



Today's Housing Landscape

October 24, 2009



Issues

- 1. Affordability – Incomes and Housing Costs**
- 2. The Foreclosure Crisis**
- 3. Recession and Unemployment**
- 4. Consequences:**
 - » **Continuing foreclosure crisis**
 - » **Increased homelessness**
 - » **Inability to sell MRB at competitive rates**
 - » **Reduced Housing Tax Credit returns**
 - » **Rising vacancy rates**

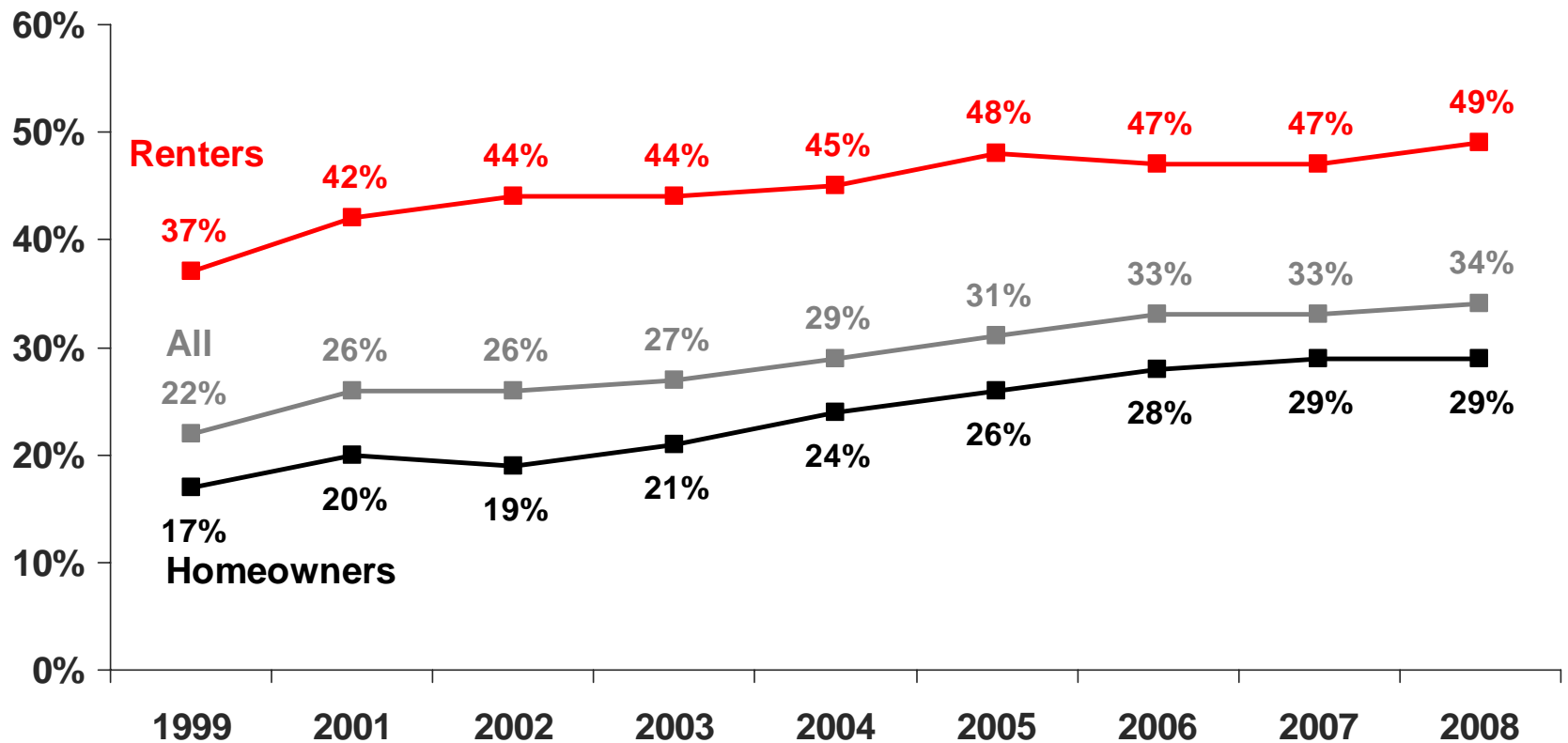
Issue #1

Affordability – Incomes and Housing Costs

Affordability

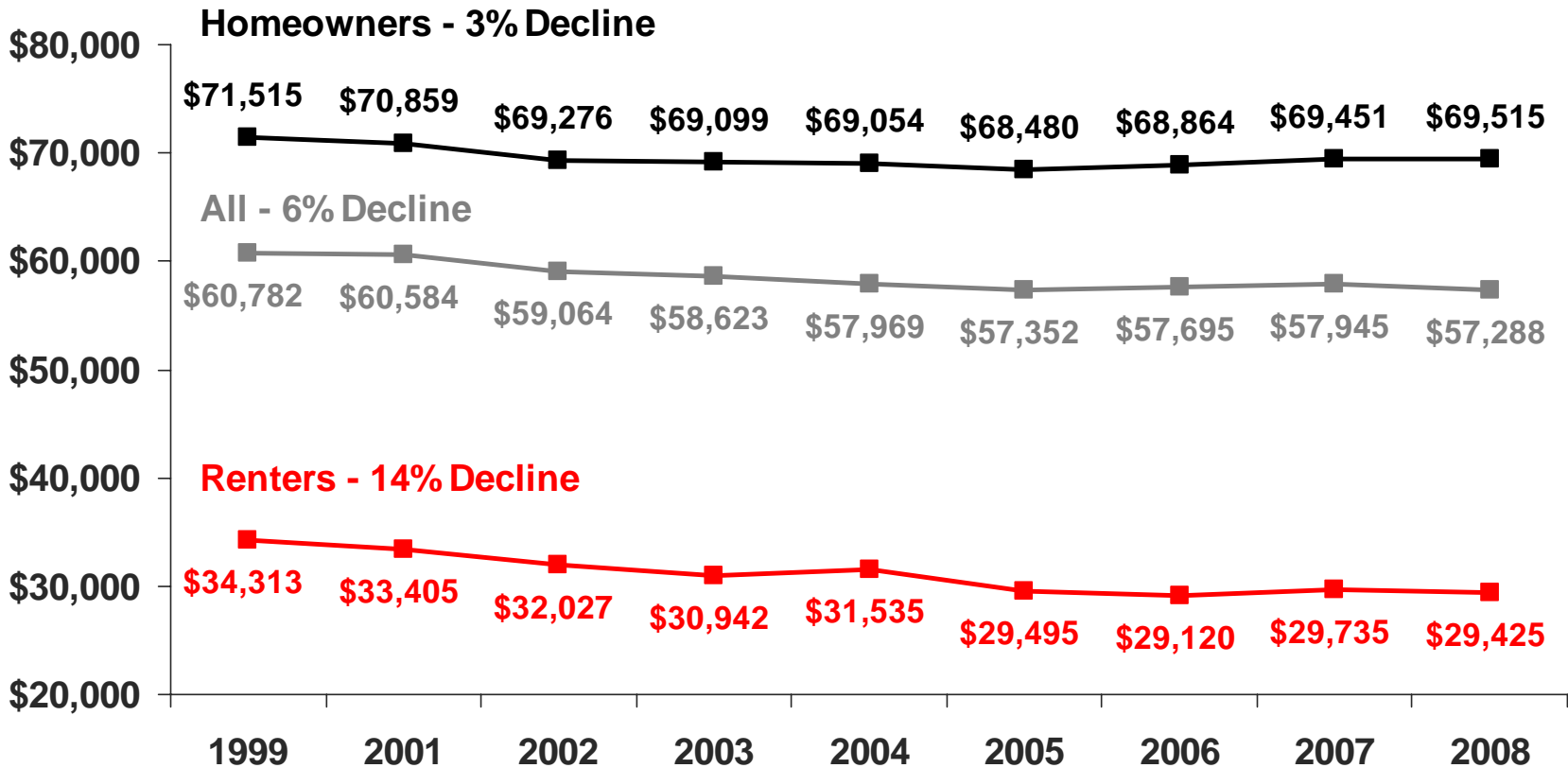
- **Growing share of households are spending more than 30% of income on housing:**
 - » **Renters – Declining incomes / Flat rents**
 - » **Homeowners – Flat incomes / Increasing costs**
- **Home prices**
 - » **1998 – 2004: Boom market**
 - » **2007 – 2009: Bust market, largely driven by lender-mediated sales**

