The State of the Nation's Housing: 1998

The Joint Center for Housing Studies
Harvard University

The State of the Nation's Housing 1998

Executive Summary

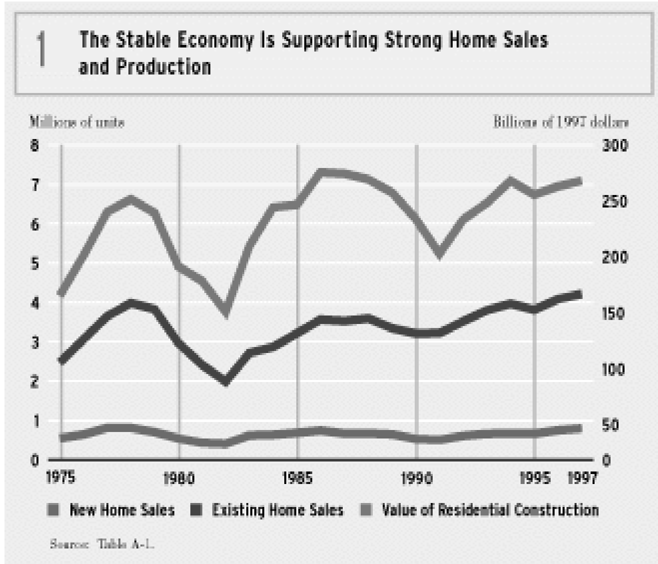
Now in its eighth year of sustained growth, the U.S. economy has brought unprecedented strength to housing production and sales. Spurred by strong employment growth, low mortgage interest rates, and new, more flexible financing options, national homeownership rates have reached an all-time high. The gains in homeownership are broadly based, with young adults making up much of the ground they lost during the 1980s, and minority and moderate-income households purchasing homes in record numbers.

Even under these unusually favorable conditions, though, many young and low-income households are still unable to progress up the housing ladder. Nearly half of today's 25 to 34 year-olds have only a high-school education, seriously limiting their earning power in the new global economy. These workers in particular are finding it more and more difficult to save enough for a downpayment on a home and to earn enough to cover the monthly costs of ownership.

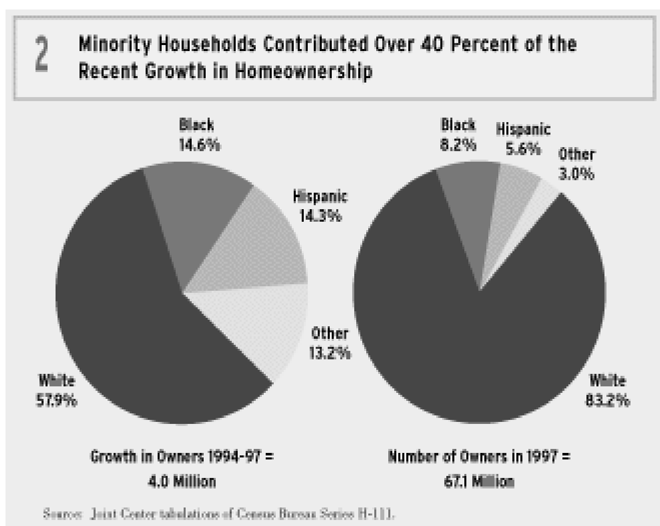
In addition, the large disparity between minority and white homeownership rates remains nearly unchanged despite the recent expansion of mortgage lending opportunities. Moreover, all of the growth in homeowners during the first half of the 1990s took place outside center cities. The strong economy has also done little to ease the chronic housing problems of millions of extremely low-income families, whose numbers remain at peak levels in the face of cutbacks in housing assistance and continuing losses from the affordable stock.

The Homebuying Boom

Between 1994 and 1997, the net addition of 4.0 million households to the ranks of homeowners set a three-year record. This boom owes much of its vitality to the unusually long and stable economic expansion. Today, with employment still rising, mortgage interest rates near 30-year lows, and consumer confidence holding close to record levels, housing production is strong and sales of new and existing homes continue to climb (Fig. 1).



What stands out about this boom is the contribution of minority households to growth. Although account-ing for only 17 percent of the entire homeowner population, minorities were responsible for an impressive 42 percent share of the increase in the number of owners between 1994 and 1997 (Fig. 2). Indeed, the minority share of first-time homebuyers has been rising for several years.



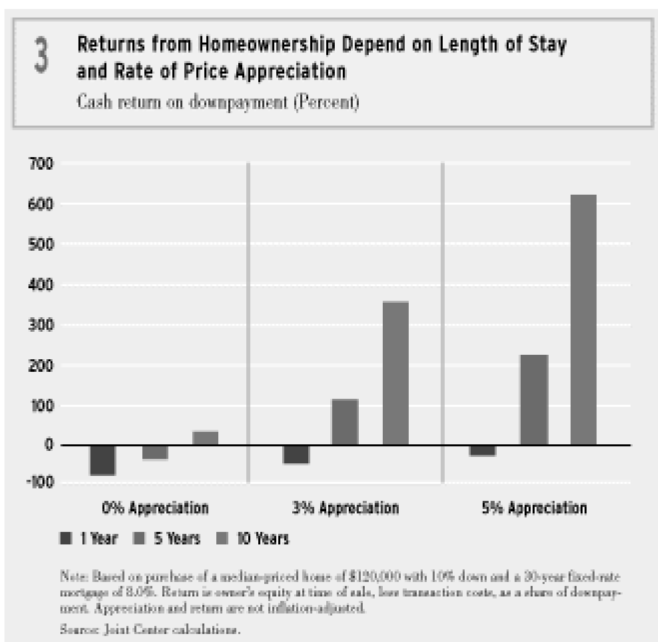
For Hispanic and Asian households, age distribution and family composition explain much of the increase in homeownership. Because these two groups are gaining population through immigration, they have much higher rates of household growth than whites and blacks. In addition, a relatively large share of Asians and Hispanics are within the 25 to 34 year-old age group; the demographic group with the highest rates of first-time homebuying.

But for blacks and whites, the strong economy and recent efforts to reach low-income and minority borrowers explain more of the gains in homeownership than demographic factors such as household growth. With the wider availability of more flexible loans and reduced costs of obtaining a mortgage, more cash-strapped and income-constrained borrowers have been able to qualify for mortgages than in the past. Between 1993 and 1996, lending to low- and moderate-income homebuyers rose by 30.2 percent while lending to upper-income buyers rose by about 20 percent. Meanwhile, lending over this period was up 45 percent to minority buyers compared with only 14 percent to white buyers. Lending to minorities did, however, slow in 1996, underscoring that the rapid rate of increase in minority lending will be difficult to sustain.

Returns on Homeownership

Although stocks have recently overtaken home equity as the main form of household wealth, homeownership remains the cornerstone of financial security for most Americans. Nearly two-thirds of all U.S. households own homes. In contrast, only about 40 percent of American households own stocks.

Like investing in stocks, buying a home is not without risks. The longer owners stay in their homes, however, the more likely they are to profit from the purchase (Fig. 3). And the faster the pace of house price appreciation, the shorter the time owners must remain in their homes to offset the high transaction costs of buying and selling residential property.



As a vehicle for creating wealth, homeownership also has several unique financial advantages. Capital gains on the sale of a home, unlike those on most other assets, receive favorable tax treatment. With fixed-rate mortgages, homeowners can lock into payments at today's home values and thereby insulate themselves from escalating property values and rents. While many borrowers also benefit from the tax-deductibility of mortgage interest, this feature is of little value to low-income homeowners with small mortgages, who are often better off taking the standard deduction.

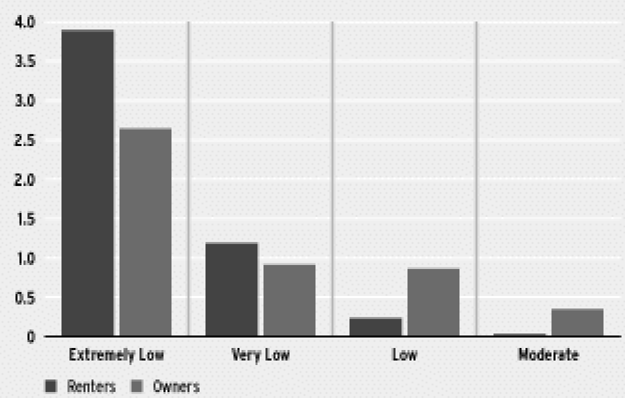
With the spectacular strength of mutual funds and defined contribution pension plans, the importance of stocks within investment portfolios may continue to increase. Even so, for a far larger share of American households; and particularly those with moderate incomes; home equity is still the principal source of wealth.

Unmet Housing Needs

Although growing numbers of families are gaining access to the wealth-building opportunity of homeownership, the number of households without access to decent and affordable housing is also growing. With lower inflation-adjusted earnings than their counterparts 15 years ago, today's 25 to 34 year-olds with only a high school education are falling further and further behind in their ability to progress up the housing ladder. Meanwhile, affordability is by far the most pressing problem for the 8.6 million renter and 5.6 million owner households with extremely low incomes (Fig. 4).

4 **Over 10 Million Households Pay More Than Half Their Incomes for Housing**

Households with severe payment burdens by income category, 1995 (Millions)



Notes: Extremely low income is less than 30% of area median; very low is between 30% and 50%; low is between 50% and 80%; moderate is between 80% and 120%. Households with severe payment burdens pay more than 50% of their incomes for housing, including utilities.

Source: Joint Center tabulations of the 1995 American Housing Survey.

For those households with severe payment burdens, no relief is in sight. In fact, the imbalance between the supply of and demand for rental units affordable to the nation's lowest-income households is worsening. Even after a protracted period of rent deflation when about 260,000 rental units filtered down to the low-cost stock, the affordable inventory has continued to shrink because of losses to abandonment and demolition. On top of these pressures, the number of net new commitments for rental subsidies remains at historically low levels.

The Decade Ahead

On balance, the next decade will be an era of opportunity for housing production and the services associated with buying and selling homes. Steady growth in the number of households, ongoing losses from the aging housing stock, and a modest increase in demand for second homes should together keep annual construction rates at least as strong as the 1.56 million units averaged so far in the 1990s.

As the children of the baby boomers start to form their own households over the next ten years, multifamily and manufactured housing may make up larger shares of new construction activity. While single-family housing would therefore lose some of its dominance, the trend toward ever-larger and more luxurious homes is likely to keep the value of new residential construction on the rise. Home improvement expenditures should also increase modestly as both the baby boomers and the housing stock age.

But tempering all of this good news is a set of policy challenges that relate directly to today's changes in income support programs, yesterday's legacy of housing market discrimination, and tomorrow's aging of the U.S. population. First of all, addressing the severe housing problems of extremely low-income households remains perhaps the single largest, and most urgent, priority for policymakers as we move into the 21st century. The number of households with worst-case needs has not retreated despite the economy's enduring strength. While the future depends largely on the outcome of welfare-to-work programs, it is noteworthy that even full-time workers earning the minimum wage are already hard-pressed to find suitable, affordable housing.

Second, even with the sharp upturn in recent years, homeownership rates among minority households remain just under 46 percent; a far cry from the 72 percent among white households. In part this disparity reflects decades of discrimination that have left minorities with lower average wealth and income. Narrowing this gap will therefore require much stronger measures than mortgage lenders, government agencies, and community organizations have been able to muster so far.

And third, with the population aged 75 and older projected to grow by 2.4 million over the next ten years, the need for affordable home care for the frail elderly has become imperative. The assisted living choices now available are out of financial reach for most seniors, especially those who rely heavily on Social Security and other income support programs. But even if they were able to afford to live in these facilities, most seniors prefer to stay in their own homes. New housing alternatives to make this possible will be in increasing demand during the decade ahead.

Housing Market Trends

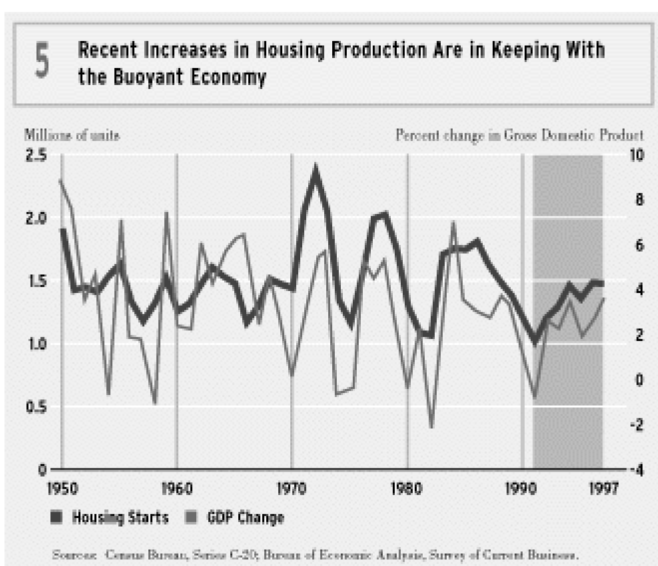
The strength and duration of today's housing expansion are unparalleled. Sales of existing homes in 1997 set new records, while sales of new homes hit a 19-year high. Single-family construction exceeded 1.0 million units for the sixth consecutive year, and multifamily production posted an eight-year peak of 340,000 units. Manufactured home placements, while below the record levels of 1996, were still strong at 293,000 units.

