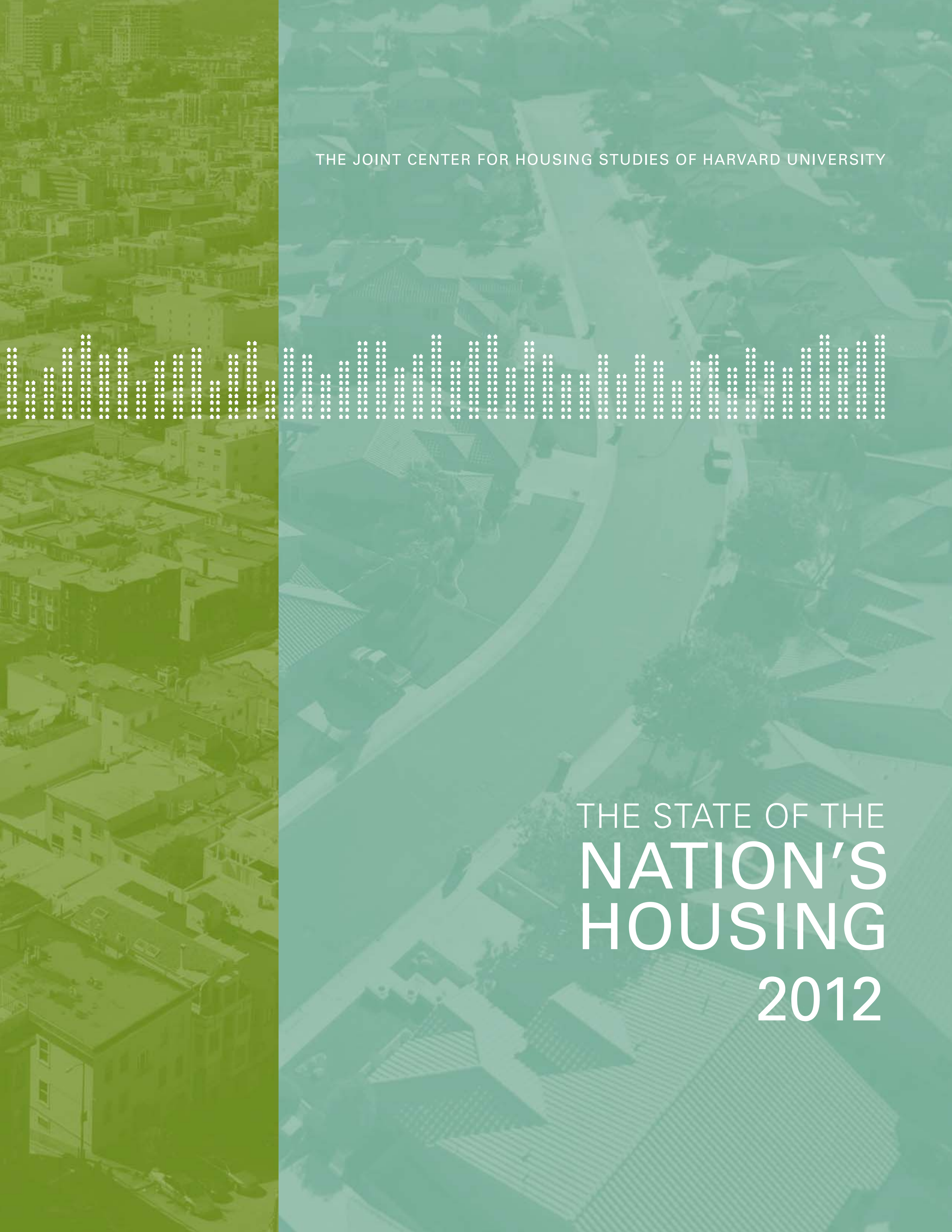

THE JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

THE STATE OF THE NATION'S HOUSING 2012

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

HARVARD GRADUATE SCHOOL OF DESIGN

HARVARD KENNEDY SCHOOL

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1 Executive Summary

After several false starts, there is reason to believe that 2012 will mark the beginning of a true housing market recovery. Sustained employment growth remains key, providing the stimulus for stronger household growth and bringing relief to some distressed homeowners. Many rental markets have already turned the corner, giving a lift to multifamily construction but also eroding affordability for many low-income households. While gaining ground, the homeowner market still faces multiple challenges. If the broader economy weakens in the short term, the housing rebound could again stall.

SIGNS OF RECOVERY IN THE FOR-SALE MARKET

The for-sale housing market remained depressed for much of 2011. House prices in most areas continued to slide, sales were lackluster, and single-family construction hit a record low. But as the year ended, steadier job growth and improving consumer confidence boosted sales of both new and existing homes **(Figure 1).** With demand reviving and inventories of homes for sale depleted, home prices may well find a bottom this year. Moreover, stronger sales should pave the way for a pickup in single-family construction over the course of 2012.

Nevertheless, a number of conditions may keep the recovery in the owner-occupied market relatively subdued. The backlog of roughly two million loans in foreclosure means that distressed sales will remain elevated, keeping prices under pressure. Another 11.1 million homeowners owe more on their mortgages than their homes are worth, which dampens both sales of new homes and investment in existing units. And despite recent declines, the number of vacant homes is still well above normal, limiting demand for new construction in many markets.

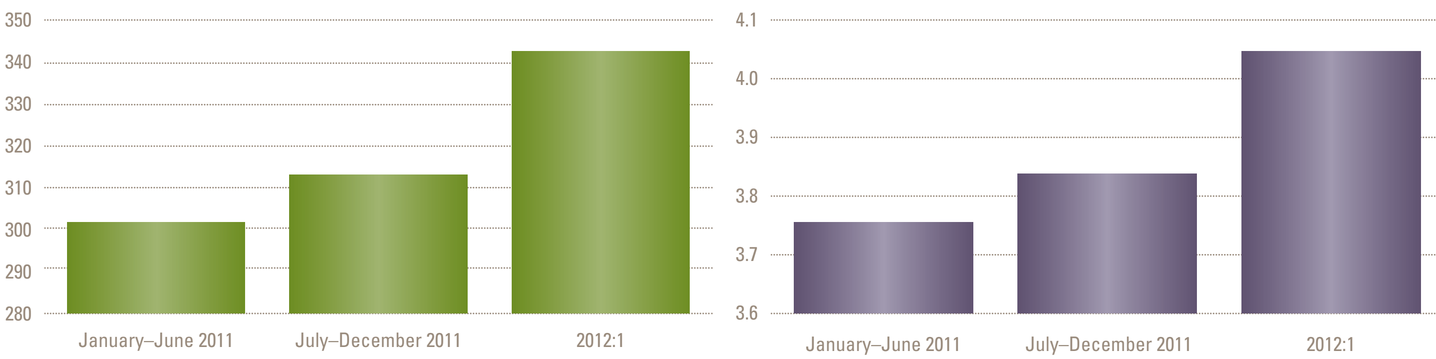
What the for-sale market needs most is a sustained increase in employment to bring household growth back to its long-term pace. But the persistent weakness in homebuilding has in itself hindered a strong rebound in hiring. From 2006 through 2010, residential fixed investment pulled down growth in gross domestic product (GDP) in all but three quarters, two of which benefited from targeted tax credits. Since 2011 began, however, home construction and improvement spending have made a positive contribution to GDP in four out of five quarters. With multifamily construction already on the rise, even modest increases in the number of single-family starts—together with stronger sales of existing homes and associated investment in improvements—will bolster economic growth and, in turn, the housing sector.

THE RENTAL MARKET REBOUND

The bright spot continues to be the rental market, where demand has spiked. Indeed, the number of renters surged by 5.1 million in the 2000s, the largest decade-long increase in the postwar era. In part, this growth reflects disproportionate

FIGURE 1

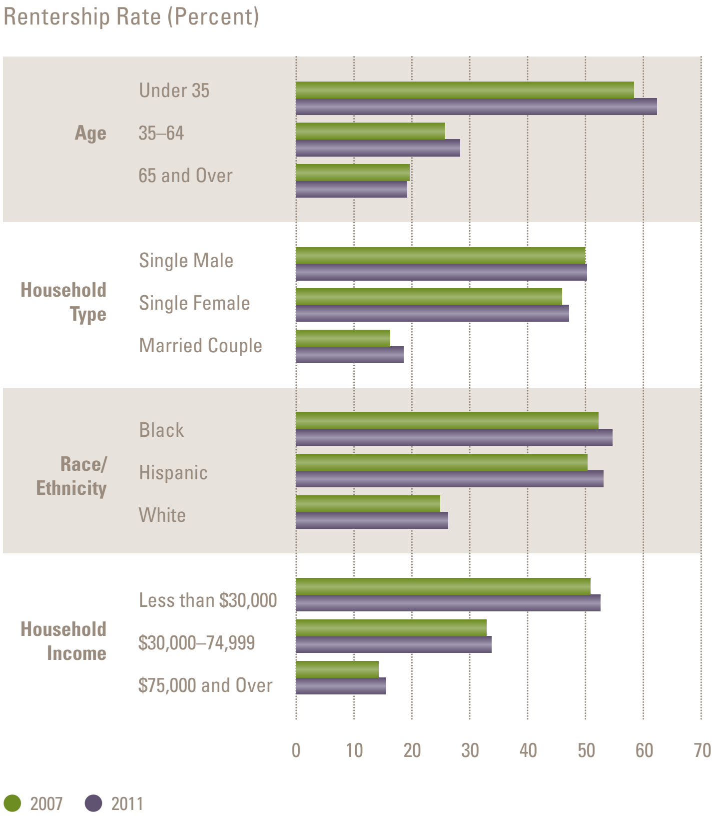
Sales of Both New and Existing Homes Picked Up Sharply in Early 2012



Note: Sales figures include only single-family homes and are at seasonally adjusted annual rates.
Sources: US Census Bureau, New Residential Construction; National Association of Realtors®, Existing Home Sales via Moody's Economy.com.

FIGURE 2

A Wide Range of Households Has Boosted Rental Demand Since the Housing Downturn



Notes: White and black householders are non-Hispanic. Hispanics can be of any race. Household incomes are for 2006 and 2010, and adjusted to 2010 dollars by the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy and Current Population Surveys.

shares of young, minority, and lower-income households, who are traditionally more likely to rent. But the foreclosure crisis and the aging of the population have also spurred increases in renting among the middle-aged, as well as households that are white, married, and have moderate incomes **(Figure 2).**

Moreover, rental markets have yet to benefit fully from the presence of the large echo-boom generation. The recession helped to dampen the rate at which young people begin to live independently, contributing to a decline in the number of households under age 25—the years when renting is most common. But once the economy recovers and the echo boomers increasingly strike out on their own, rental markets will receive another significant lift.

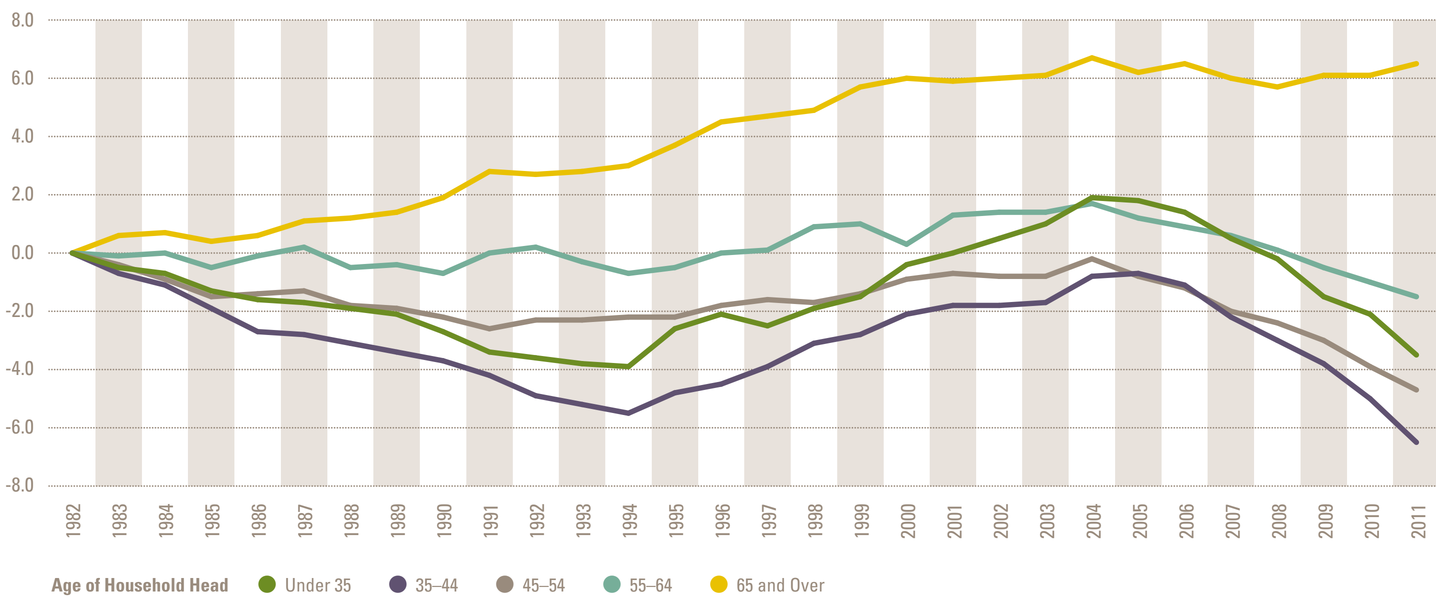
Rapidly rising demand has pushed rental vacancy rates down across the country, sparking widespread rent increases. According to MPF Research, rents on investment-grade multifamily properties outpaced inflation in 38 of the 64 markets it tracks. Of the remaining metros, all but one (Las Vegas) posted at least nominal rent increases in 2011. Adjusting for inflation, San Francisco led the nation with a double-digit rise, but real rents in metros in the Northeast (Boston and New York), South (Austin), and West (Denver) were also up 3.0–5.0 percent. Even in several markets associated with the foreclosure crisis (including Detroit, Cleveland, and Ft. Myers), real rents are climbing.

Rental market tightening has stabilized multifamily property values after a sharp drop rivaling that in the single-family market. As measured by NCREIF's Transaction Based Apartment Price Index, prices were up 10.0 percent in the fourth quarter of 2011 from a year earlier and 34.4 percent from the 2009 low. With vacancy rates falling and owners' financial positions strengthening, multifamily starts more than doubled from the

FIGURE 3

With Their High Rates of Homeownership, Older Households Have Prevented an Even Larger Fall-off in the Overall Rate

Change in Homeownership Rate (Percentage points)



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

trough to a 225,000 unit annual rate in early 2012. While still well below the nearly 340,000 annual average in the decade before the bust, multifamily starts are providing a welcome boost to the construction industry.

CONTINUING SLIDE IN HOMEOWNERSHIP

Declines in the national homeownership rate accelerated in 2011 as increasing numbers of households opted—or were forced by foreclosure—to rent. The national homeownership rate dipped to 66.1 percent, down 0.7 percentage point from a year earlier and 2.9 percentage points from the 2004 peak. Despite the drop in rates for all age groups under 65, however, the overall rate stands well above the 64 percent prevailing in the 1980s and first half of the 1990s. Indeed, the national rate remains relatively strong both because the ranks of households with heads aged 65 and over are growing and because homeownership rates among this age group are near record highs **(Figure 3).** While rates for younger households may fall further in the next few years, the aging baby boomers will help to mitigate the impact on the national homeownership rate.

Thankfully, homeowner distress has begun to abate, with the share of loans 90 or more days delinquent falling steadily from 5.1 percent of mortgages at the end of 2009 to 3.1 percent in the first quarter of 2012. At the same time, though, the backlog of loans in the foreclosure process has only edged down from 4.6 percent to 4.4 percent. Since nearly three-quarters of these borrowers have not made a mortgage payment in more than a year (and 42 percent have not done so in two years), most will ultimately forfeit their homes. In the near term, the recent settlement between large loan servicers and the federal and state governments could also drive up foreclosures as long-pending cases are pushed to resolution.

Despite this drag, recovery in the owner-occupied market could strengthen if positive job numbers and tightening markets encourage more households to buy. Although young households have increasingly opted to rent in recent years, most still aspire to homeownership. The late-2011 Fannie Mae National Housing Survey found that 86 percent of renters aged 18–34 believe they will ultimately own homes. In addition, close to 70 percent of respondents to both the Fannie Mae survey and the University of Michigan Survey of Consumer Attitudes felt that it was a good time to buy. In fact, the monthly mortgage payments for the typical home currently compare more favorably to rents than at any time since the early 1970s **(Figure 4).** So far, though, the weakness in the economy and continued uncertainty may be deterring many would-be buyers from taking advantage of today's home prices and low mortgage interest rates.

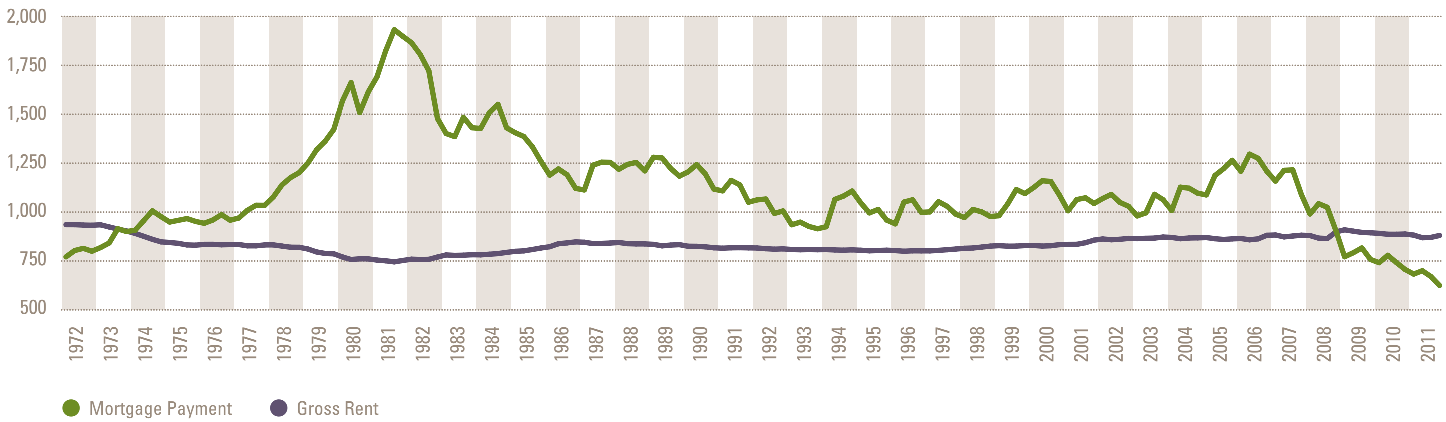
THE PROSPECTS FOR HOUSEHOLD GROWTH

Given that the number of new homes added in 2002–11 was lower than in any other ten-year period since the early 1970s, it

FIGURE 4

Mortgage Payments Have Become More Affordable Relative to Rents

Monthly Housing Costs (2011 dollars)



Notes: Monthly mortgage payments are based on the median existing home price from the National Association of Realtors® and assume a 20-percent downpayment and a 30-year fixed-rate mortgage at the average rate for the quarter reported by Freddie Mac. The monthly gross rent is the median gross rent from the 2010 American Community Survey indexed to the Consumer Price Index for Rent of Primary Residence. Both series are adjusted for inflation using the CPI-U for All Items.