MN: Percentage of Households Spending 30% or More for Housing



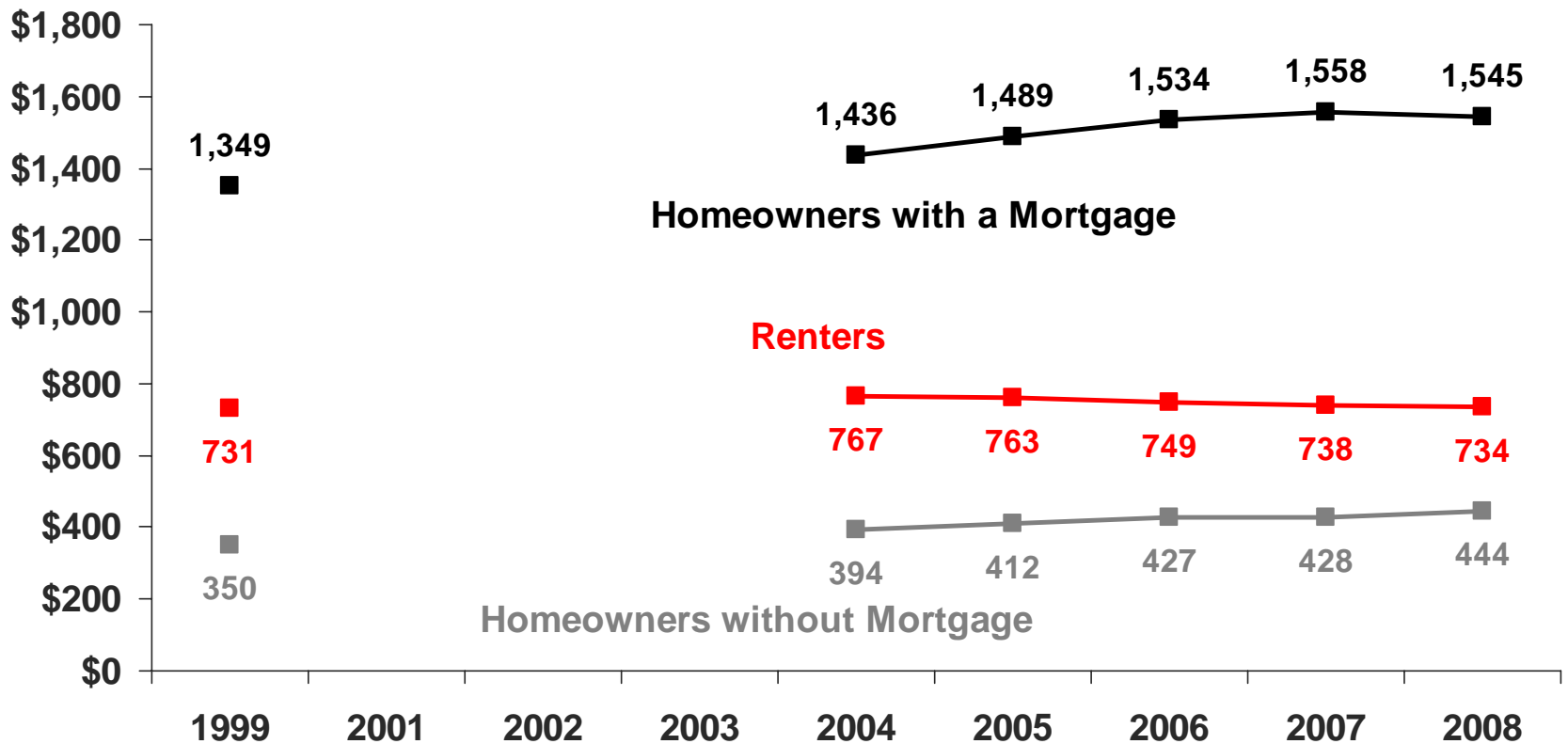
Source: Census Bureau, 2000 Decennial Census and American Community Survey (2001-2008)

MN: Median Household Incomes (Adj. for Inflation, 2008 Dollars)



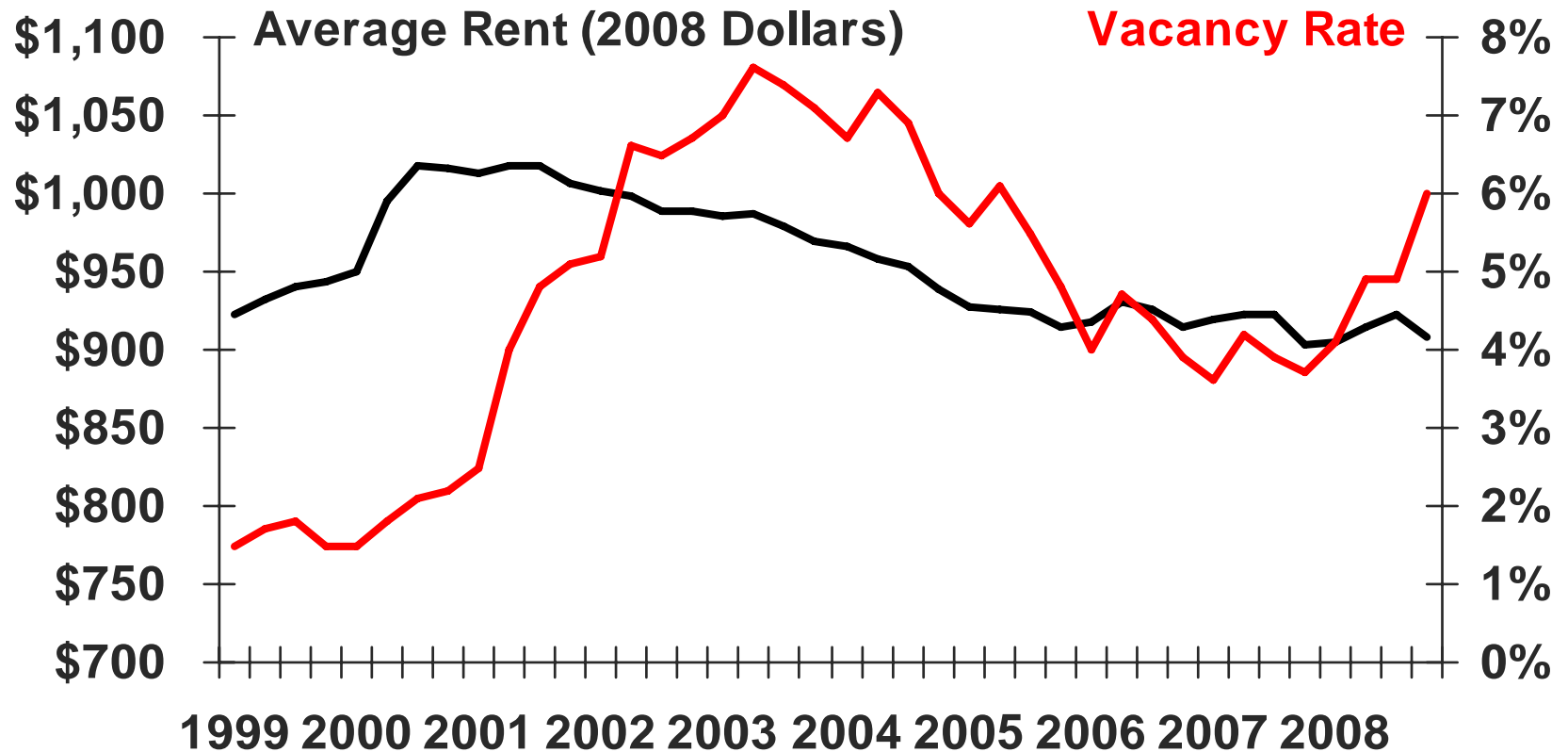
Source: Census Bureau, 2000 Decennial Census and American Community Survey (2001-2008)

MN: Median Monthly Housing Costs (Adj. for Inflation, 2008 \$)



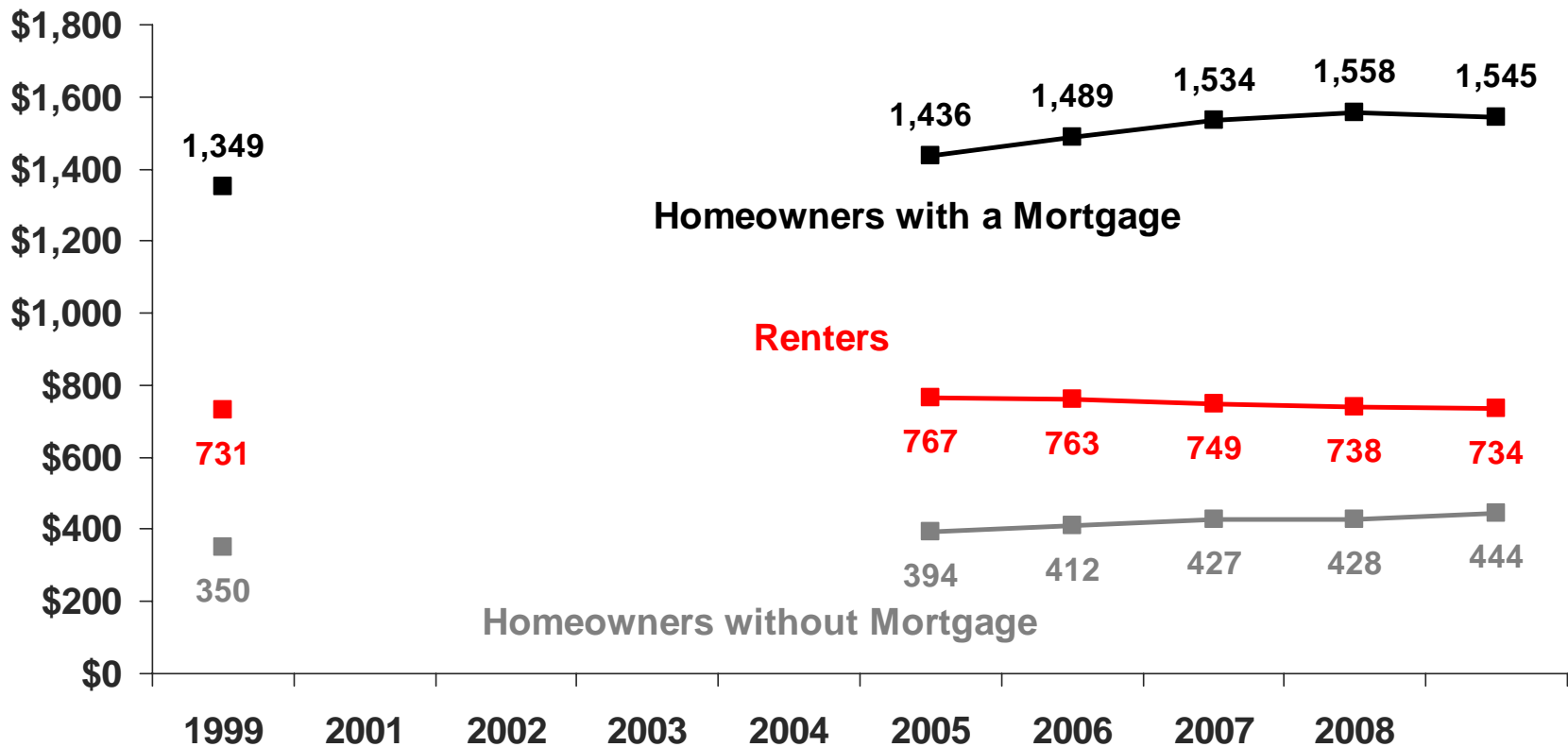
Source: Census Bureau, 2000 Decennial Census and American Community Survey (2004-2008)

