DISTRESSED PROPERTY DATA PROJECT

PROJECT REVIEW AND KEY FINDINGS

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Welcome!

About the Minnesota Housing Stability Coalition

35+ organizations statewide

Diverse in geography, portfolio size, and service type

Purpose: Came together 18 months ago to develop solutions that can return the sector to health

Prior Research & Activities

Previous Research – Goal to better understand the problem in order to identify most appropriate solutions:

– Resident Perspectives on Distressed Multifamily Properties
– Unique but not Uncommon: The Loss of 25 Homes at the Dundry House
– Distressed Property Data Project: Research Findings – Qualitative Interviews
– Task Force on Long-Term Sustainability of Affordable Housing – many coalition members were Task Force members

Key Takeaways: Data Report

The distress is pervasive across the affordable housing sector and no subgroup is spared. It's also national in scope.

Stress factors are largely external to the housing providers; this has little to do with management practices.

Collective cash flow loss of ~$50M from 2018-2023. Decades of public investment are at risk.

Minnesota can be a national leader in creating path to bring the sector back to health *if we act now*.

Methodology

Two-phased Project

Qualitative Analysis

– 35 interviews with provider staff and industry professionals

Quantitative Analysis

– Distress factors indicated by interviewees
– Property, subgroup, and parent organization levels
– Operating statements, audited financials, & REO schedules
– 2018 & 2019 baseline years; 2020-2023 COVID impact years
– CPI as revenue/expense benchmark
– Marquette Advisors *Apartment Trends* data for vacancy benchmark

Data Sources – Quantitative Analysis

Data Sources: 2018-2023

- Financials from **16 housing providers**: 12,570 units / 229 properties
- **MN Housing** funding programs datasets: 15,256 units / 257 properties / 79 management agents
- After de-duplicating records, the merged datasets yielded data on **25,839 units in 456 properties**
- **LIHTC compliance** data from five sub allocators
  - Three in the Twin Cities, two in Greater Minnesota
- **Hennepin County** Repair & Grow application materials
  - 10,269 units / 147 properties / 14 providers
- **HUD** and **HousingLink** *Streams* databases

Classifying Properties in the Research

Housing Provider Scope

Key Challenge: Project and organizational finances are proprietary data and very difficult to get

Non-profits covered in MN Housing data and direct file submission using NDAs; several dozen providers statewide

