

HOUSING AFFORDABILITY: DATA, PRINCIPLES, AND RESEARCH

June 5, 2024

Ben Horowitz and Libby Starling

Senior Policy Analyst and Senior Community Development Advisor



FEDERAL RESERVE BANK
OF MINNEAPOLIS



DISCLAIMER

The views expressed here are the presenters' and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.





OVERVIEW

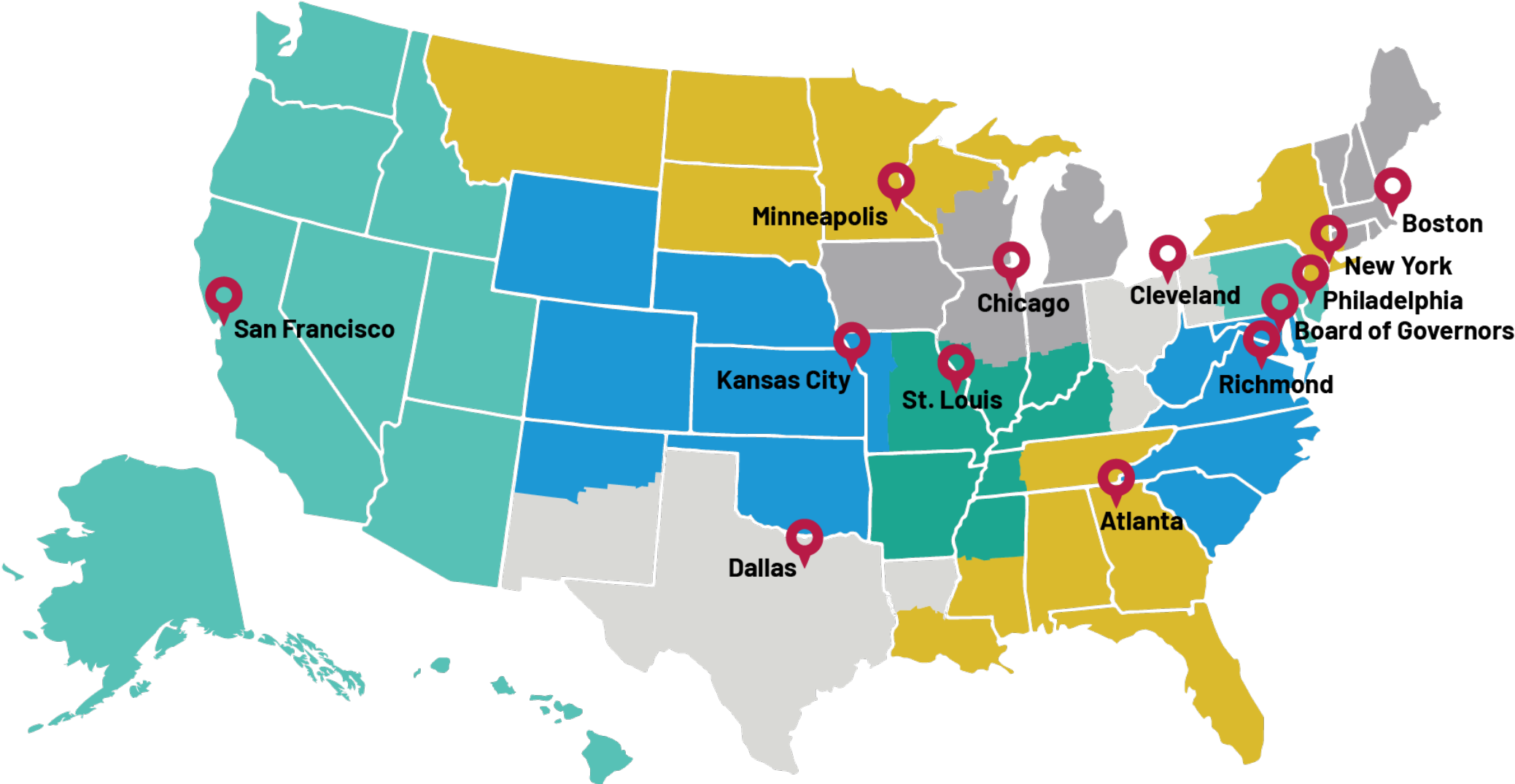
- About the Federal Reserve Bank of Minneapolis
- What's going on in the North Dakota housing market?
- Why addressing housing challenges matters
- Approaches to maintaining a healthy housing sector
- Overview of the rest of the Minneapolis Fed housing portfolio
- Questions & Answers





**ABOUT THE FEDERAL
RESERVE BANK OF
MINNEAPOLIS (AND WHY
WE'RE HERE TODAY)**

ORGANIZATION OF THE FED



COMMUNITY DEVELOPMENT AT THE MINNEAPOLIS FED

Our mission: The Community Development and Engagement Division advances **the economic well-being and prosperity of low- to moderate-income individuals, households, and communities and Indian Country.**

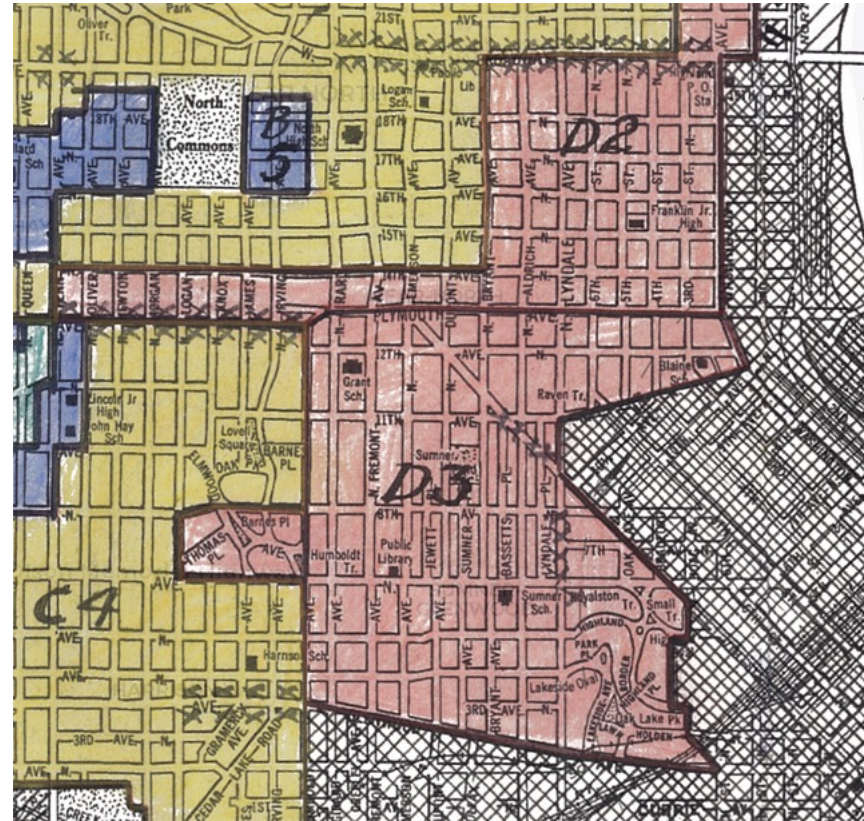
Through applied research, data analysis, and policy development, the Division intends to make a substantial contribution to public policy.



COMMUNITY DEVELOPMENT AT THE MINNEAPOLIS FED

In 1977, Congress passed the Community Reinvestment Act, intended to:

- Address the practice of redlining.
- Help ensure equitable access to credit for all individuals and neighborhoods by reaffirming that banks must serve the communities where they do business.



HOUSING AFFORDABILITY: A CONCERN EVERYWHERE



OUR ROLE IN HOUSING CONVERSATIONS

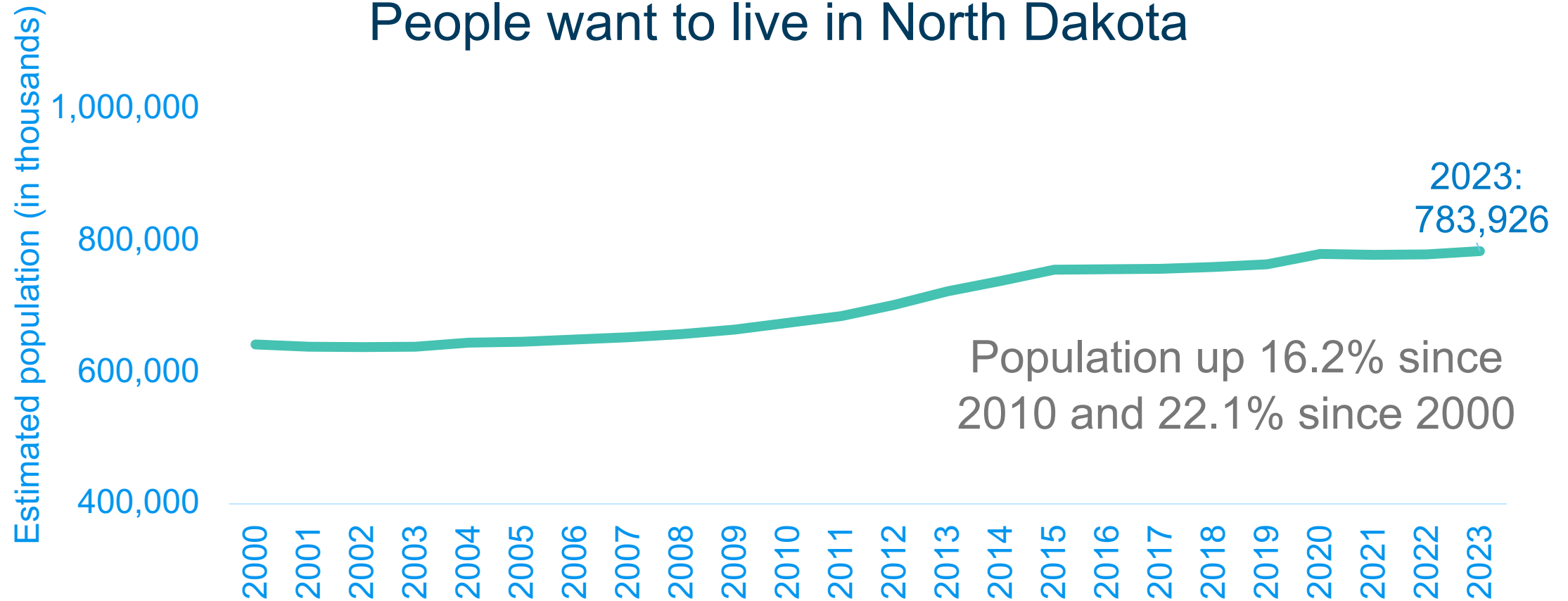




**WHAT'S GOING ON IN THE
NORTH DAKOTA HOUSING
MARKET?**

NORTH DAKOTA'S POPULATION CONTINUES TO GROW

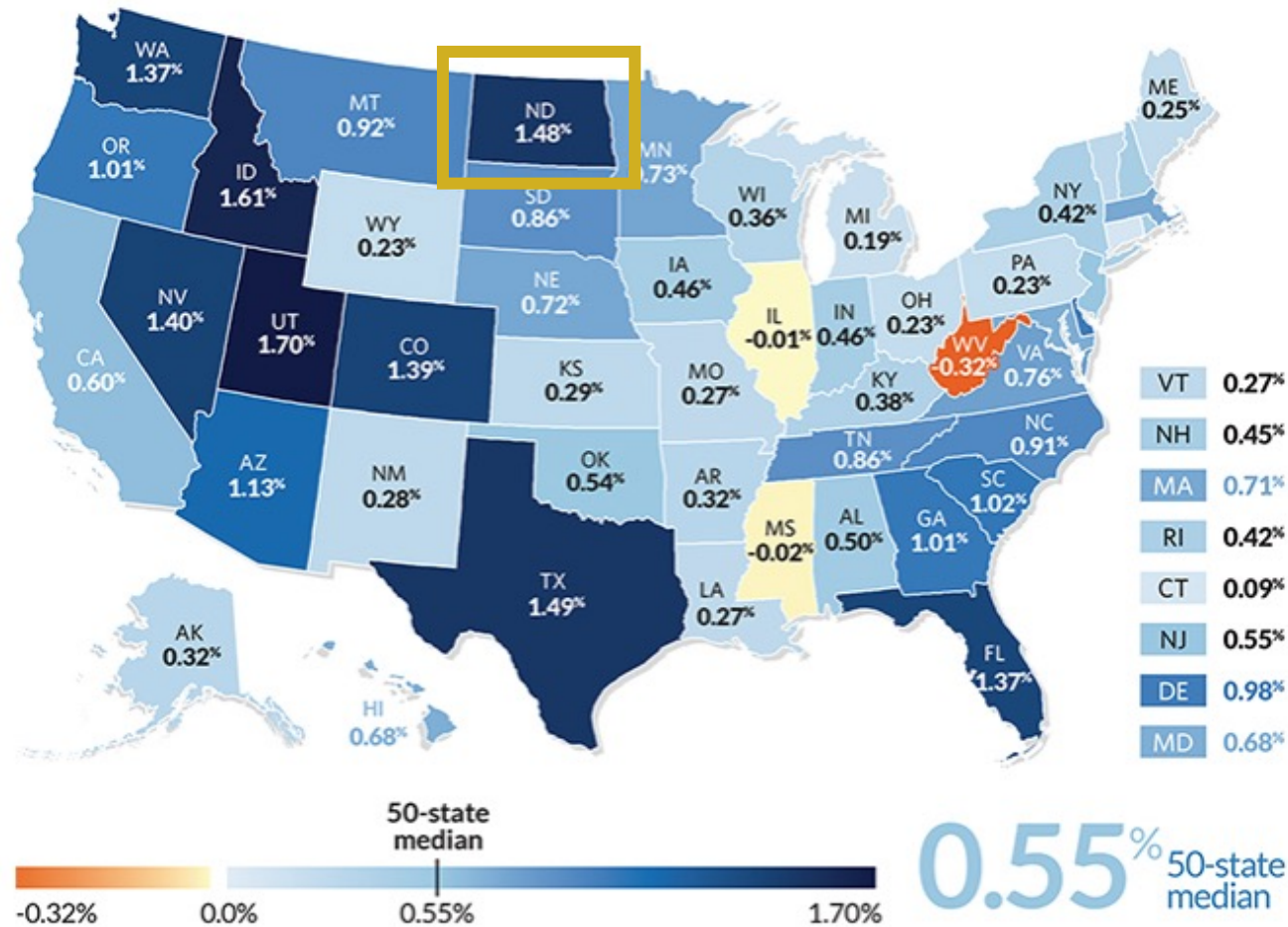
The good news:
People want to live in North Dakota



