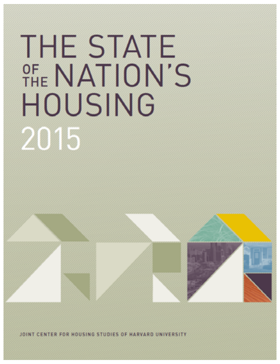
THE STATE OF THE NATION’S HOUSING 2015



Key Facts

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 27th 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 rental and homeownership markets; the economic and demographic trends driving housing demand; the state of mortgage finance; and ongoing housing affordability challenges.

Findings

HOMEOWNERSHIP RATES ARE AT 20-YEAR LOWS

National homeownership rate continues to fall

- The national homeownership rate slid for the 10th consecutive year in 2014 to 64.5 percent, and continued to fall in early 2015 with a first-quarter reading of just 63.7 percent—the lowest quarterly rate since early 1993.
- The homeownership rate for 35-44 year olds has fallen most and is down 5.4 percentage points from the 1993 level and back to a level not seen since the 1960s.
- In fact, the national homeownership rate remains as high as it is only because the baby boomers (born 1946–64) are now in the 50-plus age groups when homeownership rates are high, and because owners aged 65 and over have sustained historically high rates.
- As of 2014, the homeownership rate for minorities remains 25.5 percentage points lower than that of whites.
- Despite falling homeownership rates in recent years, the numbers of Hispanic and Asian/other households owning homes have continued to rise as their shares of all households have climbed.

THE RENTAL MARKET CONTINUES TO BOOM

There has been record growth in rental demand

- The share of US households that rent their housing rose to a 20-year high of 35.5 percent in 2014, marking the 10th consecutive year of robust renter household growth.
- Renter household growth has averaged 770,000 annually since 2004.
- While soaring demand is often attributed to the millennials’ preference to rent, households aged 45–64 in fact

accounted for about twice the share of renter growth in 2004–2014 than households under the age of 35.

- Although making up just 25 percent of renters in 2014, households aged 55 and over contributed fully 42 percent of renter household growth over the preceding decade.
- Households in the top half of the income distribution contributed 43 percent of the growth in renters.
- After a net decline in 1994–2004, households in the highest income quartile accounted for almost one in five net new renters in 2004–14, and nearly one in three net new renters in 2011–14.
- While single persons still make up the largest share of renter households, the numbers of renters of all family types rose over the decade.

Single-family homes have helped meet the demand for rental housing

- The number of renters in single-family detached homes increased by 3.2 million on net between 2004 and 2013.
- Single family homes housed more than half of the growth in renters in 2004–2013.
- Renters of single-family homes are more likely to be middle-aged, married couples with children, as well as married couples without children and single-parent families.

Historically low vacancy rates are driving up rents

- The national rental vacancy rate dipped to 7.6 percent in 2014, its lowest point in nearly 20 years.
- Rents rose at a 3.2 percent rate last year—twice the pace of overall inflation.
- Rental markets are particularly tight at the low end. The number of vacant units with rents under $800 dropped some 12 percent between 2013 and 2014, contributing more than 90 percent of the decline in rental vacancies.
- The 20 hottest rental markets (where rents rose more than 5 percent) were all located in the West or South.

There is continued strength in multifamily construction

- Multifamily starts rose steadily to nearly 360,000 units in 2014—more than in any year in the 1990s and 2000s.
- More than 90 percent of multifamily units started last year were intended for the rental market, up from less than 60 percent in the mid-2000s.
- New multifamily units are primarily built for the high end of the market, with a median asking rent equaling $1,290 in 2013, or about half of the typical renter's monthly household income.

The outlook for rental housing is strong

- Rental growth is likely to remain strong as members of the huge millennial population enter the housing market. According to the latest JCHS projections, individuals that are currently under age 30 will form over 20 million new households between 2015 and 2025, and most of these households will be renters.
- There will also be a large increase in renters over age 65 as more members of the large baby boom generation cross this threshold over the coming decade.

