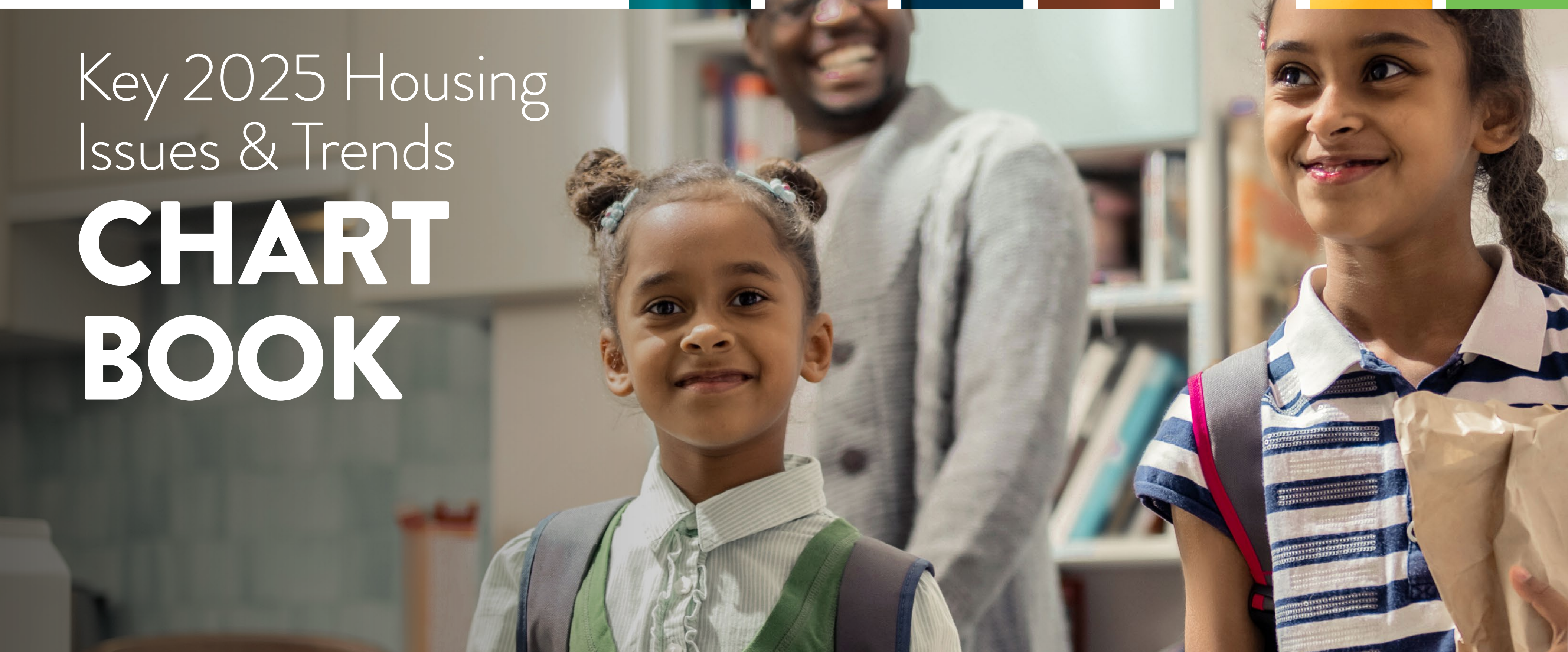
MINNESOTA HOUSING



Key 2025 Housing Issues & Trends

CHART BOOK

This report is a chart book that highlights and documents key housing issues and trends in Minnesota.

It provides a lot of information, but readers can review it at various levels of detail. The charts are largely self-explanatory with sidebar headlines, so the reader can quickly review them; however, for those who want to study them more closely, each chart includes explanatory notes and additional context.

For readers who would like to use the chart book as a reference document, they can jump to a specific issue or trend. The following summary includes the page numbers of each key issue and trend.

SUMMARY OF KEY 2025 HOUSING ISSUES & TRENDS

CHAPTER 1

Minnesota has a severe shortage of housing that is affordable.

There are several key drivers of the affordable housing shortage:

During and following the Great Recession, Minnesota underproduced housing, which created an overall shortage and has driven up rents and home prices across the market. *Page 10*

When housing is being built, only a small share of it is affordable. *Page 18*

Since 2019, for the lowest-income renter households, incomes have not kept pace with rents. *Page 22*

While current homeowners greatly benefited by refinancing their mortgages to lower interest rates between 2011 to 2021, homeownership has become out of reach for many people with the rise in interest rates after 2021 and sustained high home prices. *Page 24*

Other factors are contributing to the shortage, including the cost of new construction, cost of property insurance, pricing of low-income housing tax credits, and others. *Page 27*

CHAPTER 2

While the lack of affordable housing is pervasive, some communities have been impacted more than others.

Lower-income households are more likely to face housing instability. *Page 33*

Homelessness, which is the most severe form of housing instability, is a persistent problem with more and more people sleeping outside. *Page 37*

Indigenous, Black and people of color experience large disparities across the housing continuum, from homelessness to homeownership. *Page 39*

While lower-income households have few, if any, housing choices, lower-income people with disabilities have even fewer, which leads to isolation and segregation. *Page 48*

The growing number of people who are age 75 and older is creating housing needs and challenges. *Page 51*

CHAPTER 3

Minnesota is at risk of losing its existing stock of affordable housing.

Minnesota has a large stock of affordable housing that needs rehabilitation and preservation, which is at risk of being lost due to deterioration or rehabilitation with rent/home-price increases. *Page 57*

CHAPTER 4

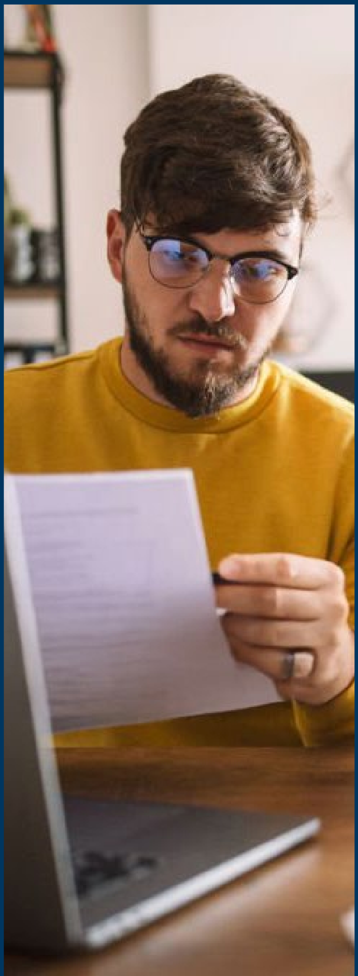
With climate change, the housing stock needs to become far more sustainable and resilient.

Residential greenhouse gas emissions are rising in Minnesota. *Page 62*

Housing insurance costs are rising with an increasing number of catastrophic climate and weather events. *Page 63*

CHAPTER 1

Minnesota has a severe shortage of housing that is affordable.



642,000

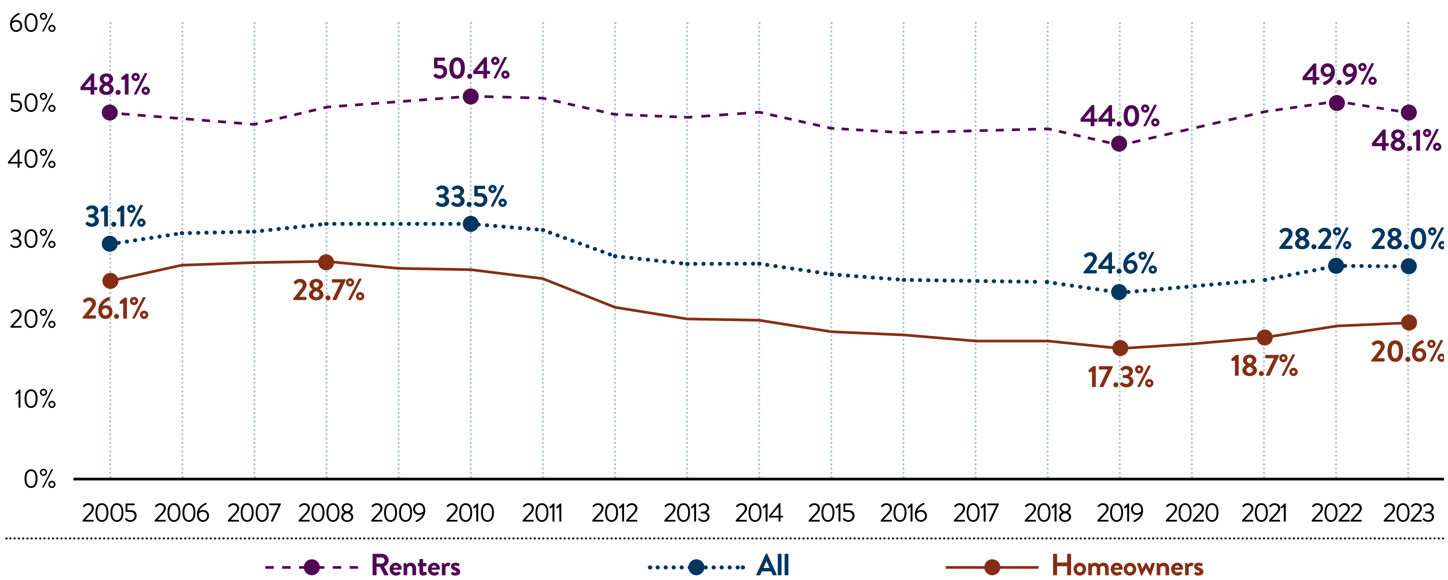
households in Minnesota are cost burdened by spending 30% or more of their income on housing.

The following charts document the severe shortage of housing that is affordable in Minnesota. While the shortage has been pervasive and persistent, the issue has evolved with changes in the housing market, production, rents, home prices, interest rates, household incomes and other driving factors.

Over a quarter of all households are cost burdened by their housing, similar to the share in 2005.

This chart shows the percentage of Minnesota households that were cost burdened over the last 19 years, spending 30% or more of their income on housing.

Share of Households that are Cost Burdened



Source: Census Bureau, American Community Survey (2005-2023, 1-yr samples). Quality data are not available for 2020 because of the COVID pandemic.

KEY POINTS

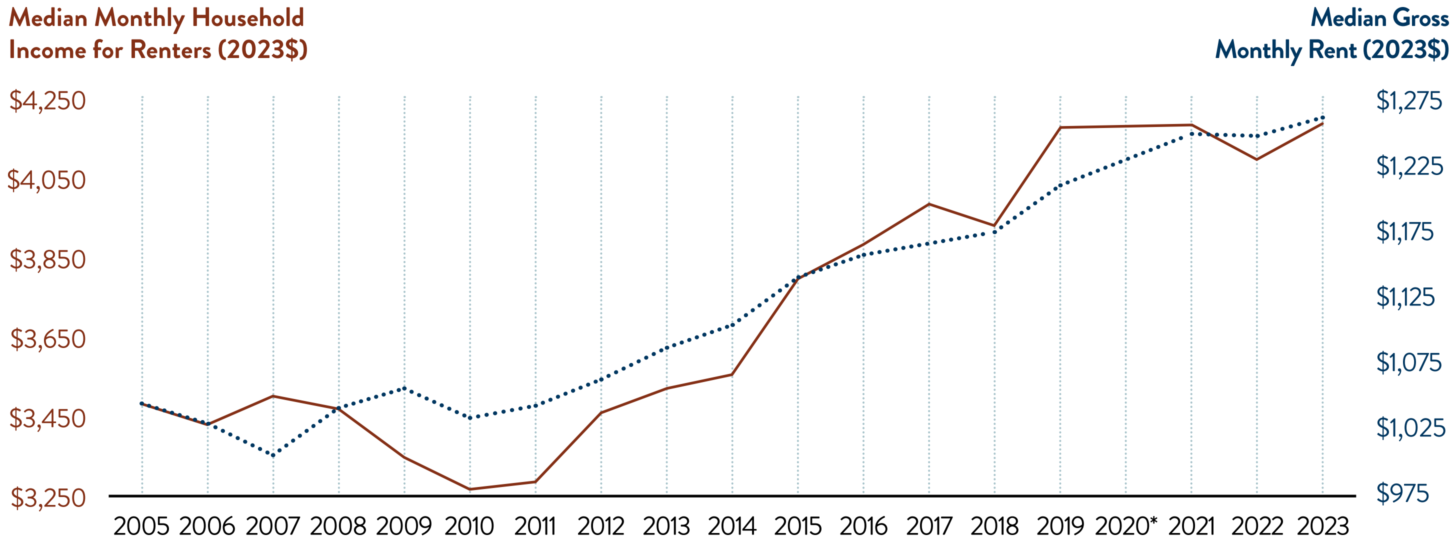
- The share of *all* households who are cost burdened (middle line) reached a peak of 33.5% in 2010 but then declined to 24.6% by 2019. In the last four years, it increased to 28.0%.
- The share of *renters* who were cost burdened (top line) reached a peak of 50.4% in 2010 but then declined to 44.0% in 2019. It is now up to 48.1%.
- The share of *homeowners* (bottom line) reached a peak of 28.7% in 2008 but then declined to 17.3% by 2019. It is now up to 20.6%.

IMPLICATIONS

- Being cost burdened is a pervasive problem, affecting hundreds of thousands of households.
- The share of households who are cost burdened dropped from 2010 through 2019 but has increased since then.
- The cost-burden situation is more severe for renters, with nearly half lacking housing that is affordable.

Median renter incomes have kept pace with median rents since 2005.

This chart shows median renter incomes and rents for the last 19 years. Rents and incomes are the two factors that determine if a renter is cost burdened.



Source: Minnesota Housing analysis of data from the Census Bureau's American Community Survey (2005-2021, 1-yr samples).
*Quality data are not available for 2020 because of the COVID pandemic.

READING THE CHART

- The figures in the chart are adjusted for inflation, presenting all the data in 2023 dollars.
- This graph has two vertical axes —one on the left and one on the right. The brown income numbers on the left apply to the brown line, and the blue rent amounts on the right apply to the blue dotted line.

KEY POINTS

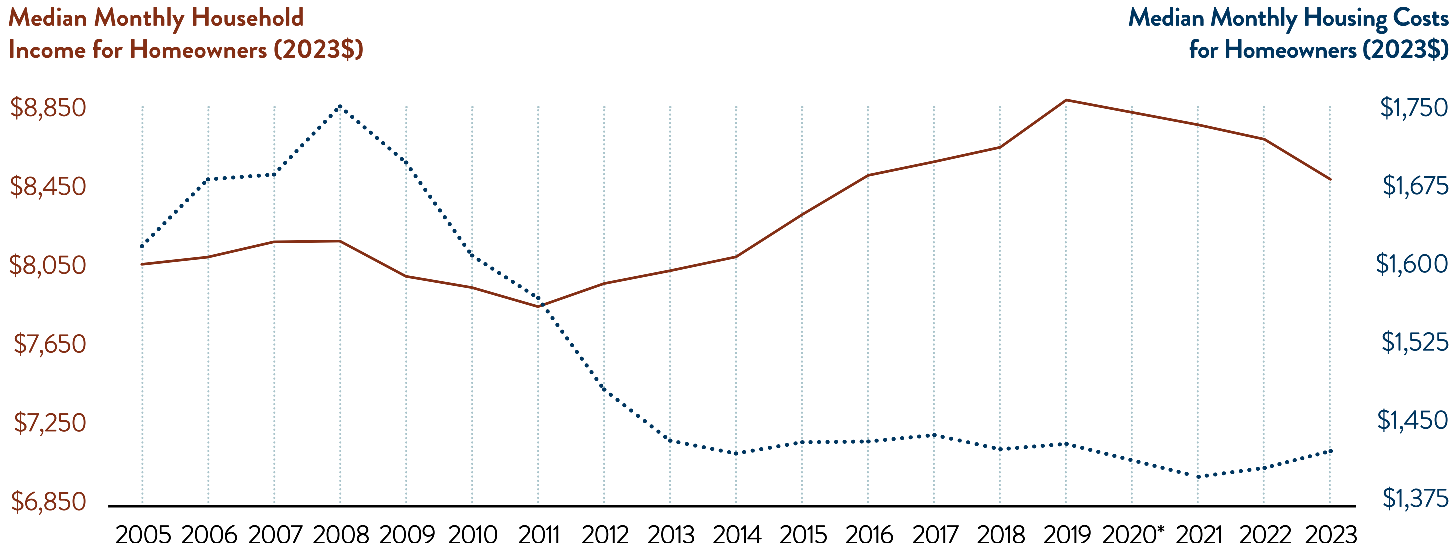
- Excluding some short-term differences, increases in median incomes largely kept pace with and offset increases in median rents. This applies to the typical or median renter, not all renters.

IMPLICATIONS

- For the median renter, income increases have essentially matched rent increases since 2005. As a result, the share of cost-burdened renters has not changed much since 2005, staying around 48%, as shown in the previous chart.

Housing costs for homeowners improved significantly with a large drop in interest rates.

This chart shows median incomes and housing costs for homeowners over the last 19 years. Homeowner costs include principal and interest payments for mortgages, taxes, insurance and utilities.



Source: Minnesota Housing analysis of data from the Census Bureau's American Community Survey (2005-2021, 1-yr samples).
*Quality data are not available for 2020 because of the COVID pandemic.

READING THE CHART

- Just like the previous chart, this chart has two axes with monthly income and housing costs.

KEY POINTS

- Homeowner costs (blue dotted line) dropped significantly from 2008 to through 2013. Data provided later in this report will show that home prices dropped substantially during the Great Recession but have increased significantly since then. The decline in monthly homeownership costs was largely driven by a decline in mortgage interest rates to historic lows, which stayed low through 2021. This not only made mortgages for new homeowners more affordable, but it also lowered the interest costs for existing homeowners, who refinanced their mortgages to the lower rates.

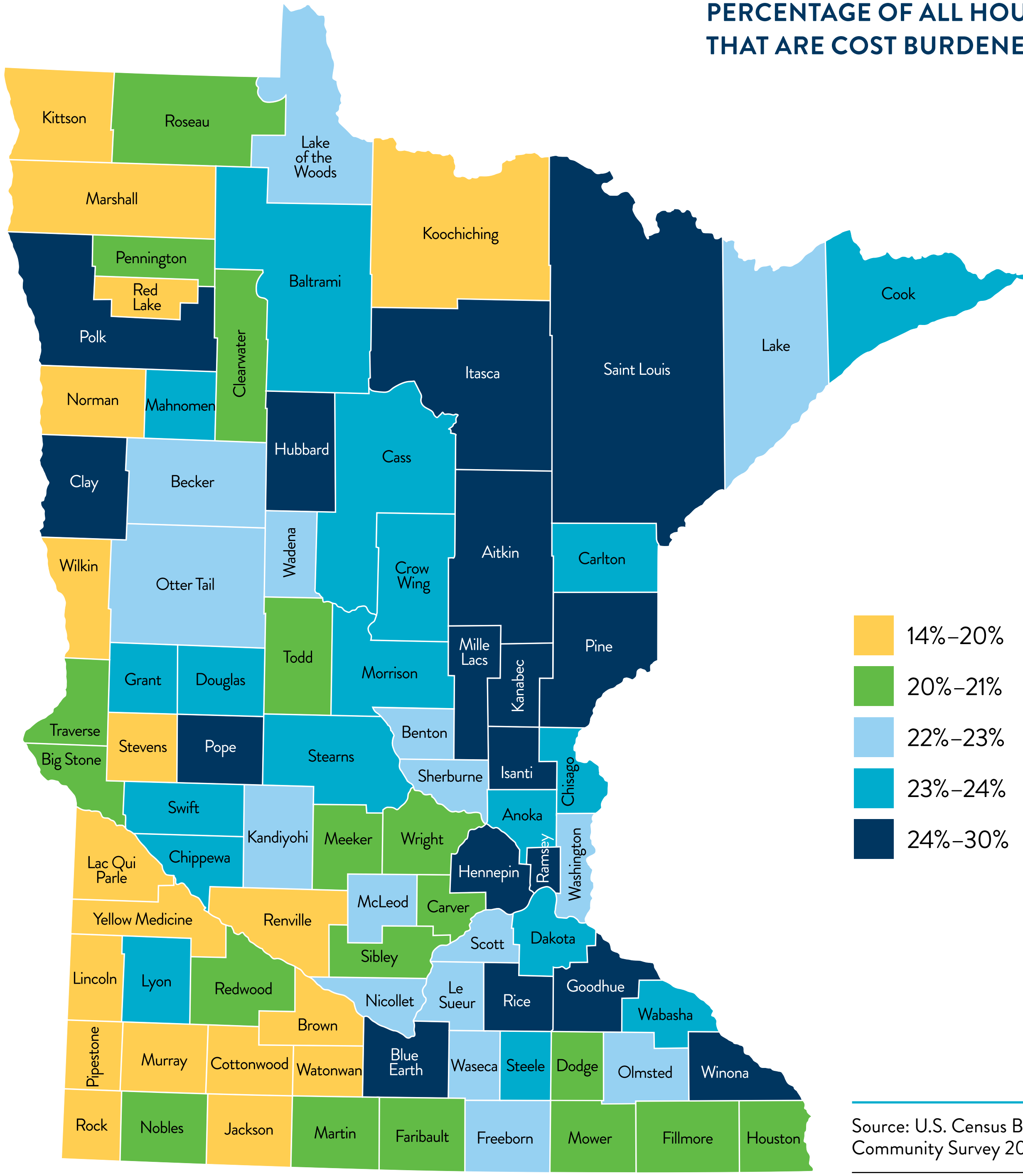
IMPLICATIONS

- Higher incomes and lower housing costs (driven by low interest rates) resulted in a smaller share of homeowners being cost burdened; however, as will be shown in later charts, higher interest rates since 2021 have made homeownership far less affordable for new homebuyers.

