

HOUSING AFFORDABILITY, SUPPLY AND PROCESSES

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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 OF OUR REMARKS

- Better understanding of affordability trends in North Dakota
- Better understanding of supply and demand for housing in North Dakota
- What other states are doing to improve processes for housing development
- Q&A



REMINDER: COMMUNITY DEV 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.



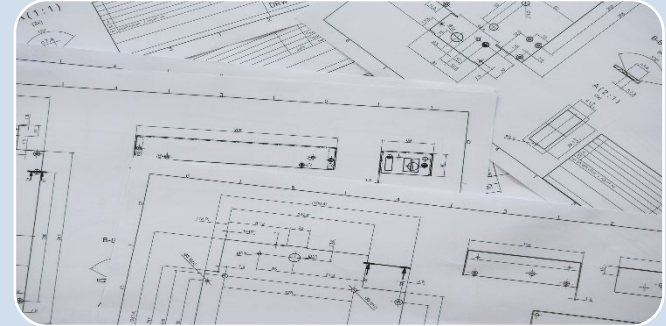
THREE APPROACHES THAT WORK TOGETHER



Support
Affordability



Increase Supply



Streamline
Processes and
Rules

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

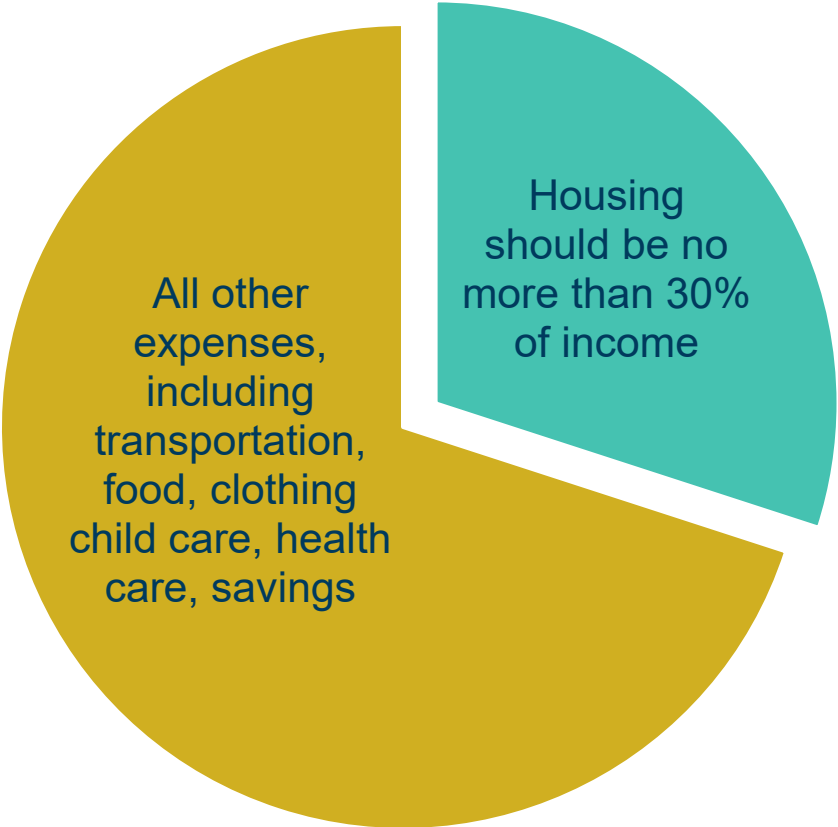




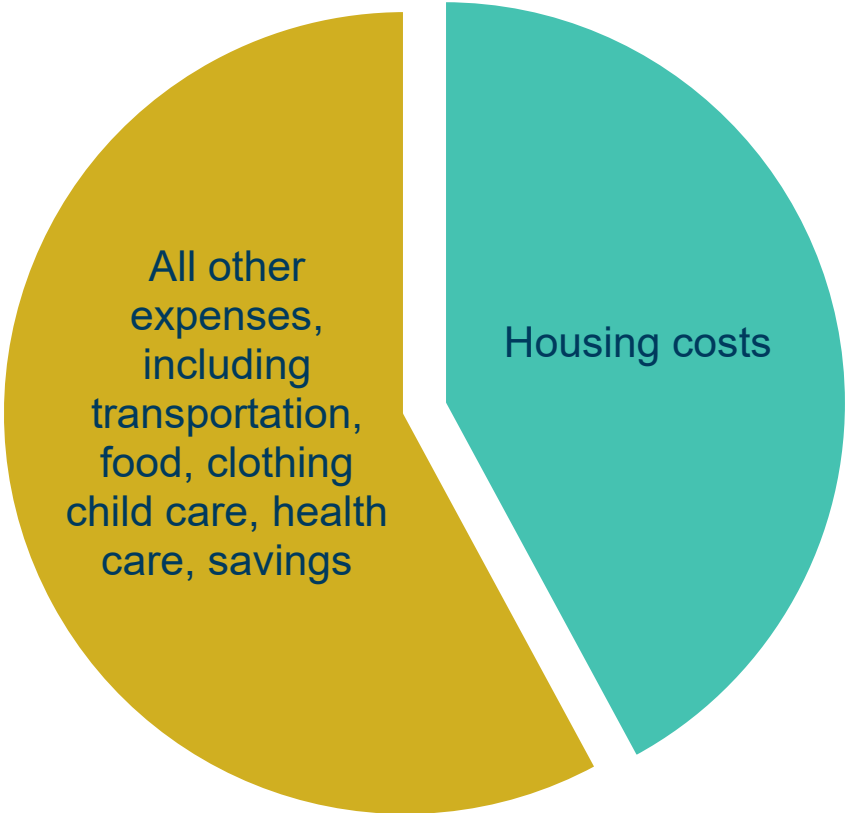
BETTER UNDERSTANDING AFFORDABILITY TRENDS IN NORTH DAKOTA

WHAT IS HOUSING COST BURDEN?

Housing affordability



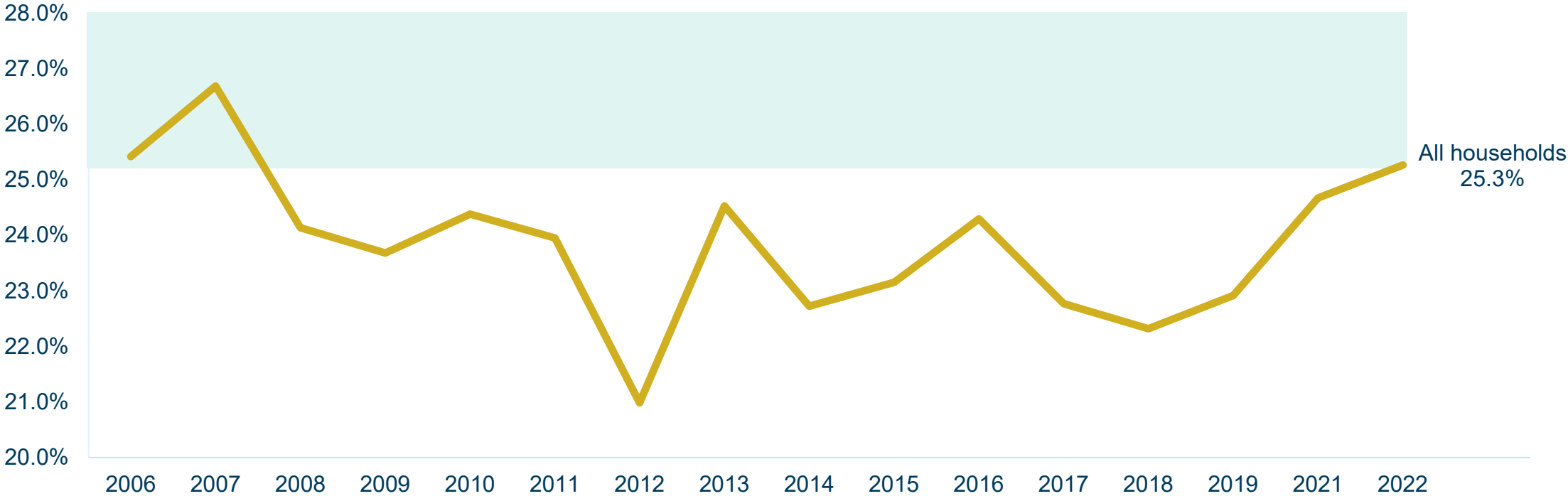
Cost burdened



Households are considered “**cost burdened**” when they spend more than 30% of their income on rent, mortgage and other housing needs

COST BURDEN RATE IS AT A 15-YEAR HIGH

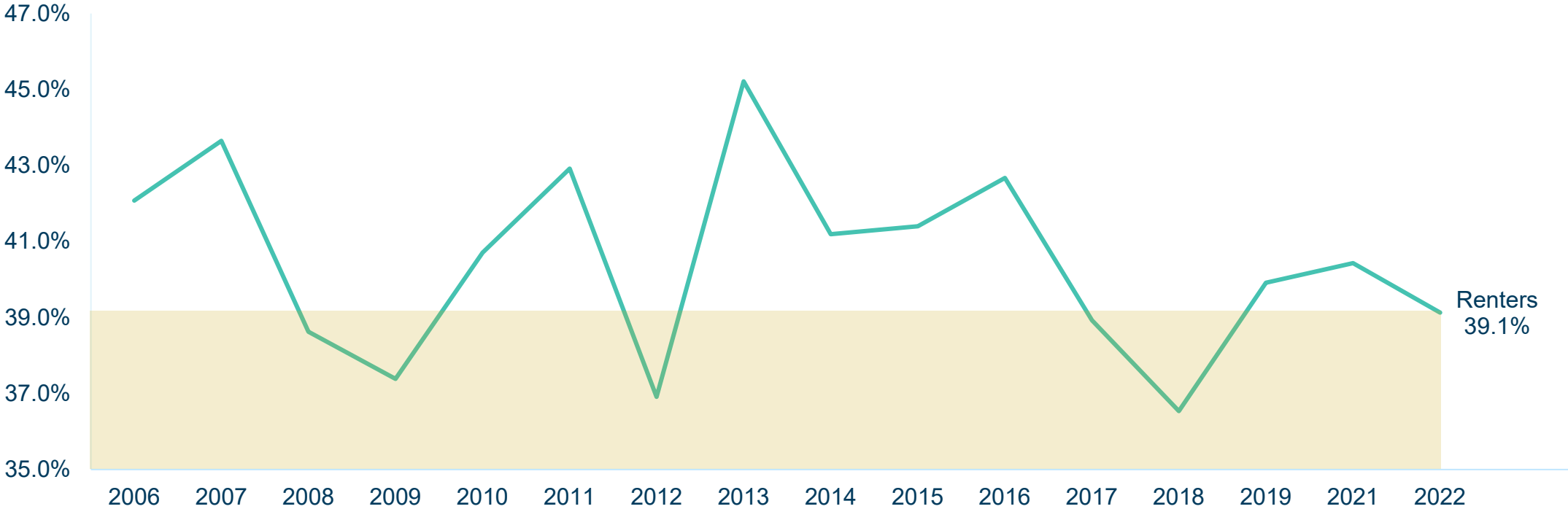
Share of North Dakota households paying more than 30 percent of monthly income on housing costs



Source: Minneapolis Fed calculations, using the U.S. Census Bureau's American Community Survey

RENTERS EXPERIENCE MORE HOUSING COST BURDEN...

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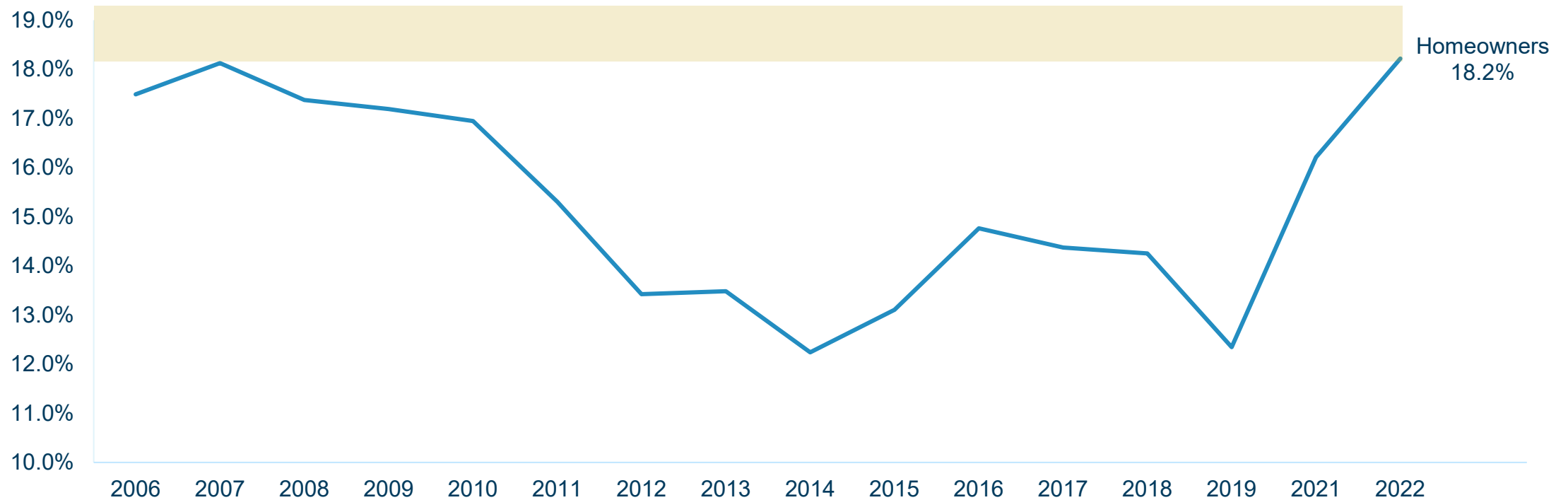


Source: Minneapolis Fed calculations, using the U.S. Census Bureau's American Community Survey



...BUT INCREASE IS LARGER FOR HOMEOWNERS

Share of North Dakota households paying more than 30 percent of monthly income on housing costs



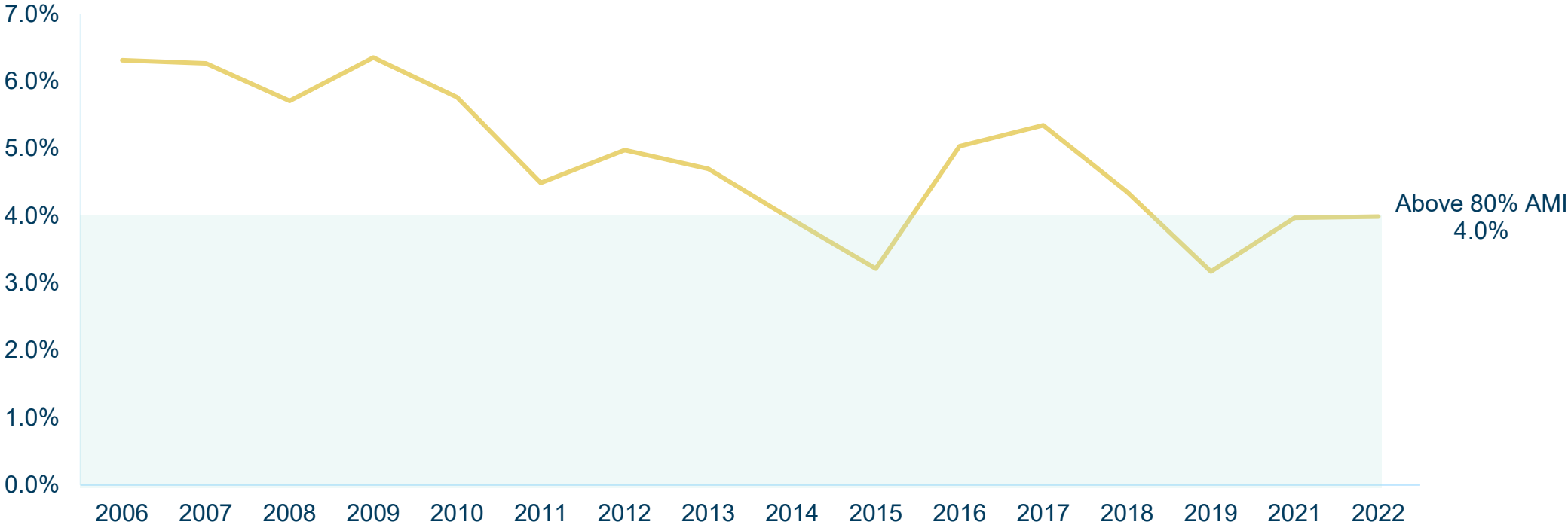
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STABLE/DECREASING RATES FOR HIGHER INCOMES

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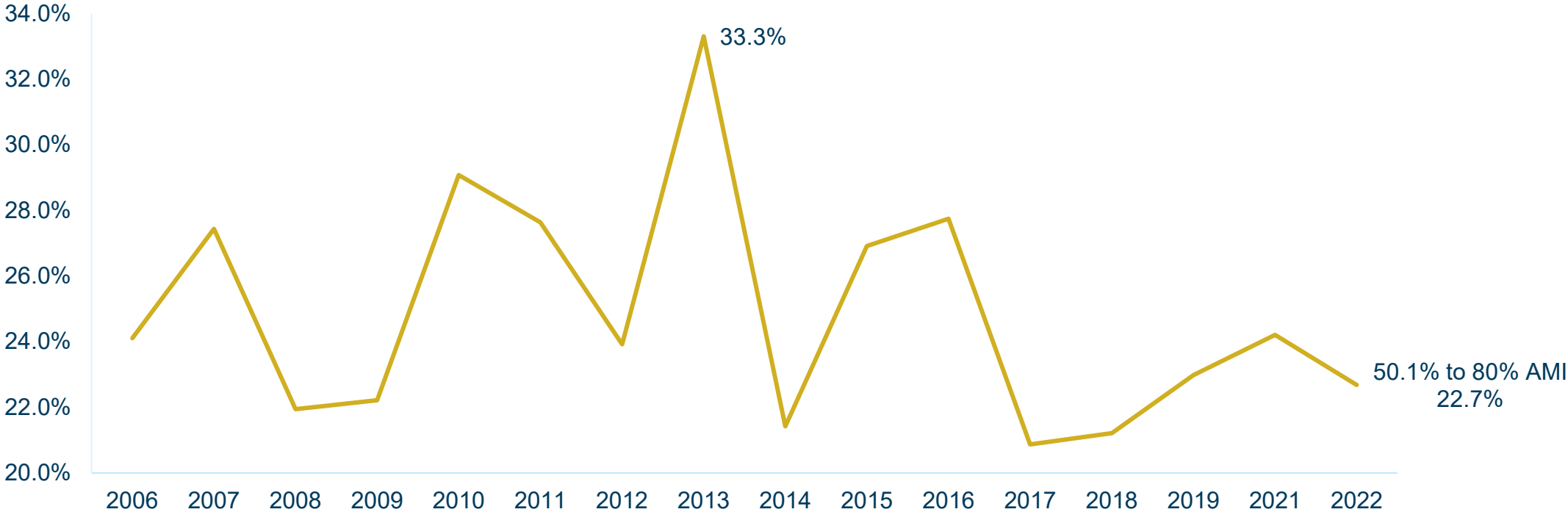


Source: Minneapolis Fed calculations, using the U.S. Census Bureau's American Community Survey. Calculations developed using localized area median incomes and may not match calculations developed with the statewide area median income.



MODERATE INCOME HOUSEHOLDS SEE RECENT INCREASE

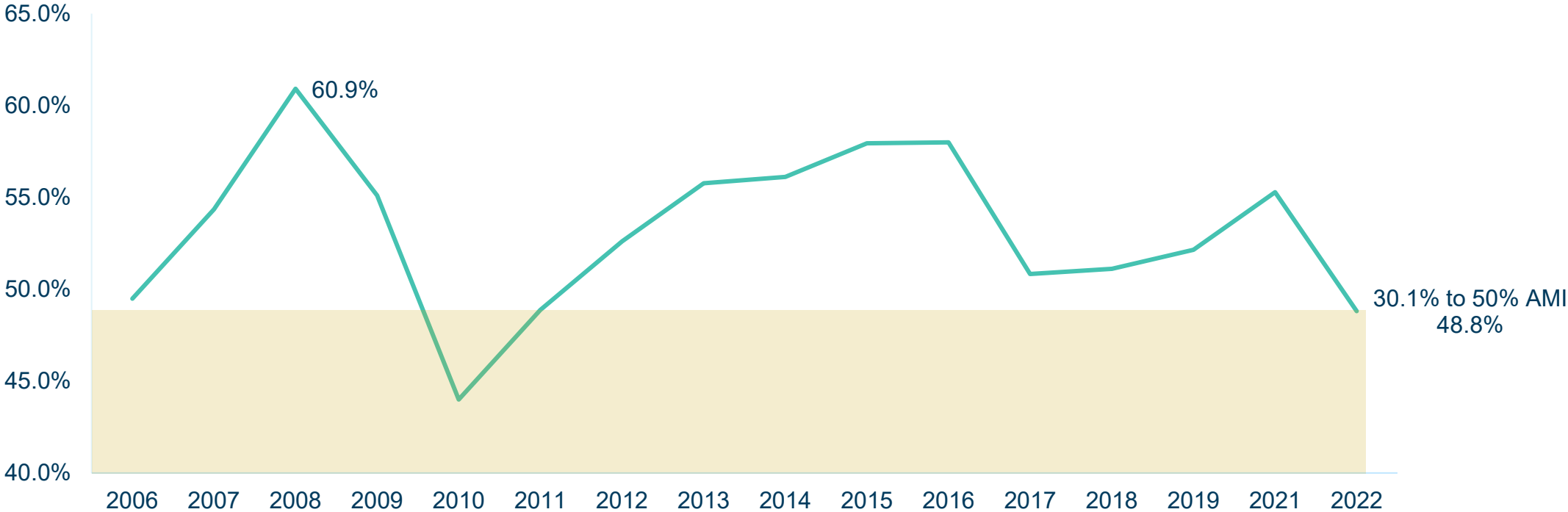
Share of North Dakota households paying more than 30 percent of monthly income on housing costs



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LOWER INCOME RELATIVELY STABLE

Share of North Dakota households paying more than 30 percent of monthly income on housing costs

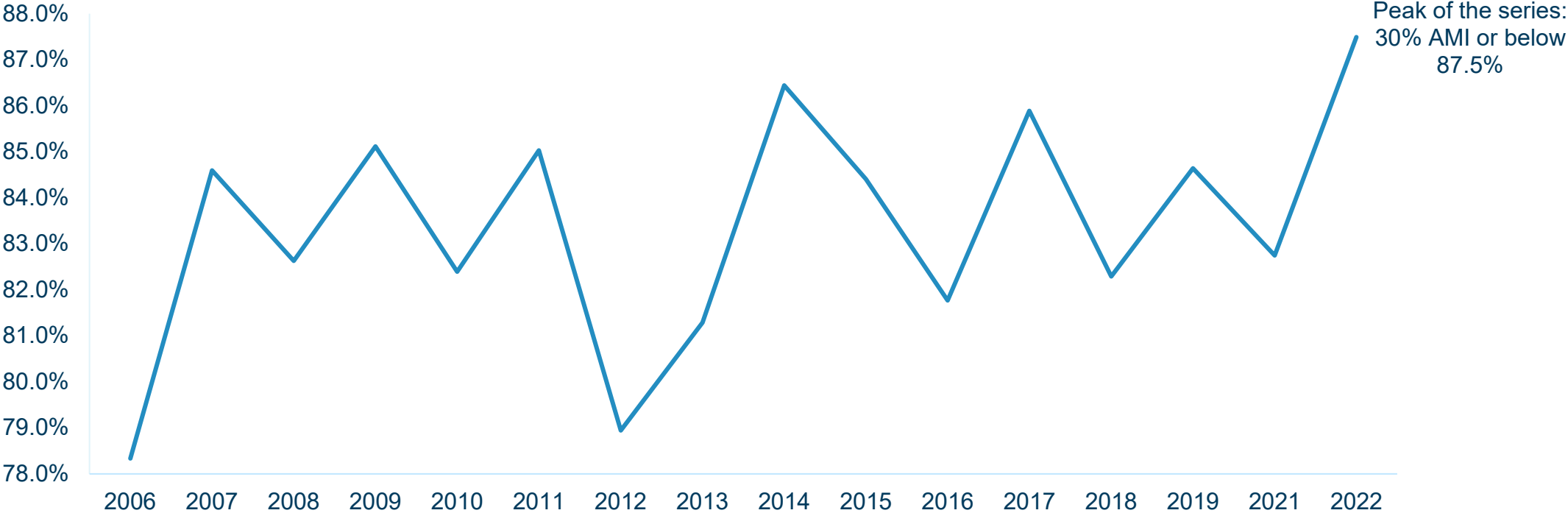


Source: Minneapolis Fed calculations, using the U.S. Census Bureau's American Community Survey. Calculations developed using localized area median incomes and may not match calculations developed with the statewide area median income.



