THE STATE OF THE NATION'S HOUSING 2006

Joint Center for Housing Studies of Harvard University

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Graduate School of Design
John F. Kennedy School of Government

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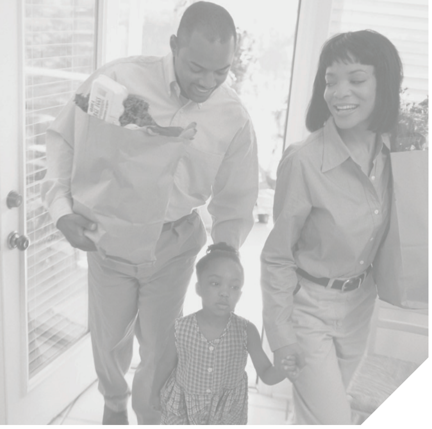


EXECUTIVE SUMMARY

The housing boom came under increasing pressure in 2005. With interest rates rising, builders in many states responded to slower sales and larger inventories by scaling back on production. Meanwhile, the surge in energy costs hit household budgets just as higher interest rates started to crimp the spending of homeowners with adjustable mortgages.

Nevertheless, the housing sector continues to benefit from solid job and household growth, recovering rental markets, and strong home price appreciation. As long as these positive forces remain in place, the current slowdown should be moderate.

Over the longer term, household growth is expected to accelerate from about 12.6 million over the past ten years to 14.6 million over the next ten. When combined with projected income gains and a rising tide of wealth, strengthening demand should lift housing production and investment to new highs. But with the economy generating so many low-wage jobs and land use restrictions driving up housing costs, today's widespread affordability problems will also intensify.

STRETCHING TO BUY HOMES

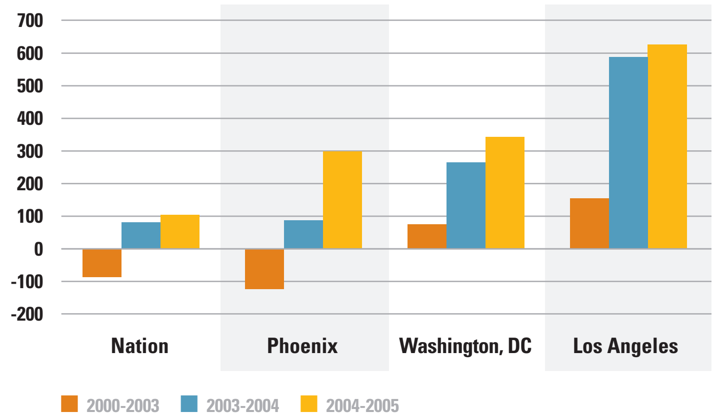
Although monthly mortgage costs to buy a median-priced home with a fixed-rate loan have risen only in the past two years, affordability in the nation's hottest housing markets has been eroding for some time (Figure 1). Unlike in metropolitan areas with more moderate appreciation, the interest rate declines in 2000–2003 did not offset the impact of skyrocketing prices in these markets. Affordability pressures are now spreading, with median house prices in a growing number of large metros exceeding median household incomes by a factor of four or more (Table W-2).

Even so, homebuyers scrambled to get in on still-hot markets last year. In stretching to afford ever more expensive homes, borrowers increasingly turned to mortgage products other than fixed-rate loans to lower their monthly payments at least initially. The most popular of these loans was the standard adjustable-rate mortgage, followed by interest-only loans, with payment-option loans a distant third.

In just two years, interest-only loans (which defer principal payments for a set number of years) went from relative obscurity to an estimated 20 percent of the dollar value of all loans and 37 percent of adjustable-rate loans originated in 2005. Payment-option loans, which let borrowers make minimum payments that are even lower than the interest due on the loan and roll

Figure 1 **Affordability Is Eroding Under the Weight Of Rising Interest Rates and House Prices**

Change in Monthly Mortgage Payment (Dollars)



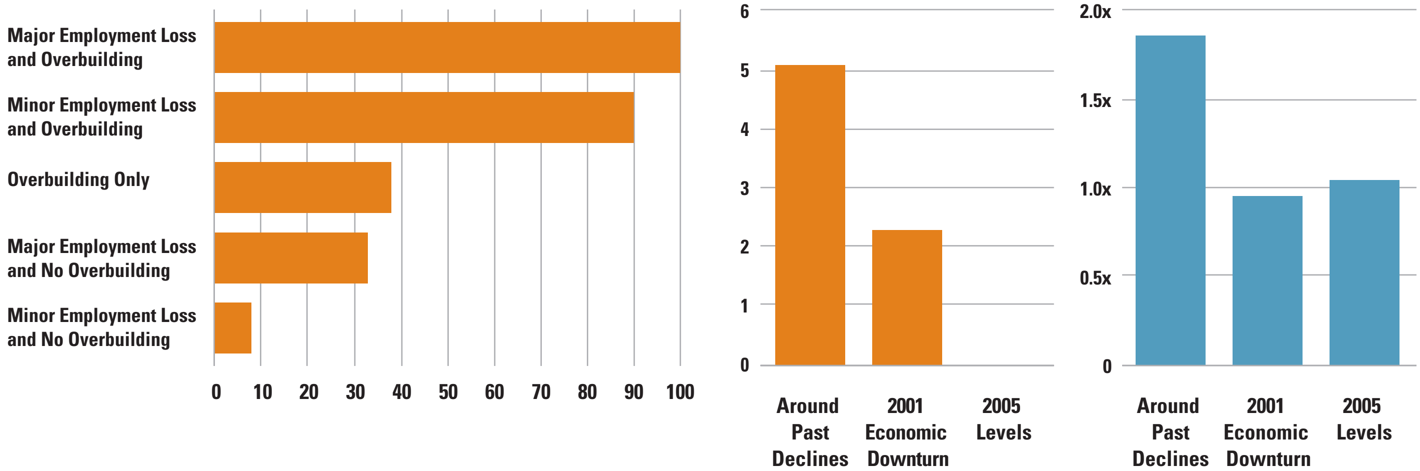
Note: Monthly payments are based on 90% of the median house price, adjusted for inflation by the CPI-UX for All Items.
Sources: Freddie Mac Conventional Mortgage Home Price Index and Primary Mortgage Market Survey; National Association of Realtors®, Metropolitan Area Existing Single-Family Home Prices.

Figure 2 **While Overbuilding and Job Losses Often Lead to Large House Price Declines…** **…Neither of These Preconditions Exists Today**

Percent of Times That Conditions Led to a Price Decline of 5% or More, 1975-1999

Average Employment Loss (Percent)

Average Ratio of Prior 3 Years to Long-Run Permit Intensity



Notes: Includes the 75 largest metros based on 2000 population. Major (minor) employment loss is defined as periods of net decreases of at least 5% (under 5%). Overbuilding is defined as periods when one- to three-year average annual permitting levels per 1,000 residents were at least double the 1980–2004 median annual level for that metro.
Sources: Freddie Mac Conventional Mortgage Home Price Index; Census Bureau, Construction Statistics; Bureau of Labor Statistics.

Notes: Includes 75 largest metropolitan areas with past major price declines that also lost jobs in 2000-3. Long-run permit intensity is the median number of permits per 1,000 residents for that metro from 1980 to 2004.
Sources: Census Bureau, Construction Statistics; Bureau of Labor Statistics.

the balance into the amount owed, accounted for nearly 10 percent of last year's loan originations, but a much smaller share of outstanding loans. While these products helped to shore up housing markets last year by blunting the impacts of rising interest rates and home prices, proposed federal guidelines may limit their use in the future.

Although borrowers with interest-only loans will see their housing outlays jump when their principal payments come due, these increases are still several years off. Borrowers thus have time for their incomes to catch up, for interest rates to fall, or to either refinance or move.

Fortunately, most homeowners have sizable equity stakes to protect them from selling at a loss even if they find themselves unable to make their mortgage payments. As measured in 2004—before the latest house price surge—only three percent of owners had equity of less than five percent, and fully 87 percent had a cushion of at least 20 percent.

HOUSE PRICE RISKS

The greatest threat to housing markets is a precipitous drop in house prices. Fortunately, sharp price declines of five percent or more seldom occur in the absence of severe overbuilding, dramatic employment losses, or a combination of the two (Figure 2). The fact that these conditions did not exist and that interest rates were so low explains why the housing boom was able to continue without interruption when the recession hit in 2001.

With building levels still in check and the economy expanding, large house price declines appear unlikely for now. But if the economy falters, both job growth and housing prices will come under renewed pressure. This would spark higher default rates, especially among subprime borrowers, and turn housing from an engine of economic growth to a drag.

STRONG DEMAND FUNDAMENTALS

Despite the current cool-down, the long-term outlook for housing is bright. New Joint Center for Housing Studies projections—reflecting more realistic, although arguably still conservative, estimates about future immigration—put household growth in the next decade fully 2.0 million above the 12.6 million of the past decade (Figure 3). On the strength of this growth alone, housing production should set new records.

With each generation exceeding the income and wealth of its predecessor, growth in expenditures on home building and remodeling should match if not surpass the current pace. For example, the median inflation-adjusted income of households in their 40s was $1,800 higher in 2005 than in 1995, while that of households in their 50s was $1,900 higher. Similarly, between 1995 and 2004, the median wealth of those in their

40s was up by $33,600 and of those in their 50s by $46,600. But incomes at the top are increasing much faster than those at the bottom and in the middle. These differences will likely drive rapid growth in the burgeoning luxury sector of the housing market, but present stubborn affordability challenges for households with low and moderate incomes.

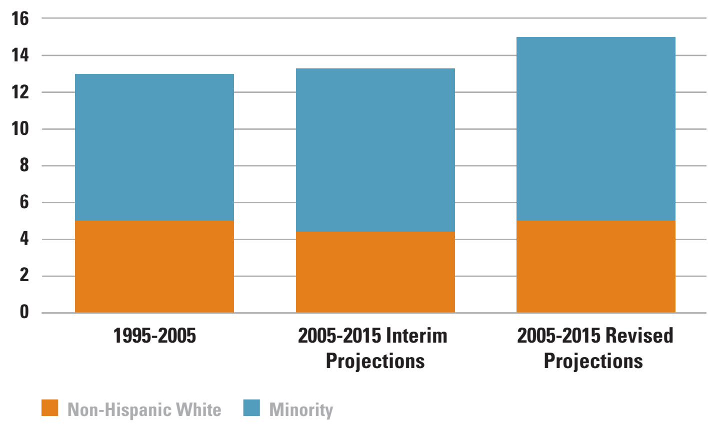
As members of the baby-boom generation reach their 50s and 60s with record wealth, they will boost the market for senior housing and second homes. At the other end of the age spectrum, the baby boomers' children, together with same-age immigrants and second-generation Americans, will buoy demand for starter homes and apartments. As this large generation moves into adulthood, demographic forces will favor rental over for-sale housing.

Meanwhile, foreign-born and minority households will continue to be the fastest-growing segments of the housing market. Thanks to strong immigration and slightly higher rates of natural increase, the minority share of households should expand from 28 percent in 2005 to over 32 percent in 2015.

Foreign-born individuals already represent 13 percent of the US population, including 18 percent of young adults aged 20 to 29. Immigrants have added especially to the ranks of the baby-bust and echo baby-boom generations, bringing new life to center cities that once experienced population declines. Immigrants thus represent not only a key source of labor for the housing industry, but also a large and growing customer base.

Figure 3 **Household Growth in the Next Decade Should Be Even Greater Than in the Last**

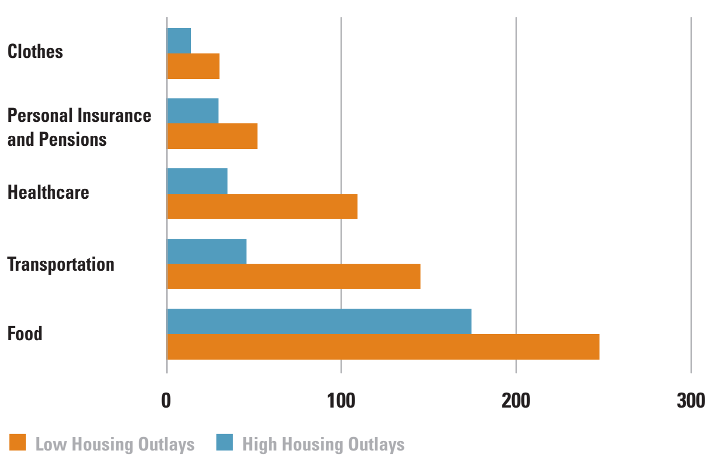
Household Growth (Millions)



Sources: Census Bureau, Housing Vacancy Survey; George Masnick and Eric Belsky,"Revised Interim Joint Center Household Projections Based Upon 1.2 Million Annual Net Immigrants," JCHS Research Note N06-1, March 2006.

Figure 4 **Households with Excessive Housing Outlays Have Little Left Over for Other Necessities**

Monthly Non-Housing Outlays by Households in the Bottom Expenditure Quartile (Dollars)



Notes: Expenditure quartiles are equal fourths of all households by average monthly spending. High (low) housing outlays are defined as more than 50% (less than 30%) of total monthly expenditures.
Source: JCHS tabulations of the 2003 Consumer Expenditure Survey.

LONG-TERM HOUSING CHALLENGES

While the vast majority of Americans still pay a manageable share of their income for housing, affordability problems are worsening. In just the three years from 2001 to 2004, the number of households paying more than half of their incomes for housing shot up by 1.9 million. This increase brought the total number of low- and middle-income households with severe cost burdens to 15.6 million.

Working in no way protects families from the hardship of high housing outlays. In fact, 49 percent of poor working families with children (working more than half time but earning less than the poverty level) had severe cost burdens in 2004 and 75 percent had at least moderate burdens. Among near-poor working families with children (with incomes one to two times the poverty level), the share with severe burdens was 17 percent and with at least moderate burdens 52 percent.

As households spend excessive shares of their incomes on housing, they have little left over for other basic needs (Figure 4). Accordingly, many choose to trade off longer commutes for more affordable housing. As evidence, households in every expenditure quartile with low housing outlays spent much more on transportation than those with high housing outlays. Among those in the bottom expenditure quartile, for example, the difference in travel costs between the two groups was $99 per month.

Meanwhile, Hurricane Katrina exposed the longstanding problem of concentrated poverty. Despite some progress at the national level, about one-tenth of the nation's poor still live

Figure 5

Tougher Development Regulations Push Housing Affordability Problems Higher up the Income Scale

Share of Cost-Burdened Households in Metro Areas with More or Less Restrictive Regulations (Percent)

Notes: Least (most) restrictive metros rank in the bottom (top) third of regulatory constraints. Moderate (severe) burdens are housing costs of 30-50% (over 50%) of household income.
Sources: R. Saks, "Job Creation and Housing Construction: Constraints on Employment Growth in Metropolitan Areas," JCHS Working Paper W04-10, December 2004; JCHS tabulations of the 2003 American Community Survey.

in neighborhoods with poverty rates over 40 percent. While the number of high-poverty areas has fallen in most metros, the problem nonetheless persists in nearly all metropolitan areas and in fact intensified in 70 metros during the 1990s. Indeed, even in neighborhoods that dipped below the high-poverty threshold of 40 percent, the median poverty rate was still a substantial 31 percent.

GOVERNMENT'S ROLE

With so many Americans struggling to afford housing, the federal government has stepped up by providing subsidies to about one-quarter of renter households with incomes of less than half of area medians. These subsidies typically hold tenant rent contributions to 30 percent of household income. In addition, states are authorized to issue tax-exempt bonds and housing tax credits, which have financed nearly two million low-income rental units, as well as assisted more than two million first-time homebuyers over the past 15 years. State and local governments also allocate federal block grants, along with housing trust funds, to assist in creating affordable housing and broadening opportunities for low-income homeownership.

At the local level, however, land use regulations often make it difficult for builders to develop affordable housing. Large minimum lot sizes, restrictions on the land available for residential development, impact fees that place the marginal cost of infrastructure and public services on new homebuyers, and approval processes that add risk and delays all play a hand in rising house prices. Because per-unit impact fees and permitting costs represent such a large share of the costs of developing modest units, they directly discourage the production of low-income housing.

While many land-use regulations address important public policy concerns such as environmental protection and public health, they nevertheless make housing more expensive. Indeed, the stricter the development regulations, the more intense the affordability problems in that community (Figure 5).

But relaxing land use regulations alone will not eliminate the nation's housing affordability problems. The costs of owning and operating even modest housing far exceed the rents that many low-income households can afford to pay without deep subsidy. As a result, affordable rental housing is disappearing at an alarming rate. Between 1993 and 2003, the supply of rental units affordable to those earning $16,000 or less shrank by 13 percent. These dramatic losses increased the shortfall in units available to these low-income households to 5.4 million.

Federal efforts to address this challenge have been critical but insufficient to keep up with the growing demand. Making significant headway will be difficult without the combined efforts of all levels of government to expand housing subsidies, create incentives for the private sector to build affordable housing, institute land use policies that reduce the barriers to development, and educate the public about the importance of affordable housing. ■

HOUSING MARKETS

Despite another record-setting performance, housing markets showed clear signs of cooling late in 2005. As mortgage interest rates moved up and house prices soared, home sales turned down and investor demand started to wane at the end of the year. Even so, house prices continued to climb, home improvement spending remained healthy, and rental markets were on the mend.

MIXED GAINS

With job and income growth strong and the promise of continued price appreciation drawing buyers into the market, home sales and residential construction edged past last year's all-time peaks (Figure 6). The mortgage industry lent a hand, originating fully $3.1 trillion in home loans and offering a wide range of products to buyers who might otherwise have been priced out of the market.

But gains were mixed across the country. While house prices rose nearly everywhere in 2005, home builders were quick to respond to signs of softening by pulling back on production in many markets (Figure 7). As a result, single-family permits were up in only half of the states and half of the nation's 361 metropolitan areas. Minnesota, Rhode Island and Ohio were the only states to show a two-year drop in permits, but fully 59 metros marked a second year or more of decline (Table W-7). Nine states also saw lower sales of existing homes.

Figure 6 Strength in Early 2005 Pushed Most National Housing Indicators into Record Territory

	2004	2005	Percent Change 2004-2005	Percent Change 2001-2005
Homeownership Rate (%)	69.0	68.9	-0.1	1.6
Home Sales				
New Single-Family (Millions)	1.2	1.3	6.7	41.3
Existing Single-Family (Millions)	6.0	6.2	3.4	30.6
Existing Condo/Co-ops (Thousands)	820	896	9.3	49.1
Median Home Prices				
New Single-Family	$230,842	$240,900	4.4	23.2
Existing Single-Family	$200,158	$219,000	9.4	27.7
Existing Condo/Co-op	$197,930	$223,900	13.1	43.1
Home Equity (Trillions)	$10.0	$11.2	12.1	39.2
Residential Fixed Investment (Billions)	$697	$756	8.5	46.0
Residential Improvements and Repairs (Billions)	$205	$215	4.7	23.6
Mortgage Debt (Trillions)	$7.9	$8.7	10.3	50.4
Mortgage Refinancing (Trillions)	$1.5	$1.4	-10.5	-2.7

Note: Dollar values are adjusted to 2005 dolllars using the CPI-UX for All Items. Percent change is calculated with unrounded numbers.
Sources: Census Bureau; National Association of Realtors; Freddie Mac; Federal Reserve Board; Bureau of Economic Analysis.

In the multifamily sector, vacancies generally fell and rents firmed. After rising steadily from 2000 through 2004, the national multifamily rental vacancy rate retreated to 2001–2002 levels last year. But even as markets revived, multifamily rental starts slid by 22,000 units to 203,000 in 2005. At the same time, multifamily starts of for-sale units rose by 29,000 to 149,000, and condo conversions surged as builders and property owners tried to cash in on the spectacular rise in prices.

The manufactured housing sector continued to languish last year. Placements fell again from 124,200 in 2004 to 121,000 in 2005, weakening in every region except the West. Late in the year, however, demand for homes in the wake of Katrina's devastation led to an increase in shipments. But this does not herald a reversal of below-trend growth for manufactured housing, which remains stunted by the withdrawal of competitively priced loans following heavy losses in the early 2000s.