The share of households that are cost burdened by their housing varies around the state.

This map shows the percentage of households who are cost burdened in each county of Minnesota, which varies from 14% to 30%.

PERCENTAGE OF ALL HOUSEHOLDS THAT ARE COST BURDENED, 2023



Source: U.S. Census Bureau, American Community Survey 2017–2023.

Several key factors have driven the severe shortage of affordable housing.

The following charts document the key drivers of the severe shortage of housing that is affordable.

1. Underproduction of housing during and after the Great Recession
2. Only a small share of new housing is affordable
3. In recent years, the incomes of lower-income households have not kept pace with rents
4. High interest rates after 2021, which has put homeownership out of reach for many people who have tried to buy since then
5. Other factors, including the cost of new construction, property insurance costs and the price of Low-Income Housing Tax Credits

Severe Shortage of Housing that is Affordable

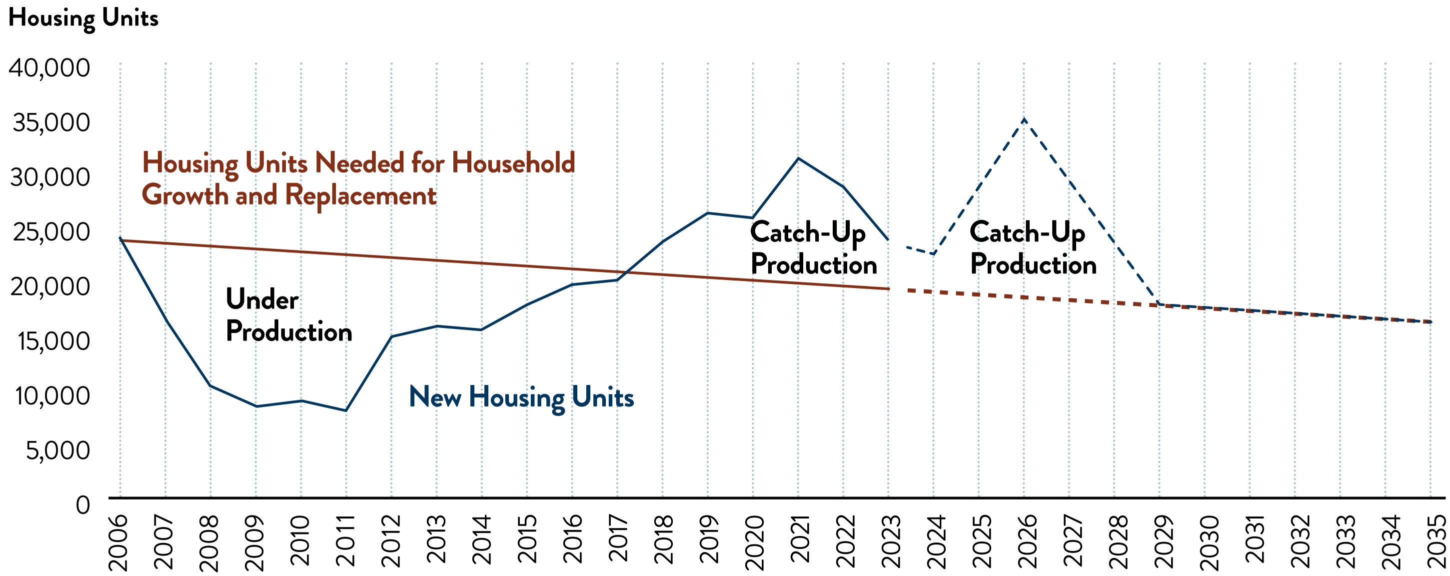
KEY DRIVER

1

Under-production of housing during and after the Great Recession

Minnesota needs 45,000 more housing units to fill the production gap created during and after the Great Recession.

This chart compares housing construction with the number of new units needed to address household growth and the replacement of housing that has deteriorated or is in the wrong location.



Source: Minnesota Housing modeling based on data from a wide range of sources, including the Minnesota Demographers Office, the U.S. Census Bureau's American Community Survey, Marquette Advisors, CoStar and HUD.

READING THE CHART

- The solid segment of the lines reflects actual activity, and the dashed segments reflect what will be needed in the future.
- When the housing construction line (blue) was below the housing need line (brown), the state was underproducing housing.

KEY POINTS

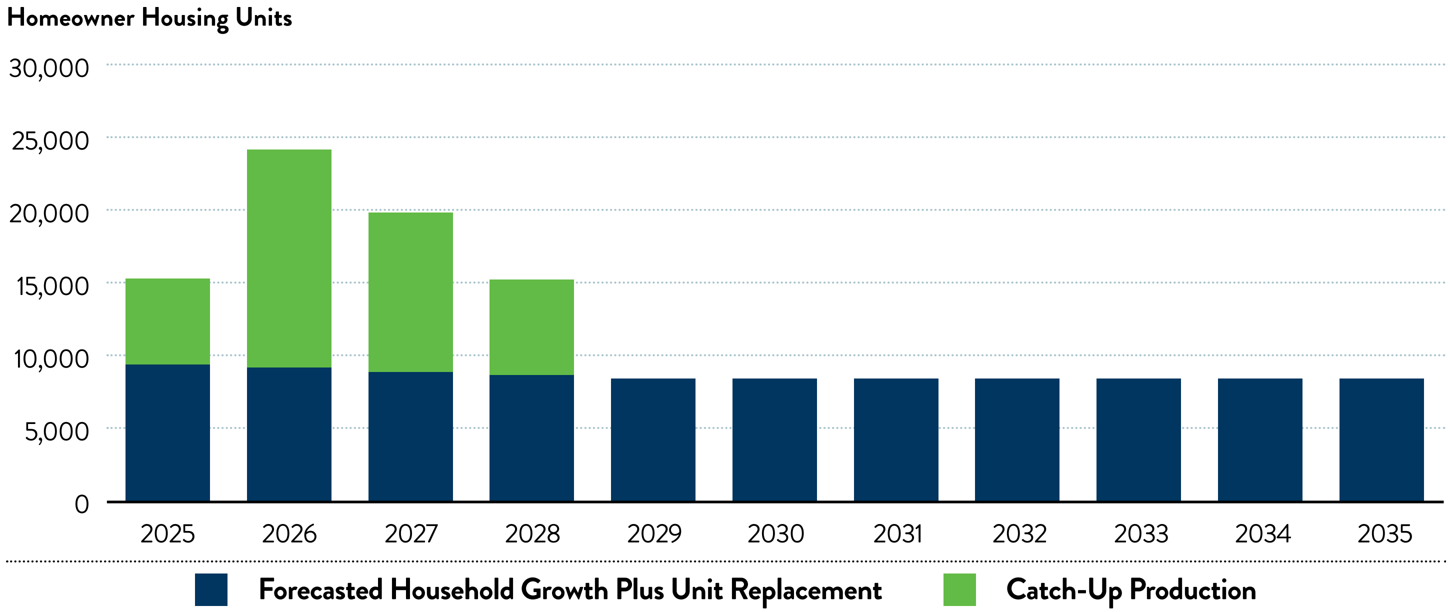
- From 2006 through 2017, Minnesota underproduced housing by 85,000 units. Since 2017, Minnesota has produced enough units to start catching up and fill the gap. Overall, the state remains 45,000 units short.

IMPLICATIONS

- This shortage kept the rental vacancy rate below 5% and the months-supply of homes for sale below 5.5 months, which will be discussed in more detail in later charts.
- The state needs another spike in housing construction to address the 45,000-unit shortage.

To close the homeownership supply gap, Minnesota needs 40,000 more units for homeowners.

This chart shows the number of homeowner housing units that Minnesota needs by year to: (1) address household growth and the replacement of housing that is deteriorated or in the wrong location, and (2) finish filling the production gap created between 2005 and 2017.



Source: Minnesota Housing modeling based on data from a wide range of sources, including the Minnesota Demographers Office, the U.S. Census Bureau's American Community Survey, Marquette Advisors, CoStar and HUD.

READING THE CHART

- This chart is based on the same data as the previous one but focuses just on the production needs for homeowners going forward (2025 through 2035).

KEY POINTS

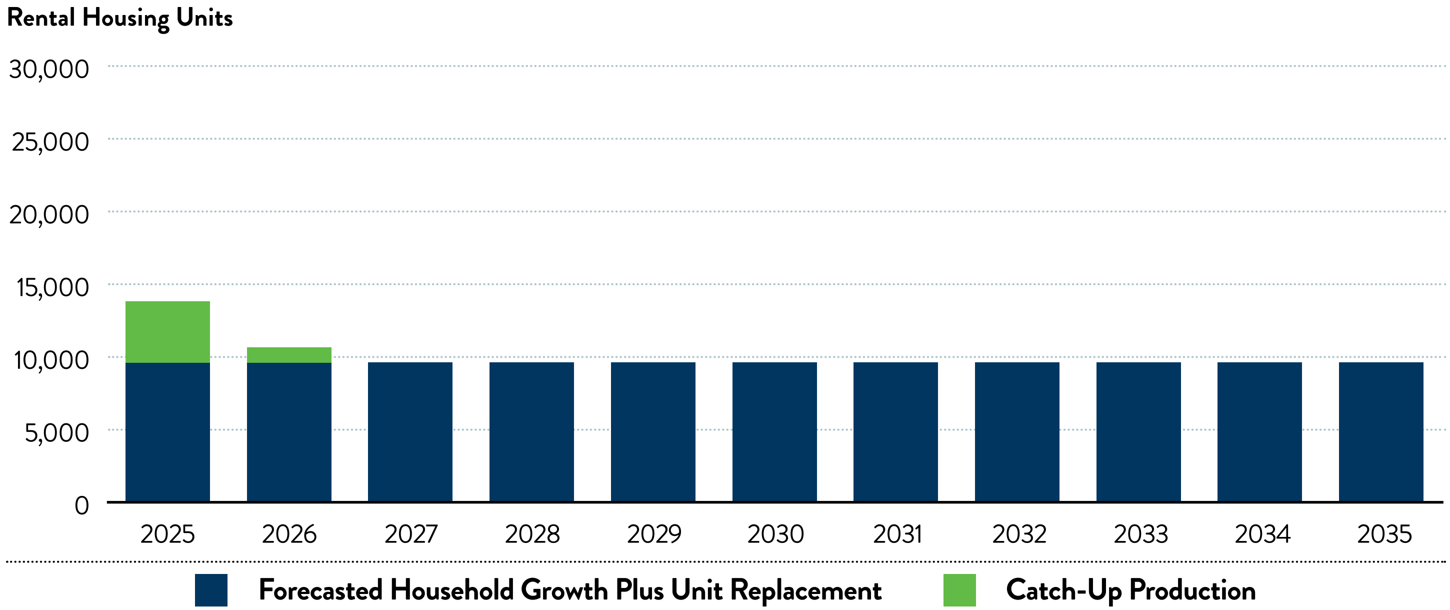
- There is a particularly severe shortage of homes available for ownership as reflected by a low inventory of homes for sale, which will be discussed in a few charts after this one.
- A large share of the catch-up production between 2018 and 2024 (see previous graph) was concentrated in rental production, not homeownership.

IMPLICATIONS

- The severe shortage has driven up home prices, making homeownership less affordable.
- Higher interest rates in recent years have made homeownership more expensive and limited the number of people who can become homeowners, limiting demand for homeownership housing.

To close the rental supply gap, Minnesota needs 5,000 more housing units for renters.

This chart shows the number of rental units that Minnesota needs by year to: (1) address household growth and the replacement of housing that has deteriorated or is in the wrong location, and (2) fill the production gap created between 2005 and 2017.



Source: Minnesota Housing modeling based on data from a wide range of sources, including the Minnesota Demographers Office, the U.S. Census Bureau's American Community Survey, Marquette Advisors, CoStar and HUD.

READING THE CHART

- This chart is the same as the previous one but provides data on rental needs.

KEY POINTS

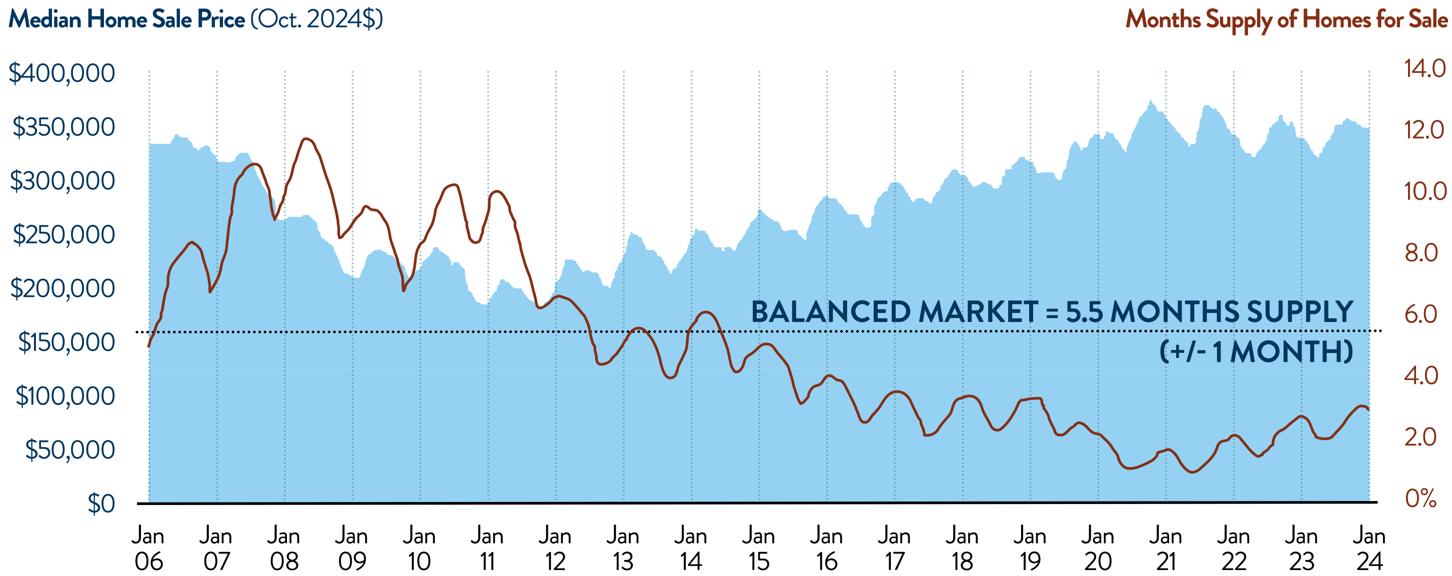
- To have a balanced market, Minnesota needs a rental vacancy rate of about 5%. As will be discussed in upcoming charts, the state is getting close to achieving that desired level. Thus, the rental market has substantially less catch-up production.

IMPLICATIONS

- As the rental market has approached a 5% vacancy, rents have flattened, which will be discussed later. Having a balanced market means that there is enough housing overall, but it does not mean there is enough affordable housing.
- If high interest rates and home prices substantially limit homeownership going forward, there will be a shift to more renting, which would reduce the level of demand for homeownership housing and increase the level of demand for rental housing shown in this chart.

Minnesota has a small inventory of homes for sale, which is driving up home prices.

This chart shows median home prices in Minnesota and the months-supply of homes for sale. The months-supply reflects how quickly it would take to clear the current inventory of homes for sale at the current sales rate.



Source: Minnesota Housing analysis of data from the Minnesota Realtors.

KEY POINTS

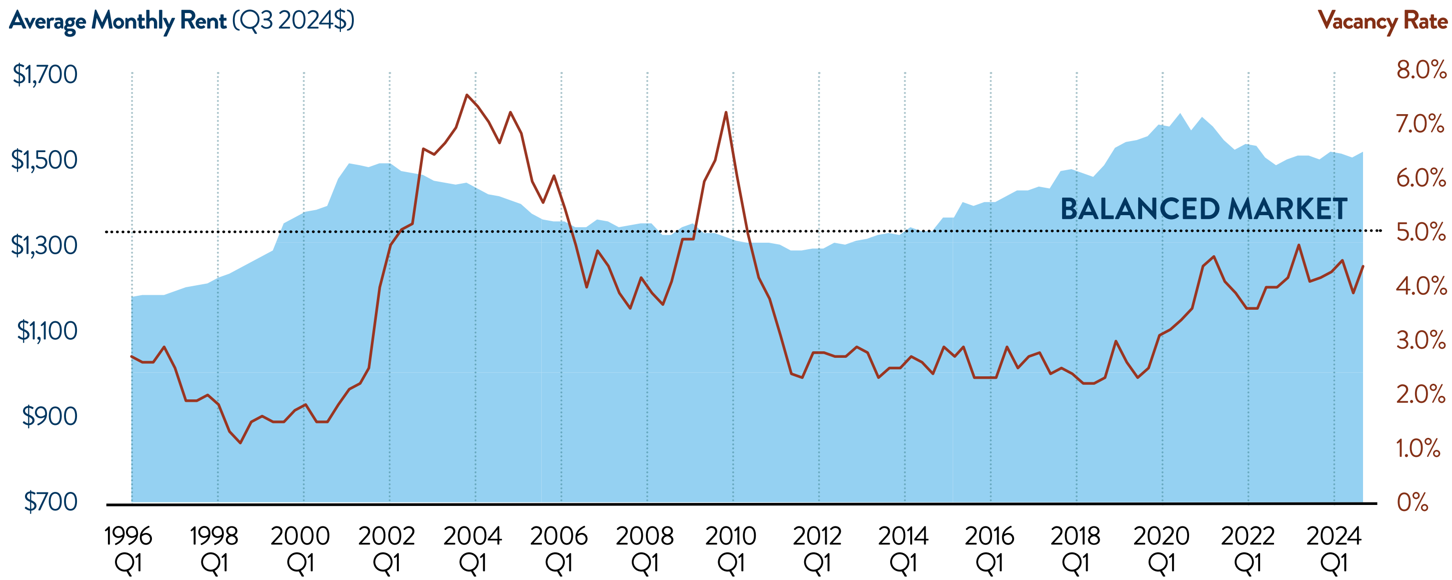
- The homebuying market is balanced when there is 5.5 months of supply. This means that there is enough supply to meet the demand, but not too much supply.
- When the supply (the brown line) is consistently below 5.5 months (the black horizontal dotted line), there is not enough supply and home prices (the light blue shaded area) generally rise.
- When the months-supply is consistently above 5.5 months, home prices generally fall.

IMPLICATIONS

- Minnesota has had a tight homebuying market for the last decade (supply below 5.5 months).
- The lack of new home construction has contributed to the lack of supply.
- In recent years, high interest rates have also contributed to the low inventory. Existing homeowners, who would otherwise put their homes on the market, do not want to give up the low-interest rate they have on their current mortgages and are staying in their homes.
- An influx of affordable new homes would help free up the market, which is currently stuck.

The rental market is approaching balance with a 5% vacancy rate, which is stabilizing rents.

This chart shows average monthly rents in the Twin Cities metro area and the rental vacancy rate.



Source: Minnesota Housing analysis of data from Marquette Advisors' Apartment Trends.

KEY POINTS

- The rental market is balanced when the vacancy rate is about 5% (4% to 6%).
- When the vacancy rate (the brown line) is consistently below 5% (the black horizontal line), rents (the light blue shaded area) generally rise.
- When the vacancy rate is consistently above 5%, rents generally fall.
- From 2011 to about 2020, vacancies were well below 4%, and rents increased.
- With the vacancy rate getting close to 5% in the last few years, average rents have leveled off in the $1,500 range.

IMPLICATIONS

- Minnesota only needs a small increase in the rental supply to have a balanced market across the state.
- Having a balanced market means there are enough open units available to rent to meet demand, but not too many; however, it does not mean there is enough affordable housing.

Minnesota needs an additional 20,000 housing units to address homelessness and people being doubled up.

This chart shows the number of housing units that Minnesota needs to: (1) achieve a balanced market (5% rental vacancy and 5.5-month supply of homes for sale), and (2) address homelessness or people being doubled up.

Source: Minnesota Housing analysis of data from various sources. The homelessness and doubled-up estimate is based largely on data from the Center for Budget and Policy Priorities, *Hidden Housing Instability* (September 2022).

KEY POINTS

- In Minnesota, there are about 20,000 potential households that have not technically formed because they are experiencing homelessness or doubled up by living with another household.
- These potential households have not technically formed because they do not have their own housing because the current supply is not affordable. This is both a supply and affordability issue. Adding to the general supply of housing with market-rate rents will not help them. They need housing they can afford in order to secure it and formally establish a household.

