Planning, Research & Evaluation

2016 Key Trends for Affordable Housing

April 2016

Minnesota Housing Finance Agency

Introduction

As Minnesota Housing prepares its 2017 Affordable Housing Plan, the Agency needs to consider the environment in which it is working. How will demographic, economic, market, and community trends affect the Agency's work over the next year or two?

This report highlights ten broad themes:

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2. The Economy will Likely Continue to Grow Modestly — 14
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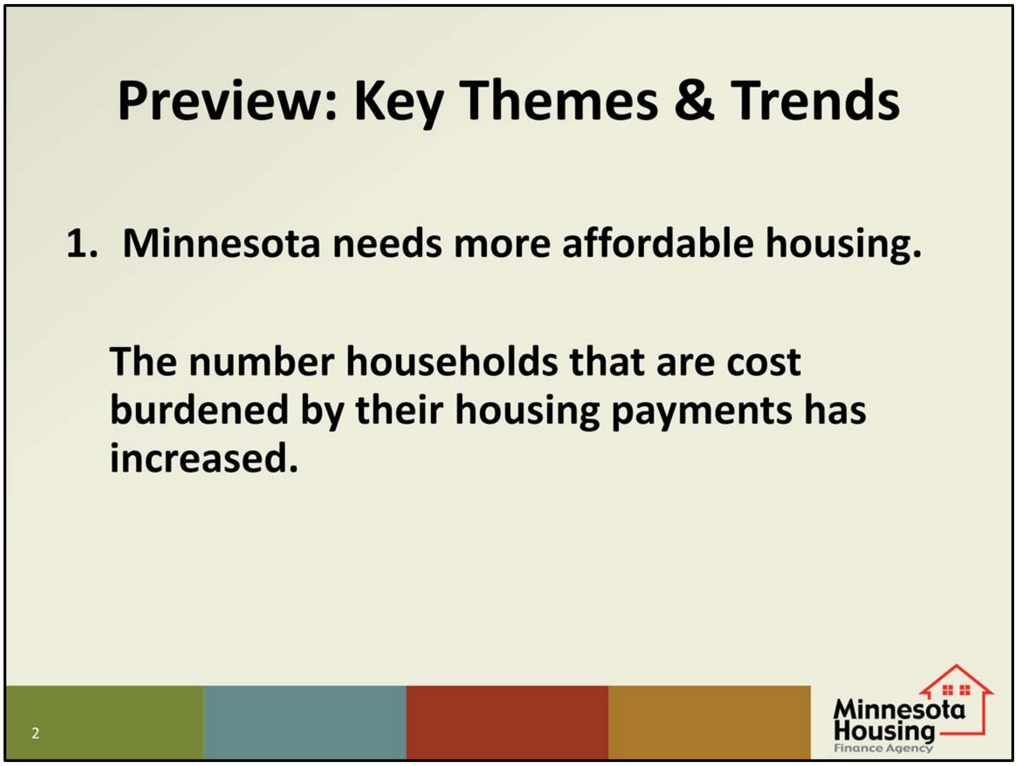
This report is structured as a chart book – largely graphs and maps documenting issues and trends with some explanatory notes.

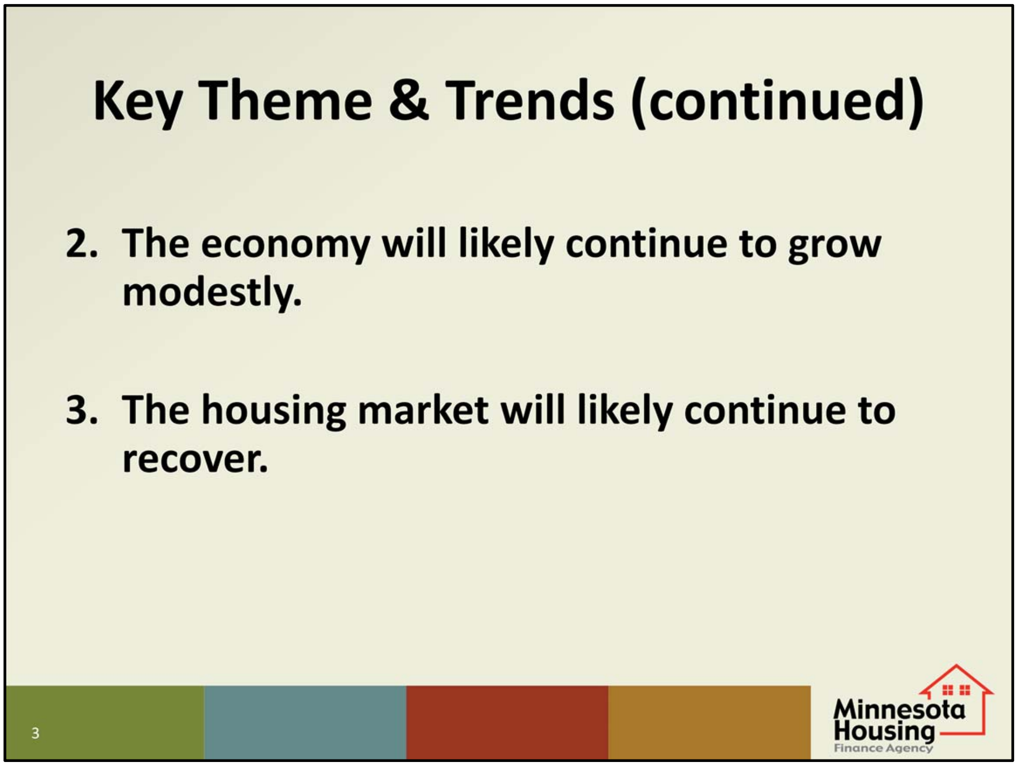


This report provides a lot of information and data. To help the reader process the information and put it into context, the following five sides provide a preview of the key themes and trends that will be covered.

Minnesota needs more affordable housing.

- The number of Minnesota households that are cost burdened by their housing payment increased by 69%, from 350,000 in 2000 to 590,000 in 2014.
- Households are cost burdened if they spend more than 30% of their income on housing.
- In 2014, 480,000 lower-income households were cost burdened, accounting for 58% of that population. This assessment only includes households with annual incomes less than $50,000.
- The increasing need has occurred because median incomes have declined and housing costs have fluctuated but increased overall.
- In 2015, we assisted nearly 64,000 households, which is an impressive number, but falls well short of the need reflected by the 480,000 cost-burdened lower-income households.

How should we use our limited resources to address this large and growing need?



In 2008, the housing bubble burst, leading to dramatic declines in home values and prices. Prices stayed depressed through 2011. The resulting foreclosure and financial crisis sent the economy into the Great Recession. While the economy started to recovery very slowly in 2009, the housing market really didn't start to recover until 2012.

The economy will likely continue to grow modestly.

- The U.S. economy is expected to grow by roughly 2.5% annually for the next few years.
- The unemployment rate in Minnesota declined from 8.1% in June 2009 to 3.9% in June of 2014 and has leveled off, staying between 3.6% and 3.8% for nearly two years.

The housing market will likely continue to recover.

- Median home prices (inflation adjusted) in the Twin Cities metro area increased from $165,000 in June of 2011 to $228,000 in June of 2015.
- The months supply of homes for sale (a measure of inventory relative to the pace of sales) is currently below five months, reflecting a limited supply and the likelihood of rising prices.
- The rental vacancy rate in the Twin Cities metro area dropped from 7.3% in the 4th quarter of 2009 to 2.3% in the 3rd quarter of 2011 and is currently at 2.3%. The persistently low rate will continue to push up rents.

With modest economic growth, incomes will likely struggle to keep pace with expected housing cost increases, making housing less affordable.

- While a tight housing market, as reflected by low rental vacancy rates and low months supply of homes for sale, are driving up housing costs; modest economic and job expansion may limit income growth.

With a stronger economy, new households are forming, which is modestly increasing the demand for housing.

- After annually increasing by over 1% prior to the recession, the number of households in Minnesota declined in 2009, when the economy bottomed out.

- With the modest and slow economic recovery since then, the annual household growth rate has slowly climbed to 0.4%.

More affordable housing is needed in areas with a growing workforce.

- In 2015, we identified 77 Minnesota communities with a need for workforce housing.

- To increase the vacancy rate from 2.5% to 4%-5% and create a more balanced rental market, these workforce housing communities need an additional 4,500 to 7,500 apartments.

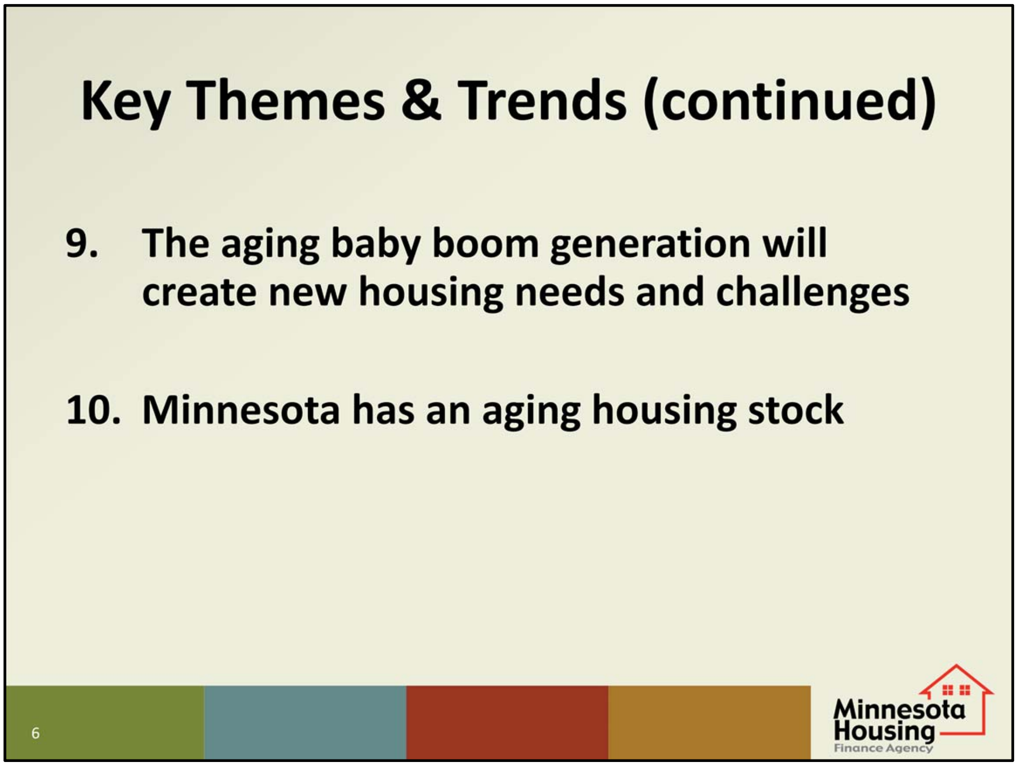
- The stronger economy, the very limited multifamily construction during the recession and its aftermath, and the decline in overall homeownership all contributed to the low vacancy rates.

Minnesota is becoming more diverse, but disparities in homeownership are significant.

- The share of Minnesotans who are of color or Hispanic ethnicity is expect to grow from 18.7% in 2015 to 24.8% in 2035.
- Minnesota's 35.4 percentage point disparity in homeownership rates between white/non-Hispanic households and households of color is the third largest in the country.
- Reducing the disparity is one of our strategic priorities. In 2015, 29% of our first-time homebuyers were households of color or Hispanic ethnicity, which is a lending rate nearly three times the industry average.

For the first time, the number of people experiencing homelessness had a significant decline in 2015.

- A worst-case scenario resulting from a lack of affordable housing is homelessness.
- Preventing and ending homelessness is one our strategic priorities.
- Through the Interagency Council on Homelessness, Minnesota has a Plan to Prevent and End Homelessness.
- After 20 years of increases, the number of people experiencing homelessness declined by nearly 10% in 2015.



The aging baby boom generation will create new housing needs and challenges.

- A major demographic trend is the aging of the population.
- With fixed-incomes and higher rates of disabilities, seniors have unique affordable housing needs. Initially, assisting lower-income baby boomers who are homeowners will be important.
    - Most low-income seniors are homeowners.
    - Most seniors remain homeowners through age 75-84.
    - The largest group of baby boomers is still under age 60, indicating that most will be homeowners for at least another 15+ years.
- Nevertheless, the state will see a dramatic increase in senior renters in the future, for which we need to plan carefully.

Minnesota has an aging housing stock.

- While additional affordable housing is needed, the state needs to preserve what it already has. Minnesota's nearly 40,000 rental properties that receive rent subsidies (limiting a tenant's share of rent to 30% of their income) are particularly important to preserve.

Theme/Trend #1

Minnesota Needs More Affordable Housing

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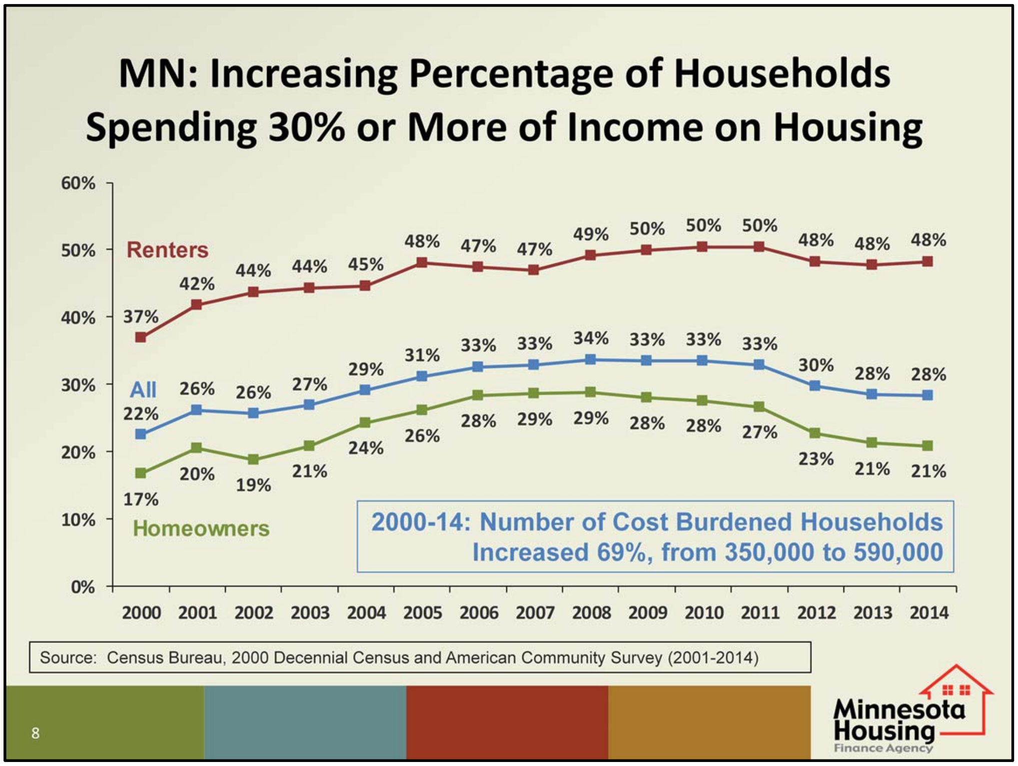


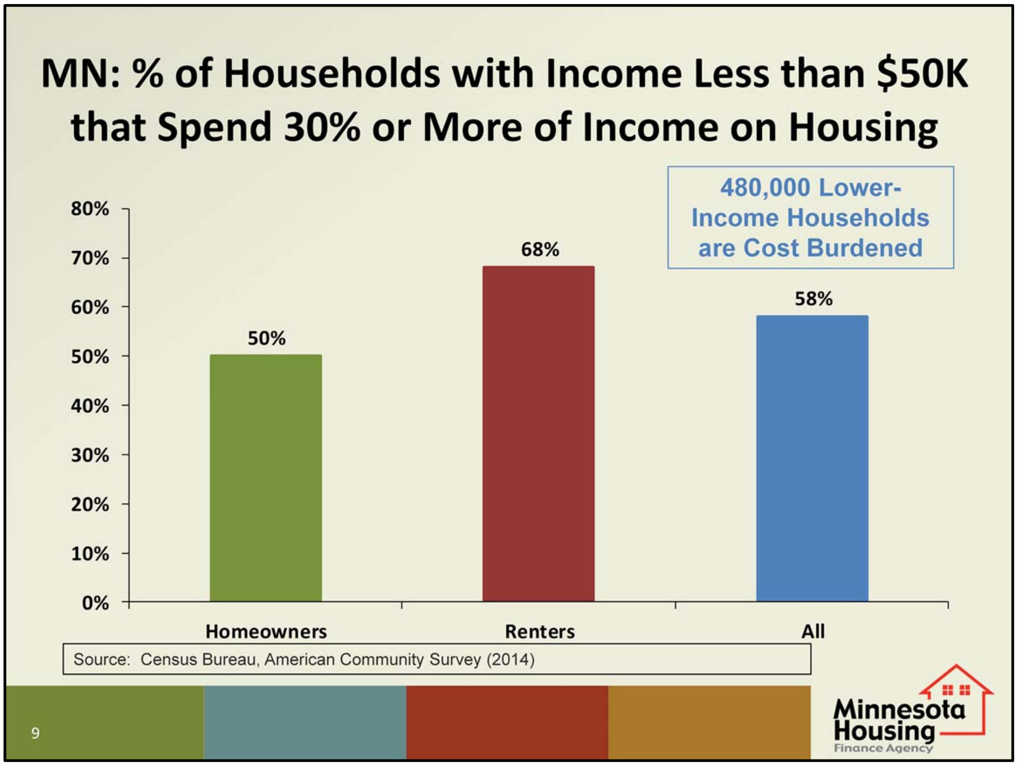
This graph shows the percentage of Minnesota households that were cost burdened over the last 15 years (spending more than 30% of their income on housing). Being cost burdened indicates that a household lacks affordable housing.

Key Points:

- The number of cost burdened households increased 69%, from 350,000 in 2000 to 590,000 in 2014
- The share of all households that are cost burdened (middle blue line) increased from 22% in 2000 to 28% in 2014.
- The share of renters (top maroon line) increased from 37% in 2000 to 48% in 2014.
- The share of homeowners (bottom green line) increased from 17% in 2000 to 21% in 2014.

Implications:

- Since 2000, the need for more affordable housing has increased.
- Starting in 2012, there was a noticeable improvement. As the following graphs will show:
  - Incomes rose in in 2012 and 2013; but in 2014, they started showing signs of leveling off.
  - With respect to homeownership, lower home prices and interest rates after the housing collapse helped alleviate the situation significantly. New homeowners benefited from lower home prices, but existing homeowners also had the opportunity to refinance to the lower-interest rates and reduce their housing payments.
- The cost-burden situation is more severe for renters.
- As we assess the affordable housing landscape, there are a few key questions. Will the recent improvement continue? Will incomes for households in the bottom half of the income spectrum rise with the improving economy? Will incomes keep pace with rising housing costs?



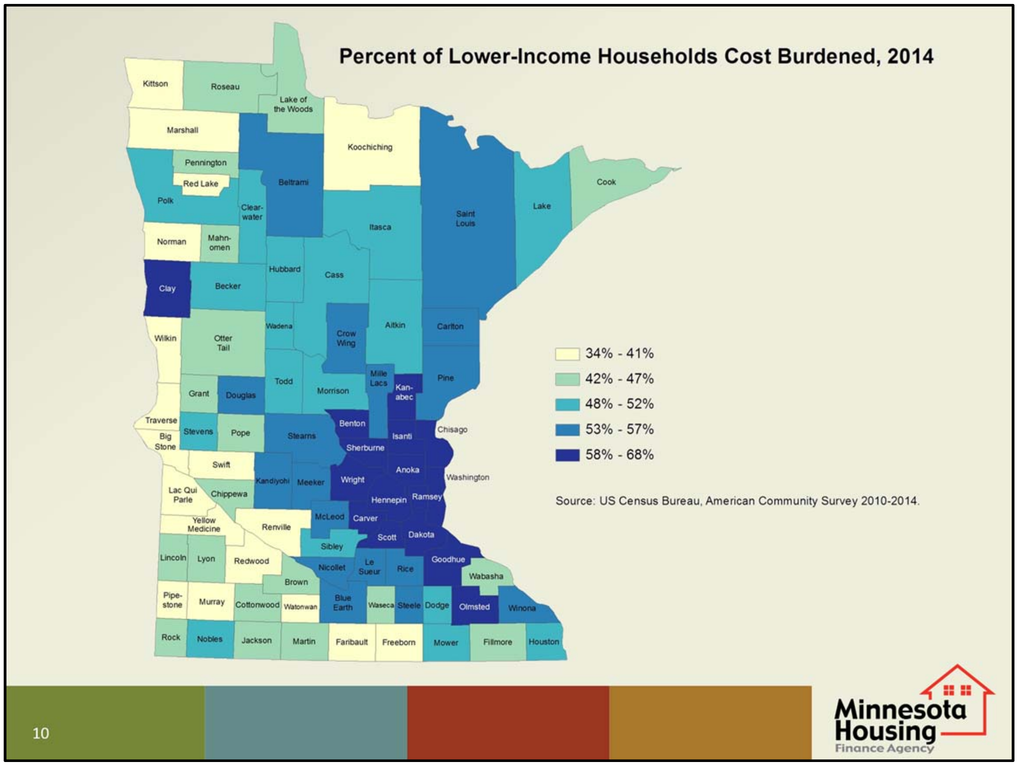
While the previous graph showed the percentage of all households that were cost burdened, this graph shows the percentage of lower-income households that were cost burdened in 2014. For this assessment, we define lower-income as households with an income less than $50,000, which is roughly 60% to 100% of the area median income (AMI) depending on the county.

