



## FACT SHEET

### *The State of the Nation's Housing*

**EMBARGOED FOR RELEASE UNTIL: JUNE 13, 2006**

#### 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:

##### MARKET CONDITIONS

- Despite a record-setting year, single-family starts fell in half of the states and the nation's metropolitan areas in 2005. Single-family starts and new home sales are off last year's record-setting pace through the first four months of 2006.
- Cooling markets threaten to turn housing's contribution to the economy. From amounting to a full percentage point of real the nation's real economic growth last year, it is likely to be a neutral at best this year.
- The national homeownership rate slipped by 0.1 percentage point to 68.9 percent as renter household formations picked up. Still, 1 million new homeowners were added and homeownership rates inched higher in the hot, but least affordable, Northeast and West markets.
- Rental vacancy rates fell from 10.2 percent to 9.9 percent in 2005. Falling multifamily rental production (down 22,000 from 2004) and the conversion of at least 195,000 rentals to condominiums in 2005 have helped bring markets back into balance.
- Adjustable rate mortgage shares fell slightly from 35 percent in 2004 to 31 percent in 2005. While only about a tenth of all homeowners have loans that are now adjusting, those with such loans have seen their rates increase by 1½ percentage points or more since last year. Many also have been hit by the end of initial rate discounts of 1½ percentage points or more.
- Interest-only loans went from barely a few percent two years ago to about 20 percent of loan originations in 2005. But less than 10 percent of these loans have interest-only periods of 2 years or less. Fully 83 percent have periods that last five years or more, giving owners ample time to refinance, to move, or for their incomes to rise before payments come due.
- Subprime originations increased in real terms to \$625 billion in 2005 from \$210 billion in 2001. Now more than 1 in 10 mortgage holders is a subprime borrower. With predictably higher default rates than prime borrowers, this shift will likely result in increased defaults

##### HOUSE PRICES

- After adjusting for inflation, house prices increased a record 9.4 percent nationally in 2005.
- Among the 149 of the nation's largest metropolitan areas, the number in which median house prices are at least 4 times median household incomes increased from 13 in 2001 to 49 in 2005 and at least 6 times from 4 to 14.
- Appreciation slowed in a slim majority of metropolitan areas in the second half of 2005.
- About half the nation's largest 75 metro areas have seen nominal house price declines of at least 5 percent since 1975. Such declines are rare in the absence of overbuilding, employment loss, or a combination of the two within 3 years of the start of the price decline.
- Historically in these 75 largest metros, the odds of a major decline when there is overbuilding alone is 38 percent, major employment loss alone 33 percent, the two combined 100 percent, and overbuilding with minor employment loss 90 percent. At present these preconditions are nowhere in evidence.
- Among places with any house price decline since 1975, house price declines averaged 4.5 percent in markets with major employment loss alone, 8.3 percent with overbuilding alone, and 14.8 percent when both preconditions were present.
- Average declines were 3.1 percent with minor employment loss alone and 12.1 percent when combined with overbuilding.

##### INVESTOR AND SECOND HOME DEMAND

- By one estimate, the number of second homes increased by 1.2 million units, or 22 percent, between 1995 and 2005. Second-home ownership rates have increased across all age groups.
- Investor demand heated up in 2005 but is now cooling. Investor loan volume increased as a share of prime mortgage originations from under 6 percent in 2000 to nearly 10 percent in 2005, with shares in the 15-20 percent range in many fast growing markets like Phoenix, Las Vegas, and many California and Florida metros.

- Investor appetite for multifamily properties was undimmed last year, with institutional investors bidding up prices by 13.5 percent—the first double-digit gain since 1984.
- When last measured in 2004, about 4.3 million households reported earning rental income. Of these, about 3.3 million owned just one single-family rental. About one-quarter of these owners were 55-64 years olds and one-quarter were 65 or older. Rent revenues contributed 10-11 percent of total household income of typical owners in their 30s, 40s, and 50s but 14 percent income of owners in their 60s and 25 percent of those in their 70s and older.

