Minnesota Housing Finance Agency

Environmental Scan:

Demographic, Economic and Market Factors Impacting Minnesota Housing

June 2011

A key step in any planning process is understanding how the environment in which an organization operates affects its ability to achieve its mission.

This environmental scan examines how external factors are affecting (and will affect) Minnesota Housing.

The factors include demographic, economic, and market conditions and trends.

Items for Discussion

1. **Continuing Instability and Uncertainty**
   a. **Great Recession and Slow Recovery**
   b. **Foreclosure Crisis and Declining Property Values**
2. **Great and Growing Need versus Limited and Declining Resources**
   a. **Increasing Cost Burden and Need for Additional Affordable Housing**
   b. **Declining Resources to Finance Affordable Housing**

Minnesota Housing

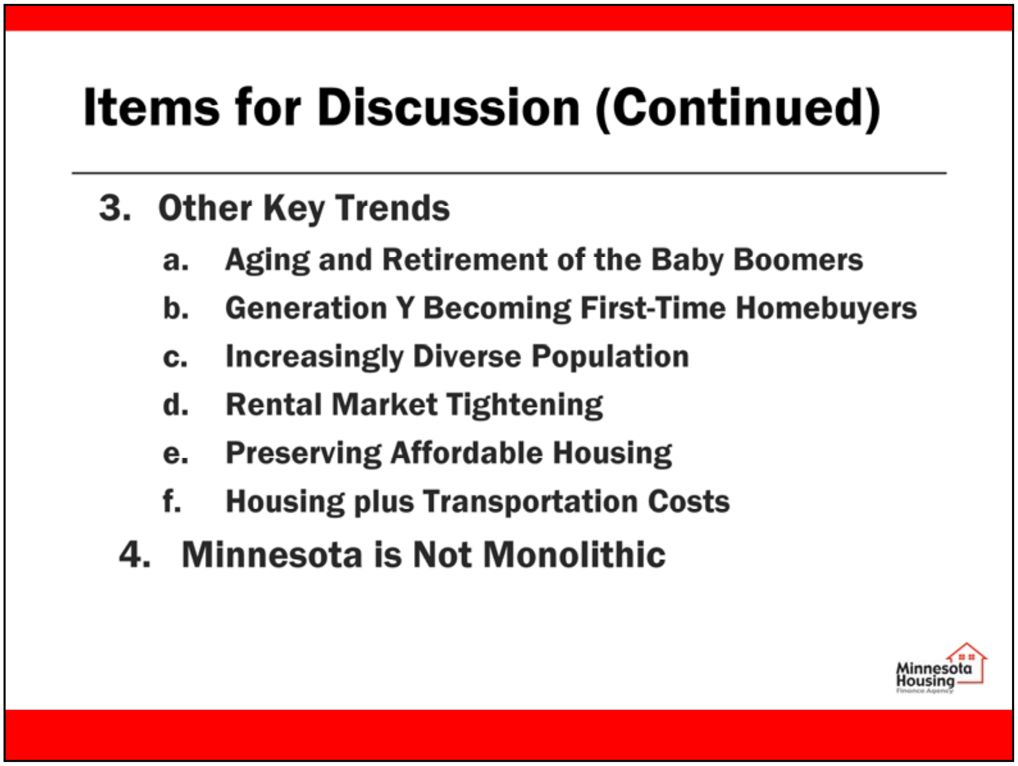
Currently, there are two overriding issues confronting Minnesota Housing and its ability to achieve its mission.

First, we are currently in a period of continuing instability and uncertainty.

- The economic recovery from the "Great Recession" has been slow with high unemployment.
- The foreclosure crisis continues, which has resulted in neighborhood and housing-market instability and declining property values. After momentarily stabilizing with the homebuyer tax credits, property values are dropping again with the expiration of the credits.

Second, the agency is facing a growing demand for its services while its ability to generate funds to finance affordable housing has been significantly constrained. Specifically,

- On the need side:
  - The percentage of lower-income households who are cost-burdened by their housing payments is increasing. More affordable housing is needed.
  - Homelessness is increasing.
- On the resource side:
  - Because of issues in the tax exempt bond market, the ability of the agency to borrow money at sufficiently low interest rates to make sense for borrowers is limited.
  - The amount of cash that can be generated by Low-Income Housing Tax Credits has declined – though it started to recover in mid-2010.
  - The state is facing a very large budget deficit, and Minnesota Housing will face reductions in its state appropriations.



There are other key demographic, economic, and market trends to that will be assessed in this environmental scan:

- Baby boomers are aging and starting to retire. As the state's largest age cohort, their housing needs will continue dominate the housing market.
- Member of Generation Y (Baby Boom Echo) are becoming first-time homebuyers. Even though this age cohort has more people than generation X (the current first-time homebuyer age group), many people expect a decline in homeownership demand due to the characteristics and behavior of generation Y and because of market forces triggered by the current housing crisis.
- A growing share of the state's population will be from communities of color.
- The rental market is tightening with declining vacancy rates, which may increase the demand for new construction of rental in the near future. In addition, with a decline in homeownership, there will probably be a renewed interest in rental housing.
- There is a strong need to preserve Minnesota's existing stock of affordable housing. For example, staff estimate that roughly 30% of Minnesota's 31,000 Section 8 units are at risk of opting out of the program in the next five years.
- There is a growing recognition that transportation cost plays a key role in the overall affordability of housing.

Finally, Minnesota is not monolithic. Needs and challenges vary around the state. A need or challenge in one part of the state may not be a need or challenge in another.

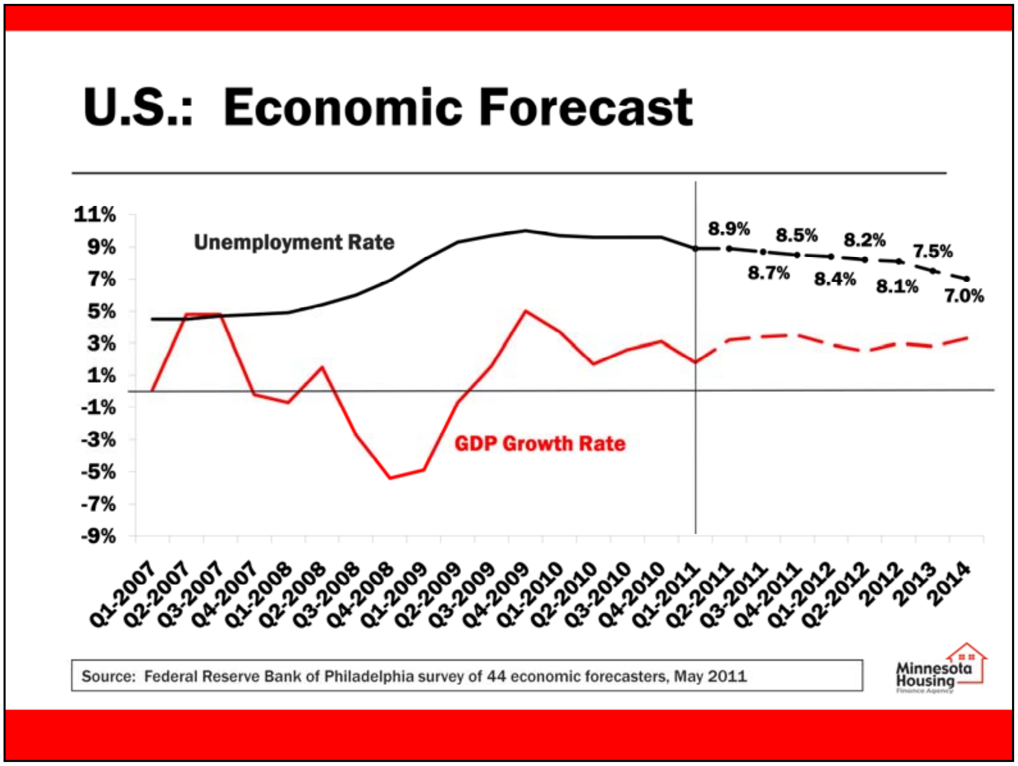
The following slides will provide information about each of these trends.

Discussion Item #1a: Continuing Instability and Uncertainty

Great Recession and Slow Recovery

Minnesota Housing Finance Agency

We'll start with continuing instability and uncertainty and examine the country's slow recovery from the "Great Recession."



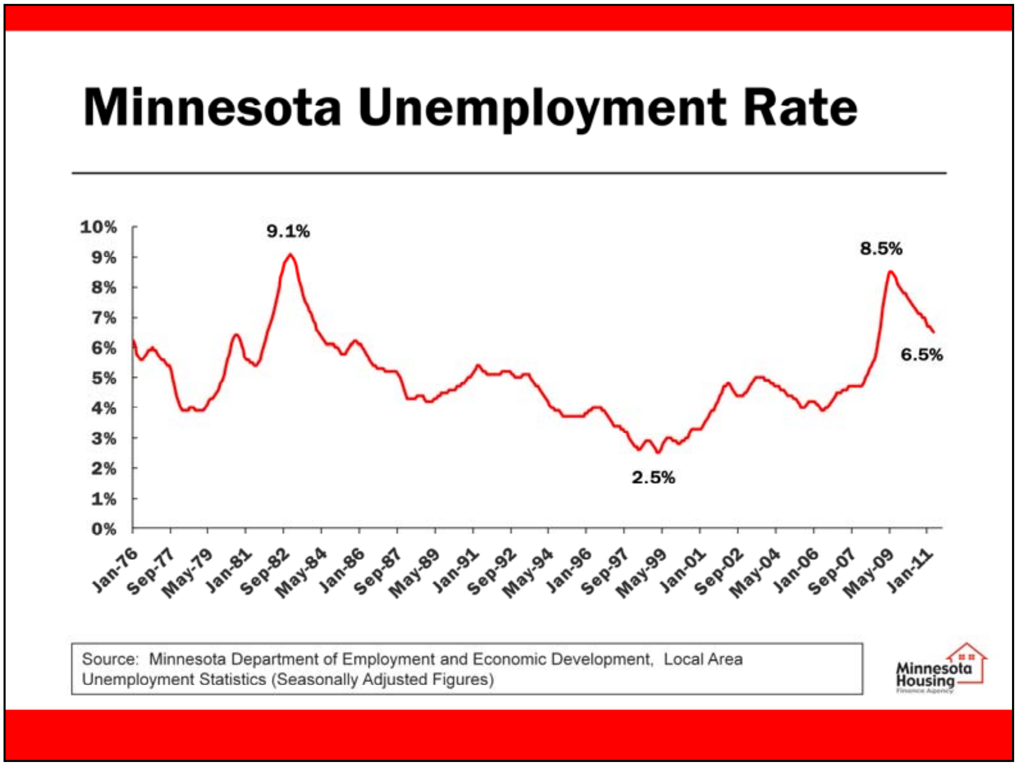
This graph shows the performance of the U.S. economy.

Reading the Graph

- The solid lines on the left side of the graph show actual performance between the first quarter of 2007 and the first quarter of 2011.
- The dashed lines on the right side are projected performance through 2014.

Key Points

- The economy was in a deep recession in 2008 and 2009, with economic activity bottoming out during the fourth quarter of 2008, during which gross domestic product (GDP) declined at an annualized rate of 5.4 percent.
- The deep recession sent the national unemployment rate to 10 percent.
- The recovery has been slow. During post World War II recoveries, GDP grew on average by 6.8 percent in the year after the recession. In 2010, growth was just under 3 percent, which is a slow and lackluster recovery.
- The lackluster and slow recovery will keep unemployment rates high through 2014. It is going to take a long time for the economy to recreate the jobs lost during the recession



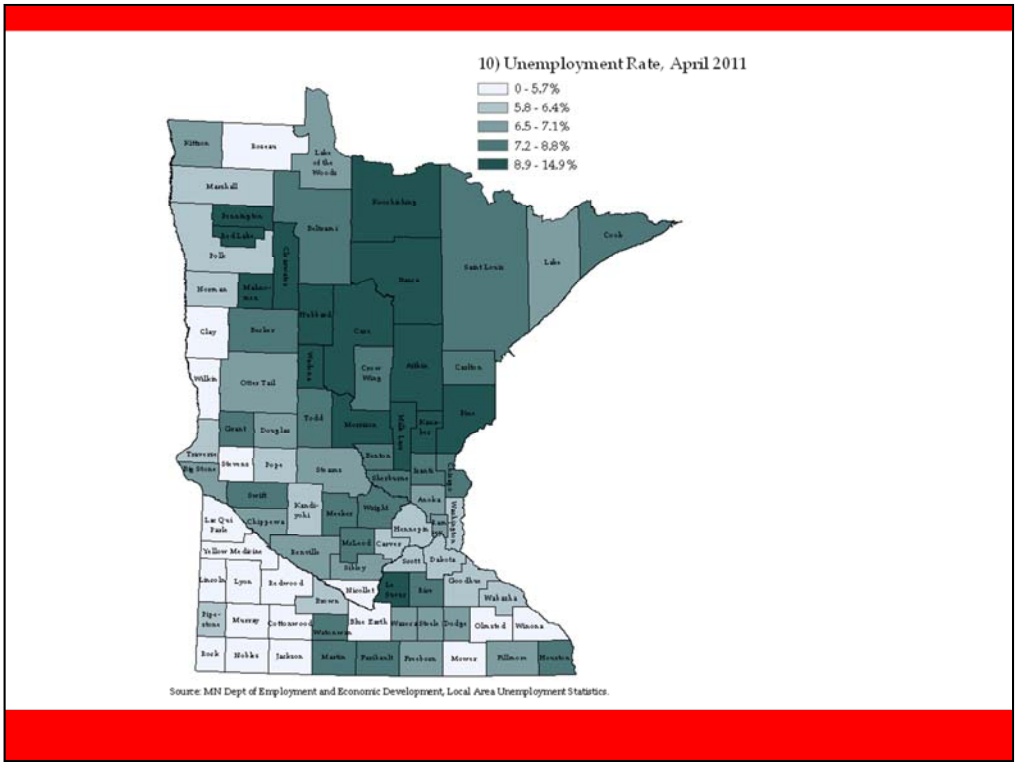
If we look at the situation in Minnesota, the picture is a little bit better.

Key Points

- The unemployment rate in Minnesota is lower than the national level and has shown more improvement.
- Nevertheless, 6.5 percent is still a relatively high rate.
- The graph also shows how the unemployment rate in the current recession compares with other recessions – the early 80s, early 90s, and early 2000s.

Implications

- Unemployment:
    - Reduces families abilities to make rent and mortgage payments,
    - Can lead to mortgage delinquencies and foreclosures,
    - Can lead to homelessness, and
    - Can lead some renters to double up and move in with family and friends, which increases rental vacancy rates.



The unemployment rate varies widely in Minnesota.

Key Points

- By county, rates vary from 3.9% to 14.9% percent.
- Generally, rates are lower in the southwest and higher in the north central counties.

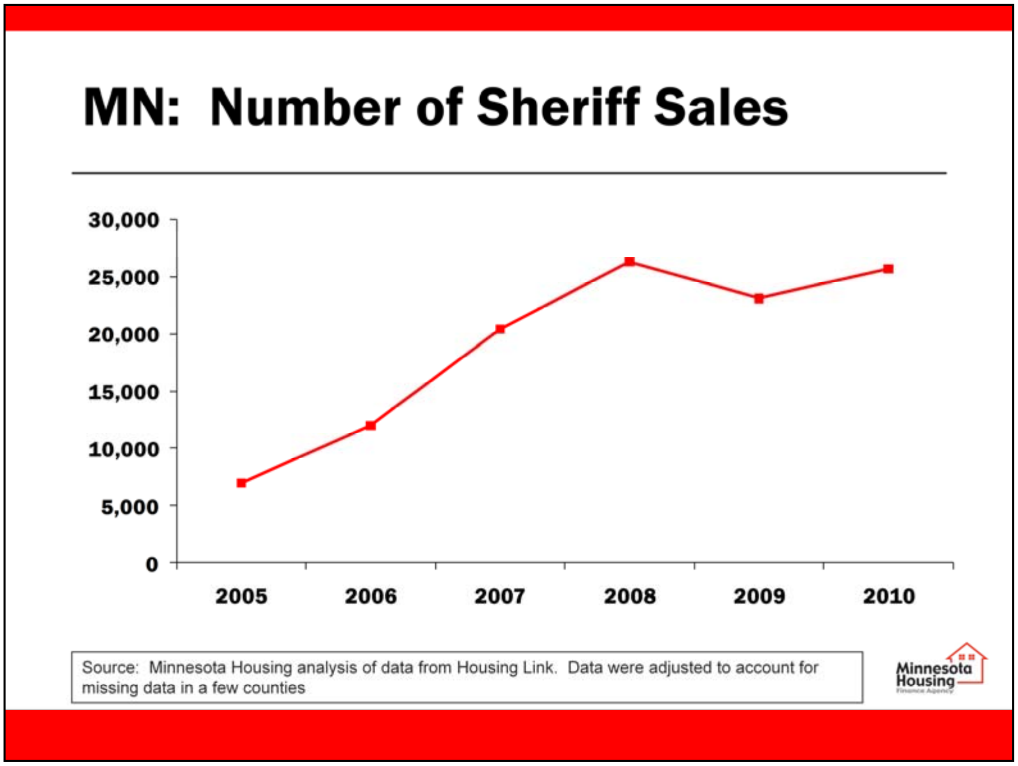
Implications

- The impact of the recession and high unemployment on the housing market will vary by region within the state.

