Key Trends in Housing

January 2018

Key Themes and Trends

1. **Minnesota Needs More Affordable Housing with a Large Share of Households Cost Burdened by their Housing**
2. **The Economy Should Continue to Grow, which Will Hopefully Support Growth in Household Incomes**
3. **Home Prices Will Likely Continue to Increase with a Limited Supply**
4. **Rents Will also Likely Continue to Increase with a Limited Supply**
5. **Millennials' Decision to Own or Rent Will be a Key Driver of the Housing Market**

This document is a chart book that highlights key housing themes and trends in Minnesota and includes some explanatory comments.

As a preview, there are ten key themes and trends.

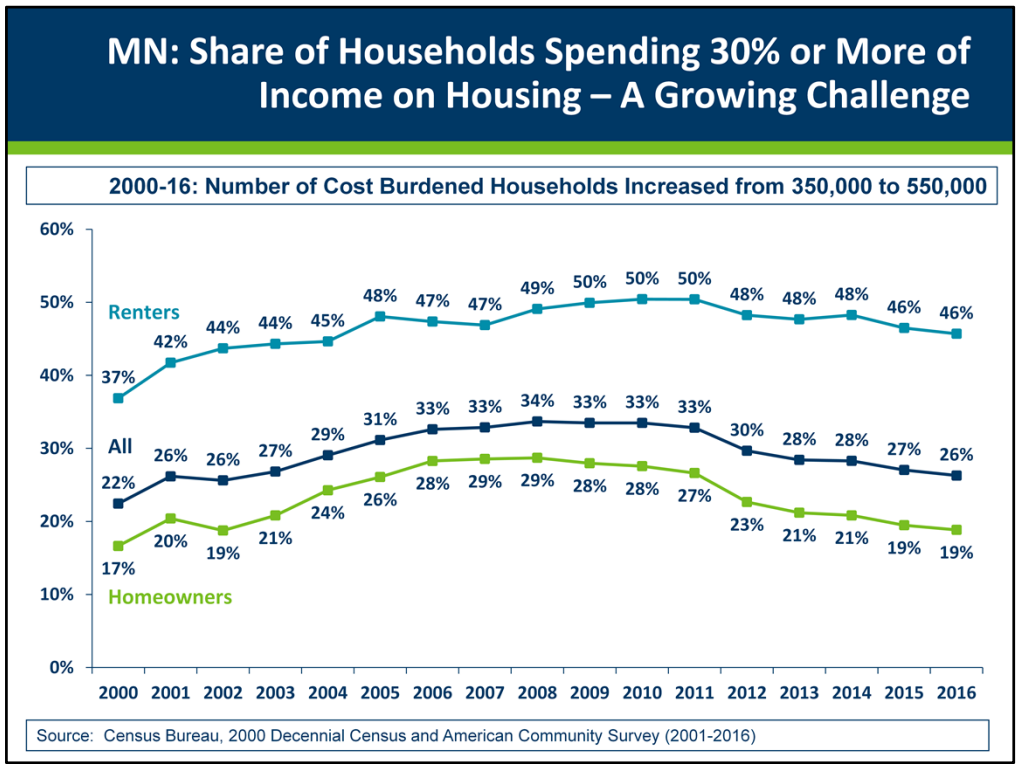
Key Themes and Trends (continued)

6. Minnesota is Becoming More Diverse, and Disparities in Homeownership are Significant
7. The Aging Baby Boom Generation will Create New Housing Needs and Challenges
8. Minnesota Has A Large Stock of Affordable Rental Housing that Needs to be Preserved
9. Many Minnesotans Struggle with Housing Stability, Most Notably People Experiencing Homelessness
10. Housing Location Matters, Providing Access to Jobs, Transit, School, Services, and other Amenities

MINNESOTA HOUSING

Theme/Trend #1

Minnesota Needs More Affordable Housing with a Large Share of Households Cost Burdened by Their Housing



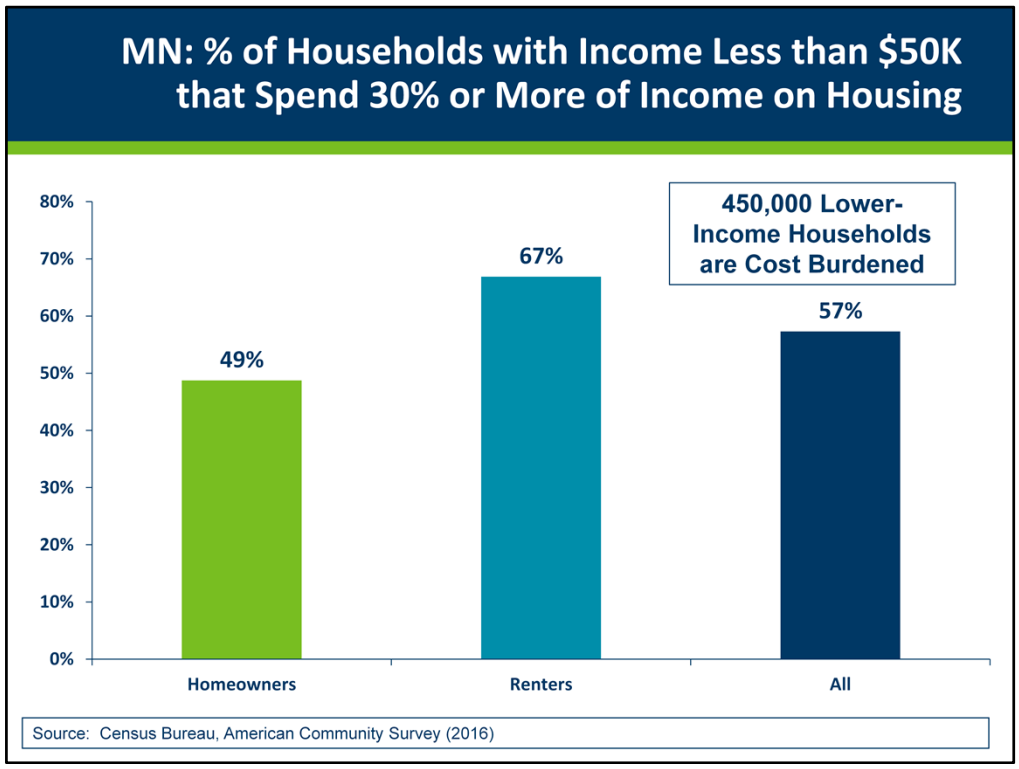
This graph shows the percentage of Minnesota households that were cost burdened over the last 17 years (spending more than 30% of their income on housing). Being cost burdened indicates that a household lacks affordable housing.

Key Points:

- The number of cost burdened households increased from 350,000 in 2000 to over 550,000 in 2016, which is 58% increase. For context, the overall number of households in Minnesota increased by 35% during that period.
- The share of all households that are cost burdened (middle dark blue line) increased from 22% to 26%.
- The share of renters (top light blue line) increased from 37% to 46%.
- The share of homeowners (bottom green line) increased from 17% to 19%.
- After 2011, there was a noticeable improvement. As the following pages will show:
  - Incomes rose in 2012 through 2016.
  - With respect to homeownership, lower home prices and interest rates after the housing crisis helped alleviate the situation significantly. New homeowners benefited from lower home prices, but existing homeowners also had the opportunity to refinance to lower interest rates and reduce their housing payments.

Implications:

- Since 2000, the need for more affordable housing has increased overall.
- The cost-burden situation is more severe for renters.
- Looking forward, there are a few key questions. Will the recent improvement continue? Will incomes for households (particularly lower income) rise with the improving economy? Will incomes keep pace with rising housing costs?



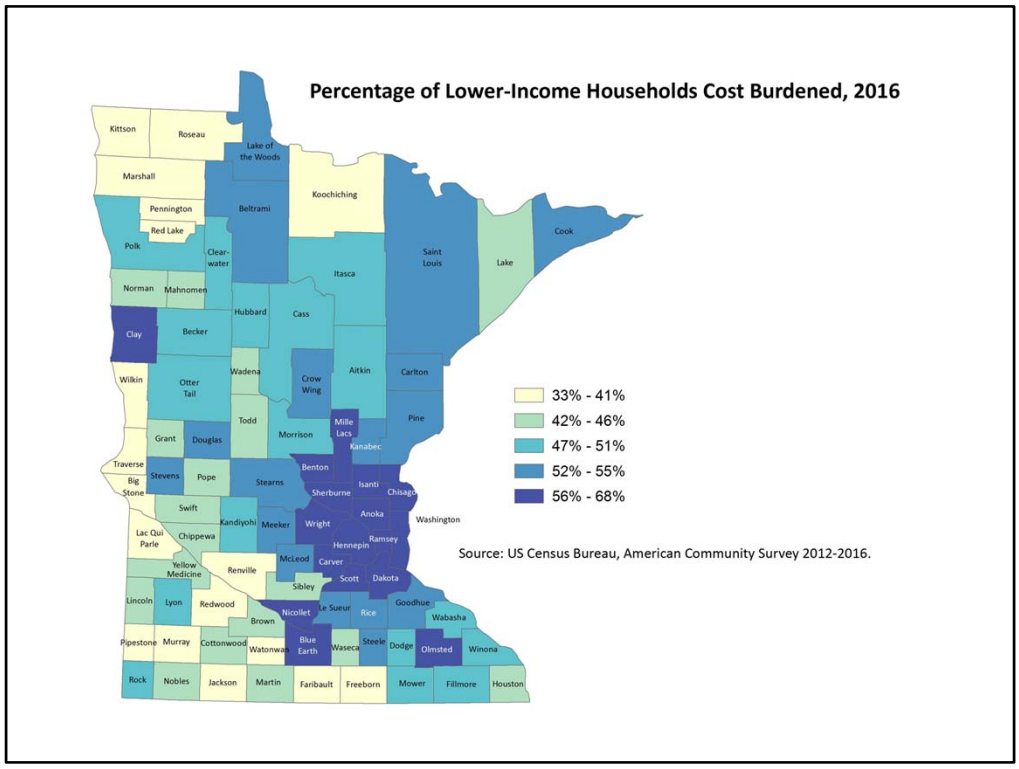
While the previous graph showed the percentage of all households that were cost burdened, this graph shows the percentage of lower-income households that were cost burdened in 2016. For this assessment, we define lower-income as households with an income less than $50,000.

Key Points:

- The need for more affordable housing is very large, especially for lower-income households.
- 49% of lower-income renters are cost burdened
- 67% of lower-income renters are cost burdened
- 57% of all of all lower-income households are cost burdened, which is 450,000 households

Implications:

- Most cost burdened households are lower income. Of the 550,000 cost burdened households (previous slide), 450,000 have an annual income less than $50,000.



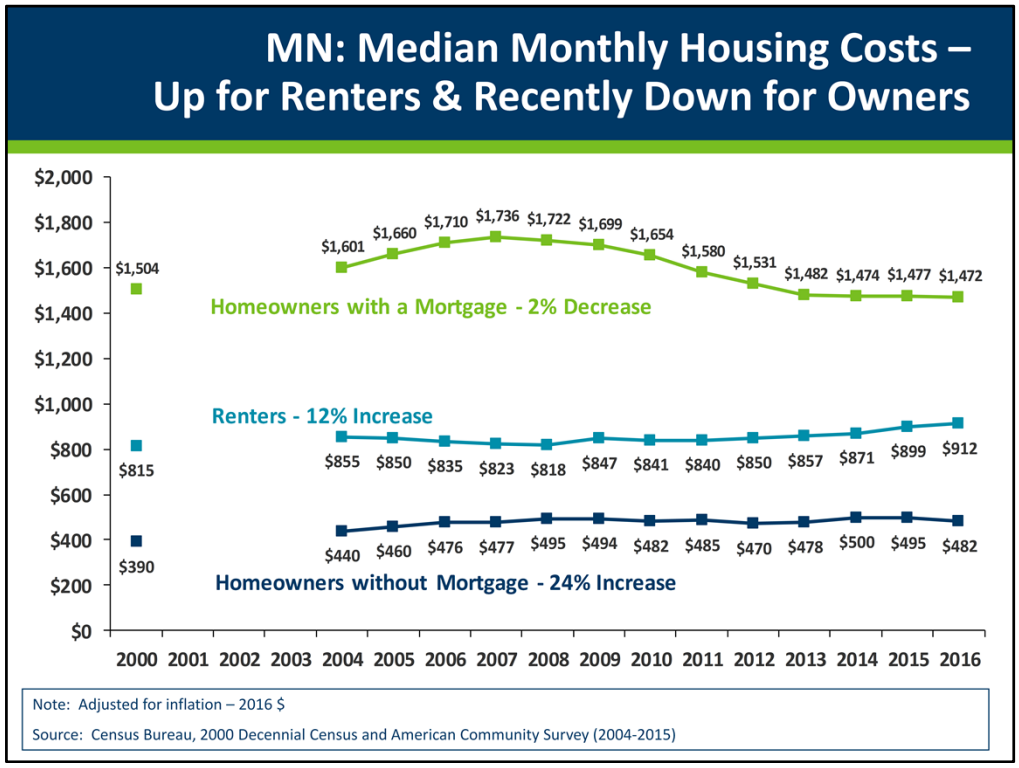
This map shows the percentage of lower-income households (annual income less than $50,000) that are cost burdened by county.

Key Points:

- The percentage varies from 33% to 68%.
- The highest percentages are generally in the metro area and the surrounding communities, as well as Duluth, Rochester, Mankato, and Moorhead. The lowest percentages are generally in the western part of the state.
- Even the county with the lowest percentage has 33% of its lower-income households with housing costs that are unaffordable.

Implications:

- While the need for more affordable housing is substantial across the entire state, the level varies.



Cost burden is a function of housing costs relative to income. To understand trends in the cost-burden percentages, we need to understand the trends in each component. This graph shows the median monthly housing costs for renters and homeowners.

Key Points:

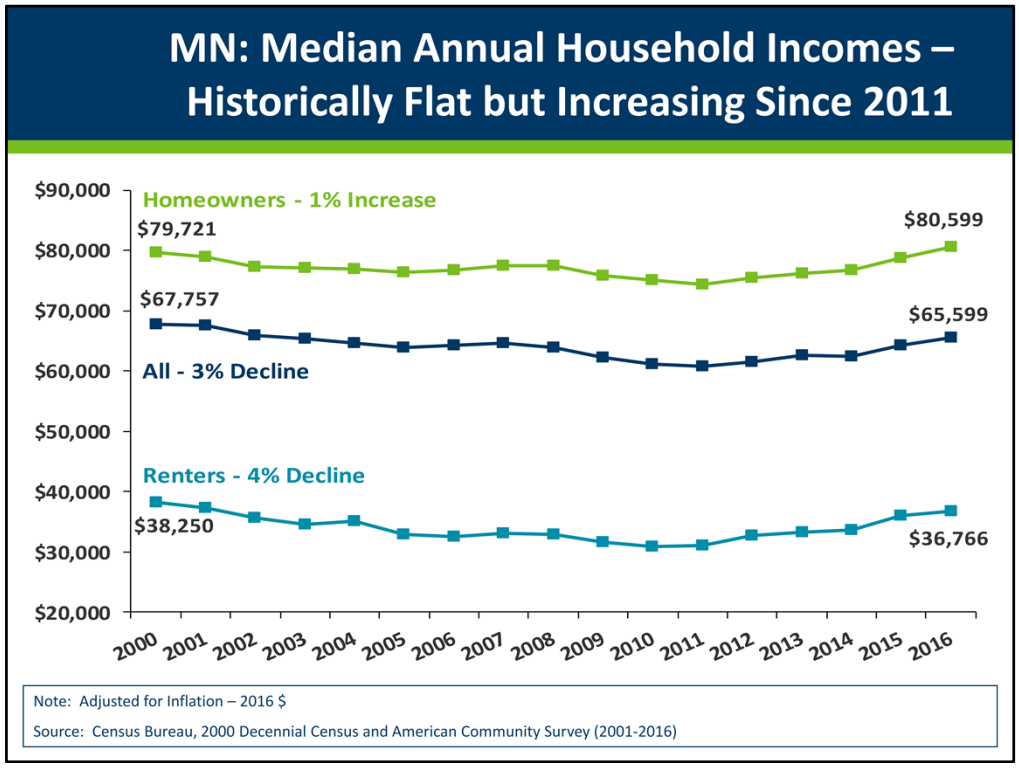
- Renters' costs increased by 12% since 2000 (after controlling for inflation). This masks shorter-term trends during that period. Statewide, the median rent rose from $815 per month in 2000 to $855 in 2004, fell to $818 in 2008, and has since risen to $912. The consistent increase in rents since 2008 is a concern.

- Costs for homeowners with a mortgage decreased by 2%. Again, this masks an even more dramatic shift during that period. The median monthly cost increased from $1,504 in 2000 to $1,736 in 2007 and then fell to $1,472 by 2016. This trend mirrors a decline in home sale prices and interest rates, which we'll examine later. As a preview, home sales prices are now increasing after bottoming out in 2011/12. Interest rates are still near historic lows.

- Costs for homeowners without a mortgage increased the most (24%). These higher costs reflect higher property taxes and insurance premiums. Many of these homeowners are seniors who have paid off their mortgages, which is an important point to keep in mind when examining housing for seniors.

Implications:

- What can Minnesota do to reduce rental and homeownership costs?



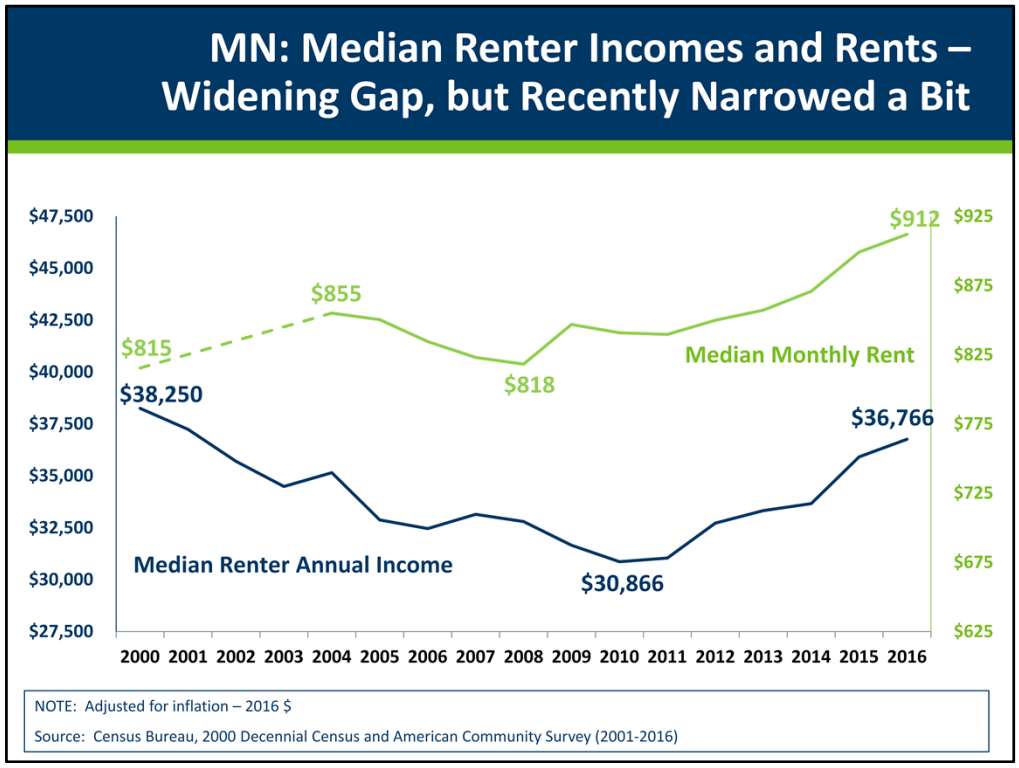
This graph shows the median household incomes over the past 17 years.

Key Points:

- Renter incomes fell 4% after controlling for inflation.
- Homeowner incomes have increased 1%.
- With the strengthening economy, incomes have increased since 2011, which is an encouraging sign.

Implications:

- While the Task Force has not been charged with finding strategies for increasing household incomes, incomes play a key role in determining housing affordability and stability.



This graph brings the cost and income trends together in one picture for renters.

Key Points:

- From 2000 to 2010, rental housing became less affordable relative to income. Since then, increases in the median income have more than kept pace with increases in the median rent.
- Overall, there was a 12% increase for rents and a 4% decrease for incomes (adjusted for inflation).

Implications:

- Housing affordability and stability are determined by many market, economic, and societal factors with complex interactions. The following charts will document some of them.