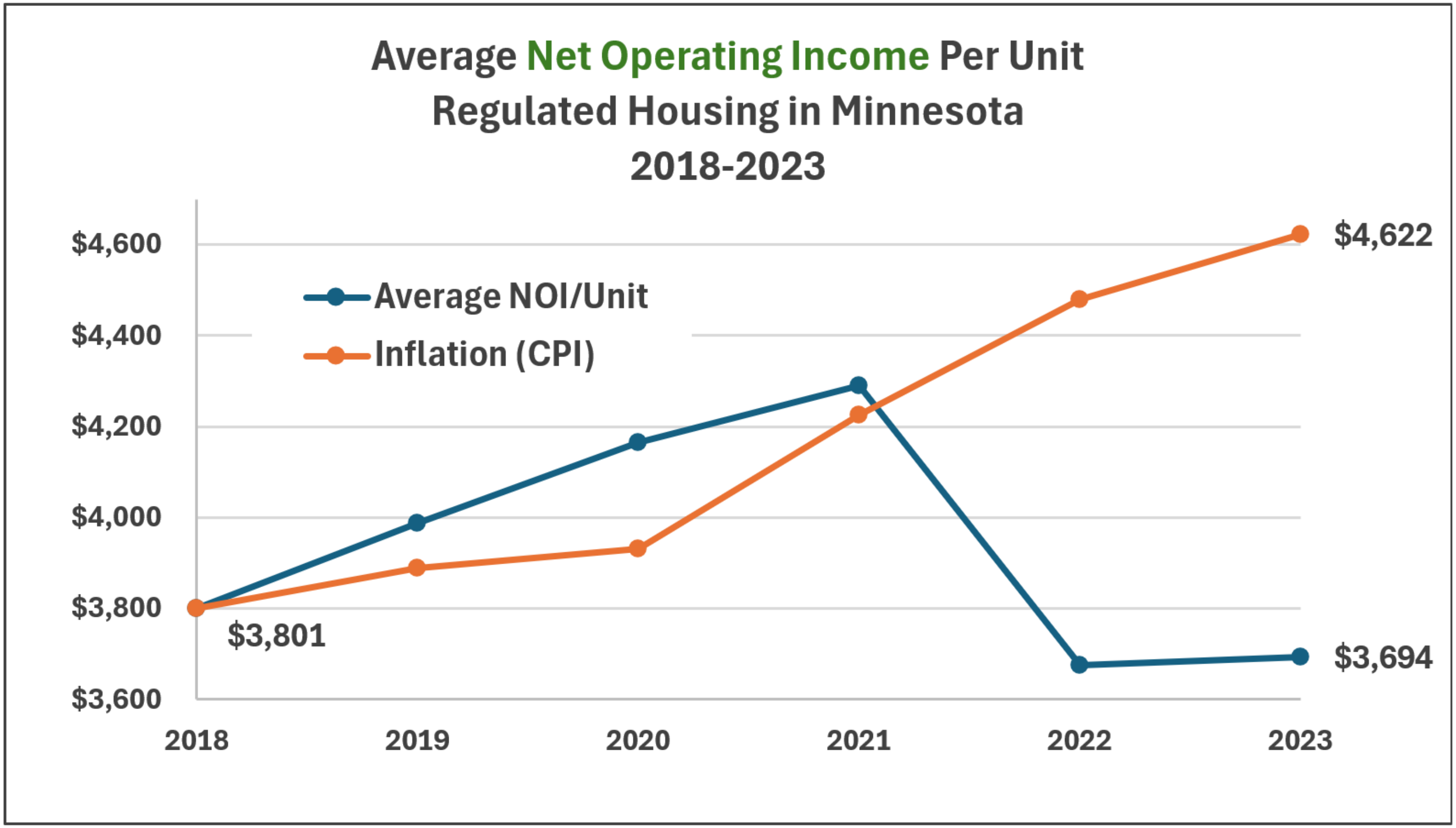
For-profits covered in MN Housing data; at least 4,100 units / 88 properties / 12+ providers

