



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 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 changing housing market; housing's role in the economy; housing affordability challenges; the gradual recovery in the rental market; and the demographics trends driving long-run housing demand.

FINDINGS:

HOUSING MARKET PERFORMANCE

- In 2006, single-family starts tumbled 15 percent, and by the fourth quarter were running about 30 percent below 2005 peak levels—nearly matching the peak-to-trough drop in 1986–91. Meanwhile, new home sales fell by 18 percent and existing home sales by 8.5 percent for the year as a whole.
- As price appreciation slowed, the investor share of home loans fell from a peak of 9.5 percent in 2005 to 7.7 percent in the second half of 2006.
- The drop in home building was so drastic that it shaved more than a full percentage point off national economic growth in the latter half of 2006. As a result, residential fixed investment went from being a significant contributor to growth to a major drag on the economy.
- Unlike starts and sales, nominal house prices held up both nationally and in the majority of metro areas in 2006. Nominal median house prices increased at least 10 percent for the year in 23 of the 149 metros evaluated, but fell in 34. Of 11 metros that saw house price declines of more than three percent, all but two were in economically depressed areas of the Midwest.
- Only rental markets and remodeling activity were still expanding last year. Improvement spending set a record for the fifth consecutive year—up \$6.2 billion in real terms to \$228 billion.
- With an increase of 1.2 million renter households in 2004-2006 more than making up for losses in 2002-2004, multifamily vacancy rates retreated slightly and the single-family vacancy rate finally leveled off.

HOUSING FINANCE AND MORTGAGE TRENDS

- Subprime lending soared from near zero in the early 1990s to 8.6 percent of originations in 2001 and 20.1 percent in 2006. Alt-A loans grew from 2.7 percent of originations in 2001 to 13.4 percent in 2006.
- With the recent surge in subprime lending and the popularity of adjustable rate loans with only two-year fixed initial terms, the amount of mortgage debt in adjustable-rate subprime and Alt-A loans with scheduled rate resets in 2007 and 2008 could be as high as \$540 billion.
- Mortgages with interest-only and payment-option features—sometimes called “affordability products”—went from less than five percent of originations in early 2002 to 38 percent in mid-2005, before falling back to 32 percent at the end of 2006.
- Across all loans, nearly 250,000 homeowners entered foreclosure proceedings in the fourth quarter of 2006 alone, up from 150,000 in the second quarter of 2005.
- Americans have grown much more tolerant of debt. Indeed, total household debt exceeded total personal income starting in 2003. Home mortgages make up a growing share of this outstanding debt, increasing from 65 percent in 2000 to 73 percent in 2006.
- Between 1995 and 2004, the share of households devoting at least one-fifth of their monthly incomes to debt climbed from 30 percent to 34 percent, while the share devoting at least 40 percent of their incomes rose from 8.5 percent to 9.3 percent—an increase of 2 million households.

HOUSEHOLD DEMOGRAPHICS AND ECONOMICS

- Percent declines in real incomes from 2000-2005 were smaller than gains from 1995-2000 for all but the lowest tenth of households in the income distribution. Real incomes in 2005 were between 2-9 percent higher than in 1995 for the second through eighth income deciles, but up more than 10 percent in the top two deciles.
- Net household wealth nearly doubled between 1995 and 2004, setting a new record of \$50.1 trillion, with home equity playing a large part. Housing contributed \$6.6 trillion or 27 percent to the growth in household wealth, rising from 17 percent of wealth in 2001 to 20 percent in 2006.

- Household growth is expected to accelerate from 12.6 million 1995-2005 to 14.6 million 2005-2015, as a result of high rates of recent and prospective immigration, the entrance of the children of the baby boom into household forming ages, and increased longevity of pre-baby boom generations.
- Fully 38 of the nation's 91 largest metro regions saw center-city population growth during the 1990s, led by the baby-bust generation—with its large contingents of minority and foreign-born households—rather than baby boomers.

