

# THE STATE OF THE NATION'S HOUSING

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

2014





# Executive Summary

With promising increases in home construction, sales, and prices, the housing market gained steam in early 2013. But when interest rates notched up at mid-year, momentum slowed. This moderation is likely to persist until job growth manages to lift household incomes. Even amid a broader recovery, though, many hard-hit communities still struggle and millions of households continue to pay excessive shares of income for housing.

## SINGLE-FAMILY SLOWDOWN

After kicking off 2013 on a strong note, the single-family market slowed noticeably in the second half of the year—even before the unusually harsh winter took its toll. By the first quarter of 2014, housing starts and new home sales were down by 3 percent from a year earlier while existing home sales were off by 7 percent.

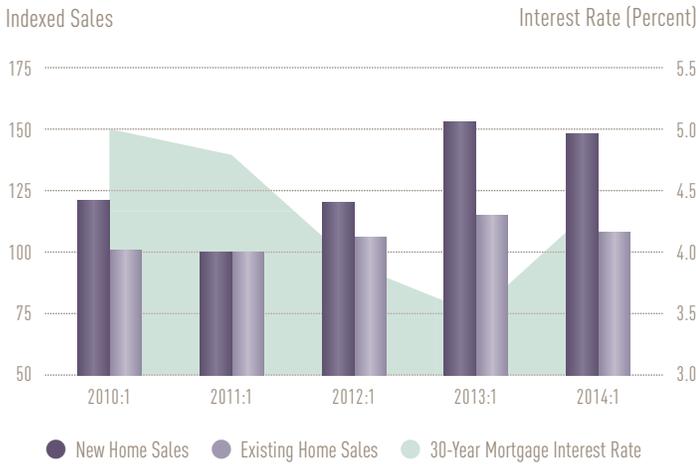
Higher mortgage interest rates were much to blame. From early 2011 to early 2013, the rate on 30-year fixed mortgages had been on a steady downtrend, sliding from about 5.0 percent to a low of 3.4 percent. This decline provided substantial stimulus to the housing market and helped to bolster the recovery that took hold in 2012. But once the Federal Reserve signaled its intent to cut back on purchases of long-term bonds and mortgage-backed securities in mid-2013, interest rates rose sharply—corresponding closely with the timing of the housing market slowdown (**Figure 1**).

Persistently low inventories of for-sale homes have been another drag on growth, with the supply of both new and existing homes holding below the six-month mark since 2012. One explanation for the limited number of homes on the market is that the share of distressed and underwater homeowners remains elevated, even though delinquency rates have fallen sharply and house price appreciation has put millions of owners back in the black. The lack of for-sale homes has also provided sellers strong bargaining power and boosted prices in most metropolitan areas, making homes less affordable. With more homes now coming on the market, though, home price appreciation is likely to moderate and sales accelerate.

Another factor in the single-family slowdown is the pullback in investor purchases of distressed properties, particularly in markets where their acquisitions are concentrated. Spurred by low home values, high rents, and limited competition from owner occupants, large institutional investors bought more than 200,000 homes as rentals in 2012 and 2013. Together with the purchases of smaller investors that had long been active in the market, these large-scale investors helped to add several million single-family rental units between 2007 and 2011. But now that the inventory of distressed homes has shrunk and single-family

FIGURE 1

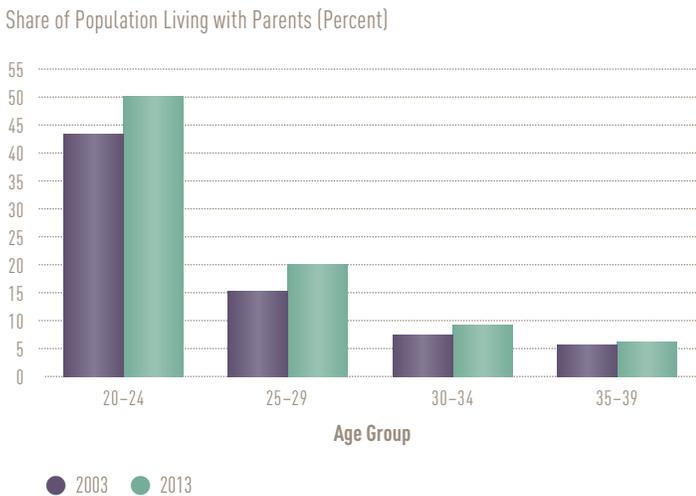
### The Mid-2013 Interest Rate Jump Slowed the Recovery in Single-Family Sales



Source: JCHS tabulations of US Census Bureau, New Residential Sales; National Association of REALTORS® (NAR), Existing Home Sales; and Freddie Mac, Primary Mortgage Market Survey data.

FIGURE 2

### Despite Recent Increases, the Shares of Younger Adults Living with Parents Are Still Likely to Drop Sharply with Age



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

house prices have risen, the opportunity for outsized returns in this market has diminished and investor demand has dropped.

More fundamentally, though, the slow pace of the single-family housing recovery reflects steady but unspectacular job growth. Total employment has just returned to its previous peak, but remains well short of the gains necessary to accommodate the several million additional working-age adults that have joined the labor force since the start of the recession. As long as employment gains remain steady but modest, the pace of the housing recovery is likely to follow suit.

#### LONGER-TERM DEMAND

While the major household surveys offer conflicting views, it seems clear that household growth remained subdued in 2013 despite the improving labor market and the coming of age of the large millennial generation. Much of the sluggishness of household growth in fact relates to lower headship rates among this age group—driven not only by a slowdown in immigration but also by the increasing share that continue to live in their parents’ homes. Indeed, some 2.1 million more adults in their 20s and 300,000 more adults in their 30s lived with their parents in 2013 than if the shares living at home had remained at 2007 levels.

The fact that these delayed moves have held back household growth in recent years has fed hopes that the housing market recovery would accelerate once employment growth revived and younger adults were able to get jobs. This rebound has yet to occur, even though many living at home are now employed. Historically, however, the share of adults living with their parents drops sharply after age 24 and continues to fall to 6 percent by the mid- to late 30s (Figure 2). Regardless of the economic setbacks they may have experienced, today’s 20–29 year olds are still likely to follow the same pattern. Assuming current headship rates hold, the number of households in their 30s should therefore increase by 2.7 million over the next decade and provide a strong lift to the rental and starter home markets.

Many of tomorrow’s younger households will be minorities (Figure 3). By 2025, minorities will make up 36 percent of all US households and 46 percent of those aged 25–34, thus accounting for nearly half of the typical first-time home-buyer market. Since minority households tend to have lower incomes and wealth than white households, their demand for owner-occupied housing will depend in large measure on the availability of mortgage financing that accommodates their limited resources.

Meanwhile, the aging of the baby-boom generation over the next decade will lift the number of households aged 65 and over by some 10.7 million. Many of these households will choose to make improvements and modifications to their current homes so that they can age in place, while others will seek out new housing options geared toward seniors.

Given the current size of the adult population as well as current headship rates by age or race/ethnicity, the Joint Center for Housing Studies estimates that demographic trends alone will push household growth in 2015–25 somewhere between 11.6 million and 13.2 million, depending on foreign immigration. This pace of growth is in line with annual averages in the 1980s, 1990s, and 2000s, and should therefore support similar levels of housing construction as in those decades.

### STABILIZING HOMEOWNERSHIP RATES

The US homeownership rate declined for the ninth consecutive year in 2013. According to the Housing Vacancy Survey (HVS), the national rate stood at 65.1 percent—its lowest reading since 1995. But even though the number of owners was still falling last year, the decline was the smallest posted since 2008.

Indeed, many of the conditions holding the owner-occupied housing market back continue to improve. Steady employment growth will give more potential homeowners the ability to buy, while rising home values will encourage more households to act on that ability before prices climb even further. The share of distressed homeowners is also on the decline, reducing the number of households forced to move out of homeownership.

In the near term, though, the homebuying market still faces a number of headwinds. Higher home prices and interest rates have made homeownership more of a financial stretch for many households. The National Association of REALTORS® (NAR) reports that the median home price climbed 10 percent year over year in

December 2013 and the interest rate on a 30-year fixed mortgage was up by nearly a full percentage point. As a result, the monthly payment for the median-priced home jumped 23 percent in just one year. Higher FHA mortgage insurance premiums make the increase even larger for borrowers making low downpayments.

Falling incomes are also taking their toll. Between 2007 and 2012, real median household incomes dropped 8 percent among 25–34 year olds and 7 percent among 35–44 year olds (Figure 4). For the past two decades, homeownership rates for both of these age groups have closely tracked changes in incomes, rising through the 1990s before turning down in the middle of the 2000s. However, the economic recovery may have advanced enough to allow growth to resume, with 2012 incomes edging up 1.2 percent among workers aged 35–44 and dipping just 0.3 percent among those aged 25–34.

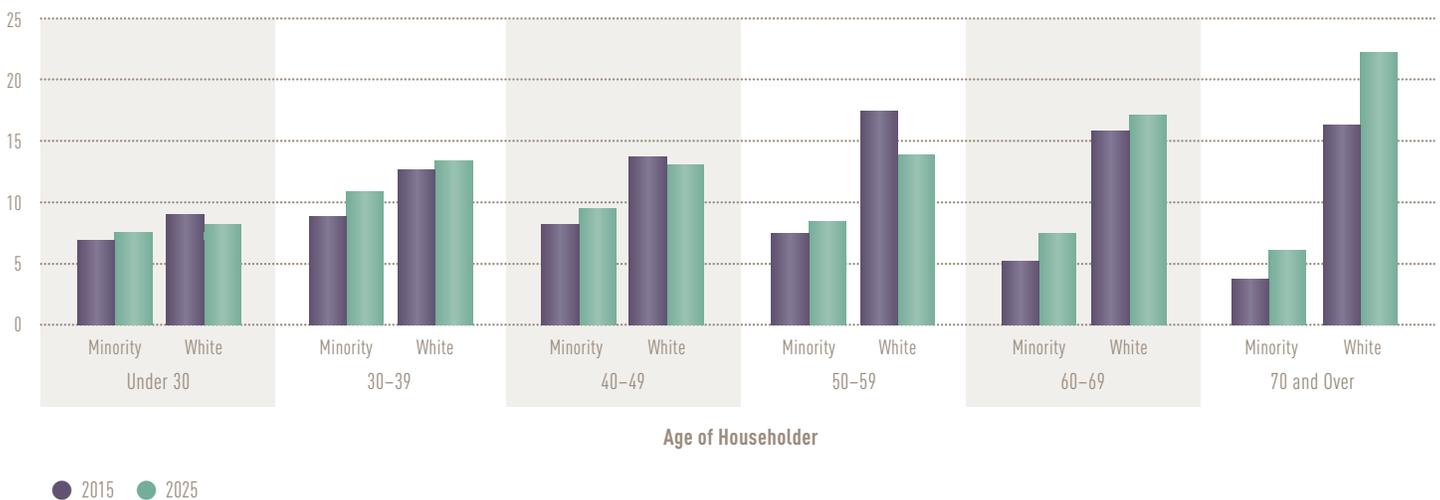
In addition, many would-be homebuyers may be burdened by student loan debt. Between 2001 and 2010, the share of households aged 25–34 with student loan debt soared from 26 percent to 39 percent, with the median amount rising from \$10,000 to \$15,000 in real terms. Within this group, the share with at least \$50,000 in student debt more than tripled from 5 percent to 16 percent. For these borrowers, the need to pay off these outsized loans will likely delay any move to homeownership.

Adding to these financial pressures, qualifying for mortgage loans is still a challenge—especially for those with lower credit scores. Indeed, the average score for Fannie Mae-backed mortgages rose from 694 in 2007 to 751 in 2013. The increase for

FIGURE 3

### Younger Minorities and Aging Baby Boomers Will Drive Household Growth Over the Coming Decade

Projected Households (Millions)



Source: JCHS 2013 middle-series household projections.

FHA loans, from 640 to 693, was even larger not only because lending to applicants with scores below 620 essentially stopped, but also because many borrowers with relatively high scores turned to FHA after failing to qualify for conventional mortgages. While some lenders have announced that they are ready to relax underwriting standards, it is too soon to tell how large an impact this will have. An easing of credit constraints will be one of the most important determinants of how strongly the national homeownership rate rebounds in the coming years.

### CONTINUING RENTAL MARKET STRENGTH

While slowing, growth in the number of renter households was still on the rise last year. The CPS reports the addition of more than one million new renters annually between the 2005 peak in homeownership and 2013—double the average pace in any decade since the 1960s. Although the HVS estimate is much lower, both surveys indicate that renter household growth remains above long-run averages.

On the strength of this demand, vacancy rates continued to fall and rents continued to rise nationally as well as in many metropolitan areas across the country. According to MPF Research, rents for professionally managed apartments climbed 3 percent in 2013. Meanwhile, increases in the 20 most rapidly appreciating rental markets averaged 6 percent, up from 5 percent in 2012. While many of these hot markets are in northern California, the list also includes Corpus Christi, Denver, and Fort Myers.

The ramp-up in multifamily construction also continued in 2013, with starts increasing 25 percent and surpassing the 300,000 mark for the first time since 2007. The number of new multifamily units intended as rentals was also at its highest level since 1998. Construction in nearly half of the top 100 metros is back to average 2000s levels, and has approached or exceeded previous peaks in a handful of markets that include Austin, San Jose, and Washington, DC. At the same time, though, rental construction in areas that experienced the sharpest building booms and busts remains depressed.

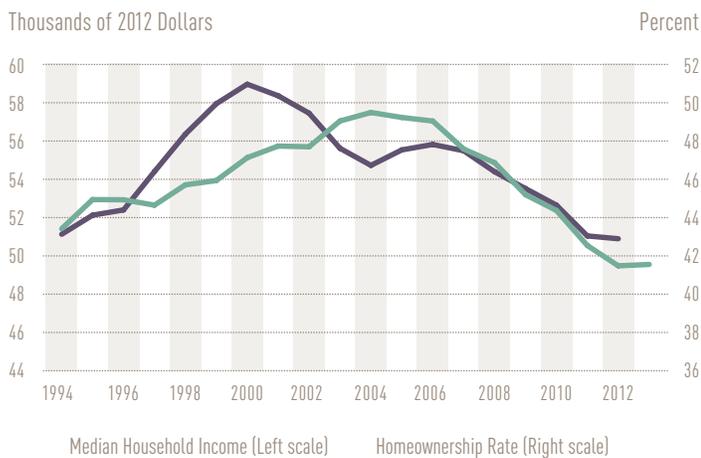
Demand and supply appear to be near balance (**Figure 5**). MPF Research data indicate that the number of occupied apartments in investment-grade properties increased by more than 200,000 annually from 2010 through early 2012. Over the same period, additions to the supply were well below that level, helping to bring down vacancy rates and lift rents. As of the last quarter of 2013, however, slower growth in occupied apartments and faster growth in new apartments coming onto the market brought these measures into alignment.

Meanwhile, the multifamily property market is flourishing. According to Moody's/RCA Commercial Property Price Index, property values increased by double digits for the fourth consecutive year in 2013, pushing values above their previous peak. Delinquency rates have also declined substantially in all market segments, although the rate among loans held in commercial mortgage backed securities remains relatively high. Amid these improving conditions, banks and thrifts raised their multifamily

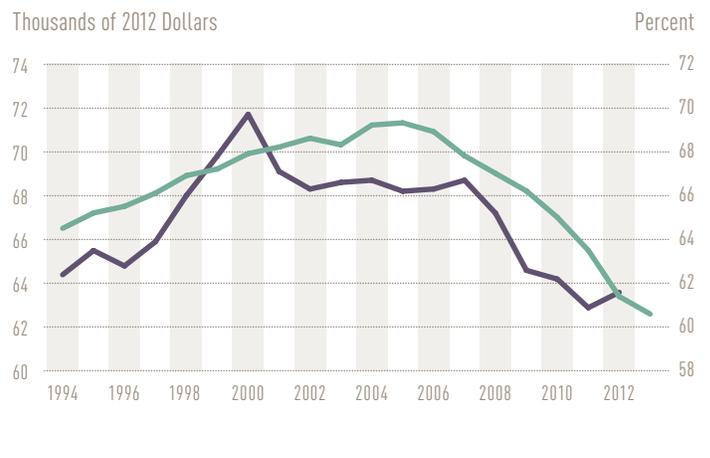
FIGURE 4

## The Rise and Fall in Homeownership Among Younger Households Mirrors Income Trends

### 25–34 Year Olds



### 35–44 Year Olds

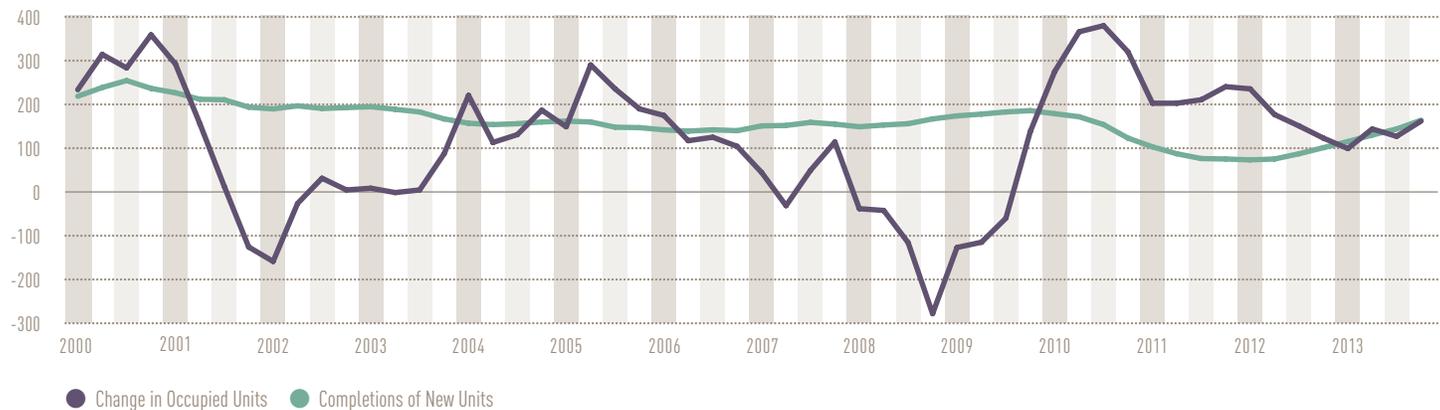


Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Incomes for 2013 are not yet available.  
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys and Current Population Surveys.

FIGURE 5

## Multifamily Rental Supply and Demand Returned to Balance in 2013

Units (Thousands)



Notes: Data cover investment-grade multifamily properties. Changes in occupied units and completions of new units are four-quarter totals.  
Source: JCHS tabulations of MPF Research data.

mortgage holdings by \$29 billion in 2013—more than twice the growth in government-backed loans.

### THE STRETCH TO AFFORD HOUSING

Based on the traditional affordability standard (housing costs of no more than 30 percent of income), more than a third of US households live in housing that exceeds their means. Indeed, the share of cost-burdened households rose steadily from 29.6 percent in 2001 to a record 37.2 percent in 2010, before retreating to 35.3 percent in 2012 (**Figure 6**).

For renters, this is indeed a crisis of affordability. The share of cost-burdened renters increased in all but one year from 2001 to 2011, to just above 50 percent. More than a quarter of renter households (28 percent) had severe burdens (paid more than half their incomes for housing). In 2012, the share of cost-burdened renters improved slightly but their numbers held steady as more households entered the rental market.

On the homeowner side, the share with cost burdens crested in 2008 at 30.4 percent, up 6 percentage points from 2001. The share then held steady for several years before edging down in 2011. Much of this improvement reflects the fact that many owners were able to refinance their mortgages at much lower interest rates. More important, though, the number of owners with mortgages fell by 2.7 million in 2007–12 as the foreclosure crisis progressed, matching the drop in the number of mortgaged owners with cost burdens. Moreover, even after two years of declines, the share of cost-burdened homeowners stands well above levels at the start of the last decade.

