

Measuring the Recession's Impact on Housing: How the Twin Cities Rank in the Nation's 25 Largest Metro Areas

September 2009

This month, the U.S. Census Bureau released the fourth year of metropolitan-area data from its American Community Survey (ACS). The ACS, administered as a rolling survey, allows a look at detailed demographic and housing characteristics annually. The data covered in this *MetroStats* highlight housing-related findings from this latest release, which covers ACS data collection from 2008, and compare key indicators to data from earlier years of the ACS and the 2000 Decennial Census.

Data used in this *MetroStats* are for the metropolitan statistical areas (MSAs) defined by the U.S. Census Bureau. The Minneapolis-St. Paul MSA covers 13 counties – Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright Counties in Minnesota and Pierce and St. Croix Counties in Wisconsin. The 24 metro areas used as a basis for comparison were identified on the basis of their 2008 population as estimated by the U.S. Census Bureau.

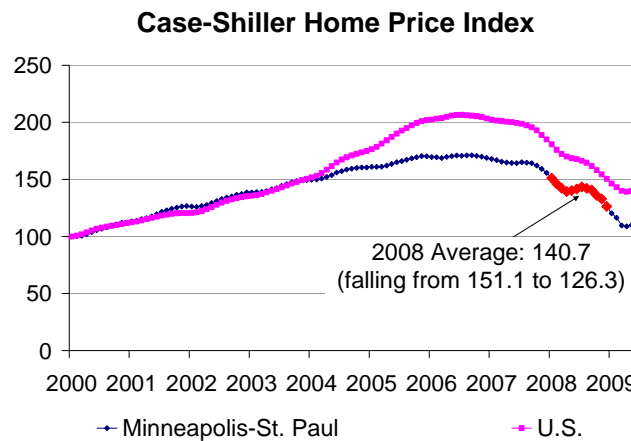
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Publication No. 74-09-054

Where is the Housing Market now that the Bubble Has Burst?

Easy credit through the first half of the current decade led to rising homeownership, massive home construction, and an unsustainable run-up in home prices across many parts of the country. According to the Case-Shiller Home Price Index, home prices peaked both

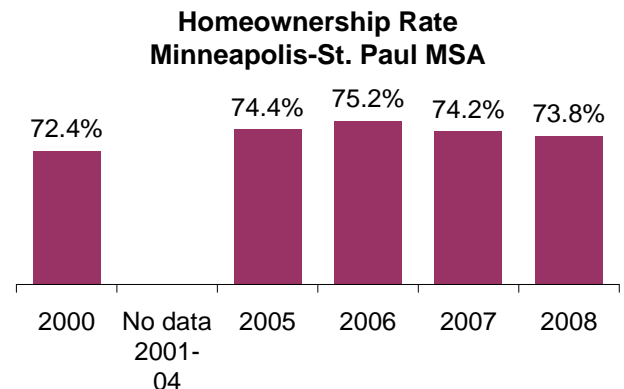


nationally and locally in summer 2006 and continued to fall until slowly turning around in summer 2009.¹ In both areas, home prices fell nearly 17 percent just from January 2008 to December 2008, the time period covered by

2008 American Community Survey (ACS) data. As a result, while the 2008 data clearly reflect life after the housing bubble burst, they also incorporate the economic tumult that characterized last year, giving equal weight to data from January, early in the recession, with December, when the recession was well underway.

Through much of the 1990s and the early 2000s, federal policy explicitly promoted homeownership as part of the American dream, and America's

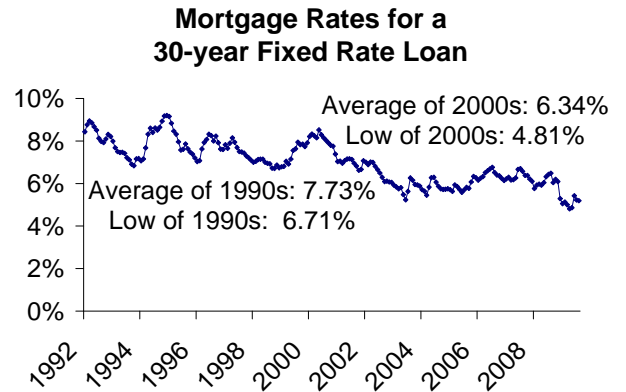
metropolitan areas saw rising homeownership rates.² In some areas, high homeownership rates may reflect a secure and stable population and a higher number of single-family