At the local level, however, the housing boom is geographically uneven. Markets in some areas of the country have already begun to weaken, while others have only recently begun to strengthen. In line with population and employment shifts, homebuilding activity remains centered largely in the South and West, and particularly at the far edges of metropolitan areas.

Economic Stability

With mortgage interest rates holding close to a 30-year low and the economy still adding new jobs, the health of the housing sector is not surprising. Low interest rates and strong employment growth are what sustain consumer confidence. Confidence in the future and in the ability to afford the costs of homeownership, in turn, are what encourage more people to form their own independent households and to purchase homes.

What is remarkable, however, is the sustained, non-inflationary growth that has kept housing construction on such an even keel. At no point in the last 50 years has there been such an extended period of low inflation and steady growth in domestic output (Fig. 5). Although both interest rates and inflation were also low in the 1950s and 1960s, the economy was much more volatile then, with annual growth hitting 6.0 percent or more before dropping sharply. Since the 1991 recession, domestic output has expanded no faster than 3.8 percent annually and no slower than 2.0 percent.



The last time that homebuilding activity expanded for six consecutive years without registering a large decline was between 1966 and 1972. That housing cycle was cut short when economic growth surged to 5.8 percent in 1973, and inflation picked up to 11.0 percent the following year.

Innovations in Mortgage Finance

In addition to a buoyant economy, the overall housing industry owes its enduring vigor to innovations in mortgage finance that have helped not only expand homeownership opportunities, but also reduce market volatility. Under market and regulatory pressure to make homebuying more accessible to low-income and minority households, financial institutions have revised their underwriting practices to make lending standards more flexible. In the process, they have developed several new products to enable more income-constrained and cash-strapped borrowers at the margin to qualify for mortgage loans.

Lenders first began offering adjustable-rate mortgages in the early 1980s when interest rates climbed sharply (Table A-5). With initial rates significantly lower than those on standard 30-year fixed-rate mortgages, adjustable mortgages accounted for nearly two-thirds of all home loans originated in 1984. Although the one-year adjustables made ownership initially more affordable to a larger pool of potential buyers, they also passed on the risk of interest-rate increases to borrowers each time the mortgage reached its annual anniversary. In the early 1980s, though, borrowers viewed this as an acceptable trade-off because interest rates were skyrocketing.

Now that both mortgage interest rates and home price inflation are at much more modest levels, financial institutions are offering a growing array of adjustable-rate products to meet the changing needs of both businesses and households. Today, adjustable mortgages are configured with a wide variety of initial adjustment periods, interest rates, and adjustment indexes (Fig. 6).

Lower downpayment requirements have also helped to reduce the upfront cash burden that prevents many potential buyers from purchasing a home. For example, the downpayment requirements on some loans have been reduced to less than 5 percent. In addition, most of the new mortgage products allow sellers to contribute to closing costs, and some waive cash reserve requirements when the loan is closed. Lenders are also selectively raising the maximum mortgage payment a given income can carry, and allowing borrowers to use timely payment of rent and utilities to establish a credit record.

At the same time, innovations in information technology have allowed mortgage lenders to streamline their operations, thereby reducing both the cost and time required to process loans. The combination of more mortgage products and lower transaction costs helps to keep buyers in the market even when interest rates rise. Homebuyers can now a pick a mortgage product that best suits their income and risk tolerance when they buy. They can then readily switch, at relatively little cost, to a more desirable product as economic or personal circumstances change.

This is not to say, however, that housing markets are no longer vulnerable to broad downturns in the economy. Prospective homebuyers must still feel confident about the future before they make a long-term investment in a new home. And rising interest rates can still force marginal borrowers out of the homebuying market.

Regional Housing Cycles

The cyclical nature of housing markets is much more obvious at the state and local levels. Local employment and population growth continue to drive differences in the timing and severity of housing cycles from one location to the next.

Last year, residential construction activity stood at post-recession peaks in nearly one-third of the 50 states (Fig. 7). Several of the most populous states were in this group, including Texas, Arizona, California, Florida, Georgia, and North Carolina.

7 The Timing of the Housing Production Cycle Varies by Location

Post-1990 peaks in housing permits

1991-93 1994 1995 1996 Still Headed Up in 1997

Source: Table A-3.

In fact, these states together accounted for fully 40 percent of all housing permits issued in 1997. For North Carolina, it was the best year in over two decades. Housing permits in Atlanta, Dallas, Denver, Houston, New York, Phoenix, Portland, San Diego, and San Francisco were at their highest since the 1991 recession (Table A-2).

Table A-2 Metropolitan Area Housing Permits: 1991-97

Number of permits

	1980s Peak								
	Level	Year	1991	1992	1993	1994	1995	1996	1997
Single-Family									
Atlanta	35,095	1986	21,611	27,171	31,838	31,285	33,415	35,643	36,311
Boston	16,772	1986	6,981	9,666	10,296	10,580	9,118	9,596	9,922
Charlotte	8,531	1987	6,904	8,545	9,420	10,258	10,056	12,515	13,038
Chicago	28,123	1988	20,079	24,768	27,936	29,299	26,894	27,450	24,812
Cleveland	7,022	1989	6,675	7,673	8,055	8,677	7,931	8,391	7,740
Dallas	33,393	1983	15,473	19,949	21,721	22,248	21,930	25,333	25,994
Denver	18,835	1983	7,515	11,388	13,695	14,391	13,794	14,274	15,828
Detroit	14,436	1989	11,840	13,651	14,841	17,083	17,808	19,750	18,492
Houston	30,409	1982	11,889	13,293	15,445	15,551	15,704	19,253	20,762
Indianapolis	6,582	1988	6,400	8,283	8,708	9,550	9,875	10,353	10,372
Las Vegas	12,677	1989	12,563	10,064	15,657	18,347	18,527	19,186	19,016
Los Angeles	76,063	1988	24,873	25,178	22,430	26,597	23,220	25,463	30,368
Memphis	6,561	1986	4,696	6,064	7,197	6,647	6,964	6,023	6,251
Miami	15,202	1989	9,063	12,230	15,601	16,744	15,536	13,386	12,672
Minneapolis	16,320	1986	11,989	15,559	15,936	14,058	13,016	13,982	12,585
New York	52,376	1986	16,540	19,822	23,455	21,737	19,817	21,778	23,698
Orlando	13,773	1989	9,030	9,807	10,116	10,197	8,879	9,804	10,867
Philadelphia	27,702	1986	13,173	16,113	18,380	18,294	15,782	16,353	17,094
Phoenix	23,222	1986	13,840	18,809	22,533	27,353	27,812	28,508	30,477
Pittsburgh	4,257	1987	3,853	4,465	4,657	4,581	3,821	3,700	3,673
Portland	7,472	1989	7,390	8,815	10,483	11,053	10,699	10,882	11,076
Salt Lake City	6,479	1986	4,557	6,035	7,081	7,108	7,641	9,161	7,909
San Diego	16,585	1986	5,365	3,812	4,229	5,236	4,765	5,831	8,237
San Francisco	25,909	1988	10,852	12,193	10,862	13,427	11,894	14,235	17,113
Seattle	15,806	1989	9,856	12,560	12,603	13,259	11,567	12,235	13,440
St. Louis	11,278	1987	7,324	9,745	10,642	11,554	9,839	10,204	9,074
Tampa	18,115	1986	7,841	9,721	10,331	11,003	9,405	10,006	10,751
Washington, DC	31,748	1986	15,068	21,071	24,136	23,241	20,064	20,254	20,245
Multifamily									
Atlanta	18,625	1984	1,831	865	3,572	8,286	12,903	10,492	10,877
Boston	12,090	1985	760	857	1,128	1,085	1,393	1,728	2,074
Charlotte	6,672	1985	1,534	1,153	1,422	3,573	3,721	5,943	5,779
Chicago	18,700	1986	6,253	6,711	6,165	7,854	8,826	10,490	9,648
Cleveland	4,126	1989	1,455	2,773	1,404	1,952	2,404	2,586	2,520
Dallas	77,878	1983	3,989	1,862	4,787	11,579	14,393	13,165	17,522
Denver	13,554	1983	253	1,946	2,346	5,030	6,168	5,401	6,798
Detroit	12,048	1986	3,393	2,983	2,932	4,192	3,835	4,453	3,884
Houston	44,547	1982	3,699	3,368	4,011	6,754	5,833	4,682	11,561
Indianapolis	6,057	1986	935	1,355	1,479	1,927	3,326	2,610	2,566
Las Vegas	16,967	1988	5,301	3,365	3,379	7,223	9,286	11,749	10,025
Los Angeles	95,720	1986	15,882	9,799	5,770	9,077	5,576	7,124	9,556
Memphis	4,256	1984	404	267	381	615	1,856	3,565	1,598
Miami	25,122	1980	4,985	4,821	6,389	10,292	12,052	7,584	10,141
Minneapolis	11,025	1986	1,641	2,159	2,509	2,692	3,580	2,942	2,969
New York	34,563	1985	6,086	5,622	8,290	7,271	8,050	13,334	13,349
Orlando	12,096	1985	4,362	2,376	3,958	3,993	4,882	3,645	7,602
Philadelphia	6,940	1987	1,470	1,251	2,002	1,375	1,586	2,274	3,719
Phoenix	37,544	1984	1,070	1,541	2,251	6,375	8,911	10,113	10,823
Pittsburgh	2,374	1980	972	537	482	680	496	712	1,288
Portland	10,031	1989	2,887	2,878	3,059	5,742	7,040	7,012	8,396
Salt Lake City	9,358	1984	199	367	1,756	1,636	3,006	3,689	2,720
San Diego	27,545	1986	2,526	2,259	1,521	1,707	1,868	1,017	2,903
San Francisco	25,640	1986	6,854	4,615	4,225	4,612	3,801	7,197	9,549
Seattle	18,263	1988	4,754	6,193	5,397	5,349	5,845	7,623	8,765
St. Louis	8,751	1984	1,026	689	877	1,276	1,454	2,111	1,808
Tampa	20,668	1984	3,296	1,291	2,132	3,740	4,214	4,674	6,241
Washington, DC	13,979	1987	3,078	2,916	3,865	4,912	5,865	7,332	5,984

Note: Metropolitan Areas are CMSAs and MSAs with only the name of the principal central city given. Data for 1980-83 are for metropolitan area definitions in use during those years. Data for 1993-97 are summed from place-level data to 1988 metropolitan area definitions, except in New England where 1993 metropolitan area definitions are used. 1997 data are preliminary.

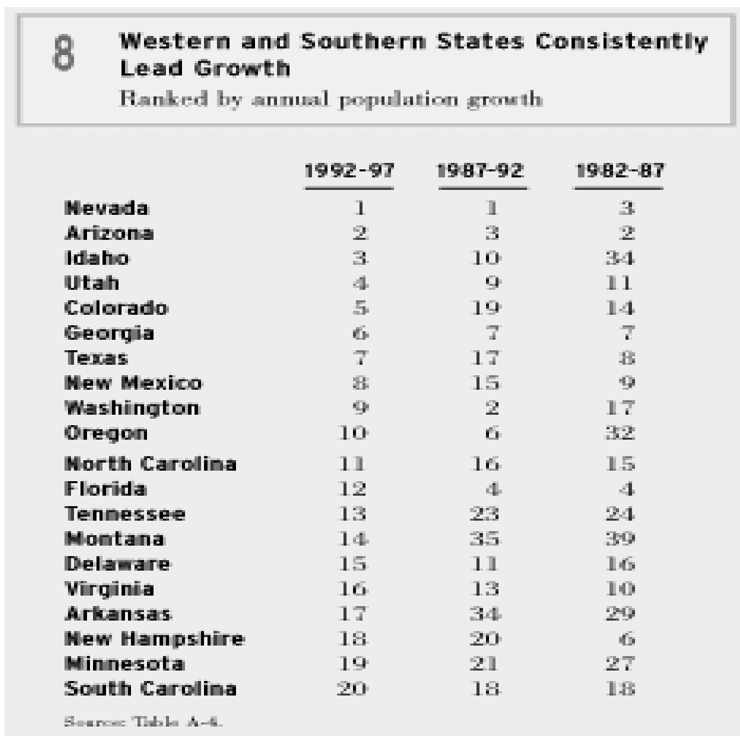
Source: U.S. Bureau of the Census, Construction Reports, Series C-40.