Key Points:

- The need for more affordable housing is very large, especially for lower-income households.
- 58% of lower-income households (blue bar) are cost burdened.

Implications:

- We do critical work, and we must be as strategic and effective as possible.
- There are about 480,000 lower-income households in Minnesota that are cost burdened.
- In 2015, we assisted nearly 64,000 households. While this is a large and impressive number, it is not large enough to meet the need.



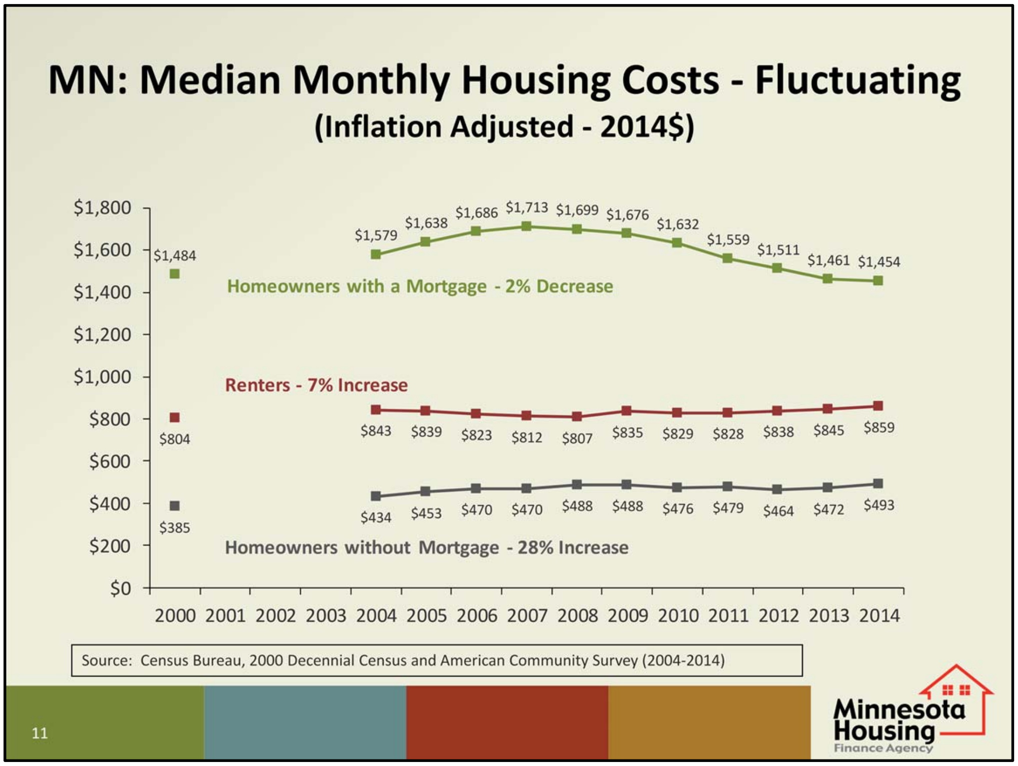
This map shows the percentage of lower-income households (annual income less than $50,000) that are cost burdened by county.

Key Points:

- The percentage varies from 34% to 68%.
- The highest percentages are generally in the metro area and surrounding communities, and the lowest percentages are generally in the western part of the state.
- Even the county with the lowest percentage has 34% of its households with housing costs that are unaffordable.

Implications:

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



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

Key Points:

- Renters' costs increased by 7% since 2000 (after controlling for inflation). This masks shorter-term trends during that period. Statewide, the median rent rose from $804 per month in 2000 to $843 in 2004, fell to $807 in 2008, and has since risen to $859.

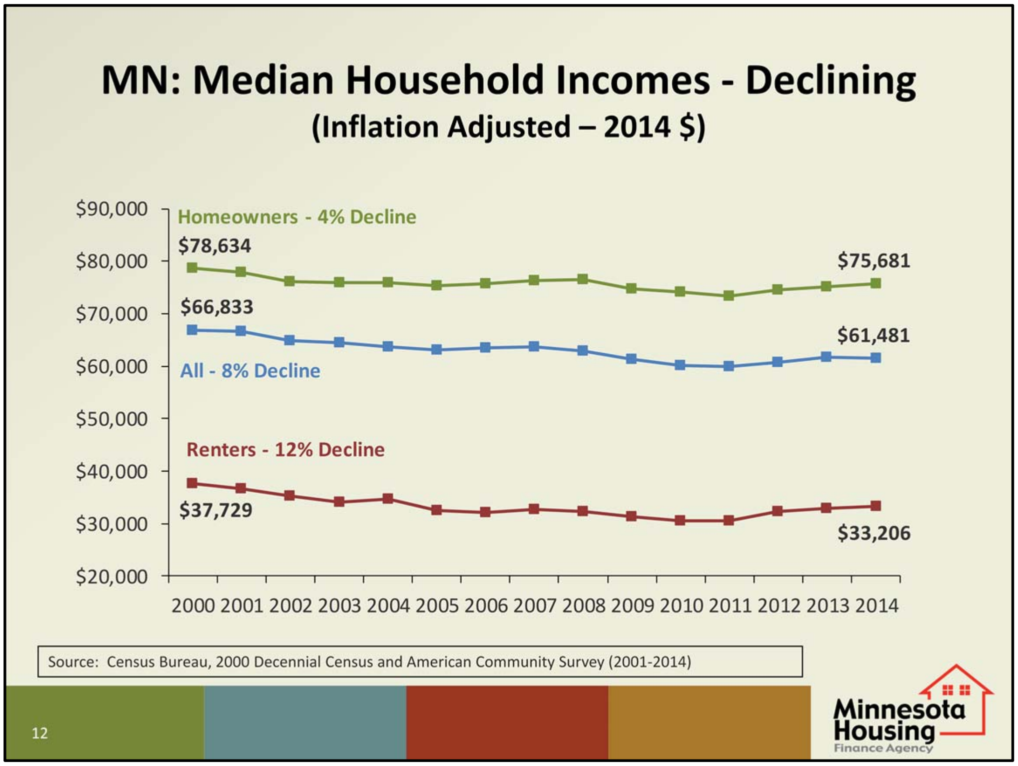
- Costs for homeowners with a mortgage decreased by 2%. Again, this masks an even more dramatic shift during that period. The median monthly cost increased from $1,484 in 2000 to $1,713 in 2007 and then fell to $1,454 by 2014. This trend mirrors a decline in home sale prices and interest rates, which we'll examine later. As a preview, home sales prices are now increasing after bottoming out in 2011/12. Interest rates are still at historically low levels.

- Costs for homeowners without a mortgage increased the most (28%). These higher costs reflect higher property taxes and insurance premiums. Many of these homeowners are seniors who have paid off their mortgages, which is an important point to keep in mind when examining housing for seniors.

Implications:

What can we do to reduce housing costs? Options include:

- Offering mortgages at the lowest interest rates possible.
- Increasing the supply of affordable rental housing.



Falling incomes are a key contributor to the rising rate of cost-burdened households.

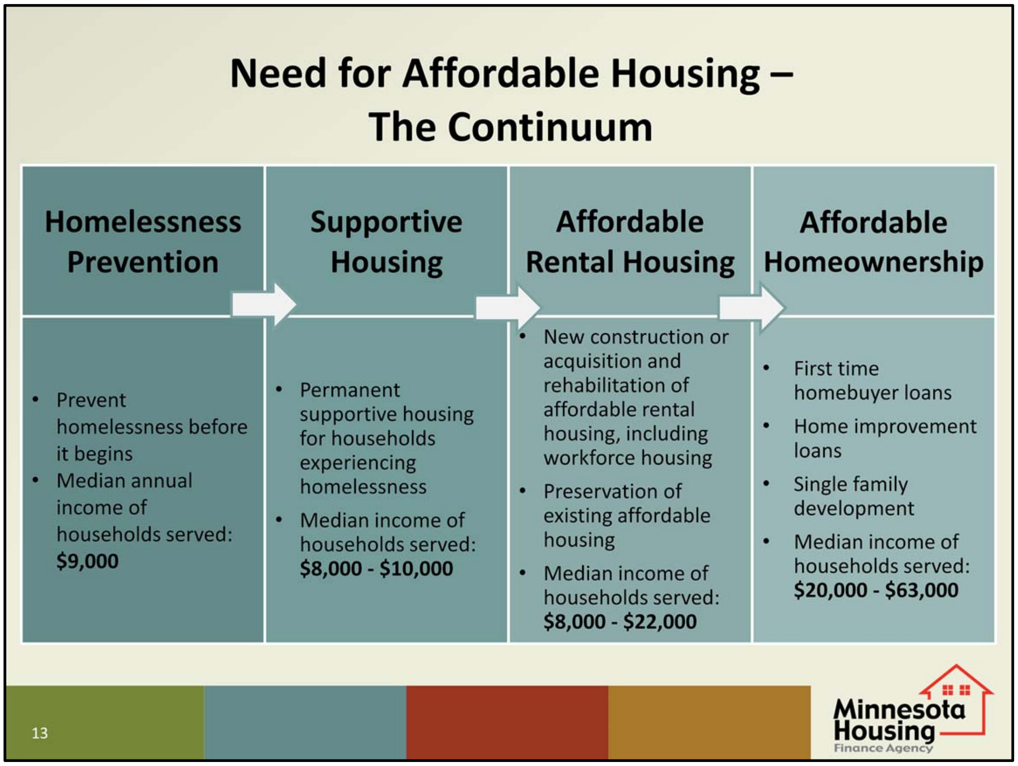
This graph shows the median household incomes over the past 15 years.

Key Points:

- Renter incomes fell 12% after controlling for inflation.
- Homeowner incomes fell 4%.
- With the strengthening economy, incomes increased in 2012 and 2013. However, 2014 had mixed results. After controlling for inflation, the median incomes of all households fell from $61,687 to 61,481.

Implications:

- While we are not an employment agency tasked with increasing household incomes, falling incomes play a key role in the environment in which we finance affordable housing, making the our task more challenging.
- Nevertheless, stable and affordable housing in location-efficient communities (providing access to transit, jobs, services, amenities, good schools, etc.) can contribute to the economic success of low- and moderate-income households.
- Will income increases in the future keep pace with housing costs?



As we assess the need for affordable housing, we must examine the continuum of needs that range from homeless prevention and supportive housing to affordable homeownership and home improvement loans.

We have programs to support the full continuum.

- In 2015, we provided financing that supported nearly 64,000 households. The highlights included:
  - 8,700 household receiving homeless prevention assistance
  - 30,000 households receiving rent assistance through our administration project-based Section 8 units
  - 2,300 rental units constructed or rehabilitated
  - 13,000 households receiving homeownership education
  - 4,100 home mortgages
  - 1,000 home improvement loans

Our homebuyer lending in 2015 was at or near historic levels. While we purchased 4,100 mortgages, we had net commitments of nearly 4,600 mortgages (commitments less cancellations). By the end of the year, we had put a lot of mortgages into the pipeline to be purchased. Prior to 2015, our highest lending level was 4,484 mortgages in 1995.

Theme/Trend #2

The Economy will Likely Continue to Grow Modestly

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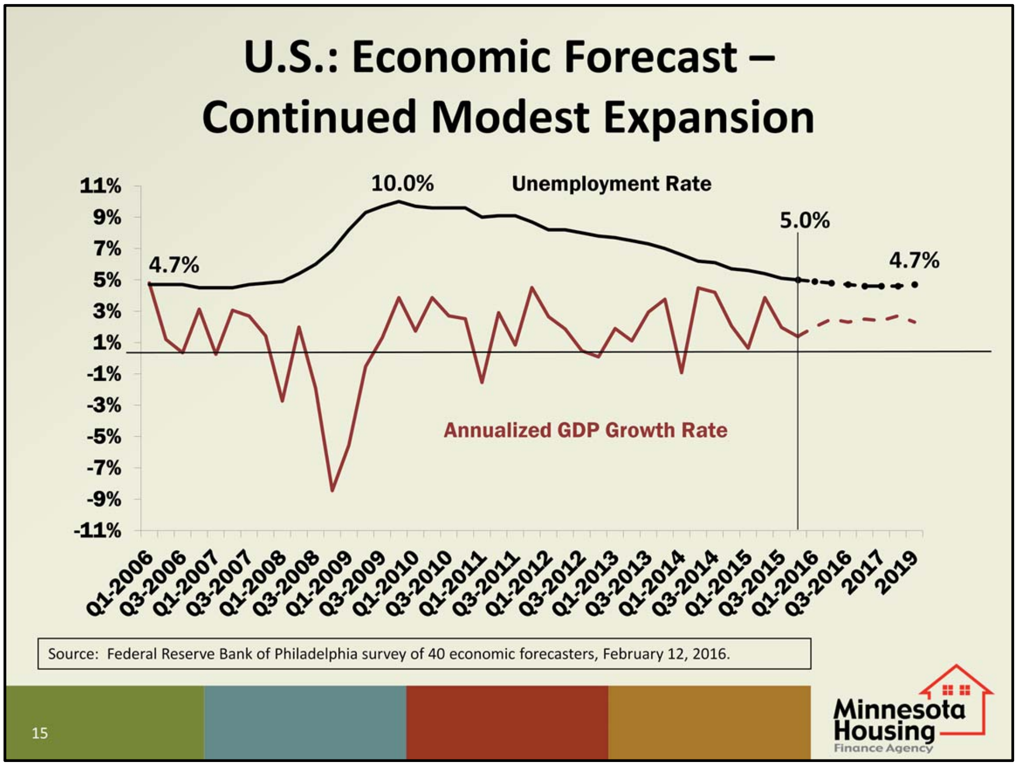


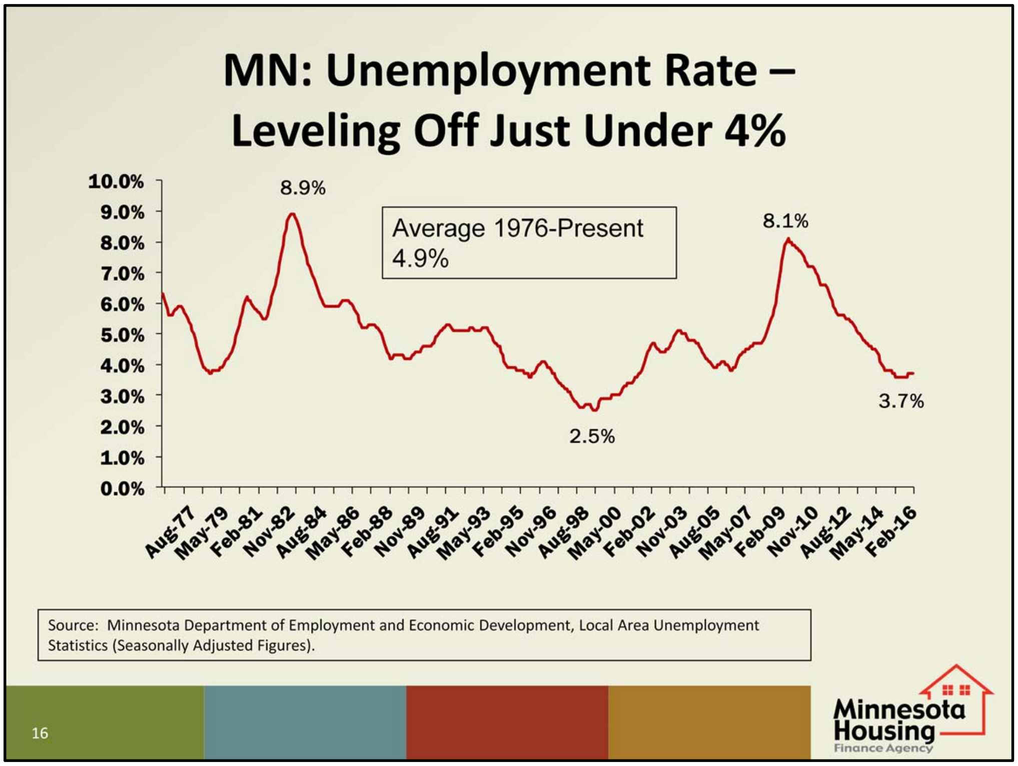
The state of economy plays a key role in the housing market. This graph shows the growth rate of the U.S. economy (as measured by Gross Domestic Product or GDP) and the unemployment rate. The solid lines on the left side are actual rates through the 4th quarter of 2015. The dashed lines on the right reflect a forecast based on a survey by the Philadelphia Federal Reserve Bank of 40 economic forecasters.

Key Points:

- The GDP bottomed out during the 4th quarter of 2008 with an annualized decline of 8.5%, which led to an unemployment rate reaching 10% in 2009.
- Since World War II, the average growth rate in GDP in the year following the end of a recession has been 6.8%. After the end of this most recent recession, the growth rate was only 3%, which was insufficient to quickly bring back the lost jobs. In addition, there has been inconsistent growth. Thus, the country had a slow recovery in employment.
- The forecast indicates that the U.S. unemployment rate will drop back below 5% in 2016 for the first time since the first quarter of 2008.

Implications:

- The economy should continue to recover modestly.
- A stronger economy typically (1) increases incomes, (2) increases the number of households being formed as people stop doubling up and living with their parents, and (3) reduces rental vacancy rates and months supply of homes for sale as additional households form, which leads to higher housing prices.
- Will the continued recovery be strong and widespread enough to benefit lower-income households?



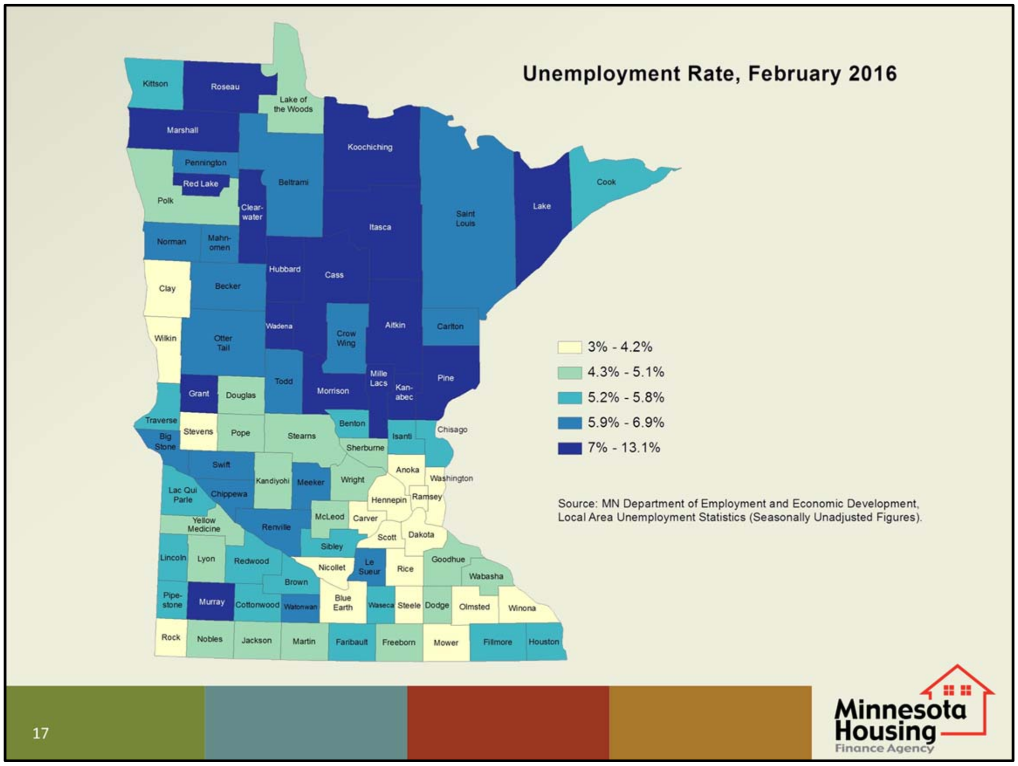
This graph shows the unemployment rate in Minnesota.

Key Points:

- The employment situation is better in Minnesota than nationally.
- While the peak during the Great Recession was 8.1%, the current rate is down to 3.7% and below the historical average.
- The unemployment rate has been between 3.6% and 3.9% since June of 2014, nearly two years.

Implications:

- How will income growth in Minnesota be affected by the state's unemployment rate leveling off just below 4%? Typically, job growth and low unemployment lead to higher wages.



This map shows the unemployment rate in each county.

Key Points:

- The unemployment picture varies quite dramatically around the state – ranging from 3.0% to 13.1%, with the highest rates in north central Minnesota and the lowest in the metro area and southern and western Minnesota.

Implications:

- Minnesota is not monolithic. Different parts of the state have very different economic conditions and housing needs.
- Some parts of the state have significant room for improvement.

