DISTRESSED PROPERTY DATA PROJECT

RESEARCH FINDINGS – QUANTITATIVE ANALYSIS

REPORT II: EXECUTIVE SUMMARY

February 2025

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Research Findings – Quantitative Analysis

Report II: Executive Summary

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Data Project Background

In April 2024, the Family Housing Fund (FHF) and the Greater Minnesota Housing Fund (GMHF) initiated the Distressed Property Data Project ("the data project") to understand and measure the current state of distressed regulated housing in Minnesota. The data project was designed to make the depth and breadth of the problems housing providers have been experiencing both visible and quantifiable, in order to design effective strategies to address them. The data project intended to provide important information to the Minnesota Housing Stability Coalition (the Coalition) as well as to a wide range of stakeholders including the Interagency Stabilization Group (ISG), public and private funders, legislators, and State government agencies and departments.

Project Structure

The data project was completed in two main phases: 1) a **qualitative analysis phase** comprised of interviews with 35 housing provider staffers and other industry professionals, and 2) a **quantitative analysis phase** that examined project - and organizational-level data from a variety of sources during 2018-2023. Two reports presenting the qualitative and quantitative findings of the data project can be found online at: **https://mnhousingstability.org/reports-and-resources/.**

Important Conclusions from the Data Analysis

Distress is Widespread Among All Types of Properties, Providers, and Locations – The data in this analysis – covering nearly 26,000 units in 456 regulated properties – shows that **a high level of distress has occurred among regulated housing properties and provider organizations of all types, not just mission-driven non-profit organizations serving those most in need.** This analysis included at least 88 regulated properties owned by for-profit entities, with more than 4,100 units. This group did not find immunity from the distress that affected non-profits.

Distress Factors are Largely External to Providers – **Property distress has been driven by a wide range of societal and macroeconomic factors beyond the control of operators.** Eviction moratoria, higher levels of rent non-payment and bad debt, 4%-5% annual inflation, quickly rising wages that increased labor costs, pandemic isolation, increased drug use, societal instability after George Floyd's murder, and staff shortages due to disarray in the labor market were all beyond the control of operators.

A Large Percentage of Regulated Properties in Minnesota Show Negative Cash Flow, Putting Pressure on Parent Organizations – Project cash flow represents full property operations and obligations, factoring in all revenues, expenses, required debt service, and deposits to replacement reserves. Based on operating statements from providers, **average cash flow among 11,408 units with available data[1] showed a decline of $1,875 per unit between 2018 and 2023. Extrapolating this per-unit figure to the entire 26,000 units in this report would have produced a cash flow decline at the property level of nearly -$50 million between 2018 and 2023. Property-level reserve accounts would have offset some of this cash flow loss, but supplemental funds from parent organizations would have also been required in many cases.**

Parent Organizations Have Been Required to Take Extraordinary Measures to Keep Properties Running – Data from providers indicated the following challenges facing parent organizations as a result of property-level distress: loss of payments to the parent for property management and asset management fees, parent contributions to cover property operating shortfalls, loans to property LLCs for extraordinary property repairs, parent cash infusions to cover emergency security needs, and special training, salary, and bonus programs to keep critical on-site staff. **Financial hits to the parent organizations for these various factors have averaged between $1,100 and $4,100 per unit (cumulative total since 2020) among 14 operators in Hennepin County, as reported in 2024.[2]**

Other property-level issues affecting parent organizations include **underfunded capital reserve accounts** ($6,600 average per unit deficit among surveyed organizations), **deferred maintenance** ($5,500/unit need), and **required property sales in the face of persistent operating losses and/or high repair costs.[3]**

Desired Public Policy Outcomes May be Impossible to Deliver – Government in general requires affordable housing providers to meet vital public policy goals, yet funding shortfalls mean that desired outcomes become impossible to deliver cost-effectively in the current environment. This is especially true regarding housing that offers services for very specific mental health, addiction, disability, and homeless situations. **The high degree of property distress, shown by cash flow loss of $1,500 to $2,000 per unit in 2023 at 100% PSH and 30% AMI units, underscores the great challenge in delivering desired resident outcomes, especially in the face of continued underfunding of supportive services.**

Significant Distress on Regulated Housing Continues – The property operating data for this project was only available through 2023. However, many housing operators report continuing distress into 2025 from such factors as **lower payments from tenants, insufficient supportive services funding, depleted repair and maintenance funds, rising insurance, materials and labor costs, shortages in qualified staff, and continued neighborhood instability** in certain areas of the Twin Cities and select areas of Greater Minnesota.