Location (Region)/Property Type

– Mpls./St. Paul, TCs suburbs, Greater MN job centers, rural areas

– 100% PSH, Mixed PSH, LIHTC-no formal PSH, Section 8/202/811/RD

High Level View of Performance: MN Housing Data



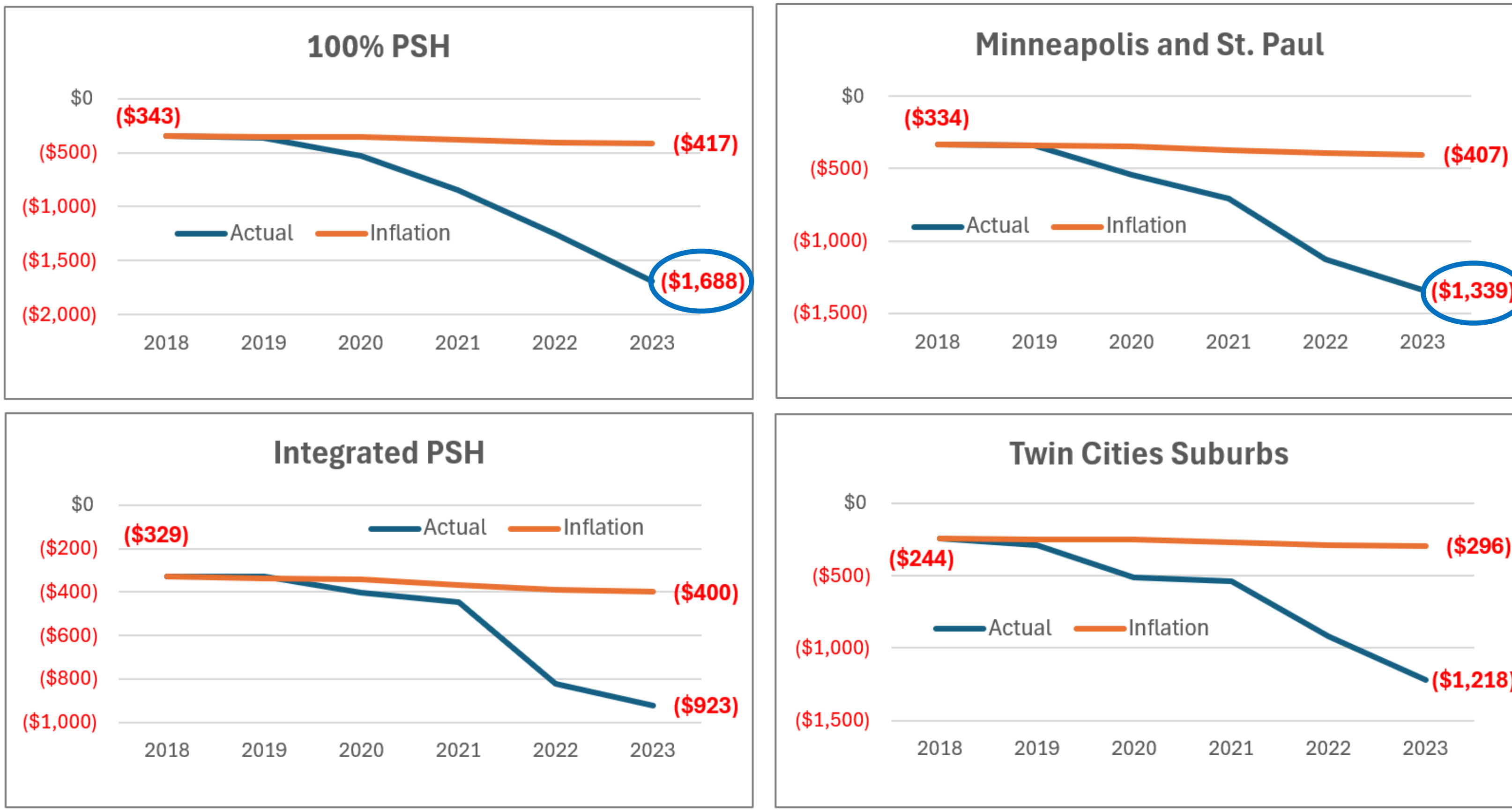
Distress Factors Measured with Data

- **Rent collection loss***
- **Vacancy***
- **Bad debt**
- **Cash flow***
- **Total operating, repair, and maintenance***
- **Insurance**
- **Security**
- **Utilities**
- **Difficult environment for restructuring and recapitalization**

**Detailed in following slides*

Distress Factor: Rent Collection Loss

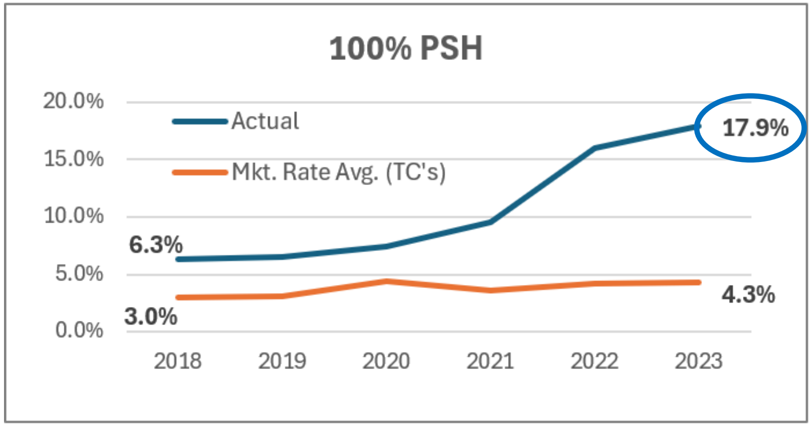
Trends by Service Level ($/unit/year) **Trends by Region ($/unit/year)**

