

**CLCLT Homebuyer Initiated  
Program Concept Development**

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## ***Abstract***

Home sales prices in Minneapolis have posted record increases over the last four years. Aided by a combination of low mortgage interest rates and a rising demand for homeownership within the city limits, the Minneapolis housing market has produced impressive increases in sales prices. The purpose of this research is to analyze the Minneapolis housing market on a neighborhood-by-neighborhood basis in order to gather a more substantive view of housing affordability. Data on single-family home sales collected from the city during the years 2002 to 2004 are analyzed and juxtaposed to recently released neighborhood demographic census information. Findings indicate that there is indeed an increasing affordability problem. Moreover, an option that creates a pool of permanently affordable homes is necessary in order to keep homeownership viable for low to moderate-income earners.

## ***Introduction***

Home sales prices in Minneapolis have posted record increases over the last four years. Aided by a combination of low mortgage interest rates and a rising demand for homeownership within the city limits, the Minneapolis housing market has produced impressive increases in sales prices. In 2004, a record 58,233 homes, condominiums, and townhouses were sold with a median sales price of \$215,900.<sup>1</sup> Additionally, Minneapolis home sales prices have risen an average of 9.5% per year since 2001. To be sure, this is a market with big rewards for those who can afford to enter it.

However, in the shadow of this market boom is the question of affordability. Home prices have far outpaced average wage increases. Typically, wages have only increased approximately 3% since 2000.<sup>2</sup> Depending on how much one's wage is, this increase may have an inconsequential affect on raising the standard of living. However, home sales are rising, even at inflated prices.

The purpose of this research is to analyze the Minneapolis market on a neighborhood-by-neighborhood basis in order to gather a more substantive view of housing affordability. Data on single-family home sales collected from the city during the years 2002 to 2004 are analyzed and juxtaposed to recently released neighborhood demographic census information. The first section of the paper deals with national and regional real estate trends. The second section describes Minneapolis trends and the methodology of the research. The final section dissects the data and proscribes several recommendations for further action.

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<sup>1</sup> Jim Buchta, "Home is Where the Bucks are", *Star Tribune*, 12 January 2005.

<sup>2</sup> *State of Working Minnesota 2004*, retrieved from: <http://www.mncn.org/bp/swm04wages.pdf>

## *National Trends*

For a true picture of what is happening to housing prices and affordability, the local market must be analyzed. However, before getting into that discussion, it is important to understand both the overarching national and regional real estate trends as well as some of the reasons behind them.

Real estate is a durable catalyst for wealth creation in the United States. Property is likely to appreciate in value. It makes sense, then, that after the technology bubble burst of the late nineties and the resultant economic slowdown, people turned toward real estate as a place to invest their money. In each of the last five years, propelled by low and stable interest rates, Americans have achieved record numbers in both quantity of units sold and price appreciation rates.

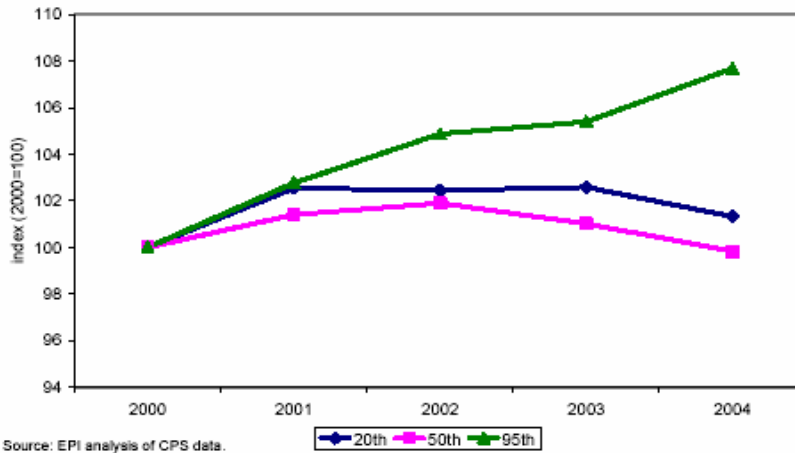
In 2004, an all time high of 6.675 million single-family units, including condos and co-ops were sold.<sup>3</sup> Keeping with the trend, sales in 2005 are expected to reach near the 6.5 million mark. Price appreciation for new and existing homes has hovered around 8%-12% per year since 2000. Historically, home prices rise at the rate of inflation, plus one or two percentage points. Inflation has been low for the last few years, however, usually between 1% and 4%, depending on the particular measurements. This gap between inflation and appreciation essentially means that the national housing market has outpaced wages and normal cost of living increases.

Figures 1A, 1B, and Tables 1 and 2 illustrate the general trends of both the housing and labor market in the United States. There are some interesting conclusions to draw from these data. Real wages have dropped, while housing prices have soared. Moreover, the market seems to have been buoyed by a large portion of second-home buyers. Seeing that higher-level income earners are the only group to have experienced consistent wage increases, the market seems to be driven by high wage earners. The logic follows simply because they are the ones that can afford the prices in a booming market.

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<sup>3</sup> National housing data retrieved from National Association of Realtors: [www.realtor.org](http://www.realtor.org)

**Figure 1A: Real Hourly Wage Growth by Percentile, Men, 2000-04**



**Figure 1B: Real Hourly Wage Growth by Percentile, Women, 2000-04**

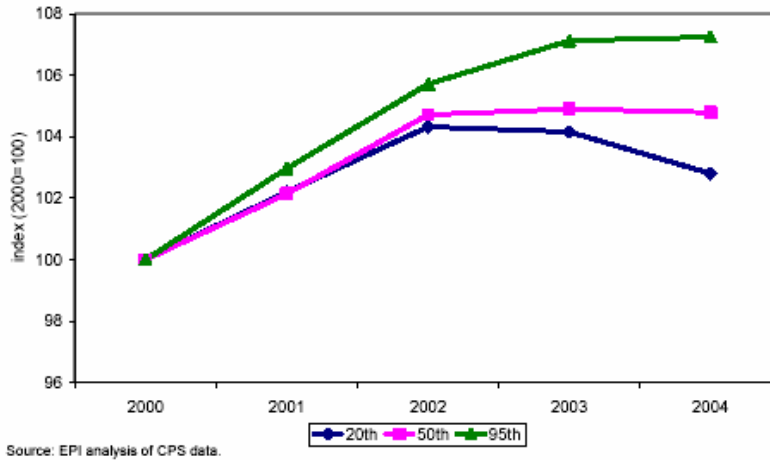


Table 1

**Key National Real Estate Trends**

- 6.675 million units sold in 2004 - 4<sup>th</sup> consecutive annual record.
- Median home price is \$184,100 – up 8.3% from 2003, strongest annual increase since 1980.
- 36% of all homes sold in 2004 were for investment or second home purposes.
- National Association of Realtors analysts forecast similar market expansion for 2005 and beyond.

Source: National Association of Realtors

**Percent Change in National Real Wages, 2000-2004**

|  | 2000-03<br>(Annualized) | 03-04 |
|--|-------------------------|-------|
| Average hourly earnings, non-supervisors | 0.9%                    | -0.5% |
| Average weekly earnings, non-supervisors | 0.3%                    | -0.4% |
| Median hourly wages, all workers         |                         |       |
| Men                                      | 0.3%                    | -1.2% |
| Women                                    | 1.6%                    | -0.1% |
| College Hourly Wage                      | 0.7%                    | -1.0% |
| Employment Cost Index, W&S               | 1.0%                    | -0.2% |
| Employment Cost Index, Compensation      | 1.6%                    | 1.1%  |
| Productivity                             | 3.8%                    | 4.0%  |
| Inflation                                | 2.2%                    | 2.7%  |

Source: Economic Policy Institute

Table 2

## Regional Trends

High numbers of home sales, significant annual appreciation, and low mortgage rates have been the rule rather than the exception for the last few years. However, when focusing on the regional markets, particular economic drivers begin to emerge such as employment trends, wages, population density, and demographics. The salience of these drivers to the housing market is great. They affect the type of homes that are constructed, bought, and sold. They affect mortgage rates. And, probably most importantly, they have implications on the prices of the homes.

According to HUD and various other housing authorities such as Fannie Mae and Freddie Mac, no more than 30% percent of a household's monthly income should be paid toward housing costs. Moreover, it is generally accepted that no more than 36% of monthly income should go toward debt relief, which includes mortgage payments. Table 3 illustrates, by region, affordable housing prices for regional markets.

| Region    | Median Home Price* | Median Family Income | Mortgage Rate* | Affordable Home Price* |
|-----------|--------------------|----------------------|----------------|------------------------|
| Northeast | \$236,300          | \$62,289             | 5.69%          | \$177,168              |
| Midwest   | \$144,600          | \$58,977             | 5.80%          | \$161,102              |
| South     | \$169,500          | \$51,163             | 5.84%          | \$126,553              |
| West      | \$279,900          | \$56,844             | 5.72%          | \$153,188              |

As illustrated by Figure 5, the south and Midwest are the regions that maintain affordable home prices in relation to median incomes and typical mortgage rates. The caveat however, is that amongst regions, the housing market varies dramatically. Homes in Fort Wayne, Indiana have not risen much above inflation during the housing boom.<sup>4</sup> While specific housing markets on either coast have experienced high single to double-digit appreciation rates.<sup>5</sup>

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\* Source: National Association of Realtors

\* Effective rate on loans closed on existing homes – Federal Housing Finance Board.

\* Assumptions: A qualifying ratio of 30% monthly income to housing payments; \$6,000 toward down payment and closing costs, and \$350 monthly debt payments.

<sup>4</sup> Derringer, Nancy. "Running the Numbers on U.S. Home Prices." Article retrieved from: <http://www.realestatejournal.com/buysell/salestrends/20041206-smartmoney.html>

<sup>5</sup> *Ibid.*

## Minneapolis Trends

Looking at Multiple Listing Service (MLS) data of Minneapolis home sales from 1993-2003, home prices increased an average of 8.3% to 16.6% per year, depending on the neighborhood. These numbers are seen in Table 4. These figures evidence a virtual explosion of prices in the Minneapolis housing market. In fact, these numbers outpace most Midwestern cities and have placed Minneapolis as the second least affordable city in the Midwest.<sup>6</sup> Ten years ago, Minneapolis was the 10<sup>th</sup> most affordable American city, now it ranks 66<sup>th</sup> out of 126 metro markets.<sup>7</sup>

**Table 4:** Median home prices per MLS community (area).

| Community          | 2003<br>Median Home Sales Price | 2002<br>Median Home Sales Price | 2001<br>Median Home Sales Price | 2000<br>Median Home Sales Price | 1999<br>Median Home Sales Price | 1998<br>Median Home Sales Price | 1997<br>Median Home Sales Price | 1996<br>Median Home Sales Price | 1995<br>Median Home Sales Price | 1994<br>Median Home Sales Price | 1993<br>Median Home Sales Price |
|--------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Calhoun/Isles      | \$287,000                       | \$292,000                       | \$248,700                       | \$235,000                       | \$280,000                       | \$205,000                       | \$200,000                       | \$174,000                       | \$172,500                       | \$109,679                       | \$105,214                       |
| Camden             | \$144,000                       | \$130,000                       | \$116,950                       | \$96,162                        | \$80,900                        | \$70,000                        | \$62,900                        | \$60,000                        | \$58,900                        | \$56,151                        | \$57,178                        |
| Central (Downtown) | \$219,000                       | \$233,000                       | \$176,000                       | \$146,500                       | \$134,900                       | \$118,900                       | \$59,500                        | \$82,500                        |                                 |                                 |                                 |
| Longfellow         | \$180,000                       | \$169,900                       | \$149,900                       | \$125,000                       | \$106,000                       | \$88,000                        | \$79,900                        | \$73,000                        | \$70,000                        | \$68,958                        | \$68,108                        |
| Nokomis            | \$195,000                       | \$179,650                       | \$162,000                       | \$140,000                       | \$120,180                       | \$102,000                       | \$93,000                        | \$89,000                        | \$83,100                        | \$79,432                        | \$79,381                        |
| North              | \$139,900                       | \$121,950                       | \$102,900                       | \$80,000                        | \$62,600                        | \$55,000                        | \$49,900                        | \$46,000                        | \$43,500                        | \$43,146                        | \$49,625                        |
| Northeast          | \$179,950                       | \$162,000                       | \$146,000                       | \$129,950                       | \$105,000                       | \$88,200                        | \$79,500                        | \$77,500                        | \$71,900                        | \$67,211                        | \$68,183                        |
| Phillips           | \$144,000                       | \$129,950                       | \$116,750                       | \$83,100                        | \$58,000                        | \$40,000                        | \$43,000                        | \$49,900                        | \$34,500                        | \$38,020                        | \$41,716                        |
| Powderhorn         | \$166,500                       | \$157,000                       | \$137,000                       | \$112,500                       | \$90,000                        | \$77,000                        | \$66,000                        | \$64,900                        | \$58,000                        | \$59,152                        | \$62,143                        |
| Southwest          | \$257,500                       | \$237,000                       | \$210,000                       | \$185,000                       | \$169,900                       | \$143,000                       | \$130,900                       | \$126,900                       | \$120,000                       | \$111,437                       | \$105,419                       |
| University         | \$210,500                       | \$179,000                       | \$170,000                       | \$143,500                       | \$122,000                       | \$105,000                       | \$93,000                        | \$83,900                        | \$80,000                        | \$74,534                        | \$71,536                        |

**Table 5:** Median home price percentage change over the past ten years (per figures in Table 1). The numbers below represent a 10% aggregate median home price increase annually in the City of Minneapolis over the past 10 years.

| Community          | 2003-1993 % change | Annual Increase (10 yr. Avg.) | 2003-2002 % change | 2002-2001 % change | 2001-2000 % change | 2000-1999 % change | 1999-1998 % change | 1998-1997 % change | 1997-1996 % change | 1996-1995 % change | 1995-1994 % change | 1994-1993 % change |
|--------------------|--------------------|-------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Calhoun/Isles      | 272.8%             | 8.3%                          | -1.7%              | 14.8%              | 5.5%               | -19.1%             | 26.8%              | 2.4%               | 13.0%              | 0.9%               | 36.4%              | 4.1%               |
| Camden             | 251.8%             | 8.6%                          | 9.7%               | 10.0%              | 17.8%              | 15.9%              | 13.5%              | 10.1%              | 4.6%               | 1.8%               | 4.7%               | -1.8%              |
| Central (Downtown) | 265.5%             | 16.6%                         | -6.4%              | 24.5%              | 16.8%              | 7.9%               | 11.9%              | 50.0%              | -38.7%             | 100.0%             | n/a                | n/a                |
| Longfellow         | 264.3%             | 9.1%                          | 5.6%               | 11.8%              | 16.6%              | 15.2%              | 17.0%              | 9.2%               | 8.6%               | 4.1%               | 1.5%               | 1.2%               |
| Nokomis            | 245.7%             | 8.5%                          | 7.9%               | 9.8%               | 13.6%              | 14.2%              | 15.1%              | 8.8%               | 4.3%               | 6.6%               | 4.4%               | 0.1%               |
| North              | 281.9%             | 9.3%                          | 12.8%              | 15.6%              | 22.3%              | 21.8%              | 12.1%              | 9.3%               | 7.8%               | 5.4%               | 0.8%               | -15.0%             |
| Northeast          | 263.9%             | 9.1%                          | 10.0%              | 9.9%               | 11.0%              | 19.2%              | 16.0%              | 9.9%               | 2.5%               | 7.2%               | 6.5%               | -1.4%              |
| Phillips           | 345.2%             | 9.7%                          | 9.8%               | 10.2%              | 28.8%              | 30.2%              | 31.0%              | -7.5%              | -16.0%             | 30.9%              | -10.2%             | -9.7%              |
| Powderhorn         | 267.9%             | 9.0%                          | 5.7%               | 12.7%              | 17.9%              | 20.0%              | 14.4%              | 14.3%              | 1.7%               | 10.6%              | -2.0%              | -5.1%              |
| Southwest          | 244.3%             | 8.5%                          | 8.0%               | 11.4%              | 11.9%              | 8.2%               | 15.8%              | 8.5%               | 3.1%               | 5.4%               | 7.1%               | 5.4%               |
| University         | 294.3%             | 10.1%                         | 15.0%              | 5.0%               | 15.6%              | 15.0%              | 13.9%              | 11.4%              | 9.8%               | 4.6%               | 6.8%               | 4.0%               |

On the positive side, for the last five years, the Minneapolis market has continually broken sales records, suggesting that housing demand within the city is high. Moreover, the high number of

<sup>6</sup> NAHB/Wells Fargo Housing Opportunity Index 3<sup>rd</sup> Quarter 2004.

