

MEMORANDUM

TO: Mary Tingerthal – Commissioner
 Ryan Baumtrog – Assistant Commissioner for Policy and Community Development

FROM: John Patterson – Director of Planning, Research and Evaluation

SUBJECT: Updated Gaps Analysis

DATE: September 7, 2017

When we developed our 2016-19 Strategic Plan in 2015, we prepared a gaps analysis that examined the need for affordable housing across Minnesota. This memo is a summary update, with the most current data.

Renters

Table 1 provides housing affordability data for various income groups in the rows. Columns 5 to 8 provide information on the rents paid by these households. For example, 15,095 households with an income greater than 80% of the area median income (AMI) pay rent that is affordable to households with an income at or below 30% of AMI (see row 4, column 5).

Table 1: Gaps in Affordable Housing for Renters

	1	2	3	4	Number of Households Occupying Units with Rents Affordable:				
					5	6	7	8	9
Income Level	Number of Cost Burdened Households	Overall Number of Households	Supply of Units with Rents Affordable to Income Category	Supply: Gap (-) Surplus (+)	At or below 30% of AMI	At 30% to 50% of AMI	At 50% to 80% of AMI	At greater than 80% of AMI	To Lower Income Groups
1 <=30% of AMI	136,050	176,300	110,465	-65,835	63,460	67,990	36,655	8,195	0
2 >30% to <=50% of AMI	81,240	119,940	225,085	105,145	19,725	57,485	35,745	6,985	19,725
3 >50% to <=80% of AMI	34,340	116,905	202,700	85,795	12,185	51,310	45,205	8,205	63,495
4 >80% of AMI	8,930	176,995	51,890	-125,105	15,095	48,300	85,095	28,505	148,490
5 Total	260,560	590,140	590,140	0	110,465	225,085	202,700	51,890	231,710

Source: Minnesota Housing analysis of HUD's 2010-2014 CHAS (Comprehensive Housing Affordability Strategy) data

Renters with incomes at or below 30% of AMI have the greatest need.

- Over half of all cost burdened renter households (136,050 of 260,560) have incomes at or below 30% of AMI (column 1). Cost burdened households spend more than 30% of their income on housing.
- While there are 176,300 households with incomes at or below 30% of AMI in Minnesota, there are only 110,465 units with rents affordable to this group, which is a gap of 65,835 units (row 1, columns 2-4). Of the 110,645 units affordable to this group, only 63,460 are occupied by households with incomes at or below 30% of AMI, with the remaining 47,005 units occupied by higher income households (which are the 19,725 + 12,185 + 15,095 households shown in the blue shaded area of column 5), which limits the available supply even more.
- While there is a sufficient supply of rental units affordable to people at 30% to 50% AMI and 50% to 80% of AMI (rows 2-3, columns 2-4 show more units than households for these two income groups), 99,610 of the units affordable at 30% to 50% of AMI (column 6) are occupied by higher income households (which are the 51,310 + 48,300 households in the blue shaded area), which limits the supply. Similarly, 85,095 of the units affordable at 50% to 80% of AMI are occupied by higher income households (the blue shaded area of column 7).
- Of the 176,995 renter households with incomes over 80% of AMI, 148,490 (or 84%) occupy units that are affordable to households in the lower-income groups. (Column 9 is the sum of the blue areas in the other columns.)

There is a critical shortage of affordable rental housing for all low-income groups, but seniors are relatively well served compared with younger households. While seniors account for 26% of all renter households with incomes at or below 50% of AMI, they occupy for 32% of the subsidized units in Minnesota (including project-based Section 8, USDA Rural Development Section 515, Public Housing, Low-Income Housing Tax Credit, and other subsidies).¹

¹ Tenant data on subsidized units are from Minnesota Housing, U.S. Department of Housing and Urban Development, and U.S. Department of Agriculture; data on all lower-income renter households are from U.S. Census Bureau, *American Community Survey, PUMS, 2015*.

First-Time Homebuyers

While Minnesota Housing offers mortgage products for existing homeowners, about 90% of our lending is for first-time homebuyers through the Start Up program, which uses tax-exempt bonds as a primary tool for financing the mortgages. The renter data in Table 1 is also applicable for assessing the potential first-time homebuyer market – renter households that could potentially become homeowners.

- The Start Up program typically serves renters households moving into homeownership with incomes between 50% and 100% of AMI (all of row 3 and part of row 4).
- Successfully transitioning renters to homeownership has several benefits:
 - It could free up affordable rental units that are currently occupied by higher-income households. For example,
 - 63,495 of the units occupied by renters with income between 50% and 80% of AMI are affordable to households with income below 50% of AMI (which is the 12,185 households shown in column 5 plus the 51,310 from column 6). This is 54% of the 116,905 households in this income group.
 - 63,395 of the units occupied by renters with incomes greater than 80% of AMI are affordable to incomes below 50% of AMI (the 15,095 shown in column 5 plus the 48,300 from column 6). This is 36% of the 176,995 households in this income group
 - There are significant advantages to homeownership, most notably building wealth. According to a study by Harvard University’s Joint Center for Housing Studies, there is a strong association between homeownership and increased wealth, with each year of ownership increasing wealth on average by \$9,473.² This is particularly notable because the study spanned 1999-2009, a housing boom and bust period.
- Increasing homeownership for households of color is critical in Minnesota because we have the largest disparity in the country, with a 76% homeownership rate for white/non-Hispanic households versus a 39% rate for households of color. Start Up is effectively addressing the disparity, but it is only a small portion of the mortgage market. So far this year, 33% of Start Up loans have gone to households of color. In contrast, only 12% of mortgages from all lenders in Minnesota go to households of color.³
- Even with an extremely tight supply of affordable homes for sale, our Start Up loans are effectively serving low- and moderate-income homebuyers. Table 2 shows Start Up lending over the last several years, which has sustained a large increase since 2014, a period when the inventory of affordable homes for sale has dropped by more than 50%. The months-supply metric captures how quickly it would take to clear the current inventory at the pace of sales. A 5-month supply is considered a balanced market. (While the data on homes selling for less than \$250,000 only applies to the 16-county Twin Cities metropolitan statistical area, it serves as a good proxy for statewide inventory patterns.)

Table 2: Start Up Lending

Year	Number of Minnesota Housing Start Up Loans (Statewide)	Inventory of Homes Selling for Less than \$250,00 (June) (16-County Twin Cities Metro Area)	Months Supply of Homes Selling for Less than \$250,00 (June) (16-County Twin Cities Metro Area)
2013	2,746	9,378	3.2
2014	2,252	9,413	3.5
2015	3,510	8,004	2.9
2016	3,418	6,105	2.1
2017 (estimate)	3,500	4,314	1.6

Source: Minnesota Housing and Minneapolis Area Association of REALTORS.

² Joint Center for Housing Studies at Harvard University, *Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was it Ever?)*, September 2013, pp 45.

³ Federal Financial Institutions Examination Council, 2015 Home Mortgage Disclosure Act (HMDA) data.