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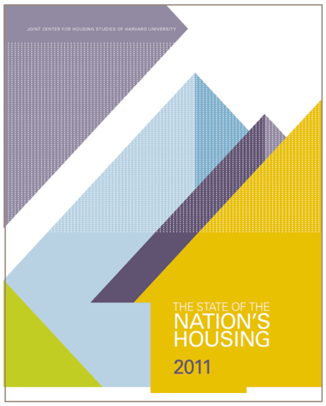
THE STATE OF THE NATION'S HOUSING 2011



Fact Sheet

PURPOSE

The State of the Nation's Housing report has been released annually by Harvard University's Joint Center for Housing Studies since 1988. Now in its 23rd year, it continues to serve as an essential resource for both public policy makers and private decision makers in the housing industry. This year's report provides a current assessment of the state of the housing market and the foreclosure crisis; the economic and demographic trends driving housing demand; the state of mortgage finance; and ongoing housing affordability challenges.

Findings

HOUSING CONSTRUCTION AND NEW HOME SALES REMAIN MIRED

- Total housing construction starts were well below 1 million for the third consecutive year in 2010, while completions of single- and multifamily homes were down 18 percent to 652,000 units.
- Multifamily rental starts picked up slightly from 92,000 units in 2009 to 101,000 units in 2010. While a promising upturn, last year's starts were less than half the 232,000 units averaged each year in 2000-8.
- The post-2006 cutback in housing production has been so severe that completions and placements in the past 10 years—a period that includes one of the largest housing bubbles in the nation's history—barely exceeded the lowest level of any 10-year period on record dating back to 1974.
- New home sales dropped another 14 percent in 2010 to a low of 323,000, marking the fifth consecutive year of double-digit declines.
- The inventory of new single-family homes for sale fell to 183,000 in March, its lowest level since the 1960s, when the number of US households was half of what it is today.
- Real homeowner improvement spending was up just 0.9% in 2010; still down 26.7 percent from its peak.
- Rather than leading the recovery as in past cycles, residential construction was a damper on GDP growth in 2010, especially in the third quarter, where the 0.75 percentage point negative contribution was the biggest drag on GDP since the height of the downturn in Q1 of 2009.
- Residential fixed investment was just 2.3 percent of GDP in 2010– its smallest share since 1945. It had averaged 4.2 percent of GDP through the 1980s and 1990s, and hit a high of 6.1 percent of GDP in 2005.

HOUSING RECOVERY WILL REQUIRE RENEWED HOUSEHOLD GROWTH

- The 2010 Decennial Census reveals that household growth averaged only 1.12 million per year during the 2000s.
- Annual household growth over 2005-2010 was more than 400,000 lower than the rate in the first half of the decade according to the Current Population Survey. This slowdown meant that 2 million fewer households formed in the last five years than if the pace in the first half of the 2000s had continued.
- Immigration has made important contributions to household growth in recent decades. But the recession has produced a decline in non-citizen households, slowing annual growth in foreign-born households overall to virtually zero from 2007-10.
- Since 2007, the share of adults aged 20–24 heading independent households dropped by 2.6 percentage points, while that of adults aged 25–29 fell by 2.8 percentage points, according to the Current Population Survey.
- Much of this increase is due to more young adults living with their parents. The increase in these shares over 2005-10 amounts to an additional 1.6 million young adults living at home.
- The 2010 decennial census reveals that US population continues to shift to the South and West. Nevada, Arizona, Utah, Idaho, and Texas each registered population gains of more than 20 percent in 2000–10.
- Suburbs continue to attract growing numbers of residents, indeed, growth rates in high-density metropolitan area counties were less than a third of those in medium- and low-density counties.