<sup>7</sup> *Ibid.*

home sales, coupled with the high appreciation rates, means that wealth creation for many Minneapolis families was realized, consequently producing benefits for the city's economy. Table 6 highlights Minneapolis home sales data from 2004.

As noted in previous sections, however, wages have decreased and/or stagnated for many workers. For most low and moderate wage workers in Minnesota, wages have not kept up to inflation since 2000.<sup>8</sup> Concomitantly, high wage workers are currently experiencing the same depreciation in real wages.<sup>9</sup> Table 7 highlights data from the Economic Policy Institute tracking wages in Minnesota from 1979 to 2003.

| <b>Table 6      2004 Sales Highlights</b> |  |
|---|--|
| •   | Record 58,233 homes, condos, and townhouses were sold or pending sale. |
| •   | Median sales price was \$215,900<br>Average sales price was \$250,036  |
| •   | Dollar volume of sales was \$1,688,273,146                             |

**Table 7**

|                    | <b>1979</b> | <b>1989</b> | <b>2000</b> | <b>2003</b> | <b>% Change<br/>1979 -<br/>1989</b> | <b>% Change<br/>1989 -<br/>2000</b> | <b>% Change<br/>2000 -<br/>2003</b> |
|--------------------|-------------|-------------|-------------|-------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>Low Wage</b>    | \$8.16      | \$7.90      | \$9.59      | \$9.95      | -3.2%                               | 21.4%                               | 3.8%                                |
| <b>Median Wage</b> | \$12.89     | \$12.69     | \$15.33     | \$15.52     | -1.6%                               | 20.8%                               | 1.2%                                |
| <b>High Wage</b>   | \$19.96     | \$21.36     | \$24.52     | \$25.09     | 7.0%                                | 14.8%                               | 2.3%                                |

Source: EPI analysis of CPS data. Wages are adjusted for inflation and reflect the value of the dollar in 2003.

**RESEARCH – Purpose, Theory & Limitations**

The impetus behind the research is to explore the Minneapolis housing market at a neighborhood-by-neighborhood basis in order to more fully understand it. Home sales are rising, even at a time when prices are inflated and wages are flat. By merely looking at the number of home sales, it would appear that there may not be an affordability question simply because so many people are buying. However, the numbers of sales does not explain the widespread personal and anecdotal evidence of affordability problems.

The City of Lakes Community Land Trust (CLCLT) and Neighborhood Planning for Community Revitalization (NPCR) use the question of affordability to frame this research. The purpose is to dig deeper than the standard numbers in order to create a real picture, at the neighborhood level, of what is actually going on in the Minneapolis housing market. By comparing neighborhood median wages and neighborhood sales prices, it is possible to see where the affordability problems lie in the city. Moreover, such a sensitivity analysis will give a more complete answer to the affordability question and how a program to sustain affordable home ownership might be the best option to alleviate affordability problems.

**Neighborhood Planning For Community Revitalization**  
 Is a University of Minnesota program that builds partnerships between community-based organizations, and local colleges and universities around community building activities. The research and technical needs of community organizations are matched with the support of student assistants and faculty leadership. NPCR has been promoting community university partnerships in the Twin Cities since 1993.

<sup>8</sup>State of Working Minnesota 2004, retrieved from: <http://www.mncn.org/bp/swm04wages.pdf>

<sup>9</sup> Ibid.



**City of Lakes Community Land Trust**

In 2001, the Minneapolis Community Land Trusts Initiative, formed as a collaboration of Powderhorn Residents<sup>2</sup> Group, Seward Redesign, Powderhorn Park Neighborhood Association and the Lyndale Neighborhood Development Corporation to research and investigate the potential of creating a community land trust tool for neighborhoods in South Minneapolis. Through research, community conversations, an environmental scan and identification of opportunities that took place, it became evident that the entire City of Minneapolis could benefit from such a model. The result was the MCLTI Working Group incorporating the City of Lakes Community Land Trust in the fall of 2002. The City of Lakes Community Land Trust is one of over one hundred nonprofit CLTs in the nation today.

**Methodology**

Multiple listing services, the most popular real estate sales data base, tracks real estate trends by dividing Minneapolis into 11 communities, as shown by Table 8. This technique is advantageous because it aggregates data into usable chunks rather than having to separately list all 87 Minneapolis neighborhoods. However, this technique, because it is an aggregate, cannot identify trends in a systematic neighborhood-by-neighborhood analysis. Because it clumps various neighborhoods together, high numbers in one neighborhood will cover up low numbers in another or vice versa. Furthermore, aggregates usually do not have the sensitivity to spot trends in a timely manner. When a pattern is finally recognized, it has usually affected a large group, which increases the difficulty of dealing with the situation in an efficient way. Therefore, to mitigate these problems, data from each neighborhood must be collected and analyzed separately, without aggregation.

**Table 8** MLS defined communities and represented neighborhoods

| Camden              | North           | Phillips         | Powderhorn      | Longfellow | Northeast        | Central (DT)   | Nokomis        | University          | Calhoun/Isles   | Southwest    |                  |  |           |
|---------------------|-----------------|------------------|-----------------|------------|------------------|----------------|----------------|---------------------|-----------------|--------------|------------------|--|-----------|
| Cleveland           | Jordan          | Ventura Village  | Powderhorn Park | Seward     | Columbia         | North Loop     | Regina         | Nicollet Island     | Bryn-Mawr       | Linden Hills |                  |  |           |
| Folwell             | Hawthorne       | Midtown Phillips | Corcoran        | Longfellow | Waite Park       | Downtown West  | Northrup       | Marcy-Holmes        | Lowry Hil       | East Harriet |                  |  |           |
| McKinley            | Near North      | East Phillips    | Standish        | Cooper     | Marshall Terrace | Loring Park    | Field          | Como                | Kenwood         | Kingfield    |                  |  |           |
| Camden Industrial   | Harrison        | West Phillips    | Bancroft        | Howe       | Bottineau        | Elliot Park    | Page           | Mid-City Industrial | East Isles      | Tangletown   |                  |  |           |
| Lind-Bohanon        | Sumner-Glenwood |                  | Bryant          | Hiawatha   | Holland          | Stevens Square | Hale           | Prospect Park       | Lowry Hill East | Windom       |                  |  |           |
| Humboldt Industrial | Harrison        |                  | Central         |            | Sheridan         | Downtown East  | Diamond Lake   | Cedar-Riverside     | Carag           | Kenny        |                  |  |           |
| Victory             | Willard-Hay     |                  | Lyndale         |            | Audobon Park     |                | Wenonah        | University          | Ecco            | Armatage     |                  |  |           |
| Shingle Creek       |                 |                  | Whittier        |            | Windom Park      |                | Morris Park    | West Calhoun        | Fulton          |              |                  |  |           |
| Webber-Camden       |                 |                  |                 |            |                  |                | Northeast Park | Minnehaha           | Cedar-Isles     | Lynnhurst    |                  |  |           |
|                     |                 |                  |                 |            |                  |                |                |                     |                 |              | Ericsson         |  |           |
|                     |                 |                  |                 |            |                  |                |                |                     |                 |              | Beltrami         |  | Keewaydin |
|                     |                 |                  |                 |            |                  |                |                |                     |                 |              | Logan Park       |  |           |
|                     |                 |                  |                 |            |                  |                |                |                     |                 |              | St. Anthony East |  |           |
|                     |                 |                  |                 |            |                  |                |                |                     |                 |              | St. Anthony West |  |           |

The most efficient way of collecting such neighborhood sales data is through the city itself. Therefore, the Minneapolis City Assessor was contacted and solicited for all of the valid sales of single-family homes (not including condos and townhomes) occurring in the city through a two-year time period – August 2002 to August 2004.<sup>10</sup>

<sup>10</sup> Most often, a period of 5 years is the suggested time span in which to track various market changes. However, the two-year period was chosen for two reasons: 1) the market was already recognized to be in an upswing, meaning there was no need to uncover a trend and 2) considering the number of sales, two years of data provide plenty of cases to give an accurate overview of the market.

Town homes and condos were not included in the data because, at the time of the research, their market was new and the units were identified as unlikely candidates for the implementation of successful permanent affordability model. Furthermore, the market for single-family homes is established. A purer analysis of their market seemed to be the best way of gauging affordability without skewing data with various housing trends i.e. condos and townhomes.

A list of 12,590 valid sales was compiled and identified by neighborhood number, home address, date of sale, and sale price.

These data were then entered into a statistical modeling package in order to calculate neighborhood median sales price, highest and lowest sales price, number of total neighborhood sales, and average sales price. These data were then joined into Geographic Information System maps of Minneapolis neighborhoods and neighborhood parcels.

With an analyzed data set, measures of affordability were created in order to make standardized comparisons between neighborhoods. A set of assumptions were created to assist in the calculation of affordable home prices in comparison to median income these include:

- \$350 of personal debt payments per month i.e. credit cards, car, etc.
- \$2,500 dollar initial down payment.
- 30% or 41% of monthly income earmarked for mortgage payments
- \$1,500 dollars in taxes
- 6% Interest rate based on a 30 year-fixed mortgage

Neighborhood median wages were gathered using the 2000 census data. Researching economic data, wages have risen on average of 3 percent in Minnesota. Therefore, the 2000 wages were increased three percent in order to reflect this trend.

#### *Methodological Caveats*

Overall, the numbers presented in this report are good measurements of what is happening in Minneapolis. However, the following should be kept in mind while looking at the data:

- This research does not account for quality changes over time or for differences in preferences. Some households may be willing to spend a substantial portion of their income on housing because they have the desire to live in more expensive homes. From an income/housing cost ratio, it would appear that there is an affordability issue when there is not.
- Secondly, this research does not account for the real financial constraints facing a large proportion of Minneapolis households. Many times, a household cannot spend 30%, let alone 41% of its income toward housing when the costs of other necessities and financial constraints are factored in. The percentages were chosen because 30% is what is recommended by housing advocates as how much a household should spend on housing costs and 41% is the front and back-end ratio utilized by the Minnesota Housing Finance Agency to determine mortgage limits.
- Conservative individual debt amounts are used in figuring monthly mortgage payments. Personal and household debts are currently at record highs. The assumption of \$350 of

debt per month may in fact be too low for many Minneapolis families. If debt is underestimated, it will overestimate the amount of an affordable home price.

- Similarly, the assumption of a \$2,500 down payment may be too low. This number was chosen to reflect a typical amount of savings available to homebuyers of moderate to low incomes. If this assumption is too low, the estimated affordable home price will be low as well.
- Although census data was collected matching the boundaries of Minneapolis neighborhoods, estimates of neighborhood household income in a few neighborhoods could be skewed. This is due to the presence of a relatively high population of renters in certain areas. Renters tend to move around a lot and the usually are not accurately catalogued by census techniques. Therefore, in neighborhoods with high rental percentage, median household wages are usually depressed.

**Results**

There were 12,590 single-family sales transactions from August 2002 to August 2004. The overall median Minneapolis sales price was \$183,000. A majority of the sales prices fell in the range of \$100,000 to \$225,000. The average number of sales per neighborhood was 175. Table 9 shows the top ten neighborhoods in median sales price – both the highest and lowest and number of total sales. The complete list of neighborhood data is in the appendix.

| Table 9  |           | Most Affordable |           | Most Sales    |     |
|--|-----------|-----------------|-----------|---------------|-----|
| Most Expensive Neighborhoods<br>(Median Sales Price) |           |                 |           |               |     |
| Lowry Hill East                                      | \$317,500 | Jordan          | \$133,000 | Waite Park    | 298 |
| Linden Hills   | \$320,000 | Folwell         | \$134,000 | Linden Hills  | 315 |
| Tangletown   | \$325,000 | Hawthorne       | \$135,000 | Webber-Camden | 316 |
| Lynnhurst  | \$390,000 | McKinley        | \$135,000 | Fulton        | 327 |
| Ecco   | \$452,450 | Harrison        | \$136,900 | Howe          | 357 |
| Cedar-Isles  | \$550,000 | Webber-Camden   | \$140,000 | Victory       | 358 |
| East Isles   | \$568,000 | Loring Park     | \$145,000 | Standish      | 363 |
| West Calhoun   | \$661,500 | Cleveland       | \$145,000 | Folwell       | 375 |
| Kenwood  | \$722,500 | Willard-Hay     | \$145,000 | Willard-Hay   | 411 |
| Lowry Hill   | \$869,000 | Ventura Village | \$145,150 | Jordan        | 414 |

It is important to note that four of the most affordable neighborhoods: Jordan; Folwell; Webber-Camden; and Willard-Hay were also four of the neighborhoods with the most sales.

The median household income for the City of Minneapolis in 2000 was \$37,974. Adjusting for inflation, that amount would roughly be equal to \$41,642 in 2004 dollars.<sup>11</sup> Currently, the metro median income (MMI) is about \$72,000. Included below are 2000 Census figures for the Median Household Incomes by neighborhood (city of Minneapolis website) – Table 10.

Table 10

| <b>INCOMES by Neighborhood (2000)</b> | <b>Median Household income (2000 Census)</b> | <b>2001 (assumes 3% increase)</b> | <b>2002 (assumes 3% increase)</b> | <b>2003 (assumes 3% increase)</b> | <b>2004 (assumes 3% increase)</b> |
|---------------------------------------|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| University of Minnesota               | \$11,964                                     | \$12,323                          | \$12,693                          | \$13,073                          | \$13,466                          |
| Cedar Riverside/West Bank             | \$14,367                                     | \$14,798                          | \$15,242                          | \$15,699                          | \$16,170                          |
| Elliot Park                           | \$18,013                                     | \$18,553                          | \$19,110                          | \$19,683                          | \$20,274                          |
| Ventura Village                       | \$19,405                                     | \$19,987                          | \$20,587                          | \$21,204                          | \$21,840                          |
| Hawthorne                             | \$21,865                                     | \$22,521                          | \$23,197                          | \$23,892                          | \$24,609                          |
| Marcy-Holmes                          | \$21,999                                     | \$22,659                          | \$23,339                          | \$24,039                          | \$24,760                          |
| Near North                            | \$22,407                                     | \$23,079                          | \$23,772                          | \$24,485                          | \$25,219                          |
| Phillips                              | \$23,090                                     | \$23,783                          | \$24,496                          | \$25,231                          | \$25,988                          |
| Harrison                              | \$23,831                                     | \$24,546                          | \$25,282                          | \$26,041                          | \$26,822                          |
| Stevens Square-Loring Heights         | \$24,060                                     | \$24,782                          | \$25,525                          | \$26,291                          | \$27,080                          |
| Loring Park                           | \$28,078                                     | \$28,920                          | \$29,788                          | \$30,682                          | \$31,602                          |
| Whittier                              | \$28,328                                     | \$29,178                          | \$30,053                          | \$30,955                          | \$31,883                          |
| St. Anthony East                      | \$29,484                                     | \$30,369                          | \$31,280                          | \$32,218                          | \$33,185                          |
| Lyndale                               | \$29,704                                     | \$30,595                          | \$31,513                          | \$32,458                          | \$33,432                          |
| Seward                                | \$30,209                                     | \$31,115                          | \$32,049                          | \$33,010                          | \$34,000                          |
| Logan Park                            | \$30,268                                     | \$31,176                          | \$32,111                          | \$33,075                          | \$34,067                          |
| Marshall Terrace                      | \$31,115                                     | \$32,048                          | \$33,010                          | \$34,000                          | \$35,020                          |
| Jordan                                | \$31,318                                     | \$32,258                          | \$33,225                          | \$34,222                          | \$35,249                          |
| Holland                               | \$31,330                                     | \$32,270                          | \$33,238                          | \$34,235                          | \$35,262                          |
| Central                               | \$32,656                                     | \$33,636                          | \$34,645                          | \$35,684                          | \$36,755                          |
| Lowry Hill East                       | \$33,222                                     | \$34,219                          | \$35,245                          | \$36,303                          | \$37,392                          |
| St. Anthony West                      | \$33,375                                     | \$34,376                          | \$35,408                          | \$36,470                          | \$37,564                          |
| Corcoran                              | \$33,393                                     | \$34,395                          | \$35,427                          | \$36,489                          | \$37,584                          |
| Willard Hay                           | \$33,482                                     | \$34,486                          | \$35,521                          | \$36,587                          | \$37,684                          |
| Webber Camden                         | \$33,717                                     | \$34,729                          | \$35,770                          | \$36,843                          | \$37,949                          |
| Como                                  | \$33,895                                     | \$34,912                          | \$35,959                          | \$37,038                          | \$38,149                          |
| Longfellow                            | \$34,156                                     | \$35,181                          | \$36,236                          | \$37,323                          | \$38,443                          |
| Beltrami                              | \$34,659                                     | \$35,699                          | \$36,770                          | \$37,873                          | \$39,009                          |
| Powderhorn Park                       | \$34,985                                     | \$36,035                          | \$37,116                          | \$38,229                          | \$39,376                          |
| Bottineau                             | \$35,208                                     | \$36,264                          | \$37,352                          | \$38,473                          | \$39,627                          |
| Sheridan                              | \$35,833                                     | \$36,908                          | \$38,015                          | \$39,156                          | \$40,330                          |
| Folwell                               | \$36,162                                     | \$37,247                          | \$38,364                          | \$39,515                          | \$40,701                          |
| Northeast Park                        | \$36,389                                     | \$37,481                          | \$38,605                          | \$39,763                          | \$40,956                          |
| Downtown West                         | \$36,510                                     | \$37,605                          | \$38,733                          | \$39,895                          | \$41,092                          |
| Lind-Bohanon                          | \$36,563                                     | \$37,660                          | \$38,790                          | \$39,953                          | \$41,152                          |
| Windom Park                           | \$36,928                                     | \$38,036                          | \$39,177                          | \$40,352                          | \$41,563                          |
| McKinley                              | \$37,097                                     | \$38,210                          | \$39,356                          | \$40,537                          | \$41,753                          |
| Prospect Park/East River Rd           | \$37,467                                     | \$38,591                          | \$39,749                          | \$40,941                          | \$42,169                          |
| CARAG                                 | \$37,615                                     | \$38,743                          | \$39,906                          | \$41,103                          | \$42,336                          |
| Shingle Creek                         | \$39,159                                     | \$40,334                          | \$41,544                          | \$42,790                          | \$44,074                          |
| Bryant                                | \$40,362                                     | \$41,573                          | \$42,820                          | \$44,105                          | \$45,428                          |
| Columbia                              | \$40,852                                     | \$42,078                          | \$43,340                          | \$44,640                          | \$45,979                          |

