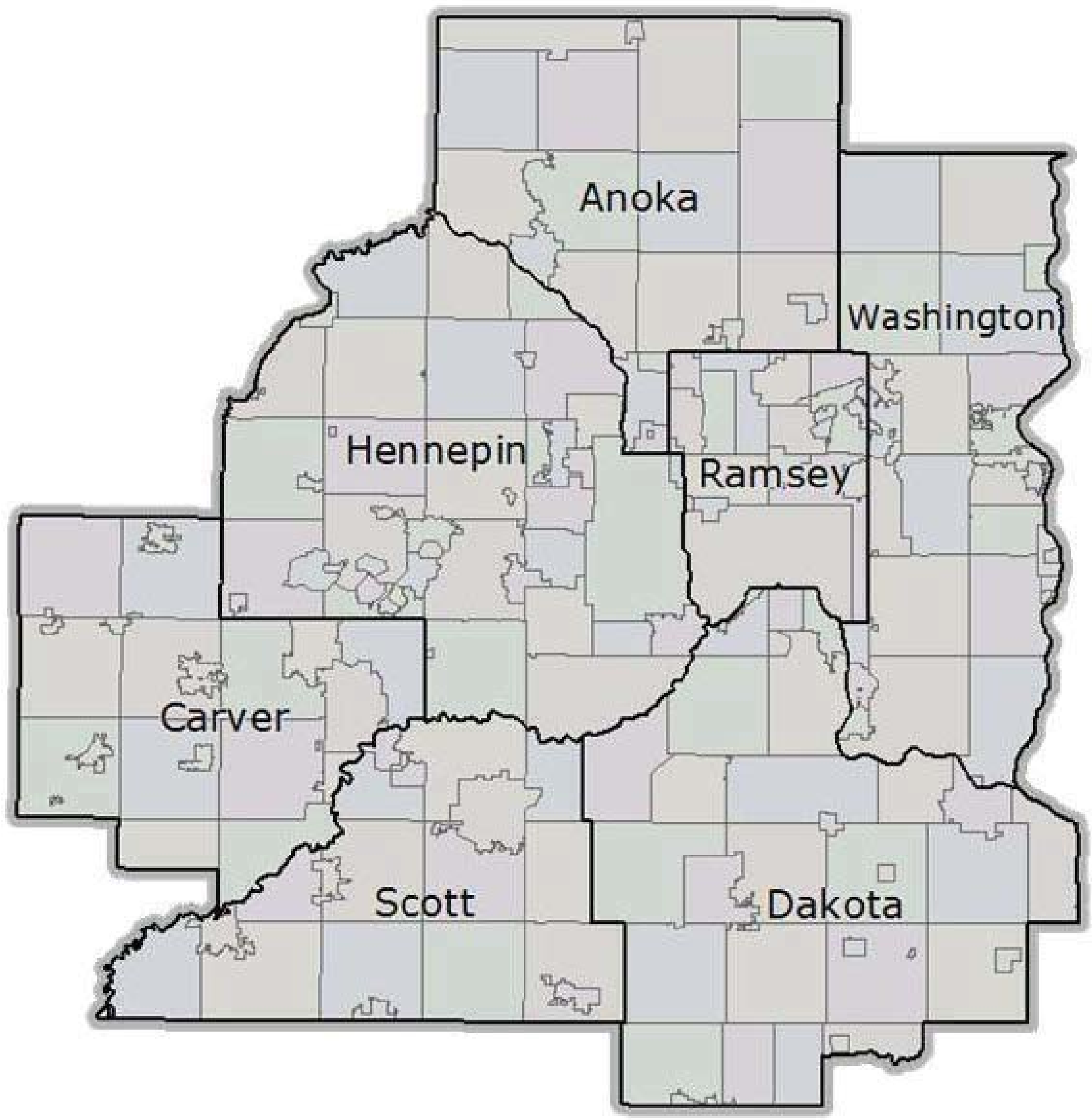
TWIN CITIES

Metropolitan Council Area Trends, Preferences, and Opportunities: 2010 to 2020, 2030 and 2040



