

# EXECUTIVE SUMMARY

Housing markets began the twenty-first century on a high note. Buoyed by the longest economic expansion in history, home sales, homeownership rates, and the value of residential construction all set new records in 1999. And thanks to strong income growth, housing affordability remained in check for most Americans despite rising interest rates, home prices, and rents.

Widespread home price inflation continues to lift household net worth. The stock market boom notwithstanding, home equity remains the cornerstone of household wealth—even among most American homeowners who also have stock holdings.

In the midst of this remarkable prosperity, however, the homeownership gap between whites and minorities has hardly narrowed. Even worse, millions of very low-income households still lack adequate, affordable housing at a time when losses of subsidized units are rising.

## HOME BUILDING'S RESILIENCE

Housing markets shrugged off a full percentage-point increase in interest rates in 1999, with no year-over-year decline posted in aggregate production or home sales. Although multifamily and manufactured housing production did retreat, the value of new multi- and single-family construction rose and

single-family production stood at its highest level in two decades.

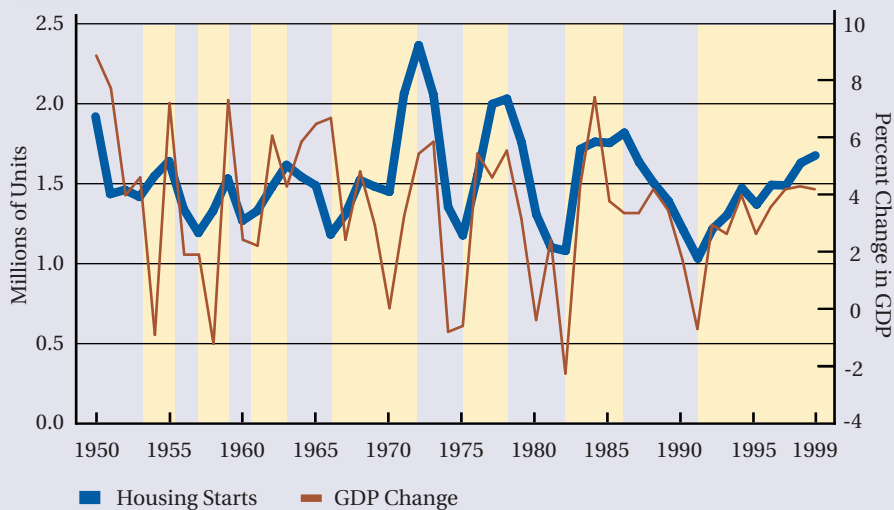
Housing starts have shown no significant declines for eight years, making this the longest housing expansion in the last half-century (*Figure 1*). Aided by steady economic growth, production gains have been more gradual than during the last three expansions. Adjustable-rate mortgages have also helped to blunt the impact of rising interest rates, climbing from 12 percent of mortgage loans in 1998 to 21 percent in 1999. With plenty of room for that share to grow, adjustables should again help to stave off a major downturn in housing markets this year.

While production did cool in over one-third of the states in 1999, it was still going strong in the rest—most notably in four of the five states that together account for almost 40 percent of the nation's residential construction. Housing could thus eke out further gains in 2000, although rising interest rates and moderating stock prices pose threats to growth.

## CONCERNS OVER SPRAWL

The fast pace of residential construction has fueled concerns about sprawl. As employment continues to decentralize, households are able to live and work at greater and greater distances from the urban core. As a

### 1 The Current Housing Expansion Is the Longest on Record

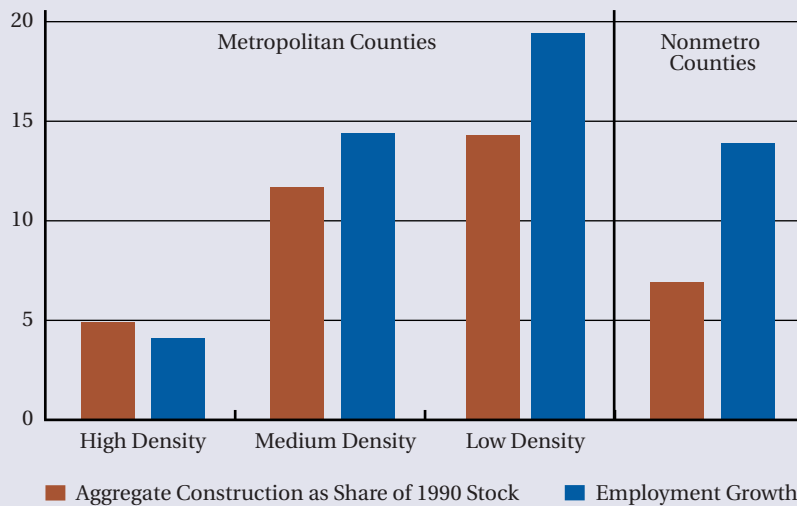


Sources: Census Bureau, Series C-25 and Bureau of Economic Analysis, Survey of Current Business.