<sup>11</sup> Inflation from August 2000 to August 2004 was 9.66%.

|                           |           |           |           |           |           |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| Cleveland                 | \$42,161  | \$43,426  | \$44,729  | \$46,070  | \$47,453  |
| Wenonah                   | \$42,386  | \$43,658  | \$44,967  | \$46,316  | \$47,706  |
| Bancroft                  | \$42,656  | \$43,936  | \$45,254  | \$46,611  | \$48,010  |
| Hiawatha                  | \$43,912  | \$45,229  | \$46,586  | \$47,984  | \$49,423  |
| Morris Park               | \$44,125  | \$45,449  | \$46,812  | \$48,217  | \$49,663  |
| Windom                    | \$44,423  | \$45,756  | \$47,128  | \$48,542  | \$49,998  |
| Standish                  | \$45,031  | \$46,382  | \$47,773  | \$49,207  | \$50,683  |
| Audubon Park              | \$45,090  | \$46,443  | \$47,836  | \$49,271  | \$50,749  |
| Howe                      | \$45,270  | \$46,628  | \$48,027  | \$49,468  | \$50,952  |
| Minnehaha                 | \$45,380  | \$46,741  | \$48,144  | \$49,588  | \$51,076  |
| Victory                   | \$45,396  | \$46,758  | \$48,161  | \$49,605  | \$51,094  |
| East Isles                | \$46,000  | \$47,380  | \$48,801  | \$50,265  | \$51,773  |
| Waite Park                | \$46,317  | \$47,707  | \$49,138  | \$50,612  | \$52,130  |
| Regina                    | \$47,135  | \$48,549  | \$50,006  | \$51,506  | \$53,051  |
| Lowry Hill                | \$47,137  | \$48,551  | \$50,008  | \$51,508  | \$53,053  |
| West Calhoun              | \$48,250  | \$49,698  | \$51,188  | \$52,724  | \$54,306  |
| Ericsson                  | \$50,369  | \$51,880  | \$53,436  | \$55,040  | \$56,691  |
| North Loop                | \$50,602  | \$52,120  | \$53,684  | \$55,294  | \$56,953  |
| Cooper                    | \$50,688  | \$52,209  | \$53,775  | \$55,388  | \$57,050  |
| King Field                | \$51,935  | \$53,493  | \$55,098  | \$56,751  | \$58,453  |
| Keewaydin                 | \$52,429  | \$54,002  | \$55,622  | \$57,291  | \$59,009  |
| Northrup                  | \$53,092  | \$54,685  | \$56,325  | \$58,015  | \$59,756  |
| ECCO                      | \$54,792  | \$56,436  | \$58,129  | \$59,873  | \$61,669  |
| East Harriet              | \$54,934  | \$56,582  | \$58,279  | \$60,028  | \$61,829  |
| Field                     | \$56,850  | \$58,556  | \$60,312  | \$62,122  | \$63,985  |
| Armatage                  | \$57,804  | \$59,538  | \$61,324  | \$63,164  | \$65,059  |
| Nicollet Island/East Bank | \$60,089  | \$61,892  | \$63,748  | \$65,661  | \$67,631  |
| Diamond Lake              | \$60,805  | \$62,629  | \$64,508  | \$66,443  | \$68,437  |
| Linden Hills              | \$62,988  | \$64,878  | \$66,824  | \$68,829  | \$70,894  |
| Hale                      | \$67,695  | \$69,726  | \$71,818  | \$73,972  | \$76,191  |
| Kenny                     | \$68,068  | \$70,110  | \$72,213  | \$74,380  | \$76,611  |
| Bryn Mawr                 | \$69,609  | \$71,697  | \$73,848  | \$76,064  | \$78,346  |
| Fulton                    | \$71,482  | \$73,626  | \$75,835  | \$78,110  | \$80,454  |
| Tangletown                | \$72,552  | \$74,729  | \$76,970  | \$79,280  | \$81,658  |
| Page                      | \$75,124  | \$77,378  | \$79,699  | \$82,090  | \$84,553  |
| Cedar-Isles-Dean          | \$86,892  | \$89,499  | \$92,184  | \$94,949  | \$97,798  |
| Lynnhurst                 | \$95,627  | \$98,496  | \$101,451 | \$104,494 | \$107,629 |
| Kenwood                   | \$103,019 | \$106,110 | \$109,293 | \$112,572 | \$115,949 |

### *Analysis*

Initial comparisons of home sales prices in the context of median wages produced some surprising results in reference to affordability. Assuming that households follow the recommended formula that no more than a 30% of monthly income goes toward housing costs, Minneapolis maintains a large gap between income and housing affordability. However, when looked at the possibility of securing 41% of monthly income toward housing, a percentage that many lenders currently offer, the affordability gap does decrease. Table 11 represents the total number of affordable sales at 30% monthly income juxtaposed to 41%. The table also illustrates the gap funding needed for certain income levels to purchase houses in Minneapolis neighborhoods. Figure 12 maps out Minneapolis median sales prices per neighborhood.