Sources: JCHS tabulations of Freddie Mac, Primary Mortgage Market Survey; National Association of Realtors®; US Census Bureau, 2010 American Community Survey; and US Bureau of Economic Analysis, Consumer Price Indices.

is difficult to argue that overbuilding is dragging down the housing market. Instead, the excess housing supply largely reflects the sharp slowdown in average annual household growth in 2007–11 to just 568,000—less than half the pace in the first half of the 2000s or even the 1.15 million averaged in the late 1990s **(Figure 5).**

Two factors are responsible for this drop: a decline in the rate at which individuals (particularly those under age 35) form independent households, and a sharp drop in immigration. While a variety of forces contributed to these trends, the severity of the economic recession clearly played a significant role. As 2012 began, the ingredients needed to spark more normal household growth were still not in place. In particular, the unemployment rate remained elevated, and in fact would have been even higher if so many discouraged workers had not exited the labor market.

But over the longer run, the most important drivers of household growth are the size and age structure of the adult population. Assuming the economic recovery is sustained in the next few years, the growth and aging of the current population alone—including the entrance of the echo boomers into adulthood—should support the addition of about 1.0 million new households per year over the next decade. The biggest unknown is the contribution of immigration to overall population growth. But even assuming net inflows are roughly half the level in the Census Bureau's 2008 projection, the Joint Center for Housing Studies projects household growth should still average 1.18 million a year in 2010–20.

Another key question about future housing demand relates to the aging of the baby boomers. The leading edge of this group reached 65 in 2011, entering the phase of life when they are less likely to move to different homes. And if they do move, many are apt to downsize. The baby boomers should therefore play a smaller part in setting the pace of housing demand in the coming years. In fact, the baby-boom generation's dominance of the new home market had already receded by the time of the housing boom. In 2010, the baby-bust cohort (aged 25–44 in that year) occupied nearly half of the homes built since 2000, while the baby boomers lived in only 34 percent of these newer units **(Figure 6).**

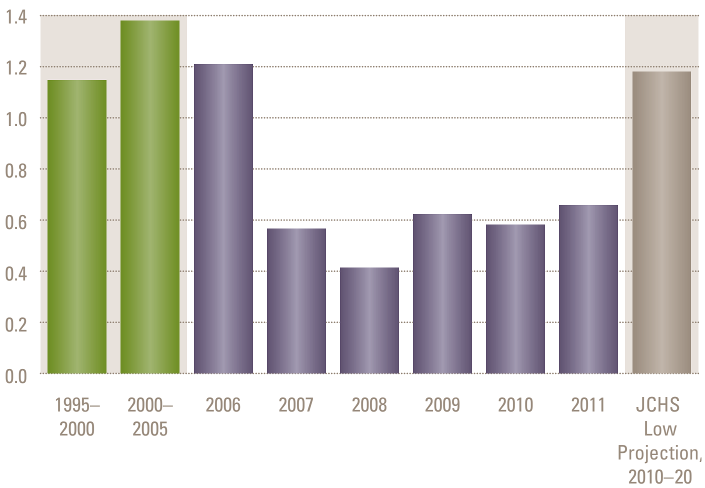
Over the next 20 years, the echo boomers have the potential to spur new home demand to an even greater extent than their parents did beginning in the 1970s. The good news for housing production is that this new generation already outnumbers that of the baby boomers at the same ages. With even a modest lift from immigration, the echo-boom generation will grow even larger as its members move into the prime household formation years.

Because the echo boomers are much more racially and ethnically diverse than previous generations, a larger share of tomorrow's young households will be minorities. Indeed, the Joint Center projects that minorities will account for more than 70 percent of net household growth in 2010–20. Both the housing industry and the mortgage market will need to find ways to adapt to this impending shift in housing demand.

FIGURE 5

Household Growth Has Yet to Stage a Strong Recovery

Annual Household Growth (Millions)

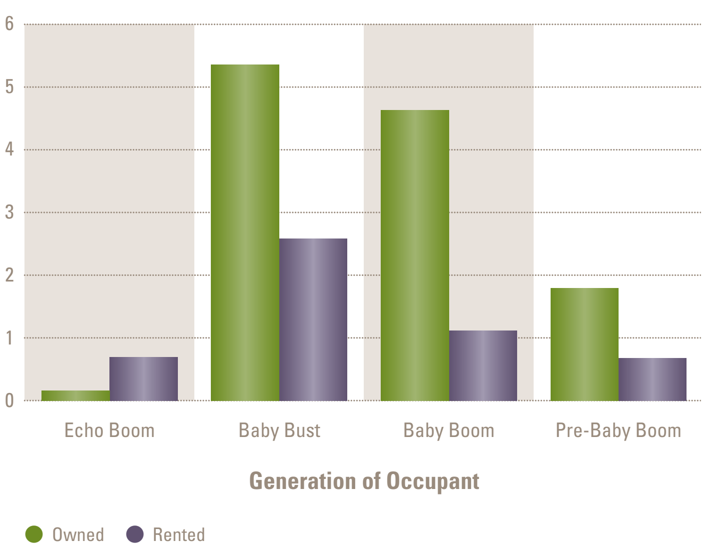


Note: JCHS low projection assumes that immigration in 2010–20 is half that in the US Census Bureau's 2008 middle-series (preferred) population projection.
Sources: US Census Bureau, Housing Vacancy Survey; JCHS 2010 household growth projections.

FIGURE 6

The Baby Boomers No Longer Dominate the New Home Market

Units Built in 2000–10 (Millions)



Note: Echo boomers were under age 25 in 2010, baby-bust householders were 25–44, baby boomers were 45–64, and pre-baby boom householders were 65 and over.
Source: US Census Bureau, 2010 American Community Survey.

THE INCREASING PREVALENCE OF COST BURDENS

The recession took a toll on household incomes but did little to reduce housing outlays for many Americans. Between 2007 and 2010, the number of US households paying more than half of their incomes for housing rose by an astounding 2.3 million, bringing the total to 20.2 million **(Figure 7)**. While renters accounted for the vast majority of the increase, the number of severely cost-burdened owners also rose by more than 350,000 as many households locked into expensive mortgages were unable to refinance. Moreover, the recent jump in the number of severely cost-burdened households comes on top of a 4.1 million surge in 2001–7.

For households paying large shares of income for housing, making ends meet is a daily challenge. Among families with children in the bottom expenditure quartile, those with severe housing cost burdens spend about three-fifths as much on food, half as much on clothes, and two-fifths as much on healthcare as those living in affordable housing. Providing assistance to cost-burdened households not only helps to ensure a decent place to live, but also frees up resources to meet life's other necessities. In addition, affordable housing makes it more feasible for low-income households to set aside some savings as a cushion against emergencies or as an investment in education, business, or other advancement opportunities.

But the prospects for meaningful reduction in housing cost burdens remain bleak. As more renters than ever before struggle to pay for housing, the federal response has been limited. Funding for the Housing Choice Voucher Program, one of the principal sources of rental housing assistance since the early 1990s, has increased only modestly since the recession. But with renter incomes falling and rents rising, the amount of assistance needed per renter has climbed—making higher funding imperative just to serve the same number of recipients.

At present, the only significant growth in subsidized rental housing comes through the Low Income Housing Tax Credit (LIHTC) program, which continues to add about 100,000 affordable units each year. Still, only about a quarter of very low-income households receive assistance. If calls for significant cuts to domestic spending (including the voucher program) or to financial support provided through the tax code (including LIHTC) are successful, the nation would move even further away from its longstanding goal of ensuring decent, affordable housing for all Americans.

THE ROAD AHEAD

With moderate gains in multifamily construction, improving sales of existing homes, and modest increases in single-family starts, housing should make a stronger contribution to economic growth in 2012 than it has in years. But while the rental market rebound is on track, the owner-occupied market still faces a number of pressures that may make the turnaround more muted than in recent cycles.

FIGURE 7

The Incidence of Severe Cost Burdens Has Risen Sharply in the Recession's Aftermath

Number of Households Paying More than Half of Pre-Tax Income for Housing (Millions)

Source: JCHS tabulations of US Census Bureau, American Community Surveys.

In particular, sales of distressed properties are holding down home prices, and millions of owners are unable to sell because they are underwater on their mortgages. These conditions are impeding a more robust recovery in existing home sales as well as in improvements spending, which usually increases right after a home purchase. Enhancements to the Home Affordable Modification Program, the recently completed National Mortgage Servicing Settlement, and servicers' own efforts to clear foreclosure backlogs may, however, provide some relief by increasing loan modifications and expediting disposition of properties where homeownership cannot be maintained.

The greatest potential for recovery in the for-sale market lies in its historic affordability for well-positioned homebuyers. The dive in home prices and record-low mortgage rates have made owning more attractive than in years. But the availability of mortgage financing for young buyers with limited cash, other debts, and less than stellar credit is far from certain. Since the market meltdown, underwriting has become much more restrictive. So far, FHA and state housing finance agencies have served a vital role in supporting low-downpayment loans for homebuyers with all but the lowest credit scores. But even FHA is now raising its premiums to shore up its financial position and to encourage the return of private capital to the market. With key mortgage lending regulations still undefined, it remains to be seen to what extent and under what terms lenders will make credit available to lower-income and lower-wealth borrowers.

While restoring the housing market to health will benefit many households, it will also increase the cost pressures on many others. Rising rents have already added to the affordability problems of lower-income families. In addition, even as the recovery takes hold in a broad range of markets across the country, the damage to foreclosure-ridden neighborhoods will take years to heal. At a time when all levels of government are under financial duress, mustering the resources to address these challenges is increasingly difficult. But in making the hard decisions about scarce public funding, policy makers must bear in mind the fundamental importance of affordable housing to the well-being of every individual and the communities in which they live.

2 Housing Markets

Signs of a housing market rebound have begun to accumulate. Rental demand was up and vacancies down in 2011, leading to a jump in multifamily construction. With the economy steadily adding more jobs, home sales picking up, and new home inventories at record lows, the single-family market may also be reviving. Still, the persistent weakness in existing home prices, the large backlog of foreclosures, and the tight lending environment are restraining the recovery.

MARKETS AT A TURNING POINT

While multifamily starts surged 54 percent and home improvement spending eked out a 0.6 percentage-point gain, single-family starts dropped some 8.6 percent last year **(Figure 8).** Because of the lag between starts and finished construction, completions of both single- and multifamily homes were also off more than 10 percent, falling to record lows. Even manufactured home placements plumbed new depths in 2011, at just 47,000 units. The sharp and sustained retreat made 2011 the worst year for completions in records dating back to 1968.

But the beleaguered single-family market now appears to be turning around, with starts picking up significantly in the second half of 2011 and standing 16.6 percent above weak year-earlier levels in the first quarter of 2012. Permitting, a leading indicator of starts, was also up 16.9 percent early this year. With homebuilders reporting strong growth in orders and new home sales, residential construction activity appears to be emerging from the deepest, most prolonged downturn in recent history.

Indeed, despite the spectacular boom early in the decade, 2002–11 was the worst 10-year period for overall housing production since recordkeeping began in 1974. Moreover, this cycle marks the only time in the post-WWII era that starts dipped below 1.0 million units a year and then rebounded so weakly **(Figure 9).** Making matters worse, the fall-off in demand was even more dramatic than the plunge in housing production, leaving national vacancy rates at elevated levels.

The downturn in remodeling has also been sharp and prolonged, although not nearly as severe as in homebuilding. After a peak-to-trough drop of 28.4 percent (compared with more than 75 percent in new construction spending), home improvement spending increased to 49 percent of residential construction expenditures in 2011. This is the largest share in records dating back to 1993 and well above the 25 percent averaged in 1993–2008. Although real expenditures on improvements were down 1.6 percent in the first quarter of 2012 from year-earlier levels, the Joint Center's Leading Indicator of Remodeling Activity points to a resumption of spending growth in the second half of 2012. Investment in lender-owned properties should also help to prop up remod-

FIGURE 8

Another Down Year for Housing, But Signs of a Turnaround Are Appearing

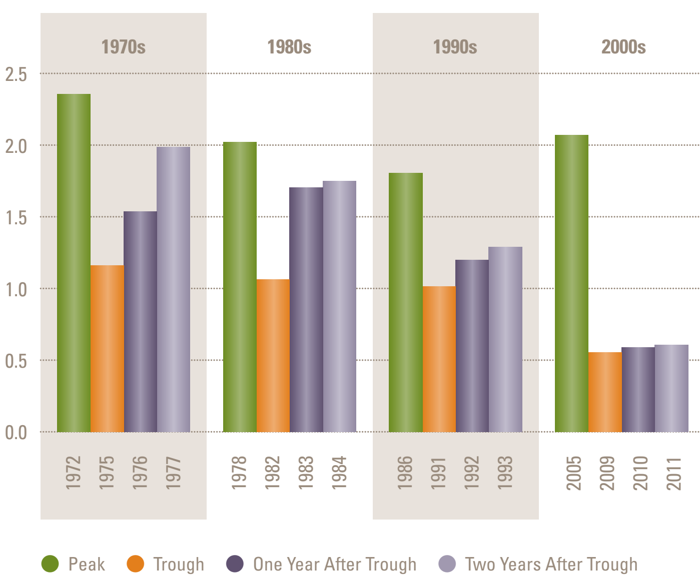
	2010	2011	2011:1	2012:1	Percent Change	
					2010–2011	2011:1–2012:1
Single-Family Home Sales						
New (Thousands)	323	306	294	343	-5.3	16.7
Existing (Millions)	3.7	3.8	3.8	4.0	2.1	6.3
Residential Construction						
Total Starts (Thousands)	587	609	583	712	3.7	22.1
Single-Family (Thousands)	471	431	418	487	-8.6	16.6
Multifamily (Thousands)	116	178	165	225	54.0	36.1
Completions (Thousands)	652	585	578	569	-10.3	-1.6
Median Single-Family Sales Price						
New (Dollars)	228,800	227,200	230,200	228,100	-0.7	-0.9
Existing (Dollars)	178,600	166,200	161,000	156,500	-6.9	-2.8
Construction Spending						
Residential Fixed Investment (Billions of dollars)	348.8	337.5	335.5	356.0	-3.2	6.1
Homeowner Improvements (Billions of dollars)	115.1	115.8	113.9	112.1	0.6	-1.6

Note: All dollar values are in 2011 dollars, adjusted for inflation by the CPI-U for All Items.
Sources: US Census Bureau, New Residential Construction; National Association of Realtors®, Existing Home Sales; Federal Reserve Board, Flow of Funds.

FIGURE 9

The Housing Downturn Has Been Deeper, and the Recovery Weaker, than in Any Cycle Since the 1970s

Housing Starts (Millions)



Source: JCHS tabulations of US Census Bureau, New Residential Construction Surveys.

eling expenditures in the coming year as banks and other institutions prepare foreclosed units for the market. For example, last year Fannie Mae alone spent $557 million on repairs to about 89,800 of its foreclosed properties.

IMPROVING HOME SALES

After hitting a record low of just 306,000 in 2011, sales of new homes in the first quarter of 2012 stood 16.7 percent above year-earlier levels. While the increase occurred from record lows, new home sales appear to be staging a recovery that, for the first time in this cycle, does not depend on the temporary stimulus of federal homebuyer tax credits. In addition, homes are selling more quickly. The typical new home for sale in March 2012 was on the market for just 8.0 months, compared with 8.7 months in March 2011 and 14.4 months in March 2010.

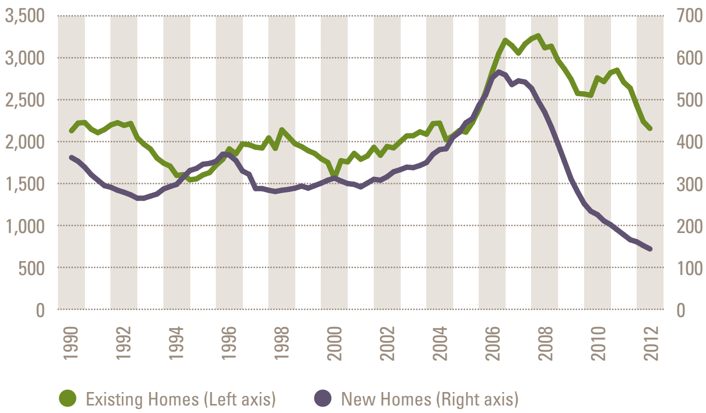
Existing home sales show a similar trend. The National Association of Realtors® (NAR) reports that sales of single-family homes and condominiums increased just 1.7 percent, to 4.3 million, in 2011 as a whole but accelerated in the second half of the year. By the first quarter of 2012, existing home sales were 5.2 percent above year-earlier levels.

Underscoring the impact of tight credit conditions on homebuyers as well as increased investor interest in distressed properties, cash purchases made up 30 percent of existing home sales last year. The share of sales to first-time homebuyers fell to 33 percent in

FIGURE 10

While Inventories of Homes on the Market Have Dropped Sharply...

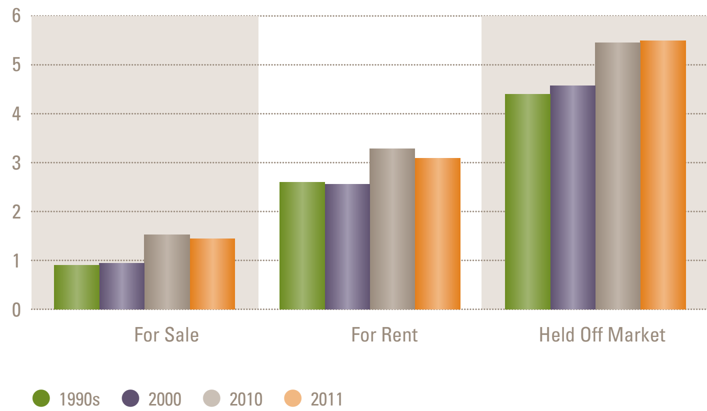
Single-Family Homes for Sale (Thousands)



Sources: US Census Bureau, New Residential Sales; National Association of Realtors®, Existing Home Sales via Moody's Economy.com.

...The Large Share of Units Held Off Market Is Keeping Vacancy Rates High

Vacant Units as a Share of Housing Stock (Percent)



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

2011, down from 39 percent in 2010 when federal tax credits were still available. Even so, the number of first-time buyer sales managed to slowly but steadily rise from mid-2010 lows.

HIGH "OFF-MARKET" INVENTORIES

Inventories of new single-family homes for sale fell 20 percent in 2011, sinking to just 143,000 units in March 2012—the lowest level in nearly five decades of recordkeeping. Even with the feeble pace of new home sales, this level of inventory equates to less than a 6.0 months' supply for the first time in more than five years. The inventory of existing homes for sale also shrank by some 23 percent in 2011, reducing the supply in the first quarter of 2012 to 6.2 months—also the lowest level since 2006. The 6.0-month supply mark is important because it is considered a rough indicator of market balance, where neither buyers nor sellers have the upper hand in price negotiations.

Despite this depletion of the for-sale stock, the inventory of vacant units held off market continued to grow last year **(Figure 10).** This excess supply is of concern because of its potential drag on the housing recovery**.** According to the latest Housing Vacancy Survey, the number of vacant units held off the market rose in 2010–11, partially offsetting declines in the numbers of "on-market" vacant homes for rent and for sale. Units held off market now account for 5.5 percent of the housing stock—nearly a full percentage point more than in 2000–2. This increase implies that, relative to that period, there are more than 1.2 million excess off-market vacant units. When these units come on the market, they could exert even more downward pressure on home prices. For now, though, the decline in vacant units for sale is helping to put a bottom under prices, while the decline in vacant units for rent has begun to spark rent increases in many markets.

