Housing Market Outlook and Affordable Housing in the Twin Cities Metro

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Overview of the presentation

• The Great Housing Market Collapse – and the New Normal
• Recent affordable housing production in the Twin Cities metro
• Future expectations: Population, and Households Forecasts for 2010-40
• Work in progress: How will we assess affordable housing need going forward?
The Great Housing Market Collapse

Since 2007, BIG market adjustments:
• Real estate bubble burst, housing prices fell
• Core vs. periphery land price differentials diminished
• Developers found it less profitable (or a loss) to build where they were building prior to 2007
• Result: Home-building on hiatus
2007-11: The lowest level of housing production since World War 2

Source: Metropolitan Council Residential Construction Survey
The Great Housing Market Collapse – and the New Normal

Since 2007, BIG market adjustments:

• Excess housing (built mid-decade) gradually absorbed by market demand

• Still, region gains households: ~1% /yr

• Since household moves are mostly *among existing housing stock*, there is *less* outward, land-consuming expansion
Residential Permits by Planning Area

- **Central Cities**: Various percentages for different years, ranging from 10% to 22%.
- **Developed Suburbs**: From 19% to 36%.
- **Developing Suburbs**: From 16% to 22%.
- **Rural Centers and Rural Growth Centers**: From 57% to 66%.
- **Other Rural**: From 56% to 52%.

What happens next?

• Region gains households: ~1% /yr
• *Musical chairs* movement of households *cannot* last. We are approaching *housing scarcity*.
• Short-term predictions for now–2015:
  • Real estate values stabilize, turn upward
  • Market-rate rents are already headed upward
  • Higher levels of home-building
  • The new housing will NOT be the product mix or in same locations that were typical during ~1990–2007
Residential Permits by Product

- Multifamily (2+ units)
- Townhomes
- Single-Family Detached

Recovery?
The New Normal

- Core vs. periphery land price differentials NOT as steep as <2007: There is reasonably priced land inside the beltway.
- Households have adjusted how they think
- Households showing preference for, and finding value in, locating closer to the region’s core
  - Thus: Developers are finding value (and profit) in developing closer to the region’s core
- In sum… the developing edge has lost some formerly-perceived advantages
Residential Building Permits in 2011

Source: Metropolitan Council Residential Construction Survey
Residential Building Permits in 2011: Multifamily

22 communities in 2011

Source: Metropolitan Council Residential Construction Survey
Recent affordable housing production in the Twin Cities metro
Affordable Homes Added, 1996-2011

• 53,195 affordable homes added:
  – 12,749 rental units
  – 40,446 ownership units
• 16 percent in the central cities
• 24 percent in the developed suburbs
• 54 percent in the developing suburbs
Affordable Homes Added, 2011

- 1,154 new affordable homes added
  - 876 rental units
  - 278 ownership units
- 62 percent in the central cities
Affordable Homes Added, 1996-2011

• 25 percent of all new housing units have been **affordable**:
  – 24 percent of ownership housing production
  – 31 percent of rental housing production
Future expectations: Preliminary Population, and Households Forecasts for 2010-40
About the Council’s forecasts

• April 2012: Preliminary regional forecasts to 2040
• April 2013: Preliminary local forecasts
• February 2014: Adoption of the *Thrive MSP 2040* plan and final local forecasts
Forecasting methods

• REMI PI+, a regional economic model, forecasts employment and population, to reflect economic migration
• ProFamy, a demographic model, converts population forecasts into household types
• National GDP projections from the long-term baseline forecast used by Minnesota’s State Economist
## Preliminary regional forecast to 2040

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
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<tbody>
<tr>
<td>Population</td>
<td>2,850,000</td>
<td>3,144,000</td>
<td>3,447,000</td>
<td>3,743,000</td>
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<tr>
<td>Households</td>
<td>1,118,000</td>
<td>1,293,000</td>
<td>1,464,000</td>
<td>1,576,000</td>
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<td>Employment</td>
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<td>1,743,000</td>
<td>1,943,000</td>
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</tbody>
</table>

Source: 2010 data on population and households from U.S. Census; 2010 data on employment from Minnesota Department of Employment and Economic Development. 2020-2040 forecasts from the Metropolitan Council.
Employment forecasted to grow 37%

Total growth 2010-40: +570,000

Metropolitan Council
Components of Population Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Natural Growth</th>
<th>International Migrants</th>
<th>Domestic Migrants</th>
<th>Total Growth</th>
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<tbody>
<tr>
<td>1991-2000</td>
<td>218,000</td>
<td>-39,000</td>
<td>-141,000</td>
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<td>2001-10</td>
<td>231,000</td>
<td>108,000</td>
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<tr>
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<td>-50,000</td>
<td>-58,000</td>
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<td>2021-30</td>
<td>203,000</td>
<td>159,000</td>
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<td>132,000</td>
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<tr>
<td>2031-40</td>
<td>188,000</td>
<td>179,000</td>
<td>-71,000</td>
<td>118,000</td>
</tr>
</tbody>
</table>

