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## EXECUTIVE SUMMARY

A decade after the onset of the Great Recession, the national housing market is finally returning to normal. With incomes rising and household growth strengthening, the housing sector is poised to become an important engine of economic growth. But not all households and not all markets are thriving, and affordability pressures remain near record levels. Addressing the scale and complexity of need requires a renewed national commitment to expand the range of housing options available for an increasingly diverse society.

### **NATIONAL HOME PRICES REGAIN PREVIOUS PEAK**

US house prices rose 5.6 percent in 2016, finally surpassing the high reached nearly a decade earlier. Achieving this milestone reduced the number of homeowners underwater on their mortgages to 3.2 million by year's end, a remarkable drop from the 12.1 million peak in 2011. In inflation-adjusted terms, however, national home prices remained nearly 15 percent below their previous high (**Figure 1-a**). As a result, the typical homeowner has yet to fully regain the housing wealth lost during the downturn.

The increase in nominal home prices was widespread, with home values gaining ground in 97 of the nation's 100 largest metros. But the extent of the recoveries differs significantly. Home prices in only 41 of these metros now exceed previous highs, while prices in 32 metros are still down 15 percent or more. Markets where prices are well below peak include not only metros at the epicenter of the housing boom and bust, such as Las Vegas and Tampa, but also Midwestern markets where the cycle in home prices was comparatively mild, such as Chicago and Detroit.

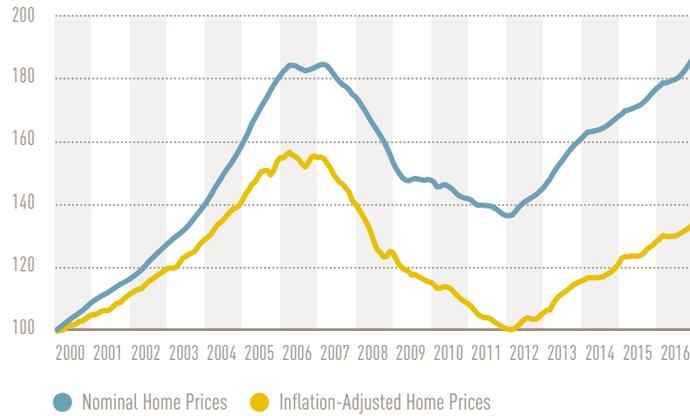
The rebound in home prices also differs sharply across neighborhoods by income. Based on Zillow data for over 9,000 ZIP codes, home prices in low-income areas (with median incomes under 80 percent of statewide median) were still 13.7 percent below their pre-recession peaks on average in 2016. By comparison, prices were 6.5 percent below peak in moderate-income neighborhoods and only 3.3 percent below peak in high-income neighborhoods (with median incomes over 120 percent of statewide median). This means that larger shares of homeowners in low-income communities than in higher-income neighborhoods remain underwater on their mortgages, with no opportunity to refinance or sell without bringing money to the closing table.

The cumulative impact of these differences on real home price appreciation has a strong regional pattern. Markets primarily along the East and West Coasts have seen inflation-adjusted home values increase by more than 40 percent since 2000, while metros in large swaths of the Midwest and South have experienced declines (**Figure 1-b**). Although the substantial increase in