FUELING THE ECONOMY

With rapidly appreciating house prices and relatively low interest rates, both cash-out refinances and second mortgage debt remained high in 2005 (Figure 8). Indeed, the amount of home equity cashed out in refinances set another record, up a whopping 66 percent to $243 billion in real terms. In the past three years alone, owners extracted $150 billion more in equity through refinancing than they had in the previous eight.

Because interest rates on home equity lines of credit were rising faster than those on first mortgages, more borrowers viewed cash-out refinancing as the better way to tap their equity. Nonetheless, homeowners still added $135 billion to second mortgage debt outstanding last year. Meanwhile, sellers cashed out about $73 billion of equity in realized capital gains that they did not reinvest in other homes (Table A-4).

All this cash helped to fuel consumer and home improvement spending. Even owners who did not tap their equity felt more confident about spending because of their rapidly appreciating properties. While estimates vary, the housing wealth effects from strong appreciation contributed roughly one-third of the rise in real consumer spending in 2005 and added about half a percentage point to the real growth in the economy.

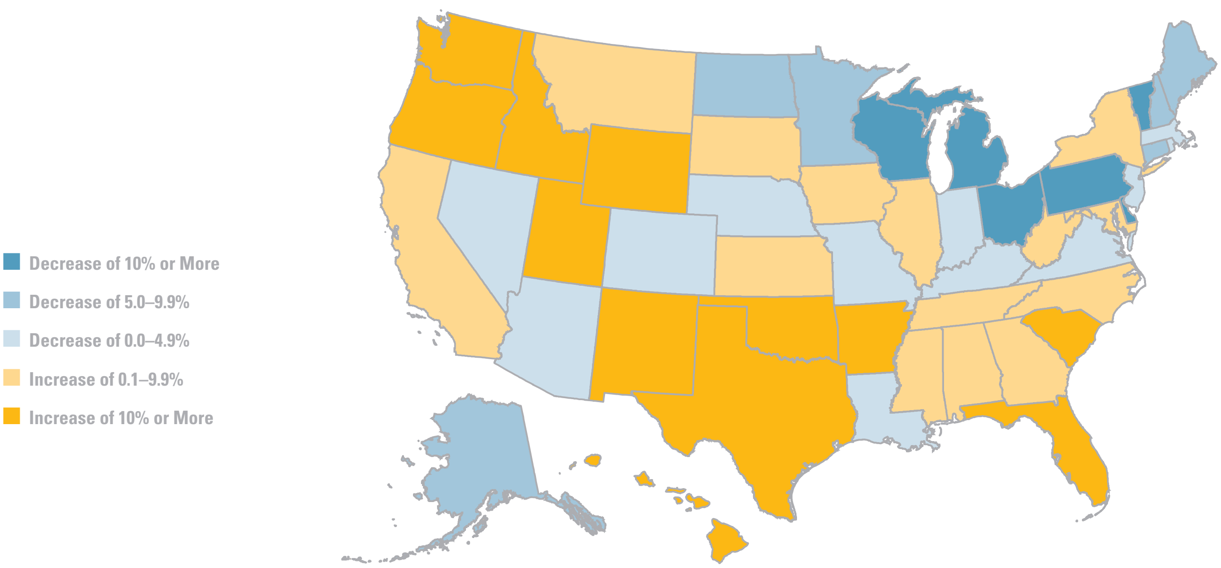
Factoring in the contributions of home building and remodeling, the housing sector accounted for a full point of last year's 3.5 percentage-point growth in GDP. Residential fixed investment was up by $59 billion in real terms to $756 billion, generating over 200,000 new construction jobs nationally. And by its broadest measure (including residential investment, commissions and fees to brokers and real estate agents, spending on furnishings and yards, and spending on rents and utilities), housing contributed a record 23 percent of the nation's $12.5 trillion GDP in 2005.

SIGNS OF SOFTENING

Although 2005 surpassed 2004 on many measures, housing markets were clearly moderating. Indeed, the year-over-year change in sales of existing homes turned negative late in 2005.

Figure 7 Single-Family Production Slipped in Half of the States Last Year

Change in Permits, 2004–2005

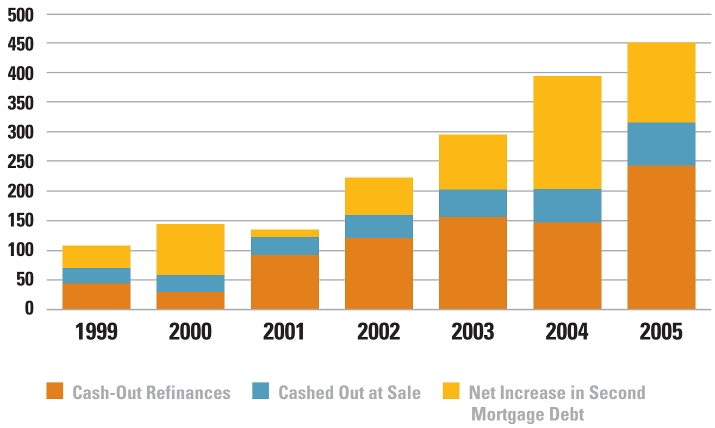


Source: Census Bureau, Construction Statistics.

Figure 8

Homeowners Cashed Out Record Levels Of Home Equity in 2005

Billions of 2005 Dollars

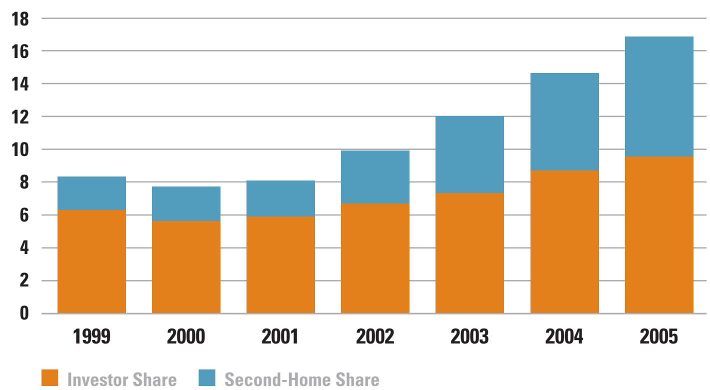


Notes: Dollar values are adjusted for inflation by the CPI-UX for All Items. Equity cashed out at sale is defined as the proceeds that are not reinvested in another home.
Sources: National Association of Realtors, Existing Single-Family Home Prices; Table A-4.

Figure 9

Investor and Second-Home Demand Has Boosted Home Sales

Share of Prime Loan Origination Volume (Percent)



Source: LoanPerformance.

Much of the blame for this slowdown lies with the 1.56 percentage-point increase in adjustable mortgage rates and the 0.44 percentage-point increase in fixed mortgage rates from January 2005 to January 2006.

With sales slowing but building activity steady despite widespread pullbacks, the inventory of both new and existing homes for sale ended the year much higher. Nevertheless, the 5.3–5.5 months' supply in March 2006 was still below the 6.0 months' mark that typically defines a buyer's market. At the same time, the supply of condominiums for sale climbed from 3.9 months to 6.9 months. The rapid pace of conversions of existing rental properties to condominiums contributed to this near-term oversupply. While condo appreciation did slow modestly in response to rising inventories, the retreat came only after prices reached a new peak in the middle of last year.

Investor demand was up sharply in both 2004 and 2005, lifting the investor share of loans to the 9–10 percent range from 6–7 percent in 1999–2003 (Figure 9). Among the housing markets with the highest investor loan shares are several Florida and inland California metros, as well as Boise, Phoenix, and Las Vegas. In most markets, the investor share more than doubled from 2000 to 2005 (Table W-3).

Even new homes were a target for investors, especially in the hottest housing markets. Nationally, investors bought four percent of single-family homes built and 13 percent of condos sold by companies surveyed by the National Association of Home Builders in June 2005. But in the 30 large markets that posted the fastest price appreciation, investors snapped up an average of 11 percent of new single-family homes and 15 percent of condos.

As the supply of homes for sale expands and the length of time on the market increases, investor demand should cool. If it does, it will be at least a year before it is clear how quickly these investment properties can be sold to owners who intend to use them as primary or second homes. In the hottest markets, the overhang of investor properties may be absorbed rapidly if housing production continues to fall. The recent sharp increase in vacant single-family homes for rent suggests, however, that this process will not be smooth.

Slowing house price appreciation and rising interest rates will pose the greatest challenges to low-income households that depend on their home equity to help finance their spending. Not only are the costs of borrowing on the increase, but the amount of equity available to tap is growing more slowly. Especially at risk are low-income homeowners with adjustable-rate mortgages who are seeing their monthly payments ratchet up even without additional borrowing.

HOUSE PRICE TRENDS

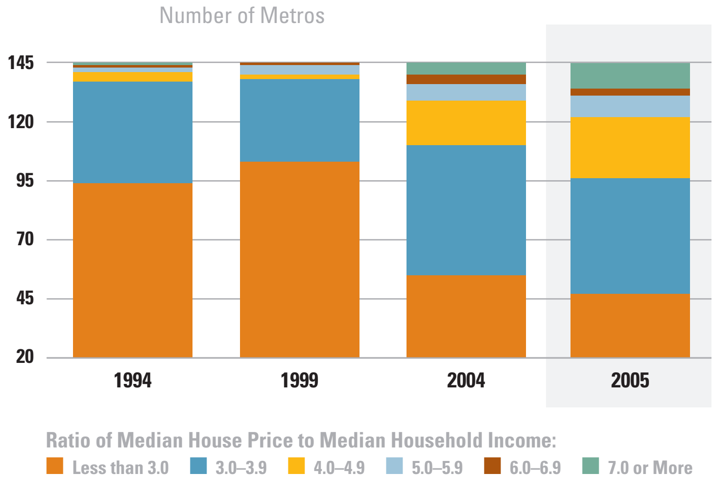
Until 2000, nationally weighted average home prices rose closely in line with median household incomes and general price inflation. Since then, however, house price appreciation has shot ahead of these benchmarks, outstripping income growth more than six-fold from 2000 to 2005. As a result, the median house price exceeded the median household income by at least four times in a record 49 of 145 metro areas, and by more than six times in 14 metros (Figure 10).

By 2005, nominal house prices were rising at their fastest pace since 1978 (Table W-1). Inflation-adjusted prices were up 9.4

percent, the largest increase in more than 40 years of record-keeping. It is no surprise, then, that media reports of a housing bubble reached a fever pitch last year. According to Factiva, the number of articles mentioning that term increased to 3,492 in 2005, up from 789 in 2004, 614 in 2003, and 907 in 2002.

But, when and if house prices do fall, the so-called bubble is more likely to deflate slowly rather than burst suddenly. History suggests that appreciation eases for a year or two before prices come down in nominal terms. While dips of a few percentage points are common, nominal house prices rarely drop by 10 percent or more.

Figure 10 **Since 1999, House Prices Have Rocketed Past Incomes in Most Metros**



Source: Table W-2.

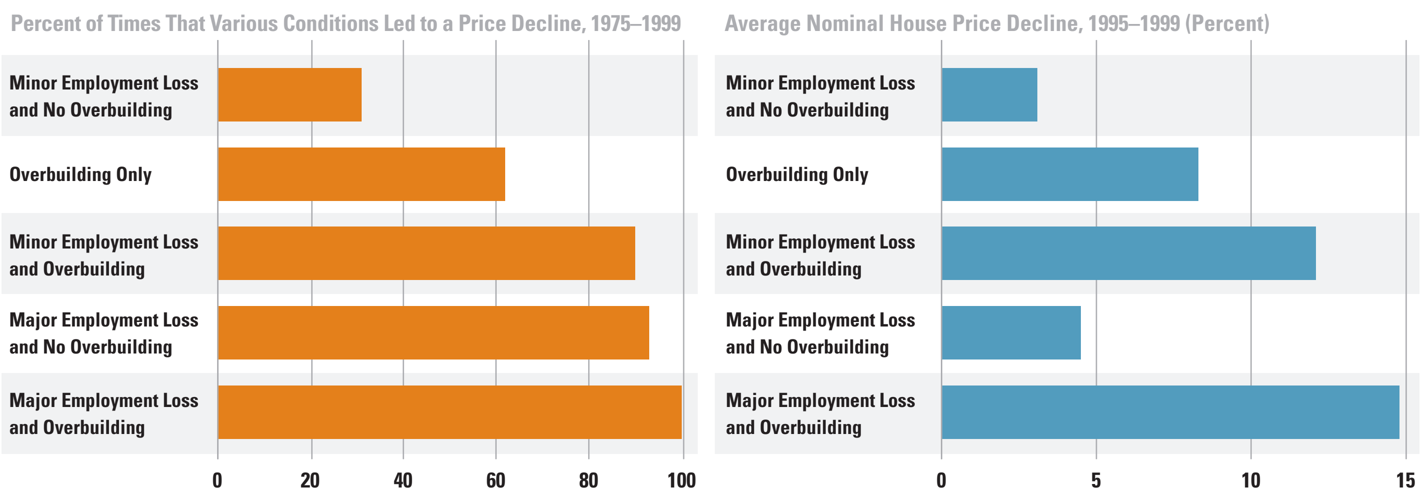
Still, over the past 30 years, nominal house prices have in fact fallen by five percent or more at least once in about half of the nation's 75 largest metros. In most cases, it takes significant job losses—or a combination of overbuilding, modest job losses and population outflows—to drive house prices down substantially. In terms of magnitude, price declines associated with episodes of major job losses alone average 4.5 percent, while those occurring in and around periods of overbuilding alone average 8.3 percent (Figure 11).

While low interest rates certainly helped, house prices probably continued to appreciate throughout the last recession simply because these two conditions were absent. In 2001, none of the large metros experienced nearly the level and duration of job losses seen during the previous two cycles. Equally important, building activity has been much less intense. In metros experiencing major house price declines in the past, three-year average development levels exceeded the 20-year median by about 74 percent (Table W-4). In 2001–2004, development in these same metros was only ten percent above normal. These signs of moderation provide good reason to believe that the next house price correction will be milder than in the past.

HOME ENERGY CONSUMPTION

The increase in energy costs over the past two years has placed new hardships on low-income households. As last measured in 2003, fully 2.5 million households in the bottom income quartile spent more than 30 percent of their budgets on home energy costs even before the sharp run-up in oil prices. Another 1.4 million households spent 20–30 percent of their incomes on home energy.

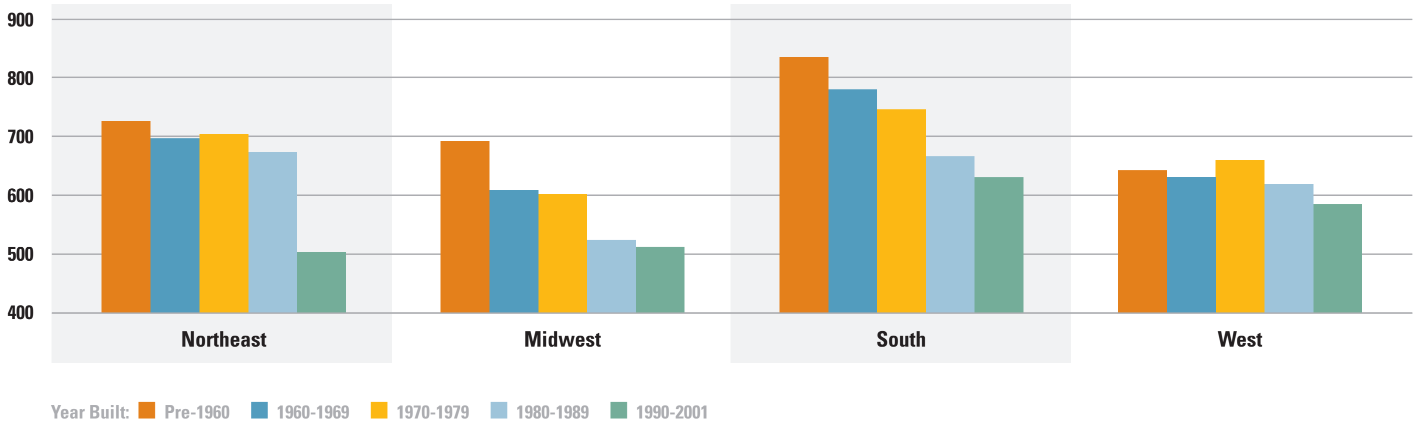
Figure 11 **Overbuilding and Job Losses Are Often Preconditions for Metro Area House Price Declines**



Notes: Includes the 75 largest metros based on 2000 population. Major (minor) employment loss is defined as periods of net decreases of at least 5% (under 5%). Overbuilding is defined as periods when one- to three-year average annual permitting levels per 1,000 residents are at least double the 1980–2004 median annual level for that metro.
Sources: Freddie Mac Conventional Mortgage Home Price Index; Census Bureau, Construction Statistics; Bureau of Labor Statistics.

Figure 12 **Newer Homes Are Far More Energy Efficient**

Annual Energy Consumption per 1,000 Sq. Ft. (Dollars)



Source: JCHS tabulations of the 2001 Residential Energy Consumption Survey.

The recent jump in prices has yet to last as long as in the 1979–1983 energy crisis, when the price of imported oil averaged $76 a barrel in real terms. In response to the first oil price shock, households tried to conserve energy by making modest changes such as turning down thermostats and, to a lesser extent, adding insulation. Over time, though, adoption of stricter building and product standards has improved the efficiency of the housing stock. Indeed, even many older homes are now more energy-efficient as homeowners replace windows, doors, and heating and cooling systems in the normal course of maintenance. Whether the recent jump in energy costs leads to more significant retrofitting remains to be seen.

Despite improvements to many existing units, newer homes consume far less energy on average than older ones (Figure 12). After adjusting for differences in the regional mix of housing, homes built since 1990 use 8.5 percent less energy per square foot than those built in the 1980s, 17.0 percent less than those built in the 1970s, 17.5 percent less than those built in the 1960s, and 22.7 percent less than those built before 1960. These improvements have offset the higher costs of heating and cooling today's ever-larger homes. As a result, while new homes are almost a third larger on average than units built in the 1960s, they only consume 10 percent more energy (Table A-11).

It is important to note that higher energy costs also hit those who rely on automobiles for long, repeated trips. In the West, average travel-related energy costs are actually higher than home energy costs. Elsewhere, though, the burden of rising energy costs falls hardest on the housing side of the family budget.

THE OUTLOOK

The most immediate risks to the housing market now come from the rise in interest rates, the erosion of affordability after years of strong house price appreciation, and the growing inventory of both new and existing homes for sale. But unless the broader economy stumbles and job losses mount, home sales and construction activity will likely dip only modestly.

House price appreciation should also remain positive in most markets. Rising house prices, in turn, will encourage further home equity borrowing and spending, although the pace of borrowing will slow if interest rates keep climbing. Housing's contribution to economic growth is already diminishing and will begin to turn negative if home sales, starts, and home equity borrowing continue to decline.

Over the longer term, the outlook for housing markets is favorable. With household growth accelerating and second-home demand climbing, the number of conventional homes completed and manufactured homes placed in the coming decade should easily exceed the 18.1 million units added from 1995 to 2004. In addition, improvements in the mortgage finance system over the past several years, together with stricter inventory management in the home building industry, will help to dampen boom-bust cycles in the future. As a result, housing production should average more than two million units annually over the next ten years.

DEMOGRAPHIC DRIVERS

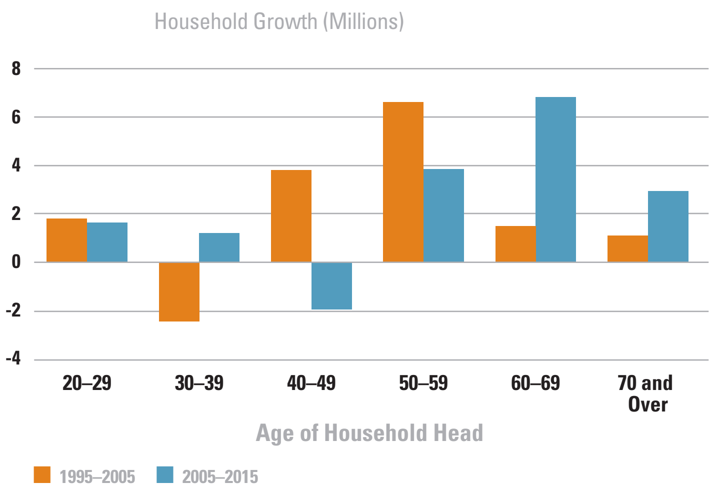
Household growth is picking up pace. With more than a million young foreign-born adults arriving each year, household formations in the next decade will outnumber those in the last decade by a substantial margin. In combination with the aging of the baby boomers and the rising tide of wealth across generations, these demographic drivers should propel housing construction and improvement spending to new heights.