IMPLICATIONS

- On top of the 45,000 units needed to create a balanced housing market, Minnesota needs an additional 20,000 new affordable units to fully address the supply shortage.

The housing industry has a specific way of assessing and talking about household incomes.

Household income is typically talked about as a percentage of the area median income or AMI. Most housing programs' eligibility and income limits are set at a percent of AMI; for example, the income limit for apartments financed with Low-Income Housing Tax Credits is generally about 60% of AMI.

<table>
<tr><th rowspan="2">Location</th><th colspan="2">2024 30% of AMI</th><th colspan="2">2024 Poverty Guidelines</th></tr>
<tr><th>3-Person Household</th><th>5-Person Household</th><th>3-Person Household</th><th>5-Person Household</th></tr>
<tr><td>Twin Cities Metro</td><td>$33,550</td><td>$40,250</td><td rowspan="2">$25,820</td><td rowspan="2">$36,580</td></tr>
<tr><td>Aitkin County</td><td>$25,820</td><td>$36,580</td></tr>
</table>

If an area's median income (AMI) is $100,000, 50% of AMI is $50,000.

AMIs vary by household size and location (typically county).

Income levels:	80% of AMI is classified as low income
	50% of AMI is classified as very low income
	30% of AMI is classified as extremely low income

CONTEXT

- This table shows a couple of examples of 30% of AMI and the poverty guidelines for comparison. The poverty guidelines are national and do not vary by location. Note: HUD sets 30% of AMI as the higher of: (1) the calculated 30% AMI figure, or (2) the federal poverty guidelines.

IMPLICATIONS

- The following charts will provide information on the affordability of housing and refer to housing that is affordable to households with an income at a specified percent of the AMI.

Severe Shortage of Housing that is Affordable

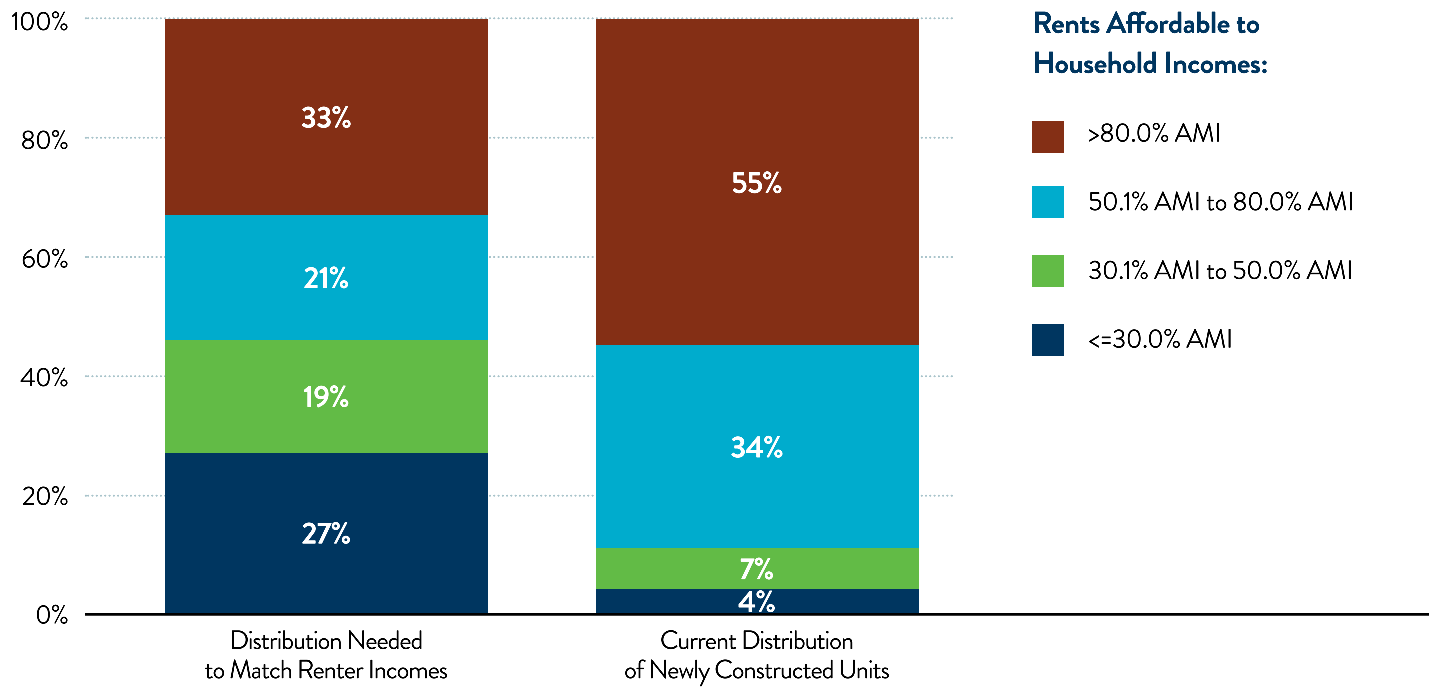
KEY DRIVER

2

Only a small share of new housing is affordable

Only a small fraction of new rental housing is affordable to households with the lowest incomes.

This chart compares the share of new rental housing that is needed to match the incomes of renters across Minnesota with the share of new units actually produced.



Source: Minnesota Housing analysis based on data from the Met. Council (2022–2023 construction) and of HUD's 2017-2021 CHAS (Comprehensive Housing Affordability Strategy) data.

READING THE CHART

- The stacked bar on the left shows the income distribution of renters in Minnesota as a percentage of the area median income (AMI).
- The stacked bar on the right shows the share of newly constructed housing with rents affordable at each income level. The rents reflect the full contract rent and do not account for the availability of rental assistance, which would make additional units affordable.

KEY POINTS

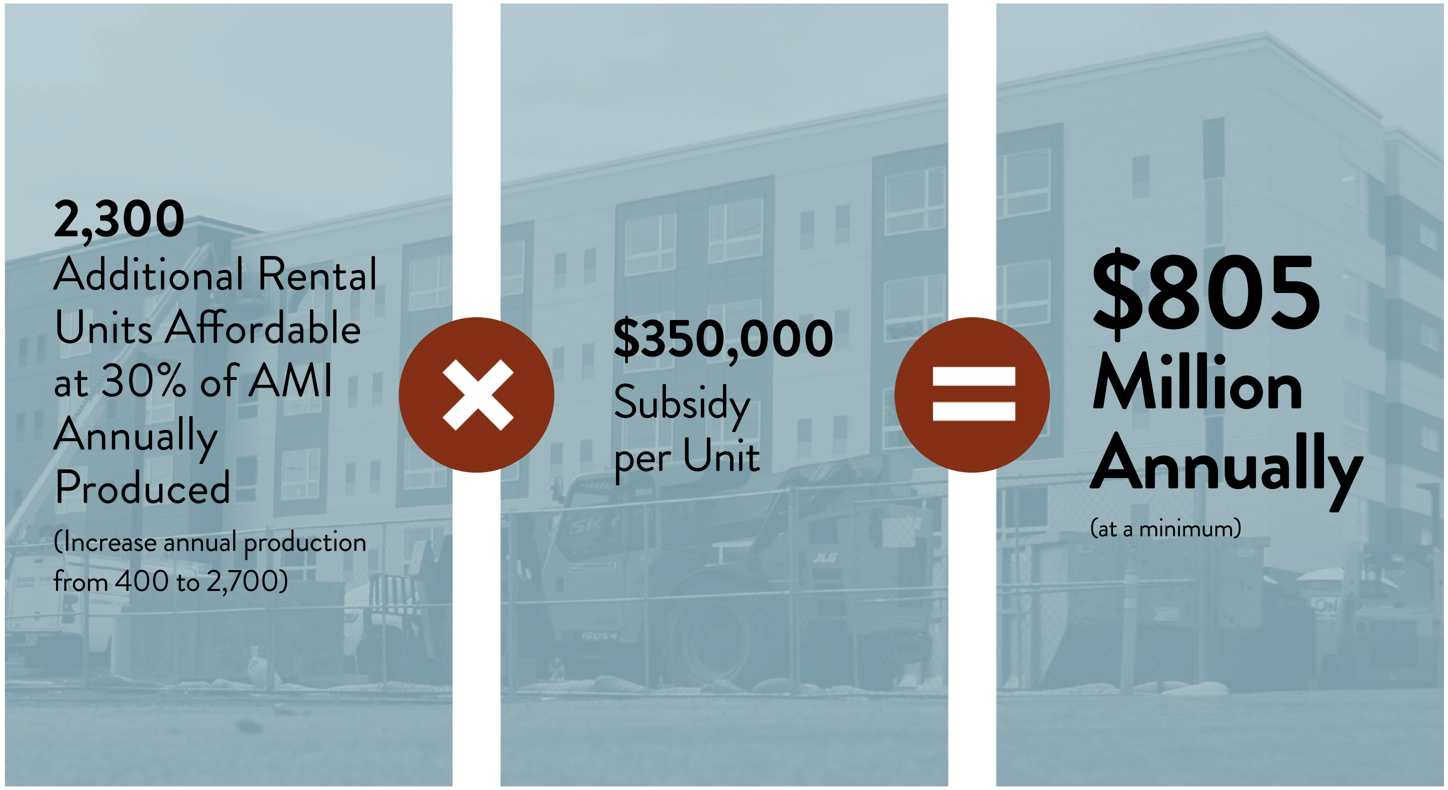
- There is a large mismatch between the incomes of renters and the rents of newly constructed housing. For example, while 27% of renters have incomes at or below 30% AMI, only 4% of the newly constructed units have rents affordable at 30% of AMI.

IMPLICATIONS

- Minnesota is not producing nearly enough new rental housing that is affordable to the lowest income households.

Increasing the production of units with rents affordable at 30% of AMI by 2,300 would annually cost $805 million.

Minnesota needs to produce roughly 10,000 new rental units each year. If rent affordability is to match the incomes of renters, 2,700 of the units need to be affordable at 30% of AMI, which is 2,300 units more than the 400 currently produced.



CONTEXT

- Rents collected from units affordable at 30% of AMI struggle to even cover a property's ongoing maintenance and operating costs. These units cannot take on any amortizing debt to finance the development. They do not produce the rent revenue needed to pay off any debt.
- Financing rental housing that is affordable at 30% of AMI and costs $350,000 per unit to develop would require a $350,000 subsidy in the form of zero-interest, deferred loans and/or equity generated by federal Low-Income Housing Tax Credits.
- Annually producing an additional 2,300 deeply affordable units at $350,000 per unit would cost at least $805 million.

The cost of a modest 1,600 sq. ft. starter home ($400,000) is about $100,000 more than a typical homebuyer can afford ($300,000).

In June 2024, only 4% of newly constructed homes in Minnesota were selling for less than $300,000.

1,000
Additional 1,600 sq. ft. Starter Homes Annually Produced

×

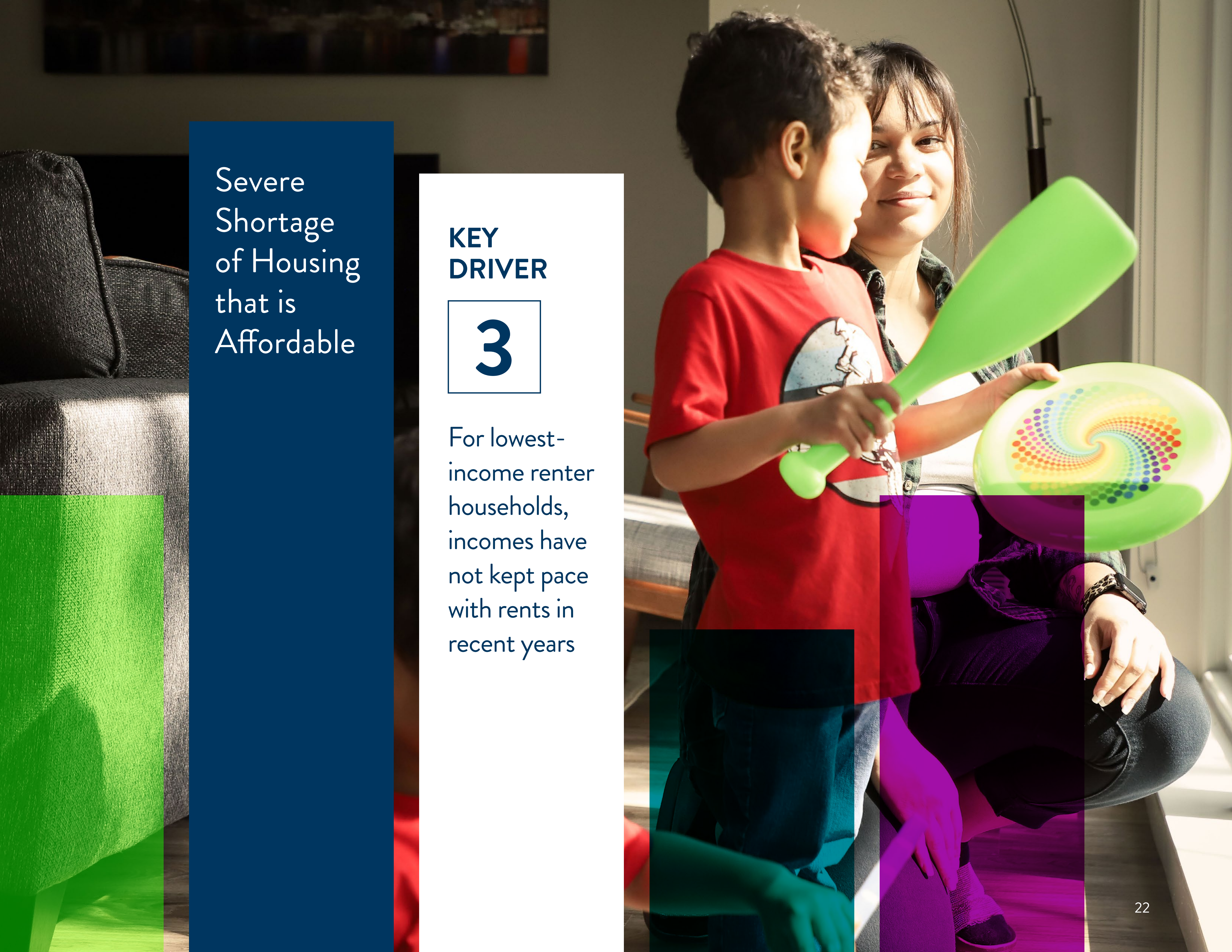
$100,000
per Home Affordability Gap Subsidy
(Difference between the $400,000 total development cost and $300,000 affordable mortgage)

=

$100 Million Annually

CONTEXT

- In today's market, a new, modest 1,600 square-foot starter home can cost $400,000 or more.
- The median homeowner income in Minnesota is $102,000. A homebuyer with this income can afford about a $300,000 home at a current interest rate of 6.75%.
- Thus, there is a $100,000 affordability gap between what it costs to develop a modest starter home ($400,000 or more) and what a typical homebuyer can afford ($300,000).
- Annually producing 1,000 new starter homes that would sell for $300,000 but cost $400,000 to develop would annually require about $100 million in subsidy.
- These 1,000 homes would represent just 12.5% of the 8,000 new homes that Minnesota will annually need in the long run (see page 12).



Severe Shortage of Housing that is Affordable

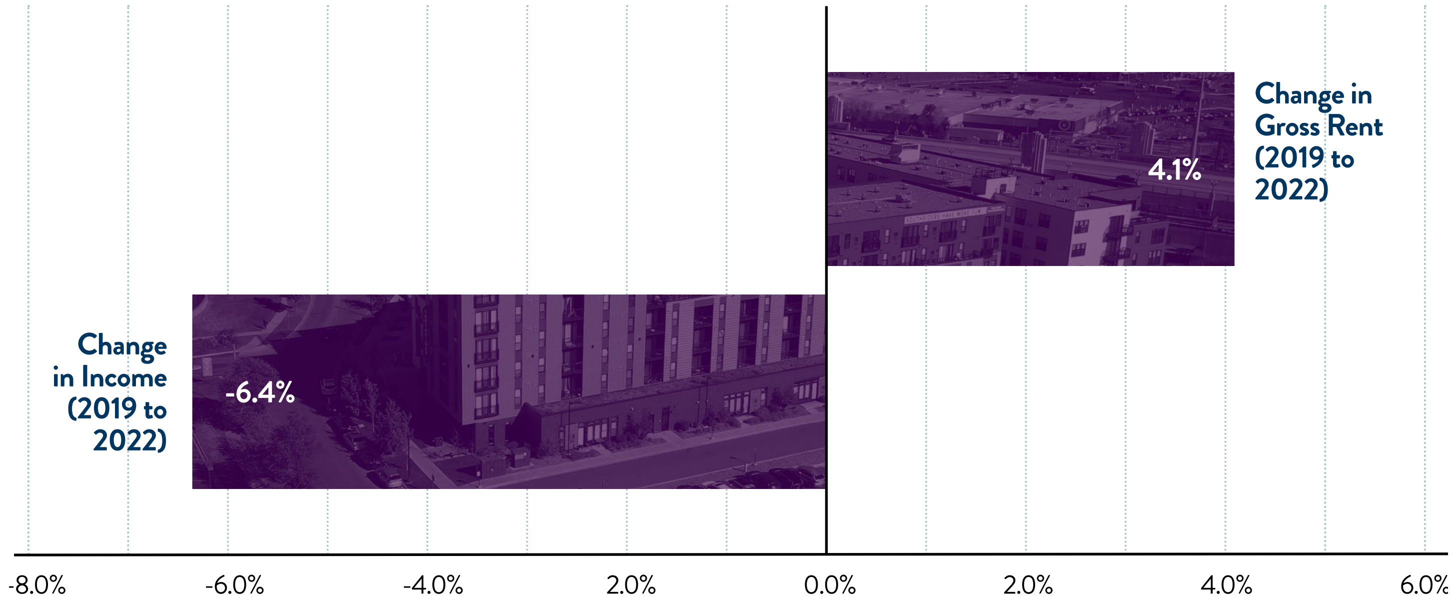
KEY DRIVER

3

For lowest-income renter households, incomes have not kept pace with rents in recent years

In recent years, rental housing has become less affordable for lower-income households.

This chart shows the change in rents and incomes (after adjusting for inflation) between 2019 and 2022 for renter households at the 25th percentile.



Source: Minnesota Housing analysis data from the U.S. Census Bureau's American Community Survey (2019 to 2022, 1-year samples, microdata from IPUMS).

READING THE CHART

- This chart applies to rents and incomes at the 25th percentile, which is the bottom 25% of rents and incomes. In both 2019 and 2022, 75% of renters had rents and incomes above the analyzed level.

KEY POINTS

- Between 2019 and 2022, the 25th percentile gross rent increased 4.1% from $778 to $810, and the 25th percentile renter income decreased 6.4% from $23,400 to $21,900. (All figures are adjusted for inflation to 2022 dollars.)

IMPLICATIONS

- In recent years, rental housing has become less affordable for lower-income households because rents rose faster than inflation, but incomes did not keep pace with inflation.

Severe Shortage of Housing that is Affordable

KEY DRIVER

4

High interest rates after 2021

Until recently, historically low interest rates made home-ownership more affordable.

This chart shows the average interest rate on 30-year, fixed-rate mortgage in the U.S. since 2005.

U.S. Mortgage Interest Rates

Source: Freddie Mac, *Weekly Mortgage Survey*.

KEY POINTS

- Historically, a 7% mortgage interest rate has been considered typical. Since 1971, the median rate has been 7.35%.
- Between March 2011 and 2022, interest rates were historically low (below 5%, and at times, below 3%), making homeownership more affordable.

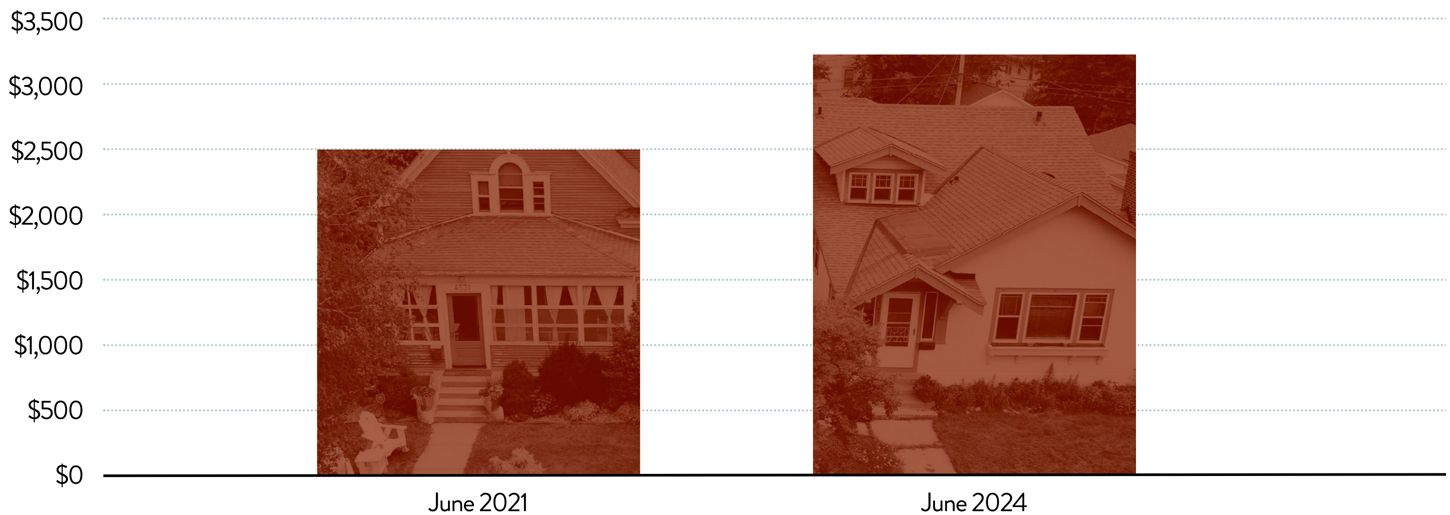
IMPLICATIONS

- As shown in the chart on page 7, the low interest rates significantly lowered monthly homeownership costs for both new buyers and existing homeowners who refinanced their mortgages to lower rates.
- While existing homeowners who have a low-interest rate on their mortgages continue to benefit, current higher rates are preventing many households from buying homes.

