

Minnesota housing prices continue to soar

Martha McMurry

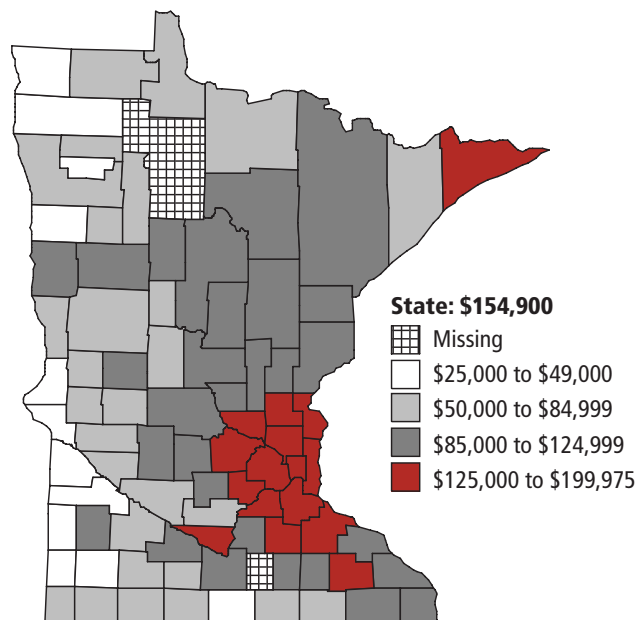
Housing has remained a bright spot in Minnesota's slumping economy. State Department of Revenue figures show that the median sales price of existing houses has risen almost 50 percent in four years. The median price for the first nine months of 2002 was \$160,500, up 49 percent from \$107,900 for the comparable January-to-September period of 1998. This rate of increase was much higher than inflation, 10.5 percent over the four-year time span.

Low mortgage rates have played a crucial role in propping up the housing market. With low interest rates, more people can afford to purchase homes, and they are

able to purchase higher-priced homes than they could if interest rates were higher. Poor returns on stocks and savings accounts may have encouraged people to put more of their nest eggs into housing.

The numbers cited in the first paragraph are based on the first nine months of each year, but most of the figures in this report are based on a 21-month period from January through September of the following year. The advantage of the longer time period is that data for smaller areas is more reliable. The disadvantage is that data from successive time periods overlaps, making comparisons less clearcut and understating the true rate of change.