Theme/Trend #3

The Housing Market will Likely Continue to Recover

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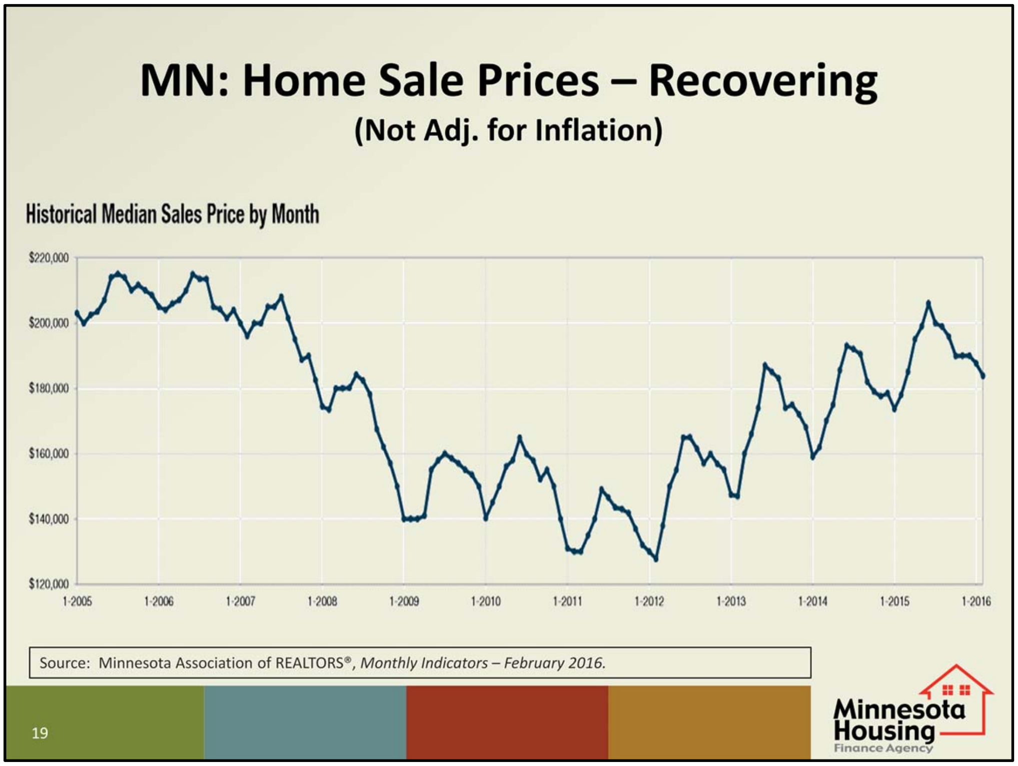


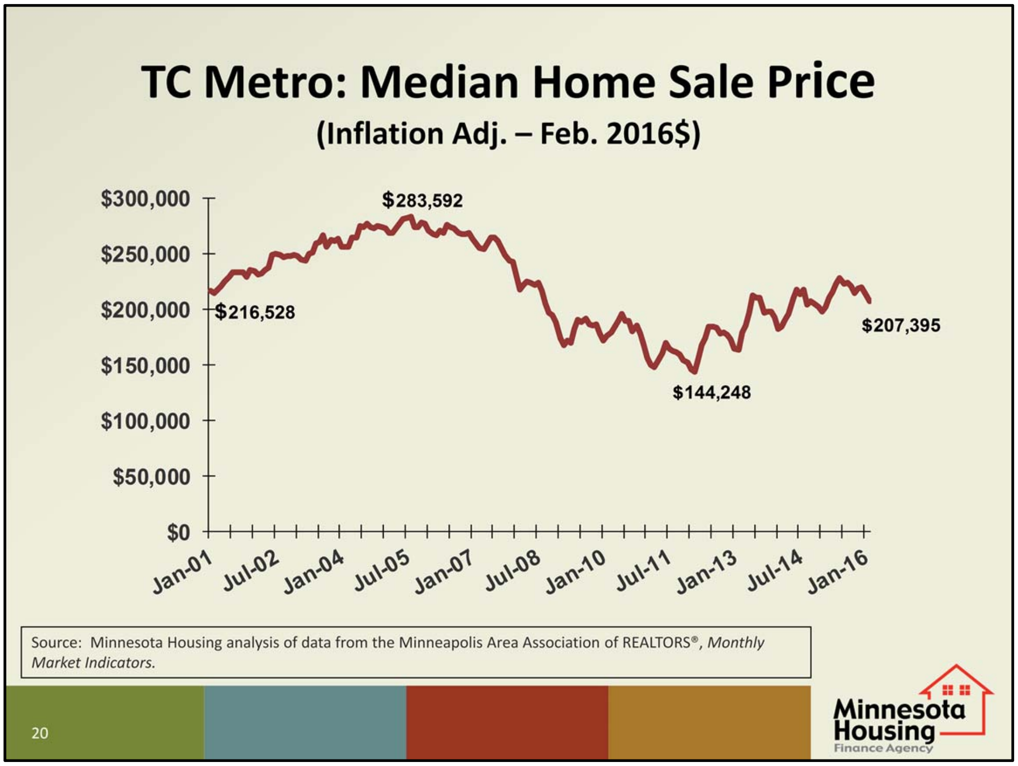
This graph shows the median sales price for homes in the entire state, not controlling for inflation.

Key Points:

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

Implications:

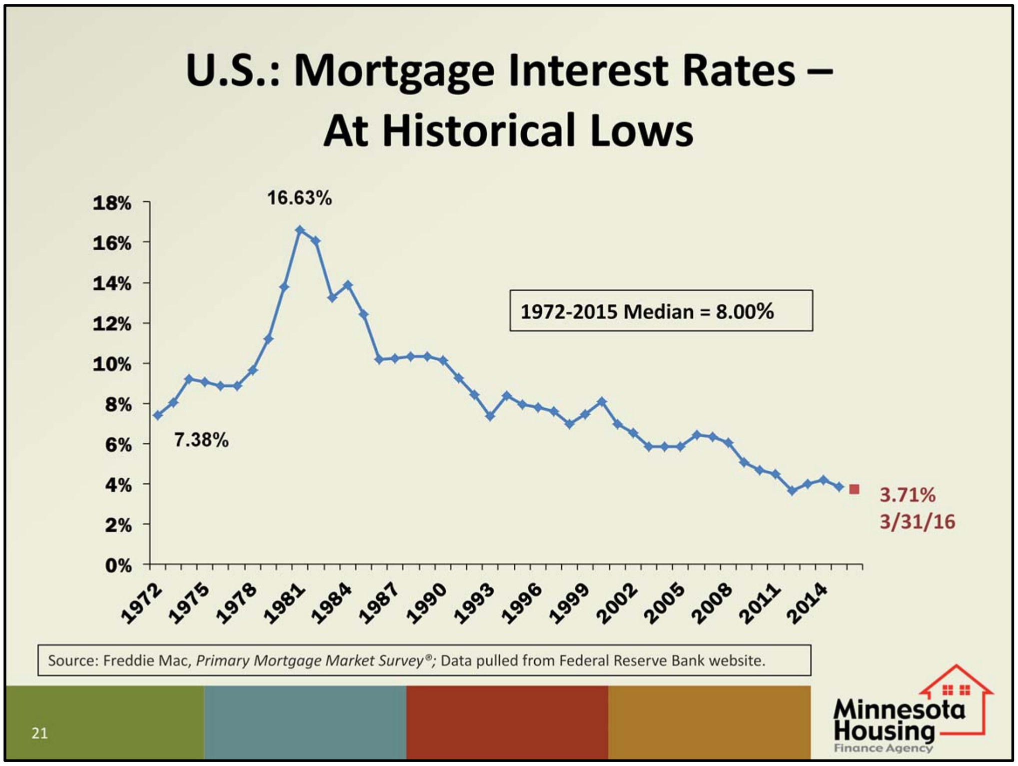
- On the one hand, rising property values help existing homeowners because they add equity and create wealth. This is particularly important for lower-income homeowners because their homes are often their primary asset.
- On the other hand, rising property values makes housing less affordable for people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



This graph shows the median sales price for homes in the Twin Cities metro area. It is included as a separate graph because we have access to historical and electronic data from the Minneapolis Area Association of REALTORS. This allows us to carry out more detailed analyses, including controlling for inflation.

Key Points:

- The pattern in the Twin Cities metro area is similar to the statewide pattern.
- The data available for the metro area also shows the rapid increase in prices that created the housing bubble, and the rapid decline after the bubble burst.
- By controlling for inflation, this graph shows the longer way the market has to recover when factoring in the declining value of a dollar over time.



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

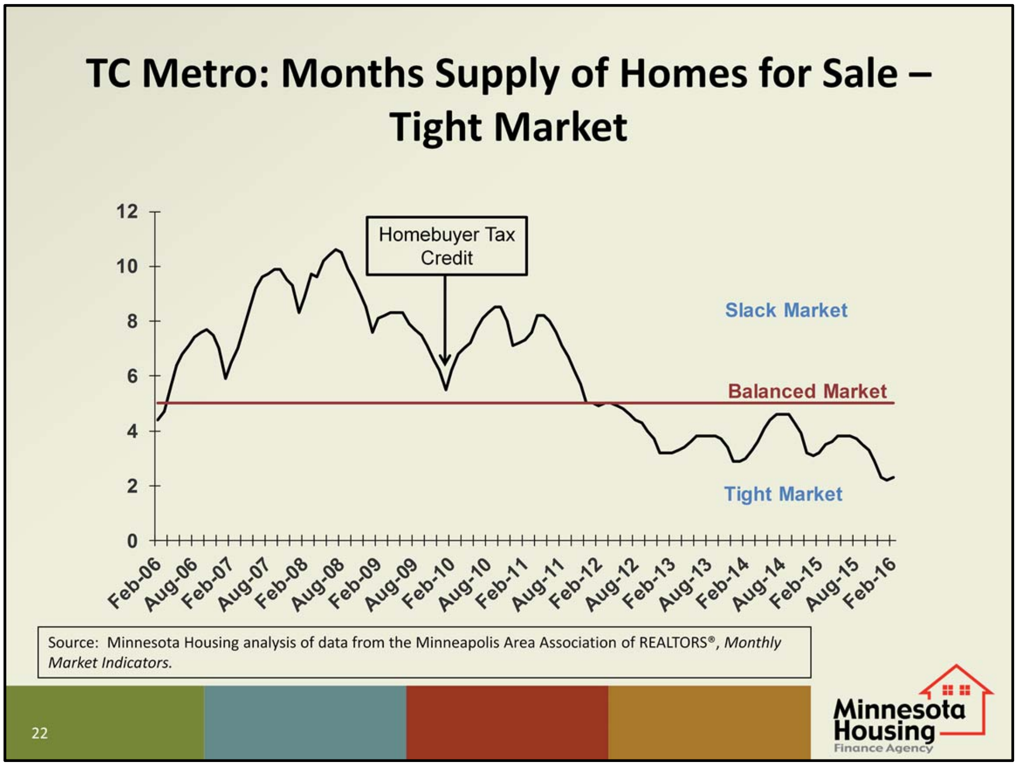
This graph shows mortgage interest rates since 1972.

Key Points:

- During this period, the median rate was 8.00%.
- The peak rate occurred in 1981 (16.63%).
- In recent years, the rates have reached their lowest levels, at or below 4%.

Implications:

The current rates, which are very low in historical terms, are making homeownership more affordable. This is a great time for people to buy a home.



As shown in an earlier slide, home prices bottomed out in 2011 and started to rise in 2012. One of the best indicators of home price trends is the months supply of homes for sale, which is a combination of the current inventory and how fast homes are selling. It measures how long it would take to clear the current inventory of homes for sale. Generally, if the inventory is more than five months, it is a slack or buyer's market with prices declining; if the inventory is less than five months, it is a tight or seller's market with prices rising.

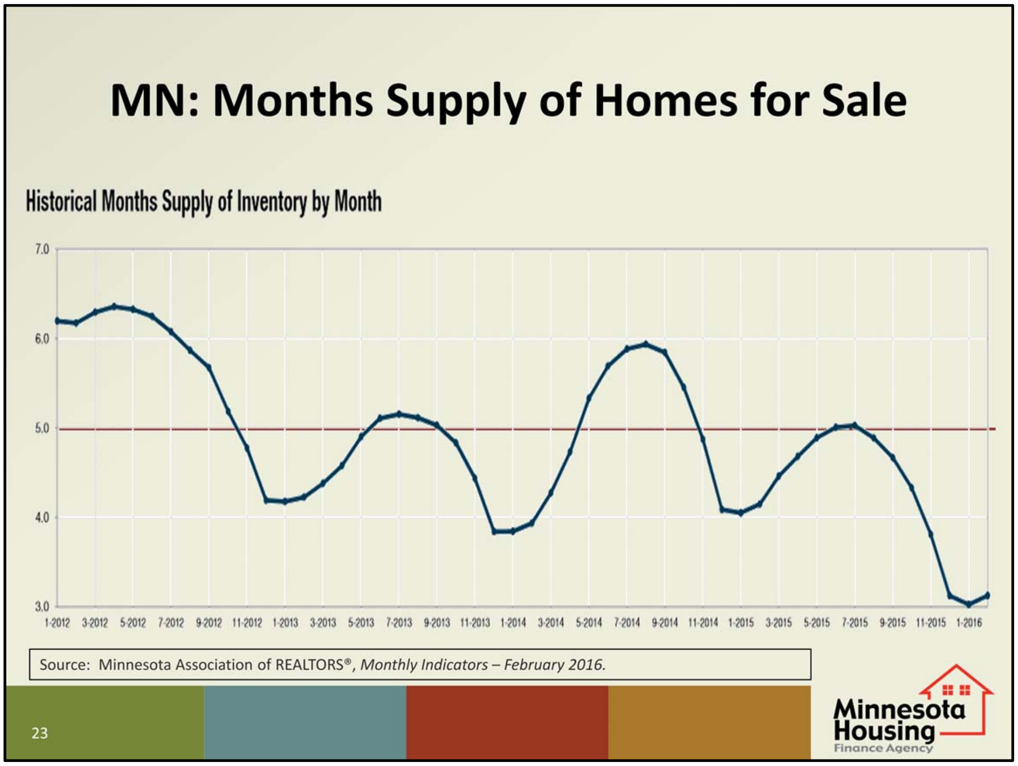
This graph shows the months supply of homes for sale since 2006 in the Twin Cities metro area.

Key Points:

- This graph starts when the housing market started to decline (prices peaked in 2006). In the first part of the graph, the months supply of homes for sale is above five.
- In January 2010, the inventory approached five months with the homebuyer tax credit (part of the federal government's stimulus plan to jump start the housing market).
- The inventory has been below five months since May of 2012, indicating a tight seller's market and rising prices.

Implications:

- As long as the inventory stays below five months, prices should continue to rise.
- In addition, the Federal Reserve Bank of Philadelphia's survey of professional forecasters indicates that the nationwide S&P/Case-Schiller home price index is expected to increase by 4.6% in 2016 and 4.0% in 2017. (Quarter 1 - 2016 forecast)



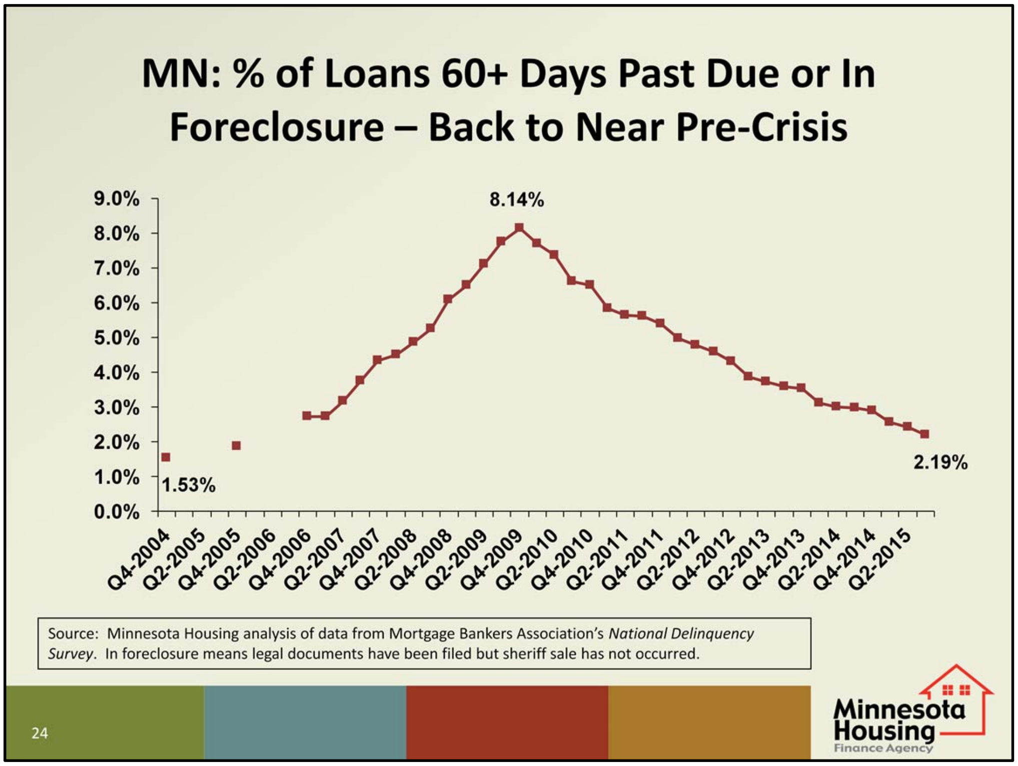
This graph is the same as the previous slide, but covers the entire state.

Key Points:

- Statewide, the recent inventory has been closer to five months of homes for sale than the inventory in the metro area.

Implications:

- In aggregate, Greater Minnesota may not see home price increases as large as the metro area, but there will be differences in individual markets.



The stronger economy and housing market have alleviated the foreclosure crisis.

This graph shows the share of mortgages approaching a sheriff sale in the foreclosure process. It captures loans that are 60 or more days past due, including loans that have started the foreclosure process (legal documents filed) but have not yet reached a sheriff sale.

Key Points:

- The rate of troubled loans has declined significantly in recent years (from 8.14% to 2.19% of loans), and it is getting close to pre-crisis levels. The rate was 1.53% in the 4^{th} quarter of 2004.

Implications:

- With the return to more normal levels, we dropped addressing foreclosures as one of our strategic priorities.
- Nevertheless, foreclosure prevention is a very cost-effective strategy. Thus, prevention and foreclosure counseling will remain important programs.

MN: % of Mortgages Underwater – Much Lower

Year and Quarter	Share of MN Mortgages with Negative Equity
2009-Q4	16.6%
2010-Q4	15.9%
2011-Q4	18.4%
2012-Q4	16.4%
2013-Q1	17.5%
2013-Q2	12.6%
2013-Q3	9.6%
2013-Q4	9.9%
2014-Q1	9.7%
2014-Q2	7.8%
2014-Q3	7.2%
2014-Q4	8.1%
2015-Q1	7.9%
2015-Q2	5.9%
2015-Q3	5.6%
2015-Q4	6.1%
SOURCE: CoreLogic's Equity Reports – publicly available on the internet.	

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A key benefit of a recovering housing market and rising home values is fewer homeowners being underwater with their mortgages (owing more on their mortgage than their home is worth).

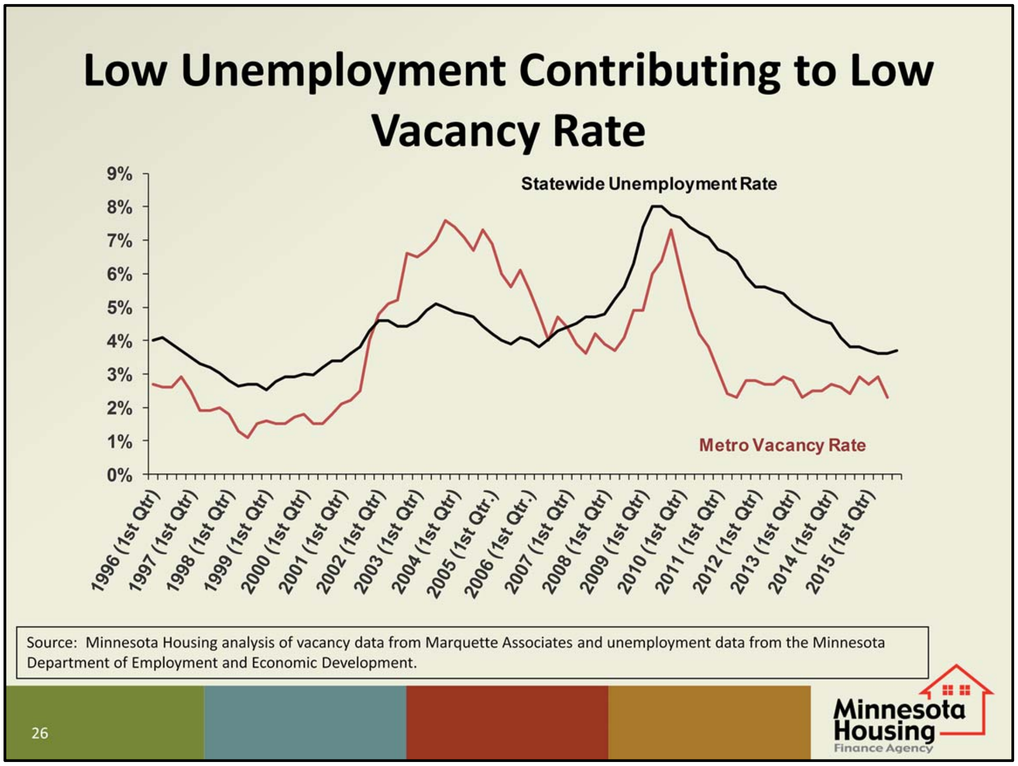
Key Points:

- After fluctuating between 16% and 18% between 2009 and 2012, the share of mortgages that are underwater declined to 5.6% by the 3rd quarter of 2015. This corresponds with the stronger market and price increases since 2012.

Implications:

With fewer underwater mortgages:

- The supply of homes for sale may increase as homeowners, who were previously trapped in their underwater mortgages, are able to put their homes on the market.
- It will be easier for homeowners to get home improvement loans because they will now have the equity in their homes to use as collateral. This will help maintain and improve the quality of the state's housing stock.
- Also, with improving values, homeowners have an incentive to maintain and improve their homes. They will be more likely to see a return on the investment, rather than a loss.



