

JOINT CENTER FOR HOUSING STUDIES  
OF HARVARD UNIVERSITY



THE STATE OF THE  
**NATION'S  
HOUSING**  
2005

## **Joint Center for Housing Studies of Harvard University**

**Graduate School of Design  
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*The State of the Nation's Housing: 2005* is dedicated to the  
memory of Cushing Dolbeare, a former Fellow at the Joint Center  
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for affordable housing.

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# EXECUTIVE SUMMARY

House prices, residential investment, and home sales all set records again in 2004. But higher short-term interest rates and the strongest one-year price appreciation since 1979 made it more difficult for first-time buyers to break into the market. With low-wage jobs increasing and wages for those jobs stagnating, affordability problems will persist even as strong fundamentals lift the trajectory of residential investment.

In 2004, many households rushed to take advantage of still-attractive interest rates and buy in advance of potentially higher prices. As a result, homeownership posted an all-time high of 69 percent last year, with households of all ages, races, and ethnicities joining in the home-buying boom.

The rising tide of housing wealth gave consumer spending another boost. In combination with historically low mortgage interest rates, house price gains last year sparked near-record cash-out refinances and record home equity borrowing. Although refinancing volume dropped by half in real terms to \$1.4 trillion, the amount of equity borrowers cashed out held fairly steady at \$139 billion while net growth in second mortgage debt almost doubled to \$178 billion. As cash-rich households stepped up their spending, housing wealth effects again accounted for a third of the growth in personal consumption last year.

## RESILIENCE IN THE MARKETS

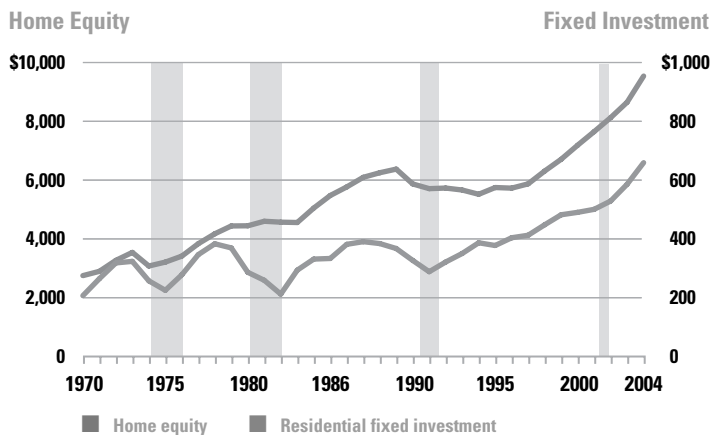
Aside from modest pullbacks in starts and sales, the current housing boom has lasted for 13 consecutive years (Fig. 1). By comparison, the next-longest expansion since 1970 with no significant drop in starts lasted just five years. In addition to record-setting endurance, this is also the first time in postwar history when the housing sector did not lead the economy into recession.

The unprecedented length and strength of the boom has, however, fanned fears that the rate of construction far exceeds long-run demand. Although averaging more than 1.9 million units annually since 2000, housing starts and manufactured home placements appear to be roughly in line with household demand. As evidence, the inventory of new homes for sale relative to the pace of home sales is near its lowest level ever. Given this small backlog, new home sales would have to retreat by more than a third—and stay there for a year or more—to create anywhere near a buyer's market.

Moreover, the US mortgage finance system is now well integrated into global capital markets and offers an ever-growing array of products. This gives borrowers more flexibility to shift to loans tied to lower adjustable rates in the event of an interest-rate rise. Although adjustable loans do increase the risk of payment shock

**Figure 1** Housing Investment Has Been On Its Longest and Strongest Run

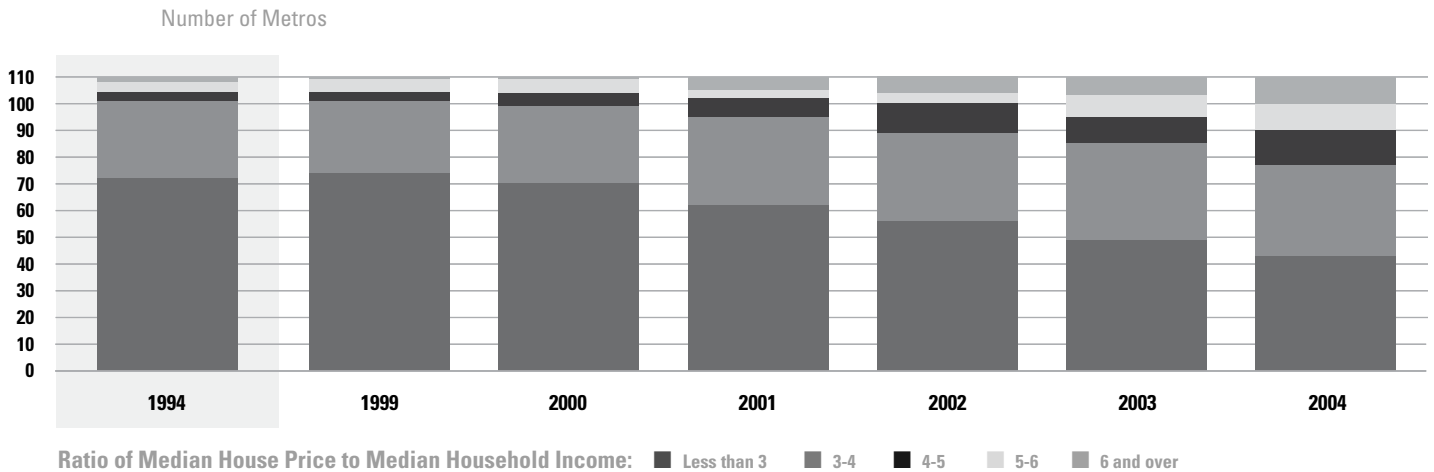
Billions of 2004 Dollars



Note: Shaded areas indicate national recessions.  
Sources: Federal Reserve Board, Flow of Funds Accounts, Table B.100; Bureau of Economic Analysis, National Income and Product Accounts, Table 5.3.5. Values adjusted for inflation using the CPI-UX for All Items.

Figure 2

Since 1999, House Prices Have Catapulted Ahead of Incomes in Many Metros



Sources: National Association of Realtors median house prices indexed by the Freddie Mac Conventional Mortgage Home Price Index, and Economy.com Median Household Income.

at the end of the fixed-rate period, borrowers are increasingly choosing hybrid loans that allow them to lock in favorable rates for several years.

**PERSISTENT HOUSE PRICE CONCERNS**

With homes appreciating so rapidly over the last few years, there is concern that house price bubbles have formed in many markets. Clearly, ratios of house prices to median household incomes are up sharply and now stand at a 25-year high in more than half of evaluated metro areas.

Indeed, the number of metros where the median house price-to-income ratio is at least four has more than tripled from 10 to 33 in the past five years (Fig. 2). These high-priced markets—which include most of Southern California, New York City and surrounding areas, and the larger metros of Southern Florida—are home to about one-quarter of the nation’s households. In these locations, buyers trying to enter into the housing market must struggle to keep up with escalating costs despite low prevailing interest rates. Outside of these 33 metros, however, house prices and household incomes are more in line. Fully 77 of 110 of the nation’s largest metros have price-to-income ratios of less than four. As a result of lower interest rates, housing is still relatively affordable in these metropolitan areas.

Whether the hottest housing markets are now headed for a sharp correction is another question. The current economic recovery may give house prices in these locations the room to cool down rather than crash if higher interest rates slow the sizzling pace of house price appreciation. Moreover, in several metropolitan areas where house prices have appreciated the fastest, natural or regulatory-driven supply constraints may have resulted in permanently higher prices.

Still, the recent uptick in investor loans does give pause. Between 1998 and 2003, the share of home purchase loans made to other than owner-occupants climbed from 7 percent to 11 percent. While this likely signals that speculation has begun to creep into the single-family housing market, it also reflects strong growth in vacation home demand. The sudden and rapid growth in the use of interest-only loans also suggests that more buyers are hitting the wall on affordability.

For now, though, house prices should keep rising as long as job and income growth continue to offset the recent jump in short-term interest rates. House prices would come under greater pressure, however, if the economy stumbles and jobs are lost.

**FAVORABLE LONG-RUN FUNDAMENTALS**

Thanks to immigration, household growth is likely to accelerate over the next 10 years. With family reunification laws and the extraordinary appeal of the open US economy, the number of new arrivals could easily top the 1990s record of about 10 million. As a result, immigrants are expected to account for about one-third of net household growth in the decade ahead.

At the same time, the children of immigrants who arrived in the 1980s and 1990s are about to become a force of their own in housing markets. These second-generation Americans now account for 21 percent of children between the ages of 1 and 10, and 15 percent of those between the ages of 11 and 20. If history is any guide, members of this generation are likely to out-earn their parents and thus become an even greater source of housing demand in the next two decades.

Immigrants—particularly Hispanics and Asians—have also lifted the growth of minority households. As a result, between 1991

and 2003, the minority share of first-time home buyers increased from 22 percent to 35 percent, of new home buyers from 13 percent to 24 percent, and of home remodelers from 12 percent to 19 percent.

Although their homeownership rates still lag white rates by about 25 percentage points, minorities are clearly making economic progress. Between 1980 and 2000, over 6.2 million minority households joined the ranks of middle-income earners—a number nearly equal to that of whites. In fact, households of all ages, both white and minority have benefited from the strong income and wealth gains of the past 15 years, which in turn are strengthening housing demand across the board (Fig. 3). As each successive generation spends more on housing and remodeling than the one preceding it, residential fixed investment will set new records in the decade ahead.

### DECENTRALIZATION PRESSURES

Demand for new homes is on track to total as many as 20 million units between now and 2015. The vast majority of these homes will be built in lower-density areas where cheaper land is in greater supply. Indeed, with each passing decade, metro areas are sprawling more and more into what were once non-metro communities.

People and jobs have been moving away from central business districts (CBDs) for more than a century. The number of the country’s largest metros with more than half of their households living at least 10 miles from the CBD has more than tripled from 13 in 1970 to 46 in 2000. The number of metros with more than a fifth of households living at least 20 miles out has likewise jumped from 17 to 44. And in six metros, more than a fifth of households live at least 30 miles out.

As sprawl continues, commute times of an hour or more are increasingly common. In fact, the number of workers with such long travel times increased by 3.1 million in the 1990s. Lengthening commutes and worsening congestion are keeping demand for newer units in and near city centers robust, adding to the premium households must pay to live closer to employment centers. Without looser restrictions on higher-density construction closer to city centers, though, the lion’s share of new development will occur in cheaper, outlying areas.

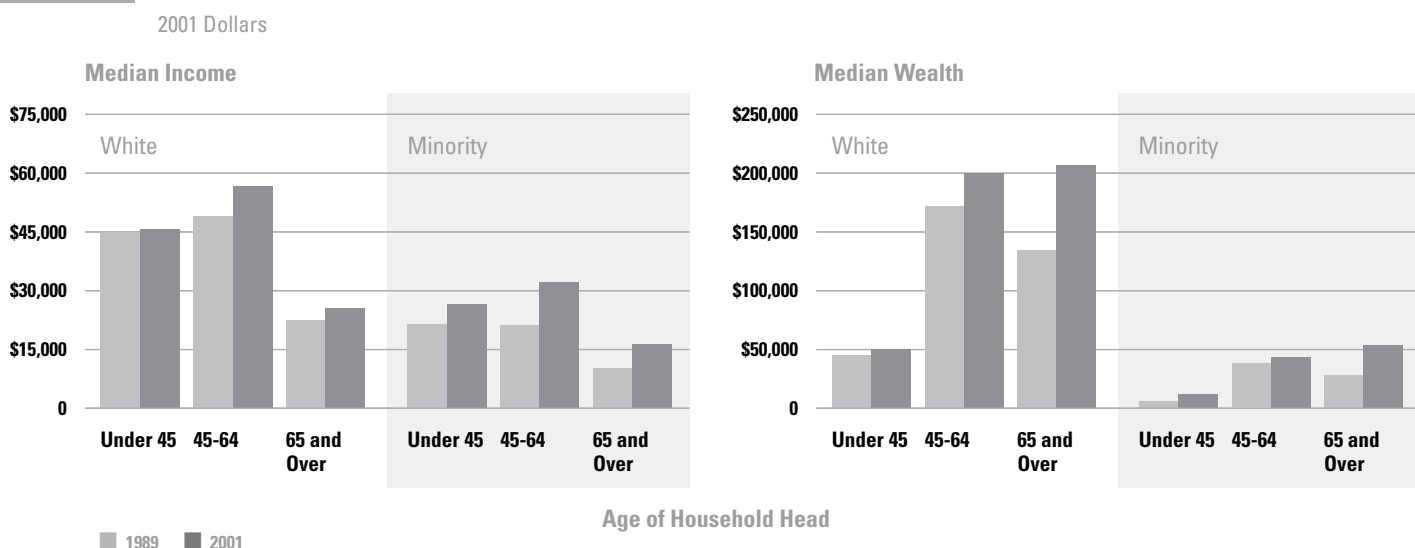
### HOUSING AFFORDABILITY CHALLENGES

Despite only modest increases in rents in recent years, growing shares of and low- and moderate-wage workers, as well as seniors with fixed incomes, can no longer afford to rent even a modest two-bedroom apartment anywhere in the country (Fig. 4). Today, nearly one in three American households spends more than 30 percent of income on housing, and more than one in eight spend upwards of 50 percent.

Even these sobering statistics understate the true magnitude of the affordability problem because they do not capture the tradeoffs people make to hold down their housing costs. For example, these figures miss the 2.5 million households that live in crowded or structurally inadequate housing units. They also exclude the growing number of households that move to distant locations where they can afford to pay for housing, but must spend more for transportation to work.

Among households in the lowest expenditure quartile, those living in affordable housing spend an average of \$100 more on transportation per month than those who are severely housing cost-burdened. With total average monthly outlays of only

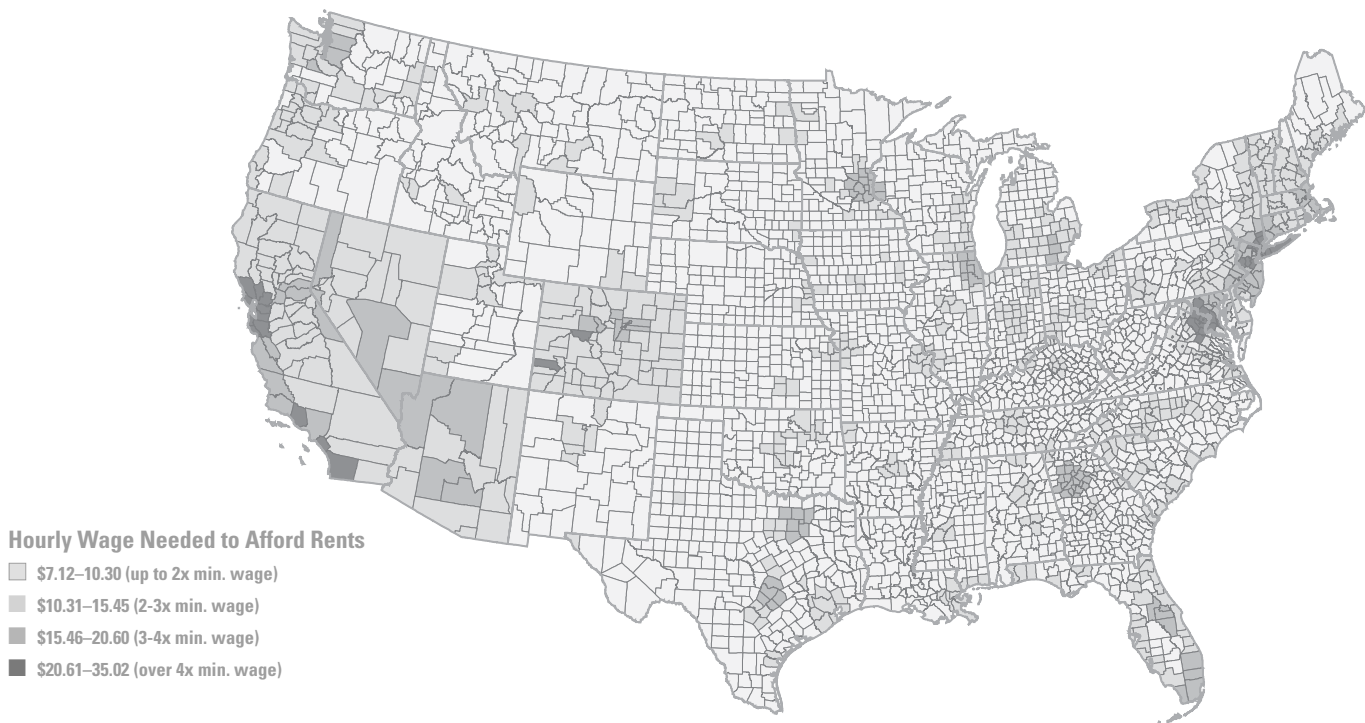
**Figure 3** Income and Wealth Gains Are Broad-Based



Source: JCHS tabulations of the 1989 and 2001 Surveys of Consumer Finances.

Figure 4

## Even Modest Rental Housing Is Beyond the Means of Many Low- and Moderate-Wage Workers



Notes: Federal minimum wage in 2004 was \$5.15 per hour. Hourly wage needed to afford the Fair Market Rent on a modest 2-bedroom unit assumes paying 30% of income on housing and working 40 hours a week for 52 weeks a year. Sources: HUD's Fair Market Rents for 2004, based on methodology developed by the National Low Income Housing Coalition.

\$1,000, these extra travel costs amount to 10 percent of the entire household budget.

Meanwhile, the nation's affordable rental stock is rapidly shrinking. Additions are occurring only at the upper end of the rent spectrum while heavy losses continue at the lower end. As a result, increasing numbers of lower-income renters are spending more than half of their incomes on housing at the sacrifice of other basic needs.

Expanded access to credit has permitted more low-income households to buy homes in recent years. But many have made the leap with little in savings to cover mortgage payments in the event of a financial setback. Furthermore, many of these recent home buyers have blemished credit records that add to their financing costs.

### HOUSING POLICY AT A CROSSROADS

Today, 28 million households in the bottom half of the income distribution spend more than 30 percent of their income on housing. Clearly, the combined response of federal, state, and local governments must expand significantly to make material progress toward easing the country's housing affordability problems. Two bipartisan platforms—one chartered by Congress and the other drawn up

by two former Secretaries of the Department of Housing and Urban Development—suggest that consensus on many issues is emerging. But the federal government remains under fiscal pressure to cut rather than expand housing assistance programs. In response, state and local governments have stepped up their funding for housing, although most have done little to relax the regulations that make affordable housing so difficult to build.

Still, political pressure to address housing affordability concerns may be building as more voters begin to feel the effects. From 2000 to 2003, the number of middle-income households with severe housing cost burdens shot up by nearly one million. And in some high-cost markets, local chambers of commerce are already making affordable workforce housing a high-priority issue as more businesses struggle to attract and retain employees.

Meanwhile, worsening congestion, longer commutes, and higher infrastructure costs will no doubt add fuel to the smart growth debate. With sprawl encroaching farther into undeveloped areas, the public calls to allow higher-density residential construction near city centers will become louder even as the opposition to new development remains firmly entrenched. ■



# HOUSING MARKETS

Defying expectations, housing markets delivered another record performance in 2004. New and existing home sales, single-family starts, residential fixed investment, remodeling expenditures, home equity, and total mortgage debt all hit new highs. Even in the weak spots, the trends were positive—rents turned the corner in a growing number of markets, and manufactured housing stabilized after a dismal four-year slide.

With house price appreciation at its strongest since 1979, the amount of equity that homeowners cashed out in 2004 nearly rivaled the record level set in 2003 despite a sharp retreat in refinancing. For the fourth consecutive year, the wealth effects from rising home prices generated about a third of the growth in consumer spending. Add to that the contribution of residential construction and fees earned on home sales, and it is clear that housing continues to be an important mainstay of the current economic recovery.

## ANOTHER BANNER YEAR

Housing markets have been remarkably resilient for some 13 years. With only a couple of modest dips, national housing production and sales have continued to climb despite a global credit crunch, a terrorist attack, a recession, and the slowest labor market turnaround in postwar history.

Traditionally one of the sectors that drives the economy into recession, housing instead helped to temper the 2001 downturn and is now playing a major role in the recovery. Unquestionably, the drop in mortgage interest rates to 46-year lows is a key factor in housing's strength. But so, too, is the greater integration of the US housing finance system into global capital markets, as well as the technological advances that have brought down financing costs and encouraged greater product innovation. On the supply side, tighter land use restrictions and longer lags in the permitting process have also helped to prevent overbuilding in some markets.

With such strong underpinnings, the housing boom remained remarkably broad-based in 2004 (Fig. 5). Existing home sales were up in every state except Michigan, Montana and Utah. While permits fell year-over-year in six states, the drop exceeded 1,000 units in just two. Of these states, only Indiana was in a second year of decline.

