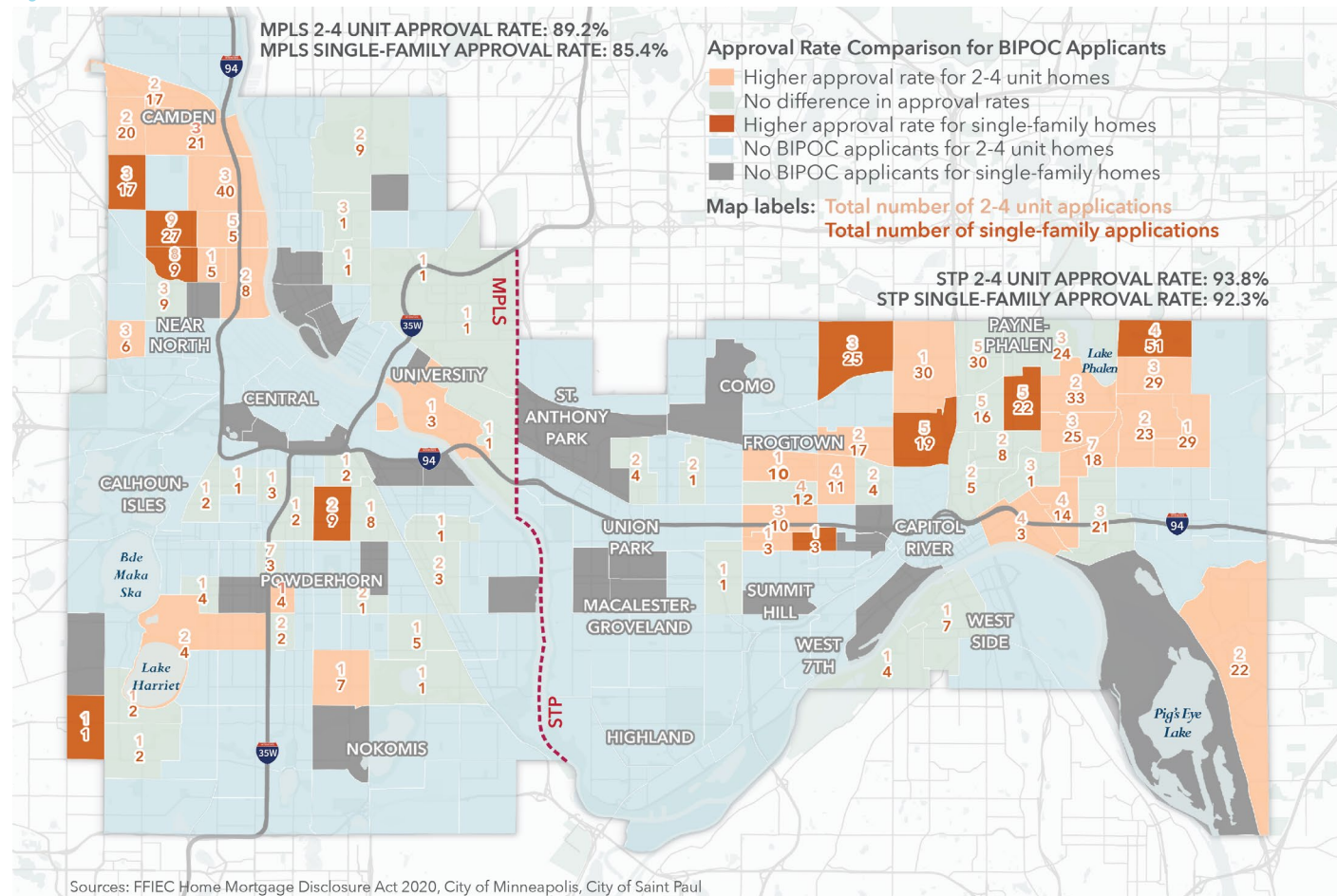
Owner-occupant buyers find 2-4 unit homes available for purchase in nearly every neighborhood of Minneapolis and Saint Paul. In Minneapolis, the North-east, Near North, and Powderhorn community areas – including the Central Avenue, West Broadway, North Lowry, Lake Street, and 38th Street corridors – see particularly high rates of purchases by owner-occupants. In Saint Paul, owner-occupant purchases are most common in the Payne-Phalen neighborhood, and relatively few owner-occupants purchase homes in the city's western neighborhoods (Figure 5).

