Itasca Housing Affordability Task Force Report

September 2020

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Why we must focus on housing affordability

The Minneapolis-St Paul (MSP) region is home to over three million residents, 16 Fortune 500 businesses, world-class universities and colleges, renowned parks systems, and a vibrant art and music scene. Over the past decades, the Minneapolis-St Paul region has enjoyed steady population and economic growth. Its unemployment rate is consistently lower than the national average.

The relative affordability of housing has been an important driver of these outcomes but **that driver is now at risk**. Even before the current pandemic and related economic crisis, recent decreases in housing affordability threatened the success of the region. The pandemic has only highlighted the importance of housing affordability, not only to the health and well-being of individuals, families and the broader community, but also to the success of the region. If we do not focus and act quickly on housing affordability, the MSP region may experience a longer recovery and slower regional growth, attract less talent, have less successful firms, and provide a lower quality of life for all residents. The region's job growth compared to peers had already fallen to ninth out of twelve[1] and it is projected to recover from the current economic downturn less quickly than peer regions.[2]

We also need to remember that our actions go beyond promoting the overall growth and the ability of the firms in the region to thrive; they also affect the health and prosperity of our residents. The shared well-being of all the region's residents depends on their ability to access opportunities. A primary component of that ability is the availability of stable, affordable housing – which drives economic growth and serves as the foundation for positive education, health, wealth-building, and equity outcomes. The COVID-19 pandemic has only highlighted how important housing is to the health of individuals and families and how precarious many of our neighbors' housing situations are.

We cannot make progress if we allow the economic crisis to slow housing production and lessen housing affordability. Access to housing can stabilize communities and positively impact individual lives. Families, firms, and the region will face massive challenges if we lose our housing advantage.

The Itasca Project participants and the broader business community believe that we now have a window to act to spur regional recovery, support our residents, and avoid these bad outcomes.

What do we need to do to make this happen? Simply put, **our region must build more housing**. Only then will housing become more affordable. For the MSP region to meet its projected future growth and make up for a decade of underbuilding, we will need to produce a **total of nearly 18,000 housing units per year** -- roughly $4 billion in annual investment and a more than 30% increase over the 2000-2016 average of 12,900.[3] This substantial increase in housing production is necessary to achieve a balanced market that is both affordable and available.[4]

As the region creates more homes, it must simultaneously address the racial and economic gaps that plague the area. A history of discriminatory policies and practices has led to unequal access to housing – both in the MSP region and nationwide. The Governor's Task Force noted that the homeownership gap between people of color and white people is one of the highest in the country – more than 50 percentage points.[5]

The Itasca Project, described in the sidebar *About Itasca,* is and has been dedicated to creating inclusive growth on a number of fronts. Housing affordability is a critical factor of wealth creation and will complement other efforts underway to create inclusive economic growth, including expanding Business Bridge to increase spend with MBEs (minority-business enterprises) and the DEI Collaborative, which aims to help leaders create more inclusion in their organizations.

We should take no solace in the fact our housing affordability problems are not yet as bad as those in the coastal cities. The underlying problem that led to crisis-level affordability problems on the coasts is present here: not enough production to meet demand. For the first time in decades, more people in the critical 18-34 age group migrated out of San Francisco in 2018 than migrated in. The Twin Cities continue to have positive net in-migration, in both that age group and overall. In a survey of over 1,500 people on what they look for when considering locating somewhere, housing affordability and availability were the number one and three considerations out of 18 factors.[6] The Twin Cities is currently in the bottom of our peer regions in terms of homes built relative to population growth – even coastal cities are managing to add more housing. Thankfully, we have an opportunity to act and maintain our relative historical affordability advantage over peer cities.

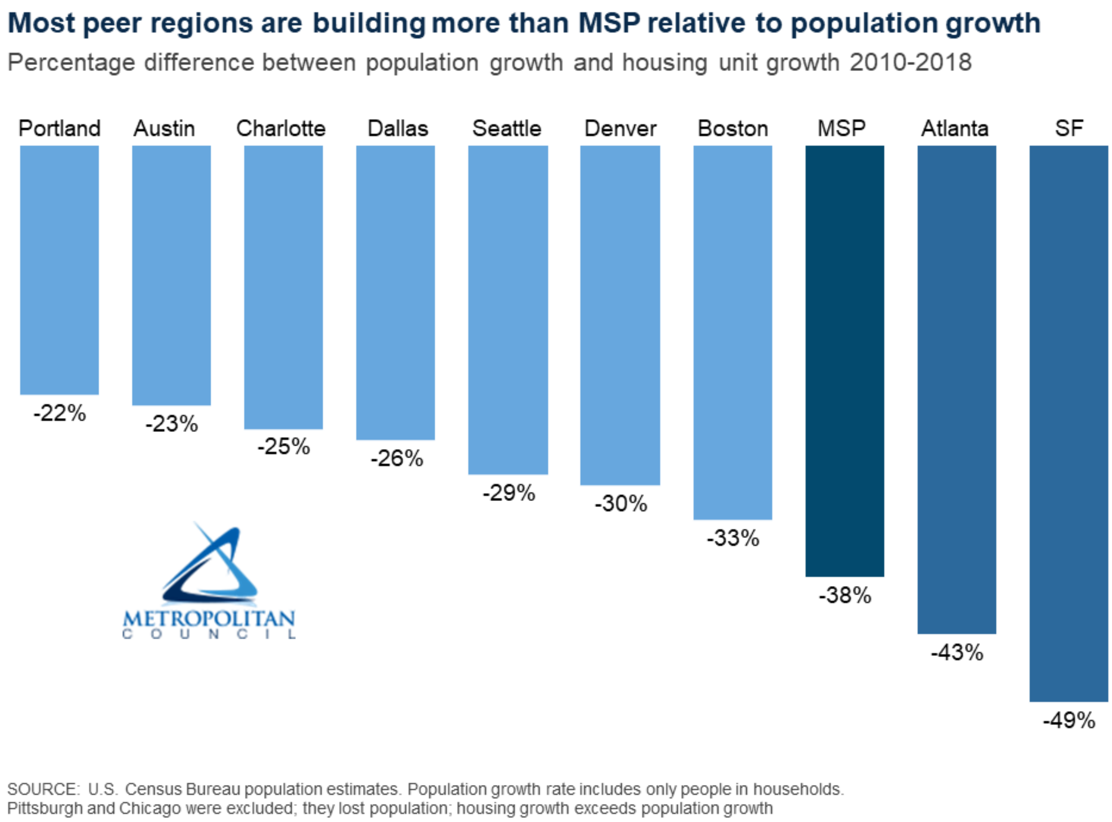
ABOUT ITASCA

The Itasca Project is a virtual organization of like-minded leaders; it has no physical presence or standing agenda. We use fact-based analyses to identify near-term actions our participants can take to help address long-term challenges. As such, our volunteer working teams provide ongoing guidance, information and, support to CEOs. This interaction is how we produce impact. Although many of our interventions on significant issues are incremental, we believe they can have meaningful impact.