MN: Supply and Demand for Rental Housing – Greatest Need for Incomes <=30% of AMI

Income Level	Number of Households in Income Range	Supply of Affordable Units in Income Range	Supply Gap (-) Surplus (+)	Allocation Gap: Number of Affordable Units Occupied by Higher Income HH Gap (-)	Total Gap (-) or Surplus (+)
<=30% of AMI	176,300	110,465	-65,835	-47,005	-112,840
>30% to <=50% of AMI	119,940	225,085	+105,145	-99,610	+5,535
>50% to <=80% of AMI	116,905	202,700	+85,795	-85,095	+700
>80% of AMI	176,995	51,890	-125,105	N/A	N/A
Total	590,140	590,140	0	N/A	N/A

Source: Minnesota Housing analysis of HUD's 2010-14 CHAS (Comprehensive Housing Affordability Strategy) data.

This table provides information on the stock of occupied rental housing that is affordable by income level. The housing field categorizes income into four categories

- Moderate to high income: Income that is greater than 80.0% of the median family income in the area (which is referred to as the area median income or AMI)
- Low income: Income that is 50.1% to 80.0% of AMI
- Very low income: Income that is 30.1% to 50.0% of AMI
- Extremely low income: Income that is Less than or equal to 30.0% of AMI (which is relatively close to the poverty level)

Key Points:

- The largest shortage of affordable rental housing is for extremely low income households (<=30% of AMI). There are 176,300 of these households in Minnesota but only 110,465 rental units that are affordable to them. Furthermore, of the 110,465 affordable units, 47,005 are occupied by households from the higher income groups, leaving only 63,460 units occupied by the extremely-low-income group.
- Even though there are more renter households with an income greater than 80% of AMI (176,995) than there are units with rents aligned with these higher incomes (51,890), creating a 125,105 unit supply gap, all of the units with lower rents are affordable to this group, and many of these moderate to high income households occupy those lower-rent and affordable units.

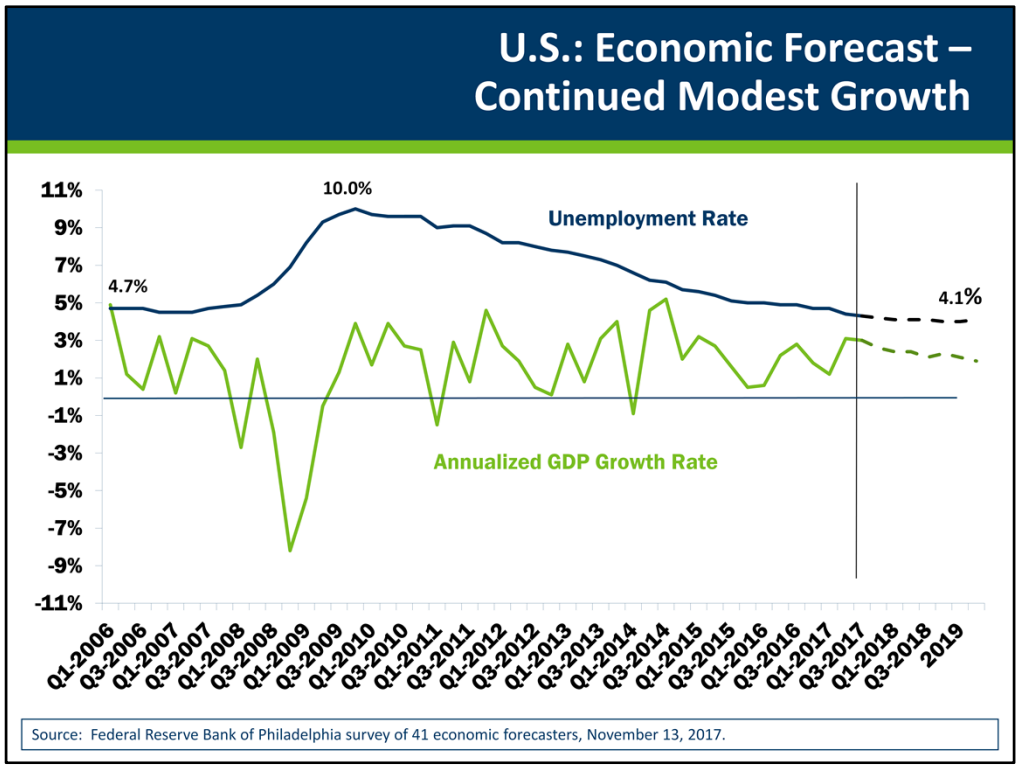
Implications:

- Because of poor condition, dated design, lack or amenities, or poor location, some existing rental housing is naturally affordable without subsidies or assistance.
- Because the cost of producing rental housing is high, providing additional affordable units to extremely-low-income households requires subsidies and assistance.

MINNESOTA HOUSING

Theme/Trend #2

The Economy Should Continue to Grow, which Will Hopefully Support Growth in Household Incomes



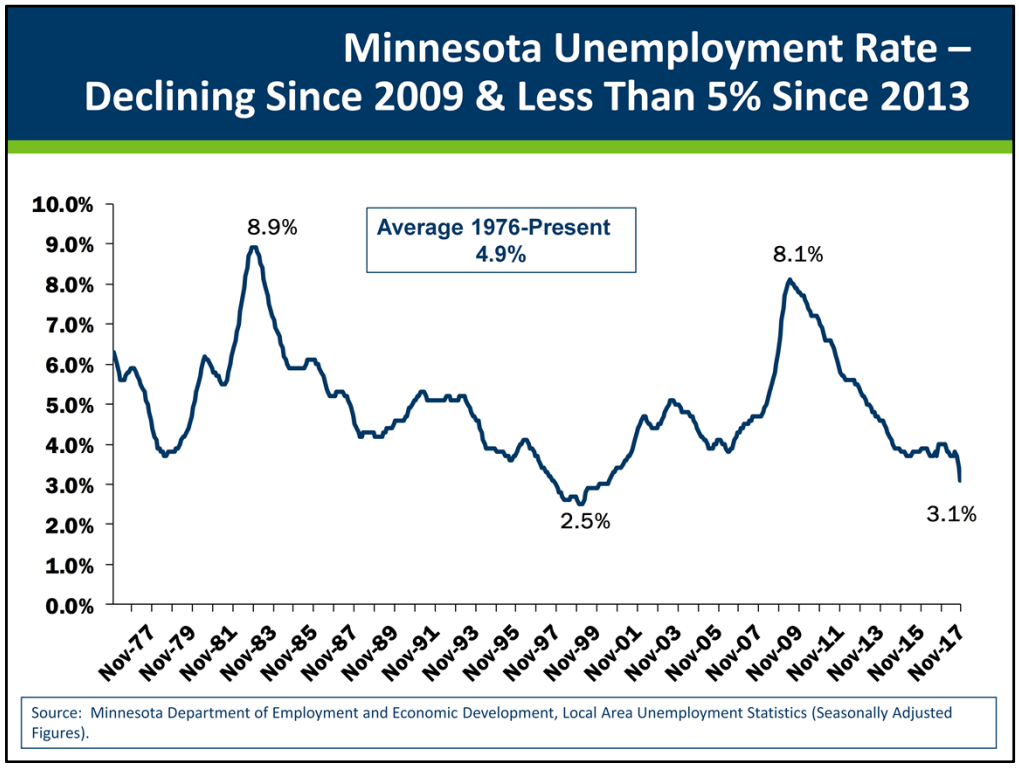
The economy plays a key role in the housing market. This graph shows the growth rate of the U.S. economy (as measured by Gross Domestic Product or GDP) and the unemployment rate. The solid lines on the left side are actual rates through the 3rd quarter of 2017. The dashed lines on the right reflect a forecast based on a survey by the Philadelphia Federal Reserve Bank of 41 economic forecasters. These forecasts are from November 2017, before the passage of tax reform.

Key Points:

- The change in GDP bottomed out during the 4th quarter of 2008 with an annualized decline of 8.2%, which led to an unemployment rate reaching 10% in 2009.
- Moderate to slow growth since then has gradually led to lower unemployment rates.
- The forecast indicates that the national economy will grow at about 2.0% to 3.0% and the national unemployment rate will level off around 4.0%.

Implications:

- The economy should continue to grow modestly.
- A stronger economy typically (1) increases incomes, (2) increases the number of households being formed with less doubling up (two households living in the same unit), and (3) reduces rental vacancy rates and months supply of homes for sale as additional households form, which often leads to higher housing prices.
- A key question is whether economic growth will be strong and widespread enough to significantly benefit lower-income households.



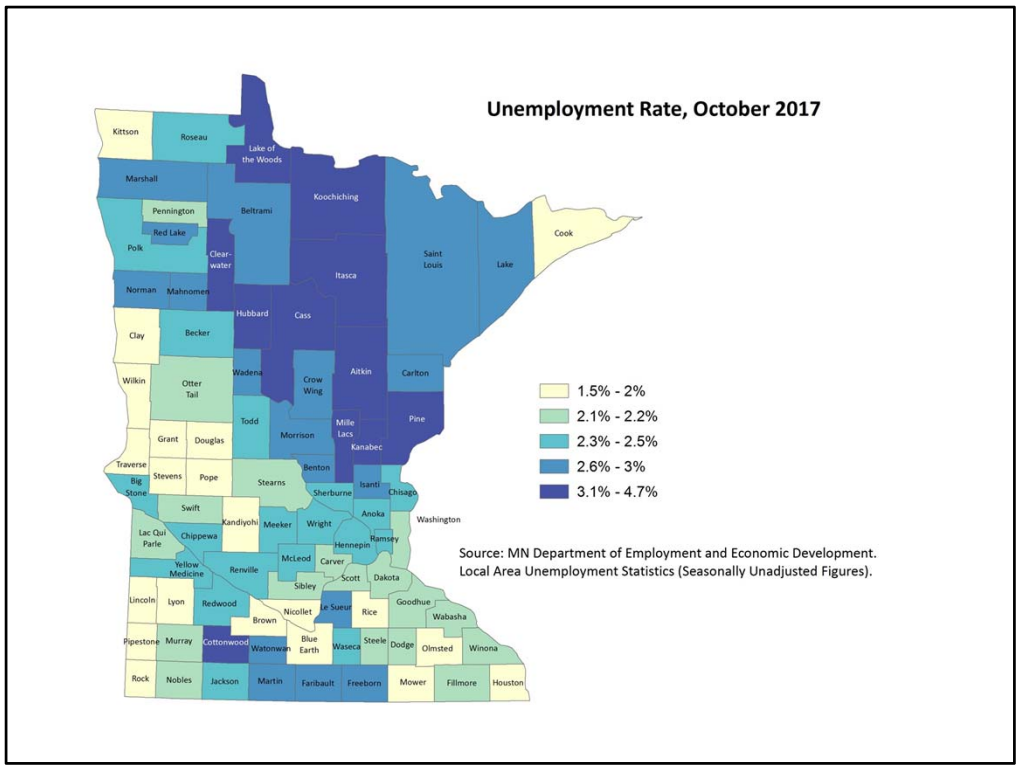
This graph shows the unemployment rate in Minnesota.

Key Points:

- The employment situation is a little better in Minnesota than nationally (3.1% versus 4.1% for November 2017)
- After peaking during the Great Recession at 8.1%, Minnesota's current unemployment rate is down to 3.1%, which is below the historical average.

Implications:

- How will the state's low unemployment rate affect income growth?



This map shows the unemployment rate in each county.

Key Points:

- The unemployment picture varies around the state – ranging from 1.5% to 4.7%, with the highest rates in north central Minnesota and the lowest in southern and western Minnesota.

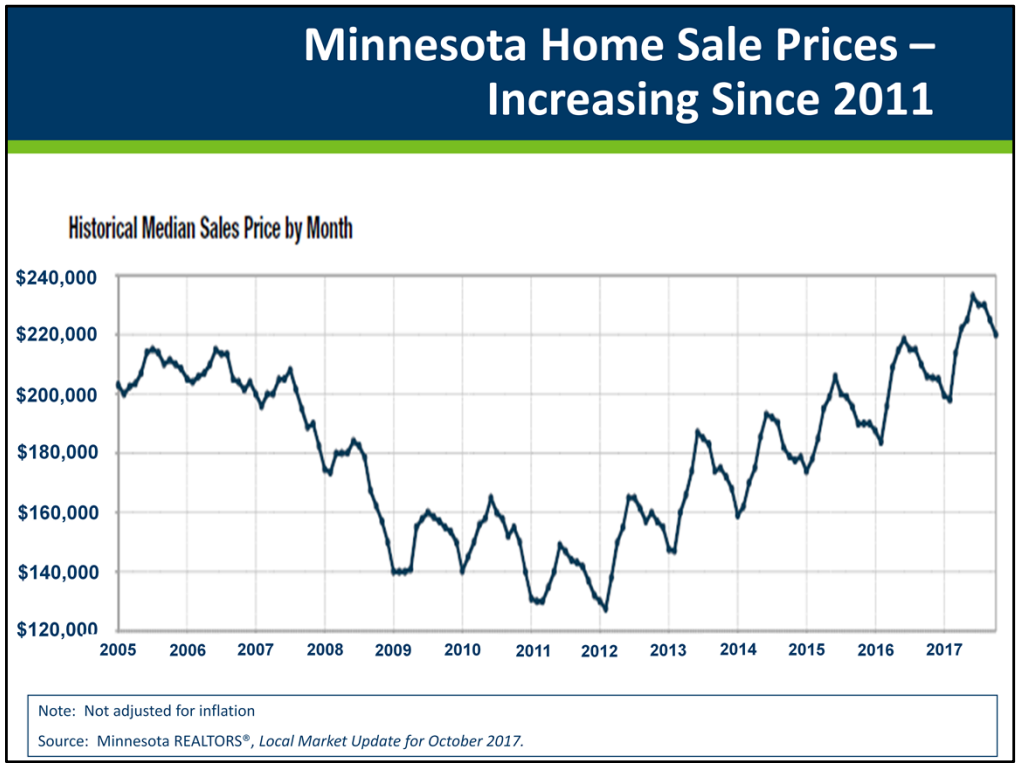
Implications:

- Minnesota is not monolithic. Different parts of the state have different economic conditions and housing needs.

MINNESOTA HOUSING

Theme/Trend #3

Home Prices Will Likely Continue to Increase with a Limited Supply



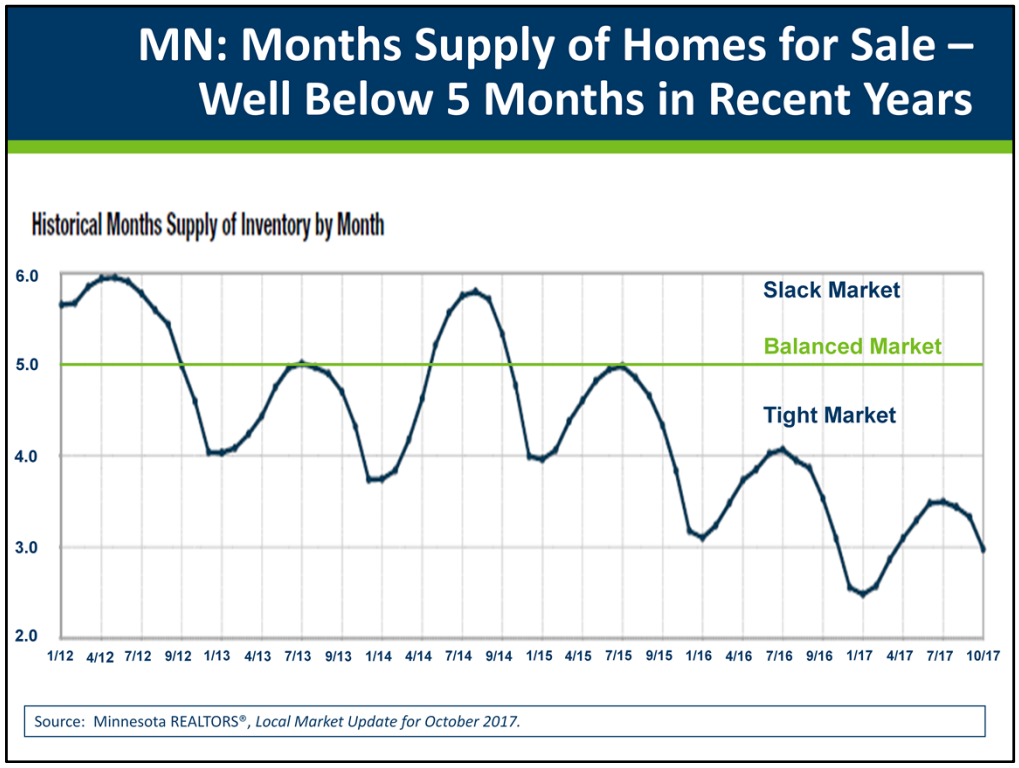
This graph shows the median sales price for homes in Minnesota, not controlling for inflation.

Key Points:

- Statewide, prices dropped significantly from 2006 through 2009 and struggled through 2011, when they bottomed out.
- Prices have been increasing since early 2012.

Implications:

- On the one hand, rising property values help existing homeowners because they add equity and create wealth. This is particularly important for lower-income homeowners because their homes are often their primary asset.
- On the other hand, rising property values makes housing less affordable for people moving into homeownership.



One of the best indicators of home price trends is the months supply of homes for sale, which is a combination of the current inventory and how fast homes are selling. It measures how long it would take to clear the current inventory. Generally, if the inventory is more than five months, it is a slack or buyer's market with prices declining; if the inventory is less than five months, it is a tight or seller's market with prices rising.

Key Points:

- Statewide, the months supply has been at or below five months in recent years, which has resulted in the rising prices.

Implications:

- With the statewide months supply currently at about three months, prices will likely continue to increase.

TC Metro (16 County): Months Supply of Homes for Sale Under $250,000 – Very Tight Market

Year	Inventory - Number of Homes (June)	Months Supply (June)
2013	9,378	3.2
2014	9,413	3.5
2015	8,004	2.9
2016	6,105	2.1
2017	4,314	1.6

Source: Minneapolis Area Association of REALTORS®

This table shows the inventory and months supply of homes selling for less than $250,000 (which is a more affordable price) in the 16 counties around the Twin Cities metro area.

For each year, the data applies to the month of June, which is a prime home buying month.

Key Points:

- Since 2013, the inventory and months supply have both been cut in half.

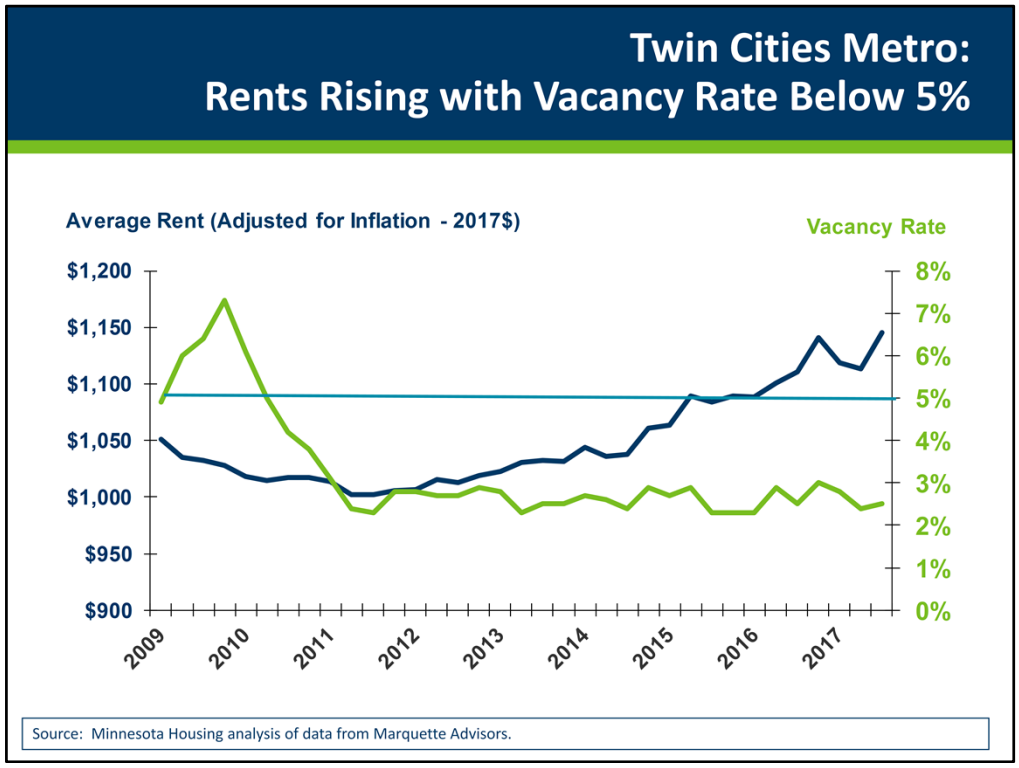
Implications:

- There is a very limited supply of affordable homes.

MINNESOTA HOUSING

Theme/Trend #4

Rents Will Likely Continue to Increase with a Limited Supply



Switching to the rental market, this graph shows the relationship between vacancy rates and rents. Low vacancy rates drive up rents. This data just applies to the Twin Cities metro area.