Housing prices lower in western Minnesota: 2001-2002



Source: Minnesota Department of Revenue

MEDIAN SALES PRICE OF EXISTING HOUSING UNITS BY COUNTY

Minnesota, 1989-1990 to 2001-2002

County	1989-1990 Median Sales Price of Existing Homes	2000-2001 Median Sales Price of Existing Homes	Number of Sales 2001-2002	2001-2002 Median Sales Price of Existing Homes	Percent Change 1989-90 to 2001-2002	Percent Change 2000-2001 to 2001-2002
Minnesota	\$70,000	\$139,550	119,332	\$154,900	121.3	11.0
Aitkin	\$32,250	\$85,700	230	\$92,800	187.8	8.3
Anoka	\$79,000	\$150,000	8,121	\$167,000	111.4	11.3
Becker	\$39,200	\$84,000	540	\$93,550	138.7	11.4
Beltrami	\$43,000	n/a	n/a	n/a	n/a	n/a
Benton	\$53,300	\$112,500	656	\$124,450	133.5	10.6
Big Stone	\$24,471	\$38,555	81	\$47,500	94.1	23.2
Blue Earth	\$52,700	\$107,100	1,165	\$117,500	123.0	9.7
Brown	\$44,987	\$83,675	473	\$89,000	97.8	6.4
Carlton	\$38,000	\$88,800	574	\$95,000	150.0	7.0
Carver	\$94,088	\$185,000	1,968	\$199,975	112.5	8.1
Cass	\$44,500	\$110,000	591	\$118,700	166.7	7.9
Chippewa	\$28,500	\$58,000	216	\$54,850	92.5	-5.4
Chisago	\$69,900	\$149,900	1,070	\$164,274	135.0	9.6
Clay	\$55,000	\$85,000	1,158	\$89,396	62.5	5.2
Clearwater	\$16,000	\$38,950	138	\$50,500	215.6	29.7
Cook	\$46,500	\$133,200	83	\$132,250	184.4	-0.7
Cottonwood	\$21,600	\$52,150	222	\$54,000	150.0	3.5
Crow Wing	\$45,825	\$108,050	1,223	\$119,900	161.6	11.0
Dakota	\$89,900	\$164,900	11,312	\$180,000	100.2	9.2
Dodge	\$49,500	\$110,000	291	\$123,560	149.6	12.3
Douglas	\$50,450	\$105,880	757	\$113,000	124.0	6.7
Faribault	\$28,000	\$46,500	221	\$48,000	71.4	3.2
Fillmore	\$33,000	\$81,000	361	\$85,800	160.0	5.9
Freeborn	\$39,900	\$69,900	646	\$73,200	83.5	4.7
Goodhue	\$55,000	\$124,000	903	\$134,050	143.7	8.1
Grant	\$26,500	\$50,900	126	\$50,000	88.7	-1.8
Hennepin	\$85,500	\$159,000	30,383	\$175,000	104.7	10.1
Houston	\$50,000	\$95,000	339	\$96,000	92.0	1.1
Hubbard	\$38,000	\$91,500	322	\$102,200	168.9	11.7
Isanti	\$60,000	\$128,875	665	\$142,000	136.7	10.2
Itasca	\$36,800	\$82,500	734	\$85,000	131.0	3.0
Jackson	\$20,000	\$51,250	161	\$51,800	159.0	1.1
Kanabec	\$37,500	\$84,000	240	\$107,750	187.3	28.3
Kandiyohi	\$51,000	\$85,590	871	\$89,150	74.8	4.2
Kittson	\$20,250	\$25,000	54	\$25,000	23.5	0.0
Koochiching	\$29,000	\$53,000	251	\$54,900	89.3	3.6
Lac qui Parle	\$17,500	\$33,850	110	\$35,000	100.0	3.4
Lake	\$31,500	\$65,000	202	\$72,519	130.2	11.6
Lake of the Woods	\$26,250	\$48,000	88	\$56,000	113.3	16.7
Le Sueur	\$49,000	\$116,920	582	\$122,000	149.0	4.3
Lincoln	\$15,000	\$40,450	96	\$44,000	193.3	8.8
Lyon	\$48,200	\$83,000	467	\$92,000	90.9	10.8
McLeod	\$57,110	\$109,000	802	\$119,375	109.0	9.5
Mahnomen	\$26,000	\$50,950	56	\$53,500	105.8	5.0
Marshall	\$26,750	\$44,900	89	\$40,000	49.5	-10.9

