COUNCIL CONFERENCE MEETING

December 13, 2021

5:30 PM

Fridley City Hall, 7071 University Avenue N.E.

AGENDA

1. 2022-2026 Capital Investment Program

2. City Attorney Introduction

3. *Star Tribune* Article on Corporate Purchase of Homes for Rental Housing

AGENDA REPORT

Meeting Date: December 13, 2021 **Meeting Type:** City Council Conference Meeting

Submitted By: Scott Hickok, Community Development Director

Title

Star Tribune Article on Corporate Purchase of Homes for Rental Housing

Background

On Sunday, December 5, 2021, the *Star Tribune* published an article entitled "National Investors are Snapping Up Twin Cities Area Houses to Rent." The article's subtitle was these corporate rentals are becoming concentrated in lower-income neighborhoods.

In paragraph two of the article, author Jim Buchta inaccurately states, "*Now, data show that some neighborhoods in Minneapolis and the entire suburbs of Fridley and Hopkins are being transformed by corporate ownership, a phenomenon that shows no signs of letting up.*"

Mr. Buchta has completely misinterpreted the federal data he was using, and has inaccurately called out Fridley and Hopkins as leading the pack in this phenomenon. Plain and simple, he was wrong. The data does not support his conclusions, and Fridley and Hopkins would not have been called out if properly read and interpreted.

Fridley staff prepared a response requesting that Rene Sanchez, Editor and Vice President of the *Star Tribune*, print a correction. As we write this update, we have not yet heard back from Ms. Sanchez.

Max Hailperin of the press publication, *Streets.mn,* wrote his own article entitled "What the Star Tribune got Wrong about Firms Buying Up Homes in the Twin Cities." Stated correctly, Mr. Hailperin's interpretation of the data precisely matches City staffs' interpretation and is the basis for concerns regarding the article. In his article, Mr. Hailperin points out:

First, to see what we're fact-checking, it may help to quote what the Strib says about these two suburban cities. They first show up in the article's lead: "Now, data show that some neighborhoods in Minneapolis and the entire suburbs of Fridley and Hopkins are being transformed by corporate ownership, a phenomenon that shows no signs of letting up." These same two cities must also be the suburbs mentioned in "And in a half dozen neighborhoods and suburbs, they own more than 20% of the single-family houses."

That "half dozen neighborhoods" refers to six rows in the table of census tracts that are above 20%, two of which are labeled Fridley and Hopkins, at 27.1% and 24.8%, respectively. And at a later point in the article, we get another variation of the theme: "And in Fridley and Hopkins, more than 25% of the single-family *houses are owned by an investor who doesn't live there." (Aside: 24.8% is not more than 25%, but if the number were rounded to an integer percentage, one might think so. That's a minor issue.)*

So, let's start taking this apart piece by piece. The first thing that jumps out at me is that the quoted text explicitly refers to "the entire suburbs of Fridley and Hopkins," yet the data table is at the finer granularity of census tracts. If we were to look at the entire cities, would the percentage still be "more than 20%"? How about "more than 25%"?

Conveniently, one of the selectable filters on the Fed's site does precisely this—one can switch from census tracts to cities/townships. If we do that, leaving everything else as the Strib had it (including a cutoff of two properties), we find that the rate of investor-owned properties in Hopkins drops from 27.1% to 14.4% while Fridley's rate goes from 24.8% to 11.1%. That's still a substantial percentage of investor-owned properties in each city, but we are left with a picture that is much less dramatic than what the Strib achieved with the simple slip of using a particularly extreme census tract to represent the entire city.

Okay, but what is going on in those two specific census tracts that makes them stand out as so extreme? And is that all that's pulling the city-wide numbers up into the teens? Our old friend the cutoff of two vs. 10 may play a role, but that's a squishy judgment call, so first, let's dig into another outright misstatement. The two quotes about "more than 20%" and "more than 25%" both use the phrase "of the single-family houses." And that's not what the numbers are—they include townhouses and condos. Thankfully, the Fed has checkboxes we can uncheck, so let's do that.

