

# POPULATION

## Notes

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### INFLATION-ADJUSTED HOME PRICES FALL IN MANY REGIONS OF STATE OVER LAST DECADE

Between 1975 and 1985, the median sales price for houses in Minnesota increased dramatically. Home prices increased in excess of 48 percent in each of the regions of the state and more than doubled in three of the regions. The increase in the median sales price of housing was accompanied by an equally remarkable rise in the number of houses sold, which reached a peak in 1978 of nearly 65,000 houses, 74 percent more than were sold in 1975 and more than twice the number sold in 1985.

This period, however--especially the second half of the decade of the 1970s--was a time of substantial

inflation. After adjustment for inflation, the median home sale price increased in only three regions and declined by more than 20 percent in two of the regions of the state between 1975 and 1985.

Nor have the price increases occurred in a steady fashion, most taking place prior to 1980. In three of the thirteen regions of the state, home prices in 1985 were actually lower than in 1980 (Table 1). Prices have increased steadily each year since 1975 in only one region of the state, the Twin Cities metropolitan region.

TABLE 1. CURRENT DOLLAR MEDIAN SALE PRICE BY REGION: 1975 TO 1985

Region	1975	1979	1980	1981	1982	1983	1984	1985
Region 1	\$20,000	\$33,900	\$35,000	\$31,000	\$31,900	\$35,000	\$34,000	\$30,000
Region 2	17,000	33,000	31,000	32,500	32,000	34,500	35,000	35,300
Region 3	20,500	36,000	37,000	37,900	37,000	36,900	34,700	33,200
Region 4	25,500	40,500	40,000	40,000	40,500	41,400	42,000	42,500
Region 5	19,000	33,000	34,000	32,900	35,000	37,500	36,000	38,500
Region 6E	25,900	41,200	43,000	45,000	45,800	48,000	47,500	48,000
Region 6W	19,500	28,900	30,000	29,000	32,500	30,400	31,500	28,900
Region 7E	24,900	40,000	42,000	43,000	44,000	46,500	46,000	47,000
Region 7W	29,000	45,600	48,000	51,000	51,900	53,000	54,500	54,400
Region 8	21,500	35,500	34,900	36,000	34,000	35,500	37,000	36,500
Region 9	26,000	42,000	43,000	45,000	46,000	46,100	47,500	45,000
Region 10	30,000	47,500	48,000	49,900	49,300	50,100	50,000	51,000
Region 11	35,000	59,500	64,700	69,000	70,500	71,000	71,500	72,900

Current Dollar Median Sale Price by Region, 1975 and 1985

Since year-to-year changes in house sale prices may be less indicative of long term trends, this section focuses on house sale price changes between two years, 1975 and 1985. Two factors cause house prices to change from year to year. First, house prices rise or fall with the general level of prices (i.e., because all prices are rising or falling). Second, house prices rise or fall according to the value buyers place on housing (true price appreciation or depreciation). The current dollar median house sale prices for 1975 and the first nine months of 1985 are compared in Table 2 and reflect the effects of both sources of house price change.

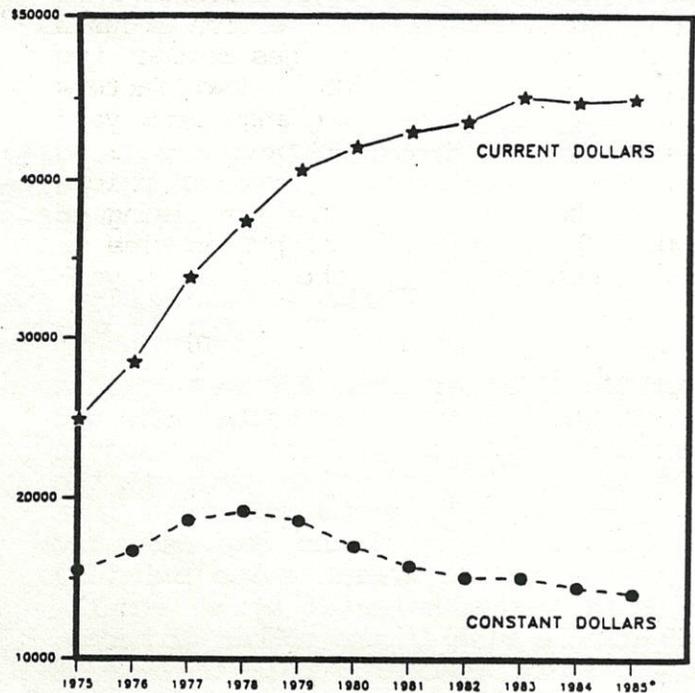
In 1975, current dollar median sale prices ranged from a low of \$17,000 in Region 2 to a high of \$35,000 in Region 11; in 1985, current dollar median prices ranged from \$28,900 in Region 6W to \$72,900 in Region 11. By 1985 the current dollar median price in all regions had increased by at least 50 percent since 1975, with the exception of Region 6W, which increased by only 48 percent over this period. The greatest increases over the eleven-year span were in Regions 11 (108%), 2 (108%) and 5 (103%), while three other regions had increases of more than 80 percent (Region 7E, 89%; Region 7W, 88%; and Region 6E, 85%).

