

# Closing the Housing Gap

## Better Communities in Minnesota

December 2006



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Minnesota HOUSING Partnership



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Minnesota has long been at the forefront of crafting creative solutions to address the need for affordable housing. Looking to the future, Minnesota will retain its competitive advantage by prioritizing widespread access to opportunity and environmental well-being, in addition to housing affordability, in order to build inclusive, healthy, and sustainable communities. By focusing on these complementary goals, our communities will remain desirable places to live, work, and play for current and future generations.

Efforts to ensure access to opportunity extend to all households the benefits of our strong traditions of high homeownership rates and social fairness. Such efforts include:

- Working to close the racial gap in homeownership rates,
- Ensuring households of all types enjoy equal access to housing, and
- Supporting local land use policies that allow greater housing options for families at all income levels.

Initiatives responding to environmental concerns emphasize sustainability and a high quality of life for all Minnesotans. Initiatives include:

- Developing affordable housing that is healthy, energy-efficient and durable, and
- Building walkable, “conservation-minded” communities that promote good health and active lifestyles.<sup>1</sup>

While Minnesota’s communities range from small rural towns to large urban centers, all Minnesotans can benefit from efforts to create thriving and sustainable communities where we all have access to safe, decent and affordable housing.

## What are Barriers to Inclusive, Healthy, and Sustainable Communities?

### Barriers Related to Social Fairness and Well-being

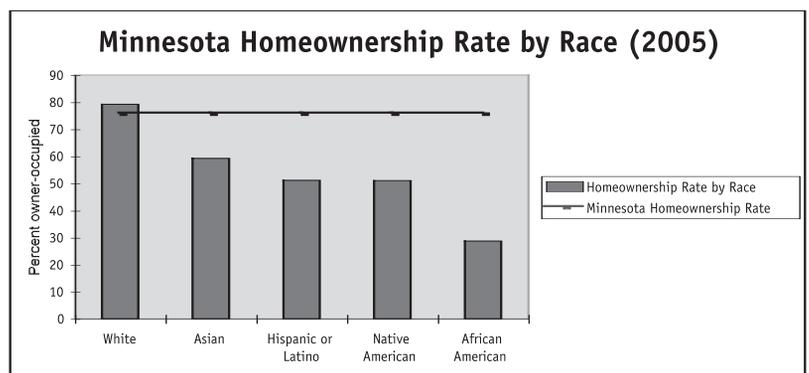
Some factors standing in the way of achieving better communities are related to social barriers that limit opportunities for Minnesotans. These include the persistence of racial disparities in homeownership rates, predatory lending practices that strain homeowners’ finances, fair housing violations, and land use policies that fail to provide for low- and moderate-income households. As Minnesota becomes home to an increasingly racially and income-diverse population, addressing these issues is not only the right thing to do, it is an important step in ensuring our collective well-being and competitiveness in the future.<sup>2</sup>

### Racial Disparities in Homeownership Rates

Policies that promote equal access to homeownership among traditionally underserved markets help build stronger communities and allow all Minnesotans to accumulate wealth and establish roots. As of 2005,

Minnesota had a homeownership rate of 75.8 percent, the highest in the country.<sup>3</sup> While a high rate of homeownership reflects financial prosperity and stability, this statewide figure masks gross disparities between races.

In 2005 the homeownership rate for non-Hispanic Whites was over 79 percent; in the same year the rate for all communities of color in Minnesota was only 44 percent. African Americans fared worst, with a homeownership rate of just 29 percent.<sup>4</sup>



Source: 2005 American Community Survey



These figures indicate that a large proportion of households are systematically missing out on the important, long-term benefits associated with homeownership, including financial stability and increased wealth-building capacity. Beyond fiscal outcomes, studies have found that children gain from living in owner-occupied housing. Among low-income households in particular, children growing up in home-owning families achieve significantly higher high-school graduation rates and young women have a lower likelihood of giving birth as unmarried teenagers than renters.<sup>5</sup> Communities are also strengthened by the presence of homeowners, who are more likely to maintain and improve their property and participate in neighborhood improvement activities.<sup>6</sup>

