Thriving communities require a range of housing opportunities. While Minnesota is recognized as a national leader for its commitment to supporting housing opportunities for all, a number of factors have converged to make housing too costly for a growing number of low- and moderate-income Minnesotans. Our population is growing and the demand for housing is outpacing supply. Wages are not keeping up with rising housing costs and the resulting wage-housing cost gap has led to increased homelessness. Discriminatory or unethical practices can make finding safe and decent housing especially difficult for racial and ethnic minorities, immigrants, people with disabilities, the elderly and larger families. Resources from the state and local levels have not replaced federal cuts in affordable housing programs.

Minnesota faces many housing challenges, but they can be met with strong leadership and continued partnerships among the private sector, philanthropic organizations and all levels of government.

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1. Why Housing Matters

A full range of housing creates opportunities for people to hold steady jobs, pursue education, weather difficult times and contribute to their community. With safe, secure housing children can focus on school and play and friends without worrying about when they’ll move again. With safe, secure housing people with fixed incomes, such as senior citizens, can live with dignity. Investment in a range of housing choices also increases Minnesota’s economic competitiveness and directly contributes to Minnesota’s economy.

As fundamental as housing is, it is not available and affordable to many Minnesotans. While low-income households face the greatest challenge in finding affordable housing in today’s housing market, those with moderate incomes are also seriously affected by home prices and rents that have out-paced inflation and wages. Young people starting their work lives may be unable to move from their parents’ homes. As a result of job loss, divorce or poor health, families can lose their precarious foothold in the housing market and become homeless.

2. When is Housing Affordable?

The standard definition of housing affordability is drawn from government housing agencies and the private mortgage industry: Housing expenses should cost no more than 30 percent of a household’s gross income. Generally, when individuals or families spend more than 30 percent of their income on housing they do not have enough income to weather financial setbacks or meet other basic needs (such as food, education and medical insurance).

Housing costs and income levels differ across the state and affect affordability in different communities. A family at a certain wage level in one community will be able to afford their housing, but in another community, where housing costs are higher, that same wage level would not be enough to afford housing.
3. Dimensions of the Housing Challenge

There is general consensus among policymakers and community leaders that housing is unavailable or too costly for a growing number of Minnesota families. A number of factors have come together to create and exacerbate this situation:

A. Population growth and housing demand are outpacing the housing supply, particularly the supply of housing affordable to low- and moderate-income households.

B. Wages at lower levels have not kept pace with rising housing costs, and, at the extreme, the wage-housing cost gap has led to rising homelessness.

C. Low-income renters and homebuyers are vulnerable to discriminatory or unethical practices.

D. Government funding and tax incentives have been scaled back dramatically, and have not been replaced by local or private resources.

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1. Marshall County was selected as an example of incomes and affordability in Greater Minnesota. A sampling of counties across Minnesota that have similar income levels include: Clearwater, Faribault, Grant, Itasca, Jackson, Kanabec, Kittson, Mower, Nobles, Otter Tail, Pope, Watonwan and Yellow Medicine.

2. HUD FY 2004 Section 8 Incomes for Twin Cities Metro Area and Marshall County.


4. Rent based on 30 percent of income. Purchase based on 5 percent down payment, 21 percent of gross income for principal/interest, and 6 percent 30-year mortgage term.
A. Population growth and housing demand are outpacing the housing supply, particularly the supply of housing affordable to low- and moderate-income households.

Between 1990 and 2000 the number of households in Minnesota grew 15 percent, while the number of housing units rose just 12.4 percent.\(^5\) Existing housing units for sale and rent helped absorb a small amount of the increased demand, but even this supply of homes dropped considerably in the 1990s: The number of available units for sale or rent dropped from 54,425 units in 1990 to 33,844 units in 2000.\(^6\)

Demand will continue to outpace supply, particularly the supply of homes affordable to low-income households. In 2000 approximately 350,000 Minnesota households, or one in five, were unable to afford their housing.\(^7\) Almost 300,000 of those households were low-income, earning less than 50 percent of the median income.\(^8\) Demand will continue to outpace supply and by 2010 an additional 33,000 low-income households will be unable to afford their housing.\(^9\) The following table provides a further breakdown of renters and homeowners paying more than 30 percent of their income for housing.