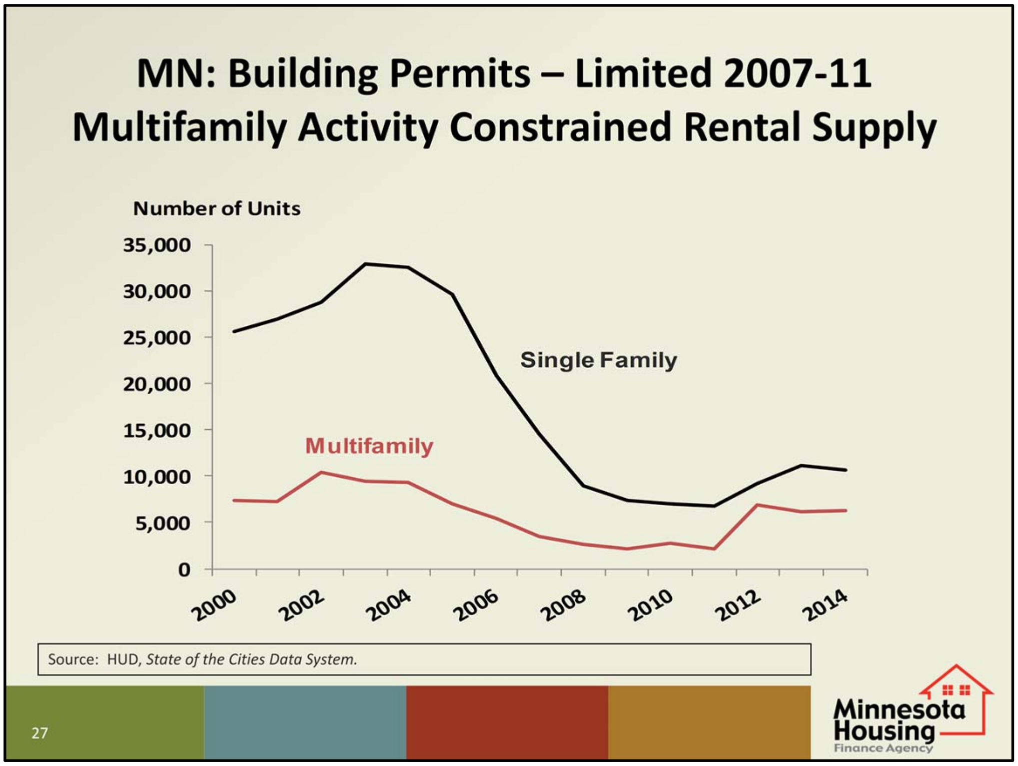
Switching to the rental market, this graph shows the relationship between unemployment and rental vacancy rates.

Key Points:

- When the unemployment rate is low, the vacancy rate is low. When unemployment is high, the vacancy rate is high. With employment struggles, households double up and young adults stay home with their parents.
- The recession initially led to high vacancy rates in 2009. However, in 2010 and 2011, the rate rapidly declined when unemployment was still above 6%. Two factors contributed to this divergence.
  - There was very little multifamily construction from 2007 through 2011, which limited the supply and decreased vacancies.
  - The homeownership rate declined between 2006 and 2012, which increased the demand for rentals and decreased vacancies.

Implications:

- With low vacancy rates, developers are now building more units, reflecting a recovery.
- Looking into the future, there are a few competing trends influencing the vacancy rate.
  - An improving economy and employment picture will reduce vacancies as more households are formed and rent.
  - While the homeownership rate had been declining (reflecting more renters), it appears to have stabilized and leveled off, putting less downward pressure on the vacancy rate.
  - New multifamily rental units under construction will increase the supply and decrease vacancies.



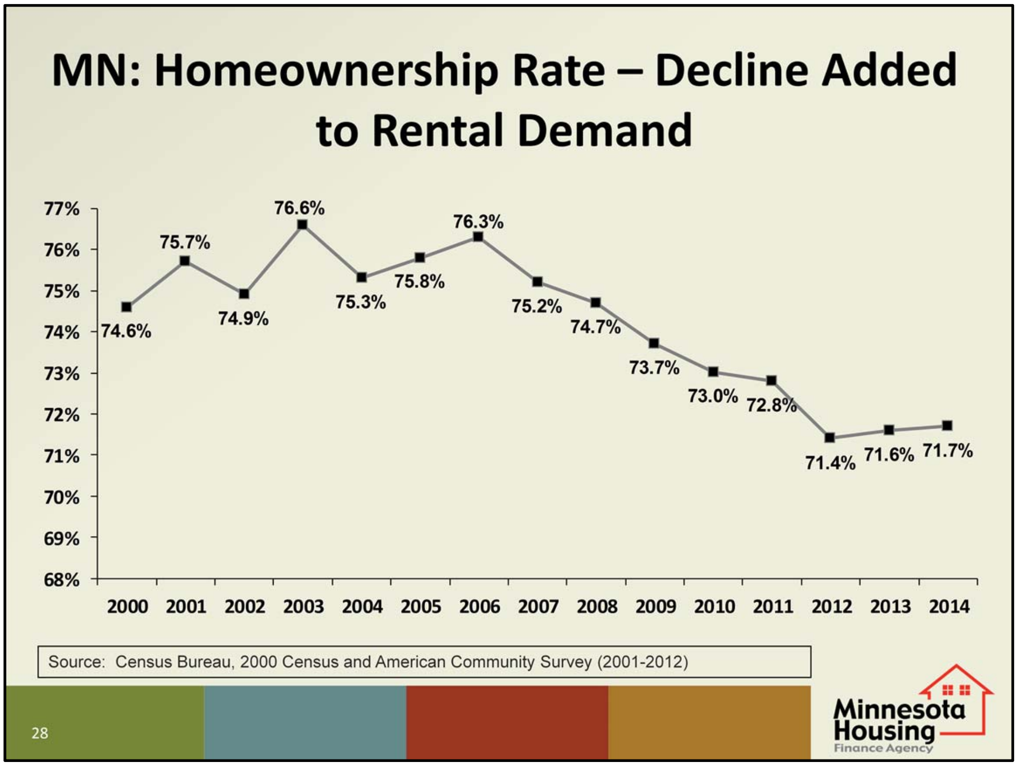
With the Great Recession and financial crisis, there was very little housing construction.

Key Points:

- The annual number of multifamily permits dropped from the 9,000-10,000 units in 2002-04 to the 2,000-3,000 units in 2008-11. The number increased to nearly 7,000 in 2012 and dropped to 6,200-6,300 units in 2013-14. Data for 2015 is not yet available.
- The decline in single-family permits was even larger.

Implications

- The low level of multifamily construction between 2007 and 2011 limited the number of units that are currently available, which decreased the rental vacancy rate.
- With the low vacancy rates and increased demand for new units, multifamily construction has picked up.



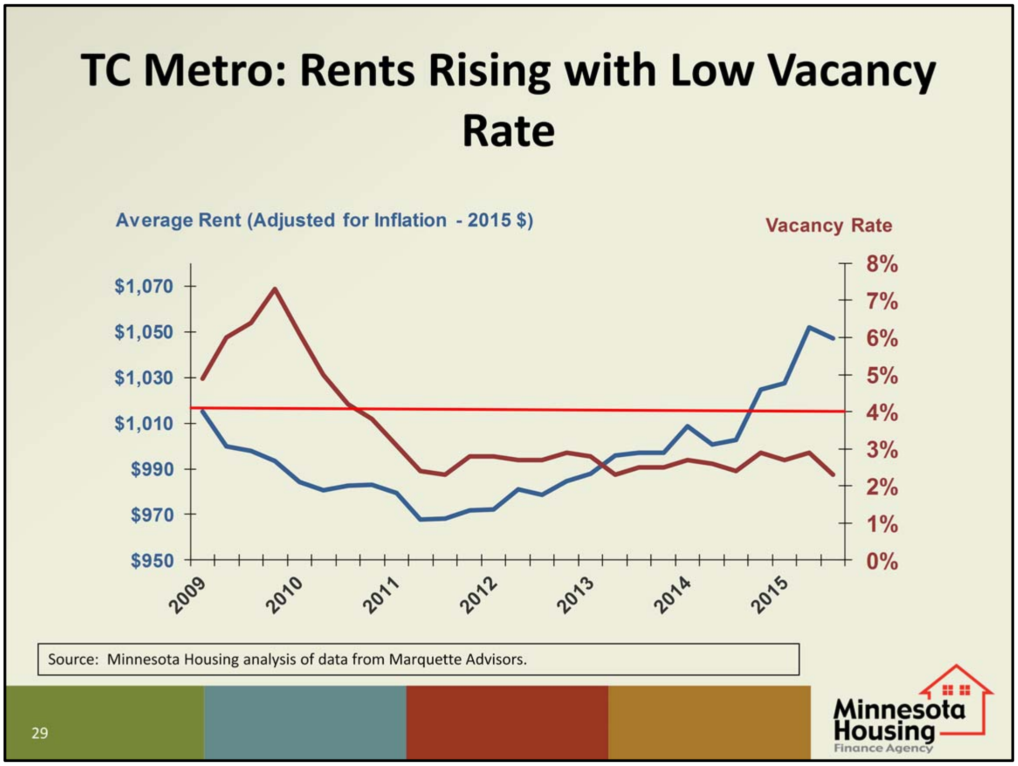
This graph shows the homeownership rate in Minnesota.

Key Points:

- The rate peaked in the 2003-06 period and declined through 2012.
- The rate increased for the first time in several years in 2013 and 2014.
- The American Community Survey is based on a sample of Minnesota households and has a margin of error. The large decrease in 2012 may have been an overstatement. Other data on household numbers in this report also show results for 2012 that seem out of line from what would be expected.

Implications:

- As mentioned earlier, the lower level of homeownership and higher level of renting in recent years has increased the demand for rental housing, which contributed to the low vacancy rates.



Previous graphs showed the effect of unemployment, construction, and the homeownership rate on vacancies. This graph shows the effect of vacancies on rents. A 5% vacancy rate reflects a balanced market, where renters are able to find apartments and landlords are able to rent their units relatively quickly. In a balance market, rents remain stable.

Key Points:

- When the vacancy rate is consistently below 4% (red horizontal line), rents generally rise because the supply is limited relative to demand.
- When the vacancy rate is consistently above 6%, rents generally fall because there is extra supply relative to demand.
- Since 2011, vacancies (maroon line) have been consistently below 4%, and rents have increased (blue line).

Implications:

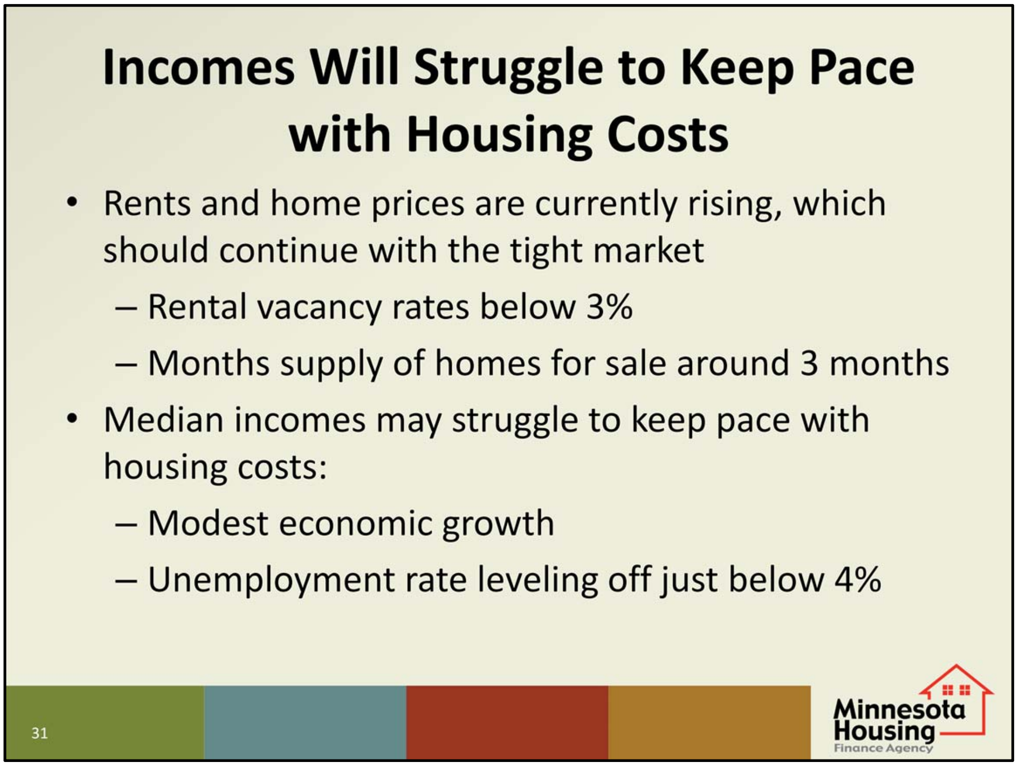
- As long as vacancy rates stay below 4%, rents will likely rise.
- As discussed earlier, the vacancy rate will depend on the strength of the continuing economic recovery and job/household growth, the numbers of rental units added through new construction, and the homeownership rate (people renting versus owning).

Theme/Trend #4

With Modest Economic Growth, Incomes will Likely Struggle to Keep Pace with Expected Housing Cost Increases

30

Minnesota Housing Finance Agency



As the previous two sections have shown:

- With the improving economy and stronger/tight housing market, rents and home prices are likely to rise. The rental vacancy rate remains below 3%, and the months supply of homes for sale remains around 3 months.

- The economy and jobs are recovering, which should help increase incomes. However, this expansion needs to be strong and wide spread enough to benefit low- and moderate-income households, not just higher-income households. With the modest economic forecasts and unemployment in Minnesota leveling off just below 4%, incomes may struggle to keep pace with housing costs.

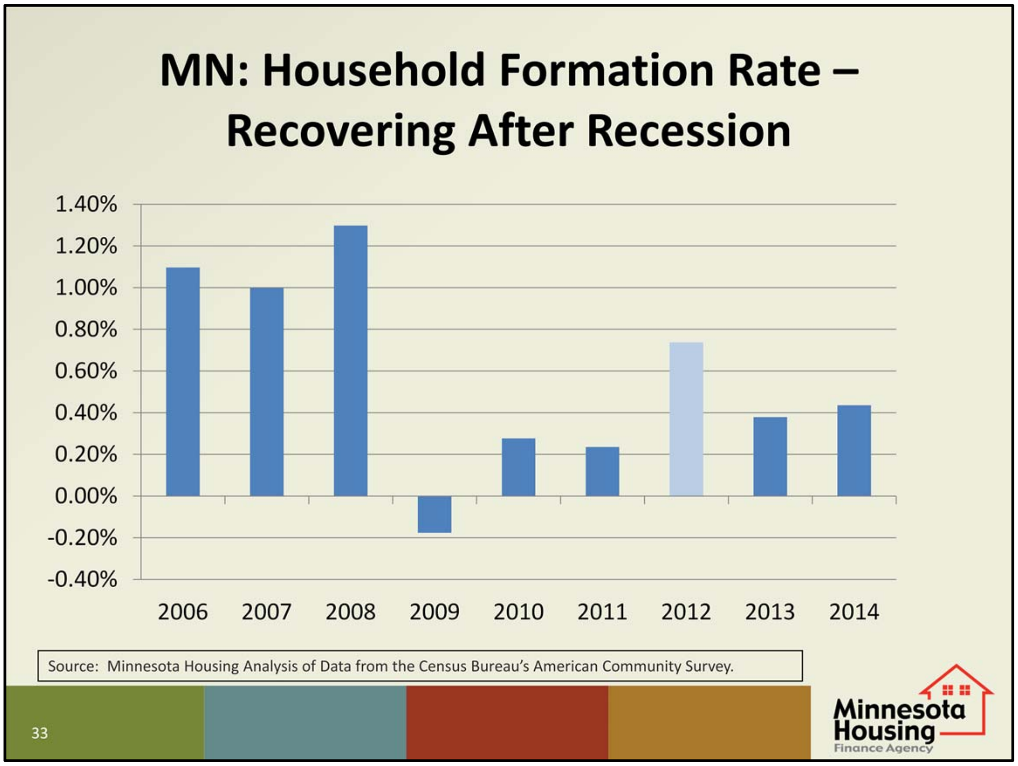
- The number of cost-burdened households in the future will depend on the strengths of these trends. If incomes do not keep pace with costs, the number will increase.

Theme/Trend #5

With a stronger economy, household formation is increasing, which is modestly increasing demand for housing

32

Minnesota Housing
Finance Agency



The formation of new households creates the demand for new housing. This graph shows the percentage change in the number of households in Minnesota from the previous year.

Key Points:

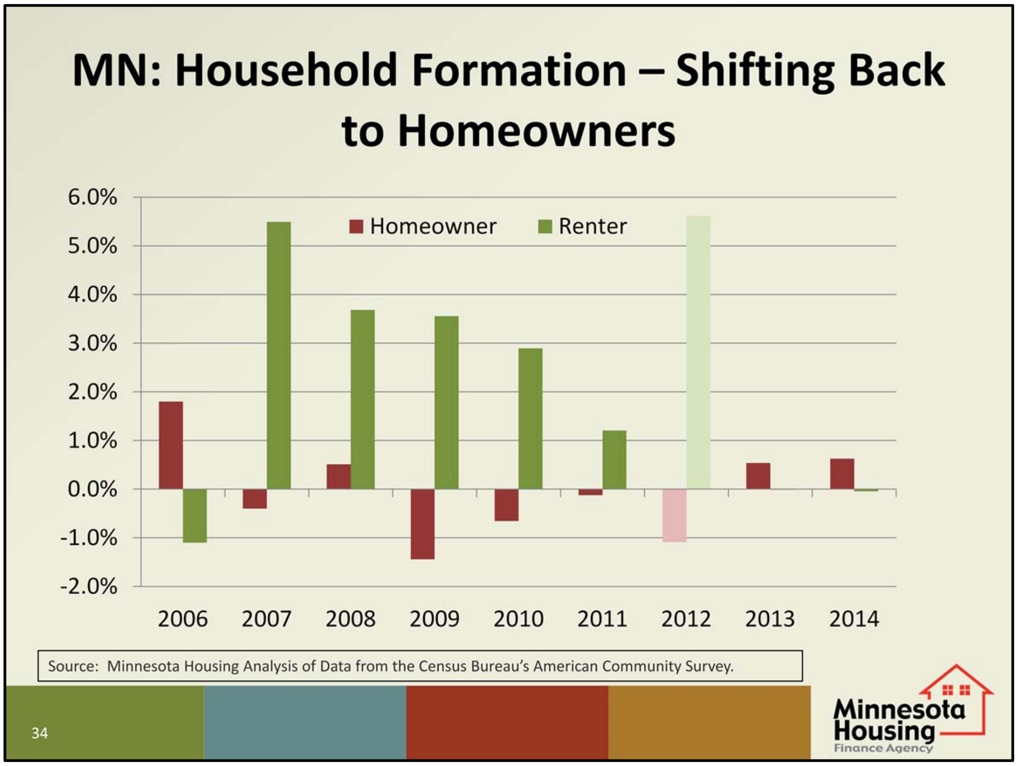
- Economic and employment growth drive household formation. When the economy is weak and people lose their jobs, existing households double up to share housing costs and young adults live with their parents, reducing the number of households. When the economy is strong, households stop doubling up and young adults venture out on their own, creating new households.

- The household formation rate has changed significantly over the last decade:
  - In 2006-08, the annual rate of household growth was just over 1%.
  - As the economy bottomed out during the recession, there was a lose of households in 2009.
  - In 2010-11, as the economy started to recover slowly, the number of households increased by about 0.25% each year.
  - In 2013-14, with the modestly stronger economy, the annual growth rate jumped to about 0.4%.

- We have highlighted 2012 with a lighter shade of blue, because we have concerns about the accuracy of the data from this year. As mentioned earlier, the American Community Survey is based on sample data with a margin of error, and the 2012 results seem out of line with the trends and results from other years.

Implications:

- Housing demand is increasing with the formation of additional households



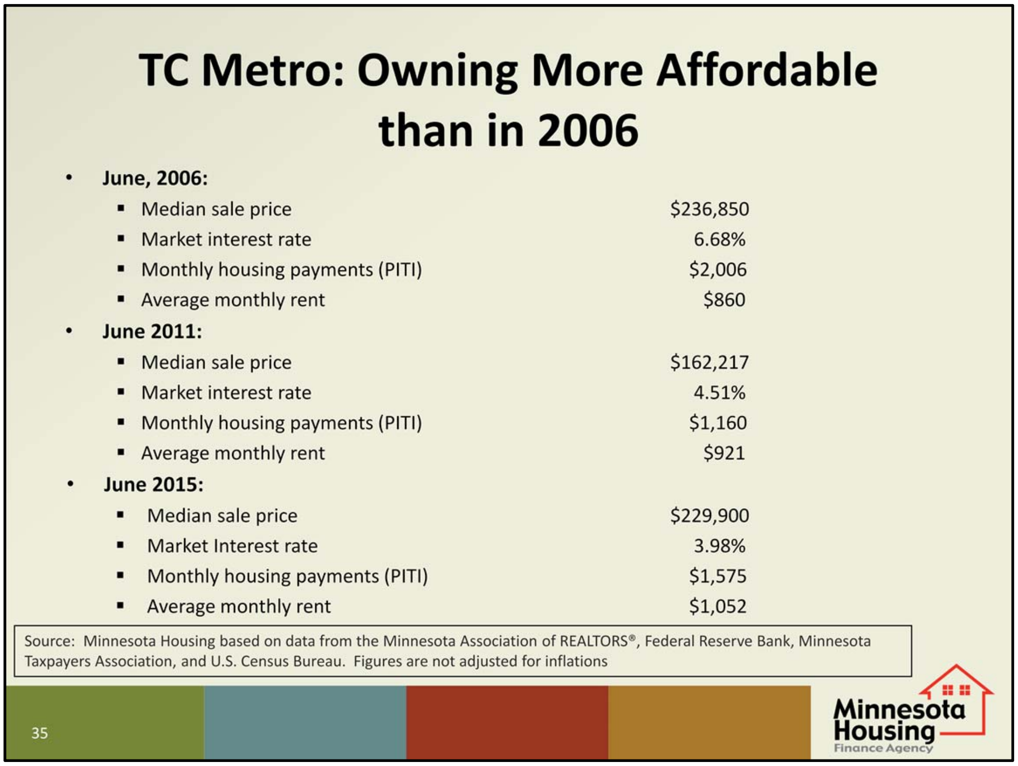
This graph shows the same household formation data as the previous graph but breaks it out between homeowners and renters, which have very different trends. When assessing this data, keep in mind that roughly 3 out of 4 Minnesota households own their homes. Homeowners play a larger role in the overall statewide trends than renters.