Limiting to just single-family homes but leaving everything else alone (in particular, cutoff two), the city of Hopkins drops to 2.4% investor ownership, less, for example, than neighboring St. Louis Park, which is 2.6%. Likewise, Fridley is down to 3.5%, less than neighboring Columbia Heights' 4.2%. Changing the Fed's tool back to the census tract level and limiting our search to just single-family homes drop the Hopkins stand-out tract from 24. % to 2.1%; the tract in Fridley drops from 27.1% to 4.6%.

In both cases, the seemingly huge numbers are being driven not only by the focus on extreme census tracts but also by the inclusion of many properties that are classified as investor-owned condos. I'm not sure what's going on with those. If someone cared, it would make sense to dig into the specifics of those investor-owned condos. But that's a side issue compared to the fact that the article's claim about these cities just isn't true. National corporations are not buying up a huge fraction of single-family homes in Fridley or Hopkins. In fact, if we not only focus on single-family homes but also follow the Fed's lead and turn up the cut-off to10 to better approximate those national corporations, we find that the city of Fridley has investor ownership of 1.1%, only slightly over the metro-wide percentage.

Stated correctly, Mr. Halperin's interpretation of the data precisely matches City staff's interpretation and is the basis for our concerns regarding this article.

As we know, inaccurate information such as this can flavor opinion about a community and can even cause potential future Fridley buyers to look elsewhere. The author may see this as a simple misstatement of proper city identification, while the city understands the potential harm the inaccurate information can do.

Financial Impact

None

Discussion

Staff look forward to answering any questions Council may have regarding this matter.

Focus on Fridley Strategic Alignment

X Vibrant Neighborhoods & Places
X Community Identity & Relationship Building
__ Financial Stability & Commercial Prosperity
__ Public Safety & Environmental Stewardship
__ Organizational Excellence

Attachments and Other Resources

- Article from *Star Tribune* entitled "National Investors are Snapping Up Twin Cities Area Houses to Rent"
- Email to Rene Sanchez, Editor and Vice President of the *Star Tribune*

Vision Statement

We believe Fridley will be a safe, vibrant, friendly and stable home for families and businesses.

BUSINESS

National investors are snapping up Twin Cities area houses to rent

Effects include higher prices and fewer opportunities for buyers as some neighborhoods are transformed.

By Jim Buchta (https://www.startribune.com/jim-buchta/6370612/) Star Tribune

DECEMBER 4, 2021 — 8:00AM

Twin Cities residential real estate has been slowly reshaped over the past few years by national buyers who turn single-family houses into rentals, but the numbers appeared small against the overall market, and the effects marginal.

Now, data show that some neighborhoods in Minneapolis and the entire suburbs of Fridley and Hopkins are being transformed by corporate ownership, a phenomenon that shows no signs of letting up.

And the effects — including higher prices throughout the market, greater competition at time of sale, and out-of-state landlords showing less care for properties and renters — are becoming harder to ignore. On top of all that: fewer opportunities for people trying to get their first house.

"It's an unfair market for the first-time home buyer," said Henry Rucker, a broker with Twin Cites-based Banneker Realty. "We're not paying attention to who the buyers are. We're only looking at how much the seller will net."

Investor-owners, defined as those with two more properties they don't live in, now own about 4% of the single-family houses across the metro, twice the share since 2006, according to a new database (https://www.minneapolisfed.org/article/2021/new-property-data-tool-reveals-patterns-of-investor-ownership-in-the-twin-cities-area) developed by the Federal Reserve Bank of Minneapolis.

And in a half dozen neighborhoods and suburbs, they own more than 20% of the single-family houses.

ALEX KORMANN, STAR TRIBUNE

This house on Larpenteur Avenue in St. Paul was recently purchased at above asking price by a national homebuying company, which is

Top 20 Minn. census tracts with high investor property ownership

13 to 20% of single-family rentals are investor-owned   20 to 30%   More than 30%

© OpenStreetMap cor

Item 3.