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Renters Number of Renters Paying More Than 30 percent in Rent</th>
<th>Renters Percent of Renters Paying More Than 30 percent in Rent</th>
<th>Homeowners Number of Homeowners Paying More Than 30 percent for Ownership Costs</th>
<th>Homeowners Percent of Homeowners Paying More Than 30 percent for Ownership Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $19,999</td>
<td>117,139</td>
<td>66%</td>
<td>53,805</td>
<td>51%</td>
</tr>
<tr>
<td>$20,000-$34,999</td>
<td>40,595</td>
<td>32%</td>
<td>53,250</td>
<td>34%</td>
</tr>
<tr>
<td>$35,000-$49,999</td>
<td>5,755</td>
<td>7%</td>
<td>39,287</td>
<td>21%</td>
</tr>
<tr>
<td>$50,000 and over</td>
<td>1,598</td>
<td>2%</td>
<td>38,869</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: 2000 U.S. Census

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\(^6\) 1990 and 2000 U.S. Census.
\(^7\) 2000 U.S. Census.
Some industry watchers point to higher vacancy rates as a market indicator that housing demand is being met. For instance, vacancy rates for apartments in the Twin Cities have risen in 2003-04 demonstrating the demand for rental housing has eased.\textsuperscript{10} However, while more apartments are available, there has not been a significant reduction in rents to affordable levels for low-income households. In fact, average Twin Cities rents have risen from $843 in 2003 to $850 in 2004.\textsuperscript{11} Large families with extremely low incomes face additional barriers, as the number of affordable apartments with two or more bedrooms hovers below one percent of all two or more bedroom apartments for the Twin Cities metro area.\textsuperscript{12}

Minnesota’s affordable housing supply problem is exacerbated because the areas of greatest job growth do not experience housing growth at a range of price levels. In communities with greatest job growth, lower wage workers are frequently unable to live close to employment, forcing them to commute long distances. Higher transportation costs put additional stress on already tight budgets of low-income families. In the Twin Cities, transportation costs consumed 18 percent of a typical worker’s budget, a higher percentage than in many major metropolitan areas including Los Angeles and Chicago.\textsuperscript{13}

Rising land costs and insistence in some communities on lower development densities lead to fewer homes being built overall, and units being built at higher price levels. These factors add to the challenges communities face as they try to meet a range of housing needs.

Preservation of existing affordable housing is also a concern. The supply of existing affordable housing receiving public subsidy is in danger of being lost through demolition or conversion to market-rate rents. In the past few decades, many properties were financed with federal and state low-interest mortgages and rent (Section 8) subsidies. Owners of the properties agreed to keep their buildings affordable for long terms, typically 20 years. When that agreement expires, owners have the option of prepaying the balance of their mortgage and raising rents to market levels. Approximately 328 housing developments in Minnesota have affordability requirements that will expire within the next five years.\textsuperscript{14} If they are lost, they will be very costly to replace and communities will face new difficulties in their attempts to ensure a range of housing options.

\textbf{B. Wages at lower levels have not kept pace with rising housing costs, and, at the extreme, the wage-housing cost gap has led to rising homelessness.}

While Minnesota’s 74.6 percent homeownership rate is one of the nation’s highest, homeownership is quickly moving beyond the reach of many Minnesotans. Between 1990 and 2000, median home sales prices increased 37 percent, while incomes increased only 17 percent.\textsuperscript{15} Between 2000 and 2002, the median price of existing homes rose

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13 percent\textsuperscript{16} and prices rose another 5.4 percent during the first three quarters of 2003.\textsuperscript{17} The costs of maintaining homes have also outpaced incomes. Low- and moderate-income homeowners with little discretionary income face challenges maintaining and repairing their homes.

Rents have also outpaced incomes in Minnesota. A person working full time at minimum wage ($5.15 per hour) would need to work 117 hours per week to afford the average two-bedroom apartment.\textsuperscript{18} The fair market rent for a two-bedroom apartment in Minnesota is $784 per month.\textsuperscript{19} A worker would need to earn more than $15 an hour to pay $784 per month in rent. One half the current job vacancies in Minnesota pay less than $10.28 per hour.\textsuperscript{20}

The gap between what people can afford to pay for housing and the cost of housing is a major cause of homelessness. Minnesota’s homeless population continued to grow even during the state’s economic prosperity of the late 1990s. On October 23, 2003, when the statewide homeless survey was conducted, there were an estimated 8,800 Minnesotans experiencing homelessness and it was estimated that an additional 11,000 people were precariously housed in temporary or unstable housing.\textsuperscript{21} Approximately 5,000 Minnesotans experience “long-term homelessness,” which is defined as either being homeless for a year or more, or experiencing at least four episodes of homelessness in the past three years.

