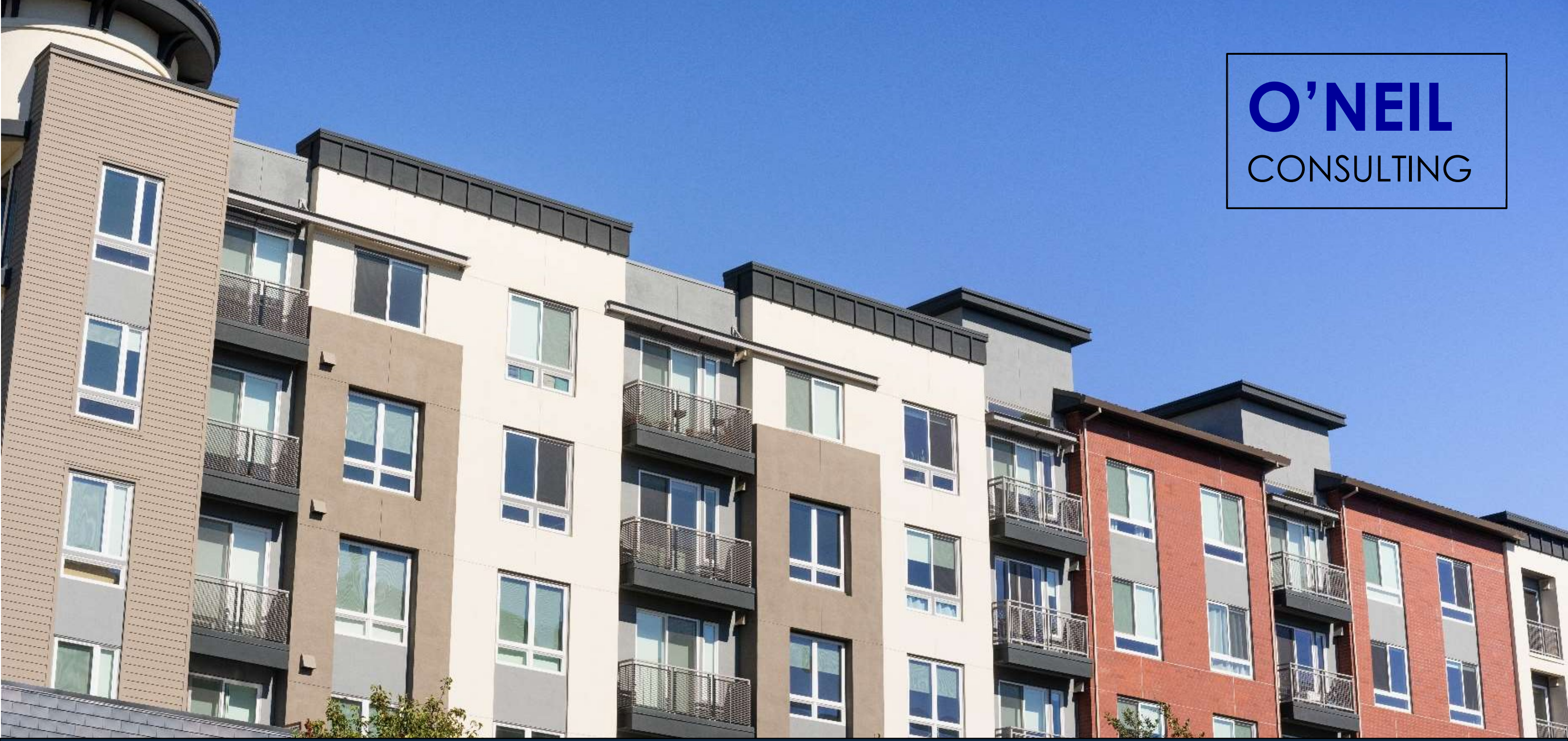

O'NEIL
CONSULTING

DISTRESSED PROPERTY DATA PROJECT

RESEARCH FINDINGS – QUANTITATIVE ANALYSIS

REPORT II: USING DATA TO CHARACTERIZE DISTRESS ON REGULATED PROPERTIES AND HOUSING PROVIDERS

February 2025

CONTENTS

I. INTRODUCTION

Recap: About the Distressed Property Data Project

The Minnesota Housing Stability Coalition ("the Coalition") assembled in the fall of 2023 to address the significant threats to low-income residents, rent-restricted properties, and entire affordable housing portfolios that resulted from the historic rise in inflation, sharp increases in interest rates, elevated operating and security costs, and reductions in rent collection since the COVID-19 pandemic. During the 2024 legislative session, the Coalition met weekly to receive updates about legislative progress and advise on strategy and priorities. More than 70 people from 36 organizations statewide contributed to this effort. In 2025, the Coalition is again taking a leading role in advising and helping guide legislative efforts to assist regulated housing in Minnesota.

To support the Coalition, the Family Housing Fund (FHF) and the Greater Minnesota Housing Fund (GMHF) initiated in April 2024 the Distressed Property Data Project ("the data project"), a nine-month research project designed to understand and measure the current state of distressed regulated housing in Minnesota.

Developing a Clear Picture of Distress Through Qualitative and Quantitative Analysis

The data project was completed in two main phases, the first comprising **qualitative interviews** with 35 housing provider staffers and other industry professionals in the summer of 2024, culminating in a research report. This effort identified 16 factors that have contributed to significant operational and financial distress across rent-restricted properties, like-kind property subgroups, and provider organizations in Minnesota. The second phase of research, a **quantitative analysis** of operational and organizational data, builds from the findings of the qualitative interviews and is presented in this report. The two reports presenting the qualitative and quantitative findings of the data project can be found online at: https://mnhousingstability.org/reports-and-resources/.

During both phases of the data project, the research consultant, Thomas O'Neil, provided periodic written summaries or held briefings to inform the Coalition, the Interagency Stabilization Group (ISG), and select members of the Task Force on Long-Term Sustainability of Affordable Housing (the Task Force), which convened from August 2024 through January 2025.

Broad-based Distress Revealed in This Research

As the following analysis proves, 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. The data used in this analysis included at least 88 regulated properties owned by for-profit entities, with more than 4,100 units. This group of properties and providers did not find immunity from the severe problems that affected non-profits. The external, societal, macroeconomic nature of the various distress factors meant that the entire regulated housing industry suffered. No operator was spared from some level of harm and tenants ultimately felt the negative impact.

Data Approach in This Report

To conduct quantitative analysis of distress on regulated housing in Minnesota, the research involved outreach to a variety of organizations to gather data on project operations and finances. The process used data directly from housing providers, government agencies at the county and state levels, and from producers of databases summarizing particular aspects of the regulated housing supply, including areas such as funding program participation and rules compliance. The research used provider data under confidentiality agreements.

The research compiled data from these various sources into several custom datasets of property and provider information, which were then used for analysis. Where a given property's operating information was described in two or more datasets, the research relied on the dataset that offered the most complete picture across the largest number of years in the 2018-23 period. In the end, the following sources provided the core material for the custom datasets developed for the analysis:

- **Files submitted directly from housing providers –** The research used approximately 500 files describing financial information from 16 Minnesota housing providers over a six-year period (2018-2023, inclusive). These files included property operating statements, real estate owned (REO) schedules, and annual audits of parent organizations or individual properties. The files received from housing providers yielded data on **12,570 units in 229 regulated properties** across the State during 2018-23.

- **Datasets from Minnesota Housing for properties participating in State funding programs –** Each year, Minnesota Housing (MN Housing) collects, analyzes, and summarizes audited financial statements for properties that utilize the Agency's first mortgage programs, are granted Agency-allocated low-income housing tax credits (LIHTCs), or are provided secondary (soft) funds. Following the Government Data Practices Act, MN Housing provided three data files covering property details and selected revenue and expense items for properties across Minnesota. On their own (for analysis in Section II), the MN Housing files yielded data for 15,256 units in 257 properties during 2018-23. After being de-duplicated against other sources and included in a larger custom database for analysis in Section III, the MN Housing files yielded data for **13,269 units in 227 regulated properties**.

- **Low Income Housing Tax Credit (LIHTC) compliance records –** The research used datasets with vacancy information and basic project details from LIHTC sub allocating agencies in Minneapolis, St. Paul, Washington County, and two sub-allocators in Greater Minnesota. This supplemented or complemented data from providers and MN Housing.

- **Hennepin County's Repair and Grow funding application materials –** Hennepin County created a grant program to assist affordable housing providers in stabilizing finances and preserving existing affordable housing within the county. The RFP generated responses from 16 organizations in the fall of 2024. The application asked for consent from individual providers to allow data sharing on an anonymous basis to support the analysis of housing distress factors. Hennepin County provided application materials from 14 respondents on a confidential basis.

- **Housing and Urban Development (HUD) –** HUD websites supplied datasets for regulated properties funded primarily through the LIHTC and Section 8 programs and those with an FHA-insured multifamily mortgage. This latter data formed the basis for measuring interest rate stress on affordable properties.

- **Streams –** HousingLink of Minneapolis maintains an extensive website database of regulated properties across Minnesota. The analysis accessed the website for supplementary project details not included in provider files.

Important Explanations

Data Variability – Data provided by housing organizations varied considerably in the manner, extent, and consistency of reporting. Several providers included project data only for broader revenue and cost categories such as total other revenue, total repair and maintenance costs, and total administration. Other organizations provided extensive, line-item tallies of specific revenue or expense categories. The analysis for each distress factor in this report used whatever mix of data sources provided adequate time-series data to yield conclusions on distress. The analysis excluded data for properties that were in the initial lease-up stage between 2018-2023.

Housing Regions – In categorizing the location of units, the research followed the scheme for the MN Housing data: Minneapolis & St. Paul, Twin Cities suburbs, Greater Minnesota job centers, and Greater Minnesota rural areas.

Project Classifications: Service Level/Funding – The MN Housing data categorized properties into three groups: 1) LIHTC-no permanent supportive housing (PSH), 2) mixed PSH[1] (also called "integrated PSH"), and 3) properties with 100% PSH. LIHTC and mixed PSH properties in the database utilize a MN Housing first mortgage loan while 100% PSH properties utilize subordinate / secondary funds that require no debt service payments.

The analysis in this report categorized regulated housing in these three categories and added a fourth: properties with units primarily funded through project-based Section 8, 202, 811 or Rural Development (RD) programs but without supportive housing units.[2] These latter properties all share the revenue structure of tenant pay + government subsidy payment. This is an important distinction with regard to revenue collection, as well as tenant qualification and funding compliance requirements. The final project classifications for this analysis are as follows:

<u>Properties with no Formal PSH:</u>

- LIHTC with no Services
- Project-Based Section 8/202/811/RD

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[1] Per MN Housing, 74 of 243 properties in the dataset were categorized as "mixed PSH" in 2023. The number of PSH units in those properties ranged from 3 to 44, averaging 11% of the project total. Nearly 27% of all PSH units in the MN Housing dataset were part of mixed PSH properties, with remaining 73% found in 100% PSH properties.

[2] MN Housing does not explicitly identify Section 8/202/811 or RD projects in its data. Undoubtedly, some of the developments listed in the MN Housing datasets offer units with these types of subsidies, particularly in the 100% PSH and mixed PSH categories. Section 8/202/811/RD with no formal PSH is covered with data directly from providers.

<u>Properties with Permanent Supportive Services:</u>

- 100% PSH
- Integrated PSH

Benchmarks for Comparison – **<u>Inflation:</u>** This analysis used the annual consumer price index (CPI) measure of inflation as a benchmark for assessing changes to project revenue and expense items. In general, properties performing in distress would report lower revenue growth than inflation and/or expense growth in excess of inflation. The analysis for distress factors shows the per-unit dollar differences between actual changes in revenues and expenses from 2018-23 to the expected changes if these same items had simply cost trended with inflation.

The analysis utilizes the CPI for the Midwest region (12 states including Minnesota) as opposed to the Twin Cities MSA measure. The Midwest region figures show slightly higher inflation since 2018 (21.6% vs. 19.5% cumulative gain through 2023), and the large Midwest area is more likely to represent Minnesota as a full state of urban and rural residents, not just residents of one larger metropolitan area such as the Twin Cities.

<u>Project Vacancy</u>: No organization measures vacancy on a regular basis for Minnesota's broader multifamily housing stock. The largest, regular survey of multifamily housing in any part of the State comes from Marquette Advisors and covers the core counties of the Twin Cities metro area. This survey is completed quarterly and included 184,481 market-rate, general-occupancy units in 4th quarter 2023. This survey is considered to be a valuable, broad-based vacancy benchmark for comparison to trends in the regulated housing stock across the State.

II. SUMMARY MEASURES OF STATEWIDE PERFORMANCE: REVENUES, EXPENSES, NOI

Introduction

This section presents trends for three summary measures of project performance for properties across Minnesota from 2018 to 2023: revenues, expenses, and net operating income (NOI). The data comes from MN Housing datasets of Agency funding activity for three property types: 100% PSH, mixed PSH (or "Integrated PSH"), and LIHTC-no services. This is the only data source available that covers properties across the State with common definitions of revenues, expenses, and NOI.[3]

It is especially important to note that the analysis in this section does not measure the true financial picture of regulated housing in Minnesota. The project NOI summarized in the MN Housing data does not include payments that many properties are often obligated to pay such as debt service, deposits to replacement reserves, debt service reserves, and operating deficit reserves, and fees to the parent organization for asset management, property management, and investor returns. **Accounting for these payments, a large percentage of regulated properties in Minnesota show clear distress with negative cash flow, often requiring the parent organization to pursue property-level interventions.**

The analysis of property cash flow in the next section presents an accurate measurement of the financial distress at regulated housing properties in Minnesota. It accounts for debt service and reserve deposits that properties are obligated to pay over and above day-to-day operating costs.

Explanations

- Total revenue cited in the MN Housing data is representative of all sources, not just apartment rent.
- Total expenses do not include debt service payments or deposits to reserves for replacement accounts.
- The NOI figures represent the difference between total revenues and total expenses. This is the amount of money produced by daily operations, but before other obligations for financing, reserves, and more.

The next page in this section presents trends for the properties in the MN Housing data consolidated as one, statewide housing portfolio. The subsequent pages examine revenues, expenses, and NOI for the three project categories in the dataset: 100% PSH, Integrated PSH, and LIHTC with no services. The MN Housing data analyzed for this section included 227 properties and 13,269 units on average per year.

[3] With files directly submitted by providers, revenue and expense totals for a set of property financials from one organization may have included unique items that were not included in the totals from other organizations. For example, total revenue from one provider may have included insurance claim reimbursements, transfers from the parent organization, commercial income, or other non-housing revenues. A second provider may have cited just one total for "other income" with no details of its components.

Summary Measures Statewide:
Revenue, Expense, and NOI Trends

Distress Patterns per the Data:

All graphs: 15,256 units in 257 projects average per year

Revenue (top graph):

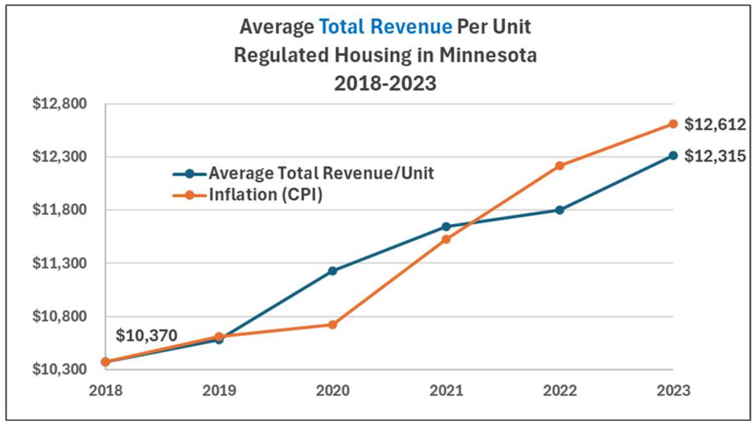
- Average revenue in the MN Housing dataset should have grown by $2,242/unit (22%) between 2018 and 2023 to keep up with inflation. Instead, average revenue grew by only $1,946/unit (19%).
- This shortfall translated to $296/unit average over the period, with the lag occurring after 2021, consistent with the timing of rent collection difficulties, rising vacancies, and increased bad debt losses expressed by interviewees.