Because of higher interest rates, the cost of buying a median-priced home increased by $700 per month.

This chart shows the monthly mortgage payment (principal, interest, taxes and insurance) for the median-priced home in 2021 and 2024.

Monthly Mortgage Payment on Median-Priced Home
(adjusted for inflation to 2024$)



Source: Minnesota Housing analysis of data from the Minnesota Realtors, Freddie Mac and other sources.

KEY POINTS

- The monthly payment for buying the median-priced home in Minnesota increased by $700 from $2,500 to $3,200 because interest rates increased from 2.93% in June 2021 to 6.95% in June 2024.
- The increase in monthly mortgage payments was partially offset by a reduction in the median home price during that period from $373,500 to $355,000 (adjusted for inflation to 2024 dollars).

IMPLICATIONS

- The increase in costs is preventing many households from becoming homeowners.
- In 2021, a household needed an annual income of $100,000 (adjusted to 2024 dollars) to afford the median-priced home at a 2.93% interest rate while a household in 2024 would need an income of $128,000 to afford the median-priced home at a 6.95% interest rate.
- Households with incomes between $100,000 and $128,000 are getting priced out from buying a median-priced home.

Severe Shortage of Housing that is Affordable

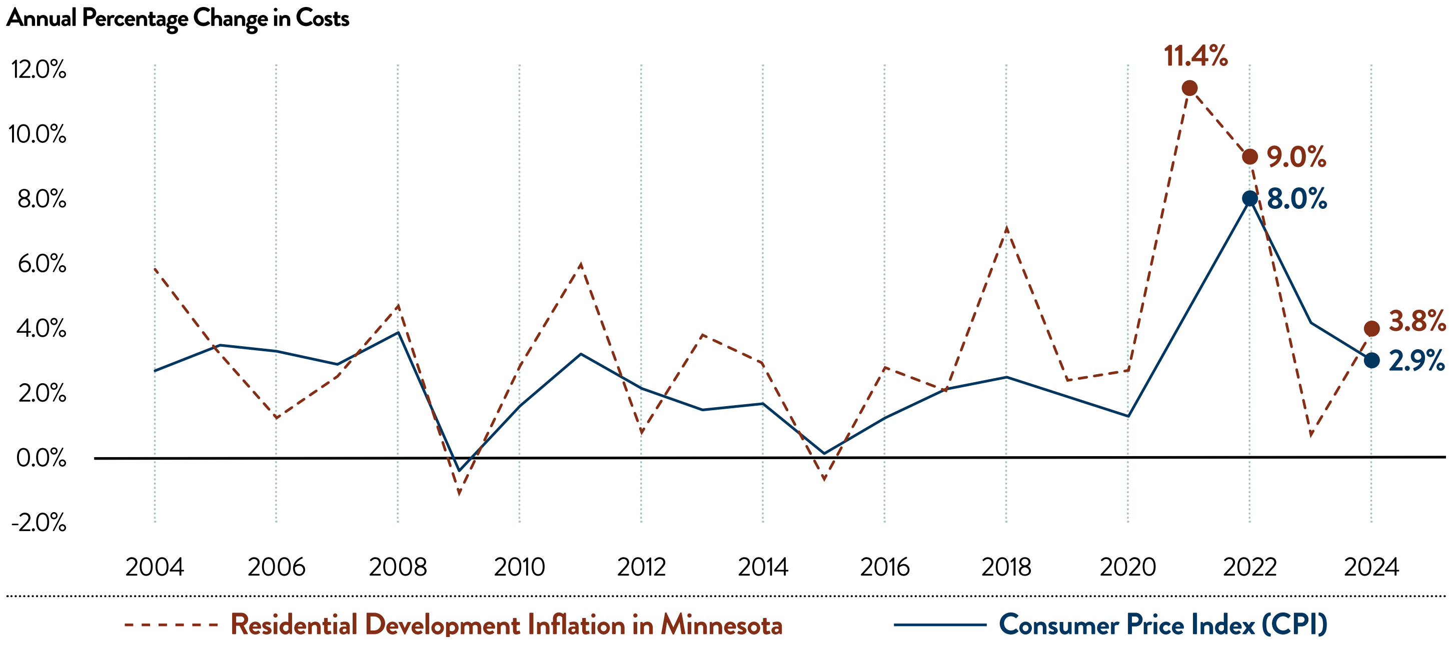
KEY DRIVER

5

Other factors, including the cost of new construction, cost of property insurance, pricing of federal Low-Income Housing Tax Credits, and others

Residential development costs rose rapidly in 2021 and 2022, making new housing much more expensive.

This chart shows residential development and consumer inflation over the last 20 years.



Source: Minnesota Housing analysis based on data from the Bureau of Labor Statistics, the Minnesota Department of Employment and Economic Development and others.

KEY POINTS

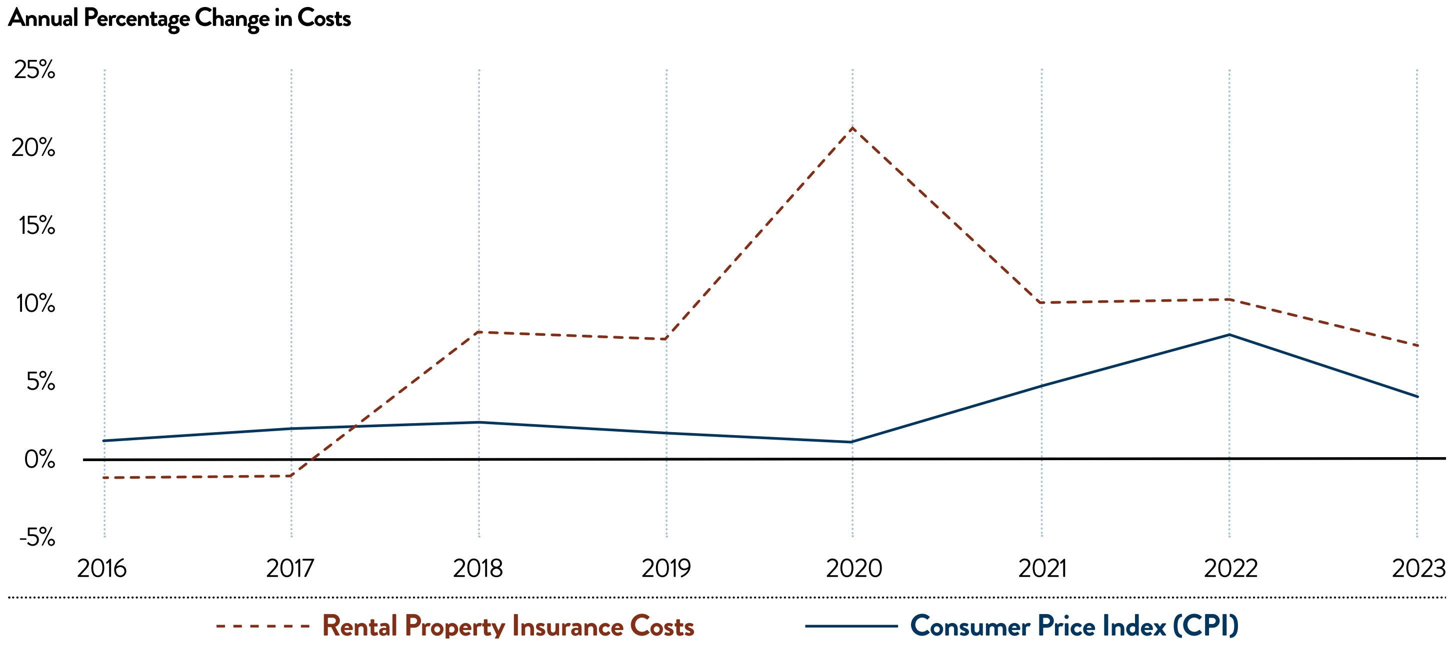
- From 2004 through 2021, consumer inflation had been very stable at about 2%, but there was a large spike in 2021 through 2023, reaching an 8% peak in 2022.
- For the last 20 years, residential development inflation has been more volatile (larger ups and downs) than general consumer inflation.
- On average, residential development inflation has been 1.5 times higher than consumer inflation. When consumer inflation was averaging 2%, residential development inflation was averaging 3%.
- Residential development inflation in Minnesota peaked at 11.4% and 9.0% respectively in 2021 and 2022.

IMPLICATIONS

- The very large increase in residential development costs in 2021 and 2022 has made new housing much more expensive.

Insurance costs for rental properties have been rapidly increasing over the last six years, with a 21% increase in 2020.

This chart shows the annual percentage increase in the median per-unit property insurance costs for the properties in Minnesota Housing's first mortgage portfolio and compares it with the general rate of inflation.



Source: Minnesota Housing analysis of rental properties in its first mortgage portfolio.

KEY POINTS

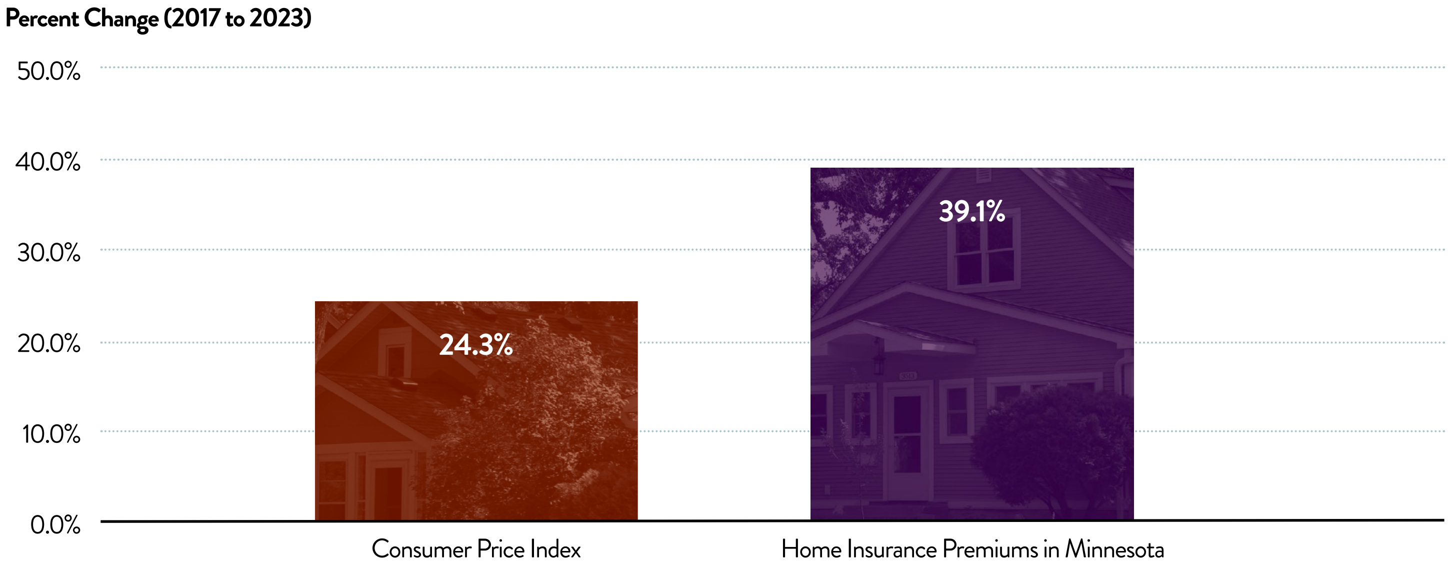
- Increases in insurance costs have outpaced general inflation and peaked at 21% in 2021.
- While the data in this chart only applies to properties in Minnesota Housing's first mortgage portfolio, the increases are broad based. According to the accounting firm Novogradac, insurance costs in properties financed with Low-Income Housing Tax Credits increased by 22.9%, 12.1%, and 25.7% in 2020, 2021 and 2022 respectively across the Midwest region of the U.S.
- Costs associated with severe weather and climate events, including tornadoes and hail events, are cited as a key driver of the insurance cost increases in the Midwest.

IMPLICATIONS

- Rising insurance and other operating costs are creating a challenging environment for rental properties and putting upward pressure on rents.
- Rent restrictions in affordable housing limit the extent to which rents can be raised to cover those costs.

Property insurance costs for homeowners is also rapidly increasing.

This chart compares the percent change in homeowners' insurance premiums in Minnesota with the percentage change in overall consumer prices between 2017 and 2023.



Source: Minnesota Housing analysis of data from the Minneapolis Federal Reserve Bank, *Homeowners Insurance Costs are Growing Fast, but Coverage is Shrinking* (August 28, 2024), and the Bureau of Labor Statistics (CPI-U).

KEY POINTS

- While general consumer prices increased by 24.3% between 2017 and 2023, home insurance premiums increased by a higher 39.1%.
- The insurance industry is also experiencing "shrinkflation," which is a term used in the food industry to capture smaller packaging and less food. Similarly, homeowners are getting less coverage in their policies while also seeing their premiums increase.
- Just like the rental market, costs associated with severe weather and climate events are the primary driver of these increases.

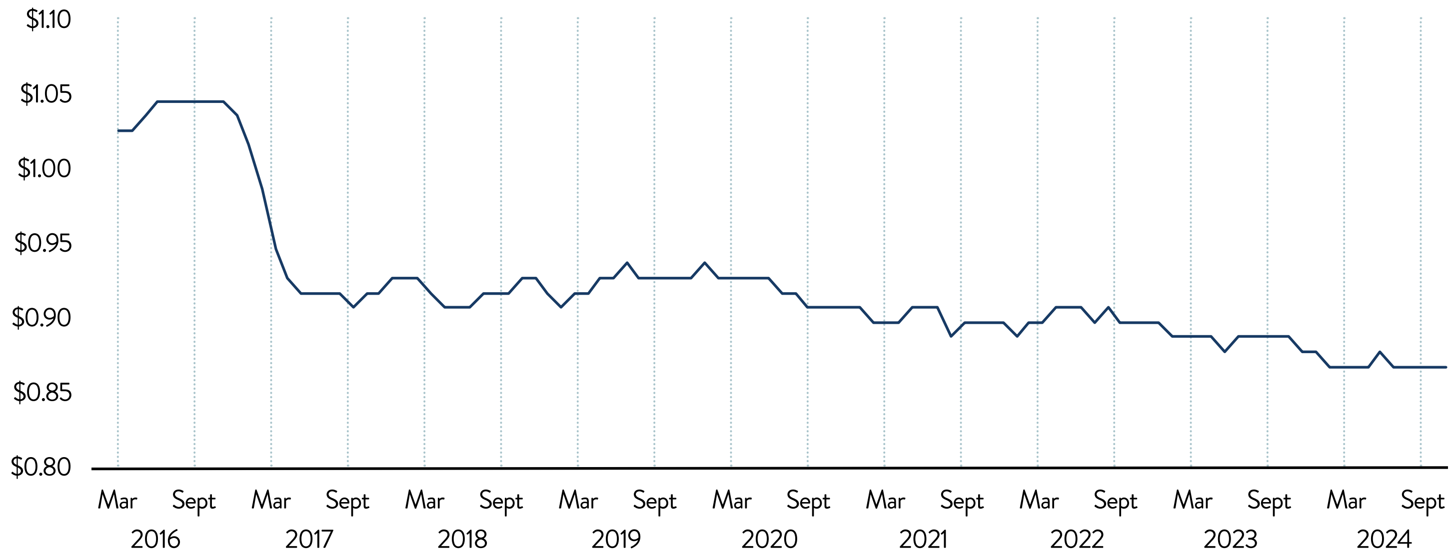
IMPLICATIONS

- The increases are making housing less affordable.
- Households with incomes between $100,000 and $128,000 are getting priced out from buying a median-priced home.

The price of federal Low-Income Housing Tax Credits has been declining since 2016.

This chart shows the pricing for Low-Income Housing Tax Credits since 2016. These are national average prices. Pricing varies by location and housing projects. As of winter 2025, the price of credits in Minnesota has been around $0.80.

Average Tax Credit Price (3-month U.S. average)



Source: Novogradac, LIHTC Equity Pricing Trends.

CONTEXT

- Federal Low-Income Housing Tax Credits are a key tool for financing affordable housing. Minnesota Housing awards the credits to developers, who then sell the credits to investors through a syndication process. The syndication proceeds are invested in the housing, and in exchange, the investors get a direct reduction in their federal tax liability for 10 years. Five hundred thousand dollars in credits over 10 years provides $5 million in tax reductions, but depending on the market, credits typically sell for less than $1 per credit because of uncertainty, risk and the time value of money.

IMPLICATIONS

- In the example above, $5 million of tax breaks will generate $4.75 million of syndication proceeds when the credit price is $0.95. In contrast, the proceeds are $4.15 million when the price is $0.83, which is a $600,000 (13%) reduction in available resources.
- Lower credit prices generate less funding for affordability housing and limits the amount of housing that can be developed or rehabilitated with existing resources.

CHAPTER

2

While the Lack of Affordable Housing is Pervasive, Some Communities Have been Impacted More than Others

Housing instability in Minnesota has had a disproportionate impact on some communities.

Minnesota Housing's 2024-2027 Strategic Plan recognizes that some communities of shared identities, experience or geographies disproportionally face housing instability and experience disparities in access and outcomes. These include the lowest-income, people of color, people with disabilities, single parents, large families, and older adults. These communities are our priority because the current market is not working for them, and they experience barriers in accessing and navigating affordable housing.

The following charts document the disproportionate impact housing instability has had on: (1) people with the lowest income, (2) people experiencing homelessness, (3) Indigenous, Black and people of color, (4) people with disabilities and (5) older adults.

Most Impacted Communities

KEY DRIVER

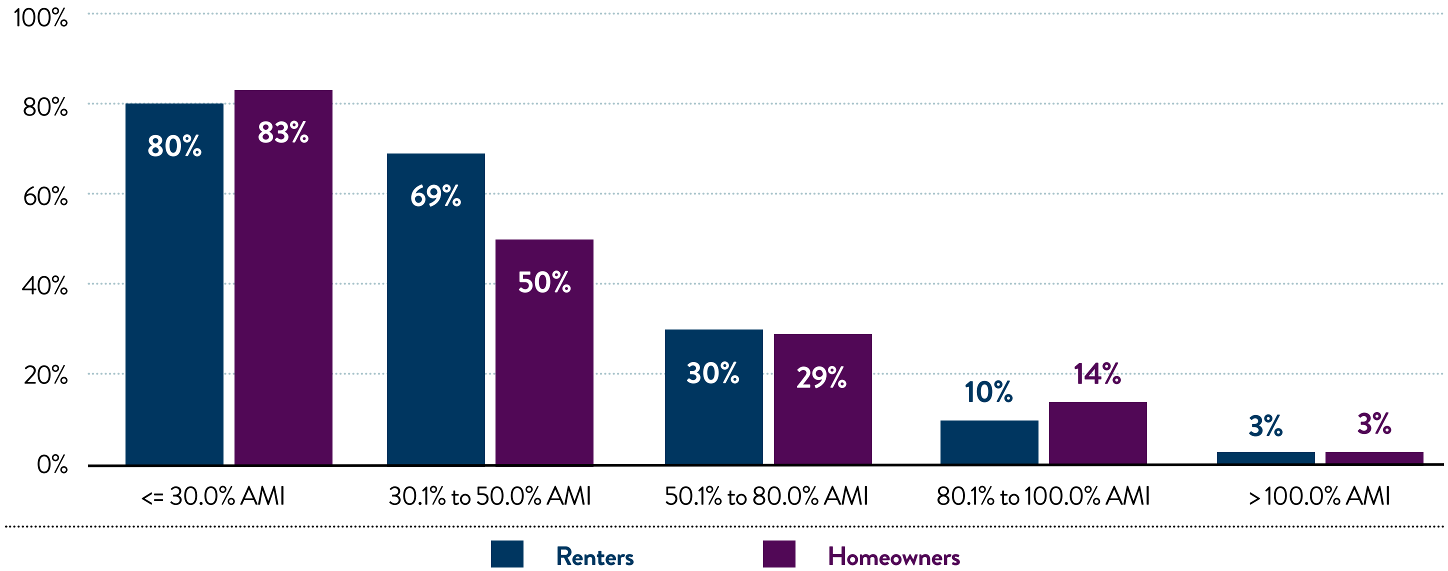
6

Lower-income households are far more likely to face housing instability.

