The US housing recovery lost momentum in 2014 as homeownership rates continued to fall, single-family construction remained near historic lows, and existing home sales cooled. In contrast, the rental market remained a bright spot, fueled by strong growth in renter households. With rents rising and incomes well below pre-recession levels, though, the number of housing cost-burdened renters set another record, far surpassing public efforts to provide affordable housing. And despite the rebound in much of the nation, a number of minority and low-income neighborhoods remain severely distressed.

HOMEOWNERSHIP AT 20-YEAR LOWS

One telling indicator of the state of the nation’s housing is the drop in the homeownership rate to just 64.5 percent last year, erasing nearly all of the increase in the previous two decades (Figure 1). The number of homeowners fell for the eighth straight year, signaling persistently weak demand in this key market segment. And the trend does not appear to be abating, with the national homeownership rate down to 63.7 percent in the first quarter of 2015.

The falloff is evident across nearly all age groups (Figure 2). In fact, the national homeownership rate remains as high as it is only because the baby boomers (born 1946–64) are now in the 50-plus age groups when homeownership rates are high, and because owners aged 65 and over have sustained historically high rates. In sharp contrast, it was generation X (also known as the baby bust, born 1965–84) that took most of the hit from the housing bust.

Just before the crash, younger gen-Xers were in the prime first-time homebuying years while older members of this generation were at the stage when households tend to trade up or make significant improvements to their existing homes. When prices plummeted, many of these owners had little or no equity to weather the recession. As a result, homeownership rates among gen-Xers—now mostly in the 35–44 and 45–54 year-old age groups—have fallen further than those of any other age group, and stand 4–5 percentage points below rates among same-aged households 20 years ago. Whether these households eventually catch up to the baby boomers in terms of homeownership is unknown.

With the gen-Xers accounting for such a significant share of the first-time and trade-up markets, the drop in their homeownership rates may well be a more critical factor in the ongoing weakness of the owner-occupied segment than the slow transition of the millennial generation (born 1985–2004) into homebuying. This is not to say, however, that the millennials do not face their own financial hurdles to homeownership. Over the span of just 10 years, the share of renters aged 25–34 with cost burdens (paying more than 30 percent of their incomes for housing) increased from 40 percent to 46 percent, while the share with severe
burdens (paying more than 50 percent of income) rose from 19 percent to 23 percent. During roughly the same period, the share of renters aged 25–34 with student loan debt jumped from 30 percent in 2004 to 41 percent in 2013, with the average amount of debt up 50 percent, to $30,700.

Several other factors have also contributed to the substantial decline in homeownership. Steady erosion of household incomes since the start of the recession is one key ingredient, and restricted access to financing is another. Facing heightened costs from delinquent loans, lenders are reluctant to lend to borrowers with less than stellar credit. Indeed, Urban Institute estimates for 2001–13 indicate a 37 percent drop in home purchase loans among borrowers with scores between 660 and 720, compared with a 9 percent decrease among borrowers with higher scores. While some of this stringency may arise from more prudent assessment of borrower creditworthiness, the magnitude of the declines—along with the pristine performance of recently originated loans—suggests that a significant portion reflects undue tightening of credit.

RENTAL MARKET BOOM

The flip side of falling demand for owner-occupied housing has been exceptionally strong demand for rental units. According to the Housing Vacancy Survey’s count, renter household growth has averaged 770,000 annually since 2004. This makes 2004–14 the best 10-year period for renter growth since the late 1980s. While soaring demand is often attributed to the millennials’ preference to rent, households aged 45–64 in fact accounted for about twice the share of renter growth than households under the age of 35. Similarly, households in the top half of the income distribution, although generally more likely to own, contributed 43 percent of the growth in renters.

To meet the surge in demand, the number of single-family detached homes in the rental market increased by 3.2 million on net between 2004 and 2013. This shift accommodated more than half of the growth in occupied rentals over this period, lifting the single-family share from 31 percent to 35 percent. Developers also responded to soaring demand by steadily expanding the multifamily housing supply, adding 1.2 million apartment starts to the mix since 2010.

Despite this massive expansion of the stock, rental markets continued to tighten in 2014. The national vacancy rate dipped to 7.6 percent, its lowest point in nearly 20 years. As a result, rents rose at a 3.2 percent rate last year—twice the pace of overall inflation (Figure 3). MPF Research estimates that vacancy rates for professionally managed apartments were even lower, at 4.6 percent, and fueled even larger rent increases of 3.8 percent.

Based on these strong fundamentals, apartment building prices rose for the fifth consecutive year in 2014, up 15 percent. As measured by Moody’s/RCA Commercial Property Price Index, last year’s prices were 21 percent above their previous peak. Lending for multifamily properties followed suit, with the total
value of multifamily loan originations also rising 15 percent in 2014. Banks and thrifts accounted for more than half of the increase in multifamily mortgage debt outstanding.