BOOMING HOUSEHOLD GROWTH

Despite a slowdown after the 2001 recession, about 1.37 million net new households have formed each year on average since 2000—over 225,000 more than in the previous five-year period. Much of this growth reflects the influx of immigrants, who continue to add to the ranks of young adults in the prime household-formation ages.

As a result, the Joint Center for Housing Studies recently revised its household projections to correct for the Census Bureau's currently low assumptions about future immigration flows. The new projections assume net immigration will consistently run at 1.2 million annually, rather than at roughly 850,000 as the Census Bureau expects. Under these more realistic assumptions, the Joint Center projections put net household formation at 14.6 million over the next ten years (Table A-8). This not only represents a significant jump from the 12.6 million households added over the past decade, but also a 1.3 million increase over the Joint Center's previous 2005–2015 projections.

Figure 13 **Over the Coming Decade, the Aging Baby Boomers Will Strengthen the Markets for Seniors Housing and Second Homes**



Sources: Census Bureau, Housing Vacancy Survey; Table A-8.

SHIFTING AGE STRUCTURE

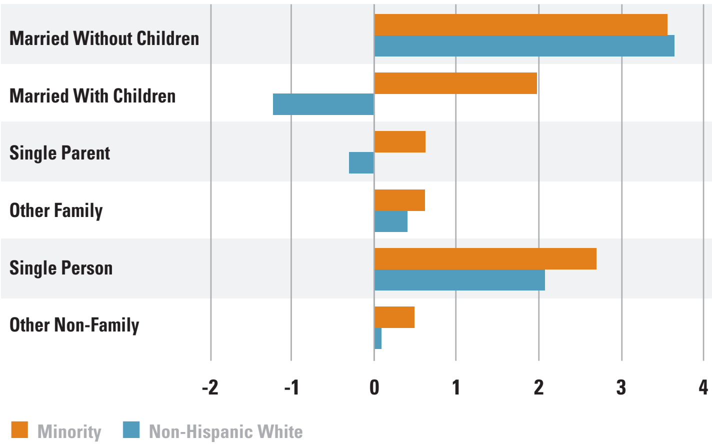
As they have since the 1970s, the baby boomers are driving a dramatic shift in the age distribution of households. Over the next ten years, the number of household heads in their 50s will rise by nearly four million while the number in their 60s will increase by seven million (Figure 13). At the same time, households age 70 and over will also grow in number, thanks to longer life expectancy from improved healthcare and nutrition. The growing population of older Americans will intensify demand for second homes, retirement communities for active older adults, and housing that provides personal care and other services for frail seniors.

The baby boomers and older generations will not, however, contribute at all to the net gain in households. To the contrary, at current mortality rates, 14.4 percent of 50 year-old men and 9.2 percent of 50 year-old women will not live to age 65. With most of these losses occurring after age 60, net household growth is expected to slow after 2010 as the leading edge

Figure 14

Minorities Will Drive the Growth In Most Household Types

Projected Change in Households, 2005–2015 (Millions)



Note: JCHS projections assume 1.2 million annual average net immigration.
Source: Masnick and Belsky, JCHS Research Note N06-1, March 2006.

of the baby boom reaches age 65—assuming that immigration does not exceed its 1.2 million projected pace.

Young adults will generate all of the expected growth in households. Increasingly, these 20 to 39 year-olds are minorities, immigrants, and the US-born children of immigrants. Indeed, the foreign born alone contributed 37 percent of the net growth in households from 1995 to 2005, bolstering the market for entry-level housing. At last measure in 2002–2003, 17 percent of first-time homebuyers and 15 percent of apartment renters were foreign born. As the share of immigrant households in their 20s and 30s climbs, their presence in these markets will continue to grow. But because many foreign-born households provide financial support for families still living in their native countries, they face special challenges covering the high costs of housing here in the US.

CHANGING HOUSEHOLD COMPOSITION

With the aging of the baby boomers and rapid growth in the number of younger minorities, married couples without children under age 18 will account for nearly half of the net growth in households over the coming decade. The rising number of younger childless couples will strengthen the market for smaller homes and rentals, while older empty-nest households will fuel demand for higher-end, trade-up homes requiring little maintenance.

Nonetheless, several demographic forces will combine to make single persons the fastest-growing household type: the echo baby boomers are entering young adulthood, divorce rates remain high and stable, the median age at first marriage continues to rise, remarriage rates are falling slightly, and the number of elderly widows is growing. But because this growth is from a smaller base, single persons will account for fewer net new households (4.8 million) than childless couples (7.2 million).

Fully three-quarters of the increase in single-person households over the next decade will be among those over age 60. Given that most older adults move only for health reasons, these new single-person households are more likely to boost demand for home improvements than for new homes. Still, the 500,000 net growth in single-person households under age 40 should augment the market for apartments in urban environments, as well as for condominiums and other first-time buyer housing.

Together, all other household types—married couples with children and single-parent and other family types—will increase by only 2.6 million in the next ten years. Despite modest growth in numbers, married couples with children will nevertheless contribute significantly to total consumer spending. For every dollar these households spend, childless couples spend only 83 cents, single parents 53 cents, and single persons 48 cents. Meanwhile, the net growth of about 700,000 single-parent and other non-family households under age 40, who have lower average incomes than their married counterparts, will contribute to demand for more modest homes and rentals.

MINORITY GAINS

Over the past decade, strong growth in the number of minority households has helped to offset declines in the number of white households born during the baby bust (1965 to 1974). In fact, the increase in minorities has prevented the total number of households under the age of 40 from falling outright.

Over the coming ten years, minorities are expected to account for an even larger share of household growth—a record 71 percent, up from 63 percent in 1995–2005. These minority households will fuel a roughly 750,000 net increase in the number of married couples with children, which would otherwise post a decline (Figure 14). Even among married couples without children, minorities will contribute nearly half of the household growth over the next decade.

Given the successive waves of immigration over the past 20 years, and the fact that immigrants tend to be young adults, the minority share of each generation is steadily rising. Minorities make up 30 percent of younger baby boomers (in their 40s in 2005), 38 percent of the baby-bust generation, and about 40 percent of echo-boomers. If current trends persist, minorities will account for about 43 percent of the population in their 20s by 2015, with their share increasing to 45 percent by 2025.

HISPANIC MARKETS

Even though Hispanics still represent less than 11 percent of all households, they accounted for 27 percent of net household growth in 1995–2005. Over the next ten years, growth in the number of Hispanic households could exceed the 4.7 million projected increase among non-Hispanic whites.

Topping the list of states with the largest shares of Hispanic immigrant households are California, Texas, and Florida (Table W-10). In 2000, the foreign-born Hispanic share of households in these states ranged from 9 percent to 14 percent (Figure 15). Hispanics are, however, becoming more geographically dispersed as they increasingly settle in distant metros such as New York, Hartford, Chicago, and Providence, as well as a variety of non-metropolitan areas in the South and West. Indeed, while the total number of Hispanic households increased 58 percent during the 1990s, the number living in non-metro areas rose by some 71 percent.

The US-born children of immigrants are an increasingly important factor in the remarkable growth of the Hispanic population. These children represented 9 percent of the entire population aged 10 to 19 in 2005, and 12 percent of all those under the age of 10. US-born second-generation Hispanics are on track to exceed the incomes and educations of their foreign-born parents. Between 1980 and 2000, the Hispanic share of the lower-middle income quartile increased from 6 percent to 10 percent and of the upper-middle quartile from 5 percent to 8 percent. As a result, US-born Hispanics represent a rapidly growing segment of the middle market for housing.

GENERATIONAL DIFFERENCES

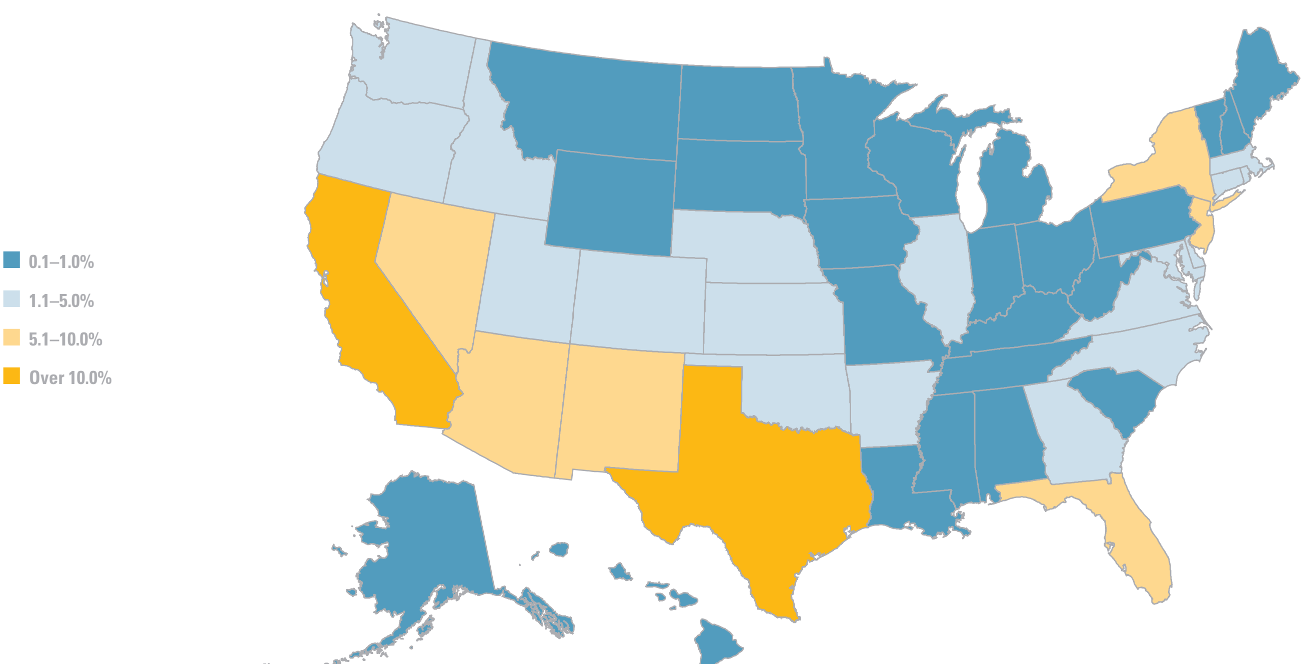
The "average" American household looks very different than it did 40 years ago. With women gaining greater economic independence, divorce more acceptable, and couples delaying marriage, each generation has larger shares of single-person households, non-family households, and dual-earner married couples than the one before at comparable ages.

Meanwhile, gains in productivity and educational achievement, together with the growth in two-earner households, have led to progressively higher household incomes. Indeed, over just the past ten years, increases in the median household income of each age group ranged from about $1,100 to nearly $5,600 after adjusting for inflation (Figure 16).

The biggest increase has been among households with heads aged 60 to 69 in 2005. Many of these households have postponed retirement thanks to improved health and less physically demanding work, while others are benefiting from higher Social Security and pension payments because both spouses had jobs.

Figure 15 Hispanic Immigrants Account for Large Shares of Households in Several States

Hispanic Immigrant Share of Households, 2000

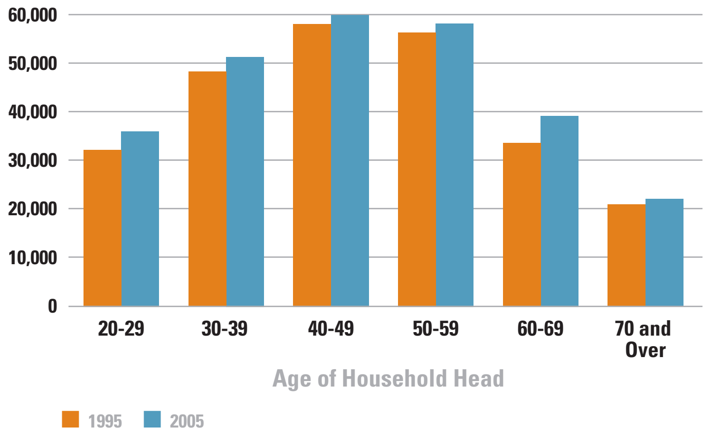


Note: Hispanics may be of any race.
Source: Table W-10.

Figure 16

Each Generation Is Setting New Records for Income…

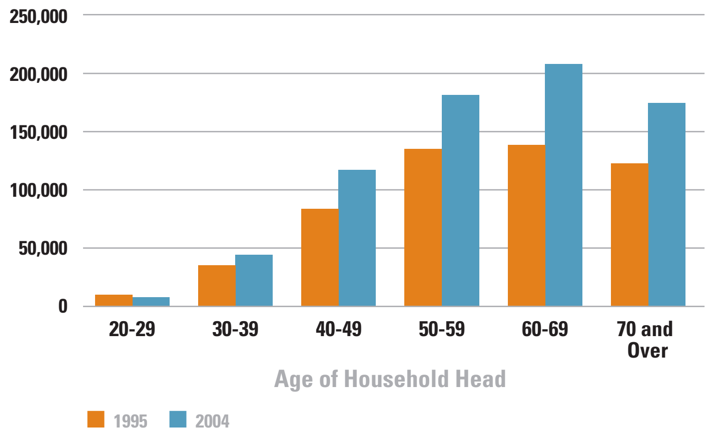
Median Household Income (2005 dollars)



Note: All dollar values are adjusted for inflation using the CPI-UX for All Items.
Source: JCHS tabulations of the 1995 and 2005 Current Population Surveys.

…And Especially for Wealth

Median Net Wealth (2004 dollars)

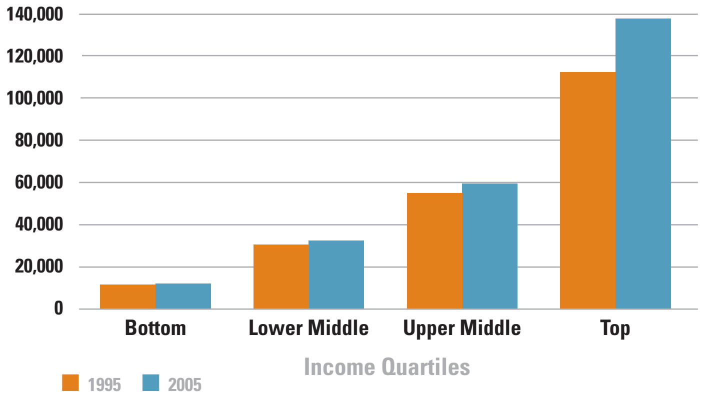


Note: All dollar values are adjusted using Survey of Consumer Finances methods.
Source: JCHS tabulations of the 1995 and 2004 Surveys of Consumer Finances.

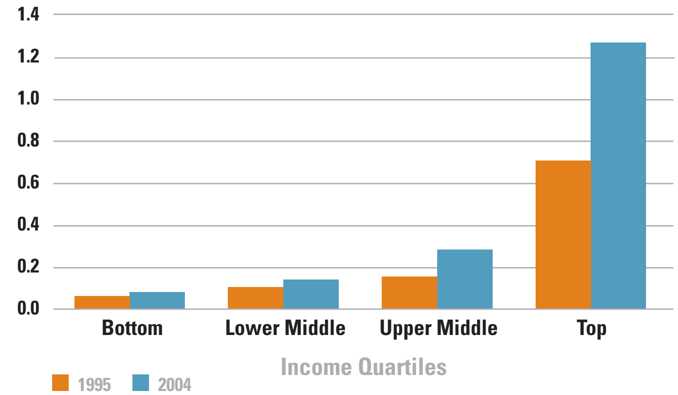
Figure 17

…But Household Incomes and Wealth Are Growing Strongly Only at the Top

Average Income (2005 dollars)



Average Net Wealth (Millions of 2004 dollars)



Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. Income values are adjusted for inflation using the CPI-UX for All Items. Wealth values are adjusted for inflation using Survey of Consumer Finances methods.
Source: JCHS tabulations of the 1995 and 2005 Current Population Surveys, and the 1995 and 2004 Surveys of Consumer Finances.

With higher incomes than previous generations at the same age, these seniors have contributed to the demand for more expensive primary homes as well as second homes.

Younger generations have also seen healthy income gains. For two decades now, households in their 40s and 50s have fared better than their predecessors. Since households in these age groups have the highest discretionary purchasing power, their rising income helps to explain the sustained increase in both homeownership rates and housing demand.

Increases among the baby-bust generation, now in their 30s, are more impressive than they seem, with both white and minority incomes up by about $6,000. But because minorities have lower incomes on average and they represent a growing share of this age group, the overall gain appears relatively modest.

Today's households are also wealthier than previous generations at comparable ages. Financial market innovations and rising real incomes have made stock and mutual fund ownership much more common today than ten years ago. Soaring home prices have also added to household wealth. Moreover, today's households have inherited substantial wealth, with the aggregate value of legacies received between 2000 and 2004 estimated at $1.4 trillion.

Together with historically low interest rates, all of these changes have made American households more willing to take on more mortgage debt and carry it later in life. Each successive generation now has more mortgage debt than the previous one at the same age. This willingness has allowed households to spend more on remodeling and/or buy more expensive homes, which in turn has prolonged the current housing boom.

EXPANDING HIGH-END DEMAND

Despite across-the-board gains, households at the top of the distribution have seen by far the most income growth (Figure 17). Today, some 11 million US households have exceptionally high incomes. According to the Survey of Consumer Finances, households in the top tenth of the distribution have incomes that start at about $129,000 and go up from there. In 2004, the median net wealth of this group was a whopping $910,000 and their average net wealth was nearly $2.5 million.

Unsurprisingly, a large fraction of these households own more than one home, and many have rental property from which they derive substantial income. The aggregate equity in their primary residences amounted to $4.5 trillion in 2004 (Figure 18). Depending on the Survey of Consumer Finances definitions used, between 1.7 million and 2.9 million highest-income households own vacation homes, with 1.2 million reporting non-primary single-family or condo units that do not generate rental income. About 200,000 own at least two vacation homes. The top income decile of households also spends the most on remodeling, investing in home improvements valued at $43 billion in 2003.

In the next tier are roughly 11 million households that have incomes starting at $89,000 and median wealth of $297,000. This group spent a total of $27 billion on remodeling in 2003. As a result, the top fifth of households in the income distribution now accounts for 51 percent of all remodeling expenditures, 69 percent of vacation home owners, and 99 percent of those with at least two homes for seasonal or recreational use.

THE OUTLOOK

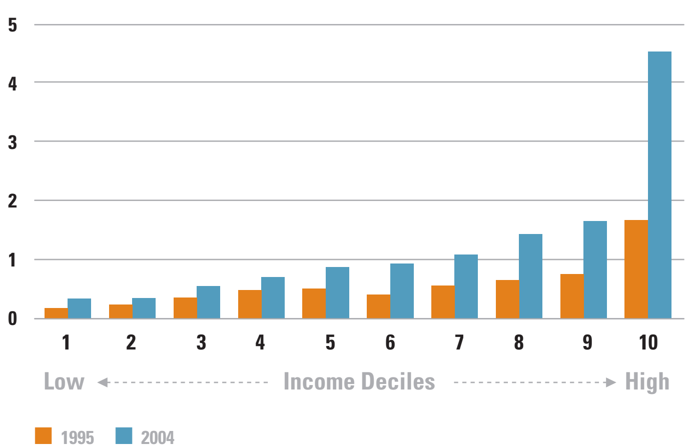
Demographic trends over the next ten years are highly favorable for home builders, real estate brokers, and the mortgage finance industry alike. Strong household growth, together with rising income and wealth, will likely translate into increased demand for housing across all age groups, a stronger appetite for mortgage debt, and healthy spending on home improvements.