The vast majority of households with incomes at or below 30% of AMI are cost burdened.

This chart shows the share of households that are cost burdened, broken out by income level and type of household (renter vs. homeowner).

Share of Households that Are Cost Burdened



Source: Minnesota Housing analysis of HUD's 2017–2021 CHAS (Comprehensive Housing Affordability Strategy) data.

KEY POINTS

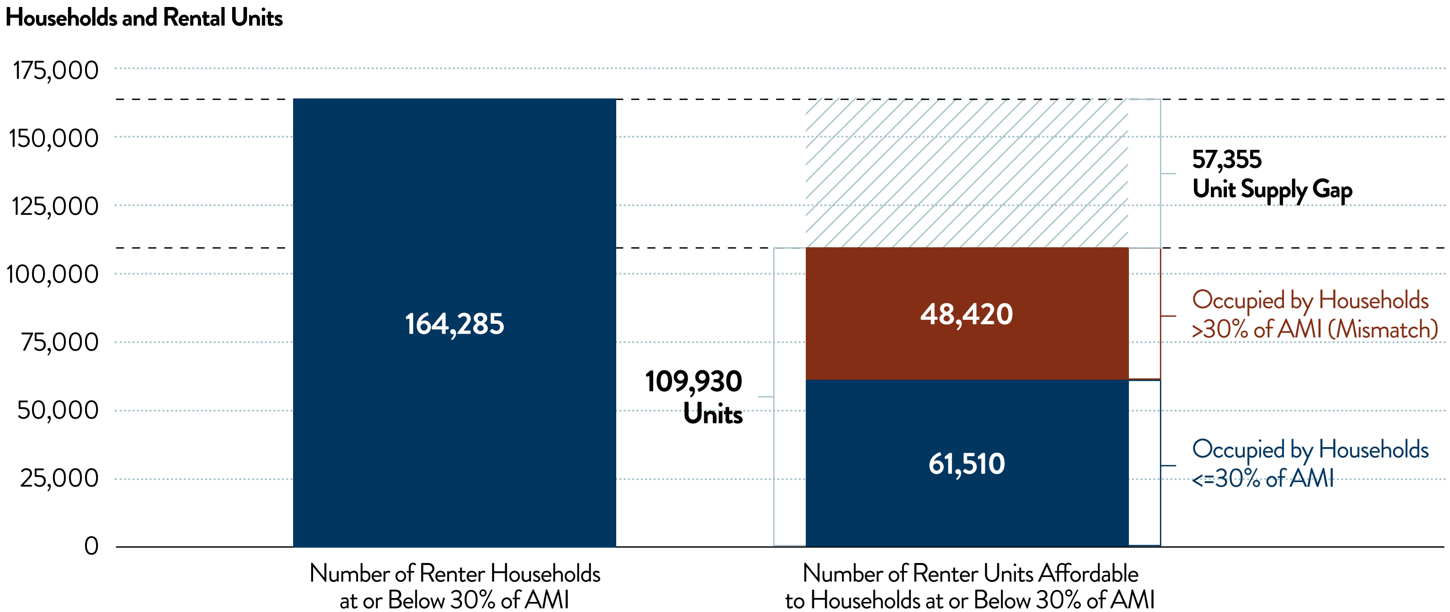
- While 80% of renters with incomes at or below 30% of AMI are cost burdened, only 3% of renters with incomes above 100% AMI are.
- Similarly, 83% of homeowners with incomes at or below 30% of AMI are cost burdened, and only 3% of homeowners with incomes above 100% AMI are.
- As shown in a previous chart (page 5), renters are more likely to be cost burdened overall than homeowners. While the cost-burdened rates are similar at each income level, homeowners as a group have higher incomes than renters and are less likely to be cost burdened.

IMPLICATIONS

- Minnesota Housing's vision statement is: "All Minnesotans live and thrive in a stable, safe and accessible home they can afford in a community of their choice."
- For this vision to become a reality, the state needs to focus on people with the lowest incomes.

There is a severe shortage of rental housing available to households with incomes at or below 30% of AMI.

This chart shows number of renter households in Minnesota with incomes at or below 30% of AMI compared with the available stock of rental housing with rents affordable at or below 30% of AMI.



Source: Minnesota Housing analysis of HUD's 2017–2021 CHAS (Comprehensive Housing Affordability Strategy) data.

KEY POINTS

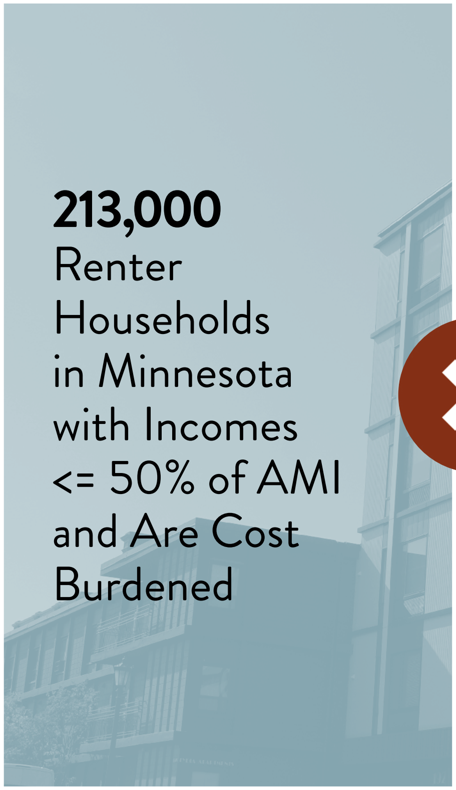
- While Minnesota has just over 164,000 renter households with incomes at or below 30% of AMI, the state only has about 110,000 affordable units at that income level (a 54,000-unit shortage).
- In addition, 48,000 of the 110,000 affordable units are occupied by people with incomes above 30% of AMI, leaving about 62,000 units for households with incomes at or below 30% of AMI.
- The outcome is 80% of renters with incomes at or below 30% of AMI being cost burdened.

IMPLICATIONS

- The shortage of affordable housing for renters with the lowest incomes is more of an affordability problem than a shortage of rental units. As shown earlier on page 13, Minnesota needs about 5,000 more units to reach a statewide 5% rental vacancy rate and have a balanced market, which is much smaller than the affordability shortage shown in this chart. To address the affordability issue, the state primarily needs to make existing housing more affordable.

Providing rental assistance to all eligible households with incomes at or below 50% of AMI would be a major investment.

Providing rental assistance is a critical strategy for making existing rental housing affordable. For rental assistance to work effectively, we also need to address the supply shortage discussed on pages 13 and 15.



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KEY POINTS

- There are roughly 213,000 renter households in Minnesota with incomes at or below 50% of AMI who are cost burdened by their housing payments. From the chart on page 34, this combines the 80% of renters with incomes at or below 30% of AMI and the 69% with incomes between 30% and 50% of AMI who are cost burdened.
- If all these cost-burdened households were to receive rental assistance, where the recipient contributes 30% of their income to housing and the assistance covers the remaining costs, the average annual subsidy per household would be approximately $10,000.
- Providing rental assistance to all 213,000 would annually costs about $2.1 billion, excluding administrative costs.

KEY IMPLICATIONS

- Providing rental assistance to all eligible households would be a major investment by the state.
- With the new Bring it Home rental assistance, the state is annually providing roughly $60 million to meet this annual need.

Most Impacted Communities

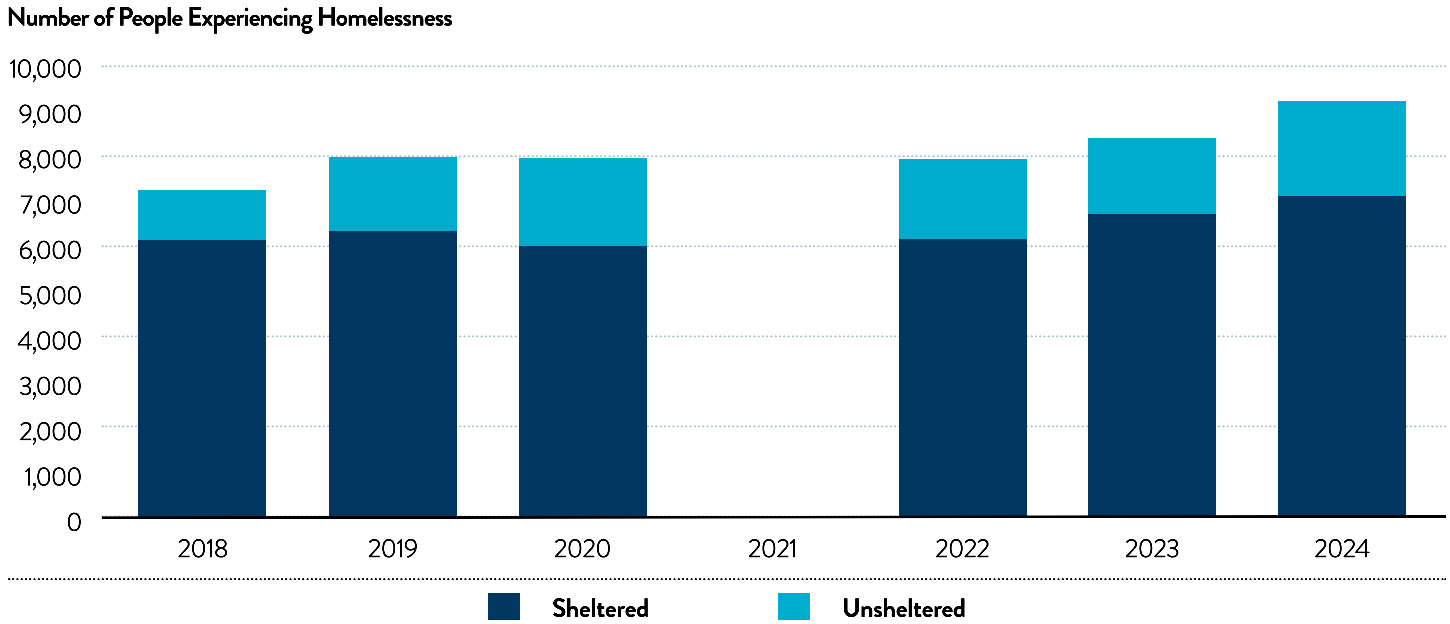
KEY DRIVER

7

Homelessness, which is the most severe form of housing instability, is a persistent problem with more and more people sleeping outside.

The number of people experiencing homelessness in Minnesota has been increasing over the last several years.

This chart shows the number of people experiencing homelessness during a day in January of each year.



Source: U.S. Department of Housing and Urban Development (HUD), Point-in-Time Count.

KEY POINTS

- Homelessness is a pervasive and persistent problem in Minnesota.
- While the HUD Point-in-Time count shows 9,000 people experiencing homelessness on a day in January 2024 (which is an undercount), Wilder Research estimates that roughly 50,000 people experience homelessness at some point during a year (2018 estimate).
- While sheltered homelessness increased by 16% between 2018 and 2024, unsheltered homelessness increased by 86%.
- A full count for January 2021 is not available because of the COVID-19 pandemic.

IMPLICATIONS

- More and more people are experiencing the most severe form of housing instability.
- The severe shortage of housing affordable for the lowest-income households is a key driver of the homelessness crisis.
- Providing rental assistance as outlined in the previous chart would make housing affordable for the lowest-income households, including those experiencing homelessness.

Most Impacted Communities

KEY DRIVER

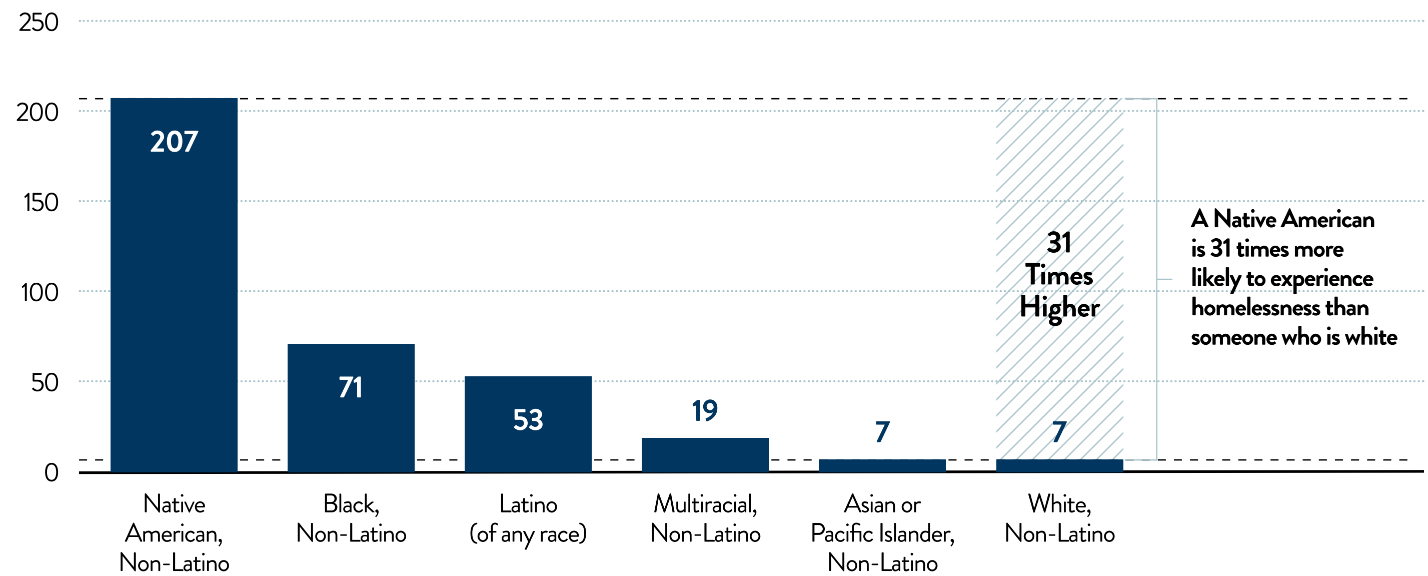
8

Minnesota has large racial/ethnic disparities across the housing continuum from homelessness to homeownership.

A Native American is 31 times more likely to experience homelessness than someone who is white.

This chart shows the rate of homelessness in Minnesota by race and Latino ethnicity.

People Experiencing Homelessness per 10,000



Source: Minnesota Housing analysis of data from HUD's Point-in-Time Count and the Census Bureau's American Community Survey.

KEY POINTS

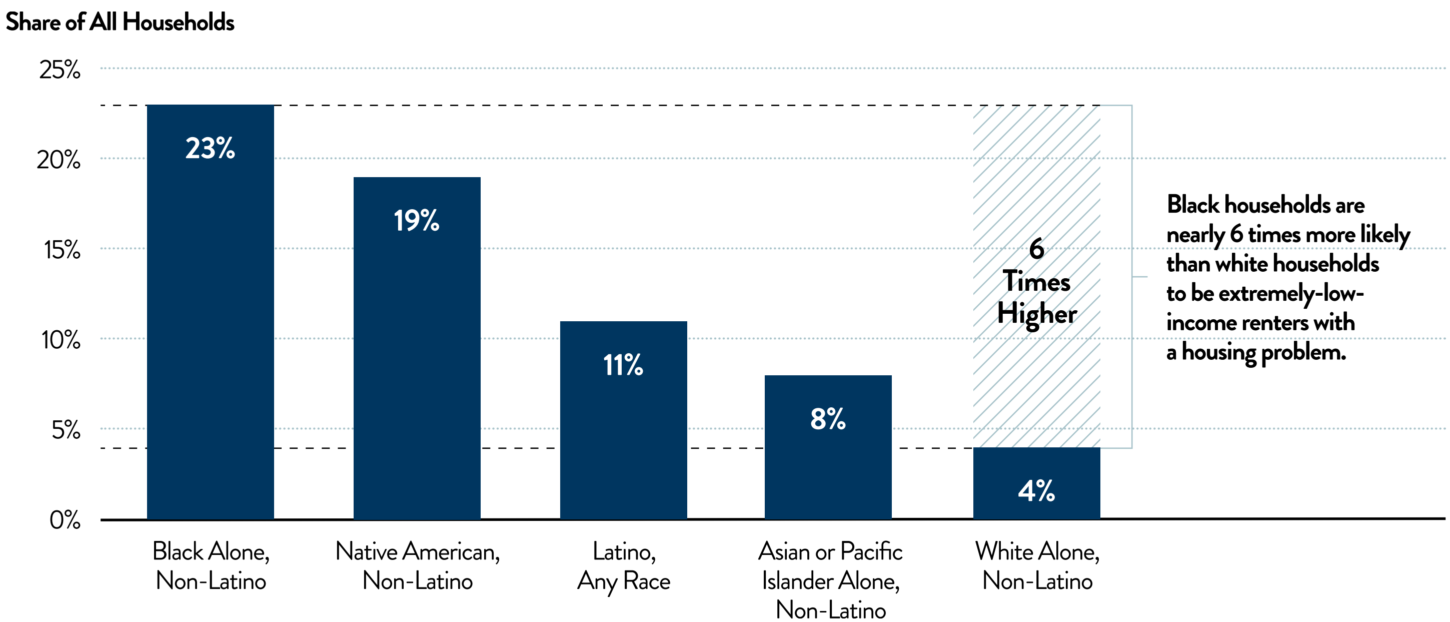
- Overall, the rate of homelessness in Minnesota is 16 people per 10,000, but there are some extreme racial/ethnic disparities. While the rate for the white population is 7 per 10,000, it is 207 per 10,000 for Native Americans, which is 31 times higher.
- In other words, a Native American is 31 times more likely to experience homelessness than someone who is white.

IMPLICATIONS

- This is the area where the state is falling the shortest in providing stable, safe housing that is affordable so that *all* Minnesotans can live and thrive.

Indigenous, Black and households of color are far more likely to struggle accessing decent, stable, affordable housing.

This chart shows the share of all households in Minnesota who are renters with incomes at or below 30% of AMI and have at least one of four housing problems (cost burdened, overcrowded, no kitchen and/or no plumbing).



Source: Minnesota Housing analysis of HUD's 2017–2021 CHAS (Comprehensive Housing Affordability Strategy) data.

KEY POINTS

- While 4% of white households are extremely-low-income renters with at least one housing problem, 23% of Black households are, which is nearly a six-fold difference.
- Similarly, Native American households are nearly five times more likely to be extremely-low-income renters with a housing problem than white households.
- While these housing-specific disparities are large, they are smaller than the disparities in the rate of homelessness.

IMPLICATIONS

- Being extremely low income and lacking decent, stable, affordable housing are primary contributors to homelessness and its resulting disparities, but it is not the only contributor.
- Homelessness and its disparities reflect system-wide failures, including in employment, earnings, housing, education, health care, services, and racial discrimination.

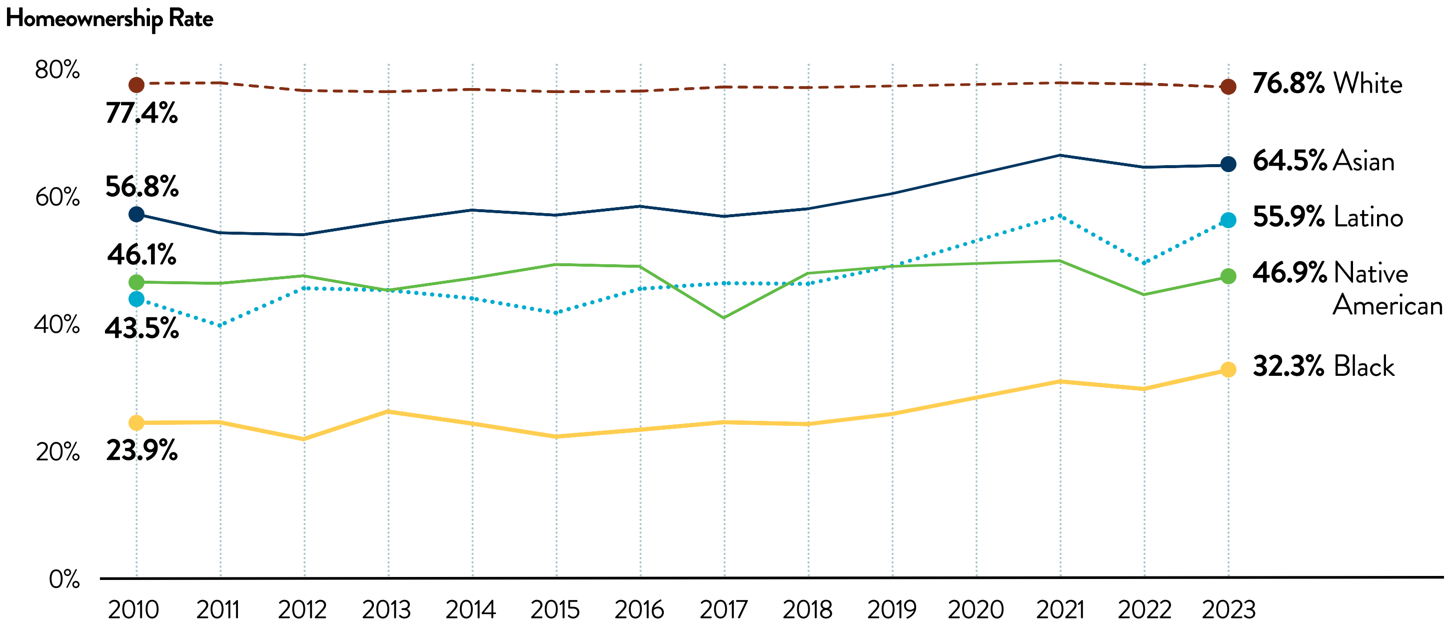
Housing problems:

- Cost-burdened, spending more than 30% on housing
- Overcrowded
- No kitchen
- No plumbing

Minnesota has some of the largest disparities in home-ownership rates in the country.

