
Introduction

We examined factors that may limit the production of affordable housing.

Affordable housing is an important issue being debated by Minnesota policy makers. The rising cost of housing has received considerable attention in the last year. On June 13, 2000, both the *Minneapolis Star Tribune* and *St. Paul Pioneer Press* had front-page articles highlighting the issue. The *Star Tribune* headline said, “Home sale prices hit record high,” while the *Pioneer Press* headline read, “Apartment rents skyrocket.” In addition, several organizations have recently issued affordable housing studies. The Affordable Rental Housing Task Force, made up of local housing experts, issued a report in January 2000,¹ and the Mayors’ Regional Housing Task Force, made up of metropolitan area mayors, issued its report in November 2000.² Both of these reports discussed factors that may limit the production of affordable housing.

Although there is no dearth of research on affordable housing, there are still conflicting explanations for the shortage of affordable housing. Consequently, in April 2000, the Legislative Audit Commission directed the Office of the Legislative Auditor to study the factors that potentially limit the production of affordable housing. Our study focused on the following questions:

- **What is the need for affordable housing in Minnesota? How has the cost of housing changed over the last decade compared with household income?**
- **How much does it cost to build new housing, and how much new housing is being produced?**
- **What factors potentially limit the production of affordable housing?**
- **What strategies have policy makers, developers, builders, and local housing organizations used to overcome these potential impediments? How effective has the Livable Communities Act been in producing affordable housing in the Twin Cities metropolitan region?**

To address these questions, we reviewed the existing literature on the topic and analyzed data related to the current housing market. To examine why more affordable housing is not being built, we surveyed 1,106 developers, builders, and local housing organizations and received responses from 439 companies and organizations that produced at least one housing unit in 1999. We asked them to evaluate the significance of various factors that might limit the production of affordable housing and their strategies for overcoming the impediments they have

¹ Affordable Rental Housing Task Force, *Affordable Rental Housing: Opening Doors for Private Development and Preserving Existent Housing Stock* (January 2000).

² Mayors’ Regional Housing Task Force, *Affordable Housing for the Region: Strategies for Building Strong Communities* (St. Paul: Metropolitan Council, November 2000).

faced. In addition, we interviewed representatives of these companies and organizations and collected additional information about each potential impediment. Finally, we interviewed representatives from the United States Department of Housing and Urban Development (HUD), Minnesota Housing Finance Agency (MHFA), the Metropolitan Council, and various units of local government about their housing policies and programs.

In this study, we examine the broad issue of producing new affordable housing and how that production is affected by various state and local policies. As the Legislature considers the information and recommendations of various housing interest groups, we hope this report will serve as a guide that provides factual information on the factors that may limit the production of affordable housing. While we point to certain government policies as potential impediments, we recognize that state and local governments generally created these policies to achieve a valid public purpose. For example, the state building code might increase building costs, but code elements result in improved public safety.

Because competing policy goals are involved and our study of each factor was limited, we do not make policy recommendations. This is not implying, however, that we do not think proposals for change merit consideration. We simply decided that we are not in a position to propose them.

In addition, we are aware that we did not address several issues that are important to the affordable housing debate. First, we did not analyze strategies for using the existing housing stock to meet Minnesota's need for affordable housing. However, we recognize that the existing housing stock is critical to the affordability issue because most low-income households live in—and will continue to live in—existing rather than new housing. Second, we did not examine strategies for making housing affordable by increasing household incomes, which involves everything from minimum wage levels to welfare and tax policies. Third, we did not assess the impact of property owners opting out of federal subsidy programs and converting their rents to market rate. In fact, the Minnesota Housing Finance Agency devotes a significant amount of its resources trying to keep these rental units affordable. Fourth, we did not examine the issue of recipients of federal rent subsidies having a difficult time finding property owners who will accept their rental applications. Finally, we did not analyze whether some Minnesotans, such as minorities, have equal access to affordable housing.

This report contains three chapters. Chapter 1 provides background information about affordable housing in Minnesota by examining information on costs, incomes, and production. Chapter 2 discusses factors that may limit the production of affordable housing. Finally, Chapter 3 discusses resources and strategies that policy makers, developers, builders, and local housing organizations use to build affordable housing.

We found that some factors that may limit affordable housing production are there to achieve important policy goals.