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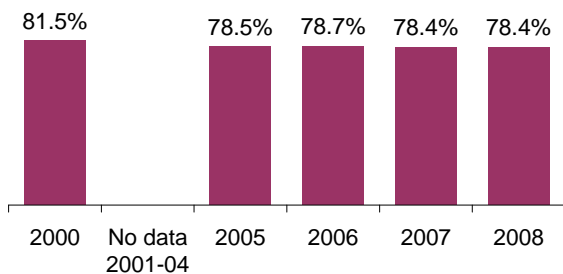
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homes while lower homeownership rates elsewhere may indicate a more transient population and a larger share of rental apartments in the housing stock. Nonetheless, the correlation between homeownership and growing household assets means that areas with higher homeownership are likely to be more economically stable. In the nation's 533 metropolitan and micropolitan statistical areas, 66.1 percent of households owned their home in 2008. Among the 25 largest metropolitan areas, Minneapolis-St. Paul regained the highest homeownership rate at 73.8 percent. While Detroit held the highest homeownership rate and the Twin Cities the second highest in 2007, in both years the difference between the two MSAs was within the reported margin of error. New York and Los Angeles, both high housing cost areas, had the lowest homeownership rates at 53.4 and 51.2 percent, respectively. Consistent with expectations, the Twin Cities homeownership rate has fallen since its 2006 peak though the 2008 rate remained above the 2000 level of 72.4 percent.



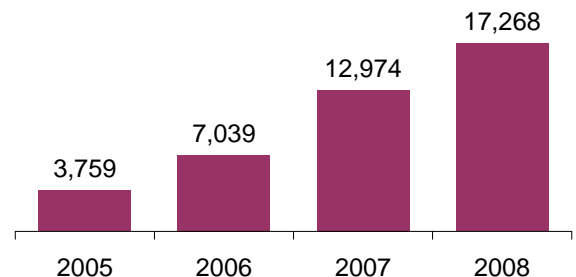
Accompanying the easing of housing credit through the first two-thirds of the decade was a flurry of not only new homeownership but also home refinancing both to lower interest rates³ and cash out the equity that rising home prices brought. In 2000, 18.5 percent of Twin Cities homeowners owned their homes free and clear while the remaining 574,000 households had at least one mortgage on their home. With rising homeownership as well as frequent home refinancing, 78.4 percent of Twin Cities homeowners – now representing over 730,000 households – had at least one mortgage on their home in 2008. Despite the frequent home refinancing, the share of Twin Cities homeowners with a mortgage has remained stable at around 80 percent, varying from 81.5 percent in 2000 to 78.4 percent in both 2007 and 2008. This suggests that the share of the

Minneapolis-St. Paul Homeowners with a Mortgage



region's homeowners who extended their mortgage terms or cashed out equity on a home they owned free and clear balanced out the homeowners who refinanced to end mortgage debt sooner. These numbers occur at a time of an unprecedented rise in foreclosures – data indicate over 41,000 sheriff's sales, closely correlated with actual home foreclosures, in the 11 Minnesota counties of the 13-county MSA over the 2005 to 2008 time period.⁴ In other words, nearly one in 20 homeowning households experienced foreclosure over these four years.