MEDIAN SALES PRICE OF EXISTING HOUSING UNITS BY COUNTY

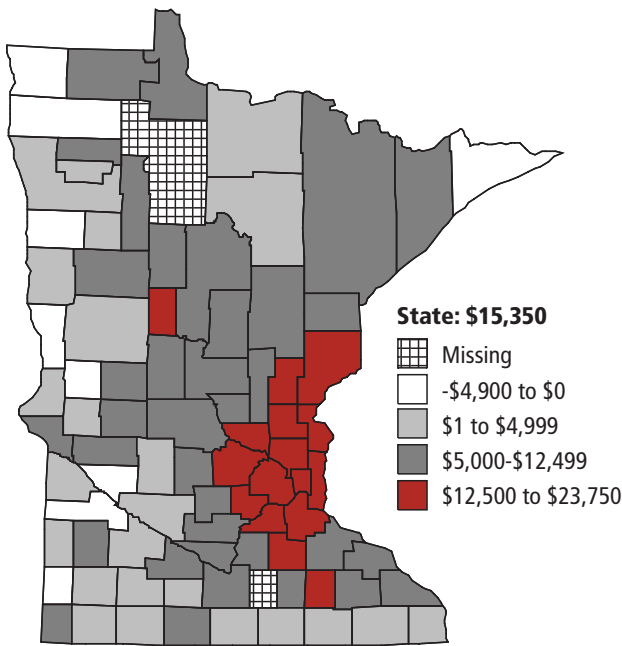
Minnesota, 1989-1990 to 2001-2002

County	1989-1990 Median Sales Price of Existing Homes	2000-2001 Median Sales Price of Existing Homes	Number of Sales 2001-2002	2001-2002 Median Sales Price of Existing Homes	Percent Change 1989-90 to 2001-2002	Percent Change 2000-2001 to 2001-2002
Martin	\$37,000	\$56,500	425	\$63,000	70.3	11.5
Meeker	\$41,000	\$87,485	440	\$94,623	130.8	8.2
Mille Lacs	\$43,000	\$106,037	413	\$118,000	174.4	11.3
Morrison	\$42,300	\$81,050	455	\$88,400	109.0	9.1
Mower	\$36,150	\$72,500	938	\$77,000	113.0	6.2
Murray	\$23,750	\$45,500	129	\$49,000	106.3	7.7
Nicollet	\$62,000	\$118,000	660	\$128,000	106.5	8.5
Nobles	\$37,820	\$54,450	382	\$55,000	45.4	1.0
Norman	\$20,000	\$34,900	89	\$33,000	65.0	-5.4
Olmsted	\$66,000	\$126,850	4,135	\$134,900	104.4	6.3
Otter Tail	\$38,700	\$74,895	1,049	\$77,000	99.0	2.8
Pennington	\$33,000	\$52,000	261	\$57,000	72.7	9.6
Pine	\$36,000	\$89,307	431	\$106,500	195.8	19.3
Pipestone	\$25,750	\$41,000	190	\$40,200	56.1	-2.0
Polk	\$40,000	\$68,000	415	\$71,000	77.5	4.4
Pope	\$29,900	\$70,000	209	\$78,250	161.7	11.8
Ramsey	\$78,000	\$141,500	12,489	\$159,900	105.0	13.0
Red Lake	\$17,500	\$36,500	60	\$40,000	128.6	9.6
Redwood	\$30,000	\$53,055	253	\$56,900	89.7	7.2
Renville	\$28,000	\$52,100	272	\$55,000	96.4	5.6
Rice	\$62,400	\$129,363	1,153	\$142,037	127.6	9.8
Rock	\$28,500	\$63,500	187	\$69,000	142.1	8.7
Roseau	\$40,000	\$62,263	242	\$68,900	72.3	10.7
St. Louis	\$39,900	\$80,000	3,786	\$88,850	122.7	11.1
Scott	\$86,000	\$174,900	3,352	\$190,000	120.9	8.6
Sherburne	\$67,500	\$146,900	1,723	\$160,000	137.0	8.9
Sibley	\$37,000	\$77,770	216	\$83,500	125.7	7.4
Stearns	\$57,000	\$109,700	2,897	\$120,702	111.8	10.0
Steele	\$57,000	\$110,000	950	\$118,000	107.0	7.3
Stevens	\$32,000	\$64,000	201	\$66,875	109.0	4.5
Swift	\$28,500	\$50,450	125	\$55,500	94.7	10.0
Todd	\$25,000	\$60,000	383	\$65,250	161.0	8.8
Traverse	\$16,000	\$25,000	54	\$26,250	64.1	5.0
Wabasha	\$48,000	\$109,000	368	\$115,000	139.6	5.5
Wadena	\$29,450	\$47,820	221	\$63,480	115.6	32.7
Waseca	\$48,000	n/a	n/a	n/a	n/a	n/a
Washington	\$86,600	\$170,000	6,079	\$185,570	114.3	9.2
Watsonwan	\$26,000	\$56,500	213	\$60,000	130.8	6.2
Wilkin	\$37,000	\$63,000	87	\$62,000	67.6	-1.6
Winona	\$49,900	\$98,900	1,039	\$108,900	118.2	10.1
Wright	\$69,000	\$149,000	2,556	\$163,550	137.0	9.8
Yellow Medicine	\$23,000	\$47,500	167	\$46,000	100.0	-3.2