Discussion Item #1b: Continuing Instability and Uncertainty (continued)

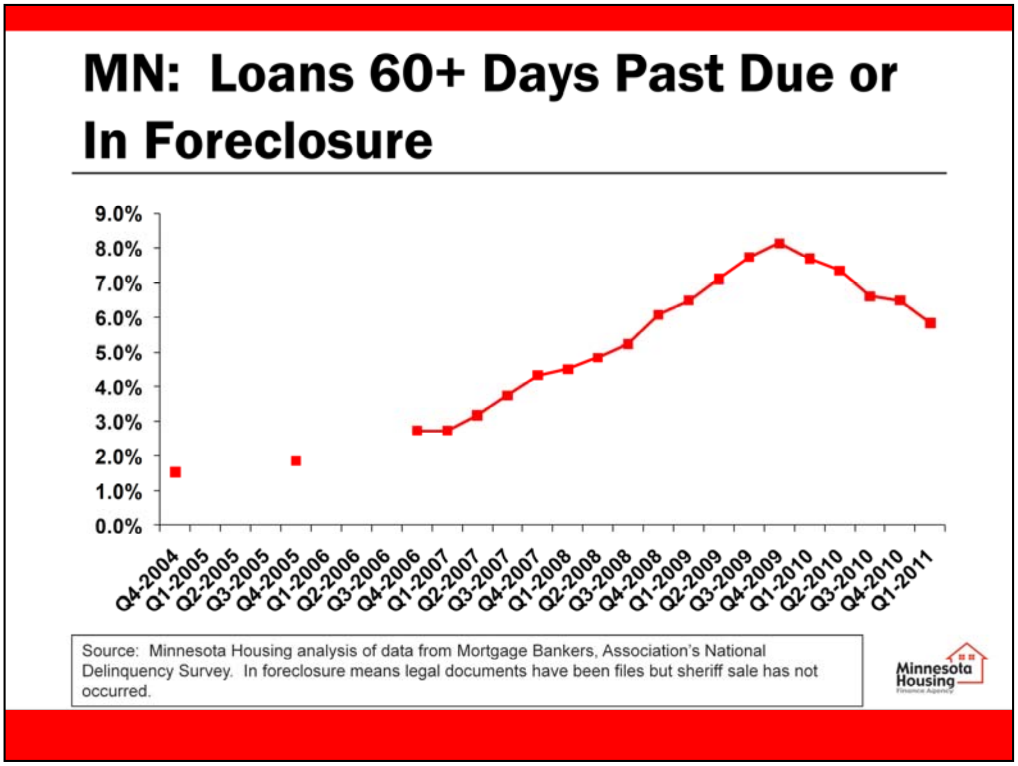
Foreclosure Crisis and Declining Property Values

We'll now examine another issue related to continuing instability and uncertainty – the foreclosure crisis and declining property values.



Key Points

- The state has seen a dramatic increase in foreclosures since 2005, rising from 7,000 in 2005 to 26,000 in 2008.
- The number dropped to 23,000 in 2009 but rose to nearly 26,000 again in 2010.



Reading the Graph

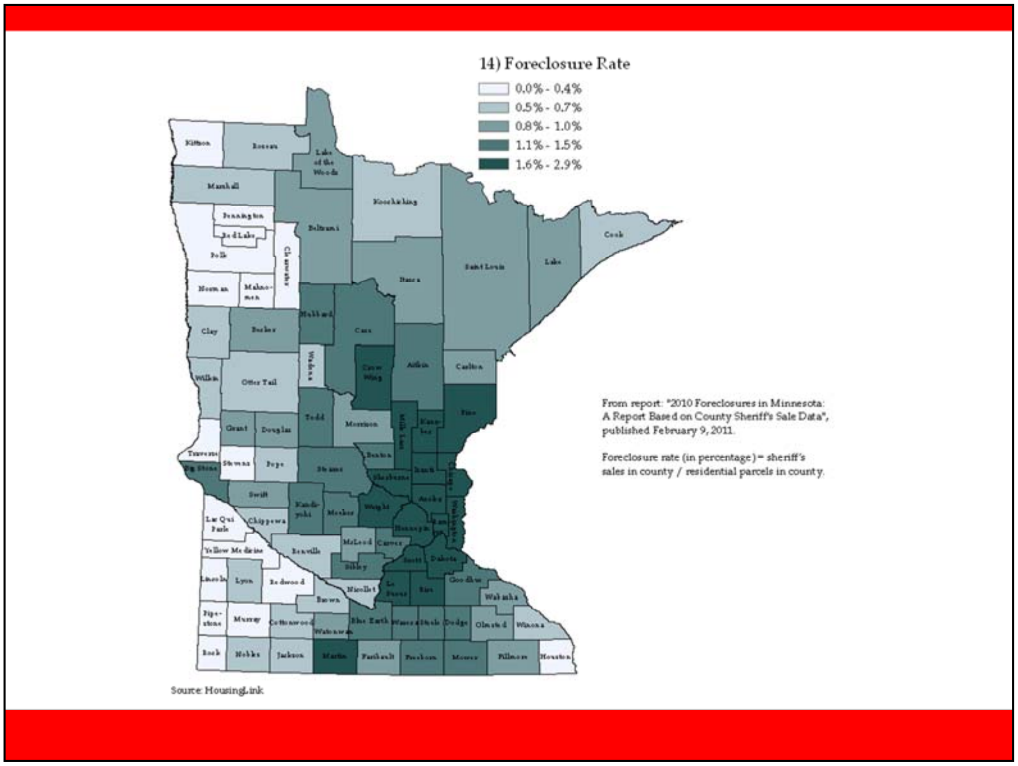
- The graph shows the number of loans in delinquency or foreclosure – i.e. loans at least 60 days past due, including loans in foreclosure (legal foreclosure documents filed but sheriff sale has not yet occurred).

Key Points

- On the positive side, the number of loans in delinquency or foreclosure has declined for the five most recent quarters.
- On the negative side, having 5.84% of loans in delinquency or foreclosure is still very high from a historical perspective.

Implications

- While there are initial signs that the delinquency problem is starting to taper off, there are still a lot of delinquent loans, which may become foreclosed.



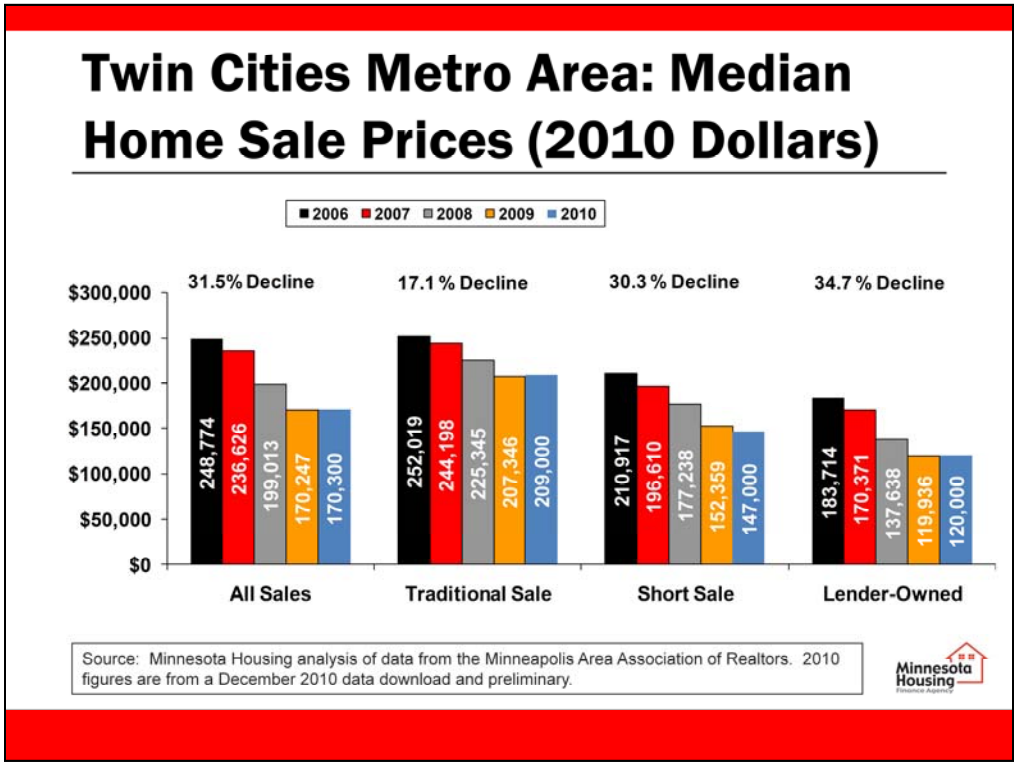
The rate of foreclosure is very different in different parts of the state.

Reading the Map

- This map shows the number of sheriff sales per residential partial in each county.

Key Points

- Foreclosures have been concentrated in the Twin Cities metro area and surrounding counties.
- Communities in North Minneapolis, the Eastside of St. Paul, and in the collar communities of Wright, Sherburne, and Isanti counties have been hit the hardest.



The foreclosure crisis has had a dramatic impact on housing prices.

Reading the Graph

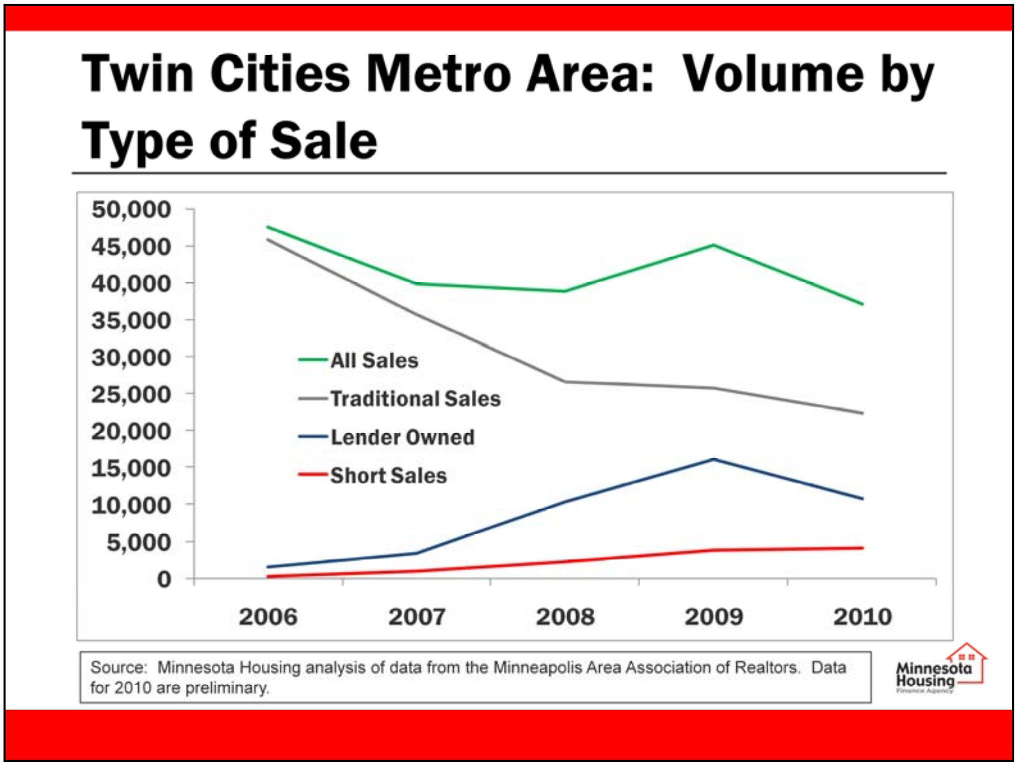
- This graph shows median home sale prices and changes in median prices for the metro area for 2006 through 2010 (adjusted for inflation).
- The data are broken out into four segments:
  - All sales,
  - Traditional sales,
  - Short sales, and
  - Lender-owned sales (foreclosed properties).

Key Points

- Lender-owned sales and short sales have seen the largest price decline between 2006 and 2010, respectively declining by 34.7 percent and 30.3 percent.
- Comparatively, traditional sales have seen a more modest decline (17.1 percent).

Implications

- With the foreclosure crisis, housing prices have declined dramatically.
- The level of decline depends on the market segment that is examined.

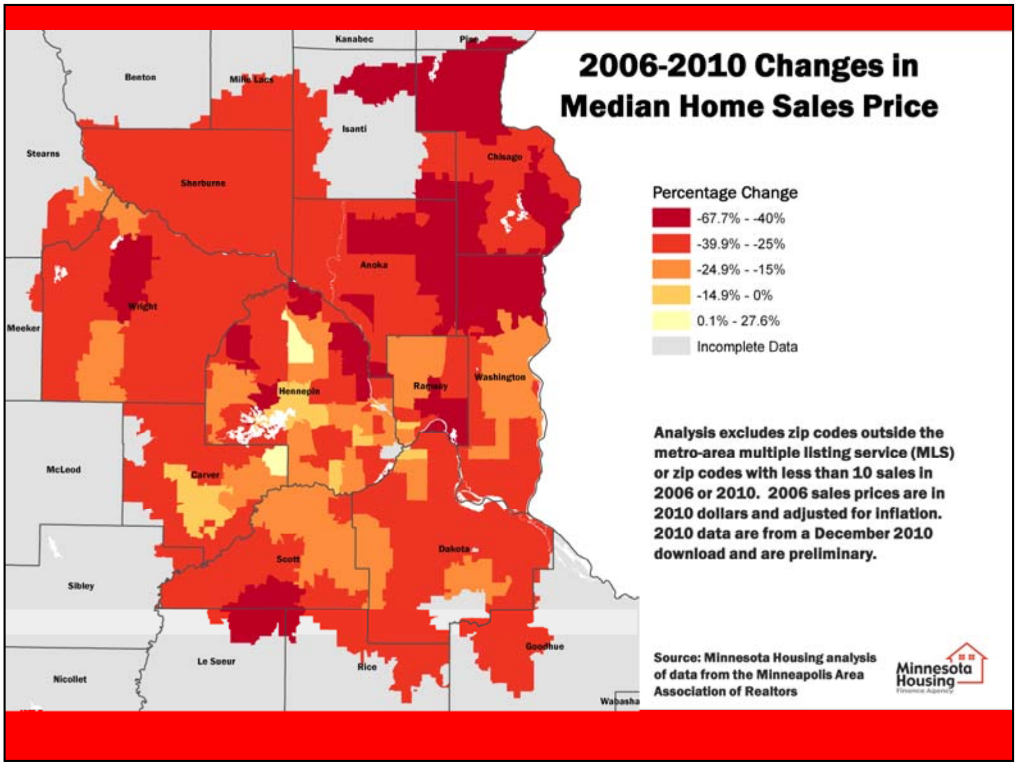


Reading the Graph

- This graph shows the number of sales by market segment – all sales, traditional sales, lender-owned sales, and short sales.

Key Points

- In 2006, almost all sales were traditional sales, with very few lender-owned or short sales (4%).
- By 2009, nearly half (44%) of sales were lender-owned or short sales.
- The percentage of lender-owned and short sales dropped a little to 39% in 2010.
- The 31.5 percent decline in the median sale price for all sales (shown on the previous slide) was driven by two factors:
    - Price declines in traditional, short, and lender-owned sales, and
    - A dramatic increase in the number of lender-owned and short sales (which have lower median sales prices than traditional sales). As these lower-priced homes accounted for a growing share of the sales, the median home sale price declined.



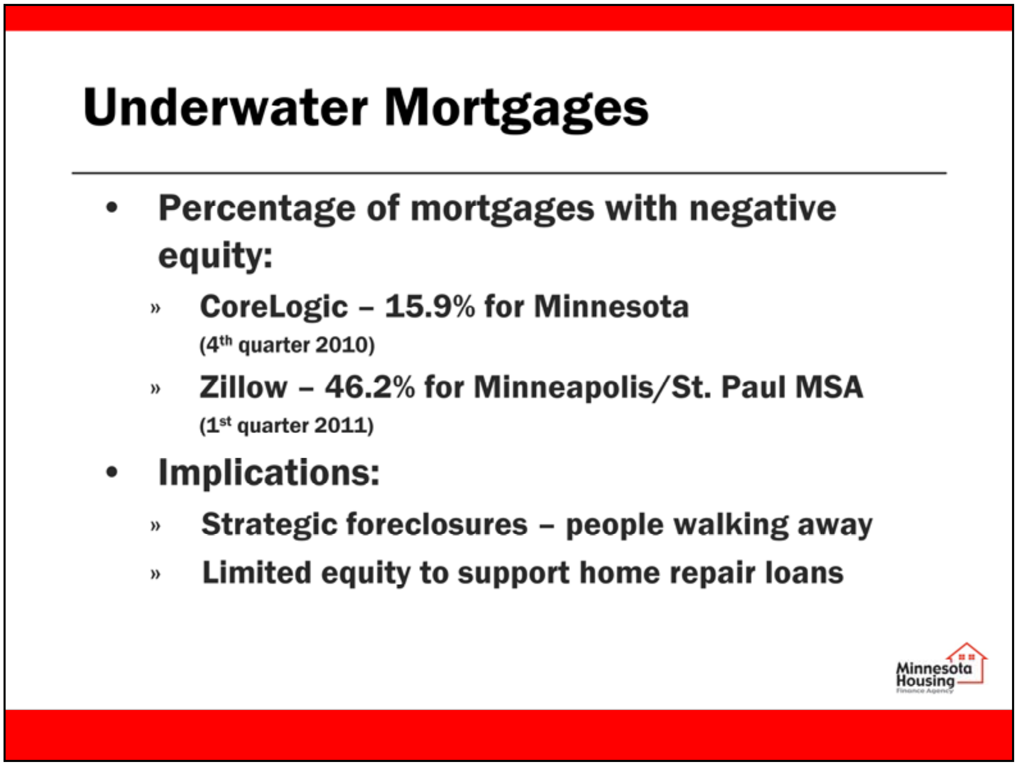
Once again, Minnesota is not monolithic. Price declines have varied widely around the state.

