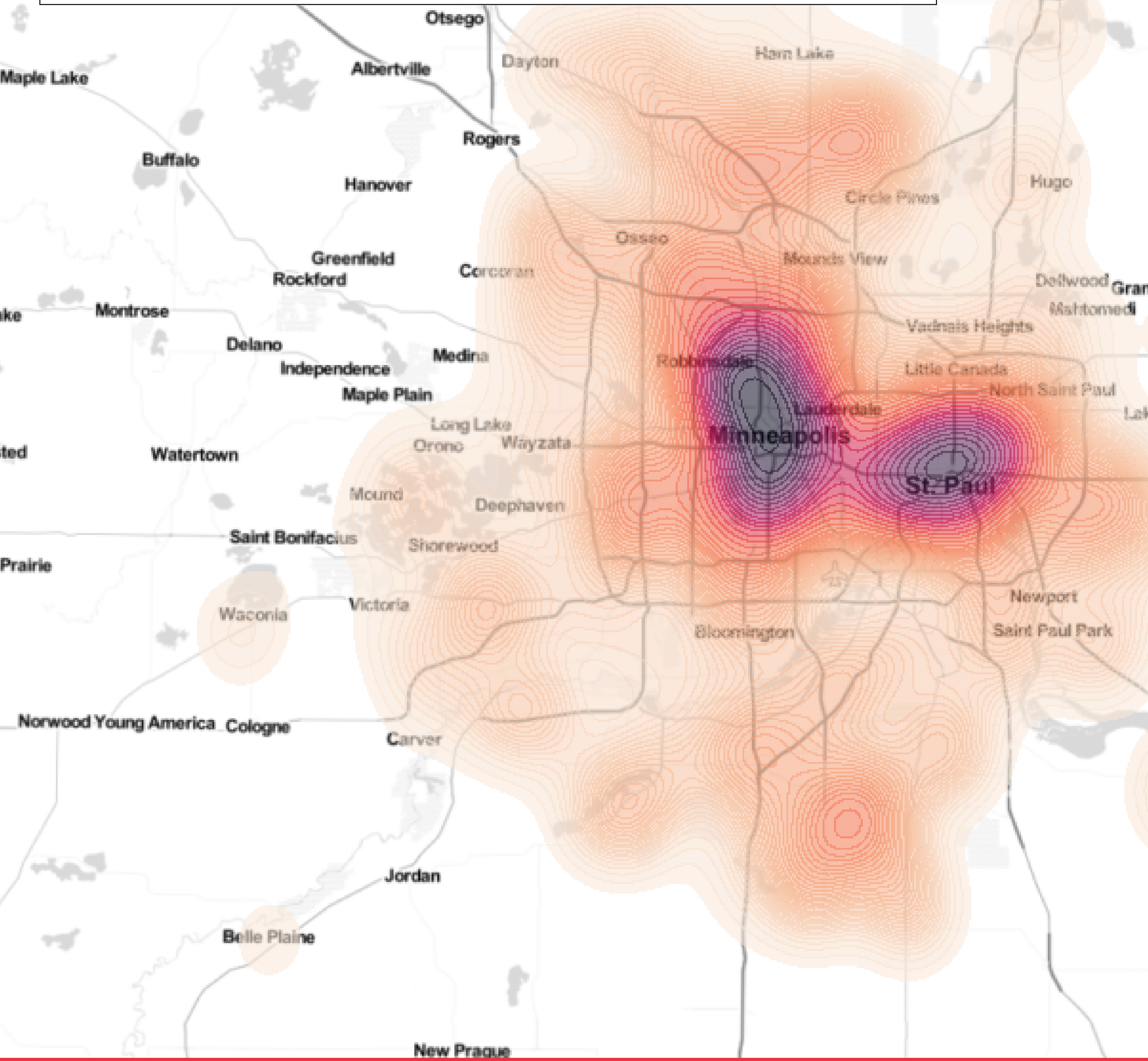
Wall Street Neighbors:

Corporate Housing in the Twin Cities



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Problem Statement

Since the Great Recession, financial organizations have pursued single-family homes as a major asset class. According to a report by Redfin, investors bought 18.4% of all homes purchased in the fourth quarter of 2021, totaling near 80,000 homes worth a total of $50 billion. Business models have sought to maximize return on these assets, anecdotally leveraging pricing power to increase rents and increasing neighborhood turnover.