FOURTH FASTEST POPULATION GROWTH, 2010-2020

Long-Term Population Growth Slowest in Midwest and Northeast

Population growth rate, 2010-20



Over the 2010-2020 decade, housing growth surpassed population growth



Source: Pew analysis of U.S. Census Bureau decennial data

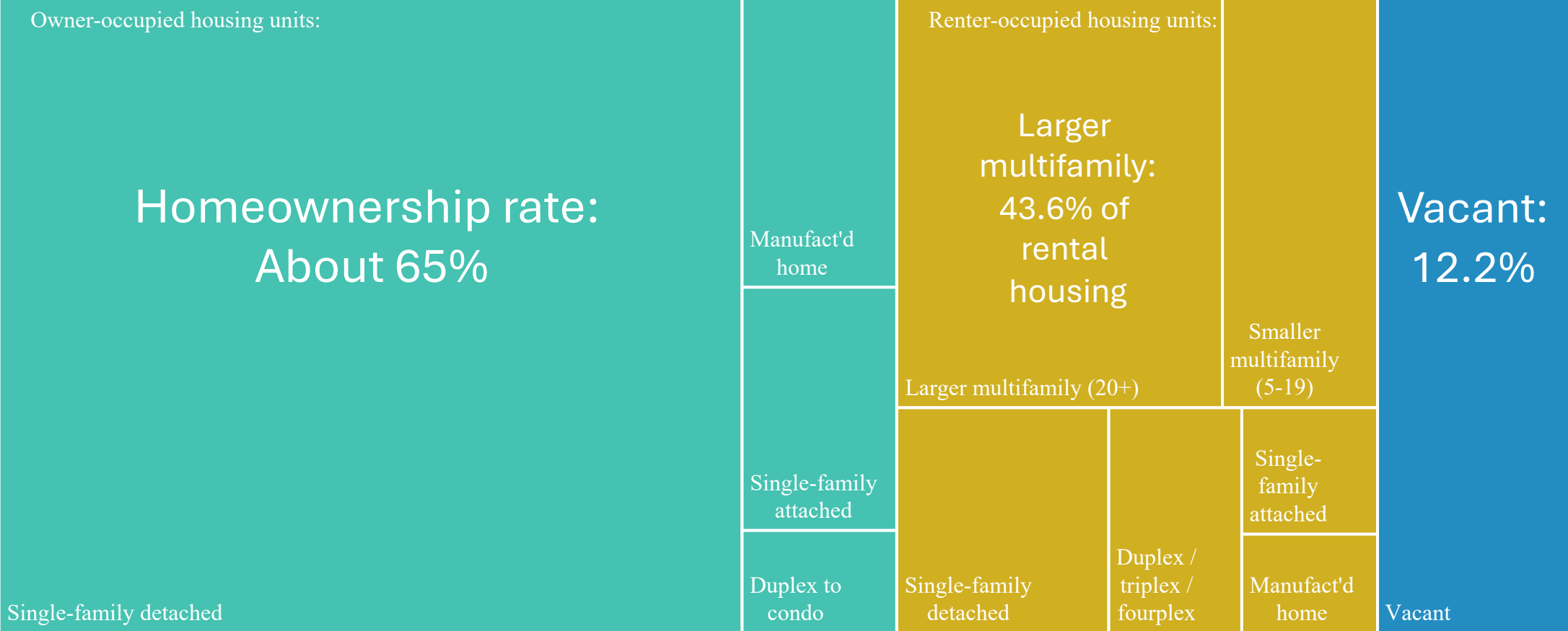
© 2023 The Pew Charitable Trusts



FEDERAL RESERVE BANK OF MINNEAPOLIS

WHAT'S THE MIX OF HOUSING IN NORTH DAKOTA?

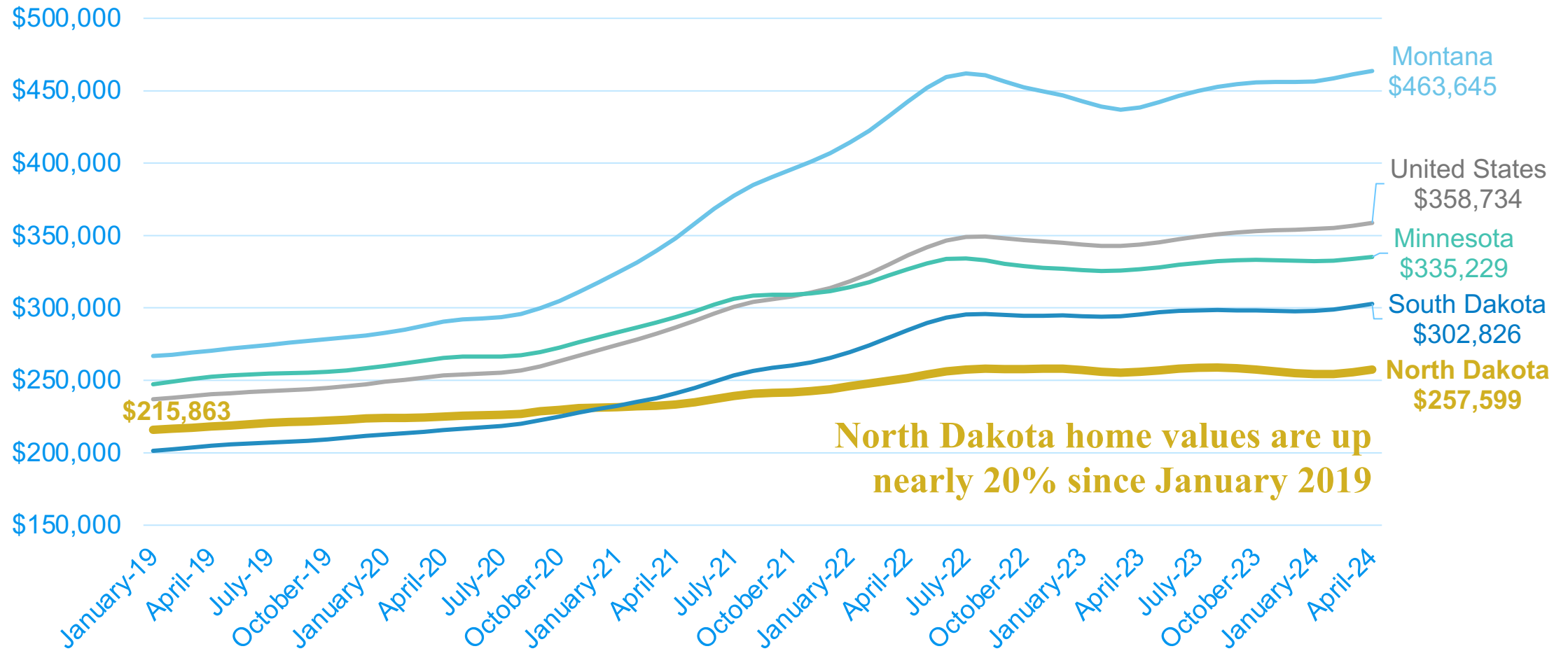
■ Owner-occupied housing units: ■ Renter-occupied housing units: ■ Vacant



← 59% single-family detached →

Source: U.S. Census Bureau, American Community Survey, 2022.

HOME PRICES ARE RISING ...BUT SLOWER THAN ELSEWHERE

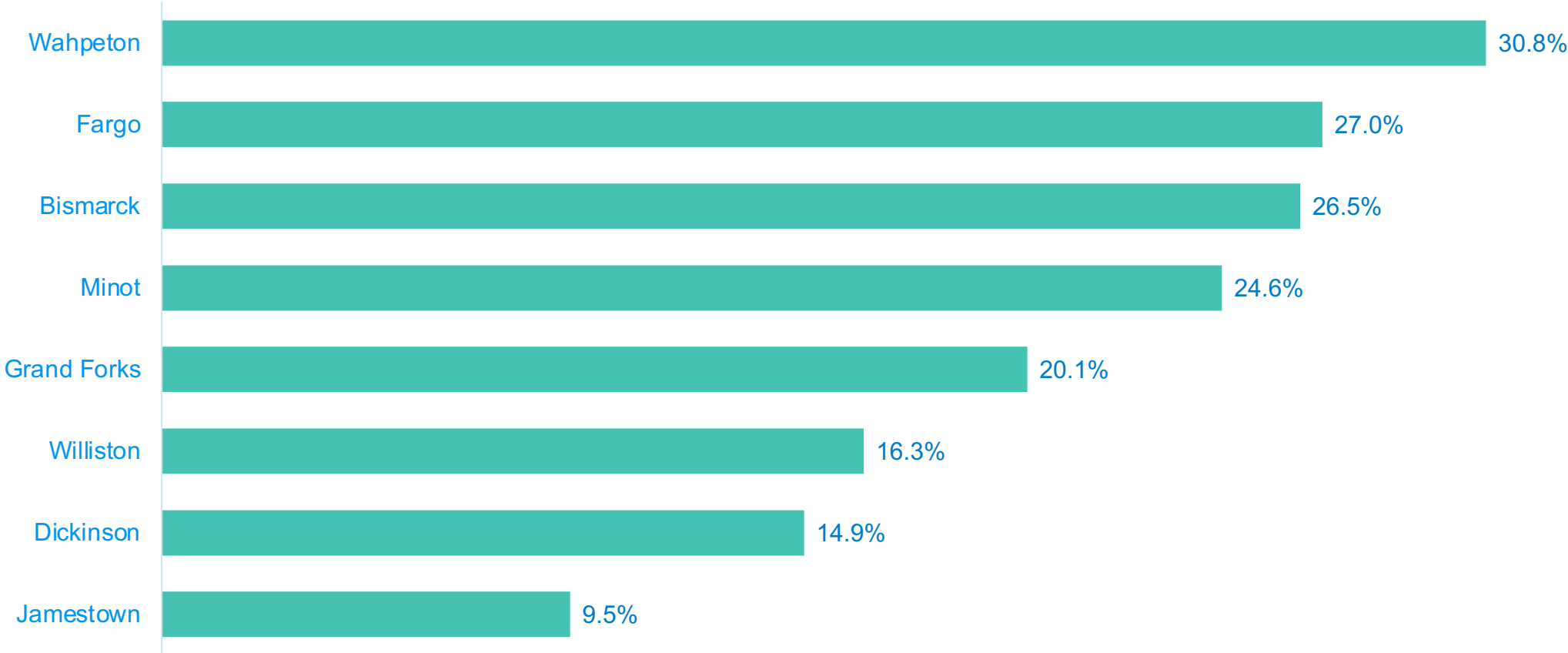


Source: Zillow Home Value Index



RISING HOUSING COSTS ACROSS NORTH DAKOTA

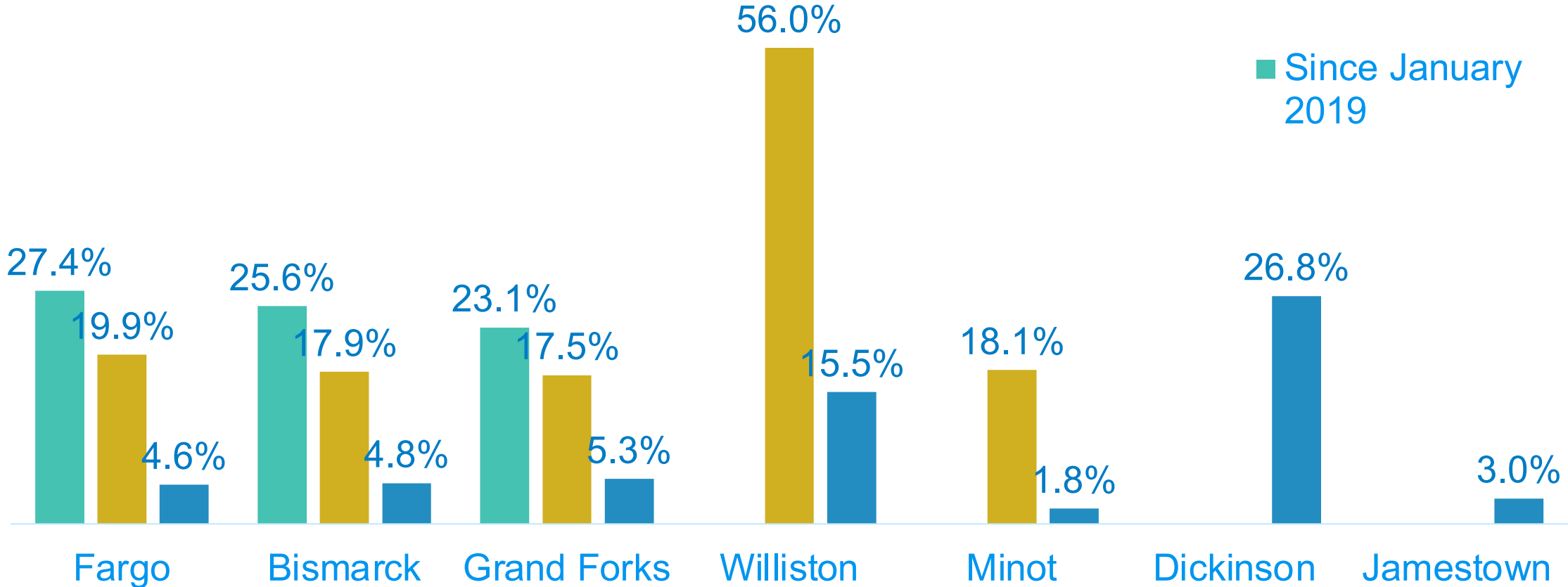
Increase in Home Values from January 2019 to April 2024



