Minnesota Housing Partnership



Dynamic Trends

Shaping the Nation's Housing Markets

Special presenter: Chris Herbert, Harvard Joint Center for Housing Studies

November 1, 2017

#InvestMHP

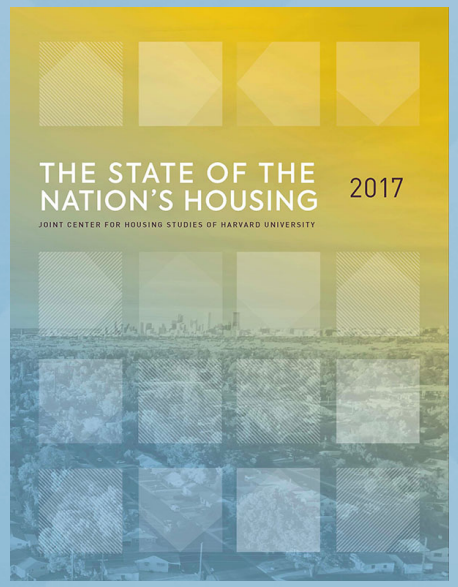
AGENDA

7:45	*Welcome* **Anne Mavity**, Executive Director, MHP
7:55	*Special Presentation* ***Dynamic trends shaping the nation's housing markets*** **Christopher Herbert**, Managing Director, Joint Center for Housing Studies at Harvard University
8:25	*Panel* **Nick Place**, Bridgewater Bank **Deidre Schmidt**, CommonBond Communities **Chris Zuspann**, Frerichs Construction
8:55	*Closing Comments* **Paul Sween**, Dominium, MHP Board Chair
9:00	*Adjourn*



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The State of the Nation's Housing 2017



Chris Herbert
Minnesota Housing Partnership
St. Paul, MN
November 1, 2017

JCHS

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

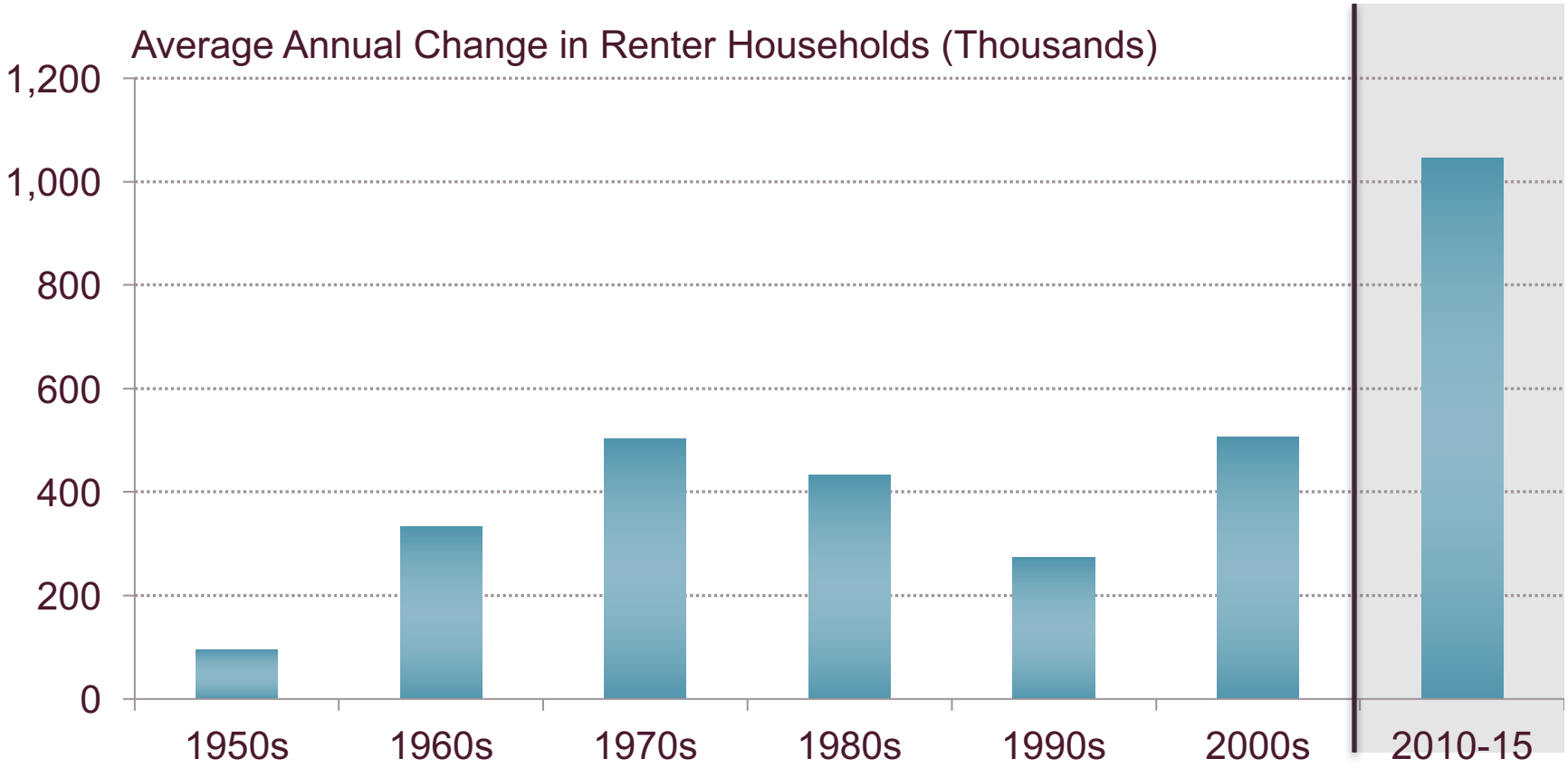
Summary of Key Points

- Growth in renters has been at record levels, but is now slowing
- Rental construction cycle may be peaking, but has not lead to much new supply at affordable levels
- Homeownership rate appears to be finding a bottom as foreclosures recede and economy recovers
- But there are continued headwinds for homeownership that will prevent much of a rebound
- Demographic drivers still point to strong demand over next decade, marked by coming of age of millennials, aging of baby boomers, and growing racial diversity

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Growth in Rental Demand Slowing From Very High Levels

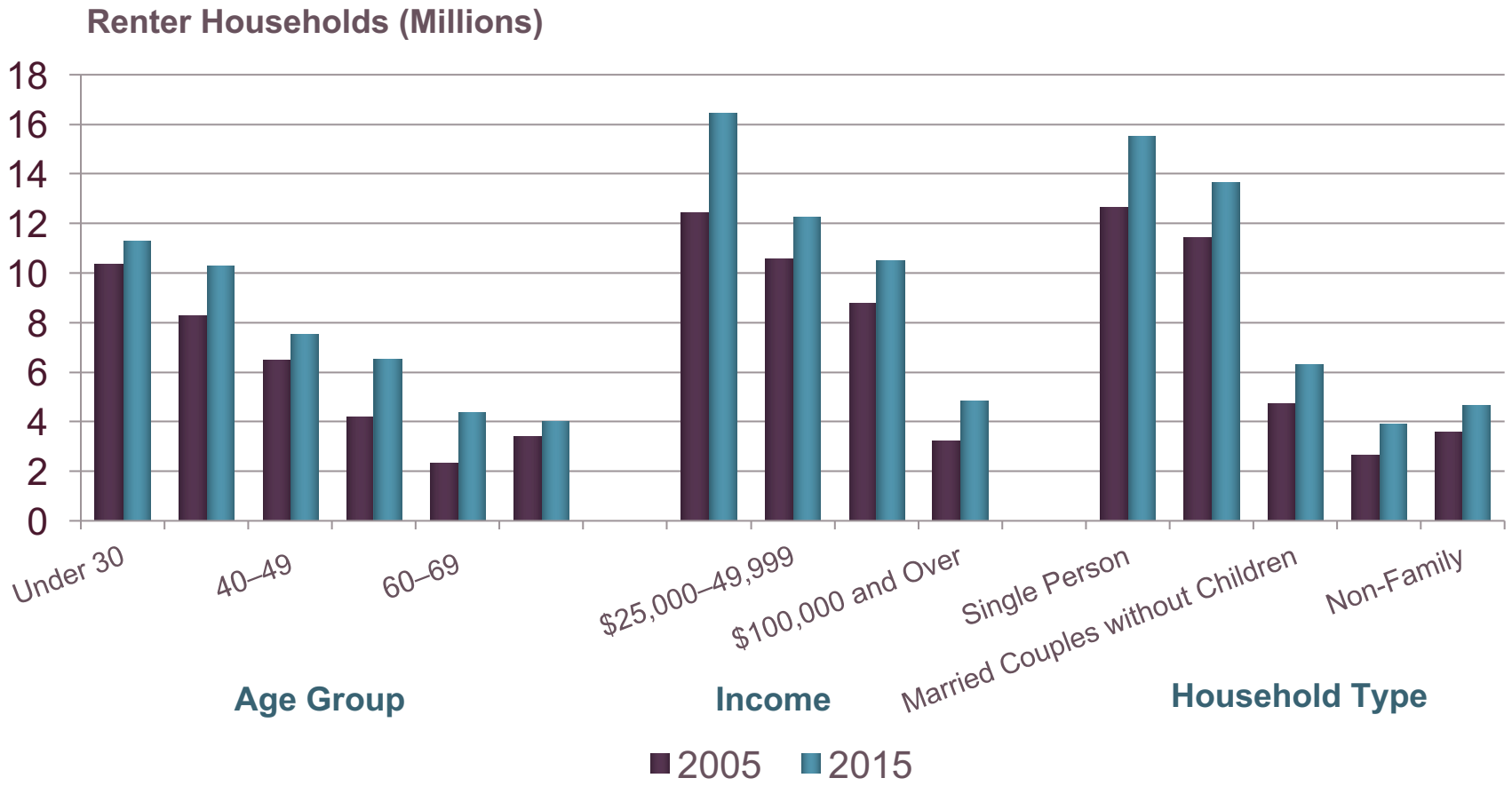
During the First Half of the 2010s, Annual Renter Household Growth Outstripped the Pace of Any Previous Decade



Source: JCHS tabulations of US Census Bureau, Decennial Censuses and Housing Vacancy Surveys.

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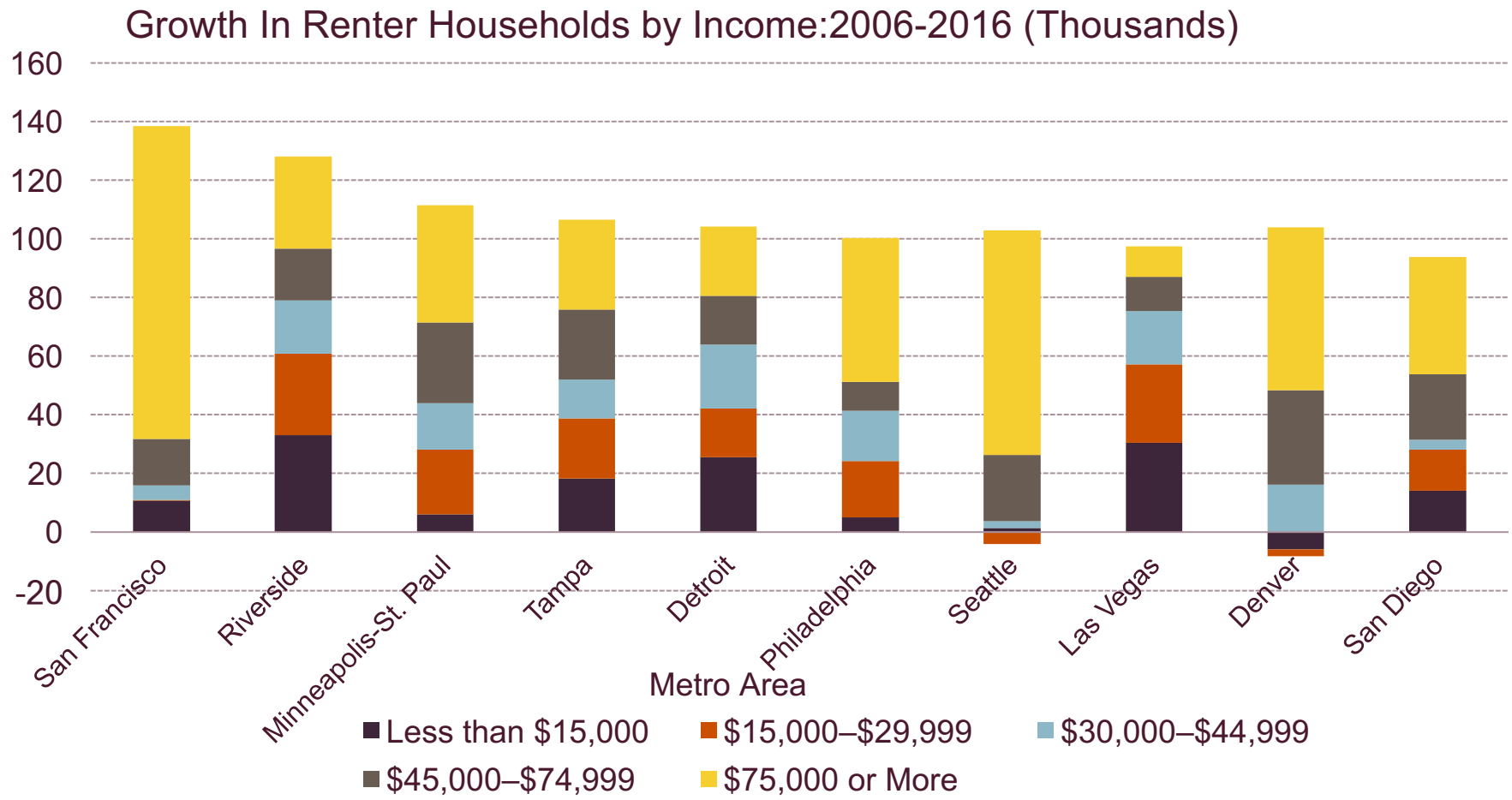
The Decade-Long Increase in Renter Households Has Been Broad-Based



Note: Household counts are three-year trailing averages and define children as under age 18 only.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