Note: Data on arms length sales from Minnesota Department of Revenue, Property Tax Division. Data cover a 21-month period from January through September. Figures are in current dollars. Excludes multiple parcel sales. Includes warranty deed and contract for deed sales.

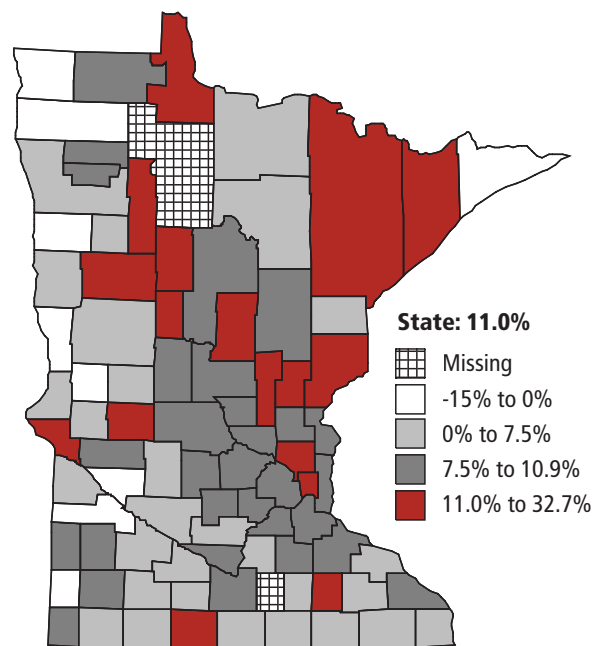
Data for Beltrami and Waseca counties not available for 2000-2001 or 2001-2002.

Biggest dollar gains in housing prices from 2000-2001 to 2001-2002 are in Twin Cities area



Source: Minnesota Department of Revenue

Area north of Twin Cities sees high rate of growth in housing prices from 2000-2001 to 2001-2002.



Source: Minnesota Department of Revenue

Twin Cities has highest sales prices

Minnesota's housing market varies dramatically by region. Housing prices are higher in the east than in the west, with the highest prices in the Twin Cities area. Carver County (\$199,975) had the highest median sales price in the 21-month period from January 2001 through September 2002, followed by Scott (\$190,000), Washington (\$185,570), Dakota (\$180,000), Hennepin (\$175,000), Anoka (\$167,000), Chisago (\$164,274), Wright (\$163,550) and Sherburne (\$160,000) counties. All these counties are in the Minneapolis-St. Paul Metropolitan Area.

At the other extreme, the lowest median sales prices occurred in counties along the state's western border. Population decline or lagging growth has restricted housing demand in this region. Kittson County had the lowest median sales price, \$25,000, followed by Traverse (\$26,520), Norman (\$33,000), Lac Qui Parle (\$35,000), Marshall and Red Lake (\$40,000), Pipestone (\$40,200), Lincoln (\$44,000), Big Stone (\$47,500), Faribault (\$48,000), and Yellow Medicine (\$46,000) counties. These numbers should be viewed with caution because there are few sales in some less-populated counties.

Housing prices rising fast in north central region

Dollar gains in housing prices have been greatest in the Minneapolis-St. Paul area, but

the rate of growth has been fastest in the north central part of the state. Between 2000-2001 and 2001-2002 the biggest increases occurred in Wadena (33 percent), Clearwater (30 percent), Kanabec (28 percent), Big Stone (23 percent), Pine (19 percent), Lake of the Woods (17 percent) and Ramsey (13 percent) counties.