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EXECUTIVE SUMMARY

Over the next three decades, the Twin Cities metro area will grow from 2.85 million to 3.67 million residents, or by about 29 percent. This is competitive with the nation's projected growth of 31 percent over the same period, and above average among major metros in the Midwest. Put differently, the Twin Cities metro area will account for 70 percent of Minnesota's growth to 2040. In all, nearly 400,000 households will be added. More than 700,000 space-occupying jobs will also be added, requiring more than 300 million square feet of net new enclosed space. With about 1.2 billion square feet of space requiring replacement, there will be about 1.5 billion square feet of nonresidential development during this period or about 1.5 times the total enclosed nonresidential space supported in 2010.

Figure A
Counties making up the Twin Cities Metro Area

For the metro area as a whole and the central and non-central counties, there will be important changes from 2010 to 2040:

- For the Twin Cities Metro area as a whole, senior citizens (65+) will account for 58 percent of the share of the population change between 2010 and 2040. In the central counties of Hennepin and Ramsey, seniors will account for 70 percent of the population change while for all other counties their share will be 47 percent. The aging of existing residents will be a dominant demographic change.

- The "new majority" demographic, comprising all racial and ethnic minorities, will account for nearly all net growth in the Metro area, all the growth in the central counties, and 77 percent of the growth in the non-central counties.

- Between 2010 and 2040, for the Metro area as a whole, households with children will account for 23 percent of the total household change while households without children will account for 77 percent. For the central counties the figures are to 21 percent and 79 percent respectively, while for the non-central counties the figures are 24 percent and 76 percent respectively. One-person households will account for 38 percent of the total change for the Metro area, 47 percent for the central counties, and 31 percent for the non-central counties.

As seen in Figure B:

- Between 1990 and 2010, households in their peak housing demand years (with residents between 35 and 64) accounted for about 80 percent of the growth in housing demand. But over a comparable 20-year period, from 2010 to 2030, that same group will account for just 9 percent of the growth in housing demand.

- From 1990 to 2010, downsizing households (with residents 65 and older) made up 20 percent of new housing demand. But over the next 20 years they will account for 85 percent of the demand share. Market research shows this segment prefers smaller homes on smaller lots or attached options.

The bottom line is that demographic shifts have been and remain influential drivers of the form, location, and nature of the region's development. Understanding these drivers and their implications for the built environment, and appropriately planning for and shaping the region's growth in recognition of these new drivers, are key to assessing the region's future needs. Consider:

- The number of households in the peak housing demand period of their life cycle (householders 35–64) grew by about 220,000 between 1990 and 2010. These are the households with families, peak incomes, and the desire for more space on larger lots.

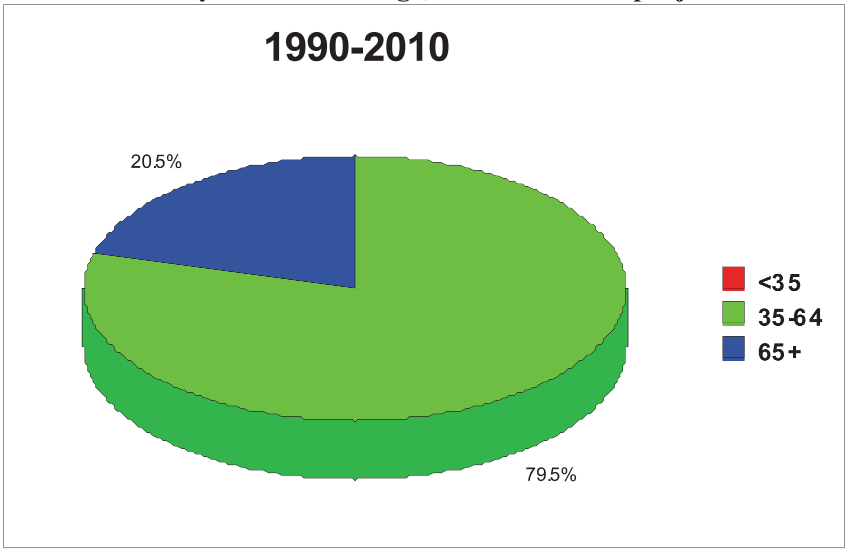
- That same peak housing demand group will grow by only 25,000 households between 2010 and 2030, about one-ninth as many as seen in the previous 20 years.

