Putting Affordable Housing on the Front Burner in Rochester and Olmsted County

by Ed Goetz and Barbara Lukermann

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A year ago, the Rochester/Olmsted Community Housing Partnership (ROCHP) asked CURA if faculty and students might assist them in completing a needs assessment that would document the housing problems faced by lower income households in Olmsted County. The partnership had just received a grant from the Rochester Area Foundation and they wanted hard data on how many low income households there were in the community and the extent to which the current market was inadequate for their needs. They were also looking for suggestions about future roles for the partnership, based on successes of other nonprofit housing corporations in other cities.

The notion that the third wealthiest county in the state had a “housing problem” emerged from a Future Scan 2000 report. This had resulted from a community-based strategic planning effort during 1986. But
housing was a problem ranking well below promoting downtown development, economic diversification, and securing a new higher educational facility for Rochester. Getting affordable housing onto the front burner took almost two years of hard work by a small group of community leaders led by Dorothy Callahan and Jeff Orline (of the Olmsted Community Action Program). By late fall of 1988 the group had generated sufficient interest and support to ask others to join them in creating a new nonprofit organization dedicated to ensuring “the availability of acceptable, affordable housing for low-to-moderate income citizens of Rochester and Olmsted County.” The Rochester Area Foundation helped secure the partnership’s future with a grant for the needs assessment and market study although more than a few partners were anxious to build with bricks and mortar rather than with information.

The Partnership Between the Community and the University

During the summer of 1989 four graduate students from the Humphrey Institute occupied “affordable housing” in Rochester and set about the task of collecting data on the housing market in Olmsted County. The 1981 housing plan and an update prepared by staff at the Department of Planning and Housing in Rochester formed the basis of the work program. The project was structured as a group internship, supervised by ourselves from the University of Minnesota and by staff from the Department of Planning and Housing. CURA and the Humphrey Institute each contributed a third to the salaries of students and faculty. The students gained outstanding professional experience and the community acquired one of the most extensive housing market surveys and needs assessments that we know of.

The biggest challenge in this endeavor was a county-wide survey of households. Students coordinated the survey and the partnership tapped the volunteer resources of the community. More than thirty volunteers helped to complete just over a thousand telephone interviews. Residents responded willingly (92 percent) to questions about their current housing and about problems they experienced in finding decent and affordable units. Focus group sessions with single parents on public assistance and with refugees gave us the opportunity to explore in more depth the particularly severe housing problems these individuals experienced. The staff at city and county offices cooperated with advice and information on the condition of the current housing stock. Perhaps one of the unforeseen benefits of this broad-base of cooperation from the community is the increased sensitivity of a large group of citizens to the plight of lower income persons in this generally prosperous community.

Household Income in the Rochester Area

According to the United States Department of Housing and Urban Development (HUD), in 1989 the median family income in the Rochester metropolitan area was $40,600. Federal housing assistance is available to households designated as “lower income” (less than 80 percent of the median income) or “very low income” (less than 50 percent of the median income), dependent on the number of members in the household (Table 1). A family of four would thus have to earn less than $20,300 to be considered very low income, whereas a single person would need an income below $14,200 to be eligible for housing assistance under programs operated by HUD. The HUD definitions of low income were used for this study. Under them, 26 percent of Olmsted County households are lower income and 17 percent are very low income.

The prevailing notion in Rochester and Olmsted County has been that because of the wealth of the community there are no housing problems. The household survey and market study, however, revealed a number of important unmet housing needs in the county.

Housing Needs in Olmsted County

The household survey found multiple housing problems for families in the lower- and very-low-income categories as well as for families in special population groups such as single-parent households, refugees, large families, and public assistance recipients. These groups are more likely to occupy units with physical deficiencies, spend more than a third of their income for shelter, and express dissatisfaction with their housing. They are less likely to feel they can become homeowners in the future and many of them feel a lack of security in their housing situation.

Nearly 60 percent of households with incomes under $45,000 who looked for housing in the past two years said they had trouble finding it. This problem cut across many household types. It was the elderly, single persons, and especially large families who most often reported difficulty locating adequate housing. Often they ended up paying more for their housing (85 percent of those paying more than 50 percent of their income for shelter had reported difficulty finding housing), living in poorer conditions, and in more crowded conditions. In addition, almost all of those who were dissatisfied with their housing reported having had difficulty finding housing in the past two years in Olmsted County.

One in ten Olmsted County households earning less than $45,000 reported having two or more problems with the physical condition of their homes. Homes with physical deficiencies are concentrated in the rural areas of the county and, to a lesser degree, in small cities. Lower-income households have a higher than normal rate of reported problems, as do single persons and single-parent households. Large families also have a disproportionately high incidence of physical problems with their homes.