Figure 12

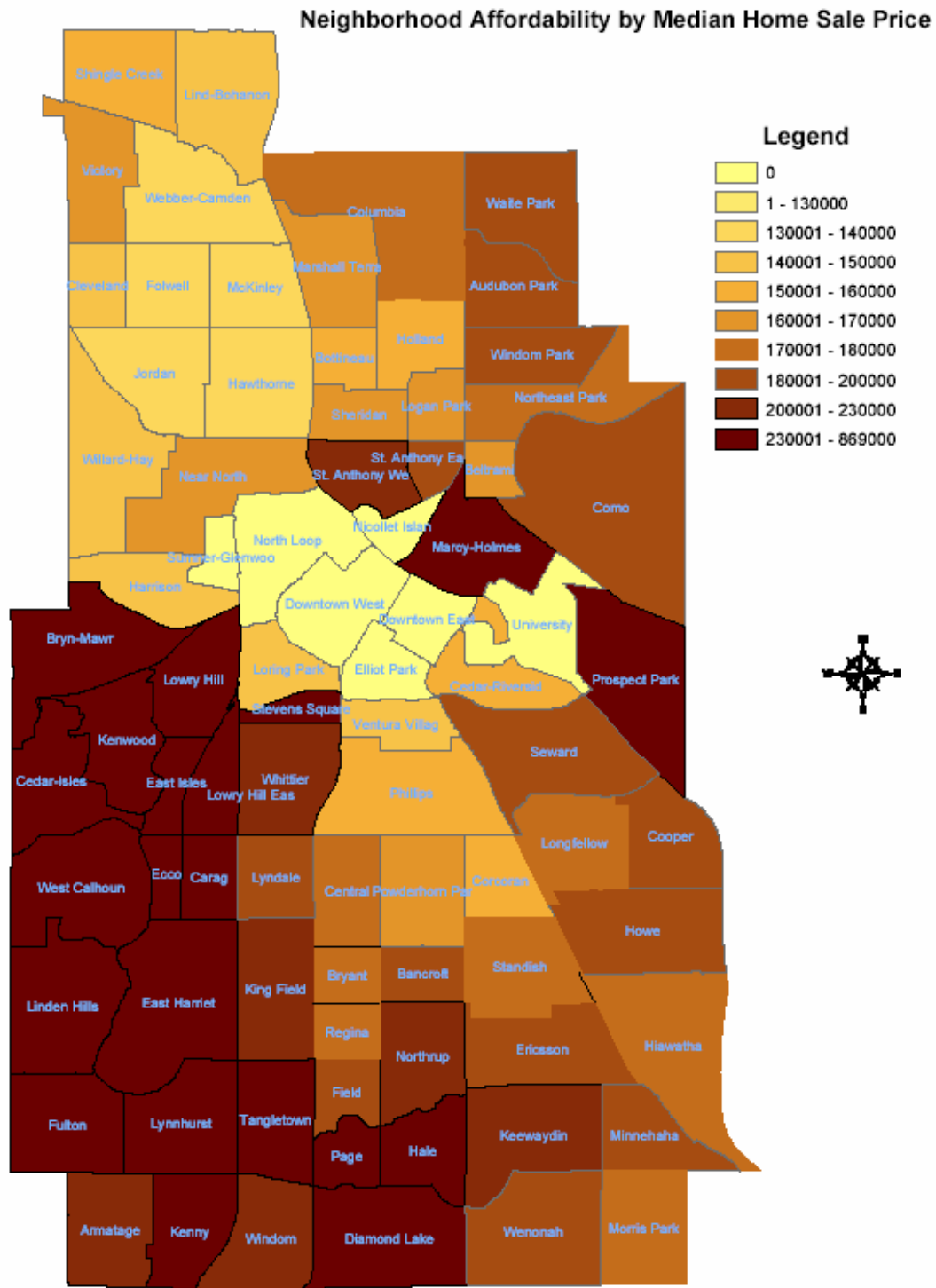


Table 11

| INCOMES by Neighborhood (2000) | Median Household income (2000 Census) | 2004 (assumes 3% annual increase) | Monthly Income (based on 2004) | 30% of Income | 30% of income (front-end ratio) | 41% (back-end ratio) | Median Price Home (2002-2004) | 100% NMI Affordability Gap Needed - based on lender ratio | 80% NMI Affordability Gap Needed - based on lender ratio | 60% NMI Affordability Gap Needed - based on lender ratio | 50% NMI Affordability Gap Needed - based on lender ratio |
|--------------------------------|---------------------------------------|-----------------------------------|--------------------------------|---------------|---------------------------------|----------------------|-------------------------------|---|--|--|--|
| Jordan                         | \$31,318                              | \$35,249                          | 2,937                          | 881           | \$117,791                       | \$113,307            | \$133,000                     | \$19,693  | \$59,868   | \$100,042  | \$120,130  |
| Folwell                        | \$36,162                              | \$40,701                          | 3,392                          | 1,018         | \$140,525                       | \$144,376            | \$134,000                     | No Gap Needed   | \$36,013   | \$82,401   | \$105,595  |
| Hawthorne                      | \$21,865                              | \$24,609                          | 2,051                          | 615           | \$73,427                        | \$52,675             | \$135,000                     | \$82,325  | \$110,373  | \$138,421  | \$152,445  |
| McKinley                       | \$37,097                              | \$41,753                          | 3,479                          | 1,044         | \$144,913                       | \$150,373            | \$135,000                     | No Gap Needed   | \$32,215   | \$79,803   | \$103,596  |
| Harrison                       | \$23,831                              | \$26,822                          | 2,235                          | 671           | \$82,654                        | \$65,285             | \$136,900                     | \$71,615  | \$102,185  | \$132,755  | \$148,040  |
| Webber Camden                  | \$33,717                              | \$37,949                          | 3,162                          | 949           | \$129,050                       | \$128,694            | \$140,000                     | \$11,306  | \$54,558   | \$97,810   | \$119,436  |
| Willard Hay                    | \$33,482                              | \$37,684                          | 3,140                          | 942           | \$127,947                       | \$127,186            | \$145,000                     | \$17,814  | \$60,764   | \$103,714  | \$125,190  |
| Cleveland                      | \$42,161                              | \$47,453                          | 3,954                          | 1,186         | \$168,679                       | \$182,853            | \$145,000                     | No Gap Needed   | \$16,231   | \$70,314   | \$97,356   |
| Ventura Village                | \$19,405                              | \$21,840                          | 1,820                          | 546           | \$61,882                        | \$36,897             | \$145,150                     | \$108,253   | \$133,145  | \$158,038  | \$170,484  |
| Lind-Bohanon                   | \$36,563                              | \$41,152                          | 3,429                          | 1,029         | \$142,407                       | \$146,948            | \$148,400                     | \$1,452   | \$48,355   | \$95,258   | \$118,709  |
| Holland                        | \$31,330                              | \$35,262                          | 2,939                          | 882           | \$117,847                       | \$113,384            | \$154,000                     | \$40,616  | \$80,806   | \$120,996  | \$141,091  |
| Phillips                       | \$23,090                              | \$25,988                          | 2,166                          | 650           | \$79,176                        | \$60,533             | \$155,000                     | \$94,467  | \$124,087  | \$153,707  | \$168,517  |
| Bottineau                      | \$35,208                              | \$39,627                          | 3,302                          | 991           | \$136,047                       | \$138,257            | \$156,500                     | \$18,243  | \$63,408   | \$108,572  | \$131,154  |
| Shingle Creek                  | \$39,159                              | \$44,074                          | 3,673                          | 1,102         | \$154,590                       | \$163,598            | \$159,700                     | No Gap Needed   | \$46,334   | \$98,567   | \$121,684  |
| Corcoran                       | \$33,393                              | \$37,584                          | 3,132                          | 940           | \$127,529                       | \$126,616            | \$160,000                     | \$33,384  | \$76,221   | \$119,057  | \$140,475  |
| Cedar Riverside/West Bank      | \$14,367                              | \$16,170                          | 1,348                          | 404           | \$38,238                        | \$4,584              | \$160,000                     | \$155,416   | \$173,846  | \$192,276  | \$201,491  |
| Victory                        | \$45,396                              | \$51,094                          | 4,258                          | 1,277         | \$183,861                       | \$203,602            | \$162,000                     | No Gap Needed   | \$16,631   | \$74,865   | \$103,982  |
| Sheridan                       | \$35,833                              | \$40,330                          | 3,361                          | 1,008         | \$138,981                       | \$142,266            | \$164,500                     | \$22,234  | \$68,201   | \$114,167  | \$137,150  |
| Beltrami                       | \$34,659                              | \$39,009                          | 3,251                          | 975           | \$133,471                       | \$134,736            | \$166,100                     | \$31,364  | \$75,825   | \$120,285  | \$142,515  |
| Logan Park                     | \$30,268                              | \$34,067                          | 2,839                          | 852           | \$112,863                       | \$106,572            | \$166,664                     | \$60,092  | \$98,920   | \$137,747  | \$157,161  |
| Near North                     | \$22,407                              | \$25,219                          | 2,102                          | 630           | \$75,971                        | \$56,152             | \$166,710                     | \$110,558   | \$139,302  | \$168,045  | \$182,417  |
| Marshall Terrace               | \$31,115                              | \$35,020                          | 2,918                          | 876           | \$116,838                       | \$112,005            | \$168,000                     | \$55,995  | \$95,909   | \$135,824  | \$155,781  |
| Powderhorn Park                | \$34,985                              | \$39,376                          | 3,281                          | 984           | \$135,001                       | \$136,827            | \$170,000                     | \$33,173  | \$78,052   | \$122,930  | \$145,370  |
| Columbia                       | \$40,852                              | \$45,979                          | 3,832                          | 1,149         | \$162,535                       | \$174,457            | \$172,000                     | No Gap Needed   | \$49,947   | \$102,352  | \$128,554  |
| Central                        | \$32,656                              | \$36,755                          | 3,063                          | 919           | \$124,071                       | \$121,888            | \$172,950                     | \$51,062  | \$92,952   | \$134,843  | \$155,789  |
| Bryant                         | \$40,362                              | \$45,428                          | 3,766                          | 1,136         | \$160,236                       | \$171,314            | \$173,300                     | \$1,986   | \$53,762   | \$105,538  | \$131,426  |
| Standish                       | \$45,031                              | \$50,683                          | 4,224                          | 1,267         | \$182,148                       | \$201,261            | \$175,000                     | No Gap Needed   | \$31,504   | \$89,270   | \$118,152  |
| Morris Park                    | \$44,125                              | \$49,663                          | 4,139                          | 1,242         | \$177,896                       | \$195,450            | \$175,000                     | No Gap Needed   | \$36,153   | \$92,756   | \$121,058  |
| Northeast Park                 | \$36,389                              | \$40,956                          | 3,413                          | 1,024         | \$141,590                       | \$145,832            | \$175,950                     | \$30,118  | \$76,798   | \$123,477  | \$146,817  |
| Regina                         | \$47,135                              | \$53,051                          | 4,421                          | 1,326         | \$192,022                       | \$214,756            | \$178,950                     | No Gap Needed   | \$24,658   | \$85,123   | \$115,355  |
| Longfellow                     | \$34,156                              | \$38,443                          | 3,204                          | 961           | \$131,110                       | \$131,509            | \$179,950                     | \$48,441  | \$92,256   | \$136,071  | \$167,978  |
| Hiawatha                       | \$43,912                              | \$49,423                          | 4,119                          | 1,236         | \$176,896                       | \$194,084            | \$180,000                     | No Gap Needed   | \$42,246   | \$98,576   | \$126,741  |
| Bancroft                       | \$42,656                              | \$48,010                          | 4,001                          | 1,200         | \$171,002                       | \$186,028            | \$180,500                     | No Gap Needed   | \$49,191   | \$103,909  | \$131,269  |
| Howe                           | \$45,270                              | \$50,952                          | 4,246                          | 1,274         | \$183,270                       | \$202,794            | \$180,525                     | No Gap Needed   | \$35,803   | \$93,875   | \$122,911  |
| Audubon Park                   | \$45,090                              | \$50,749                          | 4,229                          | 1,269         | \$182,425                       | \$201,640            | \$182,000                     | No Gap Needed   | \$38,202   | \$96,043   | \$124,963  |
| Minnehaha                      | \$45,380                              | \$51,076                          | 4,256                          | 1,277         | \$183,786                       | \$203,500            | \$185,900                     | No Gap Needed   | \$40,613   | \$98,827   | \$127,933  |
| Waite Park                     | \$46,317                              | \$52,130                          | 4,344                          | 1,303         | \$188,183                       | \$209,509            | \$186,600                     | No Gap Needed   | \$36,506   | \$95,921   | \$125,628  |
| Como                           | \$33,895                              | \$38,149                          | 3,179                          | 954           | \$129,885                       | \$129,835            | \$187,925                     | \$58,090  | \$101,570  | \$145,050  | \$166,790  |
| Ericsson                       | \$50,369                              | \$56,691                          | 4,724                          | 1,417         | \$207,200                       | \$235,499            | \$191,500                     | No Gap Needed   | \$20,614   | \$85,227   | \$117,533  |
| Wenonah                        | \$42,386                              | \$47,706                          | 3,975                          | 1,193         | \$169,735                       | \$184,296            | \$193,000                     | \$8,704   | \$63,076   | \$117,449  | \$144,635  |
| Seward                         | \$30,209                              | \$34,000                          | 2,833                          | 850           | \$112,586                       | \$106,193            | \$193,500                     | \$87,307  | \$126,058  | \$164,810  | \$184,186  |
| Windom Park                    | \$36,928                              | \$41,563                          | 3,464                          | 1,039         | \$144,120                       | \$149,289            | \$193,700                     | \$44,411  | \$91,782   | \$139,153  | \$162,838  |
| St. Anthony East               | \$29,484                              | \$33,185                          | 2,765                          | 830           | \$109,184                       | \$101,543            | \$195,900                     | \$94,357  | \$132,178  | \$170,000  | \$188,911  |
| Cooper                         | \$50,688                              | \$57,050                          | 4,754                          | 1,426         | \$208,697                       | \$237,545            | \$196,625                     | No Gap Needed   | \$24,102   | \$89,124   | \$121,635  |
| Lyndale                        | \$29,704                              | \$33,432                          | 2,786                          | 836           | \$110,216                       | \$102,954            | \$199,900                     | \$96,946  | \$135,050  | \$173,154  | \$192,206  |
| Field                          | \$56,850                              | \$63,985                          | 5,332                          | 1,600         | \$237,616                       | \$277,068            | \$200,000                     | No Gap Needed   | No Gap Needed  | \$68,786   | \$105,249  |
| Northrup                       | \$53,092                              | \$59,756                          | 4,980                          | 1,494         | \$219,979                       | \$252,964            | \$200,500                     | No Gap Needed   | \$15,642   | \$83,748   | \$117,801  |
| St. Anthony West               | \$33,375                              | \$37,564                          | 3,130                          | 939           | \$127,445                       | \$126,500            | \$207,950                     | \$81,450  | \$124,263  | \$167,076  | \$188,483  |
| Keewaydin                      | \$52,429                              | \$59,009                          | 4,917                          | 1,475         | \$216,868                       | \$248,712            | \$215,000                     | No Gap Needed   | \$33,544   | \$100,799  | \$134,427  |
| Windom                         | \$44,423                              | \$49,998                          | 4,167                          | 1,250         | \$179,295                       | \$197,361            | \$223,000                     | \$25,639  | \$82,624   | \$139,609  | \$168,102  |
| King Field                     | \$51,935                              | \$58,453                          | 4,871                          | 1,461         | \$214,549                       | \$245,543            | \$223,900                     | No Gap Needed   | \$44,979   | \$111,600  | \$144,911  |
| Armatage                       | \$57,804                              | \$65,059                          | 5,422                          | 1,626         | \$242,093                       | \$283,186            | \$223,950                     | No Gap Needed   | \$14,914   | \$89,064   | \$126,140  |
| Whittier                       | \$28,328                              | \$31,883                          | 2,657                          | 797           | \$103,759                       | \$94,129             | \$225,000                     | \$130,871   | \$167,210  | \$203,549  | \$221,718  |
| Marcy-Holmes                   | \$21,999                              | \$24,760                          | 2,063                          | 619           | \$74,056                        | \$53,535             | \$239,000                     | \$185,465   | \$213,685  | \$241,905  | \$256,015  |
| Diamond Lake                   | \$60,805                              | \$68,437                          | 5,703                          | 1,711         | \$256,178                       | \$302,435            | \$239,900                     | No Gap Needed   | \$15,465   | \$93,465   | \$132,465  |
| Kenny                          | \$68,068                              | \$76,611                          | 6,384                          | 1,915         | \$290,264                       | \$349,019            | \$244,250                     | No Gap Needed   | No Gap Needed  | \$69,865   | \$113,523  |
| Hale                           | \$67,695                              | \$76,191                          | 6,349                          | 1,905         | \$288,513                       | \$346,627            | \$252,750                     | No Gap Needed   | No Gap Needed  | \$79,800   | \$123,219  |
| Prospect Park/East River Rd    | \$37,467                              | \$42,169                          | 3,514                          | 1,054         | \$146,649                       | \$152,746            | \$256,000                     | \$103,254   | \$151,316  | \$199,379  | \$223,410  |
| Bryn Mawr                      | \$69,609                              | \$78,346                          | 6,529                          | 1,959         | \$297,496                       | \$358,903            | \$270,000                     | No Gap Needed   | \$391  | \$89,684   | \$134,331  |
| CARAG                          | \$37,615                              | \$42,336                          | 3,528                          | 1,058         | \$147,344                       | \$153,695            | \$282,500                     | \$128,805   | \$177,057  | \$225,309  | \$249,435  |
| Fulton                         | \$71,482                              | \$80,454                          | 6,704                          | 2,011         | \$306,286                       | \$370,917            | \$289,900                     | No Gap Needed   | \$10,680   | \$102,376  | \$148,225  |
| Page                           | \$75,124                              | \$84,553                          | 7,046                          | 2,114         | \$323,379                       | \$394,276            | \$294,750                     | No Gap Needed   | No Gap Needed  | \$93,211   | \$141,395  |
| East Harriet                   | \$54,934                              | \$61,829                          | 5,152                          | 1,546         | \$228,624                       | \$264,778            | \$307,500                     | \$42,722  | \$113,190  | \$183,659  | \$218,894  |
| Lowry Hill East                | \$33,222                              | \$37,392                          | 3,116                          | 935           | \$126,727                       | \$125,519            | \$317,500                     | \$191,981   | \$234,598  | \$277,215  | \$298,523  |
| Linden Hills                   | \$62,988                              | \$70,894                          | 5,908                          | 1,772         | \$266,423                       | \$316,436            | \$320,000                     | \$3,564   | \$84,364   | \$165,164  | \$205,565  |
| Tangletown                     | \$72,552                              | \$81,658                          | 6,805                          | 2,041         | \$311,308                       | \$377,779            | \$325,000                     | No Gap Needed   | \$40,290   | \$133,359  | \$179,893  |
| Lynnhurst                      | \$95,627                              | \$107,629                         | 8,969                          | 2,691         | \$419,602                       | \$525,781            | \$390,000                     | No Gap Needed   | No Gap Needed  | \$109,557  | \$170,892  |
| ECCO                           | \$54,792                              | \$61,669                          | 5,139                          | 1,542         | \$227,958                       | \$263,868            | \$452,450                     | \$188,582   | \$258,869  | \$329,156  | \$364,299  |
| Cedar-Isles-Dean               | \$86,892                              | \$97,798                          | 8,150                          | 2,445         | \$378,607                       | \$469,756            | \$550,000                     | \$80,244  | \$191,709  | \$303,173  | \$358,905  |
| East Isles                     | \$46,000                              | \$51,773                          | 4,314                          | 1,294         | \$186,696                       | \$207,476            | \$568,000                     | \$360,524   | \$419,532  | \$478,541  | \$508,045  |
| West Calhoun                   | \$48,250                              | \$54,306                          | 4,525                          | 1,358         | \$197,255                       | \$221,908            | \$661,500                     | \$439,592   | \$501,487  | \$563,382  | \$594,329  |
| Kenwood                        | \$103,019                             | \$115,949                         | 9,662                          | 2,899         | \$454,294                       | \$573,193            | \$722,500                     | \$149,307   | \$281,458  | \$413,610  | \$479,686  |
| Lowry Hill                     | \$47,137                              | \$53,053                          | 4,421                          | 1,326         | \$192,032                       | \$214,769            | \$869,000                     | \$654,231   | \$714,698  | \$775,165  | \$805,398  |

The median affordable sales price, if one were to secure a mortgage designating 30% of monthly income toward payment was \$107,668. But the gap between income levels and home prices is not seen equally in all neighborhoods; in fact, it disproportionately affects low-income neighborhoods. Figure 13 shows that, all things being equal, as the median neighborhood household wage rose, so did the number of units selling at affordable prices.<sup>12</sup> This trend essentially correlates with classic economic assumptions that higher levels of income lead to more purchasing options. Since the pool of higher wage earners is shrinking and the prices of homes are increasing, the number of affordable options is decreasing, limiting neighborhoods to which affordable home ownership is a possibility. Looking at Table 9 and noting that the most affordable neighborhoods such as Jordan, Folwell, Webber-Camden, and Willard-Hay experienced the highest amount of sales can illustrate this trend.

The overall findings show that many neighborhoods support home prices that are beyond the income of most of the people that live in those neighborhoods. Furthermore, because incomes have not kept up with inflation, many households have to spend more than the recommended amount of monthly income on housing.

***Implications***

This research brings to light some concerning products of the Minneapolis housing market boom. The housing market has significantly outpaced wages. Because the market has left many potential homebuyers behind, many are financing the purchases of new homes at levels that are above the recommended affordability rates. This has the potential of creating a soft Minneapolis real estate market and will have a negative effect on the creation of equity for many Minneapolis homeowners.

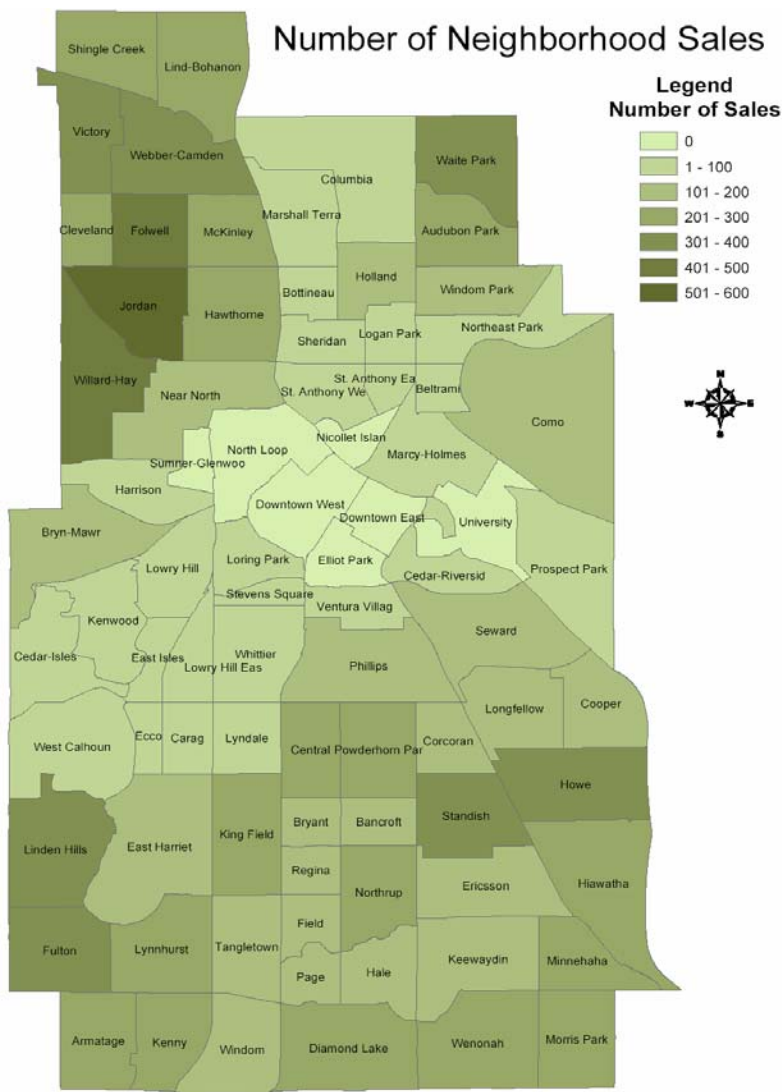
The top-selling neighborhoods are also neighborhoods that have a median income at or below 50% metro median income. This means that people are overstretching their budgets to buy a home or people that can afford these houses

are moving into these neighborhoods. If it is the latter, the neighborhoods will gentrify. If it is the former, these families are placing themselves in an economically precarious position. Either way, the already existent barriers to Minneapolis homeownership are being exacerbated.

| <b>Highest Earning</b> |           | <b>Lowest Earning</b> |          |
|------------------------|-----------|-----------------------|----------|
| Linden Hills           | \$64,877  | Ventura Village       | \$19,987 |
| Hale                   | \$69,725  | Near North            | \$21,352 |
| Kenny                  | \$70,110  | Hawthorne             | \$22,520 |
| Bryn-Mawr              | \$71,697  | Marcy-Holmes          | \$22,658 |
| Fulton                 | \$73,626  | Phillips              | \$23,782 |
| Tangletown             | \$74,728  | Harrison              | \$24,527 |
| Page                   | \$77,377  | Stevens Square        | \$24,781 |
| Cedar-Isles            | \$89,498  | Loring Park           | \$28,920 |
| Lynnhurst              | \$98,495  | Whittier              | \$29,177 |
| Kenwood                | \$106,109 | St. Anthony East      | \$29,693 |

<sup>12</sup> Figure 13 represents figures at the 42% monthly income level.

