The State of the Nation's Housing 2010
Key Facts
June 14, 2010

PURPOSE:

The State of the Nation's Housing, released annually by the Joint Center for Housing Studies, provides a periodic assessment of the nation's housing outlook and summarizes important trends in the economics and demographics of housing. The report continues to earn national recognition as a source of information regularly utilized by housing researchers, industry analysts, policy makers, and the business community.

SUMMARY OF FINDINGS:

SAGGING MARKET INDICATORS

Production

- Fewer homes were started in 2009 than in any year since World War II. Even with a bounce in the second half of the year, starts of single-family homes were down 28 percent from 2008 and stood below 500,000 units for the first time since record keeping began in 1959. The pace of single family starts quickened again in the spring of 2010 to a seasonally adjusted 593,000 units in April as a federal homebuyer tax credit, low interest rates, and lower home prices sparked production.
- Multifamily starts also plummeted a whopping 62 percent from 284,000 units in 2008 to 109,000 in 2009—their lowest level on record. But because completions lagged starts, completions fell only from 301,000 to 274,000.
- Manufactured home placements fell by fully 34 percent.
- Census Bureau estimates show that permits totaled just 583,000 in 2009, compared with 2.16 million at the 2005 peak and an annual average of 1.32 million in the 1990s. This is the first time in recorded history that annual permits have numbered less than 900,000. Even after a sizable 31 percent jump from the March 2009 trough to March 2010, the pace of permitting remained in the low 600,000s through April of this year.
- The sharp cutback in permits extended across the nation, with 57 of the 100 largest metropolitan areas posting record lows last year. In fully 89 percent of these metros, permitting activity in 2009 was at less than half the average annual pace in the 1990s.

Stubbornly High Vacancies

- Despite production cuts of more than 70 percent since 2005, the overall vacancy rate hit a record in 2009.
- While for-sale vacancies finally eased last year, increases in for-rent vacancies more than offset the reduction, and the surge in foreclosures pushed the number of excess vacant homes in the "held off market" category some 745,000 units above what might be considered normal levels.
- Even though the number of renters increased by 800,000 last year, the national rental vacancy rate rose to a new high of 10.6 percent last year. Five metropolitan areas— Memphis, Orlando, Dayton, Richmond, and Phoenix—posted rates above 18 percent.
- Units in buildings with 10 or more apartments (which make up slightly less than a third of the rental stock) contributed nearly two-thirds of the 379,000 jump in overall vacancies from the fourth quarter of 2008 to the fourth quarter of 2009. Vacancies among single-family rentals (which make up 35 percent of the stock,) dropped by 46,000 units over this period.
- The for-sale vacancy rate among single-family homes edged down 0.2 of a percentage point in 2009 while that for units in multifamily buildings slipped 0.3 of a percentage point.

Sales

- According to the National Association of Realtors® (NAR), first-time purchasers rose from 36 percent of all homebuyers in 2006 to about 45 percent in 2009.
- Based on data from the National Association of Realtors®, the increase in first-time homebuyers added roughly 306,000 sales in 2008–9. Without this gain, existing home sales for the year would have fallen by 63,000.
- According to the National Association of Realtors®, more than a third of existing home sales last year—about 1.8 million units—were short sales or foreclosures, averaging 36 percent per month and topping out at fully 49 percent in March.

Softening Rents and Home Price Decliness

- After decades of steady increases, the Consumer Price Index registered a flattening in nominal rents and a 2.9 percent decline in real rents between the December 2008 peak and April 2010.
- MPF Research—which picks up changes in effective rents caused by landlord concessions, such as a month of free rent—reported a 3.1 percent nominal decline in rents for better-quality apartments owned by large institutional investors. According to MPF Research, nominal rents were down in 54 of 64 metropolitan markets last year, and real rents in 53 of the 64.
- Median home prices as measured by NAR were down in more than 85 percent of metro areas in 2009, with more than one-quarter posting new lows in the first quarter of 2010.
- In March 2010—even after a modest uptick—the NAR median existing house price stood 26 percent lower nominally than in October 2005. The only other time in the past 40 years that this measure has fallen was from November 1989 to December 1990, when the dip was just 2 percent.
- In the past year, nominal prices of homes with prime, conforming loans were off by more than 5 percent in 42 of the 81 metropolitan areas and divisions with consistent price histories back to 1975.
- Until 2009, only five metros (6 percent) had ever posted nominal declines greater than 5 percent in single year.

