

Initiative Advisory Committee

Meeting 2 Summary – July 11, 2024

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General Overview

The North Dakota Statewide Housing Initiative Advisory Committee held its second meeting on July 11, 2024 in the Pioneer Room of the North Dakota State Capitol from 9:30 AM to 4:00 PM (CDT).

The session's purpose was to construct a preliminary framework for its recommendations, which will be formally developed and proposed during the committee's third in-person meeting in August.

To help members to build this framework, additional context was provided through expert presentations from representatives with the American Enterprise Institute (AEI), NeighborWorks America (NWA), and the Federal Reserve Bank of Minneapolis.

Following guest presentations, Kaylen Hausauer with the Bank of North Dakota informed committee members about the state's new Rural-Workforce Initiative to Support Housing (R-WISH).

Committee members then participated in an open forum where some members shared examples of successful initiatives from across the country, specific issues impacting certain sectors working within North Dakota's housing industry, and ideas for the group to consider moving forward.

The session concluded with members identifying three priority areas to address in this process. Within each of these priority areas, factors, issues, and trends have been brainstormed and categorized.

AEI Presentation: 'Putting North Dakota's Housing Market in Perspective and Achieving Housing Supply Abundance'

Edward Pinto, Co-Director and Senior Fellow with the AEI Housing Center, presented via video from Washington, DC. Pinto provided a data-driven overview of the national housing market largely focused on 100 large metros throughout the United States. Taken together, Pinto's data provided insights into how our state compares to the rest of the nation while also highlighting differences and factors unique to North Dakota.

How North Dakota Stacks Up

- **Increased in Borrowing Contributing to Rising Home Prices:** Pinto provided data on how changes in how much individuals may borrow is contributing to rising home prices. North Dakota is not immune to this trend.
- **First-Time Homebuyers and Entry-Level Home Statistics:** Since 2012, AEI has been tracking 100 large metro areas across America – including Fargo and Bismarck – to determine how hard it is to buy an entry-level home. The data reveals that first-time homebuyers (FHBs) in Fargo and Bismarck have fared better than those in Billings, MT and Sioux Falls, SD in their ability to purchase an entry-level home.

Data finds a distinct regional pattern in how much the average FHB spends on principal and interest. Add in property taxes, homeowners' insurance, and mortgage insurance and costs grew from 23.7 percent in 2013 to 30.5 percent in 2023.

- **Cumulative Home Price Appreciation (HPA):** At 81 percent and 91 percent respectively, Bismarck and Fargo ranked at number 1 and number 3 among the 100 large metros for having the lowest cumulative HPA from January 2012 to May 2024. Overall, cumulative HPA for Bismarck and Fargo

largely tracked the national trend from 2012 to 2017. After 2017, the national trend began to substantially exceed Bismarck and Fargo. This was especially pronounced after the COVID pandemic. Post-pandemic, Bismarck and Fargo continue to lag the national trend.

- **Strong Seller's Markets:** Fargo and Bismarck are rated as strong seller's markets. In comparison to the region, Minnesota, Wisconsin, and Michigan are experiencing stronger seller's markets. Montana and South Dakota are experiencing somewhat weaker seller's markets. Pinto's classification of a seller's market is based on AEI's analysis of historical data and represents their empirically derived version of the National Association of Realtors' (NAR) definition of a seller's markets where the nominal price equilibrium occurs at six months.
- **Comparison of North Dakota's Metro and Rural Markets:** In 2012, North Dakota rural and metro median home purchase prices were about the same at \$164,000 and \$168,000 respectively. Since then, rural home prices have increased more slowly than metro home purchase prices. From 2012 to 2023, rural home prices increased by 12 percent, while metro home prices increased by 76 percent.
- **Job Growth:** Since 2004, North Dakota had the highest job growth among the six states in the Minneapolis Federal Reserve Bank's district. This growth was largely fueled by the energy boom in western North Dakota, which saw a 279 percent increase in jobs in mining, oil, and gas. Other top-growing sectors include transportation and warehousing (99 percent), agriculture (80 percent), professional and technical services (66 percent), construction (50 percent), and health care (46 percent).