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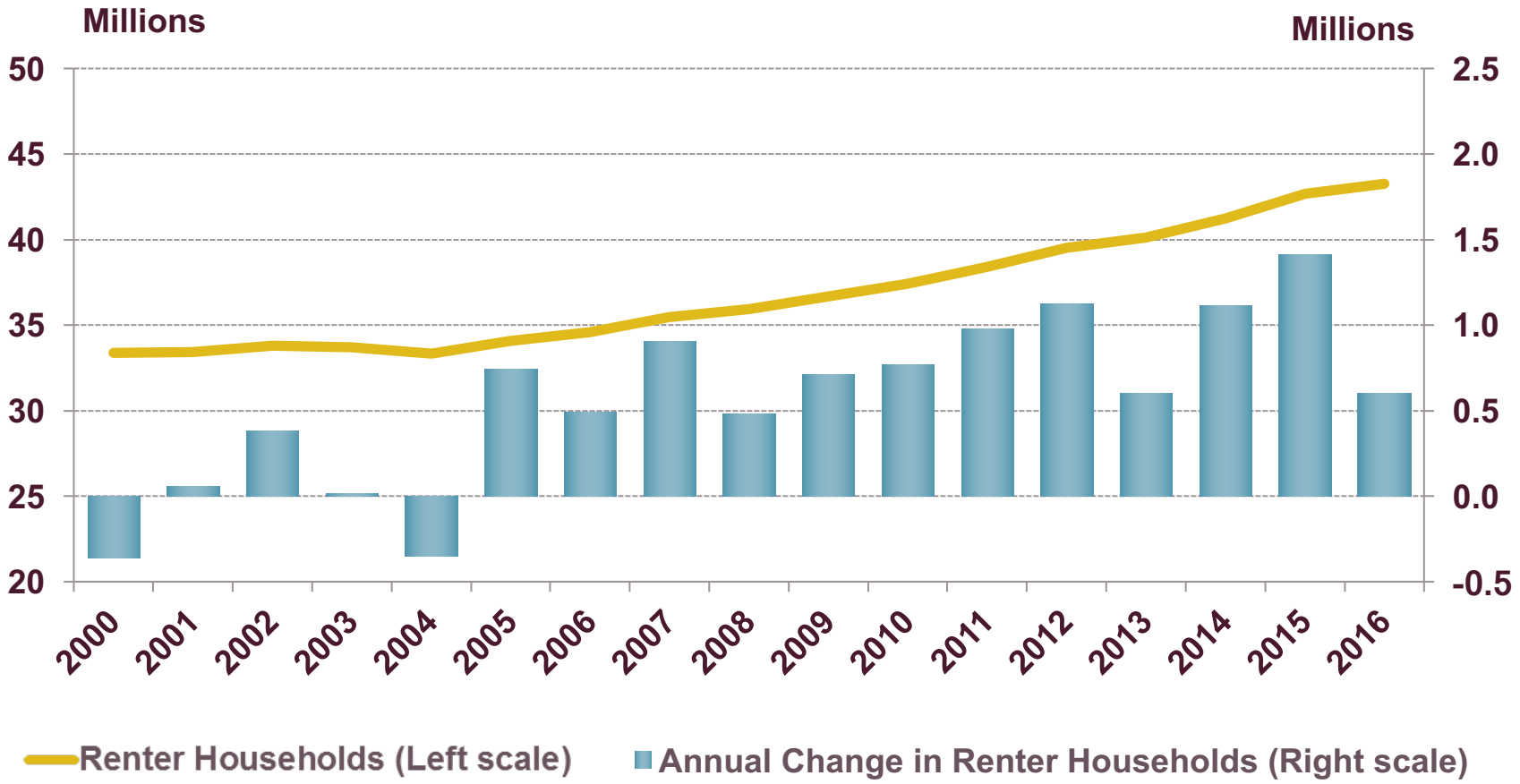
Renter Growth in Minneapolis Has Been Less Dominated by Higher-Income Households Than High-Cost Metros



Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

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Rental Demand Now Appears to Be Slowing

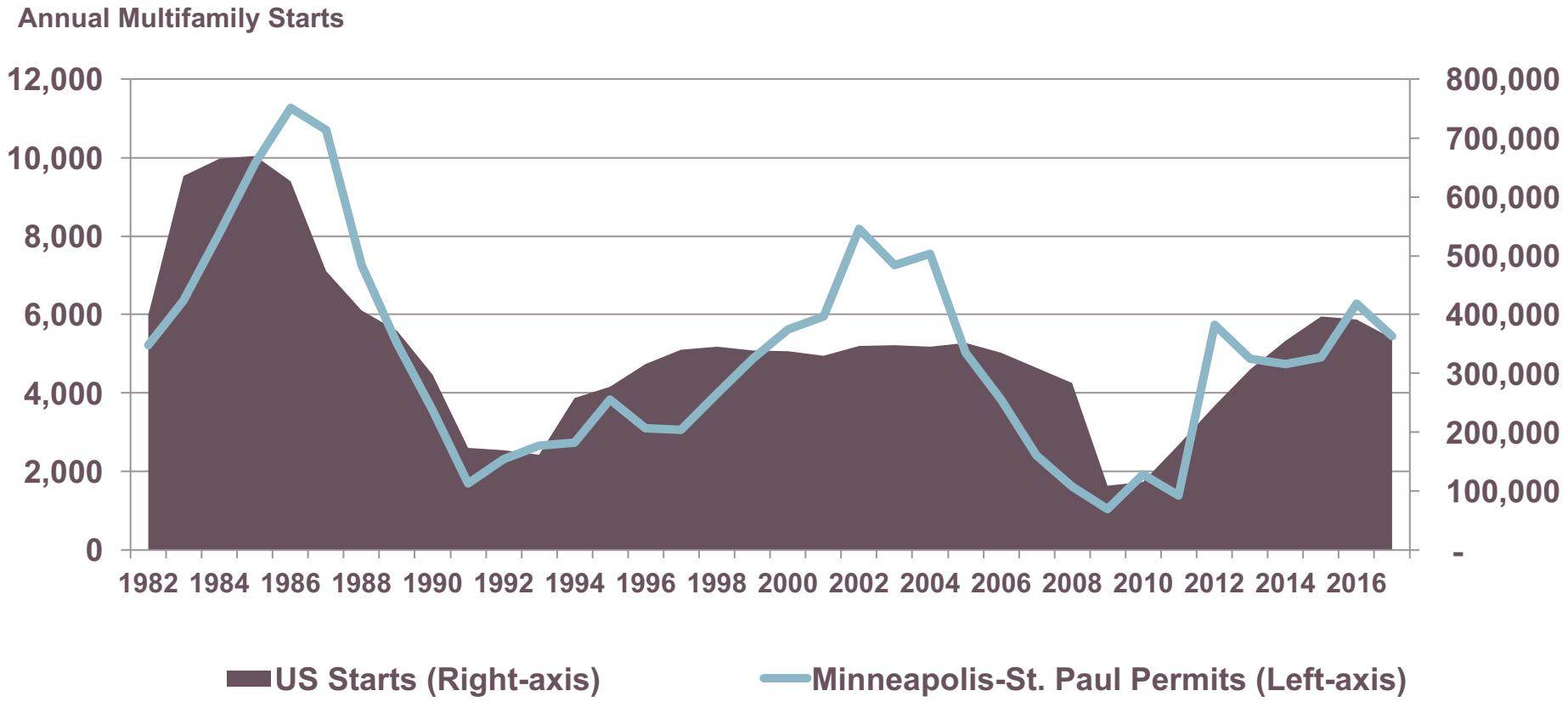


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

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Rental Construction May Be Cresting—At Least at High End of the Market

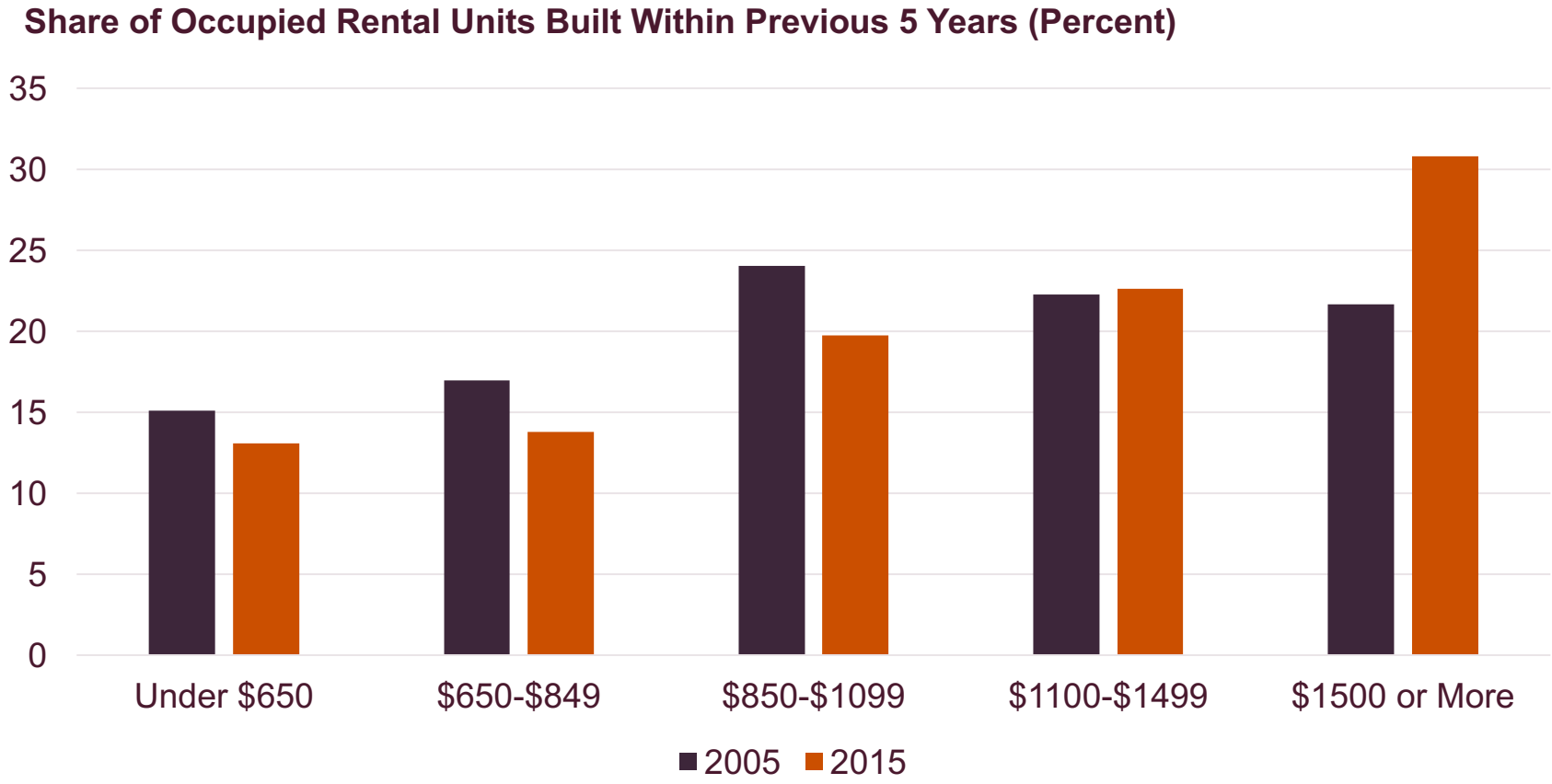
Multifamily Construction Appears to Be Peaking In the Twin Cities, Echoing National Trend



Notes: *Preliminary 2017 estimates are based on activity August, 2017.
Source: JCHS tabulations of US Census Bureau, New Residential Construction and Moody's Analytics.

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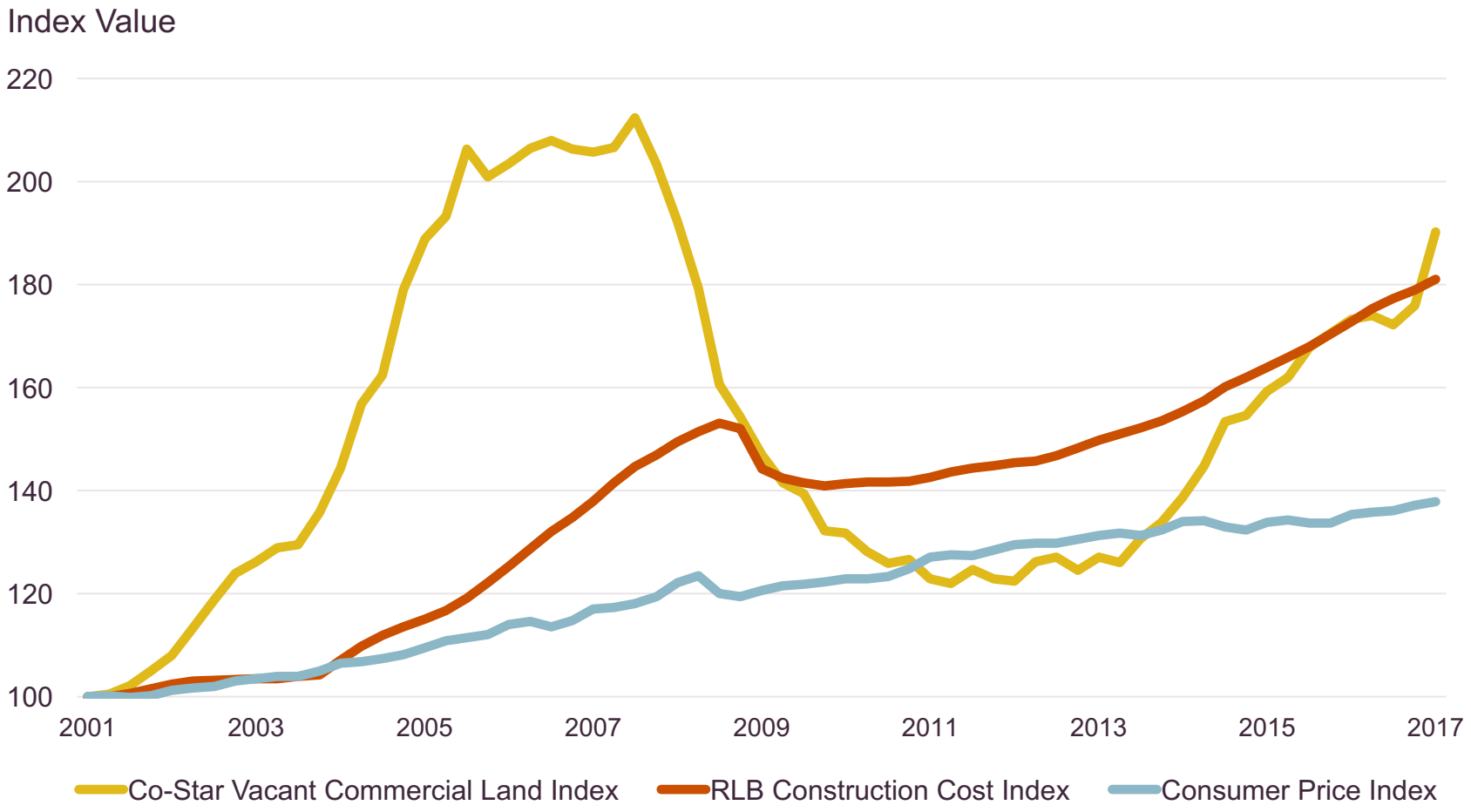
Growing Shares of Newly-Built Rental Units are High-Cost



Notes: Monthly housing costs include rent and utilities and have been adjusted to 2015 dollars using the CPI-U All Items. Excludes vacant rental units and those where no monthly cash rent is paid. 2005 data represents units built 2000-2005 inclusive, and 2015 data represents units built 2010-2015 inclusive.
Source: 2005 and 2015 American Community Survey.