Key Points:

- In 2006, the economy was strong, and we were at the peak of the housing boom. As a result, Minnesota had strong growth in homeowner households and a decline in renter households.
- In 2007-08, signs of the housing crisis started to emerge, and there was a dramatic shift in household formation toward renting, rather than owning. There was little or no growth in homeowners .
- In 2009-11, the full effect of the housing crisis and recession was in place, and the number of homeowners declined significantly in 2009. The decline then got smaller with each year.
- In 2013-14, the number of homeowner households increased for the first time since 2008, while the number of renter households declined very slightly (see the tiny green slivers below the 0.0% line).

Implications:

- With the housing crisis and recession, there was a fundamental shift away from owning toward renting. However, since 2013, the trend is moving back to owning. The graph of Minnesota's homeownership rate on page 28 also shows this shift.
- While the homebuyer market is clearly recovering, our record lending in 2015, as outlined on page 13, seems far more robust than the overall market, which may reflect a demand for our products that is stronger than the overall market. We'll have to wait for 2015 data on household formation and market-wide lending to make this determination.



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

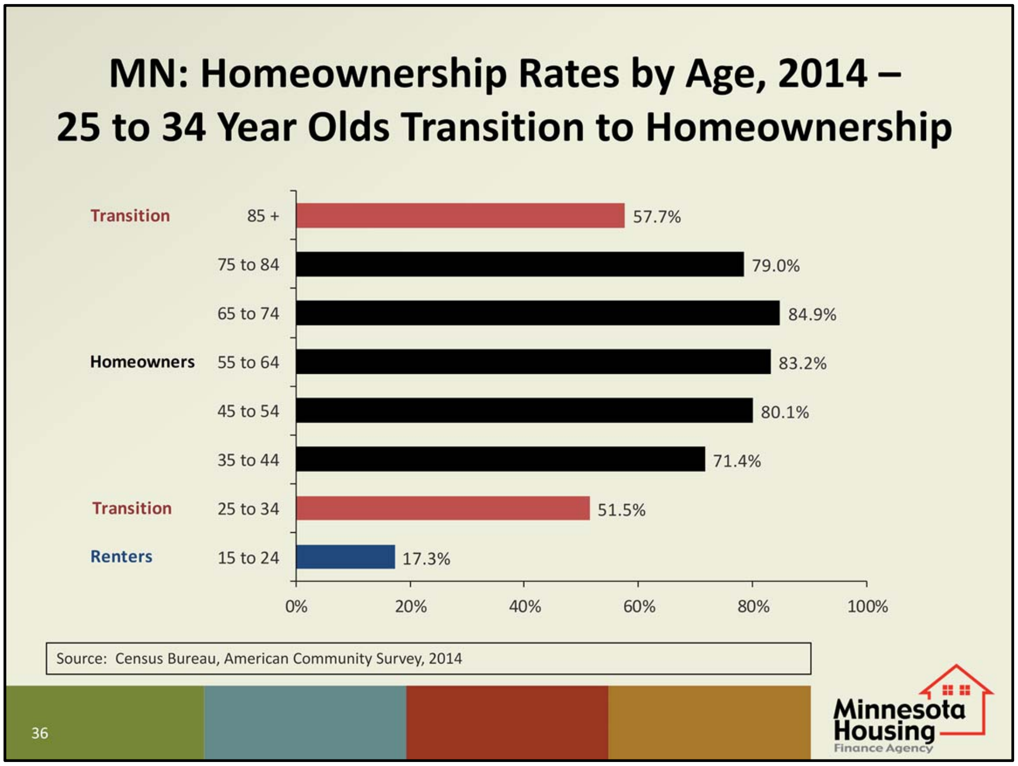
This slide shows the housing payment (principal, interest, taxes & insurance) for the median priced home in in June of 2006, 2011 and 2015 in the Twin Cities metro area. (The analysis examines the same month in each year because home sale prices fluctuate with the time of year, and we wanted consistency in the comparison. In addition, June is a prime home-buying month.)

Key Points:

- In 2006, the housing payment on a median priced home was $2,006 – more than twice the average rent for an apartment ($860).
- By 2011 (with much lower prices and interest rates), the housing payment on a median priced home was down to $1,160 – just a couple hundred dollars more than the average rent ($921).
- By 2015 (with higher prices but lower interest rates), the housing payment was up to $1,575 – about $500 more than the average rent ($1,052).

Implications:

- Owning a home became most affordable in 2011, which may have helped stabilize the homeownership rate after several years of declines.
- Buying a home is still more affordable than it was in 2006.
- This affordability should continue to induce more people to become homeowners.

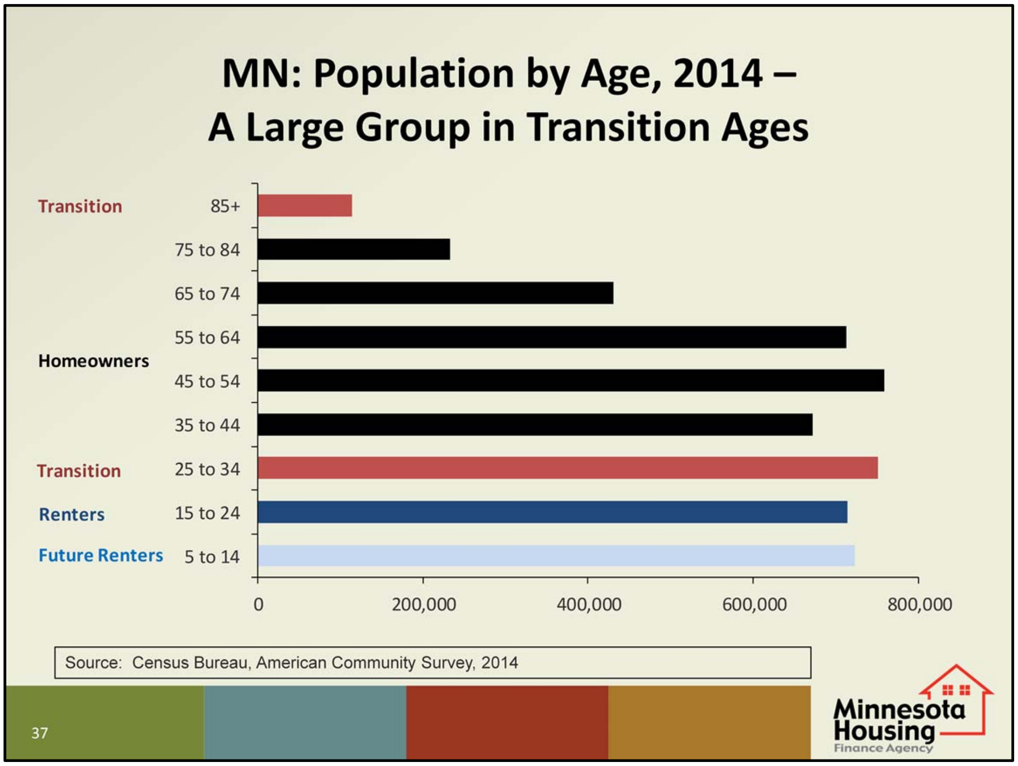


While the state of the homebuyer market (affordability of owning versus renting, economic stability, underwriting standards, and expectations of price appreciation/depreciation) plays a key role in the homeownership rate. A person's stage in life (often reflected by his or her age) plays another key role.

This graph shows the homeownership rate by age.

Key Points:

- Young single people who are in the less-stable and early stages of their careers and lives typically rent for affordability and flexibility reasons. (See ages 18-24 in this graph.)
- As families form and careers are established, households look for stability and transition to homeownership. (See ages 25 to 34 in this graph. The transition continues but to a lesser extent for 35 to 44 year olds.)
- From ages 45 to 74, the vast majority of Minnesota households are in the homeownership stage of life.
- After households go through the initial phase of retirement, age, and start to face the struggles of independent living, they start to transition back to renting.



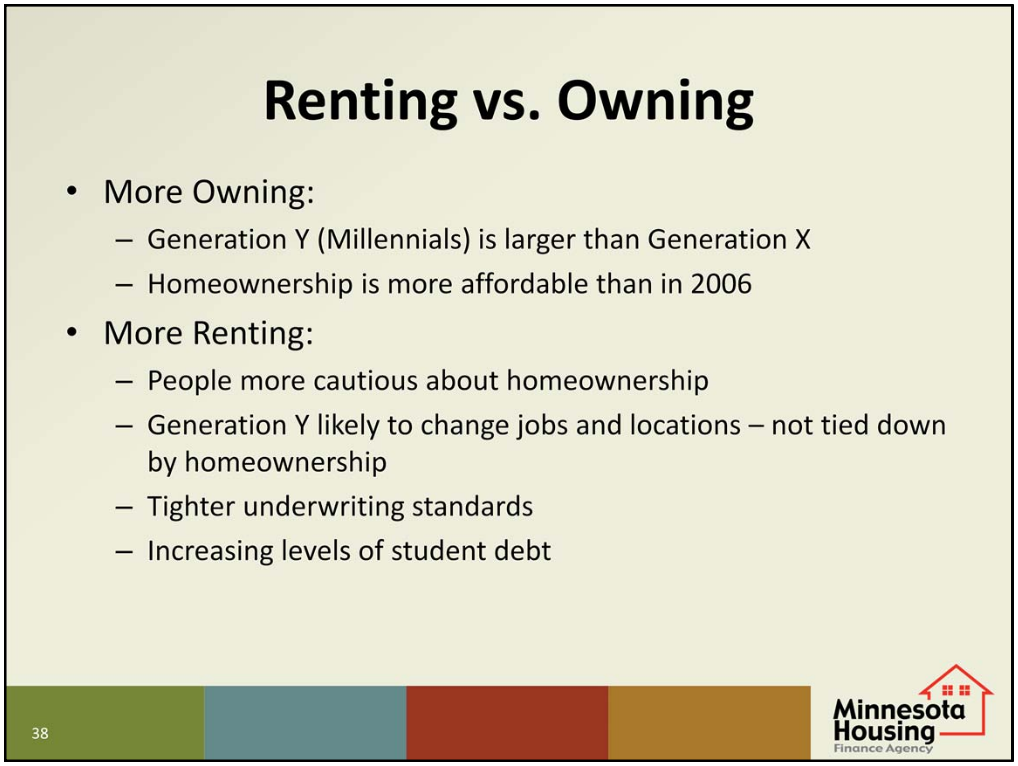
This graph shows the break out of Minnesota's 2014 population by age and the renter/owner phases.

Key Points:

- Demographics played a role in the decline in the homeownership rate.
  - The largest age cohort is 45 to 54 year olds. From 2005 to 2014, this group turned 45, the age when the homeownership rate stops seeing large increases. This large group stopped driving the homeownership rate up.
  - The smallest working-age cohort is 35-44 year olds (largely representing Generation X). Over the last 10 years, this group was setting into the initial homeowner phase of live, and its small size limited the growth in homeownership.
- The second largest age cohort is 25 to 34 years olds (largely representing Generation Y or Millennials). This large group is at the prime age for first-time homebuyers, which should increase homeownership in the coming years.

Implications:

- Understanding the home-buying needs of the Millennial generation will be a critical strategy going forward.



What factors are influencing the homeownership rate?

More Owning:

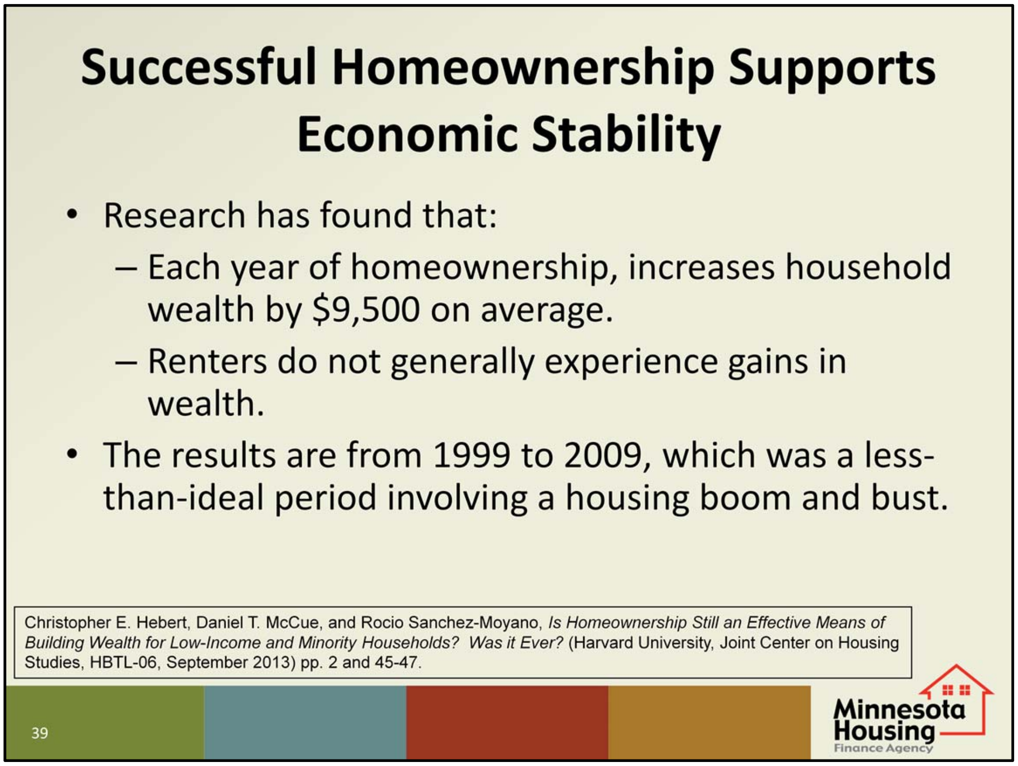
- As just discussed, the Millennial generation (aka, Generation Y) is large and starting to transition into the homeowner phase of life.
- Homes are more affordable today than in 2006. Home prices are increasing, but interest rates are at historically low levels.
- The economy is expected to expand modestly. When families experience economic stability, homeownership is more likely.

More Renting:

- After the housing and foreclosure crisis, people are more cautious about homeownership.
- Even though Generation Y is starting to move into the traditional home-buying age group, they may delay this step. They may want the flexibility to change jobs and locations and not be tied down by ownership.
- Tighter underwriting standards are limiting homeownership.
- Student debt levels are limiting homeownership. Underwriting standards include stricter debt-to-income requirements to qualify for a mortgage. For example, debt payments (including mortgage, student loans, car loans etc.) typically cannot exceed 43% of income.

Implications:

The difficulty in getting a loan makes our lending programs more important.



Homeownership is a powerful tool.

- While research has found that renters generally have very limited gains in wealth, successful homeowners see large increases in their wealth, even in tumultuous economic times.
- For many lower-income homeowners, their home is their primary source of wealth.
- One of our core functions is to promote and support successful homeownership.

Theme/Trend #6

More Affordable Housing is Needed in Areas with a Growing Workforce

40

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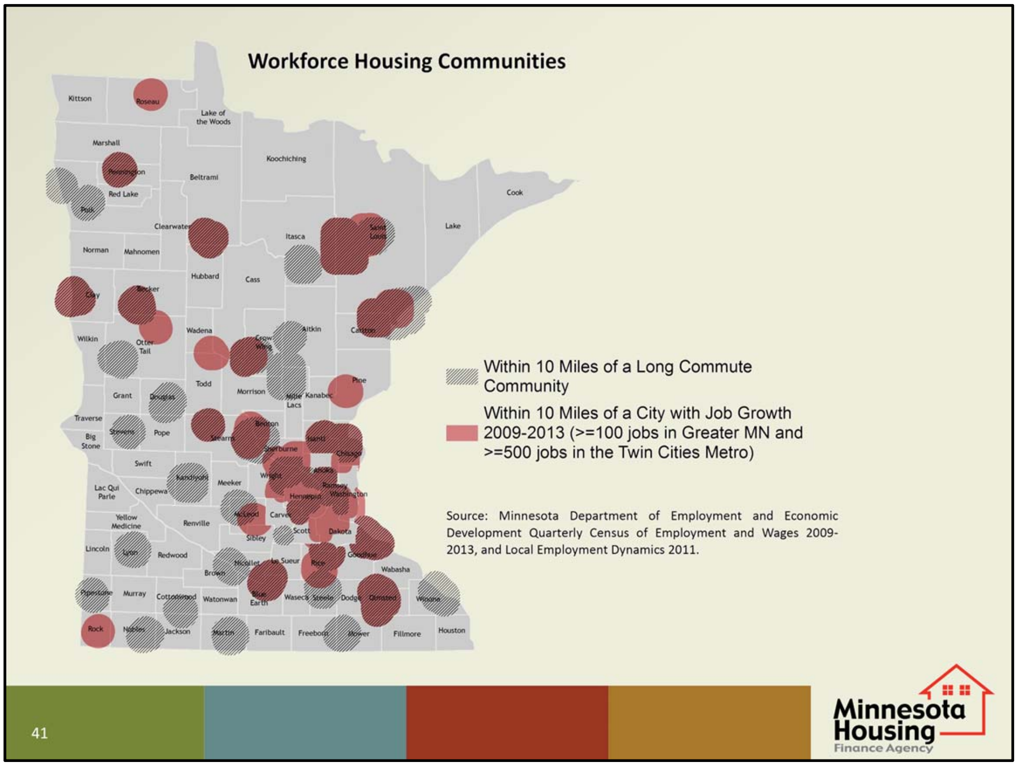
Finance Agency



With an growing economy, workforce housing has become an issue.

To assess the need, we identified in 2015 77 communities in Minnesota with workforce housing needs.

Key Points:

- The cities/townships in maroon have at least 2,000 jobs and significant job growth over a five year period. To accommodate this growth, additional housing is needed
- The cities/townships with the hatched lines have at least 15% of the workforce commuting at least 30 miles into their community for their jobs. The long commute may signify a lack of workforce housing in these communities.
- To account for a reasonable commute, the map adds a 10 miles commute shed around Greater Minnesota communities and a 5 mile commute shed around metro area communities.

Implications:

- There are workforce housing communities across the state.

How many rental units are needed to address the workforce housing needs in these communities?

- In the 77 workforce housing communities, we estimated:
  - The vacancy rate to be about 2.5% in those communities.
  - That 4,500 to 7,500 additional rental units were needed to raise the vacancy rate from 2.5% to 4% - 5% (reflecting a more balanced market)
- This estimate had a few caveats. The estimate:
  - Only addressed the current shortage rental housing,
  - Only applied to properties with 5+ units, and excluded rental properties with 1-4 units,
  - Did not account for increasing demand resulting from job and household growth, and
  - Did not account for units that were under construction, but not ready for occupancy.

