Draft Chart Book:
Key Housing Needs and Issues

05/03/2023

Key Housing Needs and Issues

1. There is severe shortage of housing that is affordable, with one in four households being cost burdened by their housing payments. (p. 4)
2. During and following the Great Recession, Minnesota underproduced housing, which created a shortage and has driven up rents and home prices. (p. 16)
3. Minnesota is falling far short of producing enough new housing that is affordable. (p. 23)
4. Minnesota has a large stock of affordable housing that needs to be preserved. (p. 27)

This report is a chart book that highlights seven key housing needs and issues in Minnesota. It provides a lot of information, but readers can review it at various levels of detail. The charts are largely self explanatory so they can be reviewed quickly; however, for those who want to study them more closely, each chart includes explanatory notes and additional context in the text below the chart.

For readers who would like to use the chart book as a reference document and jump to a specific need or issue, the list of needs and issues on this page and the next includes the page number on which each sections starts.

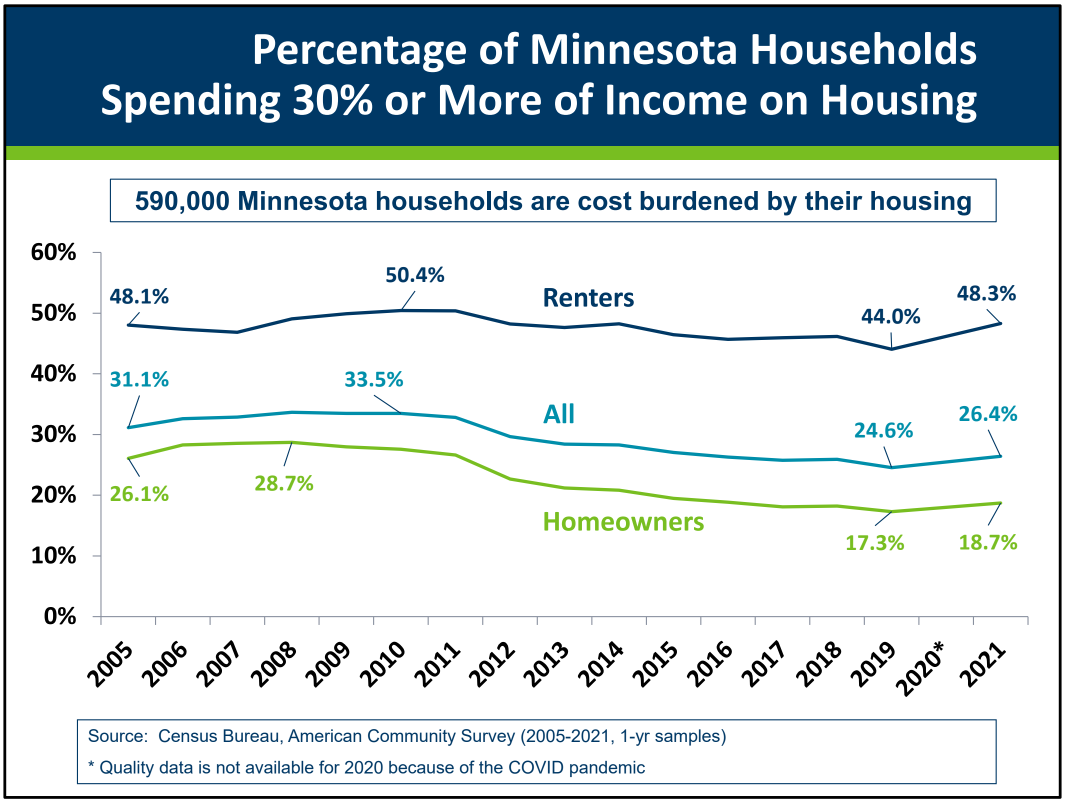
Key Housing Needs and Issues (continued)

5. Homelessness is the most egregious form of housing instability and a persistent problem. (p. 31)
6. Minnesota is becoming more racially and ethnically diverse, and the state has unacceptable housing disparities. (p. 35)
7. The aging baby boom generation is creating housing needs and challenges. (p. 43)

Need/Issue #1

There is severe shortage of housing that is affordable, with one in four households being cost burdened by their housing payments.

.



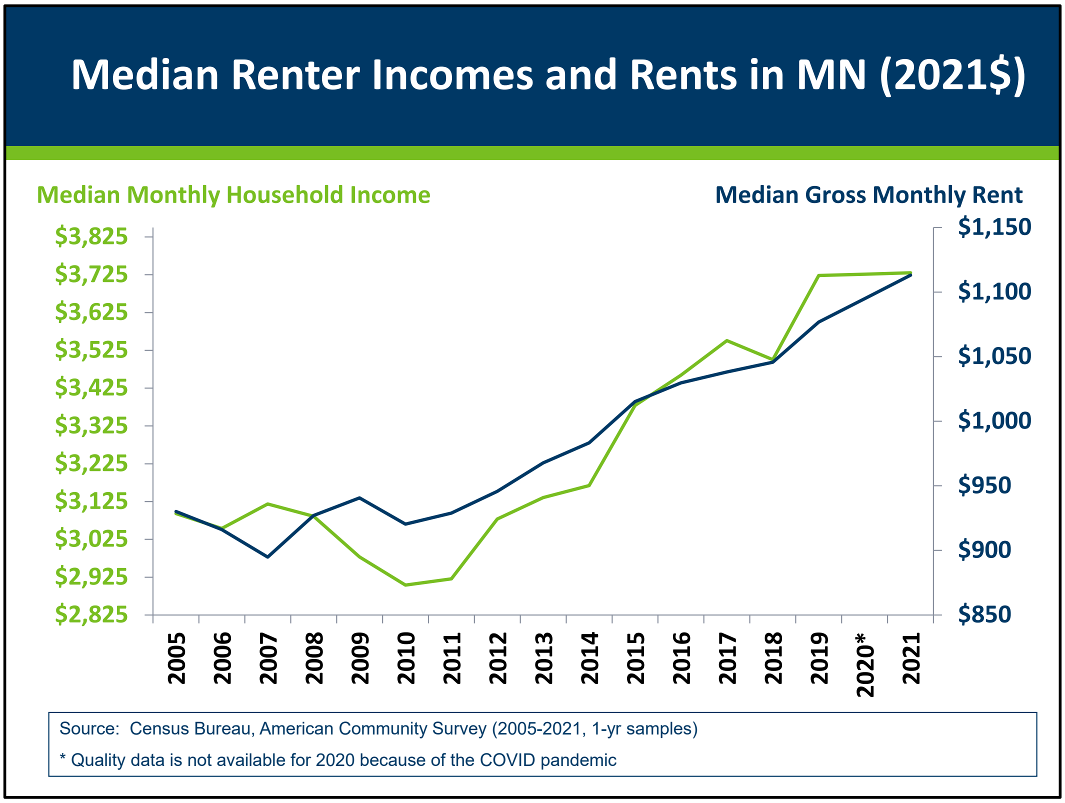
This graph shows the percentage of Minnesota households that were cost burdened over the last 16 years, spending 30% or more of their income on housing.

Key Points:

- Over a half a million Minnesota Households are cost burdened.
- The share of all households that are cost burdened (light-blue line) initially increased from 31% to over 33%between 2005 and 2010 but then declined to less than 25% by 2019. In the last two years, it increased to over 26%.
- The share of renters who are cost burdened (dark blue line) has gone up and down since 2005 but is now back to 48%, the level it was in 2005.
- The share of homeowners (green line) has largely declined from 29% to 19% in the last decade and a half.

Implications:

- Being cost burdened is a pervasive problem, affecting hundreds of thousands of households.
- The cost-burden situation is more severe for renters, with nearly half lacking housing that is affordable for them.



The share of households that are cost burdened is driven by housing costs and income. To drill down into the relationship between the two, this chart brings them together for renters.

Reading the Graph:

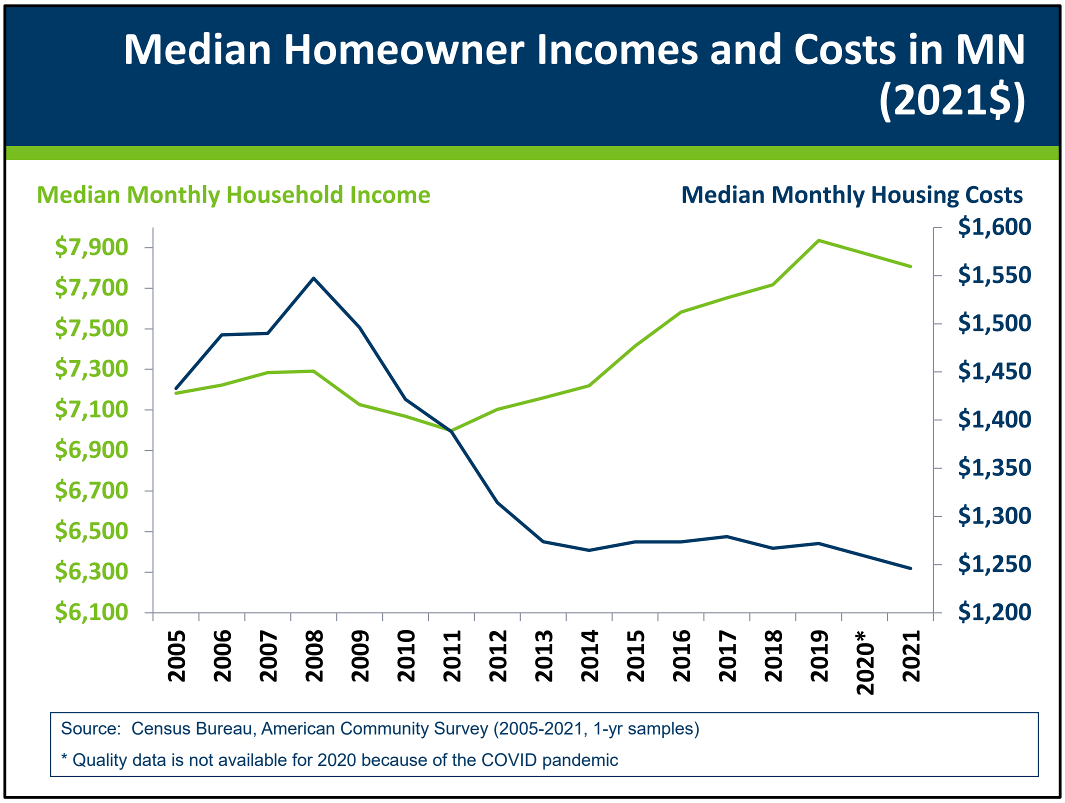
- The figures in the chart are all adjusted for inflation, presenting all the data in 2021 dollars.
- This graph has two vertical axes – one on the left and one on the right. The green income numbers on the left apply to the green line, and the blue rent amounts on the right apply to the blue line.

Key Points:

- Excluding some short-term differences, increases in median incomes largely kept pace with and offset increases in median rents.

Implications:

- Since income increases have essentially matched rent increases since 2005, the share of cost-burdened renters has not changed much since 2005, staying around 48%, as shown in the previous chart.



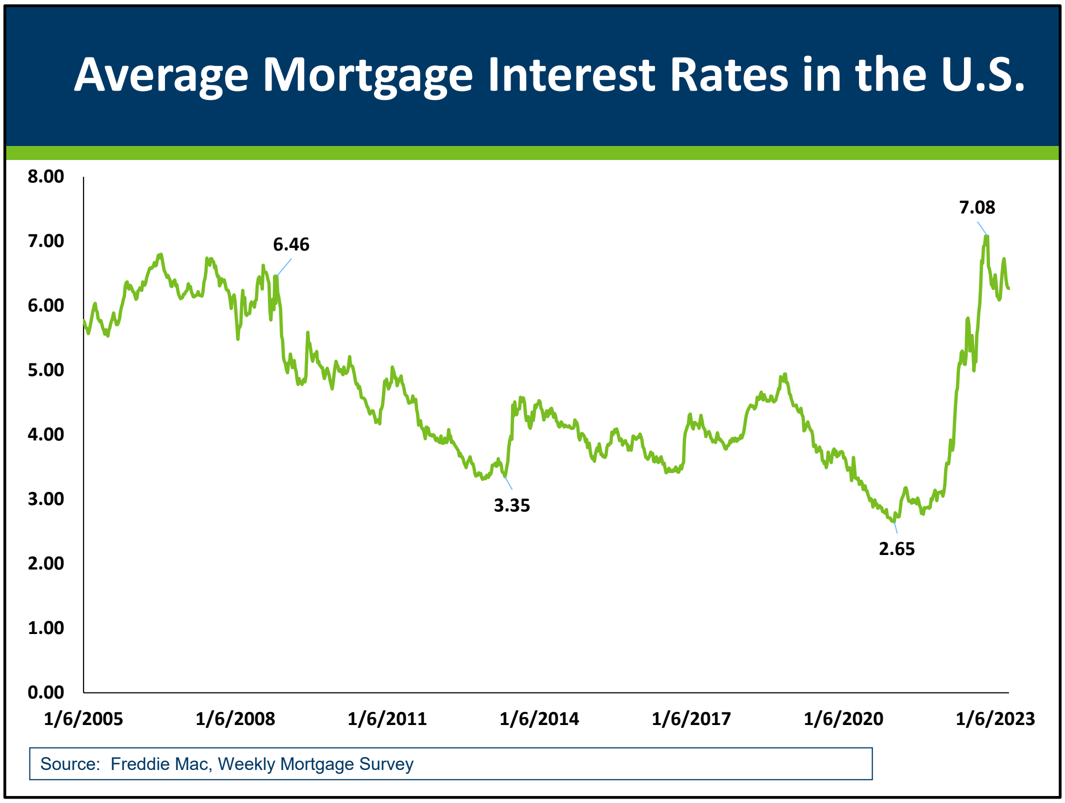
This graph has the same setup as the last one but has homeowner data.