LOWEST INCOME FACE BIGGEST CHALLENGES

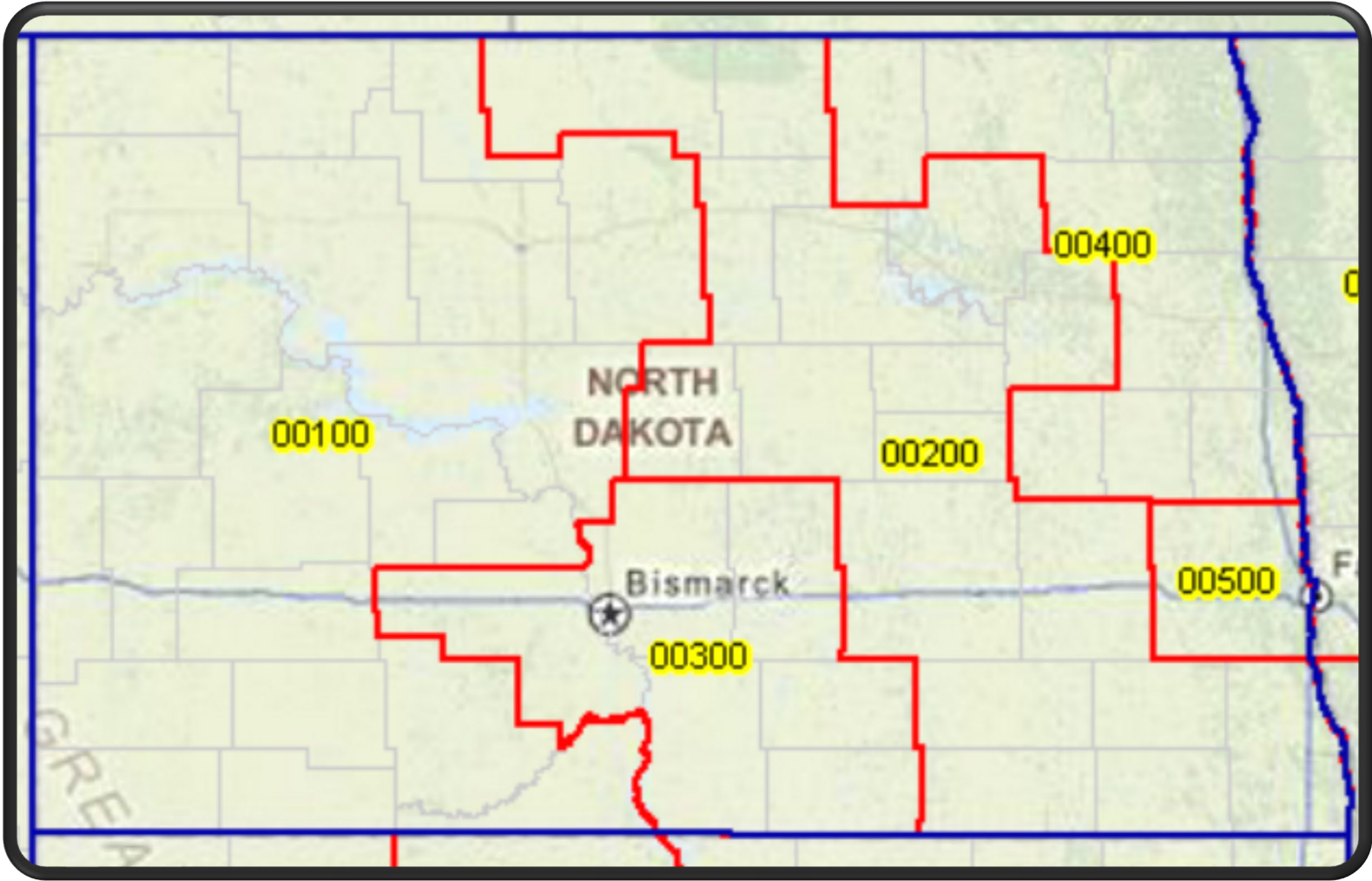
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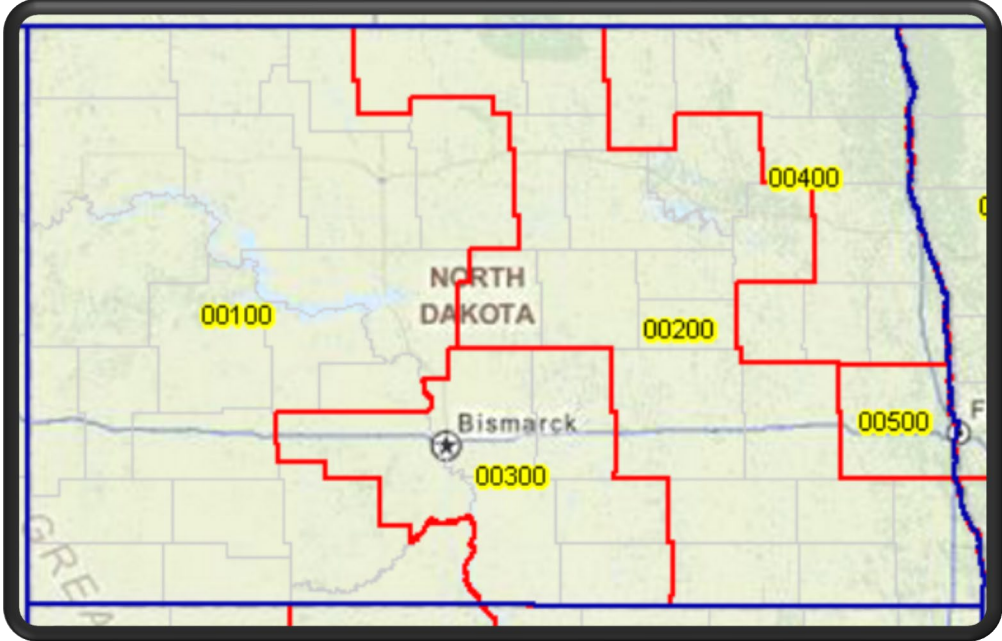
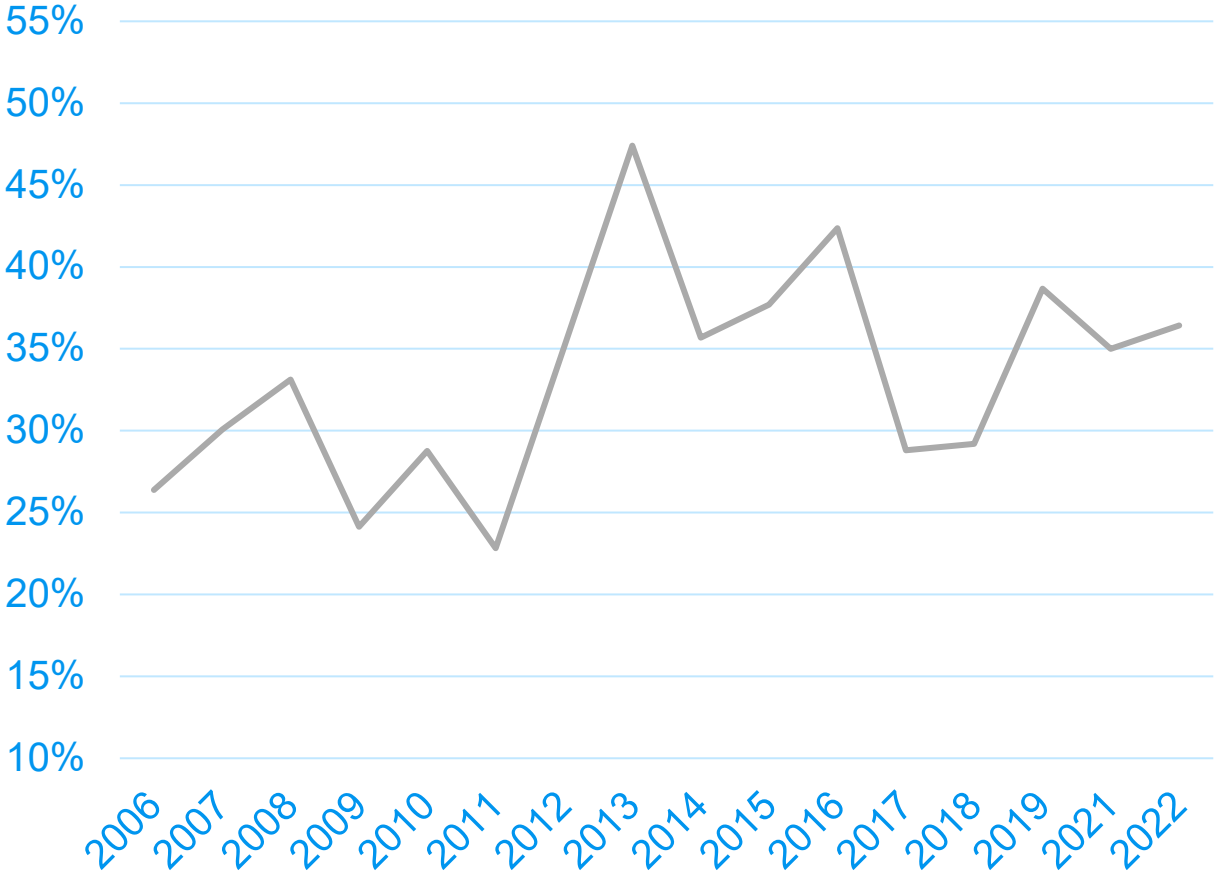


COST BURDEN OVER TIME – 30-80% AMI BY PUMA



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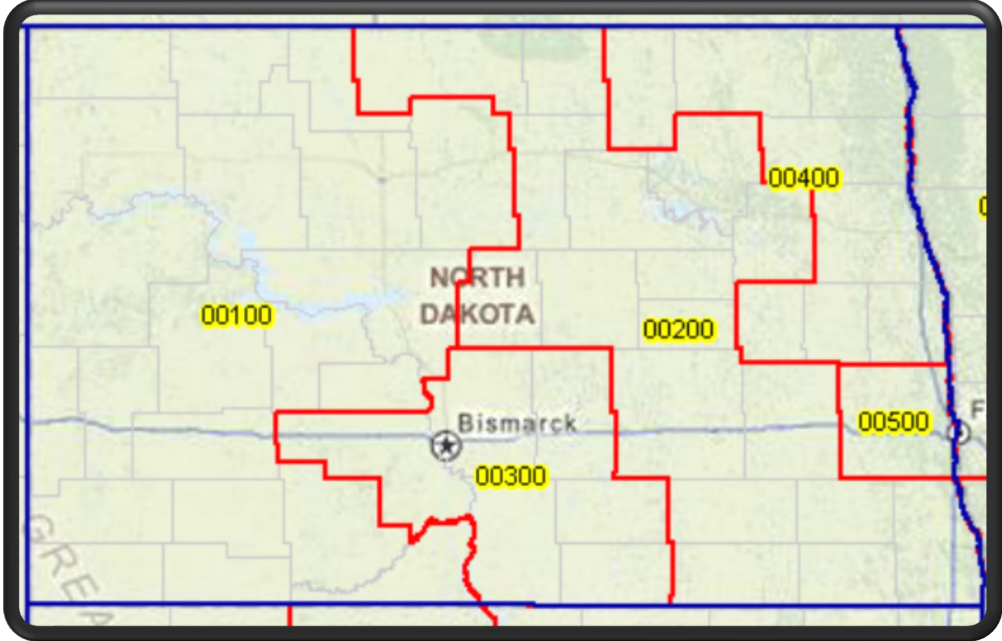
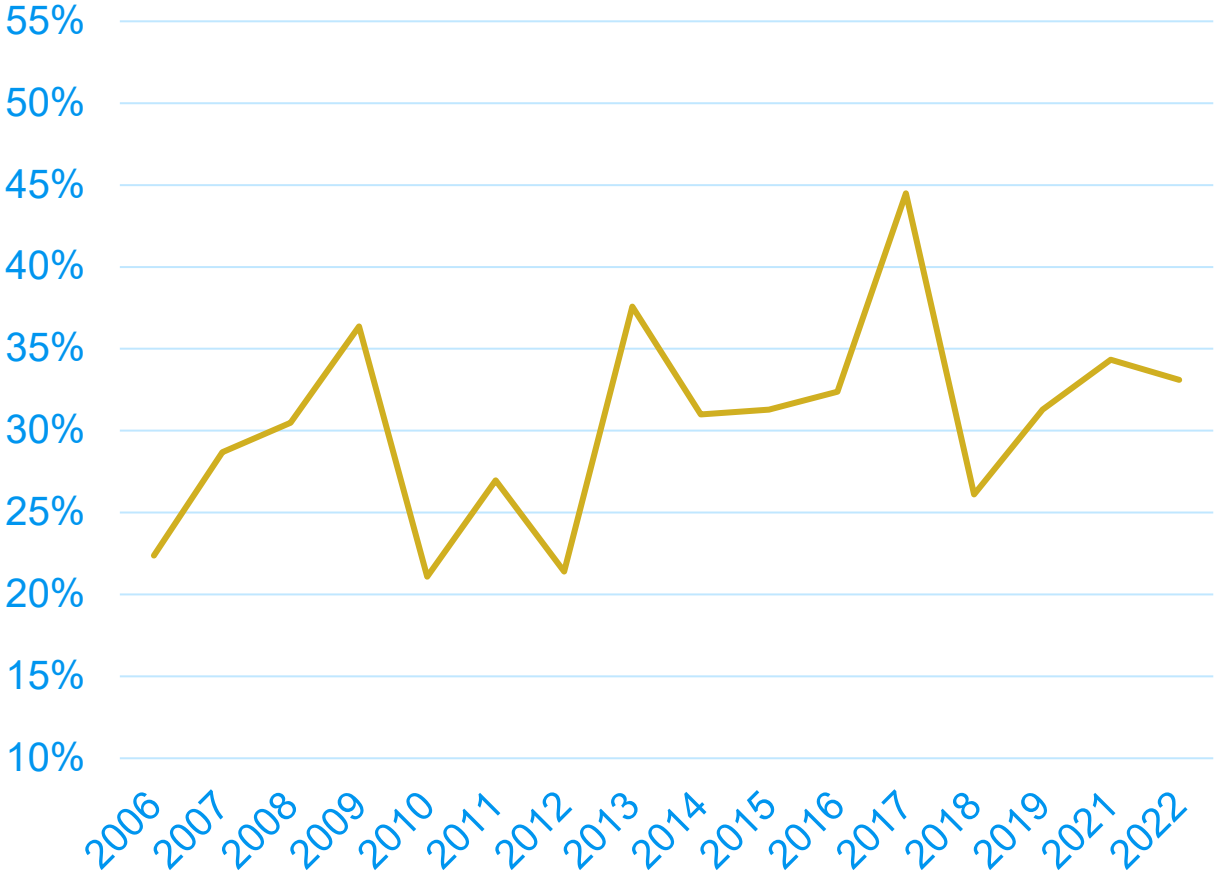
Western ND (00100)



Source: Minneapolis Fed calculations, using the U.S. Census Bureau’s American Community Survey.

COST BURDEN OVER TIME – 30-80% AMI BY PUMA

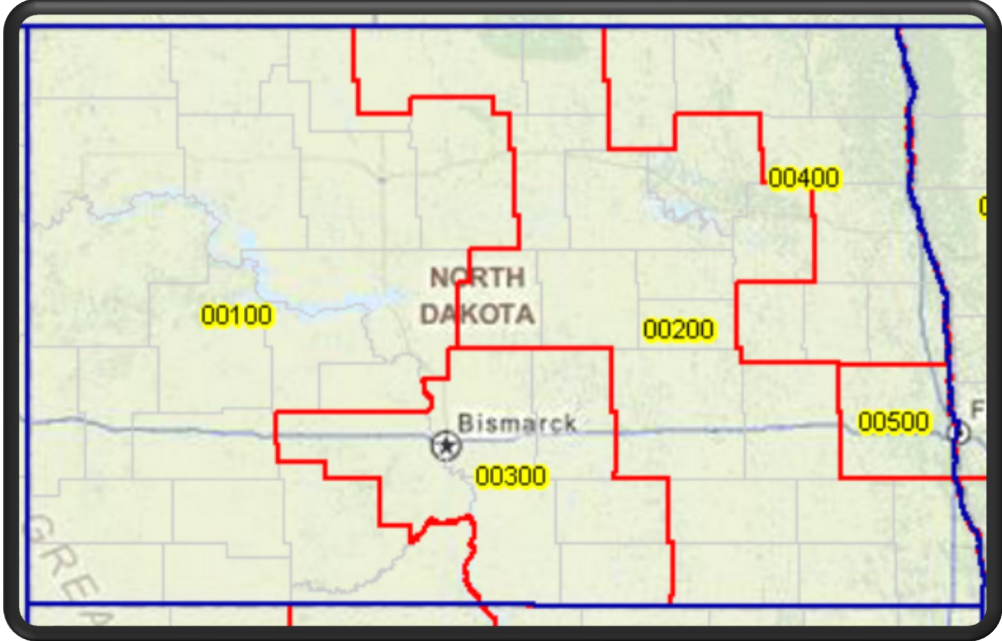
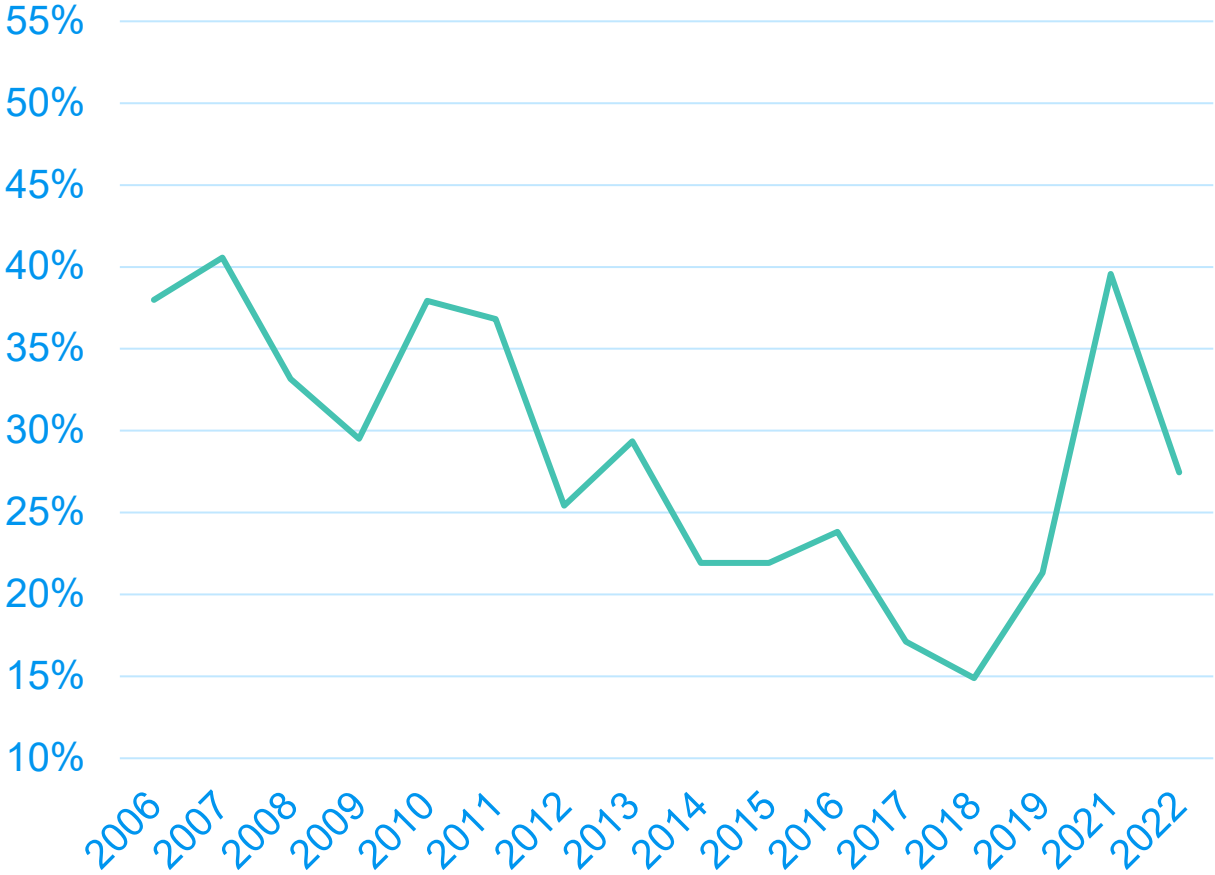
Bismarck (00300)



Source: Minneapolis Fed calculations, using the U.S. Census Bureau's American Community Survey.