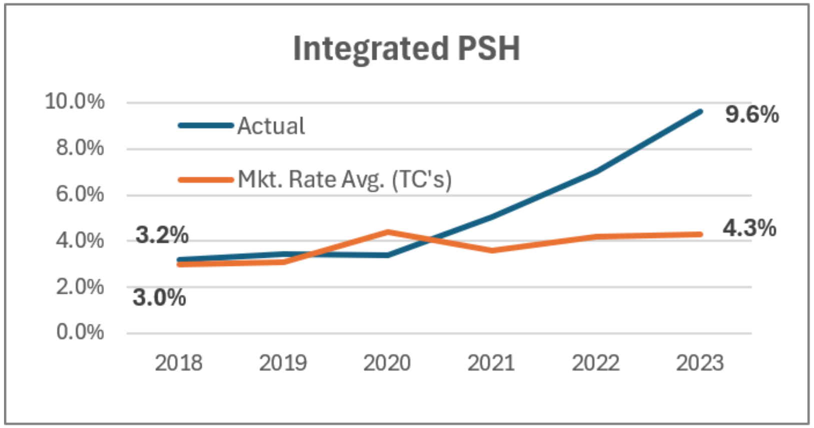


- High distress factor for all types /regions; $1,000-$1,300/unit decline in worst cases
- Forces: eviction moratoria, lower rent payments from tenants, more non-payment, cost of living increases having an acute effect on lowest-income households

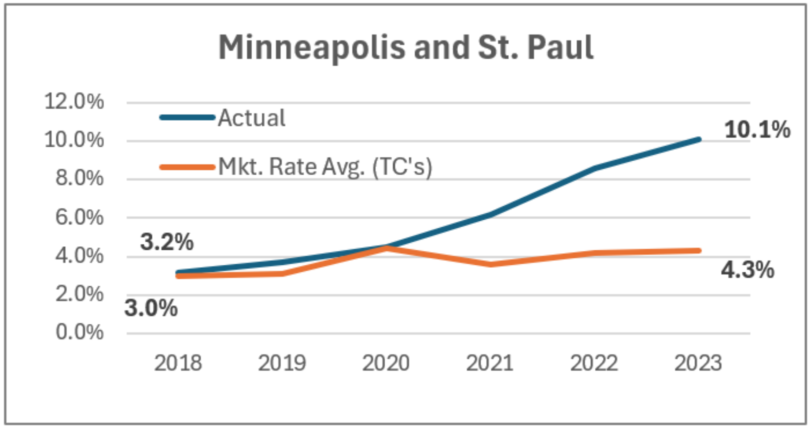
Distress Factor: Physical Vacancy

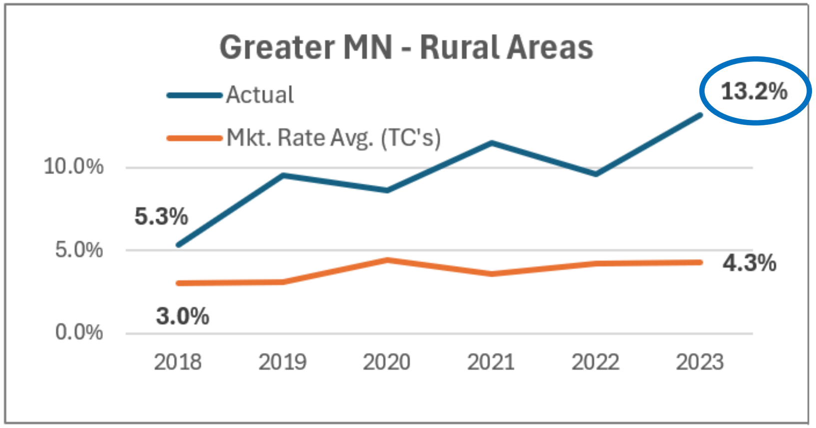
Trends by Service Level (%/unit/year)