Increased corporate investment into real estate poses challenges to cities facing housing affordability crises – crises marked by stark racial inequities in home ownership rates.

New policies for increasing rent stability focus on the acquisition of ‘naturally occurring affordable housing,’ a strategy intended to strategically purchase housing in areas where market rents are increasing drastically. With funds limited, optimization is paramount to maximize the impact of targeted housing investment. Being able to understand areas with higher risk of corporate investment can help city planners strategically target NOAH acquisitions.

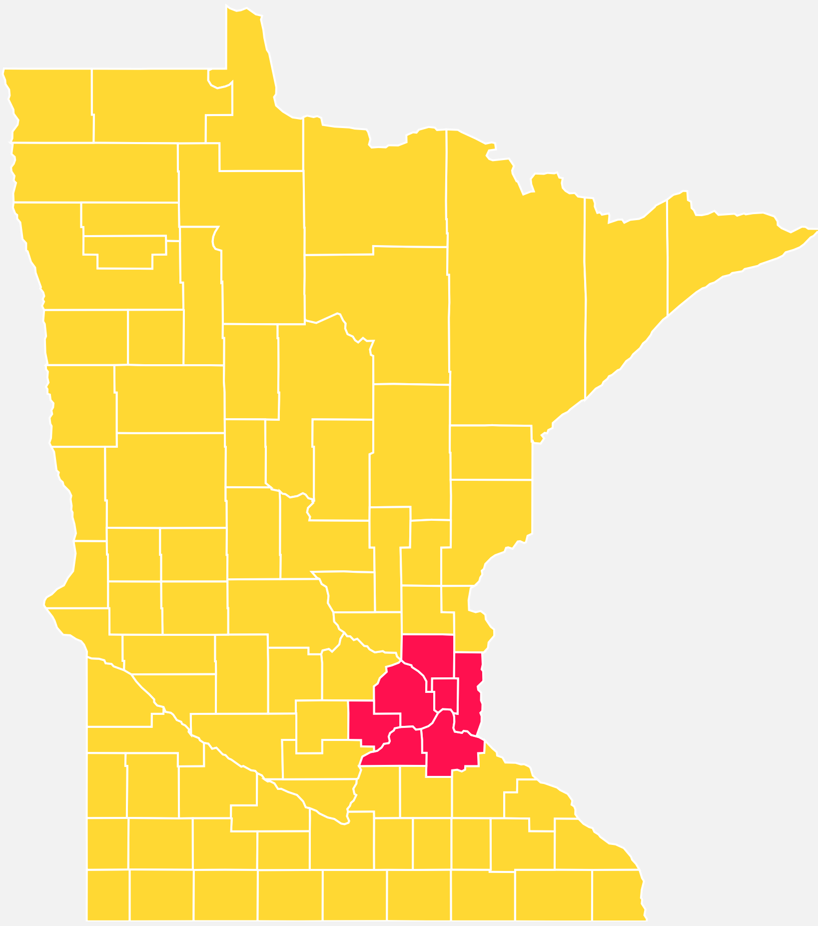
$50 billion
in single-family homes

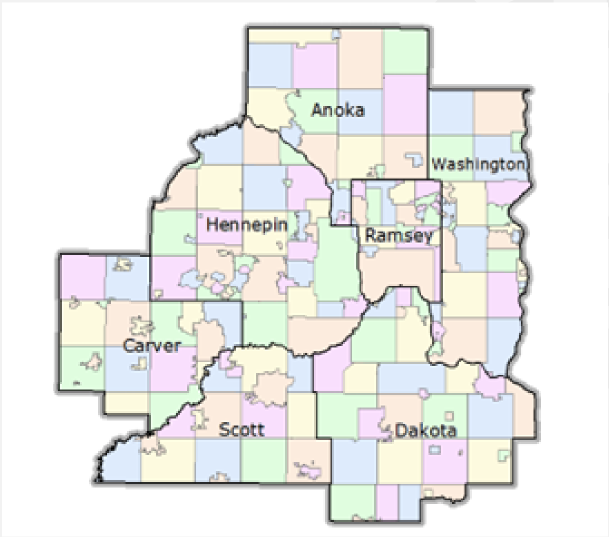
18.4%

Investor Purchases of All Homes in 4th quarter, 2021

Twin Cities Metropolitan Region
An Introduction

The Twin Cities Metropolitan area includes the broader seven counties connected to Minneapolis and St Paul.. Compared to Sunbelt cities, the rate of corporate ownership remains low in comparison at 3.4% of all single family, duplex, and triplex parcels.