The estimated number of Minnesotans who are homeless or precariously housed from 1991 to 2003 is shown in the graph below. The number of homeless Minnesotans grew from 7,980 in 1991 to 20,347 in 2003.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{estimated_number_of_minnesotans.png}
\caption{Estimated Number of Minnesotans who are Homeless or Precariously Housed}
\end{figure}

\textsuperscript{16} Minnesota Department of Revenue Certificates of Real Estate Value, 2000-2002 adjusted for inflation. Data provided by MHFA calculations by HousingMinnesota.

\textsuperscript{17} Minnesota Department of Revenue Certificates of Real Estate Value, 2002 through Sept. 30, 2003. Data provided by MHFA, calculations by HousingMinnesota.

\textsuperscript{18} “Out of Reach,” National Low Income Housing Coalition, 2004.

\textsuperscript{19} The fair market rent is an estimate by HUD of what the approximate average rent is for an area.


Children make up 39 percent of the homeless population in Minnesota.\textsuperscript{22} Between 1991 and 2003 the number of homeless children more than tripled to 2,862.\textsuperscript{23} Despite Minnesota's many shelter beds, 440 individuals were turned away from emergency shelter due to lack of space on the date of the most recent quarterly shelter survey.\textsuperscript{24} Being employed does not always mean an individual can afford a place to live. Approximately 30 percent of homeless adults in Minnesota are working full or part time, but the proportion of homeless adults working full time decreased from 26 percent in 2000 to 13 percent in 2003.\textsuperscript{25} The decline in employment among people experiencing homelessness was attributed to the recession. Of those working full time, 59 percent earned less than $10 per hour.\textsuperscript{26}

Many of the Minnesotans who experience homelessness are among the state's most vulnerable, and need some extra help. While some Minnesotans experiencing homelessness simply need an affordable apartment or home, approximately 85 percent of homeless adults will need additional supportive services to remain stable in their housing.\textsuperscript{27}

### C. Low-income renters and homebuyers are vulnerable to discriminatory or unethical practices.

The housing market is not a level playing field. Reports of discriminatory practices in the housing market have been confirmed through audits, investigations by county and state authorities, and successful litigation on behalf of people protected by fair housing laws.\textsuperscript{28} While most landlords are fair and operate within existing law, some refuse to rent to people receiving public assistance, require high minimum incomes or costly application fees or discriminate against racial and ethnic minorities, immigrants, people with disabilities, larger families or families with older children.

Some prospective homebuyers report being treated differently because of their race or nationality.\textsuperscript{29} Predatory lending practices disproportionately affect elderly, low-income and minority homeowners.\textsuperscript{30}

<table>
<thead>
<tr>
<th>Minnesota Homeownership Rates by Ethnicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>White (non-Hispanic)</td>
</tr>
<tr>
<td>Latino/Hispanic</td>
</tr>
<tr>
<td>Asian</td>
</tr>
<tr>
<td>American Indian</td>
</tr>
<tr>
<td>African American</td>
</tr>
<tr>
<td>Total Population</td>
</tr>
</tbody>
</table>

*Source: 2000 U.S. Census*

\textsuperscript{22} Wilder Research Center, 2004.
\textsuperscript{23} Wilder Research Center, 2004.
\textsuperscript{24} “Quarterly Shelter Survey,” Minnesota Department of Human Services, May 2004. These emergency shelter figures may contain duplication in the count due to method of data collection. According to the survey there were an additional 688 homeless individuals turned away from transitional housing programs or put on waiting lists. Children made up 48.5 percent of all turnaways.
\textsuperscript{25} Wilder Research Center, 2004.
\textsuperscript{26} Wilder Research Center, 2004.
\textsuperscript{27} Wilder Research Center, 2004.
\textsuperscript{28} “Regional Analysis of Impediments to Fair Housing,” Legal Services Advocacy Project, 2001.
\textsuperscript{29} “Regional Analysis of Impediments to Fair Housing,” Legal Services Advocacy Project, 2001.
\textsuperscript{30} “Drained Wealth, Withered Dreams. The Disparate Impact of Predatory Lending in the Twin Cities,” Association of Community Organizations for Reform Now, October 2001. (Predatory lending is defined as loans made with accelerated payments or hidden charges which the borrower would likely be unable to afford.)
Factors ranging from discrimination to lower incomes make it more difficult for people of color to participate in the American dream of homeownership. People of color continue to trail white Minnesotans in the rate of homeownership. While 77 percent of white Minnesotans own their homes, homeownership rates for other racial and ethnic groups are significantly lower.

