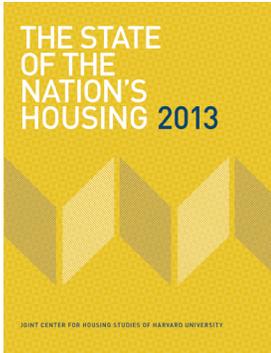




THE STATE OF THE NATION'S HOUSING 2013



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 25th 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

LONG-AWAITED HOUSING RECOVERY TOOK HOLD IN 2012

Rising Home Prices and Rents are Clearest Sign of Recovery

- After across-the-board declines in 2011, all major house price indexes registered significant increases in 2012.
- By March 2013, the median house price in the United States was up 11.6 percent year over year.
- As of April 2013, home prices were up year over year in all but two states and in 94 of the 100 metropolitan areas tracked by CoreLogic.
- Between the fourth quarter of 2011 and the fourth quarter of 2012, the number of underwater homeowners fell 1.7 million, to 10.4 million.
- April 2013 marked the 34th consecutive month of growth in rents as measured by the consumer price index, and the 15th consecutive month of year-over-year increases of 2.5 percent or more.

Prices Boosted by Increasing Sales against Backdrop of Low Inventories of Homes For Sale

- Between 2011 and 2012, existing home sales increased 9.4 percent to 4.66 million units, representing the largest percentage increase since 2003–04 and accelerating to their fastest pace since 2007.
- In 2012, new home sales posted their first year-over-year increase in seven years, up nearly 20 percent (368,000 units) from 2011's historic low.
- The number of existing homes on the market entering 2013 was just 1.8 million, more than 500,000 less than a year earlier and the lowest level since 2001.
- The total inventory of new homes for sale remained at historic lows throughout 2012, holding near 150,000 units. With sales levels picking up, as of January 2013 the stock of new homes for sale represented only 4.0 months supply,

the lowest reading since October 2004.

- Fueled by the growing share of households opting to rent, the US rental vacancy rate fell for the third straight year to 8.7 percent in 2012, down from 9.5 percent in 2011 and 10.6 percent in 2009 to its lowest level since 2001.

Residential Construction Activity Picks up Sharply, Boosting Growth in the Broader Economy

- Single-family construction starts were up a sharp 24.3 percent in 2012 to 535,300 units. Still, this was just half the average annual levels in the 1980s and 1990s.
- Gains in single-family building were widespread as 91 of the top 100 metropolitan areas reported increases in single-family permits in 2012.
- While still below annual averages from past decades, multifamily starts jumped 37.7 percent in 2012 to 245,300 units—the second straight year of double-digit gains—and more than doubled their cyclical low in 2009.
- For the first time since 2005, residential fixed investment (RFI)—which includes home improvement spending as well as both single- and multifamily construction—contributed positively to gross domestic product (GDP) in 2012, adding more than a quarter-point to economic growth and amounting to a healthy 12 percent of the total increase in the economy.
- Homeowner improvement spending contributed more than 45 percent of total residential investment expenditures in 2012—well above the 25 percent share averaged in the decades before the housing crash.

Investors Play a Key Role in Single-Family Market

- The share of single-family homes rented has increased sharply in recent years, with investors accounting for one in five home sales nationwide in 2012.
- 1.4 million single-family homes on net were converted from ownership to rental properties between 2009 and 2011.
- The share of renters living in single-family homes rose from 30.8 percent in 2005 to 34.1 percent in 2011, totaling nearly 14 million units.
- In 2012, institutional investors moved aggressively into formerly high-growth but recently high-distress cities such as Atlanta, Las Vegas, and Phoenix, accounting for about 14–18 percent of investor sales entering 2012 but rising to 20–26 percent by the end of the year.
- First-time homebuyers were not a driving force in increasing purchases as their estimated share of annual sales only edged up from 37 to 39 percent between 2011 and 2012.

HOUSEHOLD GROWTH REBOUNDS IN 2012

The Upturn in Household Growth is a Key Element in the Housing Recovery

- Household growth increased to 980,000 in 2012—up sharply from the approximately 600,000 average of the previous five years.
- While still below pre-recession levels, the foreign-born population—a key component of household growth over the last decade—registered its largest increase since 2008.