Single-family starts hit a record 1.6 million units in 2004, while multifamily starts remained within the same 330,000–350,000 unit range of the past eight years (Table A-1). With demand rising and prices soaring, condominium starts increased last year to 121,000—up from only 71,000 the year before. Starts of mul-

**Figure 5** Most Housing Market Indicators Again Set Records

	2003	2004	Change (%)
Homeownership Rate (%)	68.3	69.0	+1.0
New Single-Family Home Sales (Mil.)	1.1	1.2	+10.8
Existing Single-Family Home Sales (Mil.)	6.1	6.8	+11.2
Median New Single-Family Home Price	\$210,896	\$221,000	+4.8
Median Existing Single-Family Home Price	\$170,895	\$184,100	+7.7
Home Equity (Tril.)	\$8.7	\$9.6	+10.2
Mortgage Debt (Tril.)	\$6.5	\$7.2	+9.9
Mortgage Refinancing (Tril.)	\$2.8	\$1.4	-51.3
Residential Fixed Investment (Bil.)	\$587.5	\$662.3	+12.7
Home Improvements and Repairs (Bil.)	\$181.6	\$198.6	+9.3

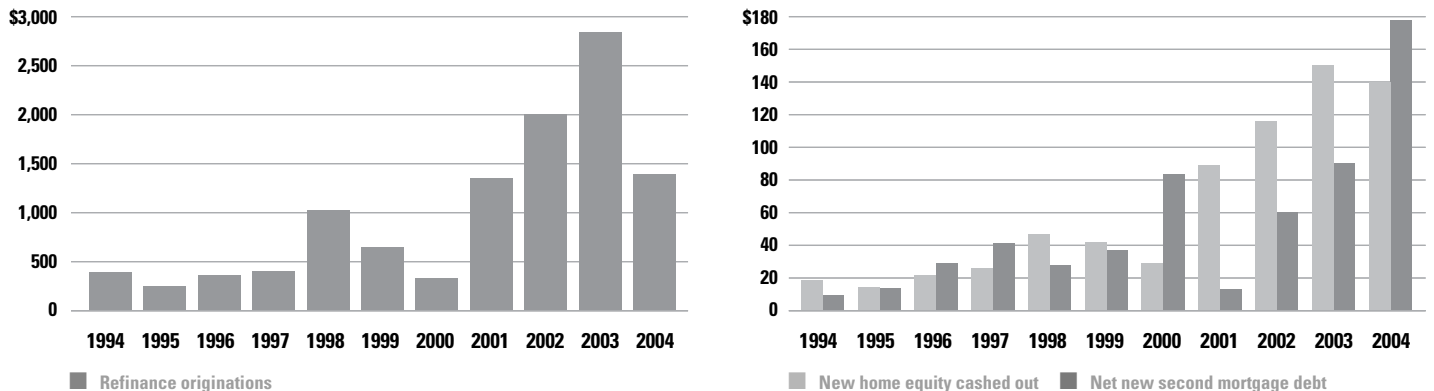
Notes: All dollar figures are in 2004 dollars, adjusted by the CPI-UX for All Items. Percent change was calculated using unrounded numbers.

Sources: Census Bureau; Tables A-1, A-4, A-8; Freddie Mac; Federal Reserve; Bureau of Economic Analysis.

Figure 6

## While Refinance Volumes Plummeted in 2004, Cash-out Refinances Held Firm and Second Mortgage Borrowing Surged

Billions of 2004 Dollars



Notes: Net new second mortgage borrowing is the change in second mortgage debt outstanding at the end of the year. New home equity cashed out is net of amounts used to pay off second mortgages.  
Sources: Table A-4 and Federal Reserve, Flow of Funds Accounts, Table L.218. Values indexed by the CPI-UX for All Items.

tifamily rentals, in contrast, dipped to a 10-year low as builders pulled back on production in the face of sliding rents and rising vacancies in many markets. The fall-off in multifamily construction might have been even worse if not for the record prices investors were willing to pay for rental properties.

### THE RISING TIDE OF HOUSING WEALTH

With double-digit real house price appreciation in 53 out of 163 of the country's largest metros and four of nine census divisions, aggregate home equity climbed 10 percent to \$9.6 trillion in 2004. Although refinance originations fell by nearly half in real terms to \$1.4 trillion, homeowners that did refinance cashed out \$139 billion in equity (Fig. 6). In addition to pumping huge sums of cash back into the economy, rolling debt over to lower interest-rate loans also saved homeowners \$1.7 billion in annual mortgage payments.

The cashed-out amount remained so high because borrowers extracted a record 13 percent of their refinanced debt—exceeding even the 11.5 percent share posted when the refinancing boom began in 2000, according to Freddie Mac. This time around, households were quicker to refinance (median of 2 years vs. 4.3 years) and so experienced much less appreciation (median of 9 percent vs. 24 percent).

In addition, less of the proceeds from last year's refinances went to pay off second mortgages. From a record high of \$77 billion in 2003, the amount of second mortgage debt rolled into refinanced first mortgages fell to \$42 billion in 2004. At the same time, though, many owners chose to take out home equity loans or lines of credit, boosting the total amount of second mortgages outstanding by \$178.2 billion.

### ESCALATING HOUSE PRICES

Speculation that housing price bubbles are forming has dominated the residential real estate news since at least 2000. Fueling this concern is the fact that over the past five years, house price appreciation has outpaced per capita income gains by more than 4 times in 31 metros, 3–4 times in 19 metros, and 2–3 times in 32 metros.

From this short-term perspective, house prices and incomes do appear way out of line in many locations. But from a longer-term perspective, the picture changes considerably. Over the past 20 years, house price inflation in 90 metros—which together account for about 44 percent of households in all 153 studied areas—has not exceeded income growth by more than 30 percent. Still, even over this longer time frame, house prices have increased at least twice as fast as incomes in 25 metros and 30 to 99 percent faster in 38 others.

Natural and regulatory constraints on development have likely contributed to house price gains in areas that have seen the most outsized increases in the past five years. Development constraints drive up land and construction costs as well as prevent new housing from keeping pace with rising demand. With inventories of homes for sale especially lean in these areas, buyers competing for the limited number of homes are bidding up prices.

According to a recent Joint Center for Housing Studies report, metro areas with stringent development regulations generate less employment growth than expected given their industrial bases. While wages in these locations rise somewhat more than in less regulated environments, house prices increase much more sharply (Fig. 7). To help keep prices from spiraling higher, jurisdic-



tions in these metros could relax regulations in order to free up more land for residential development, increase residential densities, reduce stiff impact fees on new construction, and speed up the entitlement and permitting processes.

With prices in many areas increasing so rapidly, more investors are entering the market in hopes of making quick capital gains. Perhaps the most solid evidence that such speculative buying is on the rise comes from Freddie Mac data on loans it originated in 1998 and 2003. According to this source, the share of homes flipped within a single year edged up from 5 percent in 1998 to 6 percent in 2003, while the share flipped between one and two years rose from 11 percent to 14 percent.

These levels of speculative buying are probably too low to be the principal cause of escalating prices. Even in some rapidly appreciating housing markets like Boston, Los Angeles, New York, San Diego, San Francisco, and San Jose, the share of loans made to investors other than owner-occupants remains below the national average. According to Home Mortgage Disclosure Act data, the market share for such loans—which also include investments in rentals and vacation homes—was only 8-10 percent in these metros in 2003, compared with 11 percent nationwide.

Even though the cost of owning now exceeds the cost of renting a comparable home by 30 percent nationally (and by much more in certain areas), homeownership continues to set new records. While renting is clearly a bargain in many places, households make housing choices based less on today's rents and prices than on their expected direction. The continued growth in homeownership indicates that most people still believe that rents and house prices will increase enough over time to justify buying. This expectation, and not classic speculative behavior, largely accounts for the increase in the house price/income growth mismatch.

### SPRAWLING METROS, LONGER COMMUTES

Most new residential development is concentrated at the metropolitan fringe. In fact, the number of the largest metros where more than half of households live 10 or more miles from the central business district (CBD) has tripled since 1970. The number of metros with more than a fifth of their households living 20 or more miles from the urban center has also increased dramatically (Fig. 8). Among the metros added to this group in the 1990s are Austin, Kansas City, New Orleans, Norfolk and Sacramento.

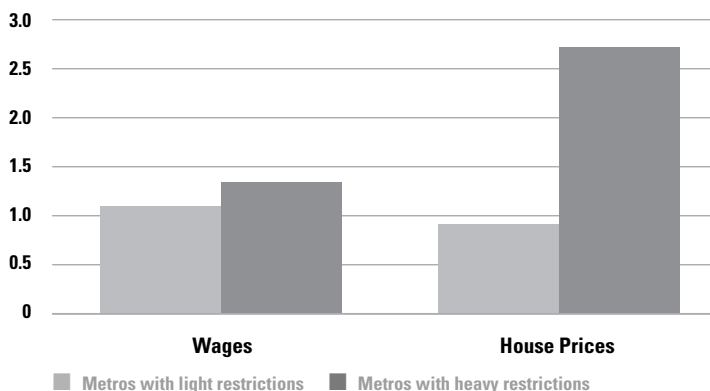
Several metropolitan regions extend even farther. For example, a third of Boston households and nearly one-quarter of San Francisco households live at least 30 miles from the CBD. About 1 in 5 Boston households live 40 miles or more out, as do about 1 in 10 households in the Las Vegas, New York, Portland, San Francisco, and Washington, DC metropolitan regions.

The outward push of development, coupled with Americans' strong preference to drive to work, has led to much longer commute times. Between 1990 and 2000, the number of workers in the 49 largest metros commuting an hour or more increased by an astounding 2 million. In the rest of the nation, the number of workers facing at least an hour-long commute increased by an additional 1.1 million over the decade.

In share terms, workers with hour-long commutes expanded from 6.4 percent to 11.8 percent in Atlanta, from 5.9 percent to 11.8 percent in San Francisco, and from 4.3 percent to 9.1 percent in Seattle. In other fast-growing areas such as Charlotte, Miami, and Raleigh, the share of workers with commutes of 45 minutes or more also jumped by at least five percentage points. While some of these long commutes are between homes at

**Figure 7** Land Use Restrictions Drive Up Metro Area Wages and House Prices

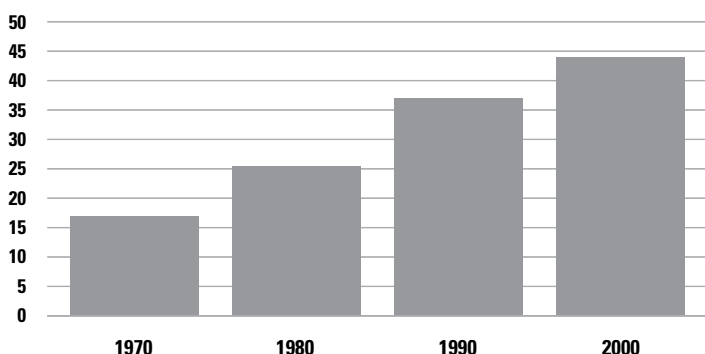
Estimated Percent Change Following a 1% Increase in Labor Demand



Notes: Metros with light restrictions rank in the bottom third of regulatory restrictions. Metros with heavy restrictions rank in the top third.  
Source: R. Saks, "Job Creation and Housing Construction: Constraints on Employment Growth in Metropolitan Areas," JCHS Working Paper W04-10, December 2004.

**Figure 8** Metro Area Households Are Living Greater Distances from Central Cities

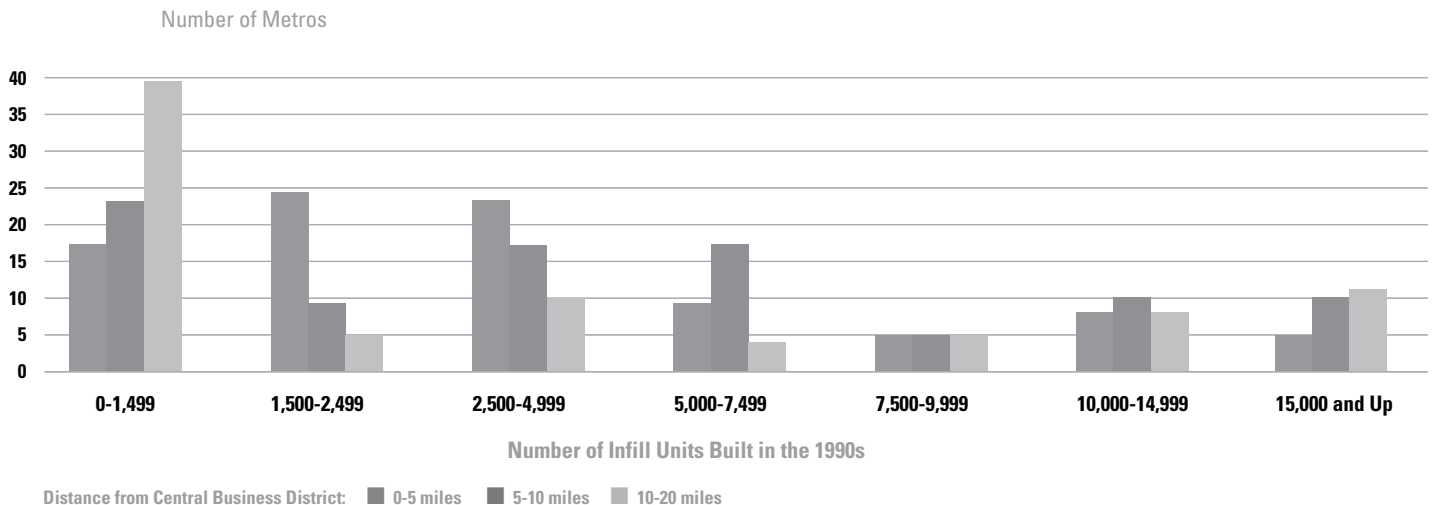
Number of Metros Where at Least 1 in 5 Households Live 20+ Miles from the CBD



Note: For metro region definitions, see Table W-10 at [www.jchs.harvard.edu](http://www.jchs.harvard.edu).  
Source: JCHS tabulations of Decennial Census tract-level data.

Figure 9

Despite Sprawl, Infill Construction Has Been Robust in Many Areas



Notes: Infill construction defined as construction in tracts with densities of at least 2,500 persons per square mile as of 1980. Only 82 of the 91 metro regions have tracts that are 10-20 miles from the CBD with at least the required density. For details on metro definitions, see Table W-11 at [www.jchs.harvard.edu](http://www.jchs.harvard.edu). Source: JCHS tabulations of the 2000 Decennial Census tract-level data.

the metropolitan fringe and jobs in the central city, many others are between homes and jobs located in distant or congested suburban areas.

Meanwhile, the number of workers commuting by car increased from 81 million in 1980 to 113 million in 2000. Despite growing congestion, the share that carpool fell from 20 percent to 12 percent during this period. And while the number taking public transit remained near 6 million, the share declined from 6.2 percent to 4.9 percent. More than half of those who do use public transportation are clustered in just three metro areas—Chicago, New York, and Washington, DC.

Some smart growth advocates propose special incentives to create “transit-oriented development” near public transportation as a way to relieve traffic congestion. Some lenders have also introduced “location-efficient” mortgages to allow people to buy more expensive houses in places with easy access to public transit because these buyers save so much on transportation costs. So far, though, most Americans cling to their far-flung suburban lifestyles and the cars that make them possible.

**CHANGING CITY FORTUNES AND URBAN INFILL**

Although the suburbs still attract most households, some cities are making comebacks. Fully 36 of the nation’s 84 largest cities that lost population in the 1970s saw a turnaround in the 1980s and 1990s. These include not only the exemplars of urban renaissance, such as New York, Portland, Providence and San Francisco, but also cities like Fort Worth, Indianapolis, and Tampa. Another nine cities also began to regain population in the 1990s, including Atlanta, Chicago, Denver, and Minneapolis.

But even as many cities added residents, the pace of infill development slowed. In the high-flying 1980s, unusually favorable tax treatment resulted in a wave of multifamily rental construction in built-up urban areas. By the 1990s, though, tax-driven building had subsided.

As a result, only 9 of the 91 largest metropolitan regions saw an increase in the number of units built within the dense parts of the five-mile inner ring around their CBDs, and only 7 saw gains in the five-mile infill share of metro-wide new construction. Atlanta, Buffalo, Charleston, Houston, Knoxville, and Seattle were the only places with both numerical and share gains.

Even so, inner ring infill construction in the 91 largest metro regions during the 1990s totaled nearly 500,000 units. Indeed, production in the dense parts of the inner ring topped 15,000 units in 5 metros and 10,000 units in 13 (Fig. 9). Given the concentration of older housing near city centers, though, significant amounts of infill development simply replace units rather than add to the stock.

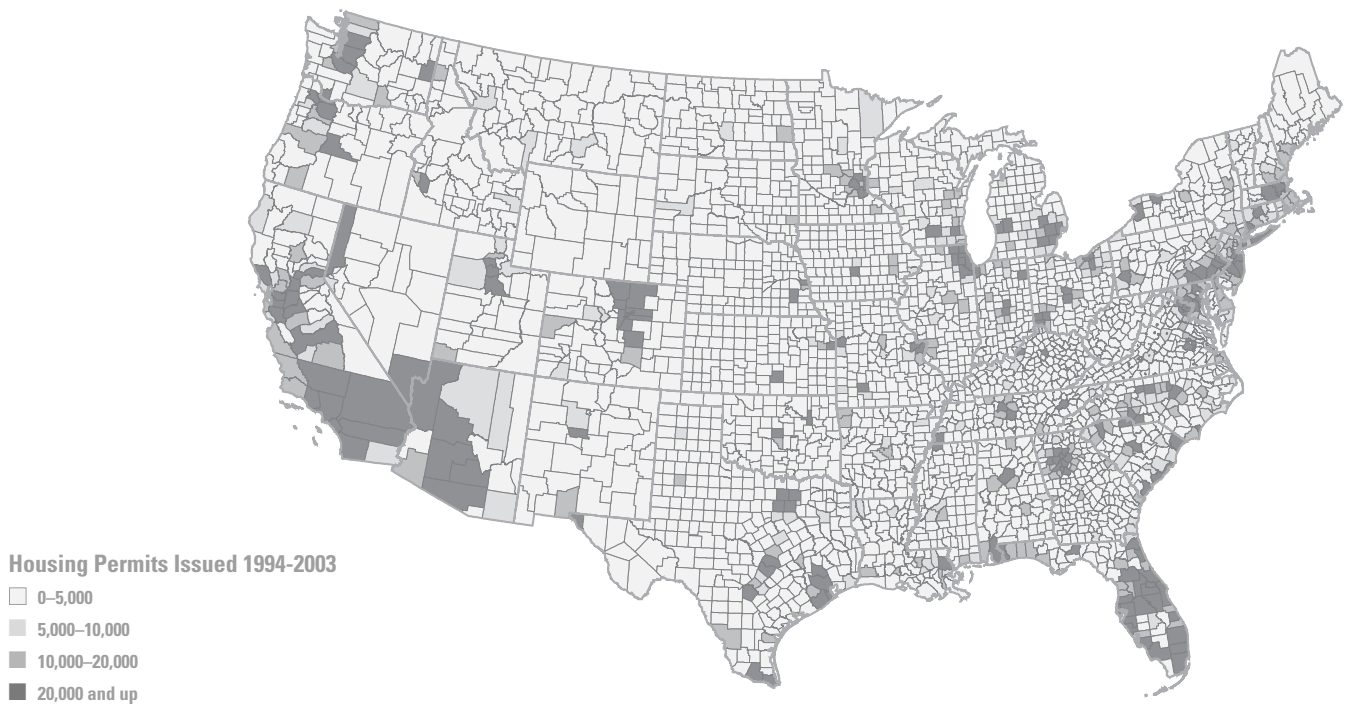
Residential construction was also strong between 5 and 20 miles from the CBD in many of the larger metros. Over the 1990s, infill development at these distances added about 137,000 new housing units in Los Angeles, about 119,000 in New York, about 47,000 in Chicago, and about 40,000 in Washington, DC.

**TOP CONSTRUCTION MARKETS**

With the heady pace of residential construction and the record-setting housing expansion, nearly 18 million homes were added to the nation’s housing stock over the last ten years. This growth

Figure 10

The Strongest Construction Activity Is Concentrated in Relatively Few Locations



Sources: Census Bureau, Construction Statistics, Building Permits by County.

ARIZONA'S MARICOPA COUNTY TOPS THE LIST OF THE FASTEST-GROWING COUNTIES WITH 417,000 PERMITS ISSUED SINCE 1994.

is, however, unevenly distributed across the country (Fig. 10). Not surprisingly, the states where the share of residential permits most exceeds the share of households are in the South and West. The West has been gaining share of households since the Gold Rush of 1849, ultimately surpassing the Northeast's share in the 1990s. The South finally rose again in the 1990s, returning to its pre-Civil War share of households.

The South and West now have well-developed and well-educated labor markets, and are beginning to benefit from agglomeration economies. Along with newer infrastructure, these areas also provide a favorable climate for business in terms of taxes, regulations, and labor costs. All these attractions should keep population and employment growth in these regions going strong.

Nonetheless, construction has also been intense in some of the larger consolidated metro areas of the Northeast and Midwest.

Indeed, several of the top 20 construction markets over the last 10 years are in these regions. New York takes second place with 480,000 permits, Chicago seventh place with 420,000, and Detroit twelfth place with 250,000.

THE OUTLOOK

A favorable interest-rate environment and an expanding economy bode well for housing markets in 2005. Some slowing in house price appreciation in the most overheated markets is likely, although less so if interest rates stay low and job growth is steady. A sharp increase in interest rates or declines in real income would, however, put stronger pressure on house prices. Meanwhile, new construction is running broadly in line with demand, and rental vacancy rates are starting to improve.