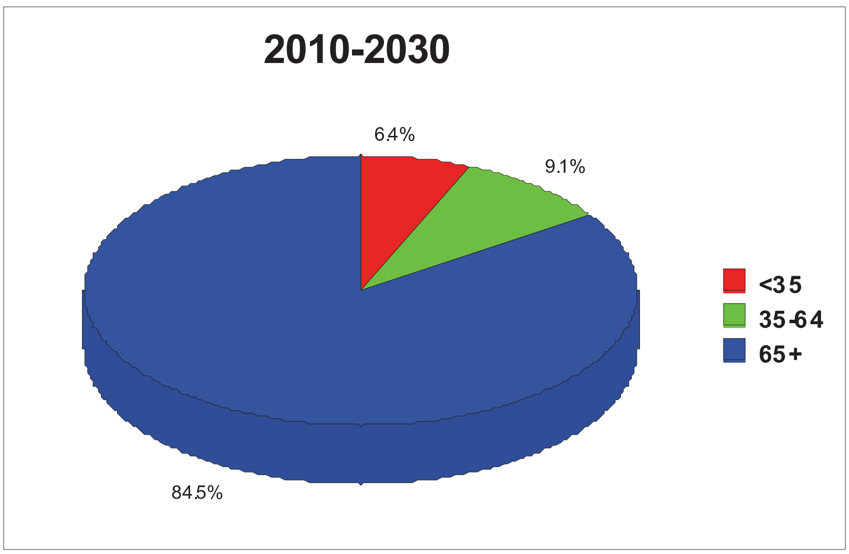
- The next wave of demand will be households with residents 65 and older. These empty-nest householders are in the downsizing phase of their life cycle. Between 2010 and 2030, their number will grow by 230,000 households.

- About half of seniors who own homes become renters after they sell. Between 2010 and 2030, there may be tens of thousands more seniors trying to sell their homes than there are buyers for them.

For the past half-century, housing demand in the Twin Cities was driven by baby boomers' parents who wanted to raise their children in suburban, single-family, detached homes on larger lots, and then by boomers themselves as they became parents. Planning throughout the Metro area continues to be based on the baby boom "time warp."

Figure B
Growth share by householder age, 1990–2010 and projected for 2010–2030





Source: Arthur C. Nelson.

The next generation of demand for homes may be driven by different and emerging preferences. Analysis of the National Association of Realtors' 2011 and 2013 stated-preference survey indicates that:

- More than half of Minnesota respondents would prefer to live in a mixed-use neighborhood offering a variety of housing choices, walkable destinations, and other features. No more than one in five households has this option now.

- About 40 percent of Minnesota respondents would choose to own or rent an apartment or townhouse if it had an easy walk to shops and restaurants and offered a shorter commute to work.

- About 60 percent of those preferring detached options would choose smaller lots over larger if, again, these were in walkable, amenity-rich neighborhoods.

- Given these parameters, this report estimates a shifting mix of housing products demand for the next 30 years:

    - 41 percent attached homes (townhouses, condominiums, and apartments);
    - 33 percent detached homes on smaller lots; and
    - 26 percent detached homes on medium- and large-lots.

- Compared to this new demand, detached homes on medium- and large-lots are presently over-supplied. The reason is the dramatic shift in demographics illustrated in Figure B. Put differently, to meet housing demand by type in 2040 all new residential units will need to be attached options (apartment, townhouse, condominium) or small-lot detached homes.

Moreover, the future of nonresidential development (in which jobs are housed) will be the redevelopment of existing structures and the parking lots on which they sit. The amount of nonresidential development may be nothing less than staggering.