Remodeling Markets

- As in past downturns, remodeling markets faired better than new residential construction. Real homeowner improvement spending in 2009 fell 25 percent from its 2006 peak—about a third as large as the drop in new residential construction.
- Tax incentives for residential improvements that reduce energy consumption helped remodeling demand.
- The JCHS Leading Indicator of Remodeling Activity for the first quarter of 2010 points to a rebound that should extend throughout the year, largely as a result of the pickup in existing home sales and the decline in interest rates, and that remodeling spending is largest directly following a home purchase.

HOUSEHOLD GROWTH SLOWDOWN AND UNKNOWNS

- Household growth from 2005 to 2009 fell well below what would be expected in less challenging economic times, slowing from about 1.2–1.4 million annually on average in the first half of the decade (depending on government data source) to less than 1.0 million per year.
- While all three major federal surveys indicate that household growth slowed substantially in the second half of the decade, estimates range widely. The low estimate puts the cumulative slowdown in household growth over the last four years off of the 2000-2005 pace at 1.0 million while the high estimate indicates a drop of 2.8 million.
- Household growth appears to have slowed due to a marked drop in immigration, and some doubling up among economically stressed families.
- The Office of Immigration Statistics at the Department of Homeland Security estimates that the number of unauthorized immigrants living in the United States declined by 1.0 million between January 2007 and 2009, compared with a net gain of 1.3 million from 2005 to 2007.
- Household headship rates for all age groups have also fallen somewhat since 2005, with especially noteworthy declines among those under age 35, although the timing of declines reported by some federal sources predates the recession. The future direction of headship rates is uncertain.

WIDESPREAD AFFORDABILITY GAINS FOR FIRST-TIME HOMEBUYERS

- The US median home price dropped from $227,100 in the second quarter of 2006 to $166,100 in the first quarter of 2009, while rates on 30-year fixed-rate mortgages slipped from 6.6 percent to 5.0 percent.
- Monthly payments for a home priced at the US median with a 90-percent mortgage fell by more than a third from 2006:2 to 2009:1, from $1,300 to $800.
- By 2010, lower home prices and interest rates pushed mortgage payments on a newly-purchased median-priced home (assuming a 10 percent down payment) down below 20 percent of the US median household income—to the lowest ratio on records dating back to 1971.
- The improvement in home purchase affordability has been widespread. By 2010, more than 80 percent of metropolitan areas reported payment-to-income ratios below average 1990s levels
- If mortgage interest rates were to increase 100 basis points, however, the share of metros that would still be more affordable than they were on average in the 1990s would fall to 70 percent.

HOMEOWNER DEBT BURDENS AND MOBILITY

- According to First American CoreLogic, falling home prices left 11.2 million homeowners (or roughly one-quarter of American homeowners with mortgages) underwater on their loans as of the end of the first quarter of 2010. For about 4.9 million of these households, home prices would have to rebound by more than 25 percent before their homes are worth as much as the amount they owe.
- Aggregate household mortgage debt has climbed from 65 percent of home equity in 2000 to 163 percent in 2009.
- Saddled with debt, owners dragged down mobility rates (the share of householders who reported having changed primary residences within the previous year) which fell by about 12.6 percent from 2005-8 before stabilizing in 2009.
- Declines in mobility rates 2005-9 were greatest for homeowners, ranging from a 30 percent decline for those under age 35, a 35 percent decline for those aged 35-64, and nearly 40 percent for those 65 and over.

