

2019

Market Report



Summary

Minnesota's housing market made gains in 2019, but unaddressed affordability roadblocks are continuing to prohibit the needed construction of new, entry-level housing of all types. Despite a record year for housing starts, Minnesota added fewer new units 2010-2019 than at any time in the past six decades. The lack of available housing of all forms in our state has led to another year of increases in rents and existing home prices. The dream of homeownership is already unattainable for far too many Minnesotans, and without immediate action, the situation will worsen.

Inventory

MIXED

In 2019, Minnesota had the nation's lowest inventory for sale (new and resale). The number of new housing units added in 2019 was 30,403, a 20.53 percent increase over 2018, yet this figure falls short of the 2018 Task Force's goal of 10,000 units above 2017's production. Minnesota's Task Force on Housing called for a construction surge over the next 10 years.

+20.53%
Increase in Production

-1,600
Production Surge

Cost of Housing

INCREASED

New home costs in Minnesota increased again in 2019 and the state leads the upper Midwest in new housing prices. The lack of available inventory is driving increases in new home prices, existing home prices and rents across Minnesota.

+2%
Median New Home Statewide

+5.9%
Median Existing Home Statewide

+1.3%
Monthly Rent

Homeownership

MIXED

Minnesota's homeownership rate was on the rise in 2019, above the Midwest and national averages. While this appears to be good news, racial disparities in homeownership are stark in Minnesota, with non-white Minnesotans' rate of homeownership far below the state average rate. The state is also home to one of the widest equity gaps in housing in the nation.

+2%
Overall Homeownership

Wide Disparity
Communities of Color

Market Factors

STABLE

Falling interest rates have helped to offset the decreased buying power caused by increased existing home and new home prices. Lumber costs, despite fluctuations in 2019, are down significantly from the five-year high in 2018. The U.S. Mexico Canada Trade Agreement was celebrated by the housing industry as it has the potential to bring greater stability and affordability into housing inputs. The rate of increase in construction inputs fell in 2019.

Positive
Low Interest Rates

Mixed
Material Inputs

Positive
U.S. Mexico Canada Trade Agreement Reached

Negative
Development Costs

Housing Policy

MIXED

Minnesota took a large step forward in addressing problematic housing policies in 2019 with the establishment of a Legislative Commission on Housing Affordability as well as a Senate Select Committee on Home Ownership and Availability. The Department of Labor and Industry considered affordability in new policies. Local government housing policies were changed only modestly.

Positive
Legislature

Positive
State Agencies

Modest Change
Local Government

2020 Outlook

FLAT

Tempering the outlook for a flat 2020 is talk of a recession. Additionally, without reforms to address the cost drivers of new housing, production will likely remain flat, despite high demand and the requisite surge.

0%
Increase in Production

-3,200 Units
State 2-Year Goal

On the positive side, the demand for housing remains strong. Millennials have entered the market energetically. Interest rates appear likely to remain low. Consumer confidence is high. The Legislative Commission on Housing Affordability and Senate Select Committee on Home Ownership and Availability are poised to take action to confront affordability roadblocks.

Mixed
Industry Sentiment

Mixed
Legislative Public Policy

Mixed
State Agency Public Policy

Mixed
Local Public Policy

Inventory

MIXED

Minnesota's housing market is critically undersupplied, having the lowest available inventory both overall and for-ownership in the nation, according to the U.S. Census Bureau. Additionally, Minnesota ranked 41 out of the 50 states and the District of Columbia for rental inventory.

2019's new housing production increased 20 percent above 2018, at approximately 30,403 new housing units added. Buildings with five or more units, generally apartments, condominiums and senior housing, overtook single-family construction to lead housing production in Minnesota with 50.62 percent of all units produced in 2019. Single-family construction represented 48.56 percent of all units produced and twin homes and three- or four-unit buildings, generally attached townhomes, combined for less than one percent of all housing.

Minnesota's U.S. Housing Inventory Ranking

51 of 51
 Inventory Overall

51 of 51
 Ownership Inventory

41 of 51
 Rental Inventory

U.S. CENSUS BUREAU

2019 Minnesota New Housing Units

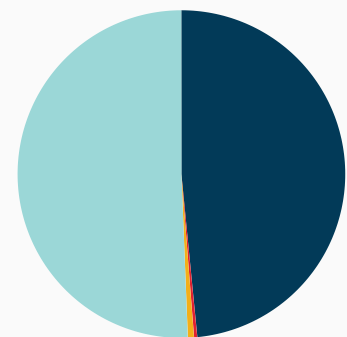
+30,403
 New Housing Units Statewide

+14,732
 Single-Family

+280
 2-4 Units

+15,931
 5+ Units

2019 Housing Units by Production



- Single Family (48.46%)
- Twin Home (0.33%)
- 3-4 Units (0.59%)
- 5+ Units (50.62%)