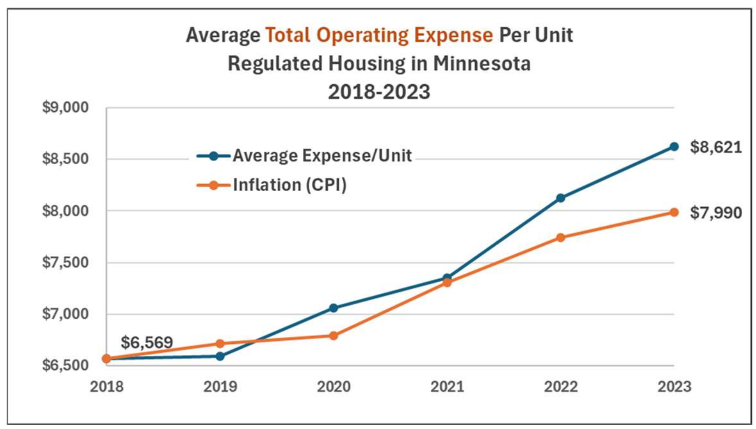
Expenses (middle graph):

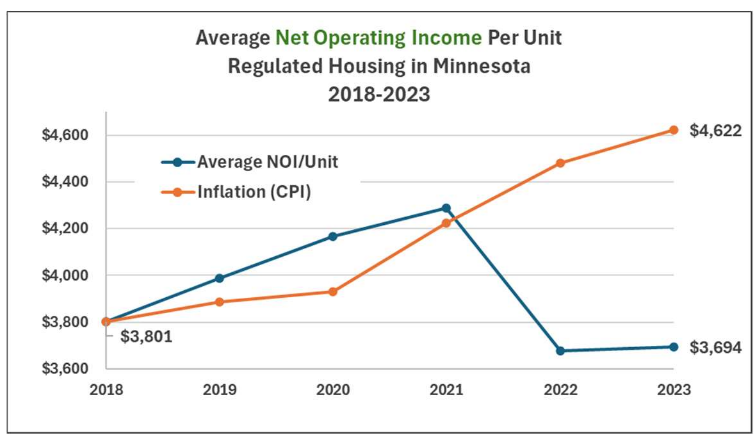
- Average project expenses for this dataset –before debt service and replacement reserve deposits– grew by $2,052/unit during the five-year period, an increase of 31%. Following inflation, expenses should have grown by only $1,421/unit (22%).
- Expense growth above inflation contributes a notable level of stress to many properties across Minnesota.[4]

Net Operating Income (bottom graph):

- Average project NOI for this statewide property group tracked above inflation through 2021, then dropped sharply in 2022.
- Average project NOI showed an actual decline of $107/unit over the period. To counter this loss and keep up with inflation, average project NOI should have grown by $928/unit. **For the two years of negative NOI in 2022 and 2023 of nearly $1,000/unit/year, applied to only the 26,000 units analyzed in this report, the loss totals roughly $52,000,000 in resources to these properties and provider organizations.**







[4] A detailed examination of the MN Housing data reveals that total operations and maintenance (O&M) accounted for 56% of the expense growth in this portfolio during the period ($1,149/unit), while insurance accounted for 13% ($270/unit). These two expense factors on their own increased by 49% and 78%, respectively, from 2018 to 2023.

Summary Measures By Property Type

Revenue Trends

Distress Patterns per the Data:

LIHTC with no PSH:

- Per MN Housing data, revenue for LIHTC properties tracked closely to inflation, growing by 20% in five years (vs. 22% for inflation). However, the average revenue at LIHTC properties lagged inflation by $172/unit over the period.
- This finding is consistent with interview comments. LIHTC properties, with rents typically set for incomes at 50% to 60% AMI, fared much better with revenue collection than properties primarily serving residents at 30% AMI income, and those providing supportive services.

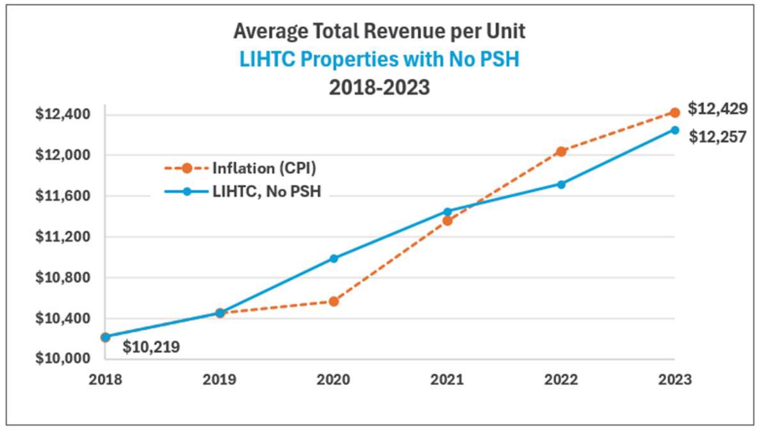
Integrated PSH:

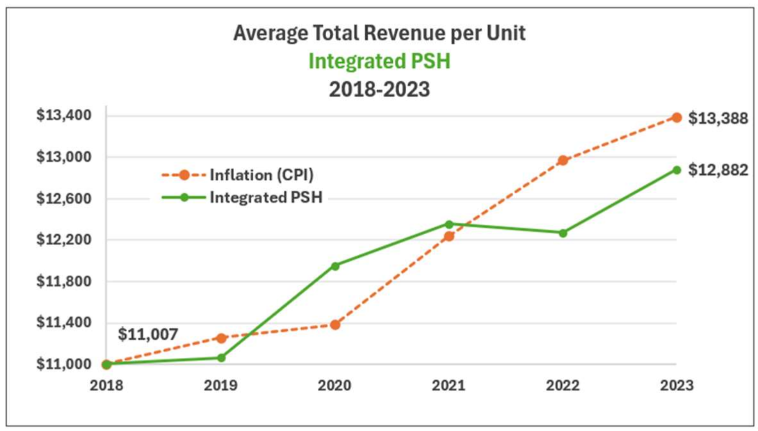
- The Integrated model of PSH showed the most revenue stress of the three housing types covered by MN Housing data. Revenues grew at 17%, about 5 percentage points less than what was needed to keep up with inflation. In dollars, average revenue lagged inflation by $506/unit.

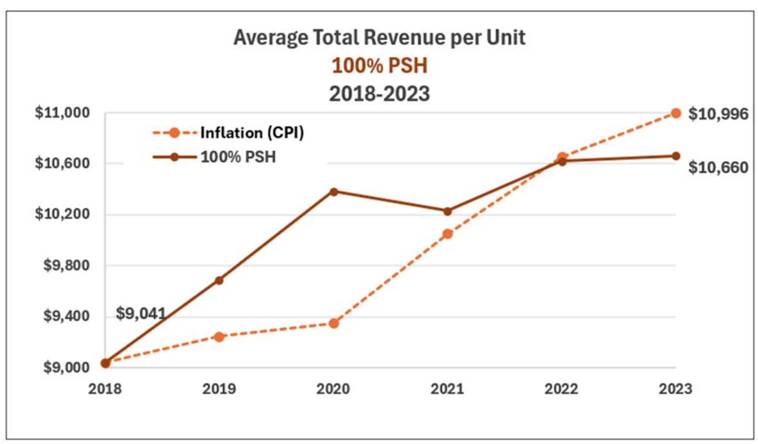
100% PSH:

- Average per-unit revenue for 100% PSH properties showed growth above inflation through 2021, then a flattening in 2022-23, ending at $336/unit below the level needed to meet inflation.
- Actual dollar revenue growth for 100% PSH projects over five years was $1,619 per unit, less than Integrated PSH ($1,875/unit growth) and LIHTC ($2,038/unit growth).
- This data supports comments from 100% PSH providers about great difficulty in rent collections in 2022 and 2023. Difficulties started with rising rent non-payment during the pandemic eviction moratoria, then became rooted in financial and situational struggles for many low- and very-low-income tenants, who were disproportionately affected by the social isolation from pandemic shutdowns, escalating crime in certain areas, and reported higher levels of drug use within the community.

All graphs: 15,256 units in 257 projects average per year







Summary Measures By Property Type

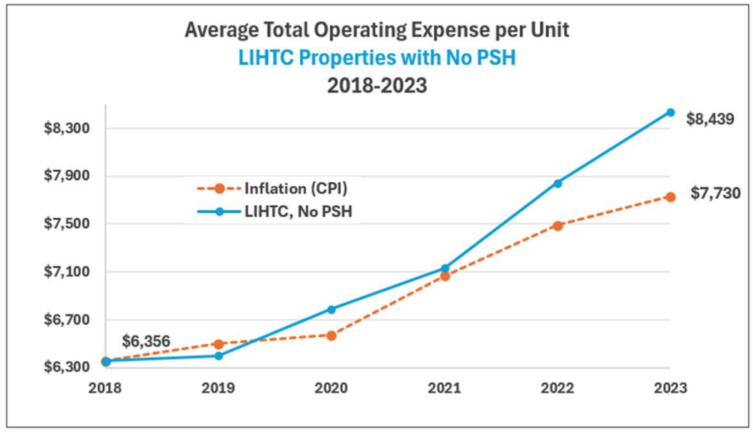
Expense Trends

Distress Patterns per the Data:

All graphs: 15,256 units in 257 projects average per year

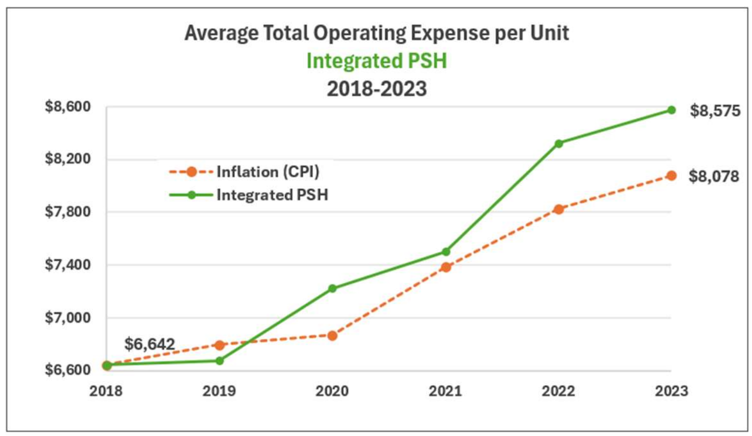
LIHTC with no PSH:

- LIHTC properties in the MN Housing dataset saw average annual expense growth of $2,083/unit or 33% during the five-year period. This exceeded inflation by 11 percentage points (pp), or $709/unit. This is clear evidence of substantial operating cost distress, and consistent with interview comments about rapid wage increases for staff of all types, costlier insurance, and higher costs for all types of supplies and services.



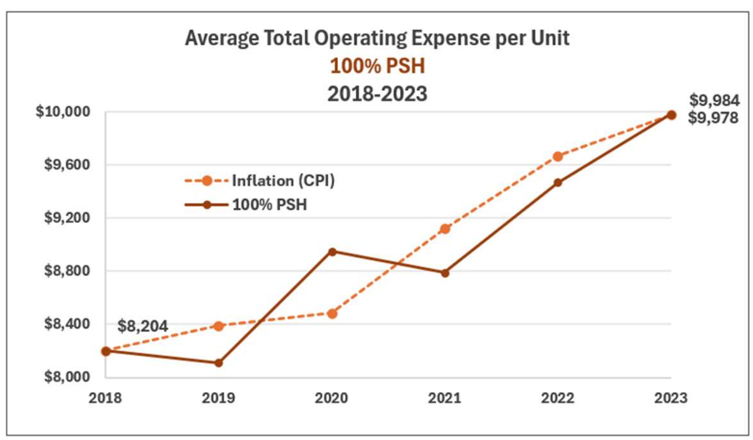
Integrated PSH:

- Expense growth for Integrated PSH properties in this sample trended similarly to LIHTC properties, with expense growth of $1,933/unit or 29% between 2018 and 2023. Expense growth exceeded inflation by nearly $500/unit, contributing to substantial operating distress.
- Integrated PSH properties operate more like LIHTC buildings than 100% PSH buildings. On average, buildings that offer integrated supportive housing dedicate 11% of units toward PSH. Many reported that it is more costly on a per-person basis to serve this relatively small population that has significant social service needs. With insufficient funding and misaligned supportive services, providers find it nearly impossible to meet growing needs and deliver the best outcomes for PSH residents.



100% PSH:

- Expense growth for 100% PSH projects in the MN Housing dataset tracked almost exactly with inflation ($6/unit higher).
- The data reveals the high cost –approximately $10,000 per unit– of the 100% PSH model, reflecting support services for all tenants and 24-hour front desk staffing. Per this data, 100% PSH properties cost roughly $1,500 more per unit to operate annually than either LIHTC or Integrated PSH properties.



Summary Measures By Property Type

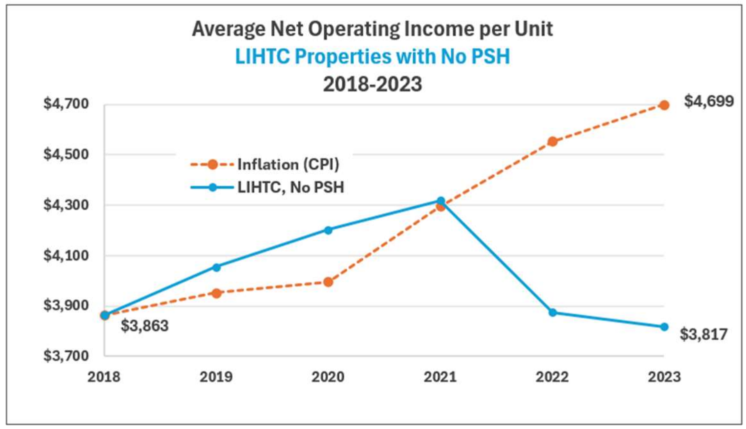
NOI Trends

Distress Patterns per the Data:

All graphs: 15,256 units in 257 projects average per year

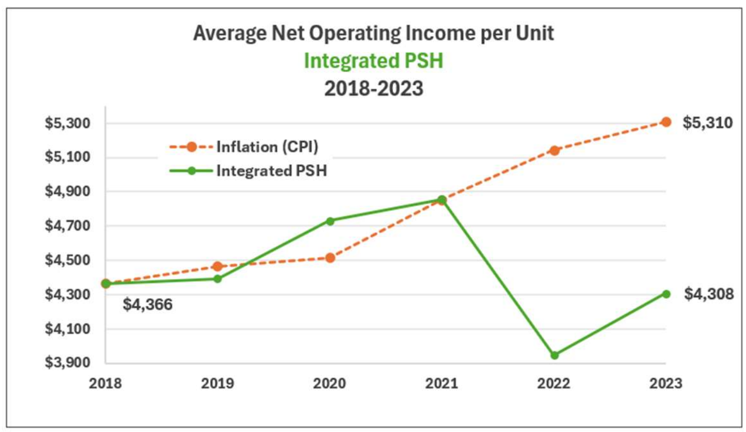
LIHTC with no PSH:

- Average NOI for LIHTC properties in the MN Housing programs dataset decreased in 2022, falling 10% over two years, from $4,318 to $3,817 per unit. This confirms interview findings that 2022 was the first full year with high financial stress on housing operators.
- For the full period, average NOI at LIHTC properties backslid by $46 to just over $3,800/unit. To keep pace with inflation, the average NOI should have been about $4,700/unit, more than $880/unit higher.



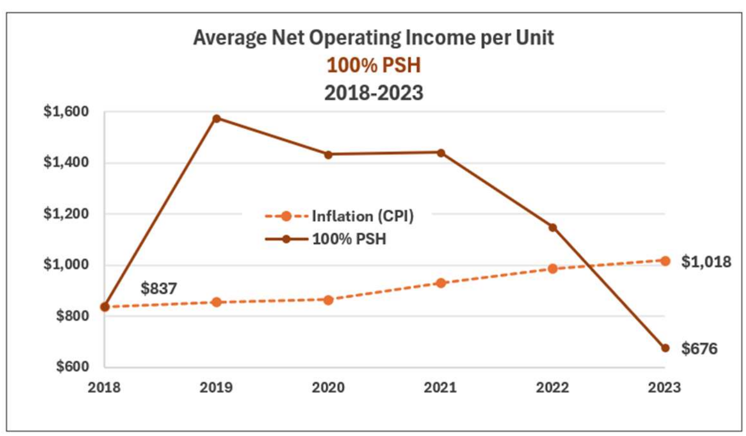
Integrated PSH:

- Integrated PSH's NOI trend closely followed that of the LIHTC group. The average Integrated PSH project NOI dropped sharply in 2022 (more than $900/below 2021) and ended 2023 more than $1,000/unit short of where it should have been to meet inflation.
- Half of the stress in Integrated PSH during the period came from revenue shortfall ($505/unit) and half from excessive expense growth ($497/unit).