Participants meet 4-5 times a year and agree on priority issues that affect regional economic vitality, quality of life, and prosperity for all. A CEO or team of CEOs then leads each issue and assembles task forces. The task forces identify Itasca's unique role and launch the effort, often by partnering with scores of other organizations around the region. These task forces use data to ensure quality decisions and broad impact.

The Itasca Project
- Convenes influential people across sectors to create consensus on key challenges and solution paths
- Provides thought leadership to identify and frame the most important long-term challenges, along with bold ideas to address them
- Catalyzes action by building early-stage partnerships to scope and operationalize the best ideas

Figure 1: Most peer regions are building more than MSP relative to population growth
The challenges we face

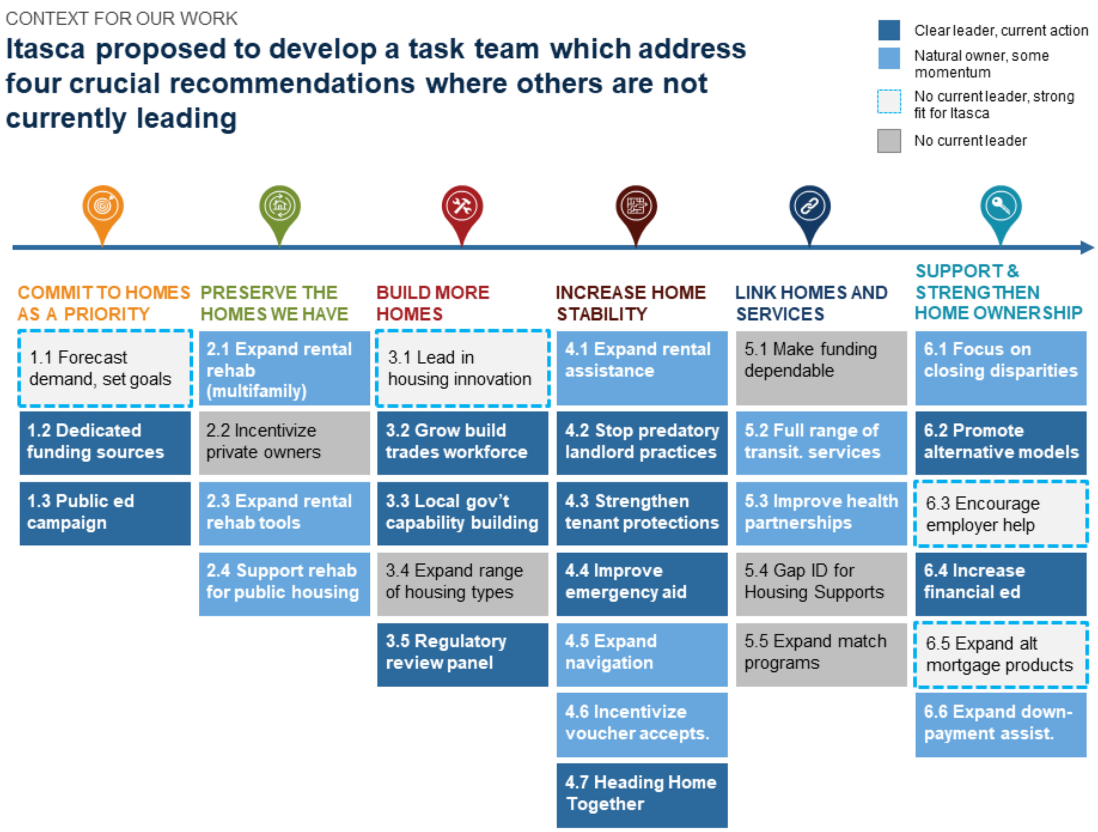


Itasca is far from the first to highlight the housing affordability problem and call for action. Our work deliberately builds on the work of a 2018 Task Force on Housing established by Governor Dayton. The Governor's Task Force issued a comprehensive report with an equally comprehensive set of recommendations.[7]

The Housing Affordability Task Force that Itasca has created is carrying forward a few of these very focused recommendations – ones that fit with Itasca's mission and capabilities and that are in areas where others are not already active. Additional organizations (e.g., Minnesota Housing Partnership, Family Housing Fund, and Prosperity's Front Door) are pursuing other important aspects of the housing challenge in the MSP region, including enhancing renter protections, ending homelessness, and increasing state-level investment in housing.

Figure 2 below shows the recommendations the Governor's Task Force identified in 2018. By targeting its efforts, Itasca can maximize its ability to make progress a few of the recommendations. We deliberately avoided trying to tackle the full range of important issues the Governor's Task Force raised or attempting to address all the complexities and subtleties of MSP's housing market.

Figure 2: Overview of Recommendations in "More Places to Call Home" and how Itasca arrived at the four it focused on – assessment conducted in 2018



Even though one fundamental area the Governor's Task Force covered – racial gaps in housing affordability – is not one of our three recommendations, we will ensure it is addressed by each of the teams working on these initiatives. The Governor's Task Force pointed out that people of color are disproportionately cost burdened, face higher rates of eviction, and have lower rates of homeownership than white Minnesotans.[8] Numerous excellent resources, described in the sidebar *More Resources to Understand Housing Policy and Its Impacts*, also document the scale of these challenges. All our recommendations have been informed by these insights, and every implementation team will be expected to incorporate ways to close racially-based gaps in housing affordability into their efforts.

