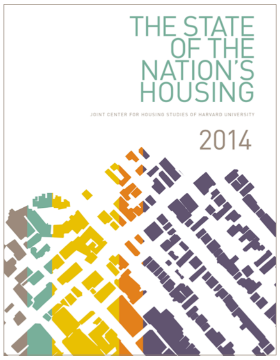
THE STATE OF THE NATION'S HOUSING 2014



Key Facts

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 26th 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 state of the rental and homeownership markets; the economic and demographic trends driving housing demand; the state of mortgage finance; and ongoing housing affordability challenges.

Findings

U.S. HOUSING RECOVERY CONTINUES, BUT FACES ONGOING CHALLENGES

Homebuilding Strengthened in 2013, Though Still Below Historical Averages

- Though up more than 18 percent from 2012, the 925,000 housing units started in 2013 was still well below the historical average of 1.46 million.
- Single family construction was up 15% (618,000), and multifamily construction was up 25% (307,000)
- As single-family construction remained low in 2013, the share of new units built as rentals reached its highest level – just over one-third – since 1974.
- Despite last year's gains, 2014 had a slow start in part due to the harsh winter; in the first quarter, housing starts and new home sales were down by 3 percent while existing home sales were off by 7 percent.

Home Sales Followed a Similar Path, but Low Inventories Persist

- Home sales were up significantly for both new (+17%) and existing (+9%) homes in 2013.
- For-sale inventories averaged 2.1 million in 2013, which was 200,000 fewer than in 2012 and 600,000 below the average in 1999-2013.
- Reflecting continued elevated levels of housing market distress, over 7 million homes remain vacant and held off market contributing to the tight for-sale inventory.

Price Gains were Substantial and Widespread, but Troubled Spots Remain

- Nationwide, home prices were up in 2013 but eased somewhat in the first quarter of 2014.
- Home values rose in 97 of the 100 largest metro areas in 2013, up from 73 metros in 2012.

- But the recovery has been far from even within metro areas as cumulative price declines from 2006-2013 were three times more severe in minority neighborhoods than in mostly white neighborhoods.

- Over a quarter of mortgaged homeowners in both high-poverty and minority neighborhoods were underwater in 2013, nearly twice the shares in both white and low-poverty neighborhoods.

RISING INTEREST RATES, TIGHT CREDIT, STAGNANT INCOMES & DEBT HAMPER WOULD-BE BUYERS

Rising Interest Rates and Tight Credit Impact Both Purchases and Refinances

- Mortgage rates on 30-year fixed loans rose from 3.6 percent to 4.4 percent in 2013, before falling back in early 2014.

- Home refinance applications fell by 53 percent from the first to the second half of 2013. Purchase applications also declined by 10 percent.

- Although lending for all types of buyers increased in 2011–12, home purchase loan volumes are still well below pre-boom levels.

Incomes Fail to Keep Pace with the Rising Cost of Housing

- At last measure, real median household income fell another 1.4 percent in 2011-12, hitting its lowest level in nearly two decades.

- From 2002 to 2012, the real median income for households aged 25–34 fell 11 percent, leaving their real incomes below those of same-aged households in 1972.

- Since 2002, the real median annual incomes among households in their 50s—the peak earning years for this group as they look to retire over the coming decade—have fallen by $9,100 among 50–54 year olds and by $5,700 among 55–59 year olds.

Mounting Student Loan Debt Will Likely Delay Homeownership for Young Americans

- Consumer debt rose 14 percent from the end of 2010 to the end of 2013, accounting for more than a quarter (26 percent) of aggregate household debt, the highest share since early 2004.

- Student loan debt has accounted for 63 percent of the growth in total debt over the past year and for nearly the entire increase in non-housing consumer debt since 2003. Student loan balances reported on credit reports increased by $114 billion in 2013 alone.

- Between 2001 and 2010, the share of households aged 25–34 with student loan debt soared from 26 percent to 39 percent, with the median amount rising from $10,000 to $15,000. Within this group, the share with at least $50,000 in student debt more than tripled from 5 percent to 16 percent.