D. Government funding and tax incentives have been scaled back dramatically, and have not been replaced by local or private resources.

While communities and the private sector stepped up to address Minnesota’s housing challenges, the state and federal governments reduced their investments in housing in recent years.

The State of Minnesota has been recognized as a national leader in its commitment to affordable housing. The state provides assistance for building, buying and maintaining ownership and rental housing. Minnesota also funds important housing related services including homeless prevention and shelter funding, mortgage foreclosure prevention, first-time homebuyer counseling and rental assistance.

However, the state investment in housing declined from the high point of $173 million reached in the 2000-01 biennium to $69.77 million appropriated in the 2004-05 biennium.31 (See chart below.) With the projected state budget deficit for the 2006-07 biennium, securing additional state funding for housing will be challenging unless housing is made a higher priority by policymakers.

As important as they are, all the investments at the state and local level do not come close to providing needed housing resources and do not offset the reduction in federal housing investment formerly available in Minnesota.

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31 This figure includes state general fund appropriations only and does not include the $16.2 million in general obligation bonding appropriated for homeless veterans projects in Hennepin County and St. Cloud during the 2002 legislative session. The 2002 bond allocation was substantially greater than the general obligation bonding commitments for housing in past biennia.

32 Between 2000 and 2003 a substantial amount of MHFA’s appropriations came from a built-up reserve in funds from federal welfare to work funding called Temporary Assistance for Needy Families (TANF). Since federal law prohibits the use of TANF funds for construction of housing, the state legislature “traded” these funds for other eligible uses and freed up those state dollars for housing.
With the 1986 Tax Reform Act, the federal government reduced tax incentives for private investment in rental housing which in turn dramatically reduced the development of rental housing in Minnesota. The federal Low Income Housing Tax Credit was also created through the 1986 tax reform to continue tax benefits for low-income rental housing. However, these tax credits do not meet the demand for housing resources. The current level of federal resources for rental housing production is only about 1/3 of what it was during the high point for such investments in the 1970s.³³

At the federal level there has been a shift from subsidizing housing production to subsidizing tenant rents through vouchers. But here, too, the federal government has not kept up with the increasing need for rental assistance, and the Bush Administration has recently proposed a funding reduction to this important program.

4. Moving Toward Solutions

The scope of Minnesota’s housing challenges is broad and varied. It is appropriate to strategically prioritize or focus efforts while not losing sight of the full range of housing challenges we face. The pent-up demand for safe, decent affordable housing will not be met overnight, but it is solvable with strong leadership and collaboration among the public and private sectors. The following strategies provide a framework for positive change.

A. Encourage development of lower cost housing.

The private market is expected to provide a substantial amount of the state’s affordable housing between 2005-10.³⁴ Maximizing the ability of the market to provide housing requires strategies to reduce the cost of development. Several strategies have proven effective in encouraging the production and reducing the costs of affordable and market-rate housing.

Regulations such as building codes, land use policies and zoning, and subdivision ordinances serve important public purposes. However, these regulations can add to the cost of producing housing. Because many regulations come from the local level, some communities have used them to discourage certain types of housing in an area or dissuade certain people from moving into a community. Streamlining regulations can assist in reducing both the cost of producing housing and community resistance to affordable housing. Flexible zoning can be effective in encouraging the private sector to provide mixed-income housing. Communities could identify tracts of land eligible for higher density housing. New building codes could be developed to facilitate rehabilitation of older properties.

³³ Estimate based on budget numbers, adjusted for inflation, for the following programs: project-based Section 8, public housing development, CDBG, HOME, Indian Housing Development and Low Income Housing Tax Credit reported in “Changing Priorities, The Federal Budget and Housing Assistance 1976-2007,” NLIHC, 2002.
B. Invest in a broad range of housing strategies, while meeting the basic housing needs of those with the fewest housing choices.

Cost reduction strategies can help developers produce more affordable housing, but in order to meet the housing needs of low-income individuals, additional investment in affordable housing will be from needed local, state and federal government, philanthropic organizations and businesses.

There are three types of investments that need to be scaled up: (i) rent or operating cost subsidies benefiting very low-income households; (ii) funds for repairs and preserving existing affordable rental and ownership housing; and (iii) funds to build new rental units and ownership housing. Additionally, investment in health and social services connected to affordable housing will assist in stabilizing people in the community; and funding for community-level planning and nonprofit capacity building will ensure that communities are well prepared to identify and meet the housing needs of their residents.

