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The Relationship Between Affordable Rental Housing and Market-Rate Home Values

By Thomas O'Neill

Editor's note: A complex, six-year study of the relationship between subsidized rental housing and property values of surrounding market-rate homes in the Twin Cities of Minnesota was released in November 2000. The study was sponsored by the Family Housing Fund, a Minneapolis-based nonprofit agency that supports the development of affordable housing throughout the Twin Cities. This is important research for planners and housing advocates who must routinely confront neighborhood concerns about the potential impacts of affordable housing on property values.

The analysis was conducted by Market Research Partners, Inc., and Maxfield Research, Inc., two market research firms in Minneapolis. This issue of *Public Investment* contains the summary of findings of the full report and a case study detailing what happened to market-rate property values in an Eagan, Minnesota, neighborhood, in the three years prior to and following construction of a subsidized townhome development in the neighborhood. Data is provided on the sales-per-square-foot price, the sales-price-to-list-price comparison, and the market times for each sale (e.g., how long the house was on the market before it sold). The full report, including all 12 case study analyses, is available at www.fhfund.org.

The Family Housing Fund study examined 12 neighborhoods in the Twin Cities in which a tax-credit rental housing development for families (built between 1993 and mid-year 1997) was located within a dense district of owner-occupied homes, termed a "subject area." The subject areas generally contained between 150 and 300 owner housing units within one to three blocks.

Researchers presumed that the negative impact of a tax-credit development could be determined by analyzing three measures of market performance among homes sold in the subject area:

- sales price per square foot
- the percentage of sales to asking (list) price, and
- time on the market.

Comparing homes sold in each subject area before and after construction of tax-credit development (a *pre/post* analysis), as well as comparing homes sold in each subject area to homes sold in areas without a similar tax-credit development (a *subject/control* analysis) would reveal the presence of a negative impact.

In the pre- and post-construction analysis, researchers compared market performance in the three years before and after construction start of the tax-credit developments under study. [These years are referred to as "pre-1, pre-2, and pre-3" and "post-1, post-2, and post-3" in this article.] They focused on homes sales that were part of a continuous data set, representing a homogeneous submarket of properties that sold in all or most

of the six years under study. In this manner, they analyzed roughly 600 records across 16 submarkets in 11 subject areas. In the pre- and post-construction analysis, they also addressed the claim that the overall Twin Cities housing market was becoming stronger, and that the subject areas around tax-credit housing simply did not increase in strength as much as they should have.

In the subject-versus-control analysis, researchers compared subject area sales in the post-construction years to sales of similar homes (age and size) from the same community and school district, located in areas where there were no tax-credit developments for families built between 1993 and 1997. Sixty-eight subject control comparisons were completed, involving roughly 470 subject area records.

Detailed Findings

In general, the homes that were sold in the subject areas around the 12 tax-credit developments in the study displayed similar or stronger market performance in the period after the tax-credit properties were built, as well as similar or stronger performance to comparable homes sales from a control group. Researchers identified generally upward price trends, declining market times and stable or improving sales-to-list price percentages in most submarkets, over the six-year study period.

Some subject areas displayed poorer market performance after construction of the tax-credit development in question as compared to before it, or poorer performance as compared to a comparable control group. However, such poorer performance was almost always limited to one year, or

isolated among one group of homes in a subject area; there was little to suggest that there was a sustained, negative, post-construction trend in any given neighborhood surrounding the tax-credit development in the study.

There is little or no evidence to support the claim that the tax-credit family rental developments eroded surrounding home values.

As a group, the subject areas had far higher average annual per-square-foot price appreciation after the tax-credit developments were built than before: 5.9 percent versus 0.9 percent. Housing style did not make a difference, as significantly superior growth in the post-construction period occurred among both townhomes and single-family homes in the subject areas, collectively.

The ability for sellers to gain the price they asked for was not impeded in the years after the construction of the tax-credit developments under study, as sales-to-list price percentages among homes sold in the subject areas were generally higher in the post-construction period.