It is important to understand the history and widespread effects of these racial biases and gaps – even today. Housing has always been subject to Federal policies, which have a long history of being designed and enforced (often selectively) so they advantage white people at the expense of many other groups. Often, these explicitly targeted African Americans, immigrants, and Jewish people, to name a few. For instance, the notorious practice of red lining started with the Federal Home Owners Loan Corporation (HOLC) in the 1930s, which was part of the broad New Deal legislation. The HOLC drew maps that rated areas by riskiness; areas with more Black people were deemed riskier, and therefore fewer mortgage loans were made there. The impact of these HOLC grades

MORE RESOURCES TO UNDERSTAND HOUSING POLICY AND ITS IMPACTS

At the regional level:
Metropolitan Council: Rethinking Areas of Concentrated Poverty

Mapping Prejudice

At the national level:
CodeSwitch: Housing Segregation in Everything

Now This: The Segregation Myth: Richard Rothstein Debunks an American Lie endures to this day; more white people live in areas rated “desirable” than in areas deemed “hazardous.”[9]

In the post-war era, the Federal government required that suburban developers have racial covenants that excluded Black Americans, other people of color, and Jewish people in place before it would make loans to them. The benefits of these subsidies were therefore passed on almost solely to white families.[10] Such racial covenants have a long history. In the MSP region, the Mapping Prejudice project from the University of Minnesota shows where racial covenants were put in place and what effects they have today.[11]

The GI Bill, which provided support for veterans to pursue college education and homeownership, also overwhelmingly benefitted white veterans. Of the 2.5 million home loans given out under the GI bill, nearly all went to white veterans.[12,13] In addition, the construction of freeways during the post-war era bulldozed many primarily Black neighborhoods. In our own region, the thriving Rondo neighborhood in St Paul was destroyed to make way for I-94.[14]

In 1968, the Federal government passed the Fair Housing Act, but it has been selectively enforced.[15] Continuing up to the Great Recession of 2008, banks were making predatory loans primarily to people of color, who had much higher delinquency rates and whose homeownership levels fell significantly more than those of white people.[16] These systemic disparities appeared in all sorts of subtle ways; for instance, a recent review found that homeowners of color on average pay higher property taxes than white owners with similar homes.[17]

These policies’ legacies can be seen today across the county and in our region. The Metropolitan Council’s 2014 review of housing equity in the region, *Choice, Place, and Opportunity*, points out that “[l]ooking at the Twin Cities region as a whole, opportunities such as jobs, high-performing schools, and safe neighborhoods are unevenly distributed. Because of residential patterns, white residents and people of color live in different proximities to opportunity.”

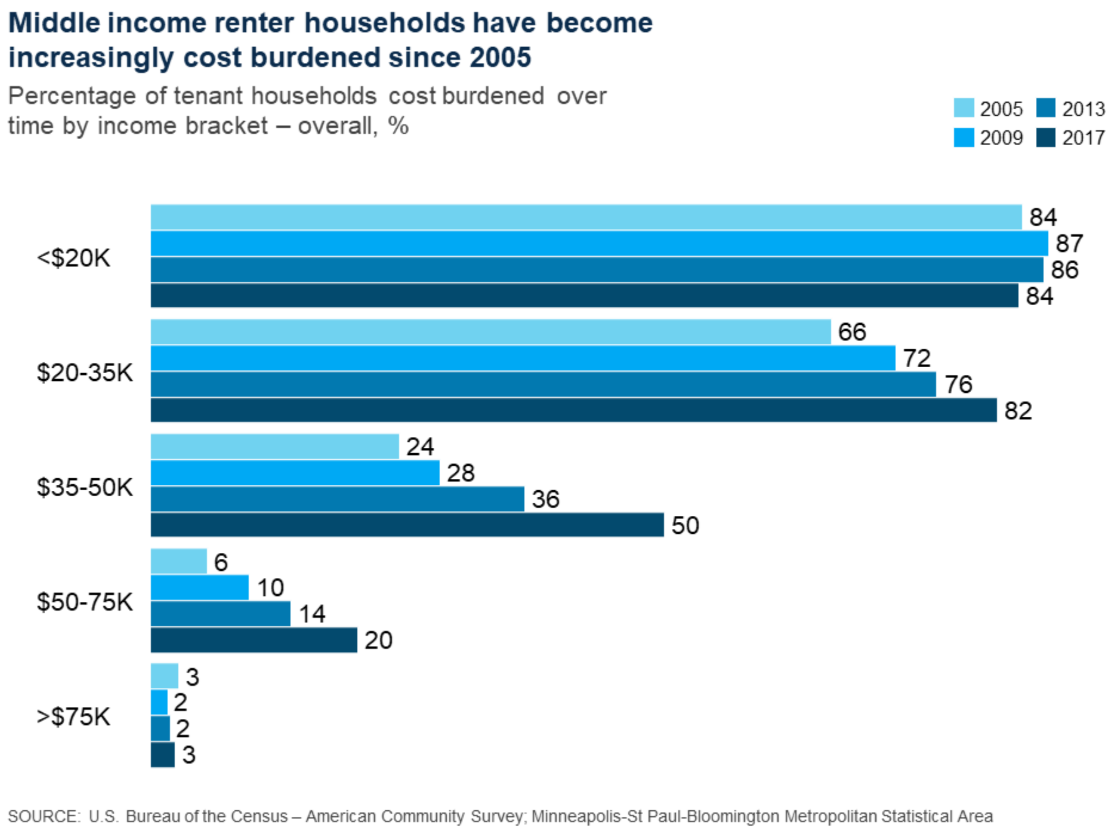
The discussion of one of our recommendations – creating regional goals around housing affordability and tracking them with rich, disaggregated data – will dive more deeply into both the current state of how various racial groups experience housing in our region today, and how we might, as a region, make and track progress against closing those gaps.

Policy makers, civic leaders, employers, and citizens must work together with sustained urgency to close racial gaps along many dimensions. Closing racial disparities in housing would help address many other areas, such as health, education, criminal justice, and wealth. The Itasca Project has facilitated task forces in several of these areas, including active initiatives in early childhood education (The First Thousand Days). We are planning to expand an existing initiative to increase spend with minority-business enterprises and to bring CEOs and other organizations leaders together to support one another as they work to advance racial justice in their organizations.