## 2

### Employment and Construction Growth Has Soared in the Metropolitan Fringe

Percent Change 1990-1997



Notes: Each metropolitan density class contained one-third of the total US metropolitan population as of 1990. Metropolitan definitions as of 1993. Excludes manufactured home placements.  
Source: Table A-12.

result, low-density metro counties have witnessed explosive job and housing growth in recent years while activity in high-density counties has been limited (Figure 2).

The stock of homes in many metropolitan areas is also expanding at a remarkable rate. Between 1990 and 1998, new construction added 25 percent or more to the housing stocks of 21 metropolitan areas in the South and West. And this figure does not even include manufactured housing placements, which are highly concentrated in these regions. In contrast, no metropolitan area in the Northeast and only two in the Midwest experienced housing stock growth of this magnitude.

Meanwhile, the exodus from central cities continues. Although most cities in the South and West regis-

tered gains, the movement away from many localities in the Northeast and Midwest pushed national net outmigration from larger cities to 1.2 million households between 1997 and 1999. High-income households are leading the way. While accounting for only one-quarter of all households living in larger cities in 1997, affluent households made up fully 44 percent of net outmigrants in the final two years of the decade.

#### HOMEOWNERSHIP ON THE RISE

Powered by strong income and employment growth, the national homeownership rate reached a new annual high of 66.8 percent in 1999 and continues to climb across all geographic regions, age groups, and racial/ethnic groups. Although persistent disparities between whites

and minorities narrowed only slightly, minorities still accounted for nearly 40 percent of the net growth in owners in the final half of the 1990s. Rapid household growth, combined with climbing ownership rates, has boosted the minority presence in homebuying markets.

Homeownership has gotten an extra lift from mortgage industry innovation and outreach to low-income borrowers. With the introduction of low-downpayment products, flexible underwriting standards, and improved risk assessment tools, lenders have helped millions of low-income families buy first homes. In fact, loans to low-income buyers in metro areas increased by 55 percent between 1993 and 1998, compared with a 40 percent increase in loans to high-income borrowers.

#### THE ROLE OF SUBPRIME LENDING

Subprime lenders—who specialize in loans to borrowers with blemished credit histories—also played a role in this growth. Between 1993 and 1998, these lending specialists increased their share of home purchase loans in metro areas from one percent to five percent, helping nearly a half-million families buy homes. Much of this activity centered in low-income and minority areas. In neighborhoods that are both low-income and minority, subprime lenders' share of loans to homebuyers soared from just 2 percent to 15 percent in only five years.

Growth in the subprime lender share of *refinance* loans in metro areas has been even more dramatic (Figure 3). In 1998, subprime specialists captured 46 percent of the refinance market in low-income minority areas and 30 percent in high-income minority areas, but only 18 percent in low-income predominantly white areas and 6 percent in high-income white areas.

While reaching traditionally underserved markets, the subprime lending boom in low-income minority areas is noteworthy because of the higher rates and fees these lenders charge. According to a 1996 Freddie Mac study, between 10 percent and 35 percent of subprime borrowers could have qualified for lower-cost

prime loans. The lack of access to prime lenders for such borrowers is thus a source of growing concern. Even more troubling are reports of predatory lending practices that target vulnerable borrowers, charge excessive fees and interest rates, and even defraud families of their home equity.

### LOSSES OF AFFORDABLE HOUSING

Despite the strong economy, record numbers of very low-income households are devoting more than half their incomes for housing—and working is no panacea for these high housing cost burdens. About half a million very low-income renters and nearly as many very low-income owners earning at least the equiva-

lent of the full-time minimum wage spend this much for housing.

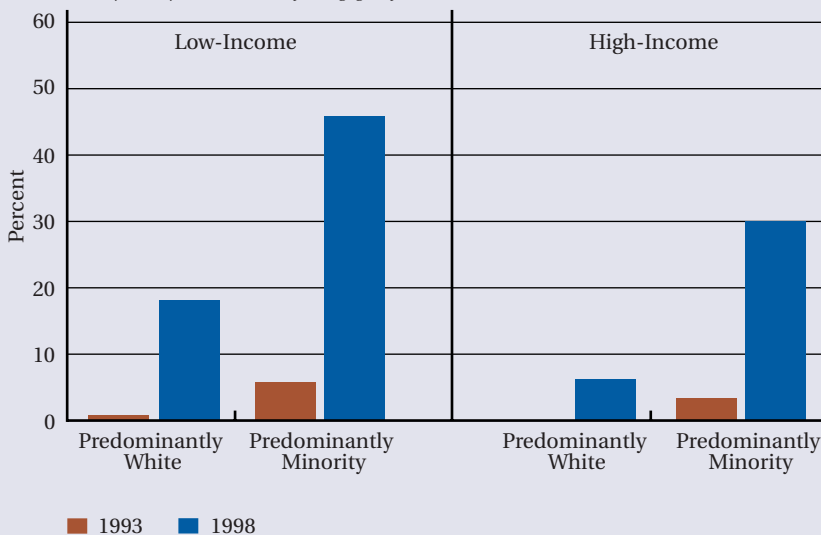
In light of these affordability problems, preserving the limited supply of federally subsidized housing is increasingly urgent. Already, 90,000 units have been lost as private owners have opted out of programs or prepaid their subsidized mortgages—usually in order to capitalize on higher prevailing rents. Extensions to expiring 15- and 20-year contracts are now subject to annual budget appropriations. If history is any guide, 10-15 percent of the remaining project-based assisted units with contracts expiring in coming years will be at risk of loss.