FIGURE 1-a

### National Home Prices Now Exceed Their Previous Peak in Nominal Terms, But Not in Real Dollars

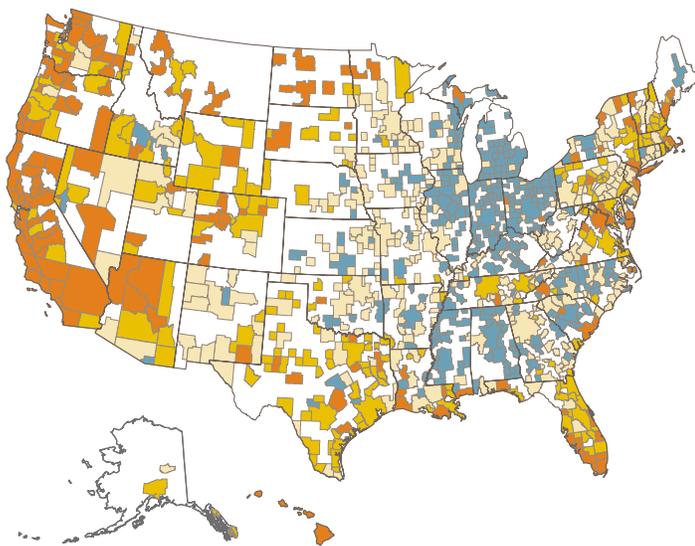
U.S. National Home Price Index



Note: Prices are adjusted for inflation using the CPI-U for All Items less shelter.  
Source: JCHS tabulations of S&P CoreLogic Case-Shiller U.S. National Home Price Index.

FIGURE 1-b

### Metro Area Home Prices Have Diverged Widely Since 2000



Change in Real Metro Area Home Price, January 2000–December 2016 (Percent)

Over 40 (Up to 177.0) 20.0–39.9 0–19.9 Negative (Down to -46.0)

Note: Prices are adjusted for inflation using the CPI-U for All Items less shelter.  
Source: JCHS tabulations of CoreLogic Home Price Indices.

high-appreciation markets is a boon for current homeowners, it has also pushed homeownership out of reach for many. Indeed, home values now average \$575,000 in the 10 metros with the highest appreciation rates—more than four times the \$135,000 average in the 10 markets with the lowest appreciation rates.

#### MODERATE GAINS IN CONSTRUCTION BUT TIGHTENING SUPPLY

New construction added 1.17 million units to the national stock in 2016, a 5.6 percent increase from 2015. While marking the seventh year of gains, last year’s growth rate was the lowest since 2011 thanks largely to the flattening of multifamily starts from 397,000 units to 393,000. Meanwhile, construction of single-family homes picked up by 9.4 percent in 2016, to 781,600 units, outpacing growth in multifamily construction for the first time since the recession.

But even after seven consecutive years of growth, new residential construction in 2016 was well below the 1.4–1.5 million unit annual rates averaged in the 1980s and 1990s. In fact, coming on the heels of the most prolonged and pronounced downturn since the Great Depression, housing completions in the past 10 years totaled just 9.0 million units—more than 4.0 million units less than in the next-worst 10-year period going back to the late 1970s. Together with steady increases in demand, the low rate of new construction has kept the overall market tight, leaving the gross vacancy rate at its lowest point since 2000 (Figure 2).

The lack of inventory for sale is evident in both the new and existing segments of the market. In 2016, the typical new home for sale was on the market for 3.3 months, well below the 5.1 months averaged since recordkeeping began in 1988. Meanwhile, only 1.65 million existing homes were for sale in 2016, the lowest count in 16 years. And with sales volumes picking up, the inventory represented just 3.6 months of supply, an 11-year low.

Conditions are particularly tight at the lower end of the market, likely reflecting both the slower price recovery in this segment and the fact that fewer entry-level homes are being built. Between 2004 and 2015, completions of smaller single-family homes (under 1,800 square feet) fell from nearly 500,000 units to only 136,000. Similarly, the number of townhouses started in 2016 (98,000) was less than half the number started in 2005.

Meanwhile, rental markets are extremely tight despite the relatively strong pickup in multifamily construction. According to the Housing Vacancy Survey, the rental vacancy rate fell for the seventh straight year in 2016, dipping to 6.9 percent—its lowest level in more than three decades. MPF Research reports that the vacancy rate for professionally managed apartments was also just 4.4 percent. While some rental markets showed signs of softening in early 2017—most notably in San Francisco and New York—there is generally little indication that increases in supply are outstripping demand.

Indeed, rent gains across the country continue to far outpace inflation. The Consumer Price Index for rent on primary residences was up 3.8 percent last year, while MPF Research estimates that rents for professionally managed apartments rose by a similar amount. With most new supply coming at the upper end of the market and strong demand pushing up rents across the board, the number of modestly priced units available for under \$800 declined by 261,000 between 2005 and 2015, while the number renting for \$2,000 or more jumped by 1.5 million.

A variety of factors may be holding back a more robust supply response. Labor shortages are a key constraint, reflecting both the substantial drop in the construction workforce following the housing bust and the lower number of young workers entering the industry. In addition, regulatory and stricter financing requirements have limited the supply of land available for both single- and multifamily housing construction. In combination, these forces raise development costs and make it less feasible to build smaller homes for first-time buyers and rental units affordable to low- and moderate-income households.