How Itasca participants will lead

The Itasca Housing Affordability Task Force believes the three recommendations below are ones that Itasca participants are uniquely positioned to address. These recommendations could be particularly useful for households with incomes below $75,000.[18] That group includes lower-income households who have the highest cost burden and those with higher but not “high” incomes who have experienced rapid increases in cost burden. Figure 3 shows both the high and rapidly increasing cost burden for tenant households in this group.

Figure 3 – Change in percentage of households that are cost burdened by income



The recommendations Itasca's Housing Affordability Task Force will pursue include:

1. **Providing clarity through data** on how the affordability challenges are evolving in our region, how they will impact all residents, what gaps need action, and how we should measure progress against goals

2. **Encouraging employers to act directly to support their workforce via a housing-forward benefits package**

3. **Identifying new, innovative actions that private and public entities can take to spur increased housing production**

The Housing Affordability Task Force examined each recommendation in-depth and proposed a set of next steps. Descriptions of each recommendation and its accompanying steps follow.

Recommendation 1: Provide clarity through data on how the affordability challenges are evolving in our region and how they impact all residents, identifying gaps needing action and measuring progress against goals

Rationale

The Task Force believes that we must make progress in increasing housing production, safeguarding affordability, and closing the race- and income-based disparities that currently exist in housing. However, to do so we must grapple with our current challenges (e.g., racially-based gaps in housing affordability), set rigorous goals as a region, and regularly track progress against them. These goals and data should be disaggregated by race, income and geography.

The Task Force conducted a scan of housing-related dashboards and other data tools currently available both here and in other regions. Although several are being used in the region, the following gaps exist:

- Limited benchmarking – Only one dashboard includes peer city comparisons (and it has only three housing-specific metrics)
- Not anchored to goals – A lack of clear goals and peer comparisons makes it hard to tell if the region is on-track
- Need for more context – None of the dashboards specifically track the factors that affect housing affordability for the region (e.g., zoned land available for construction, construction rates, labor costs)
- Lack of a common structure to generate comparative insights: Variations in the geography covered by the various dashboards make it difficult to compare data from one resource with data from another. Despite the urgency our region faces around closing racially-based disparities, it is still more common to break out data by income level than by race

The core purpose of any housing-related dashboard must be to increase awareness of the importance of housing affordability *and* to drive action by reporting progress against goals. While the Task Force views creating such a dashboard as "table-stakes" rather than a solution to housing affordability per se, it agreed such a dashboard is needed to not only enable progress on the other two recommendations below, but more broadly across the recommendations in *More Places to Call Home*. It could also serve as a model for a statewide dashboard and for other regions and states.

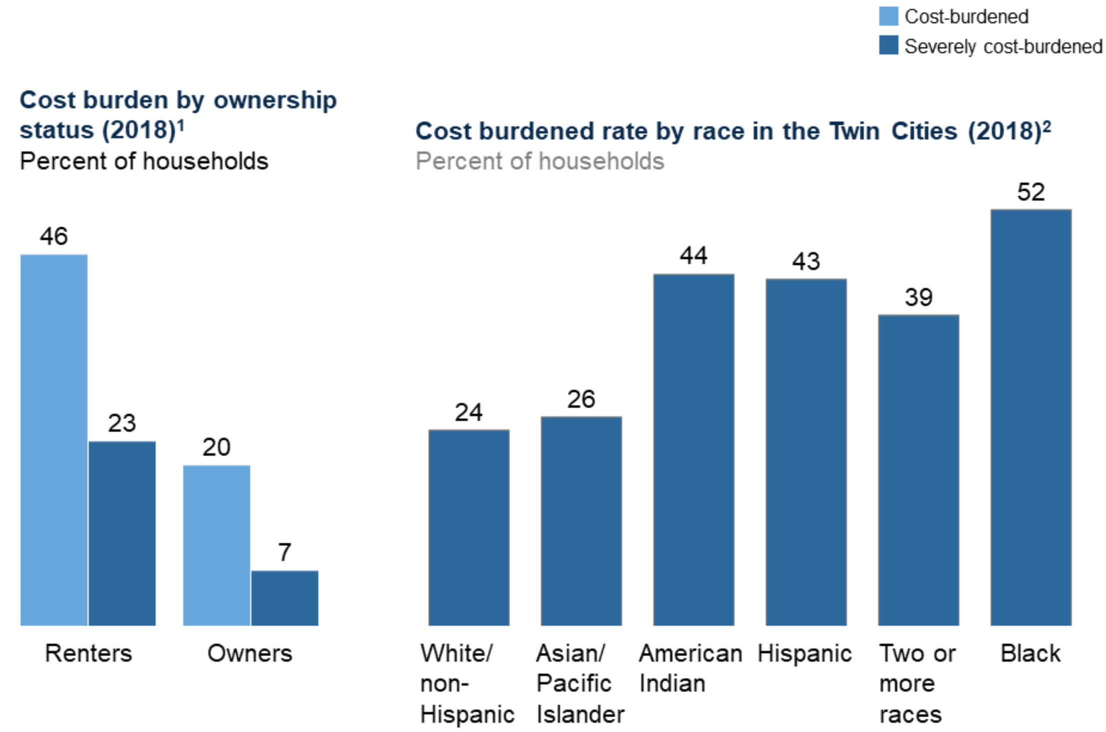
Key design considerations

The Task Force defined the primary audiences for any dashboard as employers, policy makers, and industry leaders, with a secondary audience of broader community members. With this primary audience, the dashboard should be designed to create better-informed policy and funding decisions, including private-sector resource allocation and motivated advocacy around housing topics.

The dashboard should include a dynamic model that would provide a holistic view on the interplay between housing production, cost, price, and affordability, and the impact of these on the region's overall economy.