At the same time, housing production in many other states may well have peaked. Of this group, Kansas, Utah and Wyoming saw a drop in permits of 10 percent or more last year. Most states reporting declines, however, were off only slightly from 1996, and many were still holding near 20-year highs.

The states where production has been in decline for several years include Wisconsin, North Dakota, South Dakota, Maryland, Alabama, Mississippi, Arkansas, and Montana. But among large metropolitan areas, only Miami, Minneapolis, and St. Louis are significantly below their post-recession peaks. Indeed, housing production in the other 19 largest metro areas is either heading up or is off so slightly that it is premature to predict a true slowdown.

Long-Term Growth Potential

In addition to the timing and volatility of their housing cycles, individual states differ in terms of their long-term potential for attracting population and employment. Over the past 15 years, Nevada, Arizona, and Georgia have consistently ranked among the top 10 fastest-growing locations (Fig. 8). Louisiana, Iowa, North Dakota, and West Virginia, in contrast, have consistently ranked among the bottom 10 (Table A-4). Colorado, Idaho, Utah, and New Mexico are special cases, in that their growth is tightly linked to California's fortunes. While these four states typically appear among the top 20 fastest-growing locations, they tend to move up to the top 10 when the California economy weakens. These are the states where California residents go in search of jobs and a lower cost of living. Now that California is showing signs of a sustainable recovery, growth in these other Western states is slowing; at least for the time being.



8 Western and Southern States Consistently Lead Growth

Ranked by annual population growth

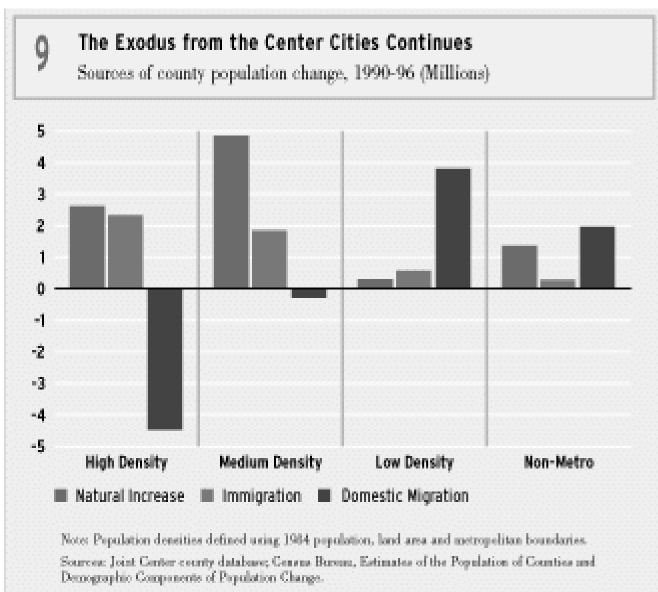
	1992-97	1987-92	1982-87
Nevada	1	1	3
Arizona	2	3	2
Idaho	3	10	34
Utah	4	9	11
Colorado	5	19	14
Georgia	6	7	7
Texas	7	17	8
New Mexico	8	15	9
Washington	9	2	17
Oregon	10	6	32
North Carolina	11	16	15
Florida	12	4	4
Tennessee	13	23	24
Montana	14	35	39
Delaware	15	11	16
Virginia	16	13	10
Arkansas	17	34	29
New Hampshire	18	20	6
Minnesota	19	21	27
South Carolina	20	18	18

Source: Table A-4.

Many Southern and Western states have established themselves as favorable business environments, making them particularly well-positioned to dominate growth over the next 10 years. California, Texas, Florida, Washington, Arizona, Nevada, Colorado, North Carolina, and Georgia are poised to lead housing production, not only because of their size but also because of continued population growth. Whether it is the labor supply that attracts jobs or the jobs that attract people, these states have done exceptionally well over the past 15 years and will remain attractive destinations for both households and businesses. Meanwhile, the ongoing shift of people and jobs to other regions should keep several large states; including New York, New Jersey, Pennsylvania, and Illinois; within the bottom ranks of state population growth.

Decentralization of Development

Residential construction activity is likely to remain concentrated in the South and West, and especially in the lower-density areas of large metropolitan areas. Since 1990, nearly 4.5 million people have left the most densely settled metropolitan counties to live in less congested suburban neighborhoods. Indeed, the only reason that high-density center cities have been spared significant population losses is that immigrants continue to settle first in these locations (Fig. 9).



Even so, immigrants are also joining the move away from the center city. In fact, 35 percent of the 2 million foreign-born households that have arrived in the United States since 1990 now reside in the suburbs of large metropolitan areas. Moreover, the longer immigrants remain in this country, the more likely they are to live outside the urban core. Nearly half of the households that immigrated to the United States before 1965 now live in suburban areas.

Minority households are also contributing to the decentralization of development. During the first five years of the 1990s, the share of minority households living in the suburbs of large metropolitan areas rose from 27.0 percent to 29.3 percent. By comparison, the share of white households residing in suburban neighborhoods increased from 38.2 percent to 39.0 percent.

Housing Market Prospects

Housing markets will remain strong as long as the economy stays strong. When job growth slows and consumer confidence sags, housing markets will begin to cool. Indeed, some markets are showing the signs that they have already passed the peak for this cycle. When the next broad economic downturn hits, however, its impact should be softened somewhat by the recent changes in mortgage lending. New mortgage products and lower transaction costs should also make it easier for growing shares of low- and moderate-income households to buy their first homes, thereby giving added strength to housing market expansions.

Long-term trends in the regional distribution of housing production are likely to persist well into the next century. Just as they have for the past 20 years, the South and West will continue to grow faster than the Northeast and Midwest. And now that they have developed an ample labor supply and expanded their infrastructure, the South and West will become even more attractive locations in the years ahead.

Similarly, reversing the nearly century-long trend toward decentralization is unlikely. Job growth has shifted decisively to the suburbs, and the concentration of poverty in center cities adds to their fiscal instability and undermines their political clout. Although it is possible that some of the large and growing population of empty-nest households will decide to move back to the center cities, most of these aging baby boomers will remain where they are in the suburbs or perhaps move even further away from the urban core.

The Homeownership Boom

Along with bolstering housing construction, this long economic expansion has lifted the national homeownership rate to an all-time high. In particular, strong consumer confidence and relatively affordable mortgage interest rates, along with targeted efforts to increase moderate-income and minority homeownership, have fueled the homebuying boom.

But not all the news is good. Low-income families still have difficulty saving enough to make the downpayment on a home. And although more minority households have bought homes over the past three years than ever before, their homeownership rates still seriously lag those of whites.

Growth in Homeowners

Between 1994 and 1997, the number of homeowners climbed by 4.0 million, lifting the national homeownership rate to a new high of 65.7 percent. This latest surge in homeowner growth eclipses the previous three-year record of 3.8 million, set back in the early 1970s when the leading edge of the baby-boom generation reached the ages of 25 to 34; the stage in life when first-time homebuying is most common.

What most distinguishes this boom from its predecessor is that it is supported in large measure by minority homebuyers. Minorities contributed 42 percent of the growth in homeowners between 1994 and 1997 (Fig. 10), a gain even from the strong 36 percent posted between 1985 and 1993. To put this increase in context, however, minority households still make up only 17 percent of all homeowners and 24 percent of households.

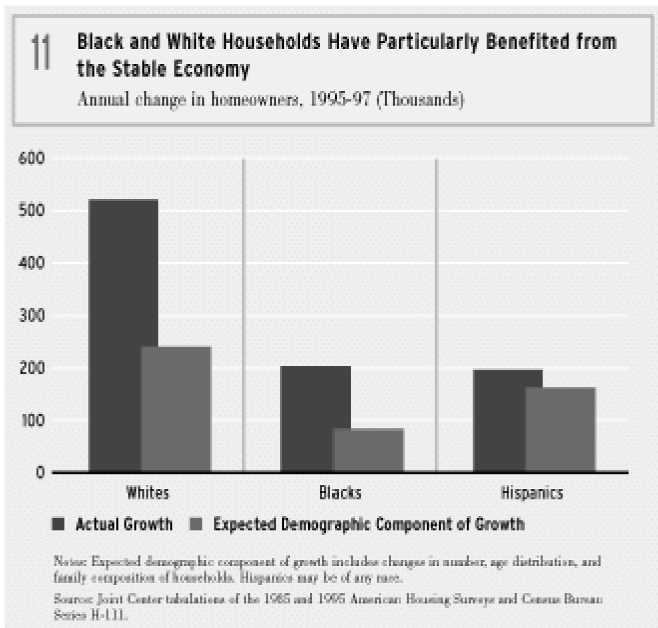
10 Most Types of Households Are Sharing in Recent Homeownership Gains

	Number of Owner Households (Thousands)		Total Growth (Thousands)	Share of Growth (Percent)	Homeownership Rates (Percent)	
	1994	1997	1994-97	1994-97	1994	1997
Total Households	63,132	67,143	4,011	100.0	64.0	65.7
Race/Ethnicity						
White	53,591	55,914	2,323	57.9	70.0	72.0
Black	4,923	5,510	587	14.6	42.5	45.4
Hispanic	3,161	3,733	572	14.3	41.2	43.2
Other	1,457	1,986	529	13.2	50.8	53.3
Age of Head						
Under 35	9,453	9,630	177	4.4	37.3	38.7
35 to 44	14,733	15,880	1,147	28.6	64.5	66.1
45 to 54	12,962	14,536	1,574	39.2	75.2	75.8
55 to 64	9,714	10,150	436	10.9	79.3	80.1
65 and Over	16,273	16,946	673	16.8	77.4	79.1

Note: Hispanics may be of any race.
Source: Joint Center tabulations of Census Bureau Series H-111.

In part, gains in the minority share of homeowner growth are due simply to faster growth in the number of minority households. The younger average age of Hispanic immigrant households is a contributing factor, since more of these households are in their peak homebuying years than whites or blacks (Table A-7). Indeed, demographic influences alone explain over 80 percent of the increase in Hispanic homeownership between 1995 and 1997.

Demographic factors are less powerful for other racial/ethnic groups. When compared against actual gains, household growth and changes in the adult age distribution contributed less than half of the growth in white and black owners between 1995 and 1997 (Fig. 11). The hearty economy has apparently helped white and black households disproportionately more than Hispanic households. Although data problems prevent any solid conclusions, Asians and other non-Hispanic households probably benefited more from the economic lift as well.



11 Black and White Households Have Particularly Benefited from the Stable Economy

Annual change in homeowners, 1995-97 (Thousands)

Notes: Expected demographic component of growth includes changes in number, age distribution, and family composition of households. Hispanics may be of any race.

Source: Joint Center tabulations of the 1985 and 1995 American Housing Surveys and Census Bureau Series H-111.

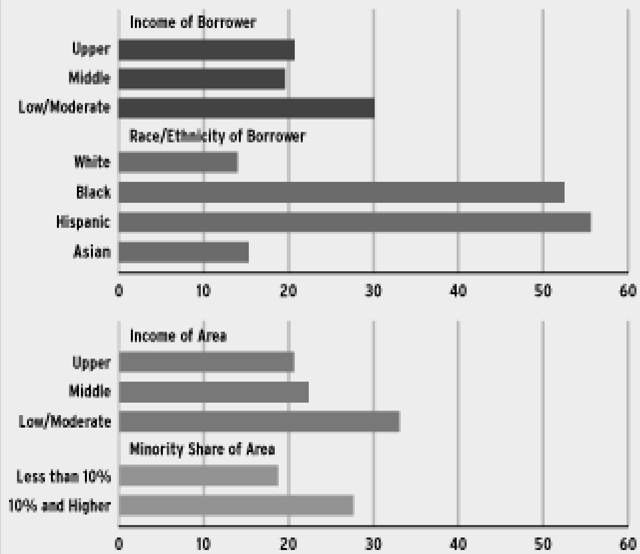
Community Lending Initiatives

The introduction of community lending programs is yet another reason behind the surge in minority homeownership. So, too, is the growth of the "third sector" of community-based organizations and national intermediaries, which are teaming up with both public and private lenders to reach out to low-income and minority homebuyers. These organizations arrange subsidies and provide counseling to homebuyers both before and after the purchase.

For the three years ending in 1996, mortgage loans to low- and moderate-income homebuyers were up 30.2 percent (Fig. 12). During the same period, loans for homes located in low- and moderate-income neighborhoods rose 33 percent, compared with about 22 percent for homes in middle- and upper-income neighborhoods. Moreover, mortgages for homes in areas with a relatively large minority presence; where half of lending occurred; were up 28 percent. Lending for homes in nearly all-white neighborhoods rose only 19 percent.