Figure 5. Approved Loans for Owner-Occupant 2-4 Unit Purchases in Minneapolis and Saint Paul



There are too few datapoints to fully interpret home purchase loan approval rates for BIPOC buyers of small multifamily homes. However, the available data suggests that BIPOC homebuyers may be slightly more successful in securing a loan to purchase a 2-4 property than for a single-family home (Figure 6), likely due to the greater purchasing power that comes with projected income from the extra units. However, there are large swaths of Minneapolis and Saint Paul where no BIPOC homebuyers applied for loans to purchase 2-4 unit homes, indicating a lack of affordable homeownership opportunities in many neighborhoods.

Figure 6. Loan Approval Rates for BIPOC Buyers of 2-4 Unit Homes Compared to Single-Family Homes by Census Tract



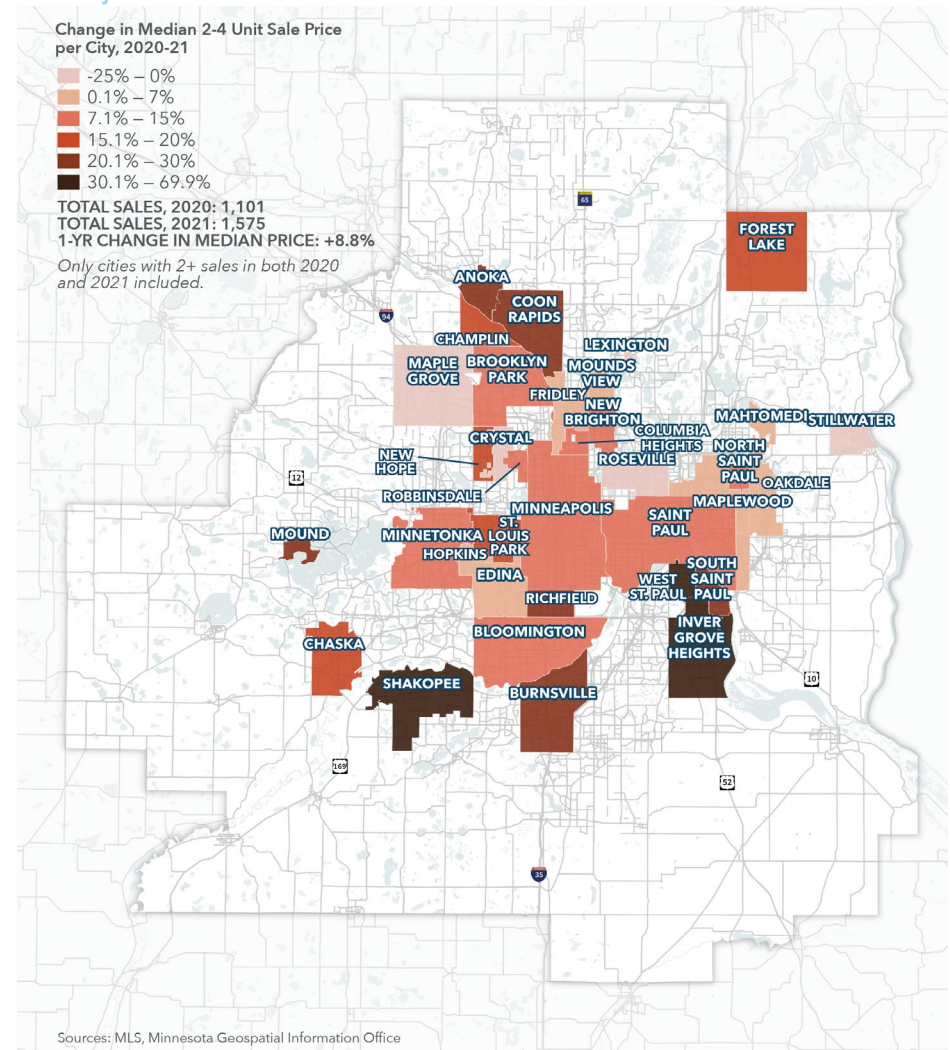
Challenges in the 2-4 unit market limit opportunities for buyers

