



**Minnesota
Realtors®**

**House Housing Finance and
Policy Committee**

Wednesday, February 14th, 2024

**Paul Eger
Senior Vice President of Governmental Affairs**

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**Minnesota
Realtors®**

Who We Are

- Founded in 1919, Minnesota Realtors® is one of the oldest and largest professional associations in the state
- Minnesota Realtors® has over 22,000 members statewide, active in all aspects of the real estate transaction

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Key Challenges

- Lack of supply—Minnesota needs more housing units
- Housing affordability
- Interest rates
- The racial homeownership gap

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Lack of Supply

Minnesota Realtors® tracks 2 key housing supply metrics:

- **Months Supply of Inventory** – inventory of homes for sale at the end of a given month divided by average monthly pending sales for 12 months
- **Inventory of Homes for Sale** – number of properties for sale at the end of a given month
- 4 - 6 months supply of inventory is necessary for a balanced market

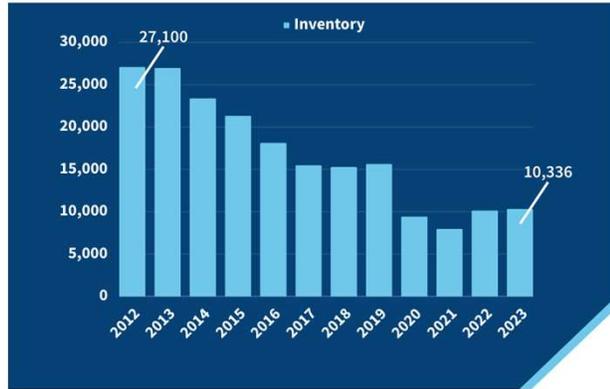
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Lack of Supply

- Months Supply at Significant Deficit
- We last hit 4 months supply in July 2016 – The last time the market was considered “balanced” based on this metric
- Median sales price has risen drastically – As supply has fallen, demand has remained strong. Prices have responded to this dynamic.

Statewide Year End Inventory



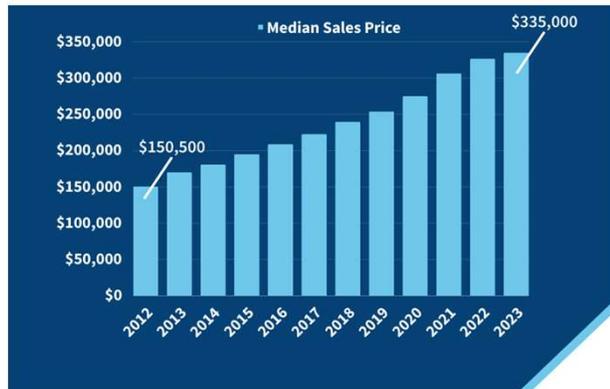
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Home Prices Rising

- Median sales price has more than doubled since 2012
- Low supply + high demand = rising home prices

Statewide Median Sales Price



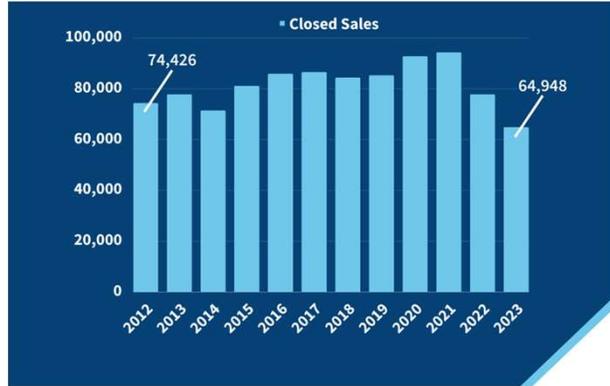
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Closed Sales Down

- Closed sales in 2023 fell to their lowest level since 2010 (just over 65,000 closed sales that year)
- Combination of lack of supply, rising home prices, and higher interest rates

Statewide Closed Sales



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New Listings Down

- New listings at lowest level since 2012
- Insufficient housing stock + some would-be sellers holding on to low interest rates