Current data on housing affordability and production show both how the legacy of racist housing policies have shaped the housing landscape in our region and the challenge ahead of our region. For instance, in our region, 27.7% of households are cost-burdened. These households are disproportionately headed by people of color (40% versus 23% in MN) and renters (46% versus 20% in MSP region).[19]

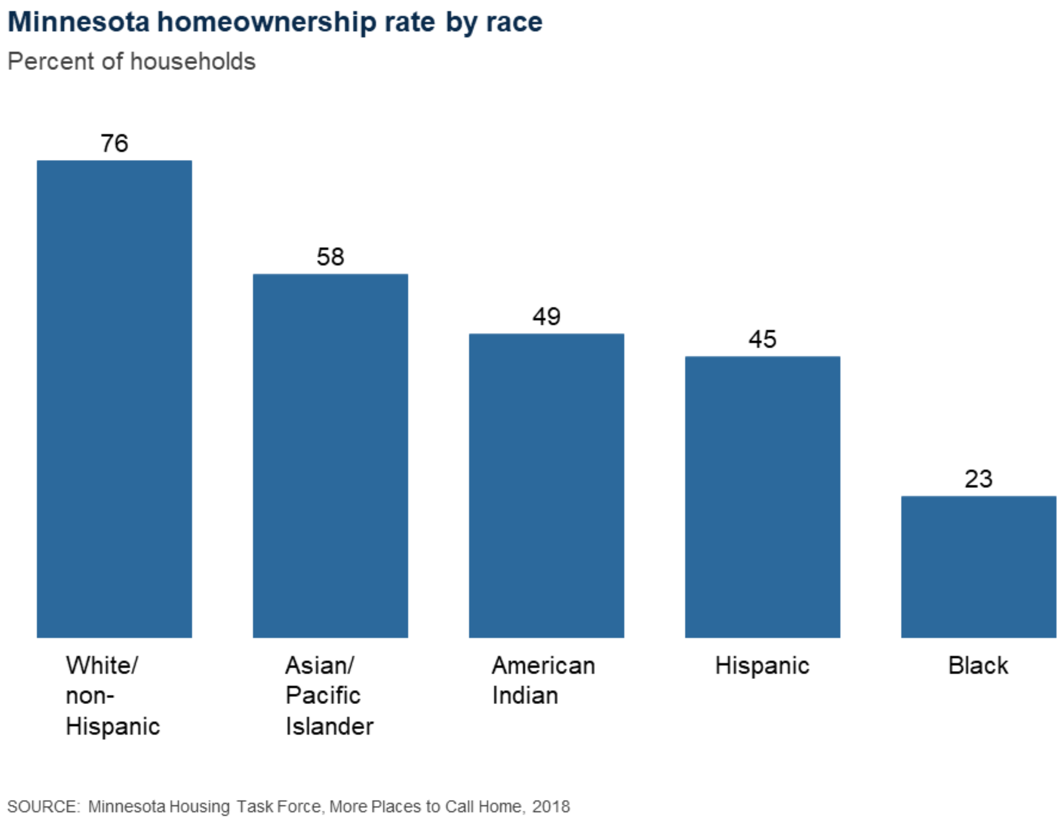
Figure 4: Cost burdened households in the MSP region



1 Minnesota Housing Partnership, *State of the State's Housing 2019; More Places to Call Home*, 2018, MN Housing Task Force Analysis of 2016 Census Bureau data
2 Wilder Compass; data is from 2014-2018 ACS estimates for the Twin Cities (7-county) region

Homeownership is a powerful way to insulate against cost burden: nearly 70% of renters are cost burdened in the region versus only 27% of homeowners. This story is consistent nationwide. The rate of homeowners who are cost burdened nationally is at the lowest level in a century while at the same time the rate of those renters who are cost burdened has increased.[20] These trends are partially the effect of rapid housing price appreciation, rental share of income rises, while homeowners reap equity gains while their payments remain stable. This results in renters spending more income on rent, meaning renters have less ability to save and make the shift to homeownership. Furthermore, racial disparities also exist in homeownership rates, a result of the policies discussed above. In our region, 75% of white households own their home versus 39% of households headed by a person of color.[21] Even today, it continues to be harder for Black families to obtain homeownership. The Center for Economic Inclusion reports that middle-income (households with income $50-100,000) black applicants are roughly twice as likely to be denied for a home loan as white middle-income applicants.[22]

Figure 5: Minnesota homeownership rate by race



Next steps

The Task Force recommends that a housing dashboard be developed using the model of the Forge North Innovation Dashboard[23] and the Center for Economic Inclusion's Indicators of an Inclusive Economy.[24] These two tools were both developed as companions to the Regional Indicators Dashboard. This model provides flexibility – the two tools are quite different, and each has been tailored specifically to its content and to intended audiences. However, they still provide useful templates for partnership and actions to guide next steps. The Task Force is in conversations with several partners to move this forward, and we expect the first version to launch in mid-2021.

Recommendation 2: Encourage employers to act directly to support their workforce via a housing-forward benefits package

Rationale

Itasca participants, even our public sector and non-profit participants, primarily adopt an employer's perspective. The Task Force, building on the "More Places To Call Home" report, felt it needed to make a recommendation specific to this perspective, and encourages employers to engage directly with their employees around housing.

At its outset, the Task Force explored the idea of designing a suite of housing-specific benefits, such as down payment and deposit assistance, and encouraging employers to adopt these. However, a review of nationwide trends in benefits found that the percentage of employers offering these benefits was extremely small – e.g., 2% for down-payment assistance. Higher percentages of employers offer relocation-related housing assistance, such as a relocation lump sum (28%), but even those percentages are low.[25] Furthermore, these benefits overwhelmingly accrue to more highly-paid workers and, as already discussed, the Task Force wanted to design benefits that would assist those with less than $75,000 in household income.

In addition, several participants pointed out that a family's overall financial health often determines its housing situation. Our focus pivoted to benefits that would increase an employee's overall financial security and *therefore* positively impact housing stability.