LAGGING HOME PRICES

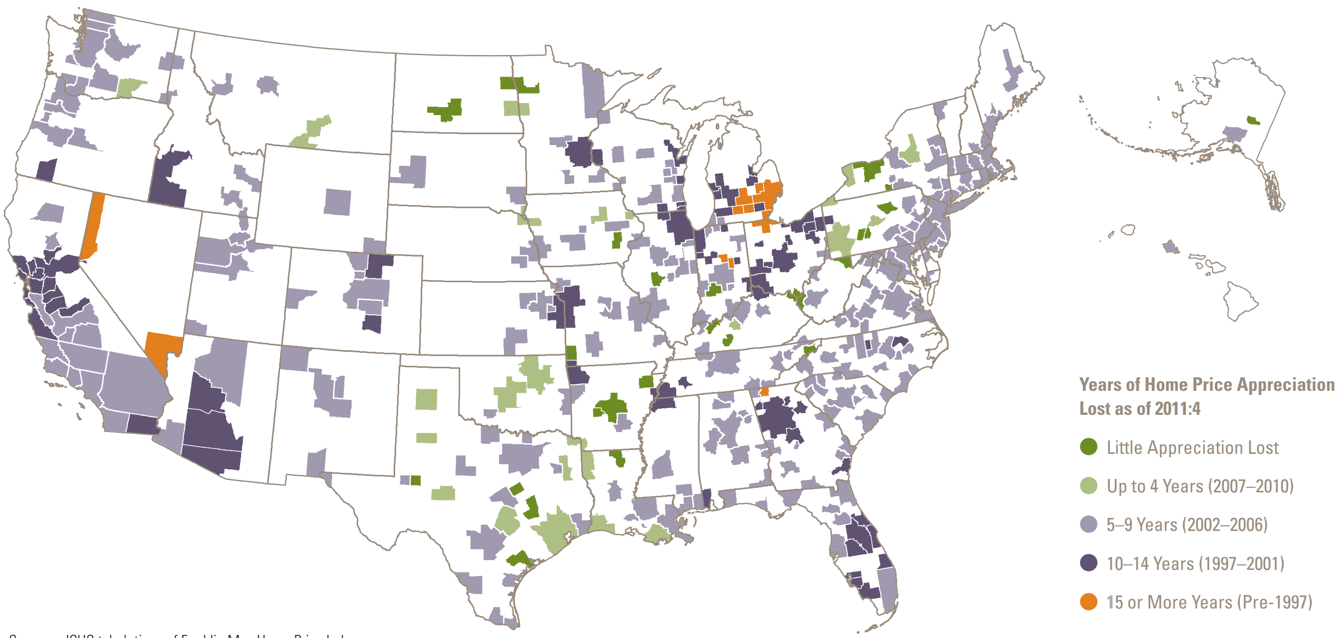
After another bad year for home prices, the first glimmers of a turnaround began to appear by the first quarter of 2012. The median new single-family home sold for $227,200 in 2011, down 0.7 percent in real terms from 2010 to a new cyclical low. Based on the Census Bureau's constant-quality adjusted new home price index, however, real prices fell 3.8 percent—suggesting that similar homes sold for significantly less in 2011 than in 2010. By this measure, real price declines accelerated as the year progressed, ending the fourth quarter 5.5 percent lower than a year earlier.

Existing home prices also showed renewed weakness for much of 2011 after stabilizing in 2010. Nationwide, both the S&P/Case-Shiller Home Price Index and NAR's median price dropped at least 4.0 percent in nominal terms to new cyclical lows in 2011. The Freddie Mac House Price Index indicates that the declines were widespread, reaching 328 (90 percent) of the 364 metropolitan areas covered. Indeed, home prices in fully 307 (84 percent) of these metros were also at new lows last year. As a result, home values in most metropolitan areas have retreated to pre-boom levels, erasing more than 15 years of appreciation in some cases **(Figure 11).**

Price declines at the low end of the market were especially severe. Among the 16 metros covered by the S&P/Case-Shiller index, prices for bottom-tier homes plummeted an average of

FIGURE 11

Home Prices in Most Metro Areas Have Fallen to Pre-Boom Levels



Sources: JCHS tabulations of Freddie Mac Home Price Index.

49 percent from the peak, compared with 39 percent for middle-tier homes and 31 percent for top-tier homes. Net price appreciation for low-end homes totaled just 18 percent in 2000–11, significantly less than the 34 percent at the high end. In 2011 alone, prices of bottom-tier homes fell 7.4 percent on average, while those for middle-tier homes were off 5.8 percent and for top-tier homes just 3.1 percent.

While too soon to tell with confidence, the worst may be over. According to the CoreLogic March 2012 Home Price Index, national prices were just 0.6 percent below year-earlier levels. In fact, some areas saw the pace of declines slow in 2011, while others posted nominal increases in the first quarter of 2012. For example, median home prices in Phoenix and Cape Coral registered gains early this year both from the previous quarter and from the year-earlier level. Overall, prices in the first quarter were up in 74 of the 146 metros covered by NAR and 43 of the top 100 metros covered by CoreLogic.

Furthermore, an alternative index from CoreLogic that excludes distressed sales (which made up about a third of sales last year and contributed heavily to the weakness of prices) indicates that prices climbed for three consecutive months after the turn of the year, lifting the March 2012 national number 0.9 percent above March 2011. The FHFA Home Price Index, which is also less likely to include distressed sales, also showed a year-over-year increase in the first quarter 2012, providing further evidence that home prices are finally stabilizing.

EMPLOYMENT GROWTH AND THE HOUSING RECOVERY

The vigor of housing demand hinges on the strength of employment growth. In the current cycle, 19 consecutive months of job gains have brought total employment growth since February 2010 to 3.7 million. Relative to the size of the decline, though, the rebound in jobs has been weak. Indeed, total employment in the US is still lower than when housing starts reached a trough fully three years ago **(Figure 12).**

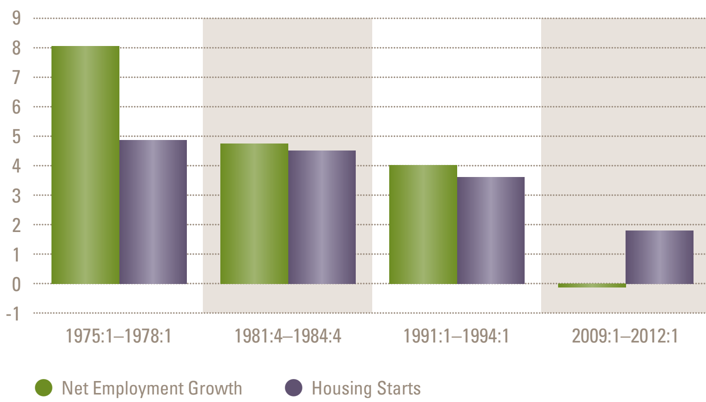
The homebuilding sector has both contributed to and suffered from tepid employment growth. From January 2001 to their April 2006 peak, residential construction and specialty trade contracting together accounted for fully 25 percent of overall employment growth. Since then, however, these sectors lost more than 1.4 million jobs and accounted for fully 35.8 percent of the net decline in total employment from April 2006 to December 2011. At the end of last year, the number of homebuilding jobs alone was down 41 percent from its peak and stood at its lowest level since January 1993.

Anemic construction activity, in turn, has been a drag on economic growth until recently. Although representing only a modest share of GDP, residential fixed investment (driven largely by new construction spending) usually helps to lead the economy out of recessions. In the 11 quarters immediately following every recession since 1970, RFI contributed 0.4–0.8 percentage point to GDP growth on average, accounting for 11–17 percent of gains. Since the recovery began in 2009,

FIGURE 12

Housing Starts Have Gotten Little Help From Employment Growth This Cycle

Millions



Note: Employment growth and housing starts are summed across the 12 quarters following the trough in starts for the last four major housing downturns.
Sources: JCHS tabulations of Bureau of Labor Statistics, Establishment Surveys; US Census Bureau, New Residential Construction.

however, RFI's contribution has averaged just 0.04 percentage point, adding just 1.6 percent to meager GDP growth during this period. But with the uptick in residential construction in late 2011 and early 2012, RFI posted two consecutive quarters of solid growth and provided its first significant boost to GDP since the end of the Great Recession.

IMPEDIMENTS TO A STRONGER RECOVERY

While many housing market indicators are headed in a favorable direction, several forces still stand in the way of a robust recovery. In particular, the persistent weakness of house prices has prevented any significant reduction in the number of owners owing more on their mortgages than their homes are worth. In fact, CoreLogic reports that the number of underwater loans rose in the fourth quarter of 2011 to 11.1 million—representing more than one in five mortgages and some $717 billion in negative equity.

States that had the most dramatic housing booms and busts are generally faring the worst on this count. Nevada (at 61 percent) and Arizona (at 48 percent) still have the largest shares of underwater mortgages, while Florida and California (each with approximately two million) together account for more than a third of all such loans in the country. These loans are at risk of default and could add to the already large number of distressed properties selling for bargain-basement prices. In addition, owners are not in a position to sell their homes without incurring a loss and are therefore holding back a stronger recovery in existing home sales that would give a much needed boost to economic activity.

Foreclosures remain another trouble spot. In the first quarter of 2012, 7.4 percent of the nation's mortgages were 90 or more days past due or in the foreclosure process—a slight improvement from the 9.7 percent peak two years ago but still well above the 1.7 percent averaged in the 1990s. CoreLogic estimates that 3.0 million foreclosures were completed in 2009–11 alone, and the persistently high level of loans still in the foreclosure pipeline will no doubt add to that number.

Moreover, the protracted process—especially in states with judicial foreclosures—guarantees that the backlog will extend for years to come. According to Fannie Mae, the average time to complete foreclosure cases in 2011 was well over a year, ranging from 391 days in Missouri to 890 days in Florida. As of early 2012, foreclosure inventory rates in the typical state with judicial foreclosures were high and rising, while those in states with non-judicial processes were lower and falling.

An additional drag on the recovery comes from the increased difficulty of qualifying for mortgage credit. Not only have high unemployment levels eroded credit scores, but lenders have also set higher thresholds for qualifying for loans. In addition, low-downpayment loans are harder to secure. Apart from Federal Housing Administration (FHA) loans, mortgages with downpayments of less than 10 percent are scarce, and even FHA limits such loans to borrowers with higher credit scores. Further evidence of the difficult credit environment is that some 33 percent of NAR's member brokers reported contract failures in December 2011, compared with just 9 percent a year earlier. These failures occurred largely because mortgage applications were declined or the appraised value of the homes came in below negotiated prices.

THE OUTLOOK

Despite the many factors restraining the recovery, other trends—including steady employment growth, depleted inventories of for-sale homes, and a surge in sales and construction activity—make the housing market outlook significantly brighter than a year ago. Rental markets have already turned a corner, although the rebound in multifamily construction is modest in absolute terms. Sharply lower home prices and interest rates, along with improving labor markets, are raising hopes that new and existing home sales will continue to gain momentum. With inventories of for-sale homes so low, a sharp increase in demand could help prices firm.

At the same time, however, the overhang of excess units held off market, elevated vacancies within the for-sale stock, and the long pipeline of foreclosures will limit the need for new single-family construction. And three years after the official end of the Great Recession, there are still more than 20 million US workers either unemployed or underemployed, millions of households with negative equity in their homes, and millions more seriously delinquent on their loans or already in the foreclosure process. On balance, then, the sheer depth of the downturn and scale of the mortgage debt overhang mean that it will be some time before a robust housing market recovery is at hand.

3 Demographic Drivers

Since the Great Recession, fewer young adults are forming new households and fewer immigrants are coming to the United States. As a result, the pace of household growth is unusually slow. Once the recovery gains further momentum, demographic forces should lift the rate of household growth—and, in turn, the demand for housing. Over the longer term, the large echo-boom generation will drive much of this demand, increasing the diversity of the nation's households.

SLOWDOWN IN HOUSEHOLD GROWTH

While specific estimates vary, the main government surveys all agree that household growth, the primary driver of housing demand, has slowed dramatically since the recession. These sources indicate that just 600,000–800,000 net new households were formed each year between 2007 and 2011, the lowest levels since the 1940s. If annual growth had instead remained in the 1.2–1.3 million range averaged over the four previous years, there would have been at least 1.8 million—and possibly up to 2.8 million—additional US households in 2011.

The pace of household growth is set by headship trends (the rates at which people form independent households) and adult population growth (increases in the number of people at the ages most likely to form new households). The Great Recession and ensuing uncertainty in the economy not only lowered headship rates, especially among younger adults, but also led to slower population growth by inducing a drop in immigration.

The Current Population Survey provides the most conservative estimate of the slowdown in household growth, but also offers additional insight about the relative importance of its two key drivers **(Figure 13).** According to this source, the native-born population accounted for about 61 percent of the fall-off, reducing household growth by a total of 1.1 million in 2007–11 relative to the previous four years. Lower headship rates were responsible for virtually all of the slowdown in household formations for this group, with shifts of the population into older age groups providing only a modest offset.

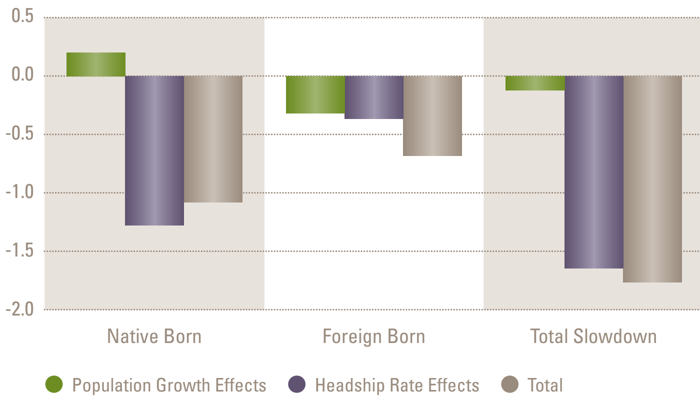
The largest declines in headship rates were among under-25 and 25–34 year-olds, with both age groups contributing about equally to the slowdown. A major factor is that many more members of these two groups lived with their parents rather than on their own. The shares of both age groups living with parents climbed 2.7 percentage points between 2006 and 2010, increasing their combined numbers to one in three. These increases lifted the total number of 18–34 year-olds living with parents by 1.95 million over the period, with fully 1.1 million of these individuals in their mid-20s to mid-30s.

Meanwhile, the foreign-born population accounted for the remaining 39 percent of the decline in household growth in

FIGURE 13

Lower Headship Rates among Young Native-Born Adults Have Driven the Slowdown in Household Growth

Contribution to Slower Household Growth in 2007–11 (Millions of households)



Notes: Change in household growth is measured relative to 2003–7. To reduce volatility, calculations are based on three-year rolling averages.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

2007–11, or the equivalent of about 700,000 potential households. Lower headship rates were responsible for slightly more than half of this decline, with the remainder reflecting slower population growth. In addition, all of the drop in household growth among the foreign born was among non-citizens. While the recession undoubtedly played a key role, the recent wave of emigrations and deportations also served to thin the ranks of foreign-born non-citizens living in the United States. Indeed, removals of undocumented immigrants rose by more than 50 percent in 2005–10, while the number apprehended trying to enter the country illegally fell by almost as much.

Assuming that much of the drop in household growth is a response to economic conditions, there may be significant pent-up demand in the housing market. While the drop in net immigration may never be made up for in the future, household formations among younger age groups are likely to recover as the economy picks up. Moreover, headship rates tend to rise sharply among adults in their 20s and early 30s, then increase more gradually through middle age when they converge across generations. The steady march of the large echo-boom population into older adulthood therefore means that millions of new households will form in the coming years even if age-specific headship rates do not rebound and immigration remains subdued.

COMPOSITION OF HOUSEHOLD GROWTH

Minorities continue to be the driving force behind household growth, accounting for about three-quarters of the increase in 2003–7 and two-thirds in 2007–11. Nevertheless, minority household growth slowed 42 percent in 2007–11 from the previous four-year period, while white household growth declined just 16 percent.

The rate of household growth among Hispanics, the largest source of new minority households, was down 52 percent. This decline reduced the Hispanic share of total household growth from well over a third in 2003–7 to just over a quarter in 2007–11. Weaker immigration is clearly the reason. After contributing more than half of total Hispanic household growth in 2003–7, foreign-born householders were responsible for only a quarter in 2007–11. As a group, Hispanic immigrants accounted for 21 percent of total household growth before the recession, but just 7 percent afterward.

Given that the echo boomers are the most diverse generation yet, they and future immigrants will ensure that minorities account for a substantial majority of household growth over the coming decades. Indeed, the Joint Center estimates that seven out of ten net new households in 2010–20 will be minority even if immigration fails to bounce back to pre-recession levels.

METROPOLITAN SPRAWL

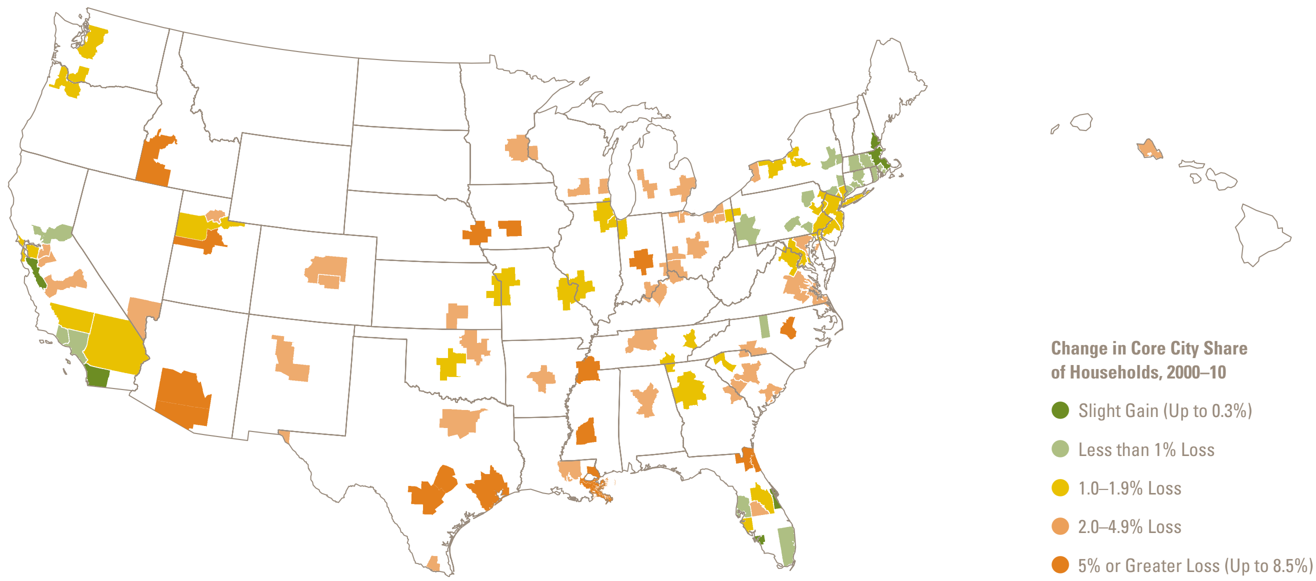
As measured by the Decennial Census, household growth in the 2000s remained largely focused in the suburbs and exurbs of large metropolitan areas. Only 21 percent of household growth was in the city cores of the nation's 100 largest metros, compared with about 38 percent in suburbs and 41 percent in exurbs. The rate of household growth in the exurbs was 28 percent—more than double the rate in the suburbs and more than quadruple that in city cores. As a result, exurban areas gained share of metro area households over the decade.

Meanwhile, the number of households living in core areas fell in 28 of the largest 100 metro areas and was essentially flat in nine others. At the same time, however, about a third of large metros saw a back-to-the-city movement with double-digit growth in the number of households living in core areas. Despite these solid gains, only five metros—Boston, San Diego, San Jose, Cape Coral, and Palm Bay—posted increases in the share of households living in core cities relative to their suburbs and exurbs **(Figure 14).**

Minorities are increasingly part of the shift toward suburban and exurban living. In 2010, 47 percent of minority households lived outside of core cities, up from 41 percent just 10 years earlier. As a result, outlying communities became more diverse over the decade, with the minority share of suburban households rising from 23 percent to 30 percent, and of exurban households from 14 percent to 19 percent. The minority share of households living in the urban core also climbed from 45 percent to 50 percent, indicating that racial and ethnic diversity increased throughout America's metros in the 2000s.