A LOST DECADE FOR INCOME AND WEALTH

- After at least three decades of progress, real median household incomes for all age groups in each income quartile will almost certainly end the 2000s lower than they started. At last measure, the median for all households was $49,800 in 2008, down from $52,400 in 2000.
- Even at their last cyclical peak in 2007, real median incomes were 1.2 percent below 2000 levels.
- Household sector wealth ballooned through the middle of the decade but ended about where it had started at around $54 trillion. After real aggregate household wealth soared to nearly $69 trillion in 2006 it plummeted to $51 trillion in 2008—a drop of more than $17 trillion in just two years.
- On a per household basis, however, real household wealth slid from $503,500 to $486,600 over the decade.
- Aggregate real home equity has not been this low (about $6 trillion) since 1985 when there were far fewer homeowners than today.
- Meanwhile, household mortgage debt exploded from less than $6 trillion to more than $10 trillion in inflation-adjusted dollars.

FORECLOSURE AND DELINQUENCIES

- Since the first signs of a spike in defaults in early 2007 through the first quarter of 2010, servicers covering 85 percent of mortgage loans report that 6.1 million foreclosure notices have been issued on first-lien loans.
- Furthermore, the number of loans in the foreclosure process stood at 2.1 million in the first quarter of 2010. This is nearly quadruple the number just three years earlier.
- Multifamily loans were also performing poorly. According to Moody's Economy.com, the share of multifamily loans in CMBS that were at least 60 days delinquent, in foreclosure, or post-foreclosure and owned by the issuing trusts (also known as Real Estate Owned or REO) jumped from 1 percent of balances outstanding in December 2007 to 12.9 percent in April 2010.

- According to the Mortgage Bankers Association, the shares of severely delinquent single family loans in the first quarter of 2010 ranged from 5.1 percent of prime fixed-rate mortgages to a whopping 42.5 percent of subprime adjustable-rate mortgages.
- Serious delinquency rates for prime conventional loans, which typically remain well below 2 percent even during downturns, were 7.1 percent in the first quarter of 2010.
- Delinquencies and foreclosures have been highly concentrated by state. California and Florida alone account for more than a quarter of loans at least 90 days delinquent—plus more than a third of loans in foreclosure—but only 16.4 percent of mortgaged homeowners nationally.
- Serious delinquency rates are highest in Florida (20.6 percent), Nevada (19.6 percent), Arizona (12.8 percent), and California (12.1 percent), while lowest in North Dakota (2.3 percent), Alaska (3.0 percent), and South Dakota (3.5 percent).
- Delinquencies are also highly concentrated in pockets within metros: Among loans originated to homeowners in 2006 and that fell more than 90 days delinquent through the end of 2009, fully two-thirds were found in only 25 percent of zip codes, and 10 percent were located within just 1 percent of zip codes.
- Delinquencies have been especially high in low-income minority neighborhoods, where high-cost lending was concentrated during the housing boom.
- Among prime loans that Freddie Mac owns, a recent survey found that 58 percent of delinquent borrowers cited unemployment or curtailment of income as the reason for their mortgage payment problems. Running a distant second is excessive financial obligations (16 percent), and third is illness or death (11 percent).

GOVERNMENT RESPONSES AND INTERVENTIONS

- Through March 2010, the Home Affordable Refinance Program (HARP) had completed 291,600 mortgage refinancings.
- As of April 2010, the Home Affordable Modification Program (HAMP) had made 1.5 million offers that resulted in 637,000 currently active trial modifications and about 295,000 permanent ones.
- The Treasury Department estimates that 40 percent of those homeowners with HAMP modifications will re-default.
- The federal government distributed $5 billion to states to provide low-income owners with free weatherization of their homes. While small in comparison with the more than $100 billion spent by homeowners on improvements, these programs will be a plus for remodeling and help cut utility bills for those most unable to shoulder them.
- The Neighborhood Stabilization Program was established in 2008 to deal with the aftermath of foreclosures, with $5.9 billion appropriated for the program to date.
- To help with local foreclosure prevention efforts, the federal government has also awarded $2.1 billion to state housing finance agencies (HFAs) in the five states with the steepest house price declines and an additional five states with high unemployment.
- Various estimates place the impact of the tax credit on either pulling demand forward or releasing pent-up demand at 200,000–400,000 additional buyers—similar to last year's increase in first-time sales.
- States paid out $79.6 billion in unemployment benefits over the course of 2009, up from $32.4 billion in 2007. The average weekly unemployment benefit last year was $310.