The Minnesota Housing Finance Agency has identified the following priorities for investment in affordable housing between 2004 and 2007:

1. Increase housing options for middle- and low-income workers.
2. Preserve, strategically, the existing affordable housing stock.
3. Increase the homeownership rate for under-served ethnic groups.
4. End long-term homelessness.

These priorities provide valuable focus for addressing some of the most pressing housing needs of Minnesota’s communities. Worker housing is a critical component to Minnesota’s continued economic recovery. Preservation of existing affordable housing should be prioritized because its loss as a community asset is counterproductive and costly. Preserving existing affordable housing through additional incentives, negotiations and rehabilitation can cost 75 percent less than building new housing. Identifying new homeownership strategies is critical to address the wide race-based disparity in homeownership rates. The goal of ending long-term homelessness targets substantial resources and efforts to serve some of the most vulnerable.

C. Protect the rights of those shut out of the housing market and the most vulnerable.

Strengthening and enforcing the rights of people harmed by the lack of affordable housing is one method of protecting individuals while longer term regulatory and investment strategies are developed and implemented.

Aggressively enforcing fair housing laws, ending predatory lending, reforming rental practices that restrict housing choices for low-income renters (such as multiple application fees and unfair screening practices) and minimizing the impact of past rental difficulties are all actions which should be considered to help Minnesotans cope with too few affordable homes.

At the same time, it is important to ensure that all Minnesotans who have become homeless have a safe place to go temporarily as they seek permanent housing. Homeless shelters and transitional housing should be provided so that no one is turned away.
5. Conclusions

Partnerships among all levels of government, private business and philanthropic organizations are critical for moving toward solutions to Minnesota’s housing challenges. At the local level, community leaders are recognizing the integral role that affordable housing plays in maintaining healthy towns and neighborhoods. Mayors from across the state have identified affordable housing as a top priority and have unveiled plans to address the shortage in their cities. The Metropolitan Council is promoting affordable housing through the Livable Communities program and regional planning. Local business leaders have also cited housing as a top concern and are taking action to alleviate the problem. Minnesota’s private foundations have been at the forefront in addressing the affordable housing challenge.

No single solution will satisfy the many housing challenges outlined in this document. Progress will be the result of Minnesota’s continued leadership in assisting its residents attain homes that are safe, decent and affordable. Policymakers and community leaders must continue to set the bar high for the level of public and private partnerships needed for success. The strength of Minnesota’s communities and the success of Minnesota’s families depend upon ensuring a range of housing choices and opportunities for all Minnesotans.

The purpose of this document is to provide an overview of housing issues in Minnesota. For further information on housing and homelessness visit the following Web sites.

- **Family Housing Fund**: [www.fhfund.org/](http://www.fhfund.org/)
- **Minnesota Housing Finance Agency**: [www.mhfa.state.mn.us/](http://www.mhfa.state.mn.us/)
- **HousingMinnesota**: [www.housingminnesota.org](http://www.housingminnesota.org)
- **National Low Income Housing Coalition**: [www.nlihc.org](http://www.nlihc.org)
- **Wilder Foundation Research Center**: [www.wilder.org/research/index.html](http://www.wilder.org/research/index.html)

HousingMinnesota invites you to provide your feedback, comments and suggestions about this document. Please email your feedback to HousingMinnesota, at info@mhponline.org, or call for additional information, copies or other materials at 651-649-1710.
Additional Housing Resources and Publications:

**Homes for All: Housing Messages**
This document includes key facts and messages about the important role housing plays in our lives and communities, as well as a snapshot of the housing issues facing Minnesota. It is designed to enable individuals to talk effectively with their legislators or draft informed letters to the editor about housing issues.

**Minnesota County Profiles on Affordable Housing**
Fact sheets for each of the 87 Minnesota counties, and the state of Minnesota as a whole. Profiles include data on incomes compared to housing costs, homelessness, and the percentage of population spending more than 30 percent of their income on housing (rental and ownership).

**Children and Homelessness Report**
This report documents the effects of homelessness on children. It chronicles the rise in homelessness among children and the impacts of homelessness on school performance and health.

**Also available at www.HousingMinnesota.org:**

**Teacher’s Guide for Classroom Success for Homeless and Highly Mobile Students:**
*A publication of the Minneapolis Public Schools*

This brochure helps classroom teachers understand potential impacts of homelessness and high mobility on their students, and what strategies teachers can employ to help students succeed.

*Printed versions of these materials are available by contacting HousingMinnesota at info@mhponline.org or 651-649-1710.*
*To view these materials and other studies, visit www.housingminnesota.org.*