Key Points:

- Median homeowner incomes (green line) dropped during the Great Recession (2008 through 2011), but increased significantly after that, until the last two years (2020 and 20021).
- In contrast, homeowner costs (blue line) dropped significantly from 2008 to through 2013. Data provided later in this report will show that home prices dropped substantially during the Great Recession but have increased significantly since then. The decline in monthly homeownership costs was largely driven by a significant decline in mortgage interest rates to historic lows. This not only made mortgages for new homeowners more affordable, but it lowered the mortgage costs for existing homeowners, who refinanced their mortgages at the lower rates. The low interest rates through 2021 kept mortgage costs low since 2013.

Implications:

- Rising homeowner incomes and lower homeowner housing costs (largely driven by historically low interest rates) resulted in a smaller share of homeowners being cost burdened.



As described on the previous page, interest rates play key role in homeownership costs. This chart shows the average interest rate in the U.S. for a 30-year fixed-rate mortgage from the start of 2005 through mid-April of 2023.

Key Points:

- Mortgage interest rates dropped from about 6.5% in the fall of 2008 to 3.3% in the spring of 2013. The timing of this decline aligns with the sizable drop in homeowners costs shown in the previous chart.
- Mortgage rates went up and down after that but reached new lows in 2021, staying below 3% most of that year.
- In the first six months of 2022, rates shot up, making homeownership much more expensive, which has yet to show up in homeownership cost data shown in the previous chart, which only has data through 2021.

Implications:

- Going forward, homeownership will be more expensive than it was the past few years. The monthly mortgage payment (principal, interest, taxes and insurance) on a $250,000 mortgage is $1,700 when the interest rate is 3%, but jumps to $2,150 when the interest rate is 6%. That is nearly $6,000 more each year.

How the Housing Industry Assesses and Talks About Income

- If an area's median income (AMI) is $100,000, 50% of AMI is $50,000.
- AMIs vary by household (HH) size and location (typically county).
- Income levels:
  - 80% of AMI is classified as low income
  - 50% of AMI is classified as very low income
  - 30% of AMI is classified as extremely low income
- The following table shows a couple examples of 30% of AMI and the poverty guidelines for comparison. The poverty guidelines do not vary by location.

Location	2022 30% of AMI		2022 Poverty Guidelines	
	3-Person HH	5-Person HH	3-Person HH	5-Person HH
Twin Cities Metro	$31,700	$38,050	$23,030	$32,470
Aitkin County	$23,030	$32,470		

Source: U.S. Department of Housing and Urban Development (HUD).

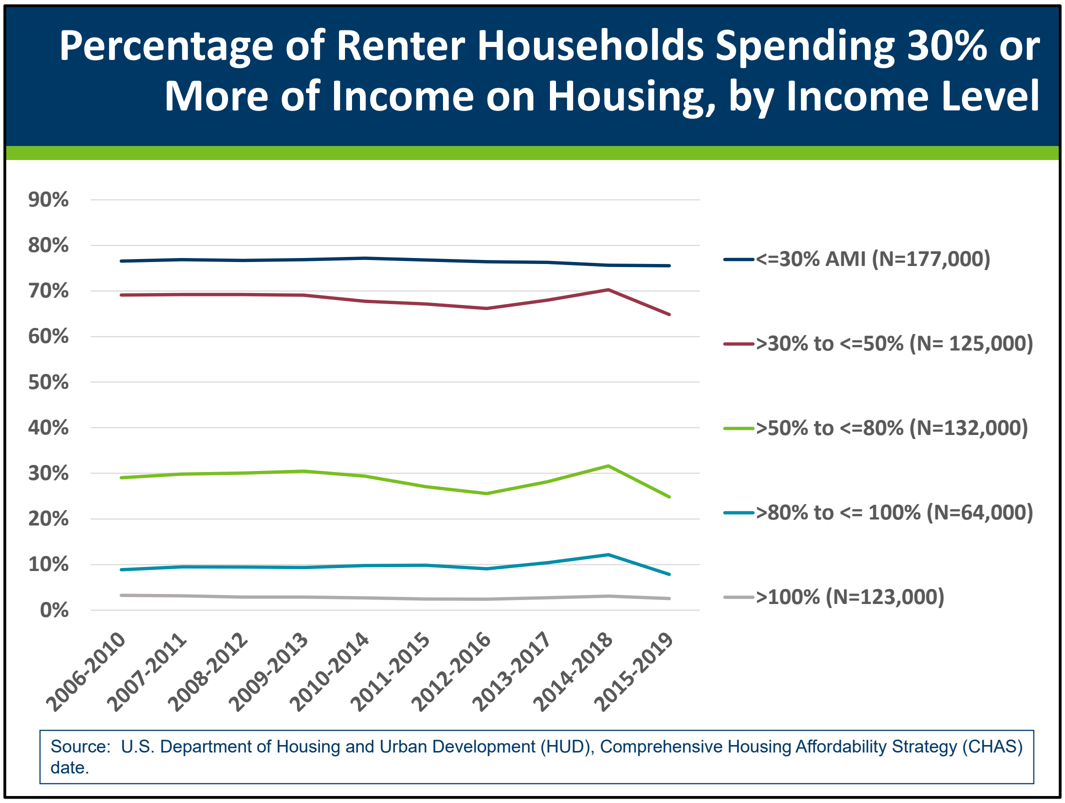
For the next few charts, we're going to look at the share of households that are cost burdened at various income levels, but first, we need to describe how the housing industry assesses and talks about income.

In the housing industry, household income is typical talked about as a percentage of the area median income or AMI. Most housing programs' eligibility and income limits are set at a percent of AMI; for example, the income limit for apartments financed with Low-Income Housing Tax Credits is generally about 60% of AMI. Housing that is considered deeply affordable has rents that are affordable to people with incomes at below 30% of AMI. Eligibility for Minnesota Housing's first-time homebuyer mortgage is set at 100% of AMI.

AMIs vary by household size and location. For context, an income at 30% of AMI is at or a little a above poverty, depending on the county and household size.

Across Minnesota, the AMIs in the Twin Cities Metro are the highest, and the AMIs in Aitkin County (and some of the other lowest income counties) are the lowest. These two examples provide the range of incomes at 30% of AMI across the state.

The AMI information provide here provides context for the next couple charts, which show the share of renters and homeowners who are cost burdened at various income levels.



This chart shows the percentage of renter households in Minnesota that were cost burdened over the last 10 years, broken out by income level.

In the legend for the chart, the "N" refers to the number of Minnesota renter households at the respective income level. For example, there are 177,000 renter households with annual incomes at or below 30% of AMI.

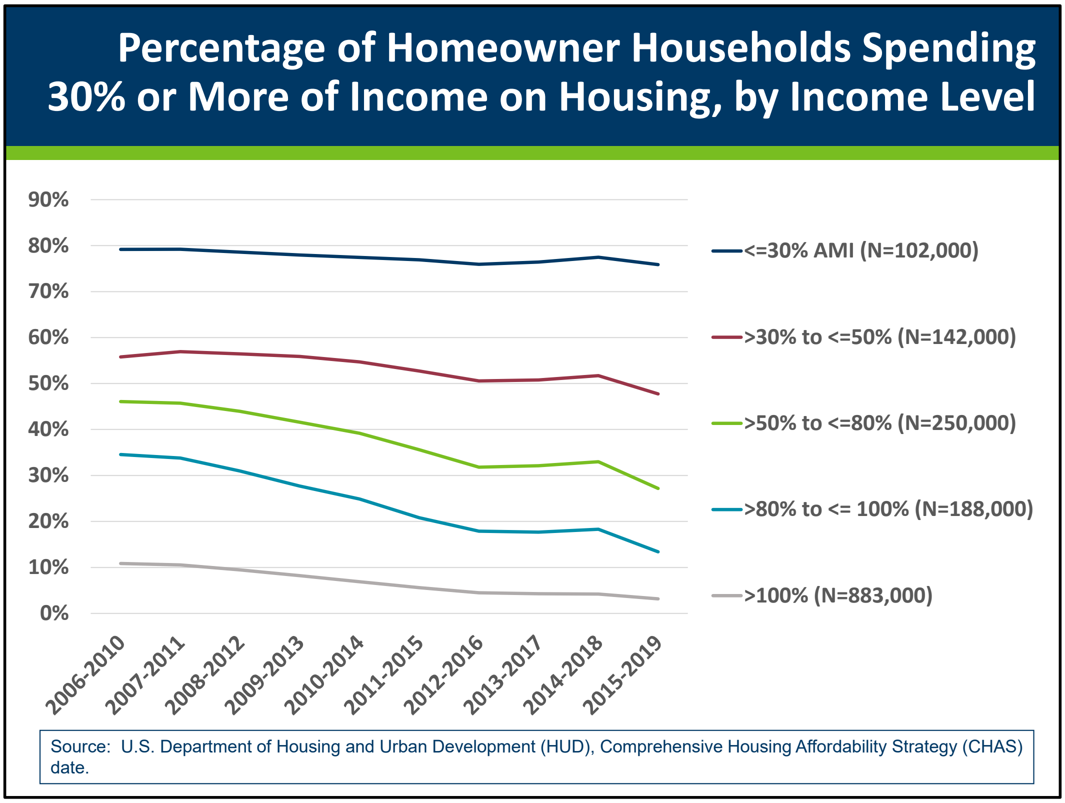
In this graph, the most recent data is from 2019, which a bit old. This data comes for a special analysis that HUD does of data from the Census Bureau's American Community Survey and takes some time to prepare, which creates the delay.

Key Points:

- The lower the income level, the larger the share of the households who are cost burdened:
    - 76% of renters with incomes at or below 30% of AMI are cost burdened.
    - Only 3% of renters with incomes over 100% of AMI are cost burdened.
- Across all five income levels, the share of renters who are cost burdened remained quite stable over the ten years.

Implications:

- The lowest income renters (30% of AMI) are 25 times more likely to be cost burdened than renter households with incomes above 100% of AMI.
- While the cost burden problem has not gotten worse across all income levels, it is a critical issue for renter households with incomes at or below 50% of AMI. The vast majority of the these households struggle to pay their rent.



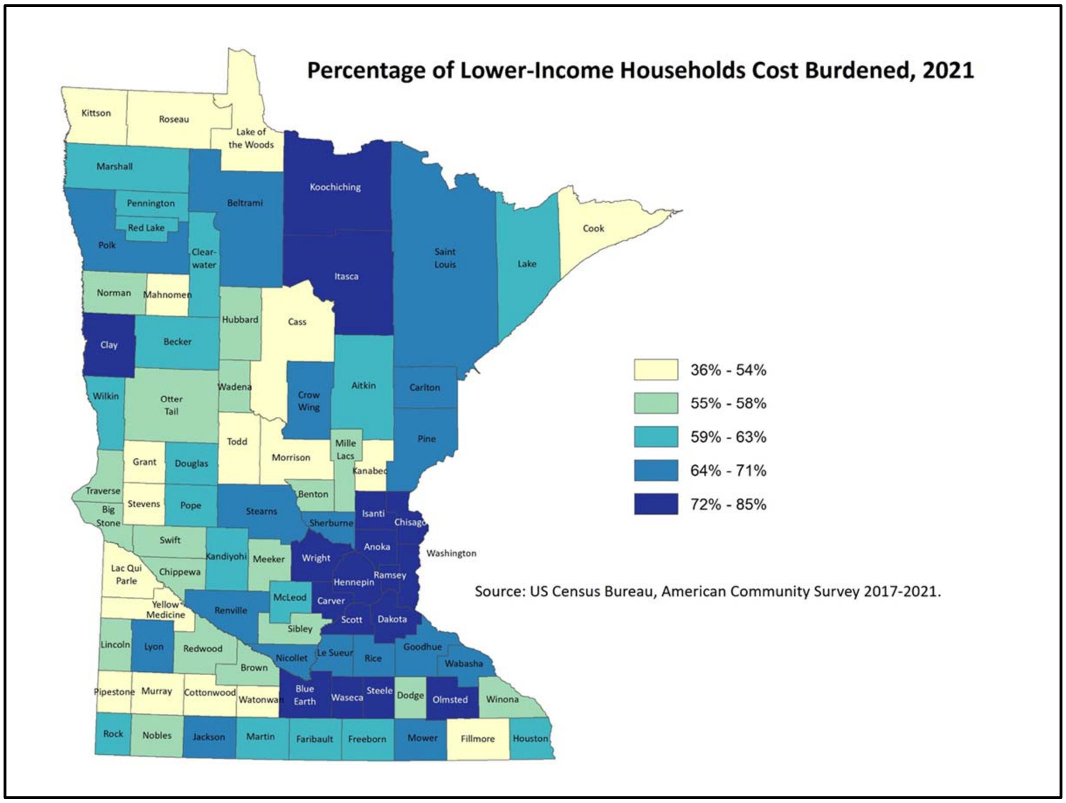
This chart shows the percentage of homeowner households in Minnesota that were cost burdened over the last 10 years, broken out by income level.