12 **Lending to Minority Borrowers and in Low/Moderate-Income Areas Has Taken Off**

Change in home mortgage loans, 1993-96 (Percent)



Notes: Upper income is 120% of local median, middle is 80-119%, and low is less than 80%. Hispanics may be of any race.

Source: Federal Financial Institutions Examination Council tabulations of Home Mortgage Disclosure Act data.

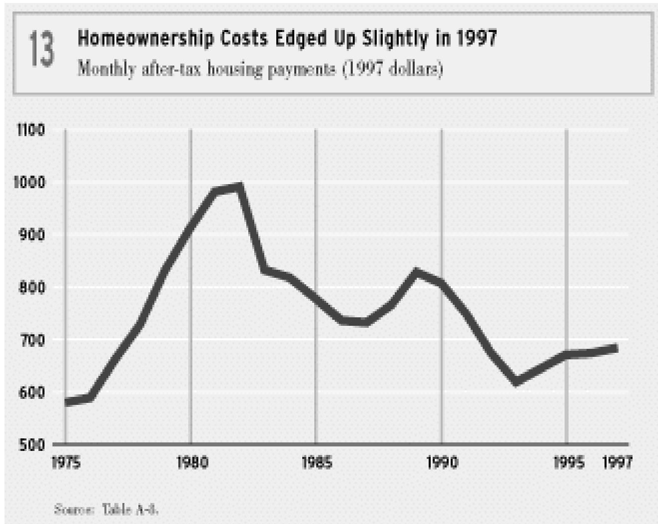
It is noteworthy that this increase in minority and low-income loans is almost entirely a suburban phenomenon. Between 1995 and 1997, homeownership rates in the center cities edged up less than half a percentage point, to 49.9 percent. Suburban rates, meanwhile, climbed from 71.2 percent to 72.5 percent. Loan volumes in minority and low-income neighborhoods in the suburbs also rose more than those in the center cities. This disparity may simply reflect buyers' preferences for the suburbs, but it may in part result from the scarcity of single-family housing in center cities.

Whether community lending programs have gone far enough is still under debate. Judging from the past few years, these initiatives are starting to take hold, but the industry still has a long way to go to bring ownership rates among minority and low-income households in line with those of whites. Even though the gap between blacks and whites has narrowed slightly, the homeownership rate of whites still outstrips that of minorities by more than a third.

Incomes and Affordability

House price appreciation in 1997 outpaced inflation in the nation overall and in 25 of the 35 largest metropolitan areas (Table A-9). Home prices increased faster than general inflation for the first time in the 1990s in San Francisco, and reached all-time highs in Charlotte, Chicago, Columbus, Detroit, Louisville, Madison, Portland, Raleigh and Seattle.

Even with a 2.0 percent increase in average home prices, however, the cost of homeownership rose by only 1.5 percent in 1997 thanks to a modest decline in interest rates. Given a 10 percent downpayment, the after-tax cost of owning a representative home last year stood at just $684 per month (Fig. 13).



Although homebuying thus remains relatively affordable, many young, low-income, and minority households lack the financial resources to take advantage of this opportunity. Several trends have conspired to reduce the earnings of young adults without college education, including the technological changes that favor white-collar employment, losses of unionized manufacturing jobs, and the wage pressures exerted by globalization.

As a result, the inflation-adjusted earnings of 25 to 34 year-olds with only a high-school education are lower today than they were 15 years ago. In fact, in 1989-95 alone, the median earnings of high-school educated men in this age group fell 14 percent. Although the gap in earnings between men and women has narrowed somewhat, the median earnings of women with high-school diplomas are still well below those of men of comparable education and age.

Fully 45 percent of the nation's population between the ages of 25 and 34 have no advanced education and are therefore more at risk of being unable to afford homeownership. Blacks and Hispanics, who have lower average levels of educational attainment than whites, are especially disadvantaged by the erosion in wages among less educated workers. These households can expect little improvement in relative earnings because the fundamental forces behind this wage trend; including rapid technological change and increased international trade; are expected to persist in the years ahead.

Homeownership as an Investment

Homeownership remains a good investment under many, but certainly not all, circumstances. The advantages of owning depend on the rate of house price appreciation relative to other investments, the length of time a household remains in the home, the share of the purchase price that is financed, and the relative costs of owning and renting.

Homeowners usually profit if they stay in their homes long enough to offset transaction costs and realize at least some price appreciation (Fig. 14). For most Americans, housing is an especially attractive investment when it is leveraged. Most buyers make a downpayment of 20 percent or less on their homes, but reap 100 percent of the benefit of price appreciation. For example, even a modest 3 percent annual rise in the price of a home bought with 10 percent down generates a 34 percent return on invested capital if the home is sold after 3 years. Of course, smaller downpayments result in larger mortgage payments and often a mortgage insurance premium, which offset part of the return provided by greater leverage.

14 Returns on Homeownership Depend on Leverage, House Price Appreciation, and Holding Period

Cash return on downpayment (Current dollars)

	Cash Return Less Transaction Costs		Percent Return	
	10% Down	20% Down	10% Down	20% Down
No Annual Appreciation				
1 year	-8,482	-8,588	-71	-36
3 years	-6,340	-6,684	-53	-28
5 years	-3,842	-4,463	-32	-19
10 years	4,376	2,841	36	12
Annual Appreciation of 3%				
1 year	-5,126	-5,233	-43	-22
3 years	4,031	3,687	34	15
5 years	13,971	13,350	116	56
10 years	42,840	41,305	357	172
Annual Appreciation of 5%				
1 year	-2,890	-2,996	-24	-12
3 years	11,289	10,945	94	46
5 years	27,057	26,436	225	110
10 years	74,712	73,177	623	305

Notes: Calculations are based on purchase of a median-priced home of $120,000 and a 30-year fixed-rate mortgage of 8.0%. Fixed settlement costs are $1,275 and variable costs are 6.8% of the sales price. Includes paydown of loan principal. Does not reflect impact on return of higher debt payments associated with small downpayments.

Source: Joint Center calculations.

Another advantage that owners enjoy is the ability to borrow against their home equity and to deduct the interest on up to $100,000 over their original mortgage loan, and even more for home improvements. In addition, capital gains on the sale of a home receive preferential tax treatment that gains on the sale of stocks and most other investments do not. Owners who choose to sell their homes prematurely, however, may find themselves faced with a substantial loss; a loss that is not tax-deductible.

Homeownership is not without risks, and not all owners are in a position to take advantage of the mortgage interest deduction. Lower-income households often have mortgages that are too small to justify itemizing rather than taking the standard deduction. In addition, the cost of owning can exceed the cost of renting a comparable unit because of local differences in the supply of and demand for both types of units, the high transaction costs of buying, and differences in the costs of maintaining owner and rental property. Moreover, price depreciation is a real possibility, as many homeowners in California and in the Middle Atlantic and New England states discovered in the late 1980s and early 1990s.

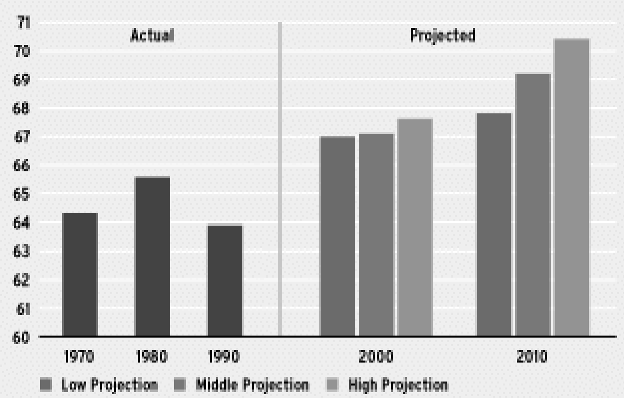
Because a home is an investment as well as a place to live, owners have an economic motivation to improve their communities. Recent Joint Center research suggests that, even after controlling for demographic and economic differences, homeowners are somewhat more likely than renters to join civic organizations and to engage in local politics. While there is ample evidence that renters are also active in such associations, owners may bring added stability to neighborhoods because they tend to reside in their homes longer than renters.

Even though stocks recently overtook real estate as the largest component of household wealth, stock holdings are concentrated in far fewer hands. Only about 40 percent of households owned stocks in 1995 (not counting ownership through defined benefit plans), compared with nearly 66 percent who owned homes. Furthermore, the top 10 percent of stock owners held almost three-quarters of all household wealth held in stocks, while the top 10 percent of homeowners held just under half of all home equity. As a result, home equity is still the primary source of wealth for the majority of American households.

Prospects for Homeownership

Some of the economic conditions that have stimulated record growth in homeownership over the past three years are unlikely to persist indefinitely. Even so, demographic trends alone should ensure further increases in the national homeownership rate. Assuming that ownership by age and family type simply remains at 1997 rates, aging of the baby boomers will push the national homeownership rate to 67.0 percent by 2000 and to almost 68.0 percent by 2010 (Fig. 15).

15 **Demographic Trends Alone Will Keep Homeownership On the Rise**
Homeownership rates (Percent)



Notes: Low projection is based on constant age- and family-specific ownership rates as of 1997. High projection is based on age-specific ownership changes in 1991-96. Middle projection is based on average of age-specific ownership changes in 1990-95 and 1991-96.

Sources: Census Bureau Series H-111 and Joint Center projections.

Under the more aggressive assumption that ownership continues to grow at the pace set in 1991-96, the national homeownership rate would hit 70.4 percent by 2010. But the recent rate of increase may be unsustainable. Assuming instead that growth matches the changes in age-specific rates since 1982, the homeownership rate would hit a more likely 69.2 percent in 2010. With additional efforts to target mortgage lending to low-income and minority households, though, this middle-of-the-road estimate could understate national homeownership in 2010.

Demographic Forces

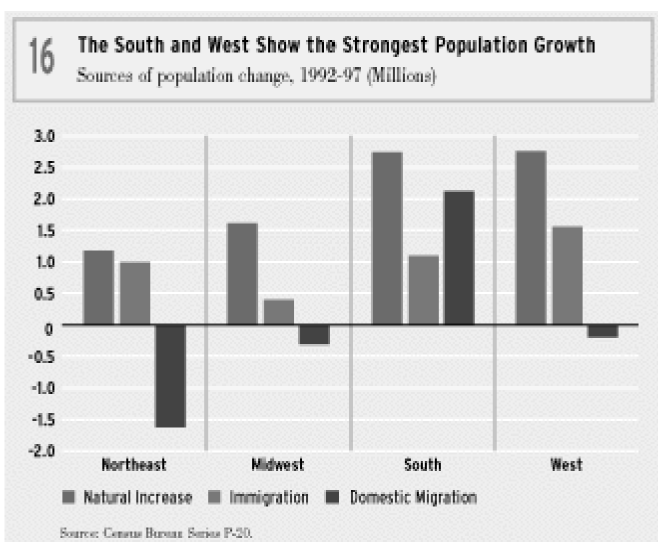
The important demographic trends that will shape housing demand over the next decade are the increasing diversity of the population, the aging of the baby boomers, the higher propensity of people to live alone, and the growth in the elderly population. In combination, these trends should sustain household growth at about the same 1.1 to 1.2 million annual rate averaged so far in the 1990s.

Distribution of Population

With declining rates of natural increase (births less deaths), total U.S. population growth is set to slow from about 1.00 percent per year in the 1990s to 0.80 percent per year in the next decade. The continued influx of about a million immigrants each year and the aging of the echo baby-boom generation into their 20s, however, should boost growth of the adult population from 0.96 percent to about 1.00 percent after the year 2000.

Where foreign immigrants and domestic migrants choose to settle, usually more than natural rates of increase, determines the pace and composition of local population growth. Most of these mobile households are young adults, although the elderly also make up an important share. In keeping with long-term geographic shifts, young adult households and the elderly will migrate on net to the South and West from the Northeast and Midwest.

The South is the only region to have gained population from domestic migration in recent years. Many Western states; including Washington, Oregon, Arizona, Colorado, Nevada, Utah, New Mexico, Montana, and Idaho; have also attracted population from other parts of the country. Because of the recession in California, however, the West as a whole has experienced net losses of domestic migrants (Fig. 16).