#### PICKUP IN HOUSEHOLD GROWTH

The sluggish rebound in construction also reflects the striking slowdown in household growth after the housing bust. Depending on the government survey, household formations averaged just 540,000 to 720,000 annually in 2007–2012 before reviving to 960,000 to 1.2 million in 2013–2015.

Much of the falloff in household growth can be explained by low household formation rates among the millennial generation (born between 1985 and 2004). Indeed, the share of adults aged 18–34 still living with parents or grandparents was at an all-time high of 35.6 percent in 2015. But through the simple fact of aging, the oldest members of this generation have now reached their early 30s, when most adults live independently. As a result, members of the millennial generation formed 7.6 million new households between 2010 and 2015.

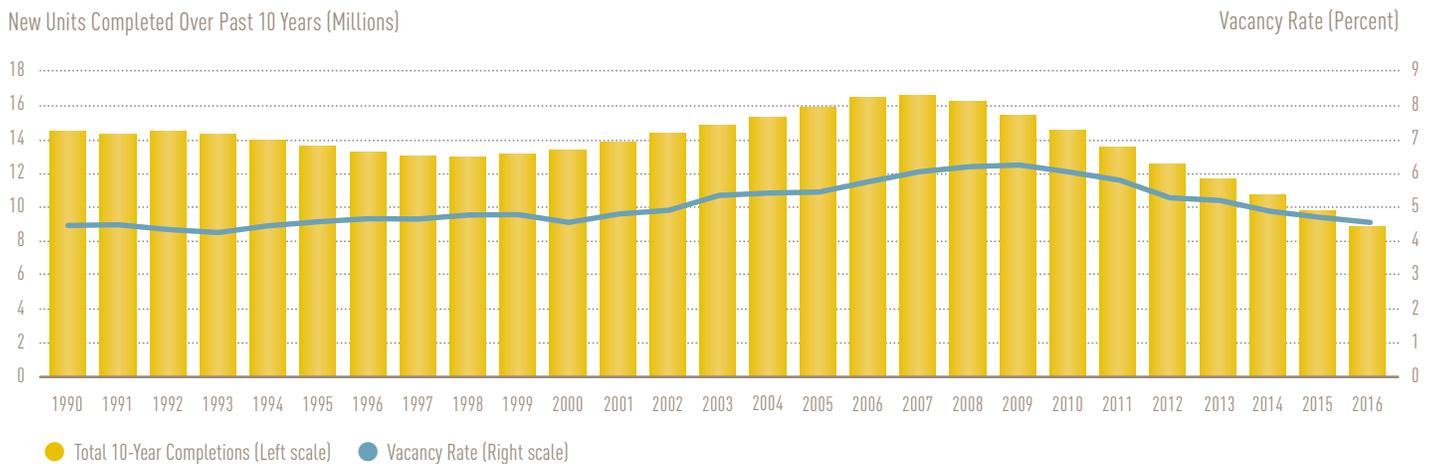
While sharply lower immigration also contributed to weak household growth after the bust, net inflows picked up from 854,000 in 2011 to just under 1.0 million in 2016. Pew Research Center estimates also indicate little change in the undocumented population since 2007, implying that virtually all of these new arrivals are documented immigrants.

The Joint Center for Housing Studies has revised its household growth projections to reflect these recent trends as well as the Census Bureau’s 2014 population projections, which assume that growth in the foreign-born population increases to 1.27 million per year by 2020. Growth in US households is now projected to reach 13.6 million in 2015–2025, roughly in line with the increase in the 1990s. Minorities will drive almost three-quarters of these gains, with Hispanics alone accounting for a third (Figure 3).

Over the decade, the aging of the millennial generation will boost the number of households in their 30s by 2.6 million.