Theme/Trend #7

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

43

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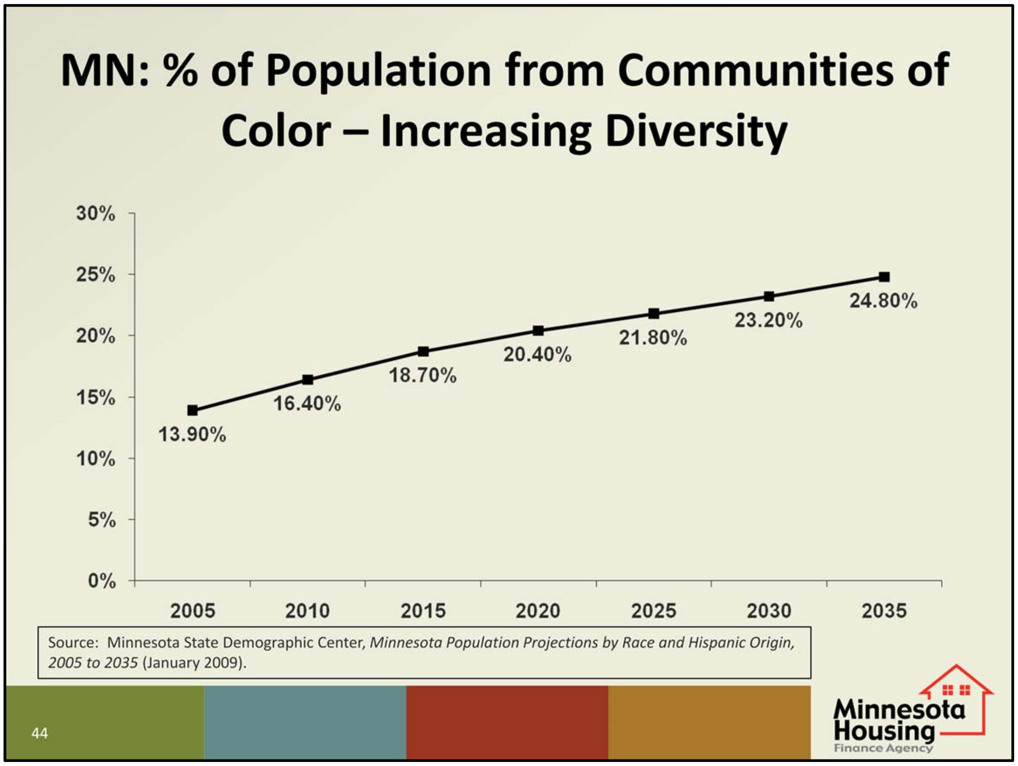


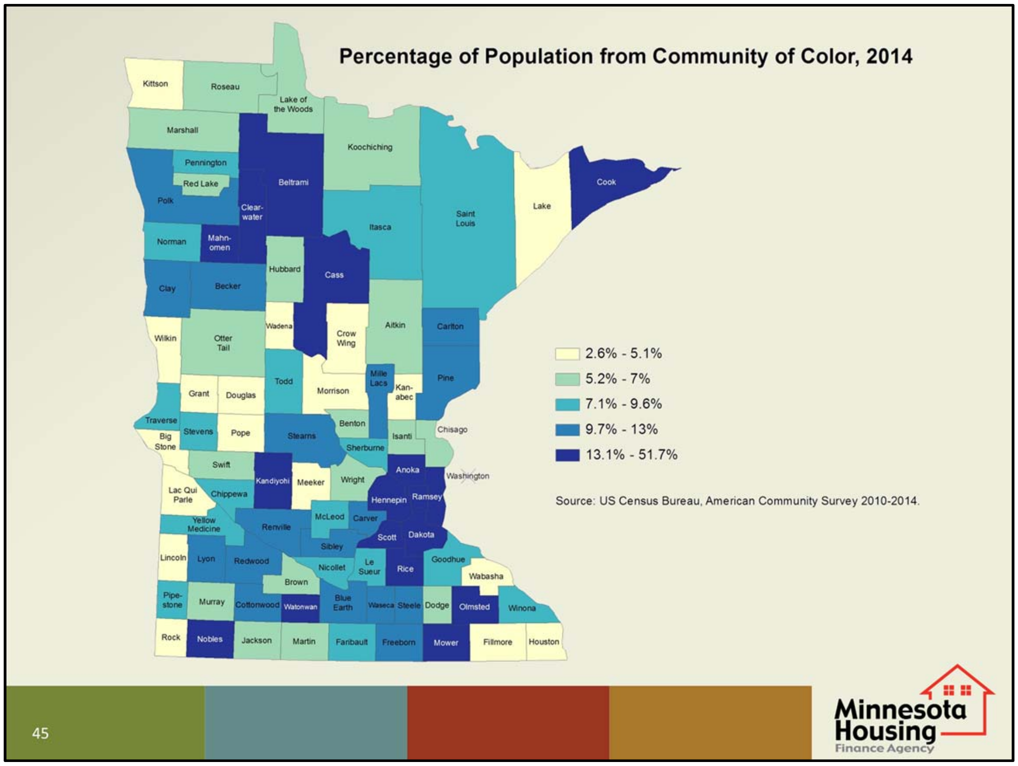
This graph shows a projection from the State Demographer's Office about the increasing share of the state's population that is from a community of color or of Hispanic ethnicity.

Key Points:

- By 2035, roughly 25% of the state's population will be of color or Hispanic ethnicity.

Implications:

- The housing needs of people of color or Hispanic ethnicity will become more predominant as they will account for a larger share of the population.



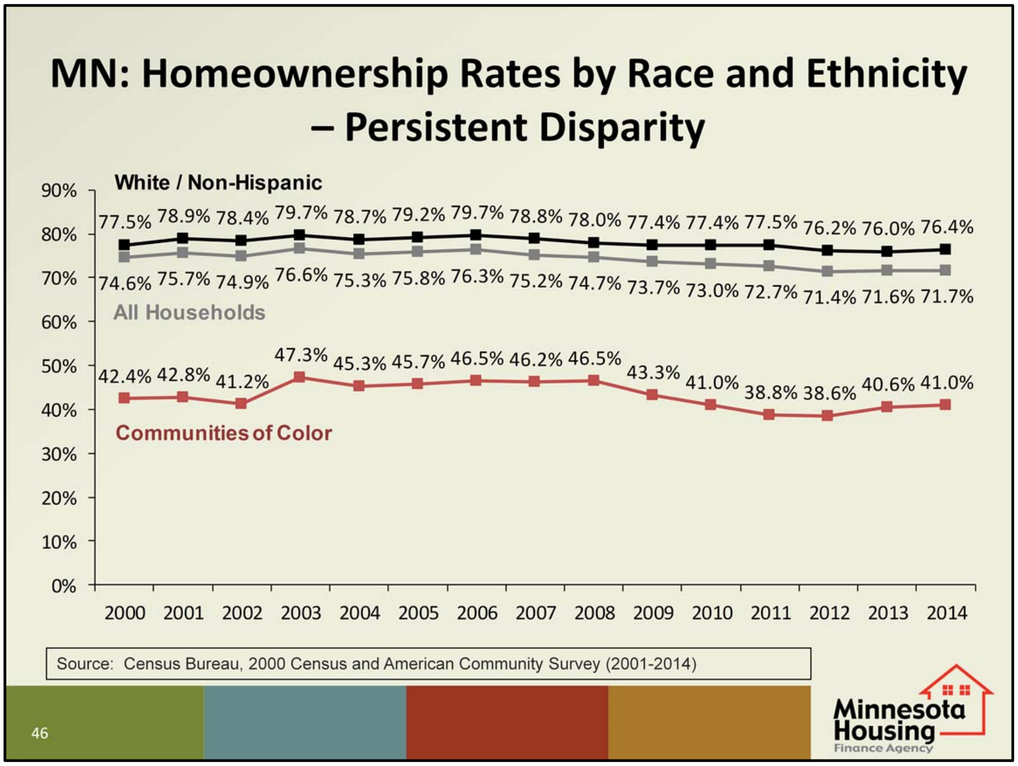
As shown in the map, people of color or Hispanic ethnicity are not evenly distributed across the state.

Key Points:

- The percentage in each county varies from 2.6% to 51.7% of the population.

Implications:

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



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

Key Points:

- Minnesota's 35.4 percentage point disparity in homeownership rates between white/non-Hispanic households and households of color is the third largest in the country.

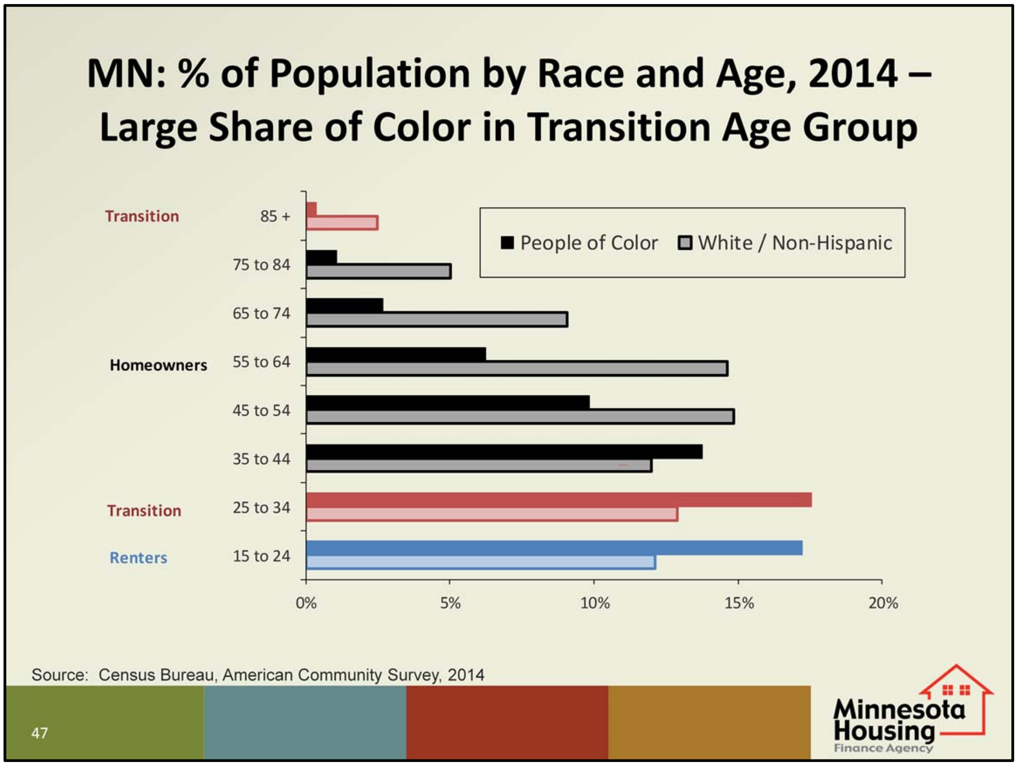
Implications:

- We have estimated that just over 25% of renter households that are income eligible for our mortgage programs are of color or Hispanic ethnicity. If we want to address the homeownership gap, the share of our loans going to households of color or Hispanic ethnicity should be in this range. This is an imperfect standard because it does not take into account people who may or may not be eligible for a mortgage because of low credits scores, high debt-to-income ratios, or other underwriting criteria. Nevertheless, it is an informative benchmark.

- Between 2009 and 2015, our actual percentage has been between 23% and 33%.

- For the first two quarters of federal fiscal year 2016, 33.6% of our first-time homebuyer loans went to households of color or Hispanic ethnicity.

- In contrast, the share of mortgages in the overall Minnesota market going to households of color or Hispanic ethnicity ranged between 9% and 11% during that time.



This graph shows the share of the Minnesota population in various age groups, broken out between communities of color/Hispanic ethnicity (solid bars) and the white/non-Hispanic population (lightly-shaded bars). In addition, the bars are color coded to reflect the housing phase of each age group (renter, transition, and homeowner).

Key Points:

- The largest age group for people of color is 25 to 34 year olds, accounting for 18% percent of the population of color (see the solid red bar near the bottom). The size of each older age group gets smaller and smaller (see the successive solid bars moving up the graph).
- In contrast, the largest white/non-Hispanic age group is the 45-54 year olds (see the gray bar near the middle), accounting for 15% of the white/non-Hispanic population.
- The largest community of color age group is in the transition to homeownership phase of life, while the largest white/non-Hispanic age group is in the homeowner phase.

Implications:

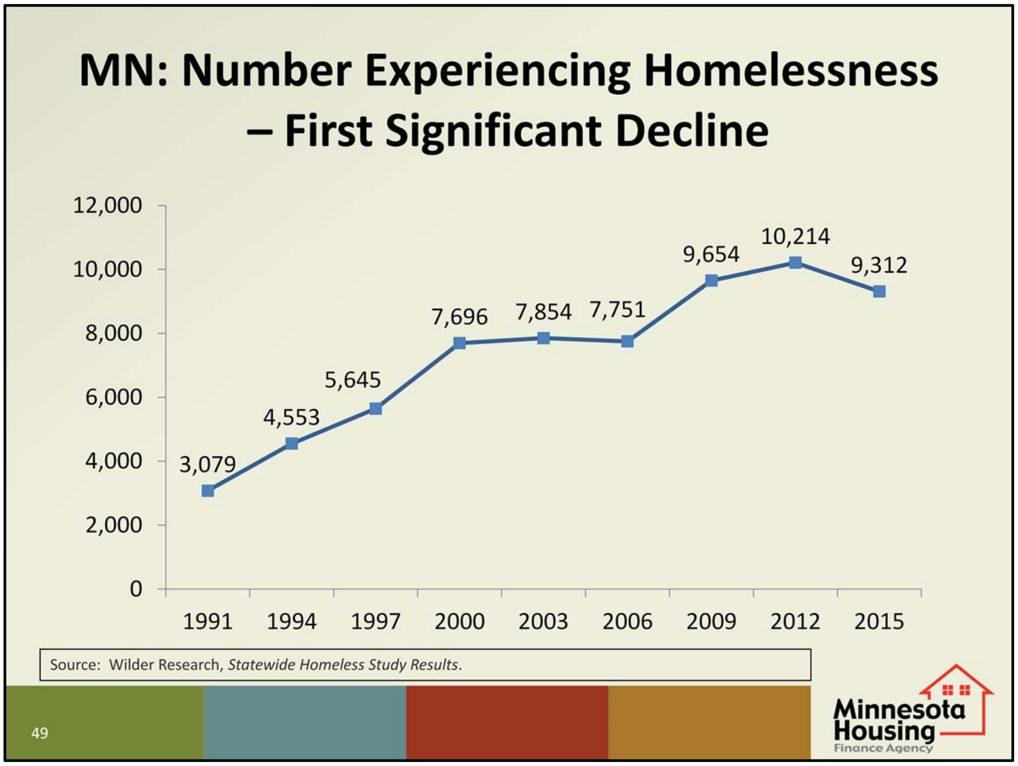
- While households of color or Hispanic Ethnicity are far more likely to be renters, they comprise a sizable share of the population that will that typically transitions to homeownership (25 to 34 year olds).
- Focusing on households of color or Hispanic ethnicity is one of our strategic priorities.

Theme/Trend #8

For the First Time, the Number of People Experiencing Homelessness Had a Significant Decline in 2015

48

Minnesota Housing Finance Agency



This graph shows the number of homeless on a given night in Minnesota.

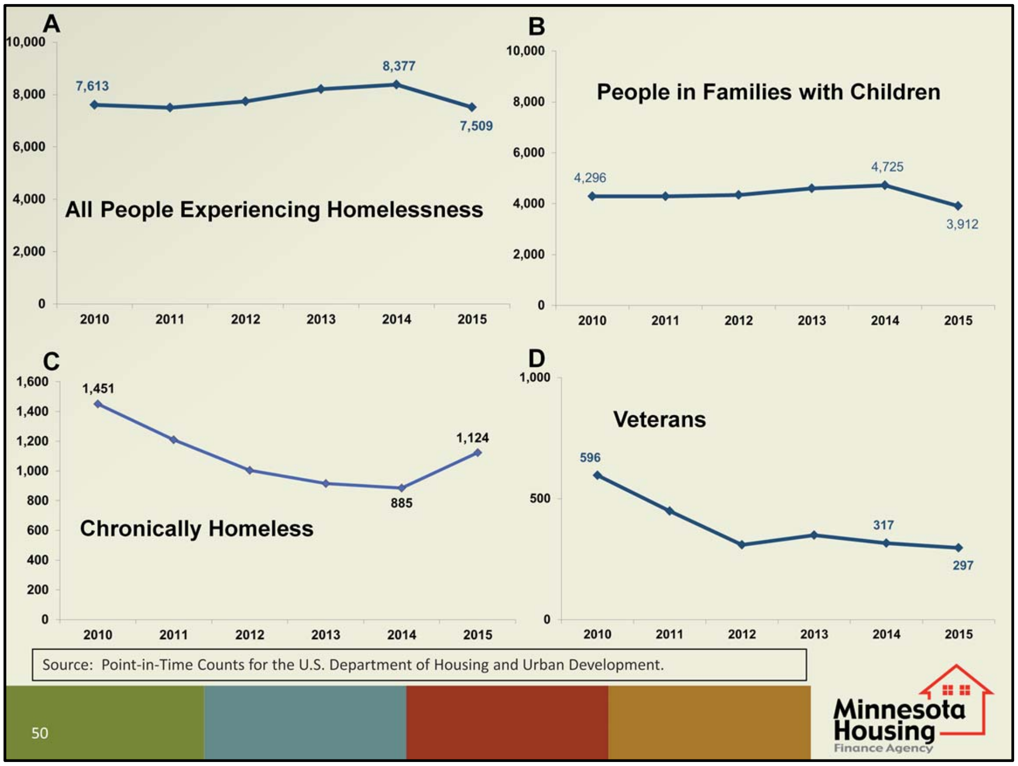
Key Points:

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

Implications:

We have done significant work to address homelessness.

- We played a lead role in completing the state's Business Plan to End Long-Term Homelessness, which financed over 4,000 supportive housing opportunities for households experiencing long-term homelessness.
- We have played a lead role in reconstituting the Minnesota Interagency Council on Homelessness (11 state agencies) and developing the state's current Plan to Prevent and End Homelessness.
- The current plan has the goal of creating 5,000 new affordable housing opportunities by 2020.



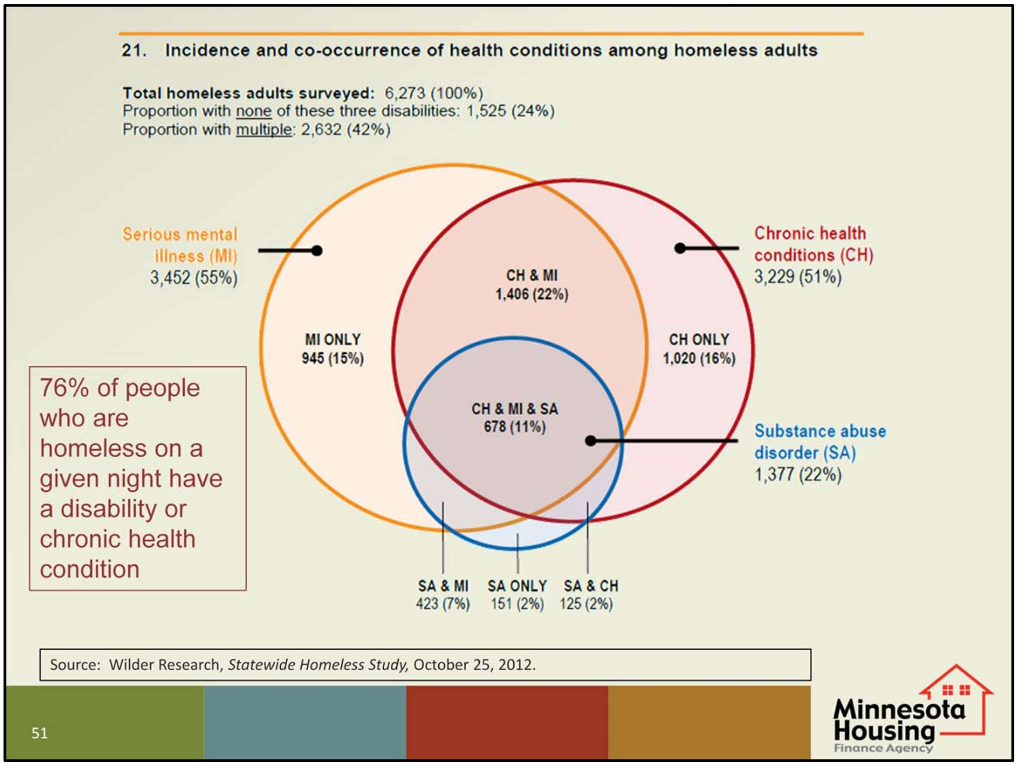
These graphs show trends in the number of people experiencing homelessness by sub-populations. These numbers come from HUD's Point-in-Time count, which is a different source and provides slightly lower numbers than Wilder Research estimates in the previous graph. These numbers have the advantage of being produced annually.

Key Points:

- Graph A: While the count of people experiencing homelessness is lower with HUD's Point-in-Time count than the Wilder data, the overall trend is consistent between the two sources – nearly a 10% decline in 2015 after a period of increases.
- Graph B: Because over half of people experiencing homelessness are in families with children, the trend line for people in these families largely drives the overall trend shown in graph A.
- Graph C: The number of people who experience chronic homelessness declined for the last several years, but increased in 2015. With the nearly 690 units of supportive housing for individuals and families experiencing homelessness that we funded in the fall of 2014 now coming online, this number should start declining again.
- Graph D: The number of veterans experiencing homeless is on a clear downward trajectory.

Implications:

- The state Plan to Prevent and End Homelessness will address all types of homelessness, with the goal of bending the trend line for all the graphs significantly downward.



Serving people with disabilities and chronic health conditions is a key part of addressing homelessness. This diagram shows the number and share of homeless adults with various conditions and how the incidence of those conditions overlap for people experiencing homelessness one night in October 2012. Updated data from the 2015 Wilder Homeless Survey has been collected but is still being analyzed.

Key Points:

- Of the 6,273 homeless adults who were surveyed, 4,748 (76%) had at least one of the following conditions: (1) serious mental illness, (2) chronic health condition, or (3) substance abuse disorder.
- 42% have two or more conditions.
- 11% were experiencing all three conditions.

Implications:

- Homelessness is more than just a housing issue.
- Providing housing with service linkages is a critical strategy.
- We need to continue and strengthen our partnerships.