Source: Zillow Home Value Index

RISING HOUSING COSTS ACROSS NORTH DAKOTA: RENTS

Increase in Market Rents



Source: Zillow Observed Rent Index (ZORI)

FALLING AFFORDABILITY FOR HOMEOWNERSHIP

All North Dakota markets had affordable homeownership in 2019

All North Dakota markets saw falling affordability from 2019 to 2024



Source: Federal Reserve Bank of Atlanta's Housing Affordability Monitor (HOAM)



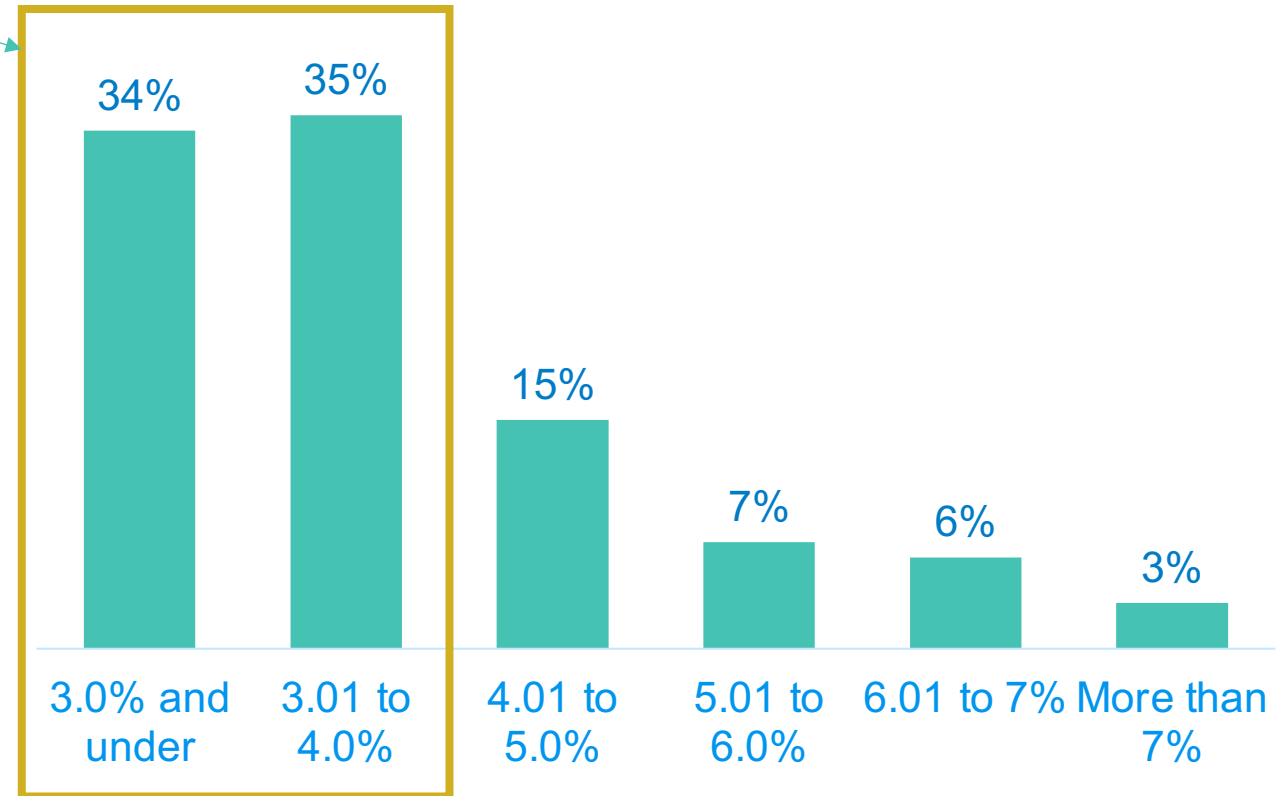
FEDERAL RESERVE BANK OF MINNEAPOLIS

HIGH MORTGAGE RATES ARE CONSTRAINING INVENTORY

Nearly seven out of ten mortgages in North Dakota have rates of 4% and below (the comparable national number is six in ten)

Homeowners are reluctant to put their homes on the market because moving would require a new mortgage at a higher interest rate

Current interest rate of active mortgages in North Dakota



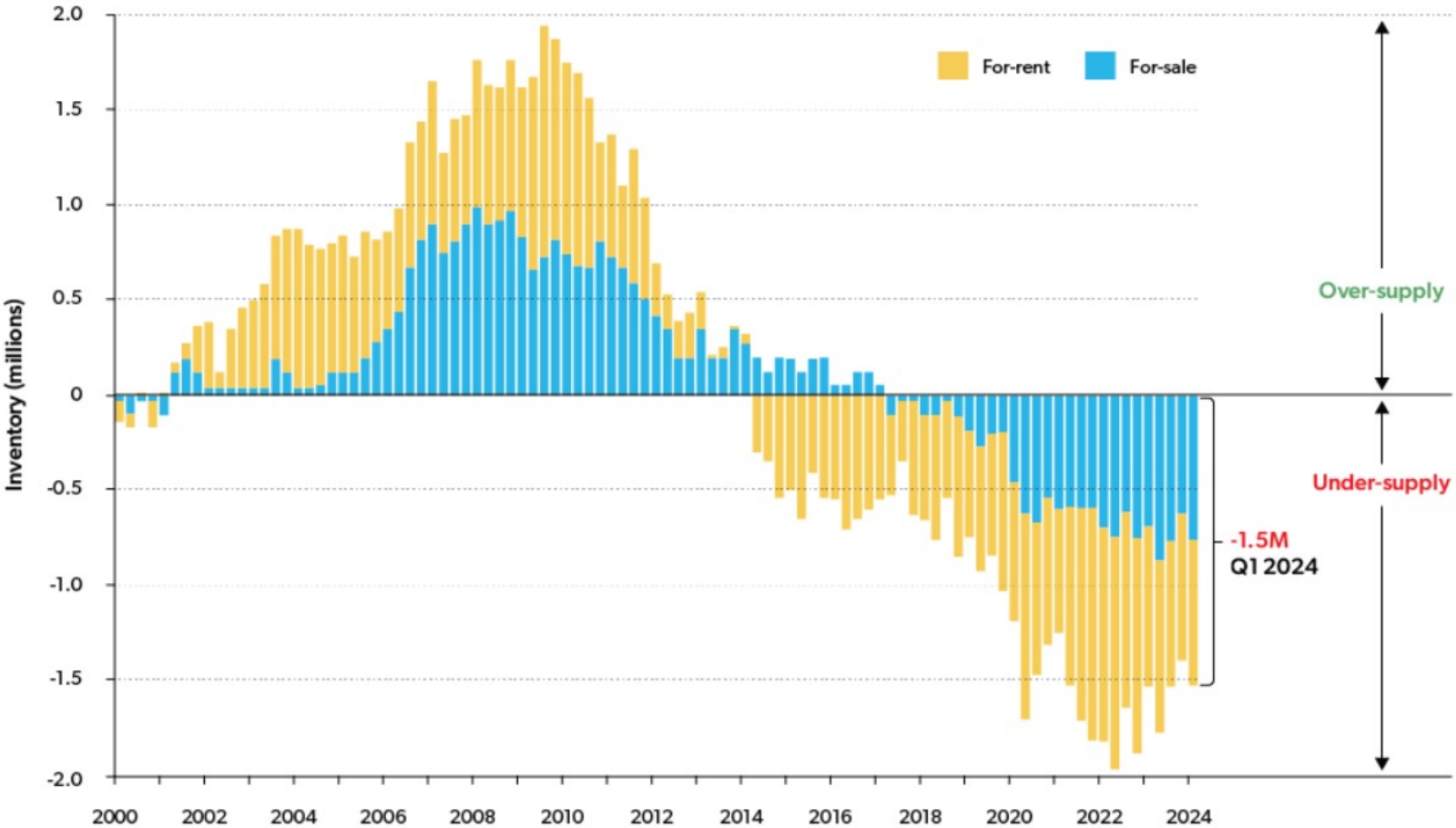
Source: Federal Reserve Bank of Minneapolis calculations using McDash Residential Mortgage Servicing Data



FEDERAL RESERVE BANK OF MINNEAPOLIS

THE U.S. CONTINUES TO SEE AN UNDERSUPPLY OF HOUSING

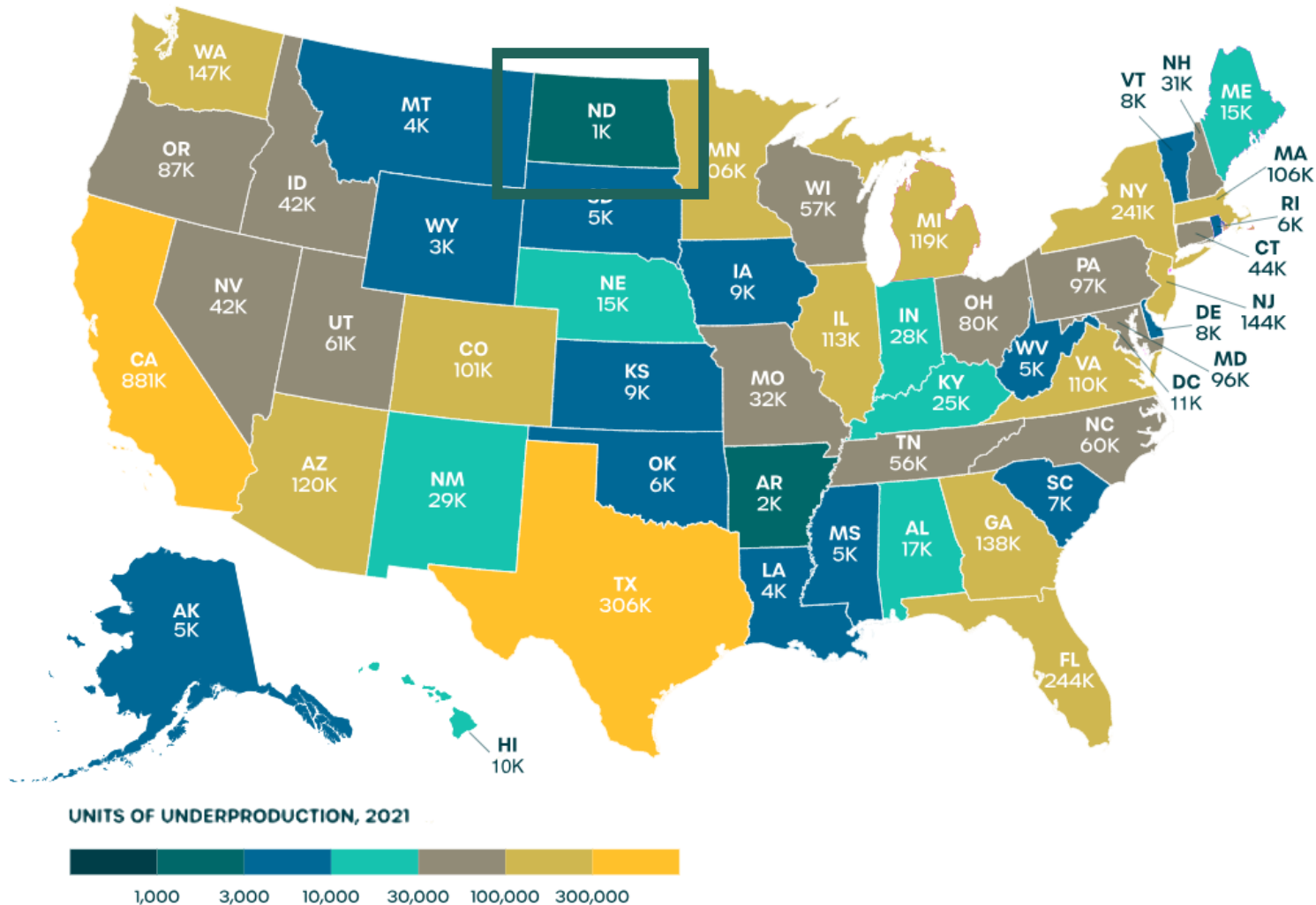
Total for-sale and for-rent vacant housing is 1.5 million units below a balanced market



Housing production nationally has lagged population growth...