Looking further ahead, household growth and replacement demand will support the construction of as many as 20 million new homes over the next ten years. Lower land costs will continue to push the lion's share of residential development to outlying locations, adding more workers to the ranks of long-distance commuters. As traffic congestion increases, the value of land near business centers will rise—perhaps reinvigorating growth in central cities and the inner suburbs even as development at the metro fringe intensifies. ■



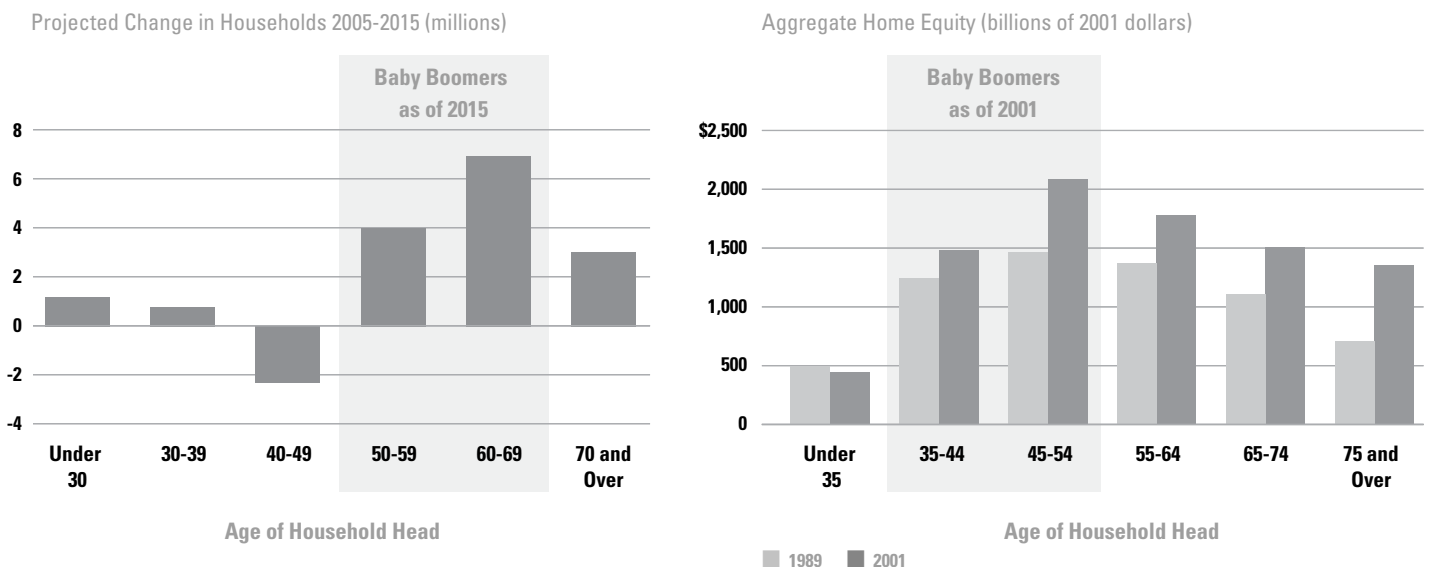
# DEMOGRAPHIC TRENDS

American households are becoming more diverse as minority, single-person, single-parent, and female-headed households make up ever larger shares of successive generations. With income and wealth also rising across all age groups, immigration driving up household growth, and the baby boomers still dominating housing markets, demographic trends will support solid growth in housing demand over the coming decade.

As a result of the record numbers of immigrants entering the United States over the past two decades, one in five heads of households is now either foreign-born or the native-born child of an immigrant. The steady stream of immigrants has also helped to lift the minority share of households to more than 25 percent. At the same time, the numbers of “nontraditional” households—unmarried couples, female householders, and singles of all types—are growing rapidly, especially among the native-born white population.

The foreign-born directly contributed about one-third of household growth over the past ten years. Their contribution over the next ten years may be even greater as more of their native-born children begin to live independently and more of their family members join them in this country. Indeed, with inflows of new immigrants increasing and the overall population living longer, the next ten years may see the highest levels of net household growth since the baby boomers swept into the housing market in the 1970s.

**Figure 11** Baby Boomers Will Enter Their 50s and 60s with Unprecedented Home Equity

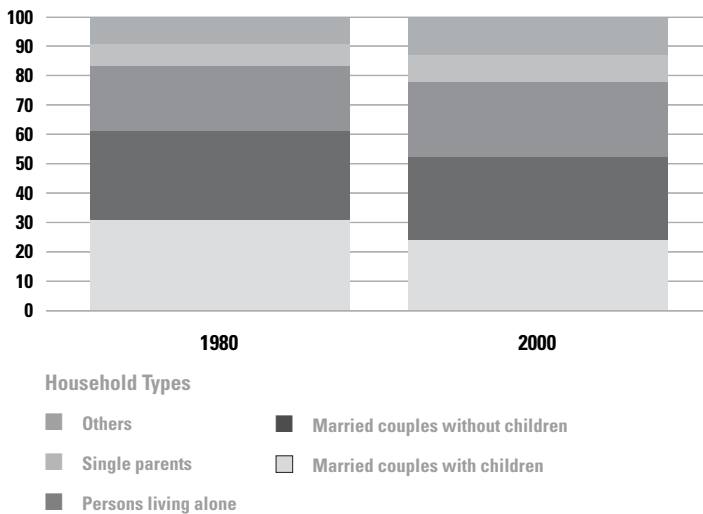


Sources: JCHS household projections based on 2000 Decennial Census data, and JCHS tabulations of Surveys of Consumer Finances.

Figure 12

## Married Couples Make Up a Shrinking Share of Households

Share of Households



Source: Table A-5.

### BABY-BOOMER DEMAND

As they reach their 50s and 60s over the coming decade, the aging baby boomers will continue to dominate housing markets. The sheer size of the baby-boom generation and the stunning amount of home equity they have accumulated guarantee that these households will keep housing demand going strong (Fig. 11).

As great as their gains in housing wealth have been, baby-boomer homeowners have seen even larger increases in their stock portfolios. As a result, home equity has actually declined as a share of net wealth from ten years ago, despite the recent strength of house price appreciation. This means the baby boomers are approaching their retirement years with more diversified holdings than their parents.

With the leading edge of the baby boom entering their 60s with record wealth, the demand for housing in age-restricted and retirement communities will get a significant boost over the next decade. The trailing edge of the baby boom will also enter their peak income and earning years with record wealth, fueling the demand for major remodeling projects and for second homes.

### NONTRADITIONAL FAMILIES ON THE INCREASE

While married couples make up a slim majority of American households and still define the traditional family in many people's minds, their share of all households dropped a full 10 percentage points between 1980 and 2000 (Fig. 12). Most of the decline was concentrated among married couples with children, whose share fell from 31 percent to just 24 percent. Meanwhile, the shares

OVER THE PAST TWO DECADES, THE NUMBER OF MIDDLE-AGED, NEVER-MARRIED PERSONS LIVING ALONE HAS CLIMBED OVER 250 PERCENT TO 3.6 MILLION HOUSEHOLDS.

headed by single parents and grandparents raising their children's children have increased.

If not for the strong pace of immigration, the share of married-couple families with children would have fallen even more precipitously. Among the native-born population, the share of married-couple households with children fell from 31 percent in 1980 to 23 percent in 2000, but increased among the foreign-born from 32 percent to 37 percent.

With more couples waiting longer to marry or not marrying at all, divorce rates high, and remarriage rates falling, the number of single-person households reached 26.5 million in 2000 (Table A-5). Indeed, the never-married share of households has been on the rise ever since the baby boomers began reaching adulthood. By the turn of the century, 14 percent of baby-boom household heads (aged 35–54) had never married—more than twice the share of previous generations at the same age. Similarly, 43 percent of household heads under age 35 had never married, in contrast to only 26 percent of their same-age counterparts in 1980.

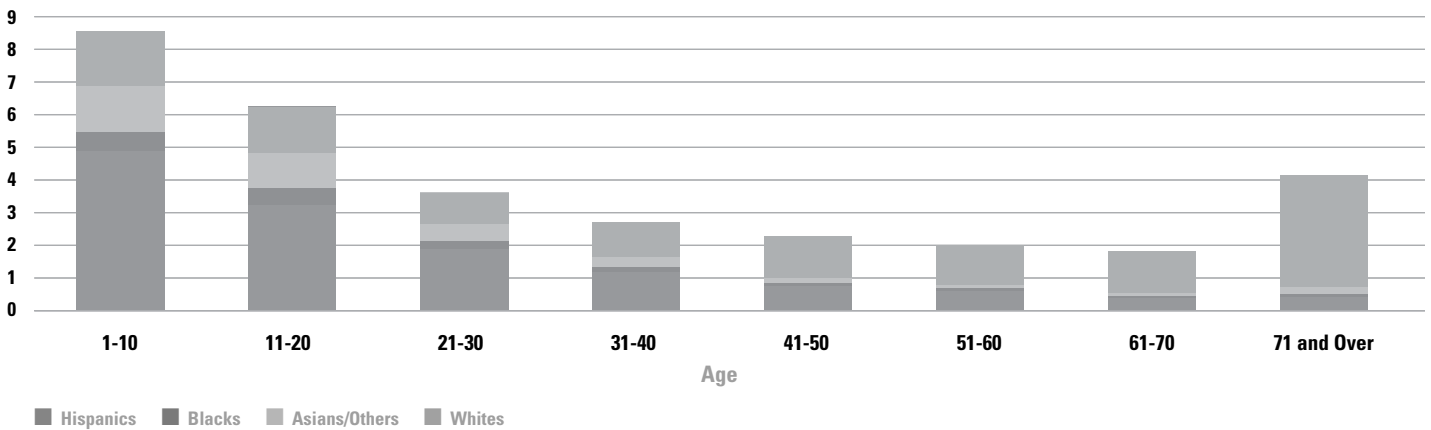
The upsurge in single-person households has had less of a depressing impact on homeownership than might be expected. Because some middle-aged singles still own the homes they bought with their spouses before getting divorced, they have higher homeownership rates than same-age singles that have never married. And now that more women are marrying later or not at all, they are more apt than previous generations of single women to own homes. In fact, households headed by unmarried women with or without children have accounted for nearly a third of the growth in homeowners since 1994.

### SECOND-GENERATION AMERICANS

Given the flood of immigrants over the past half-century—and especially since 1980—the population of second-generation Americans is soaring. In just the last decade, the number of second-generation Americans aged 1–10 jumped by 41 percent and those aged 11–20 by 63 percent. By comparison, the number of other native-born 1–10 year-olds fell 9 percent while that of 11–20 year-olds increased only 8 percent. Hispanics make up about half of second-generation heads of households age 40 and under, while Asians account for nearly 1 in 6. In contrast, non-Hispanic whites make up much larger shares of second-generation Americans over age 40 (Fig. 13).

**Figure 13** Second-Generation Hispanics Will be a Growing Force in the Housing Market

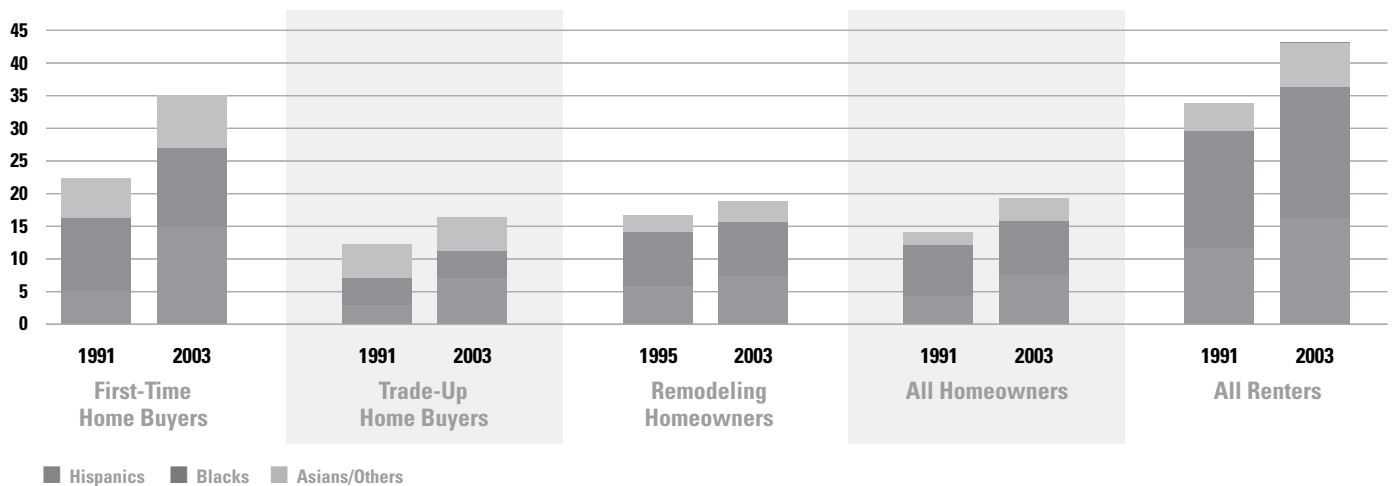
Second-Generation Population (millions)



Notes: Whites, blacks and Asians/others are non-Hispanic. Hispanic householders may be of any race. Asians/others include Pacific Islanders, Aleuts and Native Americans. Second-generation Americans have at least one foreign-born parent.  
Source: JCHS tabulations of 2004 March Current Population Survey.

**Figure 14** Minority Groups Are an Increasing Source of Housing Demand

Percent Minority



Notes: Whites, blacks and Asians/others are non-Hispanic. Hispanic householders may be of any race. Asians/others include Pacific Islanders, Aleuts and Native Americans. Home buyers moved in the year of, or year before, the survey.  
Source: JCHS tabulations of the 1991, 1995, and 2003 American Housing Surveys. JCHS adjusted weights used for 2003.

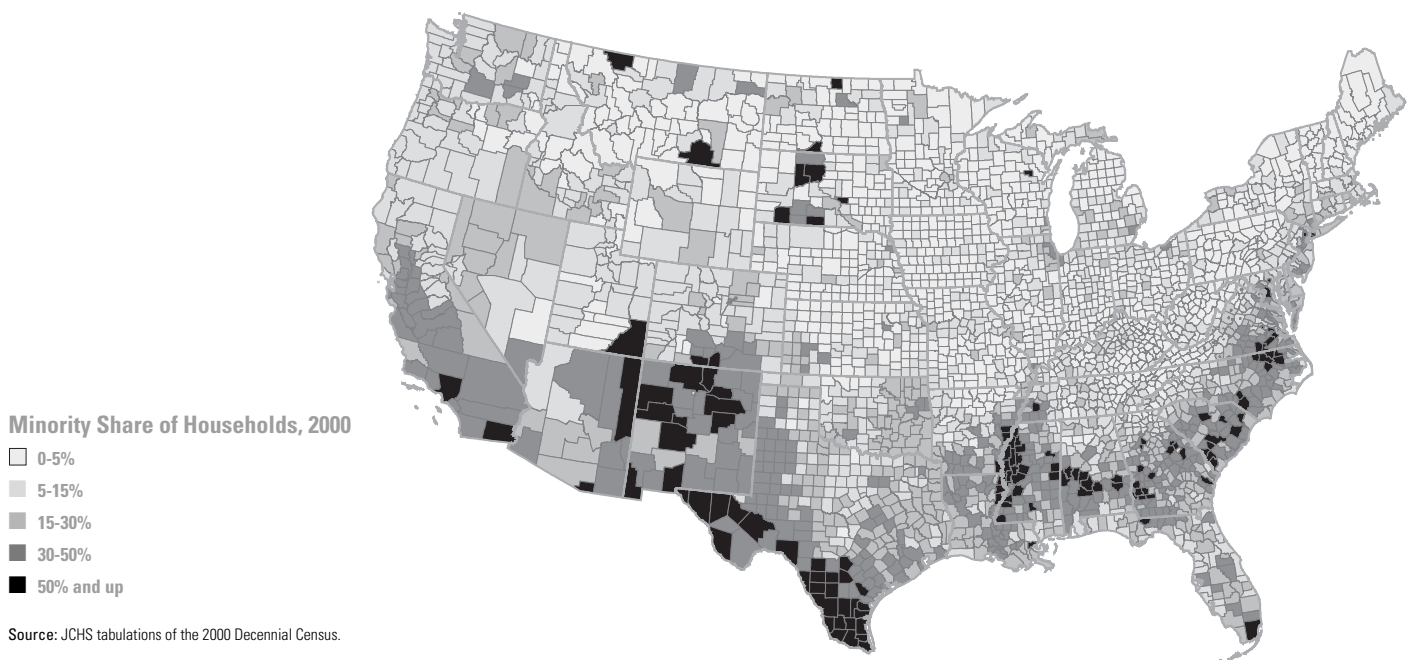
Second-generation Americans differ from their parents and from other native-born households in a variety of ways. Because many immigrants marry native-born Americans, nearly half of second-generation Americans have only one foreign-born parent. From an income perspective, the children of immigrants are part of the American success story. Across all age groups, second-generation households have much higher average incomes than immigrants (Table A-7). They even have somewhat higher incomes than other native-born households when accounting for age, despite having slightly smaller shares of two wage-earners. The income differences between second-generation and other native-born house-

holds, however, mostly reflect the fact that second-generation households have more college graduates and are clustered in the West and Northeast where incomes are higher.

Despite their economic progress, second-generation Americans still lag behind other native-born households in homeownership. Again, part of the explanation is that many of these households live in regions where ownership rates are lower overall. In addition, second-generation Americans are less likely to inherit a house or receive financial help with a downpayment because of their immigrant parents' low homeownership rates and lower

Figure 15

The Minority Presence in Housing Markets Varies Widely



average incomes. Indeed, across all age groups over 25, homeownership rates among immigrant-headed households are between 11 and 20 percentage points lower than among all native-born households.

Nonetheless, second-generation Americans do have higher homeownership rates than other native-born Americans in some locations. Examples include San Francisco, where large numbers of well-educated, second-generation Asian-Americans have driven up homeownership rates, and Miami, where large shares of Cuban-Americans aspire to and achieve homeownership.

As many young second-generation Americans reach the prime household-formation ages, they will help shore up demand for starter homes, rental apartments and condominiums. They will also compel the housing and mortgage industries to redouble their efforts to reach out to Hispanic and Asian households.

**MINORITY PRESENCE IN HOUSING MARKETS**

Minorities are making inroads into all housing market segments (Fig. 14). While the minority share of home remodeling activity and trade-up home buying is up only slightly, the increase in the rental and first-time buyer markets is dramatic. With their high immigration and birth rates, Hispanics have been at the forefront of this growth, with blacks and Asians also making progress.

Minority households are also making large income advances. Between 1980 and 2000, over 6.2 million minority households

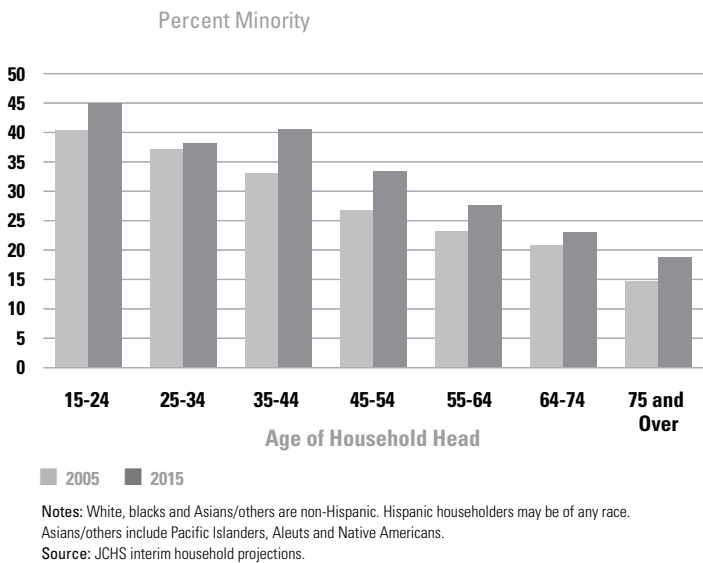
joined the ranks of middle-income Americans—nearly matching the gains among whites. In addition, 2.4 million minority households were added to the top-income group. Although the sheer increase in the number of minorities is largely responsible for these gains, higher educational attainment—and higher returns from that education—also played a role.

The minority presence in housing markets is, however, far from uniform (Fig. 15). Of the metro areas with a significant minority population, 37 have at least 150,000 minority-headed households. In 58, minorities account for at least a third of households, and 21 metros meet both thresholds. In 2000, these 74 metros were home to just 42 percent of all households, but 64 percent of the nation’s minority households.

Not surprisingly, the metro areas with the fastest growth in minority households are the 10 immigrant gateways (Table A-6). From 30 percent in 1980, the minority share within these locations jumped to 46 percent by 2000. In contrast, the share of minority households living outside the gateway metros only increased from 14 percent to 21 percent.

In most of the nation’s less populated areas, minorities constitute only a small share of households. In fact, the minority share is less than 5 percent in fully 1,000 of the nation’s 2,400 non-metro counties. The Housing Assistance Council has, however, identified over 300 rural counties where a single racial or ethnic minority makes up a third or more of the households. These minority-

**Figure 16** **Younger Generations Will Become Progressively More Diverse**



dominated communities tend to be more isolated and have higher poverty rates than other rural counties. House values are also lower on average and nontraditional housing finance is more prevalent.