Sheriff's Sales in the 11-County Minnesota MSA

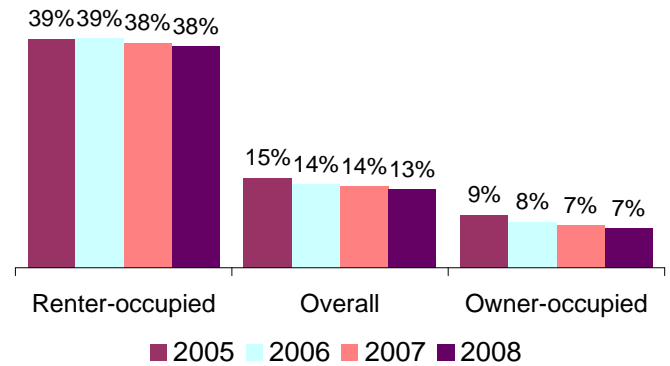


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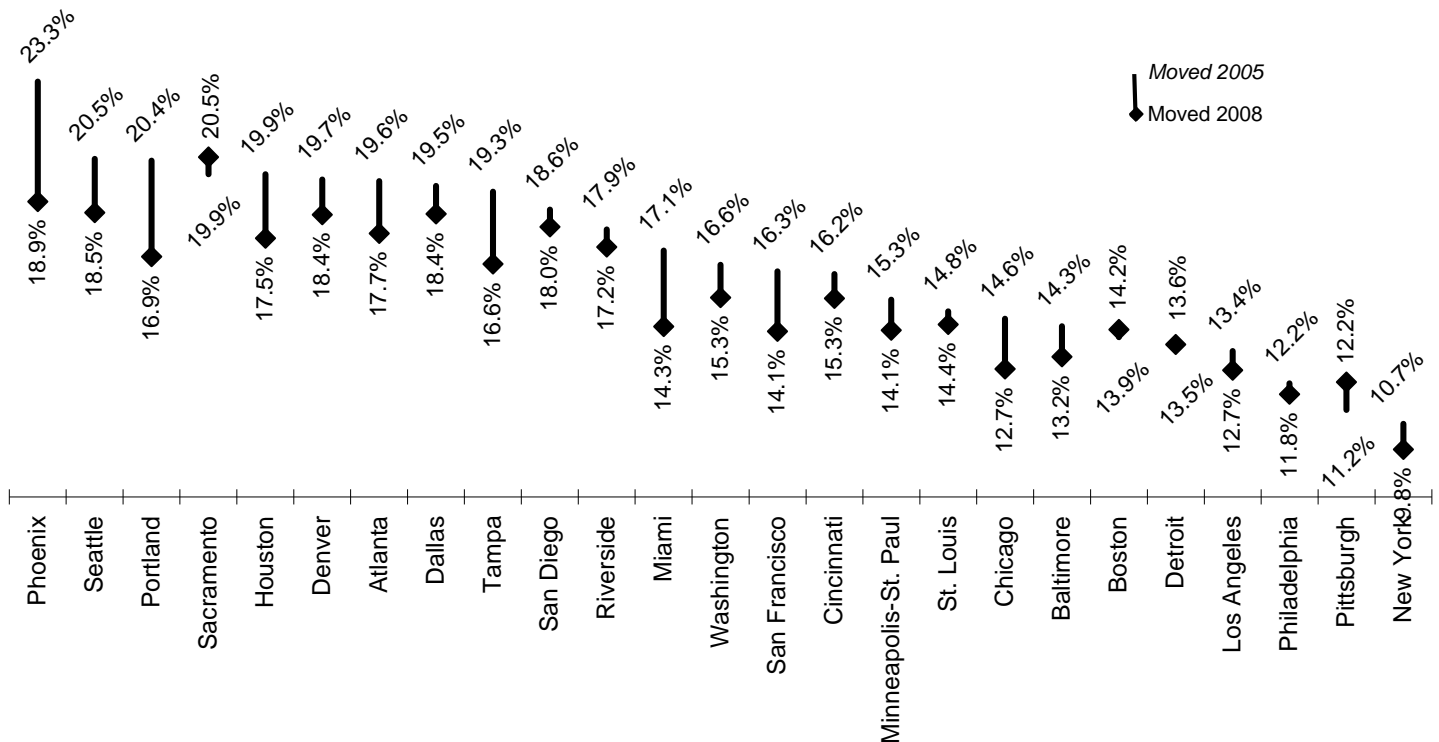
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In spite of the high numbers of foreclosures causing residential dislocation, the current recession has overall depressed migration – the rates and incidence of moves and relocations. According to Census Bureau demographers, domestic migration rates in 2008 were at a 30-year nadir – households across the country were moving less frequently. In the Minneapolis-St Paul MSA, the move rates in 2008 declined to 6.7 percent among homeowners, 37.7 percent among renters, and 13.4 percent among all households. This downshift in moves and relocations appeared across all demographic groups, but the downshift was steepest among Twin Cities homeowners where the rate was down from 9.0 percent in 2005 to 6.7 percent in 2008. (The change in renter turnover was not statistically significant.) The Twin Cities as well as 20 of the other 24 largest metro areas saw falling migration – only Sacramento, Boston, Detroit and Pittsburgh saw more domestic migration in 2008 relative to 2005.