Reading the Map

- This map shows median home sale price changes for the metro area between 2006 and 2010, based on data that the Minneapolis Area Association of Realtors provided from the metro region MLS.

Key Points

- Generally, areas with higher foreclosure rates have had larger price declines.
- The price declines ranged from a 67.7 percent decrease in North Minneapolis to a price increase in north central Hennepin and northwest Carver.



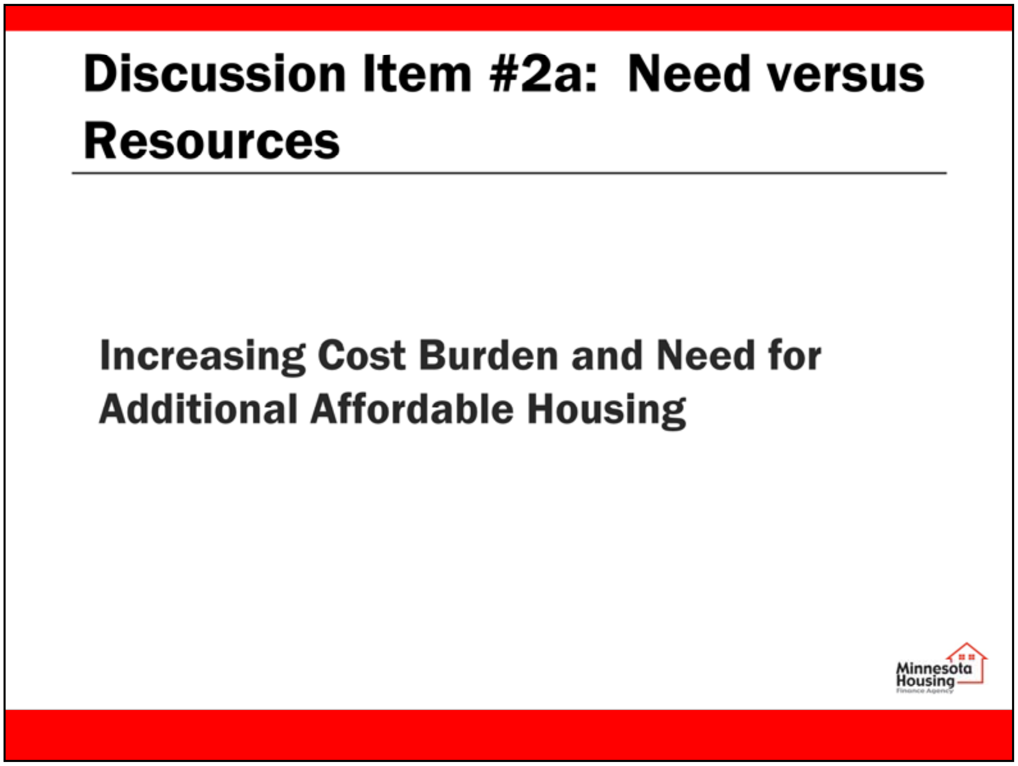
With the price declines, a large share of mortgages are now "underwater." People owe more on their mortgage than their home is worth. There is negative equity in the home.

Estimates on the percentage of homes that are underwater vary.

- According to CoreLogic, 15.9% of mortgages in Minnesota are underwater.
- According to Zillow, the figure is 46.2% in the metropolitan statistical area of Minneapolis / St. Paul .

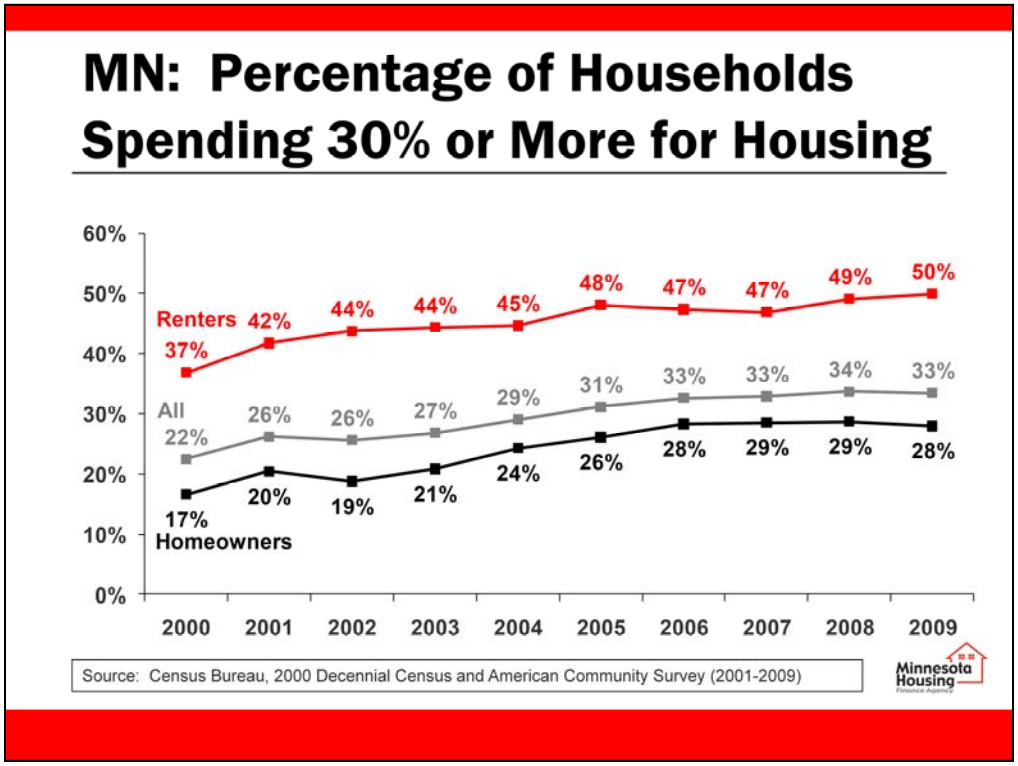
Regardless of the source, a substantial number of Minnesotans with mortgages are now underwater, which has several implications:

- Facing the prospect of owing more on their mortgage than their home is worth, some people may decide to walk away from their mortgage and home, which will contribute to the foreclosure crisis.
- People with home repair needs will find it difficult to get a loan for this work, which limits society's ability to maintain the quality of the existing housing stock.



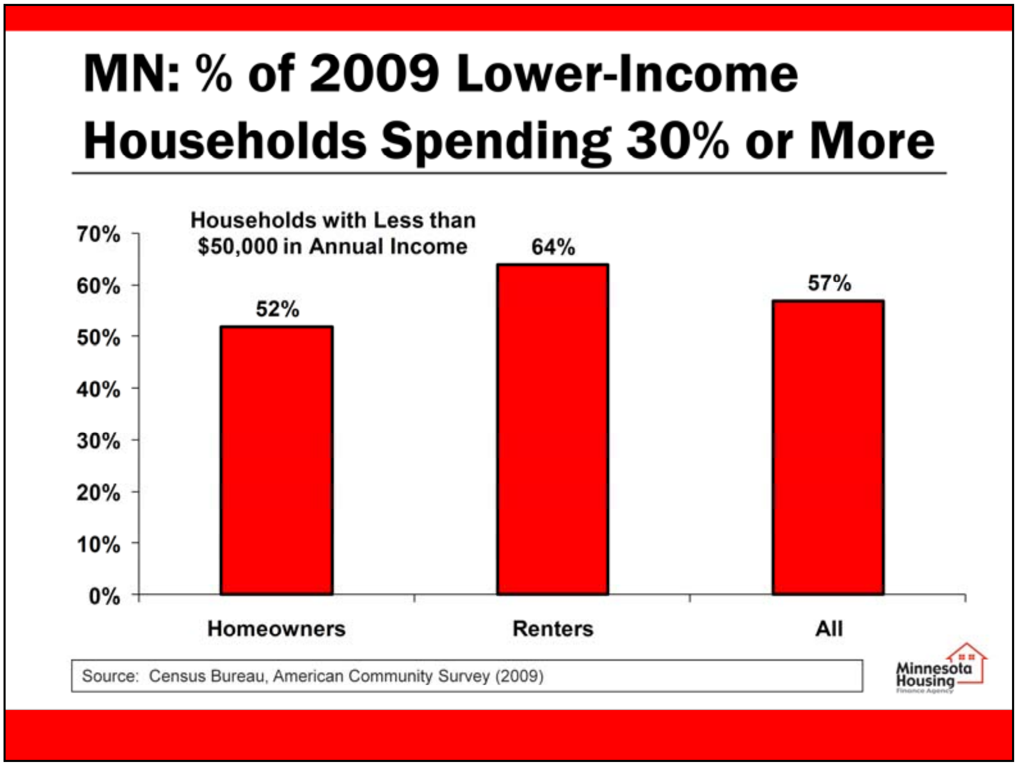
We'll now turn to the second item for discussion – the growing need for additional affordable housing versus the limited supply of resources to finance the needed housing.

We'll start with the first half of that comparison – the increasing need.



Key Points

- The percentage of Minnesota renters who are cost burdened has increased from 37 percent in 2000 to 50 percent in 2009. (Red line)
- The percentage of Minnesota homeowners who are cost burdened has increased from 17 percent in 2000 to 28 percent in 2009. (Black line)
- Overall, roughly one in every three households (renter and homeowner) were cost burdened in 2009 as compared with one in very four in 2000. (Gray line)



Minnesota Housing's mission is to serve lower-income households. The agency is less concerned with higher-income households that are cost burdened.

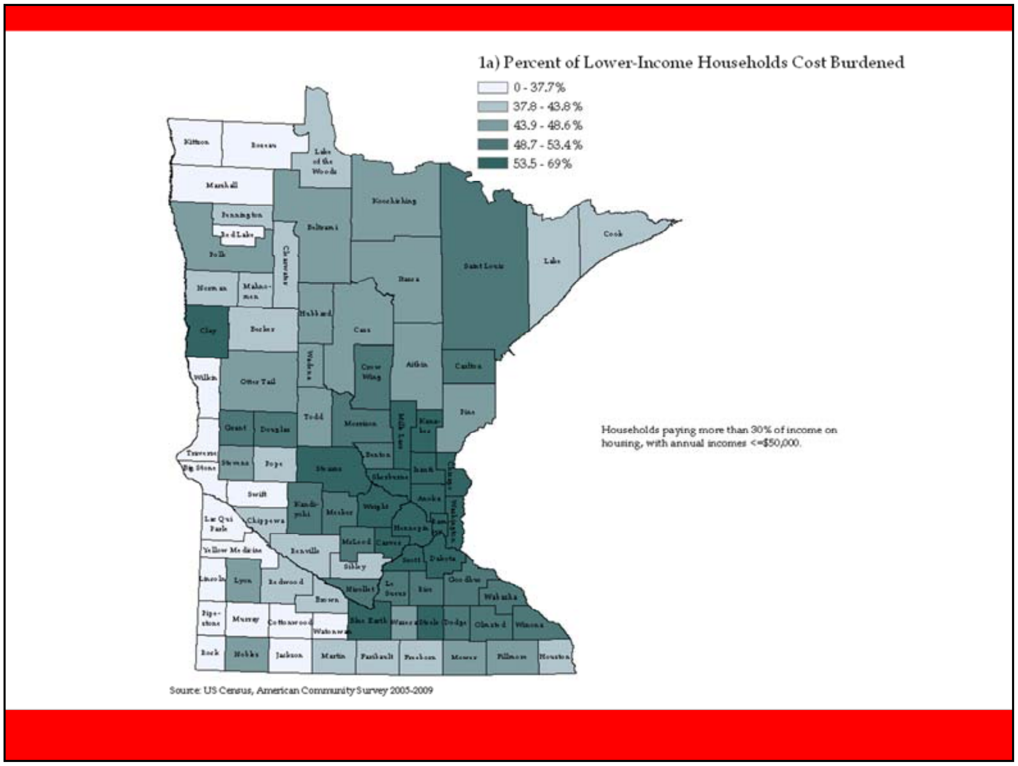
Reading the Graph

- This graph shows the percentage of household with an annual income below $50,000 that were cost burdened in 2009.

Key Points

- Over half of lower-income households are cost-burdened and need housing that is more affordable.

- Nearly two-thirds of lower-income renters are cost burdened.



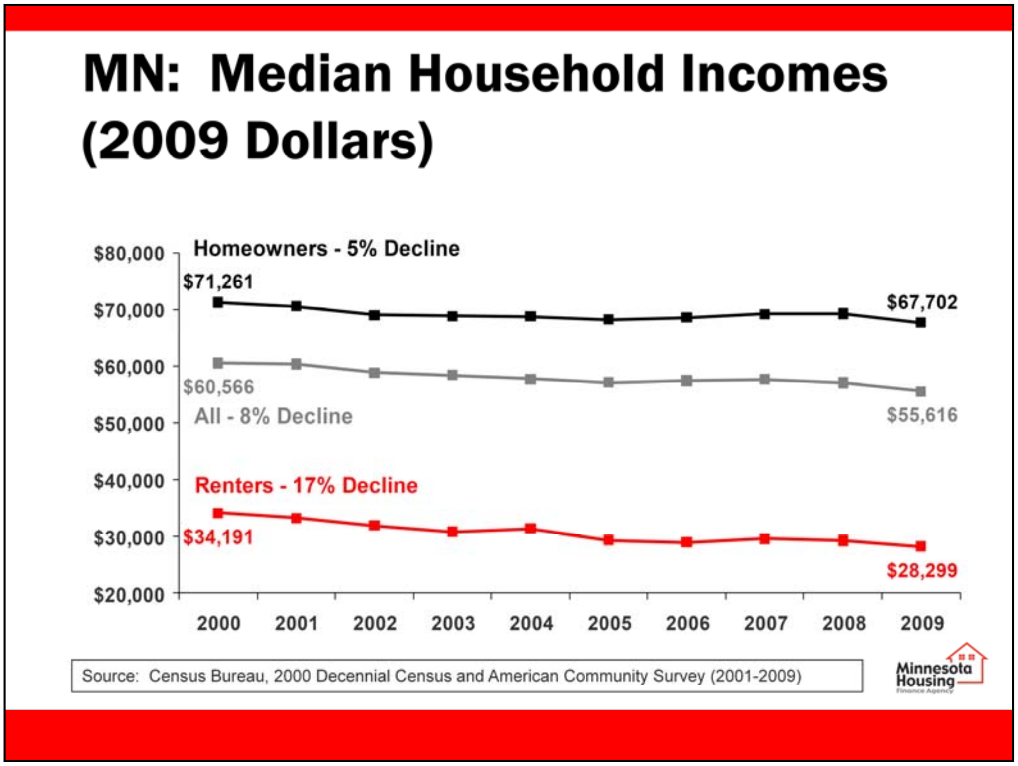
It is interesting to examine how the percentage of lower-income households that are cost burdened varies around the state.

Reading the Map

- This maps shows the percentage of households earning less than $50,000 that are cost burdened by county.

Key Points

- The cost-burdened percentage ranges from 30 to 68 percent.
- The highest cost-burdened percentages are generally in the metro area, and the lowest percentages are in the western part of the state.
- Even the county with the lowest percentage has about 30 percent of its lower-income households cost burdened.



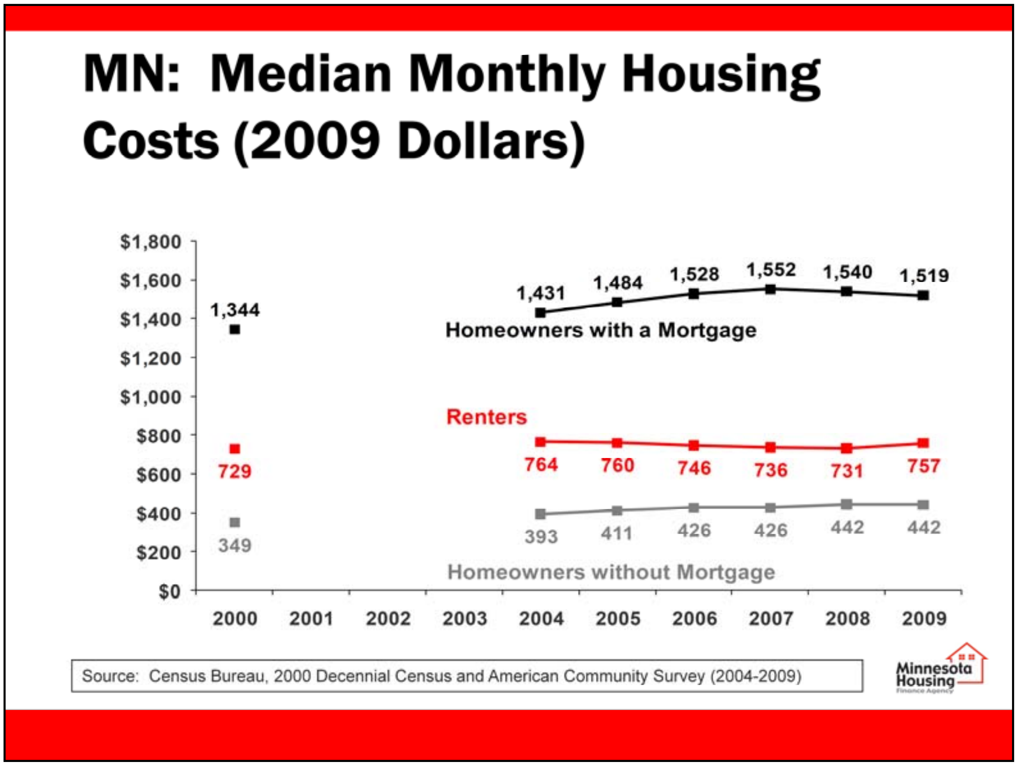
The cost-burden percentage is the ratio of housing costs to household income.