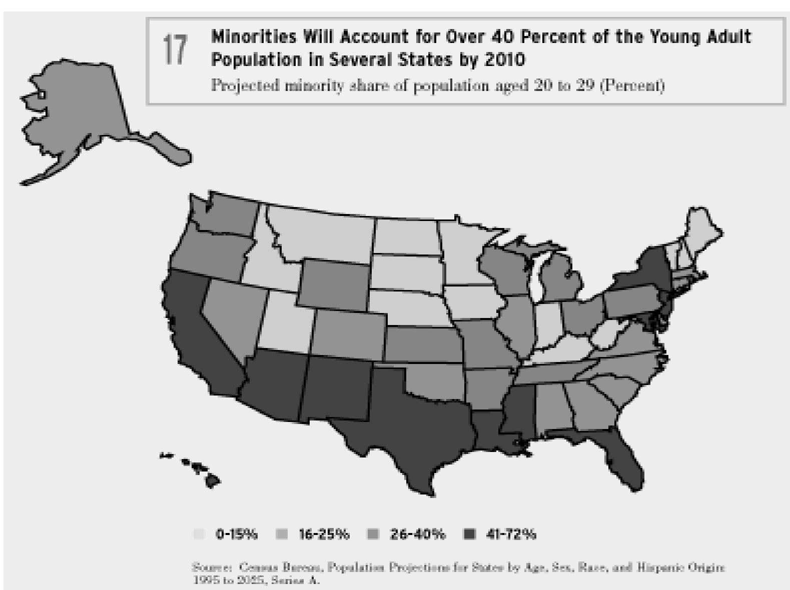
Over the next decade, California and other states in the South and West may continue to lose population through domestic migration because they lack the location advantages and the appeal of other states in their regions. California should, however, still register growth because of the continued strength of immigration. Meanwhile, a few states in the Northeast and Midwest; such as Delaware, New Hampshire, Indiana, Missouri, and Minnesota; are likely to remain attractive locations for business expansion and therefore continue to draw young adults.

States that traditionally attract retirees; Arizona, Utah, Nevada, New Mexico, Colorado, Washington, Oregon, Georgia, North Carolina, and South Carolina; should see especially fast growth in their over-65 populations. Texas, Tennessee, and Idaho will also show strong gains in older residents. Although the elderly population in Florida will increase in absolute terms, the state has such a large share already that growth of its seniors population will just slightly exceed the national average rate of 13.5 percent.

The location choices of immigrants are much more concentrated than the destinations of domestic migrants. Of the 5.4 million people who have arrived in the United States since 1992, two-thirds now reside in just six states; California, New York, New Jersey, Florida, Texas, and Illinois. Furthermore, even though only about 9.7 percent of the total population of the United States in 1997 was born outside the country, the foreign-born share in 9 states is more than 10 percent. California tops the list at 25 percent, followed by New York, Hawaii, and Florida.

In 1990, the Los Angeles and New York metropolitan areas alone were home to 41 percent of immigrants who arrived during the preceding decade. The minority share of the population in both Los Angeles and Miami, which have already become "majority-minority," is likely to increase in the coming decade.

The arrival of new immigrants, along with higher rates of natural increase among Hispanics and Asians, will boost the minority share of the total U.S. population from 28 percent today to about 32 percent by 2010. Given that immigrants tend to locate in California, Texas, and Florida, the minority populations in those states will continue to grow faster than the national average even though they are starting with a larger base of minority residents. What is more, the minority share within the 20 to 29 year-old age group is projected to hit at least 40 percent in 11 states (Fig. 17).



Household Growth

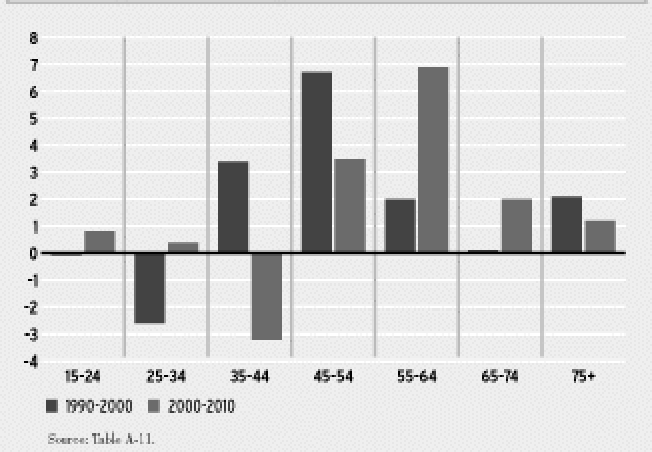
Household growth depends on previous patterns of births, immigration flows, and fairly stable age-specific headship rates (the rates at which adults form independent households). Economic factors, of course, determine how many households are added in any particular year. Individuals delay striking out on their own when they expect (or are in the midst of) a downturn in the economy; they then make the move when job growth and consumer confidence are restored.

So far in the 1990s, an average of about 1.1 million new households have formed each year. Even though the excess of births over deaths is likely to shrink over the next decade, the pace of household growth should still hold close to recent trends thanks to continued high rates of immigration and the aging of the population.

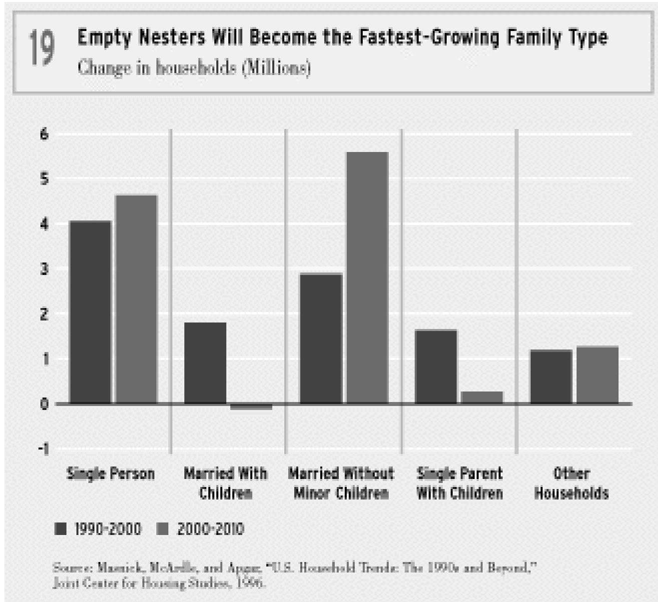
Just as they have in the 1990s, new immigrants should make up about one-quarter of the estimated 1.16 million households added each year between 2000 and 2010. The aging of the population, and of the baby boomers in particular, will drive changes in the age distribution of households. Indeed, as the leading edge of the baby boom enters the 55 to 64 age range, the number of households in this group will grow by 7.0 million (Fig. 18). Meanwhile, the trailing edge of the baby boom will add 3.5 million households to the population of 45 to 54 year-olds. And with life expectancies rising, the aging of the mini-baby boom generation born after World War I should increase the number of 65 to 74 year-old household heads by 2 million, and the number of over-75 household heads by more than 1 million.

18 **Over the Next Decade, the Number of Households Age 45 to 64 Will Climb Sharply**

Change in households by age of head (Millions)



Baby boomers now reaching their 50s have moved, or are about to move, into the "empty nest" stage of life when their children leave home. As a result, couples without children under the age of 18 will be the fastest-growing family type in the years ahead (Fig. 19). Many of these couples will, however, have adult children living at home. Assuming that the share of households aged 45 to 64 without children at home remains constant, the number of empty nesters will increase by about 3.2 million over the next decade.



The number of people living alone will also be on the rise. The average age at first marriage continues to drift upward, and the share of single-person households among all cohorts born after 1940 is climbing. The number of single-person households age 65 and over will grow by 1.7 million. At the same time, the number under the age of 45 will decline by over a quarter million as the baby-boom generation moves into its late 40s and early 50s.

Single-parent households are headed for a slowdown. With the number of women in their mid-20s to mid-30s declining by nearly 2 million between 1995 and 2005, growth of this household type will decelerate before picking up again after 2005. Married couples with children under the age of 18 will also decrease in number, both because fewer women will be in their late 20s and early 30s, and because the last of the baby boomers will be leaving their childbearing years.

Housing Progress of the Boomers

Ever since the 1970s, the nation's 74 million baby boomers have dominated changes in housing demand. But thinking about the generation born between 1945 and 1964 as a homogeneous group is to oversimplify their impact on housing markets. The boomers actually fall into three distinct cohorts; born in the 1940s, 1950s, and 1960s; that have faced quite different economic conditions when they reached the typical first-time homebuying ages of 25 to 34. The three cohorts are approximately equal in size, and are bracketed by the much smaller cohorts born in the 1930s and 1970s.

The oldest baby boomers, born in the 1940s, moved into the 25 to 34 year-old age group during the 1970s. At that time, homeownership was even more affordable than it is today and the incentives to buy were greater. The share of this cohort that bought homes in early adulthood is therefore larger than that of the other baby boomers.

Now that the members of the oldest cohort are entering their 50s, their homeownership rates are not only the highest of the three boomer cohorts, but also comparable to those of the generation born in the 1930s (Fig. 20). This is remarkable given that a much larger share of the baby boomers are divorced, separated, or never married. Thanks to the hefty house price inflation and stock gains in the 1980s, the older boomers are living in more expensive homes, and enjoying greater wealth, than the preceding generation.

20 The Oldest Boomers Are Relatively Better Off Than Their Younger Counterparts

Housing progress of baby-boom cohorts by age (1997 dollars)

At Age 45-54	Oldest Boomers in 1995	vs.	Pre-Boomers in 1985
Homeownership Rate	75.5%		75.2%
Household Income	$51,100		$48,523
House Value	$105,315		$101,431
At Age 35-44	**Middle Boomers in 1995**	**vs.**	**Oldest Boomers in 1985**
Homeownership Rate	65.5%		68.0%
Household Income	$42,021		$45,932
House Value	$100,050		$102,923
At Age 25-34	**Youngest Boomers in 1995**	**vs.**	**Middle Boomers in 1985**
Homeownership Rate	45.4%		45.5%
Household Income	$35,745		$36,459
House Value	$89,518		$86,515

Source: Joint Center tabulations of the 1985 and 1995 American Housing Surveys, and the 1985 and 1995 Current Population Surveys.

Homebuying conditions were not nearly as favorable when the middle boomers (born in the 1950s) were in their mid-20s to mid-30s. In fact, the cost of homeownership in the 1980s soared to post-war highs. Now in their late 30s to mid-40s, the middle boomers still haven't caught up to the ownership rates or average house values that the oldest boomers had achieved at a comparable point in their lives. In addition, their incomes lag those of the oldest boomers primarily because of the diminished earning power of less educated workers. In combination, lower relative earnings and delays in achieving homeownership have also limited the ability of middle boomers to accumulate wealth.

Fortunately for the youngest boomers (born in the 1960s), who are passing through the peak first-time homebuying years, ownership is once again affordable. Indeed, this cohort is doing at least as well as the middle boomers when they were a similar age. While they have achieved about the same ownership rates, the youngest boomers live in larger homes with higher average house values. The incomes of the youngest boomers, however, are slightly lower than those of the middle boomers when they were age 25 to 34.

Whether the middle and youngest boomers eventually match the homeownership rates of the oldest boomers remains to be seen. It is clear from the current homebuying boom that the strong economy and innovative mortgage lending programs have made ownership more broadly accessible. But given that workers with only a high school education are falling further and further behind in earnings, these improvements may not be enough to close the afford-ability gap for the two younger baby-boom cohorts.

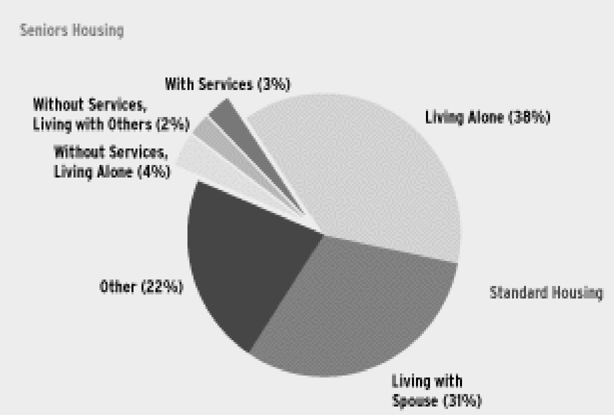
Housing for Seniors

With the over-85 population growing from 4.3 million to 5.7 million during the first decade of the 21st century, housing suited to the health-related needs of the frail elderly will be increasingly in demand. By the time people reach their late 60s and 70s, about one in ten of those living in the community (outside of nursing homes and group quarters) requires assistance in performing the activities of daily life. As they advance into their 80s and 90s, disabilities become much more common and the share needing help increases to one in three.

Until recently, seniors housing choices were limited to nursing homes or small board and care facilities. Growing demand for different levels of care, however, has spawned a broader range of options. These new assisted living facilities combine several levels of care in a residential, rather than an institutional, setting. For those who can afford it, this housing provides a range of services that may include transportation to shopping and appointments, meals provided in a common area, structured social activities, limited help with daily activities, and intensive personal care. In some seniors housing developments, moving to a small nursing facility within the same community is also an option.