3.4%

Corporate ownership of single family, duplex, and triplex residential parcels.

Methods

Parcel Dataset:
Data on individual parcels was collected from each county, and parcels organized by use class and residence type . Corporate housing was identified based on the following criteria:

1. TaxName: If the tax name included the words 'inc', 'homes', 'corporation', 'trust', 'corp', 'llc', or 'lp' it was categorized as corporate
2. Homestead: To eliminate family trusts, a corporate home could not be homesteaded.

Tract Dataset:
Census tract information was collected from the MetCouncil's Regional Equity Considerations dataset which included processed information from the ACS for the year 2022 on 2010 census tracts. Occupational tract information was derived from the Longitudinal Household Employment Dynamics (2018) dataset. This demographic, economic, social, and educational data produces a neighborhood 'snapshot'.

Spatial Analysis:
The parcels dataset was spatially joined to the tract dataset, counting the number of parcels within each tract and the number owned by corporate investors. The tract dataset was also joined to the parcel set, providing a neighborhood snapshot for each parcel.

Each dataset provided different insights for modeling and analysis purposes.

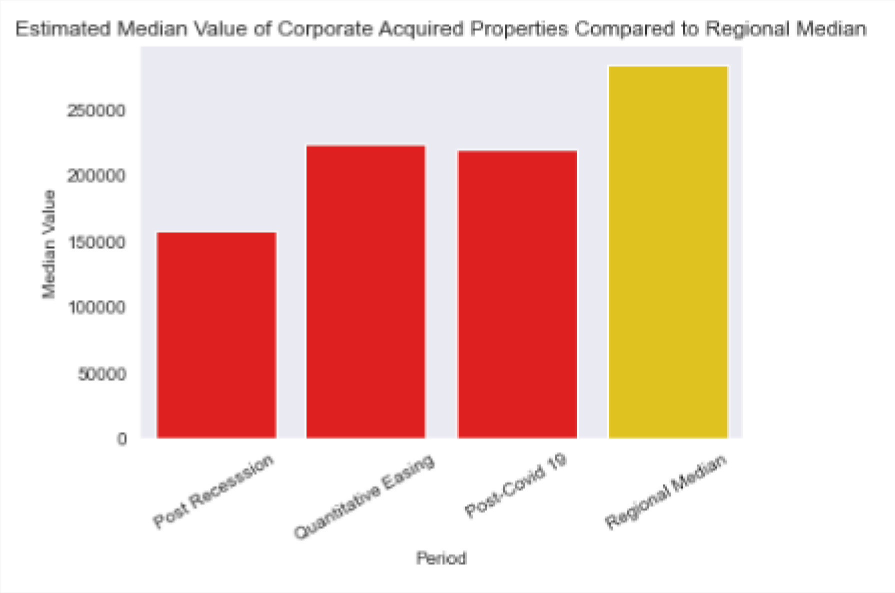
Housing as an Asset Class

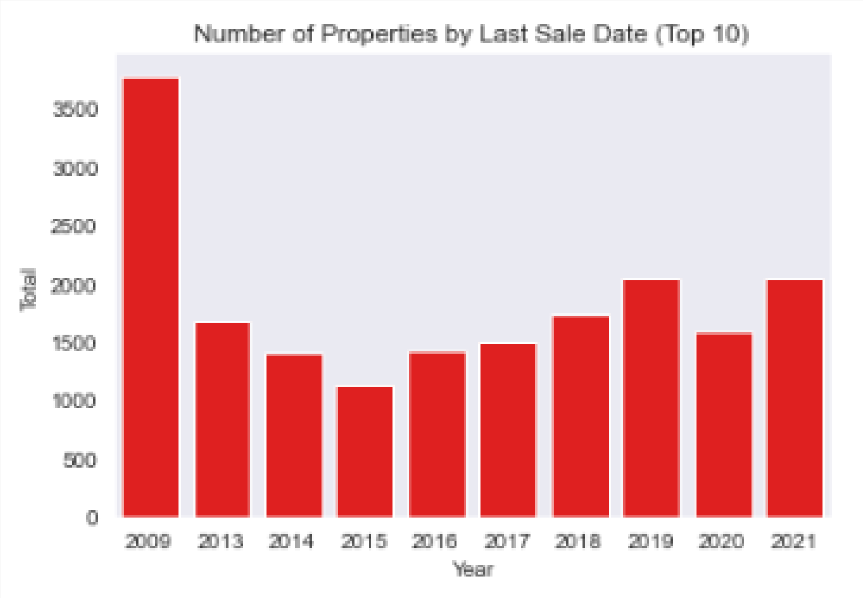
Prior to the Great Recession, large scale investing into single family housing was rare given high transaction costs and asymmetric information in local markets.

Corporate purchasing accelerated after the Great Recession (2008-2013), with corporate investors targeting foreclosed assets.

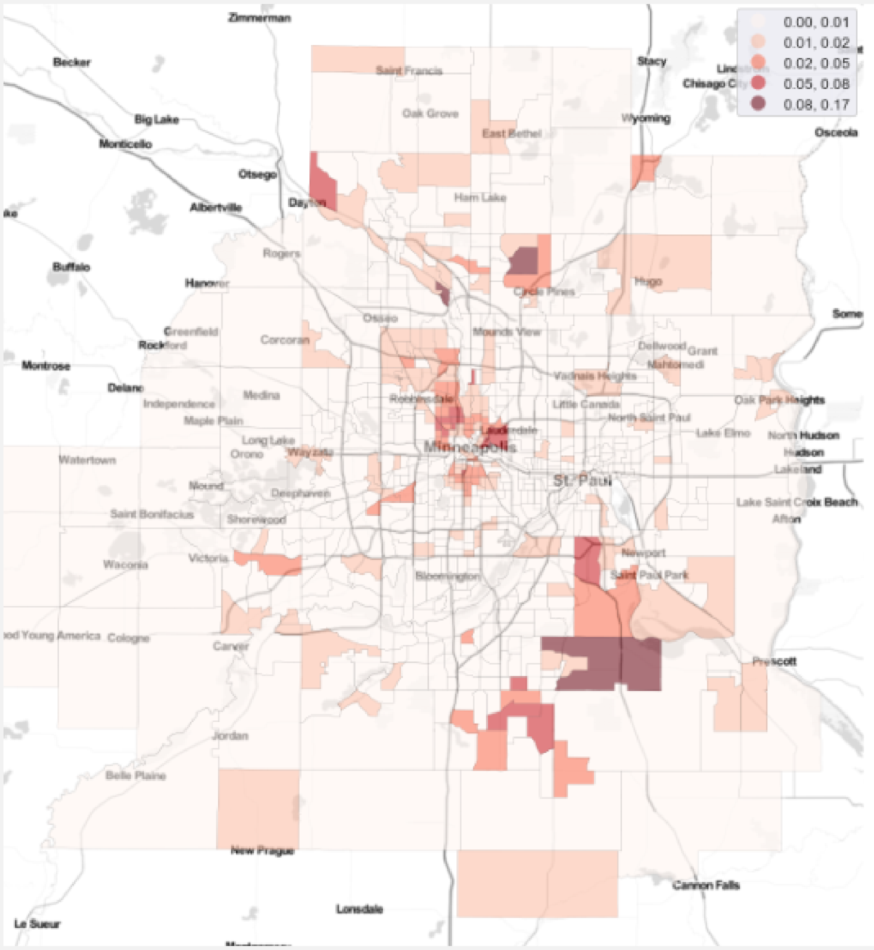
Housing turned into a standard asset class in the era of quantitative easing (2013-2019) and post Covid-19 (2020-Today) .