Constant Dollar Median Sale Price by Region, 1975 and 1985

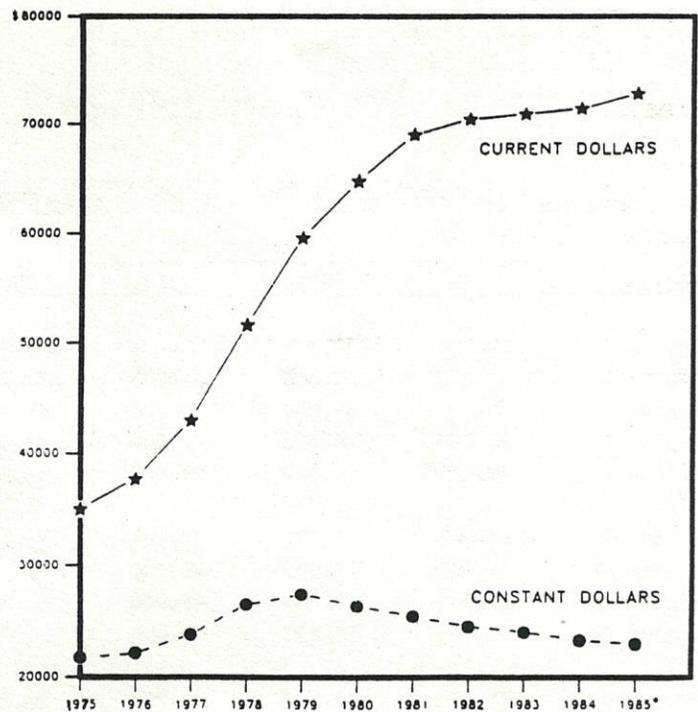
A very different picture, emerges, however, when median house sale prices are computed in constant (1967) dollars. By removing the effects of inflation from current dollar house sale prices, the remaining constant dollar house sale prices provide an indication of the true value of housing in dollars which have the same worth over time.

CURRENT AND CONSTANT DOLLAR MEDIAN SALE PRICES: 1975-1985

REGIONS 1-10



REGION 11



\*THROUGH SEPTEMBER 1985

TABLE 2. CHANGE IN CURRENT DOLLAR MEDIAN SALE PRICE  
BY REGION: 1975 AND 1985

Region	1975 Median Price	1985 Median Price	1975-85 Percent Change
Region 1	\$20,000	\$30,000	+ 50%
Region 2	17,000	35,300	+ 108
Region 3	20,500	33,200	+ 62
Region 4	25,500	42,500	+ 67
Region 5	19,000	38,500	+ 103
Region 6E	25,900	48,000	+ 85
Region 6W	19,500	28,900	+ 48
Region 7E	24,900	47,000	+ 89
Region 7W	29,000	54,400	+ 88
Region 8	21,500	36,500	+ 70
Region 9	26,000	45,000	+ 73
Region 10	30,000	51,000	+ 70
Region 11	35,000	72,900	+ 108

TABLE 3. CHANGE IN CONSTANT DOLLAR\* MEDIAN SALE PRICE  
BY REGION: 1975 AND 1985

Region	1975 Median Price	1985 Median Price	1975-85 Percent Change
Region 1	\$12,400	\$ 9,400	- 24%
Region 2	10,500	11,100	+ 6
Region 3	12,700	10,400	- 18
Region 4	15,800	13,300	- 16
Region 5	11,800	12,100	+ 3
Region 6E	16,100	15,100	- 6
Region 6W	12,100	9,100	- 25
Region 7E	15,400	14,800	- 4
Region 7W	18,000	17,100	- 5
Region 8	13,300	11,500	- 14
Region 9	16,100	14,100	- 12
Region 10	18,600	16,000	- 14
Region 11	21,700	22,900	+ 6

\* Consumer Price Index for Urban Wage Earners and Clerical Workers, all items (1967=100).