Even with these new choices, though, only a small proportion of households age 70 and over lives in housing for frail seniors. According to a recent national survey, that share is just 3 percent (Fig. 21). Another 6 percent live in age-restricted housing that does not offer care, found typically in active retirement communities. The overwhelming majority of older Americans thus continue to live in regular housing that has no age restrictions. Indeed, nearly all seniors surveyed say they prefer to spend the rest of their lives in the homes they have been in for many years.

21 The Vast Majority of Seniors Live in Standard Housing
Shares of households with at least one person age 70 and over, 1994



Note: Includes 16.4 million households with seniors age 70 and over, living outside institutions.
Source: Joint Center tabulations of the 1993-94 Assets and Health Dynamics Among the Oldest-Old (AHEAD) survey.

Despite improvements in the social services network for the elderly, many seniors with disabilities living in the community do not get the home care services they need. The American Housing Survey reports that, of an estimated 636,000 people over age 65 who live alone and need help with a disability, fully one-third receive no home care.

For less affluent elders, Medicare, Medicaid, and Social Security have a large hand in their housing choices. Most seniors depend on Medicaid for their long-term care. Medicaid now covers nursing home care but only a portion of assisted living expenses, and only in states that apply for an exception to federal regulations.

As a result, many seniors cannot afford to live in assisted communities. Of those who can, many must rely on Supplemental Social Security to cover part of the costs. Recent changes in eligibility requirements and in the calculation of cost-of-living adjustments, however, may make it more difficult for those who depend on this income to choose assisted living arrangements.

Now that reverse mortgages are available, more senior owners can tap into their home equity for the additional income they need to pay for home care services. Because of their relatively low homeownership rates, though, fewer elderly minority households are in a position to take advantage of this resource.

Over the next decade, high costs will continue to drive the demand for new approaches to combine housing and health care for seniors. Although managed care providers rightly see opportunities to cut costs and achieve economies of scale by working with seniors housing developments, implementation of such experiments is just getting under way.

Implications for Housing Markets

Thanks to the continued influx of immigrants and the aging of the domestic population, household growth over the next decade should remain at or near its current pace even though population growth is slowing. Past and future immigration will lead to increasing racial and ethnic diversity, especially among the young adult population. As a result, minorities will account for a growing share of first-time homebuyers in many markets.

While immigrants tend to settle in only a handful of coastal states, domestic migrants are attracted to a variety of locations throughout the South and West, and even some in the Northeast and Midwest. On balance, though, the net outflow of young migrants will leave several heartland states with relatively large elderly populations, while the net inmigration to many Southern and Western states will fuel growth of the young adult populations. Seniors will continue to migrate to those select states that have established themselves as retirement destinations.

Passage of the huge baby-boom generation through middle age will play a vital role in housing demand over the next decade. Many of these households are entering the empty-nest phase of life as their children leave home to form households of their own.

In addition, a growing share of baby boomers is choosing to live alone. For the cohort now in its 30s and early 40s, the open question is whether it will be possible to match the housing progress achieved by the oldest cohort of boomers.

With the number of households over age 75 continuing to grow well into the next decade, demand for housing for frail seniors is also set to rise. Because so many seniors prefer to stay in their homes, however, managed care providers will have to explore new ways to reduce the costs of delivering home care.

Low-Income Housing Needs

Despite the vigor of the national economy, the absolute number of extremely and very low-income renter households in need of decent, safe, and affordable housing has yet to retreat. As of 1995, 5.5 million renter households and 3.8 million owner households were spending more than half their incomes on housing and/or living in severely inadequate units (Fig. 22). Most of these households have extremely low incomes.

22 Millions of Extremely and Very Low-Income Households Face Severe Housing Problems

	Number of Households (Thousands)		Share of Total Households (Percent)	
	Owners	Renters	Owners	Renters
Severely Burdened	3,461	4,931	29.6	33.9
Severely Inadequate Unit	260	381	2.2	2.6
Both Problems	98	141	0.8	1.0
Total with Severe Problems	3,819	5,453	32.6	37.5
Total Households	11,706	14,533	100.0	100.0

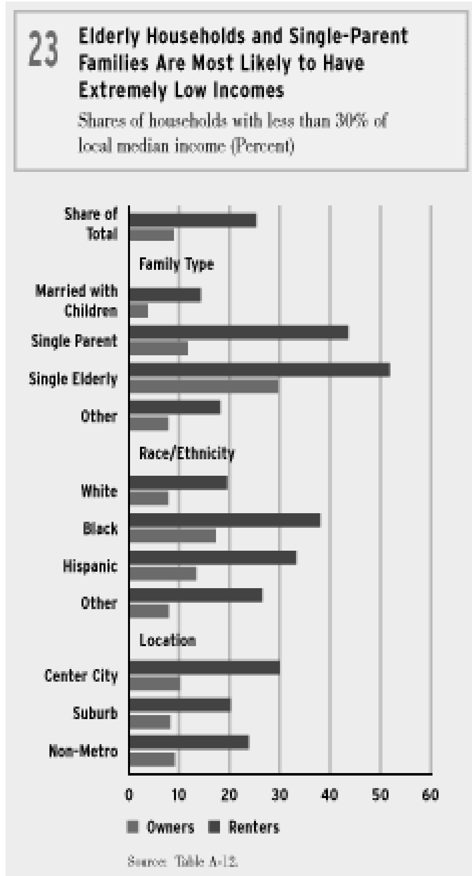
Notes: Extremely low-income defined as less than 30% of local median income; very low-income defined as 30% to 50%. Severely burdened defined as paying over 50% of income for gross housing costs. Severely inadequate unit defined as having serious problems with plumbing, heating, electrical systems, upkeep, or hallways. Households receiving federal rent subsidies are by definition without cost burdens.

Source: Joint Center tabulations of the 1995 American Housing Survey.

The prospects for meeting the urgent demand for low-cost housing are discouraging. Building additional housing that extremely low-income households can afford requires deep subsidies. As for adding units from the existing inventory, the process of older units filtering down to lower rents has failed to offset losses from the affordable stock. To make matters worse, the number of extremely low-income renters without housing assistance has increased 10 percent since 1985.

Extremely Low-Income Households

Extremely low-income households account for one in ten owners, but about one in four renters (Fig. 23). Disproportionately large shares of these households are single elderly, single-parent families, and minorities. These are precisely the groups that are most vulnerable to recent changes in public assistance programs. Single-parent households, for their part, are subject to losses in benefits under welfare reform. As for the elderly and disabled, the recent recalculation of cost-of-living adjustments to Social Security will constrain growth in their incomes. While the new method for calculating adjustments is intended to correct an upward bias in the measure, benefit payments will nevertheless rise more slowly than they have in the past.



While often viewed as a particular challenge for the nation's center cities, meeting the housing needs of extremely low-income households is a significant concern for suburban and non-metro jurisdictions as well. Nearly a third of extremely low-income renters and half of extremely low-income homeowners live in the suburbs (Table A-12). Another 16 percent of renters and 25 percent of owners reside in non-metropolitan areas.

Table A-12 Owner and Renter Households by Income Group: 1985 and 1995 Thousands

	1985						1995					
	Extremely Low	Very Low	Low	Moderate	High	Total	Extremely Low	Very Low	Low	Moderate	High	Total
Owners												
Total	4,352	5,393	8,856	12,474	25,057	56,132	5,638	6,069	10,245	13,361	28,228	63,541
Age of Head												
Under 25	73	74	184	305	293	929	63	80	184	203	194	724
25 to 34	257	426	1,320	2,351	4,696	9,050	379	437	1,232	2,252	4,536	8,837
35 to 44	421	469	1,457	2,932	6,964	12,243	713	783	1,792	3,376	8,083	14,746
45 to 54	408	440	1,053	1,983	5,750	9,634	725	638	1,498	2,546	8,039	13,446
55 to 64	823	942	1,650	2,221	4,808	10,445	955	773	1,499	1,930	4,332	9,489
65 and Over	2,371	3,042	3,192	2,682	2,545	13,832	2,803	3,358	4,040	3,054	3,044	16,299
Household Type												
Married With Children	450	695	2,466	4,669	9,365	17,645	659	778	2,254	4,222	10,060	17,973
Single Parent	320	318	635	721	764	2,758	418	497	801	832	1,046	3,595
Single Elderly	1,624	1,499	956	612	493	5,184	1,726	1,609	1,208	840	440	5,823
Other	1,959	2,881	4,799	6,472	14,438	30,549	2,834	3,184	5,983	7,468	16,678	36,146
Race/Ethnicity												
White	3,359	4,507	7,513	10,910	22,720	49,009	4,203	4,804	8,365	11,380	24,870	53,622
Black	724	610	852	888	1,193	4,269	869	721	982	931	1,529	5,033
Hispanic	229	230	353	490	710	2,012	436	425	679	681	1,024	3,245
Other	40	46	138	186	430	838	129	119	218	370	803	1,639
Region												
Northeast	766	1,038	1,950	2,512	5,078	11,345	1,020	1,203	1,810	2,506	5,322	11,861
Midwest	1,141	1,447	2,511	3,552	6,019	14,670	1,349	1,489	2,950	3,684	7,095	16,567
South	1,775	2,058	3,000	4,092	8,928	19,852	2,253	2,338	3,555	4,693	10,120	22,958
West	670	849	1,395	2,319	5,032	10,265	1,016	1,038	1,930	2,479	5,694	12,157
Location												
Center City	1,296	1,426	2,287	3,238	6,038	14,285	1,506	1,518	2,550	2,962	6,272	14,809
Suburb	1,746	2,241	4,062	6,148	13,310	27,506	2,693	2,853	5,067	7,134	15,130	32,878
Non-Metro	1,310	1,726	2,507	3,088	5,707	14,339	1,438	1,697	2,628	3,265	6,823	15,852
Renters												
Total	7,675	5,049	6,759	6,522	6,265	32,269	8,624	5,909	7,191	6,676	5,749	34,150
Age of Head												
Under 25	1,223	773	1,066	976	657	4,695	1,272	848	1,009	840	408	4,377
25 to 34	1,936	1,299	2,436	2,623	2,547	10,841	1,989	1,654	2,413	2,375	2,207	10,638
35 to 44	1,014	703	1,305	1,262	1,478	5,761	1,646	1,254	1,649	1,699	1,526	7,774
45 to 54	695	488	564	655	778	3,181	916	644	909	907	981	4,358
55 to 64	726	452	554	513	484	2,729	741	398	515	412	395	2,461
65 and Over	2,081	1,334	834	493	321	5,062	2,060	1,111	697	443	232	4,542
Household Type												
Married With Children	799	966	1,758	1,522	1,208	6,253	806	1,055	1,407	1,295	1,088	5,651
Single Parent	2,257	858	931	553	283	4,881	2,661	1,247	1,200	641	341	6,090
Single Elderly	1,748	894	437	228	145	3,452	1,660	787	397	234	127	3,206
Other	2,872	2,331	3,633	4,220	4,628	17,683	3,497	2,821	4,187	4,506	4,194	19,204
Race/Ethnicity												
White	4,188	3,371	4,797	5,080	5,269	22,705	4,220	3,364	4,711	4,744	4,490	21,530
Black	2,278	906	1,034	727	520	5,465	2,475	1,194	1,271	992	570	6,502
Hispanic	969	570	683	523	320	3,066	1,503	1,063	917	634	395	4,512
Other	240	201	245	191	155	1,032	426	289	292	305	294	1,606
Region												
Northeast	1,972	1,052	1,325	1,436	1,598	7,382	2,164	1,169	1,484	1,293	1,228	7,338
Midwest	2,030	1,170	1,655	1,478	1,136	7,469	1,890	1,120	1,575	1,488	1,022	7,096
South	2,307	1,651	2,189	2,048	1,999	10,195	2,551	1,969	2,353	2,306	2,099	11,277
West	1,367	1,176	1,589	1,559	1,531	7,223	2,020	1,650	1,779	1,589	1,401	8,439
Location												
Center City	4,422	2,432	3,137	2,758	2,555	15,303	4,625	2,629	3,032	2,796	2,352	15,434
Suburb	1,961	1,657	2,454	2,749	2,696	11,517	2,634	2,218	2,879	2,817	2,436	12,984
Non-Metro	1,291	960	1,169	1,014	1,014	5,448	1,365	1,062	1,280	1,063	961	5,731

Notes: Columns may not add to totals due to rounding. Extremely low income is less than 30% of area median income; very low is between 30% and 50%; low is between 50% and 80%; moderate is between 80% and 120%; high is above 120%. Hispanics may be of any race. Other includes Asians, Pacific Islanders, Native Americans, and all other racial groups not shown separately.