Thus, to understand the cost-burden trends, we need to examine both household income and housing cost trends.

We'll start with household incomes.

Key Points

- Over the last decade, the median income of renters declined by 17 percent after controlling for inflation. (Red line)
- During the same period, the median income of homeowners declined by just 5 percent. (Black line)



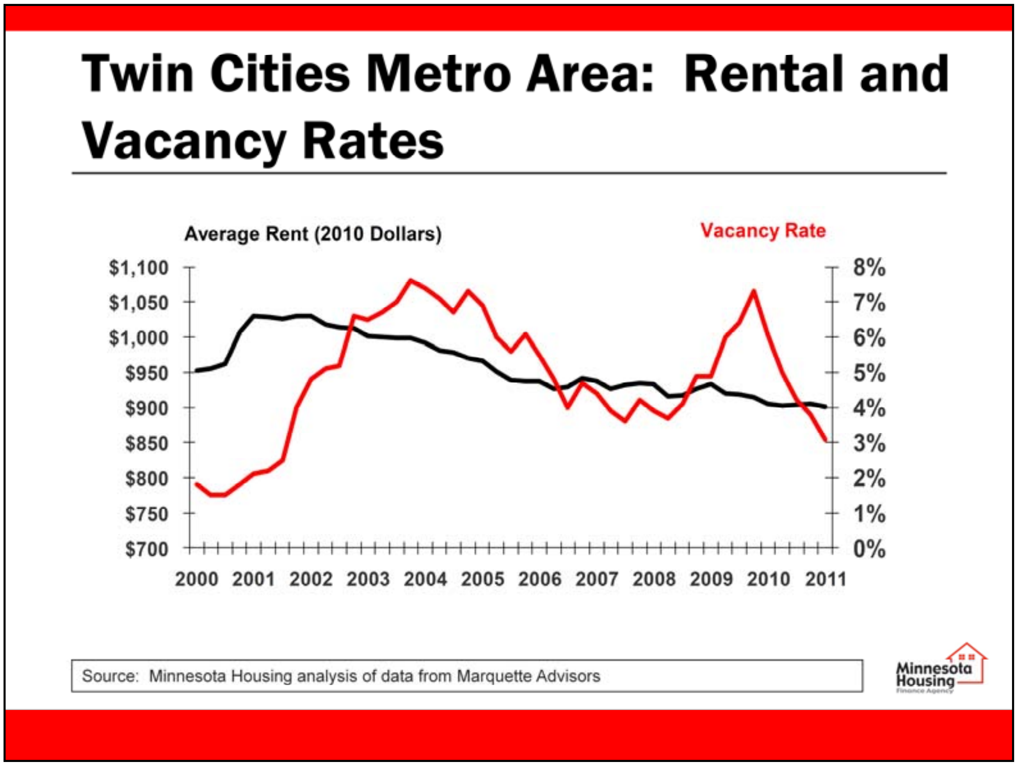
After examining the incomes, we now turn to the housing costs.

Key Points

- Median rents (after controlling for inflation) started at $729 and ended at $757. (Red Line) Rents did rise in the first half of the decade but fell in the later half, with am increase at end.
- In contrast, monthly homeownership costs increased steadily during the decade rising from $1,344 in 2000 to $1,552 in 2007. (Black line) The median cost dropped in 2008 and 2009. The decline is starting to capture the recent decline home sale prices. Nevertheless, costs were up significantly during the decade.

Implications

- Renters have had flat rents but declining incomes. Declining incomes are driving the cost burden increases.
- Homeowners have had increasing housing costs but flat incomes. Increasing housing costs are driving the cost burden increases.

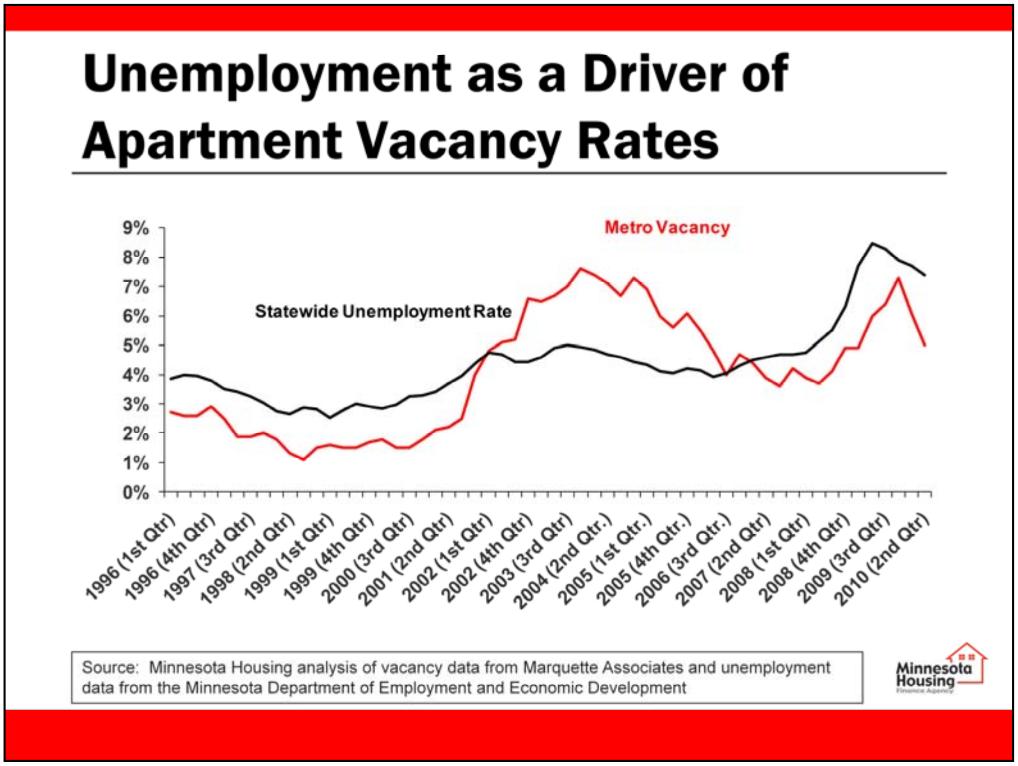


Household incomes are largely outside the control of Minnesota Housing. We don't run an employment program. However, we do operate housing finance programs. Thus, housing costs are a key concern for the agency.

We'll start by examining the market factors that drive rents.

Key Points

- Vacancies play a key role in determining rent levels.
- When vacancies were below 4 percent in the early part of the decade, rents increased in the Twin Cities.
- When vacancies rose above 6 percent between 2003 and 2005, rents declined.
- When vacancies were between 4 percent and 6 percent between 2006 and 2008, rents were flat.
- Falling vacancies will once again likely cause rents to increase.

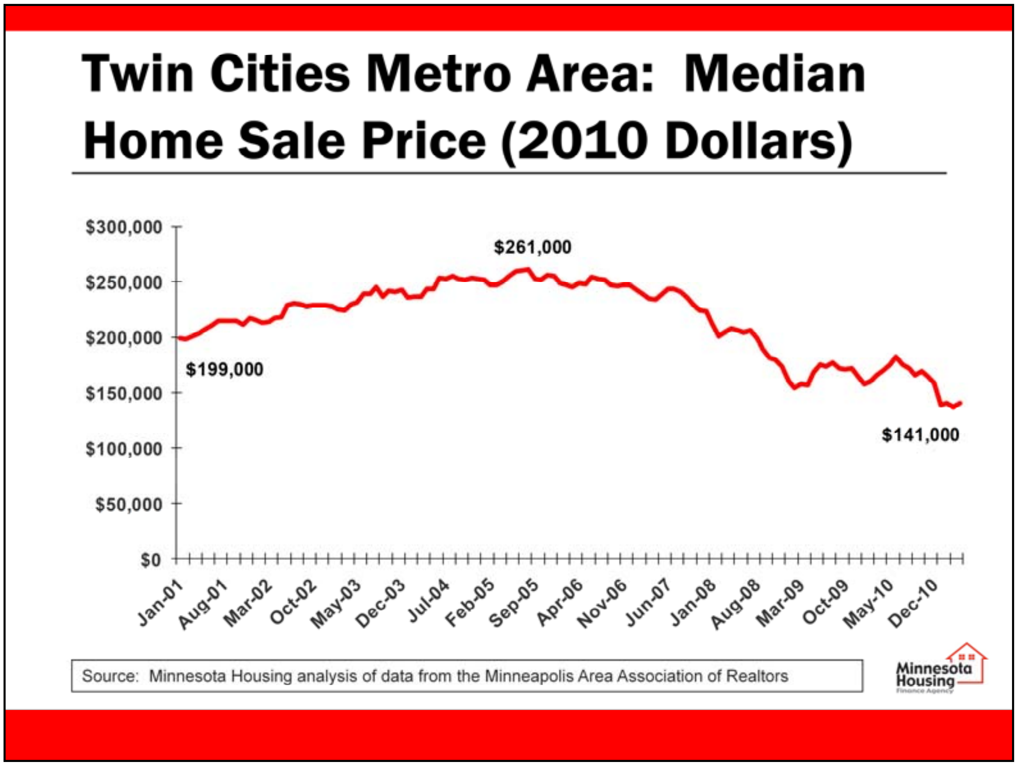


Key Points

- The unemployment rate is a primary driver of the vacancy rate.
- When the unemployment rate is high, the vacancy rate is high because people double up to save money and young adults move back in with their parents.

Implications

- With an improving unemployment rate, the vacancy rate has declined recently.
- In the near-term, with vacancies below 4 percent, we may see increasing rents.

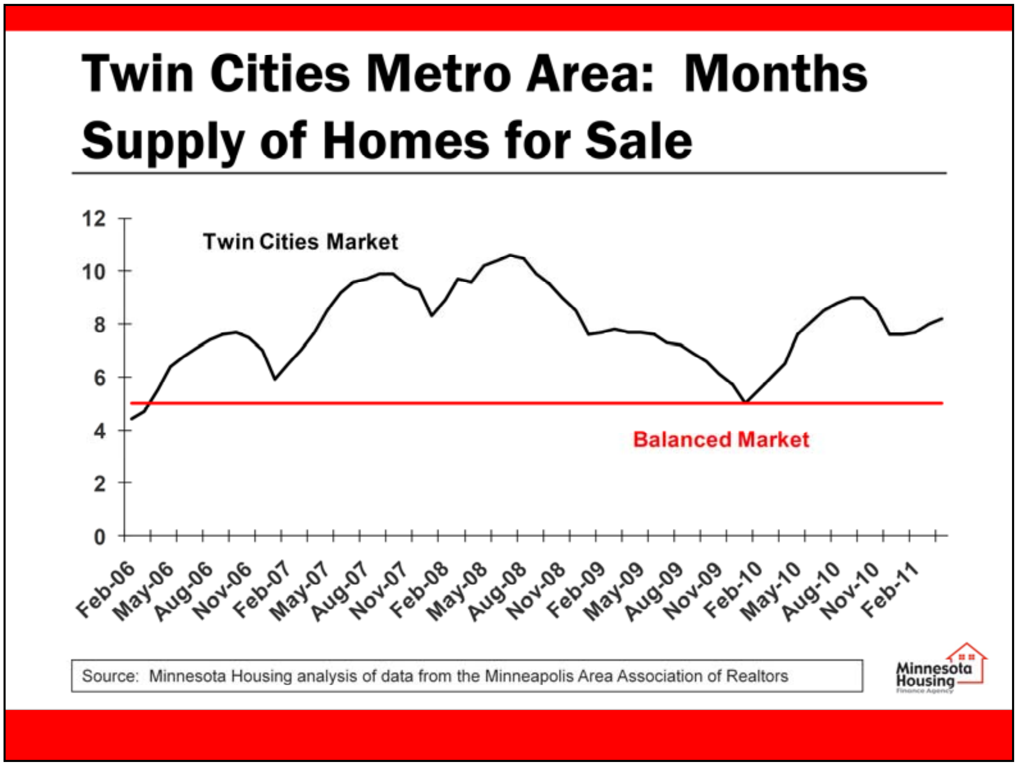


Now turning to homeownership costs.

The housing bubble and the foreclosure crisis have been primary drivers of home sale prices.

Key Points

- Housing prices rose dramatically during the first half of the decade (even after controlling for inflation) but declined rapidly in the second half of the decade.
- In 2009 and 2010 prices stabilized with homebuyer tax credit.
- With the expiration of the tax credit, prices have fallen again.



Looking forward, a key leading indicator of housing price trends is the months supply of homes for sale.

Reading the Graph

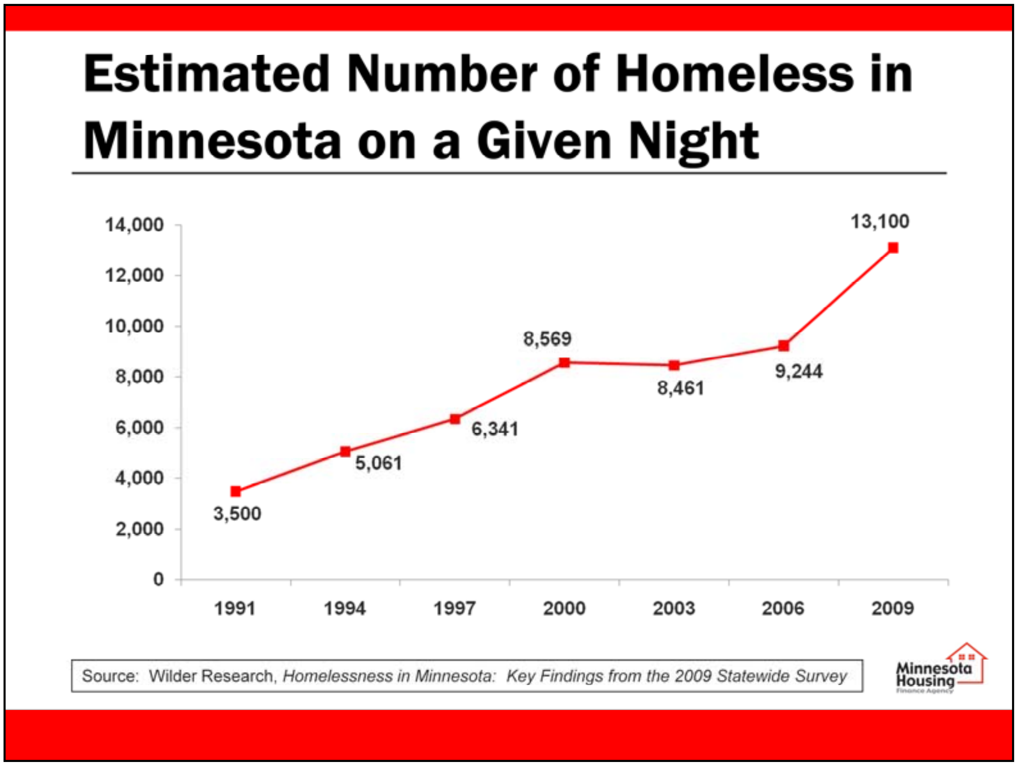
- This graph shows the months supply of homes for sale in the Twin Cities metro area since early 2006, which has been a period of declining prices.
- The months supply of homes for sale is based on the inventory of homes for sale and how quickly homes are currently selling.
- A five month supply is considered a balanced market – neither a seller's nor a buyer's market.

Key Points

- With the support of the homebuyer tax credit, the months supply of homes came down to 5 months, which stabilized home prices.
- However, the months supply has since increased again and was up to 8.2 months in April 2011.

Implications

- As long as the months supply of homes for sale remains high, there will be downward pressure on home prices.



We're going to shift gears from looking at the general need for affordable housing to a specific, high-level need – homelessness. Having a home is the issue, rather than just being cost-burdened.

Reading the Graph

- This graph shows the estimated number of people in Minnesota experiencing homelessness on a given night.

Key Points

- Homelessness increased between 1991 and 2000, leveled off through 2006, and increased dramatically in 2009.
- The economy is a clear contributor. According to the Wilder survey, 40 percent of homeless adults in 2009 reported a job loss or reduced hours as a reason they lost their housing.