COST BURDENS & AFFORDABILITY CONTINUE TO BE A PROBLEM

Cost burdens among homeowners are declining but renter burdens are on the rise

- The number of households with housing cost burdens—paying more than 30 percent of income for housing—declined for the third straight year, falling from 40.9 million in 2012 to 39.6 million in 2013.
- However, more than one in four owners still paid over 30 percent of income for housing and about one in ten paid over 50 percent (severely cost burdened).
- The share of renters aged 25–34 with cost burdens increased from 40 percent to 46 percent from 2003 to 2013, while the share with severe burdens (paying more than 50 percent of income) rose from 19 percent to 23 percent.
- In the ten highest-cost metros—which include Boston, Los Angeles, New York, and San Francisco—three-quarters of renters earning $30,000–44,999 and just under half of those earning $45,000–74,999 had cost burdens.

Affordability challenges are particularly evident for low-income and minority households

- Over 80 percent of households with incomes under $15,000 (equivalent to full-time pay at the federal minimum wage) were cost burdened in 2013.
- Twenty-six percent of black households, 23 percent of Hispanic households, and 20 percent of Asian and other minority households were severely burdened in 2013, compared with just 14 percent of white households.
- Nearly a third of single-parent families were severely burdened in 2013, compared with a tenth of married couples with children.
- Cutting back on other essentials to help meet housing costs, severely cost-burdened households in the bottom expenditure quartile spent 70 percent less on healthcare and 40 percent less on food than unburdened households.

Cost burdens are climbing the income scale, especially in high-cost metros

- Cost burdens are climbing the income ladder: over half of homeowners and three-quarters of renters with incomes between $15,000 and $30,000 were housing cost burdened in 2013, along with 37 percent of owners and 45 percent of renters earning $30,000–44,999.
- In 2013, 41 percent of households living in the 10 highest-cost major metros—including Los Angeles, New York, Honolulu, and other coastal markets—were cost burdened, compared with 34 percent in the US as a whole.
- Middle-income households face steep cost pressures in expensive areas, as 48 percent of households with incomes between $45,000 and $75,000 were cost burdened in the 10 highest cost metros, compared with 22 percent nationally.

The supply of affordable, low-cost housing continues to fall short of demand

- In 2013, 11.2 million extremely low-income households (earning up to 30 percent of area median) competed for just 7.3 million units they could afford, leaving a gap of 3.9 million units.
- Excluding units that were structurally inadequate or occupied by higher-income households, there were only 34 affordable units for every 100 extremely low-income renters in 2013.

Federal housing assistance reaches millions of vulnerable households

- As of 2013, HUD provided assistance to 4.8 million renters, with just under half receiving housing choice vouchers, 1.1 million in public housing developments, and 1.6 million in privately owned developments, while programs offered by the US Department of Agriculture (USDA) subsidized an additional 406,000 renters.

- As of 2013, the average annual income of a HUD-assisted household was about $12,900.

- One-third of HUD-assisted households in 2013 were headed by an adult aged 62 and over, and another third were working-age households that included a person with disabilities.

- Over 60 percent of USDA-assisted renters in 2013 were seniors or people with disabilities.

- While the number of very low-income renters qualifying for subsidies increased by 18 percent between 2003 and 2013, from 15.7 million to 18.5 million, just 26 percent of eligible very low-income households received rental assistance in 2013.

- Appropriations for HUD's Section 202 program, which has funded construction of 400,000 supportive housing units for older adults, were cut 55 percent between FY2005 and FY2015, and included no funds for new construction in recent years.

Millions of assisted units are at risk of loss from the affordable housing stock

- Nearly 2.2 million assisted housing units could be lost from the affordable stock over the next decade, including more than 1.2 million in LIHTC developments whose compliance periods are set to end.

- Half of all affordable units with project-based subsidy contracts expiring over the next decade are in properties in high-rent neighborhoods where owners earn below-market rents.

Homelessness has declined nationwide, but has grown in higher-cost areas

- As of 2014, nearly 600,000 people were homeless in the United States, more than a third of whom are in families, including 130,000 children under the age of 18.

- Total homelessness fell 11 percent between 2007 and 2014, while the number of homeless veterans dropped 19 percent, the number of chronically homeless individuals declined 30 percent, and the number of homeless people in families fell 8 percent.