FIGURE 14

With Few Exceptions, Outlying Areas Were Still Growing More Quickly than Core Cities in the 2000s



Notes: Data include the 100 largest metro areas, ranked by population in 2010. Cores are cities with populations over 100,000. Suburbs are all urbanized areas outside of cores. Exurbs are the remainder of the metro area. Census data do not include post-enumeration adjustments.
Source: JCHS tabulations of US Census Bureau, Decennial Census.

Demand for second homes also helped to fuel growth in outlying areas. In 2000–10, the number of homes in the exurbs of the 100 largest metros for seasonal, recreational, or occasional use jumped 37 percent while that of primary residences increased just 26 percent. Second-home production in the exurbs was especially strong in Phoenix (up 61 percent) and Las Vegas (up 124 percent). In other large metros such as San Jose, construction of second homes in the exurbs increased while that of primary residences declined.

The most recent Census Bureau county population estimates indicate that growth of exurban areas largely stalled by 2011 in response to the collapse of the homebuilding industry. But given that much of the undeveloped land in metropolitan areas is located in these outlying communities, there is every reason to believe that the exurbs will once again capture a disproportionate share of growth once residential construction activity revives.

INCOME AND WEALTH TRENDS

Real net household wealth plummeted $14.3 trillion from 2006 to 2011, dragged down by a 57-percent drop ($8.2 trillion) in housing wealth. At the same time, mortgage debt remained close to its peak, reducing home equity from 130 percent of aggregate mortgage debt to just 62 percent. Home equity now accounts for the smallest share of household net wealth since recordkeeping began in 1945.

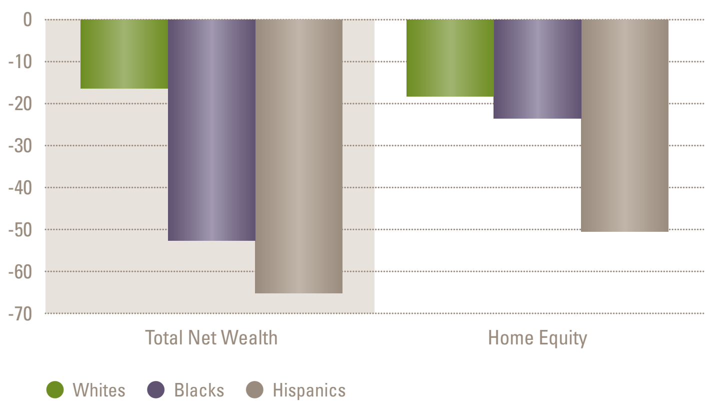
The plunge in housing values was particularly hard on low-income and minority households, both because prices in the low-end market fell the most and because home equity accounted for a particularly large share of minority household wealth when the housing bust began. In 2007, 43 percent of low-income households owned homes but just 17 percent owned stocks. Home equity made up 73 percent of net wealth for these owners on average, compared with just 41 percent for households in the top income quartile.

Hispanic homeowners suffered the largest losses, with median net wealth down 66 percent and median home equity down 51 percent in 2005–9 **(Figure 15)**. This dramatic decline reflects both the large share of net worth that Hispanics derived from home equity in 2005 (65 percent) and the concentration of Hispanic households in states where the housing market bust was severest. As a recent Pew Center study shows, the shares of Hispanic homeowners in four of the five states with the sharpest price declines exceed the national average (Michigan is the exception). For example, the Hispanic share is 21.8 percent in California and 17.6 percent in Arizona, compared with 8.1 percent nationally. And even within these five

FIGURE 15

Home Equity Losses Took a Large Toll on Hispanic Household Wealth

Percent Change in Median Household Wealth, 2005–9

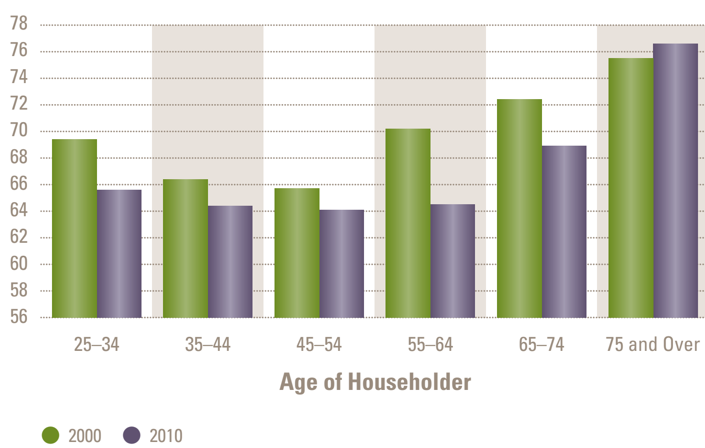


Source: Pew Research Center, *Twenty to One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics*, July 2011.

FIGURE 16

White–Minority Income Gaps Have Increased for All but the Oldest Age Group

Minority Median Income as a Percent of White Median Income



Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

states, Hispanics and blacks lost significantly more equity (72 percent) than white homeowners (52 percent).

As a result, the wealth gap between whites and minorities continued to widen. In 2005, the median wealth of white households was 11 times that of black households. At last measure in 2009, the differential had increased to 20 times. Over the same period, the median wealth of whites jumped from seven times the median wealth of Hispanics to 18 times.

The long-term decline in incomes also added to the financial pressures on households. Real median household income dropped from $53,200 in 2000 to $49,400 in 2010, some $1,700 below the previous cyclical trough in 2004. Declines among householders aged 35–44 and 45–54 were particularly sharp, more than erasing all of the gains since 1990 for these age groups.

The white–minority income gap also expanded during the 2000s for all but the oldest age group **(Figure 16)**. The disparity among younger age groups is especially troubling because it represents a loss of the ground gained during the 1990s. The real median income of minority households aged 25–34 was down 14 percent over the decade, compared with just 9 percent among their white counterparts. As a result, the median income for minorities in this age group fell from 69.4 percent of that for same-age whites in 2000 to 65.6 percent in 2010. Only minority households over age 75 saw stronger income gains than same-age whites, closing about 1.1 percentage points of a nearly 25-point gap.

CHANGES IN HOUSEHOLD MOBILITY

Cyclical factors and overall economic uncertainty have limited the ability of many to buy and sell homes, or otherwise move or form independent households. While a stronger recovery and a reduction in negative equity mortgages would help to stem further declines, demographic forces will keep the pressure on household mobility rates over the next two decades.

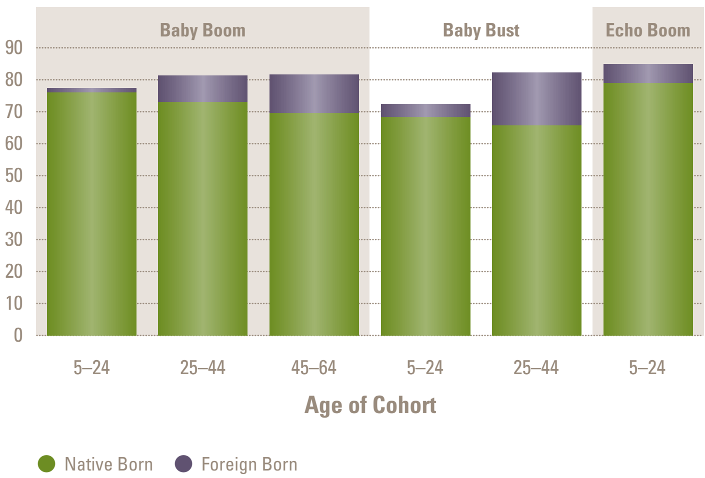
The aging of the baby-boom generation is a key factor, lifting the share of older households to a record high. Mobility rates drop sharply with age, and adults over age 65 are almost eight times less likely to move in a given year than those in their 20s. Moreover, the vast majority of baby boomers live in owner-occupied homes, and owners are far less likely to move than renters. What is more, the recession dampened the already low mobility rates of older homeowners: just 1.9 percent of owner-occupants aged 65–74 in 2011 had changed residences within the previous year, down from about 3.3 percent in 2007. Mobility rates for homeowners aged 75 and over also fell somewhat over the decade, from 1.9 percent to 1.6 percent. Even if mobility rates among older homeowners return to previous levels, though, the vast majority of baby boomers will likely age in place.

Older households are most likely to dissolve because of death or infirmity, which means that their homes are added to the available housing stock. Given that they currently occupy more than 46 million homes, the baby boomers will therefore have a major impact on housing markets when they die or are unable to live on their own. But over the last decade, the majority of household dissolutions were among seniors that were already over age 75 in 2000. With the oldest baby boomers just 55–64 in 2010 and most only 45–54, the majority of this generation

FIGURE 17

Even Without Strong Immigration, Echo Boomers Already Outnumber Previous Generations at Similar Ages

Number of Persons (Millions)



Notes: Members of the baby-boom generation were 45–64 in 2010, 25–44 in 1990, and 5–24 in 1970. Members of the baby-bust were 25–44 in 2010 and 5–24 in 1990. Members of the echo-boom generation were 5–24 in 2010.
Source: JCHS tabulations of US Census Bureau, Decennial Censuses.

will continue to live independently for at least another 20 years. Furthermore, as medical innovation extends lifespans, household loss rates due to death or infirmity may fall and delay the dissolution of most baby-boomer households beyond 2030.

THE OUTLOOK

Two main demographic drivers of household growth—headship rates and immigration—remain depressed. But the third driver, a growing and aging adult population, continues to play a positive role in housing markets.

In the short term, it is uncertain when household formation rates among young adults will rebound and if immigration will return to pre-recession levels. Other potential sources of pent-up housing demand—such as families that have lost their homes to foreclosure and are temporarily doubling up with others—are also difficult to estimate. Nevertheless, the amount of pent-up demand could be significant. For example, if today's young adults had formed households at the same rate as before the recession, there would now be an additional 1.3 million US households.

Over the longer term, trends in population growth and immigration should balance out any short-run fluctuations in household headship rates. At 84.7 million strong in 2010, the echo-boom generation is already larger than the baby-boom generation at similar ages and is likely to grow even larger as new immigrants arrive **(Figure 17)**. The oldest of the echo boomers, who turned 25 in 2010, are only now beginning to form their own households. This large cohort will be the primary driver of new household formations over the next two decades. Meanwhile, the baby boomers will continue to push up the number of senior households for years to come as they replace the much smaller pre-boom generation in the older age groups. While the boomers will eventually release a large number of housing units onto the market, this process will not be a significant issue for another 20 years.

Immigration remains a wildcard. Future inflows of foreign-born households depend on economic conditions and unmet demand for labor, as well as potential reform of immigration laws. Demographic and economic conditions abroad also play a role, given that lower birth rates and improved job opportunities keep more would-be immigrants in their home countries. More certain is the impact of the native-born children of immigrants who are already in the country. In 2010, 18.3 percent of Americans under the age of 25 were born to immigrant parents, up from only 5.7 percent in 1970. Indeed, US-born children of immigrants have already added significantly to the size of the echo-boom generation.

Even under a low-immigration scenario (half the level in the Census Bureau's mid-series population projection), the Joint Center expects the echo boomers to number 85.1 million by 2020. This compares with 90.4 million in the Census Bureau projection. The baseline for household growth in 2010–20 therefore ranges from 11.8 million to 13.8 million even without accounting for any pent-up demand. After averaging less than two-thirds of that pace on an annual basis since 2007, household growth will ultimately have to increase substantially just to return to this long-run trend.

4 Homeownership

Despite record-low housing prices and mortgage interest rates, the national homeownership rate continued its slide in 2011. With upwards of two million foreclosures still in process and a rising number of households choosing to rent, further declines lie ahead. Tight credit conditions amid uncertainty in the mortgage market are dampening the recovery in homebuying, while depressed prices are preventing many distressed homeowners from refinancing to more affordable loans.

HOMEOWNERSHIP TRENDS

The US homeownership rate fell another 0.8 percentage point in 2011, the largest drop in seven consecutive years of decline. At 65.4 percent in the first quarter of 2012, the national rate stood at its lowest level since the first quarter of 1997 and 3.8 percentage points below the peak in the fourth quarter of 2004.

The persistent decline reflects both the high level of foreclosures and the slowdown in households moving into homeownership. Together, these forces have reduced the number of homeowners while increasing the number of renters. The particularly large drop last year represents an acceleration in both trends, with the number of owner households down by 350,000 and the number of net new renters up by 1.0 million **(Figure 18).** Measured from the peak number of homeowners in 2006, there were 1.0 million fewer owners and 3.9 million more renters at the end of 2011.

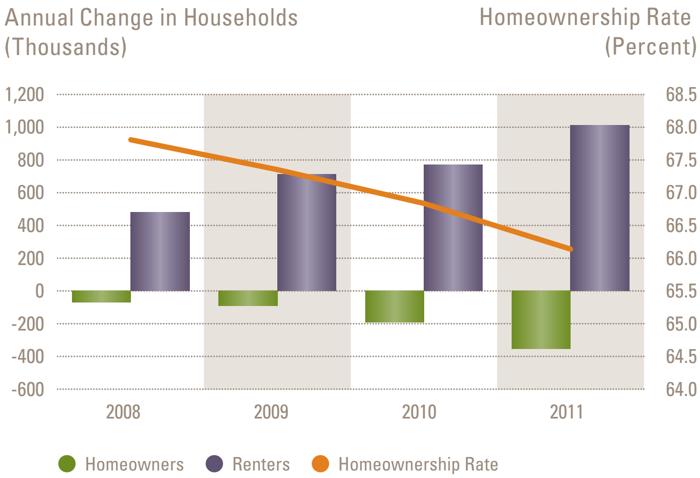
Nevertheless, on net 4.3 million households under age 35 and 730,000 households aged 35–44 joined the ranks of homeowners in 2005–10 **(Figure 19).** This does, however, represent a significant slowdown from 2000–5, when 6.5 million owners under age 35 and 2.6 million aged 35–44 were added on net. Moreover, recent growth in the number of younger homeowners was not enough to offset the typically large losses of homeowners aged 75 and over, thereby bringing down the total number.

But even if younger households pick up the pace of homebuying, working off the backlog of foreclosures is likely to keep homeownership rates on the decline in 2012. The number of loans in the foreclosure process remains high despite an 8.5 percent decline from the 2.1 million peak in 2010. More promisingly, though, the number of loans 90 or more days past due fell almost steadily from 2.3 million at the end of 2009 to 1.3 million in the first quarter of 2012 **(Figure 20).**

Delays in completing foreclosures are longest in states where the courts are involved in the process. The foreclosure inventory in states with judicial procedures stands at 6.5 percent, significantly higher than the 2.5 percent in states with non-judicial procedures. But the robo-signing scandal, ignited by the discovery that loan servicers had not fully and appro-

FIGURE 18

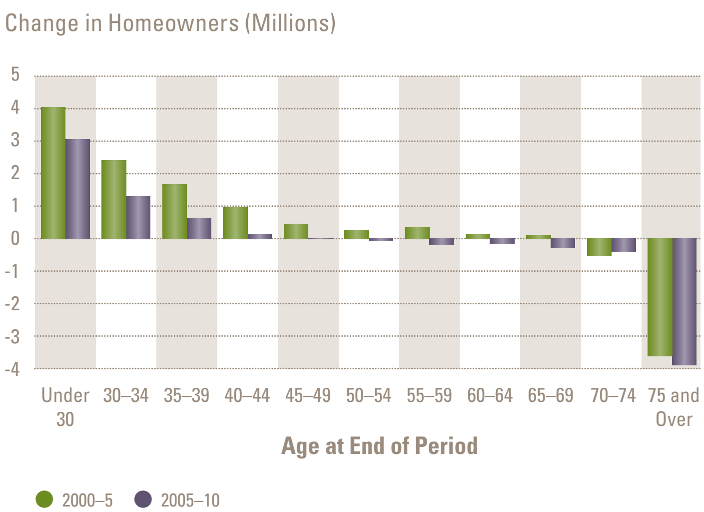
Losses of Homeowners and Increases in Renters Accelerated in 2011



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

FIGURE 19

Despite Declining Homeownership Rates, Millions of Young Households Became Homeowners in the Second Half of the 2000s



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

priately documented their legal rights to foreclose, undoubtedly added to backlogs. The February 2012 agreement reached between the nation's five largest servicers and the government should help to speed up resolutions. The accord also provides funding that states can use for foreclosure prevention initiatives, although many have opted to apply the funds to close general budget gaps. While the agreement should preserve homeownership for some delinquent borrowers, it offers too little relief to make a meaningful difference in overall foreclosure volumes.

THE HOMEOWNERSHIP BOOM AND BUST

Homeownership rates have fallen significantly from their mid-2000s peaks across all age groups except seniors. Declines exceed 5.0 percentage points for households up to age 44, 4.5 percentage points for 45–54 year-olds, and 3.2 percentage points for 55–64 year-olds. Indeed, rates for households between ages 35 and 54 have dipped below the trough hit in the early 1990s. At the same time, homeownership rates for households 65 and over have largely held steady at around 81 percent.

Just as the homeownership boom lifted minority rates the most, the homeownership bust brought minority rates down especially hard. After jumping 7.2 percentage points from 1994 to 2004, black homeownership rates dropped back by 4.3 percentage points from 2004 to 2011—nearly twice the decline in white rates **(Figure 21).** As of 2011, the gap between black and white rates was wider than in 1994. Hispanics held onto more of their 8.5 percentage-point gain during the boom, losing just 2.7 percentage points since the bust. As a result, the white–Hispanic homeownership gap, though still large, was 1.8 percentage points narrower in 2011 than in 1994.

Households with children have posted the largest losses in homeownership. Since the peak, the rates for married couples with children plunged 5.1 percentage points while those for single-parent and other families with children were down 4.6 percentage points **(Figure 22).** By comparison, the declines for married couples without children (1.3 percentage points) and other childless families (2.0 percentage points) are more modest. Homeownership rates for non-family households, which include a substantial share of single persons, have also changed relatively little.

Homeownership losses are widespread geographically. From 2006 through 2010, rates fell in all but four less populous and largely rural states (Alaska, Montana, North Dakota, and Wyoming), which all appear to have benefited from booming oil and natural gas production. Understandably, states hard-hit by foreclosures (such as Nevada, Arizona, and California) are among those with the largest declines. But several states that were less affected by the foreclosure crisis (including Minnesota, Colorado, Washington, and Oregon) also had sharply lower homeownership rates thanks to rapidly growing renter populations.

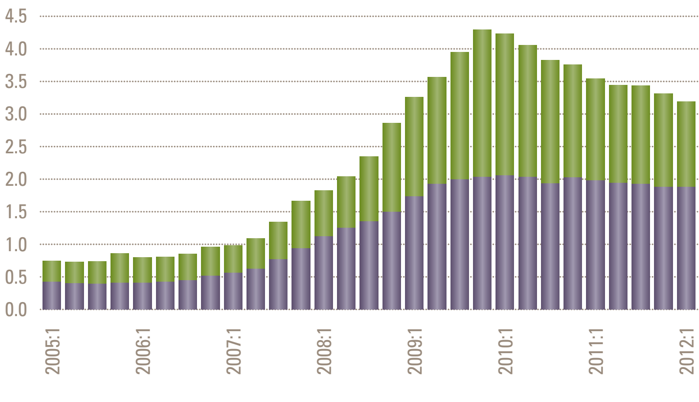
SEEDS OF RECOVERY

According to the Freddie Mac Primary Mortgage Market Survey, interest rates on a 30-year fixed mortgage averaged just 4.45 percent in 2011 before sliding below 4.0 percent in early 2012—its lowest level since recordkeeping began in 1971. Together with ongoing house price declines, these historically low rates

FIGURE 20

While the Number of Distressed Loans Is Falling, the Foreclosure Backlog Remains Stubbornly High

Number of Loans (Millions)

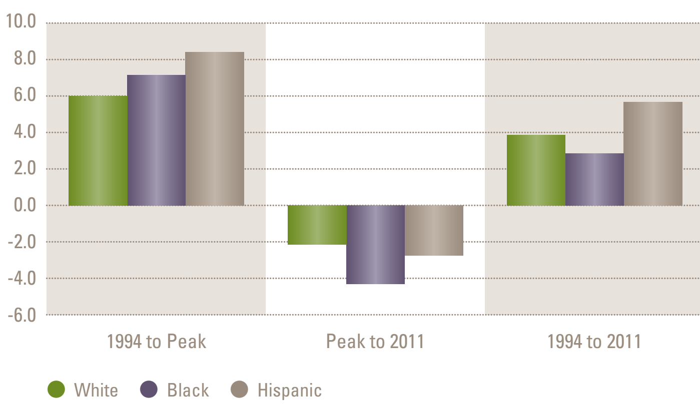


Note: MBA estimates that the survey covers 85–88 percent of loans outstanding.
Source: JCHS tabulations of Mortgage Bankers Association, National Delinquency Surveys.