Key Points:

- When the vacancy rate (green line) is consistently below 5% (light blue horizontal line), rents (dark blue line) generally rise because the supply is limited relative to demand.
- When the vacancy rate is consistently above 5%, rents generally fall because there is extra supply relative to demand.
- Since 2011, vacancies have been consistently below 5%, and rents have increased.

Implications:

- As long as vacancy rates stay consistently below 5%, rents will likely rise.
- As we will discuss in the next few slides, the vacancy rate depends on the strength of the economy spurring job and household growth, households deciding to rent or own (as reflected in the homeownership rate), and new construction adding rental units to meet the demand.

Statewide Vacancy Rates and Rents – Much of the State is Below 5%

Area	Vacancy Rate	2 Bedroom Average Rent
Northwest	5.7%	$760
West Central	7.6%	$765
Southwest	6.4%	$637
Northeast	5.1%	$1,020
Central	4.3%	$841
Metro	4.3%	$1,259
Southeast	6.2%	$931
Statewide	4.6%	$1,162

Source: Minnesota Housing analysis of data from CoStar. Data accessed on December 4, 2017.

But first, we'll look at vacancy rates across the state, not just the metro area.

This data comes from CoStar, which is a relatively new source for Minnesota Housing, and the rates are a little higher than shown on the previous page, which comes from Marquette Advisors. For the metro, Marquette reports a vacancy rate of 2.5%, while CoStar reports 4.3%. The Marquette data captures properties with 10 or more units, while the CoStar data captures properties with 4 or more units, which may explain some of the difference. They also use different methodologies for collecting the information.

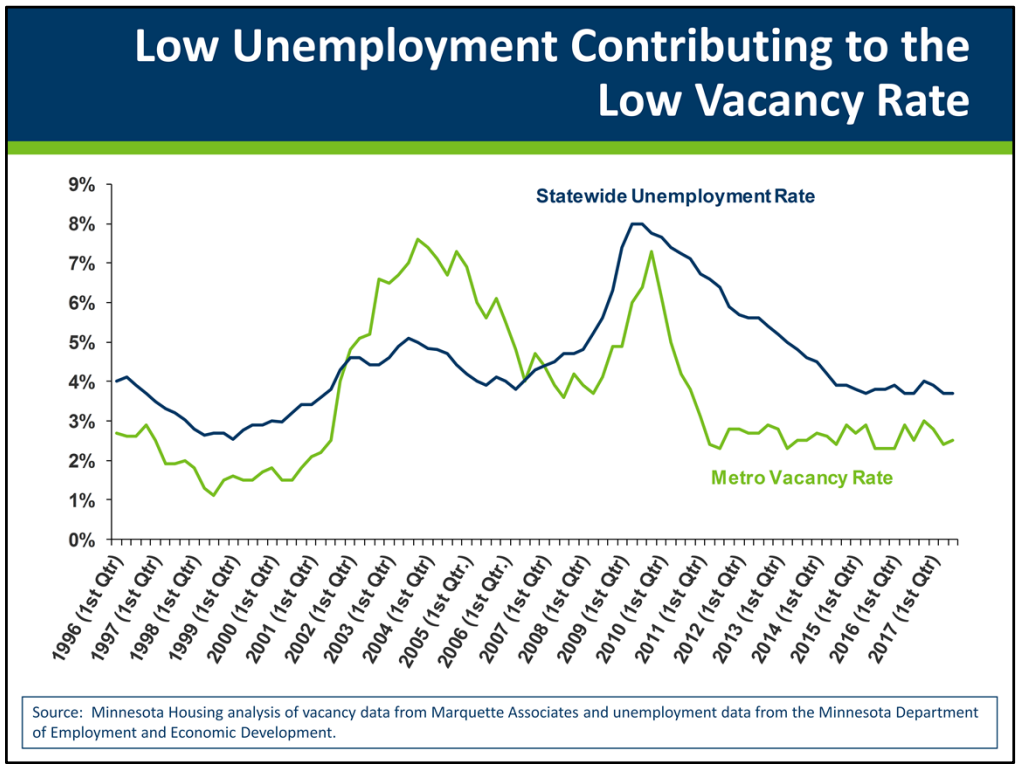
The CoStar data captures information from over 8,450 rental properties and 345,000 units in Minnesota. While this is not a complete inventory of rental housing in Minnesota, it is the most complete database we have seen.

Key Points:

- The statewide vacancy rate is 4.6%.
- The metro area has the lowest rate, along with central Minnesota.
- The highest rate is in west central Minnesota at 7.6%.
- The rates apply to an entire region, and individual markets within these regions may have very different vacancy rates.

Implications:

- Statewide, there appears to be some upward pressure on rents.



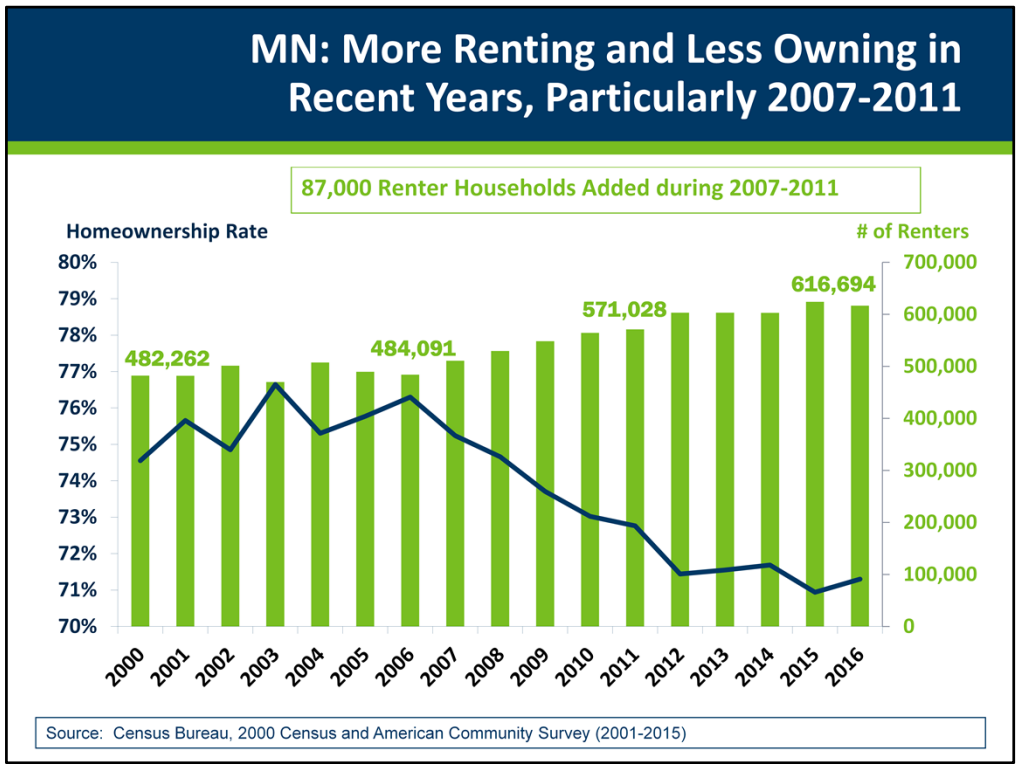
This graph shows the relationship between unemployment and rental vacancy rates.

Key Points:

- When the unemployment rate is low, the vacancy rate tends to be low. When unemployment is high, the vacancy rate tends to be high. With employment struggles, we often see households doubling up and young adults staying home with their parents.
- The recession initially led to high vacancy rates in 2009. However, in 2010 and 2011, the rate rapidly declined when unemployment was still above 6%. Two factors contributed to this divergence.
    - There was very little multifamily construction from 2007 through 2011, which limited the supply and decreased vacancies.
    - The homeownership rate declined between 2006 and 2015, which increased the demand for rentals and decreased vacancies.

Implications:

- Looking into the future, vacancy rates may start to increase.
    - While the homeownership rate had been declining (reflecting more renters), it appears to be leveling off a bit at 71%, putting less downward pressure on the vacancy rate. (See page 24.)
    - With low vacancy rates, developers are now building more units (see page 25), which will increase the supply and vacancies.



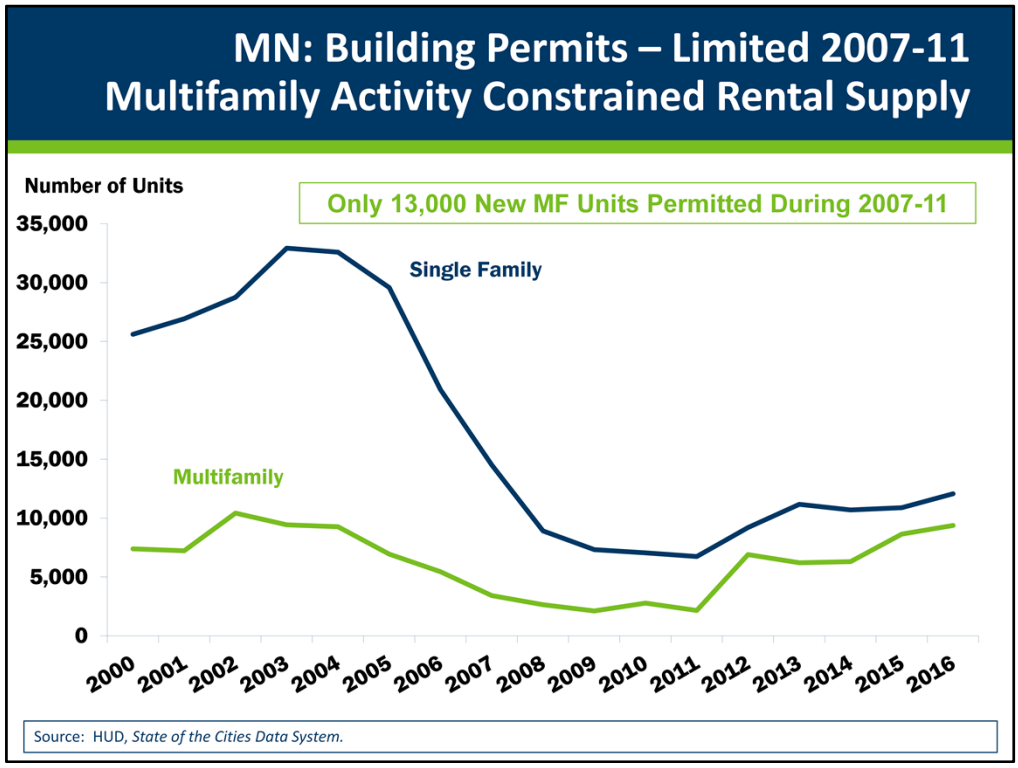
This graph shows the homeownership rate in Minnesota (blue line), and the number of renter households (green bars).

Key Points:

- As the homeownership rate dropped after 2006, the number of renter households increased significantly from 484,091 in 2006 to 616,694 in 2016.
- A large share of the increase occurred after 2006 and through 2011, adding 87,000 renter households. (For context, during that time, the number of homeowner households declined by almost 33,000.) As will be discussed on the next page, only 13,000 multifamily units were added during the period, resulting in a large mismatch between new demand and supply.
- The number of renters and the homeownership rate seemed to have leveled off in 2012 through 2016

Implications:

- The decision to own versus rents is a key driver of the housing market.



With the Great Recession and financial and housing crises, there was very little housing construction in multifamily and single family housing between 2007 and 2011.

Key Points:

- The annual number of multifamily permits dropped from 9,000-10,000 to 2,000-3,000 units. It has since increased to about 9,400 units in 2016.
- The decline in single-family permits was even larger, with a more modest recovery. This has contributed to the lack of homes for sale.
- The Star Tribune recently reported data from Housing First Minnesota and the Builders Association of the Twin Cities. In 2017, there was a 36% increase in total units from building permits, with strong growth in both multifamily and single family.

Implications:

- The low level of multifamily construction between 2007 and 2011 limited the number of units that are currently available, which decreased the rental vacancy rate.
    - In the 2007-11 period, permits for 13,000 multifamily units were issued. In contrast, as shown on the previous page, 87,000 new renter households were added. The mismatch resulted in a significant decline in the vacancy rate. Some of the increase in demand was met through single-family homes that had previously been owner-occupied and became rentals during the foreclosure and housing crisis. As the following table will show, single-family homes play a key role in the rental market.
- With the low vacancy rates and increased demand for new units, multifamily construction has picked up and is back to 2002-04 levels. Thus, vacancy rates may increase, relieving some of the upward pressure on rents.

Minnesota Rental Units by Building Type – Almost Half Are in 1 to 4 Unit Buildings

Building Type	Number of Rental Units	Share of Rental Units
Single-Family Homes	171,345	29.0%
2 to 4 Unit Structures	74,405	12.6%
5+ Unit Structures	334,635	56.7%
Other (mobile homes, etc.)	9,732	1.6%
Total	590,117	100.0%

Source: Minnesota Housing analysis of HUD's 2010-14 CHAS (Comprehensive Housing Affordability Strategy) data.

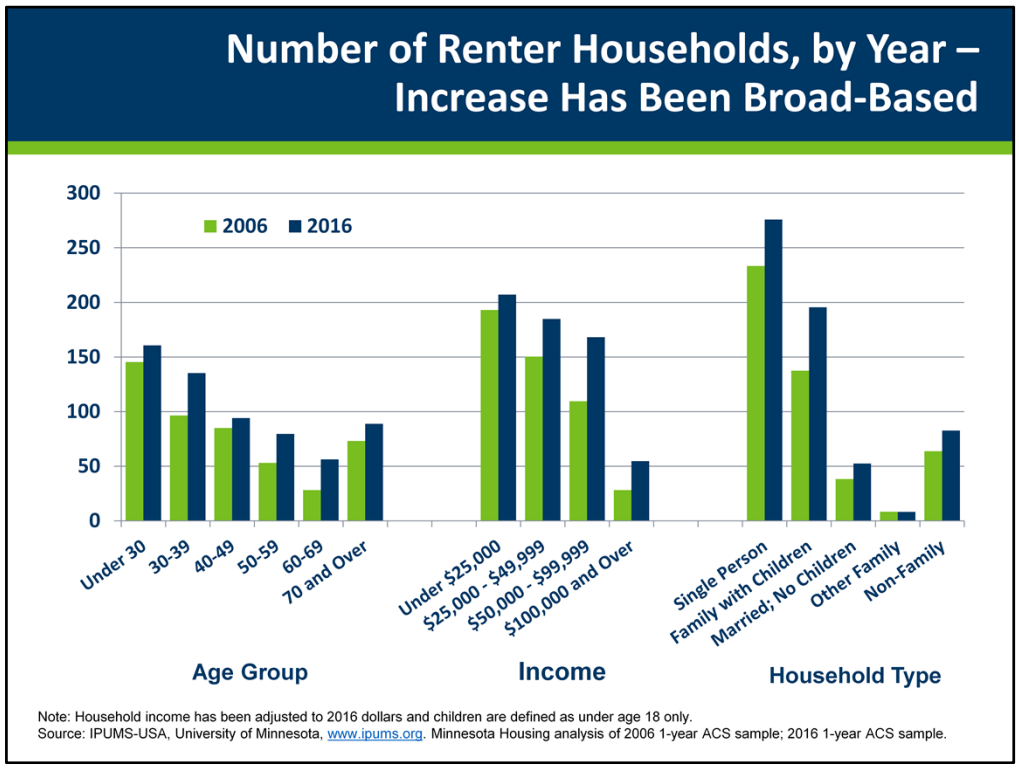
This table shows the stock of occupied rental housing in Minnesota by property size.

Key Points:

- Almost half of the state's rental stock is properties with 1 to 4 units, with many in single-family homes or mobile homes.

Implications:

- Smaller properties, including single-family homes, play a critical role in the rental market.



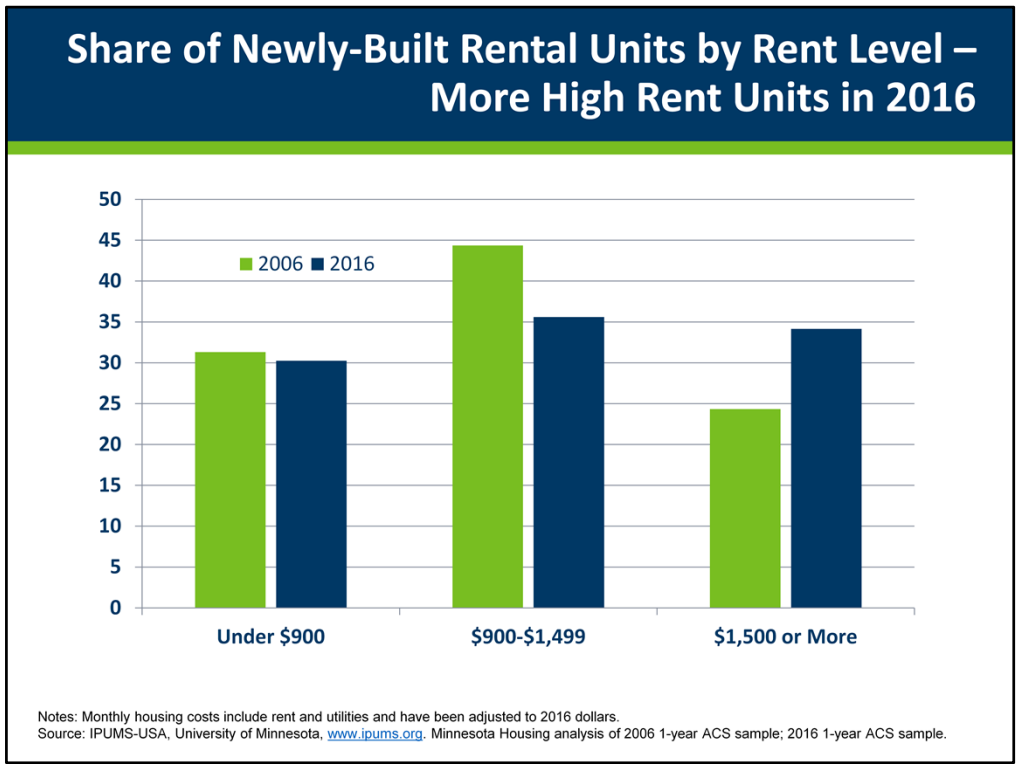
This graph shows the number of renters in 2006 and 2016, broken out by age, income, and household type.

Key Points:

- The increase in renting has been broad-based.
- There were large increases for 30 to 39 and 60 to 69 year olds, households with incomes between $50,000 and $99,000, and families with children.

Implications:

- The increase was not just concentrated in younger, lower-income households without children, which historically has been the stereotypical renter.



This graph shows the share of rental units built in the previous six years, broken out by rent level. The graph compares 2016 with 2006, and the rent levels are adjusted for inflation.

Key Points:

- The share of new units renting for $1,500 or more increased from 24% to 34%.
- A household needs a $60,000 income to afford a $1,500 monthly rent.
- As shown in previous graphs, the median income for Minnesota renter households was $36,766 in 2016, and the median rent was $912.
- While the number of newly-built rental units in 2006 was about 38,000, it was down to just 33,000 in 2016. Not only was there a decline in the share of new affordable units, there were fewer new affordable units in absolute number.

Implications:

- Minnesota needs to build more affordable rental housing .

MINNESOTA HOUSING

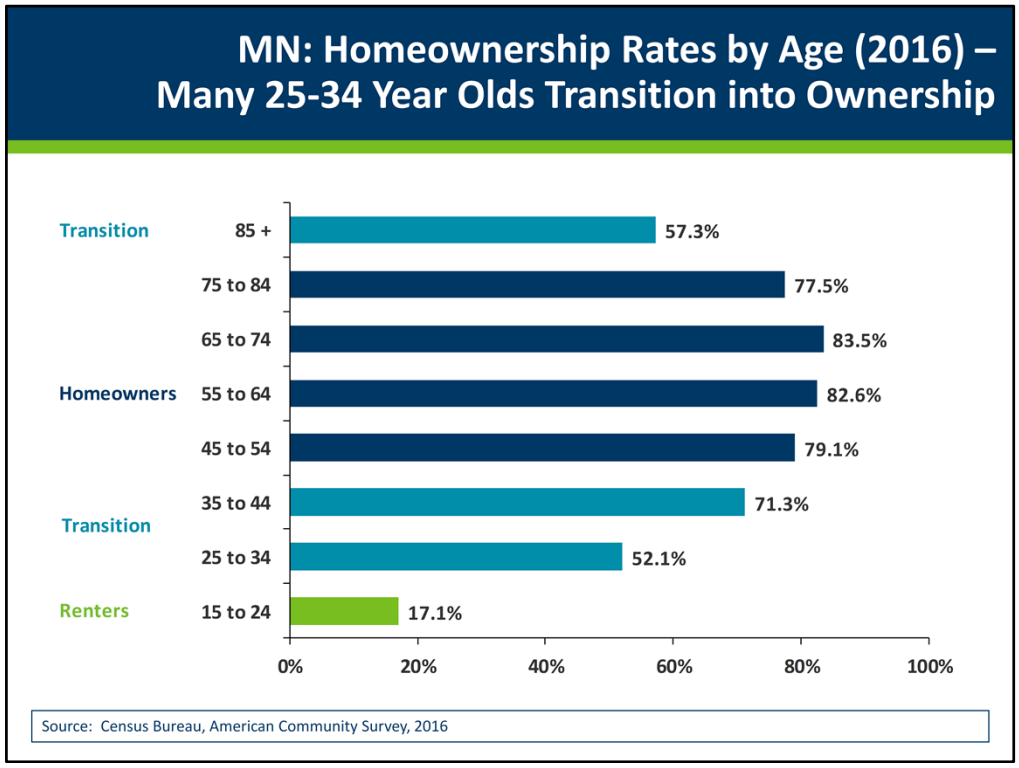
Theme/Trend #5

Millennials' Decision to Own or Rent Will be a Key Driver of the Housing Market

Millennials: Owning vs. Renting

- More Owning:
  - Generation Y (Millennials) is larger than Generation X and moving into the home buying phase of life and express an interest in eventually owning
  - Homeownership is more affordable than in 2006 (home prices are increasing but interest rates are near historic lows)
- More Renting:
  - People may be more cautious about homeownership after the housing crisis
  - Generation Y is likely to change jobs and locations – and not be tied down by homeownership (for now)
  - Tighter credit standards
  - Increasing levels of student debt

We will look at several of these factors in more detail in the following charts.

