How does MN rank?

Dynamic Trends
Shaping the Nation’s Housing Markets

Special presenter: Chris Herbert, Harvard Joint Center for Housing Studies

November 1, 2017
#InvestMHP
# AGENDA

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<tr>
<td>7:45</td>
<td>Welcome</td>
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<td><strong>Anne Mavity</strong>, Executive Director, MHP</td>
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<td>Special Presentation</td>
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<td><em>Dynamic trends shaping the nation’s housing markets</em></td>
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<td><strong>Christopher Herbert</strong>, Managing Director, Joint Center for Housing Studies at Harvard University</td>
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<td>8:25</td>
<td>Panel</td>
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<td><strong>Nick Place</strong>, Bridgewater Bank</td>
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<td><strong>Deidre Schmidt</strong>, CommonBond Communities</td>
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<td><strong>Chris Zuspann</strong>, Frerichs Construction</td>
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<td>Closing Comments</td>
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<td><strong>Paul Sween</strong>, Dominium, MHP Board Chair</td>
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<td>Adjourn</td>
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The State of the Nation’s Housing 2017

Chris Herbert
Minnesota Housing Partnership
St. Paul, MN
November 1, 2017
Summary of Key Points

• Growth in renters has been at record levels, but is now slowing

• Rental construction cycle may be peaking, but has not lead to much new supply at affordable levels

• Homeownership rate appears to be finding a bottom as foreclosures recede and economy recovers

• But there are continued headwinds for homeownership that will prevent much of a rebound

• Demographic drivers still point to strong demand over next decade, marked by coming of age of millennials, aging of baby boomers, and growing racial diversity
Growth in Rental Demand Slowing From Very High Levels
During the First Half of the 2010s, Annual Renter Household Growth Outstripped the Pace of Any Previous Decade

Average Annual Change in Renter Households (Thousands)

Source: JCHS tabulations of US Census Bureau, Decennial Censuses and Housing Vacancy Surveys.
The Decade-Long Increase in Renter Households Has Been Broad-Based

Renter Households (Millions)

Note: Household counts are three-year trailing averages and define children as under age 18 only. Source: JCHS tabulations of US Census Bureau, Current Population Surveys.
Renter Growth in Minneapolis Has Been Less Dominated by Higher-Income Households Than High-Cost Metros

Growth In Renter Households by Income: 2006-2016 (Thousands)

- San Francisco
- Riverside
- Minneapolis-St. Paul
- Tampa
- Detroit
- Philadelphia
- Seattle
- Las Vegas
- Denver
- San Diego

Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.
Rental Demand Now Appears to Be Slowing

Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.
Rental Construction May Be Cresting—At Least at High End of the Market
Multifamily Construction Appears to Be Peaking In the Twin Cities, Echoing National Trend

Notes: *Preliminary 2017 estimates are based on activity August, 2017.
Source: JCHS tabulations of US Census Bureau, New Residential Construction and Moody’s Analytics.
Growing Shares of Newly-Built Rental Units are High-Cost

Share of Occupied Rental Units Built Within Previous 5 Years (Percent)

Notes: Monthly housing costs include rent and utilities and have been adjusted to 2015 dollars using the CPI-U All Items. Excludes vacant rental units and those where no monthly cash rent is paid. 2005 data represents units built 2000-2005 inclusive, and 2015 data represents units built 2010-2015 inclusive.

Construction Costs Nationally—Land, Labor, and Building Materials—Have Risen Faster than Inflation

Notes: The RLB Construction Cost Index measures the bid cost of construction which includes labor, building materials, and contractor fees. The Co-Star Vacant Commercial Land Index serves as a proxy for developable multifamily sites.

Sources: Co-Star Vacant Commercial Land Index; RLB Construction Cost Index; and Consumer Price Index for all urban consumers.
Twin Cities’ Low Cost Rentals Have Increased Modestly, While Most Growth Has Been Among Units Renting Above $1000 Monthly

Number of Rental Units in Minneapolis-St. Paul MSA (Thousands)

Notes: Data exclude rental units occupied without payment of rent. Gross rents are adjusted by the CPI-U for All Items less shelter. Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.
At the High-End, Rent Growth is Slowing and Vacancies Rising, While Class C Segment Continues to Tighten

Annual Same-Store Rent Change (Percent)

Rental Vacancy Rate (Percent)

Source: JCHS tabulations of MPF Research.
Rent Increases Moderated in Many, But Not All Major Apartment Markets in Mid-2017

Annual Growth in Rents (Percent)

Above line: Accelerating Growth
Below line: Slowing Growth

Notes: Dot size corresponds to number of existing units in the market.
Source: JCHS tabulations of MPF Research data.
Renter Affordability Has Improved, But Remains Near Record Highs
Renter Cost Burdens Spread at an Unprecedented Pace in the 2000s and Have Barely Receded

Notes: Moderate (severe) burdens are defined as housing costs of 30-50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened.

Sources: JCHS tabulations of US Census Bureau, Decennial Census and American Community Surveys.
Sharp Rise in Cost-Burdened in 2000s Reflects Long-term Increases in Housing Costs and Declines in Incomes

Source: JCHS tabulations of US Census Bureau, American Community Surveys
Cost Burden Shares are Increasing Fastest Among Middle-Income Renters

Notes: Household incomes are adjusted to 2016 dollars using the CPI-U for All Items. Cost burdened households pay more than 30% of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens.