- Nonresidential floor-space will grow by more than 300 million square feet between 2010 and 2040.

- Nearly 1.2 billion square feet of nonresidential space will be repurposed, redeveloped, and otherwise recycled between 2010 and 2040.

- Altogether, nearly 1.5 billion square feet will be constructed between 2010 and 2040, nearly equivalent to 1.5 times the volume of floor-space supported in 2010.

- Nearly all the nonresidential recycling will occur on sites with low floor-area ratios – sites that are mostly parking lots.

In many respects the future of the Twin Cities will be shaped by how policymakers guide the redevelopment of existing nonresidential spaces.

The built environment of the Twin Cities will be reshaped through a combination of new drivers of housing demand and recycling of existing nonresidential spaces. To accommodate emerging market needs efficiently, effectively, and equitably, a series of actions are needed at the local, regional, and state levels. In summary, they include:

- Updating land use plans and codes to get ahead of the curve, mostly by getting beyond the baby boom time warp.

- Expanding housing choices.

- Rethinking infrastructure investments.

- Using existing public sector tools and inventing new ones to leverage private redevelopment.

- Engaging and educating local decision makers and citizens on the implications of the sweeping nature of demographic changes.

- Investing in modern regional transit systems that connect key centers and other nodes along existing commercial corridors.

- Adjusting state policies to address sweeping demographic changes.

- Enabling all communities in the metro area to plan for and implement policies that broaden housing choices responsive to sweeping demographic changes.

The challenge for the Twin Cities is to create public-private-civil partnerships that can facilitate approaches to meet future housing needs and simultaneously reshape the massive commercial redevelopment that will occur. If such an effort is successful, perhaps redevelopment and new development to 2040 will support changing demographics along with other regional goals around transportation, public health, and the environment. These partnerships are needed to leverage private resources that can unlock these opportunities. If successful, the future Twin Cities will be more walkable, bikable, vital, and responsive to change than is currently the case.

INTRODUCTION

The Twin Cities Metropolitan Council serves a 3,000 square-mile region comprised of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties. The Metro area's population is projected to grow from 2.85 million in 2010 to about 3.7 million by 2040. To aid local planning and decision-making processes, this report reviews market trends, emerging housing preferences, and opportunities for the redevelopment of commercial corridors and nodes to meet future development needs to 2020, 2030 and then to 2040. The report is made up of four parts.

> **Part 1** explores how sweeping demographic trends and changing home ownership influences will reshape choices to 2040. This part will show that the Twin Cities will follow national trends in becoming more diverse, somewhat older, and dominated by households without children and households that are downsizing. It will also show how the home ownership rate will fall.
>
> **Part 2** synthesizes preference survey data from the National Association of Realtors to show that, all other factors being equal, the future demand for housing will be for more attached (apartment, condominium and townhouse) and small-lot options. These emerging preferences are consistent with demographic trends. This part then projects the broad distribution of future housing needs in terms of attached, small-lot detached, and conventional-lot options.
>
> **Part 3** identifies the kinds of jobs that occupy space, estimates the total number of workers who will occupy built space, and estimates the space used in 2010, 2030, and 2040. This part also estimates the volume of work space existing in 2010 that will be replaced and/or repurposed or "recycled" to 2030 and then to 2040. As will be seen, the future of development in the Twin Cities is redevelopment.
>
> **Part 4** synthesizes analysis and findings of the first three parts to show that much of the demand for new attached residential and nonresidential development to 2040 could be largely accommodated through the redevelopment of nonresidential spaces, especially along transit-supportive commercial corridors and at nodes.

For purposes of this report, the Twin Cities metro area is comprised of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties. I also differentiate between what the Census Bureau calls the "central counties" comprised of Hennepin and Ramsey (in which "central cities" of Minneapolis and St. Paul are situated). Between St. Paul and inner-ring suburban communities, Ramsey County is substantially built out. On the other hand, because of its very large size, Hennepin County includes the full range of suburban communities from inner-ring to exurban, and also agricultural areas. The balance of the Twin Cities metro area is comprised of relatively newer suburbs and exurbs as well as substantial agricultural areas.