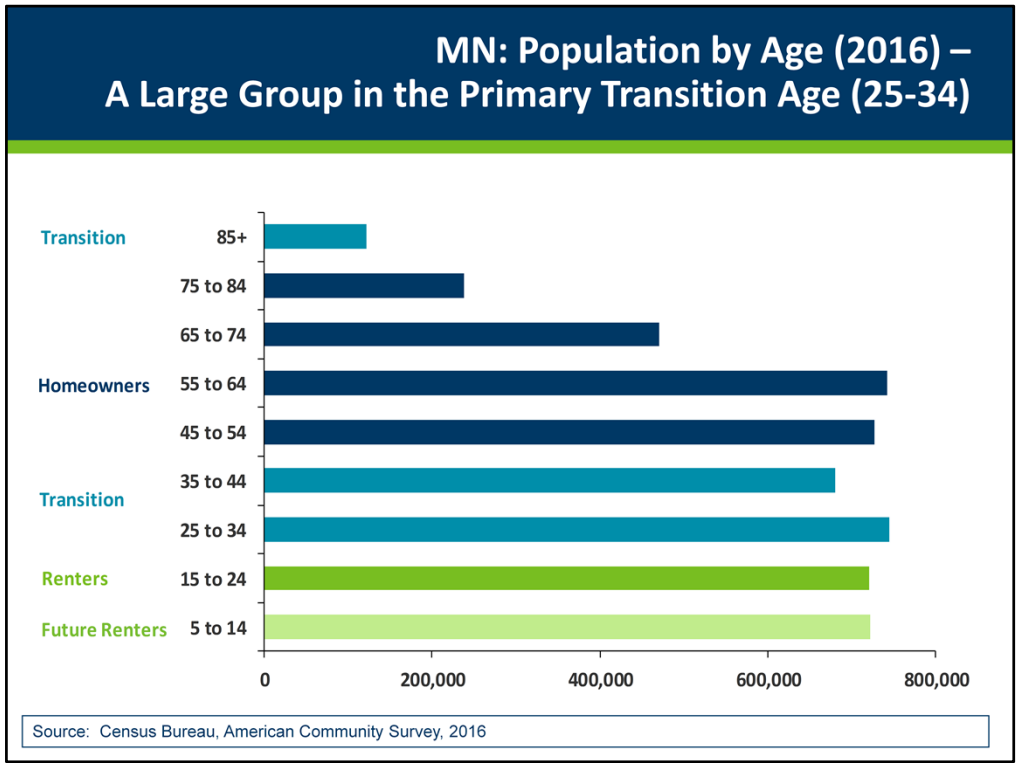


A person's stage in life (often reflected by his or her age) plays a key role in the decision to buy a home.

This graph shows the homeownership rate by age.

Key Points:

- Young single people, who are in the less-stable and early stages of their careers and lives, typically rent for affordability and flexibility reasons. (See ages 15-24 in this graph.)
- As families form and careers are established, households look for stability and often transition to homeownership. (See ages 25 to 44 in this graph.) The transition primarily occurs for 25 to 34 year olds, when the homeownership rate jumps from 17.1% to 52.1%. A smaller transition occurs for 35 to 44 year olds, with the rate increasing to 71.3%. Millennials may be delaying the transition. The median age of Minnesota Housing's first-time homebuyers increased from 27 in 2005 to 31 in 2016.
- From ages 45 to 84, the vast majority of Minnesota households are in the homeownership stage of life.
- After households go through the initial phase of retirement, age and start to face the struggles of independent living, they start to transition back to renting.



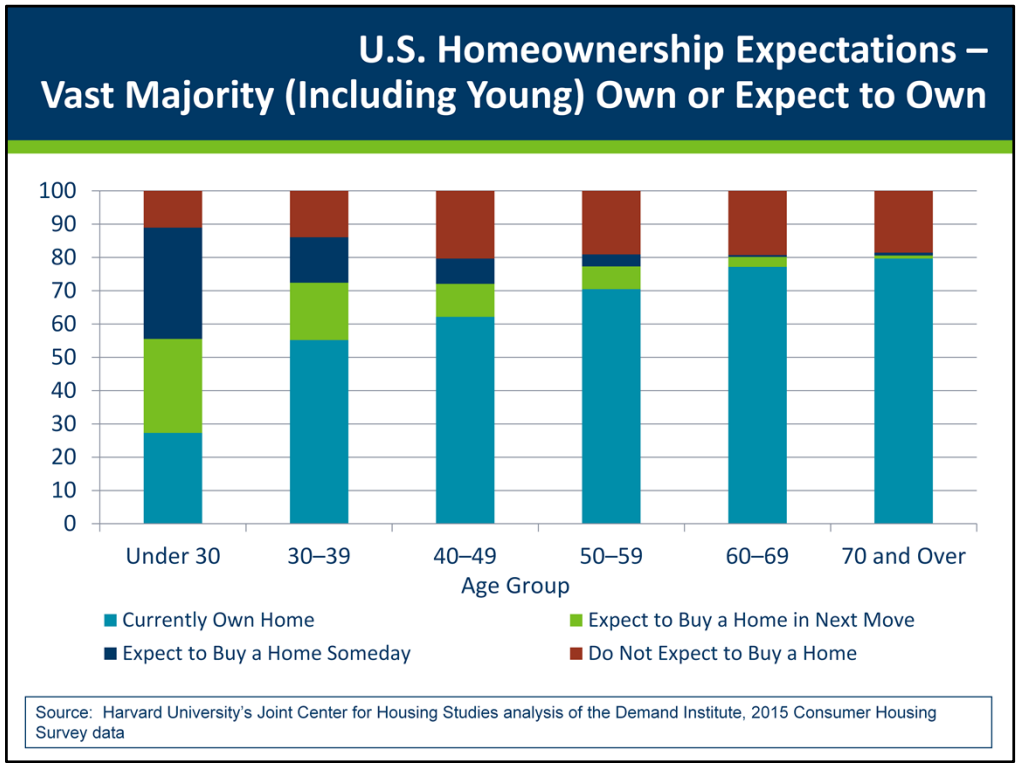
This graph breaks out of Minnesota's 2016 population by age and the renter/owner phases.

Key Points:

- Demographics plays a role in the homeownership rate.
    - The smallest working-age group is 35-44 year olds (largely representing Generation X). Over the last 10 years, this group moved through the initial and primary home-buying phase of life, and its small size limited the growth in homeownership.
    - The largest age group is 25 to 34 year olds (largely representing Generation Y or Millennials). This large group is in the prime age for first-time homebuyers, which should help increase homeownership in the coming years.

Implications:

- Understanding the home-buying needs of the Millennial generation will be a critical strategy going forward.
- The rental needs of Baby Boomers will be described in a later section.



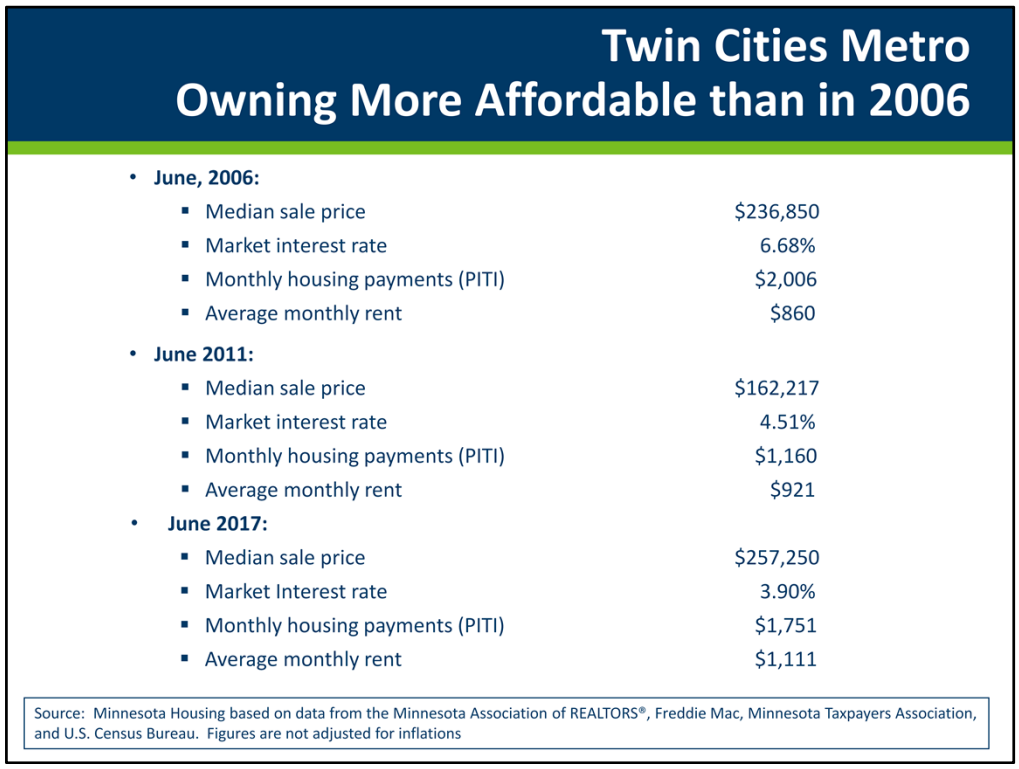
This graph shows homeownership status and expectations by age.

Key Points:

- 80% to 90% of Americans across all adult age groups own or expect to own their home.

Implications:

- Nearly 90% of Millennials expect to eventually own their home.



The affordability of owning a home is a key factor that influences the homeownership rate.

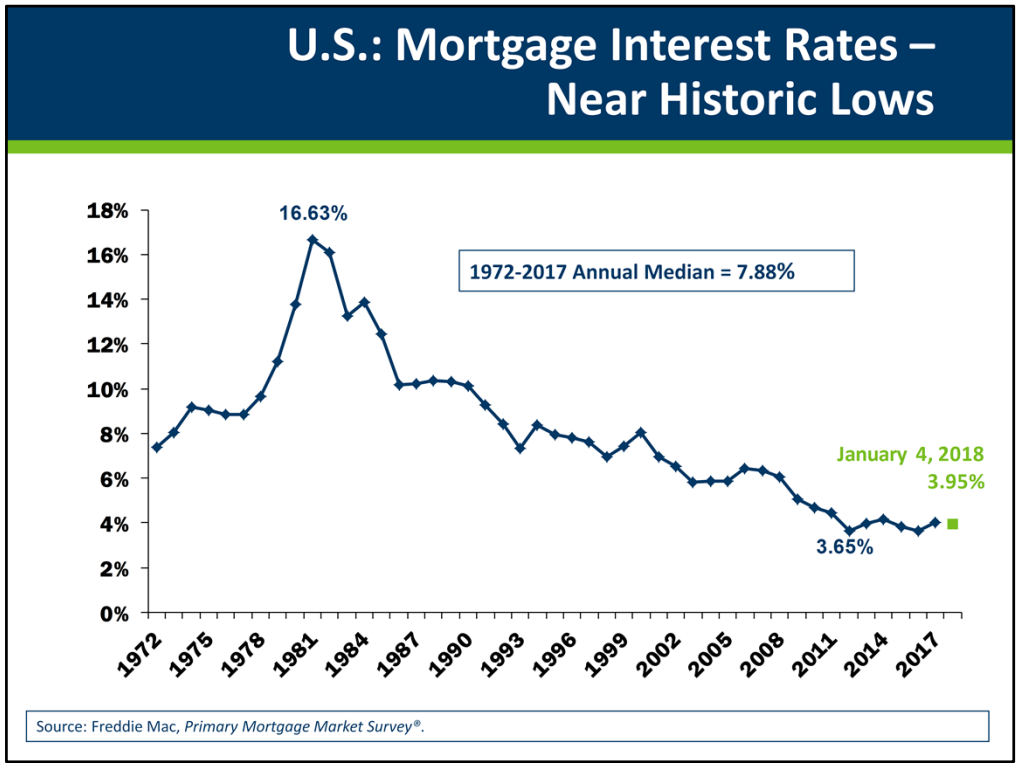
This slide shows the housing payment (which includes principal, interest, taxes & insurance or PITI) for the median priced home in June of 2006, 2011 and 2017 in the Twin Cities metro area. (The analysis examines the same month in each year because home sale prices fluctuate with the time of year, and we wanted consistency in the comparison. In addition, June is a prime home-buying month.)

Key Points:

- In 2006, the housing payment on a median priced home was $2,006 – more than $1,000 above the average rent for an apartment ($860). The cost differential probably contributed to the decline in the homeownership rate.
- By 2011 (with much lower prices and interest rates), the housing payment on a median priced home was down to $1,160 – just a couple hundred dollars more than the average rent ($921). The smaller differential probably contributed to the leveling off of the homeownership rate.
- By 2017 (with higher prices but lower interest rates), the housing payment was up to $1,751 – about $640 more than the average rent ($1,111).

Implications:

- While buying a home is still more affordable than it was in 2006, the rising costs may limit home buying.



Interest rates also play a key role in housing costs and affordability. The very low interest rates over the last several years have increased affordability and helped the housing market recover by encouraging home buying.

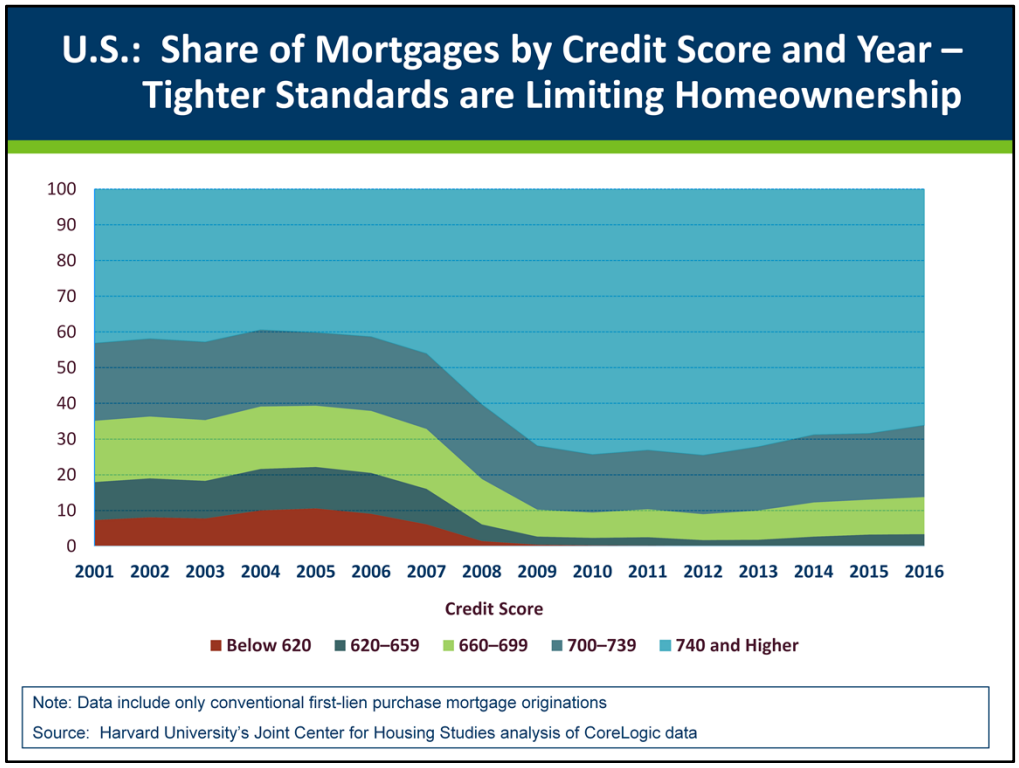
This graph shows mortgage interest rates since 1972.

Key Points:

- During this period, the median rate was 7.88%.
- The peak rate occurred in 1981 (16.63%).
- In recent years, the rates have reached their lowest levels, near or below 4%.

Implications:

- The current rates, which are very low in historical terms, have made homeownership more affordable than it would have otherwise been.
- A key question is whether rates will remain low?
- The Federal Reserve Bank is starting to pursue strategies to increase interest rates. Mostly notably, it may shrink its balance sheet. Between 2008 and 2014, the Fed expanded its balance sheet from $0.9 trillion to $4.5 trillion by buying Treasury securities, mortgage backed securities, and other assets to keep interest rates low and stimulate the economy. Since then, they have kept the size of the balance sheet relatively constant, but there is now discussion that they may start to shrink it. This may seem to be an esoteric Federal Reserve policy, but it can have a significant impact on the affordability of homeownership, as shown in the last two slides.



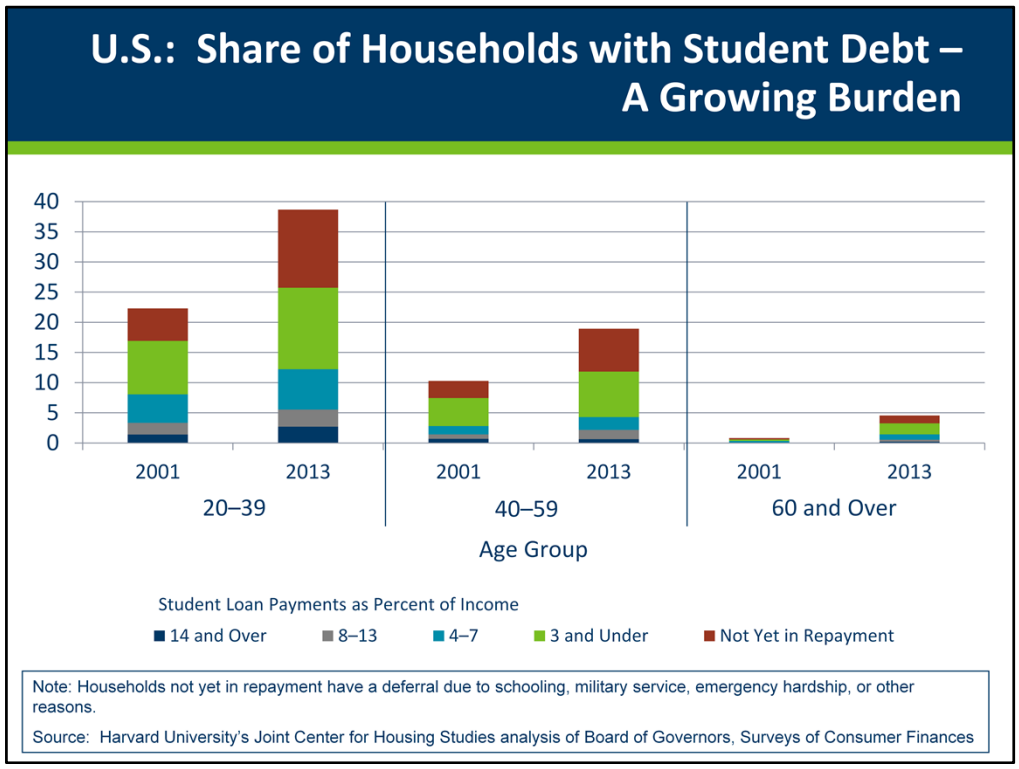
This graph shows conventional, first-lien mortgage originations by credit score and year.

Key Points:

- Since the early 2000s, the share of originations with a credit score of 740 or higher has increased significantly from about 40% to 70%.
- The share of originations with a credit score below 700 dropped from 40% to about 10%.
- Mortgages with a credit score below 620 went away.