Theme/Trend #9

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

52

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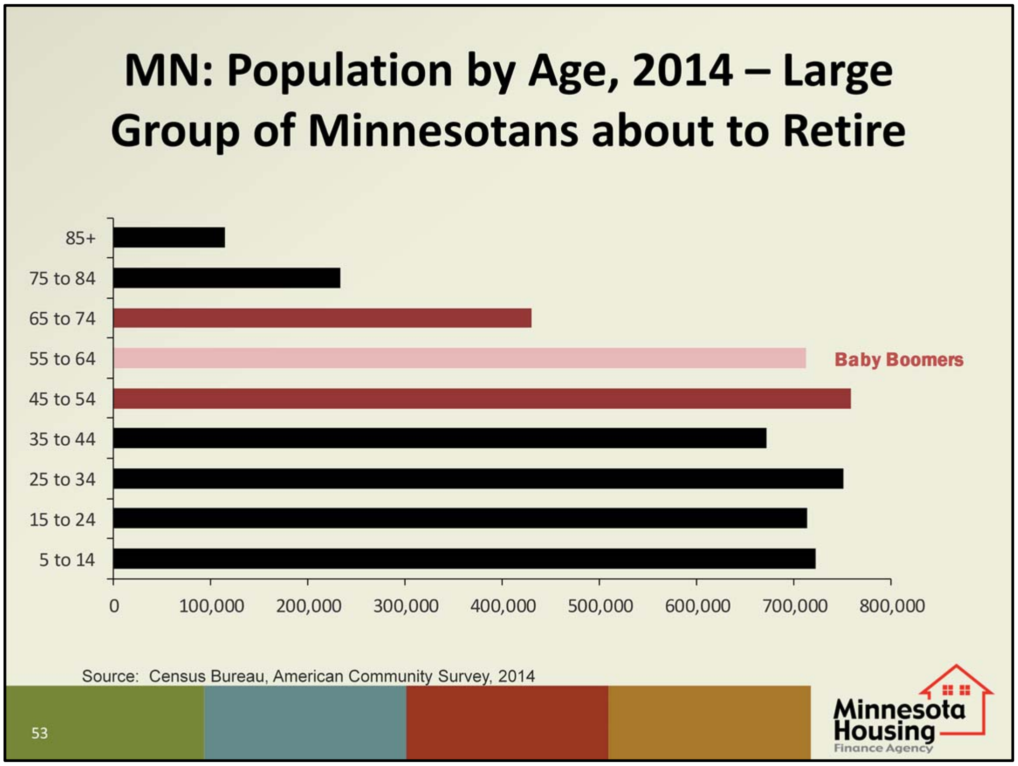


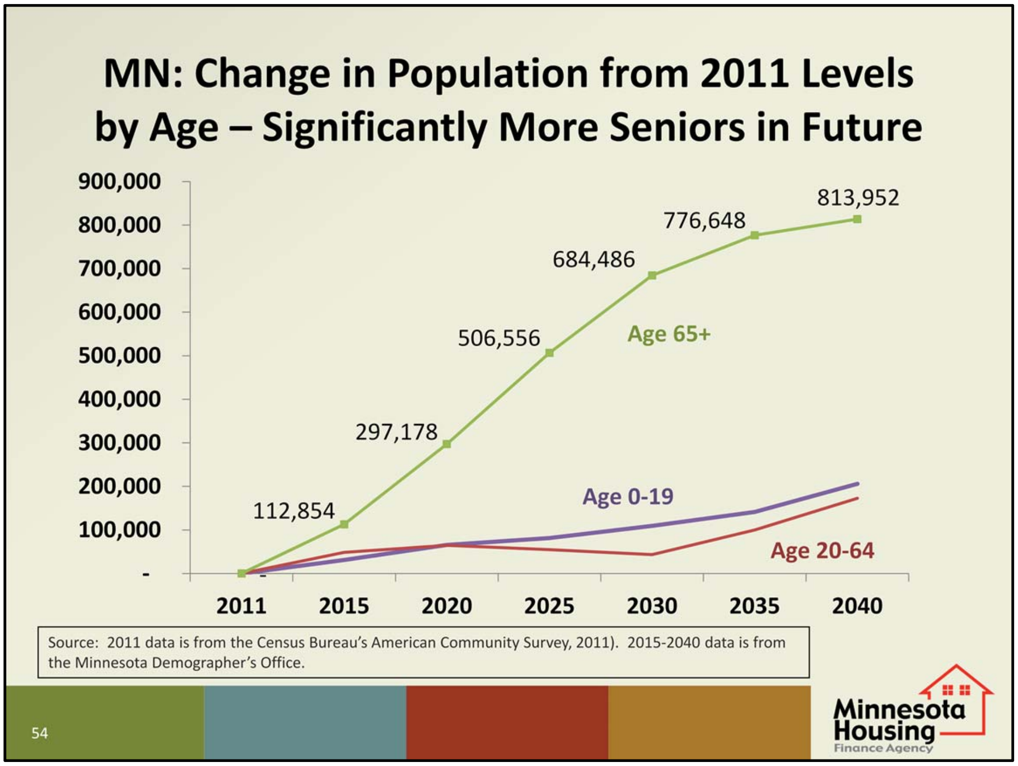
This graph shows Minnesota's population by age group in 2014, highlighting the Baby Boom generation, which is entering retirement age.

Key Points:

- The Baby Boom generation includes people born from 1946 through 1964. In 2014, Baby Boomers were between the ages of 50 and 68, which is represented by the maroon bars in the graph.
  - The lighter-shaded maroon bar (ages 55-64) only has Baby Boomers.
  - The darker-shaded maroon bars (ages 45-64 and 65-74) have some Baby Boomers, but also include younger and older generations respectively.
- Baby Boomers are a large age cohort, particularly the younger boomers (ages 50 to 59 in the graph).

Implications:

- With its large numbers, Baby Boomers and their housing needs will play a key role in driving the overall housing market in the coming years.



This graph shows the increase in the number of people that the State Demographer's Office expects to be in each age group through 2040. The number in each year is the increase from the base year of 2011 (when Baby Boomers first became 65). For example, the Demographer's Office forecasted 112,854 more seniors in 2015 than there were in 2011. By 2040, there will be almost 813,912 more seniors than there were in 2011.

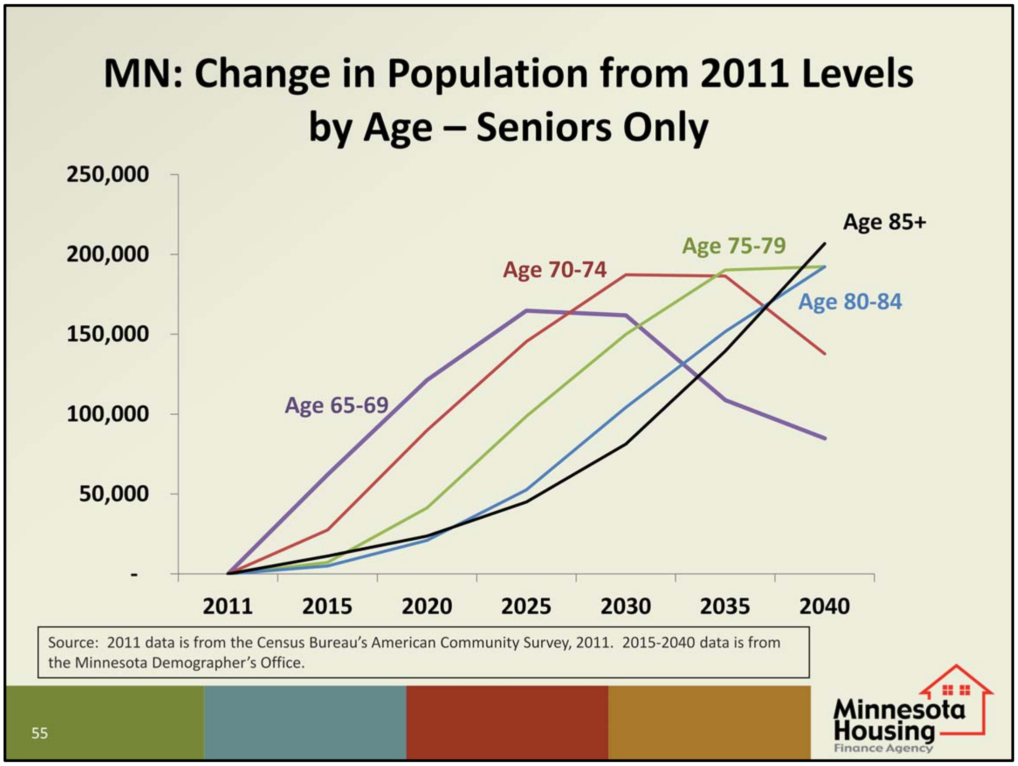
As a point of reference, there were about 705,000 people age 65 or older in 2011. The senior population is expected to double from the 2011 level sometime between 2030 and 2035.

Key Points:

- The senior population will be increasing rapidly.

Implications:

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



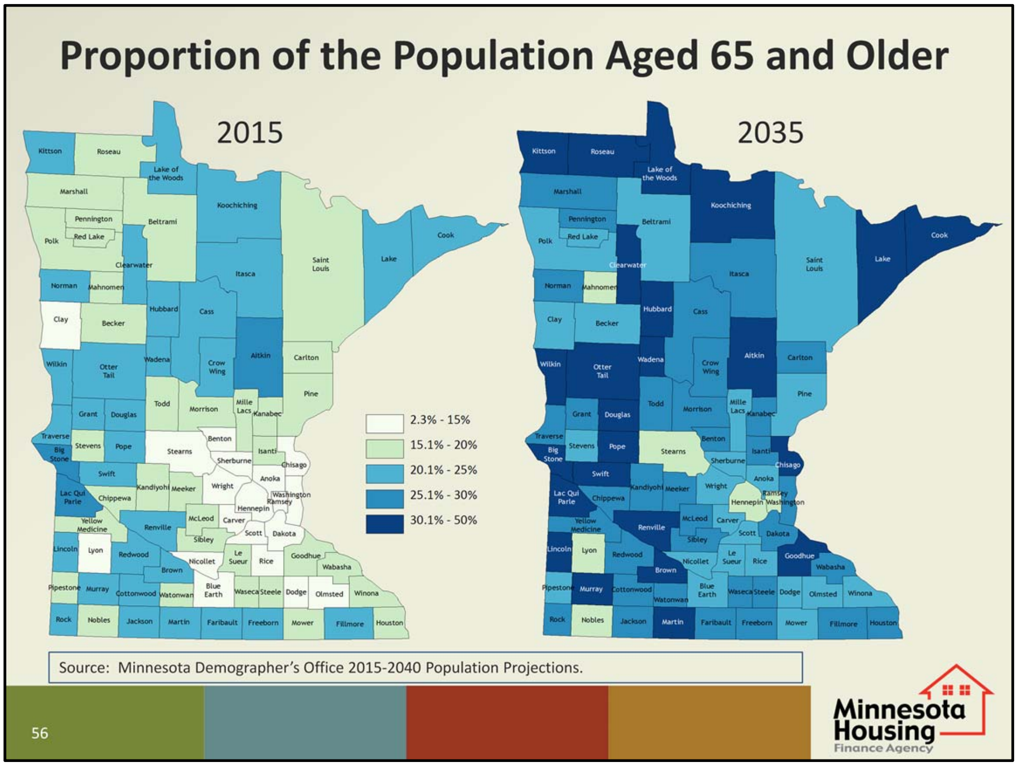
This graph is the same at the previous one, but just shows the senior population by age group.

Key Points:

- The initial big increase in each age group (shown by the kink in the graph) occurs in the following years:
  - Age 70-74 after 2015
  - Age 75-79 after 2020
  - Age 80-84 after 2025
  - Age 85+ after 2030
- The largest part of the Baby Boom generation (those under 60) will not start reaching age 75 until 2030 and age 85 until 2040.

Implications:

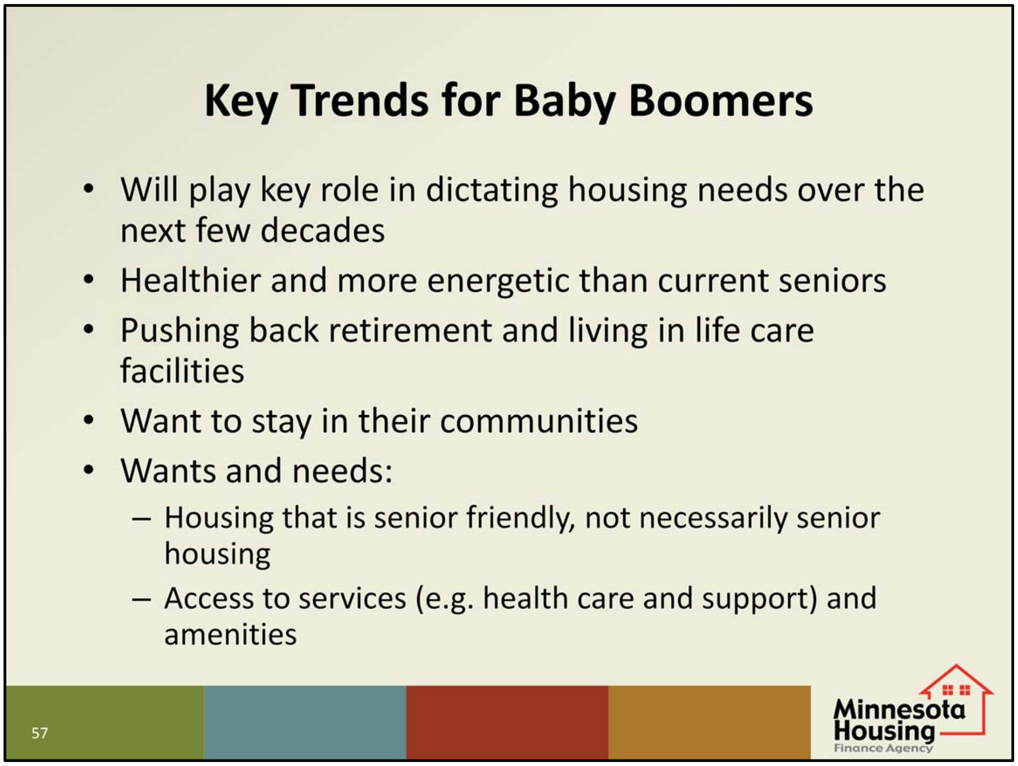
- Seniors at different ages and levels of independence have different housing and service needs. Typically, the youngest seniors live independently in the community, while the oldest (particularly those with disabilities) need services and support.
- How should the state plan for these shifting needs as the Baby Boom generation ages?



This slide shows how the percentage of seniors in each county will change between 2015 and 2035.

Key Points:

- In 2035, seniors will account for more than 30% of the population in many counties, particularly in western and northern Minnesota.
- Seniors will account for less than 20% of the population in only a handful of counties.

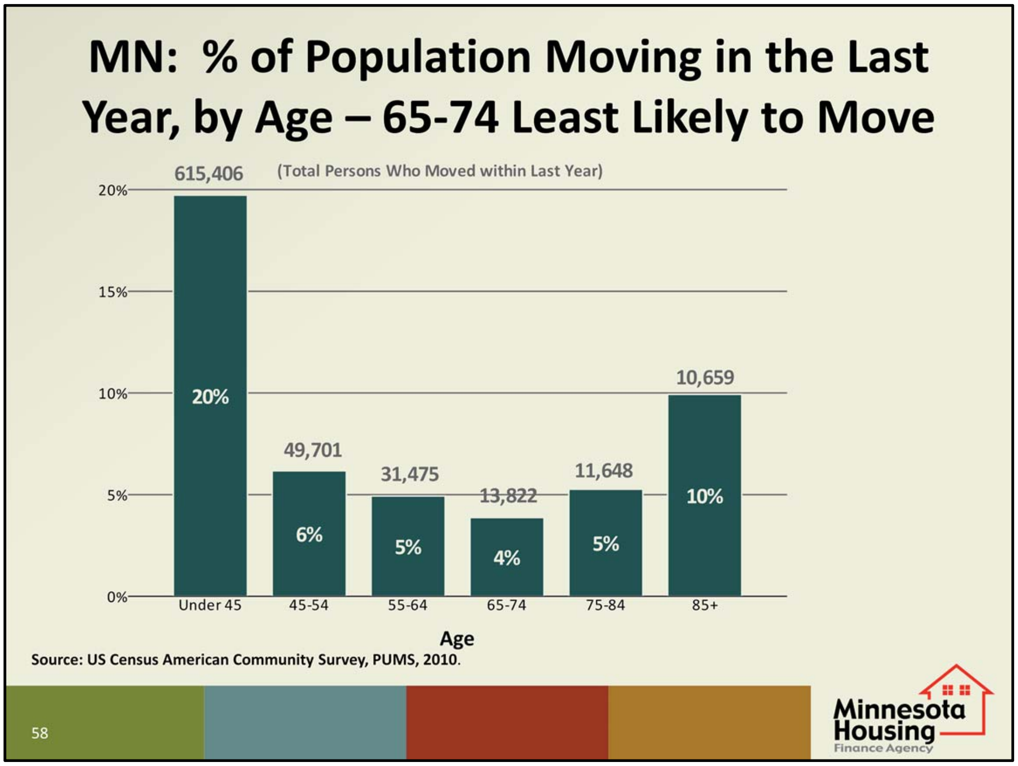


This slide summarizes some the key findings in the literature about housing for seniors.

Implications:

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

- This will be particularly challenging in rural areas.



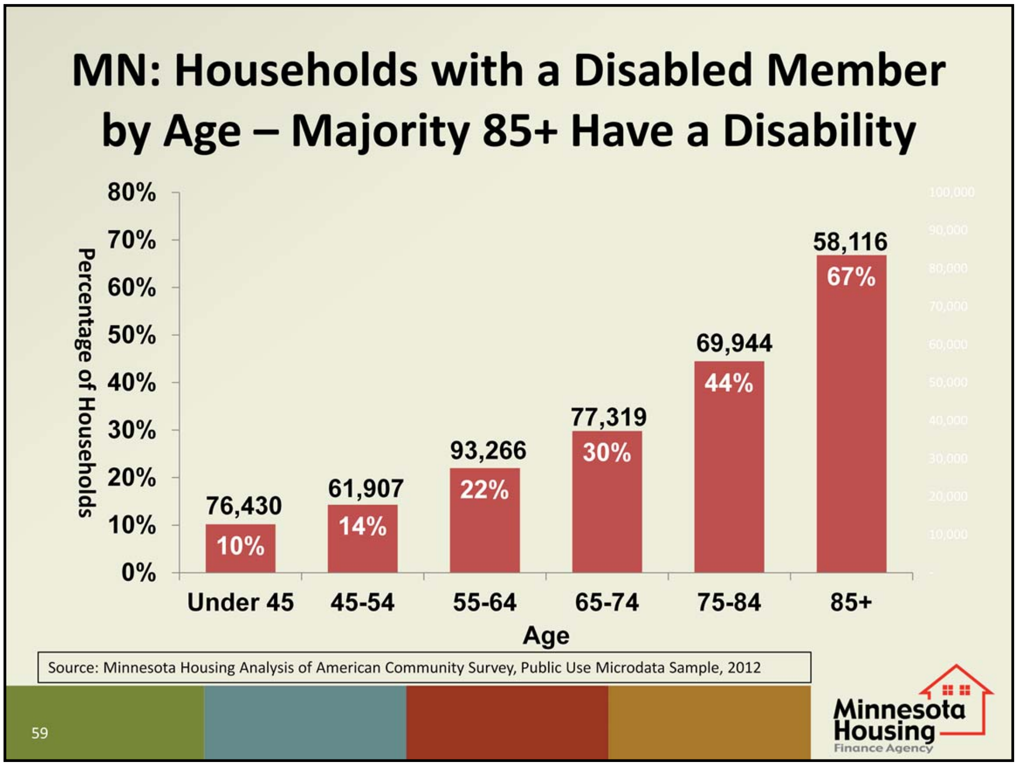
This slide shows the percentage of people by age group that moved in the last year, with the actual number of people moving shown in the figure at the top of the bar.

Key Points:

- People in the initial retirement years of 65 to 74 are the least likely to move, only 4% per year.
- People age 85 or older are the second most likely to move.

Implications:

- Initially after retirement, seniors are very likely to stay where they are currently living.
- Later in retirement, typically after age 85, they are more likely move as independent living is no longer a viable option.



One of the key issues that seniors will face is access to support services and health care. This graph shows the number and percentage of households in each age group that have a household member with a disability. People with disabilities have a greater need of services.

Key Points:

- After age 84, 67% of households have a member who is disabled.
- Through the retirement years (from 65 to 85+), the percentage increases from 30% to 67%.

Implications:

- As Baby Boomers age in their retirement, access to support and heath services will become more important. In addition, design features in homes and apartments will be important. Universal design (e.g. zero-step entrances, wide doorways and hallways for wheel chairs, framing that allows easy installation of grab bars, etc.) will allow seniors to age in place.
- As disabilities levels rise and independent living is less viable, seniors are move likely to move.

MN: Lower-Income Homeownership Rates – Majority of Low-Income Seniors are Homeowners

	With Income <= 50% of HUD Statewide Median (adj. for household size)	With Income <= 30% of HUD Statewide Median (adj. for household size)
Senior Households	64%	53%
Non-Senior Households w/o Children	34%	26%
Non-Senior Households with Children	29%	21%

Source: Census Bureau, American Community Survey, 2012, Public Use Microdata Sample (PUMS). Median income data from HUD.

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As we plan for the housing needs of the Baby Boom generation, we need to keep in mind that most seniors, even low-income seniors, are homeowners. This table shows the share of households by type (senior and child status) that are homeowners by their income level.