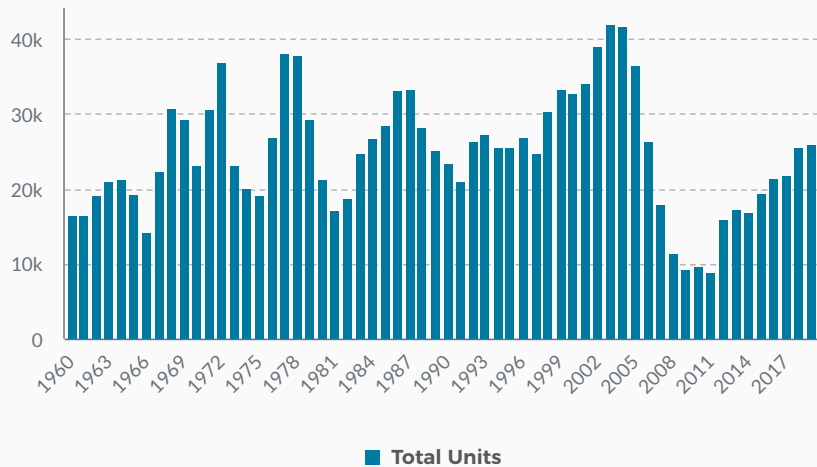
> **Inventory continued**

Between 1960 and 2018, Minnesota has added 1,468,588 housing units—homes, apartments, and condominiums—with a median annual production of 24,900 units. Notably, 2018 with 25,673 units and 2019 with 30,403 units are the only years since the Great Recession in which Minnesota surpassed its median annual production.

In 2018, Minnesota’s Task Force on Housing recognized the chronic undersupplying of the market and called for a surge in housing production of all types across the state. The overall goal was 300,000 new units by 2030, with a five-year surge of 10,000 new units annually above 2017’s production level. Regrettably, Minnesota fell 1,600 units short of its 2019 goal of 32,000 new units. 2020 is expected to be flat, meaning the state could be 3,000 units short of its goal by year two.

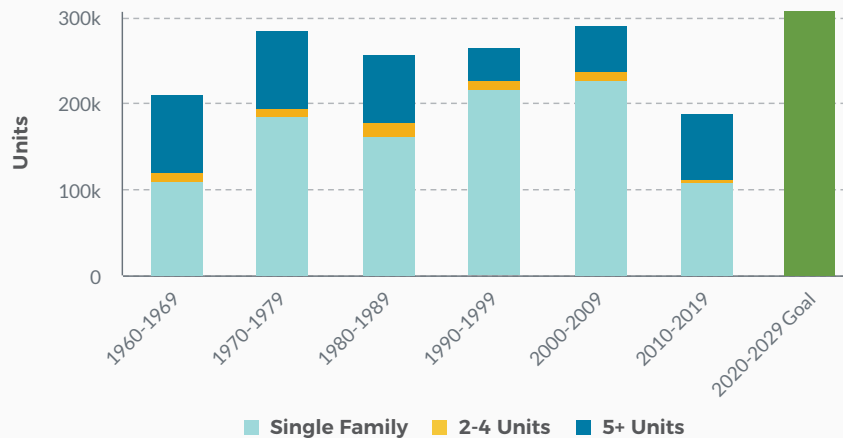
To put the 300,000 by 2030 figure in perspective, the output of the housing industry in terms of new units for the decade 2020-2029 would need to be nearly 150 percent of the output from the previous decade, and be the highest production period in history, eclipsing the housing booms of the 1970s and 2000s.

Annual Minnesota Housing Unit Production, 1960-Present



U.S. CENSUS BUREAU

Minnesota Home Production by Decade



U.S. CENSUS BUREAU

Cost of Housing

INCREASED

Housing costs increased across the board in 2019. The largest increase in housing costs was seen in existing home, up 5.7 percent, followed by a 2 percent increase in new homes and 1.3 percent increase in rentals. After a decade of underproduction, the lack of available inventory and a growing population have once again increased the median cost of housing in 2019. Housing costs are expected to rise again in 2020 driven by policy roadblocks and continued inventory problems.