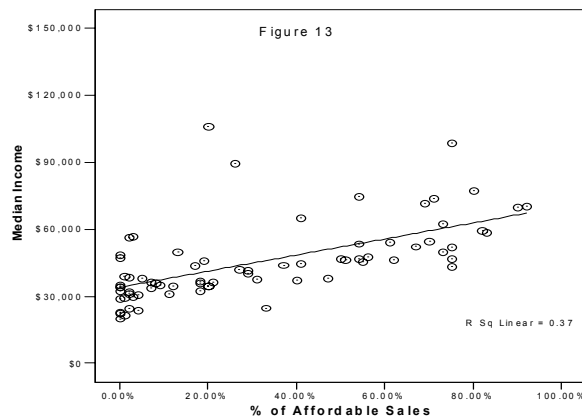




Current sales trends also suggest that many of the lower income Minneapolis neighborhoods are in danger of gentrifying. Many of the neighborhoods that maintain both low median wages and low median home sales prices experienced the highest amount of sales activity. This activity mainly occurred in the Northwest section of the city, including both the Camden and North communities. The top three neighborhoods posting the highest number of sales were 1) Jordan 2) Willard-Hay 3) Folwell. These three neighborhoods accounted for over 10% of the total number of single-family unit sales in the city. Furthermore, these are some of the most affordable houses in Minneapolis. With a high number of sales and relatively low sales prices, the demand

for housing in these neighborhoods is apparent.

The most concerning aspect of this research is the affordability gap. The research suggests that if a typical Minneapolis household were to buy a new home, they would need to spend more than 30% of their monthly income on a mortgage payment. In some cases, up to 41% of monthly income is going toward housing. What this implies is that household budgets are being stretched thin. In order to afford rising housing costs, many low to moderate-income families are forced to obtain subprime loans that border on predatory lending.<sup>13</sup> The danger of this type of lending is that



<sup>13</sup> Crump, Jeff. "Subprime Lending and Foreclosure in Hennepin and Ramsey Counties: An Empirical analysis." *CURA Reporter*. Vol. 35 Num. 2, Spring 2005: 14-19

foreclosure is more imminent. Foreclosures have detrimental affects on both the prospect of future homeownership for the household and the economic stability of a neighborhood. Many of the foreclosures occurring in Minneapolis today are occurring in the most affordable Minneapolis neighborhoods such as the Northwest corner.<sup>14</sup> This information only strengthens the evidence suggesting that the affordability gap is increasing.

### *Alternatives*

One alternative in dealing with the affordability problem is to let the market play itself out. Some indicators do point to a leveling off of the market. General price percentage increases have fallen over the last four years and the number of houses for sale is at a five year high, suggesting that the market could settle down. This, however, does not account for the rising metro population and the housing needed for these people. If the population and demand does increase, housing prices may stay on a trend similar to what we have seen.

Furthermore, even if the market does level off, the sale prices of homes are unlikely to reduce. Rather than experiencing large percentage spikes, they will probably maintain status quo prices. This, however, means that affordable homeownership will continue to be out of reach for many families and neighborhoods will continue to become gentrified.

A course of action that would insure against such scenarios is to implement a permanent affordable homeownership program. Holding the idea that the preservation of home affordability for a wide range of families is a desired goal, this alternative would work across fluctuations in the housing market and provide a level of stability.

Research has shown that investments in Community Land Trusts produce positive economic and social benefits.<sup>15</sup> A longitudinal study (1998-2000), conducted on the Burlington Community Land Trust in Vermont, shows that affordability improved between successive generations of low-income homebuyers. Moreover, public subsidies invested into these homes remained in the property at resale *and* increased in value. This means that over time, with minimal subsidies, the land trust model can maintain affordable homeownership options for low-income families and become a self-sustaining entity.

A second reason why a permanently affordable homeownership option is necessary is because the basic structure of the Minneapolis economy has changed. Minneapolis is now a member of the 'new economy,' which are economies centered on high-tech industries. Moreover, 'new economy' cities maintain peakier and more volatile housing markets.<sup>16</sup> This is so because housing markets are based on local economic structures.<sup>17</sup> Areas that are focused on tech jobs usually have a large number of high wage earners, but also maintain a large degree of income

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<sup>14</sup> *ibid.*

<sup>15</sup> John Davis & Amy Demetrowitz, "Permanently Affordable Homeownership: Does the Community Land Trust Deliver on its Promises?" May 2003

<sup>16</sup> Landis, John and Matthew Zook. "New Economy Housing Markets: Fast and Furious but Different?" *Housing Policy Debate*. Vol. 13 Num. 2. 2002

<sup>17</sup> *ibid.*

inequality. This then means that the housing market reflects income earnings leading to high prices and unequal distribution. The catch, however, with 'new economy' markets is that they are highly volatile and prone to large spikes, a result of globalization and the entrance and exit of large amounts of money and employers in regional economies. Creating a permanently affordable pool of houses will help to iron out these price spikes and even create some economic equity.

### ***Recommendations for Action and Further Research***

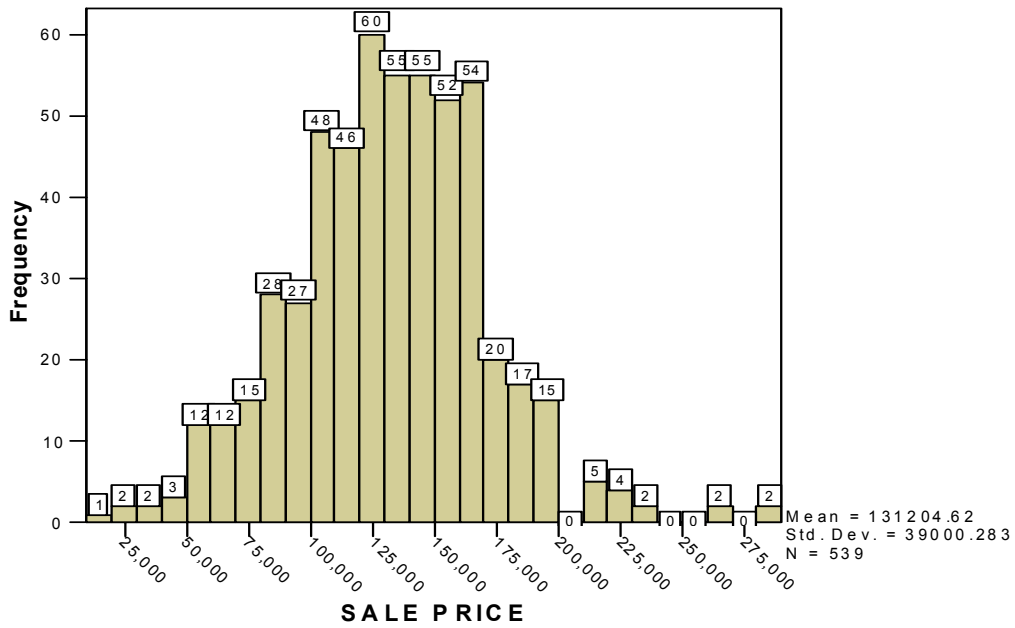
- Neighborhoods that experience high numbers of home sales and maintain a median income at 80% or below Minneapolis median income should look to implement some form of permanently affordable home ownership opportunity. Creating such a pool of housing will ensure that 1) neighborhood housing affordability is maintained to some degree 2) access to homeownership is kept open to people wishing to move into the neighborhood 3) the economic stability and diversity of the neighborhood is maintained.
- Neighborhoods that have a high degree of racial diversity should also look to implement a similar program. A program that keeps homes permanently affordable will work to address the problems of subprime and predatory lending in the housing markets.
- Homeownership opportunities will always be difficult to come by for households at or below the 50% MMI threshold, however, there is a large and growing schism between this group and homeownership. Funding options that specifically target these households should be devised and/or brought together into a comprehensive approach to bridge this gap.
- Minneapolis is experiencing a large flux of townhouse and condominium development. This trend was not accounted for in this research, but further research should include these sales data. These are definite ownership options that are becoming prominent factors in neighborhood redevelopment.
- Further research should be conducted in a neighborhood-by-neighborhood approach. Analyses of this type, while a more protracted process, are much more likely to accurately illustrate housing trends rather than community or citywide approaches.

**TABLES-**

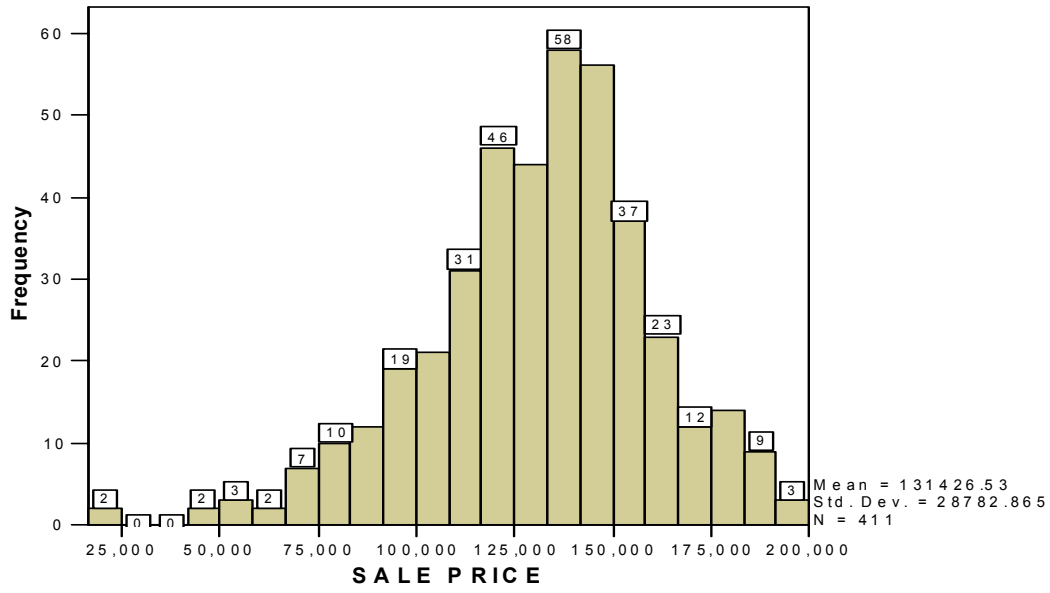
**Price spreads for the 30 most affordable neighborhoods**

(In order of median price affordability)