Light Touch Density and Livable Urban Villages

Pinto then presented on light-touch density (LTD), which allows for the construction of side-by-side duplexes or three-story side-by-sides with small setbacks. LTD is regarded as a solution to excessive housing costs as duplex units are less expensive to build than new single-family construction. In urban planning and design, a Livable Urban Village is typically characterized by mixed use zoning, public transit, and an emphasis on walkability and effective use of public space.

Pinto, one of the nation's leading experts on LTD and Livable Urban Villages, shared information on how adopting elements of LTD and livable urban villages could impact the state's housing environment.

- LTD and Livable Urban Villages North Dakota could add over 1,900 homes per year – a 60 percent increase over the recent average residential permit level of 3,000 homes per year. In the process, the state would see a reduction in sprawl in its large cities.
- Of the Minneapolis Federal Reserve Bank District's six states, North Dakota has the lowest homeowner rate at 65.1 percent. LTD and Livable Urban Villages could help maintain North Dakota's 65.1 percent homeowner rate.
- Without adopting LTD and Livable Urban Villages, North Dakota will see a decrease in homeownership. For this reason, Pinto advocates for changes to existing zoning rules and regulations permit more LTDs and create Livable Urban Villages.
- Looking at Fargo's market, Pinto found that a single-family detached (SFD) home is valued at \$336,400. Duplexes or twin homes sell for 26 percent less at around \$249,400.
- By adjusting zoning rules and regulations to build more middle housing with a focus on walkability, public space utilization, and – where practical – public transit, North Dakota would see a reduction in infrastructure costs and energy use while increasing its housing supply. Several of these principles can also be applied, in varying degrees, in the state's rural communities.

Montana: A Model to Consider

Pinto noted that while there are differences in the underlying housing conditions, he recommended North Dakota look to Montana as a model in how to reform zoning regulations and permitting processes and maximize existing infrastructure to increase housing supply throughout the state.

NeighborWorks America Presentation: 'Housing Instability in North Dakota'

Michael Butchko, NeighborWorks America (NWA) Vice President for Business Intelligence Services, Corporate Strategy and Impact, shared demographic and market data on North Dakota household and population trends, renters, homeownership, housing affordability, and stability.

Households in North Dakota

- Looking at household composition statewide, Butchko noted that 47 percent of North Dakota households are married-couple families; 42 percent are defined as “nonfamily” households, 8 percent classified as a female householder with no spouse present or family, and 4 percent are a male household with no spouse or family.
- One in 10 North Dakota households are people aged 65 or older who live alone.
- North Dakota’s population is younger than the rest of the nation. The median age of North Dakota residents is 35.4 compared to the national median age of 38.4. This is due, in large part, to the impacts of the energy boom, which brought more people to the state for work.

Renters in North Dakota

- One-third of households in North Dakota are renters.
- Most recent data show there is a deficit of affordable and available housing units for North Dakotans at or below the line for extremely low income (ELI) or at or below 50 percent of average median income. As of now, there are 98 units for every 100 renters.
- One-bedroom apartments are out of reach for minimum wage earners in every North Dakota county; and not affordable to a childcare worker (one of the lowest paid occupations in North Dakota) earning the median wage of \$14.39.
- Two-bedroom apartments are out of reach for renters earning the mean renter income of \$20 per hour in most North Dakota counties.

Homeownership in North Dakota

- Home values have increased in all of North Dakota’s metro areas with Bismarck topping the list with an average price of \$349,725. In comparison, the average cost in Fargo is \$296,437, Grand Forks is \$264,170, and Minot is \$251,029.
- The state’s median home price is three times the median income in North Dakota’s metro areas. To illustrate this data point, Butchko referenced information from Zillow which provided a comparison of the cost increase of one three-bedroom house in Bismarck from February 2020 to June 2024.
 - **Three-Bedroom Home Costs in Bismarck in February 2020:** Home price was \$237,600 with a 30-year mortgage rate of 3.49 percent. With principal and interest (\$958), the total monthly mortgage payment was \$1,522.
 - **Three-Bedroom Home Costs in Bismarck as of June 2024:** The same house is now priced at \$349,900 with a 30-year mortgage of 6.86 percent. Including principal and interest (\$2,066), the total monthly mortgage payment is \$2,786.