Lower-income households are especially likely to be cost burdened. Among those earning less than \$15,000 a year (roughly equivalent to working year-round at the federal minimum wage), 82 percent paid more than 30 percent of income for housing in 2012 while 69 percent paid more than half. Although conditions among households making \$15,000–29,999 are slightly better, the share with at least moderate cost burdens was 64 percent and that with severe cost burdens was 30 percent.

The inability to find units they can afford forces many households to sacrifice on housing quality and/or location. Even with these tradeoffs, though, housing costs often exceed their ability to pay and thus result in limited spending on other necessities. Compared with households living in affordable housing, severely cost-burdened households in the bottom expenditure quartile (a proxy for low income) spend 39 percent less each month on food and 65 percent less on healthcare. These cutbacks seriously undermine the basic well-being of low-income households.

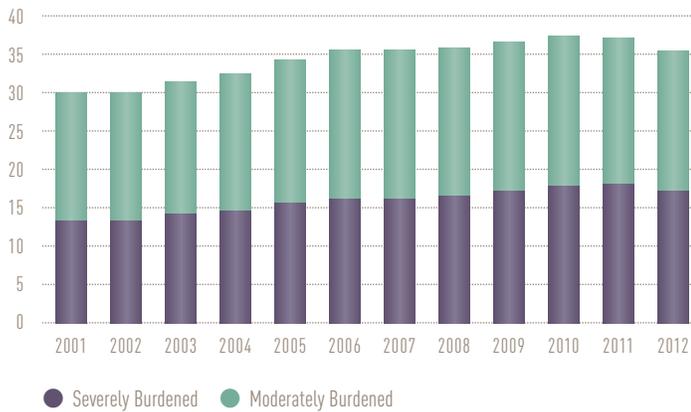
Living in inadequate housing presents additional hazards to health and safety. In 2011, the American Housing Survey found that extremely low-income households (earning less than 30 percent of area medians) were more than three times more likely to live in structurally deficient units as households earning at least 80 percent of area medians. Moreover, lowest-income households opting for housing they could afford were 43 percent more likely to live in inadequate units, underscoring the tradeoff between affordability and quality.

When available, federal rental subsidies thus make a fundamental difference in quality of life for these families and individu-

FIGURE 6a

### Despite a Small Improvement in 2012, Housing Cost Burdens Are Still Widespread...

Share of Households (Percent)



Notes: Moderately (severely) cost burdened is defined as paying 30–50% (more than 50%) of income for housing. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be without burdens. Source: JCHS tabulations of US Census Bureau, American Community Surveys.

als. But between 2007 and 2011, the number of income-eligible renters rose by 3.3 million while the number of assisted housing units was essentially unchanged. Sequestration forced further cuts in housing assistance, which President Obama’s FY2015 budget proposal attempts to reverse. But even if that increase occurred, securing housing assistance is increasingly difficult. At last count in 2011, more than three-quarters of low-income households that qualified for subsidies were left to find housing in the private market. For the nation’s 11.5 million extremely low-income renters, this meant competing for a dwindling stock of just 3.2 million units that were both affordable and available.

#### LOOKING AHEAD

Despite their rebound in the last two years, home sales and starts are still nowhere near normal levels. Indeed, single-family construction is running below rates hit during the depths of the 1980–82 recession. But if income and employment trends continue, household growth—especially among younger adults—should also pick up and thus help to support demand for both rental and owner-occupied housing.

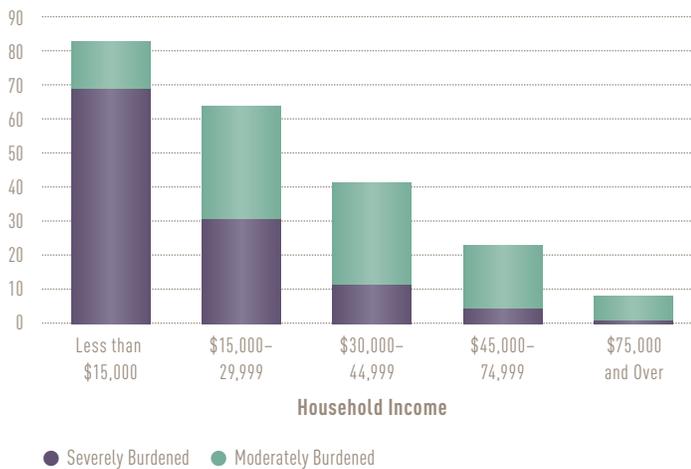
The future course of homeownership will depend largely on the cost and availability of mortgage financing. On the private side, looser mortgage underwriting standards may help to bolster the housing market recovery. On the government side, with no mortgage market overhaul in sight, Fannie Mae and Freddie Mac—along with FHA—will continue to shape conditions in the short to medium term. After sharply raising their guarantee fees and insurance premiums in recent years, all three entities are taking steps to buoy the homebuying market. For example, FHA recently introduced a counseling-based program that provides borrowers an option to lower their premiums. Federal agencies are also working to expand access to mortgage credit by convincing lenders that they can extend well-documented loans to lower-credit-score borrowers without fear of reprisal in the case of default.

Meanwhile, prospects for improving rental housing affordability are bleak. While a pickup in income growth and an easing in rents would help to reduce the alarmingly high number of cost-burdened renters, the cost of market-rate housing will still be out of reach for many. For these households to have the stability they need to seek opportunity, rental assistance is the only option. Without expanded federal funding to aid the neediest households, millions of US families and individuals will continue to live in housing that they cannot afford or that is inadequate, or both.

FIGURE 6b

### ...Particularly Among Lower-Income Households

Share of Households (Percent)



Notes: Moderately (severely) cost burdened is defined as paying 30–50% (more than 50%) of income for housing. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be without burdens. Source: JCHS tabulations of US Census Bureau, 2012 American Community Survey data.



## Housing Markets

After another year of healthy growth in 2013, the housing market paused in the first quarter of 2014. The renewed weakness in residential construction, sales, and prices raised fears that the recovery is still fragile. Nevertheless, there has been convincing progress toward normalcy, with the number of delinquencies, foreclosures, and underwater mortgages trending down and non-distressed home sales trending up.

### CONSTRUCTION RECOVERY

Residential construction posted another year of strong growth in 2013, with permits, starts, and completions up by double digits (**Figure 7**). Construction starts jumped 18.5 percent from 2012, to 925,000 units. Even so, this was the sixth consecutive year that starts failed to hit the 1.0 million mark—unprecedented before 2008 in records dating back to 1959. Indeed, annual starts are running far below their historical average of 1.46 million.

Although up a solid 15 percent from 2012, single-family activity remains depressed. Starts increased by just 82,300 units in 2013, to a total of 618,000—a record low prior to 2008. In addition, the pace of growth last year was considerably below the 24 percent gain in 2011–12. The cooldown continued in early 2014, with first-quarter starts down 3 percent from a year earlier.

Meanwhile, multifamily construction had its third consecutive year of solid growth in 2013, up fully 25 percent (62,000 units) to 307,000 units (**Figure 8**). Still, having fallen to such low levels during the housing crash, annual starts only pulled even with the 2000s average (310,000 units) last year and remained well below levels in the 1970s (625,000 units) and 1980s (507,000 units). Given that renter household growth far exceeds the pace in those decades, overbuilding in the multifamily market—at least on a national scale—is unlikely to be a concern. In fact, following increases of 54 percent in 2011 and 38 percent in 2012, last year's growth in multifamily starts represents a considerable slowdown in activity. This moderation continued in the first quarter of 2014, when harsh winter weather helped hold starts at year-earlier levels.

About one-third of total residential construction (310,000 units) in 2013 was intended for the rental market. While this is the highest rental share posted in records dating back to 1974, it primarily reflects the weakness of single-family construction (41 percent below the annual average since 1959) rather than the strength of multifamily starts (still 27 percent below their annual average). The share of multifamily units intended as rentals, however, was also at a record 92.8 percent.

Owner spending on improvements to existing homes also rose over the past year. Benefiting from strengthening house sales,

FIGURE 7

## After Another Strong Year, the Housing Market Recovery Slowed in Early 2014

	2013	Percent Change	
		2012-13	2013:1-2014:1
<b>Single-Family Home Sales</b>			
New (Thousands)	429	16.6	-3.0
Existing (Millions)	4.5	8.6	-6.8
<b>Residential Construction (Thousands)</b>			
Total Permits	991	19.4	3.5
Total Starts	925	18.5	-2.4
Single-Family	618	15.4	-3.5
Multifamily	307	25.3	-0.4
Total Completions	764	17.7	15.2
<b>Median Single-Family Prices (Thousand of dollars)</b>			
New	268.9	8.1	2.8
Existing	197.4	9.8	8.6
<b>Construction Spending (Billions of dollars)</b>			
Residential Fixed Investment	507.5	16.3	9.3
Homeowner Improvements	130.9	2.4	12.8

Note: Dollar values are adjusted for inflation using the CPI-U for All Items.

Sources: Bureau of Economic Analysis, National Income and Product Accounts; US Census Bureau, New Residential Construction and New Residential Sales; and NAR, Existing Home Sales via Moody's Analytics.

homeowner expenditures rose 2.4 percent in 2013, to \$130.9 billion. Although just 17 percent above the 2010 low, improvement spending has recovered much more fully than residential construction and stands only 10 percent below the recent peak. By comparison, investment in new single-family construction remains 61 percent below its peak while investment in multifamily construction is off 39 percent.

As of March 2014, expenditures for homeowner improvements thus contributed 39 percent of total residential construction spending—well above its historical average of 30 percent. Homeowner spending is likely to continue to drive a disproportionate share of residential investment again in 2014. According to the Leading Indicator of Remodeling Activity, homeowner outlays should increase during the first three quarters before slowing in the fourth quarter partly in response to weakening home sales early in the year.

With steady growth in improvement spending and solid increases in new residential construction, the housing sector helped to bolster the overall economy in 2013. The Bureau of Economic Analysis reports that increases in residential fixed investment (RFI, which includes homebuilding, improvements, and related activities) contributed 14 percent of total growth in gross domes-

tic product (GDP) last year, raising hopes that housing investment will finally propel a stronger expansion. The sizable contribution of RFI is noteworthy given the modest scale of housing construction. Indeed, RFI made up just 3.1 percent of GDP in 2013, well below its historical average share of 4.7 percent.

### GEOGRAPHIC CONSTRUCTION TRENDS

Last year's rebound in homebuilding was widespread. Single-family starts were up sharply across the country, with growth ranging from 11 percent in the Midwest and 15 percent in the South, to 18 percent in the West and 19 percent in the Northeast. More than half (53 percent) of single-family starts were located in the South, with another fifth concentrated in the West.

Single-family permitting also rose in 90 of the nation's 100 largest metropolitan areas, jumping at least 20 percent in more than half of these markets. At the top of the list of major metros with strong single-family permitting are Atlanta (up 62 percent), Los Angeles (up 52 percent), and New York City (up 49 percent). Despite these large percentage gains, though, total single-family permitting in the 100 largest metropolitan areas was still 48 percent below average annual levels in the 2000s. In addition, only 12 metros issued more permits last year than the 1990s (pre-boom) annual average.

On the multifamily side, construction starts were up by double digits in every region of the country, while permitting increased in 67 of the top 100 metros. Among the 20 largest metros, the markets with the most growth in multifamily permits in 2013 were Atlanta, Baltimore, Detroit, and Riverside. In contrast, the metros issuing the largest number of permits were New York (30,000), Los Angeles (17,700), and Houston (16,800).

### COOLING HOME SALES

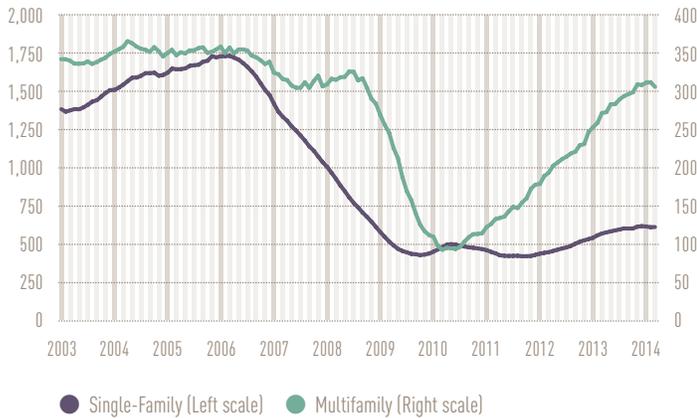
Home sales continued to climb in 2013. NAR reports that sales of existing homes increased 9.2 percent, to 5.1 million—marking the second year that growth exceeded 9.0 percent and the first time since 2007 that annual sales topped 5.0 million. While slowing somewhat from 20 percent in 2012, annual growth in new home sales was still strong at 17 percent, bringing the total to 429,000 units.

Starting in the fourth quarter, however, existing home sales were just 1 percent above year-earlier levels. The slowdown continued in the first quarter of 2014, when year-over-year sales were off 7 percent. New home sales also had a slow start to 2014, down 3 percent from the first quarter of 2013. This cooldown is significant because the pace of sales already lagged well below normal. This is particularly true for new homes, with 2013 sales just 17,000 units above the lowest annual level recorded between 1963 and the housing bust. Indeed, new home sales are fully 67 percent below the recent peak, while existing home sales are down 28 percent.

FIGURE 8

### Unlike Single-Family, Multifamily Construction Now Approaches Pre-Boom Levels

Starts (Thousands of units)

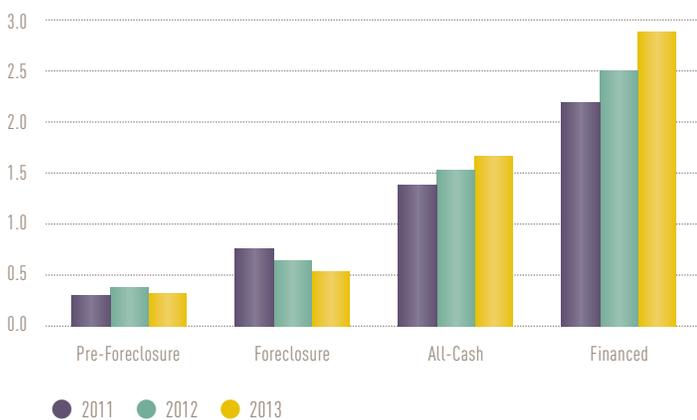


Note: Levels shown are seasonally adjusted annual rates averaged over 12 months to reduce volatility.  
Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

FIGURE 9

### With Distressed Sales Down and Mortgage Lending Up, Home Sales Are Slowly Returning to Normal

New and Existing Home Sales (Millions)



Notes: Sales categories overlap and do not sum to total. Pre-foreclosure sales are short sales. Foreclosure sales are bank-owned/REO sales. All-cash and financed sales exclude transactions where the presence of a mortgage is unknown.  
Source: JCHS tabulations of Metrostudy and CoreLogic data.

The composition of home sales does, however, point to improving conditions. Traditionally financed sales increased 15 percent in 2013, while REO sales of foreclosed properties fell 17 percent and short sales were down 13 percent (Figure 9). Moreover, distressed sales numbered less than 1.0 million, reducing their share of all existing home sales from 22 percent to 18 percent.

Still, cash sales were unusually high for the fifth consecutive year. Metrostudy data indicate that cash sales accounted for 37 percent of home sales last year, nearly matching the 39 percent peak in 2011. By comparison, the all-cash share was just over one in five before the housing market downturn.

#### CONSTRAINED INVENTORIES

Homes for sale continued to be in scant supply in 2013. According to the National Association of Realtors, the average number of existing homes for sale dropped to 2.1 million last year, a decline of more than 200,000 from 2012 and more than 600,000 units below the monthly average since 1999 (Figure 10). With the pickup in sales, the supply of homes on the market shrank from 5.9 months in 2012 to 4.9 months in 2013.

Inventories are low across the nation. As of March 2014, Zillow indicates that homes for sale in 129 of the 226 largest metros were below year-earlier levels. Indeed, several large metropolitan areas were still posting significantly lower supplies of for-sale homes, including Boston (down 27 percent), Memphis (down 24 percent), and Denver (down 17 percent), plus several metros in Texas, including Houston (down 25 percent), San Antonio (23 percent), and Dallas (down 19 percent). With these declines, the numbers of homes for sale in several of these metros are less than half their levels in 2010.

The shortages in some markets may, however, be easing. From just 33 in 2012–13, the number of metros with growing inventories nearly tripled to 97 in 2013–14. The metros reporting the most rapid growth in for-sale units include Phoenix (up 34 percent), Las Vegas (up 33 percent), Riverside (up 26 percent), and Orlando (up 22 percent). Even in these areas, though, inventories were still more than 30 percent below March 2010 levels.

Several conditions have contributed to the persistent weakness of for-sale inventories. Many sellers are unwilling to accept today's prices, given how low they are relative to the market peak. Expiration of the Mortgage Forgiveness Debt Relief Act at the end of 2013 also created a significant disincentive for underwater homeowners to sell because these households now face taxes on any debt forgiven in a short sale. In addition, owners that refinanced recently would have to pay higher interest rates if they moved to new homes. Longer-term factors are also at play, including the aging of the population and the consequent decline in the number of households that move each year.

Tight inventories feed on themselves by limiting the options for potential trade-up buyers, in turn preventing those households from listing their own homes for sale. Indeed, just 38 percent of respondents to the Fannie Mae National Housing Survey in March 2014 believed that now is a good time to sell. The shortage of new homes for sale is also constraining trade-up options. Between 2004 and 2013, the number of new home completions and mobile home placements reached just 12.6 million—the lowest decade-long total since the data series began in 1974 and

FIGURE 10a

### Inventories of Homes for Sale Remain Tight in the Nation as a Whole...

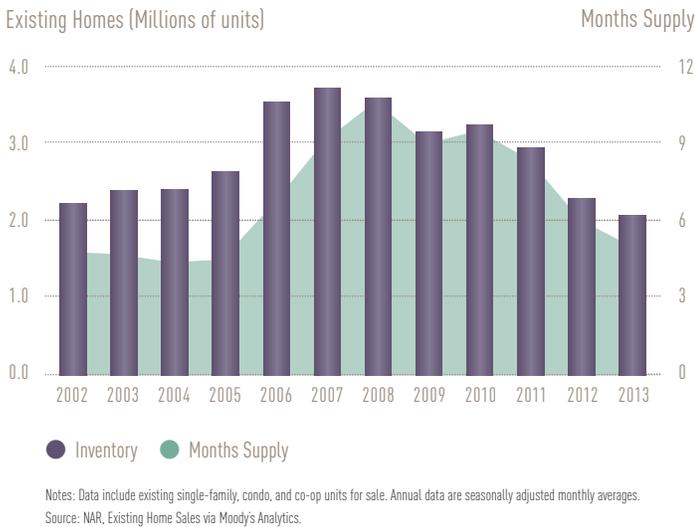
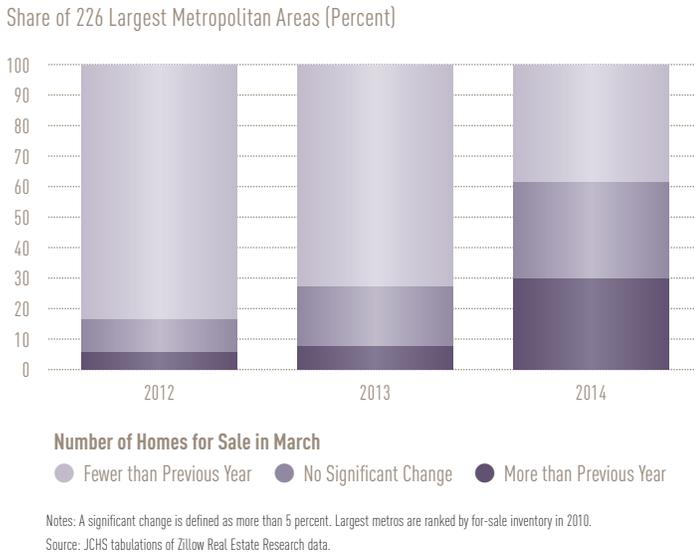


FIGURE 10b

### ...But Are Starting to Build in a Growing Number of Metros



fully 4.4 million units below the 17.0 million median level for all 10-year periods.