Growing Diversity of Renter Households

- Renter households increased by more than 1.1 million between 2011 and 2012, representing all net household growth during that time. If this pace is sustained, the current decade would easily surpass the record growth of 5.1 million households during the 2000s.
- The number of renter households aged 55-64 grew by 80 percent between 2002 and 2012, compared to 50 percent growth among all households in that age group.
- More members of groups with traditionally high homeownership rates are becoming renters, including married couples with children, high-income households, and white households.

Demographic Shifts Will Alter Housing Demand

- Older households are projected to increase by 9.8 million over 2013-23 as the baby boom population moves into the 65-and-over age group.
- The number of minority households will grow by 8.7 million over the next ten years, accounting for seven out of ten net new households in 2013-23.

DESPITE RECORD AFFORDABILITY, HOMEOWNERSHIP MARKET FACES CONTINUED HEADWINDS

Homeownership Rates Still on the Decline

- The US homeownership rate fell for the eighth straight year in 2012, from 66.1 percent to 65.4 percent, reflecting a net loss of 161,000 homeowners for the year.
- For each 10-year age group between 25 and 54, the share of households owning homes is now at its lowest point since recordkeeping began in 1976.
- At 43.9 percent, the homeownership rate for African-American households is at its lowest level since 1995 and both the Hispanic homeownership rate (46.0 percent) and the white homeownership rate (73.5 percent) are at their lowest values in a decade.
- Homeownership rates for households aged 65 and over continued to increase in 2012, rising to the highest level on record.

Foreclosure and Delinquency Rates Improve, but Remain High by Historical Standards

- In the first quarter of 2013, the share of loans at some stage of delinquency but not yet in foreclosure declined to 7.3 percent, well below the 10.1 percent peak in the first quarter of 2010.
- Still, more than 1.4 million homes were in foreclosure, representing 3.6 percent of all mortgages in service. This share is more than four times the 1974-99 average of 0.8 percent.

Low Interest Rates Drive Homebuyer Affordability and Spur Refinancing Boom

- Interest rates on 30-year fixed-rate mortgages dropped to 3.66 percent in 2012, helping to make mortgage payments on the typically priced home more affordable than at any time in the last four decades.

- Assuming a 20-percent downpayment, the monthly mortgage payment on the median-priced home was just \$644 in 2012, the lowest level since 1972 when records began, and roughly half the peak of \$1,266 in 2006.
- Only four metros—San Diego, San Francisco, San Jose, and Honolulu—had median payment to median income ratios above 25 percent (considered the affordability threshold).
- Refinancing volumes soared 42 percent in nominal terms to \$1.4 trillion in 2012, the highest level since 2006.
- Only 17 percent of homeowners who refinanced in 2012 took cash out—the lowest share in records dating back to 1985.
- In combination with low mortgage interest rates, improvements to the Home Affordable Refinance Program (HARP) allowed 1.1 million underwater and low-equity homeowners to reduce their monthly mortgage payments by refinancing in 2012.

Credit Constraints Continue to Hamper Homebuyers

- For most of the 2000s, credit scores on GSE-backed loans averaged around 720 while those on FHA loans averaged around 650; with the onset of the housing crisis in 2008, credit scores in these market channels turned up sharply, to roughly 760 and 710, respectively.
- In 2007, borrowers with credit scores below 620 accounted for 45 percent of FHA loans but by the end of 2012, that share was under 5 percent.
- The average credit scores of conventional mortgage applicants denied credit in the first quarter of 2013 were 722 for refinances and 729 for purchases.
- Among those seeking conventional home purchase loans, mortgage denial rates in 2011 for African-American were 36.9 percent—more than twice the 14.0 percent rate for white borrowers. Hispanics fared little better, with a denial rate 10.4 percentage points higher than the white rate.

Government Role in Mortgage Markets Remains Significant

- As they have since 2009, government-backed loans accounted for roughly 90 percent of all originations in 2012.
- The government has come to account for a substantial share of multifamily lending as well. Outstanding mortgage debt held by the GSEs and FHA/Ginnie Mae increased by \$24 billion between 2011 and 2012, to \$376 billion or 44.5 percent of such debt.
- Multifamily lending also increased among banks and thrifts (up \$11 billion from 2011), life insurance companies (up \$1.0 billion), and pension funds (up \$0.8 billion).

STRONGER RECOVERY HINDERED BY WEAK INCOME GROWTH, ERODING WEALTH, AND HIGH DEBT LEVELS

- At last measure in 2011, median household income fell 1.5 percent in real terms from a year prior to stand 8.1 percent below the 2007 peak and 6.7 percent below the 2001 level.
- With the exception of those 65 and over, median household incomes fell across all age groups in 2010–11, with the sharpest drop among younger households.

