Fact Sheet
The State of the Nation's Housing
June 23, 2008

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 20th 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 changing housing market; housing's role in the economy; housing affordability challenges; and the demographic trends driving long-run housing demand.

Findings:

Housing Market Downturn

- Sales fell sharply for the second year in a row. Existing home sales fell 13 percent in 2007 to 4.9 million, while sales of new homes plummeted 26 percent to 776,000, the lowest level since 1996.
- For the first time since recordkeeping began in 1968, the national median single-family home price as reported by the National Association of Realtors® fell for the year in nominal terms, by 1.8 percent on an annual basis to $217,900.
- The National Association of Realtors® (NAR) national median single-family home price declined 6.1 percent from the fourth quarter of 2006 to the fourth quarter of 2007, while the S&P/Case Shiller® US National Home Price Index registered a fourth-quarter to fourth-quarter nominal decline of 8.9 percent.
- At the start of 2007, quarterly nominal median sales prices were still rising in 85 of 144 metros. By the end of the year, however, prices were increasing in only 26 metros. Fourth-quarter nominal house prices in 2007 fell back to 2006 levels in 12 metros, to 2005 levels in 35 metros, to 2004 levels in 19 metros, and to 2003 or earlier levels in 16 metros.
- Of the 139 metros that saw their nominal Office of Federal Housing Enterprise Oversight (OFHEO) house price index values fall in the late 1980s and early 1990s, 18 took ten years or more to return to peak prices, and another 56 took five to nine years.
- On an inflation-adjusted basis, the OFHEO index fell in 267 metros during the same period, and the rebound in real prices took more than five years in 236 metros and more than ten years in 130.
- The homeowner vacancy rate jumped from 2.0 percent in the last quarter of 2005 to 2.8 percent in the last quarter of 2007 as the number of vacant units for sale shot up by more than 600,000. In addition, the number of vacant homes held off the market other than for seasonal or occasional use surged from 5.7 million units in 2005 to 6.2 million in 2007.
- Assuming the vacancy rate prevailing in 1999–2001 was close to equilibrium, the oversupply of vacant for-sale units at the end of last year was around 800,000 units.
- Nationwide, the number of housing permits issued fell 35 percent from 2005 to 2007, including a 42 percent reduction in single-family permits. Florida topped the list of states with the sharpest cutbacks 2005-2007 at 64 percent, followed by Michigan at 61 percent and Minnesota at 51 percent.
- Completions of for-rent units in multifamily structures fell to just 169,000, down 15 percent from 2006 and 38 percent from 2000. The rental share of all multifamily completions dipped below 60 percent for the first time in the 43-year history of recordkeeping.
- The months' supply of unsold new single-family homes rose to more than 11 months in late 2007 and early 2008—a level previously not seen since the late 1970s—before dropping back slightly. The months' supply of existing single-family homes for sale rocketed to 10.7 months by April 2008.
- By the end of 2007, the nation had 232,000 fewer construction jobs than a year earlier, dragging down employment growth in many states with previously booming housing markets such as Florida (74,000 construction jobs lost vs. 52,000 other jobs added) and Arizona (25,000 construction jobs lost vs. 23,000 other jobs added).

- Real home equity fell 6.5 percent to $9.6 trillion in 2007.
- The switch from home price appreciation to depreciation, plus the slowdown in home equity withdrawals, trimmed about one-half of a percentage point from real consumer spending and more than one third of a percentage point from total economic growth, while the drop in residential investment shaved nearly one percentage point from economic growth.

MORTGAGE TURMOIL

- The number of homes in foreclosure proceedings nearly doubled to almost one million by the end of 2007, while the number entering foreclosure topped 400,000 in the fourth quarter alone.
- The share of all loans in foreclosure jumped from less than 1.0 percent in the fourth quarter of 2005 to more than 2.0 percent by the end of last year.
- In the fourth quarter of 2007, Ohio had the country's highest foreclosure rate of 3.9 percent—equivalent to 1 in 25 loans—followed closely by Michigan and Indiana.
- The foreclosure rate on all subprime loans soared from 4.5 percent in the fourth quarter of 2006 to 8.7 percent a year later, while the rate on adjustable-rate subprime loans more than doubled from 5.6 percent to 13.4 percent. Foreclosure rates on adjustable subprime mortgages were over five times higher than those on adjustable prime loans.
- Because of their abysmal performance, subprime loans fell from 20 percent of originations in 2005–2006 to just 3.1 percent in the fourth quarter of 2007. The real dollar volume plummeted from $139 billion in the fourth quarter of 2006 to $14 billion at the end of last year.
- Interest-only and payment-option loans fell from 19.3 percent of originations in 2006 to 10.7 percent in 2007, with especially large declines in the nation's most expensive metro areas where loans with affordability features were most common. States with high 2006 shares and large 2007 declines include Nevada (from 41 percent to 25 percent), Arizona (29 percent to 18 percent), Florida (25 percent to 13 percent), and Washington, DC (26 percent to 15 percent).
- The dollar volume of all non-prime investor loans plunged by two-thirds from the first quarter of 2006 to the third quarter of 2007, and of just subprime investor loans by a whopping seven-eighths.
- According to the Mortgage Bankers Association, loans to absentee owners also accounted for almost one in five loans entering foreclosure in the third quarter of 2007.
- In 2006, more than 40 percent of loans on one- to four-unit properties originated in low-income census tracts were high cost, as were 45 percent of such loans originated in low-income minority communities. By comparison, high-cost loans accounted for only 23 percent of originations in middle-income white areas and 15 percent in high-income white areas.