Statewide New Listings



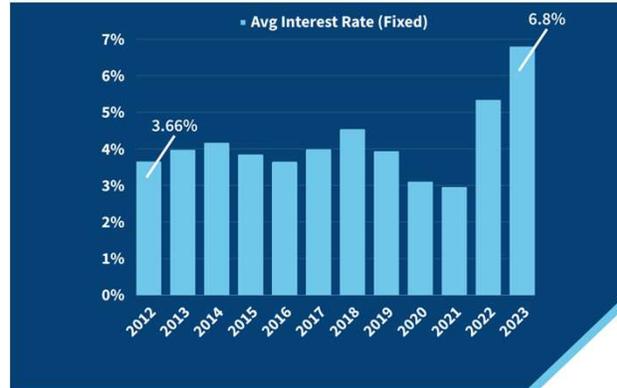
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Mortgage Interest Rates

- Average interest rates in 2022–2023 dampened market activity
- Despite high rates, home prices continued to rise, highlighting that demand outweighs supply, even as rates caused monthly mortgage payments to increase significantly

Mortgage Interest Rate (30-yr.)



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Mortgage Interest Rates

If Rates Stabilize, Will Home Prices Come Down?

- Typically, when interest rates rise, home prices fall – As the overall cost of housing increases, we'd expect prices to follow suit. That has not happened in Minnesota, signaling an imbalance between supply and demand.
- Falling rates could lead to further increase in demand – Many buyers have been sidelined by higher rates. If rates do fall, buyers will re-enter the market.

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Housing Affordability Index

Interpreting the Index

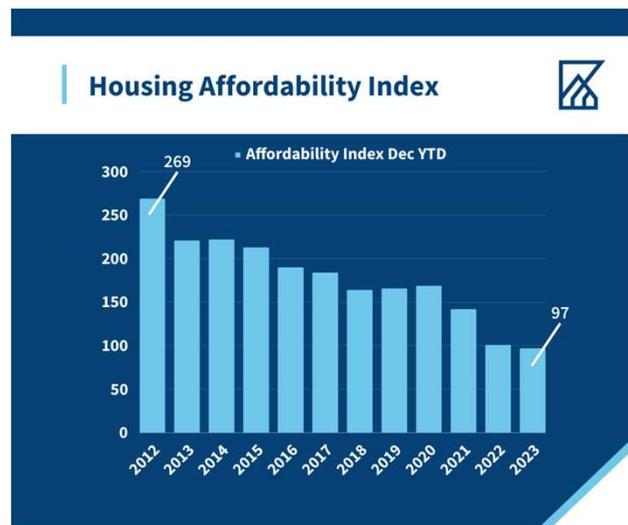
- A value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage based on a median-priced home– It's important to note that this calculation assumes a down payment of 20% (most first time buyers today can't afford a 20% DP).
- A value below 100 indicates that a family earning the median area income does not have enough income to qualify for a mortgage on a median-priced home

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Affordability Declining

- This index measures whether a typical family earns enough income to qualify for a mortgage based on median income and median home sales price



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Takeaways

- Minnesota's inventory shortage will continue to create affordability challenges, especially for first-time buyers
- Even if mortgage interest rates come down, we expect demand to rise, thus keeping home prices elevated.
- To increase housing supply, we need to remove barriers that make it harder to build homes at all price points.

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Thank You

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State of the Industry Homeownership & New Construction