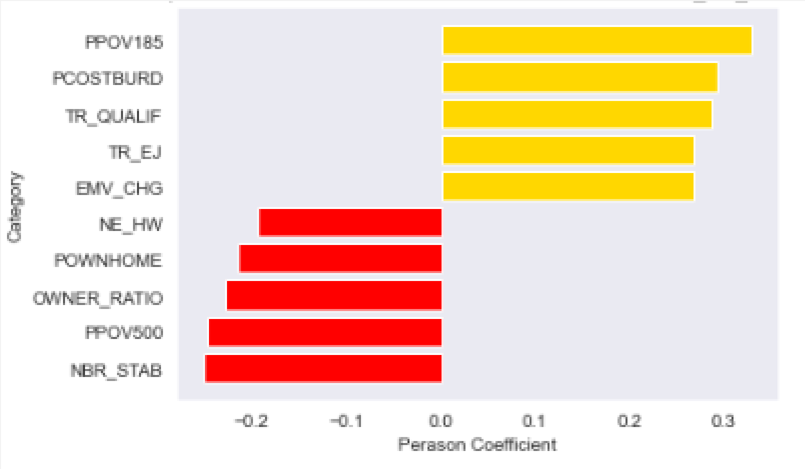
The median estimated value of corporate owned housing remains below the regional median.