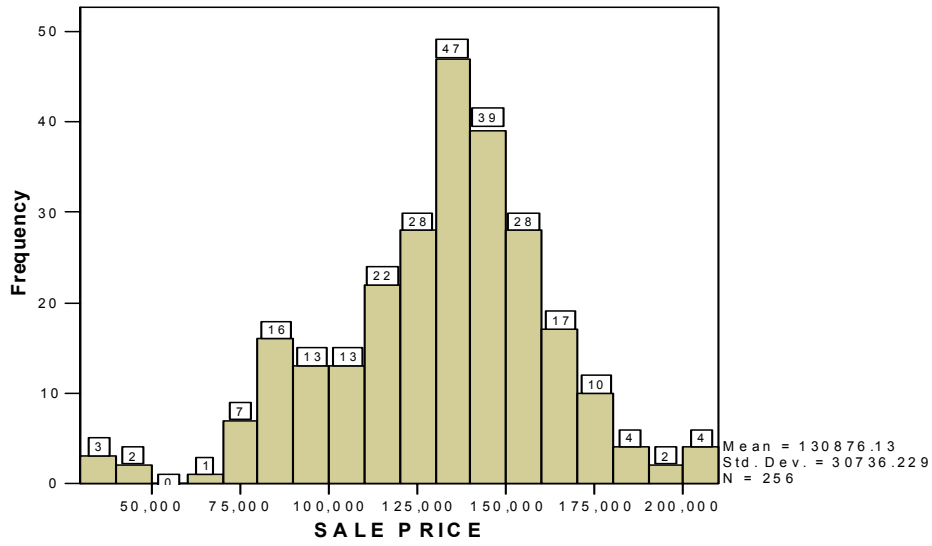
**Jordan Sales Price Spread**



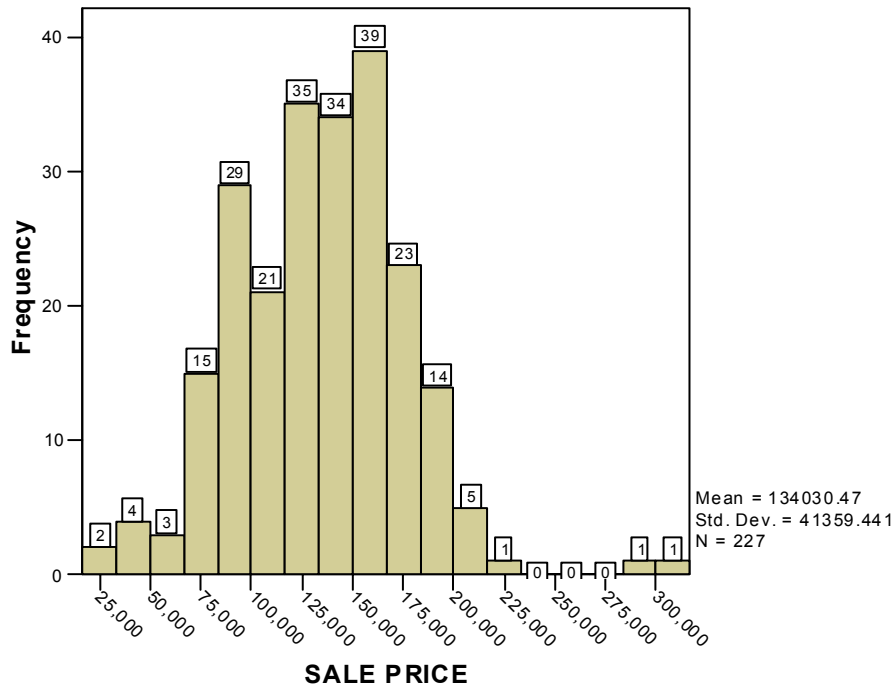
### Folwell Sales Price Spread



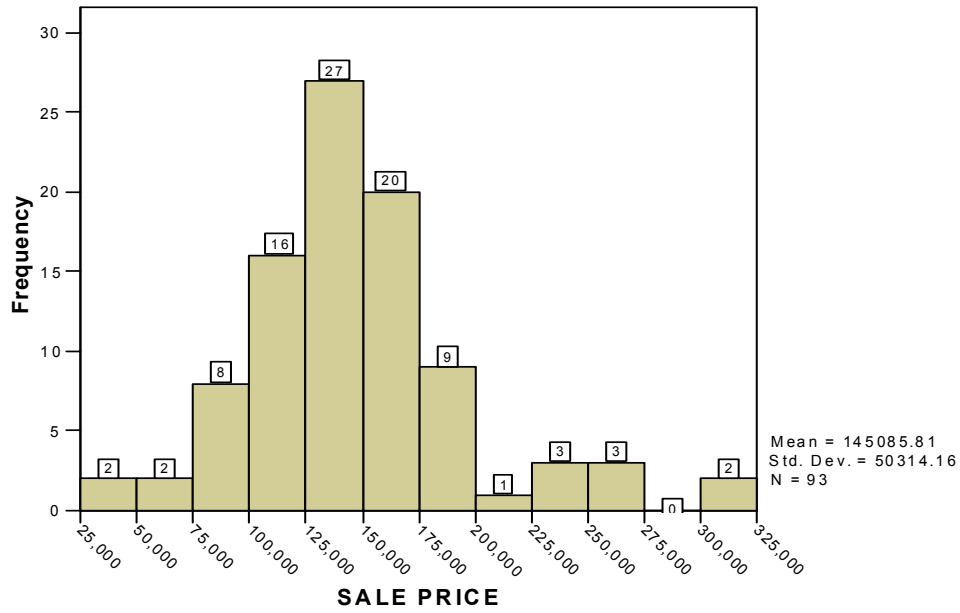
### McKinley Sales Price Spread



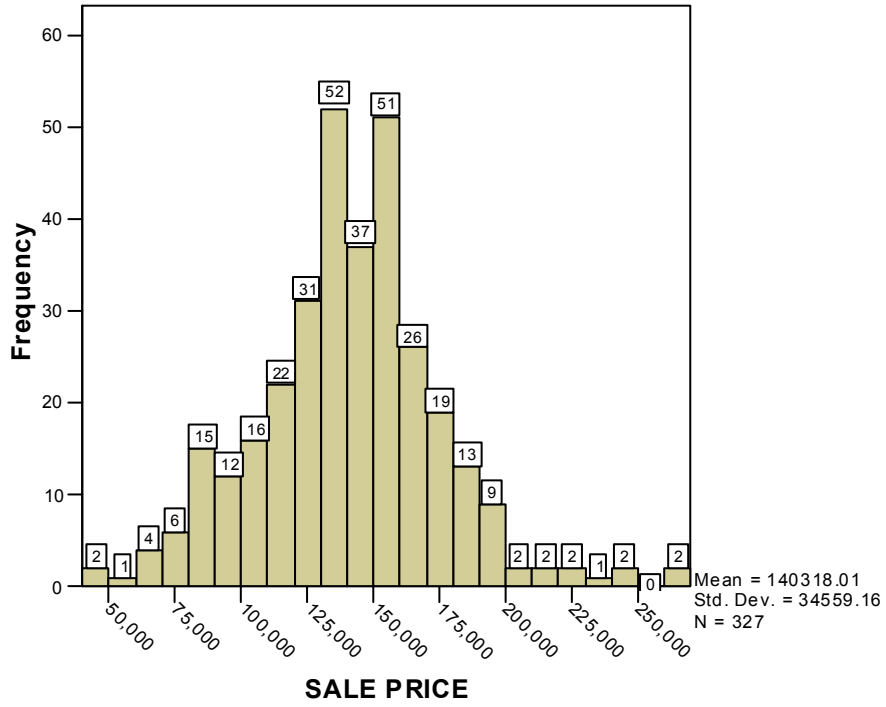
### Hawthorne Sales Price Spread



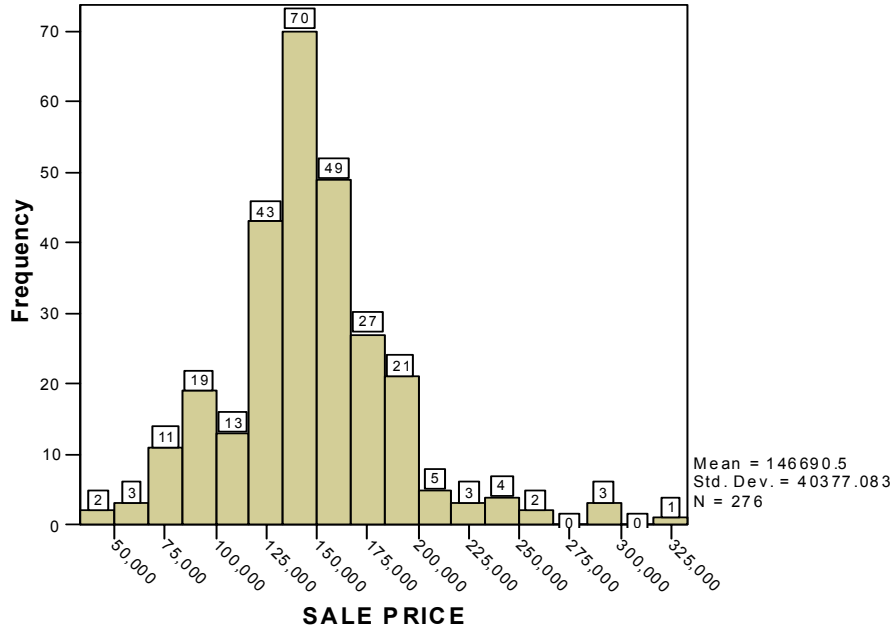
### Harrison Sales Price Spread



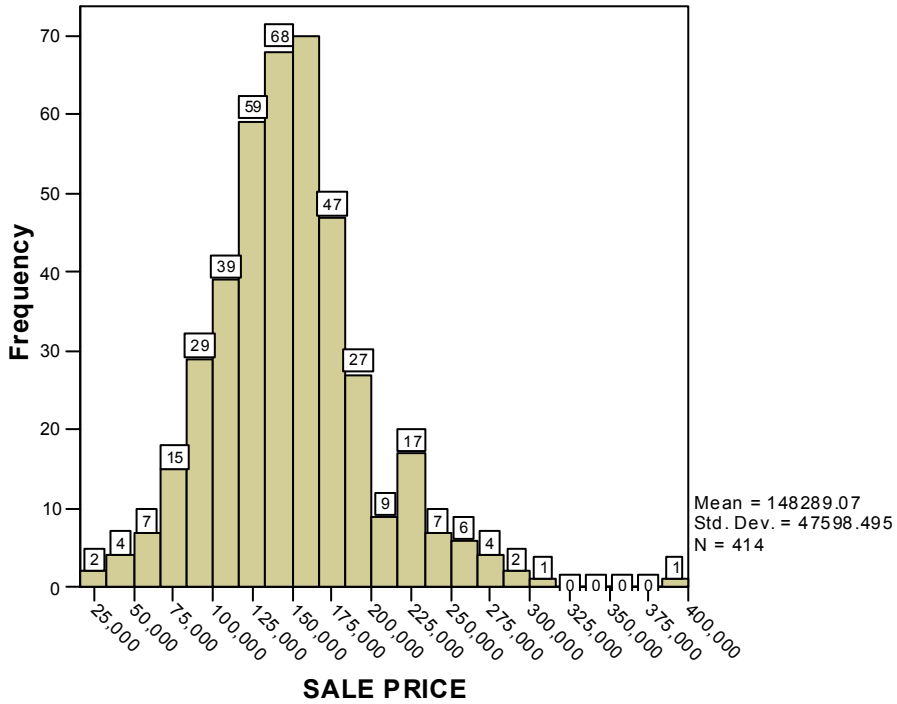
### Webber-Camden Sales Price Spread



**Cleveland Sales Price Spread**

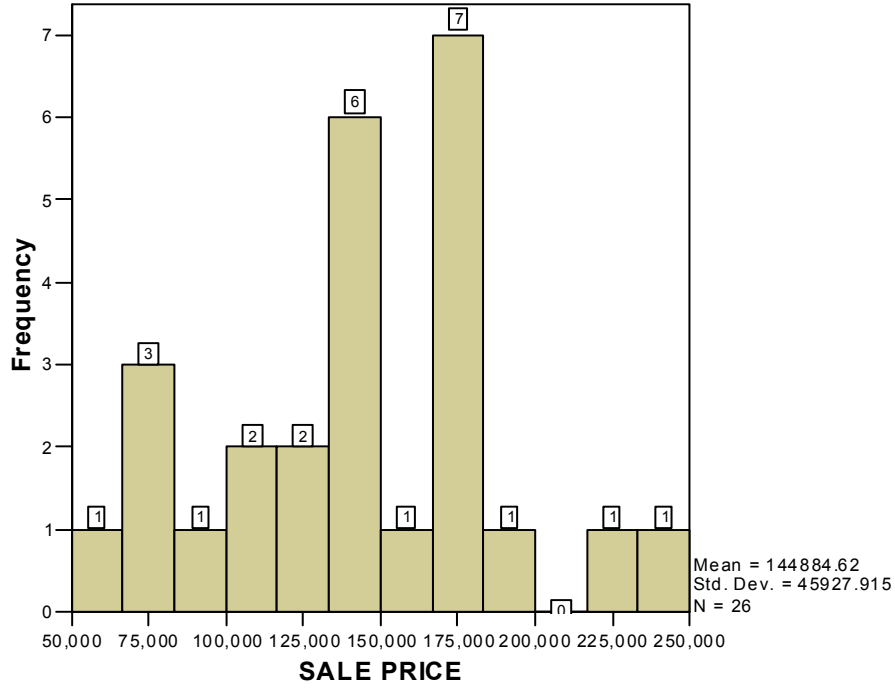


**Willard-hay Sales Price Spread**

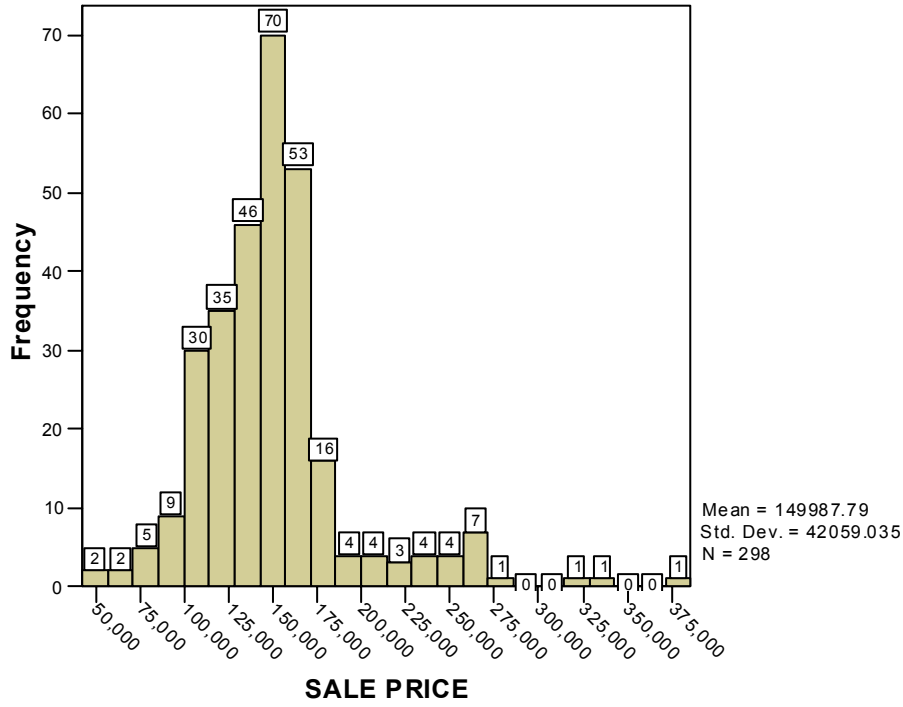




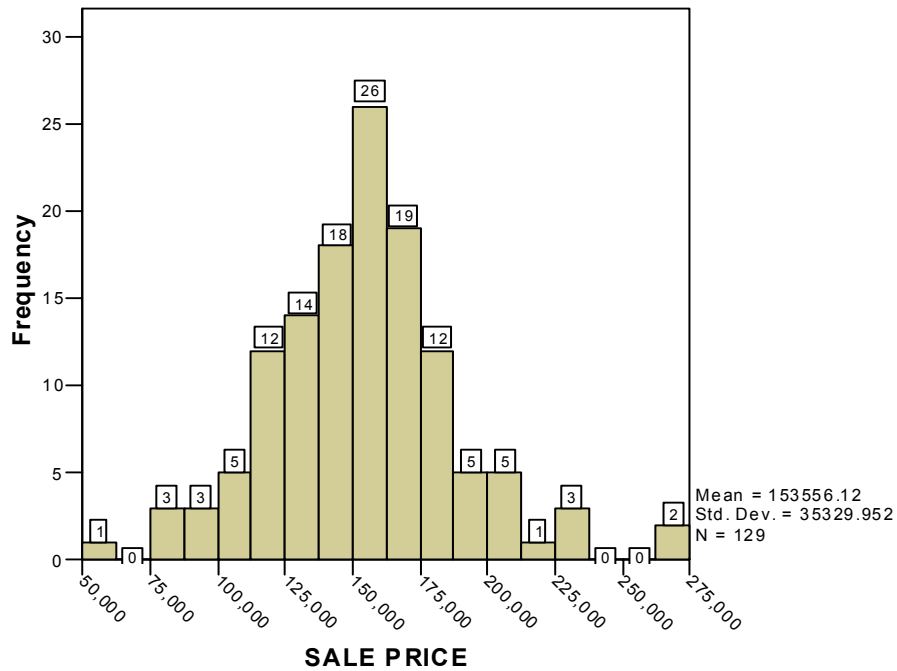
### Ventura Village Sales Price Spread



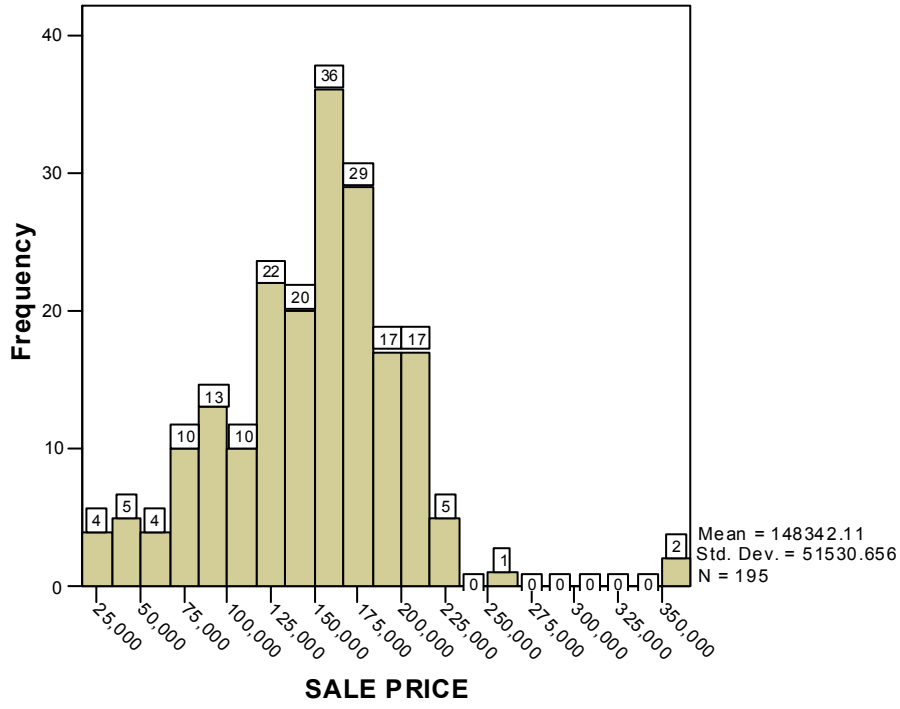