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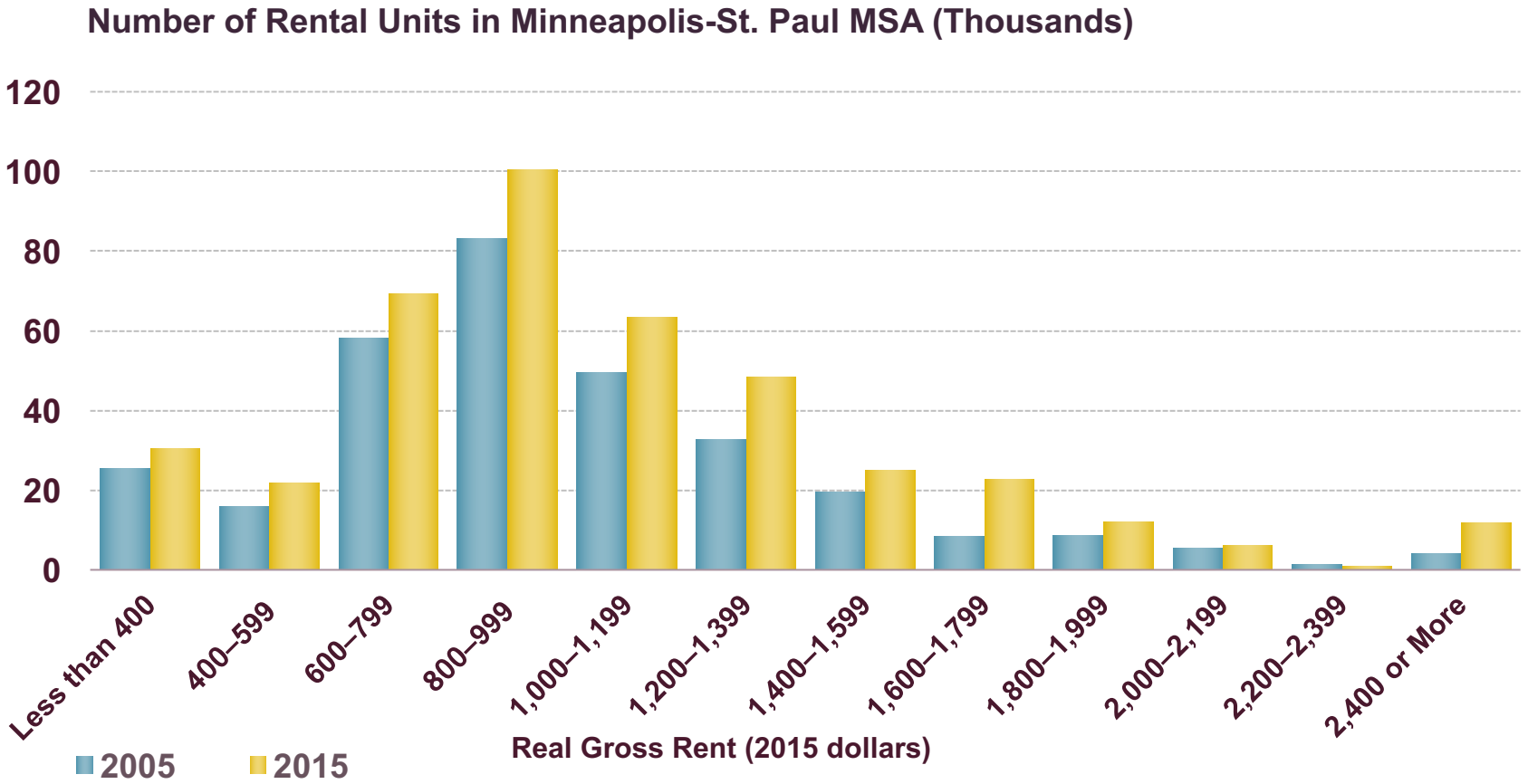
Construction Costs Nationally—Land, Labor, and Building Materials—Have Risen Faster than Inflation



Notes: The RLB Construction Cost Index measures the bid cost of construction which includes labor, building materials, and contractor fees. The Co-Star Vacant Commercial Land Index serves as a proxy for developable multifamily sites.
Sources: Co-Star Vacant Commercial Land Index; RLB Construction Cost Index; and Consumer Price Index for all urban consumers.

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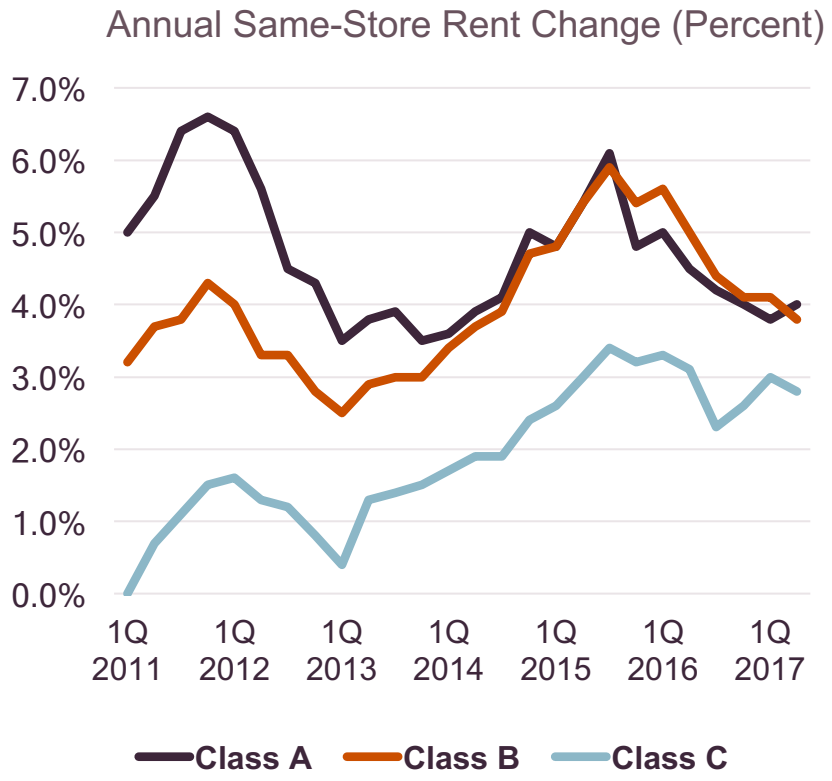
Twin Cities' Low Cost Rentals Have Increased Modestly, While Most Growth Has Been Among Units Renting Above $1000 Monthly

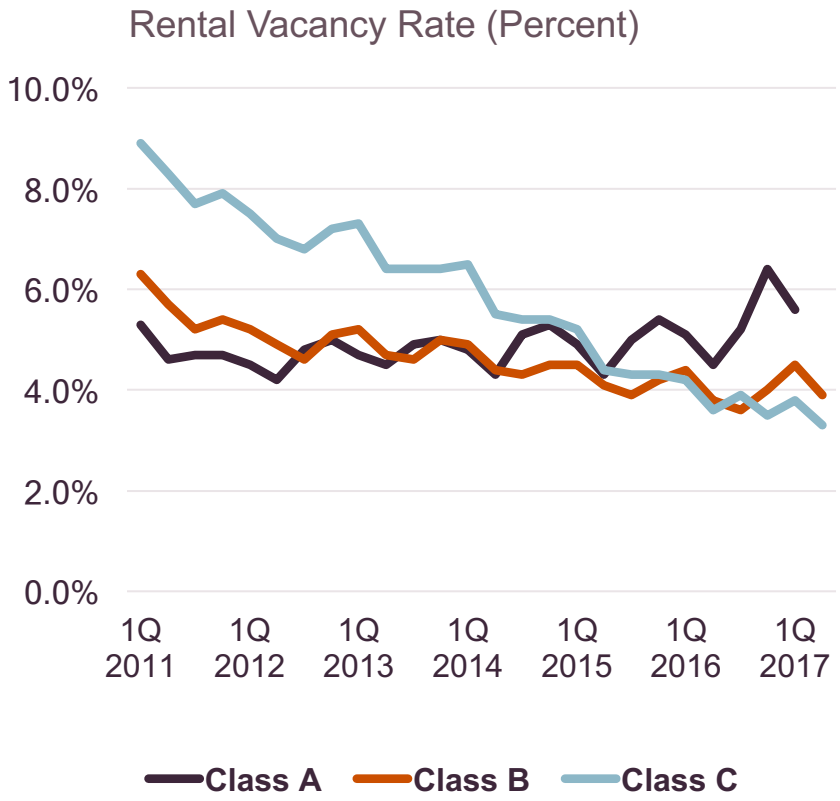


Notes: Data exclude rental units occupied without payment of rent. Gross rents are adjusted by the CPI-U for All Items less shelter.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

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At the High-End, Rent Growth is Slowing and Vacancies Rising, While Class C Segment Continues to Tighten

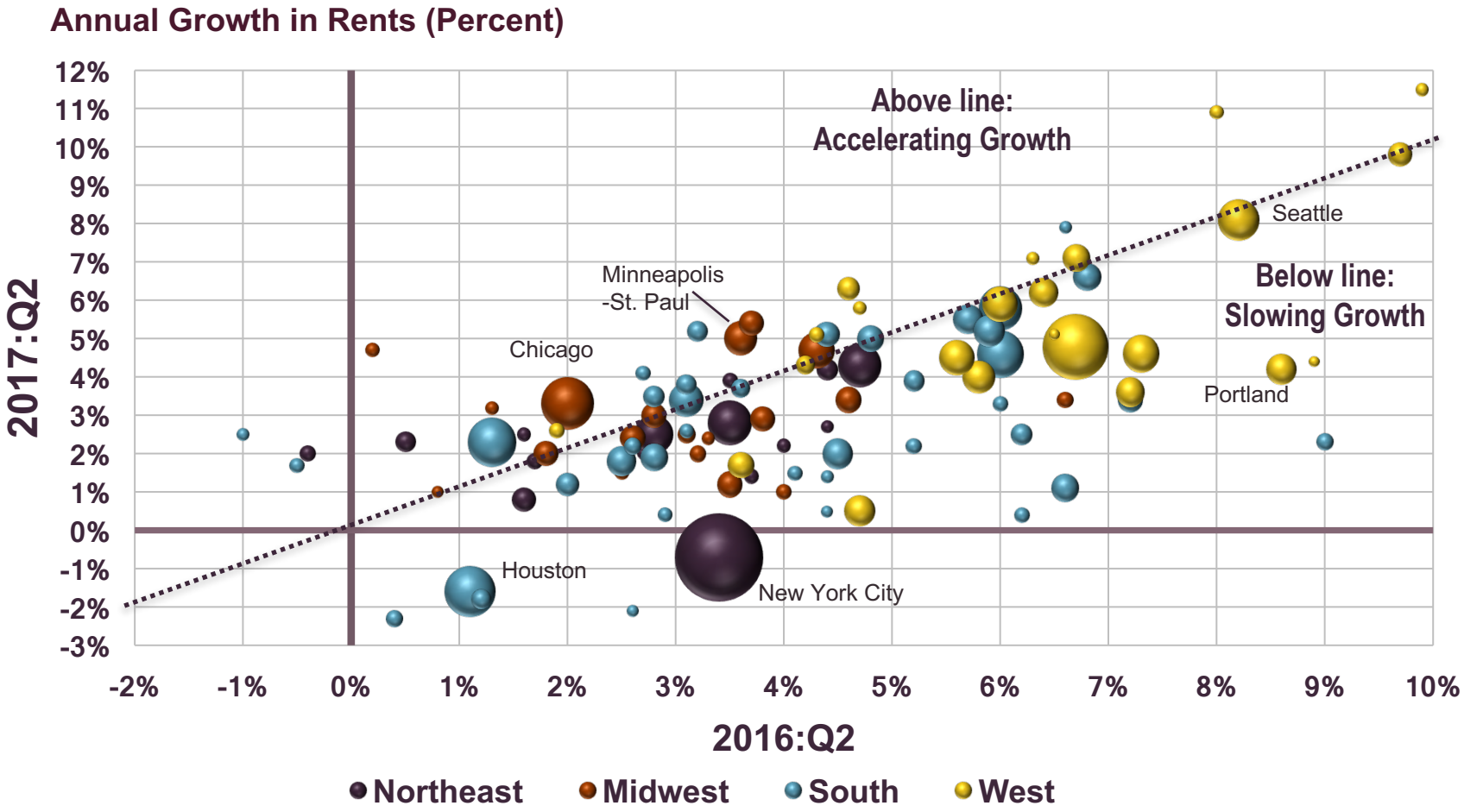




Source: JCHS tabulations of MPF Research.

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Rent Increases Moderated in Many, But Not All Major Apartment Markets in Mid-2017

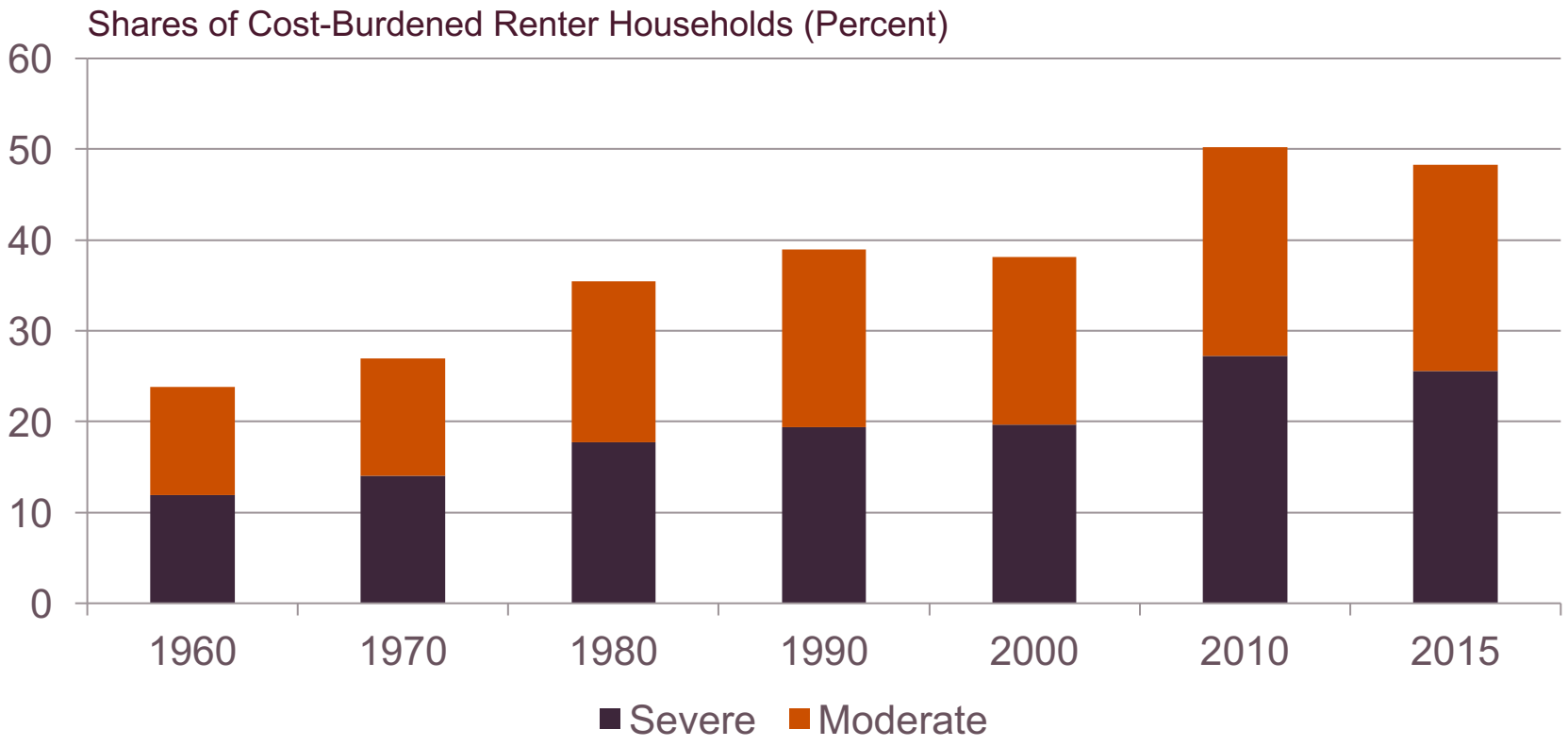


Notes: Dot size corresponds to number of existing units in the market.
Source: JCHS tabulations of MPF Research data.

