



Report and
Recommendations
Policy Development
Conference
October 2019

RURAL RENTAL HOUSING

INTRODUCTION

Housing in rural areas of Minnesota must serve a broad range of community needs. Safe and available housing is critical to residents' health and well-being, good jobs and business growth, education, and much more.

A significant percent of Minnesota's residents in rural communities and small towns rely on rental housing. According to Minnesota Housing, rental housing ranges from 22 to 25% of the market in all regions of the state, other than the Twin Cities metropolitan area.¹

This report explores challenges to preserving rental housing in rural communities of Minnesota, particularly rental housing that is affordable, and provides first step recommendations for policy and program change.

1. Rental Preservation in Minnesota. Minnesota Housing (powerpoint). Link: <https://bit.ly/2Jecf9m>

SUMMARY OF RECOMMENDATIONS

At a policy workshop in October of 2019, hosted at the Initiative Foundation in Little Falls, attendees who live and work in Greater Minnesota gathered to discuss challenges to rural rental housing preservation and recommendations for change.

- 🏠 **Increase awareness of rural rental housing preservation challenges** for lawmakers and community, particularly for USDA Rural Development 515 properties.
- 🏠 **Prioritize community driven solutions** to preserving rural rental housing
- 🏠 **Maintain and grow resources** specific to preserving rural rental housing, including Rental Rehabilitation Deferred Loan (RRDL) and Technical Assistance for 515 Transfers (provided by MHP and funded by USDA)
- 🏠 Develop, through regular convening of community of practitioners, **ongoing momentum for public policy change**

Specific recommendations from participants included a focus on Minnesota's unique portfolio of USDA Rural Development 515 properties, or rural rental housing that supports residents, elders and families with very low income averaging \$16,500 annually.² Other recommendations focused on Minnesota's manufactured home communities, 65% of which are located in Greater Minnesota.³ Finally, some recommendations were more general to rental housing needs in rural Minnesota.

🏠 Solutions to **increase owner capacity to preserve affordable rural rental homes**, particularly 515's. Ideas included technical assistance and capacity building, a neutral navigator concept, and streamlining funding opportunities to better fit project and owner profiles.

🏠 Solutions to ensure **long-term affordability and opportunities for resident ownership in manufactured home communities**.

🏠 Solutions that **incentivize employer and business support for housing**, including options for employers to be equity investors in housing and for employers to more directly assist employees with housing needs.

Big ideas with momentum, that will take time to develop include:

2. USDA Rural Development Portfolio (powerpoint) <https://bit.ly/3duPA6n>

3. Rental Preservation in Minnesota. Minnesota Housing (powerpoint). Link: <https://bit.ly/2Jecf9m>

* Presenters at the Rural Rental Housing Preservation Convening of October 19 shared presentation materials with attendees. Footnote citations are to materials created by individual presenters.

🏠 Incentivize preservation of **small rental** projects (8 to 24 units)

🏠 Identify a substantial **new source of funding** for preservation of **USDA RD 515 properties**, and develop new education and support systems to increase owner capacity.

🏠 Fund development of **new** manufactured home communities

A full description of recommendations appears later in this report.

MINNESOTA PERSPECTIVES: RURAL RENTAL HOUSING

Defining rural rental housing is no easy task, as what is rural depends on whom you talk to, the data source, funder, or government jurisdiction. When asked **"What does rental housing look like in rural Minnesota?"** participant responses ranged from "More bedrooms for immigrant communities" to "Minimal apartment housing. Not always affordable" to "We have a strong need for workforce housing."

Although there is diversity, there are clear common threads for rural rental housing. Almost all rental housing is under 50 units in Greater Minnesota communities, and a significant portion that are 2 to 9 units in size.

Rural rental housing is quite old, with well over 50% of Greater Minnesota properties over 40 years old and built prior to 1980. In the Southwest and Southeast regions of Minnesota, between 65-70% of rental housing is more than 40 years old, with the West Central and

Northeast regions close behind.⁴ At a minimum, this means that these properties have significant maintenance issues that result in cost to tenants and property owners; many of these properties do not have sufficient reserves to address their current repair needs.

Unique to Minnesota are the number of rental properties that are part of the USDA Rural Development 515 program, which provided direct low-interest financing for affordable rental housing. Minnesota was an early adopter of the program, which began in the 1960s, and is in the top 10 states with 515 properties. Minnesota today has 474 properties, and just under 10,000 units or households, in the USDA Rural Development 515 program. Most of these households also have rental assistance, ensuring that the properties are affordable to very low income individuals and families. The average annual household income for those in Minnesota 515 properties with rental assistance is \$11,500. These homes serve many residents who are elderly and disabled, as well as families.⁵ These properties are, on average, 35 years old and in need of significant rehabilitation.

Minnesota's manufactured home communities are one of the most largest sources of affordable housing, without subsidy, in Greater Minnesota. According to Minnesota Housing data, as of 2018 there were 29,370 manufactured homes sites in Minnesota, of which 65% are located in Greater Minnesota.⁶ Similar to other rental properties, age, maintenance and infrastructure needs are all significant challenges to Minnesota's manufactured home communities.

