

**NINA MOINI:** Across Minnesota's suburbs, a new kind of housing development is starting to appear, neighborhoods of newly built single-family homes designed specifically for renters. That's according to industry experts tracking the trend. They're big luxury homes with garages and yards, built and managed at a large scale by investment companies. Supporters say these developments give people more flexibility and offer another option in a tight housing market, while critics worry they could reshape homeownership and affordability in ways we don't fully understand yet.

So to help us unpack the trend, we're joined now by Laura Russ. She's the executive director of the Shenehon Center for Real Estate at the University of St. Thomas. Laura, thanks so much for your time.

**LAURA RUSS:** Thanks so much for having me.

**NINA MOINI:** This is really fascinating. I think I have seen one of these developments over in Inver Grove Heights. I've driven past it. I've often wondered about it. When did this trend of these entire housing developments, especially higher end ones, start gaining popularity? And do you know and where it started?

**LAURA RUSS:** It's interesting because these build-to-rent communities are a new housing product type here in Minnesota. But the origins really go back to the foreclosure crisis around 2011-2012. So at that time, you may recall for the first time, there was a change from a fragmented market of single-family rentals to acquisition by institutional owners to acquire and own and then rent these homes on a larger scale.

That's really then evolved over the years into efforts by some owners to purposefully build single-family homes with the intention of owning and managing them as rentals for the long term. And that also has been going on longer in other parts of the country than here. So primarily in the South, where costs to build are lower-- that phenomenon began there. We're now beginning to see some evidence of it here in Minnesota.

**NINA MOINI:** Can you give us a sense of the scale and how popular it is in Minnesota? Like I said, I think I've seen one of these. But I don't feel like I see them everywhere. But I'm usually in the Twin Cities or South Metro. What do you think?

**LAURA RUSS:** The purposeful-built single-family rent communities are newer. And they tend to be fairly indistinguishable from other types of suburban developments. Our own Minneapolis Fed actually did a report recently on how many single-family homes in the Twin Cities region are rentals with some kind of corporate ownership, or at least for investment purposes. They didn't look specifically at build-to-rent.

But overall, what we know from their report is still less than one in 20 single-family homes in our region are owned and managed by some sort of corporate entity. Most of those are-- those owners owned fewer than three single-family homes. So that could still be a local community member who is renting out their previous residence as a rental investment, not necessarily a corporate buy-- by that, meaning institutional type owner.

**NINA MOINI:** Sure. Well, and I wonder, too-- I think people-- listeners might assume, hey, if you can afford to rent a really nice single-family rental, maybe you could afford to buy a home, instead. Do you have an idea of who's choosing to live in these homes and why?

**LAURA RUSS:** I think that's the other important shift that has happened-- is that more people are choosing to rent, both for lifestyle and economic reasons. So on the economic side, interest rates/housing pricing generally has put more pressure on people at all income levels to own a home. But the other equally important reason is that people often seek out this type of product for lifestyle reasons. Maybe they're a younger family who are delaying ownership. Maybe they're retirees downsizing, people who want flexibility, and also the professional management and amenities that many of these communities offer.

But it is important to keep in mind that the economic reasons transcend just the comparison on a monthly basis from owning to renting. The predictability and fixed nature of rental costs also make them appealing. So we've all seen increases in things like insurance and property taxes and utilities. And while certainly rent can be increased once a lease is up for renewal, you're unlikely to see the type of large spikes, including unexpected repairs, that can happen when you're an owner. So some people may be seeking just more predictability over their housing spend.

**NINA MOINI:** Sure. And so there's the way that individuals assess their budget and their lifestyle. But there's also the broader impact on different markets. And I understand there are mixed opinions about this trend among government officials and housing advocates. What are some of the concerns people raise when they see investors building some of these higher end or larger, newer single-family homes to rent?

**LAURA RUSS:** I think the concern when new products, especially products that may feel out of reach to many current members of that community, go up-- there's inevitably a concern of, where does this-- how do I fit into this? Where does this leave my community? And a couple of things that we know are in general, when we have affordability issues, it's typically because we have too few choices, not too many.

Also, brand new housing is always generally built towards-- it's going to be the most expensive type of housing. That is just the nature of having to build something new. That doesn't mean, though, that there are no community impacts to be considered. But the primary challenge-- housing challenge as a region that we're facing is not necessarily too much of one type of housing. It's really too little housing overall.

The Minneapolis Fed did another study very recently. And they showed that on three metrics of housing goals for the Twin Cities region, we were not meeting, as a region, those goals. So for example, we need to build about 18,000 units of housing a year to maintain a sufficient level of housing and a range of choices. Last year, we built about 12,000.

So overall, we know that more production and more maintenance and investment in existing housing at all income levels helps decrease pressure on the market. That, however, does not necessarily mean that every new product is going to fit every income level. We have separate and important tools that we can and should use more of to reach all income levels.

**NINA MOINI:** I wonder, do you see any positives to this? It sounds like you're saying maybe more choices can have a positive effect. But looking ahead, do you foresee these built-to-rent neighborhoods becoming a bigger part of Minnesota's housing landscape, or do you think it's going to remain more of a niche market?

**LAURA RUSS:** I think time will tell, to some degree. But a few trends we know overall with housing is there has been increased consolidation, not just of ownership, but really of management. And counterintuitively, that is in part because owning and managing rental housing has become an increasingly regulated and sophisticated industry. So it's increasingly difficult for the mom-and-pop landlords to rent out maybe their home that they moved out of.

You see the rise of a parallel trend, which is the scale of management companies who may offer their services to individual owners. And that's in part because the management of housing has become an increasingly sophisticated business where in order to be successful, you need to be very current on laws and regulations, and so forth. That isn't, in and of itself, a bad thing. But it does lead to trade-offs with who then can enter and stay in that market.

So we have some things to balance. We want to achieve affordability. But we also want to make sure that we are an attractive place for new investors and existing investors, whether you are a community member or a larger scale entity, to be interested in continuing to build and invest in our housing here.

**NINA MOINI:** All right. Laura Russ, thank you so much for telling us about that. I learned a lot and really appreciate your time.

**LAURA RUSS:** Thank you so much.

**NINA MOINI:** That was Laura Russ, executive director of the Shenehon Center for Real Estate at the University of St. Thomas. That's going to do it for us today.