Mark Foster, Housing First Minnesota



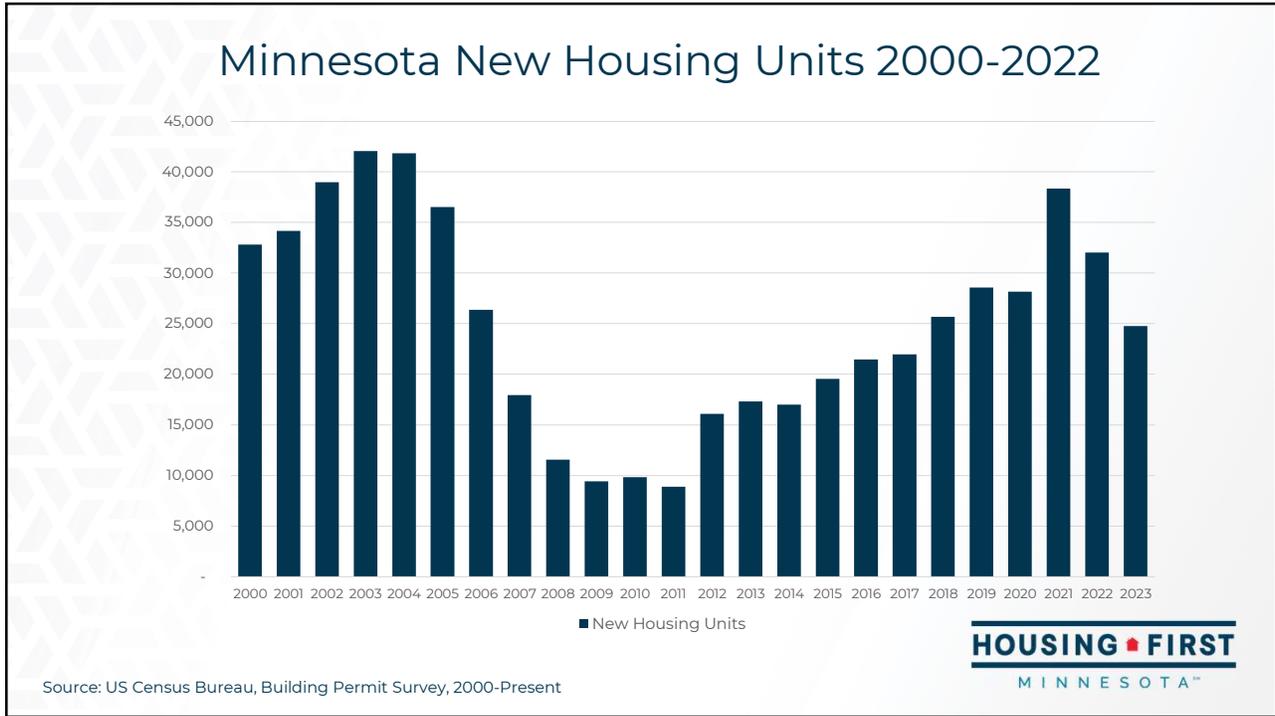
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Looking Into 2024

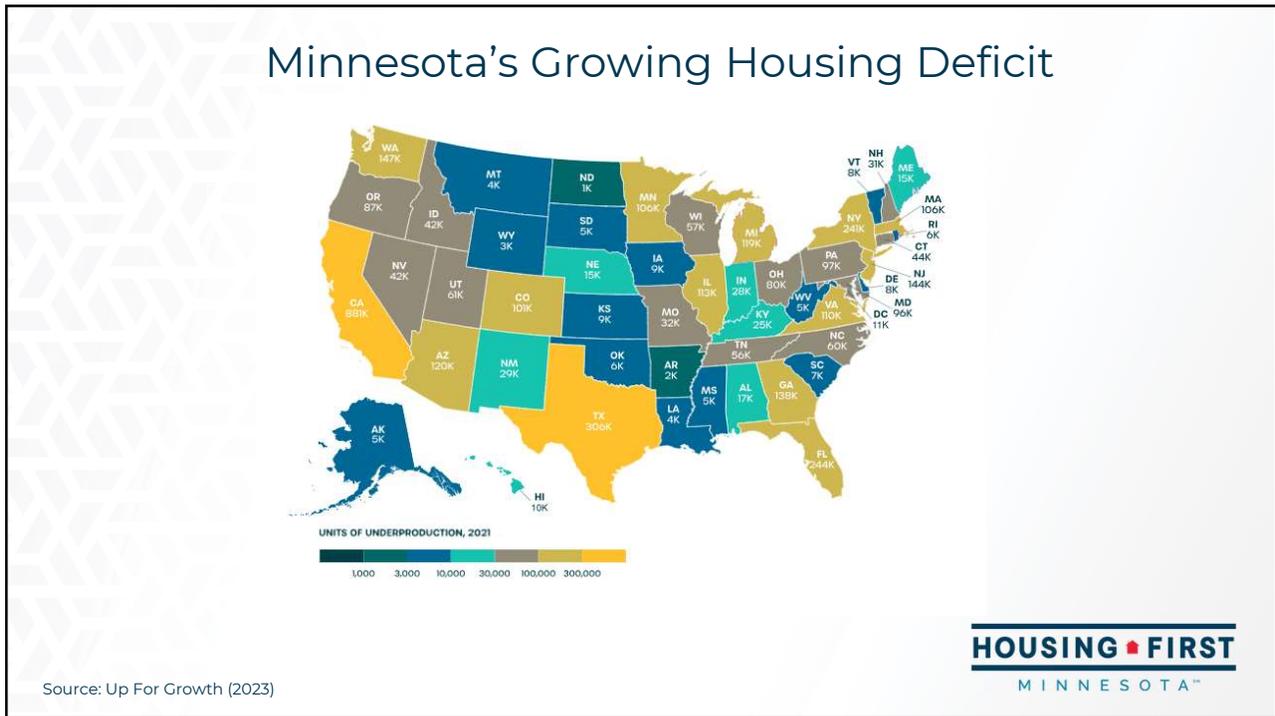
- Our concern about the future of homeownership in Minnesota has grown immensely.
- Chronic under-supply of homes surges home values, limits and delays homeownership.
- Supply-side challenges – the collection of processes, requirements, and infrastructure policies are in conflict with a healthy housing market supplied with enough homes.