The national standard for affordable housing indicates that shelter should not cost more than 30 percent of gross household income. Housing expenses above that level are considered a “shelter burden” on the household. Households with such a burden do not have enough resources to meet other basic needs such as food, clothing, child and health care, and transportation. The survey revealed that about 20 percent of Olmsted County households had a shelter burden, and about 5 percent had an extreme shelter burden (paying over half of their total income for housing). Shelter burden is concentrated among single-parent households, larger families (three children seemed to be the threshold for affordability of housing), renters, and lower- and very-low-income households.

Significantly, shelter burden seemed to be associated with other housing problems such as crowding and physical problems with the house. Shelter burden persists even among those who share housing as a way of reducing costs. And shelter burden is one of the most important determinants of housing satisfaction. Over 50 percent of those with an extreme shelter burden reported dissatisfaction, compared to 7 percent of households countywide.

Table 1. Eligibility Limits for HUD Housing Programs in Metropolitan Rochester

<table>
<thead>
<tr>
<th>Number persons in household</th>
<th>To be designated &quot;lower income&quot; earnings must be under</th>
<th>To be designated &quot;very low income&quot; earnings must be under</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>$22,750</td>
<td>$14,200</td>
</tr>
<tr>
<td>2</td>
<td>26,000</td>
<td>16,250</td>
</tr>
<tr>
<td>3</td>
<td>29,250</td>
<td>18,250</td>
</tr>
<tr>
<td>4</td>
<td>32,500</td>
<td>20,300</td>
</tr>
<tr>
<td>5</td>
<td>34,550</td>
<td>21,900</td>
</tr>
</tbody>
</table>

Source: Department of Housing and Urban Development (HUD) 1989

Cover photo: Public housing, like this development in Rochester, makes shelter affordable and helps create stability in the lives of low-income households.
Large families in Olmsted County have few housing choices in either rental or ownership markets. Refugees face additional problems of substandard conditions and overcrowding.

**Populations With Housing Problems**

Lower-income households have all of the housing problems just described. These households are, for example, more likely than others to live in units with two or more physical problems. They are more likely to live in mobile homes, which in turn are more likely to have physical problems. Lower-income households are more likely to rent their homes and less likely to feel that homeownership is a possibility in the near future. They are more likely to report insecurity in their present housing situation. And they are much more likely to be paying more than a third of their income for housing. Very-low-income households have each of these problems to an even greater degree than lower-income households. Over 54 percent of very-low-income households pay more than a third of their income for shelter.

Single-parent households overlap with lower-income households. Eighty percent of single-parent households are lower-income and over half are very-low-income (Figure 1). Their housing problems are similar. They experience shelter burden, physical problems with the housing units, a small likelihood of home ownership, and a sense of housing insecurity. In addition, some of these households reported discrimination against them by landlords perceiving them as potential risks.

Refugee households reported housing problems associated with affordability, substandard conditions, discrimination, and overcrowding. Problems are greater for more recent immigrants.

Public assistance recipients also face discrimination and a housing market that is virtually inaccessible. Current public assistance levels are such that prevailing rents take well over half of their income and in some instances (depending on the size of the household and their location) more than their entire income.

Large families in Olmsted County have few housing choices in either the rental or ownership markets. Opportunities to buy

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**Figure 1. Housing Needs of Single-Parent Households Compared to All Households**

(For Households Earning Under $45,000)
homes are limited for those of lower and moderate income, while large families of all incomes face a restricted rental market that offers very few three- or four-bedroom units.

Handicapped persons also have unmet needs in Olmsted County. Four percent of the households in Olmsted County have persons who find it difficult to get around their home. And one percent state that they would prefer a handicapped-accessible unit.

Though elderly persons are well served by existing subsidized housing in the county, for those elderly households earning under $45,000, 23 percent still reported paying from a third to half of their income for shelter; 13 percent reported paying more than half of their income for shelter. Shelter costs include utilities and property taxes, which could be a high proportion of an elderly person's fixed income.

The Housing Market

Olmsted County is experiencing an extremely tight and high-priced rental market that is making the search for affordable housing very difficult countywide. The market is particularly bad for large families, offering very few three- and four-bedroom units; and even fewer in an affordable range (Table 2).

Table 2. Vacancy Rates for 1988 (in percents)

<table>
<thead>
<tr>
<th>Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-family units</td>
<td>1.1</td>
</tr>
<tr>
<td>Multi-family units</td>
<td>3.3</td>
</tr>
<tr>
<td>All units</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Federal Home Loan Bank of Des Moines

Homeownership is becoming possible only for those with incomes over $25,000 (Figure 2). Lower-income and very-low-income families are essentially priced out of the market. This means that the rental market will in the future be increasingly characterized by lower-income households.