Source: Freddie Mac calculations using U.S. Census Bureau data

NORTH DAKOTA HAS AMONG THE LEAST UNDERPRODUCTION



Housing production nationally has lagged population growth...

...but one national organization estimates that North Dakota has **the least underproduction** – roughly 1,000 units – of any state

Source: Up for Growth



NORTH DAKOTA HOUSING MARKET IN SUMMARY

- Housing growth is keeping up with population growth – North Dakota has largely avoided underproduction of housing
- Home values and rents are rising, but less than nationally and in neighboring states
- Housing affordability is falling in North Dakota and homes are becoming unaffordable in some metros
- Mortgage interest rates may be constraining supply of for-sale homes in the state
- The scale of the housing challenges in North Dakota is still manageable





**WHY ADDRESSING HOUSING
CHALLENGES MATTERS**

RESEARCH ON HOUSING'S ECONOMIC IMPORTANCE

According to the Fed's [Survey of Household Economics and Decisionmaking \(SHED\)](#), housing is the largest expense for most households.

- Other national data on [consumer expenditures](#), like that of the Bureau of Labor Statistics (at right), affirms this reality
- This remains true with different income levels and household sizes

Housing, 33.30%	Transportation, 16.80%		Food, 12.80%
	All Other, 12.40%	Personal Insurance & Pensions, 12.00%	
		Health-care, 8.00%	
	Entertain., 4.70%		

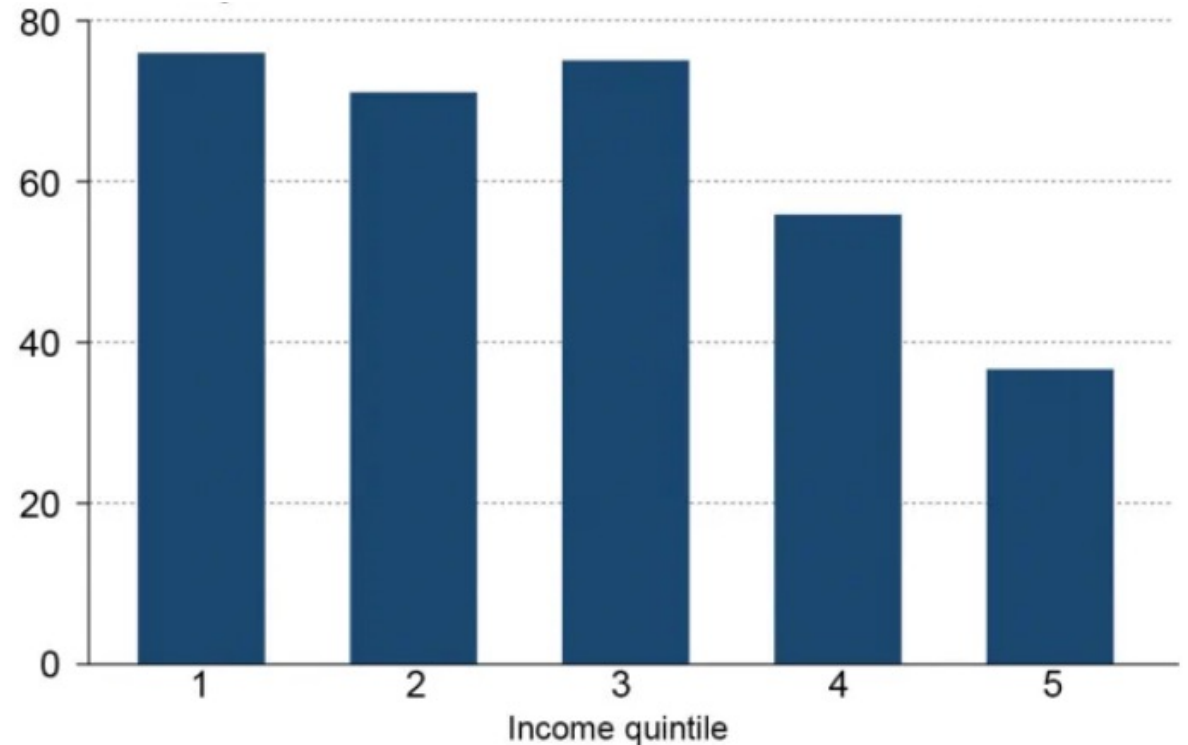


HOMEOWNERSHIP AND WEALTH

Data on homeownership and wealth show that “for most homeowners with positive net worth, home equity comprises the lion’s share of their wealth.”

- Significant differences by race, income, and generation
- Home values are more volatile than many might expect

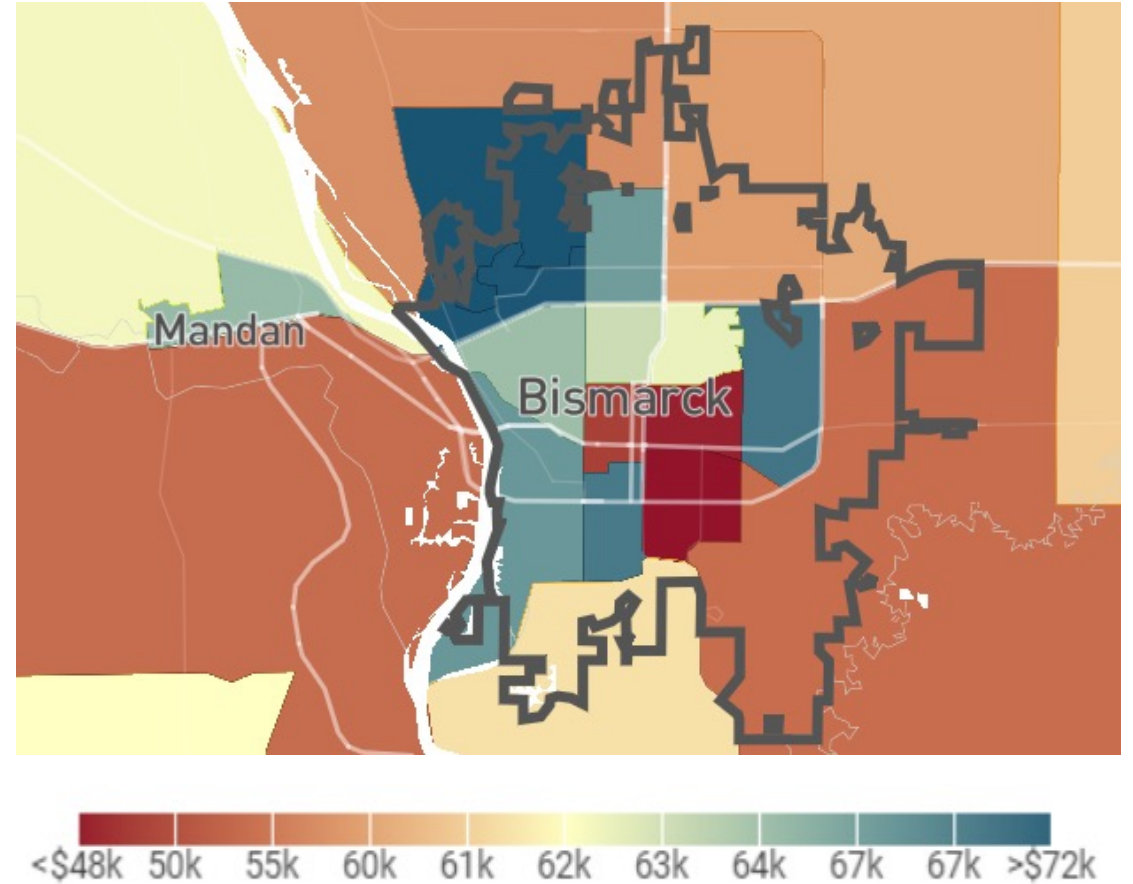
Home Equity as a Share of Homeowners’ Wealth by Income Quintile



WHERE WE LIVE INFLUENCES OUR OPPORTUNITIES

The [Opportunity Atlas](#) uses millions of anonymized tax records to find relationships between where people grew up and their outcomes later in life.

- Data are available at a county and Census tract level.
- Research also shows ties between geography and life expectancy, incarceration, and patents, among other things



Household Income at Age 35,
Children Born 1978-1983

SUPPLY IS CONNECTED TO AFFORDABILITY

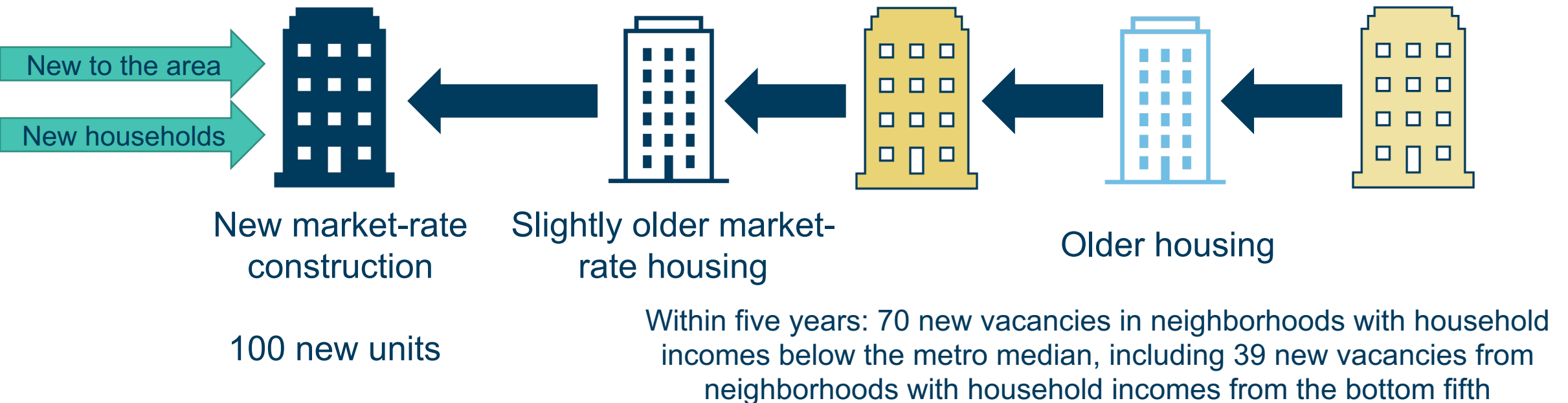
Research supports what basic economic theory predicts: a larger housing supply means less pressure on housing prices.

- Housing markets are complicated, but examples from the US and abroad generally show that efforts to increase housing supply can be tied to slowed rent growth
- See: [Supply Skepticism](#), [Supply Skepticism Revisited](#)



HOW NEW HOMES OPEN UP OPPORTUNITY

New housing, even luxury and market-rate units, frees up existing units for lower-income households to move into, thus expanding housing choices.

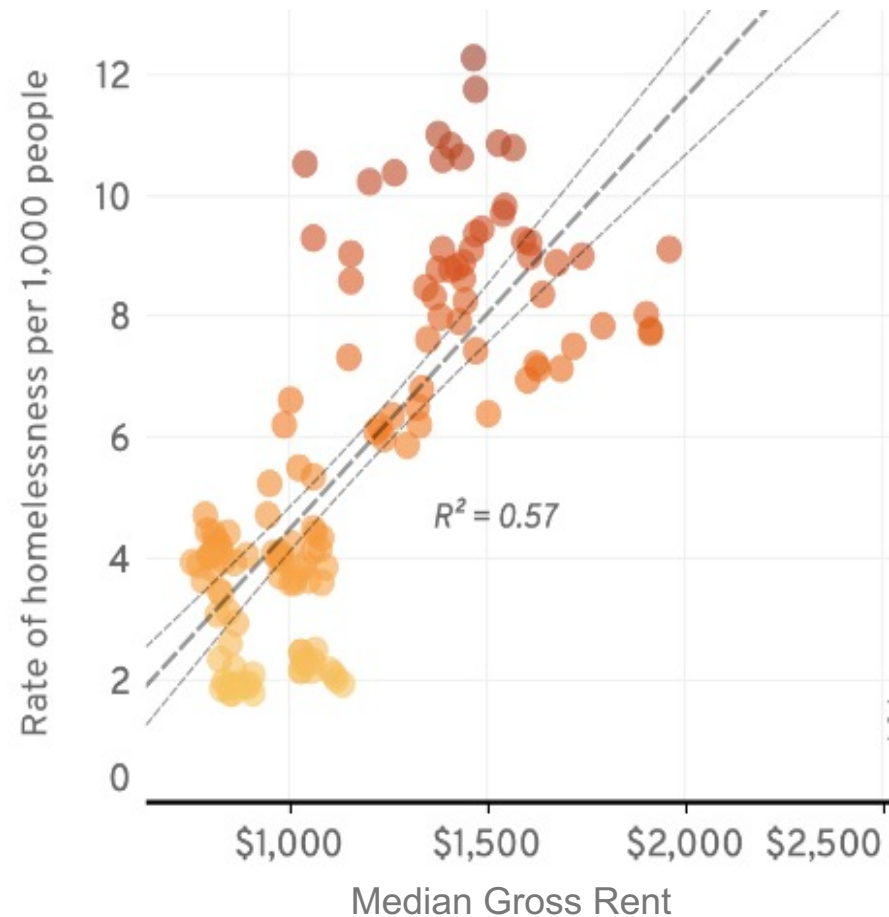


AFFORDABILITY MATTERS

Homelessness is a Housing Problem analyzes data cross cities and counties and dispels many common narratives about variation in homeless rates.