Implications:

- Credit standards have become much tighter since the foreclosure crisis, which was needed. However, did the pendulum swing too far the other way? The standards have loosened a bit since 2012, with the share of originations with a credit score below 740 increasing from just under 30% to just over 30%.



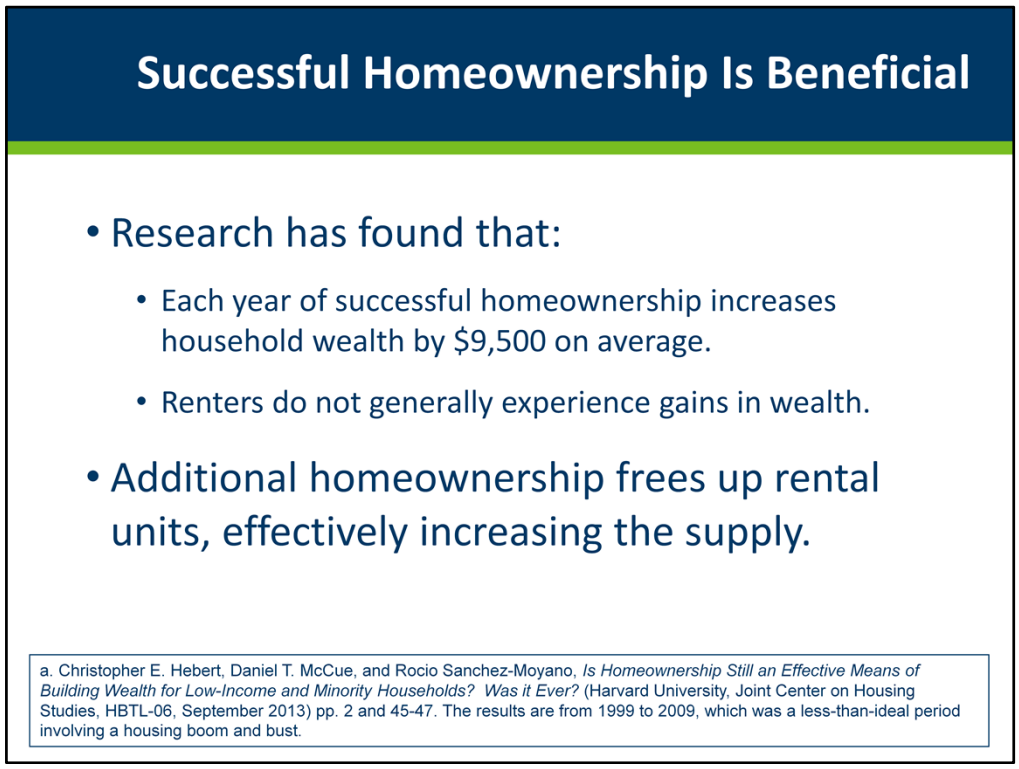
This graph shows student debt status by age in 2001 and 2013.

Key Points:

- The share of people with student debt has increased significantly across all age groups, nearly doubling from just over 20% in 2001 for 20-39 year olds to almost 40% in 2013.

Implications:

- Student debt levels are limiting homeownership. Underwriting standards include stricter debt-to-income requirements to qualify for a mortgage. For example, debt payments (including mortgage, student loans, car loans etc.) typically cannot exceed 43% of income.
- If a mortgage payment would account for 30% of a potential homebuyers income, student debt payments along with a car loan can put someone over 43%.



Homeownership is a powerful tool.

- While research has found that renters generally have very limited gains in wealth, successful homeowners have seen large increases in their wealth, even in the less-than-ideal time of 1999 to 2009, which included a housing boom and bust.
- For many lower-income homeowners, their home is their primary source of wealth.
- Transitioning low- and moderate-income households to successful homeownership also frees up affordable rental units. As discussed on pages 21 to 25, the decline in Minnesota's homeownership rate contributed to our low rental vacancy rates and increasing rents.

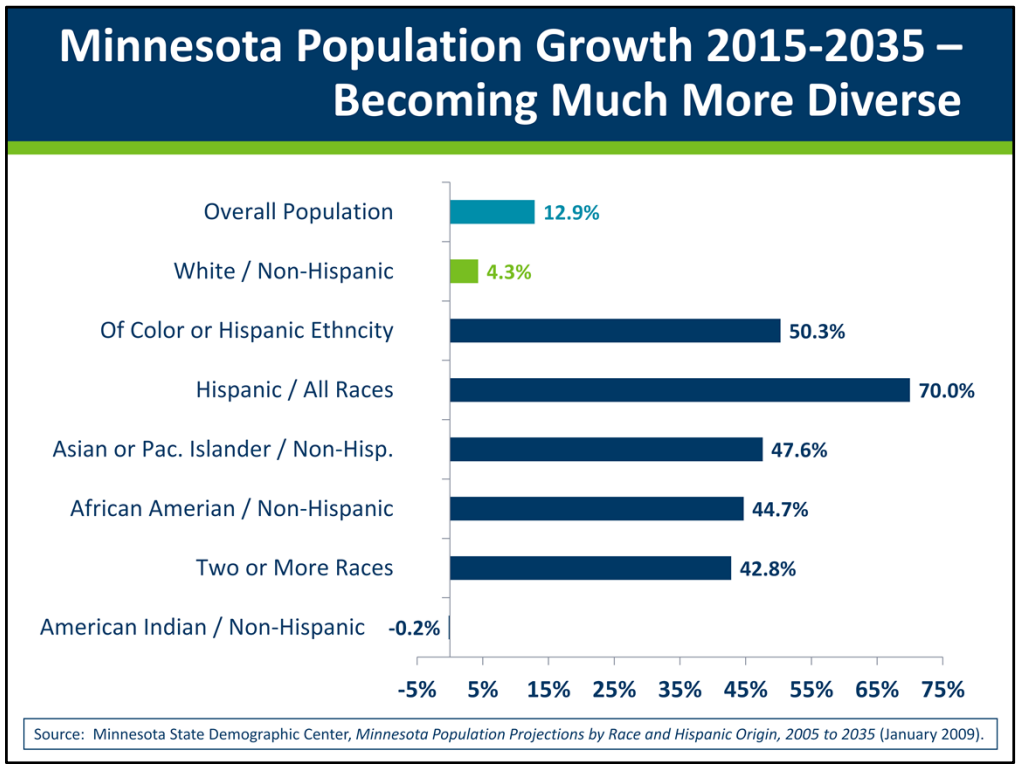
Implications

- Promoting and supporting successful homeownership supports not only homeowners, but also renters.

MINNESOTA HOUSING

Theme/Trend #6

Minnesota is Becoming More Diverse, and Disparities in Homeownership are Significant



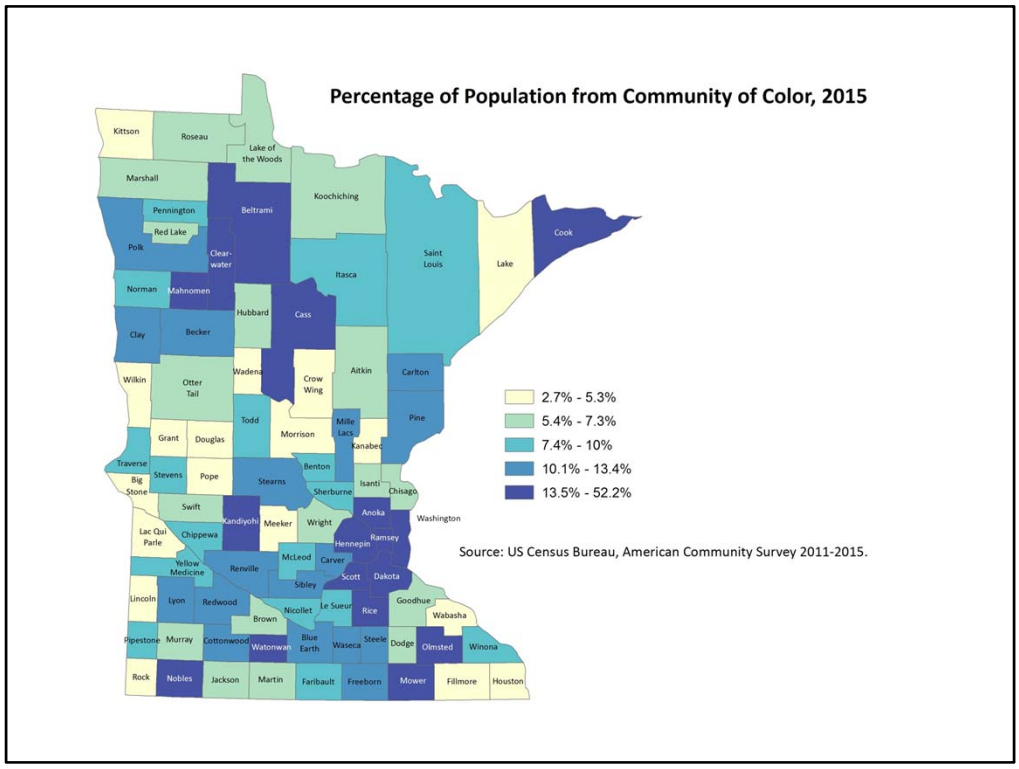
Minnesota's forecasted population growth will vary dramatically by race and ethnicity between 2015 and 2035

Key Points:

- Minnesota's overall population is expected to grow by 12.9% by the year 2035.
- While the white / non-Hispanic population will grow by just 4.3%, the population of color or Hispanic ethnicity is expected to grow by 50.3%.

Implications:

- The diversity of Minnesota's residents is increasing.



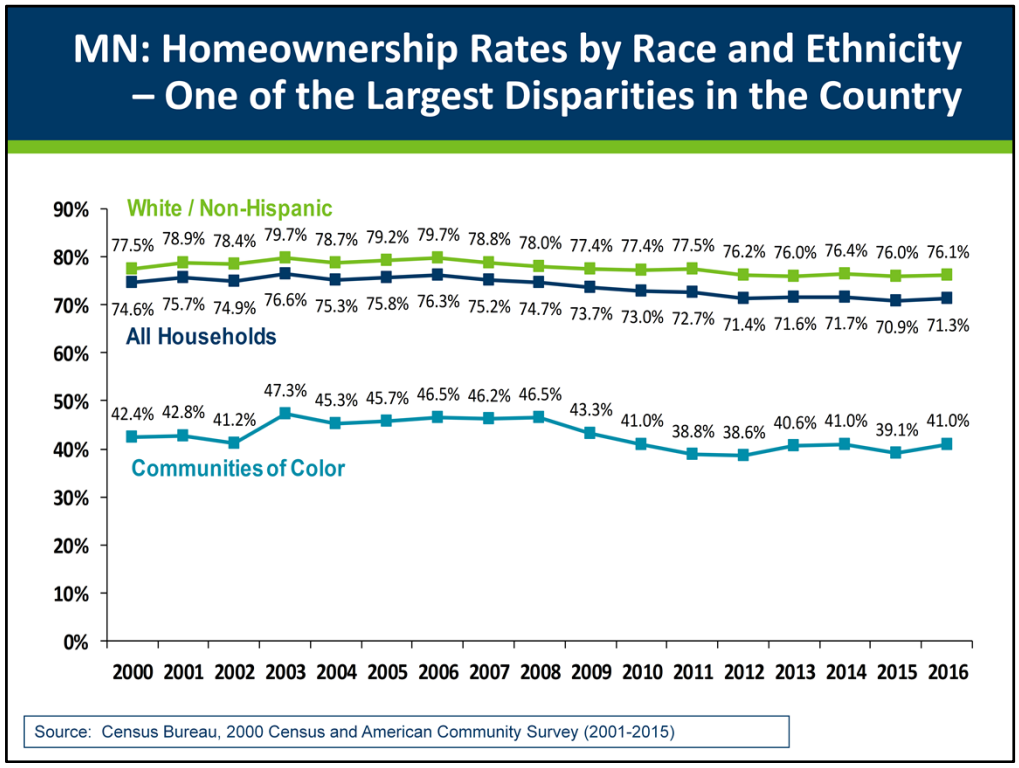
As shown in the map, people of color or Hispanic ethnicity are not evenly distributed across the state.

Key Points:

- The percentage in each county varies from 2.7% to 52.2% of the population.

Implications:

- The housing needs of people from communities of color play a critical role in some counties and will play an increasing role across the state.



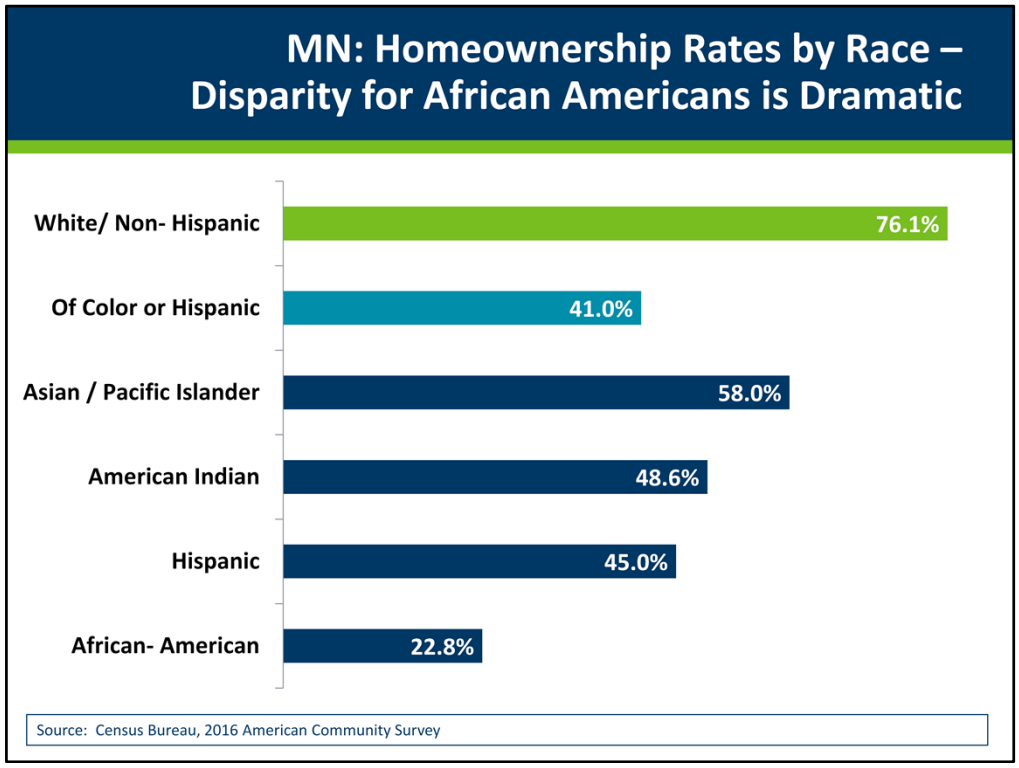
This graph compares the homeownership rates of households of color or Hispanic ethnicity with white/non-Hispanic households.

Key Points:

- Minnesota's 35.1 percentage point disparity in homeownership rates between white/non-Hispanic households and households of color is the 5th largest in the country.
- The disparity has not changed a lot over the last 17 years.

Implications:

- Successful homeownership provides one of the highest levels of housing stability. If we are to achieve housing stability for all Minnesotans, tackling the homeownership disparity will need to be a priority.



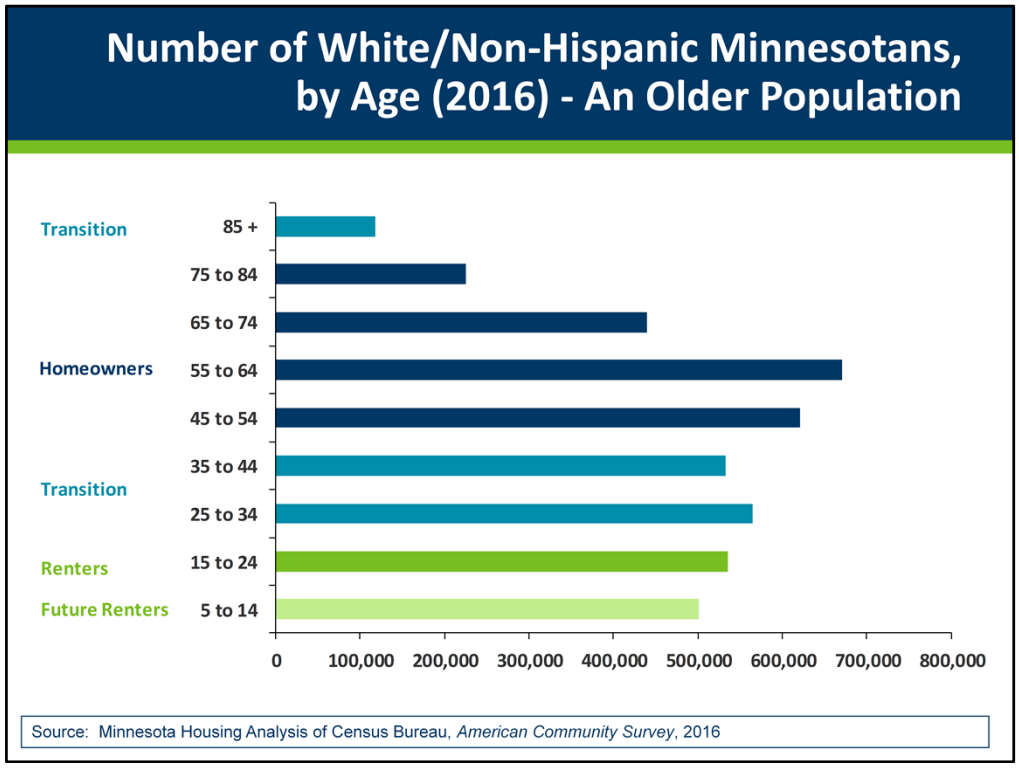
There are large homeownership disparities within communities of color and Hispanic ethnicity.

Key Points:

- While the Asian and Pacific Islander community has a homeownership rate of 58.0%, the African-American/Black community has a 22.8% rate (keeping in mind that the homeownership rates among Asian Americans is not consistent, for example, varying between people of Indian and of Hmong descent).

Implications:

- Programs that address the homeownership disparity need to recognize racial and ethnicity differences.



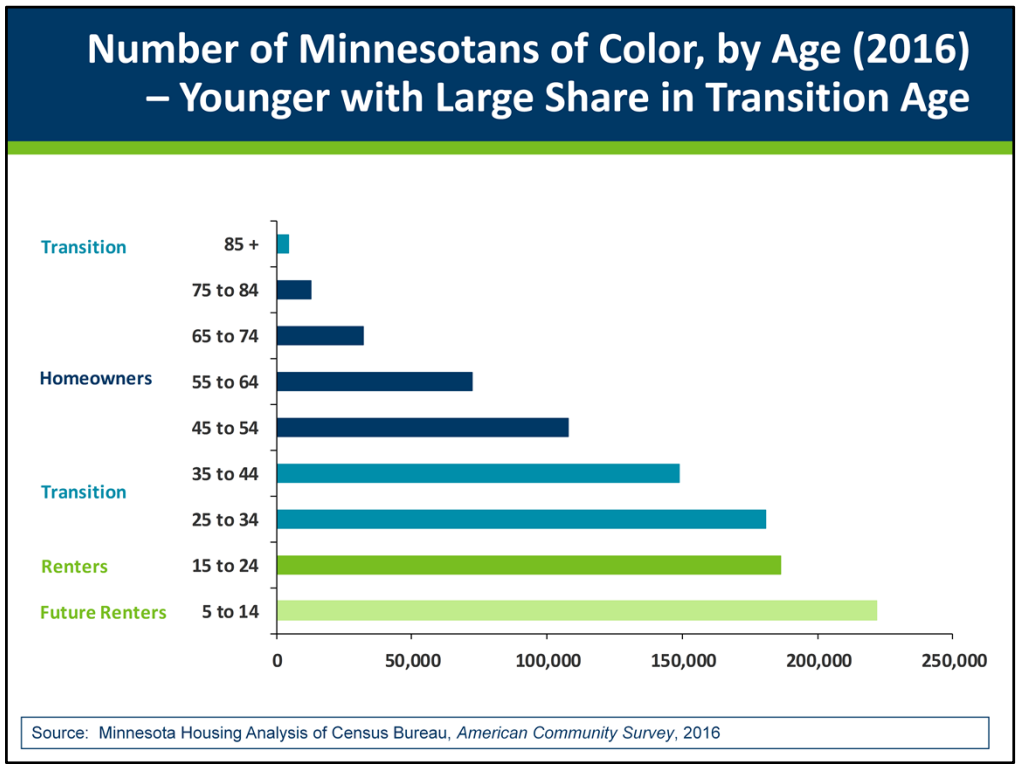
This graph shows the number of the white/non-Hispanic Minnesotans in each age groups, with color coding that reflects the housing phase of life (renter, transition, and homeowner).