Twin Cities Metro Area: Rental and Vacancy Rates



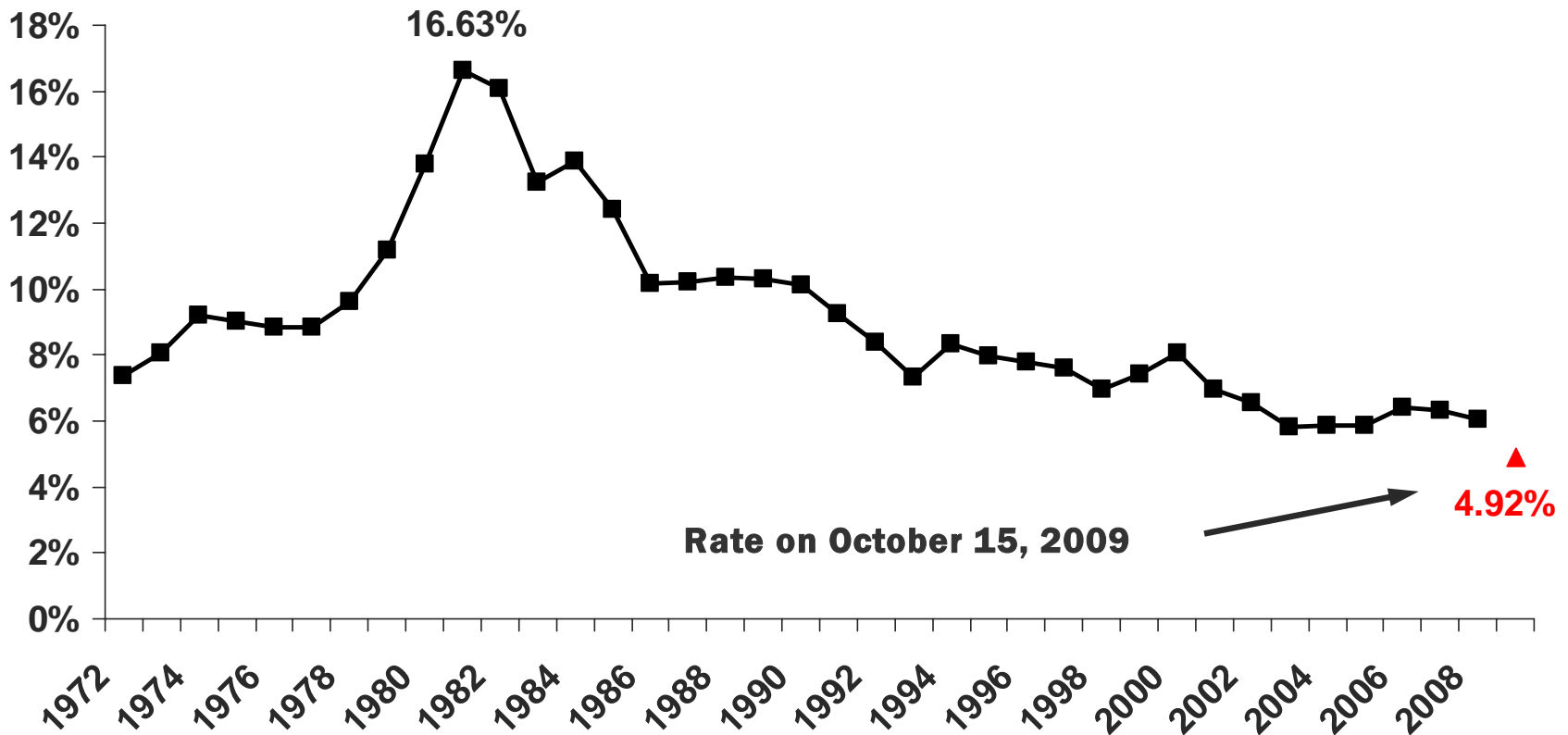
Source: Minnesota Housing analysis of data from GVA Marquette Advisors

MN: Median Monthly Housing Costs (Adj. for Inflation, 2008 \$)



Source: Census Bureau, 2000 Decennial Census and American Community Survey (2004-2008)

Interest Rate on 30-Year, Fix-Rate Conventional Home Mortgages

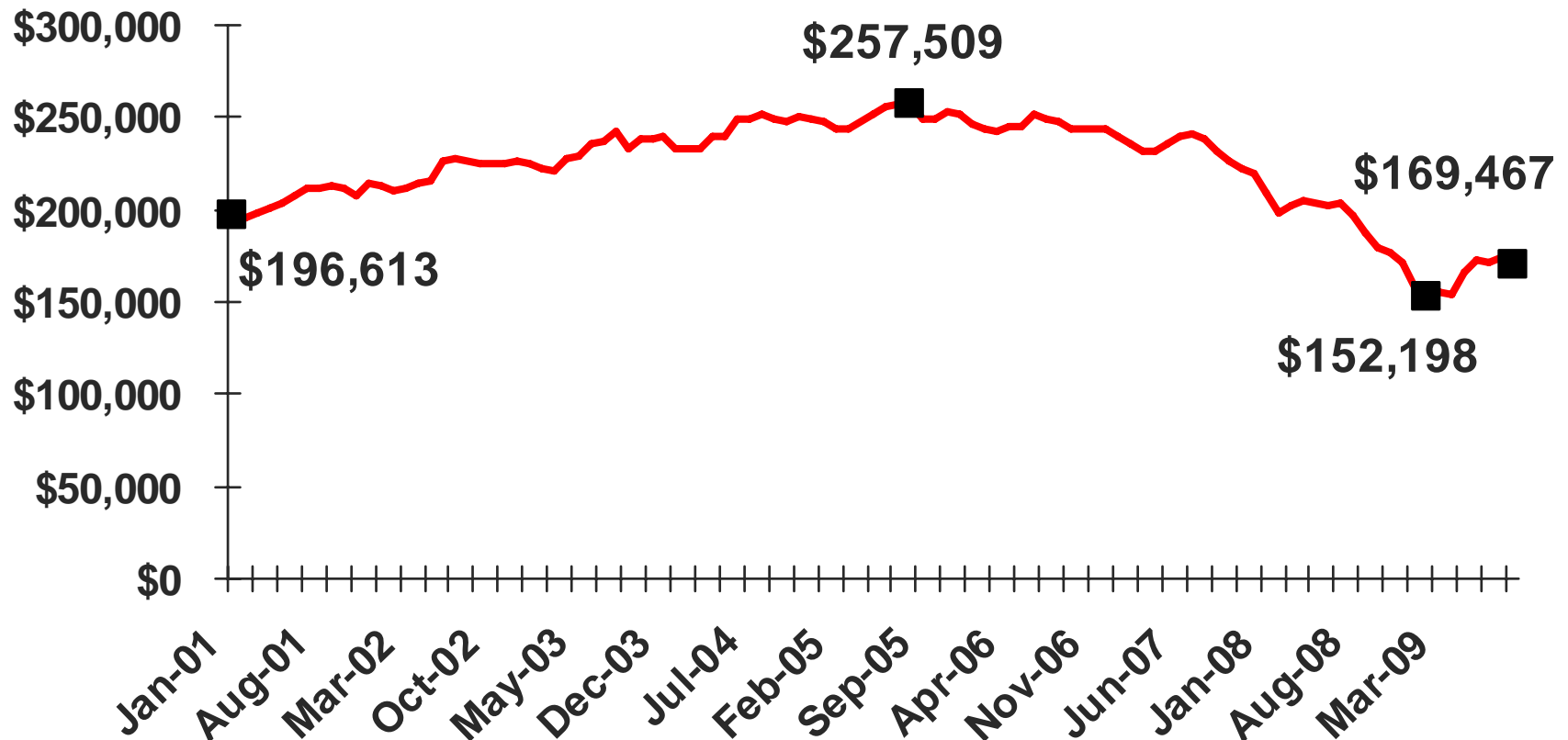


Source: Federal Reserve reporting of Primary Mortgage Market Survey from Freddie Mac