With no signs of a slowdown in renter household growth, rental markets are likely to remain tight in the near term. If strong job growth continues, rental demand could get another lift as increasing numbers of young adults move out of their parents’ homes and into their own. Even so, the supply of new apartments should continue to grow as completions catch up with starts, which would help to moderate future increases in rents.

**THE LAGGING SINGLE-FAMILY RECOVERY**

But the robustness of the multifamily market has not been enough to lift overall construction volumes anywhere near their historic average (Figure 4). A little over one million housing units were started last year—a significant threshold by today’s standards. But until the recent downturn, this would have been the lowest total in the past half-century.

Virtually all of the weakness is due to low levels of single-family construction, with starts increasing only 5 percent for the year. In contrast, multifamily starts remained on a strong upward trajectory, rising 16 percent on top of substantial gains each year since 2010. In fact, more multifamily units were started in 2014 than in any year since 1989.

The softness in the owner-occupied market is also evident in the 3 percent drop in existing home sales in 2013–14. The silver lining, however, is a shift in the composition of sales, marked by a slowdown in distress-related sales and a modest uptick in traditional sales. Indeed, Metrostudy data show a 10 percent drop in cash sales and a 15 percent drop in sales of bank-owned properties, along with a 3 percent rise in mortgaged purchases of non-bank-owned homes.

Nevertheless, the lingering effects of the housing crash are clear. Despite the rebound in home prices, many homeowners are still left with negative or limited equity. CoreLogic pegs the number of homes with negative equity at 4.8 million, or 11.7 percent of all homeowners, as of the third quarter of 2015.

**FIGURE 4**

**Despite the Strength of Multifamily Construction, Housing Starts Remain Near Historic Lows**

*Construction Starts (Thousands of units)*

Source: US Census Bureau, New Residential Construction data.
owners with less than 20 percent equity at 15 million. Since these owners would be hard pressed to cover the costs of selling their homes and also come up with a downpayment on another property, they are effectively shut out of the housing market.

And with so many other would-be trade-up buyers constrained by tight credit conditions, it is no surprise that inventories of existing homes on the market are so limited. April 2015 marked the 32nd straight month that existing homes for sale held below a six-month supply, the traditional measure of a balanced market. And with home price appreciation slowing in 2014, growth in the number of owners that decide to sell may also decelerate. At the same time, though, more modest price appreciation will help to keep homeownership affordable, particularly if interest rates rise as the economy nears full employment. Of course, without more inventory, would-be homebuyers have limited opportunities to take advantage of these conditions. In assessing the state of the housing market recovery, the existing home inventory is a key metric to watch.

The weak single-family market reflects a number of short-term conditions, including harsh winter weather and higher interest rates in the early months of 2014, along with rising home prices over the course of the year. But the long-term decline in household income is a more critical factor. Despite steady job growth since 2010 and a drop in unemployment to less than 6 percent, the labor market recovery has yet to generate meaningful income gains. At last measure in 2013, median household income was $51,900—still 8 percent below the 2007 level in real terms and equivalent to 1995 levels. Still, there were encouraging signs in early 2015 that wage growth may be picking up, a trend that would clearly help to bolster all segments of the housing market.

**HOUSEHOLD GROWTH AND FUTURE HOUSING DEMAND**

Despite conflicting reports from the major government surveys, household growth may be reviving. The timeliest of the sources,
The cost-burdened share of renters with incomes in the decade ahead. If rates of living independently among young adults and in net immigration—appear to be reversing. Recent surveys suggest that the share of young adults moving into independent households is stabilizing. In combination with the aging of the millennials into their 20s and early 30s, this sets the stage for stronger household growth. Meanwhile, net immigration was close to the one-million mark in 2014 for the first time since 2007. While such a dramatic upturn in one quarter is unlikely, other indicators of strengthening rental demand over the course of the year are consistent with an uptick in household growth.

Moreover, two of the major trends contributing to the recent slowdown in household growth—declines in headship rates among young adults and in net immigration—appear to be reversing. Recent surveys suggest that the share of young adults moving into independent households is stabilizing. In combination with the aging of the millennials into their 20s and early 30s, this sets the stage for stronger household growth. Meanwhile, net immigration was close to the one-million mark in 2014 for the first time since 2007.

The millennials are now adding to the ranks of renters and will eventually spur demand for first-time homeownership. As the oldest members of this generation turn 30 this year and the economy continues to recover, that demand should begin to emerge more strongly. But given the diversity of the millennial generation and the persistently large gaps in white-minority homeownership rates, many of these households may find it difficult to make the transition from renting to owning.

Meanwhile, the baby boomers are moving into their retirement years (Figure 6). A large majority will likely remain in their single-family homes for the time being, implying lower turnover in the housing market and higher spending on remodeling of existing homes. In another decade, though, the oldest members of this generation will be in their late 70s, a time of life when living independently often becomes difficult. By 2025, the large and growing population of seniors is likely to drive up demand for alternative housing arrangements that offer a combination of affordability, accessibility, and supportive services.