The high cost of home ownership is the major impediment for renters who would like to buy a house in Olmsted County. They report that the biggest obstacle to homeownership is not having enough money for the downpayment on a home. Being able to make the monthly payments was mentioned as the second-most common obstacle (Table 3).

Table 3. Obstacles to Homeownership (in percents)

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of downpayment</td>
<td>75</td>
</tr>
<tr>
<td>Monthly payments</td>
<td>40</td>
</tr>
<tr>
<td>Uncertain job future</td>
<td>10</td>
</tr>
</tbody>
</table>

The Role of the Rochester/Olmsted Community Housing Partnership (ROCHP)

The needs assessment and market study of Olmsted County provide the context for ROCHP action. The main role for ROCHP should be to develop affordable housing in the county. ROCHP needs to be active in creating rental housing for low-income and especially very-low-income households. The organization should consider taking on the development of such housing through rehabilitation of existing units or through new construction.

Tax credit partnerships with private sector developers offer one avenue for developing affordable housing. Other avenues such as the State of Minnesota Housing Trust Fund are also available. ROCHP might direct its initial efforts at easing the extreme shortage of rental units for large families.

The organization could take the lead in attempting to preserve the existing stock of affordable housing as the use restrictions run out on many of the federal contracts held by private owners.

In addition, ROCHP can play a role in increasing homeownership opportunities for lower-income households. Facilitating the use of first-time homebuyer funds through...
Though elderly persons are well served by existing housing, 13 percent report paying more than half of their income for shelter.

the Minnesota Housing Finance Agency, and creating a homeownership downpayment assistance program would accomplish needed improvements in making it possible for lower-income families to own their own homes.

ROCHP can also be visible on issues of housing discrimination that affect the quality of housing for refugees, public assistance recipients, and single-parent families. This can include facilitating open discussions on housing problems among landlords, property managers, and those populations with special housing problems.

In a more general sense, ROCHP can play the role of housing advocate in Olmsted County. The county has had a dormant Housing and Redevelopment Agency and there has been confusion over the roles of Rochester and Olmsted County public agencies in dealing with housing issues. Most importantly, however, the housing issue has simply not been on the public agenda in Olmsted County. ROCHP can be the organization to bring and keep the issue before the public policymakers.

ROCHP benefits from having many important community actors represented on its board of directors. The partnership can take advantage of those connections by seeking the cooperation of local foundations, local corporations, and local financial institutions in the activities it undertakes. The Olmsted County community has been without an effective lower-income housing developer for many years. The Rochester/Olmsted Community Housing Partnership has the opportunity and potentially the resources to play an extremely important part in meeting the housing needs of lower- and very-low-income households in Olmsted County.

The Future for Partnerships in Housing

The early stages of nonprofit agency activity in housing are precarious, as witnessed by earlier ventures in other cities. A successful nonprofit developer needs to cultivate the support of various elements of the local community. But in Olmsted County the cooperation is already forthcoming. The City of Rochester and Olmsted County recently awarded $25,000 each to ROCHP as seed money. Based on the findings of the needs assessment, Norwest Bank has agreed to extend a $350,000 line of credit to individual investors for rehabilitation and purchase of low cost housing for resale to low income families. Norwest Bank also offered an unguaranteed loan commitment to the partnership of $140,000 at less than prime rate to allow the nonprofit to rehabilitate affordable houses and then sell them to eligible buyers. The new Minnesota Housing Finance Agency (MHFA) program, Partnership for Affordable Housing, is going to be used by ROCHP to seek out lower cost homes with three or more bedrooms (located outside of the floodplain of the Zumbro River) which can become eligible for MHFA financing at below market interest rates. The Rochester Housing and Redevelopment Authority (HRA), as a member of the partnership, has already offered staff support to administer the MHFA’s Partnership for Affordable Housing Program. By doing so, HRA can become a partner and ally with the private sector in expanding the supply of affordable rental housing. But until the federal government begins to put affordable housing back on the front burner only a few of the very-low-income families are going to find adequate affordable housing within their grasp. In the meantime, nonprofit housing corporations and public agencies around the state are going to have to patch together smaller scale projects with considerable ingenuity and effort.

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Copies of the Full Report to the Rochester/Olmsted Community Partnership, Inc. on Housing Needs and Markets or the summary report (Housing Needs and Markets in Rochester and Olmsted County), may be obtained by writing to the Rochester/Olmsted Community Housing Partnership, Inc., P.O. Box 1144, Rochester, MN 55903. The summary report will be provided free; a copy of the full report (216 pp.) will be mailed upon receipt of $10.00. A limited number of copies of the summary report are also available from CURA.