KEY FACTS

Facts from the 2016 State of the Nation's Housing Report from the Joint Center for Housing Studies of Harvard University

PURPOSE

The State of the Nation's Housing report has been released annually by Harvard University's Joint Center for Housing Studies since 1988. Now in its 28th year, it continues to serve as an essential resource for both public policy makers and private decision makers in the housing industry. This year's report provides a current assessment of the state of the rental and homeownership markets; the economic and demographic trends driving housing demand; the state of mortgage finance; and ongoing housing affordability challenges.

HOUSING MARKETS SHOW CONTINUED RECOVERY

Construction is Gaining Momentum

- Single-family housing starts rose to 715,000 in 2015, a 10.5 percent increase over 2015, while multifamily starts were at a 27-year high of 397,300, up 11.8 percent.
- Residential permits increased in 70 of the 100 largest metro areas in 2015, with yearly gains of over 25 percent in metros including Dallas, Los Angeles, Miami, New York, San Diego, and San Francisco. However there were slowdowns in metros such as Houston, San Antonio, San Jose, and Washington, DC.
- Construction of multifamily units is taking on a growing share of the new rental supply, with the number of multifamily starts intended for rent climbing to 370,000 units in 2015, the highest level since the 1980s.
- The median asking rent for a newly constructed market-rate multifamily unit built in 2015 rose to $1,381 per month, more than 70 percent higher than the median contract rent for all multifamily units.
- The median size of completed new single-family units hit a record high of 2,467 square feet in 2015. Only 135,000 units (about 20 percent of the total) completed in 2014 were under 1,800, the smallest number and share of units of this size going back to 1999 **(See Figure 8[1])**.
- Housing is a key economic driver. Residential fixed investment (RFI), including both new construction and homeowner improvement spending, generated $600 billion in 2015 or 3.3 percent of gross domestic product (GDP). This is below the historical average of 4.6 percent, but an increase from its all-time low of 2.4 percent of GDP in 2011 **(See Figure 12)**.

Headwinds to Development Remain

- The construction labor force lost more than 2 million workers between 2007 and 2013, and only 40 percent of displaced workers eventually returned to the industry; with this decline, a 2015 National Association of Home Builders (NAHB) survey found a majority of construction firms reporting labor shortages in many trades.
- Metrostudy data show that the supply of construction-ready land (vacant developed lots) in 50 metro areas shrank by 30 percent from 2008 to 2013, before settling just above levels posted in the early 2000s.
- Residential construction loan volumes rose 4.5 percent in the fourth quarter of 2015, the 11th consecutive quarter of growth, according to the NAHB. However the Federal Reserve Board's latest Senior Loan Officer Opinion Survey on Bank Lending Practices indicate some tightening of credit for construction loans.

1 Note: Where facts are supported by figures from the report, the figure numbers are listed.

Home Sales are Strengthening

- New home sales rose 14.6 percent to 501,000 in 2015 while existing home sales increased 6.3 percent to 5.3 million.
- Existing home sales were bolstered by growth of 7.6 percent in non-distressed resales coupled with a 10 percent decline in short sales and an 11 percent drop in REO sales, according to CoreLogic.
- Existing home inventories tightened further in 2015, falling 1.9 percent to 2.1 million units. Supply is at 4.8 months, which for the fourth consecutive year is below the 6 month level that normally represents a balanced market.
- The most affordable tiers of homes have experienced the sharpest declines in the number of for-sale units, as inventories of bottom- and middle-value tier units within metro areas shrank by more than 38 percent between 2010 and 2015, and by 9 percent in 2015 alone.

