Housing and Economic Growth

IN THE TWIN CITIES REGION

Quantifying the Critical Link Between Housing Supply and the Region's Economic Prosperity

A sufficient supply of housing affordable to households across the income spectrum is critical to supporting a vibrant and sustainable regional economy. There is a significant need for housing in Minnesota and the primary driver of that housing demand is expansion of the employment base in the Minneapolis-St. Paul region.

A lack of a sufficient supply of housing—affordable to all members of the workforce—will impede the Twin Cities region's ability to attract businesses and talent. Young professionals and working families alike increasingly have a hard time finding housing they can afford in the region, particularly in communities that are well-connected to employment options, transportation, and other services and amenities. Ensuring a sufficient supply of housing—at the right price points and in the right locations to accommodate future job growth—will be critical to the vitality and sustainability of the regional economy.

This report explores the link between housing affordability and the Twin Cities region's economic prosperity and estimates the region's housing need for the next twenty years (2018-2038).

KEY FINDINGS

Our advantage is already eroding.

While the Minneapolis-St. Paul metropolitan area currently compares favorably to peer and competitor regions in terms of quality of life and cost of living, recent trends suggest that the region is on a trajectory where rising housing prices and rents, increased traffic congestion, and widening economic inequality erode a region's competitive advantage.

Today, the Twin Cities region competes with cities such as Chicago, Seattle, and Denver for workers and has an advantage in terms of housing costs and housing availability. But increasingly, the region will compete with Austin, Nashville, and St. Louis, where housing options are more affordable and varied than in the Twin Cities region. These peer and near-peer regions are more affordable, even taking into account differences in wages across regions.

Already, the Twin Cities is not producing enough workforce housing to meet demand of the region's growing economy and the region is experiencing a significant shortage of housing that is affordable to low- and moderate-wage working people. Currently, one in five workers in the seven-county Twin Cities region are housing cost-burdened; those 374,259 workers are paying more than 30% of their income each month for housing costs.

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We need significantly more housing in the next 20 years to remain economically competitive.

The Twin Cities is expected to add more than 368,000 new jobs between 2018 and 2038. This growth will spur demand for an estimated 176,710 net new housing units in the seven-county Twin Cities region to accommodate workers who will fill those new positions, assuming a five percent vacancy rate.

These housing demand forecasts only reflect part of the region's housing needs, the workforce. It is estimated that over a 20-year period, the region is expected to add 273,000 net new households, including workers in newly-created jobs as well as others), which suggests a need for 297,268 new housing units.

We are not on pace to produce the type of housing that is needed.

To meet the demand created by the expected new job growth, the Twin Cities will need 176,710 new housing units by 2038. But from 2012-2017, the region produced an average of 10,874 units per year when the need was 14,368 units annually to meet expected needs for all households. That equals a gap of 3,495 housing units each year. Without a ramp-up in housing production, the Twin Cities region will exacerbate the current housing affordability challenges among working households and expand a housing deficit that will put the region's competitive economic position in jeopardy.

These forecasts predict slightly lower homeownership rates for future working households and the region will need relatively more rental housing than is present in the existing housing stock. The workers expected to fill new jobs in the region will be looking for more multifamily housing options (including townhomes, apartments, and condominiums) than single family homes.

Approximately half of all rental housing will need to be at rents below $1,250 to be affordable to future workers. 80% of housing ownership options will need to be priced below $350,000 and will need to be built throughout the Twin Cities region, close to job centers.

There are significant potential economic losses if the region fails to increase production of housing that is affordable to workers at all income levels.

- The housing shortfall could result in 48,344 fewer jobs in the region in 2038 than would have been possible with sufficient housing.
- The loss of jobs will be seen most acutely in the fields of Professional and Technical Services, Health Care and Social Services, Construction, and Administrative Support.
- The total economic loss associated with unrealized consumer spending in the region will be **$1.6 billion** over the 20-year period.
- Slow job growth could result in a loss to the Gross Regional Product of **$4.3 billion** over the 20-year period.

At a time when other regions are committing hundreds of millions of dollars in public subsidy to attract private investment and jobs, a much better investment in the Minneapolis-St. Paul region's economic development is to invest in housing and other infrastructure to support the current economy and to continue to attract new economic activity.

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