During a convening in Little Falls, local participants strongly supported the need for affordable rental options in their communities. Reflections included, "Provides essential housing to help maintain a population in small towns" and "Better health and wellness outcomes. Decreased issues with physical health, chemical dependency and mental health." One attendee simply said, "I think affordable housing is needed in all communities." As one participant described, rural rental is important to "Attract and retain ... workforce, tax base, and population ... Having a sufficient stock of affordable rental housing can help ensure future rural viability."



Housing advocate Nichelle Shannon, a resident of a 515 property, says:

"I feel Housing is a Right for all and not a privilege for some. Furthermore, safe, habitable, affordable housing [is important] for individuals, as myself that live off a little more than a thousand a month. Without 515 housing; I'd be homeless unless you can access rental subsidies. However, rental subsidies are not readily accessible or year long wait list to acquire with limited housing supply options that accept the Housing Choice voucher. ... 515 properties are **essential housing stock to aid in eliminating homelessness** and providing affordable housing for those in the margins" (emphasis added)

4. Rental Preservation in Minnesota. Minnesota Housing (powerpoint). Link: <https://bit.ly/2Jecf9m>

5. USDA Rural Development Portfolio (powerpoint) <https://bit.ly/3duPA6n>

6. Rental Preservation in Minnesota. Minnesota Housing (powerpoint). Link: <https://bit.ly/2Jecf9m>

Stephanie Vergin, Housing Program Director of the Minnesota Office of USDA Rural Development, identified “weak markets” as one of the significant challenges to preservation of rural rental housing, including 515 properties. Weak markets can include those with declining population and oversupply of income-restricted housing.⁷

Another significant challenge to rural rental preservation is the poor physical condition of the properties and deferred maintenance. For USDA RD 515 properties, similar to rural rental housing stock in general, these aging properties have typically not had significant rehabilitation for 30 years or more. These maintenance challenges add to the complexity, cost, and viability of “515 preservation” and are also applicable generally to preservation of rural rental housing.⁸

TOP BARRIER TO SOLVE FOR RURAL RENTAL

To highlight community driven solutions, participants in the Little Falls convening worked to define and prioritize problems and solutions, and were asked to prioritize a top barrier to preserving rural rental housing. This exercise revealed that building the capacity of owners and developers was a commonly identified challenge.

GROUP	GROUP TOPIC	#1 BARRIER TO PRESERVING RURAL RENTAL HOUSING
1	Mobile Home Parks	Park Ownership Structure
2	Rural Rental - General	Capital/Financing Gap
3	USDA 515 Properties	Owner Capacity Challenges
4	USDA 515 Properties	Owner and developer Capacity Challenges
5	USDA 515 Properties	Capacity of developers and contractors

POLICY WORKSHOP: LOCAL SOLUTIONS

To develop solutions, workshop facilitators gathered the wisdom of attendees, who brought lived experience, community and professional expertise, to the complex problem of preserving rural rental housing. Participants brought a wide range of ideas, and then were forced to refine options to a prioritized list of short, medium, and long-term recommendations.

Although a need for funding prioritized to these challenges was by far identified as a highest need, attendees focused in the short and medium term on policy change that would allow best use of existing financing sources.

DO THIS TODAY:

- **Support capacity building and technical assistance**, particularly to assist owners of 515 properties with transfers to owners who will preserve affordability and provide needed repairs. Specific ideas include providing pre-development funding and mitigating tax consequences that discourage owners from selling to preservation buyers.
- **For manufactured home communities**, strengthen residents' **right of first refusal** option

DO THIS SOON:

- Develop a **neutral navigator** concept, particularly to assist owners of 515 properties with preservation options.
- **Streamline processes for accessing public funds**, to fit the capacity needs and unique project profiles of rural rental housing.
- Provide options for **employers** and business to be **equity investors** in support of local housing
- Ensure access to **public funds is tied to long term affordability for manufactured home communities**

GOOD IDEAS TO DEVELOP:

- Incentivize preservation of **small rental** projects (8 to 24 units)
- Identify a substantial **new source of funding** for preservation of **USDA RD 515 properties**
- Develop **education and support systems to increase owner capacity** for preserving USDA 515s, taking smaller capacity building projects and technical assistance to a bigger scale.
- Fund development of **new** manufactured home communities

Of interest are similarities between local community solutions, or recommendations, and recommendations from Minnesota USDA office staff for preserving 515 properties. Areas of similarity included increasing owner capacity, streamlining processes, and identifying financing and funding for rehabilitation. Again, in Minnesota and across the country, mortgages for 515 properties are maturing in escalating numbers, with Minnesota on the front line of this crisis; when mortgages mature, these rural rental properties are no longer required to maintain "affordable" rates, so market rates may be charged for rent, and may lose rental assistance as well.