North Dakota Housing Affordability and Community Specific Challenges

- Homelessness has increased since the COVID pandemic.
- In 2022, 37 percent of renter households and 18 percent of homeowners experienced cost burdens.
- In 2024, between 15 percent and 41 percent of households not current on rent or mortgage reported that they believed eviction was likely in the next two months. Additionally, between 15 percent and 24 percent of households reported being unable to pay an energy bill in full during the past 12 months.
- Seventeen percent of North Dakotans are people of color with Native Americans making up 4.3 percent of the population followed by Hispanics at 4.3 percent, African Americans at 3.2 percent, Asian Americans at 1.6 percent, and those reporting as being of two or more races at 3.2 percent.
- Native Americans pay more to finance home purchases than White borrowers. A side-by-side comparison finds Native Americans living on a reservation pay on average 8.8 percent compared to White borrowers who pay 5 percent. Data shows Native American borrowers living off a reservation pay closer to 6 percent.

Presentation by the Federal Reserve Bank of Minneapolis: 'Housing Affordability, Supply, and Processes'

Following their June presentation, Ben Horowitz and Libby Starling with the Community Development and Engagement Division of the Federal Reserve Bank of Minneapolis returned to share data on housing affordability, supply, and processes. Horowitz is a senior policy analyst and Starling is a senior community development advisor for the Federal Reserve Bank of Minneapolis.

Based on their research, Horowitz and Starling have found that no single strategy can address all housing challenges, but the following three approaches generally work well together to positively impact the overall environment: **support for affordability, increased supply, and streamlined processes and rules**. Both Horowitz and Starling emphasize that different places need different mixes of approaches.

Affordability Trends

- **Cost Burden by Household:** Households are considered 'cost burdened' when they spend more than 30 percent of their income on rent or mortgage and other housing needs. The share of North Dakota households paying more than 30 percent of monthly income on housing costs is currently 25.3 percent – this is a 15-year high. Broken down between renters and homeowners, the data finds 39.1 percent of North Dakota renters and 18.2 percent of homeowners are classified as cost burdened.
- **Median 4-Person Household Income by Region (2023):**
 - Bismarck: More than \$100,000
 - Fargo: \$100,000
 - Western North Dakota: Approximately \$100,000
 - Grand Forks: Approximately \$90,000
 - Central and Southeastern North Dakota: Approximately \$90,000
- **Common Occupations and Median Rents:** Below is the median rent as a percentage monthly median wages for common occupations across the state:
 - Fast food workers: Almost 40 percent
 - Retail salespersons: More than 30 percent
 - Home health aides: Slightly more than 30 percent
 - Janitors: Approximately 30 percent
 - Nursing assistants: Slightly less than 30 percent
 - Laborers: Approximately 27 percent

All of these common occupations are cost burdened in Fargo and Bismarck. With the exception of nursing assistants, these occupations are also cost burdened in Grand Forks.

- **Middle Class Incomes versus Median Home Prices:** A look at median home prices and the incomes of the following common middle-class occupations finds all to be cost burdened statewide: Carpenters, LPNs, elementary school teachers, police officers, plumbers, accountants, electricians, and roustabouts. In comparison to Fargo and Grand Forks, Bismarck has the highest rate of cost burden for these occupations.