HOUSING AND THE ECONOMY

- After dragging down the economy for 14 straight quarters, residential fixed investment finally supported growth in the second half of 2009.
- As a share of GDP, residential investment bottomed out at 2.4 percent in the second quarter of 2009 and averaged 2.5 percent for the year—its lowest level since 1945.
- In total, real residential fixed investment dropped 53.7 percent from 2005 to 2009.
- Moody's Economy.com estimates negative housing wealth effects shaved 0.8 of a percentage point from GDP in 2009.

- Freddie Mac reports cash out refinance volumes (the annual volume of home equity cashed out at refinancing of prime, first-lien conventional mortgages) declined by another 25 percent to $70.8 billion in 2009—about one-fifth of the 2006 peak level and below $80 billion for the first time since 2000.
- Cash-in refinances (borrowers paying down debt when they refinanced) climbed from about 10 percent in 2006 to 36 percent by the fourth quarter of 2009.

UNEMPLOYMENT PRESSURES

- While employment nationwide declined by 8.4 million jobs during this cycle, the residential construction sector alone lost 1.3 million jobs, unemployment held at 9.9 percent in April 2010.
- Despite an increase of well over a million households overall, the number of multiple-earner households dropped by 2.7 million between 2007 and 2009. At the same time, the number of households with no earners jumped by 2.2 million, or 20 percent.
- Even worse off in the current downturn are the record numbers of long-term unemployed. In April 2010, some 6.7 million workers had been out of work for more than half a year.

ENERGY CONSUMPTION AND CONSERVATION

- Studies by the Urban Land Institute and the National Research Council conclude that compact development would, at best, reduce VMT and related carbon emissions relative to a 2000 baseline between 11 percent (NRC) and 18 percent (ULI) by 2050.
- According to the National Transit Database, after declining from 2003 to 2005, real annual capital expenditures on public transit—which have been only about a quarter of those on highways—began to creep up in 2006 and reached $16.1 billion in 2008.
- The share of riders using public transit for commuting, which fell from 12.1 percent in 1960 to 6.4 percent in 1980 and bottomed out at 4.7 percent in 2004, recovered modestly to 5.2 percent in 2007.
- Public transit use is low. Less than 25 percent of households with at least one commuter report using public transport regularly, even in center cities where transit is most widely available.
- After adjusting for degree days, energy consumption per square foot of housing built before 1990 fell by 21.6 percent from 1993 to 2005. Indeed, if all pre-2000 homes were brought up to the same efficiency level as post-2000 homes in their regions, overall residential energy consumption would fall by an additional 22.5 percent.
- The share of professional remodelers reporting that they had worked on projects linked to the energy-efficiency tax credits increased from 39 percent in 2009 to 53 percent in early 2010.

AFFORDABILITY CONCERNS

- After holding steady at 12 percent in both 1980 and 2000, the share of severely burdened households (spending more than half their incomes on housing) jumped by a third, to 16 percent, in 2008. A record 18.6 million households faced these high cost burdens that year—up from 13.8 million in 2001.
- Half of all households in the bottom quartile have severe housing cost burdens.
- More than half of the 4.5 million low-income single-parent households spent 60 percent or more of their incomes on housing in 2008.
- Nearly one in four renter households had severe cost burdens in 2008, as compared to roughly one in eight owner households.
- In 2008, households with children in the bottom expenditure quartile that dedicated more than half their outlays to housing had less than $600 per month left for all other necessities—less than half the amount available to households with affordable housing. Similarly burdened elderly and single-person households had even less (under $500) left over after housing expenses.
- Nowhere in the country is the HUD fair market rent for even a one-bedroom apartment at or below $372, a level affordable at 30 percent of the median income of households in the bottom quartile ($14,868).