Trends by Region (%/unit/year)



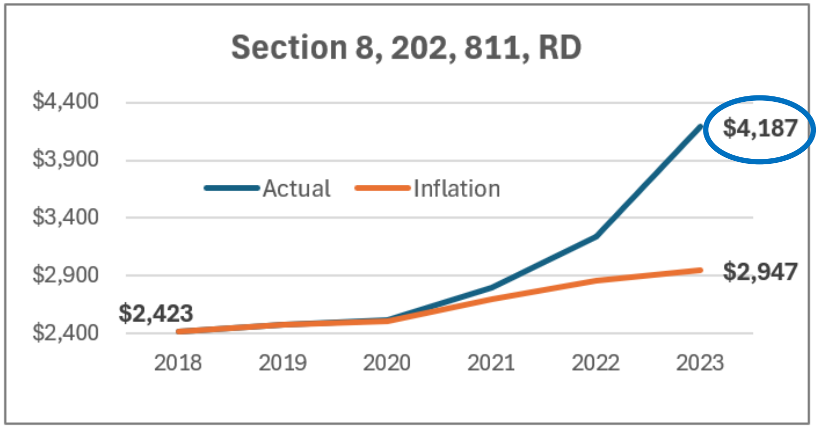


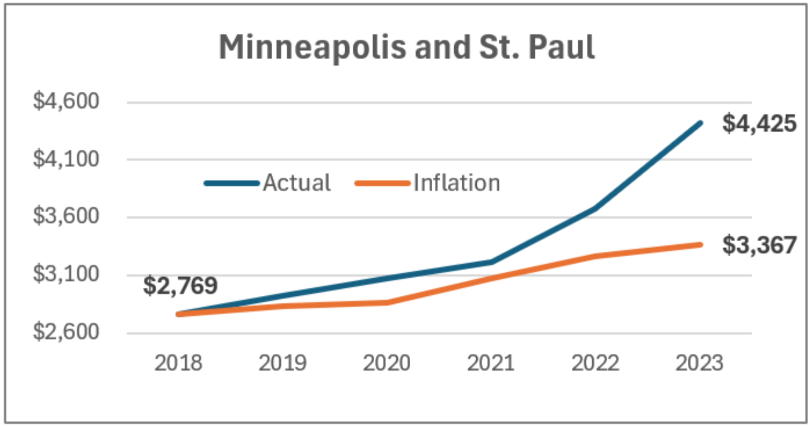
- Significant problem with PSH and rural MN; tripling of vacancy in five years
- Forces: delays in placements from CE lists, lack of staff to turn units, and crime in urban districts; declining populations, small job markets, and poor unit condition in rural areas.