Without action to address this racial gap, disparities in homeownership and its associated benefits will worsen as the nonwhite population in Minnesota continues to grow. Between 2000 and 2005, communities of color accounted for 62 percent of population gains in the state.<sup>7</sup> In the next 25 years, this rapid growth is projected to continue; by 2030 nearly one in six Minnesotans will identify themselves as nonwhite.<sup>8</sup>

**Predatory Lending**

Predatory lending can have dire consequences for both individual households and communities. The Mortgage Bankers Association characterizes predatory lending as a “collection or grouping of lending practices and loan terms that the borrower does not understand, resulting in a loan that the borrower cannot afford.”<sup>9</sup> Predatory lending may also occur when borrowers are targeted for high cost loans when they could qualify for credit on more favorable terms.<sup>10</sup> In many cases, these loans are marketed to the vulnerable populations who can least afford them, including the elderly, low-income households, and communities of color.

In order to make a profit, predatory lenders engage in unscrupulous practices that can lead to borrower indebtedness and eventually foreclosure. Housing vacancies, in turn, can result in lower property values, higher levels of crime, and decreased business activity in the surrounding neighborhood.

**Some examples of predatory lending include:**

- **Charging fees and interest at rates far in excess of what similarly-qualified borrowers pay in a competitive market.**
- **Requiring minimal loan payments in early years and leaving large “balloon” payments at the end of the loan term.**
- **Requiring the purchase of high-cost insurance.**
- **“Flipping” loans, that is, issuing loans that must be continually refinanced at a growing cost to the borrower.**
- **Changing the terms of the loan at the last minute, or using outright deception and fraud.**

Predatory loans are nearly always subprime, meaning higher interest rates are charged to compensate for the higher risk level associated with the borrower, who may have a low income, poor credit history, or high level of debt. Subprime lending is not always predatory, and has played an important role in expanding opportunities for populations that have not previously been able to move into homeownership. When issued without regard for a borrower’s capacity to make payments, however, subprime loans become predatory. One study of lending in the Twin Cities area found a high correlation between areas with higher rates of subprime lending and the location of home foreclosures; both are concentrated primarily in African American and Latino communities.<sup>11</sup>

**Fair Housing Violations**

When fair housing laws are not observed and enforced, community vitality suffers. As part of the 1968 Civil Rights Act, the Fair Housing Act was passed in order to strengthen federal enforcement of anti-discrimination provisions. Minnesota has its own set of population characteristics that receive protection under state law. These include:

- |                     |                              |
|---------------------|------------------------------|
| Race                | Sex                          |
| Color               | Religion                     |
| Familial status     | Receipt of public assistance |
| Sexual orientation  | Marital status               |
| Disability          | National origin              |
| Creed <sup>12</sup> |                              |

While housing discrimination may be difficult to detect, it affects hundreds of Minnesotans each year. During a one year period beginning in April 2005, over 550 fair housing complaints were filed with Legal Aid offices covering 53 counties in south and central Minnesota. Roughly half of these complaints were related to disability, 40 percent were race-based.<sup>13</sup> Examples of fair housing violations include refusing to sell or rent to a person because he or she is disabled or has children. Other scenarios that constitute discrimination include failure to make repairs for tenants based on their nationality or race, or advertisements that express a preference for households of a particular religion or familial status.

Landlords may also tell prospective renters of a certain race or national origin that an advertised unit is no longer available, while offering the same unit to other applicants. Similarly, buyers may be shown homes for sale only in neighborhoods that



match their racial profile, a process known as racial steering. These practices are illegal, and deprive families of the full range of housing opportunities and communities the contribution these families can offer.

### ***Exclusionary Land Use Policies***

While legislation prohibits discrimination in many situations, land use policies in some communities still have the effect of harmfully restricting housing choice for lower-income Minnesotans. Regulations such as building and zoning codes, subdivision ordinances, and permitting requirements generally serve important public purposes. In some cases, however, ordinances impose excessive limitations on who can live in a community.

Building or zoning practices that restrict housing choice may allow only large lot, low-density residential development, prohibit mixed-use or multi-family development, or require costly building materials and amenities, such as two-car garages, in all new residential developments. These policies have been shown to raise development costs by as much as 35 percent in some communities, driving the cost of housing too high for low- and moderate-income households.<sup>14</sup> In many cases, these local “policy fences” also result in the effective exclusion of people of color.