Historically Low Interest Rates

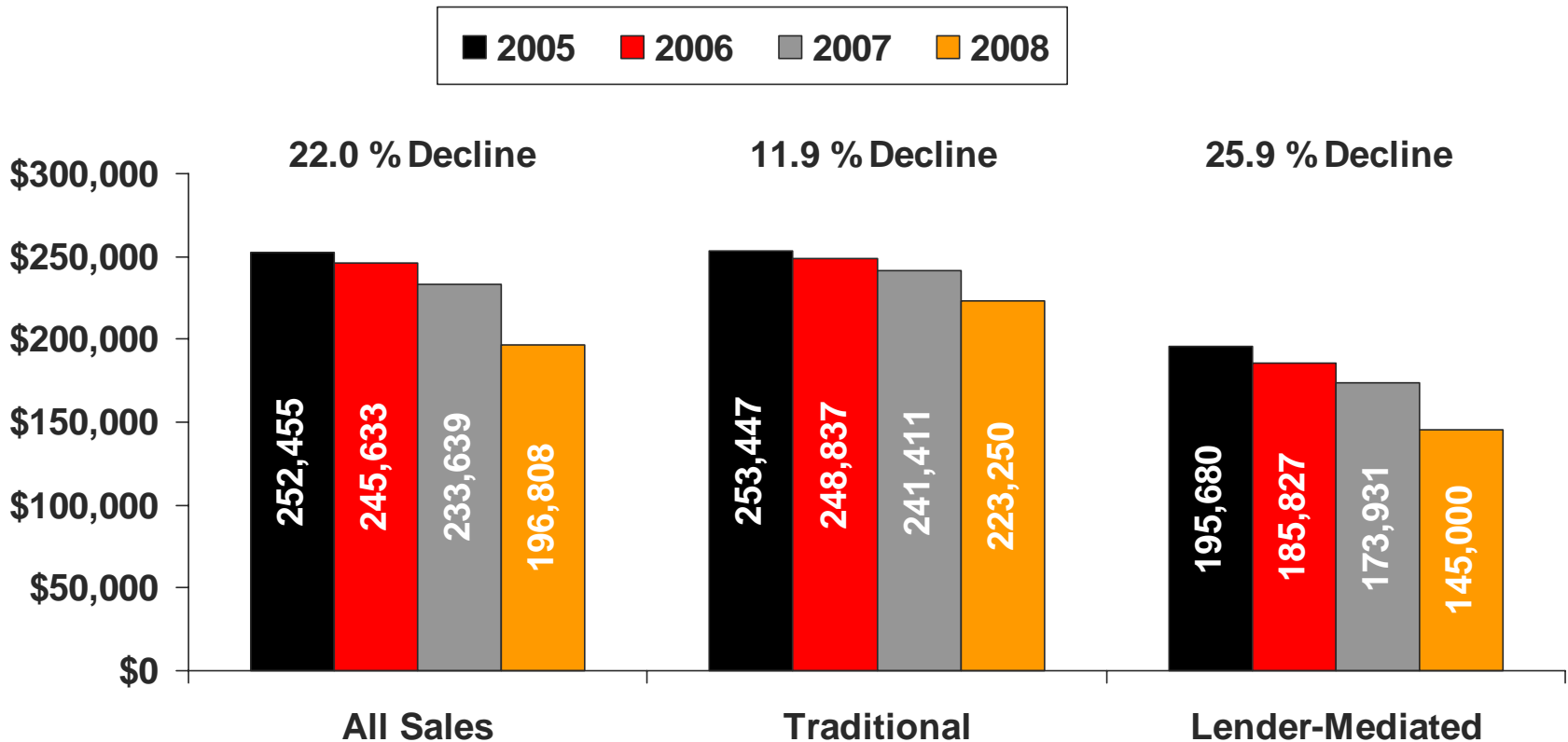
- **Federal Reserve Bank buying \$1.25 trillion dollars of mortgage banked securities from Fannie Mae and Freddie Mac.**
 - » **From January 2009 to March 2010**
- **Lowered mortgage rates**
 - » **Policy announced on November 25, 2008**
 - **November 20, 2008 - 6.04%**
 - **January 15, 2009 - 4.96%**
- **What will happen after March 2010?**

Twin Cities Metro Area: Median Home Sale Price (2008 Dollars)



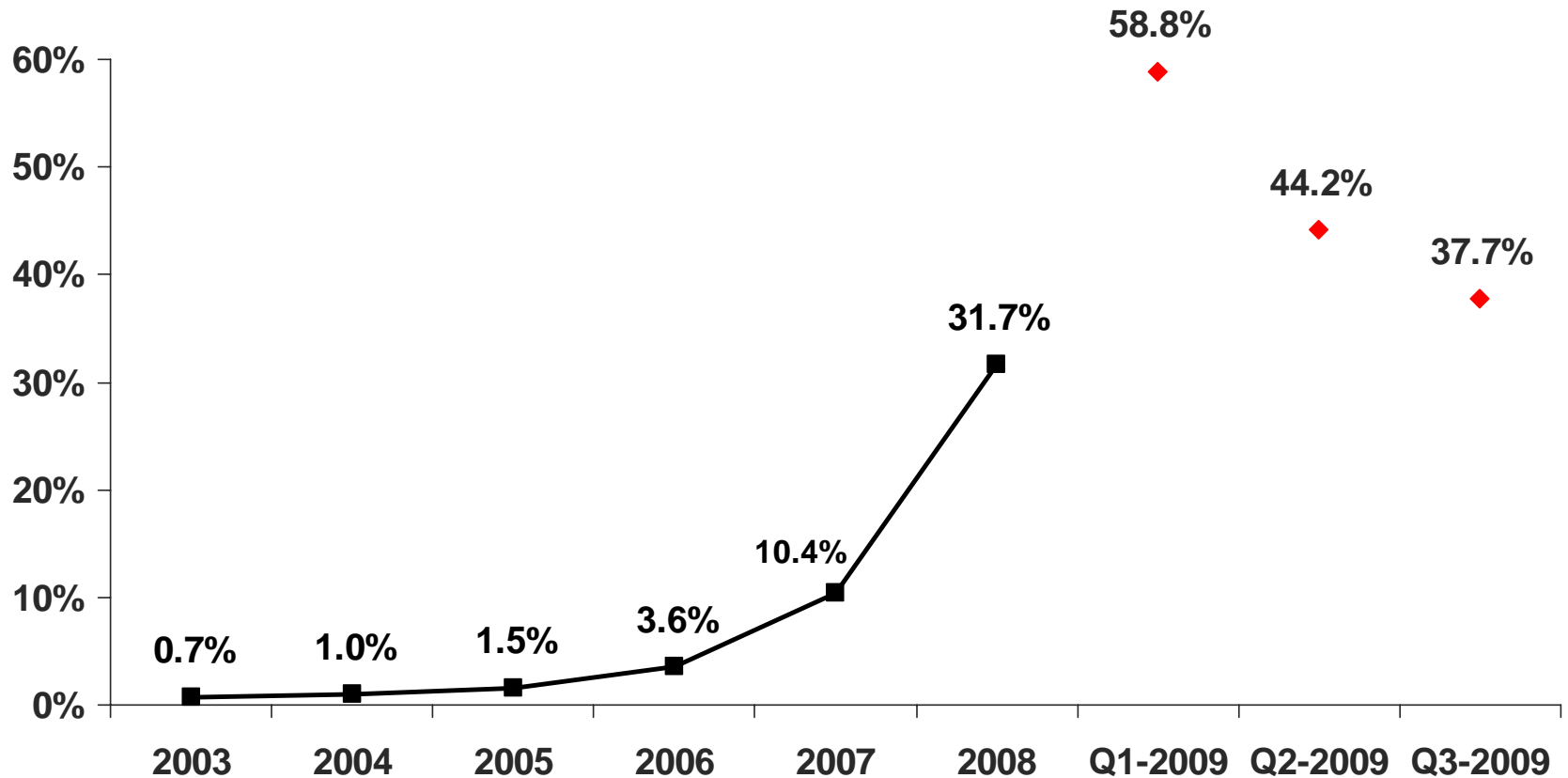
Source: Minnesota Housing analysis of data from the Minneapolis Area Association of Realtors

Twin Cities Metro Area: Median Home Sale Prices (2008 Dollars)



Source: Minnesota Housing analysis of data from the Minneapolis Area Association of Realtors

Twin Cities Metro Area: Share of Sales that Were Lender-Mediated



Source: Minneapolis Area Association of Realtors, *2008 Residential Real Estate Activity Report*