**THE SPREAD OF RENTER COST BURDENS**

Even before the Great Recession, both the number and share of US households paying more than 30 percent of income for housing were on the rise. But the cost-burdened share of homeowners began to recede in 2010, not only because many over-leveraged households lost their homes to foreclosure, but also because low interest rates helped to reduce monthly mortgage costs. As a result, the cost-burdened share of homeowners fell 5 percentage points in 2010–13, to about one quarter.

The cost-burdened share of renters, in contrast, held near record highs in the face of stagnating incomes and steadily rising rents. In 2013, almost half of all renters had housing cost burdens, including more than a quarter with severe burdens (paying more than 50 percent of income for housing). Although these shares remained slightly below their peaks in 2013, the total number of renters with housing cost burdens increased over the year because the total number of renters increased.

While long a condition of low-income households, cost burdens are spreading rapidly among moderate-income households (Figure 7). The cost-burdened share of renters with incomes in the $30,000–45,000 range rose 7 percentage points between 2003 and 2013, to 45 percent. The increase for renters earning $45,000–75,000 was almost as large at 6 percentage points, affecting one in five of these households. On average, in the ten highest-cost metros—including Boston, Los Angeles, New York, and San Francisco—three-quarters of renters earning $30,000–45,000 and just under half of those earning $45,000–75,000 had disproportionately high housing costs.

Much to their detriment, cost-burdened households are forced to cut back on food, healthcare, and other critical expenses. Affordable housing thus means a dramatic improvement in quality of life for households able to obtain it, but federal assis-
tance lags far behind need. Although funding for housing choice vouchers did increase in recent years, the cost of subsidies also rose, limiting growth in the number of federally assisted households. Meanwhile, severe cuts in the HOME program have hampered the ability of state and local governments to add new assisted units. To make matters worse, the affordability periods of more than 2 million assisted housing units are set to expire over the coming decade, and preserving this critically important resource will require a renewal of federal commitments. The Low Income Housing Tax Credit program—the key tool for both developing and preserving affordable rentals—is under increasing pressure from these competing needs.

PERSISTENT NEIGHBORHOOD DISTRESS

By a variety of measures, the national housing market has largely recovered from the worst of the downturn, but pockets of distress remain. For example, Zillow reports that home prices are within 11 percent of their previous peak nationally. In about a tenth of the nation’s zip codes, however, prices are still more than 35 percent below peak. This has left 26 percent of homeowners in these neighborhoods underwater on their mortgages, roughly twice the share in the nation as a whole.

Similarly, mortgage delinquency rates nationwide have fallen by half since the foreclosure crisis peaked. But the remaining loans that are seriously delinquent (90 or more days past due or in foreclosure) are concentrated in relatively few neighborhoods. Indeed, the 10 percent of zip codes with the highest number of seriously delinquent loans accounted for about half of all such loans nationally in 2014. While located in states across the country, many of these communities are concentrated in Florida, New York, New Jersey, and Illinois.

Distressed neighborhoods have disproportionately large shares of minority and low-income residents. In more than half of the areas where house prices were still depressed by more than 35 percent, minorities make up the majority of households (Figure 8). The median poverty rate is also close to 19 percent, or about twice that of all neighborhoods.

In many of these communities, disinvestment was widespread even before the housing crisis hit. Neighborhood revitalization thus requires comprehensive efforts to improve public services and infrastructure related to education, transportation, public safety, and employment. But affordable, good-quality housing must still be the cornerstone of any efforts to stabilize these long-distressed areas.

THE OUTLOOK

Despite the slowdown in 2014, the housing market recovery could regain steam in 2015 if continued employment growth helps to lift household incomes. But the lingering effects of the housing crash and Great Recession continue to impede the recovery. Millions of owners still have little or no equity in their homes and/or damaged credit histories, dampening demand in both the first-time buyer and trade-up markets. Although members of the millennial generation are starting to find their footing in the job market and helping to propel rental demand, many of these young adults are saddled with rent burdens and student loan payments that will slow their transition to homeownership.

Looser mortgage lending criteria would help. Given that a substantial majority of US households desire to own homes, the challenge is not whether they have the will to become homeowners but whether they will have the means. In the past year, Fannie Mae and Freddie Mac, along with the Federal Housing Administration (FHA), have taken a number of steps to expand low-downpayment lending to borrowers with lower credit scores. Whether these changes can spur a meaningful increase in lending is still a question.

Meanwhile, the persistent strength of rental demand has fueled steadily rising rents and a surge in multifamily construction. With renter household growth continuing to climb, the growing supply of new market-rate units is unlikely to outstrip demand in most metros, although some markets may be closer to saturation than others. In contrast, the shortfall in affordable housing remains substantial as the number of cost-burdened low-income renters continues to rise. Reversing this trend will require a firm recommitment of the nation to the goal of secure, decent, and affordable housing for all.