FIGURE 2

### Historically Low Construction Over the Past Decade Has Contributed to Market Tightening

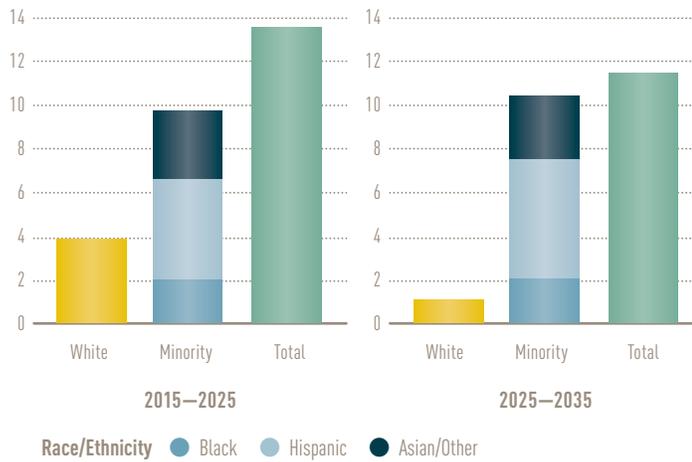


Notes: The vacancy rate is calculated as the total number of vacant units for-sale, for-rent, and rented or sold but not yet occupied over the total number of units occupied, vacant for-sale or for-rent, and rented or sold but not yet occupied. Source: JCHS tabulations of US Census Bureau, New Residential Construction and Housing Vacancy Survey.

FIGURE 3

### Minorities Will Drive Most Future Household Growth

Projected Household Growth (Millions)



Notes: White, black, and Asian/other households are non-Hispanic. Hispanics may be of any race. Asian/other includes all other households. Source: JCHS 2016 Household Projections.

At the same time, the aging of the baby boomers will lift the number of households age 65 and over by some 11.3 million. By 2035, one out of every three households will be headed by someone in this older age group. In the following decade, however, household growth is projected to slow to 11.5 million as mortality rates rise among the baby-boom generation. With the white population increasing only slowly, minorities will account for over 90 percent of household growth in 2025–2035.

Whether these projections come to pass will depend in no small part on the health of the US economy. But perhaps the key unknown is the pace of immigration. If successful, proposed policies to curtail both undocumented and documented immigration would be a significant drag on household growth in the coming years.

#### HOMEOWNERSHIP DECLINES MODERATING, WHILE RENTAL DEMAND STILL STRONG

After 12 years of decline, there are signs that the national homeownership rate may be nearing bottom. As of the first quarter of 2017, the homeownership rate stood at 63.6 percent—little changed from the first quarter two years earlier. In addition, the number of homeowner households grew by 280,000 in 2016, the strongest showing since 2006. Early indications in 2017 suggest that the upturn is continuing. Still, growth in renters continued to outpace that in owners, with their numbers up by 600,000 last year.

While there is no ideal homeownership rate, its long-term decline is a policy concern in part because of its disproportionate impact on black households. Over the past 12 years, the black homeownership rate fell sharply to just 42.2 percent, slightly below the 1994 level (Figure 4). With white rates increasing to 71.9 percent over this period, the black-white homeownership gap widened by 2.3 percentage points to 29.7 percentage points in 2016—the largest disparity since World War II.

At the same time, the homeownership rates were up nearly 5 percentage points among Asians (to 55.5 percent) and Hispanics (to 46.0 percent), narrowing the gap with white homeownership rates by 2.8 percentage points. Together with growth in their populations, these gains lifted the combined Asian and Hispanic share of homebuying activity from one out of seven sales in 2001 to nearly one out of five in 2015.

Now that foreclosures are ebbing and incomes are rebounding, the national homeownership rate may level off. But the ongoing tightness of mortgage credit and the limited supply of lower-cost housing are still serious constraints for potential homebuyers. The current debate about the federal role in backstopping the mortgage market thus has important implications for the cost and availability of financing. The role and capabilities of the Federal Housing Administration (FHA) must be part of the policy discussion, given the outsized role it plays in supporting home purchase loans for minority and lower-income households.