USDA recommendations for 515 properties include:

- 🏠 Better matching of buyers and sellers, especially for maturing mortgage properties
- 🏠 Improve/simplify the process for acquiring Rural Development properties
- 🏠 Identify rehab funding sources and help owners access these sources
- 🏠 Understand we can't preserve everything, particularly if [the] condition is very poor and/or the market is weak".⁹

Photos show active workshop activity



9. USDA Rural Development Portfolio (powerpoint) <https://bit.ly/3duPA6n>

CONCLUSION

Convening participants participated fully in identifying challenges and developing solutions for preserving rental housing affordable options in their communities. In post-meeting feedback, participants reflected positively on their experience and expressed desire for participation in ongoing gatherings to continue to develop policy solutions and mobilize support for communicating those solutions to lawmakers, government agencies, and community organizations. Meeting facilitators Housing Justice Center and Minnesota Housing Partnership have committed to ongoing support for developing Minnesota's rural rental housing preservation policy.

Workshop Co-Hosts



Appendix 1:

PRE-CONVENING SURVEY RESPONSES:

What does rental housing look like in rural Minnesota?

"Some smaller units for more affordability for singles"

"Affordable, market rate, and senior."

"They are for the most part older buildings that have deferred maintenance."

"Minimal apartment housing. Not always affordable."

"More bedrooms for immigrant communities"

"Rental housing in rural MN takes many forms .. public housing, supportive housing, tribal housing, tax credit projects, from very small to over 50 units."

"Rural rental are smaller projects (40 units and under)"

"There is a real shortage of quality housing in our area of central Minnesota. We have a strong need for workforce housing, although many times the wage threshold prevents people from being able to rent housing."

"There is not enough of it [.] Voucher clients have a hard time finding units."

Rural rental is "workforce housing for those earning less than \$20 per hour in their jobs."

"Apartments and senior-living facilities are ... two segments ... likely to see the strongest growth *(and demand) moving forward."

"What, in your opinion, are benefits of having affordable rental housing options in rural communities?"

"Provides essential housing to help maintain a population in small towns."

"Very important to housing stability; because of the undeveloped farm land, not many options for housing."

"People can live where they work. There are jobs that do not pay a lot of money, but they are good jobs ... to live 60 miles from a job that pays just over minimum wage, can be hard on the family budget."

"Having affordable options for people in their communities."

"Attract and retain ... workforce, tax base, and population ... Having a sufficient stock of affordable rental housing can help ensure future rural viability."

"[Affordable rural rental housing options] are needed to serve the people who live in our rural communities. They help our employers and schools."

"Better health and wellness outcomes. Decreased issues with physical health, chemical dependency and mental health."

"I think affordable housing is needed in all communities."

"What are the challenges to ensuring affordable rental housing options are available in rural Minnesota communities?"

"Project size is small so development and transaction costs are too high to spread over the smaller unit developments."

"The existing stock of USDA Rural Development loans for affordable apartments are set to mature in the coming years and those units could go to market rents. How do we convince owners to extend their loans with RD and keep affordable housing while finding a way to do rehab?"

"Preserving affordable housing options is key to housing stability because of limited housing supply."

"Getting projects to score through a funder in smaller communities that may have less resources is hard. Plus economies of scale are not there."

"Aging owners [of rental housing]. Many smaller projects with critical needs."

"Developer interest, NIMBY-ism, and Zoning." "The higher poverty rates and lower wages in rural Minnesota make many rural areas unattractive to the developer community (without significant public investment)."

"Need more funding."

"Too little housing options to meet the needs. HOPWA funding keeps getting sent to the metro area but there are people living in Greater MN with HIV/AIDS."

"We would look at single family housing [development], but the appraised value is less than the cost to build in our area. Most younger wage earners don't have the ability or means for a down payment."

"[Challenges to ensuring rural rental housing options include] location and community support for what is often perceived as diminishing the value of a given community."

"Making sure we do not lose any units to landlords who want to increase rents. Try to keep the units as affordable by finding or keeping owners who want to keep the units affordable."

Rural Rental Housing Preservation Convening and Policy Workshop
Tuesday, October 22, 12:00-5:00 pm
Initiative Foundation, Little Falls

Agenda

12-1:00 pm: Welcome and Lunch

Welcome, Don Hickman, Initiative Foundation

Guest speaker:

Kelly Asche, Center for Rural Policy and Development

1-1:45 pm: Laying the foundation: Information and trends for rural rental housing

Guest Speakers:

Jessica Deegan, Minnesota Housing

Stephanie Vergin, USDA Rural Development

1:45-2:30 pm: Local perspectives panel

Skip Duchesneau, DW Jones

Deanna Hemmesch, Central Minnesota Housing Partnership

Nichelle Shannon, Community Representative

Tim Thompson, Housing Justice Center

Moderator

Margaret Kaplan, Housing Justice Center

2:30-2:40: Break

2:40-4:30 pm: Policy Workshops

Workshop Facilitators:

Elizabeth Glidden, Minnesota Housing Partnership

Margaret Kaplan, Housing Justice Center

Developing policy options for preserving rural rental housing

Workshops and discussion

4:30-5:00 pm: Next steps and closing

Thank you to event sponsors the Housing Justice Center, Initiative Foundation, Greater Minnesota Housing Fund, Minnesota Housing, and Minnesota Housing Partnership. Appreciation to organizing partner Minnesota NAHRO.