- Price of rent is more predictive of homelessness rates than poverty levels, weather, and the rate of drug addiction or other mental health issues.

Point-in-time counts find fewer homeless people in cities with lower rents



AFFORDABILITY IS CONDITIONAL

***Affordability* relies on two things: the price of housing and the income of a household.**

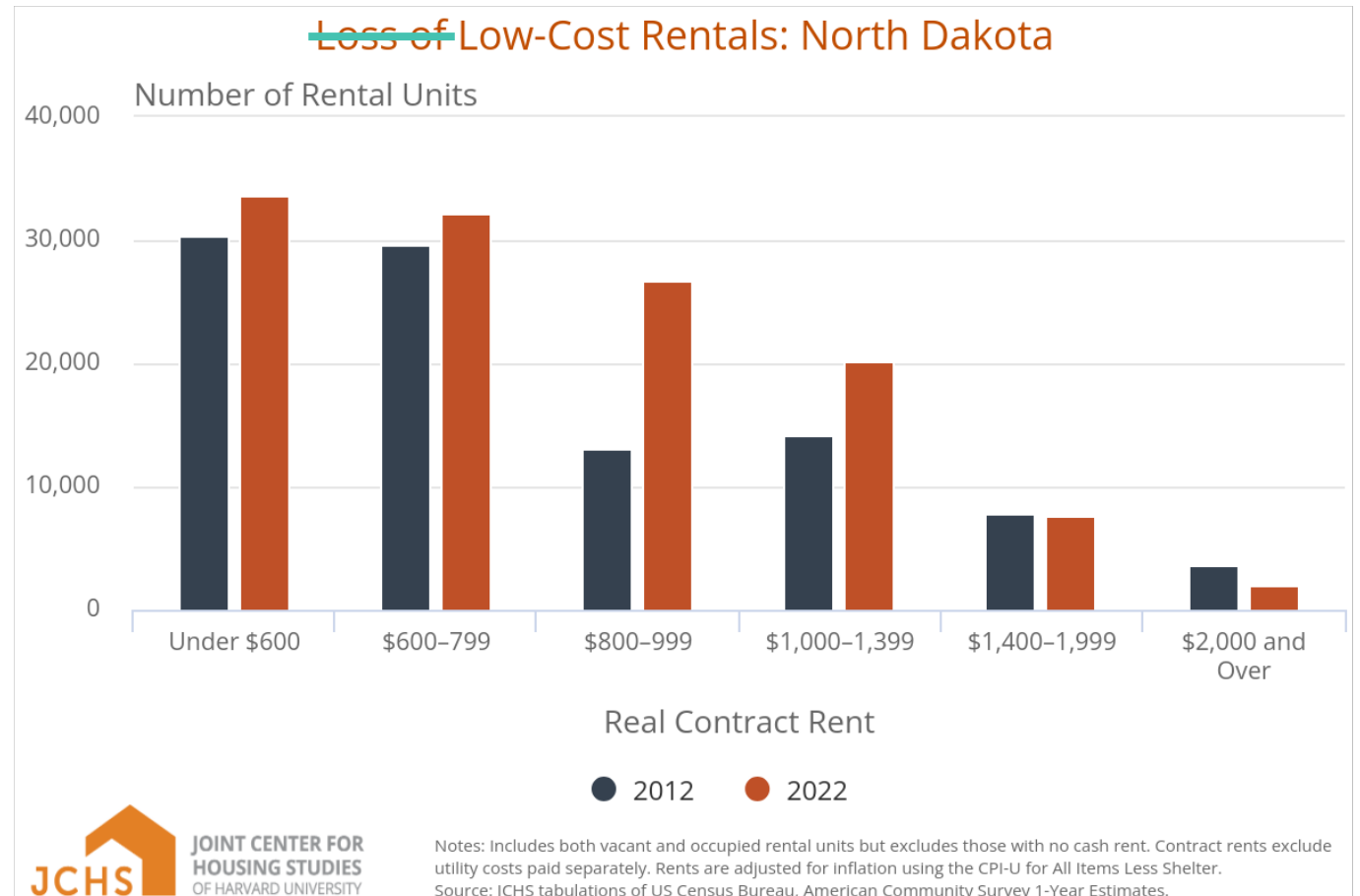
- The default in housing affordability conversations: no more than 30% of a household's income should be spent on housing costs.
- Most “affordable housing” is “naturally occurring” – that is, provided by the market and not specifically subsidized



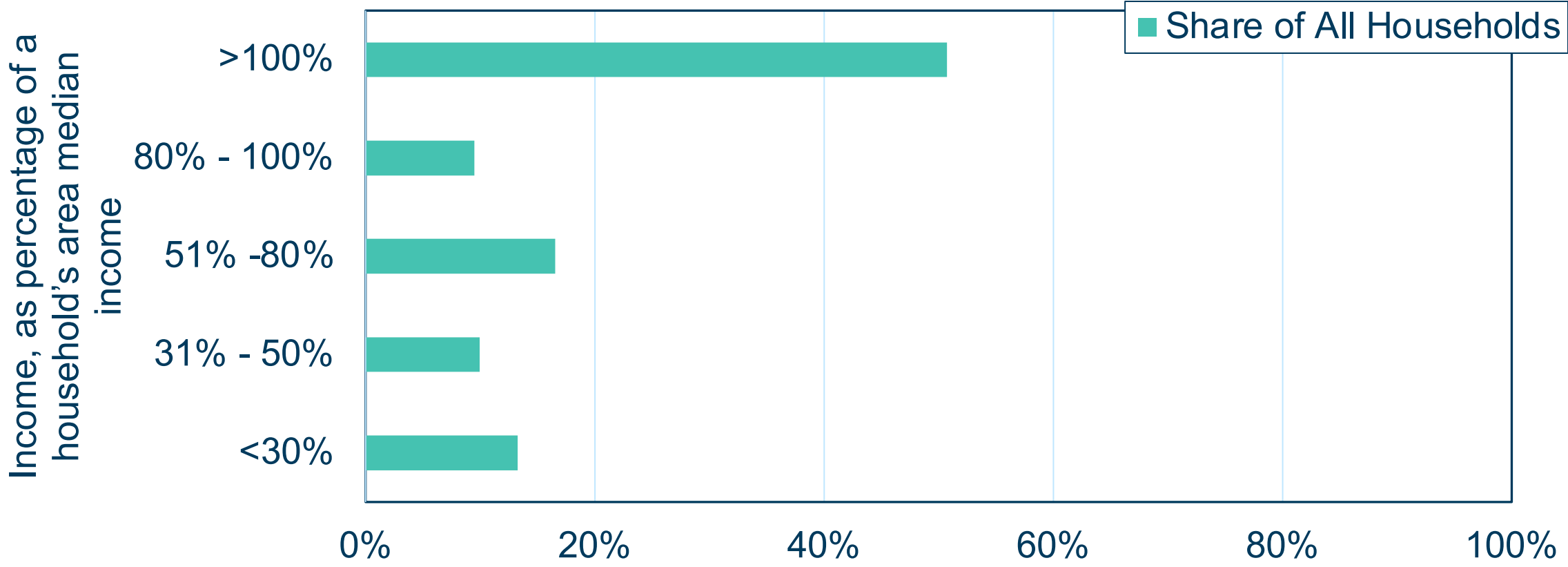
SUPPLY OF HOUSING @ VARIOUS AFFORDABILITY POINTS

From 2012-2022, North Dakota's stock of lower-priced rentals increased, unlike the nation's.

- These prices are adjusted for inflation. A \$600 apartment in 2022 would've cost \$470 in 2012.

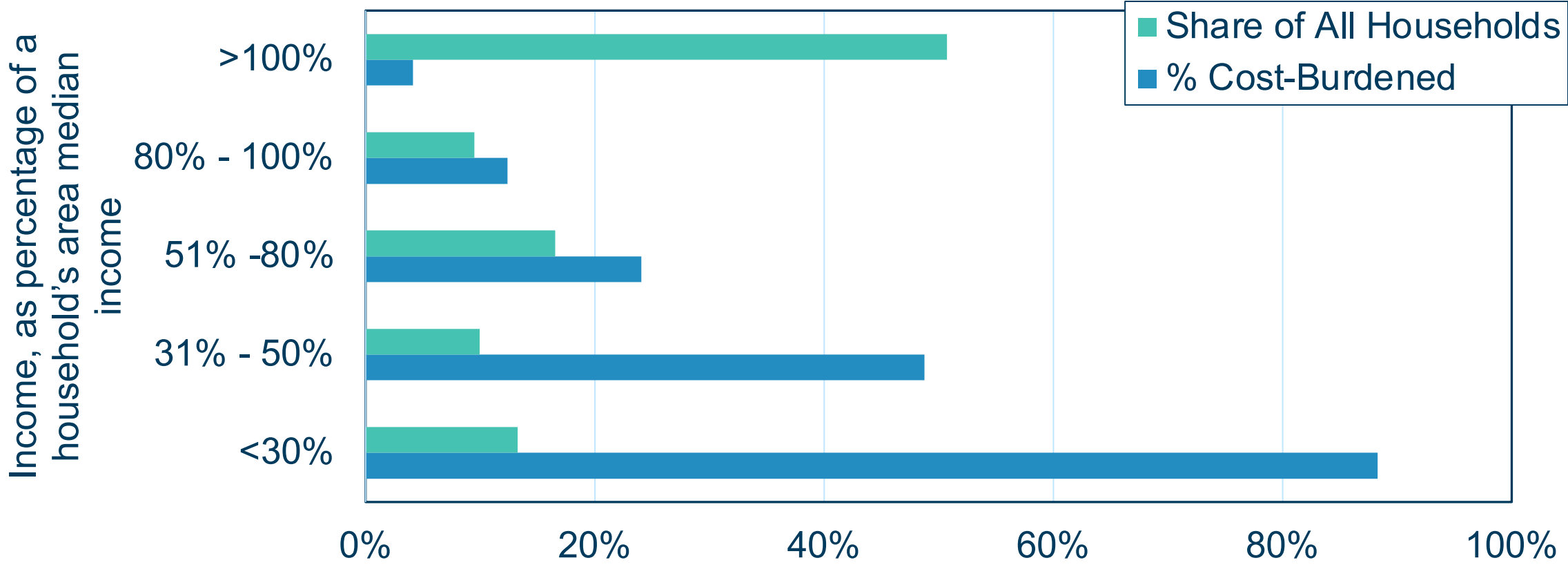


HOUSING COST-BURDEN IN NORTH DAKOTA: 2022



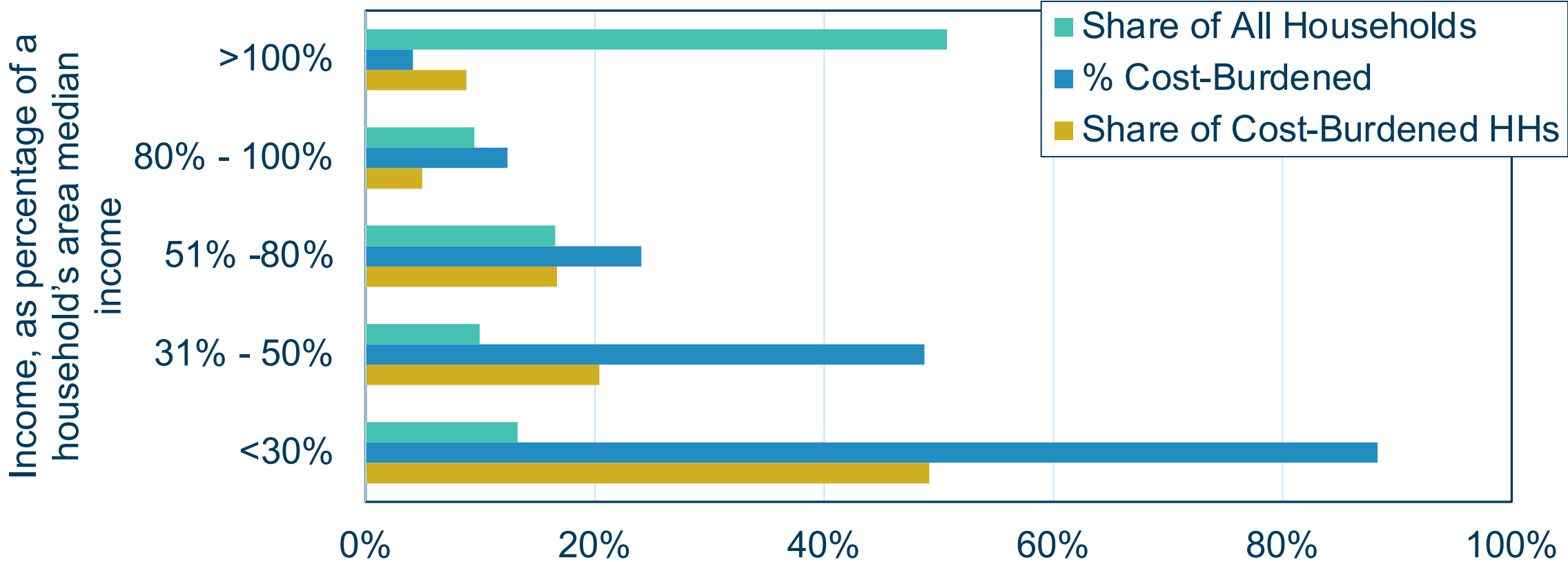
Source: Minneapolis Fed analysis of 2022 American Community Survey data

