



FACT SHEET

The State of the Nation's Housing

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PURPOSE

The State of the Nation's Housing report has been released annually by Harvard University's Joint Center for Housing Studies since 1988. It has served 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 housing's role in the economy and its continued strength; housing affordability challenges; house price appreciation and trends; the evolving rental markets; and demographics driving the housing market.

FINDINGS:

STRONG HOUSING MARKET INDICATORS

- Single-family starts hit a record 1.6 million units in 2004, while new and existing new home sales grew to nearly 8 million.
- Homeownership reached an all-time high of 69 percent in 2004, with households all ages, incomes, races and ethnicities joining in the home buying boom.
- Although refinancing activity dropped by half to \$1.4 trillion, the amount of equity borrowers cashed out held fairly steady at \$139 billion while net growth in second mortgage debt almost doubled to \$178 billion.
- The inventory of new homes for sale is near its lowest levels ever. New homes sales would have to fall by more than a third—and stay there for at least a year—to create anywhere near a buyer's market.
- Nearly 18 million homes were added to the nation's housing stock between 1995 and 2004. Demand for new homes is on track to total as many as 20 million units between now and 2015.
- Though rents in several markets were flat or declining, they were on the rise in many others. After years of real effective rent declines, the Las Vegas, Miami, and Washington, DC areas all saw an upturn in 2004.
- Despite heavy growth on the edges of metropolitan areas, infill construction was strong in the 1990s. In the 91 largest metro regions, construction in dense areas within 5 miles of the Central Business District totaled 500,000 units.

HOUSE PRICE TRENDS

- Even though the cost of owning a typical home now exceeds the cost of renting a comparable home by 30 percent nationally (and by much more in certain areas), homeownership continues to set new records.
- With double-digit real house price inflation in 53 out of 163 of the largest metros and four of nine census divisions, aggregate home equity climbed 10 percent to \$9.6 trillion in 2004.
- Ratios of house prices to median household incomes are certainly higher than in the past, with more than half of evaluated metros hitting a 25-year high in 2004.
- House price inflation has outpaced per capita income gains by more than 4 times in 31 metros, 3-4 times in 19 metros, and 2-3 times in 32 metros.
- The condominium market is especially hot, with price appreciation nearly three times larger than for single family homes since 2000.
- Although reports of speculation in housing markets are increasing, the share of homes flipped in one year increased from 5 percent to only 6 percent between 1998 and 2003.

DEMOGRAPHIC DRIVERS

- Household growth over the next ten years is projected to surpass the more than 12 million new households added in last ten years.
- Today fully one in ten household heads is foreign-born. Immigration is expected to account for about one-third of household growth in the decade ahead.
- The children of immigrants will be a major contributor to housing demand, as the number of second generation children aged 1-10 grew by 41 percent and of 11-20 year olds by 63 percent.
- Hispanics make up about half of second-generation household heads age 40 and under, while Asians account for nearly 1 in 6.
- In just 10 years, the minority share of renter households jumped from 34 percent to 43 percent.
- The metro areas with the fastest growth in minority households are those with the highest shares of immigrant households
- Equal numbers of whites and minorities were added to the ranks of the middle income group since 1980.
- Even though the number of minority homeowners has been growing rapidly, their homeownership rate is still 25 percentage points below that of whites.

- The share of married couple households has fallen to about half and of married couples with children from 31 to 24 percent, while the number of single-person households has skyrocketed, reaching 26.5 million in 2000. Whereas 43 percent of household heads under age 35 in 2000 had never married, only 26 percent of their same-age counterparts in 1980 had never married.
- The sheer size of the baby-boom generation, who held more than \$3.5 trillion in aggregate home equity as of 2001, helps assure that these households will keep housing demand going strong.

MORTGAGE PRODUCT DIVERSIFICATION

- The greater integration of the US housing finance system into global capital markets, as well as technological advances, have brought down financing costs and encouraged product innovation.
- Less than half of all home purchase loans in 2004 were standard 30-year, fixed-rate mortgages. Interest only loans, low and no downpayment loans, and adjustable rate mortgages have all gained in market share.
- Interest-only loans particularly grew in popularity, going from just a small share of all home purchase loans a few years ago to nearly a third in 2004, as reported by Loan Performance.
- Home buyers choosing an adjustable-rate mortgage could be in for payment shock if interest rates take off. Even if the rates to which mortgages are indexed do not go up, borrowers that took out loans with a one-year discount will see their payments increase by 0.4-1.5 percentage points over the course of 2005.
- Subprime lending grew from \$340 billion in 2003 to \$530 billion in 2004, as refinance volumes eased and second mortgage borrowing increased.

AFFORDABILITY CONCERNS

- One in three American households spend more than 30 percent of income on housing, and more than one in eight spend upwards of 50 percent. An additional 2.5 million households are not cost burdened but live in crowded or in severely inadequate housing.
- Between 2000 and 2003, the number of households spending more than 30 percent of income on housing jumped by nearly 5 million, and those spending over 50 percent of income grew by 2.5 million.
- Regardless of income, the incidence of burdens is higher among families with children than other families.
- The number of households spending half their income on housing was up 69 percent among renters in the lower-middle income quartile in 2000-3, compared with a lesser but still large 43 percent among owners.
- Millions more trade-off high housing costs for longer and costlier commutes. Households in the bottom expenditure quartile with low housing outlays (30 percent or less) spend an average of \$100 more on transportation than those with high housing expenses (more than 50 percent).
- Households in the lowest expenditure quartile devoting more than 50 percent of their outlays to housing spent an average of only \$175 for food and \$35 for healthcare per month in 2003, while households with housing outlays under 30 percent spent an average of \$248 on food and \$109 on healthcare.
- As interest rates flattened last year, higher prices began to take a larger toll. Even buyers able to come up with the additional downpayment required on a typical home in 2004 had to pay \$70 more per month than if they had bought in 2003.
- Low cost rental units are being lost from the housing stock, while only units renting for over \$600 were added on net between 1993 and 2003. The number of units renting for \$400 or less (affordable to households with up to \$16,000 in income) fell by 1.2 million.
- While some of the lowest-income households are on welfare or otherwise depend on assistance, 53 percent of non-elderly households with severe housing cost burdens include at least one worker earning at least half of the household income.

SPONSORS

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DATA

The Joint Center uses current data from the American Housing Survey, the Census Bureau, the U.S. Department of Housing and Urban Development, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Federal Reserve Board, Freddie Mac, the Center for Community Change, the National Council of Real Estate Investment Fiduciaries, M|PF Yieldstar, and the National Association of Realtors to develop its findings.

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