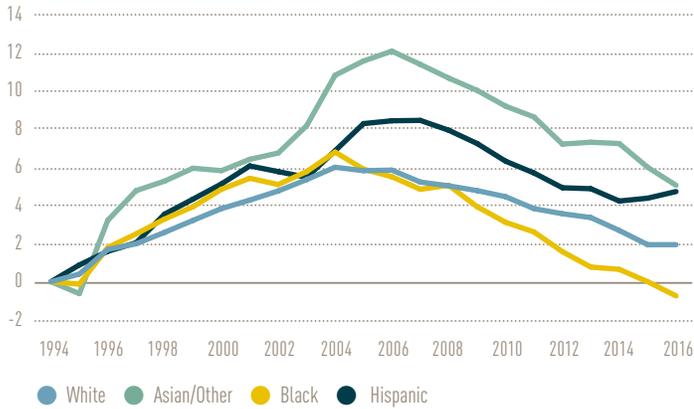
The future course of homeownership will also be shaped by how affordable local home prices are for typical renters. On average, 45 percent of renters across the nation’s metropolitan areas can afford the payments on a median-priced home in their market area, but the shares range from less than one in ten in the high-cost markets concentrated on the Pacific Coast as well as in Florida and the Northeast, to two-thirds or more in low-cost metros in the Midwest and rural South. In areas where homebuying is well out of reach for a large majority of renters, there is much less potential for increases in homeownership.

Joint Center projections suggest that demand for owner-occupied housing could rebound sharply even as demand for rentals remains strong. Assuming that the homeownership rate stabilizes near its current level, the number of homeowner households could grow by 8.9 million in 2015–2025 while the number of renter households could increase by about 4.7 million. And even if the downtrend in homeownership continues for another five years, owner household growth would still total 4.9 million by 2025. In that case, renter household growth would hold near its recent annual pace, lifting the total increase in 2015–2025 to 8.7 million.

FIGURE 4

### The Homeownership Gap Has Narrowed for Hispanics and Asians, But Widened for Blacks

Cumulative Change in Homeownership Rate (Percentage points)



Notes: Hispanic households may be of any race. White, black, and Asian/other households are non-Hispanic and include those reporting a second race until 2003. After 2003, Asian/other includes all other households and those reporting more than one race.  
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Survey.

FIGURE 5

### More than 11 Million Renter Households Pay at Least Half Their Incomes for Housing

Severely Cost-Burdened Households (Millions)



Note: Severely cost-burdened households pay more than 50% of income for housing, including utilities.  
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

### AFFORDABILITY PRESSURES REMAIN WIDESPREAD

Based on the 30-percent-of-income affordability standard, the number of cost-burdened households fell from 39.8 million in 2014 to 38.9 million in 2015. As a result, the share of households with cost burdens fell 1.0 percentage point, to 32.9 percent. This was the fifth straight year of declines, led by a considerable drop in the owner share from 30.4 percent in 2010 to 23.9 percent in 2015. The renter share, however, only edged down from 50.2 percent to 48.3 percent over this period.

With such large shares of households exceeding the traditional affordability standard, policymakers have increasingly focused their attention on the severely burdened (paying more than 50 percent of their incomes for housing). Although the total number of households with severe burdens also fell somewhat from 19.3 million in 2014 to 18.8 million in 2015, the improvement was again on the owner side (**Figure 5**). Indeed, 11.1 million renter households were severely cost burdened in 2015, a 3.7 million increase from 2001. By comparison, 7.6 million owners were severely burdened in 2015, up 1.1 million from 2001.

The share of renters with severe burdens varies widely across the nation's 100 largest metros, ranging from a high of 35.4 percent in Miami to a low of 18.4 percent in El Paso. While most common in high-cost markets, renter cost burdens are also widespread in areas with moderate rents but relatively low incomes. Augusta is a case in point, where the severely cost-burdened share of renters was at 30.3 percent in 2015.