Location	County	Share of single-family rentals that are investor-owned
Minneapolis—Northeast	Hennepin	**30.7%**
Fridley	Anoka	**27.1%**
Hopkins	Hennepin	**24.8%**
Minneapolis—North	Hennepin	**22.5%**
Minneapolis—North	Hennepin	**22.3%**
Minneapolis—North	Hennepin	**21.2%**
St. Paul—North End	Ramsey	**19.1%**
Minneapolis—North	Hennepin	**17.6%**
St. Paul—Payne-Phalen	Ramsey	**16.6%**
St. Paul—Frogtown	Ramsey	**16.1%**
St. Paul—Payne-Phalen	Ramsey	**16.1%**
St. Paul—Summit University	Ramsey	**15.8%**
St. Paul—Frogtown	Ramsey	**15.5%**
Minneapolis—North	Hennepin	**15.1%**
St. Paul—Payne-Phalen	Ramsey	**14.8%**
Minneapolis—North	Hennepin	**14.4%**
Oak Park Heights-Stillwater	Washington	**14.4%**
Minneapolis—North	Hennepin	**14.2%**
Minneapolis—South	Hennepin	**13.6%**
Minneapolis—North	Hennepin	**13.4%**

Jim Foster, Star Tribune • Source: Federal Reserve Bank of Minneapolis

Turning houses into rentals boosts the housing options for people who don't want to buy a house or rent an apartment. But it also makes it more difficult for people to build wealth through homeownership, especially in areas that are affordable to working-class buyers.

"Investors who are able to make cash offers are quickly limiting options for families that want to buy single-family homes, making it harder to get into homeownership," said Libby Starling, director of community development and engagement at the Minneapolis Fed.

She is especially concerned about the potential impact on minority households. The research shows that many of these rentals are concentrated in areas where the poverty rate is above average.

Item 3.

This summer, an analysis by the Urban Institute found that the Twin Cities already has the largest Black-white homeownership gap in the country. It found that while the white homeownership rate in the Twin Cities remained relatively stable between 2000 and 2018 at about 70%, the Black homeownership rate fell from 31% to 21% in 2018.

The Minneapolis Fed's new interactive database tracks entities that own two or more properties, not including apartments and duplexes that have always been intended for rental purposes. It shows that, while the practice is most prevalent in Minneapolis and St. Paul, investors are also making big bets on the suburbs.

In part of northeast Minneapolis, investors now own more than 30% of the single-family houses. And in Fridley and Hopkins, more than 25% of the single-family houses are owned by an investor who doesn't live there.

ALEX KORMANN | STAR TRIBUNE

This house in Burnsville, which recently sold at above asking price to a national investment firm, has been turned into a rental, a sign of a real estate phenomenon that has spread beyond the urban core.

Out-of-state owners pose a concern for state Sen. Kari Dziedzic, who has been working with Sen. Rich Draheim to make sure there are no unintended consequences of the trend.

She's troubled by the prospect that out-of-state investors are paying top dollar for properties, boosting prices at a time when housing affordability is already waning.

"Not only is it tying up available inventory in that neighborhood, it's also skewing the housing market in that neighborhood," she said.

The popularity of single-family rentals is a reflection of recent shifts in rental trends driven in part by the pandemic. Over the last decade, demand for compact rentals soared as baby boomers downsized and young millennials moved out of their parents' homes.

The view at the time was that younger renters were more social than previous generations, were getting married and having children later and didn't need space to entertain at home. So developers built studio and one-bedroom apartments.

COVID-19 upended those expectations. Suddenly, with more people working and studying from home, there was more demand for larger rentals.

Investors ramp up purchases in t Twin Cities

Investors are competing with traditional hor buyers in the Twin Cities, putting upward pressure on prices and limiting options.

INVESTOR OWNERSHIP RATE FOR RESIDENTIAL

Although many developers are building single-family houses in the Twin Cities metro area, investors are looking for other ways to meet demand. And that's attracting national home-owning firms, such as Invitation Homes and Home Partners of America, each of which now own more than 800 homes in the metro, according to the Fed.

Their rise comes at a time when competition for the least expensive houses in the Twin Cities has never been more fierce. This year, only about a quarter of the houses for sale in the metro area were priced at $250,000 or less, compared with about 50% five years ago, according to the Minneapolis Area Association of Realtors, or MAR.