Key Points:

- White/non-Hispanic Minnesotans are concentrated in the 45 to 64 year old age groups, who are already in the homeowners phase of life.

Implications:

- Compare this graph to the following one.



This graph shows the number of the Minnesotans of color or Hispanic ethnicity in each age group.

Key Points:

- People of color and Hispanic ethnicity are much younger and concentrated in the renter and transition phases of life.

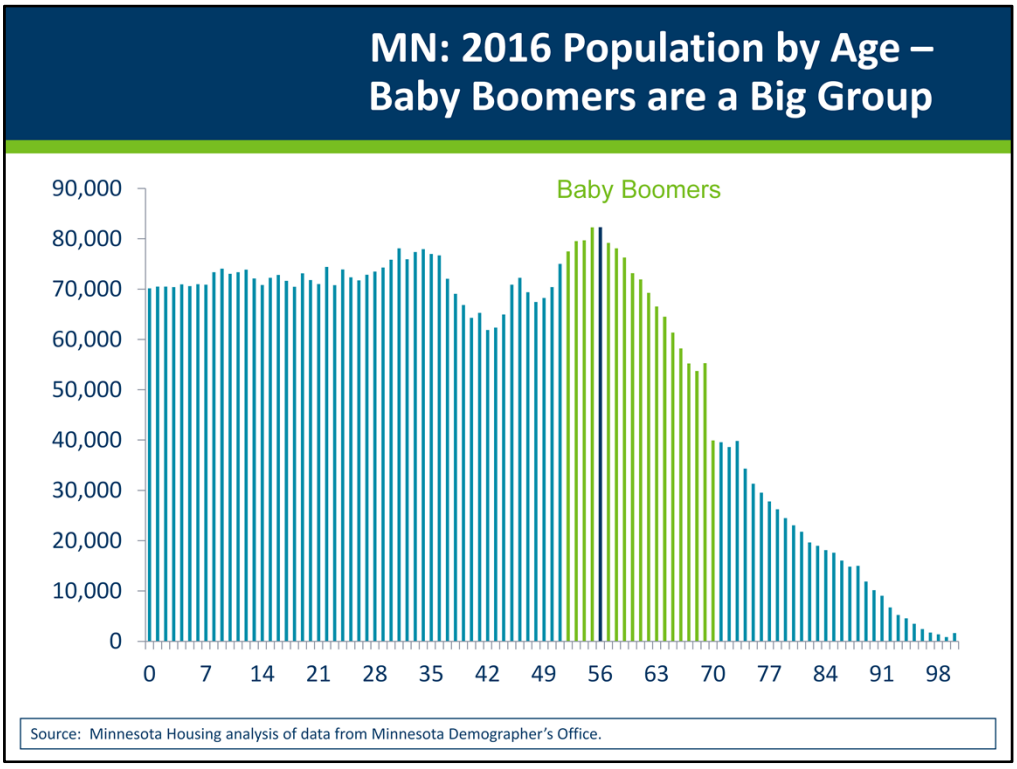
Implications:

- The home-buying market is becoming more and more dependent on households of color and Hispanic ethnicity.
- People who are 15 to 24 years old are the next generation of homebuyers. While there are about 535,000 Minnesotans who are white/non-Hispanic in this group (see the previous graph), there are 186,000 people of color or Hispanic ethnicity in it, accounting for 26%.
- In contrast, people of color account for just 10% of 55 to 64 year olds, which is the core of the Baby Boom generation and current homeowners.

MINNESOTA HOUSING

Theme/Trend #7

The Aging Baby Boom Generation will Create New Housing Needs and Challenges



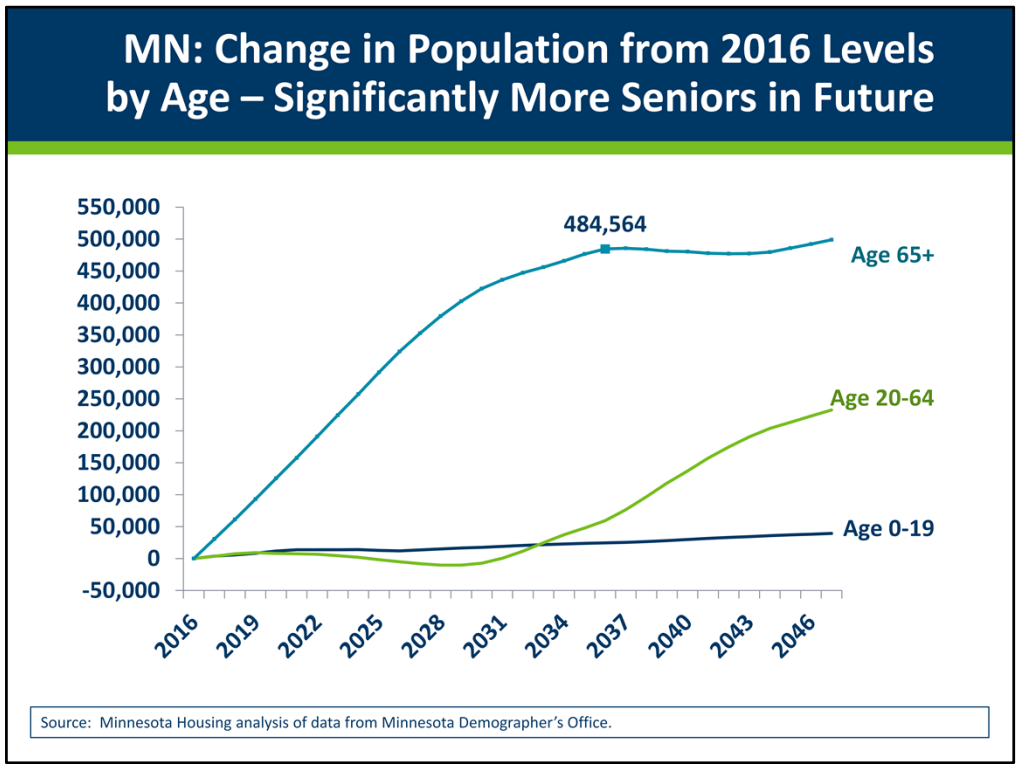
This graphs shows the number of Minnesotans by age. The Baby Boomer generation is shown with the green bars.

Key Points:

- Baby Boomers are a large generation that is retiring, or will retire over the next decade.
- Most Baby Boomers are on the younger half of the generation, with 56 year olds as the largest group (see black bar).

Implications:

- The changing housing needs and preferences of the Baby Boomers as they retire and age will present new challenges for Minnesota.



This graph shows the number of additional people in each age group over the next 30 years. The number for each year is the increase (or decrease) from the base year of 2016. For example, the Demographer's Office is forecasting 484,564 more seniors (age 65+) in 2036 than there were in 2016.

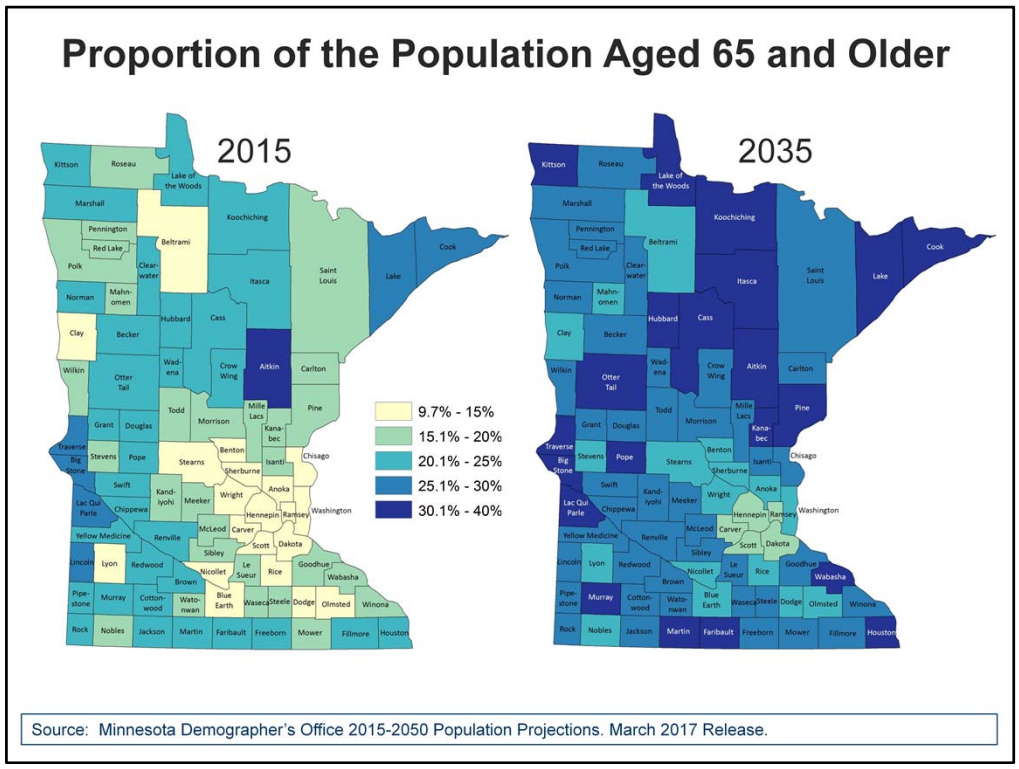
As a point of reference, there were about 840,000 Minnesotans age 65 or older in 2016.

Key Points:

- The senior population is increasing rapidly.

Implications:

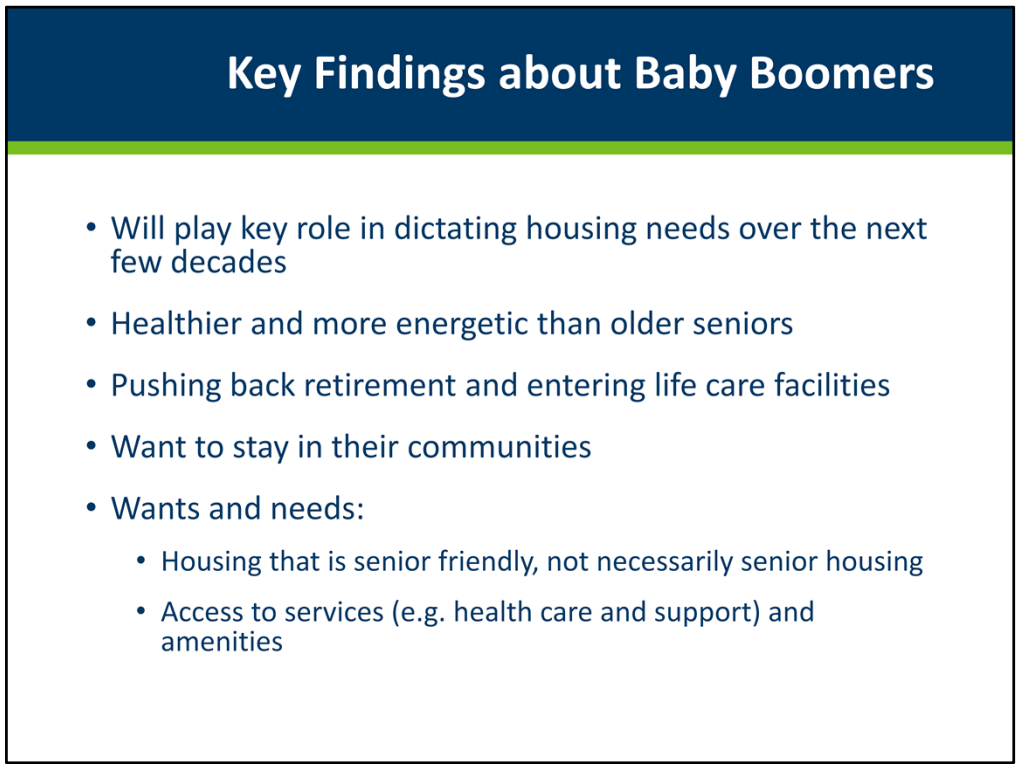
- With limited resources, how do we address the affordable housing needs of this growing population and also address the needs of families with children and working-age adults without children?



This slide shows how the percentage of Minnesotans who are age 65+ in each county will change between 2015 and 2035.

Key Points:

- In 2035, seniors will account for more than 30% of the population in many counties, particularly in north central Minnesota and some the border counties around the state.
- Seniors will account for less than 20% of the population only in the metro area.

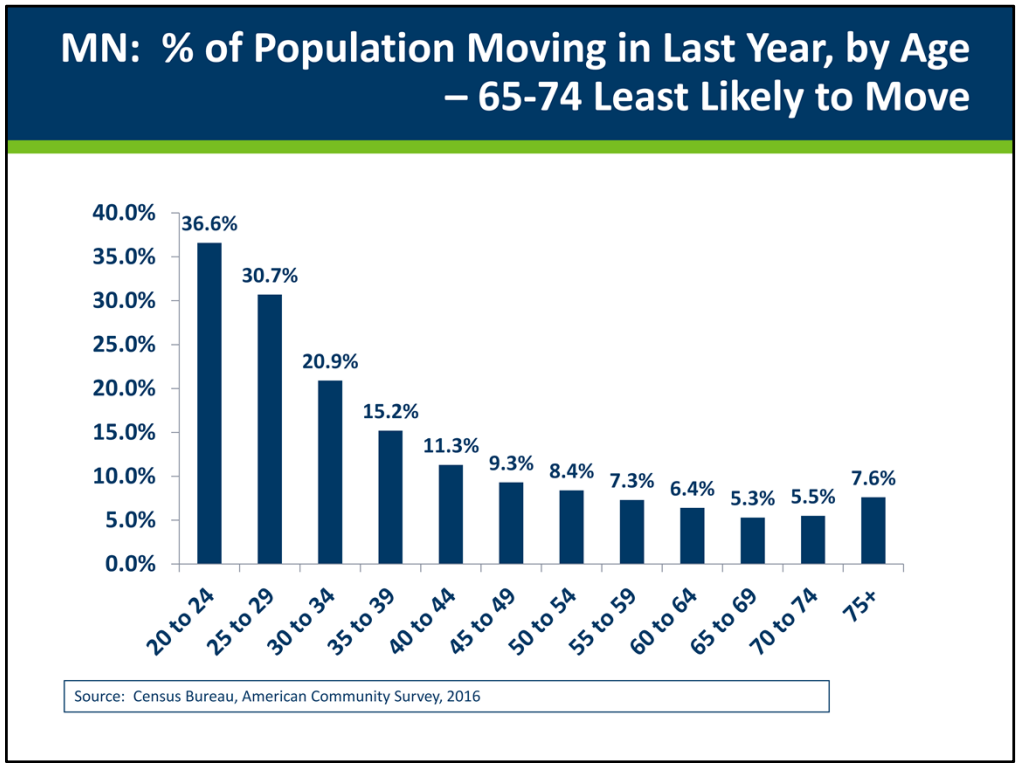


This slide summarizes some the key findings in the literature about housing for seniors.

Implications:

- Minnesota will face challenges in providing housing to seniors that is: (1) affordable, (2) keeps them in the community as long as possible, and (3) provides adequate access to care, services, and amenities.

- This will be particularly challenging in rural areas.



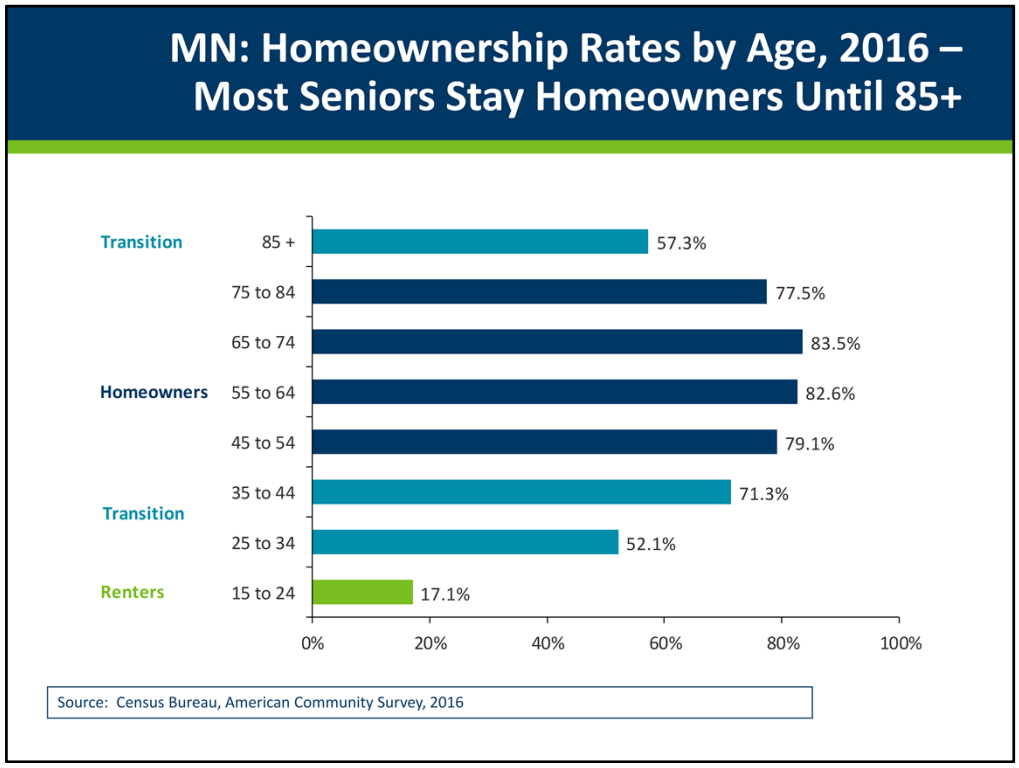
This slide shows the percentage of people by age group that moved in the last year.

Key Points:

- People age 65 to 74 are the least likely to move, with only 5.3% to 5.5% moving each year.
- Moving picks up after age 74.

Implications:

- In initial retirement, seniors are very likely to stay where they are currently living.
- Serving Baby Boomers in their current housing and aging in place are critical.



This graph of the homeownership rate by age is a repeat from an earlier graph, but this time we are focusing on the transition out of homeownership by older Minnesotans, rather than the initial transition into it by young adults.

Key Points:

- While there is a slight decrease in homeownership after age 74, a large decline occurs at age 85+.

Implications:

- This is consistent with the data on moving rates. People start to move after age 74, but most seniors do not transition out of homeownership until age 85 or later, which is consistent with increasing rates of disability among older seniors and the inability to live independently.

MN: Majority of Low-Income Seniors are Homeowners

	Homeownership Rate for Households with Income <= 50% of Statewide Median (adj. for household size)	Homeownership Rate for Households with Income <= 30% of Statewide Median (adj. for household size)
Senior Households	64%	53%

Source: Minnesota Housing analysis of data from Census Bureau, American Community Survey, 2015, Public Use Microdata Sample (PUMS). Median income data from HUD.

This table shows homeownership rates for households with incomes at or below 50% of the statewide median family income, and also at or below 30%.

Key Points:

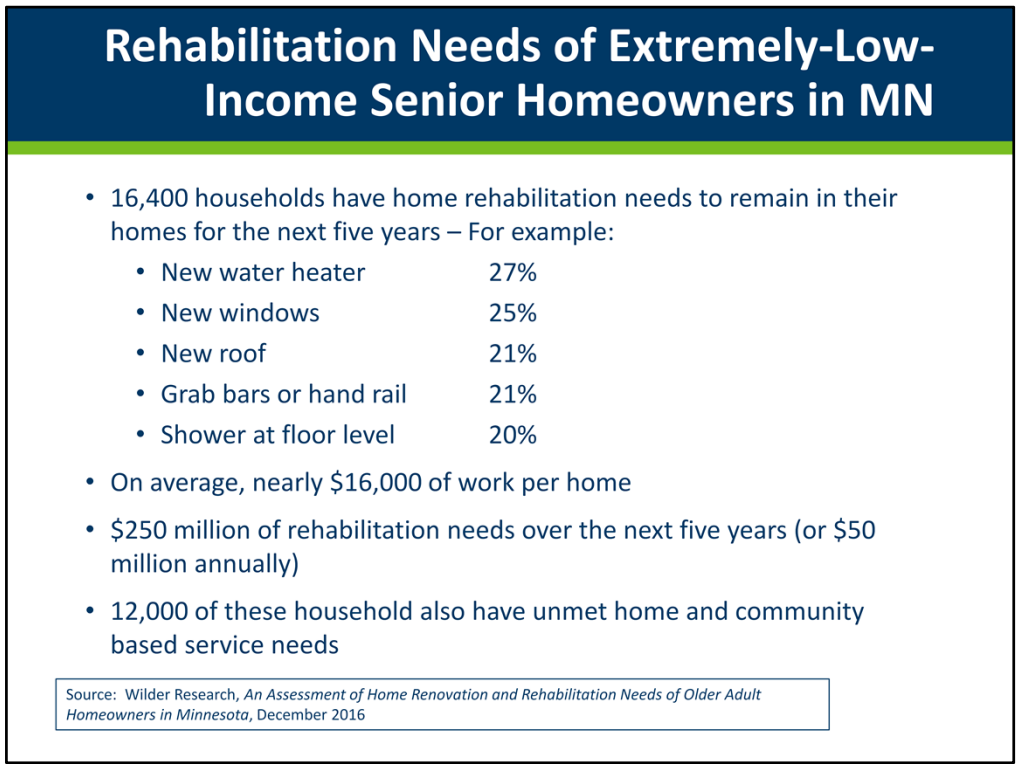
- 53% of senior households with income at or below 30% of the statewide median are homeowners.