For example, increasing a home’s lot width from 50 to 80 feet raises infrastructure costs by \$6,000, a cost increase that is then passed on to the buyer. The National Association of Home Builders has estimated that in the Twin Cities, for every \$10,000 increase in the cost of a home, 40,000 fewer households can afford the purchase price.<sup>17</sup> As Minnesota’s population continues to grow in the next five years, there will be an additional 33,000 low-income households in need of an affordable home.<sup>18</sup> Land use policies that excessively raise the cost of housing will restrict the number of communities in which these families will be able to live.

Moreover, as land use policies limit the housing available to low- and moderate-income workers, they also limit the job opportunities accessible to these workers, many of whom perform essential services in our communities. In many cases, low-wage workers cannot afford to live in the communities where they are employed. Particularly in the Twin Cities, as job centers continue to creep toward the higher-cost communities at the edges of the region, the growing cost of commuting renders these positions out of reach of

***For every \$10,000 increase in the cost of a home, 40,000 fewer households can afford the purchase price.***

low-income and minority households.<sup>19</sup> This unbalanced development can create a disincentive for businesses to move to the area, as hiring and retaining employees can be challenging without a readily available local workforce.

***Some households spend up to one-quarter of household income on energy costs.***

### **Barriers Related to Environmental Sustainability**

Other barriers to building healthy, sustainable communities for all Minnesotans result from failure to adequately promote environmental well-being. These include inefficient or hazardous construction practices that lead to higher energy consumption, increased operating costs, and adverse health outcomes; and development approaches that effectively discourage physical activity.

#### ***Inefficient or Hazardous Construction Practices***

Homes that are not appropriately weatherized consume a greater amount of energy and can result in high utility bills that diminish housing affordability. The cost of inefficient building tends to exact a greater toll on low-income households, whose budgets are already tightly stretched. One study estimates that low-income households’ energy “cost burden,” the percentage of income spent on energy, is three to four times higher than that of a median-income household. Very low-income households can spend up to one-quarter of household income on energy costs, often as a result of living in homes that are not energy efficient.<sup>23</sup>

In some cases, high utility costs can mean poor health outcomes for residents who cannot afford proper heating or cooling. Hypothermia, for example, can threaten low-income households that have few resources to pay for adequate heating, particularly among the elderly. Poor indoor air quality can also prove harmful, causing or contributing to respiratory diseases.<sup>22</sup> Researchers estimate that proper weatherization could save households a total of \$1,300 in costs associated with treating related illnesses.<sup>23</sup>

The presence of lead-based paint in homes can also result in severe health problems, particularly in children. Estimates indicate 75 percent of the approximately 1.4 million homes in Minnesota built prior to 1978 contain some lead-based paint.<sup>24</sup> Deteriorated lead-based paint and contaminated dust and soil can lead to permanent brain and organ damage, as well as lowered intelligence and behavioral problems.



### ***Sprawling Development***

As mentioned above, ordinances that require sprawling, large-lot development often result in housing priced out of reach of low- and moderate-income families; however, this land use pattern can also have a negative impact on the health of residents and the environment. Studies have linked “low-density, auto-dependent” developments that offer few alternatives for walking and biking to higher rates of health problems including obesity and related conditions. The resulting traffic congestion and pollution are associated with higher levels of respiratory illnesses.<sup>26</sup>

Low-density development also consumes open space and farmland at greater rates than denser, compact development. Between 1986 and 2002, the amount of land within the 7-county Twin Cities metro classified as “urban” grew one and one-half times more quickly than the population.<sup>27</sup> As the population continues to grow as projected, sensitive natural areas and habitats are threatened by sprawling development. This type of development also takes a toll on the public budget. According to the Center for Neighborhood Technology, the infrastructure cost required to service one newly-built home in a previously undeveloped area ranges from \$50,000 to \$60,000, while the infrastructure cost for an in-fill unit costs between \$5,000 and \$10,000.<sup>28</sup>

## **Strategies for Building Better Communities**

A wide range of strategies are available for connecting Minnesota households to opportunities and making our communities more inclusive, healthy, and sustainable. As with the barriers discussed above, some address social inequity and disparities, while others promote environmental health and well-being. While no single solution will solve all of Minnesota’s housing challenges, progress can be made through continued leadership and cooperation among representatives from all levels of government and members of the housing industry working in the private and non-profit sectors.