There are several market barriers that must be addressed if families are to take full advantage of the wealth building opportunity of 2-4 unit ownership.

The small multifamily housing stock is limited and declining, resulting in high competition for these properties. The supply of 2-4 unit properties in the 7-county Twin Cities region dropped by 8% from 66,441 to 60,956 over the last 3 decades, even as the housing stock in our region as a whole has grown by 38%. As a percentage of our housing stock, 2-4 unit buildings made up 7.2% of residential properties in 1990 and declined to just 4.8% by 2019.⁵ Several communities have recently updated their zoning policies to allow for more 2-4 unit development, which they had largely prohibited in the second half of the 20th century. However, building new 2-4 unit buildings at prices affordable to moderate-income buyers remains challenging due to rapid increases in construction costs.

Like the rest of the housing stock in the Twin Cities, small multifamily prices continue to rise quickly due to the region's housing shortage. From 2020 to 2021, the cities with the most 2-4 unit housing stock saw prices rise by up to 15% (Figure 7).

Figure 7. Change in 2-4 Unit Property Sale Price in the Twin Cities Metro, 2020-2021



⁵ Metropolitan Council, Community Profiles – Housing

Some modestly-priced neighborhoods in Minneapolis and Saint Paul are seeing disproportionate increases in price, especially Near North in Minneapolis and Union Park, Summit-University, and West 7th in Saint Paul (Figure 8). These price increases are a reflection of the high demand for moderately-priced homes, and suggest that there is urgency to prioritize transferring ownership of these properties to community members before prices and displacement pressures further increase.

Figure 8. Change in Median 2-4 Unit Home Price in Minneapolis and Saint Paul, 2020-2021