100% PSH:

- The NOI for 100% PSH properties dropped in actual dollars by $160/unit during the period, ending 2023 at a meager $676/unit. This is $342/unit below where it should have been to meet inflation.
- More than 98% of the NOI shortfall at 100% PSH properties was caused by lagging revenues ($336/unit) while 2% was driven by higher expenses($6/unit). Difficulties with overall revenue collection at 100% PSH buildings was heavily cited in interview comments.
- The low level of NOI before replacement reserves and debt service demonstrates why 100% PSH properties cannot assume first mortgage debt. There are simply not enough available operating funds to service even small amounts of debt.



III. SPECIFIC AREAS OF DISTRESS: PROPERTY OPERATIONS

Introduction

This section presents analysis for nine, property-level distress factors that the research measured using the consolidated data from providers and other datasets, including those from MN Housing. These factors were identified in the qualitative interviews phase of the data project. This analysis covers the period 2018 through 2023.

This section is structured accordingly:

- An explanation of the distress factors measured with available data and those factors which were not
- One-page presentations of each distress factor with charts and narrative to explain impacts over 2018-23
- Summary charts presenting all nine factors and their dollar impacts to operations by project type and region

Distress Factors That Were Measured

- **Rent Collection Loss** – This is the difference between the gross potential rent (GPR) for all units (at 100% occupancy at the asking/program rent) and actual (net) collections of rent, accounting for various types of vacancy (physical vacancy, rent underpayment or non-payment, concessions, and bad debt write-off). This measure reflects the sum total of difficulty in realizing income from market potential and tenant payments.

- **Physical Vacancy %** – Physical vacancy measures the percentage of units that sit vacant but are otherwise rentable over a full year's worth of occupancy potential. Physical vacancy could reflect a lack of market interest for a particular property or unit due to negative neighborhood perceptions, or delays in finding and qualifying tenants for specific units, especially with PSH properties. As an example, delays due to difficulties matching a tenant with an appropriate PSH unit would increase physical vacancy.

- **Bad Debt** – This is the amount of rental income and other tenant payments that the operator deems uncollectible after a certain period, such as 90 or 120 days. The debt could represent prior year rental activity but is typically subtracted from the current year's GPR and is included in the total economic vacancy or rent collection loss metrics. Persistent bad debt write-off is a measure of continuing financial struggles among tenants.

- **Cash Flow after Debt Payment & R4R Deposits** – This represents property NOI minus required debt service payments and annual deposits to the reserves for replacement account (R4R). This is a standard measure of full property operations. **Cash flow represents the lifeblood of a property. If cash flow falls below zero, the parent organization will need to provide funds or tap into reserves –if available– to counter the operating loss.** The MN Housing data did not include debt service and deposits to replacement reserves, so cash flow measured in this section relied on provider data only.

- **Operating, Repair, and Maintenance (O&M)** – This comprises all line items on a typical operating statement that cover the range of activities needed to keep a property fully operational and maintained, including janitorial and maintenance salaries, third-party subcontractors, vendors, and all manner of supplies and parts. This category also includes direct costs to turn over units from one tenant to the next, an area of reported high distress (damages and length of unit downtime) in interviews.

- **Property Insurance** – The analysis only considers the cost for annual premiums to obtain coverage and does not include deductibles operators would pay on a claim or payments from insurance companies in response to a claim request. Cost pressure from insurance, including a combination of rising premiums, higher deductibles, and inferior insurance offerings (at higher costs), was cited by all interviewees.

- **Security** – This line item includes direct costs for contracted services and equipment, and staff who were hired in a security capacity. Few providers isolated this item on financial statements and the data is limited to Twin Cities properties, with an average of 50 properties and 2,238 units analyzed per year. Despite the relatively small sample size, the data shines light on cost trends in the central cities, where interviewees cited the greatest security distress from neighborhood unrest, crime, and increased drug use since COVID began. According to interviewees, higher security costs would correlate with more unit turnover, higher building repair & maintenance costs, and increased turnover of on-site staff.

- **Utilities** – Interviewees made very few comments about utilities in the qualitative portion of this research, but subsequent discussions with providers and consultants during the data portion of the project indicated that these costs could be rising at levels above inflation. Utilities were analyzed as one total (including water/sewer/trash, gas, and electricity) as reported by MN Housing and as reported by most providers. These totals cover utilities for common areas and vacant units.

- **Difficult Environment for Restructuring and Recapitalization** – For this factor, the analysis measured the distress from interest rate increases for FHA-insured affordable multifamily loans in Minnesota, as tallied by HUD. Rising interest rates, as represented by this data, produce a loss in mortgage proceeds for owners of regulated housing seeking loans for refinancing, repairs and upgrades, or new construction.

Distress Factors Not Measured

- **Payroll Costs: On-site, Janitorial, and Repair & Maintenance** – The analysis revealed that total payroll costs have likely been obscured by staff losses. Many properties showed stagnant cost changes in 2022-23, but this is likely due to a loss of workers, not a cost stabilization of salaries and benefits. Without headcount figures, this analysis cannot fully describe distress from payroll from year-to-year. The loss of staff was repeatedly cited as a high distress factor by interviewees, contributing to delays in the timely turnover of units and difficulties completing day-to-day property management and resident relations tasks.

- **Property Management** – The analysis found too many variables in property management arrangements to render clear conclusions on cost distress. The most notable issues are the switch from third-party management to self-management with parent organization support, unidentified cost-sharing arrangements between properties, and undisclosed fee structures.

- **Unit Turnover, Evictions, and Compliance Costs** – These specific activities were not identified on financial statements by providers.

- **Delays in the Process of Filling Units with Individuals on the Coordinated Entry (CE) List** – This factor requires a tally of time lost or a translation of a time delay into a dollar amount. Provider documents did not offer this level of analysis. Distress from this factor would be reflected to a certain degree in physical vacancy and/or rent collection loss for the 100% PSH and Integrated PSH property subgroups.

- **Supportive Services Funding** – In all but one case, operators did not break out resident services funding at individual properties. Further examination of other operating line items did not produce sufficient clarity on this issue. It may stem from funding being awarded to the operator parent and funds flowing down in broader, revenue categories or as offsets to specific expense items such as payroll. Regardless, this is a systemic challenge cited by many interviewees that requires measuring the full need for supportive services across the universe of regulated properties in comparison to all available funding sources.

- **Reserve Accounts** – The analysis revealed generally growing balances for nearly all property types and regions, with many rising above inflation. This runs counter to some interview comments citing a draining of balances but is consistent with comments where some accounts are not accessible due to lender control over the use of funds. This issue requires further study. Distress related to reserves could still be occurring at the property level because parent organizations are prioritizing reserves funding to maintain compliance with a loan covenant to avoid triggering a technical loan default. Such prioritization of reserve funding may come at the expense of repairs or other key operations at the site level.

- **Public Funding Sources and Processes** – This is a systems-level issue that would not be reported on property financial statements.

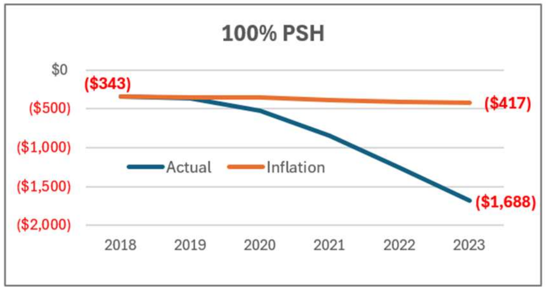
Rent Collection Loss

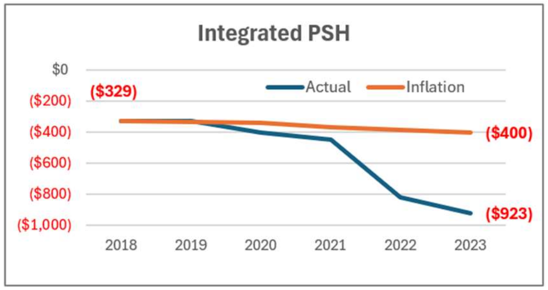
Distress Patterns per the Data:

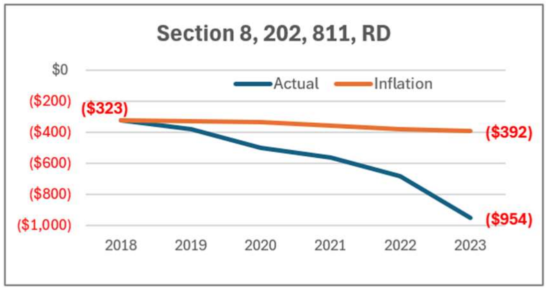
- Rent collection loss was cited as a high distress factor universally by interviewees. The only factor presenting roughly equal distress was operating & maintenance costs, a broad category encompassing many operational line items.
- All property types showed notable erosion in rent collection, each losing between 2 to 5 times more rent in 2023 than in 2018.
- 100% PSH as a group displayed a remarkable worsening in rent collection of $1,345/unit on average during the period. This unsustainable figure equates to 15% of the 2018 total project revenue figure cited for 100% PSH in the MN Housing data ($9,041/unit).
- Integrated PSH and Section 8/202/811/RD properties both saw rent collection loss worsen by roughly $600/unit, about three times worse in 2023 than in 2018. LIHTC properties fared the "best," with rent collection loss "only" worsening by $561/unit, roughly $390/unit higher than the inflation figure.
- Rent collection loss was the most severe in the Twin Cities. The central cities and Twin Cities suburbs each saw rent loss worsen by $1,000/unit whereas rural areas and job centers in Greater MN saw collection loss degrade by about $150-$180 per unit. This research did not reveal why there was such a notable difference between urban and rural areas.

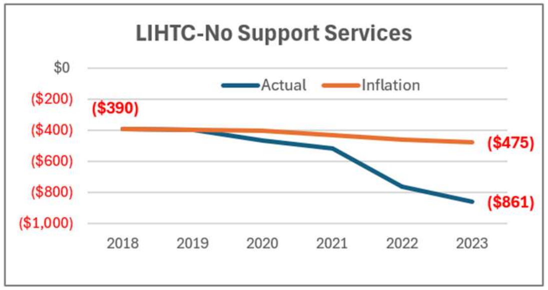
Data Sources: All graphs: Property operating data submitted to MN Housing or O'Neil Consulting, averaging 418 properties and 24,493 units analyzed per year. Inflation: Midwest Region CPI, Bureau of Labor Statistics.

Trends by Service Level ($/unit/year)

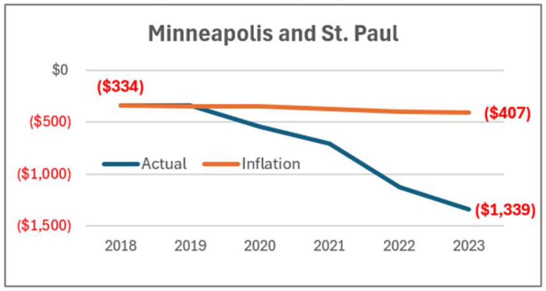


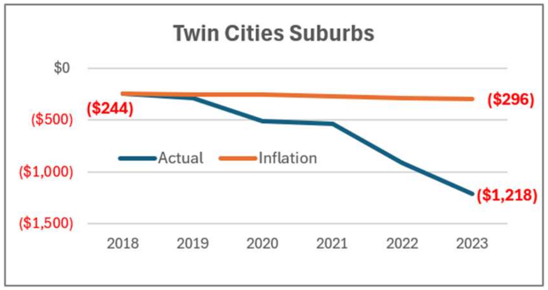


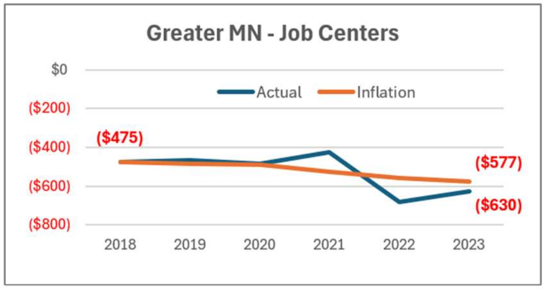


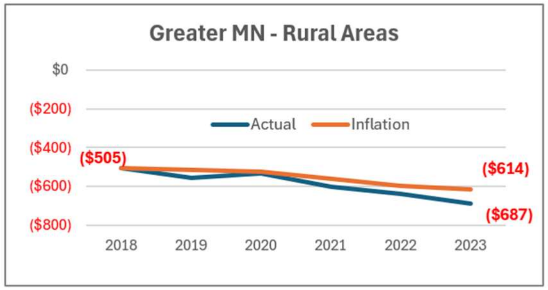


Trends by Region ($/unit/year)









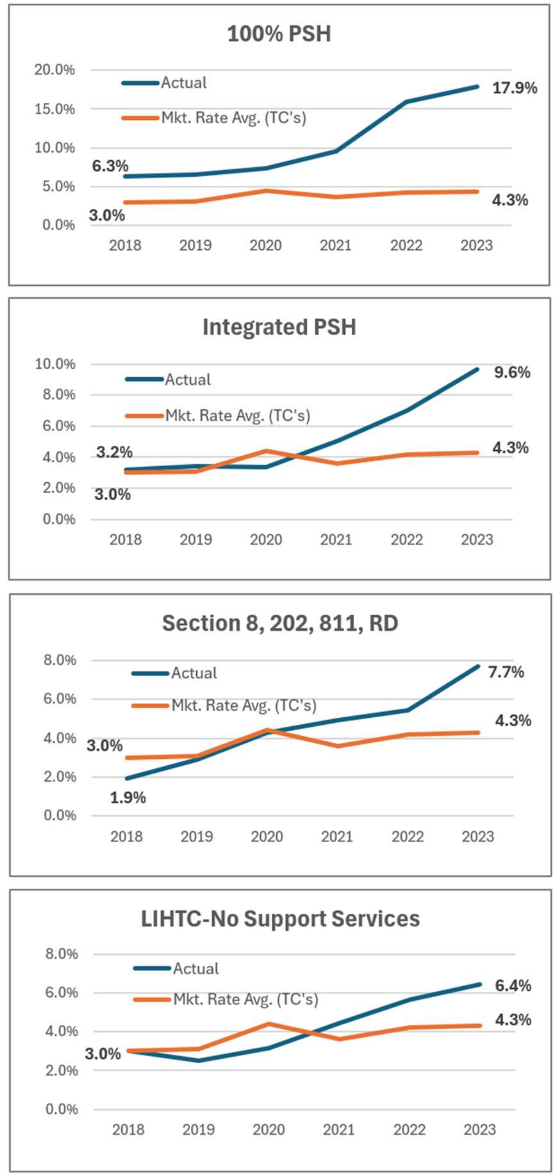
Physical Vacancy

Distress Patterns per the Data:

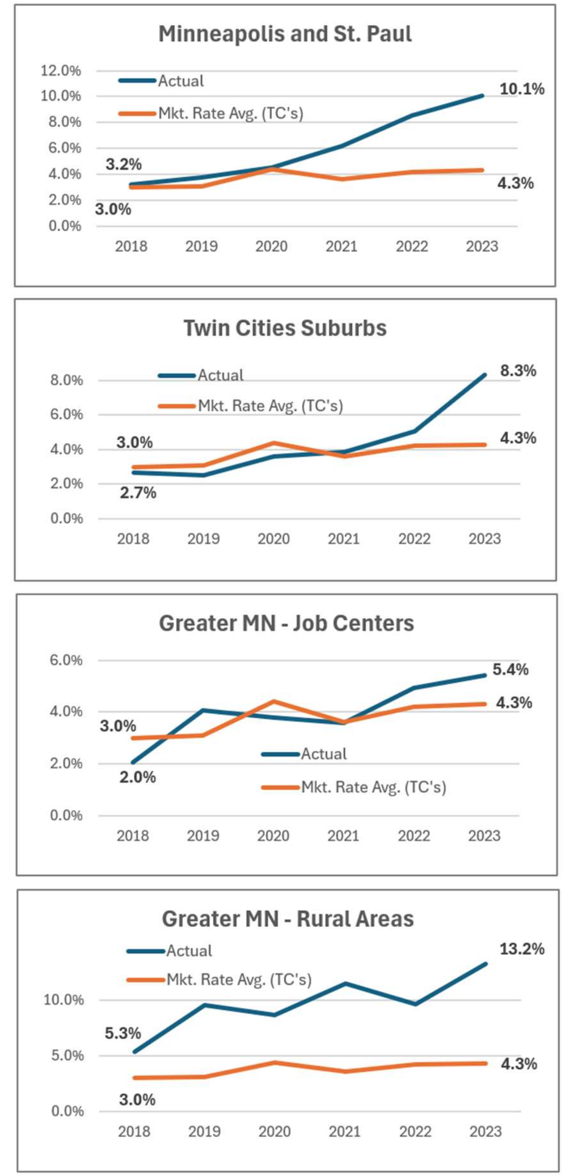
- Substantial vacancy problems hit all affordable property types and regions starting in 2021-2022.
- PSH properties as a broad group saw a tripling in vacancy from 2018 to 2023: from <u>6.3% to 17.9%</u> for 100% PSH projects and from <u>3.2% to 9.6%</u> for Integrated PSH. This confirms interview comments about delays in placing individuals from CE lists, a lack of staff to turn over units, and higher crime in the Twin Cities urban core, where 100% PSH is more likely to be located.
- Properties with direct government subsidy such as Section 8 also showed high distress levels during the period, with vacancies approaching 8% by the end of 2023.
- Vacancies for affordable units in Minneapolis & St. Paul exceeded Twin Cities market-rate levels, hitting 10% by 2023. This tracks with provider reports of crime and security issues driving vacancies in the urban core.
- The trend for Greater MN job centers revealed a tight affordable housing market, just 1 percentage point above the Twin Cities market-rate vacancy average. Such job centers have high demand for housing and scarce new production.
- Conversely, Greater MN rural areas have steadily shown the highest vacancies of all regions, at 13% in 2023. Providers in rural areas cited declining population, small job markets, and poor unit condition as key factors.