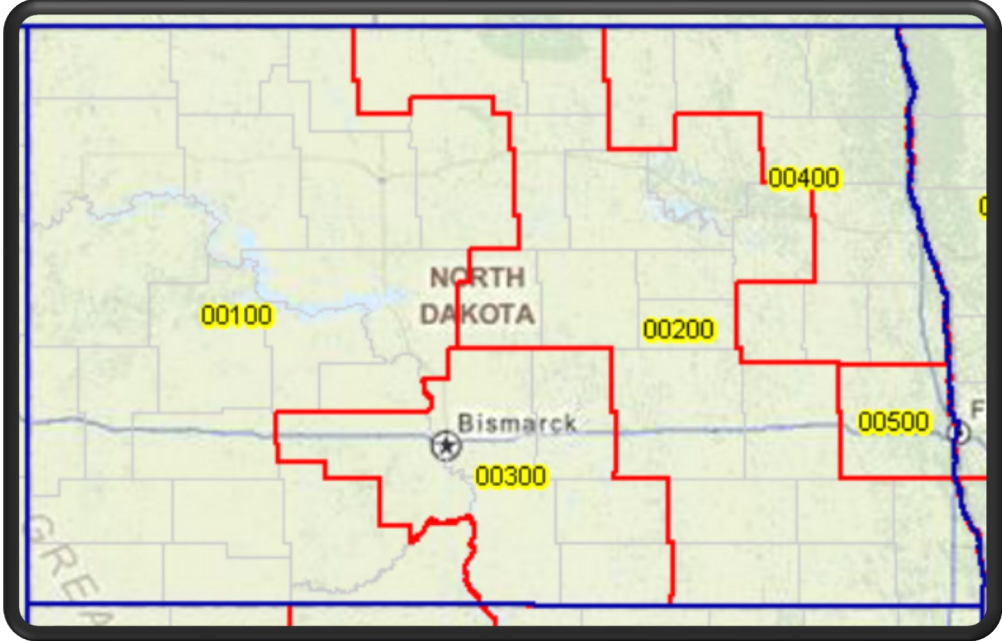
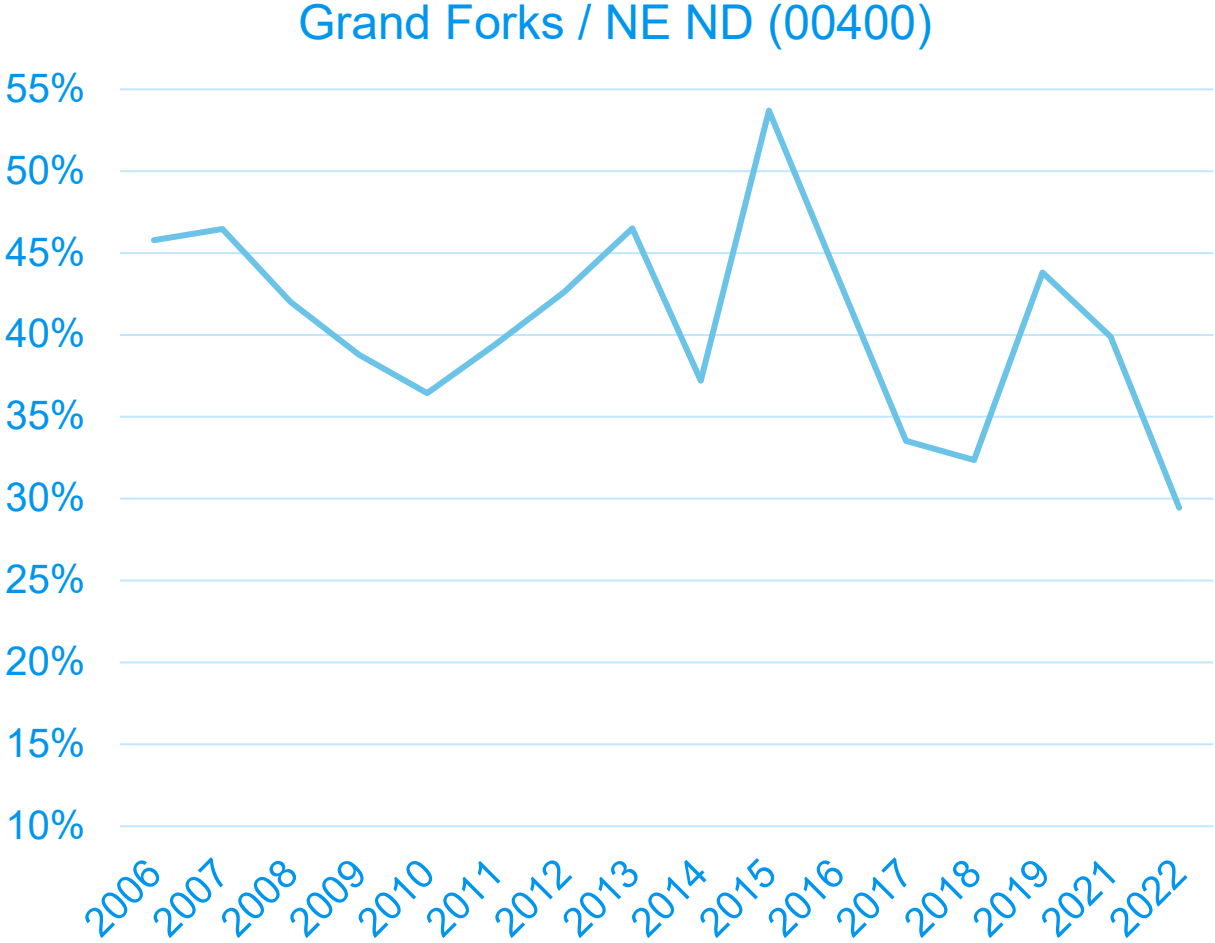
COST BURDEN OVER TIME – 30-80% AMI BY PUMA

Jamestown / Central / Southeastern (00200)

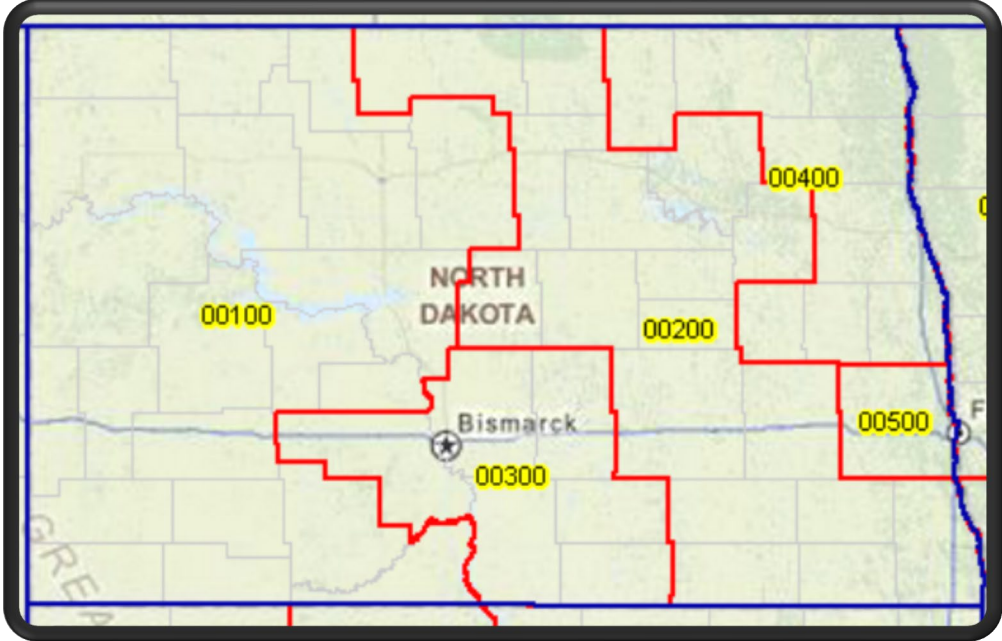
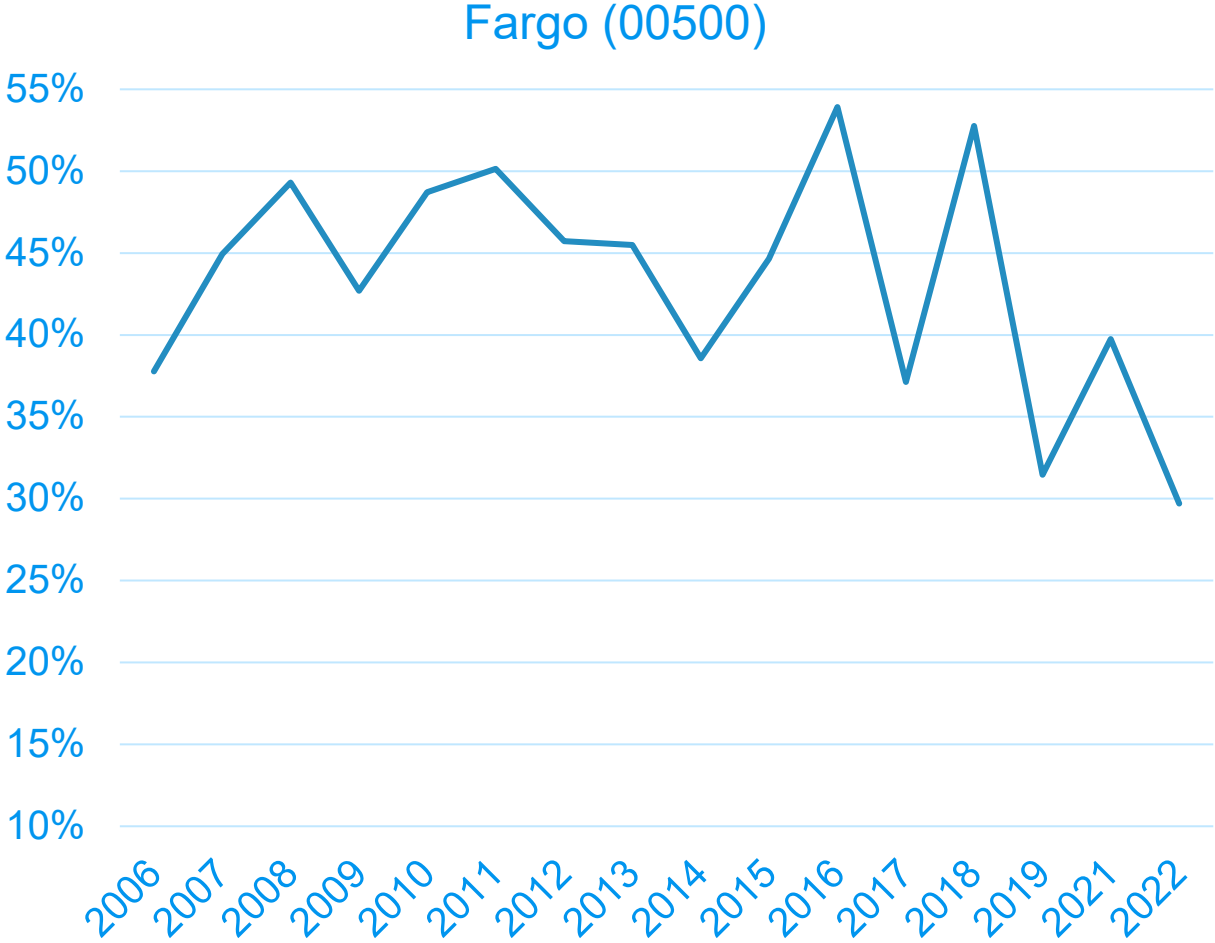


Source: Minneapolis Fed calculations, using the U.S. Census Bureau's American Community Survey.

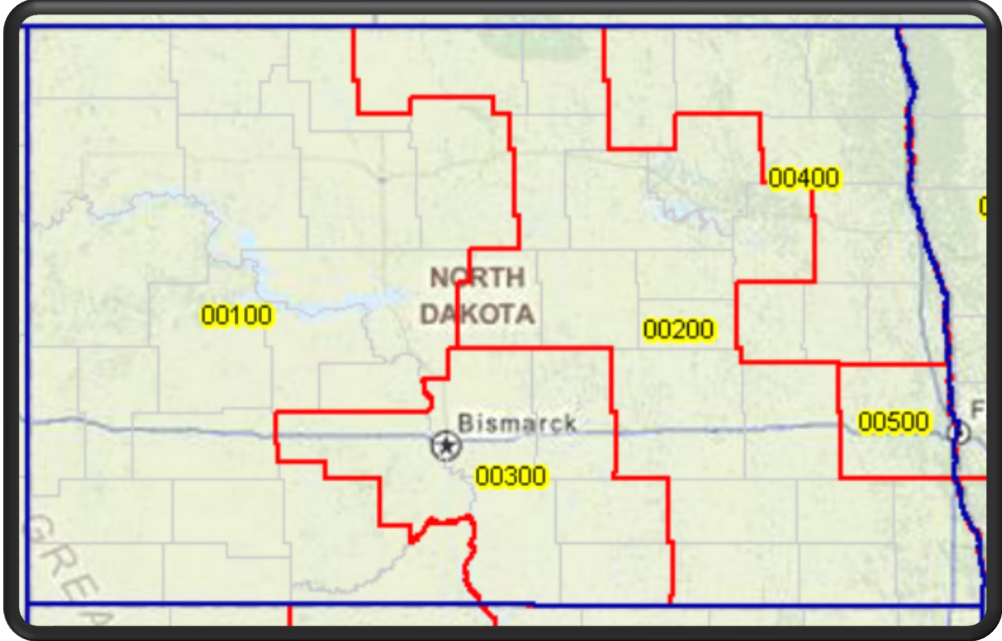
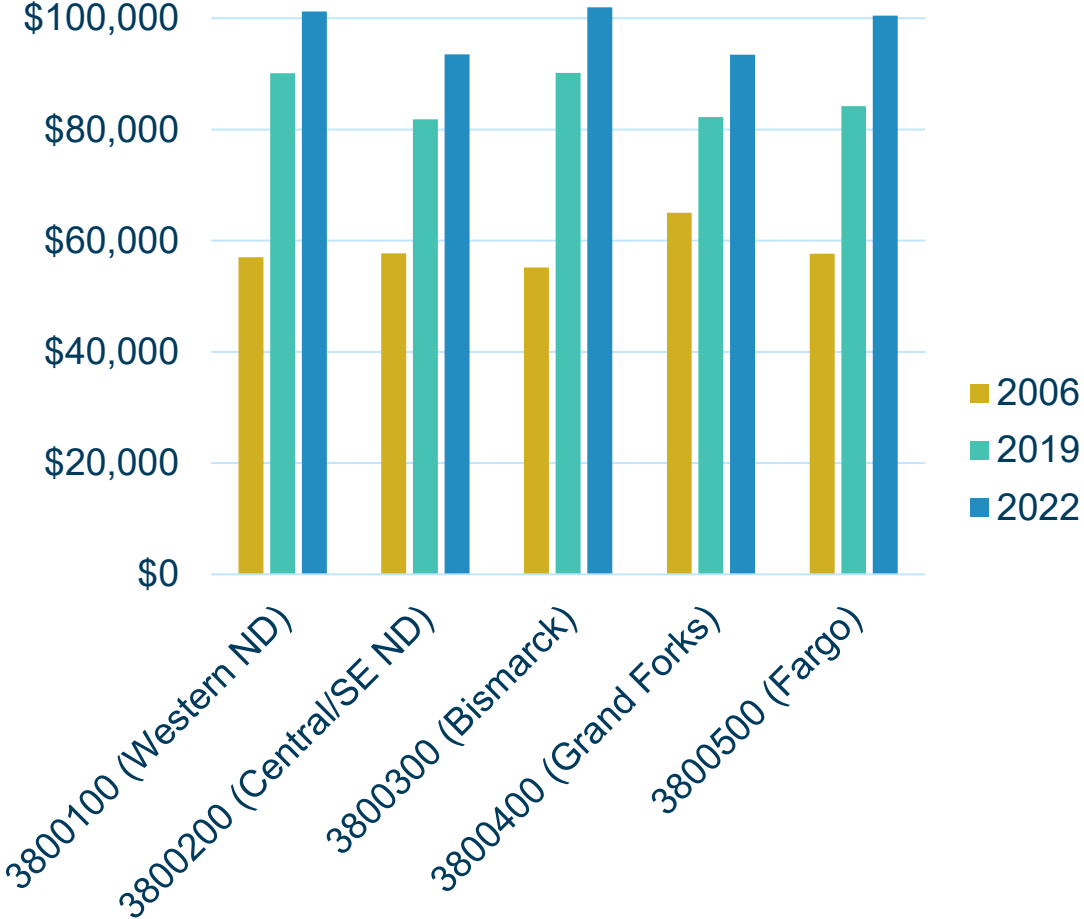
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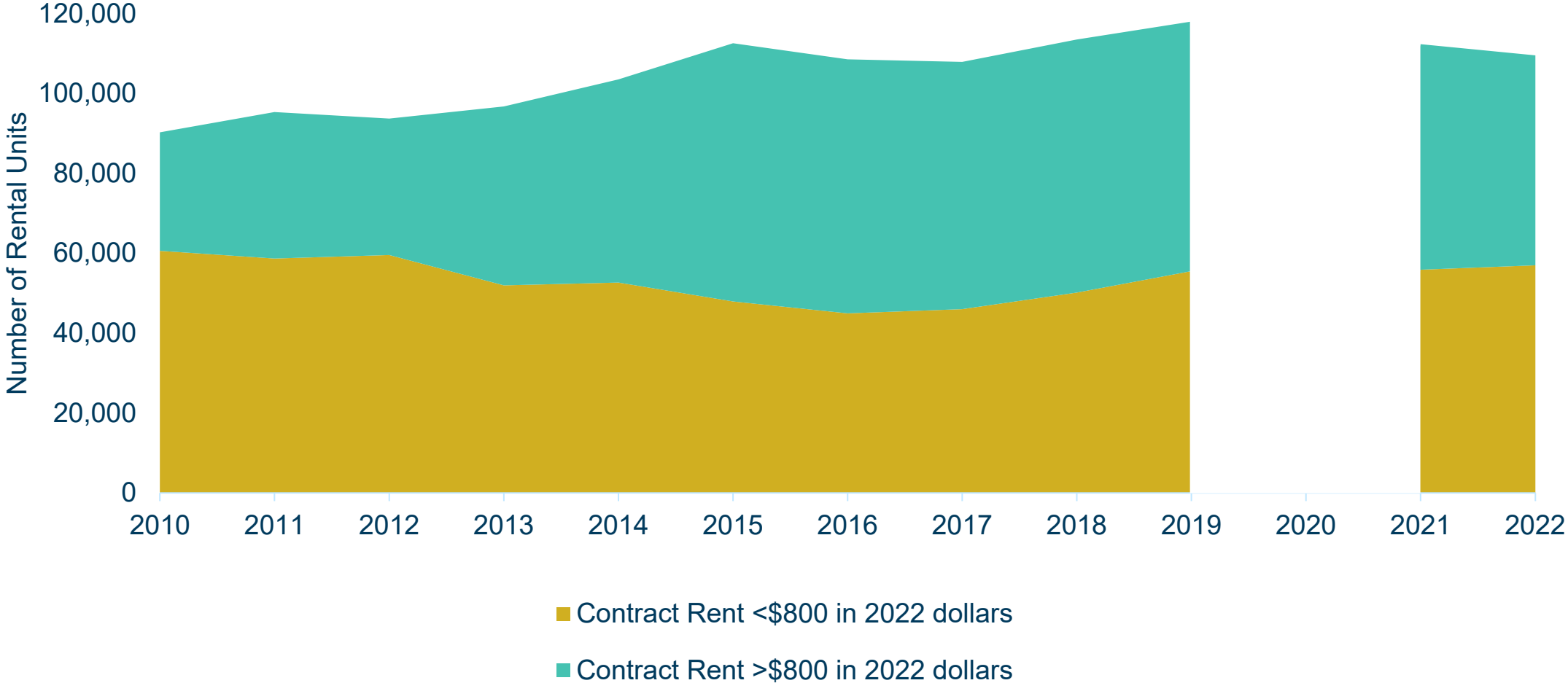
COST BURDEN OVER TIME – 30-80% AMI BY PUMA



MEDIAN 4-PERSON HOUSEHOLD INCOME (NOMINAL \$)



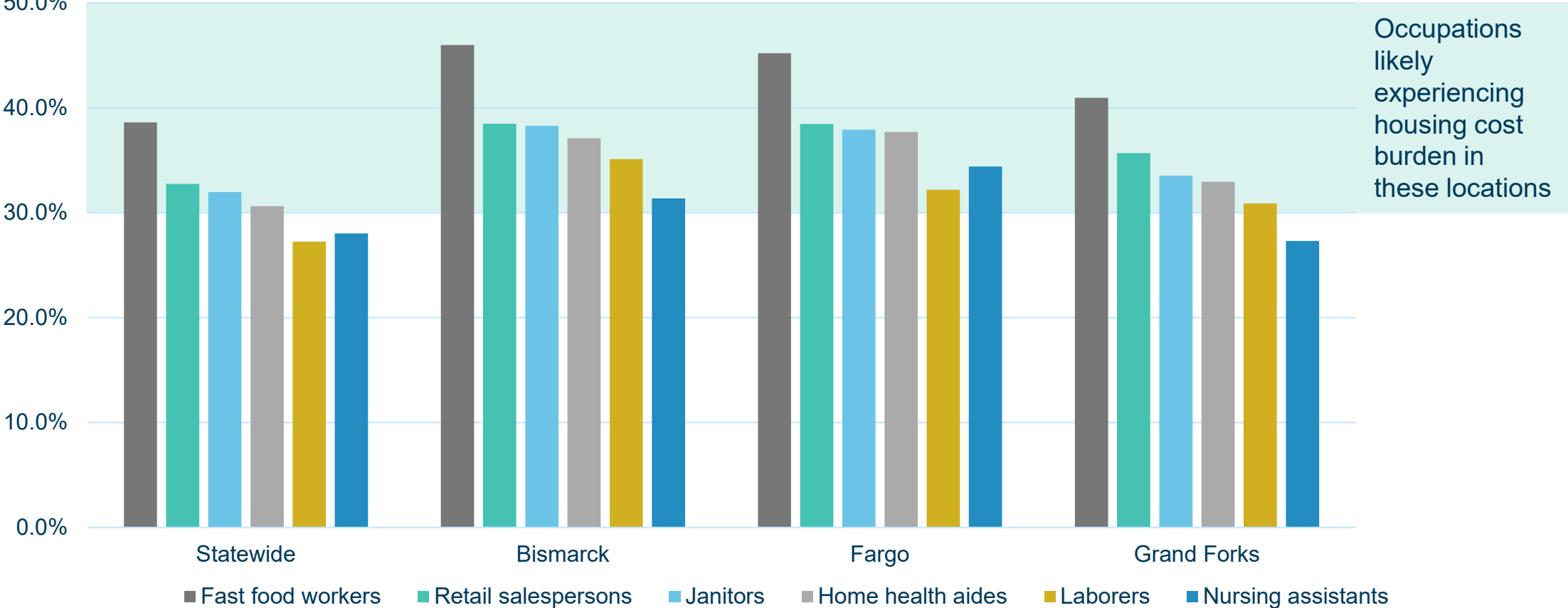
HIGHER-RENT UNITS DRIVE SUPPLY INCREASE



Source: Minneapolis Fed calculations, using the U.S. Census Bureau's American Community Survey

WAGES FOR LARGE OCCUPATIONS AND MEDIAN RENTS

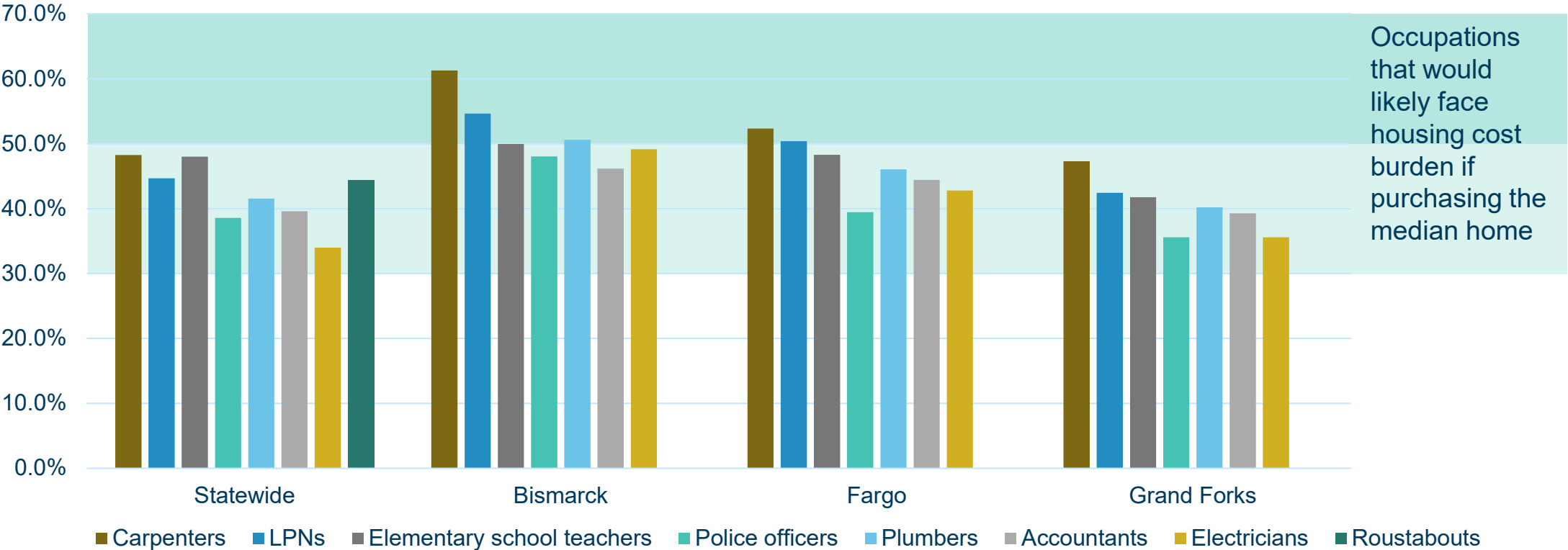
Median rent as a percentage of monthly median wages



Source: Zillow, Zillow Observed Rent Index; Bureau of Labor Statistics, Occupational Employment and Wage Statistics (assumes 40 hours / week). All data for May 2023.