FIGURE 21

Minority Homeownership Losses Were Disproportionately Large, But Their Current Rates Still Exceed 1994 Levels

Change in Homeownership Rate (Percentage points)



Notes: White and black householders are non-Hispanic; Hispanics may be of any race. Homeownership rates of white and black householders peaked in 2004, and Hispanic rates peaked in 2006.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

have made homebuying a comparative bargain **(Table A-6).** Indeed, the NAR affordability index hit unprecedented levels in 2011. With renewed weakness in prices spreading to more than half the states, the ratio of the median existing home sales price to median household income edged down from 3.5 in 2010 to 3.2 last year.

Applying the assumptions in the NAR index (a 20-percent downpayment and a 30-year fixed-rate mortgage), the monthly payment for principal and interest on the median-priced home dropped another 6.6 percent in 2011 from a year earlier, to just $669. As a result, mortgage payments on the median-priced home stood well below the median gross rent for the first time since the early 1970s. For buyers able to put only 10 percent down, the monthly mortgage payment would also be comfortably below the median rent.

Of course, this is not an apples-to-apples comparison in that homeowners not only pay for property taxes, insurance, and maintenance, but they may also experience capital gains or losses from ownership. In addition, the median rental unit is not comparable in size and quality to the median home sold. Still, as renters consider their housing options, homeownership has rarely measured up more favorably.

BORROWING CONSTRAINTS

But the stringent credit environment prevents many would-be buyers from taking advantage of lower house prices and rock-bottom interest rates. The Federal Reserve's survey of senior loan officers reveals that banks tightened underwriting standards every quarter from late 2006 through mid-2010, with very little easing since then **(Figure 23).** The magnitude and duration of this tightening are unprecedented.

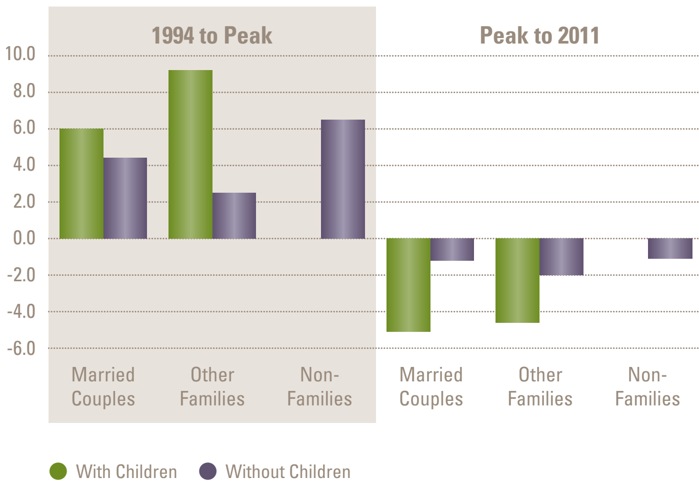
Denial rates for conventional home purchase loan applications reported under the Home Mortgage Disclosure Act reflect these tough credit conditions. While the overall rate rose just two percentage points (from 15 percent to 17 percent) in 2004–10, the increases for specific types of loans and types of borrowers are much larger. In fact, loan application denial rates for Hispanics were up eight percentage points (from 19 percent to 27 percent) over this period, while those for blacks jumped 15 percentage points (from 23 percent to 38 percent). In contrast, rates for white borrowers climbed just three percentage points (from 12 percent to 15 percent). The small increase in the overall denial rate reflects the fact that whites made up 52 percent of applicants in 2004 but 67 percent in 2010.

But loan application denial rates tell only part of the story. Many households with potential credit issues may not even apply for mortgages out of concern they will either not qualify or face higher borrowing costs. CoreLogic reports that home purchase lending to borrowers with less than stellar credit has in fact all but ceased. From 2008 to 2011, the volume of home purchase loans to borrowers with credit scores below 620 plunged 93 percent, while that to borrowers above this cutoff was down about 30 percent. The stringency of underwriting standards is also evident in the fact that, despite the exceptionally weak economy, Lender Processing Services characterizes early delinquency rates on loans originated in 2010 and 2011 as among the best on record.

FIGURE 22

Families with Children Saw Both the Largest Increase in Homeownership and the Largest Drop

Change in Homeownership Rate (Percentage points)

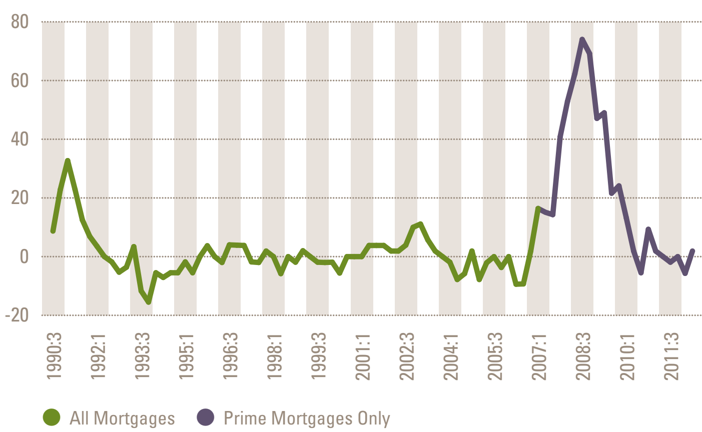


Notes: The homeownership rate for married couples with children peaked in 2005. Rates for all other categories peaked in 2004. Non-family households are single persons and unrelated individuals without children.
Source: US Department of Housing and Urban Development, US Housing Market Conditions, Q4 2011.

FIGURE 23

Banks Have Sharply Constrained Credit Availability

Net Share of Senior Loan Officers Reporting Tighter Mortgage Underwriting Standards (Percent)



Note: The data series for all mortgages was replaced by individual series for prime and subprime loans in 2007.
Source: JCHS tabulations of the Federal Reserve Board, Senior Loan Officers Survey.

Even if borrowers with lower credit scores and higher loan-to-value (LTV) ratios are approved for mortgages, they must pay higher interest rates than those making headlines. Beginning in 2008, Freddie Mac and Fannie Mae began to impose additional origination fees on mortgages they purchase or guarantee if the loans are deemed to pose increased default risk. These fees, or loan level price adjustments (LLPAs), are based on such characteristics as high LTV ratios, low credit scores, minimal mortgage insurance coverage, adjustable interest rates, and subordinate financing. If loans fall into multiple risk categories, LLPAs can represent several percentage points of the loan amount.

Private mortgage insurance is also mandated for loans with LTVs above 80 percent, which may add another $70–110 monthly for every $100,000 borrowed, depending on the borrower's credit standing. Meanwhile, FHA is also raising the cost of its insurance to shore up its balance sheet and encourage more private-sector lending. While necessary, these higher borrowing costs may undermine the ability of some first-time buyers to enter the market.

With their cost advantages, more relaxed underwriting standards, and deep government guarantees that appeal widely to investors, loans insured by the FHA, Veteran's Administration, and US Department of Agriculture's Rural Development programs have come to comprise a large share of the home purchase market—particularly among borrowers with small downpayments. From fewer than one in ten during the housing boom, these government-backed loans accounted for more than half of home purchase loans in 2009 and 2010. While expansion of FHA lending has received the lion's share of attention, funding for USDA's guarantee loan program also increased five-fold between fiscal 2007 and 2010.

In keeping with their traditional targeting and low-downpayment requirements, government mortgage insurance programs served about two-thirds of low-income homebuyers in 2010. They also guaranteed large shares of home purchase loans to minorities, including 83 percent of black and 76 percent of Hispanic borrowers in that year **(Figure 24).** Still, more than a third of all higher-income borrowers also opted for such loans, indicating the importance of government guarantees in today's troubled mortgage market.

REFINANCING CHALLENGES

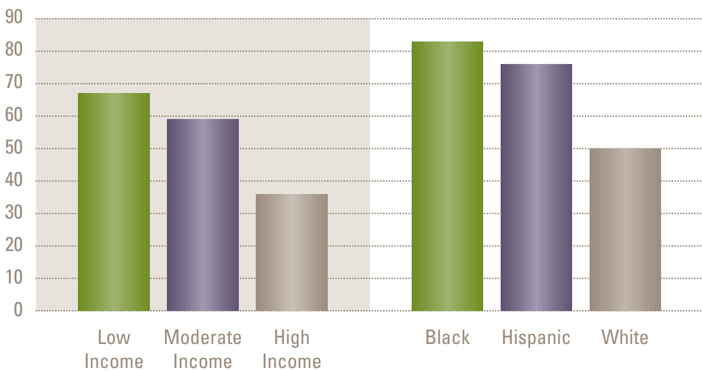
Despite attractive interest rates, refinancing activity edged up only modestly at the end of 2011. In part, the lack of response reflects the fact that many homeowners have already locked in very low rates. But millions of other homeowners who would like to refinance are unable to do so because of impaired income and credit scores, negative equity in their homes, or a combination of the two.

Thus far, government-led refinance assistance programs aimed at credit-impaired or underwater borrowers have focused primarily on households with loans backed by FHA or the GSEs. FHA has long offered a streamlined refinance option allowing borrowers in good standing to take advantage of lower interest rates without a property reappraisal as long as the loan balance does not increase. In the wake

FIGURE 24

Minorities and Lower-Income Homebuyers Rely Heavily on Government-Backed Loans

Share of Home Purchase Loans with Federal Backing in 2010 (Percent)



Notes: Federally backed loans include FHA/VA and USDA Rural Housing loans. Low income is defined as less than 80 percent of area median income (AMI), moderate income is 80–120 percent of AMI, and high income is above 120 percent of AMI. Black and white householders are non-Hispanic; Hispanics may be of any race.
Source: JCHS tabulations of 2010 Home Mortgage Disclosure Act data.

of the foreclosure crisis, FHA relaxed the criteria for these loans, enabling some 720,000 borrowers to refinance into lower rates between April 2009 and the end of March 2012. The Home Affordable Refinance Program (HARP), initiated in 2009, provided a similar option for borrowers with GSE-guaranteed loans that had LTVs above 80 percent. More than one million HARP refinancings were completed by early 2012. Even with these efforts, though, the vast majority of underwater homeowners have been unable to take advantage of historically low interest rates.

Although borrowers with loans up to 125 percent of home values were also eligible for HARP, few had managed to refinance through the program by fall 2011. To reach more distressed homeowners, HARP's terms were revised late in the year to reduce income and credit screens, lift LTV limits, and free lenders of additional liability from the refinanced loans—a major obstacle to bank participation.

The evidence suggests that refinancing volumes were on the rise as the new guidelines took effect in early 2012. The Congressional Budget Office estimates that HARP could potentially provide a benefit of as much as $200 per month for as many as 2.9 million homeowners. But for the millions of distressed owners whose loans are not FHA- or GSE-backed, there is still no comparable relief.

THE OUTLOOK

Over the next few years, homeownership rates among younger households will remain under pressure. Members of the large echo-boom generation are just beginning to enter the housing market, but primarily as renters. In addition, greater numbers of middle-aged households are delaying homeownership or returning to rental housing. And as millions of distressed homeowners lose their homes to foreclosure, they will require years to repair their tarnished credit records before buying again. As a result, increases in the number of renters will continue to outpace any growth in homeowners. If not for older households, who have high homeownership rates and account for an increasing share of the population, the decline in the national homeownership rate would be much greater.

A strong, sustained economic expansion could, however, produce a quick turnaround—particularly in markets that did not experience the worst of the foreclosure crisis. Buying a home has rarely been more affordable, and a more robust economy would provide the income and confidence that would enable many potential buyers to make the long-term commitment of owning. Indeed, homeownership continues to have strong appeal. In the fourth quarter of 2011, the Fannie Mae survey found that seven out of ten renters—as well as more than eight out of ten homeowners who are underwater on their mortgages—think that owning makes more financial sense than renting.

Young first-time buyers, including an increasing share of minority households, will drive future growth in homeownership. The question going forward is therefore whether the troubled mortgage market will provide access to affordable mortgage credit for borrowers with limited savings and anything but the highest credit ratings.

5 Rental Housing

Renter household growth surged in 2011, spurred by the decline in homeownership rates across most age groups. With vacancy rates falling and rents on the rise, returns on rental property investments are improving and multifamily construction is making a comeback in many markets. The aging of the echo-boom generation into young adulthood favors strong rental demand for years to come.

CONTINUED GROWTH IN RENTER HOUSEHOLDS

Extending the sharp turnaround in rental demand, the number of renter households climbed by 1.0 million in 2011, the largest annual increase since the early 1980s. The 2000s as a whole already marked the highest decade-long growth in renter households in the last 60 years **(Figure 25).** After a small net loss in 2000–4, renter household growth averaged 730,000 each year through 2011, nearly three times the 270,000 average in the 1990s.

Young adults under age 25 generally drive the growth in new renter households. Although down from 5.0 million in 2001–6, the number of net new renters in this age group was still a substantial 4.7 million in 2006–11. The recent turnaround in renter household growth was fueled to an even greater extent by 25–34 year-olds, who accounted for fully 645,000 net new renter households over this period. In contrast, the previous cohort of 25–34 year-olds was responsible for a net loss of 328,000 renter households in 2001–6. More households aged 35–44 are also renting, reducing the net outflow in their age group from 1.5 million in 2001–6 to just 400,000 in 2006–11.

GROWING DIVERSITY OF RENTER HOUSEHOLDS

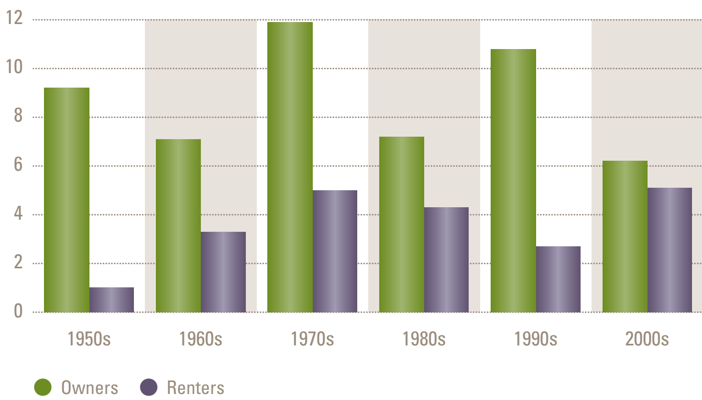
Because they are younger on average than whites and less likely to own homes, minority households make up a large and growing share of renters. In 2011, minorities accounted for only 30 percent of all households but 46 percent of renters. They also contributed 59 percent of the increase in the number of renter households between the homeownership peak in 2004 and 2011. Blacks accounted for 24 percent, Hispanics 17 percent, and Asians and other groups 18 percent of this recent growth. Although whites were responsible for less than half of renter household growth, their numbers still increased by 2.1 million over this period—a sharp departure from the large declines in the 1990s and early 2000s.

An especially noteworthy shift is the rising number and share of married couples that now rent rather than own homes. While still only 36 percent of all renters in 2011, married couples accounted for 50 percent of the growth in renter households over the previous five years. More middle- and upper-income households are also renting. During the first half of the 2000s,

FIGURE 25

Renter Household Growth Set a New Record in the 2000s

Net Change in Households (Millions)



Note: Census data do not include post-enumeration adjustments.
Source: JCHS tabulations of US Census Bureau, Decennial Censuses.

most of the increase in renters occurred among households earning less than $30,000 while the number of higher earners fell significantly. After 2006, though, households earning more than $30,000 accounted for just under half of renter growth. In fact, after dragging down renter household growth during the homebuying boom, households earning more than $75,000 contributed nearly a fifth of the increase in 2006–11.

Some of the unusual features of recent renter household growth—particularly the sharp increases in older and married-couple renters—may persist as long as foreclosure rates remain elevated. But as household formations among the echo boomers rise and homeownership rates among middle-aged households stabilize, the shares of new renter households that are younger and minority should continue to increase.

REBOUND IN MULTIFAMILY STARTS

Until recently, rising demand has been met through absorption of excess vacant units and conversion of single-family homes to rentals. Completions of multifamily rental units totaled just 123,000 in 2011, the lowest annual level since 1993 and bringing the drop since 2009 to 40.9 percent.

While single-family homes have always been popular rentals, the share of renter households living in single-family units increased from 31.0 percent in 2006 to 33.5 percent in 2010. In turn, the share of the single-family stock for rent or being rented expanded from 14.4 percent to 16.1 percent, adding 2.0 million units to the inventory. Increases in the share of single-family homes for rent or rented are particularly large in states with high foreclosure rates, indicating a shift of many distressed properties from the owner to rental market **(Figure 26).**

Even so, the overall rental vacancy rate fell from 10.6 percent in 2009 to 9.5 percent in 2011, the lowest annual posting since 2002. With vacancy rates shrinking and renter household growth strengthening, multifamily development has staged a recovery. In 2011, construction began on 178,000 units in buildings with two or more units, up from 109,000 two years earlier. In early 2012, multifamily starts increased to 225,000 units on a seasonally adjusted annual basis **(Figure 27).** While still well below the roughly 340,000 starts averaged each year in the decade prior to the downturn, a continuation of current trends would give multifamily construction a substantial lift this year.

The rebound is fairly widespread, with permits up in all but three of the 25 markets that had the most multifamily construction in the decade preceding the bust. The largest gains were in Dallas and Washington, DC, where permits jumped by more than 5,000 units last year. Houston, Los Angeles, and New York also posted increases of more than 3,200 units. Even in these areas, though, permit volumes remained at half or less of recent peaks. The principal exception is Washington, DC, where multifamily permits in 2011 were only 10 percent below the 2005 peak. Not surprisingly, multifamily permitting is weakest (less than one-fifth of previous peaks) in areas such as Atlanta, Las Vegas, Miami, Orlando, and Phoenix, where the housing bust was especially severe.

RENTAL MARKET TIGHTENING

According to the Housing Vacancy Survey, rental vacancy rates in more than two-thirds of the nation's largest 75 metros fell in 2011. In more than a third of these areas, the decline from the national peak in 2009 exceeded two percentage points. The absorption of excess units in Austin, Dayton, and Phoenix was particularly rapid, pushing vacancy rates down by more than 5.0 percentage points over the past year. At the other extreme, vacancy rates in a few metro areas, such as Orlando and Tucson, remained above pre-bust levels.