Key Points:

- Again, the lower the income level, the larger the share of the households who are cost burdened:
    - 76% of homeowners with incomes at or below 30% of AMI are cost burdened.
    - Only 3% of homeowners with incomes over 100% of AMI are cost burdened.
- However, unlike the renter data, the cost-burden picture improved over the last decade for all the income groups, but just marginally for the lowest income households.
    - The share of cost-burdened households declined from 79% to 76% for homeowners with income at or below 30% of AMI.
    - In contrast, the cost-burdened share declined from 35% to 13% for households with incomes between 80% and 100% of AMI.

Implications:

- The lowest income homeowners (30% of AMI) are 25 times more likely to be cost burdened than homeowner households with incomes above 100% of AMI.
- Given the rise in mortgage interest rates in the last year, the ongoing improvement in the share of homeowners households that are cost burdened is unlikely to continue.



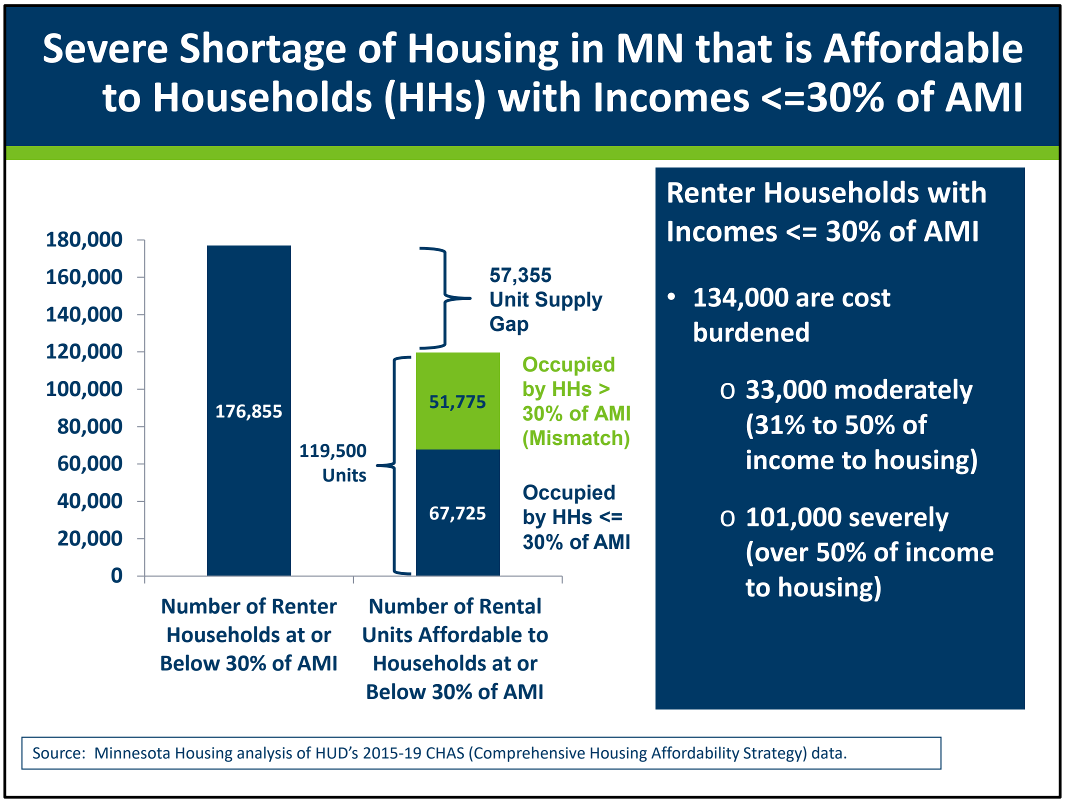
This map shows by county the percentage of lower-income households (annual income less than $50,000) that are cost burdened, spending more than 30% of income on housing.

Reading the Map and Key Points:

- The percentage varies from 36% to 85%.
- The highest percentages are in the areas around the some of the state’s largest cities (Minneapolis, St. Paul, Rochester, Mankato, and Moorhead), and the lowest percentages are in the western part of the state. The north central part of the state (Koochiching and Itasca counties) also has high rates.
- Even in the county with the lowest percentage, over one-third of lower-income households have unaffordable housing costs.

Implications:

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



This chart helps explain why so many renter households with incomes at or below 30% of AMI in Minnesota are cost burdened by showing the large shortage of rental housing that is affordable at this income level.

Reading this Graph:

- The first bar on the left shows there are 176,855 renter households in Minnesota with incomes at or below 30% of AMI.
- The next bar shows there are just under 119,500 housing units in Minnesota with rents that are affordable at this income level.
    - The blue bottom part of this bar shows that 67,725 of these affordable units are occupied by households at this income level.
    - The green top part of this bar shows that 51,775 of these affordable units are occupied by households with incomes above 30% of AMI.

Key Points:

- There is an outright shortage of 57,355 units affordable to households with incomes at or below 30% of AMI.
- This shortage is made worse by the fact that 51,775 of the 119,500 affordable units are occupied by higher income households, making those affordable units unavailable to the lowest income households.

Implications:

- Because there is a severe shortage of affordable rental units available to renter households with incomes at or below 30% of AMI, 134,000 of these lowest-income households are cost burdened by their housing, spending 30% or more of their income on it. In addition, over 101,000 of these households are severely cost burdened, with over half of their income going to housing.
- On top of that, 81,000 renter households with incomes between 31% and 50% of AMI are cost burdened. (Not shown in the graph, but provided for additional context.)
- For Minnesotans to be stably housed, the state needs far more rental units affordable at 50% of AMI, with a priority on 30% of AMI.

What is Needed to Stably House the Lowest-Income Renters?

- Minnesota has 215,000 renter households with incomes at or below 50% of the area median income who spend more than 30% of their income on housing.
- Providing rental assistance to all these households to cover the difference between what these households pay in rent and what they can afford (30% of their income) would annually cost roughly $2.0 billion, $1.8 billion in assistance and $200 million in administrative costs.

Source: Minnesota Housing modeling based on data primarily from the Census Bureau's 2020 American Community Survey (5-Year Sample, IPUMS microdata) and payment standard data from Public Housing and Housing Redevelopment Authorities.

Providing rent assistance to all renter households with income at or below 50% of AMI who are cost burdened would annually cost roughly $2 billion ($1.8 billion in assistance and $0.2 billion in administrative costs). The base annual appropriations for the three rental assistance programs funded by the state (Housing Trust Fund, Bridges and Homework Starts with Home) has been just a combined $30 million.

What is Needed to Get Lower-Income Homebuyers into Affordable Homes?

- In 2022, the median income of households buying homes with a first-time homebuyer mortgage from Minnesota Housing has just $62,400.
- At spring 2023 interest rates (6.25%), this household could afford a $200,00 home.
- As of March 2023, the median home sales price in Minnesota was $320,000, with roughly 16% of the homes selling in 2022 for less than $250,000 and only 7% selling for less than $200,000.
- Assuming a $250,000 home can be found, there is still $50,000 affordability gap between this price and the $200,000 home that a lower-income homebuyer can afford.
- It would cost $500 million to annually provide an average $50,000 affordability gap subsidy to 10,000 homebuyers.

Affordability is based on an interest rate of 6.25%, 3.5% down, a front-end ratio of 32%, an average effective property tax rate of 1.42%, 1% mortgage insurance, and monthly homeowner's insurance equal to $50 per $100,000 of value.

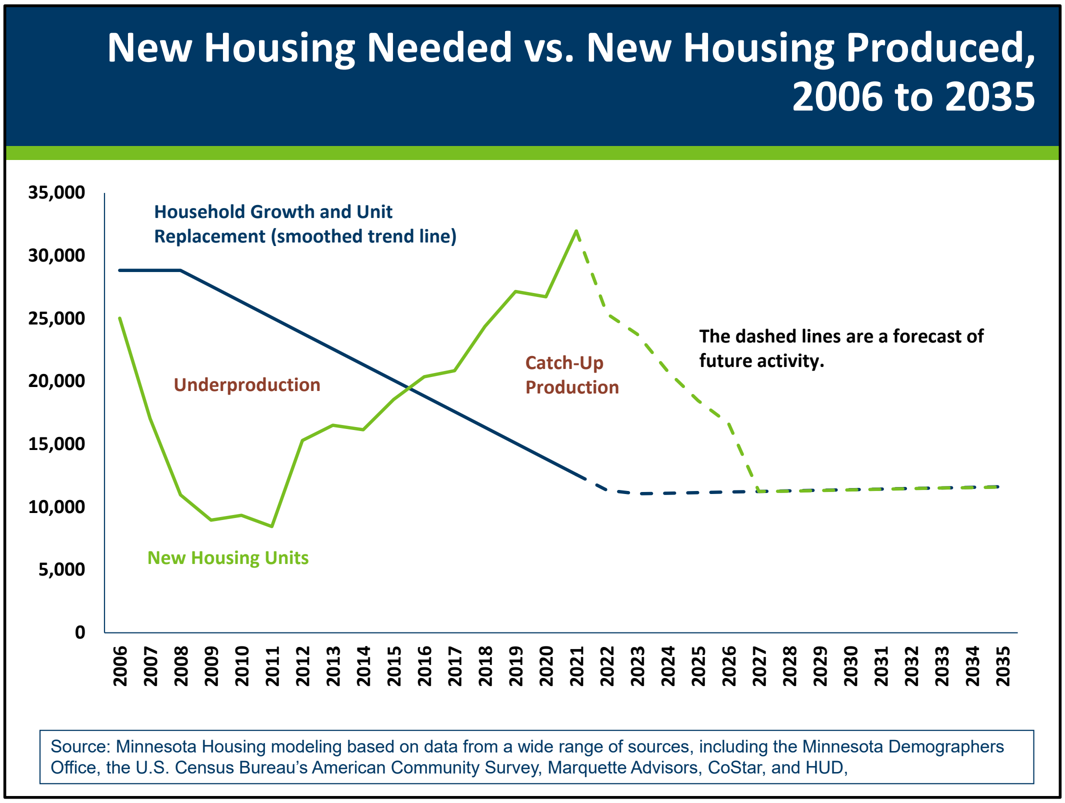
In many ways, homeownership is the most stable form of housing. Monthly housing payments are generally stable and predictable (other than large property tax increases). The owner can build equity and wealth, has more control over their living situation, and has an investment in neighborhood. However, homeowners have to pay for upkeep and repairs of their homes, which can include large unexpected costs.

Increasing homeownership for low- and moderate-income Minnesotans is costly. The average subsidy needed to get lower-income households into homeownership in the current market is likely $50,000 or more. Assisting 10,000 homebuyers each year would annually cost $500 million.

Need/Issue #2

During and following the Great Recession, Minnesota underproduced housing, which created a shortage and has driven up rents and home prices.

Housing production has increased, but Minnesota still has not caught up and overcome the under production between 2006 and 2016. We still have a shortage of about 50,000 housing units.



The root cause of Minnesota's rising home prices and rents is the underproduction of housing between 2006 and 2016. This chart compares the need for new housing with what is produced. Since the Great Recession and its aftermath, Minnesota as been playing catch up with respect to housing production.

Reading this Graph

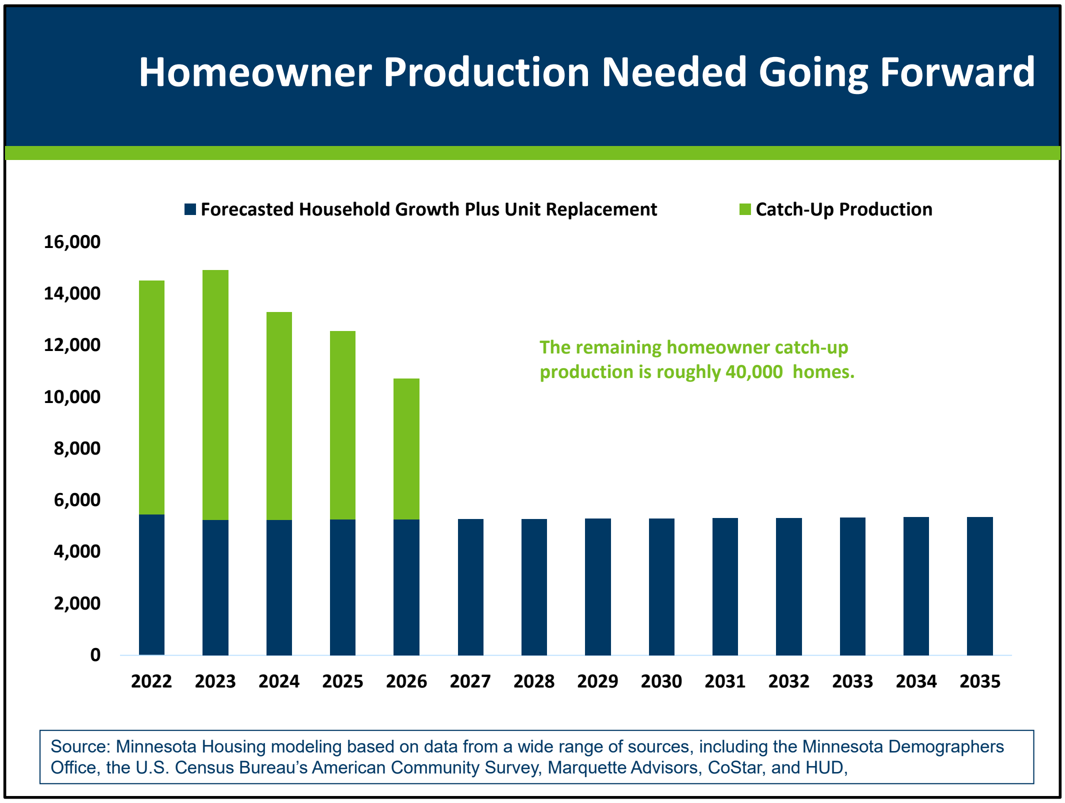
- The blue line reflects the number of new housing units that Minnesota needs to address the state's growing population and replace existing housing that has deteriorated or is in the wrong location. The solid part of the line on the left reflects the new housing that was needed between 2006 and 2021. The dashed part of the line is a forecast of future need. From the period just before the Great Recession until now, population growth in Minnesota was been dropping, but the State Demographer expects it to level off going forward, as shown by the flat, blue, dashed line.
- The green line reflects the number of housing units produced.
- When the green line (production) is below the blue line (need), the state underproduced housing, which creates a shortage.