MIDDLE-CLASS INCOMES VS. MEDIAN HOME PRICES

Monthly payment for median home as a share of monthly median wages (May 2023)



Source: Zillow, Zillow Housing Value Index and Bureau of Labor Statistics, Occupational Employment and Wage Statistics. Presumes a 10% downpayment and prevailing mortgage interest rates from May 2023, assumes a 40 hour / week



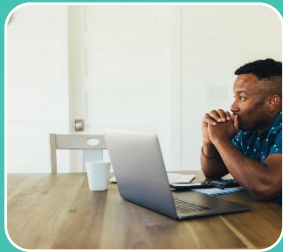
**BETTER UNDERSTANDING
SUPPLY AND DEMAND FOR
HOUSING IN NORTH
DAKOTA**

A FEW WAYS TO THINK ABOUT “ENOUGH” HOUSING:



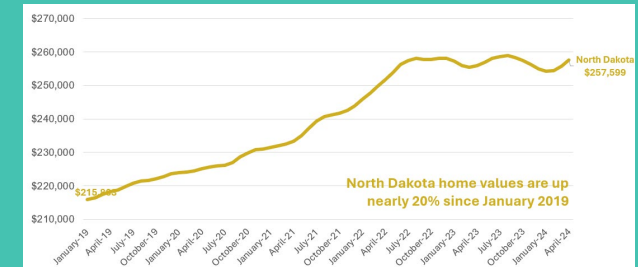
Demographically

- Does the stock of housing align with the needs of households?



Affordably

- Are there enough housing units to avoid demand outstripping supply and driving up prices?



Numerically

- Are there enough housing units for households (both today’s and tomorrow’s)?

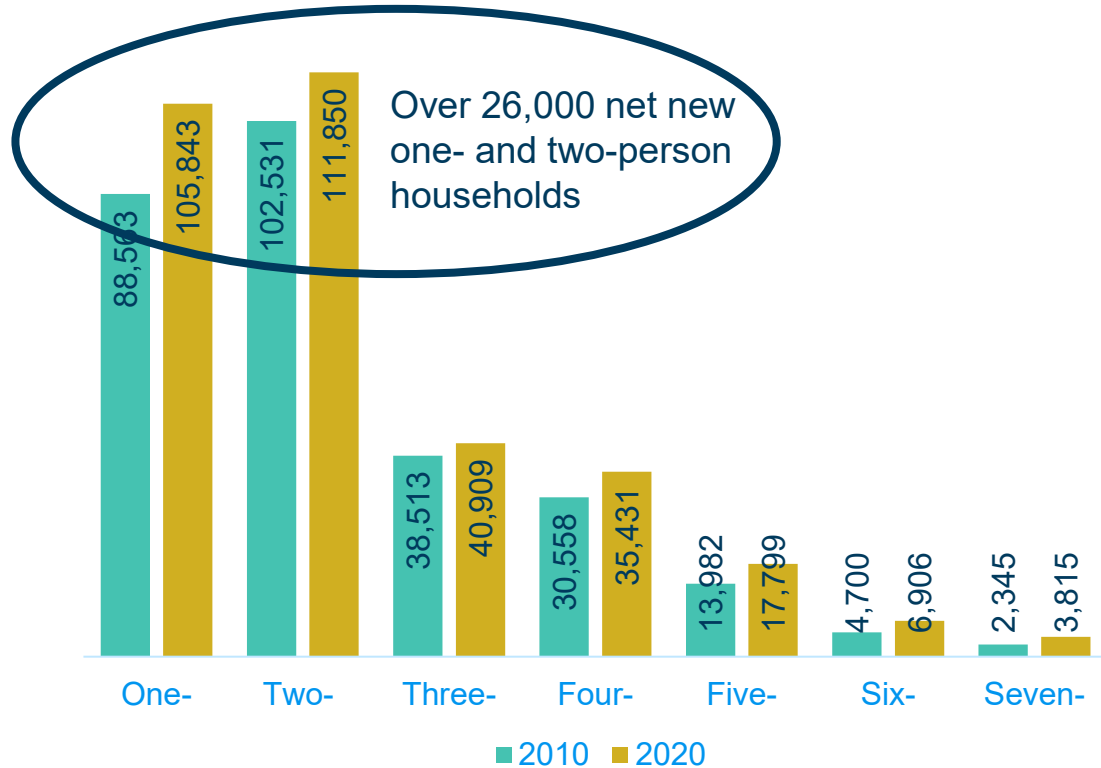
$$\left[\begin{array}{c} \text{Households} \\ + \\ \text{Missing} \\ \text{Households} \end{array} \right] \times 1.05 \quad (1+ \text{Target Vacancy Rate}) \quad - \quad \left[\begin{array}{c} \text{Total Housing Units} \\ - \\ \text{2nd and Vacation Homes} \\ - \\ \text{Uninhabitable Units} \end{array} \right]$$

TARGET NUMBER OF HOUSING UNITS UNITS THAT ARE RENTER OR OWNER OCCUPIED

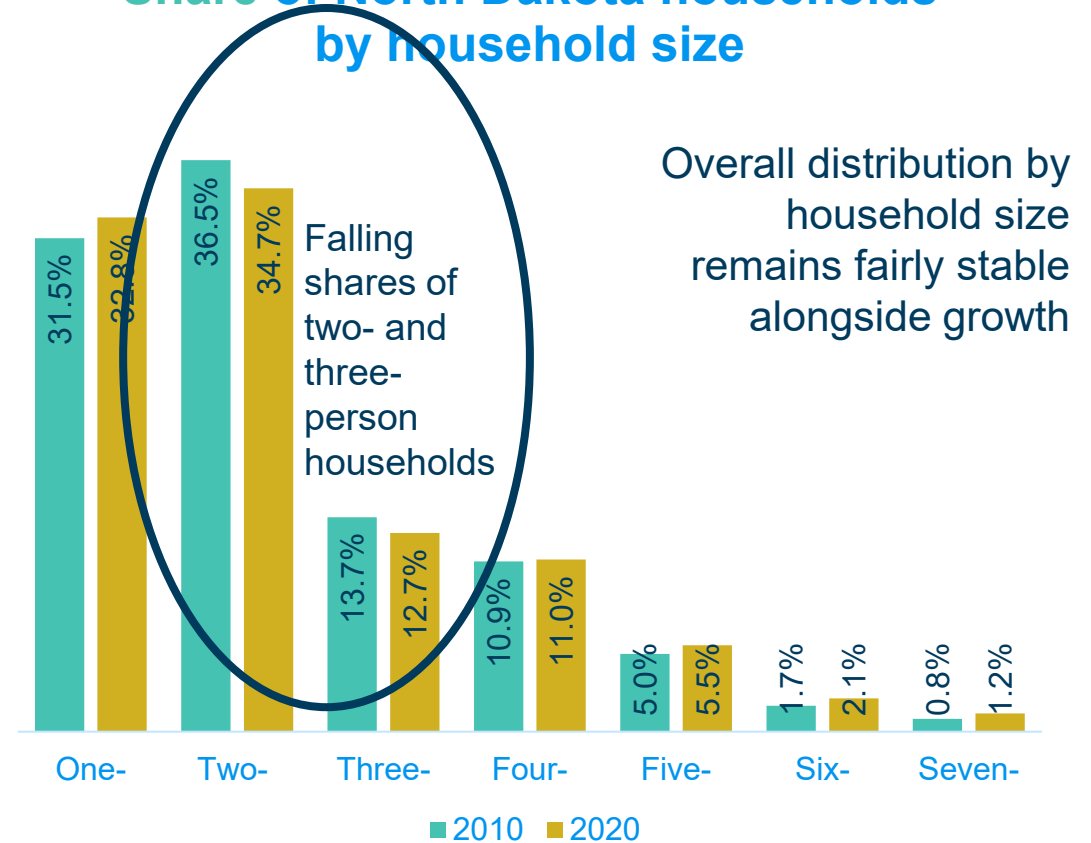


GROWTH CONSISTENT ACROSS HOUSEHOLD SIZE

Number of North Dakota households by household size



Share of North Dakota households by household size

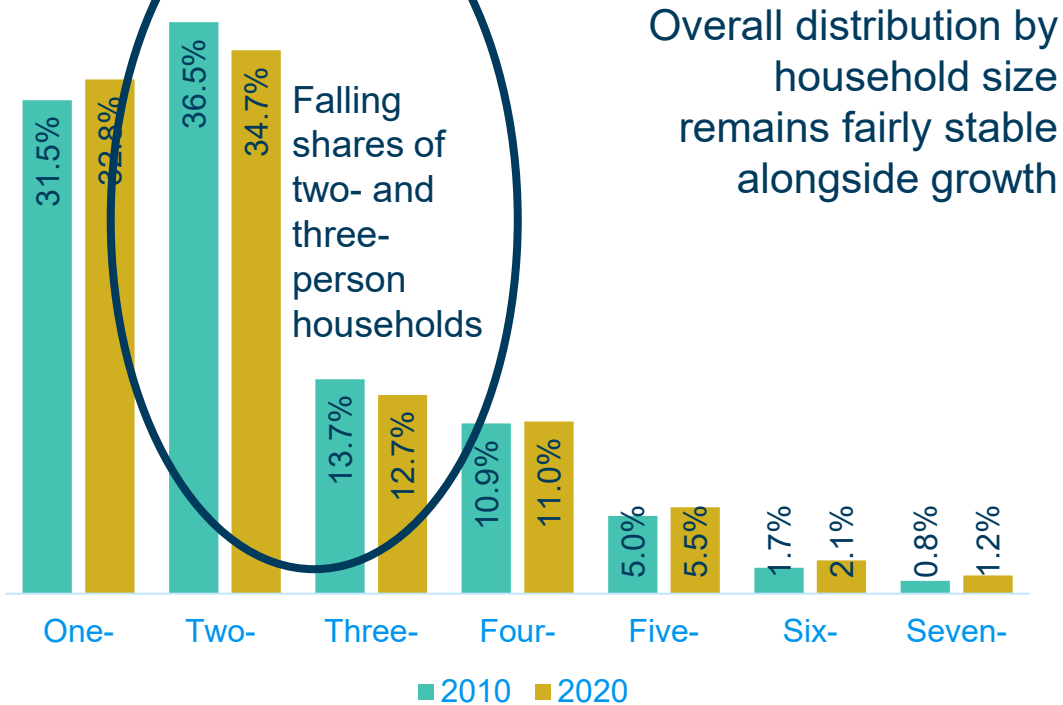


Source: U.S. Census Bureau, Decennial Census, 2010 and 2020

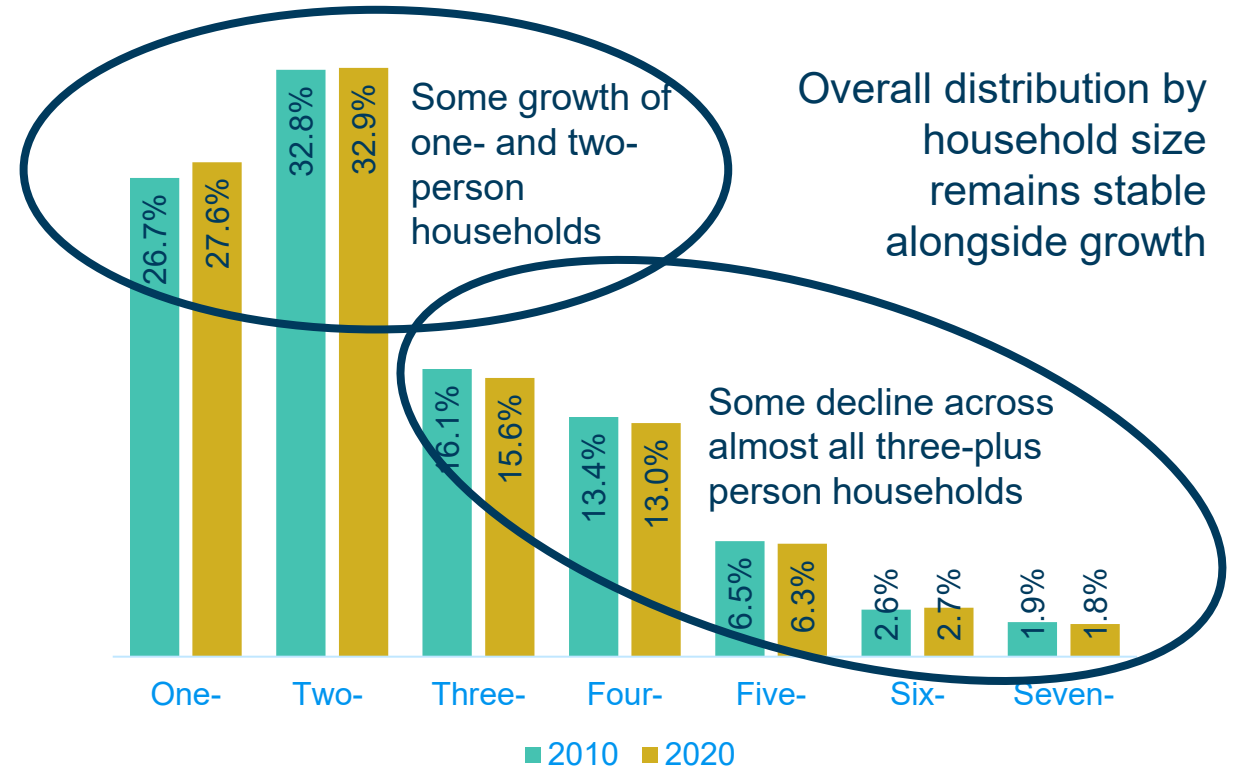


COMPARING NORTH DAKOTA TO THE NATION

Share of North Dakota households by household size



Share of U.S. households by household size



Source: U.S. Census Bureau, Decennial Census, 2010 and 2020



HOW DOES THE CENSUS DEFINE VACANT HOUSING?

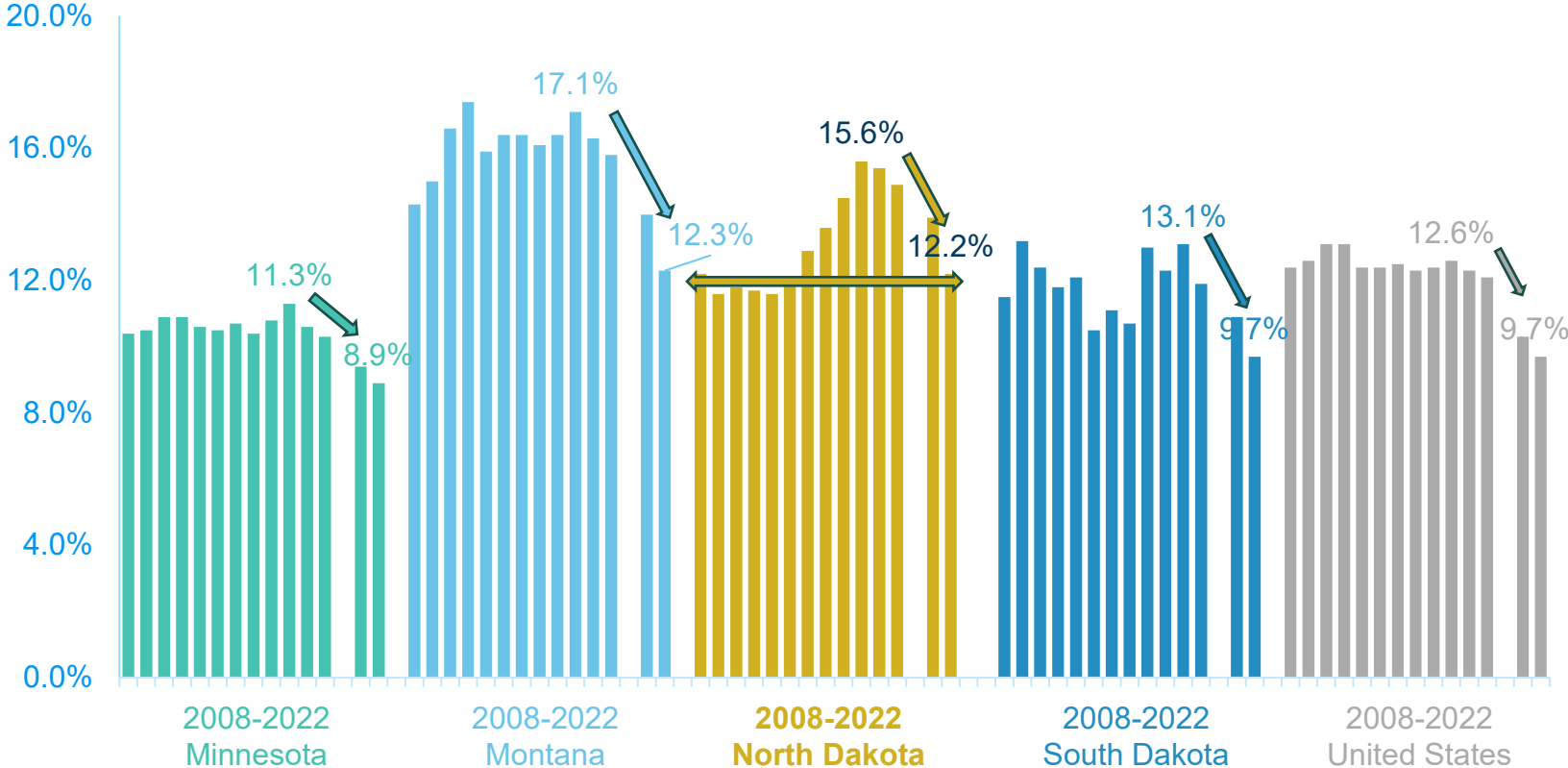


“A housing unit is vacant if no one is living in it at the time of the interview, unless its occupants are only temporarily absent [e.g., on vacation].”

- Includes units that are:
 - Occupied by persons who have a usual residence elsewhere (e.g., seasonal units)
 - Newly built with exterior windows, doors, and final floors
 - Available for rent or for sale
- Excludes units that are:
 - Exposed to the elements
 - Posted as to be demolished or is condemned
 - Used for nonresidential purposes
- American Community Survey asks residents if they live in a unit for more than two months
- Housing Vacancy Survey asks residents if a unit is their “usual residence”

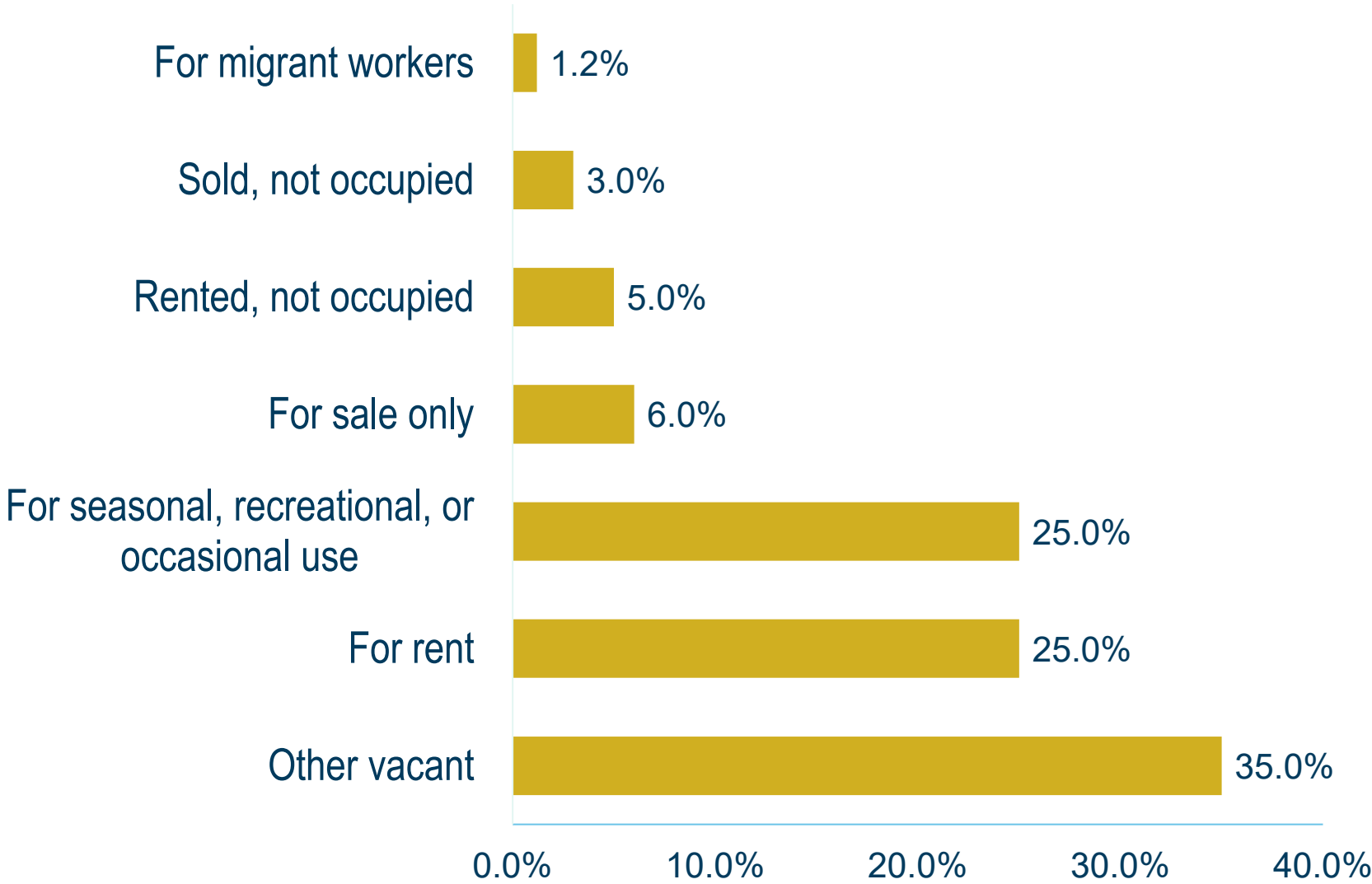


VACANCY RATES IN NEIGHBORING STATES



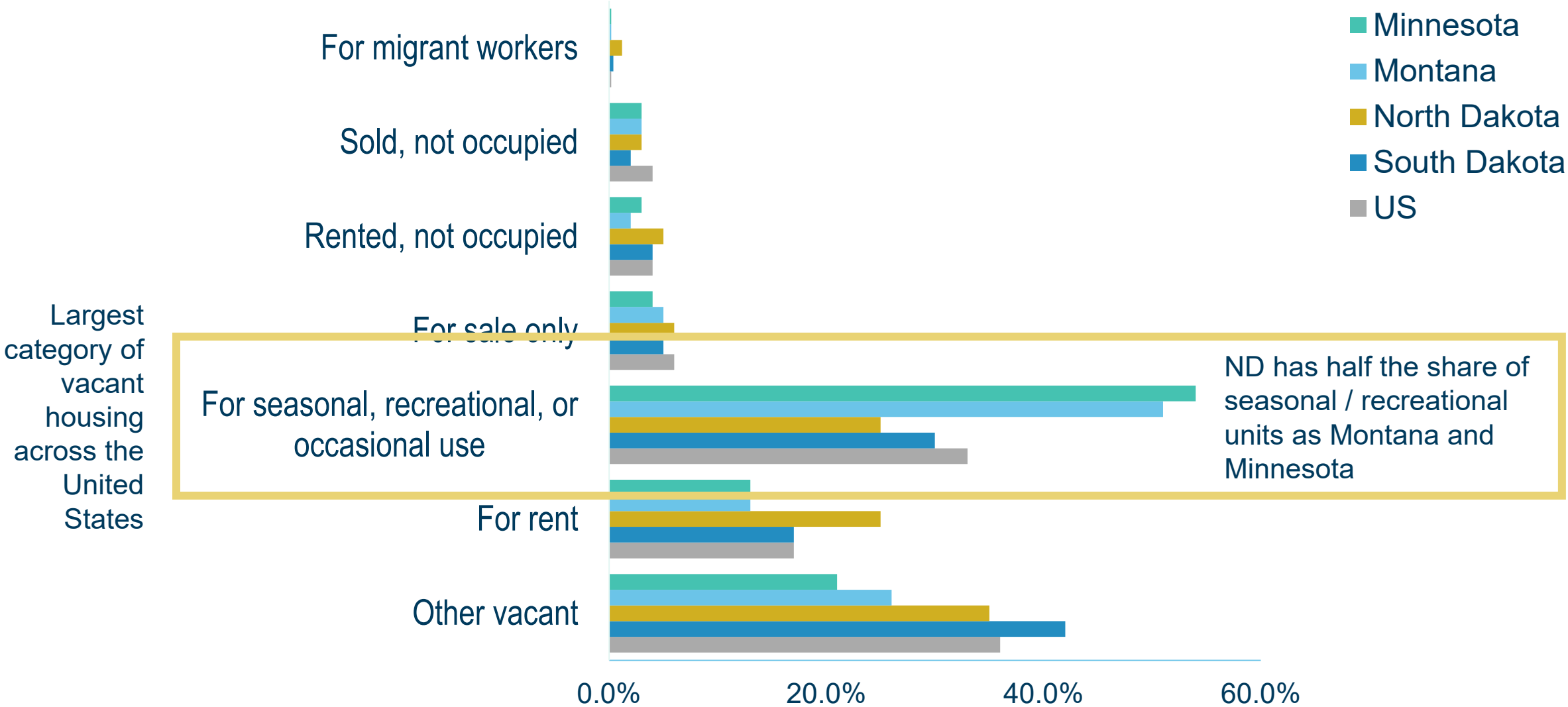
- Vacancy rates have fallen since peaking in 2017 (2018 in South Dakota)
- North Dakota’s vacancy rates have returned to previous levels

WHY ARE HOUSING UNITS VACANT (NORTH DAKOTA)?