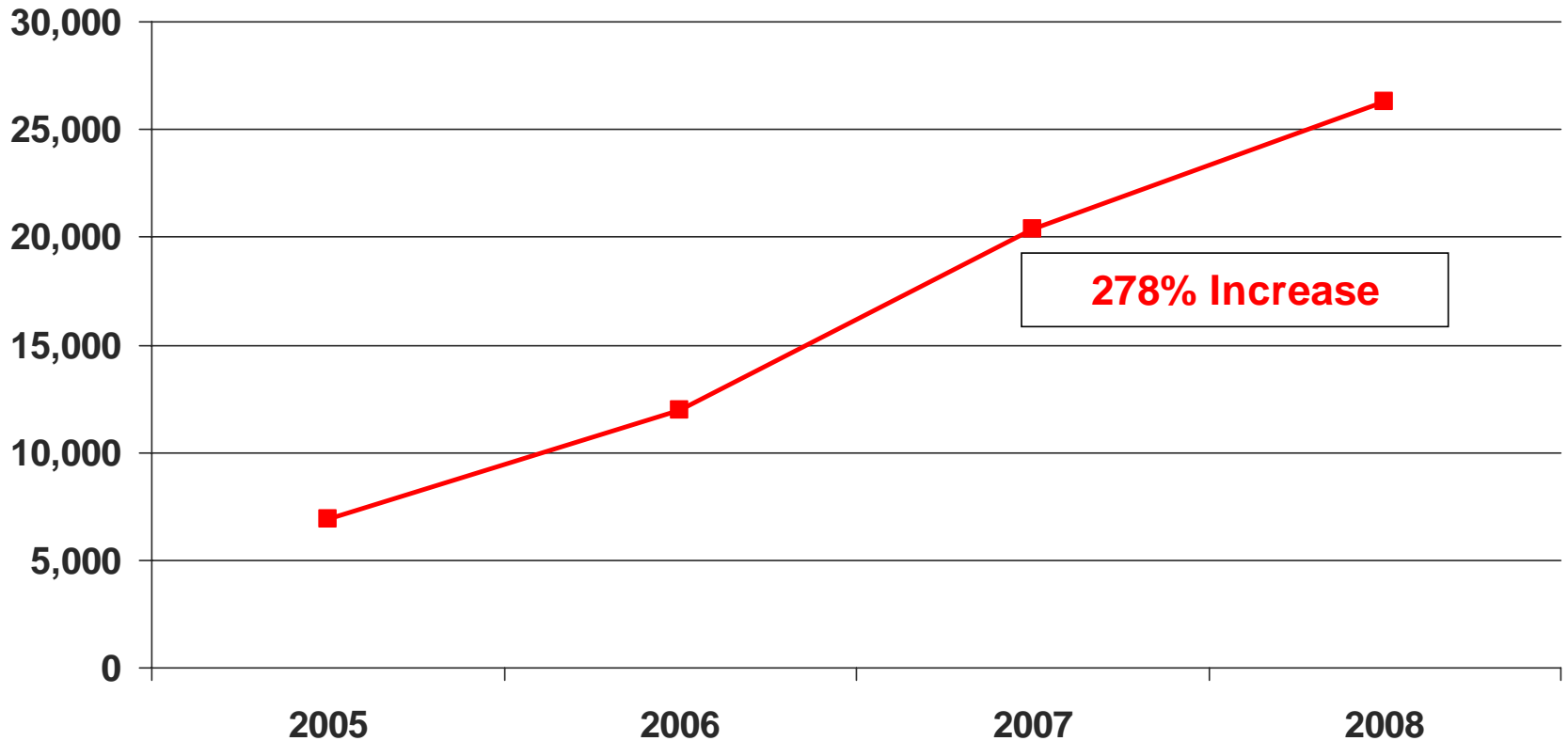
Issue #2

The Foreclosure Crisis

Foreclosures: Housing and Economic Crisis

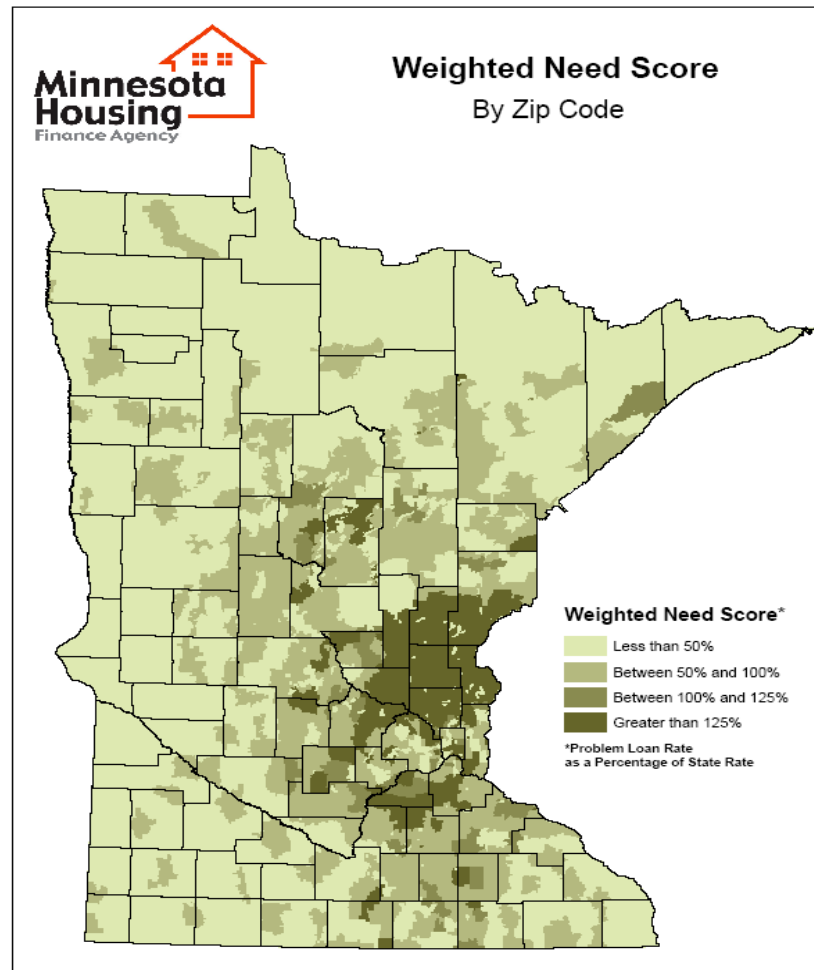
- **Housing Crisis:**
 - » **People losing their homes**
 - » **Neighborhood destabilization**
 - » **Declining home values**
 - » **Will likely continue**
- **Economic Crisis:**
 - » **Toxic assets (mortgages and MBS) held by banks and financial institutions**
 - » **Financial uncertainty / nervous investors**
 - » **Investment funds sitting on sidelines**
 - » **Economic slowdown**

MN: Number of Sheriff Sales



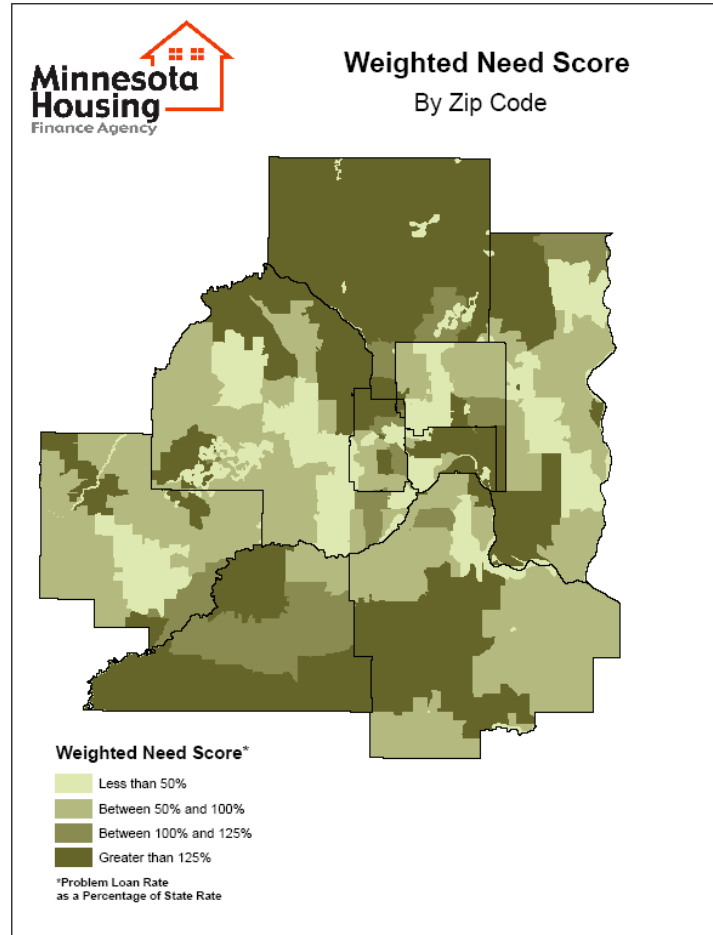
Source: Minnesota Housing analysis of data from Housing Link. Data were adjusted to account for missing data in a few counties

120 Highest Need Zip Codes



Source: Minnesota Housing analysis of Federal Reserve Board estimates based on First American LoanPerformance, April 2008

Metro High Need Zip Codes

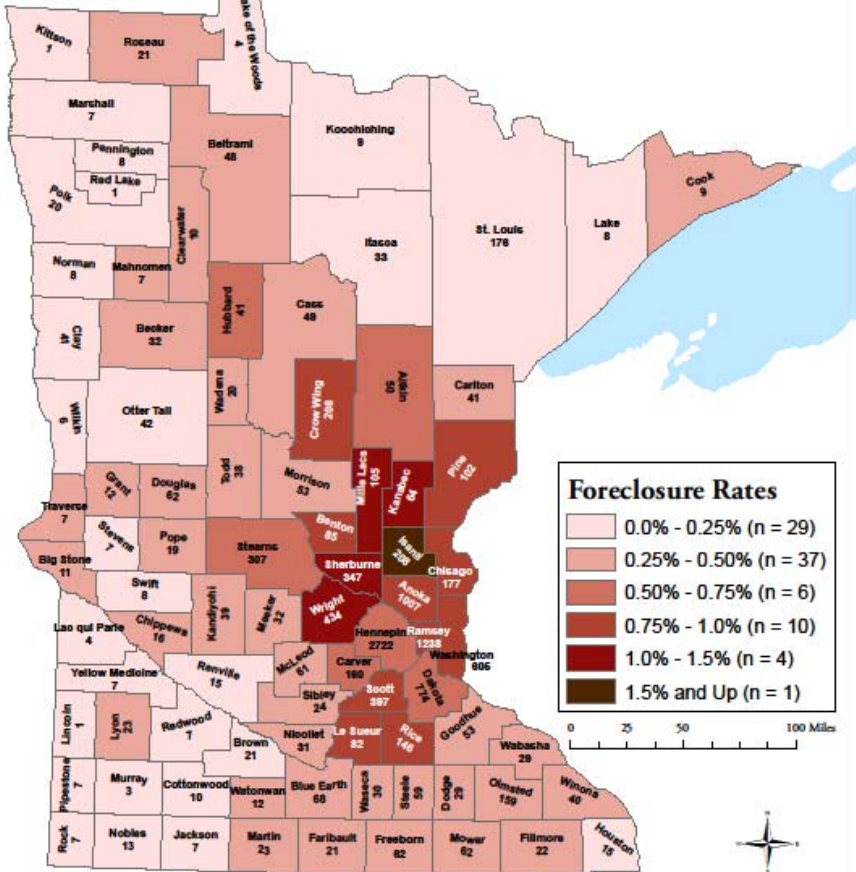


Source: Minnesota Housing analysis of Federal Reserve Board estimates based on First American LoanPerformance, April 2008

Figure 11

Minnesota Foreclosure Rates (Jan. 1 - Jun. 30 2009)* by County

Actual number of foreclosures is indicated along with each county name



Foreclosures in Minnesota: A Report Based on Sheriff's Sale Data (August 2009)

Funded by: MN Home Ownership Center, Greater MN Housing Fund, Family Housing Fund, & MN Housing

* Foreclosure Rate - the number of foreclosed mortgages as a percent of total residential parcels.