Market times for homes sold in the collective subject areas were shorter in the post-construction years than in the pre-construction years, with the exception of single-family homes in period post-2, which showed a 24-day jump over the previous year. In this case, the jump in market time did not exceed the low point from the pre-construction period. This suggests that the market, in terms of selling time, varied in similar fashion before and after tax-credit housing construction.

Researchers found that the subject areas, as a group, exhibited slower average sales price growth in the pre-construction years than the Twin Cities metro area overall (2.95 percent versus 4.23 percent). However, after construction, the gap in performance between the subject areas and the Twin Cities narrowed by a half percentage point. This indicates that, rather than weakening after construction, the markets

surrounding the tax-credit developments became stronger as a group, relative to the Twin Cities overall.

The subject areas performed similarly to their respective control markets, as revealed in the subject control comparison. Of the roughly 1,400 market performance measurements that were completed in the subject areas in the post-construction years, 96 percent fell within the range of values for similar age and size control group peers from the respective larger market. Just four percent of the subject area values (55 in number) fell below the range of values exhibited for comparable control sales.

In the subject-control comparison, poor performance in the subject areas exhibited itself most often in the form of longer market times than control counterparts (28 outlying values) and lower sales-to-list price percentages (18 outlying values). In only 12 cases did an outlying subject area value take the form of a lower price per square foot, as compared to a set of control peers. The 12 cases of lower prices relative to control peers represented just 2.6 percent of the price values that we measured in the subject areas.


The general conclusion was that there is little or no evidence to support the claim that the tax-credit family rental developments in the study eroded surrounding home values. The information from the research suggests that the various housing submarkets examined in the study performed normally in the years after construction of the rental housing in question, varying in similar fashion to the pre-construction years, and responding to supply and demand forces in a manner similar to the larger market.

Case Study: Pre- and Post-Construction Analysis of Oak Ridge Townhomes, Eagan, Minnesota

The subject area surrounding the Oak Ridge townhomes is densely developed and provided three sets of continuous data to analyze: single family homes built in the mid-1980s (17 records), new single-family homes (33 records), and townhomes built between the mid-1970s and mid-1980s (156 records). The 206 total records of home sales surrounding the Oak Ridge townhomes is the largest number the researchers examined in any subject area in the pre- and post-construction analysis.

**PROPERTY SALES RECORDS USED IN OAK RIDGE
PRE-/POST-CONSTRUCTION COMPARISON**

Housing Style/Age Class	Pre-3	Pre-2	Pre-1	Post-1	Post-2	Post-3	Total Records
Single-Family/Existing	3	3	3	3	2	3	17
Single-Family/Newer			3	5	7	4	19
Single-Family/New	5	6	6	4	9	3	33
Townhome/Existing	26	20	24	29	26	31	156
Townhome/Newer							0
Townhome/New			1				
Records Used in Pre/Post Comparison	34	29	33	36	37	37	206

 = continuous data series used in pre- and post-construction comparison

Thomas O'Neill is president of Market Research Partners, Inc. in Minneapolis.

Pre- and Post-Construction
Housing Market Performance in the
Surrounding Neighborhood

Prices gained by sellers (i.e., sales per square foot)

■ Existing single-family homes. Median prices for the existing single-family homes grew by 4.6 percent in the post-construction period (measuring the change between year pre-1 through post-3). Conversely, annual growth in the pre-construction period was just 2.6 percent. The largest single-year change in the price occurred in the first year after construction (9.6 percent), when the median figure grew from \$59.18 to \$64.85 per square foot. This trend provides no evidence to suggest that the construction of Oak Ridge did anything to dampen the market for existing single-family homes in the immediate area.

■ New single-family homes. The median price per square foot among new homes (2,100–2,700 square feet) in the Oak Ridge subject area rose substantially in the post-construction period, after declining dramatically between period pre-2 and pre-1. The annual increase between period post-1 and post-3 was 6.5 percent; the annual change between period pre-1 and post-3 (the full post-construction period) was more than 10.1 percent. (Figure 1.)