Post-Recession Location and Strategy



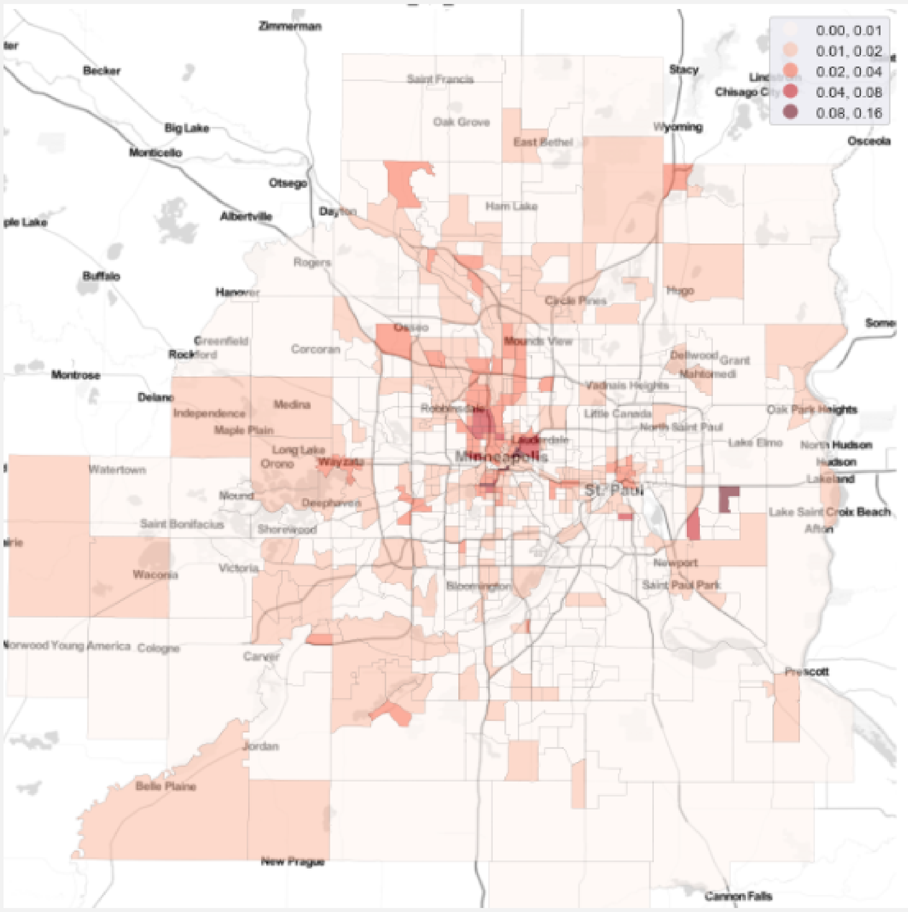


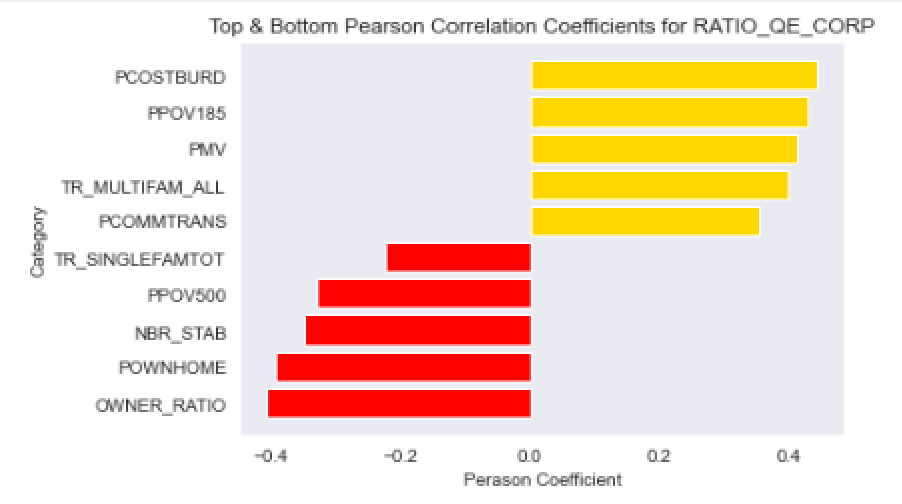
Analysis

During the Post-Recession years, corporate acquisitions targeted foreclosed homes in low-income communities of color and in first ring, working class suburbs.

By the end of the decade, homes purchased in this era remain positively correlated with higher levels of people living in poverty, people who are housing cost burdened, and in areas where housing prices have increased. Location is negatively correlated with neighborhood stability, affluent neighborhoods, and areas with high home ownership.