Metropolitan Council
Population forecasted to grow 31%

Total growth 2010-40: +893,000
2/3 from natural growth
1/3 from migration

Metropolitan Council
Households by Household Type

- **Single parent, with children**
  - 2010: 129,000
  - 2020: 148,000
  - 2030: 183,000
  - 2040: 208,000
- **Couple, with children**
  - 2010: 325,000
  - 2020: 350,000
  - 2030: 375,000
  - 2040: 393,000
- **Cohabiting couple, no children**
  - 2010: 44,000
  - 2020: 51,000
  - 2030: 57,000
  - 2040: 62,000
- **Married couple, no children**
  - 2010: 240,000
  - 2020: 294,000
  - 2030: 323,000
  - 2040: 327,000
- **One person and other**
  - 2010: 52,000
  - 2020: 62,000
  - 2030: 72,000
  - 2040: 79,000
- **One person only**
  - 2010: 327,000
  - 2020: 388,000
  - 2030: 456,000
  - 2040: 506,000

*Metropolitan Council*
Households count will grow 41%

Forecast model assumes household behavior, by group, will follow observed past patterns.

Council staff are continuing work on the demographic modeling of households.
The mix of households is changing – and growing market segments will drive new housing production

- Among the 458,000 net additional households by 2040
  - 1/2 of new households: 1 adult (1 income)
  - Doubling of senior citizen households (1-2 persons)
  - Over 2/3 of new households will not have children
  - New immigrant families prominent among those that do have children
  - Thus changing housing stock needs
Implications of the Council’s forecasts on *Thrive MSP 2040* planning: An aging population?

• Growth of the senior population from 307,000 in 2010 to 770,000 in 2040

• How will the Council’s policies help seniors have:
  – Appropriate places to live
  – Access to community, services, recreation
  – Adequate transportation
Implications of the Council’s forecasts on *Thrive MSP 2040* planning: Housing affordability?

- 1/2 of new households: 1 adult (1 income):
  - How will the region’s policies ensure an adequate mix of housing affordability?
  - How might transit and transportation policies ease the cost burden on the region’s households?
Work in progress: How will we assess affordable housing need going forward?
Heard through *Thrive MSP 2040* listening sessions

- Location mismatch of affordable housing with (or without) transit service
- Cities want preservation/rehab of affordable stock to count toward affordable housing goals
- Market-driven production, without public sector, doesn’t always match identified housing needs
  - Example: Land guided for medium-/high-density being reguided for single family detached?
Affordable Housing Need targets from 2006

Based on the Next Decade study, Council and partners expected:

• 7,200 existing under/unserved low-income HH
• + 64,100 growth in low-income HH (10 years)
• – 20,300 units become affordable to low-income HH via depreciation (10 years)
• = 51,000 remaining need for newly built units (over 10 years)
Local allocation of Affordable Housing Need targets from 2006

• How much households growth 2010 to 2020
  – AHN targets in the range 2% to 52% of forecasted households growth

• Jobs / workforce balance
  – Higher expectations where local low-wage jobs outnumber local low-wage workforce

• Credit for existing affordability
  – Is at least 30% of existing (year 2004) housing affordable?

• Local transit service availability

• Result: AHN targets in the range 2% to 52% of forecasted households growth
  • [www.metrocouncil.org/planning/Housing/AffHousingNeedJan06.pdf](http://www.metrocouncil.org/planning/Housing/AffHousingNeedJan06.pdf)
Local allocation of Affordable Housing Need targets from 2006

= Highest expectations as % of growth
Affordable Homes Added, 1996-2011

Total Number of Affordable Units Added, 1996-2011

- Under 200
- 200 - 499
- 500 - 999
- 1,000 - 1,500
- Over 1,500

Unincorporated Community or Communities Not Under Council Jurisdiction
How will we assess affordable housing need going forward?

• Recognize the 2006 targets are *policy-based*
  – Prioritized affordable housing production in places with low-income workforce need + transit service

• Incorporate *market dynamics and opportunities* into our assessment
  – Low-income households gravitate toward low rents
  – Market dynamics favor low-income location in those same neighborhoods

• Find the right balance: policy goals *and* market
Spatially Weighted Rent Averages: Apartments

GISLibrary.DBO.TAZ2000
WRENTAPT

- **Less than 700**
- **700 to 899**
- **900 to 1,099**
- **1,100 to 1,299**
- **1,300 to 1,750**
Rent Equivalent Averages: Single Family Homes

GISLibrary.DBO.TAZ2000
WRENTSFD

- Less than 1,400
- 1,400 to 1,799
- 1,800 to 2,199
- 2,200 to 2,599
- 2,600 to 4,000
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