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Renter Affordability Has Improved, But Remains Near Record Highs

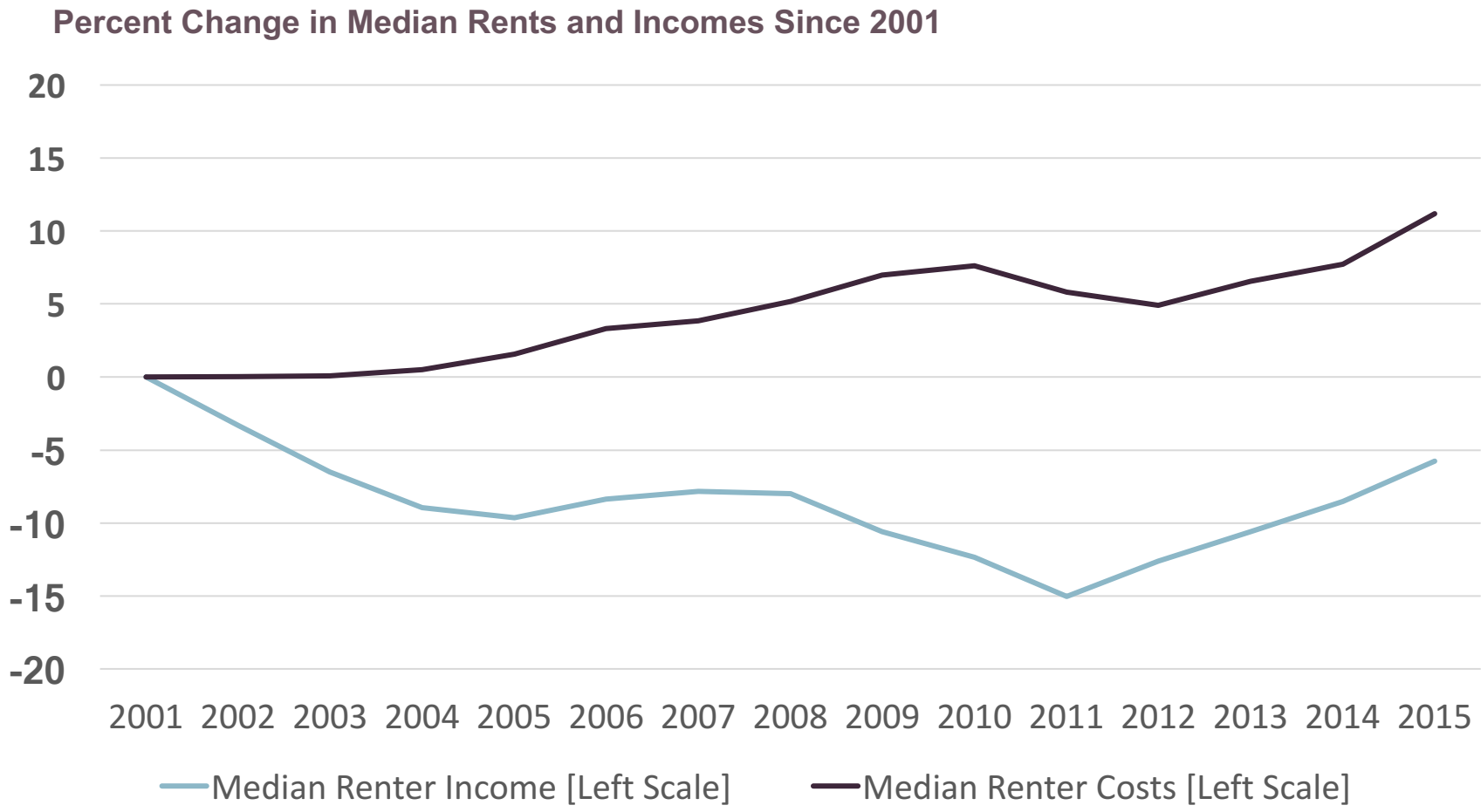
Renter Cost Burdens Spread at an Unprecedented Pace in the 2000s and Have Barely Receded



Notes: Moderate (severe) burdens are defined as housing costs of 30-50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened.
Sources: JCHS tabulations of US Census Bureau, Decennial Census and American Community Surveys.

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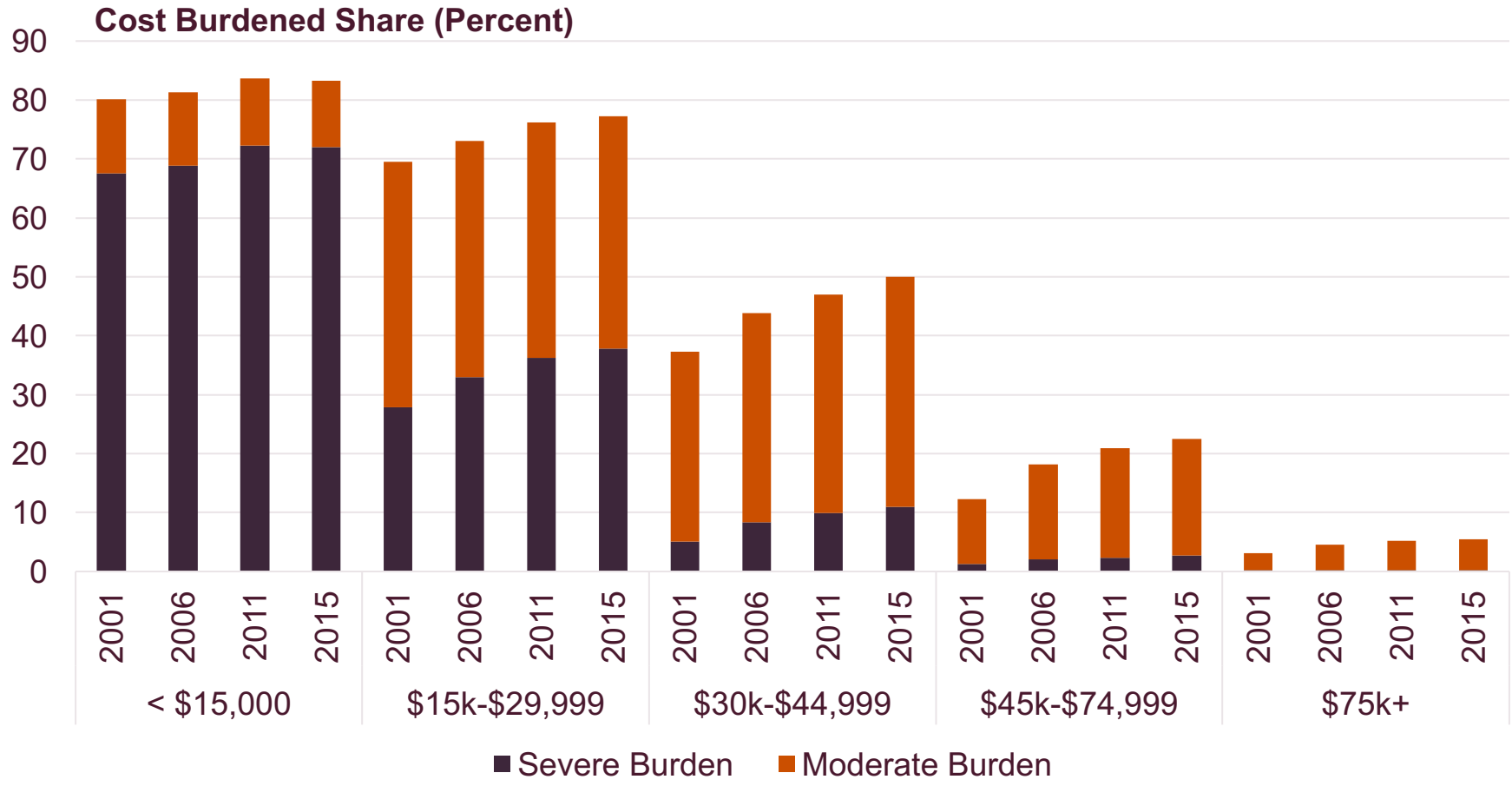
Sharp Rise in Cost-Burdened in 2000s Reflects Long-term Increases in Housing Costs and Declines in Incomes



Source: JCHS tabulations of US Census Bureau, American Community Surveys

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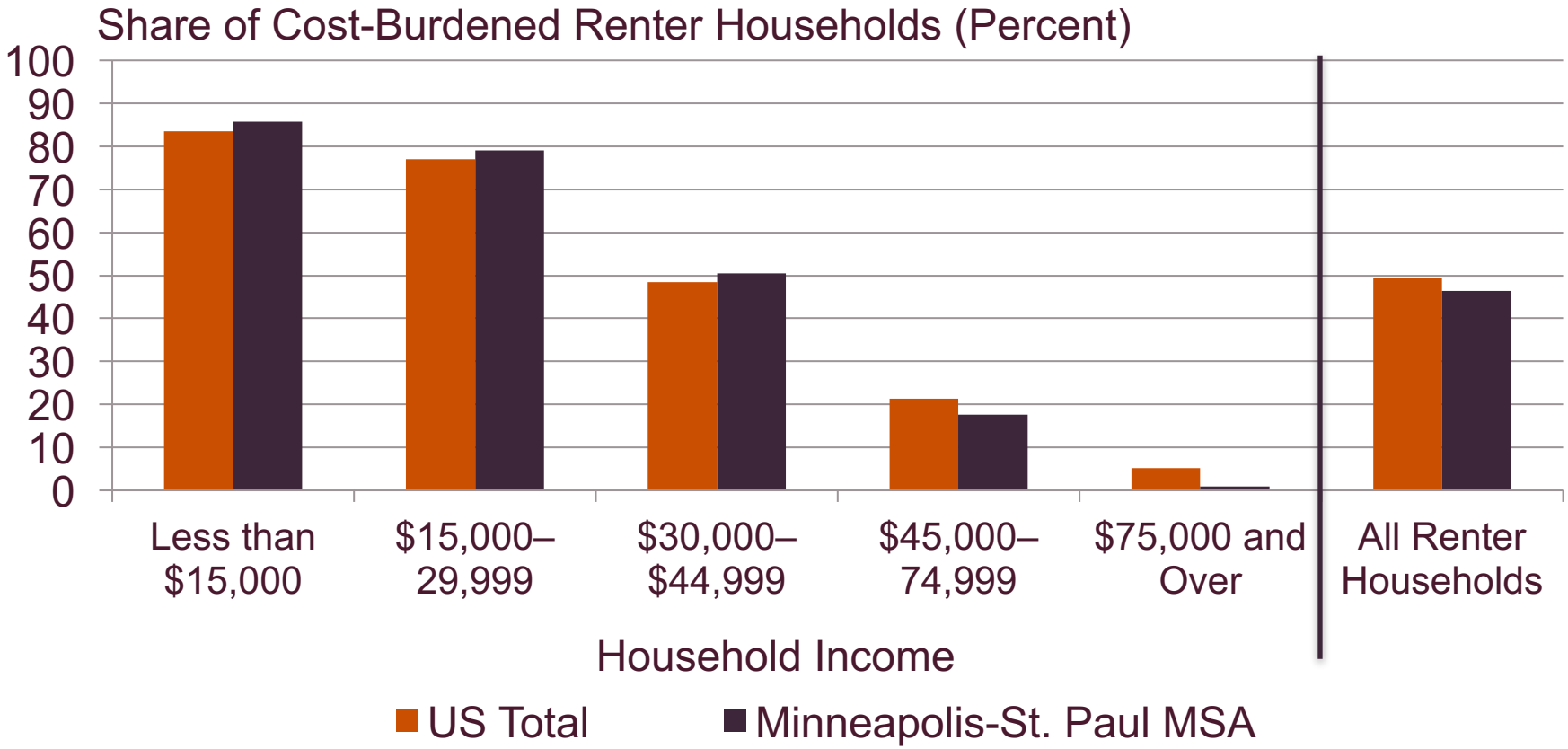
Cost Burden Shares are Increasing Fastest Among Middle-Income Renters



Notes: Household incomes are adjusted to 2016 dollars using the CPI-U for All Items. Cost burdened households pay more than 30% of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens.
Source: JCHS tabulations of US Census Bureau, American Community Surveys

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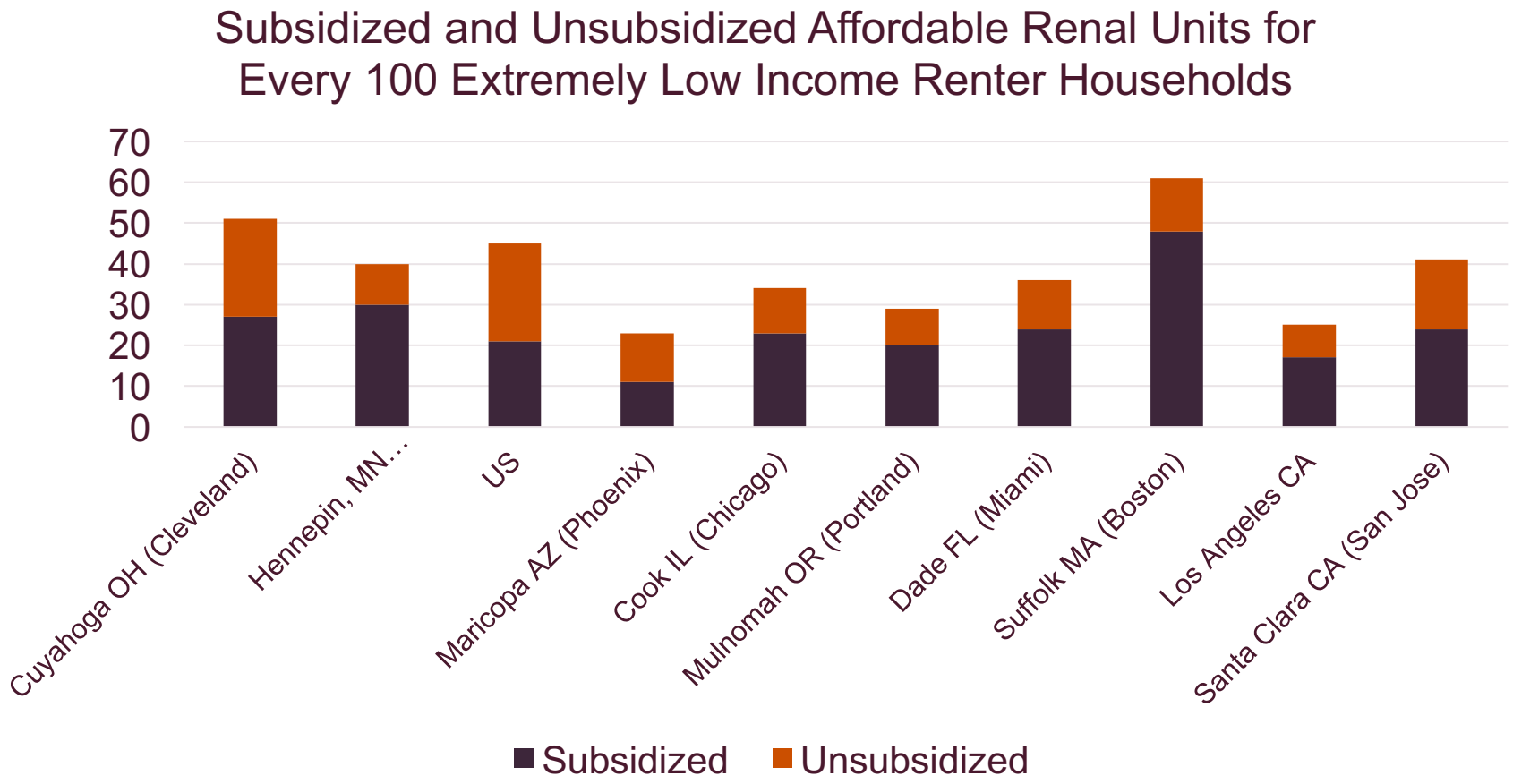
In Minneapolis, Cost Burdens Are Similar to the US as a Whole



Notes: Cost burdens are defined as housing costs of more than 30% of household income.
Source: JCHS tabulations of the American Community Survey, 2014.