- Forty-five percent of homeless individuals in families lived in major cities in 2014, including nearly 20 percent—41,600 people—in New York City alone.

HOUSING CONSTRUCTION RECOVERY CONTINUES TO LAG

Single-family construction is picking up, but not as fast as multifamily construction

- Single-family construction starts increased 5 percent in 2014.

- Just over one million housing units were started last year, which until the recent downturn would have been the lowest annual total in the past half-century.

- Multifamily construction starts increased 16 percent in 2014.
- More multifamily units were started in 2014 than in any year since 1989.

Home sales are faltering

- Sales of new single-family homes increased just 2 percent last year, a sharp slowdown from the 17 percent growth in 2013.
- Existing home sales dropped 3 percent in 2013–14.
- April 2015 marked the 32nd straight month that existing homes for sale held below a six-month supply, the traditional measure of a balanced market.
- The number of homeowners aged 35–39 (prime ages for new-home and trade-up buying) is down 23 percent from a decade ago.
- Up to 1 million households who lost their homes to foreclosure have already restored their credit standing, making them again eligible for FHA and other mortgages, and 1.5 million more could do so shortly.

Home price growth has slowed, but is still on an upswing

- Median prices for existing homes sold were up for the third consecutive year in 2014, rising 4 percent from 2013, to $208,300.
- Price appreciation within the bottom tier of homes generally outpaced the rest of the market, reflecting the decline in distress-related sales, as well as the widespread shortage of low-priced homes for sale.
- While the volume of new homes built is near record lows, the median sales price of new homes hit a record high $283,000 last year.
- The median sales price of new single family homes is now 35 percent above the median sales price of existing single-family homes.
- Rather than signaling a broadly healthy market, however, this record-setting price is largely due to changes in the size, quality, type, and location of new homes.
- The size (median square footage) of the typical new home increased 12.5 percent in 2009–13.
- Estimates for 2001-13 indicate a 37 percent drop in home purchase loans among borrowers with credit scores between 660 and 720, compared with a 9 percent decrease among borrowers with higher scores.

HOUSEHOLD GROWTH EXPECTED TO RISE

Household growth appears to be picking up

- Although the three major Census Bureau surveys all show that household growth since 2008 has remained far below the 1.2–1.4 million annual average of the previous decade, the Housing Vacancy Survey—the timeliest of the sources—reported a marked pickup in the fourth quarter of 2014 that brought household growth for the year to 800,000, closer to its long-run potential.

- The Joint Center for Housing Studies projects that demographics will support baseline household growth of just under 1.2 million annually in 2015–25, with the millennial generation driving much of this growth.
- By 2035, given headship rates similar to those of previous generations, the millennials (born 1985-2004) are expected to form more than 30 million new households.
- Over the next two decades, the number of adults aged 70 and over will increase by 91 percent, driving the demand for housing that is affordable, accessible, and provides social connection and supportive services.
- At more than 86 million, the number of people that comprise the millennial generation has already exceeded that of the baby boomers at similar ages and will increase over the next 20 years as immigration (typically of young adults) continues to pick up.
- In 2015–25, the typical millennial will move from the 20–24 year-old age group (where just one in every four persons has formed an independent household) to the 30–34 year-old age group (where half of the population lives independently).
- As the labor market makes steady gains, rising employment rates among young adults will impact household growth, as employed younger adults in their late 20s and early 30s are 50 percent more likely than unemployed younger adults to head independent households.
- Although net international immigration is still below the 1.2 million annual average in 2000–07, the pace of immigration is projected to pick up in the decades ahead, projected to reach nearly 1.4 million by 2035.
- Hispanics make up 22 percent of the millennial generation, compared with 19 percent of gen-X (born 1965–84) and 10 percent of the baby boom (born 1946–64).
- Minorities are expected to drive 76 percent of net household growth over the next 10 years and fully 85 percent over the next 20.