### IMMIGRATION AND MIGRATION PATTERNS

Differences in household growth across metros largely reflect internal migration flows and foreign immigration. For example, household growth has been particularly strong in several younger metro areas (such as Atlanta, Las Vegas, Orlando, and Phoenix) that have been a magnet for both immigrants and domestic migrants. In contrast, household growth in certain older metros (including Boston, Chicago, Detroit, Los Angeles, New York, and San Francisco) has been weaker because immigration has only served to offset the pace of domestic out-migration. In all, about half of all metros have seen positive growth in both foreign and domestic migration since 2000.

Within metro areas, more households are leaving rather than coming to central cities. Indeed, among households with incomes of \$50,000 or more, the gross outflow to the suburbs exceeds the inflow to the city by more than 2 to 1. While whites initially led the movement to the suburbs, minorities have now joined in this out-migration. Evidence of this shift began to appear as early as the 1980s in the nation's largest 91 metropolitan regions.

Meanwhile, in the 10 immigrant gateway metros, the share of foreign-born households living within 5 miles of the CBD declined in the 1990s while the share living 10 or more miles from the CBD began to increase. Even recent immigrants are increasingly

making the suburbs their first home. In 2003, more than half of new arrivals settled in suburban or non-metro areas within 12 months of coming to the US.

### THE IMMIGRATION WILD CARD

For at least two decades, the Census Bureau has consistently underestimated the number of foreign-born individuals living in the US and used improbably low assumptions about future immigration to project population growth. These assumptions about immigration flows affect not only the expected magnitude of future household growth, but also its distribution by age, race, ethnicity, and family type.

History suggests, however, that high-side estimates of immigration prove more realistic. This nation continues to have a great demand for labor and a strong appeal to people around the world who are willing to take great risks—including entering the country illegally—to make a life here. Nonetheless, the Census Bureau's current population projections assume that immigration will run at about 850,000 arrivals a year, even though current estimates put that number closer to 1.2–1.3 million.

Based on the Census Bureau's current population projections, household growth would accelerate from around 12 million in the 1990s to 13.3 million in 2005–15. But without a significant slowdown in immigration, household growth is much more likely to reach 14–15 million over the decade. In either case, the pace of household growth will support housing demand on par with today's high levels.

### THE OUTLOOK

Minorities will make up larger and larger shares of each successive generation (Fig. 16). In absolute terms, minority household growth will outpace white household growth by 2 to 1. The housing and mortgage industries can capitalize on these market shifts by intensifying their outreach to Hispanic, Asian and African American households. Among other things, this will mean paying closer attention to the diversity of their own workforces and adding employees fluent in other languages. Meanwhile, the numbers of real estate trade associations and firms specializing in the minority housing market will continue to grow.

The shifting age and family composition of households will drive changes in the types of homes and the types of home improvements most in demand. As they move into their pre-retirement years with peak income and wealth, the baby boomers will continue to support demand for trade-up houses, second homes, and high-end improvements performed by professional contractors. At the same time, the growing number of singles and unmarried couples, as well as the shrinking share of families with children, will drive housing demand toward multifamily units, townhouses, and condominiums. ■





# HOMEOWNERSHIP

Low interest rates, stronger job growth, and rapid house price appreciation all helped to sustain the homeownership boom through its 12th year. With well over one million owners added in 2004, the US homeownership rate set a new record of 69 percent. Minorities played a key role in this growth, contributing nearly half of the net gain in homeowners. Even so, this strong progress has done little to close the minority-white homeownership gap.

After years of uninterrupted growth, the home buying market is now feeling the pinch of higher short-term interest rates (Fig. 17). Until 2004, falling mortgage interest rates helped to keep homeownership affordable even as prices escalated. But with long-term rates flat year over year and rising short-term rates lifting the cost of adjustable mortgages, first-time buyers found it more difficult to break into the market. While discounted “teaser” offers dulled some of the impact of higher short-term rates on home buying, many borrowers still saw their monthly mortgage payments go up and those with initial discounts only deferred the higher payments for a year.

## HOUSE PRICE INFLATION FALLOUT

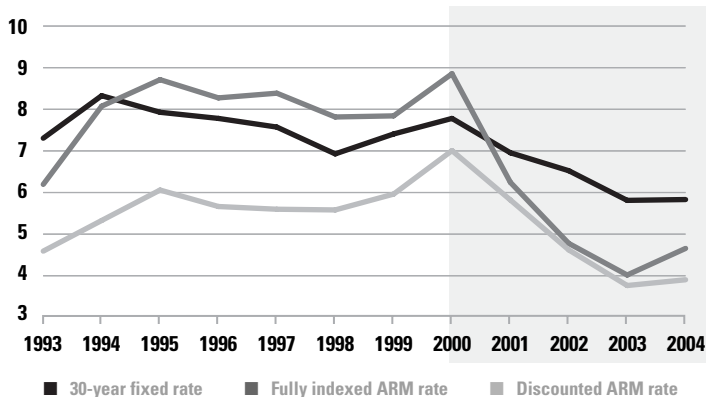
Nominal house prices were up last year in all 163 metropolitan areas tracked by Freddie Mac’s Conventional Mortgage Home Price Index. In 17 locations—most notably, Bakersfield, Las Vegas, and Riverside—nominal house prices surged by 20–30 percent in 2004, on top of 9–18 percent increases in 2003. Another 57 metros saw house price inflation in the 10–20 percent range, while 46 metros posted increases of 5–10 percent. Meanwhile, house prices in fully 159 metro markets registered real (inflation-adjusted) gains.

When interest rates were falling in 2000–3, buyers who were able to come up with the additional downpayment required could purchase a typical home without pushing their monthly payments above what they would have paid at the start of the period. Buyers who could not make the higher downpayment and instead rolled the difference into a larger mortgage would have seen their payments increase only modestly. But as rates flattened in 2004, higher prices began to take a larger toll. Even buyers able to come up with the additional downpayment required on a typical home had to pay \$70 more per month last year than if they had bought in 2003 (Table A-2). For buyers in fast-appreciating markets, the difference between buying in 2004 rather than 2003 was much more sizable, in terms of both the downpayment and the monthly mortgage payment (Fig. 18).

Rapid home price appreciation can also have negative consequences for current owners. Homeowners in communities that do not roll back their tax rates to offset the effect of rising house

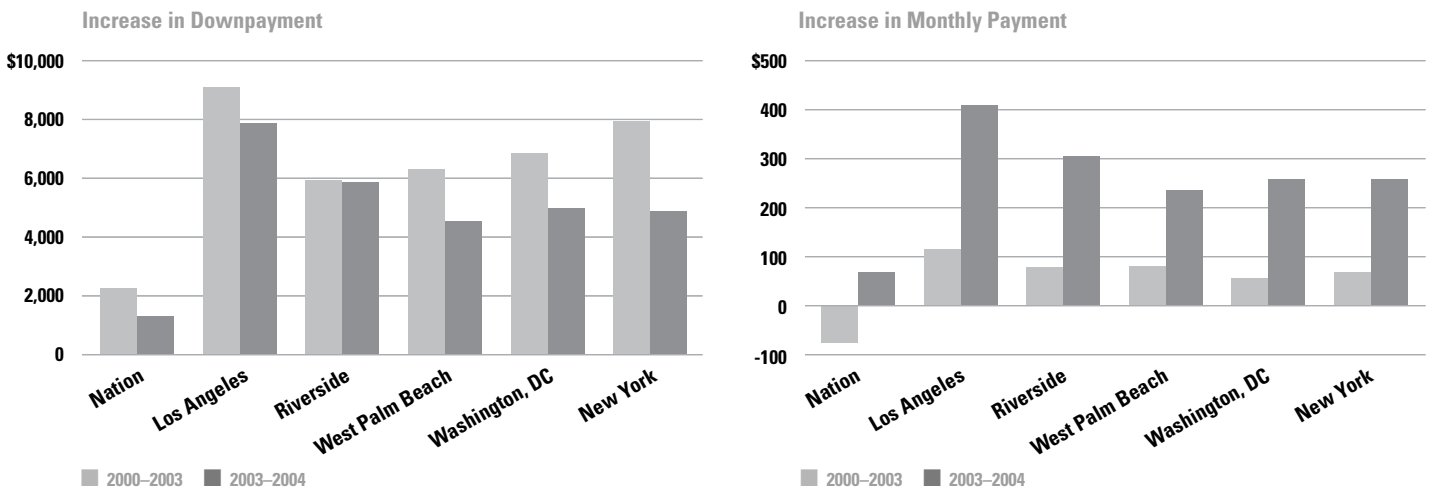
**Figure 17** For the First Time in Four Years, Home Buyers Have Not Had the Benefit of Falling Interest Rates

Average Annual Mortgage Rate (percent)



■ 30-year fixed rate ■ Fully indexed ARM rate ■ Discounted ARM rate  
 Notes: Fully indexed adjustable rate mortgage (ARM) rate is the ARM margin rate plus the 1-year Treasury rate. Rates are averages of monthly interest rates.  
 Source: Freddie Mac, Primary Monthly Mortgage Survey.

**Figure 18 Homebuying Costs Have Soared in Some of the Nation's Hottest Markets**



Notes: Downpayments calculated as 10% of median home price. Monthly payments based on remaining 90% of purchase price and Freddie Mac average annual interest rates on 30-year fixed mortgages. Sources: Freddie Mac Conventional Mortgage Home Price Index and Primary Mortgage Market Survey, and National Association of Realtors median house prices. Values adjusted for inflation using the CPI-UX for All Items.

values may have to face a property tax hike. The burden of higher property tax payments falls especially hard on elderly owners with low fixed incomes.

Nonetheless, the rising tide of housing wealth has enabled owners to borrow more freely against their homes. In most cases, this means that homeowners have been able to finance their consumption with relatively low-cost debt. And because lenders are more willing to bank on homes as collateral, homeowner equity may be the only available source of capital for borrowers with poor credit records.

**THE SHIFT TO ADJUSTABLE-RATE MORTGAGES**

In early 2004, short-term interest rates were still well below long-term rates. As a result, homebuyers increasingly turned to adjustable-rate mortgages. On a year-over-year basis, the adjustable share of conventional mortgage originations essentially doubled from 18 percent in 2003 to 35 percent in 2004 (Table A-3).

As the year progressed, however, the spread between fully indexed adjustable- and fixed-rate mortgages shrank from nearly two percentage points to almost zero. To shore up the adjustables market, lenders increased their first-year teaser discounts from 0.4 percentage point to 1.5 percentage points. Even with these much steeper discounts, though, initial rates on one-year adjustables were still up 0.4 percentage point from 12 months earlier while rates on 30-year fixed loans barely budged.

When spreads between fixed- and adjustable-rate mortgages narrow, the adjustable-rate loans become less attractive and their share of the market usually decreases. Last year was an exception.

With lenders offering substantially lower teaser rates and home prices rising rapidly, the adjustable-rate share held firm.

Home buyers choosing an adjustable-rate mortgage could be in for payment shock if interest rates take off. Even if the rates to which mortgages are indexed do not go up, borrowers that took out loans with a one-year discount will see their rates increase by 0.4–1.5 percentage points over the course of 2005. Furthermore, because most loans are underwritten to the discounted first-year rate, homebuyers who pushed debt-to-income qualifying limits may find their new payments difficult to meet.

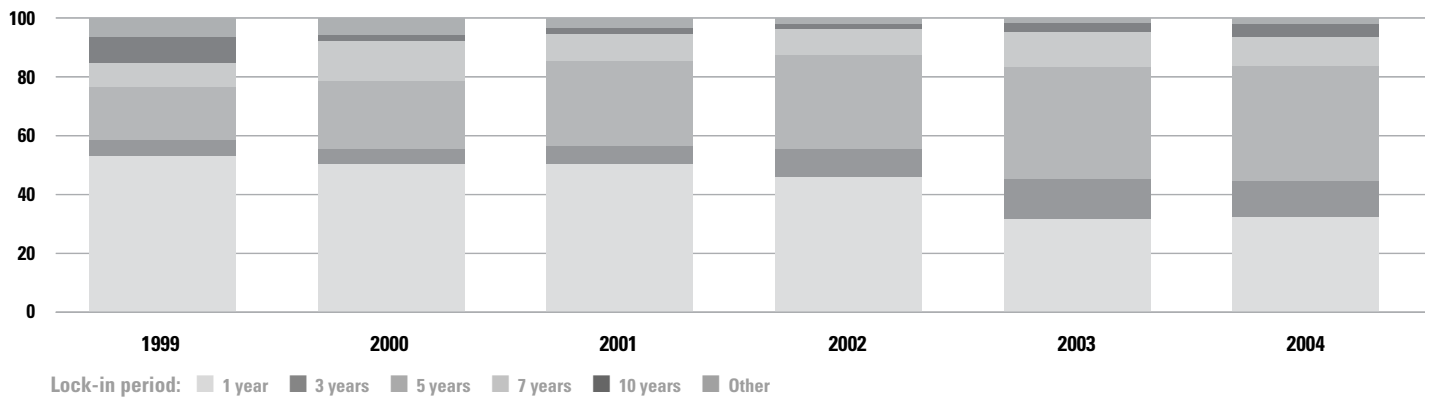
Fortunately, lenders typically shield adjustable-rate mortgage borrowers from acute payment shock by capping annual adjustments at two percentage points. In addition, a growing share of loans locks in interest rates for at least three years (Fig. 19). When the adjustable share hit its previous peak in 1994, nearly all of the loans adjusted after one year. Today, this is true for only a third of adjustable-rate mortgages. Discounts on these products are also smaller than on shorter-term adjustables, so many borrowers who took out hybrid loans with teaser rates will face only modest payment hikes after the first year.

**MORTGAGE PRODUCT PROLIFERATION**

While nearly half of all home purchase loans in 2004 were standard 30-year, fixed-rate mortgages, the lending marketplace has evolved considerably over the past 15 years. As recently as 1990, lenders offered mortgages at essentially a single price reflecting the term of the loan, targeting only borrowers meeting stringent credit history rules and loan-to-value and debt-to-income ratios. Not so today. Underwriting standards have become more

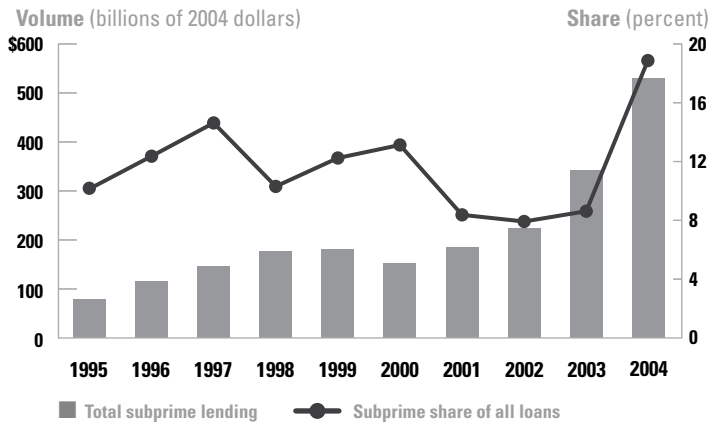
**Figure 19 Adjustable Mortgage Borrowers Are Locking in Rates for Longer Periods**

Share of ARM Originations (percent)



Source: Federal Housing Finance Board.

**Figure 20 Subprime Lending Has Climbed Sharply**



Notes: Total includes originations of first and second mortgages on 1-4 unit residential properties. Subprime loans as a share of all loans fall during periods of heavy refinancing when interest rates fall, which accounts for the drop in 2001-3 and the rebound in 2004.

Source: Inside Mortgage Finance, adjusted for inflation by the CPI-UX for All Items.

relaxed, new products have been introduced, and the industry provides credit access even to applicants who fall outside the range of prime risk.

Credit standards have been eased especially in the areas of minimum downpayments, debt-to-income ratios, and credit history. For example, zero and near-zero downpayment loans are now commonplace. As recently as 1990, only 3 percent of conventional home purchase loan originations had downpayments of 5 percent or less. That share now averages around 16–17 percent. Subprime lending has also seen meteoric growth (Fig 20). Targeted to borrowers with blemished credit histories or unusually high debt-to-income ratios, these loans have opened up credit to millions of home buyers who would otherwise be denied mortgages. To compensate lenders for the added risk of extend-

ing credit under these circumstances, borrowers are charged above-prime interest rates, often required to pay higher fees, and may face special loan conditions like prepayment penalties.

Meanwhile, low- or no-documentation, interest-only, and option-adjustable mortgages have all seen rapid growth in just the last few years. Low-documentation loans allow borrowers to supply less information to expedite application processing. For instance, automated appraisals may replace a full appraisal report and income may be stated but not verified. At the extreme, lenders waive any income or asset disclosure requirements. These so-called “no-income/no-asset” loans suit borrowers who are unwilling or uncomfortable sharing information on their financial situations. Typically, borrowers are charged higher rates or are offered these loans only if they provide a relatively large downpayment and have an unsullied credit record.

While no-documentation loans are still somewhat rare, interest-only loans have gained wide acceptance within the mortgage market. Loan Performance reports that as many as a third of home purchase loans originated in 2004 required payment of interest only. Such loans help borrowers overcome the affordability hurdle by deferring principal payments for a period of three, five, or seven years. Interest-only loans have become especially popular in the pricey metros of California, where the ratio of median house prices to median household incomes tops out at over 9 to 1.

While not nearly as popular as interest-only loans, option-adjustable mortgages provide another new financing tool for consumers. These loans usually defer interest—and sometimes even principal—payments for a specified period. In addition, they offer a wide range of adjustment periods and monthly payment choices so that borrowers can match their repayments to their cash flows.

## RISK-BENEFIT TRADEOFFS

With all these mortgage product choices, and with lenders and real estate professionals motivated to help customers qualify for the homes they want, consumers need to understand the details of any loan they are offered. For many borrowers, adjustable-rate and hybrid mortgages provide a way to overcome the financial hurdle to homeownership, as well as their best financing option. Home buyers that plan to move before the interest-rate lock-in period expires benefit from the lower rate without additional risk. Even interest-only loans can be a good choice for buyers who intend to move or refinance within a short period of time, given that it takes several years to pay down substantial amounts of principal even on a standard 30-year, fixed-rate mortgage. Borrowers with interest-only loans must, however, make higher payments at the end of the deferral period.

At the same time, low downpayment loans provide an unmatched opportunity for home buyers to leverage their investment. For every one percentage-point rise in house value, a buyer who puts five percent down receives a 20-fold return on investment. The potential payback to buyers who put no money down is even more spectacular. Of course, most people who put little money down on a home do so because they have minimal savings and other wealth. Low-downpayment loans also carry a large mortgage insurance premium to cover the higher risk of default, therefore entailing higher monthly payments.

Option-adjustable mortgages are more worrisome because they can result in especially large payment shocks as deferred interest is added to the principal that must be repaid. As a result, borrowers are at risk of having loans that exceed the value of their homes. In this case, they would have to come up with cash to pay off their mortgages if they were to resell their homes.

ACCORDING TO LOAN PERFORMANCE, THE SHARE OF INTEREST-ONLY MORTGAGES SHOT UP FROM JUST A FEW PERCENT THREE YEARS AGO TO ONE-QUARTER OF ALL HOME LOANS IN 2004.

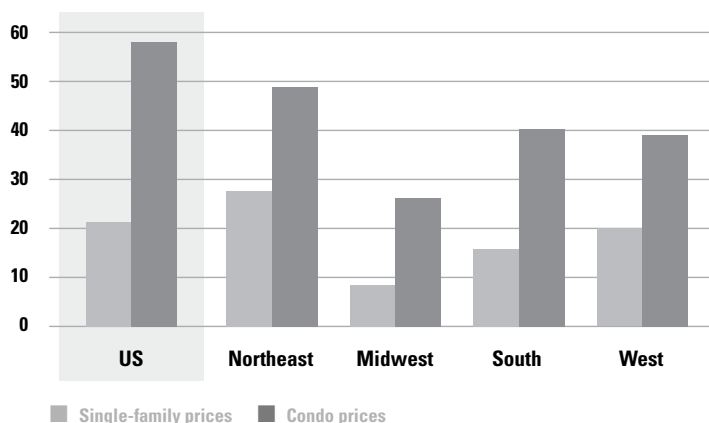
As for no-documentation loans, they may help borrowers with volatile incomes—such as those who are self-employed, working on commission, or in seasonal occupations—qualify for a mortgage, but they also expose lenders to greater risk. To cover the risk, lenders charge more. Consumers must therefore weigh their interest in keeping information private against the higher costs they will pay over the life of the loan.

Subprime loans also come at the price of significantly higher interest rates. Even a two-percentage point premium on a typical \$85,000, 30-year fixed loan, for example, adds \$18,000 in interest payments by the mid-point of the loan. In addition, subprime mortgages have higher default risk. Indeed, the Mortgage Bankers Association reports that the share of subprime loans that are 90-days delinquent or in foreclosure is running near 3.8 percent, compared with a prime loan share of just 0.5 percent. Because subprime mortgages are concentrated in low-income and minority neighborhoods, their high foreclosure rates can present a problem in these communities.

Taken together, the explosion of mortgage product offerings has greatly expanded opportunities to buy, refinance, and borrow against equity in homes. With these many new choices come different price points, fees, and conditions that demand that consumers shop carefully for a loan—a sometimes challenging task given the complexities of these unfamiliar products.