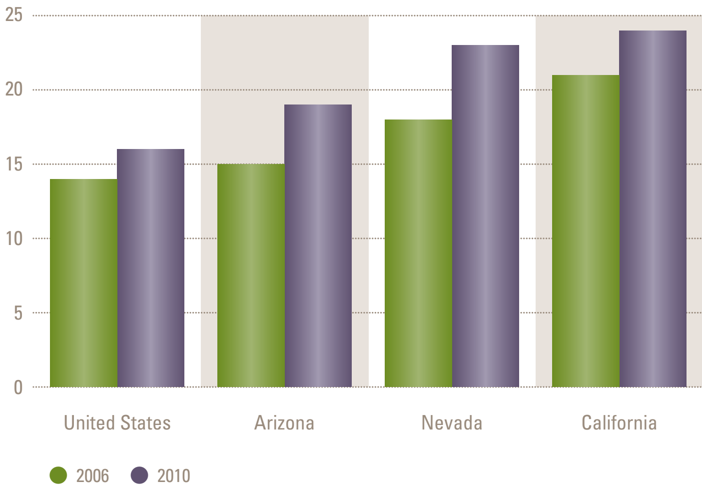
This tightening has lifted rents, at least at the upper end of the market. The broad Rent of Primary Residence measure from the Consumer Price Index indicates that nominal rents edged up just 1.7 percent in 2011—less than the 3.2 percent rise in overall prices but still more than the increase reported in 2010. But the narrower measure based on MPF Research data shows that nominal rents for professionally managed properties with five or more units, adjusted for concessions, rose 4.7 percent from the fourth quarter of 2010 to the fourth quarter of 2011—double the 2.3 percent increase a year earlier. While evident in all regions, rent increases were largest in the Northeast (6.5 percent) and the West (5.2 percent).

Real rents climbed in 38 of the 64 metro areas tracked by MPF Research **(Figure 28).** Rents in West Coast markets such as San

FIGURE 26

Growing Shares of Single-Family Homes Have Shifted to Rentals, Especially Where Foreclosure Rates Are High

Share of Single-Family Units for Rent or Rented (Percent)



Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 27

With Demand Surging, Multifamily Rental Construction Has Revived

Multifamily Starts (Thousands)

Note: Starts in 2012:1 are at a seasonally adjusted annual rate.
Source: JCHS tabulations of US Census Bureau, New Residential Construction.

Francisco (up 11.0 percent) and San Jose (up 8.8 percent) posted the largest increases. In other high-occupancy metros such as Austin, Boston, New York, and Oakland, real increases averaged 3.7 percent or more. In contrast, rents in fully two-fifths of the markets tracked did not keep up with inflation, although the declines were generally modest. Only five markets saw real rents fall more than 1.0 percent in 2011, with Las Vegas reporting by far the largest decline (3.6 percent).

IMPROVING RENTAL PROPERTY PERFORMANCE

Tighter rental markets have bolstered cash flow and returns on multifamily properties. As measured by the National Council of Real Estate Investment Fiduciaries, commercial apartment prices climbed 10.0 percent in the fourth quarter of 2011 from a year earlier, marking a 34.4 percent increase from their fourth-quarter 2009 low. NCREIF also reports that the quarterly returns on investment in these properties averaged 3.7 percent in 2011, yielding an overall return of 15.5 percent last year **(Figure 29).** While below the outsized earnings posted in the second half of 2010, these returns exceed the average performance in the first half of the 2000s—not to mention the substantial losses in 2009.

Despite these signs of strength, not all segments of the multifamily market are out of the woods. Of particular concern are properties with loans held in commercial mortgage backed securities (CMBS). According to Moody's Delinquency Tracker, 14.1 percent of such loans were at least 60 days past due in the first quarter of 2012, down just slightly from the 15.7 percent peak at the start of 2011. These poorly performing loans were generally issued during the boom years when lending standards were much more relaxed.

By comparison, delinquency rates for other types of apartment loans have been lower and quicker to recede. For example, the share of noncurrent multifamily loans held in bank portfolios fell by nearly half from the mid-2010 peak, down to 2.5 percent at the end of 2011. Multifamily loans backed by Fannie Mae and Freddie Mac have performed even better, with delinquency rates well below 1.0 percent.

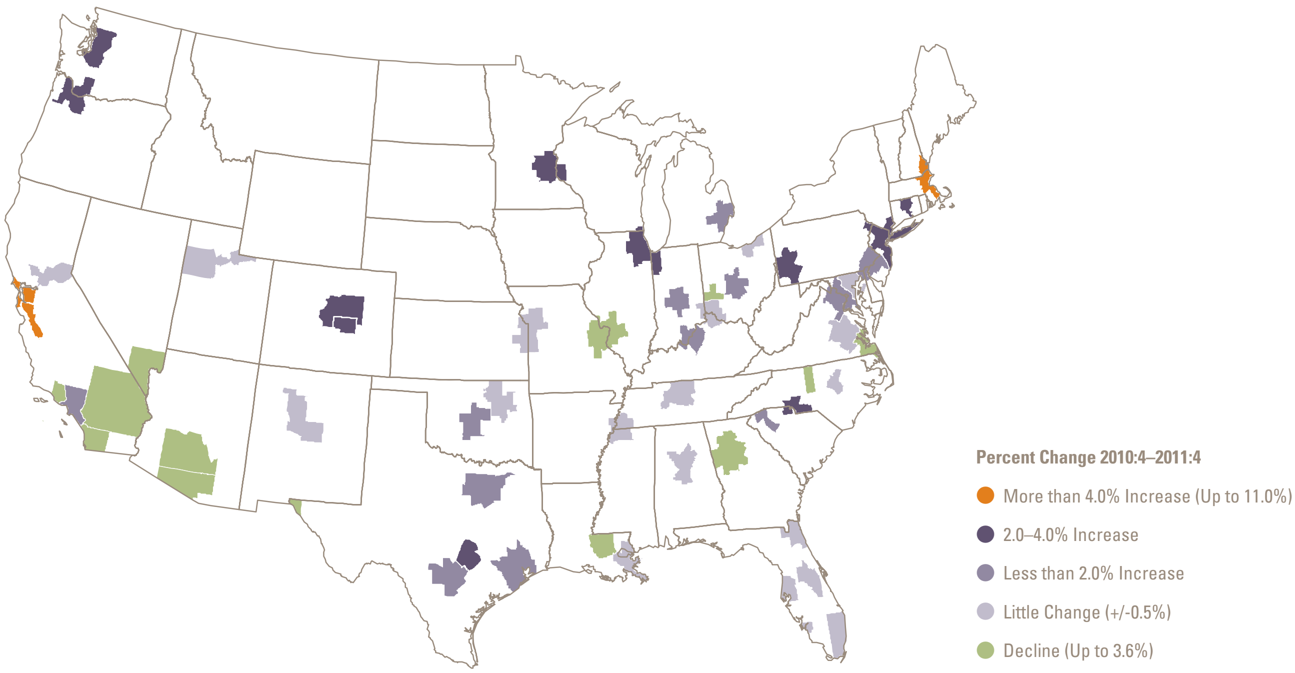
EMERGING RECOVERY IN MULTIFAMILY LENDING

Once the recession hit, government lending was responsible for virtually all of the net growth in multifamily loans outstanding. In 2010, agency and GSE portfolios as well as MBS accounted for a $14.8 billion net increase in outstanding multifamily loans, while banks and thrifts contributed a modest $2.0 billion. In 2011, however, the strength of the multifamily recovery bolstered investment interest, and banks grew their portfolios by $5.8 billion and life insurance companies by $2.3 billion.

Nevertheless, Fannie Mae, Freddie Mac, and FHA still contributed the lion's share of new lending last year, increasing their backing of multifamily loans by $18.4 billion. An

FIGURE 28

Real Rents Are Rising in Many Locations Across the Country



Notes: Rents are adjusted for inflation by the CPI-U for All Items. Estimates are based on a sample of investment-grade properties.
Source: JCHS tabulations of MPF Research data.

important but often overlooked aspect of the debate over the government's future role in the mortgage market is whether these guarantees, if continued, should apply to multifamily lending. The government backstop in this market segment was clearly critical during the downturn. With rental demand surging and adding strength to the recovery, policy makers will need to ensure that a restructured mortgage market can provide an adequate supply of capital to fuel expansion of the multifamily stock.

SHRINKING SUPPLY OF LOW-COST RENTALS

The housing bust and Great Recession helped to swell the ranks of low-income renters in the 2000s, increasing the already intense competition for a diminishing supply of low-cost units. According to the American Community Survey, the number of renters earning $15,000 or less (in real terms) grew by 2.2 million between 2001 and 2010. The number of rental units that were both adequate and affordable to these households, however, declined by 470,000 over this period. As a result, the gap between the supply of and demand for these units widened **(Figure 30).** In 2001, 8.1 million low-income renters competed for 5.7 million affordable units, leaving a gap of 2.4 million units. By 2010, the shortfall had more than doubled to 5.1 million units. Moreover, of these affordable units, more than 40 percent were occupied by higher-income renters.

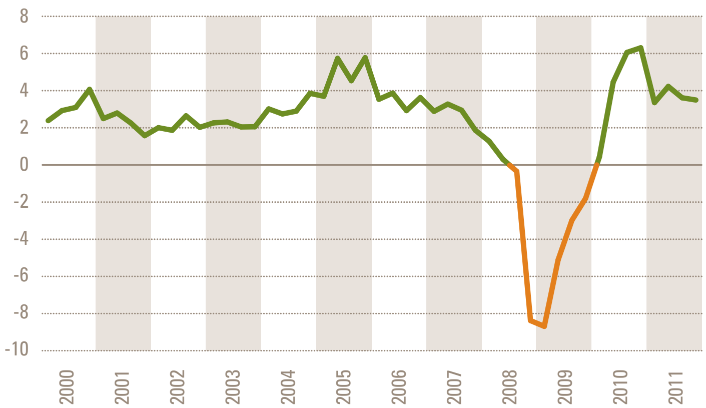
Data from the American Housing Survey reveal the range of forces that work to deplete the affordable rental inventory. Nearly three of ten units renting for less than $400 in 1999 were lost from the stock a decade later. Demolitions and other permanent removals claimed nearly 12 percent of the stock, but conversions to seasonal use and temporary removals also contributed to the decline. And contrary to popular wisdom, the filtering of properties from higher to lower rents over time has not replenished the supply. In fact, losses due to rising rents are a major drain on the low-cost inventory: for every two units that moved down to the low-cost category between 1999 and 2009, three moved up to higher rent levels. As a result, 8.7 percent of the low-cost rental stock was upgraded to higher rents on net over the decade.

Meanwhile, most new construction adds units at the upper end of the market, with the median monthly asking rent for newly completed apartments exceeding $1,000 each year in 2006–11. The median would be even higher if not for the substantial share of multifamily construction assisted by the federal Low Income Housing Tax Credit program in recent years. By comparison,

FIGURE 29

Rental Market Tightening Has Restored Returns on Multifamily Properties to Pre-Recession Levels

Quarterly Return on Investment (Percent)

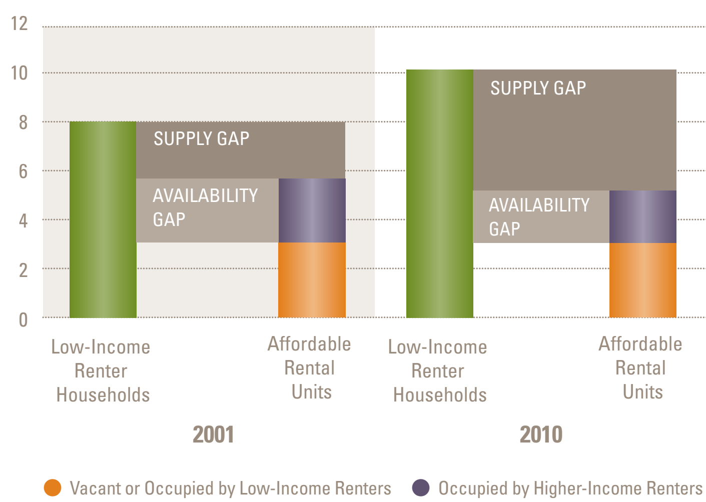


Note: Return on investment incorporates net operating income and changes in the market value of the property.
Source: National Council of Real Estate Investment Fiduciaries, Apartment Property Index.

FIGURE 30

The Gap Between the Number of Low-Income Renters and the Supply of Affordable, Available, and Adequate Units Continues to Widen

Millions



Notes: Low-income renters have annual incomes of $15,000 or less. Affordable units have rents under $377 per month (30 percent of monthly household income). Adequate units have complete kitchen and plumbing facilities. Household income and rent are in constant 2010 dollars, adjusted for inflation by the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

the rent affordable (at 30 percent of income) to a renter household with the median income of $30,700 in 2010 is just $770 per month. To someone earning $15,000 a year (the full-time equivalent of the federal minimum wage), an affordable rent would be $375 per month. Stepped-up efforts to preserve the existing low-cost rental stock will therefore be necessary to help meet rapidly growing demand among low-income households.

THE OUTLOOK

Barring a dramatic bounceback in homeownership, renter household growth should remain strong for some time. In the near term, larger shares of younger households are opting to rent while foreclosures are forcing many older households out of homeownership and into the rental market. But even as the economic recovery gains traction and homeownership rates level off, rental demand should get a boost from higher household formations among the echo boomers.

With demand growing strongly, multifamily construction should increase in many metropolitan markets. The exceptions may be metros with stubbornly high vacancy rates, many of which are located in states hit hard by the foreclosure crisis. But capital must be available to support this new construction. Lending by banks and life insurance companies has begun to pick up, but federal sources still guarantee a large majority of new loans. If the federal government pulls back from the multifamily market, private lending will have to increase substantially to support this important segment of the housing market.

Tighter rental markets make it increasingly difficult for lower-income households to find affordable housing. With rents on most newly constructed units well out of reach, the recent jump in multifamily production will do little to alleviate the shortage. Instead, public subsidies are needed to close the gap between what low-income households can afford to pay for rent and what it costs to develop decent housing. At present, the Low Income Housing Tax Credit program is the primary means of adding to the affordable housing stock, but reaching lowest-income renters will take deeper subsidies than this program currently provides.

6 Housing Challenges

In the aftermath of the Great Recession, growing numbers of owners and renters alike cannot afford housing. Federal efforts to limit the fallout have managed to hold the line on homelessness but have done little to expand assistance to the rising ranks of lower-income households or to the many neighborhoods blighted by foreclosures. With stimulus programs now coming to an end, budget pressures threaten to reduce already inadequate federal and state funding for rental housing assistance.

COST BURDENS ON THE RISE

According to the latest American Community Survey, 42 million households (37 percent) pay more than 30 percent of income for housing (moderate burden), while 20.2 million (18 percent) pay more than half (severe burden). Between 2001 and 2010, the number of severely cost-burdened households climbed by a staggering 6.4 million.

The economic downturn has been especially hard on low-income households **(Figure 31).** The number of households earning under $15,000 a year and paying more than half their incomes for housing jumped by 1.5 million in 2007–10, or nearly double the increase in 2001–7. In part, this increase reflects widening income inequality. After adjusting for inflation, lowest-income families made up just 13 percent of households in 2001, but accounted for 25 percent of household growth in 2001–10 **(Figure 32).** If the income distribution had held at 2001 levels, there would have been 1.0 million fewer households earning less than $15,000 in 2010, and 1.4 million fewer earning $15,000–29,999.

But even within these groups, affordability problems have become more widespread. The share of severely cost-burdened households in the lowest-income group rose from 64.3 percent to 68.0 percent in just the three years from 2007 to 2010. Over this same period, the number of severely cost-burdened households earning $15,000–29,999 shot up even more rapidly (19 percent), lifting the share above 30 percent.

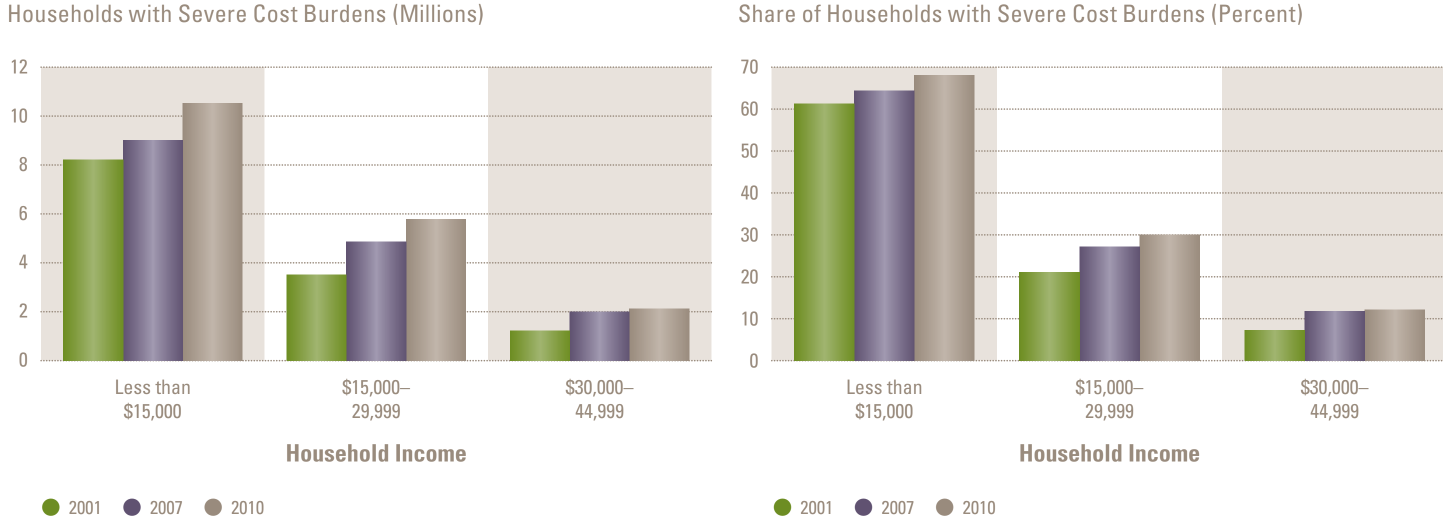
CHARACTERISTICS OF COST-BURDENED HOUSEHOLDS

Renters account for more than half of severely cost-burdened households, outnumbering owners 10.7 million to 9.5 million. Fully 27 percent of renters are severely burdened, more than twice the share of homeowners. Nevertheless, aside from those in the lowest income group, larger shares of homeowners with mortgages face severe housing cost burdens than renters with comparable incomes **(Table A-4).**

Most severely cost-burdened householders are white (11.8 million), and the increase in their numbers in the 2000s (3.3 million) exceeded that for all minorities combined. While the incidence

FIGURE 31

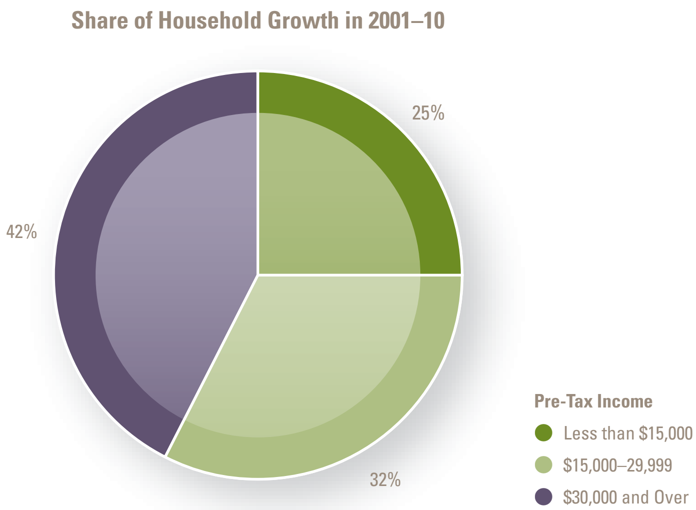
The Great Recession Brought Housing Cost Burdens to Many More Lower-Income Households



Notes: Households with severe cost burdens spend more than 50 percent of pre-tax income on housing costs. Incomes are in constant 2010 dollars, adjusted for inflation by the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 32

Lower-Income Households Made Up the Majority of Household Growth in the 2000s



Notes: Lower income is defined as less than $30,000 per year. Household income is in constant 2010 dollars, adjusted for inflation by the CPI-U for All Items. Shares do not add to 100 due to rounding. Households earning less than $15,000 accounted for 12.6% of all US households in 2001; those earning $15,000–29,999 accounted for 15.7%; and those earning $30,000 and over accounted for 71.7%.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

of severe cost burdens is still highest among blacks (27 percent), both Hispanic and black householders saw a sharp rise in share over the decade, up 6.3 and 5.8 percentage points compared with just 3.8 points among whites.