Improved financial health can be particularly effective at preventing eviction, which is disruptive to families and often makes it difficult to rent housing for several years afterwards (and making homeownership further out of reach). According to research from the Federal Reserve, over 40% of American families could not handle an unexpected $400 expense.[26] In the City of Minneapolis, a 2016 study found that the average evicted family owed two-months back rent, for an average amount of $1,700.[27]

The economic consequences of the pandemic have highlighted how important housing affordability is, and how many low-income workers have vulnerable housing situations. Those filing for unemployment in our region are disproportionately people of color, a majority have no post-secondary credentials, and the occupations most impacted are lower wage, service-industry jobs.[28]

Figure 6: Impact of job and wage loss in MSP region since March 2020

REPORT ADDITION: IMPACT OF PANDEMIC

In MSP region, economic impact of COVID-19 has disproportionately affected lower wage, less educated workers, and people of color

495,000

Initial UI claims filed since between weeks ending March 21 through July 11[1]

Lower wage, service jobs have been the most affected

Top three impacted occupations are
- Food and beverage serving workers (34k)
- Retail sales workers (31k)
- Construction trade workers (19k)

Other occupations in the top ten include truck drivers and several healthcare support positions

Workers affected are …
- **Young**: 39% are ages 20-34
- **Less educated**: 61% have no post-secondary credential
- **Female**: 53% are female

Workers of color are over-represented:
- 14% are Black
- 8% are Asian
- 6% are Hispanic

These income and wage losses put housing stability at risk
- A HousingLink survey of **low to moderate income renters** found 80% would have difficulty paying rent with the CARES Act supplement expires at the end of July
- The Family Housing Fund analysis of unemployment claims found that 1 in 2 **households with children** lost income in June
- The Urban Institute finds **the pandemic is widening housing disparities based on race and income across the nation**

SOURCE: Urban Institute "New Data Suggest COVID-19 is Widening Housing Disparities by Race and Income" https://www.urban.org/urban-wire/new-data-suggest-covid-19-widening-housing-disparities-race-and-income
Family Housing Fund "Housing and Unemployment: Hardest Hit Neighborhoods" https://www.fhfund.org/report/housing-and-unemployment-hardest-hit/
HousingLink "Paying Rent During the COVID-19 Pandemic"; available here

SOURCE: Minnesota Department of Employment and Economic Development (DEED)

These employment and wage losses have exacerbated the housing affordability challenge. In a HousingLink survey focused on low- and moderate-income renters in the MSP region, 80% of them said that they would have difficulty paying the rent when the Federal stimulus expired at the end of July.[29] Similarly, a survey of renters in the state found that nearly half had moderate to no confidence that they would be able to pay next month's rent. Again, racial differences appear: 77% of Black respondents had moderate to no confidence in being able to pay, compared to 36% of white respondents.[30]

Many organizations have warned of a surge in evictions and homelessness in early fall 2020 as the eviction moratorium and the CARES Act income supplement expire.[31,32] Other research has pointed out that even in the absence of evictions, lost income combined with housing unaffordability has insidious ripple effects that range from rising credit-card debt to depleted retirement savings.[33]

Design considerations

Over the course of 2019, a local group of foundations, led by Thrivent and the McKnight Foundation, researched financial stability. We will work with them to develop a model benefits package that will help create a "housing-forward benefits package" that strengthens family financial health and leads to housing outcomes employees value. Many employers revisited their benefits in the early days of the pandemic lockdown, for example, providing additional sick leave or flexibility, and we plan to build on these innovations. We recommend that Itasca's employers engage in the design, pilot, evaluation, and potential scaling of benefit packages focused on employees' housing stability and affordability.

The Task Force drafted the following design principles for such a package:

- Any benefits package should be designed with **low- to medium-income workers** (i.e., under $75,000 in household income) as the target market, and an advisory group will carefully define this category
- The impact on **housing outcomes** must be considered in the design and measured in the pilot, and disaggregated by relevant categories, e.g., rental and homeownership
- Any benefits package must be **net-additive** to employees (i.e., not simply a more flexible way to access an existing level of income)
- The impact on **people of color and indigenous people** must be considered during the design stage and measured in the pilot
- **The package must measure the outcomes employers** care about – e.g., retention, health insurance claims
- The benefits package should provide the **flexibility and choice** needed to meet employees' needs at various life stages

Next steps

The Task Force recommends a design-pilot-evaluate-scale approach. The first step would be to convene a stakeholder advisory group to design a model benefits package, articulate desired outcomes, and inform the pilot process. This group should include a variety of perspectives and expertise, including HR and benefit design, tax experts, labor/employees, as well as those skilled in designing evaluations of pilot interventions. It should be positioned to take advantage of national activities, such as the Black Rock emergency savings initiative,[34] and be able to navigate the tax implications of various benefit options.

In parallel, we are considering a data-gathering effort to encourage employers to collect input from their employees to better understand their housing needs, such as an employee survey or listening sessions. The Task Force recognizes the importance of simplicity and ease of use to get the highest response rate. The Task Force recommends the advisory group explores ways to support employers with, e.g., a standard set of questions, support to run and analyze survey data, etc. For employers participating in the pilot, survey results will help tailor the benefits package; for employers not in the pilot, we hope that a greater understanding of their employees' challenges will increase their awareness of the importance of housing affordability and suggest some term-term actions they can take.

After this group has designed the benefits package, the goal would be for one to three Itasca employers to pilot it by the end of 2021.

Recommendation 3: Identify new, innovative actions that private and public entities can take to spur increased housing production

Rationale

While housing affordability challenges exist around the globe, resolving each region's challenges requires local analysis and expertise. In the MSP region, the lack of supply is the primary challenge and we need to take new and innovative approaches attuned to our region's specifics if we are going to spur increased housing production. Stimulating the private market will be an essential element in spurring construction. Of the existing housing stock, over 98% is fully private/receives no subsidy; non-profit developers only account for ~10% of all new development in the region.[35]

The Task Force looked at how the lack of production of new housing relative to the growth in population has driven up housing prices. Although the lack of supply is helping drive up prices for all housing, the effect is strongest for the lower- and middle-tier homes. These have increased substantially since the nadir of the Great Recession; in fact, growth in the average home price is driven primarily by price growth for homes in the middle and lower tiers – the ones that households making under $75,000 would be able to buy.[36] On the rental side, the percentage of cost-burdened renter households in this cohort[37] has grown two- to three-fold since 2010 (see Figure 3 above).