On average, houses priced from $250,000 to $350,000 sold in just 22 days last month, the lowest of any price range and 40% faster than last year.

For more than a decade, home builders haven't kept pace with demand in the Twin Cities area, especially houses that are affordable to moderate-income buyers, creating a deficit of new homes that will take years to replenish.

Item 3.

The MAR now considers an affordable home price to be around $325,000, based on a household spending no more than 30% of pre-tax income on housing given current median incomes, home prices and interest rates. Today, most houses in the Twin Cities area cost far more than that.

In just the past decade, the median price of a house in the Twin Cities has more than doubled to $340,000, eroding housing affordability for home buyers such as LaTrelle Lloyd, who spent this summer shopping for a house and repeatedly getting outbid.

With a $250,000 budget, Lloyd knew he'd be competing against hordes of other first-time buyers and was prepared for battle. What he didn't anticipate was that he'd be bidding against investors with deeper pockets than his.

He bid on nearly a dozen houses but got outbid nearly every time, even though he almost always offered the sellers more than they were asking. He speculates that about half of the winning bidders paid cash and were able to waive all the normal inspection and appraisal contingencies.

"It was hard to find a house," he said. "Let alone compete with a bunch of people who could easily outbid what I could bid."

So far this year more than 12% of all closed sales in the Twin Cities metro area were cash deals, up from 10% the year before, according to the Regional Multiple Listing Service.

ALEX KORMANN | STAR TRIBUNE

So far this year, 12% of all houses sold in the Twin Cities were a cash deal, a sign of the growing reach of national home-buying companies. This house on Margaret Street in St. Paul recently sold to one such buyer at above the seller's asking price.

Lloyd and his fiancé were finally able to buy a house in early October. Though it's a fixer-upper, he feels lucky that they got the house for $3,000 less than the seller was asking. And he's grateful to finally start building equity.

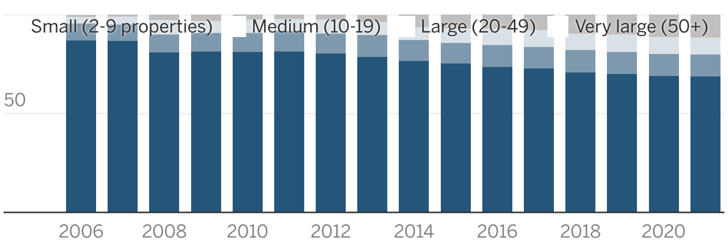
"The home buying process was rough," he said. "And the house has some issues, but we'll end up expanding it because we want to start a family. It's a decent home and in a nice area of Minneapolis. It's a good first home, and it was within our price range."

As investment firms targeting communities with high-demand school districts — because the rents tend to be higher and tenants tend to stay longer — families that want to live in those areas now have fewer options, said Julie Gugin, executive director of the Minnesota Homeownership Center.

The firms tack up ads on phone poles and street signs offering a quick cash sale. Gugin said they are aiming to reach people who experienced financial hardship during the pandemic.

Property owners with large portfolios more common

PERCENTAGE OF INVESTOR-OWNED RESIDENTIAL PROPERTIES IN THE TWIN CITIES AREA, BY CLASS O INVESTOR



Jim Foster, Star Tribune • Source: Federal Reserve Bank of Minneapolis

"You see the signs all over," Gugin said. "In my world, that's a predatory tactic; they're reaching out to consumers who might have been impacted by COVID-19 and feel like they don't have any other options."

Gugin said the Homeownership Center and other nonprofits are broadening their efforts to provide more down-payment assistance and counseling to help buyers compete.

On top of the proliferation of national home-owning firms that turn single-family houses into rentals, buyers are also competing with investors who buy houses to offer as short-term rentals, such as through Airbnb and other vacation rental websites.

"The market is already not affordable to a large segment of the population," said Andrea Ferstan, vice president of systems innovation at Twin Cities-based Center for Economic Inclusion. "And it stands to really worsen at a time when the market for single-family houses is becoming less affordable and more competitive."