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Minneapolis Has a Relatively Large Supply of Subsidized Rentals, But a Short Supply of Naturally Occurring Affordable Units

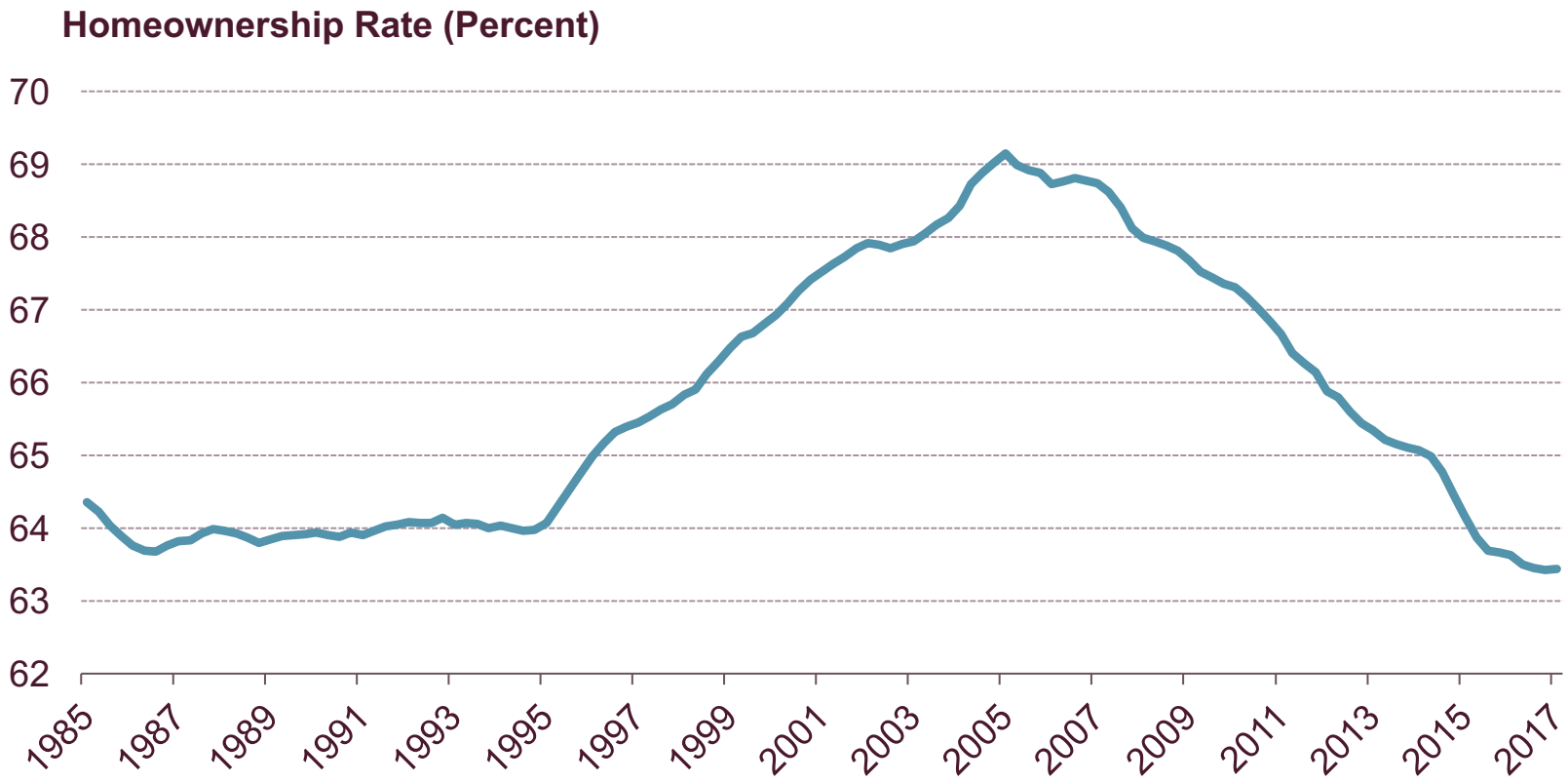


Note: Extremely Low Income households have incomes at or bellow 30 percent of Area Median incomes.
Source: The Urban Institute, "The Housing Affordability Gap for Extremely Low Income Renters in 2014"

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Slowdown in Renter Growth Reflects that the Homeownership Rate is Finding a Bottom

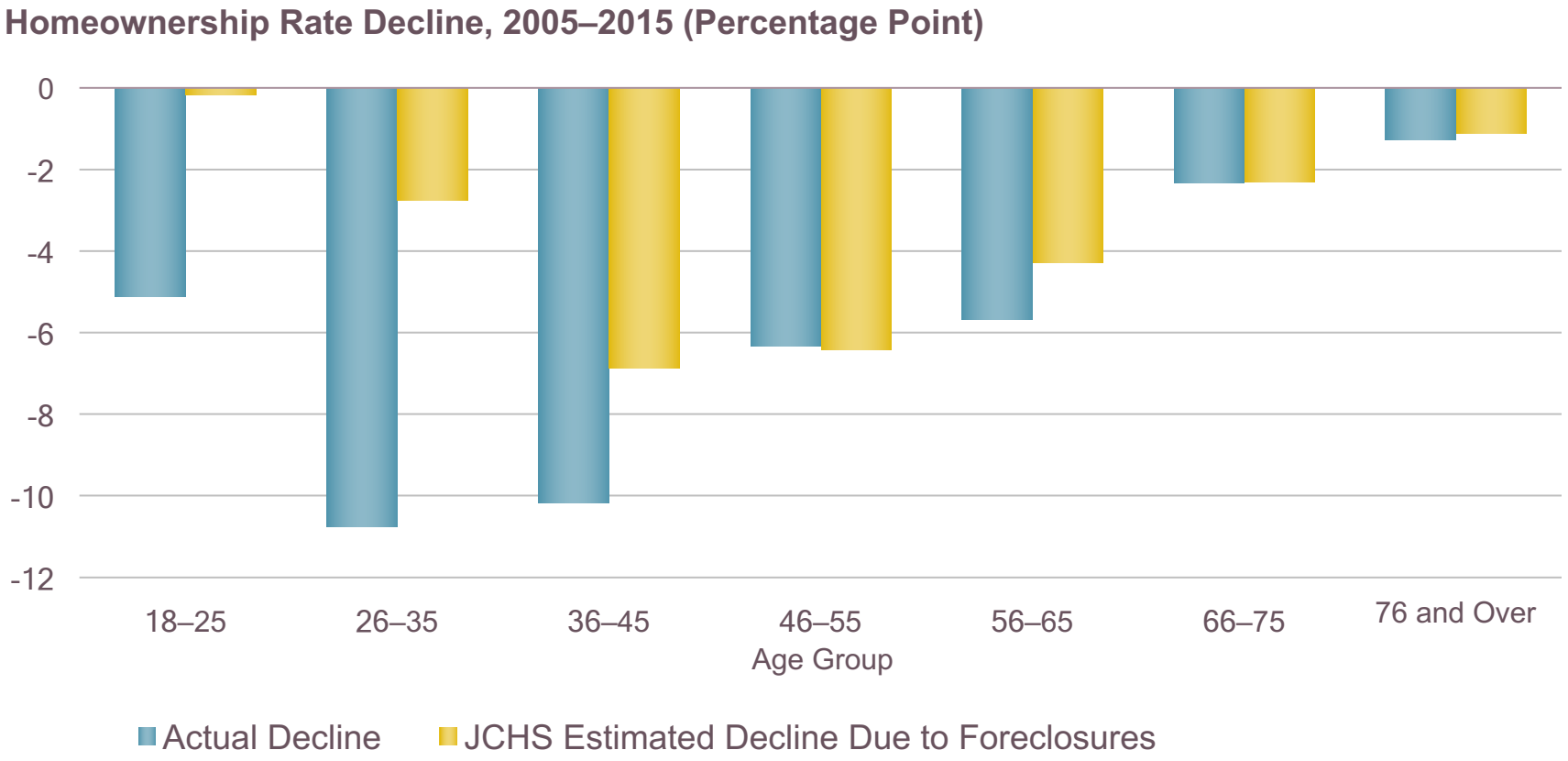
The National Homeownership Rate May Be Finding a Bottom Near 63.5 Percent



Note: Data are four-quarter rolling averages.
Source: JCHS tabulations of Housing Vacancy Surveys.

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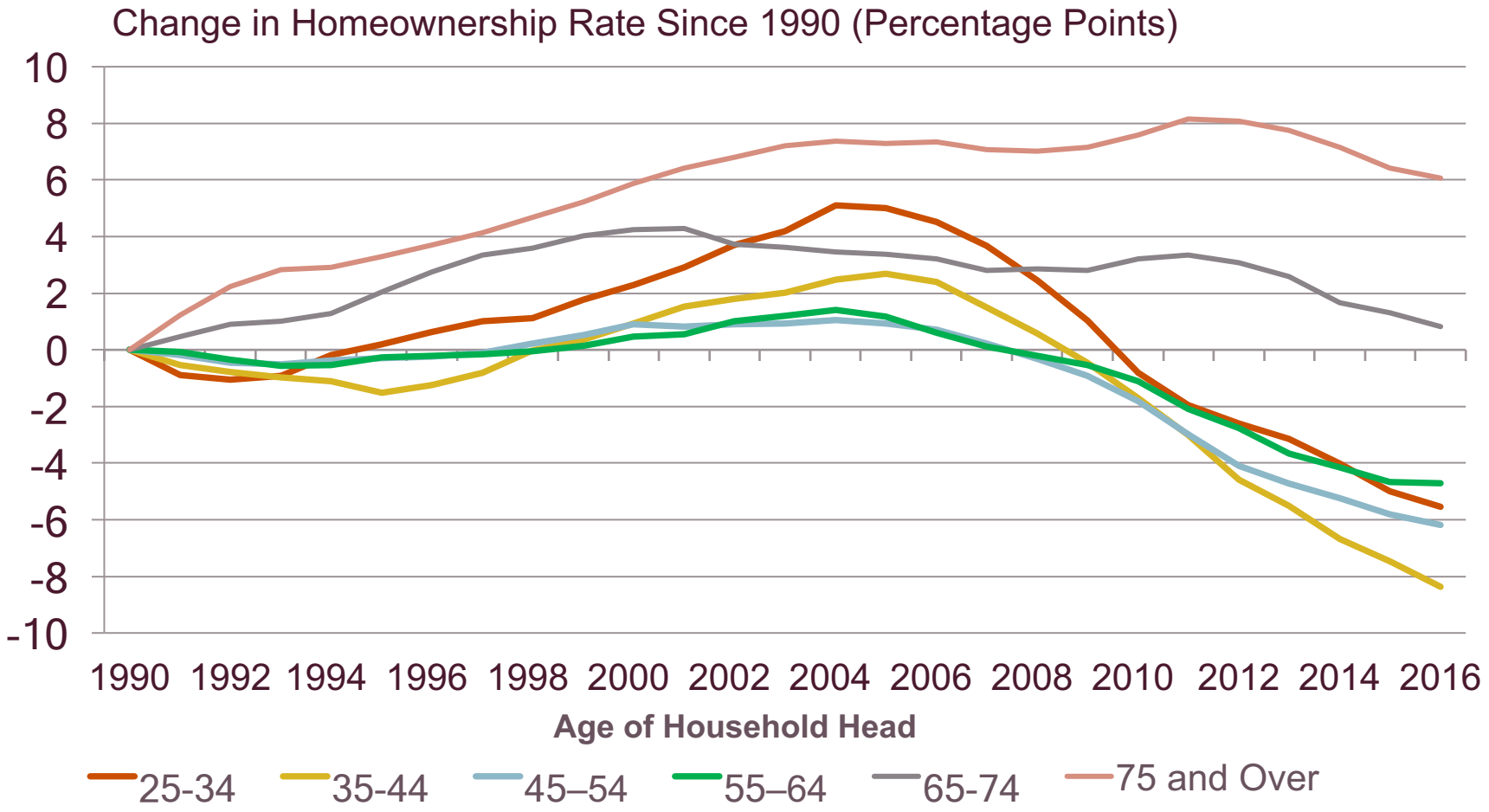
Foreclosures Accounted for Most of the Homeownership Declines Among Older Adults—but not among the Young



Note: JCHS estimate is the ratio of the number of owner-occupied foreclosure completions to the number of households. The owner-occupant share of all housing units in 2015 (60.3 percent) is used to estimate the owner-occupant share of the 9.6 million foreclosure completions between Q2 2005 and Q1 2015.
Source: JCHS tabulations of CPS ASEC and CoreLogic data on foreclosure completions in Spader and Herbert (2016).

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But Rates Have Fallen Well Below Early 1990s Rates for All But Oldest Age Groups

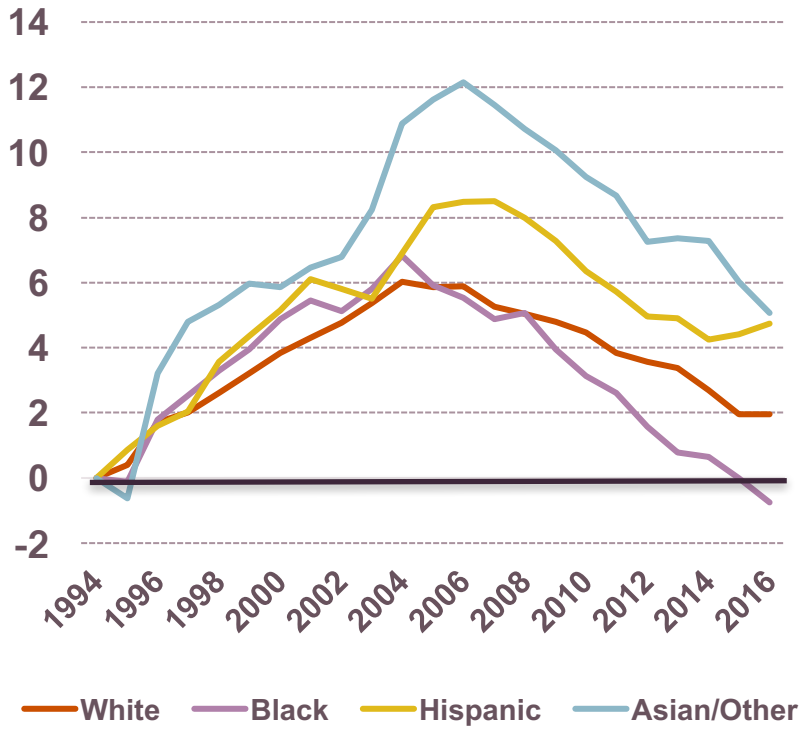


Note: Based on 3-year annual average rates.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