If it is possible to reduce production costs, the region could meet the projected need with less investment, which may also lower housing prices for families. We considered the McKinsey Global Institute's report on how to address the worldwide affordable housing challenge,[38] which identified the following cost-savings levers:

- Land – "Unlocking land supply at the right location" is the single largest potential source of savings, since it combines increased efficiency of use and cost savings
- Development – Applying "value engineering and industrial approaches to construction" can increase the speed of project delivery and reduce the cost of construction at scale, bringing cost-efficient housing units to the market more quickly
- Operating expense – Reducing the ongoing expense of housing through energy efficiency and improved management can reduce the recurring-cost burden to both landlords and home owners
- Financing – Increasing available financial tools such as adjusted debt coverage requirements, loan guarantees, equity return expectations, housing-type specific financial products, etc. can reduce the cost of production as well as provide new approaches to ownership, e.g., cooperative models

In a time of economic downturn, the ancillary economic benefits of constructions become more important – the National Association of Homebuilders estimates that for every 1,000 homes built, between 1,250 and 2,900 jobs are created (depending on whether the homes are in single family or multi family structures).[39]

Design considerations

In their analysis, the MGI identified four levers of potential cost savings to narrow the affordability gap for new housing production. (See Figure 7 for more details). In reviewing each lever for cost savings and applying these to the MSP region, the Itasca task force identified a list of potential approaches to explore. They include:

- Land – "Unlocking land supply at the right location" is the single largest potential source of savings because it combines increased efficiency of use and cost savings. Land savings can be achieved through a variety of strategies including but not limited to selling public and private land at low- to no-cost, improved assembly of disparate parcels, policies to encourage density, and encouraging the use of currently vacant land, especially land that is already connected to infrastructure. In MSP, the MetCouncil keeps an inventory of all land within the urban service area

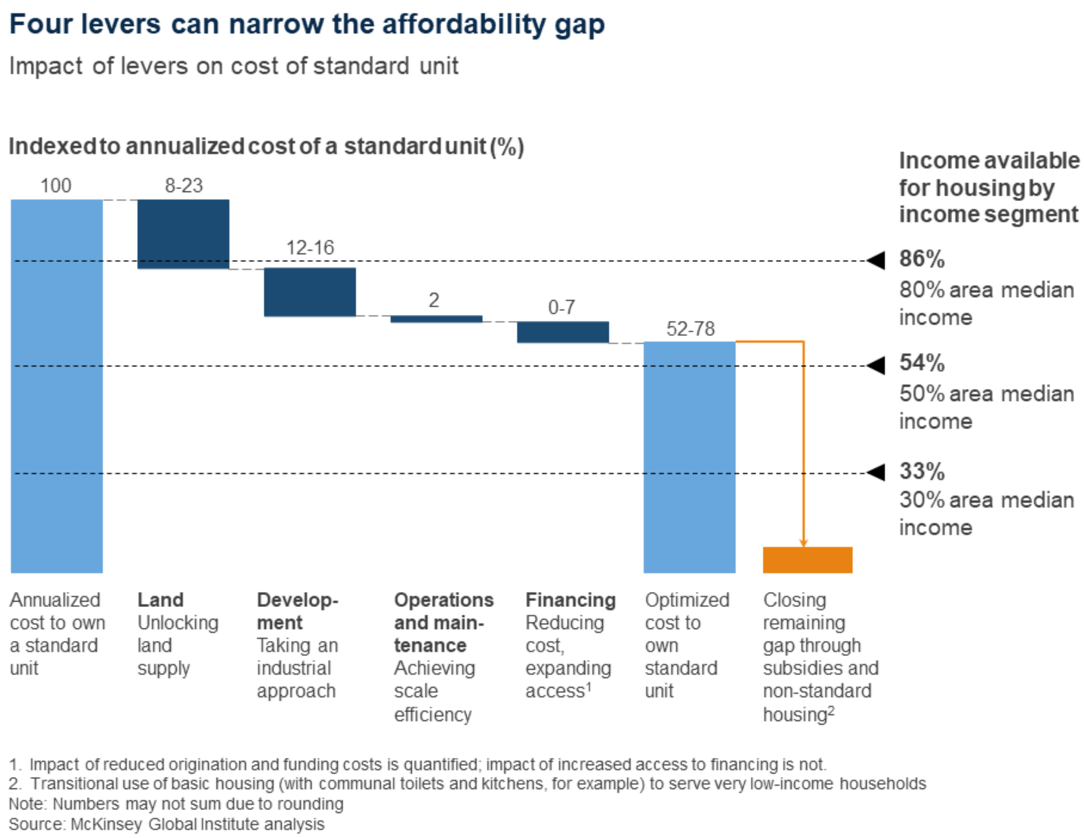
- Development – Applying "value engineering and industrial approaches to construction" can increase the speed of project delivery and reduce cost at scale, which would bring cost-efficient housing units to the market more quickly. Specifically, opportunities exist in reducing hard costs for construction by:
    - Adjusting design requirements like minimum unit sizes, parking requirements, and building codes; in the MSP region, the Minneapolis 2040 plan reduced parking requirements, up-zoned the whole city, and up-zoned transit corridors
    - Changing our approach to construction by using modular or offsite production methods, reducing customization, and employing lean and tech-enabled methods. Our region saw a healthy start to this conversation with the Construction Revolution Summit in September 2019
    - Creating procurement consortiums to increase negotiating power with suppliers

  On the soft costs, policy makers can drive several potential opportunities for cost savings:
    - Expediting permit and approval processes by pre-approving designs
    - Reducing or waiving fees such as park, sewage access, or waste access connection fees

- Operating expenses – Reducing the ongoing expense of housing through energy efficiency and improved management can lower the recurring cost burden on both landlords and home owners. Grant programs for repair and refurbishment can extend the life of existing housing stock, particularly MSP's naturally-occurring affordable housing. The Clean Energy Partnership between the City of Minneapolis and Xcel Energy is also taking new and innovative approaches to increase energy efficiency and the transparency of energy costs for residential units

- Financing – Increasing available financial tools can reduce the cost of production as well as provide more opportunities for ownership. Some of these tools are adjustments to debt coverage requirements, loan guarantees, changes to equity return expectations, and housing type-specific financial products