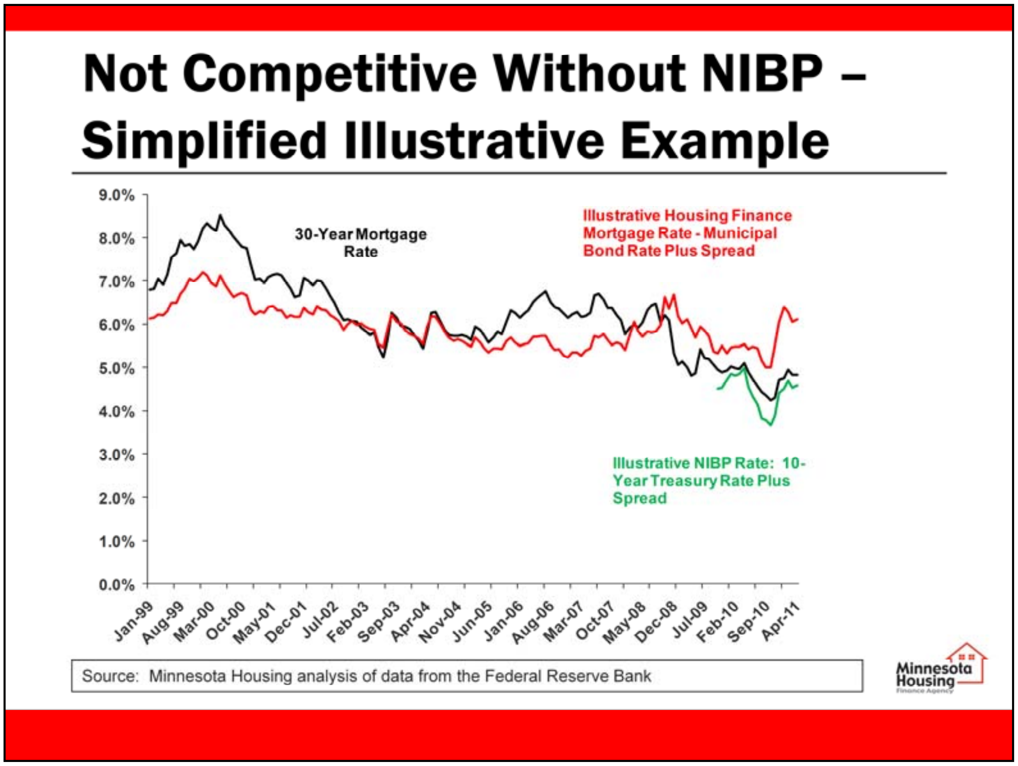
Discussion Item #2b: Need versus Resources (continued)

Declining Resources – Cannot Borrow Funds in the Market at Sufficiently Low Interest Rates

After assessing the need for additional affordable housing, we need to examine the resources that the agency has to finance additional units and preserve existing units.

We'll first examine the agency's ability to access funds in the bond market.

As the following slides will show, without the help of the U.S. Treasury's New Issue Bond Program, Minnesota Housing cannot borrow funds in the bond market at sufficiently low interest rates to make sense for homebuyers.



Minnesota Housing faces a challenging bond market and very low private mortgage rates.

The graph shows a significant simplification of how Minnesota Housing borrows funds in the bond market. In addition, the types of bonds used in the analysis (and their corresponding interest rates) are proxies, rather than the actual types of bonds and interest rates that Minnesota Housing uses. Nevertheless, the data and graphs show the proper relationships and accurately identify the challenges that Minnesota Housing faces in the bond market.

Reading the Graph

- The black lines shows the private 30-year mortgage rate.
- Minnesota Housing borrows funds using tax-exempt municipal bonds, adds a spread for administrative expenses and earnings, and then offers mortgages at the rate reflected by the red line.
- With the New Issue Bond Program (NIBP), Minnesota Housing borrows from the U.S. Treasury at the 10-year Treasury rate which has allowed the agency to offer mortgages at the rate reflected by the solid green line after adding a spread.

Key Points

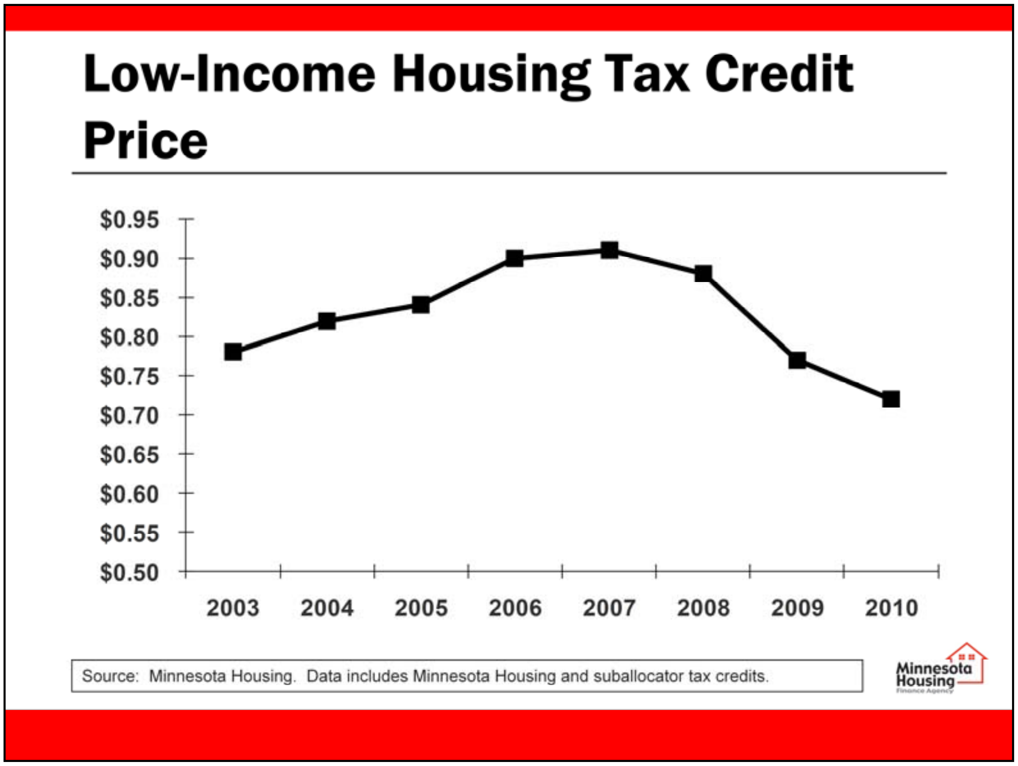
- Prior to the financial crisis that started in the fall of 2008, Minnesota Housing was able to offer mortgages with interest rates below market. (The red line is below the black line.)
- After the crisis, Minnesota Housing has been unable to offer below-market mortgages using its standard financing tool, tax-exempt bonds. (The red line is above the black line.)
- However, NIBP has temporarily allowed the agency to offer mortgages with below-market rates. (The green line is below the black line.)

Discussion Item #2b: Need versus Resources (continued)

Declining Resources – Housing Tax Credits are Not as Valuable as They Once Were

Moving onto another key financing tool – Housing Tax Credits.

The story is similar to the one faced by mortgage revenue bonds. The market is recovering slowly.



With the struggling economy, traditional corporate purchasers of tax credits have limited tax liabilities and less interest in the credits. In addition, with the housing crisis, investors are more cautious about investing in housing.

Reading the Graph

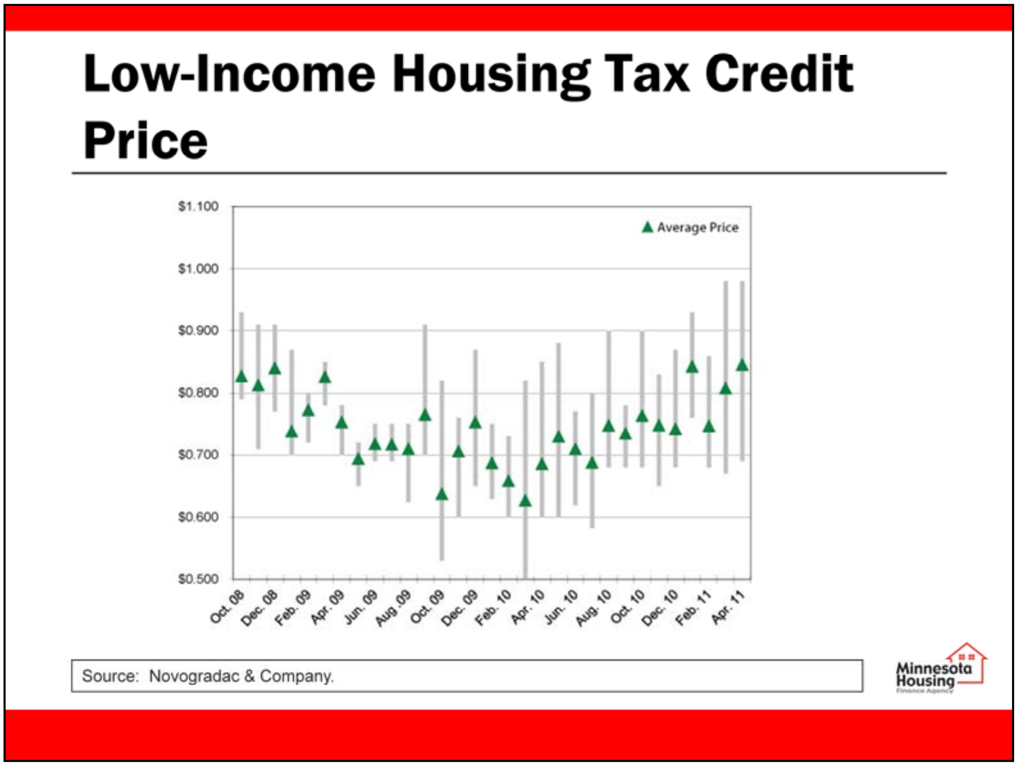
- This graph show's the average tax credit price for Minnesota projects over the last eight years.

Key Points

- The average price rose from 78 cents to 91 cents but fell to 72 cents.
- However, as the next slide will show, the price of tax credits started to improve in part way through 2010 and into 2011..

Implications

- Without a strong recovery in the tax credit market, Minnesota Housing will have difficultly generating funding for affordable rental housing.
- An annual $11 million allocation of tax credits would generate $79 million in syndication proceeds with a $0.72 price, while it would generate $100 million with a $0.91 price. (Tax credits are collected over ten years. Thus, an $11 million tax credit allocation has the potential to produce $110 million in tax benefits over the ten years. Depending on the market, these tax benefits sell for between 50 and 98 cents on the dollar.)



As mentioned, tax credit prices started to recover in early 2010.

Reading the Graph

- This graph shows tax credit prices nationally.
- The green triagles are the average prices.
- The gray bars show the range of prices.

Key Points

- Average prices bottomed out in March 2010 at a little more than 60 cents.
- By April 20011, average price had risen to the mid 80 cent range.

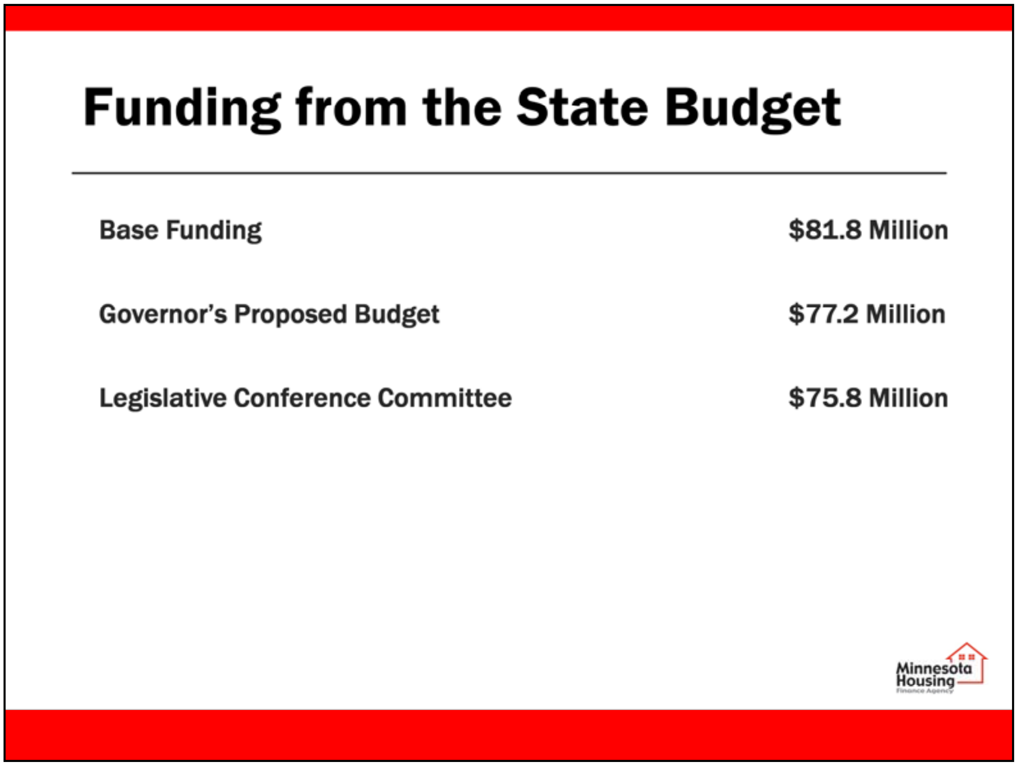
Implications

- If prices continue to rise, more funds will be available for affordable housing.

Discussion Item #2b: Need versus Resources (continued)

Declining Resources – Significant Cuts to State Appropriations

During the next biennium, Minnesota Housing is also likely to see a sizable reduction in its state appropriation.



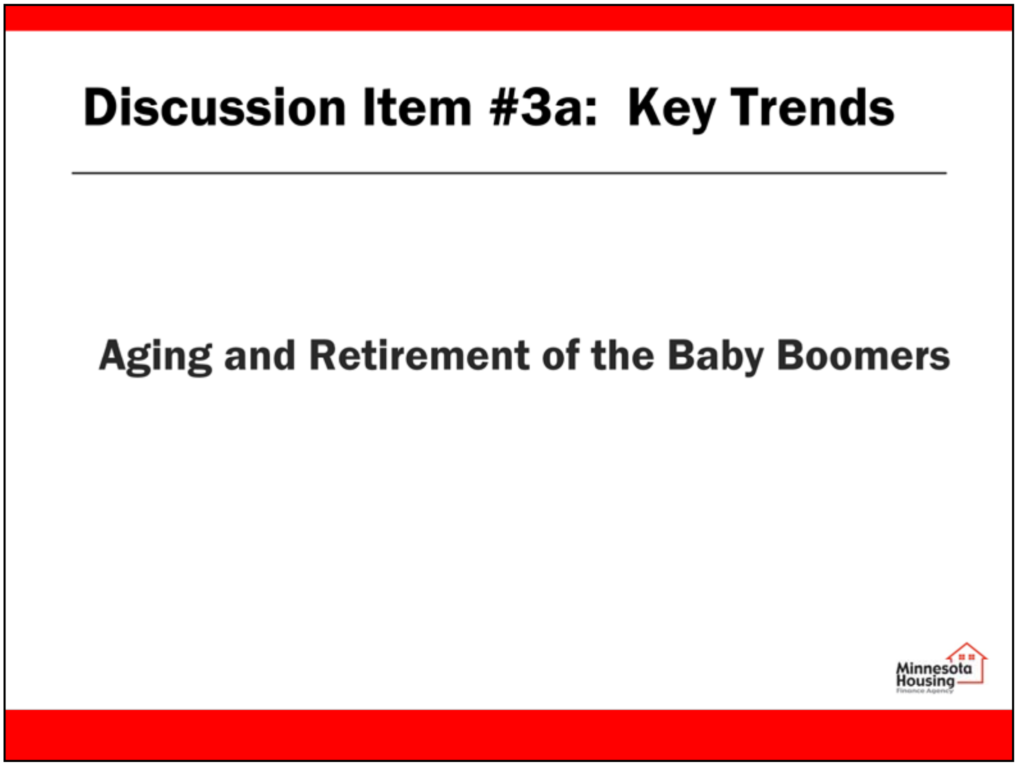
Key Points:

- The agency's base funding from the state is $81.9 million.

- The agency will likely face a 5.6% to 6.7% cut in its state funding.

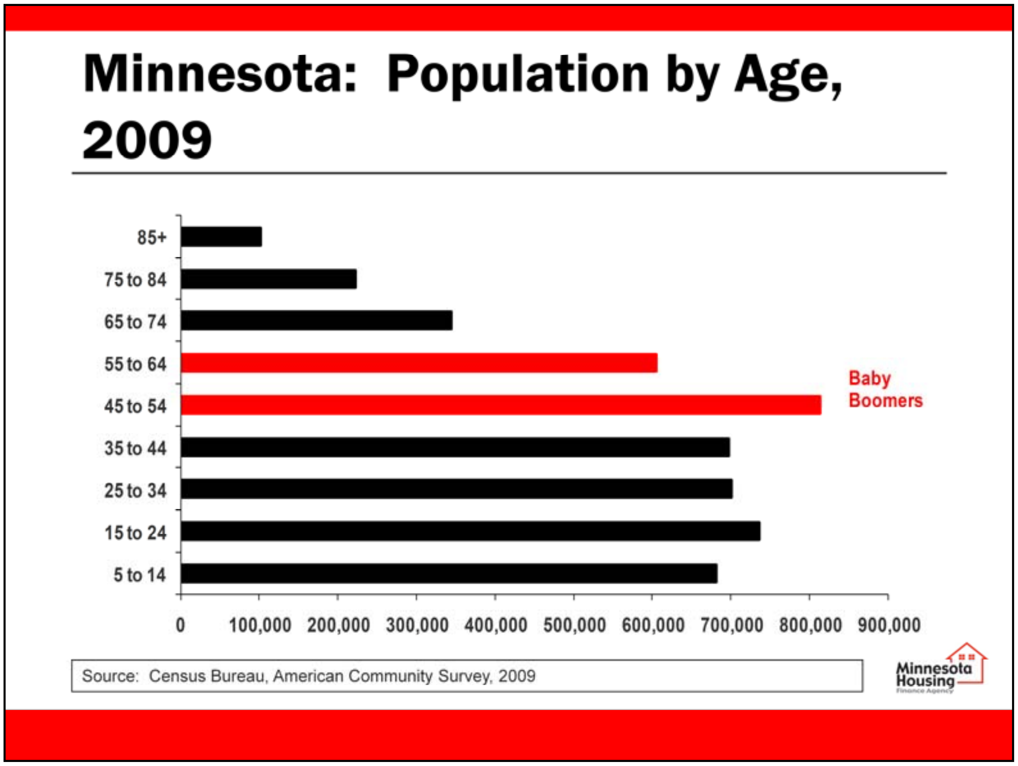
Implications:

- Even though state appropriation account for a relatively small portion of the agency's overall budget, these funds go to the deepest subsidies that support the neediest families.