Data Sources: <u>All graphs</u>: REO schedules submitted to O'Neil Consulting, averaging 210 properties and 12,842 units analyzed per year. <u>Market-rate vacancy</u>: Marquette Advisors, 4th Quarter *Market Trends* reports.

Trends by Service Level (%/unit/year)



Trends by Region (%/unit/year)



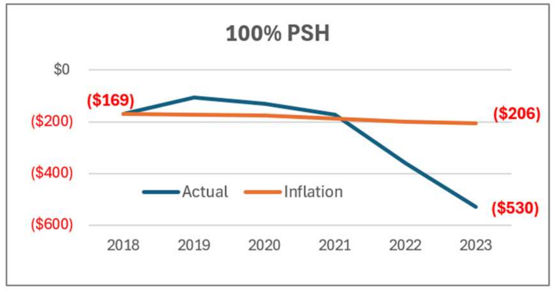
Bad Debt

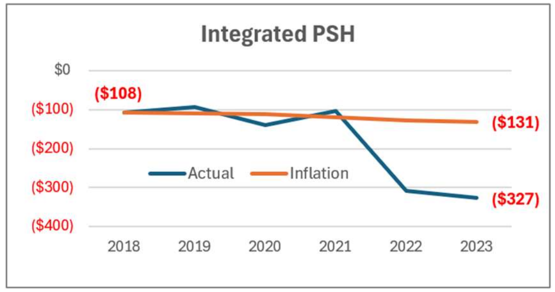
Distress Patterns per the Data:

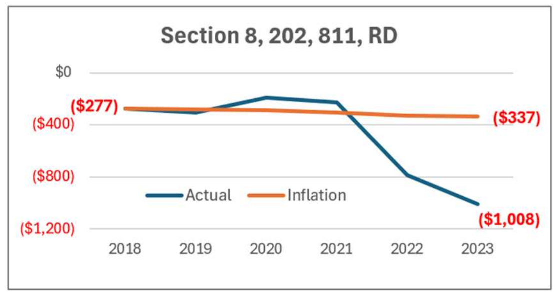
- With the exception of job centers in Greater MN, bad debt worsened notably among all property types and regions. This echoes comments from interviewees about high levels of rent non-payment during the eviction moratoria and the lingering patterns of poor rent collection after expiration of the moratoria. Bad debt loss turned sharply worse beginning in 2022 in general.
- Properties with Section 8/202/811/RD subsidy were hit the hardest, with loss from bad debt degrading by $731/unit during the period. This reflects lower payments in the tenant-portion of rent, which occurred frequently during the eviction moratoria. After the moratoria expired, many residents at or below 30% AMI income experienced acute stress from rising costs for everyday items, putting further pressure on their ability to pay rent and other fees to landlords. Bad debt loss among this subgroup hit $1,008/unit by 2023, clearly unsustainable for operators.
- 100% PSH properties showed the second-highest level of bad debt loss from 2018-23, worsening by $361/unit. This reflects interview comments about rent payment difficulties among those with the very lowest incomes.
- Regionally, bad debt loss was more acute in the Twin Cities than throughout Greater MN, per this data. Bad debt worsened by $317/unit among projects in the central cities and $202/unit for those in the suburbs.

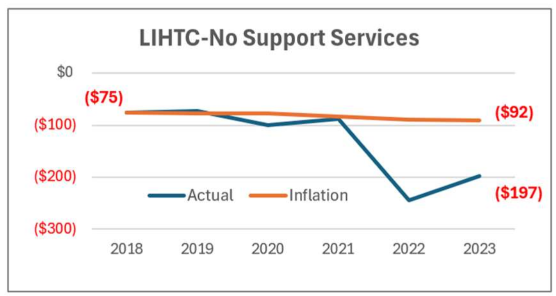
Data Sources: All graphs: Property operating data submitted to MN Housing or O'Neil Consulting, averaging 278 properties and 16,547 units analyzed per year. Inflation: Midwest Region CPI, Bureau of Labor Statistics.

Trends by Service Level ($/unit/year)

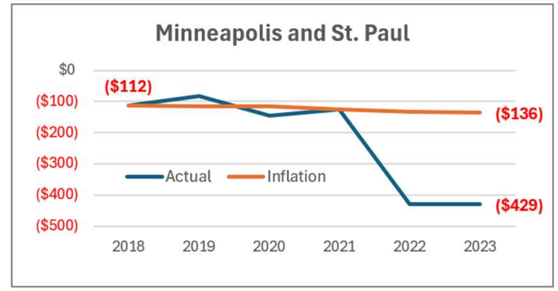


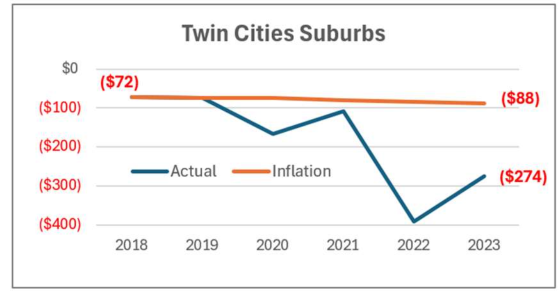


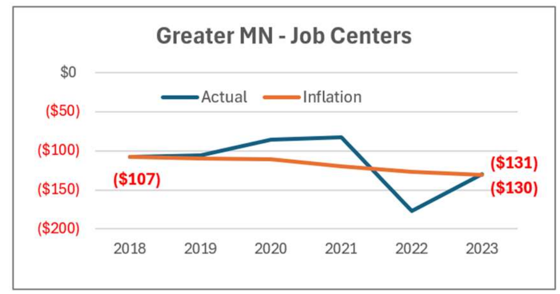


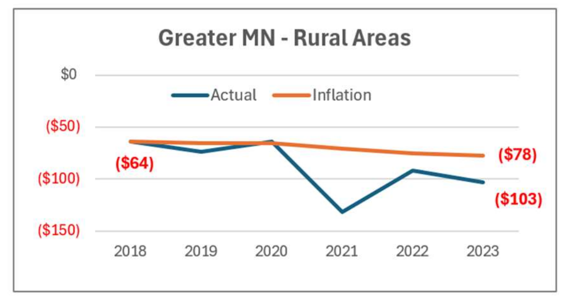


Trends by Region ($/unit/year)









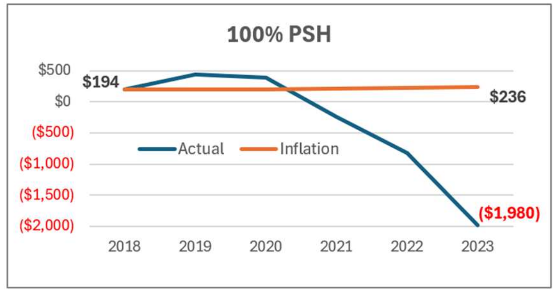
Cash Flow after Debt Service & R4R Deposits

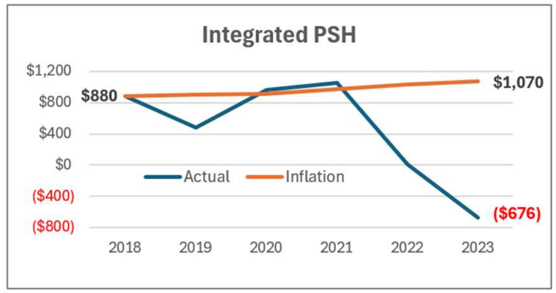
Distress Patterns per the Data:

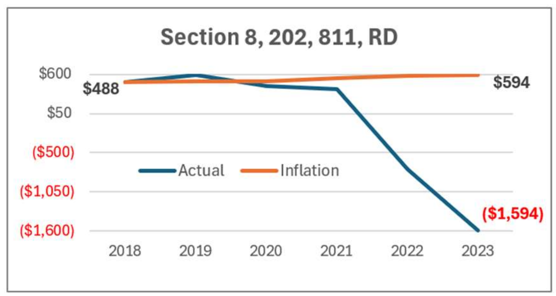
- Project cash flow covers all revenues and expenses, required mortgage payments and deposits to replacement reserves.
- From housing provider data, average cash flow per unit declined notably across all property types and regions, with the exception of rural MN (insufficient data for analysis). **Across 11,408 units in this analysis, average cash flow dropped by $1,875/unit from 2018 to 2023.**
- 100% PSH and Section 8/202/811/RD properties showed the most severe hits to cash flow between 2018 and 2023, each declining by roughly $2,100-$2,200 per unit, falling from above breakeven to far below it on average. Both property types serve the lowest income tenants of the four analyzed, and this group suffered the worst from pandemic isolation, crime, and the drug epidemic.
- By region, Minneapolis and St. Paul showed the largest distress, with average cash flow dropping by $2,100/unit to end 2023 at -$1,537/unit. This reflects the combined challenges of 10%+ vacancy, ~15% rent collection loss, notable rises for all types of operating costs, and elevated security costs in many core areas.
- **Applied to the full universe of units analyzed in this report (roughly 26,000, including MN Housing datasets), $1,875/unit cash flow loss equates to roughly -$49 million.**
- **When cash flow falls below zero, the parent organization is obligated to provide funds directly to the property or tap into reserves –if available– to counter the operating loss.**

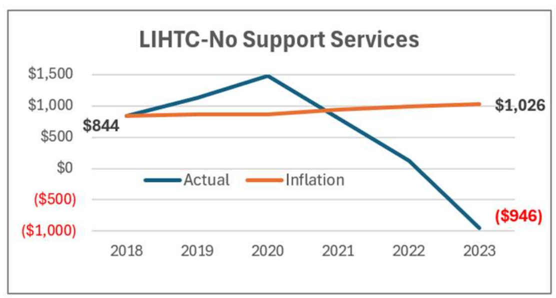
Data Sources: All graphs: Property operating data submitted to O'Neil Consulting, averaging 177 properties and 11,408 units analyzed per year. Inflation: Midwest Region CPI, Bureau of Labor Statistics.

Trends by Service Level ($/unit/year)

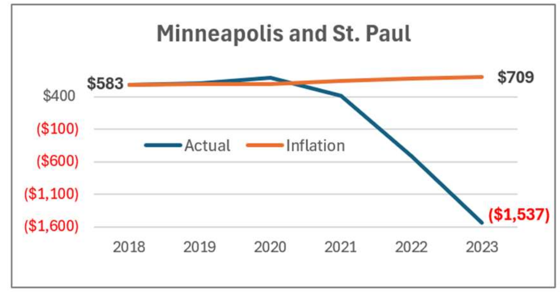


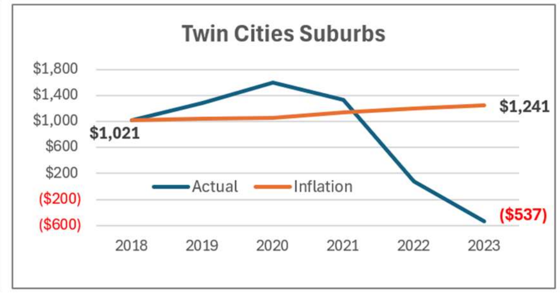


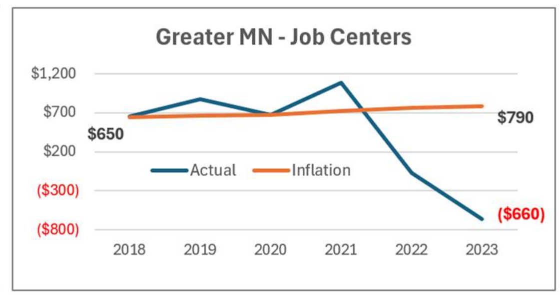


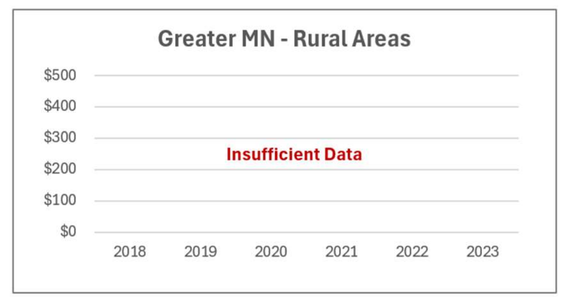


Trends by Region ($/unit/year)









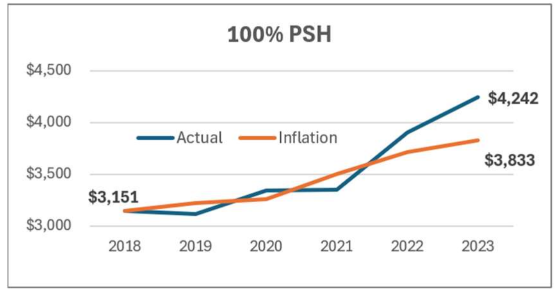
Total Operating, Repair, & Maintenance (O&M)

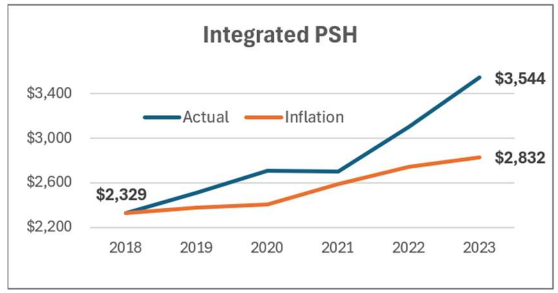
Distress Patterns per the Data:

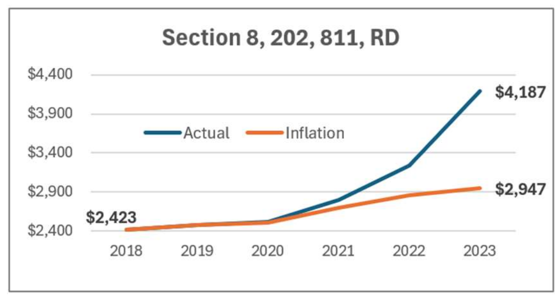
- Average O&M costs increased substantially for all types of regulated housing in all regions of Minnesota. The only factor presenting roughly equal distress was rent collection loss. It is important to note that the O&M category encompasses a vast range of operating activities for a given property.
- All property types and regions showed cost increases between 60% and 290% above inflation. These figures confirm the day-to-day cost pressure reported by many interviewees.
- Properties with direct rent subsidy such as Section 8 were hit the hardest during the period, an increase of $1,764/unit on average. Integrated PSH followed at $1,216/unit, with LIHTC and 100% PSH both at about $1,100/unit. Per inflation, all four property types should have seen O&M cost rise between only $500 and $680/unit.
- Distress from rising O&M costs was roughly 2.5 times worse in the Twin Cities submarkets than in Greater MN areas, whether job centers or rural communities. O&M costs rose by $1,656/unit in Minneapolis & St. Paul and by $1,816/unit in the suburbs. Comparatively, Greater MN job centers saw a $672/unit increase and rural communities experienced a rise of $690/unit.
- The difference between the Twin Cities and Greater MN largely stems from rapid wage increases in the urban area for any type of role, per interviewees.