Figure 7: Potential cost saving levers in housing production



Next steps

Moving forward, the Itasca Project Task Force recommends that the relevant stakeholders convene several times in 2020, identify one to two priority actions we could take, and then mobilize implementation. Some of the particularly important stakeholders in this process would include:

- Policy makers – Local and state leaders would identify specific strategies to assemble and release available land, activate vacant land, increase density, adjust codes and regulations to reduce development costs, and explore loan guarantees
- Developers and Construction firms – They would continue the work of the Modular Construction Summit in September 2019. The Task Force will continue to support that work as they pilot new approaches and methods to increase the speed and decrease the cost of housing production
- Financial institutions – They will examine how they can increase the capital available to build new units, adjust debt requirements and equity expectations, and increase product offerings to match all housing types

The Itasca Project Housing Affordability Task Force believes that these recommendations will also have far-reaching, positive impacts for housing for all households by increasing naturally affordable housing and growing the overall housing inventory. As we design pilots, we plan to focus on innovation that will primarily benefit those households making under $75,000 a year.

Conclusion

Simply doing more of what we have been doing in the past in terms of production, benefits, and data collection will not produce better outcomes. The region created its current shortfall in housing supply and racial disparities in housing outcomes through decades of (in)action; it is not the result of fallout from a single economic cycle. Furthermore, housing affordability is a multisector issue that cannot be solved through public dollars or philanthropy alone; it is important to have the private sector engaged for truly cross-sector solutions.

The Itasca Task Force urges each of us in the region to innovate and experiment with new approaches as we work to attain the housing affordability – and equity in housing affordability – our region needs to grow and thrive. With clarity from data, cross-sector leadership, and a bold spirit to experiment and innovate, we can create long-term housing affordability for all households – which will build the region's foundation and sharpen our competitive strength in the future.

A note on income levels and housing affordability

The Itasca recommendations were designed to focus on households with less than $75,000 household income, which is around 80% of area median income (AMI). Most households in this income band have at least one full-time worker. Some examples of occupations in this income band include:

30-50%AMI (~$25,000 -$43,000)	50-60% AMI (~$43,000-$51,000)	60-80% AMI (~$51,000-$75,000)
125,000 households	64,000 households	109,000 households
Supervisors of food prep/service Office clerk Truck drivers	Supervisors of office admins Surgical techs Computer user support specialists	Sales rep Accountants and auditors Elementary school teachers

We focused on this income group for several reasons

They experience both the highest cost burden and the most quickly increasing cost burdens: Renter households making between $25,000 and $75,000 saw the percentage of households paying more than 30% household income in housing expenses increase by two and three times between 2005 and 2017.

There is a role for the private sector to play in producing and preserving homes for these households. While government or other subsidies play the main role in creating affordability at the lower end of this income spectrum, private developers can generally make developments for 60% AMI and above "pencil out." To create housing affordability for this group will take a mix of public and private incentives – given Itasca's cross-sector representation, we felt our group was well-suited to address this challenge.

Finally, increasing affordability for these households, which comprise about 40% of the total households in the region, will benefit the entire region. While the housing market is segmented, the market is still connected – increasing supply in one segment of the market will lower overall costs in another.

Recent research has shed light on how these dynamics work. Evan Mast looked at new construction of multifamily homes across 12 regions in the US (including Minneapolis-St Paul). These homes were all market rate – including luxury high-rises in New York City. Mast looked at the neighborhoods where the new residents came from, and found, unsurprisingly, that they came mostly from neighborhoods with above-average income. However, Mast went several steps further, and looked at who moved into the units vacated by the new residents of the new market-rate building, and then who moved into those vacated units, and so on back five links in the chain. He found for every 100 units of market rate housing, between 10 and 20 households from the lowest-income neighborhoods are able to move into new housing. This suggests that new units create vacancy at lower price points immediately, rather than simply via the depreciation effect, which takes decades.

SOURCES: Number of households is for 2016, from Minnesota Housing Partnership analysis of ACS data; income/ occupations information is for 2017 from [need to validate: Bureau of Labor Statistics]

Evan Mast, "The Effect of New Market-Rate Housing Construction on the Low-Income Housing Market"; July 1, 2019; Upjohn Institute working paper 19-307, accessed at https://research.upjohn.org/up_workingpapers/307/

Endnotes

1 Regional Indicators Dashboard, https://www.greatermsp.org/regional-indicators-2019/

2 McKinsey Global Institute and Oxford Economics; peer regions are those defined as peers by the GREATER MSP Regional Indicators Dashboard. See Figure 1 for full list.

3 The Metropolitan Council Projects that the seven-county region will add 188,000 households between 2018 and 2030. Further, it estimates that the region needs to add 15,600 rental units to bring the vacancy rate up to 5%. Dividing these needs evenly over the next twelve years means the region should add 17,750 units per year. The Family Housing Fund estimates we need to build an additional 4,000 units annually between now and 2038.

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5 Ibid.

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7 For more on the process of that work as well as the final report, please refer to https://mnhousingtaskforce.com/

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10 Richard Rothstein, The Color of Law: A Forgotten History of How our Government Segregated America, Liveright Publishing, 2017.

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18 This income level is 80% area median income for a family of four, and 40% of the households in the region fall into this income band.

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20 Joint Center for Housing Studies of Harvard University "The State of the Nation's Housing 2019" https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2019.pdf

21 Ibid.

22 Center for Economic Inclusion, Indicators of an Inclusive Regional Economy, https://www.centerforeconomicinclusion.org/msp-economic-inclusion-indicators

23 Forge North, https://dashboard.forgenorth.com/map/business

24 CEI, Indicators of an Inclusive Regional Economy.

25 Society of Human Resource Managers Employee Benefit Surveys 2013, 2018, accessible here

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27 Evictions in Minneapolis, a report from the Minneapolis Innovation Team, July 2016. http://innovateminneapolis.com/documents/Evictions%20in%20Minneapolis%20Report.pdf

28 Minnesota Department of Employment and Economic Development (MN DEED) Unemployment Insurance (UI) claims, as of July 11, 2020. A person may file for UI for either a lost job or reduced wages, so this data gives a more complete sense of the impact of the pandemic’s economic impact than unemployment rates.

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