Source: Joint Center tabulations of the 1985 and 1995 American Housing Surveys.

Worst Case Needs

The U.S. Department of Housing and Urban Devel-opment defines "worst case needs" as unsubsidized renter households with incomes of 50 percent or less of local median, paying more than half their incomes for rent and/or living in severely inadequate housing. Severely inadequate units have major structural problems such as incomplete plumbing, incomplete or unsafe electrical systems, or inadequate heating.

Worst case needs are heavily concentrated among extremely low-income renter households. Fully 7 in 10 unassisted renters with incomes of 30 percent or less of local median have worst case needs, compared with less than 3 in 10 unsubsidized renters with incomes in the 31 to 50 percent range.

Excessive rent burdens remain by far the most pressing housing problem for unsubsidized renters with extremely low incomes. In 1995, the vast majority of households with worst case needs paid more than half their incomes for rent, while only about 6 percent lived in structurally inadequate units.

Except for brief dips along the way, the number of households with worst case housing needs has climbed steadily since 1974. Even with the strength of the economy in 1994 and 1995, worst case needs made no real retreat from their 1993 peak. Meanwhile, the federal housing budget is under severe pressure.

Even more troubling, 18 percent of extremely low-income households with severe rent burdens had incomes of at least $9,012; the same as a full-time worker earning the minimum wage. Almost a third of all extremely low-income households paying 30 to 50 percent of their incomes for rent earned at least that much. Indeed, many minimum-wage earners cannot even afford the rents landlords are entitled to charge on two-bedroom units receiving federal housing assistance. In many areas, only households earning at least double the minimum wage can afford these "fair market" rents.

Housing Assistance Programs

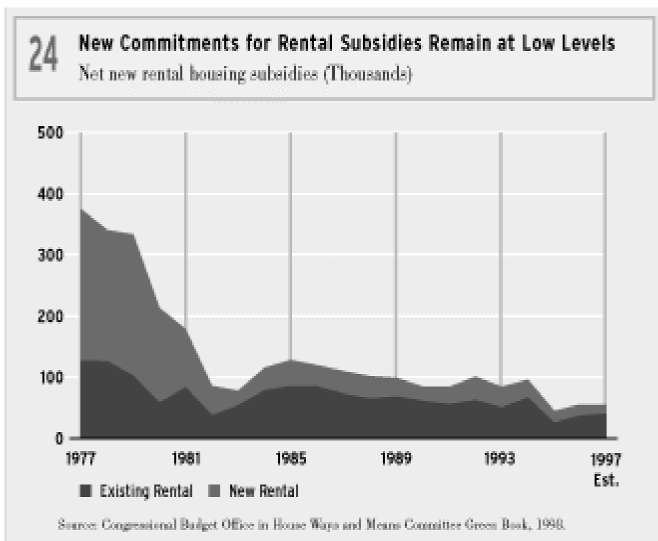
Housing policy is in a time of transition. Although the federal government continues to provide most housing subsidies, state and local governments, along with nonprofit agencies, are playing a larger role in determining how federal funds get used. Because it is so costly to make even modest units affordable to extremely low-income households, policymakers at all levels are increasingly reluctant to target rental assistance to those who need it the most.

At the same time, there is a growing awareness that past federal programs have done little to address the geographic concentration of poverty or to encourage homeownership as a wealth-building strategy. Several initiatives are attempting to counter these shortcomings. For example, the federal government has begun to demolish deteriorated public housing in impoverished neighborhoods and to give displaced tenants "portable" housing vouchers that they may use to move closer to job opportunities.

In another program, public housing authorities are helping to train tenants to find jobs while allowing them to save some of their new income rather than pay more rent. In one case in Charlotte, North Carolina, about a third of public housing participants made it through the program. Of those that did, 36 percent purchased homes within 10 years, compared with only 9 percent of the control group. HUD has also begun to invest in homeownership zones in 12 cities and has launched a national strategy to coordinate business, government, and nonprofit efforts to expand ownership opportunities.

Although these initiatives are promising new approaches, they have done little to improve the chronic housing problems among those with the lowest incomes. In fact, the federal commitment to reducing worst case housing needs has apparently weakened. Congress is no longer targeting assistance to renters with household incomes below 50 percent of area median. This move was motivated in part by the need to spread assistance across more families (it costs less to subsidize a low-income household than a very low-income household), and in part by an interest in achieving a better mix of incomes in federally subsidized housing projects.

In another cost-containing move, Congress has reduced the rate of growth in rental subsidies at a time when need has expanded (Fig. 24). Local housing authorities are also being required to hold returned housing vouchers and certificates for three months before providing them to new families on waiting lists; lists that are already months to years long in most places. Moreover, Congress has yet to confront the significant costs of recapitalizing the deteriorating assisted housing stock developed in the 1960s and 1970s.



The Challenges of Welfare Reform

Future housing programs will shape, and be shaped by, welfare reform. About 1.5 million very low-income renters that receive housing assistance also receive income support. Of these households, about two-thirds are families with children getting Temporary Assistance to Needy Families.

Although welfare recipients that find full-time jobs are likely to earn more in wages than they lose in benefits, those that don't make the transition to work may well see their incomes fall. At particular risk from welfare reform are the roughly 1.6 million extremely low-income households now receiving income support and eligible for, but not receiving, HUD assistance (Table A-13). Even with income support, many of these households have had a hard time affording decent

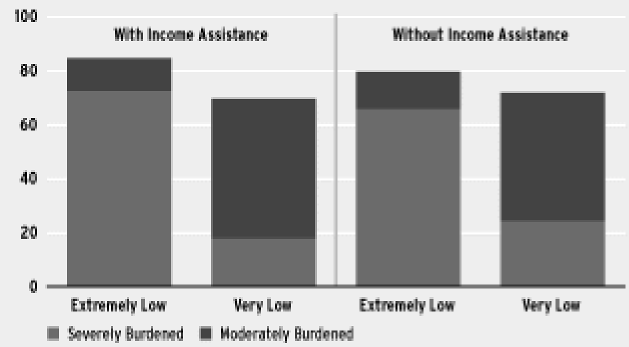
Table A-13 Public Assistance and Housing Conditions of Extremely/Very Low-Income Renters: 1995 Thousands

	Households by Type of Assistance					Housing Quality and Cost Burdens of Unsubsidized Households			
	Total	With Housing Assistance	With Income Assistance	With Both	With Neither	Total	Not Severely Burdened or Inadequate	Severely Burdened Only	Severely Inadequate
Extremely Low Income									
Total	8,624	2,873	2,958	1,342	4,136	5,751	1,753	3,753	245
Region									
Northeast	2,164	791	761	367	980	1,373	387	892	94
Midwest	1,890	730	669	320	811	1,160	349	768	43
South	2,551	853	825	424	1,297	1,697	615	1,013	69
West	2,020	500	703	231	1,048	1,520	402	1,079	39
Location									
Center City	4,625	1,631	1,693	789	2,090	2,994	838	2,004	152
Suburb	2,634	726	749	306	1,464	1,908	561	1,298	48
Non-Metro	1,365	515	516	247	581	850	355	450	45
Race/Ethnicity									
White	4,220	1,198	1,073	447	2,396	3,023	971	1,956	96
Black	2,475	1,146	1,132	606	803	1,329	387	861	81
Hispanic	1,503	405	602	218	713	1,097	324	712	62
Other	426	124	150	71	223	303	72	224	6
Household Type									
Married With Children	806	135	223	66	513	670	227	419	25
Single Parent	2,661	1,181	1,662	811	629	1,480	401	1,035	45
Single Elderly	1,660	735	260	136	801	925	373	525	27
Other	3,497	821	812	329	2,193	2,675	752	1,775	149
Age of Head									
Under 25	1,272	334	470	214	682	938	187	720	31
25 to 34	1,989	619	889	426	907	1,370	404	908	58
35 to 44	1,646	541	672	290	724	1,105	346	709	50
45 to 54	916	278	352	150	437	639	203	398	37
55 to 64	741	256	235	95	345	485	139	318	29
65 and Over	2,060	845	340	167	1,041	1,214	475	699	40
Very Low Income									
Total	5,909	888	734	174	4,460	5,021	3,692	1,178	151
Region									
Northeast	1,169	276	157	45	781	893	579	266	49
Midwest	1,120	174	158	39	827	946	757	151	39
South	1,969	268	179	57	1,580	1,701	1,320	341	40
West	1,650	170	241	32	1,272	1,480	1,035	421	24
Location									
Center City	2,629	392	348	89	1,977	2,237	1,637	532	68
Suburb	2,218	269	237	47	1,759	1,949	1,449	450	49
Non-Metro	1,062	227	149	38	724	834	605	196	34
Race/Ethnicity									
White	3,364	452	329	57	2,639	2,911	2,074	768	70
Black	1,194	287	232	95	769	906	682	185	40
Hispanic	1,063	101	130	17	849	962	766	166	30
Other	289	48	42	5	203	241	170	60	11
Household Type									
Married With Children	1,055	92	141	22	844	963	827	109	27
Single Parent	1,247	265	319	95	758	982	760	196	25
Single Elderly	787	242	31	9	523	544	341	194	10
Other	2,821	289	243	47	2,336	2,532	1,763	679	89
Age of Head									
Under 25	848	43	86	16	736	806	586	201	18
25 to 34	1,654	186	246	58	1,281	1,468	1,154	283	30
35 to 44	1,254	173	160	35	956	1,081	850	192	39
45 to 54	644	106	99	26	466	538	345	163	30
55 to 64	398	58	57	9	291	340	232	88	19
65 and Over	1,111	323	87	29	730	788	523	251	14

Notes: Extremely low income defined as less than 30% of area median; very low is between 30% and 50%. Severely burdened defined as households paying 50% or more of their incomes for gross rent. Severely inadequate defined as having severe problems in plumbing, heating, electrical systems, upkeep or hallways. Hispanics may be of any race. Other includes Asians, Pacific Islanders, Native Americans, and all other racial groups not shown separately.

Source: Joint Center tabulations of the 1995 American Housing Survey.

housing: about 12 percent pay 31 to 50 percent of their incomes for rent, while another 73 percent pay over 50 percent (Fig. 25).



25 Most Extremely Low-Income Renters Receiving Assistance Still Pay Large Shares of Their Incomes for Rent

Share of unsubsidized renter households with cost burdens, 1995 (Percent)

Notes: Severely burdened defined as paying over 50% of income for gross housing costs; moderately burdened defined as paying 30% to 50%.

Source: Joint Center tabulations of the 1995 American Housing Survey.

Welfare reform also threatens the well-being of recipients who live in HUD-assisted housing proj-ects. About half of these buildings are located in neighborhoods with widespread poverty. Poor areas are often far removed from locations where job opportunities are growing, and may have public transportation that is inefficient in delivering city residents to outlying areas. Welfare recipients now living in public housing or in federally assisted, privately owned housing may thus face an unpalatable trade-off between much-needed housing assistance and a job that costs time and money to reach.

State governments may try to achieve welfare-to-work goals by providing housing assistance to those in transition, but will be hard-pressed to do so without additional funding. With a limit of 50,000 new vouchers and certificates (plus some returns of existingones), only a small portion of the 5.3 million families with worst case needs will receive housing assistance in the coming year. Lacking new housing subsidies, state governments that haven't already done so may therefore start to reduce the welfare benefits of housing assistance recipients.

How welfare reform affects the cost of providing housing assistance remains uncertain. Those recipients who earn more in wages than they received in income support will contribute more toward their rents and therefore cost their local housing authorities less in subsidies. For those who fail to find more remunerative work, however, the cost of making up the difference between 30 percent of their incomes and their rents will increase.

Affordable Rental Housing Supply

Demand for affordable housing among extremely low-income renters far outstrips supply. In 1995, unsubsidized renter households in this income category numbered about 5.7 million. The median local rents these households could afford, at the 30-percent-of-income level, were $264 for one-bedroom apartments, $314 for two-bedroom apartments, and $372 for three-bedroom apartments, including utilities. The number of units renting at these levels (both vacant and occupied) was just 1.7 million.

To make matters worse, families with higher incomes lived in many of the 1.4 million occupied low-cost units. About 24 percent of these units were rented by households with incomes between 30 and 50 percent of area median, and 38 percent by households with incomes above 50 percent of area median.

Without very deep subsidies, it is impossible to cover the cost of producing housing at such low rents. Even units built under the low-income housing tax credit program, for example, have rents that are as much as double what extremely low-income households can pay. According to a recent Government Accounting Office study, about four out of ten residents of tax-credit-assisted units receive additional subsidies to make up the difference between 30 percent of their incomes and the rents. While many low-income households can afford the rents in tax-credit projects, most extremely low-income renters cannot without further subsidy.