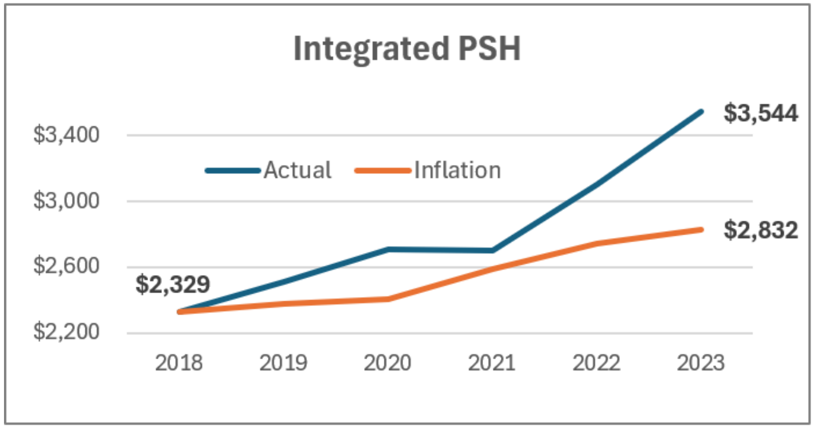
Distress Factor: Total O&M Costs

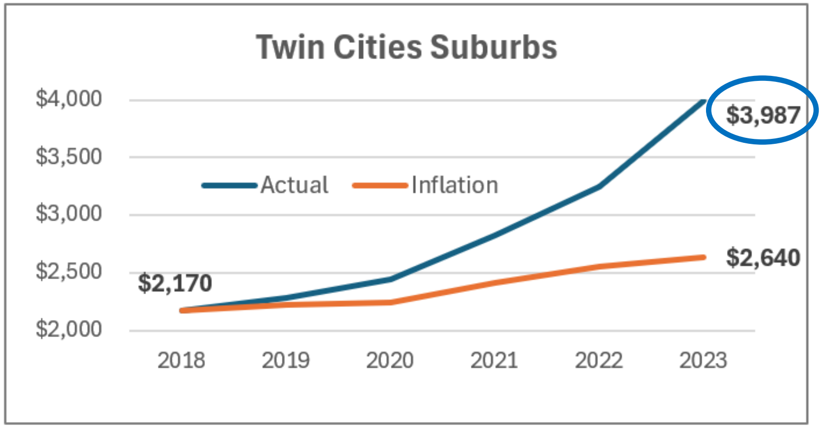
Trends by Service Level ($/unit/year)

Trends by Region ($/unit/year)









- All property types and regions saw 50% to 290% cost rise ***above inflation***
- Forces: Rapidly rising salaries, lack of qualified workers forcing third-party contracts at higher cost, higher prices for all types of components & supplies

Distress Factor: Cash Flow

Cash Flow

By Service Level/Funding	Average/Unit Cash Flow 2018	Average/Unit Cash Flow 2023	Change 2018-2023
100% PSH	$194	($1,980)	**($2,174)**
Integrated PSH	$880	($676)	**($1,556)**
Section 8, 202, 811, RD	$488	($1,594)	**($2,082)**
LIHTC-No Services	$844	($946)	**($1,790)**

By Minnesota Region	Average/Unit Cash Flow 2018	Average/Unit Cash Flow 2023	Change 2018-2023
Minneapolis & St. Paul	$583	($1,537)	**($2,120)**
TCs Suburbs	$1,021	($537)	**($1,558)**
Greater MN-Job Centers	$650	($660)	**($1,310)**
Greater MN-Rural Areas	Insufficient data		

- Life blood of a project; net cash after paying debt and funding reserves
- Cash flow declined greatly among all project types & regions; **$1,875/per unit average decline** between 2018 and 2023. Enormous loss of resources for properties across MN.

Property Subgroups Experiencing Common Challenges

- **Projects in central-city districts with higher public safety needs**
- **100% PSH**
- **Integrated PSH**
- **Section 8/202/811/RD (30% AMI)**
- **LIHTC with no services**
- **Properties in rural Minnesota***

**Details in following slide*

Subgroup Distress: Rural MN Properties

- The small size of most rural developments (~30 units average) offers poor economies of scale with labor/staffing.
- Seemingly small losses in revenue or expense rise can have a significant impact.
- Example: increase of $690/unit in O&M equals about $21,000 for a 30-unit property, enough for repairs, reserve deposits, or salary increases.

