

Multifamily Housing Market is a Shining Star

By Peter Coyle

Amidst a stubborn recession in the residential and commercial real estate markets, multifamily housing, including senior housing, appears to be prospering. Major developers and financiers are ramping up their efforts to build new rental and senior housing both in St. Paul and Minneapolis, as well as in suburban locations. What's driving the market for multifamily? Several things: people that cannot afford a house have to live someplace; tight credit markets prevent those who can afford a home from actually buying one; lots of younger adults view home ownership as a burden; and growing numbers of seniors are moving out of their family homes into independent senior communities.

Efforts to revitalize the urban cores of downtown St. Paul and Minneapolis are picking up speed with new apartment projects or mixed-use redevelopment projects popping up all over. Young adults have watched their parents' nest eggs disappear as home values have plummeted. For them, the notion of owning a house with fixed, long-term obligations in a flat to shrinking market is a non-starter. Moreover, the idea of living downtown to take advantage of the excitement of nightlife and whatever else big cities offer is appealing. Rental housing fits their needs and wants perfectly.

Similar, though different, factors are causing seniors to give up their family home and pursue independent living, either through cooperative or

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senior rental housing. Seniors are ready to shed fixed responsibilities that come with home ownership, whether it is yard maintenance or roof repairs. Federal law allows housing developments to be restricted to those age 55 and older. These are not care facilities (though some are developed in conjunction with assisted living or other care facilities), but rather housing for grown-ups. In case you didn't know, the wave of "baby boomers" on the cusp of making this lifestyle decision is still crashing, which means more demand for such housing. Companies like Presbyterian Homes and United Properties are catering to the needs of seniors by providing very attractive, even luxurious, floor plans, augmented by tons of services, all within a seniors-only living environment. Such facilities offer space to host a party, entertain, play cards, dance, etc., without having to worry about ice dams or dandelions. Senior housing fits the needs and wants of seniors perfectly.

For those whose financial condition is negatively affected by the economy, rental housing has been and likely always will be the housing option of first resort. Rental housing offers a wide range of housing choices (see above) along with pricing that is within reach of most renters. In



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addition, federal and state housing programs still offer financial support to those who need assistance meeting rental payment obligations. While the amenities may be limited with this housing choice, for many families the priority is not a party room, but rather a place for their children to sleep that is safe, warm and dry. Rental housing fits their needs and wants perfectly.

With all these market factors working to support a robust multifamily housing market, what forces are working against it? There are a couple. First, the long-standing conflict between zoning and politics. Anyone who has developed property knows that simply because the local zoning regulations authorize a given use doesn't automatically mean you will actually be allowed to pursue that use. When planners envisioned development along the Hiawatha

light rail corridor, they foresaw a relatively dense urban band that would be livable and walkable, linking the residents living along the corridor to downtown Minneapolis and the airport, eliminating the need to use a car. Residents who actually live in that corridor don't have the same dream; as a consequence, while some new housing has occurred along the Hiawatha corridor, it has not occurred at the scale or density once anticipated. A similar push-back is occurring along the proposed Central Corridor as local residents and business owners contest the City's plan for high density housing. The same phenomenon occurs in city halls across Minnesota: it is easy to embrace a development concept as part of a long-range plan, but the reality of being allowed to build it in the face of opposition from those already living there is quite another thing. Local politicians need to choose between their hopes and dreams and the need for re-election; they usually opt for the latter. For the project proposer, a loss of density usually equates to higher per-square-foot land and construction costs. Consequently, absent needed density, the pro forma to support a loan application no longer is acceptable to a lender that otherwise was ready to approve it.

Another barrier to multifamily

housing is the hidden cost of development. This year the Minnesota legislature considered approving legislation to implement a new park fee authority for the City of Minneapolis. Previous efforts to establish it has not been implemented for various reasons. Regardless, the effect of the new Minneapolis park fee on multifamily housing, if ultimately adopted, will be real and dramatic. Several credible developers of multifamily housing testified at the legislature that their costs for projects under active consideration would jump by hundreds of thousands of dollars as a consequence of having to pay the proposed park fee. (Full disclosure: park fees are routinely collected by cities throughout Minnesota.) Such a jump in costs, without offsetting increases in rental income, or conversely, public subsidy, could easily cause these projects to no longer be feasible.

In Minneapolis, its park fees, but in another community the cost driver may be special assessments to support a redevelopment plan or other amenities tacked on by the city while the housing project is being considered for approval. Many housing developers historically have swallowed these additional costs to avoid a denial of their project. In a booming housing market, its easier to bury the added costs—in a tight credit

market, increased costs can be a project killer.

Every Minnesotan looks forward to the day, hopefully soon, when the price of housing has stabilized and a normal market returns. Meanwhile, the multifamily housing market is meeting a demand that appears to be growing. For now, multifamily is the shining star in the housing market.

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