Move rates for owners and renters



**Percent who moved in the last 12 months:
2005 and 2008**

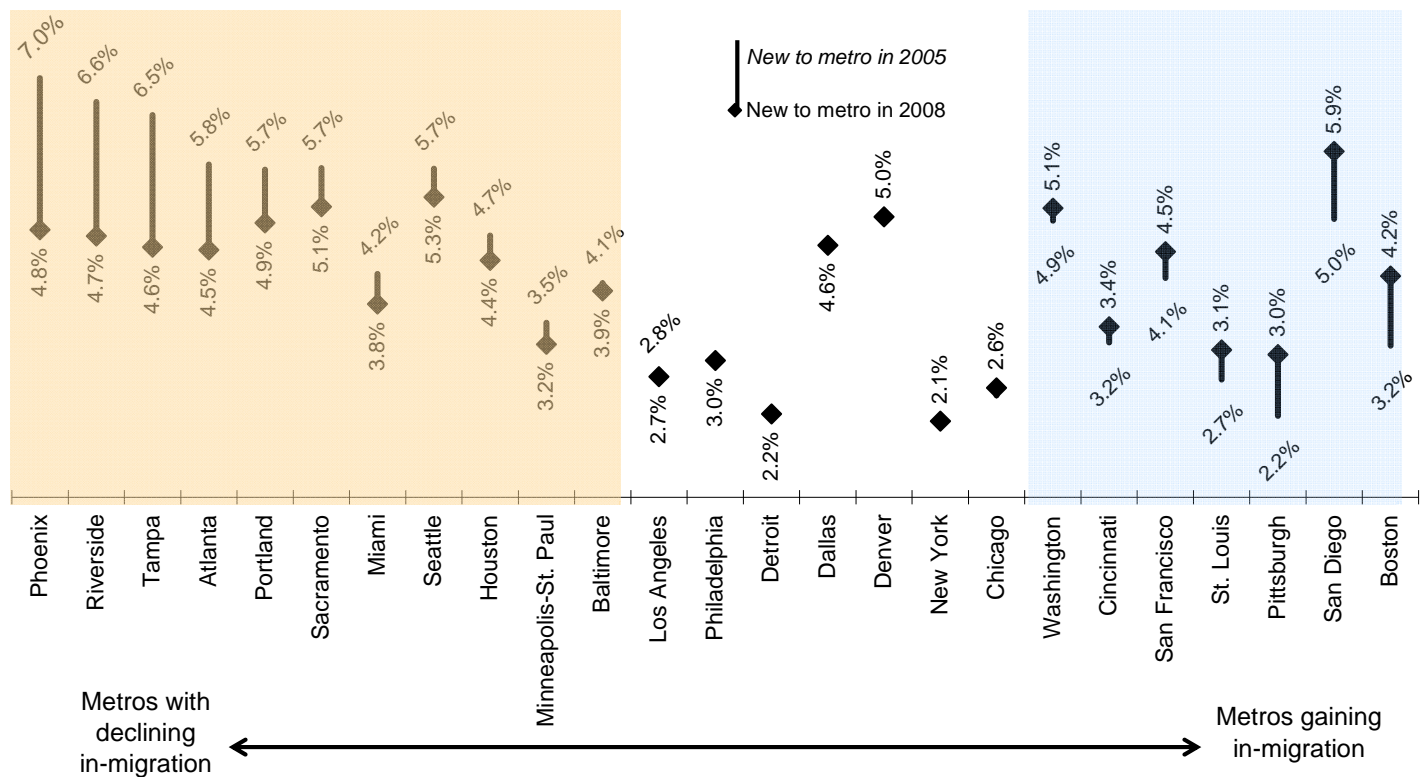


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One cause of declining mobility was the dampening effect of diminishing economic opportunities through 2008 on employment-related relocations to the Twin Cities. In 2008, 3.2 percent of Twin Cities residents had moved to the area in the previous 12 months, down from 3.5 percent in 2005 (this difference was not statistically significant). This finding is consistent with the Twin Cities suffering a typical recession experience compared to the nation and peer metro areas. Other parts of the nation have been faring worse; still others have fared better. Among the 25 largest metropolitan areas, primarily previously-booming Sunbelt metros experienced the most dramatic dropoffs of new in-migration – most notably, Phoenix, Riverside, Tampa, and Atlanta. At the opposite extreme, relative regional economic competitiveness helped Boston, San Diego, and Pittsburgh increase their shares of new metro residents in 2008 relative to 2005.