### Lind-Bohanon Sales Price Spread



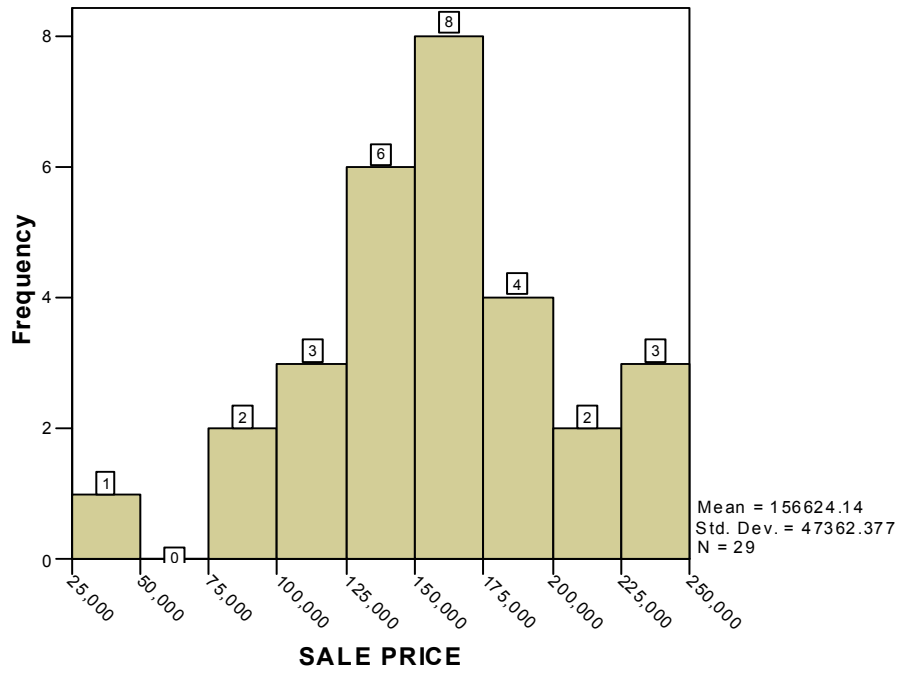
### Holland Sales Price Spread



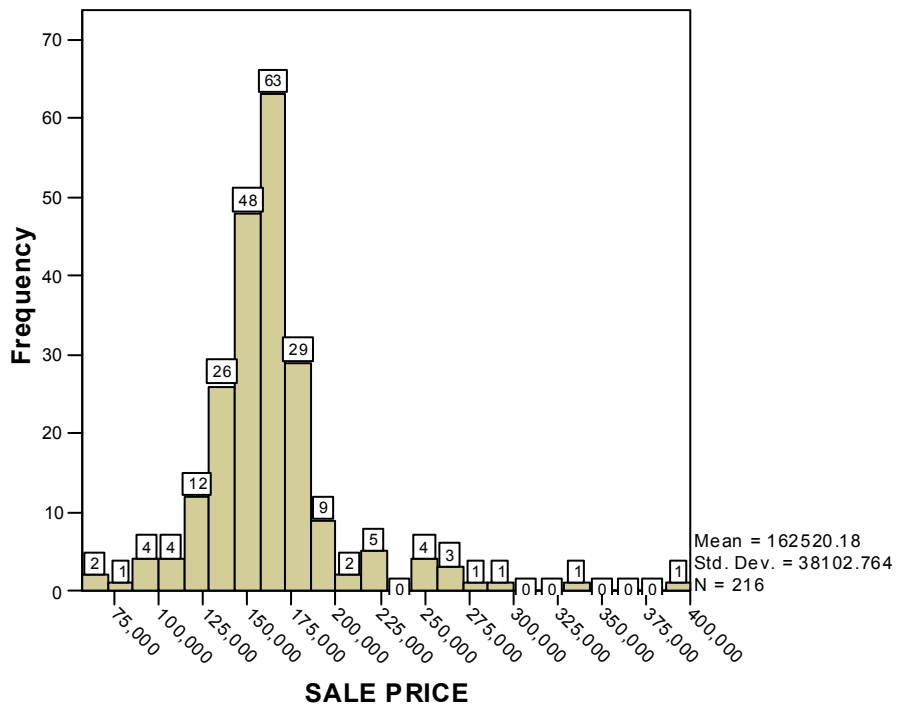
### Phillips Sales Price Spread



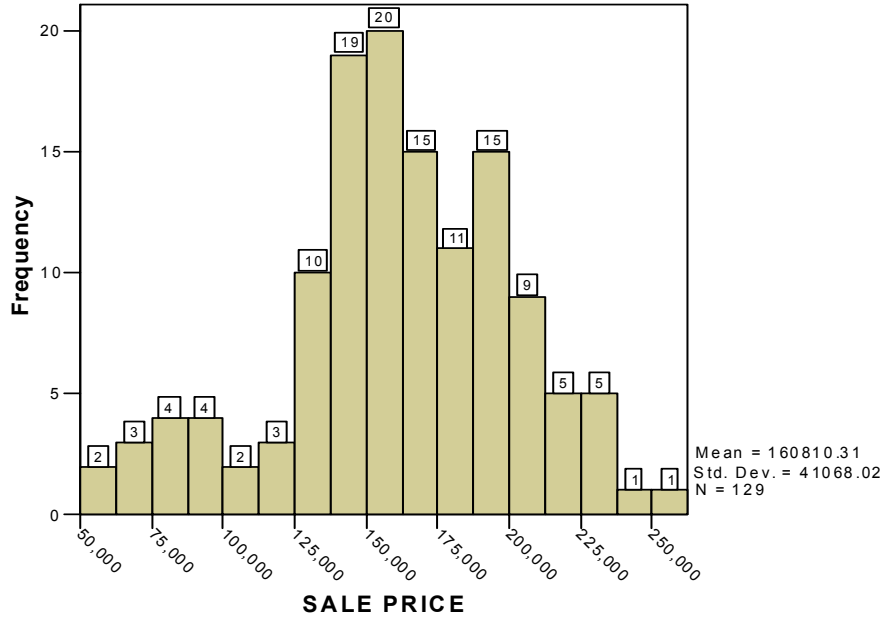
### Bottineau Sales Price Spread



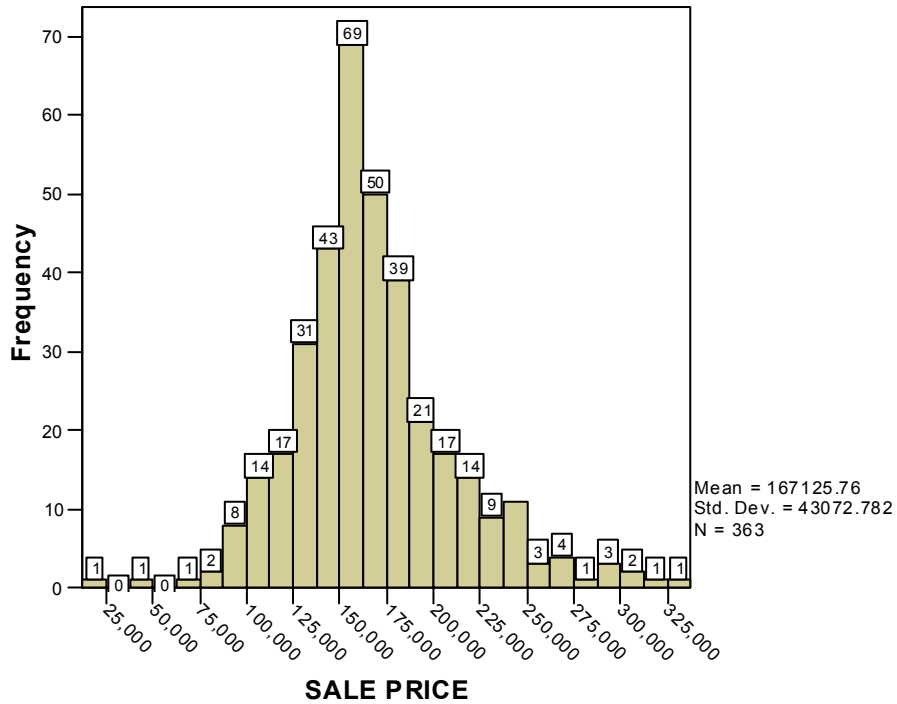
### Shingle Creek Sales Price Spread



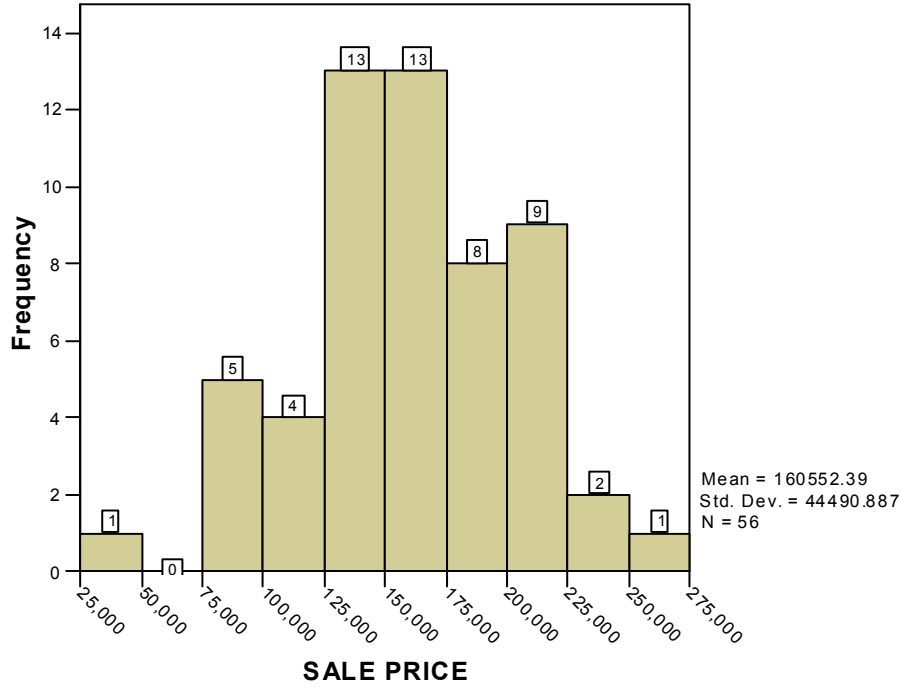
### Corcoran Sales Price Spread



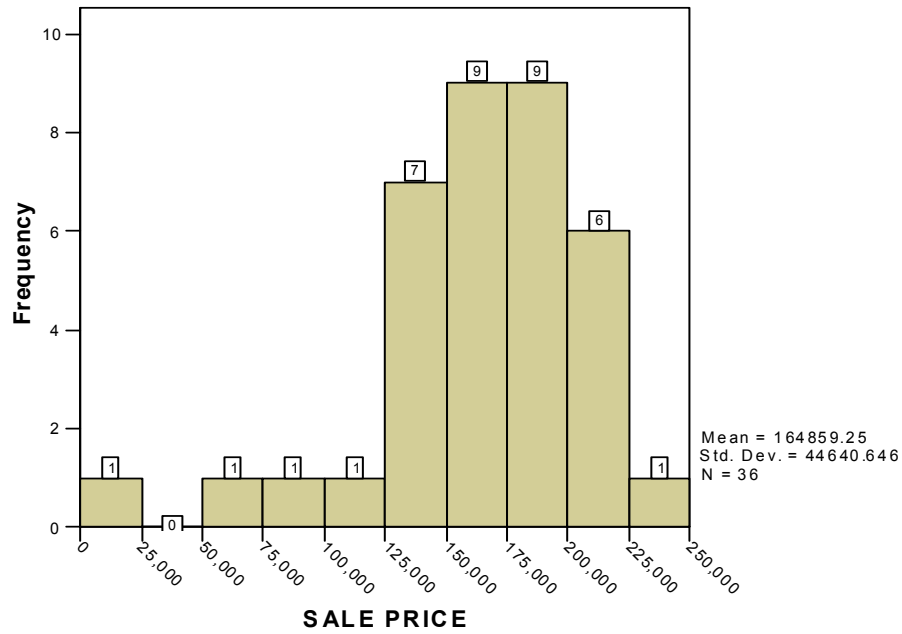
### Victory Sales Price Spread



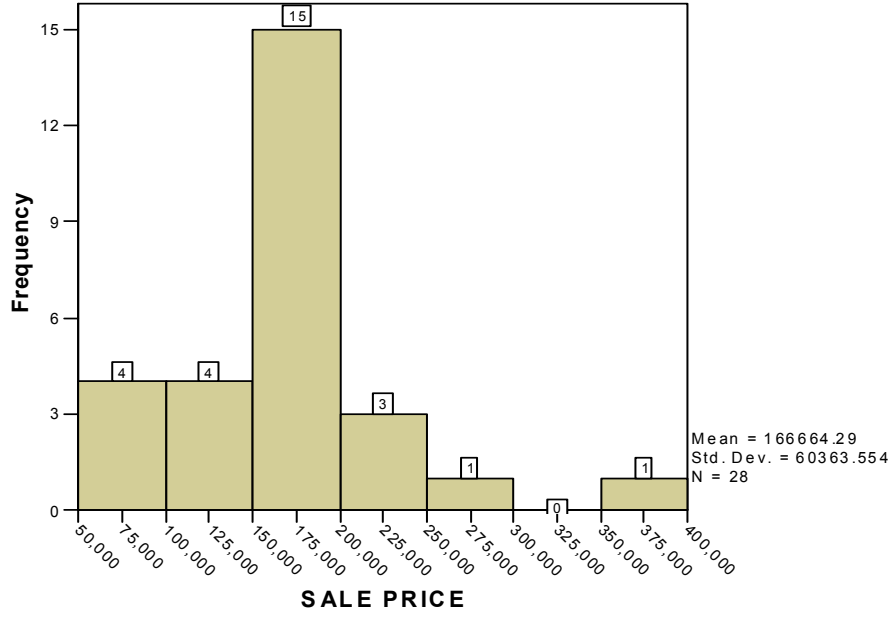
### Sheridan Sales Price Spread



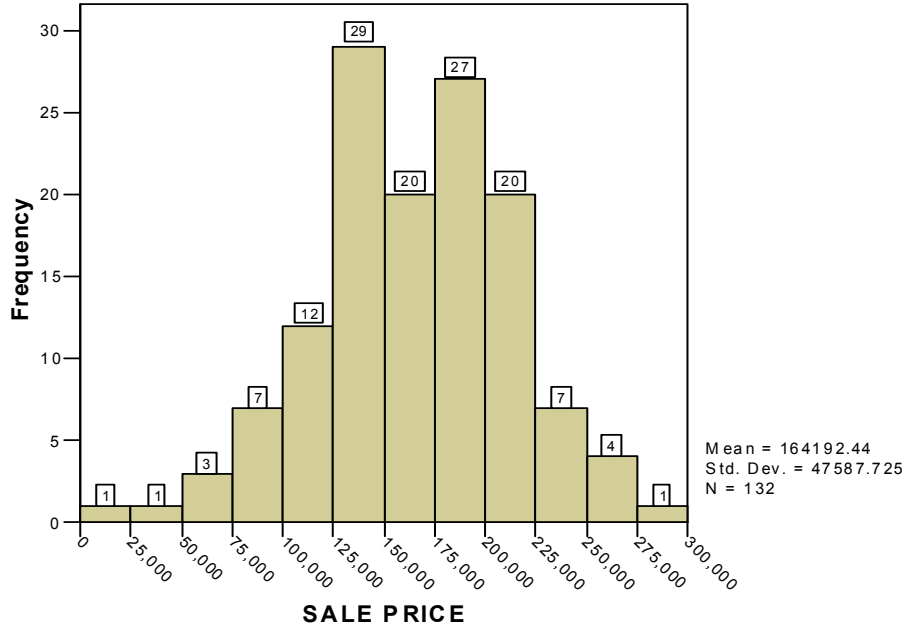
### Beltrami Sales Price Spread



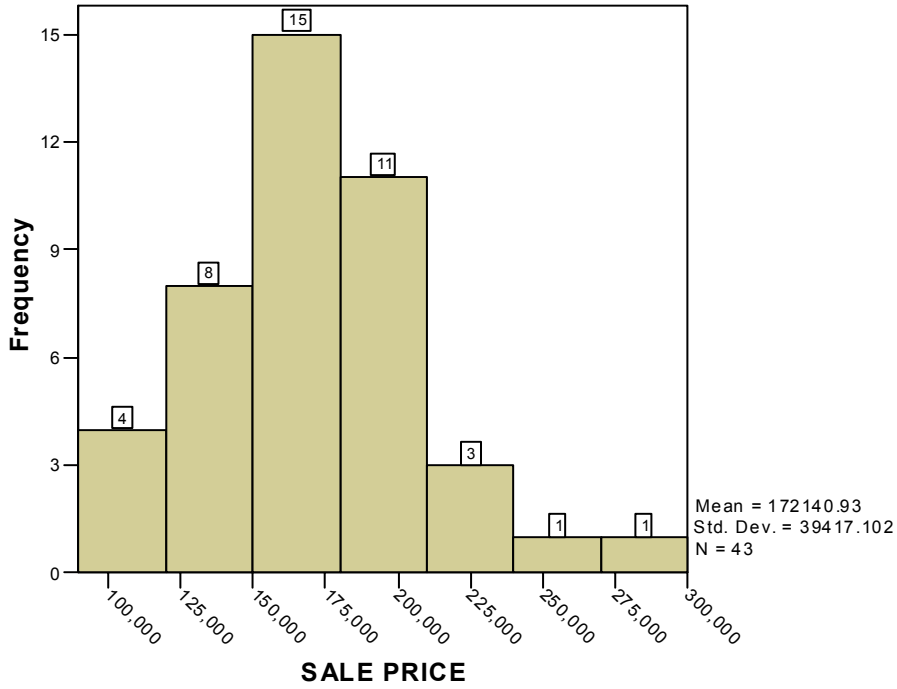
### Logan Park Sales Price Spread



**Near North Sales Price Spread**

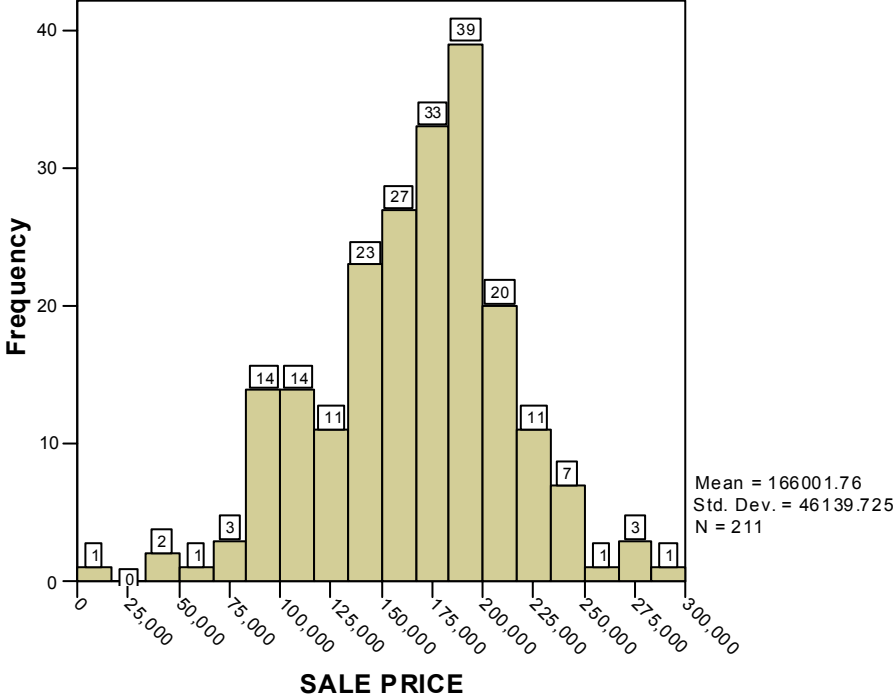