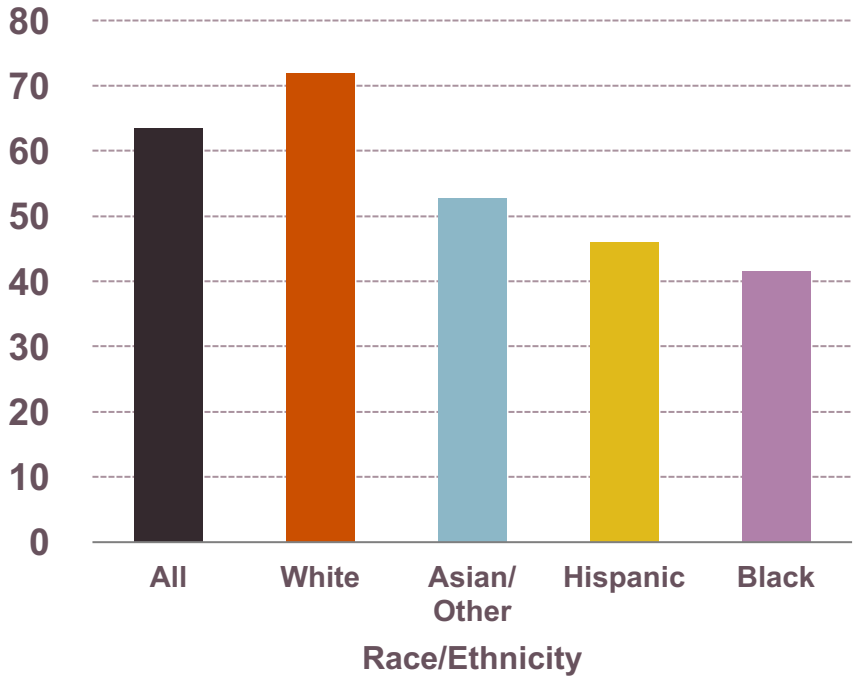
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The Homeownership Gap Has Narrowed for Hispanics and Asians, But Widened for Blacks

Cumulative Change in Homeownership Rate (Percentage points)



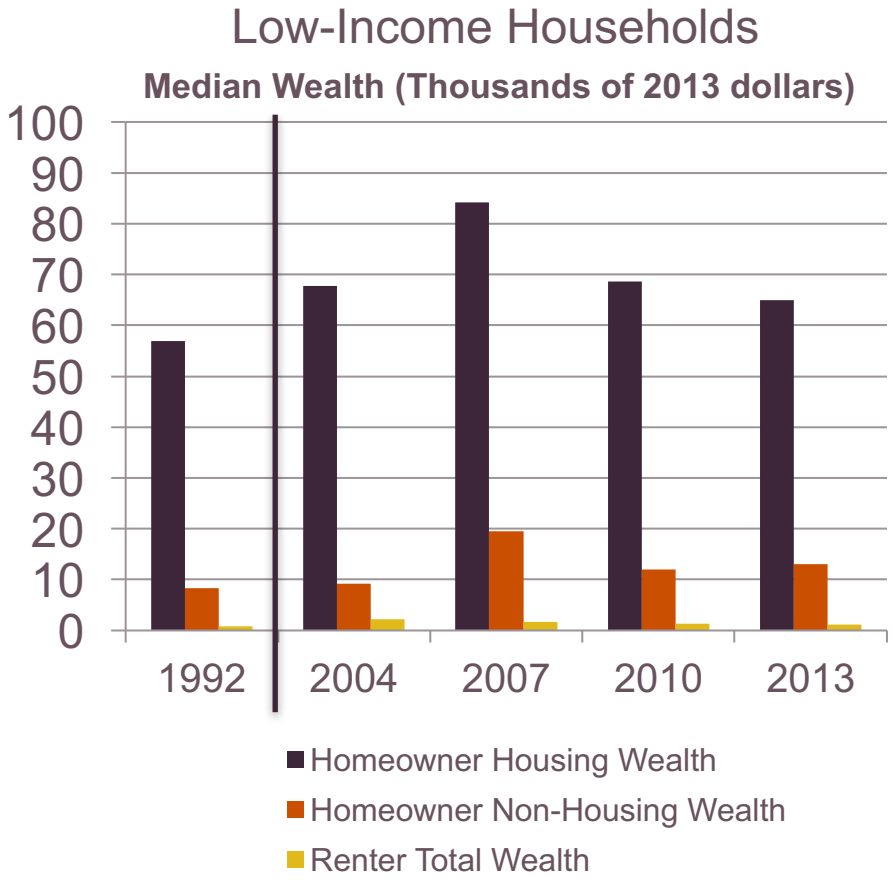
Homeownership Rate in 2016 (Percent)

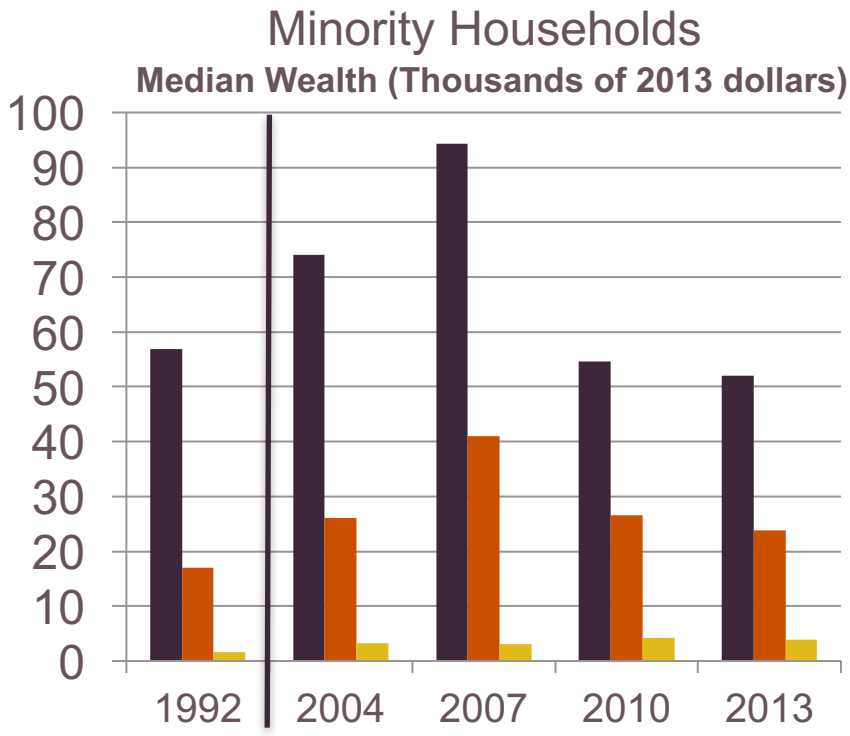


Notes: Hispanics may be of any race. White, black, and Asian/other are non-Hispanic and include households reporting a second race until 2003. After 2003, Asian/other includes all other households and households reporting more than one race.
Source: JCHS tabulations of Housing Vacancy Survey data.

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Despite the Downturn, Housing Remains the Primary Form of Wealth for Low-Income and Minority Households

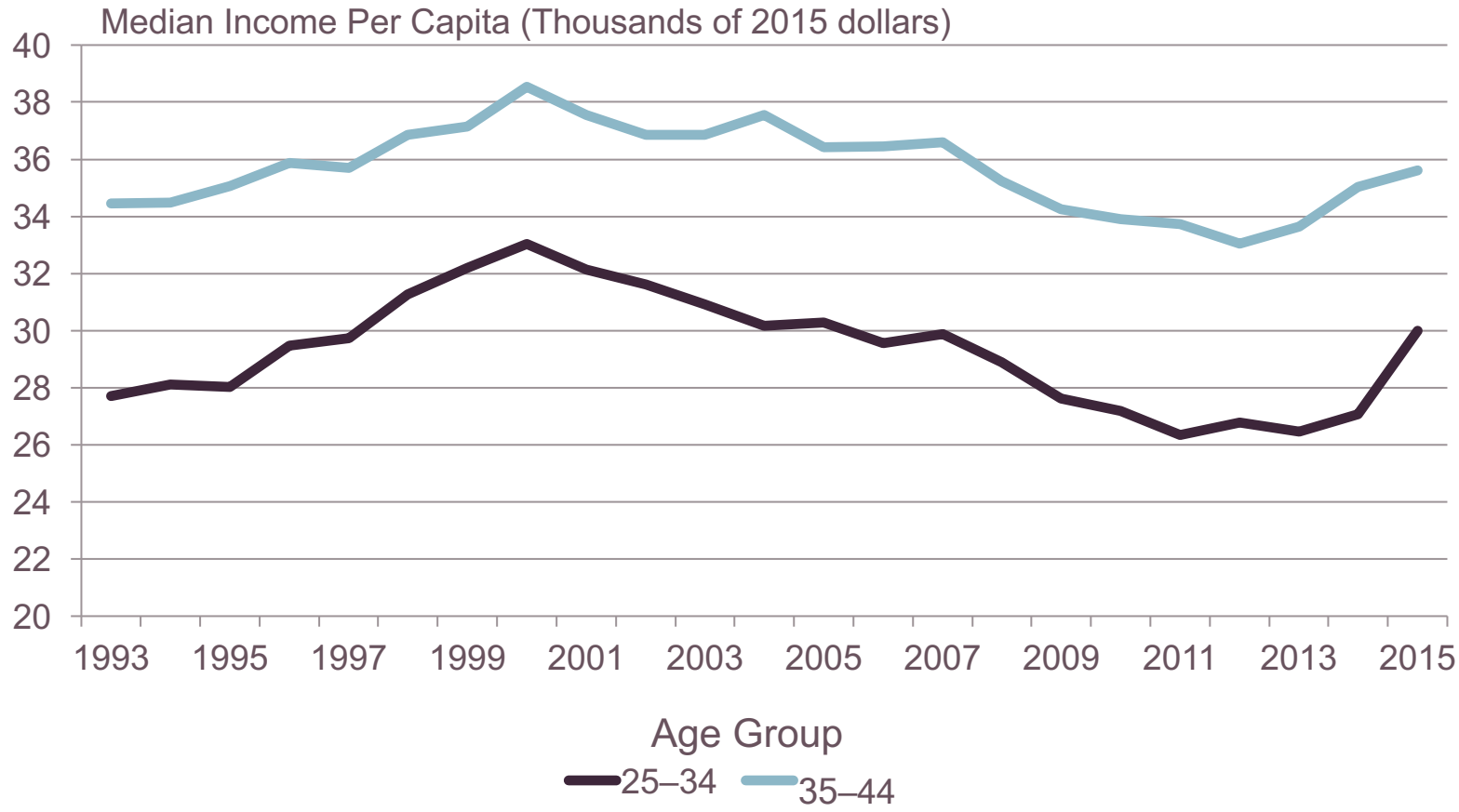




Notes: Medians for housing and non-housing wealth are calculated independently of one another and therefore do not sum up to total median net wealth Non-housing wealth includes cash savings, savings in retirement accounts, stocks and bonds. Values are adjusted for inflation with the CPI-U for All Items. Low income households are in bottom income quartile for each year.
Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances.

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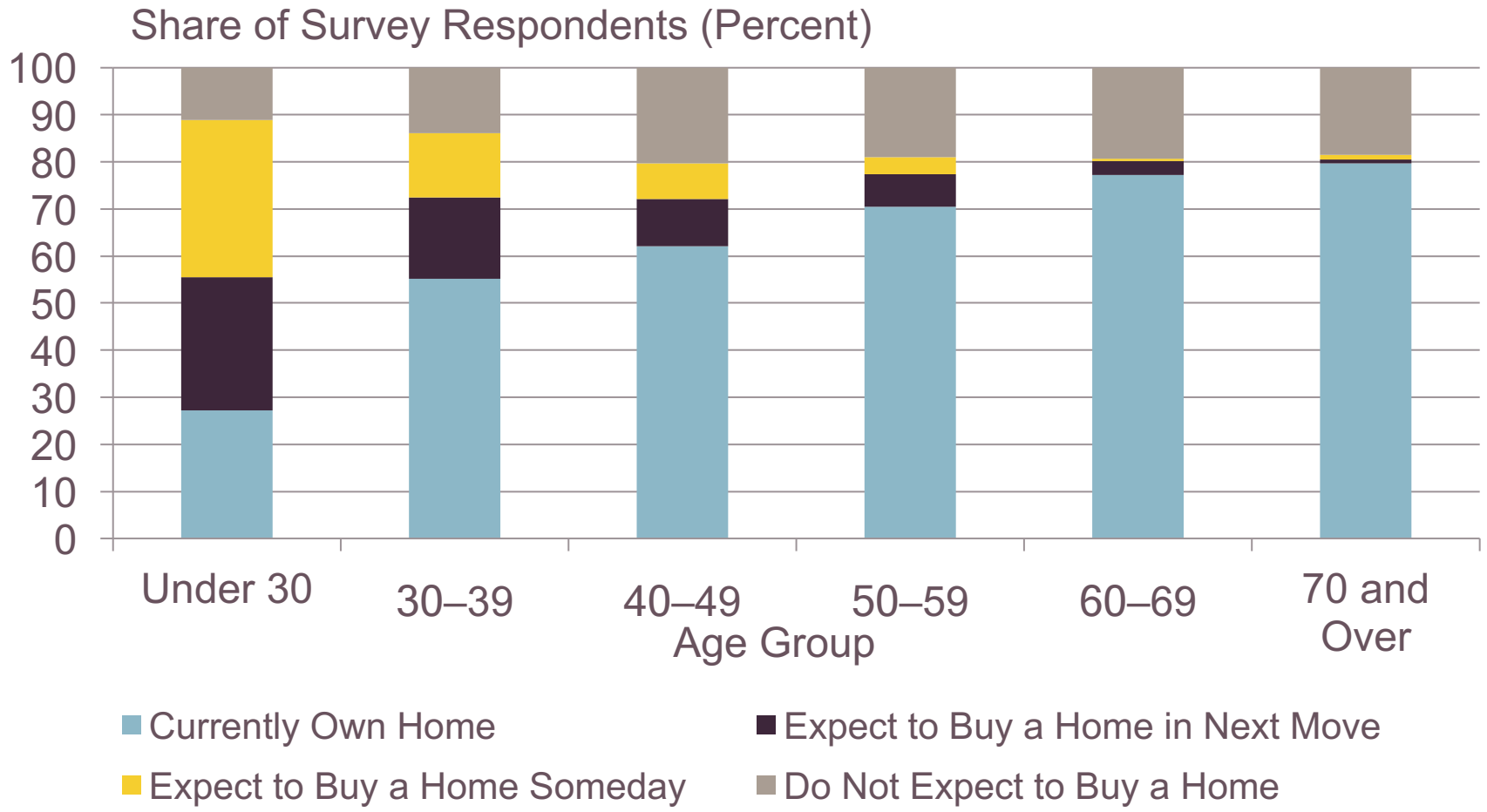
Falling Incomes Among Young Adults Were an Often Overlooked Factor in Homeownership Decline, But Trends Have Now Reversed



Note: Data are for adults age 15 and over.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

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The Vast Majority of Households—Including the Young—Own Homes or Expect to in the Future