HOUSING COST-BURDEN IN NORTH DAKOTA: 2022



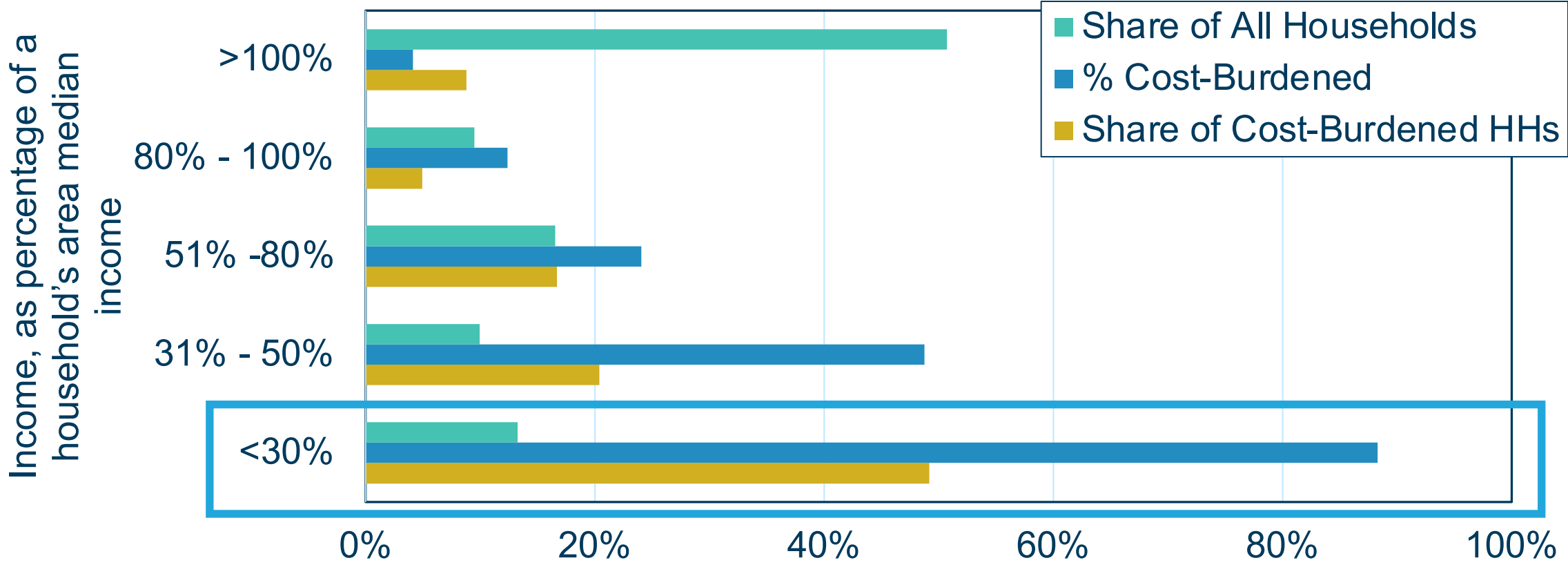
Source: Minneapolis Fed analysis of 2022 American Community Survey data

HOUSING COST-BURDEN IN NORTH DAKOTA: 2022



Source: Minneapolis Fed analysis of 2022 American Community Survey data

HOUSING COST-BURDEN IN NORTH DAKOTA: 2022



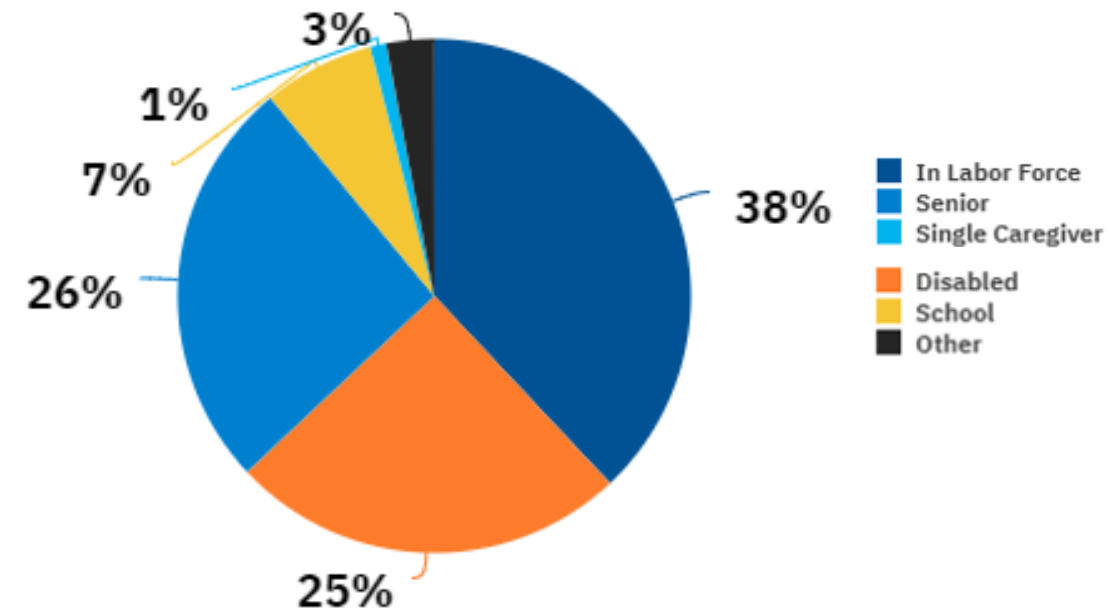
Source: Minneapolis Fed analysis of 2022 American Community Survey data

“DEEPLY AFFORDABLE HOUSING”

Housing intended to serve the lowest income households is often referred to as “deeply affordable housing.”

- The cutoff for tenants/homeowners is typically 30% or less of an area’s median income.
- For the state of North Dakota, this would mean about \$22,000 per year or less, with rents capped at \$555 per year.
- There are diverse needs within this income group.

Characteristics of Extremely Low-Income Renters in North Dakota

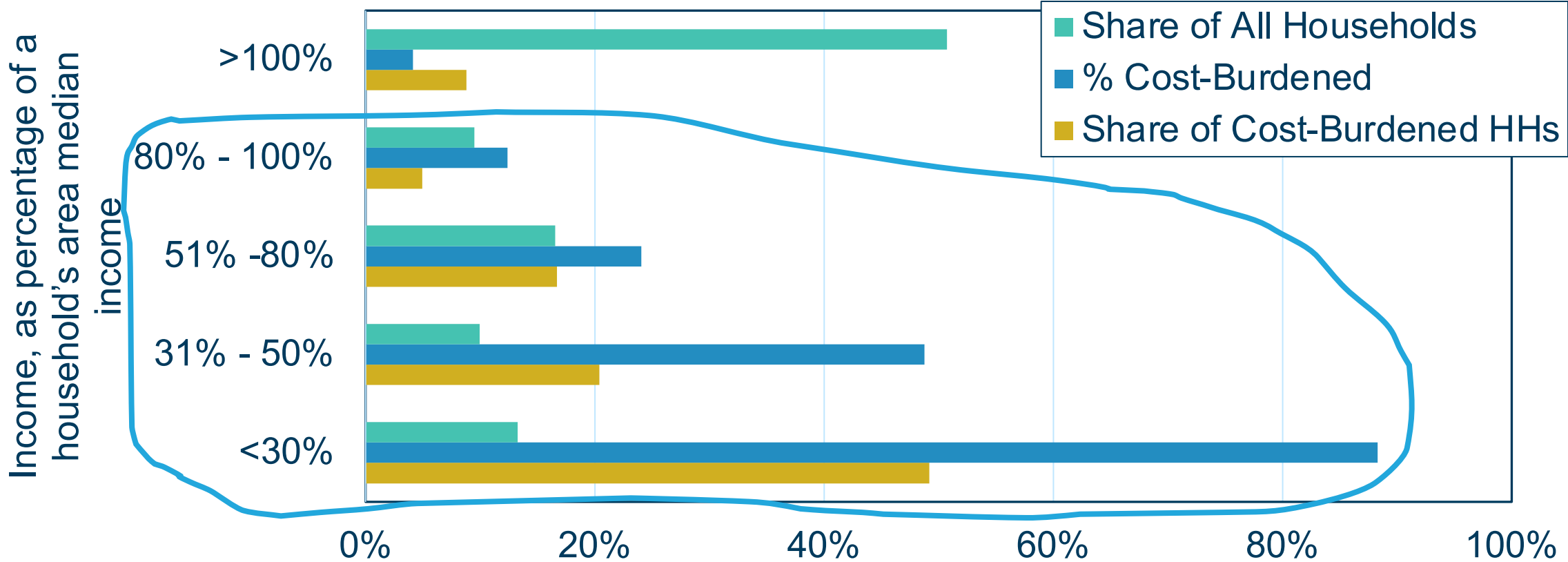


Note: Mutually exclusive categories applied in the following order: senior, disabled, in labor force, enrolled in school, single adult caregiver of a child under 7 or a person with a disability, and other. Thirteen percent of extremely low-income renter households include a single adult caregiver, 53% of whom usually work at least 20 hours per week. Eleven percent of extremely low-income renter households are enrolled in school, 48% of whom usually work at least 20 hours per week.

Source: [NLIHC analysis of 2022 ACS PUMS](#)



HOUSING COST-BURDEN IN NORTH DAKOTA: 2022



Source: Minneapolis Fed analysis of 2022 American Community Survey data

AFFORDABILITY AND THE WORKFORCE

Sample Job Types	Average Wage Range	Affordable Rent / Mortgage
Home Health Care and Personal Care Aides Service (retail, restaurants, cleaners) Education (child care staff, K-12 teaching assistants)	\$37,000 or less (“Affordable” or “Deeply Affordable”)	\$1,100 or less
Transportation (truck drivers) Education (teachers) Trades (laborers, maintenance, carpenters, plumbers, roofers) Administrative (office workers, clerks)	\$37,001 - \$59,000 (“Affordable” or “Workforce”)	\$1,100 - \$1,500
Health Care (nurses, dental hygienists) Professional (accountants, tech, analysts) Trades (electricians, supervisors, heavy equipment) Energy (oil and gas)	\$59,201 - \$89,000 (“Workforce”)	\$1,500 - \$2,220

Sources: American Community Survey, North Dakota Job Service Labor Market Information



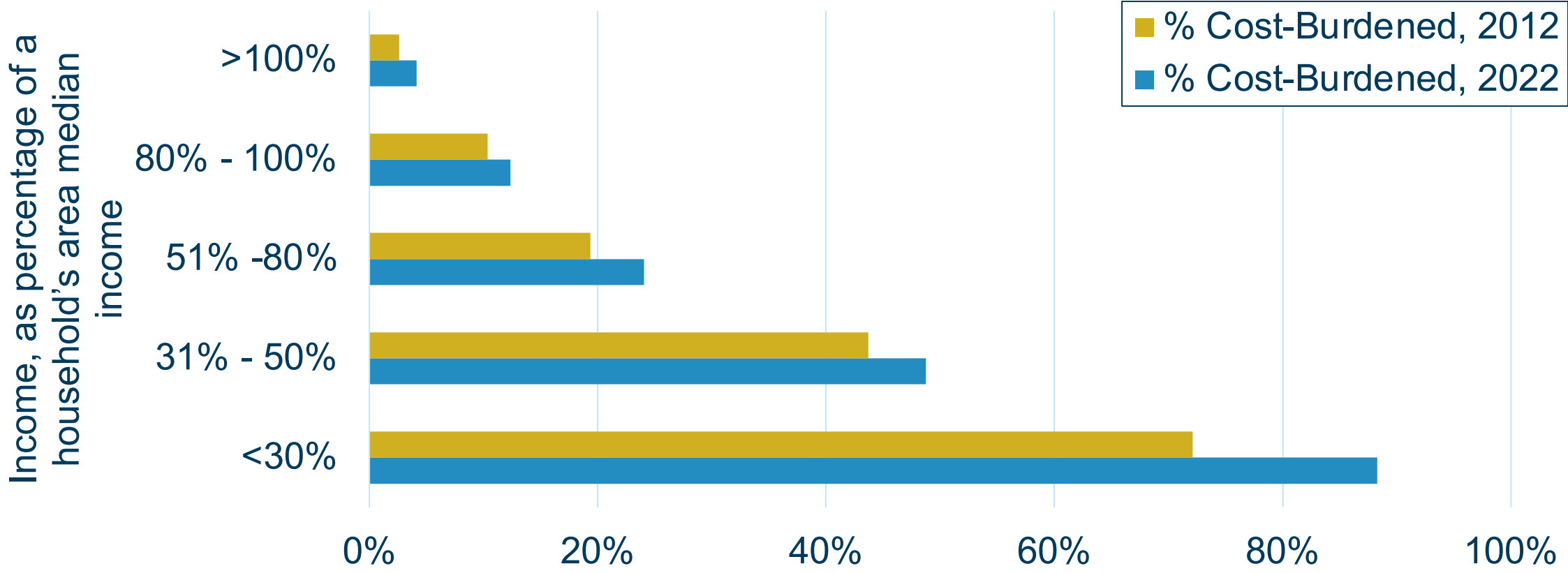
AFFORDABILITY AND THE WORKFORCE

Sample Job Types	Average Wage Range	Current Employment
<p>Home Health Care and Personal Care Aides Service (retail, restaurants, cleaners) Education (child care staff, K-12 teaching assistants)</p>	<p>\$37,000 or less (“Affordable” or “Deeply Affordable”)</p>	<p>110,000</p>
<p>Transportation (truck drivers) Education (teachers) Trades (laborers, maintenance, carpenters, plumbers, roofers) Administrative (office workers, clerks)</p>	<p>\$37,001 - \$59,000 (“Affordable” or “Workforce”)</p>	<p>180,000</p>
<p>Health Care (nurses, dental hygienists) Professional (accountants, tech, analysts) Trades (electricians, supervisors, heavy equipment) Energy (oil and gas)</p>	<p>\$59,201 - \$89,000 (“Workforce”)</p>	<p>108,000</p>

Sources: American Community Survey, North Dakota Job Service Labor Market Information



HOUSING COST-BURDEN IN NORTH DAKOTA: 2012 VS. 2022



Source: Minneapolis Fed and HUD analysis of American Community Survey data

SUMMARY

- Housing matters for households' economic stability and opportunities.
- Relative to other states, North Dakota's supply of low-cost housing options is high.
- Specificity about affordability levels and subpopulations is important.
- A majority of households earning less than 50 percent of their area's median income are housing cost-burdened, as are 1 in 4 households earning 50-80 percent of their area's median income.
- There was an increase in the housing-burdened rate across all income categories over roughly the past decade (and that does not include data in the wake of more recent price increases).