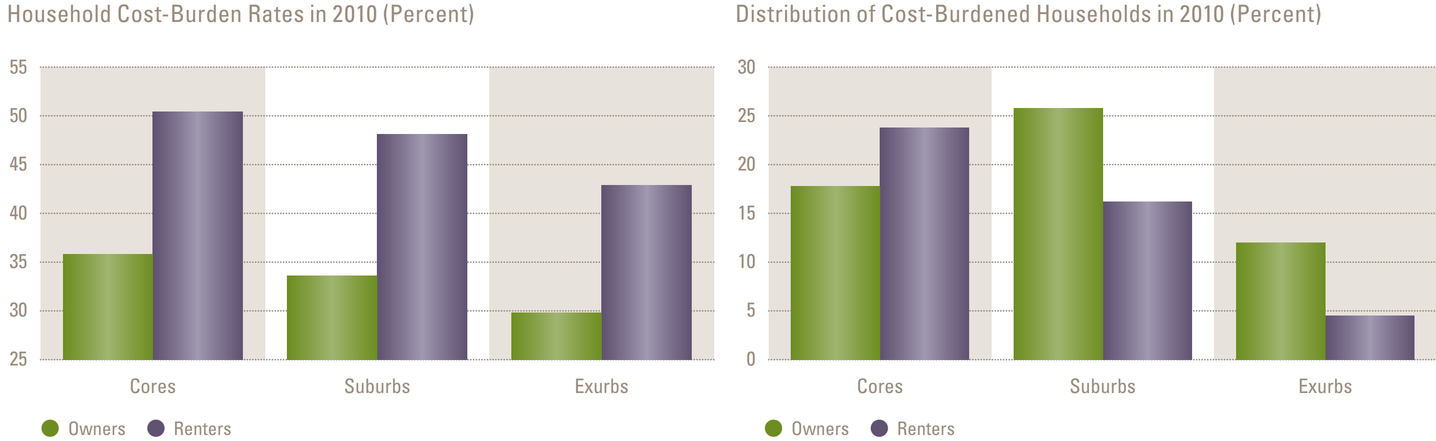
Education level increasingly determines the likelihood of having housing cost burdens. Household heads without a high school diploma had the highest rates and the largest increases in cost-burdened share, up from 21 percent in 2001 to 28 percent in 2010. The share among those with just a high school diploma was slightly lower. In contrast, the share of householders with at least a bachelor's degree increased from 8 percent to 11 percent.

Older age groups are also vulnerable. Shares of severely burdened householders aged 55–64 rose from 12 percent to 16 percent over the decade, while the shares of those aged 65 and over edged up from 15 percent to 16 percent. But because the senior population is growing rapidly, the number of older households with severe housing cost burdens jumped from 3.1 million in 2001 to 4.1 million in 2010. As the baby boomers age, the number of cost-burdened seniors will likely rise sharply over the next 20 years, escalating the need for assisted housing and supportive services for the elderly.

The majority of cost-burdened households live in metropolitan areas. In fact, the largest 100 metropolitan areas are home to 63 percent of all households, but 68 percent of households with cost burdens. The shares are highest in the core cities, where 50 percent of renters and 36 percent of homeowners were at least moderately burdened in 2010. But the number of cost-burdened

FIGURE 33

While Core City Renters Represent the Largest Share of Cost-Burdened Households, Suburban Homeowners Account for the Largest Number



Notes: Cost-burdened households spend more than 30 percent of pre-tax income on housing costs. Data include the 100 largest metro areas, ranked by population in 2010. Cores are cities with populations over 100,000. Suburbs are all urbanized areas outside of cores. Exurbs are the remainder of the metro area. Census data do not include post-enumeration adjustments.
Source: JCHS tabulations of US Census Bureau, Decennial Census and 2010 Five-Year American Community Survey.

homeowners in suburbs is actually higher than the number of cost-burdened renters in core cities because of the larger suburban population **(Figure 33)**. At the same time, many households living in rural areas are also burdened by high housing costs. In 2010, 1.7 million paid more than 30 percent of income for housing while nearly 1.0 million paid more than 50 percent.

UNEMPLOYMENT AND HOUSING AFFORDABILITY

Trends in housing cost burdens coincide with joblessness patterns. In 2010, 22 percent of those reporting short-term unemployment and 36 percent of those facing long-term unemployment were severely housing-cost burdened, compared with just 10 percent of fully employed householders. Indeed, the number of unemployed, severely burdened householders surged from 3.8 million to 5.8 million in 2001–10.

But the sharp rise in unemployment alone does not fully explain the spread of cost pressures, given that the number of fully employed heads of households with severe cost burdens also jumped from 3.9 million to 6.2 million. Having (and keeping) a second earner in the household makes a huge difference. Just 6 percent of households with two or more employed workers were severely housing-cost burdened in 2010, compared with 18 percent of those with one worker and fully 48 percent of those with no employed worker. But the Great Recession reduced the number of multi-worker households by 2.5 million in 2008–10, and added a similar number to the ranks of jobless households.

The current economic recovery is noteworthy for the persistently high share of long-term unemployed, which has contributed to the spread of cost burdens as well as to the duration of hardship. In 2001, 43.4 percent of households paying more than 30 percent of income for housing had been similarly burdened two years earlier. In 2009, that share had risen to 52.1 percent.

FRAGILE FAMILY FINANCES

High housing costs force difficult spending tradeoffs, particularly for families with children. After paying for housing, severely cost-burdened families in the bottom expenditure quartile in 2010 had just $619 per month left over on average for all other needs **(Figure 34).** As a result, they spent nearly 40 percent less on food, more than 50 percent less on clothes and healthcare, and 30 percent less on insurance and pensions than families living in affordable housing. Unburdened households did, however, spend $110 more per month on transportation than burdened households, suggesting that some households settle for housing that they can afford but is at some distance from employment centers.

Rural households with severe cost burdens fared even worse. Among those in the bottom expenditure quartile, housing costs made up an average of 67 percent of outlays in 2010—leaving just $390 per month for all other needs. Again, rural households in the bottom expenditure quartile living in affordable housing spent $150 more on transportation a month than their severely cost-burdened counterparts. Even so, their combined outlays for housing and transportation were still much lower than those of severely cost-burdened families.

For many young householders, student loan payments add to the pressure of high housing costs. According to the Project on Student

FIGURE 34

With About $600 Left After Monthly Housing Costs, Severely Burdened Low-Income Families Sharply Curtail Spending on Other Necessities

Average Monthly Expenditures for Low-Income Families with Children in 2010 (Dollars)

Notes: Low-Income families with children shown are in the bottom expenditure quartile. Severely cost-burdened households devote more than half of expenditures to housing. Unburdened households spend less than 30 percent.
Source: JCHS tabulations of Bureau of Labor Statistics, Consumer Expenditure Survey.

Debt, about two-thirds of all college seniors have debt when they graduate. In 2010 alone, college seniors with debt owed $25,250 on average. Given that a whopping 37 percent of householders under age 25 are severely housing-cost burdened and 59 percent earn less than $30,000 per year, those with student debt have few resources to cover loan payments as well as other necessities.

Meanwhile, older households are carrying more mortgage debt well into their retirement years. From 1999 to 2009, the share of homeowners aged 65 and older with mortgages increased from 24 percent to 35 percent. At the same time, the real median home mortgage among senior homeowners increased from $42,700 to $55,900.

HOMELESSNESS TRENDS

According to the US Department of Housing and Urban Development (HUD) Point-in-Time count, 400,000 individuals and 236,000 persons in families were homeless in 2011. About 107,000 were chronically homeless. Veterans continued to make up a disproportionate share of the homeless population (14 percent), with numbers approaching 67,500.

Since the preceding year, however, total homelessness fell 2.1 percent, the number of homeless families 2.4 percent, chronic homelessness 2.4 percent, and the number of homeless veterans 12 percent. Indeed, despite a slight uptick in 2010, homelessness has generally been on the decline, with a 5.3 percent reduction in the total and a 13.5 percent drop in chronic homelessness since 2007. The number of homeless families was also down 8 percent—a striking improvement given the state of the economy and of housing markets.

These trends highlight the effectiveness of increased federal funding for homeless programs in response to the housing crisis. The decline in homelessness among veterans is particularly noteworthy, reflecting the efforts of HUD and the US Department of Veterans Affairs to provide additional housing vouchers and expand supportive services. This progress, however, may not be sustainable. The Homelessness Prevention and Rapid Re-Housing Program (HPRP), one of the principal responses to the housing crisis, is set to expire. At $1.5 billion, the HPRP is an unprecedented use of federal funds to combat homelessness, but its imminent end may leave more people living on the streets.

NEIGHBORHOODS IN DISTRESS

Information from CoreLogic indicates that 890,000 foreclosures were completed in 2011, down from 1.1 million in 2010. But the wave of home losses is by no means over, with upwards of 2.0 million homes still in some stage of foreclosure in early 2012.

As the crisis enters its fifth year, the length of time to complete a foreclosure has become greatly protracted. According to Lender Processing Services, the timeline averaged 631 days in December 2011. During this period, owners usually defer maintenance and repairs, or even abandon their homes, bringing blight to the surrounding neighborhood. The challenges associated with foreclosures have reached into all corners of metropolitan areas. Within the 100 largest markets, some 40 percent of foreclosures completed in 2008–10 were in core cities, 36 percent in suburbs, and 24 percent in exurbs. Even so, nearly half of foreclosed properties are clustered in just 10 percent of the nation’s 65,000 census tracts.

Meanwhile, the flow of mortgage credit to these deteriorating neighborhoods has all but dried up. While lending fell 26 percent in minimally distressed neighborhoods in 2004–10, the cutback was 56 percent in moderately distressed neighborhoods and 74 percent in the most distressed neighborhoods. Although HUD’s Neighborhood Stabilization Program has provided much needed funding to help foster a recovery in the most distressed areas, this effort is winding down while the blight in these neighborhoods is likely to linger for years to come. Moreover, without access to credit, many current owners in these communities are unable to fund home improvements or refinance into more affordable mortgages, while potential buyers are locked out of ownership.

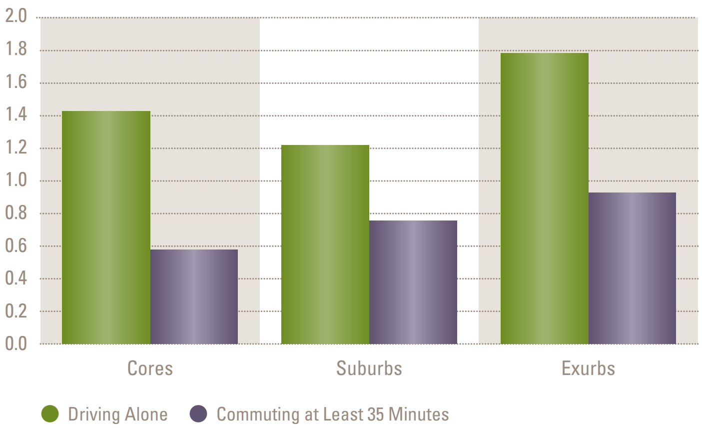
URBAN GROWTH AND SUSTAINABILITY

With more and more households moving to the outskirts of metropolitan areas, automobile commuting has risen sharply

FIGURE 35

With Most Household Growth Occurring at the Metropolitan Fringe, More Workers Are Driving Alone and Have Longer Commutes

Change in Commuters in 2000–10 (Millions)

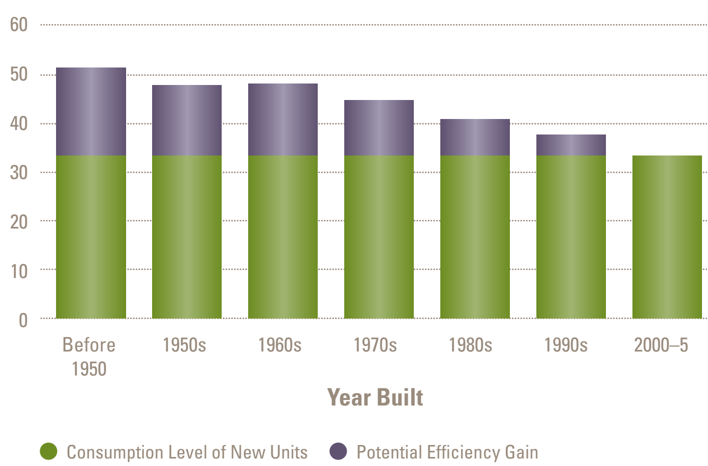


Notes: Data include the 100 largest metro areas, ranked by population in 2010. Cores are cities with populations over 100,000. Suburbs are urbanized areas outside of cores. Exurbs are the remainder of the metro area. Census data do not include post-enumeration adjustments.
Source: JCHS tabulations of US Census Bureau, Decennial Census and 2010 Five-Year American Community Survey.

FIGURE 36

Improving the Efficiency of Older Housing Could Significantly Reduce Residential Energy Consumption

Household Energy Consumption (Thousands of BTUs per square foot)



Source: JCHS tabulations of Energy Information Administration, 2005 Residential Energy Consumption Survey.

(Figure 35). Indeed, the number of auto commuters climbed 13 percent in exurban locations during the 2000s, compared with just 3 percent in core areas and suburbs. Moreover, the fastest-growing segments of commuters were those who drove to work alone and those who traveled for at least 35 minutes each way. In just the top 100 metros, the number of commuters driving alone increased by more than 1.8 million in the exurbs, 1.2 million in the suburbs, and 1.4 million in the core cities.

More compact growth patterns—mixed-use developments with 11–15 housing units per acre—could therefore have a big impact on vehicle miles traveled (VMT). The National Academy of Sciences estimates that if all new housing units were built at twice the current average density, VMT would drop 5–12 percent by 2050 (and possibly up to 25 percent), assuming that alternative transit options are available, employment centers are clustered, and local zoning laws are more flexible. In addition to travel time, higher-density development would reduce residential energy costs in that the average multifamily unit consumes 40 percent less energy per square foot than the average single-family detached home. Of course, achieving these targets would be no easy task, requiring not only substantial changes in local land use planning and transit spending, but also fundamental shifts in consumer preferences.

Improving the efficiency of older homes also holds promise for cutting energy consumption and costs, along with greenhouse gas emissions **(Figure 36).** Indeed, the Energy Information Administration estimates that, using existing tools and technology, upgrading the older stock to the efficiency of post-2000 homes would lower overall residential energy consumption by 24 percent. Given that residential use accounted for some 22.5 percent of total US energy consumption in 2010, these savings would be significant.

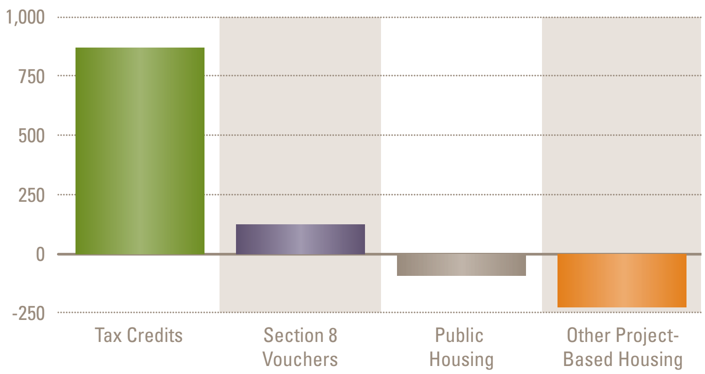
Tax credits for energy-efficient homebuilding and remodeling techniques have already prompted strong consumer demand for these investments when backed by federal incentives. According to the latest IRS data, the number of filers claiming a residential energy tax credit jumped from 162,000 in 2008 to 4.6 million in 2009—fully 10 percent of all filers that itemize their deductions. This represents a stunning increase in credits from $166 million to $4.3 billion in one year alone.

In addition, the American Council for an Energy Efficient Economy reports that 10 percent of new homes in 2009 qualified for the Energy Policy Act of 2005 Homebuilder Tax Credit (a $2,000 credit for using 50 percent less energy than required under the International Energy Conservation Code). Although this and several other credits expired in 2011, the US Department of Energy's Weatherization Assistance Program received an additional $5 billion in 2009 and continues to provide insulation, heating, and cooling systems for low-income households. In its 33 years of existence, the program has helped 6.4 million households reduce their annual energy bills by more than $400 on average.

FIGURE 37

With Public Housing and Project-Based Units Dwindling, Housing Assistance Increasingly Comes in the Form of Tax Credit Units and Vouchers

Change in Assisted Households, 2001–9 (Thousands)



Notes: Tax credits refer to units built with Low Income Housing Tax Credit funding. Other project-based housing includes Section 236 and Section 515 units.
Sources: Ingrid Gould Ellen, presentation at the Next Generation Housing Policy Convening on Rental Policy, 2010; JCHS estimates.

ASSISTANCE PROGRAMS UNDER PRESSURE

In fiscal 2011, HUD's principal rental housing programs provided assistance to an estimated 4.8 million low-income families, a 1.5 percent increase (73,000 households) over the previous two years. At the same time, however, the number of severely housing cost-burdened renter households with incomes under $15,000 soared 6.5 percent (430,000 households).

As it is, only about one in four families with very low incomes (up to half of area median, adjusted for family size), the typical target of many government programs, benefit from federal rental assistance. Now even the limited reach of federal programs may be reduced even further. Funding for several HUD programs, particularly those supporting state and local efforts through the HOME and Community Development Block Grant programs, was substantially cut after 2010. And even programs with stable funding have diminished impact. The Housing Choice Voucher program, for example, received consistent funding and even modest increases in the past few years. But the subsidies depend on recipients' incomes, many of which were decimated by the recession. The combination of shrinking incomes and rising rents has thus raised per-voucher costs, leaving fewer families with assistance.

Although funds for housing assistance would again decline under the Obama Administration's FY2013 budget proposal, alternative plans look for even larger cutbacks. Stimulus-related funding of housing programs is also drawing to an end. Meanwhile, the sizable federal deficit has stirred support for a tax code overhaul, with many proposals calling for substantial elimination of tax expenditures (indirect means of funding, such as deductions, credits, and other measures that reduce taxes owed). Among the provisions that support housing, the mortgage interest deduction has attracted the most attention because it is so large, accounting for an estimated $78 billion in foregone revenue in fiscal 2011.

Two other housing-related tax expenditures—representing only a small fraction of the costs of the mortgage interest deduction, but nonetheless important—may also be on the chopping block. The first is the Low Income Housing Tax Credit program, the principal means of expanding the affordable rental supply over the last decade **(Figure 37).** This program is one of the most successful efforts to provide project-based assistance because of its sound financial performance and track record of delivering good-quality rental housing.

The second initiative, the mortgage revenue bond program, is run by state housing finance agencies and offers below market-rate financing for low-income rental and owner-occupied housing. These loans, provided to about 125,000 first-time homebuyers each year, have performed well even after the housing market crash. Curtailing this financing option would compound the formidable barriers that low-income homebuyers already face in an era of limited borrowing opportunities.

THE OUTLOOK

Federal and state governments alike face difficult fiscal choices, driven in the short run by lower revenues and higher spending in the wake of the Great Recession, and over the longer term by the soaring costs of healthcare for the growing senior population. The challenge for policy makers is therefore to use scarce public resources as efficiently as possible, but without undermining the nation's ability to address the urgent needs of its citizens.

Expanding the supply of safe, decent housing that is affordable to the growing numbers of low-income Americans is one of those critical needs—not only to ensure quality of life for cost-burdened individuals and families, but also to repair the social fabric of entire communities damaged by the recession. Now is not the time to cut back on housing programs that have had demonstrated success in providing a springboard to opportunity for many of the nation's most vulnerable households.