For current tenants of properties whose owners opt out or prepay their mortgages, HUD has been offering vouchers to make up for the shortfall between new, higher rents and 30 percent of tenant incomes. Recipients who move, however, have no guarantee of finding alternative affordable housing. As of 1994, the last year in which reliable data are available, over one in eight recipients in studied areas returned their vouchers because they could not find suitable accommodations and/or a landlord willing to accept this form of payment.

Meanwhile, demolition of public housing units is eliminating many badly deteriorated units, but without providing one-for-one replacement. And construction of affordable units

## 3 Subprime Lending for Refinance Loans Has Surged in Low-Income Minority Neighborhoods

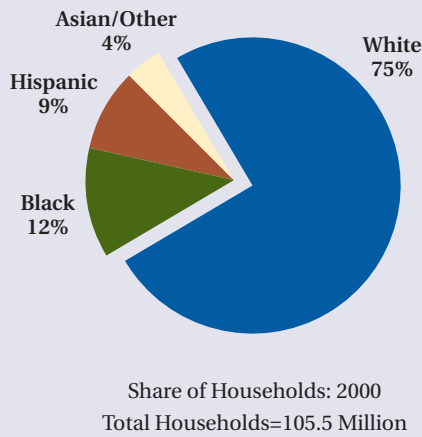
Subprime Specialists' Share of Mortgage Refinance Loans



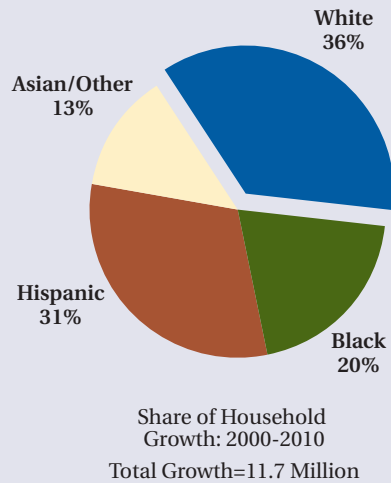
Note: See Table A-11 for definitions of areas.  
Source: Table A-11.

4

**Minorities Will Contribute Nearly Two-Thirds of Household Growth Over the Next Decade**



Source: Table A-7.



financed through tax credits has slowed steadily, primarily because funding is not adjusted for inflation.

**DEMAND IN THE NEXT DECADE**

Although household growth may slow slightly over the coming decade, home building will likely rival the 1990s in terms of number of units built and value of construction. As the aging baby boomers boost the number of 45-54 and especially 55-64 year-olds, the demand for amenity-rich homes and second homes will continue to rise. At the same time, the echo boomers—the children of the baby boomers—will start to replace the smaller baby-bust generation in the young adult age groups, giving the markets for manufactured housing, starter homes, and rental apartments a modest lift.

Thanks to longer life expectancies and past patterns of births in the US, the number of households over age 65 will also be on the rise. Today’s seniors are wealthier than their predecessors, and tomorrow’s will be even wealthier than today’s. Better health and greater wealth will enable more seniors to act on their housing preferences—whether that means remodeling their current homes to accommodate growing frailties, purchasing a second home, or moving to either an active retirement community or one that provides health care.

But not all seniors will have the resources to exercise the same options. Sharp disparities in wealth exist between senior owners and renters, as well as across races and ethnic groups. As a result, many older Americans will be left without

affordable housing that meets their particular needs.

Minorities will grow ever-more important to housing markets over the next 10 years, accounting for an estimated two-thirds of net new households (Figure 4). Already, minorities have contributed over 60 percent of the net growth in households since 1994.

Immigrants have played a particularly important part in this growth. The foreign-born make up roughly one-quarter of net households added over the last three years, and are responsible for all of the net household growth in the Northeast. Hispanics, who account for the largest share of recent immigrants, will soon be the nation’s largest minority group. Indeed, by 2010, the number of net new households formed each year by Hispanics will exceed that of non-Hispanic whites.

These demographic shifts offer a number of opportunities for the housing industry. Minorities have historically had lower incomes and wealth than whites, but even those with similar incomes lag in terms of homeownership and service from prime lenders. In addition, larger shares of these populations face serious housing problems. Reaching out to these markets is vital to the national goals of promoting homeownership and reducing the number of cost-burdened and inadequately housed Americans.