Understanding Supply and Demand for Housing in North Dakota

To determine if North Dakota has “enough” housing, Horowitz and Starling recommended decision-makers ask themselves the following three questions:

- 1) Does the stock of housing align with the needs of households?
 - 2) Are there enough housing units for households to avoid demand outstripping and driving up prices?
 - 3) Are there enough housing units for households both today and tomorrow?
- **Defining Vacant Housing:** The U.S. Census defines vacant housing as a housing unit where no one is living in at the time of the Census interview, unless its occupants are temporarily absent (i.e.: on vacation). This includes units that are occupied by persons who have a usual residence elsewhere (i.e.: seasonal units), newly built, or units available for rent or for sale. This classification excludes units exposed to the elements, posted as condemned or to be demolished, or used for nonresidential purposes.
 - **North Dakota Vacancy Rates Compared to the Region:** A review of North Dakota’s vacancy rates between 2008 to 2022, finds North Dakota’s vacancy rate peaked in 2017. As of 2022, North Dakota’s vacancy rate is 12.2 percent. In comparison, Minnesota has an 8.9 percent vacancy rate, South Dakota’s is 9.7 percent, and Montana is 12.3 percent. The national vacancy rate is 9.7 percent.
 - **Types of Vacant Housing in North Dakota:** Fifty percent of vacant housing in the state is for seasonal, recreational, or occasional use. The remaining 50 percent are classified as ‘other vacant’ at 35 percent, ‘for sale only’ at six percent, rented but not occupied at five percent, sold but not occupied at three percent, and 1.2 percent is designated for migrant workers.
 - **Age of Housing in North Dakota:** Compared to Minnesota, Montana, South Dakota, and national averages, North Dakota’s housing is younger with one in five housing units having been built since 2010. More than 60,000 new units have been added in the state since 2010. In fact, more than 5,000 multi-family units were permitted for construction in 2013 alone.
 - **Comparisons of Owner-Occupied and Rental Housing:** Nearly three in ten owner-occupied units were built between 1970 and 1989. Nearly half of units built in 2010 or later are presently rented.
 - **New Housing is Concentrated:** Ninety-two percent of North Dakota’s population lives in seven counties: Cass, Burleigh, Grand Forks, Ward, Morton, Stark, and Williams. Ninety-six percent of all new housing units constructed since 2000 have been in these same counties.

The breakdown by units constructed per county is as follows: Cass, 39,471; Burleigh, 15,093; Ward, 8,160; Grand Forks, 8,070; Morton, 5,276; Stark, 4,817; and Williams: 3,731.

How States and Cities are Reimagining Land Use Policy

Horowitz and Starling presented successful examples from across the country as well as recommendations on steps North Dakota should consider taking when it comes to reimagining land use policy. Among their central recommendations were (1) ensure Century Code language is current; (2) make sure zoning is in place for future development as this will cut down on the time needed to start a project; and (3) focus on policy changes around design, districts (zoning), and discretion.

- **Design:**

- Local governments must clearly state what sort of housing and buildings can be built. Regulators and developers must know what design components intersect with rules that may be under the jurisdiction of other bodies, such as: building codes, environmental needs, and infrastructure constraints.
- Additionally, localities should review and – where necessary – revise ‘gentle density’ design components such as parking requirements, setbacks, stairway requirements, utility hookups, height, lot coverage, and floor-area ratio.

- **Districts (Zoning):**

- District-based reforms change the ways local governments can classify land, which may allow for multiple uses in one district (i.e., allowing for residential in commercial districts), allowing for small multi-family units in single-family districts, and requiring certain densities in certain areas (i.e., more density near public transit).
- District-based reforms are not necessarily one-size-fits-all but can positively impact housing development and attainability.
- Many communities and large cities have had success with ‘plexibility,’ which allows for more types of housing in more places such as duplexes, fourplexes, and quadplexes. Plexibility works in both metro areas and rural communities.

- **Discretion:** When considering reforms to the procedural process, Horowitz and Starling recommend decision-makers consider asking themselves a series of questions, such as the following:

- When a project meets a site’s land use requirements, does it still require a vote?
- How many hearings are required for land use questions and what size majority must approve it?
- What triggers a public hearing?
- When can a developer expect responses from a local planning department?
- How do different bodies’ approval process align or diverge?
- What remedies are available if a developer and city disagree?