## HOUSING DEMAND DRIVERS

- Minorities accounted for 63 percent of household growth from 1995-20005 and will likely account for an even larger 71 percent of household growth 2005-15. This will lift the minority share of all households from 28 percent today to 33 percent in 2015.
- Immigrants contributed 37 percent of the household growth 1995-2005. When last measured in 2003, the foreign-born were 17 percent of first-time homebuyers and 15 percent of renters.
- With more than 1 million immigrants arriving each year, net household growth over the next 10 years is projected at 14.6 million, up from 12.6 million over the past 10 years.
- Baby boomers will continue to drive a dramatic shift in the age distribution of households, elevating the number of household heads in their 50s by 4 million, and in their 60s by 7 million over the next decade. As these middle aged households move into their retirement years, they will boost the market for second homes and seniors housing. Still young adults will also increase and bolster demand for apartments and starter homes.
- Married couples without children will account for nearly half of the projected growth in households over the coming decade. If not for minority growth, the number of married couples with children would decline.
- Households of all ages are exceeding the income and wealth levels of preceding generations, with median incomes that are \$1,100 to \$5,600 higher than their predecessors at the same ages in 1995. For example, households in their 40s and 50s in 2005 had median incomes more than \$1,800 higher and median wealth more than \$33,000 higher.
- Despite across-the-board gains, households at the top of the income distribution have sharply higher income and wealth growth. The top tenth of households accounted for 71 percent of the growth in remodeling spending from 1995-2003 and 57 percent of the growth in home equity from 1995-2004.

## PERSISTENT AFFORDABILITY CHALLENGES

- Between 2001 and 2004, the number of households spending more than half their income on housing increased by nearly 2 million—up 14 percent—to 15.8 million.
- Even working families face problems, with 49 percent of working poor (working at least half the year with incomes up to poverty levels) and 17 percent of near poor working families (poverty to twice the poverty level) spending more than half of their income on housing.
- Families in the bottom expenditure quartile with children that allocate more than half of their spending to housing have only an average of \$400 left to spend on all other items. As a result, they spend only two-thirds as much on food and half as much on clothing as those with low housing outlays (spending less than 30 percent on housing).
- The supply of rental housing affordable to households with incomes of \$16,000 or less – who account for a quarter of all renters – fell by 13 percent in inflation-adjusted terms between 1993 and 2003. And a significant portion of the remaining affordable rental stock is in financial distress, with 12 percent of owners of properties with average rents of \$400 and under reporting negative net operating income in 2001.
- The number of high-poverty (greater than 40 percent poverty rate) census tracts fell by 25 percent over the 1990s. Despite this progress, about 19 percent of blacks, 14 percent of Hispanics, and 10 percent of the nation's poor overall live in such areas.

## SPONSORS

The Ford Foundation and the Policy Advisory Board of the Joint Center for Housing Studies provide principal funding for the report. Additional support is provided by: the Fannie Mae Foundation, the Federal Home Loan Banks, Freddie Mac, the Housing Assistance Council, the Mortgage Bankers Association, the National Association of Affordable Housing Lenders, the National Association of Home Builders, the National Association of Housing and Redevelopment Officials, the National Association of Local Housing Finance Agencies, the National Association of Realtors, the National Council of State Housing Agencies, the National Housing Conference, the National Housing Endowment, the National League of Cities, the National Low Income Housing Coalition, and the National Multi Housing Council.

## DATA

**Note:** The Joint Center uses current data from the Census Bureau, the U.S. Department of Housing and Urban Development, the Bureau of Labor Statistics, the Federal Reserve Board, Freddie Mac, LoanPerformance, Inside Mortgage Finance, the National Council of Real Estate Investment Fiduciaries, M|PF Yieldstar, and the National Association of Realtors to develop its findings.

*Note: Metro-level information will be available in the website tables on June 13, 2006.*

## CONTACT INFORMATION

For more information about the report please contact Elizabeth England, program coordinator, at (617) 495-7640 or email her at [elizabeth\\_england@harvard.edu](mailto:elizabeth_england@harvard.edu).