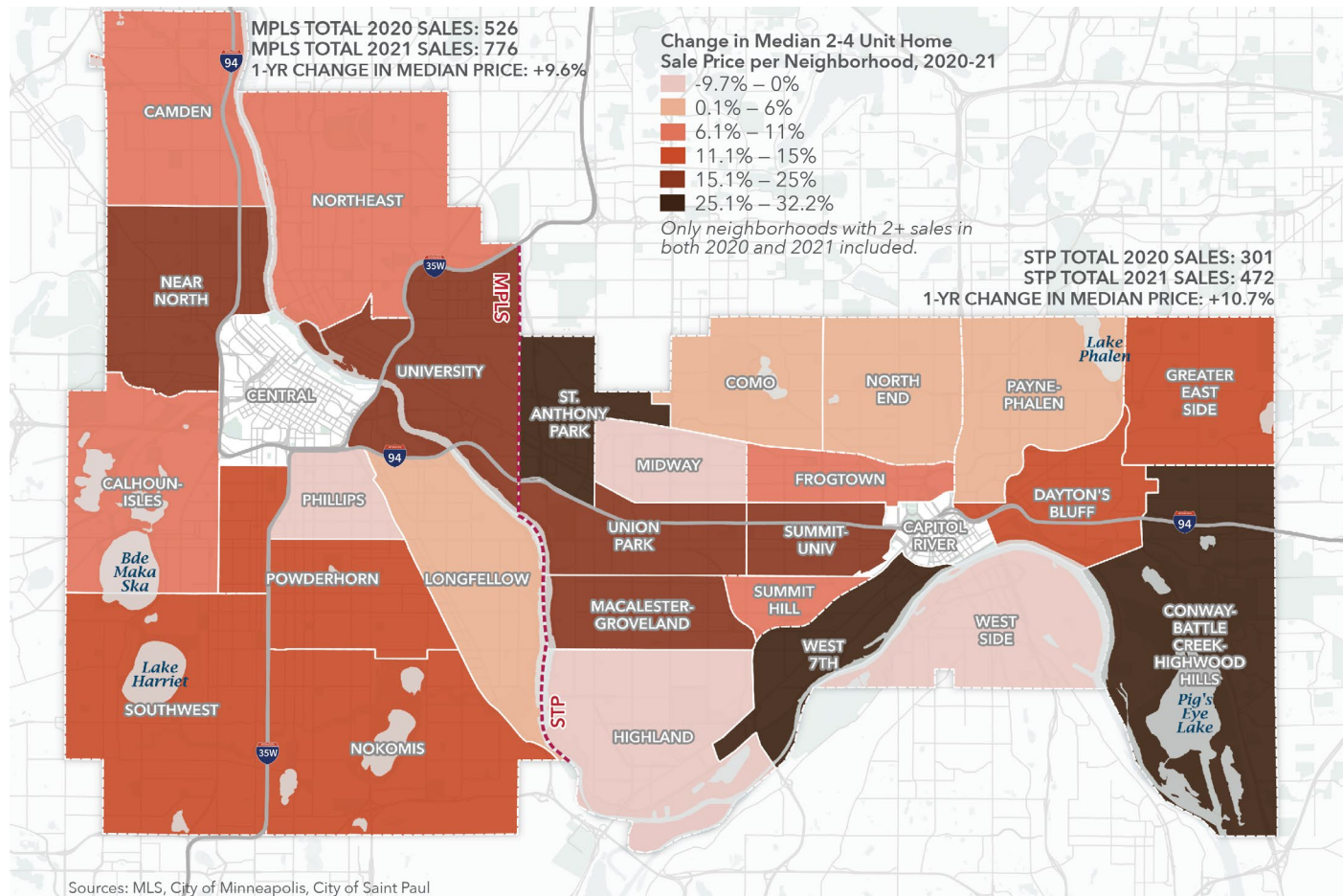
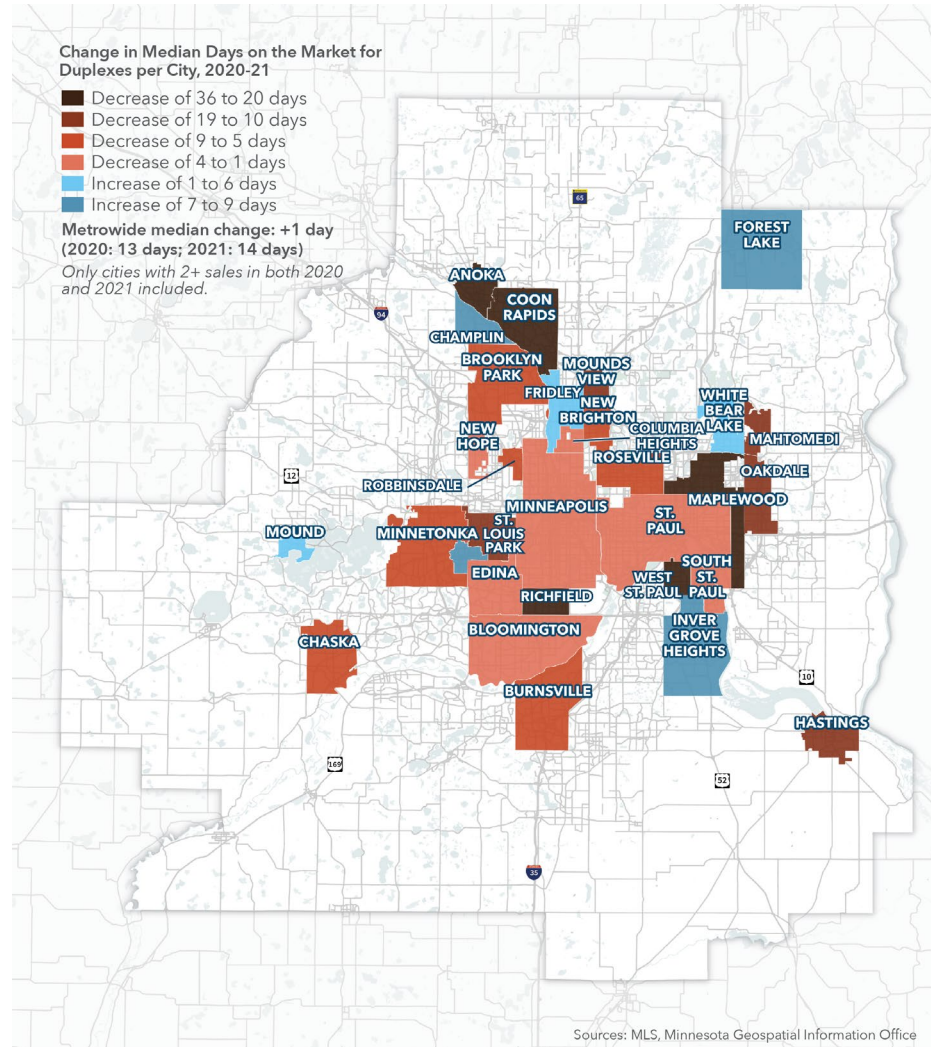