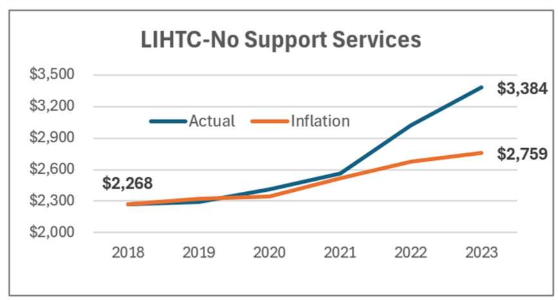
Data Sources: All graphs: Property operating data submitted to MN Housing or O'Neil Consulting, averaging 413 properties and 24,228 units analyzed per year. Inflation: Midwest Region CPI, Bureau of Labor Statistics.

Trends by Service Level ($/unit/year)

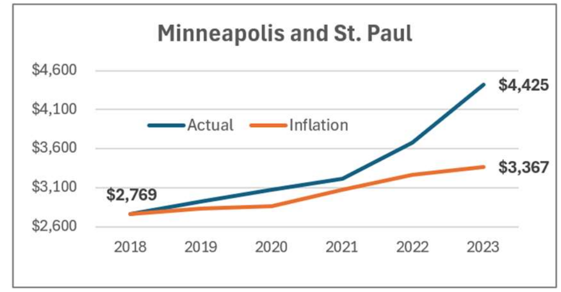


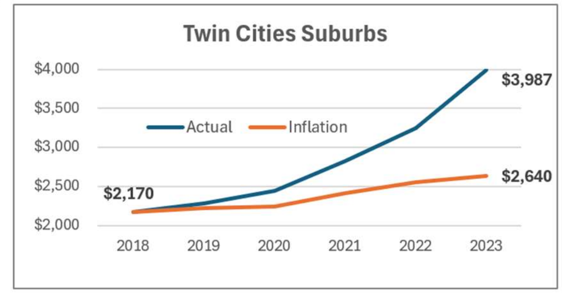


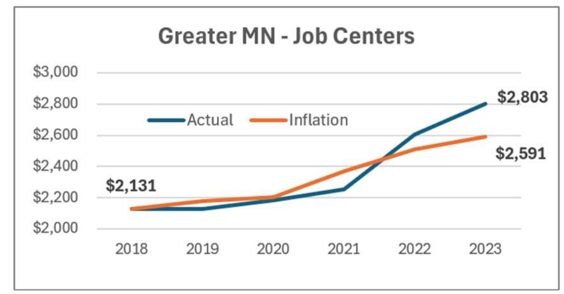


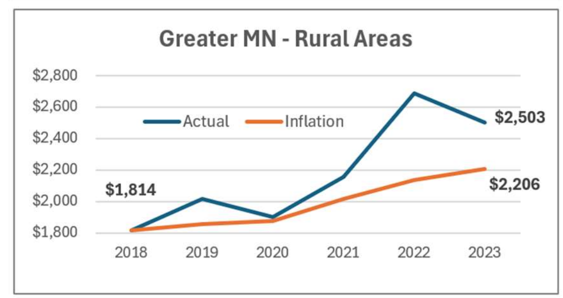


Trends by Region ($/unit/year)









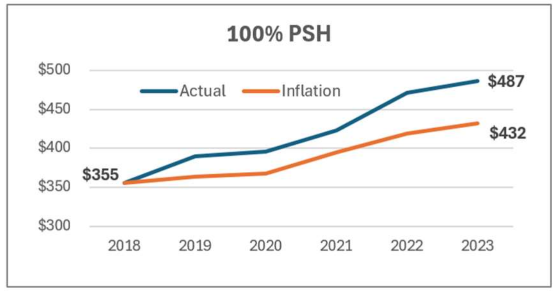
Property Insurance

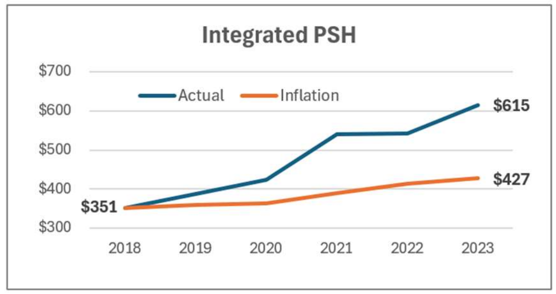
Distress Patterns per the Data:

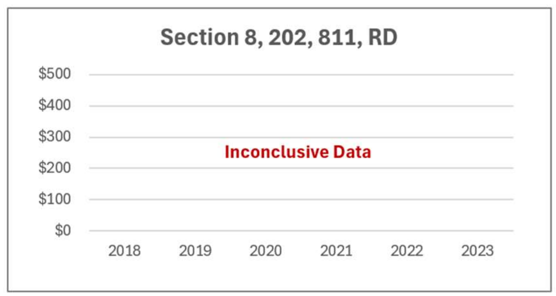
- Rising insurance costs were cited by interviewees as a distress factor that has affected regulated properties throughout all portfolios. The data confirms this as three of the four property types had cost growth of $130 to $305 per unit during the period, and all four regions saw growth by $240 to $260 per unit. These increases ranged from 70% to 370% above inflation. (Data for Section 8/202/811/RD properties was inconclusive.)
- This data surely underestimates the current distress among housing providers on the cost of insurance, which reported some of the sharpest cost spikes in 2024, a year not included in this analysis.
- It is important to note that this dataset only covers annual premium costs. Housing providers reported great distress from rising deductibles, with annual increases of two to three times not uncommon (e.g., from $25,000 to $75,000). This leaves operators in the difficult situation of having to fund repairs that were formerly covered by insurance with dollars out-of-pocket. They also reported a reduction in categories of insurable events so, in many cases, they are receiving less coverage at higher premium and deductible levels. These aspects of insurance cost were not explained in property financial statements from providers.

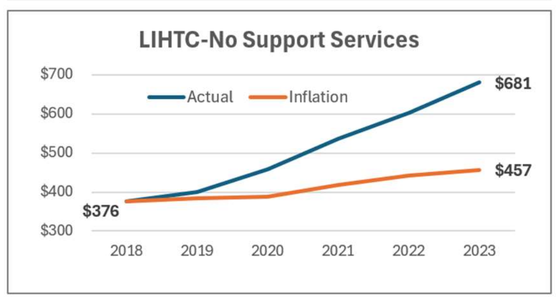
Data Sources: All graphs: Property operating data submitted to MN Housing or O'Neil Consulting, averaging 407 properties and 24,043 units analyzed per year. Inflation: Midwest Region CPI, Bureau of Labor Statistics.

Trends by Service Level ($/unit/year)

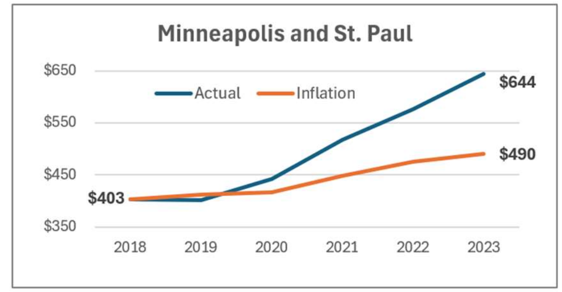


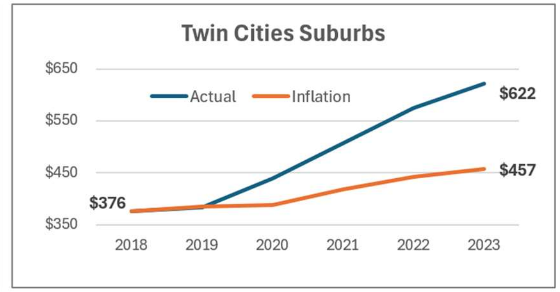


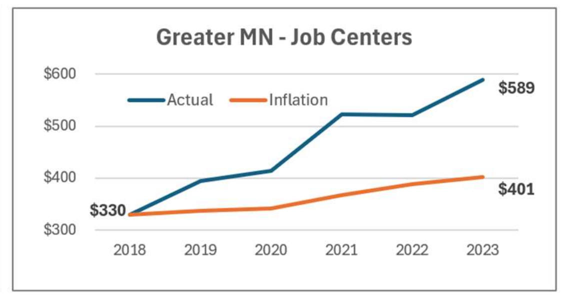


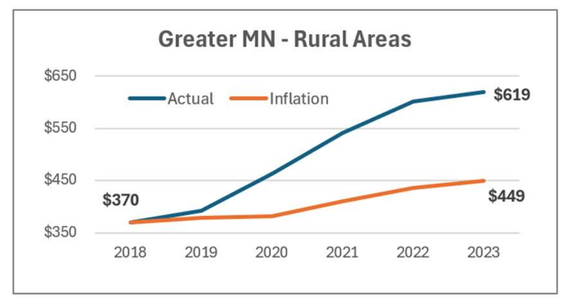


Trends by Region ($/unit/year)









Security

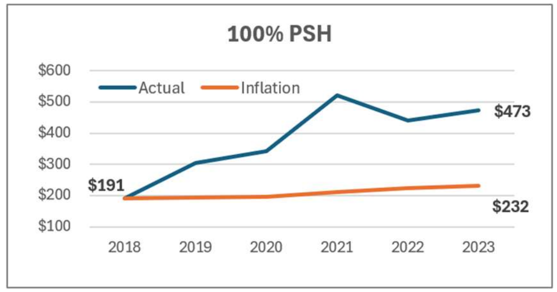
Distress Patterns per the Data:

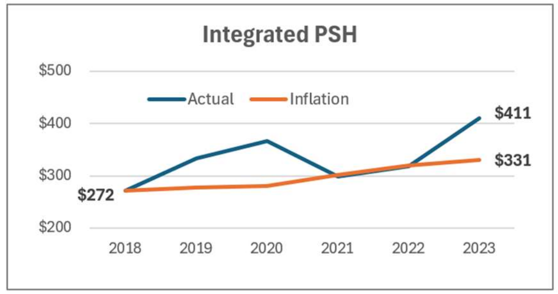
Note: Few organizations reported project security costs on financial statements. Only one reported costs for Section 8/202/811/RD properties and for projects located in the Twin Cities suburbs; this data would not accurately reflect trends for these subgroups. No providers with properties in Greater Minnesota included security cost data.

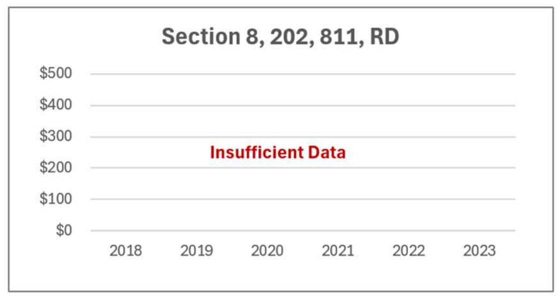
- Consistent with interview findings, security costs at PSH properties showed considerable rise from 2018 to 2023. 100% PSH properties in this sample experienced a 250% cost increase, from $191 to $473/unit. Roughly 85% of this increase exceeded inflation. Integrated PSH properties saw a $139/unit average increase, about 150% higher in 2023 than in 2018.
- The sharp rise in security costs at 100% PSH properties began in 2021, at least a year earlier than the emergence of financial distress for other factors. It coincides with the lingering effects of widespread pandemic shutdowns and unrest in parts of the central cities caused by the murder of George Floyd, both of which occurred in the spring of 2020.
- 100% PSH properties are disproportionately located in Minneapolis and St. Paul, and this data confirms reports from providers about heightened security issues in parts of the urban core due to the factors indicated above.

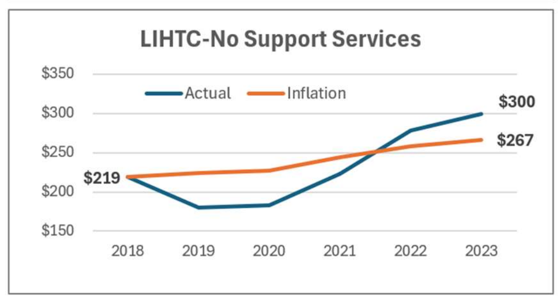
Data Sources: All graphs: Property operating data submitted to O'Neil Consulting, averaging 51 properties and 2,238 units analyzed per year. Inflation: Midwest Region CPI, Bureau of Labor Statistics.

Trends by Service Level ($/unit/year)

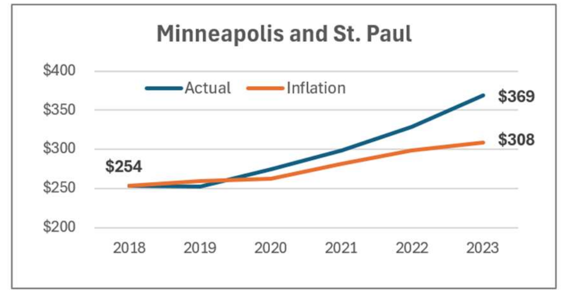


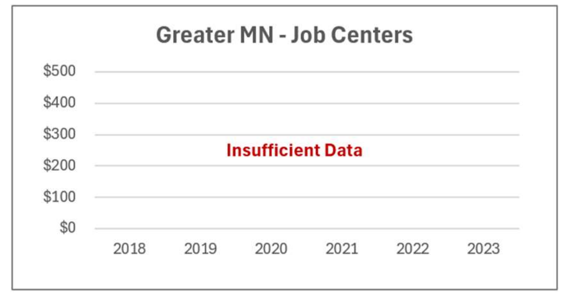


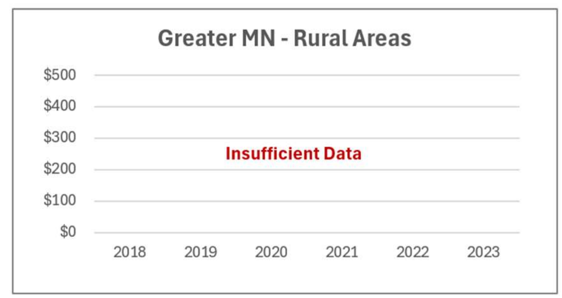




Trends by Region ($/unit/year)







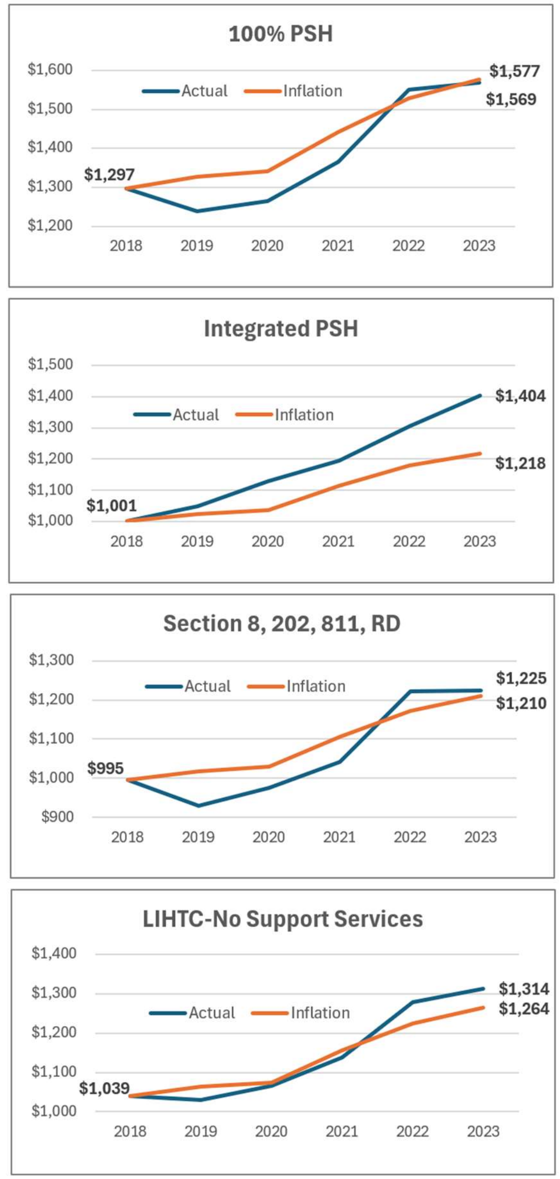
Utilities

Distress Patterns per the Data:

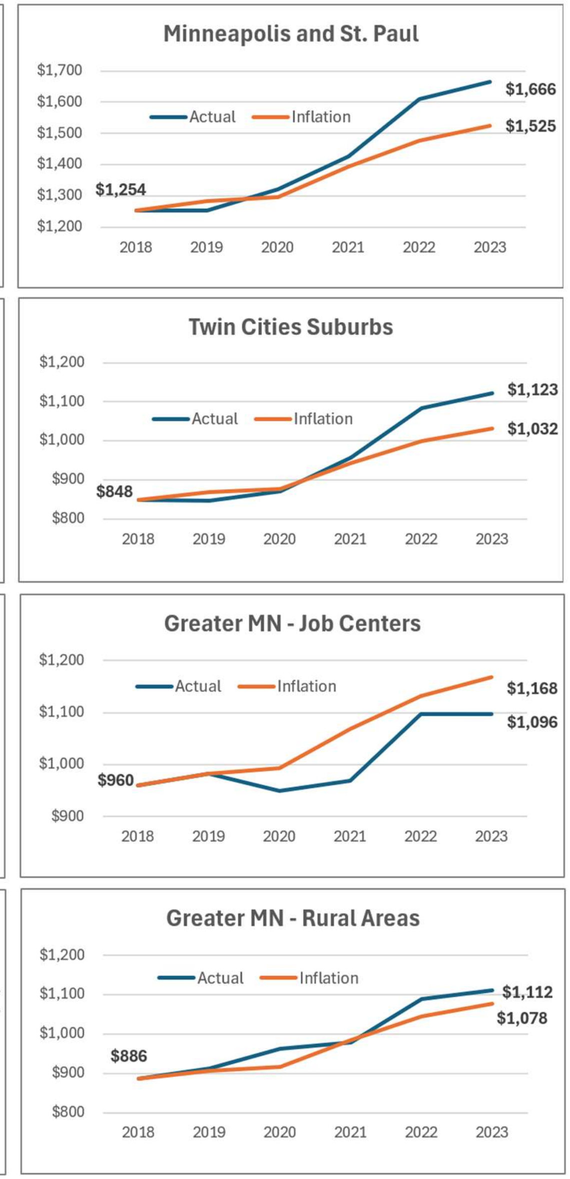
- Per this dataset, operator-paid project utility costs have increased at or above inflation for nearly all property types and in all regions of the State.
- Generally, the cost rise has been more moderate than other factors with 100% PSH and Section 8/202/811/RD projects reporting increases just above or just below inflation. Integrated PSH and LIHTC saw larger increases of $186/unit and $50/unit above inflation, respectively.
- This data again indicates that the Integrated PSH operating model has absorbed more operating cost distress in recent years. The average cost per unit in 2023 for Integrated PSH landed at $90/unit higher than LIHTC properties with no services, but about $170/unit below 100% PSH.
- Across all Minnesota regions, utility cost increases ranged from $30 to $140 above inflation during the period. The exception was in Greater MN job centers, which saw utility cost growth at $72/unit below inflation during the five-year period.

Data Sources: All graphs: Property operating data submitted to MN Housing or O'Neil Consulting, averaging 414 properties and 24,240 units analyzed per year. Inflation: Midwest Region CPI, Bureau of Labor Statistics.

Trends by Service Level ($/unit/year)



Trends by Region ($/unit/year)

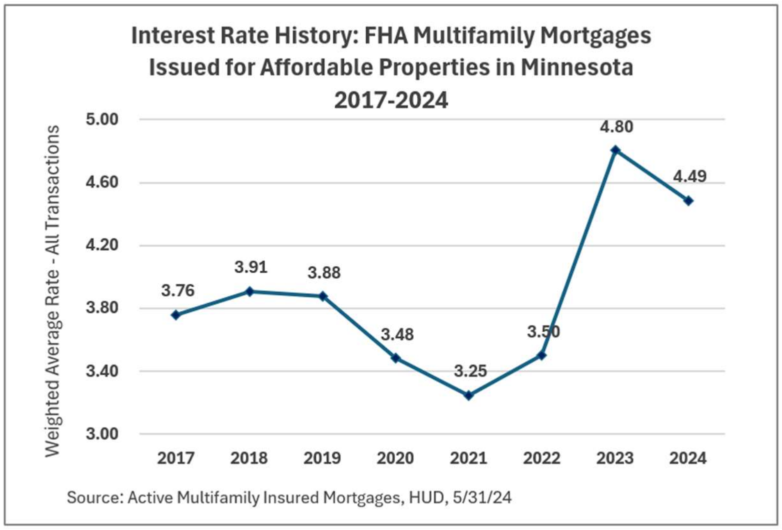


Difficult Environment for Restructuring and Recapitalization

Distress Patterns per the Data:

Interest Rate Rise and the Loss in Mortgage Loan Proceeds – The two charts below present mortgage rate data for FHA-insured affordable multifamily loan transactions in Minnesota from 2017 through May 2024. FHA-insured loans have historically been one of the leading sources of affordable housing finance across the country and in Minnesota.

- Interest rate stress: Interest rates on affordable transactions with FHA loans rose 1.55 points between 2017-21 and 2022-24. This spans the period when property distress was starting to emerge in 2021 and the height of distress in 2022 and 23.



- Declining mortgage proceeds: An affordable housing provider seeking FHA funds after 2021 for new construction, refinance, or property purchase would have seen a significant loss in mortgage proceeds compared to pre-COVID. For a property with net operating income of $500,000, the drop in supportable mortgage proceeds between the low average interest rate (3.25% in 2021) and the high average rate (4.80% in 2023) would have totaled more than $2.3 million.

Pressure From Rising Interest Rates:
Declining Mortgage Proceeds as Rates Increase
FHA-Insured Multifamily Affordable Mortgages
2017-2024

	Mortgage Proceeds		
Assumed NOI	Period Low Rate* 3.25% (2021)	Period High Rate* 4.80% (2023)	Difference in Proceeds: High Rate vs. Low Rate
$ 50,000	$ 1,118,000	$ 888,000	$ (230,000)
$ 100,000	$ 2,236,000	$ 1,776,000	$ (460,000)
$ 200,000	$ 4,473,000	$ 3,553,000	$ (920,000)
$ 400,000	$ 8,947,000	$ 7,106,000	$ (1,841,000)
$ 500,000	$ 11,184,000	$ 8,883,000	$ (2,301,000)

*Weighted average rate for properties financed during the year.
Note: The average mortgage issued on affordable properties in MN during 2017-2024 (5/31) was $7.99 million, with an assumed NOI of roughly $360,000 to $450,000. 108 affordable properties with 9,491 units are covered by this data.

Source: Active Multifamily Insured Mortgages, HUD, 5/31/24

Summary of Changes in Distress Factors: 2018-2023
Change Per-Unit: Cost Rise Due to Inflation and Excess Cost Rise Over Inflation

REVENUE DISTRESS FACTORS

By Service Level/Funding (Tenant Services Provision: Heavy → None)

	Rent Collection Loss: Rise Due to Inflation*	Rent Collection Loss: Excess Over Inflation	Physical Vacancy: M-R Unit Increase**	Physical Vacancy: Excess Over M-R	Bad Debt Write-off: Rise Due to Inflation*	Bad Debt Write-off: Excess Over Inflation
100% PSH	$74	$1,271	1.3 pp	10.2 pp	$37	$324
Integrated PSH	$71	$523	1.3 pp	5.1 pp	$23	$195
Section 8, 202, 811, RD	$70	$561	1.3 pp	4.5 pp	$60	$670
LIHTC-No Services	$84	$386	1.3 pp	2.1 pp	$16	$106

By Minnesota Region (Density of Jobs & Service Offerings: High → Low)

	Rent Collection Loss: Rise Due to Inflation*	Rent Collection Loss: Excess Over Inflation	Physical Vacancy: M-R Unit Increase**	Physical Vacancy: Excess Over M-R	Bad Debt Write-off: Rise Due to Inflation*	Bad Debt Write-off: Excess Over Inflation
Minneapolis & St. Paul	$72	$932	1.3 pp	5.6 pp	$24	$294
TCs Suburbs	$53	$922	1.3 pp	4.3 pp	$16	$186
Greater MN-Job Centers	$103	$52	1.3 pp	2.1 pp	$23	($1)
Greater MN-Rural Areas	$109	$73	1.3 pp	6.6 pp	$14	$26

Cash Flow

By Service Level/Funding (Tenant Services Provision: Heavy → None)

	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
100% PSH	$42	($2,132)
Integrated PSH	$190	($1,365)
Section 8, 202, 811, RD	$106	($1,976)
LIHTC-No Services	$182	($1,607)

By Minnesota Region (Density of Jobs & Service Offerings: High → Low)

	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
Minneapolis & St. Paul	$126	($1,993)
TCs Suburbs	$221	($1,337)
Greater MN-Job Centers	$141	($1,170)
Greater MN-Rural Areas	Insufficient data	

Note on Cash Flow: All types & regions should have seen positive growth per inflation (first column). However, all fell far below $0, with the amount below inflation shown in the second column.

*Inflation benchmark is the year-end Midwest Region CPI, Bureau of Labor Statistics.

** Vacancy benchmark is from Marquette Advisors' Trend Reports for the Twin Cities Metro Area, 4th quarter of each year. Change is indicated in percentage points (pp).

Sources: Custom database assembled with confidential housing provider financial information, MN Housing. Analysis and presentation by O'Neil Consulting.

Summary of Changes in Distress Factors: 2018-2023
Change Per-Unit: Cost Rise Due to Inflation and Excess Cost Rise Over Inflation

EXPENSE DISTRESS FACTORS

Operating, Repair, and Maintenance

By Service Level/Funding (Tenant Services Provision: Heavy → None)	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
100% PSH	$681	$409
Integrated PSH	$504	$712
Section 8, 202, 811, RD	$524	$1,240
LIHTC-No Services	$490	$625

By Minnesota Region (Density of Jobs & Service Offerings: High → Low)	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
Minneapolis & St. Paul	$599	$1,057
TCs Suburbs	$469	$1,347
Greater MN-Job Centers	$461	$211
Greater MN-Rural Areas	$392	$298

Property Insurance

By Service Level/Funding (Tenant Services Provision: Heavy → None)	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
100% PSH	$77	$55
Integrated PSH	$76	$188
Section 8, 202, 811, RD	Inconclusive data	
LIHTC-No Services	$81	$223

By Minnesota Region (Density of Jobs & Service Offerings: High → Low)	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
Minneapolis & St. Paul	$87	$153
TCs Suburbs	$81	$165
Greater MN-Job Centers	$71	$187
Greater MN-Rural Areas	$80	$170

Security

By Service Level/Funding (Tenant Services Provision: Heavy → None)	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
100% PSH	$41	$241
Integrated PSH	$59	$81
Section 8, 202, 811, RD	Insufficient data	
LIHTC-No Services	$47	$33

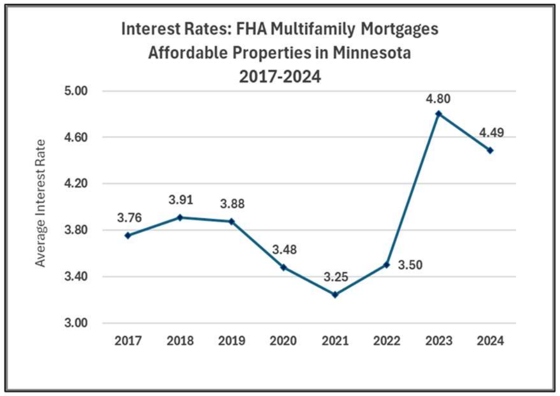
By Minnesota Region (Density of Jobs & Service Offerings: High → Low)	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
Minneapolis & St. Paul	$55	$60
TCs Suburbs	Insufficient data	
Greater MN-Job Centers	Insufficient data	
Greater MN-Rural Areas	Insufficient data	

Utilities

By Service Level/Funding (Tenant Services Provision: Heavy → None)	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
100% PSH	$280	($8)
Integrated PSH	$217	$186
Section 8, 202, 811, RD	$215	$15
LIHTC-No Services	$225	$50

By Minnesota Region (Density of Jobs & Service Offerings: High → Low)	Change 2018-2023: Rise Due to Inflation*	Change 2018-2023: Excess Over Inflation
Minneapolis & St. Paul	$271	$140
TCs Suburbs	$183	$91
Greater MN-Job Centers	$208	(72)
Greater MN-Rural Areas	$192	$34

Interest Rates- All Properties Needing New Loan Funds



*Inflation benchmark is the year-end Midwest Region CPI, Bureau of Labor Statistics.

Sources: Custom database assembled with confidential housing provider financial information, MN Housing, and HUD. Analysis and presentation by O'Neil Consulting.

IV. DISTRESS COMMON TO PROPERTY SUBGROUPS

Introduction

Industry professionals and staff at housing providers interviewed for the qualitative analysis phase of this project contributed significant information about operational distress within like-kind property subgroups. This section present analysis of six property subgroups so identified. The analysis touches on many of the specific distress points discussed in the previous section, but through the property subgroup lens. This perspective may help in the development of targeted solutions that could have a beneficial impact to broader categories of properties, whether the distress is largely driven by an operating model (e.g., Integrated PSH) or is a function of location (e.g., small rural community), or a combination of the two.

The data analyzed for this section comes from the same sources as those used in the previous section: MN Housing funding programs datasets and files submitted directly by housing providers.

Each property subgroup in this section is shown on one page, with data tables showing the various factors indicating operating stress and accompanying narrative. The subgroups are listed in general order of higher to lower levels of distress based on the number of factors revealed in the data and the dollar amounts of distress.

Projects in Central-city Districts with Higher Public Safety Needs

Distress Patterns per the Data:

Many interviewees cited distress in several urban core Twin Cities districts including both downtowns, the Green Line LRT corridor in St. Paul, Uptown, and the Lake Street corridor. All were reported to be experiencing distress from factors beyond the control of the provider: increased crime, heightened drug use, and safety concerns and societal unrest after the murder of George Floyd. The data analyzed here supports these ideas.

Rent collection loss and bad debt for properties in Minneapolis and St. Paul (the two serving as a proxy for the districts previously described) rose to a combined total of $1,768/unit by 2023, a large amount that was only $446/unit just five years earlier. Compounding this was a tripling of vacancy to 10.1% during the same period. This corroborates comments about difficulty turning units due to staff shortages and more units with substantial damage, and changes in the perception of neighborhood safety impairing leasing.

For expenses, the data shows a 60% rise in total O&M costs ($1,656/unit) with insurance, utilities and security costs growing by 33% to 60% over the five-year period, well above inflation. These three expense areas added $768/unit in cost on average to properties in the central cities.

Extreme revenue depletion and severe expense increase produced an overwhelming hit to cash flow, which declined by $2,119/unit for this group. This equates to roughly 15%-20% of gross revenue potential.

Rent Collection Loss

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$334	$334	--
2019	$341	$342	($1)
2020	$542	$346	$196
2021	$708	$372	$336
2022	$1,129	$394	$735
2023	$1,339	$407	$932
Change ($)	**$1,005**	**$72**	**$932**
Change (%)	300%	22%	279%

Physical Vacancy

	Change: Per-Unit Figures		
	Actual Total	Mkt Rt Average	Above Mkt Rt
2018	3.2%	3.0%	0.2 pp
2019	3.7%	3.1%	0.6 pp
2020	4.5%	4.4%	0.1 pp
2021	6.2%	3.6%	2.6 pp
2022	8.6%	4.2%	4.4 pp
2023	10.1%	4.3%	5.8 pp
Change (pp)	**6.9 pp**	**1.3 pp**	**5.6 pp**

Bad Debt

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$112	$112	--
2019	$82	$114	($32)
2020	$145	$115	$29
2021	$126	$124	$2
2022	$430	$132	$299
2023	$429	$136	$294
Change ($)	**$318**	**$24**	**$294**
Change (%)	285%	22%	263%

Cash Flow

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$583	$583	--
2019	$606	$596	$10
2020	$688	$603	$85
2021	$416	$648	($232)
2022	($512)	$687	($1,199)
2023	($1,537)	$709	($2,246)
Change ($)	**($2,119)**	**$126**	**($2,246)**
Change (%)	-364%	22%	-385%

Total O&M

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$2,769	$2,769	--
2019	$2,928	$2,832	$95
2020	$3,075	$2,863	$212
2021	$3,220	$3,078	$142
2022	$3,680	$3,263	$417
2023	$4,425	$3,367	$1,057
Change ($)	**$1,656**	**$599**	**$1,057**
Change (%)	60%	22%	38%

Insurance

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$403	$403	--
2019	$401	$413	($11)
2020	$443	$417	$26
2021	$517	$448	$69
2022	$576	$475	$101
2023	$644	$490	$153
Change ($)	**$241**	**$87**	**$153**
Change (%)	60%	22%	38%

Security

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$254	$254	--
2019	$253	$259	($7)
2020	$275	$262	$12
2021	$299	$282	$17
2022	$329	$299	$30
2023	$369	$308	$60
Change ($)	**$115**	**$55**	**$60**
Change (%)	45%	22%	24%

Utilities

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$1,254	$1,254	--
2019	$1,253	$1,283	($30)
2020	$1,321	$1,297	$24
2021	$1,427	$1,394	$32
2022	$1,610	$1,478	$131
2023	$1,666	$1,525	$140
Change ($)	**$412**	**$271**	**$140**
Change (%)	33%	22%	11%

100% PSH

Distress Patterns per the Data:

Property performance for 100% PSH projects showed many of the same declining trends as projects in the central cities with higher public safety needs. About 80% of the 100% PSH units analyzed here are located in Minneapolis or St. Paul, many in the districts that would be considered burdened with public safety challenges.