Table 3 shows that between 1975 and 1985 the percent change in the constant dollar median sale price was negative in ten of the state's 13 development regions. Constant dollar price declines exceeded five percent in nine regions, 10 percent in seven regions,

15 percent in four regions, and 20 percent in two regions (Regions 1 and 6W). Positive changes in constant dollar median sale prices were small and occurred in only three regions (2, 5, and 11).

### Fluctuations in Prices Over Time

A commonly held opinion in the late 1970s was that increases in housing prices and values were natural and to be expected. Indeed, between 1975 and 1979, median housing prices increased every year in each region of the state (Table 1). In some areas the increases were astounding. In Region 2, the Headwaters region, prices increased by 94 percent during the five-year period. In four regions, Regions 1, 3, 5, and 11, prices increased between 70 and 75 percent. For those who owned their homes, the increases meant substantial gains in their home equities.

This rapid pace of appreciation began to wane in 1980. The growth in median home prices generally slowed in 1980 and actually declined in three of the regions of the state. With the recessions of the early 1980s, median home prices declined in at least one of the years between 1980 and 1982 in eight of the 13 regions of the state.

Declines in median home prices have been most consistent in Region 3, the Arrowhead. In that region, median home sales prices declined each year from 1982 to 1985, resulting in a 1985 median price 12.4 percent less than that of 1981, the peak year for the region.

Median housing prices have continued to show declines in some areas of the state even during 1984 and 1985, despite a general statewide and national recovery from the recessions. In part, these declines resulted from continuing economic difficulties in mining and agricultural areas of the state. In both 1984 and 1985, six of the state's 13 regions experienced declines in prices. In some areas the single year declines have been sharp. For example, in Region 3 prices declined by six percent in 1984 and in Region 1, by nearly 12 percent in 1985.

### 1984-85 Median Home Sale Prices in Metropolitan Statistical Areas

The 1984 and 1985 median home sale prices in Metropolitan Statistical Areas (MSAs) are shown in Table 4. The lowest 1984 median house sale price was in the Duluth MSA (\$35,000) and the highest was in the Minneapolis-St. Paul MSA (\$71,000). Again in 1985, the lowest median price was found in the Duluth MSA and the highest in the Minneapolis-St. Paul MSA. In four of the five MSAs median house sale prices declined from 1984 to 1985. The only increase occurred in the Twin Cities MSA (1.4%); the greatest decrease was in the Moorhead MSA (-3.9%).

### Iron Range Home Prices

Since 1980 the Iron Range's taconite industry has been in a depression, resulting in high unemployment and the loss of many residents who have left the area in search of jobs elsewhere. The economic difficulties of the Iron Range are reflected in the median sale price of houses in St. Louis, Lake and Itasca Counties and 17 cities shown in Table 5. In 1984 no median sale price in these Iron Range communities was equal to or greater than the 1984 median sale price in Regions 1-10 (\$44,000); in only two cities (Mountain Iron and Grand Rapids) was the 1985 median sale price equal to or greater than the 1985 median sale price in Regions 1-10 (\$44,900).

In addition to the fact that median sale prices have been lower in the Iron Range than in the rest of Minnesota, changes between 1984 and 1985 suggest that prices are continuing to decline in this part of the state. Median house sale prices decreased from 1984 to 1985 in 12 cities. The largest decrease was in Nashwauk (-39.3%); three other cities experienced decreases over 20 percent (Chisholm, Gilbert, and Keewatin). Price increases occurred in five Iron Range communities (Silver Bay, Babbitt, Hoyt Lakes, Mountain Iron, and Grand Rapids).

TABLE 4. MEDIAN HOUSE SALE PRICE IN METROPOLITAN STATISTICAL AREAS:  
1984 AND 1985

<u>Metropolitan Statistical Area</u>	<u>1984 Median Price</u>	<u>1985 Median Price</u>
Duluth (St. Louis County)	\$35,000	\$34,000
Minneapolis-St. Paul (Anoka, Carver, Chisago Dakota, Hennepin Isanti, Ramsey, Scott, Washington and Wright Counties)	71,000	72,000
Moorhead (Clay County)	52,000	50,000
Rochester (Olmsted County)	60,000	59,900
St. Cloud (Benton, Sherburne and Stearns Counties)	52,600	51,500