NEGATIVE EQUITY CONTINUES TO PLAGUE MANY HOMEOWNERS

Share of underwater borrowers is down, but low-income and minority areas still face problems

- Nationally, the share of underwater owners is down from a peak of more than 25 percent in 2011 to 10.8 percent in the fourth quarter of 2014. This represents a drop from over 12 million homeowners to 5.4 million.
- 16 percent of homeowners with mortgaged units valued at less than $200,000 were underwater on their loans at the end of 2014, compared with just 6 percent of owners of higher-valued homes.
- Households with low equity in their homes are stuck in place because they are unable to cover the costs of selling their homes and they may not qualify for additional financing to make home improvements or cover other needs.
- Within metro areas, negative equity problems are highly concentrated in minority and low-income neighborhoods. In the 10 percent of zip codes with the highest rates of negative equity, the average minority share of the population is 51 percent and the typical household income averages just 83 percent of the state median.
- At the household level, 29 percent of black and 25 percent of Hispanic homeowners were upside down on their mortgages, compared with 16 percent of white and Asian/other owners.

Increases in household net wealth have not been equally shared

- Although the Federal Reserve Board's Flow of Funds data indicates a 3-percent increase in aggregate household net wealth in 2014, the Survey of Consumer Finances suggests that growth was concentrated among households at the top of the distribution, with median household net wealth actually falling 1 percent from 2010 to 2013 and down 40 percent in 2013 from the 2007 peak in real terms.

- Hispanic homeowners were disproportionately impacted by the housing market crash, with housing wealth for this group plummeting by nearly half (48 percent) in 2007–13—significantly worse than the 28–30 percent decline among black and white owners.

- Housing wealth represents a much larger share of the net worth of the typical black or Hispanic homeowner (58 percent) than of the typical white homeowner (37 percent).

- For the typical homeowner, home equity remains a key source of household wealth, accounting for $80,000 of the $195,500 median net wealth of homeowners in 2013, while the median net wealth of renters was just $5,400.

Mortgage debt is declining

- Homeowners continued to pare down their mortgage debt in 2014; real aggregate mortgage debt totaled about $9.4 trillion last year, a 2 percent decline from 2013 and a 13 percent drop from 2010.

- Despite a decline in mortgage debt at the aggregate level, a higher share of older owners are entering their retirement years with mortgage debt: more than a third (38 percent) of owners aged 65 and over had mortgages in 2013, up from a little over a quarter in 2001.

Student debt continues to rise

- In 2013, 39 percent of households aged 20–39 carried an outstanding student loan balance, up from 22 percent of same-aged households in 2001.

- While nearly two-thirds (64 percent) of adults 20–39 with student loan debt owed less than $25,000 in 2013, a fifth (19 percent) had balances of at least $50,000—more than three times the share in 2001.

- In 2013, 8 percent of all households repaying their student loans had high debt burdens (payments exceeding 14 percent of monthly income), while the share of renters aged 20–39 with these debt burdens was especially high at 19 percent.

- Over half of households in their 20s and 30s with student loan debt in 2013 did not have four-year college degrees.

Access to credit is uneven for low-income and minority borrowers

- Purchase lending to applicants with low and moderate credit scores is lower than in 2001, while the share of loans going to borrowers with top scores increased from 44 percent in 2001 to nearly 62 percent in 2013.

- According to 2013 HMDA data, 12 percent of applicants for home purchase loans were denied financing. The rate was especially high (20 percent) for African-American applicants—nearly twice that for white borrowers. Hispanics fared slightly better, with a 17 percent denial rate.

- As of 2013 nearly 41 percent of owners with mortgages report having refinanced, with the majority of refinances having taken place within the previous five years.

- More than 40 percent of Hispanic and black households with mortgages report paying interest rates above 5 percent, compared with less than a third of white and Asian/other minority households.

In spite of recent challenges, Americans still want to own homes

- According to Fannie Mae's National Housing Survey for the fourth quarter of 2014, 82 percent of respondents thought that owning made more financial sense than renting. Even among renters, 67 percent agreed with this statement.
- Among renters aged 18–39, 92 percent expected to buy homes eventually.
- 62 percent of renters aged 18–39 reported that getting a mortgage would be difficult for them.

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 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, Standard and Poor's, Urban Institute, Metrostudy, the National Council of State Housing Housing Agencies, and Zillow to develop its findings.

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