**Figure 21** Condos Have Appreciated Even More Than Single-Family Homes

Real House Price Change, 2000-4 (percent)



Source: National Association of Realtors, median house price by region, indexed by the CPI-UX for All Items.

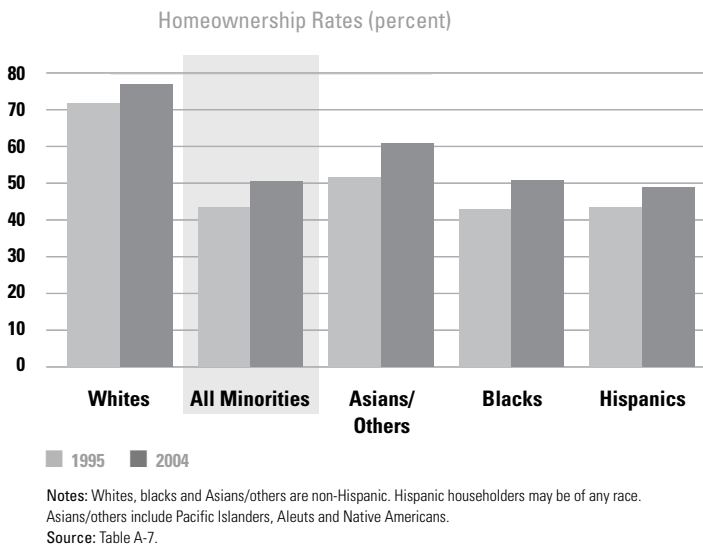
## THE FLOURISHING CONDOMINIUM MARKET

With rapid house price appreciation and strong growth in single-person households, the condominium market is hot. Between 1995 and 2003, the number of occupied condos climbed by more than one-fifth from 4.4 million to 5.4 million. With demand up sharply, price inflation since 2000 has reached a stunning 57.9 percent—outstripping the otherwise noteworthy gains for conventional single-family homes by almost three to one (Fig. 21). In response, starts of multifamily condos jumped from 71,000 in 2003 to 121,000 in 2004.

While some analysts fear that speculation is driving the condo boom, investors do not appear to be behind the rapid appreciation of prices. Investors that purchase condominiums with the intent to sell in a year or two typically rent the units in the interim. But between 1995 and 2003, the number of condominiums rented out increased by only about 150,000 units, or 12 percent.

Figure 22

## Despite Progress, Minority Homeownership Rates Still Lag



In fact, the overall share of condos rented out declined from 29.7 percent to 27.2 percent during this period, with the Northeast showing a particularly sharp drop from 33 percent to 26 percent. Most of the growth in the condominium supply has thus gone toward satisfying growth in owner demand.

Condominium buyers tend to be older singles or empty-nesters with slightly higher incomes than single-family homeowners. Their higher average incomes may, however, simply reflect the fact that nearly a quarter of all condominiums are located in the 20 highest-cost metropolitan areas of the country. Recent first-time home buyers favor condominium living as well. Since 1999, 9.1 percent of first-time buyers purchased condos, compared with only 7.3 percent of trade-up buyers.

### MANUFACTURED HOUSING PRESSURES

Conditions are much less favorable in the manufactured housing market. Demand for manufactured units has fallen flat in recent years as changes in the availability and terms of credit have made their purchase more difficult. These changes have also reduced the cost advantages that manufactured homes once held over site-built homes and rental housing.

From 1993 to 1999, easy credit fueled more than a 25 percent increase in the number of low-income buyers of manufactured housing units. Loans to borrowers who could not repay them resulted in heavy losses for lenders. In response, lenders not only tightened terms and underwriting standards but also widened the spreads between the interest rates on loans for units sited on leased land and regular real estate. Until financing stabilizes or the industry makes more progress in shifting demand for homes

from leased to owned land, manufactured housing placements will lag below their potential.

### THE OUTLOOK

With the economy poised for further growth, job gains beginning to accelerate, and interest rates likely to stay relatively low, the homeownership boom has some life left. For now, the risks in the system remain contained. Only about 1 in 20 homeowners in 2003 had an equity cushion of less than 5 percent, and prime mortgage delinquency rates and foreclosures are still relatively low. In addition, the Mortgage Bankers Association recently reported that the share of troubled subprime loans fell from 4.7 percent in the fourth quarter of 2003 to 3.8 percent in the fourth quarter of 2004.

Still, the threats to continued growth in homeownership are mounting. Repayment risk is rising as growing numbers of homeowners spend more than half their incomes on housing and/or take out adjustable-rate mortgages. In high-cost markets, the shares of borrowers with adjustable loans are especially large and the use of nontraditional mortgage products is also expanding. Equally troubling, adjustable-rate shares are not headed down even though the spread with fixed-rate mortgages is narrowing. This suggests that affordability problems, rather than better bargains, are starting to drive loan choices.

In addition, the pace of house price appreciation in many markets is unsustainable. While home prices may achieve a soft landing even in the highest-flying metros, the ride could turn out to be a bumpy one. During this past recession, home prices did not fall as they typically do when jobs are lost. As a result, prices could be headed for a more significant correction when the next major downturn occurs, especially if interest rates are high and if job losses are steeper and more concentrated than in the wake of the 2001 recession.

Going forward, homeownership gains will thus depend less on demographic demand than on a continuation of the economic conditions that have so strongly favored home buying for the past 10 years. Nonetheless, the greatest potential for growth will come from narrowing the stubborn gap in white and minority homeownership rates (Fig. 22). Even though the number of minority homeowners has been rising rapidly, the disparity with whites is still 25 percentage points (Table A-8). While the lower average age and income of minorities can explain much of this difference, greater outreach and product innovation in mortgage finance would clearly help to lift the share of minorities that own homes. ■



# RENTAL HOUSING

With conditions still favoring homeownership and lingering weakness in many sectors of the labor market, demand for rental housing remained soft in 2004. Rental vacancy rates hit a record high in the first quarter of the year and inflation-adjusted rents were flat nationally. As a result, completions of multifamily rentals held near their depressed 2003 level of about 240,000 apartments. Nevertheless, a rental recovery is slowly spreading.

With job growth picking up and new construction throttled back, more rental markets are on the mend. The strength of the comeback depends largely on the direction of the economy. If interest rates were to shoot up or house price inflation slow sharply, rental demand could rebound quickly and send rents back up sharply, adding to the growing share of renters who already face severe housing cost burdens.

## THE WIDENING RENT RECOVERY

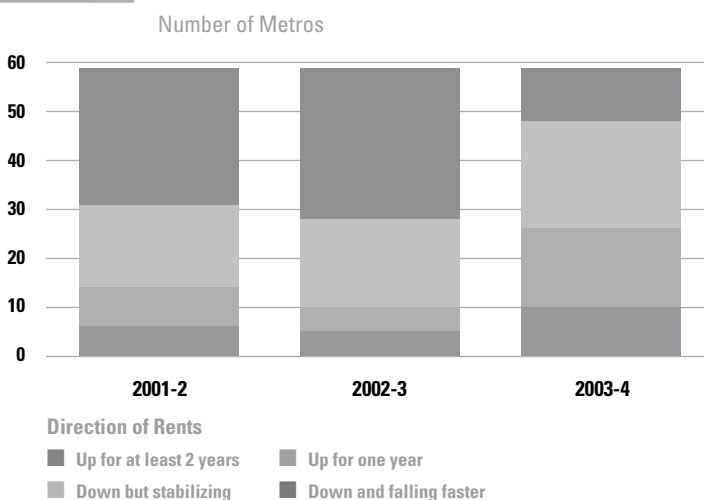
While performance at the metro level was decidedly mixed, more rental markets showed signs of improvement in 2004 than in the prior two years combined. Of the 59 metro areas covered by M|PF Yieldstar, real rents in 26 were stable or on the rise—even after accounting for concessions landlords may have offered to attract tenants (Fig. 23). Rents in Newark, Norfolk, and Riverside posted the largest one-year increases, while those in Boston, Boulder and Detroit showed the largest one-year declines.

Even the areas hardest hit by the recession are starting to revive. After years of real effective rent declines, the Las Vegas, Miami, and Washington, DC markets all saw an upturn in 2004. The double-digit slide in rents in the metros at the epicenter of the dot.com bust—namely, Oakland, San Francisco, and San Jose—also came to a halt. In other technology-heavy economies like Austin and Seattle, the freefall in rents may also be at an end. In Boston, however, the drop in rents accelerated in 2004 to a pace that surpassed the previous two years' declines combined.

Falling rents are symptomatic of the weakness in demand and minimal growth in supply over the past several years. Nationally, rental vacancy rates climbed for five consecutive years to a peak above 10 percent in the first quarter of 2004. The rate for structures with five or more units topped out in the second quarter at 12 percent. Trends now point to better news for most rental markets, with 41 of the 59 metros surveyed by M|PF Yieldstar reporting flat or declining average vacancy rates in 2004.

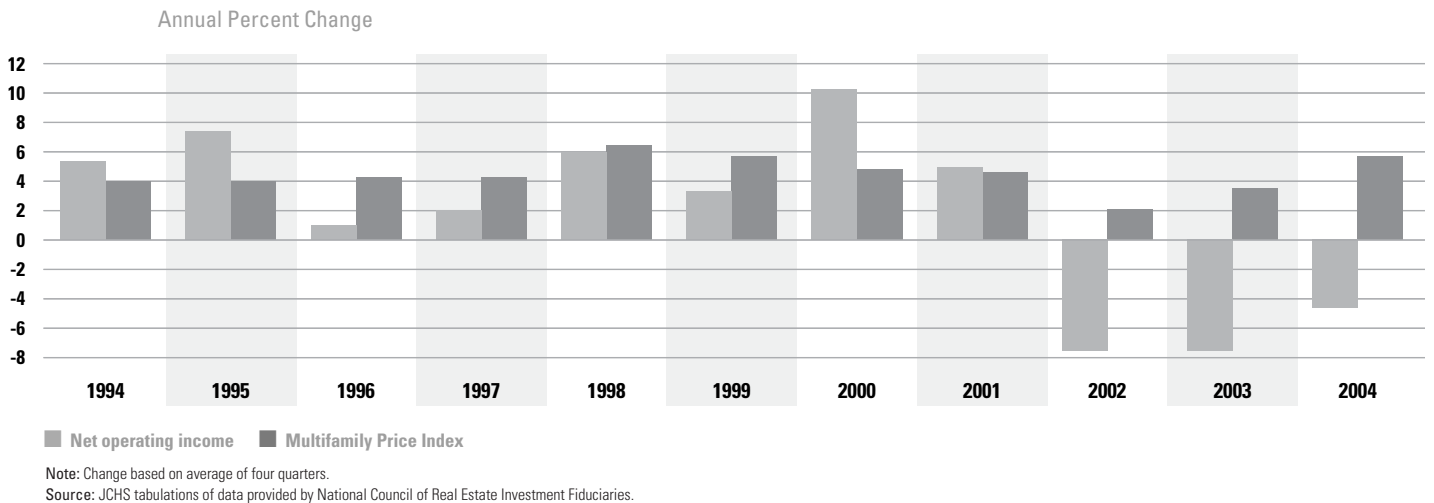
Vacant units are concentrated at both ends of the rent distribution. At the high end of the market, the run-up in vacancy rates likely reflects an oversupply of new rentals at a time when job-related moves—the most common reason for renting an expen-

**Figure 23 Rents Are Recovering in More Markets**



Notes: Change is based on average real rents over the four quarters of each year in the 59 metro areas surveyed by M|PF Yieldstar. For a list of metro areas evaluated, see Table W-5 at [www.jchs.harvard.edu](http://www.jchs.harvard.edu). Source: JCHS tabulations of data provided by M|PF Yieldstar, Inc.

**Figure 24 Apartment Prices Have Continued to Rise Even as Rent Revenues Have Fallen**



sive apartment—have been on hold. At the low end, however, the increase is more a sign of the poor condition of the units.

While still lower than that for multifamily rentals, the vacancy rate for single-family rentals has been rising even more rapidly. From 1993 to 2003, the number of vacant single-family rentals was up by 47 percent or 375,000 units. Part of this increase was sparked by low interest rates and attractive investment opportunities that encouraged more owners to try to rent out rather than sell their homes when they moved.

But the share of renters living in single-family homes peaked at 37.5 percent in the late 1990s, and rising vacancy rates suggest demand may be tapped out. Fully five out of six single-family rentals are owned by individuals or married couples, and many of these landlords have only a few rental properties. With homeownership still siphoning off renters, the weakness in single-family rental demand puts the incomes of these small-scale landlords especially at risk, because even a single vacancy can sharply reduce their total revenues.

#### STRONG MULTIFAMILY INVESTMENT DEMAND

Despite the softness in rents, prices of multifamily properties are still on the rise. According to the National Council of Real Estate Investment Fiduciaries, net operating incomes (rents less operating expenses) of high-end apartment buildings fell 20 percent between 2001 and 2004, but the sales prices of these properties were up more than 10 percent (Fig. 24).

Multifamily properties continue to attract investors in part because record-low interest rates have reduced financing costs. In addition, multifamily housing still provides more attractive yields than many competing fixed income and equity investments. The

hot market for investment properties has helped to shore up production of multifamily rentals and condominiums even at a time when vacancies are high and rents are weak.

If interest rates climb, the higher cost of servicing debt on properties will put more pressure on prices. At the same time, though, higher interest rates could boost rental demand by making homeownership less attractive. This would likely reduce vacancies and lift rents, thereby offsetting the impact of higher rates on prices. Moreover, given that pension funds and real estate investment trusts have been behind much of the recent spate of purchases, there is less chance of a sharp correction in multifamily prices. These owners rely less on leverage to earn acceptable returns and are therefore less sensitive to interest-rate increases.

Strong valuations and low interest rates have also encouraged current rental property owners to reinvest in their apartment buildings. After years of sub-par spending, property owners increased expenditures on repairs and improvements by 6 percent in 2002 and 8 percent in 2003, before backing off again in 2004.

#### DEMOGRAPHIC DEMAND SHIFTS

Although their numbers have not changed appreciably since 1993, renter households have become much more diverse. In just 10 years, the minority share of renter households jumped from 31 percent to 43 percent—fueled in large measure by immigration (Table A-9). By 2003, immigrants headed 16 percent of all renter households and nearly 30 percent of all minority renter households. The immigrant share among Hispanic renters was even higher, at 54 percent.

Much of the growth occurred among middle-income (earning between \$21,000 and \$75,000) minority households, who now

make up more than one-fifth of all renters. Nevertheless, the numbers of low-income renters increased while the numbers of high-income renters decreased (Fig. 25). As a result, the already substantial gap between median renter and owner incomes widened from \$21,265 in 1993 to \$25,200 by 2003 in real terms. In contrast, the disparity in incomes between white and minority renters narrowed because of especially strong increases among middle-income minority renters and especially large losses of higher-income white renters.

Like homeowners, more and more renters are moving to the Sunbelt and to the suburbs. Between 1993 and 2003, the number of renter households in the South and West rose by 800,000, but remained flat in the Northeast and declined in the Midwest. While the number of central city renters in the Northeast and

West did show an increase, the number of suburban renters in the South and West was up even more.

On net, the number of renter households living in the suburbs rose by about two percent while the number living in central cities fell by one percent. Meanwhile, the total number of renter households in non-metro areas remained stable, although these households also made a shift from the Midwest to the South and West.

### STRONG REPLACEMENT DEMAND

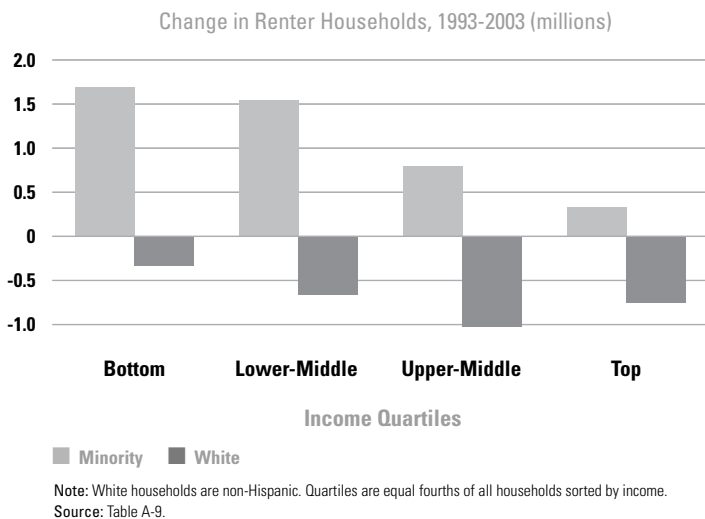
While fully 3.3 million of the rental units standing in 2003 were built within the previous 10 years, the total rental stock expanded by only about 1.2 million units over the decade. This means that about 2.1 million newly constructed rentals simply replaced units lost through demolition, abandonment, or conversion to owner and nonresidential uses. Given that the numbers of units changing from rental-to-owned status and vice versa essentially offset each other, most of the units replaced were permanently lost from the housing stock.

Indeed, more than a third of the rental units built since 1993 are located in places that have seen net declines in renter households—specifically, the central cities of the South and Midwest, and the suburban and non-metro areas of the Northeast and Midwest (Fig. 26). Rental construction in these areas went primarily to replace lost units, although some surplus units contributed to rising vacancies. In contrast, in locations where renters have been growing in number, just over half of the new construction went to meet increased demand, 27 percent to replace lost units, and 20 percent to surplus over demand (Table A-10).

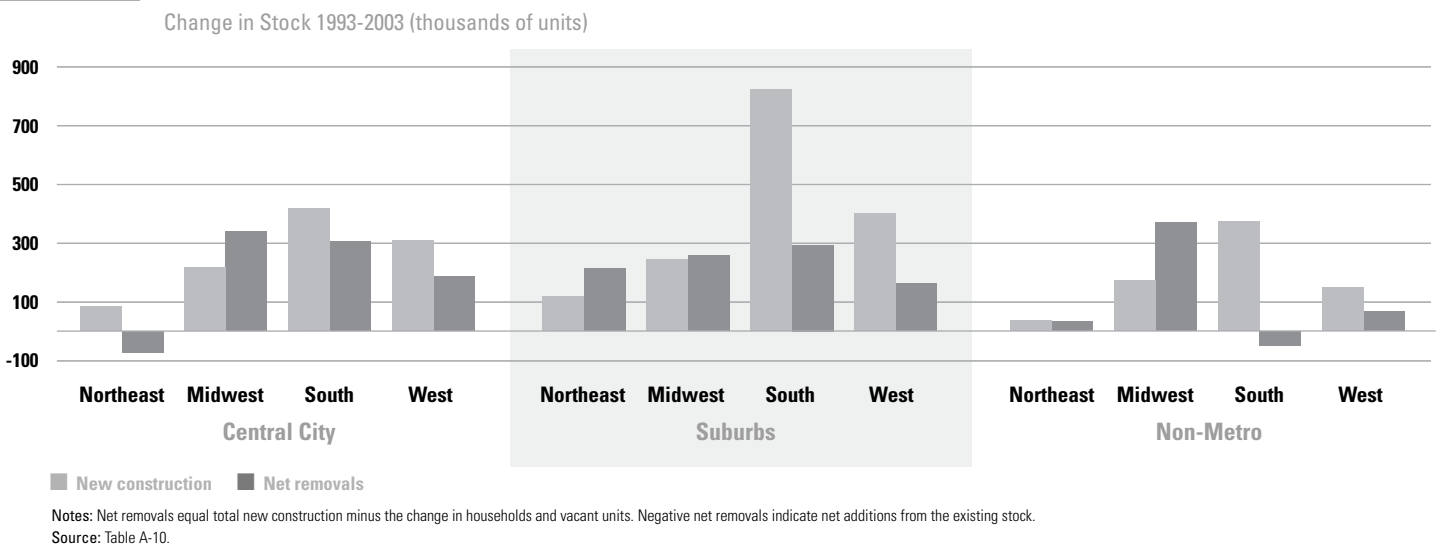
### DWINDLING SUPPLY OF LOW-COST RENTALS

While replacing old units improves the overall quality of the rental stock, it also reduces the low-cost supply. Among units built since

**Figure 25** Growth in Minority Renters Has Offset Losses of White Renters



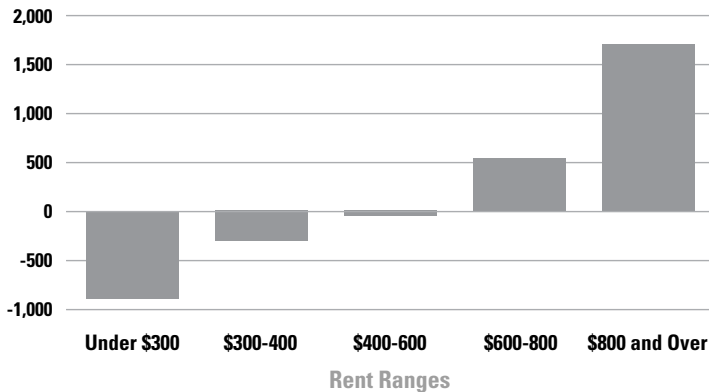
**Figure 26** Most New Construction Has Merely Replaced Losses from the Rental Stock





**Figure 27** **The Low-Cost Rental Stock Continues to Shrink**

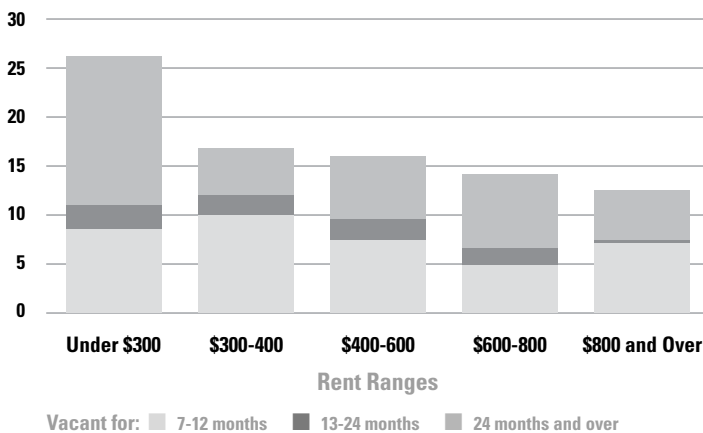
Change in Units 1993-2003 (thousands)



Notes: Includes occupied and vacant for-rent units. Ranges are based on real 2003 rents, including utilities.  
Source: JCHS tabulations of the 1993 and 2003 American Housing Surveys, using adjusted weights for 2003.