Source: U.S. Census Bureau, American Community Survey, 2018-2022

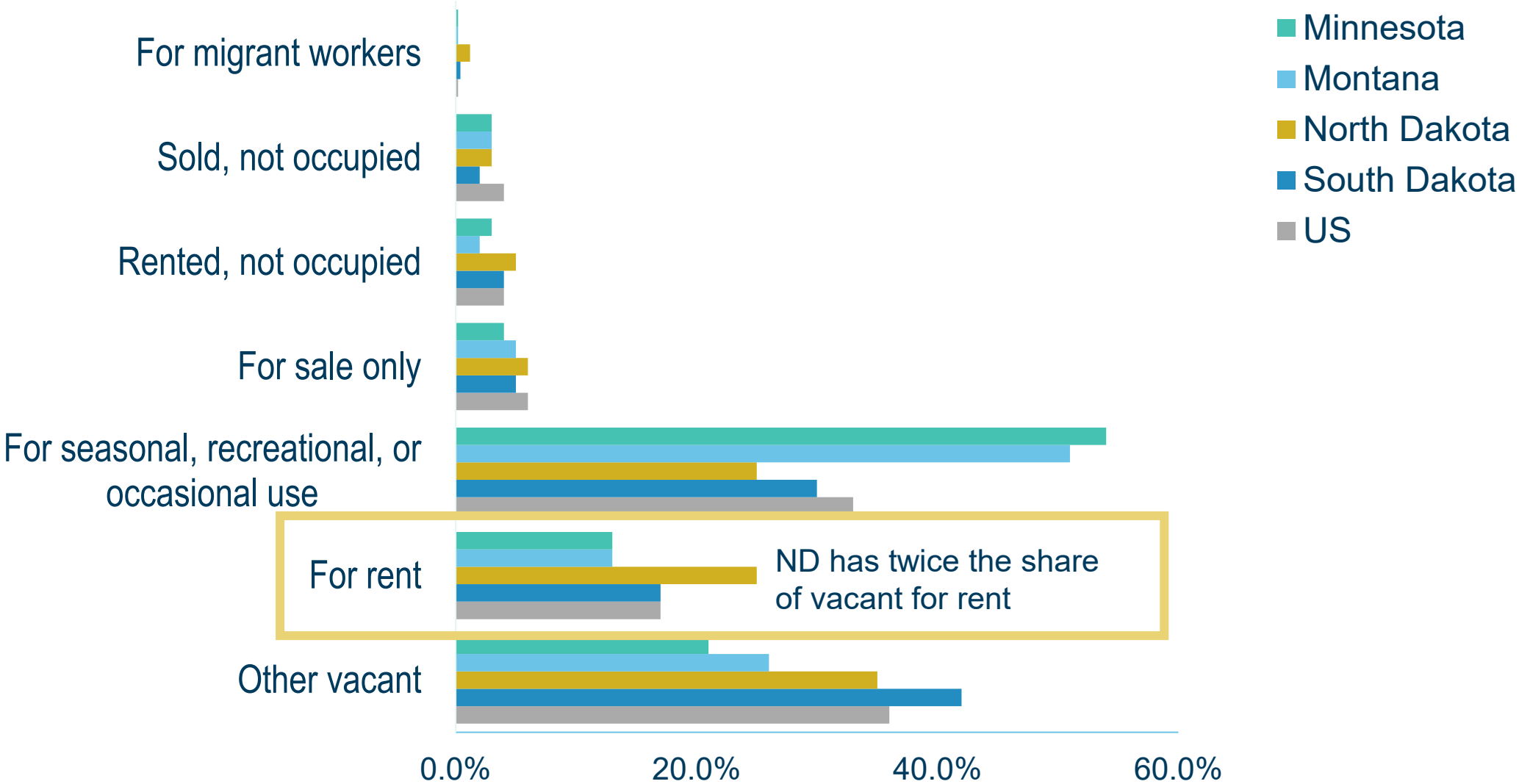
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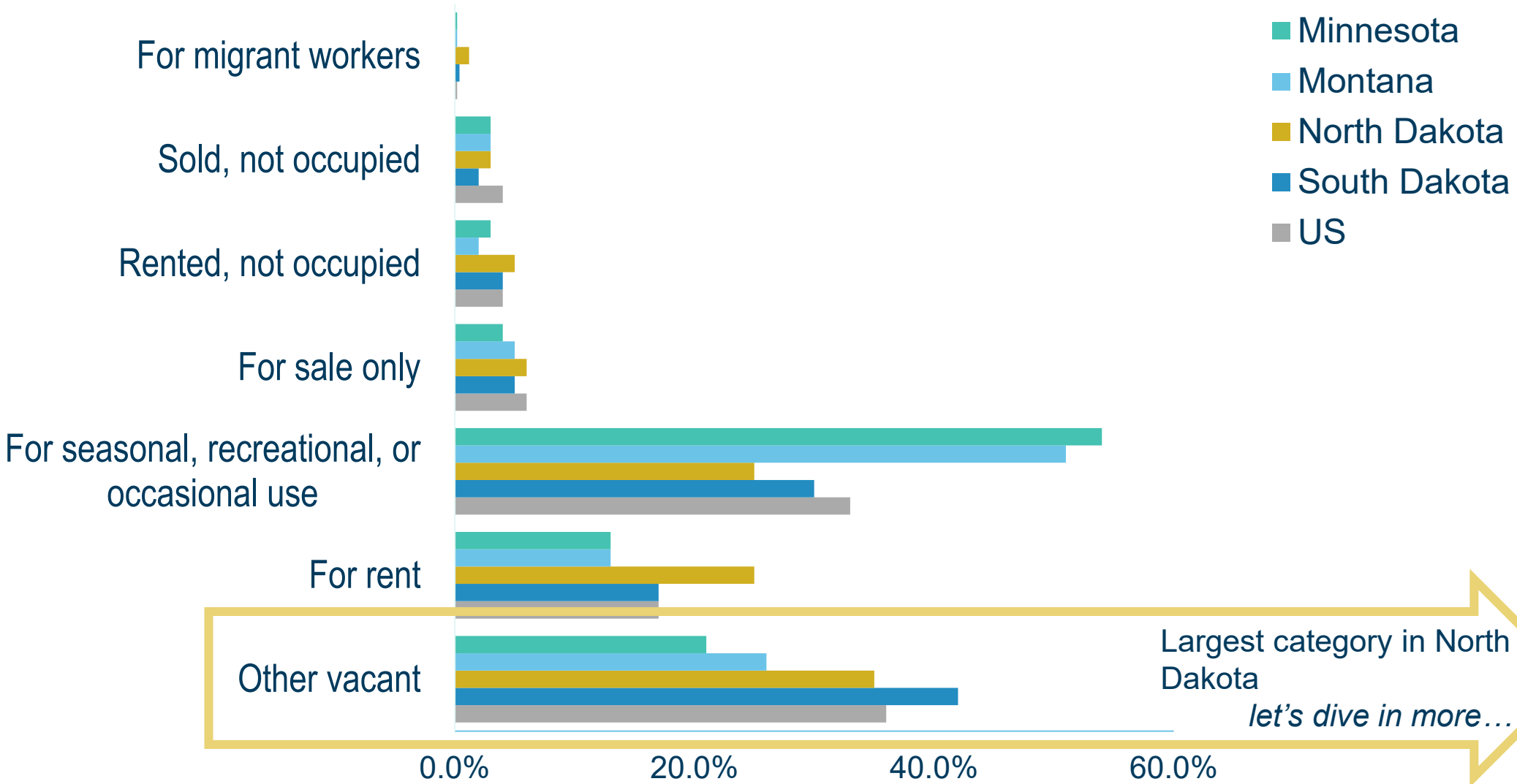
For seasonal, recreational, or occasional use

ND has half the share of seasonal / recreational units as Montana and Minnesota

WHY ARE HOUSING UNITS VACANT (NEIGHBORING STATES)?

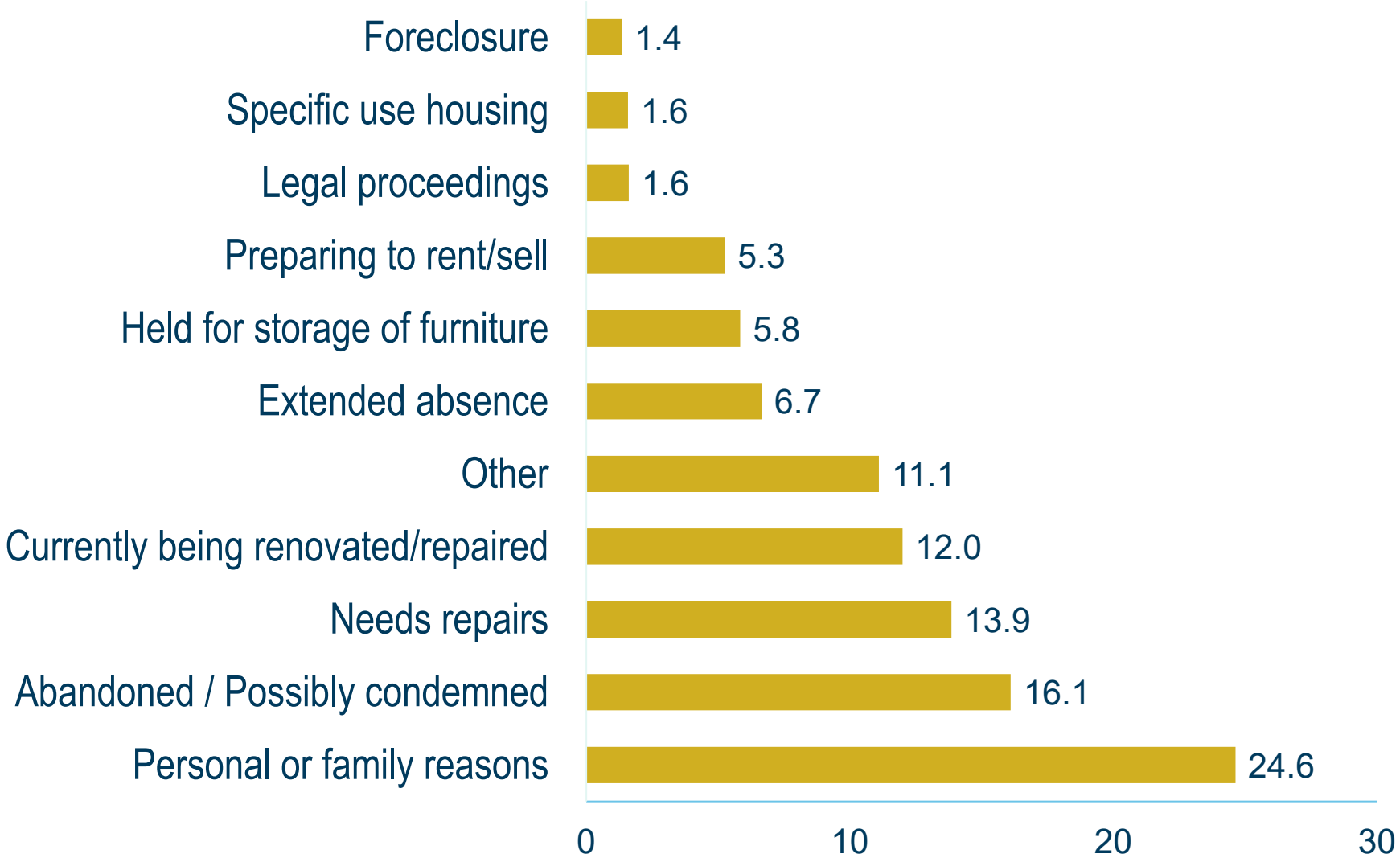


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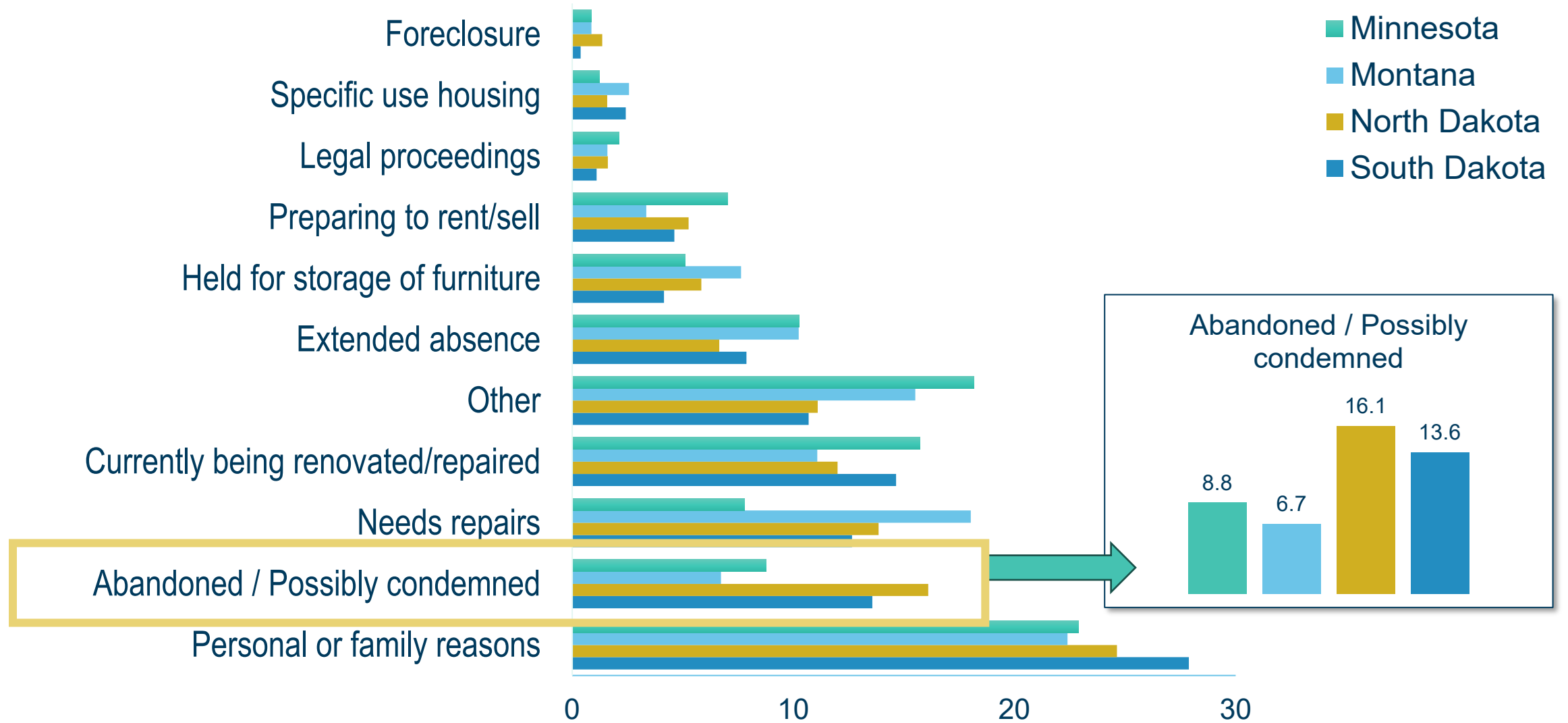


Largest category in North Dakota
let's dive in more...

UNDERSTANDING “OTHER” VACANT UNITS:

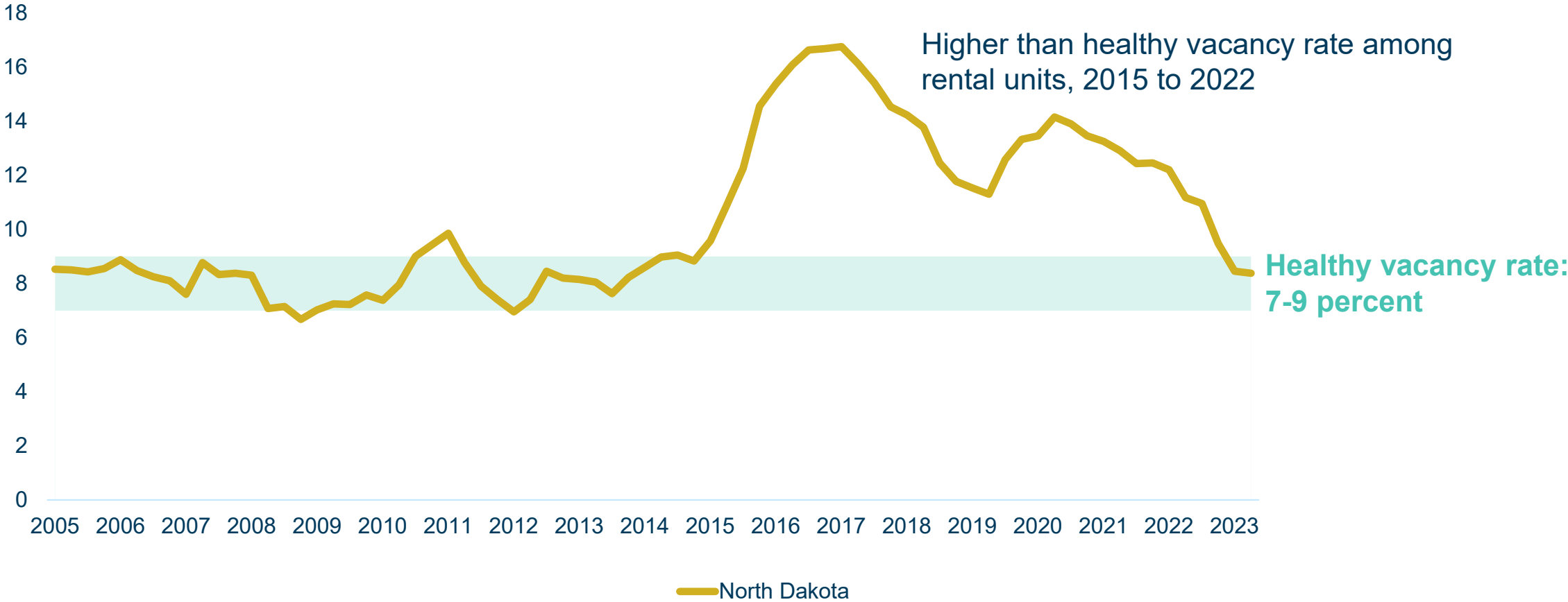


“OTHER” VACANT UNITS (NEIGHBORING STATES)



WHAT'S THE STORY BEHIND RENTAL VACANCY RATES?

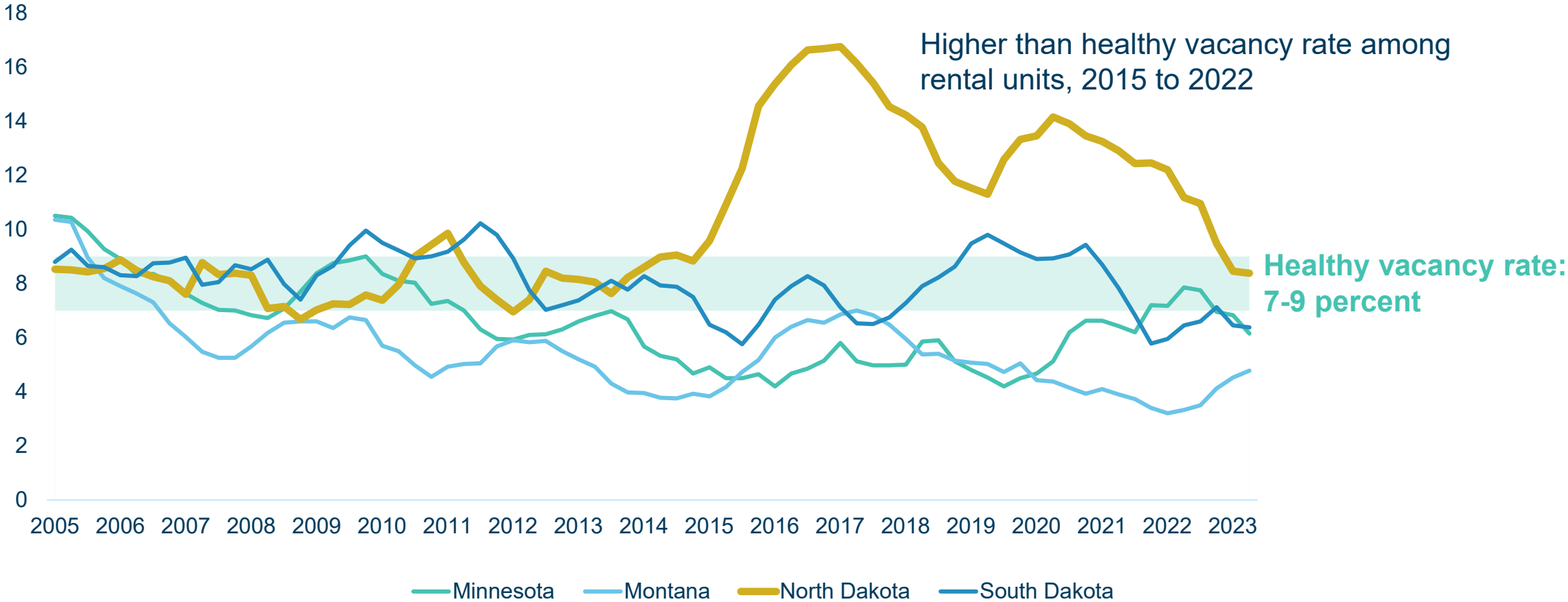
Rental Vacancy Rates



Source: U.S. Census Bureau, Housing Vacancy Survey, chart displays the average of the four previous quarters

WHAT'S THE STORY BEHIND RENTAL VACANCY RATES?

