

## Priced Out: The True Cost of Minnesota's Broken Housing Market

### Why this study matters:

State leaders and economists agree: Minnesota needs a surge in new home construction, 300,000 new units by 2030. That surge is not feasible today because there is simply no way to build enough homes affordably for middle class families due to the highest land and regulatory costs in the Midwest.

- A new home in Lake Elmo, MN costs \$47,000 more than its identical home in Hudson, WI – located just 10 miles apart. The cost differences are caused by land, infrastructure, and regulatory costs.
- Using the same payment schedule - this same home in Hudson, WI would be paid off almost seven years faster than its identical home in Lake Elmo, MN.
- A new home in Victoria, MN costs 25% more than a similar home built by the same builder in the SW Chicago suburbs -- a difference of \$82,000.
- By virtually every measure (land costs, infrastructure, engineering, codes, water protection, energy efficiency, parks, open space, escrow): newly built homes in Minnesota cost more than comparable homes in all other Midwestern Markets
- The Twin Cities is home to one of the highest gaps between new and existing home prices in the nation. Median existing home: \$275,000 --- Median new home: \$417,000 = \$142,000 difference
- A typical Twin Cities family of a teacher and a nurse expecting their first child and looking at housing options are faced with the sobering reality: sky-rocketing rents; low inventory of affordable existing homes, driven by the critical low supply of newly built, affordable homes.
- Up to one-third of a new home's price in the Twin Cities is due to regulations and policies from the local, regional and state level. We can all agree that's simply too high and unsustainable.
- Midwestern housing markets like Chicago, Kansas City, St. Louis, and Nashville all build between 50-80% of their new homes at \$325,000 or less. Our region builds less than 1/3 of our homes at \$325,000 or less.
- Our broken housing market is greatly reducing options for typical middle class families – where in order to pick the community they want to live in, for work, education, or family reasons, they have to make stark economic choices.

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### **FAQs**

#### **What does it mean to say the region's housing market is broken?**

The housing market is an ecosystem – an interconnected market of segments (rental, first time, move-up, down-sizing homebuyers, subsidized housing). Our market is off balance and broken primarily because we cannot produce affordably priced new homes for middle-class homebuyers. This critical lack of new home production puts pressure on all segments of the housing market – leaving it imbalanced and broken.

#### **How much new housing production is needed?**

Our market needs a new home production surge. In the next five years the market needs 50,000 new homes constructed. By 2030, Governor Dayton's Housing Task Force called for 300,000 new housing units to be constructed, primarily by the private sector.

#### **Why don't homebuilders just build more affordable homes?**

They simply can't. The vast majority of the new homes need to be built at an affordable rate for middle class households at price points of \$325,000 and below. Homebuilders cannot reach these price points, due to land costs and regulatory requirements impacting home prices.

#### **Is this just a metro issue?**

No. The housing market is inter-connected statewide, plus there are unique regional challenges. Phase I of the research focused on the MSP metro, where 70% of homes are constructed. But additional research is currently underway with a focus on several Greater Minnesota markets.

#### **Are other Midwestern markets able to build homes below \$325,000?**

Yes. Most Midwestern markets build the majority of their homes under \$325,000.

Chicago: 48%

Kansas City: 52%

Nashville: 56%

St. Louis: 78%

**MSP Region: 31%**

#### **Why are our region's homes more expensive?**

Virtually every requirement in our region costs more than our Midwestern peers: Met Council growth boundary policies, infrastructure upgrade costs, stormwater regulation, building code, energy code, park dedication requirements, sales tax, permits, water/sewer connections, zoning requirements, escrows, and more.

#### **How much of home costs in our region come from housing policy requirements?**

In this study, it ranged as high as 33% of the final home price, to 21% on the lowest end. We can all agree that's simply too high and unsustainable.

**If the same home is built in Lake Elmo, MN and nearby Hudson, WI, are there differences in costs?**

Yes. There are substantial differences in cost. The identical home sells for **\$47,000 less in Hudson.**

**Why does the identical home cost \$47,000 more in Lake Elmo, MN v. Hudson, WI?**

Some examples of cost:

- Building Code Costs: + \$3,375 in MN
- Energy Code Costs: + \$4,777 in MN
- Stormwater Compliance: +\$2,850 in MN
- Sales Tax on Housing Construction: +\$1,400 in MN
- Plumbing & Electrical Code: +\$470 in MN
- Raw Lot Costs: +\$17,776 in MN
- Park Dedication: +\$3,778 in MN

**If a similar home is built in Victoria, MN and the SW Chicago Suburbs, are there differences in cost?**

Yes. There are substantial differences in cost. The similar home sells for **\$82,000 less in SW Chicago** (In fact, the home in SW Chicago is 100 sq ft larger than its Victoria counterpart).

**Why does the similar home cost \$82,000 more in Victoria MN v. SW Chicago suburbs?**

The regulatory costs in Victoria are almost twice as much as those in SW Chicago. Examples:

- Lot Improvement Costs: + \$30,631 in MN
- Construction Regulatory Costs: + \$41,506 in MN
- SW Chicago **Regulatory Costs Share of Final Home Price: 13.39%**
- Victoria, MN **Regulatory Costs Share of Final Home Price: 25.27%**

**Which SW Chicago suburb was used for this study?**

Due to non-disclosure agreements with participating builders, we are unable to identify the specific local government unit in the SW Chicago suburbs.

**What role does the Metropolitan Council play?**

The Met Council establishes the MUSA line, an urban growth boundary. While the Met Council's coordination of infrastructure is a positive for our market, the lack of adequate land supply due to the MUSA line placement, paired with local decisions, has a rationing effect that causes land prices to soar. Outside the MUSA line, land prices can be **3-12 times cheaper.**

**What about local control?**

Local control is a universal value, this report does not suggest changes to this. However, the report does call for a new approach, to create a Legislative Commission that gets everyone around a table to figure out how we can build safe, durable, affordable homes for middle-class Minnesotans.

### **Can homebuilders reduce profit and administrative costs to lower price points?**

Homebuilder profit averaged around 7% in the study, a reasonable level, well within industry norms. Administrative costs (personnel, equipment, marketing, sales staff, commissions, taxes, etc.) was between 12-16% - also well within industry norms.

### **How can this problem be fixed?**

Fixing our region's housing market is complex and challenging – but it can be done. Because there are literally hundreds of local governments and agencies impacting housing costs directly – the legislature must take a centralized approach to this issue. The study recommends the establishment of a **Legislative Commission on Housing Affordability**.

### **How will the Commission on Housing Affordability help to fix our housing market?**

The Commission's primary role will be to ensure that affordability and costs are a permanent fixture in housing policy discussions and decisions at all levels of government, equal to the shared values of safety and durability. The Commission would also advise the legislature on strategies to address the homeownership equity gap, review existing and future regulatory requirements, and oversee innovation efforts to increase efficiency in housing construction and affordability. The Commission could recommend specific changes to increase affordability and homeownership access.

### **What is the Housing Affordability Institute?**

The Housing Affordability Institute is a housing policy organization founded in 2018 by Housing First Minnesota. Its goal is to produce quality, informative research on homeownership and the cost drivers behind our growing affordability challenges.