Moreover, since the housing crisis, millions of formerly owner-occupied units have been converted to rentals. At last measure, approximately 1.9 million homes switched on net from the owner to the rental stock between 2009 and 2011. This was on

top of a 1.1 million unit net shift between 2007 and 2009, which took an estimated 3.0 million units out of the owner-occupied housing stock.

Yet another reason for the shortage of inventory is that millions of homes have been taken off the market and are sitting empty. According to the Housing Vacancy Survey, the number of vacant homes held off market spiked to over 7 million units during the housing downturn and is only now beginning to level off. If the vacant/held-off-market share of the housing stock (currently 5.6 percent) were the same as in 2001 (4.5 percent), an additional 1.4 million homes would now be available for sale or rent.

### METRO HOME PRICES ON THE UPSWING

With the supply of homes for sale so tight, home prices rose sharply last year. The CoreLogic index climbed 11.0 percent from December 2012 to December 2013, while the NAR median existing home sales price rose 11.5 percent, to \$197,000. Meanwhile, the Zillow Home Value Index (ZHVI) registered a 6.7 percent gain in 2013—a more modest rise but still the largest year-on-year increase in the index since 2005. Nevertheless, the CoreLogic index indicates that the national home price in March 2014 was still 16 percent below the previous peak, while the ZHVI reports that the March 2014 price was 13 percent below peak.

The recovery in home prices continued to spread across the country, with the number of the nation's 100 largest metros posting increases up from 73 in 2012 to 97 in 2013. Some of the price gains were significant—better than 10 percent increases in 27 metros, and better than 20 percent in 7. Many areas with the largest price gains had also recorded the steepest declines during the housing bust, such as Las Vegas and Phoenix as well as several California metros. As a result, prices in these markets still have far to go to make up for previous declines (Figure 11). For example, home prices in Las Vegas at the end of 2013 were a little over half their previous peaks.

The uptick in prices dramatically reduced the number of homes with negative equity (worth less than the outstanding mortgages). For example, Atlanta and Phoenix had two of the highest negative equity shares of any housing markets at the end of 2012. After strong home price gains in 2013, however, the share dropped from 38.1 percent to 19.9 percent in Atlanta and from 36.6 percent to 22.1 percent in Phoenix. Such improvements added up to significant progress for the US as a whole. According to CoreLogic data, the total number of negative equity homes fell from 10.5 million in the fourth quarter of 2012 to 6.5 million a year later. With this sharp 38 percent decline, the underwater share of all mortgaged homes shrank from 21.6 percent to 13.3 percent.

Home prices in a handful of large metros—Austin, Denver, Honolulu, Houston, Nashville, Raleigh, and San Jose—have now reached or exceeded previous peaks. With the exception of high-flying San Jose, all of these markets posted price apprecia-

FIGURE 11

## House Prices Climbed Sharply in 2013 But Remain Well Below Peak in Most Metros

Difference in Home Prices from Mid-2000s Peak (Percent)



Source: JCHS tabulations of S&P/Case-Shiller Home Price Indices.

tion in the 4–10 percent range in 2013. The current strength of home prices in these metros is therefore less a measure of soaring appreciation today than of the modest declines they experienced during the housing bust. For example, prices in Austin fell just 5 percent during the downturn.

Like home construction and sales, home price appreciation appears to be slowing. Zillow’s ZHVI hit 6.9 percent year-over-year in August 2013, then decelerated slightly to 5.9 percent in March 2014. Zillow also notes that the number of metros where sales prices were higher than asking prices peaked in mid-2013, indicating that competition had cooled. If inventories continue to expand and mortgage rates trend upward, price increases should continue to moderate over the coming year.

### MORTGAGE MARKET SHIFTS

While still near historic lows, interest rates on 30-year fixed mortgages jumped from 3.6 percent in the first half of 2013 to 4.4 percent in the second half. This upturn precipitated a 53.5 percent drop in refinancing applications. Applications for home purchase mortgages also fell 10 percent. As a result, the refinancing share of total lending shrank from 70 percent in the first half of the year to 49 percent in the second half. Both the Mortgage Bankers Association and Freddie Mac expect the refinancing share to dip near 40 percent in the coming year,

dragging mortgage volumes significantly below 2013 levels. Indeed, with interest rates on the rise, homebuyers rather than refinancers will drive the mortgage market for the first time since the 1990s.

The government still had an outsized footprint in the mortgage market in 2013, purchasing or guaranteeing 80.3 percent of all mortgages originated. The FHA/VA share of first liens, at 19.7 percent, was well above the average 6.1 percent share in 2002–03, let alone the 3.2 percent share at the market peak in 2005–06. Origination shares of Fannie Mae and Freddie Mac were also higher than before the mortgage market crisis, but less so than that of FHA. According to the Urban Institute’s Housing Finance Policy Center, the GSEs purchased or guaranteed 61 percent of originations in 2012 and 2013, up from 49 percent in 2002 and 2003.

Portfolio lending, however, has begun to bounce back, rising 8 percentage points from post-crisis lows and accounting for 19 percent of originations last year. While improving, this share is far from the nearly 30 percent a decade earlier. In contrast, private-label securitizations have been stuck below 1 percent of originations since 2008. Continued healing in the housing market and further clarity in the regulatory environment should set the stage for further increases in private market activity.

The ongoing drop in delinquency rates should help to improve lender confidence. The number of loans that are 90 or more days delinquent or in foreclosure has receded in each of the past 17 quarters, leaving the first-quarter 2014 share at 5.0 percent—its lowest level since mid-2008. As a result, the number of troubled loans has fallen by half, to 2.1 million, since the fourth quarter of 2009. This downtrend is likely to continue, given that the share of mortgages 60–90 days past due has dropped to 1.0 percent and the share 30–60 days past due has retreated to 2.7 percent.

### THE OUTLOOK

The US housing market continues its gradual return to normal, with far fewer delinquencies, foreclosures, and underwater mortgages than a year ago. The shares of all-cash and investor sales are also declining while traditional mortgaged, market-rate home sales to owner-occupants have picked up steam. But the weakness in home construction, sales, and prices in early 2014 suggests that the housing market recovery has more ground to gain. Over the short term, housing markets will benefit most from a continued economic recovery that increases employment and raises incomes, particularly among younger adults hardest hit by the recession. Over the longer run, future decisions about the government’s role in backstopping mortgage markets will have significant implications for the cost and availability of credit.



## Demographic Drivers

Household growth has yet to rebound fully as the weak economic recovery continues to prevent many young adults from living independently. As the economy strengthens, though, millions of millennials will enter the housing market and drive up demand for rental and owner-occupied homes. Most of these new households will be minorities. Meanwhile, with the aging of the baby boomers, the number of older households is set to soar.

### SLUGGISH HOUSEHOLD GROWTH

Weak labor markets, declining incomes, and high rents continue to dampen household growth. The pace of household formations has languished in the 600,000–800,000 range for several years—far below the annual averages posted in recent decades (**Figure 12**). Much of this slowdown reflects the drop in household formation rates among younger adults in the wake of the housing bust and Great Recession. Even as the economy continued to recover in 2013, the share of adults in their 20s heading their own households remained 2.6 percentage points below rates 10 years earlier. This implies that there are 1.1 million fewer heads of households in this key age group.

These potential households may represent pent-up demand that will be released when the economy improves further and household formation rates return to pre-boom levels. The argument that demand among this age group could give a strong boost to the housing market is compelling, given that the leading edge of the large millennial generation (born 1985–2004) has moved into the age groups where household formation rates normally peak. By comparison, when the leading edge of the baby boomers (born 1946–64) was of similar age in the 1970s, household growth averaged 1.7 million per year for the entire decade.

The difficult labor market and associated drop in incomes among younger adults explains much of the slowdown in household growth among this group. Higher personal income is strongly associated with a greater propensity to head an independent household. For example, headship rates for 20–29 year olds in 2013 ranged from 23.1 percent for those with incomes below \$10,000 to 53.8 percent for those with incomes of \$50,000 or more.

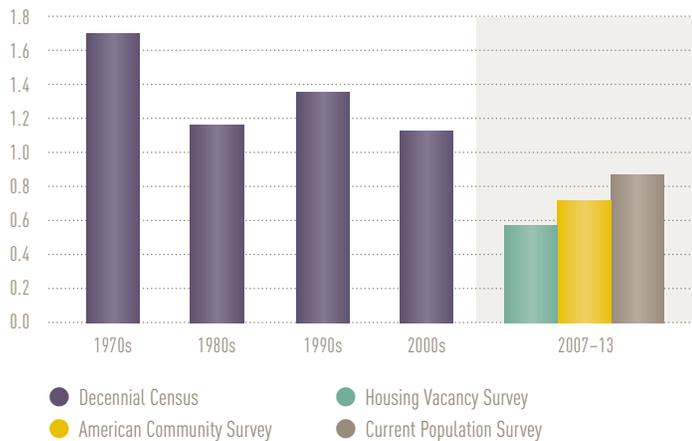
And while headship rates across income groups have been relatively constant over the past 10 years, growth in each group has not. Indeed, millions of young adults joined the ranks of the lower-income population in 2003–13 (**Figure 13**). This shift toward low incomes (and therefore low headship rates) accounts for more than half of the drop in household formations among 20–29 year olds over that period. If the economy strengthens enough to boost the incomes of this age group, their overall household formation rate will likely increase.

With their limited resources, many younger adults continue to live with their parents. In 2013, half of those aged 20–24, a fifth of those aged 25–29, and almost a tenth of those aged 30–34 lived at home. This adds up to 15.3 million adults in their 20s and 3.1 million adults in their 30s. The tendency for younger adults to remain at home has in fact increased

FIGURE 12

### Despite Their Differences, All Major Surveys Point to a Dramatic Slowdown in Household Growth

Average Annual Household Growth (Millions)

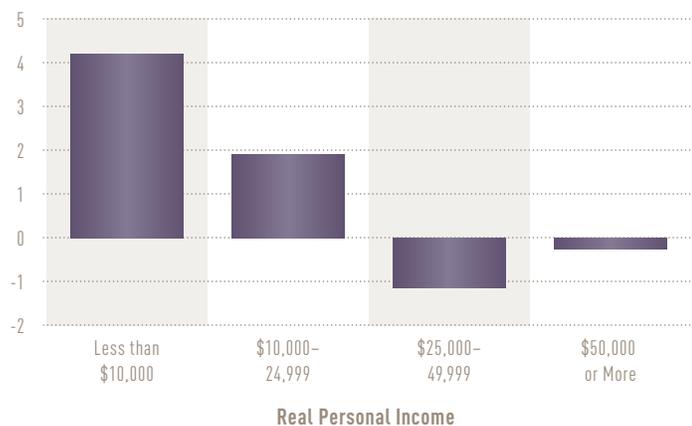


Note: American Community Survey data are only available through 2012.  
Source: JCHS tabulations of US Census Bureau data.

FIGURE 13

### Young Adults Are Increasingly Likely to Have Low Incomes

Change in 20–29 Year-Old Population, 2003–13 (Millions)



Note: Incomes are adjusted for inflation using the CPI-U for All Items.  
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

over the past decade. Some 2.5 million more adults in their 20s and 500,000 more adults in their 30s lived with their parents in 2013 than if household formation rates for these age groups in 2003 had prevailed.

Despite their lower headship rates, millennials still formed millions of independent households over the past five years. And because this generation is so large, the total number of households headed by 20-somethings in 2013 is actually higher than a decade earlier. Indeed, the population aged 20–24 rose by 2.3 million between 2003 and 2013, muting the effect of a 3.5 percentage point drop in household formation rates for this age group. Meanwhile, the population aged 25–29 increased by 2.4 million, offsetting a 1.8 percentage point decline in headship rates.

Given that headship rates rise sharply with age for adults in their 20s and early 30s, the number of millennials that form independent households should increase significantly, however belatedly, in the coming years. But stronger income and employment growth is necessary to drive much of this change. Moreover, millennials are on a lower trajectory of housing independence than earlier generations, and given the current pace of economic growth, it is difficult to predict how quickly these younger adults will finally be able to live on their own.

### IMMIGRATION TRENDS

Although their inflows have slowed and their household formation rates have declined, immigrants still account for a substantial share of household growth in the United States. Indeed, immigration has been a major source of population growth in recent decades, contributing about 26 percent of total increases in the 1990s and 35 percent in the 2000s. This influx of foreign-born adults served to expand the ranks of the gen-X/baby-bust generation (born 1965–84), thereby limiting the otherwise sharp fall-off in housing demand that would have occurred in the wake of the baby-boom generation.

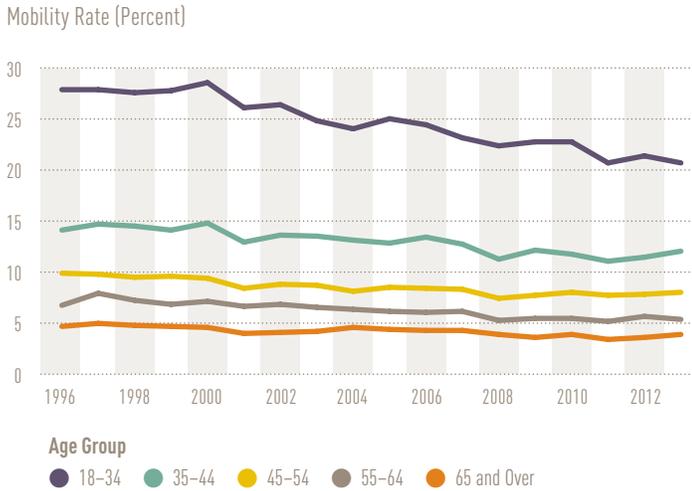
During the Great Recession, however, growth in the foreign-born population weakened as net immigration declined. Household formation rates among the foreign born also fell, brought down by the same difficult economic and housing market conditions that reduced headship rates among the native born. According to the major Census Bureau surveys, the decline was considerable. For example, the Current Population Survey indicates that the number of foreign-born households actually fell in 2009 and 2010. Since then, however, the foreign-born share of US household growth has rebounded to nearly 40 percent, helping to buoy housing demand in a period of low overall growth.

### LOWER RESIDENTIAL MOBILITY

Along with household formation rates and immigration, domestic mobility rates play an important role in housing markets because residential moves spur investments in improvements and furnishings, generate income for real estate agents and

FIGURE 14

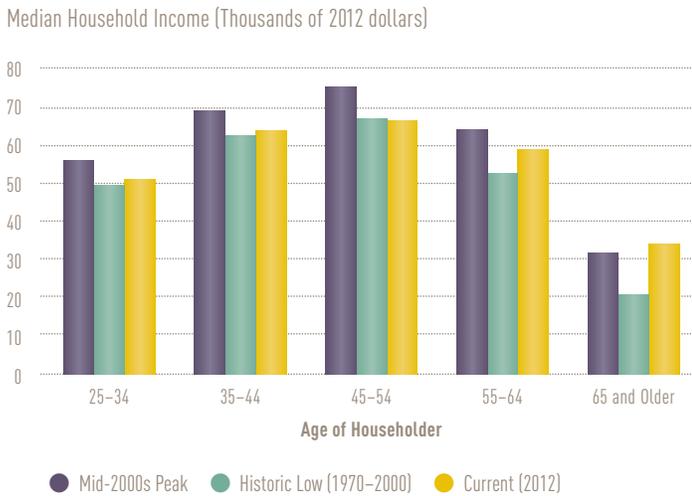
### Residential Mobility Rates Were on the Decline Even Before the Recession, Especially Among Young Adults



Note: Mobility rates are the share of each age group reporting a change in residence within the previous 12 months. Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

FIGURE 15

### The Real Incomes of Today's Young and Middle-Aged Households Remain at or Near Record Lows



Note: Dollar values are adjusted for inflation using the CPI-U for All Items. Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

lenders, and expand the housing options for other potential movers. But domestic mobility has been on a downtrend since the 1990s (Figure 14). The share of adults aged 18 and over that moved within the preceding year fell from 16 percent in 1996 to just over 11 percent in 2013, reducing the number of recent movers from 42.5 million to 35.9 million. This decline reflects

the transition of the baby boomers into older groups (that are less likely to move), as well as lower mobility rates among young adults (who make up the largest share of movers). Contrary to common perceptions, millennials (like gen-Xers) are shaping up to be less footloose than earlier generations.

In addition to these longer-term trends, the housing market crisis also sparked a noticeable drop in mobility rates among homeowners. Plunging house prices, rising numbers of underwater mortgages, weak labor markets, and limited access to credit prevented many owners from selling or trading up. As a result, more people live in their homes for longer periods of time. According to the American Community Survey, the share of owners who had lived in their current homes less than five years dropped from nearly a third (30 percent) in 2007 to just one in five (21 percent) in 2012, while the share living in their homes for 10 years or more increased from 49 percent to 57 percent. Remarkably, this shift occurred even as millions of owners were forced to move when they lost their homes to foreclosure.

Changes in renter mobility rates are more modest: in 2007–13, a slightly smaller share of renter households had lived in their units less than two years and a slightly larger share had lived in their units between two and four years. The share of longer-term renters (five or more years) was unchanged.

The slowdown in residential mobility has meant that population gains and losses across metropolitan areas have diminished. In the midst of the housing boom in 2005, domestic migration accounted for 30 percent of population growth in the 20 fastest-growing metro areas. In 2013, that share was just 11 percent, with natural increase and immigration accounting for fully 89 percent of growth.

While reducing inflows into some metros, lower mobility has also stemmed outflows from metros that had been losing population. For example, the top five metros with positive net domestic migration in 2005 (Atlanta, Orlando, Phoenix, Riverside, and Tampa) added 320,000 people. In 2013, the top five gainers (Austin, Dallas, Denver, Houston, and Phoenix) added only 170,000. Similarly, the population in the five metros with the largest net domestic outflows in 2005 (Boston, Chicago, Los Angeles, New York, and San Francisco) fell by 640,000, while the top five in 2013 (Chicago, Detroit, Los Angeles, New York, and Philadelphia) lost only a fraction of that number, or 240,000.

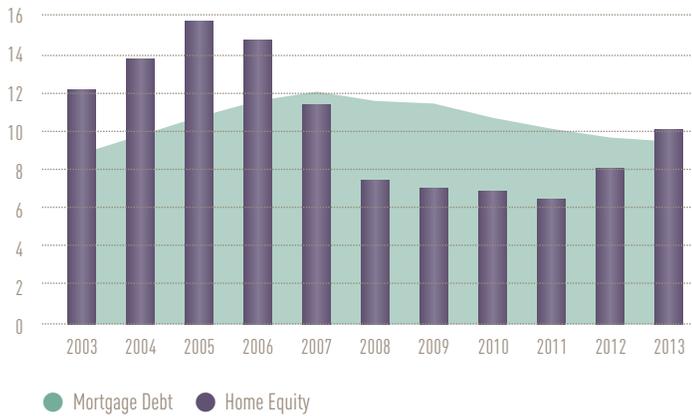
#### INCOME STRESSES ACROSS GENERATIONS

Median household income fell another 1.4 percent in real terms in 2012, hitting its lowest level in nearly two decades. Hard hit by the Great Recession, median incomes of today's younger and middle-aged adults are at their lowest levels in records dating back to 1970 (Figure 15). The steepest declines have been among younger adults. The median income for households aged 25–34 fell an astounding 11 percent from 2002 to 2012, leaving their real incomes below those of same-aged households in 1972.

FIGURE 16a

### While Mortgage Debt Has Fallen Below Home Equity for the First Time Since 2006...

Trillions of 2013 Dollars

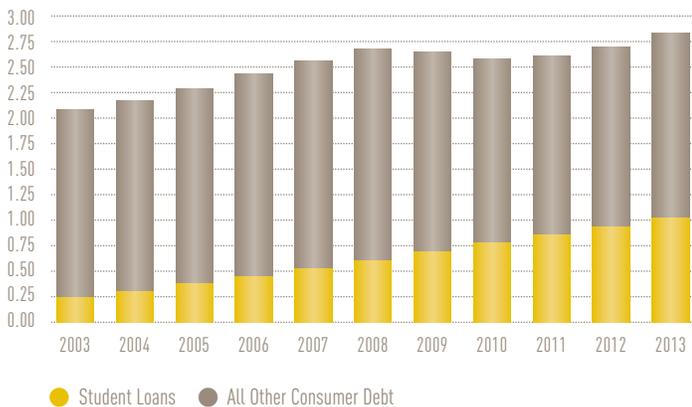


Note: Dollar values are adjusted for inflation using the CPI-U for All Items.  
Source: Board of Governors of the Federal Reserve System, Flow of Funds, Fourth Quarter 2013.