Key Points:

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

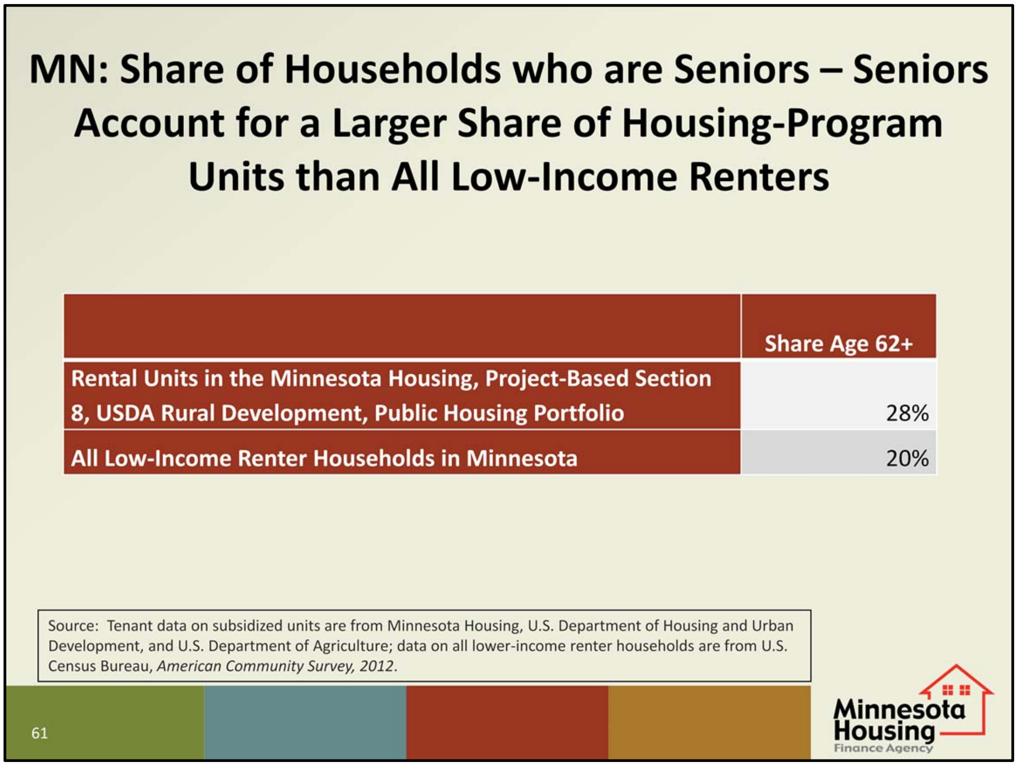
Implications:

As this table and the previous graphs indicate, homeownership needs will be an initial concern:

- Most seniors (including low-income) are homeowners,
- Most seniors remain homeowners to at least ages 75-84,
- The largest group of baby boomers are under age 60.

If current living patterns continue, the largest group of Baby Boomers won't be transitioning from homeownership to renting for at least another 15 to 25 years. What will be the housing needs of these lower-income homeowners? Will it be home repair and maintenance? Will it be the installation of accessibility features to the home? Something else?

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



This graph shows the share of senior households in:

- Our multifamily programs, HUD's project-based Section 8 units, USDA's Rural Development properties, and public housing, and
- The general population of low-income renters.

Key Points:

- The share of seniors in the housing programs (28%) is greater than the share in the general population of low-income renters (20%).

Implications:

- While there is an inadequate supply of affordable housing for all lower-income groups, rental housing programs currently serve seniors at a level that is slightly greater than their proportion of the low-income population.
- However, as the previous slides show, the number of senior households renting will likely increase dramatically as the baby boomers reach age 75 and then 85.

MN: Senior Households by Income and Tenure – 40,000 Extremely-Low-Income Senior Renters

	Number of Renter Households	Percentage of Renter Households	Number of Owner Households	Percentage of Owner Households
Below Poverty	21,390	21%	23,529	6%
Poverty to 30% of Statewide Median Income*	18,724	19%	22,094	6%
31% to 50% of Statewide Median Income	24,583	24%	71,374	18%
51% to 80% of Statewide Median Income	17,647	18%	96,555	24%
Great than 80% of Statewide Median Income	18,090	18%	186,378	47%
Total	100,434	100%	399,930	100%

* Excludes 4+ person households, where poverty level is above 30% of median

Source: Minnesota Housing analysis of Census Bureau, 2012 American Community Survey, Public Use Micro-data Sample (PUMS).

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This table shows a detailed breakout of the senior population by income level and housing type:

Key Points:

- 40,000 senior renter households have incomes at or below 30% of the state median income.
- The number of seniors statewide is expected to double around 2035. With that growth rate, we will have another 40,000 extremely low-income senior renter households by 2035.

Implications:

As we consider our objectives and priorities for serving senior renters, the populations with the greatest needs and fewest options, often those with the lowest incomes, should be a priority.

Theme/Trend #10

Minnesota has an Aging Housing Stock

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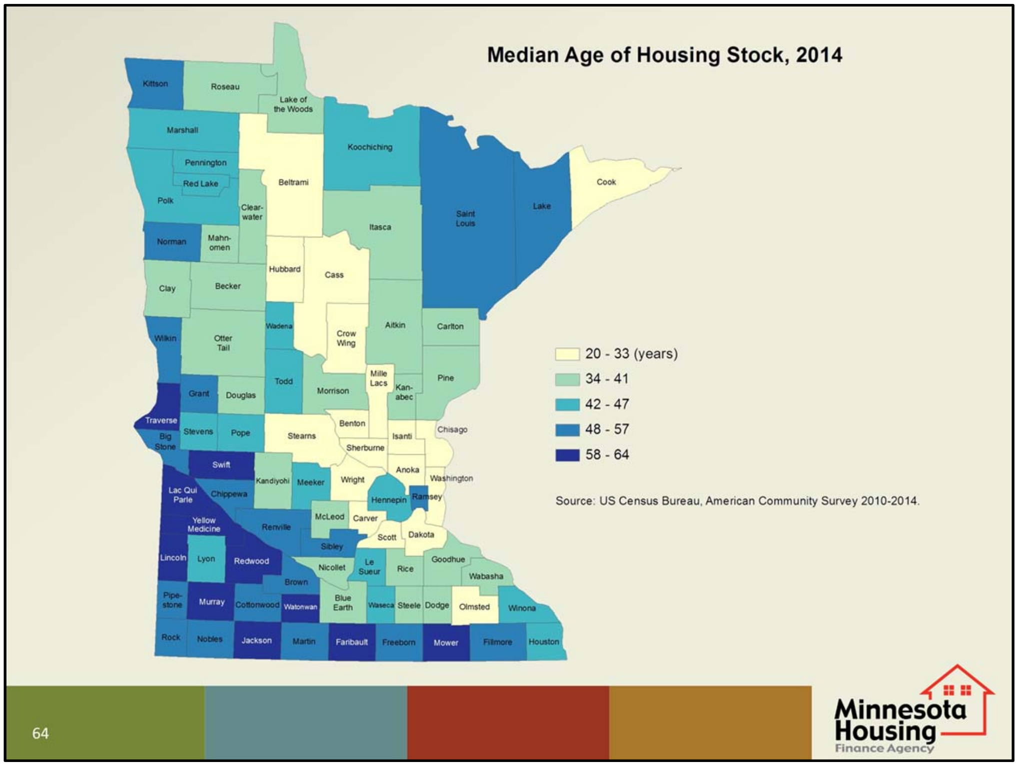


This map shows the median age of the housing stock in each county.

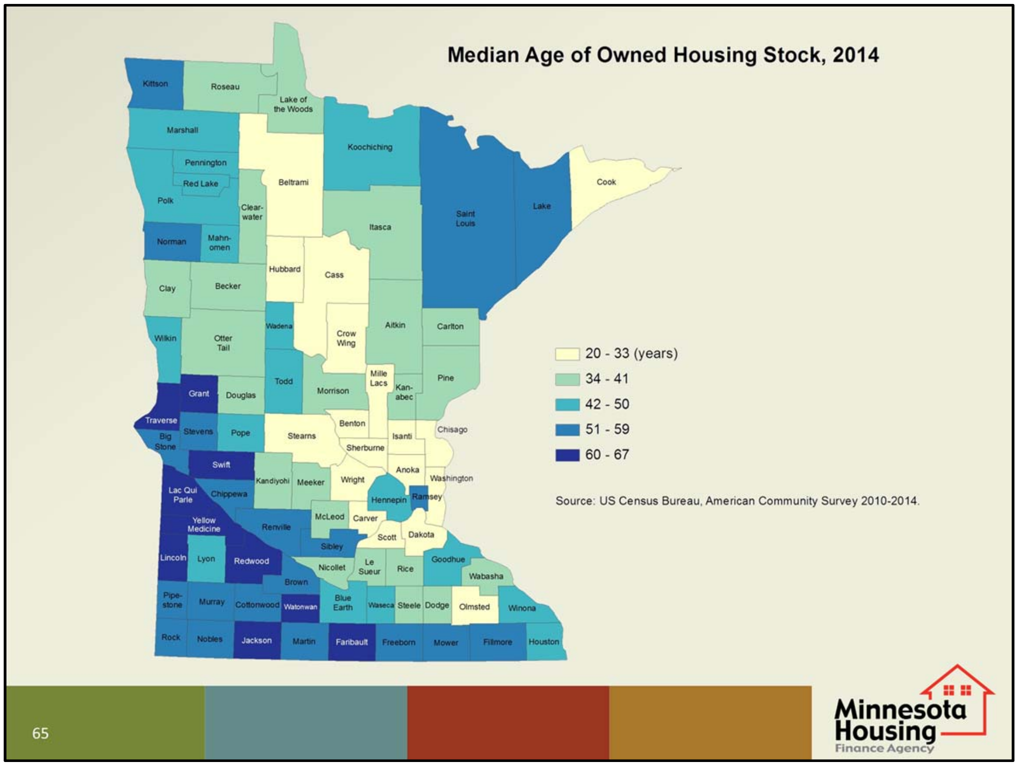
Key Points:

- The median age of housing in the southwestern and southern-border counties is generally over 58 years. Many of these housing units may need significant repairs or rehabilitation.

Implications:

- We have a wide range of programs available for repairing, rehabilitating, and improving older and/or deteriorating properties, which includes:
  - Single Family:
    - Amortizing home improvement loans – Fix-Up Fund
    - Zero-interest, deferred, forgivable loans – Rehabilitation Loan Program
    - Zero-interest deferred loans and grants – Community Homeownership Impact Fund
  - Multifamily:
    - Amortizing first mortgages for acquisition – Low and Moderate Income Rental (LMIR)
    - Tax credits – Low-Income Housing Tax Credits (LIHTC)
    - No-interest, deferred loans:
      - ✓ Preservation Affordable Rental Investment Fund and HOME
      - ✓ Economic Development and Housing/Challenge (EDHC)
      - ✓ Asset Management
      - ✓ Rental Rehabilitation Deferred Loan Program (RRDL)

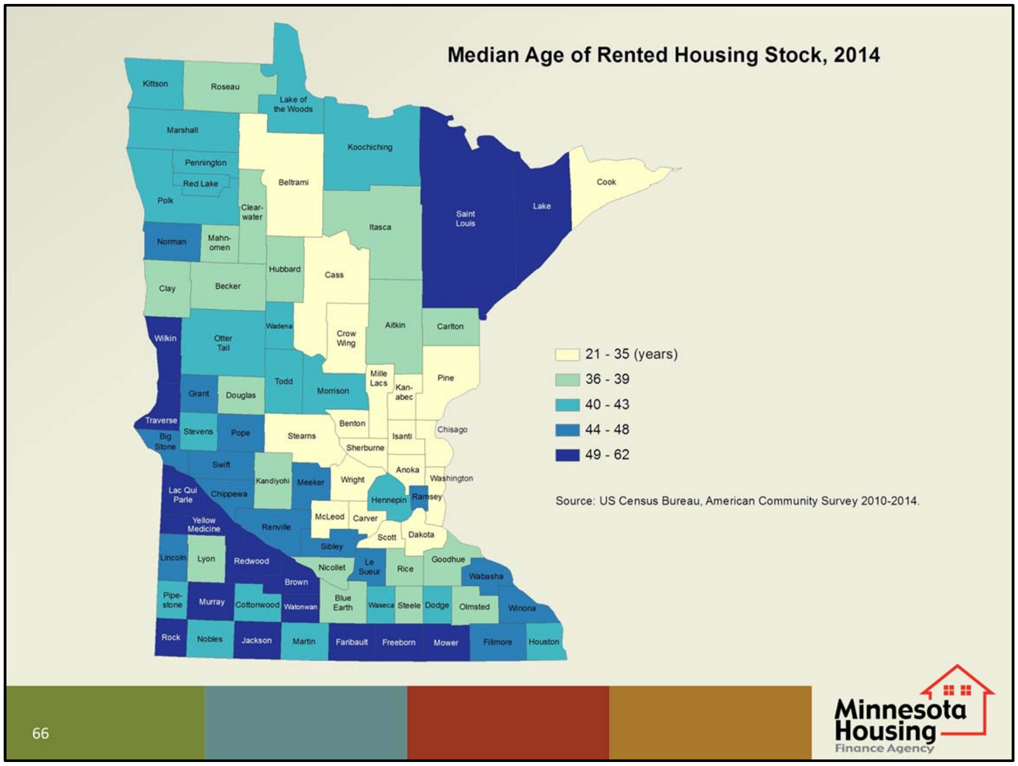
- We need to make sure that we use these funds strategically and effectively.



This map shows the median age of the owner-occupied housing stock.

Key Points:

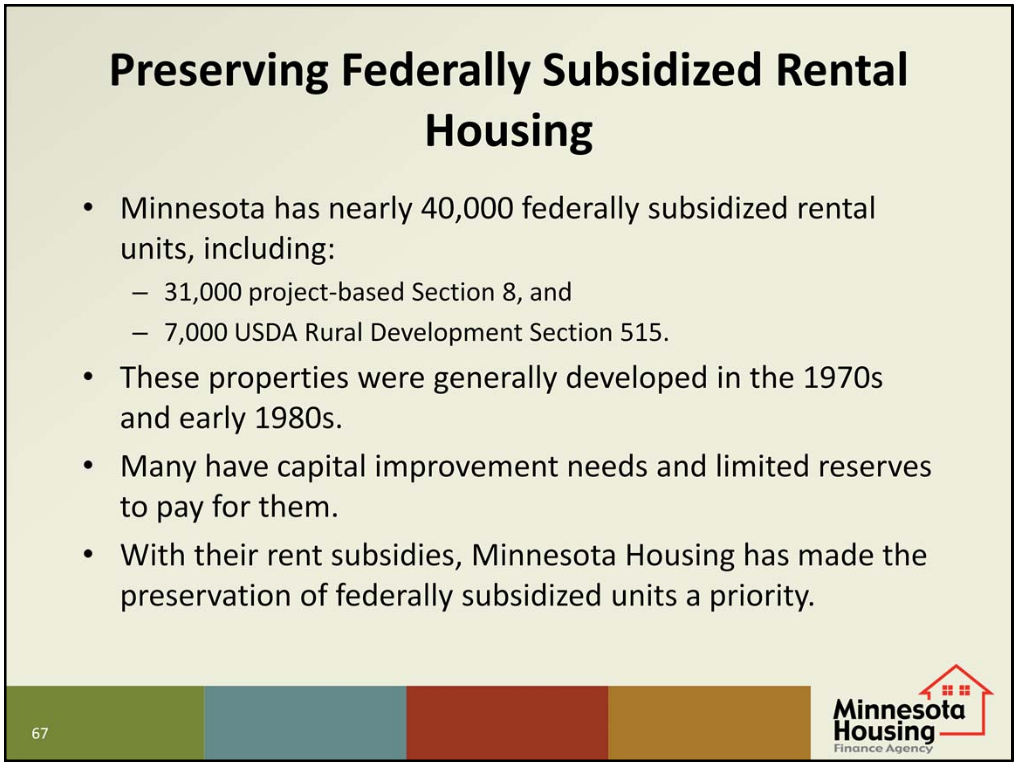
The pattern is very similar to the pattern for the overall housing stock, which is consistent with Minnesota’s high homeownership rate, especially in Greater Minnesota.



This map shows the median age of the rental stock (some of which are single-family homes that are rented).

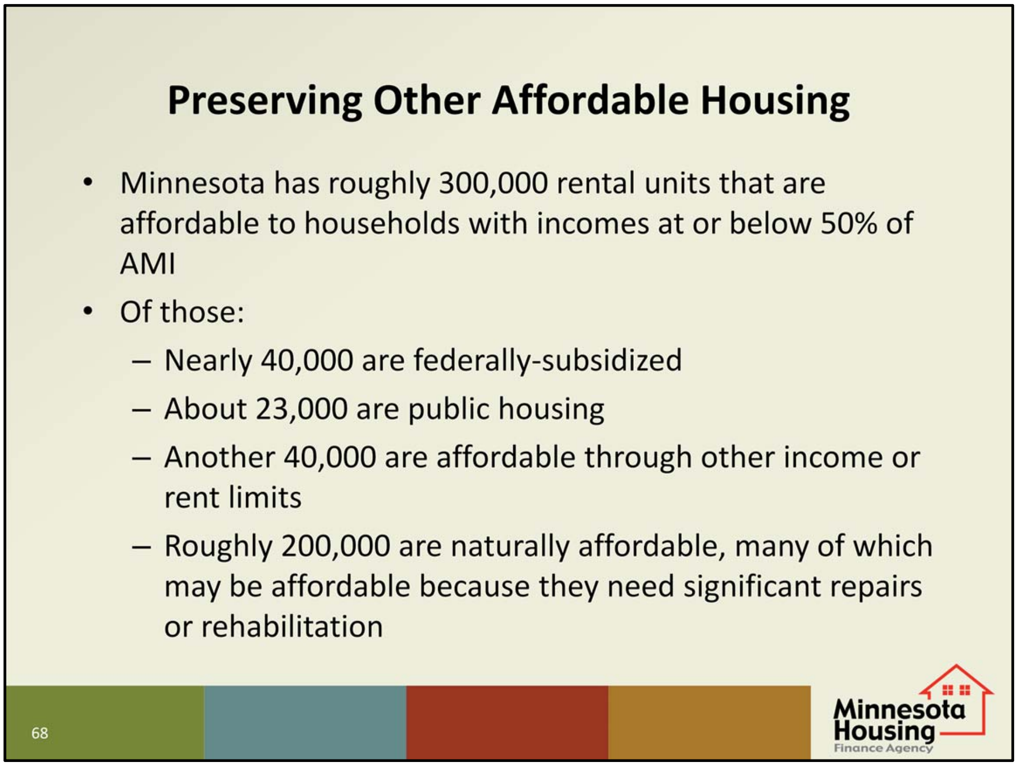
Key Points:

- The age of the rental stock is generally younger.



While the State of Minnesota needs to preserve all types of affordable housing, preserving federally subsidized units is one of our strategic priorities. The rent subsidies provided for these project-based units ensures that tenants pay no more than 30% of their income on rent.

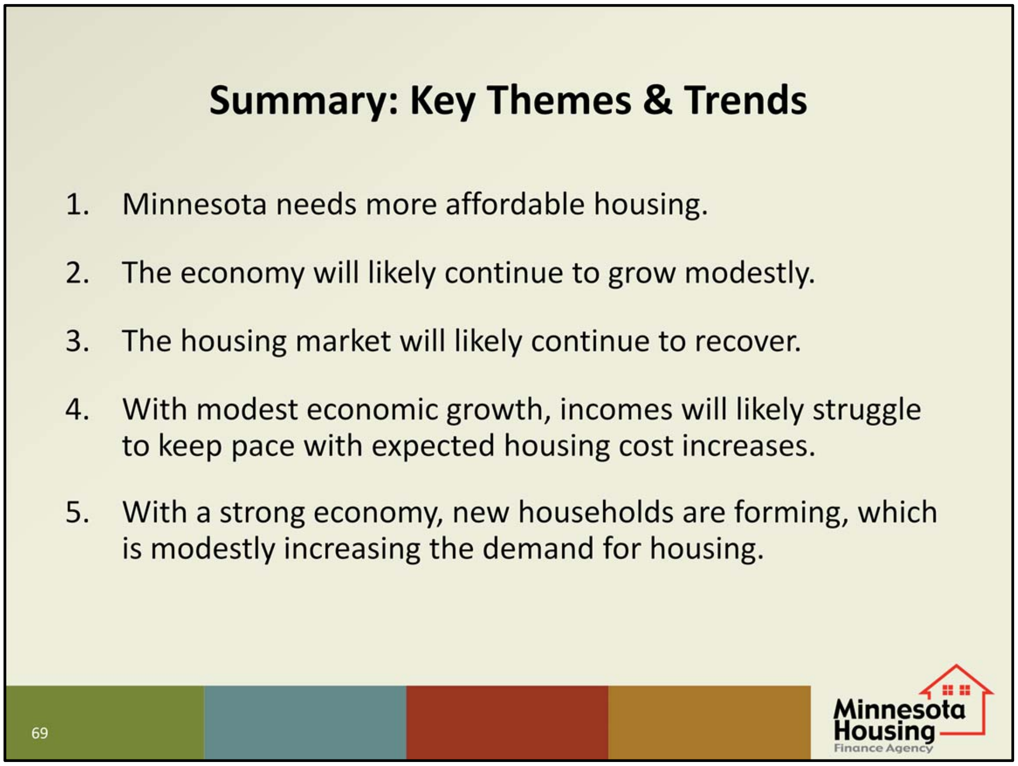
- Minnesota has nearly 40,000 federally-subsidized units.
- They were generally developed in the 1970s and early 1980s.
- Many have capital improvement needs and limited reserves to pay for them.



Preservation of other units also needs to be addressed.

Key Points:

- While project-based rental subsidies are key because they provide the deepest subsidies, preserving other affordable units are also important.
- Of Minnesota's roughly 300,000 rental units that are affordable for households with incomes at or below 50% of AMI:
  - Just under 40,000 are affordable through rent subsidies.
  - About 23,000 are public housing
  - Another 40,000 are affordable through other income or rent limits.
  - Roughly 200,000 are naturally affordable without income or rent limits.
- Many of the naturally affordable units are affordable because they need significant repairs or rehabilitation.



In closing and summary, this slide and the following one just restate the 10 key theme and trends.

Summary: Key Themes & Trends

6. More affordable housing is needed in areas with a growing workforce.
7. Minnesota is becoming more diverse, but disparities in homeownership are significant.
8. For the first time, the number of people experiencing homelessness had a significant decline in 2015.
9. The aging baby boom generation will create new housing needs and challenges.
10. Minnesota has an aging housing stock.

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For More Information

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