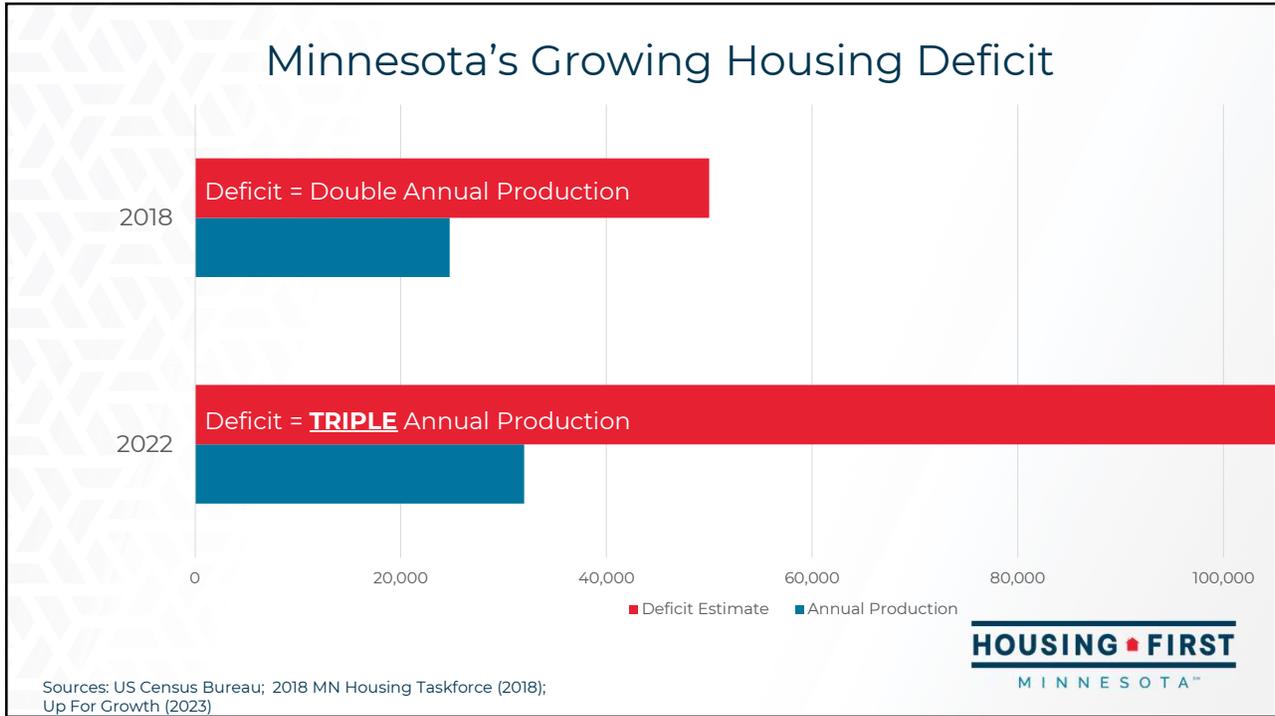
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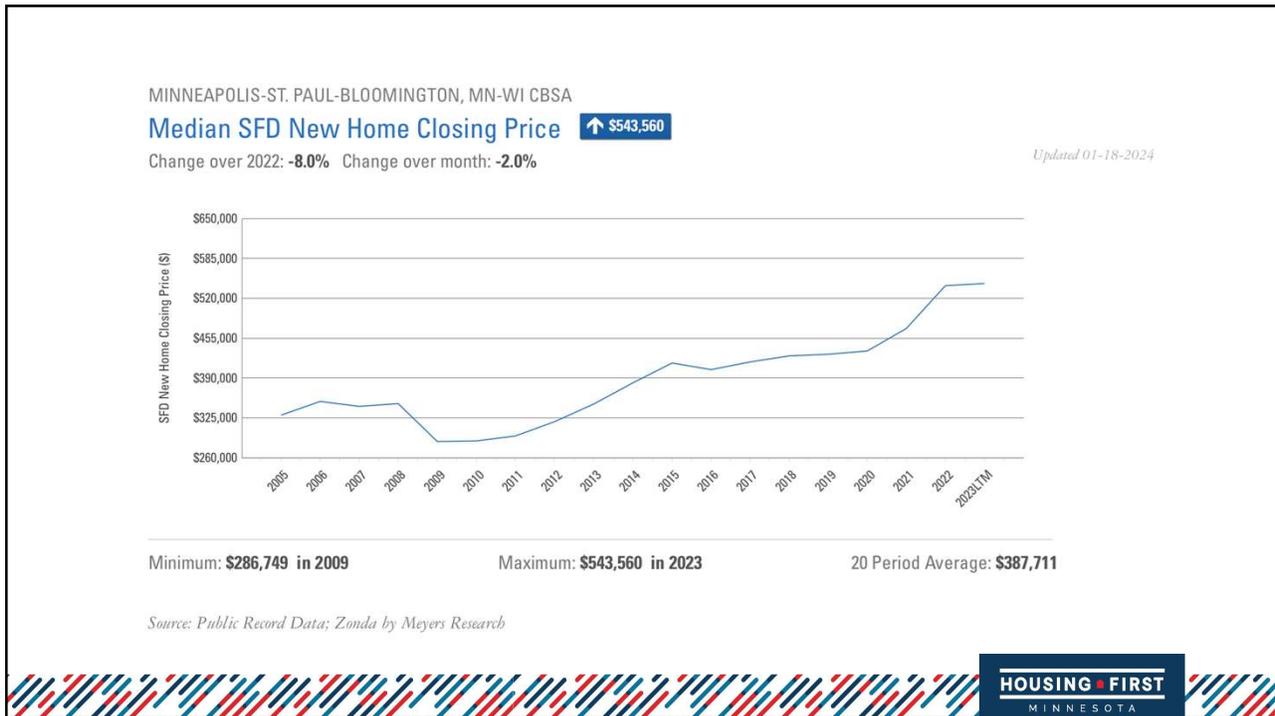
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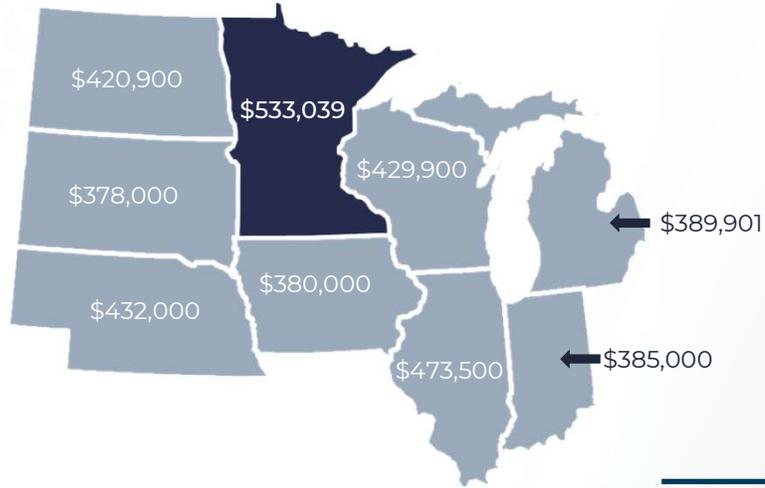