**Figure 28** **Long Vacancies Signal Future Losses of Low-Cost Rental Stock**

Share of vacant units in 2003 (percent)



Vacant for: 7-12 months 13-24 months 24 months and over

Notes: Ranges based on 2003 gross rents including utilities. Excludes units vacant for six months or less.  
Source: JCHS tabulations of the 2003 American Housing Survey, using adjusted weights.

2000, for example, 43 percent rent for more than \$800. By comparison, just one-quarter of existing units have rents that high. Moreover, only 10 percent of rentals built since 2000 rent for less than \$400, compared with 25 percent of existing units.

At such low levels, new construction is unable to keep up with the pace of losses from the low-cost stock. Nationally, the number of units renting for less than \$400 fell by 13 percent—or more than 1.2 million—between 1993 and 2003 (Fig. 27). As a result, their share of all rentals fell from 26 percent to 22 percent. These units—the only ones affordable to the 31 percent of renter households with incomes under \$16,000—are thus disappearing at an alarming rate. In fact, new construction is adding on net only apartments that rent for at least \$600, and more commonly

\$800. Requiring an income of at least \$32,000 to afford, rents of \$800 are well out of reach for most renters.

The economic boom of the 1990s did little to improve the mismatch between the number of renters with household incomes of \$16,000 or less and the number of affordable and available (not occupied by households with higher incomes) rentals. Indeed, between 1993 and 2003, the shortfall in affordable and available units remained essentially unchanged at 5.2 million.

But at the same time, vacancy rates within the low-cost stock increased from 5.0 percent to 9.1 percent. While this might seem to indicate that the supply is more than adequate, many of these units are in deplorable condition and essentially uninhabitable. Indeed, about 10 percent of vacant low-cost rentals have been empty for at least two years, suggesting that these units are headed down the path to removal through disinvestment and abandonment (Fig. 28). Excluding long-empty units, the vacancy rate for rentals priced under \$400 is 8.3 percent—almost 2 percentage points lower than the overall rental vacancy rate.

Two regulatory obstacles to preserving the steadily shrinking low-cost stock are the adverse tax consequences for property owners who want to sell and the stringent construction codes governing rehabilitation of rundown buildings. In some cases, owners face federal taxes that far exceed any profit they might expect from selling. Measures to provide so-called exit tax relief and to exempt rehabilitation projects from standards intended for new construction would motivate more owners to sell or upgrade their properties rather than let them deteriorate.

## THE OUTLOOK

The home-buying boom has held growth in renter households near zero for the past ten years. The rental market recovery should therefore remain only gradual unless home price deflation makes homeownership less attractive or if rising prices and interest rates make it simply unattainable.

In the longer term, the age distribution of the population and the rising number of minority and immigrant households slightly favor rental markets. For at least the next 20 years, the children of the baby boomers will help shore up the market for starter apartments. At the same time, their aging parents will begin to look more toward luxury apartments or assisted living in rental communities.

Meanwhile, it is increasingly likely that low-cost units will continue to disappear from the supply—regardless of whether rental markets turn out to be strong or weak. Stemming these losses will take concerted efforts on the parts of federal, state and local governments alike. ■



# HOUSING CHALLENGES

The nation's housing challenges are escalating. Affordability is worsening, inadequate conditions persist, and crowding is more common. Today, more than 37 million households face at least one of these housing problems. Given how chronic and widespread these issues have become, conditions are unlikely to improve without a dramatic increase in government housing and income supports.

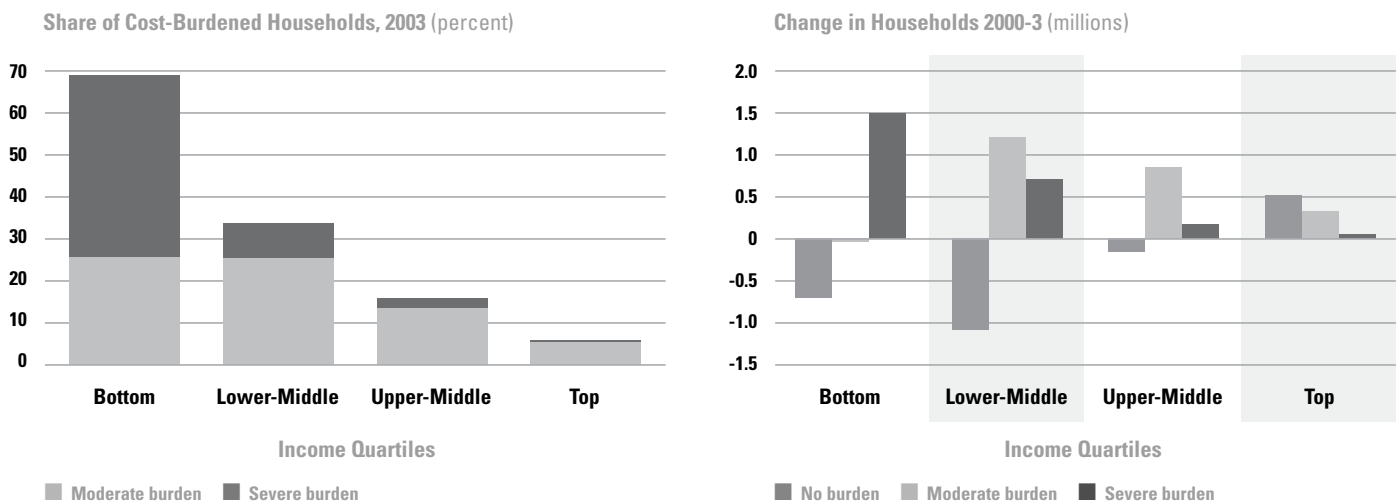
The growing lack of affordability is particularly remarkable given that rents have fallen in many markets and many homeowners have lowered their housing costs by refinancing their mortgages. At the source of the affordability problem is the structural mismatch between the large number of low-wage jobs that the economy is generating and the high costs of supplying housing. Solutions are therefore hard to come by, requiring the close cooperation of government, businesses, and nonprofit providers alike.

## SPREADING COST BURDENS

Between 2000 and 2003, the number of households with at least moderate housing cost burdens jumped by nearly 5 million (Fig. 29). While the numbers of cost-burdened households of all incomes have risen, the increase has been most dramatic among the lowest-income households paying more than half their income for housing.

Housing affordability problems are particularly widespread among low-wage workers, elderly and disabled households, and others in the bottom income quartile. As of 2003, nearly 70 percent of

**Figure 29** Although Their Incidence Declines with Income, Housing Cost Burdens Are Becoming More Widespread



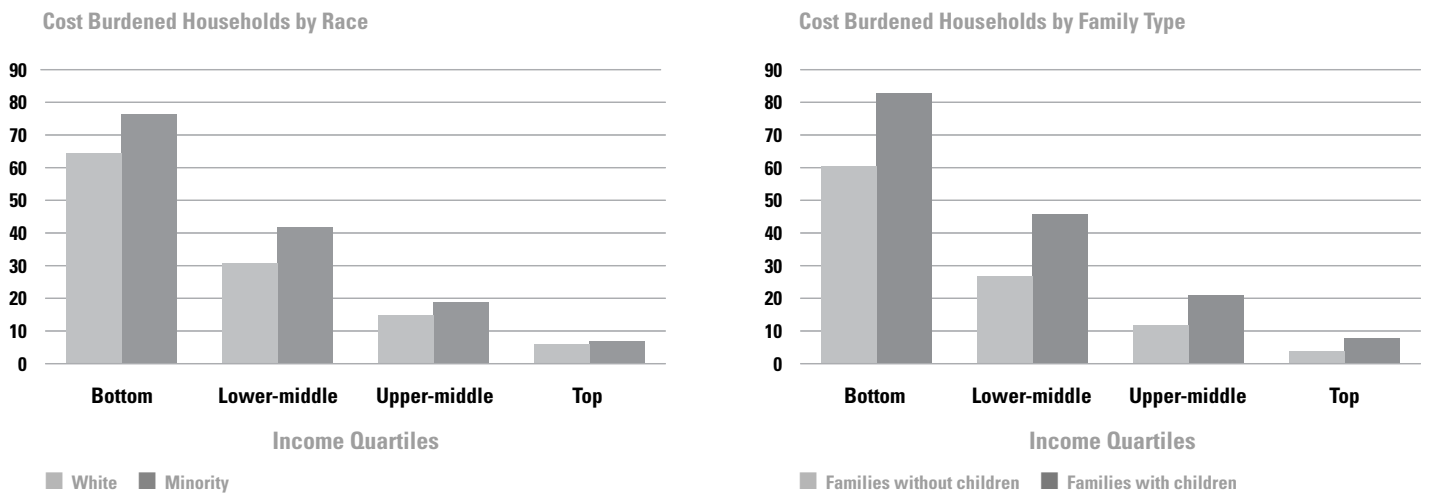
Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. Severe burden defined as housing costs of more than 50% of pre-tax income. Moderate burden defined as housing costs of 30-50% of pre-tax income.

Sources: JCHS tabulations of the 2000 Census Supplemental Survey and the 2003 American Community Survey.

**Figure 30**

**Regardless of Income, Minorities and Families with Children Face Greater Affordability Problems**

Percent



Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. White households are non-Hispanic. Sources: JCHS tabulations of the 2003 American Community Survey.

households in this income group were cost-burdened. Meanwhile, the number of severely cost-burdened households in the bottom income quartile increased by 1.5 million in 2000-3, raising the share with such steep burdens to 44 percent.

While some of these lowest-income households are on welfare or otherwise depend on assistance, a majority of the non-elderly have low-wage or part-time jobs that do not pay enough to cover the cost of decent housing. Indeed, 53 percent of non-elderly households with severe housing cost burdens include at least one worker earning at least half of the household income.

But even among households with incomes in the lower-middle income quartile, fully one-third are cost-burdened and about 1 in 12 is severely burdened. In 2000-3, the number of severely cost-burdened households in this quartile surged by about 730,000. Although smaller than the absolute increase among bottom-quartile households, the rise was still a hefty 49 percent.

Regardless of income, the incidence of burdens is higher among minorities than whites and among families with children than other households (Fig. 30). For minority families with children, the shares are even greater. Even in the lower-middle income quartile, nearly half of these types of households are at least moderately cost-burdened. Since families with children generally have higher non-housing expenses than other households, they feel the effects of disproportionately high housing outlays even more strongly.

When housing costs consume a disproportionate share of income, families have little left over for other basic needs. Among house-

holds in the lowest expenditure quartile, for example, those devoting more than 50 percent of their outlays to housing paid an average of only \$175 for food and \$35 for healthcare per month in 2003. By comparison, households with housing outlays under 30 percent of their monthly budgets had \$248 to spend on food and \$109 to spend on healthcare (Table A-12).

For households with somewhat higher incomes, severe housing cost burdens limit their expenditures on discretionary items that are important to financial security. For instance, severely cost-burdened households in the lower-middle expenditure quartile spent \$93 less on average per month on pensions and insurance than those with no housing expenditure burden.

**OWNER AND RENTER PRESSURES**

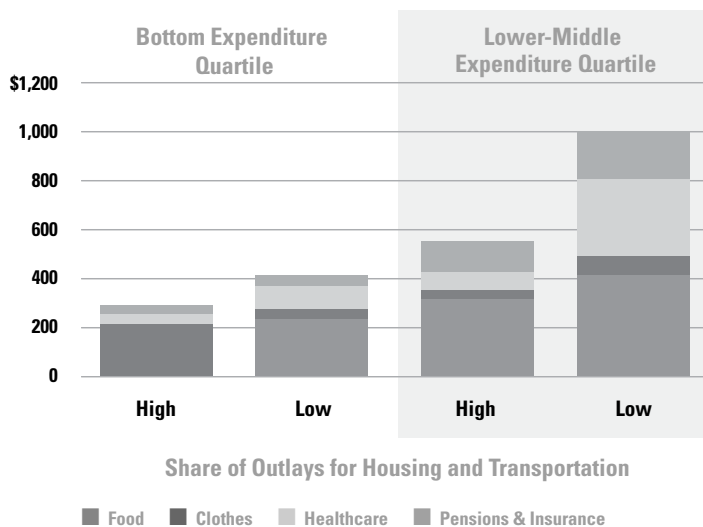
Housing affordability problems afflict both owners and renters. In the bottom income quartiles, about half of renters and a third of owners have severe cost burdens. Among certain groups, though, more owners face severe cost burdens than renters. This is especially true for households in the lower-middle income quartile, where the incidence of severe cost burdens among owners is nearly double that among renters.

Indeed, the cost pressures on owners are mounting. Between 2000 and 2003, the number of severely cost-burdened homeowners in the bottom two income quartiles was up over one million (Table A-11). With the recent surge in home values, higher property taxes are no doubt to blame for at least part of this increase. Homeowners have also had to bear the brunt of rising utility costs while many tenants have not yet seen these increases.

Figure 31

## Low-Income Households Devoting Half Their Outlays to Housing Plus Transportation Have Little to Spend on Other Necessities

Average Monthly Expenditures



Note: Expenditure quartiles are equal fourths of all households sorted by average monthly spending. High housing and transportation outlays defined as more than 50% of total monthly expenditures. Low housing and transportation outlays defined as 30% or less of total monthly expenditures. Source: JCHS tabulations of the 2003 Consumer Expenditure Survey.

## FISCAL 2005 MARKS THE FIRST TIME THE FEDERAL GOVERNMENT HAS NOT FUNDED ALL HOUSING VOUCHERS IN USE.

Moderate-income renters, however, are no less exempt from the burden of higher housing costs. The incidence of severe housing cost burdens was up by 69 percent among renters in the lower-middle income quartile in 2000-3, compared with only 43 percent among owners with comparable incomes.

With incomes and housing costs varying widely both within and across metropolitan areas, it is no surprise that the incidence of affordability problems differs markedly from one location to the next. For example, while more than 37 percent of central city households are cost-burdened, only 30 percent of households living in suburbs and 24 percent of households living in non-metro areas have affordability problems. Across all metropolitan areas, affordability problems are most prevalent in Los Angeles, Miami, and New York, where the share of severely cost-burdened households is nearly one-fifth. At the other end of the spectrum, the incidence in smaller metro areas such as Decatur, AL and Johnstown, PA is just 1 in 20 households.

## THE HOUSING-TRANSPORTATION COST TRADEOFF

As troubling as they are, the statistics on housing cost-burdened households may understate the true magnitude of the affordability problem. Traditional measures do not capture the growing numbers of households that are now paying 30 percent or less of their incomes for housing, but must also pay proportionately more for transportation.

To find housing they can afford, many households live at great distances from their jobs. As a result, the share of their spending that goes to travel costs has increased. The combined cost of housing and transportation thus cuts into the amount of money they have available for other necessities. For example, households in the bottom expenditure quartile that devote more than half their outlays to housing and transportation combined had less than \$300 left over each month for other necessities (Fig. 31).

Low-income households have joined in the search for affordable housing in outlying areas. Between 1993 and 2003, the number of households in the bottom income quartile living in the suburbs increased by 2.1 million and in non-metro areas by 930,000. The share of low-income households living in the suburbs is also up in all four regions of the country (Fig. 32). Often without access to public transit, most of these households must depend on cars that are in poor condition to travel to work. Because of their unreliable transportation, they are at greater risk of being late or missing work altogether.

Among households in the lowest expenditure quartile, those with low housing outlays spend on average \$100 more a month on transportation than those with high housing outlays (Fig. 33). With total average spending of only \$1,000 a month, this \$100 difference is equivalent to a hefty 10 percent of their monthly budgets. Among households in the lower-middle expenditure quartile, those with low housing outlays spend \$234 more a month on transportation than those with high housing outlays—a difference of nearly 11.5 percent of their monthly budgets.

## THE ROLE OF GOVERNMENT

Federal, state, and local programs have so far been unable to stem the spread of housing problems. In recent legislation, however, Congress increased tax credits and tax-exempt bond caps for affordable housing production and preservation, indexing them to inflation. In response to this and to the shrinking supply of low-cost rentals, state housing finance agencies have also stepped up use of tax incentives for preservation purposes. According to National Housing Trust estimates, housing bonds and tax credits were used to preserve more than 45,000 rentals in 2004, compared with just 20,000 in 2000.

But these mainstays of state and federal policy, which incrementally assist about 160,000 housing units each year, have proven too modest to avert losses from the affordable rental stock. And

if recent tax reform proposals gain traction, they could put even these vital measures in jeopardy. Loss of these incentives would severely limit the ability of state and local governments to stimulate and guide the production and preservation of low-cost rental housing in their communities.

Furthermore, rent vouchers—the other principal strategy for relieving housing cost burdens—are in short supply. Waiting lists are years long, with no guarantee that eligible households will ever receive this assistance. Proposed changes to voucher funding and allocations threaten to limit availability even further by

imposing limits on the duration of assistance and removing many program restrictions that may result in reducing the depth of targeting. Indeed, the National Low Income Housing Coalition estimates that as many as one in eight current voucher holders could lose their housing assistance.

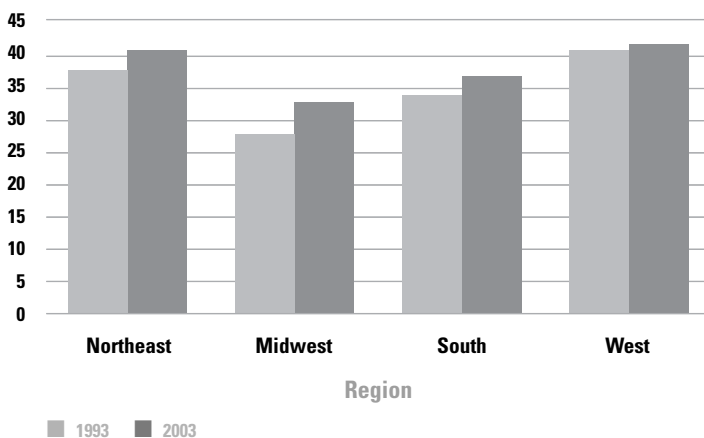
State and local governments primarily administer federal housing subsidies and tax incentives rather than contribute their own funds to programs intended to relieve affordability problems. But the number of states and localities with housing trust funds or some other form of dedicated housing assistance is growing. This is not only a response to the slow growth in federal assistance, but also a positive sign that states are beginning to add directly to the resources available for affordable housing.

Nevertheless, funding remains modest relative to the \$35 billion federal housing budget and the nearly \$120 billion given out in federal tax incentives to housing. As the Center for Community Change last estimated in 2002, the 34 states that had housing trust funds received over \$437 million in annual revenues, with 10 states receiving more than \$10 million each. Furthermore, more than 200 county and municipal trust funds raised at least another \$162 million (Fig. 34).

Most appealing to housing advocates, many of these state and local funds are capitalized by dedicated revenue streams such as real estate transfer taxes, interest from real estate escrow accounts, and a portion of state income taxes. The success of these funds has led to calls for a national housing trust fund modeled along these lines but supported by surplus revenue from the Federal Housing Administration and Ginnie Mae—thus removing the fund from annual appropriations debates. The hope is to establish a steadier

**Figure 32** Large and Growing Shares of Low-Income Households Live Outside Central Cities

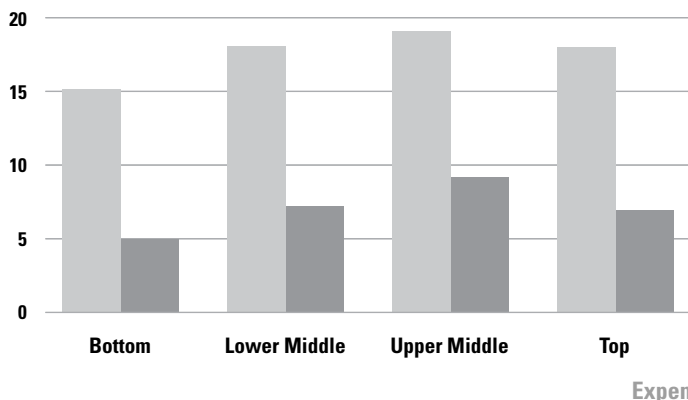
Share of Bottom-Income Quartile Households Living in Suburbs (percent)



Note: Income quartiles are equal fourths of all households sorted by pre-tax income.  
Source: JCHS tabulations of the 1993 and 2003 American Housing Surveys, using adjusted weights for 2003.