But low- and middle-income households are increasingly giving up share of the expanding national pie to the richest households. As a result of this growing disparity, housing investment will likely be greatest among households in the top tenth of the income and wealth distribution. To expand their overall markets, suppliers of housing and mortgage credit must therefore find new ways to keep housing affordable to families with more moderate means. ■

Figure 18

Highest-Income Households Have Increased Their Housing Investment Most…

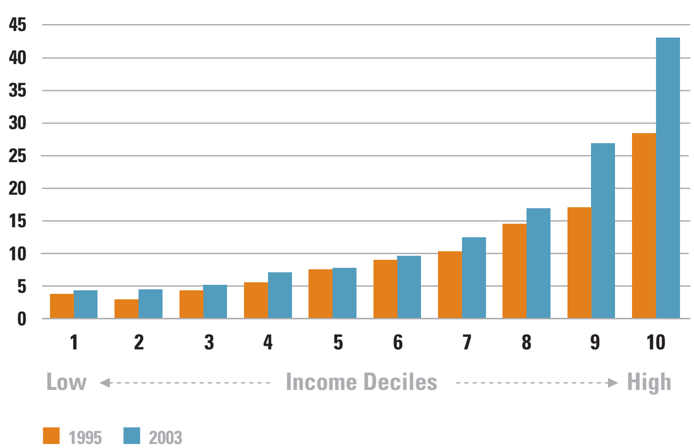
Aggregate Home Equity (Trillions of 2004 dollars)



Notes: Income deciles are equal tenths of all households sorted by pre-tax income. All dollar values are adjusted for inflation using Survey of Consumer Finances methods.
Sources: JCHS tabulations of the 1995 and 2004 Surveys of Consumer Finances.

…And Have Driven the Growth in Remodeling Expenditures

Aggregate Remodeling Spending (Billions of 2003 dollars)



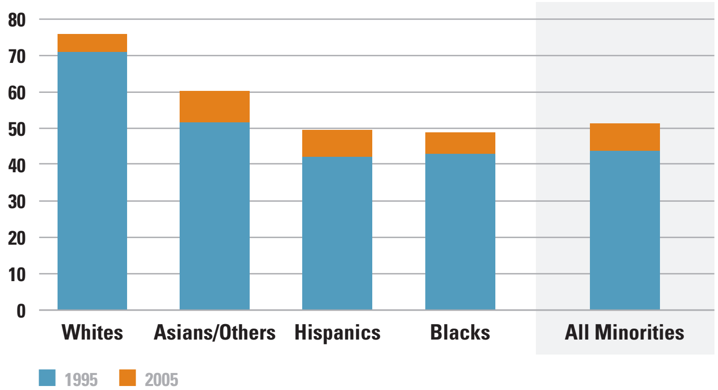
Notes: Income deciles are equal tenths of all households sorted by pre-tax income. All dollar values are adjusted for inflation using the CPI-UX for All Items.
Sources: JCHS tabulations of the 1995 and 2003 American Housing Surveys.

HOMEOWNERSHIP TRENDS

After 12 successive years of increases, the national homeownership rate slipped to 68.9 percent last year. This small dip reflects in part the sharp swing in renter households, whose numbers fell by a half-million in 2004 and then surged by more than a half-million in 2005. Even so, the number of homeowners increased by nearly one million last year as solid job gains and rapid house price appreciation brought buyers to the market.

Figure 19 **Despite Gains, the White-Minority Homeownership Gap Remains Wide**

Homeownership Rate (Percent)



Notes: Whites, blacks and Asians/others are non-Hispanic. Hispanics may be of any race. Asians/others include Pacific Islanders, Aleuts and Native Americans.
Source: Table A-5.

Buoyed by demand for investment properties and second homes, home sales hit a new peak before softening in the latter part of the year. As sales slowed in many areas, the months' supply of homes on the market increased. Although not yet creating a buyer's market in most places, the backlog was enough to slow the rate of house price appreciation in a slim majority of metropolitan areas in the second half of 2005.

LASTING GAINS

While topping out nationally, homeownership rates in some regions and among some groups continued to rise last year (Table A-5). Thanks in part to underwriting systems that relieve downpayment constraints and new mortgage products that lower initial monthly payments, homeownership rates increased modestly in the Northeast and West as buyers rushed to take part in hot markets. In fact, the homeownership rate of households under the age of 40—the group most likely to be deterred by higher interest rates and house prices—edged up 0.1 percentage point.

More importantly, the boom that began in 1993 puts households in their 20s and 30s (the echo boomers and the baby-bust generation) on a distinctly higher homeownership trajectory than previous generations. While homeownership rates have gone up across the board, younger and minority households have made the largest percentage-point gains.

Accounting for nearly two-thirds of household growth in 1995–2005, minorities contributed 49 percent of the 12.5 million rise in homeowners over the decade. But even with these strong numerical gains, increases in homeownership rates of minorities barely exceeded those of whites. As a result, the gap between white and minority rates remains near 25 percentage points (Figure 19).

In large measure, the stubbornly wide homeownership gap reflects the rapid growth in young minority households. Because young households have lower homeownership rates than older households, they bring down the overall rate for minorities. Part of the disparity in rates also reflects the fact that minorities continue to lag whites in average income. Indeed, the lower average incomes and ages of minorities together account for about 15 percentage points of the gap in the homeownership rates.

SECOND-HOME DEMAND

While available statistics provide inconsistent estimates, ownership of second homes is clearly on the rise. The Housing Vacancy Survey puts the growth in second homes between 1995 and 2005 at 22 percent—a 1.2 million increase in just ten years. The American Housing Survey places the rise in second-home ownership at a smaller but still substantial 620,000 over the ten years between 1993 and 2003.

Similarly, the shares of homeowners in all age groups who reported owning a seasonal/vacation home or timeshare were also up in the Survey of Consumer Finances (Figure 20). The increases reported in second-home shares, however, are concentrated entirely among fractional timeshare owners for all age groups except those now in their 60s.

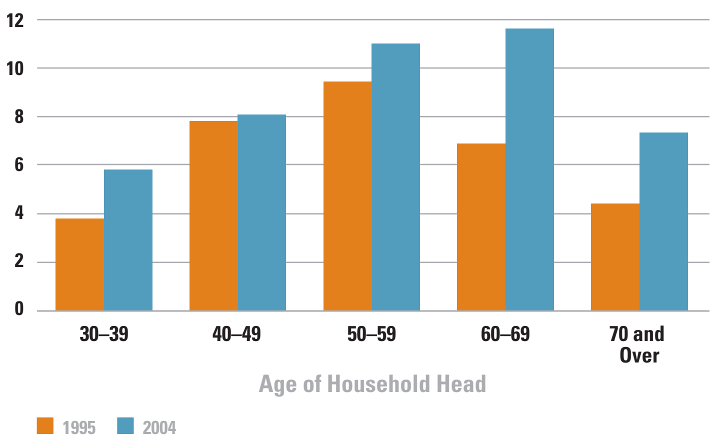
But actual second-home shares are likely higher than these numbers suggest because the survey does not ask about properties owned for occasional use (other than of a seasonal/vacation nature). Many owners have second homes that they use mostly on weekends or for work reasons. Indeed, only 56 percent of all second homes reported in the Housing Vacancy Survey are for seasonal use.

Home equity growth and lower interest rates are certainly part of the explanation for the surge in second-home ownership. The trend toward later retirement as well as increases in other sources of household wealth—including stocks, bonds and inheritances—have also helped. Moreover, the tax law changes of 1997, which excluded realized capital gains from the sale of homes of up to $500,000, reduced the incentive for sellers to reinvest in more expensive primary residences. Many households likely applied some of this cash to second-home purchases.

Looking ahead, the number of second homes should continue to increase even if age-specific second-home ownership rates do not. The movement of the baby boomers into their 50s and 60s—the ages when households are the most likely to own additional homes—helps to ensure healthy growth in second-home ownership between now and 2015.

Figure 20 Increasing Shares of Households of All Ages Own Second Homes

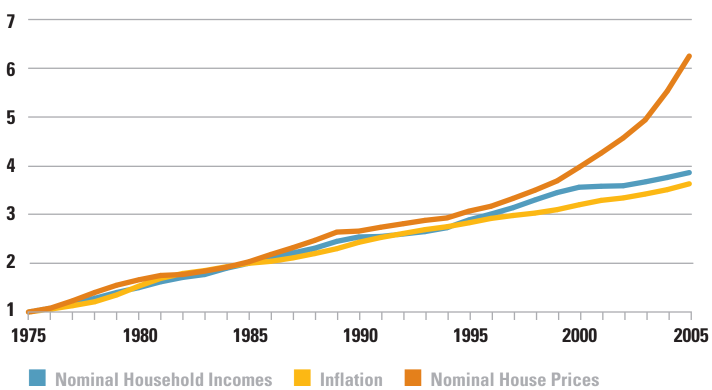
Share of Homeowners with Second Homes (Percent)



Note: Second homes include fractional ownership in timeshares and vacation properties.
Source: Table A-10.

Figure 21 House Price Appreciation Has Diverged Sharply from Income Growth and General Price Inflation

Multiples of 1975 Value



Sources: Freddie Mac Conventional Mortgage Home Price Index; Bureau of Labor Statistics, CPI-UX for All Items; Moody's Economy.com Median Household Income Estimates.

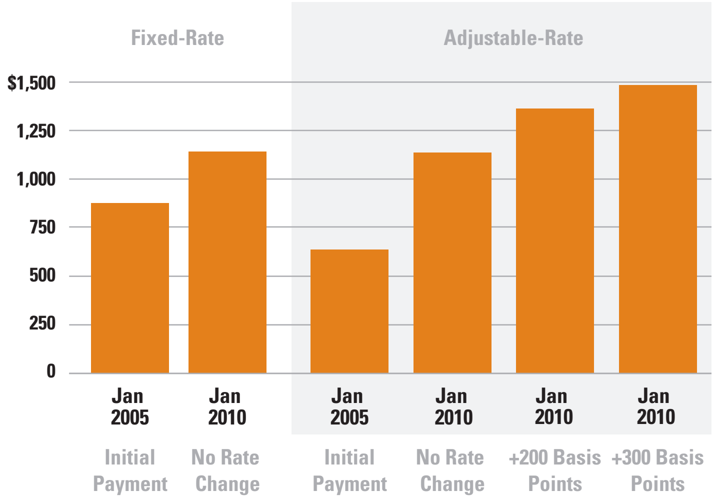
ERODING AFFORDABILITY

House prices continued their dazzling ascent in 2005, climbing well ahead of household income and general price inflation (Figure 21). Until the end of 2003, falling interest rates offset escalating prices to keep homebuying affordable in many metropolitan areas. But with both short- and long-term rates climbing thereafter, the monthly mortgage payment on a typical home with a 30-year fixed-rate loan increased by $104 to $1,165 in 2005, while that with a one-year adjustable loan rose by $148 to $998. For buyers who could not cover the higher downpayment and instead rolled the difference into the mortgage, monthly payments on fixed-rate loans were up by $115 last year.

In the nation's hottest housing markets, the erosion of affordability has been much more dramatic. In Phoenix, for example, monthly payments on a median-priced home jumped from $930 in 2003 to $1,017 in 2004 and to $1,316 in 2005—

Figure 22 **Rising Interest Rates May Compound Payment Shocks for Borrowers with Adjustable Interest-Only Mortgages**

Monthly Mortgage Payments



Notes: Assumes interest-only period of five years and teaser rate of one year on adjustable loans. Calculations are based on loan amount of $180,180 (90% of the 2004 median sales price in 2005 dollars). Interest rates include a .125 percentage-point premium to account for interest-only feature.
Sources: National Association of Realtors, Existing Single-Family Home Prices; Freddie Mac, Conventional Mortgage Home Price Index and Primary Mortgage Market Survey.

even for homebuyers who were able to cover the increasingly large ten percent downpayment.

Responding to these pressures, growing shares of borrowers turned to adjustable-rate mortgages. After nearly doubling to 35 percent in 2004, the adjustable-rate share of conventional mortgage originations fell only slightly to 31 percent in 2005 (Table A-3).

Normally, it takes large spreads to encourage borrowers to forgo the protection of fixed-rate mortgages. Yet for part of 2004 and most of 2005, there was almost no difference between fully indexed adjustable rates and fixed rates. Under these conditions, the main appeal of adjustable mortgages is the lower teaser rate offered in the first year or two of the loan. The discounts started at about 0.4 percentage point in 2004, ended the year at about 1.5 percentage points, and inched up to about 2.0 percentage points for the rest of 2005.

Adjustables are also gaining share because they now feature longer initial fixed rates, allowing borrowers to match the lock-in period to the length of time they plan to stay in their homes. Accordingly, the most popular adjustable loans are “hybrids” with a fixed-rate period of five years. Only about a third of adjustable originations in 2005 had an initial term of one year, down from nearly half in 1999.

Over the course of 2005, fully indexed interest rates on adjustable mortgages increased by about 1.6 percentage points. When added to the expiration of the initial 1.5 percentage-point discount, some adjustable-rate borrowers had to face much higher payments early in 2006. Many lenders do, however, cap the single-year adjustment so that not all borrowers were hit by the full increase.

Still, with short-term interest rates expected to climb again in 2006, a growing number of adjustable-rate borrowers will likely see their payments go up. The Mortgage Bankers Association estimates that adjustable-rate loans now amount to about 25 percent of total mortgage debt outstanding. The interest rate on about a quarter of this debt has or will reset by the end of 2006. Fortunately, the vast majority of homeowners—including the 75 percent of mortgage debt holders with fixed-rate loans, plus the nearly one-third without mortgages—will be unaffected by these changes.

MORTGAGE PRODUCT INNOVATION

To help buyers qualify for mortgages, increasing numbers of lenders now offer a variety of products that lower borrowers’ initial monthly payments. For example, interest-only loans defer principal payments for a set number of years. Payment-option loans defer a portion of the interest payments and roll the difference into the principal. Low-documentation loans let borrowers with erratic or hard-to-document resources provide limited details about their income and assets.

Despite the novelty of these products, many consumers have been attracted by their flexibility. LoanPerformance estimates that, from almost zero in 2003, interest-only loans accounted for 20 percent of all mortgage originations, 37 percent of adjustable-rate loan originations, and five percent of fixed-rate loan originations in the second half of 2005. At the same time, payment-option mortgages reached 10 percent of originations by year end, and low documentation loans 12 percent in the second half of 2005. Although they amount to only a small share of all homeowners, about three million borrowers have interest-only adjustables and one million have payment-option first mortgages.

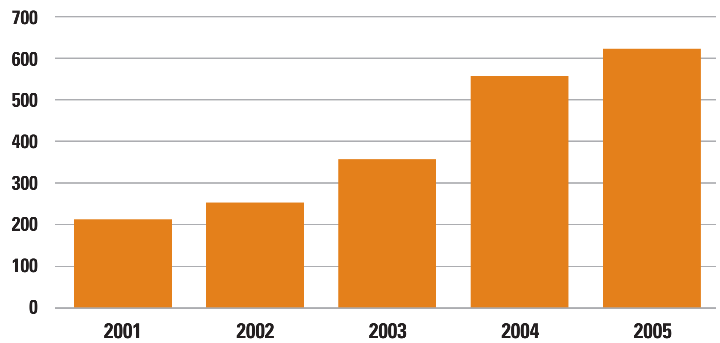
While all homeowners with interest-only loans must begin to pay principal at the end of the agreed-upon period, those with adjustable loans may also get hit with higher interest rates when the initial fixed-rate period ends. Together, these effects can drive monthly payments up sharply (Figure 22). Most interest-only adjustable loans do, however, have interest-only periods of at least five years, allowing time for a borrower’s income to increase or the household to move before the principal payments come due. Indeed, about one in eight homebuyers relocate within three years of buying their homes, and one in three relocate within five years. Some home loans also have fixed-rate and interest-only periods whose termination dates do not coincide, thereby preventing both rate adjustments from occurring at the same time.

SUBPRIME LENDING GROWTH

Along with the market for innovative loan products, the volume of subprime loans has grown dramatically from just $210 billion in 2001 to $625 billion in 2005 in real terms (Figure 23). Last year's total represents 20 percent of the dollar value of loan originations and about seven percent of mortgage debt outstanding (Table A-9).

Figure 23 **Subprime Lending Has Surged**

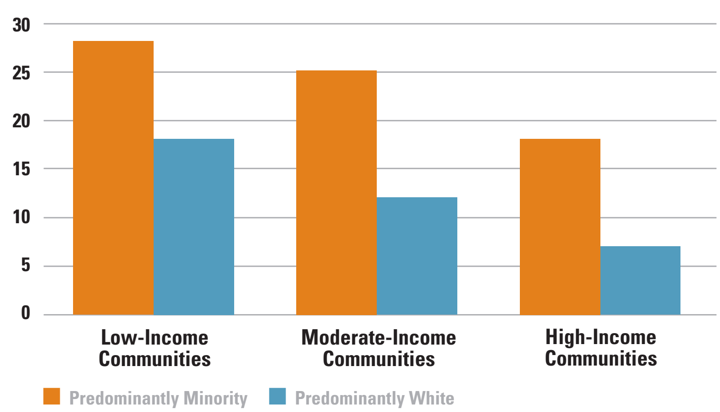
Subprime Originations (Billions of 2005 dollars)



Notes: All dollar values are adjusted for inflation by the CPI-UX for All Items.
Source: Table A-9.

Figure 24 **High-Cost Loans Are More Common In Low-Income Minority Communities**

High-Cost Loan Share (Percent)



Notes: Loans are for home purchase only. High-cost loans are defined as having an Annual Percentage Rate more than 3.0 points above that on Treasury Bonds of comparable maturities. Low-/moderate-/high-income communities have under 80%/80-120%/over 120% of area median income. Predominantly minority communities are at least 50% minority. Predominantly white communities are at least 90% non-Hispanic white.
Source: JCHS tabulations of 2004 Home Mortgage Disclosure Act data.

Subprime lending has helped millions of Americans with blemished credit histories buy homes or tap into their housing wealth at a time when strong price appreciation has lifted their home equity. In fact, LoanPerformance reports that almost six million homeowners now have subprime first-lien mortgages. Without the sudden expansion of subprime lending, most of these homeowners would have been denied access to credit.

But subprime loans typically have special terms and higher rates to cover the higher expected default rates. At six percent in the fourth quarter of 2005, the share of subprime loans at least 60 days delinquent or in foreclosure was seven times that of prime loans. Moreover, the concentration of subprime loans in low-income minority neighborhoods puts some of these communities at risk of widespread foreclosures (Figure 24).

MOUNTING FHA RISK

Prime and subprime lenders are now competing successfully for borrowers that previously qualified only for FHA-insured loans. As a result, FHA is losing much of its traditional base of first-time and minority homebuyers to lenders able to offer better deals. The net effect is that FHA currently holds a significantly smaller market share that is made up of riskier loans. Today, delinquency rates on FHA loans exceed those on subprime loans (Figure 25).

Unlike subprime lenders that engage in risk-based pricing, FHA charges a single average price and imposes a flat 1.5 percentage-point upfront premium for mortgage insurance, as well as a 0.5 percentage-point recurring premium. Although FHA continues to take in more in premiums than it pays out in claims, concerns are mounting about the stability of this 70 year-old insurance program. Moreover, the pressures on FHA's credit quality are probably here to stay, given the ability of both prime and subprime lenders to use automated underwriting and risk-rating technology to compete on price for less risky borrowers in FHA's traditional markets.

Still, FHA remains a critical resource in many underserved areas and may again be called upon to stabilize housing markets in the event of a sharp regional downturn. Indeed, when the oil boom went bust and the savings and loan industry collapsed in Texas in the 1980s, FHA became the insurer of last resort and staved off a potentially harsher correction in the state.

HOME EQUITY GAINS

Having significant home equity is the best protection against foreclosure because homeowners can sell at a profit if they cannot cover their mortgage payments. Even with the massive cash-outs over the past several years, home equity still amounts to about 56 percent of the aggregate value of primary residences. At last measure in 2004, escalating home prices had shored up the wealth of most homeowners, with 94 percent having equity of 10 percent or more and 87 percent having equity of 20 percent or more. Only three percent of homeowners had equity stakes of less than five percent (Figure 26). Nevertheless, some seven percent of non-elderly low-income homeowners have such small equity stakes.

With homeownership the cornerstone of household wealth in America, the wealth gap between owners and renters is enormous (Table W-11). Among those under age 40 with incomes in the $20,000–50,000 range, owners have ten times the median net wealth of renters. Fully half of their $45,640 net wealth is in the form of home equity. Among households in their 40s and 50s with incomes in that same range, the discrepancy is even bigger—$88,000 versus $6,430—with home equity again contributing half of owners' wealth.