Next, we’ll turn to several key trends that are occurring nationally and Minnesota.

We’ll start with the aging and retirement of the baby boomers.

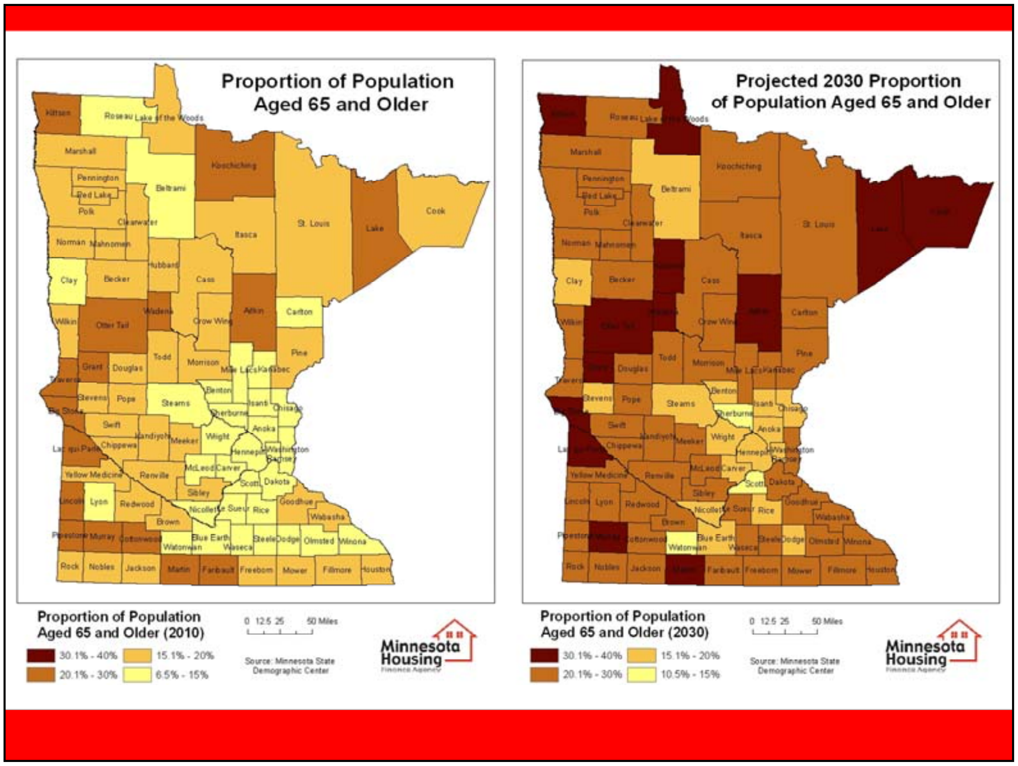


Reading the Graph

- This graph shows the number of people in various age groups for Minnesota in 2009.

Key Points

- The baby boomers (age 45 to 64) are the largest age group, particularly younger boomers – those 45 to 54.



Reading the Maps

- These maps show the percentage of the population in each county that is age 65 or over today (the left graph) and will be age 65 or over in 2030 (when the last baby boomers will be over 65).

Key Points

- Currently, the northern and western counties have particularly older populations, especially those near the borders.
- The state will become dramatically older over the next 20 years. Statewide the number of Minnesotans who are age 65 or over will double between now and 2030. In some counties, seniors will account for nearly 40 percent the county's population.
- Seniors will account for less than 15 percent of the population in only three counties.

This slide identifies some of the key trends and issues associated with baby boomers.

Key Points

- Ever since baby boomers have entered adulthood, they have driven the housing market, and they will continue to do so.
- Baby boomers do not necessarily want to retire the way their parents did. Only a small percentage indicate they want to live in assisted living or senior housing.
- They want to remain active and integrated in the overall community.
- The recent economic downturn has taken a toll on their retirement accounts and home equity. They have less financial means than they otherwise would have.

Implications

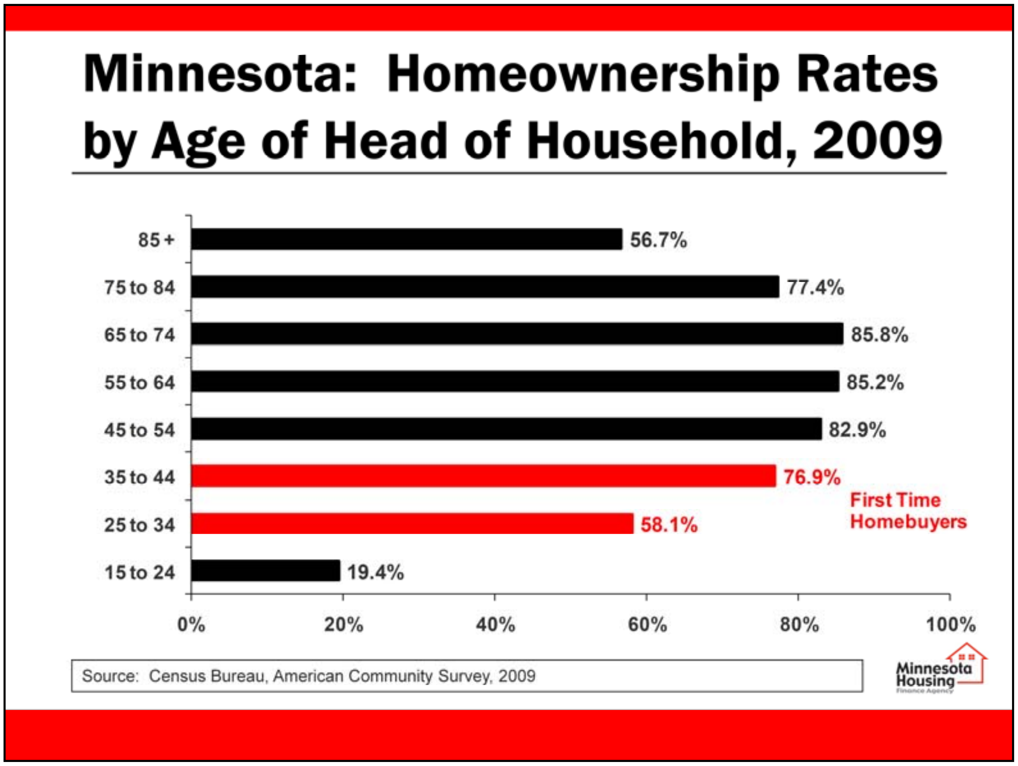
- To meet the needs of the retiring baby boomers, Minnesota Housing should consider financing senior-friendly housing with universal design features rather than senior (age-restricted) housing. Senior-friendly housing has features and amenities that not only allow seniors to stay in the community and live independently, but also appeal to other age groups and household types. For example, senior-friendly housing could include single-level living, the capacity to add “grab bars” in bathrooms, the installation of door levers rather than door knobs, etc. These types of homes would also be desirable to families with young children.
- Retrofitting existing affordable housing.
- Access to transportation, services, and amenities will be key.
- Minnesota Housing will study these issues and policy options over the next two years.

Discussion Item #3b: Key Trends

Generation Y (aka Baby Boom Echo or Millennials) Becoming First-Time Homebuyers

Minnesota Housing Finance Agency

Along with the retirement of the baby boomers, we will see their children (the baby boom echo, generation Y, or millennials) becoming first time homeowners.



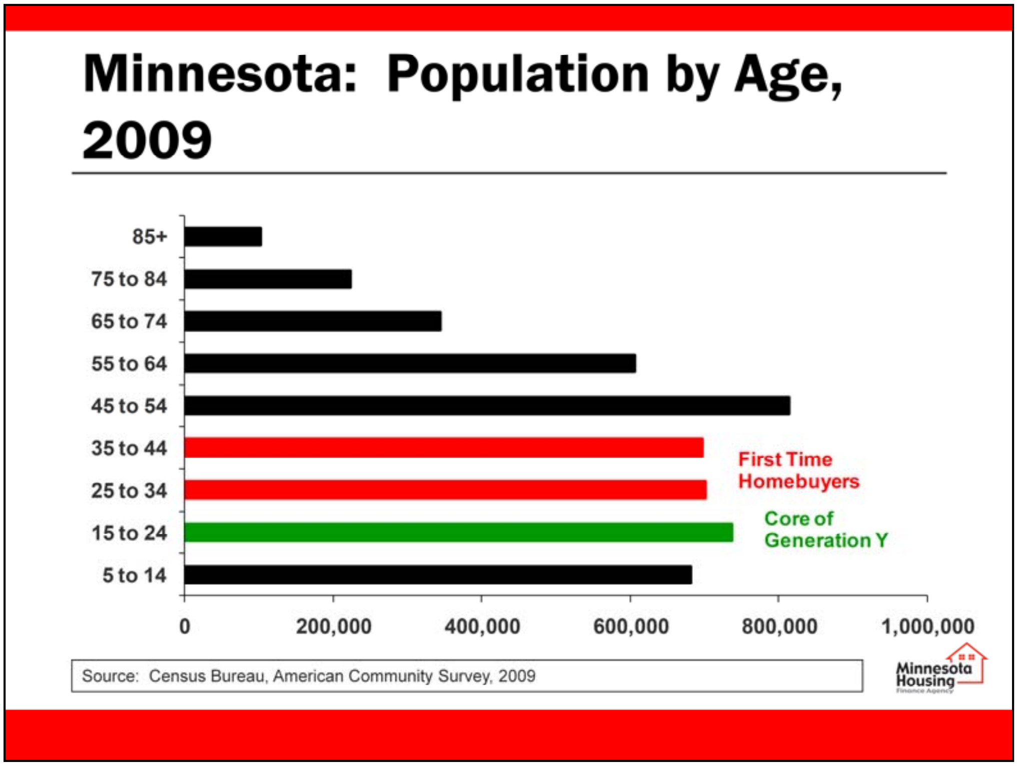
Generation Y is starting to become first-time homebuyers.

Reading the Graph

- This graph shows the homeownership rate for different age groups.

Key Points

- There is a significant increase in homeownership for people 25 to 34. The rate jumps from 19.4 to 58.1 percent.
- There is another significant increase, but smaller, for people 35 to 44. The rate jumps from 58.1 to 76.9 percent.
- People 25 to 44 are the primary first time homebuyers, especially those who are 25 to 34.



Reading the Graph

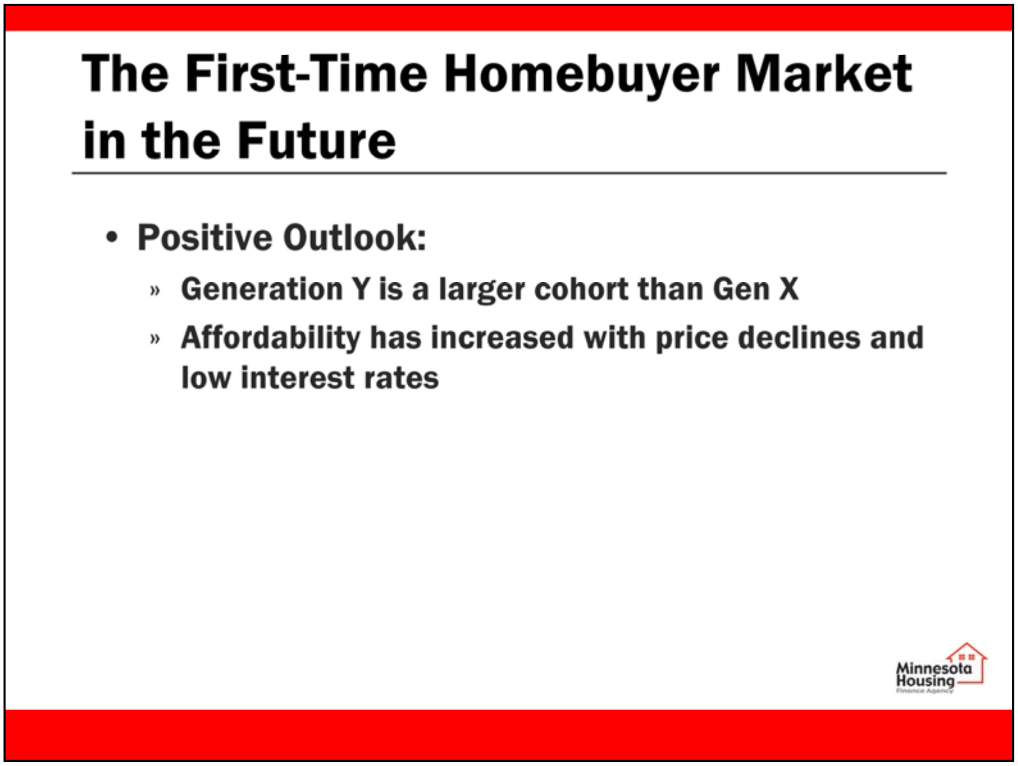
- This graph was shown earlier. It shows the number of people in various age groups in Minnesota in 2009. In this version of the graph, the first time homebuyer age group (25 to 44) and the core of generation Y (15 to 24) are highlighted.

Key Points

- The size of the first-time homebuyer age group is at a low point.
- These data are from 2009, when the leading edge of generation Y was 29 and just entering the first-time homebuyer age group. In 2009, the core of generation Y was 15 to 24. Generation Y will be our first-time homebuyers over the next decade or two.
- Generation Y is larger then generation X, which is the generation sandwiched between the baby boomers and their children.

Implications

- From a demographic perspective, the larger size of generation Y should boost the first-time homeowner market.



Overall, some trends suggest a positive outlook for the first-time homebuyer market, while other trends suggest a more cautious outlook.

Starting with the positive side:

- As just discussed, generation Y is a larger cohort than generation X.
- In addition, with the recent declines in home sale prices and interest rates, homeownership is much more affordable than it was five years ago. The increased affordability could spur additional households to switch from renting to owning. The economy may need to stabilize before additional households make this switch.

Homebuyer Affordability – Overall Market (2010 $)

- **June, 2006:**
  - **Median sale price** **$255,000**
  - **Market interest rate** **6.68%**
  - **Monthly housing payments (PITI)** **$2,140**
- **April 2011:**
  - **Median sale price** **$141,000**
  - **Market interest rate** **4.84%**
  - **Monthly housing payments (PITI)** **$1,024**

Source: Minnesota Housing based on data from the Minneapolis Area Association of Realtors and the Federal Reserve Bank.

As an example of the increased affordability – the monthly housing payment on a median priced home today is half the payment from five years ago.

They drop from $2,140 to $1,024.

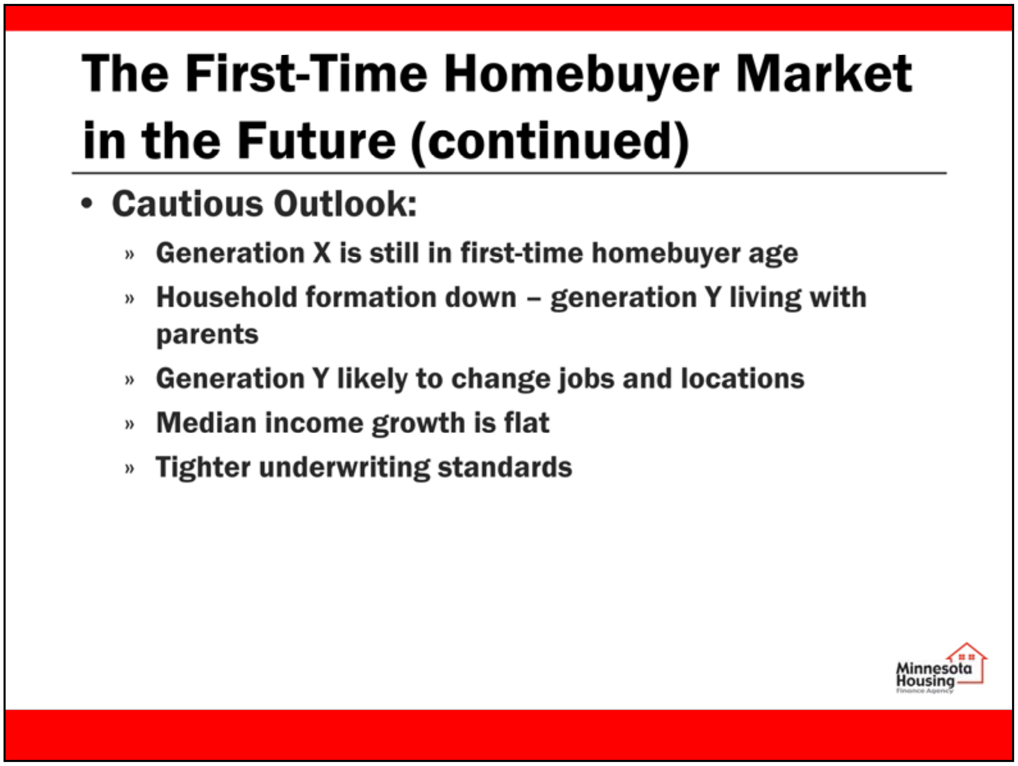
These figures are adjusted for inflation and apply to the overall market, including lender-mediated and short sales, which have brought down the median sales price/

Homebuyer Affordability – Traditional Market (2010 $)

- **June, 2006:**
  - Median sale price $256,000
  - Market interest rate 6.68%
  - Monthly housing payments (PITI) $2,149
- **April 2011:**
  - Median sale price $187,000
  - Market interest rate 4.84%
  - Monthly housing payments (PITI) $1,359

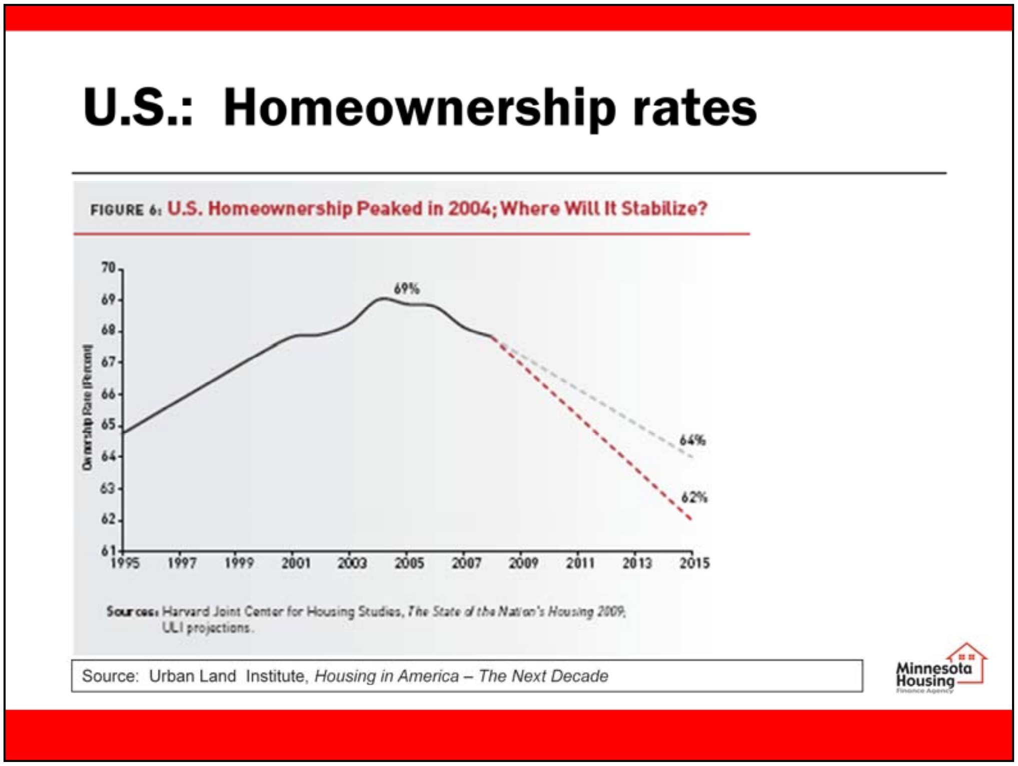
Source: Minnesota Housing analysis based on data from the Minneapolis Area Association of Realtors and the Federal Reserve Bank.