FIGURE 16b

### ... Student Loans Have Driven Up Consumer Debt Burdens

Non-Housing Debt Balances (Trillions)



Notes: All other consumer debt includes credit card debt, auto loans, retail loans, and personal loans. Annual balances are averages of quarterly data.  
Source: Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, February 2014.

Meanwhile, the unemployment rate for this age group jumped from 4.7 percent in 2006 and 2007 to 10.1 percent in 2010, holding at a still-high 7.4 percent in 2013. Factoring in a slight decline in labor force participation, the share of the 25–34 year-old population with jobs last year was at early-1980s levels.

Minority households in this age group are at a notable disadvantage. In 2012, the median income of a minority household aged 25–34 was \$20,000 below that of same-age white households. Indeed, one reason that the incomes of young households in general are declining is that the minority share of the population is growing and the white-minority income gap is widening.

At the other end of the age spectrum, households in their pre-retirement years also face financial challenges. The real median income for households aged 50–64 in 2012 fell to \$60,300, back to mid-1990s levels. Incomes of renters in this age group have declined especially sharply, dropping 12 percent from 2002 to 2012 and now back to 1980s levels. By comparison, the median income of 50–64 year-old homeowners fell just 5 percent over that period.

Many households in their 50s looking to retire in the coming decade are particularly under pressure. Real median annual incomes have fallen by \$9,100 among 50–54 year olds and by \$5,700 among 55–59 year olds since 2002. Given that they are in the peak earning years when retirement savings spike, these households may find it difficult to ensure their financial security as they age.

### RISING CONSUMER DEBT

Households continued to reduce their housing debt in 2013, cutting real mortgage debt 2 percent over the year. At the same time, higher house prices lifted real home equity by 24 percent, to \$10 trillion, finally pushing aggregate home equity back up above aggregate mortgage debt (Figure 16). But consumer debt was also on the rise, up 14 percent from the end of 2010 to the end of 2013 to account for more than a quarter (26 percent) of aggregate household debt. This is the highest share since early 2004, raising concerns that the combination of falling incomes and rising consumer debt may be contributing to the weakness of housing demand.

Education loans have fueled the surge in consumer debt, jumping 50 percent from the end of 2009 through the end of 2013 and more than quadrupling over the past decade to \$1.1 trillion. According to the Federal Reserve Bank of New York (FRBNY), student loan balances reported on credit reports increased by \$114 billion in 2013 alone. They also accounted for 63 percent of the growth in total debt over the past year and for nearly the entire increase in non-housing consumer debt since 2003.

Soaring student loan debt among younger adults may play a role in their lagging household formation and homeownership rates. At last measure in 2010, 39 percent of households aged 25–34 had student loans, up from 26 percent in 2001 and more than double the share in 1989. Young renters, who typically have lower incomes, allocate a larger share of their monthly income to student loan payments, according to the Survey of Consumer Finances. The median renter under age 30 in 2010 devoted 6 percent of monthly income to student loan payments, while those aged 30–39 paid a little less than 4 percent. This

may affect their ability to pay for housing and build savings, particularly for downpayments on purchases.

Default rates on student loans are rising at an alarming pace. FRBNY reports that the share of student loan balances that are 90 or more days delinquent nearly doubled from just 6.2 percent at the end of 2003 to 11.5 percent at the end of 2013. And since this measure counts the sizable shares of loans that are in deferral or forbearance periods as being current, it understates the delinquency rate among loans that are now in the repayment period. Among these borrowers, just over 30 percent were 90 or more days delinquent on their loans in 2012. Failure to repay student loans may damage the credit standing of younger adults in a way that limits their ability to obtain home loans in the future.

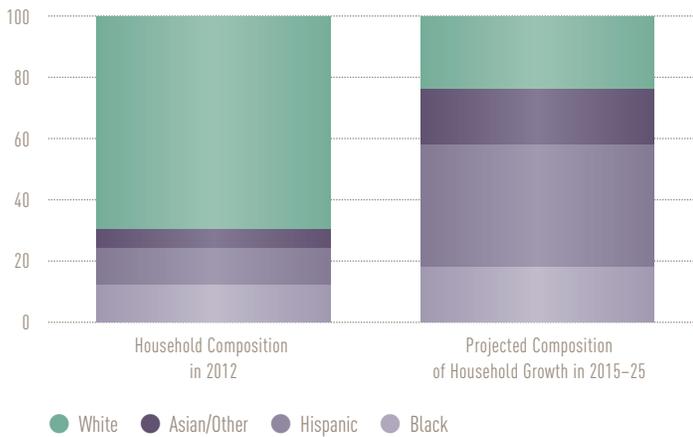
### DEMOGRAPHIC CHANGES AND HOUSING DEMAND

According to the Joint Center's 2013 projections, demographic forces alone will drive household growth of 11.6–13.2 million in 2015–25. Underlying these projections are two trends that, in combination, will shift the age composition of US households and therefore the determinants of housing demand. Most immediately, the aging of the baby boomers will boost the number of older households. From 2015 to 2025, the number of households aged 70 and older will increase by approximately 8.3 million and account for more than two-thirds of household growth. The number of householders aged 60–69 is also projected to rise by 3.5 million, adding to the overall aging of the population.

FIGURE 17

### Minorities Will Account for Three-Quarters of Household Growth Over the Coming Decade

Share of Households (Percent)



Notes: White, black, and Asian/other households are non-Hispanic. Hispanic households may be of any race.  
Sources: JCHS tabulations of US Census Bureau, 2012 American Community Survey; JCHS 2013 middle-series household projections.

The graying of America has important implications for housing demand. A 2012 survey by the Demand Institute confirms that 78 percent of all householders aged 65 and older intend to remain in their homes as they age. Over time, many homes will therefore need significant retrofitting to accommodate their owners' diminishing physical mobility. There will also be growing need for neighborhood services for the rising number of older adults living at home but can no longer drive to appointments, shopping, and other destinations. And when the oldest baby boomers reach age 85 in 2031, they will increasingly seek alternative situations that offer in-house services, such as group quarters, assisted living, and nursing homes.

Meanwhile, the aging of the millennial generation over the coming decade will lift the number of households in their 30s by 2.4–3.0 million, depending on immigration trends. But these numbers vastly understate the impact of this group on housing demand since they will account for most newly formed households in the coming decade. Indeed, the millennials will make up fully 24 million new households between 2015 and 2025, thus driving up demand for rentals and starter homes.

Another distinction of the millennials is that members are much more diverse than previous generations. For example, 45 percent are minorities, compared with 41 percent of Gen Xers and 28 percent of baby boomers. On the strength of their numbers alone, millennials will increase the racial and ethnic diversity of US households, while large losses of older, mostly white households will magnify their impact. By 2025, dissolutions of baby-boomer households aged 50–69 in 2015 will reach 3.0 million while those of the previous generation will reach 10.0 million. As a result, minorities will drive 76 percent of net household growth in the 10 years ahead (Figure 17).

### THE OUTLOOK

While economic trends could push household growth higher or lower, it is absolutely certain that the number of households over age 65 will soar. Most of these older households will opt to stay in their current homes, increasing demand for investments designed to support aging in place. As they move into their late 70s and beyond, however, the baby boomers will bolster demand for new types of housing that can meet the physical and social needs of later life.

The millennials will offset the aging of the population to some degree, pushing up the number of households under age 40. Even so, this increase will be somewhat muted because, although the millennials are the largest generation in history, they do not significantly outnumber the generation that precedes them. In fact, with immigrants filling in their ranks, the so-called baby-bust generation is now larger than the baby boom. Still, the millennials will form tens of millions of new households over the coming decade, and their preferences and opportunities will reshape housing demand.



## Homeownership

The national homeownership rate marked its ninth consecutive year of decline in 2013, affecting most segments of the population. The drop among minorities is particularly troubling, given their growing presence in the housing market. While affordability conditions remain favorable, rising home prices and interest rates—along with continued tight credit—have made homebuying more of a stretch for some households. These shifts could mean that fewer Americans will be able to become homeowners in the future.

### HOMEOWNERSHIP TRENDS

The US homeownership rate slipped again in 2012–13, edging down 0.3 percentage point to 65.1 percent (**Figure 18**). The number of homeowner households also fell for the seventh straight year with a drop of 76,000. However, these declines are the smallest reported since 2008, suggesting that the bottom may be in sight.

The slide in homeownership rates has been most dramatic among younger adults—the age groups most active in both the first-time and trade-up markets. From 2004 to 2013, rates for 25–34 year olds were down nearly 8 percentage points and for 35–44 year olds some 9 percentage points. But homeownership rates for middle-aged households have also fallen by at least 4 percentage points. Looking over a longer timespan, the Current Population Survey shows that homeownership rates for all 10-year age groups between 25 and 54 are at their lowest point since recordkeeping began in 1976. In sharp contrast, homeownership among households aged 75 and older is near a record high.

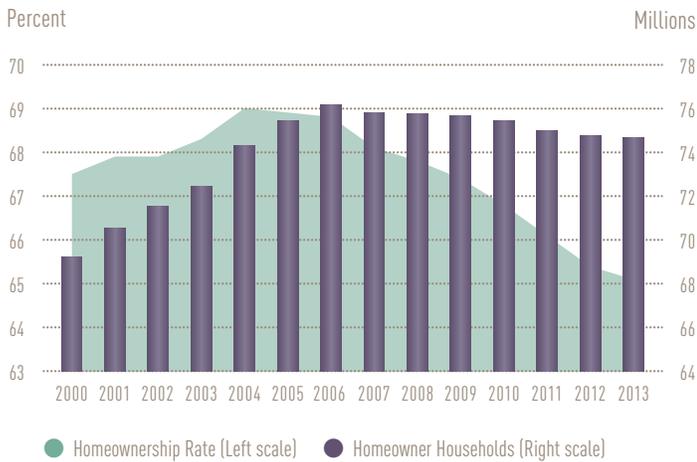
The decline in homeownership rates among minority households has also been sharp. Measured from previous peaks, rates have fallen 6 percentage points among black households and 4 percentage points among both Hispanic and Asian/other households. By comparison, the dip for white households was just 3 percentage points. Homeownership rates among some racial/ethnic groups may, however, be stabilizing. In particular, the rates for Hispanic and Asian/other households were essentially unchanged in 2013.

These disparate patterns have expanded the white-minority homeownership gaps (**Figure 19**). From 25.9 percentage points in 2001, the difference in white-black rates increased more or less steadily to 29.5 percentage points in 2013. The gap in white-Hispanic homeownership rates also widened by 1.7 percentage points in 2007–13, to 27.3 percentage points.

As the population grows more diverse, the persistently large difference in white-minority rates will put downward pressure on the national homeownership rate. This is already apparent among younger age groups, which have experienced both the strongest growth in minority shares over the past two decades and the largest drop in homeownership. For example, homeownership rates for adults aged 35–44 fell a full 5.5 percentage

FIGURE 18a

### With the Number of Homeowners Falling, the Homeownership Rate Continues to Drift Downward...

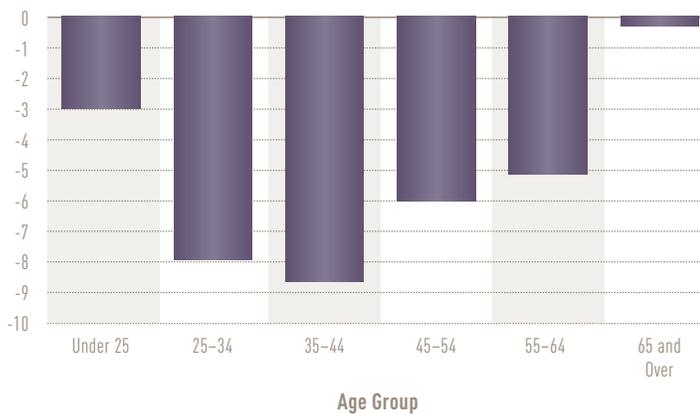


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

FIGURE 18b

### ...Especially Among Younger Adults

Change in Homeownership Rate, 2004–13 (Percentage points)



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

points from 1993 to 2013. About 4.0 percentage points of this decline reflect the shift in the racial/ethnic composition of this age group during this period, while just 1.5 percentage points is due to the drop in homeownership rates for each racial and ethnic group. With the growing minority presence in housing markets, it will be important to expand homeownership opportunities for these households in order to maintain demand for owner-occupied housing.

### THE CHANGING FACE OF FIRST-TIME HOMEOWNERS

Despite recent setbacks, minority households account for an ever-larger share of homeowners, particularly among younger age groups. Between 1993 and 2013, the white share of homeowners fell from 86 percent to just 77 percent. At the same time, the Hispanic share climbed from 4 percent to 9 percent, while the Asian/other share increased from 2 percent to 6 percent.

Minorities make up an even larger, and growing, share of the first-time homebuyer market. At last measure in 2011, 32 percent of all first-time buyers were minorities, with Hispanics alone accounting for 14 percent. First-time homebuyers are also more likely to be foreign born (16 percent) compared with current homeowners (10 percent). This is particularly true among Hispanic households, where 49 percent of first-time buyers are immigrants.

The growing presence of minorities and foreign-born households in the market has the potential to shift the age distribution of first-time buyers. While the median age of white first-time buyers is 29, the median age for black first-time buyers is 37. The median ages of Hispanic and Asian/other first-time buyers fall somewhere in between.

Still, most other characteristics of first-time homebuyers have changed little over time. First-time buyers are typically younger adults, with two-thirds under age 35 and 84 percent under age 45 (Figure 20). They are also likely to be married—particularly those in the 25–34 year-old group, where marriage rates tend to differentiate buyers from renters. Indeed, married couples are 49 percent of first-time homebuyers in this age group but just 30 percent of all similarly aged renter households. Married couples make up an even higher share (62 percent) of all other homeowners in this age group.

In addition to marital status, higher incomes are a major determinant of first-time homebuying. The share of first-time buyers with annual incomes over \$75,000, at 34 percent, is nearly three times that of renter households (13 percent).

But compared with a decade ago, fewer of today’s younger adults are married and fewer have high incomes. As a result, fewer fit the traditional profile of a first-time homebuyer. On the contrary, recent household growth among younger adults is concentrated in the types least likely to buy homes. For instance, the number of younger married-couple households—with homeownership rates averaging near 62 percent—dropped by more than 914,000 households in 2003–13. Meanwhile, the number of younger single-person and non-family households—whose homeownership rates averaged just 33 percent over the decade—increased by 1.0 million.

### DETERIORATING AFFORDABILITY

While still relatively affordable by historical standards, the cost of homeownership is on the rise. The median price for existing homes jumped 10 percent from the end of 2012 to the end of 2013, while interest rates notched up from about 3.5 percent

FIGURE 19

### The Gaps Between White and Minority Homeownership Rates Have Again Widened

Difference in Homeownership Rates (Percentage points)

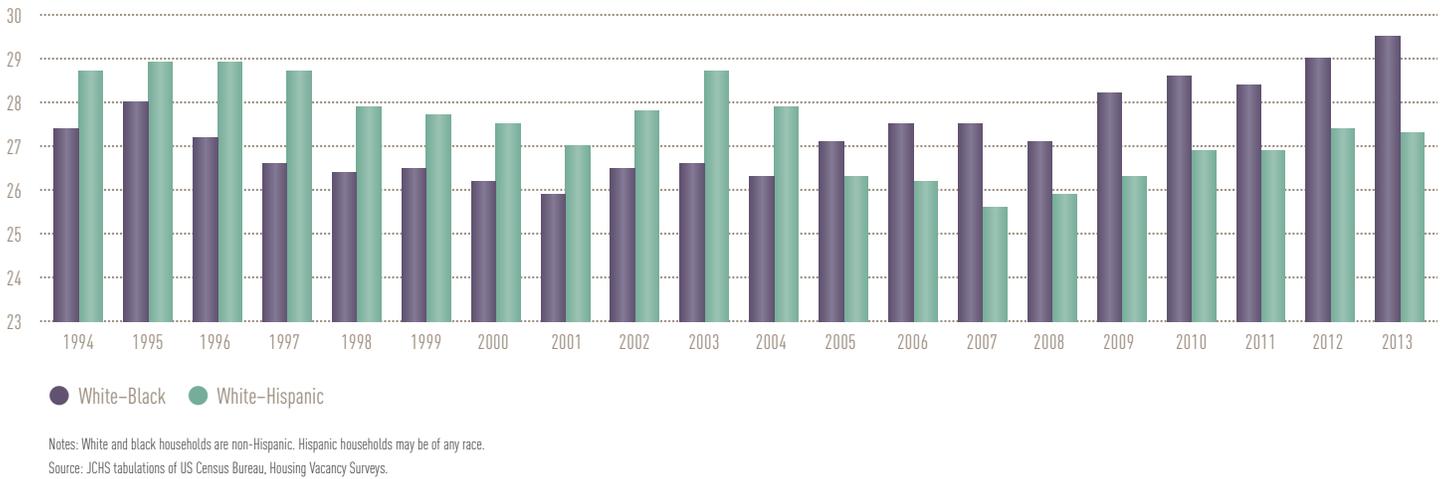
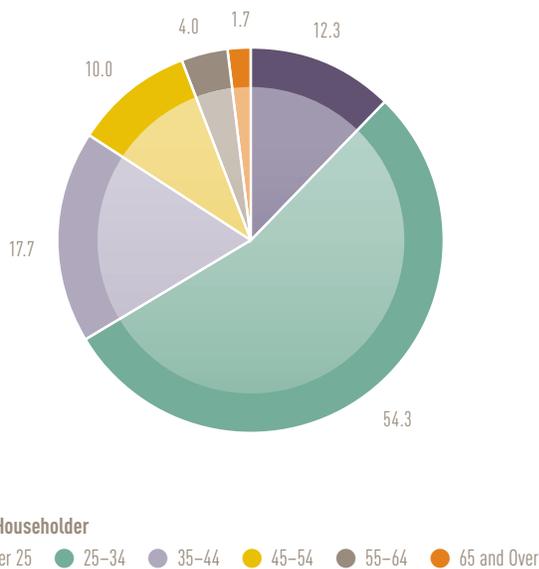


FIGURE 20

### Most First-Time Homebuyers Are Between the Ages of 25 and 34

Share of First-Time Homebuyers (Percent)



to almost 4.5 percent. Given a 20 percent downpayment and a 30-year fixed-rate mortgage, these increases pushed up the monthly payment on a median-priced home by a substantial 23 percent by year-end. Nevertheless, at \$780, the monthly mortgage payment for this median-priced home would have been a record-setting low in real terms at any point prior to 2010.

The trend is much the same at the metropolitan level. Between 2012 and 2013, mortgage payments on the median-priced home were up 10–20 percent in 34 of the 84 largest metros for which annual data are available, and more than 20 percent in another 14. In fact, payment-to-income ratios rose in every metro area covered as incomes stagnated or increased at rates that lagged the growth in housing payments.

Even so, payment-to-income ratios are well below their long-run averages in all metros for which historical data are available. Indeed, based on NAR’s affordability cutoff of 25 percent of income for mortgage payments, households earning the median income could afford to buy homes in all but six metros in 2013.

Many homebuyer affordability measures consider only median household income, which far exceeds the income level for many renters that might make the transition to ownership. Looking instead at the incomes of renters within each market, it is possible to estimate the pool of potential buyers that could afford a typical home. Under the new qualified mortgage rule, would-be buyers have to meet a 43 percent debt-to-income ratio, factoring in payments for property taxes, insurance, and non-housing debt.