PRICE DECLINES INCREASE AFFORDABILITY MEASURES, BUT KEEP MILLIONS UNDERWATER

- After strengthening slightly at mid-year, home prices ratcheted down again, ending 2010 down 4.1 percent, and pushing overall prices in the US back to levels last seen in early 2003.
- Home prices were down in nearly three-quarters of the 384 metro areas and divisions covered by the Federal Housing Finance Agency index, and 18 of 20 large metros covered by the S&P/Case-Shiller House Price Index.
- In the last year, prices at the low end of metro markets typically fell three times more than those at the high end. In Atlanta, for example, prices of high-end homes were down 23 percent from the peak to December 2010, but those for low-end homes plunged a staggering 50 percent.
- The median home price fell to about 3.4 times the median household income in 2010, the lowest level since 1995 and in line with the 1980–2000 average.
- The Freddie Mac 30-year mortgage interest rate slipped from 5.00 percent in the first quarter of last year to 4.41 percent in the fourth. The October rate of 4.23 percent was the lowest since the series began in 1971.
- Assuming a 30-year mortgage and a 10-percent downpayment, monthly payments on a median-priced home dipped below $900 last year—a substantial improvement from the $1,362 posted as recently as 2007.
- The number of households able to afford the monthly payments on a median priced home at 28 percent of income thus rose from 48.2 million in 2007 to 70.8 million in 2010.
- In the fourth quarter of last year, payments on a median-priced home stood at less than 20 percent of median household income in more than 80 percent of metro areas covered by the NAR.

- The number of homeowners with negative equity edged down from 11.3 million in 2009 to 11.1 million at the end of 2010. According to First American CoreLogic, of these underwater owners, nearly 5 million (about 10% of all owners with mortgages) have loans at least 25% above their home's value.
- Existing single-family home sales also fell in 2010, dropping 5.7 percent to just 4.3 million, according to the National Association of Realtors ® (NAR).
- Zillow.com estimates suggest that the number of homes sold for less than their purchase prices climbed from 25.4 percent in 2009 to 30.7 percent in 2010.
- The share of cash buyers expanded from 19.8% in 2009 to 27.4% in 2010. Cash purchase shares climbed steadily through 2010 and then to a record-high 35 percent in March 2011. Distressed sales of existing homes increased to 40 percent in March 2011, up from 35 percent a year earlier.
- According to First American Corelogic, inclusion of distressed sales increases the US annual house price decline in 2010 from 2.3 to 4.5 percent, and as of February, turns annual price appreciation in 15 states from positive to negative.
- First-timers accounted for 39% of homebuyers in 2010. Bolstered by the federal tax credit program ending in April 2010, the first-time buyer share hit 49% in April 2010, before falling to 29% by January 2011.

FORECLOSURES CONTINUE AT RECORD LEVELS, ALTHOUGH DELINQUENCY RATES MAY BE STARTING TO RECEDE

- According to the Mortgage Bankers Association (MBA), at least 7.8 million foreclosure proceedings have been started since the crisis took hold in 2007, while First American CoreLogic estimates that some 3.5 million foreclosures were completed in 2008-10.
- The backlog of troubled loans remains substantial, with Loan Processing Services reporting that over 2.2 million loans are currently in the foreclosure process.
- The share of home loans delinquent by at least three months dropped from 5.6 percent in early 2010 to 3.8 percent in March according to the MBA—a sign of light at the end of the tunnel.
- Foreclosures have been concentrated in relatively few areas. Nearly half of foreclosure auctions in 2010 were located in just 10 percent of the nation's 65,000 census tracts.
- In 2009, 7.2 million households reported at least one abandoned or vandalized home within 300 feet of their residences—an increase of 1.5 million households from 2007 and 2.0 million from 2005.
- In 2010, more than 500,000 troubled loans were permanently modified under the Housing Affordable Modification Program (HAMP), and 1.2 million private-sector modifications were completed.

HOMEOWNERSHIP RATES FALL, BUT APPEAL OF HOMEOWNERSHIP HOLDS

- The decline in the national homeownership rate accelerated last year, down another 0.5 percentage point to 66.9 percent as measured by the Housing Vacancy Survey. The current homeownership rate now stands 2.1 percentage points below the 2004 peak, and 0.5 percentage point below the rate in 2000.
- Homeownership rates fell 5.8 percentage points among 30-34 year olds since the peak, compared with just 0.2 percentage point among households aged 75 and older.

- Moves to homeownership have slowed among young renters, while older homeowners are becoming renters in greater numbers. This is particularly true among 45–54 year-olds, where the number of owner-to-renter moves climbed 42 percent from 2005 to 2009.