Share of population new to the metropolitan area: 2005 vs. 2008

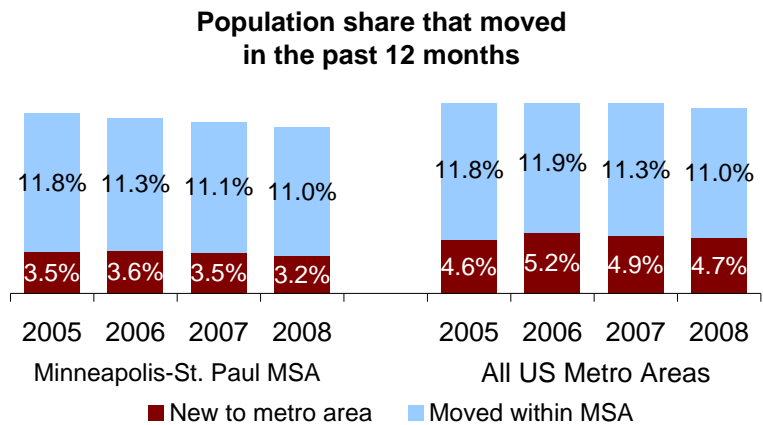


The second cause of declining mobility has been the bursting of the housing bubble. Homeowners in particular have been facing scarce mortgage financing, an oversupply of ownership housing (due to mid-decade overbuilding), and falling home values. During 2008, this prominently impeded moves as some households were unable to obtain the financing needed to buy a different home. Other households, even those that were financially secure, became noticeably risk-averse; many were unwilling to sell a home for less than what they believe to be its value and were holding off, waiting for

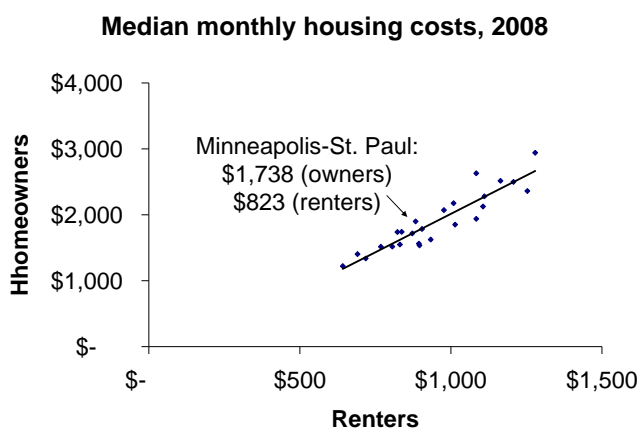
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housing values to stabilize or rebound. Meanwhile, many renters were unwilling to jump into the risk of homeownership if home prices might continue to fall, bringing better values in the foreseeable future. As a result, moves within the Minneapolis-St. Paul MSA were down significantly from 11.8 percent in 2005 to 11.0 percent in 2008. Rising foreclosures, forcing homeowners to move back into the rental market, provided a countervailing trend, reinforcing the fall in discretionary moves. Over time, however, between 2009's federal first-time homebuyer tax credit and steady population growth, the regional housing market should rebalance, producing higher home values and an increased willingness of homeowners to sell, buy and move within the region.



The median monthly housing cost for homeowners for the Twin Cities was \$1,738 in 2008, ranking the Twin Cities 11th lowest among the 25 largest urban areas where monthly costs ranged from \$1,222 in Pittsburgh to \$2,941 in San Francisco. The highest median monthly housing costs for homeowners were in coastal cities led by San Francisco, New York and Los Angeles. San Francisco's median monthly housing costs for homeowners were 69 percent higher than the Twin Cities' in 2008.