QE-Era Location and Strategy



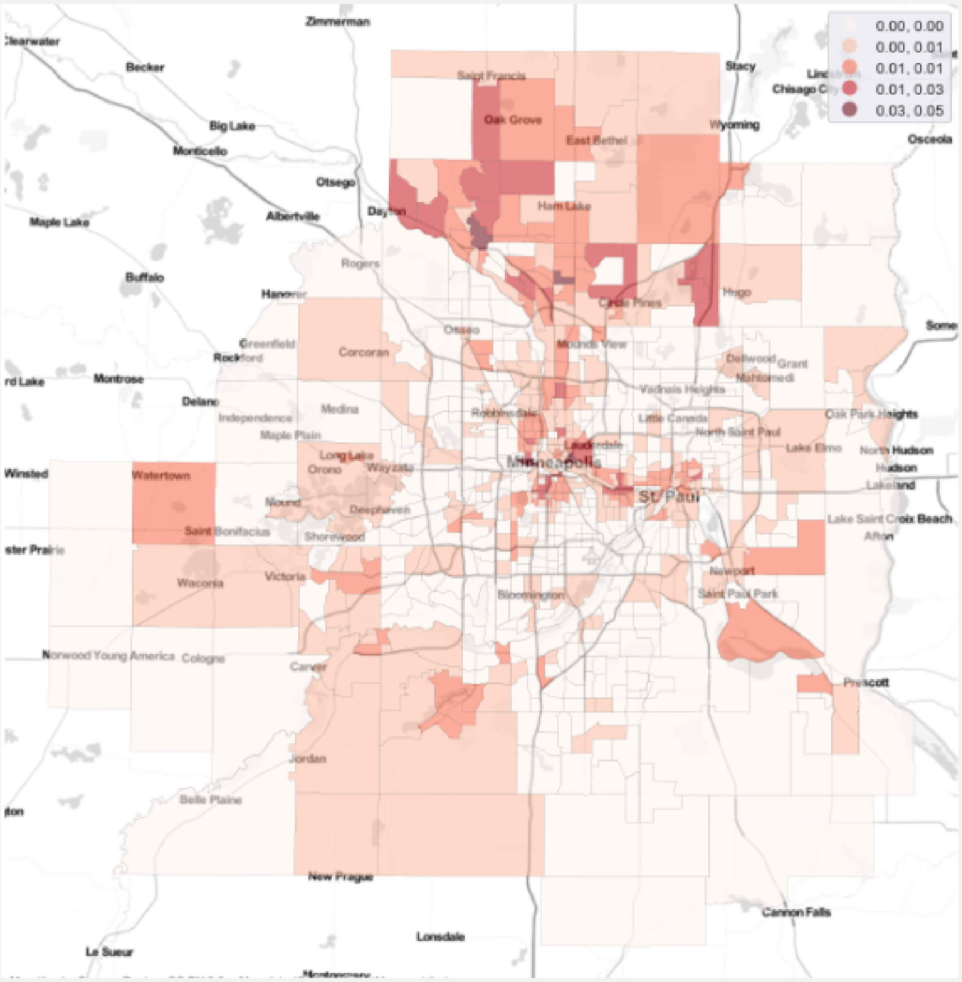


Analysis

In the monetary era marked by quantitative easing and low interest rates, corporate acquisitions emerged as a consistent asset class. Patterns of investment remained focused on lower income communities, with more focus on rapidly gentrifying neighborhoods often up-zoned for transit-oriented development.

Homes purchased in this era remain positively correlated with higher levels of people living in poverty, people who are housing cost burdened, and areas with higher levels of multi-family housing and proportions of residents who use public transit. There is also strong correlation with high neighborhood turnover. Location is negatively correlated with neighborhood stability, affluent neighborhoods, and areas with high home ownership.

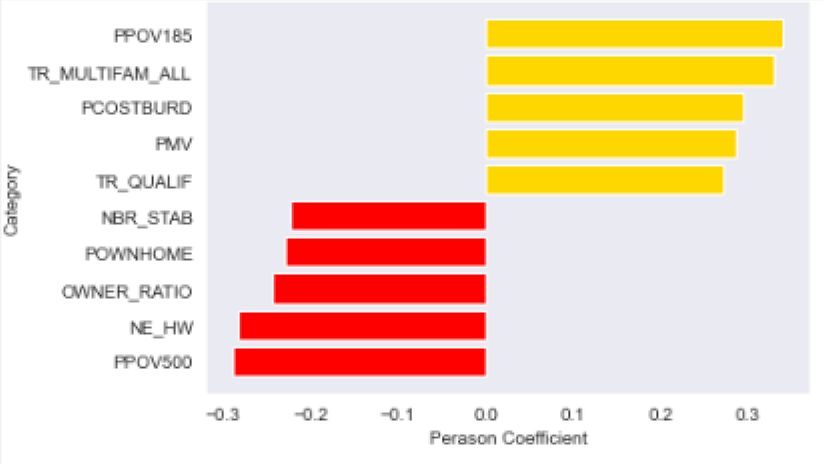
Post-Covid19 Pandemic



Analysis

Since the Covid-19 pandemic, house acquisition strategies have shifted.. Home preferences have shifted towards suburbs as home renters and buyers prefer more space and, reportedly, greater distance from urban unrest. Corporate strategies have similarly adjusted. Pairing with upzoned urban neighborhoods are increased clusters in northern and southwestern suburbs .

Corporate investment shifted into upzoned urban neighborhoods with higher proportions of multi-family housing. Meanwhile, the suburbs targeted are more closely correlated with blue collar and middle-income occupations rather than higher wage finance, managerial, and professional jobs. Again, areas with higher ratios of corporate acquisitions have higher rates of neighborhood churn, whereas higher wage workers (many of whom can still compete for higher priced homes, pushing valuations upwards) remain strongly negatively correlated. Higher levels of home ownership and neighborhood stability are still negatively correlated.



Key Points

01 Corporate properties target lower-income neighborhoods and neighborhoods of color

Corporate acquisition targets neighborhoods who bare the brunt of systemic racism and exclusion from home ownership.

02 Corporate properties drive instability

Areas with higher ratios of corporate housing are more unstable with greater housing churn, undermining neighborhood stability.

03 Working Class Suburbs Require Attention

Corporate investors are targeting working class suburbs rather than higher earning income suburbs, driving transition away from higher rates of home ownership.

04 Corporate Investment Target Upzoning

Corporate investors also target neighborhoods up-zoned for transit oriented development, seeking to take advantage of neighborhood gentrification.

Conclusions and Next Steps

Corporate investment into single-family housing destabilizes low income neighborhoods and low income communities of color. Goals to increase regional equity should target areas with higher ratios of corporate investment to stabilize neighborhoods and build resilience.

A spatial model indicating areas of high risk can provide further guidance for policymakers in targeting affordable housing investments.

Replication of the study in other regions with higher levels of corporate investment could uncover broader ipatterns and impacts