The report includes county-level detailed tables corresponding to selected tables in text.

PART 1: DEMOGRAPHIC AND HOUSING TENURE TRENDS

This part examines two trends: **sweeping demographic changes** that will fundamentally alter the nature of housing demand in the nation, in Minnesota, and in the Twin Cities; and **changing home ownership influences** that will reduce home ownership rates. Combined, these trends will affect tenure patterns in terms of home ownership and renter rates. Addressing the challenges presented by these trends, and meeting emerging needs, will require approaches that are different from those relied on in the past.

Sweeping Demographic Changes

Demographic changes will reshape the overall population, racial and ethnic composition, senior share of population, households by type (with children, without children, and people living alone), and households by age (starter, peak housing demand, and downsizing). The section ends with some observations for the future of the Twin Cities. This section includes numerous [1]projections. I use Metro Council projections where possible. For other projections, I use the Woods & Poole projections published for 2012.

Overall Population Changes

The Twin Cities Metro area is a bright spot in the Midwest. From 2010 to 2040, Metropolitan Council forecasts that the state population will grow by 22 percent while the Metro area will grow by 29 percent. Within the Metro area, the central counties will grow by 396,000 or 24 percent and account for about 48 percent of the area's growth. The remaining five non-central counties will grow by 423,000 or 36 percent and comprise 52 percent of the area's growth. These figures are reported in Table 1.1.

The Rise of the New Majority

The U.S. Census projects that by the early 2040s, most Americans will be people of color. Minorities will become America's "New Majority." Key findings based on Table 1.2, which reports population change for white non-Latinos and New Majority Americans, include the following:

- Nationally, New Majority population will account for 91 percent of the growth between 2010 and 2040.
- Like the nation, New Majority population in Minnesota will account for 91 percent of the growth between 2010 and 2040.
- In the Metro area as a whole, the New Majority will account for 99 percent of the growth, including all of the growth in the central counties, and 77 percent of the growth in the non-central counties.

These changes, combined with others, will have profound effects on future housing markets. For one, a higher share of the New Majority population lives in multigenerational households than does the white non-Latino population. The rise of the New Majority may thus temper overall new housing demand. For another, New Majority–headed households own homes at a far lower rate than do households headed by white non-Latinos, about 41 percent in Minnesota compared with about 72 percent, respectively. By itself, the rise of the New Majority may reduce overall home ownership rates.

[1] This report does not produce projections of urbanized and rural landscapes.

Table 1.1
Twin Cities Metro Area Projections to 2020, 2030 and 2040
[Figures in thousands]

Metric	United States	Minnesota	Metro Council	Central Counties	Non-Central Counties	Rest of Minnesota
Population 2010	309,350	5,311	2,855	1,661	1,194	2,456
Population 2010-2020						
Population 2020	341,070	5,628	3,102	1,772	1,330	2,526
Population Change	31,720	317	247	111	136	70
Percent Change	10%	6%	9%	7%	11%	3%
Share of State			78%	35%	43%	22%
Share of Metro Area				45%	55%	
Population 2010-2030						
Population 2030	373,924	6,071	3,380	1,908	1,472	2,691
Population Change	64,575	760	525	247	278	235
Percent Change	21%	14%	18%	15%	23%	10%
Share of State			69%	32%	37%	31%
Share of Metro Area				47%	53%	
Population 2010-2040						
Population 2040	406,417	6,481	3,674	2,057	1,617	2,806
Population Change	97,067	1,170	820	396	423	350
Percent Change	31%	22%	29%	24%	36%	14%
Share of State			70%	34%	36%	30%
Share of Metro Area				48%	52%	

Source: Compiled from Twin Cities Metropolitan Council.