Source: JCHS tabulations of US Census Bureau, American Community Surveys
In Minneapolis, Cost Burdens Are Similar to the US as a Whole

Notes: Cost burdens are defined as housing costs of more than 30% of household income. Source: JCHS tabulations of the American Community Survey, 2014.
Minneapolis Has a Relatively Large Supply of Subsidized Rentals, But a Short Supply of Naturally Occurring Affordable Units

Subsidized and Unsubsidized Affordable Renal Units for Every 100 Extremely Low Income Renter Households

Note: Extremely Low Income households have incomes at or below 30 percent of Area Median incomes.
Source: The Urban Institute, “The Housing Affordability Gap for Extremely Low Income Renters in 2014”
Slowdown in Renter Growth Reflects that the Homeownership Rate is Finding a Bottom
The National Homeownership Rate May Be Finding a Bottom Near 63.5 Percent

Homeownership Rate (Percent)

Note: Data are four-quarter rolling averages.
Source: JCHS tabulations of Housing Vacancy Surveys.
Foreclosures Accounted for Most of the Homeownership Declines Among Older Adults—but not among the Young

Homeownership Rate Decline, 2005–2015 (Percentage Point)

Note: JCHS estimate is the ratio of the number of owner-occupied foreclosure completions to the number of households. The owner-occupant share of all housing units in 2015 (60.3 percent) is used to estimate the owner-occupant share of the 9.6 million foreclosure completions between Q2 2005 and Q1 2015. Source: JCHS tabulations of CPS ASEC and CoreLogic data on foreclosure completions in Spader and Herbert (2016).
But Rates Have Fallen Well Below Early 1990s Rates for All But Oldest Age Groups

Change in Homeownership Rate Since 1990 (Percentage Points)

Note: Based on 3-year annual average rates.
The Homeownership Gap Has Narrowed for Hispanics and Asians, But Widened for Blacks

Notes: Hispanics may be of any race. White, black, and Asian/other are non-Hispanic and include households reporting a second race until 2003. After 2003, Asian/other includes all other households and households reporting more than one race.
Source: JCHS tabulations of Housing Vacancy Survey data.
Despite the Downturn, Housing Remains the Primary Form of Wealth for Low-Income and Minority Households

**Low-Income Households**

- **Median Wealth (Thousands of 2013 dollars)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Homeowner Housing Wealth</th>
<th>Homeowner Non-Housing Wealth</th>
<th>Renter Total Wealth</th>
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<tr>
<td>1992</td>
<td>50</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>2004</td>
<td>60</td>
<td>10</td>
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<td>2007</td>
<td>70</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>2010</td>
<td>80</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>2013</td>
<td>90</td>
<td>10</td>
<td>9</td>
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**Minority Households**

- **Median Wealth (Thousands of 2013 dollars)**

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>1992</td>
<td>30</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>2004</td>
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<td>2010</td>
<td>60</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2013</td>
<td>70</td>
<td>5</td>
<td>7</td>
</tr>
</tbody>
</table>

Notes: Medians for housing and non-housing wealth are calculated independently of one another and therefore do not sum up to total median net wealth. Non-housing wealth includes cash savings, savings in retirement accounts, stocks and bonds. Values are adjusted for inflation with the CPI-U for All Items. Low-income households are in bottom income quartile for each year.

Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances.
Falling Incomes Among Young Adults Were an Often Overlooked Factor in Homeownership Decline, But Trends Have Now Reversed

Note: Data are for adults age 15 and over.
The Vast Majority of Households—including the Young—Own Homes or Expect to in the Future

Share of Survey Respondents (Percent)

Currently Own Home
Expect to Buy a Home in Next Move
Expect to Buy a Home Someday
Do Not Expect to Buy a Home

Source: JCHS tabulations of The Demand Institute, 2015 Consumer Housing Survey data.
A Variety of Obstacles Remain to Rebound in Homeownership
Student Debt Payments Are a Burden for a Growing Share of Younger Households

Student Loan Payments as Percent of Income

- 14 and Over
- 8–13
- 4–7
- 3 and Under
- Not Yet in Repayment

Note: Households not yet in repayment have student loans in deferral due to schooling, military service, emergency hardship, or other reasons.

Source: JCHS tabulations of Federal Reserve Board of Governors, Surveys of Consumer Finances.
Tight Lending Standards Are Limiting Mortgage Access for Households with Lower Credit Scores

Share of Home Purchase Mortgage Originations (Percent)

Note: Data include only conventional first-lien purchase mortgage originations.
Source: JCHS tabulations of CoreLogic data.
Large Shares of Renters Can Afford the Median-Priced Home in Many Parts of the Country, But Not on the Coasts

Notes: Values are in 2015 dollars. Monthly payment assumes a 5% down payment on the median-priced existing single-family home with property taxes of 1.25%, property insurance of 0.25%, and mortgage insurance of 0.5%. “Affordable” payments cannot exceed 36% of monthly household income (calculated as 1/12 of annual household income) and assumes household can finance down payment and other related home purchase costs.

Inventory of For-Sale Housing Remains Extremely Tight, Especially at the Lower End of the Market

Homes for Sale, Months of Supply

Note: Data are three-month trailing averages as of December of each year. Source: CoreLogic.
Construction of Smaller Single-Family Homes Has Been Slow to Recover

New Single-Family Homes Completed (Thousands)

Source: JCHS tabulations of US Census Bureau, New Residential Construction data.
Demographics Should Support Strong Household Growth Over Coming Decade
Future Levels of Immigration is Key to Household Projections—But Current Political Climate Introduces a Lot of Uncertainty

**Annual Net International Immigration (Millions)**

Household Growth Will Be Strong Over Coming Decade, With Minorities Drive Most of the Growth

Projected Household Growth (Millions)

Notes: White, black, and Asian/other households are non-Hispanic. Hispanics may be of any race. Asian/other includes all other households.

Source: JCHS 2016 Household Projections.
By 2035, One Out of Every Three Households Will Be Age 65 and Over

Households (Millions)

Source: JCHS 2016 Household Projections.
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Thanks for all you do to support affordable housing!