Data Sources: County reported sheriff's sales and 2008 parcel counts from MN Department of Revenue



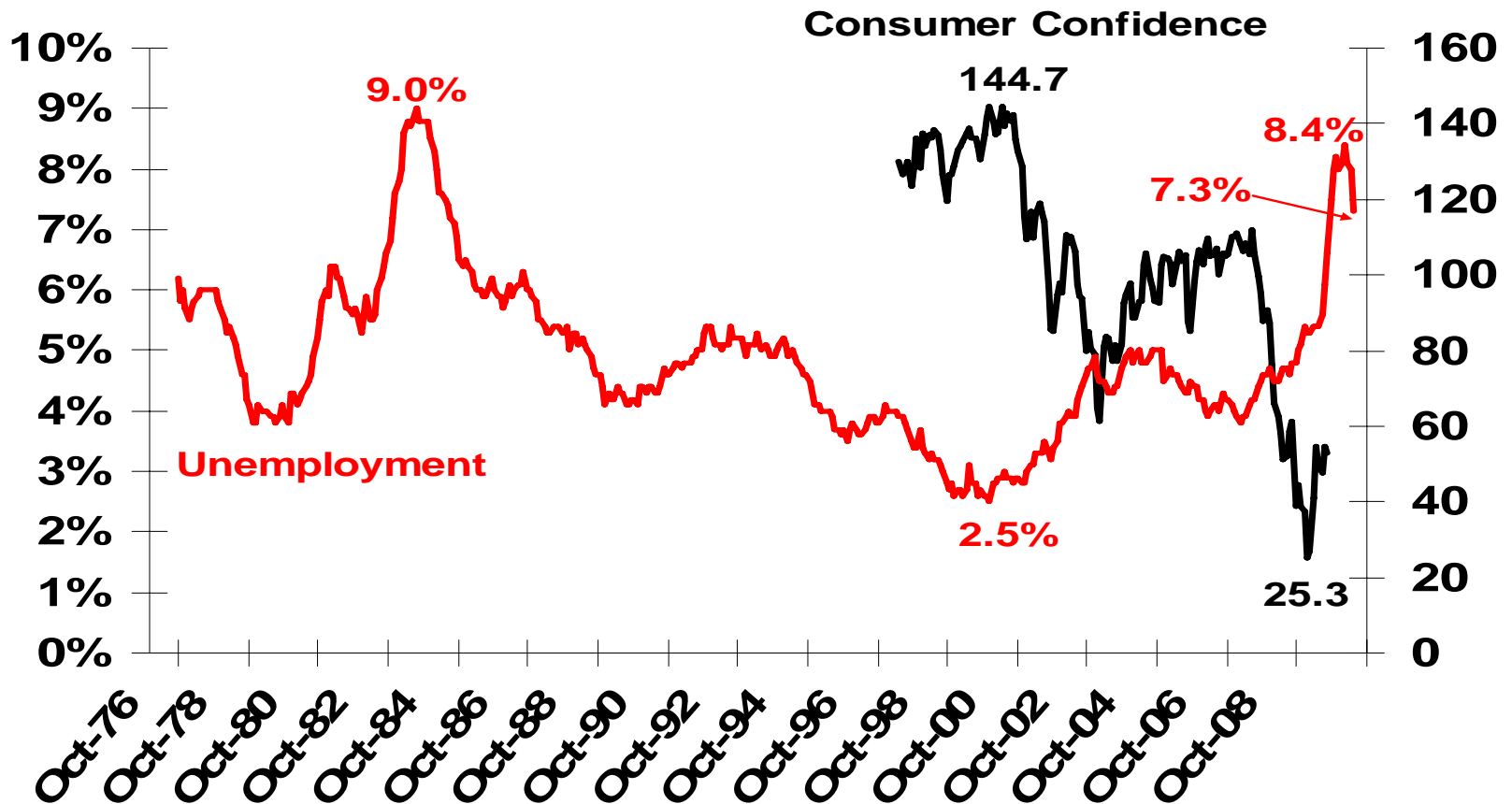
Issue #3

Recession and Unemployment

Consumers and the Economy

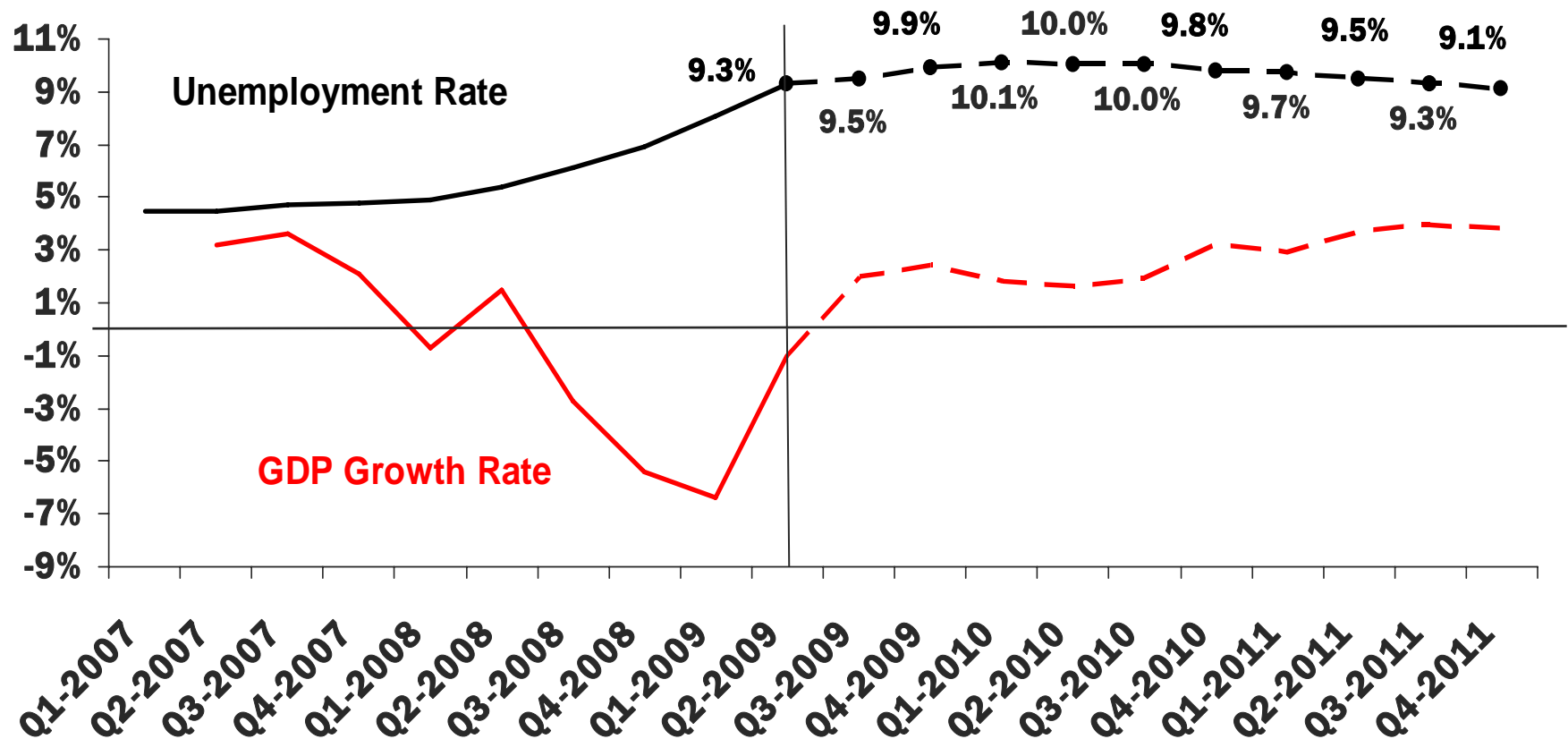
- **Consumer spending makes up over two-thirds of economic activity in the U.S.**
 - » **Consumer confidence drops**
 - » **Consumers spend less**
 - » **Economic activity slows**
 - » **Businesses layoff employees**
 - » **Unemployment rises**
 - » **Households have less income**
 - » **Housing costs become a greater burden**
 - » **Foreclosures increase**

U.S. Consumer Confidence Index and Minnesota Unemployment Rate



Source: Conference Board, Consumer Confidence Survey; Minnesota Department of Employment and Economic Development, Local Area Unemployment Statistics

U.S.: Global Insights - Economic Forecast



Source: Global Insights, August 2009

Issue #4

Consequences

Number of Future Foreclosures ???