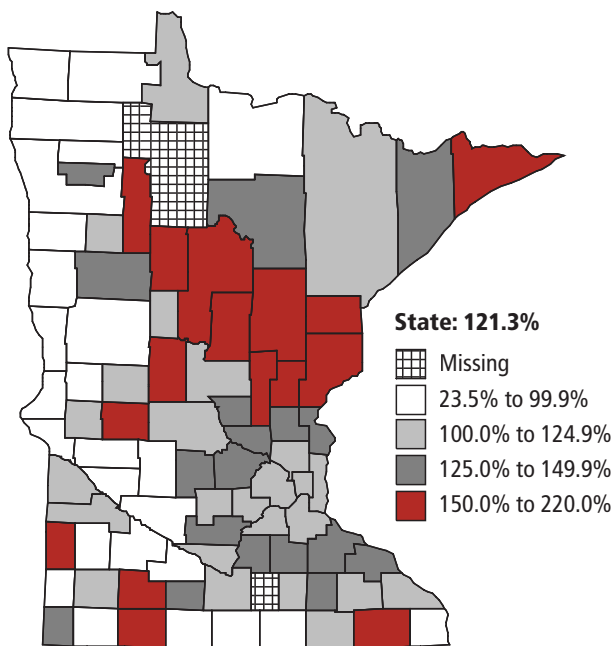
Some of these same counties led in long-term gains between 1989-1990 and 2001-2002. Median housing sales prices more than tripled in Clearwater County (216 percent), and large increases also occurred in Pine (196 percent), Lincoln (193 percent), Aitkin (188), Kanabec (187 percent) and Cook (184 percent) counties. In general, the belt of fastest growth extended from Pine County

northwest to Clearwater County. Demand for recreational property is part of the reason for this rapid growth.

Housing prices in some western Minnesota counties fell between 2000-2001 and 2001-2002. The biggest losses occurred in Marshall (-11 percent), Chippewa and Norman (-5 percent), and Yellow Medicine (-3 percent) counties.

Though western Minnesota housing values have lagged behind the remainder of the state, in almost all cases sales prices have experienced long-term gains greater than the rate of inflation. Between 1989-1990 and 2001-2002 the Consumer Price Index went up 39 percent. Kittson County, where sales prices rose 24

Longterm growth in housing prices (1989-1990 to 2001-2002) greatest in north central region



Source: Minnesota Department of Revenue

percent, was the only county where the growth in sales prices was less than inflation.

Edina has highest sales price among larger cities

The cities with the highest median sales prices are all located in the Twin Cities area, especially in suburbs south or west of Minneapolis. Among cities with population of 20,000 or more, the highest sales prices were found in Edina (\$290,000), Chanhassen (\$237,700), Minnetonka (\$236,500), Eden Prairie (\$215,000), Lakeville (\$209,900), and Savage (\$203,500).

Central cities see strong growth in housing prices

Both Minneapolis (14 percent) and St. Paul (13 percent)

posted robust increases in housing sales prices between 2000-2001 and 2001-2002. Other cities with big increases were New Brighton and Edina, both 16 percent, and Richfield and Duluth, both 13 percent. The smallest gains among larger cities were in Moorhead (4 percent), and Woodbury and Owatonna, 6 percent.

Sales prices are strongly correlated with census housing values

In the decennial census, a sample of about one in six owner-occupied households were asked to estimate the value of their homes. Overall the median self-assessed values are highly correlated with median sales prices in the same communities, though there are some disparities. Among counties, the r value

for the correlation between median value in the census and median sales price between January and July 2000 – a period covering three months on each side of the official census date – was a very high .98, with 1.00 indicating a perfect correlation. The high correlation does not mean the sales prices and census values are identical, but indicates that areas with high values on one scale have high values on the other scale.