### ***Strategies to Ensure Greater Access to Opportunity Include:***

- **Extending outreach efforts to build relationships between lenders and communities of color**
- **Introducing incentives to encourage development of mixed-income housing**
- **Promoting new housing development in proximity to existing infrastructure and public transit**

### ***Ensure Greater Access to Opportunities***

Just as the challenges to building communities with opportunities for all are varied, an array of strategies exists to address these challenges. Collaborative efforts by lenders and others in the homeownership industry to build strong relationships with communities of color can help to eliminate disparities in homeownership rates. As recommended by the state in its Business Plan to Increase Homeownership in Minnesota’s Emerging Markets, the development of trusted, culturally-sensitive outreach and advising programs will help expand access to, and understanding of homeownership opportunities and the home-buying process.

***Between 1986 and 2002, the amount of land within the 7-county Twin Cities metro classified as “urban” grew one and one-half times more quickly than the population.***

In response to escalating housing costs, some communities have introduced policies to ensure that households from a range of income levels have an affordable place to call home. Mixed-income housing policies provide incentives to developers who set aside a pre-determined share of units for low- and moderate income households in all new projects. These incentives off-set the lower profits related to selling or renting lower-cost homes, and allow the development of affordable housing with lower levels of public funding, creating more opportunities for low-wage workers to live close to the communities where they work. Having a range of housing affordable to families at all stages of life also enables entry-level workers to move out of their parents’ homes, and retirees living on a fixed income to age in the communities where they already live.

When municipalities support compact, mixed-use development built around public transit stations, residents can connect with employment and educational opportunities that might be inaccessible otherwise. The cost savings achieved by using public transit alleviate pressure on the tight budgets of low- and moderate-income families, while the environmental advantages of having fewer cars on the road benefit everyone as air pollution and congestion diminish. As light rail transit begins to take hold in the Twin Cities, an opportunity exists to incorporate affordability into new housing developments, allowing all households to benefit from the increased connectivity this transportation system offers. Moreover, as communities in Greater



Minnesota grow, development patterns that connect new neighborhoods with existing infrastructure and put affordable housing in proximity to other amenities will ensure that residents of these communities continue to have a high quality of life.

**Strategies to Encourage Conservation-Minded Development Include:**

- **Introducing "green" building standards to promote the use of environmentally sound materials and techniques**
- **Installing energy efficient appliances and fixtures to housing operating costs**
- **Rewarding developers for incorporating affordability in development of walkable neighborhoods**

**Encourage Conservation-Minded Development and Land Use Policies**

Quality of life for all Minnesotans will also be enhanced by policies that promote conservation-minded development. "Green" building standards, which endorse the use of environmentally sound materials and construction techniques, are one way of prioritizing environmental concerns.

Currently, many state and local programs reward developers who locate their projects on sites with access to existing infrastructure or in proximity to services and amenities, or include walkable neighborhoods and compact development patterns in their plans. Many elements of green building also increase affordability by including building techniques that also lower utility and maintenance costs over the long term. Through the use of water conserving appliances and fixtures, as well as energy-efficient appliances and lighting, households can lower their bills and avoid costly repairs in the future while conserving valuable resources for all.

Municipalities can also promote healthy communities by encouraging compact development that allows residents to walk to stores and other amenities. By incorporating affordable units into more compact, pedestrian-friendly projects, all households can remain physically active and enjoy the associated health benefits. Moreover; in suburban and rural areas, carefully planning higher-density development can help preserve farmland, forests and open space. When homes are clustered closer together, the natural environment can be preserved and protected.

While housing costs are a growing concern, Minnesota families will all benefit from forward-looking strategies that address not only affordability, but all elements of inclusive, healthy and sustainable communities. With continued attention to strategies that expand opportunities for all

households, Minnesota will remain a desirable place to live and do business.

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The purpose of this booklet is to provide an overview of better communities in Minnesota. For further information on housing affordability and homelessness, please see the other booklets in this series: *Housing Affordability in Minnesota* and *Homelessness in Minnesota*. Both are available at [www.mhponline.org](http://www.mhponline.org).

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