HOMEOWNERSHIP RATE CONTINUES TO DECLINE, BUT MINORITIES ARE AN INCREASING PRESENCE

Homeownership Rate Still Falling, Affecting Some Groups More than Others

- The US homeownership rate fell for the ninth straight year in 2012-13.
- From 2004 to 2013, the slide in homeownership rates has been most dramatic among younger adults compared to other age groups: rates for 25–34 year olds were down nearly 8 percentage points and for 35–44 year olds some 9 percentage points.
- Measured from previous peaks, homeownership rates have fallen 6 percentage points among black households and 4 percentage points among both Hispanic and Asian/other households, compared to just 3 percentage points among white households.
- The white-minority homeownership gaps continue to expand (up 3.6 percentage points between whites and blacks since 2001, and 1.3 percentage points between whites and Hispanics since 2007).

Minorities Represent Growing Share of First-Time Homeowners

- Between 1993 and 2013, the white share of first-time homeowners fell from 86 percent to just 77 percent, while the Hispanic share climbed from 4 percent to 9 percent, and the Asian/other share increased from 2 percent to 6 percent.
- Despite their growing presence in the homeownership market, minorities still struggle to obtain loans. In 2011-12, lending to Hispanics was up just 7 percent and up a modest 5 percent among blacks, in contrast to an increase of 15 percent or more in the volume of loans extended to both white and Asian/other borrowers.
- In 2011-12, denial rates for conventional purchase mortgages among Hispanics (25 percent) and blacks (40 percent) are nearly two to three times the rate among whites.

SLUGGISH HOUSEHOLD GROWTH SHOULD IMPROVE AS ECONOMY RECOVERS

Slow Household Growth Continues to Affect Demand

- Household growth of 600,000–800,000 in 2007-13 remains well below the 1.1–1.3 million annual averages of the 1980s and 90s.
- The share of adults in their 20s heading their own households remained 2.6 percentage points below rates 10 years earlier, a difference of 1.1 million fewer households.
- The shift toward lower incomes, and therefore low headship rates, accounts for more than half of the drop in household formations among 20–29 year olds from 2003 to 2013.
- 15.3 million adults in their 20s and 3.1 million in their 30s lived in their parents' homes in 2013.

But Household Growth Should Improve in 2015-25

- In 2015–25, demographic forces alone will drive household growth of 11.6–13.2 million.
- In that time, the number of households aged 70 and older will increase by approximately 8.3 million and account for more than two-thirds of household growth.

- Minorities will drive 76 percent of net household growth.
- Millennials will form 24 million new households, while baby boomers will shed 3 million households and pre-boomer households will drop by 10 million households over the next 10 years.

STRENGTH IN THE RENTAL MARKET CONTINUES TO BE A BRIGHT SPOT

Rental Demand Remains Strong

- Although major surveys disagree on the exact figure, renter growth in 2013 remained well above the 400,000 annual average of the last few decades.
- Households under age 35 accounted for a quarter of renter growth in 2005–13, while the share for 55–64 year olds was nearly as large.
- Households earning under $15,000 annually represented more than a quarter of renter growth, and those with incomes of $15,000–29,999 accounted for nearly 30 percent of renter growth.
- Highest-income households accounted for nearly as large a share (23 percent) as lowest-income households.

Rents Continue to Go Up and Vacancies Down, Helping Boost Multifamily Lending

- The rental vacancy rate edged down to 8.3 percent in 2013 and stood at its lowest point since 2000.
- Rents were up 2.8 percent in 2013, while among professionally managed properties with five or more units, rents increased by 3.0 percent last year, both outpacing overall inflation of 1.5 percent.
- Originations of multifamily loans were up 13 percent, following outsized gains of 36 percent in 2012 that had pushed annual multifamily originations above their mid-2000s peak.
- Although federal sources accounted for much of the increase in lending early in the multifamily recovery, by 2013, net lending by banks and thrifts jumped by $29 billion—more than twice the increase in the volume of government-backed loans.