This chart shows the share of households who are homeowners in Minnesota, broken out by race and Latino ethnicity.

Homeownership provides some of the most stable housing and best opportunities for wealth generation.



Source: Census Bureau, American Community Survey (2010 to 2023, 1-yr samples).

KEY POINTS

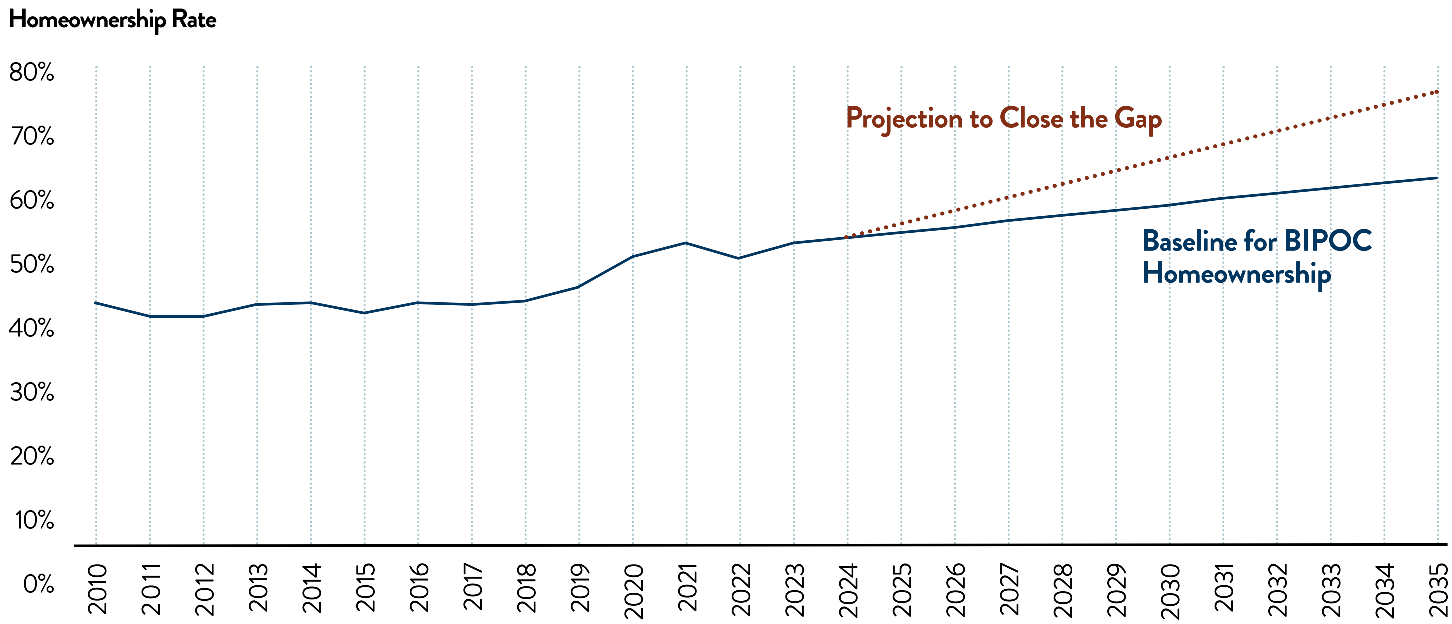
- Minnesota has the ninth highest overall homeownership rate in the country (72.0%) and for white households (76.8%).
- The state's homeownership rate for Indigenous, Black and households of color (51.1%) is the 32nd highest, resulting in the 11th largest disparity between white households and communities of color.
- The homeownership rate for Black households (32.3%), which is the 38th highest nationally, is particularly troubling.
- Since 2010, Indigenous, Black and households of color have experienced small improvements in their homeownership rates.

IMPLICATIONS

- More intensive and concerted efforts are needed to close the gap.

More intensive and concerted efforts are needed to close the homeownership gap for Black, Indigenous and households of color.

This chart compares: (1) the baseline homeownership rate if current approaches continue, and (2) the increase in the rate that is needed to close the gap by 2035.



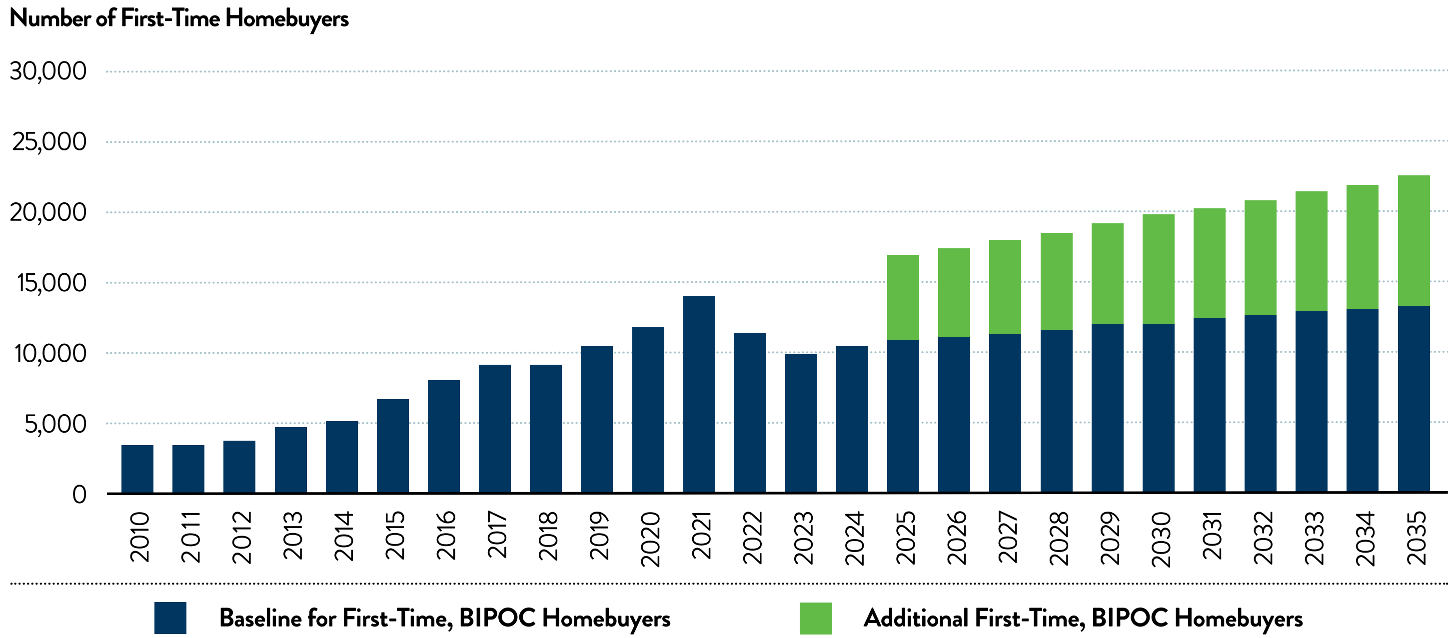
Source: Minnesota Housing modeling based on data from the U.S. Census Bureau's American Community Survey, FFIEC's Home Mortgage Disclosure Act (HMDA), Mortgage Bankers Association and others.

KEY POINTS

- For the last several years, the BIPOC homeownership rate has been on an upward trend. If the trend continues, it would be insufficient to close the homeownership gap by 2035 and reach 76.8% (the rate for white households).
- There needs to be a sizable shift in the rate to close the gap by 2035.

To close the homeownership gap, the state needs 83,000 additional first-time, BIPOC homebuyers over the next 11 years.

This chart shows the number of additional first-time BIPOC homebuyers the state needs above the baseline level to close the homeownership gap.



Source: Minnesota Housing modeling based on data from the U.S. Census Bureau's American Community Survey, FFIEC's Home Mortgage Disclosure Act (HMDA), Mortgage Bankers Association and others.

KEY POINTS

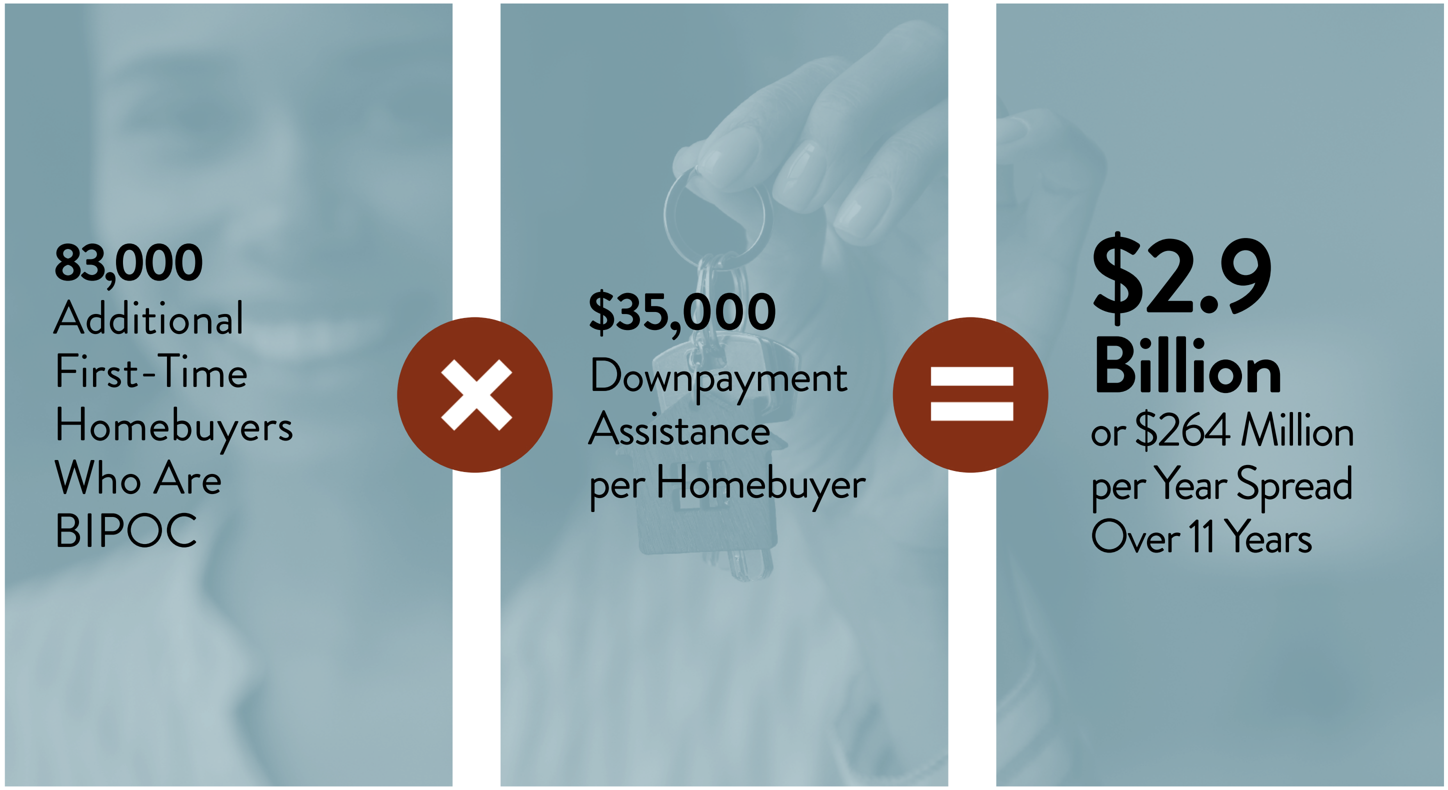
- The blue segments of the stacked bars in the chart reflect the number of first-time, BIPOC homebuyers Minnesota has had and will have if current approaches to close the gap continue.
- With historically low interest rates between 2011 and 2021, Minnesota saw a sizable increase in the number of first-time homebuyers who are BIPOC.
- Now, with interest rates closer to historical norms, the number of first-time, BIPOC homebuyers dropped off.
- The green segments reflect the additional first-time BIPOC homebuyers (83,000) that the state will need over the next 11 years to reach a 76.8% homeownership rate for BIPOC households.

IMPLICATIONS

- Increasing the number of BIPOC households who are becoming homeowners by 83,000 will take a concerted and sustained effort.
- Given their large disparity, Black households need to be a focus of this effort.

Providing downpayment assistance to help close the home-ownership gap would cost roughly $2.9 billon.

A lack of savings is a primary barrier for homeownership. In addition, home prices at current interest rates are out of reach for many people, and downpayment assistance reduces the size of the mortgage that someone needs to buy a home.



KEY POINTS

- As the previous chart shows, Minnesota needs 83,000 additional first-time homebuyers who are BIPOC. This is the amount above the baseline that reflects the current approach.
- Minnesota Housing currently provides on average roughly $15,000 in downpayment assistance per borrower in its standard program.
- Given current home prices and interest rates, $15,000 of downpayment assistance is unlikely to increase the number of first-time, BIPOC homebuyers much above the baseline. To achieve the needed increase, something to closer to $35,000 per homebuyer that Minnesota Housing's recent (one-time) First-Generation Homebuyer Loan Program provided will likely be needed.

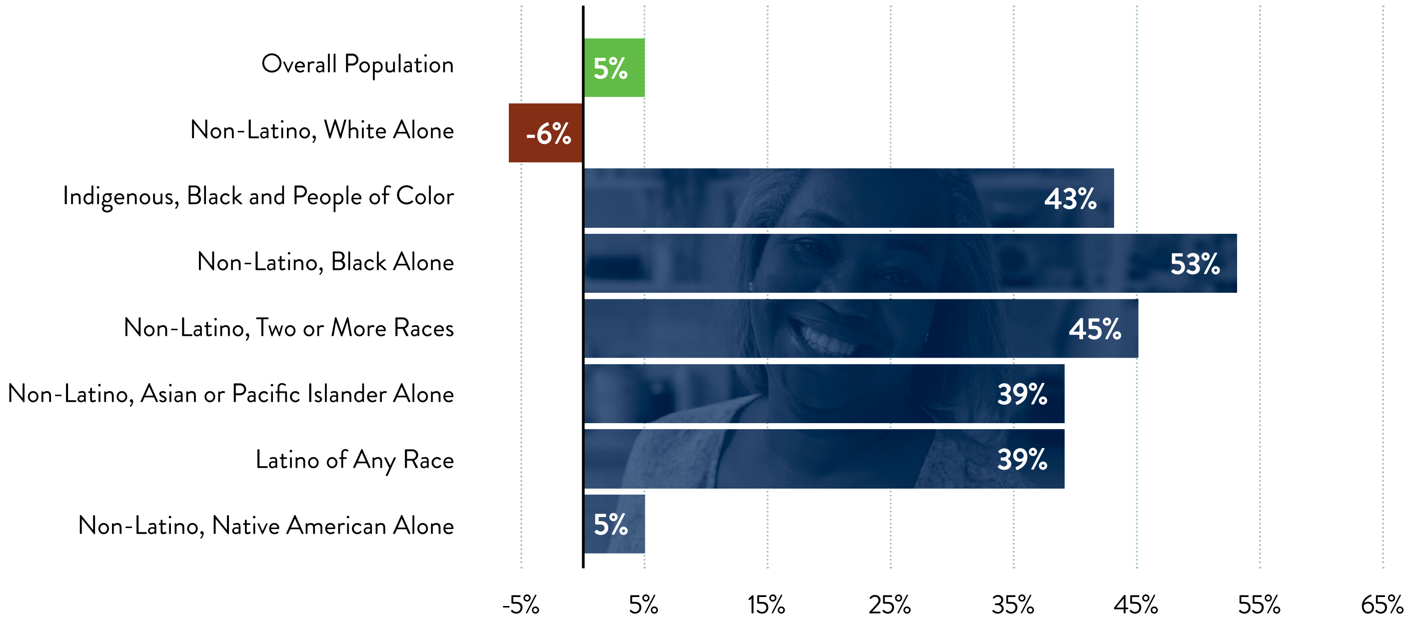
IMPLICATIONS

- Providing enough downpayment assistance to close the homeownership gap would be a major investment by the state.
- The exact amount is uncertain, but this analysis provides an estimate of the relative magnitude. In addition, this assistance would be available to all eligible homebuyers of all races and ethnicities, adding to the costs.

While communities of color in Minnesota will grow over the next 20 years, the white population is expected to shrink.

This chart shows the expected percentage increase in the population for various racial and ethnic groups in Minnesota between 2025 and 2045.

Projected Population Percentage Change 2025–2045



Source: Minnesota State Demographic Center, Long-Term Population Projections for Minnesota (May 2024).

KEY POINTS

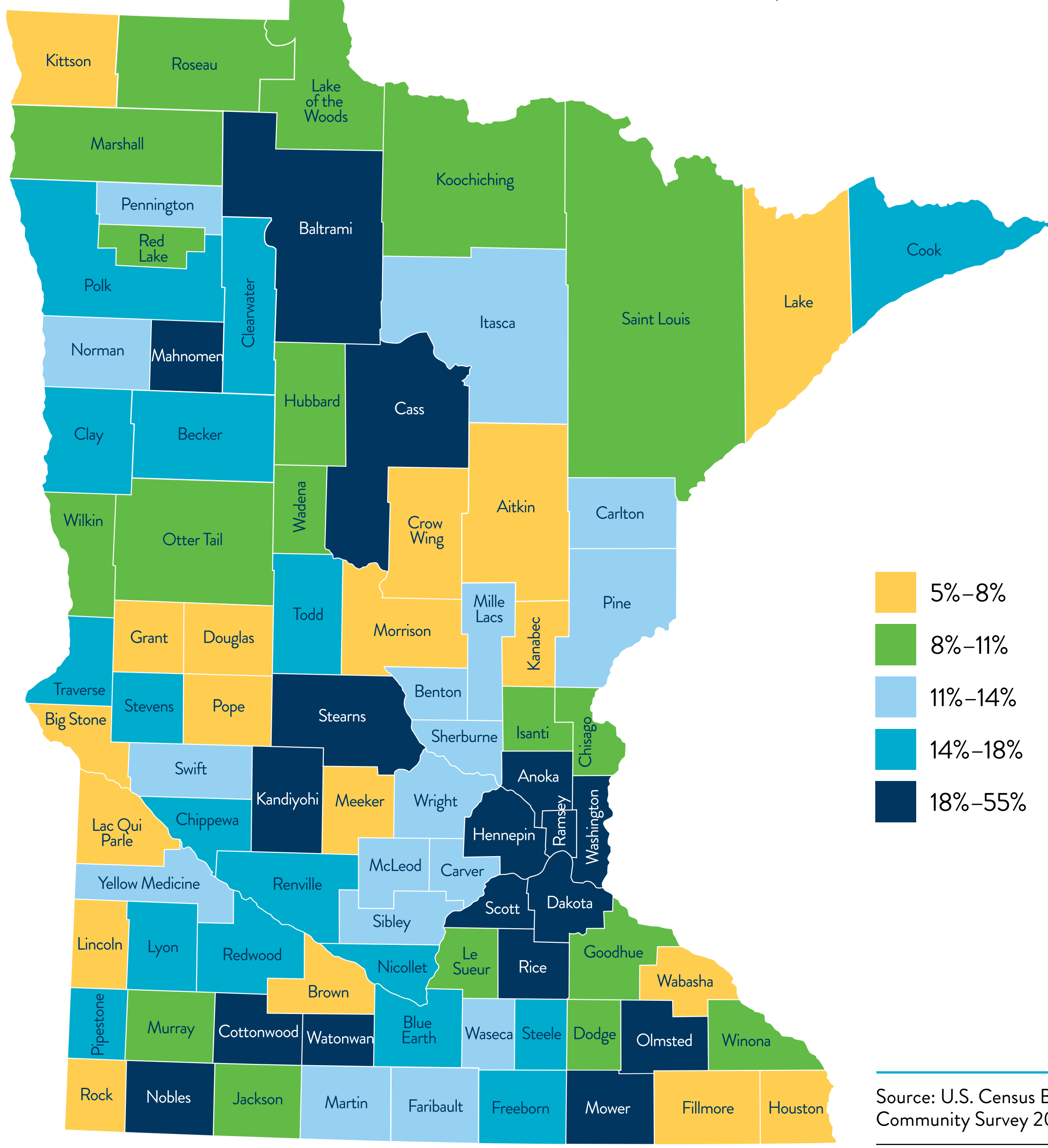
- In the 20 years between 2025 and 2045, Minnesota's overall population is expected to grow by just 5%.
- While Indigenous, Black and communities of color are expected to grow by 43%, the white population is expected to shrink by 6%.
- The Black population is expected to grow the fastest (53%).