**APPROACHES TO
MAINTAINING A HEALTHY
HOUSING SECTOR**

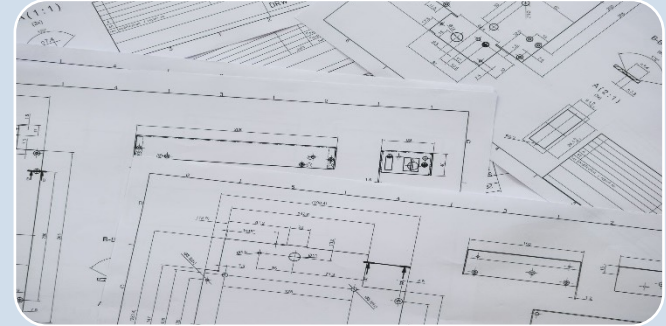
THREE APPROACHES THAT WORK TOGETHER



Support
Affordability



Increase Supply



Streamline
Processes and
Rules

*No single strategy can address all challenges
Different places need a different mix of approaches*



SUPPORT AFFORDABILITY FOR FAMILIES

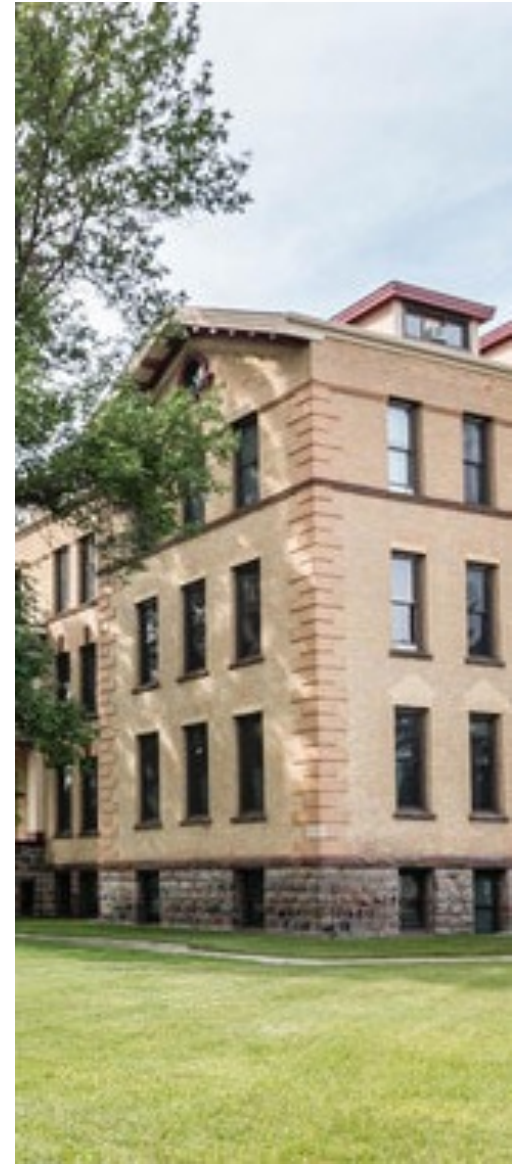
For renters:

- Rental assistance (e.g., Housing Choice Vouchers, emergency rental assistance, tax credits for renters)
- Financial incentives to property owners to limit rents

For homeowners:

- Tax credits for homesteaded property
- Downpayment assistance and reduced cost mortgages
- Financial assistance for housing rehabilitation
- Financial counseling to reduce mortgage costs
- Shared equity models (e.g., cooperatives, community land trusts)
- Foreclosure prevention

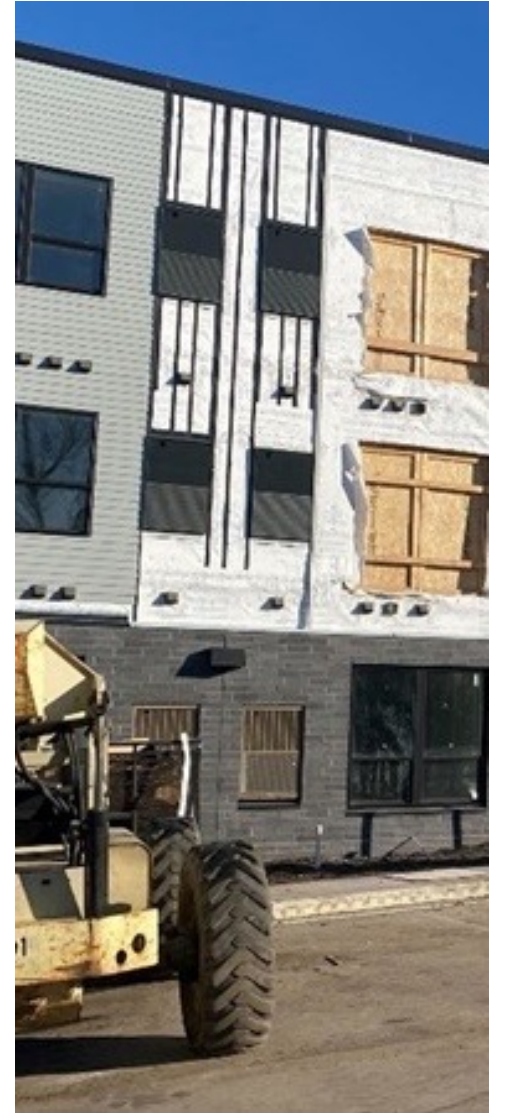
And strategies that grow household income – education, workforce development, and economic development.



INCREASE SUPPLY OF HOUSING (AT ALL PRICE POINTS)

More housing and more types of housing in more places:

- Provide financial assistance to support housing construction
 - Low Income Housing Tax Credit
 - North Dakota Housing Finance Agency funding
- Limitations on short-term rentals
- Reduce the costs of new housing construction
- Preserving the viability and livability of existing housing
 - Acquisition / rehabilitation of vacant or underperforming housing



PROTECTING THE VIABILITY OF EXISTING HOUSING SUPPLY



ARTICLE

Talking “toilets, taxes, and tenants”: Challenges mount for apartment owners in Twin Cities area

Ben Horowitz | Senior Policy Analyst, Community Development and Engagement

Grace Ryan | Project Manager, Community Development and Engagement

Libby Starling | Senior Community Development Advisor, Community Development and Engagement

March 29, 2024

We conducted interviews of multifamily owners, market-rate and affordable, for-profit and non-profit, and heard about challenges facing their business models:

- Rising staffing costs amidst labor shortages, particularly among maintenance workers
- Inflation driving up subcontracting expenses (e.g., snowplowing, janitorial contracts) and raw material costs (e.g., appliances)
- Fewer banks willing to lend to multifamily real estate; those that do have higher underwriting standards



RISING PROPERTY INSURANCE COSTS ENDANGER SUPPLY

Multifamily housing is seeing significant property insurance increases:

- More than half reported year-over-year premium increases of at least 20 percent (one-third at least 33 percent)
- Premium hikes and larger deductibles (some as much as five-fold over the year)
- Fewer commercial insurers are taking on new policies for multifamily housing
- Owners are paying more for less coverage

“Drastic deductible increases make me the most anxious. The premium increases are really large and hard to pay for, but at least you know what they are. These deductible exposures, you have no way of knowing what you are actually gonna see.”



REDUCING THE COSTS OF NEW DEVELOPMENT: THREE L'S



Land

- Acquisition costs: How many housing units support the cost of land?
- Land preparation costs: Planning the right level of infrastructure
- Entitlements process with local governments (permitting, approvals, and fees)



Labor

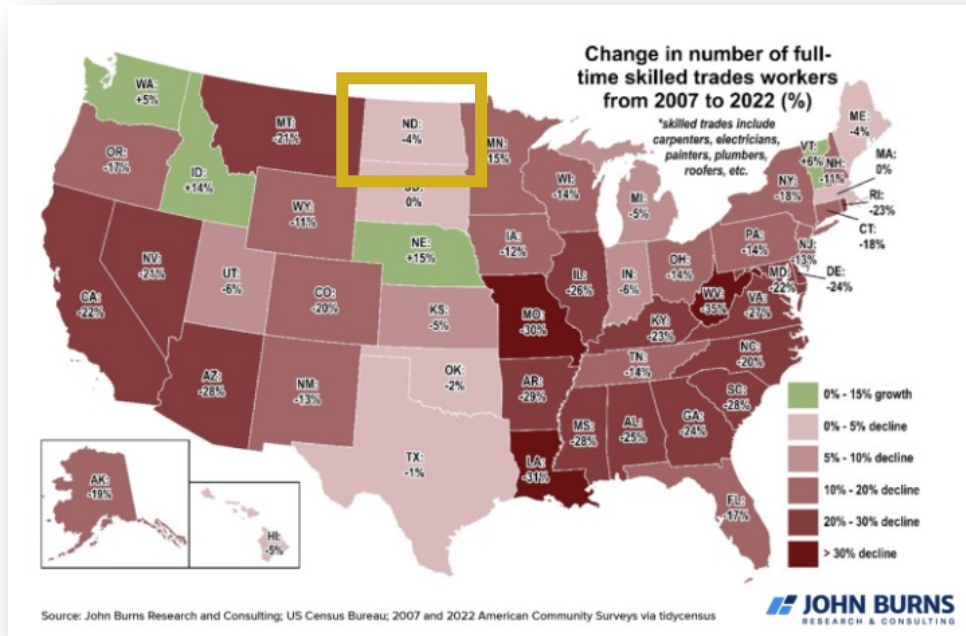
- Wages paid to construction workers
- Also includes other soft labor costs in development (architects, attorneys, engineers, consultants, etc.)



Lumber

- Proxy for all physical inputs
- Includes lumber itself, steel (for multifamily), garage doors, appliances, hardware, et al.

LIMITED SUPPLY OF CONSTRUCTION WORKERS



A worker cuts lumber at Dynamic Homes, a modular-construction firm in Detroit Lakes, Minn. Image courtesy of Ho-Chunk Inc.

Challenges:

Fewer skilled trades workers across the country, including North Dakota. When building new housing in an area with a housing shortage, where do workers live?

Approaches:

Alternative construction techniques, such as modular (e.g., factory-built) homes, 3-D printing, etc.