- Between 1997 and the most recent measure in 2007, the number of units with real rents under $400 including utilities—about what a household earning the full-time minimum wage could afford at 30 percent of income—fell by 244,000 to 6.6 million.
- Most apartments renting for under $400 in 2007 were located outside of center cities and in the South and Midwest. Fully 45 percent of these rentals were government subsidized. Tenants of low-cost units had a median income of just $12,000, and more than half were single persons living alone.
- Despite federal support for rental assistance of about $45 billion per year, only about one-quarter of eligible renter households report receiving housing assistance.

THE DIVERSITY OF HOUSING DEMAND

- Throughout this housing cycle, the numbers of immigrant and minority households have continued to grow at a faster pace than those of native-born white households, accounting for 74 percent of net household growth between 2003 and 2009.
- Even if immigration ground to a halt today, past inflows and higher fertility rates ensure that minorities and the foreign born will increasingly drive growth in housing demand.
- Minority households have lower median incomes than white households: The median income for 35–44 year-old minority-headed households was $45,000 last year, compared with $72,900 for whites.
- The increasing presence of minorities and the foreign born in the rental market is particularly striking. From 2000 to 2009, rapid growth of Hispanic households helped to lift the total minority share of renters from 39.3 percent to 45.1 percent.
- At last measure in 2007, minorities accounted for fully 35 percent of first-time homebuyers and 20 percent of repeat buyers even in the middle of the housing bust. The immigrant share of first-time buyers was 19 percent and of repeat buyers 12 percent.

FUTURE DEMAND DRIVERS

- The sheer size of the echo-boom generation will produce record numbers of households headed by young adults, while baby-boomers will shape the next generation of senior housing for years to come.
- At 80.8 million strong, the echo-boom generation is even larger than the baby-boom generation. The Census Bureau projects that its numbers will swell to 92.9 million by 2025. Even with immigration at half the projected pace, their numbers will grow to 86.5 million.
- Immigrants and their children have so amplified the baby-bust generation (born in 1966–85) that it nearly matches –and also is more diverse (37 percent minority)—than the baby-boom generation. The echo-boom generation (born 1986–2005) is more diverse—already 42 percent minority.
- The oldest baby boomers are just turning 64, with millions soon to follow. The number of persons aged 55–64 rose by 10.4 million over the past decade—a 42.8 percent increase compared with total population growth of just 9.4 percent.
- If immigration slows to about half the pace in the Census Bureau's current projections, household growth in 2010–20 is expected to come in at about 12.5 million but 14.8 million if immigration reaches the Census Bureau's projection.
- The low and high immigration scenarios should support average annual housing completions and manufactured home placements of 1.7 million to over 1.9 million units per year from 2010-20.

SPONSORS

The Ford Foundation and the Policy Advisory Board of the Joint Center for Housing Studies provide principal funding for the report. Additional support is provided by the Federal Home Loan Banks, Freddie Mac, the Housing Assistance Council, the National Association of Home Builders, the National Association of Housing and Redevelopment Officials, the National Association of Local Housing Finance Agencies, the National Association of Realtors®, the National Council of State Housing Agencies, the National Housing Conference, the National Housing Endowment, the National League of Cities, the National Low Income Housing Coalition, the National Multi Housing Council, the Research Institute for Housing America, and the U.S. Green Building Council.

DATA

The Joint Center for Housing Studies uses current data from the Census Bureau, the Department of Housing and Urban Development, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Center for Budget and Policy Priorities, the Conference Board, Barclays Capital, the Consumer Bankruptcy Project, the American Bankruptcy Institute, the Energy Information Administration, the Federal Housing Finance Agency, the Federal Reserve, First American CoreLogic, Freddie Mac, Moody's Economy.com, the Mortgage Bankers Association of America, MPF Research, the National Association of Realtors®, the National Council of Real Estate Investment Fiduciaries, the National Low Income Housing Coalition, the National Multi Housing Council, Real Capital Analytics, Standard and Poor's, VantageScore, and Zillow.com to develop its findings.

CONTACT INFORMATION

For more information, please contact Laurel Gourd at (617) 496-0911 or laurel_gourd@harvard.edu.