Statewide, the census median value for selected owner-occupied homes was \$122,400, while the median sales price was \$129,999. Considering the many differences in the data, this close relationship is impressive and suggests that on the whole census values are a reasonable proxy for market value.

There are many reasons to expect median sales price and median census value to differ. Only a few houses are for sale at any time, and they may not be typical of the area. Newly constructed homes, usually of higher value, are not included in the Revenue Department sales price data. Vacation homes, condominiums and vacant properties are included in the sales price data, while the census figures are based only on single-family owner-occupied units.

A true test of the accuracy of people’s estimates of their home values would require comparing census and sales price data for individual households who actually sell their homes. That is not possible with the data used in this report; only averages can be compared.

Though overall the figures show a strong relationship between median sales price and median housing values in the census, there are some interesting discrepancies. In western Minnesota, the census value tends to be higher than the sales price, suggesting that respondents are over-optimistic about the value of housing in their area. The most extreme example was Kittson County, where the median housing value in the census was \$39,400 but the median sales price was only \$16,750. Admittedly there were only 22 sales in the first seven months of the year 2000 in Kittson County. The pattern is consistent throughout the northwest region, however, suggesting it is more than an artifact of small numbers. In all the northwestern counties, as well as many along the western and southern border, the median census value was at least 15 percent higher than the median sales price.

In the Rochester-Twin Cities-St. Cloud corridor, median sales price and median census value were generally very close, or the sales value was higher. The rapidly rising metropolitan housing market in 2000 may have led some people to underestimate the value of their property. Another factor might be that there is more high-valued new housing in the high-growth areas. This new housing stock would not appear in the housing sales data, which includes only sales of existing units.

The lowest ratio of median value to median sales price was .79 in Cook County in extreme northeastern Minnesota. Probably this can

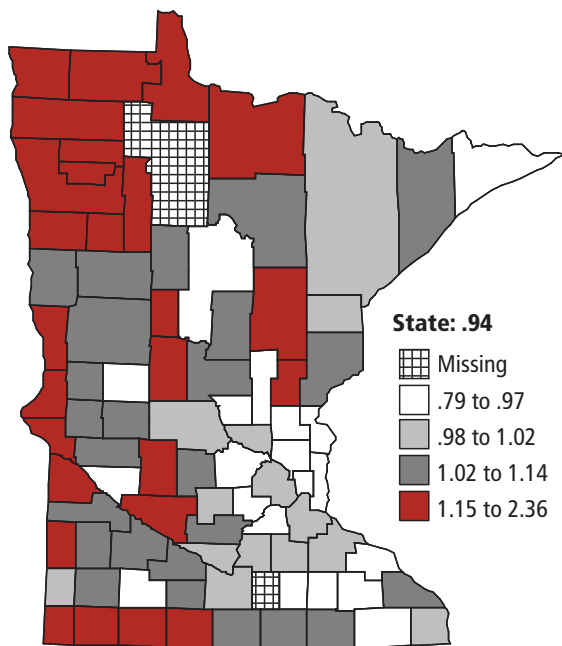
MEDIAN SALES PRICE OF EXISTING HOUSING UNITS IN MINNESOTA CITIES WITH 20,000 OR MORE POPULATION

