



# Nailing down key housing challenges for low-income families

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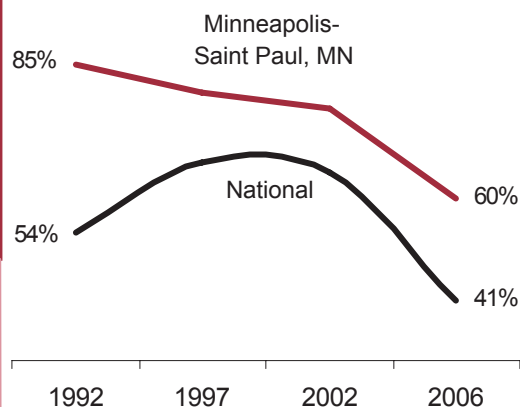
## *Trends and issues*

*Minnesota has the highest home ownership rate (75.8%) in the nation. The Twin Cities rate is slightly lower, nearly 75 percent, placing it in the top six metro areas. The picture looks rosy. But is it?*

It is generally accepted that housing should comprise less than 30 percent of household income to allow a family to pay for other essentials. Child care alone eats up another 28 percent of a low-income family's budget in Minnesota, leaving only about 40 percent for transportation, food, clothing, insurance and savings. But many families are not able to find housing for just 30 percent of their income. In the Twin Cities metro area, 46 percent of low-income families pay more than 30 percent. This briefing paper provides insight into local low-cost housing issues.

### **Housing Opportunity Index**

The percentage of home sales affordable to a family earning the median income.



## **HOMEOWNERSHIP**

### **Buyer's Market? Only for some.**

While the current housing market is often portrayed as a "buyers market," that is not entirely accurate. The median home price in the Twin Cities has soared from \$90,000 in 1994 to \$235,000 in June of 2006. Over the past year, the percentage of homes for sale that were considered affordable for people at the median income (\$78,500) in the Twin Cities fell to 60 percent. This downward trend reflects a national trend that began in the early '90s and is at the lowest point ever on record, according to the National Association of Home Builders.

### **The gap is wide**

Home ownership remains far less common among households of color than for White households, and the racial disparity in home ownership is worse in Minnesota than most parts of the nation. An analysis of census data by the Urban Coalition shows that home ownership rates among African-Americans and American Indians in the Twin Cities (32% and 41%) are lower than the national rates for these two groups (46% and 58%).

**Estimated number of low-income households in the Twin Cities 7-county region paying 30% or more of income on housing.\***

- **2000: 171,000**
- **2010: 193,000**
- **2020: 217,000**

\* Based on BBC and the Metropolitan Council. Both assume low-income housing supply levels remain the same.



After 8 years of bouncing from place to place, Julie and her two sons now have a permanent home. In 2005, they moved into a duplex with support services to help Julie set goals, and get back in school.

However, racial background is only one factor in a person's ability to own a home. Other important factors include income, assets, age and the presence of a spouse.

### **Foreclosures are up**

Concern is growing that aggressive, or even predatory mortgage lending practices – including the expansion of adjustable rate mortgages for buyers with marginal credit – combined with climbing interest rates are resulting in steep increases in foreclosures. Indeed, Mortgage Bankers Association data show that the first quarter 2006 foreclosure mortgage rates in Minnesota were at their highest point since 1992.

## **RENTERS**

### **Rental market has stabilized**

After a decade of low rental vacancy rates and high increases in rents, the Twin Cities rental market has become more affordable. Vacancy rates are now at about 5 percent, and average monthly rent has stabilized at around \$850. Looking a bit deeper, however, one sees that rental vacancies are not evenly distributed: high rent apartments commonly have much higher vacancy rates than low rent apartments. Condo conversions may also be contributing to loss of affordable rental units.

In Ramsey County, the most recent 2005 census data show relatively modest rental costs, with median rent of \$758, and 20 percent of units rented for less than \$550. While at first glance this appears to be good news, the data also show more than 50 percent of renters in Ramsey County paid more than 30 percent of their income for rent. About 77 percent of renters with annual incomes under \$35,000 paid more than 30 percent of their income on housing.

### **Subsidies at risk**

The affordability of Ramsey County's rental market is affected by the substantial number of subsidized units in the county. Many of these units were developed under federal contracts that will expire in coming years. At least 5 percent of the subsidized units in Ramsey County are under contracts that will expire on or before 2010. Many of the units will be preserved, but the region is likely to lose some of these subsidized units.

