MHP’s “2 x 4” Report | Quarter 1 2009

MHP’s “2 x 4” Report tracks two timely and important trends in each of four key housing areas: the rental market, the owners’ market, homelessness and the housing industry.

### Rental Market

First quarter of 2009 rents and vacancy rates continued to stabilize. However, the survey of renter delinquencies revealed an increase in renters falling behind on rent. The vacancy rate for apartments renting under $1,000 per month remained under 5%, which creates upward pressure on rents for lower priced apartments.

#### Twin Cities Rents & Vacancy Rates

- **Vacancy rate, all units**
- **Vacancy rate, units under $1,000**
- **Average market rent**

#### Tenants in Non-Luxury Units with Rent Past Due

- **% of renters late on rent by one month or more**

- Based on survey of 4,700 non-profit-owned units.

### Owners’ Market

For the first quarter of 2009, foreclosures continued to decline, with much of the reduction in the Twin Cities. Sixty-day mortgage defaults, though, increased for all first mortgage holders. State agency mortgage holders saw a slight reversal of the upward trend in the last two months of the quarter.

#### Minnesota Mortgage Defaults

- 60+ Day Delinquencies
- Primary mortgages
- MN Housing Finance Agency mortgages

#### Minnesota Foreclosures

- Rest of Greater MN
- St. Cloud
- Rochester
- Duluth
- Twin Cities Metro (11 Co.)
Homelessness

In the first three months of 2009, the number of homeless families in Hennepin County shelters rose compared to the first quarter of 2008. The year-to-year comparison of homeless children and youth for the 2008-9 school year reveals a 42% percent increase from 2007-8.

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.

Homeless Kids in Minneapolis

July 07-Mar 08: 3,091
July 08-Mar 09: 4,384

Housing Industry

Employment in housing construction continued downward through the first quarter of 2009. March employment was only 53% of the 2006 level. The inventory of homes for sale remained flat this quarter. Foreclosed and short sale homes were 28% of the inventory at the quarter’s end, down from 34% at the close of the previous quarter.

Minnesota Residential Construction Employment

Twin Cities Homes-for-Sale Inventory

Inventory reported for the first day of the month.

For MHP’s “2 x 4” report narrative and data notes, visit www.mhponline.org/research/2x4

SOURCES: Renters: GVA Marquette Advisors (top); MHP survey (bottom). Owners: Minnesota Housing; National Delinquency Survey, Mortgage Bankers Association (top); HousingLink (bottom). Homelessness: Hennepin County (top); Minneapolis Public Schools (bottom). Industry: Current Employment Statistics (CES)(top); Minneapolis Area Association of Realtors (bottom).
MHP’s “2 x 4” NARRATIVE – 2009 Quarter 1

(Released June ’09)

MHP’s new “2 x 4” Report tracks timely and important housing trends in four key areas: rental market, owners’ market, homelessness, and the housing industry. Providing frequently updated housing trends fosters a better understanding of the state’s housing needs in a rapidly changing economy.

In a healthy market, a diverse supply of housing is available to meet the needs of families and individuals at all income levels. The quarterly MHP’s “2 x 4” Report frames a picture of how well Minnesotans are housed and the magnitude of the housing crisis facing the state. Individual indicators were chosen for their value in telling the story of housing in Minnesota, as well as for their availability and timeliness. Charts pertain to the entire state when available; in other cases data represent smaller regions or communities.

The first release of MHP’s “2 x 4” Report presents a bleak picture for housing, reflecting the economy as a whole. In March, the Minnesota unemployment rate ascended to 8.9%, the highest rate in 26 years. Families, especially low-income families, are feeling the heat and are having an increasingly difficult time paying their mortgage or rent. With rent or mortgage payment typically being the largest household expense, housing is apt to compete with other essential needs, like food and health care when budgets are stretched thin. While the quarterly report shows declines in foreclosures and rents, the fact that people are having a harder time covering rental and ownership costs is a troubling sign for the housing industry, already in a deep slump.

Quarter 1 - Report Findings & Implications:

Rent Market

MHP provides data on average rents and vacancy rates to demonstrate how much people must pay for apartments and how available such units are. Quarterly rental data, however, is available only for the 7-county Twin Cities metro and is limited to buildings with 10 or more units whose owners participate in the GVA Marquette survey of rents.

MHP, with the cooperation of Minnesota’s largest nonprofit housing agencies, offers a unique look at late payments by residents of publically assisted housing. Tenants must demonstrate low or moderate income levels to qualify for such housing. For purposes of identifying tenants struggling to cover their rents, MHP excluded units for which rent levels automatically drop when residents experience a decline in income.