IMPLICATIONS

- If the state is to serve Minnesota in a way that everyone thrives, it must address the large housing disparities.
- The importance of this goal will increase as the state becomes more diverse. This does not diminish the challenges that Indigenous, Black and people of color have faced in the past and are experiencing today, but a growing share of the population will experience them going forward if action is not taken.

The share of Minnesotans who are Indigenous, Black or people of color varies significantly around the state. Some of the state's rural counties are quite diverse.

PERCENTAGE OF POPULATION WHO ARE INDIGENOUS, BLACK OR PEOPLE OF COLOR, 2023



Source: U.S. Census Bureau, American Community Survey 2019–2023.

Most-Impacted Communities

KEY DRIVER

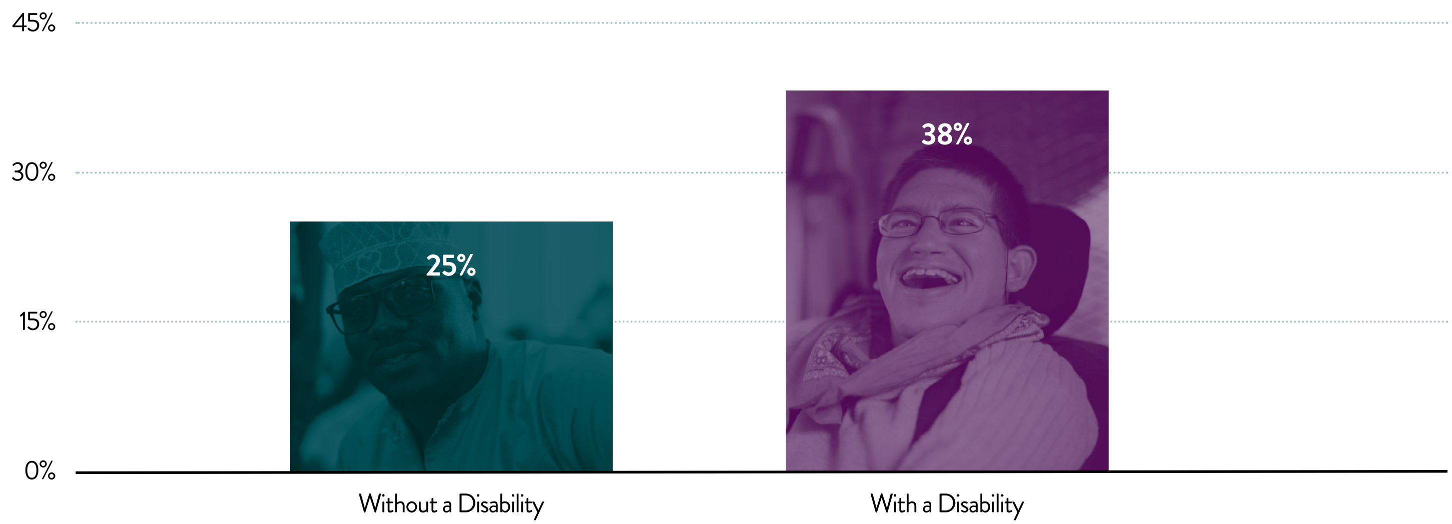
9

While lower-income households have few, if any, housing choices, lower-income people with disabilities have even fewer, which leads to isolation and segregation.

Households with a disability are more likely to be cost burdened by their housing than those without a disability.

This chart shows the percentage of households that are cost burdened, broken out by whether the head of household or their spouse/partner has or does not have a disability.

Share of Households that Are Cost Burdened



Source: Census Bureau, American Community Survey (2023, 1-yr sample)

KEY POINTS

- While 25% of households without a disability are cost burdened by their housing payments, 38% of households with a disability are cost burdened.

IMPLICATIONS

- Having a disability increases the likelihood of facing housing instability and being able to afford/ access housing choices.

Beyond affordability, people with disabilities face additional barriers in finding housing.

This information was gathered by Minnesota Housing when it developed its current Strategic Plan and by the Olmstead Implementation Office as it creates the state's next plan to better serve and integrate people with disabilities into the community.

HOUSING NEEDS FOR PEOPLE WITH DISABILITIES

Accessible Housing	Physical features, including elevators, ramps, counter/cabinet heights, roll-in showers, etc.
	Other accommodations, including door-bells that flash, soundproofing for people who are hard of hearing or autistic, etc.
Applications and Procedures that are Accessible	Rental, mortgage and other applications that have been remediated to be accessible
	Allowing renters with disabilities to visit and test out a specific unit before renting to make sure that it works for them.
Access to public transportation	
Larger housing to accommodate family and caregivers	

KEY POINTS

- People with disabilities need housing that is not only affordable but also meets their daily needs.
- The majority of the state's affordable housing stock is older with limited amenities, including accessibility.

IMPLICATIONS

- Having a disability can be isolating because of ableism, discrimination and the way society treats people with disabilities.
- An inadequate supply of truly accessible and affordable housing, which limits choices and options, further isolates and segregates people with disabilities.
- In a "tight" rental market where competition for housing is high, property owners/managers can be highly selective regarding with whom they rent and can rent units very quickly, leaving people with disabilities behind.

Most-Impacted Communities

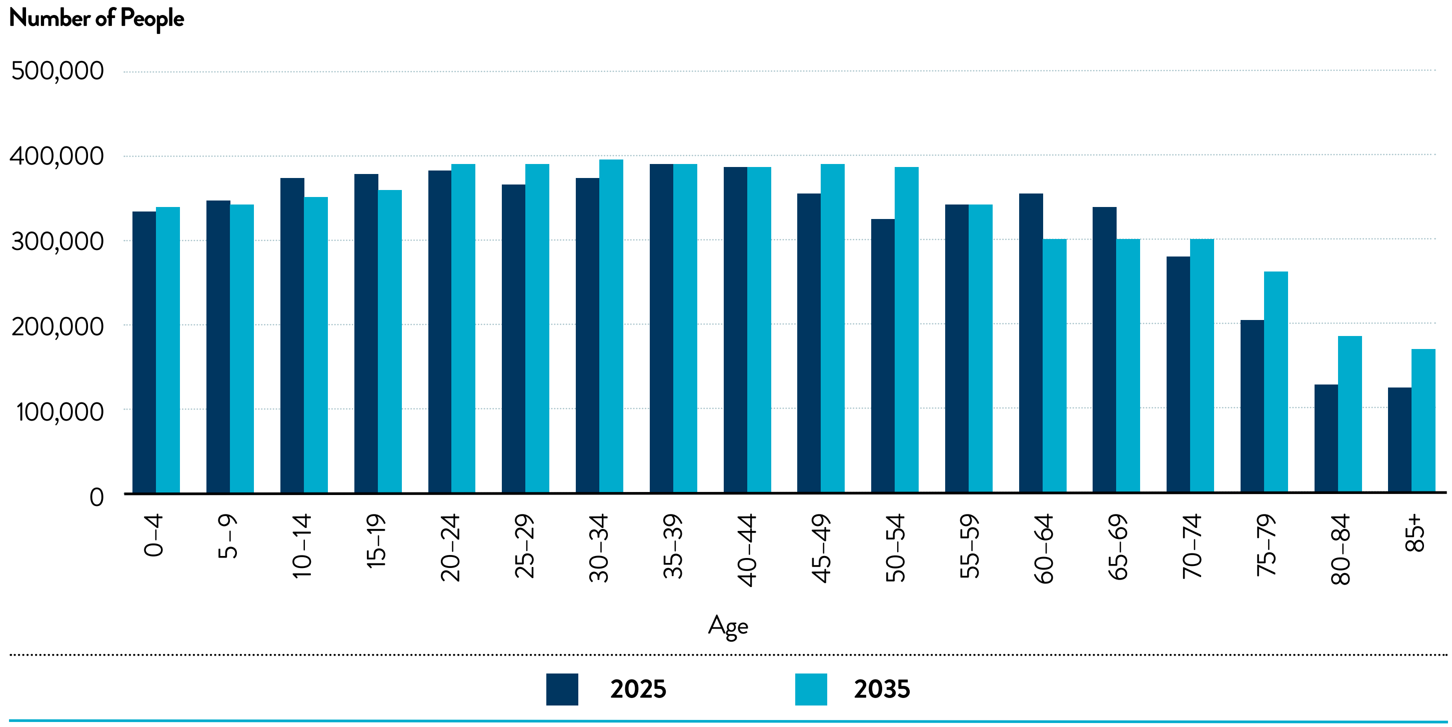
KEY DRIVER

10

The growing number of people who are age 75 and older is creating housing needs and challenges.

Over the next 10 years, the number of Minnesotans ages 75 and older will increase by 164,000 (35%).

This chart shows the number of Minnesotans by age in 2025 (blue bars) and 2035 (teal bars).



Source: Minnesota Housing analysis of data from Minnesota Demographer's Office (May 2024 release).

KEY POINTS

- The overall age distribution in 2025 and 2035 are quite similar, but with a big difference in the number of people ages 75 and older.
- In 10 years, Minnesota will have 164,000 more people ages 75 and older, which is a 35% increase.

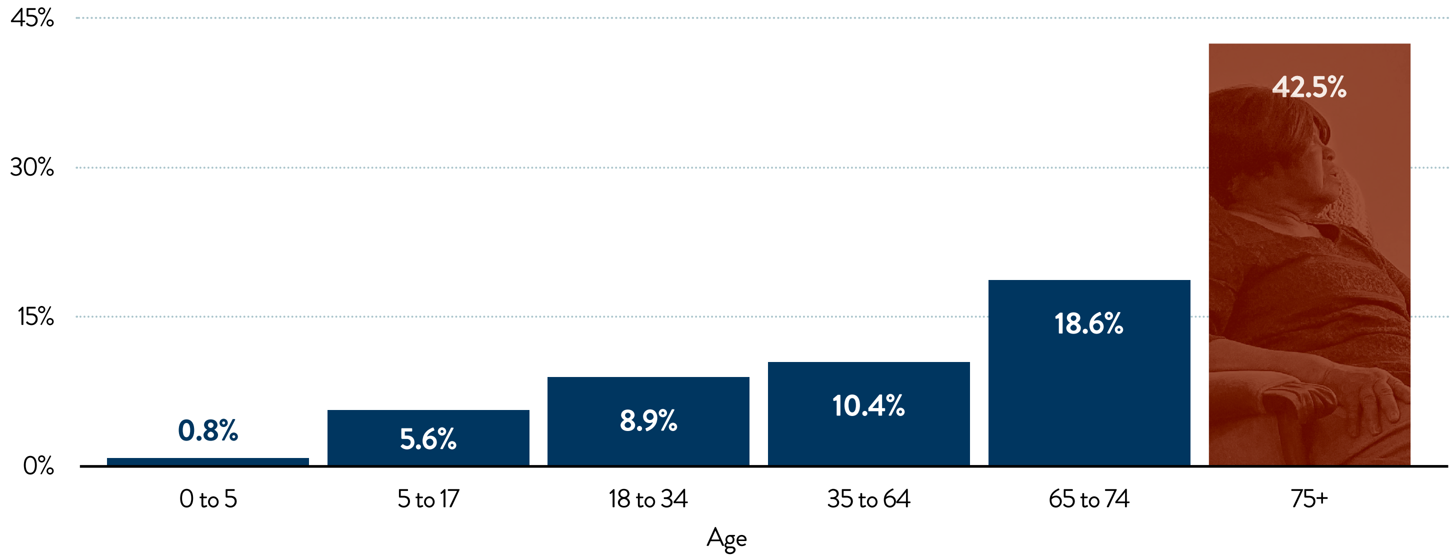
IMPLICATIONS

- As the following charts will show, age plays a role in how people want to and are able to live.

The share of Minnesotans with a disability substantially increases after age 74.

This chart shows the share of Minnesotans who have a disability, broken out by age.

Share of People with a Disability



Source: Census Bureau, American Community Survey (2023, 1-yr sample)

KEY POINTS

- The share of people with a disability increases as people age, making modest increases through age 64.
- There is a substantial increase after age 64, jumping from 10.4% to 18.6%, and an even larger increase after age 74, jumping to 42.2%.

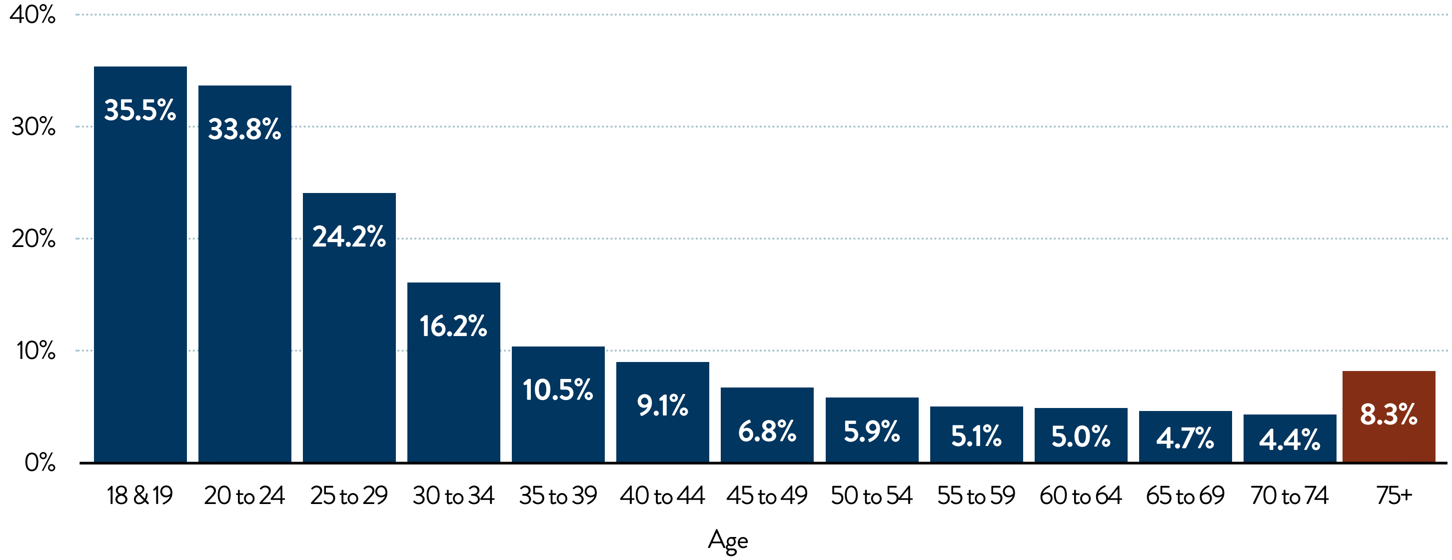
IMPLICATIONS

- As the disability rate increases, home modifications (grab bars, zero-step showers, etc.) and in-home services become more important.

People between the ages of 65 and 74 are the least likely to move, with a substantial increase in moving after age 74.

This chart shows the share of Minnesotans who moved in the last year, broken out by age.

Share of People who Moved in the Last Year



Source: Census Bureau, American Community Survey (2023, 1-yr sample)

KEY POINTS

- As adults age and become more established, they become less and less likely to move.
- In the 10 years after reaching the traditional retirement age of 65, people are the least likely to move.
- The rate of moving nearly doubles from 4.4% to 8.3% after age 74.

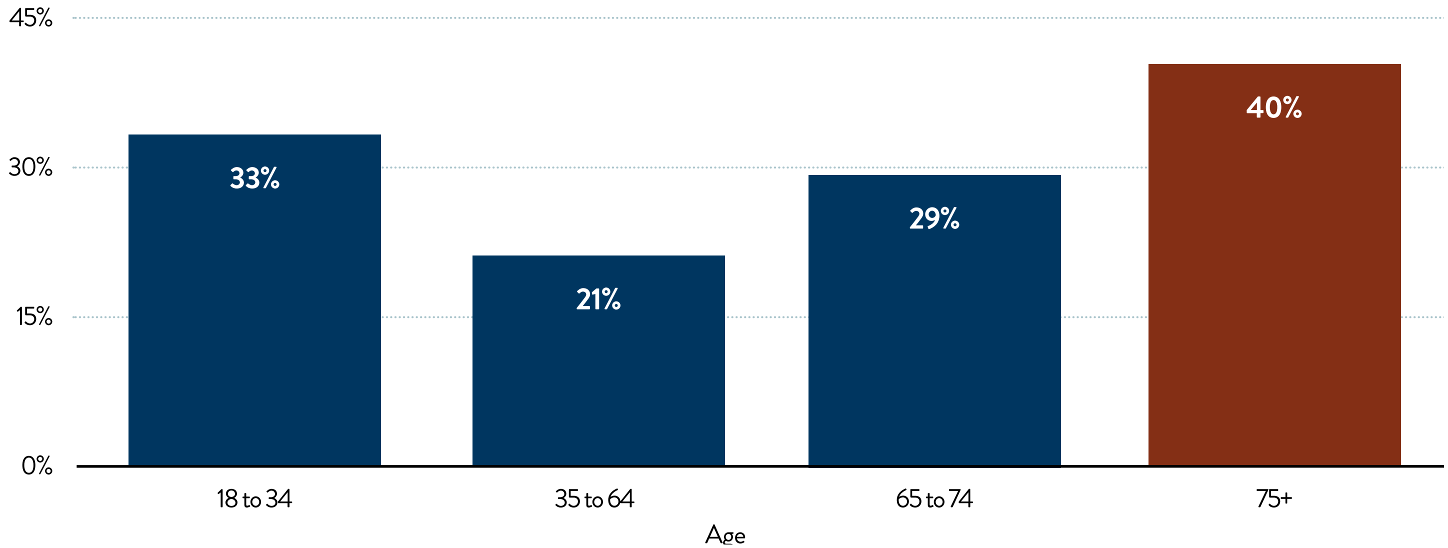
IMPLICATIONS

- During the initial retirement years, the vast majority of people age in place, with very few moving.
- As the rate of disability substantially increases after age 74 and some people do not have the support they need to age in place, the rate of moving increases.
- Given that 42% of the people ages 75 and over have a disability and only 8.3% of them move each year, many older adults with a disability age in place, making home modifications and in-home services critical. Housing and service coordination become more and more important.

Older adults are more likely to be cost burdened by their housing.

This chart shows the percentage of households in Minnesota who are cost burdened, broken out by age.

Share of Households who are Cost Burdened



Source: Census Bureau, American Community Survey (2023, 1-yr sample)

KEY POINTS

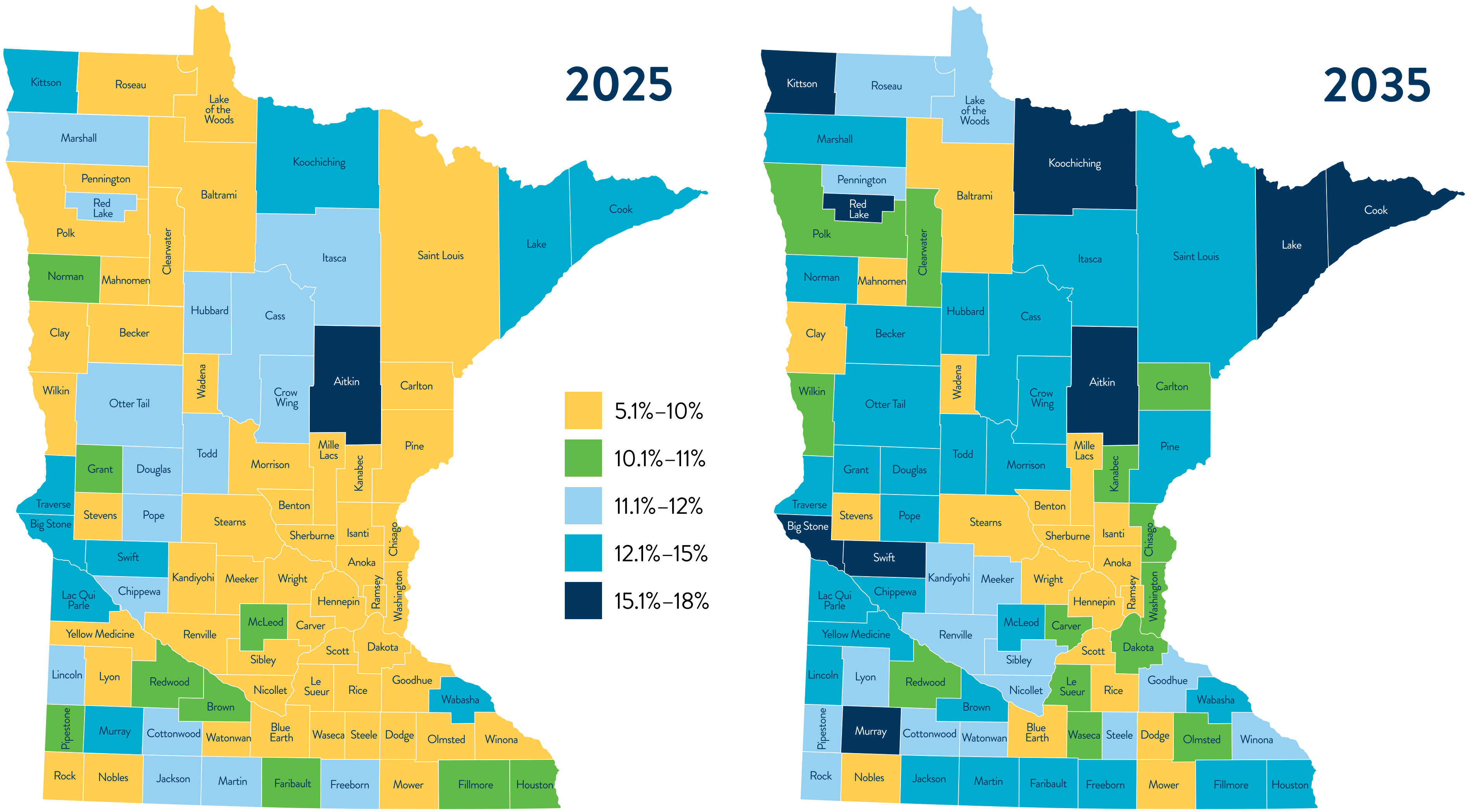
- After the age of 64, the share of households who are cost burdened goes up.
- Statewide, 40% of households age 75 and older are cost burdened by their housing. For comparison, the cost-burdened share is 21% for households ages 35 to 64.