Table 1.2
Racial/Ethnic Population, 2010 to 2020, 2030 and 2040
[Figures in thousands]

Metric	United States	Minnesota	Metro Council	Central Counties	Non-Central Counties	Rest of Minnesota
Baseline						
Change, 2010-20	31,720	317	247	111	137	70
Change, 2010-30	64,575	760	525	247	278	235
Change, 2010-40	97,067	1,170	819	396	423	351
White Non-Latino						
Population 2010	201,912	4,413	2,180	1,159	1,021	2,233
Population 2020	207,535	4,445	2,210	1,152	1,058	2,236
Change 2010-20	5,623	32	30	(7)	37	2
Share of Change	18%	10%	12%	0%	27%	4%
Population 2030	210,837	4,521	2,211	1,118	1,093	2,310
Change 2010-30	8,925	108	31	(41)	72	77
Share of Change	14%	14%	6%	0%	26%	33%
Population 2040	210,932	4,517	2,187	1,067	1,120	2,330
Change 2010-2040	9,020	104	7	(92)	99	97
Share of Change	9%	9%	1%	0%	23%	28%
New Majority						
Population 2010	107,438	897	675	502	173	222
Population 2020	133,535	1,183	892	620	273	291
Change 2010-20	26,097	286	217	118	100	69
Share of Change	82%	90%	88%	100%	73%	98%
Population 2030	163,087	1,550	1,169	790	379	381
Change 2010-30	55,649	653	494	288	206	159
Share of Change	86%	86%	94%	100%	74%	68%
Population 2040	195,485	1,963	1,487	990	497	476
Change 2010-2040	88,047	1,066	812	488	324	254
Share of Change	91%	91%	99%	100%	77%	72%

Source: Compiled from Twin Cities Metropolitan Council.

The Rise of Seniors

Another key change is the aging of America's population, headlined by baby boomers (born between 1946 and 1964) that began to turn 65 in 2011 and will continue to do so until 2029. The baby boomers are the largest generation yet to enjoy the public health improvements and longer life expectancies achieved in the past century. This will drive the rapid growth of the senior citizens population.

Table 1.3 shows that for the nation, the share of population age 65+ will rise from 13 percent in 2010 to 19 percent in 2030 and then to 20 percent in 2040. For Minnesota the senior share of the population will grow from 13 percent in 2010 to 20 percent in 2030 and then to 22 percent 2040. For the Metro area as whole, seniors will increase their share of population from 11 percent in 2010 to 20 percent in 2030 to 21 percent in 2040. Shares for the central counties are 12 percent (2010), 22 percent (2030) and 23 percent (2040). Shares for non-central counties are 10 percent, 18 percent, and 19 percent, respectively. The growth rate of seniors will be higher in the non-central counties to 2040 than any other geographical unit reported in Table 1.3.

Another way to look at how the rise of seniors will reshape housing choices is to consider their share of population growth. Table 1.3 shows that for the United States as a whole, the change in population of those over 65 will be half of the overall growth to 2030, and 42 percent of the overall growth to 2040. The figures are higher for Minnesota: To 2030, seniors will comprise 69 percent of the state's growth though falling to 63 percent between 2010 and 2040.

In the Metro area, seniors will comprise 71 percent of the share of growth between 2010 and 2030, and 58 percent between 2010 and 2040. The situation will differ between the central and non-central counties. Seniors as an equivalent share of central counties' growth will be 89 percent (2010 to 2030) falling to 70 percent (2010 to 2040). For non-central counties the shares will be 56 percent (2010 to 2030) falling to 47 percent (2010 to 2040).

Household Change Dominated by Childless Households and Singles

Change from 2010 to 2040 will be unprecedented on two other fronts: the growth in the number of households without children (and especially people living alone), and the growth in the number of downsizing households. In this section I address the change in households by type: households with and without children, and people living alone.

Prior to 1970, the United States was a nation mostly of households with children. In 2000, however, only one-third of American households had children in them. By 2040, slightly more than a quarter will. This can be derived from figures reported in Table 1.4.