In the existing home market, the only way the affordable housing supply can expand is if the number of units filtering down the rent scale exceeds the number filtering up. Between 1985 and 1995, the number of units added to the affordable supply in this way was only 261,000 (Fig. 26). Another 67,000 were added through new construction (half of which were mobile homes), plus 62,000 from other sources such as conversion of owner-occupied units to rental housing. At the same time, though, the number of affordable units lost from the stock due to abandonment and demolition exceeded additions from all sources.

26 The Affordable Housing Stock Continues to Shrink

Changes in affordable inventory (Thousands)

Units in 1985	1,728
Net Rent Filtering	261
Net Non-New Construction Additions	62
Removals	-457
New Construction	67
Net Change in Stock	-67
Units in 1995	1,661

Notes: Includes both occupied and vacant units, and excludes subsidized units, units with gross costs of $0, and single units on 10 acres or more. Affordable rental units defined as affordable to extremely low-income renters paying no more than 30% of their incomes in rent. Net Rent Filtering refers to movement of units between affordable and unaffordable categories. Net non-new construction additions include units entering rental stock from owner stock and conversions from nonresidential uses.

Source: Joint Center tabulations of the 1985 and 1995 American Housing Surveys.

Low-Income Housing Prospects

The mismatch between the demand for and supply of housing affordable to extremely low-income renters may worsen. For the past 10 years, the only force that has kept this imbalance in check has been net filtering of higher-cost units to the lower-cost supply. Net downward filtering is stronger during periods of market-wide rent deflation. Although overproduction in the early 1980s did in fact lead to rent deflation, changes in the tax code have since eliminated the incentives to overbuild. As a result, another surge of downward filtering is unlikely. In fact, real rents rose 1.0 percent in 1997.

But even if the market were to produce the same rate of net filtering as in 1985-95, the disparity between the supply of and demand for unsubsidized rental units would still be enormous. With the median age of the extremely low-income rental stock (excluding mobile homes and subsidized units) rising from 52.4 years in 1985 to 62 years in 1995, the supply of affordable housing may contract even further over the coming decade.

Construction Outlook

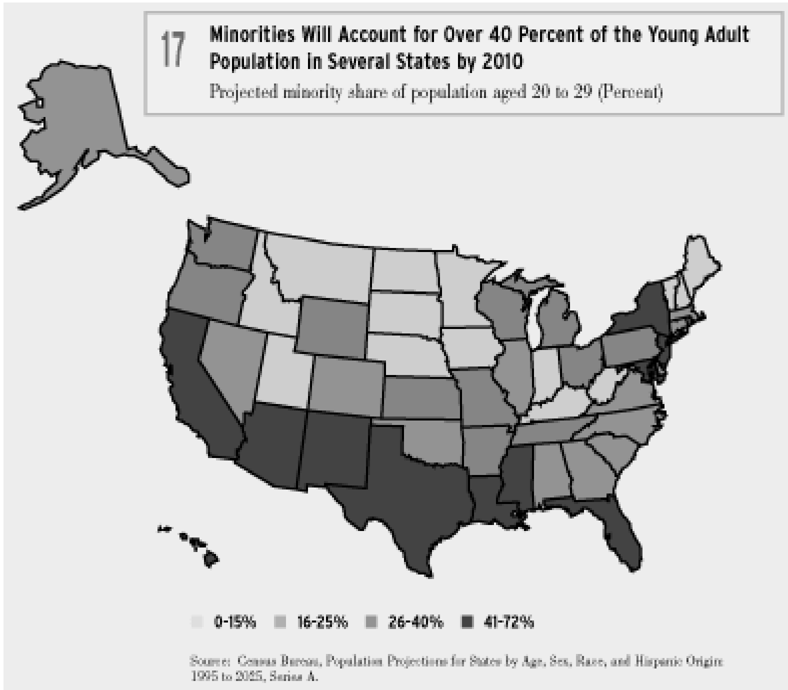
Barring any unforeseen economic setbacks, household growth in the next decade should rival the pace set in the 1990s as the children of the baby boomers enter housing markets in growing numbers. Furthermore, the progressive aging of the housing stock will mean additional losses of units and therefore greater replacement demand. With these forces in place, the number of new housing units added to the stock over the next decade is unlikely to fall below 1 990s levels and may well exceed them slightly.

Housing Requirements

By definition, the number of new housing units built or manufactured and placed on site each year is equal to growth in the number of households, changes in the number of vacant units, and net losses from the existing stock. In the short term, the business cycle largely dictates the direction and size of these inventory changes. During economic downturns, fewer households form, new construction slows so that fewer units come on the market vacant, and fewer units are demolished to make way for new construction. During economic expansions, the reverse generally holds true.

Over the longer term, however, the level, composition, and location of new construction are shaped by underlying trends in the age distribution of the adult population, the average age and composition of the housing stock, regional shifts in population growth, and the overall balance between supply and demand at the beginning and end of the period.

Given the projected age and size of the adult population, household growth should average close to 1.1 to 1.2 million annually over the next decade; about the same as in the 1990s (Fig. 27). Since the number of households is the primary determinant of housing demand, the expected stability of household growth should translate into residential construction rates that are roughly comparable to today's rates.



In contrast, vacancy rates and inventory losses (the other two components of inventory change) are likely to increase over the next decade because of the aging of the housing stock and regional shifts in the population. Older units are more prone to loss from the stock through physical deterioration and functional obsolescence. Units in areas undergoing population declines are less in demand and more likely to become vacant or abandoned.

Over the past decade, lower levels of housing construction and a greater emphasis on conservation have pushed the average age of the stock from 23 years in 1985 to 28 years. The average age of the residential inventory will likely drift even higher over the next ten years, implying an increase in loss rates. And if migration to the South and West continues to gain momentum, net losses each year may very well exceed the 250,000 units averaged in the 1990s.

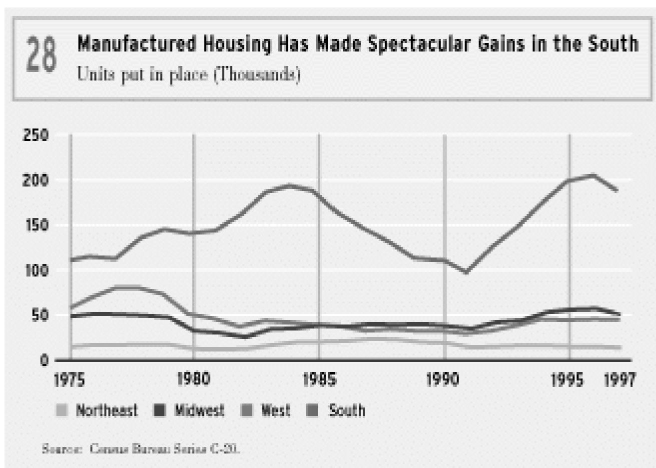
Vacancies may also rise, not only as a result of population declines in some areas but also because the demand for second homes (counted as vacant units) may grow as the baby boomers move into their 50s and 60s. In addition, if the multifamily share of production expands as expected, the overall vacancy rate will rise because rates for rental housing are nearly four times those of owner housing.

Composition of Construction

Although it is difficult to predict how housing demand will sort itself out by structure type, the age and regional distribution of the population would seem to favor gains in the multifamily and manufactured housing shares. Over the next decade, the 80 million members of the echo baby boom born since 1977 will move into their 20s; the stage in life when apartment living is most popular. Indeed, about 63 percent of household heads between the ages of 15 and 24 reside in apartments. The share drops to 37 percent among those aged 25 to 34, and then to just 20 percent for those who have reached their 40s.

Multifamily construction should also get a boost from the realignment of supply and demand that has occurred in the 1990s. Although vacancies of year-round multifamily units remain high, the rise in inflation-adjusted rents in 1997 suggests that the market is back at, or near, equilibrium. With the worst of the 1980s overbuilding worked off, multifamily construction is set to increase.

Manufactured housing is also likely to increase its share of production. With the ongoing shift in population to the South where this type of housing is widespread (Fig. 28), the manufactured housing share has already risen from 14.5 percent in the 1980s to 16.0 percent in the 1990s. Manufactured housing accounted for less than one-fifth of housing production countrywide in 1996, but a third or more in seven Southern states. While the torrid pace of household growth may slow in some key states such as North Carolina and Georgia, continued population gains in the region should support further increases in manufacturing housing production.



It is worth noting that the gains in manufactured housing made so far in the 1990s are in the face of unfavorable changes in the age distribution. This drag on demand is about to end as the echo baby boomers reach their 20s during the next decade.

With demand for multifamily and manufactured housing strengthening, the single-family share of new construction is likely to retreat slightly in the years ahead. If overall construction rises in line with the expected increases in losses and vacancies, however, the absolute number of single-family homes built each year may well remain about the same as in the current decade.

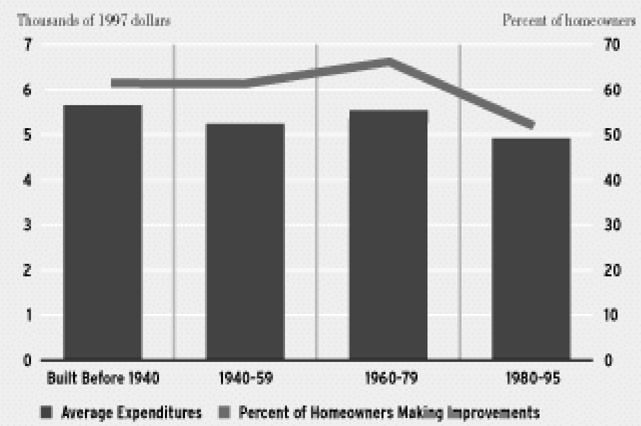
In fact, the value of single-family construction may even set new records. The baby boomers, although at an age when they move less frequently than younger households, are keeping the pressure on to produce larger single-family homes with more amenities. Assuming that the age-specific rates at which people move to higher-end homes remain at their 1995 levels, the trade-up share of new single-family demand should rise from 61.2 percent in 1995 to 65.3 percent by 2010.

Improvements and Repairs

In 1997, Americans spent about $120 billion on improvements and repairs to their homes; almost as much as they spent on newly constructed houses. About two-thirds of this sum went to major improvements, with the remainder covering more routine maintenance needs. Home improvement projects consist primarily of additions and structural alterations, but they also include upgrades to roofs, siding, plumbing, and electrical systems. Along with maintaining the home's structural integrity, improvements provide a mechanism for meeting a household's evolving needs, particularly in neighborhoods with limited opportunity for new construction.

Structural characteristics; the age, location, size, and value of the home; largely determine which repair and replacement activities owners undertake. For example, because many major systems need replacement every 25 to 30 years, owners of older homes spend more on remodeling and repairs than owners of newer homes (Fig. 29). Between 1985 and 1995 when new construction levels were relatively low, the median age of all homes increased by five years, and the median age of rental units increased by seven years. As a result, the share of units requiring system upgrades is on the rise.

29 Older Homes Require More Remodeling and Repairs Than Newer Homes



Source: Joint Center tabulations of the 1995 American Housing Survey.

While the age of a home strongly influences repair and replacement spending, changes in incomes and family size are important determinants of more discretionary types of projects, such as adding rooms and updating kitchens. Because these remodeling efforts are associated with different stages in the life cycle, a homeowner's age is also a major factor in spending levels.

When owners are young and their incomes and families are growing, they start to spend more; and more of them undertake improvements and replacements (Fig. 30). As they reach middle age and their incomes peak, more owners hire contractors instead of doing the work themselves and the average amount they spend on remodeling also peaks. Fewer households in later middle age undertake improvements because their family-related space needs have stabilized or are on the decline as their children begin to leave home. By the time homeowners reach their late 60s, few undertake discretionary improvements. Their average remodeling expenditures also fall because most of the work done on their homes is less costly repair and maintenance.

With much of the U.S. population moving into their 40s, 50s, and 60s, the absolute number of home improvement projects is not expected to show much of an increase over the next decade. Nevertheless, expenditures for renovations and repairs are projected to rise as the average project becomes larger and more expensive. Indeed, the nature of the projects is likely to shift from adding more usable space to improving the overall character and quality of the home.

Prospects for Production

Housing production over the next decade should at least equal; and may well exceed; today's construction levels. Demand for replacement units should grow as the population continues to shift to the South and West, and the housing stock grows both larger and older.

As the baby boomers trade up to better single-family homes, the value of new construction may reach new heights. The children of the boomers, meanwhile, will lift demand for multifamily and manufactured housing. Expenditures in the home repair and renovation industry should increase by about 2 percent per year, in line with the overall economy.