By this standard, 36 percent of renters in the top 85 metros had sufficient income in 2013 to qualify for a home purchase loan for the median-priced unit in their areas, assuming a 5 percent downpayment, average tax and insurance rates in their markets,

and non-housing debt of 8 percent of household income. But homeownership would still be a big financial stretch for renters in metropolitan areas along the coasts. In the 12 most expensive markets, less than 30 percent of renters could afford the median-priced home, with shares reaching as low as 13.0 percent in Honolulu and 13.5 percent in San Francisco. In the 15 least expensive metros, more than half of all renters could meet the affordability criteria. Many of these areas were hard hit by the foreclosure crisis, including Atlanta, Grand Rapids, Las Vegas, and several Florida metros.

### CREDIT CONSTRAINTS

To take advantage of today's relatively affordable conditions, most homebuyers have to finance their purchases with mortgages—a challenge in an environment of tight credit. As a positive sign, the most recent Home Mortgage Disclosure Act (HMDA) data show an increase in lending for all types of buyers in 2011–12. Nevertheless, home purchase loan volumes are still well below pre-boom levels and not all groups have benefited equally from the pickup in lending. For example, the volume of loans extended to both white and Asian/other borrowers increased a strong 15 percent or more for the year, while lending to Hispanics was up just 7 percent and to blacks a modest 5 percent (Figure 21). The disparities across income groups are similar. Lending jumped 16 percent among high-income borrowers in 2011–12, but just 9 percent among low-income borrowers.

Hispanics and blacks were also much more likely to have their applications rejected. Indeed, denial rates for conventional purchase mortgages among Hispanics (25 percent) and blacks (40

percent) are nearly two to three times those among whites. Furthermore, these disparities worsened in 2011–12, with denial rates for white households falling while those for Hispanics edged up slightly and those for blacks rose 3 percentage points. Meanwhile, low-income households (earning less than 50 percent of area median income or AMI) were the only group to see their denial rates increase. In 2012, the share of these applicants that received rejections was more than a third—nearly 14 percentage points higher than those with moderate incomes (50–79 percent of AMI) and more than three times higher than those with high incomes (120 percent or more of AMI).

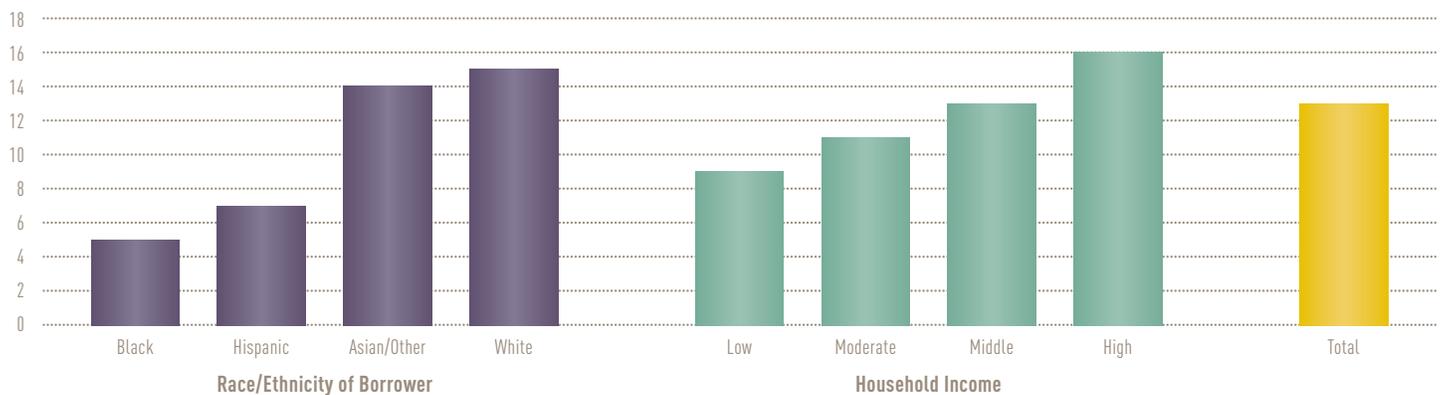
Many factors have played a role in the sluggish recovery of the home purchase loan market in recent years, including falling household incomes and uncertainty about the direction of the economy and home prices. But the limited availability of mortgage credit for borrowers with less than stellar credit has also contributed. According to information from CoreLogic, home purchase lending to borrowers with credit scores below 620 all but ended after 2009. Since then, access to credit among borrowers with scores in the 620–659 range has become increasingly constrained, with their share of loans falling by 6 percentage points. At the same time, the share of home purchase loans to borrowers with scores above 740 rose by 8 percentage points.

Meanwhile, the government sponsored enterprises (GSEs) have also concentrated both their purchase and refinancing activity on applicants with higher credit scores. At Fannie Mae, only 15 percent of loans acquired in 2013 were to borrowers with credit scores below 700—a dramatic drop from the 35 percent share averaged in 2001–04. Moreover, just 2

FIGURE 21

## Growth in Home Purchase Lending to Minorities and Lower-Income Borrowers Still Lags

Change in Number of Loans Originated, 2011–12 (Percent)



Notes: Data include only first-lien loans to owner-occupants for one- to four-unit properties. White borrowers are non-Hispanic. Hispanic borrowers include only white borrowers of Hispanic origin. Asian/other includes American Indians, Alaska natives, and native Hawaiians or other Pacific Islanders. Low- (moderate-/middle-/high-) income borrowers have household incomes below 50% (50–79%/80–119%/120% or more) of area medians. Source: Neil Bhutta and Glenn B. Canner, Mortgage Market Conditions and Borrower Outcomes: Evidence from the 2012 HMDA Data and Matched HMDA-Credit Record Data, *Federal Reserve Bulletin*, November 2013.

percent of originations were to borrowers with credit scores below 620. The percentage of Freddie Mac lending to this group has remained negligible.

Yet another drag on the mortgage market recovery is the high cost of credit. For borrowers who are able to access credit, loan costs have increased steadily. To start, interest rates climbed from 3.35 percent at the end of 2012 to 4.46 percent at the end of 2013. This increase was tempered somewhat by a slight retreat in early 2014. In addition, the GSEs and FHA raised the fees required to insure their loans after the mortgage market meltdown, and many of these charges remain in place or have risen. The average guarantee fee charged by Fannie Mae and Freddie Mac jumped from 22 basis points in 2009 to 38 basis points in 2012. In 2008, the GSEs also introduced loan level price adjustments (LLPAs) or additional upfront fees paid by lenders based on loan-to-value (LTV) ratios, credit scores, and other risk factors. LLPAs total up to 3.25 percent of the loan value for riskier borrowers and are paid for through higher interest rates on their loans.

FHA mortgage insurance premiums have also risen. Following new legislation in 2010 allowing higher limits, FHA raised its annual premiums to 85 basis points for loans with LTVs at or below 95 percent and 90 basis points for loans with LTVs above 95 percent. At the same time, FHA lowered its upfront premium to 100 basis points. Since then, the annual mortgage insurance premium has increased 45 basis points, with loans above \$625,500 charged an additional 20 basis points. In 2013, FHA extended the length of time that annual premiums are in effect and increased the upfront premium to 175 basis points. For the first-time borrower putting down 3.5 percent on a home

valued at 85 percent of the median, the new FHA premiums raised annual insurance costs from only \$808 in 2007 to \$1,699 in 2013 (Figure 22).

Credit conditions may, however, have eased slightly last year. Average credit scores for Freddie Mac loans edged down from 756 to 749 while those for Fannie Mae loans dipped from 759 to 751. In addition, the share of mortgages acquired by Fannie Mae to borrowers with scores below 700 increased 4.3 percentage points in 2012–13.

Meanwhile, average credit scores for FHA loans declined from nearly 700 in 2012 to about 690. FHA also reports a downward shift in the distribution of loans to the 620–719 range. Even so, a recent assessment by the Urban Institute found that much of this change simply reflects the migration of borrowers with moderate credit scores from FHA into the GSE market, which has pushed down average scores in both market segments. Thus, while the credit box may have widened, the easing of constraints is much more modest than the drop in average scores suggests.

#### THE OUTLOOK

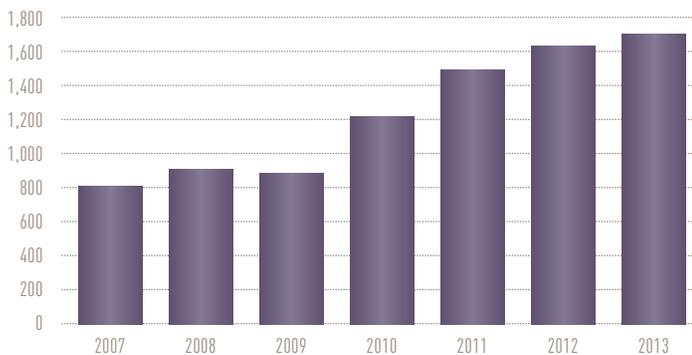
The US homeownership rate fell again last year, marking almost a decade of declines. While there are few signs of an immediate turnaround, the strengthening economy will eventually lift household incomes—a key driver of housing demand. And despite recent increases, house prices and interest rates still favor the homebuyer.

Nevertheless, many younger adults find themselves with lower incomes and in family and household circumstances that are less conducive to homeownership. Furthermore, minorities, who historically have much lower homeownership rates, will account for an increasing share of first-time homebuyers. If mortgage markets cannot accommodate the limited financial resources of this new generation of households, there is a real possibility that fewer Americans will be able to enjoy the benefits of homeownership in the future.

FIGURE 22

### Higher FHA Insurance Premiums Have Added Substantially to First-Time Buyer Costs

Annual FHA Mortgage Insurance Costs (Dollars)



Notes: Initial costs assume a 30-year fixed-rate mortgage with a 3.5% downpayment and a constant home price equal to 85% of the NAR median in 2013. Costs also assume the upfront mortgage insurance premium is rolled into the loan and that the interest rate is the FHA average for that fiscal year. The rate for 2013 is the partial fiscal year average through May.

Source: JCHS tabulations of FHA mortgage letters, FHA actuarial reviews, FHA interest rate, and NAR median existing single-family home price data.



## Rental Housing

Although slowing, renter household growth continued to soar in 2013. The strength of demand has kept rental markets tight across the country, pushing up rents and spurring new construction. But supply and demand now appear to be coming into balance. With slower renter growth likely ahead and many new apartments in the pipeline, rent increases should begin to ease.

### CONTINUED STRONG DEMAND

According to the Housing Vacancy Survey, the number of renter households was up by more than half a million in 2013. At the same time, the Current Population Survey reports that renter household growth was twice that pace. Regardless of this wide discrepancy, both surveys put renter growth well above the 400,000 annual average of the last few decades. Moreover, both sources also indicate that increases in renter households slowed as the homeownership rate declines eased at the end of 2013.

A variety of household types has shifted to rentals in recent years. Along with the groups that are most apt to rent—younger adults, low-income households, and single persons—many older households, higher-income earners, and families with children also contributed to the growth in renters. For example, while households under age 35 accounted for a quarter of renter growth in 2005–13, the share for 55–64 year olds is nearly as large (**Figure 23**). This reflects both the movement of the baby-boom generation into this age group and the drop in homeownership among these households. Meanwhile, households aged 35–44 and 45–54 each accounted for nearly a fifth of the growth in renters, driven largely by their sharply lower homeownership rates.

With the recession expanding the ranks of lower-income households, it is no surprise that this group accounted for much of the increase in renters. Indeed, more than a quarter of renter growth was among households earning under \$15,000 annually, and nearly 30 percent among those with incomes of \$15,000–29,999. At the same time, though, highest-income households accounted for nearly as large a share (23 percent) as lowest-income households. And while many new renters were single persons, families with children—including both single parents and married couples—were responsible for a slightly larger share of the increase because they experienced the biggest falloff in owning.

### TIGHTER RENTAL MARKETS

With the continued strength of demand, the national rental market tightened further in 2013. According to Census Bureau estimates, the rental vacancy rate edged down to 8.3 percent

and stood at its lowest point since 2000. Even so, last year's decline was the smallest since vacancies began their retreat in 2010. Meanwhile, MPF Research reports that by the fourth quarter of 2013, the vacancy rate for professionally managed apartments was 5.0 percent, virtually unchanged since late 2011.

Rent increases have also remained fairly consistent. The consumer price index (CPI) for contract rents indicates that nominal rents were up 2.8 percent in 2013, little changed from 2012. Among professionally managed properties with five or more units, rent increases slowed from 3.7 percent in 2012 to 3.0 percent last year. But by either measure, rents still rose at a healthy clip, outpacing the overall inflation rate of 1.5 percent.

The tightening in rental markets was widespread, with 85 of the 93 metropolitan areas tracked by MPF Research reporting higher rents. In many metros, however, the pace of increases slowed. Rents in over 40 percent of these metro areas rose at least 3.0 percent in 2012, but that share was less than a third in 2013 (Figure 24). And in a quarter of metro markets, rent increases did not beat the national rate of inflation.

#### SUPPLY CATCHING UP WITH DEMAND

Construction of multifamily housing ramped up steadily from a low of 109,000 starts in 2009 to more than 300,000 in 2013—just 13 percent fewer starts than at the 2005 peak. Over 90 percent of these multifamily units are intended for the rental market, compared to just 50–60 percent during the peak years of the housing boom in 2005–06. As a result, the number of multifamily rental starts last year was at its highest level since 1998.

Gains in new construction may, however, be set to slow. The number of multifamily permits issued was up 59,000 in 2013—about half the increase in 2012. Even so, completions of new units should continue to ramp up because of the lengthy development process for multifamily properties. Indeed, multifamily completions totaled just 195,000 units in 2013, implying that many new units are still in the pipeline.

While multifamily construction activity has picked up across the country, the volume of new units remains below last decade's average in many markets. Overall, multifamily permits exceeded their 2000s averages in 47 of the 100 largest metro areas in 2013, but were less than half those levels in another 23.

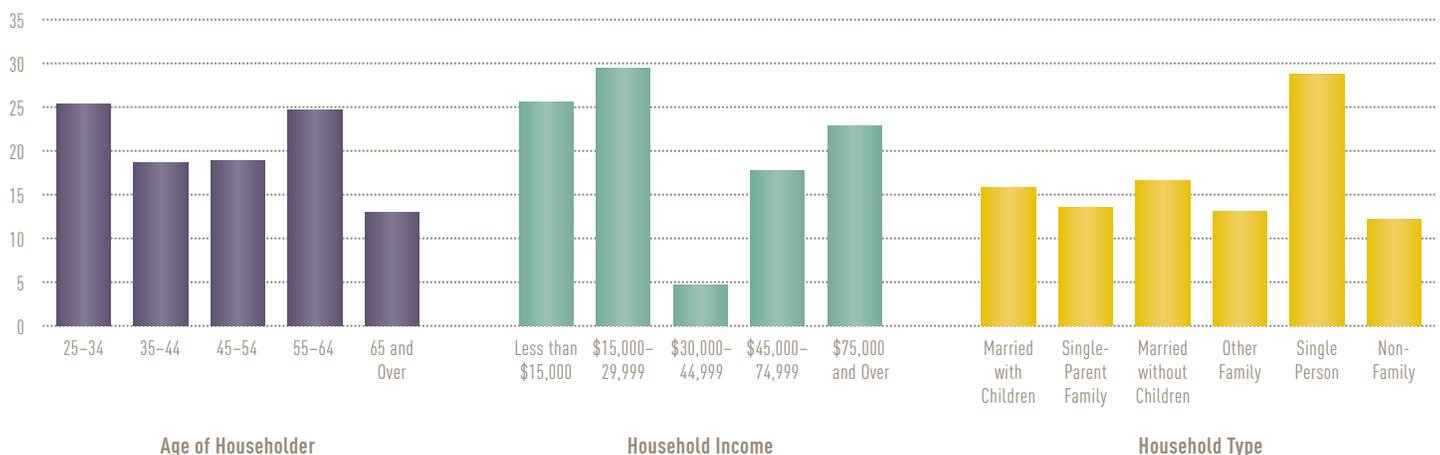
The extent of the rebound ranges widely even within the 15 markets averaging the most new multifamily units in the 2000s. At one extreme is Austin, where activity was twice as high as last decade's average (Figure 25). In six other markets, rental construction has exceeded average levels. Though not yet at their 2000s levels, New York, Miami, and Atlanta all experienced especially large gains in 2013. Meanwhile, other markets that had some of the biggest construction booms in the 2000s—including Tampa, Orlando, and Phoenix—have been slower to recover. Of these, Las Vegas trails farthest behind, with multifamily permitting lagging 80 percent below annual levels averaged in 2000–09.

Survey data from MPF Research suggest that demand and supply for investment-grade apartments are close to balance. From 2010 through 2012, increases in occupied apartments greatly outpaced the number of rental units coming on line, helping to drive down vacancy rates and push up rents. In 2013, however,

FIGURE 23

### Households Across the Spectrum Have Fueled the Growth in Renters

Share of Renter Household Growth, 2005–13 (Percent)



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

the addition of new apartments accelerated while growth in renters moderated. With growth in demand and supply roughly equal at 160,000 units in 2013, occupancy rates were stable and rent gains more modest. Even if rental demand does not ease further, the expected increase in multifamily completions should create some slack in markets and slow the pace of rent increases.

FIGURE 24

### Although Still Widespread, Rent Pressures in Many Metros Eased in 2013

Number of Metros



Notes: Estimates are based on a sample of investment-grade properties for the 93 metropolitan areas covered. Changes are measured fourth quarter to fourth quarter.  
Source: JCHS tabulations of MFP Research data.

### INFLUX OF SINGLE-FAMILY RENTALS

Although multifamily production has picked up substantially, newly constructed units have met just a fraction of the recent growth in renter households. From 2006 through 2012, multifamily completions totaled 1.6 million units while growth in renter households hit 5.2 million. While excess vacant units from the building boom helped to meet the surge in demand, conversions of owner-occupied single-family homes to rentals provided most of the new supply. Single-family homes have always made up a significant portion of the rental housing stock, but the recent increase is remarkable. The American Community Survey reports that the number of single-family homes rented during this period increased by 3.2 million, roughly twice the number of new apartments added, pushing the single-family share of all rentals from 30 percent in 2006 to 34 percent in 2012 (Figure 26).

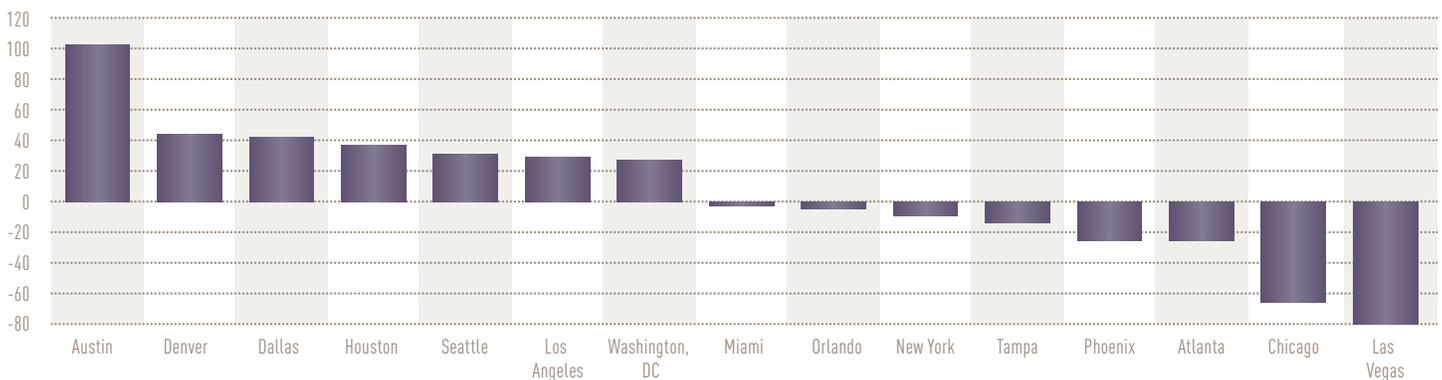
Although individuals have traditionally owned the vast majority of single-family rentals, institutional investors were enticed into the market by a unique set of conditions following the recession: a high volume of distressed homes for sale, weak demand from owner-occupants, and high rent-to-price ratios. While precise numbers are hard to come by, estimates suggest these investors have amassed more than 200,000 single-family units from 2012 through early 2014, concentrating most of their purchases in selected markets. Now that distressed home sales have slowed and home prices have risen sharply, however, most of the largest investors have indicated that they will limit future acquisitions.