■ Existing townhomes. The median price among existing townhomes grew steadily before and after the construction of Oak Ridge; the graph shows no weakening in the upward trend after construction. In fact, growth was actually stronger after construction, rising by just under 5.2 percent annually from year pre-2 through year post-3.

FIGURE 1

**Median Price Per Square Foot - New Single Family Homes
Oak Ridge Subject Area
3 Years Before and After Construction Start**

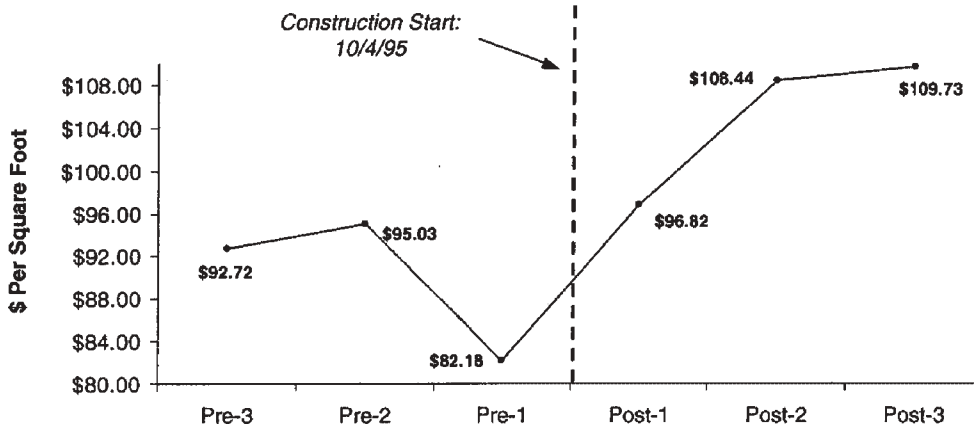
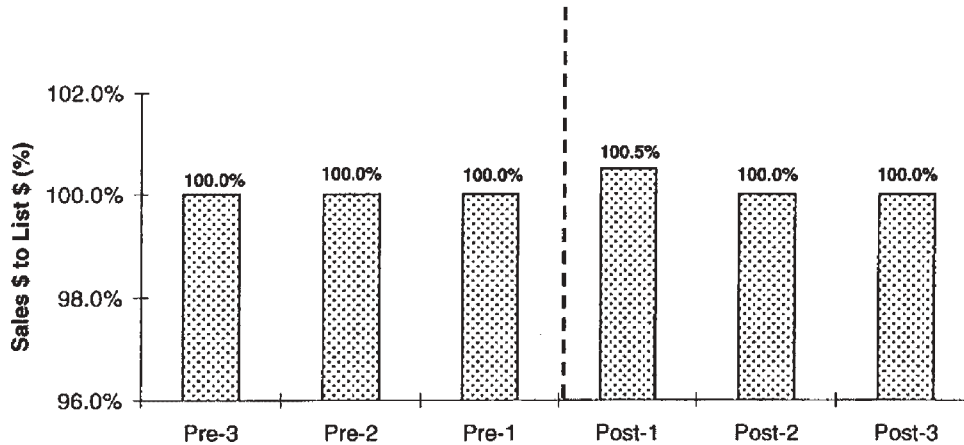


FIGURE 2

**Median Sales Price to List Price (%) - New Single Family Homes
Oak Ridge Subject Area
3 Years Before and After Construction Start**