THE OUTLOOK

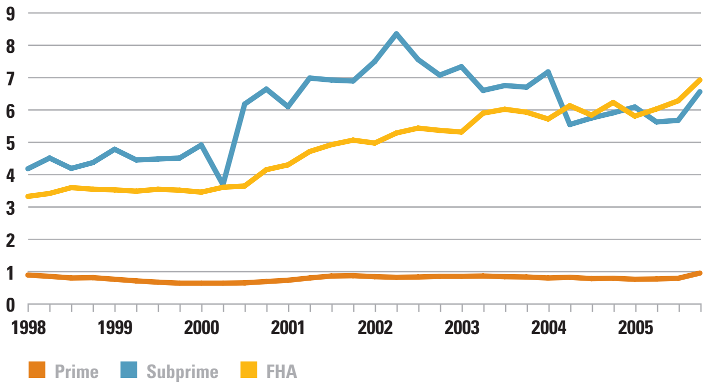
The gains of the last ten years have lifted homeownership growth to a higher trajectory. Remaining on this path depends on whether the recent conditions that have strongly favored homeownership can continue.

A major reason for the recent climb in homeownership is that house price appreciation has been unusually strong over the past five years. In addition, long-term interest rates have remained at historic lows even as short-term rates have returned to more normal levels. If the economy picks up steam, interest rates are likely to increase and the growing share of households with adjustable-rate mortgages will find themselves with rising payments. Interest-only borrowers who do not sell their homes or refinance before principal payments come due will also get hit by much higher payments. Already though, an increasing number of borrowers have refinanced their adjustable loans.

If the economy instead stumbles and job growth falters, a larger number of subprime borrowers will be at greater risk. At the same time, however, the lower interest rates that usually accompany such slowdowns would help adjustable-rate borrowers and create opportunities for other homeowners to refinance their loans on more favorable terms. ■

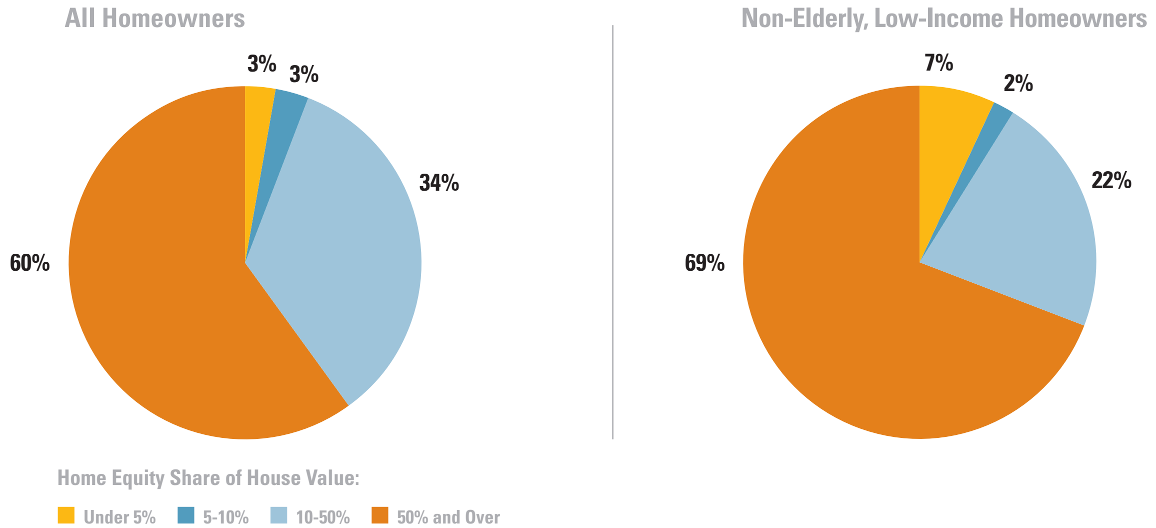
Figure 25 **Delinquency Rates for FHA Loans Now Exceed Those for Subprime Loans**

Share of Loans at Least 60 Days Delinquent Or in Foreclosure (Percent)



Source: Mortgage Bankers Association.

Figure 26 **Most Homeowners Have Significant Equity Stakes**



Notes: Non-elderly are under age 65. Low-income homeowners are in the bottom fourth of all households sorted by pre-tax income.
Source: JCHS tabulations of the 2004 Survey of Consumer Finances.

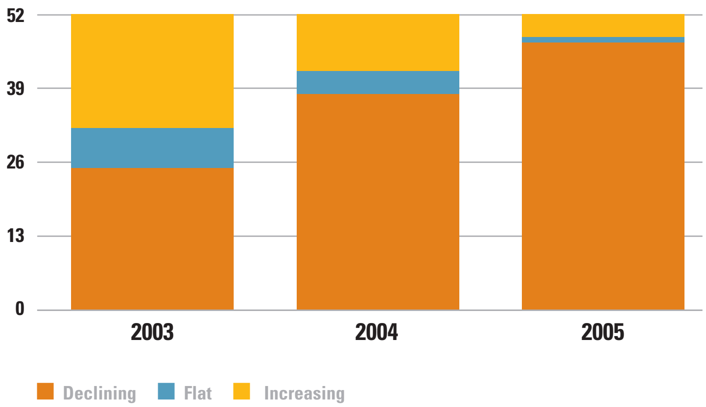
RENTAL HOUSING

Rental markets turned a corner in 2005. For the first time in years, the number of renter households rose and the national rental vacancy rate fell. Improving job growth sparked demand just as lower multifamily rental production and higher condo conversion activity helped to trim supply, restoring balance to markets. With house prices high and climbing, renting was a relative bargain in many areas.

Figure 27

Rental Markets Are Tightening In an Increasing Number of Metros

Metro Areas by Change in Vacancy Rates (Q4:04–Q4:05)



Note: "Flat" is defined as an increase of 0.0–0.5 percentage point.
Source: M|PF Yieldstar, Inc.

STRENGTHENING MARKETS

Rental demand revived in all four regions of the country last year. Despite only modest year-over-year job gains, the Midwest posted the strongest growth in renter households. There and in the South, growth in renters in fact outpaced that of owners, forcing the homeownership rate down. In the Northeast and West, in contrast, increases in owners outdid solid renter gains.

While demand for rental housing strengthened across all age and racial/ethnic groups, increases among middle-aged adults were noteworthy because they were even larger than among younger households. In addition, the rate of renter growth was highest among African American households, a group that is particularly sensitive to economic cycles.

On the supply side, a slowdown in multifamily rental construction from 275,000 units in 2002 to 203,000 units in 2005, together with an increase in condo conversions, helped the rental market recover. Real Capital Analytics reports that condo conversions reduced the supply of rental apartments by at least 63,000 units in 2004 and another 195,000 in 2005. With these adjustments, the national rental vacancy rate retreated for the first time in four years, falling from 10.2 percent in 2004 to 9.6 percent at the end of 2005. Already lower vacancy rates for low-cost rentals (with rents under $300) also edged down last year from 6.8 percent to 6.7 percent.

The recovery spread to a growing number of metropolitan areas last year. Vacancy rates were down in 47 of the 52 metro markets surveyed annually by M|PF Yieldstar, compared with 38 a year earlier and just 25 two years earlier (Figure 27). Rents also firmed in most places, with 41 of these metro areas reporting effective rent increases. Many of the markets posting the biggest rent gains were the same areas that had suffered the sharpest declines in recent years, including Austin, Boston, Phoenix and the San Francisco Bay area.

Meanwhile, investor appetite for multifamily properties was undimmed. For the past four years, institutional investors have bid up prices on apartment buildings despite weakness in rent revenues. Investors in rentals are betting that appreciation and lower interest rates will help their leveraged investments outperform stocks and bonds. Indeed, with investor demand still strong, net operating incomes stabilizing, and condo conversions rising, values of apartment buildings soared 13.5 percent in 2005—the first double-digit increase since 1984.

DEMAND SHIFTS

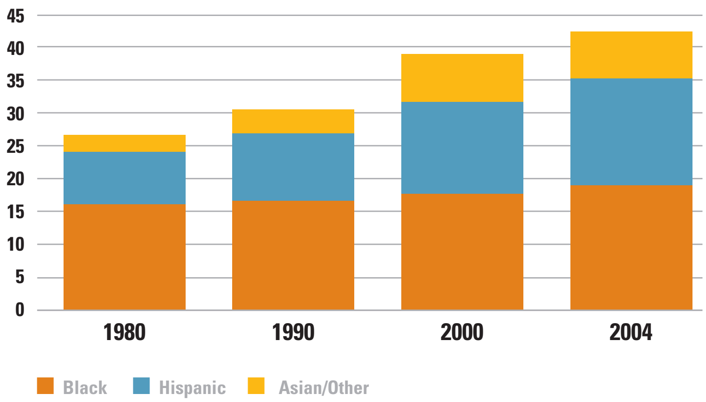
Although their numbers have barely increased in more than a decade, the characteristics of renter households have changed dramatically. With rapid growth of the nation's Hispanic and Asian populations, the minority share of renter households swelled from 31 percent in 1990 to 43 percent in 2004 (Figure 28). Most of this increase was centered in the Southwest. The ongoing influx of immigrants added to the sizable minority populations in Nevada, California, Arizona and Texas. Each of these states saw the minority share of renters increase by more than 10 percentage points in the 1990s. Even in the Northeast states of Massachusetts, Connecticut, and Pennsylvania, the minority share rose by more than five percentage points.

Domestic migration has also boosted the number of renters living in many parts of the South and West. Even in fast-growing states where homeownership rates are rising, renter household growth has been brisk. Between 2001 and 2004, the number of renter households increased by more than 35,000 in Arizona, Georgia, Washington, and both Carolinas (Table W-5). In contrast, the number of renter households fell in several states that experienced both slow household growth and rising homeownership rates, including New Jersey, Illinois, Massachusetts and New York.

Still, the regional shares of renter households shift only slowly. For example, while the number of renter households in the Sunbelt has risen steadily, the share living in the South only inched up from 33 percent in 1990 to 35 percent in 2004, and in the West from 24 percent to 25 percent. This was even the case in the states with the fastest household growth. For example, Arizona's and Nevada's share of the nation's renter households increased just 0.3–0.4 percentage point.

Figure 28 The Minority Share of Renters Has Increased Sharply

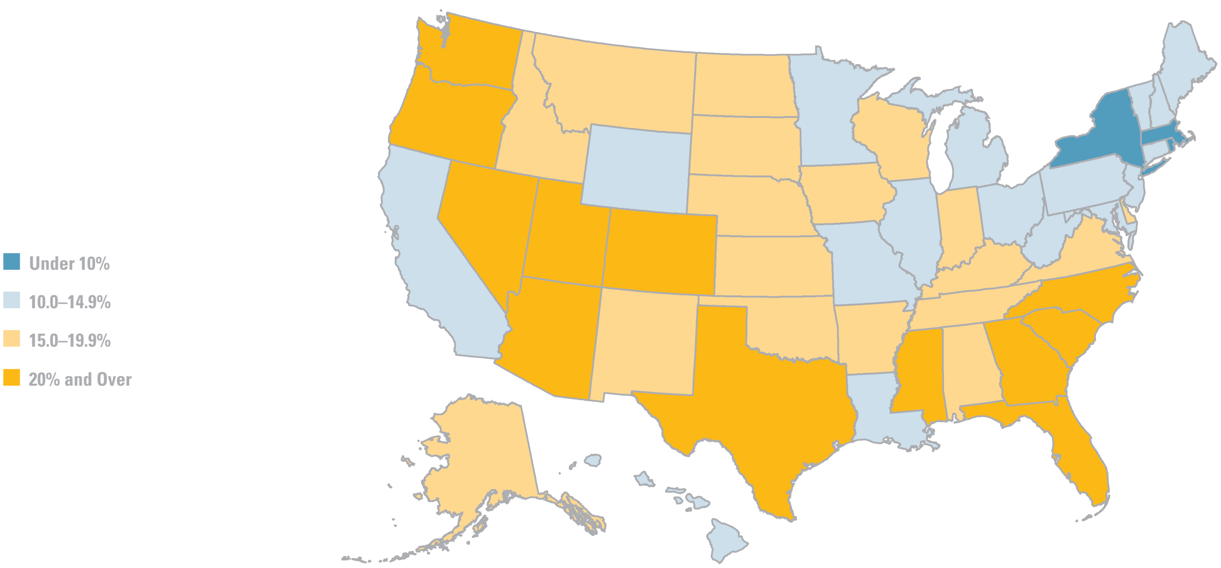
Minority Share of Renter Households



Notes: Blacks and Asians/others are non-Hispanic. Hispanics may be of any race. Asians/others include Aleuts, Native Americans, and Pacific Islanders.
Sources: JCHS tabulations of the 1980, 1990 and 2000 Decennial Census Public Use Microdata, and the 2004 American Community Survey.

Figure 29 New Construction Has Added Significantly to the Rental Stock in Many States

Share of 2004 Rental Stock Built 1995-2004

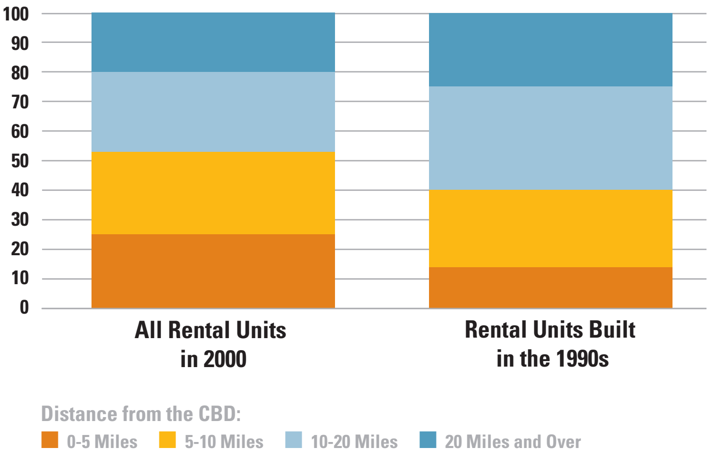


Source: JCHS tabulations of the 2004 American Community Survey.

Figure 30

Rental Construction Is Moving To the Metro Fringe

Distribution of Rental Units in the 91 Largest Metro Regions



Sources: JCHS tabulations of 2000 Census tract-level data.

Similarly, the long-term trend toward decentralized development has resulted in only modest growth in the share of renters living greater distances from the center city in the last decade. Overall, the share of renter households located 10+ miles from the CBDs of the 91 largest metro regions increased from 45 percent in 1990 to 47 percent in 2000, while the share located 20+ miles out increased from 19 percent to 20 percent.

But even with these shifts, rental housing remains concentrated in or near cities. In these same 91 metro regions, one-quarter of renter households still lived within five miles of the CBD in 2000, and more than half lived within ten miles. Indeed, in the years from 1970 to 2000, the median distance of renters from the center cities only increased from 7.4 miles to 9.4 miles, while that of owners went from 9.8 miles to 13.8 miles.

CONSTRUCTION PATTERNS

Strong replacement demand and household growth are setting the pace for rental construction. In markets with no net growth in renter households, replacement demand for units lost to disasters, demolition, or condo conversion has been the driving force. In fact, replacement demand has been surprisingly strong even in many slow-growing states. For example, new rental units built in New York, which actually lost renters from 2000 to 2004, outnumbered the total built in Nevada, New Mexico, and Utah combined—three of the four states with the highest rates of household growth.

Over the past ten or so years, though, new construction has contributed the most to the rental stocks of the fastest-growing states. Growth in demand in Arizona and Nevada, for instance, has been so strong that about one-quarter of their rental inventories in 2004 was built within the previous 10 years (Figure 29). In seven other states, more than one in eight rental units were also that new.

Increases in the fastest-growing metros have been even more stunning. In particular, a whopping 39 percent of Las Vegas rentals in 2000 were built within the previous decade, as were at least one-quarter of rentals in Orlando and Raleigh-Durham. Although owner-occupied housing units were added at an even more rapid pace, expansion of the rental housing stock in such metros was substantial.

In absolute terms, the largest gains in rental units occurred in a mix of fast- and slow-growing metros. New York, Los Angeles, Atlanta and Dallas added the most rentals during the 1990s, augmenting their stocks by more than 100,000 units each. In addition to New York and Los Angeles, other slower-growing metros that ranked in the top ten for rental additions were Chicago and Washington, DC.

Much of this new rental construction took place at the metropolitan edge and beyond (Figure 30). In large, older metros such as Boston, Chicago and Detroit, more than half of the rentals added in the 1990s were built 20 or more miles from city centers. The areas where new rental construction occurred closer to city centers were primarily smaller metros (such as Ann Arbor, New Haven, and Providence) that drew overflow demand from larger neighboring metros (Detroit, New York, and Boston). Construction activity has also been strong in non-metropolitan areas, which accounted for only 17 percent of the nation's rental housing in 2003 but 22 percent of units built within the previous 10 years.

CHANGING COMPOSITION OF THE STOCK

The building types and price points of new rentals have also changed over the past decade. In particular, new multifamily rental construction has shifted decidedly toward larger structures. While more than a third of renters live in single-family homes, nearly two-thirds live in increasingly large multifamily buildings. As a result, the rental stock has become somewhat more weighted toward one-unit and large multi-unit properties.

Between 1999 and 2004, the share of multifamily rental units completed in structures with at least 50 units shot up from 13 percent to 24 percent. This trend, however, varies by location. In places with a legacy of higher-density construction like Minneapolis and Houston, or with severe land constraints like San Jose, new rental properties tend to be larger. In places with ample supplies of land such as Bakersfield, Fresno, and Scranton, new rental properties tend to be smaller.

At the same time, the share of newly built multifamily rental units in structures with two to four apartments dropped from nine percent in 1999 to five percent in 2004. This shift in construction activity, combined with higher loss rates for small rental properties, contributed to net losses of more than half a million units in small multifamily buildings over this period.

Regardless of the size of the structures, newer units are likely to have rents at the high end of the distribution (Figure 31). Almost two-thirds of all market-rate apartments completed in 2004 had initial asking rents of $850 and over. Nevertheless, an additional 12 percent of these units had rents under $650.

RENTAL PROPERTY OWNERSHIP

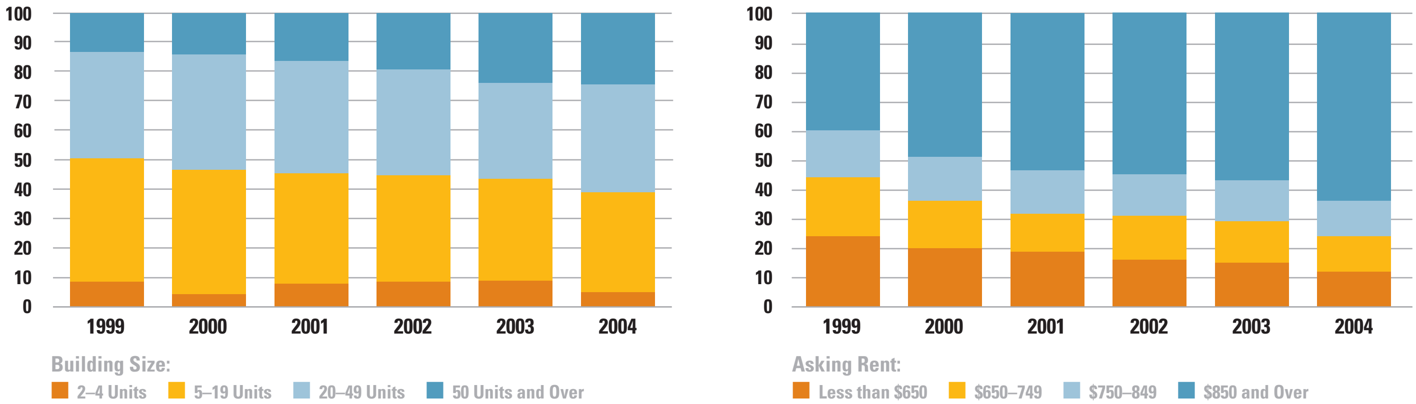
Even before the surge in investor purchases of single-family homes in 2005, some 4.3 million households reported earning rental income from a second property. In fact, individuals own more than half of all rental units in the United States (Figure 32). Property revenues are a significant resource for these owners, accounting for about 11 percent of household income for those under age 60, 14 percent for those in their 60s, and 25 percent for those in their 70s and over.