2019 Housing Cost Increase

\$396,385

 Median New Home
 Sales Price Statewide

+2%

Over 2018

\$254,000

 Median Existing Home
 Sales Price Statewide

+5.9%

Over 2018

\$1,090/month

 Median Rent
 (2 Bedroom)

+1.3%

Over 2018

MINNEAPOLIS AREA REALTORS | APARTMENT LIST RENTONOMICS

Homeownership

MIXED

According to the U.S. Census Bureau, Minnesota's non-seasonally adjusted homeownership rate increased in 2019, and the most recent data for Q3 showed one of the highest rates in Minnesota in the past 10 years at 73.4 percent, well above the national average of 64.8 percent. Comparing 2019 Q3 to 2018 Q3, Minnesota's homeownership rate increased 2 percent in 2019. The state's overall homeownership rate increased in 2019, however, homeownership in Minnesota has been on an overall downward trajectory since 2005.

Year-Over-Year Minnesota Homeownership Rate

73.4%

Overall Statewide
Q3 2019

+2%

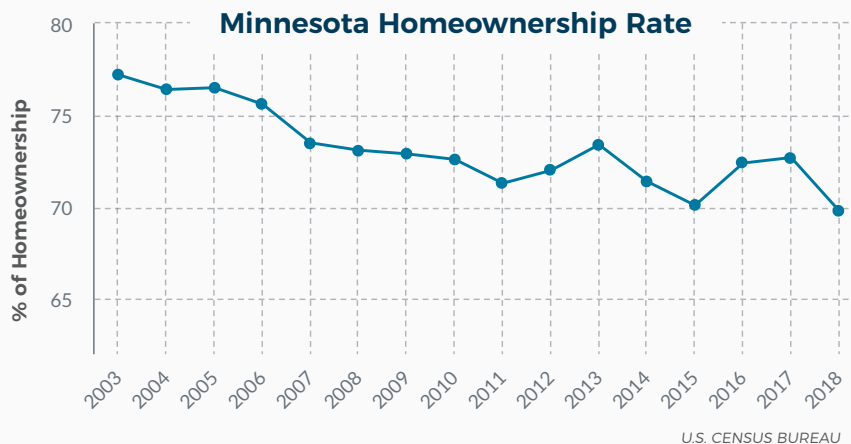
71.4%

Overall Statewide
Q3 2018

Wide Disparity

Communities
of Color

U.S. CENSUS BUREAU



While Minnesota is home to an above average homeownership rate, the state is also home to the largest racial disparity in homeownership in the nation. According to the latest Census data, homeownership for white Minnesotans is above the state average of 73.4 percent, but is far lower for diverse communities of people of color. Minnesota is home to one of the largest equity gaps in housing in the nation.

Minneapolis has the widest gap in homeownership between white residents and African American residents of any major city, with the latest American Community Survey placing the gap at 50 percent (74.8% to 24.8%).

Racial Breakdown of Minnesota Homeownership

Race	Owner Occupied Housing Rate	Gap From White	Gap From White Alone
American Indian and Alaska Native	46.02%	-29.87%	-30.51%
Asian	57.50%	-18.39%	-19.03%
Black or African American	24.07%	-51.82%	-52.46%
Hispanic or Latino Origin	44.82%	-31.07%	-31.71%
Native Hawaiian and other Pacific Islander	57.12%	-18.77%	-19.41%
Some other race	41.07%	-34.82%	-35.46%
Two or more races	48.53%	-27.36%	-28.00%
White	75.89%	-	-0.64%
White alone, not Hispanic or Latino	75.53%	0.64%	-

U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY, 2014-2018

Market Factors

STABLE

Interest Rates

Interest rates for a 30-year fixed mortgage fell in 2019, from 4.45 percent at the start of 2019 to 3.74 percent on Dec. 26. Decreasing interest rates are giving slight relief to homebuyers at all levels as lower borrowing costs can partially offset increasing housing costs.

Lumber & Other Inputs

Lumber prices fluctuated in 2019 but were far below their five-year peak of \$582 per board foot (random framing lengths) in June 2018. The 52-week high for lumber in 2019 was \$374, with the price of \$373 at the close of 2019. Experts are mixed on the direction of lumber prices in 2020, but the volatility experienced from 2017 to early 2019 is not expected. Overall, the National Association of Home Builders reports that the increase in the cost of construction materials is presently at its lowest rate of increase in five years.

The U.S. Mexico Canada Trade Agreement looks to bring greater stability to the construction inputs market as billions of dollars of construction materials for housing in the United States come from Mexico and Canada.

Note: *The ever-changing cost of construction materials in the United States is felt by the entire industry nationwide and any increases are not uniquely felt in Minnesota and thus cannot be used as the reason why the same homes cost far less to build in other Midwest markets.*

Development Costs

As with material inputs on homes, development costs continue to increase. For example, despite multiple court rulings, two cities continued to require illegal fees as a condition of project approval in 2019, adding thousands of dollars to new homes in these cities.