	1989-1990 Median Sales Price	1999-2000 Median Sales Price	2000-2001 Median Sales Price	2001-2002 Median Sales Price	Percent Change 1989-90 to 2001-2002	Percent Change 2000-2001 to 2001-2002
Minneapolis	\$70,000	\$120,000	\$140,000	\$160,050	128.6	14.3
St. Paul	\$69,100	\$110,000	\$128,750	\$146,000	111.3	13.4
Duluth	\$42,000	\$78,900	\$85,590	\$97,000	131.0	13.3
Rochester	\$66,000	\$113,000	\$125,900	\$133,680	102.5	6.2
Bloomington	\$94,000	\$146,000	\$164,925	\$180,000	91.5	9.1
Brooklyn Park	\$82,900	\$132,124	\$148,800	\$165,450	99.6	11.2
Plymouth	\$120,000	\$184,900	\$200,400	\$220,000	83.3	9.8
Eagan	\$93,750	\$152,500	\$169,500	\$185,000	97.3	9.1
Coon Rapids	\$77,500	\$123,825	\$139,900	\$153,700	98.3	9.9
Burnsville	\$98,000	\$146,500	\$159,000	\$174,400	78.0	9.7
St. Cloud	\$55,000	\$91,750	\$102,800	\$115,000	109.1	11.9
Eden Prairie	\$110,500	\$179,900	\$195,000	\$215,000	94.6	10.3
Minnetonka	\$114,900	\$188,000	\$207,750	\$226,500	97.1	9.0
Maple Grove	\$89,000	\$152,000	\$168,000	\$184,900	107.8	10.1
Edina	\$147,900	\$240,000	\$250,000	\$290,000	96.1	16.0
Woodbury	\$98,500	\$169,925	\$184,900	\$195,100	98.1	5.5
Apple Valley	\$93,500	\$146,000	\$161,000	\$176,500	88.8	9.6
Blaine	\$75,000	\$129,700	\$146,069	\$164,400	119.2	12.5
St. Louis Park	\$80,200	\$135,000	\$153,500	\$170,000	112.0	10.7
Lakeville	\$92,000	\$171,900	\$188,048	\$209,900	128.2	11.6
Maplewood	\$82,200	\$137,000	\$159,900	\$170,000	106.8	6.3
Richfield	\$82,000	\$133,500	\$149,900	\$169,900	107.2	13.3
Roseville	\$91,208	\$144,900	\$160,000	\$179,618	96.9	12.3
Mankato	\$54,000	\$94,450	\$109,500	\$118,000	118.5	7.8
Moorhead	\$57,000	\$83,000	\$85,500	\$89,000	56.1	4.1
Cottage Grove	\$82,800	\$139,000	\$156,950	\$173,000	108.9	10.2
Inver Grove Heights	\$85,000	\$140,000	\$154,900	\$171,900	102.2	11.0
Brooklyn Center	\$77,000	\$116,224	\$133,500	\$149,000	93.5	11.6
Fridley	\$81,000	\$122,584	\$145,600	\$164,163	102.7	12.7
Winona	\$46,000	\$84,315	\$92,300	\$101,000	119.6	9.4
Oakdale	\$79,900	\$138,900	\$153,000	\$170,900	113.9	11.7
Andover	\$92,450	\$159,000	\$179,000	\$194,950	110.9	8.9
Shoreview	\$98,500	\$154,250	\$164,000	\$184,950	87.8	12.8
White Bear Lake	\$83,950	\$135,000	\$152,975	\$167,900	100.0	9.8
Austin	\$36,150	\$61,200	\$71,500	\$75,800	109.7	6.0
Crystal	\$76,500	\$122,250	\$138,900	\$153,550	100.7	10.5
Owatonna	\$58,900	\$104,900	\$112,500	\$119,000	102.0	5.8
New Brighton	\$99,950	\$146,000	\$155,000	\$179,900	80.0	16.1
Champlin	\$86,000	\$136,400	\$153,900	\$169,900	97.6	10.4
Savage	\$92,000	\$166,300	\$185,000	\$203,500	121.2	10.0
New Hope	\$90,439	\$140,000	\$156,000	\$173,000	91.3	10.9
Faribault	\$53,000	\$98,500	\$114,600	\$125,303	136.4	9.3
Shakopee	\$79,700	\$138,000	\$152,950	\$166,000	108.3	8.5
Chanhassen	\$122,000	\$196,000	\$215,000	\$237,700	94.8	10.6
Golden Valley	\$104,900	\$159,900	\$175,450	\$192,500	83.5	9.7
South St. Paul	\$71,950	\$117,000	\$135,000	\$149,900	108.3	11.0

Data from Minnesota Department of Revenue.