When lender-mediated and short sales are excluded and the data only capture traditional sales, the reduction in monthly housing payments is still dramatic – dropping from $2,149 to $1,359.



But there are reasons to be less optimistic about the future of the first-time homebuyer market:

- Generation X, which is a small age group, will still be in the first-time homebuyer cohort for several more years. As they move out of the first-time homebuyer cohort, they'll be replaced by generation Y; but this transition will take several years.
- Household formation is down. Generation Y (sometimes referred to as the Peter Pan generation) has a tendency to continue living with their parents. This may change with a revived economy.
- Generation Y may be less inclined to become homeowners for a couple reasons. First, some economists expect annual home appreciation rates to be only 3 or 4 percent over the next decade, meaning that homeowners will need to stay in their homes for at least 10 years to have home value appreciation cover the transaction costs of buying and selling a home. Second, generation Y is expected to be quite mobile switching jobs and locations, which would make staying in one home for ten years unfeasible.
- Median income growth is expected to be flat. Even with modest housing price appreciation, homeownership may once again become unaffordable to many.
- Underwriting standards – credit scores, down payment requirements, debt payment to income ratios – have become stricter, which has limited some renters from becoming homeowners.



With the trends on the previous slide, some people expect the homeownership rate in the U.S. to drop significantly.

Reading the Graph

- This graph shows actual and expected homeownership rates over time, as developed by the Urban Land Institute

Key Points

- Some people expect U.S. homeownership rates to drop below 65 percent by 2015, which is a level not seen since 1995.

Implications

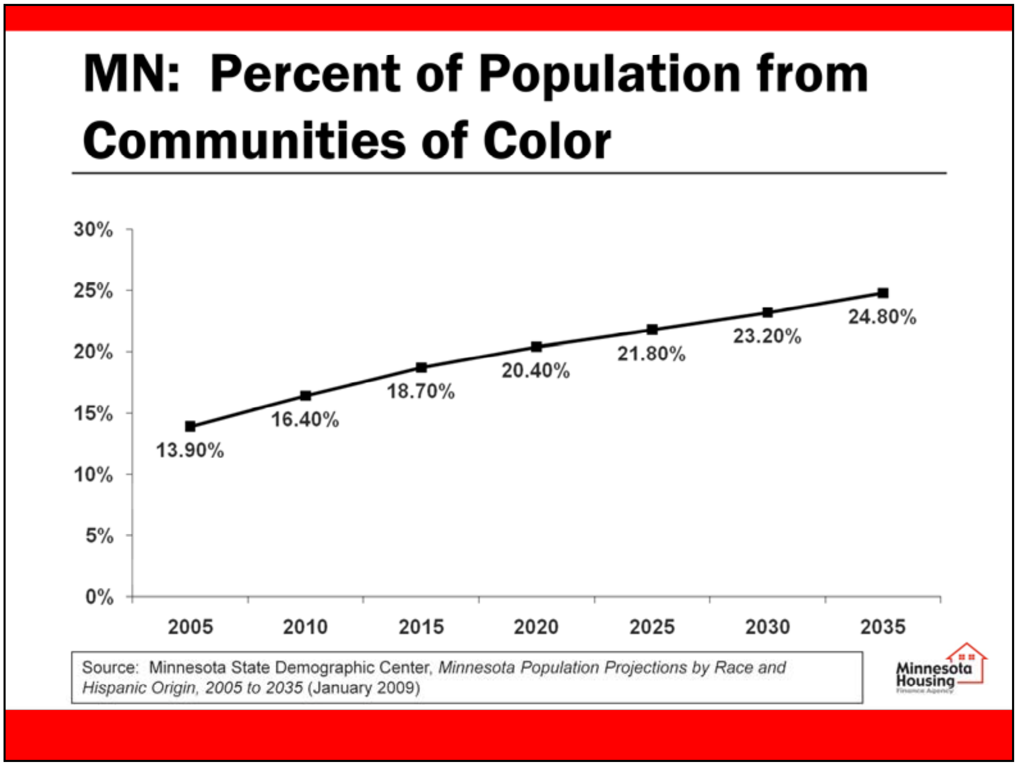
- Minnesota Housing needs to be cognizant of and track trends in homeownership, particularly first-time homeowners, because these trends and the factors driving them will affect demand for our primary revenue generator – single family mortgages for first-time homebuyers.
- A reduced homeownership rate may be appropriate from a societal perspective. Clearly some people got into homeownership over the last decade who should not have. Minnesota Housing wants to promote successful homeownership.

Discussion Item #3c: Key Trends

Increasingly Diverse Population

Minnesota Housing Finance Agency

Minnesota is becoming increasingly diverse, which is another key demographic trend.

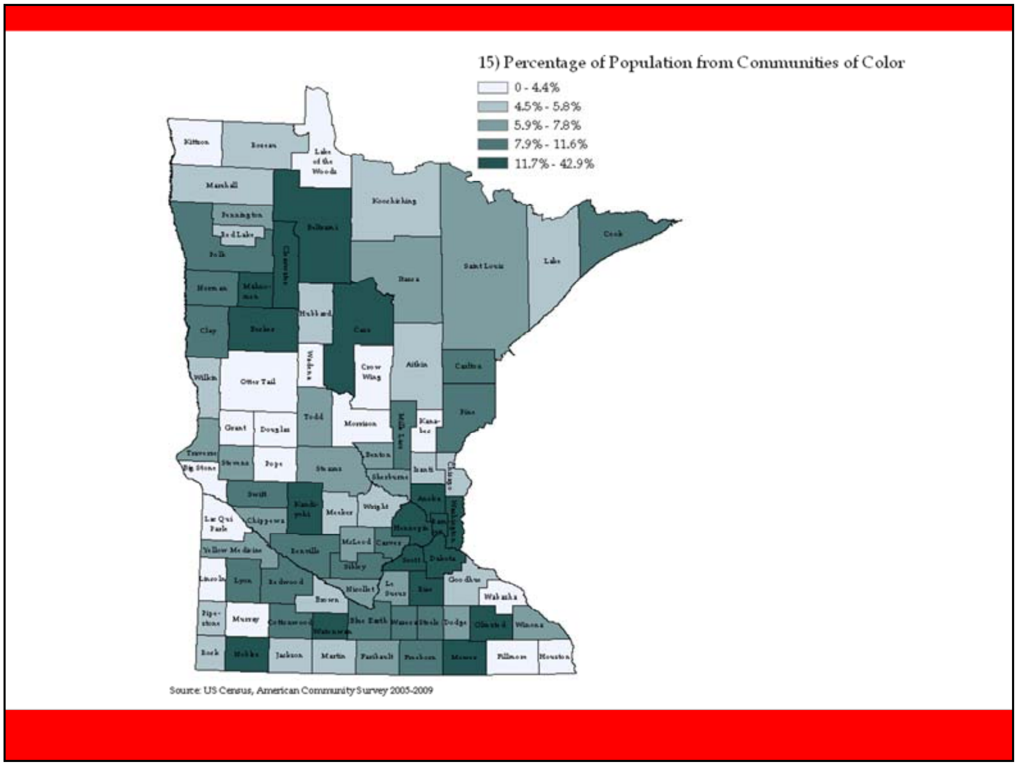


Reading the Graph

- This graph shows the percentage of the state's population that is expected to be from communities of color.

Key Points

- The percentage is expected to increase from 14 percent in 2005 to 25 percent in 2035.

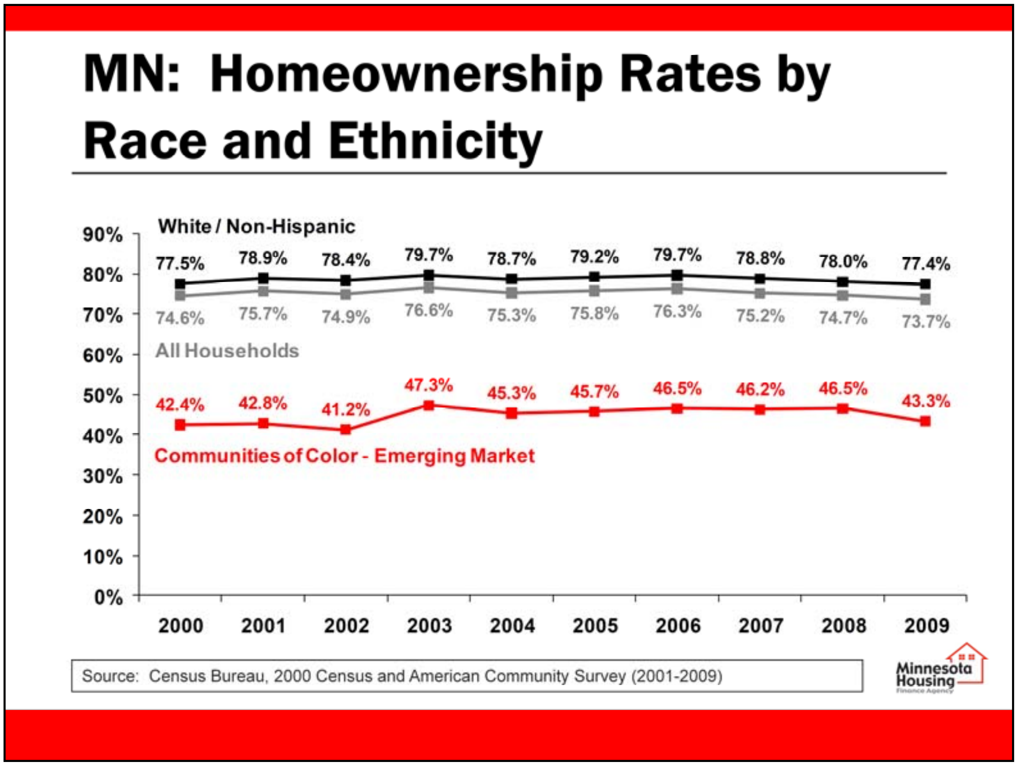


Reading the Map

- This maps shows the percentage of the population that is currently from communities of color by county.

Key Points

- Some counties are much more diverse than others.
- The county percentage ranges from 2 to 43 percent.



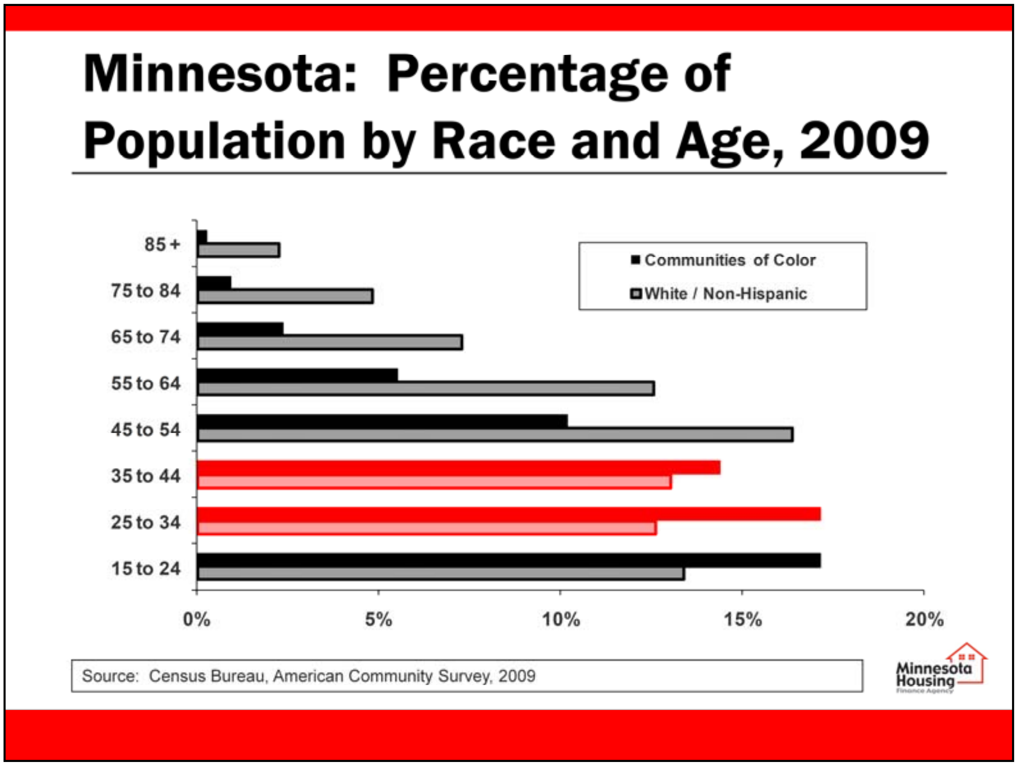
Most households of color are renters.

Reading the Graph

- This graph shows the state's homeownership rate over time, broken out by race and ethnicity.

Key Points

- While Minnesota has the highest homeownership rate in the county, we have the fifth largest gap between white/non-Hispanic households and households of color.



Even with an expected decline in homeownership, we have a clear opportunity to decrease the homeownership disparity between white/non-Hispanic households and households of color.

Reading the Graph

- This graph is similar to the earlier one that showed the state's population by age. However, this graph is broken out by race and ethnicity and shows the percentage of the population in each age group, rather than the actual number.
- The first-time homebuyer age group (25 to 34) is highlighted in red.
- Households of color are shown in the solid bars (black or red), and white/non-Hispanic households are shown in hatched bars.
- Looking at the 25 to 34 year olds, the graph shows that 17.2 percent of the communities of color population is in this age group (see the bottom red bar) and that only 12.6 percent of the white/non-Hispanic population is in this age group (see the bottom hatched red bar).

Key Points

- The age distribution for communities of color is very different than the one for white/non-Hispanic households. While the largest age group for white/non-Hispanic population is 45 to 54 (the younger half of the baby-boom generation), the largest age groups for people of color are 25 to 34 (the prime first-time homebuyer population) and 15 to 24 (the group entering their prime home buying age over the next decade).