**Figure 33** Spending Less on Housing Generally Means Spending More on Transportation

Average Share of Expenditures for Transportation (percent)



■ Low housing expenditures ■ High housing expenditures

Notes: Expenditure quartiles are equal fourths of all households sorted by total monthly expenditures. Low housing expenditures are defined as 30% or less of total, and high housing expenditures are defined as more than 50%.  
Source: JCHS tabulations of the 2003 Consumer Expenditure Survey.

Average Dollar Difference in Monthly Transportation Spending Between Households with Low and High Housing Expenditures

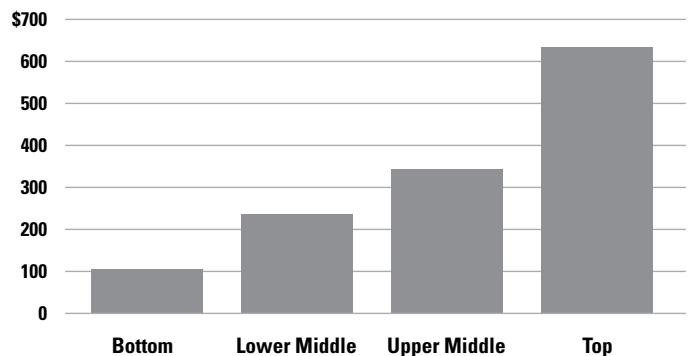
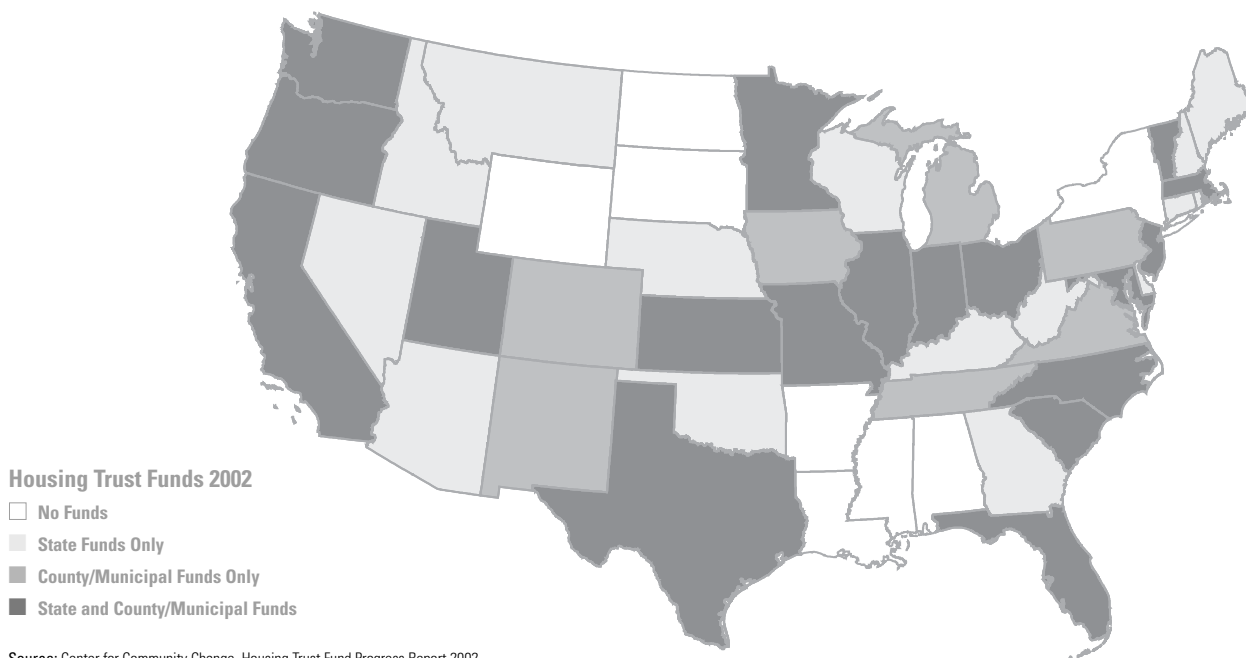


Figure 34

States and Localities Are Increasingly Committing Their Own Resources to Alleviating Affordability Problems



Source: Center for Community Change, Housing Trust Fund Progress Report 2002.

source of revenue for housing initiatives, with a goal of producing, rehabilitating, and preserving at least 1.5 million affordable units over the next decade.

Where state and local governments still fall short, however, is in relaxing the regulations that prevent the development of higher-density affordable housing. A few local governments do require set-asides for affordable units in larger market-rate developments. And a few states provide legal remedies if local governments do not have a specified amount of affordable housing or do not have a plan in place to get the units built.

But most states are not pressuring local governments about the affordable housing issue, and most local governments are not voluntarily easing constraints on development. Liberalizing the regulations that are costly to housing does mean sacrificing some of the public interests that these restrictions serve, including important environmental, health, and safety goals. In addition, communities often resist new residential development, especially of affordable rental housing, out of concern that it will place even more demands on already tight local budgets. As a result, the political will to open up communities to affordable housing is often lacking.

**THE OUTLOOK**

The nation’s housing challenges will not diminish without the involvement of all levels of government, as well as the collabora-

tion of businesses and nonprofit housing and service providers. Unfortunately, most forces are working against the expansion of housing resources. With the ballooning federal deficit, the administration is proposing deep cuts in community development and housing programs.

There are, however, glimmers of hope that the politics surrounding affordable housing are beginning to shift. Common ground on the issue does exist. In the past three years, at least two major bipartisan housing platforms have been pounded out—one by a congressional commission, and the other by two former Secretaries of the US Department of Housing and Urban Development from opposite sides of the aisle.

In addition, as the affordability problem moves up the income ladder, more and more middle-class Americans are likely to throw their support behind housing programs. And as more and more businesses discover how directly the lack of affordable housing affects workforce development and the bottom line, the pressure on political leaders to act will continue to build. ■



## APPENDIX TABLES

- Table A-1 Housing Market Indicators: 1975–2004
- Table A-2 Income and Housing Costs, US Totals: 1975–2004
- Table A-3 Terms on Conventional Single-Family Mortgages: 1980–2004
- Table A-4 Mortgage Refinance, Cash-out, and Home Equity Loan Volumes: 1993–2004
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- Table A-7 Households by Nativity and Age: 2004
- Table A-8 Homeownership Rates by Age and Race/Ethnicity: 1993–2004
- Table A-9 Change in Renter Households by Race and Income Quartile: 1993 and 2003
- Table A-10 Change in Renter Households and Rental Construction by Location: 1993 and 2003
- Table A-11 Housing Cost-Burdened Households by Tenure and Income: 2000 and 2003
- Table A-12 Household Spending for Non-Housing Items by Expenditure Quartiles: 2003

**The following information can be downloaded in Microsoft Excel format from the Joint Center’s website at [www.jchs.harvard.edu](http://www.jchs.harvard.edu).**

- Table W-1 Joint Center Interim Household Projections: 2005–2015
- Table W-2 Building Permits by State: 1995–2004
- Table W-3 Building Permits by Metro Area: 1994–2003
- Table W-4 Home Prices by Region and Metro Area: 1990–2004
- Table W-5 Change in Real Effective Rents by Metro Area: 2002–2004
- Table W-6 House Price and Per Capita Income Gains by Metro Area: 1984–2004
- Table W-7 Total Homeowner Improvement Expenditures: 1994–2003
- Table W-8 Population Change of Cities: 1970–2000
- Table W-9 Commute Times and Mode of Transportation by Metro Area: 2000
- Table W-10 Decentralization of Households by Metro Area: 1970–2000
- Table W-11 Infill Development by Metro Area: 1990–2000
- Table W-12 Decentralization of Minority Households by Metro Area: 1980–2000
- Table W-13 Minority Households by Race/Ethnicity and Metro Area: 2000
- Table W-14 Renter Households by Age, Race/Ethnicity and Nativity: 2003

**Table A-1 Housing Market Indicators: 1975-2004**

Year	Permits <sup>1</sup> (Thousands)		Starts <sup>2</sup> (Thousands)			Size <sup>3</sup> (Median sq. ft.)		Sales Price of Single-Family Homes (2004 dollars)	
	Single-Family	Multifamily	Single-Family	Multifamily	Manufactured Housing	Single-Family	Multifamily	New <sup>4</sup>	Existing <sup>5</sup>
1975	676	263	892	268	229	1,535	942	174,811	119,869
1976	894	402	1,162	375	250	1,590	894	179,564	122,316
1977	1,126	564	1,451	536	258	1,610	881	190,268	127,053
1978	1,183	618	1,433	587	280	1,655	863	204,412	134,884
1979	982	570	1,194	551	280	1,645	893	214,582	135,977
1980	710	481	852	440	234	1,595	915	212,610	129,726
1981	564	421	705	379	229	1,550	930	209,604	124,398
1982	546	454	663	400	234	1,520	925	202,114	120,688
1983	902	703	1,068	636	278	1,565	893	198,125	120,515
1984	922	757	1,084	665	288	1,605	871	197,591	120,243
1985	957	777	1,072	670	283	1,605	882	193,185	121,896
1986	1,078	692	1,179	626	256	1,660	876	197,161	128,019
1987	1,024	510	1,146	474	239	1,755	920	200,397	132,223
1988	994	462	1,081	407	224	1,810	940	199,603	134,910
1989	932	407	1,003	373	203	1,850	940	198,095	136,785
1990	794	317	895	298	195	1,905	955	191,478	134,078
1991	754	195	840	174	174	1,890	980	186,199	131,111
1992	911	184	1,030	170	212	1,920	985	183,138	130,748
1993	987	212	1,126	162	243	1,945	1,005	185,461	129,672
1994	1,068	303	1,198	256	291	1,940	1,015	189,500	129,750
1995	997	335	1,076	278	319	1,920	1,040	189,504	130,309
1996	1,070	356	1,161	316	338	1,950	1,030	187,508	131,733
1997	1,062	379	1,134	340	336	1,975	1,050	188,618	133,924
1998	1,188	425	1,271	346	374	2,000	1,020	190,417	138,886
1999	1,247	417	1,302	338	338	2,025	1,054	195,485	143,033
2000	1,198	394	1,231	338	281	2,079	1,091	197,158	148,170
2001	1,236	390	1,273	329	196	2,102	1,094	198,514	155,527
2002	1,333	415	1,359	346	174	2,115	1,092	204,092	163,566
2003	1,461	428	1,499	349	138	2,126	1,107	210,896	170,895
2004	1,612	448	1,611	345	122	2,162	1,160	221,000	184,100

Note: All value series are deflated by the Bureau of Labor Statistics' Consumer Price Index (CPI-UX) for All Items.

- Sources: 1. US Census Bureau, Construction Statistics, "New Privately Owned Housing Units Authorized by Building Permits," [www.census.gov/pub/const/bpann.pdf](http://www.census.gov/pub/const/bpann.pdf) (as of May 2005).  
 2. US Census Bureau "New Privately Owned Housing Units Started," [www.census.gov/const/startsan.pdf](http://www.census.gov/const/startsan.pdf) (as of May 2005); and "Placements of New Manufactured Homes," [www.census.gov/pub/const/mhs/mhstabplcmnt.pdf](http://www.census.gov/pub/const/mhs/mhstabplcmnt.pdf) (as of May 2005). Manufactured housing starts defined as placements of new manufactured homes.  
 3. US Census Bureau, "New Privately Owned Housing Units Started in the United States, by Intent and Design," [www.census.gov/const/startsusintenta.pdf](http://www.census.gov/const/startsusintenta.pdf) (as of May 2005).  
 4. New home price is the National Association of Home Builders 2004 national median new home price indexed by the US Census Bureau, Construction Statistics, New Residential Sales, "Price Indexes of New One-Family Houses Sold Including Value of the Lot," [www.census.gov/const/price\\_indexes.pdf](http://www.census.gov/const/price_indexes.pdf) (as of May 2005).  
 5. Existing home price is the 2004 median sales price of existing single-family homes determined by the National Association of Realtors, indexed by the Conventional Mortgage Home Price Index from Freddie Mac.  
 6. US Census Bureau, "Expenditures by Region and Property Type," [www.census.gov/const/C50/table\\_s2.pdf](http://www.census.gov/const/C50/table_s2.pdf) (as of May 2005).  
 7. US Census Bureau, Housing Vacancy Survey.  
 8. US Census Bureau, "Annual Value of Private Construction Put in Place," [www.census.gov/const/C30/Private.pdf](http://www.census.gov/const/C30/Private.pdf) (as of May 2005).  
 9. US Census Bureau, Construction Statistics, New Residential Sales, "Houses Sold by Region," [www.census.gov/const/soldann.pdf](http://www.census.gov/const/soldann.pdf) (as of May 2005).  
 10. National Association of Realtors, Existing Home Sales.



Residential Upkeep and Improvement <sup>6</sup> (Millions of 2004 dollars)		Vacancy Rates <sup>7</sup> (Percent)		Value Put in Place <sup>8</sup> (Billions of 2004 dollars)			Home Sales (Thousands)	
Owner-Occupied	Rental	For Sale	For Rent	Single-Family	Multifamily	Additions & Alterations	New <sup>9</sup>	Existing <sup>10</sup>
66,905	28,654	1.2	6.0	104,067	23,451	53,594	549	2,476
76,622	27,995	1.2	5.6	145,609	22,940	58,104	646	3,064
81,693	24,898	1.2	5.2	193,931	31,225	61,636	819	3,650
87,633	31,251	1.0	5.0	210,829	37,177	70,220	817	3,986
91,722	30,786	1.2	5.4	188,008	44,272	70,700	709	3,827
93,255	28,053	1.4	5.4	121,320	38,303	70,498	545	2,973
80,488	29,593	1.4	5.0	107,989	36,284	61,963	436	2,419
74,787	26,695	1.5	5.3	81,162	30,416	54,174	412	1,990
77,604	28,329	1.5	5.7	137,529	42,573	58,551	623	2,719
85,045	43,307	1.7	5.9	157,074	51,308	73,449	639	2,868
90,123	54,058	1.7	6.5	153,350	50,102	78,355	688	3,214
101,291	61,289	1.6	7.3	179,474	53,495	95,670	750	3,565
97,694	64,289	1.7	7.7	194,913	42,323	94,756	671	3,526
108,348	62,291	1.6	7.7	191,763	35,605	99,169	676	3,594
100,536	64,072	1.8	7.4	184,222	33,978	92,962	650	3,346
97,228	69,605	1.7	7.2	163,154	27,822	85,223	534	3,211
92,558	56,803	1.7	7.4	137,898	21,009	71,671	509	3,220
101,902	53,700	1.5	7.4	164,229	17,630	86,605	610	3,520
104,320	55,035	1.4	7.3	183,178	14,103	96,942	666	3,802
115,551	50,947	1.5	7.4	206,884	17,948	104,739	670	3,967
104,008	50,894	1.6	7.6	190,282	22,173	94,136	667	3,812
106,588	51,565	1.6	7.9	205,623	24,469	108,358	757	4,196
110,588	46,625	1.6	7.8	206,176	26,932	107,045	804	4,382
115,194	39,742	1.7	7.9	231,094	28,479	105,024	886	4,970
112,570	49,458	1.7	8.1	253,798	31,106	112,580	880	5,205
114,727	53,084	1.6	8.0	259,752	31,000	120,021	877	5,152
116,947	51,329	1.8	8.4	265,682	32,324	116,191	908	5,296
127,586	54,409	1.7	9.0	279,191	34,601	129,228	973	5,566
123,112	58,497	1.8	9.8	318,846	36,259	133,719	1,086	6,100
143,433	55,124	1.7	10.2	370,564	38,745	135,115	1,203	6,784

Table A-2

## Income and Housing Costs, US Totals: 1975-2004

2004 Dollars

Year	Monthly Income		Home Buyer Costs				Renter Costs		Cost as Percent of Income (%)			
	Owner	Renter	Home Price	Mortgage Rate	Before-Tax Mortgage Payment	After-Tax Mortgage Payment	Contract Rent	Gross Rent	Buyers		Renters	
									Before-Tax Mortgage Payment	After-Tax Mortgage Payment	Contract Rent	Gross Rent
1975	4,272	2,532	119,869	8.9	862	666	588	861	20.2	15.6	23.2	34.0
1976	4,247	2,458	122,316	8.9	875	683	587	666	20.6	16.1	23.9	27.1
1977	4,261	2,473	127,053	8.8	905	762	587	671	21.2	17.9	23.7	27.1
1978	4,306	2,506	134,884	9.4	1,009	829	585	671	23.4	19.2	23.3	26.8
1979	4,313	2,452	135,977	10.6	1,128	920	565	650	26.1	21.3	23.0	26.5
1980	4,049	2,325	129,726	12.5	1,242	992	543	631	30.7	24.5	23.4	27.1
1981	3,934	2,294	124,398	14.4	1,361	1,072	537	628	34.6	27.2	23.4	27.4
1982	3,939	2,316	120,688	14.7	1,350	1,083	546	644	34.3	27.5	23.6	27.8
1983	4,028	2,311	120,515	12.3	1,137	909	561	664	28.2	22.6	24.3	28.8
1984	4,133	2,382	120,243	12.0	1,112	896	568	671	26.9	21.7	23.8	28.2
1985	4,243	2,417	121,896	11.2	1,059	853	584	685	25.0	20.1	24.2	28.3
1986	4,393	2,445	128,019	9.8	993	802	608	706	22.6	18.3	24.9	28.9
1987	4,421	2,421	132,223	9.0	953	806	611	704	21.6	18.2	25.2	29.1
1988	4,445	2,494	134,910	9.0	975	846	609	699	21.9	19.0	24.4	28.0
1989	4,504	2,577	136,785	9.8	1,063	918	604	692	23.6	20.4	23.4	26.8
1990	4,372	2,496	134,078	9.7	1,036	895	597	682	23.7	20.5	23.9	27.3
1991	4,306	2,392	131,111	9.1	955	829	593	677	22.2	19.2	24.8	28.3
1992	4,273	2,326	130,748	7.8	850	744	590	674	19.9	17.4	25.4	29.0
1993	4,238	2,302	129,672	6.9	771	680	586	670	18.2	16.0	25.5	29.1
1994	4,281	2,272	129,750	7.3	801	709	586	668	18.7	16.6	25.8	29.4
1995	4,321	2,331	130,309	7.7	835	737	584	663	19.3	17.1	25.1	28.5
1996	4,394	2,351	131,733	7.6	835	737	582	661	19.0	16.8	24.8	28.1
1997	4,494	2,404	133,924	7.5	844	745	586	665	18.8	16.6	24.4	27.7
1998	4,628	2,453	138,886	7.0	829	734	595	671	17.9	15.9	24.3	27.4
1999	4,730	2,540	143,033	7.1	869	767	601	675	18.4	16.2	23.6	26.6
2000	4,682	2,556	148,170	7.9	966	846	602	678	20.6	18.1	23.6	26.5
2001	4,586	2,534	155,527	6.9	926	817	612	693	20.2	17.8	24.1	27.3
2002	4,560	2,440	163,566	6.4	925	821	626	702	20.3	18.0	25.7	28.8
2003	4,584	2,358	170,895	5.7	890	814	630	710	19.4	17.7	26.7	30.1
2004	4,399	2,348	184,100	5.7	960	876	630	711	21.8	19.9	26.8	30.3

Notes: All dollar amounts are in 2004 constant dollars using the Bureau of Labor Statistics' Consumer Price Index for All Items. Owner and renter median incomes through 2003 from Current Population Survey P60 published reports. Renters exclude those paying no cash rent. The 2004 incomes are estimated from change in HUD median family income applied to 2003 Current Population Survey income for all households and adjusted by 3-year average ratio of owner and renter incomes to all household income. Home price is the 2004 median sales price of existing single-family homes determined by the National Association of Realtors indexed by the Freddie Mac Conventional Mortgage Home Price Index. Mortgage rates are from the Federal Housing Finance Board Monthly Interest Rate Survey. Mortgage payments assume a 30-year mortgage with 10% down. After-tax mortgage payment equals mortgage payment less tax savings of homeownership. Tax savings are based on the excess of housing (mortgage interest and real-estate taxes) plus non-housing deductions over the standard deduction. Non-housing deductions are set at 5% of income through 1986, 4.25% in 1987, and 3.5% from 1988 on. Contract rent equals median 2001 contract rent from the American Housing Survey, indexed by the CPI residential rent index with adjustments for depreciation in the stock before 1987. Gross rent is equal to contract rent plus fuel and utilities.