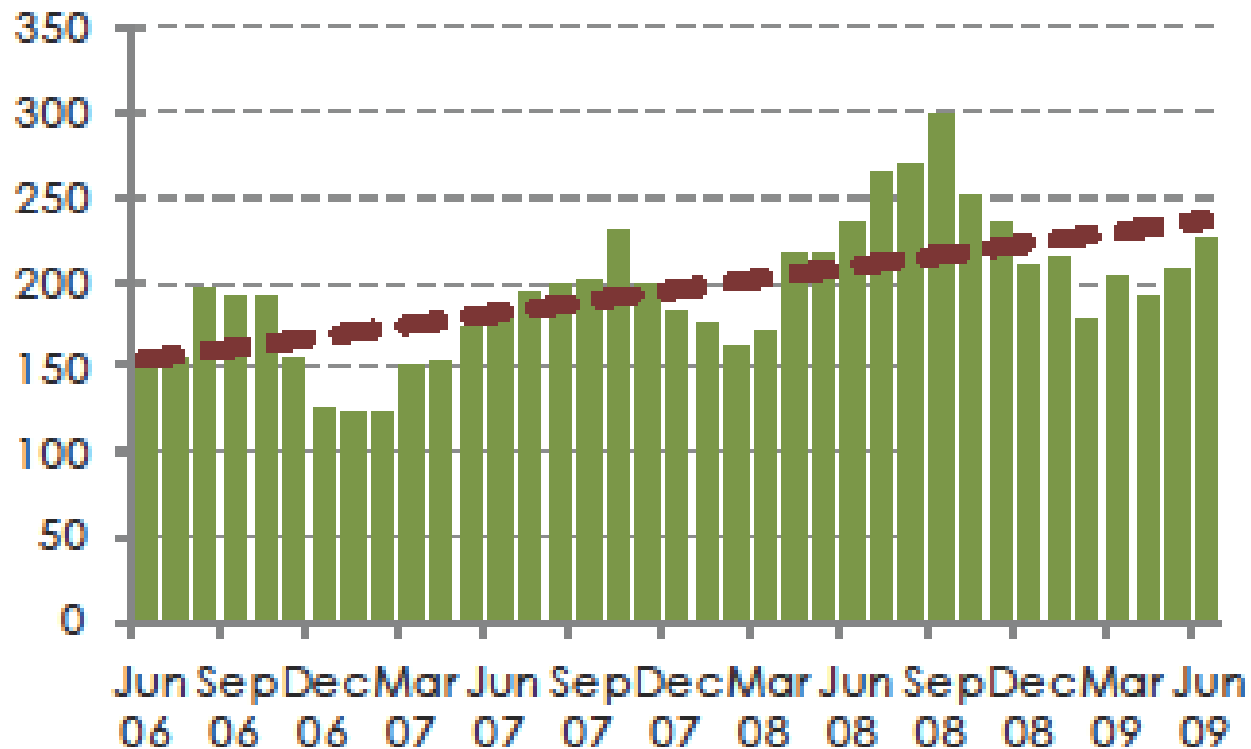
Increasing Number

- **Delinquencies are increasing**
- **Unemployment is high**
- **Alt-A loans growing concern**
- **Future ARM resets (option ARMs in particular)**
- **Housing prices had been falling; now stabilizing ???**

Decreasing Number

- **Intervention and loan loss mitigation efforts (e.g. Obama Plan)**

Hennepin Family Homelessness



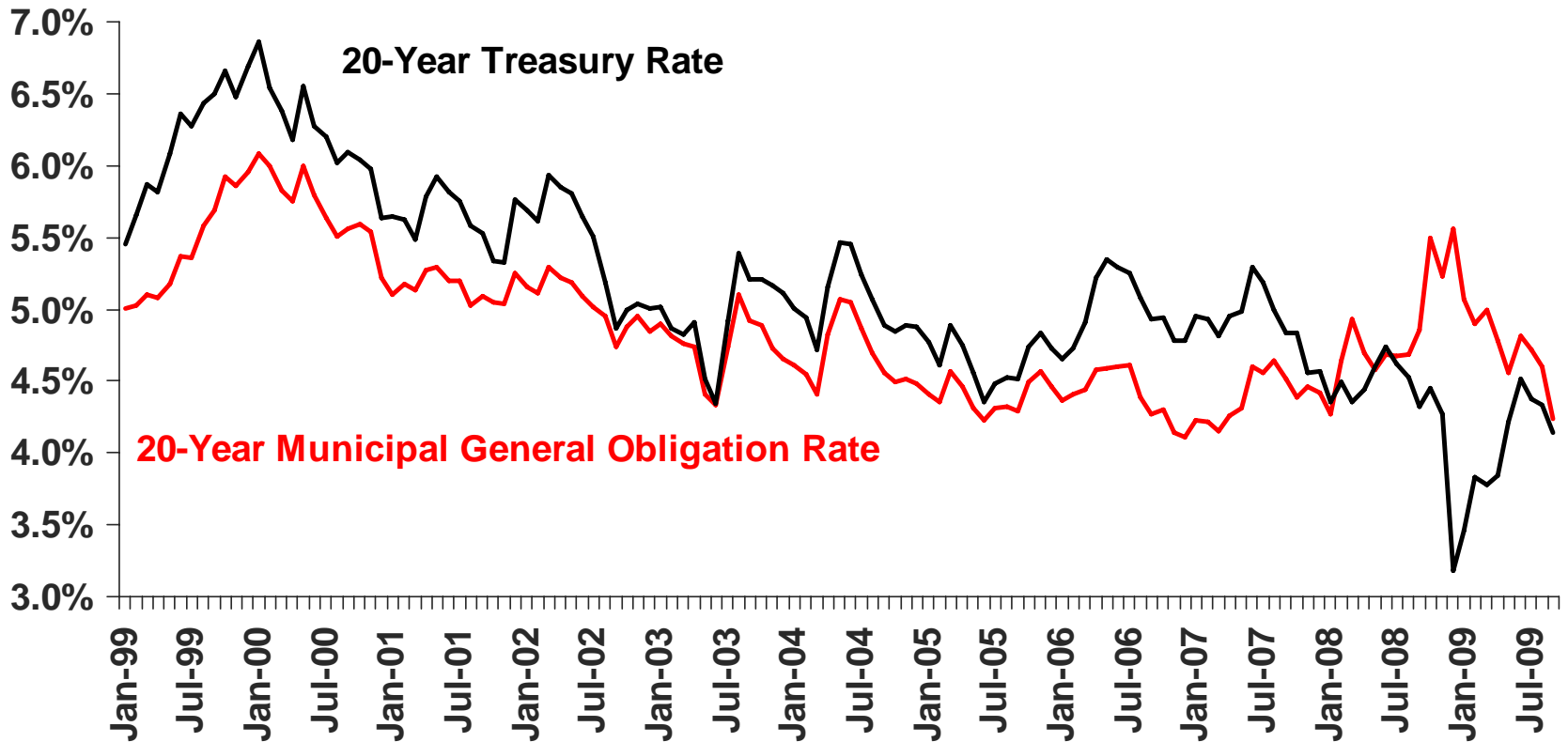
Unduplicated count of families using contracted shelters. Note the seasonal nature of shelter usage, with usage lower during winter months. Dashed line represents upward trend.

Source: Minnesota Housing Partnership Analysis of data from Hennepin County.

Credit Markets

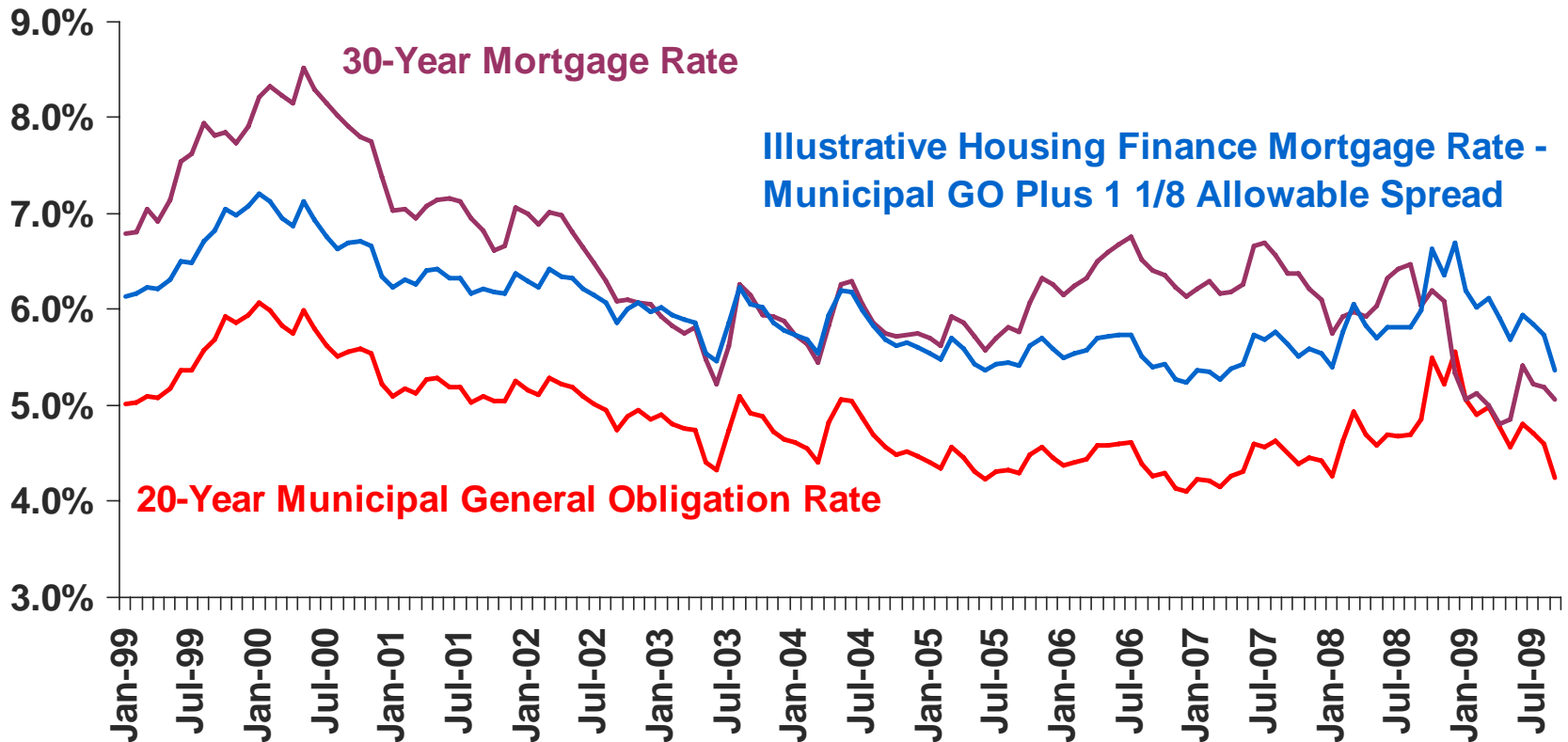
- **Because of uncertainty, investment funds have been sitting on the sidelines**
- **Investors have been unwilling to invest in municipal bonds (including housing) at a competitive rate**
- **Housing agencies have been unable to offer competitive mortgages**