Implications

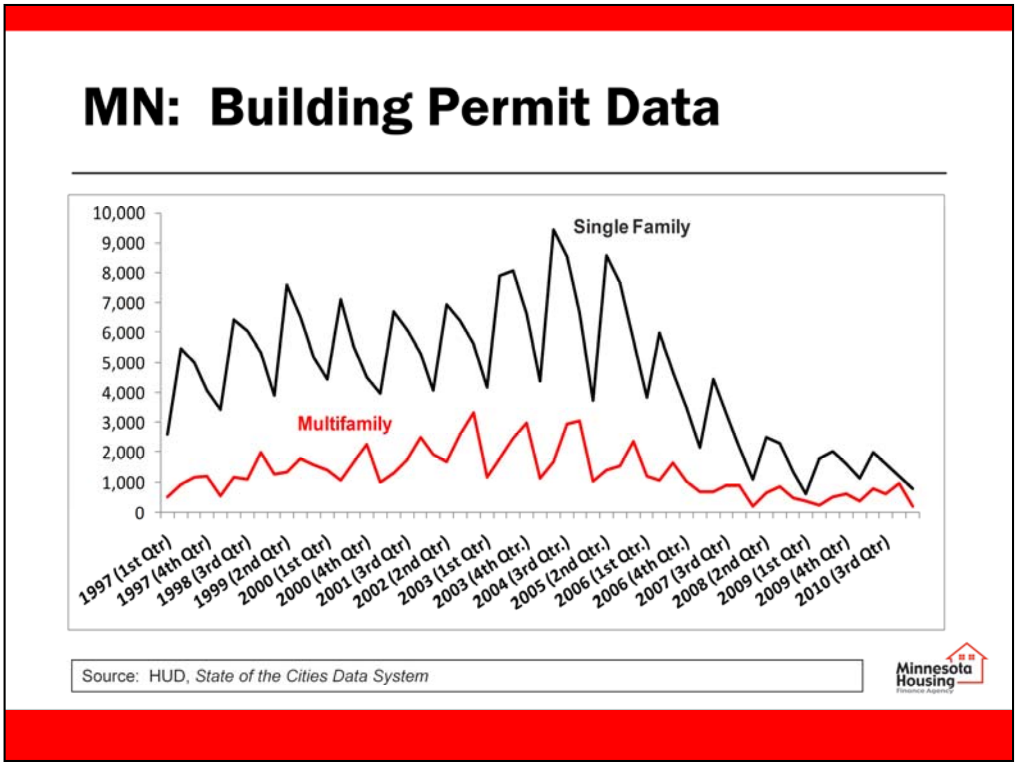
- Regardless of policy priorities and from purely a demographic perspective, households of color are going to become a greater share of our market.

Discussion Item #3d: Key Trends

New Construction: Rental Housing May Start to Recover in Near Future

Minnesota Housing Finance Agency

As the economy recovers, we'll likely see a recovery in rental construction.

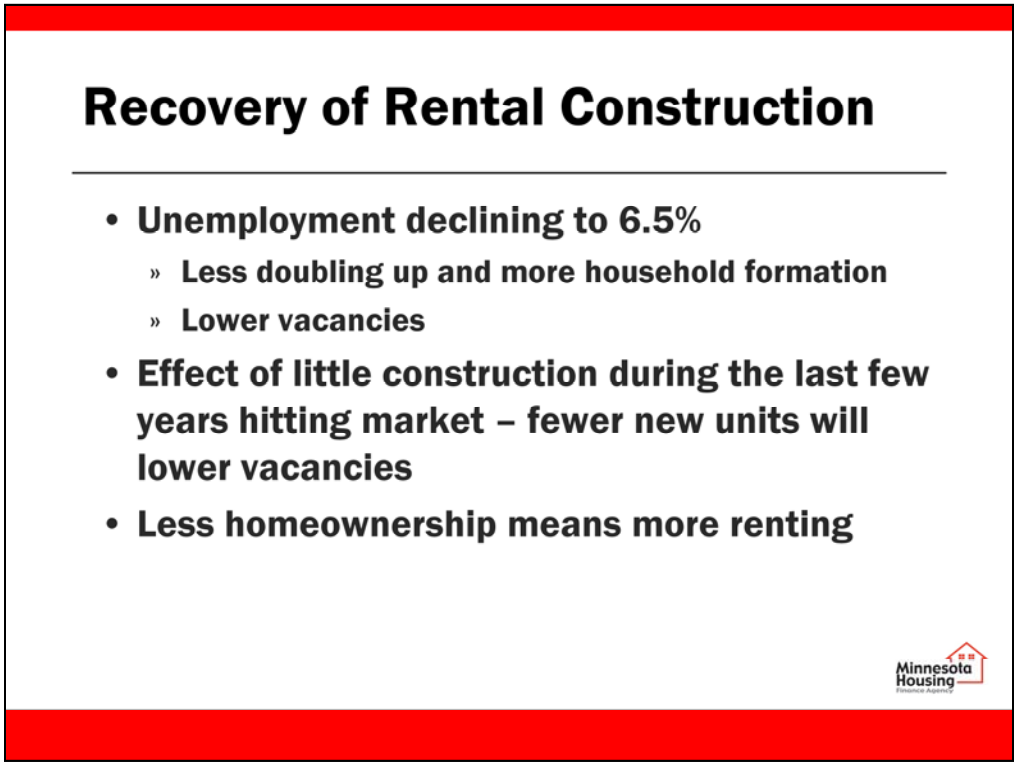


Reading the Graph

- This graph shows the number of building permits issued for single and multifamily construction over the last 13 years.

Key Points

- During the current economic downturn, there has been a dramatic decrease in the level of both single family and multifamily construction, as measured through building permits.
- For example, in the 4th quarter of 2005, permits for over 3,000 multifamily units issued, while in the 4th quarter of 2010, permits for roughly 950 multifamily units were issued.



We may see recovery in rental construction in the not too distant future.

Key Points

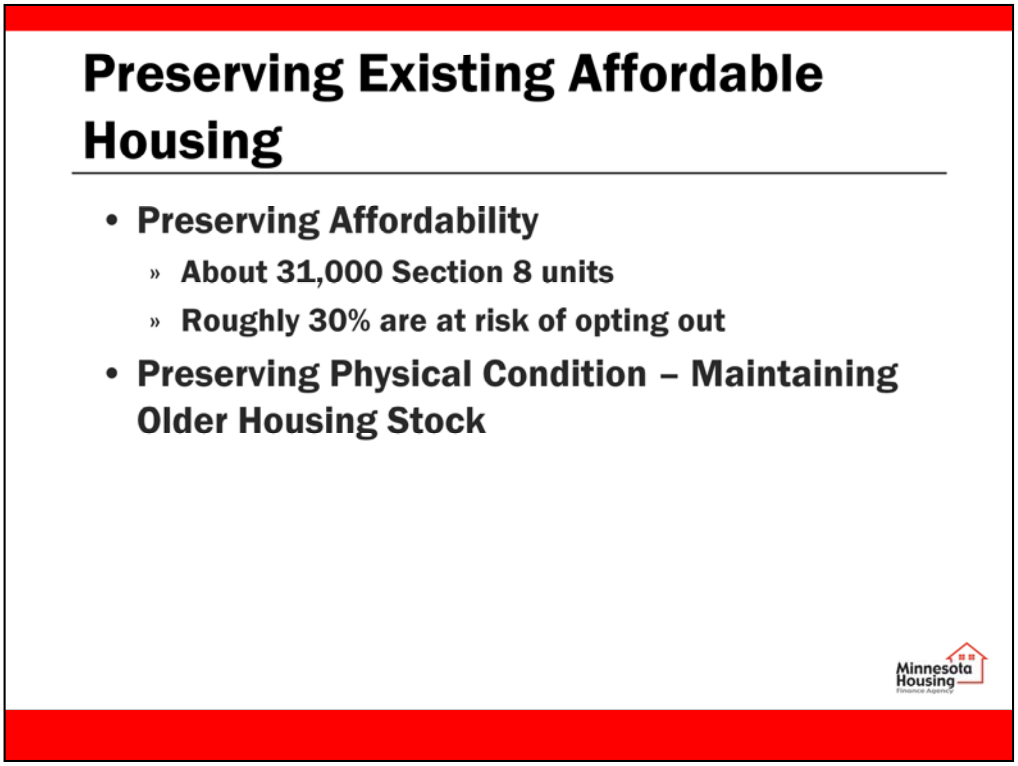
- With unemployment getting closer to 6 percent, we'll see less doubling up and lower vacancy rates, which is already occurring
- With very limited new construction over the last few years, very few new units are coming on the market, which will also lower vacancies.
- The reduction in homeownership discussed in previous slides means an increase in renting. Some of the increased renting may occur in single-family detached homes, but some will likely occur in multifamily housing.

Discussion Item #3e: Key Trends

Preservation: Maintain Existing Stock of Affordable Housing

Minnesota Housing Finance Agency

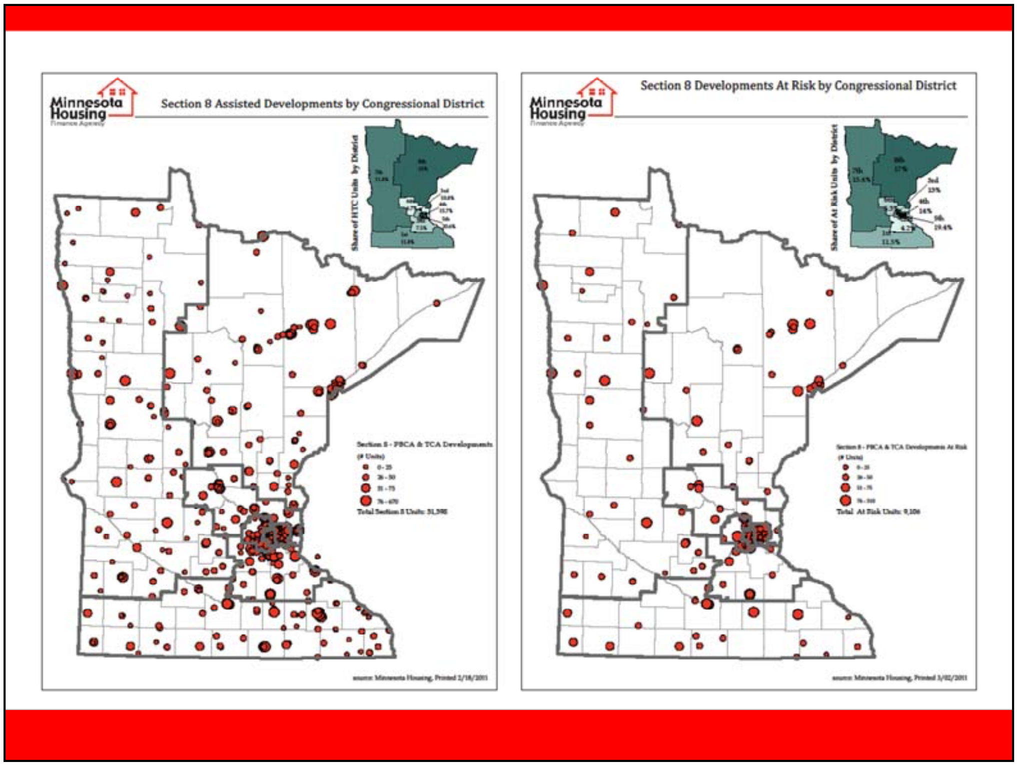
While new rental construction may become a growing demand, preservation will continue to be a key priority.



Key Points

- Based on a preliminary and rough assessment, Minnesota housing staff estimate that approximately 30% of the state's 31,000 Section 8 units are at risk of opting out of the program in the next five years.

- The state also has an aging housing stock. Owners need to maintain the physical condition of this stock. Working with owners to find solutions will be an important agency priority.

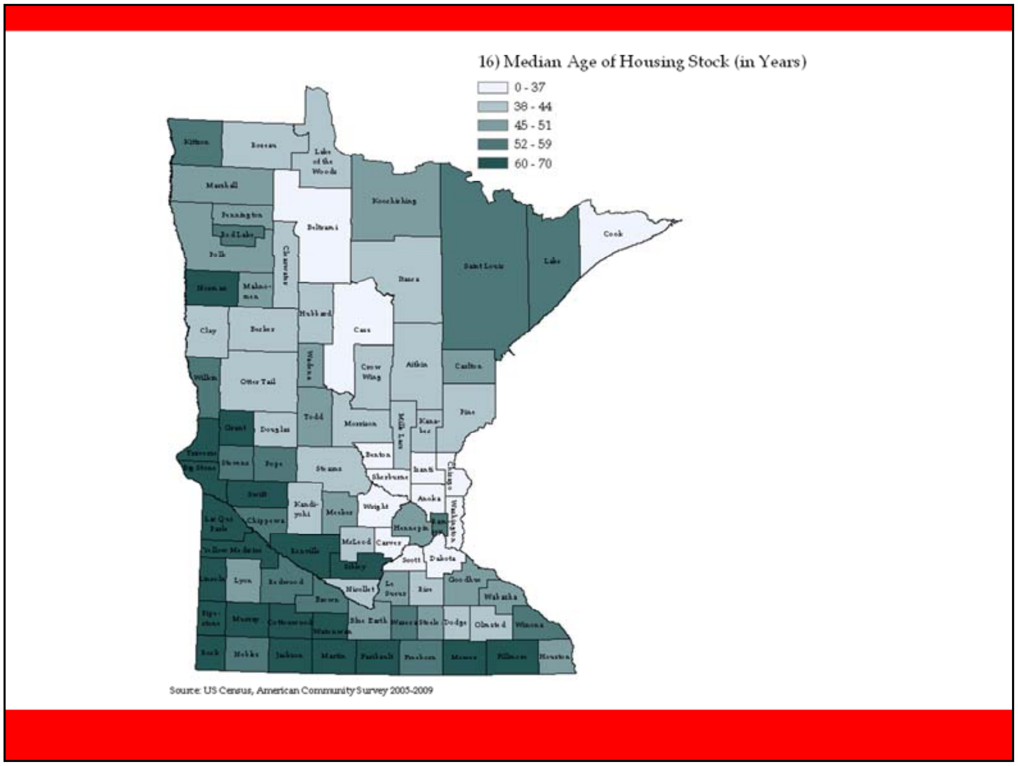


Reading the Graph

- The left map shows all the Section 8 properties in the state.
- The right map shows the at-risk properties.

Key Points

- The at-risk properties and units are located throughout the state.



Reading the Map

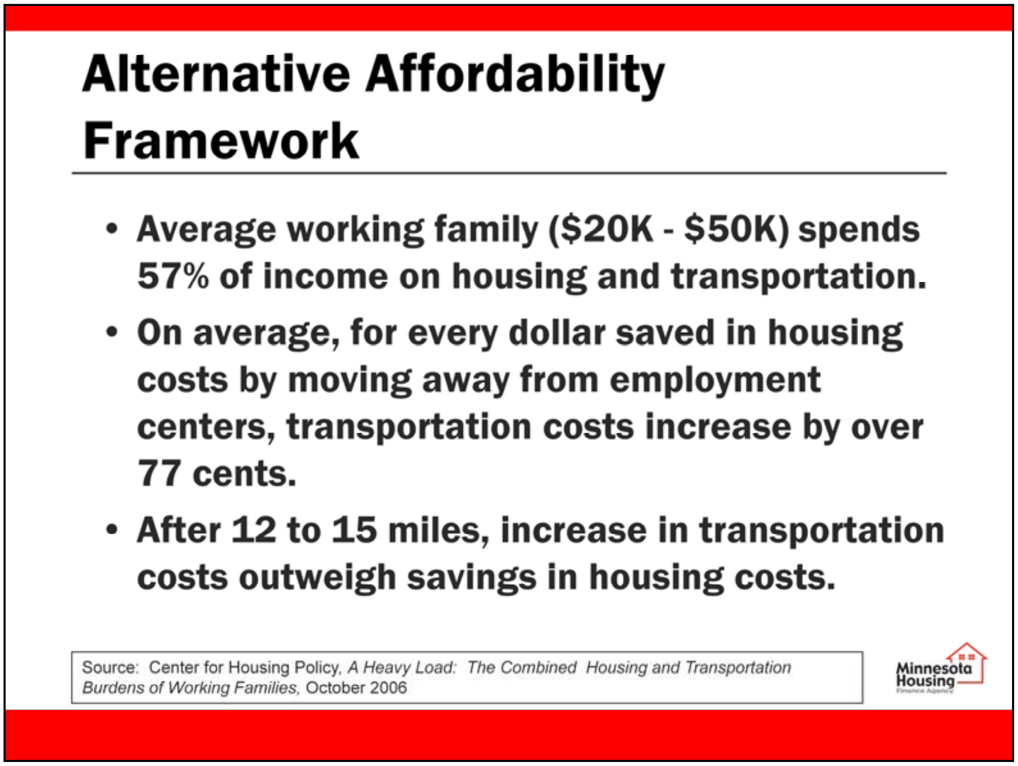
- This maps shows the median age of the housing stock in each county.

Key Points:

- The housing stock has a median age of more than 60 years in several parts of the state, particularly the southwest.

Another key trend is the recognition that we need to consider both housing and transportation costs when we think about affordability.

To reduce transportation costs, it is important to locate affordable housing near the places that lower-income workers are employed or near public transportation.



Key Points

- The average working family spends about 57 percent of their income on housing and transportation.
- Some families move away from employment centers to find more affordable housing. However, this often not cost effective.
- On average, for every dollar saved in housing costs by moving away from an employment center, transportation costs increase by over 77 cents.
- In fact, after 12 to 15 miles, increases in transportation costs typically outweigh savings in housing costs.

Implication

- To minimize overall cost burdens, Minnesota Housing needs to locate affordable housing where lower-wage workers are employed or near public transportation.

Overall Conclusions

- Until the economy recovers and the foreclosure crisis subsides, our external environment will be remain unstable.
  - » Need to be flexible and respond quickly to changes
- We will have limited and shrinking resources to deal with a growing affordable housing problem.
  - » Need to be more strategic and targeted in our resource allocation.

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Overall Conclusions (continued)

- Baby boomers, generation Y, and communities of color will have a big impact on our operations.
  - Need to understand their housing needs and behaviors.
- Homeownership rates will likely decline, and the rental market is tightening.
  - Need to determine where resources can be best utilized to provide affordable choices.

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Overall Conclusions (continued)

- Preservation is critical.
  - » Need to maintain existing affordable housing stock – not just rent subsidies but also physical conditions as affordable stock ages.
- Housing plus transportation costs
  - » Need to locate housing near jobs or public transportation.
- Minnesota is not monolithic. Housing needs vary by region.
  - » Need to account for regional differences when developing agency priorities and strategies.

Minnesota Housing

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