

Affordable Rental Housing Does Not Reduce Property Values: Evidence from the Twin Cities

Some neighbors of proposed affordable housing developments express apprehension that the new buildings will lower nearby home values. Concern about property values is understandable; after all, a home is the single largest investment that most families will ever make.

However, the facts about the actual effect of affordable housing on neighboring home values tell a different story. A recent study found little to no evidence to support the claim that affordable housing developments stimulated a decline in their surrounding housing markets; in fact, each of the areas analyzed displayed stronger market performance after affordable housing was built.

The Family Housing Fund commissioned Maxfield Research, a private real estate research firm, to update their original study (published in 2000) of home sales in neighborhoods surrounding affordable rental housing developments with data from developments built between 2002–2008. Research for the updated report was conducted in four counties, within eight suburban communities: Dakota County (Inver Grove Heights, Lakeville, and Rosemount), Hennepin County (Bloomington and Minnetonka), Scott County (Prior Lake), and Washington County (Oakdale and Woodbury).

The affordable rental housing developments studied are typical of those being built throughout the Twin Cities metropolitan area today, all utilizing Low Income Housing Tax Credits to finance construction. The developments provide apartments and townhomes with affordable rents for families earning less than \$50,000 per year (less than 60 percent of the area median income).

Market Performance Remains Strong

In the updated report, Maxfield Research compared home sales prices in the neighborhoods surrounding affordable housing for the three years before and after construction, compared those sales to similar neighborhoods without affordable housing, and compared the data to the broader Twin Cities market. They concluded:

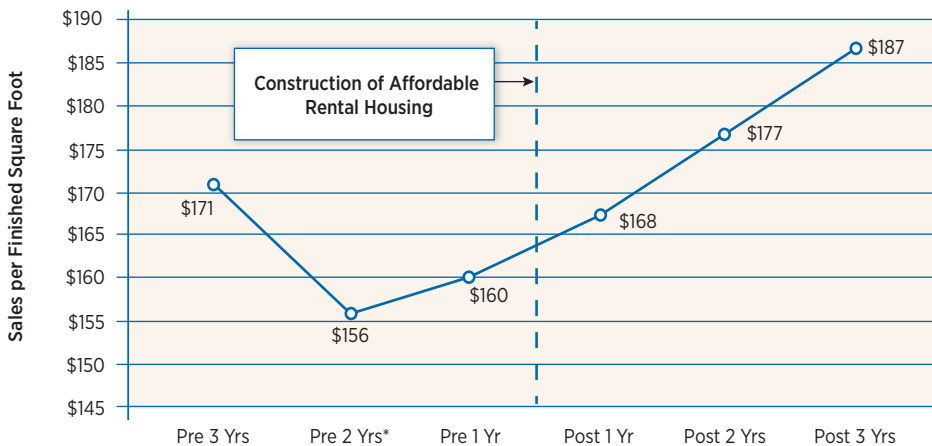
- **Prices Gained by Home Sellers:** Sellers increased the average price they received per square foot of finished space by nearly five percent annually after affordable housing was constructed. Additionally, the average sales price for the entire property increased more than two percent in the post-construction period.

- **Demand for Prices by Buyers:** While the average percentage of the list price that sellers received fluctuated over the six years, it was highest in the third year after construction (99.4 percent). This indicates there was little to no discounting by the buyer as a result of the presence of nearby affordable housing.

- **Speed of Home Sales:** The number of days homes stayed on the market was essentially stable after the affordable rental housing was built, indicating that developments did not make it more difficult for owners to sell their homes.

- **Market Performance:** Market performance of homes located near affordable housing (based on the three previously listed indicators) was as strong or stronger than those located farther from rental housing in 95 percent of the cases.

Average Sales Price Per Finished Square Foot of Homes Sold Three Years Before and After Construction of Affordable Rental Housing



Note: Data sets span pre- and post-construction periods from 11/1/1999 through 12/8/2011

* The decrease in price per finished square foot in the two years prior to construction was due largely to the housing market crash that was occurring around the same time. Additionally, two of the areas studied had a large number of newer homes; new homes experienced a greater decline in value during the crash than existing stock, further depressing the group average.

In short, Maxfield Research found little to no evidence to suggest that the construction of affordable rental housing hurt the performance of home sales. In the areas studied, home sales displayed similar or stronger performance in the period after affordable rental housing was built compared to a control group.

The study examined home sales during an unstable period in the housing market. In the Twin Cities, housing prices began deflating in 2006, and market activity did not renew until 2011. Because of this volatility, Maxfield Research compared the sales prices in the neighborhoods with affordable rental housing to the larger Twin Cities market. The study found that the neighborhoods studied performed similarly or better than the Twin Cities metropolitan area as a whole. Prior to the construction of affordable housing, the neighborhoods analyzed were growing 0.35 percentage points above the overall Twin Cities market. Post-construction, the growth of home sales prices in these neighborhoods was nearly five and a half percentage points higher than the Twin Cities market. In addition to providing evidence that affordable rental housing does not lower property values, this also indicates that the suburban neighborhoods studied were areas of higher price appreciation.

This new study supports the conclusion reached by Ed Goetz, et al. (University of Minnesota, Center for Urban and Regional Affairs, 1996) about the Twin Cities and Ingrid Ellen and Ioan Voicu (New York University, 2006) about New York City that affordable housing managed by nonprofit organizations has a positive impact on property values. Additionally, studies have found that access to affordable housing has a positive impact on education, health, and wealth/earnings outcomes for families.

Whether in the Twin Cities or elsewhere in the country, the evidence is overwhelming: providing quality housing that lower-income families can afford poses no threat to area property values.

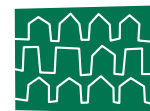


Prairie Crossings, Lakeville, Minnesota, was one of the affordable housing developments studied. (Photo courtesy of Dakota County Community Development Agency)

The full study, An Updated Analysis of the Relationship Between Affordable Family Rental Housing and Home Values in the Twin Cities, can be ordered free of charge from the Family Housing Fund, or viewed and downloaded at www.fhfund.org/reports.

This publication is part of a Public Education Initiative on affordable housing sponsored by the Family Housing Fund. The Family Housing Fund is a private, nonprofit organization created in 1980 to help bridge the gap between the housing that people need and the housing they can afford. Its mission is to provide safe, affordable, sustainable homes to all families in the Twin Cities metropolitan area through ongoing partnerships with the public and private sector.

For more information about the Family Housing Fund and/or to view other publications available in this series, please visit www.fhfund.org.



**FAMILY
HOUSING
FUND**

801 Nicollet Mall
Suite 1825
Minneapolis, MN 55402
Ph (612) 375-9644
Fax (612) 375-9648
www.fhfund.org

May 2014
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