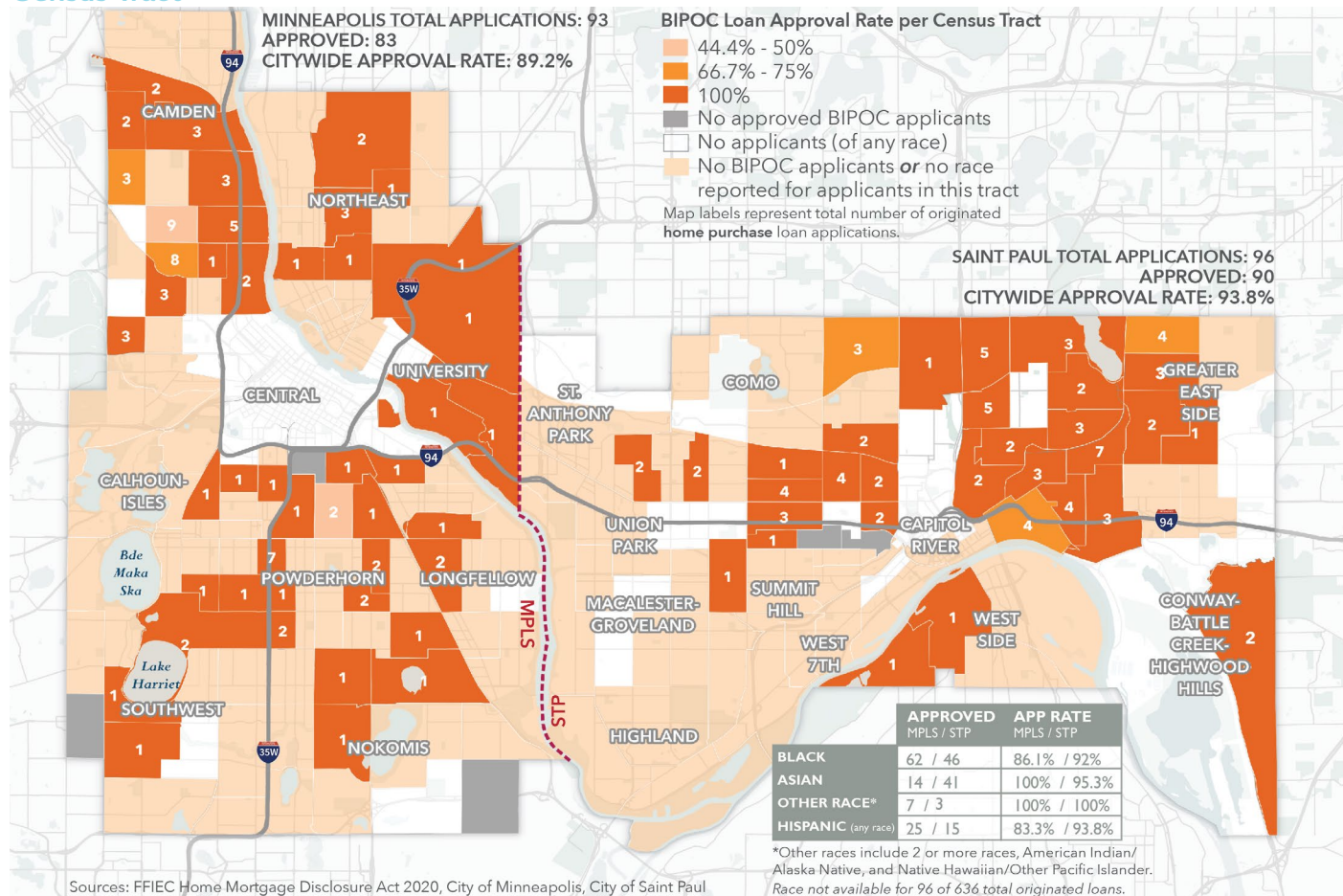
Figure 9. Duplex Days on the Market, 2020-2021 Comparison, Twin Cities Metro