Home Prices on the Rise

- Multiple measures show strong growth in home prices in 2015, with the median price of existing homes up 6.6 percent in real terms to $222,400 (a new peak in nominal terms), and the median new home price increasing 4.7 percent in real terms to $296,400.
- Home prices nationally are back to 5.3 percent below their previous peak on a nominal basis, but after adjusting for inflation are still nearly 20 percent below the peak price.
- One million homeowners were lifted out of negative equity due to rising home prices. The number of homeowners underwater on their mortgages dropped from 5.3 million in the fourth quarter of 2014 to 4.3 million in the fourth quarter of 2015—well below the 12.1 million peak at the end of 2011, but still elevated compared to pre-crisis levels.
- The average interest rate on 30-year fixed-rate loans held below 4.0 percent for most of 2015 and stood at 3.6 percent in April 2016.
- Assuming a 10-percent downpayment on a 30-year fixed-rate mortgage, the monthly principal and interest payment for the median-priced home in 2015 was $834, well below the $1,000 average since 1990 **(See Figure 22).**

DEMAND-SIDE ISSUES ARE DRIVING GROWTH

Household Growth is on the Rise

- After years of weakness, the pace of household growth has picked up, rising from 653,000 in 2013 to 1.0 million in 2014 and then to 1.3 million in 2015—marking the largest single-year increase in a decade **(See Figure 1).**
- The share of Millennials (25–34 year-olds) living in their parents' homes is still high, having risen from 17 percent in 2008 to about 22 percent in 2014. More recent Current Population Survey data show further increases in 2015.
- Over the next 10 years, the millennial generation (born 1985–2004) is expected to form 2 million households per year, increasing the total number of millennial-headed households from 16 million in 2015 to a projected 40 million in 2025.
- The number of households age 70 and over is projected to soar by over 8 million, or more than 40 percent, in 2015–2025.
- Minorities are expected to account for more than 75 percent of household growth over the next 10 years.

Incomes Back on the Rise Amidst Long-term Household Income and Wealth Inequality

- Incomes are on the rise. Real median income for all workers age 15 and over edged up 1.0 percent in 2014—the third year of increases.
- Income growth was strongest for younger adults, with median incomes for individuals aged 25–34 up 2.3 percent annually at last measure in 2014, and up 4.1 percent among those aged 35–44 **(See Figure 15).**
- Household income disparities have increased sharply. From 1980 to 2014, the average real income of households in the bottom decile was down 18 percent (from $7,700 to $6,300), while top-decile incomes were up 66 percent (from $154,000 to $256,000).
- Low-wealth households are also becoming more common. The number of households with net wealth of $1,000 or less was nearly 20 million in 2013, while more than 43 million households had less than $25,000 in net wealth, up from 30 million in 1992 **(See Figure 16).**

Overall Mobility Remains Low, but Regional Domestic Migration and Immigration Turn Upward

- International immigration is back on the rise, climbing from a low of 704,000 in 2011 up to an estimated 1.15 million in 2015.
- Immigration has been an important source of housing demand over the last three decades, as the foreign-born have contributed just over a third of the increase in households in 1994–2015.
- Since the downturn, the ethnic mix of immigrants has shifted. Due to increases in immigration from Asia and decreases in immigration from Mexico, today's immigrants are more likely to be Asian than Hispanic **(See Figure 17).**
- While the shares of all age groups moving each year are still down, domestic migration (state-to-state moves within the country) increased in 2015, restoring the long-term flow of population into the South and West **(See Figure 18).**

CHALLENGES TO HOMEOWNERSHIP REMAIN

Homeownership Rates Continue Decade-long Slide

- With mortgage credit still tight and foreclosures relatively high, the national homeownership rate fell by more than 5 percentage points from the 69.0 percent peak in 2004, to just 63.7 percent in 2015. The largest drop has been among households aged 35–44, with rates dropping nearly 11 percentage points from 69.2 percent in 2004 to 58.5 percent in 2015.
- The overhang of foreclosures has contributed to the continued slump in homeownership. According to CoreLogic data, the total number of foreclosure completions, short sales, and deed-in-lieu of foreclosure transactions for single-family properties averaged 55,900 per month in 2015, down from a peak of 120,200 per month in 2010, but still well above the pre-crisis average of 19,900 a month from 2000 to 2005.
- Foreclosures are likely to recede in coming years—the Mortgage Bankers Association reports that the inventory of properties in the foreclosure process totaled 688,000 units in the fourth quarter of 2015, a significant improvement over the high of 2.1 million in 2010, and the share of mortgaged owners seriously delinquent on their loans (90 or more days past due or in foreclosure) stood at 3.4 percent at the end of 2015, down from the high of 9.7 percent in 2009.