- On average, real home values for Hispanic owners plummeted nearly \$100,000 (35 percent) between 2007 and 2010, while the decline for black owners was nearly \$69,000 (31 percent). By comparison, average values for white homeowners fell just 15 percent over this period.
- By 2010, the median net worth of a white homeowner, at \$214,500, was more than 2.5 times that of a black homeowner and 2.8 times that of a Hispanic homeowner.
- Although minorities account for a growing share of potential first-time homebuyers, they have few resources to draw on for a downpayment. Among renters aged 25–34 in 2010, median net wealth was only \$1,400 for blacks and \$4,400 for Hispanics, compared with \$6,500 for whites.
- From 1989–2010, the share of owners aged 60–69 with mortgage debt rose from 32 percent to 60 percent, while the median loan-to-value ratio among owners aged 50–59 rose from 10 to 38 percent.
- The number of those under 30 with student loan debt outstanding increased by 39 percent between the start of 2005 and the end of 2012, with the average amount rising from \$13,300 to \$21,400.
- The increase in student loan debt was even larger among adults in their 30s, with the number of borrowers up 76 percent and average debt climbing from \$20,000 to \$29,400.
- Of the \$600 billion increase in student loans outstanding in 2005–12, fully 38 percent was among households over age 40.

NO RECOVERY IN HOUSING COST BURDENS

- In 2011 42.3 million households, or 37 percent, faced housing cost burdens, paying more than 30 percent of pre-tax income on housing costs, including 20.6 million households (17.9 percent) with severe cost burdens, paying more than 50 percent of pre-tax income for housing.
- Between 2001 and 2011, the number of severely burdened households increased by 6.7 million, or 49 percent. Since the beginning of the recession in 2007, the increase has been 2.6 million.
- Between 2007 and 2011, the number of severely burdened renters soared by 2.5 million and now account for 27.6 percent of the total number of cost-burdened households.
- Nearly seven out of ten households with annual incomes of less than \$15,000 (roughly equivalent to year-round employment at the minimum wage) pay more than half of their income for housing costs.
- In California, New York, and New Jersey, more than 22 percent of households pay more than 50 percent of pre-tax income for housing, as median home values and rents in these states are among the highest in the country.
- Severely cost burdened low-income families spend about two-thirds as much on food, half as much on clothing, one-fifth as much on health care, and half as much on pensions and retirement as similar families living in housing they can afford.

AFFORDABLE HOUSING GAP GROWS AS RISING DEMAND OVERWHELMS SUPPLY

- In 2011, there were 12.1 million extremely low-income renters, an increase of 2.5 million since 2007. Meanwhile, as of 2011 there were 6.8 million housing units affordable to extremely low-income renters in 2011, 135,000 units fewer than in 2007.

- Between 2001 and 2011 650,000 housing units renting for \$400 per month – affordable to households earning a full-time minimum wage – were permanently removed from the housing stock, a loss of 12.8 percent of the 2001 low-cost inventory.

FEDERAL HOUSING ASSISTANCE UNABLE TO KEEP UP WITH GROWING NEEDS

- 35 percent of residents in federally assisted housing have a disability, 31 percent are age 62 or older, and 38 percent are single-parent families.
- In recent years funding for HUD's public housing, the HOME program and the Community Development Block Grant programs as well as the Department of Agriculture's Section 515 Rural Rental Housing Program have all suffered cuts in funding.
- The supply of subsidized rental housing is steadily shrinking: 10,000 public housing units are lost each year.
- Since 1987, the Low Income Housing Tax Credit (LIHTC) has been the main source of additions to the assisted housing stock, supporting the construction or rehabilitation of over 2.2 million low-cost rental units. The program has been financially quite successful, with only 1-2 percent of LIHTC projects estimated to have gone through foreclosure.

THOUSANDS OF VACANT PROPERTIES DISTRESS MANY URBAN NEIGHBORHOODS

- At most recent count, there were some 4,700 neighborhoods across the country where more than one in five homes were vacant, exerting a significant blighting influence on these communities. The average vacancy rate in these communities was 26.0 percent, more than three times the US average.
- In the most distressed neighborhoods of Baltimore, Chicago, Cleveland, and Detroit, where vacancy rates top 20 percent, about 60 percent of vacant units are held off market, indicating they are in poor condition and likely a source of blight.

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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