Interest Rates

3.74%

30-Year Fixed
Dec. 26, 2019



-0.71%

Change in 2019

FREDDIE MAC VIA FEDERAL
RESERVE BANK OF ST. LOUIS

Housing Policy

MIXED

State Legislature and Governor

2019 marked a new direction in housing in Minnesota from the State Legislature and Governor Tim Walz. The legislature created the Legislative Commission on Housing Affordability. The Legislature also formed the Senate Select Committee on Homeownership and Availability. The Commission will begin its work in 2020. The Select Committee began its work in August and aims to make recommendations on policies to the Legislature in the 2020 Session.

The 2019 Session also saw the allocation of \$60 million in housing infrastructure bonds and \$75 million in total new investments. Minnesota Housing is making plans to use this revenue stream quickly and is putting it toward homelessness prevention, short-term rental assistance, and non-profit development, among other programs.

Finally, a new law was passed that enables residents to remove the unenforceable racial covenants from their home titles. While not an affordability measure, this new law addressed the past racist practices of local zoning requirements and opens the door to conversations on the effect zoning may have on the spectrum on homeownership.

State Agencies

Minnesota's updated Residential Building Code, slated to go into effect in March 2020, is the most affordability-friendly building code update in recent history. The Minnesota Board of Plumbing's Rulemaking Committee recommended the removal of the dishwasher air gap, a minor cost savings, yet a symbolic example of excess in housing regulations.

Local Government Policies

Housing policy reforms at the local level were mixed in 2019.

Minneapolis: The City of Minneapolis made national headlines when it adopted flexible zoning and up-zoning city-wide. This move was offset with the adoption of an inclusionary zoning mandate that will likely have a cooling effect on new multi-family projects in the city.

Bloomington: The City of Bloomington, also looking to increase the production of below market-rate units, took a different approach from Minneapolis, incentivizing developers and builders to build these needed units in multi-family projects by reducing the cost of construction in the city.

Impact Fees: Despite a 2018 Minnesota Supreme Court ruling against collecting off-site traffic impact fees, two cities continued to extract this fee. In January 2020, a Hennepin County judge ruled in *Housing First Minnesota v. City of Dayton*, that these fees are illegal.

Building Permits: The revelation that new homebuyers may be overpaying for building permits illustrates one area in which affordability-centric housing reforms can easily be found. In 2019 alone, more than \$40 million in excess building permit revenue was collected statewide, according to publicly available data from the Minnesota Department of Labor and Industry.

Storm Shelter Mandates: Local mandates of storm shelters for slab-on-grade construction, which make affordable construction of these homes challenging, were deemed unenforceable in 2019, after intervention by the Minnesota Department of Labor and Industry.

2020 Outlook

MIXED

2020 presents challenges and opportunities for the housing market.

Headwinds:

- **Energy Code:** No final decision has been made on the adoption of a new residential energy code. Adoption would increase new home prices by thousands of dollars, offsetting the positive steps taken during the adoption of the Residential Building Code.
- **Electrical Code:** Changes to the National Electrical Code will increase construction costs and add headaches for consumers as increasingly sophisticated household appliances now frequently trip circuit breakers in homes.
- **RRP:** A move to take local custody of the EPA's Renovation, Repairs and Painting Rule governing remodeling pre-1978 homes in Minnesota could increase the cost to maintain existing older homes, felt most acutely in naturally occurring affordable housing.
- **Construction and Demolition Waste:** The Minnesota Pollution Control Agency is developing a proposed rule governing construction and demolition landfills. This is in the initial phase and its impact on housing costs is not yet known.
- **Impact Fee Authority:** Following the rulings in *Harstad v. Woodbury* and *Housing First Minnesota v. City of Dayton*, there is a push for increased taxing authority on new homebuyers, despite widely acknowledged concerns over housing affordability.

Opportunities

- **National Housing Conversation:** The housing affordability discussion is occurring all across the country. At the state level, California and Oregon State Legislatures are seeking to intervene when local governments add roadblocks to the production of new, affordably priced housing units. Although housing policies are driven primarily at the local and state levels, the U.S. Department of Housing and Urban Development is seeking ways to reduce the regulatory barriers to affordable construction.
- **Zoning:** Nationally and locally, zoning reform is being looked to as a starting point to reduce the growing cost of housing. A broad topic, zoning reform could impact density, lot sizes, aesthetic requirements, garage minimums and project approval times.
- **Permit Costs:** A re-imagining of permitting is likely to be taken up by the Legislature.
- **Transparency:** Other than health care, housing is the one major expenditure about which consumers know the least regarding how the product is priced. Increased transparency in housing costs for both consumers and policy makers would enable a better understanding of how certain policies affect housing costs.

Notes

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