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[1] Operating statements submitted by providers that allowed for the calculation of cash flow covered 11,408 units in 177 properties. The total count of units in all datasets for this research approached 26,000.

[2] Per applications materials submitted for the Repair and Grow grant program in fall 2024, involving 10,269 units in 141 properties.

[3] See "Asked to forgive $5M loan for apartments, Brooklyn Park weighs rent hikes, tenant displacement" https://www.startribune.com/brooklyn-park-loan-default-huntington-place/601217986

Minnesota's Regulated Housing System is in Distress and Requires an "All Hands-on-Deck" Response

The research completed for the data project reveals a regulated housing system in a very distressed state with many properties, providers, and tenants suffering significantly over the past 3-4 years and an annual operating loss among parent organizations that has likely run between $50 and $70 million per year over the last two years. The challenges throughout the system are considerable. Stakeholders of all kinds, including providers, advocates, policymakers, funders, investors, elected officials, and government officials at all levels must work together in earnest with the collective goal of protecting and mitigating further distress to Minnesota's regulated housing stock, which required billions of dollars in public investment over many decades to create.

Distress Factors Measured in the Quantitative Analysis Report

Data used in this research covered the following distress factors (research highlights shown):[4]

Rent Collection Loss

- All regulated housing types in Minnesota showed 2 to 5 times higher rent loss in 2023 than in 2018.
- 100% PSH properties experienced the highest rent collection loss at $1,345/unit on average during the period. This equates to losses of roughly 15% of total project revenue.
- Regionally, the Twin Cities metro was hit hardest, with rent loss worsening by $1,000/unit in the central cities & suburbs over five years.

Vacancy

- Substantial vacancy problems hit all affordable property types and regions starting in 2021-2022. This was driven primarily by three factors: 1) a large number of vacant units after the termination of the eviction moratoria, 2) staffing shortages and/or insufficient operating funds to make units ready for occupancy, and 3) delays in placing tenants from coordinated entry lists.
- PSH properties saw a tripling in vacancy from 2018 to 2023: from 6.3% to 17.9% for 100% PSH projects and from 3.2% to 9.6% for Integrated PSH.
- Greater MN rural areas showed the highest vacancies of all regions, at 13% in 2023.

Bad Debt

- Except in Greater MN job centers, bad debt worsened notably among all property types and regions, beginning in 2022 in general.
- Section 8/202/811/Rural Development (RD) projects showed the most distress from bad debt, losing $1,008/unit by 2023.

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[4] A number of distress factors identified in the qualitative interviews phase of this project were not measured for reasons described in the quantitative report on pages 11-12: payroll costs for all staff types, property management, unit turnover, evictions, and compliance costs, delays in filling units with tenants from coordinated entry lists, supportive services funding, property reserve accounts, and public funding sources and processes.

Cash Flow (NOI minus debt service and reserve deposits)

- Among 11,408 units with available data for this analysis, average cash flow fell to $1,226/unit ***below breakeven*** in 2023.
- Cash flow at 100% PSH properties dropped to $1,980/unit below breakeven in 2023, the most severe among property types. Section 8/202/811/RD properties followed at $1,600/unit below breakeven.

Total Operating, Repair, & Maintenance (O&M)

- All property types and regions showed O&M cost increases between 60% and 290% above inflation between 2018 and 2023. The increases by property types ranged from $1,100 to $1,760 per unit.
- Following inflation, O&M costs should have only grown by $500 to $680/unit between 2018 and 2023.