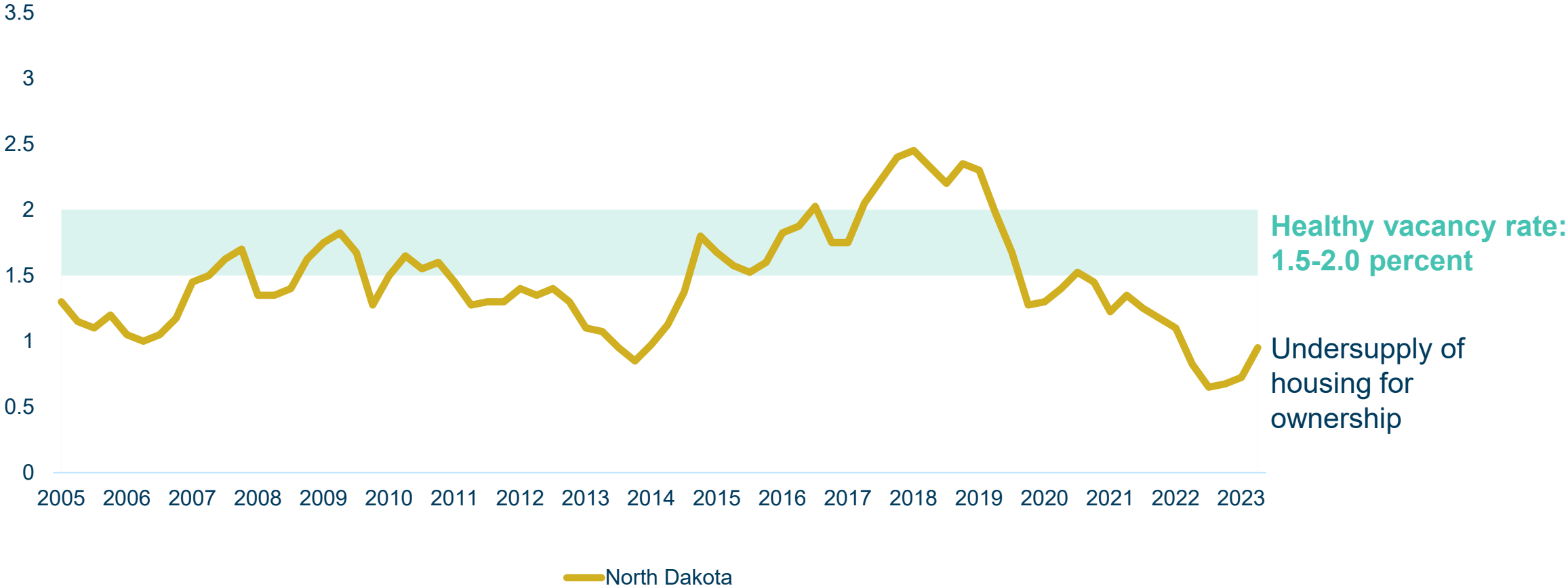
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Source: U.S. Census Bureau, Housing Vacancy Survey, chart displays the average of the four previous quarters

WHAT'S THE STORY ABOUT HOMEOWNER VACANCY RATES?

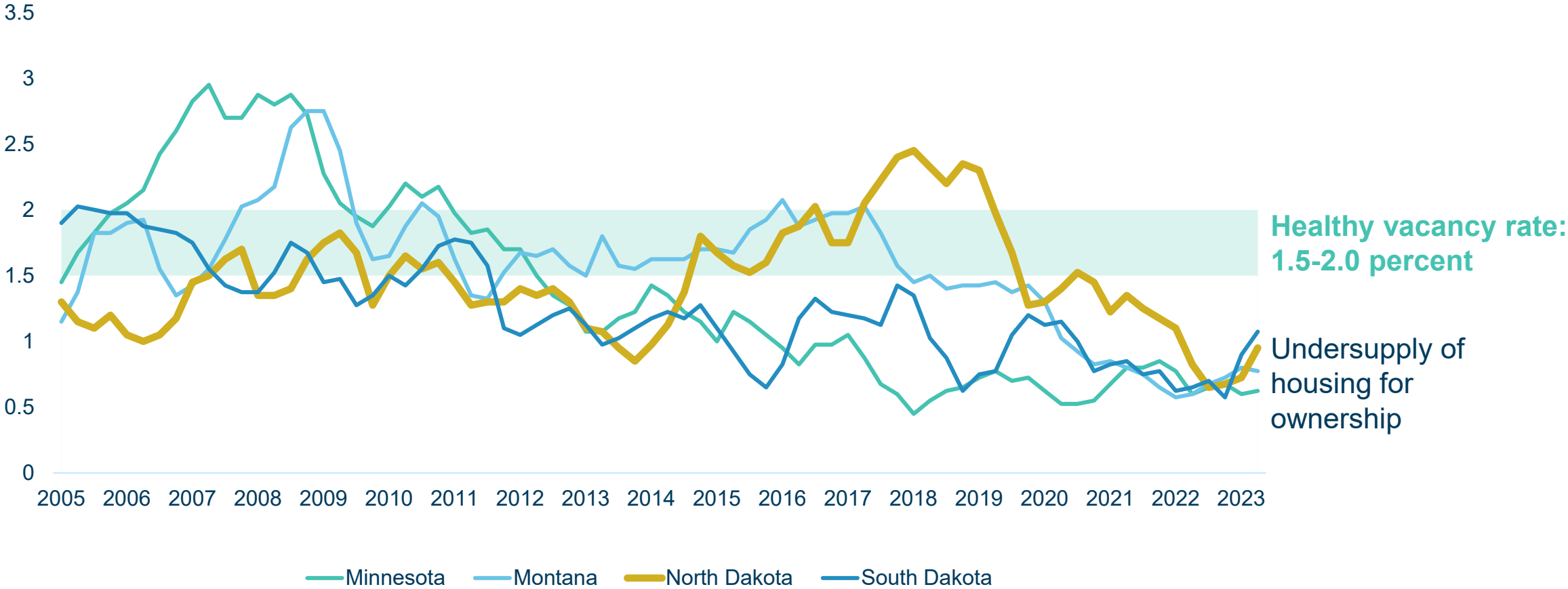
Homeowner Vacancy Rates



Source: U.S. Census Bureau, Housing Vacancy Survey, chart displays the average of the four previous quarters

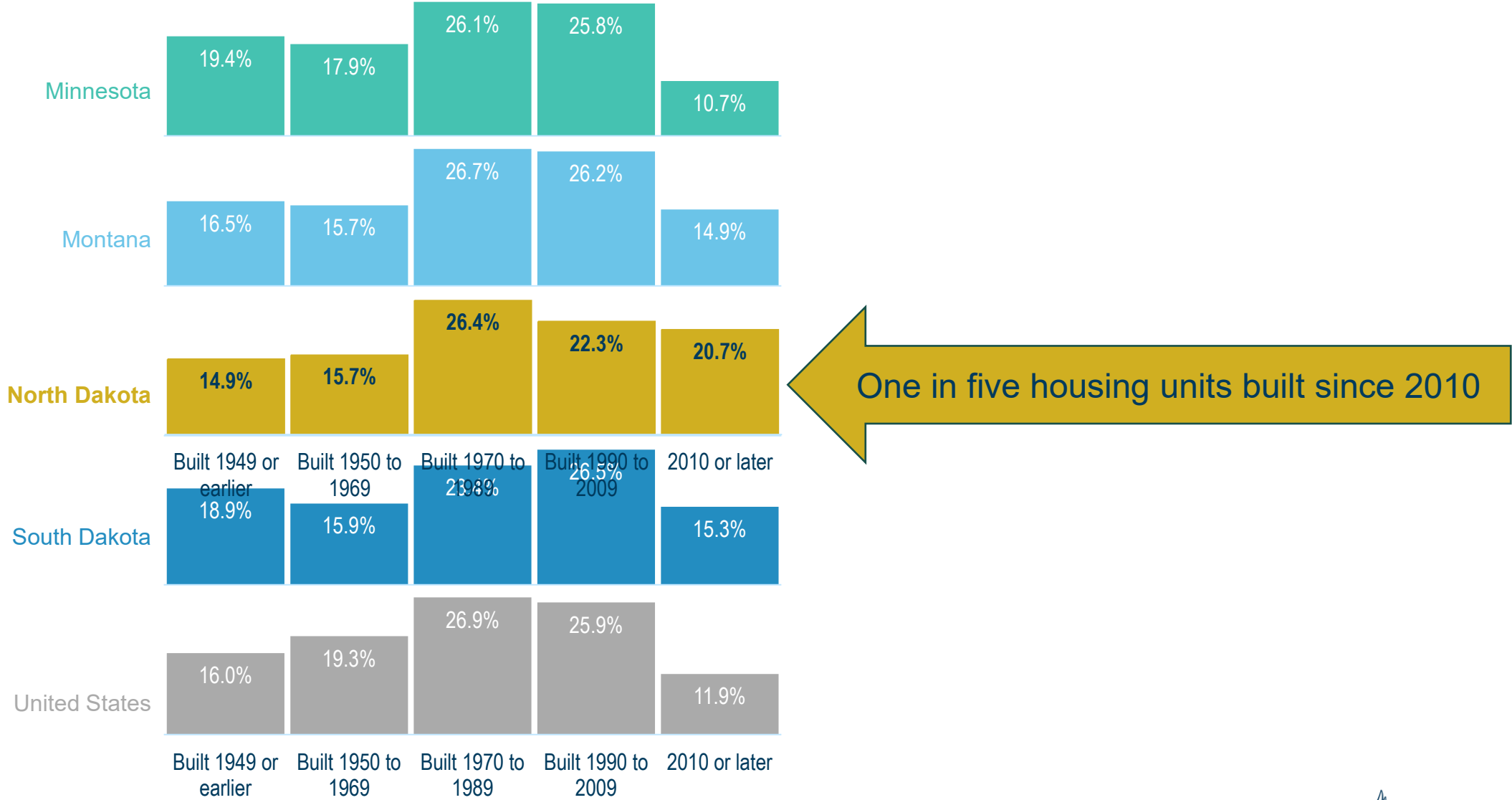
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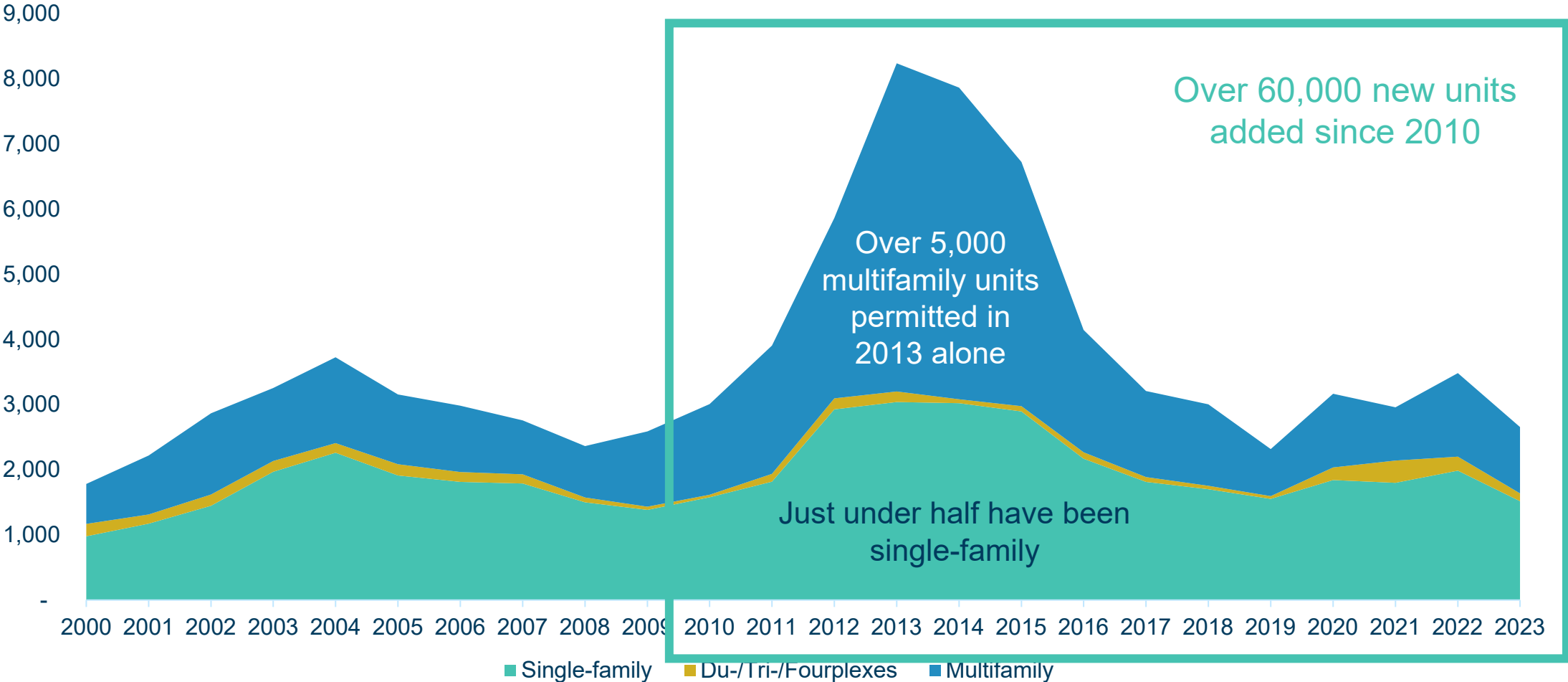


Source: U.S. Census Bureau, Housing Vacancy Survey, chart displays the average of the four previous quarters

HOUSING IN NORTH DAKOTA IS YOUNGER THAN NEIGHBORS

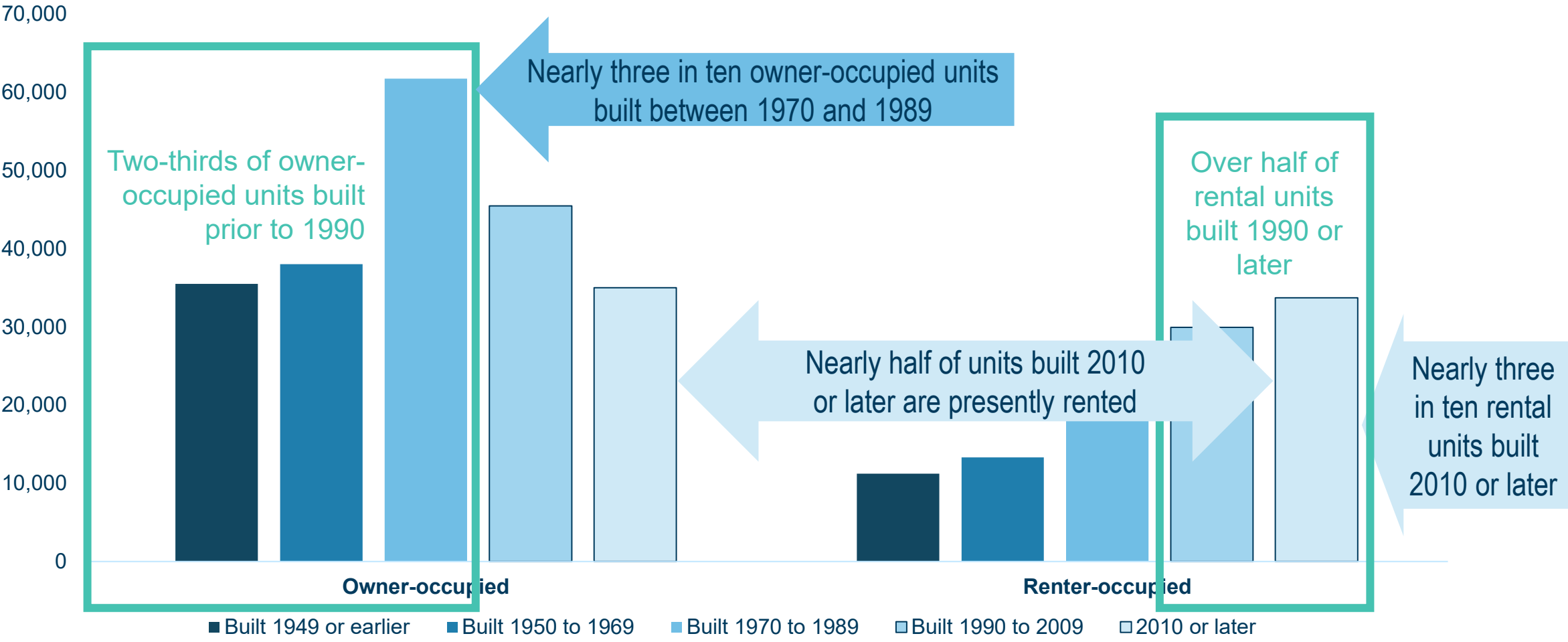


NEW HOUSING UNITS PERMITTED PEAKED A DECADE AGO

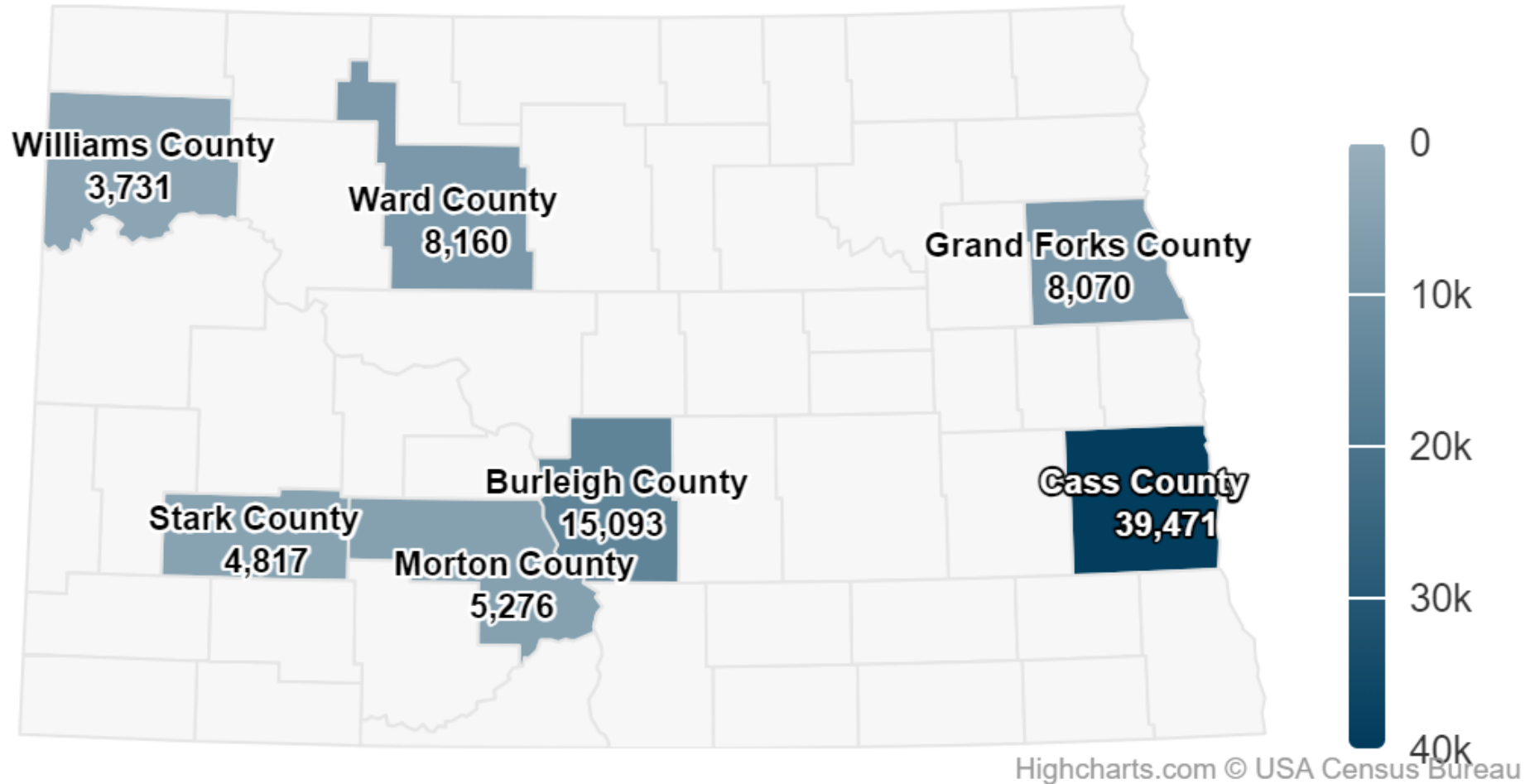


Source: U.S. Census Bureau, Building Permits Survey

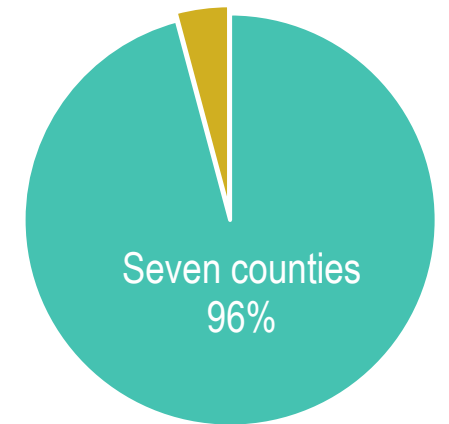
RENTAL HOUSING IS YOUNGER THAN OWNER-OCCUPIED



NEW HOUSING IS GEOGRAPHICALLY CONCENTRATED

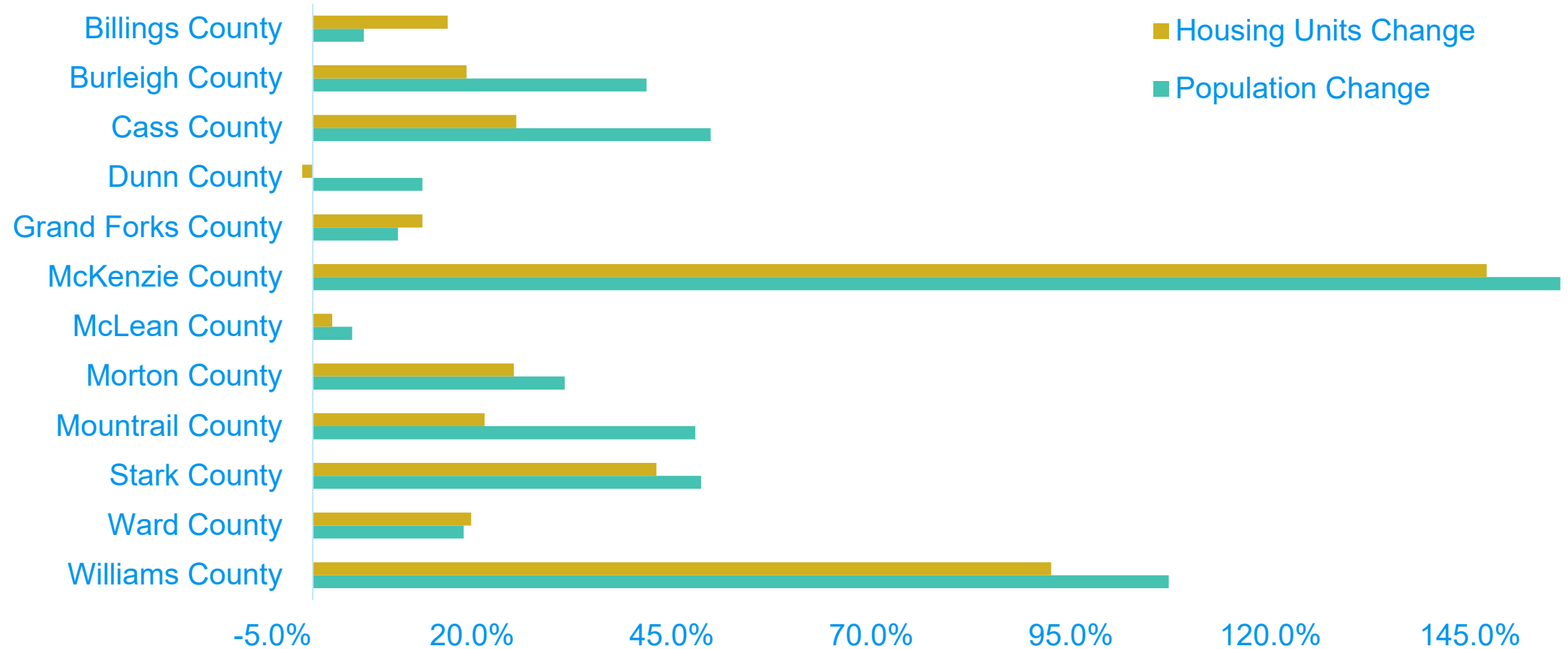


These seven counties have seen the overwhelming majority of new housing units since 2000



NEW HOUSING IS GEOGRAPHICALLY CONCENTRATED

12 Counties Saw Growth in Population and Housing Units from 2000 to 2020



Source: U.S. Census Bureau, Decennial Censuses



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NEW HOUSING IS GEOGRAPHICALLY CONCENTRATED

Of the remaining 41 counties whose population declined from 2000-2020...