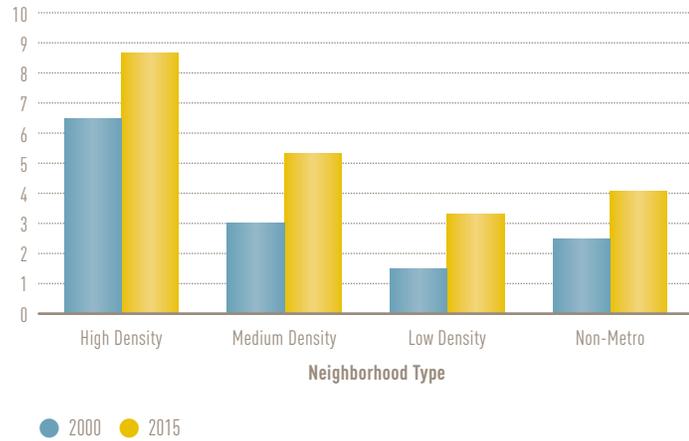
Regardless of location, the cost-burdened shares among lowest-income households (earning under \$15,000 a year, roughly equivalent to working full-time, year-round at the federal minimum wage) are consistently high. In the nation as a whole, 70.3 percent of lowest-income households face severe housing cost burdens. Indeed, in certain metros such as Cape Coral and Las Vegas, nearly nine out of ten lowest-income renters are severely burdened. But even in the markets with the smallest shares, such as El Paso and Knoxville, six out of ten lowest-income renters face these burdens.

The scale and pervasiveness of severe cost burdens among lowest-income renters underscores the fundamental challenge of providing housing that these households can afford. A recent National Low Income Housing Coalition study found that for every 100 extremely low-income renters (earning 30 percent of area median income) in 2015, only 35 rental units were affordable at the 30-percent standard, in adequate condition, and not occupied by higher income households. In seven metros, fewer than 20 units were affordable and available for every 100 extremely low-income renters.

FIGURE 6

## Much of the Growth in High-Poverty Neighborhoods Has Been in Suburban and Outlying Areas

Number of High-Poverty Neighborhoods (Thousands)



Notes: High-poverty neighborhoods have poverty rates of 20 percent or more. Neighborhood types are based on equal thirds of all metro area census tracts ranked by housing density.  
Source: JCHS Neighborhood Change Database.

### SEGREGATION BY INCOME ON THE RISE

A growing body of social science research has documented the long-term damage to the health and well-being of individuals living in high-poverty neighborhoods. Recent increases in segregation by income in the United States are therefore highly troubling. Between 2000 and 2015, the share of the poor population living in high-poverty neighborhoods rose from 43 percent to 54 percent. Meanwhile, the number of high-poverty neighborhoods rose from 13,400 to more than 21,300. Although most high-poverty neighborhoods are still concentrated in high-density urban cores, their recent growth has been fastest in low-density areas at the metropolitan fringe and in rural communities (Figure 6).

At the same time, the growing demand for urban living has led to an influx of high-income households into city neighborhoods. While this revival of urban areas creates the opportunity for more economically and racially diverse communities, it also drives up housing costs for low-income and minority residents.

### FUTURE OPPORTUNITIES AND CHALLENGES

By many metrics, the housing market has overcome the worst effects of the housing bust. Nominal house prices have regained previous peaks, construction volumes are nearing their long-term averages, and household growth is becoming more balanced between the owner and renter markets. And with inventories of both for-sale and for-rent homes extremely tight, the need for additional housing supply should be an important stimulus for economic growth.

Longer-term demographic trends are also favorable for the housing sector. Even if they remain somewhat less likely to form new households than previous generations, millennials will bolster demand for both rental and owner-occupied housing as they move into their late 20s and early 30s. This generation is the most racially and ethnically diverse in the nation's history, and already demonstrates a greater interest in urban living than its predecessors. But providing housing for these younger adults—particularly at affordable price points and in the places where they want to live—will be a significant challenge.

For its part, the baby-boom generation will drive up investment in the existing housing stock as they modify their homes to accommodate their changing needs. While most are likely to remain in their current homes, some baby boomers will seek different housing options as they transition into old age. Although many of these households have the financial resources to support a range of housing options, millions of older households will be of modest means. Meeting the growing need for housing that is accessible, affordable and well-integrated into communities will require concerted efforts by the private and public sectors alike.

Given the pivotal role of housing in determining the well-being and financial security of every individual and family, attending to the nation's critical housing challenges should have primacy in the debates over public spending, tax policy, and regulatory regimes. National housing policy must also recognize the diversity of conditions existing both within and across markets. As such, state and local governments have a central role to play in defining specific community needs, crafting policies, and marshaling resources to support housing solutions. But only the federal government can provide funding at the scale necessary to make meaningful progress toward the nation's stated goal of a decent home in a suitable living environment for all.