Sales prices for 21-month period from January through September the following year.

Ratio of median census 2000 housing value to median sales price January-July 2000



Source: Minnesota Department of Revenue

be attributed to the small number of sales and the large number of seasonal units.

City sales prices strongly related to census values

Median sales prices for cities, like those of counties, are strongly related to the median value shown in the census data. Among cities with at least 50 sales between January and July of 2000, the correlation (r) between median sales price and median value was .97.

Sales prices were above census values in the central cities of Minneapolis and St. Paul and in many suburban communities. Cities outside the Twin Cities, such as Red Wing, Hibbing and Luverne, are overrepresented on the list of communities where sales

prices were below the median census value.

Implications

Minnesota housing values are increasing in most areas of the state, but the gains are much greater in some areas than in others. Since housing values are the major source of asset accumulation for many families, people living outside the Twin Cities area and north central Minnesota are at a financial disadvantage.

In the areas where gains in housing values are sluggish, less revenue can be obtained from property taxes, making it more difficult for local governments to provide services. Regions with increasing values are in better fiscal condition.

Sales price trends are intertwined with housing and public assistance government programs. Mortgage bankers may be less willing to loan money in areas where values are lagging. Reverse-mortgage programs, which allow older people to tap the value of their homes to supplement their incomes, will not be successful if housing values are low. Some public assistance programs, notably Medicaid, require people to spend down their assets but allow them to keep their homes. These provisions benefit people in areas with high and rising values more than those in western Minnesota.

Sources

Data on housing sales prices comes from the Minnesota Department of Revenue, Property Tax Division. Tom Clark provided the data file. Housing price data is missing for Beltrami and Waseca counties.

Data on median housing values comes from the 2000 Census, Summary File 3.

Consumer price index data from the U.S. Bureau of Labor Statistics, All Urban Consumers Series.

CITIES WITH GREATEST DIFFERENCES BETWEEN MEDIAN CENSUS HOUSING VALUE AND MEDIAN SALES PRICE

(Cities with at least 50 housing sales between January and July 2000)

CENSUS VALUE HIGHER

(Median sales price minus census median value)

Little Canada	-\$18,900
Plymouth	-\$17,600
Red Wing	-\$16,800
Hopkins	-\$15,100
Luverne	-\$13,850
Eden Prairie	-\$13,300
Vadnais Heights	-\$13,300
Hibbing	-\$10,950

SALES PRICE HIGHER

(Median sales price minus census median value)

Orono	\$115,600
Shorewood	\$60,700
Columbia Heights	\$22,900
Brooklyn Center	\$20,400
Forest Lake	\$19,100
East Bethel	\$16,975
Stillwater	\$16,250
Robbinsdale	\$15,265
Waconia	\$15,250
Crystal	\$15,100

HIGHEST RATIOS OF CENSUS MEDIAN VALUE TO MEDIAN SALES PRICE

(Census higher)

* Luverne	1.236
* Hibbing	1.216
* Thief River Falls	1.198
* Red Wing	1.175
* Worthington	1.170
Little Canada	1.143
Hopkins	1.129
* Willmar	1.116
Vadnais Heights	1.102
Plymouth	1.098
* Austin	1.098

LOWEST RATIOS OF CENSUS MEDIAN VALUE TO MEDIAN SALES PRICE

(Sales price higher)

Orono	0.737
Shorewood	0.807
Columbia Heights	0.818
Brooklyn Center	0.838
Forest Lake	0.865
Robbinsdale	0.880
Crystal	0.882
South St. Paul	0.890
East Bethel	0.891
Minneapolis	0.894
St. Paul	0.901

* Outside Minneapolis-St. Paul Metropolitan Area

Sources: Sales price data from Minnesota Department of Revenue.

Census median housing value data from Summary File 3, 2000 Census.