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Midwest Median New, Single-Family Home Price



Source: Zonda, February 2024



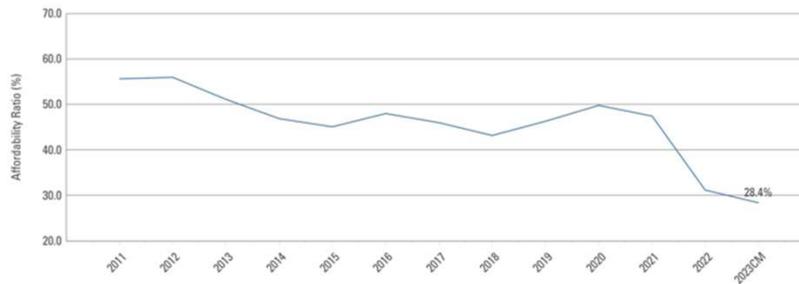
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MINNEAPOLIS-ST. PAUL-BLOOMINGTON, MN-WI CBSA

New Home Affordability Ratio ↑ 29.9%

Change over 2023: 5.20% pts Change over month: 1.50% pts

Updated 02-05-2024



Minimum: 28.4% in 2023

Maximum: 55.9% in 2012

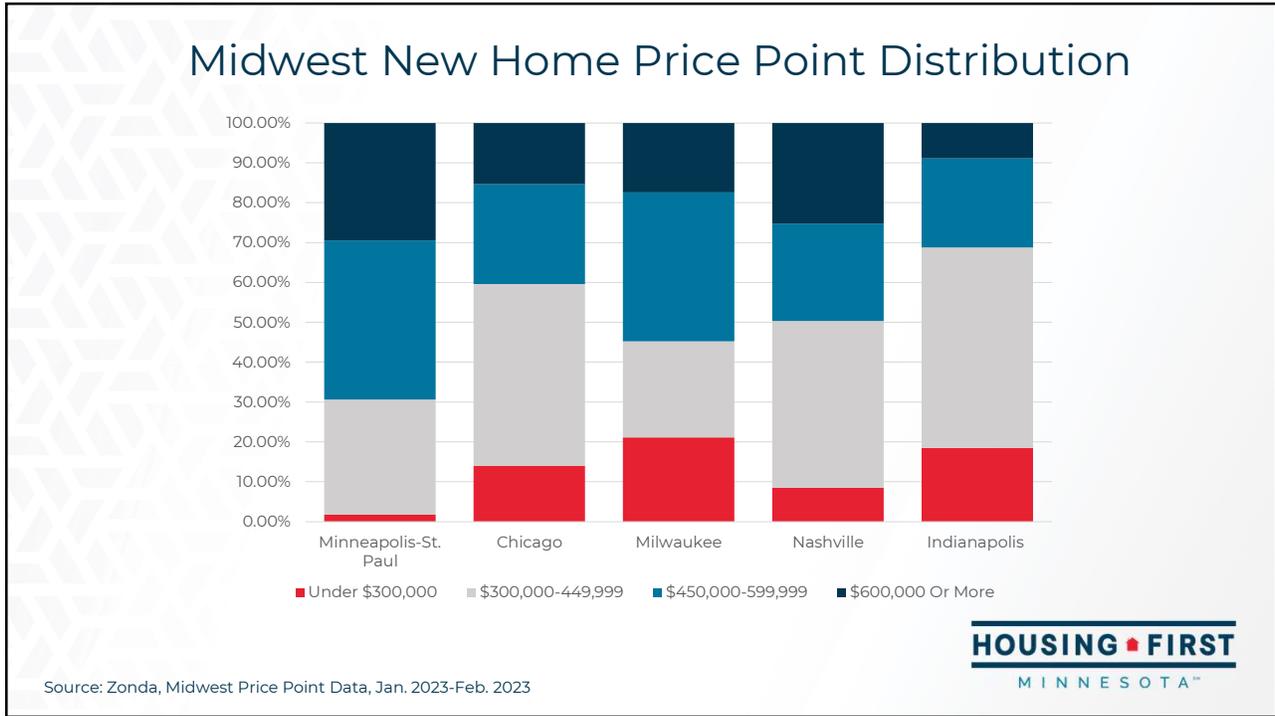
20 Period Average: 44.6%