Implications:

- As this table and the previous graphs show, homeownership should be an initial priority:
    - Most seniors (including low-income) are homeowners,
    - Most seniors remain homeowners until at least ages 75 to 84, and
    - The largest group of baby boomers are under age 60.

- If current living patterns continue, the largest group of Baby Boomers won't be transitioning from homeownership to renting for at least another 15 years. What will be the housing needs of these lower-income homeowners? Will it be home repair and maintenance? Will it be the installation of accessibility features to the home? Will it be access to home and community based services?

- Nevertheless, the number of senior renters will also be increasing each year. Rental housing with services will become more and more important over time.



Last year, Minnesota Housing and the Department of Human Services worked with Wilder Research to assess the home rehabilitation needs of senior homeowners with incomes at or below 30% of the area median income, who are a primary customer of Minnesota Housing's Rehabilitation Loan program.

Key Points:

- There are roughly 16,400 extremely-low-income senior homeowner households that have rehabilitation needs to stay in their home for the next five years.
- About $50 million is needed annually to meet these needs.

Implications:

- Like most affordable housing needs, there are insufficient resources. The Rehabilitation Loan Program has an annual budget of $8.6 million.
- Without home rehabilitation and adequate in-home services, seniors may have to choose more expensive housing options, such as assisted living or nursing homes

MINNESOTA HOUSING

Theme/Trend #8

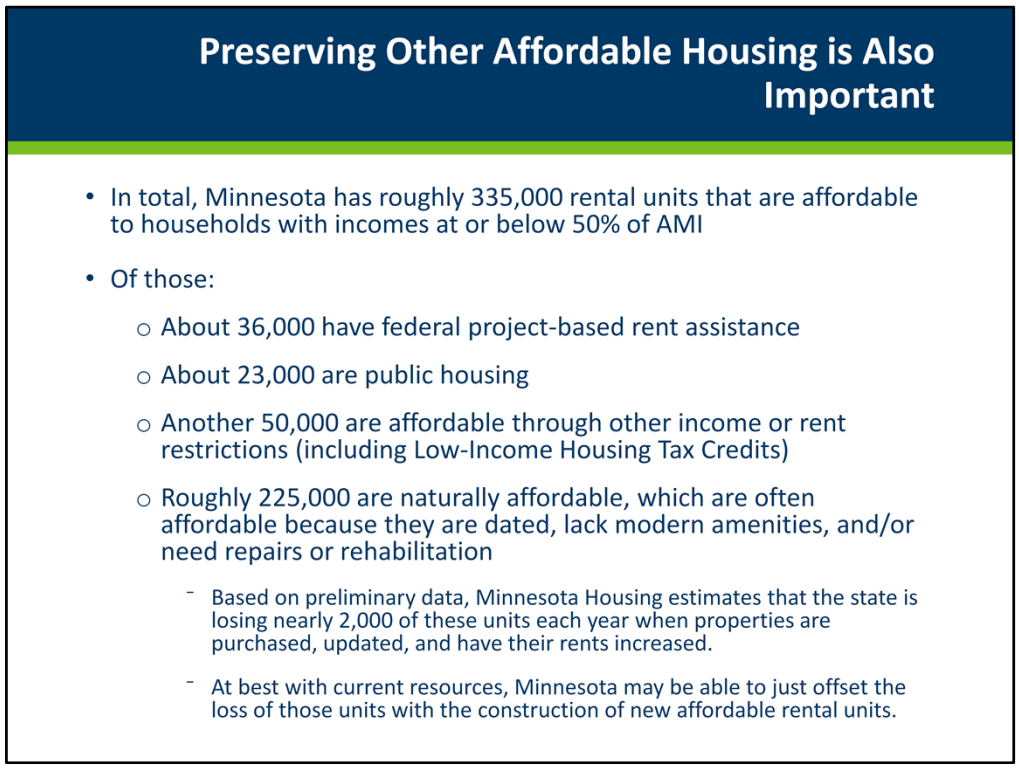
Minnesota Has A Large Stock of Affordable Rental Housing that Needs to be Preserved

Preserving Federally Subsidized Rental Housing is a Critical Issue

- Minnesota has nearly 36,000 housing units where rent assistance is tied to the units:
  - 30,000 project-based Section 8, and
  - 6,000 USDA Rural Development Section 515.
- These properties were generally developed in the 1970s and early 1980s.
- Many have capital improvement needs and limited reserves to pay for them.
- With their rent assistance, preserving federally subsidized units is critical.

Implications:

- While the State of Minnesota needs to preserve all types of affordable housing, preserving federally subsidized rental units is critical. The rent assistance provided through the units ensures that tenants pay no more than 30% of their income on rent.



Preservation of other rental units also needs to be addressed.

Key Points:

- Project-based rental assistance is key because it provides the deepest subsidies, but preserving other affordable units is also important.
- Many of the naturally affordable units are affordable because they are dated, lack modern amenities, and/or need repairs or rehabilitation. In markets with low vacancy rates and rising rents, these properties are at risk of being purchased, upgraded, and having their rents increased so they are no longer affordable.

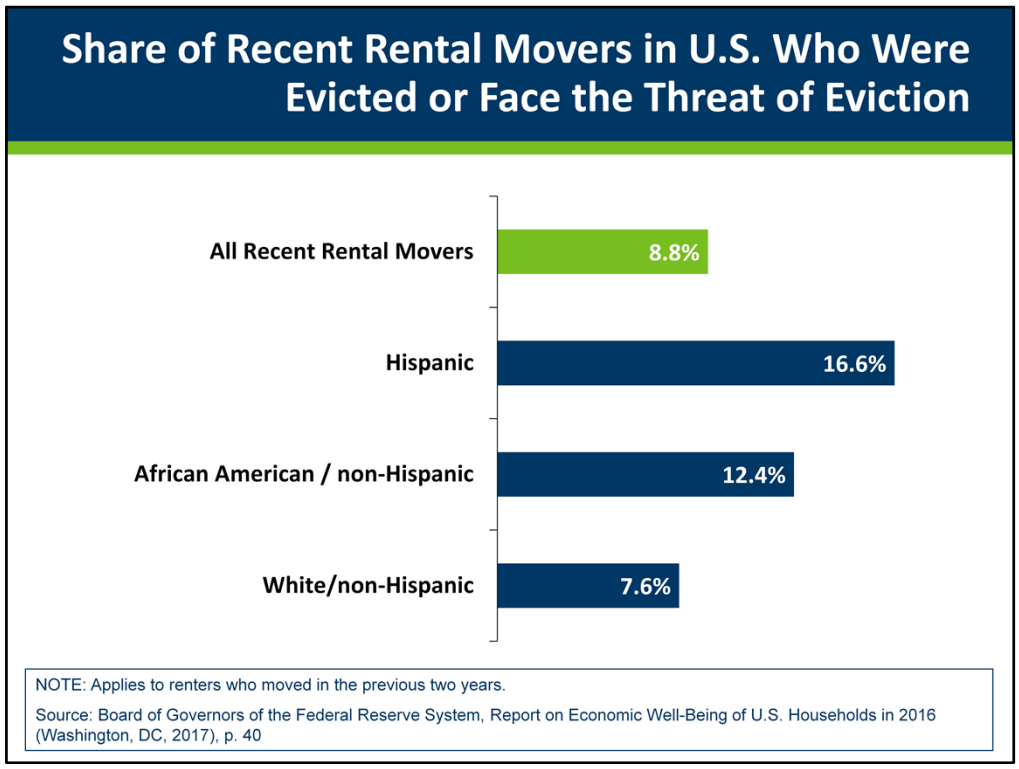
Implications:

- Preserving naturally affordable rental housing is another critical issue.

MINNESOTA HOUSING

Theme/Trend #9

Many Minnesotans Struggle with Housing Stability, Most Notably People Experiencing Homelessness



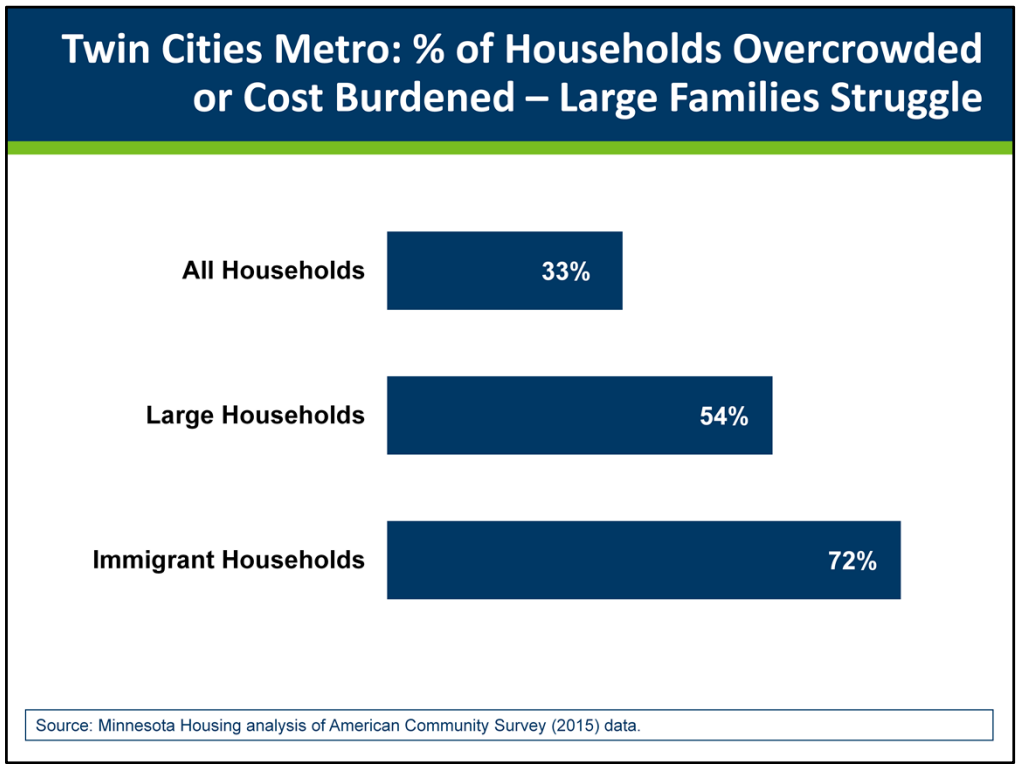
There are many causes of housing instability. People with criminal records, poor credit histories, or evictions struggle to find stable housing. This graph shows the share of recent rental movers (moved in the previous two years) who were evicted or faced the threat of eviction.

Key Points:

- Almost 1 in 10 recent rental movers (8.8%) faced eviction.
- People of color or Hispanic ethnicity are much more likely to face eviction.

Implications:

- Being evicted is not only extremely disruptive but also makes it far more difficult to access housing in the future. Landlords use rental histories to screen potential tenants.



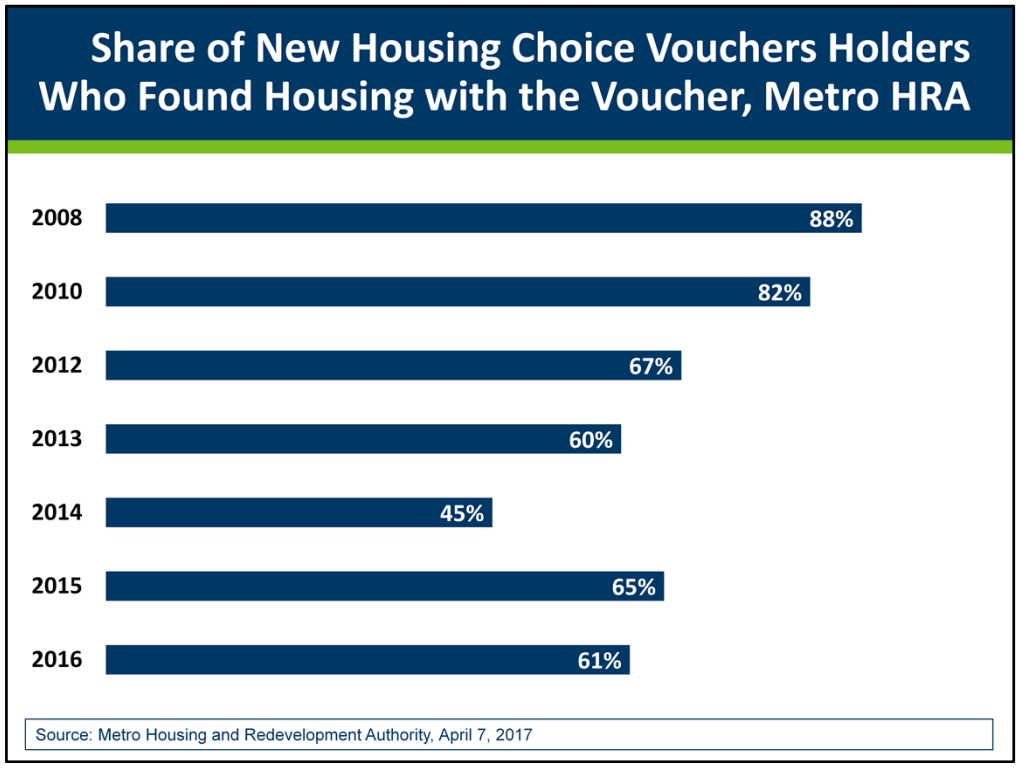
Large households and immigrants also struggle with housing instability. In 2015, 39,600 households in the Twin Cities metro area were large families (households with 6 or more people). Of these large families, 44 percent were immigrant families (with the head of household or spouse born outside of the U.S.).

Key Points:

- While 33 percent of all households are cost burdened and/or live in overcrowded housing, 54% of large households and 72% of immigrant households are.

Implications:

- Finding affordable housing with at least three or four bedrooms is very challenging.



On paper, housing vouchers can be an effective way to support housing affordability and stability. They allow the holders to pay no more than 30 percent of their income for rent, with the sponsor of the voucher (typically HUD or the state of Minnesota) paying the rest of the market-rate rent. However, in the current housing market, it can be very challenging to use the vouchers. With the low vacancy rates, voucher holders have to compete with all the other renters looking for the few available units.

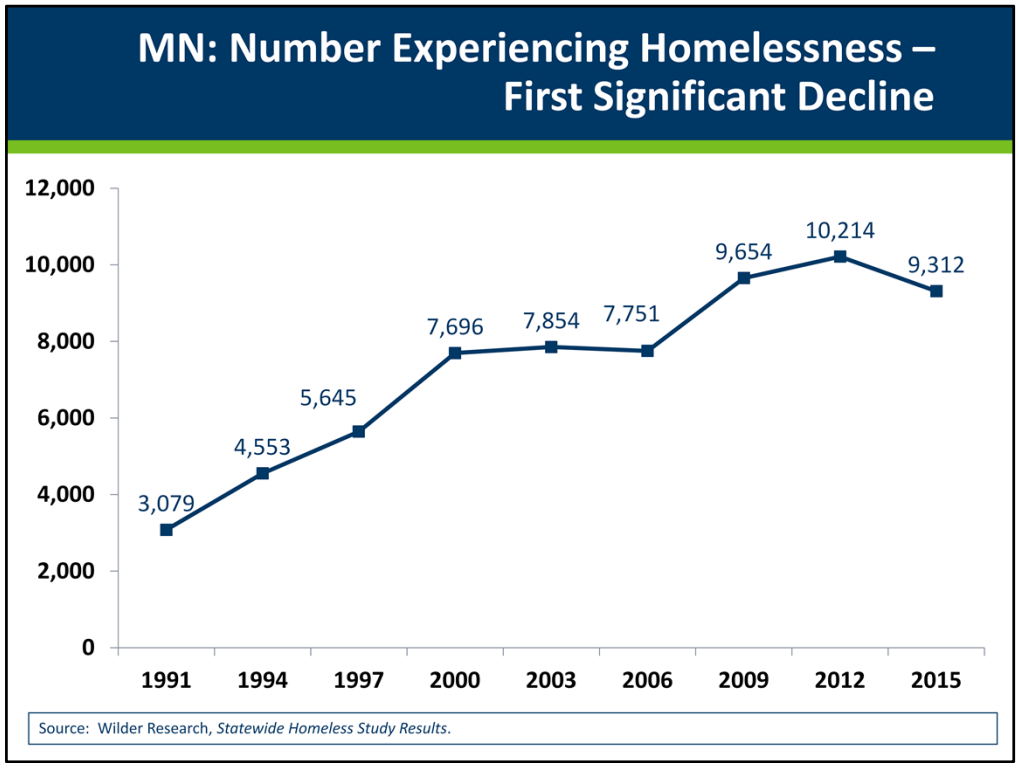
Key Points:

- In 2016, only 61 percent of new holders of Housing Choice Vouchers from Metro HRA were able to successfully find housing with the voucher. Nearly 40% were unsuccessful.

(The success rate improved in 2015 when the Metro HRA updated its waiting list. The previous list was eight years old.)

Implications:

- This data shows that even households with significant support struggle to achieve housing stability in the current housing market.



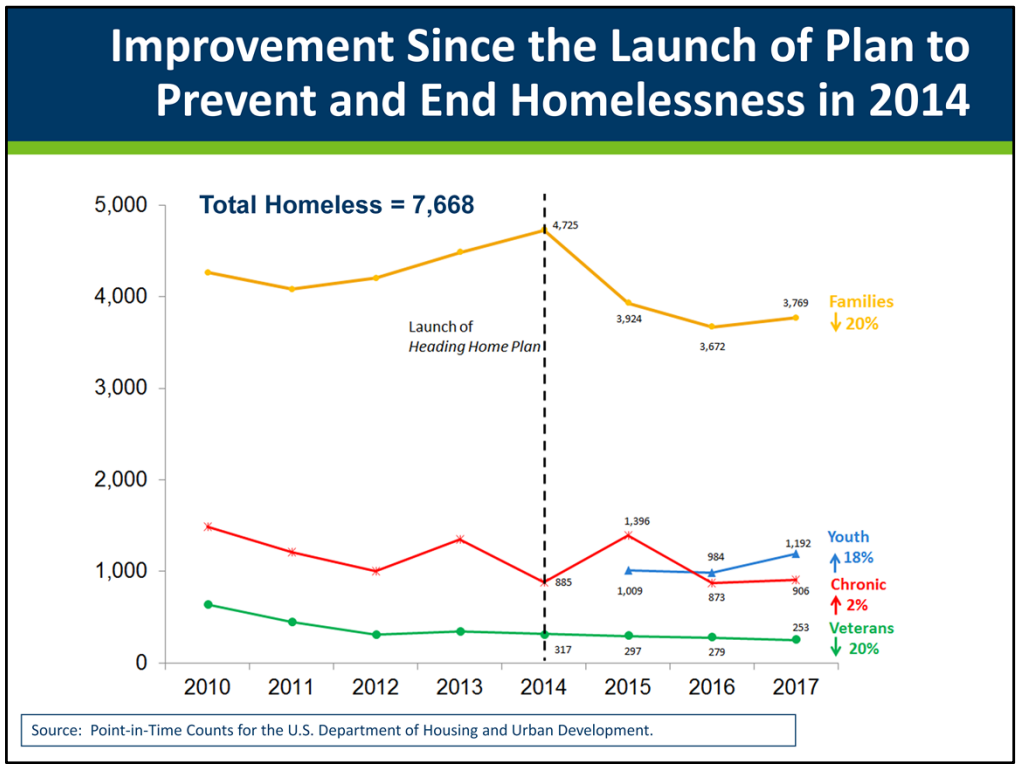
Homelessness is the extreme form of housing instability and is a chronic problem in Minnesota. This graph presents data from Wilder Research's triennial survey and shows the number of people experiencing homelessness on one night in October.

Key Points:

- After increasing for two decades, the number of people experiencing homelessness had its first significant decline in 2015.
- After leveling off in 2003 and 2006, the state experienced a large increase with the Great Recession.

Implications:

- Homelessness is a large problem that requires a coordinated and sophisticated strategy to address. To that end, Minnesota has an Interagency Council on Homelessness that brings together the resources of 11 state agencies and the Metropolitan Council, with the goal of aligning and coordinating housing, social services, and other supports. The Interagency Council launched its Plan to Prevent and End Homelessness in December 2013 and is now preparing its second update to the plan.