Worse than the central cties subgroup previously presented, 100% PSH properties saw rent collection tumble and bad debt skyrocket by $1,706/unit combined in just five years. This substantial distress stems from many of the same factors plaguing other subgroups that serve the lowest-income renters: tenants under financial hardship during rising inflation, delays matching tenants and units, drawn-out evictions, and more. As well, the data shows that 100% PSH properties are a notable outlier regarding vacancy. At the end of 2023 nearly one in five units in this property subgroup sat vacant.

Security costs rose much more for 100% PSH properties than for the other two subgroups with available data (Integrated PSH and central city projects). Security costs rose nearly 150% to roughly $500/unit by 2023. O&M costs increased by $409 over inflation during the same period, reflecting increasing stress on operations.

Rent Collection Loss

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$343	$343	--
2019	$366	$351	$15
2020	$528	$355	$173
2021	$845	$382	$464
2022	$1,254	$404	$849
2023	$1,688	$417	$1,271
Change ($)	**$1,345**	**$74**	**$1,271**
Change (%)	392%	22%	370%

Physical Vacancy

	Change: Per-Unit Figures		
	Actual Total	Mkt Rt Average	Above Mkt Rt
2018	6.3%	3.0%	3.3 pp
2019	6.5%	3.1%	3.4 pp
2020	7.4%	4.4%	3.0 pp
2021	9.6%	3.6%	6.0 pp
2022	16.0%	4.2%	11.8 pp
2023	17.9%	4.3%	13.6 pp
Change (pp)	**11.5 pp**	**1.3 pp**	**10.2 pp**

Bad Debt

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$169	$169	--
2019	$106	$173	($67)
2020	$129	$175	($46)
2021	$172	$188	($16)
2022	$360	$199	$161
2023	$530	$206	$324
Change ($)	**$361**	**$37**	**$324**
Change (%)	213%	22%	192%

Cash Flow

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$194	$194	--
2019	$445	$198	$247
2020	$394	$200	$193
2021	($245)	$215	($461)
2022	($816)	$228	($1,044)
2023	($1,980)	$236	($2,216)
Change ($)	**($2,174)**	**$42**	**($2,216)**
Change (%)	-1122%	22%	-1144%

Total O&M

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$3,151	$3,151	--
2019	$3,115	$3,224	($108)
2020	$3,347	$3,259	$88
2021	$3,351	$3,503	($152)
2022	$3,903	$3,714	$190
2023	$4,242	$3,833	$409
Change ($)	**$1,091**	**$681**	**$409**
Change (%)	35%	22%	13%

Security

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$191	$191	--
2019	$306	$195	$111
2020	$342	$197	$145
2021	$523	$212	$311
2022	$441	$225	$217
2023	$473	$232	$241
Change ($)	**$283**	**$41**	**$241**
Change (%)	148%	22%	127%

Cash flow at 100% PSH properties has become a vital concern, as shown by this data. At its peak in recent years, an average 100% PSH property operated just $200-$400/unit above breakeven. As of 2023, average cash flow had fallen to nearly $2,000 per unit below breakeven. Such an operating burden requires extraordinary intervention from the parent organization to fund shortfalls or significant depletion of reserves, if they are available.

Integrated PSH

Distress Patterns per the Data:

Integrated PSH showed several of the same distress factors as 100% PSH but tilted more toward expense increases than revenue losses.

Rent collection loss and bad debt write-off for Integrated PSH rose to high levels by the end of 2023. Together, these line items hit $1,250/unit, $813/unit more than in 2018. Nearly 90% of the rise in losses exceeded inflation. This is a substantial level of distress and tracks with interview comments about pervasive income loss from increased vacancies, frequent and drawn-out evictions post-moratoria, lower tenant payments, delays in placing tenants from CE lists, and extensive damage that kept some units vacant for extended periods.

Expenses rose greatly for O&M (up $1,216/unit), utilities (+$403), insurance (+$264), and security (+$139). All of these factors increased between 19% and 53% above inflation. This tracks with comments about operational difficulties due to increasing numbers of tenants with unsupported high-acuity mental health conditions since COVID, and increased drug use at properties and in neighborhoods.

Again, the pattern of significant revenue loss combined with high expense growth produced a notable financial hit to Integrated PSH during the last five years. Average cash flow fell by $1,556 for this subgroup, from $880/unit above breakeven in 2018 to $676/unit below breakeven in 2023.

Rent Collection Loss

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$329	$329	--
2019	$328	$337	($8)
2020	$404	$340	$63
2021	$446	$366	$80
2022	$823	$388	$435
2023	$923	$400	$523
Change ($)	**$594**	**$71**	**$523**
Change (%)	180%	22%	159%

Physical Vacancy

	Change: Per-Unit Figures		
	Actual Total	Mkt Rt Average	Above Mkt Rt
2018	3.2%	3.0%	0.2 pp
2019	3.4%	3.1%	0.3 pp
2020	3.4%	4.4%	-1.0 pp
2021	5.1%	3.6%	1.5 pp
2022	7.0%	4.2%	2.8 pp
2023	9.6%	4.3%	5.3 pp
Change (pp)	**6.4 pp**	**1.3 pp**	**5.1 pp**

Bad Debt

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$108	$108	--
2019	$94	$110	($16)
2020	$139	$111	$27
2021	$104	$120	($16)
2022	$309	$127	$182
2023	$327	$131	$195
Change ($)	**$219**	**$23**	**$195**
Change (%)	203%	22%	181%

Cash Flow

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$880	$880	--
2019	$479	$900	($421)
2020	$965	$910	$55
2021	$1,058	$978	$79
2022	$8	$1,037	($1,029)
2023	($676)	$1,070	($1,746)
Change ($)	**($1,556)**	**$190**	**($1,746)**
Change (%)	-177%	22%	-198%

Total O&M

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$2,329	$2,329	--
2019	$2,516	$2,382	$134
2020	$2,712	$2,409	$304
2021	$2,703	$2,589	$114
2022	$3,106	$2,744	$361
2023	$3,544	$2,832	$712
Change ($)	**$1,216**	**$504**	**$712**
Change (%)	52%	22%	31%

Insurance

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$351	$351	--
2019	$388	$359	$28
2020	$423	$363	$60
2021	$540	$390	$149
2022	$542	$414	$128
2023	$615	$427	$188
Change ($)	**$264**	**$76**	**$188**
Change (%)	75%	22%	53%

Security

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$272	$272	--
2019	$334	$278	$56
2020	$366	$281	$85
2021	$299	$302	($3)
2022	$318	$320	($2)
2023	$411	$331	$81
Change ($)	**$139**	**$59**	**$81**
Change (%)	51%	22%	30%

Utilities

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$1,001	$1,001	--
2019	$1,050	$1,025	$26
2020	$1,130	$1,036	$94
2021	$1,195	$1,113	$81
2022	$1,307	$1,180	$126
2023	$1,404	$1,218	$186
Change ($)	**$403**	**$217**	**$186**
Change (%)	40%	22%	19%

Section 8/202/811/RD (30% AMI)

Distress Patterns per the Data:

Revenue problems with this property subgroup trended similarly to 100% PSH properties. Both subgroups focus on housing residents with low- and very-low incomes.

Revenue loss from rent collections and rising bad debt totaled an astounding $1,962/unit at Section 8/202/811/RD properties in 2023, about $1,360/unit worse than in 2018. The rise in average vacancy from just 1.9% in 2018 to 7.7% in 2023 compounded revenue problems.

O&M costs with this property subgroup grew at the highest rate of the four property types analyzed. Interviewees attributed this to a much more challenging property management environment with frequent unit turnover, an increased need to meet with tenants regarding back rent or future payments, and new marketing efforts to fill vacancies.

In addition, a key factor driving up expenses cited by interviewees has been the rise in the number tenants with high-acuity mental health conditions occupying 30% AMI units without services, due to the backlog of PSH unit availability and services funding shortfalls. This would help explain high operational costs with this property subgroup, where supportive services are not as readily available as with formal PSH properties.

Rent Collection Loss

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$323	$323	--
2019	$378	$330	$48
2020	$498	$334	$164
2021	$564	$359	$206
2022	$684	$380	$303
2023	$954	$392	$561
Change ($)	**$631**	**$70**	**$561**
Change (%)	196%	22%	174%

Physical Vacancy

	Change: Per-Unit Figures		
	Actual Total	Mkt Rt Average	Above Mkt Rt
2018	1.9%	3.0%	-1.1 pp
2019	2.9%	3.1%	-0.2 pp
2020	4.3%	4.4%	-0.1 pp
2021	4.9%	3.6%	1.3 pp
2022	5.4%	4.2%	1.2 pp
2023	7.7%	4.3%	3.4 pp
Change (pp)	**5.8 pp**	**1.3 pp**	**4.5 pp**

Bad Debt

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$277	$277	--
2019	$303	$284	$20
2020	$192	$287	($95)
2021	$229	$309	($80)
2022	$788	$327	$461
2023	$1,008	$337	$670
Change ($)	**$730**	**$60**	**$670**
Change (%)	263%	22%	241%

Cash Flow

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$488	$488	--
2019	$588	$500	$89
2020	$440	$505	($65)
2021	$391	$543	($151)
2022	($731)	$576	($1,306)
2023	($1,594)	$594	($2,188)
Change ($)	**($2,082)**	**$106**	**($2,188)**
Change (%)	-426%	22%	-448%

Total O&M

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$2,423	$2,423	--
2019	$2,478	$2,478	($0)
2020	$2,516	$2,506	$10
2021	$2,797	$2,694	$104
2022	$3,243	$2,855	$388
2023	$4,187	$2,947	$1,240
Change ($)	**$1,764**	**$524**	**$1,240**
Change (%)	73%	22%	51%

As with 100% PSH, average property cash flow at Section 8/202/811/RD properties has dropped to critically low levels – 1,594/unit below breakeven– at the end of 2023. Again, countering these losses requires reserve fund withdrawals or extraordinary funding intervention by the parent organization.

LIHTC with no Services

Distress Patterns per the Data:

Relative to the subgroups previously described, LIHTC properties with no formal support services for residents showed more moderate stress between 2018 and 2023.

Rent collection loss and bad debt together increased by roughly $590/unit over the five-year period for LIHTC properties on average. By the end of 2023, the average LIHTC property was losing $1,058/unit to these factors. While this is lower than the losses at other property subgroups, it still is a high historical figure for any type of multifamily property.

With expenses, O&M costs grew at LIHTC properties by 49% over five years, or $1,116/unit. This confirms comments from interviewees about higher costs for all manner of labor, supplies, and services, as with other property subgroups. Growth in insurance costs for this subgroup outpaced all others, with premiums rising 81% or $305/unit to nearly $700/unit in total in 2023. To the extent this data represents typical costs for LIHTC properties, then insurance is a critical issue affecting as many as 40,000 units across the State.

Rent Collection Loss

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$390	$390	--
2019	$395	$399	($4)
2020	$463	$404	$60
2021	$517	$434	$83
2022	$762	$460	$302
2023	$861	$475	$386
Change ($)	**$471**	**$84**	**$386**
Change (%)	121%	22%	99%

Bad Debt

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$75	$75	--
2019	$72	$77	($5)
2020	$99	$78	$22
2021	$87	$84	$4
2022	$245	$89	$156
2023	$197	$92	$106
Change ($)	**$122**	**$16**	**$106**
Change (%)	162%	22%	140%

Cash Flow

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$844	$844	--
2019	$1,127	$863	$264
2020	$1,480	$872	$608
2021	$809	$938	($129)
2022	$126	$994	($868)
2023	($946)	$1,026	($1,972)
Change ($)	**($1,789)**	**$182**	**($1,972)**
Change (%)	-212%	22%	-234%

Total O&M

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$2,268	$2,268	--
2019	$2,289	$2,320	($31)
2020	$2,414	$2,346	$69
2021	$2,561	$2,522	$39
2022	$3,022	$2,673	$349
2023	$3,384	$2,759	$625
Change ($)	**$1,116**	**$490**	**$625**
Change (%)	49%	22%	28%

Insurance

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$376	$376	--
2019	$399	$384	$15
2020	$458	$389	$69
2021	$536	$418	$119
2022	$602	$443	$159
2023	$681	$457	$223
Change ($)	**$305**	**$81**	**$223**
Change (%)	81%	22%	59%

Cash flow for LIHTC properties factors in the payment of debt service and the funding of reserves. As with Integrated PSH (another property type commonly funded with first mortgage debt), LIHTC properties in this analysis were able to meet all expenses, debts, and reserve deposits through 2022. By 2023, however, cash flow fell below breakeven to nearly -$950/unit, a nearly $1,800/unit decline from 2018.

Properties in Rural Minnesota

Distress Patterns per the Data:

This analysis presents those factors that could be meaningfully measured with the available data. Unfortunately, data on property cash flow was insufficient for this property subgroup.[5]

Rent Collection Loss

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$505	$505	--
2019	$558	$516	$42
2020	$533	$522	$11
2021	$600	$561	$39
2022	$638	$595	$43
2023	$687	$614	$73
Change ($)	**$183**	**$109**	**$73**
Change (%)	36%	22%	15%

Physical Vacancy

	Change: Per-Unit Figures		
	Actual Total	Mkt Rt Average	Above Mkt Rt
2018	5.3%	3.0%	2.3 pp
2019	9.6%	3.1%	6.5 pp
2020	8.6%	4.4%	4.2 pp
2021	11.5%	3.6%	7.9 pp
2022	9.6%	4.2%	5.4 pp
2023	13.2%	4.3%	8.9 pp
Change (pp)	**7.9 pp**	**1.3 pp**	**6.6 pp**

Total O&M

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$1,814	$1,814	--
2019	$2,016	$1,855	$161
2020	$1,903	$1,876	$27
2021	$2,157	$2,017	$140
2022	$2,688	$2,138	$551
2023	$2,503	$2,206	$298
Change ($)	**$690**	**$392**	**$298**
Change (%)	38%	22%	16%

Insurance

	Change: Per-Unit Figures		
	Actual Total	Base Inflation	Above Inflation
2018	$370	$370	--
2019	$392	$378	$14
2020	$463	$382	$80
2021	$541	$411	$130
2022	$602	$436	$166
2023	$619	$449	$170
Change ($)	**$250**	**$80**	**$170**
Change (%)	68%	22%	46%

Rent collection loss at properties in rural Minnesota communities in this dataset grew by $183/unit between 2018 and 2023. This exceeded inflation by 15%, a moderate level compared to the other regions. However, given the small average size of most rural housing developments – many under 30 units– even a small level of revenue loss can have significant impact. A rent collection loss of $687/unit (the 2023 level) for a 30-unit property equals nearly $21,000, an amount that could otherwise be used to complete deferred repairs, make reserve deposits, or retain key staff. Per interviews, many operators of rural housing projects would expect no more than $2,000 to $5,000 total cash flow in a “good” year.

Vacancy at rural properties has emerged as an area of significant distress over the past 5 years, with 2023 ending at 13.2% for this subgroup. For a hypothetical 30-unit property, this equals 4 units vacant for a full year.

O&M costs and insurance costs for rural properties each grew at rates well above inflation, adding $298/unit and $170/unit, respectively, above the CPI.

Overall, the squeeze on operations over the past five years has revealed the poor economies of scale at rural developments. One example per interviewees is the lack of revenue to pay third-party property managers, forcing some operators into self-management. Another example is the small number of service providers for HPH or supportive units in close proximity to many rural communities. There is often only one choice of provider for a given project or area. Long commutes across extensive rural land leaves providers with less time to work with individual residents, perhaps compromising the effectiveness of the work.

[5] The consolidated dataset constructed for this analysis yielded information on approximately 2,100 rural Minnesota units analyzed per year, one-third to one-fifth the sample size of the three other regions. Not all property records tallied figures for all of the distress factors examined in this research.