The experience of managing and financing large portfolios of single-family rentals may provide new business models for this segment of the market. Over the past year, several institutional investors issued securities backed by the cash flow from their

FIGURE 25

### The Recovery in Multifamily Construction Varies Significantly Across Metros

Multifamily Units Permitted in 2013 Relative to 2000-09 Annual Average (Percent)

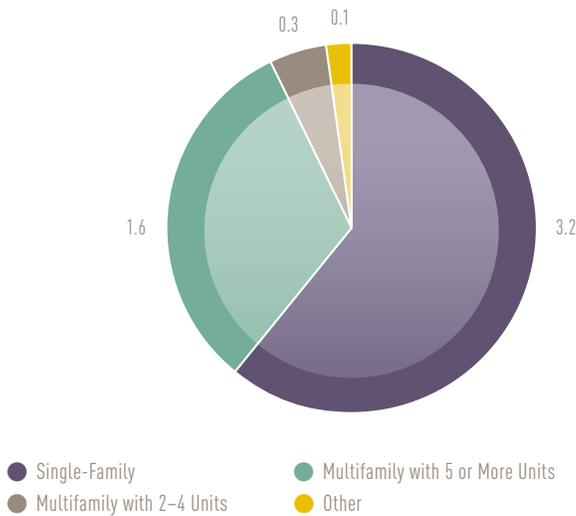


Source: JCHS tabulations of US Census Bureau, Building Permits Survey data.

FIGURE 26

## Most of the Recent Increase in Rental Supply Has Come from Single-Family Homes

Growth in Occupied Rental Units, 2006–12 (Millions)



Note: Other units include mobile homes, trailers, boats, recreational vehicles, and vans.  
Source: US Census Bureau, 2006 and 2012 American Community Surveys.

single-family properties, which may open new avenues for debt financing. This may foster further consolidation of investor activity in the single-family market, although the profitability of managing large portfolios of geographically scattered properties remains in question. Regardless, these decisions have important implications for the communities with large concentrations of investor-owned properties as the management and eventual sale of these homes will have a significant impact in these areas.

### THE DIMINISHING LOW-COST SUPPLY

New multifamily construction typically adds units at the upper end of the rent distribution, well out of reach for households with limited incomes. The 2011 American Housing Survey reports that the median monthly gross rent for units built in the preceding four years was \$1,052—affordable at the 30-percent-of-income standard only to households earning at least \$42,200 a year. Just 34 percent of new units added in that period rented for less than \$800 per month or roughly the amount the median renter earning \$28,000 could afford. Among the many factors contributing to the difficulty of building new low-cost rentals are the high costs of land zoned for higher-density housing, financing for acquisition and development, and construction materials and labor.

At the same time, owners of existing low-rent properties have little revenue to cover operating and maintenance costs,

leaving these units at risk of removal. Of the 34.8 million rentals that existed in 2001, some 1.9 million (5.6 percent) were demolished by 2011. The loss rate for units renting for less than \$400 was more than twice as high at 12.8 percent. Although making up only a small share of the overall supply, these units thus accounted for more than a third (650,000) of total removals. Losses of units with rents between \$400 and \$600 were also relatively high at 6.7 percent. Removal rates decline as rents increase, falling to just 3.0 percent for units renting for \$800 or more.

Across the country, rental loss rates are particularly high in rural areas. Indeed, fully 8.1 percent of rentals in non-metro areas were lost in 2001–11, compared with 5.7 percent in central cities and 4.7 percent in suburbs. High rural loss rates reflect the greater presence of mobile homes in these areas, particularly in the South and West where they account for more than 10 percent of the rental stock. Mobile homes have by far the highest loss rates of any structure type, with more than one in five removed from the stock between 2001 and 2011.

### PERFORMANCE OF APARTMENT PROPERTIES

With vacancy rates at their lowest point in more than a decade and rent increases consistently outpacing inflation, apartment properties continue to perform well. The National Council of Real Estate Investment Fiduciaries reports that the net operating income of commercial-grade apartments was up 3.1 percent in 2013. While well below the 6–11 percent growth in 2011–12, last year's increase was still healthy and nearly matched the 3.3 percent annual average of the last three decades.

Meanwhile, apartment property values continued to climb at a remarkable pace. According to Moody's/RCA Commercial Property Price Index, apartment prices shot up 14 percent on average in 2012–13. Indeed, rental property values hit a new high last year, exceeding their 2007 peak by 6 percent and far outpacing the recovery in owner-occupied home prices (Figure 27).

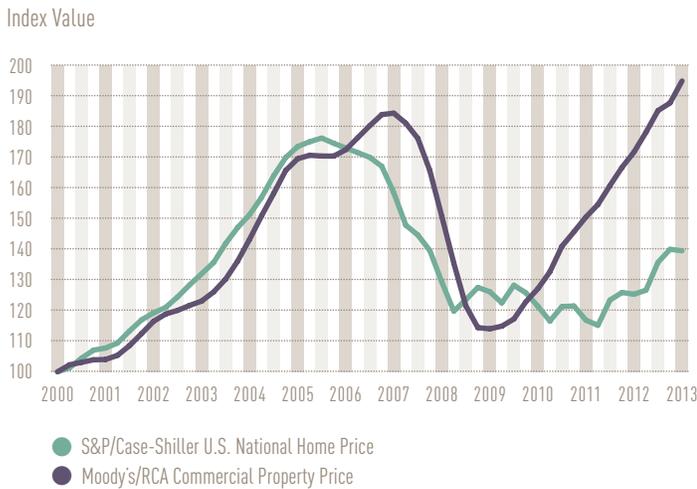
With rapidly appreciating property values and stable cash flows, commercial-grade properties posted a 10.4 percent annual rate of return last year. This nearly matches the 11.5 percent average level in the ten years preceding the housing bubble and bust (1995–2004), suggesting that growth is settling down to more sustainable rates.

Although their definitions are not strictly comparable, all measures of multifamily loan delinquencies are on a downtrend. In the latter half of 2013, the share of multifamily loans at FDIC-insured institutions that were at least 90 days past due dipped below 1.0 percent for the first time since early 2008. The share of multifamily loans held in commercial mortgage backed securities (CMBS) that were at least 60 days delinquent or had been repossessed by the lender also dropped sharply last year,

but remained high by historical standards. Multifamily loans backed by Fannie Mae and Freddie Mac continued to perform well, with delinquencies of at least 60 days at both institutions down to 0.1 percent or less at year-end.

FIGURE 27

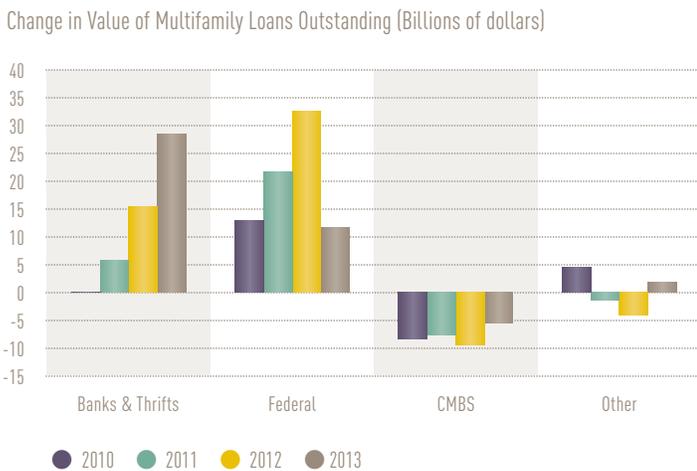
### Prices of Apartment Properties Have Recovered Much Faster than Those of Single-Family Homes and Now Exceed Their Recent Peak



Note: The S&P/Case-Shiller Index is re-indexed to equal 100 in 2000:4.  
Source: JCHS tabulations of Moody's Investors Service data and S&P/Case-Shiller U.S. National Home Price Index.

FIGURE 28

### Multifamily Lending Activity at Banks and Thrifts Picked up Sharply in 2013



Notes: CMBS are commercial mortgage backed securities issued by private firms. Other includes state and local governments, life insurance companies, pension funds, REITs, finance companies, and businesses.  
Source: JCHS tabulations of Mortgage Bankers Association data.

### PRIVATE LENDING ON THE RISE

The strong financial performance of the apartment market has fueled a rebound in multifamily lending. A Mortgage Bankers Association survey indicates that originations of multifamily loans were up 13 percent in 2013, following outsized gains of 36 percent in 2012 that had pushed annual multifamily originations above their mid-2000s peak.

Of particular note is the changing source of these loans. Based on estimates of total loans outstanding (including both new originations and repayment or writeoffs of existing loans), federal sources accounted for much of the increase in lending early in the multifamily recovery. In 2010, the volume of loans backed by the GSEs and FHA increased by \$13 billion, loans held by banks and thrifts were essentially flat, and those held in CMBS fell \$9 billion. As the rental recovery gained traction, however, private lenders began to step up their presence in the market. By 2013, net lending by banks and thrifts jumped by \$29 billion—more than twice the increase in the volume of government-backed loans (Figure 28).

As long as they continue to perform well, multifamily properties should attract an increasing level of private funding. In the meantime, plans to shrink the federal footprint in the multifamily sector have been put on hold to help meet the rising demand for rental properties and to address renter affordability challenges.

### THE OUTLOOK

Predicting the course of homeownership rates, and therefore rentership rates, is difficult because it depends on a host of economic factors as well as consumer attitudes. But given recent signs that the homeownership rate may be stabilizing and that new rental units will continue to come on line, market conditions should come more into balance.

Assuming homeownership remains at today's rates, the Joint Center estimates that demographic forces alone would lift the number of renter households by 4.0–4.7 million in 2013–23. While considerably slower than the recent pace of growth, these increases would still exceed the long-run average over the past several decades.

Two broad trends will drive future growth in renters: the imminent surge in the number of older households and the increasing racial/ethnic diversity of younger age groups. Over the coming decade, the number of renters aged 65 and older is projected to rise by about 2.2 million and account for roughly half of all renter growth. The aging of the population also means that the share of renters that are single persons or married couples without children will soar. Meanwhile, Hispanics will account for slightly more than half of all new renters while other minorities will make up the remainder. Meeting this diverse demand will require a range of new rental options in a variety of community settings.



# 6

## Housing Challenges

The number of cost-burdened households remains near a record high despite a modest retreat last year. Millions of homeowners, particularly in minority and high-poverty neighborhoods, are still underwater on their mortgages, while millions more renters have been forced to live in housing they cannot afford or is structurally inadequate. And with the ongoing growth in low-income households, housing assistance reaches a shrinking share of those in need.

### UNABATED COST BURDENS

Ending a long string of increases, the number of cost-burdened households (paying more than 30 percent of income for housing) receded slightly in 2012, falling by 1.7 million from the preceding year. But the improvement rolled back only a fraction of the growth over the previous decade. In all, 40.9 million households—or more than a third of US families and individuals—paid excessive shares of income for housing in 2012, an increase of more than 9 million from 2002 (**Figure 29**). What is particularly alarming is that 5.8 million of this gain was among severely burdened households (paying more than 50 percent of income for housing).

Virtually all of the improvement in conditions came on the homeowner side, with their cost-burdened numbers falling from 22.0 million in 2011 to 20.3 million in 2012. But even with this decline, more than a quarter of homeowners (27 percent) still had cost burdens, including more than one in ten with severe burdens.

The picture for renters is even less encouraging. In fact, the number of cost-burdened renters rose slightly to 20.6 million in 2012, marking the sixth straight year of increases. And although the cost-burdened share edged down, it still remained close to 50 percent. Moreover, more than one in four renters (27 percent) were severely housing cost burdened.

Cost burdens are the norm among lowest-income households. More than four out of five households with incomes below \$15,000—about equivalent to full-time work at the federal minimum wage—paid more than 30 percent of those incomes for housing in 2012, with more than two-thirds paying over 50 percent. Within this lowest-income group, the cost-burdened shares differ little between owners and renters. In the next-lowest income group (earning \$15,000–29,999), three-quarters of renters were cost burdened compared with 52 percent of owners. Even so, the severely cost-burdened shares for both owners and renters in this income group were similar (27 percent vs. 34 percent).

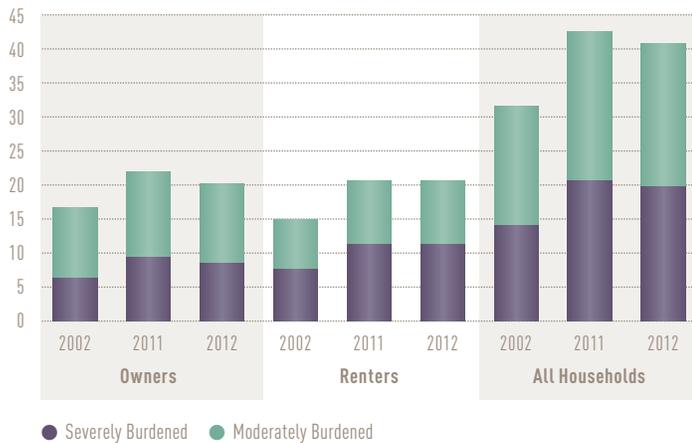
The incidence of severe cost burdens remains particularly high among minority households. In 2012, 27 percent of black households were severely burdened, along with 24 percent of Hispanic households and 21 percent of Asian households.

In contrast, only 14 percent of white households paid more than half their incomes for housing in that year. The severely cost-burdened shares of black and Hispanic households also climbed by more than 5 percentage points between 2002 and 2012, compared with increases of about 3 percentage points for white and Asian households.

FIGURE 29

### The Dip in 2012 Did Little to Reduce the Large Number of Cost-Burdened Households

Households (Millions)



Notes: Moderately (severely) cost burdened is defined as paying 30–50% (more than 50%) of income for housing. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be without burdens. Source: JCHS tabulations of US Census Bureau, American Community Surveys.

### DRIVERS OF AFFORDABILITY TRENDS

While cost burdens have spread among both owners and renters, the causes of these increases differ. For homeowners, most of the changes in cost-burdened shares reflect the ups and downs in housing costs. According to the American Community Survey, the median incomes of owners rose by a little over 3 percent between 2001 and 2007 while their median monthly housing costs jumped by 15 percent (Figure 30). Homeowner costs peaked in 2007 and then began a steep decline as interest rates hit historic lows and home prices plunged. By 2012, median housing costs for owners were nearly back to decade-earlier levels. But incomes also fell after 2007, offsetting some of the cost decline.

On the renter side, income declines have played a leading role in the rising incidence of cost burdens. From 2001 to 2007, median monthly rental costs rose 4 percent while renter incomes fell by 8 percent. The slide in renter incomes continued through 2011 with another 8 percent decline. Although conditions improved somewhat in 2011–12, the changes were not nearly enough to make up for lost ground. As a result, median renter incomes were 13 percent lower in 2012 than in 2001, falling from \$36,000 to only \$31,500. Meanwhile, the median rent paid, at \$880, was up about 4 percent over this period.

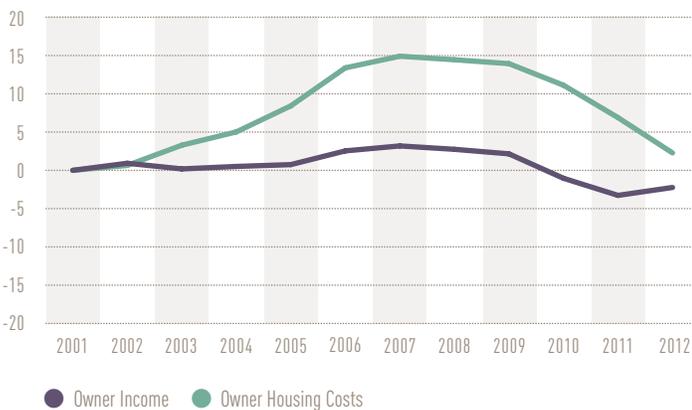
### IMPACTS OF HIGH-COST HOUSING

Low-income families and individuals unable to secure decent, affordable, and suitable housing face difficult choices. Many have to settle for units that cost more than they can afford and then must severely limit what they spend on food and other critical necessities. For those who find housing that is within their budgets, the units may be of poor quality and/or located

FIGURE 30

### Since the Recession, Affordability Has Improved for Homeowners But Not for Renters

Percent Change in Median Value Since 2001



Notes: Dollar values are adjusted for inflation using the CPI-U for All Items. Median renter housing costs exclude renters paying no cash rent. Source: JCHS tabulations of US Census Bureau, American Community Surveys.

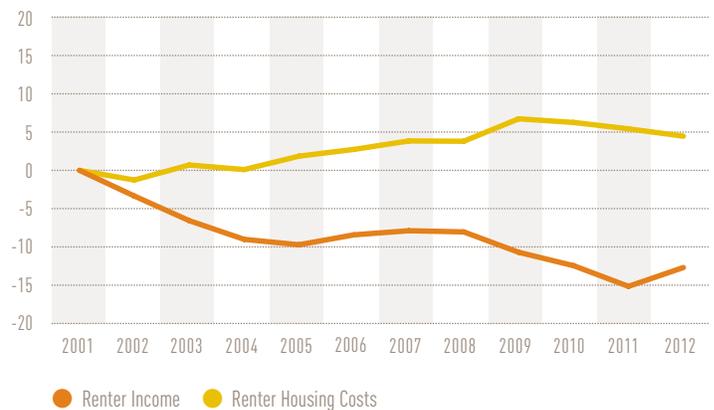
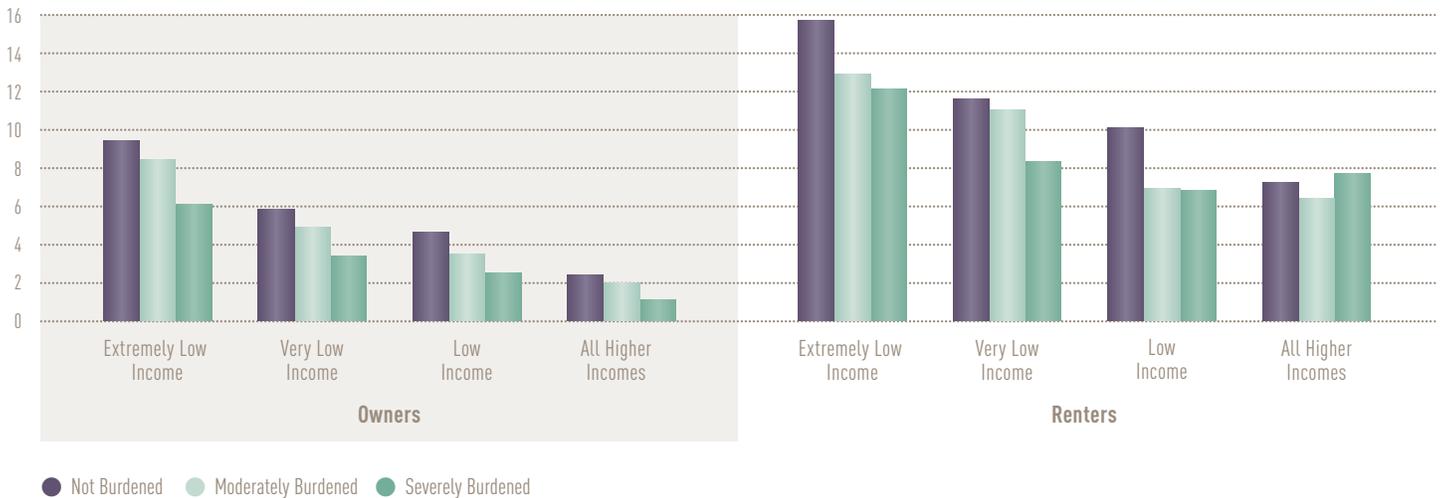


FIGURE 31

## Whether Owning or Renting, Low-Income Households Often Sacrifice Housing Quality for Affordability

Share Living in Inadequate Units (Percent)



Notes: Low (very low/extremely low) income is defined as 50–80% (30–50%/less than 30%) of area median. Moderately (severely) cost burdened is defined as paying 30–50% (more than 50%) of household income for housing. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be without burdens. Inadequate units lack complete bathrooms, running water, electricity, or have other indicators of major disrepair. For a complete definition, see HUD Codebook for the American Housing Survey, Public Use File. Source: JCHS tabulations of HUD, 2011 American Housing Survey.

in neighborhoods beset by crime and blight. The increased risk of physical harm in such locations imposes severe psychological stress on residents, and concerns about safety may prevent them from participating in outdoor activities. All of these pressures not only have significant health consequences that undermine the fundamental well-being of families and individuals, but also impair their ability to escape poverty.