TABLE 5. MEDIAN SALE PRICE AND NUMBER OF HOUSE SALES  
IN SELECTED IRON RANGE CITIES: 1984 AND 1985

<u>Area</u>	<u>1984</u>		<u>1985</u>	
	<u>Median Price</u>	<u>Number Of Sales</u>	<u>Median Price</u>	<u>Number Of Sales</u>
LAKE COUNTY	\$25,000	102	\$25,000	90
Silver Bay	16,500	29	18,100	30
Two Harbors	28,500	37	27,000	29
ST. LOUIS COUNTY	\$35,000	1,800	\$34,000	1,465
Aurora	22,000	19	20,600	12
Babbitt	15,000	8	16,300	24
Biwabik	21,000	3	18,500	6
Buhl	23,000	5	20,800	6
Chisholm	25,000	42	18,000	55
Ely	20,100	24	18,200	30
Eveleth	27,500	32	23,000	27
Gilbert	24,300	10	17,800	13
Hibbing	35,000	192	32,500	165
Hoyt Lakes	23,200	8	24,000	15
Mountain Iron	40,000	23	47,400	14
Virginia	33,600	64	33,000	80
ITASCA COUNTY	\$36,500	356	\$35,000	270
Grand Rapids	43,900	103	45,000	58
Keewatin	18,300	14	13,800	7
Nashwauk	15,000	7	9,100	6

The number of house sales in these seventeen cities during the first nine months of 1985 was 18 percent greater than the number of sales during the first nine months of 1984 (577 and 489 sales, respectively). It should be noted, however, that median house sale prices in Iron Range communities may have been positively or negatively affected by the smaller numbers of house sales during the period. Median sale prices in Biwabik, Buhl, Hoyt Lakes, Keewatin, and Nashwauk, for example, may have been influenced by the completion of fewer than 10 house sales in 1984 and/or 1985.

**TABLE 6. NUMBER OF RESIDENTIAL REAL ESTATE SALES: 1975 TO 1985**

Year	Regions 1-10	Region 11	Statewide
1975	15,419	21,954	37,373
1976	21,495	25,857	47,352
1977	22,827	35,699	58,526
1978	26,065	38,927	64,992
1979	23,665	36,323	59,988
1980	16,713	24,520	41,233
1981	15,484	20,716	36,200
1982	12,739	16,573	29,312
1983	16,630	22,590	39,220
1984	17,077	26,951	44,028
1985	12,926	18,974	31,900

Residential Real Estate Sales, 1975-85

Table 6 shows the number of residential real estate sales in Regions 1-10, Region 11, and statewide for the years 1975-1985. The number of sales statewide has ranged from a high of 64,992 in 1978 to a low of 29,312 in 1982, but the distribution of sales between Region 11 and Regions 1-10 has remained about the same: approximately 60 percent in Region 11 and 40 percent in Regions 1-10.

The number of real estate sales has declined since 1978. In that year escalating house prices and home mortgage interest rates below 10 percent encouraged step-up purchases by existing homeowners. In 1982 the number of sales "bottomed-out" to below 30,000 when interest rates rose to 15 percent or more and house price increases leveled off or, in some parts of the state, actually declined.

In 1984, the last full year of data, there were 44,000 sales, about 3,000 less than the number of sales in 1976 but about 3,000 more than in 1980.

Historically, the first nine months of sales have represented about 70 percent of the sales eventually recorded for 12 months. Therefore, sales in 1985 can be expected to be slightly higher than in 1984, a number consistent with moderate price increases and falling interest rates.

Contract-for-Deed House Sales, 1982-85

Before the escalation of house prices and interest rates in the 1970s and 1980s, contracts-for-deed were used rather infrequently in mortgage transactions. However, in 1982 contract-for-deed sales accounted for more than 40 percent of all financing (Table 7). In 1983 the share of contract sales declined to less than 30 percent, a level that has persisted through 1985. These changes correspond to average annual interest rates of approximately 16%, 13%, 14%, and 12% (See Technical Notes) for the years 1982-1985.

Thus, contracts-for-deed facilitated transactions when interest rates were high and borrowers were unable to qualify for traditional mortgage loans. The data further indicate that contracts-for-deed have been and are increasingly more important outside the Twin Cities metropolitan area.