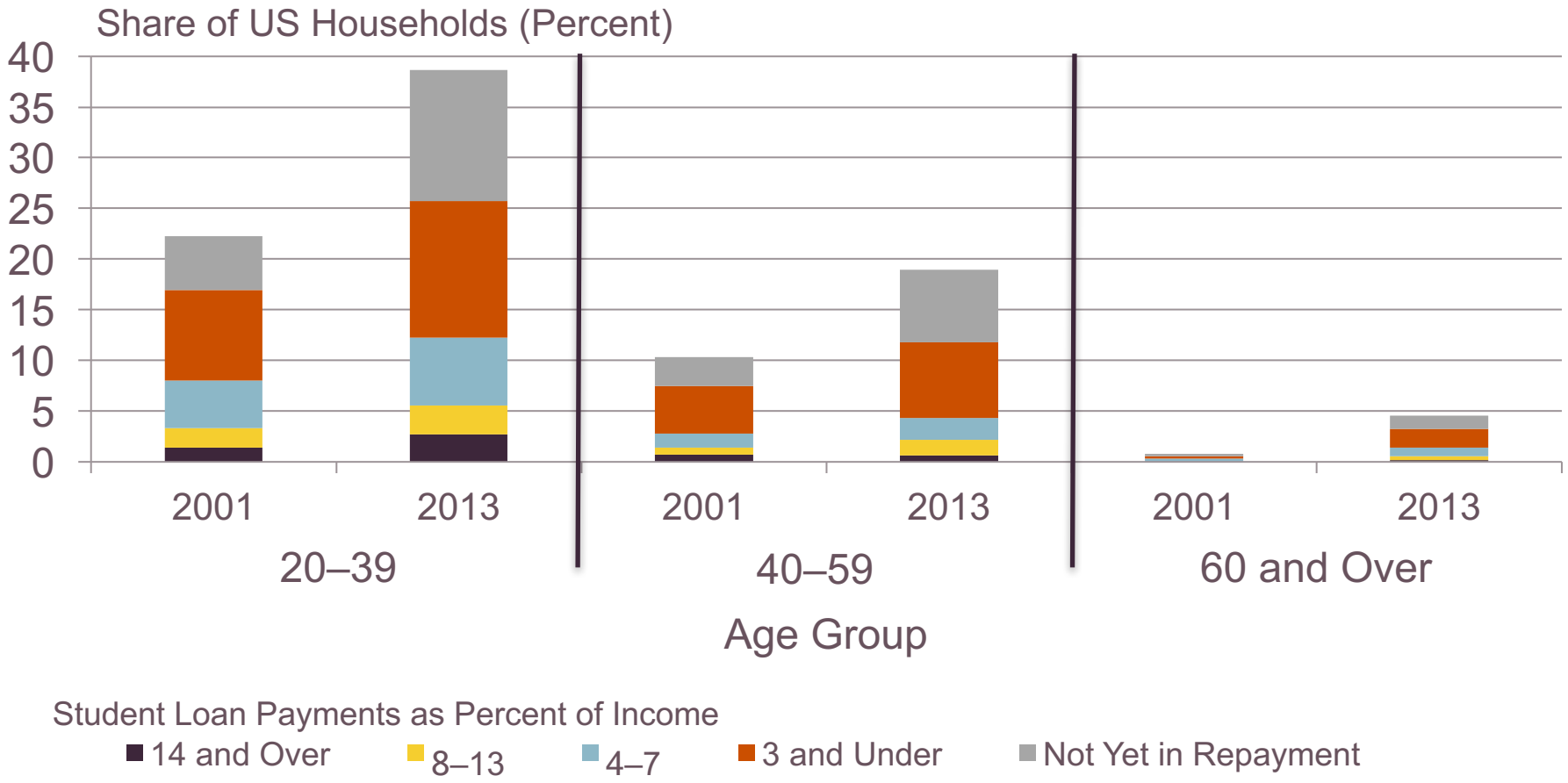


Source: JCHS tabulations of The Demand Institute, 2015 Consumer Housing Survey data.

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A Variety of Obstacles Remain to Rebound in Homeownership

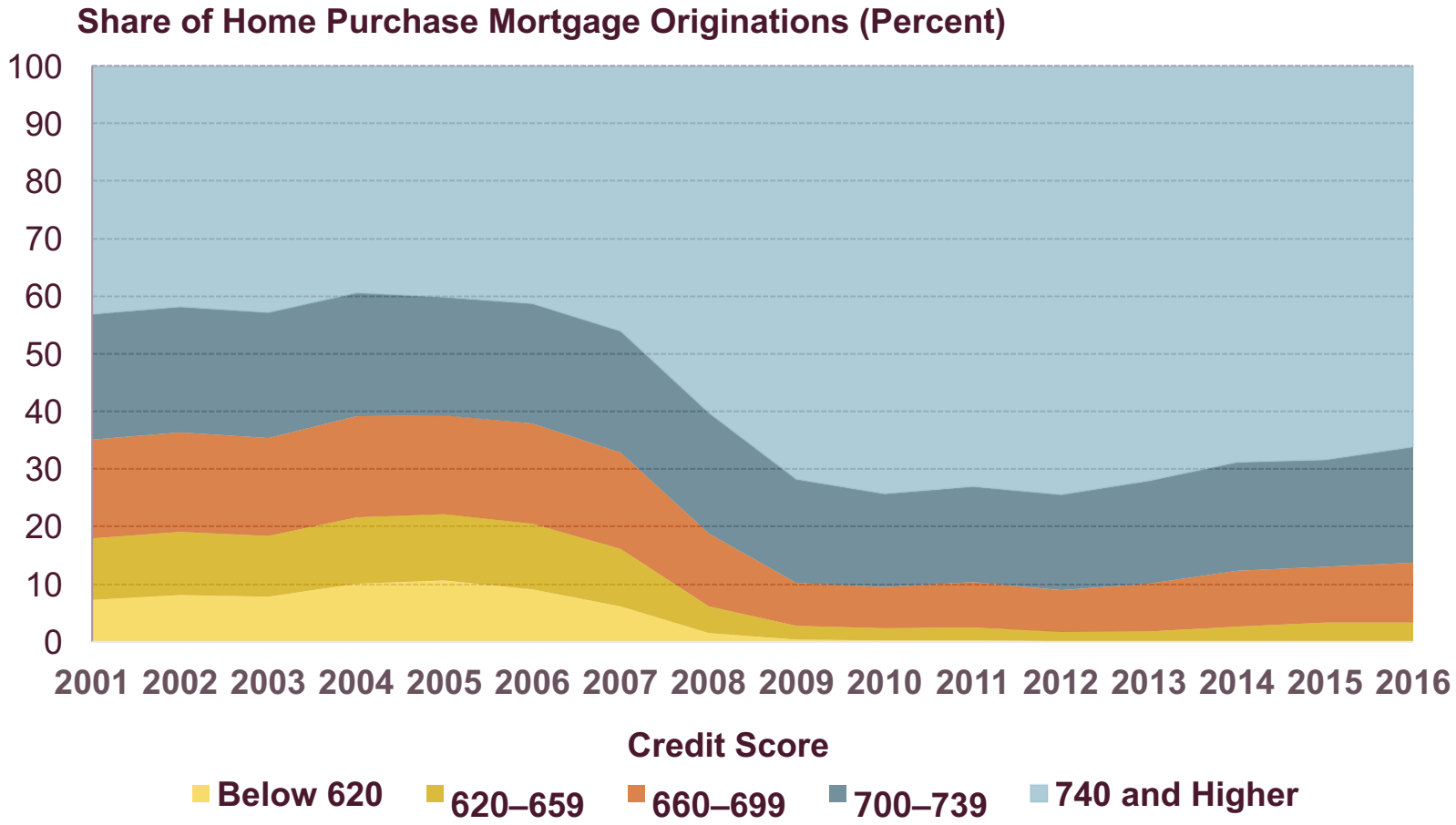
Student Debt Payments Are a Burden for a Growing Share of Younger Households



Note: Households not yet in repayment have student loans in deferral due to schooling, military service, emergency hardship, or other reasons.
Source: JCHS tabulations of Federal Reserve Board of Governors, Surveys of Consumer Finances.

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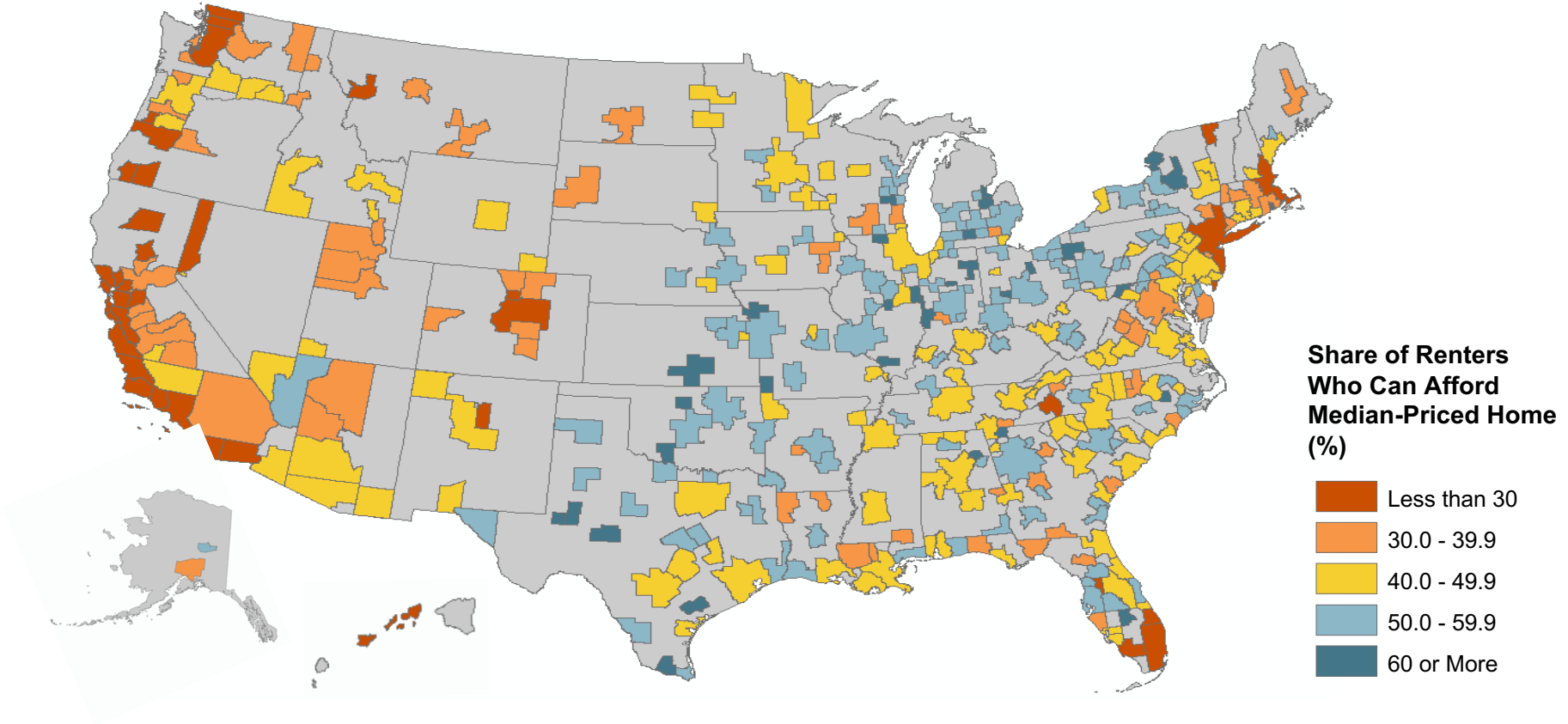
Tight Lending Standards Are Limiting Mortgage Access for Households with Lower Credit Scores



Note: Data include only conventional first-lien purchase mortgage originations.
Source: JCHS tabulations of CoreLogic data.

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Large Shares of Renters Can Afford the Median-Priced Home in Many Parts of the Country, But Not on the Coasts

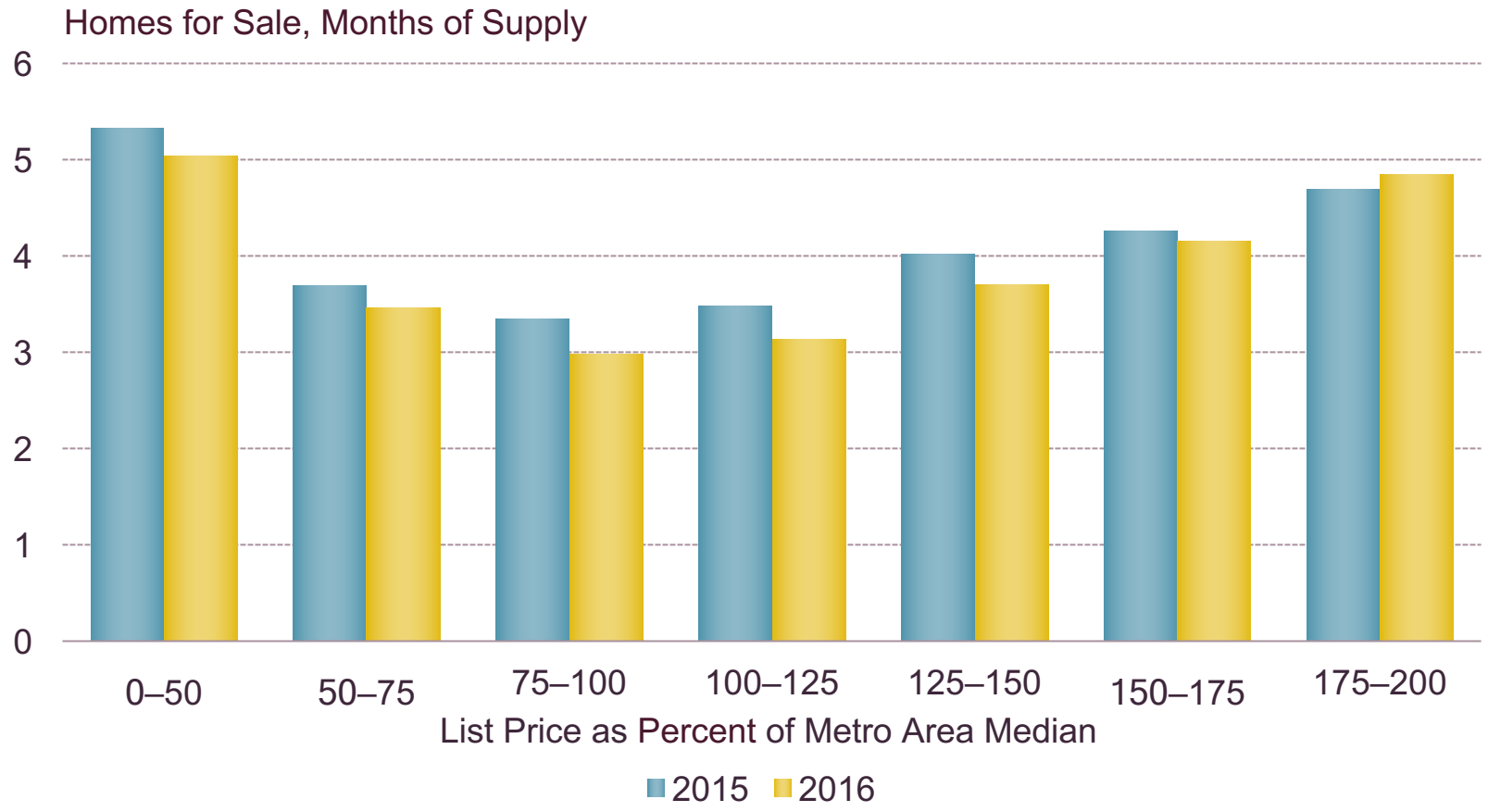


Notes: Values are in 2015 dollars. Monthly payment assumes a 5% down payment on the median-priced existing single-family home with property taxes of 1.25%, property insurance of 0.25%, and mortgage insurance of 0.5%. "Affordable" payments cannot exceed 36% of monthly household income (calculated as 1/12 of annual household income) and assumes household can finance down payment and other related home purchase costs.

Source: JCHS tabulations of National Association of Realtors® and Moody's Analytics Forecasted Single-Family Seasonally Adjusted Quarterly Median Home Price, annualized by DataBuffet; US Census Bureau, 2015 American Community Survey 1-Year Estimates and 2015 Population Estimates.