Key Points:

- From 2006 through 2016, Minnesota underproduced housing creating a severe shortage.
- Since then, the state has been playing catching up trying to fill the production hole created during the previous decade. To return to an adequate supply, the amount of catch-up production (area above the blue line between 2016 and 2027) needs to match the level of underproduction (the area below the blue line between 2006 and 2016).

Implications:

- Until Minnesota has completely filled the production hole created from 2006 through 2016, the state will have a overall housing shortage, which will put upward pressure on rents and home prices.
- It will likely take a few more years to do that.



This chart is based on the same data as the previous one but focuses just on production needs for homeowners going forward (2022 through 2035).

Reading this Graph

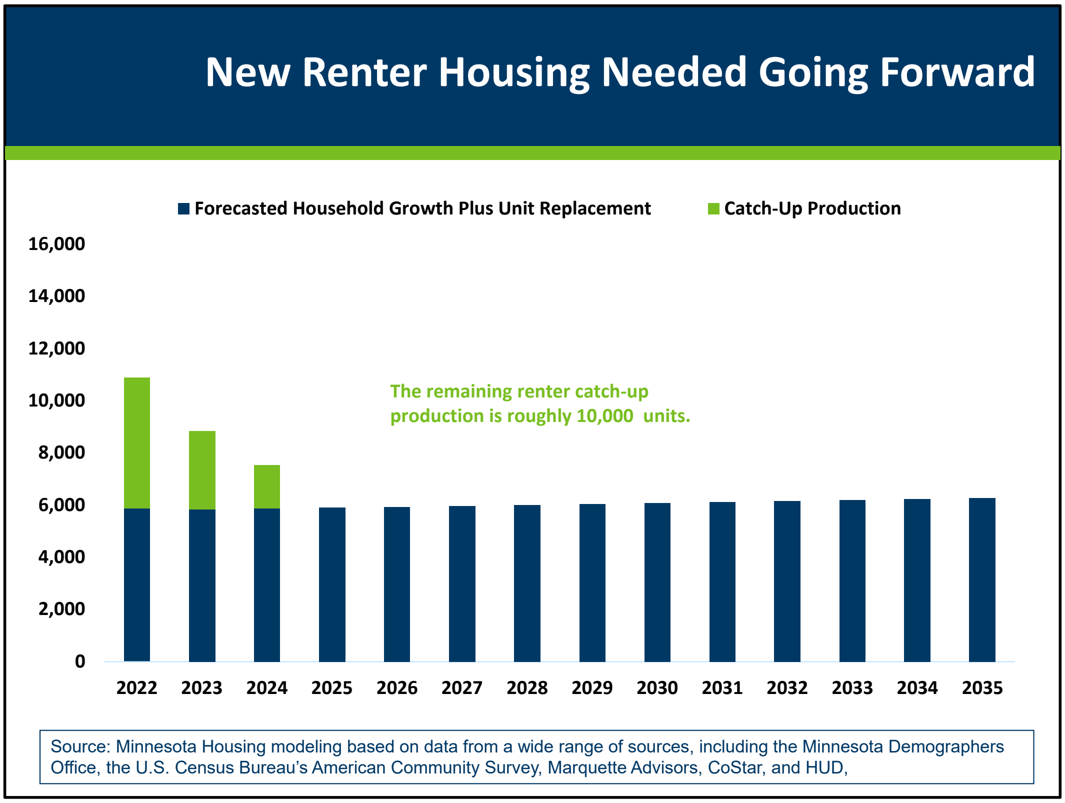
- The blue bars show the number of new housing units that are needed to address expected growth in homeowner households and replace existing, obsolete homes. The level of need is dependent on the overall level of household growth and the homeownership rate that we expect gong forward. Changes in the homeownership rate can have significant impact on the homeowner need.
- The green bars show the amount of catch-up production that is still needed, which is 40,000 units and expected to take until the end of 2026 to produce.

Key Points:

- There is still a severe shortage of homes available for ownership, which is reflected by a really low inventory of homes for sales and will be discussed in more detail later in this report.
- A large share of the catch-up production that Minnesota experienced between 2017 and 2021 (see previous graph) was heavily concentrated in rental production, not homeownership.

Implications:

- Minnesota has a shortage of approximately 40,000 homes for ownerships.
- The severe shortage has driven up home prices, making homeownership less affordable.
- The recent rise in interest rates has put a damper on renters moving into homeownership, limiting demand for homeownership housing. If this dampening continues, homeownership rates will drop, which will shift some of the demand shown on this graph over to rental demand.



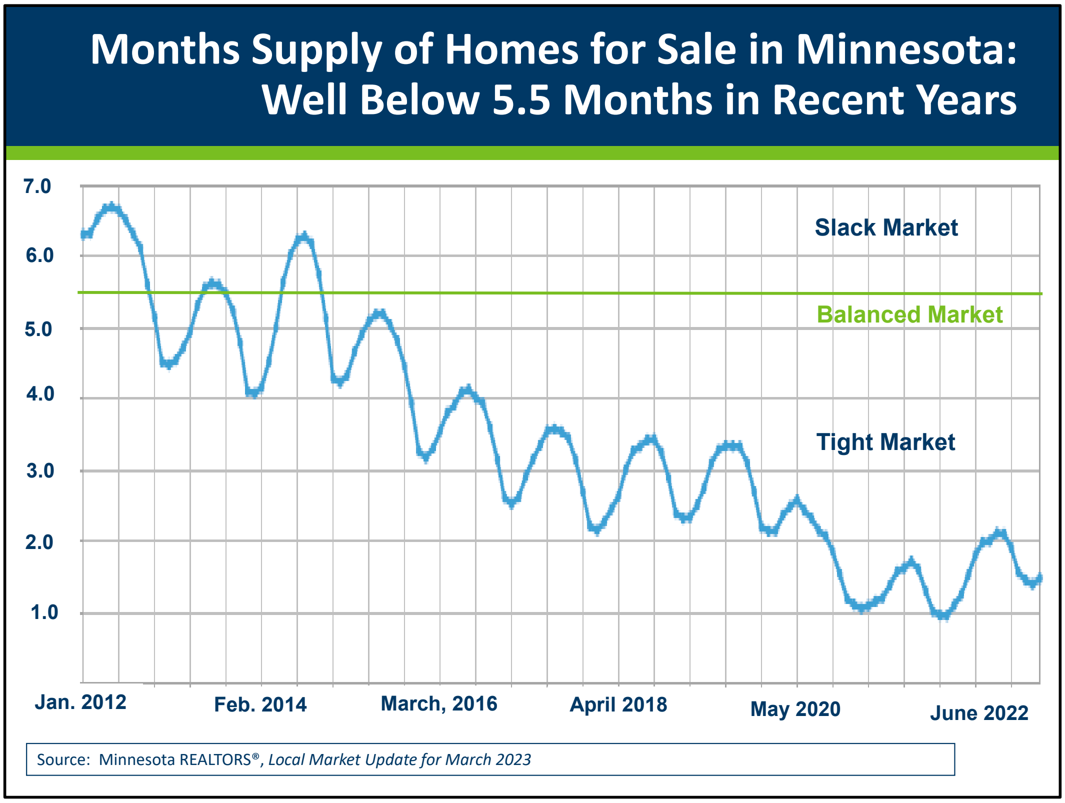
This chart is the same as the last one but has renter data.

Key Points:

- With the high level of rental production that has occurred in the last several years, the remaining catch-up production to just 10,000 units, with a large share expected to occur in 2022, which is now in the past.
- Nevertheless, there is still a shortage of rental units housing, which is reflected by a rental vacancy that is still below the desired 5% rate and will be discussed in more detail later in this report. In addition some local markets still have relatively low vacancy rates.
- If Minnesota's homeownership rate drops with the high interest rates, demand from homeownership will shift to rental housing, and these demand numbers will go up.

Implications:

- Minnesota has a shortage of approximately 10,000 rental units.
- As will be described later in this report, rent levels are starting to level off as the vacancy rate approaches 5%.



We're now going to asses the impact of the housing shortage, starting with homeownership and then switching to rental. The severe shortage of homes for sale is reflected in current market data, as shown in this chart and the following one. One of the best indicators of the current market 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. A 5.5 month supply is considered a desired balanced market.

Reading this Graph:

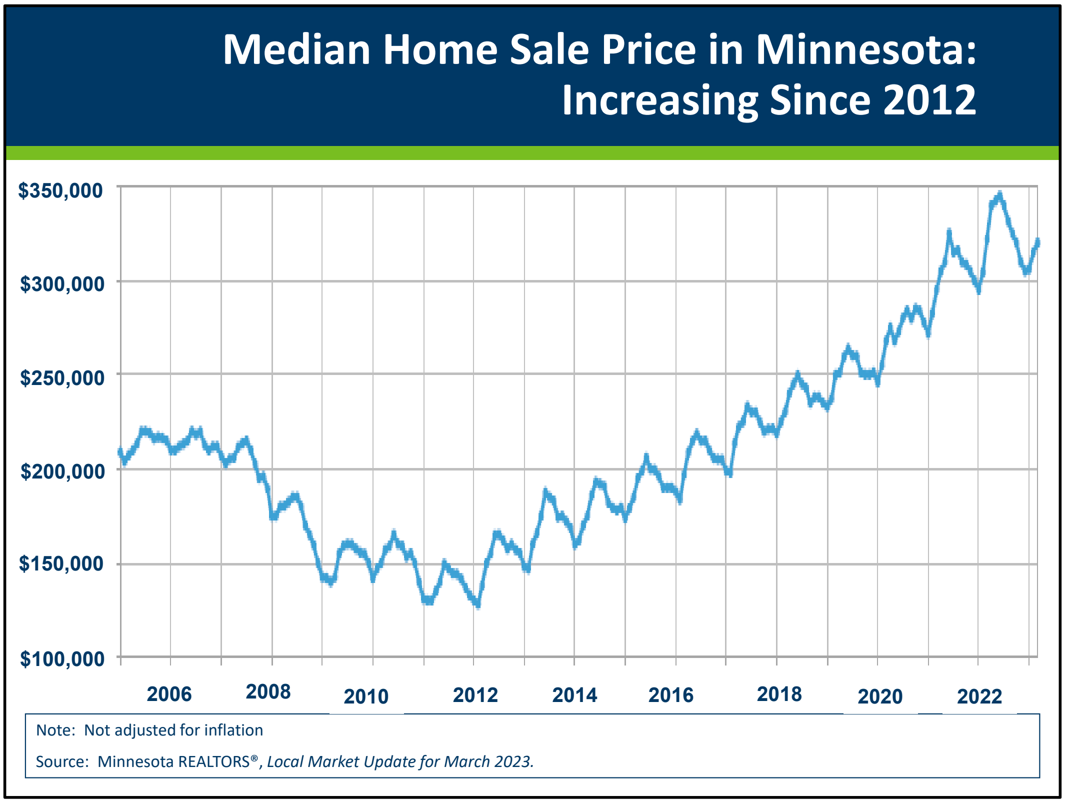
- The green line shows the desired 5.5 month supply of homes for sale. This reflects the situation where there are enough homes on the market for prospective homebuyers to find the home they want without getting into a bidding war with multiple other buyers, but there are not so many homes on the market that sellers need to make significant reductions in their asking price to get a buyer.
- The blue line shows the actual months-supply of homes for sale over the last ten years.
- When the actual months-supply (blue line) is below 5.5 (green line), there is a shortage of homes for sale, which is referred to as a tight market. When the actual months-supply is above 5.5, the is a surplus, which is referred to as a slack market.

Key Points:

- In a tight market, home prices generally rise.
- In a slack market, home prices generally fall.

Implications:

- The month-supply of homes for sale has been consistently below 5.5 months since 2014, which has resulted in rising home prices and will be shown in the next chart.
- With the current statewide months supply currently near two months, there is significant upward pressure on prices. The high current high interest rates have moderated that pressure.