Downpayment Pressures Affect Many Would-be Homebuyers

- Downpayments present a significant challenge for many renters, with the 2013 Survey of Consumer Finances indicating that among those with savings, the median value of all financial assets was just $3,000. By comparison, a 5 percent downpayment on a median-priced existing home in 2015 was $11,100.
- According to the Survey of Consumer Finances, the share of all US households with outstanding student loan debt increased from 12 percent in 2001 to 20 percent in 2013, including 39 percent of households aged 20-39.
- The median outstanding student loan service balance rose from $10,500 in 2001 to $17,000 in 2013.

Mortgage Market Conditions Are Still Tight

- Mortgage credit remains tight for households with less than perfect credit histories and those with low incomes, limiting access to homeownership for these groups. CoreLogic data indicate that loans to homebuyers with observed credit scores below 700 declined from 33 percent of first-lien mortgages in 2010 to just 27 percent in 2014, and Home Mortgage Disclosure Act (HMDA) data show that the share of mortgage loan originations to low- and moderate-income homebuyers fell from 36 percent in 2010 to 27 percent in 2014.
- Banks have reduced their share of home purchase mortgage originations from 50 percent in 2010 to 40 percent in 2014, according to HMDA data. In their place, independent mortgage companies are originating a greater share of home purchase mortgage loans, increasing their share of originations from 35 percent in 2010 to 47 percent in 2014.

Americans Remain Optimistic Toward Homeownership

- Despite low homeownership rates, most Americans still believe that homeownership is a sound financial choice. According to a 2015 Demand Institute Survey, 78 percent of household heads agreed or strongly agreed with the statement "I think homeownership is an excellent investment," while only 6 percent disagreed or strongly disagreed.
- Most Americans, including young renters, believe that homeownership is not only desirable but also attainable. A 2015 Demand Institute survey found that 83 percent of household heads expected to own homes in the future. Moreover, 85 percent of renters under age 30 and 69 percent of renters aged 30–39 expect to become homeowners.

RENTAL MARKETS CONTINUE TO SURGE

Rental Housing Remains in High Demand

- The rental market continues to drive the housing recovery, with 36.4 percent of US households opting to rent in 2015—the largest share since the late 1960s. From 2005 to 2015, the number of renter households expanded by 9 million. Last year marked the largest single-year increase in renter households in Housing Vacancy Surveys (HVS) records dating back to the mid-1960s, up 1.4 million.

- Renters are more diverse than homeowners in terms of race, ethnicity, and household type. Minorities and foreign-born households account for half of renter households, compared with just one in four homeowners. Families with children now make up 31 percent of renters, but only 27 percent of homeowners.

- While more than a third of renter households earn less than $25,000, a sizable and growing number of high-income households are choosing to rent. Indeed, renter households earning $100,000 or more have been the fastest growing segment over the past three years.

Strong Multifamily Performance

- The National Council of Real Estate Investment Fiduciaries reports that the annual rate of return on rental property investments rose to 12 percent in 2015, driven in large part by price appreciation.

- Prices for commercial-grade apartment properties rose 13 percent in 2015 according to Moody's/RCA, marking the sixth consecutive year of double-digit growth.

- Multifamily lending rose sharply in 2015, with the MBA Originations Index showing a 31 percent increase in the dollar volume of multifamily loans originated.

- Total multifamily loans outstanding (including both originations and repayments/write-offs) shot up by nearly $100 billion, to more than $1 trillion.

Persistent Tightening of Rental Markets

- The national rental vacancy rate has fallen steadily since 2010, dropping to just 7.1 percent by 2015—its lowest point since 1985. Growth in rents, as measured by the Consumer Price Index for rent of primary residence, averaged 3.6 percent in 2015, far outstripping overall inflation.

- The professionally managed apartment sector remains tight in most major markets, with MPF Research reporting a vacancy rate of just 4.2 percent as of the first quarter of 2016 and annual rent growth registering a strong 5.0 percent. In 18 of the nation's 25 largest markets, annual rent increases in the middle tier (Class B) outstripped those in the upper tier (Class A).