Rental Housing Supply Boosted by New Construction and Conversion of Single-Family Homes

- 2013 recorded the most multifamily rental starts since 1998.
- From 2006 through 2012, multifamily completions totaled 1.6 million units while growth in renter households hit 5.2 million. While excess vacant units from the building boom helped meet the surge in demand, conversions of owner-occupied single-family homes to rentals provided most of the new supply.
- The number of single-family homes rented during 2006-12 increased by 3.2 million, roughly twice the number of new apartments added.

COST BURDENS PERSIST AND ARE PARTICULARLY GRIM FOR RENTERS

Millions of Americans Struggle with High Housing Costs

- Nearly 41 million households were cost burdened (paying more than 30 percent of income for housing) in 2012, 9 million more than a decade earlier. **[View our INTERACTIVE COST BURDENS MAP @ www.jchs.harvard.edu]**
- More than a quarter of homeowners were cost burdened in 2012, while nearly half of renters were burdened, including more than a quarter who were severely burdened (paying more than 50 percent of income for housing).
- While real median renter costs increased about 4 percent between 2011 and 2012, median renter incomes fell by nearly 13 percent.
- Median housing costs for homeowners have fallen faster than incomes since 2007, helping to ease owner cost burdens.

Supplying Low-Cost Rentals Continues to be a Challenge

- More than four out of five with incomes below $15,000 (roughly equivalent to full-time work at the federal minimum wage) paid more than 30 percent of income for housing in 2012, and two-thirds paid more than 50 percent.
- In 2012, households in the bottom expenditure quartile (a proxy for low-income) spending more than 50 percent of income on housing spent on average 39 percent less on food and 65 percent less on healthcare than similar households with affordable housing.
- Relative to households earning over 80% of area median incomes, extremely low-income households (earning less than 30 percent of area median income) are more likely to live in neighborhoods with serious crime and blighted buildings, and three times more likely to live in structurally inadequate units.
- For the 11.5 million extremely low-income households in 2012 there were only 3.3 million rental units affordable and available to them.
- Households would need to earn at least $42,200 a year to afford the $1,052 median monthly gross rent for new units built in the past four years—well above the income of the typical renter.
- Just 34 percent of new units added in that period rented for less than $800 per month or roughly the amount the median renter earning $28,000 could afford.

Federal Rental Assistance Leaves Many Unserved or at Risk of Losing Assistance

- Although the number of households eligible for rental subsidies shot up 21 percent between 2007 and 2011, just under a quarter actually received assistance in 2011.
- As a result of a $3 billion reduction in HUD's FY2013 budget, an estimated 42,000 fewer households received housing vouchers in 2013 than in 2012.
- Low Income Housing Tax credits subsidize 57 percent of units (1.2 million) with expiring affordability restrictions in 2014–24, while units in properties with project-based rental assistance represent 28 percent (596,000 units) of the total potential pool of expiring units coming up for subsidy renewals.

But Homelessness Continues to Decline

- In 2013, the homeless population in the United States fell by 4 percent.
- Homelessness rates among all major at-risk groups have fallen, declining 11 percent among individuals in families, 12 percent among the chronically homeless, and 6 percent among veterans.
- Federal funding for homeless assistance increased 34 percent between FY2007 and FY2013, adding 95,662 beds in permanent supportive housing.

SPONSORS

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DATA

The Joint Center uses current data from the US Census Bureau, the Department of Housing and Urban Development, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Federal Reserve, CoreLogic, Freddie Mac, Fannie Mae, Moody's Economy. com, the Mortgage Bankers Association of America, MPF Research, the National Association of Realtors®, the National Council of Real Estate Investment Fiduciaries, the National Low Income Housing Coalition, Standard and Poor's, Amherst Securities, the Brookings Institution, Urban Institute, and Zillow.com to develop its findings.

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