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

inflation. **Reading this Graph:**

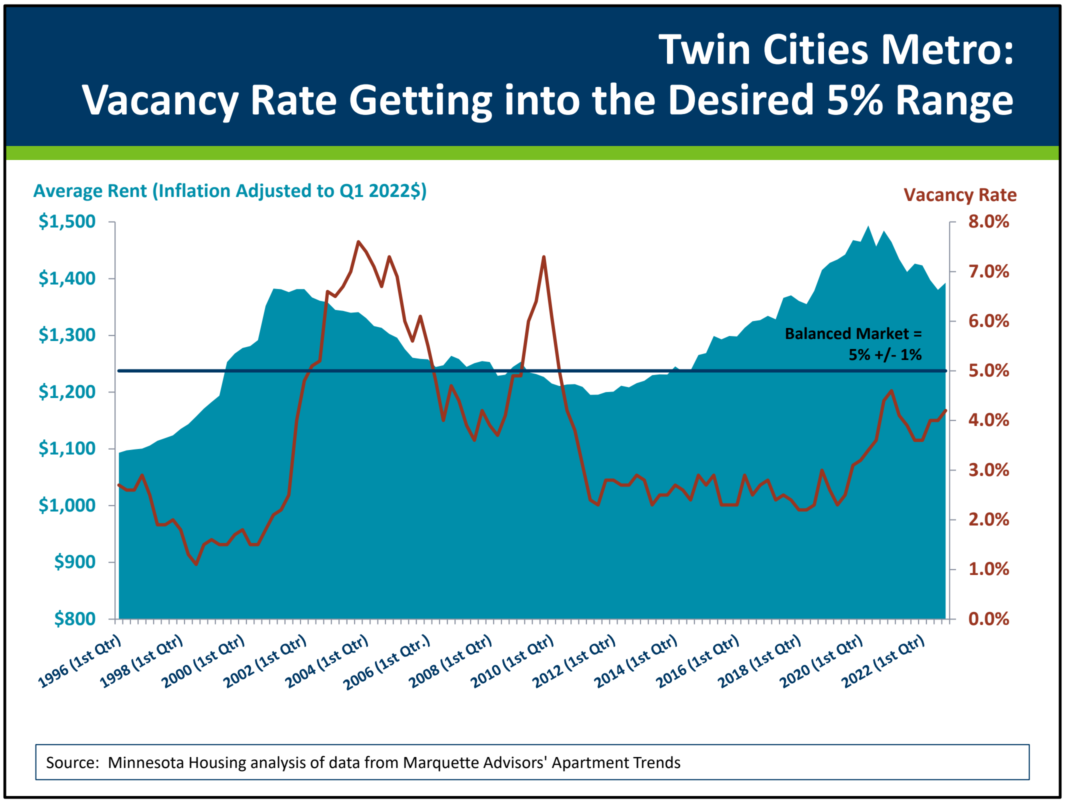
- The median price data is from 2005 through early 2023.
- Home prices fluctuate during a the course of a year, typically at a low level in the winter when fewer people are looking to buy a home and higher in the spring and summer, when more people are looking.

Key Points:

- Statewide, prices dropped significantly in 2007 and 2008 (the start of the Great Recession) and then flat through 2012 (the aftermath of the Great Recession).
- Prices have been steadily increasing since then, when the months-supply has been well below 5.5 months.
- With the high interest rates, home prices seem to be leveling off since the latter half of 2022.

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 make housing less affordable for people wanting to become homeowners.
- With current home prices and interest rates, many prospective homebuyers are being prices out of the market.



Switching to rental housing, this chart shows the relationship between vacancy rates and rents. The underproduction of rental housing has led to low vacancy rates, and a lot of people competing for relatively few units has driven up rents.

Reading this Graph:

- This graph has a two vertical axes, one on the left and one on the right.
- The teal shaded area of the graph shows the average rent in the Twin Cities from 1996 through 2022 and corresponds to the teal dollar values on left axis. For example in 2001, average rents nearly reached $1,400. These numbers are adjusted for inflation. The actual average rent at the end of 2001 was about $830, but the equivalent rent today, taking into account inflation, would be $1,400.
- The maroon line shows the rental vacancy over time and corresponds to the maroon percentages on the axis on the right.
- The black line shows the ideal 5% vacancy rate, where there are enough open rental units for people to find one but units are not vacant too long. The ideal vacancy rate is not precise and can vary by market, but it is generally in the 4% to 6% range.
- This data comes from Marquette Advisors, which surveys larger and professionally managed properties. While the overall rental vacancy rate is generally higher than what is captured in these data; this data provides good, consistent trend data.

Key Points:

- When the vacancy rate (the maroon line) is consistently below 5% (the black horizontal line), rents (the teal shaded area) 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.
- From 2011 to about 2020, vacancies were well below 4%, and rents increased.
- With the vacancy rate getting close to 5% in the last few years, average rents have leveled off in the $1,400 to $1,500 range.

Implications:

- The catch-up production that occurred after 2016 has increased the vacancy rate and helped stabilize rents.
- There is still a shortage of rental housing. Some local markets still have low vacancy rates.

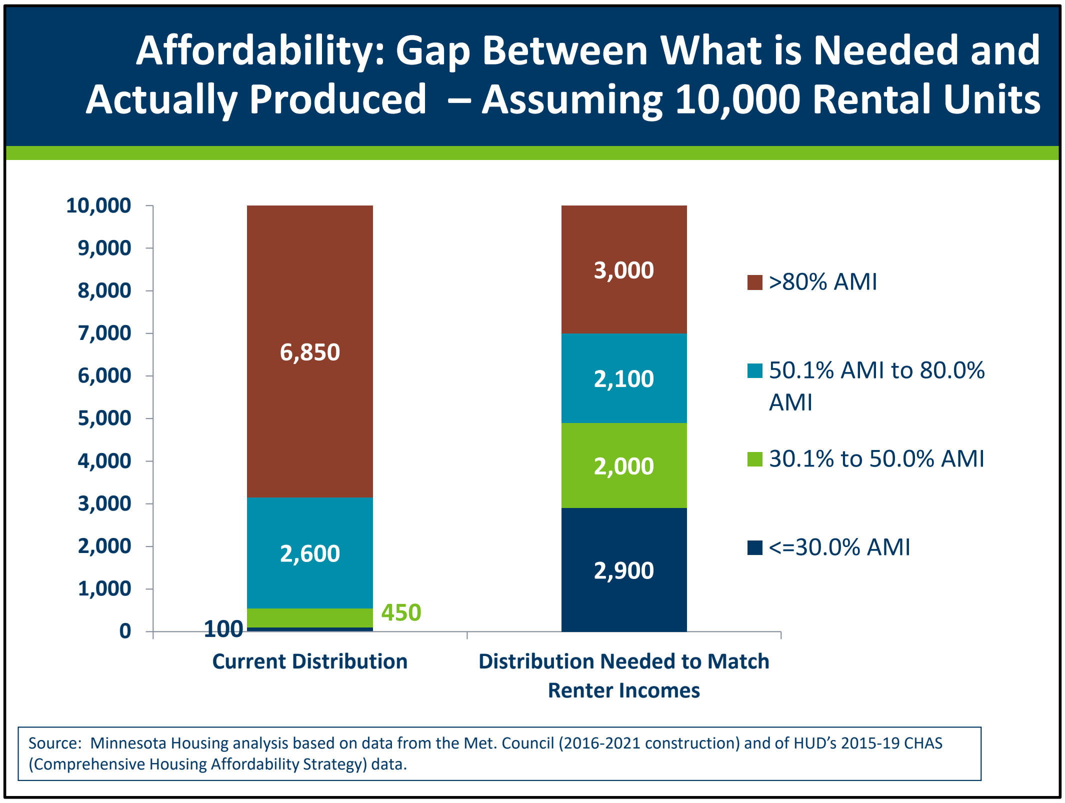
MINNESOTA HOUSING

Need/Issue #3

Minnesota is falling far short of producing enough new housing that is affordable.

Even after Minnesota fully catches up on overall housing product and eliminates the current shortage, which will stabilize home prices and rents, Minnesota will still need to be produce far more affordable housing. A much larger share of the ongoing new housing that is produced needs to be affordable to match the incomes of renters and homebuyers.

The issue is not just the amount of the new housing, but its affordability.



This chart shows the mismatch in the affordability of the rental housing that is being produced relative to what is needed. Over the next couple of years, Minnesota needs to produce 8,000 to 10,000 new units of rental housing (see page 19). The above chart compares the affordability of what will be produced if current affordability levels continue versus what should be produced if the rents were to match the incomes of renters.

Reading the Graph and Key Points:

- The bar on the left shows the current affordability of the new rental housing being produced. For every 10,000 units being produced, only 100 have rents affordable at 30% of AMI and below and only 450 have rents affordable for renters with income between 30% and 50% of AMI. Some of the higher rent units have been made affordable through rental assistance for tenants, but the contract rents are not affordable.
- The right bar shows what the rent levels need to be if they were to match the incomes of renters. Rather than producing 100 units affordable at 30% of AMI, 2,900 need to be produced because 29% of renters have incomes at or below 30% of AMI.

Implications:

- Increasing the production of units affordable at 30% and 50% of AMI will require a large investment, as will be described next.

What is Needed to Increase the Production of Deeply Affordable Units?

- The rent revenue from units affordable at 30% of AMI typically cover no more than ongoing maintenance and operating costs. These units cannot take on any amortizing debt to finance the development. These units do not have the rent revenue to pay off any debt.
- A unit costing $325,000 to develop would require a $325,000 subsidy in the form of a zero-interest, deferred loans and/or Low-Income Housing Tax Credits.
- Annually increasing the production of units affordable at 30% of AMI by 2,800 (from 100 to 2,900) would annually cost $900 million.
- Rental assistance could play a part in making new higher-rent units affordable; however, market-rate rents for newly constructed housing are rarely within the rent maximums that are allowed for rental assistance vouchers. Thus, voucher holds typically can't rent these units.
- Units with rents between 30% and 50% of AMI can take on some amortizing rents but not a lot; thus, a smaller per unit subsidy would be needed for those units.

Annually increasing the production of rental units affordable at 30% of AMI by 2,800 would annually cost nearly $1 billion.

What is Needed to Increase the Production of Affordable Starter Homes for Ownership?

- In today's market, a new, modest 1,600 square foot starter home can cost $400,000 or more.
- The median homeowner income in Minnesota is $94,000. A first-time homebuyer with this income can afford a $300,000 home at a 6.25% interest rate.
- Thus, there is a $100,000 affordability gap between what it costs to develop a modest starter home and what a typical homebuyer can afford.
- Annually producing 1,000 new homes that would sell for $300,000 but cost $400,000 to develop would require at least $100 million. These 1,000 homes would represent just 17% of the 6,000 new homes that Minnesota will annually need in the long-run (see page 19.)

The development costs are based on predictive cost model developed by Minnesota Housing using data from RSMeans. Affordability is based on an interest rate of 6.25%, 3.5% down, a front-end ratio of 32%, an average effective property tax rate of 1.42%, 1% mortgage insurance, and monthly homeowner's insurance equal to $50 per $100,000 of value.

Annually producing 1,000 modest, starter homes that will sell for $300,000 will cost at least $100 million in affordability gap subsidies.

Need/Issue #4

Minnesota has a large stock of affordable housing that needs to be preserved.

The previous two sections of this chart book focused on producing new housing; however, preserving the condition and affordability of the housing that we already have is just as critical. It is more cost effective to preserve an affordable housing unit than to produce a new one.

Preserving Housing with Federal Rental Assistance is a Critical Issue

- Minnesota has nearly 56,000 housing units where rent assistance is tied to the units:
  - 30,000 project-based Section 8,
  - 6,000 USDA Rural Development Section 515, and
  - 20,000 Public Housing
- Most properties were developed before 1980.
- Many have capital improvement needs and limited reserves to pay for them.
- With their rent assistance, preserving federally subsidized units is critical.

While we need to preserve all types of affordable housing, preserving units with federal rental assistance is critical. The rental assistance provided through the units ensures that renters pay no more than 30% of their income on rent.

Preserving Other Affordable Rental Housing, Including Naturally Occurring, is also Important

- In total, Minnesota has roughly 370,000 rental units that are affordable to households with incomes at or below 50% of AMI
- Of those:
  - About 70,000 are affordable through government construction subsidies and income/rent restrictions.
  - About 90,000 are public housing or have rental assistance (either a voucher or project-based assistance)
  - Over 210,000 are naturally affordable, meaning they are affordable without subsidies because they are typically dated, lack modern amenities, and/or need repairs or rehabilitation.

Source: U.S. Department of Housing and Urban Development (HUD), Comprehensive Housing Affordability Strategy (CHAS) data (2016-2019); and HousingLink, STREAMS data. Both only apply to units with rents at or below 50% of AMI

Key Points:

- While project-based rental subsidies are key because they provide the deepest subsidies, preserving other affordable units is also important.
- Naturally occurring affordable housing (NOAH) is the largest source of affordable housing.
- Many NOAH 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 sold and upgraded and then have their rents increased so they are no longer affordable.

Implications:

- The loss of NOAH units has annually displaced thousands of lower-income renters.

Value of Existing Owner-Occupied Housing in MN: Less than $150K Homes Likely Need Rahab

Value	Share of Existing Homes Statewide
$100,000 and Under	11.3%
$100,001 to $150,000	8.6%
$150,001 to $250,000	26.3%
Over $350,000	29.1%

For context, in March of 2023, only 3% of homes listed for sale in the 16 counties in and around the Twin Cities had an asking price of less than $150,000.