Rural-Workforce Initiative to Support Housing (R-WISH)

Kaylen Hausauer with the Bank of North Dakota (BND) provided committee members with information on the state’s new Rural-Workforce Initiative to Support Housing (R-WISH). This new pilot program was approved by the North Dakota Industrial Commission at its June 26 meeting. The following program summary is based both on Hausauer’s presentation and information from the Industrial Commission website.

- R-WISH will utilize up to \$10 million of BND capital to complement work currently being done by the North Dakota Housing Finance Agency (NDHFA).
- R-WISH will support rural communities of 20,000 residents or less with construction of market rate housing for workforce when a company is locating or expanding its operations. To qualify, a community must be experiencing a period of rapid growth due to a company expanding by more than 10 full-time equivalent employees.
- Funds may be used for new multi-family and one to four family housing projects or, if it is more cost effective, the rehabilitation of existing multi-family housing and one to four family housing.
- R-WISH enables projects hampered by disproportionate costs in comparison to attainable market rents to move forward. R-WISH must show evidence of supporting local financial institution market rate financing with market rental rates.
 - BND must be a participant in the local financial institution financing.

- The community and expanding company are expected to offer either funding or in-kind support to qualify.
- The maximum amount from the R-WISH fund is the lesser of 20 percent of the project costs, \$3.5 million, or the matching contribution from the company.
- The community must support the project through one or more of the following:
 - A local development corporation providing direct funding
 - In-kind contributions such as land, property, or infrastructure
 - Future dedicated tax programs
 - Community share of the interest buydown
- The company expanding in the community must contribute to the project costs and may include:
 - Providing direct equity to the project
 - An in-kind contribution of the product or labor
 - Other support that helps lower the overall project cost or provide financial assistance during the term of the loan

Open Forum: Committee Member Presentations

Committee members were invited to share information with the panel on initiatives, programs, and issues that may be of relevance to the group's work in developing recommendations. Below is a summary of what was presented:

- **David Flohr – North Dakota Housing Finance Agency:**
 - **Practical Application of Real Estate Appraisal (PAREA)** is a new program created to overcome barriers for entry into the appraisal industry. Chief among these barriers has been the scarcity of appraisers willing to mentor apprentices. PAREA provides an alternative method to the traditional supervisor/trainee model. Individuals can fulfill their experience requirements through a convenient online program, thereby creating a new pathway into the appraisal profession.
 - **South Dakota Housing Infrastructure Financing Fund** was created by the South Dakota legislature and administered by South Dakota Housing for the purpose of making loans and grants for housing infrastructure projects. Grants are available to for-profit, non-profit, tribal governments, and political subdivisions. To date, 35 projects have been completed and more than 40 are underway.
 - **Dakota Prairie Apprenticeship Residence Program** is a partnership between the Nueta Hidatsa Sahnish College (NHSC) in New Town and the building trades unions to establish a long-term pipeline for Native American apprentice candidates.
- **Nathan Berseth – Bell Bank and Richland County Commissioner:** Richland and Wilkin (Minnesota) counties Joint Powers Authority (JPA) have created a Richland/Wilkin County Builder Program, which works as follows:
 - 1) A builder selects a lot, along with a blueprint of what they plan to build.
 - 2) The builder submits a one-page application to the Richland/Wilkin JPA.
 - 3) Upon approval, construction will start at the builder's discretion utilizing their lead lender and a construction loan.
 - 4) Once completed, the JPA will pay off the construction note to the lead lender and carry the note for up to 12 months: 1 percent for the months 1 – 6 and 3 percent for months 7 – 12.
 - 5) The builder will have 12 months to market and sell the house to the private sector using a realtor of the builder's choosing.
 - 6) If the builder is unable to sell the house within 12 months after completion, the JPA will purchase the house at the contractor's cost, or 5 percent below appraised value, whichever is lower.