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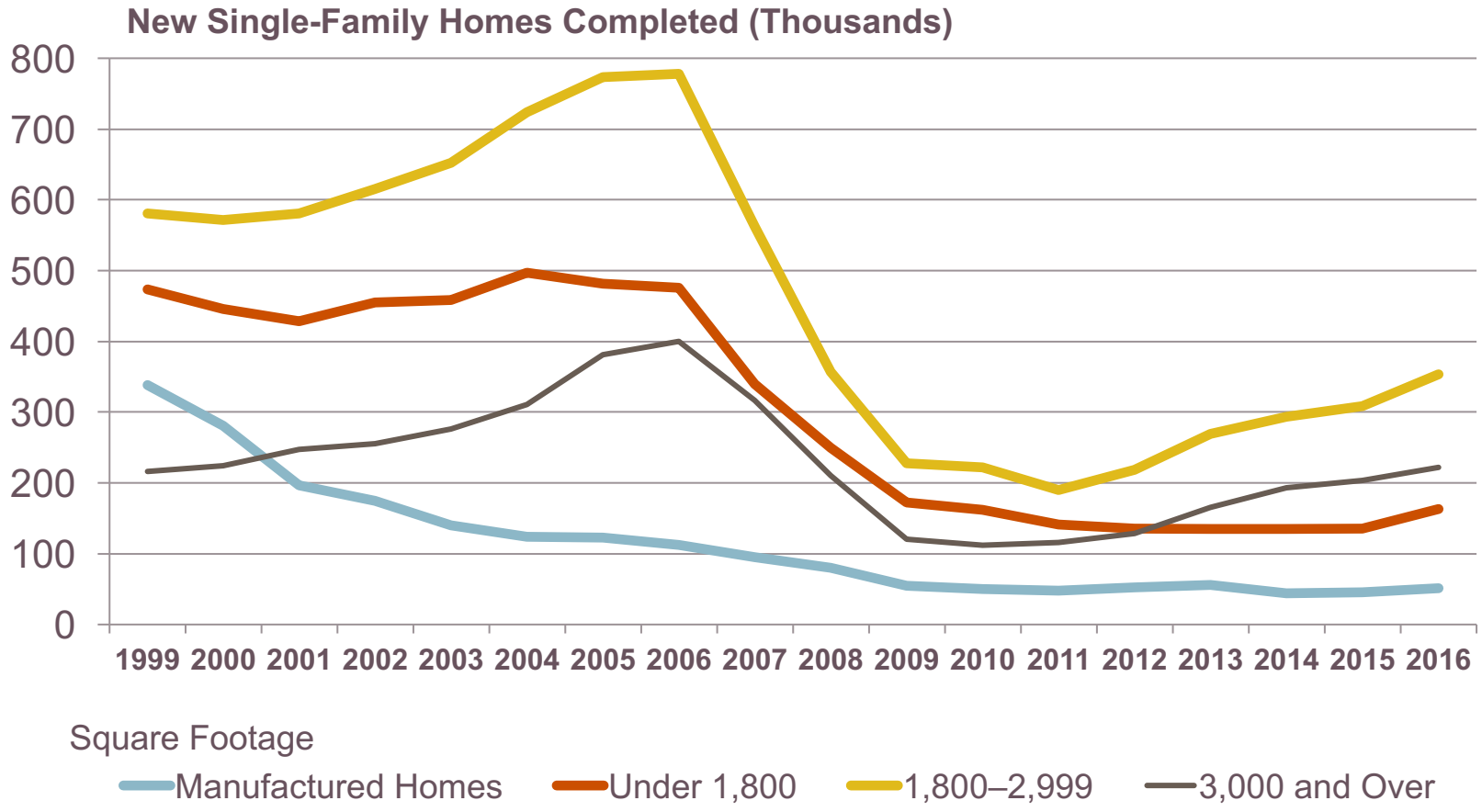
Inventory of For-Sale Housing Remains Extremely Tight, Especially at the Lower End of the Market



Note: Data are three-month trailing averages as of December of each year.
Source: CoreLogic.

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Construction of Smaller Single-Family Homes Has Been Slow to Recover

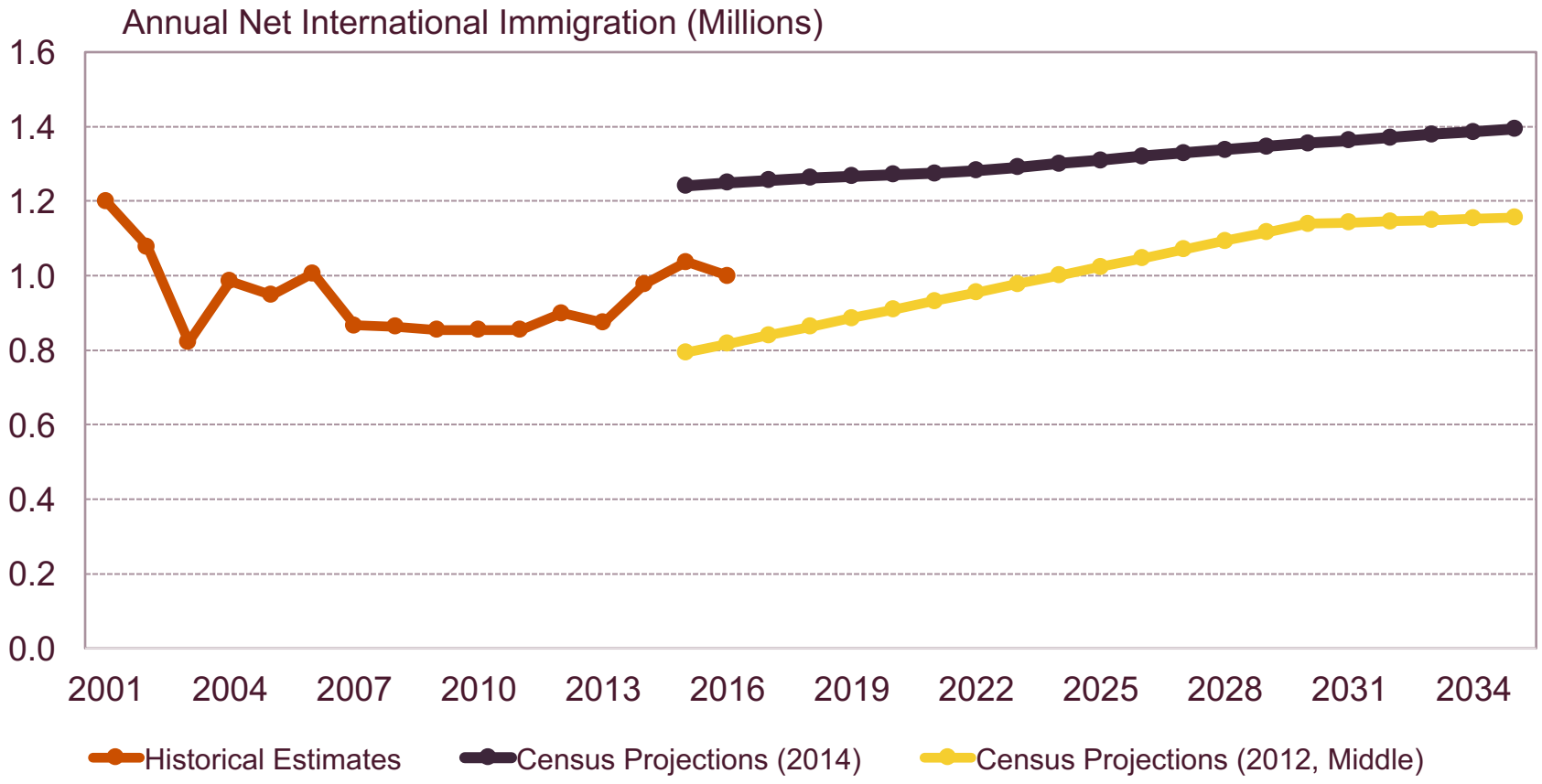


Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

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Demographics Should Support Strong Household Growth Over Coming Decade

Future Levels of Immigration is Key to Household Projections—But Current Political Climate Introduces a Lot of Uncertainty

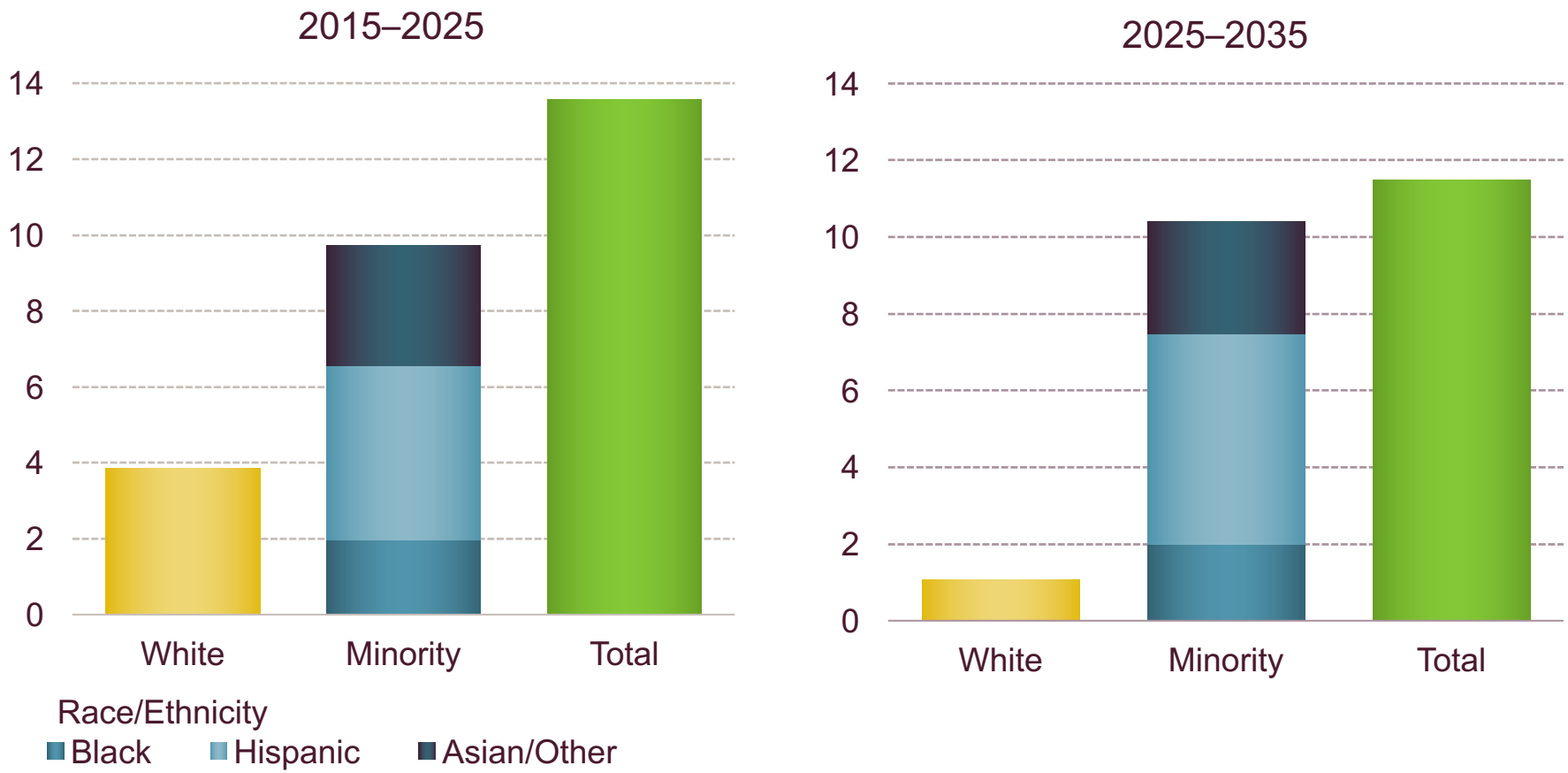


Source: JCHS tabulations of US Census Bureau Population Estimates and Population Projections data.

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Household Growth Will Be Strong Over Coming Decade, With Minorities Drive Most of the Growth

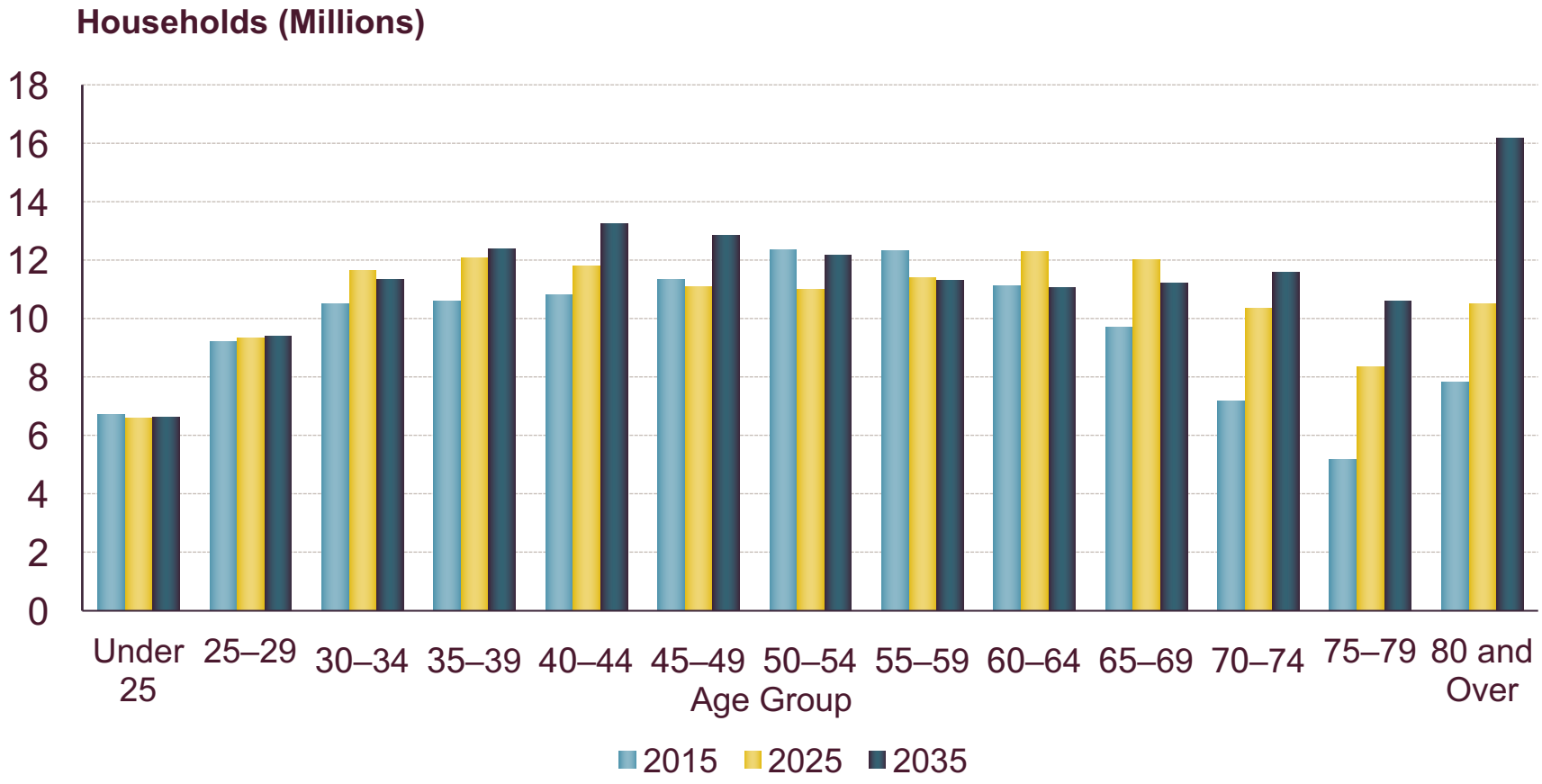
Projected Household Growth (Millions)



Notes: White, black, and Asian/other households are non-Hispanic. Hispanics may be of any race. Asian/other includes all other households.
Source: JCHS 2016 Household Projections.

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By 2035, One Out of Every Three Households Will Be Age 65 and Over



Source: JCHS 2016 Household Projections.

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Thanks for all you do to support affordable housing!