Source: Zonda by Meyers Research

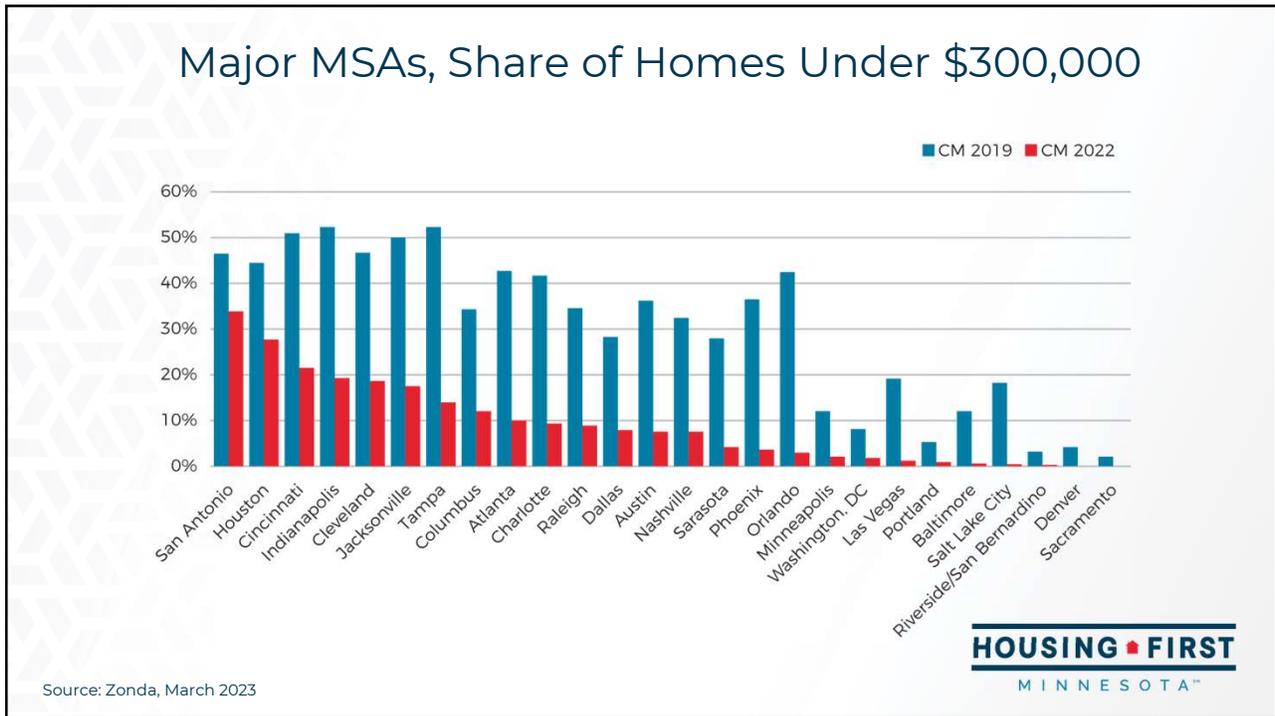
New Home Affordability - The affordability ratio represents the percentage of households in the local area that can afford the median priced single-family detached home based on their qualifying income. The higher the ratio, the more locals that can afford a single-family home. The qualifying income is based on



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Many Issues Impact the Cost of a Home.