With foreclosures and rising housing costs forcing homeowners out of their homes, households are either returning to the rental market or staying in rental housing as protection against the financial anxiety of homeownership. The nation's 25 largest metropolitan areas showed a significant variation in median monthly housing costs paid by renters, ranging from a low of \$642 in Pittsburgh to a high of \$1,279 in San Francisco. The median monthly housing costs paid by renters in the Minneapolis-St. Paul metropolitan area in 2008 was \$823, ranking the Twin Cities 6th lowest among the 25 largest urban areas. Median monthly housing costs for

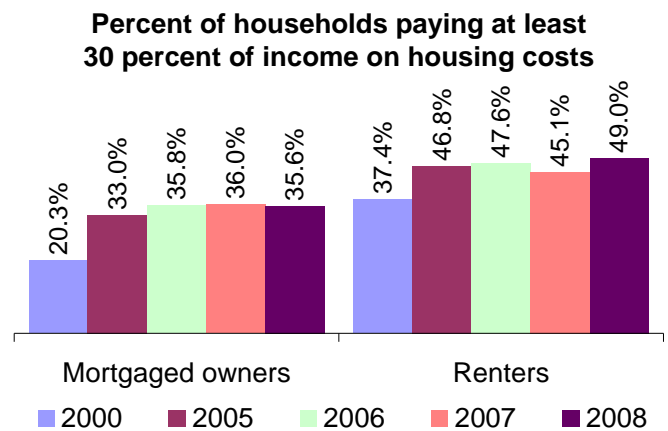
both homeowners and renters in the Twin Cities were in the bottom half of the distribution although median monthly housing costs for homeowners were slightly higher than other large urban areas with similar median monthly rental costs.

With housing costs rising more quickly than household incomes over the decade, housing cost burdens increased across the country. Households are considered to be experiencing housing cost burden when they are paying 30 percent or more of their household income on housing. To some

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degree, rising housing cost burden has been an active choice by households; for example, households refinancing other consumer debt into their home mortgage or a home equity loan increased their “housing costs” without truly increasing the cost of their housing. For other households, however, a lack of more affordable housing options has led to higher housing cost burdens that, for many households – particularly those who subsequently faced home foreclosure – became financially unsustainable. Among the 25 largest metropolitan areas, the percent of renters experiencing housing cost burden in 2008 varied from a high of 59.0 percent in Miami-Fort Lauderdale to a low of 42.9 percent in Pittsburgh. The Minneapolis-St. Paul metropolitan area jumped from 6th lowest in 2007 to 19th lowest in 2008 with a rate of 49.0 percent of renters paying 30 percent or more of their income on housing. Among the 25 largest metropolitan areas, the percent of homeowners with a mortgage experiencing housing cost burden diverged from a high of 56.7 percent in Miami-Fort Lauderdale to a low of 28.8 percent in Pittsburgh. With a rate of 35.6 percent, the Twin Cities area ranked 7th lowest in housing cost burden among homeowners.



A standard solution to high housing prices is doubling-up – whether two unrelated roommates sharing housing, multiple generations of a family sharing housing, or multiple unrelated families sharing housing. In some cases, doubling up and large families residing in inadequate housing leads to overcrowded housing, generally defined as housing with more than 1.01 occupants per room. The share of overcrowded housing in the Twin Cities has been relatively low and persistently stable at just under 2 percent of housing units, indicating that any doubling up that has occurred in the Twin Cities has had little influence on overcrowding. Among the 25 largest metropolitan areas, the percent of occupied housing units with overcrowding in 2008 varied from a high of 11.3 percent in Los Angeles, an area of high housing costs and a large proportion of low-income and immigrant households, to 1.0 percent in Pittsburgh, an area of typically low housing costs. The Twin Cities had the 8th lowest share of overcrowded housing at 1.8 percent.