- ...8 saw an increase in the number of housing units. (Barnes, Bowman, Kidder, Mercer, Oliver, Ramsey, Sioux, Stutsman)
- ...4 saw their housing units decline faster than their population. (Bottineau, Burke, Divide, Slope)
- ...29 saw their population decline faster than their declining housing units.
- ...11 regained some, but not all, of their population from 2010-2020 (Burke, Divide, Foster, Golden Valley, Hettinger, Oliver, Ramsey, Ransom, Richland, Sargent, Stutsman)

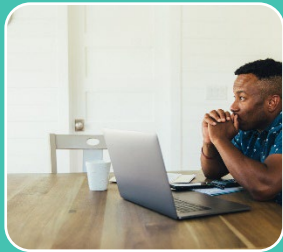


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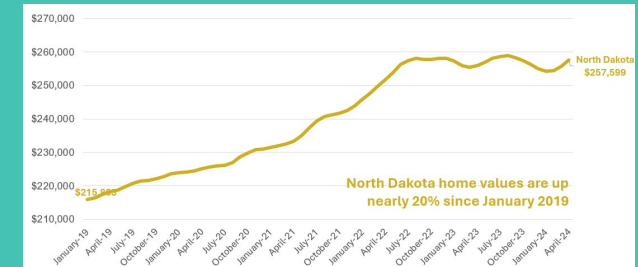
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TARGET NUMBER OF HOUSING UNITS UNITS THAT ARE RENTER OR OWNER OCCUPIED





HOW STATES AND CITIES ARE REIMAGINING LAND USE POLICY

STATE ZONING LAW THEN...

ARTICLE 23a.—CITY ZONING.

§ 3756a1. Grant of power. For the purpose of promoting health, safety, morals, or the general welfare of the community, the city council or city commission of any city having a population in excess of six thousand inhabitants by the Federal Census of 1920, or by any subsequent Federal Census is hereby empowered to regulate and restrict the height, number of stories, and size of buildings and other structures, the percentage of lot that may be so occupied, the size of yards, courts and other open spaces, the density of population, and the location and use of buildings, structures, and land for trade, industry, residence or other purposes. Such regulations may provide that a board of adjustment may determine and vary their application in harmony with their general purpose and intent, and in accordance with general or specific rules therein contained. [Laws 1923, ch. 175, § 1.]

Municipal building regulations. 19 R. C. L. 829 and Supps.



..AND NOW

40-47-01. Cities may zone - Application of regulations.

For the purpose of promoting health, safety, morals, or the general welfare of the community, the governing body of any city may, subject to the provisions of chapter 54-21.3, regulate and restrict the height, number of stories, and the size of buildings and other structures, the percentage of lot that may be occupied, the size of yards, courts, and other open spaces, the density of population, and the location and use of buildings, structures, and land for trade, industry, residence, or other purposes. The regulations may provide that a board of adjustment may determine and vary the application of the regulations in harmony with the regulations' general purpose and intent and in accordance with general or specific rules contained in the regulations. The governing body of a city may establish institutional controls that address environmental concerns with the department of environmental quality as provided in section 23.1-10-16.



ZONING REFORM: WHY DOES IT MATTER?

We don't even look at projects anymore unless the zoning is already in place.

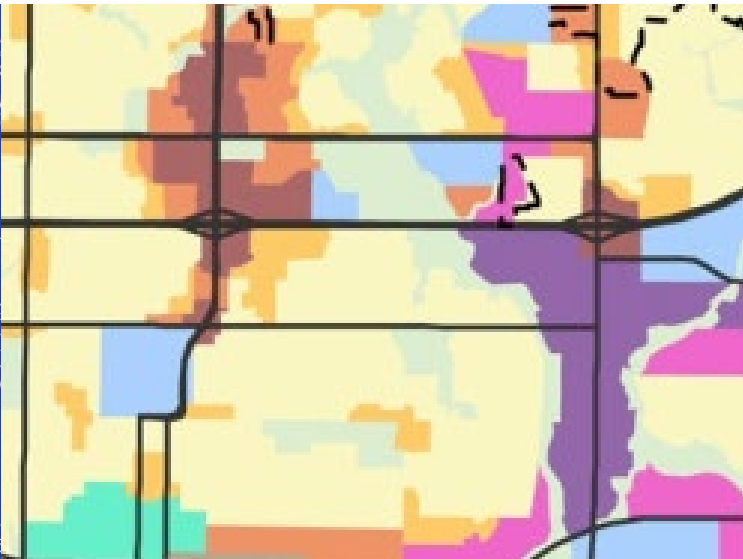
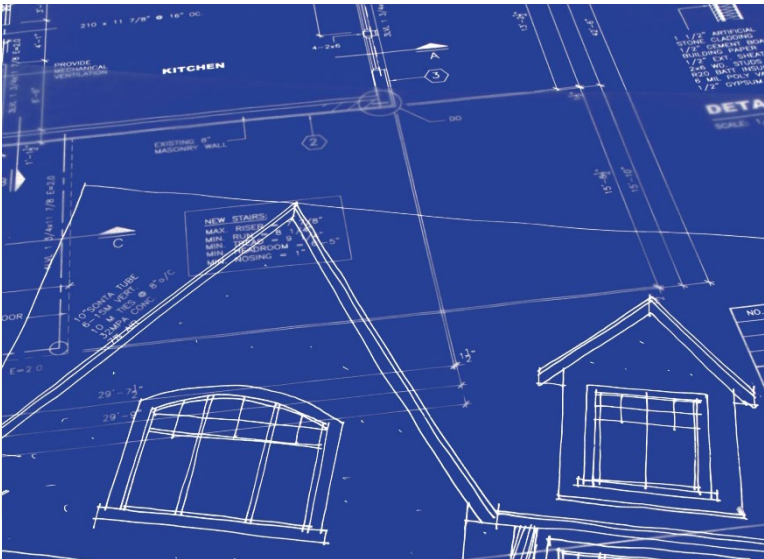
If a project even requires something small, like a variance, [opponents] bring ten people to the public meetings and... bring up traffic, property values, all the NIMBY arguments. If that doesn't work, the attorney looks really hard, finds a way the city may not have followed its code, and sues.

As a developer, you have a certain timeline where everything needs to be done to meet required place-in-service dates. And just the act of getting into the court system will derail a project because the legal process drags on. The opponents don't even need to win the lawsuit -- the project is still toast because of the delay.

- Developer in a small city in the Ninth District



STATES ARE RE-EXAMINING LAND USE POLICIES

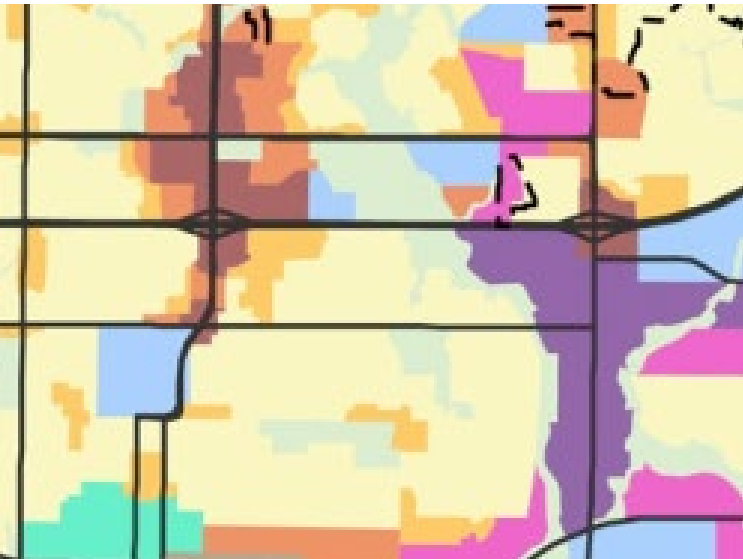


Design
What sort of things can people build?

Districts
Where can they build them?

Discretion
What happens when there's a need to deviate, or a disagreement?

STATES ARE RE-EXAMINING LAND USE POLICIES



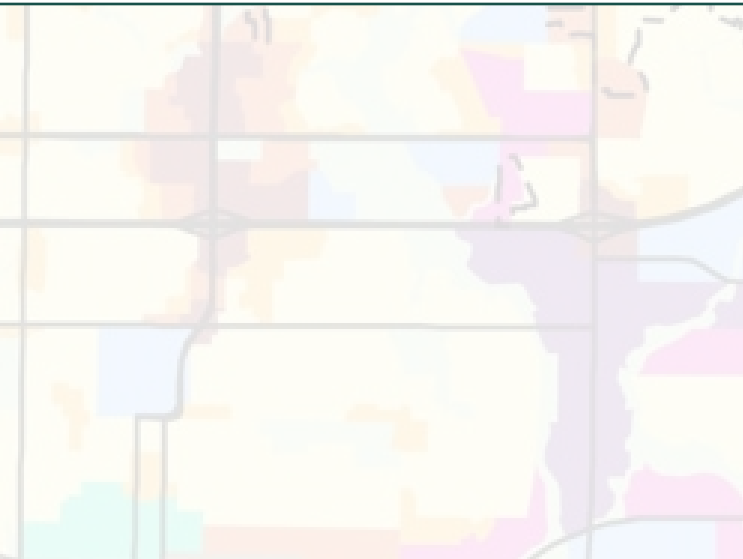
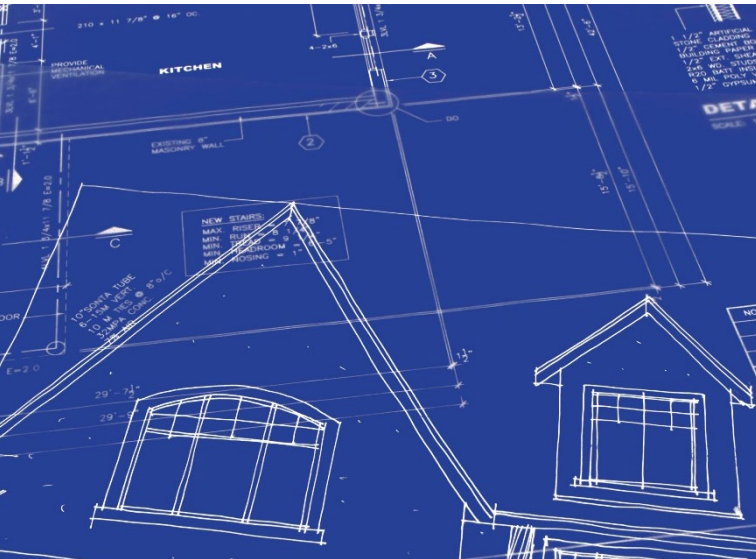
Design
What sort of things can people build?

Districts
Where can they build them?

Discretion
What happens when there's a need to deviate, or a disagreement?



STATES ARE RE-EXAMINING LAND USE POLICIES



Design
What sort of things can people build?

A large, thick white arrow pointing to the left, centered at the bottom of the Design section.

Districts
Where can they build them?

A large, thick white arrow pointing to the right, centered at the bottom of the Districts section.

Discretion
What happens when there's a need to deviate, or a disagreement?

A large, thick white arrow pointing to the right, centered at the bottom of the Discretion section.

DESIGN REFORM

- Design reforms typically limit the ability of a local government to set thresholds for aesthetics or buildings' physical characteristics
- Some design components intersect with rules that may be under the jurisdiction of other bodies, like:
 - Building codes
 - Environmental needs
 - Infrastructure constraints



GENTLE DENSITY AS A CASE STUDY

- When it comes to “gentle density,” important design components may include:
 - Parking requirements
 - Setbacks
 - Stairway requirements
 - Utility hook-ups
 - Height
 - Lot coverage
 - Floor-area ratio



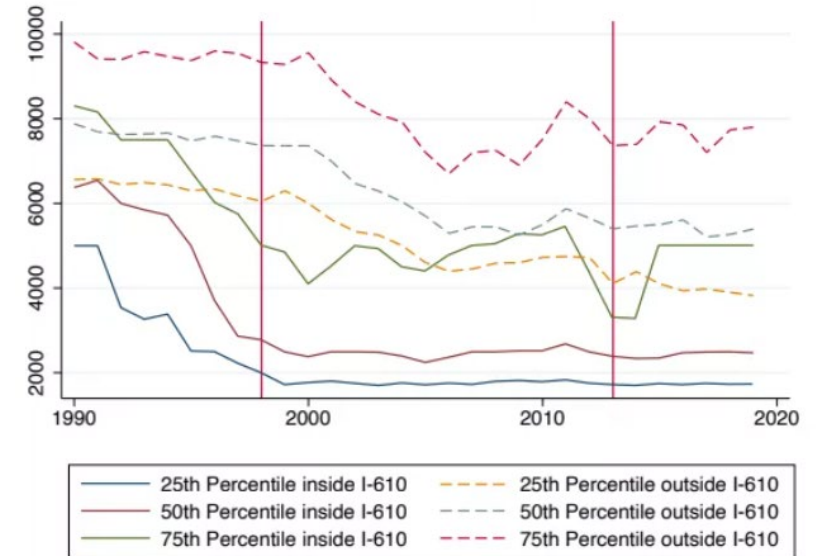
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HOUSTON'S SKINNY "TOWNHOUSES"

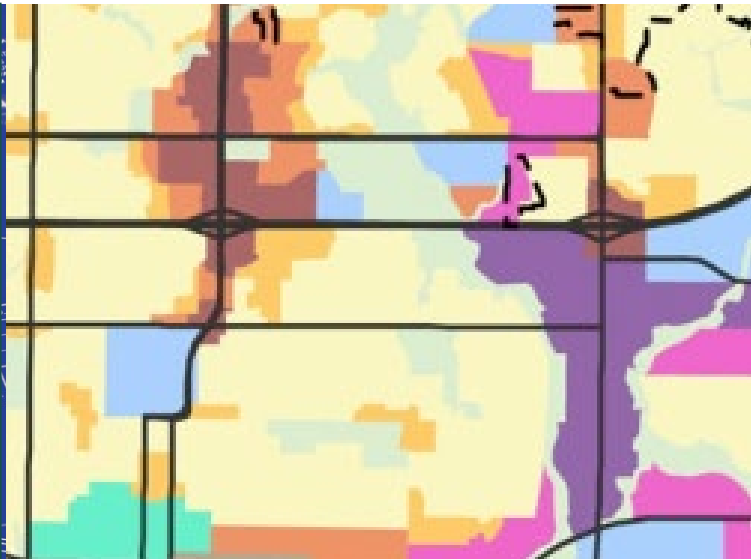
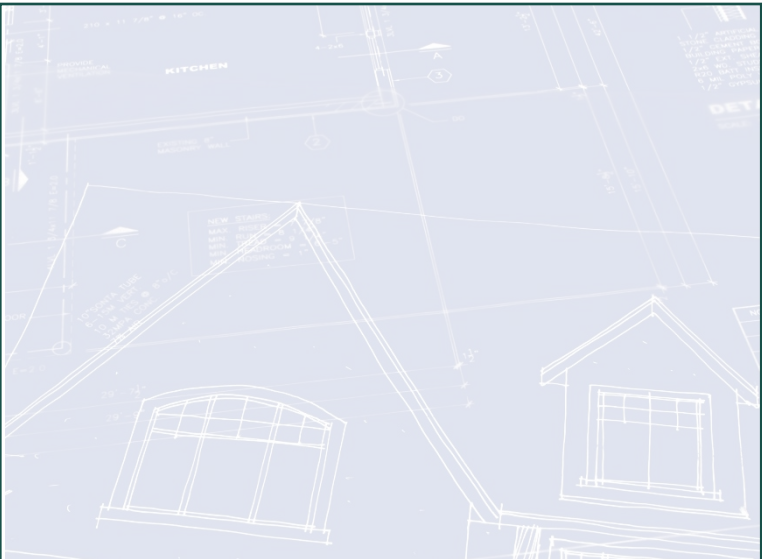
- City allowed for much smaller lot sizes for “townhouses” (townhome-style single-family homes that may be detached)
 - 1,400 minimum lot size (with qualifications) in Houston
 - 8,700 average lot size nationwide for SF
 - Fee simple ownership
- Combined with other permissive codes, Houston has seen a townhouse boom since the change (43% of net units added since 1990 in one estimate)

Figure 5. Lot Size Percentiles by Square Feet in the City of Houston by Year Built



From [Learning from Houston's Townhouse Reforms](#), Emily Hamilton (Mercatus Center)

STATES ARE RE-EXAMINING LAND USE POLICIES



Design

What sort of things can people build?



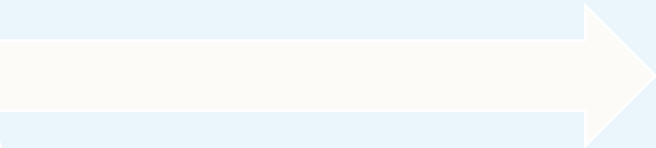
Districts

Where can they build them?



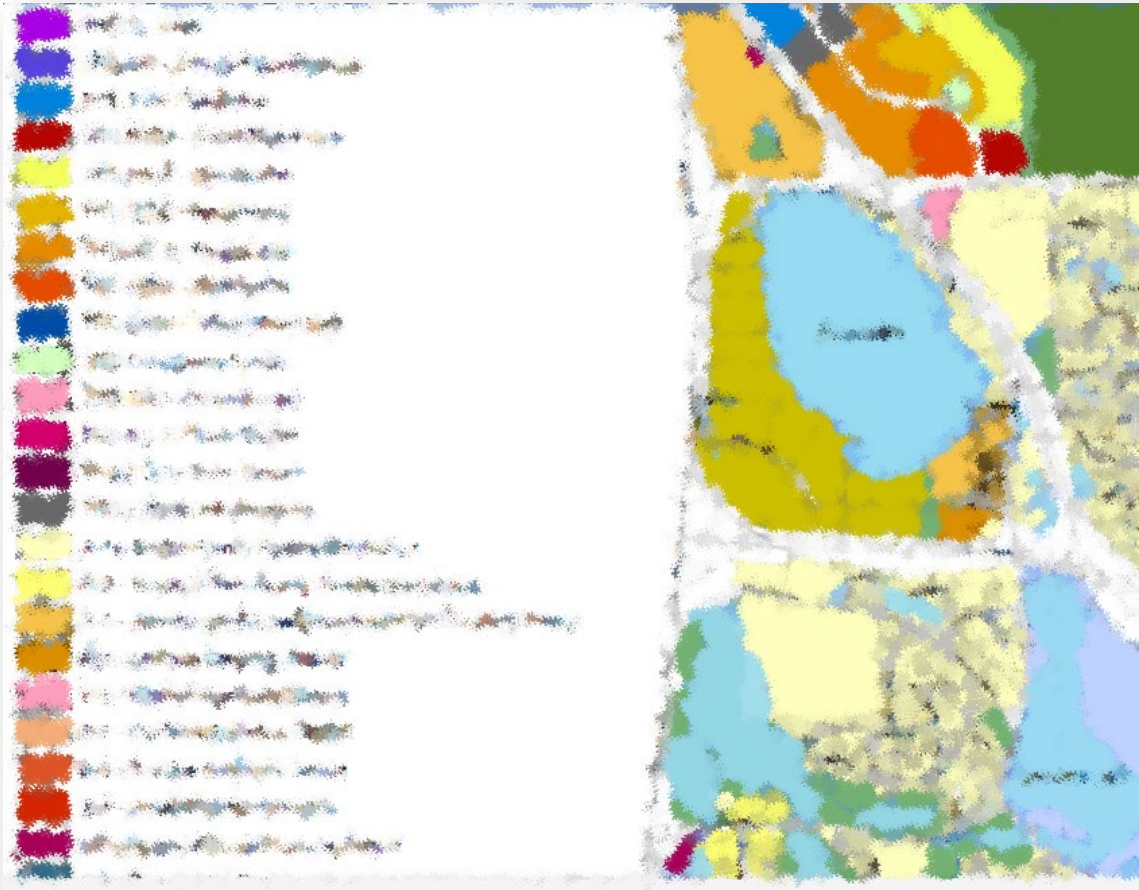
Discretion

What happens when there's a need to deviate, or a disagreement?