Another large subsidy source is the federal government's tenant-based Housing Choice Vouchers, also called Section 8 vouchers. Housing authorities in Minnesota administer about 30,000 Section 8 vouchers, including 4,000 administered by the Saint Paul Public Housing Agency.

### **Rent subsidies in Ramsey County at a glance:**

- **Eligibility is often based on area median income (AMI)\***
- **An estimated 90,000 households in the county have incomes at or below 60% of AMI**
- **About 15,000 subsidized units are reserved for those at or below 80% of AMI**
- **About 5,200 households currently receive vouchers, typically reserved for those at or below 50% of AMI**

\* Income qualifications are indexed for household size. AMI is currently \$55,000 for a single person and \$78,500 for a family of four.

While generally seen as a valuable and successful program, Section 8 has its weaknesses. It is vulnerable to market fluctuations. When vacancy rates are low, landlords are less likely to accept the vouchers or to charge low enough rents to meet the program's guidelines.

Also, Congress is not obligated to fund all needed vouchers and the program competes with other priorities. The Bush administration's proposed 2007 budget puts 219 vouchers across the state at risk, including 56 at the Saint Paul Public Housing Agency. The agency responded to similar cuts last year by freezing the rents it pays to landlords, which jeopardizes their willingness to continue accepting vouchers. These and other federal cuts have led the Public Housing Agency to dip into reserves, to reduce staff by 10 percent, and to sell off land and housing units, leaving the organization with few options other than to serve fewer people.

## HOMELESSNESS

According to *Homeless in Minnesota*, a study that looks at homelessness on one given night every three years, just over 7,000 people were housed in emergency, transitional, and domestic violence shelters in Minnesota on October 23, 2003. This was similar to the finding when the study was conducted in October 2000. The total number of homeless and at-risk to become homeless dipped slightly between 2000 and 2003 (21,329 to 20,347).

In Ramsey County, emergency shelter use is on the rise. Over the course of calendar year 2005, 4,543 individuals stayed in emergency housing, an 8 percent increase from 2003. About 27 percent of shelter users were long-term homeless, defined as

## Major providers of affordable rental housing in Ramsey County include:

- **Saint Paul Public Housing Agency, which owns and operates 4,270 units and administers another 4,000 Housing Choice Vouchers**
- **Amherst H. Wilder Foundation, which manages about 1,500 units, nearly 500 of which are owned by the Foundation**
- **Real Estate Equities, which manages over 1,200 units**
- **CommonBond Communities, which owns and operates nearly 1,000 units in Ramsey County**

without permanent shelter for at least 12 months or four times in the past three years. While the number of adults using emergency housing (3,907) was the highest in 15 years, the number of families with children is trending downward. Half of the adult users were age 40 or older, and four out of five shelter users were adult men on their own.

## JOBS AND HOUSING: A MISMATCH

The total number of jobs in the entire east metro increased by 2.3 percent from 2000 to 2004. Suburban areas (Anoka, Dakota, suburban Ramsey, and Washington) saw a 7.6 percent increase, while Saint Paul saw a 10 percent decrease. This discrepancy is expected to continue: the Metropolitan Council projects an 18 percent growth in the number of jobs in the east metro from 2000-2010, with the suburban areas growing by 22 percent, and Saint Paul growing by only 7 percent.

Although mass transit can partially address the jobs and housing mismatch, we are likely to see increased demands for affordable housing in the suburbs in coming years – both from those seeking to hire and those seeking to be hired.



## TAKING ACTION

Many federal, state, and local programs and organizations are addressing low-income housing issues. Recent initiatives and innovations include:

### Lowering homeownership costs

- *Community land trusts:* Subsidizing homeownership by selling only the house—not the land—to qualified buyers.
- *New construction techniques and increasing energy efficiency:* Lowering the cost of producing and maintaining housing through use of innovations like oriented strandboard (OSB) panels.

### Targeting the racial gap

- *Changing the face of housing:* A campaign to diversify the housing industry.
- *Minnesota's Emerging markets initiative:* A state-level effort to focus on homeownership among communities of color and recent immigrants.

### Ending homelessness

- *Business plan to end long-term homelessness:* The state's effort to end persistent homelessness has resulted in new funding from the legislature and has re-invigorated plans to end homelessness at the local level.

### The jobs-housing mismatch

- *Minnesota 3D, or "M3D"* is a dynamic GIS-based internet tool to aid economic and community developers and businesses coordinate the development of housing and jobs.



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**Learn more about this issue:** This briefing paper presents highlights of the report *Trends and issues in low-income housing*. Find the full report and other reports about this issue at [www.wilderresearch.org](http://www.wilderresearch.org).

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