- MSP region has the most expensive raw land in the Midwest.
- Building material costs have increased throughout the pandemic – lumber moderated, steel/components still high
- Labor is a challenge and associated costs impact housing.
- The industry is working on numerous technological advances including modular construction to save some money and time.
- **Regulatory costs in Minnesota stand out.**
 - Beyond fees
 - Regulatory requirements such as 3 car garage mandates, aesthetic mandates, larger lots dramatically add to the price of homes.

Housing Industry is Attempting to Serve the Demand

- **Modest Densification** –Changes in density do not have to be drastic at scale.
- **Demographic Trends** – Household formation is happening later, households are smaller, and WFH trend is a game-changer.
- **Land Use Patterns** – In the future – where will Minnesotans choose to live and what will be their priorities? Schools, transportation corridor access, housing costs/choice, natural amenities?
- **Long View** – This problem will not resolve itself – we are committed to the housing supply issue over the long term.

Governor Kathy Hochul
@GovKathyHochul

There's only one solution to New York City's housing crisis:

Build.
More.
Housing.

12:06 PM · Feb 9, 2024 · 148.3K Views

Lots of Housing Discussion

Governor Glenn Youngkin
@GovernorVA

The Make Virginia Home plan is designed to address the restrictions on housing supply, improve and streamline permitting processes, and protect property owner rights. Our focus is accessible, affordable, attainable housing for all Virginians.

How the Bipartisan 'Montana Miracle' Confronts the Housing Crisis Head On

Governor Greg Gianforte explains how the state passed sweeping zoning reforms that boost supply and expand housing choice.

Gov. Jared Polis delivers housing-centric State of the State speech to Colorado lawmakers

Support of housing bills depends on whether they ease cost of housing, governor says

Gov. Cox wants 35,000 starter homes built within the next 5 years. Here's how he wants to do it

“

Decades of underbuilding have left Oregon with a severe housing shortage that is driving up rents, home prices, and worsening our homelessness crisis

That's why SB 1537 is my top priority.

”





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Guiding Principles

- We need a structure for safe, durable and efficient homes
- Protecting wetlands and minimizing environmental impacts is a shared value
- Homeownership and equity are also shared values
- Housing industry is proud to pay strong wages in MN
- A balanced housing supply is achieved only by providing choices in the housing market
 - **This requires us to bring starter homes back to Minnesota**



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Starter Home Examples



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Starter Home Examples



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Starter Home Examples

HOUSING FIRST
MINNESOTA

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Housing First Minnesota Foundation is working to end homelessness in Minnesota.



HOUSING FIRST
MINNESOTA FOUNDATION

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- **Working to position our Foundation for the next level and GROWTH! We are projecting to see an aggressive increasing in project funding over the next few years. Hoping to fund larger build projects and make an even bigger impact.**
- **Housing for Heroes (w/ partners MACV & Lennar)**
 - *To-date 11 Housing for Heroes homes have been completed, with 4 more homes slated for completion in 2024. These new homes will provide transitional supportive housing for additional 12-18 veterans per home, per year.*
 - *BIG goal of constructing the largest first ever multi-unit complex supportive of veterans and their families experiencing or at risk of homelessness.*
- **Hope House/ 180 Degrees/ Open Hands Foundation**
 - *The only teen crisis shelter in the Southwest Metro area of the Twin Cities. Hope House is a six-bed, short-term emergency shelter for teens ages 14 –19. We will be building an addition that will provide an additional 8 beds.*



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Projects and IMPACT



OUR IMPACT

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Community Build
Projects Completed

\$8.1 Million

Construction Value in Housing

233

Shelter Beds Provided

112,000 sq. ft.

of Dignified Housing Created



34

Conclusion:

Minnesota's
housing
dashboard
has several
worrying
trendlines

- Housing market is under-supplied
- New home costs are the highest in the Midwest
- We need all types of homes (apartments, condos, townhomes, single family)
- There are more households than houses.
- Statewide issue of competitiveness and equity.



Thank You.

Questions?

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