Severe Gaps in Affordable Rentals

- Demand for low-cost rentals far outstrips supply. A National Low Income Housing Coalition study found that, in 2014, there were only 31 rental units affordable and available for every 100 extremely low-income renters (incomes at or below 30 percent of area median), and 57 rental units affordable and available for every 100 very low-income renters (incomes at or below 50 percent of area median) **(See Figure 29).**

- Between 1993 and 2013, the number of very low-income households eligible for federal rental housing assistance soared by 3.8 million, but the number of assisted renters rose by just 532,000 over this same period **(See Figure 35).** Affordable rentals that can accommodate larger families are scarce, with 19 percent of four-or-more-person renter families with children living in crowded conditions (more than two persons per bedroom) in 2013. The incidence of overcrowding among large families classified as very low income is even higher at 25 percent.

AFFORDABILITY ISSUES AFFECT MORE OF THE POPULATION

Cost Burdens Remain Elevated

- The number of cost-burdened renters—those paying more than 30 percent of their income for housing—reached a record high of 21.3 million in 2014, according to data from the American Community Survey **(See Figure 32).**

- Cost burdens remain nearly universal among lowest-income households (earning under $15,000). Among this group, 83 percent were burdened in 2014, including 70 percent with severe burdens, paying more than 50 percent of their income for housing.

- Moderate-income households are also burdened by high housing costs. In the 10 highest-cost metros, three-quarters of renter households earning $30,000–44,999 and half of those earning $45,000–74,999 were cost burdened in 2014.

- The number of cost-burdened owners fell for the fourth straight year to 18.5 million in 2014.

Consequences of High Housing Costs

- After devoting more than half of their incomes to housing, severely cost-burdened households in the bottom expenditure quartile (a proxy for low income) cut back their spending on other vital needs, spending 41 percent less on food and 74 percent less on healthcare than their counterparts living in housing they could afford, according to the 2014 Consumer Expenditure Survey.

- According to the American Housing Survey, very low-income renters (earning up to 50 percent of area median) who devote more than half of their income to housing are at high risk of housing instability. In 2013, 11 percent of these households reported they had missed at least one rent payment within the previous three months, and 9 percent stated that they were likely to be evicted within the next two months.

- Overall homelessness fell 11 percent between 2010 and 2015, to about 565,000 people.

- Relative to the 22 percent decline in chronic homelessness and 36 percent decline in veteran homelessness in 2010–2015, homelessness among people in families with children fell by a modest 15 percent.

- Homelessness has reached crisis proportions in some high-cost cities, with the homeless population in New York City increasing by 11 percent and in Los Angeles by 20 percent in 2014–15 alone.

Increasing Concentration of Poverty and Income Segregation

- As of 2014, 13.7 million Americans lived in neighborhoods of concentrated poverty with a poverty rate of 40 percent or higher, more than double the 6.5 million in 2000 **(See Figure 6).**

- Residential segregation by income has increased over the past several decades, with research from the Stanford Center for Education Policy Analysis showing that the share of families living in middle-income neighborhoods plummeted by 24 percentage points from 1970 to 2012 while the shares living in low- and high-income neighborhoods increased by 11 and 13 percentage points, respectively.

- Poverty in non-metro areas and tribal lands is widespread, affecting 18 percent of the non-metro population and 29 percent of people living in tribal areas, according to 2010–14 American Community Survey 5-Year Estimates.

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DATA

The Joint Center uses current data from the US Census Bureau, the Department of Housing and Urban Development, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Federal Reserve, CoreLogic, The Demand Institute, Freddie Mac, Fannie Mae, the Lincoln Institute of Land Policy, Metrostudy, Moody's Economy.com, the Mortgage Bankers Association of America, MPF Research, the National Association of Home Builders, the National Association of REALTORS®, the National Council of Real Estate Investment Fiduciaries, the National Low Income Housing Coalition, Real Capital Analytics, Standard and Poor's, Urban Institute, the National Council of State Housing Agencies, and Zillow to develop its findings.

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