Rental property owners tend to be older and wealthier, at least in part because they have accumulated equity in both their

Figure 31 Newer Units Are Increasingly In Larger Buildings… …And Have Higher Rents

Distribution of Multifamily Rental Completions (Percent)

Distribution of Units Completed in Buildings with at Least Five Apartments (Percent)

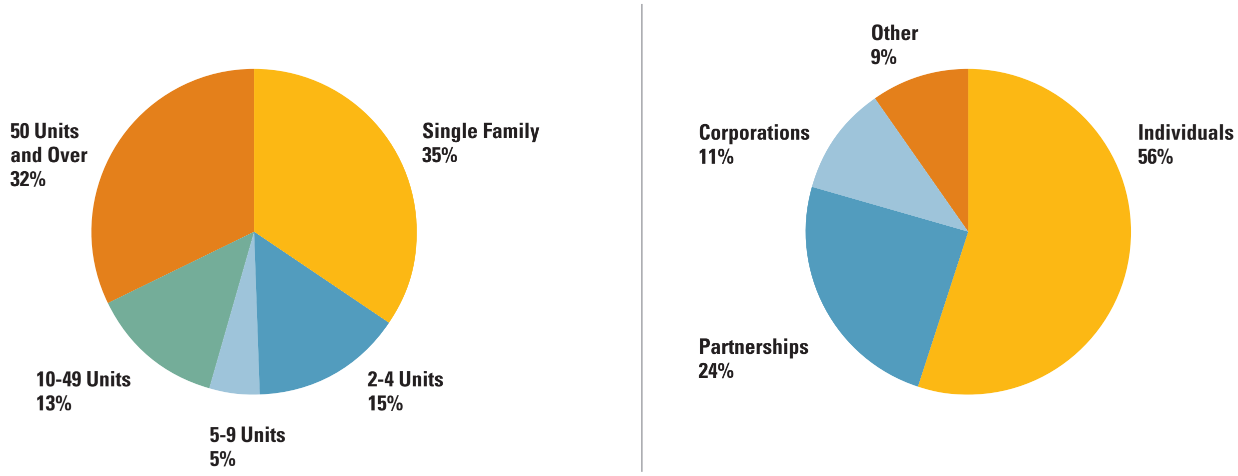


Sources: Census Bureau, Survey of Construction and Survey of Market Absorption of Apartments.

Figure 32 Much of the Rental Stock Is in Small Properties and Owned by Individuals

Property Size

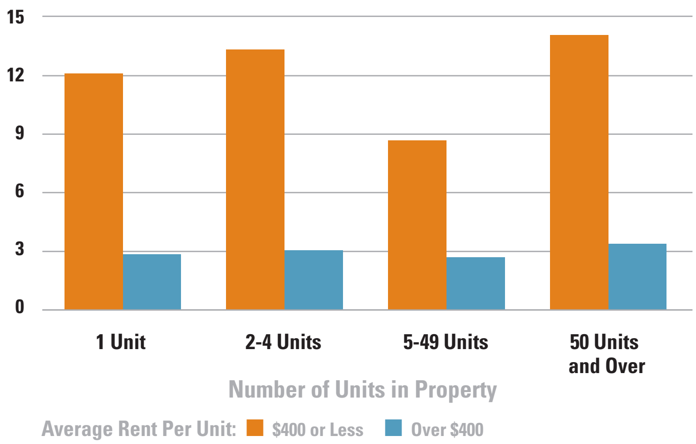
Ownership



Source: JCHS tabulations of the 2001 Residential Finance Survey.

Figure 33 Low-Rent Units Are at Great Risk of Loss

Percent of Properties with Negative Net Operating Income



Source: JCHS tabulations of the 2001 Residential Finance Survey.

primary residence and their rental units. Most, however, are not well diversified because they own too few properties to spread risks across different markets. Indeed, 3.4 million of the 4.3 million owners report having only one rental property, and at least a third of these own only one single-family rental. For such households, a temporary vacancy can bring rental income down to zero. Even those owning a few properties are vulnerable because they tend to buy within a small geographic area. This means a downturn in a single market can erode the value of all their rental holdings.

With one-quarter of individual rental property owners aged 55 to 64 and another quarter aged 65 and over, many now or soon will rely on rents as a principal source of household income. In addition, these older owners tend to manage their rental properties themselves. Indeed, small property owners in general seldom hire professional managers because they would have to sacrifice some of their rental income. As a result, only one in five rental units owned by individuals or married couples are under professional management.

In sharp contrast to individual owners, institutions invest primarily in larger rental properties. Fully six in ten institutionally owned rentals are in properties with 50 or more units, compared with less than six percent of rentals owned by individuals and married couples. In addition, the largest companies own multiple properties in different parts of the country to protect themselves against isolated local downturns. More than 70 percent of institutionally owned units are professionally managed.

Institutions buy properties that are newer on average and command higher rents than those held by individuals. Indeed, nearly two-thirds of institutionally owned units are in properties built after 1990 and only a quarter are in properties built before 1960. Some 64 percent of institutionally owned units have average rents of $450 or more, compared with 46 percent of individually owned units.

PRESERVING AFFORDABLE RENTALS

The nation has been losing affordable rental housing for more than 30 years. This is the housing stock that is affordable, at 30 percent of income, to the third of renter households with incomes of $16,000 or less. From 1993 to 2003, the inventory of these units—with inflation-adjusted rents of $400 or less, including utilities—plunged by 1.2 million. With such drastic losses to upgrading, abandonment, or demolition, the shortage of rentals affordable and available to low-income households was a dismal 5.4 million.

As dire as the situation already is, even more risks lie ahead. A significant portion of the remaining affordable stock is in financial distress (Figure 33). In 2001, owners of fully 12 percent of all rental properties with average rents of $400 or less reported negative net operating income—an unsustainable condition that points to accelerating losses of low-cost units going forward.

Removals of affordable rentals are especially alarming because preserving low-cost units is usually far more cost-efficient than building them new. In addition, losses to deterioration and abandonment erode the quality of neighborhood life and can exacerbate the economic decline of entire communities. Despite the urgent need, available federal subsidies and tax incentives have been insufficient to forestall, let alone reverse, the growing deficit in affordable rental housing.

THE OUTLOOK

Predicting future growth in renter households is complicated, especially in light of the unusually favorable environment for homeownership in recent years. But the large expected increase in the number of people in their 20s and 30s over the next 10 years is a clear positive for the rental market. In addition, given current trends in home prices and interest rates, conditions are likely to turn in favor of rental markets in the coming years.

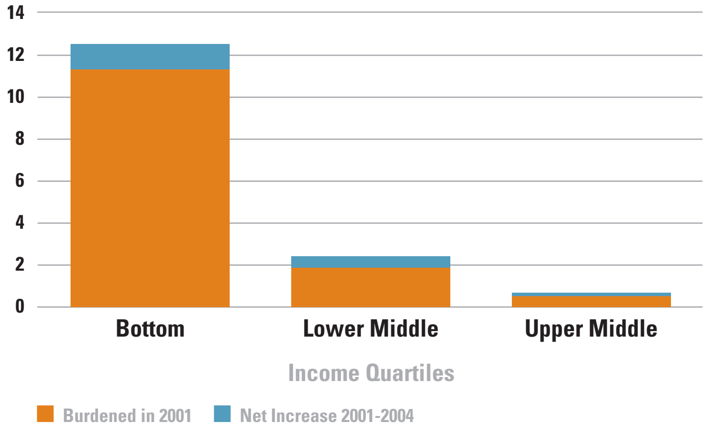
Given strong growth in the young adult population, the healthy pace of household growth, and the lower ownership rates of younger householders, the number of renter households should increase by at least 1.8 million by 2015. Minorities will be responsible for the entire gain, eventually accounting for the majority of renter households. If age-specific homeownership rates fall back the way they did after the 1980s recession, however, renter household growth could be much higher. ■

HOUSING CHALLENGES

Affordability problems are spreading rapidly. Fully one in three American households now spends more than 30 percent of income on housing, and one in seven spends more than 50 percent. The growing shortage of affordable units forces millions of families to make difficult choices to pay for housing—sacrifice other basic needs, make long commutes, and/or live in crowded or inadequate conditions.

Figure 34 **Affordability Problems Are Widespread And Growing**

Severely Cost-Burdened Households (Millions)



Notes: Severely cost-burdened households pay over 50% of income for housing. Income quartiles are equal fourths of all households sorted by pre-tax income.
Source: JCHS tabulations of the 2001 and 2004 American Community Surveys.

GROWING AFFORDABILITY PRESSURES

In just the three years from 2001 to 2004, the number of households with severe cost burdens (paying more than half their income for housing) increased by nearly 2 million to a record 15.8 million (Figure 34). The total count of households with at least moderate cost burdens (paying more than 30 percent of income on housing) also rose from 31.3 million to 35.0 million over this period. Although the incidence is higher among renters, affordability problems afflict a large proportion of homeowners as well (Table A-6).

Nearly two-thirds of the increase in severe cost burdens fell on households with incomes below $22,540. The share of households in this bottom income quartile that pay more than half their incomes for housing set a new record of 46 percent in 2004. Affordability pressures are also moving up the income scale, raising the number of middle-income households (earning $22,540 to $75,700) with severe housing cost burdens by 707,000 between 2001 and 2004, to a total of 3.1 million.

While explanations vary, evidence is mounting that the two principal forces behind housing affordability problems are restrictions on residential development and the growth in low-wage and part-time employment. Local land use regulations that limit lot size and density have helped to drive up housing prices and rents relative to incomes. As a result, affordability problems are most acute in housing markets with the strictest land use regulations. The high housing prices in these metropolitan areas hit working families with low and moderate incomes especially hard.

On the demand side, a large and growing share of jobs pay low wages. Of the 133 million workers earning at least the federal minimum wage equivalent in 2004, fully 27 percent earned merely $5.15–10.30 an hour (one to two times the minimum wage), while another 24 percent earned $10.30–15.45 an hour (two to three times the minimum wage). Making matters worse for families struggling to scrape by on these wages, almost half of workers in the first group and fully one-quarter of the second group are employed part time.

The concentration of jobs at the low end of the wage distribution is unlikely to change. In fact, growth in the number of jobs paying wages in the middle range has lagged for a long time. A recent National Bureau of Economic Research study confirms this U-shaped distribution, with rapid growth over the 1990s in the share of jobs paying either below the 20th percentile or above the 65th percentile of wages, and declines in the middle.

PLIGHT OF WORKING FAMILIES

The forces at work on both the supply and demand sides of the housing market have made conditions especially difficult for working families with children. Clearly, having a job no longer guarantees the ability to pay for housing and other necessities, to save for the future, and to provide for children's needs.

Among the nation's working families with children (with household members employed 35 weeks or more a year, or 26 weeks if looking for work), 10 million are poor or near poor. Nearly half of the poor (income below $19,307 for a family of four) are severely housing cost-burdened and three-quarters are at least moderately cost-burdened. Among the near-poor (income one to two times the poverty threshold adjusted for family size), the incidence of severe burdens is a still-considerable 17 percent, and the incidence of at least moderate burdens is 52 percent.

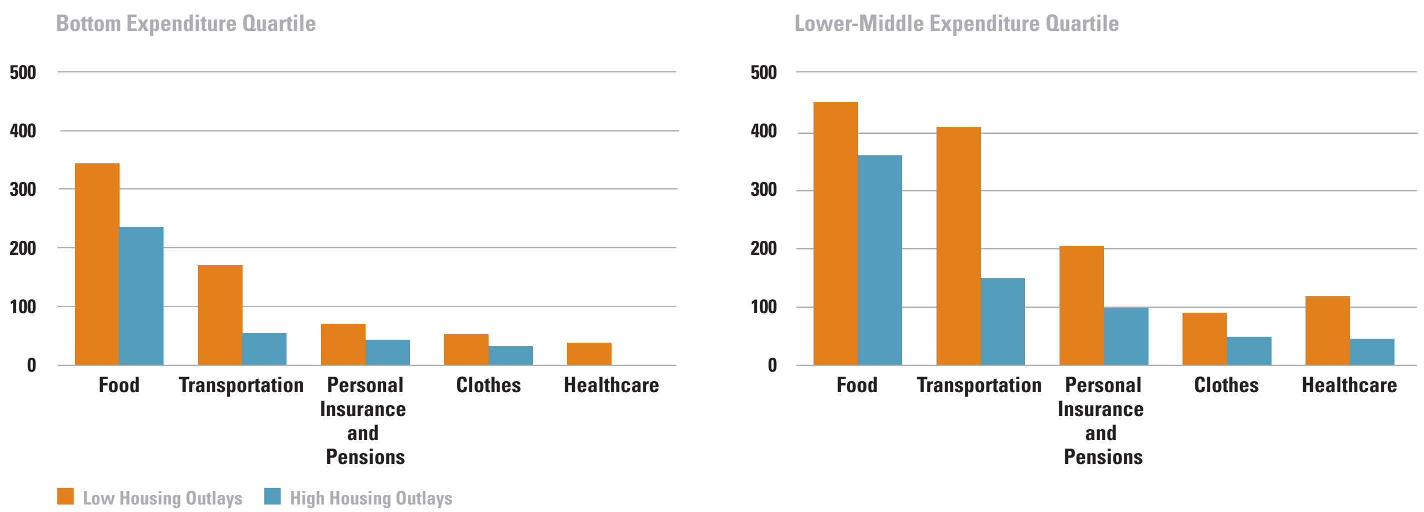
The median income of working poor families with children is just $12,000 and of near-poor families with children only $27,000. To supplement their meager resources, about 1.5 million of these households have unrelated individuals living in their homes. Even with this additional but tenuous income, however, the incidence of severe housing cost burdens among these households is still 22 percent. Furthermore, the presence of unrelated earners in their households means that crowding is a growing problem that now affects 20 percent of these poor and near-poor working families.

Both the number and share of low-income families with housing cost burdens are on the rise. From 2001 to 2004, about 400,000 additional poor and near-poor families paid more than half their incomes for housing. With these increases, the share of these families with severe cost burdens rose from 24 percent to 27 percent. The increases were largest in the Northeast and West, where the incidence of severe housing cost burdens was already high.

Families with children must skimp on other necessities when devoting half or more of their budgets to housing (Table A-7). Those families in the bottom expenditure quartile with high housing outlays have less than $400 a month on average left for all other items, and spend only two-thirds as much on food, half as much on clothing, and nothing on healthcare compared with other low-income families with affordable housing (Figure 35). They do, however, spend only about a third as much on transportation because their high housing outlays buy them better access to jobs and shopping. Similarly, families in the lower-middle expenditure quartile with high housing outlays spend less on other basic needs than those with low housing outlays, and devote less than half as much to pensions and insurance.

Figure 35 High Housing Outlays Leave Families with Children with Much Less to Spend on Other Items

Monthly Non-Housing Expenditures of Families with Children (Dollars)



Notes: Expenditure quartiles are equal fourths of all households by average monthly spending. High (low) housing outlays are defined as more than 50% (less than 30%) of total monthly expenditures.
Source: JCHS tabulations of the 2003 Consumer Expenditure Survey.

To live in housing they can afford, more working poor and near-poor families are choosing to take long commutes. This decision usually means relying on a car for transportation. Over the 2001–2004 period, the share of working poor families commuting by automobile increased by 2.7 percentage points and the share of near-poor families by 1.2 percentage points. In comparison, auto commuting increased by only 0.5 percentage point among moderate-income working families and was unchanged among higher-income families. Average commute times also increased significantly more for working poor and near-poor homeowners (4.6 percent and 3.9 percent) than for their moderate- and higher-income counterparts (2.6 percent and 1.4 percent).

THE CONCENTRATION OF POVERTY

Despite progress at the national level, the geographic concentration of poverty remains a significant challenge. In addition to deteriorating and/or abandoned housing, high-poverty neighborhoods are plagued by a number of social and economic problems, including high rates of unemployment, school dropouts, and teen pregnancies.

During the 1990s, the number of high-poverty census tracts (over 40 percent poor) declined by 25 percent and the number of people living in these distressed neighborhoods fell by 2.3 million (Table W-6). The reduction in high-poverty tracts in rural areas was especially dramatic, down 48 percent. But these improvements were centered entirely in the Midwest and South, with the Northeast registering no change and the West posting a 27 percent increase in people living in high-poverty areas (Figure 36).

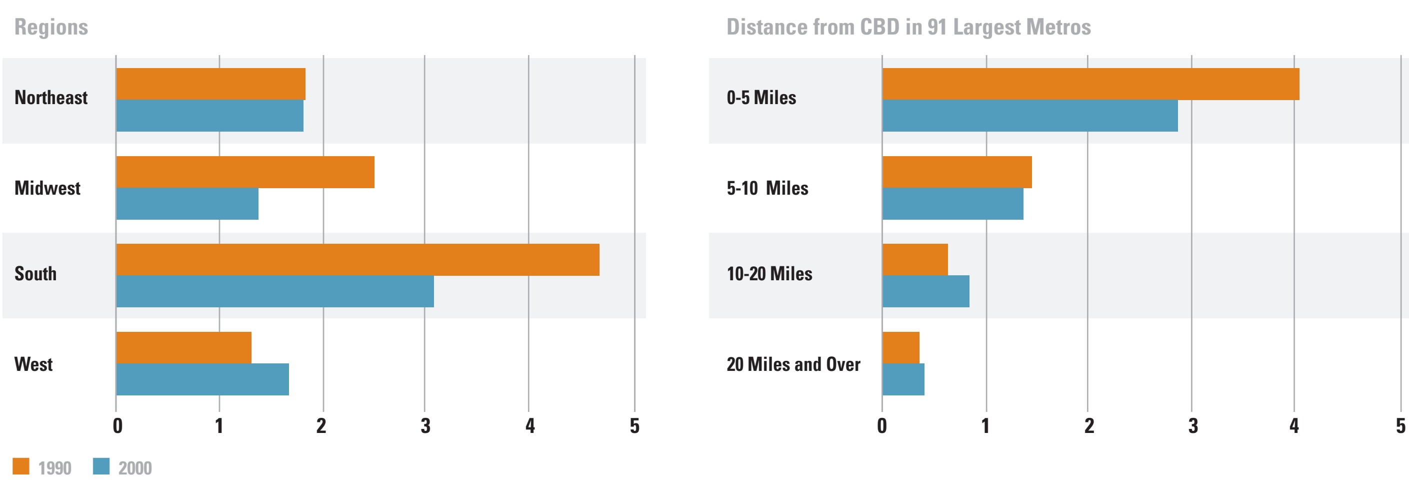
It is unclear how much change in the geographic concentration of poverty is a result of gentrification that simply displaces the poor into other areas, which may then become new pockets of poverty. Moreover, high-poverty zones are still a fact of life. In 2000, these neighborhoods were home to 10 percent of the nation's 34 million poor—including 19 percent of black poor, 14 percent of Hispanic poor, and five percent of rural poor. Indeed, the population living in high-poverty areas rose in 94 of 331 metros during the 1990s. While modest in most cases, the increases reached the tens of thousands in about a dozen metropolitan areas.

Like everything else, poverty has begun to move away from the nation's center cities. In the 91 largest metropolitan regions, the number of people living in high-poverty census tracts declined on average within five miles of the CBD, held more or less steady in the five- to ten-mile inner ring, and increased in more distant neighborhoods.

Even in high-poverty areas, though, the cost of housing is still out of reach for poor families. Despite living in some of the nation's most undesirable housing, 30 percent of households in these neighborhoods had severe cost burdens in 2000. The rents they can pay are so low that they do not cover proper maintenance, leading owners to disinvest in their properties. As the buildings deteriorate, the neighborhood begins a downward spiral that is difficult to reverse.

Figure 36 During the 1990s, the Population in High-Poverty Areas Decreased in the South and Midwest, And in the Inner Ring of Metro Areas

Population in High-Poverty Tracts (Millions)



Source: JCHS tabulations of the 1990 and 2000 Census tract-level data.

ACCESSIBLE HOUSING

According to the 2000 Census, nearly 50 million Americans suffer some type of chronic condition or disability, making access to decent, safe, and affordable housing of critical concern. Seniors are the most likely group to have disabilities, which affect some 42 percent of people age 65 and older, compared with 19 percent of non-elderly adults.