DRIVERS OF HOUSING DEMAND

- From 1994 to 2004, the national homeownership rate surged by 5.0 percentage points, peaking at 69.0 percent. In the three years since, homeownership rates have fallen back for most groups, including a nearly 2.0-point drop among black households and a 1.4-point drop among young households.
- The number of renter households increased by more than 2 million from 2004 to 2007, lowering the national homeownership rate to 68.1 percent in 2007.
- Thanks to higher rates of immigration and natural increase, minorities contributed over 60 percent of household growth in 2000–2006. Minorities now account for 29 percent of all households, up from 17 percent in 1980 and 25 percent in 2000. The minority share is likely to reach about 35 percent by 2020.
- In 2007, fully 29 percent of heads of households with children were unmarried. Within this group, about 18 percent lived with partners and another 21 percent lived with other non-partner adults.
- Education still remains the key to higher earnings. For example, the median earnings of college-educated male workers aged 35 to 54 rose from $71,700 in 1986 to $75,000 in 2006 in constant 2006 dollars, while those for same-age males who only completed high-school fell from $48,000 to $39,000.
- Among homeowners that bought units between 1999 and 2005, fully 85 percent saw an increase in wealth, with their median net wealth rising from $11,100 to $88,000 in real terms. Among households that already owned homes, 75 percent also saw an increase in their wealth, with their median net wealth nearly doubling from $152,400 to $289,000.

- Changes in the number and age distribution of the adult population should lift household growth from 12.6 million in 1995–2005 to 14.4 million in 2010–2020.
- Minority household growth among 35 to 64 year-olds should remain strong in 2010–2020. In contrast, the number of white middle-aged households will start to decline after 2010 as the baby boomers begin to turn 65. White household growth in the next decade will be almost entirely among older couples without minor children and among older singles (usually widowed or divorced).
- In total, persons living alone are expected to account for 36 percent of household growth between 2010 and 2020. Three-quarters of the more than 5.3 million projected increase in single-person households in 2010-2020 will be among individuals aged 65 and older—a group that has shown a marked preference for remaining in their homes as they age.
- Unmarried partners are projected to head 5.6 million households in 2020, up from 5.2 million in 2005. Of these households, 36 percent will include children under the age of 18.

PERSISTENT CHALLENGES

- In 2006, the number of severely-burdened households—paying more than half their income for housing—surged by almost four million to 17.7 million households.
- Between 2001 and 2006, the number of severely-burdened renters in the bottom-income quartile increased by 1.2 million, while the number of severely-burdened homeowners in the two middle-income quartiles ballooned by 1.4 million.
- Fully 47 percent of households in the bottom-income quartile were severely burdened in 2006, compared with 11 percent of lower middle-income households and just 4 percent of upper middle-income households.
- In 2006, approximately 20 percent of all middle-income homeowners with second mortgages paid more than half their incomes for housing. This is nearly twice the share among those with only a first mortgage.
- More than a quarter of severely-burdened households have at least one full-time worker and 64 percent at least one full- or part-time worker. Even households with two or more full-time workers are not exempt, making up fully 19 percent of the severely burdened.
- More than a third of households with incomes one to two times the full-time equivalent of the minimum wage have severe housing cost burdens. Even among the 15.3 million households earning two to three times the full-time minimum wage equivalent, 15 percent pay more than half their incomes for housing.
- More than one out of six children—12.7 million—in the United States live in households paying more than half their incomes for housing.
- In 2006, severely-burdened households with children in the bottom-expenditure quartile had only $548 per month on average for all other needs. As a result, these families spent 32 percent less on food, 56 percent less on clothes, and 79 percent less on healthcare than families with low housing outlays.
- Nearly one in five low-income families—and nearly one in four low-income minority families—reported living in structurally inadequate housing in 2005. These families have a slightly higher incidence of severe cost burdens than otherwise similar families living in adequate units.
- Veterans with disabilities make up 29 percent of the 16.4 million veteran households, but 42 percent of the more than 1.5 million veterans with severe housing cost burdens.
- Restrictive development regulations contribute to higher home prices. House price appreciation in 2002–2005 averaged 45 percent in the most restrictive areas, compared with 24 percent in the least restrictive.
- From 1997 to 2007, housing assistance programs fell from 10 percent to 8 percent of the nation's dwindling domestic discretionary outlays, even as the number of households with severe burdens rose by more than 20 percent from 2001 to 2005.
- About 14 percent of the low-cost rental stock—with rents under $400—built before 1940 was permanently removed between 1995 and 2005.
- Older, lower-cost rentals are also being lost to rent inflation, with rents in more than half shifting up to a higher range between 2003 and 2005.
- From 1995 to 2005, the supply of rentals affordable to households earning less than $16,000 in constant 2005 dollars shrank by 17 percent.
- Today, there are only about 6 million rentals affordable to the nearly 9 million households with the lowest incomes, and nearly half of these are either inhabited by higher-income households or stand vacant.

- The homeless population is up to 744,000 on any given night, and is estimated to be between 2.3 million and 3.5 million over the course of a year. Homelessness affects more than 600,000 families and more than 1.35 million children every year.
- Veterans are overrepresented among the homeless. While accounting for only 10 percent of all adults, veterans are somewhere between 23 percent and 40 percent of homeless adults. Moreover, veterans make up an estimated 63,000 of the 170,000 chronically homeless.

SPONSORS

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DATA

The Joint Center uses current data from the Census Bureau, the U.S. Department of Housing and Urban Development, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Federal Housing Finance Board, the Federal Reserve Board, First American CoreLogic, Freddie Mac, Inside Mortgage Finance, M|PF Yieldstar, Moody's Economy.com, the Mortgage Bankers Association of America, the National Association of Homebuilders, the National Council of Real Estate Investment Fiduciaries, the National Association of Realtors®, the Panel Study of Income Dynamics, and S&P/Case Shiller® US National Home Price Index to develop its findings.

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

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