- **Janelle Moos – AARP:** AARP will be sponsoring a [‘Missing Middle Housing’ competition](#) in Fargo later this summer. This national initiative is focused on identifying housing models that meet the needs of communities throughout the United States, which ties directly into Light Touch Density and creating Livable Urban Villages.
- **Dave Mason – Representative of Independent Community Banks of North Dakota (ICBND):** The Federal Home Loan Bank of Des Moines recently launched a new product, Mortgage Rate Relief, which provides \$25 million in grant funds to those seeking affordable homeownership. The product is designed for borrowers at or below 80 percent of the Federal Housing Finance Agency’s (FHFA) Underserved Areas Data. Those qualified may permanently reduce their interest rate by approximately two percentage points lower than the current market rate.
- **Nick Hacker – Representative of the Greater North Dakota Chamber (GNDC):** Hacker presented a handout with a summary of notable data points on housing costs and mortgages.
 - North Dakota ranks third in the nation for ‘lock in effect’ for homeowners with a 3.375 percent mortgage interest rate. With higher interest rates, many North Dakotans are staying in place rather than moving on to another home.
 - Data on homeownership by generation reveals the current homeownership rates among Baby Boomers is 75 percent and Generation Xers is 60.4 percent. Millennials lag far behind with only 32.2 percent of their generation owning homes.
 - The Kentucky Chamber and Home Builders Association of Kentucky recently released a report detailing the economic impacts of housing. Within the report are recommended priorities for state action. Among them are encouraging zoning and local land use reforms, streamlining government regulations, incentivizing more affordable housing, and growing the home building workforce.
- **Jason Tomanek – Bismarck City Administrator:** The City of Bismarck recently researched housing and homelessness. A forum was held that brought together experts and representatives from across various sectors. A key data point from this process revealed that the average Bismarck family spent 26 percent of their income on childcare, which is another contributing factor to the challenges families are facing related to costs of housing.

Identification and Categorization

Having considered the data presented in both sessions, and based on responses submitted in the 3-2-1 exercise, committee members identified three priority areas and brainstormed “important to consider” issues to address within each priority areas.

Priority 1: Affordability Gaps

- Property taxes and special assessments
- Interest rates, including the feasibility of a BND homebuyer interest buydown program
- Homeowners’ insurance
- Construction costs
- Comparables and appraisal gaps
- Assistance bridges / gap financing for lower-income renters and homebuyers
- Financial literacy for renters and homebuyers

Priority 2: Government Influences

- Reviewing Century Code language for needed updates
- Zoning considerations
- Building regulations and building and fire codes
- Reviewing and identifying differences in permitting processes and timelines across the state
- Providing incentives and considering opportunities to risk share

- Taxes and tax abatements, including TIF districts for housing and Payment in Lieu of Taxes (PILOT)
- Providing a centralized system for information on housing valuations in North Dakota

Priority 3: Supply Mismatch

- Identifying different solutions that address unique issues in both rural and urban communities
- Developing solutions and approaches to bridge the gap for low-income and very low-income households
- Strategies to understand and support Aging in Place
- Filling the 'Missing Middle':
 - Rentership and homeownership
 - Addressing housing obsolescence
 - Financing
 - Note: Consider approaches from other states (examples: Montana and Utah)
- Setting realistic goals

Committee members understand their role is advisory and that ultimate authority rests with the governor and legislature. However, with this framework, members will proceed to build a set of recommendations that will ensure the most pressing challenges and most influential factors affecting North Dakota's housing industry are addressed to the benefit of North Dakota's current and future residents.

The Advisory Committee will hold its final meeting on Tuesday, August 13 at the North Dakota State Capitol.

Attachments:

'Putting North Dakota's Housing Market in Perspective and Achieving Housing Supply Abundance,' PowerPoint. Edward Pinto, American Enterprise Institute (AEI) Housing Center.

'Housing Instability in North Dakota,' PowerPoint. Michael Butchko, NeighborWorks America.

'Housing Affordability, Supply and Processes,' PowerPoint. Ben Horowitz and Libby Starling, Federal Reserve Bank of Minneapolis.