**Table A-3 Terms on Conventional Single-Family Mortgages: 1980-2004**

Annual Averages, All Homes

Year	Effective Interest Rate (%)	Term to Maturity (Years)	Mortgage Loan Amount (Thousands of 2004 dollars)	Purchase Price (Thousands of 2004 dollars)	Loan-to-Price Ratio (%)	Percent of Loans with	
						Loan-to-Price Ratio More than 90%	Adjustable Rates
1980	12.8	27.2	118.7	168.5	72.9	10	na
1981	14.9	26.4	112.6	160.0	73.1	15	na
1982	15.3	25.6	108.7	154.9	72.9	21	41
1983	12.7	26.0	113.6	157.6	74.5	21	40
1984	12.5	26.8	117.3	157.5	77.0	27	62
1985	11.6	25.9	123.2	168.7	75.8	21	51
1986	10.2	25.6	136.7	190.6	74.1	11	30
1987	9.3	26.8	148.2	202.5	75.2	8	43
1988	9.3	27.7	155.5	210.2	76.0	8	58
1989	10.1	27.7	159.2	217.6	74.8	7	38
1990	10.1	27.0	150.3	206.1	74.7	8	28
1991	9.3	26.5	147.4	203.5	74.4	9	23
1992	8.1	25.4	146.4	197.1	76.6	14	20
1993	7.1	25.5	139.9	187.1	77.2	17	20
1994	7.5	27.1	140.1	181.0	79.9	25	39
1995	7.9	27.4	136.8	177.0	79.9	27	32
1996	7.7	26.9	142.9	186.7	79.0	25	27
1997	7.7	27.5	149.0	193.6	79.4	25	22
1998	7.1	27.8	152.8	201.0	78.9	25	12
1999	7.3	28.2	158.0	208.9	78.5	23	21
2000	8.0	28.7	162.7	218.2	77.8	22	24
2001	7.0	27.6	166.1	229.9	76.2	21	12
2002	6.5	27.3	171.6	242.8	75.1	21	17
2003	5.7	26.8	172.4	249.9	73.5	20	18
2004	5.7	27.9	185.5	262.0	74.9	18	35

Notes: The effective interest rate includes the amortization of initial fees and charges: "na" indicates data not available.  
Source: Federal Housing Finance Board, Monthly Interest Rate Survey.

**Table A-4 Mortgage Refinance, Cash-out and Home Equity Loan Volumes: 1993-2004**

Year	Percentage of Refinances Resulting in:		Median Statistics on Loan Terms and Property Valuation			Billions of 2004 Dollars		
	5% Higher Loan Amount	Lower Loan Amount	Ratio of Old to New Rate	Age of Refinanced Loan (Years)	Appreciation Rate of Refinanced Property (%)	Home Equity Cashed Out	Total Refinance Originations	Home Equity Loans
1993	38	19	1.28	2.03	4	26.0	856.2	299.6
1994	51	12	1.26	2.57	5	17.6	384.9	308.5
1995	52	15	1.16	2.78	9	13.9	243.0	321.7
1996	57	12	1.17	3.25	11	20.9	346.5	350.2
1997	59	15	1.08	3.72	14	25.2	391.4	390.7
1998	46	17	1.16	3.51	10	46.3	1,020.4	418.7
1999	57	13	1.15	4.55	12	41.9	641.6	455.5
2000	78	9	0.94	4.35	24	28.8	319.8	539.7
2001	53	14	1.17	2.57	15	88.4	1,351.3	552.5
2002	47	18	1.20	2.97	13	116.7	2,003.0	612.5
2003	36	16	1.26	1.80	5	150.8	2,851.7	703.1
2004	46	15	1.20	2.09	9	139.2	1,387.9	881.3

Source: Freddie Mac, Cash-out and Refinance Origination data. All values inflated to 2004 dollars using the CPI-U-X for All Items.

**Table A-5 Households by Type and Age: 1980 and 2000**

Thousands

	1980	2000	Net Change	Percent Change (%)
<b>Married Couples With Children</b>				
Under Age 35	10,374	7,494	-2,880	-28
Age 35-44	8,660	11,498	2,837	33
Age 45-54	4,618	5,859	1,241	27
Age 55-64	1,226	780	-446	-36
Age 65 and Over	171	107	-64	-37
<b>Married Couples Without Children</b>				
Under Age 35	4,397	3,227	-1,170	-27
Age 35-44	1,413	2,791	1,378	98
Age 45-54	4,436	7,111	2,675	60
Age 55-64	7,238	7,866	628	9
Age 65 and Over	7,228	10,068	2,840	39
<b>Single Parents</b>				
Under Age 35	2,679	3,869	1,189	44
Age 35-44	1,740	3,668	1,928	111
Age 45-54	794	1,408	614	77
Age 55-64	184	157	-28	-15
Age 65 and Over	29	28	-1	-2
<b>Persons Living Alone</b>				
Under Age 35	4,975	4,808	-168	-3
Age 35-44	1,487	3,925	2,438	164
Age 45-54	1,639	4,372	2,733	167
Age 55-64	2,770	3,643	873	31
Age 65 and Over	6,979	9,747	2,767	40
<b>Other Households</b>				
Under Age 35	2,667	4,004	1,337	50
Age 35-44	661	1,926	1,265	191
Age 45-54	1,030	2,584	1,553	151
Age 55-64	1,281	1,846	564	44
Age 65 and Over	1,715	2,694	979	57

Source: JCHS tabulations of the 1980 and 2000 Decennial Census 1% Public Use Microdata Samples.

**Table A-6** Minority Households in Immigrant Gateway Metro Areas: 1980 and 2000

Metro Area	1980		2000	
	Number (000s)	Share of All Households (%)	Number (000s)	Share of All Households (%)
Atlanta	165	26	531	36
Boston	83	10	215	16
Chicago	649	26	1,019	35
Dallas	210	20	453	37
Houston	296	30	671	46
Los Angeles	1,028	38	1,809	58
Miami	262	47	583	76
New York	1,236	36	1,834	53
San Francisco	354	28	634	69
Washington, DC	344	31	713	40
All Gateway Metros	4,628	30	8,461	46
Rest of the Country	9,197	14	17,930	21

Notes: Gateway metros are the ten MSAs/PMSAs with the largest shares of foreign-born households. San Francisco includes the Oakland PMSA. Minority includes all households not headed by non-Hispanic whites. Source: JCHS tabulations of the 1980 and 2000 Decennial Census 5% Public Use Microdata Samples.

**Table A-7** Households by Nativity and Age: 2004

Nativity & Age of Household Head	Total (000s)	Homeownership Rate (%)	Median Income (\$)	Share College Grads (%)	Share Minority (%)
<b>Under Age 25</b>					
Foreign Born	960	18	30,000	12	83
Second Generation	616	25	28,200	14	78
Other Native Born	5,056	25	27,227	14	27
<b>Age 25-34</b>					
Foreign Born	3,493	35	37,000	31	83
Second Generation	1,497	48	48,000	36	65
Other Native Born	14,220	53	46,200	33	23
<b>Age 35-44</b>					
Foreign Born	3,992	52	44,000	31	76
Second Generation	1,287	65	58,906	35	52
Other Native Born	17,954	73	57,590	30	20
<b>Age 45-54</b>					
Foreign Born	2,883	65	50,730	36	72
Second Generation	1,298	73	65,285	33	38
Other Native Born	18,966	79	61,824	31	18
<b>Age 55-64</b>					
Foreign Born	1,697	72	48,654	31	67
Second Generation	1,108	80	57,267	32	33
Other Native Born	13,985	83	50,000	29	16
<b>Age 65 and Over</b>					
Foreign Born	2,096	64	19,570	22	48
Second Generation	3,560	80	24,568	20	14
Other Native Born	17,408	83	24,366	18	14

Notes: Foreign born defined as born outside US of parents without US citizenship. Second generation defined as born in the US of at least one foreign-born parent. Source: JCHS tabulations of the March 2004 Current Population Survey.

**Table A-8 Homeownership Rates by Age and Race/Ethnicity: 1993-2004**

Percent

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Total US</b>	<b>63.7</b>	<b>64.0</b>	<b>64.7</b>	<b>65.4</b>	<b>65.7</b>	<b>66.3</b>	<b>66.8</b>	<b>67.4</b>	<b>67.8</b>	<b>67.9</b>	<b>68.3</b>	<b>69.0</b>
<b>Whites</b>												
Under Age 35	44.6	44.0	44.8	45.9	45.5	46.0	45.9	47.2	48.0	48.4	49.6	49.9
Age 35-44	72.3	71.3	71.9	71.6	72.6	73.1	74.0	73.7	75.2	76.1	76.0	77.4
Age 45-54	80.1	80.2	80.4	80.8	80.1	80.4	81.2	82.0	81.9	81.9	82.4	82.3
Age 55-64	83.5	83.5	84.1	85.2	84.5	84.7	85.0	84.6	85.8	85.0	85.8	85.7
Age 65-74	83.5	83.0	84.0	85.5	85.5	85.5	86.3	86.9	86.0	86.3	85.3	86.1
Age 75 and Over	75.8	75.6	75.8	76.4	76.8	77.1	78.4	78.6	79.2	79.7	79.9	80.2
Total	70.4	70.0	70.7	71.6	71.7	72.2	73.0	73.5	74.2	74.7	75.1	75.7
<b>Blacks</b>												
Under Age 35	17.4	16.6	17.4	20.4	21.2	23.9	22.0	24.7	24.7	25.9	25.2	27.1
Age 35-44	41.4	41.5	40.5	41.4	44.9	45.3	44.8	45.7	49.1	47.4	46.8	46.6
Age 45-54	56.0	57.0	54.7	54.5	58.1	58.0	58.6	56.0	55.6	56.4	56.4	57.9
Age 55-64	62.6	62.1	62.5	63.3	62.0	60.2	58.4	63.8	61.4	63.8	64.0	64.6
Age 65-74	61.5	67.3	63.2	66.5	68.0	68.9	67.1	69.8	72.0	69.7	66.6	69.8
Age 75 and Over	63.2	67.7	64.1	68.3	69.9	67.1	68.6	70.9	75.9	73.5	69.3	70.0
Total	42.6	42.7	42.2	44.3	46.0	46.6	46.1	47.5	48.4	48.9	48.4	49.5
<b>Hispanics</b>												
Under Age 35	20.5	22.9	23.4	24.4	27.1	27.0	26.0	28.2	28.0	30.4	30.5	30.1
Age 35-44	43.3	45.8	46.1	42.9	45.9	47.3	46.7	51.2	49.0	51.1	48.7	49.0
Age 45-54	52.6	53.2	56.2	55.2	54.5	56.6	59.4	53.5	60.1	58.0	57.0	58.8
Age 55-64	62.8	60.5	62.4	56.4	58.6	64.7	68.4	61.4	61.8	65.0	68.8	67.9
Age 65-74	58.6	58.4	58.5	61.4	58.8	62.3	67.0	65.8	65.3	69.3	67.6	64.8
Age 75 and Over	52.0	58.8	63.2	58.2	54.4	59.9	59.0	56.3	64.2	65.0	65.9	71.2
Total	40.0	41.5	42.4	41.2	43.1	44.8	45.1	45.5	46.4	47.4	47.4	47.4
<b>Asians/Others</b>												
Under Age 35	29.3	27.1	29.9	27.7	27.5	30.0	26.4	29.7	29.5	30.5	33.0	38.8
Age 35-44	56.1	58.4	54.1	51.4	55.2	57.3	58.7	56.2	57.5	57.1	60.9	62.1
Age 45-54	66.0	64.7	62.8	65.8	69.9	66.8	69.1	69.6	71.4	67.7	70.5	73.1
Age 55-64	71.0	73.5	64.7	67.4	71.4	72.5	78.2	72.5	75.5	73.0	73.0	78.0
Age 65-74	59.3	70.6	68.1	68.3	75.2	63.5	68.6	69.8	66.5	69.7	72.0	66.2
Age 75 and Over	64.3	54.1	53.8	67.8	65.1	63.6	61.8	64.7	54.4	58.9	66.4	63.3
Total	51.9	51.4	50.7	50.3	52.7	53.5	53.4	53.9	53.9	53.9	56.5	59.6
<b>All Races/Ethnicities</b>												
Under Age 35	38.0	37.3	38.0	39.1	39.0	39.6	38.8	40.4	40.7	41.3	42.0	42.5
Age 35-44	65.8	65.0	65.2	64.5	65.8	66.4	66.9	67.1	68.2	68.6	67.9	68.8
Age 45-54	75.2	75.2	75.1	75.5	75.4	75.5	76.5	76.3	76.6	76.2	76.5	76.7
Age 55-64	79.6	79.5	80.1	80.4	79.7	80.3	80.7	80.3	81.1	80.9	81.7	81.8
Age 65-74	79.9	80.2	80.5	82.2	82.3	82.3	83.0	83.6	83.0	83.1	81.9	82.6
Age 75 and Over	74.0	74.3	74.3	75.1	75.4	75.6	76.8	77.1	77.8	78.4	78.3	78.7

Notes: Whites, blacks and Asians/others are non-Hispanic. Hispanics may be of any race. Asians/others includes Pacific Islanders, Aleuts and Native Americans. Table does not include the 1.12% and 1.03% of homeowners reported as multi-racial in 2003 and 2004, respectively. Caution should be used in interpreting year-over-year changes since 2001 for certain age/race categories because of small sample sizes, introduction of the new multi-race category, and rebenchmarking.

Sources: Total US homeownership rate from the Census Bureau's Housing Vacancy Survey annual estimates. All other data are JCHS tabulations of the March Current Population Surveys.

**Table A-9 Change in Renter Households by Race and Income Quartile: 1993 and 2003**

Race and Income	Households (000s)				Shares (%)	
	1993	2003	Change	Percent Change	1993	2003
<b>Minority Renters</b>						
Bottom Quartile	4,863	6,562	1,699	35	15	20
Lower-Middle Quartile	2,979	4,504	1,525	51	9	13
Upper-Middle Quartile	1,634	2,432	798	49	5	7
Top Quartile	552	894	341	62	2	3
<b>Total</b>	<b>10,028</b>	<b>14,391</b>	<b>4,363</b>	<b>44</b>	<b>31</b>	<b>43</b>
<b>White Renters</b>						
Bottom Quartile	7,396	7,059	-337	-5	23	21
Lower-Middle Quartile	6,621	5,959	-662	-10	21	18
Upper-Middle Quartile	5,278	4,224	-1,054	-20	16	13
Top Quartile	2,705	1,956	-749	-28	8	6
<b>Total</b>	<b>22,001</b>	<b>19,198</b>	<b>-2,802</b>	<b>-13</b>	<b>69</b>	<b>57</b>
<b>All Renters</b>						
Bottom Quartile	12,259	13,621	1,363	11	38	41
Lower-Middle Quartile	9,601	10,463	862	9	30	31
Upper-Middle Quartile	6,912	6,656	-256	-4	22	20
Top Quartile	3,258	2,850	-408	-13	10	8
<b>Total</b>	<b>32,029</b>	<b>33,590</b>	<b>1,561</b>	<b>5</b>	<b>100</b>	<b>100</b>

Note: Quartiles are equal fourths of households sorted by income. Households with zero or negative income reported are included in the bottom quartile. Some numbers may not add to total because of rounding.

Source: JCHS tabulations of the 1993 and 2003 American Housing Surveys, using JCHS-adjusted weights for 2003.

Table A-10

## Change in Renter Households and Rental Construction by Location: 1993 and 2003

Thousands

	Renter Households			Rentals Built	Vacant for Rent			Net Removals	Net Removals as Percent of Construction
	1993	2003	Change	1994-2003	1993	2003	Change		
<b>Central City</b>									
Northeast	3,757	3,887	130	83	301	327	26	-73	-88
Midwest	3,149	2,861	-288	218	336	498	162	344	158
South	4,813	4,646	-167	421	456	736	280	307	73
West	3,475	3,676	201	312	340	262	-78	189	61
Total	15,194	15,070	-124	1,034	1,433	1,822	390	768	74
<b>Suburb</b>									
Northeast	2,741	2,613	-127	120	163	196	32	214	179
Midwest	2,411	2,284	-126	245	172	284	113	259	106
South	4,091	4,452	362	830	388	561	173	296	36
West	3,381	3,519	138	404	281	384	103	163	40
Total	12,623	12,869	247	1,599	1,004	1,425	421	932	58
<b>Non-Metro</b>									
Northeast	657	654	-3	37	58	64	6	34	91
Midwest	1,855	1,542	-313	174	109	221	112	375	216
South	2,192	2,439	247	376	170	351	181	-51	-14
West	951	1,015	64	149	99	118	20	66	44
Total	5,656	5,650	-6	735	436	755	318	422	57
<b>Total</b>									
Northeast	7,155	7,155	0	240	522	587	65	175	73
Midwest	7,415	6,687	-727	637	617	1,003	386	978	154
South	11,096	11,537	442	1,627	1,014	1,648	634	552	34
West	7,807	8,210	403	865	720	764	44	418	48
Total	33,472	33,590	117	3,369	2,873	4,002	1,129	2,122	63

Note: Net removals equal the total rental units built during the period minus the change in renter households and vacant-for-rent units.

Source: JCHS tabulations of the 1993 and 2003 American Housing Surveys. JCHS-adjusted weights used for 2003 data.



**Table A-11 Housing Cost-Burdened Households by Tenure and Income: 2000 and 2003**

Thousands

Tenure and Income	2000				2003			
	No Burden	Moderate Burden	Severe Burden	Total	No Burden	Moderate Burden	Severe Burden	Total
<b>Owners</b>								
Bottom Decile	951	846	2,386	4,182	741	718	2,530	3,989
Bottom Quintile	3,858	1,951	3,568	9,377	3,342	1,883	4,016	9,241
Bottom Quartile	5,644	2,524	4,014	12,182	4,967	2,543	4,569	12,079
Lower-Middle Quartile	11,391	3,096	1,163	15,650	10,875	3,919	1,668	16,462
Upper-Middle Quartile	16,287	2,484	398	19,170	16,481	3,168	554	20,203
Top Quartile	21,161	1,063	104	22,328	22,128	1,396	157	23,680
<b>Total</b>	<b>54,484</b>	<b>9,168</b>	<b>5,678</b>	<b>69,330</b>	<b>54,451</b>	<b>11,025</b>	<b>6,948</b>	<b>72,424</b>
<b>Renters</b>								
Bottom Decile	1,102	828	4,356	6,286	1,279	771	4,804	6,854
Bottom Quintile	2,494	2,864	6,204	11,563	2,652	2,743	7,049	12,444
Bottom Quartile	3,529	3,969	6,497	13,994	3,595	3,907	7,526	15,028
Lower-Middle Quartile	7,729	2,476	324	10,530	7,212	2,885	548	10,645
Upper-Middle Quartile	6,674	304	32	7,010	6,367	493	45	6,905
Top Quartile	3,788	63	2	3,853	3,363	62	2	3,427
<b>Total</b>	<b>21,719</b>	<b>6,812</b>	<b>6,855</b>	<b>35,386</b>	<b>20,537</b>	<b>7,346</b>	<b>8,122</b>	<b>36,004</b>
<b>All Households</b>								
Bottom Decile	2,053	1,674	6,741	10,468	2,020	1,489	7,334	10,843
Bottom Quintile	6,351	4,815	9,773	20,939	5,994	4,626	11,065	21,686
Bottom Quartile	9,173	6,493	10,510	26,176	8,562	6,450	12,095	27,107
Lower-Middle Quartile	19,120	5,572	1,488	26,180	18,087	6,804	2,216	27,107
Upper-Middle Quartile	22,961	2,788	430	26,179	22,848	3,660	600	27,107
Top Quartile	24,949	1,126	105	26,181	25,491	1,457	159	27,107
<b>Total</b>	<b>76,203</b>	<b>15,980</b>	<b>12,533</b>	<b>104,716</b>	<b>74,987</b>	<b>18,372</b>	<b>15,069</b>	<b>108,428</b>

Notes: Income quartiles are equal fourths of households sorted by income. Bottom decile and quintile are the lowest tenth and fifth of households, respectively. Households reporting zero or negative income are included in bottom income groups and assumed to have severe cost burdens. No-cash renters assumed to have no cost burdens. Moderate (severe) burden households spend 30-50% (over 50%) of income on monthly housing expenses.

Source: JCHS tabulations of the 2003 American Community Survey and the 2000 Census Supplemental Survey.

**Table A-12 Household Spending for Non-Housing Items by Expenditure Quartiles: 2003**

Average Monthly Outlays (dollars)

Income Quartile and Share of Expenditures on Housing	Transportation	Food	Clothes	Healthcare	Personal Insurance and Pensions	Entertainment	Other	Total Non-Housing Expenditures
<b>Bottom Quartile</b>								
Up to 30%	145	248	30	109	52	43	163	791
30-50%	92	226	23	69	50	36	114	610
50% or More	46	175	14	35	30	21	68	388
All	108	226	25	81	47	36	128	652
<b>Lower-Middle Quartile</b>								
Up to 30%	370	387	65	194	182	92	354	1,644
30-50%	277	354	52	99	153	70	221	1,227
50% or More	136	295	28	70	88	43	129	788
All	308	364	56	143	160	78	277	1,387
<b>Upper-Middle Quartile</b>								
Up to 30%	617	522	112	243	370	164	582	2,610
30-50%	467	473	79	154	315	121	365	1,974
50% or More	274	390	46	116	182	70	213	1,291
All	538	495	95	202	336	142	478	2,285
<b>Top Quartile</b>								
Up to 30%	1,196	801	242	371	878	430	1,548	5,466
30-50%	795	710	186	259	713	278	924	3,863
50% or More	559	631	119	205	503	183	593	2,793
All	1,043	764	218	329	807	372	1,312	4,844

Notes: Quartiles are equal fourths of households sorted by average total monthly expenditures. Quartiles are defined by total expenditures because one out of five households in the survey failed to report income. Housing costs include mortgage principal and interest, insurance, taxes, maintenance, rents, and utilities. Transportation expenditures were adjusted for cash purchases of cars, with monthly outlays calculated as 10% of the cash payment. Source: JCHS tabulations of the Consumer Expenditure Survey, using Quarterly Interview Survey data for calendar year 2003.

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