Source: Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2021 1-Yr Sample); Sale price data is from the Minneapolis Area Association of REALTORS

The state also needs to preserve owner-occupied housing.

This table shows the share of Minnesota's owner-occupied homes by their reported

value. **Key Points:**

- Just 20% of the state's owner-occupied housing stock has a value of $150,000 or less, which is affordable. A family with a $47,000 annual income could afford to purchase a $150,000 home, assuming they have the resources to pay for the rehabilitation that the home likely needs.
- However, very few of these homes are available. In the 16 counties in and around Minneapolis and St. Paul, only 3% of the homes listed for sale in March 2023 had an asking price of less than $150,000. Selling a home for less than $150,000 in some markets can be difficult because its condition may limit its ability to qualify for a mortgage.

Implications:

- Preserving this affordable stock is important, and there is a need for more mortgage products that allow for simultaneous purchase and rehabilitation.

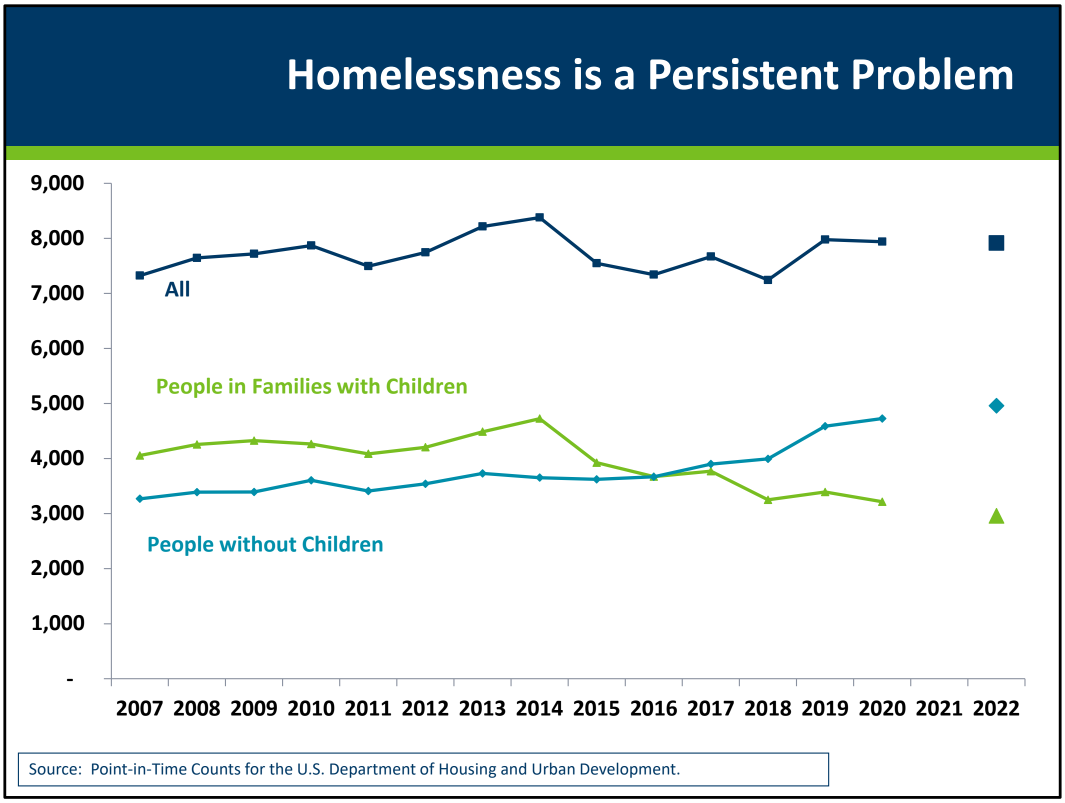
Issue/Trend #5

Homelessness is the most egregious form of housing instability and a persistent problem.

The previous charts focused on:

- What is needed to eliminate the current shortage of housing overall,
- What is needed to substantially increase the supply of housing that is affordable, and
- The need to preserve the affordable housing that we already have.

Those steps will go a long way to allowing people to find and keep stable, safe homes that are affordable in a community of their choice. However, there is an immediate and urgent need to address homelessness, which is the most egregious form of housing instability and the result of a multi-system failure.



This graphs shows trends in the number of people experiencing homelessness on a given night in January of each year.

Reading this Graph:

- The top dark blue line shows the overall number of people experiencing homelessness on the night of the count.
- The green and light-blue lines split that total between people in families with children and people without children.
- Because of the COVID-19 pandemic, a complete count was not done in January of 2021, and those data are missing from the graph. The 2022 count is shown by the colored symbols on the right.

Key Points:

- The overall level of homelessness has no changed much in the last 15 years.
- In recent years, the number of people in families with children experiencing homeless declined a bit, while the number of people without children went up.
- This point-in-time count is an under-estimate. In its most recent 2018 study, Wilder Research estimated that the actual number of people experiencing homelessness on a given night in October of 2018 was nearly 20,000. In addition, the number of people experiencing homelessness on a given night is much less than the number of people experiencing homeless anytime over the course of a year. Wilder estimated that roughly 50,000 people experienced homelessness some time during 2018.
- While point-in-time count shown here is not a complete count, it is useful for tracking trends.

Implications:

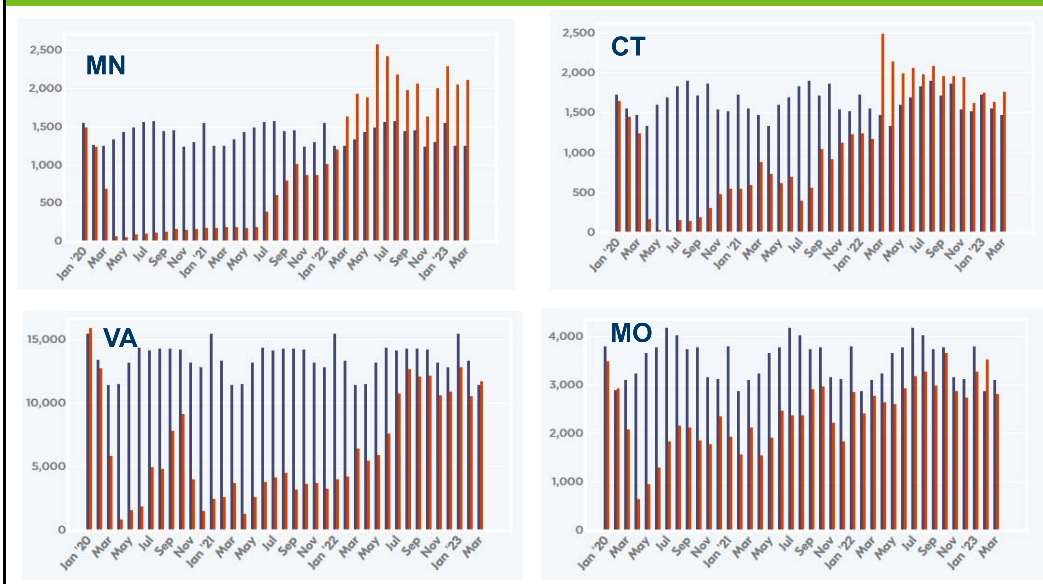
- Homelessness is an egregious, persistent crisis.

What is Needed to Create Housing Stability for People Facing Homelessness?

- Homelessness reflects a multi-system failure, including housing, employment, living wages, mental health services, chemical dependency services, and other services and supports.
- The lack of readily availability housing that is affordable without barriers is an issue for all people experiencing homelessness, but for some, it is only part of the solution.
- As outlined previously, universal availability of rental assistance and more deeply affordable rental units, including supportive housing, would go a long way to creating housing stability for all.

Housing is a critical part of an effort to prevent and end homelessness, but it is not the only part. It is necessary but not sufficient.

Minnesota is Currently Experiencing a High Level of Eviction Filings



Source: Evictions Lab; https://evictionlab.org/eviction-tracking/; accessed 4/15/2023.

Preventing housing instability is a key strategy for ending homelessness. Eviction filings are an indicator of housing instability and potential homelessness.

Reading these Graphs:

- These graphs show the number of eviction filings in four states between January 2020 and March 2023 (MN=Minnesota, CT=Connecticut, VA=Virginia, and MO=Missouri).
- The blue bars are the historical average number of eviction filings each month and provided for context.
- The red bars are the actual number of filings each month, which is the metric being tracked.
- The number of eviction filings provides an incomplete picture. On the one hand, not all eviction filings result in an eviction; but on the other hand, property owners/managers also have other ways to pressure renters out without an eviction filing.

Key Points:

- After the COVID-19 pandemic hit, evictions filings dropped dramatically across the country, which was supported for varying amounts of time by federal and local evictions moratoriums and the availability of emergency rental assistance for COVID-related hardships.
- Data from the three other states are provided for additional context:
    - Connecticut and Virginia are included because they are two states, along with Minnesota, that had state eviction moratoriums that were in effect for an extended period of time.
    - Missouri did not have a local evictions moratorium and only had the federal CDC evictions order.
- Minnesota, Connecticut and Virginia were able to significantly limit eviction filings for an extended period of time, particularly during the height of the pandemic and public health emergency. This saved lives.
- Like Minnesota, Connecticut experienced a higher than average number of evictions in the spring and early summer of 2022 (red bars above the blue bars), but unlike Minnesota, Connecticut's level dropped down to average levels after that.
- Unlike other states, Minnesota has had sustained high levels of eviction filings since the spring of 2022.

Implications:

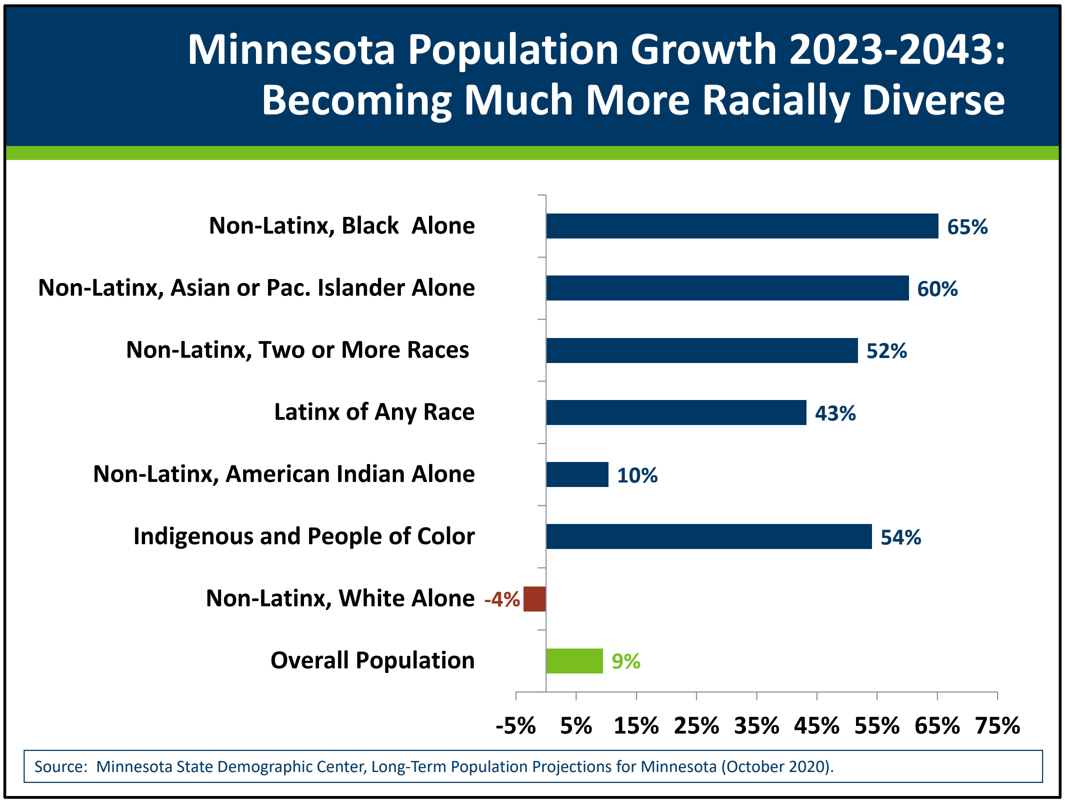
- Minnesota is currently facing the unique issue of having sustained high levels of evictions filings, which is a very concerning situation and could result in higher levels of homelessness.

MINNESOTA HOUSING

Need/Issue #6

Minnesota is becoming more racially and ethnically diverse, and the state has unacceptable housing disparities.

These are large-scale disparities in who experiences housing instability, particularly by race and ethnicity. If we are to have an inclusive, equitable and just society, we must take these disparities head on.



Minnesota is still predominantly a white state, with people who are white/non-Latinx accounting for 77% of the population; however that is rapidly changing.