7 Appendix Tables

The following tables can be downloaded in Microsoft Excel format from the Joint Center's website at www.jchs.harvard.edu.

TABLE A-1

Housing Market Indicators: 1980–2011

Year	Permits [1] (Thousands)		Starts [2] (Thousands)			Size [3] (Median sq. ft.)		Sales Price of Single-Family Homes (2011 dollars)	
	Single-Family	Multifamily	Single-Family	Multifamily	Manufactured	Single-Family	Multifamily	New [4]	Existing [5]
1980	710	480	852	440	234	1,595	915	176,348	169,796
1981	564	421	705	379	229	1,550	930	170,498	164,312
1982	546	454	663	400	234	1,520	925	161,537	158,040
1983	902	704	1,068	636	278	1,565	893	170,059	158,767
1984	922	759	1,084	665	288	1,605	871	172,980	156,743
1985	957	777	1,072	670	283	1,605	882	176,230	157,834
1986	1,078	692	1,179	626	256	1,660	876	188,817	164,805
1987	1,024	510	1,146	474	239	1,755	920	206,920	169,496
1988	994	462	1,081	407	224	1,810	940	213,911	169,798
1989	932	407	1,003	373	203	1,850	940	217,683	171,607
1990	794	317	895	298	195	1,905	955	211,515	167,457
1991	754	195	840	174	174	1,890	980	198,184	169,613
1992	911	184	1,030	170	212	1,920	985	194,797	169,145
1993	987	213	1,126	162	243	1,945	1,005	196,919	169,833
1994	1,068	303	1,198	259	291	1,940	1,015	197,315	172,271
1995	997	335	1,076	278	319	1,920	1,040	197,633	172,689
1996	1,069	356	1,161	316	338	1,950	1,030	200,710	175,765
1997	1,062	379	1,134	340	336	1,975	1,050	204,617	180,792
1998	1,188	425	1,271	346	374	2,000	1,020	210,449	187,679
1999	1,247	417	1,302	339	338	2,028	1,041	217,378	190,645
2000	1,198	394	1,231	338	281	2,057	1,039	220,759	192,413
2001	1,236	401	1,273	329	196	2,103	1,104	222,526	198,901
2002	1,333	415	1,359	346	174	2,114	1,070	234,567	209,560
2003	1,461	428	1,499	349	140	2,137	1,092	238,386	220,294
2004	1,613	457	1,611	346	124	2,140	1,105	263,163	232,441
2005	1,682	473	1,716	352	123	2,227	1,143	277,459	252,236
2006	1,378	461	1,465	336	112	2,259	1,192	275,037	247,589
2007	980	419	1,046	309	95	2,230	1,134	268,939	236,393
2008	576	330	622	284	81	2,174	1,089	242,488	205,399
2009	441	142	445	109	55	2,103	1,124	227,207	180,444
2010	447	157	471	116	51	2,152	1,137	228,801	178,564
2011	414	206	431	178	47	2,267	1,101	227,200	166,200

Notes: All value series are adjusted to 2011 dollars by the CPI-U for All Items. All links are as of April 2012. na indicates data not available.

Sources:

1. US Census Bureau, New Privately Owned Housing Units Authorized by Building Permits, www.census.gov/construction/pdf/bpann.pdf.
2. US Census Bureau, New Privately Owned Housing Units Started, www.census.gov/construction/nrc/pdf/startsan.pdf; Placements of New Manufactured Homes, www.census.gov/pub const/mhs/mhstabplcmnt.pdf. Manufactured housing starts are defined as placements of new manufactured homes.
3. US Census Bureau, Quarterly Starts and Completions by Purpose and Design, www.census.gov/construction/nrc/pdf/quarterly_starts_completions.pdf and JCHS historical tables.
4. New home price is the median price from US Census Bureau, Median and Average Sales Price of New One-Family Houses Sold, www.census.gov/construction/nrs/xls/usprice_cust.xls.
5. Existing home price is the median sales price of existing single-family homes determined by the National Association of Realtors®.
6. US Census Bureau, Housing Vacancy Survey, www.census.gov/hhes/www/housing/hvs/annual11/ann11ind.html.
7. US Census Bureau, Annual Value of Private Construction Put in Place, www.census.gov/construction/c30/privpage.html; data for 1980–1993 retrieved from past JCHS reports. Single-family and multifamily are new construction. Owner improvements do not include expenditures on rental, seasonal, and vacant properties.
8. US Census Bureau, Houses Sold by Region, www.census.gov/construction/nrs/pdf/soldann.pdf.
9. National Association of Realtors®, Existing Single-Family Home Sales.

Vacancy Rates [6] (Percent)		Value Put in Place [7] (Millions of 2011 dollars)			Home Sales (Thousands)	
For Sale	For Rent	Single-Family	Multifamily	Owner Improvements	New [8]	Existing [9]
1.4	5.4	144,466	45,610	na	545	2,973
1.4	5.0	128,591	43,206	na	436	2,419
1.5	5.3	96,647	36,219	na	412	1,990
1.5	5.7	163,767	50,695	na	623	2,697
1.7	5.9	187,041	61,097	na	639	2,829
1.7	6.5	182,606	59,661	na	688	3,134
1.6	7.3	213,715	63,701	na	750	3,474
1.7	7.7	232,099	50,397	na	671	3,436
1.6	7.7	228,348	42,398	na	676	3,513
1.8	7.4	219,368	40,460	na	650	3,010
1.7	7.2	194,281	33,130	na	534	2,914
1.7	7.4	164,207	25,017	na	509	2,886
1.5	7.4	195,561	20,993	na	610	3,151
1.4	7.3	218,125	16,793	89,149	666	3,427
1.5	7.4	246,354	21,372	98,116	670	3,544
1.5	7.6	226,585	26,404	83,713	667	3,519
1.6	7.8	244,852	29,137	95,167	757	3,797
1.6	7.7	245,511	32,070	93,387	804	3,964
1.7	7.9	275,183	33,912	99,856	886	4,495
1.7	8.1	302,219	37,041	101,305	880	4,649
1.6	8.0	309,308	36,914	105,926	877	4,603
1.8	8.4	316,370	38,491	107,990	908	4,735
1.7	8.9	332,456	41,202	122,354	973	4,974
1.8	9.8	379,676	42,929	122,670	1,086	5,446
1.7	10.2	449,589	47,565	137,415	1,203	5,958
1.9	9.8	499,300	54,475	150,987	1,283	6,180
2.4	9.7	464,156	58,916	161,709	1,051	5,677
2.7	9.7	331,085	53,114	150,909	776	4,420
2.8	10.0	194,091	46,322	125,521	485	3,660
2.6	10.6	110,443	29,922	117,470	375	3,870
2.6	10.2	116,122	15,131	115,086	323	3,708
2.5	9.5	106,742	14,753	115,770	306	3,787

TABLE A-2

Homeownership Rates by Age, Race/Ethnicity, and Region: 1994–2011

Percent

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
All Households	64.0	64.7	65.4	65.7	66.3	66.8	67.4	67.8	67.9	68.3	69.0	68.9	68.8	68.1	67.8	67.4	66.9	66.1
Age of Householder																		
Under 35	37.3	38.6	39.1	38.7	39.3	39.7	40.8	41.2	41.3	42.2	43.1	43.0	42.6	41.7	41.0	39.7	39.1	37.7
35–44	64.5	65.2	65.5	66.1	66.9	67.2	67.9	68.2	68.6	68.3	69.2	69.3	68.9	67.8	67.0	66.2	65.0	63.5
45–54	75.2	75.2	75.6	75.8	75.7	76.0	76.5	76.7	76.3	76.6	77.2	76.6	76.2	75.4	75.0	74.4	73.5	72.7
55–64	79.3	79.5	80.0	80.1	80.9	81.0	80.3	81.3	81.1	81.4	81.7	81.2	80.9	80.6	80.1	79.5	79.0	78.5
65 and Over	77.4	78.1	78.9	79.1	79.3	80.1	80.4	80.3	80.6	80.5	81.1	80.6	80.9	80.4	80.1	80.5	80.5	80.9
Race/Ethnicity of Householder																		
White	70.0	70.9	71.7	72.0	72.6	73.2	74.0	74.3	74.7	75.4	76.0	75.8	75.8	75.2	75.0	74.8	74.4	73.8
Hispanic	41.2	42.0	42.8	43.3	44.7	45.5	46.0	47.3	47.0	46.7	48.1	49.5	49.7	49.7	49.1	48.4	47.5	46.9
Black	42.5	42.9	44.5	45.4	46.1	46.7	47.2	48.4	48.2	48.8	49.7	48.8	48.4	47.8	47.9	46.6	45.9	45.4
Asian/Other	50.8	51.5	51.5	53.3	53.7	54.1	54.3	54.7	55.0	56.9	59.7	60.3	60.8	60.1	59.5	59.0	58.2	57.4
All Minority	43.2	43.7	44.9	45.8	46.8	47.4	47.9	49.0	48.9	49.5	51.0	51.3	51.3	50.9	50.6	49.7	48.9	48.3
Region																		
Northeast	61.5	62.0	62.2	62.4	62.6	63.1	63.5	63.7	64.3	64.4	65.0	65.2	65.2	65.0	64.6	64.0	64.1	63.6
Midwest	67.7	69.2	70.6	70.5	71.1	71.7	72.6	73.1	73.1	73.2	73.8	73.1	72.7	71.9	71.7	71.0	70.8	70.2
South	65.6	66.7	67.5	68.0	68.6	69.1	69.6	69.8	69.7	70.1	70.9	70.8	70.5	70.1	69.9	69.6	69.0	68.3
West	59.4	59.2	59.2	59.6	60.5	60.9	61.7	62.6	62.5	63.4	64.2	64.4	64.7	63.5	63.0	62.6	61.4	60.5

Notes: White, black and Asian/other are non-Hispanic. Hispanic householders may be of any race. After 2002, Asian/other also includes householders of more than one race.
Caution should be used in interpreting changes before and after 2002 because of rebenchmarking.

Source: US Census Bureau, Housing Vacancy Surveys.

TABLE A-3

Housing Cost-Burdened Households by Tenure and Income: 2001, 2007, and 2010

Households (Thousands)

Tenure and Income	2001 No Burden	2001 Moderate Burden	2001 Severe Burden	2001 Total	2007 No Burden	2007 Moderate Burden	2007 Severe Burden	2007 Total	2010 No Burden	2010 Moderate Burden	2010 Severe Burden	2010 Total
Owners												
Less than $15,000	1,318	1,031	2,931	5,281	1,041	1,043	3,192	5,276	1,037	1,002	3,531	5,570
$15,000–29,999	4,915	1,956	1,769	8,641	4,429	2,234	2,447	9,110	4,598	2,411	2,787	9,796
$30,000–44,999	6,436	2,268	961	9,665	5,952	2,660	1,565	10,177	6,127	2,810	1,568	10,504
$45,000–74,999	14,011	3,145	614	17,770	13,162	4,143	1,365	18,670	13,124	3,981	1,182	18,287
$75,000 and Over	26,551	1,869	210	28,629	28,141	3,535	603	32,279	27,284	3,048	460	30,791
Total	53,231	10,270	6,485	69,986	52,725	13,615	9,172	75,512	52,169	13,251	9,528	74,948
Renters												
Less than $15,000	1,667	1,188	5,290	8,145	1,715	1,197	5,819	8,731	1,720	1,201	6,992	9,912
$15,000–29,999	2,847	3,430	1,739	8,016	2,688	3,632	2,406	8,727	2,572	3,913	3,004	9,489
$30,000–44,999	4,905	1,781	254	6,940	4,306	2,039	428	6,773	4,198	2,360	557	7,114
$45,000–74,999	7,149	657	72	7,878	6,414	947	112	7,473	6,294	1,193	135	7,621
$75,000 and Over	5,340	125	6	5,471	4,983	173	8	5,164	5,262	215	6	5,483
Total	21,908	7,180	7,361	36,450	20,106	7,988	8,773	36,866	20,045	8,881	10,694	39,620
All Households												
Less than $15,000	2,985	2,220	8,221	13,426	2,755	2,241	9,011	14,007	2,756	2,202	10,523	15,482
$15,000–29,999	7,763	5,386	3,508	16,657	7,118	5,866	4,853	17,837	7,170	6,324	5,791	19,285
$30,000–44,999	11,341	4,049	1,215	16,605	10,258	4,699	1,993	16,949	10,324	5,169	2,125	17,619
$45,000–74,999	21,160	3,802	686	25,648	19,576	5,090	1,477	26,143	19,418	5,174	1,317	25,909
$75,000 and Over	31,891	1,994	216	34,101	33,124	3,708	610	37,443	32,545	3,262	466	36,274
Total	75,140	17,450	13,846	106,436	72,831	21,603	17,944	112,378	72,214	22,132	20,222	114,567

Notes: Moderate (severe) burdens are defined as housing costs of 30-50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be unburdened. Income cutoffs are adjusted to 2010 dollars by the CPI-U for All Items. The 2010 data are reweighted to the 2010 Census.

Source: JCHS tabulations of US Census Bureau, American Community Surveys.

TABLE A-4

Severely Burdened Households by Demographic Characteristics: 2010

Percent

	Household Income					
	Less than $15,000	$15,000–29,999	$30,000–44,999	$45,000–74,999	$75,000 and Over	Total
Tenure						
Owners With Mortgages	94.1	56.9	24.8	9.1	1.9	15.3
Owners Without Mortgages	44.2	5.2	0.7	0.2	0.0	7.5
Renters	70.5	31.7	7.8	1.8	0.1	27.0
Age of Householder						
Under 25	83.8	30.8	7.2	2.1	0.6	37.1
25–44	80.8	37.8	12.9	4.8	1.2	18.0
45–64	70.5	33.4	14.4	6.0	1.4	16.0
65 and Over	47.5	20.1	8.6	4.1	1.1	16.4
Household Type						
Married without Children	69.5	25.5	11.0	4.5	1.0	8.4
Married with Children	84.5	45.7	20.2	7.6	1.7	11.9
Single Parent	80.5	40.5	13.6	5.7	2.0	33.5
Other Family	71.7	30.0	10.4	4.0	1.3	17.4
Single Person	60.7	24.4	9.4	4.3	1.3	26.2
Non-Family	84.7	32.6	10.1	3.0	0.6	16.7
Race/Ethnicity of Householder						
White	65.1	26.5	10.9	4.5	1.1	14.6
Black	70.7	33.0	11.3	4.7	1.4	27.0
Hispanic	73.5	39.0	15.5	6.5	1.8	24.8
Asian/Other	74.0	40.6	20.2	10.3	2.3	21.6
Education of Householder						
No High School Diploma	58.6	26.2	10.0	4.7	1.2	27.6
High School Graduate	64.8	25.8	9.7	3.6	1.0	19.5
Some College	75.1	32.9	12.4	4.9	1.2	18.5
Bachelor's Degree or Higher	82.0	40.7	16.7	6.8	1.4	11.1
Weeks Worked in Last 12 Months						
Fully Employed	74.6	31.1	11.7	4.6	1.2	9.8
Short-Term Unemployed	79.6	37.5	14.9	6.4	1.7	22.3
Long-Term Unemployed	82.6	41.1	17.0	7.6	2.1	36.1
Fully Unemployed	83.2	48.7	22.2	9.7	4.0	48.7
Total	68.0	30.0	12.1	5.1	1.3	17.7

Notes: Severe cost burdens are defined as housing costs of more than 50% of household income. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be unburdened. Children are the householder's own children under the age of 18. Fully employed householders worked for at least 48 weeks, short-term unemployed for 27–47 weeks, long-term unemployed for 1–26 weeks, and fully unemployed householders did not work in the previous 12 months but were in the labor force.

Source: JCHS tabulations of US Census Bureau, American Community Survey.

TABLE A-5

Monthly Housing and Non-Housing Expenditures by Households with Children: 2010

Dollars

Share of Expenditures on Housing	Housing Expenditures	Non-Housing Expenditures							
		Transportation	Food	Clothes	Healthcare	Personal Insurance and Pensions	Entertainment	Other	Total Non-Housing Expenditures
Quartile 1 (Lowest)									
Less than 30%	245	197	466	61	51	95	62	207	1,139
30–50%	603	158	387	45	23	92	54	149	907
50% and Over	886	86	289	29	19	67	37	92	619
All	493	162	405	49	35	89	55	165	959
Quartile 2									
Less than 30%	541	456	616	82	138	259	126	399	2,076
30–50%	979	336	509	65	81	224	93	265	1,573
50% and Over	1,411	170	424	49	36	163	58	152	1,051
All	833	372	547	71	101	233	104	311	1,738
Quartile 3									
Less than 30%	836	724	757	118	258	488	206	680	3,233
30–50%	1,495	535	675	78	167	464	146	425	2,489
50% and Over	2,291	316	534	50	86	353	110	215	1,663
All	1,221	614	706	96	207	468	173	538	2,804
Quartile 4 (Highest)									
Less than 30%	1,604	1,331	1,128	258	460	1,135	514	1,826	6,652
30–50%	2,894	892	978	176	328	962	347	1,092	4,775
50% and Over	4,276	590	754	91	254	707	212	545	3,152
All	2,221	1,133	1,052	219	402	1,048	437	1,491	5,781

Notes: Quartiles are equal fourths of households ranked by total expenditures. Housing expenditures include mortgage principal and interest, insurance, taxes, maintenance, rent, and utilities.
Source: JCHS tabulations of US Bureau of Labor Statistics, Consumer Expenditure Survey.

TABLE A-6

Homebuying Affordability: 1990–2011

Year	NAR Affordability Index	Mortgage Payment (2011 dollars)	Payment-to-Income Ratio	Price-to-Income Ratio	Payment-to-Rent Ratio	Price-to-Rent Ratio
1990	108.1	1,183	0.28	3.23	1.45	204.1
1991	111.2	1,109	0.27	3.39	1.37	207.6
1992	122.4	1,026	0.25	3.43	1.27	208.6
1993	131.6	925	0.23	3.46	1.15	210.0
1994	128.7	1,041	0.26	3.49	1.30	213.5
1995	126.4	997	0.24	3.40	1.25	214.2
1996	126.8	1,007	0.24	3.43	1.27	219.5
1997	127.4	1,014	0.23	3.46	1.27	224.1
1998	134.3	985	0.22	3.47	1.21	228.8
1999	132.3	1,053	0.23	3.45	1.28	230.5
2000	122.8	1,125	0.24	3.45	1.37	231.5
2001	130.0	1,041	0.23	3.62	1.24	234.6
2002	127.8	1,055	0.24	3.86	1.23	242.8
2003	132.2	1,026	0.23	4.09	1.19	253.1
2004	125.8	1,082	0.24	4.31	1.26	266.5
2005	113.7	1,184	0.27	4.70	1.38	291.9
2006	107.7	1,240	0.28	4.58	1.44	287.5
2007	117.0	1,163	0.25	4.25	1.33	267.9
2008	139.0	984	0.22	3.76	1.13	234.7
2009	172.3	780	0.18	3.43	0.87	202.2
2010	174.1	739	0.17	3.45	0.84	202.2
2011	186.1	669	0.15	3.20	0.77	191.0

Notes: NAR affordability index was averaged across 12 months to obtain annual estimates. Prices and mortgage payments are based on the median existing single-family home price, averaged from quarterly data to obtain annual prices. Mortgage payments are calculated using the interest-rate average for that year and assume a 20% downpayment and fixed 30-year term. Rent is the median gross monthly rent from the 2010 American Community Survey, indexed using the CPI for rent of primary residence. Income is median household income.

Sources: JCHS tabulations of National Association of Realtors®, Composite Affordability Index (NSA) and Existing Single-Family Home Sales via Moody's Analytics; Freddie Mac, Primary Mortgage Market Survey; US Census Bureau, American Community Survey; Moody's Analytics, median household income estimates.

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