THE STATE OF THE NATION'S HOUSING 2012

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 24th 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

SIGNS OF RECOVERY IN OWNER-OCCUPIED MARKET

- By the first quarter of 2012, existing home sales (single family and condos) were 5.2 percent above year-earlier levels, with single family sales up 6.3 percent.
- After hitting a record low of just 306,000 in 2011, sales of newly constructed homes in the first quarter of 2012 stood 16.7 percent above year-earlier levels.
- Inventories of new single-family homes for sale fell 20 percent in 2011, sinking to just 143,000 units in March 2012—the lowest level in nearly five decades of recordkeeping.
- The inventory of existing homes for sale shrank by some 23 percent in 2011, reducing the supply in the first quarter of 2012 to its lowest level since 2006.
- The number of new homes added in 2002–11 was lower than in any other ten-year period since the early 1970s.
- With the uptick in sales, single-family starts picked up significantly in the second half of 2011 and stand fully 16.6 percent above year-earlier levels in the first quarter of 2012. They were down 8.6 percent in 2010-11.
- Single-family permitting, a leading indicator of starts, was also up 16.9 percent in the first quarter of 2012.
- Multifamily starts surged 54 percent in 2010-11, and in 2012:1 were up 36.1 percent from year-earlier levels.
- With an increase in residential construction in late 2011 and early 2012, Residential Fixed Investment (RFI) posted two consecutive quarters of solid growth and provided its first significant boost to GDP since the end of the Great Recession.
- Starting in the first quarter of 2011, home construction and improvement spending have made a positive contribution to GDP in four out of five quarters (2011:1, 2011:3-2012:1).

- With an uptick in sales, the Joint Center's Leading Indicator of Remodeling Activity points to a resumption of spending growth in the second half of 2012.
- The monthly mortgage payment for the typical home currently compares more favorably to rents than at any time since the early 1970s.
- Home prices in 84 percent of metros tracked by the Freddie Mac House Price Index hit new lows in 2011, erasing more than 15 years of appreciation in some cases.
- According to the Freddie Mac Primary Mortgage Market Survey, interest rates on a 30-year fixed mortgage slid below 4.0 percent in early 2012— its lowest level since recordkeeping began in 1971.
- Applying the assumptions in the NAR index (a 20-percent downpayment and a 30-year fixed-rate mortgage), the monthly payment for principal and interest on the median-priced home dropped another 6.6 percent in 2011 from a year earlier, to just $669.

RENTAL MARKET RECOVERY STRENGTHENING

- The number of renters surged by 5.1 million in the 2000s, the largest decade-long increase in the postwar era.
- Renter growth hit 1.0 million in 2010-11, the largest annual increase since the early 1980s.
- Households earning more than $75,000 contributed nearly a fifth of the increase in renters in 2006–11. And while still only 36 percent of all renters in 2011, married couples accounted for 50 percent of the growth in renter households over the previous five years.
- The overall rental vacancy rate fell from 10.6 percent in 2009 to 9.5 percent in 2011, the lowest annual posting since 2002.
- According to the Housing Vacancy Survey, rental vacancy rates in more than two-thirds of the nation's largest 75 metros fell in 2011.
- According to MPF Research, nominal rents on investment-grade multifamily properties rose 4.7 percent from the fourth quarter of 2010 to the fourth quarter of 2011—double the 2.3 percent increase a year earlier.
- Rents outpaced inflation in 38 of the 64 markets tracked by MPF Research. Only five markets saw inflation-adjusted rents fall more than 1.0 percent in 2011, with Las Vegas reporting by far the largest decline (3.6 percent).
- NCREIF (National Council of Real Estate Investment Fiduciaries) reports that the quarterly returns on investment in commercial apartments yielded an overall return of 15.5 percent last year, and apartment prices were up 10.0 percent in the fourth quarter of 2011 from a year earlier and 34.4 percent from the 2009 low.
- Multifamily starts more than doubled from the trough to a 225,000 unit annual rate in early 2012.
- Multifamily permits are up in all but three of the 25 markets that had the most multifamily construction in the decade preceding the bust.