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	Homeownership rate	Median monthly costs for renter-occupied housing units	Median monthly housing costs for owner-occupied housing units with a mortgage	Percent of renter-occupied units spending 30 percent or more of household income on rent and utilities	Percent of mortgaged owners spending 30 percent or more of household income on selected monthly owner costs	Percent of occupied housing units with 1.01 or more occupants per room	Percent who moved in the previous 12 months	Percent who moved within the previous 12 months within the metro area	Percent who moved within the previous 12 months from outside the metro area
Atlanta-Sandy Springs-Marietta, GA	68.6%	\$894	\$1,562	46.8%	35.4%	2.9%	17.7%	13.2%	4.5%
Baltimore-Towson, MD	67.9%	\$1,014	\$1,851	47.5%	36.6%	1.5%	13.2%	9.2%	3.9%
Boston-Cambridge-Quincy, MA-NH	63.7%	\$1,111	\$2,279	46.8%	42.7%	2.1%	14.2%	10.0%	4.2%
Chicago-Naperville-Joliet, IL-IN-WI	68.2%	\$883	\$1,899	47.4%	43.7%	3.2%	12.7%	10.2%	2.6%
Cincinnati-Middletown, OH-KY-IN	69.7%	\$691	\$1,403	43.7%	29.9%	1.4%	15.3%	11.9%	3.4%
Dallas-Fort Worth-Arlington, TX	63.1%	\$831	\$1,550	45.4%	32.3%	4.4%	18.4%	13.8%	4.6%
Denver-Aurora, CO	67.3%	\$872	\$1,718	48.5%	37.4%	2.5%	18.4%	13.4%	5.0%
Detroit-Warren-Livonia, MI	73.1%	\$768	\$1,516	48.9%	38.1%	1.8%	13.6%	11.4%	2.2%
Houston-Sugar Land-Baytown, TX	63.4%	\$806	\$1,518	43.3%	32.0%	5.7%	17.5%	13.2%	4.4%
Los Angeles-Long Beach-Santa Ana, CA	51.2%	\$1,164	\$2,514	54.1%	54.7%	11.3%	12.7%	10.0%	2.7%
Miami-Fort Lauderdale-Pompano Beach, FL	66.9%	\$1,084	\$1,939	59.0%	56.7%	3.8%	14.3%	10.5%	3.8%
Minneapolis-St. Paul-Bloomington, MN-WI	73.8%	\$823	\$1,738	49.0%	35.6%	1.8%	14.1%	11.0%	3.2%
New York-Northern New Jersey-Long Island, NY-NJ-PA	53.4%	\$1,084	\$2,628	48.2%	48.8%	5.9%	9.8%	7.7%	2.1%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	69.8%	\$904	\$1,786	47.6%	37.4%	1.6%	11.8%	8.8%	3.0%
Phoenix-Mesa-Scottsdale, AZ	68.4%	\$933	\$1,625	46.8%	41.7%	3.9%	18.9%	14.1%	4.8%

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Pittsburgh, PA	71.1%	\$642	\$1,222	42.9%	28.8%	1.0%	12.2%	9.2%	3.0%
Portland-Vancouver-Beaverton, OR-WA	65.3%	\$837	\$1,740	45.8%	41.2%	2.8%	16.9%	11.9%	4.9%
Riverside-San Bernardino-Ontario, CA	65.4%	\$1,106	\$2,126	57.0%	55.8%	7.5%	17.2%	12.5%	4.7%
Sacramento--Arden-Arcade--Roseville, CA	62.1%	\$1,009	\$2,175	50.1%	50.2%	4.2%	20.5%	15.4%	5.1%
San Diego-Carlsbad-San Marcos, CA	56.4%	\$1,207	\$2,499	52.7%	54.1%	5.9%	18.0%	12.0%	5.9%
San Francisco-Oakland-Fremont, CA	56.9%	\$1,279	\$2,941	47.4%	52.7%	4.9%	14.1%	9.6%	4.5%
Seattle-Tacoma-Bellevue, WA	63.5%	\$977	\$2,071	46.3%	43.7%	2.1%	18.5%	13.2%	5.3%
St. Louis, MO-IL	72.5%	\$718	\$1,338	43.9%	29.6%	1.2%	14.4%	11.3%	3.1%
Tampa-St. Petersburg-Clearwater, FL	69.3%	\$896	\$1,536	51.9%	46.4%	1.6%	16.6%	12.0%	4.6%
Washington-Arlington-Alexandria, DC-VA-MD-WV	67.0%	\$1,253	\$2,362	44.8%	39.7%	2.0%	15.3%	10.2%	5.1%

¹ Standard & Poor’s Case-Shiller Home Price Index for Home Price Values.

² Unless otherwise cited, data in this report for 2005 through 2008 come from the American Community Survey, U.S. Census Bureau. Data for 2000 come from the Decennial Census, U.S. Census Bureau.

³ Freddie Mac, Weekly Primary Mortgage Market Survey.

⁴ Data from HousingLink, *Foreclosures in Minnesota: A Report Based on Sheriff’s Sale Data*, February 2009. 2005 data for Wright County are not available.