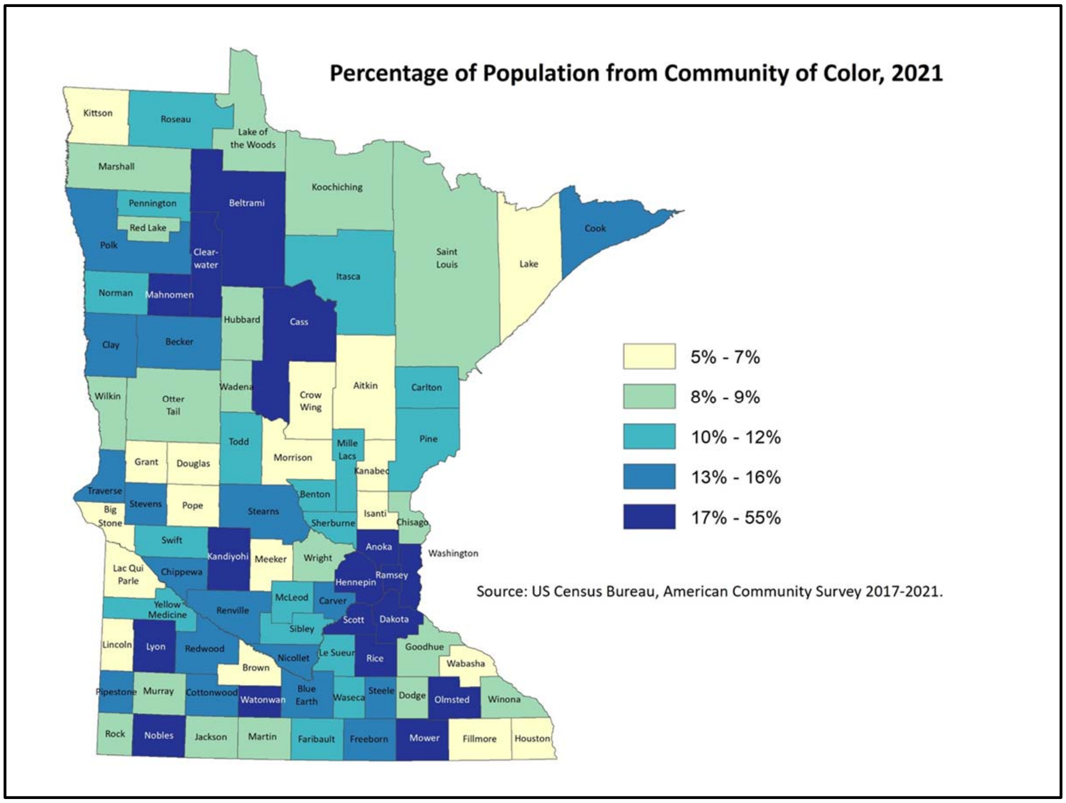
This graph shows the forecasted population growth rates for various racial and ethnic communities in Minnesota from 2023 through 2043.

Key Points:

- Minnesota's overall population is forecasted to grow by 9% between 2023 and 2043 (green bar at the bottom of the graph).
- While the white/non-Latinx population will decline by 4% (maroon bar), the population that Indigenous and people of color is expected to grow by 54% (the bottom blue bar, which is the combination of all the blue bars above it).
- By 2043, the state is expected to become 68% white/non-Latinx, which is not in shown the graph but provided for context.

Implications:

- Immediately addressing the state's disparities is first and foremost an equity and justice imperative.
- In addition, it will become a business necessity. For example, if mortgage lenders and realtors want a thriving business, the will need to fully serve and support Indigenous and homebuyers of color, who will become the primary part of the market in the decades to come. If businesses want to attract workers, they will need to make sure their communities have safe, stable and affordable housing with access to good schools, community amenities, and opportunity for Indigenous and workers of color.



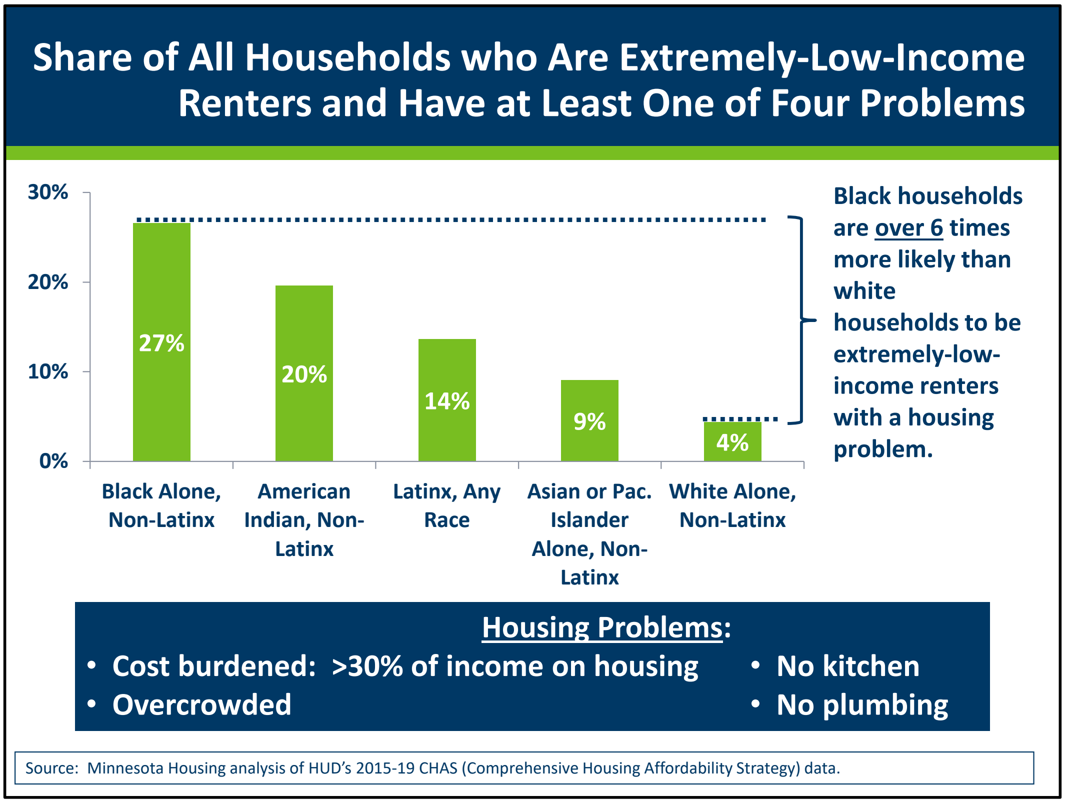
As shown in this map, the population that is Indigenous and people of color is concentrated in certain parts of the state.

Key Points:

- The percentage in each county varies from 5% to 55% of the population.

Implications:

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



Indigenous and communities of color currently face significant barriers to accessing safe, stable housing that is affordable and in a community of their choice.

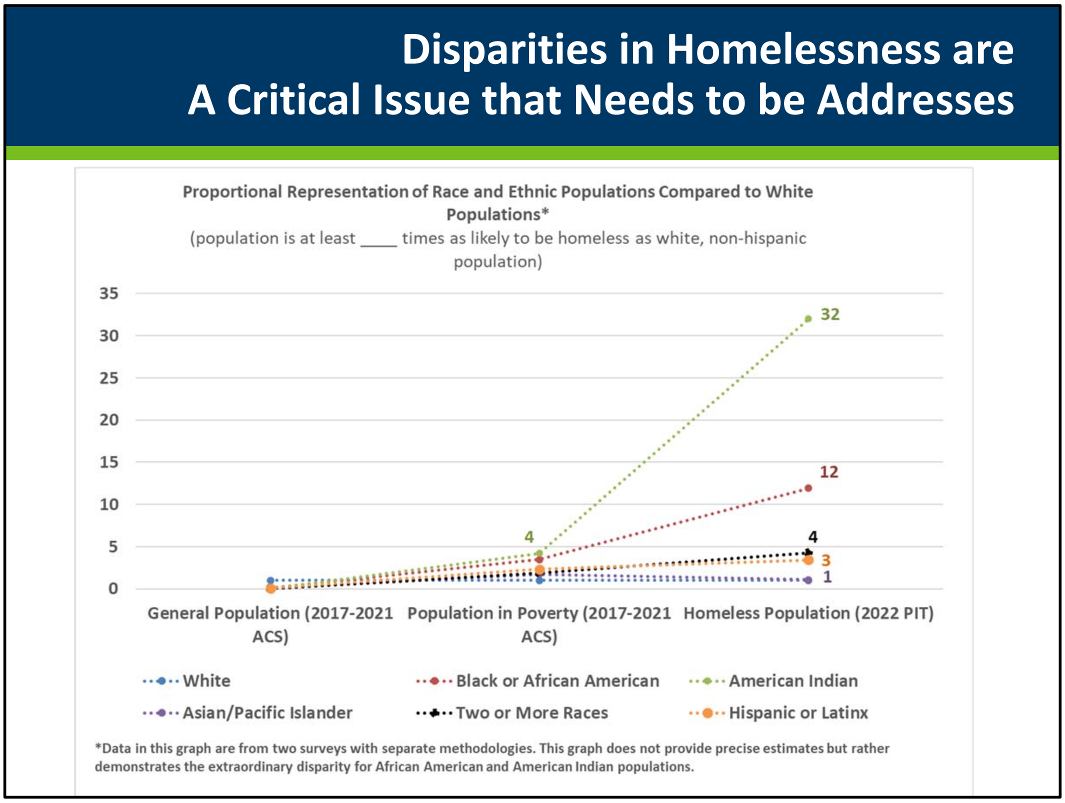
This graph shows the share of all households who are renters with incomes at or below 30% of AMI and have at least one of four housing problems: (1) being cost burdened, (2) overcrowded, (3) no kitchen, and/or (4) no plumbing.

Key Points:

- 27% of all black households are extremely-low renters with at least one of the four housing problems.
- In contrast, only 4% of all white / non-Latinx households are.
- Black households are 6 times more likely than white/non-Latinx households to be precariously housed.
- A main contributor to this disparity is Minnesota's large homeownership rate disparity, but Black renters are also far more likely to be extremely low income and have one of the four housing problems than white renters.

Implications:

- With more than one quarter of Black households in very precarious housing situations, we have a lot of work to do from an equity and justice perspective.



This graphs shows how likely Indigenous and people of color are to be: (1) in the general population, (2) in poverty, and (3) experience homelessness relative to the white population. As mentioned earlier, homelessness is the most egregious form of housing instability.

Reading this Graph and Key Points:

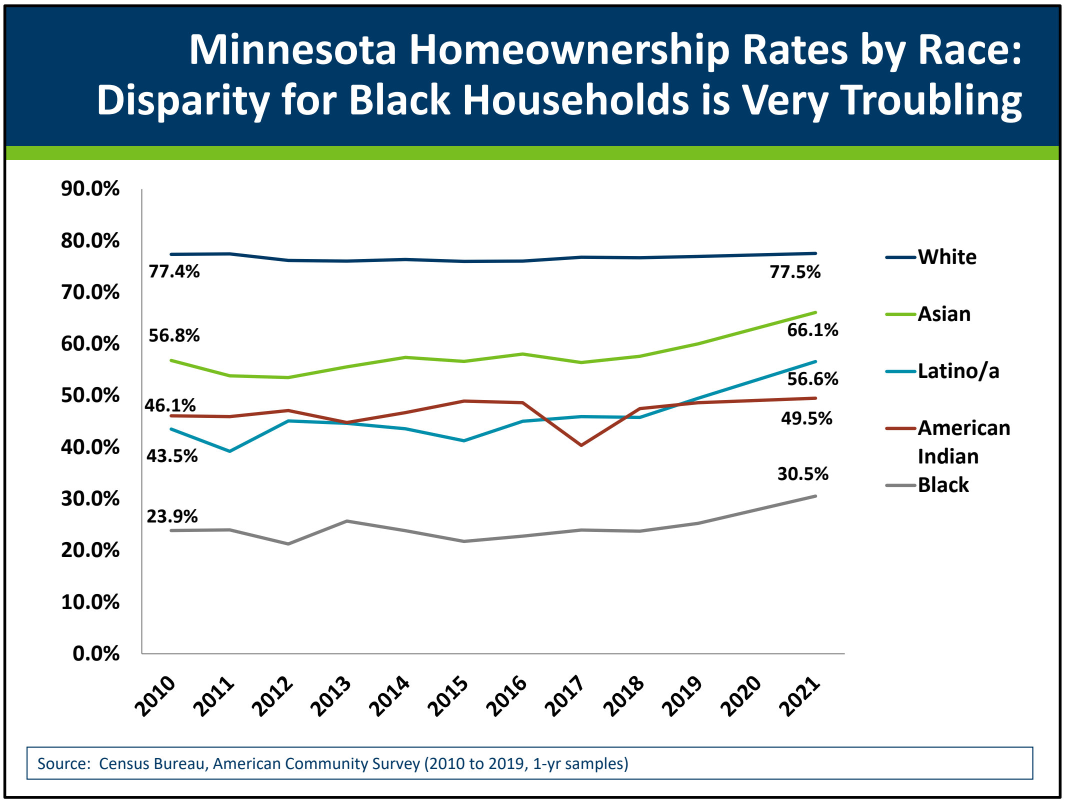
- The horizontal blue dashed line represents the white community and is at "1" across the three sections of the graph because this community is the baseline from which Indigenous and people of color are compared to assess the level of disparity.
- The first section of the chart on the left side shows how likely Indigenous and people of color are to be a member of the general population. Because Minnesota remains for now a predominantly white state, Indigenous and people of color are less likely to be in the general population and their lines start below 1.
- The next two sections show how likely people from each community are to be in poverty and experience homelessness relative to the white population.