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%

Important Conclusions from the Data Analysis

- **Distress is widespread among all types of properties, providers, and locations**
  - Data showed high distress across the four property types and four regions
  - Properties owned by **for-profit entities were not spared**
- **Distress factors are largely external to providers**
  - Eviction moratoria, rent non-payment, 4%-5% inflation, supply chain issues, labor market shake-up, rising wages, staff shortages, pandemic isolation, drug use, societal instability
- **Many regulated properties in Minnesota show negative cash flow, putting pressure on parent organizations**
  - Average cash flow among 11,408 units with available data showed a decline of $1,875 per unit between 2018 and 2023

Important Conclusions from the Data Analysis (cont.)

- **Parent organizations have been required to take extraordinary measures to keep properties running**
  - Loss of property & asset management fees, contributions for operating shortfalls and emergency security measures, loans to properties for repairs, special training, salary, and bonus programs to keep critical on-site staff
- **Desired public benefit outcomes may be impossible to deliver without changes**
  - Services funding shortfalls and cash flow losses of $1,500 to $2,000 per unit at 100% PSH and 30% AMI units severely undercut services delivery
- **Significant distress on regulated housing continues**
  - Lower tenant payments, insufficient supportive services funding, depleted R&M accounts, rising costs for insurance, materials, and labor, shortages in qualified staff, and continued neighborhood instability

Important Conclusions from the Data Analysis (cont.)

- **The current situation represents an historic threat to the regulated supply, which has taken decades and billions in public dollars of investment to create**
  - Property sales by providers to maintain health could reduce stock
  - Weakened providers may develop fewer new units and have ongoing difficulty maintaining the current supply
  - Poorer quality of outcomes for residents
  - "All hands on deck" moment

Recommendations

Two types of recommendations in Report II (pages 34-39)

- **Broader (Systems) Level Interventions**
- **Focused Interventions**: Property subgroups and targeted systems

Not an exhaustive list; other entities are also developing recommendations

- The Task Force on Long-Term Sustainability of Affordable Housing
- The MN Housing Stability Coalition
- Others

Efforts are coalescing around common topics and possible solutions

https://mnhousingstability.org/reports-and-resources/

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DISTRESSED PROPERTY DATA PROJECT
RESEARCH FINDINGS – QUANTITATIVE ANALYSIS

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

February 2025

O'NEIL CONSULTING

DISTRESSED PROPERTY DATA PROJECT
RESEARCH FINDINGS – QUALITATIVE INTERVIEWS

REPORT I: DISTRESS INDICATORS - OPERATIONS AND PROPERTY SUBGROUPS

eptember 2024

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Stress factors are largely external to the housing providers; this has little to do with management practices.

Collective cash flow loss of ~$50M from 2018-2023. Decades of public investment are at risk.

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Minnesota Housing Stability Coalition

www.mnhousingstability.org

Unique but not Uncommon: The Loss of 25 Homes at the Dundry House

Introduction

Nonprofit affordable housing providers throughout Minnesota and the country are experiencing operational challenges that pose a threat to tenant stability and organizational health.

Based in Minneapolis' Ventura Village neighborhood, Hope Community provides stable, long-term housing for people who have experienced homelessness and people living on low incomes.

In May 2024, Hope Community had to demolish 25 units of permanent supportive housing – the Dundry House – despite its best efforts to preserve the property and protect the stability of the tenants. As an important case study for the broader affordable housing market, it is critical to understand what happened to the Dundry House and apply the lessons learned to prevent further loss of affordable housing.

Hope Community had owned the Dundry House since 2002, and in 2010 transitioned the property from general affordable housing to exclusively renting to individuals and couples who had previously experienced homelessness. The state Housing Support program (formerly Group Residential Housing or GRH) paid the residents' rents, and residents received supportive services at their homes through partnerships with Project for Pride in Living (PPL), Agate Housing Services, and Catholic Charities. In 2019, Hope Community renovated the building, upgrading the units, modernizing mechanical systems, and completing tuckpointing on the 100-year-old masonry – all

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