- Homeownership rate declines for black (3.8 percentage points) and Hispanic households (2.1 percentage points) have outpaced those for white households (1.5 percentage points), erasing most of the improvement in the white-minority homeownership rate gap made over the last two decades.

- Despite falling ownership rates, demographic forces should yield a large increase in the number of homeowners over the coming decade if homeownership rates hold at 2010 levels—projected household growth would increase the number of homeowners by 8.2 million in 2010–20.

- According to the Fannie Mae National Housing Survey for the first quarter of 2011, householders under age 35 remain optimistic about homeownership, with 65 percent responding that now is a good time to buy a house, 62 percent believing that owning a home is a safe investment, and 57 percent viewing homeownership as an investment with a lot of potential.

- The share of renters responding that owning makes more financial sense than renting slipped last year, but it was still a strong majority at 68 percent in the fourth quarter of 2010 and rebounded sharply to 74 percent in the first quarter of 2011.

RENTAL MARKETS TIGHTENING

- Renter households jumped by 692,000 annually on average from 2006 to 2010, to 37 million, while the number of owner households fell on net by 201,000 annually according to the Housing Vacancy Survey.

- After peaking at 10.6 percent in 2009, the national rental vacancy rate edged down to an annual rate of 10.2 percent in 2010. At the end of 2010, the quarterly rate was down to 9.4 percent – the lowest quarterly posting since early 2003.

- Completions of rental units in multifamily structures dipped to their lowest level in 17 years, totaling just 124,000 in 2010 after averaging 224,000 per year from 2000 to 2008.

- According to MPF Research, nominal effective rents for professional managed properties were up 2.3 percent in the fourth quarter of 2010 compared to a year earlier, reversing a decline of 4.1 percent in 2009.

- Rent concessions (free or discounted rent incorporated into the lease term) have dropped from 7.6 percent to 5.2 percent of asking rents over the course of 2010, according to Axiometrics.

- Net operating income for apartments rose 8.7 percent from 2009 to 2010, while apartment prices jumped 19.8 percent.

- While markets are tightening, there has not yet been a pick-up in new supply. Completions of rental units in multifamily structures dipped to their lowest level in 17 years, totaling just 124,000 in 2010 after averaging 224,000 per year from 2000 to 2008.

- The rental supply has been boosted by tenure switching among single family homes. The number of renters in single family homes rose by 1.7 million between 2005 and 2009, increasing the share of occupied rentals in these structures from 31.0 percent to 33.7 percent.

ONGOING HOUSING AFFORDABILITY CHALLENGES

- At last measure in 2009, 19.4 million households (17.1%) paid more than half their incomes for housing, split between 9.3 million owners (12.4%) and 10.1 million renters (26.1%).

- Burdens are moving up the income scale. Among households with real incomes under $15,000, 66.4 percent spent more than half their incomes on housing in 2009—an increase of 4.8 percentage points from 2001. Households with incomes of $30,000–45,000 saw a 4.2 percentage-point increase, bringing the severely cost-burdened share to 11.5 percent. Moreover, the share of households with incomes of $45,000-$60,000 paying more than half their income for housing nearly doubled to 6.4 percent.

- After devoting more than half their monthly outlays to rent, families with children in the bottom expenditure quartile on average had only $593 left to cover all other expenses.

- Severely burdened households in the bottom income quartile spend $160 less on food each month, $28 less on healthcare, $152 less on transportation, and $51 less on retirement savings than unburdened households.

- Utility costs for renter households in the bottom income quintile (earning up to $19,300) amount to more than a quarter of total housing costs and nearly a fifth of household income.

- In 2009, 10.4 million extremely low-income renter households (with income less than 30 percent of area medians) competed for 3.7 million units that were affordable and not occupied by higher-income renters.

- The ongoing losses of affordable housing contribute to affordability challenges. Despite the net addition of 2.6 million rentals since 1999, the number of units with rents of $400 or less in 2009 inflation-adjusted dollars fell from 6.2 million to 5.6 million in 2009.