Key Points:

- American Indians (green, dashed line) are 4 times more likely to be in poverty than the someone who is white and 32 times more likely to experience homelessness.
- Black/African-Americans (red, dashed line) are 4 times more likely to be in poverty and 12 times more likely to experience homelessness than someone who is white.

Implications

- These stark disparities are unacceptable.
- Homelessness is not just a poverty issue.



The stark racial/ethnic disparities span the full spectrum of the housing continuum, from homelessness to homeownership. This graph shows homeownership rates for individual racial and ethnic communities.

Key Points:

- The homeownership rate for the white/non-Latinx community (top blue line) has remained quite consistent for the last decade, staying around 77.5%.
- The homeownership rates for Indigenous and communities of color are significantly lower.
- The Black community has the lowest homeownership rate with only 30.5% of the households being homeowners in the most recent year.
- The homeownership rates for Indigenous and communities of color have increased in recent years but still fall far short of the rate for the white/non-Latinx community.

Implications:

- Minnesota has a lot of work to do to close the homeownership gap.

Income-Ready Renters Between Ages 25 and 44: 38% Are Households of Color

- Minnesota has 184,000 renter households between the ages of 25 and 44 who are potentially income-ready to buy a home
  - Incomes greater than $35,000 in Greater Minnesota
  - Incomes greater than $40,000 in Twin Cities Metro
- 70,000 (38%) are Indigenous and households of color.
- Based on data from Freddie Mac, we estimate that at least 75% of these Indigenous and households of color are credit-ready or near-ready to qualify for a mortgage.

Source: Minnesota Housing Analysis of Census Bureau, *American Community Survey*, 2018 (IPUMS microdata, 5-year sample)

To close the gap, identifying and assessing which renters are potentially ready to become homeowners is critical. This would include renter households who are potentially income-ready to buy a home and are in the prime homebuying ages of 25 to 44. We chose $35,000 in Greater Minnesota and $40,000 in the Twin Cities metro area as the minimum annual income to be potentially income-ready to buy. Those incomes are quite low to buy a home, particularly in the current market, but Minnesota Housing has seen successful ownership with the right supports and mortgage products, including our Homeownership Capacity program, lending through Habitat for Humanity and the availability of manufactured housing.

Key Points:

- Minnesota has 184,000 renter households between the ages of 25 and 44 who are potentially income-ready to buy a home.
- 70,000 (38%) of those households are Indigenous and people of color.
- The vast majority of these Indigenous and households of color are also credit ready or near credit ready to buy a home, meaning they would qualify for a mortgage or only need to improvement their credit a little.

Implications:

- There are enough income-ready potential Indigenous and homebuyers of color to significantly close the gap..

What is Needed to Close the Homeownership Gap?

- For Minnesota to close the homeownership gap (reach a homeownership rate of 77.5% for all communities), it needs an additional 103,000 Indigenous and homeowners of color above the current 200,000.
- If Minnesota were to double its annual lending to Indigenous and homebuyers of color from the current 12,000 to 24,000, it would take 8.5 years to close the 103,000 homeowner gap.
- The current 70,000 income-ready renter households in the prime homebuying ages who are Indigenous and people of color is not enough to fully close the 103,000 homeowner gap, but over the next 8.5 years, more will be added to this group.

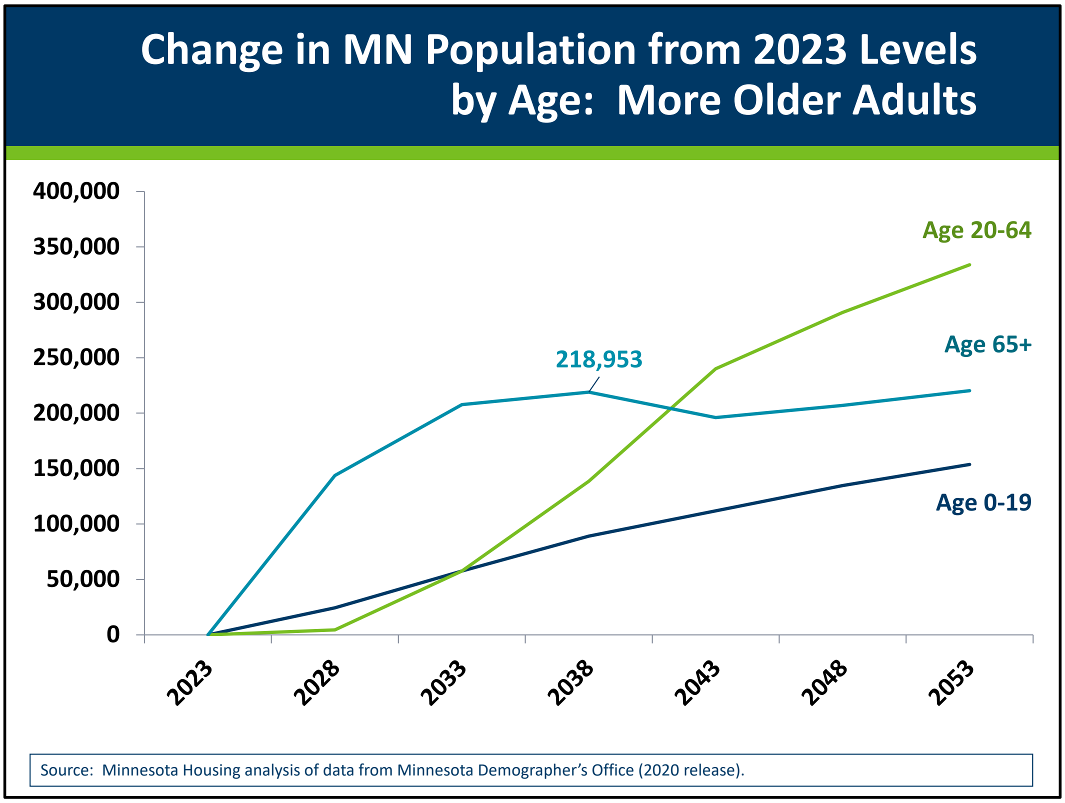
Source: Minnesota Housing analysis based on data from the U.S Census Bureau's American Community Survey, data provided under the Home Mortgage Disclosure Act, and survey data from the National Association of Realtors and the Consumer Financial Protection Bureau.

Closing the gap will require a deep commitment and a sustained focused effort.

MINNESOTA HOUSING

Issue/Trend #7

The aging baby boom generation is creating housing needs and challenges.



This graph shows the number of additional people in three age groups over the next 30 years. The number for each year is the cumulative increase from the base year of 2023. For example, the State Demographer's Office is forecasting nearly 219,000 more Minnesotans age 65+ in 2038 than there were in 2023.

As a point of reference, Minnesota currently has about 1,045,000 people age 65+.

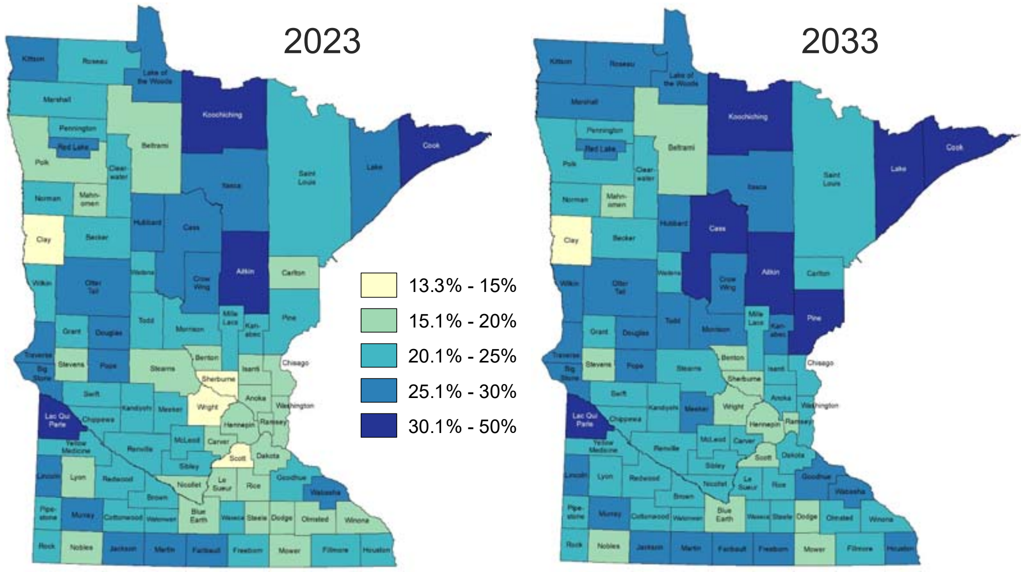
Key Points:

- The number of older Minnesotans is increasing rapidly.

Implications:

- With limited resources, addressing the affordable housing needs of not only this growing population but also the needs of families with children and working-age adults without children will be a major challenge going forward.

Share of the Population Aged 65 and Older



Source: Minnesota Housing analysis of data from Minnesota Demographer's Office (2020 release).

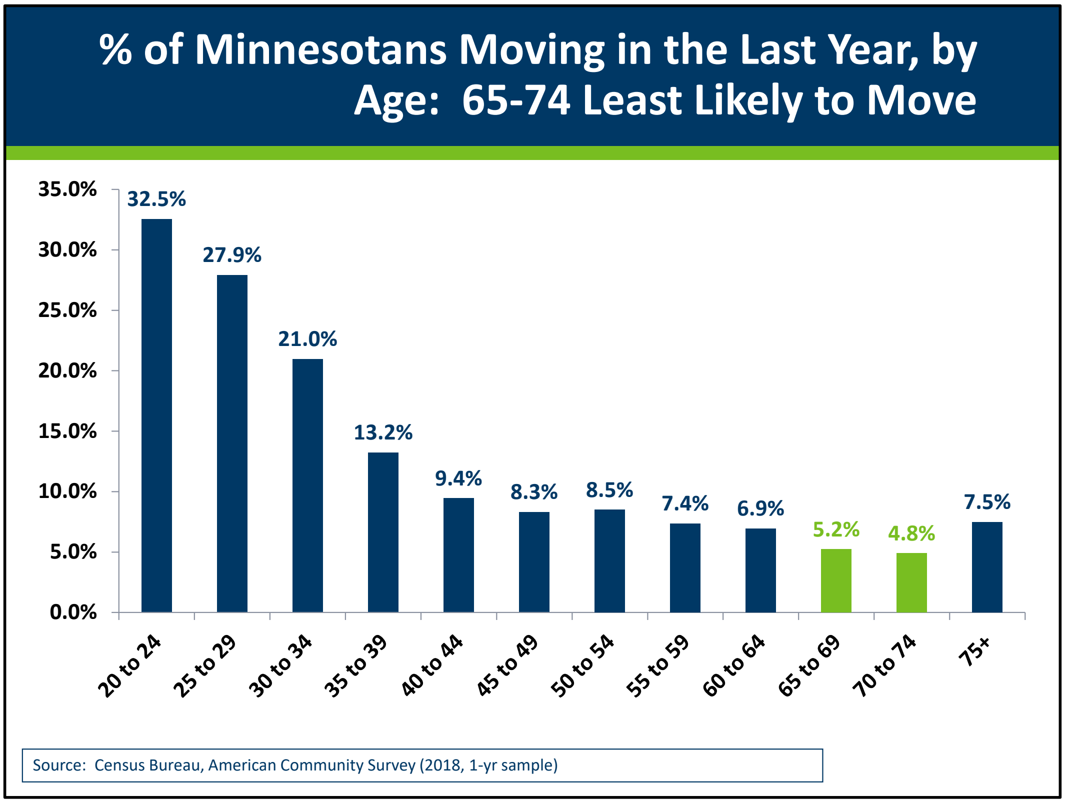
These maps show the share of each county's population that is age 65 or older in 2023 and 2033.

Key Points:

- The share of the population that is age 65+ is increasing across the state. The number counties shaded in yellow is declining, and the number shaded in the darkest blue is increasing.
- In 2033, many counties will be a darker color on the map.

Implications:

- The growing share of the population that is age 65+ is a statewide issue.



Most older Minnesotans age in place. The graphs shows the share of people in each age group that moved in the last year.

Key Points:

- People ages 65 to 74 (the two bars shaded in green) are the least likely to move.
- Moving picks up for people ages 75 and older as their level of disability increases and they are no longer able to live independently. Nevertheless, only 7.5% of the oldest Minnesotan move each year.

Implications:

- In the initial retirement years, people are very unlikely to move. The vast majority of older Minnesotans want to age in place for as long as possible.
- Repairing and retrofitting the current housing for older adults needs to be a priority.
- More housing that meets the needs of older adults with in-home service options in every community is also needed.

Key Findings about Baby Boomers and Housing Preferences

- Will play key role in dictating housing needs over the next couple of decades
- Healthier and more energetic than previous seniors
- Pushing back retirement and entering life care facilities
- Want to stay in their communities
- Wants and needs:
  - Housing that is senior friendly, not necessarily senior housing
  - Access to services (e.g. health care and support) and amenities

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

Implications:

- Minnesota will face challenges in providing housing to older adults that is: (1) affordable, (2) keeps them in the community of their choice as long as possible, and (3) provides adequate access to care, services and amenities.
- This will be particularly challenging in rural areas.

For More Information

Contact:

John Patterson

Director of Planning, Research & Evaluation

Minnesota Housing

john.patterson@state.mn.us

(651) 296-0763