Broken Bond Market



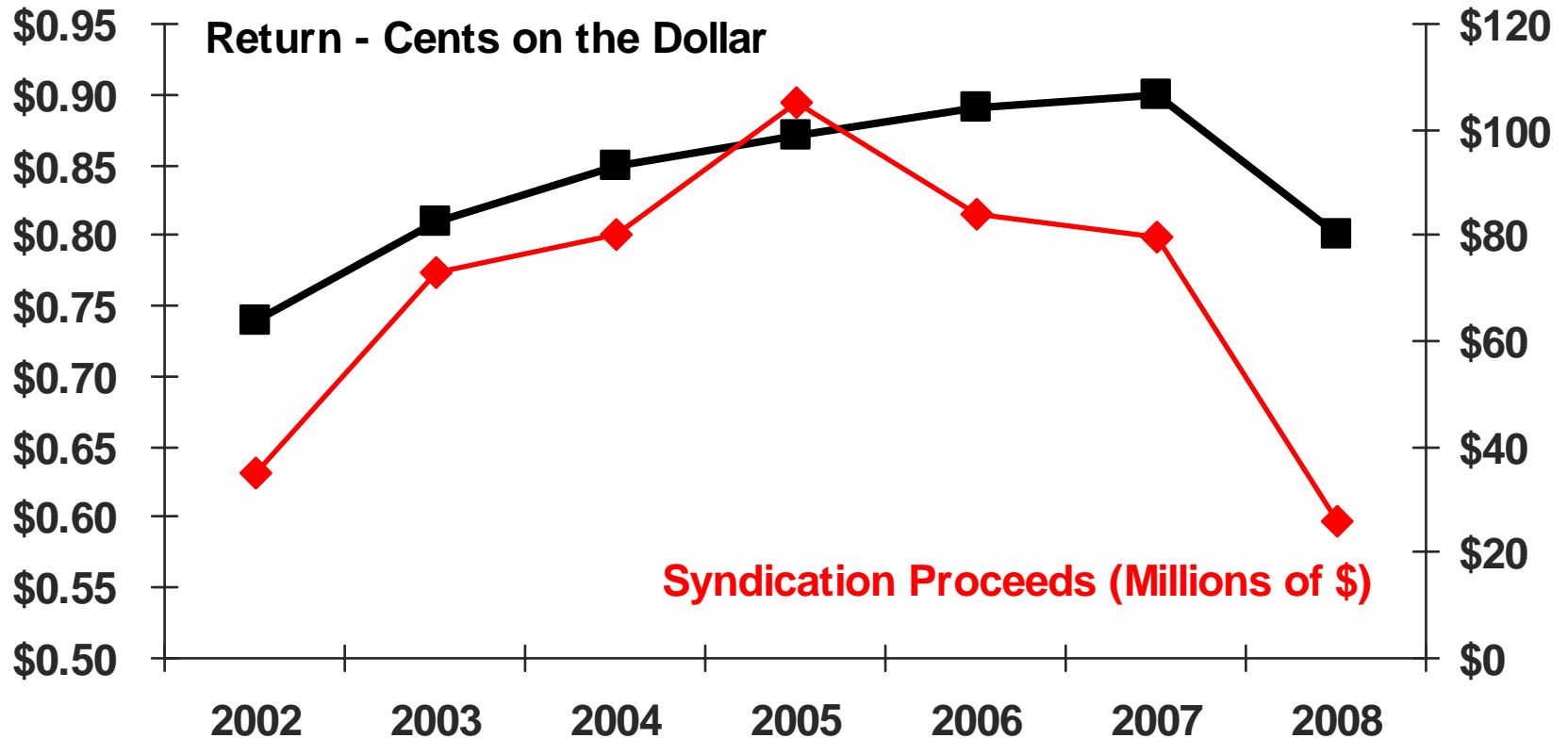
Source: Federal Reserve Bank

Housing Finance Mortgages Have Not Been Competitive



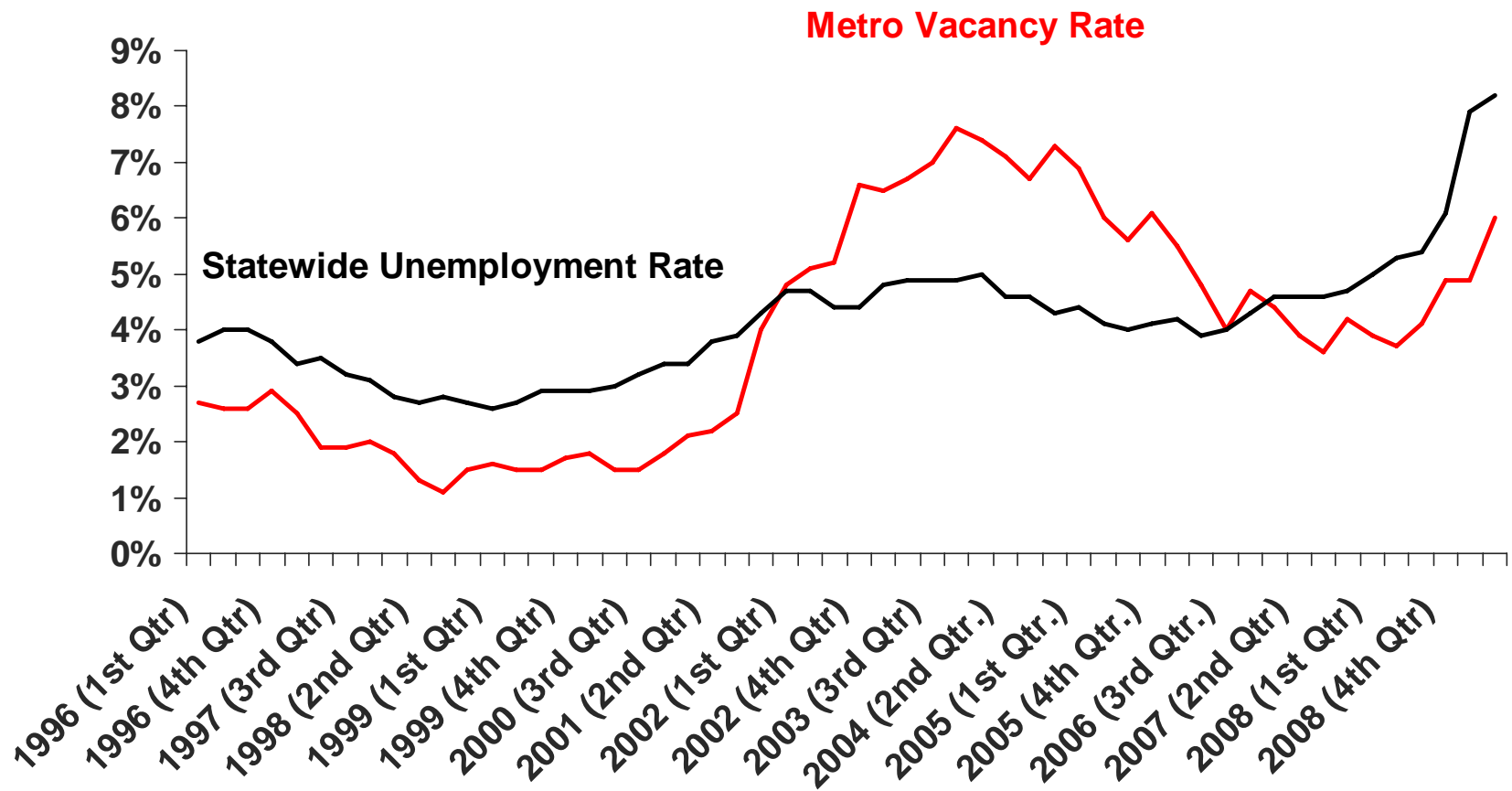
Source: Minnesota Housing analysis of data from the Federal Reserve Bank

Housing Tax Credit Returns and Proceeds



Source: Minnesota Housing. Data includes Minnesota Housing and suballocator tax credits.

Unemployment as a Driver of Apartment Vacancy Rates



Source: Minnesota Housing analysis of vacancy data from GVA Marquette Associates and unemployment data from the Minnesota Department of Employment and Economic Development

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