IMMIGRANT IMPACTS

- With both legal and illegal immigration on the rise, the foreign born are giving an increasingly large boost to population growth, averaging over 1.2 million net immigrants annually since 2000.
- The foreign born contributed over 40 percent of net household formations between 2000 and 2005, up from less than 30 percent in the 1990s and a little over 15 percent in the 1980s.
- The foreign born are increasingly vital to the housing market, representing some 14 percent of recent homebuyers and 18 percent of renters in 2005.
- While still concentrated in a handful of locations, the immigrant population has begun to disperse. Indeed, the share of immigrants living in traditional gateway metros fell from 51 percent to 46 percent between 1990 and 2000.
- Most net growth of the immigrant population in metropolitan areas has occurred in the suburbs rather than the center cities, adding almost five million in the suburbs in the 1990s.
- Immigrant growth has also been strong in rural areas. Between 2000 and 2004, immigrants accounted for 31 percent of net rural population growth and even larger shares in the resort communities of the West and major agricultural and manufacturing areas in the South and Midwest.
- In California, New York, New Jersey and Florida, at least 20 percent of recent homebuyers and 25 percent of renters are foreign born. But even in smaller states without traditional gateway metros, such as Connecticut, Maryland and Rhode Island, immigrants still account for at least 14 percent of recent homebuyers and 15 percent of renters.

MOUNTING HOUSING CHALLENGES

- In just one year, the number of households with housing cost burdens climbed by 2.3 million, hitting a record 37.3 million in 2005. The number of severely cost-burdened households jumped by 1.2 million to a total of 17 million, or one in seven US households. Moreover, 2.1 million households live in severely inadequate housing while nearly three-quarters of a million people are homeless on any given night.
- In 2005, households in the bottom quarter of the income distribution (earning \$23,000 or less) accounted for 78 percent of the severely housing cost-burdened. Indeed, nearly half of low-income households—a total of 8.2 million renters and 5.0 million homeowners—have severe burdens.
- Of the 16 percent of low-income families headed by a full-time worker, a dispiriting 39 percent of these households are severely housing cost-burdened.
- Even after the minimum-wage increase is fully implemented, households with a single minimum-wage worker will still be unable to afford even a modest two-bedroom rental at today's rents anywhere in the country.
- Among those in the bottom expenditure quartile in 2005, families with children with high housing outlays (more than 50 percent of spending) had only \$536 per month left on average to cover other expenses. This represents about half the amount that their counterparts with low housing outlays (less than 30 percent of expenditures) had available to spend. Furthermore, housing costs have increased much faster for families with children with high housing outlays than for those with low housing outlays, up \$76 versus \$27 per month in real terms between 1999 and 2005.
- Housing assistance as a share of total non-defense discretionary spending dropped from 10.2 percent in 1998 to 7.7 percent in 2006. In the past year, spending on housing assistance also failed to keep up with inflation, amounting to a 2.4 percent drop in real terms.
- Despite about \$38 billion in annual appropriations for housing and community development, the federal government has been unable to assist more than a quarter of eligible renters. And even with another \$4.7 billion in annual expenditures from federal tax credits to build and rehabilitate affordable housing, the government has made little progress in stopping the loss of low-cost rentals from the nation's housing stock.

SPONSORS

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Conference, the National Housing Endowment, the National League of Cities, the National Low Income Housing Coalition, the National Multi Housing Council, and Research Institute for Housing America.

DATA

The Joint Center uses current data from the Census Bureau, the U.S. Department of Housing and Urban Development, Brookings Institution, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Federal Housing Finance Board, the Federal Reserve Board, First American LoanPerformance, Freddie Mac, Inside Mortgage Finance, M|PF Yieldstar, Minnesota Population Center, Moody's Economy.com, the Mortgage Bankers Association of America, the National Association of Homebuilders, the National Council of Real Estate Investment Fiduciaries, and the National Association of Realtors to develop its findings.

Note: Additional state and metro-level information will be available in the website table.

CONTACT INFORMATION

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