IMPLICATIONS

- At the same time the housing needs of older adults become more complex, their ability to pay for their housing declines.

The growth of the population age 75+ will occur across the state.

SHARE OF THE POPULATION AGE 75 AND OLDER



CHAPTER 3

Minnesota is at Risk of Losing its Existing Stock of Affordable Housing

Minnesota has an aging housing stock that has substantial rehabilitation needs.

Of Minnesota's 2.3 million housing units, roughly 380,000 are rental units affordable to households with incomes less than 60% of the area median income and 620,000 are owner-occupied homes with a value of $250,000 or less. Much of this housing stock is older and likely in the need of repair and rehabilitation.

Minnesota is at risk of losing many affordable rental units, which are older and need rehabilitation.

The information provided here is derived from multiple sources, including the U.S. Census Bureau's American Community Survey, HousingLink's STREAMS database, HUD's Picture of Affordable Housing and others.

KEY POINTS

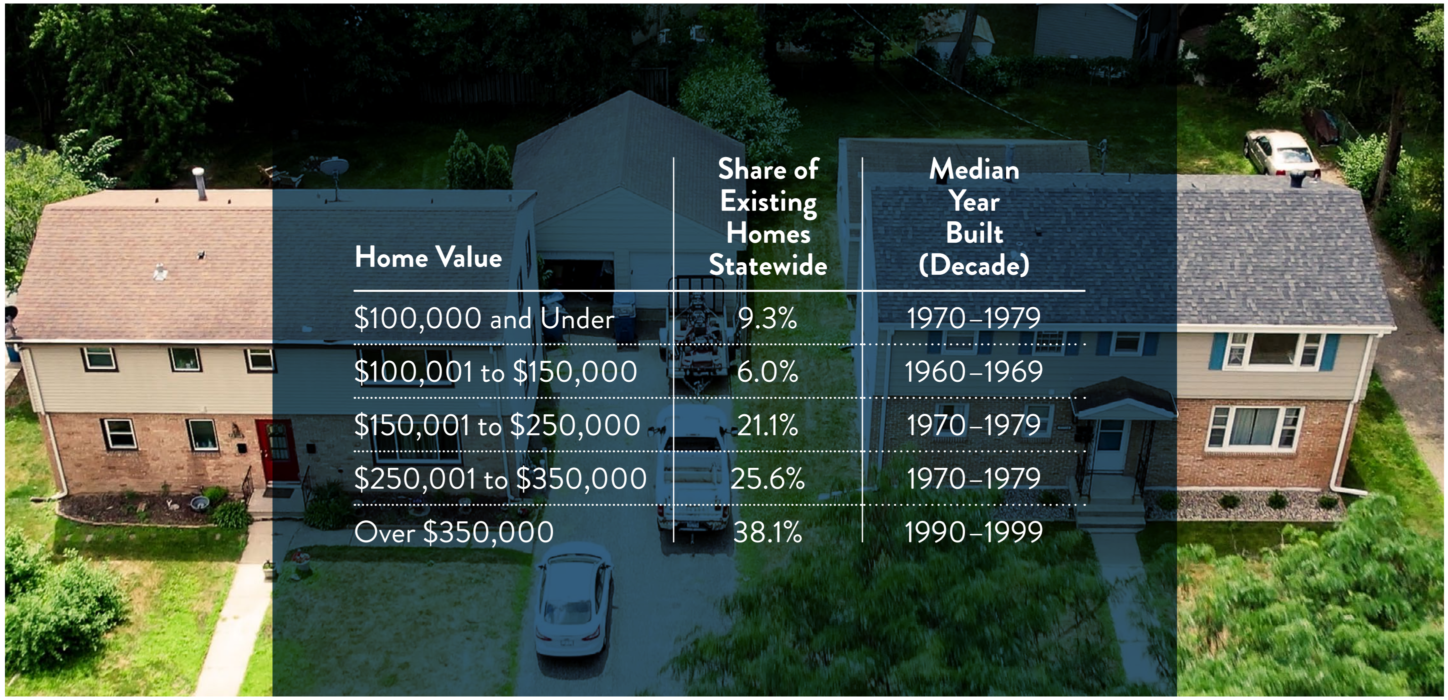
- Minnesota has roughly 380,000 rental units affordable to households with incomes at or below 60% of the area median income. These units fall into three categories:
  - Those with rental assistance tied to the unit (e.g., Project-based Section 8, Public Housing, and USDA-Rural Development).
  - Units built or rehabilitated with government funding that comes with income and rent restriction requirements but no rental assistance (e.g., Low-Income Housing Tax Credits).
  - Naturally Occurring Affordable Housing (NOAH), which is affordable without subsidies because it is typically dated, lacks amenities, and/or needs repairs or rehabilitation.
- A large share of the state's affordable rental stock likely needs repairs or rehabilitation with much of it falling in the NOAH category.

IMPLICATIONS

- The state is at risk of losing many of these units to deterioration or property owners rehabilitating them and then increasing the rents such that they are no longer affordable.

36% of Minnesota's owner-occupied housing stock has a value of $250,000 or less and is often over 50 years old.

This table shows the share of owner-occupied homes broken out by home values, along with the median year that the homes were built.



Home Value	Share of Existing Homes Statewide	Median Year Built (Decade)
$100,000 and Under	9.3%	1970–1979
$100,001 to $150,000	6.0%	1960–1969
$150,001 to $250,000	21.1%	1970–1979
$250,001 to $350,000	25.6%	1970–1979
Over $350,000	38.1%	1990–1999

Source: Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2023, 1-Yr Sample)

KEY POINTS

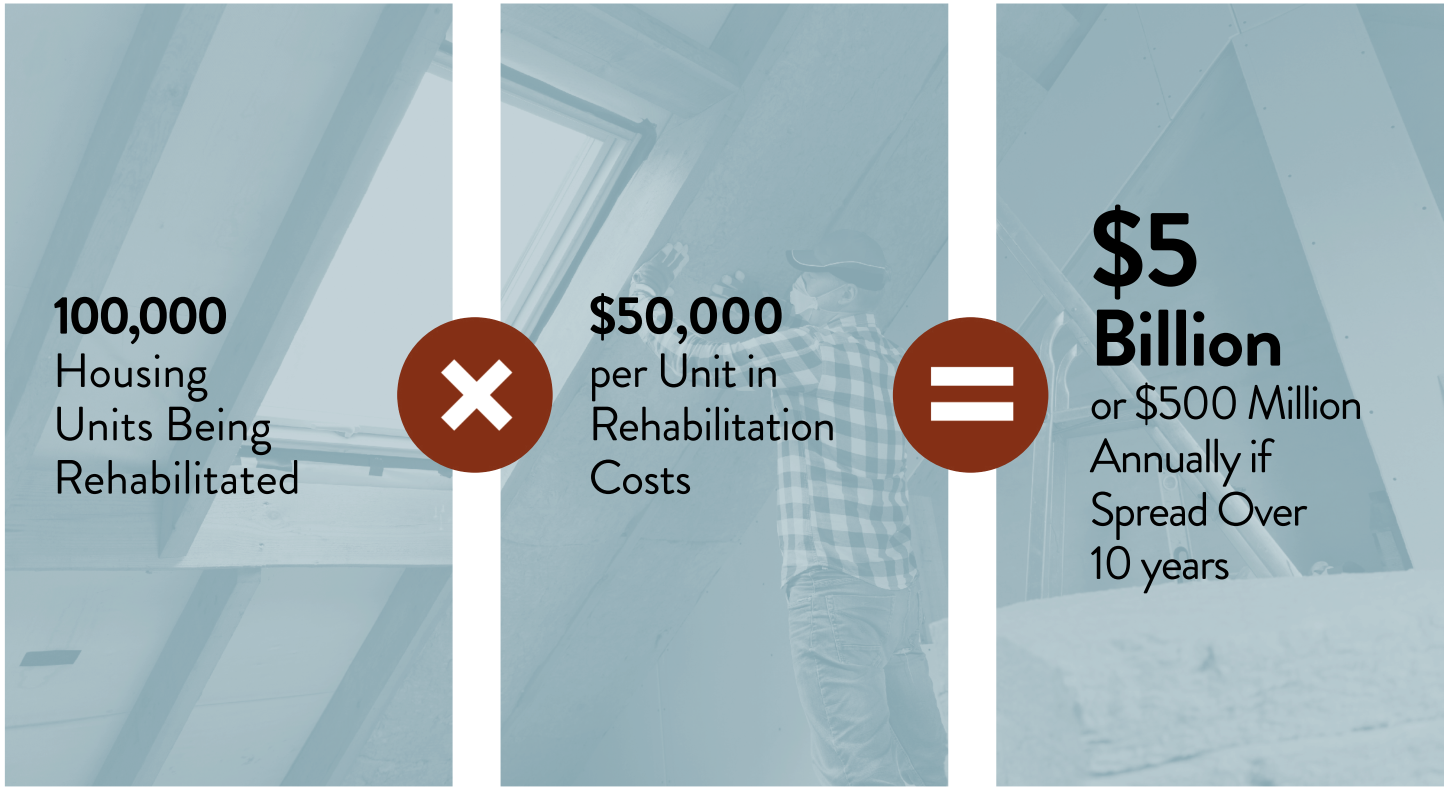
- Of Minnesota's 1.7 million owner-occupied homes, 36% are affordable with a value of $250,000 or less:
  - 15% with a value of $150,000 and under, and
  - 21% with a value from $150,001 to $250,000.
- Only 5% of the homes currently on the market for sale have an asking price of $150,000 or less when they account for 15% of the housing stock.
- 24% of the homes with a value of $100,000 or less are manufactured homes.

IMPLICATIONS

- Older homes with lower values are likely in need of repair and rehabilitation.
- A home may not support a mortgage if it has major structural, safety or health issues, which could include outdated electrical systems, plumbing problems or a roof that needs to be replaced. This may help explain why so few homes with a value of $150,000 or less are for sale.

Minnesota has large housing rehabilitation needs.

This information is not based on a precise estimate of specific rehabilitation needs but is rather a ballpark estimate based on the nature and general characteristics of the housing to show the relative magnitude of the need.



KEY POINTS

- Given the data in the previous two charts, at least 100,000 affordable housing units in Minnesota likely have rehabilitation needs, which is about 4% of the state's 2.3 million housing units. Specifically, Minnesota has about:
  - 245,000 NOAH rental units, a sizable share of which likely needs rehabilitation, and
  - 260,000 owner-occupied units with a value of $150,000 or less, a sizable share of which also likely needs rehabilitation.
- A rehabilitation cost of $50,000 per unit would be a conservative estimate for a mix of owner-occupied and rental housing.
- The total cost would be around $5 billion.

IMPLICATIONS

- To keep this housing affordable, these costs need to be subsidized. If not, property owners would try to increase the rent or price of the home to get a return on their investment.

CHAPTER

4

With climate change, the housing stock needs to become far more sustainable and resilient

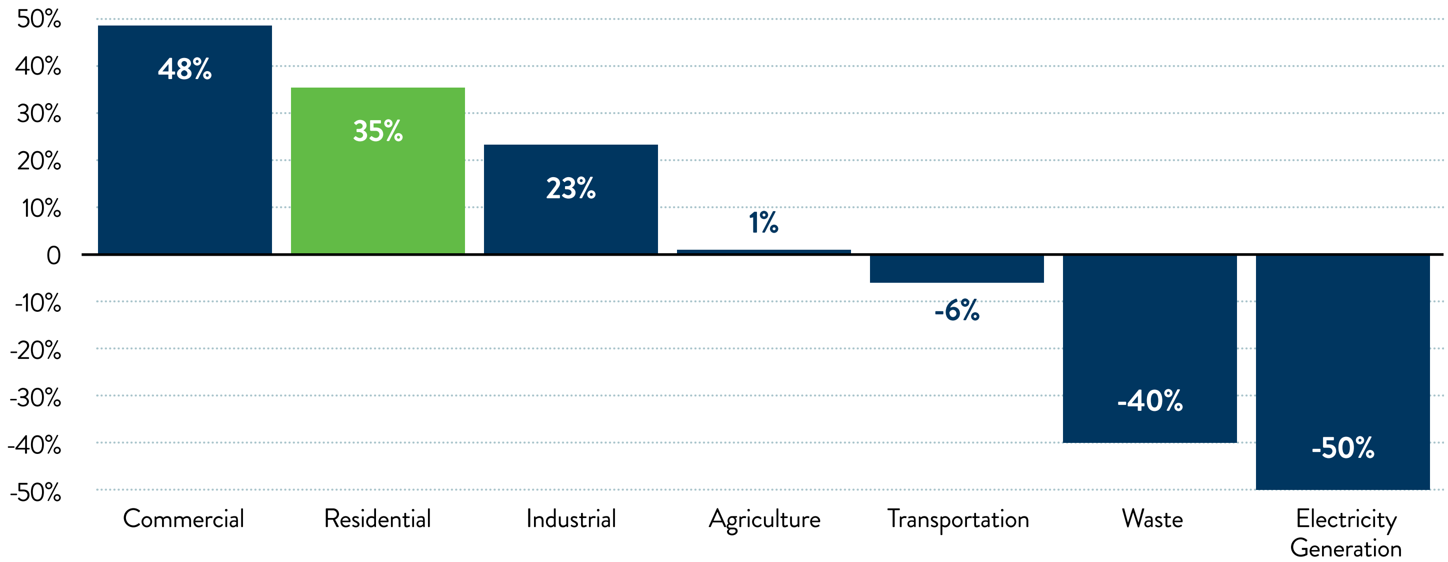
Climate change needs to be addressed when making housing investments.

Climate change will pose an existential threat in the coming years as average temperatures continue to rise and extreme climate and weather events became more common and larger. While concerted and widespread efforts are needed to slow climate change through greater sustainability, society also needs to adapt by becoming more resilient to the extreme climate and weather events. Housing needs to play a key role in this conversion.

Since 2005, the residential sector has experienced some of the largest increases in greenhouse gas emissions.

This chart shows the percentage change in greenhouse gas emissions in Minnesota between 2005 and 2022, by economic sector.

Percentage Change in Greenhouse Gas Emissions (2005 to 2022)



Source: Minnesota Pollution Control Agency and Department of Commerce, *Greenhouse Gas Emissions in Minnesota 2005-2022* (January 2025).

KEY POINTS

- The residential sector in Minnesota had the second-largest increase (35%) in greenhouse gas emissions between 2005 and 2022.
- Of the economic sectors, the residential sector had the fifth-highest level of annual emissions (about 10 million metric tons) in 2022. For comparison, the transportation sector had just under 40 million, and the waste sector had around 3 million.
- The primary residential contributor to the greenhouse gas emissions is the burning of natural gas by furnaces/boilers, hot water heaters and clothes driers.
- Electricity use in housing is captured in the electricity generation sector.

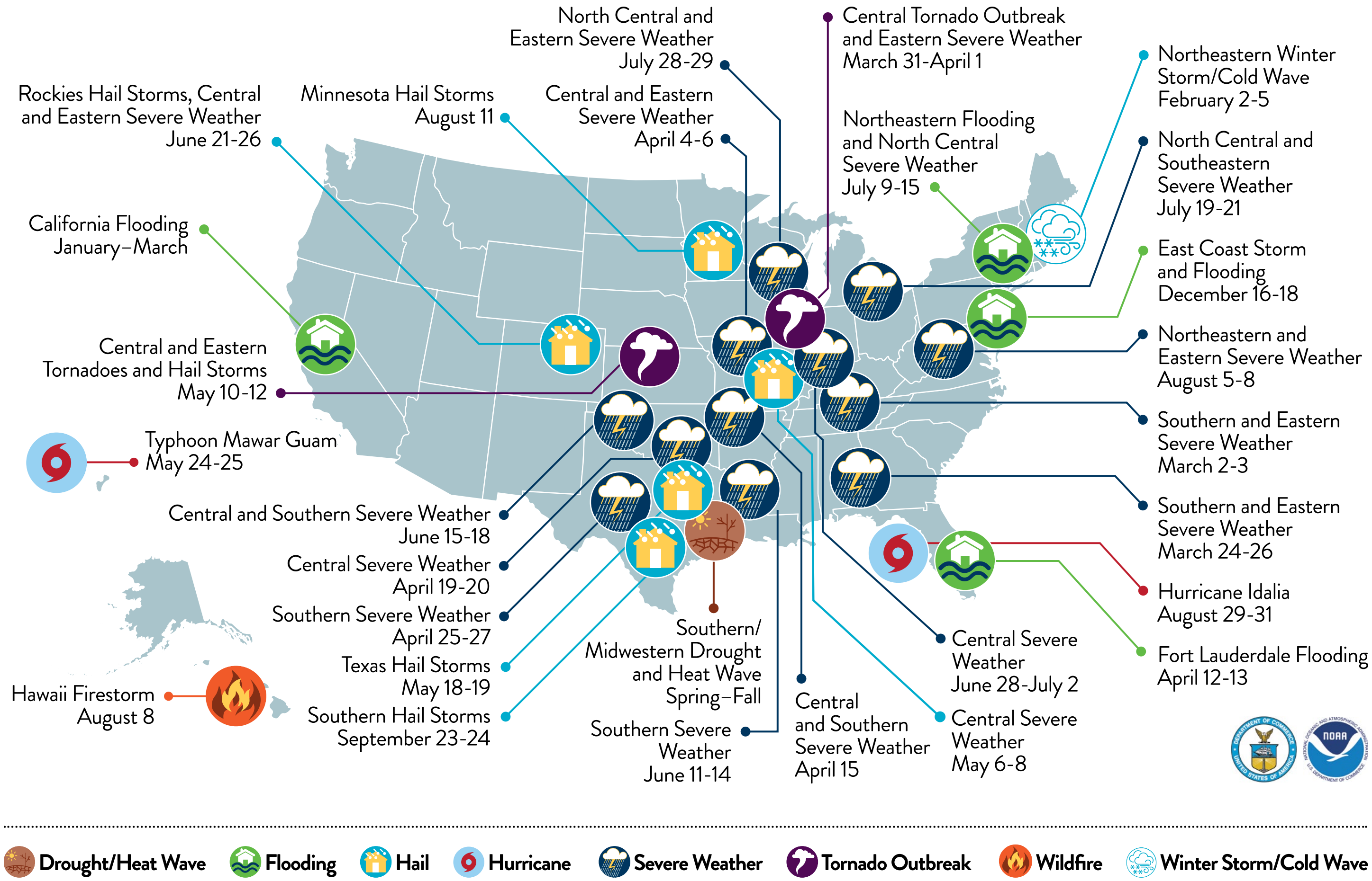
IMPLICATIONS

- If Minnesota is to address climate change, we will need to substantially reduce residential greenhouse gas emissions.
- This will require more efficient and sustainable homes and a conversion to renewable energy.

The number of large climate and weather disasters associated with climate change is increasing.

This graphic shows the billion-dollar weather and climate disasters in the United States during 2023.

[*Source: Novogradac paper on insurance costs.*]()



Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-dollar Weather and Climate Disasters (2024).
This map denotes the approximate location for each of the 28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.

KEY POINTS

- In the 2010s, the annual number of climate and weather disasters costing one billion or more dollars averaged 13 events. Since 2019, it has averaged 20 annually, with 28 in 2023.

IMPLICATIONS

- It is these types of events that are driving up insurance costs, as shown on pages 29 and 30.
- As climate change progresses, the number and magnitude of these events will increase.
- Housing needs to be made more resilient to extreme climate and weather events by adopting measures like hail-resistant shingles, fire-resistant building materials and others.

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