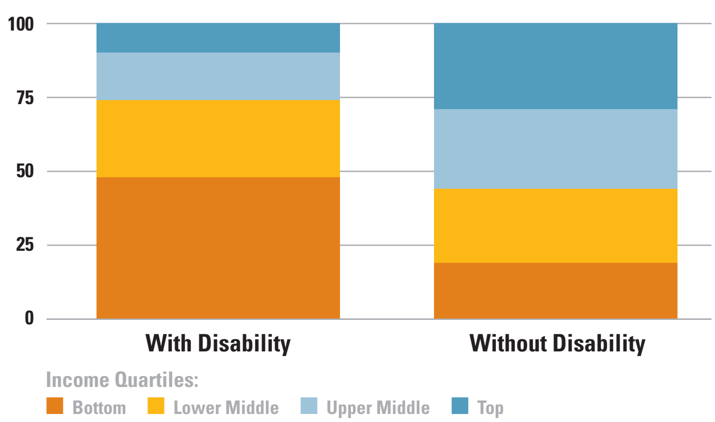
Poverty is a common condition of the disabled, with nearly half in the bottom income quartile (Figure 37). The Technical Assistance Collaborative reports that, on average, the disabled living on Supplemental Security Income (SSI) pay more for rent on a one-bedroom apartment than they receive in support. Still, these meager income supplements, along with preferential treatment under federal housing programs, have helped to reduce the incidence of severe cost burdens among disabled households.

While the vast majority of disabled elders would prefer to live independently, many lack the financial resources to make the structural modifications to their homes that would ensure their safety. Younger disabled households face their own challenges. In 2004, 5.0 million households in the bottom income quartile were headed by a non-elderly disabled person, and 2.6 million of these had severe cost burdens or lived in crowded conditions.

Only 41 percent of eligible very low-income renter households with a disabled member under age 65 receive direct housing assistance. These households, often prevented by "elderly-only" policies from living in federally subsidized project-based housing, are faced with finding units on the private market that have the services and/or accessibility they require. The government response to this growing need has been to cut funding for housing from its already modest level, especially from HUD's Section 811—the only program producing affordable and accessible housing specifically for the non-elderly disabled.

Figure 37 **Large Shares of Householders with Disabilities Have Low Incomes**

Distribution of Households by Income Quartile (Percent)



Notes: Households with disability are those whose household head has reported any physical or mental difficulty. Income quartiles are equal fourths of all households sorted by pre-tax income.
Source: JCHS tabulations of the 2004 American Community Survey.

KATRINA'S WAKE

On top of the chronic housing challenges the nation faces, Hurricane Katrina's devastation revealed another hole in the social safety net. This disaster pointed out the lack of a system for matching hundreds of thousands of displaced families to vacant rentals. While multifamily trade associations are now advocating for federal solutions, apartment associations in Houston, Dallas, and elsewhere are working at the local level to find rental housing for the displaced.

Katrina's aftermath also highlighted the absence of a system for covering the mortgage payments of homeowners left jobless by natural disasters. Mortgage delinquencies in the region soared after temporary debt forgiveness by many lenders expired. This relief came at considerable cost to lenders, in terms of both lost revenue and outlays for missed payments to investors in the secondary mortgage market. While the Federal Housing Administration has extended its forgiveness deadline twice, even FHA must foreclose on the delinquent mortgage loans at some point.

As for loss claims, the Mortgage Bankers Association estimates that at least 29,000 of the 95,000 homes that suffered serious flood damage were not insured against the risk. While flood insurance is required only in special high-risk areas, historically 25 percent of claims have been for properties in low- and moderate-risk areas. Uninsured losses from Katrina for single-family structures alone are expected to reach the $3–6 billion range.

Rebuilding is only in its earliest stages. In New Orleans, losses are estimated at over $100 billion, more than 50,000 homes have suffered severe damage, and hundreds of thousands of residents are still waiting to return. Estimates produced by the Federal Emergency Management Agency place the number of homes damaged by Hurricanes Katrina, Rita, and Wilma combined at 1.2 million, of which 126,000 were severely compromised or destroyed. With the enormous political and logistical obstacles to rebuilding that now exist, it will be years before the Gulf region of the country works through the disruption to human lives and the destruction to the built environment that these natural disasters caused.

MEETING CHRONIC CHALLENGES

Housing affordability problems are intensifying. The only recent sign of progress is a reduction in the overall number of high-poverty areas, but even in this case, there has been little success in preserving a supply of affordable units in gentrifying neighborhoods or relieving the cost burdens of the poor.

Preventing further losses of low-cost housing is imperative. Unfortunately, funding is in short supply, with only piecemeal preservation efforts that target the housing of the two-thirds of low-income renters living in subsidized units. Even the units occupied by the third of renters that are in some way subsidized are vulnerable to loss. Indeed, after removing some of the nation's most distressed pubic housing, the federal government has not replaced the units one for one.

Prospects for a turnaround are bleak. After nearly 20 years of increases, growth in federal housing assistance ground to a halt in the second half of the 1990s (Figure 38). The federal government, which has historically provided the lion's share of subsidies, now faces a massive budget deficit and is looking for ways to fund the rising costs of international and domestic security.

HUD estimates that over four million renter households with incomes less than half of area medians now receive housing assistance, but this number represents only about a quarter of renters with incomes that low. The low-income housing tax credit has helped to meet some of this shortfall by stimulating the production or rehabilitation of about 1.8 million affordable rentals since 1987. But even the scale of this program has not been enough to keep the affordable rental inventory from shrinking.

Meanwhile, voters in most communities have shown strong antipathy toward residential development in general and high-density development of smaller homes in particular. Examples of innovative regulatory policies that encourage affordable housing are few and far between, although some jurisdictions now either mandate or provide incentives for developers to set aside a share of new units for income-qualifying households. Even in these rare instances, though, the homes are seldom affordable to those with the greatest need without additional subsidy.

State and local governments do, however, have it within their power to align land use policy in favor of affordable housing. Among the measures they could enact are easing constraints on land available for residential development, authorizing higher-density development by right rather than through a negotiated process, spreading infrastructure improvements costs across all taxpayers rather than imposing impact fees just on newcomers, and improving the speed and reliability of their entitlement and permitting processes. But all of these changes would still not preclude the need for subsidies to overcome the mismatch between the high costs of supplying modest housing units and the ability of lowest-income families to pay for decent housing.

In today's environment, perhaps the biggest housing challenge of all is to create the political will to make a more concerted assault on the nation's affordability problems. The fact that local business communities are beginning to make workforce housing a priority is a positive sign that this commitment may be developing. In addition, as the impacts of high housing costs and metropolitan sprawl increasingly affect the day-to-day lives of middle- and upper-income households, the voices calling for housing policy reform may become louder. ■

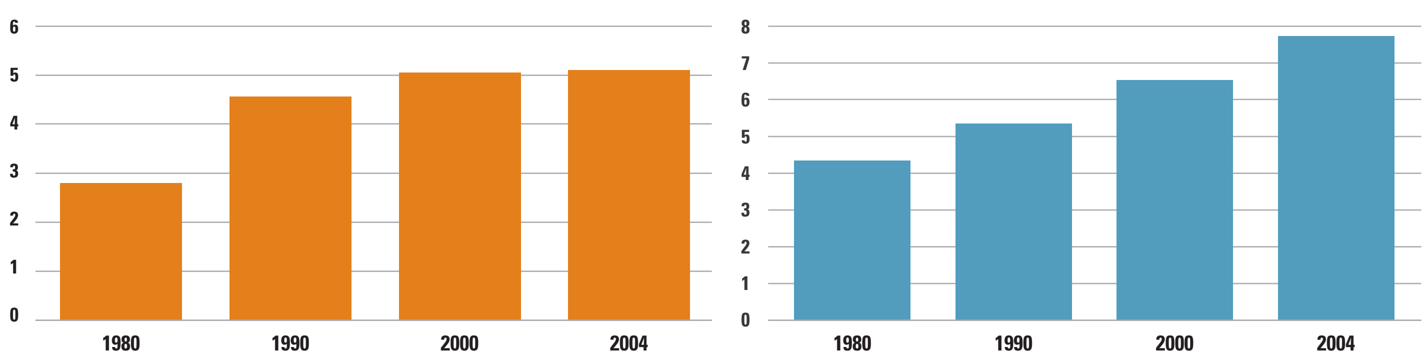
Figure 38

Housing Assistance Has Failed To Keep Pace with…

Assisted Renter Households (Millions)

…Persistent Growth in Low-Income Renters with Severe Cost Burdens

Severely Cost-Burdened Renters in the Bottom Income Quartile (Millions)



Sources: U.S. House of Representatives, Committee on Ways and Means,Total Renter Households Receiving Direct Housing Assistance by HUD, Greenbook 2000, Table 15-30; U.S. Dept of Housing and Community Development, FY2005 Performance and Accountability Report.

Note: Income quartiles are equal fourths of all households sorted by pre-tax income. Severe cost burdens are defined as housing costs of more than 50% of pre-tax income.
Source: JCHS tabulations of the 1980, 1990, and 2000 Decennial Census Public Use Microdata and the 2004 American Housing Survey.

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

Table W-1 Home Prices by Region and Metropolitan Area: 1990–2005

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Table A-1 Income and Housing Costs, US Totals: 1975–2005

2005 Dollars

	Monthly Income		Owner Costs				Renter Costs		Cost as Percent of Income (%)			
									Owners		Renters	
Year	Owner	Renter	Home Price	Mortgage Rate	Before-Tax Mortgage Payment	After-Tax Mortgage Payment	Contract Rent	Gross Rent	Before-Tax Mortgage Payment	After-Tax Mortgage Payment	Contract Rent	Gross Rent
1975	4,417	2,618	130,524	8.9	938	817	613	657	21.2	18.5	23.4	25.1
1976	4,391	2,541	133,128	8.9	953	835	612	661	21.7	19.0	24.1	26.0
1977	4,406	2,557	138,273	8.8	985	917	611	666	22.4	20.8	23.9	26.0
1978	4,452	2,591	146,766	9.4	1,098	991	610	665	24.7	22.3	23.5	25.7
1979	4,459	2,535	147,931	10.6	1,227	1,092	589	645	27.5	24.5	23.2	25.4
1980	4,187	2,404	141,127	12.5	1,352	1,175	566	626	32.3	28.1	23.6	26.0
1981	4,067	2,372	135,294	14.4	1,480	1,267	560	623	36.4	31.2	23.6	26.3
1982	4,073	2,395	131,305	14.7	1,469	1,276	569	638	36.1	31.3	23.8	26.7
1983	4,164	2,389	131,099	12.3	1,237	1,081	585	659	29.7	25.9	24.5	27.6
1984	4,273	2,462	130,821	12.0	1,210	1,063	592	665	28.3	24.9	24.0	27.0
1985	4,387	2,498	132,592	11.2	1,152	1,015	608	679	26.3	23.1	24.4	27.2
1986	4,542	2,528	139,246	9.8	1,080	956	634	701	23.8	21.0	25.1	27.7
1987	4,571	2,503	143,790	9.0	1,037	950	637	698	22.7	20.8	25.4	27.9
1988	4,596	2,578	146,707	9.0	1,060	992	635	693	23.1	21.6	24.6	26.9
1989	4,657	2,665	148,731	9.8	1,156	1,073	629	686	24.8	23.0	23.6	25.8
1990	4,520	2,580	145,782	9.7	1,126	1,048	622	676	24.9	23.2	24.1	26.2
1991	4,452	2,473	142,549	9.1	1,039	973	618	672	23.3	21.9	25.0	27.2
1992	4,418	2,405	142,143	7.8	924	878	615	668	20.9	19.9	25.6	27.8
1993	4,382	2,380	140,964	6.9	838	806	611	664	19.1	18.4	25.7	27.9
1994	4,426	2,349	141,021	7.3	871	838	611	662	19.7	18.9	26.0	28.2
1995	4,467	2,410	141,626	7.7	908	870	608	658	20.3	19.5	25.3	27.3
1996	4,543	2,431	143,172	7.6	908	869	607	656	20.0	19.1	25.0	27.0
1997	4,646	2,486	145,545	7.5	918	878	610	660	19.8	18.9	24.6	26.5
1998	4,785	2,536	150,914	7.0	901	865	620	666	18.8	18.1	24.5	26.3
1999	4,890	2,626	155,338	7.1	943	900	626	669	19.3	18.4	23.8	25.5
2000	4,840	2,642	160,835	7.9	1,048	988	628	672	21.7	20.4	23.7	25.4
2001	4,742	2,620	168,791	6.9	1,005	954	637	687	21.2	20.1	24.3	26.2
2002	4,715	2,522	177,382	6.4	1,003	956	652	696	21.3	20.3	25.9	27.6
2003	4,740	2,438	185,077	5.7	964	944	656	704	20.3	19.9	26.9	28.9
2004	4,705	2,404	200,158	5.7	1,043	1,013	656	706	22.2	21.5	27.3	29.4
2005	4,672	2,430	219,000	5.9	1,164	1,119	654	709	24.9	23.9	26.9	29.2

Notes and Sources: All dollar amounts are expressed in 2005 constant dollars using the Bureau of Labor Statistics' Consumer Price Index (CPI-UX) for All Items. Owner and renter median incomes through 2004 are from Current Population Survey P60 published reports. Renters exclude those paying no cash rents. 2005 income is based on Moody's Economy.com estimate for all households, adjusted by the three-year average ratio of CPS owner and renter incomes to all household incomes. Home price is the 2005 median sales price of existing single-family homes determined by the National Association of Realtors®, indexed by the Freddie Mac Conventional Mortgage Home Price Index. Mortgage rates are from the Federal Housing Finance Board Monthly Interest Rate Survey; 2005 value is the average of monthly rates. Mortgage payments assume a 30-year loan with 10% down. After-tax mortgage payment equals mortgage payment less tax savings of homeownership. Tax savings are based on the excess of housing (mortgage interest and real-estate taxes) plus non-housing deductions over the standard deduction. Non-housing deductions are set at 5% of income through 1986, 4.25% in 1987, and 3.5% from 1988 on. Contract rent equals median 2003 contract rent from the American Housing Survey, indexed by the CPI residential rent index with adjustments for depreciation in the stock before 1987. Gross rent is equal to contract rent plus fuel and utilities.

Table A-2 Housing Market Indicators: 1975–2005

Year	Permits [1] (Thousands)		Starts [2] (Thousands)			Size [3] (Median sq. ft.)		Sales Price of Single-Family Homes (2005 dollars)	
	Single-Family	Multifamily	Single-Family	Multifamily	Manufactured Housing	Single-Family	Multifamily	New [4]	Existing [5]
1975	676	263	892	268	229	1,535	942	190,741	130,524
1976	894	402	1,162	375	250	1,590	894	195,801	133,128
1977	1,126	564	1,451	536	258	1,610	881	207,268	138,273
1978	1,183	618	1,433	587	280	1,655	863	221,047	146,766
1979	982	570	1,194	551	280	1,645	893	228,460	147,931
1980	710	481	852	440	234	1,595	915	221,809	141,127
1981	564	421	705	379	229	1,550	930	217,011	135,294
1982	546	454	663	400	234	1,520	925	209,146	131,305
1983	902	703	1,068	636	278	1,565	893	206,948	131,099
1984	922	757	1,084	665	288	1,605	871	206,390	130,821
1985	957	777	1,072	670	283	1,605	882	201,788	132,592
1986	1,078	692	1,179	626	256	1,660	876	205,941	139,246
1987	1,024	510	1,146	474	239	1,755	920	209,321	143,790
1988	994	462	1,081	407	224	1,810	940	208,492	146,707
1989	932	407	1,003	373	203	1,850	940	206,916	148,731
1990	794	317	895	298	195	1,905	955	200,005	145,782
1991	754	195	840	174	174	1,890	980	194,491	142,549
1992	911	184	1,030	170	212	1,920	985	191,294	142,143
1993	987	212	1,126	162	243	1,945	1,005	193,720	140,964
1994	1,068	303	1,198	256	291	1,940	1,015	197,939	141,021
1995	997	335	1,076	278	319	1,920	1,040	197,943	141,626
1996	1,070	356	1,161	316	338	1,950	1,030	195,858	143,172
1997	1,062	379	1,134	340	336	1,975	1,050	197,017	145,545
1998	1,188	425	1,271	346	374	2,000	1,020	198,897	150,914
1999	1,247	417	1,302	338	338	2,025	1,054	204,191	155,338
2000	1,198	394	1,231	338	281	2,079	1,091	205,938	160,835
2001	1,236	390	1,273	329	196	2,102	1,094	207,354	168,791
2002	1,333	415	1,359	346	174	2,115	1,092	213,180	177,382
2003	1,461	428	1,499	349	140	2,127	1,108	220,288	185,077
2004	1,613	457	1,611	345	124	2,160	1,159	230,842	200,158
2005	1,669	472	1,716	352	121	2,245	1,180	240,900	219,000

Note: All value series are deflated by the Bureau of Labor Statistics' Consumer Price Index (CPI-UX) for All Items.

Sources:
1. Census Bureau, Construction Statistics, "New Privately Owned Housing Units Authorized by Building Permits," www.census.gov/pub/const/bpann.pdf (as of May 2006).
2. Census Bureau "New Privately Owned Housing Units Started," www.census.gov/const/startsan.pdf (as of May 2006); and "Placements of New Manufactured Homes," www.census.gov/pub/const/mhs/mhstabplcmnt.pdf (as of May 2006). Manufactured housing starts defined as placements of new manufactured homes.
3. Census Bureau, "New Privately Owned Housing Units Started in the United States, by Purpose and Design," www.census.gov/const/startsusintenta.pdf (as of May 2006).
4. New home price is the National Association of Home Builders' 2005 national median home price, indexed by the Census Bureau, Construction Statistics, New Residential Sales. "Price Indexes of New One-Family Houses Sold," www.census.gov/const/price_sold.pdf (as of May 2006).
5. Existing home price is the 2005 median sales price of existing single-family homes determined by the National Association of Realtors, indexed by the Freddie Mac Conventional Mortgage Home Price Index.
6. Census Bureau, "Expenditures by Region and Property Type,"www.census.gov/const/C50/histtab2new.pdf (as of May 2006).
7. Census Bureau, Housing Vacancy Survey.
8. Census Bureau, "Annual Value of Private Construction Put in Place," http://www.census.gov/const/C30/private.pdf (as of May 2006).
9. Census Bureau, Construction Statistics, New Residential Sales, "Houses Sold by Region," www.census.gov/const/soldann.pdf (as of May 2006).
10. National Association of Realtors, Existing Home Sales.