Small multifamily buildings trade quickly, presenting another challenge for first-time homebuyers, who often require more time to prepare a purchase offer. Across the metro, duplexes are typically on the market for just 14 days. Between 2020 and 2021, the median number of days a duplex is on the market decreased significantly in most cities in the region (Figure 9). In this hot market, homebuyers may struggle to compete with investors and may not find a property for sale in their first-choice neighborhood.

For households who are not deterred by higher prices and competition, mortgage approval rates for 2-4 unit properties among BIPOC applicants are relatively high. However, BIPOC applicants are approved for mortgages at rates lower than citywide averages in several census tracts (Figure 10), indicating that mortgage financing access remains an important topic for further study and intervention. Additionally, in higher-cost areas in both Minneapolis and Saint Paul, there are often no BIPOC applicants for 2-4 unit purchase mortgages, suggesting that public policy interventions to increase affordability could be targeted in these areas to improve housing choices.

Figure 10. Mortgage Approval Rates of BIPOC Applicants for 2-4 Unit Owner-Occupied Properties per Census Tract



Conclusion: We can leverage the small multifamily housing stock to reduce racial wealth disparities

As affordable entries to homeownership, small multifamily homes can and should be utilized as a tool for building community wealth and closing the racial wealth gap in the Twin Cities region. As municipalities throughout the Twin Cities region consider zoning policies that allow more small multifamily development, it is critical to ensure that this new development creates affordable homes and accessible wealth building opportunities.

Current market conditions indicate that this is a promising community wealth building strategy:

- 2-4 unit ownership is feasible and desirable for low- and moderate-income homebuyers.
- 2-4 unit homes are found across the region, including in neighborhoods where BIPOC families currently live.
- Over half of the 2-4 unit housing stock is investor-owned, and there is an opportunity to transfer them to owner-occupancy.
- Vacant parcels present opportunities for new 2-4 unit development, especially as cities adjust zoning policies to allow for more multifamily homes.

At the same time, challenges persist:

- Additional interventions in mortgage financing may be necessary in order to meet the needs of BIPOC buyers of 2-4 unit homes.
- Amidst rising home prices and high demand, the region urgently needs to prioritize access to 2-4 unit properties as homeownership opportunities.

Family Housing Fund and our partners in the Building Equity in Small Multifamily Ownership initiative are developing and piloting tools to support aspiring owner-occupants of 2-4 unit homes. In response to the opportunities and challenges highlighted in this brief, our collaborative is supporting the acquisition and development of 2-4 unit homes, providing down payment assistance to owner-occupant buyers, and exploring innovations to mortgage financing. Read more about our work [here](#).



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