V. DISTRESS AT THE PARENT ORGANIZATION LEVEL

Introduction

Interviews in the qualitative phase of the data project revealed patterns of distress flowing upward to the parent organization as properties faced rent collection shortfalls, rapid expense increases, and significant turnover of on-site staff. Interviewees described such challenges as uncollected property management and asset management fees from properties, extraordinary cash contributions to cover property operating shortfalls, loans to property LLCs for repairs, cash to cover emergency security needs, and more.

In general, distress on the parent organization as a result of deteriorating property-level operations is very difficult to measure. Most providers will not offer proprietary financial information of this nature and interventions by the parent organization are not apparent on standard financial statements.

This section largely uses information provided by housing operators in response to a 2024 Hennepin County affordable housing grant program called Repair and Grow.[6] This analysis also uses information from audited financials and management-prepared documents submitted directly to this data project.

This analysis, focused on Hennepin County, is narrower than the scope of the research in this rest of this report. However, this analysis yielded representative information of the types of extraordinary actions required by parent organizations in the most challenging of situations. This is applicable to operators across Minnesota.

Types of Distress Facing Parent Organizations and Required Interventions

Provider organizations described the following situations and resulting interventions by the corporate parent to assist individual properties. The chart on the next page shows a summary of the frequency of responses to each type of situation/parent intervention.

Property-level partnerships unable to pay contractual fees to the parent – Parent organizations may receive property management, asset management and other fees or distributions from individual properties, with these sources helping fund administrative and staff costs for corporate operations. This type of distress has been acute among mission-driven non-profits especially but is common for many types of operators. Per the data analyzed here, operators may be forgoing as much as $1,800/unit in unpaid property management fees on average and $1,100/unit in unpaid asset management fees among properties in significant distress.

[6] The Repair and Grow application form asked for consent from individual providers to use data on an anonymous basis for analysis in support of measuring industry distress factors. Respondent organizations included data on 10,269 units, however, the calculations in the matrix on page 32 are derived from only those responses for the particular category, ranging from less than 1,000 units reported with security cost data to roughly 9,000 units with data on direct payments for extraordinary operating costs.

Matrix: Parent Organization Responses to Severe Property Level Distress
Select Operators in Minnesota: 2024

	Tally of Responses Identifying Factor in Portfolio															Total From Tally	Average Reported Cost/Unit
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		
Loss in Revenue: Fees Paid by Properties to Parent Organization																	
Unpaid property management fees										X				X		2	$ 1,767
Unpaid asset management fees	X		X						X	X				X		5	$ 1,133
Property Obligations Assumed by Parent Organization																	
Direct payments to fund extraordinary operating cost increases	X	X	X		X		X	X	X		X	X	X	X	X	12	$ 2,323
Loans for extraordinary repairs, unit damage, misc. capital costs		X			X	X	X		X	X	X	X	X	X	X	11	$ 2,802
Payment of extraordinary security costs	X			X	X	X	X		X		X	X	X		X	10	$ 4,113
Salary & benefit increases, training, & bonuses to retain site staff	X		X	X		X	X		X		X		X		X	9	$ 65
Other Burdens to Parent Organization Created at the Property Level																	
Underfunded capitalized reserve accounts	X	X	X	X	X		X	X	X	X	X	X	X	X	X	14	$ 6,573
Deferred maintenance	X	X	X	X	X		X	X	X	X		X	X	X	X	13	$ 5,533
Excessive operating losses or repair needs forcing property sale				X	X							X		X		4	N/A

Source: Financial statements, audits, and narratives provided by housing operators for the Repair & Grow grant application or directly to O'Neil Consulting.

Direct payments from the parent to pay for extraordinary operating costs – This has been a common parent organization intervention per interviewees and is also confirmed in the data. Twelve of the 15 operators providing data indicated that the corporate parent has paid directly for excessive costs for insurance especially, but also for utilities, staff, and general building operations. This data indicates that parent organizations may be paying as much as $2,300/unit on average among properties in significant distress.

Loans from the parent to fund extraordinary building repairs and unit damage – Some parent organizations have been infusing funds in the form of loans to specific properties to pay for extraordinary property damage that was not covered by replacement reserve funds or insurance policies due to high deductibles. This has most frequently involved properties in central city districts with high public safety needs, PSH properties, and buildings serving residents subject to 30% AMI rents. The data indicates that parent organizations may be loaning property LLCs as much as $2,800/unit to counter unforeseen capital needs. In the extreme, some troubled properties have required more than $8,500/unit from the parent to pay for extraordinary repairs.

Payment of rapidly-escalating security costs in response to rising crime and deteriorating conditions in the community – This situation has been most extreme in core districts in Minneapolis and St. Paul, but notable difficulties have occurred at specific suburban properties and in some Greater MN communities such as Bemidji. Ten operators in this survey reported cost payments for extraordinary security remedies, averaging more than $4,100 per unit. In the worst case, per unit costs approached $12,000/unit.

Funds from the parent to pay for salary and benefit increases, training, and bonuses to retain critical staff – Nine operators in this survey reported efforts to incentivize critical staff to remain with the property through better wages, benefits, and training. These efforts ranged from $20,000 outlaid by the operator to $200,000 in total.

Underfunded capital reserve accounts – Under good operations, a property will be able to save cash in replacement reserve and operating deficit accounts. These provide needed cash as building components wear out and during times of net operating income shortfall. The lack of cash flow for properties to fund these accounts has been widespread, and this data confirms the great degree of distress many capital accounts are under. All but one operator in this sample reported underfunded capital accounts at distressed properties, with an average of $6,600/unit.

Deferred maintenance – Deferred maintenance becomes a parent organization issue when properties operate with negative cash flow and insurance deductibles are too high to warrant making a repair claim. In this sample, 13 operators reported $5,500/unit in average deferred maintenance at distressed properties. In the worst case, this number ballooned to $29,000/unit. Deferred maintenance is an unsustainable situation at many properties, harming the quality of life for tenants.

Persistent operating losses or high repair needs requiring property sale at a loss – Four parent organizations reported properties being in such troubled financial or physical condition that the only option was to sell the property, always at a loss to the parent organization. Such action may have broader negative impact on the full industry if the property sale leads to a loss of affordability restrictions.

VI. RECOMMENDATIONS

Introduction

The two-phased Distressed Property Data Project, involving 35 qualitative interviews and detailed quantitative analysis of approximately 26,000 rental units across Minnesota, revealed a great level of operational complexity in the State's regulated housing supply and dozens of factors influencing property performance.

In the *qualitative effort*, interviewees were asked to offer their thoughts on solutions that would address the distress factors they identified. The *quantitative analysis* element brought more clarity and nuance to many of these ideas, and also revealed new ideas for action.

This section consolidates actionable items from both phases of this project and presents them below. The recommendations avoid narrow solutions that would affect only a small set of properties or operators and those that would be inefficient to pursue. The recommendations are divided into two groups:

- **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.

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

The recommendations below consider the following stakeholders as key to the results: Minnesota Housing, the Minnesota Housing Stability Coalition (the Coalition), the Interagency Stabilization Group (ISG), local public funders, private lenders, tax credit syndicators, and a broader collaborative of leading policy and advocacy organizations such as Minnesota Housing Partnership, Family Housing Fund, Greater Minnesota Housing Fund, McKnight Foundation, and others.

These recommendations derive from this research project and should not be considered as a definitive list. Many other solutions need to be created and implemented through the wide array of regulated housing industry participants and coalitions of private and public stakeholders.

Broader (Systems) Level Interventions

Goal: Use Housing Provider Data to Monitor the Health of Regulated Housing in Minnesota to Anticipate Distress and Enable Preemptive Responses.

- <u>Recommendation</u>: **The Interagency Stabilization Group (ISG) or a group of leading policy organizations should establish an ongoing, web-based, data-driven monitoring system for regulated housing across Minnesota. This would function as a platform to establish a common**

language about performance, disseminate knowledge, and facilitate discussion among stakeholders.

- **<u>Details:</u>**
  - Currently, there is no single resource that funders, policymakers, and providers can access to learn about key performance indicators (KPIs) by market area, housing service level, population served, and more. A comprehensive data resource could enable regular monitoring and health assessment of the statewide regulated housing supply.
  - Providers across the State would be encouraged to provide standardized property operations data every 6 months. In return, they would gain access to operating benchmarks and comparative data, venues for discussion with other providers and funders, and forums for requesting technical support and/or access to resources when difficulties arise. The goal would be to enhance the larger housing system with broad-based knowledge sharing via a common data portal.
  - Collect data on a variety of metrics that inform a wide range of stakeholders on leading indicators of future stress such as project vacancies, rent collection trends, bad debt trends, unit turn time, and security costs. The array of metrics reported by this system would be identified after surveying what data providers would be willing and able to provide, and determining the specific measures that would cause stakeholders and end-users to pursue interventions.

Goal: Measure the Unmet Need for Supportive Services in Housing to Create Common Understanding and Help Determine Required Funding.

- **<u>Recommendation</u>: 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.** This is the "unmet need" aspect of housing with services and is the first, necessary step to understand the total number of PSH units needed and required funding to achieve desired outcomes.

- **<u>Details:</u>**
  - Interviewees in the initial phase of this research indicated a significant and growing number of individuals with high acuity mental health needs who live primarily in 30% AMI rental units without services. These tenants run a higher risk of a mental health crisis advancing without help, presenting harm to themselves, other residents, or the property. Indicative of this problem, data for Section 8/30% AMI units showed a $1,700/unit rise in O&M costs in just five years, the highest cost rise of any property type.

Goal: Help Stabilize Insurance Costs for Providers.

- **<u>Recommendation</u>: 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.**

- **<u>Details:</u>**
  - This research identified insurance as a leading stress factor affecting the full universe of regulated housing in Minnesota. Premium costs rose by an average of 78% in just five years for properties across the State, per data from MN Housing.
  - Given the complexity of the insurance industry, it is vital to engage industry experts and housing providers to help develop solutions. On this issue, the LTSAH recommendations, if followed, would produce meaningful help.

Goal: Maximize Private Sources of Capital for Affordable Housing Preservation and Development.

- **<u>Recommendation</u>: The Coalition should encourage public funders to work quickly to identify mechanisms and policies that encourage private capital investment in affordable rental properties.** It is vital to leverage private capital to the fullest to fund recapitalizations and new construction of affordable housing. Every source of available capital should be utilized.

- **<u>Details:</u>**
  - Encourage MN Housing and other public funders to ensure full access to all HUD/Fannie Mae/Freddie Mac financial tools. As an example, MN Housing and HUD were at an impasse on HUD initiated subordination language changes for more than three years, during which time the Agency did not subordinate State funds to FHA-insured first mortgage loans. Allowing State funds to be subordinated to FHA-insured first mortgages with affordable multifamily transactions in Minnesota could have brought in new private capital investment estimated at $100 to $200 million per year from 2022 through 2024 (based on HUD loan volume from 2017-2021).
  - Convene first mortgage lenders and tax credit syndicators to understand their risk mitigation and investment goals to ensure that private equity continues to invest in all forms of regulated housing in Minnesota.

Goal: Help the Broader Community Understand Key Facts About Regulated Housing in Minnesota, Vital Public Policy Goals, and Important Challenges.

- **<u>Recommendation</u>: A leading policy or funding organization should collaborate 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.**

- **<u>Details:</u>**
    - This research effort revealed that there is a wide range of opinion and knowledge about housing types, funding sources, performance metrics, and other aspects of the State's affordable housing supply. In particular, there appears to be less visibility of property operations and market knowledge of Greater Minnesota, where the State's RD-funded properties reside exclusively.
    - Having a common set of terms, facts, accounting practices, and explanations for the State's full regulated housing supply could help streamline conversations and maintain consistency across the industry as new staffers join organizations to replace those who have left.

Focused Interventions: Property Subgroups and Targeted Systems

Goal: Understand What Works and Doesn't Work with Integrated PSH to Enhance Project Finances and Produce Desired Outcomes for Tenants.

- **<u>Recommendation</u>: 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.**

- **<u>Details:</u>**
    - The data in this report showed a high level of stress in the Integrated PSH housing subgroup, and interviewees indicated significant challenges in delivering services to small numbers of clients within larger buildings, jeopardizing the safety of residents and staff alike.
    - There exist Integrated PSH properties in Minnesota that successfully deliver supportive housing services to residents while also maintaining financial solvency. Understanding why could lead to operational benchmarks and goals that could help guide properties receiving funding (now and in the future) under the Integrated PSH model.
    - The research could target critical aspects such as realistic funding levels for service delivery, effective staffing levels, administrative requirements, and more. It could also help establish critical thresholds on the number of units that help or hurt economies of scale.

Goal: Ensure that State Funding Under the Qualified Action Plan (QAP) Does not Exacerbate Difficulties with Integrated PSH.

- **<u>Recommendation</u>: Minnesota Housing should modify the 2026-27 QAP to suspend the awarding of more points for adding Integrated PSH to a property that otherwise has no PSH, until more research can be completed to understand this unique operating model and best position it for success.**

- **Details:**
  - Increasing the number of properties with Integrated PSH without understanding the reasons for its current high level of distress could only exacerbate the situation, putting more residents and operators at risk.

Goal: Work to Reduce the Time Needed to Match Tenants and Housing When Working with Individuals from the Coordinated Entry (CE) List.

- **Recommendation: All CE stakeholders should prioritize simplifying the entire process to fill housing units for individuals on Coordinated Entry lists in order to foster higher efficiencies to speed up tenant placements.** The entire process of filling a vacancy when drawing from the CE list causes delays in leasing, correlated with increased rent loss and / or vacancy measures at both types of PSH properties.

- **Details:**
  - Delays with placements from the CE list were cited often as contributors to distress in interviews with providers of supportive housing, especially 100% PSH. Vacancy shot up to the extreme level of 17.9% by the end of 2023 among 100% PSH properties analyzed in the provider dataset.
  - There are many steps to achieve a tenant - unit match when filling a unit drawing from the CE system. Delays can occur at many points in the process.

Goal: Gain as Much Assistance as Possible from Law Enforcement to Help Reduce Operational Pressure on Properties in Areas Experiencing High Levels of Crime.

- **Recommendation: The Coalition should support the convening of public safety organizations to create safety plans that will help regulated properties located in areas of high crime and instability. The plans would acknowledge that law enforcement personnel are an important resource in helping with homeless individuals at regulated properties in distressed neighborhoods.**

- **Details:**
  - Crime and neighborhood instability have created operational problems in several districts in Minneapolis and St. Paul, and certain areas of Greater Minnesota. Costs for security have risen well above inflation in the past 2-3 years and staff turnover has been reported by interviewees to be unsustainable at a number of properties.
  - Operators have reported an emerging trend of more frequent visits by homeless individuals to buildings with supportive housing, considering them to be an on-demand option for overnight shelter.

Goal: Work to Establish Preservation or Recapitalization Funding for LIHTC Properties That Do Not Achieve Funding Through the Consolidated RFP.

- **<u>Recommendation</u>: The Coalition should support the convening of major public funders, private lenders and investors, MN 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.**

- **<u>Details:</u>**
  - Under the current QAP, LIHTC properties without PSH units rarely score enough points to secure needed funds for repairs and recapitalization.
  - LIHTC properties make up at least 35,000 units of the regulated housing supply across Minnesota, generally serving working tenants with moderate incomes.
  - The State has invested heavily and leveraged valuable private capital over 40 years to create this important component of the State's housing supply. It should be a top priority to protect this prior public investment.
  - Without funding, many of these properties will miss the opportunity to repair and upgrade units and building systems at key points in the building life cycle.

Goal: Work to Stabilize Greater Minnesota Properties that Struggle from Small Project Size or Low Market Demand.

- **<u>Recommendation</u>: MN 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.**

- **<u>Details:</u>**
  - The regulated housing stock in Greater Minnesota has unique operating challenges stemming from typically smaller project size (often 16-30 units). Many projects cannot achieve economies of scale in staffing or property management costs and just one problem with operations can wipe out cash flow.
  - Interviewees reported narrow operating margins of less than $5,000 per year with many projects. This leaves no money to fund reserve accounts or even complete current repairs.
  - Often just one regulated property exists in a small, rural community. Such buildings are vital to a community's low- and very-low-income residents.
  - Roughly 9,600 units statewide were originally financed through the federal RD loan program. Per interviewees, this program presents challenges and slow processing time for properties that are eligible to refinance or recapitalize with new funds. There is risk that these properties could become unregulated NOAH if the owners cannot find suitable financing options.