* With an average cost of $908, monthly rents in the first quarter increased slightly from the fourth quarter of 2008 and are equal to what they were a year ago.
* The rental vacancy rate in the first quarter was 4.9%, unchanged from the prior quarter and significantly higher than the 3.9% rate of the first quarter 2008. For the segment of the market renting for under $1,000/month, vacancies were lower, at 4.4%, but also up from the 3.4% a year ago. Vacancy rates below 5% are associated with upward pressures on rents.
* The number of tenants in assisted units falling behind in rent is increasing. For the first quarter 23% of households of the nearly 4,700 apartments covered in the survey were behind in rent.

Declining incomes and employment typically leads to more renters doubling up, choosing more affordable units, and not buying homes. Anecdotal information indicates that the expected trends are occurring in Minnesota and leading to declining home ownership. Other renters are moving to less expensive apartments or paying higher percentages of income for rent. Increases in homelessness also indicate financial stress on renters.

Owners Market

MHP’s “2 x 4” Report tracks data on mortgage delinquencies and foreclosures. Mortgage default rates speak to stress on household budgets and the risk of future foreclosures, while foreclosures demonstrate poor outcomes for owners, neighborhoods, and the economy. Data from the Mortgage Bankers Association’s National...
Delinquency Survey indicates mortgage defaults across a span of owners, including that of subprime borrowers. Default data from the Minnesota Housing Finance Agency highlights trends for lower income homebuyers with fixed rate loans. For foreclosures, MHP uses the data compiled by HousingLink, which is based on sheriffs’ sales.

- Overall, 60+ day defaults increased to 6.5% in the first quarter and were up considerably from the 4.5% for the first quarter of the prior year. Minnesota Housing borrowers had a default rate of 5.5% up from 3.5% at the end of the first quarter in 2008.
- Foreclosures declined in the first quarter to 5,157 from 5,673 the previous quarter, and were significantly down (a 20% drop) from 6,448 foreclosures reached in the first quarter of 2008.
- Overall, the greatest one-year decline in foreclosures was in the Twin Cities, with over 1,000 fewer foreclosures than in quarter one of 2008. However, the largest percent decrease was in Duluth, with a drop of 34.7%. Percent declines in other areas were: St. Cloud (down 13.2%), Rochester (down 26.5%) the Twin Cities (down 21.2%) and the remainder of Greater Minnesota (down 13.2%).

The recent ramp up of mortgage foreclosure counseling and new state legislation likely held foreclosures down. Also, many lending institutions, bowing to federal pressure or realizing the value of keeping families in their homes, emphasized work-outs with borrowers to avoid foreclosures. These practices are likely to mitigate some of the expected increase in foreclosures due to the state’s high unemployment rate.

**Homelessness**

Homelessness represents the most profound manifestation of the housing crisis. However, of the four “2 x 4” housing areas, homelessness is the most challenging area for which to secure reliable statewide data. Hennepin County provides timely and dependable information on homelessness, but only for families using contracted shelters. Data on homelessness among children is also included due its extreme impact on a vulnerable population. Among Minnesota jurisdictions, the Minneapolis Public Schools provides the most comprehensive and systematic jurisdictional count of homeless children and youth.

- The number of homeless families in contracted shelters in Hennepin County shelters increased 19% from March 2008 to March 2009. At the end of the first quarter there were 203 homeless families utilizing these shelters.
- In Minneapolis the number of homeless children and youth identified increased by 41.8% from the 2008 to the 2009 school year, which was an increase of 1,293 kids, ranging from infants to high school aged youth.

Increased homelessness is likely due to fallout from foreclosures of renters and owners, plus increasing unemployment. The increase in homeless children has caused alarm and a state response. In 2009, the Minnesota Legislature appropriated an additional $1.5 million to reduce family homelessness.

**Housing Industry**

Employment in housing construction, including rehab of homes, measures the ability of the housing industry to support workers and the economy. Employment data comes from the Current Employment Statistics (CES) survey. The inventory of homes on the market, especially of foreclosed homes and those for short sale, gives information about the health of the housing component of the real estate industry. A high inventory of homes for sale, especially of foreclosures and homes for short sale, leads to price stagnation or decline. Data on the inventory of Twin Cities for-sale-homes is provided by the Minneapolis Area Association of Realtors.

- Residential housing construction workers faced substantial layoffs, with March 2009 employment at only 53% of the 2006 level.
- Short sales and foreclosures made up over one-fourth the inventory at the close of the first quarter, 2009. Such homes are frequently offered at lower prices than the market would normally command due to lenders’ interest in avoiding the costs and risks of holding vacant homes, and owners’ interest in selling their homes quickly before foreclosing.

For MHP’s “2 x 4” Report indicators and data notes, visit [www.mhponline.org/research/2x4](http://www.mhponline.org/research/2x4)