Residential Upkeep and Improvement [6] (Millions of 2005 dollars)		Vacancy Rates [7] (Percent)		Value Put in Place [8] (Billions of 2005 dollars)			Home Sales (Thousands)	
Owner-Occupied	Rental	For Sale	For Rent	Single-Family	Multifamily	Additions & Alterations	New [9]	Existing [10]
69,172	30,947	1.2	6.0	107,593	24,246	55,410	549	2,476
79,218	30,215	1.2	5.6	150,542	23,717	60,073	646	3,064
84,461	26,846	1.2	5.2	200,502	32,283	63,724	819	3,650
90,602	33,450	1.0	5.0	217,972	38,437	72,599	817	3,986
94,830	32,442	1.2	5.4	194,377	45,772	73,095	709	3,827
96,415	28,968	1.4	5.4	125,430	39,600	72,887	545	2,973
83,215	30,326	1.4	5.0	111,648	37,513	64,062	436	2,419
77,321	27,342	1.5	5.3	83,912	31,446	56,010	412	1,990
80,234	29,289	1.5	5.7	142,189	44,015	60,535	623	2,719
87,926	44,774	1.7	5.9	162,396	53,047	75,938	639	2,868
93,176	55,889	1.7	6.5	158,545	51,800	81,010	688	3,214
104,722	63,366	1.6	7.3	185,555	55,308	98,912	750	3,565
101,004	66,467	1.7	7.7	201,517	43,757	97,966	671	3,526
112,019	64,401	1.6	7.7	198,260	36,811	102,528	676	3,594
103,942	66,243	1.8	7.4	190,463	35,129	96,111	650	3,346
100,522	71,964	1.7	7.2	168,681	28,765	88,111	534	3,211
95,694	58,728	1.7	7.4	142,570	21,721	74,099	509	3,220
105,355	55,519	1.5	7.4	169,793	18,227	89,539	610	3,520
107,854	56,899	1.4	7.3	189,384	14,581	100,226	666	3,802
119,466	52,673	1.5	7.4	213,893	18,556	108,287	670	3,967
107,532	52,618	1.6	7.6	196,729	22,925	97,326	667	3,812
110,199	53,312	1.6	7.9	212,589	25,298	112,029	757	4,196
114,335	48,204	1.6	7.8	213,162	27,845	110,671	804	4,382
119,097	41,088	1.7	7.9	238,924	29,444	108,582	886	4,970
116,384	51,133	1.7	8.1	262,397	32,160	116,395	880	5,205
118,614	54,882	1.6	8.0	268,552	32,050	124,087	877	5,152
120,910	53,068	1.8	8.4	274,684	33,419	120,128	908	5,296
131,908	56,253	1.7	9.0	288,650	35,773	133,606	973	5,566
127,284	60,479	1.8	9.8	329,648	37,273	138,249	1,086	6,175
148,292	56,992	1.7	10.2	390,349	39,799	152,317	1,203	6,779
166,296	48,734	1.9	9.9	423,432	46,573	156,810	1,283	7,075

Table A-3 Terms on Conventional Single-Family Mortgages: 1980–2005

Annual Averages, All Homes

						Percent of Loans with	
Year	Effective Interest Rate (%)	Term to Maturity (Years)	Mortgage Loan Amount (Thousands of 2005 dollars)	Purchase Price (Thousands of 2005 dollars)	Loan-to-Price Ratio (%)	Loan-to-Price Ratio More than 90%	Adjustable Rates
1980	12.8	27.2	122.7	174.2	72.9	10	na
1981	14.9	26.4	116.4	165.4	73.1	15	na
1982	15.3	25.6	112.4	160.2	72.9	21	41
1983	12.7	26.0	117.5	163.0	74.5	21	40
1984	12.5	26.8	121.2	162.8	77.0	27	62
1985	11.6	25.9	127.4	174.4	75.8	21	51
1986	10.2	25.6	141.3	197.1	74.1	11	30
1987	9.3	26.8	153.2	209.4	75.2	8	43
1988	9.3	27.7	160.8	217.3	76.0	8	58
1989	10.1	27.7	164.6	224.9	74.8	7	38
1990	10.1	27.0	155.4	213.1	74.7	8	28
1991	9.3	26.5	152.4	210.4	74.4	9	23
1992	8.1	25.4	151.3	203.8	76.6	14	20
1993	7.1	25.5	144.6	193.4	77.2	17	20
1994	7.5	27.1	144.8	187.1	79.9	25	39
1995	7.9	27.4	141.5	183.0	79.9	27	32
1996	7.7	26.9	147.8	193.1	79.0	25	27
1997	7.7	27.5	154.1	200.2	79.4	25	22
1998	7.1	27.8	157.9	207.8	78.9	25	12
1999	7.3	28.2	163.3	215.9	78.5	23	21
2000	8.0	28.7	168.2	225.6	77.8	22	24
2001	7.0	27.6	171.7	237.7	76.2	21	12
2002	6.5	27.3	177.4	251.0	75.1	21	17
2003	5.7	26.8	178.2	258.4	73.5	20	18
2004	5.7	27.9	191.8	270.9	74.9	18	35
2005	5.9	28.5	210.8	298.1	74.8	16	31

Notes: The effective interest rate includes the amortization of initial fees and charges. Loans with adjustable rates do not include hybrid products. "na" indicates data not available. Figures for 2005 are averages of monthly data.
Source: Federal Housing Finance Board, Monthly Interest Rate Survey.

Table A-4 Mortgage Refinance, Cash-out, and Home Equity Loan Volumes: 1995–2005

	Percentage of Refinances Resulting in:		Median Statistics on Loan Terms and Property Valuation			Billions of 2005 Dollars		
Year	5% or Higher Loan Amount	Lower Loan Amount	Ratio of Old to New Rate	Age of Refinanced Loan (Years)	Appreciation Rate of Refinanced Property (%)	Home Equity Cashed Out at Refinance	Total Refinance Originations	Home Equity Loans
1995	51.5	15.3	1.16	2.8	8.6	14	251	332
1996	57.3	11.5	1.17	3.2	11.0	22	358	361
1997	58.7	14.6	1.08	3.7	13.9	26	405	403
1998	46.2	17.0	1.16	3.5	10.0	48	1,055	431
1999	56.8	12.5	1.15	4.5	12.1	43	663	468
2000	77.9	8.7	0.94	4.3	23.8	30	331	555
2001	53.2	13.6	1.17	2.6	14.8	91	1,397	567
2002	46.8	17.9	1.20	3.0	13.4	121	2,071	630
2003	36.0	15.6	1.26	1.8	5.3	156	2,840	724
2004	46.5	15.1	1.19	2.1	9.3	147	1,520	914
2005	71.9	9.3	1.09	2.6	22.8	244	1,357	1,049

Notes: Dollar values are adjusted for inflation using the CPI-UX for All Items. Home equity cashed out at refinance is the difference between the size of the mortgage after refinance and 105% of the balance outstanding on the original mortgage.
Source: Freddie Mac, Cash Out and Refinance Data; Federal Reserve Board, Flow of Funds, Table L.218.

Table A-5 Homeownership Rates by Age, Race/Ethnicity, and Region: 1995–2005

Percent

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
All Households	64.7	65.4	65.7	66.3	66.8	67.4	67.8	67.9	68.3	69.0	68.9
Age											
Under 35	38.6	39.1	38.7	39.3	39.7	40.8	41.2	41.3	42.2	43.1	43.0
35-44	65.2	65.5	66.1	66.9	67.2	67.9	68.2	68.6	68.3	69.2	69.3
45-54	75.2	75.6	75.8	75.7	76.0	76.5	76.7	76.3	76.6	77.2	76.6
55-64	79.5	80.0	80.1	80.9	81.0	80.3	81.3	81.1	81.4	81.7	81.2
65-74	80.9	81.9	82.0	82.1	82.9	82.8	82.5	82.7	82.3	83.3	82.8
75 and Over	74.6	75.3	75.8	76.2	77.1	77.7	78.1	78.4	78.7	78.8	78.4
Race/Ethnicity											
Whites	70.9	71.7	72.0	72.6	73.2	73.8	74.3	74.7	75.4	76.0	75.8
Hispanics	42.0	42.8	43.3	44.7	45.5	46.3	47.3	47.0	46.7	48.1	49.5
Blacks	42.9	44.5	45.4	46.1	46.7	47.6	48.4	48.2	48.8	49.7	48.8
Asians/Others	51.5	51.5	53.3	53.7	54.1	53.9	54.7	55.0	56.9	59.7	60.3
All Minorities	43.7	44.9	45.8	46.8	47.4	48.1	49.0	48.9	49.5	51.0	51.3
Region											
Northeast	62.0	62.2	62.4	62.6	63.1	63.4	63.7	64.3	64.4	65.0	65.2
Midwest	69.2	70.6	70.5	71.1	71.7	72.6	73.1	73.1	73.2	73.8	73.1
South	66.7	67.5	68.0	68.6	69.1	69.6	69.8	69.7	70.1	70.9	70.8
West	59.2	59.2	59.6	60.5	60.9	61.7	62.6	62.5	63.4	64.2	64.4

Notes: Whites, blacks and Asians/others are non-Hispanic. Hispanics may be of any race. Asians/others includes Pacific Islanders, Aleuts and Native Americans. Caution should be used in interpreting changes before and after 2002 because of rebenchmarking.
Source: Census Bureau, Housing Vacancy Survey.

Table A-6 Housing Cost-Burdened Households by Tenure and Income: 2001 and 2004

Thousands

	2001				2004				Percent Change 2001-2004			
Tenure and Income	No Burden	Moderate Burden	Severe Burden	Total	No Burden	Moderate Burden	Severe Burden	Total	No Burden	Moderate Burden	Severe Burden	Total
Owners												
Bottom Decile	771	709	2,506	3,986	684	644	2,593	3,921	-11.3	-9.2	3.5	-1.6
Bottom Quintile	3,381	1,906	3,921	9,208	3,209	1,912	4,173	9,295	-5.1	0.3	6.4	0.9
Bottom Quartile	5,065	2,549	4,428	12,042	4,826	2,581	4,785	12,192	-4.7	1.2	8.1	1.3
Lower-Middle Quartile	10,695	3,630	1,456	15,781	10,867	4,073	1,804	16,745	1.6	12.2	23.9	6.1
Upper-Middle Quartile	16,015	2,882	465	19,362	16,554	3,403	625	20,582	3.4	18.1	34.6	6.3
Top Quartile	21,457	1,208	137	22,802	22,530	1,554	150	24,234	5.0	28.6	9.4	6.3
Total	53,231	10,270	6,485	69,986	54,777	11,611	7,364	73,753	2.9	13.1	13.6	5.4
Renters												
Bottom Decile	1,309	789	4,559	6,657	1,337	782	4,950	7,069	2.1	-0.9	8.6	6.2
Bottom Quintile	2,731	2,798	6,550	12,079	2,683	2,769	7,234	12,686	-1.8	-1.0	10.4	5.0
Bottom Quartile	3,705	3,962	6,901	14,567	3,598	3,944	7,741	15,284	-2.9	-0.5	12.2	4.9
Lower-Middle Quartile	7,698	2,710	419	10,828	7,106	3,028	597	10,731	-7.7	11.7	42.4	-0.9
Upper-Middle Quartile	6,771	437	39	7,247	6,287	547	60	6,894	-7.1	25.2	52.7	-4.9
Top Quartile	3,735	71	2	3,807	3,183	58	2	3,243	-14.8	-18.5	-1.0	-14.8
Total	21,908	7,180	7,361	36,449	20,175	7,577	8,400	36,152	-7.9	5.5	14.1	-0.8
All Households												
Bottom Decile	2,080	1,498	7,065	10,643	2,021	1,426	7,543	10,990	-2.9	-4.8	6.8	3.3
Bottom Quintile	6,112	4,704	10,472	21,287	5,892	4,682	11,407	21,981	-3.6	-0.5	8.9	3.3
Bottom Quartile	8,769	6,511	11,328	26,609	8,424	6,525	12,526	27,476	-3.9	0.2	10.6	3.3
Lower-Middle Quartile	18,393	6,340	1,876	26,609	17,974	7,101	2,402	27,476	-2.3	12.0	28.0	3.3
Upper-Middle Quartile	22,786	3,319	504	26,609	22,841	3,950	686	27,476	0.2	19.0	36.0	3.3
Top Quartile	25,191	1,280	138	26,609	25,713	1,612	151	27,476	2.1	26.0	9.2	3.3
Total	75,140	17,450	13,846	106,436	74,952	19,188	15,765	109,905	-0.2	10.0	13.9	3.3

Notes: Income deciles/quintiles/quartiles are equal tenths/fifths/fourths of all households sorted by pre-tax income. Moderate (severe) burdens are defined as housing costs of 30-50% (over 50%) of household income.
Source: JCHS tabulations of the 2001 and 2004 American Community Surveys.

Table A-7 Monthly Non-Housing Expenditures by Households with Children: 2003

Dollars

Expenditure Quartiles and Share of Expenditures on Housing	Transportation	Food	Clothes	Healthcare	Personal Insurance and Pensions	Entertainment	Other	Total Non-Housing Expenditures
Quartile 1 (Lowest)								
Less than 30%	168	344	53	34	67	46	151	864
30-50%	103	300	36	29	67	38	109	681
50% and Over	51	238	28	—	39	20	69	444
All	119	306	42	25	62	38	119	711
Quartile 2								
Less than 30%	407	449	86	114	202	99	302	1,660
30-50%	276	407	68	67	148	68	212	1,246
50% and Over	145	357	44	41	94	42	116	839
All	315	419	73	84	164	78	238	1,371
Quartile 3								
Less than 30%	655	562	124	193	368	167	513	2,581
30-50%	479	518	88	132	311	119	349	1,996
50% and Over	305	448	61	81	185	72	196	1,349
All	562	537	105	161	333	142	427	2,266
Quartile 4 (Highest)								
Less than 30%	1,243	842	261	335	860	427	1,447	5,415
30-50%	827	745	194	245	711	290	898	3,910
50% and Over	635	700	129	181	555	209	638	3,046
All	1,076	803	232	297	794	371	1,226	4,799

Notes: Households with children include all households with a resident under 18 years old, regardless of family relationship. Quartiles are defined by total expenditures rather than income, because one out of five households in the survey fail to report income. Housing costs include mortgage principal and interest, insurance, taxes, maintenance, rents, and utilities. Transportation expenditures are calculated as 10% of the cash payment of those buying cars.

Source: JCHS tabulations of the Consumer Expenditure Survey, using the Quarterly Interview Surveys for calendar year 2003.

Table A-8 JCHS Household Projections by Age, Race, and Family Type: 2005 and 2015

Thousands

	2005			2015		
Age of Head	**Non-Hispanic White**	**Minority**	**Total**	**Non-Hispanic White**	**Minority**	**Total**
Under Age 30						
Married without Children	1,428	1,015	2,443	1,511	1,226	2,736
Married with Children	2,281	1,596	3,877	2,440	1,927	4,366
Single Parent	1,339	991	2,331	1,386	1,194	2,580
Other Family	666	564	1,230	660	663	1,323
Single Person	2,267	997	3,263	2,362	1,201	3,563
Other Non-Family	2,009	879	2,888	2,045	1,057	3,102
Total	9,990	6,043	16,032	10,404	7,267	17,671
Age 30–39						
Married without Children	1,555	921	2,476	1,538	1,094	2,633
Married with Children	6,711	3,936	10,647	6,551	4,679	11,230
Single Parent	1,776	1,043	2,819	1,737	1,240	2,977
Other Family	282	165	447	275	196	471
Single Person	2,642	1,250	3,892	2,609	1,485	4,095
Other Non-Family	838	399	1,236	843	474	1,317
Total	13,803	7,715	21,518	13,554	9,169	22,723
Age 40–49						
Married without Children	3,571	1,467	5,038	2,906	1,761	4,667
Married with Children	7,248	3,081	10,329	5,806	3,668	9,474
Single Parent	1,839	782	2,621	1,473	931	2,404
Other Family	773	320	1,093	628	383	1,011
Single Person	3,196	1,303	4,499	2,583	1,558	4,141
Other Non-Family	779	320	1,099	626	382	1,008
Total	17,406	7,274	24,680	14,022	8,683	22,705
Age 50–59						
Married without Children	7,706	2,450	10,156	8,498	3,602	12,100
Married with Children	1,900	625	2,525	2,026	895	2,921
Single Parent	430	141	571	458	202	661
Other Family	1,189	379	1,568	1,307	556	1,863
Single Person	3,975	1,305	5,281	4,375	1,916	6,292
Other Non-Family	593	196	789	650	286	936
Total	15,793	5,097	20,889	17,314	7,458	24,772
Age 60–69						
Married without Children	6,294	1,651	7,945	8,982	2,869	11,851
Married with Children	204	54	257	285	93	378
Single Parent	50	13	63	72	23	94
Other Family	741	194	935	1,058	337	1,395
Single Person	3,367	1,021	4,388	4,818	1,774	6,592
Other Non-Family	291	88	379	412	153	566
Total	10,946	3,021	13,967	15,627	5,251	20,877
Age 70 and Over						
Married without Children	5,590	1,093	6,683	6,353	1,607	7,960
Married with Children	59	12	71	69	18	87
Single Parent	12	2	14	13	3	16
Other Family	1,137	215	1,352	1,264	316	1,580
Single Person	7,201	1,360	8,561	7,971	1,995	9,966
Other Non-Family	227	43	270	251	63	313
Total	14,226	2,725	16,951	15,921	4,003	19,923
Total						
Married without Children	26,143	8,598	34,742	29,788	12,159	41,947
Married with Children	18,403	9,305	27,707	17,177	11,280	28,457
Single Parent	5,445	2,973	8,418	5,139	3,593	8,732
Other Family	4,787	1,838	6,625	5,192	2,452	7,644
Single Person	22,649	7,236	29,885	24,718	9,930	34,649
Other Non-Family	4,737	1,925	6,661	4,827	2,415	7,242
Total	82,164	31,874	114,038	86,841	41,829	128,670

Source: George Masnick and Eric Belsky, "Revised Interim Joint Center Household Projections Based Upon 1.2 Million Annual Net Immigrants," JCHS Research Note NO6-1, March 2006.

Table A-9 Subprime and Government-Insured Loan Volumes: 1995–2005

	Volume (Billions of 2005 dollars)				Share of Volume (%)			
	Subprime Loans		FHA Endorsements	VA Originations	Subprime Loans		FHA Endorsements	VA Originations
	MBS Issuance	Total Originations			MBS Issuance	Total Originations		
1995	24	na	58	31	2.9	na	7.1	3.7
1996	44	na	89	39	4.5	na	9.1	4.0
1997	76	na	90	33	7.3	na	8.6	3.1
1998	99	na	124	51	5.7	na	7.1	2.9
1999	71	na	143	58	4.6	na	9.3	3.8
2000	63	na	106	25	5.3	na	8.9	2.1
2001	105	210	145	39	4.6	9.2	6.4	1.7
2002	132	251	157	46	4.5	8.6	5.4	1.6
2003	215	356	176	70	5.3	8.7	4.3	1.7
2004	415	558	97	37	14.3	19.2	3.3	1.3
2005	508	625	58	25	16.3	20.0	1.8	0.8

Notes: Dollar values are adjusted for inflation using the CPI-UX for All Items. Total subprime originations include mortgage-backed security issuances. FHA endorsements and VA originations are not counted as subprime.
"na" means data not available.
Source: Inside Mortgage Finance.

Table A-10 Second-Home Ownership by Age of Household Head: 1995 and 2004

	1995			2004		
	Seasonal/ Vacation	Timeshare	Total	Seasonal/ Vacation	Timeshare	Total
Number of Second-Home Owners (Thousands)						
Aged 30-39	197	254	452	200	525	725
Aged 40-49	719	482	1,201	675	783	1,458
Aged 50-59	634	373	1,007	976	869	1,845
Aged 60-69	449	244	693	716	527	1,243
Aged 70 and Over	410	111	521	492	601	1,093
Share of All Homeowners (Percent)						
Aged 30-39	1.7	2.1	3.8	1.6	4.2	5.8
Aged 40-49	4.7	3.1	7.8	3.7	4.3	8.1
Aged 50-59	5.9	3.5	9.4	5.8	5.2	11.0
Aged 60-69	4.5	2.4	6.9	6.7	4.9	11.6
Aged 70 and Over	3.5	0.9	4.4	3.3	4.0	7.3

Source: JCHS tabulations of the 1995 and 2004 Surveys of Consumer Finances.

Table A-11 Household Energy Costs by Region and Age of Structure: 2001

	Region				US Total
	Northeast	Midwest	South	West	
Average Energy Cost per Household (Dollars)					
Year Built					
Pre-1960	2,190	1,764	1,578	1,341	1,709
1960–1969	2,049	1,592	1,668	1,425	1,645
1970–1979	2,067	1,660	1,728	1,497	1,693
1980–1989	2,071	1,700	1,815	1,650	1,796
1990–2001	2,027	1,877	1,859	1,538	1,804
Total	2,131	1,738	1,711	1,447	1,724
Average Unit Size (Sq. ft.)					
Year Built					
Pre-1960	3,018	2,547	1,891	2,091	2,345
1960–1969	2,943	2,615	2,140	2,260	2,397
1970–1979	2,934	2,759	2,319	2,269	2,449
1980–1989	3,080	3,245	2,724	2,664	2,865
1990–2001	4,028	3,668	2,950	2,634	3,095
Total	3,089	2,786	2,348	2,299	2,553
Average Energy Cost per 1,000 Square Feet (Dollars)					
Year Built					
Pre-1960	726	692	834	642	729
1960–1969	696	609	779	631	686
1970–1979	704	602	745	660	691
1980–1989	673	524	666	619	627
1990–2001	503	512	630	584	583
Total	690	624	729	630	675

Source: Residential Energy Consumption Survey, 2001.

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