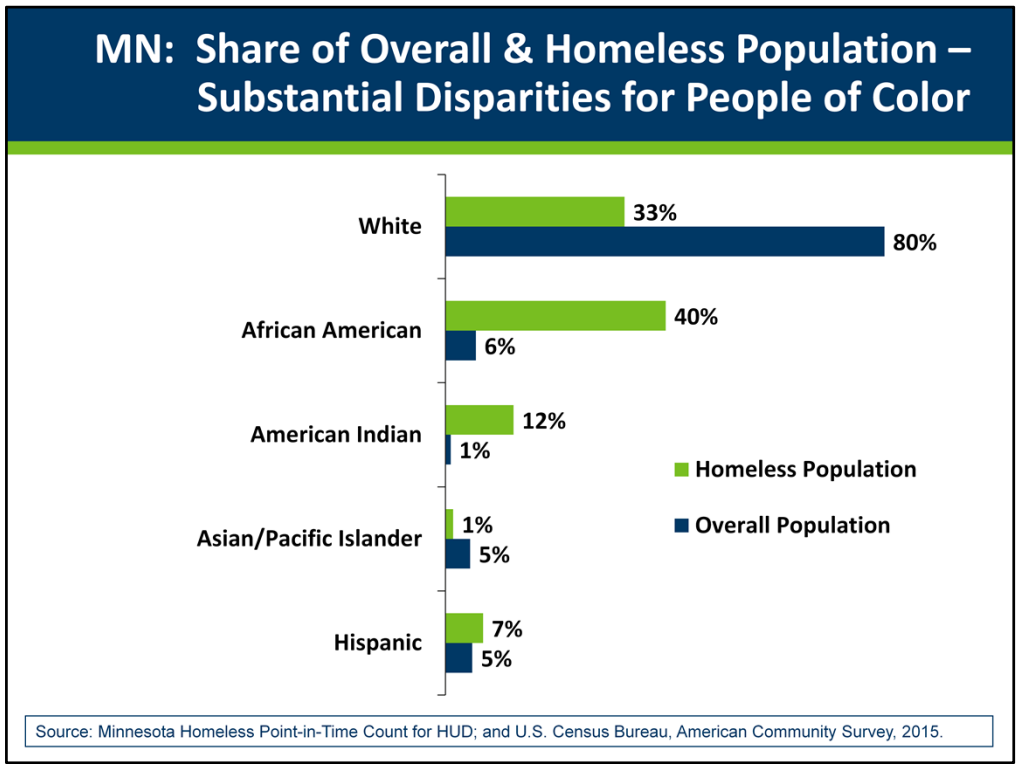
This graph shows trends in the number of people experiencing homelessness by sub-populations, before and after launching the Plan to Prevent and End Homelessness. These numbers come from HUD's Point-in-Time count, which is a different source and provides slightly lower numbers than the Wilder Research estimates in the previous graph. These numbers have the advantage of being produced annually.

Key Points:

- There was a slight increase in homelessness in 2017, which may reflect the very tight and challenging rental market.
- Families: Because over half of people experiencing homelessness are in families with children, this trend line largely drives the overall trend. Since the launch of the Plan, family homelessness has dropped by 20%, with a slight increase in 2017.
- Chronic: The number of people who experience chronic homelessness has fluctuated over the last few years.
- Youth: The number has increased, but this may just reflect better counting.
- Veterans: The number of veterans experiencing homeless is on a clear downward trajectory.

Implications:

- The state Plan to Prevent and End Homelessness will address all types of homelessness, with the goal of bending the trend line for all the populations significantly downward. More work is needed. In 2017, over 7,600 Minnesotans experienced homelessness on a given night.



This graph shows the disparities in the homeless populations by race and ethnicity.

Key Points:

- Blacks / African Americans account for just 6%of the Minnesota's overall population but 40% of the homeless population.
- American Indians represent just 1% of the overall population but 12% of the homeless population.

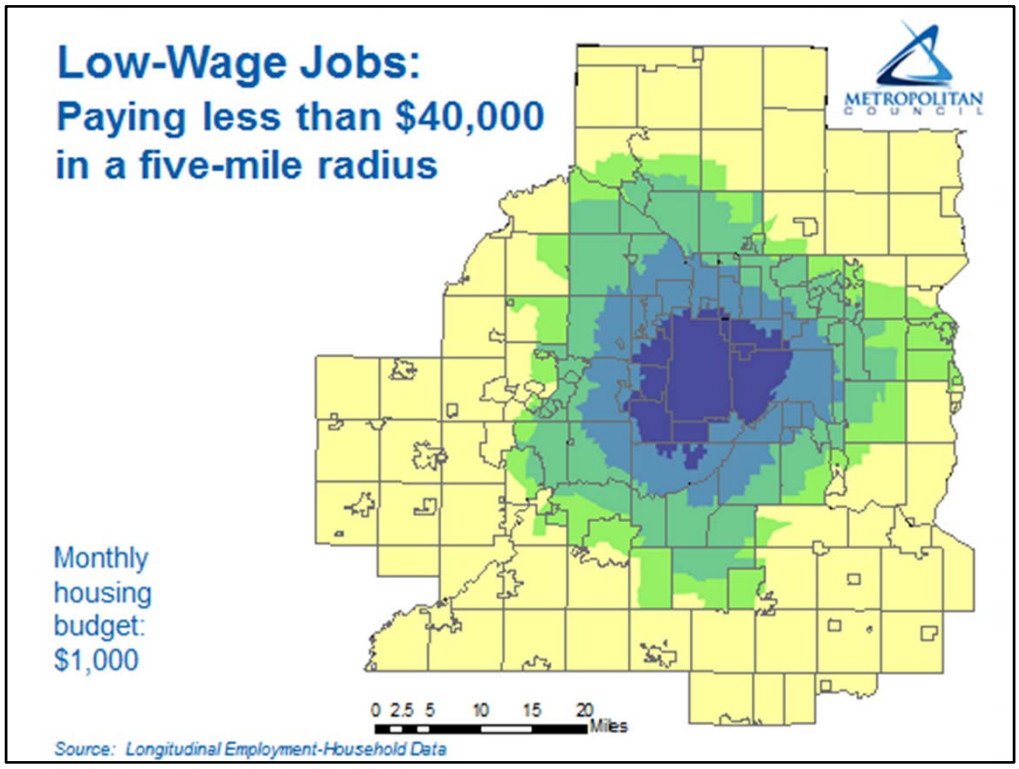
Implications:

- There are disparities throughout the housing system, from homelessness to homeownership.
- If we are to have an equitable society, these disparities must be addressed.

MINNESOTA HOUSING

Theme/Trend #10

Housing Location Matters, Providing Access to Jobs, Transit, Schools, Services, and Other Amenities



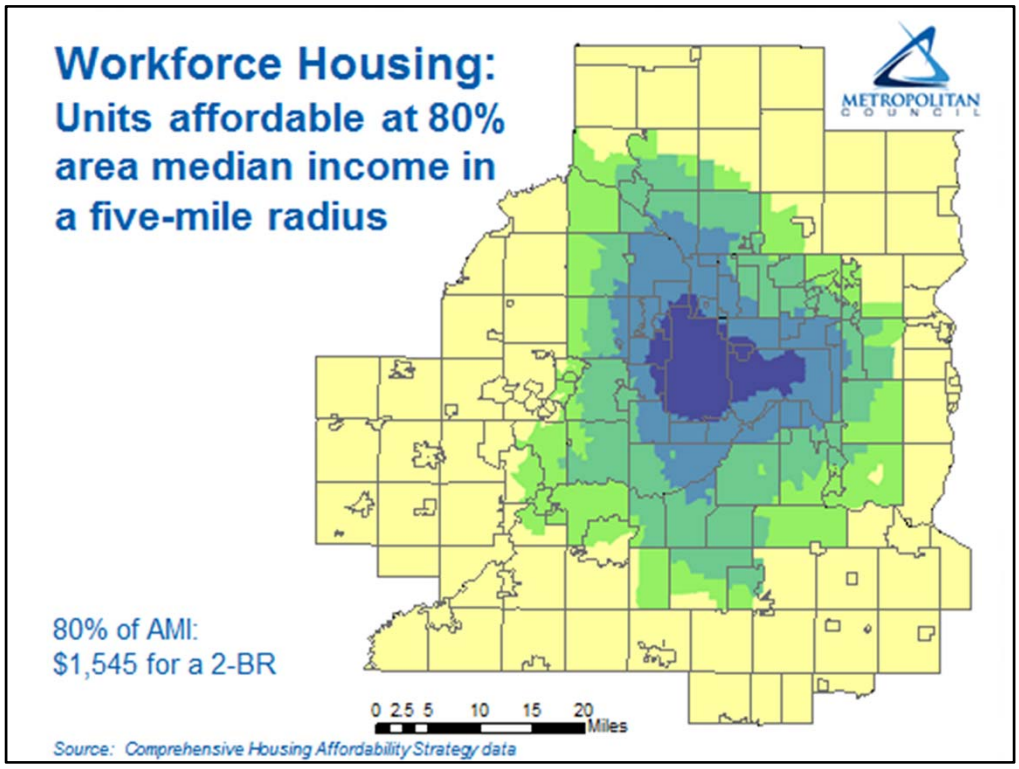
This map from the Metropolitan Council shows locations in the metro area with the greatest number of low-wage jobs within five miles, which are the types of jobs that people who need affordable housing have. The darker the color, the greater the number of jobs.

Key Points:

- The greatest number is in Minneapolis, the eastern have of St. Paul, and the western inner-ring suburbs.

Implications:

- Is there affordable housing for people who work in these areas?



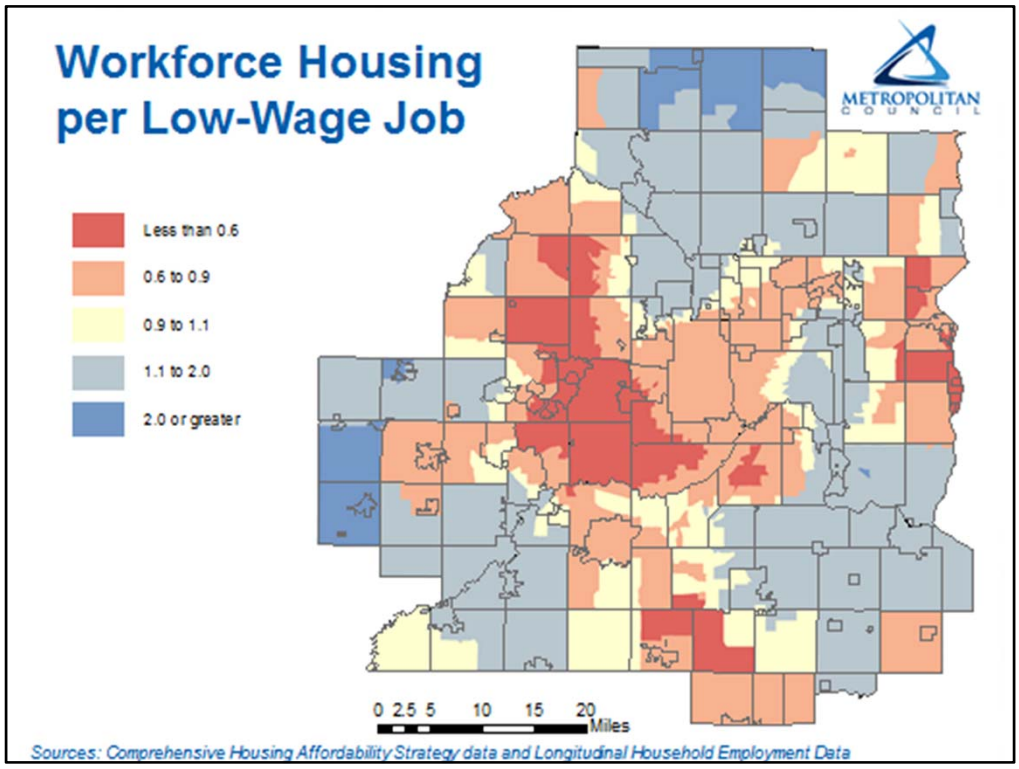
This map is also from the Metropolitan Council and shows the availability of housing that is affordable to households with incomes at or below 80% of the area median income. The darker the color, the greater the number of affordable units within five miles.

Key Points:

- Most of the affordable housing is concentrated in the central cities of Minneapolis and St. Paul, which has the highest density of people
- This is followed by the inner-ring and then the outer-ring suburbs.

Implications:

- Comparing the two maps, there is some alignment in the location of jobs and housing, but there is also some mismatch.



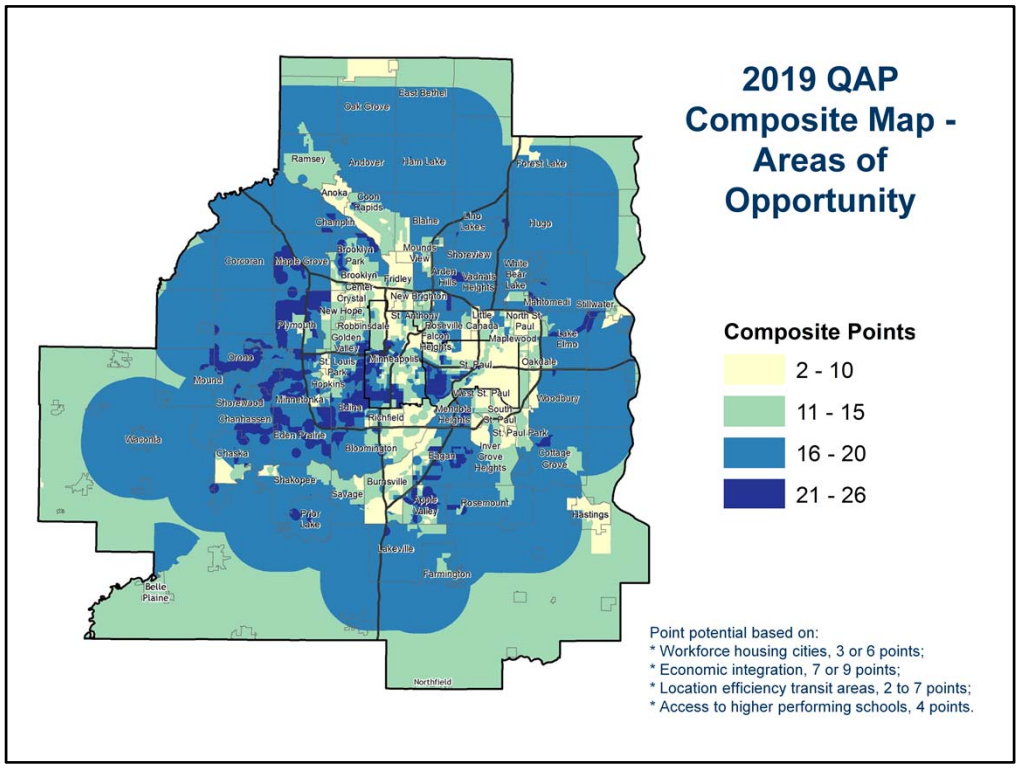
This map combines the previous two and more clearly shows the mismatches.

Key Points:

- The western suburbs, the far eastern suburbs around Stillwater, and southwestern Dakota County along with southeastern Scott Count have the greatest mismatch of housing and jobs, with less than 0.6 units of affordable housing per low-wage job.
- Minneapolis and the eastern half of St. Paul have 0.6 to 0.9 units of affordable housing per low-wage job.

Implications:

- Providing access to jobs and allowing people to live in the community in which the work are important housing choices that should be available to lower-income households.



Access to other opportunities, besides jobs, is also important. This map shows the geographic-based points that Minnesota Housing awards to applications for funding for multifamily rental housing, based on the access to opportunity that the property will provide. Minnesota Housing uses the pointing process to select projects for funding. Besides access to opportunity, other points are awarded for serving vulnerable populations, minimizing rents, efficiently using resources, being ready to proceed, preserving federally-subsidized units, and supporting community development/revitalization.

For access to opportunity, a location gets (as shown on the map):

- 3 or 6 points for access to jobs (workforce housing)
- 7 or 9 points for being in a moderate- to high-income community (economic integration)
- 2 to 7 points for access to transit (location efficiency)
- 4 points for access to higher performing schools

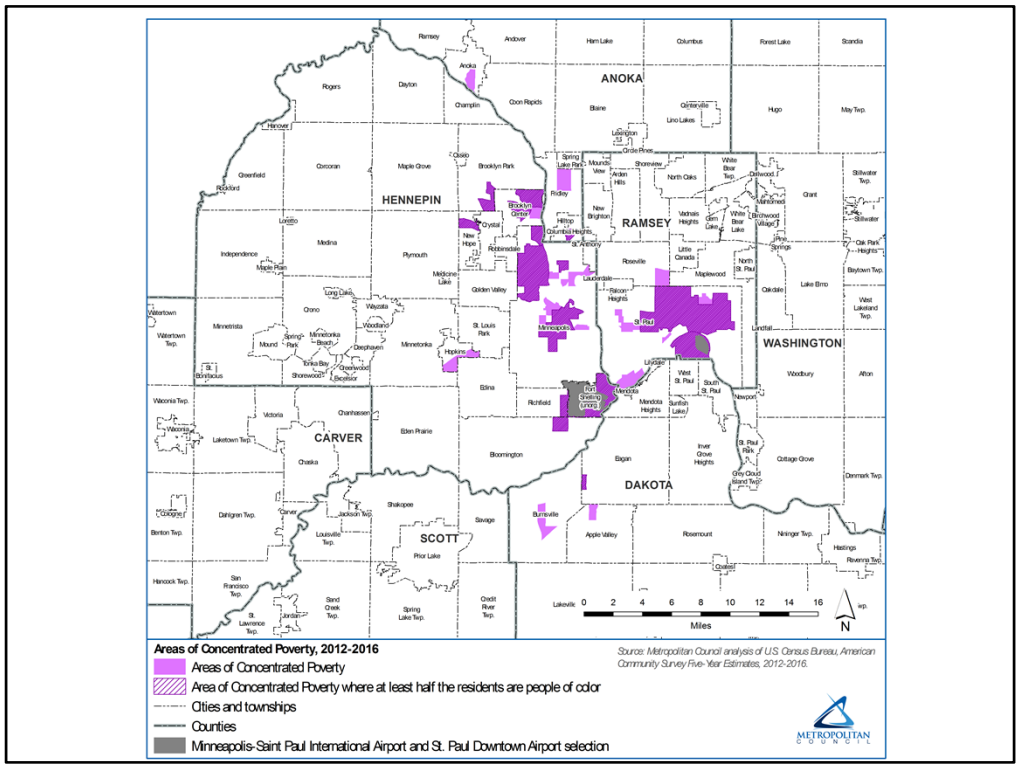
The maps show the combination of these four scoring criteria added together, with the aggregated points ranging from 2 to 26. The darker the color, the more points awarded.

Key Points:

- Areas with multiple opportunities are located throughout the region, including in parts of Minneapolis, St. Paul, and the suburbs.

Implications:

- While access to opportunity can play an important role in the selection process, Minnesota Housing pursues a balanced approach and funds projects in divested communities, particularly if it is part of a larger community revitalization effort and/or involves preserving existing federally-subsidized rental housing.



This map from the Metropolitan Council shows Areas of Concentrated Poverty, which are census tracts where 40% or more of the residents live with incomes below 185% of the federal poverty threshold. (Census tracts that meet this poverty threshold but have a high number of enrolled college or graduate students are removed.) For context, 185% of the federal poverty threshold in 2016 was $45,442 for a family of four and $22,622 for a single person.

Key Points:

- Over 370,000 people (about 12% of the Twin City metro population) lived in the 104 census tracts identified as Areas of Concentrated Poverty in 2012-2016.
- People of color face race-specific barriers that can limit their housing choices (see Metropolitan Council's report, Choice, Place and Opportunity: An Equity Assessment of the Twin Cities region for a full discussion). As a result, people of color are more likely to live in Areas of Concentrated Poverty. Eighty-one of the 104 census tracts identified as Areas of Concentrated Poverty are majority people of color.
- Areas of Concentrated Poverty are not just census tracts—they are neighborhoods with unique histories and built environments that people call home. That many residents living in Areas of Concentrated Poverty are low-income does not diminish the vibrancy or strength of these communities. Nonetheless, Areas of Concentrated Poverty are different from other places: research consistently links high-poverty places to negative effects on people's physical and mental health. Studies also find living in high-poverty neighborhoods reduces the cognitive abilities of children, making them more likely to have lower incomes as adults than their parents, and more likely to live in poverty across generations. For these reasons, Areas of Concentrated Poverty remain a concern.

Implications:

- Housing investments in the Twin Cities metro and in communities across Greater Minnesota need to be done strategically, balancing multiple policy goals – for example providing access to opportunity but also making investments in disinvested communities as part of revitalization efforts.

For More Information

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