FORECLOSURES AND OTHER HEADWINDS TO THE RECOVERY

Foreclosures

- Upwards of 2.0 million homes are in some stage of foreclosure in early 2012.
- CoreLogic reports 890,000 foreclosures were completed in 2011, down from 1.1 million in 2010. Nearly half of foreclosed properties were clustered in just 10 percent of the nation's 65,000 census tracts.
- Nearly three-quarters of borrowers in the foreclosure process have not made a mortgage payment in more than a year (and 42 percent have not done so in two years).
- In the first quarter of 2012, the share of the nation's mortgages that were 90 or more days past due or in the foreclosure process was 7.4 percent, still well above the 1.7 percent averaged in the 1990s.
- The share of loans 90 or more days delinquent has fallen from 5.1 percent of mortgages at the end of 2009 to 3.1 percent in the first quarter of 2012.
- The foreclosure rate is 6.5 percent in states that require lenders to seek judicial permission to foreclose, compared to 2.5 percent in states where the courts are not routinely involved.

Loss of Equity

- Real net household wealth plummeted $14.3 trillion from 2006 to 2011, dragged down by a 57-percent drop ($8.2 trillion) in housing wealth. Home equity now accounts for the smallest share of household net wealth since recordkeeping began in 1945.
- CoreLogic reports that the number of underwater loans rose in the fourth quarter of 2011 to 11.1 million—representing more than one in five mortgages and some $717 billion in negative equity.
- States that had the most dramatic housing booms and busts have more underwater borrowers. Nevada (61 percent) and Arizona (48 percent) still have the largest shares of underwater mortgages, while Florida and California (each with approximately two million) together account for more than a third of all such loans in the country.

Availability of Credit

- 33 percent of NAR's member brokers reported contract failures in December 2011, compared with just 9 percent a year earlier, largely because mortgage applications were denied or the appraised value of the homes came in below negotiated prices.
- From fewer than one in ten during the housing boom, loans insured by the FHA, Veteran's Administration, and US Department of Agriculture's Rural Development program accounted for more than half of home purchase loans in 2009 and 2010.
- Conventional home purchase loan application denial rates for Hispanics were up eight percentage points (from 19 to 27 percent) over 2004-10, while those for blacks jumped 15 percentage points (from 23 to 38 percent). In contrast, rates for white borrowers climbed just three percentage points (from 12 to 15 percent).
- While lending fell 26 percent in minimally distressed neighborhoods in 2004–10, the cutback was 56 percent in moderately distressed neighborhoods and 74 percent in the most distressed neighborhoods (those eligible for HUD's Neighborhood Stabilization Program).

- From 2008 to 2011, the volume of home purchase loans to borrowers with credit scores below 620 plunged 93 percent, while those to borrowers above this cutoff was down about 30 percent.

Jobs & Incomes

- Real median household income dropped from $53,200 in 2000 to $49,400 in 2010, some $1,700 below the previous cyclical trough in 2004.

- Total employment in the US is still lower than when housing starts reached a trough three years ago.

Excess Vacant Units Held Off Markets

- According to the latest Housing Vacancy Survey, vacant units held off market are 5.5 percent of the housing stock – implying that, relative to 2000-2, there are more than 1.2 million excess off-market vacant units.

HOUSING COST BURDENS ARE AT RECORD HIGHS

- Between 2007 and 2010, the number of US households paying more than half of their incomes for housing rose by an astounding 2.3 million, bringing the total to 20.2 million.

- Renters account for more than half of severely cost-burdened households, outnumbering owners 10.6 million to 9.5 million.

- 27 percent of renters are severely burdened, more than twice the share of homeowners.

- The number of senior households with severe housing cost burdens jumped from 3.1 million in 2001 to 4.1 million in 2010.

- After paying for housing, severely cost-burdened families in the bottom expenditure quartile in 2010 had just $619 left over on average each month for all other needs.

- Severely cost-burdened families in the bottom expenditure quartile spent nearly 40 percent less on food, more than 50 percent less on clothes and healthcare, and 30 percent less on insurance and pensions than families living in affordable housing.

- The number of unemployed, severely burdened householders surged from 3.8 million to 5.8 million in 2001–10. The number of fully employed heads of households with severe cost burdens also jumped from 3.9 million to 6.2 million.

- In 2010, 22 percent of those reporting short-term unemployment and 36 percent of those facing long-term unemployment were severely housing-cost burdened, compared with just 10 percent of fully employed householders.

- Just 6 percent of households with two or more employed workers were severely housing-cost burdened in 2010, compared with 18 percent of those with one worker and fully 48 percent of those with no employed worker.

- Despite a slight uptick in 2010, homelessness has generally been on the decline, with a 5.3 percent reduction in the total and a 13.5 percent drop in chronic homelessness since 2007.