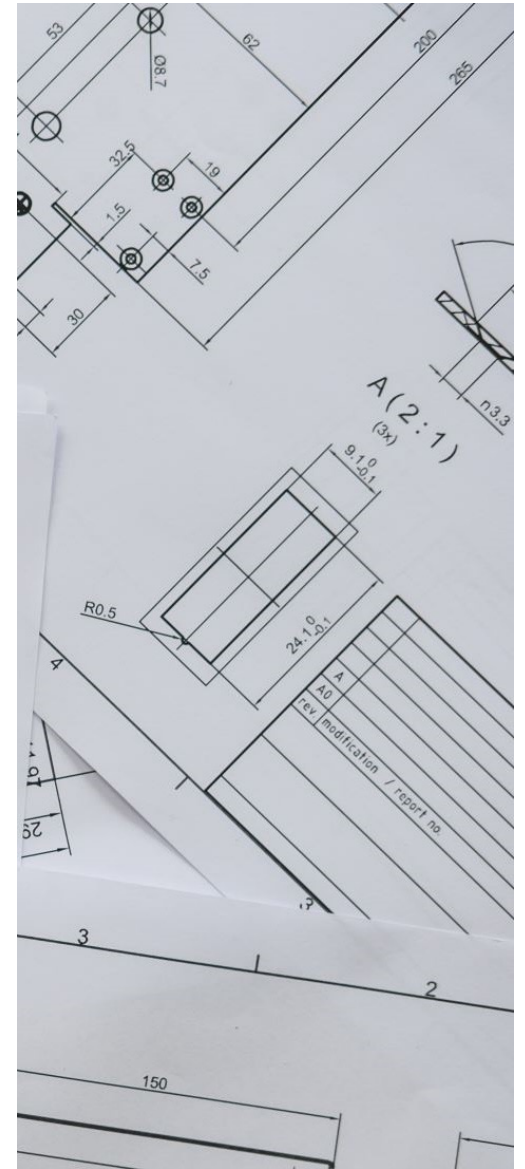
STREAMLINE PROCESSES AND RULES

Interplay between local government and developers:

- What types of housing are allowed by right vs. what projects require political approvals?
 - Allowable density, minimum lot sizes, minimum setbacks, parking requirements, infrastructure needs
 - What's the premium for land with special zoning?
- Increasing the predictability of the development process to minimize the risk to developers of projects not moving forward

Mortgage application processes

Property owner / renter relationships



OPPORTUNITIES TO STREAMLINE DEVELOPMENT APPROVALS

We asked ten suburban cities in the Twin Cities area about their land use approval processes:

- Range from 20 to 360 days to approval; some require votes by electeds, some approve administratively >> risk and time increase costs
- Range of local requirements that *could* increase construction costs (e.g., parking mandates, inclusionary zoning, aesthetic requirements)

Developers and city staff shared common pain points:

- Conversation identified areas for future research – for example, the alignment of development policies and practices across different units of local government
- Discussion emphasized the potential for collaborative, rather than adversarial, relationships between local governments and developers



City planners and private developers find common ground on improving land use policies and processes

Ben Horowitz | Senior Policy Analyst, Community Development and Engagement

Hue Nguyen | Assistant Vice President, Community Development and Engagement

Libby Starling | Senior Community Development Advisor, Community Development and Engagement

Alene Tchourumoff | Senior Vice President, Community Development and Engagement

March 22, 2024



WHAT OTHER STATES ARE DOING



States reform regulations to support more housing production

Ben Horowitz | Senior Policy Analyst, Community Development and Engagement

Zakary Yudhishthu | Intern, Community Development and Engagement

November 15, 2023

Changing land use from the state level:

- Providing financial incentives for more housing development or to cities that allow more housing
- Enabling more types of housing – e.g., multifamily housing, “missing middle” housing, manufactured housing, or accessory dwelling units – to be built “by right” in more places, especially in commercial districts or areas formerly limited to single-family detached housing
- Limiting or banning local mandates that add cost to housing development – e.g., parking minimums, aesthetic requirements, height limits, and floor area ratios

Simplifying the approval processes:

- More administrative review of housing development
- Creating state-level appeal processes when local governments withhold approval of housing development



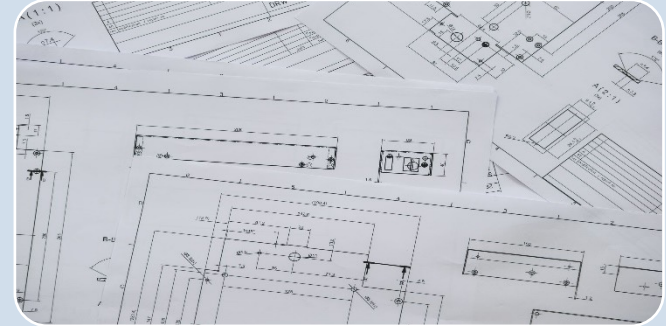
THREE APPROACHES THAT WORK TOGETHER



Support
Affordability



Increase Supply



Streamline
Processes and
Rules

*No single strategy can address all challenges
Different places need a different mix of approaches*





**OVERVIEW OF THE REST OF
THE MINNEAPOLIS FED
HOUSING PORTFOLIO**

CASE STUDIES

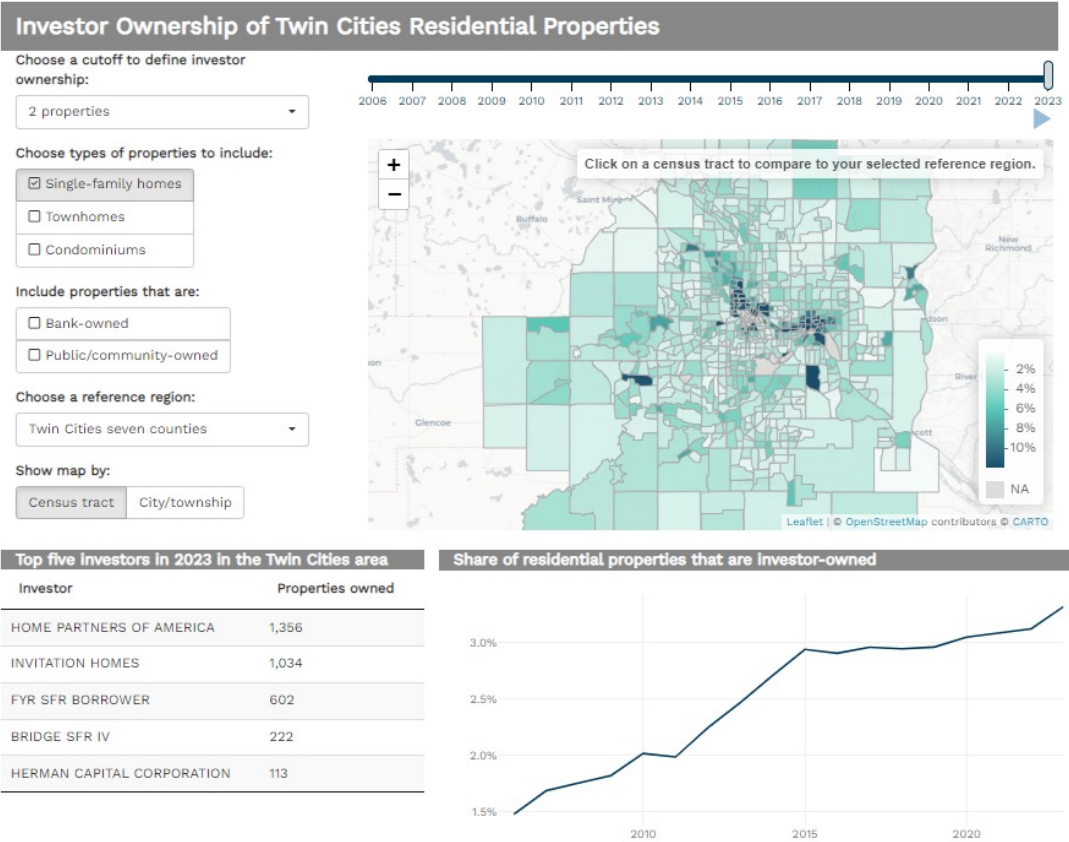


Successful housing development efforts feature:

- Multi-sector collaboration
- Layered funds and other financial resources
- Clear goals
- Partners that understand the community context
- Time



DIGGING DEEPER THROUGH ADDITIONAL ANALYSIS

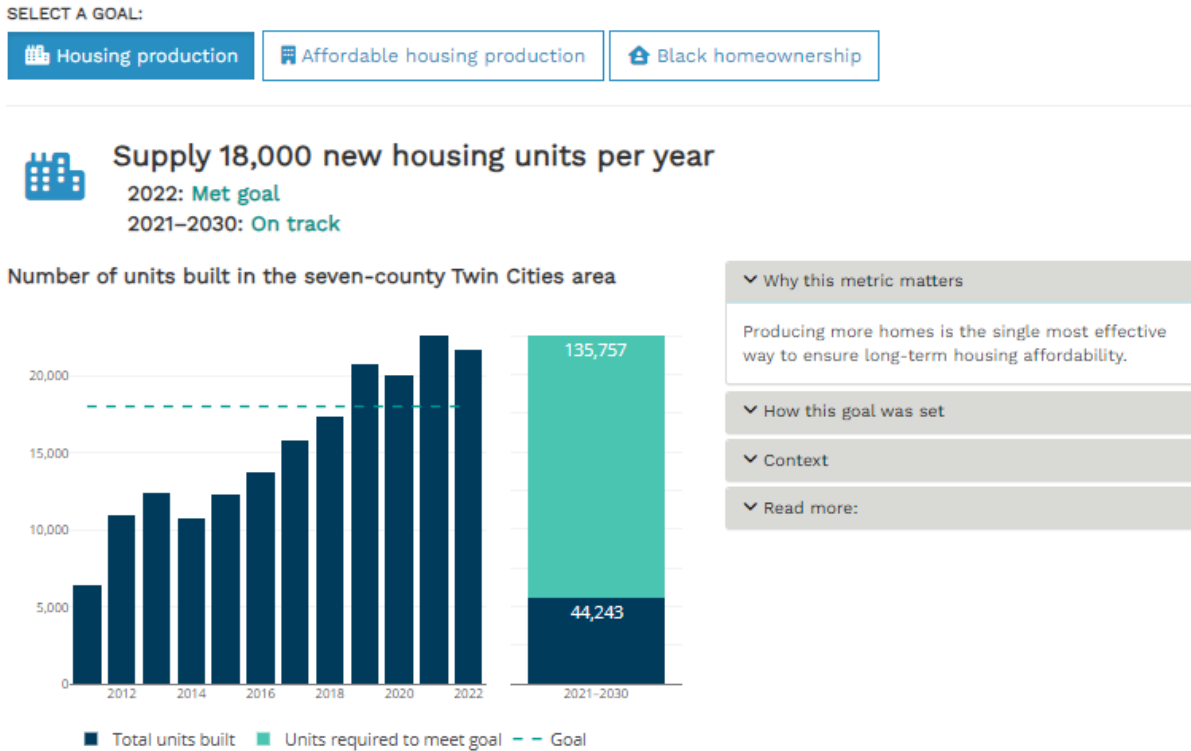


Source: MetroGIS Regional Parcel Dataset and authors' calculations.
 Note: Census tracts, cities and townships that have fewer than 50 observations are excluded. Data were last updated on September 15, 2023. See here for more detail about the dashboard and the underlying data.

Our Approach: Examine public property assessors' records to provide local context on a national trend.

Result: An interactive tool that allows users to explore the issue in their own community, and analysis to help them understand the outputs of that tool.

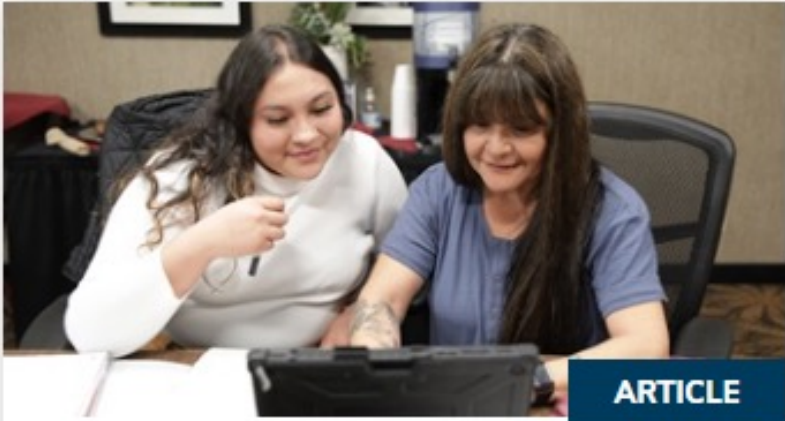
PUTTING DATA INTO CONTEXT



Our Approach: Work with regional stakeholders to develop a shared understanding of housing opportunities and goals, then track data that can measure progress towards those goals.

Result: A dashboard that provides users with progress on big-picture goals while also providing data on underlying conditions that influence progress towards those goals.

CENTER FOR INDIAN COUNTRY DEVELOPMENT



Native CDFIs connect Indian Country to credit and capital

Michou Kokodoko | Project Director, Community Development and Engagement

May 10, 2024



Tribal Leaders Handbook on Homeownership



Native Americans pay more to finance home purchases than White borrowers

Matthew Gregg | Senior Economist, Center for Indian Country Development

Caryn Mohr | Senior Writer, Center for Indian Country Development

March 8, 2024



LEARN MORE

- [How new apartments create opportunities for all](#)
- [Talking “toilets, taxes, and tenants”: Challenges mount for apartment owners in Twin Cities area](#)
- [City planners and private developers find common ground on improving land use policies and processes](#)
- [Rise in investor-owned single-family rentals prompts policy responses](#)
- [Native CDFIs connect Indian Country to credit and capital](#)
- [Native Americans pay more to finance home purchases than White borrowers](#)
- [Twin Cities region meets ambitious housing goals for second year but has much work left to do](#)
- [New Fed tool will measure zoning reforms’ impacts on housing affordability in Minneapolis](#)
- [What works in housing affordability: Moving from “those people” to “our neighbors”](#)
- [States reform regulations to support more housing production](#)
- [What works in housing affordability: Creating middle-income housing with the Bridger View neighborhood](#)



www.minneapolisfed.org/topic/housing



THANK YOU!

For more information:

benjamin.horowitz@mpls.frb.org

libby.starling@mpls.frb.org

**Subscribe to updates from the
Minneapolis Fed at:**

minneapolisfed.org/subscribe

Visit our website: minneapolisfed.org

Follow us at: [@MinneapolisFed](https://twitter.com/MinneapolisFed)