**Marshall Terrace Sales Price Spread**

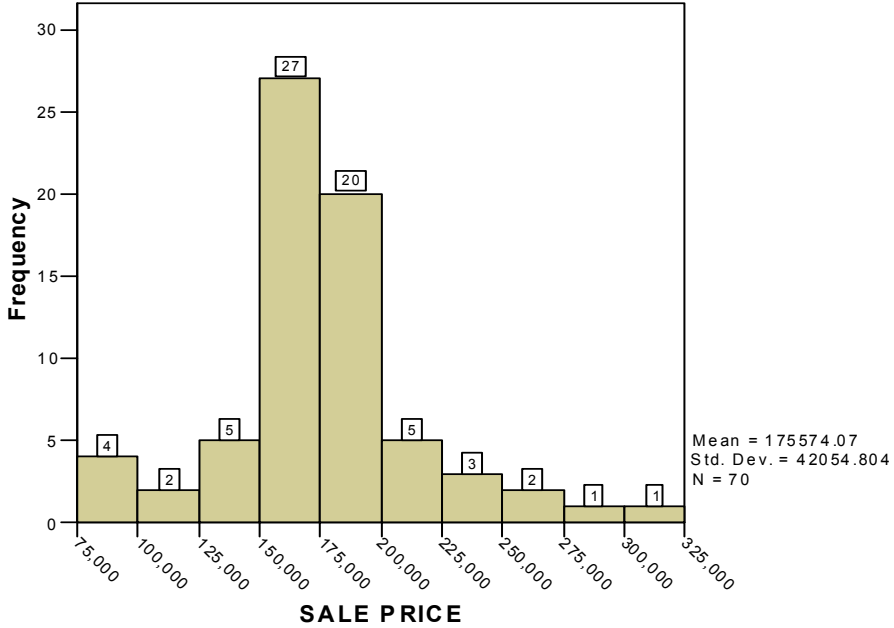




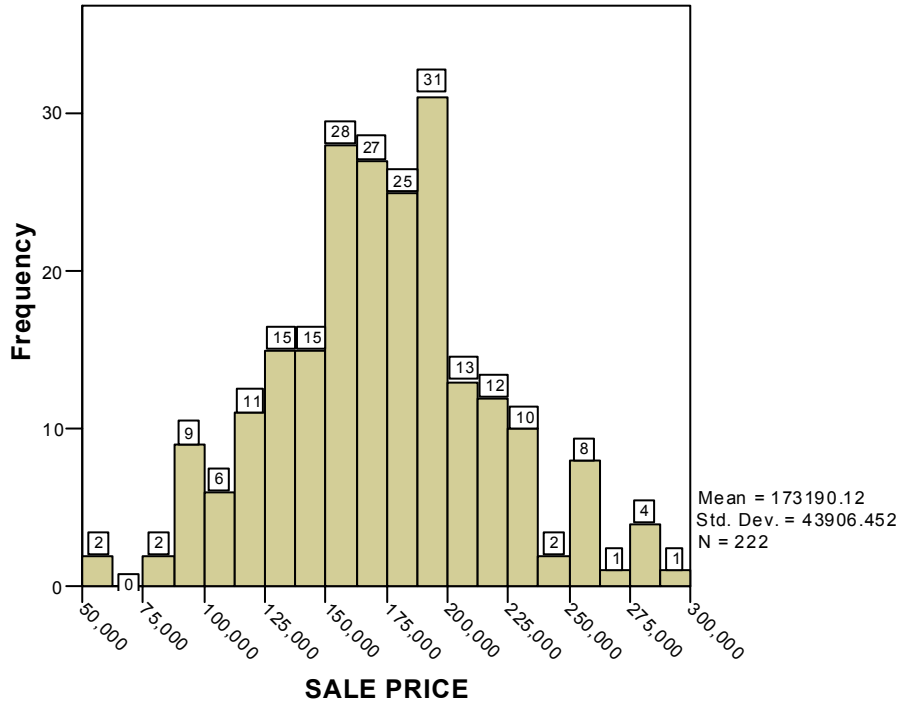
### Powderhorn Park Sales Price Spread



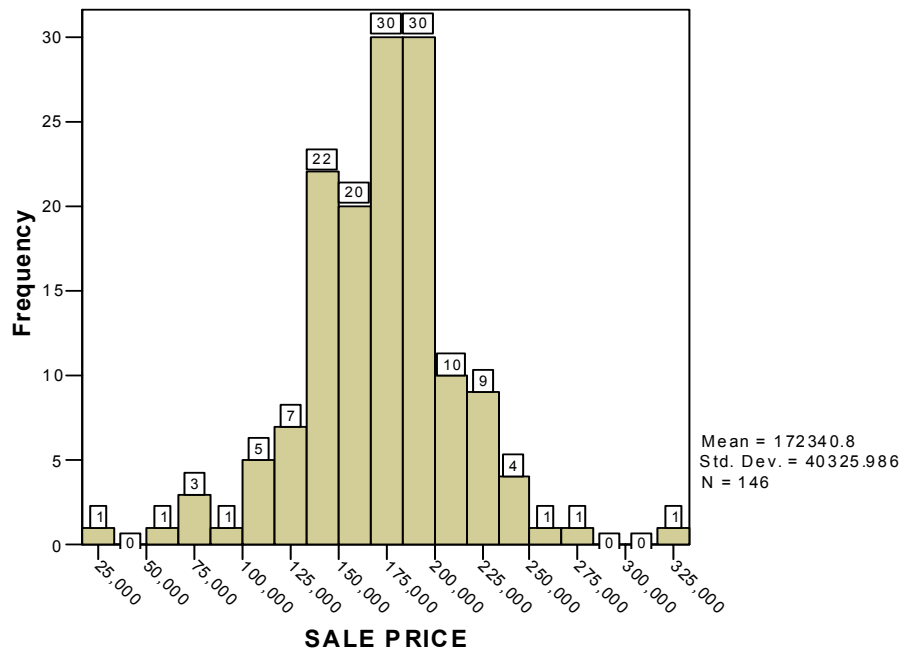
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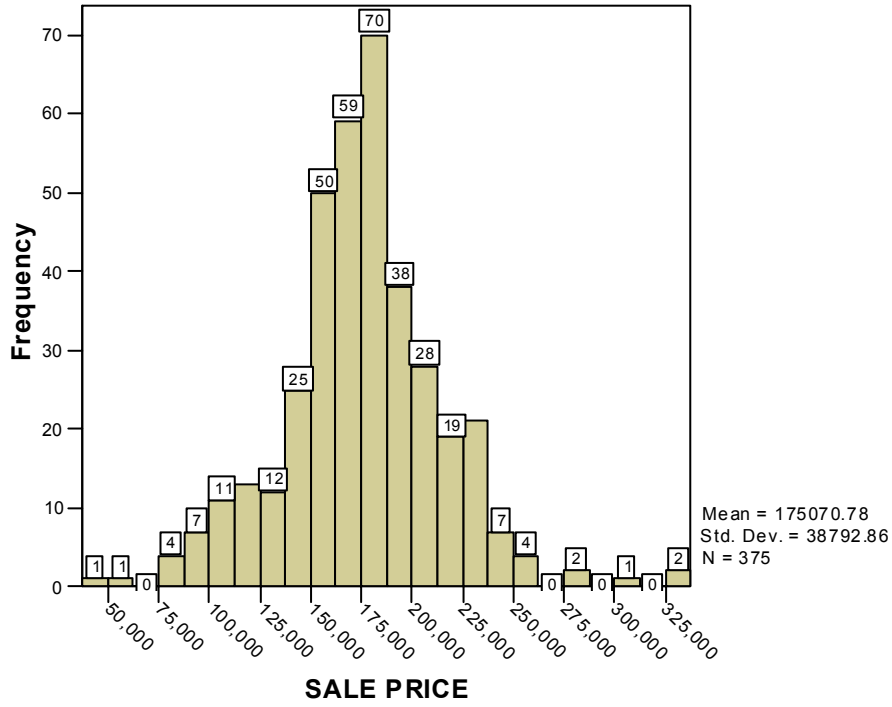
### Central Sales Price Spread



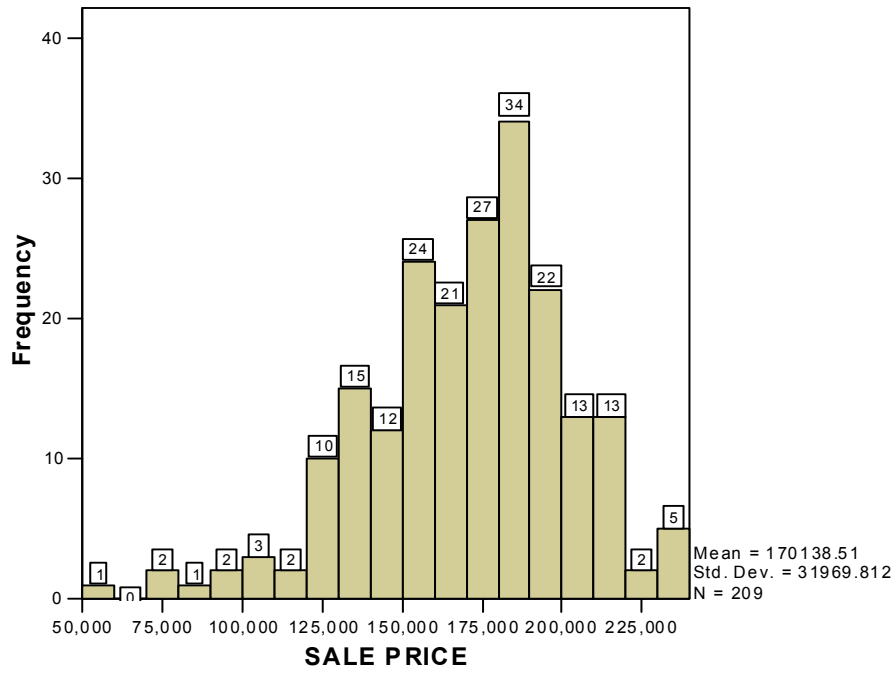
### Bryan Sales Price Spread



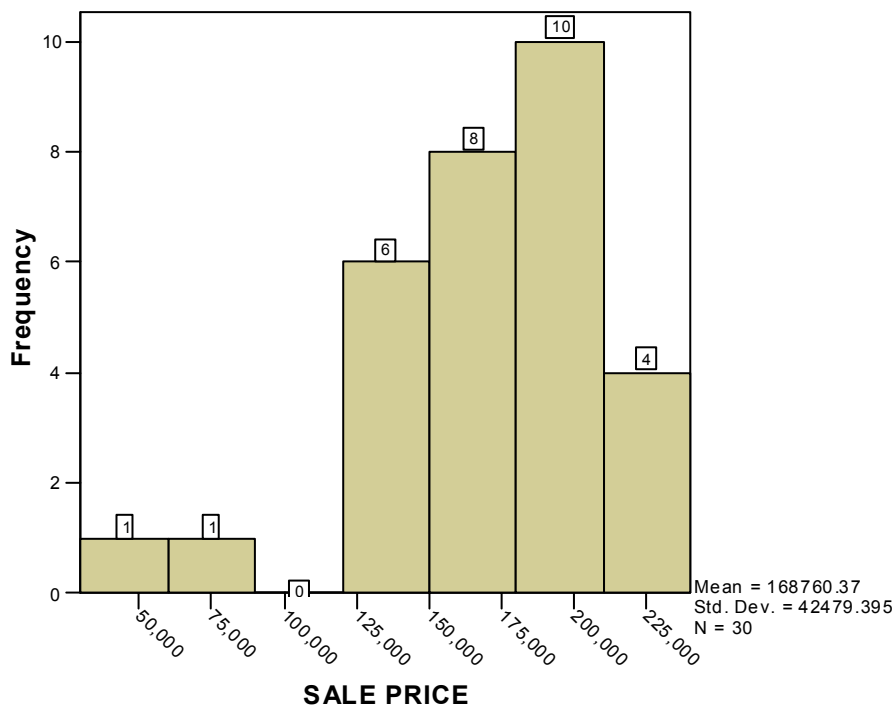
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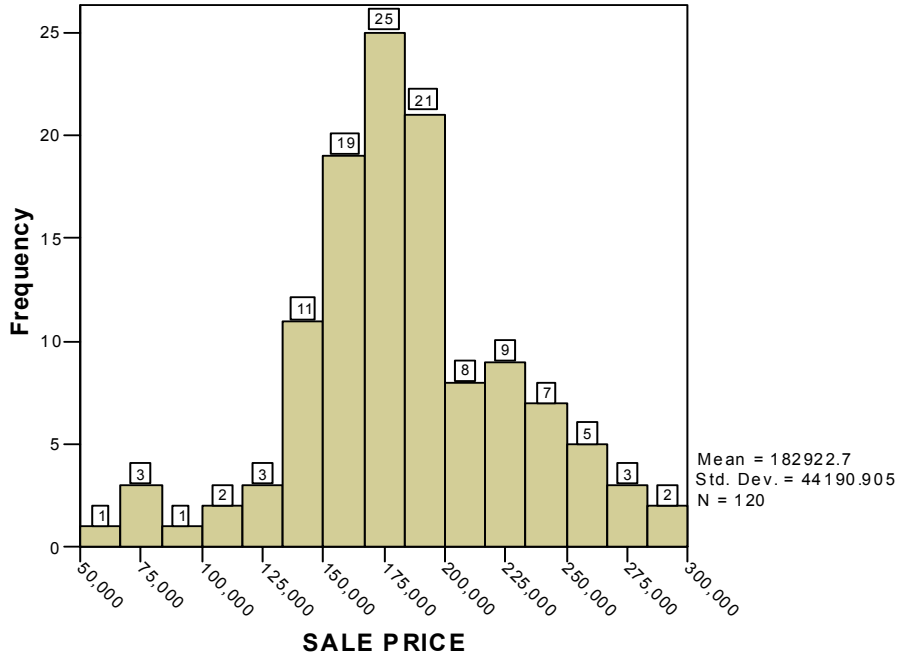
### Morris Park Sales Price Spread



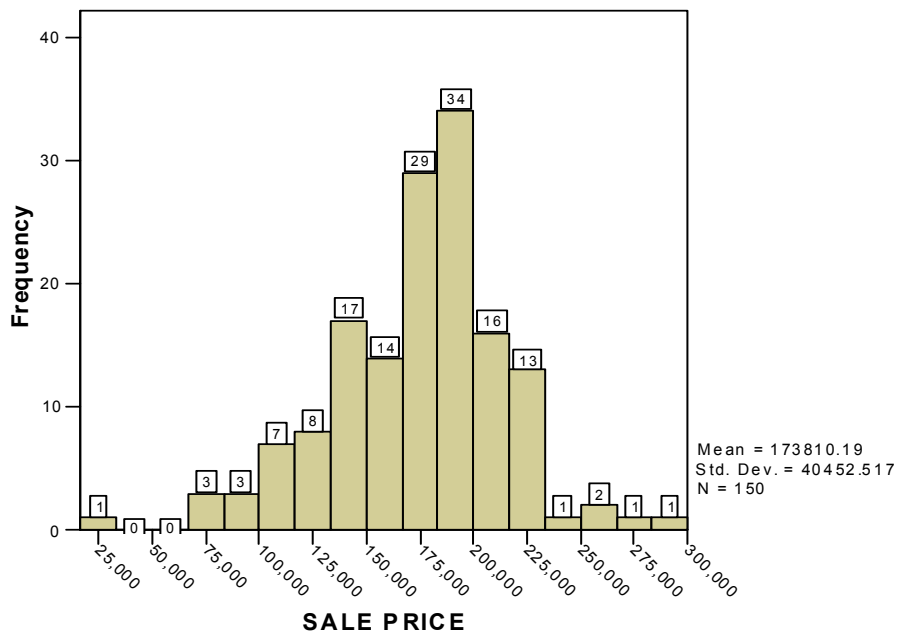
### North East Park Sales Price Spread



### Regina Sales Price Spread



### Longfellow Sales Price Spread



### Hiawatha Sales Price Spread