DESPITE FALLING NUMBERS, HOMEOWNERSHIP RETAINS ALLURE

- The US homeownership rate fell another 0.8 percentage point in 2011, the largest drop in seven consecutive years of decline.
- At 65.4 percent in the first quarter of 2012, the US homeownership rate stood at its lowest level since the first quarter of 1997 and 3.8 percentage points below the peak in the fourth quarter of 2004.
- The decline in the US homeownership rate is mitigated by households aged 65 and over whose numbers are growing and whose homeownership rates are near record highs at around 81 percent.
- Declines in homeownership rates exceed 5.0 percentage points for households up to age 44, 4.5 percentage points for 45–54 year-olds, and 3.2 percentage points for 55–64 year-olds.
- Since the peak, the homeownership rates for married couples with children plunged 5.1 percentage points while those for single-parent and other families with children were down 4.6 percentage points. Homeownership rates for non-family households have changed relatively little.
- Fewer households are transitioning to homeownership: 4.3 million households under age 35 and 730,000 households aged 35–44 joined the ranks of homeowners in 2005–10 – a significant slowdown from 2000–5, when 6.5 million owners under age 35 and 2.6 million aged 35–44 were added on net.
- Homeownership retains its allure: The 2011:Q4 Fannie Mae National Housing Survey found that 86 percent of renters aged 18–34 believe they will ultimately own homes.
- In addition, close to 70 percent of respondents to both the Fannie Mae National Housing Survey and the University of Michigan Survey of Consumer Attitudes felt that it was a good time to buy.

HOUSEHOLD GROWTH STILL BELOW ITS LONG-RUN POTENTIAL

- Average annual household growth in 2007–11 was just 568,000—less than half the pace in the first half of the 2000s or even the 1.15 million averaged in the late 1990s.
- The native-born population accounted for about 61 percent of the slowdown, reducing household growth by a total of 1.1 million in 2007–11 relative to the previous four years.
- The foreign-born population accounted for 39 percent of the decline in household growth in 2007–11, or the equivalent of about 700,000 potential households.
- One in three 18-34 year-olds lived with their parents in 2010, an increase of 1.95 million relative to the number expected at 2006 rates.
- Assuming net inflows of immigrants are roughly half the level in the Census Bureau's 2008 projection, household growth should still average 1.18 million a year in 2010–20. Growth and aging of the current population alone should support the addition of about 1.0 million new households per year.

HOUSING ASSISTANCE NOT KEEPING PACE

- The share of severely cost-burdened households approximately at or below the full-time equivalent minimum wage rose from 64.3 percent to 68.0 percent from 2007 to 2010.

- Only about a quarter of very low-income households (those earning less than 50 percent of the area median income) receive assistance.
- In 2001, 8.1 million low-income renters (those earning less than $15,000 annually) competed for 5.7 million affordable units, leaving a gap of 2.4 million units. By 2010, the shortfall had more than doubled to 5.1 million units.
- In fiscal 2011, HUD's principal rental housing programs provided assistance to an estimated 4.8 million families, a 1.5 percent increase (73,000 households) over the previous two years.
- Nearly three of ten units renting for less than $400 in 1999 were lost from the stock a decade later.
- Most new construction adds units at the upper end of the rental market, with the median monthly asking rent for newly completed apartments exceeding $1,000 each year in 2006–11.
- At present, the only significant growth in subsidized rental housing comes through the Low Income Housing Tax Credit (LIHTC) program, which continues to add about 100,000 affordable units each year.

SPRAWL CONTINUED IN THE 2000s

- Only five metros—Boston, San Diego, San Jose, Cape Coral, and Palm Bay—posted increases in the share of households living in core cities relative to their suburbs and exurbs during the 2000s.
- The rate of household growth in the exurbs in the 2000s was 28 percent—more than double the rate in the suburbs and more than quadruple that in city cores.
- Still, during the 2000s, about a third of large metros saw double-digit growth in the number of households living in core areas.
- Outlying communities became more diverse over the decade, with the minority share of suburban households rising from 23 percent to 30 percent, and of exurban households from 14 percent to 19 percent.

SPONSORS

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DATA

The Joint Center uses current data from the US Census Bureau, the Department of Housing and Urban Development, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Pew Research Center, the Conference Board, the Energy Information Administration, the Federal Housing Finance Agency, the Federal Reserve, CoreLogic, Freddie Mac, Fannie Mae, 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, Lender Processing Services, and Zillow.com to develop its findings.

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