In 2012, severely cost-burdened households in the bottom expenditure quartile (a proxy for income) spent on average 39 percent less on food and 65 percent less on healthcare compared with otherwise similar households living in affordable housing. The extent of these cutbacks is similar across a broad range of household types, although families with children spent significantly less on healthcare. Households that are severely cost burdened and living in rural areas also make particularly steep cuts in both nutrition and healthcare expenditures.

For households trading off quality for affordability, inadequate housing can also jeopardize health by exposing residents to allergens, toxins, and unsafe conditions. For example, poorly maintained homes are more likely to have mold, dust, insects, and rodents, increasing the risk of asthma and other ailments. Older homes may contain hazardous materials such as lead, asbestos, and radon.

According to the 2011 American Housing Survey, extremely low-income households (earning less than 30 percent of the

area median) were more than three times more likely to live in inadequate housing than households earning 80 percent or more of area median income. Reflecting the tradeoff between cost and quality, all low-income households that were not housing cost burdened were more likely to live in inadequate housing (**Figure 31**).

Moreover, extremely low-income renters are more likely to live in poorer quality neighborhoods. In 2009, some 25 percent lived in areas where a serious crime had occurred within the preceding year, and 13 percent lived within a half-block of at least one abandoned or vandalized building. The comparable shares for renters with higher incomes are 21 percent and 5 percent.

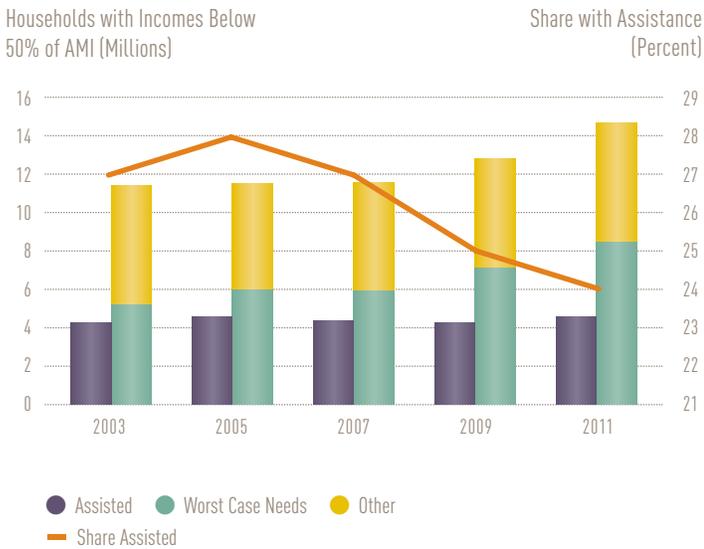
The struggle to meet high housing costs forces lowest-income families to move often, disrupting daily routines and social networks. Indeed, mobility rates are higher for lowest-income households. Among extremely low-income families with children in 2011, 43 percent had moved into their current homes within the previous two years. Mobility rates decline steadily as income rises, falling to just 19 percent for households making more than 80 percent of the area median.

### THE GROWING SUPPLY GAP

The rising tide of households unable to secure affordable housing reflects both substantial growth in the number of extremely low-income households and the fact that the private sector struggles to provide housing at a cost that is

FIGURE 32

### With the Number of Very Low-Income Renters on the Rise, the Likelihood of Assistance Continues to Fall



Notes: Worst case needs refer to unassisted renters with incomes below 50% of the area median that pay more than half of their incomes for rent or live in severely inadequate units, or both. Other includes households with similar incomes that do not receive assistance, are not burdened, and do not live in inadequate units.  
Source: HUD, Worst Case Housing Needs Reports to Congress.

within reach of these households. An Urban Institute analysis found that in 2000, 8.2 million extremely low-income households competed for 2.9 million rental units that were affordable and available. By 2012, the number of extremely low-income households had swelled to 11.5 million while the number of affordable and available housing units had increased to only 3.3 million.

These changes reduced the supply-demand ratio from 37 affordable and available rentals for every 100 lowest-income households to just 29. The substantial divide between the volume of affordable rentals the market can provide and the number of extremely low-income households underscores the essential role that subsidies must play in closing the gap.

#### SHRINKING SUBSIDIES

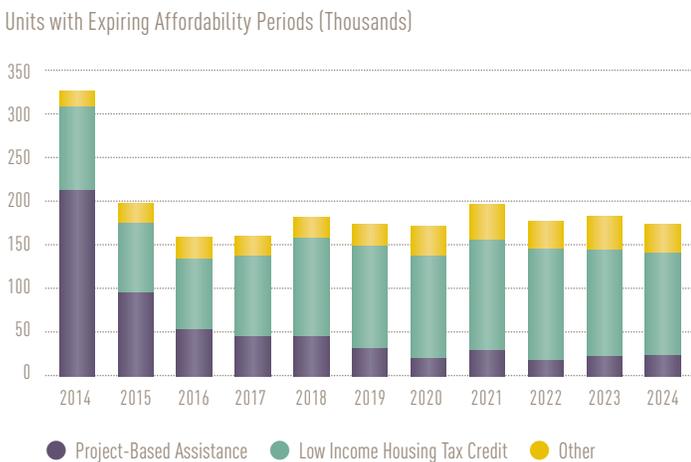
To qualify for federal rental assistance programs, a household typically cannot earn more than 50 percent of area median income. But this aid is not an entitlement and a large majority of eligible renters do not receive assistance. According to HUD estimates, the number of households eligible for rental subsidies shot up 21 percent between 2007 and 2011, growing from 15.9 million to 19.3 million. But only 4.6 million—or just under a quarter—received assistance in 2011 (Figure 32). Indeed, the number of very low-income renters that benefited from any kind of housing aid increased by just 225,000 over this period. Meanwhile, the share of subsidy-eligible unassisted renters with worst case needs (either having severe housing cost burdens or living in severely inadequate housing, or both) climbed steadily from 50 percent to 58 percent.

In part, the growing inadequacy of housing assistance programs—particularly the voucher program that has accounted for much of the increase in aid in recent decades—reflects the fallout from rising rents and falling renter incomes. HUD administrative data indicate that the average rent for a voucher-assisted unit was \$1,041 per month in 2012, up 13 percent from 2007. Over this period, federal spending per voucher-assisted unit rose 17 percent, from \$600 to \$705 per month. As the cost of administering rental assistance continues to grow, the capacity of federal programs to serve eligible households continues to diminish.

The situation has no doubt worsened since 2011, the last year for which data are available. Sequestration cut \$3 billion from HUD’s FY2013 budget, resulting in a 5 percent reduction in payments to landlords participating in the voucher program. Funding for program administration was also cut 4 percent. As a result, Government Accountability Office estimates indicate that 42,000 fewer households received housing vouchers in 2013 than in 2012. President Obama’s FY2015 budget proposes a 5 percent increase in the program to reverse the sequestration cuts and offset the drop in vouchers. But even if enacted, this would do little to address the shortfall in assisted housing relative to escalating need.

FIGURE 33

### More than Two Million Assisted Rentals Are at Risk of Loss from the Affordable Stock



Notes: Other units include those funded by HOME Rental Assistance, FHA insurance, Section 202 Direct Loans, USDA Section 515 Rural Rental Housing Loans, USDA Section 538 Guaranteed Rural Rental Housing Program, and State Housing Finance Agency Funded Section 236. Data include properties with active subsidies as of May 16, 2014.  
Source: JCHS tabulations of the National Housing Preservation Database.

## LOSSES OF ASSISTED HOUSING

On top of federal funding cuts to rental assistance programs, much of the existing supply of privately owned subsidized housing is at risk. The National Housing Preservation Database shows that the contracts or affordability restrictions on more than 190,000 units are set to expire each year on average over the next decade. Potential losses thus amount to more than 2.0 million units out of a total subsidized stock of 4.8 million. HUD-funded, project-based rental assistance programs, along with the Low Income Housing Tax Credit (LIHTC) program, support more than three-quarters (85 percent) of this housing (**Figure 33**). Most of the remainder are FHA-insured properties or units supported by HOME funding or the USDA Section 515 Rural Rental Housing Loan program.

Contracts on an estimated 596,000 units in properties with project-based rental assistance—more than a quarter (28 percent) of the total—will come up for renewal by 2024. These developments were built in the 1970s and 1980s and funded with long-term subsidies. When their affordability periods expire, owners have the option of converting the units to market-rate rentals. Owners of properties located in desirable areas with strong rental demand are particularly likely to opt out of the program.

But under ongoing pressures to reduce spending, President Obama's FY2015 budget cuts \$171 million from project-based Section 8 assistance. In addition, to mitigate the impact of sequestration, HUD "short-funded" those types of contracts in 2013—that is, offered contracts of less than a year. Advocates fear that this will further discourage property owners from continuing to rent to low-income households.

Meanwhile, tax credits subsidize more than half (57 percent) of the units with expiring affordability restrictions in 2014–24. The LIHTC program has been the primary funding source for developing and preserving affordable housing, supporting construction of nearly 1.3 million units and rehabilitation of another 783,000 between 1987 and 2013. Between 2014 and 2024, however, nearly 1.2 million LIHTC-subsidized units will reach the end of their compliance periods. At that point, owners may apply for another round of tax credits, maintain their units as affordable without new subsidies, or convert their properties to market-rate housing.

According to a 2012 HUD report, most owners of LIHTC properties choose to keep their units affordable, but this generally requires renewed subsidies. The tax credit units most at risk of loss from the affordable stock are likely those with for-profit owners and located in high-cost housing markets. Another hurdle for preserving the affordability of LIHTC units nearing the end of their compliance period is that they often need new funding for maintenance and rehabilitation.

## HOMELESSNESS ON THE DECLINE

HUD's most recent count indicates that the homeless population in the United States fell from 633,782 in 2012 to 610,042

in 2013—a 4 percent decline. With the exception of a small increase in 2010, homelessness has in fact fallen steadily since 2007. All major at-risk groups have shared in this improvement, with an 11 percent drop among individuals in families, 12 percent among the chronically homeless, and 6 percent among veterans. Virtually all of the decrease in homelessness has come within the unsheltered population, while the number living in shelters has held fairly constant at just under 400,000.

Federal funding for homeless assistance increased 34 percent between FY2007 and FY2013, contributing to the addition of 95,662 beds in permanent supportive housing. This new housing has made a profound difference in reducing homelessness among such vulnerable groups as veterans and the chronically homeless. Increased funding for healthcare services that target those with complex medical, mental health, and substance abuse issues has also contributed to the overall decline in homelessness.

But not all states have made significant progress. In fact, the homeless population in 15 states and the District of Columbia increased by more than 10 percent between 2007 and 2013. Particularly worrisome are the rising numbers of individuals in homeless families in New York (up more than a third) and Massachusetts (up 80 percent). Indeed, recent cuts in rental housing subsidies under sequestration may have contributed to increases in the incidence of homelessness among families.

## PERSISTENT NEIGHBORHOOD DISTRESS

The boom and bust in home prices during the housing market crash was especially severe in lower-income and minority neighborhoods. Based on the Zillow Home Value Index, home prices dropped 26 percent between 2006 and 2013 in neighborhoods that were predominantly minority—more than three times the decline in neighborhoods that were predominantly white (**Figure 34**). Similarly, prices in high-poverty neighborhoods fell 20 percent over this period, compared with 14 percent in low-poverty neighborhoods.

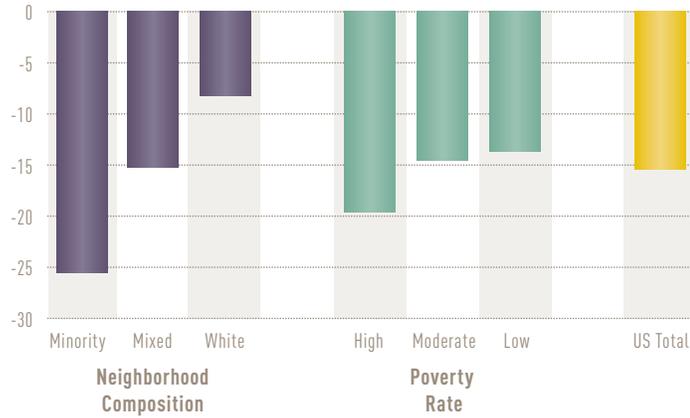
In part, the steep home price decline in minority—and, to a lesser extent, low-income—neighborhoods reflects the fact that prices in these areas had soared during the housing market bubble and a correction was in order. But the ensuing losses of housing wealth in these communities have been devastating for both those who bought homes during the runup to the crash and those who refinanced their homes at inflated values. Even with home prices on the rebound, the share of homeowners with negative equity in majority-minority and high-poverty neighborhoods remained at 27 percent in 2013, nearly double the share in white and low-poverty areas.

With such a large share of underwater homeowners, these neighborhoods are at heightened risk of widespread defaults. Homeowners in this bind have little opportunity to refinance

FIGURE 34a

### Home Prices in Minority and Low-Income Neighborhoods Remain Depressed...

Average Change in Home Prices, 2006–13 (Percent)



Notes: Neighborhoods are defined by zip codes and include 11,572 areas with at least 500 residents and with data available from 2000 to 2013. Minority (mixed/white) neighborhoods were more than 50% (10–50%/less than 10%) minority in 2012. High- (moderate-/low-) poverty neighborhoods had poverty rates of more than 20% (10–20%/less than 10%) in 2012. Home price changes are averaged across neighborhoods.

Source: JCHS tabulations of Zillow Real Estate Research data and US Census Bureau, 2012 American Community Survey 5-Year data.

their mortgages or to sell without paying out of pocket. Their inability to sell, in turn, reduces the already limited inventory of homes available to the next generation of lower-income buyers. As policymakers consider ending support for loan modification and refinancing programs for underwater owners, they must bear in mind the deep distress that still afflicts many struggling communities across the country.

#### THE OUTLOOK

Despite the recent weakness in a variety of indicators, the housing recovery is likely to continue at a modest pace, in line with growth in the broader economy. But even as the overall market shows signs of renewed health, significant challenges remain. Chief among them is that tens of millions of Americans devote an excessive amount of their incomes to housing but are still unable to live in good-quality units in stable communities. Nearly a quarter of all renter households earn less than \$15,000 a year, which means that housing they could afford would rent for under \$400 a month. These households must therefore compete for the extremely limited and dwindling supply of housing with such low rents. And given the cost of land, building materials, financing, and operations, the private sector is simply unable to provide additional low-cost housing without subsidies.

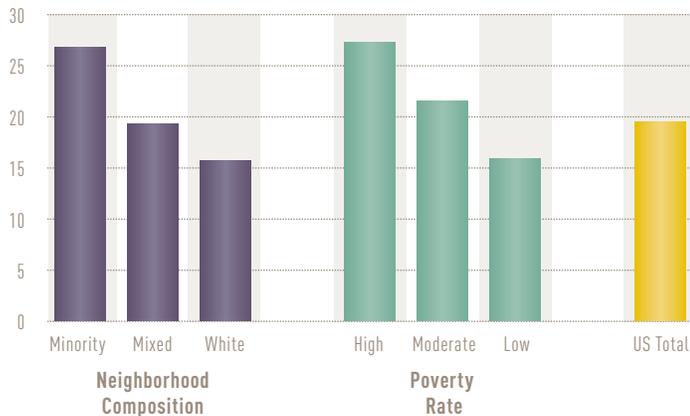
For lowest-income renters, government assistance is the only means to secure housing that does not require compromising on quality or cutting back on other critical expenses. But rapid growth in the number of income-eligible households, rising costs of subsidies, and overall cutbacks in government spending have strained the capacity of federal programs to respond to growing need. With the federal balance sheet improving, though, now is a good time to reconsider the extent and nature of support for these disadvantaged households.

Among homeowners, the concentration of underwater households in minority and high-poverty neighborhoods is an ongoing concern. A different but related challenge is the stalled reform of the government's role in the mortgage market, with its twin goals of reducing the risk of another housing market meltdown while also enabling qualified lower-income households to obtain affordable mortgages. Indeed, a significant factor in the sluggish homebuying market is the relatively weak financial position of many younger Americans—many of which are minorities with less wealth and less of a family tradition of homeownership. Ensuring that these young adults have opportunities to secure the financing they need to buy homes underpins the future growth of the owner-occupied housing market.

FIGURE 34b

### ...Leaving Disproportionately Large Shares of Homeowners with Negative Equity

Share of Mortgaged Homes with Negative Equity, 2013:4 (Percent)



Notes: Negative equity homes have mortgage balances that exceed current home values. Negative equity shares are averaged across neighborhoods. Neighborhoods are defined by zip codes and include 11,572 areas with at least 500 residents and with data available from 2000 to 2013. Minority (mixed/white) neighborhoods were more than 50% (10–50%/less than 10%) minority in 2012. High- (moderate-/low-) poverty neighborhoods had poverty rates of more than 20% (10–20%/less than 10%) in 2012.

Source: JCHS tabulations of Zillow Real Estate Research data and US Census Bureau, 2012 American Community Survey 5-Year data.



## Appendix Tables

Table A-1 ..... Housing Market Indicators: 1980–2013

Table A-2 ..... Homeownership Rates by Age, Race/Ethnicity, and Region: 1995–2013

Table A-3 ..... Housing Cost-Burdened Households by Tenure and Income: 2002, 2007, 2011, 2012

Table A-4 ..... Severely Cost-Burdened Households by Demographic Characteristics: 2012

Table A-5 ..... Monthly Housing and Non-Housing Expenditures by Households: 2012

Table A-6 ..... Households with Student Loan Debt by Age and Tenure: 2001, 2004, 2007, 2010

The following tables can be downloaded in Microsoft Excel format from the Joint Center’s website at [www.jchs.harvard.edu](http://www.jchs.harvard.edu).

Table W-1 ..... Metro Area Trends in Employment, Construction, Vacancy Rates, and House Prices: 2013

Table W-2 ..... Metro Area Median Home Payment-to-Income Ratios: 1990–2013

Table W-3 ..... Metro Area Households Able to Afford Median-Priced Homes by Age and Tenure: 2013

Table W-4 ..... Rental Stock Loss Rates: 2001–11

Table W-5 ..... Homelessness Counts by State: 2007–13

Table W-6 ..... Assisted Units with Expiring Affordable Use Periods: 2014–24

TABLE A-1

## Housing Market Indicators: 1980–2013

Year	Permits <sup>1</sup> (Thousands)		Starts <sup>2</sup> (Thousands)			Size <sup>3</sup> (Median sq. ft.)		Sales Price of Single-Family Homes (2013 dollars)	
	Single-Family	Multifamily	Single-Family	Multifamily	Manufactured	Single-Family	Multifamily	New <sup>4</sup>	Existing <sup>5</sup>
1980	710	480	852	440	234	1,595	915	182,634	175,849
1981	564	421	705	379	229	1,550	930	176,576	170,169
1982	546	454	663	400	234	1,520	925	167,295	163,673
1983	902	704	1,068	636	278	1,565	893	176,121	164,426
1984	922	759	1,084	665	288	1,605	871	179,146	162,330
1985	957	777	1,072	670	283	1,605	882	182,512	163,460
1986	1,078	692	1,179	626	256	1,660	876	195,548	170,679
1987	1,024	510	1,146	474	239	1,755	920	214,296	175,538
1988	994	462	1,081	407	224	1,810	940	221,536	175,850
1989	932	407	1,003	373	203	1,850	940	225,442	177,724
1990	794	317	895	298	195	1,905	955	219,054	173,426
1991	754	195	840	174	174	1,890	980	205,248	175,658
1992	911	184	1,030	170	212	1,920	985	201,741	175,174
1993	987	213	1,126	162	243	1,945	1,005	203,938	175,887
1994	1,069	303	1,198	259	291	1,940	1,015	204,348	178,412
1995	997	335	1,076	278	319	1,920	1,040	204,678	178,845
1996	1,070	356	1,161	316	338	1,950	1,030	207,865	182,030
1997	1,062	379	1,134	340	336	1,975	1,050	211,911	187,236
1998	1,188	425	1,271	346	374	2,000	1,020	217,951	194,369
1999	1,247	417	1,302	339	338	2,028	1,041	225,127	197,440
2000	1,198	394	1,231	338	281	2,057	1,039	228,628	199,272
2001	1,236	401	1,273	329	196	2,103	1,104	230,458	205,991
2002	1,333	415	1,359	346	174	2,114	1,070	242,928	217,029
2003	1,461	428	1,499	349	140	2,137	1,092	246,884	228,146
2004	1,613	457	1,611	345	124	2,140	1,105	272,544	240,726
2005	1,682	473	1,716	353	123	2,227	1,143	287,349	261,227
2006	1,378	461	1,465	336	112	2,259	1,192	284,841	256,414
2007	980	419	1,046	309	95	2,230	1,134	278,526	244,819
2008	576	330	622	284	81	2,174	1,089	251,131	212,720
2009	441	142	445	109	55	2,103	1,124	235,306	186,876
2010	447	157	471	116	51	2,151	1,137	236,957	184,929
2011	418	206	431	178	48	2,267	1,093	235,299	172,124
2012	519	311	535	245	52	2,310	1,051	248,792	179,796
2013	621	370	618	307	56	2,460	1,099	268,900	197,400

Notes: All value series are adjusted by the CPI-U for All Items. All links are as of April 2014. na indicates data not available.