Jim Buchta has covered real estate for the Star Tribune for several years. He also has covered energy, small business, consumer affairs and travel.

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From: Hickok, Scott
Sent: Wednesday, December 08, 2021 11:27 AM
To: editor@startribune.com
Subject: Request of Editor - Star Tribune

Good Morning Ms. Sanchez,

Earlier this week I asked one of my staff to contact Mr. Buchta regarding his Sunday article and the data and review methodology used to draw the conclusions regarding Fridley's rental ownership. Once forwarded the tool, it was clear he misread/misused the data to draw his conclusions. We ask that you please print a correction to the assertion that Hopkins and Fridley have the most absentee landlords/corporate ownership of houses.

The article would have the reader believe that the free-standing homes in Fridley are owned in large part by corporate absentee landlords, while, if you use the tool provided and click off the townhome and multifamily buttons, the navy-blue shading (the most intense numbers of corporate ownership) is nearly all eliminated in Fridley.

Internal City analysis comments:

In screengrab called 27_1.png you can see what the author did. He set the threshold for 'investor-owned' at 2, then used the SE-most census tract in Fridley to mean all of Fridley. I have included a photo called municipal.png that shows the overall rate using that same cutoff is 11.1%, which is still higher than every other suburb except Hopkins (and Oak Park Heights and Coates, for whatever reason), but is still very misleading it's simply wrong and an error than should be corrected.

It is just plain wrong to say "some neighborhoods in Minneapolis and the entire suburbs of Fridley and Hopkins" when very obviously the same 'some neighborhoods' descriptor should apply when referring to Fridley and Hopkins. I can only conclude that the author doesn't know about municipal boundaries that aren't Minneapolis and St. Paul. In the author's defense the map even implies that Fridley is just that piece north of MPLS and Hopkins is that piece SW of MPLS and Stillwater is that area to the east (none of these are true).

That sentence is not just wrong but clearly how they are interpreting this, since they are implying in the table underneath the map that "Minneapolis--Northeast of downtown" (i.e., the Dinkytown/U of M campus area) is geographically equivalent to "Fridley" when the map clearly just shows the SE-most Census Tract in Fridley. I seriously think the author believes that that brown blob is Fridley, whereas those other areas are distinct neighborhoods of Minneapolis or St. Paul. I'm assuming someone made the map for him, and he interpreted it the way I described above--since municipal boundaries other than MPLS and St. Paul are excluded.

Fridley and Hopkins have non-owner-occupied units. To quibble about the cutoff for 'investor-owned' as 10 or 3 or however many properties an entity owns is something I'd have to spend a lot more time on and have no reason to doubt the Fed.

I am also pretty sure that the townhouse/condo developments in our Black Forest (Fridley census tract used) area are what is skewing this data so heavily. One apartment complex owned by an investor with 200 units would count as investor owned. But so would one townhouse with one unit. There are numerous townhouses and condos in this tract highlighted. My final screengrab (no_condo_townhouse.png) shows what the metro looks like when you exclude these properties. The headline of the article is "National investors are snapping up Twin Cities area houses to rent" with a photo of a single-family house. The article uses language and photos that clearly refer to Single Family homes, while the tool included townhomes and multi-family types. The author could have clicked those uses off on the tool and outcomes would have then better matched his narrative, but because he did not it, showed a completely different outcome for both Fridley and Hopkins.

Not only did the City Fridley staff find the article and methodology flawed, but you will note that another media source (I discovered while penning my request to you) did as well. Max Hailperin, *Streets.mn* published an article this week as well.

https://streets.mn/2021/12/08/what-the-star-tribune-got-wrong-about-firms-buying-up-single-family-homes-in-the-twin-cities/

As we know, inaccurate information such as this can flavor opinion about a community and can even cause potential future Fridley buyers to look elsewhere. The author may see this as a simple misstatement of proper city identification, while the city understands the potential harm the inaccurate information can do. We would very much appreciate your printing a correction article to better reflect the real data and help eliminate any misconceptions caused by inaccurate reflection of data in the Sunday article. Thank you.

Respectfully,
Scott

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