Even more remarkable is this: *Between 2010 and 2040, households with children will account for only 19 percent of the change in households nationally; households without children will drive 81 percent of the change.* Moreover, between 2010 and 2030, people living alone will account for more than half of all household change, falling to about 44 percent between 2010 and 2040. Indeed, nationally, the growth in one-person households will be about 2.5 times the growth of households with children to 2040.

Trends in Minnesota will follow those of the nation. Between 2010 and 2030, households with children will comprise 10 percent of the growth in households with childless households comprising the other 90 percent. The millennials generation is roughly equivalent in numbers to the baby boom generation – it is not larger. Their entry into the family-age market will substantially replace the baby boomers, but leaving the family-age market only slightly larger.

Over the period 2010-2040, these trends extend further: the growth-shares will be 18 percent (households with children), 82 percent (households without children), and 48 percent (people living alone).

Table 1.3
Senior Population 2010 to 2020, 2030 and 2040
[Figures in thousands]

Metric	United States	Minnesota	Metro Council	Central Counties	Non-Central Counties	Rest of Minnesota
Baseline						
Population 65+ 2010	40,331	684	307	192	115	378
Share of Population	13%	13%	11%	12%	10%	15%
65+, 2010-2020						
Population 2020	55,031	968	475	292	182	494
Share of Population	16%	17%	15%	17%	14%	20%
Population Change	14,700	284	168	100	67	116
Percent Change	36%	41%	55%	52%	59%	31%
Share of Net Growth	46%	89%	68%	91%	49%	100%
65+, 2010-2030						
Population 2030	72,337	1,211	681	411	270	530
Share of Population	19%	20%	20%	22%	18%	20%
Population Change	32,006	526	374	219	155	152
Percent Change	79%	77%	122%	114%	135%	40%
Share of Net Growth	50%	69%	71%	89%	56%	65%
65+, 2010-2040						
Population 2040	81,250	1,424	780	467	313	644
Share of Population	20%	22%	21%	23%	19%	23%
Population Change	40,919	740	473	275	198	267
Percent Change	101%	108%	154%	143%	173%	71%
Share of Net Growth	42%	63%	58%	70%	47%	76%

Source: Compiled from Twin Cities Metropolitan Council.

In the Metro area, from 2010 to 2030, households with children will account for 20 percent of households growth, with 80 percent of growth being households without children. People living alone will account for about 40 percent of the change, far less than the nation. Trends for central and non-central counties will be comparable in terms of share of change attributable to households with children (16 percent and 23 percent) and without (84 percent and 77 percent). They vary considerably in terms of the share of household growth attributable to people living alone (49 percent and 32 percent respectively).

Over the period 2010 to 2040, the share of growth in households with children for the Metro area as a whole will be 23 percent, somewhat higher than national trends, while households without children will account for 77 percent of the change. People living alone will comprise 38 percent of the change. Shares for the central counties are 21 percent (households with children), 79 percent (households without children) and 47 percent (people living alone) while those of non-central counties are 24 percent, 76 percent, and 31 percent respectively.

Table 1.4
Change in Households by Type, 2010-2020, 2030 and 2040
[Figures in thousands]

Metric	United States	Minnesota	Metro Council	Central Counties	Non-Central Counties	Rest of Minnesota
Baseline, 2010						
Households	116,945	2,090	1,118	679	439	972
HHs with Children	34,814	617	361	195	166	256
HHs without Children	82,131	1,473	757	484	273	717
People living alone	31,264	585	330	230	101	255
Change in Households by Type, 2010-2020						
Households 2020	130,556	2,335	1,257	739	518	1078
Household Growth	13,611	245	139	60	78	106
HHs with Children	36,657	643	390	205	185	253
HHs with Children Change	1,843	27	29	10	19	-2
HHs with Children Share	14%	11%	21%	17%	24%	0%
HHs without Children	93,899	1,691	867	534	333	825
HHs w/o Children Change	11,768	218	110	50	60	108
HHs w/o Children Share	86%	89%	79%	83%	76%	100%
People living alone	37,773	705	377	255	122	328
People living alone Change	6,509	120	47	25	21	73
People living alone Share	48%	49%	34%	42%	27%	69%
Change in Households by Type, 2010-2030						
Households 2030	143,232	2,566	1,388	798	590	1178
Household Growth	26,287	476	270	119	151	206
HHs with Children	38,358	666	414	214	201	252
HHs with Children Change	3,544	50	53	19	34	-4
HHs with Children Share	13%	11%	20%	16%	23%	0%
HHs without Children	104,874	1,899	973	584	389	926
HHs w/o Children Change	22,743	426	217	100	116	209
HHs w/o Children Share	87%	89%	80%	84%	77%	100%
People living alone	45,299	870	438	289	149	433
People living alone Growth	14,035	286	107	59	48	178
People living alone Share	53%	60%	40%	50%	32%	86%