Sources:

1. US Census Bureau, New Privately Owned Housing Units Authorized by Building Permits, [www.census.gov/construction/pdf/bpann.pdf](http://www.census.gov/construction/pdf/bpann.pdf).
2. US Census Bureau, New Privately Owned Housing Units Started, [www.census.gov/construction/nrc/pdf/startsan.pdf](http://www.census.gov/construction/nrc/pdf/startsan.pdf); Placements of New Manufactured Homes, [www.census.gov/construction/mhs/pdf/mhstabplcmnt.pdf](http://www.census.gov/construction/mhs/pdf/mhstabplcmnt.pdf); and JCHS historical tables. Manufactured housing starts are defined as placements of new manufactured homes.
3. US Census Bureau, Quarterly Starts and Completions by Purpose and Design, [www.census.gov/construction/nrc/pdf/quarterly\\_starts\\_completions.pdf](http://www.census.gov/construction/nrc/pdf/quarterly_starts_completions.pdf); and JCHS historical tables.
4. New home price is the median price from US Census Bureau, Median and Average Sales Price of New One-Family Houses Sold, [www.census.gov/construction/nrs/xls/usprice\\_cust.xls](http://www.census.gov/construction/nrs/xls/usprice_cust.xls).
5. Existing home price is the median sales price of existing single-family homes determined by the National Association of Realtors.

Vacancy Rates <sup>6</sup> (Percent)		Value Put in Place <sup>7</sup> (Millions of 2013 dollars)			Home Sales (Thousands)	
For Sale	For Rent	Single-Family	Multifamily	Owner Improvements	New <sup>8</sup>	Existing <sup>9</sup>
1.4	5.4	149,616	47,236	na	545	2,973
1.4	5.0	133,175	44,746	na	436	2,419
1.5	5.3	100,092	37,510	na	412	1,990
1.5	5.7	169,605	52,502	na	623	2,697
1.7	5.9	193,709	63,275	na	639	2,829
1.7	6.5	189,115	61,788	na	688	3,134
1.6	7.3	221,333	65,972	na	750	3,474
1.7	7.7	240,372	52,194	na	671	3,436
1.6	7.7	236,488	43,909	na	676	3,513
1.8	7.4	227,188	41,902	na	650	3,010
1.7	7.2	201,206	34,311	na	534	2,914
1.7	7.4	170,060	25,909	na	509	2,886
1.5	7.4	202,531	21,742	na	610	3,151
1.4	7.3	225,901	17,392	92,327	666	3,427
1.5	7.4	255,135	22,134	101,613	670	3,544
1.5	7.6	234,661	27,345	86,697	667	3,519
1.6	7.8	253,580	30,176	98,559	757	3,797
1.6	7.7	254,263	33,213	96,716	804	3,964
1.7	7.9	284,992	35,121	103,416	886	4,495
1.7	8.1	312,992	38,361	104,916	880	4,649
1.6	8.0	320,333	38,230	109,702	877	4,603
1.8	8.4	327,647	39,863	111,839	908	4,735
1.7	8.9	344,306	42,670	126,715	973	4,974
1.8	9.8	393,210	44,459	127,043	1,086	5,446
1.7	10.2	465,614	49,260	142,313	1,203	5,958
1.9	9.8	517,098	56,417	156,369	1,283	6,180
2.4	9.7	480,701	61,016	167,474	1,051	5,677
2.7	9.7	342,886	55,007	156,288	776	4,420
2.8	10.0	201,009	47,974	129,995	485	3,660
2.6	10.6	114,380	30,988	121,658	375	3,870
2.6	10.2	120,261	15,690	119,188	323	3,708
2.5	9.5	112,034	15,573	118,074	306	3,787
2.0	8.7	133,949	22,557	125,228	368	4,128
2.0	8.3	168,823	32,151	130,948	429	4,484

6. US Census Bureau, Housing Vacancy Survey, [www.census.gov/housing/hvs/data/ann13ind.html](http://www.census.gov/housing/hvs/data/ann13ind.html).

7. US Census Bureau, Annual Value of Private Construction Put in Place, [www.census.gov/construction/c30/historical\\_data.html](http://www.census.gov/construction/c30/historical_data.html); data for 1980–93 retrieved from past JCHS reports. Single-family and multifamily are new construction. Owner improvements do not include expenditures on rental, seasonal, and vacant properties.

8. US Census Bureau, Houses Sold by Region, [www.census.gov/construction/hrs/rls/sold\\_cust.xls](http://www.census.gov/construction/hrs/rls/sold_cust.xls).

9. NAR, Existing Single-Family Home Sales.

TABLE A-2

## Homeownership Rates by Age, Race/Ethnicity, and Region: 1995–2013

Percent

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>All Households</b>	64.7	65.4	65.7	66.3	66.8	67.4	67.8	67.9	68.3	69.0	68.9	68.8	68.1	67.8	67.4	66.8	66.1	65.4	65.1
<b>Age of Householder</b>																			
Under 35	38.6	39.1	38.7	39.3	39.7	40.8	41.2	41.3	42.2	43.1	43.0	42.6	41.7	41.0	39.7	39.1	37.7	36.7	36.8
35–44	65.2	65.5	66.1	66.9	67.2	67.9	68.2	68.6	68.3	69.2	69.3	68.9	67.8	67.0	66.2	65.0	63.5	61.4	60.6
45–54	75.2	75.6	75.8	75.7	76.0	76.5	76.7	76.3	76.6	77.2	76.6	76.2	75.4	75.0	74.4	73.5	72.7	71.7	71.2
55–64	79.5	80.0	80.1	80.9	81.0	80.3	81.3	81.1	81.4	81.7	81.2	80.9	80.6	80.1	79.5	79.0	78.5	77.3	76.6
65 and Over	78.1	78.9	79.1	79.3	80.1	80.4	80.3	80.6	80.5	81.1	80.6	80.9	80.4	80.1	80.5	80.5	80.9	81.1	80.8
<b>Race/Ethnicity of Householder</b>																			
White	70.9	71.7	72.0	72.6	73.2	73.8	74.3	74.7	75.4	76.0	75.8	75.8	75.2	75.0	74.8	74.4	73.8	73.5	73.3
Hispanic	42.0	42.8	43.3	44.7	45.5	46.3	47.3	47.0	46.7	48.1	49.5	49.7	49.7	49.1	48.4	47.5	46.9	46.1	46.1
Black	42.9	44.5	45.4	46.1	46.7	47.6	48.4	48.2	48.8	49.7	48.8	48.4	47.8	47.9	46.6	45.9	45.4	44.6	43.8
Asian/Other	51.5	51.5	53.3	53.7	54.1	53.9	54.7	55.0	56.9	59.7	60.3	60.8	60.1	59.5	59.0	58.2	57.4	56.7	56.9
All Minority	43.7	44.9	45.8	46.8	47.4	48.1	49.0	48.9	49.5	51.0	51.3	51.3	50.9	50.6	49.7	48.9	48.3	47.7	47.4
<b>Region</b>																			
Northeast	62.0	62.2	62.4	62.6	63.1	63.5	63.7	64.3	64.4	65.0	65.2	65.2	65.0	64.6	64.0	64.1	63.6	63.5	63.0
Midwest	69.2	70.6	70.5	71.1	71.7	72.6	73.1	73.1	73.2	73.8	73.1	72.7	71.9	71.7	71.0	70.8	70.2	69.6	69.7
South	66.7	67.5	68.0	68.6	69.1	69.6	69.8	69.7	70.1	70.9	70.8	70.5	70.1	69.9	69.6	69.0	68.3	67.2	66.7
West	59.2	59.2	59.6	60.5	60.9	61.7	62.6	62.5	63.4	64.2	64.4	64.7	63.5	63.0	62.6	61.4	60.5	59.8	59.4

Notes: White, black, and Asian/other householders are non-Hispanic. Hispanic householders may be of any race.  
Source: US Census Bureau, Housing Vacancy Surveys.

TABLE A-3

## Housing Cost-Burdened Households by Tenure and Income: 2002, 2007, 2011, 2012

Thousands

Tenure and Income	2002			2007			2011			2012		
	Moderate Burden	Severe Burden	Total									
<b>Owners</b>												
Less than \$15,000	891	2,607	3,499	943	3,057	4,000	966	3,585	4,551	964	3,454	4,418
\$15,000–29,999	1,811	1,842	3,653	2,112	2,408	4,519	2,341	2,760	5,101	2,295	2,485	4,779
\$30,000–44,999	2,230	964	3,194	2,534	1,574	4,109	2,720	1,512	4,232	2,583	1,323	3,905
\$45,000–74,999	3,125	677	3,803	4,057	1,425	5,482	3,767	1,070	4,837	3,429	915	4,343
\$75,000 and Over	2,297	255	2,552	3,969	708	4,677	2,863	418	3,281	2,477	337	2,814
Total	10,355	6,346	16,700	13,615	9,172	22,787	12,657	9,345	22,002	11,748	8,512	20,260
<b>Renters</b>												
Less than \$15,000	1,046	5,022	6,068	1,090	5,621	6,711	1,191	7,229	8,420	1,186	7,190	8,376
\$15,000–29,999	3,323	2,193	5,516	3,496	2,608	6,104	3,921	3,305	7,226	3,959	3,251	7,209
\$30,000–44,999	1,973	345	2,318	2,232	502	2,733	2,513	634	3,147	2,572	642	3,213
\$45,000–74,999	818	82	900	1,117	136	1,254	1,363	164	1,527	1,367	169	1,536
\$75,000 and Over	174	12	186	238	13	251	279	11	290	288	09	297
Total	7,333	7,654	14,987	8,174	8,880	17,053	9,267	11,342	20,610	9,371	11,261	20,632
<b>All Households</b>												
Less than \$15,000	1,937	7,630	9,566	2,033	8,678	10,711	2,157	10,813	12,971	2,150	10,643	12,793
\$15,000–29,999	5,134	4,035	9,169	5,608	5,016	10,624	6,262	6,065	12,327	6,254	5,735	11,989
\$30,000–44,999	4,202	1,309	5,512	4,766	2,076	6,842	5,233	2,146	7,379	5,154	1,964	7,119
\$45,000–74,999	3,943	759	4,702	5,175	1,561	6,736	5,131	1,234	6,364	4,795	1,084	5,879
\$75,000 and Over	2,471	266	2,738	4,207	721	4,928	3,142	429	3,571	2,766	346	3,112
Total	17,687	13,999	31,687	21,789	18,051	39,840	21,925	20,687	42,612	21,119	19,773	40,892

Notes: Moderate (severe) burdens are defined as housing costs of 30–50% (more than 50%) of household income. Households with zero or negative income are assumed to have severe burdens, while renters paying no cash rent are assumed to be without burdens. Income cutoffs are adjusted for inflation using the CPI-U for All Items.

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

TABLE A-4

## Severely Cost-Burdened Households by Demographic Characteristics: 2012

Percent

	Household Income					Total
	Less than \$15,000	\$15,000–29,999	\$30,000–44,999	\$45,000–74,999	\$75,000 and Over	
<b>Tenure</b>						
Owners with Mortgages	94.0	55.0	22.7	7.6	1.3	13.6
Owners without Mortgages	45.4	5.2	0.8	0.2	0.0	7.3
Renters	71.3	33.9	8.8	2.1	0.1	27.0
<b>Age of Householder</b>						
Under 25	84.5	32.7	7.2	1.8	0.6	37.6
25–44	80.9	37.6	11.8	3.7	0.7	17.1
45–64	70.9	33.7	13.2	5.0	1.1	15.5
65 and Over	49.0	21.1	9.2	3.9	0.9	16.1
<b>Household Type</b>						
Married without Children	69.9	26.2	10.8	3.8	0.8	7.8
Married with Children	85.0	45.6	17.2	6.0	1.1	10.4
Single-Parent Family	80.5	41.2	12.8	4.6	1.3	32.9
Other Family	71.9	31.1	10.3	3.7	0.7	17.2
Single Person	61.8	24.7	9.2	3.8	0.9	26.0
Non-Family	85.1	33.1	10.4	2.8	0.5	16.0
<b>Race/Ethnicity of Householder</b>						
White	65.7	26.7	10.3	3.8	0.8	13.9
Black	71.7	33.2	10.1	3.6	0.9	26.9
Hispanic	73.2	39.3	13.9	4.8	1.1	23.9
Asian/Other	73.4	41.0	20.3	8.8	1.6	20.7
<b>Education of Householder</b>						
No High School Diploma	59.3	27.2	9.5	3.5	0.8	27.6
High School Graduate	65.3	26.4	9.0	3.0	0.7	19.2
Some College	75.4	32.9	11.5	3.9	0.8	18.1
Bachelor's Degree or Higher	81.1	39.9	15.9	5.8	1.0	10.3
<b>Employment Status</b>						
Fully Employed	74.6	31.4	10.6	3.8	0.8	9.0
Short-Term Unemployed	78.8	39.1	14.8	5.3	1.0	22.3
Long-Term Unemployed	83.6	41.2	16.7	5.7	1.4	36.8
Fully Unemployed	82.9	48.9	21.8	9.3	2.6	52.0
<b>All Households</b>	<b>68.6</b>	<b>30.4</b>	<b>11.3</b>	<b>4.2</b>	<b>0.9</b>	<b>17.1</b>

Notes: Severely cost-burdened households are defined as paying more than 50% of income for housing. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be without burdens. Children are the householder's own children under the age of 18. White, black, and Asian/other householders are non-Hispanic. Hispanic householders may be of any race. Fully employed householders worked for at least 48 weeks during the previous 12 months, short-term unemployed for 27–47 weeks, and long-term unemployed for 1–26 weeks. Fully unemployed householders did not work in the previous 12 months but were in the labor force.

Source: JCHS tabulations of US Census Bureau, 2012 American Community Survey.

TABLE A-5

## Monthly Housing and Non-Housing Expenditures by Households: 2012

Dollars

Share of Expenditures on Housing	Housing Expenditures	Non-Housing Expenditures							
		Total	Transportation	Food	Clothes	Healthcare	Personal Insurance and Pensions	Entertainment	Other
<b>Quartile 1 (Lowest)</b>									
Less than 30%	245	1,063	176	343	28	142	79	63	232
30-50%	534	838	136	298	25	87	75	53	164
Over 50%	745	483	59	208	14	50	36	33	83
All	444	874	140	302	25	105	70	54	179
<b>Quartile 2</b>									
Less than 30%	498	2,080	372	531	57	244	254	117	505
30-50%	958	1,563	283	466	49	127	228	93	317
Over 50%	1,454	1,041	173	369	31	77	145	68	179
All	744	1,807	323	494	52	188	236	105	409
<b>Quartile 3</b>									
Less than 30%	758	3,262	571	694	105	352	474	198	868
30-50%	1,462	2,483	426	639	79	228	427	145	540
Over 50%	2,365	1,570	264	453	43	176	234	93	307
All	1,036	2,959	515	667	94	308	449	178	748
<b>Quartile 4 (Highest)</b>									
Less than 30%	1,289	7,645	2,031	1,034	224	563	1,032	465	2,296
30-50%	2,748	4,603	695	932	174	386	851	289	1,276
Over 50%	4,542	3,031	425	711	91	269	549	213	772
All	1,660	6,947	1,739	1,005	211	522	983	425	2,063

Notes: Quartiles are equal fourths of households ranked by total expenditures. Housing expenditures include mortgage principal and interest, insurance, taxes, maintenance, rents, and utilities.  
Source: JCHS tabulations of US Bureau of Labor Statistics, 2012 Consumer Expenditure Survey.

TABLE A-6

## Households with Student Loan Debt by Age and Tenure: 2001, 2004, 2007, 2010

2010 Dollars

Age of Household Head	Year	Owners			Renters			All Households		
		Share with Debt (Percent)	Median (Dollars)	Total (Billions of dollars)	Share with Debt (Percent)	Median (Dollars)	Total (Billions of dollars)	Share with Debt (Percent)	Median (Dollars)	Total (Billions of dollars)
<b>Under 30</b>										
	2001	26.8	9,803	15	27.7	10,293	39	27.4	10,171	54
	2004	24.9	11,967	24	32.0	8,975	53	29.8	10,126	77
	2007	33.9	18,858	43	33.9	11,524	78	33.9	13,620	121
	2010	44.8	13,000	37	39.6	10,000	83	41.0	11,000	120
<b>30-39</b>										
	2001	16.9	11,028	41	20.3	8,087	28	18.3	9,803	69
	2004	21.1	14,958	64	21.3	13,808	44	21.2	14,958	108
	2007	25.8	19,906	93	26.9	10,477	40	26.2	15,715	133
	2010	37.2	14,800	136	30.4	14,500	81	34.2	14,800	217
<b>40-49</b>										
	2001	12.1	9,803	46	9.1	6,188	13	11.3	8,332	59
	2004	13.4	9,780	41	12.5	8,630	16	13.2	9,205	57
	2007	12.4	10,477	37	14.1	8,381	16	12.9	10,372	53
	2010	20.4	14,900	84	20.6	10,200	32	20.5	13,000	116
<b>50-59</b>										
	2001	8.6	9,680	21	7.8	12,499	4	8.4	9,680	25
	2004	11.6	10,241	33	14.4	5,178	7	12.1	10,126	40
	2007	14.0	11,524	69	12.8	5,238	6	13.7	10,477	75
	2010	15.2	17,000	84	14.0	9,500	20	14.9	15,000	103
<b>60-69</b>										
	2001	1.2	4,289	1	2.7	22,057	1	1.5	4,289	2
	2004	1.5	9,205	3	3.5	8,055	1	1.9	8,055	4
	2007	5.1	8,381	13	4.8	7,439	1	5.0	8,067	14
	2010	5.3	10,000	14	5.4	13,700	3	5.3	10,000	17
<b>70 and Over</b>										
	2001	0.4	2,328	0	0.0	0	0	0.3	2,328	0
	2004	1.2	5,753	5	0.0	0	0	1.0	5,753	5
	2007	0.6	20,954	2	0.0	0	0	0.5	20,954	2
	2010	1.9	12,000	5	1.0	29,900	1	1.8	15,000	6
<b>All</b>										
	2001	9.5	9,803	123	15.9	9,803	85	11.5	9,803	208
	2004	10.9	11,506	170	18.9	10,241	120	13.4	10,586	291
	2007	12.7	15,191	256	20.5	10,477	141	15.2	12,572	397
	2010	16.6	14,000	360	24.1	12,000	220	19.1	13,000	580

Notes: Medians include only households with student loan debt. Dollar values are adjusted for inflation using the CPI-U for All Items. Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances.





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