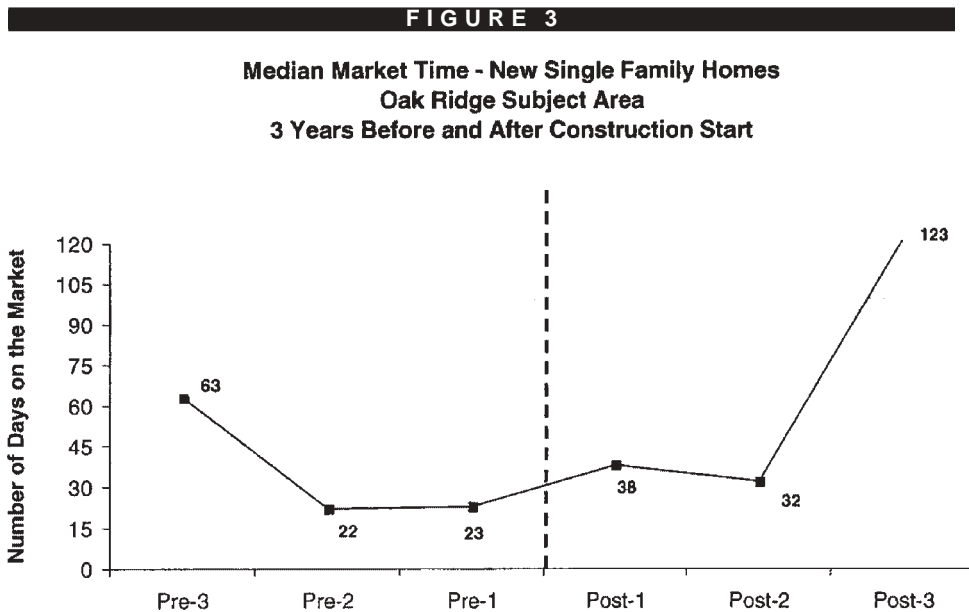


Demand for Prices by Buyers (sales-to-list price percentage)

- Existing single-family homes. The sales-to-list figure in the post-construction years was generally higher than the figures from the pre-construction period. The exception was a 96.9 percent figure in period post-3, which was slightly lower than the pre-construction high of 97.5 percent; however, the figure in period post-3 was substantially higher than the figures in years pre-3 and pre-1.
- New single-family homes. There was virtually no change in the sales-to-list price percentage during the period; all years displayed a median figure of 100 percent with the exception of year post-2, in which the figure rose to 100.5 percent. This is clear evidence that Oak Ridge did not affect the market for new housing, at least in terms of prices sought by sellers. (Figure 2.)
- Existing townhomes. Sellers of existing townhomes in the Oak Ridge subject area achieved similar or better success in gaining their asking prices in the post-construction years as compared to the pre-construction years. The two strongest years were post-2 and post-3, when sellers received 99.5 percent of asking price or better.

- New single-family homes. The median number of days on the market rose by about 10 to 15 in the first two years after construction of Oak Ridge, but the selling time still was strong by 38 days or less. The figure jumped to 123 days in period post-3, a six-year high. Despite this unusually high figure, sellers were still able to capture 100 percent of their asking price in this year, and garnered the highest sales-per-square-foot prices during the six-year period. This suggests that Oak Ridge did not affect property values in a negative manner. (Figure 3.)
- Existing townhomes. Median market times for existing townhomes in the subject area after construction of Oak Ridge never exceeded 20 days, equal to or better than the figures posted in the pre-construction years. Twenty days or less is an unusually fast median market time, suggesting that the townhome market was very strong after Oak Ridge was built.

Editor's note: The three figures provided here contain data for sales of new single-family homes in the subject area. The comparable figures for the other data sets in the Eagan case study (i.e., for existing single-family and existing townhomes sales) are available in the full report.



Speed of Sale (number of days on the market)

- Existing single-family homes. Market times for existing homes in the post-construction years were very similar to those in the pre-construction years, with the exception of a 103-day figure in period post-2. The two sales in this period were each at about 100 days. Given that both median sales prices and sales-to-list percentages in this year were strong relative to the pre-construction years, the researchers believe that this relatively high market time figure does not signal a negative impact from Oak Ridge, but rather reflects the variability and idiosyncratic nature of a small housing submarket.

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