Table 1.4--continued
Change in Households by Type, 2010-2020, 2030 and 2040 – Continued
[Figures in thousands]

Metric	United States	Minnesota	Metro Council	Central Counties	Non-Central Counties	Rest of Minnesota
Change in Households by Type, 2010-2040						
Households 2040	152,171	2,728	1,509	851	658	1218
Household Growth	35,226	638	392	172	219	246
HHs with Children	41,486	731	450	230	220	281
HHs with Children Change	6,672	115	89	36	53	28
HHs with Children Share	19%	18%	23%	21%	24%	11%
HHs without Children	110,685	1,997	1,060	621	439	937
HHs w/o Children Change	28,554	523	303	137	166	220
HHs w/o Children Share	81%	82%	77%	79%	76%	89%
People living alone	46,902	893	480	311	169	413
People living alone Growth	15,638	308	150	82	68	158
People living alone Share	44%	48%	38%	48%	31%	64%

Source: Compiled from Twin Cities Metropolitan Council (metro counties) and Woods & Poole (US and MN).

A Population Dominated by Downsizing Households

Now consider the change based on life cycle progress and demand for housing. I divide households into three broad groups:

- **Starter-home** households, with residents under 35. These householders are young people, many with young families, and are starting out in their careers; they tend to rent or buy smaller homes, townhomes, or condominiums.

- **Peak-housing-demand** households, with residents age 35 to 64. These householders are at the peak of their space demands in their 40s and at the peak of their income. Dual-income families make up about half of these households.

- **Downsizing** households, with residents 65+. For the most part these householders have finished raising their families, are retiring, and no longer wish to care for larger homes, especially on large lots and far from services, shopping, and medical assistance.

Table 1.5 shows the number of households by age category, and changes between 1990–2010, 2010–2030, and 2010–2040. For the nation, peak-housing-demand households accounted for 78 percent of all the growth in households between 1990 and 2010, followed by empty-nesting and downsizing households at 22 percent; there were actually fewer starter home households in 2010 than in 1990. Trends were similar for both Minnesota and the Metro area: The net change in demand for homes serving the needs of households during their peak space needs was 80 percent for the state and 81 percent for the Metro area, and 87 percent and 76 percent for the central and non-central counties respectively. The nation had never seen such a confluence of demand for detached homes. This was driven explosive growth in child-rearing households, with historic levels of wealth, and unprecedented opportunities to buy homes at attractive prices in new suburbs. But those days are largely over.

Trends will be very different for the period 2010 to 2030. Nationally, peak-housing-demand households will account for only 14 percent of the growth, with starter households increasing to an 11 percent share while downsizing households will dominate the market with 75 percent share of growth. While trends for the state will be comparable, they will be very different for the central and non-central counties of the Metro area, as shown in Table 1.5. Indeed, in central counties there will be no net new demand for homes meeting the needs of peak-space demand households. Nearly all (99 percent) of the net new demand in central counties will be from downsizing households (with householders over 65).

In non-central counties, about a quarter of the new demand for housing from 2010 to 2040 will be attributable to peak-space demand households (down from three-quarters during 1990-2010) while downsizing households will account for about two-thirds of the demand (up from a quarter during 1990-2010).

I will next discuss the implications of other influences on home ownership rates.