Property Insurance

- The data confirms that rising insurance costs have been a distress factor at regulated properties throughout all portfolios, with policy premium cost increases ranging from 70% to 370% above inflation between 2018-2023 across the State.

Security

- Limited available data showed that security costs at 100% PSH properties experienced a 250% cost increase during 2018-23, from $191 to $473/unit. Integrated PSH properties saw a $139/unit average increase, about 150% higher in 2023 than in 2018.
- The sharp rise in security costs at 100% PSH properties began in 2021, a year earlier than the emergence of financial distress for other factors. It coincided with the ongoing effects of widespread pandemic shutdowns and unrest in parts of the central cities caused by the murder of George Floyd.

Utilities

- Generally, landlord-paid project utility costs have risen more moderately than other factors and not universally across all property types and regions. 100% PSH and Section 8/202/811/RD projects reported increases just above or just below inflation while Integrated PSH and LIHTC properties saw increases of $186/unit and $50/unit above inflation, respectively.

Difficult Environment for Restructuring and Recapitalization

- The rise in interest rates for FHA-insured affordable housing mortgages from 2021 to 2023 approached 2 percentage points, putting great pressure on properties needing loans during this period. This rise reduced mortgage proceeds by about 19%.

Property Subgroups Experiencing Common Challenges

The following like-kind property subgroups experienced specific patterns of distress arising from the operating model or property location, or a combination of the two. The full report discusses each subgroup in detail.

- **Projects in Central-City Districts with Higher Public Safety Needs**
- **100% PSH**
- **Integrated PSH**
- **Section 8/202/811/RD (30% AMI)**
- **LIHTC with no Services**
- **Properties in Rural Minnesota**

Recommendations

Broader (Systems) Level Interventions – Goals and recommendations that would broadly affect regulated housing across the state or address a system that has wide-ranging impact:

- The ISG or a group of leading policy organizations should establish an ongoing, web-based, data-driven monitoring system for regulated housing across Minnesota.

- The ISG, the Coalition, or another similar collaborative should design and implement a semi-annual survey of housing providers throughout Minnesota to determine the number of individuals or households who would likely be candidates for supportive housing services but are not accessing such help currently.

- The Coalition should support the Department of Commerce and Minnesota Housing to partner with affordable housing providers and the insurance industry to collect data and assess the state of the insurance market and work to develop changes in law or regulatory practice that help affordable housing providers.

- The Coalition should encourage public funders to work quickly to identify mechanisms and policies that encourage private capital investment in affordable rental properties.

- A leading policy or funding organization should work with a consultant to develop an industry manual or technical guide for regulated housing in Minnesota that becomes a universal resource for policymakers, elected officials, providers, and anyone seeking to understand the industry.

Focused Interventions: Property Subgroups and Targeted Systems – Goals and recommendations focused on a particular type of affordable housing or localized issue:

- One or more leading housing advocacy and policy organizations should complete detailed research to understand the operational and financial aspects of the Integrated PSH model.
- Minnesota Housing should modify the 2026-27 QAP to suspend the awarding of more points for adding Integrated PSH to a building that otherwise has no PSH, until more research can be completed to understand this unique operating model and best position it for success. Housing providers recognize that Integrated PSH offers an important choice for residents of regulated housing, and they desire to make it work cost effectively.
- All Coordinated Entry (CE) stakeholders should prioritize simplifying the entire process for filling housing units with individuals from CE lists in order to foster higher efficiencies to speed up tenant placements.
- The Coalition should advocate for a convening of public safety organizations, housing providers, and other stakeholders to create public safety plans to protect residents living in regulated affordable properties located in areas of high crime and instability. The plans should move the onus for public safety away from housing providers and respect the dignity of all individuals living in the neighborhood.
- The Coalition should support the convening of major public funders, private lenders and investors, Minnesota Housing, and other leading bodies to create new funding sources for LIHTC properties without PSH, an essential component of the State's regulated housing supply.
- Minnesota Housing and leading public funders should: 1) help facilitate faster and easier refinancings and recapitalizations of RD program properties, and 2) create a small loan or grant program to address operating income shortfalls or help complete deferred repairs.