TABLE 7. NUMBER OF CONTRACT-FOR-DEED HOUSE SALES: 1982-1985

Region	1982		1983		1984		1985	
	Number of Contracts	Percent of all Sales	Number of Contracts	Percent of all Sales	Number of Contracts	Percent of all Sales	Number of Contracts	Percent of all Sales
Regions 1-10	5,568	44%	5,180	31%	5,871	34%	3,768	29%
Region 11	6,612	40%	5,229	23%	7,015	26%	3,560	19%
Statewide	12,180	42%	10,409	27%	12,886	29%	7,328	23%

Technical Notes

The preceding analysis is based on sales price information for the years 1975-1984 and for the first nine months of 1985, the most recent data currently available from the Minnesota Department of Revenue. Under the current provisions of Minnesota state law, county assessors are required to submit a Certificate of Real Estate Value to the Department of Revenue for each sale or transfer of residential property. Thus, accurate sales price information is available for any existing house sold through an "arm's length" transaction.

A valid "arm's length" real estate transaction includes any open market sale between a willing buyer and seller. Non-arm's length transactions such as transfers to or from related parties, non-profit institutions, political subdivisions, and public utilities are excluded from this report.

Median house prices for 1985 include data only through September of that year. Each June the Minnesota Department of Revenue provides data for the first nine months of the previous year along with 12 months of revised information updating the nine months of sales data presented in the previous report--i.e., in June of 1986 real

estate transfer data were available for the period January 1985 through September 1985 along with 12 months of revised data for calendar year 1984.

"Current" dollars refers to the actual price of a house in a given year.

"Constant" dollars refers to the price of a house adjusted to 1967 dollars. The year 1967 is the base year for the Consumer Price Index (CPI).

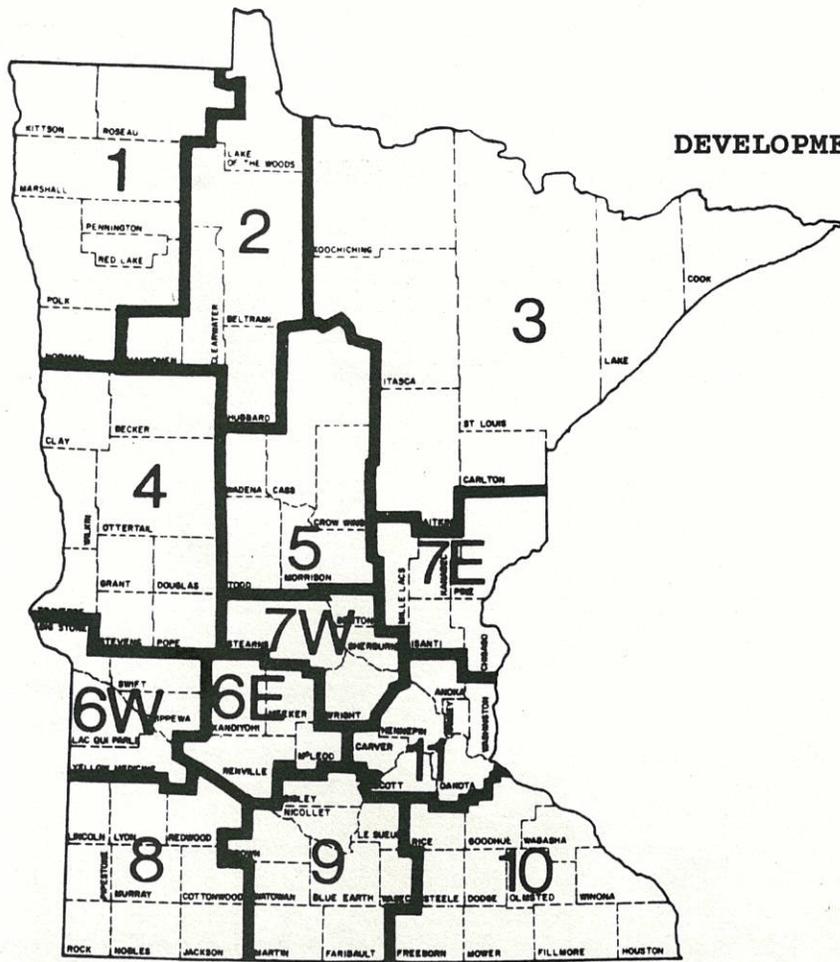
Interest rates quoted for the years 1982-1985 are average annual contract commitment rates on conventional loans for newly-built homes (Federal Reserve Bulletin, September 1986).

It is not possible to compare Minnesota trends in home prices with those of the U. S. since comparable national data do not exist.

Note to Readers:

For additional copies of this Population Note, please call the Demographer's Office, State Planning Agency, (612)296-2557.

Trend Reports on "Manufactured Chemicals and Ground Water Quality" and "Post Secondary and Adult Education" are now available from the State Planning Agency.



**DEVELOPMENT REGIONS**



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