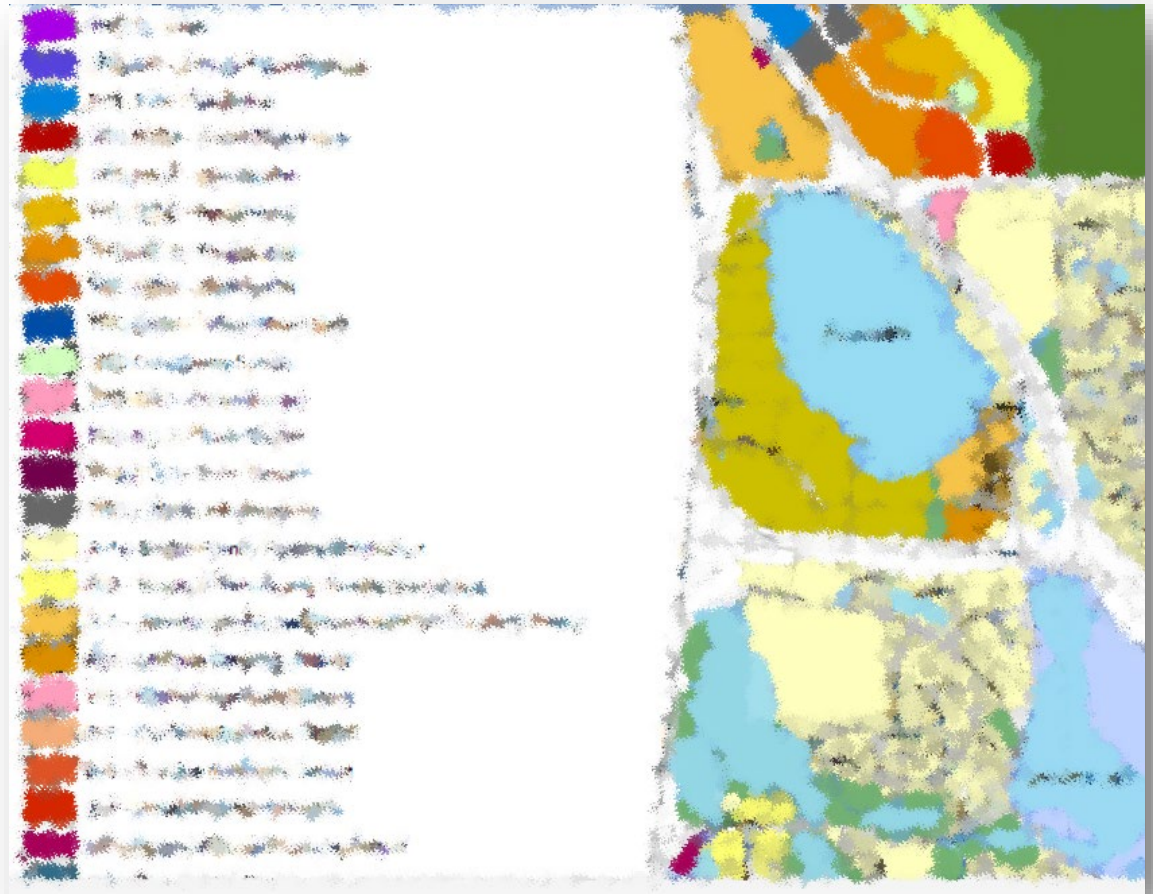
HIGHLIGHTS OF DISTRICT REFORMS

- District-based reforms change the ways local governments can classify land
 - Allowing multiple uses in one district (e.g., allowing for residential in commercial districts)
 - Allowing for small multi-family in single-family districts
 - Requiring certain densities in certain areas (e.g., more density near transit)



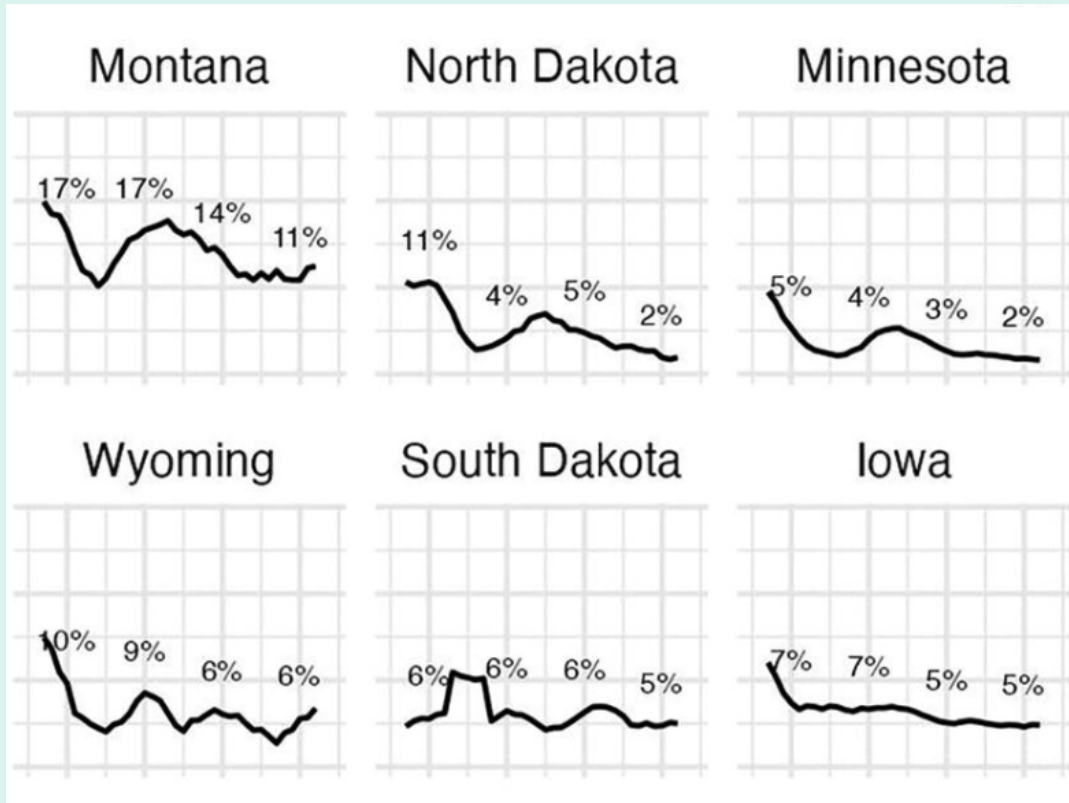
HIGHLIGHTS OF DISTRICT REFORMS

- District-based reforms can still raise design-level questions
 - For example, if commercial zones must now allow for residential, what will the limitations be on those residential projects?
- District-based reforms aren't necessarily one-size-fits-all
 - Requirements can vary by city or region
 - Example: Montana's "menu" for cities



SOME STATES AIM TO BRING BACK “GENTLE DENSITY”

Percent of permitted units in 2-4 unit structures, 1982-2017



- 2-4-unit buildings accounted for 9% of new permits nationwide in the '80s – less than 3% today
- Minneapolis metro case study: overall number and market share of ‘plexes fell from 1990-present
- Charts from *In Search of the Missing Middle: Historical Trends in and Contemporary Correlates of Permitting of 2–4 Unit Structures*



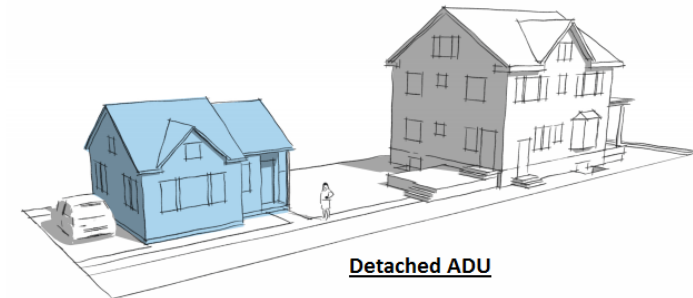
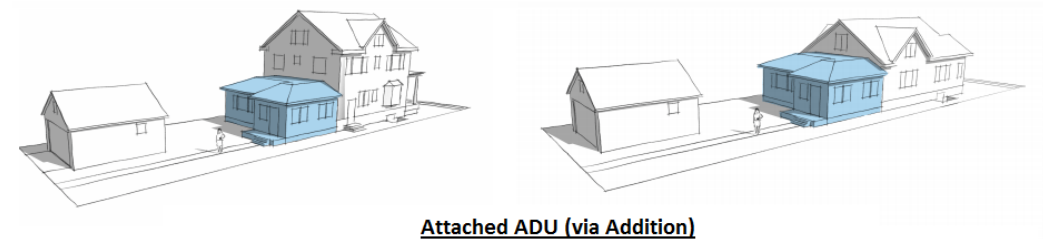
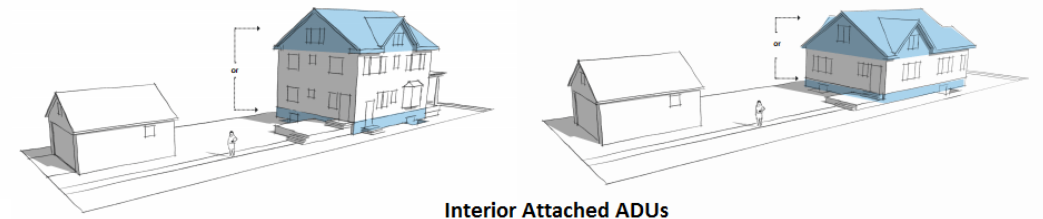
SOME EXAMPLES: ALLOWING FOR “PLEXIBILITY”

Allow more types of housing in more places	
Oregon	<p>Duplexes: Cities of between 10,000 and 25,000</p> <p>Fourplexes: Cities of 1,000+ residents in the Portland metro and 25,000+ elsewhere</p>
California	<p>Up to four units per single-family lot in urbanized areas</p>
Maine	<p>Duplexes: in any area in which housing is allowed if that lot does not contain an existing dwelling unit</p> <p>Fourplexes: if that lot does not contain an existing dwelling unit and the lot is located in a designated growth area</p>
Washington	<p>Duplexes in cities under 25,000 people within the growth area of larger cities</p> <p>Duplexes by right in cities of 25,000-75,000 people; fourplexes if affordable housing included or transit-accessible</p> <p>Quadplexes by right in cities of 75,000+; six-plexes with affordable housing</p> <p>Applies to cities with a population of 6,000+ as well as all cities within the urban growth areas of Spokane and Seattle</p>
Montana	<p>Duplexes in cities of at least 5,000 residents</p>
Vermont	<p>Duplexes in any district that allows year-round residential development</p> <p>Fourplexes in any district that is served by municipal sewer and water infrastructure that allows residential development</p>



CALIFORNIA: A CASE STUDY IN ITERATION

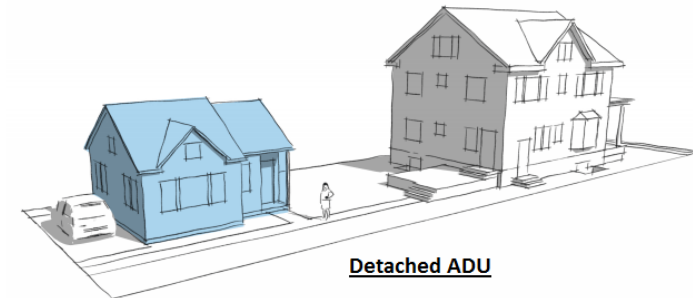
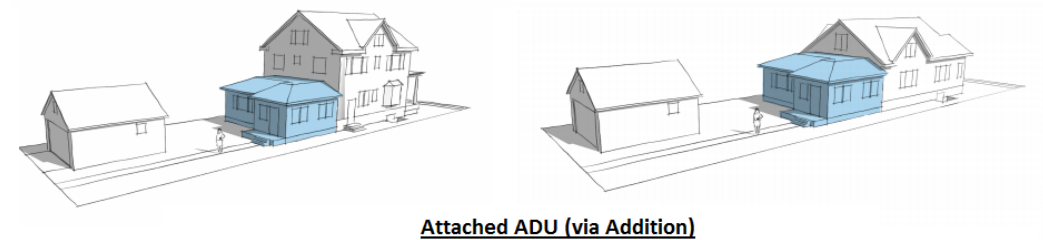
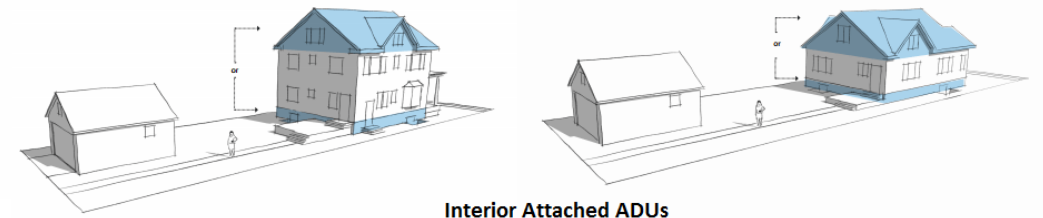
- **1982:** First attempt to “legalize” ADUs
- **2002:** Second attempt to “legalize” ADUs
- **2016:** Third attempt to “legalize” ADUs
- Further bills passed to clarify and strengthen the ability of property owners to build ADUs in **2017, 2019, 2021, 2022, 2023.**



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CALIFORNIA: A CASE STUDY IN ITERATION

- **1982:** First attempt to “legalize” ADUs
- **2002:** Second attempt to “legalize” ADUs
- **2016:** Third attempt to “legalize” ADUs
- Further bills passed to clarify and strengthen the ability of property owners to build ADUs in **2017, 2019, 2021, 2022, 2023.**
- 1,050 ADUs permitted annually, on average, from 2013-2016; 25,000 permitted in 2022.



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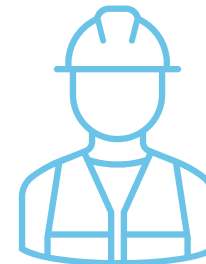
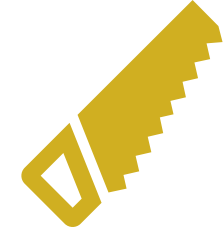
EARLY DATA FROM OTHER PLACES POST-REFORM(S)

Minneapolis: 225 units in new –plexes built from January 2020 to June 2023 (about 70 units per year – about 2% of new supply)

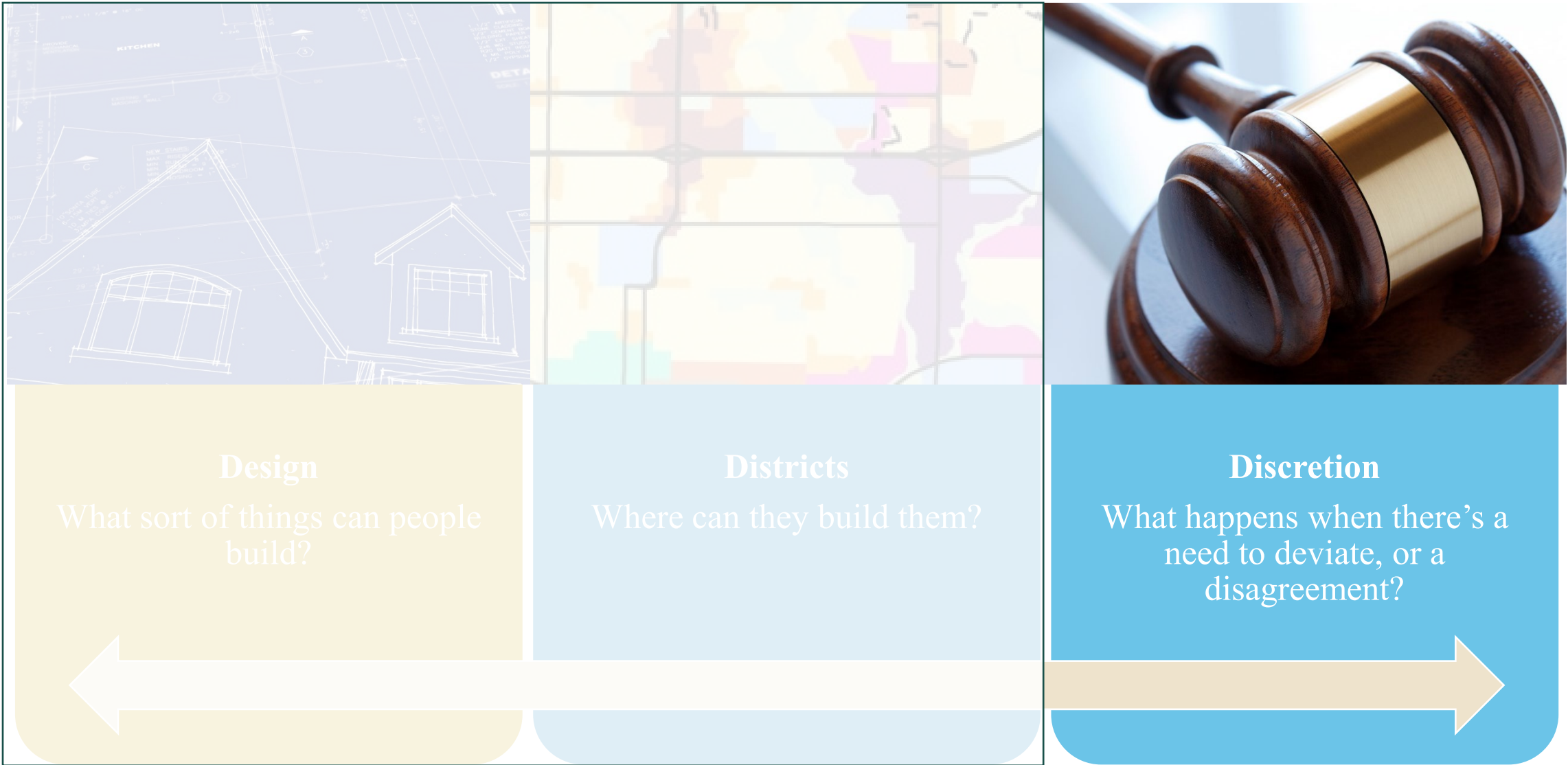
Portland: Successful in attempts to increase ADU and infill development (270 units in first year post-reform)

Spokane: 70 units in ‘plexes in first year of reform (13% of new supply), 425 more units planned

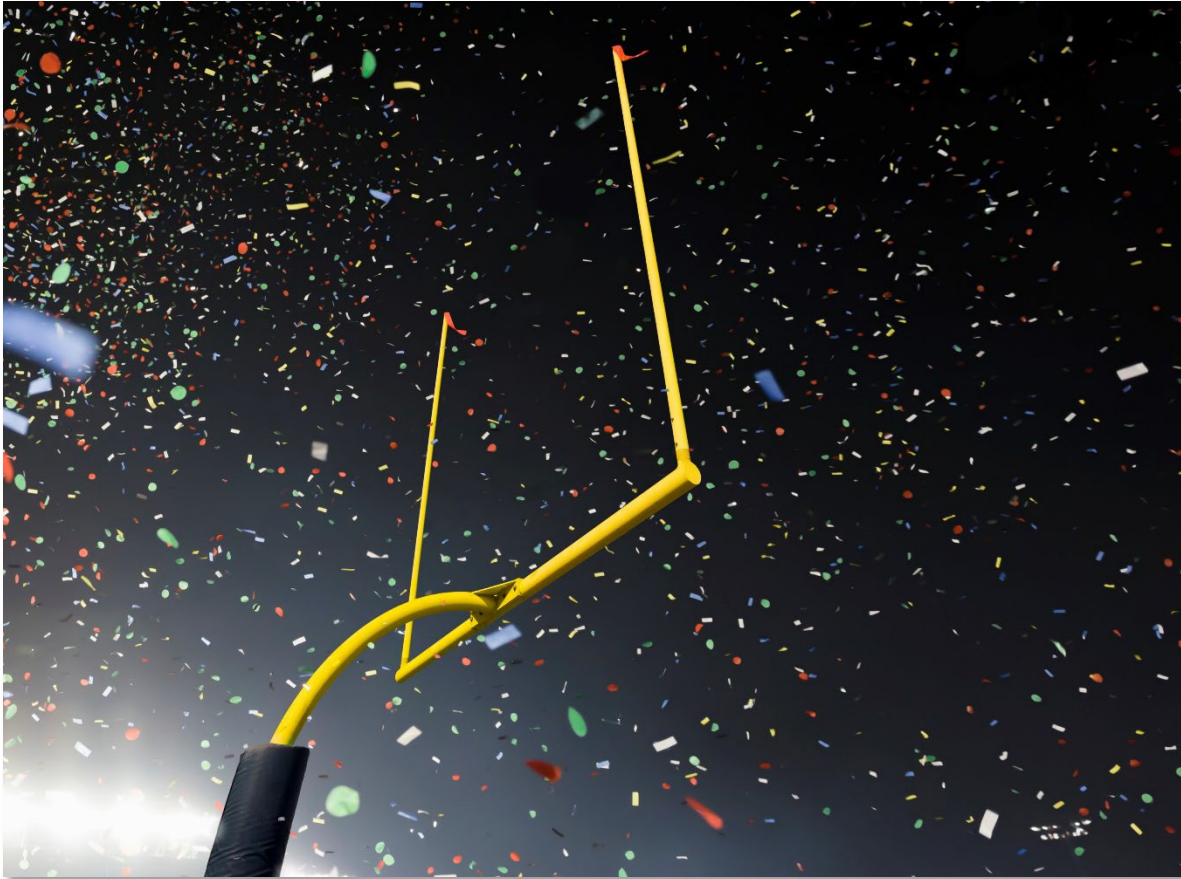
Seattle: 250 ADUs permitted on average from 2015-2019, 988 permitted in 2022



STATES & LOCALITIES ARE RE-EXAMINING LAND USE



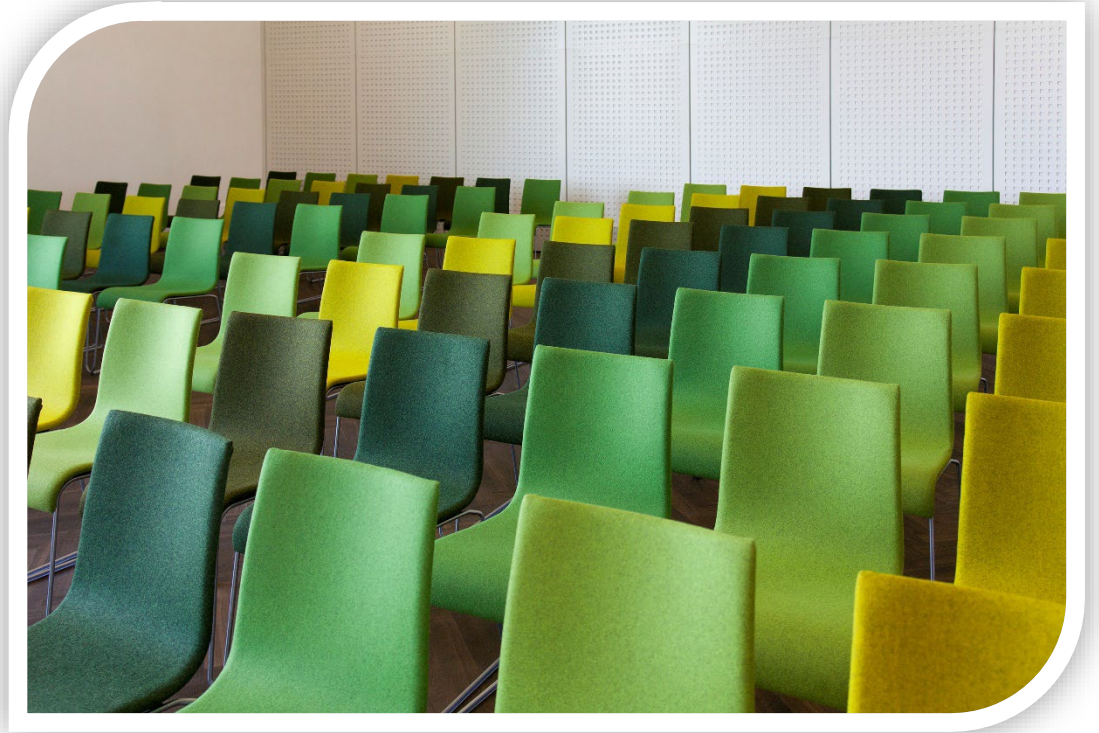
HOUSING TARGETS



- Some states set explicit housing production goals for local governments
- Local governments submit plans that should demonstrate how they aim to support those production goals
- There are significant differences in how states set and enforce these goals
 - In California and New Jersey, local governments lose access to certain planning powers or legal protections if their efforts are ruled insufficient
 - Other states may require plans without commitments or demonstrated progress

PROCEDURAL QUESTIONS

- When a project meets a site's land use requirements, does it still require a vote?
- How many hearings are required for land use questions – and what size majority must approve it?
- What triggers a public hearing?
- When can a developer expect responses from a local planning department?
- How do different bodies' approval processes align (or diverge)?
- What remedies are available if a developer and city disagree?



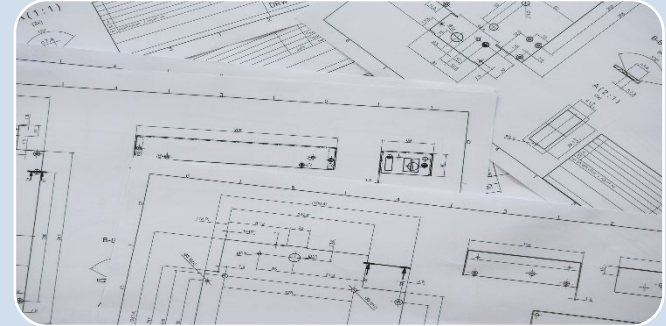
THREE APPROACHES THAT WORK TOGETHER



Support
Affordability



Increase Supply



Streamline
Processes and
Rules

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



THANK YOU!

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