INCOME GROWTH HAS BEEN WEAK, WHILE HOUSEHOLD WEALTH HAS FALLEN SHARPLY

- In sharp contrast to the 1990s, real household incomes in the 2000s fell for all age groups under 55.

- Younger baby boomers (age 45-54 in 2010) have significantly lower real household incomes than those of the older baby boomers did ten years ago at their age.

- Aggregate real net household wealth plunged $12.4 trillion from 2006 to 2010, returning to 2003 levels.

- Among homeowners with mortgages in 2007, the median mortgage debt among minorities was 13.5% higher than among their white counterparts, while their median home equity was 26.8% lower.

- Low wealth levels make downpayments a major barrier to homeownership, especially for minorities. At last measure in 2007, the median minority renter had only $300 in cash savings and $2,700 in net worth, while the median white renter had roughly three times those amounts.

MORTGAGE MARKETS REMAIN DEPENDENT ON FEDERAL SUPPORT, WHILE UNDERWRITING TIGHTENS

- According to Inside Mortgage Finance, Fannie Mae, Freddie Mac and FHA owned or guaranteed close to 90 percent of mortgage originations in 2010, and accounted for 96 percent of mortgage-backed securities.

- The share of home-purchase mortgages originated to persons with credit scores below 600 dropped from 9.0 percent in 2006 to just 0.5 percent in 2010, while the share originated to persons with scores of 740 or higher increased from about 34 percent to about 44 percent.

- Fannie Mae and Freddie Mac (the GSEs, or government-sponsored enterprises) and the Federal Housing Administration (FHA) are the largest backers of multifamily lending after having more than doubled their market share of debt outstanding over the past decade.

- From the fourth quarter of 2007 to the fourth quarter of 2010, the GSE and FHA share of outstanding multifamily debt grew by 30 percent.

- FHA expanded its multifamily lending volume to nearly $11 billion in 2010, nearly 25 percent of the market. With this increase, the number of rental units financed with FHA support tripled from about 49,000 in 2008 to more than 150,000 in 2010.

- There are concerns that limitations on the supply of acquisition, development and construction financing may hinder new multifamily construction as demand for new housing resumes. According to a National Association of Homebuilders survey conducted in the fourth quarter of 2010, 52 percent of smaller builders (with less than $1 million in revenues) had put multifamily rental projects on hold, compared with 35 percent of larger builders (with more than $5 million in revenues).

DEMOGRAPHIC TRENDS FAVOR REBOUND IN HOUSEHOLD GROWTH OVER COMING DECADE

- Aging of the current US population alone should lead to household growth of 1.0 million per year over the coming decade if headship rates by age and race recover to the average levels of 2007-2009 and stay there. Immigration at half of the Census Bureau's preferred population projections through 2020 would increase this rate to 1.2 million.

- The Joint Center estimates that with immigration at half of the Census Bureau's projected level, overall household growth, coupled with the need to replace existing homes and the demand for second homes, amounts to baseline demand for 16 million additional housing units in 2010-20 – some of which may be absorbed by units currently vacant.

- The aging of the baby boomers (born 1946–65) is projected to drive up the number of households over age 65 by some 8.7 million by 2020. Households over 75 alone are expected to rise by more than 2.0 million by 2020.

- Minorities are projected to account for seven out of ten of the 11.8 million net new households in 2010–20. By 2020, minorities are expected to make up a third of all US households.

- If the older baby boomers match the mobility patterns of the previous cohort, some 3.8 million would downsize their homes over the coming decade, lifting the demand for smaller units.

SPONSORS

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DATA

The Joint Center uses current data from the Census Bureau, the Department of Housing and Urban Development, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Center for Budget and Policy Priorities, the Conference Board, the Energy Information Administration, the Federal Housing Finance Agency, the Federal Reserve, First American CoreLogic, Freddie Mac, Moody's Economy.com, the Mortgage Bankers Association of America, MPF Research, the National Association of Realtors®, the National Council of Real Estate Investment Fiduciaries, the National Low Income Housing Coalition, the National Multi Housing Council, Standard and Poor's, Real Capital Analytics, and Zillow.com to develop its findings.

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